ROSE ON COTTON – COTTON MARKET FINISHES WEEK NEAR UNCHANGED, BUMPER CROP IN CHINA

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ICE Dec cotton gave up 13 points for the week ending Oct 2, finishing at 65.82; the Dec – Mar switch weakened to (81), which is still well short of full carry. 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 correct. The Dec contract gained 63 points for Sept, but the seasonal trend is negative for Oct.

ICE cotton was near unchanged on the week as weakening US currency, increased US export sales and modest weekly strength in the Dow Jones Index were balanced by improved US harvest weather and progress. Perhaps, if the Dow had not suffered on Friday after learning that President Trump had contracted COVID-19, cotton would have posted another weekly gain.

Domestically, harvest progress for the week ending Oct 4 (which will be released on Monday, Oct 5) should show strong harvest progress has been accomplished across The Belt. Scott has relayed to us that harvest is occurring in full force across the mid- and lower Delta, but the North Delta remains in the very earliest stages of harvest. We expect to see the entire Delta picking full speed by this time next week. Yield reports have improved somewhat but remain, overall, near average. Harvest weather across most US producing locations are expected to be mostly favorable over the coming week.

Net export sales were significantly higher while shipments were off Vs the previous assay period at approximately 111K and 294K RBs, respectively. The US is 58% committed and 16% shipped Vs the USDA's 14.6M bale export projection. Sales were ahead of the pace required to realize the USDA's target while shipments were off the pace requirement. Cancellations were negligible while sales were spread across the board, which is encouraging.

The US is not alone in losing cotton production to the hands of storms and tropical activity. Greece has reportedly lost 100K – 200K bales of this season's production at the hands of a cyclone. Elsewhere, China began a week-long holiday on Oct 1, so sales into the nation will likely slow over the coming week. Estimates of China's progress in meeting its Phase One trade accord commitments are at well under 50% for agricultural commodities. While the Chinese began a week-long holiday on Wednesday, we think they might just keep their powder dry for a bit longer – until after Election Day. Reports indicate that Xinjiang (China's largest producing region) is experiencing a bumper crop this season, but there are also reportedly concerns regarding the quality of this year's crop. The Xinjiang crop is expected to be around 40% machine-harvested this season, which could cut into demand for US cotton. Strong concern remains as to whether China intends to fulfill its Phase One obligations, and few expect to see significant progress prior to Election Day.

For the week ending Sept 29, the trade increased its futures only net short position against all active contracts to approximately 11.2M bales, which signals that producer selling is occurring, while large speculators slightly held their net long near unchanged at just short of 5M bales.

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

For next week, the standard weekly technical analysis for the Dec contract remains supportive to bullish, with money flow continuing to gain positive traction.

While we still believe normal volatility will allow for the possibility of brief rallies to or through the 70-cent level, we continue to encourage producers to use put options to protect 30% - 40% of their expected yield at or above current levels. As we learn more about crop quality, we expect to see a strong basis premium for higher grade cotton, and we are already seeing merchant offers based on "un-culled" cotton, indicating merchant concerns about the supply of premium grades.

Have a great week!

Report Courtesy: Rose Commodity Group

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