Cotton Marketing Weekly
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Cotton is a Calling

Thankfully, Friday the 13th did not leave any especially negative vibes in the cotton market, but neither did it leave any moisture in the parched Southwest. Texas, Oklahoma, and New Mexico did get very light and scattered showers during the week. The market's reaction, higher. Moisture received for those so lucky was little more than a tease. For most the extreme drought continues. In three weeks, a disaster will have emerged, or possibly drenching showers will have saved the day. We will know between the last week in May and first week in June. The market speculator continues to bet on the accuracy of the long-range weather forecast that predicts the drought will continue. December futures backed and filled all week and challenged the contract high of 129.91. A challenge of 130 cents remains on the screen and if successful will call for a test of 135 cents. Each week without moisture will push prices higher in search of the 135-140 cent level, and none is forecast for the coming week.

The old crop July is facing its First Notice Day (FND) of June 24, just five weeks away. Physical cotton demand is weak at best, but export sales are just meeting the volume of sales necessary to meet USDA's export projection of 14.75 million bales. Export shipments are now tracking the USA projection. July did not trade above 150 cents the past week, but don't count it out over the coming five weeks. The on-call sales data remains very supportive/bullish for the near term. The ratio of on-call sales versus on-call purchases in slightly above 10 to 1, not as strong as the past several weeks, but still very strong, especially given that the price fixations must be done by the July FND, again just five weeks away. Mills must buy futures contracts representing 5.6 million bales of cotton while the known selling of futures represents only 538,700 bales. Mills have been buying futures only at the rate of about 70,000 to 80,000 bales each week. That pace is facing a quantum leap over the next five weeks. Thus, July could post new highs, but also has excellent price support in the low 140's.

Consumer spending continues to drive the U.S. economy and will for several months. However, it is very doubtful that consumer spending, racing ahead of inflation as it is, can keep up with the inflation growth facing the U.S. Consumers know that higher prices are in front of them. Nowhere has that been witnessed more than in the housing market. The retail sector, assuming they can get inventory shipped to them, have pushed orders forward to keep chasing the free spending consumer. Thus, we should expect retail sales to be very improved in the short run. However, the retail market is setting itself up for disappointing 2023 second quarter results, possibly even some disappointment in the first quarter. Referencing this to cotton production and the cotton grower, the current price level seen in the December 2022 futures contract cannot be sustained through the 2022-23 marketing season. Demand degradation, while not currently being experienced, albeit we may be in the very beginning of such, is in front of the cotton industry. The consumer has recently expressed a clear choice for cotton. However, the acid based polyester fiber is the absolute cheapest it has ever been relative to the price of cotton. Cotton will lose some market share if prices do not move back closer to the 120-cent level and below. Mill margins can stand for some pricing near the 130-cent level, but the demand spigot is slowing closing and it will take raw cotton prices trading below 120 cents to again open it wide.

USDA provided it first look at world cotton supply demand for the 2022-23 cotton marketing year in its May supply demand report released this week. In its own way USDA expressed similar thoughts via its forecast. World production was forecast at 121 million bales, about 2.5 million bales above the current year (in response to higher prices). World demand was forecast down during the coming year, some 300,000 bales below the current season, a mild suggestion of forthcoming economic difficulties in the U.S and other countries.   U.S. production was projected lower (drought concerns), U.S. consumption lower (economic concerns), and exports lower, (smaller crop and economic concerns).

Cotton prices continue to be a bit pricy for textile mills. The consumer has not balked at the inflated prices for cotton goods. However, cotton demand can have a much more comfortable seat at the consumer’s table with futures prices back nearer the 120’s and below versus the 130’s and above. The new crop December has excellent support at the 112-115 cent area.

The coming week/s call for higher prices with choppy and volatile trading.

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