Cleveland on Cotton: Bulls Pushing for Cotton Rally, But Bears Continue to Lurk

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Some say just two, but USDA has now given the market three consecutive bullish supply demand reports. Both world and U.S. stocks have come down to very manageable levels. New York is some six cents off its lows and has now ventured into the expected 72-75 cent trading range.

Yet, this market has bears lurking around every corner.

Demand remains the actual price killer, as week after week the principal measure of demand, U.S. export sales and shipments report, is very bearish – not just bearish, but very bearish. Thus, can December futures climb to 75 cents? Yes, but I doubt we will see that trade without a short price covering rally.

Such a rally always occurs. Or does it?

Current market conditions say no to a short covering rally this fall. Fundamentals just do not support prices higher than the 73-cent level. The bulls are pushing with all their might, but demand continues to disappoint, week after week. Yet should the very massive market shorts become nervous, it is possible, but not probable, that December could shoot its way to 78 cents.

That is the top of the trading range. The bottom of the range remains at the 66-67 cent mark. We expect December to return to its 68-72 cent trading range and work in that area for another one to two months.

Short of a major economic disaster that directly affects the world cotton industry, there appears to be little probability that the December or March futures contracts can climb above 75 cents. In fact, based on current data, both world consumption and U.S. exports will further decline as the year continues.

Sad as it may seem, growers should entertain fixing the price of a portion of their cotton in the 72.50 plus price area. Yes, that may be below the cost of production for most growers, but the potential for trading back into the high 60s is very possible and, in fact, expected. Our earlier suggestion that some demand would surface by March-May 2025 no longer appears on the horizon. Textile mills now report that their business continues to decline and that, in fact, they are operating for fewer hours than they were just two months ago and presently do not have any near-term plans to increase operations.

The weekly export sales report continued to show very lackluster demand for U.S. cotton, as net sales of upland were only 106,800 bales. China was absent for the second consecutive week, despite prices in the 60s. Vietnam, Pakistan, and India purchased some 80% of the week’s sales. Export shipments are lagging USDA’s estimate of exports for the year. Weekly shipments of upland were only 130,000 bales.

The market dilemma for both growers and mills is that demand will continue to decrease. Likewise, the world crop could further decline, but despite forecasts for declining world stocks, the lack of demand continues to suggest a market struggling to hold the 70-cent level.

Growers thinking about using the loan are subject to storage cost with little hope of covering those costs. The typical cotton market offers a profit to the typical grower in only eight out of ten years. This has the appearance of being one of the ten years that will end with a loss. That said, a prudent marketer of cotton will use this current six cent rally to price a portion of his crop, as much as 25%. With any luck I will be completely wrong, and you will still have 75% of your crop to price at a higher level.

The point is that six cent rallies, such as we are seeing, are rare when fundamentals are so bearish. It is time to begin pricing a portion of the 2024 crop as the possibility of a pull back into the high 60s remains very possible.

Too, while the Fed reduced its core rate interest rate 50 points this week, long range interest rates rose – a signal that more inflation is expected to be a problem. This is no time to store cotton.

Promote cotton.

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