Cleveland on Cotton: It's a Wishy-Washy, Back-and-Fill Cotton Market

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Certificated stocks continue to flock to the Board, implying that the best market for U.S. cotton is delivery against the New York ICE futures contract. More troubling for those wishing – and hoping – for higher prices is that futures prices above 87 cents are better than the price offered by mills.

Mills are replacing cotton supplies only as they receive yarn orders, and those orders are slow to come by. Thus, week after week, both export sales and export shipments underperform the level needed to meet the USDA forecast.

Yet, the year is still young, with 45 more reporting weeks remaining in the marketing year. Thus, prices continue to back-and-fill, finding bearish pressure on trades above 87 cents and confronting bullish pressure on prices below 86 cents. That is not to say the market will not trade out of that narrow range.

In fact, it will most certainly will, and does. However, the five-cent 84-89 cent range will capture nearly all expected trading during the coming month and probably the next 60 days.

The supply side of the price equation will continue to dictate trading activity as this week's indicators forecasting the forward conditions of the U.S. economy vividly suggested that higher interest rates are forthcoming. Too, the leading inflation indicators again advanced the call that higher inflation is yet in front of us. The combination will continue to limit hope for any demand expansion during the remainder of the 2023 calendar year. Additionally, carryover stocks for both he U.S. and the world are very adequate.

Fearing delivery of certificated stocks against the nearby October contract drove that contract's price to a low of 84.04 cents at week's end. While most of the negative price pressure is demand related, the abundance of short staple cotton comprising the early Texas crop is also at play in the form of certificated stocks. Mills/traders will take that "subpar" cotton only at a discount, yet the delivery process insures a premium over the cash market for that cotton. Thus, the entire Board suffers as the delivery process works its way through the market.

Weekly export sales of upland were a net of only 110,500 bales with only four countries purchasing more than 10,000 bales. Vietnam led the way with 43,900 bales. Likewise, only four countries took shipments of greater than 10,000 bales – China (72,700 bales), Mexico, Pakistan, Turkey, and Bangladesh.

Yes, one may offer that I am wishy-washy – insipid, as some may say – with respect to the timing of increased demand. I plead guilty a thousand times over.

Earlier thoughts suggested that by March 2024, U.S. economic conditions would have sufficiently improved such that the U.S. consumer could surface as a strong market factor. However, consumer debt has continued to grow, government spending has not slowed relative to any measure of productivity, and interest rates and inflation continue to ease higher. Unfortunately, any relief from those anomalies finds the government just kicking the can down the road.

Thus, the U.S. economy is left to mark time as is tries to rebuild itself to find sound footing, despite government. If this pattern continues, improved demand may await the fourth quarter of 2024 – a full year away. I will continue wishy-washy. Yet, another year of drought would pressure carryover stocks for higher prices. We note that December 2024 has escalated from 79 cents to 81 cents in seemingly a mere three weeks.

Repeating from last week…growers are again advised to be aggressive sellers on any move above 87.50 cents and that such a price level should exist into the harvest season. However, any typical active market will back-and-fill on a weekly basis.

Additionally, growers are encouraged to investigate the marketing strategy of selling cotton at harvest and purchasing a three cent out-of-the-money July call option if they are bullish or optimistic that prices will move higher. The U.S. cotton grower should not pay storage costs.

Give a gift of cotton today.