Thompson on Cotton: The debt Limit Debate

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Though still in the confines of a seven-month-long trading range, excitement was rampant last week as July futures traded within 150 points of the top end. Reaching 87.98, its highest level since early February, it closed the week at 86.72 for a gain of over six cents. Such a move was most unexpected as it defied the grain markets, and a host of negative influences still exist. These being a strong dollar, persistent inflation, questionable demand, large global inventories, and rainfall in the Southwest. However, prompting the rally could be favorable WASDE consumption numbers, a potential resolve to the debt limit crisis, rumors of large overseas sales, and simply being oversold. Whatever may have spurred them on managed funds rush to cover their shorts, which were more heavily weighted toward July, thus new crop futures didn’t benefit as much but still advanced 374 points to close at 83.89. The Funds have now reduced their net short position to 1.27 million bales, their lowest level in months.

The debt limit debate took center stage last week. After days of debate, it appeared the two political parties were nearing an agreement. All markets, equity, and commodity alike, reacted favorably to the news. However, in true D.C. fashion, these talks fell apart by week's end. How this plays out over the coming week will greatly influence the direction these markets take. In other economic news, retail sales in April exceeded those of March by 0.4 percent. This is the first time in three months sales have increased from the previous month. Another sign of consumer resiliency in the face of inflated prices and something which could negatively influence the Fed's potential pause in interest rate hikes.

Last week's highly anticipated export report was disappointing to say the least. Current crop sales of 132,400 bales were down forty-six percent from the previous week. Fortunately, shipments remained unchanged at 332,700 bales. Items of note, China was the primary buyer possibly due to their 2023 crop is getting off to a rather bad start, the same is true with other foreign-producing countries.

The soil moisture situation in West Texas is much improved. The past week saw rainfall across a wide area of the region with some accumulations as high as four to five inches. There is growing belief the change in weather patterns is coming early enough to have a favorable impact on the crop. Cotton producing areas in west Texas experiencing some type of drought conditions fell from 77 percent to 74 percent. Even better, that said to be in an extreme drought dropped thirteen percent from 28 percent to 15 percent.

Where to from here? Can the market build on last week's advance and finally breakout to the high side? Last week's rally was largely driven by two factors which didn't pan out, extending the debt limit and strong export sales. To do so will require a resolve among political parties which is likely to occur at the final hour. Also, demand for U.S. cotton must improve. But if production woes in China, Pakistan, Turkey, and India continue to persist these countries will be forced to purchase from the U.S.