JANUARY 17, 2020

FUTURES UNABLE TO HOLD ON TO NEW HIGHS

- Spot Market Prices Up at The Seam
- Trade Deal Signed, Contains Few Surprises
- Equity Markets Reach New All-Time Highs
- Export Sales Improve

It was a wild week of trading in the futures markets. March cotton made consecutive new highs to start the week, reaching 71.96 cents per pound on Monday. Unfortunately, prices fell back on Wednesday, and March futures settled at 70.22 cents Thursday, down 47 points for the week. Average daily trading volume was strong, and the number of open contracts continued to surge. Open interest added 15,755 contracts to finish the week at 251,621 which is the highest level in 11 months.

THE SEAM

Through late Thursday afternoon The Seam's G2B platform traded more than 90,000 bales during the week. The average price received by producers was 62.74 cents per pound, up 108 points from the previous week's average. The average premium over the CCC loan was 11.01 cents per pound, up 83 points from the previous week's average. G2B offers stood at 259,000 bales.

U.S./CHINA AGREEMENT

President Trump and China's Vice Premier Liu He signed the "Phase 1" trade deal on Wednesday. The text of the agreement was released as promised shortly after the signing. There were few surprises in the text which broadly reflected the comments and information that administration officials had already released to the public. As far as agriculture is concerned, the gist of the agreement is that China will open up to imports of many new things, will cut red-tape on many others, and will endeavor to purchase a combined value of U.S. agricultural goods in 2020 that is $12.5 billion more than in 2017 and in 2021 that is $19.5 billion more than in 2017. In 2017, the value was $24 billion. The deal provides some wiggle room to China if market conditions make hitting the targets impossible (e.g. a supply shortage), but the expansion of purchases to many categories that had previously been restricted should make it a lot easier for China to hit the target.

OUTSIDE MARKETS

Traders often use the phrase "buy the rumor, sell the fact" to describe the buildup of buying before a bullish report that turns into selling upon release on the actual information. That phrase has been used to describe the action in the commodity markets this week as the signing of the U.S./China trade deal seems to have precipitated a minor sell-off in the very commodity crops that China has committed to buying. On the other hand, equity

markets have continued to make new all-time highs in apparent relief of tension. The Senate's passage of the United States Mexico Canada Agreement (USMCA) on Thursday was almost lost in the noise but also provided some support to the markets.

EXPORT SALES

Without much volume to China, U.S. exporters were still able to book another 232,900 bales of Upland commitments to the export market in the week ended January 9. Pima sales also were healthy at 34,400 bales of which 13,200 were to China. Shipments rebounded to 309,400 bales of Upland and Pima combined, recovering from the slow pace of the holidays. Shipments are expected to increase during the next few weeks as we enter peak shipping season. While traders will be watching this figure closely, new sales to China are now the watch point for most traders with the U.S./China deal signed and behind us. Note that next week's export sales report will be delayed because of the federal holiday.

RMA YIELD PRICES

Counties in Texas with a sales closing date of January 31, 2020, will have a yield price of 71.00 cents per pound for conventional grown cotton as released by RMA. Calculations for this period use the December 2020 futures prices from 12/15/2019 through 1/14/2020. The 71.00-cent price is 3.00 cents per pound lower than the 2019 price for the same area.

IN THE WEEK AHEAD:

- Friday (January 17) at 2:30 p.m. Central – Commitments of Traders
- Thursday at 2:30 p.m. Central – Cotton-On-Call
- Friday at 7:30 a.m. Central – Export Sales Report