ROSE ON COTTON – ICE COTTON REMAINS RANGE – BOUND, TRUMP – XI (AND TRUMP – KIM) MEETING ENDS ON POSITIVE NOTE

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LOUIS W. ROSE IV AND BARRY B. BEAN

ICE cotton continued to consolidate for the week ending July 28, with the Dec contract posting a modest gain of 52 points; Dec gave up 99 points for the month of June. The July – Dec spread weakened to (61) but remains well below full carry.

Last weekend, 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 to be incorrect. However, we did express our overall opinion that being long seemed more prudent Vs being short. In the end, it really didn't make much difference.

ICE cotton continued its directionless trading amid a neutral acreage report, a neutral to bearish export report and measured optimism ahead of an informal weekend meeting between Presidents Trump and Xi. And that optimism was ultimately justified as the two leaders announced in the dark morning hours on Saturday that they would officially resume trade negotiations with no new tariffs to be added by either nation – for now. President Trump agreed to again allow US companies to again sell to Chinese tech giant Huawei (a major concession) while China will immediately begin to purchase a large, yet unspecified, amount of US agricultural and food products.

Domestically, planting was estimated at 96% complete for the week ending June 23. The Mid-south crop remains the furthest off its normal development pace. Consultant reports continue to relay that the region's crop is a very mixed bag with respect to condition and maturity.

In its annual Planted Acreage report, the USDA's estimated area committed to cotton for 2019 on par with average expectations at 13.72M acres (13.4M upland). This means that any projection adjustments of 2019 production in the July WASDE report will have to be rooted in estimates of abandonment and projections of yield. The report was viewed skeptically by many, including by some within the trade. From our perspective, we believe that the estimates for MO, LA and AR may be too optimistic, the figure for TN is likely too low. In over a decade of living in west TN, there is cotton growing many, many fields where I have never seen it raised before – including soe instances of pastures being converted into cotton cultivation.

US export sales against 2018/19 were up significantly for the week ending June 20 Vs the previous sales period while shipments were essentially unchanged at around 73K and 340K running bales (RBs), respectively. Sales were spread relatively evenly across the board. Shipments were just above 81% of the weekly pace required to meet the USDA's export projection of 14.75M 480lb bales. Sales against 2019/20 were almost 47K RBs, with the total now just north of 4.15M 480lb bales.

Mostly dry conditions are expected to prevail over the coming week across South America and Australia. Dry weather is excellent for South American harvest progress, but the

Australian new crop, which will begin to be sown in Sept, is in serious jeopardy at the hands of an extended drought. India's monsoon is expected to progress over the near-term, but rather slowly. This season's crop in Greece is reported in mostly good condition.

Elsewhere, a sales tax on raw cotton and increasing interest rates are contributing to lower spot prices in Pakistan.

For the week ending June 25, the trade reduced its aggregate net short futures only position to less than 2M bales, which is suggestive of cotton sales and on-call price fixing by mills. Specs increased their aggregate net short position to position to nearly 4M bales, which provides potential for market spikes on any unexpected supportive news.

For this week, the standard weekly technical analysis for and money flow into the July contract remain bearish, with the market also remaining in something of an oversold condition. The US will celebrate Independence Day on Thursday, July 4 (and likely right on through the remainder of the week and the weekend). Hence, some spec short covering could drive prices modestly higher, but trading could ultimately prove quite anemic next week.

Producers holding old crop are familiar with the litany of bearish factors weighing the market down, and we've covered them well in this column. Still, the US – China announcement at the G-20 Summit was supportive to bullish. However, be aware that China has often used US holidays as an opportunity to buy spot cotton before the futures market can respond.

New crop continues to trade the same range it has occupied since mid-May. Given widespread concern over crop size and similarly widespread criticism of the acreage number published today, we continue to see the potential for a rally into the 70s. We also believe it would be prudent to take advantage of more modest moves to the 67-68 cent range with an investment in put options on the off chance the USDA has better information than the trade.

Have a great – and safe – Fourth of July!

Report Courtesy: Rose Commodity Group

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