

## U.S. Commodities Markets

## What's Driving Price Discovery In The Cotton Market?

- **US Planted Acres.** Estimated US total cotton acres are forecast to decline from market year (MY) 22/23 to a 7 year low of 10.9 ma as planting corn and soybeans makes greater financial sense.
- **Relative global economic can support cotton demand.** Unemployment in the US is at a historic low. China is emerging from strict COVID lockdowns. EU is estimated to miss a recession. These can help support apparel and textile demand.
- **US ENSO pattern.** Transitioning from La Nina to an ENSO neutral or to a mild El Nino can help enhance US cotton yield objectives.
- **Blacklisted Chinese cotton.** Strict traceability standards by G-7 governments and moratoriums on cotton produced in Xinjiang increases the demand for US cotton.
- **Global production challenges can be supportive.** The compression in global "clean cotton" production, ex-China, combined with the discount the Cotlook A Index can reinforce US cotton's demand structure.
- **The relationship between crude oil and cotton futures prices should be respected.** The strong historical relationship between cotton and crude futures as a barometer of economic health is to be respected.
- **The cotton futures trade has been driven by a large managed money net short position.** If fundamentals change, this can cause managed money to short cover and help futures markets rally.

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