Thompson On Cotton: Current Demand Remains Weak

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Cotton prices for the week traded in a high-to-low range of only 190 points. Every attempt to move beyond eighty-two cents was quickly stifled by grower selling while downside support held firm at 80 cents before giving way slightly on Friday closing at 79.83. This was disheartening when at the same time the Dow, S&P 500, and NASDAQ were hitting all-time highs.

Positive economic news stole the headlines last week. November's consumer price index rose at an annual rate of 3.1 percent. Though above the Fed's target two percent, the downward trend continues. Sadly, inflation still exists in many categories. As seen by this month's core CPI, which excludes food and energy costs, rising at a much faster pace than in previous months. The Federal Reserve, however, overlooked this conundrum and kept interest rates unchanged. Better yet, Chairman Powell went as far as to suggest a series of interest rate cuts might be forthcoming soon. Upon hearing this, the Dollar tumbled, and equity markets skyrocketed to record highs. Despite household budgetary restraints consumers are consumers are still spreading holiday cheer as retail sales in November rose 0.3 percent month over month and 4.09 percent year over year. Nearly all sales categories benefited. Of most importance to us, clothing and furnishings both saw significant increases in retail sales. Such a resilient consumer lends hope that a boost in cotton consumption is very possible especially given a soft economic landing and a decline in borrowing costs.

Nevertheless, current demand remains weak. Last week's net export sales were dismal 65,500 bales which alarmingly included a 56,000-bale cancellation from China. Shipments were also disappointing at 148,700 bales. Both are well below the pace needed to meet export estimates. The accompanying chart best illustrates the decline in U.S. exports over the past three years. Certainly, a woeful world economy contributed to these declines but formidable export competition from Brazil took a toll, as well.

Given an ideal harvest season along with a short crop, it's no surprise we are quickly putting bagging and ties on this year's crop. A fourth of 458 gins operating this year have finished ginning compared last year at this time when only a fifth were done. Texas, Alabama, Georgia, and North Carolina have the most still operating. Thus far, 9.8 million bales have been classed out of a projected 12.8 million bale crop.

Where to from here? Little data is scheduled for release this week aside from export sales and personal consumer expenditures. For weeks prices have been trading in a range between 83.13 – 78.59 to find themselves currently floundering near the bottom. Technically, March closing Friday below the week's previous low of 80.60 signals a bearish trend putting prices in a position to retest long-term support at 77 cents. As always, managed fund activity will play a key role in this. Net buyers for four consecutive weeks, they have accumulated a net long position of 900,000 bales. Nevertheless, with prices climbing only sixty-seven points one must question their commitment.