

Market Volatility : Lows, Highs, Longs & Shorts

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The cotton futures market has been volatility at its best over the past few months, creating exceptionally challenging trading conditions. After an extended period of relatively benign price movement, a rapid rise followed by an equally swift decline in prices has tested market participants, with many actively managing futures exposure throughout the period. As volatility returned with a vengeance, both futures and options volumes surged, while margin requirements increased significantly.

The rally began in early March and, perhaps not surprisingly, coincided with rising energy prices following the opening strikes of the US-Iran conflict in late February. Oil prices spiked, triggering the largest rally across the agricultural commodities complex since 2022 and resulted in more than US\$40 billion in new hedge fund long positions across commodity markets.

Following a low of 65.64 cents on 5 March, 16 March proved to be a pivotal day for ICE cotton futures, with record trading volume exceeding 170,000 contracts. This marked the first major wave of speculative buying and ultimately saw managed money reverse its short position for the first time in two years. From there, the market steadily advanced through March and April before reaching a high of 88.88 cents on 13 May.

Whether that marks the peak of the move remains to be seen. Over the past three months, speculative positioning has shifted dramatically from heavily short to heavily long. It is difficult to predict where meaningful support may emerge should prices continue to retreat, but after a rally of more than 23 cents from the lows, the move has undoubtedly delivered substantial profits for speculative funds.

One of the defining features of the rally has been the rapid transfer of cotton ownership from growers to merchants as higher prices finally presented attractive selling opportunities for producers in the United States, Brazil and Australia. This shift had a significant impact on futures positioning. Speculative interests assumed the long side of the market - a stance they had largely not adopted for some time - while trade participants accumulated substantial short positions as they hedged large volumes of cotton from multiple origins.

In Australia, the shift was evident, with grower forward sales increasing from approximately 15% of production to around 50% in a remarkably short period.

Meanwhile, harvest of the 2026 Australian crop has progressed at one of the fastest rates seen in recent seasons, aided by favourable weather conditions that have been largely absent over the previous two years. As a result, Australia is poised to produce a high-grade crop, presenting a different marketing challenge from recent seasons. Whereas the 2024

and 2025 crops delivered a broader range of qualities that found homes in a variety of non-traditional markets, this year's crop is expected to return to its core high-grade customer base.

That places renewed importance on key destinations such as China and Vietnam. As always, developments in China warrant close attention. Market speculation continues regarding potential increases in import demand, particularly for US cotton, alongside ongoing rumours of a rotation of China's strategic cotton reserves.

While the China-US agricultural relationship remains an important theme, the recent USDA announcement of the *Great American Cotton Plan* highlights growing US government support for the US cotton sector. The initiative is designed to strengthen farm profitability, support domestic textile manufacturing, expand export opportunities and increase demand for products made from US-grown cotton.

Combined with legislative proposals such as the *Buying American Cotton Act* (BACA), the plan reflects a broader recognition that the industry must stimulate long-term structural demand for cotton. A key element of the initiative is the USDA elevation of the *Plant Not Plastic* campaign, encouraging consumers to choose natural cotton products over synthetic, petroleum-based alternatives. One can only wish for a similar level of legislative support for Australian cotton.

Looking ahead, market attention will naturally shift towards Northern Hemisphere weather and the growing discussion around the potential development of El Niño conditions. However, there is a sense that 2026 may prove different from recent years. Geopolitical tensions, government policy initiatives and broader macroeconomic developments are increasingly influencing cotton prices alongside traditional supply-and-demand fundamentals.

As recent months have demonstrated, external events can quickly become the dominant force shaping market direction, reminding us that cotton does not trade in isolation from the wider world.

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