Thompson on Cotton: Strong Demand Should See Renewed Highs

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Another year has come and gone at breakneck speed. Like its predecessor, 2021 was far from uneventful. An overheated economy drove consumer prices to their highest level in almost four decades.

Valiant efforts at corralling Covid were dealt a serious blow as the newly identified Omicron variant lent uncertainty to recovery efforts while cash laden consumers emerged from quarantine looking to satisfy pent up demand for goods and services of all kinds. The result was a supply chain disruption the likes of which has never been seen.

This newfound demand fueled markets into producing huge returns. The S & P 500 made new daily highs on 71 different occasions while posting an annual return of 26.89 percent. The Dow and Nasdaq followed closely behind with gains on the year of 18.73 percent and 21.39 percent, respectively.

As you would expect, commodity markets did the same. Cotton continued its bull run which is now in its twentieth month. On the year, cotton prices have advanced over 34 cents but going back to the bull's inception prices are up an astounding 61 cents. We saw this trend continue last week with March futures advancing 348 points and December up 194.

Posting gains in a week most traders are repositioning themselves for the upcoming year reflects an air of bullishness. The question now becomes can this momentum be sustained when a full house of traders return next week from the holidays.

The demand for cotton continues to be a driving force as export sales of 233, 700 bales were made to 17 different countries last week. Though the volume of sales declined from previous weeks, we must remind ourselves it was a holiday.

Shipments hitting a 12-week high of 161,000 bales was the biggest positive. Though a far cry from the 381,000 bales a week needed to meet the export estimate, it's hopefully a sign the supply chain logjam may be improving.

This week also saw a significant increase in the market's open interest. This coupled with a three-cent gain in the market is a good indication the spec community is buying once again. The extent of which will not be known until Monday afternoon when the holiday delayed Commitment of Traders report is released.

However, it's a good bet they've increased their net long position from the current seven million bales. In addition, a sizeable volume of trade short covering is still to come providing market support as on call sales are priced. Currently, on call sales total 12 million bales, which must be fixed between now and July, and, better yet, five million are based March leaving only six weeks until expiration.

Where to from here? Shifting higher, the market has found a new trading range between 112 to 116. The high for the

March futures contract is 116.92 set in mid-November while intraday trading reached a high of 118.50. Given strong demand, renewed spec bullishness, and trade short covering, there is good reason to believe we will see a retracement to these highs, and likely beyond, over the next few weeks.

That is barring any adverse outside influences. New crop prices will continue to trail that of current crop. Nevertheless, they will be pulled along slowly until it gets a life of its own when planting intentions become better known. In the meantime, mid 90’s would be an excellent target level to begin pricing a portion of your 2022 crop. Rarely have we been given such an opportunity before seed is put in the ground.