
2024 Cotton Outlook

Main Takeaways

- Reduction in consumer demand for cotton-related products would suppress cotton prices in 2024.
- U.S. cotton acreage and production are likely to decline in 2024 because of lower relative price expectations with competing crops.
- The cotton production profit margin is likely to be lower in 2024 with high input costs and low cotton prices.

2024 Cotton Outlook and Market Situation

The cotton market in 2023 settled into its usual patterns following a tumultuous year in 2022. In 2023, cotton prices were driven by economic growth and cotton supply-and-demand situations. Slower global economic growth resulted in lower cotton demand and lower prices. In addition, the appreciation of the U.S. dollar and high interest rates further discouraged cotton prices. Cotton supply also was reduced because of lower prices, resulting in the equilibrium of cotton prices ranging from upper 70 cents per pound to lower 80 cents per pound during the harvesting season in 2023 (Figure 1).



Figure 1. Cotton Cash Prices for the Past Two Decades.

Source: barchart.com

Economic Slowdown and Reducing in Cotton Demand Globally

Looking ahead, the year 2024 could be another challenging year for cotton producers.

According to the International Monetary Fund World Economic Outlook report in October 2023, global recovery remains slow. Global economic growth is expected to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024. Globally, 2023 cotton production is projected at 113.4 million bales, below the world cotton mill use at 115.3 million bales (Figure 2). Uncertainties about the world economy and competition from synthetic fibers are forecasted to limit global cotton mill use growth, according to the U.S. Department of Agriculture. The reduction in economic activity would likely reduce consumer demand for discretionary items, such as textiles and apparel, thus suppressing cotton prices in 2024.

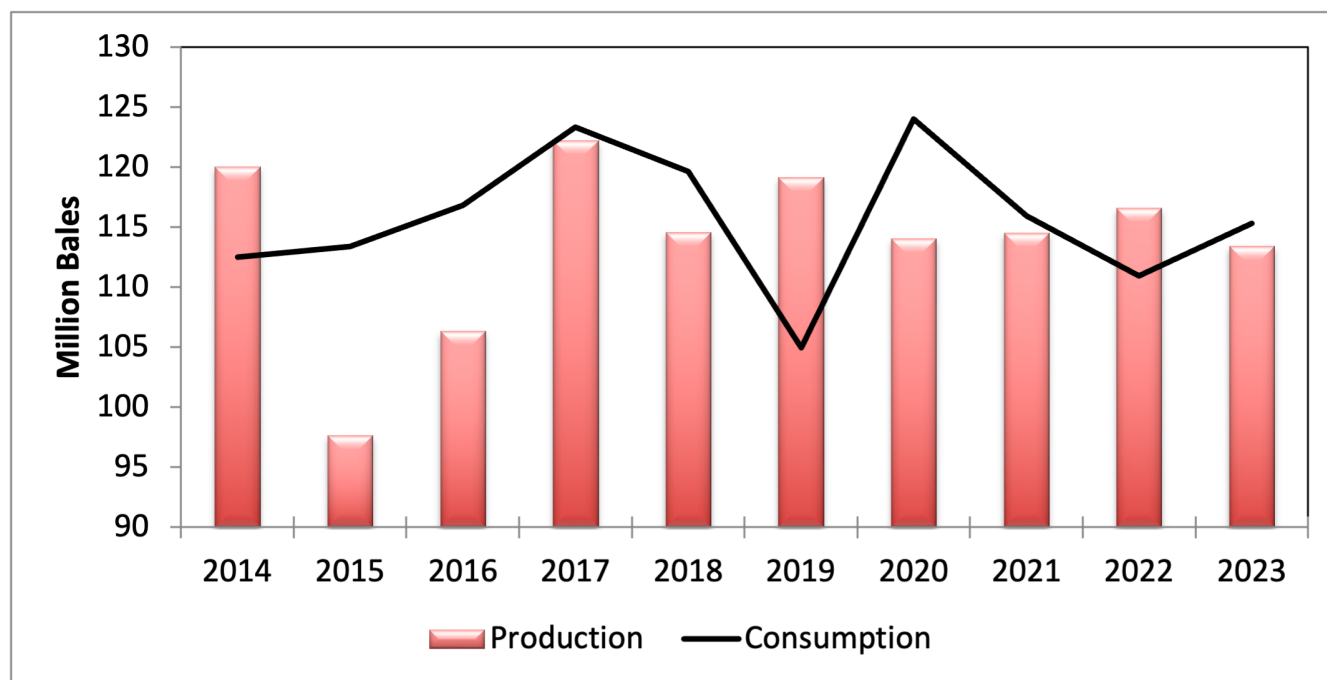


Figure 2. World Cotton Supply and Demand.
Data Source: USDA FAS.

U.S. Cotton Supply and Demand

In 2023, the U.S. planted 10.1 million acres of upland cotton, the lowest since 2016. U.S. upland cotton production was 12.7 million bales, nearly 1.3 million bales below the 2022–2023 crop, and the lowest since 2015. The harvested area in 2023–2024 is projected to be 7.9 million acres, higher than last season, but it remains the second-lowest over the past decade. The national yield is projected at 776 lb per acre, noticeably lower than the 2022 crop at 942 lb per acre.

The U.S. cotton demand estimate for 2023–2024 is projected at 14.3 million bales, nearly 0.5 million bales below 2022–2023, as the smaller crop limits demand prospects. Because of lower production, U.S. ending stocks are projected at 3.2 million bales in 2023.

Inflation Rate, Interest Rate, and U.S. Dollar Appreciation

In response to high inflation, the Federal Reserve increased the federal funds rate to tamp inflation with its largest rate increase since the 1980s. The Federal Reserve's commitment to bringing inflation back down to its target of 2% resulted in a 5.5% target rate for federal funds by the end of the year in 2023. With the recent upticks in the inflation rate, it remains uncertain when the Fed might begin to cut interest rates. Cotton producers must continue their debt

management to cope with the high interest costs in 2024.

Meanwhile, the rising interest rate resulted in the appreciation of the U.S. dollar. Cotton is a global commodity; on average, over 80% of cotton produced in the United States is exported. The appreciation of the U.S. dollar increases prices paid by foreign consumers and makes U.S. cotton less attractive. This could put further pressure on cotton prices for U.S. producers in 2024.

2024 Price Outlook Summary

If we consider 2023 a challenging year for cotton producers, 2024 could be even tougher. Monetary policy is expected to remain tight for some time until inflation is stabilized. Consumer spending on discretionary items is expected to tighten with slow economic growth and lower saving rates. Input costs remain at a relatively high level, and cotton producers face downward pressure on cotton prices. U.S. cotton acreage and production would be likely to continue to decline in 2024 because of lower relative price expectations with competing crops, such as peanut and corn. This projection of acreage diverges from the USDA's November projections because of shifts in market conditions captured in this article, contrasting with the USDA's August through October 2023 projections.

As of December 7, 2023, December futures prices [CTZ24 (Dec '24)] for the 2024 cotton crop were around 79.09 cents per pound. The optimistic likely price for cotton in 2024 is 79 to 83 cents per pound or better, and the pessimistic likely price for 2024 is 69 to 73 cents per pound. For planning and budgeting projections, a price of 74 to 78 cents per pound is suggested for 2024.