ROSE ON COTTON – US – CHINA SPAT DEVOLVES INTO ALL – OUT WAR; MAY WASDE OFFERS LITTLE ENCOURAGEMENT

11-May-2019

It was a terrible, horrible, no good, very bad week for ICE cotton futures, with the July and Dec contracts posting losses of 723 and 505 points, respectively. Both contracts finished the week significantly south of the 70.00 level. The July – Dec inversion gave way to carry of 95 points.

Last weekend, our proprietary model (timely prediction available in our complete weekly report) called for a settlement that was to be near unchanged to higher Vs the previous Friday's finish, which proved to be incorrect. However, we did not recommend trading the model predictions on a WASDE week, but we did recommend initiating a long position on July near 70.00, which has yet to pay dividends. Our proprietary model does an excellent job of accounting for fundamental, technical and statistical factors, but we have yet to adequately program a predictive model for current trade disputes.

ICE cotton moved lower on the week on a sharp increase in US duties on Chinese goods as trade talks broke down, apparently giving way to an all-out trade war. China reportedly wanted to renegotiate points to which they had originally agreed, and the

US responded by levying a 25% tariff on $200B worth of Chinese imports. Further, President Trump is mulling a 25% across the board tariff on all Chinese imports. A bearish WASDE report on Friday proved to be the coup de grace to any lingering bullish sentiments.

Note that it could be nearly 90 days before the greatest effects of the newly levied duties are realized, which offers a bit of encouragement for ongoing talks, but trying to predict the success of efforts to date has been a fool's errand.

Producers are in an unenviable position. There aren't many bullish arguments for holding cotton, but there is little to no incentive to sell or price cotton at current levels. Years ago, a producer who'd seen more than his share of crop years advised us that "sometimes you just need to go fishing for a few days." While we recognize producers can't take this advice literally – there is a crop to plant, after all – next week might be a good time to take this advice, at least as far as marketing goes. Beyond adjusting 80.00 cent targets downward to 75.00, there is little promise in selling while the market digs for support.

In its May WASDE report, the USDA estimated 2018/19 production, export and consumption at 18.37M, 14.75M and 4.65M bales, respectively. The production estimate is not supported by either USDA-AMS classing or EWR receipt data but is supported by the USDA's annual ginning report. We'll see. At the world aggregate level, world carryout was near unchanged for 2018/19 Vs the April report.

With respect to 2019/20, US production, exports, and ending stocks were projected at 22M, 17M and 6.4M bales, respectively, which is bearish. Further, pre-planting rains across W TX will likely result in increased acreage Vs the USDA's current projection of 13.8M acres. While we projected planted area near 13.5M acres in Feb, we now see it close to 14M acres. Hence, domestic production has the potential to be near 23M – 24M bales. At the world aggregate level, world carryout is projected lower year-over-year for 2019/20 at 75.69M bales, with consumption expected to excel consumption by nearly 500K bales at nearly 126M bales.

Domestically, sowing continues at a snail's pace across the Mid-south but is mostly on pace with the 5-year rolling average most everywhere else across The Belt. Rain and showers are expected across nearly the entirety The Belt next week. However, experience tells us that substantial cotton acreage in the Mid-south can get planted in a relatively short window, given at least 5-10 working days in May. The one caveat worth considering is whether producers will push for late May cotton acres in a sub-70 cent market with lower than typical forward contracting on the books.

US export sales and shipments were noticeably higher for the week ending May 2 Vs the previous sales period at approximately 238K and 403K running bales, respectively. Shipments fell just short of the pace required to ship 15M bales by July 31, but exceeded the pace required to hit the USDA's revised 14.75M bale target. The US is 101% committed and 64% shipped Vs the USDA's latest projection.

On the international front, China has sold nearly 100% of reserve stocks offered during its first week of auctions in 2019. Sales have totaled approximately 64K MTs (~293K bales). Brazil's cotton exports stand at a record 1.04M MTs (~4.7M bales) with two months remaining in the 2018/19 marketing year. Cotton producers down under have recently received encouraging rainfall, but the nation's irrigation reserves remain well below average levels, and the situation remains quite dire. Australian producers are also facing growing political pressure from environmentalists opposed to irrigation and desert production.

For the week ending May 7, the trade notably reduced its aggregate net short futures only position to approximately 7.5

bales, which is suggestive of new cotton sales and on-call price fixing by mills. Specs flipped their aggregate net long position to a modest net short of around 480K bales, mostly via the initiation of shorts.

For next week, the standard weekly technical analysis for and money flow into the July contract are very bearish, with the market in an extremely technically oversold condition. Traders will continue to closely monitor weekly US export data, planting progress and news regarding US – China trade talks, with the latter seemingly possessing the greatest potential for upward movement.

Have a great week!

Report Courtesy: Rose Commodity Group

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