Cleveland on Cotton: Cotton Plantings Report Surprises Market, Potential for Better Prices Remains

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Despite the very bearish USDA June plantings report, the potential for higher 2024 crop prices remains on track. Recall, we warned that higher prices would come very, very slowly and only bit by bit.

Despite the report indicating that 11.67 million acres were planted to cotton across the U.S., most of the increased acreage was planted in the vast dryland of the Southern Plains – an area very susceptible to drought. Prospects for an average crop are dim, as the region is very deficit of the moisture needed to produce an average crop, much less a bumper crop. However, there is time.

While the plantings report surprised the market, prices somewhat recovered and settled the week at 72.69, basis December. The larger plantings does open the door for a price scare down to 70 cents and slightly below. Weather problems across the Cotton Belt will have to be overcome if December futures are to fall below the 70-cent mark. That possibility is real, and the market will keep a keen watch on crop progress and moisture.

USDA’s June plantings report estimated 2024 cotton plantings at 11.67 million acres – up 3.8% or one million acres from the March planting intentions estimate. The million-acre increase, while unexpected, noted Southeastern plantings at 2.37 million acres, up 40,000 from the March estimate. Mid-South plantings totaled 2.01 million acres, up 140,000 acres from March intentions, with most of that increase in Arkansas.

The principal increase – 860,000 acres – came in the Southwest where plantings were estimated at 6.97 million acres. Texas accounted for that increase. Far West plantings were only 138,000 acres – 22,000 below the March estimate. Pima plantings were estimated at 182,000 acres, down 21,000 acres from March intentions.

The increased plantings will lead USDA to increase its estimate of U.S. production from its current estimate of 16.0 million bales to some 16.6 million bales, accounting for abandonment, weather conditions, and crop progress. Thus, its estimate for exports would increase from 13.0 to 13.3 million bales, with carryover increasing to 4.4 million bales.

The initial price impact of the increased carryover would tend to push the New York ICE contract some 3 cents lower (lower than the pre-report trading range), or down to the 71-72 cent level. However, the July supply demand report is set to be released July 12, and many feel USDA will lower its export estimate, thus increasing carryover by a like amount – possibly as much as 400,000 bales.

The weekly export sales report was as expected. Net sales of upland totaled 93,600 bales – not disappointing as year-ending sales are always somewhat small as mills focus on spinning needs for the coming six months. Not so for shipments. Year-ending shipments did, in fact, disappoint. However, a reduced export estimate is already somewhat factored in the market price.

The lower export estimate, coupled with the potential for a larger crop, will continue to add bearish pressure through the month of July. The market will be challenged to protect its 70-cent price support level.

Chinks in the bear's armor continue to exist. Mills, while not aggressive, are beginning to fill some limited yarn orders and are willing to bid for cotton. However, they are some 2-3 cents below the market. Thus, the combination of these factors does suggest a price drop as low as 68 cents. Yet, December's slow trek to higher prices is only delayed until August.

Give a gift of cotton today.