Thompson on Cotton: Macroeconomic Factors Vs. Cotton Fundamentals

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Pressured by economic uncertainty both old and new crop futures lost a little over a penny on the week. That's four consecutive weeks of lower closes. As expected, a previously unfilled gap at 75.70 from earlier trading did provide support. Oddly, all this occurred in the face of another excellent week of export sales. So, it's obvious traders are more concerned with macroeconomic factors than cotton fundamentals.

The Fed's 25 basis point hike in the interest rate last week was its ninth consecutive with borrowing rates now at a 16-year high. Worse yet, Chairman Powell gave no indication of slowing the pace despite recent bank failures. He reiterated price stability is the central bank's "overarching focus". Concerning bank troubles, as if they were contagious, they seem to be spreading abroad. Last week it was reported UBS, Deutsche Bank, and a few other European banks were having capitalization issues. But like here, governing bodies stepped in offering assurance to depositors. We certainly haven't seen the end of this.

As mentioned, last week's export sales and shipments were outstanding with both exceeding the weekly average needed to meet estimates. Current crop sales of 327,100 was up 41 percent from the week before, with Vietnam and China as primary buyers. Shipments totaled 280,100 bales, only slightly below the thirteen-year average. It appears we have found a trigger point to stimulate sales, prices below 80 cents. Or better yet, it could be an early sign of improving demand.

As you might guess, the driving force behind prices declining from 89 cents in January to their current level is spec selling. Over this period of time, Managed Funds have gone from a net long position of 700,000 bales to their current net short position of 2.4 million bales. Consequently, their volume of selling over the past two weeks has been greater than at any time since March 2020 when Covid prompted them to short the market. Even Index funds, who are inherently long the market, have been net sellers for the past three weeks. , but still hold a net long position of 5.6 million bales.

Where to from here? There are only twenty trading days left before first notice day on May futures. Thus, little time for any significant price advances. Especially when considering there are more unfixed grower cotton-based May than there are unfixed mill sales. This tug of war strongly favors the latter. With time on their side they can safely wait to see if prices fall further with little risk of them moving higher as grower selling creates resistance.

As for new crop, traders will be awaiting USDA's planting intention numbers to be released Friday. It's a safe bet given where prices have fallen actual plantings will fall below their estimate. Herein lies hope as "the best cure for low prices is low prices". It's very possible 2023 planted acres could be down three or four million acres from last year's 13.76 million. Couple this with average abandonment in the Southwest and the stage is set for higher prices particularly if demand does steadily improve.