Cleveland on Cotton: The Best Cure for Low Price is Low Prices

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Cotton continues to be hit hard by speculative funds as USDA supply demand estimates heap more bearish fundamentals on the market – even more than I expected (and even the casual reader of this column knows I have been very bearish). I have hoped week after week to find some positive market news. Everything has a beginning, just as it has an end.

The good news is that the bearish news is, in fact, ending. Thus, there is some good news. However, it comes in the market axiom of "the best cure for low prices is low prices." Yet, at this time in the market's life cycle, we will take any relief, even if it means there is still more downward price pressure in the near term.

With market prices again challenging the season low of 66-67 cents (66.26 cents), lower prices are again in play. In fact, if

U.S. export shipments do not improve a successful breakout below 66 cents, a price objective as low as 63 cents will be in play. Yet, the 66-to-67-cent support does have strong market credibility. The yearlong key word, demand, will have to arise from the ashes to prevent the very bearish drop below the 66.26 cent season low and the potential dreadful slippage to 63 cents.

USDA's first supply demand estimates of the new year confirmed the bear's message that world production was increasing while world consumption was still stagnant. USDA's production estimate was 119 million bales versus consumption of only 116 million bales. While world consumption is some 2 million bales above the prior year's level, world production is almost 6.5 million bales more than the 2023-24 level. The net result is that the world carryover of cotton stocks is increasing and is expected to reach 78-79 million bales. After adjustments for historical revisions, world carryover is still historically low.

However, the more significant destruction in prices is totally accounted for by the destruction in consumer demand. More importantly, the destruction of demand has yet to be checked and does not show any sign of improving. World demand is some 9 million bales below the 2020-21 level.

USDA increased its estimate of U. S. production almost 200,000 bales, setting 2024 production at 14.4 million bales. More importantly, U.S. exports were decreased 300,000 bales, lowering its estimate to 11.0 million bales – 1.45 million bales below the level of just two years ago. Carryover stocks, taking a cue from the decline in exports, increased the same 300,000 bales, thus moving from 4.4 to 4.8 million bales. It is this metric, taken with the extremely weak demand for cotton, that will potentially push prices below 66 cents.

The bright note on the week – stretching it a bit – were the weekly export shipments hitting a yearly high of 191,700 bales. While the tone is good, it is noted that weekly shipments must average above 250,000 bales per week for the remaining 29 weeks of the 2024-25 marketing year just to reach the anemic estimate of 11.0 million bales. Expect final shipments to fall to 10.8 million.

With the market falling to 66-67 cents, U.S. plantings are now poised to fall as low as 10.7 million acres. Still a bit high. But remember, low prices cure low prices!

A new beginning is here, but prices will be anemic into May/June.

Give a gift of cotton today.