# Market Report

*11 May 2018*

**ICE QUOTATION (US CENTS)**

| ÉCHEANCE | 03-May | 10-May | Variation |
|---|---|---|---|
| JULY 18 | 84.50 | 84.56 | +0.07% |
| DECEMBER 18 | 79.59 | 80.11 | +0.65% |
| MARCH 19 | 79.09 | 78.91 | -0.23% |

| INDEX | 03-May | 10-May | Variation |
|---|---|---|---|
| EUR/USD | 1,1987 | 1,1914 | -0.61% |
| COTLOOK | 94.00 | 94.35 | 0.37% |

## NEWS

The market hit new highs on the July contract last Friday finishing at 86.90 c/lb, only for it to soften slightly over the course of this week eventually closing at 84.85 c/lb on Thursday. As mentioned in previous reports, the July contract looks volatile caused by the ever increasing on call position held by the mills, which is at a new record for the marketing year. It seems that the strategy of 'wait and hope' that prices come down has certainly not helped mills with many continuing to wait to make their fixations. The longer they wait the more explosive July could become, and they are running out of time.

With July hitting new highs it seems that the physical price action has detached itself from the futures, with many merchants making sales at a much lower basis but that makes sense as a fixed price. In the sales markets, Bangladesh continues to look for nearby or afloat offers, though issues with liquidity in the banking sector persist but are showing signs of easing. Pakistan has reported some purchases of CMIA cotton at levels in the low to mid 90's, though most mills there are covered up to August. Vietnam is in a wait and see mode. India's arrivals are still trickling in, currently at the 65k bales per day level. Imports are still nonexistent there and it is possible that local mills will be able to cover themselves with local cotton up until new crop. Indian cotton is still the cheapest cotton on the market in the mid 80's. Indonesia reported some low grade Argentinian cotton purchases in the mid 80's. With nearly a 5 c/lb gap between July and Dec, merchants will continue to try to liquidate stocks before July comes off the board and in doing so the basis offering levels should come down.

As July maintains its strength, the December contract follows suit, with the potential that it will start to close the gap on July as we turn our attentions to the May WASDE report. It was reported that again consumption will exceed production in 2018/2019. Surprisingly India's production was left unchanged at 28.5 million bales. We heard reports to the contrary that the crop could potentially be much smaller caused by abandonment from fears of pink bollworm and insurance companies refusing to pay up. The US, Australia and China reported smaller crops but this was offset by larger crops in Pakistan, Turkey and Brazil. The fall of 1% in the US crop is no doubt due to abandonment in Texas where the drought is now considered critical, with farmers turning to more drought resistant crops instead. With a higher world consumption forecast (Vietnam, Bangladesh) and fears on production in some of the world's largest producers, could December be set to see some strength, time will tell.

The Chinese Ministry of agriculture reported yesterday that cotton production will drop by 6% to 5.5 million MT in the 2018/2019 season. Farmers are abandoning cotton due to high labor costs and poor yields, even though government subsidies remain in place. They are then also forecasting imports to increase from 1.1 to 1.2 million MT. The reserve offered 1.2 million MT over this current auction period from their stock pile of 5.2 million MT. With currently 700k MT sold they should reach 1 million MT by the close of auction in August. Daily take up from the auction is around 65% and yesterday Xinjiang cotton had 100% take up, this is all very supportive to December. The potential story here is China and its return to imports if plantings are down and the reserve continues to relinquish stocks. Certainly one to watch.

Never before has a sitting US President had such an effect on international markets as Donald Trump currently has. His abandoning of the agreement with Iran was seen as a positive for the greenback, strengthening it against the euro further. He then secured the release of three US prisoners ahead of a meeting with the North Korean president to be held 12$^{th}$ June. His good cop bad cop strategy seems to be working and the greenback is at its strongest levels against the euro since December. We shouldn't lose sight of the fact that interest rates remain low in the EU and neither has the EU hit its growth targets, only adding to its weakness. That aside, analysts remain cautious of this current strength in the dollar with many predicting a return to levels of 1.25 by the end of 2018.

In terms of the market, July is well supported by the speculators who remain long of cotton and agricultural commodities in general. This is then added a further boost by the on call position of the mills mentioned earlier in the report. July looks dangerous, and although it has softened this week the fundamentals are bullish. For December, India and the US are having crop problems and WASDE continues to increase global consumption and reduce ending stocks. Ultimately, we foresee a strong market.

## TREND

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| ICE JULY 18 | 86 usc/lb |
| EUR /USD | 1.20 |

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