Cleveland on Cotton: Despite Fundamentals, Ugly Economics Drag on Cotton Prices

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Okay, the crow is edible this week, but the flavor is still rank. I did not see the sell-off coming – totally blindsided.

The same old eight-month trading range continues. This means the macroeconomic factors, debt ceiling, increasing interest rates, major inflation, an economic slowdown, and all the ugly economic factors mentioned week after week are still very much in control.

I thought a higher trading range was in order. Cotton's newfound fundamentals – a U.S. carryover of 3.6 million bales – proved to be subservient to recession and Washington's love of spending real money. Those fears dominated the cotton market.

Never make the mistake of thinking fundamentals do not rule the price roost. Fundamentals set the price, period. There is day to day trading based on technicals, but the ole supply and demand thing rules.

I thought the market had moved to a bit higher trading range for the July contract. Wrong. The 78-87 cent range continues. In the absence of any new fundamental news except for some moisture relief on the Texas Plains, both old crop and new crop fell victim to Washington's piddling and followed Wall Street down, down, down. As if 7% mortgage rates and 5-6% commercial loan rates were not enough for Washington to understand they killed the economy, Washington stills wants more money.

"When Will They Ever Learn." Peter, Paul, and Mary sang about misguided government back in 1962, and this Government still wants to play games. Joe South followed that hit in 1968 and had the government black limousines in mind when he sang "The Games People Play." Then the 1985 Broadway hit "Big River" reminded all of us that government had their hands in every pocket of our britches in the song "Guv'ment."

When will we ever learn?

Meanwhile, macroeconomics continues to limit cotton demand. Domestic U.S. consumption is at a record low. The U.S. still dominates the export market, but Brazil is ramping up its competitive leverage. The demand for U.S. cotton is weak compared to 2021 and 2022. World demand remains weak.

The U.S. weekly export report for the week ending May 18 showed that only 12 countries bought cotton from the U.S. and only three purchased more than 9,100 bales. Yet, with only 3.6 million bales of carryover, the July futures contract may see some fireworks within the coming three weeks. Certificated stocks have disappeared.

This sets up the potential squeeze in July futures, making it very possible for July to jump higher the week going into first notice day. That appears to be the only possibility to again challenge the 87-88 cent level.

The new crop December will have to begin to find its own way. December had been supported by the two-year long drought across the Southern Plains and particularly on the High Plains and Rolling Plains of Texas, Oklahoma, and Kansas. That region has now received widespread rains. Granted there are some dry spots, but the drought has been broken. The region is in the midst of the rainy season and Mother Nature has not disappointed – just as had been predicted by the meteorologist.

Given adequate moisture, growers will devote the important level of management necessary to manage a cotton crop. Thus, the potential exists for a sharp increase in the level of production compared to the prior two years. However (the flip side), since demand will continue to struggle at least into March 2024, cotton prices will remain under pressure until then.

The price range for December futures still projects as a rather wide 75-90 cents. Given that the drought across the Southern Plains has been broken, the prospect for a U.S. crop approaching 17 million bales will pressure futures prices toward 75 cents.

Give a gift of cotton today.