Cleveland on Cotton: Demand Woes Open the Door for Cotton's Bears

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USDA's January supply demand report confirmed cotton's demand woes, taking prices slightly lower on the week. Associated with the consumption decline, world trade in cotton also declined. It is 6.5-7.0 million bales below the 2020-21 marketing year.

Discussions at the recent Beltwide Cotton Conferences suggested consumption would begin to increase later in the year but that the increase would be minor. Expect world consumption estimates to further decline in the coming monthly supply demand estimates released by USDA.

As has been the theme of past reports, increasing world carryover will continue to keep a lid on any price rally. More importantly, the path of least resistance is for old crop prices to move lower. Granted, that is not a popular forecast, and hopefully it will prove to be incorrect. But the outlook for any measurable price increase is dim.

Likewise, old crop prices will drag new crop slightly lower, that is until the new crop December contract can stand on its own. Major price resistance in the March, May, and July contracts stands at 87-89 cents. Any rally in those contracts will play out just above 85 cents.

As said in prior weeks' comments, the concern for prices falling into the high 70s is real, and there is a strong possibility that a trade back down to 75 cents should not be discounted. The new crop December contract is still mostly tied to old crop fundamentals. That connection will not be severed until the 2023 crop is planted. Thus, the price outlook for the December contract is still at the mercy of cotton's weak demand scenario.

December can easily trade back down to the 77-78 cent level but will have a strong tendency to return to the 82-cent area. Price improvement for the 2023 crop waits the post-harvest period of March/April 2024.

The January WASDE report was the basis for a slightly more bearish outlook. The report confirmed that both U.S. and world stocks were increasing in the face of slowing demand. U.S. production was increased 438,000 bales, while most expected a 100,000 to 200,000 bale decrease. World production was decreased 300,000 bales, down to 115 million bales. However, world stocks were increased nearly 400,000 bales, up to 90 million. U.S. stocks were increased 700,000 bales, up to 4.2 million. More importantly, market psychology turned mildly bearish (historically, a carryover above four million bales is considered mildly bearish to bearish). Expectations are that demand deterioration in the U.S. and world will continue. Thus, both U.S. and world stocks will further increase.

Analysts attending the Beltwide Conferences were near unanimous in their forecast that U.S. plantings will be lower than the 11.6 million reported by *Cotton Grower* magazine's survey-based estimate. The highest estimate was 10.9 million acres, and the most common estimates were in the 10.2-to-10.5-million-acre range. Actual plantings near 10.2 million will be market friendly, but anything within the range of 10.3 to 10.6 million acres will be well received by the market.

Net export sales of upland for the week were 72,600 bales. Shipments totaled 150,500 bales. Both are below the estimate need to make the USDA export estimate. Exports face stiff pressure from Australian and Brazilian crops. This will work to drop U.S. exports to 11.8 million bales. This concern will continue to limit any old crop price rally above 85-86 cents.

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