

Thompson on Cotton: Market “Plowing Through Resistance”

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By Jeff Thompson, Autauga Quality Cotton



Undeterred by an economy which seems to be hitting the brakes, the cotton market is plowing through resistance levels at a breakneck speed. Closing Friday at 77.16, it gained over three cents on the week, nearly six cents for the month, and up an astonishing 30 cents since the rally began in April.

Given this meteoric rise, overheated conditions must remain a concern. As more and more people buy into a market, you run out of buyers at some point. It reminds us of the old adage, “A bull must be fed daily.”

In April, this bull market began with the hope our Covid-damaged economy would experience a quick V-shaped recovery. Short of experiencing this, encouraging economic data throughout the summer fed the market. Now with a resurgence in Covid cases, economic indicators are signaling an even slower rebound.

Consumer fear and imposed restrictions are applying renewed pressure on these recovery efforts. There were 835,000 new claims for unemployment last week, a 16 percent increase over the previous week. Even worse, a significant decline in job growth is being seen as only 245,000 new jobs were added in November compared to the 600,000 added in October.

Furthermore, retail spending in November fell by 1.1 percent at a time when holiday shopping historically boosts sales. This was the biggest plunge in spending since April of this year. Closer to home, clothing and apparel sales fell by 6.8 percent.

Despite such lackluster economic news, the cotton market continues to feed from the trough of favorable USDA numbers and stellar export sales. As expected, last week's sales topped 400,000 bales for the second consecutive week. China was the predominant buyer followed by Pakistan, Vietnam, and Turkey. Total sales commitments for the marketing year stand at 11.2 million bales, the largest number for week 19 since 2010. Also, shipments of nearly 275,000 bales exceed the pace needed to meet USDA's export estimate.

What lies ahead for the week? It's hard to imagine the market's torrid pace can be maintained. The higher it goes, the more dependent it becomes on a steady diet of favorable news. As per the Commitment of Traders report, the trade was a net seller of futures.

This suggests they bought more cotton from producers than they sold to mills, so don't expect this week's exports sales to be as strong as the previous two. However, the Funds added another 1.1 million bales to their long position hence the three-cent advance. This was their biggest long move since July.

The contrarian in me says beware when everyone gets on the same side of the boat. Though there appears to be strong support at the lower end of the trading range, consider the upper 70's as a harvest gift. Don't let this pricing opportunity pass you by without covering a good portion of your crop.

Resist the temptation to chase the market, but if the lure of this is too great, employing an option strategy would better minimize your risk.

Many are already turning their attention to their 2021 crop, not surprising with December cotton futures closing Friday just shy of 74 cents. We at Choice Cotton stand ready to assist you by offering a host of marketing services, including a competitive basis contract for those looking to forward price a portion of their crop. Call us at 334-365-3369 if we can be of assistance. Have a very Merry Christmas!