Cotton Prices Remain Significantly Higher Than Past Four Years

cotton outlook

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New York prices fell all week only to rebound on Friday along with most other commodities. Cotton is now well entrenched in trading its own fundamentals, but will still respond to price activity of other commodities. Yet, while the current fundamentals are even more bearish than the past four years, prices still remain significantly higher than in those years. The single difference is that as the 2008 crop goes in the ground, world plantings have been reduced even more than had been expected. Additionally, the skyrocketing cost of inputs will force some areas to reduce input usage; thus, placing more pressure on world stocks since stocks are "expected" to fall substantially during the 2008-09 marketing year, as well as in the 2009-10 and 2010-11 marketing years. Further, there is a growing concern of potential yield damage across the globe. Yet, we must remember that there is more than ample time for the yield potential to expand. Thus, the New York market has returned from its crazy days of early March and is now trading the "expectation" of a significantly tighter supply demand balance sheet.

Exports sales for the last week in May were just as bullish as those of the first week of May. The problem, however, was that sales during the middle of the month were very poor. For the week ending May 29, 2008 net sales totaled 555,300 RB. Upland sales totaled 553,500 RB. Pima sales were only 1,800 RB. China (352,800 RB); Turkey and Vietnam were the primary buyers of Upland. Bangladesh (800 RB); Hong Kong and India were the primary buyers of Pima. Export shipments lag substantially off the pace necessary to meet USDA's export estimate of 14.2 million bales, an estimate that will most likely be lowered in next week's USDA June supply demand report. Weekly export shipments totaled only 243,400 RB (nearly 200,000 bales below the mark needed to meet USDA's current export estimate). Upland shipments accounted for shipments of 231,800 RB. Pima shipments were 11,600 RB. Primary destinations for Upland were China (78,400 RB); Mexico and Turkey. The primary destinations of Pima shipments were China (4,400 RB); Japan and Pakistan.

The difficulty of locating adequate shipping capacity to Asia was noted in last week's comments. This situation is ongoing and deteriorating further. This amplifies the likelihood that U.S. exports will fall as much as a half a million bales below the current estimate of 14.2 million bales. In several of the past few years U.S. export shipments during the final two months of the marketing year reached record levels. However, with the decline in shipping capacity, as well as the increasing transportation cost, the infrastructure is no longer adequate to physically move cotton out of the U.S. in the volume of past years.

USDA will release its monthly supply demand report next Tuesday, June 10. U.S. exports could be lowered as much as 500,000 bales, down to 13.7 million. Yet, it should be noted that during the final week of April, the first week of May and the last week of May that U.S. sales average more than 500,000 bales. Thus, the signal is there that China, the Southeast Asian countries and Turkey will continue to be the major buyers of U.S. cotton. More importantly, the demand is there, but only at a price. Recall that during those respective three week periods, New York futures were essentially trading at or near six month lows.

Certificated stocks will continue to keep a lead hat on the nearby months. However, the December contract is preparing to regain some steam…but let's not expect too much too soon. Δ