Cleveland on Cotton: How the Grinch Stole Cotton's Christmas

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The Grinch has certainly stolen Cotton. The cotton market offered its first gifts of the Christmas season to the Bears, while the Bulls are left staring at unopened presents stacking up on the Bears' side of the tree.

Of course, the mills loved the lower prices and continue to suggest additional price deterioration, claiming that mills' margins have turned negative to zero at best – all the result of little, if any, downstream demand from retailers and ultimately the consumer.

All cotton business is slow – not just U.S. sales, but sales of all growths. Cotton prices have simply not been able to climb back to the 80-82 cent level, basis March. The lows on the expiring December contract appear to be the direction that the nearby March contract wants to challenge. The market has been range bound for so long (basically a year) that the probability of a final wave higher is likely muted. Thus, prices are destined to fall back to the 74-76 cent support area before any rally can be attempted.

The price objective for the March contract remains 81-82 cents. However, the current trading range will likely fall in the 74-79 cent range with the expectation that prices will challenge the mid-70s between now and March 2024…and that the upper end of the range will find little, if any, activity.

The northern hemisphere crop is ready for shipment, but unsold inventories are piling up around the world as ending stocks continue to increase, just as U.S. ending stocks are increasing. Most business is for immediate shipment, as mills are not carrying cotton in anticipation of booking yarn orders. Too, they are booking cotton only when they have secured yarn orders. There will be an explosion in the demand for raw cotton once mills and retailers sense stronger consumer demand, but that activity appears to be well into 2024 – at least six months out and possibly as far out as nine months.

Weekly export sales of U.S. cotton were marginal at best. China has been an excellent buyer, but they have bought only to replace cotton for their national strategic reserve. In other words, they have been buying to replenish warehouse stocks. The lower prices go, the more they will buy. Any price moves above 82 cents will see Chinese purchases dwindle.

More importantly, however, the Chinese purchases are not for spinning needs for the current cotton year, but rather for coming years. It is not unusual for the Chinese government to store the cotton for as long as five years or longer. Remember, it is being used to replenish the national strategic reserve.

Net weekly sales of upland were 217,700 bales. Vietnam was the principal buyer with 95,900 bales. China purchased 62,800 bales. However, export shipments were only 88,800 bales –

well behind the pace required to meet USDA’s export projection of 12.2 million bales.

On the Bullish side, there is increasing evidence that declining world production may improve cotton’s balance sheet. Smaller crops in China, United States, Turkey, and India may offset any consumption decline and keep ending stock levels from increasing. Nevertheless, cotton’s price dilemma is demand, not production.

USDA will give us its December supply demand report on Friday, Dec. 8 at 11:00 am Central Time, and the New York Cotton Roundtable Group will discuss the report that afternoon. Here’s how you can listen and participate.

The March contract has a hard bottom, yet it may be as low as 74-76 cents. Improvement will be gradual.

Give a gift of cotton today.