Cleveland on Cotton: Demand Still Not Painting a Pretty Picture for Cotton

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After a full week of lower prices, the market renewed its teasing with four consecutive days of higher moves. That appeared positive until one realized that the weekly March settlement was only 65.63 – up a few meager 10 or so points on the week.

After establishing new lows the prior week, most analysts called for higher prices, citing the upcoming March first notice day coupled with the absence of certificated stocks. Granted, I noted that last week. But also recall we are on record of suggesting that the May contract will drop down to the March lows. That will add to the bears' momentum in taking prices to yet lower life-of-contract lows.

It is still not a pretty picture.

It is past time to suggest that cotton is undervalued, and typically we would. But the absence of demand continues to thwart any price movement to higher prices. Too, export demand continues to add misery and leaves the market scrambling to make lemonade out of wild lemons. We still must respect the 65-cent low and fear the market is trying to work its way down near the 63-cent level, essentially placing little value on world cotton supplies in what is the most bearish market of our time. We can only respect the adage "It is always the darkest before the dawn."

Cotton prices and the cotton market will be revived, but not with respect to the old crop 2024 production and not on the front end of the 2025 crop. We will have to look to the back end of the 2025 market to find reprieve.

While growers are searching for alternative crops to plant in 2025, the prices for other crops are likewise very bearish ($4.50-$4.90 for corn and $10.25-$10.50 for soybeans), leaving growers scrambling to manage input costs – something they do every year. The bear has taken such a huge bite out of the market that we can only cry a bit.

While U.S. plantings will be down 8-10%, a 5-7% world reduction in planted area would serve as the stimulus to bring prices back to the mid- to upper 70s. Too, world carryover at 77-78 million bales is low enough that a third consecutive year of reduced production would be enough to stimulate prices back toward the upper 70s. While that does offer positive market enthusiasm, the cotton industry must again gain the confidence of the U.S. consumer to rebuild its customer base. Until demand can be reinvigorated, cotton prices will cling to prices below 80 cents.

The often-mentioned CFTC cotton on-call report remains extremely bearish – more so than I ever recall – and suggests little hope, if any, for any improvement in old crop prices. Those hoping for higher prices have pinned their hope on the export market. However, extremely poor demand prospects suggest little help from the demand side of the price equation for the coming nine months.

There is hope that the U.S. will sell additional cotton to China. However, Chinese stocks are extremely strong, suggesting they need little cotton at present. Yet, with world cotton prices nearly 50% below the Chinese cost of production, one can argue that Chinese sales could increase. However, the Chinese suggest they have six to eight more months to make that purchase decision.

USDA will release its February supply demand report on Feb. 11. Only minor changes from the January report are expected. Most expect USDA to lower its estimate of U.S. exports. However, we suggest it is too early for a reduction. Certainly, a reduction of some 200,000 bales appears in order, but a clearer picture of how much of a reduction will be known in 60 days. The potential for such a reduction remains the driving force to take the May futures contract lower after the February 24 first notice day on the March contract.

The seldom seen, but very reliable, average five-year export level is set to cross below the 10-year average level and adds a technical perspective for lower prices. A great name from the past, John Hirsch, explained that to me 45 years ago. This may be the first time I have witnessed such an event. However, this is more ammunition explaining the dramatic change in world cotton trade that the U.S. industry must accept and rise to challenge if demand for U.S. cotton is to be revived.

Higher prices for the 2025 crop are dependent on a declining world production.

Promote cotton!

Give a gift of cotton today. (*I did receive a wonderful cotton blanket manufactured by Redlands Cotton this past week. Try one*.)