



**DECEMBER 29, 2023**

## **MARCH FUTURES WILL END 2023 ON A POSITIVE NOTE**

- No Shortage of Major Market Moving Events in 2023
- Demand For U.S. Cotton Will Continue to be the Focus in Coming Year

As expected, the final trading week of 2023 was quiet and the lull from the holidays was noticeable in the low amount of daily volume traded. The shortened week saw a nice post-Christmas boost in outside markets, and the cotton market followed. Marginal daily gains were made in the March contract, helping lift prices above 80.00 cents per pound, where they consistently stayed for the week. The recent positive outlook where interest rates are concerned has caused the U.S. Dollar to fall back to

summer lows, which added support to cotton prices this week. For the week ending December 28, March futures settled at 80.95 cents per pound, up 182 points. Total open interest decreased 1,664 contracts to 194,778. Strong U.S. export sales and shipments were reported for the week ending December 21. A net total of 369,900 Upland bales were sold and 231,000 bales shipped. China held the majority of these sales, booking 231,000 bales. A net total of 4,000 Pima bales were sold and 3,500 bales shipped.

## **A Brief Review**

Looking back on 2023, there was no shortage of major market moving events. The Federal Reserve continued its path of interest rate hikes, but also began to pause rates. During this time, interest rates reached and stayed at the highest level in 22 years. Many sectors of the economy have felt pressure from the higher rates, but others have advanced with minimal disruption. Bank failures at the beginning of the year had many worried about the economy's health, shaking up expectations on what the Fed would do. The job market has gradually started to slow down but stayed resilient throughout the year. Cooling inflation and maintaining employment have been the Fed's goals throughout this process. Major indexes took off in the last half of the year, finishing 2023 on record closes. Geopolitical tensions remain high across the globe as the war in Ukraine continues and another war was started between Israel and Hamas. The U.S. government has also had its own share of excitement with a government shutdown being narrowly avoided and an ousted Speaker of the House that paved the way for new leadership. The overall health of the economy is not out of the woods yet, but markets are ending the year with a great deal of optimism about the future.

Thinking back to what has happened over 2023, cotton had what some might call a lackluster year. The 2022/2023 crop in the Southwest finished with the lowest level of production seen in over 20 years. There was hope for the 2023/2024 Southwest crop when timely rains were received. Unfortunately, the overall lack of moisture received over the summer and above average temperatures took its toll on the crop. At this point in time, USDA is predicting that the 2023/24 crop is set to be marginally better in the Southwest region. Since January, futures contracts have traded in a 15.00 cent range. The low of the season was traded at 74.77 cents per pound and the high was at 90.00 cents per pound. Demand for U.S. cotton and overall global consumption has decreased as the year progresses. Bigger crops and cheaper prices in Brazil and Australia have impacted the world's need for U.S. cotton. China's economy has not recovered as many had hoped, and activity has been light compared to usual. Crude oil prices, which are typically correlated with cotton, have also seen highs and lows this year. The U.S. consumer has continued to spend money, but retail sales have tapered in recent months. Despite a smaller U.S. crop, the pressures from the domestic and global economy have not helped cotton prices.

## **The Year Ahead**

Cotton demand will continue to be the focus in the coming year. Mills are sitting on high inventories and yarn prices have been low recently. Another large crop is predicted in Brazil, which will impact the price and consumption of U.S. cotton. At this point in the year, we have received more rainfall than usual when compared to prior years. El Niño is predicted to be more modest than initially forecast, so any precipitation received in the coming months will be closely monitored. When comparing to last year, the coming year's weather is encouraging for cotton production.

As for outside markets, outlooks differ on what is to come in the stock market. Inflation is falling in most of the world and U.S. inflation is now at 3.1% compared to the Fed's goal of 2%. The expected cuts to interest rates in the coming year have many optimistic, but cautious that the economy could back track.

As a reminder, markets will be closed next Monday due to the New Year's Day holiday. We are grateful for all our readers! We wish you all a happy, healthy, and prosperous 2024!

### **In the Week Ahead:**

- Friday at 2:30 p.m. Central – Commitments of Traders
- Friday (01/05/2024) at 7:30 a.m. Central – Export Sales Report
- Friday (01/05/2024) at 2:30 p.m. Central – Cotton On-Call