



AUGUST 13, 2021

DECEMBER FUTURES FINISH WEEK AT 94.32 CENTS PER POUND

- Stock Markets Form Fresh All-Time Highs
- Incoming Marketing Year Starts Out with a Bang
- USDA Lowers U.S. Production Estimate
- Tropical Weather Grows More Active

December futures made fresh life-of-contract highs four out of five days since last Thursday. The climb was not a steady one as prices alternated gaining and losing altitude each day, but the upward movements clearly had more strength. The combined bullishness of strong export sales and a shockingly bullish WASDE report (more on both below) sent prices straight up on Thursday. With heavy volume behind it, December futures

finished the week at 94.32 cents per pound, up 262 points for the week. The surge of new buyers has pushed open interest up 12,020 contracts to 261,497, the highest level since February of 2020.

OUTSIDE MARKETS

Consumer Price Inflation data continued to show large year-over-year increases, but investors seemed to take comfort in the deceleration of price increases in certain markets such as used cars. Negotiations on infrastructure and spending bills also seems to be cheering up Wall Street, which now seems to believe that the economy can weather the coming taper of Federal Reserve monetary stimulus. President Biden also made a plea to OPEC countries to boost oil production to support economic recovery. In concert, the mix of good and stable news kept money flowing into the stock markets as they continued to form fresh all-time highs. Treasury yields and the U.S. dollar rallied, but there was little effect on the commodity space.

EXPORT SALES

This week's report showed both the export activity for the last two days of the 2020-2021 marketing year and the activity for the first week of 2021-2022 that started August 1. While the outgoing marketing year ended without any fireworks, the incoming marketing year started out with a bang. Exporters booked net new sales of 342,700 bales of Upland cotton and 10,200 bales of Pima. With carry-over (i.e. unfulfilled) sales from last year of roughly 1.4 million bales, 2021-2022 commitments are now just under 5.1 million running bales. While that number may sound like a lot, it is actually a rather low level of commitments compared to the start of recent years. That does not mean demand is bad, as mills have been focused on sourcing what they can for prompt needs from Australia and Brazil. Rather, if the USDA is correct about international trade needs this year, the expectation is that U.S. cotton will become the largest

supplier as soon as mills begin booking for delivery after the U.S. crop arrives.

WASDE AND CROP PRODUCTION REPORTS

The USDA released its August WASDE and Crop Production reports at 11 a.m. Thursday. The WASDE report had very few changes on the international side. Total foreign production was unchanged through offsetting increases in Australia and West Africa and decreases in Brazil. Foreign consumption increased 170,000 bales, so that total world use is now expected to be 123.33 million bales. The real shock in today's report was in the U.S. figures, where, to the chagrin of many analysts, the USDA lowered rather than raised its production estimate. The Crop Production Report, which is based on producer surveys, painted a rather pessimistic picture of yield expectations that drove the forecast down by 536,000 bales to 17.26 million. Following the tighter supply, the USDA also reduced exports by 200,000 bales to 15.0 million. The bullish surprise instantly drove the market to new highs.

THE WEEK AHEAD

With the WASDE behind us, crop production and progress, weather, and export sales reports resume center stage. Especially with the tropics growing more active, the market will be keeping an extra watch for the formation of systems in the Atlantic.

IN THE WEEK AHEAD:

- 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 11:00 a.m. Central – Crop Production
- Thursday at 2:30 p.m. Central – Cotton-On-Call