Cotton Marketing Weekly
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Cotton is a Calling

Comes another first notice day (FND) for the cotton world this week! Either the October futures contract must jump higher to reconcile with the July contract or the July futures contract will go off the board with the big growl of a bear and cotton's day in the 140's is over, at least for now. July futures have fought to hold 145 cents and based on remaining on-call sales it appears July will go into FND still trying to move higher. Likely there are still some one million bales of on-call sales that must be fixed this week. December will likely climb back to the mid 120's with its sights on the 130-cent level. While it never gets too hot for cotton, remembering it is a desert plant, the heat wave sweeping through the Southwest and across to the Southeast is draining moisture almost faster can the cotton plant's root system can pull moisture from the soil. This gives rise to increasing concerns regarding yields across much of the U.S. Too, both China and India are facing a combination of heat and some drought problems. Further, the worlds five largest cotton producing countries are all facing some level of uncertainly about a drought/heat reduced cotton crop. Those concerns will continue to provide price support to the December contract and should help ensure that the contract maintains its challenge of the mid 120's and keeps the door wide open for a run to 130 cents. Demand is under pressure, but that pressure has been associated more with prices being in the 140's as opposed the December contract prices between 115 and 125 cents. With the October contract set to become the spot contract, one should expect to see more appealing news regarding good to very good demand for cotton.

Yet, inflation continues to rise, as does the near certainty of a recession. Thus, that is a bridge cotton demand will have to conquer. The FED took a giant step during the week toward controlling the inflation it and Congress created with its combined easy/free money policies. The overnight interest rate was raised 75 points. The economy needs more of the same. The more economic pain the economy endures in the short run the less pain and the shorter duration of the pain in the intermediate term. Thus, it was pleasing to see the FED take such a stance. I commented here weeks ago that I did not think they were brave enough to increase the rate 75 points. Their action, and if they follow it with another or even larger rate increase, will make for stronger cotton demand and consumer spending.

Net export sales were excellent on the week. Upland sales totaled 406,800 bales of current and new crop along with another 1,400 bales of Pima. China purchased 371,000 bales, mostly for the 2022/23 marketing year. Shipments were good, totaling 342,500 bales between Upland and Pima. Ideally, it would be better if the U.S. could average another 50,000 bales shipments weekly. However, the fact that China booked nearly 400,000 bales for next year suggests demand is stronger than we are giving it credit for, or that the Chinese crop is suffering more than thought. Yet, likely most, if not all the sales were bought on-call. Also, somewhat in the bull’s camp is that total export sales for 2022-2023 total about 3.7 million bales, compared to only 2.1 million bales a year ago this week. Thus, while I remain very squeamish on the economy, cotton demand is attempting to outdistance the current forecasts.

Certainly, the cotton market is liking the higher interest rates as cotton and other commodity prices had a positive response to the rate hike. Any new bullish sentiment for cotton will prove to have an especially strong speculative pocketbook to boost prices higher. Yet, textile mills will likely see demand soften if December cotton futures move above 135-cents. December should explore new price territory.

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