What’s Hot: Cotton’s comeback

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Points clés

- Global cotton production is set to fall around 4% in 2025/26 while consumption holds steady, ending a prolonged surplus and placing structural downward pressure on inventories, led by a 10% output decline in China.
- Iran war creates an indirect demand tailwind — Strait of Hormuz disruptions have energy prices higher, elevating polyester production costs and incentivising substitution toward natural fibres, adding an underappreciated demand dimension for cotton.
- Net speculative positioning in cotton rebounded last month offering a powerful momentum signal.

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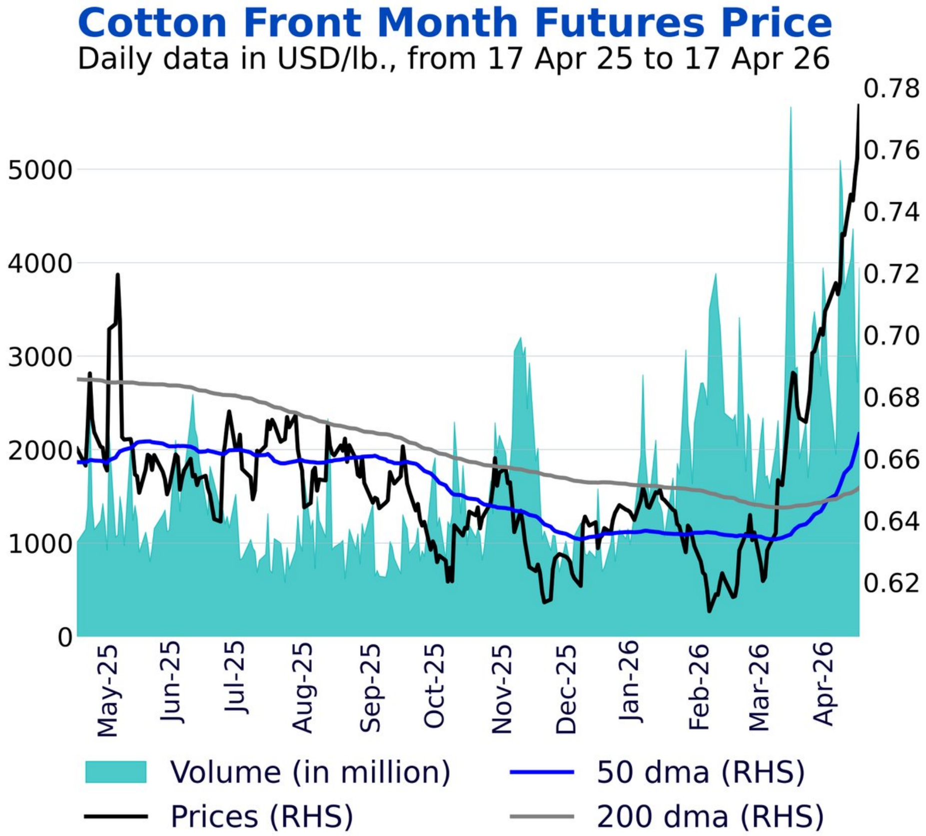
Cotton has staged a sharp recovery, reaching a two-year high above 80 US cents per pound, a level that demands attention from commodity investors. The move reflects a confluence of converging forces: a structural shift from surplus to deficit, geopolitically driven input cost pressures, and a futures curve that is beginning to reward long holders.

Figure 1: Cotton front month futures price



Source: Bloomberg Finance L.P., WisdomTree from 17 April 2025 to 17 April 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

The Iran war and the polyester channel

One of the more underappreciated drivers of cotton's recent move is the indirect demand effect from the Iran conflict. The closure of the Strait of Hormuz, which carries more than 20% of global oil flows, has pushed Brent crude above US$100/bbl for the first time since 20221. Petroleum product markets (diesel, gasoline, gasoil) are even tighter than crude, reflecting the concentrated impact of disrupted Middle Eastern supply chains.

This matters for cotton because polyester, cotton's primary synthetic substitute in the textile industry, is a petrochemical derivative. As energy prices rise, polyester production costs increase, making cotton relatively more competitive on price. Textile mills and apparel manufacturers facing elevated polyester input costs have an economic incentive to blend in more natural fibre or switch entirely. This substitution dynamic creates a demand tailwind for cotton that is directly linked to energy market conditions and one that could prove durable if the geopolitical situation remains unresolved.

