Cleveland on Cotton: Bad Market Week Squeezes Cotton Prices

February 03, 2025
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Cotton prices fell through their yearlong major price support level, establishing a life-of-contract low and destroying the heretofore impenetrable 66-67 long-term support. The writing had been on the wall for some time, as prices had battered the 66-67 cent longtime support level as many as four times before the support gave way to lower prices.

The best news is that the market cannot go more than three cents lower, and there is nothing good about that. The bitter news for the market in the near term is that the weekly close was below the midpoint of the week's trading range – an indicator that the tendency will be for the market to move lower in the very short run. That portends lower prices.

There must be some positive news in all this depression and there is. Yet, as we have repeatedly said, it awaits the 2025 crop, as the 2024 crop has been completely captured by the bear. The writing has been on the wall for 60-90 days as the ratio of on-call sales versus on-call purchases has been an unchallenged predictor, particularly given the poor overall world demand for cotton.

A quick look at the on-call sales curve and the on-call purchases curve has been loud and clear that prices could not go up and would likely head lower. The mathematics of the curves demonstrated that there was no income to be made on the on-call purchases side of the market. The income area of the curves indicated that those holding on-call sales (mills) were the mathematical favorites to win the price battle.

As we suggested last month, the trap door down to 63 cents was waiting to be sprung. Let's hope prices fall no further, but the door is wide open.

There is that word again, hope. It has no place in a discussion of price analysis. However, we all had hoped the market could find a path higher. Thus, the new trading range is 63-68 cents, or possibly up to 68.50 cents. We will say it again. The U.S. cotton industry must come to the realization that the world marketing structure has changed, and other countries now actively sell into a market that once was the sole provenance of the U.S. cotton grower. There is significant competitiveness in every market, and only the low-cost grower will survive.

There exists some possibility of halting the move to lower prices as the nearby March contract is nearing its delivery period. However, that is still three weeks away (Feb. 24). Thus, the coming two weeks will likely see a major battle of speculators pushing for lower prices before nervousness surrounding the need for actual deliverable stocks takes center stage. Therefore, speculative shorts have time to take their well-earned profits and avoid being caught in a short squeeze. However, it also opens the door to a short covering rally that could move the general trading level back to the 67-69 cent trading range.

Growers have an abundance of selling still facing them. Thus, mills only need to sit back, do a bit of the "ho-hum" and let prices come to them. Yet, the March delivery period, void of any deliverable stocks, is upon us, and the short specs may well likely get caught in a squeeze. This would pull prices higher, but to no more than the 68-69 cent level. Mills should begin scaling down price fixing to prevent getting caught paying higher prices should a short squeeze on the March contract develop.

The U.S. export sales report indicated good sales, as net sales of upland totaled 280,000 bales. Considering that China was only a minor buyer, the report was viewed by some as excellent. However, only 153,500 bales of upland were shipped. Shipments for the year continue to underperform. It is too early for USDA to further reduce its estimate of 2024-25 exports, but the current estimate of 11.0 million bales continues to look to be at least 200,000 bales too high.

It is noted that the primary U.S. cotton trading partners – Vietnam, Bangladesh, Pakistan, Turkey, and China – are the same primary partners of the Brazilian cotton industry. Thus, it is evident that most mills are very comfortable spinning cotton from both countries. The important advantage of "familiarly" has been lost.

Thus, the U.S. cotton industry must ensure that it can deliver very high-quality cotton to capture its share of the market. The U.S. has lost market share, and that share will not be regained despite the chamber of commerce talk. The U.S. cotton industry can no longer attempt to carve out its own quality control measures but must adapt to the world control measures. That will be difficult to do given our reluctance to meet change. Yet, it is a necessity if the U.S. is to be able to hold its market share.

Declining U.S. and world production should bode well for improved cotton prices for the 2025 crop. Prices have now moved sufficiently low enough to discourage production worldwide. Thus, 2025 quality cotton will move to the mid-70s or better, basis the 2025 cotton crop.

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