Thompson o Cotton: Pent Up Demand Possible?

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After the previous week's significant selloff, we were hoping last week's activity would confirm this was only a needed correction in an overbought market. Early on, this appeared to be the case, with the market retracing nearly 50% of those losses. That was quite an accomplishment, considering all the outside noise, including a hotly contested presidential election, a rise in Covid cases and a host of other uncertainties.

However, on Friday, nervousness on the part of the specs led to another round of liquidation, which erased earlier gains, although the market lost a mere 30 points on the week.

Current Influences

With the uptrend channel remaining intact, look for a break of either 70.94 on the top end or 68.06 on the bottom side to incite further action by the specs and funds.

Of course, the big news this past week concerned the Presidential election. After what seemed to be the longest vote count in history, its apparent the country remains soundly divided on policy.

However, thanks to the wisdom of our Founding Fathers in the way they structured the system, the government will be divided too. President-Elect Biden, a moderate Democrat, should find it difficult to pass his more aggressive plans through a Republican Senate.

This, and a less volatile administration, should calm the waters of commerce a bit.

Just a point to ponder with 70 million Americans upset with the election results, there is no city on fire, no broken storefront glass, no riots, no antagonizing of the police and no hysterical breakdowns. Does this tell you anything?

More worrisome is the resurgence in Covid cases, both in the U.S. and abroad. This has brought on further economic restrictions in several countries, including here at home. As of now, these are looser than earlier in the year, which will hopefully minimize economic damage.

But all this will be closely watched because our new administration may be quicker to pull the trigger. If so, this could pose a serious threat to the demand for cotton, not to mention the economy as a whole.

Other Shoes To Drop

On Tuesday, the USDA will release its monthly S/D numbers. Already trading a smaller crop, the market will be looking for confirmation in this report.

As for U.S. production, something closer to 16 million bales is expected. Anything higher will be viewed unfavorable by the market.

The latest crop conditions report shows very little progress was made in harvesting from the previous week. With almost half of the U.S. crop still on the stalk and weather conditions less than ideal, an even smaller crop is possible.

Tropical Depression Eta is still wandering around the Caribbean like a lost child but is expected to threaten the upper Gulf Coast at some point this week.

On the consumption side, last week's export sales were disappointing. Though gross sales exceeded 250,000 bales, they were offset by 119,000 bales of cancellations, the largest of which was Bangladesh, which canceled 44,000 bales or 10% of its outstanding sales.

China cancelled 41,000 bales, with 1.9 million sales still outstanding. China now represents a third of the total U.S. outstanding sales. At present, both sales and shipments exceed their four-year average.

Pent Up Demand Possible?

We said last week, spec and fund activity will greatly influence prices short term. The latest commitment of trader's report had them reducing their long position by a 600,000-bale equivalent. But since April 2020, the funds reduce their long position every six to eight weeks, only to resume their trend of adding to their long position.

All of this said, look for prices to stay within the uptrend channel as top side resistance remains formidable at least during harvest after which, as some of the outside noise subsides, pent up demand could force prices higher.

Also, for those who have cotton on call-based December, be aware there are only a few trading sessions left before first notice day.

With limited upside potential short term, prices around 70 cents should be viewed as a good target. As for traders, March is becoming the cover month as seen by its advance versus December.

This will only work to increase the December-March spread and in turn the cost to roll, which is now around 170 points.