

Cleveland on Cotton: Positive Price Movement Can Hardly Be Believed

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Is this real? In two of the past three weeks, cotton commitments have established record high marketing year weekly export sales. Additionally, the weekly On-Call report first favored stable prices, and now, three weeks later, reflects a definite, albeit modest increase in prices. This trend first played its hand three weeks ago with a, at the time, marketing year record weekly high in export sales.

Combine these two bullish factors with the pronounced impact of higher oil prices on cotton futures, and sentiment suggests that the cotton market has built a mini bullish price scenario. We will take all bulls in the cotton ring. The weekly settlement in the old crop May futures contract was 65.85 after trading as high as 66.25. This opens the door for a trade up to 68-69 cents, a price level I felt was not possible. Demand issues continue to favor the current price level, but the On-Call positioning is demonstrating its importance. The new crop December contract settled the week at 70.33 cents and traded as high as 70.82.

Certainly, this was higher than I expected prior to any planting weather anomalies. Remember, the market tends to kill the crop at least twice during the planting season—meaning weather problems during planting send prices higher. It is great to comment on stronger prices; nevertheless, let's not get carried away. The door is open to a December carrying a 75-cent price target, but to get there will be like pulling teeth. However, I have more optimism in that than I have had in many months.

Cotton trading has a lifeline with oil trading, but the tie tends to be short-lived. Higher oil prices imply higher prices for polyester fiber and thus lift the price of cotton. However, higher oil prices imply higher agricultural input prices as well, and higher prices for textile operations as cotton is an industrial fiber and its relative price is dependent on the lowest priced production across the globe. Yet again, with all three of the fundamentals coordinated, they work together to build a bullish case for cotton. However, I again suggest that the correlation of increasing oil prices with cotton prices has historically been short-lived.

Weekly export sales were strong, given that the sales were made above the 64-cent level. Weekly net sales of Upland were 253,200 bales, with Vietnam (113,600), Bangladesh (28,200), and India (17,100) being the primary buyers. Venezuela was in the U.S. market for 200 bales. Weekly shipments totaled 370,100 bales. Destinations comprising the year-to-date record high weekly shipments were Vietnam (148,500), Pakistan (47,000), Turkey (35,500), Mexico (29,800), Indonesia (20,200), Bangladesh (17,000), and China (17,000). While China will continue to purchase U.S. cotton, Brazil has become its primary supplier, and the U.S. has lost most of its market share to Brazil.

The primary supporter of the bull's case for higher prices is embedded in the weekly On-Call report as textile mills are discovering the need for fixing the price of cotton already purchased (fixations or price fixing) is greater than the need of grower need to sell cotton. While the old crop (May and July futures) ratio of sales to purchases is small, 3-2, nevertheless, such is an unusual situation given the lateness of the marketing year.

That same ratio for new crop is decidedly bearish, particularly the December contract, but it is too early to draw long-term price conclusions. We continue with our long-held conclusion that the price of the December contract awaits Mother Nature's decision as to how she will treat the northern hemisphere crop.

The increase in the price of oil has increased the cost of inputs growers will need for the 2026 crop. Some suggest that this will limit supply, and the market is moving higher on that news. However, given the seed genetics offered to U.S. growers, it is doubtful a limited reduction in inputs will affect yield. Further, oil prices are subject to a rapid price decrease.

USDA's March world demand estimates were long-term bearish as world production and carryover were increased, while world consumption decreased. Further, carryover was increased in Brazil and Australia, two countries that are the major competitors with the U.S. for market share in the export market.

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