Death Of Cotton Bull Is Premature; Objective Now Is Upper 70s

cotton outlook

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In a week that Morgan Stanley Investments suggested soybean prices could climb to $18 – yes, eighteen dollars a bushel – cotton and most other commodities remained very strong. Recall the old adage of a ten to one price ratio for soybeans and cotton. Well, beans at $18.00 would mean cotton would climb to $1.80 per pound…Never Happen. The concern is that it seems that everyone is now bullish cotton. If everyone is bullish then who is left to sell to market? Without sellers the market top is in and prices tend to float downward. That rule is still in force, but thankfully, there are multitudes still willing to sell cotton. Thus, the death of the cotton bull is very premature. Cotton's objective is now the upper 70's. As suggested last week, the path will have setbacks, but the objective is in the scope.

Grains and oilseeds, led by the demand for vegetable oil, biodiesel and ethanol will keep those markets very strong and those markets will support higher cotton prices. (Incidentally, recent passage of U.S. energy legislation mandates increased production of ethanol and biodiesel. Thus, let's not kill the market just because it has already gone down roads never traveled.)

Much concern is now being expressed that the U.S. and many other world economies are somewhere between crashing or going in to a major recession. In quick step, that has given rise to numerous signals of an economic slowdown in the world textile industry, with particular concern regarding China, India and the U.S. Of course, with respect to textile cotton consumption, the keys are China and India. Yet, the growing textile economies of all Indian Subcontinent countries and the Asian Basin have come to represent a significant share of world cotton textile production. While apparently there are some demand glitches around the globe, world cotton consumption continues on its growth path.

The weekly export sales report was a double edged sword, big in numbers, but absent any real purchases for certain countries if the current USDA 2007-08 export target of 16 million bales is to be met. Weekly export sales were boosted by the quick dip down to 67 cents just over a week ago as net export sales of cotton during the week ending January 10, totaled 523,300 RB, with Upland sales totaling 505,400 RB and Pima sales at 17,900 RB. Mexico (323,600 RB); China and Turkey were the primary buyers of Upland. The primary buyers of Pima were Pakistan (6,400 RB); India and China. Nevertheless, the weekly report was at best neutral to the market due to the absence of China. The sale to Mexico, as big as it was, was business that the U.S. would capture under almost any set of circumstances. China was all but a no-show in the U.S. export market that week, taking only 37,000 RB, or just seven percent of the total Upland sales. The Mexico business was already built in the U.S. estimate. It is the Chinese and other Asian countries that need to buy U.S. cotton in volume if any market momentum is to be continued. If these purchases do not materialize then U.S. exports will fall to 15.5 million bales. Had Chinese purchases been above 150,000 RB, then the market would have had a bullish week – instead one of consolidation.

Export shipments were 186,200 RB, totaling 165,600 RB of Upland and 20,600 RB of Pima. The primary destinations for Upland were Turkey (25,100 RB); Indonesia and China. Primary destinations for Pima were Pakistan (6,400 RB); India and Peru.

Texas growers are now able to contract grain sorghum for $8.50 per cwt., up more than 100 percent from just a few short years ago. This price has already caused some shift from cotton to sorghum, especially for those cotton growers wanting to rebuild their soil or take the summer off. A price move up to $8.75 will switch a few more cotton acres, but a move to $9.00 screams for sorghum to be planted on dryland as well as irrigated acreage.

Cotton will remain volatile given the level of certificated stocks. Too, cert stocks could increase as New York prices, in some instances, are more favorable than cash market prices. Yet, the price bias is definitely higher. Δ