

# Cleveland on Cotton: Cotton Export Business Remains Slow as Prices Settle

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By Dr. O.A. Cleveland



Cotton prices continue to back and fill, which is excellent compared to the downtrend of recent months. Any “filling” implies the market found its price bottom. Going into the close, the December contract was up for the day but down 10-12 points for the week. Nevertheless, the 64-cent handle appears to fit the market quite well.

We contend the downtrend has ended. The channel lines, the old lows, and the October expiry lows all held. The truly negative news is over. Yet, we continue to suggest that a jump to higher prices is overwhelmingly not possible in the short run — and, in fact, any move to the upside will be very slow and treacherous.

The market must find demand if it is to move above 70 cents. The cotton industry must overtly reach out to the consumer. Again, it is the consumer that creates the demand for cotton — not the brands and not the retail stores.

The failure of the cotton industry to connect with the consumer is the principal problem facing cotton prices. International competition in the export market is historically very aggressive. Too, U.S. growths are generally higher priced, even with cotton at 64-65 cents. The bulk of the U.S. crop is not moving.

While China does not need U.S. cotton, there is a slight possibility that a China-U.S. trade agreement includes cotton. If that is the case, then the New York ICE contracts could see a 200-300-point increase. The principal reason for China to purchase U.S. cotton is that they can buy it at little more than half the cost of producing cotton in China. This, of course, is the primary reason that some speculate that China will buy from the U.S. Nevertheless, over the past four years, China has found an alternative source of U.S. type growths, namely Brazil.

Despite the government shutdown, the Bureau of Labor released its October CPI estimate. The inflation barometer was up from 2.9% to 3.0% for the month. This was lower than analysts predicted and keeps the path clear for another quarter to half point reduction in the FED interest rate next week.

The market is trading as if it expects a quarter point decline. This will provide indirect support to cotton prices, in that the estimate confirms the overall strength of the U.S. economy and likely that the economy is growing faster than expected. The report did show apparel prices had risen more than expected. Historically, this would suggest direct support for cotton prices. But since cotton is no longer a major fiber in apparel construction, the price increase will not affect cotton.

Merchants and cooperatives suggest export business remains slow. Additionally, mills are again complaining that margins are very thin. This could indicate that cotton demand is further declining. However, there is always a minimal amount of business for immediate delivery. This is indicative of two phenomena: the fact that mills business is slow, and mills are willing to maintain minimum inventories.

Additionally, the slow, but steady, pace of mill purchases suggest mills do not expect any near-term price increase. Likely, they will be able to purchase cotton for 66 cents for at

least two more months, notwithstanding an unexpected purchase by China.

Prices will continue to test the very high 63-cent area but will generally trade at 64-65 cents. The lows are in.

Give a gift of cotton today.