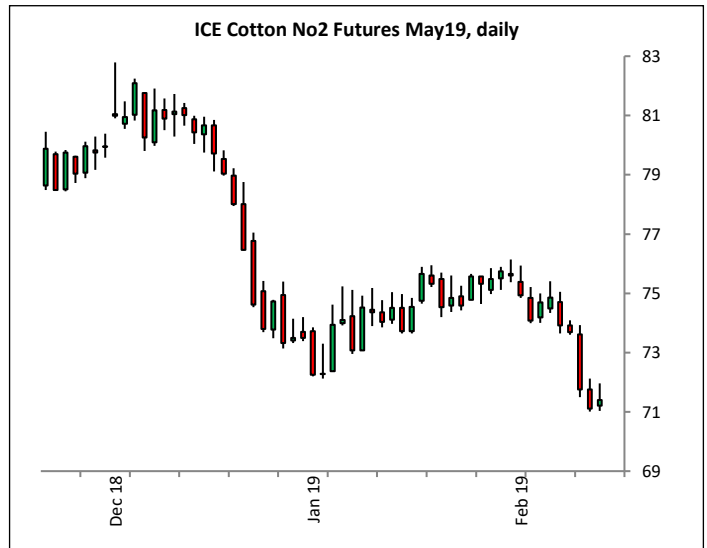


## COTTON MARKET REPORT

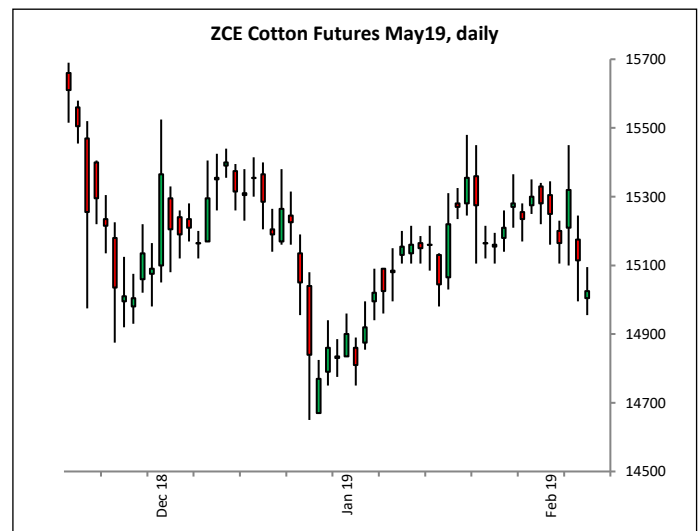
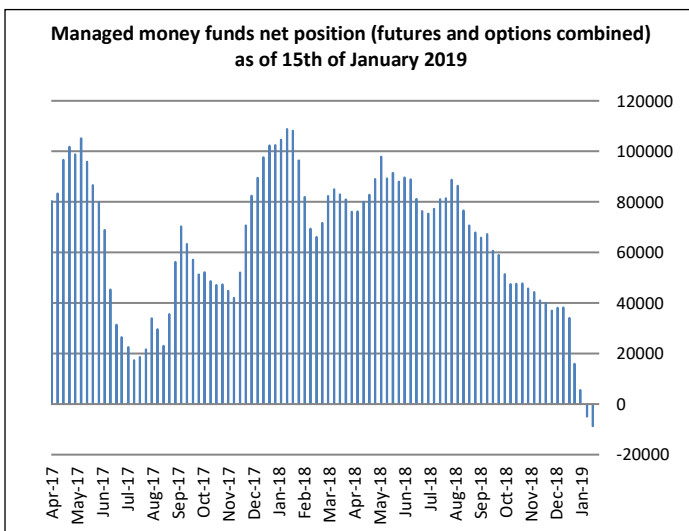
	Feb 13	Feb 06	change
ICE No2 Mar19	69.86	73.66	-3.80
ICE No2 May19	71.40	74.86	-3.46
ICE No2 Jul19	72.74	76.22	-3.48
ICE No2 Mar19-May19	-1.54	-1.20	-0.34
ICE No2 futures o.i.	241'956	245'717	-3'761
ICE No2 certified stocks	126'681	127'546	-865
A-Index 18/19	79.40	82.65	-3.25
ZCE May19	15'025	15'250	-225
MCX Cotton Feb19	20'150	20'720	-570
USD Index	97.129	96.390	0.739



**ICE Cotton No.2** – Following a failure to extend the corrective move above the 76.00 resistance (basis May19 contract) the market broke out of a month-long narrow ranged consolidation between 74.00 and 76.00 to the downside. The 3-cents drop was probably triggered by the general sell-off in other commodity markets on Monday. Prices set a new contract low at 71.01 on Tuesday and have been consolidating since within the 71.00-72.00 range. Futures daily volumes picked up making an 8-month high (82'600 lots) on Monday, although 70-80% of the overall turnover was accounted for spreading.

