Cleveland on Cotton: Cotton is a Calling

Sep 01, 2023

By Dr. O.A. Cleveland

I was wrong. Again. Last week's price rally was no tease. This week's news was real, and particularly good news at that. Cotton had a monumental week, shooting up to 90 cents, basis December and settling at 89.95, the best move in nearly a year. The August USDA world supply demand report set the stage for a price rally into the low 90's but anemic demand had blocked prices from moving higher. Given the once again increasing inflation and associated interest rate hikes it was thought that prices would not move higher. Yet, now comes the increasing drought potential facing the big-big Indian crop and the cotton market smiled. As it should. India and the U.S. are the second and third largest cotton producers in the world. With crop problems that far reaching prices should be expected to experience a rally even in the face of anemic demand, and only if it is a brief rally. Open interest, i.e., market participation, has been increasing since the week following the USDA August 11 report. Each 40-50 point price increase brought increased volume to the trading circle. Finally, after five attempts to break the 89 cent price resistance barrier, traders kicked it in, and the 90 cent ticket was punched. Yet, as I have cautioned for some time the market is trading the supply side of the price equation. Demand dried up this week as the market moved above 86 cents. Mill margins and retail orders are sparse. Expect prices to break and fail in the 91-92 cent area if the Tuesday trading can even hold the 90 cent tick. Mills were active with price fixations on the week as were growers fixing call purchases. Those pricing decisions will likely prove to be very prudent. This is far from saying or even predicting a price selloff. The 85-87 cent level has become an equilibrium point for supply and demand. Without crop problems first the U.S. and now in India prices could have slipped into the extremely high 70’s and low 80’s. Look for the new trading range to be from 84-90 cents. As commented after the August supply demand report growers will have an opportunity for pricing in the high 80’s and very low 90’s into the harvesting season. Mills expecting to price at the 83 cent level now must consider a price floor in the 84-cent area, maybe even 85 cents is India does receive monsoonal relief.

Exports have remained very weak as prices shot higher. The weekly export sales report showed net sales of Upland at 61,400 bales. Nearly half of those were to China and Bangladesh. Shipments were only 214,100 bales. Sales this week were only hand to mouth. However, both mills and growers were active with price fixations.

USDA crop enumerators were in the field over the Labor Day weekend conducting the first objective field survey of the year. Expectations are that the 14 million bale August report will be validated. The recent hurricane was likely a net positive for cotton as it brought, at times too heavy, but very needed moisture. The September world supply demand report will be released on Tuesday, September 12. The world crop will likely be projected lower with only minimal changes in consumption. Thus, world ending stocks are likely to shrink. Nevertheless, world carryover will still be 87 million bales, or more, a bit too big for much price improvement.

Growers are highly encouraged to take advantage of the current price rally. The market has tried five time since November 2022 to climb to the current level. Reward the market for doing so, sell into a rising market. Do not get caught having to sell into a declining market. Take advantage of the price rally as the demand side of the price equation is still working against a price increase.

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