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ROSE ON COTTON – ICE COTTON FUTURES CONTINUE TO CONSOLIDATE IN MID – TO UPPER 60S

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ICE cotton finished the week near unchanged, with the Dec contract posting a gain of 24 points. The July – Dec spread remained relatively close to flat at 19.

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 (technically) proved to be incorrect. However, we did not advise trading any bias ahead of the WASDE report's release ad we had no opportunity to trade this bias post the report's release.

ICE cotton found support on the week on continued concerns regarding US planting progress and the potential for reduced planted area despite a lackluster US export report and a relatively bearish June WASDE report. Strengthening US currency also inhibited upward movement of futures prices. The prospect of waivers against some Chinese tariffs against US cotton may have lent some support to the market.

In its June WASDE report, the USDA kept its 2018/19 and 2019/20 balance sheets unchanged Vs May, with carryout projected at 6.4M bales for 2019/20. World ending stocks were projected approximately 1.75M bales higher Vs May at 77.26M bales, mostly on higher beginning stocks. Carryout outside of China was projected significantly higher at 45.76M bales.

Overall, the USDA's balance sheets are far from constructive, but they were met with substantial skepticism.

Domestically, planting was estimated at 75% complete for the week ending June 9 Vs the rolling 5-year average pace of 87%. This is further evidence that the US is looking at a late harvest, complete with the crop vulnerabilities and quality concerns that go along with a late crop. Most of The Belt (east of AZ) is expected to see rain and showers over the coming week, with the heaviest accumulations expected in the northern one half of the Mid-south.

US export sales and shipments again fell short of our expectations, although they were higher Vs data put forth on June 6. Sales and shipments against 2018/19 were approximately 81K and 380K running bales (RBs) respectively. Shipments were just off the weekly pace required to meet the USDA's projection of 14.75M 480lb bales. The US is 110% committed and 78% shipped Vs the USDA's projection. Sales against 2019/20 were nearly 47K RBs, with the total now at nearly 3.9M 480lb bales.

Slowing old crop sales are not surprising as supplies are rapidly tightening. With respect to the 2019 crop, merchants may be understandably hesitant about offering large quantities of quality cotton, given the late status of the US crop. However, we have expected shipments to increase notably as 2018/19 comes to a close, but such has yet to occur.

Internationally, the China Cotton Association has petitioned the central government for a waiver of tariffs on US cotton. The continuing drought Down Under will likely be one of the factors surveyed in consideration of the waiver application. We noted last week that we thought such was possible – and it will be if waivers are granted. China's agricultural ministry has projected 2019 production at 27.15M bales Vs the USDA's June projection of 27.75M.

Elsewhere, tensions continue to increase between the US and Iran. Ultimately, crude prices could potentially increase notably, and this could support cotton (and corn futures); however, equities could turn southward, which would not be positive for cotton futures. To date, little effect of the US – Iran discord has been noted, with respect to ICE cotton futures.

We continue to recommend producers give serious thought to using out of the money puts to protect expected yield at current levels, and look to forward contracting on any move to or through the 70-cent level, base Dec. It would be an unusual year that did not see a weather rally somewhere between June 1 and September 1, but USDA numbers make a strong argument for price protection, given the potential for another 10 cent drop if the predicted large crop materializes.

For the week ending June 11, the trade increased its net short futures only position to approximately 3.3M bales, which is suggestive of new cotton sales and further on-call price fixing by mills. Specs increased their aggregate net short position to position to nearly 3.34 M bales.

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

For this week, the standard weekly technical analysis for and money flow into the Dec contract remain bearish, with the market also remaining in a technically oversold condition.

Overhead gaps in the 75.00 – 77.00 range remain medium- to longer-term upside targets. Traders will continue to closely monitor weekly US export data, planting progress and news regarding US – China trade talks at the G-20 Summit while also preparing for the USDA's annual acreage report, scheduled for release on June 28.

Have a great week!

Report Courtesy: Rose Commodity Group

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