Cleveland on Cotton: October Supply Demand Report No Problem Solver

October 13, 2024

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USDA's October supply demand report was the one that analysts knew would solve the bullish/bearish price dilemma that has faced the market for the past five months. They all thought it would, including me. Collectively, we knew better.

Once released, nothing was solved. Yet, all of the analysts (including me) chipped in saying, "Well, the numbers were about as expected." Thus, most came away suggesting that October numbers never give definitive price direction, further saying that October is too early in the harvest season to get an informative read on market direction.

Of course, our collective views are just that, collective, and lack the true depth of analytical thinking. So, let's take another swing at it. It's October – World Series time and a time for swinging for the fences.

The nearby December futures contract – the harvest contract for the northern hemisphere – remains mired in a very tight four cent 71-75 cent trading range. Too, it is showing little sign of moving out of that range, higher or lower. There are a litany of points suggesting lower prices. Likewise, reasons for higher prices exist. Much as I want to become bullish, even just a little, I continue to feel the bearish-to-neutral price direction will win.

Higher prices are coming, but not for the December contract, and likely not for the remaining 2024 crop contract months. Yes, the May and July can ease higher, but not near enough to pay carrying costs. Higher prices await the 2025 production year. The market remains locked in that narrow trading range with a bias down to 68-69 cents.

Why?

There are ample supplies already located in the world's primary textile producing countries. Further (and the real problem), demand is a significant laggard, and relief is nowhere in sight, not even for the coming six months. Retailers are already offering significant sale discounts for all apparel and, more importantly, cotton demand continues to shrink in the face of oil slick polyester and even other natural fibers. Cotton just can't seem to find any favor with consumers despite the fact that we know it is a more desirable, more versatile, longer lasting fiber, and even a more sustainable fiber.

Cotton has been whipped "every way but loose" in many consumers' eyes. The message is just not being broadcast to them. The consumer sits squarely at the pricing point and has no idea of the value of cotton. Thus, the market will continue to muddle through the low 70s.

World carryover, now down to only 75-80 million bales, will likely prevent prices from remaining in the high 60s very long. However, the demand problem will weigh very heavy on prices and attempts to push prices above 75 cents. Trade above 75 cents is a possibility but will be extremely short lived and should only be viewed as extremely temporary.

In its October WASDE report, USDA made only minor adjustments to its U.S. and world supply and demand estimates. The estimated size of the U.S. crop was lowered 300,000 bales, down to 14.2 million bales. U.S. domestic use was lowered 100,000 bales, down to 1.8 million. U.S. exports, reflecting poor demand, were lowered 300,000 bales, down to 11.5 million. U.S. carryover stocks were increased by 100,000 bales, up to 4.1 million – a somewhat price bearish estimate.

World production was increased 200,000 bales, up to 116.6 million bales, while world consumption was lowered by 100,000 bales, down to 115.7 million. World trade, a proxy for near-term market demand and near-term market price direction, was lowered by 500,000 bales. The net result of the estimates was a reduction in world ending stocks by 200,000 bales, down to 76.3 million bales.

While the future will be, will be, most expect an increase in world production, a decrease in world consumption, and a resulting increase in world ending stocks – thus, portending a very mildly bearish price forecast. An increase in overall U.S. inflation will only continue to amplify cotton’s price bearishness as consumers continue to shy away from apparel purchases. However, with all other agricultural row crop production facing relatively bearish markets, the long-term outlook for a price recovery in cotton exists, but not until the 2025 crop production comes on stream.

The most bearish indicator in the report was USDA’s analysis of world export trade. USDA increased its estimate of the 2024 Chinese crop 400,000 bales, up to 28.2 million bales. This caused USDA to decrease its estimate of Chinese imports by 500,000 bales, down to 9.0 million bales.

The speculative community has thought that China, the U.S.’s primary customer last year, would return to the export market for more U.S. cotton in the current year. However, the USDA estimates confirmed our earlier suggestion that the Chinese had made such large purchases last year, not to meet their current demand needs at that time, but rather to rebuild their inventory of cotton reserves.

We continue to contend there is no reason to expect China to be the significant buyer of U.S., Brazilian, Central Asian, or Australian growths that they were last season. That has been our primary reason for price bearishness all year, aside from the declining world demand for cotton and the resulting shift in the structure of the world cotton market where the U.S. finds itself as the odd man out.

The principal bullish factor lies in the trillions of dollars looking for an investment home that could be heaped on to the commodity markets. However, those funds are likely to find a home well before the commodity sector can turn bullish enough to attract them. Again, there are no cotton fundamentals likely to attract such funds.

Again, the 75-cent level will be a high price hurdle. Growers are advised to be prepared to price some of their production at that level. Low as it may seem, growers should consider pricing as much as 50% of their production at 74 cents and another 25% at 75 cents.

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