Thompson On Cotton: Market Pulled Between Good And Bad News

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As a writer, I firmly believe words are meaningful. Last week's market review is testament to this. The mere mention of 80-cent cotton drew tremendous response from readers. Not to throw cold water on this excitement, but the anticipated follow-through from the previous week's outstanding export sales didn't happen.

Rather than challenge resistance at 74 cents, the market chose to hug its support closing at 71.57, down a cent and a half on the week.

Short and simple, the market has stalled as it awaits a truer indication of demand. With both positive and negative influences present, it seems to sway with the news of the day.

Seen as extended in the eyes of traders, an eight-month rally requires even greater momentum to advance as it ages.

Nevertheless, the positives include a strong equity market, a declining U.S. Dollar, and potential Covid vaccines on the horizon.

On the other hand, negative effects include the recent surge in Covid cases and related deaths, a stalling economy, and a tiring consumer.

The Dow is coming off its best month since 1987. Moreover, the Dow, S&P 500, and NASDAQ all closed at record highs last week, something not seen since January of 2018. Astonishingly, this all occurred as newly released unemployment figures reflect a stalling economy. In November, only 245,000 jobs were added compared to October's 640,000 new jobs.

The unemployment rate now stands at 6.7 percent, though worse in some sectors such as restaurant services at 13.8 percent. There are 9.8 million fewer people currently employed than before Covid. Undoubtedly, the stock market, which the cotton market mirrors closely, is betting on the comeback and the hope that potential vaccines will right the world.

However, as the rate of new Covid cases set daily records and the dark days of winter are fast approaching, expect things to get worse before they get better. Astute medical minds say it may be late 2021 before this situation improves significantly.

A Big Week For Sales To China

The U.S. Dollar continues its precipitous decline, finding itself now at a two-year low. Don't look for a reversal anytime soon as bipartisan efforts in Congress will certainly lead to an additional stimulus package.

With a weak domestic currency encouraging export sales, restoring consumer confidence would be a tremendous shot in the arm for the cotton market.

Reflective of this, weekly export sales were respectable at over 307,000 bales when combined with new crop. China was the primary buyer purchasing 133,000 bales followed by Pakistan and Vietnam buying 44,500 and 48,000, respectively.

This was the second biggest sales week of the marketing year for China. Sales commitments now stand at 9.8 million bales versus 10.4 million currently last year. Though trailing last year's pace, today's sales are the second highest total since 2010-11.

Clearly, the market is weighing a lot of contradictory information. So, it isn't surprising to find it treading water in a turbulent sea. The first passing ship to possibly throw it a lifeline may come Thursday when the USDA monthly report is issued.

Their previous numbers have been greatly disputed by the trade and those in the field. Expectations are high that these will be trued up in the new release.

The estimated large volume of ending stocks hangs over this market like an anvil. Any adjustments made by the USDA that lowers these stocks could spark another run at 74 cents. In addition to price, the basis being offered remains weak.

Surprisingly, given the quality issues, even the basis for high grades is weak when compared to that of previous years. This is most likely an indication mills are being cautious, as well, while trying to make sense of these same conflicting influences.

As this tug of war between positive and negative news continues, expect the market to linger in a narrow trading range, at least short term.