Cleveland on Cotton: Comments Prior to the USDA February WASDE Release. Early report due to surgery schedule.

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By Dr. O.A. Cleveland

Run Forrest Run! Old crop and new crop headed higher.

Once again, Never Give Up On Cotton. Granted, what goes up does come down, and it is not going to be all roses. Yet, the old crop's run to 90 cents is real, and a little more. Too, the 2024 new crop December will hit the 85 cent mark and will find considerable pressure to move to 90 cents and better. Weeks ago, we suggested that but readily admitted we did not see the bullishness in the market; however, we knew that market psychology demanded a 90 cent new crop market. We finally see the light. That means old crop eases above 90 cents but will face considerable resistance before climbing to that level. It all depends on the final U.S. crop size. So, the trading range, capped at 88-89 cents will not hold. Yet, I have difficulty taking prices above 92-94 cents. The demand for cotton, the U.S.

economy, and numerous cotton consuming countries are facing poor economic activity—despite the record setting U.S. equity markets. Interest rates for business investment is as much as three percentage points above the FED rand and has been very, very sticky, at best. Much of the world is still living on government money, particularly the U.S., the printing press money, not revenue generated by general business investment.

Demand remains a problem. Mills simply cannot replace raw cotton at a price that will allow a profit, and far from it. Mills do not care about the price of the cotton they buy. They only want to meet the profit margin they require to stay in business. Yarn demand remains very weak, and mills will continue to be slow and extremely cautious buyers of cotton…and export s will continue to lag.

Demand will continue to suffer, but cotton supplies worldwide are low. Do not expect USDA to update its estimate of the 2023 U.S. cotton production estimate in today's release of the February supply demand report. (Maybe they did—hopefully, they did, but…) USDA's multiyear protocol is to NOT update its cotton production estimate in its February report. The market will have to wait until the March report, most likely, or possibly as late as the April 2024 report. The statistics are available, it is just a USDA-NASS thing to hold the data in house for as long as they can. Nevertheless, the market has turned very bullish as it attempts to decipher the size of 2023 U.S crop, most likely 400,000 bales lower than the current USDA estimate of 12.43 million bales. It has been woefully evident since October that the USDA statistical model for estimating the U.S. crop was significantly overestimating the outcome. Cotton classings reported by USDA-AMS do not validate the USDA-NASS estimates, not even close. Now that classing has essentially concluded the market has gone on its own, as it should, and without the benefit of the traditional USDA crop forecast. The February 8, WASDE report will likely see only minor changes, smaller consumption, but no change in carryover. The March report will probably be a very meaningful report and that report could drop U.S. carryover as low at 2.3 million bales, excitingly low from a grower perspective. The price rally is not a flash in the dark. It is permanent and will carry the baton into 2024 crop pricing. Quality will, as always, be in extremely high demand.

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