Cleveland on Cotton: Cotton Price Resistance Hanging at 67 Cents

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By Dr. O.A. Cleveland

The cotton market's 67-cent price resistance continues to be tested day after day.

While carryover stocks are declining, the world major exporters – Brazil and the U.S. – have more than sufficient crops to fill the import needs of major cotton consumption countries. Weak demand continues to haunt the market, and the combination of these two factors threatens lower prices.

Yet, USDA's August world supply demand report suggested that the current 67-cent area is at an equilibrium price level. Most of the available U.S. crop is accounted for, and only small volumes are available for immediate shipment.

The battle to hold 67 cents is ongoing, and the downtrend has not been broken. Speculative money from the recent equity market sell-off continues to hit cotton with selling. Nevertheless, the market has become overbought, and a short covering price rally should be expected. The 66-67 cent area has been profitable for textile spinners, although their volume is light. Thus, we continue to feel the current life of contract lows should hold and provide a base for higher prices.

Also supporting prices at the current level is the longer-term outlook of tightening supplies of cotton in the second and third quarters of 2025. The 69-71 cent level should be tested during the next six weeks.

The August USDA report showed a sharp reduction in crop production, just as the July report had shown a sharp increase in production. Thus, with the exception in the adjustment in Chinese consumption and stocks, the August and July reports were offsetting in terms of their respective effects on trading. The principal change, incorporating both the July and August estimates, was that USDA recognized the slippage in Chinese consumption that market forces had predicted for several months – that is, Chinese consumption was not nearly as strong as USDA had estimated.

Thus, while the report was very bullish in the long term, it nevertheless showed an immediate weakness in demand around the globe. While world cotton stocks are declining, Chinese stocks are increasing. Therefore, the U.S. will likely see a decrease in its export sales to China in the coming season. Not only will world cotton trade decline, but the U.S. share of the world trade will further erode.

Again, mentioning the long-term bullishness of the report, the bullishness rests solely on the supply side of the price equation, and growers should not expect a favorable market until some semblance of cotton demand returns.

Demand for cotton awaits the return of a healthy U.S. and world consumer whose disposable income can eventually catch up to the exorbitant increase in U.S. and world inflation. That is, consumers have devoted most of their income the past three years for food, shelter, and energy. Thus, they have shied away from the clothing market.

Both cotton and synthetic fiber apparel sales have disappointed the market. However, the impact on U.S. cotton has been more dramatic, as U.S. cotton has lost market share to foreign produced cotton at the same time cotton consumption around the globe has lost market share to oil-based chemical fiber. Thus, the U.S. grower has faced a two-edged sword.

As was warned a couple of months ago, the market will continue to face weather drama along the road to higher prices, where it will continue to face several difficult hurdles.

Give a gift of cotton today.