ROSE ON COTTON – COTTON MARKET SUFFERS MODEST WEEKLY SETBACK; IMPORTANT MAY WASDE RELEASE APPROACHES

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The ICE July cotton contract gave back 72 points on the week to finish at 88.08 as the July – Dec inversion weakened to 302. July gained 591 points for the month of April. The Dec contract gained 13 points for the week, finishing at 85.06. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to higher Vs the previous Friday's settlement, which proved to be incorrect. We said at this time last week that we expected the July contract to close an overhead gap near 91.50 before turning and moving lower.

The cotton market moved lower after meeting technical objectives and closing an overhead gap. Export data was neutral to un-supportive, in our opinion. Scattered rains across West Texas spooked some longs.

It is planting season in the US, but there is little April-sown cotton across the Mid-South this season. Drought stricken areas of West Texas, Oklahoma, and Kansas are not expected to see much precipitation over the coming week while the Mid-south and Southeastern states are expected to see continued rains. This is, unfortunately, the opposite of what producers need.

Net export sales were lower Vs the previous assay period while shipments were higher at approximately 82K and 356K RBs, respectively. New crop sales were lower at around 19K RBs; the running total is now 1.67M RBs Vs 2.4M last year. The US is 104% committed and 74% shipped Vs the USDA's 15.75M bale export projection. Both sales and shipments were ahead of the average weekly pace required to realize the USDA's target. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were significant at 25K RBs. Slowing demand is evident in a much slower rate of sales for the upcoming marketing year Vs a year ago.

Internationally, it was a busy week. The Brazilian Cotton Producer's Association (ABRAPA) has signed a memorandum of understanding with the Chinese Cotton Association to facilitate understanding between the needs and abilities of the two organizations. Brazil is the second largest cotton supplier to China, behind the US. In other Chinese news, the central government has issued an additional import quota of 700K MTs (~3.2M 480lb bales) to its original quota level of 894K MTs (4.1M bales, which is China's WTO commitment level). The additional quota will reportedly be issued to entities that are not state-owned. China also continues to trade barbs with Australia, which has been outspoken in their criticism of China's handling of the COVID-19 pandemic.

Elsewhere, Turkey is eyeing its first nationwide economic shutdown due to the COVID-19 pandemic. Turkey is a major consumer of US cotton, so this is especially unwelcome news for the cotton market. On the other hand, Turkey has eliminated their 3% duty on US cotton, which is positive for US exports.

For the week ending April 27, the trade notably increased its futures only net short position against all active contracts to around 15.15M bales while large speculators increased their aggregate net long position to almost 5.9M bales. The spec position remains stacked in a bullish manner, which could lead to significant liquidation in a very quick fashion. Overall, specs looked to be taking a risk-on position as the trade apparently purchased new crop cotton.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For next week, the standard weekly technical analysis for and money flow into the July contract remain supportive to bullish. The weekly US export report, weather forecasts and conditions, and forerunning of the May WASDE report are likely to be potential market moving factors next week.

Producers got a short-lived opportunity to price cotton in the upper 80s this week. Given the levels of volatility we are seeing, virtually any number between 7700 and 9200 is a reasonable short-term target for any two to three day move in the next two to four weeks. Given that, our recommendation is to be at least 50% priced against a DEC contract in the mid-upper 80s, but to be ready to price an additional 10-20% should we see another spike to the 8800-9200 range base Dec. We would ordinarily be strong advocates of doing this through option strategies, but option premiums have made simple hedging strategies undesirably expensive. The forward contracting basis has shown some volatility, and will surely widen if we see prices move above 8600, but remains more justifiable than the volatility premiums on DEC puts.

Have a great week!

Report Courtesy: Rose Commodity Group

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