



AUGUST 20, 2021

DECEMBER FUTURES HIT HIGHEST PRICE SINCE MARCH 2014

- **Market Jitters About Delta Variant Impact on Economy**
- **U.S. Export Commitments Increase**
- **Texas Crop Needs Heat**
- **Traders Watch for South Texas Classing Reports**

Cotton futures spent the first few sessions of this week in continuation of the post-WASDE rally that began last Thursday. December futures pushed up to 96.71 cents per pound on Tuesday, which is the highest price since March of 2014, narrowly beating the June 2018 high of 96.50 cents. Unfortunately, prices stumbled on Wednesday and Thursday,

pulled lower by outside markets. December futures settled at 92.76 cents on Thursday, down 56 points for the week. Trading volumes were understandably heavy given the movement of prices into new territory. Open interest surged 6,255 contracts to 267,752, which is the highest level since November of 2018.

OUTSIDE MARKETS

In addition to market jitters about the delta variant's impact on the economy this week, traders and investors were somewhat surprised at the speed with which some members of the Federal Reserve are comfortable slowing down the Central Bank's purchases of bonds and mortgage-backed securities, i.e. the "tapering" that has made financial news lately. The Federal Reserve's minutes from their last meeting were released on Wednesday, and investors learned that tapering may start before the end of 2021, much faster than anticipated. The news threw the market into a bit of a "taper tantrum" that put pressure on stocks and commodities, while it increased a flight to safety in the USD which surged to fresh highs against major trading partners. Although stocks had stabilized by Thursday's close on continuing labor market improvements, commodities were unable to recover for the day.

EXPORT SALES

Export sales for the week ending August 12 were 242,400 net bales of Upland and 10,600 net sales of Pima. With the forward sales of 59,500 bales for delivery to Pakistan next marketing year, i.e. in August 2022 or later, U.S. export commitment increased 312,500 bales across both Upland and Pima. Combined shipments were also strong at 224,800 bales. While that total is slightly below average for the second week of the year, it is impressive considering only old crop is shipping and there is very little stock to draw from. Sales were highly concentrated this week, with China accounting for 161,900 bales of Upland and 3,600 bales of Pima. The return of last year's largest customer is an encouraging sign for the market, and it

appears that prices in the upper 80s and low 90s have not yet shut off demand.

CROP PROGRESS AND WEATHER

Most of the Cotton Belt has been blessed with plenty of rain over the past few weeks. It looks like Tropical storm Fred did not do much damage to most of the Southeast crop and may have been a net benefit. Hurricane Grace is also not likely to turn northward to affect the South Texas harvest. Here in West Texas, the scattered thunderstorms did miss some areas more than others but were able to patch together decent general coverage. Now all this crop needs is some heat. Texas temperatures have averaged a few degrees cooler than normal for the entire season, and the crop is fairly behind. The Texas crop is 11% behind its average progress pace, with just 68% of the state's crop setting bolls according to this week's Crop Progress and Condition Report. Thankfully there is more sunshine and heat in the forecast for the next two weeks, and the crop may have a chance to catch up.

THE WEEK AHEAD

Outside markets rose to the top of traders' attention this week, and the macroeconomic risks remain elevated. Traders will be keeping an eye on key indicators such as major stock and commodity indices, Treasuries, and U.S. dollar exchange rates for signs of risk-on or risk-off trading. Within the cotton market, traders have begun to watch daily classing reports from South Texas. Weekly Export Sales and Crop Progress and Condition reports will remain fixtures in the weekly routine.

IN THE WEEK AHEAD:

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