Cleveland on Cotton: Cotton Bears in Control

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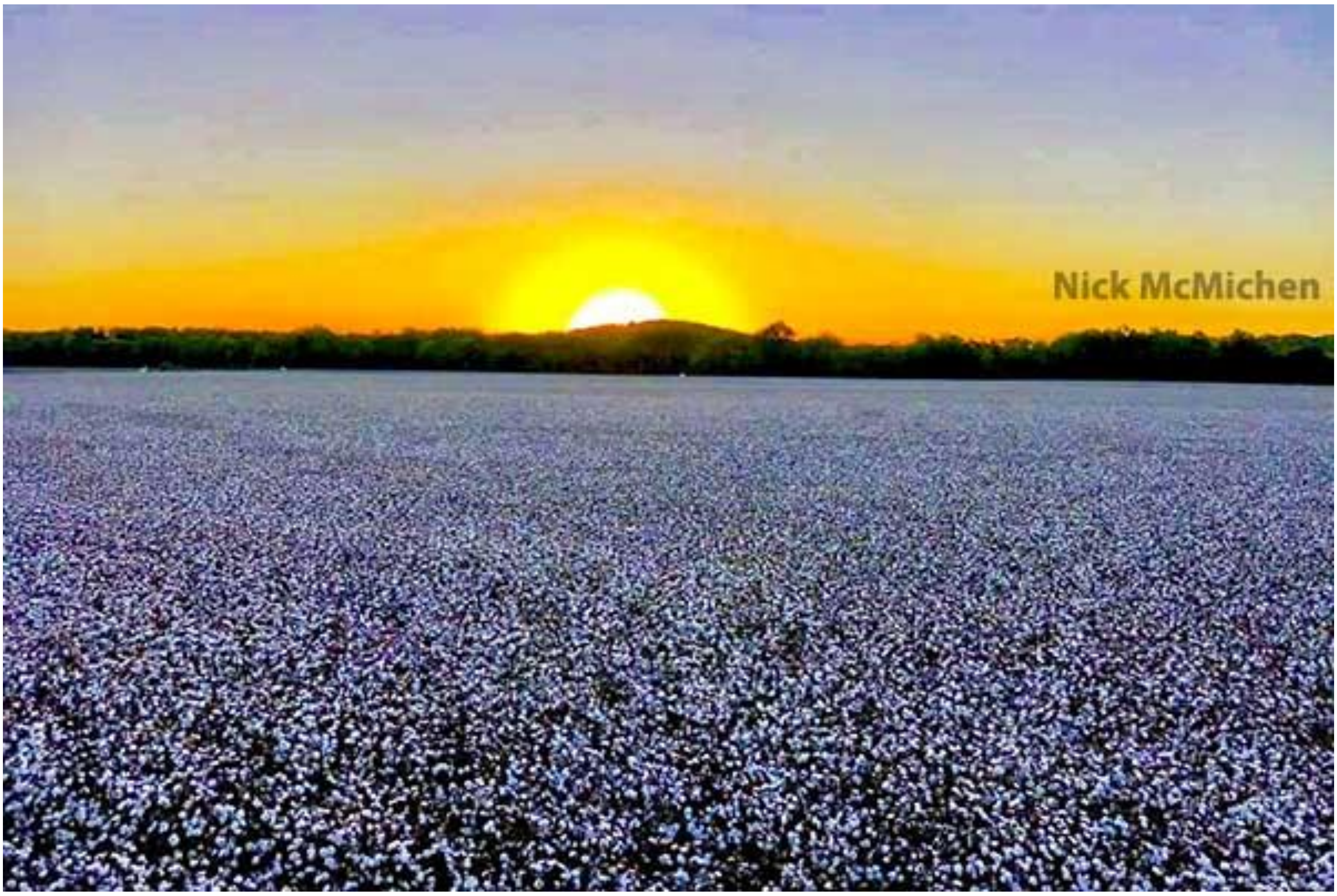

You really do not want to read this. I know you don't.

This bear is a bit bigger and meaner than thought just two weeks ago. There is a very bright future for cotton. Yet first, the market will suffer through an even more bearish cycle than the present one. Sadly enough, the cotton market is preforming just as it had advertised. Yes, it is searching for a bottom and that should be close, but there are no horseshoes in this ring. The probabilities suggest another 3-4 cents lower.

A 74-75 cent trade is still expected, but prices should not linger down in that muck. Yet, the recovery will be only little improved, back to the extremely high 70s and the low 80s. It is the same ole thing: extremely poor demand, a messy U.S. economy, and ditto the world economy. More important, all this ugliness will likely hang around until early 2024.

Events this week suggest demand will struggle into the December 2023 to March 2024 period. Earlier, I felt demand would improve by September, but the ongoing financial failures suggest improvement may await the first quarter of 2024 and the end of increased interest rates. Too, any real improvement likely awaits the second quarter of 2024.

Many had pinned their hopes on improved Chinese business conditions to help pull the world out of the doldrums. Not so. The world economy continues to slip lower by the faltering U.S. economy. Chinese cotton prices have led New York lower, and more time will be needed to birth a new bull market – likely a full year. Any price improvement during the coming year will be grounded in the supply side of the market, i.e., a weather market. The demand side of the price equation will not begin to influence the market until nearly a full year from now.

On-call purchases (typically thought of as grower price fixation or the selling of futures) are essentially as large as on-call sales to mills (mills fixing the price of cotton or buying futures). Thus, those two market fundamentals will offset each other, and the market will be left to only price new textile mill purchases, and that will not be significant enough to pull prices higher. Speculators and funds will sell futures, trying with all their might to drag old crop prices down to 74-75 cents.

The new crop December will trade one to three cents higher as it tries to differentiate itself from the old crop May and July contracts. The bridge between old crop and new crop, in the face of poor demand, has already been constructed earlier than usual. December futures prices must still stay with the old crop May/July prices until the July contract expiry begins June 26, 2023.

Other than weather anomalies, the December futures price is not expected to show any improvement above the expiring July contract prices. That is, the bears will control the cotton market until after the December 2023 contract expires. Only then can we expect to see any improvement in prices.

Again, it is not what you wish to read. The remainder is just fluff, the export report, and the on-call report.

Actually, export shipments have improved the past two weeks and, if the current shipment pace continues, the U.S. could meet USDA's export target of 12.0 million bales – 200,000 bales better than my 11.8 million bale estimate. Weekly shipments of upland cotton were 273,900 bales.

With 20 weeks remaining in the 2022-23 marketing year, cotton exports must average about 260,000 bales per week to meet the USDA estimate. Certainly, that is possible. Yet, I remain pessimistic due to the ongoing problems in Turkey and Pakistan – the second and fourth largest buyers of U.S. cotton this year.

Better days are coming.

Give a gift of cotton today.