# Thompson On Cotton: What Will Determine Market Direction Now?

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Following the market last week was much akin to watching paint dry. Though trading in wide ranges each day, it never failed to work its way back to nearly unchanged, gaining a mere 29 points on the week to close at 65.95.

With harvest just weeks from being in full swing, a short crop continues to get shorter. Most likely, U.S. production will come in below 17 million bales. Dryland abandonment in the Southwest and weather-related damage in the Midsouth and Southeast are much to blame.

Losses to Hurricane Sally are still being determined while Tropical Storm Beta is drenching the Midsouth. Although Hurricane Sally may have destroyed as many as 200,000 bales, it’s the wet, cloudy weather patterns we seem to be slipping into that are most worrisome and will determine the fate of the 2020 crop.

The last thing we need is another 2018 harvest season.

## Where The Market Took Its Cues

All eyes will be on the monthly USDA S/D report released October 9 to see if they account for any of this. Looking at demand, weekly export sales couldn't match those of the previous week which we all knew would be a tall order. Net sales for 20/21 were 92,700 bales which included a 49,000-bale cancellation by Mexico.

This was 82 percent lower than the previous week. Shipments primarily destined for China were up 50 percent at 281,900 bales. Currently, 7.72 million bales have been sold for the 20/21 marketing year which is 8 percent below this time last year. Forty percent of this, 3.2 million bales, were purchased by China. A somewhat precarious position considering the ever-growing tensions between the two countries.

As is often the case, the cotton market took its cues from economic and geopolitical factors more so than fundamentals this past week. It was a wild roller coaster week on Wall Street with stocks suffering triple digit losses before eking out a small gain.

No other ag commodity moves in sync with the stock market more than cotton. Understandably, this worked to stifle any price momentum. Furthermore, the U.S. Dollar reversed course by strengthening for five consecutive trading sessions.

The erratic trading in equities was largely influenced by the current political atmosphere and uncertainties surrounding it. We are less than 50 days away from one of the most hotly contested Presidential elections ever.

If this isn't enough, throw in a rush to nominate a Supreme Court Justice, and the polarization and chaos is heightened. There is one certainty a victor will not be known on election night.

The ensuing process to determine our next President will make the hanging chad fiasco of the Bush-Gore election look elementary. Our Constitution will be tested, not to mention the embarrassment we will suffer in the global eyes of those who have looked at us as the standard-bearer of all that is good in a democracy.

COVID-19, which one day I hope I can erase from my vocabulary, must still be dealt with. A continued drag on world economies, it came to the forefront this week as a second wave seems to be spreading across Europe. Spain and France have seen new cases rise significantly in the past few weeks.

The fear of a second economic shutdown has created global shock waves. It’s apparent we’ll have to contend with the effects of this virus in every facet of our lives until a vaccine is discovered and administered in large enough volume to create a herd immunity despite being months away at best.

**What Will Determine Direction Now?**

Meanwhile, in the absence of any additional government assistance, our economic recovery has slowed. Surprisingly, though, there was a hint of compromise between the two parties concerning this late in the week.

We discussed before how retail sales have grown for five consecutive months albeit at a slower pace. Worrisome, however, is that all sectors have not benefitted to the same degree. It’s our misfortune, apparel sales have lagged most others.

In August, clothing store sales declined by 35 percent year on year while sporting goods and home improvement sales were up 11 and 15 percent, respectively. This scenario will have to reverse if cotton prices have any chance of moving significantly higher. In the Jernigan Global Weekly, McKinsey Consulting who monitor world cotton trade, was quoted as saying not to expect this until first quarter of 2023 under the best of conditions or second quarter of 2025 under the worst.

Where to from here? This is a question not easily answered when accounting for all that is happening at the moment. Favorably, the Funds and spec community increased their net long position to an equivalent of 5.1 million bales. This continues to lend much needed market support. However, one must think the longer we linger here without some favorable news on the demand side, they will tire, and their support could weaken.

There are two numbers to watch carefully. A close above 66.23 would encourage a new bull run while a close below 63.45 could find the market searching for a lower support level.

Short term, we look for prices to stay range bound where they’ve been for weeks, hopeful not to succumb to harvest pressure.