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## **ROSE ON COTTON – EARLY WEEK COTTON MARKET GAINS EVAPORATE ON WEAKNESS IN US EXPORT SALES, ELECTION RESULTS, FUND ROLLING**

07-November-2020

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The ICE Dec cotton contract gave up 30 points for the week ending Nov 6, finishing at 68.62 as the Dec – Mar switch weakened to (153), which is approaching full carry. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be correct. However, we advised moving to the sidelines ahead of US elections.

ICE cotton was lower on the week, despite weakening US currency and strength in equity markets, COVID concerns, the lack of a US economic stimulus bill, and scheduled index fund rolling. Weakness in crude oil, which is highly correlated with cotton futures, also weighed on futures.

Cotton retained early week gains through Wednesday. The market was obviously encouraged by the likelihood of Republicans to retain control of the Senate and a significant narrowing of the Democratic majority in the House. That is, the likelihood of higher taxes (should Biden ultimately win), the expansion of US states, elimination of the Senate filibuster,

packing of the Supreme Court, and other measures previously mentioned (threatened) by Democratic party leaders seems very unlikely to occur over the near-term. Markets are often buoyed by a split government. However, we will likely see dual runoff elections in Georgia in Jan, with control of the Senate hanging in the balance.

As for the Presidential election, while a Biden win seems more likely than a win for Trump, the President currently retains a narrow path for outright victory. Should such not occur, there will likely be a significant period of litigation. This extended period of uncertainty may increase volatility but will likely prove bearish in the short term.

Perhaps the greatest benefit for the Ag sector should Biden win would be a repeal of tariffs against China, and grain markets have responded positively to this notion. However, benefits for the cotton market could prove to be temporary.

The USDA has estimated this season's domestic harvest progress just north of par with the rolling 5-year average pace, which is just ahead of 50% complete, but we expect that much has been accomplished over the past week. Harvest across the Mid-south is now moving rapidly. Still, light to moderate showers are in the forecast for most of The Belt over the coming week.

The USDA will release its Nov WASDE report on Tuesday, Nov 10 at the usual time. The monthly Bloomberg survey of analysts and traders (to which we contribute) shows an expectation for lower US production and carryout (16.6M and 6.6M bales, respectively) Vs Oct. While we think production will be estimated lower, our ending stocks estimate is on par with the latter figure. World carryout is expected to be near unchanged at around 101M bales.

Net export sales were notably lower while shipments were higher Vs the previous assay period at approximately 132K

and 292K RBs, respectively. The US is 65% committed and 24% shipped Vs the USDA's 14.6M bale export projection. Both sales and shipments were just ahead of the average weekly pace required to realize the USDA's target. Sales and shipments are ahead of the long-term average pace for this point in the season. Sales cancellations were large for the second consecutive week at just north of 117K RBs.

Internationally, the ICAC has projected 2020/21 world aggregate production and consumption at the equivalent of 114.3M and 110.2M bales, respectively. We think ICAC's expectation for consumption is more realistic Vs USDA.

For the week ending Nov 3, the trade reduced its futures only net short position against all active contracts to approximately 13.6M bales, while large speculators reduced their net long to just south of 6.2M bales. Position reductions were largely expected ahead of US elections.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For next week, the standard weekly technical analysis for the Dec contract has turned bearish, with the market now in oversold territory; money flow continues to turn negative. The WASDE report, scheduled index fund rolling and election news should keep volatility in next week's trading action.

*Have a great week!*

**Report Courtesy: Rose Commodity Group**

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