Cleveland on Cotton: Analyzing Cotton's Big Tease

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The Big Tease – cotton prices shot higher on the week. Each successive daily close was higher than the prior day's close. That folks, is the definition of an uptrend. Let's get excited.

Too, the market captured the prior week's losses. Sounds bullish – whatever that word means.

But wait, export sales were very sloppy. There is no bull in the cotton trading ring, just a Big Tease. There is no uptrend here. The market simply remains locked in the same ten-month trading range that dates to November 2022 – the time when the market loudly proclaimed that the price collapse from the lofty high dollar level was the result of the disappearance of demand.

Granted, the U.S. crop is bad and getting worse. The first thought is that prices should move higher. However, the Pakistani crop is getting bigger. The Indian crop is getting better. Brazil could use some help, as could Australia, but the forecast for those crops is still on the plus side – and certainly not negative. Thus, world carryover at 91 million bales haunts any attempt for prices to break above the current trading range, especially when viewed in terms of the collapse in demand.

This week's challenge of the 88-89 cent level opens the door for a selloff. Since prices could not break into bullish price territory, speculators will allow the market to drift back below 84 cents. Do not discount a trade down to 82-83 cents or even back to 79 cents. Yet, the 82-83 cent floor will most likely hold. Again, the 91-million-bale world carryover acts as a lead cap on prices.

The Fed has given every indication that interest rates will continue to increase. Inflation remains a thorn in the consumers' side. Price inflation has crept back into our daily lives. Consumer prices continue to increase, and the Fed will be forced to increase interest rates. At the consumer level, it simply means that goods and services will be more expensive tomorrow than they were today.

The increased interest rate means an increase in the value of the dollar, thus causing an increase in the price of cotton in the export market. Demand is already under water. Inflation and higher interest rates simply adds to the depth of the water. Mills cannot dog paddle forever.

You are tired of reading about the lack of demand. I am as well. Yet, it slaps us in the face every week either through cancellations or poor sales. This week it was both. Sales made during the prior week, a week when prices were near 83 cents, cancellations (and more are coming) were 29,500 bales. Net sales of upland totaled only 38,500 bales, and the New York ICE was below 84 cents.

Low prices are not helping mills. Mills need orders if they are to buy cotton. Price is not the issue, demand is…and more inflation is coming. Markets cannot go up during times of poor demand.

The move above 86 cents triggered initial pricing. The move to 87.49 cents (the weekly high) should have triggered more grower price fixations. Yes, pricing is made more difficult given the weather-plagued short crop. However, take advantage of prices at 87 cents and above.

Give a gift of cotton today.