



Cotton Market Weekly

JANUARY 15, 2021

EXCITING WEEK OF MARKETS, COTTON FUTURES SETTLE UP 139 POINTS

- World and Economic Events Befuddle Investors
- January WASDE Reported Mostly Minor Revisions
- USDA Cut 2020/2021 Crop Production Estimate by 996,000 Bales
- Strong Export Sales Return This Week

It was an exciting week for the markets, and cotton futures were not left out of the party. While March futures dipped to a low at 78.65 cents per pound on Monday they quickly regained their footing ahead of Tuesday's WASDE and Crop Production reports. Those reports sent the market to fresh highs (more on the data below). March futures rallied as high as 82.08 cents in a temporary follow through rally on Wednesday. Thursday's

settlement at 81.15 cents was up 139 points for the week. Daily average volume was at its highest since mid-November. Open interest surged another 9,430 contracts to 246,670, which is also its highest level since early November.

OUTSIDE MARKETS

Financial markets have had a huge amount to process over the past week. The second impeachment of President Trump, the Biden administration proposal for massive additional Federal aid, the banning of any cotton (or tomato) products from Xinjiang (a large expansion of a previous ban), and mixed economic data are the headliners, but certainly not the only significant news. The massive combination of events seems to have simply befuddled investors. The daily volatility of the Dow Jones Industrial Average fell back to a pre-COVID low. Commodities were stronger players this week, especially agricultural commodities.

WASDE AND CROP PRODUCTION

Outside of the U.S. production figures that we'll get to shortly, the January WASDE report had mostly minor revisions. The USDA revised crops down 200,000 bales in Pakistan, but slightly better production in Turkey and Australia made up for the loss. There were several small offsetting changes to imports and production as well, but the really large foreign revisions were an increase of 500,000 bales to China's imports and consumption. Both revisions were well-received by the market as China's buying of both cotton and yarn has triggered some revival in the spinning sector. Nevertheless, the biggest driver of this week's rally were the changes to the U.S. balance sheet.

As detailed by the simultaneously released Crop Production report, the USDA cut its 2020/2021 crop production estimate by 996,000 bales to 14,953,000 bales (14,401,000 Upland and 552,000 Pima). Surveys of analysts had expected a move lower, but for the second month in a row the USDA moved beyond the

lowest estimate in a shock to the market. Virginia Upland and Texas Pima were the only crops to increase, with unimpressive 10,000 and 1,000 bale revisions. Despite the sharply lower crop, the USDA did not ignore the near-record strength in December's export sales. January's WASDE also took the export estimate up 250,000 bales to 15.25 million. After a small decrease in U.S. consumption, U.S. ending stocks were cut 1.1 million bales to 4.6 million.

EXPORT SALES

The return of strong export sales this week only bolstered the USDA's revisions. For the week ending January 7, shippers booked net new sales of 326,000 Upland bales and 35,900 bales of Pima. China was the largest buyer for the week, increasing Upland orders by 151,200 bales. Other large buyers included Pakistan (56,600 bales), Turkey (39,000), Bangladesh (24,300), and Vietnam (23,800). India was the large buyer of Pima at 20,700 bales, followed by Vietnam with 8,800. Shipments continued to outperform the pace needed to hit even the expanded USDA target. In fact, accumulated exports continue to set records for this time of the marketing year.



**Note: Jan-Jul shipments for 2020/21 are forecast; Aug-Dec are USDA Export Sales Reporting shipments*



THE WEEK AHEAD

The WASDE is behind us for a while, and traders will turn their focus back to cash trading for the most part. The Export Sales report will remain the key weekly fixture for traders as most now think the USDA's export figure is more likely to grow in coming months. Traders are also beginning to think about next year's balance sheet. With grains also tightening dramatically, the competition for acres is fierce. Cotton traders may have their eyes on corn, wheat, and soybean performance more than usual for the next few months.

IN THE WEEK AHEAD:

- Friday at 2:30 p.m. Central – Commitments of Traders
- Monday – Market Closed for MLK Day
- Thursday at 2:30 p.m. Central – Cotton-On-Call
- Friday at 7:30 a.m. Central – Export Sales Report