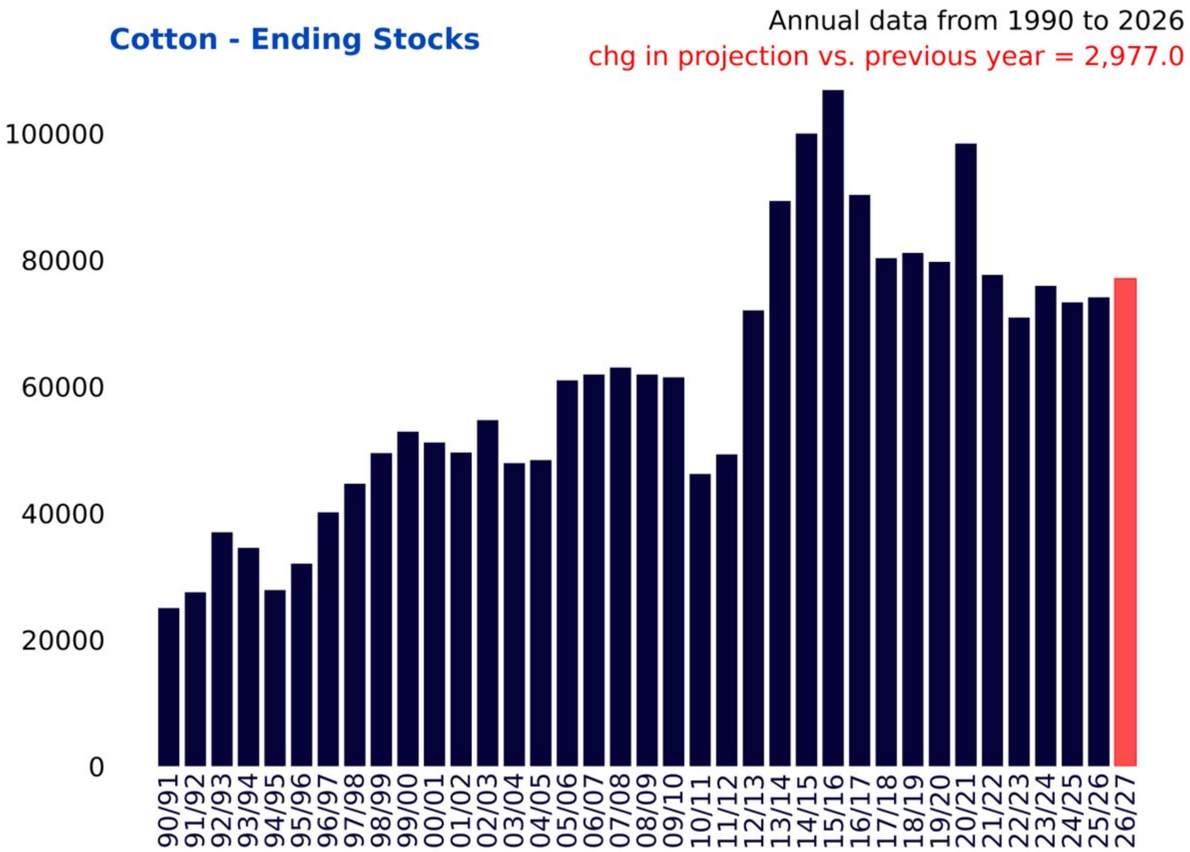
The inventory inflection point

For much of the past two years, cotton markets operated under the weight of a global surplus, with elevated global ending stocks capping price recovery. According to the International Cotton Advisory Committee

(ICAC), global cotton production is expected to decline by approximately 4% in the 2025/26 crop year, while global consumption remains broadly stable. The supply-side deterioration is geographically concentrated.

China, the world's largest cotton consumer and a significant producer, is expected to see output fall by around 10%, a decline driven by reduced planted acreage and unfavourable growing conditions. Critically, Chinese demand is expected to hold steady at prior-year levels, making Beijing a net draw on global supply rather than a relief valve. India, which accounts for roughly a quarter of global cotton production, is expected to see neither consumption nor production change materially, providing little offset to losses elsewhere.

Figure 2: Cotton inventories



Source: USDA, Bloomberg, WisdomTree. Note: Ending stocks, inventories and stock to use data from the USDA are annual with monthly update of 2026/2027 estimates. **Historical performance is not an indication of future performance and any investments may go down in value.**

In the United States, the picture is more nuanced. USDA data points to a roughly 4% increase in planted acreage to 9.6mn acres, a modest recovery but one that remains well below the 11.2mn acres planted in 2024. More importantly, the supply outlook faces further upside risks from climate and input cost headwinds, which could prevent planted acreage from translating cleanly into harvested yield. As inventories decline, the buffer that has historically absorbed demand shocks becomes thinner.

El Nino and fertiliser constraints: weather risk premia re-entering the market

The US Climate Prediction Centre (CPC) has estimated a 61% probability of El Niño conditions developing between May and July 2026. El Niño episodes are associated with irregular precipitation patterns across cotton-growing regions, historically linked to drought conditions in parts of the US South and disrupted monsoon dynamics in South Asia.

