ROSE ON COTTON – ICE COTTON FINISHES LOWER AS DEC CONTRACT COMMENCES NOTICE PERIOD, US – CHINA DEAL SEEMS UNLIKLEY AHEAD OF 2020

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The Mar contract gave up 184 points on the week, finishing at 64.85 as the Mar – May strengthened modestly to 109. Last weekend, our proprietary model (timely prediction available in our complete weekly report) predicted a settlement that was to be near unchanged to lower Vs the previous Friday's finish, which proved to be correct.

ICE cotton had trouble moving higher on mostly negative sentiment regarding the potential for a nearby US – China trade accord, strengthening US currency and increased producer selling ahead of expiry of the Dec contract. Relative strength in US export sales helped mitigate the weekly setback.

US harvest progress for the week ending Nov 10 (per the USDA) was about 1% per day, with the US most recently estimated at 68% complete. Harvest weather is expected to be (mostly) less than favorable across most of The Belt over the near-term.

Looking ahead to next season, Rabobank has projected US planted area off around 700K acres in 2020 Vs 2019. While a modest reduction in acreage committed to cotton seems intuitive, cotton is again a "program" commodity, which we think will support acreage in the face of generally low prices for both corn and beans. In many areas, consolidation of land ownership and ginning infrastructure sets an additional minimum acreage support level for cotton.

US net export sales against 2019/20 were lower for the week ending Nov 14 Vs the previous sales period while shipments were higher at around 235K (a MY high) and 144K running bales (RBs), respectively. The US is 65% committed and 18% shipped Vs the USDA projection. Sales were again well ahead of the average weekly pace required to meet the USDA's 16.5M bale export projection while shipments were only around 40% of the pace requirement. Sales cancellations were significant at more than 40K RBs and mostly attributable to China, which was a net canceller over the sales period after making significant purchases during the previous assay period.

The US and China remain at an impasse in trade negotiations, with China not wanting to sign a phase one agreement prior to tariffs being rolled back and the US vowing not to do so until an agreement is inked. President Trump has publicly vowed to move forward with planned tariff enhancements on Dec 15 if a trade deal has not been signed by said date, and China has vowed to retaliate if such occurs. Headlines and twitter comments so frequently proclaim the imminent success or failure of negotiations only to be contradicted within the same news cycle that most stories are heavily discounted by the trade.

Elsewhere, the USDA's attaché in India projected this season's production at 29.5M bales, which is significantly lower Vs USDA. This season's production in Spain has been estimated at 316K and 300K bales by the local attaché and the USDA, respectively; these figures are very near unchanged Vs 2018.

For the week ending Nov 19, the trade noticeably reduced its aggregate futures only net short position against all active contracts to around 1.85M bales in risk-off trading action while large speculators trimmed their aggregate net short position to approximately 1.4M bales. The spec short position provides potential for upward market movement.

For a complete analysis of COT data see our weekly commitments of trader's analysis and commentary.

For this week, the standard weekly technical analysis for and money flow into the Mar contract remain supportive to bullish, with the market's overbought condition now mitigated. The market will continue to closely monitor weather conditions, harvest progress and yield reports, export data and. (of course) US – China trade headlines. This week marks the beginning of the US holiday season, so shortened hours and skeleton crews at trading houses could contribute to market volatility over the next month.

Our advice for producers remains consistent. We recommend selling spot cotton on rallies to or through the 66-cent level base Mar. in the short to medium term, this market shows every sign of being range-bound, and offers little incentive for a producer to pay more than 1-2 months' storage. For those harboring more bullish sentiments, selling spot and buying May or Jul calls makes much better sense than holding cotton into the spring or summer.

Have a great week and happy Thanksgiving!

Report Courtesy: Rose Commodity Group

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