Cleveland on Cotton: Cotton Continues to Battle Bearish Indicators as 2025 Begins

January 06, 2025
By Dr. O.A. Cleveland

The New Year brings joy and hope for another successful cotton year. While the beginning of the year saw prices fall below 68 cents, the market still projects a recovery to the 72-cent level. Yet, most fundamentals point to lower prices, at least until the expiry of the March futures contract.

The May contract holds hope of a recovery to the high 60s and low 70s, but it is the July contract that holds the most hope for prices retracing to 72 cents. Until then, market prices must battle a particularly difficult and long array of bearish indicators.

The July contract pins its hope of higher prices to the possibility that on-call sales will be significantly higher than on-call purchases. Of course, this is the traditional battle of demand and supply. Supply is defeating the market’s attempts to push prices above 70 cents and eventually to a challenge of 73 cents.

Traditionally, I begin the new year with a listing of Bearish and Bullish market indicators but will forgo that this year as you and I are completely worn out with the extremely Bearish news surrounding the demand side of the market.

Now there are a few Bullish signals (thankfully so!) and hopefully more than I see. World carryover is very marginal compared to world demand. Thus, any production scare would typically support a price rally. However, that ugly word in the cotton market – demand – continues to be so weak that the market will require more than the “normal” production scare to create a jump in prices.

Looking beyond world stocks, market fundamentals are a bit negative for price advancement. U.S. exports, with two-fifths of the marketing season behind us, continue to lag the level needed to reach the USDA estimate. Granted, the heavier part of the export season is in front of us, but every measure of projections suggest a lowering of U.S. export shipments by as much as 300,000 bales. With U.S. carryover currently estimated by USDA at 4.4 million bales, any further increase in carryover stocks would certainly keep a heavy lid on prices.

Asian textile mills are projecting a significant work slowdown, with as many as half of the mills expressing the idea of taking a three-to-six-week holiday. It is no surprise that they cite both a lack of new business and an increasing level of unsold inventory. This is the essence of the very bearish demand we have discussed during the past year.

Possibly, these fundamentals are already built into the current 67-68 cent market price. The market is within one-to-two cents of significant price support that, if broken, would project a price drop to 61-62 cents. With world cotton plantings not expected to decline during the 2025 production year, the only savior of pulling prices above 70 cents for any considerable time rests with a recovery in the demand for cotton. However, the downside is that cotton has lost much of its favor with the consumer, and the cotton industry does not have a program to recapture its consumer base.

The initial estimate of new crop plantings, as captured by the well-known annual *Cotton Grower* survey, is 11.04 million acres, down from 11.7 million actual plantings in 2024. Certainly, that level of plantings will more than satisfy the market under current conditions. However, some private estimates suggest U.S. plantings will be as high as 11.4-11.7 million given the current cotton- soybean and cotton-corn price ratios. Too, the market has expectations of improved yield prospects for 2025, particularly in the important Southwest where Texas plantings are projected to be in the 6.0-6.1-million-acre range.

The market has excellent long-term support at the 66-67 cent level. However, the prices have battered that support level so frequently of late the support may have weakened. The next objective for the bear would be as low as 61-62 cents. While I am not projecting such a drop, be aware that some are.

Promote cotton!

Give a gift of cotton today.