Cleveland on Cotton: Cotton is a Calling

December 2, 2022

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This hurts, I am an optimist, and I will be rewarded.Cotton fundamentals continue the struggle to find their rightful place in the determination and discovery of the price of cotton.The continued limit up and limit down trading action in the cotton market is unique. Cotton fundamentals, per se, are simply not being reflected in the market, or are they?

The nearby March contract posted a weekly low of 77.50 and weekly high of 87.23.The market moved through ten cents during the week, all but unbelievable.The stock market and financial markets were sloppy and general economic indicators are suggesting that the U.S. and world economies are facing very major problems.The test for a recession has been met and certainly there can be no doubt, but the export market is in a severe depression.

The bulls in the market say mills might be back online in six months.The bears claim better days are nine months to a year away.Trading activity in the cotton market is very limited.Trading volume confirms a near lack of any cotton business being concluded.Too, export demand has evaporated, and domestic mills are doing little more than trying to keep the doors open just to maintain employment for an especially important labor force.

Thus, cotton fundamentals actually are reflected in the current trading.Really? Carryover stocks are increasing as demand is shrinking both in the U.S. and around the globe.

The USDA may provide market guidance in its December supply demand report scheduled for release next Friday, December 9. The U.S. crop is expected to be reduced from 14 million bales down to 13.8 bales.However, U.S. exports could be lowered from 12.5 to 12.2 million bales and domestic use could move lower, from 2.3 to 2.1 million bales.

Thus, U.S. carryover looks to increase to 3.3 million bales.Couple that with a continued decline in world consumption and world carryover balloons to 89 million bales.Should this occur then it is probable that old crop prices drift lower toward this week’s low just above 77.50 cents.

The negative news in the market is telling us that we are destined to open the flood gates of technical trading and push old crop futures prices down to the level of the new crop December contract, the mid to high 70’s.Prices that low would encourage traders to attempt the close the price gap between 74.64 and 75.50 cents.and while sorry to say it, the cotton market always closes it price gaps, except for the one down around the Buffalo Nickel.

So, the market is telling us that “tomorrow” looks bleak, and prices will have to move lower to find demand.Too, market news is telling us that some mills are attempting to sell cotton back to the merchant. Yarn mills certainly do not want to build inventory as there is only a small market for yarn now. Few mills are operating at more than 75% capacity.

Thus, the market is trading its fundamentals, as economics tells us it should.Once again, the market has given us the test and now it is giving us the lesson.Higher prices are necessary just to keep 2023 plantings from falling below 10 million acres.

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