PCCA PLAINS COTTON COOPERATIVE ASSOCIATION

FEBRUARY 3, 2023

MARCH FUTURES TRADED BACK-AND-FORTH FOR THE WEEK

- Stock Market Strong in January
- Export Sales Report Showed Encouraging Sales

March futures had a mixed week, remaining in the back-and-forth trading range that has been present the past few months. Overall, most commodities had a good start to the week, with cotton in particular finding support from China. After falling under pressure from the Fed's interest rate increase that was announced later in the week, the U.S. Export Sales Report helped boost prices to finish the week on a high note. March futures closed at 86.39 cents per pound, down 111 points for the week ending February 2. Open interest rose modestly, increasing 1,043 contracts for a total of 210,416.

Outside Markets

After a rough year in 2022, stocks had a strong start to 2023. January finished with respectable monthly gains. It was a big week for outside markets with more companies releasing quarterly earnings, the Federal Open Market Committee (FOMC) meeting, and many foreign banks also making interest rate decisions. Most economic decisions reported the past week were on target with expectations. The headline for the week was the 25-basis point raise the Fed announced on Wednesday, a signal that the rate increases over the past year have helped bring down inflation. Although the Fed is hopeful the disinflationary process has started, there will likely be more rate increases in the coming months and it is still unclear whether cuts will happen before the year ends. The speculation of a possible end to interest rate hikes and positive corporate gains from companies helped keep a bullish narrative in the market. Non-farm productivity rose more than expected at 3%, while labor costs in the fourth quarter rose less than expected at 1.1%, both readings helping add to gains in Indexes despite weekly unemployment claims falling to a 9-month low of 183,000. The Dollar Index, however, did not fare as well with the economic news this week and hit a 9-month low on Wednesday, but recovered some of the losses to close out the week.

Export Sales

The Export Sales Report showed stronger than anticipated sales for the week ending January 26. It was unclear what would happen for the week since much of Southeast Asia was on holiday. While sales were down from the week prior, net sales were still encouraging, with a total of 171,200 Upland bales booked for the week. China was the biggest buyer with 119,800 bales purchased for the week. Turkey and Indonesia followed by purchasing 44,000 bales and 8,800 bales, respectively. Shipments continue to increase, with a total of 212,200 bales exported for the week. While still below the pace needed to reach the export estimate USDA has set, it is slowly catching up to what is needed. The 2023/24 crop year reported net sales of 20,200 bales. Pima had a disappointing week of sales, showing net sales reductions of 800 bales for 2022/23 and net sales of 2,400 bales for 2023/24. However, shipments did increase substantially, with 7,800 bales getting exported for the week.

Weather and New Crop Outlook

The cold temperatures and ice storm that stretched from Texas to parts of Tennessee and Kentucky were not necessarily welcome this week, but the precipitation that came along with them was. While we were glad to see the moisture, it has still not been enough to fully relieve the drought-ridden soils. More precipitation will be needed before it comes time to make planting decisions. The week to come will continue to bring along volatile temperatures. Above average temperatures are expected going into the weekend and another system is forecasted to bring colder weather and snow is expected to move over the Southern Plains midweek.

The Week Ahead

Next week will bring a combination of fundamental factors for traders to consider. On Wednesday, the February WASDE will be released, March options expire on Friday, and, with First Notice Day on the near horizon, traders will begin to transition positions from March to May. The Export Sales Report will also be monitored to see if another week of solid sales and shipments is possible.

In the Week Ahead:

- Friday at 2:30 p.m. Central – Commitments of Traders
- Wednesday at 11:00 a.m. Central – February WASDE Report
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 2:30 p.m. Central – Cotton On-Call