Thompson on Cotton: Harvest Trundles Along, Crop Better Than Expected

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When we previously said the market would surpass its intraday high of 116.28 in short order and challenge 120, we never expected it to happen in one day. Nevertheless, that happened on Monday with the December contract closing nearly limit up at 119.84 after trading as high as 121.67. Unfortunately, Tuesday provided no follow through with the market spending the remainder of the week in a state of give and take digesting a plethora of conflicting data. However, in the end, both December and March futures gained two cents settling at 116.87 and 113.24, respectively.

On Wednesday, coming to the realization current inflationary conditions were more than transitory, Fed chairman Powell announced the Fed would taper their purchase of government bonds. Most are predicting an increase in interest rates as their next move, which would certainly deal a blow to a recovering economy.

Friday's jobs report was another sign of a strengthening economy as 831,000 new jobs were added in October, significantly exceeding expectations of 450,000 and reducing unemployment to 4.6 percent. Politically, growing dissatisfaction with the current administration led to landmark victories by Republicans in several key governor races. This is likely a precursor to what we will see in the midterm elections as Republicans work to regain control of Congress and replace extremism with D.C. gridlock.

As for cotton fundamentals, harvest efforts are trudging along with 55 percent of the crop still in the field. Despite yields being all over the board, generally speaking, the crop is surpassing expectations. Once again, weekly export sales were less than impressive. Current and new crop sales combined for a total of 193,000 bales, down 50 percent from the previous week with China and Turkey the primary buyers.

However, net sales to China were only 52,000 bales compared to 187,000 last week and 274,600 the previous week. As more cotton enters the pipeline over the next few weeks, sales numbers should improve. With that said, we find comfort in the fact that current total sales commitments are very similar to those of last year at this time (9.05 million bales versus 9.5 million). Shipments are lagging with two million bales currently shipped versus 3.45 million last year. Logistical disruptions, which eventually will be resolved, are contributing to this short fall.

Where to from here? Though we did see price gains on the week, there is an unsettling sense the market is becoming lackadaisical, which is worrisome. It’s absent the fuel once supplied by managed funds. After three weeks of profit taking, they did reverse course to a net long position of 7.8 million bales by only a meager 1,202 contracts compared to a recent high of over 10 million bales.

Keep in mind that NY futures normally move in sync to the Funds long position. Thus, the spec community is desperately searching for positive reassuring news cotton is still in demand. Tuesday’s WASDE report and Friday’s export sales figures will provide a good glimpse into this with the market sure to react. Most analysts foresee little change in the supply/demand numbers from the previous month, but I’ve grown to never second guess the USDA.