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ROSE ON COTTON – ICE COTTON REBOUNDS AHEAD OF HOLIDAY WEEKEND, HALTS 5-WEEK LOSING STREAK

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LOUIS W ROSE IV AND BARRY BEAN

The Bulls finally managed to get on the right side of the market with the July and Dec contracts posting gains of 240 and 117 points on the week, respectively. The July – Dec spread flipped from light carry to an inversion of 84 points, which should incentivize export shipments.

Last weekend, our proprietary model (timely prediction available in our complete weekly report) overwhelmingly called for a settlement that was to be near unchanged to lower Vs the previous Friday's finish, which proved to be incorrect. However, we did not recommend trading the model's prediction last week. Moreover, we continue to hold (and recommend other do so, too) our small net long near 67.50, base July.

ICE cotton found support over the week on evidence of increased competitiveness of US cotton worldwide, per strong export sales data for the week ending May 16, continued fixing of on-all contracts by mills and the market's technically oversold condition, which likely prompting some spec short covering ahead of the long holiday weekend. However, what

now appears to be a complete breakdown of US – China trade negotiations continues to apply drag to cotton futures.

Despite the nearly on-par pace of US sowing this season, inclement weather across the Mid-south, hot and dry conditions across the GA/FL/SE AL tri-state area and continued rainfall across West TX, southeastern OK and KS are threatening to make the 2019 crop a relatively late one. Historically speaking, it is usually not wise to be long on yield and production on a late crop. Further, while we expect planted area to be estimated higher in the USDA's June acreage report Vs the number put forth in March, Mid-south planted area is likely to be significantly lower. While weather conditions over the near-term are expected to be much improved over the near-term, the ideal planting window has effectively closed, with far too little cotton having emerged in a robust manner and in good condition. Some gin customers have advised us that their producers entered this week less than 60% planted, with 50% of planted acres in need of replanting.

US export sales against 2018/19 were notably higher for the week ending May 16 Vs the previous sales period while shipments were off slightly at approximately 379K and 362K running bales (RBs) respectively. Shipments again fell just short of the weekly pace required to meet the USDA's projection of 14.75M 480lb bales. Sales against 2019/20 were 245K RBs, with the total now at nearly 3.35M 480lb bales. Old crop sales were impressive, given the amount of cotton that remains available for sale. It remains to be seen whether sales will continue as the July contract moves to or through the 70.00 level.

Internationally, it looks as if the US is destined to become the residual supplier of cotton to the world. China's state media has continued to publish rhetoric regarding failed US – China trade negotiations, deeming US claims of the nation's reneging on early-on agreed to points "untrue" and stating that it has no

real interest in continuing negotiations amid the current tariff climate. It certainly seems as if the Chinese are now waiting to assess the political environment surrounding the upcoming 2020 US elections before again addressing trade issues with its best export customer. At the very least, it would seem that the Chinese are opting to use a tit-for-tat strategy for dealing with the US, generating more heat than results to date. Still, some retain hope that a meeting between President's Trump and Xi at next month's G-20 Summit in Japan will ease trade tensions.

Worth considering is that the trade war has generated substantial domestic problems for China, prompting it to shore up its economy with a massive stimulus package. Students of recent history may review the past decade of Chinese cotton reserve supply management for an illustration of their willingness to manipulate international trade for domestic goals.

Elsewhere, India continues to look at lower planted area and production Vs the USDA's initial 2019/20 projections while drought Down Under continues to cast doubt on 2019/20 Aussie production. Across South America, it continues to look as if planted area will expand significantly in 2019/20 Vs 2018/19.

Producers holding old crop cotton are likely spending time studying charts, historical precedent and bullish rumors to find justification for holding cotton, but we fear these efforts are destined to have limited success. The July contract has recovered approximately 4 cents from its 6450 low and does appear to be making headway towards a 7000-7100 target. If the July contract breaks the 70.00 level, it will be very hard to justify holding cotton. In the absence of a major surprise in trade negotiations it is difficult to imagine a scenario where the July contract moves very far into the 70s.

Producers with unpriced new crop are in a somewhat better situation, but we similarly believe the 7000-7100 cent range

should be welcomed as an aggressive pricing opportunity. Given crop condition issues in nearly every section of the US, we do understand a reluctance to forward contract a crop that may not make it to harvest, but 2019 looks like an excellent year to price with put options.

For the week ending May 21, the trade slashed its aggregate net short futures only position to approximately 2.5M bales, which is suggestive of new cotton sales and continued on-call price fixing by mills. The trade reduced their position mostly via short covering. Specs increased their aggregate net short position to nearly 4M bales, selling the market at nearly three times the pace it liquidated longs. However, we think that the spec position has been trimmed over the last three trading days of the week ending May 24.

For next week, the standard weekly technical analysis for and money flow into the July contract remain bearish, with the market no longer in an oversold condition. Traders will continue to closely monitor weekly US export data and planting progress. Index fund rolling out of the July contract commences late next week per the Rogers roll.

Take a moment to remember and recognize those who sacrificed their own lives for our country and our freedom. Have a great – and safe – holiday weekend!

Have a great week!

Report Courtesy: Rose Commodity Group

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