



JULY 5, 2019

CHINA/U.S. AGREED TO TRUCE IN TRADE DISPUTE

- **U.S. to Hold Off Implementing New Tariffs While Trade Talks Continue**
- **Crop Report Shows Mixed Conditions and Slow Progress for U.S. Cotton**
- **WASDE Report Focal Point in Week Ahead**

President's Xi and Trump met at the G-20 summit in Osaka last weekend and agreed to a truce in the trade dispute. Few new details were immediately available, but statements from the U.S. side noted that the administration will hold off on implementing any new tariffs and will allow U.S. companies to sell information technology hardware to Huawei, the Chinese tech giant that was recently blacklisted. Additionally, the administration claimed that China would begin goodwill purchases of U.S. agricultural goods while trade talks continue.

MARKET STARTS WITH A RALLY, BUT FAILS TO ESCAPE RECENT TRADING RANGE

While details were scant, the news was enough to scare some traders out of their short positions. The market opened 113 points above Friday's close and rallied to the week's high at 68.35 cents per pound before falling back. Prices continued to fall until Tuesday morning when they bounced off the week's low at 65.70 cents and regained some of Monday's spike. However, Wednesday and Friday's volumes were very low and prices oscillated within the prior days' trading range without much direction.

CROP PROGRESS AND CONDITIONS REPORT

This week's crop report continued to show mixed conditions and slow progress for the U.S. cotton crop. Southeastern states were ahead of pace in squaring while the Mid-South was weeks behind. Only 12 percent of Missouri's crop was reported to be squaring, off 39 percentage points from its average pace. Only Georgia and the Carolinas were ahead of pace in setting bolls, too. Even though the Southeast is ahead of pace, a smaller share of the crop there is rated "Good" or "Excellent" this year compared to last. Most of this year's better condition rating can be accounted for in the improvements in Texas, Oklahoma, and Arizona. The crop still has plenty of time to catch up and improve, but it is clearly starting at a deficit.

EXPORT DEMAND BETTER THAN ANTICIPATED, BUT STILL SLOW

Export demand was better than most traders anticipated this week. Shippers sold 141,500 bales of Upland for prompt delivery and another 55,300 bales for next marketing year (delivery after August 1). Shipments of both Pima and Upland cotton combined totaled 356,700 bales. While the shipments were healthy for this time of year, they were below the average needed to reach the USDA's 2018/19 export forecast of 14.75 million bales. Slower than needed shipments this month have caused many traders and analysts to expect the USDA to revise the export forecast down, thus raising U.S. ending stocks for 2018/19 and beginning stocks for 2019/20.

JULY WASDE LOOMS OVER MARKET

While the cotton market is only ever a few announcements (or tweets) away from a sharp move higher or lower, traders will continue to monitor

weekly Crop Progress and Condition Reports and Export Sales Reports over the next several months. Nevertheless, the focal point in the week ahead will be the July WASDE report release at 11 a.m. Central on Thursday. Most analysts seem to be expecting lower consumption figures in several world markets. Cotton production estimates may not change much this report. Traders will unfortunately have to wait for the August report, when the USDA has access to the certified acres data, for significant production changes.

IN THE WEEK AHEAD:

- Monday at 3:00 p.m. Central – Crop Progress and Condition
- Thursday at 7:30 a.m. Central – Export Sales Report
- Thursday at 11:00 a.m. Central – WASDE
- Thursday at 2:30 p.m. Central – Cotton-On-Call
- Friday at 2:30 p.m. Central – Commitments of Traders