

Thompson on Cotton: Expect Prices to Maintain Momentum

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The year 2021 went out with a bang as cotton prices posted five consecutive weeks of higher highs. As fate would have it, the new year began in similar fashion with March futures advancing 252 points to close at 115.12 and the December contract climbing 187 points to settle at 94.52. Over the past six weeks, the price for current crop is up nearly 11 cents and new crop has run up 6.5 cents. Astoundingly, a significant portion of this rally occurred as managed funds were reducing their long position but as hoped trade short covering provided ample support.

In recent weeks, to our good fortune and that of the market, the managed funds have reversed course and are buyers of cotton once again. Last week, 545,000 bales were added to their long position, the largest long move since September 28. Coupled with the previous week's increase their net long position has now climbed to just over eight million bales.

Their renewed interest in cotton gives us greater confidence the March contract high of 118.50 will be eclipsed. However,

as their long position swells, the need for positive news becomes ever more important in keeping them content.

That said, we mustn't overlook our most current threat, the inability to export cotton on a timely basis. Last week's export sales of just over 192,000 bales were acceptable considering it was during the holiday and prices were rapidly moving higher. Shipments, on the other hand, were horrid at only 112,000 bales, well below the 381,000 needed weekly to meet our export estimate of 15.5 million bales. We now find ourselves in a position where 12.25 million bales must be exported over the next 30 weeks.

Not only is this a formidable task, it borders on the impossible. Without significant logistical improvements, buyers will be forced elsewhere, and sale cancellations will start to accumulate. Sales commitments, though currently above the five-year average, are somewhat meaningless until exported. Thus, going forward, shipment volume should be our focus rather than sales numbers.

Sales cancellations totaled only 4,100 bales last week, but this could be a precursor of what is to come. Up until now, USDA has overlooked this crisis by resisting any attempt to adjust their estimate. At some point, they will have to take this into account which will likely lead to increased inventories.

As the new year unfolds, we must be keenly aware of the close association of cotton to the world economy. This is seen in the direct relationship of cotton futures to the Dow, as the accompanying chart illustrates. Equity markets weathered the rather ominous events of 2021 posting extraordinary gains in the process with cotton certainly a beneficiary.

Going forward, cotton prices will also be subject to changes in a world economy buffeted daily by inflationary pressures, monetary policy, Covid concerns, and the relationships of world powers.

Where to from here? Over the next few weeks, given renewed spec buying and on call sales support, expect current crop price to maintain its momentum. Nearly 11 million bales of on call sales remain, which must be fixed between now and mid-June as compared to last year's 8.3 million. This represents a great deal of buying power. This week will not be one for the faint of heart as USDA releases its monthly S/D numbers on Wednesday.

Expect trading to be muted leading up to the report, but any adjustments which alter current ending stock numbers will have an impact on the market. Just as important will be Thursday's export report for its weekly shipping volume.

As for new crop, the further out we look the cloudier our crystal ball gets. A host of negatives still exist which could come into play, such as continued supply chain disruptions, changes in consumer behavior as result of inflation, relations with other world powers, Covid concerns, mid-term elections, and the ever-present threat of a black swan event. Not to be all doom and gloom, the demand for cotton is as strong as it's been in years. Simply put, easing logistical logjams will allow us to take better advantage and boost prices along the way.