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ROSE ON COTTON – ICE COTTON FINISHES NEAR UNCHANGED ON WEEK, LITTLE ENCOURAGEMENT EXPECTED FROM SEPTEMBER WASDE REPORT

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The ICE Dec contract gave up 25 points on the holiday-shortened trading week, finishing at 58.58 as the Dec – Mar spread weakened to (73) which remains less than 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 higher Vs the previous Friday's finish, which proved to be incorrect. However, the result was an effective push.

ICE cotton found support on the week on renewed optimism regarding US – China trade negotiations and potential supply concerns following hurricane Dorian. Conversely, the market found resistance on strengthening US currency early in the week and continued lackluster export data; reports on Friday regarding less than expected damage to the crop across the Carolinas helped ICE cotton to finish in the red for the week.

The US crop is maturing rapidly even as daily high temps across West Texas cool Vs those realized during the recent

heat wave. The Mid-south and southeastern states expect record heat this week, which should help the crop to rush toward maturity. The crop is, however, somewhat late – especially across the Mid-south. Reported yield damage to the US crop from Dorian is currently light, although concerns remain about boll rot and color damage in the weeks to come.

US export sales and shipments against 2019/20 were higher for the week ending Aug 29 Vs the previous sales period, but remained disappointing, at around 164K and 238K running bales (RBs). Both sales and shipments were off the average weekly pace required to meet the USDA's 17.2M bale export projection. Sales against 2020/21 were higher Vs 2019/20 at nearly 200K RBs. Sales cancellations were modest, but potential for cancellation of higher-priced sales remains.

In the southern hemisphere, both Australia and the Mato Grosso region in Brazil continue to experience hot and dry conditions while the Indian monsoon season will soon draw to a close. Rainfall totals across the latter over the last four weeks or so has greatly enhanced the nation's production potential for this season.

Elsewhere, China has agreed to meet with US trade negotiators in Washington in Oct to resume progress toward a trade accord.

For the week ending Sept 3 the trade noticeably reduced its aggregate futures only net long position to approximately 88K bales while large speculators trimmed their aggregate net short position to just above 4.5M 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 trader's analysis and commentary.

With the Dec contract hemmed in by loan support under 57 and grower sales pressure above 60, producers should expect another week or more of rangebound trading barring

unexpected announcements on trade, or spec short covering prior to WASDE. Any move by Dec to or through the 60-cent level should be seen as an opportunity to buy puts, but given the rangebound nature of the Dec contract, the Mar, May, and Jul contracts will offer a greater opportunity for volatility.

We continue to expect most of the 2019 crop to trade on recaps, and see that as the best way for producers to capitalize on quality, short rallies, or basis competition in the fall. While long term predictions are a fool's game in the current trade climate, we think it is reasonable to expect the market to trade sideways for the foreseeable future, and advise against holding cotton for too long following harvest. Spot sales at the top of the trading range paired with options to take advantage of future volatility is the smart play for 2019 crop.

The USDA will release its Sept WASDE report at noon, ET on Thursday, Sept 12. At this time, we expect both projections of domestic and world aggregate production to be lower Vs Aug, but we also expect consumption to be trimmed. Hence, we see little bullish potential in the offing.

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 US export data, but it will likely be the WASDE report that has the greatest effect on trading action. Any such action could be positive via short covering ahead of the report's late-week release.

Have a great week!

Report Courtesy: Rose Commodity Group

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