Cleveland on Cotton: Cotton is a Calling

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Maybe better news…Cotton had its excitement and is likely settling down for a quiet and manageable delivery period. There seems to be a strong taker of the certificated stocks, if in fact, any are delivered. Look for the July contract to close to 150 to 200 points of December. The December contract is on its own now, meaning planting and crop development will chart the contract's price course for the coming two months. Demand is a major factor but will take a back seat to crop development between now and early September.

The highlight of the week came on Friday in the form of the USDA June supply demand report. The report was viewed as neutral to the market. There were two highlights in the report that were under the radar and bear considerable watching. USDA increased its estimate of the 2023 U.S. crop to 16.5 million bales, up one million bales from last month. Our estimate has been 17.0 million. Cotton always offers a wonderful surprise so we will hold to the 17 million bales estimate. The weather will tell the final tale and realistically, depending on weather the crop production range is 15-18 million bales. Tomorrow's weather will be the key. That comment will be noted every single day from planting to bagging and ties. USDA also forecast an increase in world cotton trade in this June report. Monthly trade estimates for the past year had been on a downward spiral. An increase in world trade is the first indicator that world consumption will/can increase. I am not as optimistic as USDA, but there is a feel of price improvement in the market. USDA forecast a 900,000 bale increase in world trade, up to 43.75 million bales, over its May estimate. That increase could be problematic for a price increase, but again the mills negativity toward demand does not seem to be as troubling as it was.

Other highlights in the report show increased U.S. exports for 2022-23 and 2023-24 and a slight increase in U.S. ending stocks. Current marketing year exports were increased to 13.0 million bales based on this month's export sales, the best monthly sales of the year, and the biggest sales since June 2022. Too, China has begun to rebuild their cotton reserves, anticipating smaller cotton plantings in the face of increased grains plantings. Thus, they have made large purchases form the U.S. Based on a larger production in 2023 and anticipated buying from China, the estimate for the 2023-24 marketing year exports was increased 500,000 bales, from 13.5 to 14.0 million bales. Ending stocks were increased from 3.2 million bales to a very manageable 3.6 million.

The USDA estimates show both world production and world consumption to be 117 million bales. However, world carryover, mostly due to changes in stocks was estimated at 93 million bales. USDA did increase its estimate of world ending stocks for the 2023-34 marketing year, from 92.3 to 92.8 million bales. This increase appears slight but bears watching. It is necessary for demand to increase, a scenario that has yet to happen. Yes, cotton demand is forecast to increase, but consumers continue to shy away from apparel goods. If such continues, this level of world ending stocks will become burdensome. Additionally, the increase in world stocks is all in the U.S. and two of its major competitors, Brazil and Australia. Thus, the competition situation will continue to keep basis pressure on the market at least into the U.S. harvest season.

While it is comfortable to finally feel a bullish, caution is extended as it will be difficult to get the December contract up to or above 90 cents. The easier path will be to wander in the low to mid 80’s just as the old crop futures contracts did from November 2022 until June 2023. The 88-89 cent price resistance line that sat over 2022 crop prices remains extraordinarily strong. Too, neither U.S. nor world fundamentals suggest that price barrier can be broken. The 78 cent mark may be the low mark. At least that is an improvement.

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