Cotton Market Expected To Face Continued Volatility

cotton outlook

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Cotton futures have continued to consolidate in the 68-69 cent range, basis the New York March contract, while attempting to recoup the limit down losses of January 23. Near term price activity should continue in a consolidation phase with a slightly negative bias simply because of the beginning of the Chinese New Year, a weeklong celebration that will see the closure or slow down of many textile mills. Absent the New Year celebrations, the price bias would be higher. Thus, pressured by good demand and in the face of a declining acreage, cotton prices remain on a longer term upward path.

Nevertheless, until the planting season in the Northern Hemisphere has concluded, the outside markets, principally the grains, oilseeds, financial and equity markets will likely influence cotton prices more than actual cotton fundamentals. Consequently, the cotton market will continue to face strong price volatility. However, it is the uncertainty surrounding energy and financial markets that seems to be in near term control of cotton.

Export sales for the week ending January 24, while strong, were considerably less than expected, thus proving to be very disappointing to the market. Net sales totaled 300,700 RB with Upland sales of 291,400 RB and Pima sales of 15,600 RB. Primary buyers of Upland were China (140,800 RB); Taiwan and Vietnam. The primary buyers of Pima were India (5,400 RB); Pakistan and Bangladesh. Sales of 500,000 to 750,000 RB had been expected. Yet, it is noted that China was a large scale buyer on the market dip below 67.50 cents that week. There is considerable demand waiting any other drop to or near 67.50 cents. However, February brings us First Notice Day for the March contract. Therefore, May futures will become the spot month suggesting it is likely that Asian mills must increase their offering price some 150 to 200 points.

Export shipments totaled 211,200 RB on the week and were comprised of 185,500 RB of Upland and 25,400 RB of Pima. Primary destinations of Upland were Mexico (34,400 RB); China and Turkey. Primary destinations of Pima were India (8,200 RB); Pakistan and China.

There are very mixed signals regarding the health of their respective textile economies surfacing from various countries. However, it is noted that world consumption is slowing; or rather the growth rate is slowing. Net textile consumption is not declining, but rather has slowed to a near zero growth rate. Yet, with higher cotton prices it is logical to see some slow down in textile consumption. However, world production is also declining and in turn that will allow for cotton prices to move higher.

With the December contract pressing 77 cents, the 80 cent objective remains the next hurdle. That barrier is not likely to be breached until after the planting season has been completed. Nevertheless, it is too early to begin pricing the 2008 crop. Those growers needing to offset some of their price risk could consider buying put option under the market, but will likely need to roll those puts higher as the market climbs. Δ