Cleveland on Cotton: Mill Buying Increases, Yet Cotton Market Remains Cautious

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There are tiny cracks appearing in the cotton bear's armor. They are minute, well camouflaged, and may be difficult to penetrate, but finally they are there. Indications are that mills can finally see value in cotton with prices in the low to mid-70s. Demand will have to surface by the first quarter of 2025 to truly build a higher price base.

Certainly, for growers, prices in the mid-70s are nothing more than depressing. Yet, the key is that mills are showing indications that they are willing to step in and not only buy cotton, but fixing the price on some orders is very suggestive that 1) some business is being done, and 2) more importantly, that mills believe that orders are forthcoming. Business remains slow, but numerous mills have shown a willingness to marginally increase yarn spinning.

Again, caution is the order of the day as cotton purchases remain small. Yet, across the board, buying has occurred over the past two weeks. Our enthusiasm level has increased, but any movement to higher prices will be difficult as there will be increased competition in the world trade market. Nevertheless, the focus is now on attempting to build a price in the extremely high 60s to mid-70s.

The trading range may well be expanded during the coming two weeks as the old crop's swan song comes with the July's first notice day on June 24. Both the July and the new crop December contracts are facing a 68-78 cent trading range now that eight days of the Jim Roger's and Goldman Sachs' rolls have passed.

The combination of new sales for the 2024-25 marketing year, coupled with the growing and strong potential for 2023-24 marketing year undelivered sales to be added to the 2024-25 export sales, is increasing the demand for price fixations (buying of futures) on the December 2024 futures contract. Certainly, some of those will likely be rolled to the March/May/July 2025 contract months, but many will be exercised on the December contract. This is beginning to build price support under the December contract.

It is noted that grower on-call purchases (need to sell futures) are increasing on the December contract as well but mill on-call sales are increasing at a faster rate. Again, the implication is that the December futures contract is beginning to find price support. There have been scant few, if any, bullish or positive indications in the market. Thus, it is positive to find any potential bullish indictor.

Too, the weekly export sales report offered support to this positive news as net weekly sales of upland were excellent at 177,100 bales. Granted, export sales should be exceptionally good with futures prices in the mid to upper 70s. Yet, sales were made to 20 countries. As expected, China was the principal buyer, taking 78,400 bales. Other major buyers were Vietnam (27,700 bales), Pakistan (16,900), Macau (14,800), Mexico (6,200), and Turkey (6,000). The volume of sales coupled with the number of buyers offer a hint that price support is hidden within the trading data.

Of course, China, Pakistan, and Vietnam are the three largest customers. China has slowed its purchase of some other commodities – an indication that the Chinese have met their purchasing goals for those commodities. However, the Chinese have not slowed their purchases of cotton. The buying program is not expected to slow for at least another 60 days, or until the Chinese can better estimate local Chinese production. Too, China needs will continue to exist at least into the second quarter of 2025.

USDA's June supply demand report was in line with expectations and did not contain any surprises. The principal change compared to the May report was that USDA exports were lowered 500,000 bales from 12.3 million down to 11.8 million. The report did confirm a long-time warning that the U.S. – for the first time ever – lost its crown as the world's primary exporter of cotton to Brazil. USDA forecasts that U. S. exports in 2024-25 will exceed those of Brazil. However, that may well not be the case.

Some suggest that USDA's half a million-bale reduction was too much and will be adjusted higher in the July report. Yet, based on the rate of shipments over the past two months, it is likely that U.S. exports will be lowered as much as another 300,000 bales. It is difficult to argue with that suggestion, given that the New York ICE is trading in the low 70s.

Nevertheless, the market is finally on a painstakingly slow road higher.

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