ROSE ON COTTON – ICE COTTON EXTENDS WEEKLY WINNING STREAK 5 AS CHINA ISSUES ADDITIONAL IMPORT QUOTA

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ICE cotton extended its winning streak to five in a row for the week ending April 12, with the July contract gaining 27 points (491 over the last five weeks) to finish at settling 78.86. The Dec contract gained 30, settling at 77.19. The July – Dec inversion was off slightly at 167 but will likely continue to prompt merchants to offshore old crop stocks.

Last weekend, our proprietary models (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. Although this prediction proved incorrect, we advised not trading any bias ahead of the WASDE report's release, and data put forth in the WASDE report was not compelling enough for us to take a short futures position.

ICE cotton finished slightly higher on the week on strong US export business, poor pre-planting weather conditions across the Mid-south and the southeastern states, weakening US currency, additional import quota issuance by China to its domestic mills and a neutral to bearish WASDE report that was largely discounted by market participants.

In its April WASDE report, the USDA increased its estimate of US carryout for 2018/19 slightly to 4.4M bales and boosted its expectation of world aggregate ending stocks by 350K to 76.44M bales. Both adjustments came as the result of lower consumption – US domestic consumption is now estimated at 3.1M bales, which would be, if realized, the lowest figure since the late 19th century. Aggregate world consumption was still projected at a still robust figure of nearly 123.2M bales.

Last year, the USDA broke a long-standing tradition of leaving the Jan domestic production estimate unchanged until either April or May and altered its estimate in the Mar WASDE report. This year, they declined to trim their estimate in April even as data clearly indicates that the crop is significantly below the official estimate of almost 18.4M bales.

At the world aggregate level, USDA also continues to staunchly refuse to alter its projections of the Indian and Pakistani crops, even as the Cotton Association of India (CAI) continues to lower its production estimate with trade suspended in the latter due to tightness of stocks. On Tue, CAI estimated India production 1.4M bales shy of USDA at 25.6M bales.

On the domestic front, the trade war with China (among other skirmishes) have significantly reduced the demand for US spun yarn. It has also hampered foreign investment in new domestic spinning and textile ventures. A call on Tuesday afternoon to the Forrest City, AR Chamber of Commerce revealed that Shandong Ruyi Technology Group's endeavors in the Mid-south have seen little activity in the past year, since the US – China trade war began. However, the Chinese textile and clothing company reportedly still maintains its plans to begin operations in Forrest City, presumably if a favorable trade accord between the US and China can be reached.

Shandong Ruyi had previously said it planned to spin 800K+ bales of Mid-southern cotton per year while producing yarn and textiles with a workforce of around 800 people. Given that the organization plans to produce textiles in the US, a trade accord could ultimately mean a significant enhancement to annual US cotton consumption.

USDA estimated world aggregate consumption was lower on slowing growth projections from the International Monetary Fund, even as USDA attachés continue to project 2019/20 consumption higher Vs the current MY in nearly every nation from which they report.

US export sales and shipments were off for the week ending April 4 Vs the previous sales period, but remained quite impressive, at approximately 319K and 409K running bales (RBs) respectively. Sales against the 2019/20 marketing year were nearly 210K bales. Both sales and shipments (2018/19) were ahead of the average weekly pace required to match the USDA's export projection. Sales cancelations were modest at less than 15K RBs.

Domestically, rain and showers are again expected across most of The Belt, less AZ, CA and NM, over the coming week. Rains are expected to be heavy across the Mississippi River Delta, with 5 inches or more expected to occur locally (over the weekend some Mid-south locales have received significantly more than 5 inches of precipitation). Much lighter accumulations are expected where moisture is needed or would at least have a positive effect.

Internationally, in addition to the the issuance of import quota by China and the WASDE report, Steve Mnuchin has said that the US and China have essentially agreed on an enforcement mechanism for any deal that may be reached, even as the administration is eyeing tariffs against goods imported from the EU. In its April Crop Survey Report Conab has approximated total production significantly higher Vs Mar at 12.15M bales.

The spot market sold a lot of Rolaids, cigarettes and whiskey last week, with rallies on Monday and Friday, but a midweek slump that had many producers fearing they had once again priced themselves 10 points too high to get sold. Brokers scrambled to keep pace with a fluctuating market that correlated closely with the shifting moods of customers and a widening basis. By week's end, recaps were selling on a wider basis than seen on Monday, and buyers were taking a much closer look at classing data.

While we still see the potential for the July contract to trade into the 80s, we continue to caution producers that storage and interest could outstrip market gains. We continue to see any move to the 78-80 cent range, base May, as an excellent opportunity to sell old crop cotton, and strongly encourage producers to monitor tariff news with Canada and the EU as closely as they do China.

We maintain our recommendations to price an additional 10-15% of new crop if Dec trades to the 79-80 cent level. We would consider this an attractive level to price more aggressively if pricing with puts or other non-binding methods, but the calendar and the extended weather forecast make a strong argument for a more conservative strategy until we see a healthy stand.

For the week ending April 9, the trade increased its aggregate net short futures only position to approximately 10.3M bales, via liquidation of longs and initiation of shorts. Specs increased their aggregate net long position to just above 1.7M bales, mostly via short-covering. We continue to see CFTC trade position data a mostly supportive for ICE cotton.

For this week, the standard weekly technical analysis for and money flow into the July contract remains supportive to bullish. Traders will continue to closely monitor weekly US export data and news regarding US – China trade talks, while also closely monitoring weather reports ahead of the thrust of the US planting season. Trading will be abbreviated for the week commencing April 15 in observance of Good Friday.

Have a great week!

Report Courtesy: Rose Commodity Group

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