Thompson on Cotton: Cotton Fundamentals Take Center Stage

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Having grown accustomed to huge daily price swings it was heartening to see cotton trade in a more orderly fashion last week. Though March futures did give up 146 points it traded within a narrow range of 290 points. A high of 87.40 was all it could muster before closing Friday at 85.43. New crop futures traded in a similar range of 262 points losing only half a cent before closing the week at 85.15.

Macroeconomics dominated the news cycle while defying all logic. In Econ 101, you are taught rising interest rates over time will slow an economy, decrease productivity resulting in fewer jobs, thus higher unemployment. The Fed on Wednesday, sensing previous rate hikes were working to slow inflation, announced another but smaller rate increase. This came as no surprise but as so often happens it’s their comments afterwards markets most react to. Chairman

Powell was quick to warn additional interest rate hikes will be necessary throughout the coming year. Inflated prices have yet to be defeated so spare him a high five for now. Unfortunately a strengthening Dollar, as a result, will encumber exports sales.

If the Fed was hawkish on Wednesday, Friday's job report did nothing to change their sentiment. Despite recent tech company layoffs, the U.S. payroll added 517,000 jobs in January nearly tripling expectations. The jobless rate fell to 3.4 percent, the lowest since May of 1969. These surprising numbers dampen any hope rate increases will end soon, however it does ease fears of an impending recession. A red-hot labor market following a jump in interest rates from 0 to 4.5 percent contradicts all economic logic and creates even more uncertainty which markets frown upon. Many economists consider labor a lagging indicator, thus it appears consumers haven't tasted the worst of medicine yet.

Export sales last week held their own but were down slightly from the previous week at 179,360 bales. A positive takeaway, however, was China accounted for over two-thirds of net sales even as they were observing a New Year holiday. In addition, shipments, though still below expectations, were much improved over the previous week.

Where to from here? Dominated by economic news last week, this week cotton fundamentals take center stage. On Wednesday the monthly WASDE report will be released, followed by export sales on Thursday, and Sunday the National Cotton Council will share results from their 2023 planting intentions survey. Data from all three will surely influence cotton prices so don't expect a repeat of last week's uneventful trading. The much-anticipated survey results will give new crop futures a life of its own as average abandonment and historical yields will be applied to give traders their first production estimate of the new crop year.

As for the all-important managed funds/specs, Friday's CFTC report was unavailable as a glitch in the reporting system failed to capture some activity. It's uncertain as to when this information will be made known. However, considering last week’s narrow trading it’s doubtful a major move was made in either direction. Anyone with cotton still on call based March has until Friday the 17th in which to act. With the market no longer inverted and the March-May spread currently at 60 points, take advantage of upward eighty prices to fix then focus on new crop.