Cleveland on Cotton: A Better Week, as Lower Cotton Prices Lift Exports

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Cotton prices held the line in weekly trading as last week's low prices encouraged good export sales. That, coupled with government released economic data hinting, on the surface, at an improved economy, gave prices a higher nudge every day of the week.

Fundamental news was essentially absent, but the prior week's waterfall technical pattern did suggest higher prices and the probability that the market low was in. Thus, traders came back to the long side this week – not in a big way, but they were back.

Demand remains the primary roadblock to higher prices, but the technical pattern does provide a psychological turnaround in the market. That is, the dreaded fear of the December or

March futures contracts slipping below 74 cents appears to have been avoided.

December settled the week higher at 77.82 cents, and all other 2023-24 marketing year futures contracts settled above 81.50 cents. Yet, there remains heavy price resistance above 79 cents with another heavy resistance line at 82 cents should the 79-80 cent level fail. Look for the five cent 75-80 cent range to dominate trading.

U.S. export sales were good with net upland sales of 328,300 bales, making the third consecutive week of sales greater than 325,000 bales. Sales over the period totaled about 1.2 million, or about 10% of USDA's projected annual sales for the year. However, both sales and shipments continue to run below the weekly average required to meet USDA's current forecast.

Too, one should expect sales of all world growths to have increased over the past month as cotton prices have been under pressure, again at a level I project will be at the low for the year.

Nevertheless, this current pace will be difficult to maintain. China is replenishing its national reserve of cotton stocks at fire sale prices, as it should. Its economy is as much distressed as the U.S. economy, actually more so. Thus, Chinese purchases are not moving directly to spinning mills. Rather they are being used to replenish its carryover stocks.

Certainly, all sales are very encouraging, but spinning activity across the globe is distressed, and mills suggest they do not see any improvement in the yarn pipeline. This attitude is clear, as the current weekly export sales report indicate sales to 18 countries, but only six of those purchased more than 5,500 bales, and those were the usual customers: China (175,400 bales), Mexico (35,000), Vietnam (27,900), Bangladesh (23,500), Turkey (22,900), and Pakistan (15,300).

Cotton's attempt to move higher, as indicated, was supported by better export sales and a "seemingly" improved economy. The U.S. Department of Commerce's monthly inflation report noted that inflation was down one tenth of 1%, month over month. Wall Street likes any decline in inflation, and traders rode cotton prices gingerly higher. However, it should have been noted that both food and housing costs were higher in the index.

More importantly, what the U.S. government agency failed to detail was that they changed the method used for calculating consumer health cost. Based on this new calculation, consumers are paying 35% LESS for health costs than they did a year earlier (My comment: Did your health costs decrease? If so, were they down 35% this year? I did not think so.)

On-call sales data is losing its bullish, or price supporting, steam as mills have been regularly active in pricing prior purchases during the current low-price run. The data does not reflect price direction. It only tells the market as to the pricing needs of mills and growers. The data indicates that mill activity will not be supportive of higher prices.

Again, from last week, it is always the darkest before dawn. So, again remember, growing cotton is a calling.

Give a gift of cotton today.