

Thompson on Cotton: Bullish Numbers Finally Win Out

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By Jeff Thompson, Autauga Quality Cotton



Posting gains for the first week in over a month and a half, it appears the market finally succumbed to trading fundamentals. Last week it was greeted to bullish numbers in both export sales and USDA's April S/D report. As a result, May cotton was up 4.45 cents closing Friday at 82.40.

More importantly, December found its way back above 80 by advancing almost four cents closing Friday at 81.78. We have argued for weeks this market was oversold when considering tight supplies and strengthening demand. The question now becomes will this be seen as simply an extended correction enticing Managed Funds to buy into the market once again?

Export sales were much improved over the prior week. Better yet, cancellations of only 9,000 bales were significantly lower than last week's 161,000 bales. Combined new and current crop sales totaled 326,420 bales, more than double that of last week. Vietnam was the largest buyer, but sales were made to 25 other countries.

Shipments also exceeded the previous week's and was the third best week of the marketing year. Shipments plus outstanding sales now stand at 16.4 million bales with 16 weeks remaining in the marketing year.

The April USDA report was much anticipated in hopes U.S. exports would be raised and production lowered. Exports were increased by 250,000 bales to 15.75 million.

Considering the pace of sales, look for additional upward revisions to be made in the months ahead. Despite leaving production unchanged, U.S. ending stocks fell to below four million bales. Another indication of just how tight supplies are getting.

The world picture was just as bullish, production was slightly lowered while consumption was increased. As a result, world ending stocks were lowered by 1.1 million bales from last month. Interestingly, world trade was projected to increase by 935,000 bales to its highest level in eight years.

Where to from here? December cotton is certainly capable of making another run to the mid 80's. Aiding this cause are the Funds who continue to add to their new crop long position while reducing that of current crop. However, expect a great deal of selling pressure at 85 cents brought about by growers who missed out on the last run or those looking to add to that already priced.

Some momentum will be needed to push beyond this level either in the form of a hiccup in production or continued strong demand. Though its hoped weather patterns will improve, the

accompanying drought monitor shows the Southwest is poised to provide the former.

In conversations with growers over the past few weeks, we have often heard, "if prices get back to where they were, I'm going to price some cotton." When it does, there will be the temptation to hold out. However, keep this in mind when looking at all of the daily closing prices of the December futures between February and November for the past eight years, it only closed at or above 82 cents 20 percent of the days. Food for thought.