Thompson On Cotton: The Dreaded R Word

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In its search for guidance, the market was confronted with mixed signals last week. So to no surprise, it remained rangebound as seen by May futures trading in a narrow scope of fewer than two cents before closing the week at 82.86, down 34 points. December futures traded in an even smaller range of just over a penny before settling at 82.80 losing 44 points. Except for a brief break to the downside in mid-March the market has traded sideways in the low to mid-eighties since November of last year.

The week began with the April WASDE report. Domestically, the forecast was favorable as U.S. exports were raised to 12.2 million bales which lowered ending stocks to 4.1 million. Global numbers, on the other hand, were bearish as higher production and reduced trade significantly raised world-ending stocks. World production increased by 829,000 bales, including a million-bale increase for China. In turn, world trade was reduced by 745,000 bales raising world ending stocks by almost a million bales from last month's forecast. Amazingly, the market barely batted an eye even closing up on the day.

IMF projects the world economy will expand 2.8% this year, a slowdown from 3.4% last year, as nations continue to recover from problems associated with the pandemic and war in Ukraine. However, at home, last month's consumer price index and wholesale price index both suggest inflation may be moderating. Prices were up 5% in March from a year earlier, an improvement over February's 6% increase and the lowest level of inflation in two years. In addition, wholesale prices fell to their lowest level in three years with last month's decline, the largest since April 2020. Despite prices seemingly headed in the right direction, it's still feared the Fed may institute yet another interest rate hike at their May meeting due to underlying pressures. Also, the dreaded R word is still be talked about.

Last week's export sales of 175,500 bales, though down from its four-week average, did exceed the weekly average of 37,000 bales needed to meet the new estimate. Shipments strong for yet another week at 343,500 bales, were well above the 247,000 bales needed weekly. China and Vietnam continue to be the primary destinations.

Where to from here? Such positive economic news is giving us some hope inflation is waning. It certainly has weakened the Dollar and boosted equity markets. Both Dow Jones and S&P 500 had their highest close since February last week. Despite these improving economic conditions, retail sales fell for the second consecutive month. Its obvious consumers are becoming more selective in their purchases as inflation and higher interest rates have them fearful of when the next shoe will fall. Such attitudes could have a negative impact on the demand for cotton.

As May futures fast approach First Notice Day, we are seeing a decline in the volume of cotton still in the hands of growers. This is much needed if July futures, soon to be the cover month, has any chance to significantly advance. Look for prices to remain rangebound over the next several weeks barring any unforeseen geopolitical event. Technically, moving averages have created a ceiling at or near 84 cents while support still appears firm around 80. With intense planting only weeks away, new crop traders will be watching its progress intently, especially in the Southwest where severe drought conditions prevail.