ROSE ON COTTON – COTTON MARKET SETTLES HIGHER ON WEEK, BUT HURRICANES LOOK LIKE ANOTHER "BUY-THE-RUMOR, SELL-THE-FACT" EVENT

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The ICE Dec cotton contract picked up 80 points for the week ending Aug 28, finishing at 65.08 even as the contract breached the 66.00 level over the course of the week. The Dec – Mar switch was strengthened a bit at (85). 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 correct.

ICE cotton moved higher on the week on fair to decent US export data, rumors of increasing worldwide spinning operations, and strength in equity markets. Tropical storm Marco was largely a non-event, while Laura did little damaged to the Mid-south crop. Cotton producing areas in southwestern Arkansas and northwestern Louisiana were more affected.

For the week ending Aug 23, the US crop was rated in 46% good or better condition, up one percentage point Vs the previous week's report. Overall, rains associated with the recent tropical events will likely prove more beneficial than not. The Mid-south and the southeastern states will likely see more rain over the coming week; West Texas, Oklahoma and Kansas could also see significant shower activity. USDA has now classed more than 205K running bales from the 2020 crop, most of which is deliverable against ICE contracts.

Net export sales were higher for the most recent assay period while shipments were lower at approximately 162K and 288K RBs, respectively. The US is 48% committed and 7% shipped Vs the USDA's 15M bale projection. Both sales and shipments were ahead of the pace required to realize the USDA's target. Cancellations were large at almost 180K RBs. China accounted for most new sales.

Internationally, we hear that mill activity across India is increasing, with some estimating the nation's mills to be running at 70% - 80% of capacity. In other news, the Cotton Corporation of India has agreed to guarantee to purchase all the current season's production, if necessary. China continues to offload all stocks offered for sale at its daily reserve auctions. The cumulative total for this season is the equivalent of 1.41M bales. Finally, Kim Jong Un is reportedly gravely ill and currently in a coma, raising obvious questions about the future of North Korea. This isn't necessarily good news for regional stability, with many noting that sometimes one should prefer the "devil they know…". Kim's sister is reportedly readying herself to assume power.

For the week ending Aug 25, the trade increased its futures only net short position against all active contracts to more than 11M bales, which is bearish, while large speculators increased their net long to approximately 4.8M 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 the Dec contract remains supportive to bullish, with money flow gaining positive traction. Nevertheless, we still are having difficulty envisioning an enduring bullish run, given current market fundamentals.

We were surprised this week to hear a fellow market commentator advise producers holding old crop to "sell perhaps ¼ - ½ their remaining 2019 crop into the hurricane rally". While no one's crystal ball is perfect, we cannot think of a reason to hold crop at current prices, and encourage producers who still own 2019 crop to sell at the first opportunity.

2020 crop is another matter. Current forward contracting options are only offering a slightly better price than producers can reliably expect to see during harvest, and there is some merit to arguments that we could be seeing early hints of a recovery in textile demand. We think pricing ¼ to 1/3 of estimated production against any move to the 68-70 cent level base Dec is prudent, but do not favor aggressive sales beyond that percentage.

Have a great week!

Report Courtesy: Rose Commodity Group

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