Thompson on Cotton: Favorable Fundamentals Retaking Control

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Last week's market activity closely resembled that of the previous week. Trading in a wide range of five cents from low to high, small gains were captured despite an abbreviated holiday schedule. Current crop advanced a cent and half while new crop gained half a cent, closing at 109.12 and 90.71 respectively.

Unlike the previous week, last week closed on a high note, though on extremely low daily trading volume, at less than 10,000 contracts. It will be after the first of the year before traders return in full force providing greater liquidity.

Fear that our economy might fall prey to Covid's Omicron variant is heavily influencing both equity and commodity markets. In the U.S., tighter restrictions and some event cancellations are being imposed while other countries are enacting more stringent sanctions to curb its spread.

We take solace in the number of hospitalizations and deaths are not proportionate to the escalating number of new cases.

This may have spurred the S&P 500 to hit an all-time high last week as the need for economic shutdowns seem very unlikely.

In other economic news, it's become quite obvious consumer demand is a driving force behind inflationary pressures. Consumer prices rose 5.7 percent in November, the largest jump in 39 years. Despite rising prices, consumer spending rose 0.6 percent in November largely due to low unemployment, substantial savings, and higher wages providing consumers with more disposable income.

Even though Omicron may pose a slight bump in the road, broader economic growth and the above factors should promote additional spending. Cotton will greatly benefit as apparel and home furnishings will constitute a major portion of the goods purchased. Current and new crop export sales combined for over 300,000 bales last week, a significant volume considering current price levels and reflective of strong demand.

Where to from here? Due to holiday travels, I'm writing this market review on Monday rather than over the weekend. Thus, I have the luxury of seeing Monday's market activity. To our good fortune, March closed up 316 points at 112.28, albeit on low volume. Look for similar volume throughout the week which will exaggerate any price swings.

Nonetheless, it does appear favorable fundamentals may once again be taking control of the market, but we will withhold judgment until we see this confirmed in heavier volume. If so, it should entice managed funds to increase their long position, which is greatly needed to move prices higher. In recent weeks, we've seen the managed funds reduce their net long position from a high of 9.4 million bales to 6.9 million.

The latest Commitment of Traders report reflects activity through December 21. As hoped, they increased their net long position by 1150 contracts to a current net long position of 7.07 million bales. Though only a slight move, it’s in the right direction which adds to our optimism going forward.

We urge those still pricing current crop to take advantage of this rally and resist the urge to sell on call. If bullish, selling the physical and buying call options would be the preferred way to manage risk. Also, 90 cent-plus isn’t a bad place to start pricing a portion of next year’s production. We have 2022 contracts available with very competitive terms. Simply reply to this email or give us a call at 334-365-3369 if we can be of assistance.