Thompson on Cotton: The Coil Tightens

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Coming into the week there was hope of a follow-through on the previous week's strong finish. Failing to do so, despite some mid-week price action, it traded all but unchanged. May futures did hit a high of 86.25 before closing at 84.17, down 73 points. In tow, new crop futures settled at 84.26 down only six points. Renewed grower selling, disappointing export sales, and beleaguered economic news stifled any chance of the market moving higher. So instead, the coil tightens as prices further consolidate in a trading range that is now going on its fifth month.

Export sales declined considerably from the previous week's two-year high of 430,000 bales. A failure to repeat dashed hopes of renewed demand. Net sales for the current crop totaled 171,800 bales, down sixty percent from the week before. This accounted for cancellations of over 77,000 bales of which almost all were by Pakistan. New crop sales totaled

97,200 bales for the second-best week of the marketing year. However, before getting too excited, it appears this was largely Pakistan's cancellations simply being rolled to next year. Viewing these numbers as another sign of weak demand, the market fell nearly two hundred points on the day.

There was an up day mid-week on word China might be shaking off the impact of their Covid restrictions sooner than expected. Chinese manufacturing rose at its fastest pace in more than a decade while export orders expanded for the first time in two years. As for the economy, it is a case of good news is bad news. Global economies are showing signs of strength despite higher borrowing costs and elevated prices for food and energy. As a result, this is likely to persuade Central Bankers to raise interest rates more than anticipated. The longer it takes for these economies to cool the deeper a recession we are likely to experience. Higher fuel and food prices have already begun to shift consumer buying patterns. A Macy's executive said shoppers were pulling back on purchases of apparel and electronics in recent months. Having experienced declining sales in 2022, they expect the same in 2023 as stubborn inflation and other economic issues weigh on consumers. If this is not enough to highlight the financial burdens facing consumers, an even more telling indicator is a significant decline in beer sales. Often thought to be immune to inflation, global beer sales declined by 0.6 percent in the last three months of 2022. Closer to home, North American sales fell a whopping 8.6 percent. If a beer drinker is willing to forego a Bud Light for gas and food, their purchase of a new T-shirt or pair of jeans is out of the question.

Where to from here? It is obvious our bewildered market is in desperate need of a clearer picture of supply and demand before it can break out of its trading range. On Wednesday, the monthly WASDE report will be issued, which might shed some light. Although, historical changes in March estimates are rarely seen. The first hint will come with planted acreage. Until recently, it was difficult to find a grower who would admit to significantly reducing their cotton acreage. As planting season fast approaches, especially that of corn, growers are being forced to decide. With cotton showing no signs of trying to buy acres, we are hearing of more significant acreage reductions. Then it becomes a weather market as to harvested acres and yield, especially in the Southwest where drought conditions continue. In an effort to be optimistic, it is here we see a glimmer of hope. If planted acres fall toward ten million and demand improves over the course of the season better prices at harvest are very possible. However, with the financial burden on consumers likely to get worse before getting better, not to mention mounting geopolitical pressures, this optimist is having a tough time staying so.