Rose Commodity Group

ROSE ON COTTON – WEST TEXAS RAINS, DISAPPOINTING EXPORT SALES, OTHER FACTORS COMBINE TO CAP COTTON MARKET

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The ICE Dec cotton contract picked up 78 points for the week ending June 19 to finish at 59.81, with the Dec – Mar switch weakening to (75), which is still far less than full carry. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to higher Vs the previous Friday's settlement, which proved to be correct.

Cotton moved moderately higher last week, but was hindered by substantial West Texas rains, a disappointing US export report, strengthening US currency, and concerns regarding a resurgence of the Wuhan pandemic.

For the week ending June 14, the USDA estimated planting of the 2020 cotton crop at 89% complete, 2 percentage points off the rolling 5-year average pace. The crop was rated in 43% good or better condition, unchanged Vs last week's report. The portion of the crop rated in poor to very poor condition, however, expanded significantly. In Texas, the crop was rated in 25% poor to very poor condition Vs just 17% for the previous week. However, West Texas has received significant rainfall since Wednesday, Jun 17. Further, much of The Belt is expected to see further precipitation over the next 7 days.

While many expected another round of large sales per purchases from China, these purchases failed to materialize. Net export sales against 2019/20 for the week ending June 11 were notably lower Vs the previous sales period while shipments were significantly higher at approximately 103K and 354K RBs, respectively. The US is 119% committed and 85% shipped Vs the USDA's projection. Shipments were 111% of the pace required to realize the USDA target. Still, nearly all net sales were accounted for by China and Vietnam, which does not suggest strong nearby demand for textiles. Sales against 2020/21 were off at around 148K RBs. Sales cancellations were modest at approximately 21K.

Internationally, India and China have had a significant border clash, in which more than 20 Indian soldiers have been reported dead. This hardly seems positive, and given the Kashmir region's volatile history, has the potential to bring Pakistan and other parties into the mix. Conversely, China has relayed Robert Lighthizer that it fully intends to honor its Phase One agricultural purchase commitments, with China having already purchased $1B in US cotton since the trade accord was penned and signed. However, this demand from China does not represent nearby demand for the spinning of yarn and the manufacturing of textiles.

For the week ending June 16, the trade significantly reduced its aggregate futures only net short position against all active contracts to approximately 5.86M bales while large speculators reduced their net long to around 111K bales, indicating they are less confident regarding further recovery in the market.

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

We continue to encourage producers holding old crop to sell. The near to mid term prospects of a rally greater than storage are slim, and many large firms are entirely out of the spot market.

New crop has the potential for a fourth or first quarter rally if pandemic pressure eases and we see sustained economic progress. Fortunately, the farm program provides support near current levels, minimizing the risk of holding cotton for better prices later. Should the Dec contract unexpectedly move to the mid or upper 60s, we will revise this advice, but we currently believe recap sales this winter hold the best prospects for producer revenue.

For this week, the standard weekly technical analysis for the Dec contract remains supportive while money flow remains less than supportive. Weather reports, US export data, pandemic news and forecasts and forerunning of the USDA’s June 30 acreage report likely hold the greatest market moving potential for the coming week.

Have a great week!

Report Courtesy: Rose Commodity Group

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