ROSE ON COTTON – ICE COTTON POSTS STRONG WEEKLY GAINS, WILL IT CONTINUE?

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The Mar contract gained 211 points for the week ending Jan 10, finishing at 71.31, with the Mar – May spread effectively unchanged Vs the previous week at (115). The Dec contract advanced 124 points to settle at 72.48. 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 proved to be incorrect. However, we did not recommend trading any bias due to the WASDE report's release on Friday.

ICE cotton found support on continued strength in equity markets and optimism over the pending signing of the Phase One US – China trade accord, strengthening technical factors, and a tightening of both domestic and world aggregate USDA balance sheets. Weakening export data did little to deter upward movement, with most believing the slowdown in business was do the holiday-shortened final week of 2019.

In its Jan WASDE report, the UDSA reduced its projections of 2019/20 domestic and world aggregate carryout 100K and 730K bales, respectively, to 5.4M and 79.59M bales. Most of the adjustments came at the hands of lower production estimates. However, it should be noted that neither ending stocks figure is out-and-out bullish.

Domestically, wet conditions across most of The Belt are holding field work to a minimum with many producers continuing to hope for a blast of artic air sufficient to reduce overwintering insect populations. Continued strength in the ICE Dec contract continues to cause us to question early projections of 2020 planted area.

US net export sales and shipments against 2019/20 were off significantly for the week ending Jan 2 Vs the previous sales period at around 157K and 217K running bales (RBs), respectively. The US is 74% committed and 27% shipped Vs the USDA's export projection. Sales were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export target while shipments were approximately 55% of the pace requirement. Sales against 2020/21 were almost 6K RBs. Sales cancellations were large at more than 66K RBs and were mostly attributable to Pakistan.

A Chinese delegation is scheduled to be at the White House on Jan 15 for the signing of the long-anticipated Phase One US-China trade agreement. In the past, China has made goodwill purchases of US commodities on official visits to the US, but little has been mentioned regarding potential sales to China ahead of Wednesday's meetings. Elsewhere, some drought-stricken cotton producing areas Down Under received rainfall last week, but the larger drought seems far from over as brush fires continue to rage. One mega fire is reportedly the size of the state of Delaware and concerns are now being raised that smog conditions as a result of the fires will further reduce the yield potential of this season's crop.

For the week ending Jan 7, the trade increased its aggregate futures only net short position against all active contracts to approximately 7.6M bales while large speculators trimmed their aggregate net short position to approximately 2.13M bales.

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 Mar contract remain supportive to bullish, with the market also having moved further into overbought territory. Market participants will now turn a significant portion of their attentions and analyses to projections of 2020 sowing for the US and across the northern hemisphere.

Producers with spot cotton should closely watch market behavior Monday and Tuesday. Like tropical storms, trade talks and signings are subject to last minute changes, and the 7-cent run we've seen in the Mar contract is certainly open for profit taking should we see a classic "buy the rumor, sell the fact" response to Wednesday's signing. With that said, producers who have been selling into the rally and who have already priced the majority of their crop should feel comfortable looking for a move to the mid-70s following the signing, even if we do see an overdue correction.

We think new crop prices have more upside than downside, and a settling of trade tensions could potentially boost world consumption moving into the next year. Hedging a portion of anticipated production makes sense with a Dec of 75 or better, but we believe this will be best accomplished via options rather than the forward contract.

Have a great week!

Report Courtesy: Rose Commodity Group

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