Cleveland on Cotton: Cotton Price Rallies Capped: Stuck in the Mid-80s

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Cotton trading proved to be dull during the week as demand remained exceedingly difficult to come by. Mills complained loudly of poor margins and backed off making final purchases. However, inquiries were brisk on several nights. Yet, the recently established near term price resistance at 85 cents capped any attempted to rally. All contracts settled the week under that resistance point, except the expiring March which had only seven open contracts going into Friday's trading.

The fact that the market is facing ever higher interest rates continues to solidify the 85-cent price resistance point and opens a wider door for the old crop May and July futures contracts to slip below 80 cents. New crop planting intentions are widely discussed. But until more is known, the December futures contract will continue to simply follow the old crop May and July contracts.

Weekly export sales failed to excite the market as expected. In fact, net sales of upland totaled only 170,600 bales. China and Vietnam accounted for 95% of the purchases. India, which was cherry picking low prices, took 18,400 bales of high-quality cotton. Too, as forewarned, Pakistan cancelled 70,400 bales of prior purchases and moved them to 2023-24 sales. This was another signal of the significant financial difficulty the Pakistani textile industry is facing in opening letters of credit.

Yet, the bearish news was in the shipments numbers. Weekly shipments of upland totaled 207,100 bales, finally moving above 200,000 for a weekly total. However, total shipments must average some 261,000 bales weekly to meet the USDA estimate of 12.0 million bales.

As if a broken record, demand continues to disappoint the market. My thoughts that exports will fall some 200,000 bales below the USDA may be too premature. However, the difficulties facing both the Pakistani and Turkish textile industries – the U.S.'s second and fourth largest buyers – coupled with the forecast of a strong dollar due to the Fed's necessary continuation of interest rate increases and supported by the overall weak demand and consumer spending difficulties, paints a bleak picture for keeping U.S. exports in line with USDA's forecast.

Market trading prices were generally only 83-84 cents during the trading week, and still sales were seasonably weak. One is correct in stating that the sales were the second best of the marketing year. But the statement does not capture the poor sales witnessed during the year.

The on-call sales report added to the bearish market ideas. Mills demonstrated a specific tendency to fix on-call sales contracts on the week, as the expiring March had price fixations of over 800,000 bales and potentially rolled less than 200,000 bales to the May or July contract for price fixation.

However, the big bear paw was fattened by the fact that cotton growers, rather than fixing prices, moved some 800,000 plus bales to await fixation on the May and potentially on the July futures contract. That is an extremely big can the grower keeps kicking down the road – big enough to break a foot…and paying storage and other carrying costs to boot.

For them, I would not mind being wrong. But I do not feel that will be the case.

Unload on a return to 85 cents.

Give a gift of cotton today.