



CHOICE COTTON

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Weekly Market Commentary

OCT 17 .6825

DEC 17 .6758

August 15, 2017

We now know how Rocky Balboa felt after receiving a round house sucker punch from Apollo Creed. We're still clearing the cobwebs from our heads after taking one from the USDA by way of their August supply/demand report last week. It was not unreasonable to think some minor adjustments in the U.S. production estimate might be made this close to harvest, but we're totally blindsided by their 1.5 million bale increase and subsequent 20.5 million bale crop as most in the trade, us included, were predicting a crop closer to 18.5 million. Weekly crop conditions reports over the last four weeks had not given any indication that such a significant improvement in the crop was likely. However, we can take some comfort from Ed Jernigan, a respected market analyst, who is quick to point out that there has always been a great deal of volatility between the August estimate and the final production estimate. In the past twenty years the August estimate has been lower than the final number in eight years and above the final estimate in 12 years. This difference has been as small as 192,000 bales and as large as three million bales. The sad fact remains, however, no matter how much we disagree with this number the market will trade on it for the next several weeks. Hopefully, like Rocky we can battle and go the distance.

Always one to be optimistic, it's difficult to remain so as USDA's new estimates have created a rather bearish sentiment within the market. Whether cotton's balance sheet plays out as predicted or not, at least for now, the negatives seem to outweigh the positives. We are all keenly aware of the influence the spec community can have on market direction. In light of these numbers, don't expect them to be rushing to buy anytime soon. The technical charts and algorithms, which guide their actions, have turned bearish following this sell off. USDA's global estimates were just as unfavorable to prices. Case in point, the beginning stocks outside the U.S. were raised by over 9 million bales from 41.5 million to 57.4 million, which if true would be the highest rest of the world inventory in history. Lastly, there are 11.2 million bales of on call sales yet to be fixed. Some look at this as bullish because when priced the trade will have to cover short futures. However, the mills played this same game well last year. Now in the absence of spec buying they can simply lower their fixations levels and ride the market down.

As bearish as things do look at the present, we would be remiss not to mention some possible positives that could come into play. First, it's important to realize we've been handed the most bearish report we could have possibly received. Despite a same day limit down move, the market actually recouped some losses the day after while trading down only 50 points yesterday settling at 67.75. This lack of panic selling could be an indication of some underlying support. More importantly, we still have two to three months before this crop is in bagging and ties. A lot can happen in this time as weather forecasts are already calling for cooler and wetter conditions in West Texas while storm center predictions are for greater activity in the tropics this fall. As mentioned many times before, at some point the USDA will have to address Indian stocks, which almost everyone agrees are overstated by a few million bales. If and when adjustments are made the balance sheet will improve as beginning stocks inventory from the remainder of the world is lowered accordingly. In the end, continued strengthening demand is our best hope to sustain favorable prices. We mustn't forget China will have reduced their

reserves by another 10 to 12 million bales, and at current prices U.S. cotton will be most attractive to them. More competitive with synthetics, these same prices should stimulate mill demand from other manufacturing countries, as well.

For now the market finds itself trading in what you might call no man's land. We are approximately eight cents above a POP payment while similarly 8 cents off our most recent high. Barring any significant spec action or that from our chubby Korean, this market should trade with respect to crop conditions and demand signals until we get a more realistic view of the size of the crop. Be prepared to act on any market bounces and keep on slugging as did Rocky!

Until next time,