Commodities Spotlight

September 2026

White Lies – Recent Cotton Strength Masks Poor Fundamentals

Highlights

- **Cotton catapults as the strongest "soft":** Cotton has gained more than 32% year-to-date through August, earning the spot of the best-performing "soft" commodity and reversing three consecutive years as the worst-performer in this category.
- **Several factors fueling the rally:** Higher petrochemical prices, potential drought or hurricane damage, and potential Chinese purchases have added support.
- **Bearish reality:** We believe that the rally has outpaced fundamentals such as crop conditions, weather, and inventories, which we do not think signal cause for alarm, at this time.
- **Positioning through futures:** Outright futures may offer a more attractive opportunity than calendar spreads, in our view.

What Happened

Cotton, one of a group of commodities commonly referred to as "softs," has posted year-to-date returns that are anything but. As of the end of August, cotton prices increased by over 32% this year, matching the impressive rally in the broad basket Bloomberg Commodity Index (BCOMTR Index), and prices for December-delivery cotton recently reached their highest levels since 2022.[1] This performance is impressive amongst soft commodity compatriots too, with cotton's return nearly doubling the next best performer, sugar.[2] The recent strength is even more notable when compared to recent history. Bearish cotton investors have been having a *boll* over the last several years as the fiber was the worst performing soft commodity in 2022, 2023, and 2024.

Is cotton's recent price strength backed by fundamentals, or have bullish investors been merely spinning a yarn to gin up bullish sentiment?

Why It Happened

As with many commodities over the past several months, the answer partly concerns the war in Iran. A drastic reduction in export volumes of petroleum and petroleum products from the Persian Gulf has catapulted prices for these goods higher, with prices for associated petrochemicals, used in the manufacturing of synthetic fibers such as polyester, following suit.[3] As such, despite rallying over 30% year-to-date, cotton has become an attractive alternative for textile manufacturers, boosting demand expectations.

Weather has provided another catalyst. As drought conditions in Texas worsen, expectations for cotton fiber quality ahead of harvest are decreasing, negatively impacting supply expectations. Drought isn't the only weather driver of recent price strength, though. We are also in the midst of the Atlantic Hurricane season, which has previously caused flooding in Texas growing regions. Additionally, strong hurricane winds have the potential to leave farmers feeling blown away come harvest time, as strong winds could strip the developing bolls off cotton plants. Taken together, it stands to reason that cotton investors should be building in a higher weather risk premium as a worst-case scenario could have drastic negative effects on Texas Gulf Coast and Southeast Delta region production. Lastly, a successful trade summit between the US and China at the end of September[4] could result in increased Chinese purchases of US cotton, bolstering demand.

[1] Bloomberg. As of 31 August 2026, the Bloomberg Cotton Subindex Total Return increased 32.38%, while the Bloomberg Commodity Index increased 32.06%.

[2] Bloomberg. As of 31 August 2026, the Bloomberg Sugar Subindex Total Return increased 18.80%.

[3] Bloomberg. As of 31 August 2026, Polymer-grade propylene increased 35.09%, Ethylene increased 25%, Heavy Naphtha increased 136.98%, and Benzene increased 61.09%.

[4] Trump-Xi 2026 Summits, CSIS.org.

Our View

Contrary to current market sentiment, we believe that this recent strength is more fluff than fact as prices have outpaced fundamentals. Despite the factors mentioned above, we believe the reality is that cotton conditions and progress, which are near average levels for this point in the year, hardly point to a situation that justifies the highest prices since 2022. Further, drought conditions are occurring fairly early in the planting season, leaving ample time for beneficial rains to help alleviate drought concerns. Better still, the onset of El Niño is generally associated with wetter conditions in cotton growing regions in the US and this year's pattern is expected to be exceptionally strong. In addition, the strong Atlantic winds that typically accompany El Niño usually suppress Atlantic hurricane activity by breaking up potential storms before they have a chance to intensify, which could reduce hurricane risk this season. Shocks due to constrained inventories won't bale-out bullish investors either, as global cotton stocks are healthy. Global "stocks-to-use," a measure that contextualizes inventories based on the prevailing demand level, is forecasted at almost 57% for the 2026/2027 marketing year,[5] meaning cotton stocks are comfortable given current demand. China, a major consumer, also currently has healthy domestic inventories, reducing the probability that the country would ramp up purchases of US-origin cotton following the trade summit.

We believe that the opportunity for investors to benefit from prices eventually reflecting bearish fundamentals may be greater via outright futures, rather than through calendar spreads. While there is normally a close directional relationship between near-dated futures prices and calendar spreads, the latter have not followed the former's recent move higher, and do not currently reflect the same potential overvaluation, in our view. While escalation in the Middle East, higher petrochemical prices, or a worsening weather outlook could provide support, we ultimately expect bearish market fundamentals to reassert themselves and weigh on prices before year end.

[5] World Agricultural Supply and Demand Estimates, United States Department of Agriculture (USDA), September 2026.

Additional Considerations

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