The last two Commitments of Traders Reports (futures and options combined, per January 8<sup>th</sup> and January 15<sup>th</sup>) showed that the managed money funds went net short (by combining long liquidation and initiation of new shorts) for the first time since March 2016, when prices were hovering in the high 50's.

Technical picture: The break below 74.00-73.50 set the 71.00-70.00 area as the next minimum downside target, which was basically reached. Building value below sets 67.00-66.00 as new price objective. On the other hand, breaking above the nearby resistance at 72.20 would likely trigger a corrective move to test the former support/new first key resistance at 73.50-74.00.



COTTON MARKET REPORT

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**USA** – This week negotiators from the U.S. and China are trying to get a trade deal. The U.S. has declared a deadline of March 1<sup>st</sup> for a structured deal to get done otherwise all Chinese imports will face an increased taxation. President Trump has mentioned though that this deadline could be extended depending the outcome of the negotiations.

This Friday another U.S. government shutdown is possible, but unlikely. Republicans and Democrats are still at odds about border wall funding, but congressional negotiators have reached an agreement in principle to avert another partial government shutdown, but it is unclear if the President will sign the deal.

The National Cotton Council's survey is calling for increased cotton acreage next season of 2.8%. According to the survey 14.5 million acres are intended for cotton planting. The main increase will come from the Memphis area with 13.6%, but also Texas will increase 2.2%, which comes as a slight surprise. A cotton crop of 22.7 million bales for next season will be produced calculating with average abandonment of 10% and average US yield per harvested acre of 840 lbs, compared to 18.4 million this season.

The USDA will release another round of delayed export-sales reports in the morning. The data will reflect the week ending January 3 which traditionally is a slow week due to the Christmas and New Year's holidays. February 22<sup>nd</sup> will have the potential for fireworks where one large report will be released catching the USDA up for the missed reports. Moisture situation continues to look excellent for the majority of the cotton belt according to the Palmer Drought Index. Still some time to go before spring planting starts in earnest but hard to bet against a large crop next year in the U.S. at this point.

**India** – Domestic cotton prices have been weaker tracking bearish cues from overseas market and supply pressure across major trading centers. All India cotton arrivals registered around 160'000 bales (each bale 170 kg) lint equivalent on an average per day basis, during the week. The Cotton Association of India (CAI) released its latest crop estimate and balance sheet for current season 2018-19 crop (October to September period), whereby total crop estimated production kept at 33 million bales (each bale 170 kg) reduced by 500'000 bales than previous estimate. The CAI has estimated domestic consumption of 31.60 million bales lower by 400'000 bales compared to the figure estimated during the last month. The carry-over stock is estimated at 1.4 million bales.

Cotton 29 mm MCX February contract broke the important support of 20'500, Relative strength indicator (RSI) is in the oversold region on the daily chart which suggest that the prices could consolidate in the near term, but overall trend remain bearish. Strong resistance is now seen at 20'500-20'550 and support at 19'850-19'900.

**China** – The ZCE cotton futures market opened after Chinese New Year holidays on a weaker note. The failure to break the 15'500 resistance (basis May19 contract) resulted in a pullback to the nearby support at 15'000. A break below would likely lead to a test of the contract low at 14'640. Short-term outlook is neutral. Long-term trend remains bearish. China is slowly coming back to work after the long holiday. As a first part of the 2019 TRQ quota has been distributed, and the price of imported cotton has become more attractive with lower ICE, there has been some increased demand mainly for nearby deliveries. But overall demand continues sluggish as the economy still is suffering from uncertainty regarding the trade war, and possibly even more from the very tight credit conditions; many private companies find it almost impossible to get access to trade finance.

Cottonchina has published its first estimate for 19/20 crop, calling for a slightly lower crop at 5.65m tons and about unchanged consumption at 8.58m tons. Of course, it's still very early in the season and much may change, but the fact remains that China has a long-term structural deficit of about 2.5-3.0m tons yearly which will have to be covered by further stock reduction and imports.

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