Cleveland on Cotton: Cotton is a Calling

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Note:There will not be a newsletter next week.I have a scheduled battle with a heart surgeon who assures me it will be two weeks before I will write again.Higher cotton prices represent the best path to recovery.

Bad News, Good News Cotton is by far the most undervalued commodity traded on any futures exchange.The soybean cotton price ratio has regularly been 18 to 1. You know better than I that cotton is undervalued.Inflation, a product of Congress, coupled with the Chinese coronavirus effectively destroyed ten to fifteen percent of demand for cotton and sent prices spiraling down.The futures market is about tomorrow. It trades the future. For cotton, today's value of the future is depressed, just like that of the U.S. economy, the world economy, and a long laundry list of private companies, corporations, and numerous family businesses.Cotton, an industrial commodity, unlike food commodities, must depend on industrial production for its economic survival. Granted, cotton is also an oil seed; thus, it also has a residual food value. It is this food value that will help keep cotton planting viable in the coming twelve-eighteen months. Yet, it is also that food value, along with the traditional value for lint, which will push cotton prices significantly higher in that same twelve-to-eighteen-month period. Old crop prices will have difficulty climbing much above 90 cents. New crop prices will take price leadership in the April-June period and have the potential, again the potential, to trade near the dollar mark in the distant future.

This week's release of the December USDA supply demand report explained cotton's price struggles over the past four to five months. The world cotton picture included lower production, lower consumption, lower exports, and a price depressing increase in world carryover to 90 million bales. The U.S. picture was even more troublesome as higher production, coupled with lower domestic consumption, and lower exports. Together, these gave way to a further increase in domestic carryover stocks. Prior to this new USDA estimate, the possibility of lower carryover stocks had given rise to an improved price for old crop, (2022) production. The fact that the estimate of 2022 ending stocks was increased suggests the March-May-July 2023 futures contracts will trend lower before possibility moving into the high 80's. The mid to high 70's is unfortunately on the horizon for old crop.

Value should return to new crop once the economy can begin to strengthen, at least six months away, and probably twelve months away. Inflation continues as a major problem and inflation has historically hit the farm sector with both fists. Thus, the potential for a significant rebound in cotton prices awaits the March-May-July 2024 futures contracts, that is, the latter half of the marketing season for the 2023 crop.

Due to food shortages around the globe, there is no reason to expect grain and oilseed prices to come down. Thus, cotton will struggle to claim acreage. Further supporting high (and even higher) grain and oilseed prices is Washington's determination to convert production of those crops to aviation and automobile fuel and away from human and animal consumption. Surprisingly, that fact has been flying under the radar. Cotton acreage will slip. Yet, this loss of acreage will be associated with higher lint and cottonseed prices. Post-harvest prices of the 2023 crop have the potential to return to the dollar level, but being redundant, that will not be until March-July 2024.

The December supply demand report lowered world production 700,000 bales, down to 116 million bales. Consumption was reduced 3.3 million bales, down to 112 million bales. World carryover stocks were increased to 90 million bales. U.S. production was increased 211,000 bales up 14.2 million. Domestic consumption was reduced 100,000 bales, down to 2.2 million bales. Exports were reduced from 12.5 million bales, down to 12.25 million. U..S. carryover was increased from 3.0 million bales, to 3.5 million. Expectations are that world consumption will be reduced another 1.5 to 3.0 million bales; U.S. exports could fall to 11.9 million bales, and domestic consumption could fall another 100,000 bales. The bearish concern is that world carryover could increase to 92-93 million bales and U.S. carryover could increase to 3.8-4.0 million. Part of the potential for higher 2023 crop prices rests with the expectation that U.S. ending stocks will remain at less than 4.0 million bales.

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