ROSE ON COTTON – ICE COTTON SURGES, IGNORES BEARISH WASDE REPORT

15-September-2019

LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec contract surged for the week ending Friday, Sept 13 (casting off any negative superstitions, at least for the bulls), gaining 370 points to settle at 62.28. The Dec – Mar spread remains at less than full carry and strengthened to (50) on Friday.

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, we did not trade these results due to the bearish flavor of the Sept WASDE report.

ICE cotton found strong support, likely inciting spec short covering, on renewed optimism regarding US – China trade negotiations and China's verified offer to remove retaliatory tariffs on US soybeans and pork ahead of scheduled talks in Washington in Oct. Still, as strange as this may sound on a week when our market posted gains of the better part of 400 points, overall bearish WASDE balance sheets and continued weak export data likely slowed the market's progress.

In its Sept WASDE report, the USDA lowered its estimate of US production 660K bales to 21.86M while also debiting the export projection and domestic consumption 750K and 100K bales, respectively. In the end, revisions to USDA figures for 2017/18 and 2018/19 and lower domestic consumption (now at less than 3M bales) US ending stocks were left unchanged at 7.2M bales - a very bearish figure.

It is worth noting that the US – China trade war has resulted in slowing domestic consumption. A major US spinning facility, funded by a Chinese textile company, sits idle today in Forrest City, AR despite having been scheduled to begin operation in early 2019. The tough US trade stance has likely also caused foreign investors to adopt a "wait and see" posture before making textile investments in our nation.

At the world aggregate level, production was lowered 710K bales while consumption was dinged 1.33M bales, with carryout expanding to a projected 83.75M bales. A lower projection of Australian production and a consumption projection of nearly 122M bales are not negative factors but ending stocks of nearly 84M bales is.

The US crop continues to mature rapidly, with harvesting and ginning now being reported outside of Texas. Nevertheless, the Mid-south crop remains behind schedule, with the southern one half of the region poised for a significantly better harvest that the northern portion. Many (including us) have questioned the 1304 lbs/acre yield projected for Missouri, but other Mid-South state yields seem closer to consensus opinion.

US export data continues to disappoint. Export sales and shipments against 2019/20 were off significantly for the week ending Sept 5 Vs the previous sales period at around 78K and 179K running bales (RBs), respectively. Both sales and shipments were well off the average weekly pace required to meet the USDA's revised 16.5M bale export projection. Sales against 2020/21 were near non-existent. The US is 51%

committed and 8% shipped Vs the USDA target. Sales cancellations were modest and mostly attributable to China.

In the southern hemisphere, both Australia and the Mato Grosso region in Brazil continue to experience hot and dry conditions while the Indian monsoon continues to produce greater than average precipitation on a weekly basis. Elsewhere, ABARES has projected 2019/20 cotton acreage in Australia to be off 58% Vs 2018/19, with production projected 39% lower at 294K MTs (1.35M bales) Vs the USDA's Aug and Sept projections of 1.9M and 1.4M bales, respectively.

This week's trade-inspired rally gave producers an opportunity to price cotton in the low 60s, but merchants are showing little appetite for aggressive basis efforts, making put options a producer's best bet for locking in current price levels. While we do see some potential for the Dec contract to move another 2-3 cents higher, the air is already thin, and in the absence of confirmed sales it will be difficult to move much higher. Options combined with aggressive recap marketing look to be the best way to find an additional 2 - 4 cents between now and Dec expiration.

Some commentators continue to call for futures in the low 50s at harvest, but the LDP/MLG effectively hedge producer prices in the 56-58 cent range, making the likely producer price range 5500-6000 for the near- to mid-term. These numbers are obviously subject to normal weather conditions and the levels of trade uncertainty we have become accustomed to over the past year.

For the week ending Sept 10 the trade flipped its aggregate futures only net long position to a net short of approximately 637K bales while large speculators trimmed their aggregate net short position to just above 4M bales. The heavy spec short position continues to provide ammunition for market spikes, although a significant amount of covering has likely occurred since Wednesday.

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 and money flow into the Dec contract remain bearish. The market will continue to closely monitor US and international weather conditions, US harvest progress and early yield reports and US export data. And it certainly seems that market participants – especially the shorts – will keenly focus on news surrounding upcoming US – China trade negotiations.

Have a great week!

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/