Cleveland on Cotton: Another Second Chance Price Rally Still Not Enough

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Cotton will come around. But as we have repeatedly commented, the 2024 crop will have to be priced in 2025, most likely based on the May 2025 contract. It is just going to take that long before mills will approach 85% spinning capacity. Neither U.S. nor world carryover are burdensome. Thus, the inching upward of demand will pull prices along.

Cotton is well known for giving second chances – well known. The past two-week rally, mostly only last week, moved slightly higher than my 81-cent projected high, but what is a few points in times of inflationomics? Yet, as expected, the rally failed at the 81-cent level. Far too much money had come in on the bearish side of the market, allowing the bulls to run the short speculators out of the market. Rather than a demand-based bullish rally, prices shot higher in an extremely aggressive short covering rally.

The profit taking saw both July and December move higher in six of the last eight trading days. July climbed 589 points on the week, while December gained 383 points. Both increases were within the predicted trading range but were a bit more bullish than I expected. The expected trading range for July remains 75-81 cents, while trading for the December contract should fall within the 72-77 cent range.

July has another calendar month before its first notice day, and prices should ease lower as that date approaches. December is now focusing solely on the weather, especially in the U.S. Southern Plains.

Unfortunately, the rally was not demand-based, as merchants reported that the higher prices caused customers to back off in anticipation of a retreat in prices. Sales that were made, even for immediate shipment, were made on-call. Mills remain convinced they can price cotton some 200-300 points below the current trading level.

Export sales were very average for the week in spite of prices trading at 77 cents and below. Net sales of upland cotton totaled 202,900 bales, with four countries accounting for the bulk of the purchases: China (111,900 bales), Pakistan (42,000 bales), Vietnam (15,600 bales), and Turkey (14,900 bales).

China continues as the primary market for U.S. cotton, having purchased 4,876,800 bales, with 4,063,600 bales already shipped. Pakistan is the second largest market for U.S. cotton, buying 1,673,000 bales to date. An estimated 936,600 bales had been shipped as of this week. Vietnam, once the U.S.’s primary customer, will be the third leading customer during this 2023-24 marketing season, taking 1,278,100 bales to date with 986,700 bales already shipped.

Weekly shipments, at only 217,400 bales (upland and Pima), have fallen below the pace to meet the USDA export estimate of 12.3 million bales for the year. It appears mills are beginning a long que of countries prepared to give notice that sales recorded for shipment this season will be delayed until the 2024-25 marketing year – another extraordinarily strong indication that the global demand for cotton remains very weak.

Granted, yes, demand is better than twelve months ago, but inflationomics continues to cut severely into cotton demand. Total sales for the year are 12,323,000 bales, with shipments to date totaling only 9,030,500 bales (Marketing year: August 1, 2023-July 31, 2024). U.S exports could fall as low as 12.1 million bales. In turn, this would push ending stocks 200,000 bales higher, up to 2.6 million bales, low enough to help pull futures back near the 80-cent level, assuming a normal weather scenario.

Give a gift of cotton today.