Thompson On Cotton: Poor demand Remains the Anvil Hanging Over This Market

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Excuse the delay in our Cotton Market Review but quite frankly we were hindered by the record freeze which came with Christmas. Even so, the Arctic blast did little to cool a resurging market as for the second consecutive week it posted a higher high. March futures settled Friday at 85.21 for a gain of 329 points despite experiencing a limit down trading day. There being no signs of improvement in the demand for cotton, market watchers were totally bewildered at last week's actions. It blew through long-standing resistance at 86 cents as it advanced over six cents in the first three days of trading. Such a spirited rally had everyone scratching their heads as to why.

Current cotton fundamentals and macroeconomic factors certainly aren't supportive of such a run. Thus, the most logical explanation is managed funds were rebalancing their positions as year-end approaches. The recent Commitment of Traders Report reflecting Fund activity through Tuesday of last week showed they increased their net long position by 1,784 contracts to an equivalent of 1.25 million bales. Apparently concerned they were overweighted to one side they scrambled to cover some of their short positions.

Beyond this there is little in the way of favorable news. Poor demand remains the anvil hanging over this market. Last week's sales cancellations of 175,800 bales offset gross sales of 89,500 bales. Though overshadowed by the huge volume of cancellations, gross sales were the largest they've been in six weeks. China accounted for 161,700 bales of these cancellations. With sales to China likely to diminish further, other countries will be needed to step in and fill the void. To no one's surprise, such news drove prices limit down in Thursday's trading. Nevertheless, rebounding almost a cent Friday is an indication of strong underlying support.

We continue to be in the throes of a reactionary market, one largely influenced by daily news. It's here the headwinds remain negative. Though China has relaxed their zero-tolerance policy for Covid, the pandemic is escalating throughout the country. According to a British research firm Airfinity, China is experiencing one million Covid infections a day while the daily death toll is estimated to be 5,000. These numbers could be much higher since Chinese data tracking is very unreliable. Also, with the zero-tolerance policy abandoned many citizens are being exposed to the virus for the first time. This will have a long-lasting impact on their economy. In other news at home, consumer spending continues to rise but serves as a double-edged sword as it adds to the resiliency of our economy. Thus, the Fed is likely to remain hawkish in 2023.

Where to from here? Last week was a perfect example of how difficult it is to predict market direction when managed funds/specs are in the driver's seat. Though trading volume is expected to be light during this holiday shortened week, it can often exaggerate any significant market move. Growers should take advantage of any rallies to price available current crop, as many did last week. Keep in mind since becoming range bound in early October prices have climbed to 89 cents three times with each attempt meeting strong resistance. March futures must eclipse the 100-day moving average at 89.95 to signal a bull market.