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ROSE ON COTTON – COTTON MARKET HAS CALM WASDE WEEK

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The May contract gave back 34 points on the week, finishing at 82.86, and the May – July spread contracted to very near flat. Last week, our models predicted a finish on the week that was to be near-unchanged to higher Vs the previous week's finish, which proved to be correct, but we did not recommend trading any bias due to the release of the April WASDE report. Index fund rolling has concluded, and we are now performing primary analyses against the July contract.

The cotton market was uncharacteristically calm for a WASDE week and was both supported by lower than expected US carryout and hindered by poor US export business.

In its April WASDE report, USDA cut its estimate of domestic carryout 200K bales to 4.1M (not a bullish figure) by virtue of an increase in the export estimate; the production estimate was left unchanged, probably because of slower classing this year. USDA recently decided to use the final ginning report for the season as a benchmark for updating its own estimate, rather than waiting until May as they

previously had. It looks like we are back to May this season. Regardless, many participants believe carryout will ultimately be less than 4M because of expected production cuts.

The increase in the export projection follows from the fact that the US has very little remaining domestic spinning, so when there is limited carry in the market, merchants must either sell their cotton to international mills or to the board. The pace of US export shipments has been strong.

International carryout was projected higher than expected at around 92M bales, which is bearish, by virtue of effectively unchanged consumption and higher production in China.

Domestically, the Mid-south and the Southeast continued to receive rain last week, despite previously favorable forecasts. Corn and soybeans acres made progress across the Mid-south last week, setting the stage for cotton planting as weather conditions permit. The 10-day forecast for the Mid-south is hit-and-miss but remains favorable for the southeastern states. West Texas remains dry, despite recent rains from Lubbock southward that provided maximum accumulation of around 1 inch. Part of California's reduction in cotton area seems likely due to flooding, which has endured across the state's row crop regions.

For the week ending April 6, the US sold and shipped approximately 176K and 343K RBs, respectively, against the current MY. The latter number was strong; the former was not. Cancellations were negligible and sales were spread across the board.

Internationally, export data from India continue to show the nation's raw cotton exports sliding to a level likely even with what it sold to its largest customer last year. This would normally spell larger sales from the US (and other major exporters), but thus has not yet been the case.

For the week ending April 11, the trade significantly increased its aggregate net short position to approximately 2.74M bales while large specs reduced their net short position to just below 1.75M bales. Potential for higher market movement pm spec short covering endures.

The standard weekly technical analysis for and money flow into the July contract remains bearish but is quickly turning neutral. Planting progress, weather reports, and economic data will likely frame market movement this week.

Producers holding old crop should carefully study their calendars and consider the cost of storage. The hoped for pre-plant rally is still a possibility, but the odds get more daunting with each passing day. We are advising customers to take advantage of any move to or through the 85 cent range to cut losses on old crop and consider call spreads on the Dec23 or Mar 24 contracts to exercise bullish strategies.

New crop has a longer window, and we are looking to forward contract 25% of estimated yield with any move in the Dec contract to or through the 90 cent level. We see every reason to retain flexibility beyond that, certainly until producers have a stand in the field.

Have a great week!

Report Courtesy: Rose Commodity Group

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