Thompson on Cotton: Two Weeks of Gains Erased

May 15, 2023
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Outside forces continue to dominate the market, so much so, favorable fundamentals were overlooked last week. Despite strong export sales and an encouraging WASDE report, cotton prices declined on renewed recession fears, political wrangling over the debt limit, and additional bank scares. Not limited to cotton, all commodities suffered significant setbacks. As for cotton, two weeks of gains were erased as July futures settled at 80.53 losing 337 points while December closed at 80.15 down 312 points. Quite frankly, with weather conditions improving in the Southwest it's surprising the market managed to stay above 80 cents.

Though inflation may be cooling, the current pace is unsatisfactory to the Fed. Consumer prices fell below five percent in April for the first time in two years. This marked the tenth consecutive month prices have declined from a peak of 9.1 percent. In addition, supplier prices rose at their slowest pace since June of 2021. Nevertheless, results of a recent Gallup Poll indicate consumers are getting used to higher inflation as only nine percent see it as the nation's most pressing problem. Obviously, the more accustomed we become the longer it is likely to last. This will in turn cause the Fed to choose between inducing a deep recession by additional rate hikes or forgo their two percent inflation target. It is doubtful they will choose the latter for fear of a return to the early 1980s, despite the pressure this is applying to regional banks.

Political football continues to be played in D.C. where our national debt is concerned. The only losers here will be the spectators. A closed-door discussion on both sides of the aisle was postponed last week. With bankruptcy looming, some risk managers fear what was once unthinkable. Some believe there is a five to ten percent chance our government leaders, I use that term loosely, will allow this to happen all in the name of political gain.

On a brighter note, export sales and shipments remain strong as last week's net sales totaled 246,800 bales, and shipments of 331,000 bales once again exceed that needed to meet estimates. In addition, the May WASDE report revealed some encouraging numbers. Domestically, for the current marketing year, exports were raised 400,000 bales to 12.6 million while 2022 production was lowered to 14.5 million bales bullishly reducing U.S. ending stocks from 4.1 million to 3.5 million. This coming year, production was revised upward to 15.5 million bales while exports were raised to 13.5 million bales thus leaving the U.S. ending stocks unchanged. Globally, for the 23/24 marketing year its estimated world-ending stocks will decline to 92.28 million bales as a result of lower production and a significant increase in consumption.

Where to from here? Cotton prices have traded sideways for almost eight months searching for direction while balancing macroeconomic and geopolitical news with fundamentals. It is safe to say that given such a lengthy price consolidation when there is a break in whatever direction it is a noteworthy one. It is very difficult to find any positives to spur this market on though negatives abound. Most likely our economy and those abroad will get worse before getting better. The current political divide will certainly widen as we move toward an election year. While changing weather patterns in the Southwest could unfavorably alter cotton’s supply/demand balance sheet. Managed funds that will determine market direction still hold a net short position. Considering all this, eighty-cent cotton may look very appealing come harvest.