

Thompson On Cotton: Better News And Slight Gains

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Christmas came early to the cotton market this week via several items of encouraging news. Starving for something positive, the market broke out the top side of a narrow trading range, closing above 67 cents for the first time since mid-July.

Once again, a Presidential tweet fueled the charge. I continue to be amazed at how the market takes his tweets to heart, good or bad. After 18 months of this rollercoaster ride, you'd think the market would want some proof before reacting so quickly and adamantly.

It's the old "buy the rumor, sell the fact" adage. Speaking in superlatives, as he so often does, all it took was for him to say,

“Getting VERY close to BIG DEAL with them, they want it and so do we” and cotton futures posted triple digit gains.

Sustainable? Depends on both sides accepting the proposed Phase One trade terms. Extending an olive branch, the U.S. is willing to cancel the new tariffs scheduled to be put in place Sunday, December 15.

Even more inviting, we will slash the current tariffs on Chinese goods by half. China, on the other hand, must agree to boost their purchases of U.S. agricultural products considerably. U.S. farm exports to China are down 60 percent from their pre-trade war peak.

Both parties signing onto a Phase One agreement would go a long way toward correcting this deficit and provide even more fodder to a starving market.

USDA Numbers Positive To Neutral

In breaking news, a press conference was held in China this morning where it was stated a consensus on the wording of the Phase One agreement has been reached by both parties. Cotton was specifically mentioned.

Quoting a cotton industry consultant in China, “They don’t have any details but feel the press conference was significant and the deal will get signed.”

Also, lending support to this market were two recently released USDA reports. Export sales for the week ending December 5th showed current crop sales at nearly 283,000 bales. This is significant because current crop sales were up 68 percent from last week and up 8 percent from the four-week average.

New crop sales of over 10 million bales exceed those from last year at this same time, a sign that demand may be improving.

The ever-feared monthly WASDE report was released Tuesday. Fortunately, it was a rather neutral report. The numbers given were already being traded in the market.

Highlights of the report include another reduction in the U.S. crop of 600,000 bales, while surprisingly leaving the export estimate unchanged. As a result, ending stocks were reduced to 5.5 million bales.

Be mindful, U.S. exports will have to be lowered at some point because shipping enough over the remaining 39 weeks of the marketing year is becoming physically impossible.

Nevertheless, I do sense an air of optimism though much is based on hope. And how apropos, for this is the Christmas season when we celebrate the one thing which gives us all hope for eternal life, the birth of Christ Jesus. I wish you and your family the merriest of Christmas and happiest of New Year. Looking forward to working with you to make the 2020 crop a successful one.