Thompson on Cotton: Market Movements Under The Direction Of News Events

November 22, 2020
By Jeff Thompson, Autauga Quality Cotton Association

Both December and March futures opened and closed last week on a positive note. Triple-digit gains on Monday were in response to another promising Covid vaccine trial, while Friday’s similar advance was fueled by a host of favorable technical indicators.

For the week, December rallied almost 2.5 cents. March, now our focus, also picked up 2.5 cents to close at 72.96.

With all the outside forces at work, both a bullish and bearish argument can be made, depending on your interpretation. Thus, we seem to be in a holding pattern, with the orderly expiration of December and March awaiting clearer signs of demand.

Last week's trading activity, most notably Friday's, speaks well for the weekly charts, which settled near the high of an uptrend channel that began in early April and is very encouraging.

This didn't go unnoticed by the funds who maintain a sizeable long position currently near a 5.5 million bale equivalent, despite some minor profit taking during the roll period.

Monday's conditions report should show over three-fourths of the U.S. crop is out of the field. Going forward, given a truer view of its size, the market will look to demand for guidance rather than supply.

Consumer Spending – The Covid Complication

This week's export sales were disappointing as only 131,400 bales of upland cotton were purchased, down 45% from last week and 40% below the four-year average. Vietnam and Pakistan continue to be major buyers, the latter of which suggests their domestic production is off considerably.

The above number also included a 24,600-bale cancellation by China, which bears watching, especially with the likely change in administration to one that may be more forgiving of China than the previous.

However, our penchant for printing money and the resulting decline of the dollar should enhance our competitiveness in world markets.

It goes without saying that consumer spending is vital to cotton consumption. It's here the picture becomes less clear.

Last week, new reported Covid cases in the U.S. set daily records topping 187,000 on Thursday. In addition, hospitalizations have been up 50 percent in the last two weeks.

As a result, tighter economic restrictions are being put in place throughout the U.S. and other countries. There is every indication this could worsen through the winter months.

Subsequently, last week’s unemployment claims rose slightly for the first time since spring, remaining three times higher than pre-Covid times. A second wave of the virus and the fact various government assistance is set to expire December 31 is all weighing heavy on consumer sentiment.

This can be seen in October apparel sales, which were down 4% from September. Though considering the gains of mid-summer, this is most likely due to prior stimulus money being exhausted. But returning to our half-full glass, we are ever closer to a successful vaccine as seen in recent trial data.

Also, odds are another stimulus package of some sort will be forthcoming. All this said, there must be a great deal of pent-up demand amongst consumers which will be seen once their confidence is restored.

Until then, look for cotton prices to remain in its narrow trading range but steered by the news of the day and its effect on demand.

Taking A Quality Hit In Certain Areas

Back to cotton fundamentals. In the Southeast – most notably in areas serviced by the Macon classing office – we are experiencing an extremely high incidence of seed coat fragments in cotton, the degree of which we have never seen before.

It’s extremely frustrating to not only lose several hundred pounds from a potential record yield but then be discounted 5 cents or more on what is harvested.

Don’t expect this to get better even on cotton ginned later because the damage has already occurred. Just another reason to say good riddance to 2020.