



DECEMBER 20, 2019

COTTON PRICES SURGE ON TRADE NEWS AND EXPORT SALES

- Futures Up 41 Points for the Week
- Phase One Details Limited
- House Approves USMCA With Strong Bipartisan Support
- Spot Market Prices Up Slightly

The futures market surged to a high of 67.80 cents per pound last Friday on confirmation from both sides that the U.S. and China had reached an agreement on the “Phase One” trade deal, but the fanfare did not seem to last past Friday. Prices drifted lower through the following Wednesday as traders were disappointed at a lack of specific details about how much China would buy of each commodity (more on what we do know

below). After falling back to 66.25 cents Wednesday morning, Thursday's strong export sales figures sent the market to a fresh high of 67.88 cents per pound before settling at 67.58, up 41 points for the week. Open interest has jumped 10,379 contracts to 205,443 during the same period.

“PHASE ONE” AGREEMENT

Although the exact details of the “Phase One” trade deal with China will not be made public until the document is signed, both sides have publicly stated that there are no more details to be negotiated. Now, the wait is about letting each country's legal teams properly vet the agreement for conflicts with other legal commitments (e.g. WTO obligations) and finalizing the translation. While the world is waiting for specifics, the administration has released a fact sheet about the deal, and administration officials have made some facets of the agreement known. United States Trade Representative Robert Lighthizer, who has been central to the negotiations, said China has agreed to purchase a record quantity of U.S. agricultural goods in the next two years along with a sharply increased value of U.S. energy products and services. China also will address many of the U.S. trade complaints that gave rise to the trade dispute in the first place. Both sides agreed to cease planned additional tariffs, but the U.S. also will decrease by half the tranche of tariffs on Chinese goods that were levied in September.

EXPORT SALES AND SHIPMENTS

Net new export sales for the week ended December 12 were 249,400 bales of Upland cotton and 14,300 bales of Pima. While the weekly sales pace was slightly lower than the week before, new sales were still faster than what many traders and analysts consider necessary for U.S. exports to achieve USDA's 16.5 million bale target. Shipments also were healthy with a combined Upland and Pima total of 224,900 bales. Last week's largest buyers included Turkey (70,400 bales), Pakistan (44,200), Indonesia (28,300) and Bangladesh (27,700), but the country

that caught many traders' eye was China which made net new purchases of 25,100 bales of Upland and 5,600 bales of Pima. Shipments to China were 35,500 bales, the highest since last June.

USMCA APPROVED

The China trade deal news was not the only trade policy win for the Trump administration. The United States Mexico Canada Agreement (USMCA) also gathered enough votes in the House of Representative for passage. The bill will head to the Senate where it will be taken up after President Trump's impeachment trial which the market has largely ignored. The positive trade news has overwhelmed the President's political woes, and the Dow Jones Industrial Average made record highs three of the past five days.

LOOKING AHEAD

The market seems fairly convinced that the "Phase One" agreement will be signed without issue within the first few weeks of the New Year. While specific commodity targets for China to purchase will remain a state secret, the market knows that China certainly will have to buy a lot in order to approach the agreed upon figures no matter what the commodity is. Besides watching for a specific time and date of the signing, traders will continue to watch U.S. export sales for signs of Chinese purchases. More than a few traders hope the signing will let the market get back to trading more supply-and-demand signals and fewer headlines, at least for the next two years while the agreement is in place.

SPOT MARKET ACTIVITY

Through late Thursday afternoon The Seam's G2B platform traded more than 57,000 bales during the past five trading days. The average price received by producers was 59.76 cents per pound, up 7 points from the previous week's average. The average premium over the CCC loan was 7.74 cents per pound,

74 points more than the previous week. Cotton offered for sale by growers stood at 277,000 bales.

COTTON CLASSINGS

Samples classed at the Corpus Christi Classing Office during the week were good qualities on average with a small percentage of the South Texas crop remaining to be classed. The Abilene Classing Office has classed more than 800,000 bales with the predominant qualities being good. In Lamesa, the season classing total is approaching 900,000 bales, and the Lubbock office has classed approximately 2 million bales. The Lamesa and Lubbock offices are showing a slight increased percentage of light spots on the week compared to the season.

IN THE WEEK AHEAD:

- Friday, December 20 at 2:30 p.m. Central – Commitments of Traders
- Friday at 7:30 a.m. Central – Export Sales Report
- Friday at 2:30 p.m. Central – Cotton-On-Call