



MAY 12, 2023

COTTON PRICES FINISHED THE WEEK IN THE LOWER END OF LONG-TERM TRADING RANGE

- U.S. Economy Showing Signs of Cooling
- U.S. Export Sales and Shipments Strong for Week Ending May 4
- More Rain Expected in Texas, Oklahoma, and Kansas

After two days of solid gains, cotton prices slid back to the lower end of the long-term trading range. Demand in the cotton market seemingly returned early in the week, which helped push prices as high as 83.90 cents per pound. There was a flurry of activity in both the cotton market and outside markets that kept traders on alert. Inflation news, rain received in West Texas, and the anticipation of the WASDE report ultimately added pressure to

cotton prices. For the week ending May 11, July futures fell 214 points to settle at 79.62 cents per pound. Volume continues to remain low, and total open interest decreased 1,218 contracts to finish at 177,440.

Outside Markets

The release of April's Consumer Price Index (CPI) was the headline of the week for outside markets. CPI came in as expected, with a 0.4% increase reported month-over-month, and a slightly cooler than expected increase of 4.9% year-over-year. The April jobs report showed that 253,000 jobs were added in the month, an indicator that the labor market is showing resilience despite the efforts to cool the economy. U.S. initial jobless claims rose to 264,000, which is the highest level reached in over a year. The number of jobless claims is still historically low, but the marginal increases that have occurred in the past few weeks suggest that the labor market is starting to crack. U.S. Producer Price Index (PPI) signaled that prices are easing as well, with PPI increasing 2.3% when compared to last year. Although the job market is still hot, much of the data released this week indicates that the economy is starting to cool off and that the Fed has a better chance of pausing interest rate increases at their next meeting. The Dollar finished the week on a high note, with weakness in stocks and turmoil in the banking sector helping it find support. Crude oil came off the sharp losses seen last week, but the stronger Dollar and demand concerns caused it to be pressured to finish the week.

Export Sales

The week ending May 4 marked another week of strong sales and shipments of U.S. cotton, although the market's reaction would say otherwise. The U.S. Export Sales report had strong

net sales of 246,800 Upland bales for the 2022/23 marketing year, and 12,800 bales for the 2023/24 marketing year. The biggest buyer for the week was China, with 106,200 bales purchased, followed by Vietnam with 67,100 bales, Bangladesh with 36,000 bales, and Turkey with 17,600 bales. Shipments also continued at a strong pace. A total of 331,000 bales were exported for the week, which is far above the pace needed to reach USDA's export estimate. Pima sales were down when compared to recent weeks, but a net total of 15,200 bales were still purchased for the week. A total of 20,300 Pima bales were exported, showing another solid week of shipments.

WASDE

The May WASDE report gave traders the first glance at what the base case scenario will be for the 2023/24 marketing year and updated the 2022/23 balance sheet. For 2022/23, U.S. production was cut 210,000 bales to 14.47 million bales. This production cut was widely anticipated, as many have said that USDA had the crop in the U.S. too high all season. An upward revision to exports was also expected, but the 400,000-bale increase to 12.6 million bales came as a bullish surprise. In turn, these revisions decreased U.S. ending stocks to 3.5 million bales. The global side of the balance sheet showed a marginal decrease of 54,000 bales in consumption to 109.63 million bales. World ending stocks were raised 62,000 bales to 92.63 million bales.

The 2023/24 U.S. crop is expected to be 15.5 million bales and exports were set to 13.5 million bales. Ending stocks are expected to be 3.3 million bales, meaning the outlook for U.S. stocks remains tight. The world balance sheet showed that USDA expects global consumption to increase to 116.23 million

bales. Production is expected to decline slightly to 115.69 million bales and ending stocks are also expected to decrease to 92.28.

Weather and Crop Progress

This week's Crop Progress report shows that Texas has planted 23% of the expected cotton acreage, which is right in line with the five-year average of 22%. The U.S. is also staying on pace, and a total of 22% of the expected acreage has been planted in the country. West Texas and Oklahoma received spotty rains this past week, and there is more forecasted over the weekend. The rains have been welcomed, but above average temperatures have also been present, increasing the soil evaporation rate. The forecasted precipitation over the weekend gives hope that these areas will be able to plant in a timely manner. South Texas, on the other hand, has received more than adequate moisture recently. Warmer temperatures and open skies are needed in the coming weeks to aid in the crop's development.

The Week Ahead

With a new WASDE in hand, attention will shift to see if the forecasted precipitation materializes over the weekend and into next week. Next week's Crop Progress Report and Export Sales Report will continue to be a central focus.

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