Outside Markets Continue To Have Bearing On Cotton Prices

cotton outlook

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New York cotton separated itself from the grain and oilseed markets this week and returned to trading based on cotton fundamentals. However, the new crop contracts moved lower than expected as December fell to 80 cents. The outside markets will continue to have a major influence on cotton prices. While cotton fundamentals are beginning to have an impact on old crop prices, new crop cotton prices will continue to do battle for planted acres with the outside markets. The ten cent drop in the May contract occurred just as predicted. Nevertheless, an additional ten cent drop will not be forthcoming, just as reported last week. The initial ten cent drop uncovered enough demand that will likely help support old crop prices at 67 cents or better. However, both the May and July contracts could fall another 300 to 400 points as international textile mills bid for cotton. The New York December contract will regain all its lost territory and then some.

While cotton prices sank lower on the week, price volatility in cotton and other commodity markets did not demonstrate any tendency to cool. Limit to near limit days were routinely experienced. Yet, since prices did move lower, and more in line with fundamentals, it is hoped that the markets, now somewhat settled, can approach day to day trading with less volatility. However, it is likely that some panic remains in the various agricultural markets and this will raise its emotional head as traders do battle over the need for ethanol acres and the need to prevent a looming world food crisis. However foreign the phrase “food crisis” may sound to those in the U.S., it is not as foreign to many other markets. The vegetable oil crisis will continue to bid acres for oilseed production and that bidding war will last at least two more years before showing any signs of letting up. Thus, the long term outlook for cotton prices continues to be sharply higher. Higher cotton prices are necessary if cotton is to compete for acreage with oilseeds and grains.

Fundamentals factors that drove the cotton market lower this week included the rapid build up in certificated stocks that are now approaching 800,000 bales and may easily climb to 1.0 million or more, a level without precedent. The rise in certificated stocks came about because of the outrageously high futures prices of the prior weeks. The futures market became the best cash market for cotton and merchants and cooperatives plan to deliver cotton against the futures contract as the May and July contracts move into their delivery period. (They sold futures contracts as prices moved higher. Rather than buy the contracts back, they will deliver the cotton against the sold contract.)

Additionally, the market is coming to grips with the fact that world ending stocks will approach 60 million bales. Too, U.S. ending stocks, the world’s major exporter, will approach ten million bales. Therefore, both the U.S. and the world stocks to use ratio are near fifty percent.

U.S. export sales did increase substantially last week. However, much of that sold at a price considerably lower than either the A-Index quotation or the New York price. Yet, with the New York May contract coming back near 70 cents at the end of weekly trading, substantial sales were made based on either the New York quotation or the A Index.

Price volatility will remain, but has hopefully cooled. However, look for December to see a rebirth in it climb for higher prices while old crop prices will ease both higher and lower. Δ