**AUGUST 18, 2023**

## THE COTTON MARKET RELINQUISHED GAINS FROM LAST WEEK'S WASDE REPORT

- Equity Markets Struggled with Mixed Economic Data
- Surprising Demand from China Found on U.S. Export Sales Report for the Week Ending August 10
- U.S. Crop Continues to Deteriorate, Stemming from the Southwest

The cotton market relinquished the gains made from the unexpectedly bullish World Agricultural Supply and Demand Estimates (WASDE) report that was released this past Friday. Last Friday, December futures reached as high as 88.83 before settling moderately up going into the weekend. Although the crop condition in the U.S. continues to deteriorate, the cotton market

largely lost ground from macro headwinds. On Monday, troubling news concerning the Chinese economy weighed on markets, and the pressure continued for the remainder of the week. For the week ending August 17, December futures settled at 83.61 cents per pound, down 254 points from the week prior. Outside of last Friday, daily volumes continued to stay low. Total open interest decreased 4,148 contracts to 208,111.

## Outside Markets

Equity markets struggled this week, with major indexes reaching lows not seen in over a month. U.S. retail sales rose 0.7% month over month in July, coming in higher than expectations and was a bit of positive news for the cotton market. News that China's economy is slowing made headlines, and most markets turned lower from the worrisome news. The comments from the July Federal Open Markets Committee (FOMC) meeting were released on Wednesday, providing a hawkish sentiment to markets. The U.S. Dollar fared well with the economic news this week and reached a 2-month high to finish the week strong. Crude oil fell back early in the week, but news that U.S. inventories were low allowed it to move higher at the end of the week.

## Export Sales

Although sales were right around average for this time of the year, a surprising amount of demand was present from China on the Export Sales Report for the week ending August 10. U.S. shippers made net new sales of 186,300 Upland bales and 3,300 Pima bales for the 2023/24 crop year. The biggest buyer on the report was China, booking 138,400 bales. A total of 202,300 Upland bales and 3,100 Pima bales were exported for the week. The past two weeks of Export Sales Reports have

many traders confused, seeing as demand for U.S. cotton has been a major concern in recent weeks.

## Weather and Crop Progress

The overall crop in the United States continues to deteriorate, with much of the decline stemming from the Southwest. For the week ending August 13, the overall U.S. crop was rated as 6% "Excellent", 30% as "Good", 21% as "Fair", 24% as "Poor", and 19% as "Very Poor". At a national level, the crop is now just 13% open, with most of that in South Texas, Louisiana, and Arizona. 72% of the country's crop is setting bolls, which is 5% behind the national average for this point in the crop year. A cool front in West Texas provided a bit of relief early in the week, but the excessively hot temperatures and no rain are back in the forecast for the coming week. There is a prospect of rain in the coming week, with potential hurricanes forming in the Gulf and Atlantic. This would bring along much needed rain to a very dry Southwest crop. Harvest continues in South Texas and yields in dryland fields are coming in lower than expected.

## The Week Ahead

Rain in the Southwest will be a key factor that traders will be monitoring this week. A close eye will be on the potential systems in the 7-day tropical weather outlook to see if it will bring along any relief in the region. The rain might not do much for the dryland crop, but it would help the irrigated acres. Fundamentally, the Crop Progress and Condition and Export Sales Reports will continue to hold their usual importance.

- Friday at 2:30 p.m. Central – Commitments of Traders
- Monday 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