Cleveland on Cotton: Positive Move in Cotton Prices?

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"The Fabric of Your Life" is demonstrating a bit of market excitement. Let us hope it can continue.

The cotton market has turned a bit volatile, just as the equity and finance markets have. Long-term interest rates are increasing slightly as the market debates if, when, and should the Fed even push short-term rates lower. Short-term rates for business operations have not declined and, in fact, have tended to move higher. Thus, the textile business will continue to be challenged. Yet, the psychological impact of the Fed dropping rates can create short-term optimism in the market if nothing else.

Prices are challenging the short-term resistance at 84-85 cents – a level that is beginning to prompt grower selling. While that is good news, the volume of grower selling should be expected to send prices back to the low 80s. Nevertheless, the market is essentially trading at a three-month high. The long-term trading range remains at 76-88 cents. Should prices break above the 85-cent mark, then the 88-cent level can be challenged.

However, do not expect to see that any time soon. Repeating, do not expect to see that any time soon. Demand is simply not there.

Yet, mills across Southeast Asia and the subcontinent are reporting a slight improvement in domestic demand. Yet, they rapidly add that export business remains very flat. That is, the consumer in Western Europe and the U.S. has not returned to apparel shopping. While it was reported that apparel sales had increased year over year, the increase was less than the level of inflation – a key indicator that apparel sales remain flat or actually are still declining. The increase in New York futures still leaves the market very range bound.

Nevertheless, it is positive for 2024 price expectations to see a return to the mid-80s. Cotton is again on the minds of the especially important speculators and fund managers.

Too, this week’s enthusiasm was a response to excellent export sales. Net sales of upland cotton totaled 420,000 bales, up a staggering 85% above the four-week average. Too, the positive news this week also included a marketing year high in shipments – 257,700 bales. Yet, it should be noted that over half of the sales (227,700 bales) were made to China.

While this is particularly good news, it is news that was very much expected and does not represent new “textile business,” but rather cotton sold to China to rebuild its strategic reserve. It will not be consumed until 2025 and as far out as 2029. However, any sale is outstanding.

Too, while shipments were a marketing year high, the pace was not sufficient to reach USDA’s 12.1 million bales export estimate. Yet, export sales were made to 21 countries – the largest number in several years. The market did need to see that textile activity was increasing, even if it was for “domestic use’ only.

We cannot confirm that the activity will continue, but the increase in price volatility can, at some point, help prices move higher (as speculators enter the market). The opportunity to see prices at or above 85 cents will be noticeably short lived, and growers should consider making price fixations at the current level. The opportunity to see prices above 84.50 will likely not present itself at this time.

Give a gift of cotton today.