# Thompson On Cotton: A Turnaround Thursday

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Last week began on a positive note as prices climbed above 85 cents for the first time since March 7th. Mired in a six-month trading range a return to the upper end appeared to have technical merit inspiring Managed funds to reconsider and become buyers. Though still net short as they have been for nine weeks their position has been reduced to less than a million bales. Both July and December futures surpassed several short-term moving averages. Better yet, it retraced two-thirds of the fall from its high of eighty-nine cents to its most recent low of seventy-six cents. This was until Thursday when prices tanked on near limit down trading to find support once again at 80 cents. On the week, old crop and new crop futures lost almost two and half cents remaining range bound albeit on the lower end.

Word that China's economy was strengthening post Covid, as everyone had anticipated, helped spur the early week rally. In the first quarter of 2023 their economy expanded 4.5

percent compared to a growth of only 2.9 percent the previous three months. This was the fastest rate of growth since the first quarter of 2022. An increase in retail sales led to this expansion more so than industrial growth. Also last week, it was revealed India is set to surpass China as the world's most populous country at 1.42 billion people. This is important to global trade as India is currently a net importer of cotton.

Rather than a turnaround Tuesday, last week we experienced a turnaround Thursday. July futures fell below support to 79.65 before rebounding slightly, while December traded similarly. Such a reversal was the result of a combination of several factors, one of which was a significant decline in export sales and shipments from previous weeks. Nonetheless, at 87,300 bales and 308,600 bales respectively, they still exceeded the weekly average needed to meet export estimates. In addition, there was more speculation the Fed would hike interest rates another twenty-five basis points at their May 1st meeting. Such a move is sure to strengthen the Dollar and negatively affect commodities. Lastly, unable to blow through its 200-day moving average sell stops were triggered on the way back down exacerbating the selloff.

Where to from here? Whenever a market switches cover months, as we are now experiencing with May going off the board, things can get a little wacky. Trading is predominantly that of spreads as managed funds reposition themselves. With this behind us , market movement should be predicated more on rhyme and reason, not that it can't get crazy at any time. Considering all that is going on, we find solace in the market reclaiming 80 cents at the close. It will be interesting to see whether mill demand will strengthen with prices back in the lower end of the range. Those still holding old crop have made their final roll. Another run by July futures to the mid 80's should be viewed as an excellent pricing opportunity. As for December futures, crop conditions will influence the direction it takes going forward. Just last week, a forecast for rain in West Texas probably played a small role in the decline in prices. Though certainly encouraging much more is needed if a crop is to be made. Managed funds and other market traders will be closely monitoring field conditions over the next few months. With only eight percent of the U.S. crop currently planted a great deal will happen between now and harvest. So, consider patience a virtue and a move back to the higher end of the trading range, upper 80’s , a good level to begin pricing new crop.