

Cleveland on Cotton: Monitor Market Events on Cotton's Horizon for Price Impact

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Cotton has enjoyed a good run as December futures have finished higher in six of the last seven trading sessions. The 65-cent handle was associated with the market over the past week, with a very brief trip below 64 cents as well as even sticking its nose above 66 cents.

Some still are not convinced of a market bottom. Let's hope their technicals let them down.

Going into the weekly close, the December contract was at 65.56, and the market settled near the high end of the daily trading range — a very positive end of the week bonus. We remain skeptical of much time being spent at 66 cents or above. Expect prices to generally work the 64.50-to-66.25-cent range for the coming month.

Yet should the government reopen one day and hastily provide export sales and shipment data along with the all-important

CFTC On-Call data, the market could find a surprise and see a price jump that challenges 67 cents. However, one should not count on such.

Too, the on-call report is expected to show that mill and growers activity has been offsetting, leaving a slightly bearish tone on prices. Since the northern hemisphere peak ginning season has passed, this will allow a slightly bullish tone. Nevertheless, the "tones" should be considered as offsetting. We will just have to see what the government gives us, but no true surprises are expected.

This past week's rally was associated with both fundamentals and technicals briefly joining in tandem, but don't expect such this week. An upward breakout of a small symmetrical triangle appeared two days before the Trump-Xi meeting and this, coupled with rumors that cotton would be discussed, sent ICE nearly 100 points higher. Recall, we mentioned the possibility last week but continue to feel China will only take U.S. cotton after it fills its principal needs from Brazil, Central Asia, Australia, and West Africa. Too, China believes that prices will not move high enough to cover carrying charges. Thus, their idea is to let the U.S. carry the cotton and, should they need it later, it will still be available at near the current price or only slightly higher.

Also on the horizon is first notice day (FND) for the December contract. It remains a month away, and some are expecting the very large speculative short position to push prices higher as they exit their shorts (exiting because they do not have cotton to deliver). That will likely be a non-issue given the changing trends in world trade and the influence of foreign cotton hedged on the New York ICE. Yet, we must monitor it closely.

Before FND, the market will have to deal with option expiration (just to mention). Likewise, there is no reason to expect any fireworks there.

Open Interest (OI) has reached a yearly high (I had expected a decline in OI, but the Trump-Xi effect brought more trading to the floor). Current fundamentals do not favor a climb to 67 cents or above. But should the OI be slow in coming off the

board, then the 66-cent handle could become a familiar trade on the board.

Thus, there are several events coming to a head in the coming month that will require daily monitoring in search of an impact on prices. The three-day Jim Rogers rolls will be completed on Nov. 3. The much larger five-day long Goldman Sachs rolls will begin Nov. 7.

Prices will continue to trade the 64-to-66-cent range. It will be difficult to spend much time above 66 cents. The lows are in, according to classical technical analysis.

Give a gift of cotton today.