ROSE ON COTTON – ICE COTTON MANAGES TO FINISH WEEK AHEAD OF 60.00, DEMAND FOR US COTTON EVIDENT BELOW 60.00

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LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec contract managed a 123-point gain on the week, finishing above the psychologically important 60.00 level by thirteen ticks. The Dec – Mar spread strengthened to (59).

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 incorrect. However, we did not recommend trading this bias ahead of the WASDE report's release, and the report gave us no confidence in selling the market, even though it was bearish.

ICE cotton found support on a notable increase in US export business as prices moved below the 60.00 level, the market's oversold condition, a delay in planned tariffs until Dec 15 and skepticism regarding domestic figures put forth in the Aug WASDE report.

In its domestic balance sheet, the USDA increased projected ending stocks 500K bales to 7.2M (a very, very bearish figure) on higher production and beginning stocks that more than offset a slightly higher export target (17.2M bales). Planted and harvested acreage were slightly higher Vs July at approximately 13.9M acres while average yield was projected 10lbs/acre higher at 855lbs/acre – a bold figure for a late crop.

The report was produced with the use of producer surveys and satellite imagery. In late Aug field personnel will conduct an objective yield survey, which used to occur the final 10 days of July, prior to the Aug WASDE release. The Sept report has typically offered the most accurate pre-harvest production estimates.

At the world aggregate level, projected ending stocks were projected 2M+ bales higher Vs July at 82.45M; production was projected slightly lower while consumption was off approximately 1.2M bales Vs July.

The US announced on Tuesday that the impending 10% additional duties to be levied on imported goods from China would be postponed until Dec 15. Although this was ostensibly done with the intention of limiting damage to US consumers during the upcoming holiday season, there is hope that China will live up to its G20 promise to buy US agricultural products.

Domestic concerns regarding hot and dry conditions across West Texas continue to mount, with no relief in sight. The only portion of The Belt expected to see significant rainfall over the next seven days is the Southeast, where precipitation is expected to be greatest along coastal areas. On balance, the crop remains late even as some producers across the southern one-half of the Mid-south and the southeastern states are preparing to defoliate some acreage by late Aug. Still, some fields in these areas have not yet reached peak bloom. We are reminded that old timers used to refer to blooms after mid-August as "funeral flowers", given the low likelihood of full development prior to first frost or the fall rainy season. Modern varieties have improved those odds, but earlier peak bloom is still far preferable to late.

US export sales and shipments against 2019/20 were notably higher for the week ending Aug 8 Vs the previous sales period – and quite encouraging - at around 325K and 287K RBs, respectively. Sales were well ahead of the average weekly pace required to meet the USDA's 17.2M bale export projection while shipments were 89% of the pace requirement. The US is 47% committed Vs the USDA target.

Bangladesh was a very large taker over the assay period while China took well over 100K bales for 2020/21 delivery. We'll see if this trend continues.

In international news, drought continues to grip Australia as producers across the northern reaches of the continent commence preparations to plant the 2019/20 crop. Sour relations between India and Pakistan have convinced many participants that the latter will step up its imports of US cotton.

Producers holding old crop saw renewed interest this week, with negative equity prices approaching the break-even point and increased inquiries from merchants. We continue to encourage producers to accept offers to redeem equity cotton at any non-negative price.

Merchants are showing renewed interest in forward contracting, with a particular emphasis on filling merchant warehouses. Growers considering these offers should consider likely recap prices at harvest, rebate levels and the possibility of weather or trade news inspiring 2-5 cent rallies between now and the end of the year. Given the limited downside risk of the spot market, we think the option pit offers a safer method to put a floor under current prices while retaining the ability to participate in futures rallies or basis improvements.

For the week ending Aug 13 the trade reduced its aggregate futures only net long position to approximately 167K bales while large speculators reduced their aggregate net short position to just south of 4.7M bales. Still, the heavy spec short position (which has no doubt been trimmed further since Tuesday) continues to provide ammunition for market spikes.

For next week, the standard weekly technical analysis for and money flow into the Dec contract remain bearish, with the market sloughing off its oversold condition. The market will continue to closely monitor US (especially West Texas) and international weather conditions and, of course, US – China trade talks.

Have a great week!

Report Courtesy: Rose Commodity Group

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