



MARCH 17, 2023

COTTON FUTURES FOLLOWED VOLATILE OUTSIDE MARKETS

- Turmoil in Bank Sector Put Pressure on Major Indexes
- Strong Export Sales and Shipments Reported for Week Ending March 9
- Drought Conditions Unchanged Across Texas, Oklahoma, and Kansas

Cotton futures had a volatile week, closely following the path of outside markets, the banking sector in particular. A hot jobs report on Friday weighed on the market, sending cotton limit down going into the weekend and having the lowest close since November. The news of the Silicon Valley Bank (SVB) collapse had people questioning if the Fed would actually increase

interest rates, which helped give markets a little boost early in the week. A mixed tone was present to close out the week ending March 16. May futures settled at 79.16 cents per pound, down 302 points, but off the lows seen earlier in the week. Total open interest increased 4,242 contracts to 190,675.

Outside Markets

A strong jobs report released on Friday, which heavily pressured markets, appeared to be a small problem when compared to the events that followed. The global and domestic banking sector was in absolute turmoil this week. The freefall of the banking sector started with the collapse of SVB and Signature Bank. Inquiries about Credit Suisse's solvency arose and the health of First Republic Bank was questioned. Worries about banks have many questioning what the Federal Open Market Committee will do concerning interest rates when they meet next week. After comments made last week, a 50-basis point hike seemed inevitable to take on a more aggressive stance on taming inflation after strong economic data was released. However, after the events of the banking sector and slightly cooler economic data this week, many believe the Fed could pivot and increase interest rates at a lower level or pause altogether. The Consumer Price Index (CPI) was released and showed a month-over-month slowdown of 0.4%, making a year-over-year increase of 6.0%. Retail sales also fell by 0.4% month-over-month but are up 5.39% year-over-year. The U.S. Producer Price Index (PPI) fell by 0.1% month-over-month, below expectations, but still up 4.6% year-over-year. Initial jobless claims fell to 192,000, showing a continuing strong labor market. Cotton has not been the only commodity under pressure. Crude futures tanked and other row crop prices were mixed throughout the week. The hot and cold data over the past week has many

hopeful the FOMC meeting next week will provide some clarity on where the economy is headed.

Export Sales

Although strong export sales were reported for the week ending March 9, the market seemed to shrug off the good report. Net sales of 225,500 Upland bales were reported for the 2022/23 crop year and 12,800 bales booked for the 2023/24 crop year. The biggest buyers this week were Vietnam, purchasing 120,200 bales, followed by China with 35,800 bales, Turkey with 16,900 bales, Pakistan with 10,400 bales, and South Korea with 10,100 bales. For the second week in a row, shipments were above the pace needed to reach USDA's export expectation of 12.0 million bales. A total of 273,900 bales were exported for the week. Pima sales were at a marketing year high. A total of 7,600 bales were booked for the week, while shipments were below the 4-week average with only 1,500 bales shipped.

Weather and New Crop Outlook

There is not really anything new to report where drought is concerned throughout parts of Texas, Oklahoma, and Kansas. Temperatures have fluctuated from cold to above average, but no substantial moisture has been reported, although the winds are seemingly ever-present. Colder, windy conditions are forecast for West Texas over the weekend, but little precipitation is expected. Rain is desperately needed in the coming weeks to ease the drought ridden soil and help prepare the ground for planting. Planting continues in South Texas, and unlike other areas in Texas, there is a chance of rain in the coming days. The anticipated moisture will help spur growth and improve soil conditions in the region.

The Week Ahead

Cotton specific news will be pretty light next week, with the FOMC meeting taking up most of the space in traders' minds. Will the Fed keep their hawkish stance and continue raising rates or will the events of the past week cause them to pause? The volatility seen in recent weeks will continue in the coming week with inflation being the main culprit. Where cotton is concerned, traders will continue to focus on the Export Sales Report to gauge demand.

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