

Cleveland on Cotton: Cotton's Roller Coaster Is Back, Price at Current Levels

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It is still not over, but big-time volatility has engulfed cotton trading. Probably the correct reading is that the end is in sight.

Of course, for those that can see six weeks to two months away, then all is well. Yet, some of us are short-sighted, and there can be no question that the market is hunting for its top. Maybe the dollar will hold, or maybe prices jump to a dollar and a dime, but it is a bit of a no-man's land now. Speculators continue to enjoy cotton trading and if their heart is not broken, prices will hold in the 90s for now.

Too, there is a true possibility of a run to 103-105 cents...some say 108 cents. Did we ever say, "Never Give Up On Cotton?"

Yet, I am not holding for breaking much above the dollar, if at all. The market continues to be haunted by the lack of demand.

Very definitely there is fill-in demand – a little here and a little there. Yet, competition is extremely heightened, and the grower basis has widened as much as 700 to 800 points. Thus, it is not unusual for grower offerings to be 700 to 900 points of the May futures contract (even for quality). However, the grower should always remember that quality sells and can hold a much stronger basis.

The May and July contracts should continue to hold the low to high 90s. It is imperative that old crop futures prices hold in the low 90s, as any penetration to the downside will uncover massive sell stops that would likely force prices as low as 82 cents. Remember, we have commented for three weeks that the trading is speculator-based, and should they become spooked, they will leave cotton mired in little more than a wasteland.

The 2024 December futures contract is holding the 83-84 cent level. However, every challenge to cross above 85 cents has been met with steep resistance. The 85-cent market should be crossed again, but grower action at that level is highly recommended as not only are planted acreage increases coming in the U.S., but the world may be awash with cotton during the 2024-25 marketing season.

Granted, the market is telling growers it wants cotton. But remember, acreage responses are almost always well overdone.

Considering 2024 plantings, the giant Chinese economy is in the throngs of a significant recession. Yet, they continue to buy cotton, but the market rally above 90 cents has cut off most of their buying. Too, their 2023 crop was apparently better than advertised and unless prices drop back into the 80s, their appetite for cotton imports will be restricted during the 2024-25 marketing season. Additionally, a fine Australian crop will hit the market just after July, and that production will fill the quality needs of any buyer.

These are just two of the several reasons growers should be prepared to begin aggressive pricing strategies once the December 2024 contract passes the 85-cent tick.

This week's export report did finally hold positive news as shipments climbed to 330,800 bales. China, Vietnam, Pakistan, Turkey, and Bangladesh were the primary destinations. Net sales of upland were only 50,000 bales, as only four countries purchased more than 6.5 million bales.

Much of Europe and major parts of Asia continue to face significant economic struggles. Too, real wages in the U.S. are some 3% lower than four years ago, mortgages are some 60% higher, and food prices are some 20% higher. Inflation remains a major concern of U.S. economic policy makers. Thus, one should not expect demand to extract the market from its troubles until the end of 2024, at the very earliest. While old crop's price rally is not over, neither are the economic woes of the U.S.

USDA did release its **March world supply demand report** at week's end and projected lower ending stocks in the U.S. and around the globe. Ending U.S. stocks were forecast at 2.5 million bales, down from 2.8 million, and world ending stocks were forecast at 83.3 million bales, down from 84 million. Further, as expected back in December, USDA lowered its estimate of the U.S. crop to 12.1 million bales, down 300,000 bales.

USDA estimated both world consumption and world consumption at 113 million bales. Again, pointing to the encouragement to growers of pricing their 2024 crop at 85 cents is the suggestion that the 2024 world crop could approach 120 million bales – 7 million above last year's crop – while world consumption is expected to be only slightly higher than the current year.

Speculators are in the lead car of the roller coaster. Growers are encouraged to be at least 90% priced at current prices.

Give a gift of cotton today.