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ROSE ON COTTON – ICE COTTON TRADES SIGNIFICANTLY HIGHER AFTER SURPRISE USDA ACREAGE REPORT, JULY WASDE RELEASE ON FRIDAY

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The ICE Dec cotton contract surged over the holiday-shortened trading week, gaining 345 points for the week ending July 2 to finish at 62.95 as the Dec – Mar switch weakened modestly to (72), which remains far less than full carry. In early trading this week the Dec contract has closed a nearby gap on the continuation chart just south of 63.40, but evidence of selling is emerging. 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. Unfortunately, we elected to remain short ahead of the annual June 30 acreage report.

ICE cotton moved higher on the week on a much lower than expected estimate of US area committed to cotton this season, further releases of strong economic data, hot and dry conditions across much of West Texas, and a much later than normal crop across the Mid-south.

In its annual acreage report, USDA projected 2020 domestic acreage at 12.2M acres – around 1M bales off the average expectation and approximately 600K acres below ours. A Bloomberg correspondent sent us a copy of an article that was released just after the dissemination of the Mar 31 Prospective Plantings report. In that report we said actual acreage could be off as much as 2M bales Vs the USDA's projection of 13.7M acres. Still, in the end we thought planted area across Texas would be a bit higher. The differential seems likely to be rooted in the timing of the USDA's Mar survey, which we suspected would be the case – at that time.

There are many in the industry that argue that the 12.2M acre estimate is still too high.

USDA will release its July WASDE report on Friday, July 10 at noon, eastern time. They will use the acreage estimates in calculating a production projection for this season. While domestic production will no doubt be projected significantly lower Vs the June report, projections of US exports and domestic use will likely also be estimated/projected significant lower, as well. Ditto for aggregate world consumption.

Domestically, weekly USDA crop condition ratings continue to relay the lateness of the Mid-south crop and the early season hurdles faced by producers across West Texas, Oklahoma, and Kansas. While West Texas has seen hit and miss showers last week and over the weekend, a general rainfall is sorely needed. For the coming week, more hit and miss showers are expected across West Texas, Oklahoma, and Kansas, while the Mid-south and the southeastern states are expected to see more significant (and largely beneficial) rainfall.

The USDA's latest export report resembled others recently released, but it was, perhaps, less encouraging. Net export sales and shipments against 2019/20 were off significantly Vs the previous sales period at approximately 72K and 281K RBs, respectively. The US is 120% committed and 89% shipped Vs

the USDA's projection. Shipments were only 87% of the pace required to realize the USDA's target. Nearly all net sales were (again) accounted for by China (and Vietnam), which continues to suggest no significant nearby demand for textiles. Sales against 2020/21 were notably higher at around 246K RBs. Sales cancellations were significant at approximately 35K and were mostly attributable to China.

China has officially announced that this season's reserve auction target is almost 2.3M bales, which will reportedly be restocked in effort to upgrade the quality and lower the average price of the nation's strategic reserve stockpile. This season's Aussie production is expected to be the equivalent of 520K – 625K 480lb bales. Elsewhere, the International Cotton Advisory Committee has lowered its estimate of global trade 30% Vs its May analytical report.

Due to the Independence Day holiday, CFTC Commitments of Traders data for the week ending June 30 will not be released until Monday, July 6.

For this week, the standard weekly technical analysis for the Dec contract is bullish, with money flow quickly turning supportive. Weather reports, US export data, pandemic news and forecasts and, of course, the USDA's July WASDE report hold market moving potential for the coming week.

Have a great week!

Report Courtesy: Rose Commodity Group

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