



CHOICE COTTON

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Weekly Market Commentary

May 17 .7728

DEC 17 .7457

February 16, 2017

As love abounds this Valentine week, the cotton market has certainly become our darling! Why not with prices 14 cents higher than a year ago at this time, truly a gift coming on the heels of the large 2016 crop. With everyone's attention shifting to new crop, I will focus my comments going forward on the DEC contract. As a result of the run up in old crop prices, the December contract has been pulled along gaining almost four cents over the past month to close last week at 74.10. The smallest weekly gain in sometime, a mere 11 points was largely the result of the trade and funds keeping their powder dry while awaiting the release of two important reports. The USDA February Supply/Demand report and the results of the NCC 2017 planting intentions survey were made public late last week.

We will discuss each in more detail, but with the DEC contract closing today (2/15/17) at 74.57, one can assume the market saw the numbers from these reports as neutral to slightly bullish. Simply put, USDA numbers continued to show a growing demand for cotton with U.S. exports increased for the third month in a row to 12.7 million bales. The market looked on this favorably, especially with U.S. production left unchanged thereby reducing domestic ending stocks to 4.8 million bales. It was no surprise they kept production at 17 million bales as USDA usually waits on the March ginning report to more accurately make their adjustments. It's likely their March report will show an increase as the Texas crop keeps growing, but don't be alarmed because increased exports should be offsetting. On the global front, the same was true. World ending stocks were reduced by almost one million bales as a result of lower production and increased consumption. Such strengthening fundamentals are certainly supportive to current

price levels. Better yet, supplies are tightening to the extent that given any production hiccup along the way this season, both here and abroad, we could see even further price advances.

This past weekend, the National Cotton Council released results of their annual planting intentions survey. Below is a state by state breakdown along with this market commentary for your review. Prior to the announcement, conventional wisdom had planted acres up significantly for 2017 with the greatest increase coming from areas previously heavy in grains and a smaller increase in the peanut growing regions. It was felt that the market itself had taken into account this possibility. Thus, when it was reported that total planted acres would increase by only 9.4 percent to 11 million, those of us expecting an even higher number saw this as a positive. The biggest reason we think these results might be skewed and planted acres will exceed 11 million, is the fact that cotton prices are up almost five cents today versus when the survey was taken back in December and January. At the same time, grain prices (most notably corn) have declined. Also, there are many producers returning to cotton after years of growing nothing but grain that may not have been surveyed. In any event, having already accounted for an increase in planted acres the market saw this as favorable, as well.

At the risk of sounding like a broken record, the showdown between the specs and the trade continue. On call crop sales (futures that must be bought) outnumber on call purchases (futures that must be sold) by an astounding 10 to 1 ratio. Today's large open interest of over 282,000 contracts hasn't been seen since early 2008. In the last Commitment of Traders Report, funds were shown to have increased their long position by 7.3 percent, the highest since 2006. With so much

buying power still in the market and demand strengthening, both are certain to support current price levels and could very possibly extend the trading range into the higher 70's. At that point, prices would be pressured as demand for cotton likely falls prey to man-made fiber competition. Of course, this is in the real world of fundamentals; however, with so much money in the market expect the unexpected and know volatility is certain to accompany any price advances. For this reason, if nothing else, it would be prudent to take advantage of current prices and book a comfortable portion of your crop. At Choice Cotton, we can assist with this by offering you a forward contract with a very a competitive positive basis and premiums for quality. Call our office at **334-365-3369** for details.

Prospective 2017 U.S. Cotton Area

	2016 Actual (Thou.) 1/	2017 Intended (Thou.) 2/	Percent Change
SOUTHEAST	2,170	2,173	0.1%
Alabama	345	394	14.2%
Florida	102	108	5.4%
Georgia	1,180	1,144	-3.1%
North Carolina	280	267	-4.8%
South Carolina	190	189	-0.4%
Virginia	73	72	-1.0%
MID-SOUTH	1,490	1,680	12.8%
Arkansas	380	389	2.5%
Louisiana	140	153	9.5%
Mississippi	435	552	26.8%
Missouri	280	289	3.1%
Tennessee	255	297	16.6%
SOUTHWEST	5,987	6,630	10.7%
Kansas	32	45	42.0%
Oklahoma	305	397	30.1%
Texas	5,650	6,187	9.5%
WEST	233	268	15.1%
Arizona	120	154	28.3%
California	66	65	-1.5%
New Mexico	47	49	4.5%
TOTAL UPLAND	9,880	10,751	8.8%
TOTAL ELS	195	266	36.9%
Arizona	15	26	79.6%
California	155	204	31.4%
New Mexico	8	8	-0.8%
Texas	17	29	68.4%
ALL COTTON	10,075	11,017	9.4%