# Thompson on Cotton: Back to 2018 Levels, Can We Go Higher?

August 2, 2021
By Jeff Thompson, Autauga Quality Cotton


As you recall, we said December futures needed a close above 90 cents to further ignite this advance. Last week, it did just that trading as high as 91 cents while hitting a settlement high of 90.56. Even though Friday brought a slight selloff, consider this healthy and in keeping with the orderly trading fashion this market has followed for months.

Closing the week at 89.39, new crop prices are within five and half cents of its previous high in June 2018. This near retracement, though three years in the making, is no small feat when you consider the dramatic string of events occurring over this span of time.

A heated trade war with China, a deadly pandemic, global economic shutdowns, one of the most contentious Presidential elections in recent history, and a divided populace, to list but a few.

Collective thinking had the market going to a dollar the last time prices were at these lofty levels. With that in mind, let’s look at the similarities going into the 2018 crop when compared to 2021. Foremost, in both instances, consumption was projected to exceed production.

In 2018, global consumption was predicted to increase 3.9 percent to a record high of 127 million bales as a growing world economy drove mill use around the globe. Sound familiar? In addition, both global and U.S. ending stocks were estimated to decline significantly.

Finally, as important as they are, the spec community was long 9.7 million bales in 2018 while they currently hold a 6.4 million bale long position fully capable of additional buying. Though maybe not a mirrored image, these two years are very similar, nonetheless.

Thursday’s weak export report did nothing to excite the market. New crop sales of just under 200,000 bales were down from the previous week, though still the second highest of the season. When the shift is made to the new marketing season on August 1, these numbers should gain more clarity as the volume of sales carried over is determined.

To our good fortune, with demand showing little signs of declining, these numbers should soon begin to improve. We’ve seen a host of different countries buying U.S. cotton over the past several weeks, which further supports strong global demand. This is ever more encouraging since a major trading partner of ours has been inconspicuously absent.

It’s readily known China must increase cotton imports to offset their tainted Xinjiang province cotton. They’ve even hinted at expanding import quotas to accommodate for this. Therefore, one must ask why they haven’t been buyers of U.S. new crop.

It’s unknown whether recent chilled relations between the two countries is playing a role, only time will tell.

However, we do know they have not lived up to their previous trade agreement commitments and the current administration has taken no steps to force their hand. We will watch this closely for it could impact U.S. export sales.

As global economies continue to strengthen, so does the demand for textile products. In doing their part domestically, the Federal Reserve last week announced they would leave interest rates near zero and continue buying bonds so to not impede recovery efforts.

As a result of previous government stimulus, our GDP grew at an annual rate of 6.5 percent in the second quarter fueled by consumer spending which jumped to an annual rate of 11.8 percent, the second biggest growth spurt since 1952. There is growing concern that a surge in Covid’s Delta variant might curtail this over the coming months.

However, now that businesses and consumers have learned to adapt, governments understand the perils of shutdowns, and vaccines are present where they weren’t before; therefore, any long-term adverse effect should be minimal.

Where to from here? Analysts are saying with a close above 90 the next resistance level will be around 92.50 with support at 90 to 87.50. Therefore, expect the market to trade within this range awaiting things to unfold.

Though still late, the U.S. crop has improved in the past few weeks as rain showers have been less numerous, and temperatures have returned to their normal oppressive highs. As for the spec community, CFTC report as of last Tuesday’s close showed 4,945 contracts were added to their net long position which now stands at 6.4 million bales. To prolong this rally, we need these traders to remain content being long the market.