



MARCH 10, 2023

COTTON MARKET PRESSURED BY OUTSIDE MARKETS

- Major Indexes had Wobbly Week
- Export Sales Weaker for the Week Ending March 2
- WASDE Left U.S. Side of Balance Sheet Unchanged
- Drought Conditions Prevail Across Texas, Oklahoma, and Kansas

Although it was a big week fundamentally for the cotton market, the release of the WASDE and Export Sales Reports left markets trading in the same range that has been present the past few months. The biggest point of pressure came from outside markets, when the Fed Chairman testified saying a bigger interest rate hike was not out of the question when the

FOMC meets later this month. The market was pretty quiet up until this and dropped almost 200 points in response to the comments. The WASDE provided a somewhat neutral tone for cotton prices and export sales were weaker than usual, keeping May futures in the lower end of the trading range to finish the week. For the week ending Thursday, March 9, May futures settled at 82.18 cents per pound, down 153 points. Total open interest was more or less unchanged from the week before, increasing 651 contracts to finish at 186,433.

Outside Markets

As touched on above, outside markets had a wobbly week between the Fed Chairman's testimonies and release of macroeconomic data. Major indexes went into the weekend recovering from losses seen earlier in the week, boosted by data showing a weakening manufacturing sector. The biggest headline, and what sent markets down mid-week, is that the Fed is now saying a 50-basis point interest rate hike is not out of the question. This sent stocks tumbling while the U.S. Dollar Index surged. The increase in the dollar was not good for commodities in general, with many finishing lower from this news. U.S. initial jobless claims increased to 211,000 for the week, showing a strong labor market and helping keep markets mixed. Nonfarm payroll also increased higher than expected to 311,000, reiterating that the labor market is still hot. Talks of inflation will continue to muddy the market, with many keen to see what the Federal Open Market Committee (FOMC) will decide when they meet in a couple of weeks.

Export Sales

The Export Sales Report for the week ending March 2 showed weaker sales than what has been reported recently, but nothing

unexpected was shown on this report. Net sales of 114,500 Upland bales were reported for the 2022/23 crop year and reductions of 68,300 bale for the 2023/24 crop year. While the net reductions for the next marketing year looked worrisome, it was a reporting mistake for sales to Pakistan. The reductions of 87,100 bales showing up for Pakistan were mistakenly put on the 2023/24 crop year previously, when in reality, were actually placed for the 2024/25 year. The biggest buyers on this report were Vietnam, purchasing 44,700 bales, followed by Turkey with 17,400 bales, China with 15,300 bales, Pakistan with 11,900 bales, and Mexico with 9,800 bales. Shipments finally reached the pace needed to meet USDA's export expectations, making this an overall satisfactory export report. A total of 287,500 bales were exported for the week. Pima sales were up for the week, with 3,800 bales booked, while shipments were down slightly with only 2,900 bales exported.

WASDE

The World Agricultural Supply and Demand Estimates (WASDE) revisions were released on March 8, with many hoping more insight would be provided into USDA's thinking on the U.S. crop and U.S. exports. The report, however, left the U.S. side of the balance sheet unchanged, providing a neutral, if not slightly bearish, tone for cotton prices. Production for the U.S. is still at 14.68 million bales, exports at 12.00 million bales, consumption at 2.1 million bales, and ending stocks at 4.3 million bales.

The world side of the balance sheet had minor changes, with most revisions occurring with China's figures. Global consumption decreased 550,000 bales to 110.11 million bales and ending stocks increased 2.07 million bales to 91.15 million bales. China was the main reason for the increase in global

ending stocks, with ending stocks in the country being revised up 2.00 million bales.

Weather and New Crop Outlook

While most of the Cotton Belt has received adequate moisture over the winter months, drought continues to prevail across the Southwest. Overall, March is expected to be mild where temperature and weather is concerned across Texas, Oklahoma, and Kansas. The forecast currently shows there will be a mid-month burst of cooler air before the mild weather returns at the end of the month. Areas in South Texas have started to plant, and the continuing dry conditions and inadequate soil moisture levels could cause delays. The same rings true for other areas across Texas. With dry soils, little to no precipitation expected in the coming days, and cotton still fighting for acres with other commodities, moisture is desperately needed to help the number of planted acres for the upcoming season.

The Week Ahead

Next week will be pretty light for cotton specific news, with traders keeping the usual amount of attention on the Export Sales Report. The ongoing debates on inflation and economic data will continue to keep markets volatile. In the meantime, the FOMC meeting on March 21 and 22 will capture traders focus.

- 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