Support For Cotton Market Offered At 61-63 Cent Level

cotton outlook

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What else could the cotton market do? Its only option was to sail downward, the same as all other commodity and equity markets. The world liquidity crisis, highlighted primarily by the U.S. and European financial markets, took all markets down just as easily as a wrecking ball could destroy a wood building. Emphasizing the need for liquidity and cash, most and in some cases all, speculative fund money was pulled from the commodity markets. Just had the funds had poured a record amount of money in the cotton market, the financial crisis dictated that the money come out. Open interest in the market has fallen to the level of a year ago, suggesting that most all of the new speculative fund money is out of the market.

Yet, the 63 cent level, basis December, did demonstrate some resilience, proving to be the general level of the daily market high and the 61 cent level tending to be the daily close. There is likely more water to tread, but the 61-63 cent level should offer good support to the market.

December appears headed back to the 63 cent level, but the road from there to 65 cents and back to 70 cents will be bumpy and will take the rest of the year to play out. Much of the Northern Hemisphere has another two months left in their respective growing seasons. Thus, Mother Nature can still grow the crop even larger or take production lower. While the market will focus crop conditions in major production regions, it is the consumption side of the price equation that has disappointed the most. The downturn in global cotton consumption is real as is the slowdown of textile activity in China. For more than decade Chinese textile consumption has been booming, but just as the Olympic Flame was extinguished at the marvelous Beijing games, China's cotton consumption has turned downward reversing a significant trend. The country's largest spinning mill reported this week that it profits during the first half of 2008 declined more than 55 percent.

The perception surrounding Chinese mill consumption will have much to say regarding cotton prices between now and March. The prevailing thought today is that 2008-09 Chinese consumption could be 500,000 to one million bales lower the 2007-08 level of 53 million. By mid to late January prospective plantings indications for the U.S. and other countries could push the market higher.

For the week ending 9/11/2008 net U.S. export sales totaled 462,300 bales. The price break, down to 63 cents, provided a very strong incentive for international mills to purchase cotton. Upland sales were 461,600 RB with Pima sales at 700 RB. China (179,800 RB); Vietnam and Indonesia were the primary buyers of Upland while Peru (400 RB) and Thailand were the primary buyers of Pima. Shipments on the week totaled 289,600 RB. The primary destinations for Upland shipments were China (140,600 RB); Mexico and Turkey. Indonesia was the primary destination for Pima (300 RB) followed by Thailand and Japan.

A major and significant positive signal that the market has established a bottom is the weekly bullish consensus report. This week's reading is the lowest since the ten week period at the end of 2004. In short, it means that most everyone is bearish the cotton market, i.e., that prices will move lower. But, if everyone is bearish then who is left to sell the market lower. The shorts are already in place and you can bet they will not all become millionaires. Thus, since all are rowing in one direction, it is time to set our oars to row in a different direction. The direction of the market is higher. Yet, between now and January the market will remain very sloppy. Δ