



Market Commentary

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Continue Keeping the Faith

By Jeff Thompson

COVID-19 continues its chokehold on the world economy. Shelter-in-Place orders continue, and non-essential retail stores remain closed. In recent days, governments have at least begun the planning process for reopening. The key here is to find the right balance to meet both medicinal and economic demands. Though possibly weeks away, just the discussion itself is a psychological boost giving one hope there is light at the end of the tunnel. The return to business will, of course, be gradual and we all can all expect a new normal. Our industry's biggest concern is post-COVID-19 consumer behavior and its effect on cotton consumption.

Last week's economic data was not kind to cotton. March retail figures indicated clothing sales were down 50 percent and home furnishings were down by 27 percent as compared to the same time one year ago. Look for April numbers to be even worse taking into consideration most stores were open for a portion of March. Following suit, U.S. export sales resulted in net cancellations for the second consecutive week. This was not totally unexpected considering the disruptive nature diminished sales have had on the global supply chain. Nonetheless, a net 183,800 bales cancelled is the highest ever reported for this time in the marketing year. As if that didn't sting enough, know that this is likely to worsen.

To our surprise, the market took it in stride. July futures closed the week at 52.86, down 154 points, while December settled at 55.26, declining a mere 70 points. Either it is still turning a blind eye to fundamentals or most likely was already trading on these numbers. We



do have a unique situation within the spec community that is lending some degree of support. The managed funds now hold a net short position of 2.3 million bales while the macro funds are long, a net 1.5 million bales. The latter undoubtedly sees some long-term value in cotton. Those with cotton in the loan continue to watch the spread between the AWP and NY futures and the resulting weekly LDP. The week of April 13th to 17th saw 2.3 million bales redeemed prior to the LDP declining for the second consecutive week. There are 3.9 million bales remaining in the loan. The market seems to have found support here in the 50's while awaiting further economic news and planting progress.

On a positive note, after much encouragement from ag commodity special interest groups such as the National Cotton Council and others, Secretary of Agriculture Sonny Purdue announced a Coronavirus

Food Assistance Program (CFAP) on Friday evening that would total \$19 billion. This would include direct payments to producers and USDA purchases of certain commodities for donations to food banks and other feeding programs.

Direct payments to producers will constitute \$16 billion, which will be allocated as follows:

- Livestock.....9.6 billion
- Row Crops.....3.9 billion
- Specialty Crops.....2.1 billion
- Other Crops.....0.5 billion

There will be a single payment per producer based on two calculations:

- For 85 percent of price losses that occurred between January 1, 2020, and April 15, 2020.
- For 30 percent of expected price losses from April 15, 2020, through the next two quarters of 2020.

Payment limit is \$125,000 per commodity with a maximum per person/entity total payment limit of \$250,000. According to Dr. Gary Adams, President and CEO of the National Cotton Council, it is not possible at this time to determine benefits for specific commodities or individual producers due to lack of details regarding actual prices and quantities used in the calculations. However, preliminary indications suggest that support could be tied to a portion of a producer's 2019 un-marketed production rather than acreage. Also, USDA hopes to begin sign-up in May and begin making payments by June.



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Any support program it is greatly welcomed and appreciated, but the extent to which this covers everyone is unknown until additional information is released later this week. The proof is in the pudding as they say. We will reserve judgement until all of the details are disclosed, but at first glance, there are several questions as to its equitable implementation. If tied to un-marketed 2019 production, it seems a producer who acted on a sound marketing plan is being penalized while the assistance program appears to favor those who did not. Additionally, with only \$3.9 billion allotted to row crops, it is apt to be a band-aid at best. Better hope may come in the \$14 billion of CCC funds scheduled to be available after July 1. Coming at a time that wouldn't influence plantings nor disrupt markets, this assistance could more closely resemble the MFP of the previous two years.

In the meantime, do everything possible to stay safe, be prayerful, appreciate family, friends, neighbors, and keep the faith. 

Until next time,