Volatile Cotton Market Has Become Commonplace

cotton outlook

O.A. CLEVELAND, PH.D.
Agricultural Economist
Mississippi State University

It is the same story…another week of cotton trading and another week of active volatility. Market volatility that was considered wild just a year ago has become common place in the cotton market. In fact, the only guarantee in the market is that price volatility will remain. This August USDA supply demand report, while not offering potentially bullish news for the cotton market did little more than solidify the verse that the market has been singing for some time. Specifically, the report revealed the bullish outlook for the 2009 calendar year as well as the 2009-10 marketing season. Possibly however, the best news was that the report did not suggest any additional bearish news for the remainder of 2008. That is, while the New York December contract can still dip back down to near 68 cents a time or two, the mid 70 cent level should be a major part of any planning horizon for both the grower and textile mill.

Highlights of the August supply demand report included lower world and U.S. ending stocks, lower world and U.S. production, and a slight increase in world consumption for the 2008-09 year. Additionally, U.S. exports were projected to increase to 15.0 million bales, 500,000 bales above the July projection. World production was projected at 112.1 million bales, compared to the 115 million bale projection last month. This recent projection was 7.2 million bales below the 2007 production. Major decreases were projected for the U.S.; down 5.4 million bales from last year, India; down 800,000 bales, Brazil; down 750,000 bales and China; down 300,000 bales.

The 500,000 bale increase over last month's projection for U.S. exports was significant in that the U.S. crop projection was lowered 200,000 bales below last month's projection. USDA typically adjusts U.S. exports in the same direction it adjusts crop size. Thus, this month's inverse relationship suggests that major exporting countries are expecting a relative reduction in their exports. Thus, price activity for late calendar year 2008 and throughout 2009 should be bullish.

The U.S. crop remains very dependent on tomorrow's weather conditions. Yet, the poor subsoil moisture in Texas plains, coupled with numerous damaged fields, suggests the size of the U.S. crop will be further lowered during the course of the growing season. Because of the major acreage shift out of cotton in the Midsouth, the regional yield will approach 1000 pounds per acre. That is, Midsouth cotton was planted on prime cotton soils this season. Yet, with over half of the U.S. acreage planted in Texas, the average U.S. yield will likely dip below the August USDA estimate of 842 pounds per acre. Recall the 2007 average U.S. yield was 879 pounds, thus the stage is set for the 2008 average U.S. yield to further disappoint.

In line with USDA's optimism regarding 2008-09 exports, the first weekly export sales report of the new marketing year showed a net of 399,600 RB of cotton were sold. Upland sales were 389,900 RB and Pima sales were 9,700 RB. Primary buyers of Upland were China (176,900); Turkey and Indonesia. Primary buyers of Pima were Indonesia (7,600 RB); Thailand and Germany. Shipments were on tract for a 15.0 million bale export year, with 51 more weeks remaining as total shipments were 224,100 RB. Upland shipments were 222,500 RB and the primary destinations were China (77,000); Turkey and Mexico. Pima shipments were 1,600 RB with India (600 RB); Germany and China being the primary destinations.

Finally, the outside commodity markets will continue to impact cotton. Yet, while all markets have whipsawed cotton prices, it is likely that major responses will come only from the grains and oilseeds markets. The Olympic Games are here and now almost history. For the past six years China has been building the equivalent of a one to three million person city – each week! With that now history, world demand for raw materials have been significantly reduced. Too, even China's demand for oil based products will see a momentary lull before the overall growth slows. Too, the value of the U.S. dollar has bottomed and is now showing strength against some currencies. This strength will continue at a slow pace and will have at the most, if, any, a very slight negative impact on U.S. cotton exports. It will not be a factor in the cotton market during the coming year.

The status quo suggests that New York futures are poised to validate a market bottom. Assuming the September USDA supply demand report is similar, or even more bullish than the August report, then cotton prices will continue their move toward 90 cents. Yet, don't look for 90 cents until the 2009 crop is planted – and that may be too optimistic. However, for textile mills, prices will only continue to increase. Δ