

IFUS – Estimated Deliverable Supply – Cotton Methodology

August 2020

Cotton No. 2

The Cotton No. 2 futures contract calls for the physical delivery of 50,000 pounds net weight of U.S. origin Upland growth cotton of certain minimum standards of basis grade and staple length. Delivery takes place via electronic warehouse receipts issued by Exchange licensed warehouses located in five designated delivery points: Galveston, Texas; Greenville/Spartanburg, South Carolina; Houston, Texas; Memphis, Tennessee and Dallas/Ft. Worth, Texas.

Exchange certified stocks are reported daily, but do not reflect all the deliverable supply available on that date because there is additional cotton that meets Exchange delivery requirements that has not been certified. To obtain a more complete estimate, the Exchange has collected the data contained in the USDA's Weekly Bales Made Available to Ship (BMAS) Summary report in order to estimate the deliverable stocks contained in or near Exchange warehouses, both certified and non-certified, during notice and delivery periods for the futures contract. The inventory data in the BMAS report was reduced by 3 percent to estimate the quantity of Upland cotton, consistent with production data. The data was then multiplied by the percentage of bales that were tenderable in each crop year, i.e. meet the delivery requirements of the Cotton No. 2 contract. This percentage was found in monthly data published by the USDA of the number of bales it classed each month and the percentage of those bales that are tenderable. The resulting quantities were multiplied by an estimate of the percentage of the inventories reported in the BMAS report already located in Exchange warehouses (14 percent), based on the total capacity reported in the BMAS report and the Exchange capacity found in Exhibit B. Finally, the estimated inventories in Exchange warehouses were compared to Exchange certified stocks for the same date. The higher of the two numbers was used to estimate deliverable supply.

In performing its analysis, the Exchange also considered cotton under long-term contracts or agreements that could not be delivered against the futures contract and should not be counted in deliverable supply estimates. Because there is no readily available data on cotton under long-term contracts, the Exchange consulted with commercial market participants who are active in both the physical and futures markets, including deliveries, to estimate the quantity of cotton that is under long-term contracts or agreements that could not be delivered against the futures contract and therefore should not be counted in deliverable supply estimates. Feedback from these firms indicates that generally the cotton data used by the Exchange to estimate deliverable supply does not include any supplies that could not be delivered against the futures contract due to long-term contracts.

The Exchange also considered seasonal differences and their impact on stocks, in particular that stocks tend to be lowest in the fall, which is consistent with the activity seen in the October futures contract month. This contract month is characterized by volume, open interest and deliveries that are significantly lower than the other futures contract months. Despite this predictable circumstance, the Exchange does not believe that delivery problems have occurred with October contract expirations over the decades that the current Federal spot month limit of 300 contracts has been in place.

Taking all of the factors discussed above into account, estimated deliverable supply over the October 2015-July 2018 period averaged 6,948 futures contract equivalents. Based on input from commercial market participants active in both the physical and futures markets, the Exchange recommends a Federal spot month position limit of 900 contracts.

COTTON

Total Inventory from BMAS database (contract units)

	2015-16	2016-17	2017-18	Average
October	25,712	27,483	25,447	26,214
December	94,795	102,414	112,240	103,150
March	91,715	97,995	117,160	102,290
May	65,105	60,817	78,390	68,104
July	41,764	30,858	42,990	38,538
Average	63,818	63,914	75,245	67,659

Total Inventory Adjusted for Upland (contract units)

	2015-16	2016-17	2017-18	Average
October	24,940	26,659	24,684	25,428
December	91,951	99,341	108,873	100,055
March	88,964	95,055	113,645	99,221
May	63,152	58,992	76,038	66,061
July	40,511	29,933	41,701	37,381
Average	61,904	61,996	72,988	65,629

Total Inventory Adjusted for Upland & Tenderable Quality (contract units)

	2015-16	2016-17	2017-18	Average
October	14,216	19,194	17,032	16,814
December	52,412	71,526	75,122	66,353
March	50,709	68,440	78,415	65,855
May	35,997	42,474	52,466	43,646
July	23,091	21,551	28,773	24,472
Average	35,285	44,637	50,362	43,428

Total Inventory Adjusted for Upland, Tenderable, & ICE-licensed Warehouses (contract units)

	2015-16	2016-17	2017-18	Average
October	2,275	3,071	2,725	2,690
December	8,386	11,444	12,020	10,617
March	8,114	10,950	12,546	10,537
May	5,759	6,796	8,395	6,983
July	3,695	3,448	4,604	3,916
Average	5,646	7,142	8,058	6,948

Greater of ICE Certificated Stocks or Total Inventory Adjusted for Upland, Tenderable & ICE Warehouses (contract units)

	2015-16	2016-17	2017-18	Average
October	2,275	3,071	2,725	2,690
December	8,386	11,444	12,020	10,617
March	8,114	10,950	12,546	10,537
May	5,759	6,796	8,395	6,983
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Source: United States Department of Agriculture, Farm Service Agency, Weekly BMAS Summary Report

<http://www.fsa.usda.gov/programs-and-services/commodity-operations/program-area-links/index#Cotton>

Source: tenderable cotton

<http://www.ams.usda.gov/market-news/cotton>

<http://search.ams.usda.gov/mnsearch/mnsearch.aspx>