



MAY 17, 2019

MARKET FALLS, VOLATILITY TO CONTINUE

- **Trade Disputes Continue to Weigh on Markets**
- **Weather Impacts Planting Across United States**
- **Eyes on Weather, Reports and Policy Going Forward**

Cotton prices began the week with a sharp decline to their lowest level since July of 2016. After touching the week's low at 64.50 cents per pound on Tuesday, July futures seemed to stabilize and pulled back up to 67.27 cents on Wednesday. Unfortunately, prices softened at the end of the week. July futures finished at 65.99, down 2.46 cents from last Friday. December futures followed July's lead, giving up 3.02 cents. Trading volume was very heavy. Open interest fell 3,070 contracts to 217,265.

TRADE ISSUES WEIGH ON MARKETS

Last Friday's WASDE report and the continuing trade dispute between China and the United States seem to be the main driver behind the market's continued fall this week. The prevailing opinion in the market has been that the USDA's projection of U.S. production for the 2019/2020 crop year is conservative at 22 million bales while the world consumption projection is simply too high in light of escalating tariffs. Indeed, analysts' probabilities of seeing a resolution have gone from "almost certain" to "probably not" in a short period of time, and the markets are still struggling to decipher what the new world order of trade may look like if no resolution comes. It is at least fair to say that guessing which countries will consume given quantities of cotton is much trickier than it was three weeks ago.

LOWER PRICES SPUR MILL DEMAND

While the price deflation has been deeply uncomfortable for producers, it is often the case that lower prices are the best cure for lower prices. For instance, this week's Export Sales Report for the week ending May 14 showed net new sales of 226,900 Upland bales for delivery this year and 176,400 bales for delivery after August 1 when the new marketing year begins. The Cotton On-Call Report from the CFTC also showed that mills had fixed prices on 42 percent of their July on-call position, signaling that mills found value in the lower prices. With U.S. cotton making up a large percentage of the available supplies until next harvest, broad demand for U.S. cotton seems likely to continue although there is a higher risk that some sales will be cancelled because of the steepness of the price decline and the escalation of tensions with China.

WEATHER IMPACTS PLANTING ACROSS U.S.

Low prices do seem unlikely to have much immediate effect on the production side of the equation. There are not many better alternatives right now. Grains have rallied the past few days, but it is too late for growers to switch to corn. Weather may unfortunately be the bigger hindrance to U.S. production this year. Although the Southeast has had an okay start, planting is far behind in the Delta states on this week's Crop Progress and Condition report. There are also significant storms that could further delay planting in the forecast for the next few days that span from West Texas into the Delta. Sadly, the Southeast, which could actually use the rain, is expecting minimal rainfall and warmer than average temperatures for the next couple of weeks. We are a far cry

from a crop disaster, but it seems the season is off to a much rockier start than many expected.

LOOKING AHEAD

Volatility seems almost certain to continue in the current market environment. Traders will be closely monitoring planting weather, with special attention on Monday's Crop Progress report for any indication of delayed planting. On the demand side, Thursday morning's Export Sales Report will show whether lower prices have continued to generate demand for U.S. cotton. Needless to say, traders will also be keeping a constant watch on social media and news alerts for any sudden policy shifts that could roil the markets.

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