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Dr. O. A. Cleveland
Cotton Marketing Analyst
Professor Emeritus, Mississippi State University

Cotton is a Calling

Cotton prices, just as expected continued to climb higher in search of that magic point where its wax wings melt and fall to earth. Yet, we are having none of that this year. While new demand has slowed to little more than a trickle, prior sales, many a long time on the books, are being shipped for immediate consumption. Yet, shipments are not as strong as a demand market would like to see; however, outstanding sales, coupled with strong and growing on-call sales are aiding and abetting higher prices. Additionally, speculative funds and Index funds have committed more of their trading to cotton. Prices stagnated during Thursday's trading in anticipation of the upcoming three-day Easter weekend. The potential threat of rain over South Texas over the weekend stalled an additional advance. Expect a higher opening on Monday (Sunday evening). The new crop December contract finally got it sea legs grounded under it and shot above 122 cents. It's higher uptrend is based on the worst ever drought on record that is covering parts of the High Plains of Texas and New Mexico, as well as much of the Rolling Plains of Texas and Oklahoma. Just this week the U.S. national weather group extended its forecast for an extended drought season forecast for the Southwest region of the U.S. Cottonbelt. July becomes the spot contact month on April 25, less than ten trading days away. While the requirement for textile mills complete end of market fixations on the July contract corresponds to that day, market prices are likely to shoot up to near 150 cents. The new crop December is facing a different set of bullish notes. The December contract is experiencing an onrushing mob of speculators, coupled with the potential worst drought over a major portion U.S. cotton region in history. Thus, December futures is also rushing towards the same 150 cent level that will move higher without widespread lingering rain over all of Texas and West Oklahoma. Granted, The Southwest tends to always get its million dollar rain the last week in May. Already it needs the two million dollar rain this season for this season. In fact, there is scant any moisture in the forecast through June except for small showers along the Gulf of Mexico.

Export sales were very week for the second consecutive week, an indication than mills are having difficulty passing along the higher cost they are paying for cotton. Mill margins for spinners has all but disappeared, a clear indication that demand slippage is in sight. Weekly net sales of Upland totaled only 59,300 bales of Upland with shipments of 333,800 bales. Chinese cancellations out numbered new sales. The shipment pace is some 2.7 million bales behind last year's pace. It is doubtful that USDA's export estimate of 14.75 million bales will be reached. The actual number we think will be much closer to 14.5 million bales. Thus, one should expect U.S. carryover to be so 2.5 to 3.0 million bales larger than the current USDA estimate.

Too, the On-Call report continues a strong bias for higher prices as July on-call fixations, buying of futures that must occur before June 24, totals 5,877,00 million bales versus known selling of futures of only 611,700 bales. Certainly, some of the fixations have made are already covered via options trading, but certainly no more than one million bales. Thus, the op-call position will push July prices higher.

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