ROSE ON COTTON – CHINA TO MAKE RESERVE STOCKS AVAILABLE, INDIAN CROP LOOKS SMALLER

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ICE cotton posted a modest loss for the week ending April 26, with the July contract giving up 57 points to finish at 77.60. The Dec contract gave back 86 at 76.19. The July – Dec inversion strengthened to 151 and 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 higher Vs the previous Friday's finish, which proved to be incorrect.

ICE cotton moved lower on the week on softening US export business, more rainfall across West Texas and lower crude futures. Cotton was also likely affected by CME grains and oilseed futures, which moved lower last week.

Domestically, the Mid-south dodged a bullet late last week, when a significant and expected rain event failed to materialize. However, most of The Belt is expected to see precipitation over the next seven days, with the heaviest accumulations expected across the Mississippi River Delta. These rains will be particularly stressful for North Delta producers who are entering the prime window for planting, and who are already looking at prevented corn plantings.

US export sales were higher for the week ending April 18 Vs the previous sales period while shipments were lower at approximately 250K and 352K running bales (RBs) respectively. Sales were well ahead of the average weekly pace required to match the USDA's export projection while shipments again fell short of the requirement. The US is 98% committed and 59% shipped Vs the USDA's latest projection. Sales cancelations were modest at less than 15K RBs.

Internationally, the Cotton Association of India continues to lower its estimate of 2018 production. The most recent estimate took the crop down to the equivalent of approximately 25M 480lb bales, 2M bales less that the USDA's latest expectation. Reports out of India suggest that producers are favoring corn and soybeans to cotton for 2019. Elsewhere, China has announced that it will release 1M MTs (~4.6M bales) of cotton from its strategic reserve. China plans to make around 10K MTs available for sale each workday from May 5 through Sept 30 of this year. This speaks well of demand, and perhaps the supply side of the S&D equation, too.

For the week ending April 23, the trade added modestly to its aggregate net short futures only position, taking it to approximately 10.2M bales. The trade liquidated more longs Vs the covering of shorts. Specs increased their aggregate net long position to around 1.45M bales, mostly via the initiation of longs.

Our advice for producers remains the same moving into the new week. The July contract looks to be trading a range between 7750-7950, and we think sales in that range make perfect sense. While a low-mid 80 cent July isn't out of the question, the range between 7950 and 8000 will be volatile and difficult.

The Dec contract's behavior is less predictable. Earlier supply side arguments for a mid-summer selloff remain valid and convincing. However, we are at the beginning of what looks to be several weeks of weather volatility, which could pay rewards for producers with good discipline. The 7800-8000 range looks to be a good target for being 50% priced, and should the market move into the 80s, more aggressive pricing will be well justified.

For this week, the standard weekly technical analysis for and money flow into the July contract remain supportive to bullish. 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.

Have a great week!

Report Courtesy: Rose Commodity Group

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