



CHOICE COTTON

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Weekly Market Commentary

OCT 17 .7026

DEC 17 .6898

September 15, 2017

Relentless, USDA delivers another sucker punch with a very bearish September supply and demand report released this week. Despite two major hurricanes in the past month, which targeted major cotton producing areas, they found in their divine wisdom to raise the U.S. production estimate by 1.2 million bales. Not only were yields raised to a record 908 pounds per acre, but as feared they found another almost half a million planted acres. When combined with only a slight increase in abandonment, estimated U.S. production for 2017 is said to be 21.76 million bales, which would be the largest domestic crop since 2006. Even though exports were increased, world ending stocks are predicted to be a bearish six million bales.

As you would expect, following this news the market closed limit down similar to last month when USDA raised the production number. All this was on top of Monday's retracement of 248 points as Hurricane Irma proved to be less damaging to the Southeast crop than once thought. It was the classic *buy the rumor, sell the fact* adage as specs rushed to cover long positions put on prior to the storms. Though some growers took advantage of the short-lived spec rally and priced additional cotton in the mid-seventies, the production risk Irma posed caused most to hesitate. By the time one felt comfortable doing so USDA had slammed the door. What's sad is that USDA admits the timing of their report did not allow them to fully account for the losses from either Harvey or Irma. Knowing how significant this may be, it's frustrating to realize the market will trade off these inaccurate exorbitant numbers in the weeks leading into harvest. They further noted a closer review of harvested acres and special attention would be given to all affected areas prior to the October report. Taking this into account the market stemmed its selloff settling around 68 cents rather than retreating to its previous low.

The report also showed world production to increase by 3.4 million bales raising world ending stocks by 2.4 million. At first glance, this appears rather bearish. However, it's the world consumption side of the equation which gives us some promise of price support. China's production remained unchanged with increases in India and the U.S., largely responsible. On a positive note, the Chinese reserve auction scheduled to continue until the end of this month is on track to reduce their ending stocks to 39 million bales. In three years they will have cut their reserve in half to the extent that by year's end it equals their domestic consumption. Therefore, it's very likely China will import more cotton than once estimated with the U.S. their preferred supplier of quality cotton. U.S. export sales this week of 65,200 bales were down considerably from recent weeks. Don't be alarmed given it's the time of year many mills take a wait and see approach and considering the market was trading higher on the week. Even so, it's comforting to know with the U.S. export estimate at 14.9 million bales, current U.S. sales commitments total over 7 million bales. The last time the U.S. sold this much cotton this early in

the marketing year was in 2011. Need I say where prices went that year? The potential for improvement on the demand side gives this optimist something to hang onto.

Always one to look for the glass which is half full, what direction can one expect the market to take? Until we can more accurately determine the size of this crop, expect the market to trade in a narrow range of 67 to 72 cents. After weathering this report, no pun intended, we believe support at the low end of the range is very firm. In turn, with the ebb and flow of crop progress leading up to harvest, we believe a return to the low 70's is quite possible. Case in point, at this writing, another tropical disturbance is forming in the Atlantic and has been given a 60 percent chance of threatening the U.S. mainland. Nonetheless, considering the excellent crop prospects in West Texas and the Southeast, look for there to be quite a bit of pressure on prices once harvest is in full swing. A return to the 70's should be looked upon as a pricing opportunity or hold out for what could be a strengthening basis this fall for quality cotton.

Until next time,