Thompson on Cotton

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Last week's activity centered around spread trading as December prepares to exit the board and March becomes the official cover month. Though prices moved in a consolidated range both contracts posted triple-digit gains, erasing nearly all the previous week's losses. December traded as high as 79.88 before settling at 78.92 for a gain of 160 points. While March traded as high as 81.87 before settling at 81.51 for a gain of 201 points.

Prompting these gains was encouraging news both economically and fundamentally. The consumer price index, a major indicator of inflation, fell to 3.2 percent in October from 3.7 percent in September. Better yet, core CPI which excludes food/energy fell to 2.8 percent, its slowest pace since September of 2021. Similarly, wholesale prices experienced their largest drop since April 2020. All this, as jobs were added, is suggestive of a soft economic landing. The hint of which could provoke dovish action by the Fed. On the other hand, U.S. consumer spending declined in October by 0.1 percent compared to last month’s increase of 0.9 percent. More specifically, clothing and apparel sales remained unchanged. As a result, and favorable to exports, a decline in the Dollar was triggered.

Speaking of export sales, last week’s 328,300 bales was the third consecutive week of high-volume sales. In just three weeks, the U.S. has amassed sales of 1.2 million bales with China purchasing over 800,000. Last week, however, and most encouraging China was joined by seventeen other countries as buyers. China’s post Covid economic recovery seems to be ramping up. Chinese consumer spending jumped 7.6 percent year over year in October, up from 5.5 percent in September. This is the tenth consecutive month of increased spending, moreover the fastest since May. U.S. cotton will certainly benefit from China’s continued economic growth.

Even in our nation’s capital, the news was good. Both the Senate and House agreed on a stop gap spending bill that would forestall a government shut down. Also, Congress agreed to extend the 2018 Farm Bill to cover the 2024 crop. Thus, current ARC and PLC programs will remain in place with no changes to reference prices, loan rates, or base acres and program yields. While alleviating a great deal of uncertainty in next year’s planning, this will hopefully provide ample time to improve producer safety nets.

Where to from here? Though we did experience a turnaround week, I get the sense it was simply a correction to an oversold market rather than a precursor to a significant rally. It is obvious at what price level it takes to stimulate business. Also, with a large volume of unpriced cotton rolled forward, any advance will be pressured by grower selling. Much needed help from managed from managed/specs who unfortunately have been aggressive sellers for six consecutive weeks and now hold a position of 580,000 bales. Signs of increasing demand, of which there is little, will be necessary to get them to reverse course

Some suggest cotton prices will soon move higher in an attempt to buy 2024 planted acres. Where demand is today, I would argue why so. Currently, we are having difficulty moving a thirteen million bale crop so who is to say we can move sixteen million bales. Which is very possible on last year's acres given reduced given reduced abandonment in the Southwest. With all eyes on March futures, a move back to eighty-five cents would be a good pricing target though resistance will be encountered along the way. Conversely, eighty cents should provide shaky support.

In closing, I enjoy sharing my thoughts with you each week as these markets can be tiring and unpredictable. But despite their direction, we all have so much to be thankful for in life. So, take time to reflect on these blessings as you and yours celebrate a safe and Happy Thanksgiving!