Thompson on Cotton: The Market Could Care Less About Anyone's Cost of Production

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By Jeff Thompson, Autauga Quality Cotton

Cotton prices continued to consolidate for yet another week. Trading in a narrow four-cent range, March futures closed each day within 100 points of the previous day's close. Despite some early fund selling, it managed to finish the week in the black by almost a penny settling at 81.92. Obviously, at some point prices will move beyond this range and it will be the managed funds/specs that will determine in which direction. Once optimistic in the market's upside potential, this feeling is waning since negative influences are currently far outweighing the positives.

As expected, the Fed raised interest rates for the fourth time this year. Smaller than those previous, it was their comments afterward that shook both equity and commodity markets. Even though consumer prices fell in November to an annualized rate of 7.1% down sharply from June's 9.1%, the red-hot labor market has the Fed believing high inflation will continue through 2023 thereby suggesting additional rate hikes will be forthcoming. The increased risk of a severe recession is beginning to alter consumer behavior. A glimpse of this was seen in November's retail sales numbers which show purchases by consumers fell 0.6%, the biggest decline in a year. After months wherein they exhausted government stimulus money, built credit card debt to record pre-pandemic levels, and robbed from savings, consumer buying is becoming more strategic.

Unfortunately, this scenario is not limited to the U.S. but rather is one of global proportion. As a result, weekly cotton export sales continue to suffer. Last week current crop sales totaled a mere 48,130 bales, down 41 percent from the previous week and down an astounding 338 percent from the four-week average. We are fortunate net sales were positive considering 47,500 bales were canceled.

Where to from here? As mentioned, its getting more and more difficult to remain optimistic about cotton prices. We do still feel a late winter or early spring bump in prices is in the cards. However, where will this bump originate, here at 80 cents or somewhere much lower. The managed funds will dictate this, and their recent actions are cause for alarm. The most recent Commitment of Traders report reflecting Fund activity through last Tuesday, had them reducing their net long position by another 7,500 contracts and now stands at 1.07 million bales. Most worrisome is the way the funds/specs did this, there were twice as many new shorts as long liquidations. It appears they too maybe be losing confidence in cotton.

Finally, we've heard many say cotton prices must rally to buy acres next year given the high cost of production. Think for a minute, with the demand for cotton significantly reduced and showing little sign of improving , do we need acres. It's scary to think where prices would be if growing conditions in Texas had been better this year and our 14.2 million bale crop was nearer 20 million bales. Does the word POP payment ring a bell? Also, it’s sad to say the market could care less about anyone’s cost of production.