Cleveland on Cotton: Neutral Report Supports Current Cotton Trading Activity

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The market was friendly to cotton on the week as December settled 80 points higher at 66.83 cents. The nearby October contract, although thinly traded, also settled 80 points higher at 65.19.

The week's highlight was USDA's September world supply demand report which was judged neutral by the trading that followed its release. Analysts' comments universally judged the report neutral to prices. The 65.50-68 cent trading range became further entrenched and will likely hold another month.

Analysts are divided as to whether the 65.50 cent price support will hold once the October contract goes first notice day or if the price risk is down to 63 cents.

In its September report, USDA increased world production, consumption, and world trade. It decreased year-ending carryover. Thus, the report can only be judged as supportive to current trading activity. However, the net of all adjustments to estimates was minor. Thus, the report was viewed as supportive to prices as opposed to being bullish for prices.

World production was estimated to be 118 million bales, up one million. World consumption was also estimated one million higher at 119 million bales. World trade was only 100,000 bales higher and was estimated at 44 million bales. This was supportive to the market in that the estimate was higher on the month. World ending carryover was lowered 750,000 bales and was estimated at 73 million bales, the lowest since 2021.

USDA's estimate of the U.S. situation was essentially unchanged from the August situation. The U.S. crop was estimated to be 10,000 bales higher at 13.2 million. No other changes were made, and U.S. carryover remained at 3.6 million bales.

The New York Cotton RoundTable Group viewed the report as neutral and forecast that December futures would trade in a range of 63 to 68 cents in the coming months. Their discussion can be heard at AgMarketNetwork.com.

The weekly export sales report showed net sales of U.S. upland at a yearly low of 129,600 bales. Primary buyers were Vietnam (63,300), China (17,600), and India (13,800). It was noted that both China and India were in the market, as some analysts had commented that tariffs would scare them away. Again, the U.S. tariff police has had little, if any, impact on the U.S. cotton industry and the market does not expect to see any impact. While there may be some shifts in individual country textile activity as it relates to the U.S., there will not been any net impact on the U.S.

While the U.S. export situation is bearish for cotton prices, the U.S. cotton industry continues to lose export share, and the intermediate term market bearishness continues to be reflected in the CFTC On Call report. On-call purchases (the grower's need to offset futures positions by selling futures) are at a record level while December on-call purchases dwarf December on call sales (the need by textile mills to buy futures).

This market fundamental suggests that mills believe they have much deeper pockets than growers and can hold futures positions longer, thereby forcing prices lower. Historically, that situation has favored the mills. Too, given the market bearishness, this situation has almost always (never say "always") favored the mills and their desire for lower prices.

Very possibly this is why the market falls to the expiring futures contract price. The weight of this factor alone is very depressing to anyone wanting to be a cotton bull and offers momentous ammunition for those wanting to be bearish.

Finally, a bullish thought. The USDA supply demand report indicates a significant drop in 2025-26 Chinese ending carryover. Given that China remains as the world leading consumer of cotton, any policy that can encourage China to purchase U.S. cotton will be viewed as very bullish. The past three years have seen China switch most of its cotton purchases to Brazil and away from the U.S. If that tide can be slowed — or possibly turned just slightly — then New York futures could find prices that would again be profitable for the U.S. grower.

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