Thompson On Cotton: What Is Really Influencing the Market?

November 6, 2023
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After months of repeated challenges, our biggest fear was market support in the low 80's would break. How appropriate it would do so Halloween week. It appears sellers were spooked by frightful technical signals and a geopolitical environment which could have horrific consequences. As a result, after three consecutive days of triple digit losses the market closed below 80 cents for the first time since June. The month of October was none too kind as cotton prices fell six cents closing Friday at 79.62, the third consecutive close below 80 cents.

Strangely and most worrisome is last week's decline came as there was more positive news than negative. This makes one wonder what is really influencing the market. The Fed, as hoped, did not raise interest rates at its meeting last week. Even Chairman Powell's post-meeting comments were non-committal which after the last several meetings were somewhat encouraging. He stated the economy was growing at a sound pace while employment gains have slowed since the first of the year. No mention was made of future rate increases but likewise no mention was made of ending them either. This led equities to their best week this year and weakened the dollar, both of which should have prompted a price rally.

Another sign something unknown underlies this market was its mute reaction to the marketing year's best week of export sales. Last week, 457,000 bales were sold with China purchasing 324,000. Sales of this volume, in the past would have predicted a limit up move. Instead, prices eked out a paltry gain of 36 points. We will need several more weeks of high-volume sales since total sales commitments still trail those of last year by two million bales.

Where to from here? Well, chart-wise a break in support at 81 cents dictates the next level of support to be around 77 cents. No surprise managed funds are largely responsible for October's price decline liquidating their net long position from almost six million bales to its current 2.5 million. Of course, we are in the middle of the roll period with the Legacy roll ending last week and the GSCI roll set to begin Tuesday. As these big financial houses adjust their positions the market often gets quirky. Alarmingly, contrary to other roll periods, Open Interest has increased significantly, which suggest new shorts are entering the market. Our one hope remains managed funds, now flush with cash, will be called to reverse course if USDA seriously reduces foreign production in Thursday's WASDE report. Even so, also, an advance beyond 90 cents is near impossible, too much grower selling lies in front of it. Those holding out for such a move are better advised to lower expectations and consider mid-80s as a more realistic price target.

Be mindful first notice day for the December futures contract is November 24th. Thus, anyone having a forward contract-based December with unfixed bales has until November 21st to either fix or roll as most merchants require action three days prior to FND. At present, the Dec – Mar spread and cost to roll would be 250 points.