



AUGUST 25, 2023

DECEMBER FUTURES MADE MODEST GAINS FOR THE WEEK ENDING AUGUST 24

- Equity Markets had a Mixed Week Before Eventually Settling Lower
- Demand for U.S. Cotton Dismal for Week Ending August 18
- Deteriorating Crop Condition Continues to Worry Traders

December futures made modest gains for the week ending August 24. The continuing deterioration of the U.S. crop and higher Chinese cotton prices helped boost ICE futures this week. Cotton futures chose to ignore a poor Export Sales Report and stronger U.S. Dollar to finish higher for the fifth consecutive trading session. Since last Thursday, December futures increased 248 points to settle at 86.09 cents per pound. Daily

trading volumes were light this week, and total open interest decreased 7,413 contracts to 200,698.

Outside Markets

Equity markets had a mixed week but eventually settled lower on Thursday despite unexpected massive earnings reported in tech stocks. Markets moved in both directions with the release of varying economic reports. Mortgage rates hit their highest level in over two decades, with 30-year fixed mortgage rates now at 7.23%. U.S. initial jobless claims were reported at 230,000, lower than market expectations and showing a persistently strong labor market. Worrisome economic news out of China continued to weigh on markets, in particular crude oil. Many of the reports this week provided a bearish sentiment to the market, but many traders are waiting to hear comments from the Fed at their annual symposium of global central bankers taking place late this week.

Export Sales

It is not news that both supply and demand have become a major concern in the cotton industry this year. Demand for U.S. cotton proved to be dismal for the week ending August 17. Net sales of 38,900 Upland bales were reported for the 2023/24 marketing year and 52,800 bales for the 2024/25 crop year. The biggest buyer for the week was China, booking 31,700 bales, followed by Vietnam with 10,800 bales, Bangladesh with 5,100 bales, Honduras with 3,000 bales, and Costa Rica with 2,200 bales. Cancellations were slightly more notable on this report. It has been rumored that Pakistan's currency issues and prospects of higher-than-expected production might have an impact on demand. It proved true on this report, with Pakistan having 22,000 bales of the 29,500 bales cancelled for the week.

Shipments were similar to last week, with a total of 204,200 Upland bales exported. A net total of 1,300 Pima bales were sold this week and 9,600 bales were exported.

Weather and Crop Progress

The deterioration of the U.S. crop continues to worry traders. The excessive heat and little moisture have caused 32% of the country's areas of cotton production to be considered in drought. As of August 20, the U.S. crop was rated as 6% "Excellent", 27% as "Good", 21% as "Fair", 24% as "Poor", and 22% as "Very Poor". As hard as it is to believe, the Texas crop is showing to be in worse condition now than at the same point in time as last year. Although the outlook for West Texas and Oklahoma is less than ideal and heat stress is prevalent, temperatures are expected to ease a bit in the coming week. Scattered storms are also in the forecast, which could provide relief to some of the very dry areas. South Texas did receive moisture from Tropical Storm Harold, forcing producers to get some of their cotton out of fields faster than expected. The rainfall received paused picking, but warm temperatures are expected in the forecast for the coming week, which will allow normal harvest activities to resume.

The Week Ahead

There is another low-pressure system that is projected to enter the Gulf next week and could bring heavy rains to the Southeast. A close eye will be on the potential systems in the tropical weather outlook to see how it will impact the crop in the Southeast, which is shaping into another good crop. Outside of monitoring the increasing tropical storm activity, macroeconomics and the usual weekly reports will be key for cotton traders in the week to come.

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