



SEPTEMBER 11, 2020

DECEMBER FUTURES SETTLE UP AT END OF SHORTENED TRADING WEEK

- Export Sales Report Continued Previous Months' Pattern
- USDA Cut U.S. Production Estimate in WASDE Report
- Possible Effects of Recent Weather Front of Mind

Labor Day shortened the trading week in the futures markets, but cotton was still able to put up a good show. Prices rallied to the week's high of 65.50 cents per pound on Tuesday, but fell back in the same session. The week's low was Wednesday, when prices reached 63.40 cents before turning back up to eke out a slight gain for the day. December futures settled at 64.81 cents on Thursday, up 53 points for the week. Open interest reached 216,692, up 6,643 contracts.

OUTSIDE MARKETS

Tech stocks had a terribly rough week, and the major indices gave back a few weeks' worth of recent gains. Although a slight recovery was staged Wednesday, worse-than-expected jobless claims data sent markets back lower on Thursday. The market was also set back by headlines that one of the leading coronavirus vaccine trials was paused to review an "adverse" event in a test subject. The U.S. Dollar rallied as investors made risk reducing adjustments to their portfolios. U.S. Treasury yields remain very low, and mortgage rates are still declining. Commodity markets, including cotton, were caught up in the "risk-off" sentiment for much of the week.

EXPORT SALES

This week's export sales continued the last few months' pattern. Net new sales of 126,700 bales of Upland and 17,400 bales of Pima were fairly "normal" for this point in the marketing year, except that China and Vietnam continue to dominate new commitments. China ordered another 79,100 Upland bales and Vietnam ordered 20,800. Indonesia was the only country to order cotton for next marketing year, i.e. after July 31, 2021, buying 70,400 bales. Shipments continue their strong showing with 241,200 bales of Upland and Pima combined. Accumulated shipments are at a record high for the fifth week of the marketing year, reflecting the backlog that would have been exported over the summer if not for COVID-19 shutdowns.

WASDE AND CROP PRODUCTION

This week's report was delayed a day to capture the September WASDE and Crop Production reports, which traders have been looking forward to for the past few weeks. More aggressively than many expected, the USDA cut its U.S. production estimate to 17.06 million bales from 18.08 in August. Texas' Upland crop was cut by 300,000 bales to 5.9 million, a number that many think is still too optimistic. Kansas and Oklahoma's crops were

cut by 55,000 and 50,000 respectively, to 320,000 and 900,000 bales. Other cuts were scattered across the rest of the Cotton Belt, reflecting the poor condition of the crop in the aftermath of hurricane related storms.

There were several changes to the U.S. balance sheet on this month's WASDE report. Beginning stocks were the only U.S. figure to rise, edited higher because of slightly lower U.S. consumption last season. The USDA also lowered U.S. consumption for 2020/21 by 200,000 bales to 2.5 million and cut U.S. exports by 400,000 bales to 14.6 million. With use and export losses offsetting lower production, the USDA cut its Ending Stocks estimate just 400,000 bales to 7.2 million. World ending stocks were also slightly lower at 103.8 million bales, down 1.1 million from last month's estimate.

THE WEEK AHEAD

There is still a lot of weather in the Atlantic to draw traders' attention, which is not surprising given that this week is the peak of hurricane season. Here in the Southwest, traders will also be busy trying to figure out whether and how much this week's near freezing temperatures reduced the crop and whether anyone will even have any upside from the large quantity of precipitation that hit many areas. Some are still hoping damage can be minimized by a return to normal temperatures. Of course, traders will continue to watch the weekly Export Sales Report for any new Chinese demand.



IN THE WEEK AHEAD:

- Friday at 2:30 p.m. Central – Commitments of Traders
- Monday at 3:00 p.m. Central – Crop Progress Report
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton-On-Call