



CHOICE COTTON

Your Cotton, Your Choice

Weekly Market Commentary

DEC 17 .6877

MAR 18 .6902

November 8, 2017

Cotton harvest is progressing but not at the break neck speed of last year or even a month ago. Efforts to gather this crop have succumbed to the throes of weather that have plagued us since spring.

It's estimated slightly over half the U.S. crop is now out of the field, but expect the remainder to be slowed by persistent rainfall, cooler temps, and shorter daylight hours. Moreover, we are beginning to receive reports of yields from later planted cotton not meeting expectations. This was something we feared, as extremely wet conditions were certain to extract a toll on plant stands and plant vigor. Even so, yields aren't dreadful. Much of it is still near two bales, but it goes to show what we've come to anticipate with these newer varieties.

It's becoming quite apparent harvest capacity is exceeding current ginning capacity, when over half the crop is harvested and only a fourth has been classed. Nevertheless, cotton continues to grade exceptionally well garnering significant loan and market premiums. Staple length is the one quality criteria which continues to capture everyone's eye. Thanks to superior genetics, upland varieties are now delivering fiber length the likes of which challenges Pima. Exceptions to this year's outstanding fiber quality have been a higher percentage of low micronaire out of West Texas and a greater occurrence of bark bales in the Southeast. Out of all bales classed through November 2nd, those from Alabama, Georgia and Florida were averaging over four percent bark. Compare this to predominantly stripper harvested out of Texas averaging only three percent. I can't recall the last time this occurred. It is thought the inordinate amount of late summer rainy, cloudy weather caused stalks and limbs to deteriorate to a point they just weren't supple enough to stand up to the rigorous action of spindle pickers. This is something that will stay with us for the remainder of harvest.

All things considered, one would be justified in saying this crop is as good as it's going to get right now with additional losses to yield and fiber quality very possible. The market seems to be already trading this fact coupled with signs of strengthening demand. Hence the longstanding trading range continues to hold firm. With demand activity stronger than it's been in sometime, there are factors now in play that would indicate further strengthening is quite possible. Sales commitments for the 2017-2018 marketing year already equal 60 percent of the 14.5 million bale export estimate. Compare this to the same time last year when we had half the commitments but still exceeded 15 million bales in export sales. Also, providing support is the sizeable number of unfixed on call sales to mills. Presently, they seem rather content fixing cotton around 67 to 68 cents, thereby providing a solid price floor. The funds, on the other hand, are long, but by their standards hold a rather weak position with currently no incentive to increase it. What the market needs most, but is now absent of, is something to provide price momentum to push it beyond this range into the 70's. Until then look for prices to stay entrenched

where they are now.

Even the technical indicators reflect a non-directional market. A look at the charts shows 5 different moving averages from the 5 day to the 100 day converging within 30 points of each other. Historically, a narrowing and coiling of the market like we now see, is a precursor to a breakout to the high side. Be it known, the longer it stays in a tight range usually means the bigger the breakout in whatever direction it may take.

I'm writing this on the eve of what has come to be the dreaded monthly USDA supply and demand report. It's anybody's guess as to what lies in store. It's not improbable we could see another reduction in the U.S. production number as additional losses from Hurricane Harvey are factored in. It's also possible an adjustment in the export estimate could be made, but not likely, too early by USDA standards. Despite the numbers awaiting us it's a good bet the market has previously digested such and is currently trading with them in mind.

In closing, be aware only five trading days remain before first notice on the December contract. Fortunately, for those with bales still on call the market is no longer inverted, thus the cost to roll is minimal. However, if you find yourself in this position watch December closely over the next few days because if there happens to be some type of squeeze play, prices could be driven toward 70 cents regardless of the cash market. Such a move combined with a strong basis would provide an excellent pricing opportunity. Look for March, saddled with the fundamentals, to be greatly influenced by demand and the sentiment of fund managers going forward.

Until next time,