



JULY 12, 2019

## **NEW SELLERS SEND COTTON FUTURES LOWER**

- WASDE Contains Bearish News
- Other Markets Gain Ground
- No Closer to Trade Dispute Resolution
- What to Expect From Tropical Storm Barry

Cotton fell apart this week. December futures made fresh lows Tuesday, Wednesday, Thursday, and Friday. December settled at 62.68 cents per pound, down 414 points on the week. Daily trading volumes were higher, and the rising level of open interest indicated new sellers were rushing into the market. Total open interest surged 12,270 contracts to 189,635, its highest level in three weeks.

## **JULY WASDE REPORT RELEASED**

The central point in this week's trading was Thursday's release of the July World Agricultural Supply and Demand Estimates. The report showed increased world production and stock levels at the same time USDA cut the amount of cotton it estimated to be used in both the 2018-19 and the 2019-20 marketing years. Notable revisions including cutting China's cotton consumption by half-a-million bales in both marketing years, cutting Bangladesh's consumption by 900,000 bales in both marketing years and increasing Indian production by 500,000 bales in both marketing years. There were some offsetting revisions elsewhere, but the net of all changes increased the World Ending Stocks forecast at the end of the 2019-20 marketing year by 3.16 million bales to 80.42 million.

## **USDA RAISES 2019-20 U.S. ENDING STOCKS**

The WASDE contained only minor changes for the U.S. supply and demand estimates. Supported by weak export sales on Thursday morning's weekly exports sales report, USDA revised U.S. 2018-19 exports down to 14.5 million statistical bales. U.S. consumption also decreased 100,000 bales, which increased 2018-19 ending stocks to 5.0 million. While 2019-20 production and consumption forecasts were unchanged, the higher beginning stocks pushed the 2019-20 ending stocks up to 6.7 million bales. If true, the U.S. will have the highest ending stocks since 2007-08.

## **POSITIVE NEWS FROM THE FED**

Outside the cotton market, the picture was much rosier this week. Grain markets seemed to regain their footing and major stock market indices made new all-time highs. The silver lining in the storm seems to be the Federal Reserve is turning a corner on its interest rate stance. Jerome Powell, chairman of the Federal Reserve, gave testimony in Congress this week in which

he repeatedly acknowledged the “cross-currents” troubling the economy and intimated that the Fed would take action. The testimony sent stocks surging as traders hope lower interest rates will help heal the wounds inflicted by trade disputes and the strength of the U.S. dollar.

## **MORE TOUGH TALK ON TRADE**

Markets, analysts, and traders are not any closer to betting on a resolution of our disagreements with China. Although the administration finalized a process for allowing sales of some equipment to Huawei (a key Chinese pre-requisite to further talks), the president lamented China’s lack of agricultural buying on Twitter this week. Traders also were unnerved by the president’s tough language on India’s tariff usage since India has been a good buyer of U.S. cotton in recent months. Sadly, many fear trade relations will get worse before they get better.

## **MINOR CROP DAMAGE EXPECTED**

Tropical Storm Barry is colliding with the coast of Louisiana as we write this report. There is great potential for flooding in Louisiana and Southern Mississippi as the storm looks likely to pass relatively slowly over the South Delta releasing 10 or more inches of rain over an enormous area. Minor crop damage is expected, but the moisture may be a help to more northern areas. In any case, we hope all our friends in that part of the world will stay safe and sound through the weekend.

## **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 2:30 p.m. Central – Cotton-On-Call
- Friday at 2:30 p.m. Central – Commitments of Traders