ROSE ON COTTON – COTTON MARKET OFF NOTICEABLY POST BEARISH WASDE RELEASE

14-June-2020

LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec and July cotton contracts each gave back 195 points for the week ending June 12, with the July – Dec switch inversion, of course, remaining unchanged at 81. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be correct. We did trade this bias ahead of the WASDE report's release.

Cotton moved lower last week, despite notable strengthening in the US export sales, on a tremendously bearish S&D balance sheets put forth within the June WASDE report, a lack of nearby physical demand for cotton and stabilizing US currency value. Pandemic data are also worsening across some US states as social restrictions ease and (in some places) rioting rages.

For those who read last week's notes, recent sales to China and Vietnam do not negate the lack of demand for cotton for spinning into yarn, and the recent business from China was separate from the EFP transaction made known to market participant on June 1. More on this later.

In its June WASDE report, the USDA projected of 2020/21 domestic production and exports, unchanged Vs May at 19.5M and 16M bales, respectively. However, an increase in beginning stocks and a small debit to expected consumption forced the carryout projection higher to 8M bales, which is a tremendously bearish figure. The USDA "punted" in that it left projected abandonment and yield unchanged Vs May, while most everyone we speak with in the industry expects the former to be significantly (if not notably) higher and the latter to be lower. At this time, we think the US will be fortunate to produce 18M bales.

Aggregate world consumption was projected notably lower Vs May at approximately 114.4M bales for 2020/21 while production projection was little changed. Carryout for 2020/21 was projected around 3.4M bales higher Vs May on a reduction in estimated 2019/20 consumption. World carryout, less China was projected at around 69M bales while world aggregate ending stocks were forecast at an incredibly bearish level of almost 104.7M bales.

For the week ending June 7, the USDA estimated planting of the 2020 cotton crop at 78% complete, 3 percentage points off the rolling 5-year average pace. The crop was rated in 43% good or better condition and 44% in fair condition. However, these numbers seem likely to fall off quickly if rains do not materialize across West Texas. Little rain is expected across The Belt this week, with exception of along the Atlantic coast.

Net export sales and shipments against 2019/20 were notably higher Vs the previous sales period at approximately 403K and 309K RBs, respectively. The US is 118% committed and 82% shipped Vs the USDA's projection. Despite the uptick, shipments fell just shy of the pace required to realize the USDA target. Nearly all net sales were accounted for by China and Vietnam, which does not suggest strong nearby demand for textiles – after all, it is reasonable to assume that the bulk of purchases attributed to Vietnam were from mills owned by Chinese entities (reduced or eliminated tariffs). China's announcement regarding the stopping of purchases of US ag commodities may have simply been another market manipulation. Sales against 2020/21 were also notably higher at almost 194K RBs. Sales cancellations were significant at around 34K. We are now projecting US exports for 2019/20 at 14.75M bales.

Internationally, mostly dry conditions are expected across Australia and cotton producing regions of South America over the coming week. The annual monsoon has commenced across southern India, which is good news for the nation's cotton growers. In other news, Conab slightly increased its estimate of 2019/20 Brazilian cotton production to 13.25M bales in its June crop survey. The production figure for 2020/21 is expected to be off significantly.

For the week ending June 9, the trade significantly increased its aggregate futures only net short position against all active contracts to approximately 6.37M bales while large speculators increased their net long to almost 590K bales. The latest data confirm a lack of demand for raw cotton.

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

For this week, the standard weekly technical analysis for the Dec contract remains bullish while money flow remains less than supportive. Weather reports (especially for West Texas), US export data and Wuhan pandemic news (and associated effects on equity markets) likely hold the greatest market moving potential.

Our advice for producers holding old crop simplifies this week. Horribly bearish fundamentals, a weakening spot basis (some major merchants issuing even "courtesy bids"), continuing worldwide social unrest, and the increasing likelihood of a resurgence in pandemic impact have combined to present a bleak outlook for those holding 2019 crop. We see no reason to hold old crop cotton, and encourage producers to take advantage of any upward movement in the next 5 to 10 days.

New crop prospects are less bleak, but that is a low bar to overcome. We are hearing reports of higher than previously expected abandonment in the High Plains, substantial PP acres in the North Delta, and a late planted Mid-South crop that will be more susceptible than normal to weather issues for another few weeks. If we see a third or fourth quarter economic recovery, these factors could produce a significantly less bearish scenario for spot sales this winter and in the first quarter of 2021. Combined with a lack of attractive forward contracting options and futures in the high 50s, low 60s, the loan and insurance have essentially put a floor under prices at current levels, making it less risky to sell cotton on recaps following harvest. In the meantime, a belt and suspenders approach would be to add a put hedge under a portion of estimated yield.

Have a great week!

Report Courtesy: Rose Commodity Group

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