CHOICE COTTON

Market Commentary

AUTAUGA QUALITY COTTON

By: Jeff Thompson

March 8, 2019

Navigating the cotton market, at present, is akin to sitting in a boat amidst a dense fog frantically searching for the safety of the shoreline. On occasion there is a feeling of hope as the mist begins to lift vaguely exposing a lighthouse only to have this sensation squashed as the murkiness returns. So rather than risk crashing against the jagged rocks or blindly paddling out to sea, you keep your oars out of the water while drifting aimlessly in no direction.

Similarly, the cotton market has had a cloud of uncertainty hanging over it for weeks trading in a very narrow, but firm range. Every attempt at a breakout on good news has quickly been met with resistance. Thus, not wanting to be caught on the wrong side, producers, merchants and mill buyers alike, have become hesitant and unwilling to commit until clearer skies prevail. We've seen a few merchants completely out of the market for both old and new crop, something quite unusual for this time of year.

The political and economic forces now at play are certainly responsible for this shroud of confusion making market predictions more difficult than ever before. So much hinges on the current U.S. and China trade negotiation. The progress of which is hard to gauge since we continue to get contradictory reports from their deliberations. The U.S. decision to postpone additional tariffs must surely be taken as a positive sign. Better yet, in the past few days, it has been rumored the two countries were discussing eliminating tariffs on agricultural commodities by way of separate negotiations, thus letting the more controversial intellectual property rights debate stand alone. Simply put, any definitive resolution between the two could lead to a five to six cent rally in the market providing an excellent preplant pricing opportunity for growers.

The pull back in the supply chain is not due to lack of demand but rather it's uncertainty. A market trading less on fundamentals explains why we've seen world ending stocks significantly decline over time while futures prices have followed. This defies economic logic since prices should be well north of 80 cents based on current demand. Instead, we are haunted daily with news of global economic decline even though physically and monetarily there is little evidence of such. Nonetheless, we should keep our eyes open to this for it will influence demand. This week's export sales report was neutral on the sales side barring some old crop cancellations by China. Shipments, the concern of many, came in just shy of the 400,000 bale per week average needed to meet the USDA export estimate but still easily within reach. Today, Friday March 8, USDA's monthly supply and demand report will be issued. The market will be watching closely for any downward adjustment to U.S. exports and subsequent increase in domestic ending stocks.

The only real active market participants of late have been the speculators. Once heavily long the market, they began liquidating their positions as tariffs were imposed. In recent weeks, they have returned with a vengeance, but rather than buying the market they are now shorting it at near record volume seen only two or three times in the past decade. The market is in dire need of a trigger to entice them to seek profits. This alone would generate a great deal of buying power. An agreement between the U.S. and China could very well be the spark needed and the lighthouse we've been searching to find.

Again, I strongly encourage anyone considering forward contracting to lock in a basis and place some orders even if they're well out of range. This will have you in the game whereby you can react quickly taking advantage of pricing opportunities that may occur as these uncertainties are resolved. Please call 334-365-3369 if we at Choice Cotton can help in anyway with your marketing decisions.

Until next time,