



MARCH 29, 2019

FUTURES RALLY AGAIN, UP 103 POINTS FOR THE WEEK

- Trade Rumors Reported, But Concerns Remain
- Export Report Disappoints Some
- Economic Warning Signals From Brexit
- Planting Intentions Report a Shocker

Prices rallied to a fresh 14-week high this week with May futures trading to 77.98 cents per pound. Semi-positive rumors about trade negotiations helped the rally Monday and Tuesday, but the market backed off the highs Wednesday following talk about possible delays in negotiations. Prices fell again Thursday after an apparently disappointing Export Sales Report, and prices bottomed out at 75.52 cents. Thankfully, prices shot back toward

the week's highs on Friday and settled at 77.61, up 103 points for the week. Daily trading [volume](#) was modestly higher than last week, and [open interest](#) gained 5,129 contracts to 228,436.

EXPORT SALES AND SHIPMENTS

While the market did not seem to like the Export Sales report during Thursday's selloff, the sales and shipments were actually fairly good. Net new sales for current crop hit 219,000 bales, up 79 percent from the 4-week average, and next marketing year sales totaled 175,600 bales. Although shipments were still slower than they needed to be, there was still a healthy volume leaving the U.S. at 380,000 bales of Upland cotton. In other words, it wasn't the best report ever, but it was a great improvement. Even China made net new orders for 36,600 bales to be shipped this year and 32,700 for next.

BREXIT CHAOS

It is possible the Export Sales report was simply not as good as the market was expecting, but it seems more likely negative outside factors simply had more sway. Financial markets were rattled by the spike higher of three-month yields above the 10-year treasury yield. Brexit (Britain's Exit from the European Union) descended into further chaos as well this week. The economic warning signals have spurred more flight to safety among investors, which has helped the U.S. dollar to strengthen against major competitor currencies and created further headwinds for U.S. commodity exporters.

PROSPECTIVE PLANTINGS

The most significant and shocking report of the week was the annual Prospective Plantings report, which shows USDA's best estimate of what all major crops' planted acreage will be in advance of the 2019-20 season. Since no other USDA planting survey is complete ahead of the May and June WASDE reports, this figure will serve as the base planted acreage in USDA's first crop production estimates for the upcoming season. Despite average analyst estimates of 14.5 million cotton acres (versus

last year's 14.1 million), USDA shocked the market with a decrease to 13.78 million acres. Naturally, states that have suffered recent production disasters expected acreage reductions (notably Georgia, Florida and South Carolina), and the largest reduction was in Texas where cotton acres in 2019 are forecast at 7.314 million versus 7.768 million last year. Prices immediately jumped higher on the report's release. Traders scrambled to exit and/or reverse their [positions](#), which had largely been set to take advantage of a [bearish](#) report.

TRADE NEGOTIATIONS AND DEMAND OUTLOOK

For the next few months, U.S.-China trade negotiations, export demand and prospects for next year's crop size will be key areas of focus. Trade negotiations continue to appear positive, but timing has proven too elusive for traders to rely on. Positioning for a deal or non-deal scenario has burned too many traders. Demand for U.S. cotton looks rather positive over the next four months before Brazilian new crop begins to ship. U.S. shippers have the last sizable supplies of decent quality, and mills will need it. The central question is whether mills will need more than the U.S. has to offer or less. It is still uncertain whether cotton will be plentiful or scarce before new crop comes.

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