Cleveland on Cotton: Cotton is a Calling

Jun 03, 2023

By Dr. O.A. Cleveland

It was the third of June, another sleepy, dusty Delta day. I was out chopin' cotton…

Like most of the MidSouth, the Choctaw Ridge crop is off to an excellent start. Crop development is excellent and begging for more heat units. The Southern Plains of Kansas, Oklahoma and Texas received the traditional Memorial Day rains and the associated hail damage. The plant and replant are in full swing. Certainly, there are no bagging and ties around the crop, but I am staying with a 17 million bale U.S. crop. Of course, Texas stands to be the primary determinant of U.S. crop size. However, it is noted that the long range weather forecasters have suggested the 2023 would be full of storms. Somehow cotton seeds have gone into the ground and a bit of a smile is spread across the faces of growers. Now, if those that be can get prices at least 500 points higher.

With the July contract heading to first notice day (FND) on June 26 the fireworks mentioned the past two weeks have not been disappointing. July settled the week at 86.05 and traded above 87 cents. The absence of any certificated stocks to deliver against the contract will ensure prices remain volatile. Jarral Neeper (jarral@trucott.com) and Roger Varner (rogers@varnerbrothers.com) have for some time commented that the July December switch could likely jump to 600 points and this would make it profitable for merchants will position themselves to make delivery against the July contract. Said another way, a squeeze on the July contract is likely. A lot of "old" traders in the sky are looking down are clapping their hands in celebration to see another squeeze on the July contract--as there was great notoriety of such in the days when the Rio Grande Valley had a sizeable volume of early cotton. The spread has teased that 600 point. With the contract being void of any certificated stocks there is a strong tendency that the spread will jump higher.

December has limped higher, following the July price increase; however, once July goes FND, June 26, the new crop December contract will be left to face its own fundamentals. The path of least resistance will be for December to move lower as world demand remains weak. In the face big Brazilian and Australian crops, currently being harvested, the cash basis around the world has collapsed. This has led to very fierce competition and is allowing spinning mills to set the price for cotton. The quality of the Brazilian and Australian growths are viewed as premium, and given the weak demand, mills are being very selective. U.S. cotton is terribly slow to move at present and the U.S. will have to compete with Brazilian and Australian cotton until at least the end of December and most likely into March 2024. This phenomenon will hang over the New York contract and keep a damper on prices.

China continues as a significant buyer. Reported sales for the week ending 5/25/2023 showed China purchased 224,100 bales. Net sales to all countries for the week were 267,800 bales, a healthy number. However, China is buying to replenish its strategic reserve as opposed for immediate spinning. While "any" sale is a good, world textile demand continues to lag historical levels. Additionally, Chinese buying is occurring at an exceptionally low price.

The old crop July contract is just three weeks from first notice day and facing a price squeeze. Thus, the trading range will likely range from a low of 82 cents to a high of 88 cents. The December contract, assuming continued moisture over the Rolling Plains and High Plains will pressure new crop potentially down to 75 cents. As commented earlier, good demand likely awaits the March 2024 period.

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