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ROSE ON COTTON – ANOTHER WUHAN WEEK FOR THE COTTON MARKET, MUCH UNCERTAINTY REGARDING PLANTING INTENTIONS

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Yep, another down week for ICE cotton as the Wuhan virus pandemic continues to surge. The May contract gave up 235 points on the week to finish at 51.33 while Dec lost 154 at 53.49. All contracts did manage to remain north of 50.00 for the week, so there's that – and the fact that the May – July spread finished the week inverted at 5. Last weekend our proprietary model predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be correct. However, we opted to remain long just north of 55.00, which is a position that we are comfortable (mostly) holding.

Basically, ICE cotton suffered another week of casualties at the hands of the Wuhan pandemic; weakening US currency (which is what should occur with more than \$2 trillion due to be injected) and another round of extremely strong US export data did little to bolster the market. While a record number of people (more than 3 million) filing unemployment claims

seemed to be ignored by the Dow Jones Index, this effectively killed any chance of a rally on cotton futures last week.

Domestically, much of The Belt is again expected to see rainfall over the coming week, with heavy rainfall accumulations expected across the Delta and portions of the southeastern states. The current abnormally wet pattern has already reduced corn acreage in the Mid-south and now is threatening to do the same for cotton acres.

A Bloomberg survey of analysts and traders has projected US cotton plantings at 12.4M acres; the average of the USDA and National Cotton Council (NCC) early season forecasts is 12.75M. While we had earlier expected acreage to be in excess of 13M acres, we are now projecting US planted area at 11.3M acres.

USDA export data continues to impress. US net export sales 2019/20 were off significantly (but still strong) for the week ending May 19 Vs the previous assay period, while shipments were higher at around 295K and 404K running bales (RBs), respectively. The US is 97% committed and 53% shipped Vs the USDA's export projection. Sales and shipments were well ahead of the average weekly pace required to meet the USDA's 16.5M bale export target. Sales against 2020/21 were higher at around 120K RBs. Sales cancellations were significant at almost 46K.

We continue to project US exports for 2019/20 at 17.25M bales, but realize that this figure may require downward adjustment over the near-term.

For the week ending Mar 24, the trade reduced its aggregate futures only net short position against all active contracts to less than 3.5M bales while large speculators increased their aggregate net short position to just north of 1.8M bales. The latest data suggests that either business for US cotton continues to be accomplished and/or the trade is participating

in an aggregate lengthening of their position, both of which would be somewhat encouraging. US cotton remains competitively priced Vs competing origins.

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 remains bearish, with the market also remaining in an oversold condition. Overall, we think ICE futures are likely to find strong support below the current market, but a break below the 50.00 level could set the market to fall to around 40.00. All eyes will, of course, be on Tuesday's annual USDA Planting Intentions report.

Our advice to producers remains consistent. Producers holding old crop cotton should consider taking advantage of the LDP, but also to look at Dec 20 or Mar 21 calls to participate in the almost certain recovery later this year. Demand destruction remains a serious concern for both old and new crop, but stimulus efforts in the US and beyond could encourage consumer demand for cotton in the next 12-24 months. Producers looking to price new crop should similarly consider regular timed purchases of Mar-Jul 21 calls to participate in the recovery, but have little incentive to price spot cotton or forward contract at current levels.

Have a great week, stay safe and try to be mindful of helping prevent the spread of the Wuhan virus!

Report Courtesy: Rose Commodity Group

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