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Cotton is a Calling

It always happens! July and December come together. Yet, neither for a million dollars, nor in a million years would I have guessed it would have been this way. It just doesn't happen, but cotton, all the grains and the oilseeds collapsed at the time and generally by same amount (percentage). Cotton and all other row crops weighted in on just how miserable the U.S. economy is. Granted, the Index measuring consumer sentiment, suggests the economic outlook is miserable and even the FED chair now says his group helped create this economic mess. Some reports have grain and oilseed production increasing. Yet, not so for cotton. The Indian crop may be improving, the Chinese crop is on the verge of stabilizing and the U.S. crop is very questionable. The Indian rains certainly were not worth a 20 cent plus market collapse, maybe a 200/300-point loss, at the most. So where are we now? New York is set for a 500-point gain, but I have said that for two days now. What can I say other than WOW, this was a price crash for the record book? I just plain and simple missed it. It was in plain sight, and I even dumbed down enough to talk about it terms of new crop prices possibly even moving higher. What a dummy! Possibly, given that the world equity and financial markets had seen a similar collapse I could just pass it off as commodities trading in sympathy with the equity market. Yet, that would have us trying to hide our miss. Once speculators began to liquidate positions and take profits, literally everyone jumped in, and the price collapse could not be stopped. All row crop futures except cotton have shown signs of stability, and as I said cotton should finally look to regain its wings. The speculative funds have exited cotton in mass. It will likely take renewed interest in new crop fundamentals to entice cotton to look to regain the 115-cent territory. Yet, it will be a difficult and slow going from 105 to 115 cents. The market has a lot of healing to overcome and a lot of body parts to rebuild.

Mills should exercise this historic break in prices and cover up to 25% of their on-call sales…or even more. Seldom do I suggest the market is wrong. In fact, the market is always right, it is those of us that pontificate on the market that are wrong, never the market, the reverend halls of supply and demand. Yet, we must understand that the market is simply the combined set of emotions of all the traders. On any given day that combined set of emotions can be wholly totally irrational. Yet, that is seldom the case. In this case, the market simply became very overbought. There were no more fixations to push the entire Board higher and higher. We have experienced some market collapses before. We thought Tiananmen Square damaged the market. That was nothing compared to this. Tiananmen Square was a government created fundamental. This collapse was a self-induced collapse. We, the collective cotton traders, believed our own words. In my long and now gray-haired career, never have I seen such a fall. Yet, likewise, never have I seen the on-call-sales positions of mills drive the market higher and higher, week after week, and into record territory. I have seen on-call sales drive the market, but never to the absolute beginning of a contract expiry. Yet, I cautioned myself and others that the market had gotten too high. Simply, I failed to rationalize that the market could come down at a record pace—simply believing that it had never done so before. The market is always right. Yet, it typically overshoots its mark, going too high or going too low before correcting. We should have seen this; I should have seen this. Yet, it happened in all the row crop markets—that's bigger than I even considered. I just plain and simple missed it.

We experienced the July contract falling over 40 cents in a single week, a four-day week at that! I would have told you that was impossible. The very basics of the market, supply and demand, were somewhat ignored, or were they? No, the basics were not ignored. We wrote about it and still got caught—because it happened so much faster than ever before, and the price dive was so much deeper than ever experienced. The market bullishness was not based on cotton trading, but on the quantity of on-call sales, the "demand to fix the price of cotton," not the demand for raw cotton itself was being traded. Knowing better and cautioning about it, I still fell asleep. The news was all about fixations and the fact that the need for fixation was pushing prices higher. Along with everyone else, I drank the Kool-Aid. July futures reflected the demand for on-call sales and December prices were dragged higher. Now the market can return to rational trading and December can rebuild and make another run toward 110-115 cents. The U.S. and world 2022 crops are failing facing very problematic production challenges. U.S. and world cotton carryover is shrinking. Too, the December 2023 futures contract, a contract that lost some 12-14 cents, or more than 10% of its value this week, must climb back. It will try to rebuild to at least the 90-cent level. Given the competition for acreage, coupled with the inflation driven input prices, 2023 plantings will fall some 30% or more in 2023 without a return to at least the 90-cent level. Possibly, it will be necessary for even a higher price. Remember too, the level of stocks at the beginning of the 2023-24 marketing season will still be very low. December 2023 should challenge the dollar mark.

Now that cotton prices are back where they were six months ago it is time to build demand and let prices work higher. Let's get prices back to the 103-105 cent area first, then Mother Nature may give us more.

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