



JANUARY 24, 2020

OUTBREAK IN CHINA WEIGHS ON COMMODITY MARKETS

- Cotton Down 19 Points for the Week
- Equity Markets Post New Highs
- Weekly Export Sales Higher
- Traders Still Watching for Chinese Purchases

The cotton market shot up to the week's high at 71.37 cents per pound last Friday as traders shook off the market's post-signing jitters. It certainly seemed as though the "sell-the-fact" decline was going to be short-lived and that the market soon would resume gains. Unfortunately, global worries about the coronavirus outbreak in Wuhan, China, a city of 11 million people, began to take a toll on the markets. Although the New

York futures market was closed Monday in observance of Martin Luther King Day, Asian markets began to trade lower.

Chinese cotton futures collapsed on Tuesday, dragging U.S. prices lower. March futures traded down to 68.71 cents in Tuesday night's activity before buyers came back into the market. The surge of buying Wednesday pulled prices all the way back up to 71.30 cents during the session. Prices fell back by half again on Thursday and settled down 19 points on the week at 70.03 cents per pound. The shallowness of the weekly decline is rather striking in comparison to the large volume and wide price range. Open interest continues to rally, adding 9,383 contracts to finish the week at 261,004, its highest level in 14 months.

OUTSIDE MARKETS

Despite the fears the Wuhan virus has put in the markets, stock indices still managed to post new highs in the past few days. U.S. equity markets seem to be discounting the risk just as much as they are discounting the impeachment trial of President Trump. Treasuries have rallied, showing there is some "risk off" behavior among investors, albeit limited. Commodity markets have been more mixed. Wheat continues to post impressive gains, and corn is back to its highest level since October. Soybeans, cotton, crude and other energy futures seem to be the weaker performers which has been partially blamed on some disappointment that China did not instantly purchase the large quantities they are committed to import this year.

EXPORT SALES

For the week ended January 16, cotton shippers arranged net new sales of 307,800 bales of Upland and 20,200 bales of Pima. Reported shipments were 282,600 bales of Upland (41,400 of which went to China) and 6,500 of Pima. The biggest net buyers for the week included Turkey (82,700 bales), Pakistan (72,200), Vietnam (70,800), and Indonesia (33,600). China made net

purchases of 10,400 bales of Upland and 6,000 bales of Pima which some will find disappointing. However, the reporting period contained only one day after the signing of the U.S.-China trade deal. Whether purchases from China pick up over the next several reports will be a better indicator of China's intentions.

THE SEAM

The Seam's G2B trading volume for the past week was 39,000 bales, approximately 50,000 bales less than the previous week's total. The average price received by producers was 61.78 cents per pound, down 96 points from the previous week's average. The average premium over the CCC loan was 11.37 cents per pound, up 36 points from the previous week's average. G2B offers remain at 259,000 bales.

WATCHING FOR SIGNS

The appearance of the Wuhan virus and the Chinese government's response to quickly control it will be a key focus during the next several days. Traders also will be watching Export Sales Reports for Chinese purchases in particular which would only start to show up on next week's report if they began purchasing immediately after signing the trade deal. Crop concerns are mostly behind us at this point, and indications of the strength of demand and the health of downstream markets will be key watch points.

IN THE WEEK AHEAD:

- 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