Thompson on Cotton: Music to the Market's Ears

September 5, 2023
By Jeff Thompson, Autauga Quality Cotton

Last week was a case of bad news for some was good news to others. Hurricane Idalia was expected to take her Category 3 winds east of all but a small portion of the Georgia crop. Instead, upon landfall it veered slightly northward damaging a much larger expanse of the state's crop. While abroad, China's economy has slumped to the point its government announced Friday monetary policies would be instituted in an effort to bolster it. The combination of a shrinking crop coupled with a potential boost in demand was music to the market's ears. As a result, December futures hit ninety cents for the first time since August of last year. Nonetheless, pressure from grower selling forced it to close the week slightly below 89.95 for a gain of 264 points.

Overall U.S. crop conditions were unchanged in last week's report. However, a closer look by state, showed declines in Al, Ga, NC, and Ok. This week expect further declines following the aftermath of Idalia. In Georgia high winds and excessive rain devastated cotton east of I-75, while that to the west went unscathed actually benefiting from the rain. Early maturing cotton, of which there was a great deal, was hardest hit because it had the most open bolls. Losses here could top 300 to 400 pounds an acre. It will be weeks before we know the true extent of the damage, but this area desperately needs sunshine to minimize further loss. Do not think for a minute this will be our last threatening storm. Invest-95L now just off the coast of Africa has been given an 80 percent chance of development over the next seven days. Way too soon to determine its exact course but its current heading is for the Caribbean where it could pose a threat.

As mentioned, in past market reviews, China's economy is in a state of total disorder. Heavily dependent on exports, China has seen them drastically decline as global inflation limits the purchasing power of other countries. Their previous economic stimulus, debt fueled investment in infrastructure, has peaked. Therefore, their remaining source of demand is household consumption wherein they must convince citizens to spend rather than save. In an effort to do so, five of the country's largest banks cut interest rates on Friday. While Beijing lifted home purchasing restrictions for the first time since 2021. Seeing this as potentially expanding Chinese imports, including cotton, markets welcomed the news. However, high unemployment could remain an obstacle to these efforts.

Where to from here? Last week's breakout, though certainly welcomed, was bittersweet coming at the expense of our neighbors. Managed funds were once again net buyers as they liquidated shorts and better yet established new longs. As of Tuesday, they maintained a net long position of 3.8 million bales, their strongest position since September 2022. As expected, ninety cents was the trigger point for grower pricing as seen by a large volume of new forward contracts on Friday. Demand is still lacking as last week's export sales of 66,000 bales reflects. Until this improves advances will be limited. Thus, take advantage of this breakout as a return to eighty-five cents, the midpoint of our recent trading range, is more likely in the coming days.