

Cleveland on Cotton: Recent USDA Report Hints at “Hope” for Cotton

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USDA’s December supply demand report confirmed the market’s slight bearish tone, as estimates for both U.S. and world ending stocks were slightly increased. As expected, prices spent most of the week trading in the 69-70 cent range – a range the market will see during much of January. However, a brief slip below 69 cents would not be surprising, just as a challenge of 72 cents can’t be ruled out. In the absence of any demand news, prices will continue to stagnate in the 69-72 cent range.

As expected, the December supply demand report left estimates for U.S. exports, imports, domestic use, and beginning stocks unchanged. Production was increased to 14.3 million bales, up 64,000 bales. U.S. ending stocks were increased to 4.4 million bales, up 100,000 bales.

Of course, the international cotton scene is more important, as 70% of the variation in world price is accounted for by the variation in Chinese consumption and production. Too, over the past, U.S. has lost world leadership in production, consumption (in the top four), exports, and – more importantly – in the comparative cost of production.

Estimates for world production, consumption, and ending stocks were increased. USDA increased its estimate of world production to 117.4 million bales, up 1.2 million bales from November. The increase was associated with a one million bale increase in Indian production. The estimate for world consumption was increased 570,000 bales, mostly based on increased consumption in Vietnam, Pakistan, and India.

While world ending stocks were increased 300,000 bales, up to 76 million, note that changes in the China cotton situation were more bearish. Chinese consumption was decreased 500,000 bales as imports to China were also reduced 500,000 bales. The implication is that any forecast for a significant U.S. export sale to China – i.e., more than 2.0 million bales – is one of “hope.”

Weekly USDA sales were again a bit disappointing. Net sales of upland totaled 153,000 bales. Only three countries had double digit purchases: Vietnam (73,000 bales), Pakistan (50,700), and Malaysia (10,000). Sales were made to only 13 countries. Shipments were seasonally low at only 137,400 bales. Yet, I would be remiss to write off the possibility of an increase in mill business, only because the marketing year is still “young” at five months old, yet it is approaching middle age.

The “hope” within the USDA report, however, does exist as both world consumption and world trade were stronger than prior month estimates. Yet, it is likely that this improvement only solidifies the fact that prices will be well supported at the current level and that the 75-cent mark is literally a price bridge too far to cross.

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