Thompson on Cotton: Tugged by Opposing Forces, Looking for Direction

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Low volume trading yielded little in the way of price movement for most of last week. That was until Thursday when, for no explainable reason, Christmas came early as March futures traded limit up. Unfortunately, absent any follow through trading on Friday, the Grinch snatched back most of these gains leaving March up a penny on the week and December unchanged at 107.30 and 90.04, respectively.

Economically, the week was highlighted by the Fed altering their stance on inflation. Once touted to be transitory and easily resolved, they now believe it to be the product of an over stimulated economy requiring drastic changes in monetary policy. In addition to consumer prices at their highest level since 1982, prices paid by producers for materials rose 9.6 percent, the highest jump ever recorded in the month of November.

As a result, the Federal Reserve hawkishly announced the end to their bond purchasing program as of March thus setting the stage for multiple interest rate hikes in 2022. Conventional wisdom would view this as negative for stock and commodity markets for traders tend to leave stocks following rate hikes and a stronger U.S. dollar makes commodities less competitive when exporting.

Therefore, the markets' positive response on Thursday took everyone by surprise. Maybe Thursday and Friday's give and take was encouragement a plan was finally being implemented followed quickly by the realization things will only get worse before getting better. The brakes need to be found before consumer spending falls prey.

Exports sales were mediocre last week as combined current and new crop sales approached 350,000 bales, down 16 percent from the previous week but up 13 percent from the four-week average. Shipments continue to be dismal. 140,000 bales were exported last week putting us 2.3 million bales behind last year's pace.

With the number of anchored unloaded vessels mounting, this problem is far from being resolved making our 15.5 million-bale export estimate near impossible.

Where to from here? The market is looking for direction while being tugged by opposing forces daily. This is evidenced by the specs still sitting on the sidelines maintaining their reduced net long position of 6.9 million bales.

Short term, prices should trade around current levels. Firm, underlying support can still be found with on call sales (buying of futures) outnumbering on call purchases (selling of futures) by 10.3 million bales.

Long term, something to watch is the large invert between December 2022 futures and the current cover month, which now is a sizeable 17 cents. Carry will be forced on the market at some point over the next several months.

The question then becomes if the market will look at new crop December as too cheap or current crop March too expensive. Both fundamentals and macroeconomic factors will greatly influence the direction it takes. We remain cautiously optimistic prices can stay above a dollar, but our optimism is being tested.