Thompson On Cotton: Don't Wait Too Long

March 21, 2019

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Days of sunshine with tractors stirring up dust are enough to knock the rust right off your soul. You can sense it when talking to growers, there is a lift in their voices and a chuckle or two now and then.

That's a welcomed feeling after a grueling and depressing past several months. Dissolved of the hangover of 2018, sights are now set on the bountifulness a new crop can bring. Resiliency has and always will be the cornerstone of our industry – something I revere most about all those involved with it.

Even the market, now trading in a range three to four cents higher than its lows of early February, is lending itself to renewed optimism. These recent advances have come despite continued delays in the China–U.S. trade negotiations.

A meeting once slated for March between the two heads of states to finally resolve this issue, is now expected to be late April at the earliest. The U.S. remains adamant that China makes concessions on intellectual property rights, even if that means holding agricultural commodities hostage.

China’s President Xi will not meet to sign an agreement until all facets have been agreed upon for fear of being upstaged if President Trump walked away as he did with the Rocket Man in Korea.

What Accounts For Market’s Positive Mood?

So, one might ask in the absence of a trade settlement, why is the market reacting so favorably? Presently, it appears due to spec short covering.

In recent weeks they have begun to liquidate, albeit slightly, the large short position they had amassed. This change of heart has been prompted by technical indicators that are slowly turning bullish.

One example: the May, July and December contracts have now closed above their 50-day moving averages for six consecutive trading sessions. When you consider specs late to the party have only accumulated small profits, it’s easy to see how they can be spooked out of the market at any sign of a developing uptrend.

This is something we’re most likely seeing now. The May futures contract seems to be facing resistance at 76 cents. However, upon continued favorable news a snowball effect could occur within the spec community, causing greater liquidation.

Having such significant buying power, they could be the driving force necessary to push this market to higher levels. If so, the December contract is sure to follow though at a slower pace until it gets a life of its own.

Upside Potential Coupled With Risk

I’m writing this ahead of tomorrow’s weekly export sales report, another indicator to watch closely over the next several weeks. If it remains supportive to demand, expect further spec covering.

Whether you have unfixed old crop or looking for a place to begin selling new crop, recent market action is providing improved pricing opportunities. The December contract is now trading near 75 cents, a recommended place to begin pricing a portion of new crop especially for someone with large volume.

With a trade agreement looming, specs doing an about face, and the charts on our side, there is significant upside potential for prices.

Let me close with this advice, anyone considering forward contracting should do so now by at least locking in a basis and have bales on call to price later. Currently, merchant contracts are carrying a basis weaker than we’ve come to expect.

But a word of warning, don’t look for the basis to improve but instead possibly weaken, especially if the market does what we hope and threatens the 80’s. In my opinion, the basis risk is much greater than that of the futures price.

Don’t hurt yourself waiting on higher prices to act. As things unfold prices could move rather quickly, so be prepared to take advantage by having bales on call from which you can pull the trigger at a moment’s notice.

Until next time.