# Thompson on Cotton: Concerns Over Southwest Crop, Foreign COVID Cases

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Trading rather lazily for most of the week, cotton futures exploded for triple digit gains on Friday climbing ever closer to their contract highs of February. July futures closed the week at 88.80 capturing almost three cents, while December settled at 84.93 for a gain of nearly two and a half cents.

This advance was due in large part to skyrocketing grain prices as cotton valiantly, but unsuccessfully, tried to keep pace. Also lending market support was shrinking crop prospects in the Southwest and a declining U.S. Dollar.

Not totally void of negatives, there is growing concern the significant rise in new Covid infections outside the U.S. could severely setback global economic recovery efforts. Over the next several weeks look for these factors and others to tug on the market as it looks for direction.

The grain complex had an outstanding week. Corn futures hit an eight-year high as current crop topped six dollars a bushel. Following suit, new crop soybeans climbed to over 13 dollars a bushel, a level not seen since 2014. Managed funds are in a buying frenzy as adverse weather conditions hinder planting in the Midwest and harvest in Brazil threatening already tight supplies.

Cotton prices will have to compete lest run the risk of losing significant acreage to these commodities especially in irrigated areas of the Midsouth and Southeast. With only around 10 percent of this year's cotton crop planted, there is ample time to alter planting decisions.

Export sales for the week were less than stellar, however should not be taken as a sign of waning demand. Current crop sales commitments now total 16.25 million bales versus the USDA estimate of 15.75, while over 11 million have been shipped. On a good note, China was back in the market and cancellations were minimal.

New crop sales commitments total 1.6 million bales slightly below the 2.2 sold at this time last year. Barring any additional Covid induced shutdowns, the demand for cotton should strengthen. Couple this with the prospects of a shorter crop and you have the recipe for higher prices.

The lack of rain in the Southwest is becoming quite serious. Some are beginning to compare this year to 2011, the driest year on record for Texas when only 3.5 million bales were produced. The next few weeks will determine its fate with the market watching abandonment numbers closely.

As always when it comes to predicting the market, it is not what you know but what you do not know that should be most concerning. The fly in the ointment at present is the rise in new Covid cases worldwide.

Hardest hit has been India where it set a single day record for new infections of 314,000. It has only continued to worsen to where the country now accounts for one in every three new global cases. Partial shutdowns have been implemented but leaving textile operations exempt for the moment.

Other countries, such as Pakistan, Japan, Bangladesh, and a few in Europe have also mandated temporary shutdowns of some sort.

So, what lies ahead? Over the next few weeks, the market will take its direction from how this crop gets started especially in the Southwest and export sales.

The Managed Funds apparently have taken a bullish view steadily increasing their long position in new crop bringing their total net long position to an equivalent of 5.1 million bales. It is important to note they were long the market over eight million bales at its most recent peak. Therein lies a great deal of buying power.

As a result, look for December futures to challenge its contract high by climbing into the upper 80’s. Even so, for those who have not priced any of their 2021 crop, it would be wise to do so at current levels on at least a portion thus safeguarding the unexpected.