



Cotton Market Weekly

JUNE 14, 2019

LACK OF DIRECTION KEEPS FUTURES IN CHECK

- **WASDE Raises World Ending Stocks**
- **Crop Off to a Rough Start**
- **Export Demand Slows**
- **Uncertainty Casts Shadow on Market**
- **Weekly Reports Closely Watched**

Cotton futures traded sideways for most of the week with July futures confined to a range from the 64.85 cents per pound low on Monday to the 67.52 cents high on Wednesday. December futures kept within a similar range from 64.70 to 66.75. Trading volume was heavy as the large Index funds rolled their positions from July to December, which brought the July open interest down to 40,304 contracts (-39,041) and December open interest up to 128,367 (+29,773). Overall open interest fell 4,532 to 204,435, which is the lowest level in two years.

U.S. AND WORLD ESTIMATES RELEASED

Tuesday's WASDE report brought no new direction to the market. The U.S. balance sheet was unchanged in both the current marketing year and the next. The most significant changes to world figures were a decrease in China's consumption for both crop years, an increase in India's crop size for 2018-19, and cuts to Australia's production. World production for 2019-20 was revised down by 130,000 bales, but consumption was cut 660,000 bales. With beginning stocks raised 1.06 million bales as well, global ending stock for 2019-20 was forecast at 77.26 million bales, up 1.57 million.

PLANTING PROGRESS LAGS

At the start of this week, the predominant view was that exceptionally bad weather had mostly targeted grains and some isolated cotton areas, but the Crop Progress Report started to reveal a crop that is off to a rocky start. With heavy rains hitting large swathes of Southwest cotton territory, Texas and Oklahoma fell behind their normal planting paces. Texas was reportedly 67 percent planted versus 82 percent average pace, and Oklahoma was just 43 percent planted versus 70 percent average. Nationwide, the crop is 75 percent planted versus 87 percent average and 88 percent last year. Only Alabama, Georgia, and South Carolina are further along in their planting than last year.

BETTER GROWING CONDITIONS NEEDED

Aside from the lateness of this year's crop, a surface glance at condition looks slightly better than last year as 44 percent of the crop was rated "Good" or "Excellent" where just 42 percent had that rating a year ago. Nevertheless, a look at individual states shows a very different picture. The gain in rating versus last year was almost entirely in Texas and Oklahoma, which are far behind in their planting. Of the other 13 states on the report, only Arizona had more cotton rated "Good" or "Excellent" than last year. It is far too early to raise any alarm bells, but better growing conditions will be needed over the summer to help the crop meet its yield potential.

EXPORT SALES LOWER

Meanwhile, demand was slower last week. U.S. export sales fell to 75,100 running bales of Upland cotton for this year and 43,000 bales of cotton for the next. India and Vietnam were the biggest buyers at 30,400 and 25,200 bales, respectively. The combined total for both crop years was lower than many traders hoped. Mills seem to be facing a difficult

time selling their yarn as China's demand for import yarn has fallen sharply. On the bright side, actual shipments against open orders were better than the market expected at 380,200 bales of Upland and Pima combined. Shipments will have to average around 400,000 bales for the remaining weeks of this marketing year (ending July 31) to hit USDA's export forecast of 14.75 million bales for the 2018-19 season.

UNCERTAIN ECONOMIC NEWS

Global markets continue to deal with severe ambiguity and uncertainty. Economic data was softer again this week, increasing expectations that the Federal Reserve will reverse course on interest rates. Although a cut may not come in next week's meetings, market-based forecasts are calling for lower federal funds rates by the end of the year. Commodity markets also have been tossed about by the combination of grain crop disasters in the U.S. and the attack on oil tankers in the Strait of Hormuz. On top of it all, President Trump expects to meet with President Xi of China at the G-20 next week. If he does not get a meeting, he has threatened to escalate tariffs on Chinese goods even further. At this point, traders are fairly convinced no resolution is forthcoming, and many stocks and commodities relevant to the dispute (including cotton) continue to wear a heavy discount in the markets.

REPORTS TO WATCH

In the weeks ahead, traders will continue to monitor key reports. The weekly Crop Progress and Condition Report will shed a little more light on planting progress here in Texas and Oklahoma as we approach final planting dates for the Rolling Plains and Oklahoma. Shipment and sales data on the Export Sales Report also will figure centrally into traders' week, but it seems the G-20 and Federal Open Market Committee Meetings will get more attention than usual. Until the June acreage report is released on the 28th at 11:00 a.m. Central, there will not be much more fundamental data about the crop. Tweets and market sentiment may continue to play a central role for the foreseeable future.

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