Cleveland on Cotton: Tariff or No Tariff, Current Cotton Price Drops Not Surprising

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Cotton found a rollercoaster ride on the week, slipping down to the 63-cent level that we forecast. But a bit of profit taking on the heels of a solid export sales report saw a triple-digit price increase back to the 65-66 cent prior lows. May fell to a low of 62.54 low at midweek and settled the week at 66.07. The rally then ran into the nine-day moving average in the 65.75 cent area on Thursday and could go no higher.

However, the 62.50 cent level should provide excellent support with price resistance at 66.25, additional resistance at 66.75 cents, and more at the 67.75 cent level.

Yet, the nearby support points should be considered as weak support. Trading above 67.75 next week or anytime on the horizon will be very difficult. Yet, for now, the 66.25 cent level offers strong resistance. Thus, for now, the very wide six-cent trading range of 62.50-68.50 is in play with the likelihood of the narrow two-cent 65-67 cent range seeing most of the trading.

Demand remains the issue, nothing else.

It is interesting to note that a few blamed Trump by name for cotton's demise down to 63 cents, but a sizable number in the market had predicted a slippage down to that level. It is noteworthy that cotton's rebound did not smoke out those same ones to thank him for a return to 66+ cents.

Generally, those who are tossing political blame to Trump have completely missed the fact that cotton world trade has changed. The U.S. is not the big boy on the cotton block it once was, and the Brazilian/Chinese collaboration is many times more important to U.S. agriculture than any tariff talk could ever be.

In reality, world cotton trade is not operating in a free trade vacuum, thus the tariffs are neither affecting sales of cotton nor directly affecting cotton prices. Again, the price failure down to 63 cents was written all over the market, well predicted, and not surprising.

The On Call report was (and is) as historically negative toward cotton as ever. The industry and USDA, as well, had previously noted that Chinese imports were going down, not up, well before the report's release. Too, if merchants had been leery of cotton tariffs, they would have prepositioned cotton in China. That has not been the case all year.

Yet, recall we have suggested cotton sales to China could be made – not because they need cotton or even need U.S. cotton, but rather because the world cotton price is now about 50% of the Chinese production cost. If the Chinese wish to make the economic decision to buy U.S., a tariff will not matter.

Exports proved to be very strong on the week, as prices slipped back to yearly lows. Next week's sales should also prove to be just as strong. Net export sales of upland totaled 241,500 bales, while shipments made another yearly high at 334,000 bales. The past month has seen 17-18 countries in the market – a very good sign. But still far too many countries are buying only small quantities.

Commenting that export sales and shipments are good is relative to the point that when compared to historical levels, they remain low. The weekly cotton On Call report continues to suggest cotton prices have extremely little room to move higher. On-call sales and on-call purchases are essentially equal, meaning there is no pent-up demand for cotton and little forward buying – both very negative for any price advance.

USDA’s March supply demand report will be released Tuesday, Mar. 11. The New York Cotton Roundtable group will discuss the report at 1:30 PM Central time, following the report’s release that morning. To listen to the discussion, call 605-313-5148 and enter code 571052 when prompted. You will have the opportunity to ask questions.

An archived recording will be available on Facebook, X (Twitter), and AgMarketNetwork.com. BASF – and its FiberMax and Stoneville cottonseed brands – is the sponsor.

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