



AUGUST 9, 2019

COTTON FUTURES FALL ON NEW TARIFF ANNOUNCEMENT

- **Open Interest Rises in Heavy Trading Volume**
- **Crop Conditions Decline**
- **Export Sales Fall Short**
- **Awaiting Next WASDE Report**
- **Expectations Low for Trade Resolution**

December cotton fell to a 10-year low of 57.26 cents per pound on Monday, continuing the slide that began August 1 when President Trump tweeted his decision to proceed with 10 percent tariffs on an additional \$300 billion of U.S. imports from China. Prices seemed to stabilize at Monday's lows, pulling back to a high of 59.78 cents per pound on Thursday. Daily trading volume was relatively heavy, and a large proportion of trading seemed to be new entries into the market. Open interest has risen 13,471 contracts to 211,839 since last week.

CROP CONDITIONS

Monday's Crop Progress and Conditions report seemed to help the market find some support. While the previous week's news had focused on the record share of U.S. crop rated "Good" or "Excellent", traders got a bit of a shock at the steep reduction in this week's cotton condition. The "Good and Excellent" share fell seven percentage points from 61 percent to 54 percent. Texas declined sharply, falling from 59 percent rated "Good and Excellent" to just 46 percent as hot, dry weather has started to take a toll on the West Texas crop. Unfortunately, the forecast is for more of the same.

EXPORT SALES

This week's Export Sales report covered the week ending August 1, and thus overlapped the beginning of the 2019-20 marketing year. Combining activity for the last six days of 2018-19 with the first day of 2019-20, net new sales of Upland cotton totaled 176,400 bales. Unfulfilled sales totaling 2.38 million bales were carried over to 2019-20. The largest buyer for the week was China with 60,100 bales of new orders. Shipments also were very good as combined marketing year shipments of Upland were 345,500 bales. Total exports for 2018-19 were 13,158,900 bales of Upland and 644,800 bales of Pima. Converting the running bales to statistical bales (standardized to 480 pounds), Upland and Pima combined total exports come out to somewhere around 14.2 million bales, which is short of USDA's 14.5 million bale forecast.

WASDE REPORT DUE MONDAY

This Monday's WASDE report is traders' next focal point. USDA's supply and demand outlook is likely to color the market for the next month, so traders will be paying close attention to the forecasts. There are broad expectations that consumption may fall further, increasing world ending stocks for the upcoming season. The FSA's Crop Acreage Data will be released simultaneously, giving the market its first meaningful revision to planted acres. Weather challenges across the Cotton Belt have increased interest in the FSA's numbers, which also will give the first peak at prevented plantings and abandonment in counties that report that data.

