ROSE ON COTTON – ICE COTTON CLOSES LOWER AHEAD OF WASDE REPORT, SPECS EXPAND NET SHORT TO RECORD 5M + BALES

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The ICE Dec contract lost 52 points on the week, finishing at 58.90. However, the Dec – Mar spread strengthened to (96).

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, again proved correct.

ICE cotton ran into difficulties over the course of the week on continued slow export shipments strength in US currency and, most importantly, enhanced trade tensions between the US and China.

China lowered its exchange rate against the US dollar last week to its lowest level in 10 years in effort to prop up its export business. Of course, this further hinders US export business into China. The US has, in response, officially labeled China as a "currency manipulator" and this seems to be right on target. In response, China's Xi Jinping publicly stated that China would remain firm in its stance on the trade war, vowing to wait until the US economy suffers in order to force trade concessions, if necessary. On Friday morning, President Trump stated that planned trade talks in Washington in early Sept are no longer a certainty.

Early in the week newswires carried a story relating China's unwillingness to purchase any more US agricultural goods until good faith progress was made in trade negotiations. This story was soon followed by rumors debunking the first article, but the first story seems likely to be reflective of what ultimately occurs.

Concerns regarding dryness across W TX are increasing despite recent spotty relief, with the area expected to receive little to no rainfall over the next seven days. The remainder of The Belt, less CA, is expected to see rain and showers over the coming week. On balance, the crop remains late with the USDA's condition rating slipping significantly for the week ending Aug 4.

US export sales and shipments against 2018/19 were off significantly (and net negative) for the week ending Aug 1 Vs the previous sales period at around (500) and 275K RBs, respectively. Shipments for 2018/19 totaled approximately 14.15M bales, 350K shy of the USDA projection. Total commitments against 2019/20 are around 7.4M RBs (45% of USDA projection).

Despite China's purchases of around 60K bales, we expect that such business is going to be absent in reports over the near-term, at least. We believe that Thursday's modest gains were at the hands of spec short covering ahead of Mon's WASDE report release and buying from bargain hunters.

Internationally, drought continues to grip cotton producing regions of Australia. India should receive monsoon rainfall next week, but the forecast shows precipitation slowing Vs levels received over the last two weeks. Pakistan has suspended trade with India, and this could result in increased

US cotton exports to the former. Elsewhere, China's raw cotton import in June were reported at almost 158K MTs (723K bales).

For the week ending Aug 6 the trade flipped aggregate futures only small net short position to a net long of nearly 536K bales while large speculators increased their aggregate net short position to a record of more than 5M bales, and this continues to provide ammunition for potential spec short covering market spikes.

The USDA will release its Aug WASDE report on Monday, Aug 12 at noon ET. USDA will use producer surveys and satellite imaging (Vs objective field sampling) in calculating estimates of yield and production. Published pre-report surveys show an expectation for modest enhancements to projections of both domestic and world aggregate carryout for 2019/20.

Our advice for producers holding old crop remains consistent. Last week saw a minor wave of CCC loan forfeitures, and equities maturing in August outnumber July maturities by a substantial margin. Producers should calculate the cost of loan forfeiture and be ready to take advantage of any positive bid or redemption agreement.

Current new crop price levels have such limited downside that we see little to no incentive to forward contract. With the AWP currently near loan, any further decline in the market will be essentially hedged by LDP or MLG. Producers will be better served to keep their options open and be prepared to take advantage of weather or trade rallies, improvements in basis, and/or marketing for quality in the spot market.

For next week, the standard weekly technical analysis for and money flow into the Dec contract remain bearish, with the market again in an oversold condition. The market will continue to closely monitor US and international weather conditions and, of course, US – China trade talks. Still, it will likely be the Aug WASDE report that has the greatest influence on ICE futures. Pre-report projections are bearish, but we think many estimate world production too high.

Have a great week!

Report Courtesy: Rose Commodity Group

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