PCCA PLAINS COTTON COOPERATIVE ASSOCIATION

JANUARY 14, 2022

MARCH FUTURES SETTLE UP 212 POINTS FOR WEEK

- **MARKETS WORRIED ABOUT HAWKISH FEDERAL RESERVE AND OMICRON VARIANT**
- **WASDE REPORTS DECREASE IN EXPECTED BALE PRODUCTION**
- **MILLS STILL DEEPLY IN NEED OF COTTON**

March futures spent the first half of the week attempting to move higher but only making marginal gains. Nevertheless, prices were able to escape the recent range by way of a surge in buying after the bullish WASDE report on Wednesday (more below). March futures registered a new life-of-contract high at 118.99 cents per pound before moderating late in the session

Wednesday and during Thursday. The lead contract finished the week at 116.84 cents, up 212 points for the week. Daily trading volume was high and the surge of buyers added 3,587 new contracts to overall open interest, which now stands at 247,625.

Outside Markets

Outside markets had a rough start, with the S&P 500 falling to multi-week lows on Monday before putting in more two-sided trading the rest of the week. Markets are still generally worried about the Federal Reserve's recent hawkish tone and the spread of the omicron variant. Although the certainty of Federal Reserve action to fight inflation has become clearer, certainty seems to be a greater comfort than tightening money supply. Regarding omicron, there is still risk of economic damage from shutdowns in the Western world, but the risk seems to be quickly receding as there are already pundits predicting that the current wave of infections is or has already crested. The real fear is that omicron will shut down more vulnerable parts of the supply chain that either have not been heavily vaccinated with the best vaccines or have relied heavily on "zero Covid" strategies, most notably China. Waves of infection in China could cause significant obstruction as it continues to implement mass lockdowns wherever Covid is found.

WASDE

The World Agricultural Supply and Demand Estimates (WASDE) were a shocker, particularly the U.S. balance sheet. It was not the small upward shift of 50,000 bales in U.S. consumption that surprised traders, but the 660,000 bale decrease in expected production, which now stands at 17.62 million statistical bales (i.e. 480 lb. equivalents). Most of the shortfall came in the Texas estimates with Upland now expected to be 7.6 million bales (down 400,000) and Pima just 25,000 bales (down 8,000). With less supply available, the USDA also cut their expected export figure by 500,000 bales to 15.0 million. Net of all the changes, U.S. ending stock is now expected to be just 3.2 million bales, which is 200,000 lower than the December estimate and tighter than the market had been expecting.

World figures were not heavily revised this month. Regarding production, a decrease in India was offset by higher estimates in China, Australia, and Pakistan. Foreign consumption was also marginally lower as smaller increases in India, Pakistan, and Mexico were countered by a decrease of 500,000 bales in China. Net of all changes, global ending stocks were revised down 720,000 bales to 85.01 million.

Export Sales

Export sales have been excellent, proving that mills are still deeply in need of cotton. For the week ending January 6, exporters reported net new sales of 401,000 bales of Upland for this marketing year, 38,300 bales for next year, and 2,400 bales of Pima. Shipments this week were just 176,900 bales, which is well below normal pace. With the USDA having revised their shipping target lower, there is a little less pressure on the market to hit record shipments, but the continuing lag in exports is still a concern. The pace of fulfillment still seems to be lagging, which makes the new 15.0 million statistical bale forecast look difficult, but not impossible, to hit.

In the Week Ahead:

- Wednesday at 11:00 a.m. Central – WASDE
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton-On-Call