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## **ROSE ON COTTON – ICE COTTON MOVES HIGHER AHEAD OF HOLIDAY WEEKEND, DORIAN THREATENS SOUTHEASTERN CROP**

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### **LOUIS W. ROSE IV AND BARRY B. BEAN**

The ICE Dec contract picked up 62 points on the week but gave up 501 for the month to finish at 58.83. The Dec – Mar spread strengthened to (61) which is 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.

ICE cotton seemed to find modest support on the week, despite weak US export data, strengthening US currency and spotty drought relief across West Texas. The Dec contract saw some spec short covering ahead of a long holiday weekend in which hurricane Dorian is expected to strengthen and potentially damage the Southeast US crop.

Domestically, West Texas received some relief from hot and dry conditions last week, but the largest portion of dryland acreage south of Lubbock continues to suffer. Hurricane Dorian is expected to bring relatively heavy rainfall to coastal producing regions, including southern Georgia next week.

While it is too early to speculate on how much cotton acreage is realistically at risk, we know that southeastern producers have suffered several setbacks of recent seasons and can ill afford another one. This crop is between 20 and 40% open, inviting speculation on lint loss to wind and boll rot in cracked bolls.

US export sales and shipments against 2019/20 were lower for the week ending Aug 22 Vs the previous sales period at around 155K and 182K running bales (RBs) respectively. Both sales and shipments were off the average weekly pace required to meet the USDA's 17.2M bale export projection. Weak sales at current price levels does not speak well for world demand.

In the southern hemisphere, both Australia and the Mato Grosso region in Brazil are experiencing hot and dry conditions. Brazilian new crop soybean planting has already been delayed, and a similar delay in cotton is likely. However, because so much of the country's cotton is produced as a second (safrinha) crop, a drought could serve to ultimately increase area committed to cotton.

Elsewhere, China has declined (for now) to retaliate against the latest round of US tariff enhancements, instead appealing for "calm" ahead of scheduled face-to-face talks.

For the week ending Aug 27 the trade increased its aggregate futures only net long position to nearly 590K bales while large speculators trimmed their aggregate net short position to just above 4.6M bales. The heavy spec short position continues to provide ammunition for market spikes.

For a complete analysis of COT data see our weekly commitments of traders analysis and commentary.

Producer equities on The Seam attracted increasing interest this week as the Dec contract tested the 5900-5950 range. While most of the bids ultimately proved to be below the cost of forfeiture, we will be watching with interest to see if Dorian

throws a lifeline to these producers prior to the August loan deadline on Tuesday. Producers with September and later maturing equities will be watching closely as well, and would be wise to take advantage of any storm rally to get cotton redeemed at any price better than forfeiture.

Futures are telling producers not to forward contract new crop. Current offers are in the expected range for recaps at harvest, leaving the possibility that quality or changes in basis could provide a better opportunity in a few weeks/months. However, we would caution producers against putting cotton in the loan and waiting too long. In the absence of a pickup in world textile consumption, we could find ourselves trying to get equities redeemed in August and September 2020. Given that some commentators make a case for cotton trading to the low 50s, we think it makes sense to protect a portion of your crop with put options and sell recaps at harvest. This strategy gives the producer maximum flexibility to respond to locally changing demand and offset bearish losses.

For this week, the standard weekly technical analysis for and money flow into the Dec contract remain bearish. The market will continue to closely monitor US and international weather conditions and of course, US – China trade talks and developments. Dorian could well prove to be the week's major market moving event, but so often hurricanes are of "buy the rumor, sell the fact" ilk.

*Have a great week!*

**Report Courtesy: Rose Commodity Group**

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