



**MARCH 3, 2023**

## **MAY FUTURES HAVE ANOTHER CHOPPY WEEK**

- Outside Markets Finished February in the Red
- Export Sales Report Showed Solid Sales
- Drought Continues to Plague Texas, Oklahoma, and Kansas

The past week has proven to be another week of choppy trading with cotton prices trading within the ever-present range of low to mid-80s. Despite hawkish macroeconomic data on Friday, cotton prices rallied going into the weekend, having strong export sales to thank for the boost. The following days were relatively quiet with May futures finding resistance around 85 cents per pound. News from China helped spur another rally that had May futures finishing above 85 cents on Wednesday. The rally was short lived, however, and May futures finished the week ending

Thursday, March 2 at 83.71 cents, up 155 points from the week prior. Total open interest was basically unchanged from the previous week, increasing 646 contracts to finish at 185,782.

## **Outside Markets**

Stocks finished February in the red, with the three major indexes closing out the month with losses. The market is still focused on news of inflation and interest rate expectations, which kept indexes up and down this week. On Friday, the Personal Consumption Expenditure (PCE) Deflator, which is a measure of inflation, increased 5.4%, a bigger increase than expected. Although this sent markets down, including most commodities, the strong Export Sales Report released that day allowed cotton to overlook the otherwise bad market news. On Wednesday, it was reported that China manufacturing grew at the fastest rate in over a decade, helping boost commodity markets with hopes that demand will also increase. The Institute of Supply Management (ISM) survey showed a hot reading of Prices Paid, indicating a contraction in manufacturing, followed by a decrease in nonfarm productivity to 1.7%, and an increase of 3.2% in labor costs. This data, on top of the lower initial jobless claims of 190,000, persistent inflation worries throughout the world, and a volatile dollar have done little to help the uncertainty of the current economic environment.

## **Export Sales**

Solid export sales were reported for the week ending February 23. Last week's massive number of sales makes this week's look small in comparison, with 170,600 Upland bales booked for the 2022/23 season and 97,200 for the 2023/24 crop year. Broad participation in sales were reported again, with 18 different countries reporting sales. The biggest buyer this week was

China, buying 81,600 bales, followed by Vietnam with 78,900 bales, India with 18,400 bales, and Turkey with 15,200 bales. Shipments still lag the pace needed to reach USDA's export estimate of 12 million bales. A total of 207,700 Upland bales were exported for the week, the highest amount shipped since the beginning of February. Pima sales were down this week, with 1,400 bales sold and 3,000 bales exported.

## **Weather and New Crop Outlook**

Warmer temperatures and high winds have done little to help the soil moisture conditions throughout West Texas. Many parts of Texas, Oklahoma, and Kansas are still under some type of drought, while the rest of the Cotton Belt seems to have received adequate precipitation. Although it is encouraging that it has been indicated that La Nina is fading and will give way for El Nino, the short-term outlook is not ideal. Little precipitation is forecasted in the coming weeks. The dry conditions spread throughout all parts of Texas could impact planting in South Texas, which has recently started. Besides weather, next year's cotton acres will be impacted by competing prices from corn, soybeans, and wheat. With cotton competing poorly compared to other commodities and the war in Ukraine, cotton is set to lose acres to grains in the upcoming marketing year.

## **The Week Ahead**

As many traders start to think about planting season and next year's crop, long-term weather outlooks are receiving short but total attention as they are released. Otherwise, next week's March WASDE report and the weekly Export Sales Report will dominate traders' focus. Economic data and recession woes will continue to keep markets volatile.

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