



APRIL 2, 2021

FUTURES VOLATILITY CONTINUES THIS WEEK

- Daily Average Trading Volume Hit Several Week High
- Outside Markets React to European COVID lockdowns and Biden Infrastructure Plans
- Export Sales a Bust This Week
- Prospective Plantings Results Released

Cotton futures volatility continued this week. Prices started this week with a steep rally off last Friday's low at 77.12. From Monday onward trading was two-sided, making both higher highs and lower lows than each preceding session. That pattern held even through Thursday, when May posted the week's high at 81.52 then fell sharply to finish at 77.95, down 49 points for the week. Open interest fell 3,394 contracts to 228,646. While daily volume was low to start this week, last Friday's heavy

volume combined with active trading on Wednesday and Thursday put the daily average trading volume at its highest in several weeks.

OUTSIDE MARKETS

Further lockdowns in Europe have thrown a wrench in business outlooks, delaying when markets expect a full recovery to start. However, stock markets saw the bad news as mere delay and continued to rally. Both the S&P 500 and the Dow Jones Industrial Average rallied to new highs. The bad news in Europe did put more relative strength into the US Dollar, which continues to increase the headwind faced by commodity markets. The unveiling of President Biden's infrastructure plans also seemed to comfort markets, although it is not yet clear how much change in the tax structure will be enacted to pay for the trillions of dollars in spending over the next eight years.

EXPORT SALES

This week's export sales were a bit of a bust as far as the market was concerned. Although gross sales of Upland cotton were 239,000, cancellations from Indonesia (126,500 bales), China (24,200), and Turkey (8,800) reduced net new sales to just 78,400 bales. Sales for next marketing year were also fairly low for this point in the marketing year at just 41,400 bales. Shipments were also slower than usual as shippers continue to battle one of the worst-ever years for logistical bottlenecks. The disappointing report was a key driver of the selloff that ended the week, with futures prices starting to fall just after the report was released.

PROSPECTIVE PLANTINGS

Wednesday's Prospective Plantings Report dominated agricultural traders focus this week, and with good reason. The report, which is based on survey responses taken in early March, put cotton acres fairly close to where analysts had expected at 12.04 million acres versus 12.09 million acres

planted last year. Grain markets were a different story. Although wheat acres came in higher than market expectations, prospective plantings for both corn and soybeans sharply disappointed. Markets had expected significant increases in both corn and soybean acreage that did not materialize on this report, and the shortfall in those acres sent grain prices rocketing higher. Corn prices moved to their upward daily price limit and posted their highest price since July 2013. Soybeans did likewise, posting their highest prices since June 2014. Cotton was dragged higher with the grains on Wednesday, but did not keep up. The grain rally versus cotton has many analysts expecting that the cotton acres reported on the Prospective Planting may be too high.

THE WEEK AHEAD

The market is once again at the point of needing to move positions forward from May to July and December. Index funds will be selling spreads to roll longs forward for the next several sessions and merchants will be looking to roll forward hedges on their unsold cotton. Aside from the heavier position moving flows that will begin next week, the Export Sales Report will be the central report. In the week after next, traders will be focused on continued index fund position rolling, May options expiry, and the April WASDE report.

IN THE WEEK AHEAD:

- Friday at 2:30 p.m. Central – Commitments of Traders
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton-On-Call