

Thompson On Cotton: Where Does The Market Go From Here?

September 7, 2020

By Jeff Thompson, Autauga Quality Cotton Association



Active trading last week led to a great deal of price volatility. After surpassing 66 cents early, it yielded to signs economic recovery may be progressing at a slower pace than hoped.

Nevertheless, trading in a wide range from 66.44 to 63.90, it valiantly fought back to settle Friday at 64.99, only nine points shy of where it started the week. It remains firmly entrenched in an uptrend pattern gaining 14 cents over the past five months, compliments to fund and spec buying.

Though there may still be some life in this rally, continued positive news will be needed to stave off profit taking considering their sizeable long position. Last week's market influences were mixed, but the way it was received, gives us cautious optimism further gains are possible.

The Congressional stalemate over a second stimulus package led to a rebound in the value of the dollar versus other foreign currencies. Though looked upon favorably economically, it's perceived as a negative for trade, increasing the cost of our export products.

Other Economies, Other Markets

A sustained rebound in trade is uncertain given weak global growth and demand. As the U.S. slowly recovers, other countries have suffered more so economically and are rebounding at a slower pace. India, an important player in the cotton trade, saw its GDP fall by nearly 25 percent versus the year previous, the worst collapse since 1996. Over 26.5 million jobs in Latin American countries have been lost. That's more than the entire population of the state of Florida.

As a result, the U.S. trade deficit, the difference between what we buy and sell to other countries, surged in July to its highest level in 12 years. All of this is certain to negatively impact the demand for cotton.

The stock market has been on a roll for months, surpassing its pre-pandemic heights. However, it was rattled Thursday, suffering its worst one-day decline since June 11 while the S&P 500 experienced its first weekly loss in six weeks.

It appears this was a technical selloff in the service and tech sectors which had been the leaders. It's hoped this was a necessary correction in an overbought market rather than a reflection of worsening times. Supporting this is the fact earlier in the week the manufacturing index climbed to 52.6 percent from its 11-year low of 41.5 percent in April.

Readings over 50 percent indicate more companies are expanding than shrinking. In other good economic news, the labor market appears to be healing, but at a slow pace. Weekly jobless claims fell below one million for the first time since the pandemic began.

Also, 1.37 million jobs were added, dropping the unemployment rate to 8.4 percent versus 10.2 percent last month. In other words, the U.S. has recouped half the jobs lost in the economic shutdown of February and March.

Cotton Fundamentals And Looming Reports

Enough of this economic talk, let's look at cotton fundamentals. All eyes will turn to Friday when two important reports are released by the USDA, weekly export sales followed by the monthly supply and demand report. The latter will be watched closely to see if U.S. production is adjusted downward after surprisingly being raised to over 18 million bales last month.

Weather conditions since that time would seem to warrant such as seen in this week's crop condition report showing a slight decline from the previous week. Though the rain from Hurricane Laura may have benefitted the Southeast, the Midsouth was damaged and Texas remains hot and dry.

Although, Texas is expected to receive cooler temperatures and a bit of rain in the coming week. Export sales for the week mirrored those of the previous week. They were okay but not a market mover.

Net sales of 131,500 bales and shipments of almost 294,000 bales were all primarily to China. As we've often said, the lack of other buyers makes one cautious especially, given the building tensions between the two countries.

Where do prices go from here? With the market closed Monday for Labor Day, look for trading action to be tempered, leading up to Friday's S/D report. The results of which will largely influence the sentiment and action of the Funds and Spec communities.