



September 13, 2019

COTTON PRICES RALLY ON TRADE AND OTHER NEWS

- Will China Start Buying U.S. Cotton?
- WASDE Boosts Cotton Market
- Adjusted World Price Rises
- Weekly Export Sales Slip

Cotton prices inched higher early in the week, but the real advance came on Thursday as cotton prices burst to their highest level in six weeks. The rally continued on Friday to mark a high of 63.39 cents per pound before coming back down to finish the week at 62.28 cents, up 370 points from last Friday's close. Volume was very strong on Thursday and Friday, and open interest jumped 8,271 contracts during the week to 234,320, the highest level since February.

TRADE TENSIONS DE-ESCALATE

An apparent de-escalation in trade tension seemed to be behind much of this week's buying. Speculative traders who were shorting the market have been given plenty of reason to suspect China may begin buying U.S. cotton again as part of the country's efforts at good will ahead of trade talks with the United States in the coming weeks. President Trump announced a delay to planned October 1 increases of tariffs until October 15 in recognition of the 70th anniversary of the founding of the People's Republic of China. China returned the good will with planned purchases of U.S. agricultural goods and exemptions from tariffs for U.S. pork and soybeans. So far, there is no indication whether cotton will find itself among new purchases.

SEPTEMBER WASDE REPORT

The market had already rallied to 61.00 cents by the time USDA's September WASDE report was released, but a surprising cut to U.S. supply helped the market rally further. USDA's crop estimate fell 660,000 bales with lower estimates in Texas and Oklahoma accounting for most of the reduction. Increases to the past two seasons' export estimates also led to a cut of 400,000 bales from U.S. 2019-20 beginning stocks. Following the lower supply, USDA also reduced its forecast for this season's exports from 17.2 million bales to 16.5 million. With a reduction in expected losses, expected ending stocks were held unchanged at 7.2 million bales.

COTTON CLASSINGS

The Corpus Christi Classing Office has classed 517,068 bales through September 12. The predominant color for the season is excellent, with color grade 21 or better and leaf 2 or better. Other qualities are good as well, with average staple of 36, average strength 30.6, average uniformity 81.2, and average micronaire of 4.4. AMS reported 85.0 percent of the samples

classed on the season are of quality that is tenderable for delivery on the ICE No. 2 futures contract.

SEAM TRADING

Growers had just over 90,000 bales offered for sale on The Seam's G2B platform this past week. Thursday, cotton futures bounced up, giving growers with 2018-crop cotton in the loan a much needed opportunity to sell at breakeven or a slightly positive equity. Grower sales were more than 40,000 bales.

AWP FOR WEEK

The Adjusted World Price for this week moved back above the base loan to 52.28 cents per pound. Since the AWP is now above the loan, none of the loan principal is eligible for forgiveness nor is there a Loan Deficiency Payment (LDP); however, depending upon the amount of accrued charges, a portion of the interest and storage charges may be forgiven.

SEASONAL LULL IN DEMAND

Notwithstanding the possibility of China purchasing U.S. cotton again, export demand continued to slow last week. Net new sales were just 74,600 bales and shipments were 166,900 bales. While the totals were lower than in recent weeks, both sales and shipments were about the same as they have been at the beginning of September for the past few years. Nevertheless, traders will continue to keep a keen watch for orders from China over the next few weeks to see whether cotton made it into the goodwill purchases list. For this week, China was, unfortunately, a net canceller of sales.

WEATHER, ETC.

In the week ahead, weather, trade discussions and any sign of renewed demand will be the key focal points. Rain is quickly turning from a friend into a detriment in both the Southwest and the Southeast. There is another tropical storm headed for

Florida and the Carolinas, too. More rain on open cotton that needs to keep drying out is a growing concern. Weather may put a little premium in the market, but renewed mill buying will be needed to keep the market.

IN THE WEEK AHEAD:

- Monday at 3:00 p.m. Central – Crop Progress and Conditions
- 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