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ROSE ON COTTON – TOUGH WEEK FOR COTTON FUTURES; MID-SOUTH WEATHER CONCERNS INCREASING

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ICE cotton posted losses for the week ending May 3, with the July and Dec contracts giving up 202 and 174 points, respectively. The July – Dec inversion weakened modestly to 123 but remains a bullish near-term and bearish longer-term indicator.

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

ICE cotton moved lower on the week on softening US export business, more rainfall across West Texas and rumblings regarding potential for the US and China not being able to reach a trade agreement. Strength in US currency also likely played a roll, with major world importers inquiring for stocks from Brazil, Australia and West Africa.

Domestic planting progress is slow across the Mid-South, but is making good progress across the southeastern states. More rain is expected across most of The Belt over the near-term, which is not bad for W TX, OK, and the GA/AL/FL tri-state area but is far from ideal for the Mid-South. May 5 is generally considered the optimum planting date across the Mississippi River Delta, if the crop could be placed in the ground in a single day.

Net export sales against the current MY for the week ending April 25 were less than generally expected and taken as mostly disappointing at less than 158K running bales (RBs). However, given that the US is nearly completely committed against the USDA's 15M bale export projection and that sales have already eaten into more than 1.6M bales of 2019 production, we do not think that sales were terrible. Shipments, however, were well off the pace required to ship 15M bales by July 31 at approximately 303K RBs.

Still, it should be noted that the official carryout figure on July 31 is not as important in the long run as are the number of bales sold against the new and deferred marketing years.

The USDA's attaché in India has projected 2019/20 production at 29M bales. It should be noted that both the attaché and the USDA have 2018/19 production estimated notably higher Vs the Cotton Association of India, which has recently voiced its displeasure with USDA estimates and projections of the Indian crop(s). Harvesting continues across Australia with most of the nation's producing regions taking cotton off the stalk.

Producers found little solace this week, nor can we offer a concrete reason for optimism moving into next week. For the moment, it appears that the best opportunities for marketing old crop are behind us, and the new crop prognosis is iffy, at best.

With that said, however, we think the first week of May is too early to give up hope and make a Hail Mary play. We are hearing increasingly specific calls from our Washington sources that a bullish announcement could be in the works within the next 1-3 weeks, and the new crop market is playing out like a textbook weather market.

While some of our colleagues are seeing a 7250-7550 short term range for the Dec contract, we aren't ready to take 7800-8000 off the table just yet. The next few weeks will be critical to the crop outside the high plains, but W. TX could easily see the planting season extend into late June. That's a lot of trading days that could be impacted by widespread storms, a surplus or deficit of water, and the aforementioned possibility of announcements from Washington.

For the coming week, we're sticking to our marketing plan. Producers putting a crop in the ground should consider pricing 25-50% of their crop in the 7500-7800 market range, more if they are using option strategies to hedge. Producers selling 2018 crop cotton should stay in touch with their buyers and be ready to move if and when bullish news is announced.

For the week ending April 30, the trade significantly reduced its aggregate net short futures only position to approximately 9.2M bales, which suggests fresh business has likely been conducted. The trade reduced its position mostly via the covering of short positions. Specs trimmed their aggregate net long position to less than 1.3M bales, mostly via fresh selling.

The USDA will release its May WASDE report on Fri, May 10 at noon, ET. The May WASDE report will feature the USDA's initial release of complete and official 2019/20 balance sheets and associated projections. USDA is bound to employ the Mar 31 Planting Intentions figures, so any adjustments in production projections (domestically) will have to be through adjustments to expected yield and/or abandonment.

For next week, the standard weekly technical analysis for the July contract remains supportive while money flow has turned bearish. Traders will continue to closely monitor weekly US export data, news regarding US – China trade talks and weather reports as the thrust of the US planting season gets underway, but it will likely be the WASDE report that is most closely watched. The WASDE harbors supportive potential for 2018/19 and just the opposite for 2019/20.

Have a great week!

Report Courtesy: Rose Commodity Group

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