



# Cotton Market Weekly

**FEBRUARY 12, 2021**

## **MARKET VOLATILITY, HEALTHY EXPORTS, AND NEW REPORTS**

- Trading Volumes Set Records
- Jobless Claims Decrease
- Shipments Continue at Healthy Pace
- WASDE Report and NCC Economic Outlook

Cotton futures surged higher once again this week, although gains were not free of volatility. March open interest has fallen sharply as traders have nearly completed rolling positions forward to May and July futures, but the declining participation did not keep March from making fresh life-of-contract highs at 87.13 cents per pound on Tuesday following the WASDE report. Prices gave back most of Tuesday's gain as broader markets stumbled, but strong exports and an optimistic supply and

demand outlook for 2021/2022 marketing year from the National Cotton Council helped push prices back toward the week's highs. March futures finished the week at 86.41cents, up 213 points for the week.

With March option expiration on Friday, Index fund rolling, the February WASDE, the National Cotton Council's Economic Outlook, and new highs in the market, trading volume set records this week. In fact, the five-day cumulative volume through this Wednesday was the highest ever. Open interest fell 802 contracts to 247,343, which is less of a decline than normal following an option expiration.

## **OUTSIDE MARKETS**

The Federal Reserve continued to provide a tailwind to risk assets with Federal Reserve Chairman Jerome Powell commenting that he did not think it appropriate to raise rates at all as long as the nation is still in a pandemic. Major stock indices made new record highs as consumer price inflation data came in at expectations, and initial jobless claims decreased. Continuing claims decreased 145,000 to 4.55 million. Markets continue to reflect a struggle between the euphoria of additional fiscal stimulus and the escalating fear of inflation. The U.S. dollar erased the prior week's gains as measured versus a basket of other major currencies.

## **EXPORT SALES**

Once again, higher prices do not seem to have scared off buyers. For the week ending February 4, exports were able to book another 275,400 bales of Upland cotton for 2020/2021, 170,100 bales for 2021/2022, and 9,700 bales of Pima. Sales were also well distributed across several destinations. China was the largest buyer (55,800 Upland bales), followed by Turkey (44,600), Vietnam (42,000), Pakistan (25,500), and South Korea (18,600). Sales for the 2021/2022 season were dominated by Vietnam, where mills purchased 154,000 bales. Shipments

continue at a healthy pace, although the report noted that 67,700 bales of the total were late reporting. Total exports for the season remain a record for the current week of the marketing year.

## **WASDE**

The USDA released the February World Agricultural Supply and Demand Estimates (WASDE) report on Tuesday. The report was largely as expected, with the USDA increasing U.S. exports by 250,000 to 15.5 million statistical bales and lowering U.S. ending stocks to 4.3 million bales. Some traders and analysts voiced frustration that the USDA did not make another small cut to U.S. production, which slower ginnings and classing seem to support, but history tells us that the crop estimate does not change in February because there is no Crop Production Report and the cotton ginnings have not been finalized. Needless to say, the market is left expecting further U.S. tightness on future reports.

The USDA also made some notable revisions to foreign cotton estimates. Foreign cotton production increased 1.28 million bales with a 1.5 million bale increase in China and 200,000 bale increase in Pakistan partially offset by a 500,000 bale reduction in India. World consumption increased 1.48 million bales based mostly on large increases in China (up 1.0 million) and India (up 300,000). Net of all revisions, the USDA lowered expected world ending stocks by 580,000 bales to 95.74 million. Estimated ending stock outside China fell 1.58 million bales to 58.46.

## **NATIONAL COTTON COUNCIL**

Thursday morning, the National Cotton Council held its general session, which included presentation of the Council's Planting Intentions Survey and the Economic Outlook. The Council's Planting Intentions showed a decline of 5.2% for all cotton acres, resulting in expectations of 16.7 million bales of production in 2021/2022. Combined with expectations for continued strong demand and lower beginning stock for next year, the Economic

Outlook featured a very tight balance sheet for 2021/2022, forecasting ending stocks at just 2.6 million bales. With homes expected for nearly all future bales, the report was soundly optimistic about cotton marketing opportunities for the coming season.

## U.S. Balance Sheet

Million Bales

	19/20	20/21	21/22	Change
Production	19.9	15.0	<b>16.7</b>	+1.7
Mill Use	2.2	2.4	<b>2.8</b>	+0.4
Exports	15.5	15.8	<b>15.4</b>	-0.4
Stocks	7.3	4.1	<b>2.6</b>	-1.5
Stocks/Use	41%	22%	<b>14%</b>	-8%

National  
Cotton  
Council

### THE WEEK AHEAD

The quantity of trading and new information this week was perhaps as much as most traders can handle. Attention will pivot this week to remaining fixations for on-call business based on the March contract, and then to the USDA's Agricultural Outlook Forum at the end of the week. The Outlook Forum will provide the first and only look at the USDA's expectations for the 2021/2022 supply and demand situation until they post their first balance sheet for next year in May.

### 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