

# Cleveland on Cotton: Seesaw Trading Leads the Cotton Market Nowhere

**July 19, 2024**

By Dr. O.A. Cleveland



USDA's July world supply demand report, released the prior week, made for seesaw trading all week. Prices saw 100 points higher one day, only to slide 100 points the next as the December contract ended the week nearly unchanged.

The market has made a diligent effort to hold the December futures contract above the 70-cent level, but declining export shipments are adding additional pressure to force trading below 70 cents. The potential for trading into the high 60s is increasing in the near term. Prices are caught in the 70-73 cent grip of world conditions offering five cent higher prices based solely on world crop conditions and five cent lower prices based on the very bearish U.S. cotton situation and outlook. The outcome of this tug-o-war will be determined by Mother Nature and her gift of timely moisture over the principal U.S. growing regions.

Demand remains the major culprit in the price equation, as world and U.S. economic conditions have simply left cotton at the starting gate. The decline in world stocks offers the possibility of the December contract moving back to 75 cents should the vast Southern Plains fail to receive timely moisture. While the area remains droughty, conditions have improved over the disastrous prior two years. Nevertheless, market conditions are extremely poor. Thus, growers find little encouragement to spend the funds necessary to enhance yield improvement.

This phenomenon has the potential to push prices above the 75-cent market, but likely not until the October-December period.

The market battle lines are drawn between U.S. conditions, notably escalating domestic carryover stocks in the face of a declining share of the world export market, and the possibility that prices could increase due to tight world carryover stocks that have the potential to move the market five cents higher. However, the current slow shipment pace of U.S. exports is overwhelming the potential bullish impact of declining world stocks.

Of major concern is that there is little hope that U.S. shipments will enjoy any increased uplift until December-January. Shipments of U.S. sales to China will improve once the peak U.S. harvest ensues in October. Yet, volume shipments to other countries will likely wait a bit longer as the Brazilian crop, based on more competitive prices, will move in the export market before the U.S. crop, thus securing an increased share of the world market for Brazil at the expense of the U.S. grower.

U.S. export sales were seasonally low on the week, just as they have been for several weeks, as net upland sales were only 27,200 bales. More importantly, shipments totaled only 113,100 bales, making it a certainty that USDA will further reduce export shipments in its August supply demand report. The impact will be to intensify the bearish tone in the market,

as the effect will be to further increase the marketing year 2024-25 ending stocks – possibly as high as 5.6 million bales, or 300,000 bales higher than the current estimate.

The market will primarily trade news of crop progress during the coming six to eight weeks as little to no change is expected on the demand front. Thus, the supply side of the price equation will hold all the cards throughout the dog days of summer. Growers are again cautioned that they must continue to look to the April-July 2025 period to price their 2024 production. The opportunity of price near 75 cents is still the best current conditions warrant.

Give a gift of cotton today.