

The Market & More...

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As we've often said, fundamentals aren't the only factors that will influence cotton prices. One must always expect the unexpected from outside forces such as macroeconomic issues, governmental actions, etc. Never was this more evident than last week. In a retaliatory move to counter President Trump's proposed tariffs on imported Chinese steel and aluminum, the Chinese government proposed significant tariffs on U.S. commodities coming into their country including cotton.

Of course, negotiations between both parties will be conducted where it is hoped cooler heads will prevail. Nonetheless, it has created an air of uncertainty which commodity markets dislike. Case in point after trading for weeks in and around 78 cents, immediately after their announcement the December contract sold off by as much as 160 points while the front month, May, traded nearly limit down. Fortunately, this seemingly knee-jerk reaction by traders was trumped by strong fundamentals. Pardon the pun! The December contract closed out the week at 77.94, recouping earlier losses and gaining 21 points on the week.

The adage "sell the rumor, buy the fact" certainly prevailed. So be prepared for continued volatility as markets react to the news of the day. Though the ride may be bumpy and not for the faint of heart, I take comfort in that strengthening fundamentals will provide valuable market support and possibly enough momentum to push prices through 80 cents.

Let's take a closer look at these fundamentals. Demand continues at a torrid pace with weekly export sales averaging over 340,000 bales along with shipments exceeding 400,000. USDA's export estimate of 14.8 million bales will certainly be surpassed as commitments already total 15.5 million. If maintained, a record 16 million plus in sales could be achieved, as some in the industry are predicting. Let's put this in an even better perspective. At this pace, we will sell out of U.S. cotton prior to new crop harvest. Numbers from a Plexus report illustrates this further.

The current marketing year started with a supply of 23.5 million bales (beginning stocks + 2017 crop), of which 18.9 million bales (export + domestic sales) have been committed. Add the 2.9 million bales of new crop export sales thus far and 0.9 million bales held for preharvest domestic use, there will be little or no inventory remaining prior to harvest.

Given the expected short supply, any hiccup in the 2018 crop could ignite this

market. The market is now trading off a planting acreage estimate of 13.5 million acres. This would produce over 21 million bales using historical yield numbers. However, the Southwest remains extremely dry as last week's rains, though welcomed, were not enough and too widespread to significantly improve soil moisture conditions. As well, soils in the lower Southeast are drying out rapidly as rainfall has been scarce. It's worth noting, approximately two thirds of the U.S. cotton crop is grown in these two areas. You can bet all eyes will be on crop progress within these locations over the next several weeks.

Just like last year, a game of tug of war persists between the specs with their sizeable long position and the mills who still have over 7 million bales of unfixed on call sales. If the specs keep the squeeze on the mills by staying long or adding to their position it would have a very bullish effect on prices. Last year, they let them out of the trap by liquidating their longs in mid to late summer. However, these strengthening fundamentals, as discussed, could entice them to stay put this time around.

Considering all of this, it would be prudent for growers to fix at least a third to half of your crop at current prices. Forward contracting is trailing last year's pace as most appear to be waiting on 80 cents or better. Of course, after reading my comments one might say why not. But a word of caution, do not let 78 cents get away without pricing a portion of your crop. Good risk management would warrant such. You should still have ample cotton to capture potential higher prices. Anyone needing assistance in marketing your 2018 crop, we would welcome the opportunity to work with you.

Until next time,

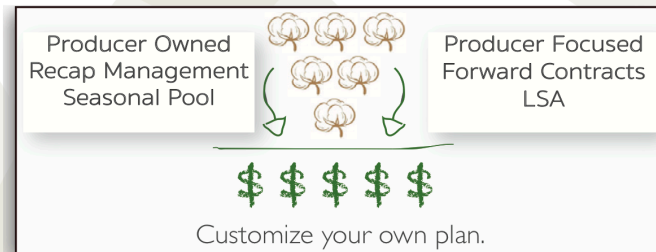




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