

Cleveland on Cotton: Cotton Market Nears Bottom of Trading Range...But For How Long?

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By Dr. O.A. Cleveland



Cotton had an unhappy week as market backing and filling continued; unfortunately, this week's price activity was all "backing." The market is wearing a high 63-cent handle again, as foretold by textile mill activity. The weekly and daily closes were at the bottom of their respective trading ranges. Never good. Prices fell in unison with most other agricultural and industrial commodities. Traders and investors were beginning to tire of the uncertainty of the government shutdown, which became the longest in U.S. history before rumblings of a deal began on Monday, November 10. Prior to that, the daily rhetoric resulted in name-calling and political party protection, nothing else. The VIX shot up from 16 to 20, indicating the bearish uncertainty facing all markets. Unfortunately, cotton is caught up in this just as cotton's seasonal trend calls for a market low. Regardless, we hold to our prediction that the market low was previously established.

USDA will publish its November world supply demand report on November 14. The report will offer some relief to the market. Yet, the CFTC On-Call report will not be available and that offers much more market-related news. Expectations are that the U.S. crop estimate will be some 300,000 to 500,000 bales higher. The dry and late fall offered the crop more time to develop; thus, yields should be better than expected. A half million bales higher is rather ambitious, admittedly. However, the outstanding varieties growers can choose from have proven that they can continue to add weight in the fall. The one potential drawback to the estimate is that while harvesting is past its peak, bale classing remains low. However, classing offices should have an excellent count as to the volume of cotton either on the gin yard or committed to the gin. Additionally, expect USDA to reduce exports by 200,000 bales. Export activity suggests such; however, it is unusual for USDA to reduce exports in a report that includes a bigger crop. The world crop will be some one million bales larger and world consumption is expected to be some 500,000 bales lower, thereby increasing carryover about 1-1.5 million bales.

Conversations with shippers and cooperatives strongly suggest that the movement of U.S. cotton continues at a very slow pace. Mills suggest that they see Brazilian representatives calling on them far more often than other representatives. Southeast Asian mills understand that Brazilian cotton is more favorably priced than U.S. growths. Those mills indicate they now have enough familiarity with Brazilian cotton that the price difference rationally dictates that they purchase Brazilian cotton.

Additionally, mills have hyped up their complaints of slow business, and more importantly, a buildup of inventory stocks. Operating in a down market and seeing increased yarn inventory cuts off nearby demand for raw cotton even more.

Cotton has its work cut out to recapture the image of being "the sustainable" fiber. While all the facts are 100% in cotton's favor, in the early 2010s, the polyester wogs convinced the Wall Street Journal to run a story about polyester being the sustainable fiber. Cotton was beaten right out of the starting gate. Hopefully, the National Cotton Council can pick up the ball

dropped by the Cotton Board and switch consumers' attitudes back to focusing on cotton. However, the cotton industry will have to develop some program to promote cotton at the mass consumer level. Not only does the U.S. consumer drive the economy it is the big engine that sets apparel and clothing trends throughout most of the world. Cotton should not be treated like a niche industry. The return to 80-cent cotton awaits the promotion of cotton as the world's favored fiber, and getting in touch with U.S. consumers' tastes and preferences can do that.

Let me repeat the initial comments taken from "The Turn Row," published by Autauga Quality Cotton. "Our industry's future depends on strengthening cotton demand. Cotton's share of the global fiber market has fallen from 40% to 22% as synthetic fibers dominate consumer preference. We all must do our part to promote natural fibers over man-made ones." (My note, more recent data suggests cotton share is down to 20%.)

The most important report, the CFTC On-Call report, continues to be sorely missed. While we braced ourselves for 64-cents last week, the market took a bit more. It will give back.

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