



**DECEMBER 31, 2020**

## **2020 COTTON MARKET REVIEW**

Cotton futures ended the year with a bang, gaining 192 points from last Thursday's close to settle at 78.12 cents per pound today. In fact, the high for the last day of 2020 is the highest price to print since April of 2019, about 20 months ago. In the spirit of looking back at where we've been and since this is the last cotton market weekly for 2020, we thought an annual review and longer-term perspective could be helpful. What follows below is a brief look at the cotton market over the past year.

## **WINTER/EARLY SPRING 2020**

Cotton futures opened 2020 with the March 2020 contract trading at 69.12 cents and rallying to 71.96 later in January. The market seemed ready to continue rallying as the U.S. and China signed the phase 1 trade deal that included China significantly

increasing its purchases of many U.S. goods, including cotton. Unfortunately, as we have all become too familiar with, the outbreak of the novel coronavirus that started in November or December of 2019 within China soon spread to the rest of the world.

Commodity and stock prices fell sharply in February and March as it became clear that most of the world would be instituting strict quarantine measures to “flatten the curve” and buy time for the medical and scientific communities to develop a long-term response. Many governments also began passing stimulus measures and the world’s central banks dropped their interest rates as low as they could bear to prevent a credit collapse. The measures governments were taking and the free flow of money from the Federal Reserve got investors out of their “risk off” mindset. April 1 marked the low for the year when the May 2020 contract hit 48.35 cents.

## **SPRING/SUMMER 2020**

Just as the rest of the world was locking down, China was exiting its strictest quarantines. The first noticeable wave of China’s agricultural product purchases became evident in April and May. Having suffered large grain losses from typhoons and flooding and attempting to rebuild their swine herd from the huge African-swine fever culling, China was particularly in need of food stuffs and still is. Cotton purchasing also picked up nicely from mid-April, with export sales to China increasing nearly 4.4 million bales since then.

Production became another issue propelling the market higher from mid-summer on. Large portions of the Southwest crop failed in the successive spells of drought and heat that killed off most of the West Texas dryland crop. A particularly early freeze also capped yield potential on much of the irrigated crop as well. Things were bad in a different way in the Mid-South and Southeast where rain fell rather continuously on open cotton and several hurricanes battered the crop. The USDA’s crop forecast

has fallen from 19.5 million bales at the beginning of the year to just 15.95 on the December Crop Production Report and it may still need to fall further.

## **WINTER 2020**

Smaller supply, better than expected demand, and good progress on vaccines and Federal stimulus continued to carry the market higher into the winter. Economic recovery seems to have created a demand pull upward on prices, evidenced by continued mill demand even as prices reached new highs. The surprisingly tight outlook has propelled March 2021 futures to today's settlement price at 78.12, for a year-over-year gain of 907 points, despite the pandemic.

## **THE YEAR AHEAD**

For the year ahead, the demand outlook is good. Continuing economic recovery and the backfill of delayed consumption are likely to keep mills buying. The question on many traders' minds is whether cotton production in the U.S. will be able to stage a recovery to meet that demand. Grain prices are relatively attractive compared to cotton for many growers in the Cotton Belt, and significant switching seems likely if December 2021 futures do not rally to match grains.

**EVEN THOUGH IT WAS A TOUGH YEAR AND THE COTTON INDUSTRY LOST MANY FRIENDS, WE ARE THANKFUL FOR 2020. WE WISH ALL OUR READERS A PROSPEROUS AND PEACEFUL 2021. HAPPY NEW YEAR!**

## **IN THE WEEK AHEAD:**

- Monday 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 at 2:30 p.m. Central – Commitments of Traders