Thompson on Cotton: Strong Technicals, Fundamentals, Minimal Downside Risk

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With spring comes a sense of optimism as warmer weather ushers in new growth and opportunities for a fresh start. So, it seems with the cotton market advancing for a second consecutive week despite some rather mixed signals. July, now the front month, closed at 85.03 gaining 129 points on the week and 286 points for the month.

December followed closely settling at 82.53 for a gain of 75 points on the week and up 243 points on the month. It appears that traders view tight cotton supplies, drought conditions in the Southwest, and increased consumer spending outweighing inflation risks and a rampant rise in Covid cases worldwide.

Weekly export sales of 148,200 bales were less than half those of the previous week but three times the weekly average needed to meet the USDA estimate. This is not so alarming considering we have very little cotton left to sale.

Worth noting, however, was the absence of China as Turkey and Pakistan were the primary purchasers. Shipments were the highest on record for this time of year with 11 million bales exported from total sales commitments of 16.15 million bales.

Drought conditions in the Southwest are worsening despite scattered rainfall last week. Lubbock and areas southeast were overlooked and remain extremely dry. Though the short-term forecast calls for slight chances of rain, the long-range forecast isn’t favorable calling for higher temperatures and lower precipitation.

The traditional May planting rains will be desperately needed. Even so, lacking subsoil moisture the crop will have to be spoon fed throughout the growing season.

Consumer spending in March increased nearly 10 percent from the previous month with apparel and accessories sales jumping 18.3 percent. The reopening of the economy along with a third round of stimulus money has consumers in a buying mood.

The financial markets viewed this as friendly with the Dow Jones setting a record high closing over 34,000. In addition, jobless claims for the week fell to 576,000 from 769,000 last week, the lowest level since last March.

Adversely, with this surge in the economy, the risk of higher inflation becomes even greater. As a sign, the Consumer Price Index which measures what we pay for everyday items jumped 2.6 percent for the year ending in March. This is the biggest 12-month gain since 2018.

However, this is tempered somewhat when considering fuel prices accounted for nine percent of this due to production shortages brought about by last month’s brutal winter weather in Texas. Also, these numbers have to be viewed in context coming off a base the likes of which have never been seen.

One must keep in mind consumer prices softened last March before tanking in April and May as a result of Covid imposed shutdowns. Thus, such an increase is somewhat skewed. Also, lessening the risk is the Fed providing the economy some slack by relaxing their self-imposed two percent inflation target for raising taxes in an effort not to hinder economic growth until it gets back on its feet.

Unlike the U.S., Covid cases rose globally for the seventh consecutive week despite 700 million doses of the vaccine being administered. Overtaking Brazil, India now has the world’s highest infection rate. With a population of 1.4 billion, only 105 million doses of the vaccine have been administered. This could influence the market as India is a major player in the cotton trade.

Where to from here? With both strong technical and fundamentals, spec buying should be encouraged. That said, at present, downside risk appears minimal with December poised to trade higher.