



**MARCH 12, 2021**

## **FUTURES WHIPSAW TRADERS AS TRADING VOLUMES REMAIN HEAVY**

- Passage of American Rescue Plan Act Cheers Markets
- WASDE Report Recap
- Healthy Export Sales Report Released This Week
- Upcoming Weather Focus for Traders

Futures continued to whipsaw traders. Prices seemed to be steadying Friday and climbed back to 89.34 cents per pound on Monday before falling the full price limit (the maximum amount the exchange allows price to move in one session) on Tuesday. Prices were already lower before the release of Tuesday's WASDE report, and continued to fall after its release, ignoring a slightly tighter ending stock for U.S. cotton and another tightening revision for World stocks, (more below). May, July,

and December futures all closed Tuesday at limit down, and continued to sell off at the open of Wednesday's session. May futures hit a low of 82.87 cents Wednesday morning before the market turned around. Thursday's Export Sales Report helped fuel price recovery enough that May futures closed at 88.35, up 121 from the prior Thursday's close. Trading volumes were heavy and open interest fell 5,793 contracts 231,690. The declining open interest implies that much of the selloff was fueled by speculative longs exiting positions.

## **OUTSIDE MARKETS**

Cotton spent the prior two weeks trading in a tight correlation with outside markets. Tuesday's big decline was a significant break from that pattern as cotton futures fell sharply while stocks traded higher and the U.S. dollar's recent rally seemed to backtrack. Passage of the American Rescue Plan Act cheered markets and signals a major upward shift in spending that many analysts believe will push the U.S. to a 6-7% gain in GDP for 2021. Both the Dow Jones Industrial Average and the S&P 500 pushed to record highs on the news. Inflation expectations are growing as well, with continued large increases in the money supply expected from the Federal Reserve to support such big spending packages. In fact, new outlets have already begun pivoting to the next big Federal bill, which is an infrastructure package that is expected to total \$2-4 trillion. Higher inflation expectations are generally good for commodity prices as investors look for ways to hedge against inflation.

## **WORLD AGRICULTURAL SUPPLY AND DEMAND ESTIMATES (WASDE)**

At 11 a.m. central time on Tuesday, the USDA released its latest WASDE. March's updated balance sheet decreased the world crop 827,000 bales to 113.32 million and increased global consumption 250,000 bales to 117.46. Most of the production cuts were provided by the U.S. (down 250,000 bales to 14.7 million) and Brazil (down 500,000 to 11.5 million). Turkey,

Pakistan, Bangladesh, and Vietnam all had small increases in the estimated consumption based on higher level of observed imports, but U.S. consumption was revised 100,000 bales lower. Indian exports were moved sharply higher (up 700,000 to 5.7 million) as relatively cheap Indian exports took up the increase in demand. U.S. exports were unchanged, which left U.S. ending stocks just 100,000 bales tighter at 4.2 million bales. World ending stocks are now projected at 94.59 million bales.

## **EXPORT SALES**

Thursday's Export Sales Report did not show any collapse in mill demand. Exporters added 212,000 Upland bales of net new sales for 2020/21 and 92,200 bales for delivery in 2021/22. Pima sales were also healthy at 12,500 bales. Upland and Pima combined shipments totaled 375,300 for the week. Even though the USDA chose the conservative path by not revising up their export estimate for this year, total cotton commitments are now at 96% of the 15.5 million statistical bales currently forecasted, with 21 weeks of sales left in the marketing year. After adding a cushion for normal carryover sales (sales not fulfilled on time and carried into the next marketing year), U.S. export sales need to average less than 100,000 bales per week to exceed the target.

## **THE WEEK AHEAD**

Weather is a central focus as many traders have already pivoted attention to new crop. While most of the West Texas High Plains will only receive modest amounts of rainfall, there is a large amount of precipitation in the forecast for most of the Cotton Belt. Kansas, Oklahoma, and the Northeastern corner of the Texas panhandle will see heavy showers. Unfortunately, the area south of Corpus is not getting much either. Beyond weather, weekly export sales reports will be the most significant cash market data points that traders follow until the Prospective Plantings report is released at the end of the month.

## **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