



CHOICE COTTON

Your Cotton, Your Choice

Weekly Market Commentary

MAR 18: 81.45

DEC. 18: 74.80

January 16, 2018

Let me go on record as saying, this old southern boy has had his fill of this bitter cold winter. The only consolation being that it may curb some pest problems later in the growing season. Fortunately, despite these bone chilling conditions the cotton market continues at a red-hot pace. Even after some profit taking last Friday the March contract still posted a weekly gain of 367 points to close at 81.68, thanks in large part to a limit up move the day prior. More impressive, it occurred as the always dreaded USDA supply and demand report was released.

Following a rather neutral USDA report, it's obvious the driving force behind these market gains continue to lie in the large volume of on call sales coupled with the sizeable long position held by the funds and spec community. The mills have over 11.5 million bales of on call sales still to price and must do so over the next six months. Fearing higher prices, mills are chasing the market with their fixations providing further market momentum. At the same time, as fundamentals and technical indicators strengthen, the funds and spec community are being encouraged to add to their already hefty long position.

The demand for cotton, much needed to sustain any market rally, is strong as reflected in weekly export sales reports. Last week, old crop sales were over 290,000 bales, while new crop nearly topped 100,000. Such large volume of sales in an extended market speaks highly to cotton's increased demand. Furthermore, shipments came in at a marketing year high of 280,000 bales lending more assurance USDA's export estimate of 14.8 million bales can be met or exceeded. All this is creating the perfect storm which could easily push old crop prices into the mid to upper 80's, providing a pricing opportunity we never thought possible. Prior to harvest, most of our marketing colleagues, us included, were suggesting the low 70's would be an excellent price target for the 2017 crop. This certainly illustrates how quickly factors can change and the need to monitor market conditions closely while leaving some powder dry.

Of course, those benefitting the most from this late rally are cooperatives and growers who may have cotton still to sell on recaps. Others have now turned their attention to the December contract and new crop prices. Pulled along by the March contract, December is trading at a very attractive level, settling Friday at 75.34. We have, however, seen the spread between the two months widen, which is an indicator new crop prices may not be viewed with as much bullishness as old crop. Estimated ending

stocks for the U.S. and World of 5.7 and 88 million bales respectively does present a bearish picture. Furthermore, an expected increase in U.S. planted acreage could possibly result in an even larger crop this coming year. With this in mind, there is little reason for the December contract to be trading in the mid 70's.

Therefore, it would be prudent to price a portion of your 2018 production at these levels prior to the March contract going off the Board. However, it is much too early to price a large percentage of your crop, for conditions can change as seen this past year. It's still doubtful the U.S. or the World will meet current production estimates. The 5.7 million bales of U.S. ending stocks could be significantly less when you consider how much may be unmarketable due to quality issue with the Texas crop. At some point USDA may finally reduce the Indian stock which could be sizeable. Lastly, China may well increase imports as their reserves are further reduced and as escalating polyester prices make cotton more competitive

This ever-changing environment requires a season long cotton marketing plan flexible enough to adjust to conditions while also managing risk. We at Choice Cotton would welcome the opportunity to work with you to develop just such a plan. Please contact us at 334-365-3369 if we can be of assistance.

Until next time,