# Thompson On Cotton: Market Desperately Searching For Direction

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After falling a precipitous 173 points on Monday, cotton prices found some footing and traded narrowly from that point on. March futures settled at 79.42, a loss of 157 points. It is obvious this market is desperately searching for direction. Unfortunately, for now the only steering currents are a lack of demand and grower pricing pressure. Both of which are sure to stymie any significant advances. Keep in mind, price rallies are only sustainable when based on increases in consumption. It is here I worry for the latest economic data points to a consumer spending outlook that is deteriorating.

Up to this point consumers have fueled our post-pandemic economy. Our nation's Gross National Product (GDP) grew at an annual rate of 5.2 percent last month compared to annual growthof only 2.1 percent a year ago. Constituting 70 percent of the GDP, consumer spending exploded as individuals exited the confines of Covid ready to live life again. And of course, the American way is to overindulge which is fine until it is time to pay the piper. That time may be near as credit card balances have doubled since 2003 to 4.8 trillion dollars, yes trillion! Five hundred billion of this accumulated since 2021, the biggest two-year jump ever. In addition, savings are being depleted at a rapid rate. During the pandemic, consumers stashed away ion dollars in excess savings to have as of June of this year less than 190 billion left. With Covid accrued excess savings depleted, facing high-interest credit card debt, not to mention housing costs at a forty-year high, consumers will be further forced to limit spending to discretionary items of which cotton products take a back seat.

However, and ever in search of a half full glass, there is some encouraging news. With inflation cooling and a slowing job market, the Fed should be encouraged to pause on rate hikes at their meeting next week. Some economists are even suggesting rate cuts as early as next year if these improvements continue. The equity markets having their best month of the year in November and a bond market having its best month since 1985 seem to be betting on it. Even so, there has always been a twelve-to-eighteen-month lag period before repercussions from Fed actions are truly felt. If so, the worst may yet be seen while an economic recovery to the point of stimulating consumer demand is well into the future.

Export sales last week were at a five-week low with Vietnam replacing China as the primary buyer. Net upland sales for this marketing year were 217,700 bales while 15,400 bales of next year's crop were purchased. In the short term, little improvement in world trade is anticipated. Total current sales commitments stand at 7.8 million bales versus 8.7 million a year ago. Shipments remained dismal at less than a hundred thousand bales.

The latest on call report showed the imbalance of unfixed on call purchases (that to be priced by growers) to unfixed on call sales (that to be priced by mills) at its lowest level in eleven years. Why is this important? A larger number of unfixed on-call sales represent buying power in the futures market while the opposite is true with unfixed on-call purchases. Mills are waiting to see how low this market will go before pricing since they have the luxury of time. On the other hand, growers are getting anxious as the need for cash limits their time.

Where to from here? Before you go jump off a cliff, after this bearish outlook remember the storm is always darkest before dawn. Also, believers in the contrarian theory can pin hopes on when everyone gets on the same side of the boat it often tips over. To our good fortune, the much-needed managed funds have been small net buyers for the past two weeks but even so hold a neutral position. The support – resistance range for March futures has shifted both lower and wider. Strong resistance can be expected at 82 cents with support found at 77.50. Alarmingly, technical traders tell us chart formations are beginning to indicate a break to the downside.