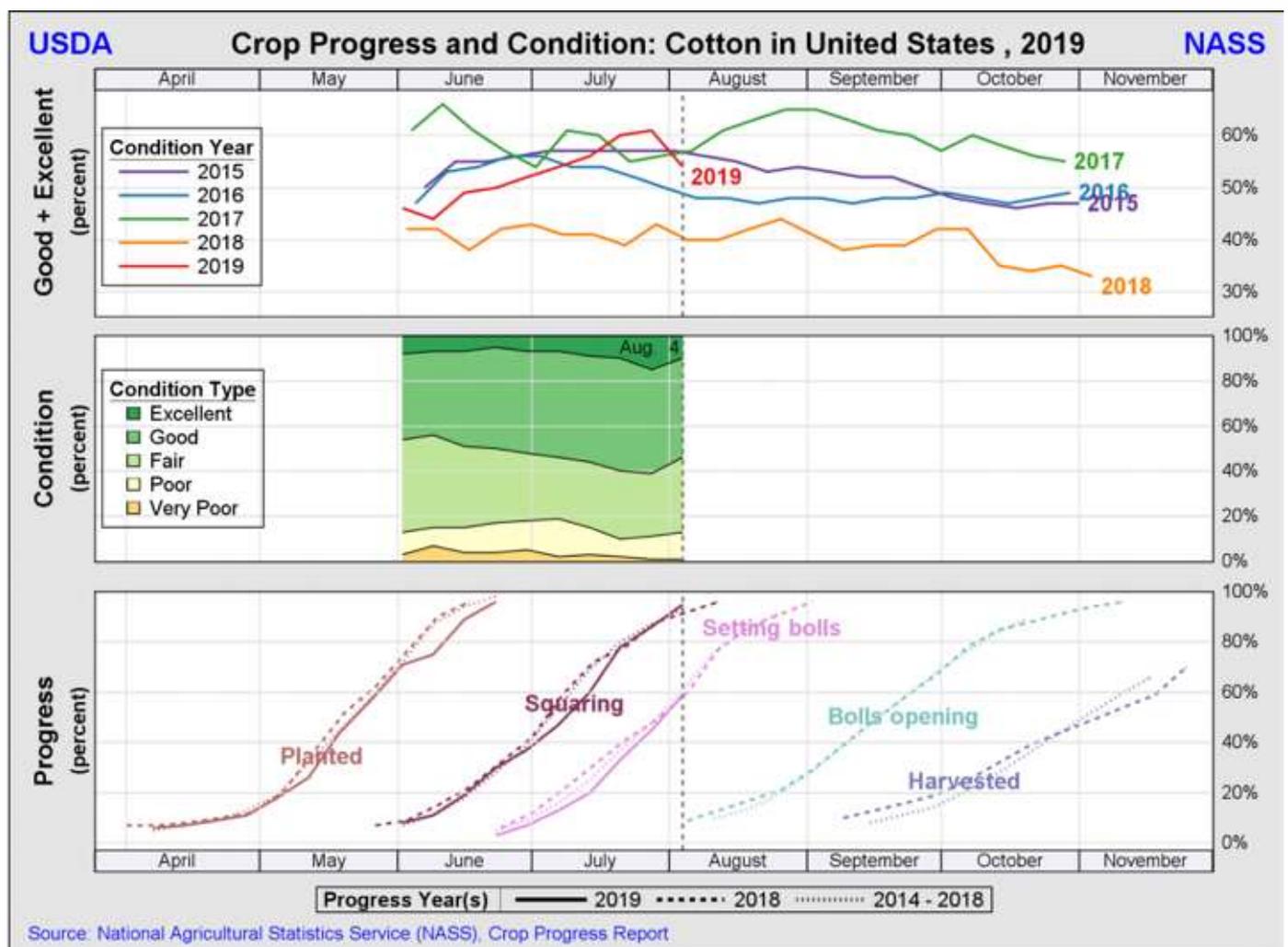
TRADE DISPUTE

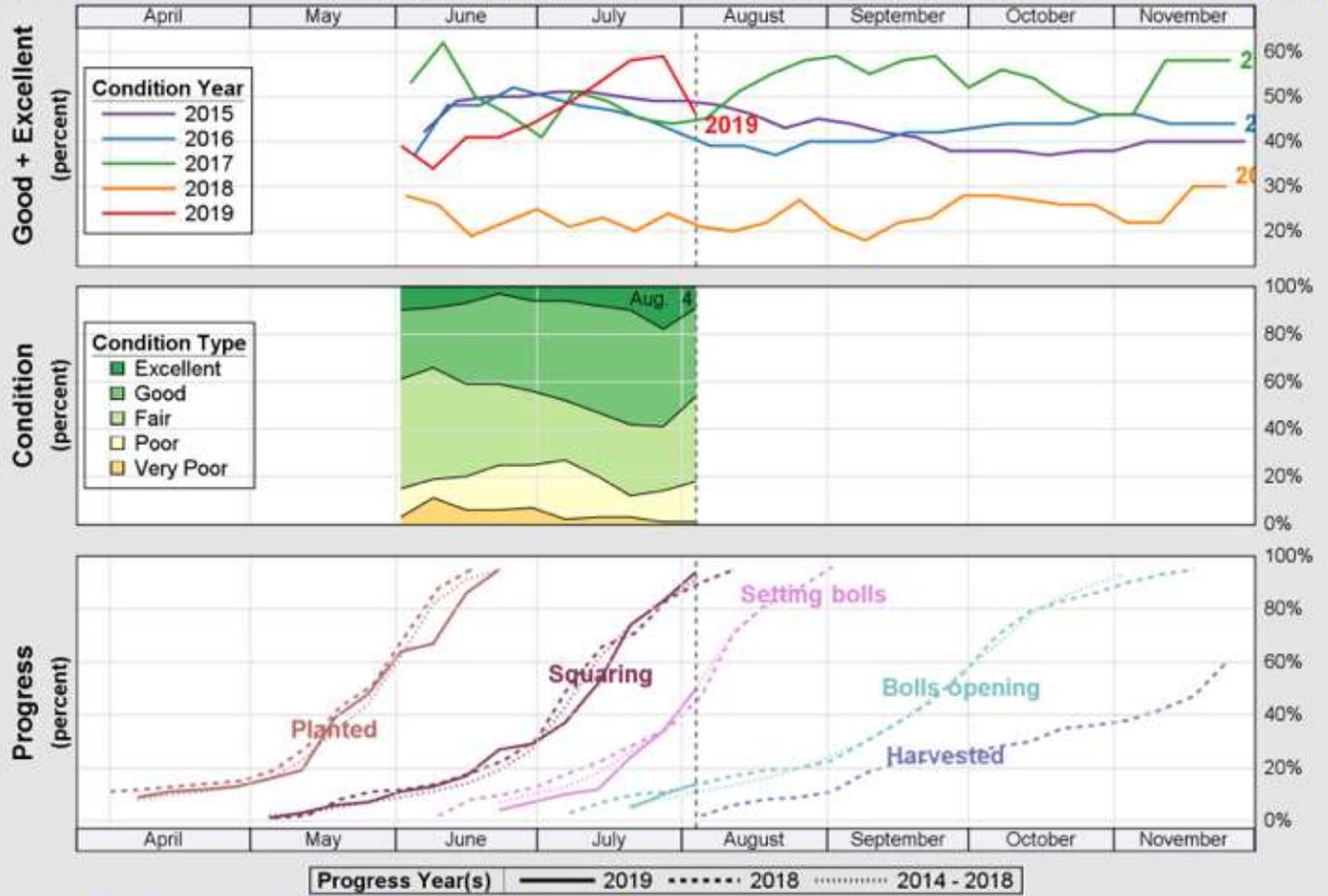
Many traders have given up any hope of a U.S.-China trade deal in the near future. Rhetoric on both sides has escalated, and China has instructed state-owned companies to cease purchasing U.S. agricultural

products. The U.S. also has labeled China a “currency manipulator,” and President Trump has announced the U.S. will do no business with Huawei, the giant tech company at the heart of recent disputes. Perhaps issues will be sorted out after the election, but most watchers have made a ‘no-deal’ scenario the base of their near-term outlook. In the meantime, weekly Crop Progress and Conditions and Export Sales reports will retain center stage. Unfortunately, if prices continue lower or remain where they are, the Adjusted World Price will take center stage, too.

IN THE WEEK AHEAD:

- Monday at 3:00 p.m. Central – Crop Progress and Conditions
- Monday at 11:00 a.m. Central – WASDE
- Monday at 11:00 a.m. Central – FSA Crop Acreage Data
- 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





Source: National Agricultural Statistics Service (NASS), Crop Progress Report