ROSE ON COTTON – UGLY WEEK FOR ICE COTTON; SOME MID – SOUTH COTTON IN JEOPARDY FROM HEAVY RAINS

14-July-2019

LOUIS W. ROSE IV AND BARRY B. BEAN

It proved to be an exceptionally ugly week for ICE cotton, with the Dec contract giving up 414 points to settle at 62.68 – a life of contract low finish. The July – Dec spread weakened to (106).

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 proved correct. However, we did not recommend trading this bias due to the WASDE report' release on Thursday.

ICE cotton moved lower on bearish USDA WASDE balance sheets, continued lackluster export data and technical selling and stop orders as Dec broke below its long-term support near 64.50. The prospect of damaging rains across the southern one half of the Mid-south and a near ½% dip in US currency value seemed to offer little support for bulls.

In its July WASDE report, the USDA enhanced its projection of 2019/20 domestic C/O 300K bales to 6.7M bales on lower

2018/19 estimated consumption and exports. At the world aggregate level USDA raised its 2019/20 carryout projection 3.16M bales to more than 80M on higher beginning stocks and lower projected consumption of 124.27M bales, which is still strong.

We think the USDA may be overestimating world supply. For starters, it seems to us that 22M bales is a bit high for the US crop. The USDA also seems more optimistic than official estimates from Brazil and India for 2018/19 and for Australia for 2019/20. Additionally, Greece may have lost 100K – 200K bales of production potential from unprecedented hailstorms last week. In the end, however, the market will likely need to see evidence of demand in order to incite significant spec short covering.

The US crop continues to progress, but the crop is later than normal. Heavy rainfall, associated with tropical storm Barry, is expected to occur across the Mid-south and Delta over the next several days. Precipitation is expected to be harmful to the crop across the southern half of the region, with noted Mississippi and Louisiana based commentators predicting a total loss of the crop in counties near the Mississippi River. As this is being written (Saturday afternoon), models show heavy rains (4-20 inches) covering growing areas as far north as Missouri.

The southeastern states are likely to see rain and showers over the next week while West Texas, Oklahoma and Kansas are expected to see mostly dry conditions.

US export data continues to disappoint. Sales and shipments against 2018/19 were lower for the week ending July 4 Vs the previous sales period at around 55K and 353K RBs, respectively. Shipments were 89% of the weekly pace required to meet the USDA's revised 14.5M bale export projection.

Internationally, mostly dry conditions are again expected to prevail over the coming week across South America and Australia. Dry conditions are excellent for the former and extremely frustrating for producers within the latter. Monsoon activity across India is expected to be relatively light over the coming week.

Elsewhere, China's food price index has increased an estimated 8.3% Y/Y, which lends credence to Larry Kudlow's assertion that China is likely to make good on a recent verbal commitment to purchases significant to large quantities of US agricultural products. With respect to cotton, we continue to hear news and rumors regarding portions of the textile chain moving away from China, which has seemingly slowed nearby demand for raw cotton.

For the week ending July 9 the trade slashed its aggregate futures only net short position to less than 500K bales while large speculators increased their aggregate net short position to a record of around 4.5M bales, which provides potential for market spikes on any unexpected bullish news and/or rumors.

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

Ordinarily, weather markets are reliable indicators of the "buy the rumor, sell the fact" effect, but ICE cotton stubbornly resisted bullish speculation on rumors of Barry. This weekend, social media reports from Louisiana and Mississippi continue to grow more concerning, and we cannot dismiss the possibility of a Sunday night – Monday morning weather rally in response. The most likely beneficiary of such a rally would be producers with unpriced new crop production, but this obviously poses a problem for producers in the affected areas. If ever there was a time to use the option pit to price new crop cotton, this is surely it.

Despite the possibility of a rally, we continue to recommend producers with old crop cotton equities consider selling for ay positive price. Given the lack of nearby demand, a slowing textile sector, and an uncertain future for trade negotiations, the time to hold for a home run price is long gone.

For this week, the standard weekly technical analysis for and money flow into the July contract remain bearish, with the market again in an oversold condition. The market will continue to closely monitor US and international weather conditions and, US – China trade talks.

Have a great weekend!

Report Courtesy: Rose Commodity Group

With well over 60 years combined experience in the commodity trade, the partners of the Rose Commodity Group offer a wealth of knowledge and perspective to their clients. With expertise and direct experience in agronomy, crop production, futures and options, spot trading, hedging, shipping, and insurance, the Rose Commodity Group approaches marketing and risk management from a comprehensive perspective.Rose Commodity Group is not directly affiliated with any other commodity firm; we are not commission futures brokers. Our strategies and advice are based entirely on our client's specific needs and goals.

To learn more about Rose Commodity Group please visit: https://www.rosecommoditygroup.com/about/