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ROSE ON COTTON – COTTON FUTURES POST MODEST RECOVERY AHEAD OF WASDE REPORT, USDA RELEASES STRONGEST EXPORT DATA OF MARKETING YEAR

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ICE cotton gapped higher to start the week; a portion of the gap on May remains below the market at 61.49 – 61.70. However, after breaching the 65.00 level on Tuesday, May ultimately only picked up 130 points on the week, finishing at 62.79. Dec gained 137 at 63.81. The May – July spread strengthened slightly at (72), short of full carry.

ICE cotton found support on rumors of notable sales of US cotton, the best export data release of the current marketing year and weakening US currency. However, coronavirus concerns and weakness in equities applied obvious drag to cotton futures as the week wore on. The Fed's announcement of a half point rate cut, which weakened US currency (theoretically bullish), was not met with enthusiasm as it enhanced coronavirus jitters (bearish).

On the production side, most of The Belt is expected to see more rain and showers this week, with the Mid-South expected to see rather heavy accumulations, which is not encouraging

for our friends south of Memphis, who are dealing with flood conditions and saturated soils in many locations.

The latest US export data were simply outstanding.

US net export sales and shipment against 2019/20 were notably higher for the week ending Feb 27 Vs the previous sales period at around 405K and 494K running bales (RBs), respectively – both MY highs. The US is 90% committed and 45% shipped Vs the USDA's export projection. Both sales and shipments were well ahead of the average weekly pace required to meet the USDA's 16.5M bale export target. Sales against 2020/21 were lower at approximately 52K RBs; total gross new sales were in excess of 600K RBs, which is phenomenal. Sales cancellations were significant at 82K RBs. China was a net buyer over the period.

Internationally, most news on the week dealt with the spread of the coronavirus and the effects it is having on economic growth and markets. Elsewhere, cotton across most of the Australia's prominent producing regions is either being defoliated or nearing maturation. Some harvesting has occurred, with surprisingly strong yields being reported.

For the week ending Mar 3, the trade reduced its aggregate futures only net short position against all active contracts to around 6.25M bales while large speculators slashed their aggregate net long position to less than 418K bales. The latest data suggest that business for US cotton continues to be accomplished.

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

USDA will release its Mar WASDE report on Tuesday, Mar 10 at noon, ET. The monthly Bloomberg survey of analysts and traders shows little expected change in the domestic balance sheet, while we expect tighter carryout at the hands of a

higher export projection. At the world aggregate level, projected ending stocks are expected to expand more than 1M bales per an expected increase in the USDA's production estimate.

For this week, the standard weekly technical analysis for and money flow into the Mar contract are bearish, with the market remaining in an oversold condition. Overall, we think ICE futures are likely to continue to find strong support below the current market. No doubt, traders will be keen to scrutinize coronavirus news and US export data, which may hold greater market moving potential than this month's WASDE report.

Our advice to producers remains consistent, but we are adjusting targets on old crop. The relatively friendly fundamentals are enough to offer support below current trading levels but insufficient to overcome the uncertain spread and impact of coronavirus on trade and overall economic activity. Given the tendency to overreact to news, a positive story could easily give us 200-500-point rally to the upper 60s, and we believe it makes sense to sell old crop against a 6700+ market in the upcoming week. New crop has the luxury of time and the absence of constantly mounting storage, so we are content to bide our time for now and look to start pricing in the low to mid-70s, should that happen prior to planting.

Have a great week and don't forget to set your clocks ahead this weekend!

Report Courtesy: Rose Commodity Group

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