Thompson On Cotton: Market Waits For Harvest Dust To Settle

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Since early September, cotton prices have managed to hold steady above 60 cents. This is surprising, considering the lack of bullish news and weak fundamentals. Nevertheless, more than once the market has tried to move higher on spec short covering. Each attempt, though was met by trade selling as growers viewed these 2- to 3-cent rallies as pricing opportunities.

Consequently, it has closed within a 231-point spread for almost a month.

This tells us the current market is searching for a little direction. It just might run into some steering currents later this week. On Thursday, two news worthy events will unfold.

First and maybe most influential will be USDA's release of the October WASDE report. Always wary of their production and consumption numbers this report is looked upon with trepidation each month.

Historically, few changes are ever seen in October's figures as USDA usually takes a wait-and-see attitude during harvest. Some suggest U.S. production could be lowered due to uncertainties with the Southwest crop.

However, record production in the Southeast and Midsouth will work to offset any declines in the West. This is my 42nd crop, and never have I seen such phenomenal yields in the Southeast.

A testament to genetics, weather and the tireless efforts of producers. As for consumption, it's very unlikely USDA will improve these numbers. Recent export sales reports have been lackluster at best, the only consolation being cancellations have remained minimal.

Talks With China: Fodder For The Eternal Optimists

Also, on Thursday, trade talks with China are scheduled to resume. I think this gets the attention of only the eternal optimists. Others of us, the market included, have turned a deaf ear to negotiations after sixteen months of high expectations and no resolutions. Furthermore, actions taken by our administration on the eve of the talks doesn't bode well for negotiations.

Earlier this week, the U.S. blacklisted 28 Chinese companies because of their involvement in human rights violations. In addition, there have been discussions we may also restrict cash flows into China from U.S. government pension funds.

In response, China's lead negotiator, Vice Premier Liu He, said he will not make the trip as a part of the Chinese delegation. Too, the trade envoy's stay will be shortened. It seems the two superpowers aren’t prepared to bury the hatchet before the next round of tariffs.

Throw in all the uncertainty surrounding the impeachment inquiry and you have an environment unconducive to negotiations.

More concerning is a continued decline in global economies fueled by the trade war stalemate. A leading indicator for overall economic growth is the PMI, producer management index. For the second consecutive month the PMI, now at its lowest level since 2009, is signaling a shrinking economy.

The global banking systems have followed the lead of our Central Bank, providing stimulus by reducing interest rates and reserve requirements. So far, this has been more successful in the U.S. than in other countries.

So far, this has been more successful in the U.S., as shown by our unemployment at its lowest level in decades while wages have begun to rise. As a result, U.S. consumer confidence is near historical highs. It’s hoped this will translate into increased consumer spending, the driving force behind our economy for months.

However, the banking systems, after all they’ve done to help, now find themselves out of ammunition. If macroeconomic conditions worsen, little can done to provide additional stimulus. A resulting global recession would be detrimental to the demand for cotton. Be assured the market will be taking its cue from these developing economic conditions.

Possible Marketing Options

As for marketing strategies going forward, with contracted cotton continue to view any small advances as pricing opportunities. The marketing loan program provides the most cost-effective and risk-adverse way in which to hold out for higher prices.

With a much higher quality crop than last year, bids on early recaps offer a basis much stronger than before.

Another marketing option, especially with higher yields, would be to take advantage of this favorable basis and price at the market. As vulnerable as prices are to the above-mentioned influences, I would strongly discourage putting cotton on call as the risk is far too great.

If you would like to discuss these and other marketing options. please call Choice Cotton at 334-365-3369.