



NOVEMBER 13, 2020

WEEKLY REPORTS SHOCK TRADERS, COVID-19 VACCINE GOOD NEWS

- Pfizer-BioNTech COVID Vaccine to be 90% Effective
- Increase in U.S. Export Sales
- USDA Cotton Production Estimate Unexpectedly Large

Futures market activity was heavy this week. Index funds were busily rolling their large passive long positions from the December delivery contract into March delivery. In the middle of those heavy volumes the market was also busily processing good news about a COVID-19 vaccine and a rather surprising WASDE Report (more on both below). December futures finished the week at 68.48 cents per pound, down 159 points for the week. March futures, which have taken center stage, settled at 70.62

cents Thursday, down just 59 points. Total open interest fell for the second week, dropping 6,173 contracts to 237,022.

OUTSIDE MARKETS

Over the weekend late stage trials showed the Pfizer-BioNTech vaccine to be 90% effective, leaving fewer regulatory hurdles to clear before the FDA can grant emergency use authorization. Stocks instantly jumped higher, with major indices reaching new record highs. Treasury yields also rallied to their highest levels since March. The good news was enough to distract investors from the policy uncertainty that continues to surround the still contested election and transition of power. Jobless claims were a positive data point this week, too. Initial claims were 709,000, which was lower than expected, and continuing claims fell 436,000 to 6,786,000. The labor data shows improvement, but continuing claims are still millions higher than this point last year, showing that there is still a lot of work to be done toward a full recovery.

EXPORT SALES

Last week's decline in price was apparently enough to spur some additional mill demand. U.S. exporters reported an increase in net new sales to a large number of destinations. The largest buyers of Upland cotton were Pakistan (61,900 bales), Vietnam (55,900), Turkey (42,800), and China (31,100). Pima sales were also healthy at 20,300 bales. Export shipments continued at a record-setting pace. Combined shipments totaled 314,700 bales, which is the highest ever for this week of the marketing year. Marketing-year-to-date exports (i.e. the total since August 1) have reached 3.67 million running bales, which is over one million bales ahead of last year's shipping pace and a record high for the fourteenth week of the marketing year.

WASDE AND CROP PRODUCTION

Tuesday's WASDE and Crop Production reports shocked traders and analysts. Despite ice storms and multiple hurricanes

battering an open and unharvested crop, the USDA's crop production figure for cotton surprisingly increased 47,000 bales to 17,092,000 bales (480 lbs. statistical bales). The highest published analyst's estimate was 17.0 million even, and the average expected crop size was 16.56 million, so the number was a bit of a shock. Taking it in stride, the WASDE Report left the rest of the U.S. balance sheet basically unchanged. There were relatively few revisions among other countries, too. The most significant foreign revisions were a decrease of Pakistan's crop to 5.0 million (down 800,000), an increase in Australia's production to 2.5 million (up 400,000), and a 250,000 increase to China's crop, which is now expected to hit 27.5 million. Brazil and Australia's exports were also marginally increased to accommodate Pakistan's greater need for imports. With some other minor revisions, the world ending stocks were increased by 250,000 bales to 101.44 million.

THE WEEK AHEAD

Index rolling and Friday's December option expiry have kept traders focus on squaring away their December positions as the market quickly approached first notice day, at which point anyone still holding a long futures contract could be assigned delivery of physical cotton through the exchange. Traders will be looking to get a better feel for supply and demand from market signals next week and double-checking daily classing and any other arrival data they can find to reason through the USDA's unexpectedly large production estimate.

IN THE WEEK AHEAD:

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