# Thompson on Cotton: Signs a Soft Landing May Be Possible

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December futures string of daily highs ended last week at eight. But not before reaching 88.39 which proved to be a trigger point for grower selling. However, as warned, when riding a wave of spec buying in a market environment with questionable underpinnings a reversal is always lurking. Such was the case on Thursday, when a triple digit selloff all but erased earlier gains. The tipping point being an overbought position, pressure from grower selling, and bleak exports sales. This begs the question, was this a healthy correction with the market poised for a rebound or simply a return to the comfortable confines of the previous trading range? Considering its depth and current environment, I would lean toward the latter. It is difficult to wrap your hands around this market with so many unanswered questions. Are we poised for a soft economic landing or on the brink of a major recession? How decimating will the dog days of summer be to this year's crop.

Once thought impossible , economic indicators are showing signs a soft landing may be possible. Despite interest rates at their highest level in twenty-two years, the economy is still growing. Last quarter's gross domestic product (GDP) grew at an annualized rate of 2.4 percent because of both consumer and business spending. This is up from 2 percent the previous quarter and well above the 1.8 percent forecast. At the same time, underlying inflation is easing. The Fed's preferred inflation gauge climbed at an annualized pace of 4.1 percent in June, a significant decline from May's 4.6, bringing price growth to its slowest pace in two years.

The fly in the ointment, however, continues to be lack of demand. Last week's export sales were nothing short of disappointing. Sales of the current crop were a net minus 18,700 bales. That's right, more sales were cancelled than made. New crop sales were an uninspiring 85,000 bales while shipments of 197,800 bales were significantly off the pace to meet export estimates with only one week remaining in the marketing year.

Another week of oppressive temperatures has me very concerned with the condition of the crop. The dome of heat which has already shrunk the Southwest crop is creeping slowly eastward. Cotton in the Southeast and Midsouth currently has excellent potential. However, in recent weeks dry areas have become more numerous as showers have become more isolated. If this pattern continues coupled with extreme heat, cotton plants will soon go into survival mode and begin throwing off fruit. The next week to ten days will tell us a lot more about this crop. Worrisome, forecasts call for little change in weather through at least the tenth of August in these regions.

Where to from here? The ten-cent rise in new crop prices since their reversal in late June has been fueled by the managed funds. They have gone from a net short position of 1.5 million bales to a net long position of 2.9 million bales through last Tuesday. Always a fickle bunch, their future actions will be guided as these questions are answered. Fundamentally, the recent price rally hasn't scared mills into buying. Conversely, growers have shown us prices will have to approach ninety cents to encourage further hedging. With this cat and mouse game certain to continue as the crop plays out, the market should be content to stay where it has been for the past several months. Nevertheless, looking long term if the crop does get smaller and the Fed can pull off a soft landing, demand should improve along with prices.