Cleveland on Cotton: Positive Week for Cotton, But Beware Growing Consumer Stress

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Cotton prices were down two of the five trading days this week but still closed on the positive side of the 9-, 100-, and 200-day support lines. December did settle 198 points higher on the week – a real market winner compared to the Dow, NASDAQ, and Russell 2000. December futures ended the week at 84.38, but down 21 points in Friday's trading but up 198 points on the week.

After being beaten down the prior two weeks, cotton looks much like a speculator's darling as the Dow and NASDAQ have closed lower in 10 of the last 12 trading days. The trading range continues, and the 82.50 cent area has shown itself to be a very solid bottom. Yet, the prior week's sell-off left a bit of price resistance in the 85.50 and 86 cent area. Thus, it will take some work to reclaim that territory.

Certificated stocks continue to come to the Board. With first notice day a month from today, the Jim Rogers funds will begin their three days of rolls on Monday (Oct. 30). Goldman Sachs funds begin their five days of rolls Nov. 7. Traders were presumed to be front running that activity this week. While the market is not overbought, the Rogers fund rolling will likely see only back and forth trading on the week.

World trade was slightly improved because of the prior week's lower prices. U.S. export sales of upland were a net of 186,100 bales, all but double the prior four-week average (up 82%). China (98,500 bales), Vietnam (22,900), South Korea (5,700), and Taiwan (3,900) were the primary buyers. Yet only 12 countries were buyers of U.S. cotton.

Export shipments were somewhat dismal at only 98,000 bales as Vietnam, Mexico and China were the primary takers. To meet USDA's forecast of a 12.2 million bale export estimate, shipments must average some 238,000 bales weekly. The greater hurdle is that sales will need to average some 335,000 bales per week – possible, but not very probable. Likewise, the shipment pace can be met, but too is very doubtful.

As suggested last week, the U.S. export sales forecast could be overstated by 500,000 bales. It is still early in the year, but it is expected that USDA will address this estimate in its November supply demand report on Nov. 9. It should not be expected that U.S. carryover would be increased by the same amount, as it is likely the U.S. crop could be between 200,000 and 300,000 bales lower. Either way, U.S. ending stocks will remain tight.

Such adjustments by USDA should be market neutral to mildly supportive as they are likely already built into traders' expectations of market fundamentals. Exports reflect demand, and as we noted far too often, demand is very weak.

More importantly, our expectations of improved demand, sometime between March and July 2024, may well be ever further out the calendar. The combination of rising inflation coupled with another one or more likely two more interest rate increases by the Fed will keep interest rates higher for a longer period than previously expected. Thus, the “recession” word will remain on the forefront of traders’ minds well into 2024.

It should be noted that what economists refer to as real wages – wages adjusted for inflation – are lower than real wages of three years ago. Too, due to rising interest rates, investment in domestic activity has all but come to a halt. These factors work together to further squeeze the consumers’ limited dollars.

As consumers begin to feel stressed, business activity begins to slow. In a capital economy, it is the consumer that is the big horse pulling the wagon. Stress on the consumer budget slows everything. We are seeing this in the consumers’ budget for clothing and other cotton goods and will see more as other sectors feel the impact of a stressed consumer.

Mills were active with price fixations on the week (as they should have been), pricing some 635,000 bales against December futures. This reduced some of the short-term pressure in the market calling for higher prices. Yet, the bias for market price support will return as December futures move nearer to the delivery period and December On-Call positions are rolled to the March, May, and July contracts.

The trading range continues. Very good price support exists in the 82.50 cent area with resistance at 84.50, 85, and 86 cents. The longer-term price resistance in the 88-89 cent area remains very strong.

Give a gift of cotton today.