Thompson on Cotton: Still Strong Potential for Dec. Contracts

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Never has a short trading week been more welcomed. Like an April Fools prank gone bad, the market seesawed its way to another losing week, the fifth consecutive week.

As before, the front month took the brunt of it with May giving up nearly two and half cents on the week while finding itself 17 cents below its high of five weeks ago. December futures lost less than a cent on the week but has fallen 11 cents over the five-week period.

Disconcertingly, this is occurring with cotton supplies tightening, the economy improving, drought conditions worsening, and the virus waning. Ever more reason we should see December futures regain a foothold and pull itself back up.

Despite a great deal of noise outside of cotton, this past week's market activity was heavily influenced by fundamentals. The long-awaited USDA planting intentions report was released on Wednesday followed by weekly exports sales numbers on Thursday. The government report revealed the U.S. intends to plant 12 million acres of cotton in 2021.

This came as no surprise and deemed market neutral as it was in line with industry opinion. Using historical yield and abandonment data, this would equate to a crop around 20.4 million bales. However, when applying last year's data, which seems more realistic, the crop could fall to 17.5 million bales. Looking at current consumption, either could be easily absorbed.

There was a surprise in the grain complex, however, where both corn and soybean intended planted acres were two million acres below their industry's estimates. As a result, these commodities traded limit up on the day with cotton chasing them. This competition for acreage is another supporting factor for new crop cotton prices.

Hoping for another week of excellent export sales to keep the rally going resulted in disappointment. Net current crop sales were 82,720 bales after 160,000 bales of cancellations. This was the worst week of sales in the marketing year.

This might be alarming considering it came at a time when prices were declining, but keep in mind there is very little current crop remaining to be sold, so lower weekly sales numbers can be expected and not necessarily seen as negative.

More importantly, shipments of 339,000 bales remain on pace to meet the export estimate. At present, 15.7 million bales have been committed to sales out of the 15.5 million estimates while 10.2 million have been shipped. There is a good chance USDA will revise the above estimate in its April WASDE report further improving cotton's balance sheet.

The headlines outside of cotton continue to support a recovering economy. There were 916,000 jobs added to the labor force in March exceeding expectations of only 735,000. This was the biggest monthly gain since last August lowering the unemployment rate for the third consecutive month to 6 percent.

With more and more of the population receiving Covid vaccinations and pockets stuffed with stimulus money, their confidence is building as seen in the consumer confidence index rising to 109.7 from 90.4 last month. Though still below the pre-pandemic level of 137.6, it is a good indication we are on the cusp of renewed consumer spending.

Where to from here? December is slowly becoming the cover month as seen in the May/December spread narrowing to only four points compared to 603 points five weeks ago.

The market will be closely watching weather conditions in the Southwest and how this crop gets started. It will trade off the numbers given to us last week until USDA's planted acres report is issued in late May. The underlying support for new crop prices is just too strong to keep December down for long.

Although significant advances may not be seen until after planting, tighter inventories could provide additional price momentum prior to harvest. Remember that patience is a virtue.