Cleveland on Cotton: Holiday Price Rally Offers Cotton Hope

December 24, 2022

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Merry Christmas and Happy Holidays to All!

It is great to be back even, as prices are just marginally higher for old crop. Yet, new crop gained on old crop as the December 2023 contract has now dug in its heels near the 81-cent level – three cents higher than the old 78 cent support price. As earlier suggested, the old crop/new crop price spread will continue to narrow and reach parity as early as March 2023.

This week's short covering rally excited the bulls as prices moved to the high 80s on a strong short covering rally as the weak speculative shorts were chased out of the market. Why was it defined as a short covering rally and not a new bullish move higher? Trading data clearly showed open interest fell during the rally, an indication that short positions were being closed to protect invested funds.

Price resistance sits at the 88-cent level, with another level at 94 cents should the market turn bullish. There are higher price objectives, such as 97 cents, but a run that high appears doubtful given the supply/demand imbalance. The first level of support for old crop is 82 cents, but that has been penetrated twice, making the price support down at 78 cents and another layer at 74.50 cents as the major price support points. The well-defined trading range is 82-88 cents, but with time that will be broken.

Hopefully, I am incorrect. But the stronger potential is for the old crop contracts to fall into the high 70s. This bearishness is based on the collapse in export demand facing the U.S.

It was the new crop December 2023 contract that made the major statement on the week as it broke above 80 cents. The new crop contract has moved 300-400 points above its prior 78 cent support level as the market attempts to make the 80-84 cent level as its current trading range. Longer-term weather factors will determine if December can climb above 85 cents. New crop trading has noted the beginning of dryness in Brazil – but again, time will tell.

Textile mills have been continually active in fixing the price of on-call sales made earlier in the year. Only the July crop has on-call sales that could hint at higher prices, but it is far too early to suggest the July on-call sale positions could be a meaningful bullish factor. On-call sales versus on-call purchases for the March and May contracts provide neither bullish nor bearish leads – very much unlike the past years.

Export sales and shipments, even for a holiday season, remain very bearish. Chinese cancellations hit in a major way this week and more cancellations are coming. China cancelled 160,300 bales on the week as net sales of upland totaled a negative 87,800 bales. Shipments totaled 110,400 bales, a very weak level. Given the near total absence of mill demand, USDA's export estimate is in danger of falling another 400,000-500,000 bales by the end of the year. The current estimate is 12.25 million bales. It could fall to 11.8 million bales.

Next week we will have the annual review of bullish and bearish factors facing the market. Growers are always bullish, and mills are always bearish. They must keep the other in business.

Give a gift of cotton today.