Market Commentary

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Tough Times Don't Last. Tough People Do.

By Jeff Thompson

It's come to our attention that many of you have not been receiving our market commentaries and other emails over the past few weeks. For reasons way over this non-techie's head, there was a glitch in our email delivery system. We apologize for this glitch but, thankfully, those smarter than I have repaired it, so let's move on.

Trading has been rather uneventful during this time with both the July and December contract months trading sideways, finding solid support at 56 cents and resistance at 60 cents. The one highlight came a couple of weeks ago as both closed over 60 cents stirring expectations of a further advance.

Instead, the rally was short lived as it was driven more by outside influences rather than fundamentals. The July contract was mirroring a resilient stock market, expectant of economic reopening prospects, and responding to the trade's rolling of positions as it neared expiration. Meanwhile, December was simply drug along for the ride. Herein lies the rub. July will go off the board in a few days upon which December becomes the cover month. Absent a wingman, it will have to stand on its own and face the music. Considering cotton's very poor supply/demand balance sheet, not to mention the host of uncertainties surrounding it, today's support level will be greatly tested.

Without getting too deep in the weeds, lets briefly look at the S/D picture which will come to bear on new crop prices. USDA's June WASDE report was nothing but bearish. To no one's surprise, cotton consumption has fallen prey to store closures, self-quarantines, and an overall economic lockdown. As a result, U.S. domestic consumption for the coming year is estimated to be a mere 2.3 million bales, the lowest since records have been kept. This is alarming, but conceivable, when you look at the current situation. The largest customer of U.S. yarn and fabric are the Central American countries which make up CAFTA. In April, apparel imports from some of these countries fell by as much 80 to 90 percent with total U.S. apparel imports declining by 40.5 percent. Sadly, a quick turnaround is not expected because the economies of these countries have been severely decimated thus making recovery a slow process. Similarly, Brooks Brothers who is known for their made in the U.S.A. label, has closed all three of its cut-and-sew factories. A stronger and vibrant domestic textile industry is sorely needed. This should be a major concern to U.S. growers because further declines in our domestic textile industry forces more of our cotton into the export market at cheaper prices.

Global demand isn't any better with world ending stocks predicted to be 104.6 million bales in 2020/2021, the largest carryout since 2014/2015. Although, a recent string of impressive weekly export sales seems to say otherwise. Just last week, China and Vietnam combined to purchase almost 600,000 bales of U.S. cotton while over 1.5 million bales have been bought since April 22nd. Unfortunately, these purchases are for their reserve and not a reflection of strengthening demand. A truer indication of how dismal the demand for cotton has gotten is the absence of other countries in the marketplace. World ending stocks outside of China are expected to climb to a new record of 63.3 million bales while accumulating to 69 million following this year's crop.

On the other side of the equation, production was left basically unchanged by USDA. Herein, lies a ray of sunshine. The U.S. production estimate remains at 19.5 million bales coming off 13.7 million acres of projected plantings. If I was a betting man, I would wager my life's fortune on the under. I'm confident for two reasons. First, actual planted acres will be significantly lower than that projected. Secondly, the woeful weather in West Texas is taking a toll on dryland acres. We've been told by some knowledgeable West Texans that abandonment could be over 50 percent. With that said, look for domestic production to be closer to 17 million bales. This would help counter some lack of demand, but as history has taught us, price rallies can only be sustained by strengthening demand, not production declines.

Looking ahead, prices should continue trading in a narrow range at least until the final planted acreage number is released June 30th and we get a clearer view of West Texas abandonment. Also, we can't totally discount outside market influences. Today, the May retail sales report showed consumer purchases increased by 17.7 percent from a month earlier. This follows three straight months of declining retail sales, but still falls six percent below sales compared to this time last year. More importantly to us, sales at clothing stores rose 188 percent from the prior month. Hopefully, it's an indication the partial reopening is working and if not beset by a second wave of the virus or lingering fears of civil unrest, the recovery could be quicker than once thought. The long and short of it is, the consumer will lead us out of this by stimulating a renewed demand for cotton. When, only time will tell. With more clouds hanging over this market than I can ever remember, we must rely on the words of Ralph Waldo Emerson when he said, "This time, like all times, is a very good one, if you but know what to do with it."

Until next time,

Jeff Thompson