Thompson On Cotton: An Economy Reluctant To Change

February 21, 2023
By Jeff Thompson, Autauga Quality Cotton

Last week saw cotton prices suffer their worst decline since October 24, 2022. Giving up four cents to settle Friday at 81.50, May futures is very near falling through its long-standing support. For seventy-one consecutive trading sessions, it has only closed below 80 cents four times the last of which was early December, 2022. Monday's market holiday is much needed as hopefully cooler heads will prevail when trading resumes.

Even so, today's market is confronted with a host of negative influences which appear to be strengthening. The strongest of these headwinds and a major factor behind the recent selloff is an economy reluctant to change. The consumer price index, a leading indicator of inflation, retreated in January to 6.4 percent from 6.5 percent the previous month. However, after declining from a 40 year high of 9.1 percent in

June this cooling trend seems to be moderating. Adding to this worry, wholesale prices fell in January at a much slower pace while retail sales increased by three percent, the largest monthly gain in two years. Unsatisfied with this pace, the Fed can be expected to continue their hawkish efforts by further tightening the screws. Those of us around in the late 70's are having horrid flashbacks. Cotton's worry must be that a strong U.S. dollar and a squeezed consumer will do little to increase demand.

Consequently, last week's export sales and shipments cast further doubt on the world's appetite for cotton. Though failing to build on the previous week's heavy volume, sales of 218,930 bales remain well above what is needed to reach the projected 12 million. However, shipments of only 193,300 bales are only two-thirds the volume needed to meet it.

Other obstacles in the way, include growing China – U.S. political tensions, slower economic recovery in China, and a looming showdown in Congress over the debt limit.

Where to from here? It's quite apparent, for the moment at least, the market is more concerned with the demand side of the equation rather than the production side. Therefore, it's very difficult to be bullish. With market participants now repositioned after the March – May roll period trading should stabilize somewhat with their focus shifting to fundamentals and macroeconomic news. There is still a significant amount of cotton in the hands of growers as many took advantage of the cheap spreads to roll unpriced cotton out to May or July. It may take all this time for prices to reach expectations. This week all eyes will be on the 80-cent support level and if it can hold. If broken, sell signals will be triggered sending managed funds short. Once again, there was no CFTC report as computer problems still plague the system. We are being told they will be back online next week. Though we can do little to stop the spec's movement, it's helpful to know which direction they're going and to what extent Turning our attention to new crop futures, Dec 23, be mindful it trades with a longer time horizon in mind. As planters roll, acreage is better known, and the usual hiccups in getting cotton to a stand are experienced better pricing opportunities for new crop should present themselves in the weeks ahead.