ROSE ON COTTON – COTTON MARKET SETTLES EFFECTIVELY UNCHANGED FOR SECOND CONSECUTIVE WEEK; SALLY CHURNING IN THE GULF

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LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec cotton contract gave up 18 points for the week ending Sept 11 finishing at 64.81; the Dec – Mar switch was effectively unchanged at (97). 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, but we did not trade this bias ahead of the WASDE report's release.

ICE cotton moved slightly lower on the week on a bearish WASDE report and disappointing US export data; the possibility of a hurricane coming ashore near New Orleans this week may have lent some late week support to the market.

In its Sept WASDE report, the USDA projected 2020/21 domestic production, consumption, and carryout lower Vs Aug at 17.06M, 14.6M and 7.2M bales, respectively. Production was lowered due to a 240K bale reduction to the harvested area estimate (9M acres) and a 28lb/acre reduction in the yield estimate to 910lbs/acre. The USDA's 400K bale debit to its export projection is curious, as a 7.2M bale carryout offers many opportunities to move US cotton, especially for a country whose merchants have little incentive to carry cotton for its domestic industry.

Aggregate world carryout was projected modestly lower at just south of 104M bales, which is horrendously bearish; the reduction was primarily due to a reduction in the estimate of beginning stocks for 2020/21. With respect to the world less China carryout was projected tighter, but still very bearish, at 67.32M bales.

Most of The Belt from the Mid-south to the eastern seaboard will likely see significant rainfall this week; cotton producing areas along the gulf coast are particularly at risk due to tropical storm/hurricane Sally – this is not the time of year for rainfall on cotton fields. Texas, Oklahoma, and Kansas will likely see mostly clear skies.Net export sales and shipments were lower Vs the previous assay period at approximately 144K and 241K RBs, respectively. The US is 50% committed and 10% shipped Vs the USDA's 15M bale export projection. Both sales and shipments were off the pace required to realize the USDA's target. Cancellations were negligible while China was the major taker for the period.

Currently, we are projecting US exports at 15M bales, 400K higher Vs USDA.

Internationally, things were relatively quite over the abbreviated trading week, but aggressive offers from India's reserve program are not positive for US export prospects.

For the week ending Sept 8, the trade reduced its futures only net short position against all active contracts to approximately 10.4M bales, while large speculators trimmed their net long to just south of 4.6M 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 the Dec contract remains supportive to bullish, with money flow continuing to gain positive traction. Still, we still are having difficulty envisioning an enduring bullish run, given current market fundamentals.

We are recommending producers price 25-30% of their crop with options or forward contracting on any move to or through 6800, and would encourage them to increase that percentage 50%, if we should see a hurricane rally to 70 or above. Hurricane forecasters are discussing naming options for storms extending into the Greek alphabet, so there may be more opportunities for weather related moves, but given that these moves may come at the expense of harvested yield or quality, put options look like a very attractive way to price cotton in the field.

Have a great week!

Report Courtesy: Rose Commodity Group

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