

Thompson On Cotton: Seeing A Trend Toward 80 Cents?

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By Jeff Thompson, Autauga Quality Cotton Association



Given it was a holiday week with traders' minds likely elsewhere, there was little in the way of market expectations. Surprisingly, however, significant price swings occurred each day, with March posting a slight gain for the week closing at 73.36.

Although Covid concerns continue, good news on the political and economic fronts had an offsetting effect. This was followed by Friday's excellent export sales report, priming the market for a good week ahead as the eight-month-old uptrend remains intact.

The rise in newly reported Covid cases was met Monday with yet another company releasing positive trial results for a possible third vaccine. Encouraged by this, investors pushed the Dow to heights never seen over 30,000. All other markets, including commodities, reacted favorably.

In addition, political uncertainties were eased when President Trump, though sidestepping a concession speech, did agree to begin the transition process to President-Elect Biden thus calming some economic anxiety.

Consumer Spending: A Little Light Ahead?

Positive economic data released last week suggests the demand for cotton could be strengthening. The National Retail Sales Federation expects holiday sales to increase by 5.2 percent in November/December over a year ago.

As a sign of changing times, online sales are estimated to increase 30 percent from those of last year. Also, foot traffic in malls seems to be improving with mall visits in August at 54 percent of those pre-Covid while in October that percentage rose to 71 percent.

A good indicator of overall economic health can be seen in the manufacturing and services purchasing managers index. The service managers index now stands at 57.7, the highest in five years. In addition, the purchasing managers index is currently 56.7 percent, a six-year high.

So, barring a post-holiday Covid surge requiring tighter restrictions, there seems to be some light at the end of the tunnel with consumers itching to buy.

A Nice Buying Trend

As for cotton, the best news of the week came when the export sales figures were released on Friday. As a result, the market advanced 88 points on the day. Current crop sales of 381,560 bales totaled 420,040 when combined with new crop sales.

To put these numbers in better perspective, they are three times higher than last's weeks, two times that needed to meet the USDA export estimate, and 80% above the four-year sales average.

Vietnam, the largest purchaser, bought 189,000 bales followed by Bangladesh with 88,000. Even though China did cancel 63,000 bales, they were net buyers of 38,000 bales. This supports what has been perceived as an increase in global cotton consumption.

Where do we go from here? If not for some pre-holiday profit taking by the specs, last week's optimistic news would have driven the market higher.

The weekly charts reflect firm support at the 71.50 to 72.50 level while technical indicators suggest a March close above 74 cents would set the next price target at 80 cents. Early week trading activity should continue to favor these positive export sales numbers.