

# Thompson On Cotton: Caught In A Squeeze

April 10, 2023

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For most of the week, the market traded aimlessly looking for guidance. Renewed recession fears, early on, forced a decline from the previous week's highs. Even so, it found firm support at 81 cents. It did finish strong, however, on some encouraging global news to settle the week relatively unchanged. May futures closed at 83.02 for a gain of 24 points followed by December futures finishing at 83.42 for a small loss of 18 points. Its ability to build on Thursday's move will be tested as a host of key market indicators are scheduled for release this week.

As mentioned, news from abroad was positive. China's highly anticipated Post Covid economic recovery does appear to be real. Their manufacturing index expanded once again for the third consecutive month. On an even more encouraging note, the Saudis announced they would aid Pakistan in acquiring an IMF loan. This could relieve their present financial troubles and further open up trade.

Thankfully, such positive news overshadowed a rather mediocre export sales and shipments report. Current crop sales of 164,900 bales were down 42 percent from the previous week with China and Vietnam the major buyers. Shipments also fell to 251,600 bales, slightly below the weekly average needed to meet export estimates with 17 weeks remaining in the marketing year. Pakistan deliveries remain well off the pace needed to fulfill their total sales commitments of almost a million bales. Hopefully, this will improve when IMF loan proceeds are secured.

The market continues to be caught in a squeeze. The managed funds, still holding a net short position, are not there to provide any upward price momentum. In addition, the large volume of current crop cotton still in the hands of growers when priced will serve to stifle any significant advances. We have seen more grower pricing as of late as expectations are being lowered. Nonetheless, the spread between unfixed on-call purchases over unfixed on-call sales is the largest it's been this late in the year since 2012. Obviously, until the current crop is put to rest any price rallies will be short-lived.

Where to from here? Be prepared for a bumpy ride this week as the market will be closely watching numbers from several key reports. On Tuesday, April World Supply and Demand figures will be released by the USDA. Considering the time of the year, it's unlikely they will make any drastic revisions from the previous month. Tuesday and Wednesday, we will get a good read on inflation as the consumer price index and producer price index will be announced. Equities markets will want to see a taming of inflation with commodities sure to mimic their reaction. In addition, retail sales figures will be presented Friday. Again, we encourage those still holding old crop cotton to view current levels as a pricing opportunity, especially since action must be taken on May-based contracts by the 20th of April, three days prior to FND. For the gamblers reading this, to your good fortune, the spread between May and July has narrowed considerably only 27 points on last Thursday's close. This allows for a relatively inexpensive roll to July.