



**MARCH 5, 2021**

## **ANOTHER WEEK OF MARKET VOLATILITY**

- Volumes Surge as Prices Whipsaw Traders
- Rising Interest Rates Strengthen U.S. Dollar Position
- Accumulated Exports at 8.56 Million Bales
- March WASDE Release Next Week

Volatility continues to reign in the cotton market. May futures rallied off a low of 87.28 cents per pound on Friday all the way back to 92.80 on Monday. Tuesday's trading was relatively calm, but prices resumed a decline on Wednesday and Thursday. Prices finished the week at 87.14 cents, just a little above their low at 86.63 and 255 points lower than last Thursday. Daily volumes surged as prices whipsawed traders. Open interest fell 12,311 contracts to 237,483, which is the lowest since early January. The declining open interest implies that most of the

recent selling is a result of speculative traders closing their long position.

## OUTSIDE MARKETS

Outside markets were a good predictor of cotton price activity this week. Since last Wednesday, charts for cotton and the S&P 500 Index, which measure the performance of 500 large companies' stocks, have moved in tight correlation. The most commonly cited reason for the market gyrations appears to be the trading action in treasury markets, where the yield on the 10-year treasury note has been rallying sharply. The implication is that markets believe inflation will exceed the prevailing interest rates. Investors are somewhat nervous that the size of the Federal stimulus and the sooner-than-expected reopening of states will drive a rebound in spending that will outstrip supply and drive up prices. The rising interest rates have strengthened the U.S. dollar's position versus other major currencies, which is a strong headwind for U.S. dollar denominated exports, including agricultural products like cotton. Crude oil is the most notable exception to this week's selloff. Crude futures rose to their highest level in a year.

### May Cotton Futures and March S&P 500 Futures

since Wednesday, February 26



## **EXPORT SALES**

Although export sales were lower, U.S. cotton merchants continue to sell and ship more cotton than needed to hit the USDA's current export target of 15.5 million bales. Shippers booked another 169,000 bales in net new sales of Upland cotton in the week ending February 25. The largest buyers were Vietnam (65,300 bales), Pakistan (33,600), China (24,100), and Indonesia (23,200). Shipments also rebounded from the prior week's freeze-induced slump. 377,400 bales of Upland and 9,100 bales of Pima left U.S. borders for its destination. Accumulated exports are at 8.56 million bales, which is the highest level ever for the 30th week of the marketing year.

## **THE WEEK AHEAD**

As many traders start to think about planting season and next year's crop, long-term weather outlooks are receiving short but total attention as they are released. Otherwise, next week's March WASDE report will dominate trader's focus. The USDA is expected to cut its U.S. production estimate once again as most of the country's cotton is already ginned and we are still a few hundred thousand bales below the last estimate. Traders will also be watching for the USDA to increase its U.S. export estimate given the continuing strong pace of commitments.

## **IN THE WEEK AHEAD**

- Friday at 2:30 p.m. Central – Commitments of Traders
- Tuesday at 11 a.m. Central – World Agricultural Supply and Demand Estimates
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton-On-Call