Friday, April 29, 2016

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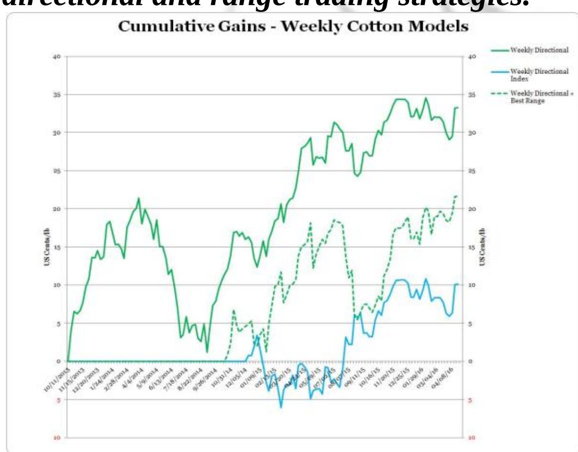
Weekly Complimentary Cotton Market Report

The following chart shows settlement to settlement cumulative gains per contract from our proprietary daily and weekly directional cotton models and indices and also cumulative gains from combined directional and range trading strategies.



ICE cotton futures were either steadfast or stubborn this week, depending upon whether one was either long or short, as nearby July traded and settled within tight ranges over the course of the week. July picked up 8 points on the week while Dec added 20.

Weather conditions across most US producing regions where the planting window has arrived are expected to improve over the near-term, but presently remain challenging across the mid-southern and southeastern states. Too, additional precipitation would be beneficial for topsoil moisture across W TX. The far western US crop is reportedly emerging and developing nicely.

Weather conditions across most major cotton producing within the northern hemisphere are expected to be mostly favorable over the near-term for sowing of this season’s crop. Mostly dry and warm conditions across most producing regions of Australia should compliment harvest operations next week while recent hot and dry conditions across central south Brazil, may curb this season’s yield potential. Recent showers across Argentina and Paraguay will benefit late development of the cotton crop, but will also hinder early harvest efforts.

Demand for US cotton for export continues to be slack. Total net export sales against the current MY were reported at the lowest level since the MY began – less than 85K RBs, approximately one third of which was ELS. Shipments improved W/W, finally meeting the weekly level required in order to hit the USDA's export target.

Internationally, China's reserve auctions are scheduled to commence on May 3rd. Slow off-take could mean improved yarn imports into China, which would likely be supportive of US sales over the near-term. Conversely, strong off-take would signal a drawdown of China's massive reserve, which could be somewhat bearish over the near-term, but would likely be long-term supportive of US futures prices.

Ahead of the auctions, we continue to think that China will be diligent in its efforts to drawdown it massive stockpile. Reported tightness in the physical pipeline should facilitate early sales. One wonders if China, perhaps, did not consider this in its recent delays in commencing the release.

In economic news, The Fed left its target interest rate range unchanged at 0.25% - 0.5%. Further, The Fed inferred that there is not, at this time, any pressing urgency to raise rates. The Fed's recent statements, combined with adjusted monetary policy in Japan, have served to weaken US currency value somewhat (although it remains quite strong). Still, the recent decline in the USD Index is somewhat supportive for US Ag markets.

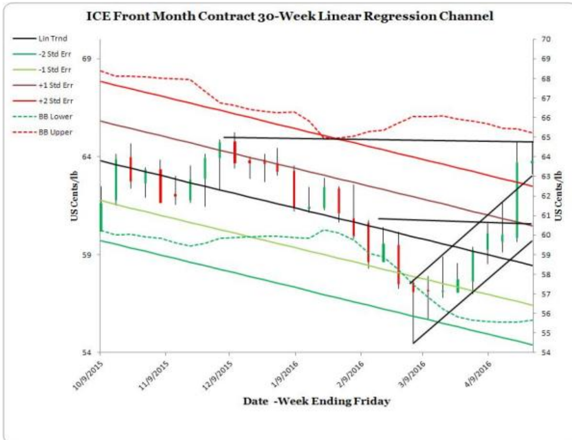
With soybeans trading over $10 and the recent devaluation of cotton equities by $10/bale, we continue to hear of Delta acreage being switched from land intended for cotton to soybeans. The size of this move remains to be seen, but wet weather in the next 3 weeks could easily push more acres to beans.

Unfortunately, the aforementioned change in the AWP formula effectively threw a wet blanket on forward contracting, and neither producers nor merchants are getting aggressive despite a Dec contract moving into the mid 60s. Until the market or basis justifies a price 4-5cents better than current offerings, it is hard to see producers committing more than token acres to any given contract.

That said, both prudence and your banker would argue that it makes sense to price ¼-1/3 of your crop at current levels or higher. The option pit looks like the best place to do that for now, which gives growers the option to play the basis game later in the season, when weather, quality issues, or a tight domestic supply could improve current offers.

For next week, the standard weekly technical analysis for and money flow into the July contract remain bullish, but the market is now moving into a technically overbought condition. The market will likely take a cue from early results of next week's reserve auctions in China. US export sales are not likely to post a significant improvement for the week ending April 28.

Have a great weekend!



For a much closer view of our proprietary analysis and forecasts for cotton and grains please see one of our other daily or weekly reports at: http://rosecottonreport.com/.

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