Cleveland on Cotton: Cotton is a Calling

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We are getting ready for the third consecutive week with essentially all cotton contracts below 80 cents. In fact, 80 cents is in the rear view mirror. Prices were hammered all week, the result of domestic and international economic news. U.S. congressional spending has essentially blown the markets out of the water. The economy is six months into an eighteen—twenty-four month fix. If that were not enough world governments continue to publicly display their distain for one another, important in that the disdain simply increases the uncertainty faced by fund managers. Heightened uncertainty is fuel for the bear. Cotton settled at the lowest level since Halloween, maybe the spooks and goblins know things the analysts do not. Yet, the 74-75 cent level still appears to be the direction of least resistance. Demand woes hold center stage in the cotton market. Despite an excellent weekly export sales report cotton continued its downward trend. Remember the market adage, “Never bet against the trend.” The new crop December futures contact will continue to follow the price leadership of the old crop May/July contracts, most likely for another month to six weeks, until peak northern hemisphere planting is in full force. The old crop May/July futures contracts will find excellent support just above 74 cents and December's support will be some 50 to 100 points higher.

Weekly export sales were exceptional for the week ending March 9, 2023. Net sales were with 310,200 bales. Many felt this should have generated higher prices. Yet, most of the sales were made at market lows not seen for the past five months. Most of those sales will not be shipped until the 2023-24 marketing year begins and will not be fully supportive of the market until near the 2023 crop harvest. The sales do not reflect an increase in demand, but rather sales made at bargain basement prices. Some sixteen countries did make purchases as Vietnam, China, Bangladesh, Turkey, and Pakistan were the principal buyers. Shipments were also exceptional and near the level needed to make the USDA export estimate of 12.0 million bales.

Yet, as good as shipments were they still fell below the level needed to make the USDA estimate. Demand continues as the weak point in cotton's price equation. Shipments to date, 6.2 million bales, remain 1.2% below the year ago level. Outstanding sales are some 20% below the year ago level. Some 1.5 million bales in sales to Turkey and Pakistan are in question.

The cotton on-call report also continues to suggest more price struggles for cotton. Textile mills have been scaling down price fixing and unfortunately cotton growers continue to delay their price fixing decisions, betting on higher prices. That is, mills are riding the price trend lower while cotton growers continue to fight the price trend and simply slip further and further under water. It is not what a grower wants to hear, but the data does not lie. The May on-call purchases (grower held cotton) is set up to be rolled to the July futures contract and will become a burden that tends to prevent the July contract from recovering. July could eventually climb back to the upper 70's but will find extraordinarily strong price resistance above 78-79 cents.

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