ROSE ON COTTON – CHINA SHOPPING FOR COTTON TO REPLENISH ITS DWINDLING RESERVES?

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ICE cotton posted significant gains for the week ending Mar 22, with the Mar contract gaining 108 points (309 over the last two weeks) to settle at 76.58. The Dec contract gained 78, settling at 75.30. The July – Dec inversion strengthened to 227, leaving merchants no incentive to carry US cotton significantly into the 20119/20 market year, which commences on Aug 1.

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 correct, allowing us to post a second consecutive appreciable weekly gain.

ICE cotton moved higher on spec short-covering, late-week positive announcements regarding US – China trade negotiations, relatively strong US export data and dovish remarks from The Fed. Further, in addition to the rumors of increasing demand for raw cotton in China, there were also rumors of China shopping for US cotton in order to re-stock its strategic reserve, which is now down to an estimated 13M bales. If China refurbishes its reserve in a large way, such will simply be bullish, regardless from whom she is purchasing cotton. Finally, cotton's breakthrough, and settlement above, its long-term downtrend resistance likely spurred increased spec short-covering and, perhaps, new technical buying.

US export sales were off significantly for the week ending Mar 14 Vs the previous sales period while shipments were higher at approximately 147K and 367K running bales (RBs) respectively. Sales were well again ahead of the average weekly pace required to match the USDA's export projection of 15M bales while shipments just missed the pace requirement.

The continued increase in CFTC mill on-call commitments continues to lend credence to rumors of increasing demand for US cotton.

Domestically, showers are expected across most of The Belt over the coming week, although heavier accumulations are expected where they are not welcome and lighter amounts expected to occur across W TX and SW OK, where they would be beneficial. The annual Bloomberg survey of analysts and traders (to which we contribute) showed an average expectation for 2019 cotton acreage of 14.4M bales; we were on the low end of the spectrum at 14M acres while the highest projection was 15.54M bales. The USDA's projection will be based on survey data, and we think that there is an appreciable probability of a surprise although 14M acres would be near unchanged Vs 2018.

On the other hand, if rains continue across the southern US, planned corn acreage could find its way to cotton. Some analysts have mentioned that acres may already be on a downward trajectory across the Mid-south due to river and tributary flooding, but those of us who live here know that little cotton has been planted inside the levees in recent years.

For the week ending Mar 19, the trade increased its aggregate net short futures only position to approximately 10.4M bales, mostly via the addition of new shorts, while specs noticeably cut their aggregate net short position to just less than 900K bales, mostly via short-covering, with further covering seeming likely to have occurred over the last three trading days. Still, the spec net short position could continue to provide fuel for market spikes.

The most pertinent international news for cotton on the week again involved China. Early in the week the general expectation was for a deal to be reached no sooner than late spring/early summer, but on Friday there was an announcement that several memorandums of understanding regarding trade between the two countries had been signed, which is a very encouraging sign. Secretary Perdue has publicly stated that China has placed offers on the table that would be very exciting for the US ag sector.

Producers with old crop took advantage of the rally towards 77 cents on the May contract, with brokers and merchants reporting moderate but steady volume throughout the week. Forward contracting of new crop is processing at a slow pace with producers crediting a mixture of bullish sentiment and concerns over planting conditions for their reluctance to contract.

For next week, the standard weekly technical analysis for the May contract continues to turn positive, but remains effectively neutral, with money flow remaining negative. Traders will continue to closely monitor weekly US export data and news regarding US – China trade talks, while also anxiously awaiting the release of the USDA's annual Planting Intentions report, scheduled for release on Friday, May 29. Scheduled index fund rolling will commence next week with the Rogers roll. It is often difficult for the front month to move higher during the roll period, but the considerable aggregate net short position of the specs could make the upcoming roll different.

Have a great week!

Report Courtesy: Rose Commodity Group

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