

# Thompson On Cotton: Looking Past The Short Term

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With all the attention pointed at the coronavirus, I'm reminded of a quote from FDR's first inaugural address when he said, "The only thing we have to fear is fear itself."

He, of course, was referring to resurrecting the economy after the Great Depression. Today, it would apply to the ultimate impact this virus will have on the global economy. Over the past two months, fear has reached panic proportions fueled by rampant 24/7 news feeds.

As a result, public gatherings are being canceled, schools closed, inbound European flights banned, a new term "self-distancing" becoming the buzz, and not to mention the hoarding of toilet paper. Thus, fear leads to extreme uncertainty which often leads to overreaction.

The longest ever bull market for U.S. stocks, dating back to 2009, ended Wednesday. A good indication of the degree of fear now prevalent is the speed in which the Dow Jones went from an all-time high to a bear market, only 19 trading sessions.

## **How Long Until Things Bounce Back?**

Historically, similar declines have taken an average of 136 days. The market has had its share of scares in the past 11 years, such as the European debt crisis, economic decline in China, and the latest trade war. Each time, our economy has had the resiliency to bounce back.

Fortunately, we're confronting this threat with a healthy economy; lowest unemployment in over 50 years, higher wages, consumer spending on the rise, and low interest rates. If this backdrop can be maintained, a rather quick rebound is possible if the outbreak is short lived.

However, if this virus goes uncontained for an extended period, the impact will be severe, sending a vibrant economy into a major recession of global proportions which could take years to recover. We're experiencing something the likes of which has never been seen.

Although uncertainties abound, one thing is for certain, global commerce has been impeded with its true consequences yet revealed.

## **Where Cotton Fits Into This**

Why all the talk about financial markets in a cotton marketing commentary? Well, I never thought I would be discussing epidemiology in one either. In fact, I had to reference Merriam Webster to even spell it.

Unfortunately, the cotton market mirrors the stock market more closely than any other ag commodity. In the same time

it took for stocks to lose 20% of their value, cotton prices fell 10 cents a pound.

Nonperishable and storable, the price of cotton is economy driven, unlike corn and other grains. Though we all must eat, we all don't have to purchase a new pair of blue jeans. This is one reason the cotton market has turned a blind eye to strong fundamental news.

This week's export sales of 484,200 bales was another marketing year high with China as a major buyer. In addition, USDA's monthly WASDE report lowered U.S. ending stocks by reducing the 2019 crop by 300,000 bales and leaving exports unchanged.

## **Gazing Past The Short Term**

Looking ahead, the short-term outlook is for cotton and stock markets to trade in sync. That is quite unnerving in an environment of extreme uncertainty. In previous downturns, the government would eventually intervene with monetary policy in hopes of stabilizing the situation.

To my thinking, 2008 is a good example of this. Although an attempt will surely be made, don't expect similar success for this is not a financial crisis but rather a medical one. Most concerning are those growers still holding old crop cotton. Time is fast becoming an enemy and options are limited.

You can cut bait and get out by pricing. Individuals willing to gamble can then ante up and purchase either a July or preferably a December call option. Lastly, those with an even higher risk tolerance can monitor the May-July spread in search of a favorable place to roll.

As for new crop, the advice would be simply to do nothing at this time short of locking in a basis contract or putting your cotton in a marketing pool. According to the USDA Cotton Market Review, as of March 1 only 647 acres of the 2020 crop

has been forward contracted compared to the same date in 2019 when 45,062 acres had been contracted.

So, I recommend you hold on tight, wash your hands, self-distance yourself and, just to be safe, stash away a roll or two of toilet paper.