

Cleveland on Cotton: Cotton is a Calling

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By Dr. O.A. Cleveland



Cotton futures took the bearish view all week, losing the price gains from the prior week's rally despite a friendlier than expected USDA May supply demand report. The report showed the demand side of the price equation continues to haunt the market. USDA's report confirmed the industry's long held suspicion that U.S. cotton stocks are tighter released in earlier estimates. The report does take some of the bearish tone out of the market. Yet, the world oversupply of cotton, coupled with the significant economic difficulties facing the U.S. and other world economies (China and Europe) will continue to limit any price advance. It should be noted that despite the significant tightness in U.S. stocks USDA kept the same estimate of prices received by growers unchanged.

U.S, export sales continue strong, and this led USDA to increase its export estimate 400,000 bales, from 12.2 million to 12.6 million bales. USDA also lowered its estimate of 2022 production 200,000 bales (a statistic everyone but USDA has known for three months). This was significant as July 2023 ending stocks were estimated at 3.5 million bales, down

600,000 bales from their prior month's estimate. Yet, the bearish tone stays locked in the market as world ending stocks for July 31, 2023 were increased 600,000 bales to 93 million.

USDA also released its first estimates for the 2023-24 marketing year and were more optimistic (bullish) than most expected. Along with others, and I reference the well known softs analyst, (@JudyGaines87) we tend to think this first set of 2023-24 estimates may be the most bullish that the market will see in the coming year. I am with you; I do hope we prove to be incorrect. The USDA estimates do not portend much improvement in the Texas/Southern Plains moisture situation above what present conditions show. USDA forecasts forecast the 2023 U.S. crop at only 15.5 million bales and suggests both U.S. and world consumption will increase over 5 percent. These would be a significant increase compared to forecasts for improvement in the world economy. USDA sees a continued drop in U.S. stocks, which if realized should send futures prices to the high 80's to low/mid 90's. However, USDA does suggest a bit lower world ending stocks. Either way, world stocks will continue to be very burdensome, based on USDA's analysis.

The World Agricultural Outlook Board fashioned together a very defensible report, the agency charged with collecting statistical data, their assumptions were clear. My analysis does not show the bullishness they do. I very much want to be bullish. However, the long range weather forecasters have proven to be correct so far in 2023 and I keep their hope for improved moisture in the Texas and Southern Plains. Thus, I feel the U.S. crop will be at least one million bales larger than the USDA estimate. Never underestimate the strength, vitality, and ability of the planting seed that is available to the U.S. cotton grower. Further, the estimates include an 11 million bales increase in consumption and exports, i.e., as if U.S. and world economic conditions will sharply improve almost at once. Let's hope so, but I cannot find a basis for that. Whether one agrees with their analysis or not is nothing more than one's view of historical trends or potential trends.

Conversely, another USDA agency, NASS, continued its bureaucratic lackadaisical approach to releasing data to fit any scheme they invent on any day. That is, it is May 2023, and NASS was just able to ascertain the size of the 2022 U.S. cotton crop. For at least three months the cotton industry and even one other USDA agency have complained that the monthly NASS release of U.S. production was considerably overstated. Another USDA agency, AMS clearly showed that U.S. production was well below the NASS estimate. Now that the 2022 production season is well over, NASS finally gives us its first actual count of production. Once NASS took pride in releasing accurate information and ensuring that the agency was relevant. This administration only wants to develop and follow bureaucratic procedures, accuracy and helpfulness be damned. NASS administration is what government work jokes are all about. (I can say that as I was once a government worker deeply believe they can be extremely relevant.) Market analysts want think USDA estimates are timely and accurate, but NASS administration undermines such standards.

The trading range continues. July has the potential for and 87 cent trade and should hold above 82 cents. New crop, based on the USDA estimate, has a rocket tied to it. Yet, for nasty ole me I remain a much wider range, 74-90, waiting on Mother nature to play her hand.

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