

Thompson on Cotton: Kneejerk Selloff to Fresh COVID News

November 29, 2021

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With markets it's often not what you know, but rather what you don't know or the unexpected that can be most concerning. Last week's cotton market was a perfect example. Trading rather passively leading up to Thanksgiving, most thought Friday's abbreviated session would be a non-event as traders nursed holiday hangovers.

Instead, to everyone's surprise, March futures traded limit down at one point before bouncing off its low to close the week at 111.78, a loss of over four and a half cents. This huge one-day selloff was in sync with equity markets as the Dow shed 905 points (2.5 percent), its biggest one-day percentage drop since October 2020.

Word of a new mutant strain of Covid, the Omicron variant, that is rapidly spreading throughout South Africa was responsible for this reversal. The U.S. and several other European and Asian countries have imposed travel bans both in and out of the country beginning today.

Early indications show this variant to be more highly transmissible than the Delta strain. Thus, there is renewed fear further restrictions may hinder global economic recovery efforts.

It bares mentioning South Africa is one of the least vaccinated countries with only 24 percent of the population immunized for Covid.

Though blindsided by this news, we were greeted by improved export sales figures. Combined current and new crop sales of 262,560 bales were up 60 percent from the previous week and 18 percent higher than the four-week average.

Shipments, on the other hand, remain troublesome with 103,380 shipped last week, far below the 346,500 bales a week needed to meet export estimate.

Where to from here? We all knew the market was in an overbought condition. Even absent newfound Covid threats, a market correction was widely anticipated. Look at Friday's selloff as simply a knee jerk reaction to unexpected news. As more is learned about the Omicron strain, fears will certainly subside, and this will be seen as a healthy correction before advancing higher.

Giving us greater confidence is the fact it rebounded 100 points off its low in late day trading. This lends credence to the belief any sharp declines will be viewed as pricing opportunities for mills holding a heavy volume of on call purchases.

Also, it appears consumers have not quenched their appetite for spending as evidenced by heavy Black Friday shopping traffic, both in store and online. Such consumer behavior should strengthen the demand for cotton in the months ahead.

In another observation, we were pleased to see new crop prices fared much better as December 22 futures lost only two cents on the week closing Friday at 89.77

The takeaway here is always expect the unexpected. Just ask any Crimson Tide fan Saturday night as they were very near victim to another one of our War Eagle miracles. But seriously, never discount the unknown when managing price risk. We at Choice Cotton are here to assist in your marketing efforts.