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ROSE ON COTTON – COTTON MARKET CONTINUES TO IGNORE SUPPLY AND DEMAND FUNDAMENTALS, FED SLASHES INTEREST RATE TO NEAR ZERO

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ICE cotton again gapped lower to start what proved to be an extremely volatile week of trading. The May contract gave up 230 points on the week to finish at 60.49 even as it moved upward on Friday, on which it gained 79 points. Dec gave up 259 at 61.22. The May – July spread strengthened and is approaching flat at (27). Last weekend our proprietary model predicted a finish that would be near unchanged to higher Vs the previous Friday's settlement. We opted to trade this bias despite the WASDE report's scheduled release on Mar 10, which proved to be the wrong thing to do.

It was such an abnormally active news and report week, where does one begin.?

Ultimately, ICE cotton moved lower with equity and financial markets on increased concerns – and in some cases, hysteria – regarding the Wuhan virus, which the WHO has officially declared a global pandemic. Increasing fears have seen the US suspend travel from Europe for at least a month, seen as

bearish, to the President's declaration of a national emergency, which was taken as bullish. The USDA's Mar WASDE report featured supportive revisions to the domestic balance sheet and bearish aggregate world figures. Overall, the report was taken as neutral to bearish. USDA export sales data released last week was gargantuan, but the market effectively ignored the data following the EU travel ban announcement. Further, the market saw brief support on the poor performance by Bernie Sanders in the most recent round of Democratic party primaries and strengthening US currency, which is most often taken as bearish.

In its Mar WASDE report, the USDA downwardly revised its projection of 2019/20 production and carryout 300K bales each to 19.8M and 5.1M bales, respectively. The latest production estimate is based on the initial ginning report of the season and is not final until May. Hence, there will probably be some adjustment at that time. In fact, classing data already suggests that the USDA's revision was too deep. Domestic consumption and export were left unchanged Vs Feb at 3M and 16.5M bales, respectively. We think the latter figure will prove to be too low.

Aggregate world ending stocks were projected almost 1.3M bales higher Vs Feb at 83.4M bales, which is (obviously) a bearish figure. Aggregate world production was estimated 260K bales higher at almost 121.6M bales while the consumption estimate was raised 850K bales to less than 118.2M bales; USDA now has one of the lowest respected consumption projections for the current marketing year.

On the production side, most of The Belt is expected to see more rain and showers this week, with the Mid-South expected to again see rather heavy accumulations. Just east of Memphis, we have received 6 – 8 inches of rain over the last three days – and it is raining rather heavily at the time of this writing. It now seems very likely that southern corn acreage is

going to be lower than originally expected. With respect to cotton, we still have time to dry out (and warm up) but planting season will arrive in 2 – 3 weeks across the southern Delta, where flooding and saturated soils are prevalent.

US net export sales against 2019/20 were notably higher for the week ending May 5 Vs the previous sales period while shipments were off modestly at around 502K and 440K running bales (RBs), respectively. The US is 93% committed and 48% shipped Vs the USDA's export projection. Both sales and shipments were again well ahead of the average weekly pace required to meet the USDA's 16.5M bale export target. Sales against 2020/21 were higher at almost 161K RBs; total gross new sales were in excess of 675K RBs (>1.25M over the two most recent assay period. Sales cancellations were negligible; China was again a net buyer over the period.

Internationally, Conab raised its 2019/20 production estimate to 13.1M bales (Vs USDA at 13M) while ABARES estimated Aussie production at less than 622K bales (Vs USDA at 680K).

For the week ending Mar 10, the trade reduced its aggregate futures only net short position against all active contracts around 1M bales to around 5.25M while large speculators flipped their aggregate net long position to a modest net short of around 845K 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.

For this week, the standard weekly technical analysis for and money flow into the Mar contract remains bearish, with the market also remaining in an oversold condition. The closure of all gaps below the market on the continuation chart, we think, is supportive. 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 news surrounding the

Wuhan virus and US export data this week while also likely adjusting positions ahead of the release of the USDA's annual Planting Intentions report release on Tuesday, Mar 31.

In a very unusual move, the Fed conducted a Sunday meeting in which it slashed the interest rate a full percentage point to 0.25%. While this should theoretically prove supportive, the market is trading down around half its daily limit in early dealings.

Our advice to producers remains consistent with last week's. We believe that a few days of stability wrt COVID-19 will allow the market to trade fundamentals, which support both new and old crop prices in the upper 60s to low 70s. Unfortunately, we have no way of knowing when those few days of stability might occur. Our governmental sources tell us we are mere days away from widespread testing being available. This should prove to be bullish for the market. These same sources are quick to note that the data from these tests "could potentially" show the virus to be more widespread than previously thought, resulting in bearish news for the market.

If ever there was a time to use options to hedge against volatility, this is it.

Have a great week and do try to be mindful of helping to prevent the spread of the Wuhan virus!

Report Courtesy: Rose Commodity Group

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