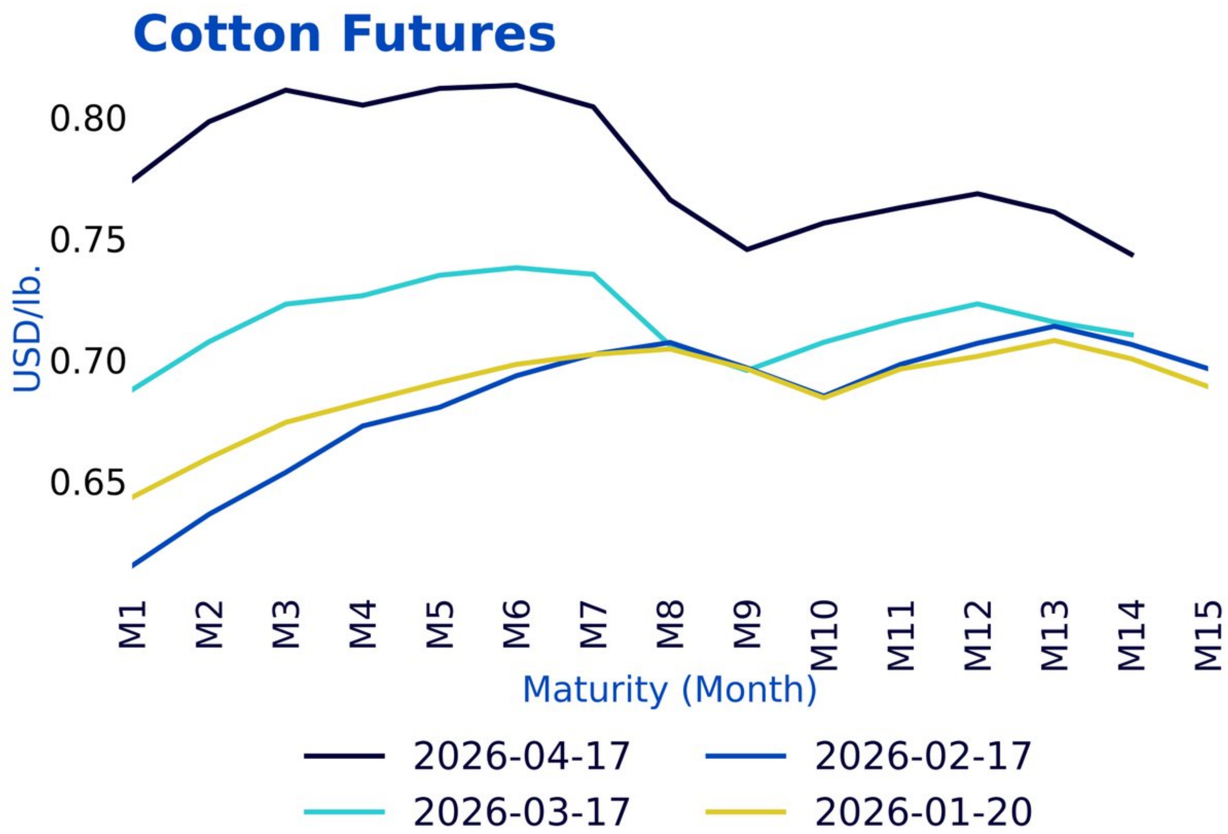
Compounding this, limited fertilizer availability, itself partly a consequence of broader geopolitical disruption, could constrain crop yields even where acreage is maintained. These supply-side vulnerabilities introduce a weather risk premium that has been largely absent from cotton pricing over the past 18 months. Climate risk repricing in agricultural commodities often occurs rapidly and non-linearly.

Futures curve structure

For investors accessing cotton through exchange-traded products, the shape of the futures curve is as important as the spot price direction. Cotton has historically spent extended periods in contango, a forward curve where later-dated contracts trade at a premium to near-dated contracts, which erodes returns for long investors through negative roll yield as contracts are periodically rolled forward.

The current roll yield picture for cotton warrants careful interpretation. The front month of the cotton futures curve is currently yielding a negative roll of 3%, indicating the curve remains in contango.

