Thompson On Cotton: Watching Paint Dry

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For most of last week, watching cotton trade was akin to watching paint dry. That was until Friday when strong fundamentals prodded bullish traders into action. Posting triple-digit gains, May futures closed at 84.90 while new crop futures trailed along settling at 84.32. This marked the fourth consecutive day of higher closes, something not seen in two months. Though still in a tight trading range, it has moved off the bottom where it was nervously near falling below long-standing support.

U.S. export sales were the driving force behind this advance. Net current crop sales totaled 426,710 bales, the largest volume of sales since September 2021. Given the turmoil in Turkey and Pakistan, not to mention the tensions with China, this was somewhat surprising. Some believe this to be an early sign of renewed demand as the glut of finished products created by the pandemic is finally being depleted. Of course, prices were in the low 80's during much of this reporting period. So as prices move higher look for demand to be tested. If only shipments could amass such volume. For yet another week, exports totaling 197,510 bales fell well short of 259,000 bales a week needed to meet estimates.

The Ag Outlook Forum was held last week, where USDA presented their initial supply and demand estimates for 2023/24. As for cotton, the projections were certainly market-friendly. Both U.S. and world-ending stocks are expected to decline. U.S. planted acres are estimated to be 10.9 million acres, 500,000 below the NCC estimate. Nevertheless, the U.S. crop is predicted to be larger than last year's at 15.8 million bales as abandonment was reduced 20 percent. This will be offset, however, by a two million bale increase in exports, now projected to be 13.8 million. The world numbers are favorable, as well, with global consumption predicted to increase by an astounding five million bales.

Last week's market performance was even more impressive as it came in the face of dire economic news. Consumer spending in January rose to its highest level in nearly two years. Though home furnishings and apparel were major benefactors, it's a sure sign inflation is accelerating. An uptick in inflation amid wage gains tells us the Fed's tight monetary policy hasn't yet impacted the consumer. Certain to further increase interest rates leading into summer, the Fed will now likely continue their campaign well beyond that. Fearing such a move stocks suffered their worst losses of the year and the Dollar strengthened.

Where to from here? Additional signs of improved demand will be needed or cotton prices will quickly succumb to outside noise, which for now is not good. Short term, we see prices remaining range bound until planted acres and demand are better known. Any move above 85 cents will face stiff resistance as a huge volume of old crop cotton remains in the hands of growers. We did finally receive a CFTC report but for the week ending January 24th, as they attempt to play catch up. In it, specs were shown to be buyers with a net long position of a little over 8,000 contracts. Cotton must build on consumption if any price momentum is to be found. As we’ve so often said, market rallies can only be sustained by strong demand not short supply.