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ROSE ON COTTON – COTTON FUTURES MOVE LOWER ON “BUY THE RUMOR, SELL THE FACT” SCENARIO BUT REBOUND ON FRIDAY

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The Mar contract finished very near unchanged on the week, giving up 6 points and finishing at 71.25, with the Mar – May spread strengthening to (94). The Dec contract gave back 11 points to settle at 72.37. 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; the near unchanged part proved correct.

ICE futures will take a break on Mon in observance of Martin Luther King, Jr. Day; the market will reopen at 9:00 PM ET Mon evening.

ICE cotton experienced classic “buy the rumor, sell the fact” symptoms post the official signing of the Phase One US – China trade accord; the paucity of specific details regarding the agreement and the inclusion of a “market conditions” clause seem (to many analysts and participants) to weaken the foundation of the deal. However, the Senate’s passage of the USMCA trade agreement, strengthening export data, and

continued strength in equities allowed ICE futures to pare early week setbacks on Friday.

Domestically, wet conditions across most of The Belt continue to hold field work to a minimum, with further rainfall forecast for most areas over the coming week. Producers continue to hope for cold temperatures to reduce overwintering insect populations. However, such frigid temperatures are not in most near- to medium-term forecasts. In other news, Agriculture Secretary Sonny Perdue has said he expects US producers to receive a third and final tranche of subsidy payment, despite the signing of the Phase One trade agreement with China.

US net export sales and shipments against 2019/20 were significantly higher for the week ending Jan 9 Vs the previous sales period at around 267K and 309K running bales (RBs), respectively. The US is 76% committed and 29% shipped Vs the USDA's export projection. Sales were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export target while shipments were approximately 78% of the pace requirement. Sales against 2020/21 were almost 15K RBs. Sales cancellations were negligible.

Internationally, China continued to purchase stocks for its strategic reserve from the Xinjiang region at a clip of around 32K bales per day. In other news, China's Shandong Ruyi has been added to the ICA's default list for failing to pay an arbitration award. The company's financial woes, which have been widely publicized, likely means that better US - China trade relations will not lead to a move forward with their planned opening of a textile mill in Forrest City, AR anytime in the near future.

For the week ending Jan 14, the trade increased its aggregate futures only net short position against all active contracts to nearly 8.7M bales while large speculators increased their aggregate net long position to just north of 3M bales.

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 remain supportive to bullish, with the market remaining in overbought territory. Market participants will pay increasing attentions to 2019 crop classing and ginning data and projections of intended 2020 acres for the US and across the northern hemisphere.

Producers in the spot market are benefitting from competition between major merchants, which has kept the basis stable despite rallying futures and increasing volume. This sharpening of merchant pencils increases the importance of smart marketing by producers, and makes a good broker even more valuable. The strategy favored by some producers of simply sending a recap to every email address or fax number in the book is unlikely to get the top price, particularly when the major merchants see the same lists from multiple sources.

The past several sessions look to have established a short-term trading range between 69.00 and 72.00. The Phase 1 agreement should help establish a floor on the lower end of this range and opens the conversation for what to expect if we can close above 72.00. Some commentators have made the case that 77.00 -78.00 could be an upward target, and we can't dismiss those numbers, but selling spot between 72.00 and 75.00 still looks smart to us.

Have a great week!

Report Courtesy: Rose Commodity Group

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