Rose Commodity Group

ROSE ON COTTON – ICE COTTON FUTURES POISED FOR A MOVE TO THE UPSIDE?

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ICE cotton posted gains for the week ending April 5 – making it four in a row - with the Mar contract gaining 64 points (476 over the last four weeks) to finish at 78.25, above long-term downtrend resistance. The Dec contract gained 145, settling at 76.89. The July – Dec inversion weakened to 170 but will likely continue to prompt merchants to offshore old crop stocks.

Last weekend, our proprietary model (timely prediction available in our complete weekly report) called for a settlement that was to be near unchanged to higher Vs the previous Friday's finish, which again proved to be correct, allowing us to post a fourth consecutive appreciable weekly gain.

ICE cotton moved higher on strong US export business, a generally expected tightening of the 2018/19 domestic balance sheet, likely less than originally anticipate US planted area in 2019 and mostly positive sentiments regarding a US – China trade deal within the foreseeable future. The likelihood that the US – Mexico border will remain open for commerce of the near- to medium-term, friendly technical factors and strength in crude futures were also supportive factors.

The USDA will release its WASDE report on Tuesday, April 9 at noon, ET. The monthly Bloomberg survey of analysts and traders shows that only modest adjustments to the balance sheets put forth in Mar are expected. However, we think that balance sheets will tighten somewhat due to production debits, mostly in the US and India. The USDA's 2019/20 balance sheet will be debuted in the May WASDE report.

We have said in this space, over recent weeks, that we expected to see increased strength in US export business, and such has occurred. Net export sales and shipments for the week ending Mar 28 were impressive at approximately 338K and 429K running bales (RBs) respectively. Both sales and shipments were ahead of the average weekly pace required to match the USDA's export projection and suggest that the USDA will not likely lower its export projection of 15M bales in the upcoming WASDE report.

On the domestic production side, light to moderate showers are expected across most of The Belt, (excluding AZ, CA and NM) over the coming week, which is simply more of the same. In general, cotton producing regions of the US need warmer temperatures and sunshine. The latest Drought Monitor data shows that most of W TX is no longer under droughty conditions while dry soils across Al, S GA, SC and FL panhandle have worsened.   Corn sowing has recently accelerated rapidly across southernmost areas, but late-week rains have kept progress in the North Delta minimal.

Internationally, a rash of USDA attaché reports relay that both worldwide production and consumption are generally expected to be higher in 2019/20 Vs 2018/19. Of particular interest, both data and projections indicate that Brazil's safrinha cotton crop may claim more acreage from second-crop corn than originally expected.

For the week ending April 2, the trade increased its aggregate net short futures only position to approximately 8.5M bales, mostly via the addition of shorts, while specs increased their aggregate net long position to just above 1M bales, mostly via short-covering. We continue to see CFTC trade position data as mostly supportive for ICE cotton; specs have plenty of room to sponsor a rally on bullish news/events.

We have had occasion to digest some of our prior advice for producer pricing and the market's apparent willingness to accept the projected reduction in 2019 crop acres. It now seems prudent to move pricing targets up slightly, with the old crop potential now extending more comfortably into the low 80s, and the Dec contract much more likely to approach or pass through the 80-cent mark.

Producers who followed our advice and priced 25% of their 2019 crop when the market passed 75 cents should consider holding off till we see a close near 80 or they have established a stand before pricing an additional 25%. Producers who anticipated the move up in the Dec contract and ignored our advice can feel justifiably smug, but 25% priced at current levels would be good insurance against improved planting weather, untimely developments in our relationship with China, or other bearish occurrences.

For next week, the standard weekly technical analysis for and money flow into the May contract are supportive to bullish. Traders will continue to closely monitor weekly US export data and news regarding US – China trade talks, while also increasing scrutiny of weather reports ahead of the thrust of the US planting season. Scheduled index fund trolling will continue next week, with the lead month expected to turn to July early in the week. Still, it will likely be the WASDE report that has the greatest effect on market sentiment next week – and we think that such sentiment could prove supportive.

Have a great week!

Report Courtesy: Rose Commodity Group

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