

Thompson On Cotton: Potential For Mid-70s But Uncertainty Lingers

October 19, 2020

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Like a restless bull trying to find a hole in the fence, the cotton market repeatedly challenged 70 cents in every trading session last week.

Like a sturdy fence, each attempt was thwarted, most likely by harvest selling. But have faith, for those of us who've worked cattle for any length of time will attest that given enough lee way, a determined bull will most often win over.

In this scenario, the bull has been reenergized as cotton fundamentals appear to be strengthening. The question now becomes how strong of an opposing force will grower selling present.

The demand for cotton, beaten down by COVID-19 but vital for any sustained price rally, is showing signs of improvement.

This turnaround is being led by a much-anticipated rebound in the Chinese economy.

Chinese imports jumped 13.2 percent in September from a year earlier, which is clearly a sign that domestic demand is improving and there is a willingness to fulfill the Phase One trade agreement.

In addition, their exports rose 9.9 percent from a year earlier, the quickest pace in over a year.

These two figures point to a robust recovery which many economists think will have China regain their pre-COVID economic growth rate of 5 to 6 percent.

At home, U.S. retail spending rose for the fifth consecutive month with September coming in stronger than expected at 1.9 percent over the previous month. Better yet, the most improved sectors were clothing stores where sales jumped 11 percent and department stores who saw a 9.7 percent increase.

Digging Deeper On Export Potential

This week's export sales were lackluster, with 116,680 bales of 20/21 crop purchased along with 13,200 bales of 21/22. Shipments were up 35 percent from last week at 192,600 bales with primary destinations being China, Vietnam, Mexico and Pakistan.

We should see this improve significantly over the next few weeks. It was reported last week that the Chinese government is strongly discouraging Chinese textile mills from importing Australian cotton. If so, this could open more of the Chinese market to U.S. exports.

USDA's global mill use estimate is 114 million bales, a 12 percent increase over last year. Of course, China and India will drive this but expected gains in Pakistan, Bangladesh, and

other countries give further credence to a recovery in the overall global supply chain.

USDA Hasn't Caught Up With Losses Yet

As for production, we continue to abide by the adage a short crop often gets shorter. USDA's failure to lower the U.S. number last month was most surprising given the weather calamities we've experienced.

A reduction of only 19,000 bales? In Alabama alone, Mobile and Baldwin counties could almost account for that thanks to Hurricane Sally.

Keep in mind that during the previous 20 years, USDA's October U.S. production estimate was higher than the final number 11 times and below eight times (no forecast was made in 2013). Thus, the chances are two out of three that the 2020 crop will range between 15.6 million bales and 17.4 million bales.

Mid-70s Ahead...But Uncertainty Exists

Where do we go from here? Closing the week at 69.92 after briefly trading above 70 cents, the market gained 228 points on the week and has all but rebounded from its April low of 50.18.

With the uptrend still intact, we are optimistic prices will push into the 70s. Supportive is a growing net long position by the funds which now stands at almost six million bales, their longest position since January 2018.

Although one could worry this is extreme, they've been higher several times including 10 million bales in 2018. Improving fundamentals favor a move higher, certainly not encouraging a move short.

Nonetheless, with an abundance of uncommitted cotton in the hands of growers, harvest pressure will be an influencing factor. Considering where prices have been 70 cents or near it is the magical number for most.

This explains the thwarted attempts to move higher this past week as sell orders were triggered. Presently, a strong basis being offered for high grades is garnering grower attention.

Reminiscent of a few years ago, a positive basis of 300 to 400 on the month puts one selling near the mid 70s. How long this holds depends on the availability of such qualities, which likely could be scarce.

All this said, I would be remiss if I didn't remind everyone uncertainties remain on the horizon, the most notable of which is a contentious Presidential election less than one month away where, more than ever before, the outcome of which and/or acceptance by either side will have a huge impact on all markets.