Thompson On Cotton: Market Drivers – More Bullish Than Bearish

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In the quest to return to its pre-Covid high, the market took another giant, although worrisome, step last week.

Giant in that the continuing rally garnering another couple cents, trading over 72 cents at one point.

Worrisome in that it's doing so at an overheated pace, posting positive gains in 14 of the last 18 trading sessions.

Monday's triple-digit advance was fueled by signs of ever-growing demand and a shorter crop. Mid-week saw low volume trading as the market awaited confirmation from Thursday's export sales numbers.

Not disappointed, it captured another penny on the day. Even some end of the week profit taking couldn’t slow it down as it managed to close above 71 cents for yet another weekly gain.

What The Market Needed

Unlike a bear who can hibernate, a bull must be continuously fed. The week’s export sales figures were just the fodder it needed. Current crop sales topped 250,000 bales, doubling the previous week’s numbers and 50 percent ahead of the four-week average.

Notably, 12 different countries were buyers of U.S. cotton with Pakistan, Vietnam, and China leading the way. Barring another round of economic lockdowns should a winter wave of Covid occur, export sales should continue to improve as demand appears real.

Shipments were down slightly from the week before, but not to worry for we’ve shipped over a half million bales more than at this time last year.

And Now For The Worrisome Part

The latest crop conditions report on October 18 indicated 66 percent of the U.S. crop remained in the field, unharvested. This is alarming for as we approach November, harvest conditions will only worsen.

As daylight hours diminish, so does progress. Therein lies the potential for an already short crop to get shorter. As if we haven’t already had enough out of the Tropics, Midsouth and Southeast cotton is being threatened once again.

Tropical Storm Zeta formed in the Gulf over the weekend and is now projected to make landfall somewhere along the Gulf Coast by mid-week bringing with its heavy rains.

In addition, an expected freeze in parts of the Southwest will hinder late season boll development potentially lowering yields and fiber quality.

Extending The Rally?

Looking at the December futures chart, it’s easy to see the market is overbought and a correction is overdue. However, there are some underlying factors which could extend this rally and soften any correction.

We need the Specs and Funds to remain long the market, staving off any desire to liquidate their large long position. Though they continue to add to this position, as they near historical levels one must be concerned with profit taking.

However, we currently have a unique situation in that the trade has a similarly large short position.

The trade is now carrying an on-call unfixed sales position of over 10 million bales, three million of which is based December. They will be forced to cover these shorts at some point.

This could very well be the enticement needed to keep the Funds in cotton’s camp as they see the potential for increased profits. Other bullish drivers aside from strengthening demand and a shorter crop include, strong technicals, positive money flows into commodities, and strong competing crops in soybeans and grains.

Pricing Opportunity

What does all this mean? Well, when considering where prices have been and the outside influences which could still come into play, current levels should be viewed as a pricing opportunity for at least a portion of your crop.

Call on your individual risk tolerance to determine the percentage and how the remainder will be marketed whether using an options strategy or holding on for later cash sales. This decision can be quite daunting, especially in today’s environment.

At Choice Cotton, our business is not to buy your cotton but instead to help you sell it. Please call our office at 334-365-3369 if we can be of any assistance.