

Thompson on Cotton: WASDE Pushes Market Out of 8-Month Trading Range

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The market finally broke out of its trading range this week, reaching an eight-month high of 68.68 and closing up from its previous close of 67.49 at an all new trading level of 67.64.

This week's WASDE report initially dropped the market 70 points, showing lowered global stocks by 2.7 million bales. Global consumption was up two million bales while production was down 934,000 bales. U.S. stocks were unchanged, and the crop was only reduced by 19,000 bales. However, as we mentioned in last week's market report, between Hurricane Delta and more west Texas abandonment, this short crop is undoubtedly getting shorter.

The supply and demand projections for the 2020/21 marketing year in the October USDA WASDE report put U.S. ending stocks unchanged and world ending stocks for July 31, 2021, down 2,708,000 bales from the September 11 estimate.

The U.S. numbers show a decrease in production of only 19,000 bales to 17,045,000 bales, and no change in projected U.S. exports of 14,600,000 bales or domestic consumption of 2,500,000 bales.

The WASDE projections show a decrease in global production of 934,000 bales, and an increase in global consumption of 1,520,000 bales. Most of the world's production loss was in Pakistan (-400,000 bales) and West Africa (-530,000 bales).

Consumption increases were seen in both India (+500,000 bales) and China (+1,000,000). China is also projected to increase imports by 500,000 bales resulting in a net reduction in Chinese ending stocks of 500,000 bales.

While the above numbers should be supportive of prices, if not bullish, the December future contract immediately dropped for the daily high. Prior to the 11:00 a.m. CDT release of the WASDE report on October 9, the December 20 contract was trading at its highest level since February 24, 2020.

The CFTC Commitment of Traders report showed the trade sold futures equal to 902,700 bales, which would be expected with the higher market sparking some grower selling. 128,300 of the trade short move was in options last week – almost no options the week before.

Managed Funds made a slight increase (195,200 bales) to their net long position, adding 168,500 to their longs and reducing shorts by 26,700, with almost all of that in futures and only a net of 2,100 bales in options.

Open Interest continues has increased steadily, from 190,605 futures and options contracts on June 23 to 270,094 on October 6 as the December contract has risen from 59.08 to 66.86 over the same period. June was also when the managed funds went from net short to a net long position.