

Cleveland on Cotton: Are Mills Providing a Glimmer of Hope as Market Pain Continues?

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A glimmer of hope, and hopefully the beginning of what we promised. Yet, there will be several, several days of pulling teeth, some without Novocain. It is not going to be easy. Too, recall our caution that growers will have to wait at least until May 2025 becomes the nearby contract to price their 2024 production.

Traders forced the December contract below the 70-cent level this week, falling to the 67-cent area on three occasions before settling the week at 67.99. Textile mills – just as in the prior two weeks when prices were holding the 70 cents area – were aggressive with price fixations. With prices below 70 cents, mill margins are modestly attractive, and spinners are demonstrating a limited willingness to spin yarn for potential orders. Note the phrase “potential orders.” Mills suggested they have not experienced improved demand, but rather they are expressing thoughts that demand will be there at a lower price.

The battle to hold 67 cents is on. Speculative short positions could allow for a short lived and temporary short covering rally. If the December contract is unable to find support at the current 67-cent level, the next line of price support of any consequence lies far below at the 62-63 cent level. Yet, that is far too cheap for cotton, especially with mills beginning to see improved margins. The 67-cent area should hold. That said, recent history has seen cotton prices fail at strong price support levels.

Given even a modest improvement in mill margins, a limited number of mills were attracted to the possibility of potential sales and expressed a willingness to increase yarn inventory in hopes of any order that required immediate shipment. Thus, actual improvement in demand remains very difficult to uncover. Nevertheless, it should be noted that the nearby October futures contract fell to the 65-cent level this week – an extremely bearish psychological level, and a price level so bearish that it conjures the discussion of the market falling into the 50s.

The fact that nearby futures dropped so low is a “yelling and screaming signal” to the cotton industry to look its demand woes in the eye. We will stay far away from a price discussion that mentions the 50s.

The world consumer, notably the consumers of the western world, no longer looks to purchase cotton apparel. The cotton industry has abdicated this primary base. Yet, with consumers holding back on apparel purchases, pent-up demand is only growing. The challenge for the cotton industry is to ensure that cotton is on the mind of the consumer once inflation subsides and consumers again have discretionary income. However, we must also understand that market dynamics have permanently changed.

The market bear continued to exhibit itself in the export sales and shipment report, just as it has for months. Weekly export sales were poor. Granted, there have been a few weeks with decent business, but never any period of good business. Don't

believe a word of anyone that suggests otherwise. In fact, the absolute worst week of the year was this past week, and the 2023-24 cotton year has only two weeks left before it is put to bed forever. Net sales of upland for the week were a negative 74,200 bales. The two major customers for U.S. cotton, China and Vietnam, cancelled almost 50,000 bales of prior sales. Adding insult to injury, shipments totaled only 131,300 bales, all but ensuring U.S. ending stocks will balloon to more than 6.0 million bales.

The glimmer of hope comes from the On-Call Report. Mill price fixations have been most aggressive the past three weeks. The supply side of the price equation is overly bearish. Yet, if the market holds the 67-cent area, it will be a signal that big box stores and retailers are willing to stock apparel goods in hopes of an improved economy, at least by the spring/summer of 2025. Mills have also become more aggressive in covering immediate needs and have been covering more first quarter needs and even some second quarter needs.

Give a gift of cotton today.