ROSE ON COTTON – JULY COTTON CHALLENGES 60.00 LEVEL, RETREATS FOR LOWER WEEKLY SETTLEMENT

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LOUIS W. ROSE IV AND BARRY B. BEAN

ICE July cotton gave up 64 points for the week ending May 22 - seriously challenging the 60.00 level only to finish at 57.61. Dec lost 36 at 57.81, as the July – Dec switch weakened to (20), 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 incorrect. However, we overrode our model's prediction, instead recommending a short position, especially above 59.50.

ICE cotton futures moved lower on weakening US export sales, forecasted rains across West Texas and increased tensions between the US and China. While China has officially stated that it intends to meet its Phase One trade accord commitments, they are certainly doing so because it is a benefit to them to (probably) placate the US and also because cotton is very cheap and Chinese planted area is off this season. An additional 2.5M Americans joining the ranks of the unemployed did no favors for our market. That cumulative total is now thought to be approximately 39M. The market's early-week upward movement seems to have been fueled by spec short covering.

Domestically, USDA estimated the 2020 crop as 44% sown on May 17. Planting across the Mid-south has run well behind schedule this year with the optimal planting window for the Mid-south now closed. Further, the current weather forecast does not look friendly for those who might wish to push planting through the long holiday weekend – or even through June 1. At this time, it looks as if West Texas will receive its annual "Memorial Day" rains over the coming week. The arrival of such rains across the nation's largest cotton-producing regions has never been seen as bullish.

Export sales into China continued over the most recent assay period as the nation bought a net 152K running bales (RBS) against the current MY. Still, the latest US export sales against 2019/20 were lower Vs the previous sales period, at approximately 130K RBs while shipments were slightly higher at 255K RBs. The US is 115% committed and 77% shipped Vs the USDA's export projection. Sales were again well ahead of the average weekly pace required to meet the USDA's export target while shipments were only 83% of the pace requirement. Sales against 2020/21 were higher at approximately 120K RBs. Sales cancellations were large modest at almost 58K.

We are now projecting US exports for 2019/20 at 15.5M bales. While we recognize the pace is currently off that required to export even 15M bales, the lack of carry in the market should prompt merchants to push stocks out the door prior to July 31.

Internationally, China's legislature has proposed measures that would ban all dissent and protests within Hong Kong. This effort has predictably increased tensions with the US and western countries. Elsewhere, spot prices in Brazil have increased as producers exhibit resistance to let stocks go at bargain prices.

For the week ending May 19, the trade significantly increased its aggregate futures only net short position against all active contracts to more than 4.8M bales while large speculators notably reduced their aggregate net short position to less than 1.1M 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 and money flow into the July contract remain bearish, although the technical bias is approaching neutral. Planting progress, weather reports (especially for West Texas), US export sales data, pandemic updates, and news regarding US – China relations likely each possess market moving potential for the coming week.

Have a great – and safe – holiday weekend!

Report Courtesy: Rose Commodity Group

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