

Thompson on Cotton: A Host of Uncertainties Creeping into Market

August 23, 2021

By Jeff Thompson, Autauga Quality Cotton



Despite an improving U.S. crop, a host of uncertainties are beginning to creep into the market. Cotton prices, technically still in an uptrend, are trading in wild swings fearful of these uncertainties. The high-low spread last week was almost five cents from a nine year high of 96.71 to a low of 91.80. Fortunately, it recovered slightly settling at 93.10 on Friday for a loss of 122 points on the week.

All commodities took it on the chin as outside influences rattled the nerves of the most confident traders. Products primarily grown for export were negatively impacted by a strengthening Dollar which hit a 12-month high. Several far eastern countries are showing signs of economic decline, most notably China.

Though production in China increased 6.4 percent from a year earlier, it was well below expectations. Economically, the U.S. and China are swapping places. In the second quarter of this year, U.S. GDP rose 12.2 percent compared to China's 7.9

percent. This is the first time since 1990 our economy has outpaced that of China.

The release of July's retail sales figures greatly added to market jitters. U.S. retail sales fell 1.1 percent from a month earlier when expectations were for a much smaller decline of 0.3 percent. Apparently, renewed concerns over Covid have temporarily curtailed consumer purchasing as seen by a decline in store foot traffic.

Nevertheless, July total sales of 91.9 billion dollars is 17.5 percent higher than before the pandemic began in 2020. Upon reading minutes from their last meeting, the Fed is preparing to ease monetary policy by slowing the purchase of bonds by year's end because of improving economic conditions. Sadly, this will likely bring about an increase in interest rates early in 2022.

Combined current and new crop export sales totaled 312,470 bales, well below that of the previous week. As mentioned in our last review, tight supplies are a major reason for this decline.

However, cotton prices were trading over 91 cents for four of the five days covered in this report. Thus, we will be watching carefully to see if it's an early sign price may be rationing demand. Of note, China was again the primary buyer accounting for over half of all purchases.

Where to from here? After hitting a nine year high, that's difficult to accurately determine. Last week's trading activity certainly reflected a top-heavy market. Further advancement from these lofty levels will require an abundance of positive news. The only certainty is expected continued volatility as these outside forces influence the psych of traders and consumers, alike.

Working in our favor is a large volume of on call purchases which will provide a level of support at or near 90 cents. At

the risk of sounding like an eternal optimist, we feel current prices are sustainable barring a complete reversal in demand. Even though we saw a minor blip in retail sales from the previous month, keep in mind these sales were 11 percent higher compared to the same month in 2020.

Better yet, sales of apparel/jewelry were up over 80 percent in this same period. We must come to grips with the fact Covid is here to stay. Rather than fear the resurgence, look at it as a minor setback taking comfort that we now have the knowledge and technology to safely manage it as others before.

Therefore, we are optimistic as household savings grow, new jobs are added, and interest rates remain low that consumer spending will be encouraged thus fueling this demand driven market.