Thompson On Cotton: Markets Can Be Very Fickle

December 12, 2023
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Markets can be very fickle. After lingering aimlessly around eighty cents for most of last week, current crop futures traded limit up Thursday for no apparent reason. Certainly, a head-scratcher for it followed mediocre export sales and little fundamental or economic news. Nevertheless, cotton prices had their biggest one week jump since late August closing Friday at 81.44 for a gain of 202 points.

Highly anticipated were December supply/demand numbers, which fell in line with expectations and got little market reaction. U.S. production reduced to 12.8 million bales would be our smallest crop since 2009. U.S. exports remained unchanged at 12.2 million bales. However, domestic use was lowered to 1.9 million. Subsequently, ending stocks fell slightly below expectations to 3.1 million bales.

Similarly, world production lowered to 112.9 million bales would make it the smallest crop since 2015. Unfortunately, world use was reduced by a million and a half bales to 113.7 million, almost two million bales below expectations. As a result, world-ending stocks are projected to increase to 82.4 million bales. With little initial reaction, the question becomes will traders return with a hangover after a weekend of digesting these figures?

Export sales, as previously mentioned, were mediocre at best. Net sales totaled 122,932 bales but included 43,000 bales of cancellations. Once again. China was the major buyer, accounting for half of these purchases. Shipments were up slightly at 147,135 bales, but well below the pace needed to meet export estimates.

On the economic front, a cooling job market is welcome news ahead of this week’s Fed meeting. Current job openings fell to a two-year low while unemployment climbed to 3.9 million, the highest level since January of 2022. Only 199,000 jobs were added last month, well below the monthly average of 240,000 bales seen over the past year. Long since a wrench in efforts to fight inflation, a declining job market should curtail the Fed from hiking interest rates while setting the stage for rate cuts in 2024.

Where to from here? Surprising as it was to see the market trade limit up, the fact there was no follow-through is not a surprise. What may have prompted this move? It is thought by many the large volume of cert stock taken up represents hidden demand. In addition, technical buying was triggered as various daily moving averages were crossed. However, once prices moved beyond eighty cents growers saw an opportunity to hedge more of their crop thus stalling further advances. Look for our current trading range to remain intact, at least until more of this year’s crop is priced. After which, demand will be a driving force. One should note with U.S. ending stocks projected near historic lows it would not take much of an uptick in cotton consumption to boost market prospects. On our side, for the third week in a row, managed funds were buyers increasing their net long position to an equivalent of 220,000 bales.

This week markets will be eyeing a deluge of economic data. Tuesday’s CPI will be followed by Wednesday’s PPI and Fed announcement. Export sales, retail sales and jobless claims will be revealed on Thursday.