CHOICE COTTON

Market Commentary

AUTAUGA QUALITY COTTON

By: Jeff Thompson

June 6, 2019

As if applying a tourniquet to stop the bleeding, cotton prices have rebounded in the past few weeks due to unfavorable weather conditions and encouraging export sales. But before you get too excited this bounce is off lows in the mid 60's. Almost unknowingly, the market has made slow but steady advances with July closing yesterday (6/5) at 68.74 and December settling at 66.81.

Growing concern over the U.S. crop has been a major influence. The Southwest continues to be inundated with rainfall. On the High Plains, cotton is up to a stand, though many places are far from ideal, seedling growth is being slowed by water logged soils. On the Rolling Plains, planting has come to a halt while awaiting drier soil conditions. Though it's a good bet most of this cotton will go in, one can assume yield potential has been lost due to the lateness of the crop. In the Southeast, seedling cotton has battled extreme drought conditions ever since emergence. Fortunately, a tropical disturbance in the Gulf is forecast to bring substantial rainfall across the entire area over the weekend. Adversely, the same disturbance is supposed to drench the Midsouth which can ill afford additional moisture. Preventive plantings will be sure to follow - the extent of which is unknown. A 22 million bale crop isn't going to be as easy to produce as one thought.

On a more positive note, combined old and new crop export sales have averaged over half million bales a week over this same period. Countries such as Vietnam, India, Turkey, and Pakistan have taken up China's slack. Unfortunately, it took prices falling to the mid 60's to fuel such buying. The question now becomes how far will mills chase prices upward. There could be limits as several factors are working against us. U.S cotton faces stiff competition from a record Brazilian crop now being harvested. There is a concern as global economies cool down so will the demand for cotton even though leading indicators have yet to reflect such weakening. Also, declining polyester prices are poised to steal market share if cotton prices advance

Choice Cotton Company
169 East Main Street
Prattville, Alabama 36067

much further.

On the political front there is nothing encouraging to report. The U.S. and China are no closer to resolving their trade war. Both sides appear prepared to stand their ground unafraid to prolong the dispute. In a separate matter, but no less damaging, President Trump has threatened to place tariffs on imports from Mexico. A five percent tariff would be imposed if they continue to enable and facilitate immigrant traffic from Central American countries to the U.S. This would deliver another blow to ag commodities, especially cotton. Mexico purchased one million bales from us in 2018 while we imported from them over one billion dollars' worth of textiles and apparel in the first quarter of 2019, alone. Once again, the agriculture community is paying the price of being caught in a political crossfire.

As one might expect the spec and funds communities are bearish the market. Over the past few weeks, they have more than doubled their short position to an equivalent of over eight million bales, most of which are based July. This sets up a bullish scenario whereby the trade could use its long position to force delivery. In the coming weeks look for July to trade on this possibility rather than fundamentals. If so, this might give those still pricing old crop cotton a chance at the 70's. As for new crop, expect the current range of 65 to 69 cents to hold steady until we know more about the present crop. If the market could ever truly trade on fundamentals a return to the low 70's is possible. But alas it to say, political news will forever remain the wild card in all of this.

Until next time,