



CHOICE COTTON

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Weekly Market Commentary

July 17 .7930

DEC 17 .7490

April 24, 2017

Last week saw all three contract months, May, July and December, more than recoup their losses from the previous week. Such volatility is always seen as we approach the expiration of a futures contract with the big trading houses readjusting their positions. May was the most active, gaining 337 points on the week to close at 78.99 on Friday, its last day to trade. The July contract advanced almost as much to settle at 79.33, threatening the ever allusive 80 cents. While the December contract, still a puppet to the other two, captured 154 points on the week to close at 74.86.

The cat and mouse game between the mill shorts and the spec longs lives on, as seen by open interest on July currently at 13 million bales. This is not to say there has been some paring down of positions on both sides. The specs have liquidated the equivalent of some five million bales of their long position, while the mills took this opportunity to price over four million bales. As expected, the market held steady thanks to this give and take. Look for much of the same over the next two months. The mills have until June 26th to fix the price on their remaining 4.5 million bales of cotton with specs still significantly long, but now with some profits, which could be used to further enhance their long position.

When this tap dance draws to a close in early July, the December contract begins to stand on its own, subject to the fundamentals of supply and demand. Herein lies the uncertainty. As a result of increased plantings, the U.S. could be looking at a crop the size of which we haven't seen in years. This could negatively influence the market. The largest area of increase is found in West Texas and Oklahoma, where yields can be quite volatile. However, after just visiting this region, optimism is high. Recent rains have sub surface moisture at levels favorable to making a crop. An 18 to 20 million bale U.S. crop is very real, especially given the high yielding varieties now being grown.

We've always said demand is vital to any sustained market rally. It is here where we are becoming ever more optimistic. The demand for U.S. cotton and its quality appears to be strengthening. Weekly export sales have approached nearly 500,000 bales over the past six weeks, when combining both old and new crop sales. The USDA has raised the export estimate for three consecutive months, most recently to 14 million bales. Considering there are three months left in the marketing year, we are well on pace to exceed this number. Don't be alarmed if these weekly numbers decline somewhat, at this pace we are going to simply run out of cotton. In addition, China's reserve auction isn't going as well as it did last year. Nightly offerings are not being snatched up likely due to the inferior quality of four to five year old cotton. Let's be honest, cotton is not like smooth Kentucky bourbon, it doesn't get better with age. Therefore, China will be in search of cotton to blend and the U.S. is primed to be their supplier. Further, in a recent conversation with an export merchant, he was quick to say how hungry foreign buyers are for U.S. cotton. If this holds true, even a bigger crop may not weigh as heavy on the market. Case in point, we certainly aren't having any problem moving this year's 17 million bale crop.

In short, look for December to hold firm over the next couple of months, with the chance of the upper 70's if specs force the mill's hand. Beyond this, fundamentals will come into play, and there are

ever increasing signs that demand may be such to offset a larger crop. If so, this could be supportive of prices at current levels. This is a crop to be monitored closely. Any hiccups along the way, either domestic or abroad, could provide additional pricing opportunities.

Until next time,

