Rose Commodity Group

ROSE ON COTTON – ICE COTTON POSTS TRIPLE DIGIT LOSSES FOR WEEK, INDEX FUND ROLLING LOOMS

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The Mar contract gave up 185 points over the holiday-shortened week in volatile and high-volume trading action, finishing at 69.40. Still, the Mar – May spread strengthened to (80). The Dec contract lost 180 points to settle at 70.54. 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 correct.

ICE cotton lost ground on the week, despite strengthening export sales data, as equities and oil (which typically correlates well with cotton directional movement) experienced weakness over uncertainty regarding the heightening coronavirus concerns in China and abroad.

Domestically, Agriculture Secretary Sonny Perdue has confirmed that the third round of this year's MFP payments will be made to producers. However, he cautioned producers that no such aid is expected with respect to the 2020 crop. Coincidentally, the nation's largest ag lobby, American Farm

Bureau, spent the week debating their support for the MFP program following the Phase One agreement between the (US and China. Politically, a Farm Journal survey estimates that President Trump's approval rating among rural voters is around 83%. In other news, attentions are quickly turning to sowing of the 2020 crop and the USDA's and NCC's respective projections of 2020 planted area.

US net export sales against 2019/20 were significantly higher for the week ending Jan 16 Vs the previous sales period while shipments were lower at around 328K and 289K running bales (RBs), respectively. Sales were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export target while shipments were approximately 72% of the pace requirement. Sales cancellations were high at nearly 83K RBS and were mostly attributable to India and Pakistan.

Outside of the coronavirus outbreak across China, which has now limited travel in 16 cities and more than 45M of its citizens, it was a relatively slow international news week for cotton. Noteworthy, however, was Uzbekistan's announcement that it intends to phase out its government's monopoly on cash cotton (and wheat) trading in effort to attract foreign investment into its agricultural and associated downstream industries. Given China's recent investments in other cotton producing regions, this bears watching and consideration in future trade negotiations.

For the week ending Jan 21, the trade reduced its aggregate futures only net short position against all active contracts to around 8.24M bales while large speculators trimmed their aggregate net long position to just north of 2.9M bales. The latest data suggest that business for cash cotton has remained strong.

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 Mar contract remain supportive to bullish, with the market no longer in an overbought condition. Celebration of the New Year in China commences today and runs through next week; historically Golden Week has been association with lower volume, and often, weaker values for ICE cotton futures. The Rogers index fund roll will commence on Jan 30; scheduled index fund rolling often is associated with limited upward price movement in the front month.

Despite the increased volatility of the past week, our charts still show the net effect of recent sessions to be a consolidation of the 68-72 cent trading range of the nearby month. While we did see the predicted ”sell the fact” sell off, we’re still convinced the phase one agreement did shore up support for the market, and we continue to see the potential for a break out of the current range to the upside. Producers should be ready to take advantage of moves to and through the 72-73 cent level on old crop.

Our advice remains consistent on new crop for the upcoming week. We believe pricing 25% of estimated production against a 75 cent December makes sense, and we believe the option pit looks more attractive than forward contracting at the current time.

Have a great week!

Report Courtesy: Rose Commodity Group

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