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ROSE ON COTTON – ICE COTTON FINISHES LOWER AHEAD OF WASDE WEEK, CHINA RESTOCKING ITS STRATEGIC RESERVE?

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The ICE Dec contract posted a second consecutive modest weekly setback, this time for 67 points to finish at 64.23. The Dec – Mar spread weakened to (141).

Last weekend, 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 was incorrect and resulted in a small setback.

ICE cotton ran into resistance on its technically overbought condition, continued unimpressive export data, harvest pressure, and uncertainty regarding a phase one trade initiative between the US and China. Intensifying impeachment news may also have limited cotton futures last week. Still, cotton found support on another interest rate trimming by The Fed, very strong US jobs data and strength in equities.

Rumors out of China suggest that the nation's central government doubts that they can reach a long-term agreement with the US within the near future. China is reportedly demanding the lifting of all tariffs before next steps (phase two) can commence in earnest. Further, it is also rumored that the Chinese are wary of the phase one agreement being signed due to President Trump's "erratic and volatile" nature. Nevertheless, remarks reported upon from Friday were more optimistic than not.

US harvest progress made only modest progress per the USDA's subjective weekly assessments for the week ending Oct 27; we think that updated data for the week ending Nov 3 will be similar. However, we – and many others – think that the harvest is in excess of 50% complete Vs the USDA's latest estimate of 46% complete.

Rain and showers continue to plague many locales across The Belt. This is especially true with respect to the Mid-south, where pickers will likely now remain in the shed for an extended period as soils are far too soft in most fields to support machinery. A drive across Fayette and Shelby counties in TN and Crittenden, Poinsett and Craighead counties in AR on Thursday showed that only modest harvest progress has been made over the last three weeks. Soils across this area are, in general, heavier than further north into AR and MO. Both yield and quality have suffered. Harvest weather should improve over the next 10 days, or so.

US net export sales against 2019/20 were again lower than expected for the week ending Oct 24 Vs the previous sales period while shipments were near unchanged at around 130K and 157K running bales (RBs), respectively. Both sales and shipments were off the average weekly pace required to meet the USDA's 16.5M bale export projection. Still, it should be noted that gross sales were higher Vs figures put forth in last week's report at 203K RBs; however, sales cancellations were large at 73K RBs, almost all of which were attributable to Indonesia.

On the international front, Chile abruptly cancelled the APEC Summit, at which the US and China were scheduled to sign a phase one trade agreement. Protests and riots in response to raising of public transportation fares in Chile was cited as the reason for the cancellation. Elsewhere, raw cotton imports into China in Sept were off nearly 10% Vs Aug at around 382K 480lb bales. It has been reported that China bought more than 460K bales for its strategic reserve from Brazil last week. If China is, in fact, purchasing for its reserve (as we have said many times that we thought would occur over the near-term) this is truly a supportive to bullish factor in that it could reduce effective world (and domestic) carryout.

For the week ending Oct 29, the trade trimmed its aggregate futures only net short position against all active contracts to around 2.4M bales while large speculators increased their aggregate net short position to almost 960K bales. The spec short position likely still provides some potential for either market stability or modest upward market movement as the index fund rolling periods continue.

For a complete analysis of COT data see our weekly commitments of trader's analysis and commentary.

The USDA will release its Nov WASDE report on Friday, Nov 8 at noon, ET. At this time, we see potential for both estimates of domestic and aggregate world production to be lowered; however, we think the same is possible on the demand side of the balance sheet.

For this week, the standard weekly technical analysis for the Dec contract remains supportive to bullish. Money flow remains less than supportive. The market will continue to closely monitor weather conditions, harvest progress and yield reports, export data and. (of course) US – China trade headlines. Scheduled index fund rolling will continue until mid-month. However, it will likely be the WASDE report that will be of greatest interest to market participants next week.

Our advice to producers remains the same this week. We believe selling 50-60% of production on moves to and/or through the 6500-level base Dec makes sense. Strong resistance remains just below the 6600 and 6700 levels, and the approach of first notice day will make moves above those levels difficult and potentially short-lived.

Quality could become an issue with the latter half of the harvest. While premium long staple middlings were plentiful in the early harvest, rain could substantially increase the number of strict low and light spot bales, making white bales more valuable. Stay in touch with your local buyer in the next 2-3 weeks to take advantage of improvements in the basis for higher grades.

Have a great week and remember to set your clocks back one hour on Sunday evening!

Have a great week!

Report Courtesy: Rose Commodity Group

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