



# CHOICE COTTON

*Your Cotton, Your Choice.*

## Market Briefs

*April 12, 2016*

Strike up the band! The market has made its way back into the sixties. Calling it a rally might be a little presumptuous, but a move in the right direction nonetheless, thus providing those with cotton still to sell a long awaited window of opportunity. The May contract found itself settling at 60.70 on Monday's close, gaining nearly three cents over the past four trading sessions. The question remains whether the market will have any staying power. On the fundamental side, there are some recent developments that give us some hope that it can. Last week's triple digit export sales significantly exceeded the four week average, but even more impressive was shipments hitting a marketing year high of over 300,000 bales for the week. Also, the latest out of China, though publicly not announced, is details that their reserve auction may not have as bearish of an impact on the market as once thought. Lest we forget they are smart and by still paying their growers a significant subsidy for cotton they have a vested interest in seeing this market doesn't tank.

The major reason for this market momentum, however, is technical in nature. As contract months near expiration we have what is commonly referred to as the Goldman roll. This occurs when funds roll their positions from the expiring month to the forward contract month; In this case, from May cotton to July. The resulting increase in buying volume on the May contract has been the stimulus for this spike in prices. The roll will take a few more days to complete, thereby, some additional upside potential remains. However, given the fact this market has advanced so rapidly and fundamentals are still somewhat bearish one can't rule out a slight correction back down to the 58 or 59 cent support level when the roll is complete. I would encourage those with old crop still in hand to view at this an excellent opportunity to move it, especially that which has been previously popped or redeemed from loan. Those who may have taken some risk by capturing a higher LDP, such as the 8.2 cents a few week ago, now have available that two or three cent bump, a strategy we've been referring to and anticipating for weeks.

Next week USDA releases its April WASDE report. All eyes will be on whether any previous estimates are adjusted. My guess is this early in the season we will see little in the way of changes. Another strong export report this week could be a sign textile manufacturers sense a bottom has been made and relax their age old 'hand-to-mouth' buying philosophy and become more aggressive. While attention will soon turn to planting conditions, both here and abroad, for any impact it may have on the December new crop contract. At current levels, forward contracting is ill advised. The preferred marketing option for the 2016 crop would be either pools or sell at harvest on recaps.

Until next time,

