CHOICE COTTON

Your Cotton, Your Choice

Weekly Market Commentary

OCT 17 .6790 *DEC 17 .6761*

July 11, 2017

As Fourth of July fireworks fade, there remains a cloud of uncertainty over this year's cotton crop. It's old news, but unprecedented weather events throughout May and June have created havoc getting this one started. The southeast, with over two feet of water during this time, is a mixed bag. The latest crop conditions report has over a fourth of the region's crop rated fair or worse, with Alabama itself at 49 percent. Cotton can be found blooming to that not yet squaring, often in the same field. Standing water is still visible in low lying areas while saturated soils are delaying plant maturity and robbing it of yield. All said, the crop will be smaller than expected and a nightmare to manage from here on out. West Texas has not been immune to the perils of Mother Nature, either. Even where much needed rain was received, it was accompanied by hail and high winds. Insurance adjusters are out in full force surveying the damage. We look for additional acreage to be abandoned.

The December contract has lost 9 cents since mid-May, falling from 75 cents to 66 cents during this time. Granted, there were those who said the market was overbought at 75 since the spec/fund community was largely responsible for the rally and could exit their historically long position at any time. However, it was felt that improving fundamentals, steady demand and tight old crop supplies, would provide underlying support. The selloff occurred as the specs and funds reduced their long position from over a 10 million bale equivalent to 2.5 million bales, as of last week. This was all taking place as the July contract expired and December became the cover month. Fortunately, the fundamentals did provide a tourniquet by stopping the bleeding at a level near 66 cents. Since mid-June, this support has held with the market trading in a narrow 200 point range. With big money now on the sidelines, the market becomes weather driven.

Herein lies the reason we feel another opportunity to price in the 70's will be forth coming. When USDA reduced U.S. planted acres to 12.1 million the market was quick to react trading as high as 68.92 on the day. Reduced acreage and weather induced problems have made a 19.2 million bale U.S. crop a pipe dream. Will the final number be closer to 18 or 17 million? In addition, export sales for next year have already surpassed 4.5 million bales with 56 weeks still remaining in the marketing year; better stated, a third of the 2017 U.S. crop has already been committed.

Of more immediate concern, and one which may have an even greater near term positive effect on prices, is the fact U.S. old crop supplies are almost nonexistent, or certainly will be soon. It is estimated by October 1, U.S. cotton stocks will be in a 1.2 million bale deficit. Such a tight squeeze in the cotton pipeline is unprecedented, thereby making fourth quarter mill demand difficult to satisfy. With a later than normal crop there may well be pressure on early new crop shipments, as well. Even with a better than average South Texas crop estimated at over 1.5 million bales, it will do little in the way of solving this pipeline deficit before the bulk of our crop will enter in late October at the earliest. This scenario, more than any other, favors a bounce into the 70's between now and harvest. Be aware there will be a great deal of selling pressure on the north side of 70, as producers seek to lock in prices missed the first time around.

The long term wild card in all of this will be global supplies and their ability to meet demand. Our strongest competitors in the high-quality fiber market are currently harvesting in the Southern Hemisphere. In Brazil, slightly less than half the crop is out of the field and yields appear to be good. However, their infrastructure issues always make the timing of shipments a concern of merchants. The Australian crop is experiencing lower yields than last year. Once expected to be as large as 5.5 million bales, their entire crop is now estimated at only 3.7 million bales. Further north, monsoon rains have begun in India. It's much too early to tell what effect it will have on this year's crop. Remember the U.S. owes much of the renewed demand for our 2016 crop to India being absent from the export market. Such could be the case again, so close tabs will be kept on their crop prospects as the season progresses. The USDA is slated to release their July WASDE report at midday on the 12th shedding further light on some of these fundamentals. The consensus is that consumption increases will more than offset any increase in production making it rather non-eventful. However, betting against the house historically has not been a very profitable undertaking. We've learned to expect the unexpected.

As you see, there is good reason to be optimistic about current market conditions and another move above 70 cents. If we could only get the math geeks away from their computer screens and algorithm models to focus on the real-world situation. But in all honesty, I don't think they really care.

Until next time,