ROSE ON COTTON – ICE COTTON SUFFERS ANOTHER UGLY WEEK, US – CHINA TALKS ON LIFE SUPPORT

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It was another ugly week for ICE cotton, with the July and Dec contracts posting losses of 246 and 302 points, respectively. The July – Dec spread strengthened to (39), which is far less than full carry, which should 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 proved to be correct. In fact, our models were 4 – 0, also posting weekly wins for corn, soybeans and CME SRW wheat.

ICE cotton moved lower on the week on continued US – China trade tensions as China imposed additional tariffs on $60B worth of US goods, including cotton. Further, the Central Kingdom's government-controlled media released propaganda stating that China was no longer interested in negotiating with the US on trade until Washington has "mended it ways" (i.e. tariffs and threats thereof). We think that this move is in effort to garner public support for China's trade negotiating strategy in the face of the nation's noticeably worsening economy.

It is now considered a given that negotiations broke down over enforcement mechanisms that would ensure China's adherence to any final deal. It certainly seems that China is reaping the consequences of its trade agreement history with its best export customer.

No negotiations are scheduled between the US and China, at this time, other than an expected meeting between President's Trump and Xi at the G-20 Summit next month. The bottom line is that if US – China trade negotiations have not officially expired they are certainly on life support. The Trump administration has officially stated it is working on a $15B program to aid farmers with economic difficulties associated with the trade war.

Looking ahead, figures do not support notions that the US will be large carrier of cotton as a result of the trade war. All things considered (e.g, production potential, infrastructure, reliability of delivery, authentication of quality via USDA green cards and the likelihood that China will continue to offshore spinning operations, etc) the US will probably most likely become the residual supplier to the world, if a trade accord is not struck. However, the transition will likely not occur overnight.

Domestically, sowing continues to be painfully slow across the Mid-south and mostly on pace with the 5-year rolling average most everywhere else across The Belt, although West Texas, Oklahoma and Kansas are now experiencing sowing concerns of their own as rain continues to fall. The Mid-south should see improved weather this week (after weekend rains), but the planting window is nearly closed. Too, concerns regarding abnormally hot and dry conditions across southern Georgia, the Florida panhandle and southeastern Alabama are increasing.

US export sales (2018/19) and shipments were lower for the week ending May 9 Vs the previous sales period but remained relatively strong at approximately 235K and 386K running bales (RBs) respectively. Shipments fell just short of the weekly pace required to meet the USDA's recently revised projection of 14.75M 480lb bales. Sales against 2019/20 were more than 176K RBs, with the total now at nearly 3.4M 480lb bales.

We think that some rather impressive export reports are on the horizon.

Internationally, China has offloaded more than 500K bales from its strategic reserve during the first two weeks of auction sales. The Cotton Association of India has lowered its 2018/19 production estimate to 24.6M bales – around 900K shy of the USDA's recently revised estimate. The USDA continues to be bullish on 2019/20 Indian production, despite official forecasts of lower than average monsoon rains and reports that farmers are opting for crops other than cotton this season and at the expense of cotton.

For the week ending May 14, the trade slashed its aggregate net short futures only position to approximately 4M bales, which is suggestive of new cotton sales and on-call price fixing by mills – although some short hedge lifting ma have occurred with many (including us) believing that the market has realized a near- to medium-term low. Specs increased their aggregate net short position to position to around 2.6M bales.

For this week, the standard weekly technical analysis for and money flow into the July contract are very bearish, with the market also remaining in an extremely technically oversold condition. All lower gaps on the continuation charts have been closed, with overhead gaps in the 75.00 – 77.00 range now medium- to longer-term upside targets. 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 longer-term upward movement.

Have a great week!

Report Courtesy: Rose Commodity Group

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