

Thompson On Cotton: Volatility Reigns Supreme Amid USDA Reports

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To the casual observer, last week's trading appeared rather boring with May closing at 87.56 and December at 84.20, 30 points or so within where they started. However, nothing could have been further from the truth as volatility continues to reign supreme.

The catalysts were March's highly anticipated WASDE report and the weekly export sales numbers, both resulting in huge opposing price swings. After seeing similar action the week before, we better hold on tight if this is going to be a trend.

As expected, USDA lowered domestic production to 14.7 million bales in its March S/D report on Tuesday. Unexplainably, however, they left exports unchanged at 15.5

million bales. Currently, 14.9 million are committed to sales with 9.2 million already shipped. This compares to only 7.9 million bales shipped at this time last year.

With 22 weeks remaining in the marketing year and another 2.5 million bales under shipping order, it is a good bet the USDA estimate will be surpassed. Nonetheless, their failure to adjust resulted in the market shedding four cents to close limit down.

Oddly, most of this selloff occurred overnight and early morning prior to the release of the report. This is reminiscent of the adage 'buy the rumor, sell the fact' wherein specs took some profits off the table going into the report.

Coming to the rescue was another good week of export sales. Net current crop sales were 224,400 bales, almost three times the weekly average needed to meet the USDA export estimate. Shipments of 375,000 bales exceeded the weekly average needed to meet this estimate, as well.

China was back on top as the primary buyer, but sales were spread across 20 different countries. This is yet another indication that demand is strong and likely to strengthen even more. Under this backdrop of supportive fundamentals, the market experienced triple digit gains all but making up its earlier losses.

Where do we go from here? Expect much of the same as the market reacts to the news of the day. Keep in mind that cotton fundamentals, which have been driving prices higher for months, are just as good now as they were before, if not better. As for December futures, there is firm support at 82 cents as we have seen repeatedly.

Over the next few weeks, look for the market to trade between 82 to 87 cents while it sizes up planted acreage and crop potential. All eyes will be on USDA's planting intentions report at the end of this month. This will greatly impact December

futures as it will then take on a life of its own and be less influenced by the cover month.

Also lending support is a host of outside influences. For one, the recently passed stimulus package will be putting money in the hands of consumers. Additionally, the job market is improving as seen by another drop in unemployment claims while projections are for global GDP to exceed pre-pandemic levels in 2021.

All of these factors have sent the equities market to record heights. Comparatively, commodities are undervalued thus ripe for investment not to mention a haven as inflation is inevitable.

Lastly, with cotton supplies likely to be very tight prior to harvest and a strengthening economy stimulating consumption, any hiccup in the 2021 crop will have prices challenging 90 cents once again.