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Rose on Cotton - USDA Springs Bullish Surprise On Market Participants

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ICE cotton posted gains for the week ending Mar 29, especially in the old crop contracts, with the Mar contract gaining 103 points (412 over the last three weeks) to settle at 77.61. The Dec contract gained 14, settling at 75.44. The July – Dec inversion strengthened to 287, which continues to suggest that US export sales will likely continue to be revealed as strong over the near- to medium-term.

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 again proved to be correct, allowing us to post a third consecutive appreciable weekly gain.

ICE cotton moved higher on the week on further spec short-covering, strong US export data and (mostly) a much tighter than expected projection of US area committed to cotton in 2019 via USDA.

In its annual Planting Intentions report, the USDA projected total area committed to cotton (upland + ELS) off 2% Vs 2018 at 13.8M bales – reductions in acreage were most evident in

areas that saw yield losses due to drought and/or hurricanes in 2018. The USDA's figure was significantly less than all major published pre-report expectations, including ours which was at the low end of the expected range. However, we have said over recent days that we thought a surprise projection to the low side was plausible.

For those who follow our reports regularly, they will recall we published our initial domestic S&D projections, including planted area, on Jan 31, in which we forecast total cotton acreage at just below 13.5M acres. However, our pre-report notion of what the USDA would estimate was 14.1M acres. We continue to feel comfortable with our initial acreage projection of 13.5M acres, as well as with our initial production forecast of just above 21M bales. Still, there is a long, long way to go before the 2019 crop is harvested and ginned, with the vast majority of the US crop having yet to be seeded.

Our initial projections can be seen at:

<https://www.rosecommoditygroup.com/rcg-monthly-cotton-balance-sheet-update-3/>.

US export data for the week ending Mar 21 were pleasantly surprising. Sales and shipments were significantly higher Vs the previous sales period at approximately 256K and 398K running bales (RBs) respectively. Sales were well ahead of the average weekly pace required to match the USDA's export projection while shipments again just missed the pace requirement. Continued week-on-week increases in CFTC mill on-call commitments continue to suggest increasing demand for US cotton.

Domestically, on the production side, light to moderate showers are expected across most of The Belt, less AZ, CA and NM, over the coming week. Corn sowing is accelerating rapidly across southernmost areas while areas north of

Memphis, TN will likely begin planting during the coming week.

For the week ending Mar 26, the trade increased its aggregate net short futures only position to approximately 7.5M bales, mostly via the addition of new shorts, while specs flipped their aggregate net short position to a small net long of just less than 250K bales, mostly via short-covering. Potential for rallies due to spec short-covering have evaporated; however, specs have plenty of room to build a significant long position.

The most pertinent international news for cotton continues to involve China. US trade representatives were in China on Mar 28 and 29, with Chinese negotiators expected to visit D.C. next week. Sentiments continue to oscillate between positive and mildly discouraging. We had hoped that the Mueller report (which provided indications of neither collusion nor obstruction of justice) might incentivize the Chinese to become more receptive to the US Administration's demands, but rumors of negotiations continuing for months, not weeks, may belie such sentiments.

Tensions continue manifest between the US and China – the US has expressed concerns over China's relationship with North Korea, human right violations with respect to China's minority Muslim population and, of course, evidence of corporate espionage and intellectual property theft. The Chinese are upset with the US for the arrest and charging of a Huawei (Chinese tech company) executive with multiple counts of espionage (among other offenses) and US military presence in the South China Sea

Producers still holding old crop cotton have gotten another bite at the apple, with current prices not having been seen since mid-Dec. Our friends in the trade tell us they are seeing moderate volume as producers take advantage of the rally and continued friendly basis to sell the remainder of their 2018 crop. We salute these producers for having the

discipline to take a good price when offered rather than hold out for the promise of a China rally in the coming weeks.

We can't rule out bullish news from the trade talks inspiring a rally, and it would be realistic to expect such news to inspire a 2 to 5 cent rally on the May and July contracts. However, before producers stake their marketing strategy on such a rally in spot prices, they should take time to account for the nearly inevitable widening spot basis that accompanies an increase in volatility and the steady march of storage charges eating into their net receipts. To these factors, add the psychological challenge of moving from 78 to 80 cents and the lack of any concrete bullish news from those most closely associated with trade negotiations, and it is difficult to build an argument for holding cotton for an extended period.

We continue to recommend pricing 25-30% of new crop at and above the 75-cent level.

For next week, the standard weekly technical analysis for the May contract is supportive to bullish; money flow remains negative. Traders will continue to closely monitor weekly US export data and news regarding US – China trade talks, while also increasing scrutiny of weather reports and official US S&D balance sheets that show noticeable signs of tightening. Index fund rolling continues next week with the Rogers roll sent to culminate on Monday.

Have a great week!

Report Courtesy: Rose Commodity Group

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