Thompson on Cotton: Like Déjà Vu All Over Again

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Upon watching last week's market, we're reminded of the words of baseball legend Yogi Berra when he said, "It's like déjà vu all over again." March futures, in yet another valiant attempt to move above ninety cents, met strong resistance in the form of grower selling and failed to do so. However, unlike other unsuccessful tries, it found the strength to hold on and remain in the upper end of the trading range. Encouragingly, prices were all but unchanged with March closing at 86.89, nineteen points above where it started. Strong export sales and a change of course by managed funds provided underlying support.

Export sales for the second consecutive week exceeded 225,000 bales. At word of this, prices quickly ran up over 200 points before pulling back for only a minimal gain. Not surprising as there is growing doubt whether such a sales pace can be continued. In addition, shipments are becoming a major concern. Shipments last week totaled only 177,900 bales, well short of the weekly average needed to meet export estimates. Thus far, sales cancellations have been insignificant, this week only 6,200 bales. However, if this lackadaisical pace doesn't pick up we could be looking at sizeable cancellations in the future. Even so, it's worth noting China was the primary buyer and shipping destination.

There is little doubt our economy is losing steam. The GDP, the broadest measure of economic activity, grew at an annualized rate of 2.9% in the 4th quarter, down from 3.2% in Q3. Its obvious consumers aren't going to their billfolds quite like before. Excluding food and energy, personal consumption expenditures in December grew at its slowest annualized rate since October 2021. The question becomes, with the Fed hell-bent on curbing inflation at all costs, will their efforts culminate in a soft landing or lead us into a deeper recession? A host of warning signs seem to suggest the latter. Aside from a decline in consumer spending, high borrowing costs have shrunk the housing market an astounding 27 percent. Even big business seems to be hunkering down for tougher times as their investments rose only 0.7% in the fourth quarter compared to a 6.2% growth the quarter before. Finally, a strong labor market, previously the economy's life preserver, is showing signs of weakness as non tech companies are now announcing layoffs, including IBM, Dow, SAP, and 3M. As job growth further declines it will exact an even heavier toll on the consumer and subsequently the demand for cotton.

Where to from here? Look for more range-bound trading this week as any upward momentum will once again be stifled by grower selling. Much needed is a push by the specs or mill fixations. It was encouraging to see managed funds/specs reverse course last week shifting from a net short position to net long an equivalent of 700,000 bales. Even so, still considered on the sidelines, there is little incentive for them to enter the market. The Fed meets on Tuesday and Wednesday where fireworks are always possible. A quarterpoint interest rate hike is expected, thus barring anything different markets will most likely turn a blind eye. With many having sold all their 2022 crop, attention shifts to new crop prices. December futures yet has a life of its own instead is moving in concert with old crop. For the last three months, it too has been trading range bound from a low of 75 cents to a high of almost 87 cents, closing Friday at 85.58. Considering all the uncertainties surrounding new crop, such as planted acres, questionable demand, potentially worsening economic conditions we would advise setting an initial forward pricing target in the upper 80's, just shy of 90 cents. Then as the market moves higher, price cotton on a scale-up. At Choice Cotton, we offer forward contracts with a very competitive basis and premiums for quality.