

A photograph of a cotton field with green leaves and a dirt path, serving as a background for the title text.

Cotton Market Weekly

JANUARY 11, 2019

TRADING ACTIVE, BUT FUTURES DRIFT SIDEWAYS

- **Without Government Reports, Traders Only Have Rumors and Hearsay**
- **Classing Reaches Almost 15 Million Samples**
- **Demand Seems to Improve, But Rumors of Cancellations Emerge**
- **Plenty of Confusion for the Market**

Cotton futures wandered sideways this week. Monday's trading continued last Friday's rally, topping out at 73.92 cents per pound before hitting the brakes. The low of the week came at Tuesday's close when futures fell back to 71.54 cents. Trading was active from there but kept within the boundaries of

Monday's and Tuesday's action. Friday's settlement was consequently just three points lower week-over-week. Average daily trading volume was the highest in the past six weeks, and open interest has climbed to 227,154 contracts this week, up 5,586 since last Friday and 15,670 off the low point on December 27.

NO USDA OR CFTC REPORTS

Today would have been the release of USDA's January WASDE report if there were no partial government shutdown in effect. USDA's commodity balance sheets are the most widely trusted and public sources of information for traders. The lack of the Cotton On-Call, Commitments-of-Traders, and weekly Export Sales reports also are giving an upper hand to the largest market participants who have both the staff and the budgets to gather and interpret data from a large number of sources. Without the government data to help verify information and level the playing field, traders have been pushed back into the realm of rumors and hearsay.

COTTON CLASSING CONTINUES

There are a few public reports that are still reaching the market. Classing reports, which are funded by classing fees, are a good example. This week's classing report shows USDA had classed 14,880,231 samples as of January 10. A few states are already getting close to their predicted crop size, but it is easy to see there is still a long way to go in several states to hit USDA's current crop forecasts. Texas has had 5.55 million samples classed versus USDA's expected crop size of 7.0 million statistical bales. Oklahoma and Kansas also have a long way to go.

DEMAND BETTER, BUT RUMORS OF CANCELLATIONS NOTED

On the brighter side, demand for U.S. cotton picked up substantially over the past two weeks. There is still fresh inquiry and plenty of firm bids, but it does appear that mills have slowed down and are hoping for another chance to buy below 72.00 cents. Unfortunately, there have also been some rumors of cancellations as some mills seek to get out of higher priced orders. Until the government begins reissuing the Export Sales reports, the size of new commitments is impossible to tell.

SOURCES OF CONFUSION

The market is nothing short of totally confused right now, and there is little expectation for an immediate resolution. Aside from the rest of the world's problems (and there are plenty!), the cotton market has been tossed between the pessimism generated by the government shutdown and the seemingly positive progress in U.S.-China trade talks. Additionally, the Federal Reserve has taken a more neutral tone the past few weeks, which seems justified since December's Consumer Price Index fell 0.1 percent and inflationary worries are muted. The change in tone has helped to stabilize outside markets.

HOLDING BACK

So what is holding cotton back? There simply is too much noise and not enough clarity. Even gifted forecasters have little confidence about what comes next. Investors lack convincing arguments to initiate a large position, and brands and retailers are feeling too uncertain about future demand to make sizable new orders. Without details about a trade deal with China, an end to the U.S. government shutdown, and greater confidence to starting buying risky assets again in the broader markets, it will be hard for the cotton market to make a bigger move.