CHOICE COTTON

AUTAUGA QUALITY COTTON

Market Commentary

By: Jeff Thompson

July 12, 2019

With fourth of July fireworks still ringing in our ears, the market produced some fireworks of its own this week. Unfortunately, not as pleasing as those from the holiday skies. From early May through last week, the December contract traded in ae range from 64.50 to 69.50. Weekly closes were in an even more narrow range from 65.59 to 66.24. This week, however, December traded at a contract low of 63.03 closing Thursday at 63.08. Declining world economies, unsettled trade issues, and weakening fundamentals continue to propel this downward trend.

Lacking any confidence in the market, the spec community still holds a record setting short position. Though some view this as a positive with their selling power now limited, keep in mind they have held positions twice this size in the past, albeit long. Absent any bullish news, they could pose a further threat to prices. Herein, lies our greatest fear as significant improvements in these areas appear very unlikely anytime soon. Quite the contrary, the latest economic data indicates things may get worse before they get better.

Outside the U.S., manufacturing activity in most of the world has further declined. Recent data indicates out of 30 major manufacturing countries all but five were exhibiting signs of economic contraction, China included. Such dire economic conditions along with an oversupply of cheaper man-made fiber and major disruptions in the supply chains have all worked to

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Photo: Cooper Mullins Briscoe County, Texas

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shrink global cotton consumption. The trade war with China is only partially to blame, so don't look for this to be suddenly rectified with the inking of an agreement between the two countries.

Speaking of the trade issue, the market barely flinched when the two world leaders agreed to resume talks. Unless something substantiated is realized, talk of the negotiations is considered old rhetoric. Almost as if throwing the Ag community, a bone, it was announced China would make large purchases of U.S. agriculture products but nowhere was cotton ever mentioned. So, don't pin any hopes on a trade settlement fueling prices anytime soon. Furthermore, the longevity of these talks has altered product supply chains to a degree not seen since the mid 90's when NAFTA was adopted. This has created a great deal of instability in the trade; the likes of which has shaken the market.

Cotton fundamentals continue to erode as one would expect in the face of declining demand. At their first attempt to quantify 2019 U.S. planted cotton acres, USDA estimates it to be 12.7 million acres down three percent from the March intended acre estimate. However, with their math skills called into question, actual acreage could be even less. Crop conditions have improved following a shaky start with 54% of the U.S. crop now rated good to excellent, up 2% from last week, up 13% from last year, and up 5% on the 10-year average. Keep in mind, there will be a premium placed on rainfall going forward as most of the crop is in full bloom.

USDA issued their monthly supply/demand report yesterday. It further confirmed cotton's lackluster fundamentals. U.S. beginning stocks were increased by 350,000 bales due to lower than expected domestic consumption and exports. Ending stocks for 2018 was increased to 6.7 million bales. Global numbers painted the same picture. An increase in beginning stocks of 1.7 million bales along with a reduction in consumption of a million bales resulted in ending stocks increasing by 3.2 million bales. Nothing that would entice speculator buying.

Where do we go from here? I certainly don't like being the bear in the room as it's not my nature. Nevertheless, the numbers speak for themselves. Our best hope for a price advance, short of a production hiccup somewhere, hinges on spec liquidation. Their inability to drive the market lower may have them taking profits despite any improvement in fundamentals. In pricing the 2019 crop, we must all forget where prices have been. For those with forward contracts, a good pricing target for another portion of your crop would be just shy of 70 cents. Any movement beyond this level will be met with heavy producer selling. If conditions remain the same at harvest, those with uncommitted should consider the government loan. This valuable tool can provide needed cash flow while you await market corrections and still allow participation in the POP or LDP. Keep in mind we are only a few cents away from a POP payment. These payments are only advantageous if you have cotton priced at a higher level. Otherwise, you're simply treading water. I know it's difficult to cover production costs with 65 cent cotton, utterly impossible without tremendous yields. But remember the market is always right. Don't get left behind waiting for it to be something it can't. Please call our office 334-365-3369 if we can assist in your marketing efforts.

Until next time,

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