Cleveland on Cotton: Cotton's Great Expectations and Its Sobering Reality

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Cotton's week was filled with expectations of great sales to China, a breakout to higher prices, and the industry patting itself on the back as demand shot higher. The reality: Cotton prices moved lower on very average export sales and shipments, while economic reports point to potentially higher inflation and a further reduction in consumer spending.

The market (various contracts) was down 100 points in Friday's (Feb. 3) trading, leaving prices some 150 points lower on the week. The spot March futures contract settled at 85.43 cents, and the new crop December settled at 85.15 cents. While export sales and shipments were good, shipments were again lower than the weekly average level needed to meet USDA's export estimate of 12.0 million bales.

U.S. economic reports brought another 25 basis points increase in interest rates by the Fed and employment numbers suggesting that the U.S. economy is still growing too fast. Further, increased rates will be necessary, probably as many as four. All the talk of increased demand and strong export sales is just that, talk. Market fundamentals have failed to exhibit any indication that suggests improvement in demand. To the contrary, consumer spending is slowing as credit card debt has climbed to a record level. Remember, the consumer is the big engine that drives the U.S. economy, and consumer spending is slowing.

These factors suggest that cotton’s 81-88 cent trading range will continue, into the April-May period, and probably longer. The new crop December contract remains locked in the 79-87 cent range. That range could remain in place into the March 30 Plantings Intentions report. The fact that March and December futures have converged adds additional strength to the 81-82 cent price support level.

Net sales of upland for the week ending Jan. 26 totaled 171,200 bales, with sales to China and Turkey accounting for essentially all the sales. Export sales were made to 10 countries, but cancellations were made by 11. All but two of the 10 countries purchasing U.S. cotton also cancelled some of their prior purchases.

Net sales to China were 119,700 bales, as China strengthened its hold as the primary U.S. buyer. Pakistan continues its position as the second biggest buyer of U.S. cotton. The usual group of big buyers – Pakistan, Vietnam, and Bangladesh – were all on the sidelines.

Additionally, shipments to three of the biggest buyers of U.S. cotton – Pakistan, Turkey, and Bangladesh – have been extremely limited due to a variety of financial difficulties faced by various mills in those countries. This begets the question as to how much will be shipped to the respective countries. Only one third of Pakistani sales have been shipped.

The market is suggesting that next weekend's (Feb. 12) release of the National Cotton Council's 2023 plantings intentions will be in the range of 10.4 million acres. Many growers suggest that their indifference curve between cotton and grains (oilseeds and corn/sorghum) indicates they need 95 cent futures, basis December, to plant cotton. If 2023 plantings are based on those calculations, then 2023 planted acreage would fall to about 10.2 million acres. Acreage that low could be bullish enough to pull December futures above 90 cents.

Again, old crop is destined to run out of steam in the 87-89 cent range – something to consider before incurring another month of storage.

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