

WEEKLY MARKET REPORT

WEEK ENDING NOVEMBER 13



Last week's market was dominated by the roll activity of merchants, funds, and specs. Indicative, Open Interest on the March futures contract surpassed December as daily trading volume reached record levels. Technically, March now becomes the cover month for the current crop. With December closing the week nearly unchanged at 68.46, March settled at 70.40, creating a spread of almost 200 points. Looking at a weekly chart, March is up two weeks in a row with moving averages remaining positive and the uptrend unbroken.

The biggest surprise of the week came Tuesday in USDA's monthly S/D report. Most everyone was expecting a reduction in the U.S. crop of half a million bales or more. To our astonishment, production was raised slightly. Despite a harvest season fraught with numerous hurricanes and freezing rains, the U.S. crop is now estimated to be 17.1 million bales and not the 16.5 most thought. The only logical explanation, if there is one, could be that USDA was very conservative in their earlier predictions. Compared to the October report, yields were lowered in only four states, Alabama, Florida, Missouri, and North Carolina, while estimated yields in the two highest producing states, Georgia and Texas, remained unchanged.

Most concerning, regardless of which is correct, domestic and global ending stocks will be at their highest levels since 2007/08. This will intensify the need for greater cotton demand. It's here that we are slowly beginning to see some improvement. As a result of Covid-19, U.S. apparel imports in March versus the previous year dropped 55 percent and was accompanied by declines in the EU and UK of 40 percent. At the same time, garment exports fell 85 percent in Bangladesh, 90 percent in India, and 60 percent in Pakistan. Though not obvious, there is a positive to be found here. In 2008, when a similar decline in demand was experienced, it wasn't met with a decline in processing thus there was a massive buildup in supplies. As demand increased, this huge inventory of apparel had to be liquidated thus slowing the recovery effort. Today, however, the supply chain is empty so look for recovery to be much quicker once demand returns. All this hinges on consumer spending where there are signs that pent up demand could become a factor. Since February 2020, savings deposits in the U.S. have grown by over two trillion dollars. Also, with a likely change in the presidential administration, the odds of another stimulus package increase. This additional disposable income could greatly aid the recovery process.

That said, don't expect these recovery efforts to fully take hold until we escape the grip of this persistent virus. Sadly, another wave is sweeping across continents with daily reported cases reaching record levels. Many countries are revisiting and reinstating economic restrictions. Hopefully, we learned our lesson and will target these restrictions in lieu of complete shutdowns thus minimizing economic damage until a successful vaccine is discovered.

Where do we go from here? Those with cotton sold on-call based December have five trading sessions before first notice day. We would discourage a roll to March for the cost is too high and risks are too great. Cash sales and call options would be a better strategy for those willing to gamble on a future price rally. In the Southeast, fiber quality is becoming a serious issue. If yield losses weren't enough, a high percentage of seed coat fragments is being detected in samples. Alarmingly, at present, almost one-fourth of the crop is affected. Worse than the bark issue we had in 2018, the most likely culprit is the same, wet, cloudy, humid weather at harvest. In keeping with the year 2020, which seems to be 10 years long, this is just another curve ball which will have to be dealt with when marketing this crop. As the volume of more desirable qualities shrink, look for the basis on high quality clean cotton to strengthen while that with extraneous matter will be further discounted.

AWP

- AWP = 56.71

PERCENT HARVESTED

	WEEK ENDING NOV. 8, 2019	WEEK ENDING NOV. 1, 2020	WEEK ENDING NOV. 8, 2020
ALABAMA	77%	40%	57%
ARIZONA	45%	42%	49%
ARKANSAS	89%	75%	89%
CALIFORNIA	49%	40%	50%
GEORGIA	72%	39%	52%
KANSAS	24%	20%	31%
LOUISIANA	94%	91%	95%
MISSISSIPPI	82%	77%	85%
MISSOURI	68%	32%	63%
N. CAROLINA	69%	35%	51%
OKLAHOMA	45%	28%	42%
S. CAROLINA	77%	23%	46%
TENNESSEE	71%	52%	64%
TEXAS	48%	58%	62%
VIRGINIA	74%	24%	35%

DECEMBER 2020 FUTURES



USDA, WASDE NOV. '20 VS. OCT. '20

	WORLD			U.S.		
	20/21 Projected	10-NOV	9-OCT	CHANGE MONTH	10-NOV	9-OCT
Beginning Stocks	99.589	99.211	0.378	7.250	7.250	0.000
Production	116.112	116.270	-0.158	17.092	17.045	0.047
Imports	42.835	42.230	0.605	0.003	0.003	0.000
Total Supply	258.536	257.711	0.825	24.345	24.298	0.047
Exports	42.873	42.238	0.635	14.600	14.600	0.000
Domestic Use	114.050	114.208	-0.158	2.500	2.500	0.000
Total Use	156.923	156.446	0.477	17.100	17.100	0.000
Loss	0.178	0.131	0.047	0.045	-0.002	0.047
Ending Stocks	101.435	101.134	0.301	7.200	7.200	0.000
Stocks/Offtake Ratio	89%	89%	0%	42%	42%	0%

THE WEEK AHEAD

- November 16, 3:00 p.m. - Crop Conditions Report
- November 19, 7:30 a.m. - Export Sales Report
- November 20, 3:00 p.m. - COT Report