



FEBRUARY 28, 2020

VIRUS BATTERS MARKETS

- May Cotton Down 687 Points, December Down 679
- Spot Market Prices Fall, Too
- Export Sales Healthy

Bad news about the spread of Covid-19, the novel coronavirus whose outbreak began in Wuhan, China, battered markets this week. May cotton fell 687 points and December fell 679 points. New cases in South Korea, Iran, and Italy increased sharply last weekend, and the surge in new cases outside China sent markets into full-blown risk off mode as soon as they opened for Monday's trading sessions. Stock indices have erased the past few months gains and are in negative territory for the year. U.S. Treasuries rallied as global investors flocked into safe-haven

assets which initially pushed the value of the U.S. Dollar sharply higher.

Unfortunately, bad news continues to dominate good news in the headlines. Although daily new cases in China have fallen below new cases outside China, the appearance of first confirmed cases in many countries is a great concern. Supply chain backlogs in many regions also are cramping business even though China's backlogs are in the process of clearing out. Projections of lost economic activity are circulating freely, and the outlook is very difficult to predict. If new cases begin to surge, it is likely that the World Health Organization will declare Covid-19 a pandemic which is a technical distinction that will initiate the pandemic response plans that nations have developed for such a situation.

THE SEAM

As of late yesterday afternoon, The Seam's G2B platform traded approximately 8,500 bales during the past five trading days. The average price received by producers was 58.32 cents per pound, down 218 points from the previous week's average. The average premium over the CCC loan was 7.10 cents per pound, down 280 points from the previous week's average. G2B offers late Thursday stood at 245,000 bales.

EXPORT SALES

Keeping in mind this week's report was for the week ended February 20 and that the week included the President's Day holiday, U.S. exports sales were very healthy. Sales for delivery in the 2019-20 marketing year totaled 214,600 bales of Upland and 28,100 bales of Pima. Additionally, next marketing year sales were 198,900 bales of Upland, and combined shipments were 342,300 bales. Notably, China showed up as the second largest buyer for the current marketing year at 39,600 bales of net new sales and as the third largest shipment destination at 32,900 bales.

IN THE WEEK AHEAD

While Covid-19 certainly will have impacted cotton's supply and demand dynamics, cotton fundamentals have little to do with this week's sell off. Rather, the pattern of global "risk off" trading is the strongest factor in the market for the time being. The progression of and government responses to Covid-19 will have an outsized effect. Nevertheless, traders will be anxiously awaiting Friday's Commitments-of-Traders report to see who was behind the selling through Tuesday and next Thursday's Export Sales Report to see whether mills were taking advantage of the sharply lower prices.

- 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