Cleveland on Cotton: Cotton Prices Holding, But Watch the Fundamentals

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Misery loves company and cotton had a lot of company this week. Yet, cotton trading should not have been that bad. The old crop July contract, trading with just over two weeks before first notice day, fell into the 73's, while next year's hope – the new crop December futures contract – fell into the 72's. The 74-cent area appeared to be the holding station for July futures and still may be, but market/government fundamentals could push it lower.

The new crop December is watching the West Texas rain gauge, particularly south of Lubbock and District 1-S. It is far too early to push December into the 60's, but then the rainmaker still has a lot of time to set that in motion with a better than average Texas crop, albeit the odds are declining. With the July contract liquidation already well in progress, all bets are off as to finding solid support. But with merchants seeing the possibility of redeeming cotton out of the loan with all storage and fees paid, one has to think more tears will be shed as July falls below 72 cents – a price level so low I promised one mill last week that such could not happen.

So much for my promises.

December will trade with July for another week before it can fully look to weather scenarios. However, the old issue of demand will continue to sit as a lead cap on December futures.

The unexpected price drop has brought the AWP in play with the idea that loan redemptions would be free of storage costs if prices fall a bit more. The CCC would be responsible for picking up the storage costs. That would offer a small and short-lived boost in demand as merchants could meet other growths at par across the world export market.

The five days of Goldman Sachs rolls began on Friday (June 7) and can be attributed to the overall bearish feeling of the week ending trading. Too, the July option expiration on Friday was a factor in the market, but it was not though that the activity created the bearish picture presented by the market. The overall bearishness was fundamentally driven, and principally associated with the continued buildup of on-call purchases (grower's need to sell futures contracts) that has reached unpresented levels. Not only is the level of on-call purchases unprecedented, but they are occurring at a time of extremely weak cotton demand (very few buyers).

The old expression "I can't win for losing" comes to mind. The price deck is definitely stacked against cotton at present and will not be level until demand can be reinvigorated or until a significant world production region succumbs to some weather disaster – something no grower would wish on his brother.

U.S. export sales failed to move the price needle on the week, as only a net of 138,700 bales of upland were sold. As expected, China made more than half the purchases (70,500 bales), with Pakistan and Vietnam buying 28,200 bales and 24,700 bales, respectively.

Other government reports on the week all pointed to expectations for continued inflation growth and the high probability that the Fed will not alter interest rates. Employment layoffs across the manufacturing sector, coupled with declining consumer confidence, limit the consumer's demand for apparel goods. While some individual big box retailers did fare well, the apparel sector for cotton rich items did not.

USDA will release its June world supply demand forecast on Wednesday, June 12, at 11 AM Central. Only minor changes are expected to current data. However, it is expected that the Department will adjust its estimate of U.S. cotton exports for the 2023-24 marketing year. Some suggest that a reduction of as much as a million bales, down to 11.3 million, has merit. That is a bit harsh, but their argument is understandable. Using a similar level of weekly exports as last year would project 2023-24 exports at 11.1 million bales. However, the current pace of the past two plus months suggest exports will be much lower than the USDA estimate. Total sales for the season are 12,551,000 bales and of those, 9,209,000 bales have been shipped.

Yet, the export picture is anything but positive. Expect a 400,000-bale reduction, down to 11.9 million. Anything less will indicate that USDA prefers to lag in its numbers. Of course, such a reduction will cause the U.S. carryover level to increase to 4.1 million bales. That would also serve to validate the futures market trading levels.

The New York Cotton Roundtable group will discuss the report at 1:30 PM central time, shortly after the report's release. To listen to the discussion, call 605-313-5148 and, when prompted, enter code 571052. You will have the opportunity to ask questions. An archived recording will be available on Facebook, Twitter, and AgMarketNetwork.com.

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