Rose Commodity Group

ROSE ON COTTON – ICE COTTON MOVES LOWER ON WEAKENING EXPORT DATA, CHINA TARIFFS

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The ICE Dec contract gave up 192 points on the week, finishing at 58.21 as the Dec – Mar spread weakened to (94).

Last weekend, our proprietary model (timely prediction available in our complete weekly report) predicted a settlement that was to be near unchanged to lower Vs the previous Friday's finish, which (unfortunately) proved to be correct.

ICE cotton ran into trouble on the combination of weakening US export business and fresh retaliatory tariffs by China. Continued concerns about the US crop, especially across West Texas offered little support.

Domestically, portions of West Texas received some relief from hot and dry conditions, but the largest portion of dryland acreage south of Lubbock continues to suffer. We believe the US crop is likely to get smaller than the USDA's current 22.5M bale projection, but the US will still likely produce a significantly larger crop than it did in 2018.

US export sales against 2019/20 were off notably – and quite disappointing – for the week ending Aug 15 Vs the previous sales period at around 149K running bales (RBs); shipments were significantly higher at approximately 352K RBs. Sales were off the average weekly pace required to meet the USDA's 17.2M bale export projection while shipments were ahead of the pace requirement. Sales against 2020/2021 were near non-existent. The US is 48% committed and 4% shipped Vs the USDA target.

With that said, we remain optimistic regarding the prospect of significant demand for US cotton below the 60.00 level, despite weak sales data for the week ending Aug 15. Our spot broker friends tell us they are receiving increased inquiries from foreign buyers offering prices at or just below current levels.

In international news, drought continues to grip Australia, while India is expected to see continued significant monsoon activity this week. Elsewhere, total yarn production in China in July was sharply higher Vs June while Brazil's currency continues to weaken Vs the US dollar, which has sparked further interest in Brazilian stocks for export.

Our advice to producers remains unchanged from previous weeks. Producers holding old crop equities should accept any offer that would trim their losses relative to forfeiture.

Current new crop forward contracting offers are mostly lukewarm, with most of the major merchants primarily focused on filling their warehouses and negotiating with warehouse rebates and shipping. We believe hedging with put options and keeping marketing options open makes more sense at current levels.

For the week ending Aug 20 the trade increased its aggregate futures only net long position to more than 430K bales while large speculators slightly increased their aggregate net short position to just above of 4.7M bales. The heavy spec short position continues to provide ammunition for market spikes.

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 (especially West Texas) and international weather conditions and, of course, US – China trade talks and developments, or lack thereof.

Have a great week!

Report Courtesy: Rose Commodity Group

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