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ROSE ON COTTON – COTTON MARKET FINISHES WEEK LOWER, DESPITE NUMEROUS BULLISH FACTORS

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The market (Mar) lost 427 points last week, finishing at 83.62, with the Dec – Mar spread near flat at 7. Last week, our models predicted a finish on the week that was to be near-unchanged to higher Vs the previous week's finish, which proved to be incorrect. The Dec contract experienced only one day of non-negative action last week with its 1-point gain on Friday. Dec has commenced the new week higher.

The cotton market finished the week notably lower, despite increasingly severe concerns over the US crop, on poor economic data out of China, further strengthening of US currency, and continued weakening in crude oil futures.

Domestically, there is no relief in sight from weather forecasts for West Texas, and the time is fast approaching when rainfall will make little to no difference in this season's production total for the region. The Mid-south and the southeastern states are expected to see mostly dry conditions this week with temperatures across many locales above 100°F.

For the week ending Aug 10 the US sold and shipped approximately 190K and 205K RBs, respectively, which is not stellar. Almost all new sales were to China, which we think is the result of some of the recent bevy of US sales into that nation's strategic reserve. More sales are likely to be reported in coming weeks, but fresh business may continue to be hard to come by. The week ending Aug 11 was another strong week for on-call sales, which will eventually be reported in the USDA's weekly data releases.

Internationally, poor economic data continues to be released out of China, which the market has seen as bearish despite the nation's central government's pledges to stimulate/prop up its sagging economy. The crop in China has been reported to have deteriorated further.

For the week ending Aug 15, the trade trimmed its aggregate net short position to approximately 8.9M bales while large specs increased their aggregate net long to around 3.2M bales.

The standard weekly technical analysis for and money flow into the Dec contract remain supportive. The market will likely see support this week from a deteriorating West Texas crop and fresh business at current price levels.

We are advising producers to be ready to price up to 60% of estimated production above a December of 90 cents but see no reason to price over 30-40% at current levels. Merchant basis has fluctuated slightly in the past few weeks, but we haven't seen the sort of basis moves that indicate anything beyond normal seasonal demand.

Have a great week!

Report Courtesy: Rose Commodity Group

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