



MAY 24, 2019

DESPITE VOLATILITY, FUTURES POST GAINS WEEK OVER WEEK

- **July Up 240 Points, December Up 124**
- **Planting Progress Surprises Some**
- **Foreign Mills Continue Buying U.S. Cotton**
- **Hopes for Trade Resolution Fade**

Futures prices were highly volatile this week. Prices jumped on Monday but nearly gave back the gains Tuesday and Wednesday. Thankfully futures were able to continue rallying Thursday and Friday, leaving July at 68.39 cents per pound as of Friday's settlement, up 240 points. December followed July but with a less pronounced rally. At 67.55 cents, December finished just 124 points higher. Total open interest fell 1,423 contracts to 215,842, and daily average volume was lower than in recent weeks.

PLANTING PROGRESS NEAR AVERAGE

Monday's crop progress report shocked many traders. Planting progress for the Cotton Belt is just behind average pace, but the aggregate figure hides a striking disparity. Faster than usual planting pace in the Southeast is hiding extremely late planting in the Delta states, where final planting dates are quickly passing. As of May 19, Louisiana was the only state along the Mississippi River with more than half of its crop planted. Corn and soybeans have had similar problems this season. Corn plantings in the Midwest and South seem likely to fall far short of originally expected acres with only 49 percent planted versus 80 percent average pace. Soybeans have more time, but at 19 percent planted versus 47 percent average pace, they are not off to a good start either.

GRAIN PRICES MOVE UP

Grain prices have been shooting higher as their outlook has soured over the past two weeks. July corn is up 69 cents from its multi-month low on May 13 to a fresh 50-week high as of today's close over \$4.04 per bushel. Soybeans rallied off their lows but were not able to keep following corn. Wheat futures have also been screaming higher but are still below where they were at the beginning of the year.

SPEC SELLING AND MILL FIXATIONS ACTIVE

The CFTC's Commitments of Traders report for this week and last week have shown speculative traders to be behind the active selling of the market. The Cotton On-Call report also shows that mills continued to actively fix prices last week, and this week's Export Sales report showed net new sales of 381,400 Upland bales for this marketing year and 241,500 for next year. Shipments still lagged, but it was clear that mills are eager to buy large quantities of cotton at these prices.

NO U.S./CHINA TRADE RESOLUTION YET

In the past two weeks, analysts' expectations for a favorable outcome in the U.S./China trade dispute have gone to near-zero. In fact, much of the media coverage has moved past using the term "dispute", and we now seem to have a full-blown trade war in the works. As that consensus takes hold of the market and economic ties between the U.S. and China fray, speculators seem to have expected commodity prices to move to zero. However, just as demand has been spurred by the lower prices, production may also shift according to price signals. Weather is also affecting production far more than traders expected, and thus

accelerating the pace at which low prices were already taking care of low prices.

IN THE WEEK AHEAD:

- Tuesday at 3:00 p.m. Central – Crop Progress and Condition
- Friday 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