



CHOICE COTTON

Market Commentary



By: Jeff Thompson

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With Easter a week away and pecan trees budding it's safe to say spring has sprung across the Cotton Belt. Our apologies to those stuck in the frozen tundra of the Northeast. Welcome to God's country! Planters will soon be rolling in full force taking advantage of near ideal soil conditions. After last week's rain in Texas almost every cotton producing region is starting the year with better soil moisture than a year ago. So, too, prices are better than the previous year.

As of April 4th, the cotton market had posted weekly gains for eight consecutive weeks dating back to mid-February. The May, July, and December futures contracts began this week at 78.25, 78.59, and 76.89, respectively. This was due in large part to specs liquidating their rather large short position as economic and technical indicators began flashing buy signals. The latest CFTC report shows them now holding a cumulative net long position for the first time since late last year. Still laden with

cash, they have the buying power to push prices higher if they choose to increase this position.

It looked as if we were poised to have our first weekly loss in two months. At Thursday's close, May was down 127 points for the week at 76.98, followed by July losing 85 points to 77.74, while December fared better down only 30 points closing at 76.59. However, Friday's trading activity has all three months up over 100 points at mid-morning. A very good sign there is firm support in the market. Therefore, do not panic. A healthy market takes a breather at times followed by a notable rebound as we seem to be experiencing. This week's mid-week sell off could have been some profit taking but most likely a reaction to Tuesday's USDA's Supply and Demand report which increased both U.S. and World ending stocks by a few hundred thousand bales. Though some would view it as a bearish signal, it isn't sizeable enough in the big scheme of things and certainly doesn't outweigh a host of bullish factors now influencing prices.

Another excellent weekly export

sales report was released yesterday. Nearly 289,000 bales of old crop were sold. This was the third largest weekly sales total for the marketing year and 61 percent higher than the same week a year ago. Better yet, China and India combined to purchase nearly half of this. New crop sales of approximately 206,000 bales was a marketing year high with China once again a significant buyer. One must think with China buying cotton the past few weeks they may be more informed than us as to a trade war agreement. Also, shipments of 383,337 bales was the second highest for this marketing year but still on the pace needed to meet our current export estimate.

Prior to February, the market traded on perception rather than reality. The sell off was based on the unsubstantiated fears demand for raw cotton and finished goods would be reduced as world economies declined. In reality, demand for U.S. cotton continues to be strong especially with both China and India as importers. Also, recent economic data indicates the U.S. and Chinese economies seem to be stabilizing. This month's manufacturing index was up appreciably from the previous month for both countries. A substantial increase in new job hires was seen in the U.S. last month, over three times that of the month before. Both China and the U.S. have instituted monetary policies designed to minimize the risk

of a recession. The only problem area is the European community, a significant buyer of cotton, where economic concerns are still prevalent.

The USDA planting intentions report which shocked the world at a million acres below expectations will have the most influence on the December contract giving it a life of its own. Though moisture conditions are sufficient at present, we all know it's difficult to get through a planting season without a hiccup somewhere. Any such problem would be magnified now that acres have been reduced. Also, several hundred thousand acres of cropland are reported to be under water in the Midsouth. If flooding concerns continue we could see a shift out of cotton to soybeans. The December contract will be a weather market for next couple of months as planting progresses.

Finally, you can't write a cotton market report without talking about the China – U.S. trade negotiations. Over the past two weeks we've seen probably the most intensive talks between the two sides since the negotiations began. Although news coming from these discussions changes daily, often contradictory, we believe they are very close to reaching an agreement. In doing so, the market would initially have a positive knee jerk reaction to the settlement. However, any sustained gains would

require a significant purchase of U.S. cotton by the Chinese. Which if recent purchases are any indication, will most assuredly occur.

In closing, the market's downside risk now appears minimal as a host of factors are providing a positive influence. In addition, new crop basis seems to have improved slightly. We urge you to take advantage of this for we see the basis risk to be far greater than the futures risk. Choice Cotton would welcome the opportunity to assist you in getting a competitive on call contract for the new crop by calling us at 334-365-3369.

