



While forwarding of this article is permitted, as is quoting material herein with proper citation, reproduction or redistribution of this report, either in part or in whole, without prior written consent from Rose Commodity Group, LLC is expressly prohibited.

ROSE ON COTTON – COTTON MARKET MOVES BACK BELOW 70.00; US ELECTIONS LOOM LARGE AS INVESTORS MOVE TO SIDELINES

30-October-2020

LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec cotton contract gave up 237 points for the week ending Oct 30, finishing at 68.92 as the Dec – Mar switch weakened to (86). Dec still managed a 313-point gain for Oct. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be correct.

ICE cotton was lower on the week despite improved US export data, on strengthening US currency, COVID concerns, the lack of a US economic stimulus bill, weakness in equity markets, and on scheduled index fund rolling. Risk-off attitudes ahead of next week's national election probably incited some market participants to book profits and move to the sidelines. Without hurricane Zeta and overall poor harvest conditions Dec might have moved significantly lower.

Domestically, USDA continues to estimate this season's harvest progress effectively on par with the rolling 5-year average pace, which is just shy of 50% complete, but we expect that very little has been accomplished over the past

week. Reports out of southern Alabama relay that significant damage was done to cotton remaining on the stalk, which is estimated at around 40% - 50% of this season's harvestable area. Hence, one could envision the storm costing US production 200K - 300K bales. However, harvest weather is expected to be excellent across The Belt for the foreseeable future.

Net export sales and shipments were surprisingly significantly higher Vs the previous assay period at approximately 321K and 245K RBs, respectively. The US is 64% committed and 22% shipped Vs the USDA's 14.6M bale export projection. Sales were ahead of the average weekly pace required to realize the USDA's target while shipments were again off the pace requirement. Sale and shipments are ahead of the long-term average pace for this point in the season. Cancellations were large at more than 110K RBs.

Internationally, Brazilian trade and producer organizations are attempting to strengthen relationships between Brazil, China, and South Korea. Estimates out of Brazil show an expected 10% reduction in 2020/21 production Vs 2019/20 at around 12M bales. The Agricultural Ministry of Iran has estimated this season's production 15% higher Vs 2019 at 81K MTs (372K bales) which is about 58% of the nation's expected domestic use. Still, the world crop continues to look smaller with portions of the Indian crop damaged or lost to flooding and portions of the African Franc Zone (particularly Mali) crop seeing lower than expected yields. Finally, the Better Cotton Initiative (BCI) has ceased its field operations in Xinjiang China; BCI has cited China's perpetration of the worst case of mass ethnic incarceration since 1945 as the reason for its withdrawal.

For the week ending Oct 27, the trade increased its futures only net short position against all active contracts to approximately 14.4M bales, which signals that producer selling

continues to occur, while large speculators increased their net long to almost 6.8M bales. However, we expect the specs have reduced their net short position significantly over the last three trading sessions.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For next week, the standard weekly technical analysis for the Dec contract remains supportive to bullish, with the market no longer in overbought territory; money flow is turning negative. Presidential and congressional elections hold potential for moving the market notably; a Trump win would likely be more friendly for cotton futures via equity and oil market correlations.

Decades of experience suggest that few producers will sell in the high 60s following a week in the low 70s. If the election proves favorable to trade and consumption, those producers who sit the next week out will be well pleased with their market discipline. However, producers who have not yet priced cotton through contract, recap, or options should remember that we all regarded the 68-cent level as a desirable target for the past 6 months. There is still a reasonable likelihood that we may see the mid-70s through ordinary volatility and improvements in consumption, but with COVID on the rise and winter at the door for the northern hemisphere, there is a strong argument to be made that we could see a return to the low 60s or below by year's end. It is hard to argue against selling at least 50% of the crop while the spot basis is strong for high quality recaps in fast warehouses.

Happy Halloween and REMEMBER TO VOTE!

Have a great week!

Report Courtesy: Rose Commodity Group

With well over 60 years combined experience in the commodity trade, the partners of the Rose Commodity Group offer a wealth of knowledge and perspective to their clients. With expertise and direct experience in agronomy, crop production, futures and options, spot trading, hedging, shipping, and insurance, the Rose Commodity Group approaches marketing and risk management from a comprehensive perspective. Rose Commodity Group is not directly affiliated with any other commodity firm; we are not commission futures brokers. Our strategies and advice are based entirely on our client's specific needs and goals.

To learn more about Rose Commodity Group please

visit: <https://www.rosecommoditygroup.com/about/>

Disclaimer: *This publication is presented for informational purposes only. While the information contained herein is believed to be accurate and factual, the possibility of error exists. Commodity trading is an inherently risky proposition and there is no guarantee that trades based on the information herein will result in profitable outcomes.*