# Thompson on Cotton: Strengthening Demand Ahead of USDA Numbers

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As prices fell below 90 cents following the previous Friday's correction, we began last week uncertain as to the direction the market would take. Rather than see this extended, our hope was traders would steady themselves while awaiting USDA supply/demand numbers.

Instead, but to our good fortune, just the opposite occurred. The market posted gains for five consecutive days albeit in low volume. Nonetheless, a new closing high of 91.70 was reached while in intraday trading it challenged 92 cents.

Doing so in the face of a rising Dollar, a resurging virus, and souring China relations is testament to the market's strength, a strength built on growing demand as vaccine availability, business reopenings, and pent-up consumer demand spur economic recovery.

A host of recently released economic data supports this claim and was a catalyst for the price rally. Most notable were better than expected improvements in the U.S. labor market. In July, 943,000 jobs were added reducing the unemployment rate to 5.4 percent, its lowest level since March 2020.

At the current pace, employment will be back to its pre-pandemic level by next February. In addition, the average wages of those working increased by 1.4 percent. In other news, banks are now reporting business clients are sitting on record amounts of unused credit, in the trillions of dollars. As supply chain and labor issues improve, they are poised to put this money to work thereby prolonging economic expansion.

At first glance, last week's export sales were less than stellar. New crop sale commitments now total 3.4 million bales. We will start the 21/22 marketing year with the smallest volume of outstanding sales in the last five years.

However, this should not be seen as a lack of demand but rather a reflection on tight cotton inventories and the undesirable qualities remaining. As a result, and with harvest fast approaching, mills are opting to delay cotton purchases.

On Thursday, the market will be closely watching export sales figures and USDA supply/demand numbers for confirmation cotton fundamentals are strengthening. In typical USDA fashion, it would not be surprising if U.S. production was increased as recent sunshine and heat have benefitted a late crop currently rated 60 percent good to excellent.

However, this is a constant moving target especially with long range forecasts calling for below normal rainfall over the next several weeks. Adding to the risk, NOAA predicts there will be 15 to 21 named tropical storms this fall with three to five of these becoming major disturbances.

Ironically, with the month of August deemed the beginning of peak season, we are tracking a chain of three in the Atlantic as of this writing. That said, U.S. and world ending stock numbers will garner the market's greatest attention.

It’s expected mill demand will force USDA to bullishly reduce projected ending stocks once again.

Where to from here? We would say the market will quietly await Thursday’s announcements. However, with current influences mostly positive and the market’s resilience to those which aren’t, an early week run to the mid 90’s is not out of the question. But come Thursday, it’s all about meeting traders’ expectations.

Through Tuesday, August 3, managed money increased their net long position by 3,044 contracts. We see little reason for them to abandon this position in light of rising inflation, tight cotton supplies, and crop uncertainty. Take comfort that firm support still underlies this market at 88.50 to 90 cents.

Looking beyond the 2021 crop, December 2022 futures closed Friday at 82.25. This is an excellent pricing opportunity being its four to five cents higher than where many growers began pricing this year. If you would like to discuss marketing options for either the 2021 or 2022 crops, please contact Choice Cotton.