# Thompson on Cotton: Casting Mixed Signals

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Stubbornly for weeks, eighty cent has provided firm support in a sideways trading market. With the issuance of two major reports, export sales and the December WASDE, there was fear if either were bearish this support would be tested. Coming as no surprise, both were negative, the latter extremely so. All the same, to the amazement of many eighty-cent held firm with March futures closing the week at 80.95. Though this was a loss of 225 points on the week, it could have been much worse considering the bearishness of these reports.

The week's only positive news came from China where government authorities issued a new Covid-19 policy which moves away from lockdowns and mass testing. Their previous zero-tolerance policy had caused economic turmoil. An example, Chinese imports fell 10.6 percent in November, the steepest decline in two years. Hopefully this change will reopen trade and spark commerce with China, something cotton desperately needs.

Once again, weekly export sales were dismal with net current crop sales totaling only 34,000 bales. Weekly sales need to average 128,000 bales to meet export estimates. Sadly, sales from the last five weeks combined don't exceed this average. Until these numbers improve, expect little in the way of significant price advances.

Given such demand destruction, USDA was certain to further slash world consumption in their December WASDE report. The question was how severely and would production declines be enough to offset. Without getting too deep in the weeds, let us just say USDA's knife was plenty sharp. U.S. ending stocks are projected to increase by 500,000 bales as production was raised to 14.2 million bales and exports reduced to 12.25 million bales. Worse yet, world-ending stocks increased 2.3 million bales, as world consumption was reduced 3.2 million bales to 111.7 million. Many feel world use will be even lower.

To reverse this trend improvements in the economy must be seen, which for now is casting mixed signals. The producer price index, a measure of what companies get for their products, increased O.3 percent in November and 7.4 percent from a year ago, the slowest 12-month pace since May 2021. Encouraging as this is, it will be looked at along with the consumer price index due out Tuesday. Even as these figures flash signs of improvement, until the labor market cools inflationary pressures will remain causing the Federal Reserve to continue their hawkish actions. Speaking of which, Wednesday they will announce another interest rate hike hopefully smaller than those previous.

Where to from here? Avoiding a limit-down day after Friday's dreadful supply/demand numbers was no small feat. Better yet closing one hundred points off the low speaks volumes to underlying support. However, good economic news is needed to encourage managed fund buying and prompt mills to fix on-call sales, a required combination for prices to move beyond resistance at 86 cents. Otherwise, look for more of the same from this market as it bounces around the low end of its trading range while reacting to the news of the day.