ROSE ON COTTON – COTTON CRASHES, SETTLES BELOW PSYCHOLOGICAL 60 CENT LEVEL, US – CHINA TRADE ACCORD SEEMS UNLIKELY

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It was a dismal week for ICE cotton futures, with the Dec contract giving up 512 points, finishing south of the psychologically important 60.00 level at 59.42. The July – Dec spread weakened to (129).

Last weekend, our proprietary model (timely prediction available in our complete weekly report) predicted a settlement that was to be near unchanged to lower Vs the previous Friday's finish, which, unfortunately, proved correct.

ICE cotton ran into difficulties over the course of the week on slow export shipments (despite improving export sales), strength in US currency (despite a 0.25% Fed interest rate reduction) and, most importantly, the announcement that the US would enhance its tariff structure against imported goods from China.

On Thursday, the US announced (via a Presidential tweet) that it will levy a 10% duty on an additional $300B worth of Chinese goods on Sept 1. Many expected this after the presidential tweet storm on Tuesday in which the President expressed his displeasure with China for not making good on its G20 promise to purchase "large" amounts of US agricultural goods. The President also issued a warning to China that a deal during his second term would require additional concessions if, in fact, a deal could be reached.

The US could potentially increase the 10% tariffs to 25% if talks continue to be non-productive, and China could continue to dig in their heels – for a while longer, at least. On the face of it, the odds of a resolution during US-China talks in September look bleak, but there remains some hope that the brinksmanship playing out on twitter is simply the storm before the calm.

Domestically, concerns regarding dryness across W TX, OK and KS are increasing, with some areas of the southeastern states also reporting very hot and dry conditions. The latter (and the Mid-south) are expected to see rain and showers over the coming week, but the forecast remains hot and dry across the former areas.

We drove through the Mississippi River Delta on Friday from Memphis northward into the MO bootheel, passing through Crittenden, Poinsett, Craighead, Mississippi, Greene and Clay counties in AR, Dunklin and Pemiscot counties in MO and Dyer, Lauderdale, Tipton, Shelby and Fayette counties in TN. On average, the crop looks to be around three weeks behind. Lower ends of fields and low-lying areas – especially on heavy dirt – look very poor, if in fact they were sown. Several acres AR were not planted – in anything – and the apparent abnormally high level of prevented plant acreage may be the reason for the USDA choosing the state to resurvey for acreage ahead of the Aug WASDE reports release. Many fields – probably nearly 50% of those that we saw – appeared nitrogen deficient to some degree.

We think the crop in AR and MO will probably be at least 10% off its 5-year average yields (but yields in these years have been mostly strong). Without near perfect weather conditions for the remainder of the season (think late autumn) we could see as much as a 20% reduction in yield Vs the rolling 5-year averages. The best cotton we saw was in portions of Craighead county in AR (well away from the St Francis River); we rated most of the crop in TN being at least good, late development notwithstanding.

US export sales data continued to improve for the week ending July 25, but the shipment pace remains slow. Overall, sales and shipments against 2018/19 were off notably the previous sales period at around 13K and 298K RBs, respectively. Shipments were approximately 50% of the weekly pace required to meet the USDA's 14.5M bale export projection, and the US will need to show it has shipped more than 600K bales over the July 26 – July 31 period in order to meet the USDA's projection. Sales against 2019/20 were around 374K RBs (up noticeably Vs last week) with the total now nearly 5.1M 480lb bales.

Recent mill on-call data suggests that significant export and domestic business potential exists near the market's recent lows, although the markets most recent break may have prompted mills to move offers lower. In fact, such likely helped the market crash on Friday.

Drought continues to grip cotton producing regions of Australia and, with planting season rapidly approaching, we are surprised that this topic is not receiving more attention. Mostly fair conditions are expected to prevail across South America over the coming week, which is positive for harvest operations. The monsoon across India rebounded this week, and beneficial rainfall is expected to be appreciable across many cotton producing areas over the near-term.

In other news, the International Cotton Advisor Committee has projected at 0.26M MTs (51.2M bale) surplus for the 2019/20 MY with world production and consumption projected at 27.2M MTs (124.85M bales) and 26.94M MTs (123.65M bales), respectively, which is not friendly for ICE cotton futures.

Producers are facing one of the toughest summers in recent memory. Younger producers are getting a stern reminder that cotton delivers a profit in most, but not all years. July 31st brought a minor wave of loan forfeitures on equities, with some producers cutting losses by paying merchants to redeem their cotton. Barring a bullish August WASDE release or news from the trade talks, we could see a repeat of this exercise at the end of August. We continue to encourage producers holding old crop equities to take any positive offer.

New crop prices offer little incentive to forward contract. If the AWP drops much lower, LDP/MLG becomes a factor, limiting downside risk moving forward. In our estimation, the market is telling growers to wait for pre-harvest weather events and trade news and/or be ready to market recaps in the fall. That's not comforting advice, particularly given the low percentage of the crop that is currently contracted, but it is the best we can offer today.

Perhaps the best perspective we've seen on the current market came from a grower in Southeast MO who defended the new tariffs by arguing "That's just the president making sure we get the full MFP on 2019 crop!" We salute that grower's ability to find a silver lining, and we'll share that comment with our favorite bartender this evening.

For the week ending July 30 the trade flipped its modest aggregate futures only net long position to a small net short of approximately 86K bales while large speculators trimmed their aggregate net short position to around 4.7M bales; the latter continues to provide fuel for potential spec short covering spikes.

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 July contract remain bearish, with the market now considerably oversold. The market will continue to closely monitor US and international weather conditions and, of course, US – China trade talks. Next week will also likely bring some position evening ahead of the release of the WASDE reports release on Monday, Aug 12.

Have a great week!

Report Courtesy: Rose Commodity Group

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