

# Cleveland on Cotton: Hopefully, Cotton's Market

## Low is In

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Cotton bulls celebrated Thursday's close as prices on the nearby March contract eked out a close near 62 cents. Many are proclaiming the market low is in, but I am not one. However, we do hope they are correct.

Nevertheless, at least we are bottom picking. Yet now that demand is a no-show in this market and the U.S. has lost its world leadership in the cotton industry, we fear prices could move lower. We remain restless until we no longer fear the 59-61 cent range. The March contract began its expiration period on Friday and made way for the May contract to become the lead month, or as others say, the spot month. May's Thursday settlement was 64.14 and will fight to hold the 64-cent level. In the absence of new fundamental news, one should expect the May futures contract to begin a slide below 64 cents and even down to the 63-cent level before encountering price support. However, the life cycle of new spot month contracts includes a retreat down to the expiring spot month contract. That implies the May contract should be expected to see

the 61-62 cent level as the predominant trading range as we move through the month of March.

A light of hope, and for now only hope, is a hint of price optimism that can be found in the weekly On-Call report. Remember, Hope Springs Eternal. While a marketing plan must be based on facts and not hope, the weekly On-Call report, on which we place considerable predictive power in determining price direction, does offer the suggestion that market selling versus buying has found an equilibrium. Granted, the report measures only cotton industry traders' positions, and void of speculative trading, does for the first time in well over a year give a hint of an equilibrium between mill and grower positions, a hint anyway. On-Call sales versus On-Call purchases for the old crop March, May, and July contracts are nearly equal (33,299 versus 34,107 contracts). This implies that the mill's need to fix the price of cotton it has purchased from the merchant/cooperative is the same as the grower's need to fix the cotton it has sold to the merchant/cooperative. More importantly, it implies that there is not a mass of grower-selling hanging over the market to force prices lower. That is a new reading in the market that has long seen the report indicate that heavy grower selling was hanging over the market and offering heavy bearish sentiment to prices. To be sure, the report understates the amount of grower cotton that is still unfixed and still needs to come to the market, but nevertheless, such an indication this late in the winter is highly suggestive that the market has reached an intermediate run price equilibrium. Thus, fundamentals may be suggesting a price bottom has been established for both old crop and new crop, at least through the May-June period.

The market received more bullish news Friday morning with the release of the weekly export sales report. Net sales of Upland for the week ending 2-12-26 totaled 466,300 bales, a marketing year high. Granted, I must admit, my continued bearishness may be without merit. Sales were broader-based than in past weeks and months, as sales were made to 18 countries. Leading buyers were Vietnam, Bangladesh, Pakistan, India, and Turkey. Vietnam and Bangladesh accounted for more than half of the weekly purchases. Too, the number of weekly sales, coupled with the friendly On-Call report, suggests that mills consider the price bottom is in. Further, although not confirmed, it appears that the new export sales were made based a fixed price contract and not on an on-call basis. This adds to the argument that the market bottom is in.

The Supreme Court ruled that the way the Trump administration applied tariffs was not allowable. However, most countries have already concluded reciprocal trade agreements with the U.S.; thus, the ruling is meaningless with respect to those countries. However, there will be more trade sanctions with respect to China and Canada. For those claiming that cotton sales or the cotton industry were hurt by the tariffs, let's see how much they raise their estimate of U.S. export sales. My guess is very little, again signaling agriculture benefited from the tariffs, as did the U.S. economy. Tunnel vision tells us that agriculture benefits from a weak dollar, and one of the purposes of the tariffs was to strengthen the value of the U.S. dollar. A dynamic view of a weak dollar also tells us that it adds to the inflationary impact on agriculture (and the economy). Thus, those arguing for a weak dollar are also arguing for increased inflation. The dissipation of the tariffs will add pressure for a weak dollar, increasing the potential for inflation. Yet there are several congressional statutes that allow for the same tariffs but applied in a different fashion. However, it will take time to reinstate those tariffs.

Our friends at Trucott Inc. (601-978-6958) observed this week that market direction is difficult to predict when most of the action is spread trading. Merchants/Cooperatives, in my opinion, are working overtime to maintain spreads within the market (price differences between specific contracts). That is a lifeline for marketing, as some entity must pay to carry the cotton from month to month (interest, storage, insurance). Most of the trading of recent months and "nearly all" of recent weeks has been spread trading. If the market continues with very heavy spread trading it is likely to go nowhere, simply offering only a little give and take and nothing else. Cotton has held such a pattern for several months. It has not traded as a typical active market for some time and has been void of any price discovery. The old crop contracts are set to continue such a trading pattern. Yet, remembering that Hope Springs Eternal, the new crop December contract is activity watching planting intentions and weather patterns. The next planting intentions report is scheduled for March 30 with the release of the USDA March Planting Intentions Report.

Hopefully, those who have signaled that the price bottom for old crop has now been established are correct. Nevertheless, the 2026 crop, once harvested, must still battle to attract the consumer, and that is where the cotton industry is failing. This week's bullishness

opens the door for December to trade up to the 70-72 cent level, but there are a lot of "ifs" that must come true.

Give a gift of cotton today!