

Cleveland on Cotton: Small Signs Of Optimism in the Cotton Market

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The 2023-24 cotton year is in the history books, and the big, unshipped export sales orders were moved into the 2024-25 marketing year. Will they get shipped or will they linger on the books just as they did during the prior year? Wow, 2025 is all but here.

Last week's glimmer of hope for higher prices is still with us. The glimmer seems brighter, but there is not enough evidence just yet. Too, it is all coming from the supply side. Supply is looking smaller, but demand is weakening across Asia and the big Subcontinent. Prices held firm at the 67-cent support level, but speculator attempts to push down to 65 cents are still in the rearview mirror. The ICE December contract will, with high probability, hold its 67-cent support area.

Yet, demand is a growing concern, as if it were not deathly weak already. Look for December to continue its challenge of 70 cents, with 70-71 cents being a difficult area to penetrate just now but possible after the USDA August world supply demand report. Longer term, the market is positing to move to the 75-cent area, but the historical trading bias says that movement above 75 cents will only occur after the October-November period. Thus, our long-held forecast that growers will have to postpone price fixing until the May-July period continues.

Most, including myself, would not expect demand to get any weaker. Yet, now comes news that many mid-size Indian mills are looking to switch to non-cotton blends. Demand can't get weaker, but it is. Bangladesh mills are struggling to open LCs (letters of credit), and the riots are causing work stoppages. India is the world's second largest consumer of cotton, and Bangladesh is a major U.S. export customer. Thus, there are only thorns in the rose garden for U.S. exports.

That said, this long-time market bear has turned a bit optimistic. While I feel the price bias is higher, I am very cautious to not use the word bullish. The phrase "bullish market" does not come into play without demand. Thus, my positive outlook is only for a five to ten cent rally, at the very most. Yes, the 75-cent card and the 80-cent card are in the deck. I feel confident the 75-cent card will get played as the market shuffles through the Chinese and U.S. production questions.

Chinese harvest is later and weaker than expected. The U.S. Eastern crop has shown significant improvement. However, too much of the vast Southwest dryland acreage is either seeing insurance plow downs or is in such desperate need of a rain, it may be too late by the time you read this.

The major surprise of the week was the surge in unemployment, signaling that the Fed now must deal with unstable employment and inflation increasing at a faster rate than its target. The U.S. fiscal policy has blindsided the Fed and

made it all but impossible for the Fed to manage interest rates (It also opens the door for a near term lowering of the interest rate by the Fed that, up until today, I argued would not occur).

Thus, any reduction of interest rates by the Fed will take nine to twelve months to work its way through the economy. That is, there is no short-term fix coming for the economy, and the declining level of manufacturing in the U.S. – coupled with more unemployment – will completely nullify any attempt to rebuild consumer demand for apparel goods, possibly even beyond my previously forecast second quarter of 2025.

The economic news is not good and will not be until the U.S. Government reduces spending. The alternative is to allow inflation to return to the galloping level experienced the past three years. It's a Mell of a Hess that Government can fix only by reining in its spending. No matter how smart we think we are, we will never outsmart the laws of economics.

Speculators have now posted a record short position in cotton trading – again, a record short position. Who can be left to sell the market lower? Everyone is already short. It may be time to set your oars in a different direction in the water. Everyone can't be right, not in the market. There are more troubling waters ahead for cotton prices, but the market is turning.

Give a gift of cotton today.