



JANUARY 29, 2021

COTTON FUTURES ENDURE ROUGH TRADING WEEK

- Outlook for Economic Recovery Dims
- Long-Term Forecast Features Early Spring and Better Rainfall
- Total Export Market Commitments at 13.1 Million Bales
- Traders Focus on Managing Hedge Books

Cotton futures had their worst week in quite a while. March futures prices fell four out of five trading sessions from a high last Friday at 82.56 cents per pound to Thursday's low at 79.85 cents. The lead contract settled at 79.93, down 264 points. Trading volumes were rather heavy versus recent averages. Open interest jumped up last Friday as traders put on new positions in last Thursday's rally, but the number of open

contracts fell somewhat from the high for the rest of the week. Overall, open interest was up 3,383 contracts to 253,055.

OUTSIDE MARKETS

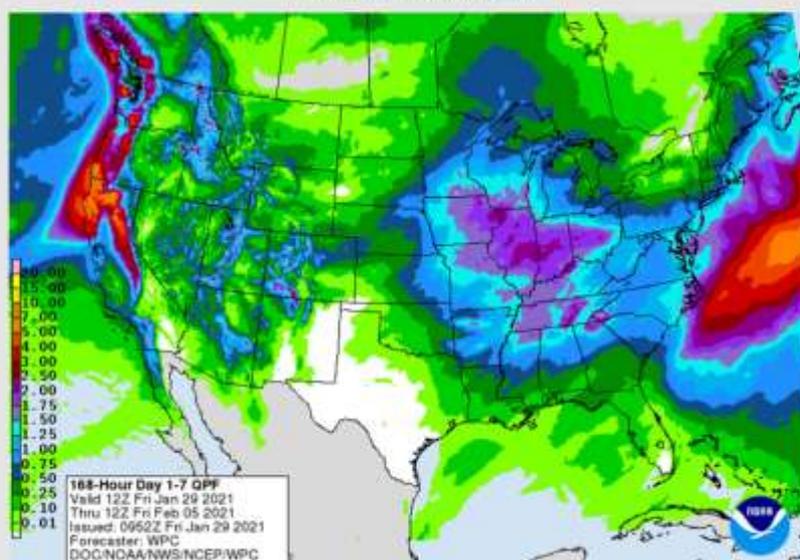
Outside markets and mixed economic data provided a lot of the impetus for this week's price pressure. A host of companies reported earnings that were generally poorer than hoped, and the outlook for the economic recovery dimmed as vaccinations continue to lag expectations in all but a handful of countries across the globe. The Federal Reserve attempted to cheer markets out of a steep loss on Wednesday, but stocks still had one of their worst days in months despite recent record highs. Weaker than expected inflation data and poorer economic hopes pushed money out of risk assets, including commodities, and into safe-haven investments. Stocks recovered losses on Thursday, but commodities still struggled.

WEATHER

Strips of West Texas received decent rains this week, with some areas logging more than an inch but most got closer to just half that. The majority of rainfall was further east in the Cotton Belt. North Carolina and Virginia had plenty of rain and snow, and the eastern states are likely to get more rain in the week ahead. California's snow pack is also being somewhat replenished by an "atmospheric river" that is hitting the northern half of the state. In fact, most of the Cotton Belt will get rain again this week, but the forecast is more than a little iffy for West Texas. Thankfully, the La Nina weather pattern that has kept the Southwest hot and dry seems to be fading. There are improving chances of an early Spring and better rainfall in long-range forecasts. It will take a relatively wet year to fill in the current moisture deficit.

U.S. 7-Day Quantitative Precipitation Forecast

Source: WPC/NCEP/NOAA



EXPORT SALES

Last week's push to 83 cents did little to reduce demand. For the week ending January 21, cotton shippers made net new sales of 322,700 bales of Upland and 25,800 bales of Pima. Demand was also well-distributed amongst 20 different countries, although the largest buyers were Turkey (65,900 bales), Vietnam (62,400), Pakistan (57,800), and China (36,400). Shipments were slightly lower this week, but continue at a strong pace. Total commitments to the export market are now 13.1 million bales and are the second highest ever for this week of the marketing year. With March futures dipping back below 80 cents, it seems likely that export commitments will exceed the USDA's current forecast for the 2020/21 marketing year.

THE WEEK AHEAD

Traders are focused on managing their hedge books over the next few weeks. Index funds have begun to roll their large passive long positions forward from March to May while merchants are busy both with fixing their remaining March on-call sales or thinking about when they will roll forward hedges. Next week also has the added wrinkle of March options expiry. The Export Sales Report will be the main watchpoint on the

schedule, but the WASDE report and the NCC's annual outlook will be closely watched in the week after.

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
- Friday – March Options Expire