Thompson on Cotton: A Significant Rebound

January 23, 2023
By Jeff Thompson, Autauga Quality Cotton

Though mired in the same trading range now going on twelve weeks, a significant rebound off the bottom occurred last week. This will be the fifth time in the past three months the market has tried to breakout and move back above 90 cents. Previous attempts have failed as weakening fundamentals or poor economic conditions reigned it in. However, the current rally is being fed by some promising news concerning demand, not to mention it’s when a seasonal bump in prices is often seen. Whether or not this will be enough to sustain price momentum where others didn’t is yet to be seen but encouraging nonetheless. The market reacted as one would expect. March futures posted a gain of 441 points on the week , closing Friday at 86.70. While new crop December futures were pulled along closing at almost 85 cents.

The week began with Chinese officials saying their economy will return to pre-pandemic levels this year as loosened Covid restrictions will allow them to reopen fully to global commerce. In 2022, the Chinese economy grew at a pace of three percent, the lowest in decades. Beijing has set a growth target of 5.5 percent in 2023 with a long-term goal of doubling their economy by 2035. If true, this would be a tremendous boost to the cotton trade.

Last week's most notable market influence was a very impressive export sales and shipment report. Combined current and new crop sales totaled 236,300 bales, the highest volume in four months dating back to late September 2022. These figures were 179 percent above the previous week and 630 percent above the four-week average. More encouraging, China was the largest buyer bringing their total yearly purchase of U.S. cotton to 1.8 million bales, but still only half that of last year at this time. Cancellations were minimal at 24,000 bales.

On the economic front,we wouldn't say the news is all positive but rather an indication the worst may be near with improvements soon to come. Retail sales fell 1.1 percent in December, its biggest drop in twelve months. A sure sign our economy is losing steam. The resulting decline in manufacturing of 1.3 percent was its steepest in two years A tight labor market, the last obstacle to lowering inflation is finally beginning to ease. Microsoft, Amazon, Goldman Sachs are just a sampling of the companies recently announcing massive layoffs , some of their biggest in eight years. All this should persuade the Fed to further scale back interest rate hikes.

Where to from here? Is this yet another failed attempt to move back into the 90's or will it finally succeed? As growers lower price expectations on current crop, their selling will provide some stiff resistance, as seen last week. On Wednesday when prices moved above 86 cents, grower selling amassed its highest volume since mid-November. In turn, prices quickly retreated two cents. Keep in mind that with less and less cotton remaining in grower hands such pressure will weaken. Another big concern, specs were huge sellers last week, at least through Tuesday. Rather than simply liquidating their longs for profit they were alarmingly putting on new short positions. As a result they now hold a net short position for the first time since May 2020, the onset of Covid. Granted these shorts could provide a great deal of buying power down the road if improved conditions warrant as such may have been the case in Friday's 300-point rally. That being said, outside influences aren't all rosy but it appears the dark clouds that have hung over this market are beginning to fade a little. Two key levels to watch. March futures close above 89.75 will likely springboard prices beyond 90 cents while 81.65, the previous week's low, should serve as a key support level.