



PLAINS COTTON
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Cotton Market Weekly

OCTOBER 13, 2023

DECEMBER FUTURES FELL TO LOWER END OF TRADING RANGE, SETTLING LOWER FOR FOUR CONSECUTIVE SESSIONS

- CPI Marginally Higher than Expected, Increasing 0.4% in September
- U.S. Total Cotton Production Expected to be 12.817 Million Bales
- Weak Sales and Poor Shipments Reported for Week Ending October 5
- Favorable Harvest Weather Expected Across West Texas, Oklahoma, and Kansas in the Coming Week

December futures faced pressure from geopolitical tensions, technical selling, and increasing certificated stocks this week.

Cotton prices went into the weekend higher, but quickly reversed direction on Monday. Options expiry is today, Friday, October 13, and was also a source of selling throughout the week. On Tuesday, December fell below 86.00 cents per pound for the first time in 3 weeks and continued to fall as the week went on. Prices were lower on Wednesday, with uncertainty about the WASDE release the next day. The market could not decide which direction to trade upon the release of the WASDE Report on Thursday, but eventually settled lower for the fourth consecutive day. December futures fell to the lower end of the recent trading range for the week ending December 12, declining 162 points to settle at 84.92 cents per pound. Daily trading volumes were higher this week, but total open interest was relatively unchanged, dropping just 33 contracts to finish at 251,610. Certificated stock continues to rise, and reached 43,571 bales, an increase of 3,754 bales from the week prior.

Outside Markets

Stock markets trended higher most of the week, before snapping a 4-day winning streak on Thursday as key inflation data was released. On Friday, U.S nonfarm payrolls unexpectedly rose by 336,000 in September, showing a strong labor market. A geopolitical conflict arose between Israel and Hamas over the weekend, and the conflict has continued through the week. The conflict initially supported crude oil prices, but prices fell under pressure on a stronger dollar and U.S. crude production climbing to a record. The U.S. Producer Price Index (PPI) for September came in at a 0.5% month-over-month increase, slightly higher than expectations and caused stocks to waver on Wednesday. On Thursday, the U.S. Consumer Price Index (CPI) also came in marginally higher than expected, rising 0.4% in September. The U.S. Dollar fell off early in the week but moved higher after the

stronger than expected CPI was reported. Finally, the minutes of the last Federal Open Markets Committee (FOMC) meeting were released this week and indicated that most Fed officials would not be surprised to see one more interest rate hike before the year ends.

WASDE

The release of the World Agricultural Supply and Demand Estimates (WASDE) Report on October 12 captivated traders' attention. The changes made to the U.S. side of the balance came in as expected, making it an overall neutral report. A decrease in production of 315,000 bales brought total production in the U.S. down to 12.817 million bales. Exports also decreased 100,000 bales to 12.20 million bales, a reflection of tighter supply. The changes made to production and exports flowed into ending stocks, which decreased 200,000 bales to 2.8 million bales. For the Southwest, overall production declined. As expected, a decrease in Texas production of 400,000 bales to 3.8 million bales was reported. Kansas production increased 38,000 bales to 165,000 bales, and Oklahoma also had a slightly surprising increase of 10,000 bales to 270,000 bales.

Noticeable changes on how the Brazilian crop is reported were made to reflect the timing and expanding crop in the country. USDA adjusted how production and ending stocks were reported each year going back to 2000/01. The previous reporting method showed current production on last year's balance sheet, meaning production estimates have been shifted forward a marketing year. September's report showed the 2022/23 expected production in Brazil to be 14.4 million bales but is now being reported as expected production in 2023/24, which will help reduce crossover of marketing years. These changes were reflected in a 10.34 million bale reduction to beginning stocks,

bringing it to 82.84 million bales. A 10.04 million bale decrease to ending stocks was also made, which brought the total to 79.92 million bales. Besides this significant change, there were few changes on the global side of the balance sheet.

Export Sales

The Export Sales Report was delayed for the week ending October 5, and while the content of the report is not covered in this week's activity, we feel that it is important to see what demand for U.S. cotton looked like for the week. Overall, this week's report held poor sales and shipments. A net total of 43,400 Upland bales were booked this week, with China being the biggest buyer at 21,700 bales. Although the USDA export estimate was lowered this week, the 104,000 bales of cotton shipped are far below the pace needed to reach that goal. The report also showed 18,000 bales of cotton were cancelled, with 8,600 of those cancelled bales stemming from Pakistan. Net sales and shipments of Pima cotton were also down. A net total of 2,500 Pima bales were sold and 3,400 bales shipped.

Weather and Crop Progress

As usual at this time of the year, weather conditions have become a main concern across West Texas, Oklahoma, and Kansas now that harvest is picking up speed. A cold front blew in over the weekend, but faded during the week to bring warmer, dry temperatures. Another front is expected in the coming week, which will have slightly cooler temperatures, but overall conditions are expected to be clear and dry, allowing harvest to proceed without interruption. In South Texas, the season is almost over now that ginning and classing are wrapping up. Across the country, 82% of bolls have opened and 25% of the crop has been harvested, both in line with typical pace.

The Week Ahead

Now that the market has new data to trade on, focus will shift back to the usual factors impacting the cotton market. Weather will be monitored much more closely now that harvest has begun. The typical weekly reports will be back on the normal release schedule, which will help traders get a feel for where demand lies for U.S. cotton.

- Friday at 2:30 p.m. Central – Commitments of Traders
- Tuesday at 3:00 p.m. Central – Crop Progress and Condition Report
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton On-Call