

Cleveland on Cotton: Weather Already Driving 2023 Cotton Prices

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The cotton market attempted to demonstrate a bit of life at week's end as prices rallied 200-300 points to end the week. Yet, settlement prices were still below 85 cents, ranging from 84.90 in the old crop May contract to 84.32 in the new crop December contract. Thus, the Board remained flat, suggesting the market views the value of cotton today versus the value of cotton in December to be essentially equal.

Recall last week, USDA suggested that prices would move lower during the new cotton year beginning on Aug. 1, 2023. This week, the market focused on comments from the Mid-South Farm and Gin Show held in Memphis. Much like last week, this week's comments implied marginally lower prices facing the outlook for 2023-24 marketing year. However, this week's news held out hope for slightly improved prices in the old crop May and July futures contract prices.

Nevertheless, cotton fundamentals are little changed. Old crop futures will continue to trade between 80 and 88 cents with some bias to trade lower, and new crop futures will continue to work the 78 to 86 cent trading range.

The outlook for the old crop May and July futures improved this week as the excellent export sales we mentioned last week were confirmed by USDA. Further, one should expect the coming week's export sales to be just as large – that is, near or approaching record sales for the 2022-23 marketing year.

The weekly export report showed net sales of upland at 425,300 bales, double the prior week's sales. Two points should be clear with respect to these sales. First, the sales were made at the second lowest price since October and additionally, shipments continue to lag well behind sales. Many of the sales will be later changed to 2023-24 sales.

While it is doubtful USDA's export estimate of 12.00 million bales will be reached, the market did find bullish momentum in a comment by the industry's major merchant indicating the estimate could be reached.

However, the fly in the ointment continues to be the severe economic chaos in two of the U.S.'s four largest markets for cotton – Pakistan and Turkey. Pakistan, as reported by Bloomberg News, has hard currency reserves of less than two billion dollars and most of that is reserved for food imports, not fiber imports. Additionally, much of the spinning capacity of Turkey was devastated by the earthquakes.

Combined, these two countries have purchased more than two million bales of cotton that have yet to be shipped. Further, the strength of the U.S. dollar only makes this cotton more expensive with each passing day (the fact that the Fed must continue to raise interest rates to fight inflation is having an extremely negative and dire impact on agricultural markets).

Additionally, on-call sales versus on-call purchases reflect what the market already knows – the U.S. cotton grower has been steadfast in holding cotton and paying storage costs rather than selling any volume of cotton below the 88-cent level. Mills have taken the opposite approach. As demand is weak, they have been agreeable to buy only limited amounts for cotton and wait for lower prices. The on-call data strongly suggests that if prices do not move lower, they will, in fact, hold steady and will be extremely limited on any move higher.

Comments at the Mid-South Farm and Gin Show suggested that the long-range weather pattern should allow the drought in the Southwestern cotton region to break by cotton planting in May and June. Improved moisture and forecasts that the U.S. will plant 10.7 to 11.4 million acres to cotton portends a U.S. crop of more than 16 million bales. Assuming a robust increase in world cotton demand during the 2023-24 season. U.S. carryover was forecast to increase to more than 5 million bales – a level that would drive New York futures below 80 cents to the mid-70 cent level.

Weather, specifically rainfall in West Texas, will be the determining force in providing the direction in cotton price in the coming season.

Give a gift of cotton today.