

by Neeraj Rana for Australian Cotton Shippers Association

Just a few months ago, cotton traders were navigating a subdued and largely directionless market. Fast forward to early May 2026, and ICE cotton futures have added more than 17 US cents since the February lows – one of the sharpest rallies the market has seen in recent years. July hit limit up on 30 April and closed at 84.19 US c/lb on 3 May, with December sitting at 84.56. Australian growers have seen cash bids break through A\$600 per bale for 2026 crop and push above A\$615 in some markets. It feels like a genuinely different market to the one we were grinding through just a few months ago.

So what happened? A few things came together quite quickly. The biggest story is the US drought. The biggest cotton patch on the planet is having one of its driest stretches ever – and that is not hyperbole. Conditions in West Texas and Oklahoma are now drier than either 2011 or 2013, covering roughly 63% of US planted acres. The US crop is around 20% planted but without meaningful rainfall before the end of May, abandonment rates could end up well above what the USDA is currently projecting. The March Prospective Plantings report had US 2026 area at 9.64 million acres, pointing to a starting crop estimate around 13.73 million bales. That is a reasonable number on paper, but when you are starting from the moisture deficit the southwest is in right now, every rain event that misses the mark matters enormously.

Brazil is also quietly contributing to a tighter global picture. Interest rates there have climbed to 15% – up from an average of just 4.5% between 2019 and 2022 – and that shift is discouraging new investment in cotton production in a way that doesn't always make the headlines but absolutely shows up in the numbers. Planted area for 2026/27 is expected to come down around 5% nationally. In a world where US ending stocks are already sitting at a lean 3.4 million bales at the end of MY 2026/27, supply that doesn't show up matters.

And there is a new angle now that is hard to ignore: polyester. The Iran conflict has disrupted seaborne supply of oil and the chemical inputs needed to manufacture it so severely that polyester staple fibre now costs more than cotton yarn – a reversal not seen in years. China accounts for 70% of global polyester production and its supply chains are under real stress. Every 1% of fibre share that shifts back toward cotton represents around 5 million bales of additional demand globally. That conversation is very much underway.

For Australia, the timing has been interesting to watch. Harvest of the 2026 crop is well underway, gins are commissioning across the valleys and first new crop shipments are heading out from May. The 2026 crop is forecast at 4.0–4.5 million bales – a step back from last season's standout 5.45 million bale effort, the second-highest export total in Australian history. Cash bids have already broken the A\$600/bale and touching A\$615 triggering strong grower sellin, with merchant surveys now pointing to around 50.5% of the 2026 crop committed from grower hands. Worth noting though that the physical basis has softened since the rally began – rising execution costs, higher ocean freight and merchant inventory have meant the full futures move hasn't translated one-for-one into cash prices.

Looking further ahead, the Australian 2026/27 crop outlook has been revised sharply lower to around 2.7-3.0 million bales, reflecting tighter water availability and a deteriorating seasonal outlook. That is a meaningful reduction and buyers are paying attention.

Mills broadly haven't been chasing this rally. The speed of the move and ongoing market uncertainty have kept buyers cautious but there are clear signs that is changing. Yarn prices have been improving

across major spinning markets and with forward cover thin and downstream inventories across the supply chain described as skinny, the pressure to re-engage is building. Australia is well placed when buying returns. Our export customer base has genuinely diversified – China, Vietnam, India and Bangladesh are all meaningful destinations now – and that breadth gives the industry a resilience that wasn't there a decade ago.

Is the rally sustainable? In the short term, the market is stretched, and meaningful rain in Texas could knock a few cents off quickly. But the bigger picture – lean global stocks, less Brazilian supply coming, a US crop shaping up to be one of the driest on record, a contracting Australian crop for next season, and cotton's genuinely improving competitive position against polyester – looks supportive well beyond any near-term correction. My read is that we are not heading back to 65 cents in a hurry, and for anyone managing new-season price risk right now, the levels on offer are worth taking seriously.

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