



FEBRUARY 7, 2020

**MARKET DECLINES WHILE TRADING VOLUMES
REMAIN HIGH**

- Open Interest Falls for First Time in Eight Weeks
- Coronavirus Impact on Chinese Economy and Cotton Market Continues
- End of Impeachment Trial Positively Affects Market
- WASDE Report Release Tuesday, February 11

Prices fell to new lows at the end of last week as markets continued to react to the severity of the coronavirus outbreak in China. March futures fell to a low of 66.75 cents per pound on Monday before finding support. Despite several bits of good news in outside markets, prices failed to hold onto much of their intraday rallies until Thursday's close at 67.91, which was 116

points off the week's low but still down 114 points for the week. Trading volumes were very high as index funds rolled their passive long positions forward and option traders attempted to square up their positions ahead of expiration on February 7. In comparison, open interest has fallen dramatically for the first time in eight weeks, losing 20,067 contracts to finish the week at 247,438.

THE SEAM

As the market traded lower, The Seam's G2B trading volume declined this past week with just over 11,000 bales total, approximately 17,000 bales less than the previous week's total. The average price received by producers was 59.69 cents per pound, down 219 points from the previous week's average. The average premium over the CCC loan was 10.31 cents per pound, down 74 points from the previous week average. G2B offers late Thursday stood at 277,000 bales.

EXPORT SALES

It is not very surprising that China had a small net cancellation of 2,800 bales this week. After all, it was a holiday week and the country is still trying to bring the coronavirus outbreak under control. Nevertheless, U.S. cotton shippers were able to book net new export sales of 332,300 bales for the week ended January 30. Turkey was the largest buyer at 156,300 bales, its highest single week total in years. Vietnam was also a large buyer at 57,400 bales, leaving Pakistan in third place at 41,000. Shipments were also very good this week as exports surged to 418,800 bales of Upland cotton and 5,700 bales of Pima. With U.S. export commitments continuing to march higher before China has even really begun to buy large volumes of U.S. agricultural goods, traders were pretty happy with what they saw.

OUTSIDE MARKETS

The People's Bank of China pumped massive quantities of financial support into their financial markets this week and took other extraordinary measures to limit the economic damage caused by the quarantines currently in place. Additionally, the rate of new coronavirus cases in China seemed to slow a little this week in percentage terms, which may have contributed to the markets stabilizing. Chinese markets had fallen sharply when they reopened, but have since stabilized.

In the U.S., the end of President Trump's impeachment trial seems to have cheered the markets as well. Economic data was also positive this week. The ADP jobs report showed an increase of 291,000 jobs in January, which was the best reading in years. Unfortunately, the risk to the global economy from the coronavirus and combined with relative strength in the U.S. economy has continued to keep the U.S. Dollar strong versus its peers, which creates a little headwind for U.S. exporters.

COTTON CLASSINGS

Total U.S. upland classings exceeded 18.3 million bales for the season, and Pima classings have gone over 580,000 bales. This represents 97 percent of the USDA statistical bale projection for U.S. production as of its January report, and 79 percent of the upland crop is reported to be tenderable quality as reported by USDA. The Abilene classing office classed over 30,000 bales this past week. The other state offices showed less activity as ginning is close to complete.

IN THE WEEK AHEAD

Three big watch points are in the pipeline for the week ahead. The first is how the end of many of China's quarantines will play out as the mandatory extension of the Lunar New Year holiday ends. Secondly, all traders will be watching the release of the February WASDE report on Tuesday, February 11, at 11:00 a.m. central. This is the first report after the signing of the Phase 1 deal. Since it is now official policy, the deal could have some

impact on USDA predictions. Lastly, traders will be closely watching next week's export sales report to see how the extended holiday in China and fall to new lows affected mill demand.

- Friday at 2:30 p.m. Central – Commitments of Traders
- Tuesday at 11:00 a.m. Central – WASDE
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton-On-Call