



AUGUST 27, 2021

DECEMBER FUTURES HIT HIGHEST PRICE SINCE MARCH 2014

- **Concerns that “Transitory Inflation” is not so Transitory Arise**
- **El Salvador Last Week’s Biggest Cotton Buyer**
- **79% of Cotton Belt Setting Bolls**
- **Tropical System in Gulf of Mexico Key to Watch**

December futures started the week in continuation of last week’s decline but bounced off the week’s low at 91.80 cent per pound on Monday morning. A pattern of falling overnight, but rallying during the day for modest gains continued until Thursday when December futures made their first daily decline in five sessions. The lead contract settled at 94.16 cents, up 140 points for the

week. Trading volumes moderated from the past few weeks' high levels of activity. Open interest is still climbing, but more slowly. The total number of open contracts in the market gained 2,092 contracts to hit 269,844, the highest level since August 2018.

OUTSIDE MARKETS

Optimists and pessimists seem to be sorting themselves out of the 'uncertain' category this week. The NASDAQ and S&P 500 both made fresh all-time-highs this week, as "Covid Optimists" are rallying around the belief that Delta variant infections are slowing and may have peaked in key regions. On the other hand, pessimists are honing their focus in on the possibility that the Federal Reserve "Taper" of securities purchases will start late this year and that pandemic boosted unemployment benefits will end in a few weeks. Data this week fueled both points of view as US Q2 GDP was revised up 0.2% to 6.7% but initial jobless claims rose slightly above expectations to 353,000. While real consumer spending was up 11.9%, many are raising price forecast amid increasing concern that "transitory inflation" is not so transitory. Even the USDA raised its food price forecasts up 0.5% to 3-4% for 2021. On top of it all, Democratic leadership in the House passed both the infrastructure and contentious spending bill this week, which added to inflationary expectations.

EXPORT SALES

For the week ending August 19, exporters made net sales of 245,100 bales of Upland cotton for delivery this marketing year and 67,900 for delivery in 2022-2023. Pima sales were also healthy at 14,300 bales. Combined shipments of Upland and Pima totaled 209,700 bales, which is slower than in recent years when the U.S. started the year with plentiful stocks. Last week's biggest buyers were El Salvador (115,100 bales across the current and next marketing year), Turkey (61,000), Pakistan (35,000), Honduras (26,500), and Vietnam (14,900). Sales were

above recent years' pace for this week of the year, despite the absence of sales to China, signaling that demand is still healthy.

CROP PROGRESS AND WEATHER

Monday's Crop Progress and Condition report continued to show improvement in what are already outstanding crop condition readings. The share of the U.S. crop that is rated "Good" or "Excellent" rose four percentage points to 71% vs a reading of 46% at this time last year. The ratings are welcome, but the progress readings show there is still plenty of risk to production. Only 79% of the Cotton Belt was reportedly setting bolls as of last Sunday, which is ten points behind the five-year average of 89%. Texas was only at 72% versus a normal pace of 86%. Thankfully weather in West Texas, Oklahoma, and Kansas has been hotter and drier lately, which is forecast to continue for the next two weeks. Unfortunately, South Texas, where many fields are already prepped for harvest, is again facing the uncertainty of a Tropical Storm. While the storm track forecasts have shifted east, the storm is still forming and uncertainty is high. Landfall could also happen in Louisiana. Although most of that crop is in the northern part of the state, it is probably more than halfway open at this point.

THE WEEK AHEAD

The tropical system in the Gulf of Mexico will be the key item to watch over the next few days. The system is moving fast and could make landfall by Sunday night, which will have traders watching Monday's crop progress figures to see how much open cotton is in the storm's path. Otherwise, traders will continue to watch daily classing reports from the Corpus office to see what will soon be available of this extremely late crop.

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