



**MARCH 22, 2019**

## **STRONG GAINS FOR COTTON FUTURES THIS WEEK**

- Macroeconomics Favor Commodities
- Export Sales Remain Weak
- Mixed Trade Signals
- Weather Concerns Emerge
- Prospective Plantings Report Coming

Futures prices surged to their highest level since December this week. The May contract added 108 points from last Friday's close to settle at 76.58 cents per pound. While volume picked up Thursday as the market touched the fresh high of 77.82 cents, slow trading earlier in the week kept the total volume low. Open interest increased 2,326 contracts to 223,307 since

last Friday, increasing earlier in the week then reducing slightly Wednesday and Thursday.

## **FEDERAL RESERVE ACTION**

Macroeconomics shifted in favor of commodities as the Federal Reserve took a more dovish tone than the market expected. Rather than calling for one more additional interest rate increase for this year and next, the Federal Reserve kept rates unchanged and expected to keep rates unchanged for the rest of the year. Additionally, the Fed's outlook for U.S. economic growth dimmed, and it also announced the end of its balance sheet reduction program in September, which should reduce upward pressure on long-term rates. Mortgage rates fell to their lowest level in more than a year on the news.

## **EXPORT SALES AND SHIPMENTS**

The U.S. Export Sales report revealed that demand for U.S. cotton was still weaker than usual in the week ended March 14. Mills are still trying to maintain hand-to-mouth purchasing in the face of trade uncertainty and economic weakness. U.S. shippers sold only 125,000 bales, but shipments were better than the prior week at 350,100 upland bales but were still below the average needed to hit the USDA target. Nevertheless, sales and shipments are expected to be better next week. The combination of the Fed's weaker economic outlook and lowered rate expectations caused the value of the U.S. dollar to decline against foreign currencies, helping prospects for U.S. exports. Aside from trade conflicts, the strength of the dollar has been the biggest challenge for exporters this season.

## **EXPLAINING THE CURRENT MARKET**

Signs of slowing economies and low export sales are not usually good explanations for a rising market, and that is true this week as well. One could explain the higher prices through improving outlook for a China trade deal, but news on that front was also somewhat mixed this week as several comments from the executive branch made a resolution and/or the execution of the agreement seem farther away. The easiest explanation for recent price action is that speculators were far too aggressive in selling down the cotton market. There is relatively little cotton left to hedge from the 2018-19 season, so specs are finding it difficult to buy back their short positions in May and July and many are being forced out.

## **PRODUCTION PROSPECTS**

With this season two-thirds done, attention is turning to next season's production prospects. The Southwest has received modest moisture recently, but more is needed. By contrast, devastating floods have hit the Midwest and South. In fact, the flooding is expected to remain for another two to three weeks as snowmelt continues and fresh rains begin. Rural communities have been the hardest hit and the damage to agriculture is in the billions of dollars. The impact on U.S. stocks and prospective plantings is hard to judge.

## **PROSPECTIVE PLANTINGS**

Traders continue to have their plates full. Despite one of the worst flood outlooks ever, USDA will have to publish its Prospective Plantings report next Friday. On the demand side, the weekly Export Sales report will continue to figure centrally. Nevertheless, U.S.-China trade issues will continue to be the

main factor in the next few weeks. The market is increasingly hopeful of a resolution, but there is still a risk discount in place until the deal is signed.

### **IN THE WEEK AHEAD:**

Thursday at 7:30 a.m. Central – Export Sales Report

Thursday at 2:30 p.m. Central – Cotton On-Call

Friday at 11:00 a.m. – USDA Prospective Plantings Report

Friday at 2:30 p.m. Central – Commitments of Traders