Cleveland on Cotton: Cotton Market Shows Life as March Contract Period Begins

November 25, 2024

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Strong export sales, coupled with the beginning of the December contract's expiry, brought life to the cotton market. The expiring December contract had a limit and near limit-up move as December futures gave way to the March contract as the nearby trading contract.

Prices on the expiring December climbed above 71 cents before giving way to March as the nearby trading contract. Yet, the March contract continues to be beset with cotton's primary distraction – weak demand. March futures are not out of the woods, as trading on a new nearby contract typically moves down to the expiring month's trading level. Thus, while March will be active between 70.50 and 71.50 cents, the threat of 67-69 cents will continue to hang over trading at least until the January-February period.

May futures should move to 72.50-73.50 cents. Yet, I do not rule out a 74-75 cent trade in the May contract. As we have long held, the new crop December contract does have the look of 80 cents, but only later in the year. Cotton is too cheap, even at depressionary levels of demand.

December shorts stayed bearish too long as prices rallied the 300-point limit the day prior to first notice day and were caught in a short squeeze in the December contract. It was a happy and welcome reminder of the late Raymond Cooper and Julian Hohenberg, although both liked the October squeeze more than the December.

The limit up move confused some into thinking the bulls were coming back to town as the price occurred just before December’s first notice day and just after release of the best export sales report of the year. Yet, as December rallied, the oncoming March contract saw only a 30–40-point gain, a clear indication that market fundamentals had not turned bullish.

Fundamentally, the bears still control the market. However, the market bottom is now established – the long term 66-67 cent level and likely the 68-69 cent level on the March contract. That has been the established bottom for some time, but some of us, including myself, felt like we were out of that hole a few months ago.

The weekly export sales report pegged sales as the strongest of the first 14 weeks of the 2024-25 marketing season -almost double that of any prior week. Net sales of upland totaled 318,500 bales. Primary buyers were Vietnam (132,800 bales), Pakistan (55,400), China (30,200), Turkey (23,200), Bangladesh (20,200), and Thailand (11,900 bales). A total of 16 countries made purchases.

All indications are that another strong week is forthcoming. Too, with the past two weeks at sub-70 cent trading, increased sales were expected. However, weekly shipments continue to be a drag on market prices. Shipments speak more to immediate demand than sales during these periods of slow business. Shipments lag the pace needed to meet USDA's current year export estimate of 11.2 million bales. Weekly shipments totaled 148,200 bales, with Vietnam, Pakistan, China, and Turkey being the primary destinations.

One analyst suggested that cotton demand awaits an increase in disposal income. Real per-capita disposal income has sharply increased since the first quarter of 2022. Cotton demand has slipped every quarter during that period. Cotton's real culprit is, unfortunately, itself. It has fallen out of favor with the consumer as the consumer's income is increasing. Simply cotton is only getting a decreasing share of that increased disposal income. The challenge is for cotton's leadership to recognize the industry's failure to promote itself and to adjust.

The old crop May contract can trade to 75 cents, but the market is not expected to cover storage and carrying costs. Again, the new crop December seems to have 80 cents written all over it.

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