# Cleveland on Cotton: Market Fundamentals Providing Better Footing for Cotton Prices

**April 14, 2025**

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The market gave cotton a bit more footing this past week as price activity returned to trading fundamentals as opposed to the news media's chaotic presentation of tariffs and the resulting Wall Street knee jerk activity.

The real picture for old crop cotton prices shows the nearby May contract continuing to dip as it approaches first notice day, while the July and December contracts attempt to ease higher. Similar activity should be experienced in the coming month to six weeks.

May will struggle to hold 65 cents. July will make a run at 67 cents, then another attempt at 67.50 cents before the door will be locked tight at the 68.00-68.25 level (Yes, a month ago I suggested July would have some life. It will not.). It is extremely painful to see the amount of grower cotton that remains unfixed. Certainly, there is far, far more emotional pain that growers are suffering, and more so for those holding unfixed cotton.

The new crop December will wait three/four more weeks before it tries the 70-cent level and will likely fall a few points on either side of that mark just now. However, it should scale that height in early June. Then, it will be back to no man's land as news of the development of the northern hemisphere crop will begin to capture traders' attention.

You hate the comment more than I, but lack of demand will continue to haunt this market even longer than I expected. The industry has simply struggled to put itself in front of the consumer and is instead depending on ever-improving seed genetics to pull cotton production back to even a minor level of profitability. Despite lower prices, cotton continues to lose market share to oil-based acid synthetic fibers – and now to other natural fibers as well.

We remain very negative, based principally on the CFTC Cotton On Call Report, which clearly indicates that grower cotton far outstretches the market's need. The report has, more so than in any year, shown that the excess of cotton is considerable and that supply is far greater than demand. USDA's April supply demand report added insult to injury, justifiability, as the report lowered the U.S. estimate 100,000 bales, increasing 2024-25 carryover stocks up to 5.0 million bales.

Remember, the marketing year runs from August 1 to July 31. Time is running short as the year is three quarters gone.

Granted, if May and June shipments of U.S. cotton exceed the historical norms, then it is likely that actual U.S. exports will be as much as 200,000/300,000 bales higher than the current estimate. Yet, current demand estimates remain very negative for that event to occur.

Other updated estimates included more negative news as both world production and carryover were increased, and world consumption was lowered by some 500,000 bales – a major change this late in the marketing season. The lower consumption was based on declining consumption in China, as we addressed in last week’s column.

Dr. Darren Hudson’s (Texas Tech University) initial estimate of the tariff’s effect on U.S. cotton exports to China suggested as much as a 13% decrease in China’s purchase of U.S. origin cotton. I suggest his estimate is the best available.

However, it is my contention, as short run data suggests, that China’s needs are less than most expect. China has an excess of cotton and is facing a declining cotton offtake by its textile industry. That is, China is shrinking its textile industry at the same time it is (1) increasing its use of non-sustainable fibers and (2) looking for non-U.S. origin cotton. Additionally, recall China is by far the world largest producer of acid-based synthetic fibers and must, at any price, find a market for such synthetics.

Thus, China’s needs are likely overstated. Yet, I again comment that Dr. Hudson’s data is likely the best available.

As commented last week, the tariff impact is/was only temporary. The market is again looking at its market fundamentals and trading has returned to normal…whatever that means in cotton trading terms. The new crop December will gradually grind higher but will be completely based on supply fundamentals in a year when both U.S. and world cotton plantings are depressed.

Give a gift of cotton today.