

Thompson On Cotton: Optimism Abounds But Be Cautious, Too

January 2, 2020

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Cotton prices remain in an uptrend dating back to late August. From nearly triggering a POP payment at 58.83, March futures has clawed its way back to a New Year's Eve close of 69.05.

To our favor, the December contract has done the same, closing above the elusive 70 cent level. This 10-cent rebound is attributable to what appears to be a meeting of the minds in the trade talks between the U.S. and China, at least with Phase One which most affects our agriculture industry.

All the same, one must question after nearly two years of falsely being led to believe a trade resolve was imminent, why the sudden buy in. This is in part due to recent favorable headlines containing more specific details.

Sources inside China have lent credence to the proposed purchase of 800 million metric tons (3.6 million bales) of U.S. cotton, going so far as to suggest this could be a minimum.

Most promising was news from D.C. last week that a date has been set for the formal signing, January 15.

Specs And Funds Have Plenty Of Fuel

So, whether fact or fiction, speculators and fund managers are becoming believers. They have slowly increased their net long position to an equivalent of 1.8 million bales.

Better yet, they have a great deal of purchasing power left as this pales in comparison to their 4.9 million bale long position of last spring. Also, it's known these guys normally run in herds.

So, it's very possible continued advancements in trade talks, bullish technical charts, a weakening U.S. dollar and improving global economies could all further fuel their buying.

What's really needed to complement their actions is a rebound in the global demand for cotton fiber. Aside from the speculative and technical buying, fundamentally, demand is still lacking.

A weakening basis across all global growths during a price rally says as much. Giving some hope to stronger demand has been a succession of excellent weekly export sales reports, at least up until last week.

Be Cautious, Though

After several weeks of sales above 250,000 bales, last week's sales declined by half.

Likely a product of holiday delays and timing, nevertheless close attention will be paid to these reports as the marketing year progresses. The fact U.S. cotton is no longer the cheapest growth in the world may have some impact going forward.

Looking ahead, if you have cotton on call-based March, it's very likely the specs alone can drive the cover month into the lower 70's. However, it will meet some pressure for there remains a great deal of producer cotton to be priced.

Don't get too lost in the excitement, though. Uncertainty still abounds, especially in the political arena, with human rights issues and military challenges abroad.

Be mindful of where this market has been and could return. Therefore, look at the once unimaginable 70 cent range as a pricing opportunity.

As for new crop, if not in a cooperative, search for a contract with a favorable basis. We at Choice Cotton can help you in this search by simply calling our office at 334-365-3369.

Even though December recently closed above 70 cents, I wouldn't be too eager to price. Time is on our side to first see what impact there will be on the world cotton trade if an agreement with China is signed.

Secondly, over the next couple of months, we will have a better idea of the 2020 planted acres, both here and abroad, which certainly will influence prices.