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WHAT IS NEGATIVELY AFFECTING THE COTTON MARKET?

After months of repeated challenges, my biggest fear was that market support in the low 80.00 cents/lb range would break. It seems that sellers have been spooked by adverse technical signals and a geopolitical situation that could have dire consequences. As a result, after three consecutive days of triple-digit losses, the New York Stock Exchange's December position broke the 80.00 cent support for the first time since June. The month of December was not particularly favorable as cotton prices fell six cents to close on Monday 6 November at 78.00, the fourth consecutive close below 80.00 cents.

Strangely, what's most worrying is that last week's decline occurred despite there being more positive news than negative. This leads to the question of what is really influencing the market. The Fed, as hoped, did not raise interest rates at its meeting last week. Chairman Powell's post-meeting comments were also quite encouraging. He said the economy is growing at a strong pace even though employment data has slowed since the start of the year. There was no mention of future rate hikes, but there was no mention of their demise either. This led stock indexes to improve for the week and weakened the dollar, factors that should have triggered a rise in prices.

Another sign that something unknown was behind this trend was the failure to react to the best week of foreign sales of the current marketing year. Last week, 457,000 bales were sold, while China bought 324,000. Sales of this volume, in the past, would have triggered an upward movement. Instead, prices made a paltry gain of a few points. We will need several more weeks of strong sales, as total sales commitments are still two million bales lower than last year.

Well, from a chart point of view, the break of the 80.00 cents support forces the next support level to be around 77.00 cents. Without any surprise, the funds have risen from the previous net long position of almost six million bales to the current 2.5 million. Essentially "Open Interest" has increased significantly, which suggests that new shorts have entered the market. Of course, we are in the middle of the production and marketing period, and consequently the market often becomes unstable. To reverse the trend, one would expect the USDA to significantly reduce foreign production, but even so, a rise above 90.00 cents is almost impossible because there would be too much selling by producers. Those who disagree with that assessment would be better off lowering their expectations and viewing the 80.00 cent target as a more realistic price target.

Please note that the first notice day for the December contract is November 24th. Therefore, anyone with a December position based on unfixed baled forward contracts (On Call), has until November 21st to correct, or exit. Now, the cost of the December-March spread is around 300 points.
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November 7th, 2023