

Thompson On Cotton: Inflation Doesn't Seem To Be Cooling Down

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We entered last week expecting a great deal of market volatility as a host of fundamental and macroeconomic reports were scheduled for release. So it was, after advancing over 200 points ahead of the September WASDE it fell prey to the old buy the rumor, sell the fact idiom. Thus, giving back nearly all these gains to close Friday at 86.44, for a paltry gain of 53 points on the week. Also, not aiding the cause was the release of economic data showing inflation is not slowing at the Federal Reserve's preferred pace.

The September WASDE report bore little in the way of surprises, except for an upward revision in U.S. beginning stocks. Otherwise, as expected, U.S. production was again lowered this time by 860,000 bales to 13.13 million. Exports were unchanged therefore ending stocks fell slightly to 3 million bales. Globally, production, consumption, and beginning stocks were all lowered. This drove world-ending stocks down by 1.9 million bales to 90 million as losses in the

U.S. and India offset a larger Brazilian crop. In addition, U.S. planted acres were reduced by 855,000 acres with Texas accounting for two-thirds of this total. Overall abandonment this year is estimated at 28 percent while in Texas and Oklahoma it has climbed to 42 and 46 percent, respectively.

As evidenced in the latest round of economic data, inflation doesn't seem to be cooling down. With the Federal Reserve meeting this week these numbers could move the hawks to raise interest rates yet again. The CPI, which measures the cost of goods across a wide range of products and services rose 0.6 percent for the month and up 3.7 percent from a year ago. Energy prices, which were 5.6 percent higher, fed most of this rise. However, core CPI, which excludes food and energy rose 0.3 percent and 4.3 percent respectively. PPI, which measures wholesale prices and is a preferred indicator of inflation rose 0.7 percent in August, its highest monthly gain in over a year. It appears low unemployment, steady income, and excess savings has consumers more confident a soft landing is likely over a recession. Retail sales in August rose 0.6 percent. Much of this was due to higher prices at the gas pump, although cotton apparel sales jumped 1.1 percent year over year.

Nevertheless, such an increase in clothing purchases is not being seen in weekly export sales. Last week's net sales of current crop totaled 67,400 bales, down 21 percent from the previous week and 27 percent below the four-week average. Also, disappointing were shipments of 118,200 bales, down 33 percent from the previous week and 41 percent below the four-week average.

Where to from here? Barring any black swan event, I see little reason for prices to move outside the current trading range—at least not until we get a better feel for actual crop yields and more importantly fiber quality. The charts tell us a close over last week's high of 88.61 could have the market retesting 90 cents. However, as soon as prices move away from the mid 80's end users become quite resistant to higher prices.