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ROSE ON COTTON – MEXICO TARIFFS FORCE ICE COTTON TO SETTLE LOWER ON WEEK, JULY CONTRACT LOSES 870 FOR MAY

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ICE cotton posted a modest loss for the week with the July and Dec contracts giving up 31 and 48 points, respectively; July lost 870 in May. The July – Dec spread strengthened to 101, which should continue to incentivize export shipments.

Last weekend, our proprietary model (timely prediction available in our complete weekly report) overwhelmingly called for a settlement that was to be near unchanged to lower Vs the previous Friday's finish, which unfortunately proved to be correct. Our models were 4 – 0 on the week, also posting strong weekly wins for corn, soybeans and CME SRW wheat.

ICE cotton found support over the week on evidence of continued competitiveness of US cotton, per strong export sales and shipment data for the week ending May 23, continued fixing of on-all contracts by mills, support from strength in other row crops and from weather concerns across The Belt. These factors probably incited spec short covering against July as likely did the initiation of the Rogers index fund roll on Thursday. However, a 5% tariff – that could escalate to

25% by Oct - on imports from Mexico caused Ag markets to turn south on Friday.

While US planting is largely on time this season, it is becoming clear that a substantial portion of this year's crop – especially across the Mid-South – has been and is being sown during the tail end of the season. If producers see a perfect June and July this will be a moot point, and 5-year averages or better will be a realistic expectation. However, late cotton (or early cotton that survived a wet and cold May) will be markedly less vigorous than cotton started under more ideal circumstances.

US export sales against 2018/19 were off for the week ending May 23 Vs the previous sales period while shipments were significantly higher at approximately 290K and 443K running bales, respectively. Shipments were well ahead of the weekly pace required to meet the USDA's projection of 14.75M 480lb bales. Sales against 2019/20 were more than 136K RBs, with the total now at nearly 3.8M 480lb bales. Old crop sales were again impressive, given the amount of available cotton left for sale.

We are also hearing reports from our merchant and warehousing friends that shipping orders are stacking up at warehouses, and that increased shipments should be expected in coming weeks.

Internationally, most pertinent headlines were tied to China, where reports relay that the US – China trade war is significantly affecting the nation's export of finished textile goods. In a retaliatory move, China has hinted that it might cut off supplies of rare earths to the US. Further, China has put a hold on US soybean purchases, while its state media continues to publish propaganda, arguing that China can endure a trade war with the US for "years" and accusing the US of economic terrorism.

Rare earths are a group of 17 elements that are used in the production of high-tech items (including military products) and they are also employed in the refining of crude. These elements are not actually rare, but rather plentiful (including within the US). China controls most of the global supply largely due to the nation's lax environmental and labor laws, given the relatively risky nature of mining/isolation of such elements. Still, the US has idled infrastructure can be quickly employed in producing these elements, albeit at some expense and political risk.

On the eve of this column, President Trump also announced tariffs (5% initially, potentially increasing to 25% by Oct) on imports from Mexico in response to concerns over Mexican inaction relative to illegal immigration at the US – Mexico border. By adding uncertainty to the market as a whole, and specifically to cotton and textiles crossing the border, this is a bearish factor for US producers.

Elsewhere, there is plenty of economic and political unrest and uncertainty across the globe outside of China. The US – Iran spat harbors potential for significant equity market upheaval, while Kim Jong Un has reportedly executed as many as five of his staff in response to the failure of the US – North Korea summit in Feb.

Against this background and facing crop conditions and weather forecasts that are less than ideal, producers will have to work to find reasons for optimism. It is worth noting that the last 13 sessions show a Dec contract that has established support in the mid to upper 60s and has potential for a rally into the low 70s. Additionally, crop conditions around The Belt make the likelihood of 2018's top yields unlikely, with higher than currently projected abandonment a strong possibility. With Dec trading in the 60s and corn in the 450 range, we are already hearing from producers who are shifting late/replant acres to corn, further decreasing likely carryout.

With that said, the calendar makes a strong argument for being 50% sold, and any rally to or through the 70.00 – 71.00 level would be a fine time to do that. Events to watch for potential market moving news are the June WASDE report (June 11) and the Osaka meeting of the G20 (June 28-29), which should put US, Chinese, Russian, and Mexican leaders (among others) in the same room.

For the week ending May 28, the trade slashed its aggregate net short futures only position to approximately 2.7M bales, which is suggestive of new cotton sales, on-call price fixing by mills and slow producer selling. Specs increased their aggregate net short position to position to almost 3.7M bales, which suggests they are primarily focused on new crop supply, most likely coupled with US trade issues with China, Mexico and others.

For next week, the standard weekly technical analysis for and money flow into the July contract remain bearish. All lower gaps on the continuation charts have been filled, with overhead gaps in the 75.00 – 77.00 range remaining medium- to longer-term upside targets. Traders will continue to closely monitor weekly US export data, planting progress and weather while also attempting to anticipate USDA projections to be put forth in the June WASDE report. Index fund rolling continues next week.

Have a great week!

Report Courtesy: Rose Commodity Group

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