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ROSE ON COTTON - ICE COTTON POSTS MODEST GAINS ON HOLIDAY-SHORTENED WEEK, AHEAD OF JULY WASDE REPORT

7th July 2019

ICE cotton picked up 74 points for the week ending July 5, finishing at 66.82. The July – Dec spread weakened to (100).

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

ICE cotton found support on the week, especially early on, from the G-20 meeting between Presidents Trump and Xi. The two leaders agreed to restart trade talks and China verbally agreed to purchase significant to large amounts of US agricultural products. This generated a great deal of optimism and excitement initially, but as the week wore on, commentators and traders engaged their skepticism. To paraphrase the late, great Yogi Berra, it seemed a bit like déjà vu all over again.

We're cautiously optimistic on the trade talks. The status quo is weighing heavily on both the US and China, and there is growing pressure on negotiators to produce results ASAP. On the other hand, China has proven itself capable of playing the

long game and has the political and economic resources to do so. In a best-case scenario, we'll begin to see concrete evidence of progress following the holiday week, and we can base our trading strategy on data rather than promises.

Domestically, the US crop continues to progress, but planted area remains a mystery. The USDA will release updated acreage estimates in Aug per a second survey. However, only one state will be surveyed for cotton and it is anybody's guess how the USDA arrived at AR as its choice. Rain and showers are expected across most of The Belt east of AZ, with the heaviest accumulations expected along the Gulf and eastern coasts.

US export sales and shipments against 2018/19 were significantly higher for the week ending June 27 Vs the previous sales period at around 144K and 357K RBs, respectively. Sales were relatively evenly spread across the board. Shipments were just north of 83% of the weekly pace required to meet the USDA's 14.75M bale export projection. Vietnam and India accounted for most new sales. The US is 111% committed and 85% shipped Vs the USDA's projection.

Mostly dry conditions are expected to prevail over the coming week across South America and Australia. Dry conditions are excellent for South American harvest progress, but the Australian new crop (which will begin to be sown in Sept) remains in serious jeopardy at the hands of an extended drought. India's monsoon is expected to progress over the near-term, but rather slowly. Early harvest reports from Mato Grosso, Brazil indicate that yields are lower than originally expected at the hands of excess rains during the growing season.

Due to the Independence Day holiday, CFTC data will not be released for the week ending July 2 until Monday, July 8.

Our advice to producers in the coming week remains consistent. We see no reason to hold old crop, and encourage producers to take advantage of any rally that produces a positive price for loan equities.

New crop still has potential, but we were disappointed to see three failed efforts to break through resistance at 67.50 on the Dec contract. Put options remain a very attractive investment, and producers should take advantage of any move approaching or breaking the 68-70 cent range. In the absence of a trade rally, this is shaping up to be what our broker friends call a “recap year”, which has the potential to reward producers with higher grade cotton. How risky this proves to be will be determined by factors largely out of grower control. If you’re confident in your ability to produce long staple premium mic middlings and store in a warehouse offering fast shipping, you’re in great shape.

For this week, the standard weekly technical analysis for and money flow into the July contract remain bearish. The market will continue to closely monitor US and international weather conditions and, of course, US – China trade talks. The spec net short futures position continues to provide potential for market spikes. Of course, in the absence of a signed trade deal with China the July WASDE report, slated for release on Thursday, July 11 at noon ET holds the greatest potential for moving the market out of its trading range.

Have a great week!

Report Courtesy: Rose Commodity Group

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