Cleveland on Cotton: Another Sloppy Week for Cotton Prices

May 17, 2024
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Cotton suffered another sloppy week as lower Chinese prices, coupled with bearish inflation numbers and very weak apparel sales, all worked to force prices lower – even limit down one day and near limit down trading on another.

Friday's pre-close trading was holding near 76 cents on July futures and 75 cents on the new crop December contract. As cautioned, both contacts may slip to the very low 70s, although I had previously presented them as finding bottoming action as much as 100-150 points higher.

Cotton continues to battle extremely poor demand, ostensibly due to poor apparel demand created by economic damage created by overzealous political spending not only by the U.S. but other governments as well, including China. The December contract is beginning to look awfully ugly as it wants to trade to the 68-cent level. Given the worst demand ever experienced by the cotton industry, and with only limited economic improvement for at least the next six months, the two contracts will move in tandem with a very narrow spread between them.

Cotton price activity will be dominated during the coming three weeks by news of moisture across the U.S. Southern Plains. Ever so slightly, the moisture situation is improving, but problematic areas remain.

Both the U.S. export sales and the cotton on-call situation reports will offer only very minor price support. Historically, U.S. carryover at only 2.4 million bales would provide support. However, given that the U.S. share of world trade has declined – and the decline has become permanent – it is estimated that U.S. stocks will have to fall as low as 2.0 million bales to gain the price support necessary to attract the attention of the bulls. Nevertheless, the July contract should have found its bottom.

The on-call sales-to-purchases ratio remains below 3 to 1 (2.46), very manageable, and will decline further as mills were noticeably active this week. Mills continue to complain about poor margins and the lack of new orders. They continue to maintain only an extremely low level of yarn inventory. Extremely few mills are operating at full capacity, and only the lucky few are operating at as much as 75% capacity.

How bad is demand? The U.S. made sales to only 13 countries – and the price was well below 80 cents. The market does continue to see good sales to China, as has been forecast all year. Cotton prices in the 70s will continue to create excellent sales to the Chinese, most of which are being made to the Chinese government reserve. Net sales of upland for the week ending May 9 were 156,500 bales: China (61,100); Vietnam (29,900); Pakistan (22,600); Turkey (18,000).

China is the leading buyer of U.S. cotton during the current season. They have purchased 4,771,900 bales. Shipments to date total 3,975,900 bales. Surprisingly, Pakistan has been the second largest buyer, taking 1,631,300 bales with 912,100 bales shipped. Vietnam has been the third most active customer, taking 1,253,000 bales with shipments totaling 967,900 bales.

Improved demand still awaits the first quarter of 2025, as does any solid price improvement. Keep the heels dug in!

Give a gift of cotton today.