Cotton Market Takes Short Deliberate Steps

cotton outlook

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The cotton market continues to wade through the proverbial waist deep summer doldrums. Take a little one day and give a little back the next day or so. So goes the market during the muggy days of August and even into September. While the crop may appear to be very poor in one area, most know that Mother Nature could still turn things around. Likewise, the crop could get much smaller as well. Thus, the market must continue to take short and very deliberate steps. The market is set for long term gains, very strong gains. However, we must get out of the short term before we can do much long term planning. Longer term, most likely, will not arrive until early 2009. For now, prices will continue to move back and forth. However, do not discount additional attempts to move lower in the near term, especially if the crop gets bigger.

Export sales and shipments are lagging behind projections, yet it is still very early in the marketing year. Net export sales for the week ending 8-21-08 were 269,100 RB with Upland sales totaling 268,000 RB and Pima 1,100 RB. Primary destinations for Upland were China, (76,700 RB); Indonesia and Turkey. The primary destination for Pima was Hong Kong with 900 RB. Shipments were 271,500 RB. Upland shipments were 269,500 RB and Pima shipments were 2,200 RB. Primary destinations for Upland included China, (95,600); Mexico and Turkey. Japan, with 1,300 RB was the primary destination for Pima. Generally primary destinations for U.S. Upland are China, Mexico, Turkey, Indonesia and Bangladesh. Too, exports to Vietnam are increasing. Yet, China purchases far exceed those by other countries. Additionally, the U.S. is the leading supplier of raw cotton imports to China.

While the export report was reasonably good, it was discouraging that no more cotton sold as prices during the reporting week were in the 68 cent area. Thus, as commented last week, international textile mills continue to expect price slippage below 67-68 cents.

U.S. textile mills consumed cotton during July 2008 at an annualized rate of 4.66 million bales, or about 230,000 bales less than July a year ago. Annualized U.S. consumption during the 2007-08 marketing year was 4.51 million bales, down about 300,000 bales from annualized 2006-07 domestic consumption.

Certificated stocks are down some 100,000 bales and the West Texas basis is at its strongest level of the year. Both are supportive of higher prices. Basis levels have strengthened in other regions, typically an indication of either a poor crop or strong demand. However, the Cotton on Call Report has call sales and call purchases about equal for the December, possibly a bearish indicator. Yet, call sales for the 2009 futures contracts dwarf 2009 contract call purchases, supportive of longer term higher prices.

Hurricane Gustav is not expected to fall on much open cotton and is thus, not a very important factor in the cotton market. While the outside markets will dominate cotton price activity for now, the day will come when the Midsouth returns to cotton. Yet, that day is still two or more years away.

Mother Nature will decide if December futures will climb back to the 74 cent level, or if the contract will float between 65 and 70 cents. My bet is that December will return to the 70 cent plus level. Δ