Thompson on Cotton: Like a Ticking Time Bomb

January 17, 2023
By Jeff Thompson, Autauga Quality Cotton

Like a ticking time bomb, March futures have traded in a range between a high of eighty-nine cents and a low of eighty cents for ten consecutive weeks. More worrisome, recently it has settled into the lower end of the range eighty-five to eighty cents. Last week, coming off a five-cent rally there was hope of a continuation. This was soon squashed as traders bearishly viewed both the WASDE and Export Sales. As a result, March futures gave up 336 points on the week closing Friday at 82.29.

The above-mentioned reports along with the consumer price index took center stage last week. Export sales, though not great certainly showed an improvement over the past several weeks. Net current crop sales of 75,930 bales were 96 percent above a week ago and 405 percent above the four-week average. It was interesting to note, during this time

prices fell to 80.50, a level mills for now view as a pricing opportunity. Shipments had their best week in two months. However, at 156,780 bales remain well below the weekly average needed to meet our current export estimate.

The always dreaded WASDE report did little to help our cause. Its biggest surprise was an increase in U.S. production to 14.7 million bales, 450,000 bales over December. This was done by raising per acre yields to 947 pounds, which if true would be a record high. However, with 13.2 million bales currently ginned, domestic production is likely to fall short of their estimate. To the traders' dislike, higher production and declining exports raised ending stocks to 4.2 million, 750, 000 bales higher than December and equal to 30 percent of projected use. World ending stocks also increased as lower production was offset by a sizeable reduction in world consumption now estimated to be only 110.9 million bales. This marks the eleventh consecutive month USDA has lowered world use. Woefully, there is great concern this could be much lower, closer to 105 million bales.

Enough gloomy news, the consumer price index showed inflation has eased for the sixth consecutive month as consumer prices were up in December 6.5 percent from a year earlier, down significantly from 7.1 percent last month and June's high of 9.1 percent. This was due to a significant decline in fuel prices, while the cost for food and services rose slightly. Such a trend, if continued, could result in the Fed softening their current monetary policy, which in turn would weaken the Dollar.

Where to from here? The bomb's timer is getting ever nearer 0.00 when a breakout of this range will occur. The question becomes in which direction. At present, the downside risk is far greater than any upside potential. Any upward momentum will have to come from the managed funds/spec community. At present, we see little which would encourage them to do so. On the contrary, they appear comfortable sitting on the sidelines having reduced their net long position to below one

million bales. The last time it was this low was in March 2021 when rebounding from Covid. Casting further market doubt, Index Funds, who are almost always long, have been net sellers for seven out of the last eight weeks when expectations were for them to be big buyers during the recent roll period. To our good fortune, mills have chosen not to gamble but instead have priced on dips to eighty cents. This support could easily erode if mills take a wait-and-see attitude where pricing is concerned. Adding to this, if managed funds further short the market in the absence of favorable news who knows where the market bottom will be.