

Cleveland on Cotton: Merry and Bright for Cotton? Not Quite!

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The merry and bright season is poised to leave cotton in its wake. Just as retail apparel sales are showing signs of a recovery, cotton demand has slowed. With that, prices are seeing a climb to the 21-day moving average trend line, moving further and further from reality. Oh, the market will likely climb back to the sliding moving average level, but by then, growers risk seeing the New York ICE trade below the 63-cent level in the spot March contract.

With March's first notice day 41 trading sessions away, a critical concern has arisen that a drop into the 62s and an activation of the marketing loan program are of major concern. The activation of the marketing loan program, should it come about, and the probability is very high, will be based on prices sinking due to declining demand and a shrinking export market. Historically, the marketing loan came into play only because of exploding foreign carryover (but some would want to discuss cause and effect). The nearby March contract traded below 64 cents all week, a first for the spot month. In fact, 64 cents has become a price resistance point, with minor price resistance at 63.75.

Trading volume continued for a second week on the short side as the market simply cannot generate any speculative activity except from the short side of the market. It is difficult to think prices could go lower, given that U.S. production has experienced back-to-back years of poor exports and subpar production (based on a historical comparison). The market is broadcasting a clear message that production must be decreased. The irony is that market prices are suggesting lower plantings just as the seed providers have delivered incredibly high-yielding varieties.

USDA export sales reports are still backlogged from the government shutdown. In the absence of a formal announcement, it appears USDA will not catch up until the first week in January. Nevertheless, the absence of current data has not been kind to export estimates. Neither the facts nor rumors have offered any promising news that export sales and/or shipments have turned the corner. Current market conditions suggest there will not be an improvement. In fact, it is expected that the U.S. will experience its third consecutive year of exports falling below 12.0 million bales. The nail in the price coffin comes from a forecast that suggests that any production over 13 million bales will be very bearish to prices. That is a bitter pill for the U.S. cotton industry.

U.S. and world economic news have been positive for both equity and commodity markets. The Bureau of Labor Statistics reported the November CPI below expectations and showed a continued decline in the rate of inflation, supportive of even further reduced interest rates. The international Organization for Cooperative Economic Development (OCED) released a report indicating that the tariffs imposed by the U.S. government had not caused an increase in prices paid by the consumer. We suggested this several months ago, specifically indicating the tariff charges would come from "economic rent," defined as coming from corporate income or past corporate income. (Granted, there were some missteps, but those have generally been corrected.)

Prices will remain stuck in the mud through January. Growers are encouraged to refamiliarize themselves with the marketing loan program.

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