Cotton Market In Long Depession Before Price Rebound

cotton outlook

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The freefall in cotton prices continued this week with the New York December contract setting another life of contract low. It seems to be a weekly pattern. Unfortunately, I can not offer a positive debate that the market could not fall to the 34-36 cent level. However, that is not my prediction today. Yet, it could be, specifically given the record world carryover that the market faces along with prospects that the 2008-09 U.S. carryover could be between twelve and thirteen million bales. Likely, the level of 2008-09 world carryover will not be record high, but it will be close the record levels of stocks on the market today. The market will tell us when it is ready to turn around, although it is getting very close to its long term support at the 40 cent level that goes back to the 2004 trading.

It is nothing more the same song and the same verse. For a month now the market has faced deteriorating world economic conditions, a downturn in the demand for cotton, a record/near record level of world stocks and a U.S. dollar that is appreciating against other currencies. An appreciating dollar implies that foreign buyers of U.S. cotton must use more of their local currency to pay for a specific lot of cotton, thus potentially further limiting the export sales.

The cotton market is looking at a twelve to twenty-four month long state of "depression" before it can break out of the current price slide, i.e., before the possibility of a 60 cent market returns. Typically, it should take only one growing season for production and/or consumption to react to a severe price shock. Yet, the severity of the current shock will likely take between one and two crop cycles to realign cotton supply and demand.

USDA will release its November supply demand report on Monday, November 10. The report will likely be slightly bearish, adding more fuel in favor of lower prices. A slightly larger crop is expected and consumption is predicted to be further reduced, as is the case for U.S. exports.

Net export sales for the week ending October 30 were 241,500 RB. All sales were of Upland as no Pima sales were reported. Primary buyers were China (47,400 RB); Mexico and Germany. Shipments were 193,700 RB with Upland accounting for 192,300 RB and Pima for 1,400 RB. Primary destinations for Upland were China (62,100 RB); Turkey and Mexico. Pima shipments were primarily to China (1,100 RB) and Japan (200 RB).

Market signals are bearish. The market will tell us when it is ready to stabilize and then when it will try to capture lost ground. Don't look for either in the near term. We have to wait for 2009. If December can not hold 40 cents, then 36 cents becomes the next target. Δ