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Cotton is a Calling

The roller coaster continues, limit up 500 points, limit up 700 points and then we lose a little. Even the “limits’ are changing faster than ever. We have an exploding market Icarus will soon come crashing back to Earth, most likely in June. Yet, for now the market will likely be a bit higher next week as on-call sales remain very elevated and the rain forecast calls for hot, dry, windy weather to hand over the High Plains and the Rolling Plains accounting for some 60 percent of the U.S. cotton area. The old crop’s 150 cent objective was met, earlier than expected. The on-call sales data suggests 160 cents should not be ruled out, but these are all but unpredictable times. There is a lot of tea leaf reading going on now. The December recorded life of contract highs this week moving above 125 cents before selling off near the weekly close. December can climb to 150 cents without the extreme drought conditions continuing. Yet, the drought is the worst ever on record.

The end of week market sell off was associated the fact that speculators were reluctant to go into the weekend without taking some profits. They were reacting to the fear of what rain would do to prices. Yet, there is no rain in sight. However, it was a prudent marketing decision to take some profits. New long positions can be reestablished on Monday of next week. The new crop December contract was initially driven by the lack of sub soil moisture and is now being pushed higher and higher by the widening and even more extreme drought conditions as well as government and private weather forecasts that suggest rain is not in the weather forecast until mid-summer—far, far too late to prevent a production disaster throughout most of the Southwestern cotton region, encompassing Texas, Oklahoma, and Kansas. Additionally, the New Mexico acreage is also caught up in the extreme drought gripping the Southwest.

The ongoing inflation elicits the most discussion among market analysts. Of course, economic history documents the root cause of inflation as the uncontrolled spending by the U.S, Congress, coupled with the pumping of cash into the economy by the FED. Both institutions are the legitimate parents of our current inflation fiasco. The FED can and will help end the problem, but to date has not shown any inclination to bite the bitter bullet hard enough to stop the problem, only to slow it. In fact, the FED’s current notes imply they will allow inflation to drag out over the coming year. The hurt will make for a longer period of economic weakness, thus, economic pain over a longer period. The Piper will get his due now that the U.S. has been doling out money for near 18 months and continues to do so, The Piper always gets his, Adam Smith in *The Wealth of Nations*. It is simply the consumer’s payment for Congressional tinkering with the marketplace. At most, the FED’s writings and action will only slightly lower inflations rate of increase. A bitter slowdown is coming. Many have weighed in on the subject, but the best guess is that the recession will hit in the second or third quarter of 2023. Currently, the U.S. consumer has well more than an adequate supply of money that will prolong his spending habits into the first quarter of 2023. Only when the consumer decides his money supply is becoming limited will the “expected” recession surface.

Nevertheless, inflation in the short term is bullish for cotton prices—as it is for other commodities. However, the demand degradation will be greater than the inflation support. The problem will come when inflation cuts into the consumer’s pocketbook causing a decreased demand for apparel and textile goods—it’s the law of economics. Unfortunately, that is on the horizon, but most likely another six to nine months from now.

Thus, the better news is that prices still have a few more months of “running wild,” or at least of holding on to its bullish tone. Too, in the Cottonbelt, cotton, soybeans, and corn will still compete for the same acreage and competing price ratios will dictate plantings.

The ratio of on-call sales to on-call purchases will continue to maintain old crop 140+ cent support and push prices possibly as high as 160 cents. December’s 125 cent life of contract high will continue it charges as long as rainfall is absent in the Southwestern U.S. cotton region.

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