



Cotton Market Weekly

OCTOBER 18, 2019

COTTON FUTURES RALLY ON STEADY BUYING

- Traders Watch Weekly Export Data to Gauge Demand
- Buyers Also Seek Cotton at Origin
- UK/EU Move Closer to Exit Deal
- Stocks and Grains Rally on U.S./China News

The December futures' rally began last Friday as prices raced past the September high at 63.39 cents per pound. The surge continued to 65.85 cents in overnight trading on Monday, marking the highest price traded on December futures since July 8. As quickly as it came, the rally reversed during Monday's U.S. trading hours, with prices falling all the way back to 61.72 cents Tuesday morning before buyers regained their confidence. Nevertheless, steady buying resumed, pushing prices all the way back up to 64.99 cents at Thursday's close, up 357 points for the week. Average daily trading volumes were the best since June, and open interest increased to 239,222 contracts, up 3,094 in the past five sessions.

SPOT MARKET ACTIVITY

The Seam's G2B platform traded more than 23,200 bales for the week, an increase of roughly 15,800 bales compared to the previous week. The average price at 58.41 cents per pound was 152 points more than the previous week's average. The average premium over the CCC loan was 5.46 cents per pound and 175 points higher than the previous week. Bales offered for sale by growers stood at approximately 93,000 late Thursday (more than 44,000 bales of 2019-20 crop were offered).

UK/EU DEVELOPMENT

Two potential geopolitical events have towered over all other information this week. The first and lesser is that the United Kingdom and European Union seem closer to accomplishing a withdrawal agreement for Britain's exit from the EU than ever. A deal is due by the end of the month if Britain is to exit the EU with any deal at all, although an extension is perhaps still possible. In any case, successively more positive headlines about negotiations have stoked rallies in both the British Pound and the Euro as the market sees any deal as less risky financially than the no-deal scenario. Britain's parliament will still need to ratify the agreement by vote, so the risk is not totally gone.

TRADE NEGOTIATIONS

The second and more significant factor pushing the markets this week is the remarkably positive tone that has surrounded the U.S.-China trade negotiations. The announcement of a "Phase 1" deal and the apparent alignment of messaging in both countries has raised the market's belief that the situation will improve to a level not seen since Spring. Stocks and grains rallied on the news, and treasuries declined. Grains have given back some of their gains over the week as the reality of waiting for a written agreement sets in. Needless to say, whether or not the deal contains cotton and how much will be central in this season's outlook.

CROP PROGRESS

The percentage of bolls opening for the week ended October 13, 2019, showed 87 percent of the U.S. crop was open and ahead of the 5-year average of 83 percent. Cotton harvested for the U.S. was ahead of pace at 32 percent versus the 5-year average of 27 percent as reported by NASS.

COTTON CLASSING

All classing offices across the U.S. were active this past week with total classings standing at approximately 3 million bales. Qualities overall remain excellent throughout the Cotton Belt as harvest conditions have been good for most areas. Predominant color during the past week showed to be 31 color, 3 leaf, and a staple length over 36.

OTHER FACTORS TO WATCH

Despite the potential for current negotiations to utterly alter the world outlook for cotton, traders will still have to trade and this year's crop is still coming in. Daily classing, which has been very good, and harvest weather are still daily concerns. Buyers are actively seeking cotton at origin, but it seems the current rally is a few weeks too early for most U.S. growers to participate. Traders also are focused on fulfilling export sales that were made months ago, especially those that were made at much higher prices. Of course, the market also will be closely watching the weekly export sales data release to gauge the world's demand for U.S. cotton.

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