Cleveland on Cotton: Short Term Cotton Prices: Expect More of the Same

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Cotton prices weathered USDA's bearish February world supply demand report, settling the week at 85.27 cents, basis March – off 16 points on the week. December settled at 84.86 cents, off 29 points on the week. Thus, the board was flat with all contract months within some 100 points of each other. Trading volume was very heavy, but a large majority was spread treading.

World consumption remained weak and was the overriding factor in the market as it has been for six months. The market is uneasy with respect to the eventual size of U.S. exports. The outlook remains for flat to lower between now and the new crop growing season, again dominated by very weak demand. U.S. and world consumption continue to lag earlier expectations, and that will be the story for the remainder of 2023.

The price ratios of competing crops portend significantly less cotton acreage in the U.S. Long term, that's bullish for prices, while other factors are neutral. Short-term price factors are dominated by consumption; thus, the market will trade between 78 and 87 cents with the possibility of a drop to near 75 cents. The new crop December contract will trade even with old crop prices at least into the early planting season. The December contract will not separate itself from the old crop contract price until after the May contract goes first notice.

In its February supply demand report, USDA reduced world carryover 850,000 bales, getting there by increasing world consumption one million bales and reducing consumption 190,000 bales. While this appeared supportive of prices, the dichotomy came as Australian exports were increased (taking market share from the U.S in the Vietnam market), leaving U.S. exports unchanged, reducing Brazilian exports (Brazil will not store cotton – it is the U.S. that stores), and reducing world cotton trade.

It's the U.S. that will lose export share in this depressed market as competing countries are motivated to move inventory at the expense of U.S. market share. The U.S. has exported only about one third of its sales to Pakistan – the second leading U.S. market for exports. Given the economic difficulties facing the Pakistani economy, it is expected that at least one third of the outstanding sales will be cancelled or moved to 2023-24 marketing year.

Further, given the economic, political, and structural issues facing Turkey – the fourth leading market for U.S. cotton – as much as one third of the unshipped sales will be lost. The die is cast for U.S. exports to fall to 11.8 million bales, down from USDA's current estimate of 12.0 million.

Yet, net sales of cotton for the week ending 2/2/23 were impressive – the largest on the year – coming in at 262,800 bales of upland. Some 14 countries were in the market for U.S. cotton, with five taking more than 10,000 bales. China (87,500 bales), Turkey (72,900 pre-earthquake), Vietnam (44,700), Pakistan (18,200), and Indonesia (16,600) were the principal buyers. U.S. shipments again failed to meet the weekly pace needed to meet the USDA estimate of 12 million bales for the 2022-23 marketing year.

The results of the National Cotton Council’s survey of cotton grower planting intentions will be released on Feb. 12. Rumors persist that the estimate will be 10.2-10.4 million acres. A number that low would be bullish, but not until confirmed by the USDA March 30 intentions report. The NCC report does have the benefit of historical accuracy. Thus, the report will be welcomed by the market.

The heavy, heavy price cap at 88 cents continues to limit any old crop advance. Growers holding old crop must be cognizant of the monthly storage cost they are facing. Sell orders confirm the price cap. The on-call sales report confirms the price cap. Growers holding old crop are holding for 90 cents.

Borrowing a famous World War II title, it is “A Bridge Too Far.”

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