



CHOICE COTTON

Your Cotton, Your Choice

Weekly Market Commentary

JULY 17 .7432

DEC 17 .7169

June 14, 2017

Some might say the inevitable happened yesterday. The range bound December contract finally broke settling at 71.82, its lowest close since January 30th of this year. I think we can officially declare a winner to our aforementioned game of tug of war between the funds and trade. For days now, the funds have been hastily liquidating long positions ahead of July's contract expiration. Until now, we have seen the trade step in providing market support as on call sales were priced on these breaks. Finally wise to this and given another opportunity, the trade remained patient taking advantage of further price weakening on heavy spec selling before pricing.

The question now becomes, after losing its long standing support at 72 cents, where might new crop prices be headed? We could certainly see this market slip further over the next several days; for chartists tell us that the next level of support is around 69 cents. One item to watch closely is spec and fund activity. Armed now with cash, we need them to replace their old crop longs with new crop longs; this buying of December would give prices a much needed shot in the arm. If last week is any indication, they are doing so, but not yet at the same pace. Old crop longs were reduced by 1.1 million bales while new crop longs were increased by only 400,000 bales. This will merit close monitoring as they further unwind their July positions.

It is our feeling once all the smoke from the trading of the July contract has cleared, this market will be seen as oversold and allow for new crop prices to recapture some of their recent losses. No, we are not simply blind optimists but rather firm believers that fundamentals will, in the end, be the driving force in this market. That said, old crop cotton remains in very tight supply. Over the past few weeks, mills have been buying on nearby needs accumulating little, if any, inventory. This leaves them in quite a bind with almost four months of demand to satisfy before new crop cotton becomes available. A late crop could make this scenario even tighter. So, despite a bearish June WASDE report released last week by the USDA containing illogical numbers, which neither made little sense nor could be easily reconciled, we see current supply/demand as bullish. Without question, many factors will come to bare on this market, both fundamental and otherwise over the course of the growing season. Nonetheless, in the face of continued mill demand, this tightening of world supplies signals a positive for prices, at least in the short term.

Fortunately, many producers and coops were available to take advantage of higher prices over the past few months establishing a good average price on a significant portion of expected production. For those we would not recommend any panic pricing of additional production on this break, but rather advice watching for a retracement towards the mid 70's. However, if you haven't yet priced any production, the current level would be a good entry point. It's at this level where others started pricing months ago. Also, it's near where it was when planting decisions were made in the spring. Keep in mind the old adage, if prices were at a level good enough to justify planting, it should be a good enough place to price. Please call our office at 334-365-3369 if we can be of any assistance in your marketing efforts.

