Thompson on Cotton: A Faint Uptrend, Maybe to 70 Cents

September 20, 2020
By Jeff Thompson, Autauga Quality Cotton Association

Let me first extend our thoughts and prayers to all those impacted by Hurricane Sally. This intense storm wrecked the lives of many as it slammed into the Gulf Coast this past week, slowly making its way through the Southeast and dropping copious amounts of rain over half a million acres of cotton that was only weeks from harvest was in its path.

Though it may be weeks before actual losses are known, this area's crop stood to be an excellent one but now will suffer extensive damage to yield and fiber quality.

Given these potential losses and USDA's recent one-million-bale reduction, one would think prices would be poised to advance. Instead, the market barely batted an eye. Such a tepid reaction was somewhat puzzling as the week was filled with optimistic news, lacking little if anything negative.

On Monday, it appeared it was going to do just that as it reached highs not seen since February 23 of this year, closing at 66.62 after trading briefly at 66.87 on heavy volume. This was thought to be a follow through day after USDA's favorable S/D numbers rather than the fear of Hurricane Sally, which at the time appeared to be weakening.

Also, crop conditions remained unchanged from the previous week, with a sizeable portion rated good to excellent. Unfortunately, this was as good as it got over the course of the week. From these highs, the market surrendered 100 points to close Friday at 65.66.

On Wednesday, Hurricane Sally intensified and pummeled the Gulf Coast along the Alabama-Florida state line. Moving slowly northeastward, rainfall totals were measured in feet rather than inches with some areas exceeding 30 inches in a 24-hour period.

Sadly, Sally couldn't have picked a path containing more cotton acres. It will be days or weeks before true losses are known but, all things considered, losses could approach 150,000 to 200,000 bales, not to mention fiber quality issues.

Limited Lift From Upbeat Export Activity

On a more positive note, Thursday's export sales report was outstanding. Net sales for the week totaled 519,000 bales with China accounting for 400,000 of these.

Most important, this was the largest volume of sales for any one week since January 22, 2015. Here again, one would think the market would take this good news and run with it. Instead, it suffered its worst loss of the week, albeit only 52 points.

It's likely the market was already trading this information given the trade increased their long position last week by 1.2 million bales, indicative of a large volume of sales.

Upon taking a closer look, purchases were made by 14 different countries. Absent for months, this suggests demand may be improving outside of China, something desperately needed if prices are to find their way back into the seventies.

In addition, the week brought favorable news on the economic front. The Fed indicated interest rates would remain at current low levels for a few years, the Dollar declined further as inflation fears subsided, unemployment claims were slightly lower, and monthly retail spending rose for the fourth consecutive month although at a slower pace than last month.

All seem to indicate our economy continues to be on its slow path to recovery.

Where do we go from here? Although slightly down for the week, prices remain in an uptrend. There is firm support at 65 cents as seen by mill fixations and purchases being made on market dips. Currently, 69 to 70 cent is the upper side of the trend line while the next level of resistance is 67.50.