ROSE ON COTTON – AN UGLY WEEK FOR THE COTTON MARKET, WILL IT CONTINUE?

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It was an ugly week for the cotton market, with the ICE Mar contract giving up 190 points, settling at 67.50. Still, the Mar – May spread was near unchanged (and at less than full carry) at (81). The Dec contract lost 181 points to settle at 68.73. The Mar contract was set back 155 points for the month of January. Our proprietary model (timely prediction available in our complete weekly report) predicted a settlement that was to be near unchanged to higher Vs the previous Friday's finish, which proved to be incorrect.

The coronavirus (Wuhan virus) outbreak in China was the source of the setback in ICE cotton. The virus, which has already caused the central government to extend the annual Golden Week holiday, is now threatening to temporarily close banks and ports, which is of course bearish for most commodities. The release of what is the best US export data for 20119/20 to date and weakening US currency did little prop up ICE futures.

Both the National Cotton Council and the USDA will release their projections of domestic 2020 cotton acreage (planted) this month. Projections to date have mostly been lower Vs

2019 and we have voiced our disagreement, as well as our reasoning for doing so, with these projections in this space over recent weeks. However, with the current collapse at the hands of the coronavirus outbreak, which coincided with the commencement of the USDA-RMA crop insurance price discovery period(s), lower acreage Vs 2019 now seems more plausible.

After the market's close on Friday it became apparent that the Senate impeachment trial of President Trump will end sooner rather than later. We think this is likely to encourage bargain buying by China, even considering the current viral epidemic.

US net export sales and shipments against 2019/20 were significantly higher for the week ending Jan 23 Vs the previous sales period at around 363K and 340K running bales (RBs), respectively. The US is 80% committed and 33% shipped Vs the USDA's export projection. Sales were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export target while shipments were approximately 85% of the pace requirement. Sales against 2020/21 were around 50K RBs. Sales cancellations were significant at nearly 35K RBS and were mostly attributable to India and China. Still, China was a net purchaser of approximately 110K bales and received around 71K bales of US cotton.

Indian merchants have publicly stated that they have either ceased shipments of Indian cotton into China or will likely do so if the coronavirus does not come under control within the coming week. This is, of course, bearish for cotton futures. There are other worries concerning the damage the virus is inflicting on China's economy; rumors that the epidemic is exponentially worse than reported through official state channels are also not positive for the cotton market.

While we are not experts in epidemiology or medicine, our own consultation with those who are suggest that while coronavirus is indeed a serious concern, it is likely to be better understood and controlled within a few weeks, and with a 96-98% survival rate (most casualties are elderly or persons with compromised immune systems), it is unlikely to prove as dire as some headlines suggest. We are hopeful our experts are proven correct and suggest a sense of proportion in evaluating the potential long-term impact of the outbreak.

Outside of news pertaining to the Wuhan virus, Pakistan's estimated yield from the 2019 crop has been reported at a record low. Elsewhere, major cotton producing regions Down Under have received some appreciable rainfall over the last two weeks. While this season's crop is still expected to be short, recent rains have provided moisture for the filling of bolls.

For the week ending Jan 28, the trade trimmed its aggregate futures only net short position against all active contracts to around 8.2M bales while large speculators increased their aggregate net long position to almost 3.25M bales. However, we expect much of this increase in the spec position has been liquidated over the three most recent trading days. The latest data does suggest that business for cash cotton has remained strong.

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

For this week, the standard weekly technical analysis for and money flow into the Mar contract remain supportive to bullish, with the market no longer in an overbought condition. Index fund rolling continues this week, with the vaunted Goldman roll slated to commence on Friday. However, it seems likely that news regarding the spread of the Wuhan virus will likely be the main focus for market participants next week.

Our best advice for producers in the next 2-4 weeks would be to stock up on antacids, liquor, or whatever your favorite remedy for short term stress might be. The combination of a

Chinese epidemic, the conclusion of the impeachment trial, the Iowa caucuses, and the violation of Bollinger support lines will undoubtedly increase volatility in the sort term. However, we believe there is still a strong likelihood that old crop futures will return to the 72-75 cent levels. While we don’t typically advise producers to pay storage charges in hopes of a rally, it might be worth risking one month’s storage for a potential 3-5 cent improvement in price.

Our advice on new crop remains consistent. Prior to planting, we recommend pricing 25% of estimated yield against a Dec of 75 cents or better. We believe there is support for Dec in the mid-high 60s and expect consumption and shipments to increase once the coronavirus is under control. If we haven’t reached the 75-cent level prior to planting, we will reassess and set a target for 50% pricing prior to June 1.

Finally, we are publishing this on Super Bowl Sunday. While neither San Francisco nor Kansas City are considered centers for cotton trade, both California and Missouri do each produce roughly a million bales per year. We suspect many SJV and Bootheel cotton producers will spend the afternoon rooting for their home state team, and we hope the afternoon’s revelries will be a welcome break from the sturm und drang of the daily news. Being based in the Mid-South with one partner firmly rooted in the Bootheel, we’ll be pulling for a Chief’s win and a Monday morning rally.

Have a great week!

Report Courtesy: Rose Commodity Group

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