Figure 3: Curve dynamics cotton futures



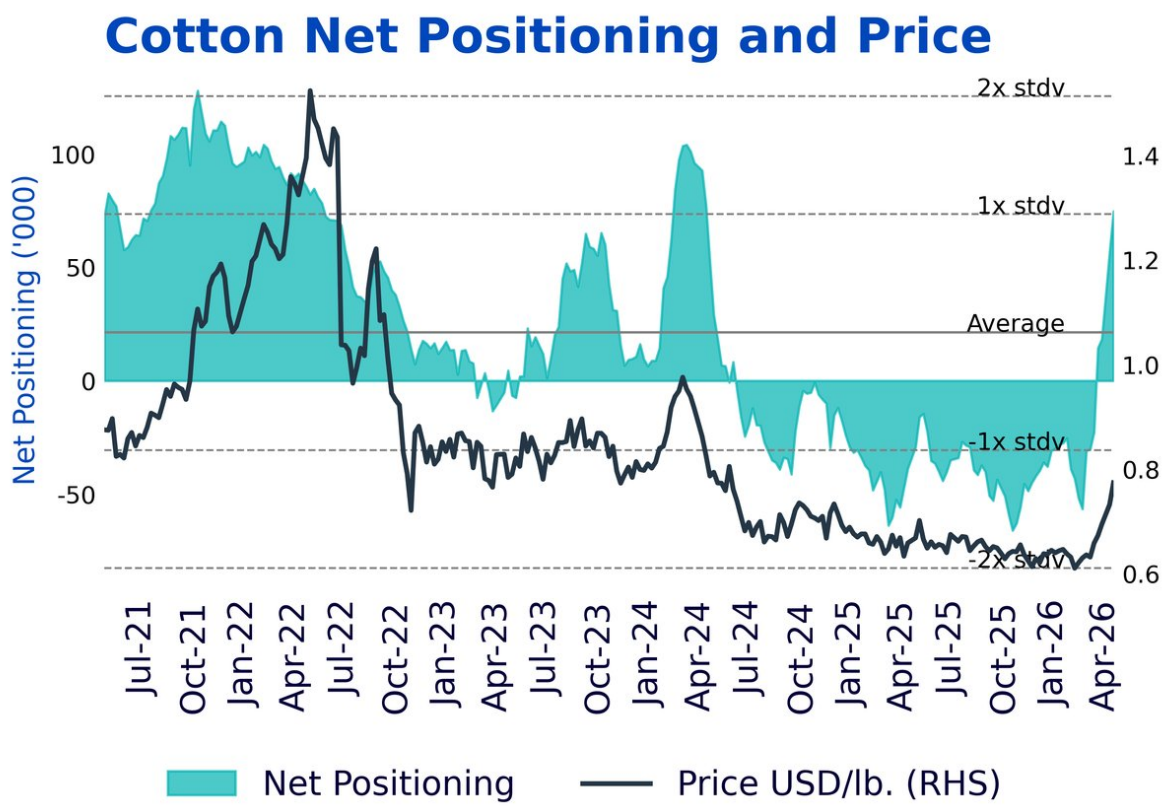
Source: Bloomberg, WisdomTree as of 17 April 2026. **Historical performance is not an indication of future performance and any investments may go down in value.**

This is a constraint on total return that investors should not overlook, even as spot prices have 12.5% over the prior month and now trade 19% above the 200-day moving average. The negative carry acts as a drag on the overall return profile for the futures-based Exchange Traded Contract holders. However, the key question remains whether tightening nearby supply fundamentals will compress this spread over the coming months as the likelihood of the market transitioning from surplus to deficit is increasing.

Investor positioning: space for renewed length

The directional signal on positioning is unambiguous. According to the latest Commodity Futures Trading Commission (CFTC) Commitments of Traders data, net speculative positioning in cotton stands at 74,740 contracts, more than three times the five-year average of 21,768 contracts. This marks a dramatic reversal from the -66,025 net short position recorded six months ago and -32,649 one year ago. Last month, net speculative positioning in cotton rose by 417% marking the single largest positioning surge across the entire commodity complex tracked by WisdomTree2.

Figure 4: Net speculative positioning cotton



Source: Bloomberg Finance L.P., WisdomTree from 17 April 2021 to 17 April 2026. Note: positioning in '000 contracts. Standard deviation based on 5-year average CFTC non-commercial net positioning. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Investment access

For professional investors seeking direct, liquid exposure to cotton price dynamics, the WisdomTree Cotton ETC (Ticker: COTN) provides single-commodity access to ICE Cotton No. 2 futures. designed to provide investors with a total return exposure to Cotton futures contracts. The ETC aims to replicate the Bloomberg Commodity Cotton Subindex 4W Total Return Index (BCOMCT4T) by tracking the Bloomberg Cotton Sub Excess Return Index, making it a comprehensive vehicle for expressing a view on both the directional price thesis and the evolving carry dynamics.

Investors can also invest in the WisdomTree Cotton – EUR Daily Hedged ETC (Ticker: ECTN) which is a fully collateralised UCITS eligible Exchange Traded Commodity (ETC) designed to provide investors with a total return exposure to cotton futures contracts currency hedged in EUR.

Unlike broader agricultural or soft commodity indices, COTN and ECTN offers pure, undiluted exposure to cotton without the dilution from other uncorrelated agricultural positions.

1 Bloomberg Finance L.P. as of 23 April 2026

2 Bloomberg Finance L.P., WisdomTree from 17 March 2026 to 17 April 2026

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