



JANUARY 13, 2023

BEARISH REPORTS WEIGHED ON COTTON MARKET

- **OUTSIDE MARKETS FARED BETTER WITH NEWS OF SLOWING INFLATION**
- **EXPORT SALES IMPROVED BUT STILL DISAPPOINTING**
- **U.S. PRODUCTION INCREASED TO 14.68 MILLION BALES**

The cotton market was relatively quiet in anticipation of the various cotton specific and macroeconomic reports that were released on Thursday and from the lack of Index rebalancing action. March futures spent most of the week having wide trading ranges, but still making gains, before outside market news and a bearish WASDE report weighed prices down. After

falling under strong pressure, March futures finished the week ending January 12 at 82.04 cents per pound, down only 54 points from the week prior. Total open interest rose to 202,477, an increase of 3,848 contracts compared to last week.

Outside Markets

Outside markets fared a little better than the cotton market did this week. On Friday, the U.S. jobs report showed a firm labor market and the ISM service index, which tumbled to 49.6, was weaker than expected, helping boost equities going into the weekend. Stocks were up and down for most of the week, with traders waiting for the news of Thursday's Consumer Price Index (CPI) reading. The CPI came in as anticipated, showing a month-over-month decrease of -0.1% and a year-over-year increase of 6.5%, down from the 7.1% in the month prior. Although this is a sign of slowing inflation, it appeared that outside markets did not know how to respond to this news. After weeks of disappointing closes, outside markets eventually settled on the upside to finish the week. Initial jobless claims unexpectedly fell to 205,000, showing a strong labor market but not impacting markets like usual due to the CPI overshadowing this reading. While the latest economic news shows a slowing economy, the Fed has signaled that further rate hikes will continue until data shows further economic improvement and that price pressure is easing.

Export Sales

While export sales improved, they were still disappointing for the week ending January 5. For the current marketing year, net sales of 72,600 Upland bales were booked for the week, which is below average for what is typically reported at this point in the marketing year, but up from what has been reported in previous

weeks. The biggest buyers were Turkey with 19,600 Upland bales, China 16,400, Vietnam 11,800, and Pakistan 9,200. There were no new sales reported for the 2023/24 marketing year, but shipments looked better for the week. A total of 150,500 Upland bales were shipped, which is below the pace needed for the current USDA estimate, but above what has been exported recently. A total of 3,300 Pima bales were booked for 2022/23 and 6,300 bales were exported.

WASDE

The World Agricultural Supply and Demand Estimates (WASDE) came somewhat as a surprise for traders, in particular, the raise in U.S. production was not anticipated. Expected production was increased to 14.68 million bales, which left many wondering where the crop is going to come from now that ginning and classing is wrapping up across the country. Southwest production increased to 3.79 million bales. Texas production estimates were raised 100,000 bales to 3.4 million bales, Kansas was brought up 5,000 bales to 180,000 bales, and Oklahoma stayed the same at 210,000 bales. U.S. exports were lowered to 12 million bales, down 250,000 bales from the previous report and what was expected given the weak sales of the previous month and slower rate of shipments. With more supply expected and less exports, U.S. ending stocks are now expected to be at 4.2 million bales, up 700,000 bales from the December report. Projected yield also reached a U.S. record, reaching an estimate of 947 pounds.

The world side of the WASDE was not heavily revised this month. Regarding production, a decrease in India was offset by higher estimates in the U.S. and Brazil, decreasing the crop only 330,000 bales to 115.4 million bales. Consumption was slightly lower as well, decreasing 850,000 bales to 110.85 million bales.

Given all the changes, global ending stocks were revised to increase 370,000 to 89.93 million.

The Week Ahead

With a fresh WASDE report in hand, trader attention will turn back to the usual weekly focal points. The trading week will be short due to the MLK holiday, therefore delaying the Export Sales Report. Export sales will be closely watched for both sales and shipments, seeing if the talk of demand increases is true. Cotton specific news is expected to be slow next week so outside markets will garner a little more attention. Daily information on cotton arrivals will also be closely watched as many traders were caught off guard by the USDA's crop increase.

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