

Thompson On Cotton: Trading Off Fundamentals

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By Jeff Thompson, Autauga Quality Cotton



For the past three months cotton prices have traded in a range from 85 to 90 cents. Last week proved no exception. After prices fell to 85 cents, last week mill fixations and spec buying drove prices to a three-week high of 89.89. Unfortunately, ninety cents again proved insurmountable as grower hedging forced prices lower closing Friday at 87.15 for a weekly gain of 124 points. Such an advance with a government shutdown all but certain was very impressive.

This is further proof the market is trading off fundamentals. It's very likely 90 cents will be challenged again as early harvest results reflect less than expected yields. Look for USDA to further reduce our domestic crop in its next WASDE report, as well as that of foreign production in some countries. Nevertheless, soft demand and grower pricing will serve to stifle any significant price advances.

Last week's export sales were once again disappointing. Current crop sales of 55,300 bales were down 48 percent from last week's dismal numbers. This coupled with shipments of only 159,000 bales speaks volumes for the lack

of demand. As a result, domestic textile manufacturers are resorting to closing some spinning facilities. Currently, total sales commitments for the U.S. are 2.1 million bales below that of last year. Similarly, shipments are 2.4 million bales behind the pace of last year.

On a positive note, the U.S. Senate over the weekend passed a short-term funding bill by a vote of 88 to 9 that temporarily avoids a government shutdown. However, in typical D.C. fashion this is simply kicking the can down the road because it expires in 45 days when they will be back at it again. We will see how markets react to this in the days ahead.

Where to from here? Barring anything unforeseen look for prices to move back toward 85 cents in this week's trading. Closing Friday only 13 points off the low of its 227-point daily trading range suggests further declines are in the cards. The good news is that with a crop shrinking, as this one is, it's difficult to see prices falling below 85 cents at present. This allows those with cotton yet priced to wait on another run to 90 cents at minimal risk. Nonetheless, any significant advance beyond that lofty level will be pressured by soft demand and macroeconomic forces.