Rose Commodity Group

ROSE ON COTTON – ICE COTTON RETRACES ON WASDE RELEASE BUT REVERSES BULLISHLY ON US – CHINA TRADE DEAL RUMORS

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The ICE Dec contract surged on Friday, gaining 221 points for the week to settle at 63.88. Dec has failed to trade south of the 60.00 level since Sept 27, which is technically supportive. The Dec – Mar spread strengthened last week and remains at far less than full carry at (57).

Last weekend, our proprietary model (timely prediction available in our complete weekly report) predicted a settlement that was to be near unchanged to higher Vs the previous Friday's finish, which proved to be correct. However, results put forth in the Oct WASDE report did not allow us to trade this bias last week.

ICE cotton pushed higher on reports that chances were improving for a preliminary trade agreement between the US and China. These notions gained credibility when President Trump announced a "Phase One" trade agreement with China that would result in massive increases in ag purchases from the US – up to $16B over the near- to medium-term with an annual target of $40B - $50B, which seems lofty. However, Xi Jinping has not yet approved the deal, and final details regarding forced technology transfer and theft of intellectual property have yet to be worked out. Planned tariff increases on imports from China that were scheduled to be implemented on Oct 15 have been cancelled.

Freezing temperatures across West Texas and rains across the Delta and Southeast likely also lent a hand to ICE futures, but we can find few opinions that the Texas crop will incur significant damage as a result of sub-freezing temperatures.

Prior to Friday US cotton had traded lower on a bearish WASDE report and continued unimpressive weekly US export data.

In the Oct WASDE report, the USDA trimmed projected domestic production and carryout to 21.7M and 7M bales, respectively. The latter figure remains particularly bearish. We still expect US production to be realized at around 21M bales, but if such should occur, it will not in and of itself generate bullish balance sheet. Aggregate world ending stocks were projected slightly lower Vs Sept at 83.69M bales, which is also a bearish figure.

Friends of ours, whom we read daily, made a keen observation regarding the objective yield survey in that three of the four states (Arkansas, Georgia and Mississippi) included within the survey have had unchanged projected yields over the last three months. This does seem odd, to say the least, and we have resolved to call USDA this week to query them about this matter. Further, Louisiana and North Carolina have recently been dropped from the survey. While we have long opined that Louisiana should have been replaced by either Missouri or Tennessee, Arkansas and Mississippi likely provide a reasonable approximation for the region. However, the loss of North Carolina field data is regrettable.

Domestically, US harvest progress is more than 25% complete, which is significantly above the rolling 5-year average figure, but weather conditions for the week ending Oct 13 prevented many areas from harvesting at full steam. Heavy rains across the Mid-south over the last week slowed harvest operations and have likely reduced quality and yield. Heavy rains moved across the northern Delta on Friday morning as we were driving across the region. At our gauge east of Memphis, TN we have caught 6 inches of rain over the last week. Many producers will not be able to re-enter fields until the end of this week.

Showers and rain are in the forecast again this week for the Mid-south and the southeastern states while West Texas is expected to see mostly fair conditions.

US export sales against 2019/20 were higher for the week ending Oct 3 Vs the previous sales period while shipments were lower at around 198K and 159K running bales (RBs), respectively. Sales were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export projection while shipments were less than 50% of the pace requirement. This is not a major concern at this point of the season. The US is 57% committed and 12% shipped Vs the USDA target. Sales cancellations were modest at around 11K RBs.

On the international front, mostly dry conditions are expected to persist across Australia and South America, while only the southern half of India is expected to see significant precipitation this week. In Pakistan, yarn manufacturers are demanding that the government allow duty-free import of raw cotton into the country. Elsewhere, Zimbabwe's production is reportedly off 48% Y/Y at the equivalent of 317K 4870lb bales.

For the week ending Oct 8, the trade trimmed its aggregate futures only net short position to approximately 929K bales while large speculators reduced their aggregate net short position to just north of 2.5M bales. The spec short position still provides potential for market spikes, although many positions were likely covered during Friday's surge.

For a complete analysis of COT data see our weekly commitments of trader's analysis and commentary.

For this week, the standard weekly technical analysis for the Dec contract has turned supportive to bullish while money flow remains less than supportive. The market will continue to closely monitor US and international weather conditions, US harvest progress and yield reports, export data and, of course, US – China trade headlines.

Sunday evening's open on the ICE could prove interesting.

Discussions with producers and ginners at the end of the week indicated renewed bullishness, and this bullishness received some lukewarm support from some market commentators and analysts. While we want to participate in this overall lifting of spirits, we'll take a moment to remind newly minted bulls that we have seen 'trade war rumor rallies' convert to 'buy the rumor, sell the fact' selloffs multiple times in the past 18 months. We believe producers should take advantage of trade to or through the 63.00-65.00 level to price 50% of their crop through spot sales or put options. There is still strong support beneath the market in the mid-high 50s, so downside risk is limited, but we don't think a crop 50% sold in the mid-60s will be a mistake in 2019.

Have a great week!

Report Courtesy: Rose Commodity Group

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