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Prandelli 2018 Cotton Forecast Bulletin

By Daniele Prandelli

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INTRODUCTION

This is the 2018 Forecast for the Cotton No. 2 Market. This is the second year we create a forecast for Cotton, and we think we can provide a reliable tool to help us understanding what the favorite trend is. What does it mean? It means that using specific studies we can create a forecast model that statistically worked well when we tested it in the past. As I always do, I show how the model worked in the past, so you can judge it by yourself. We do the same studies with [S&P500](#) and [Grains](#), where we had great results in the last years.

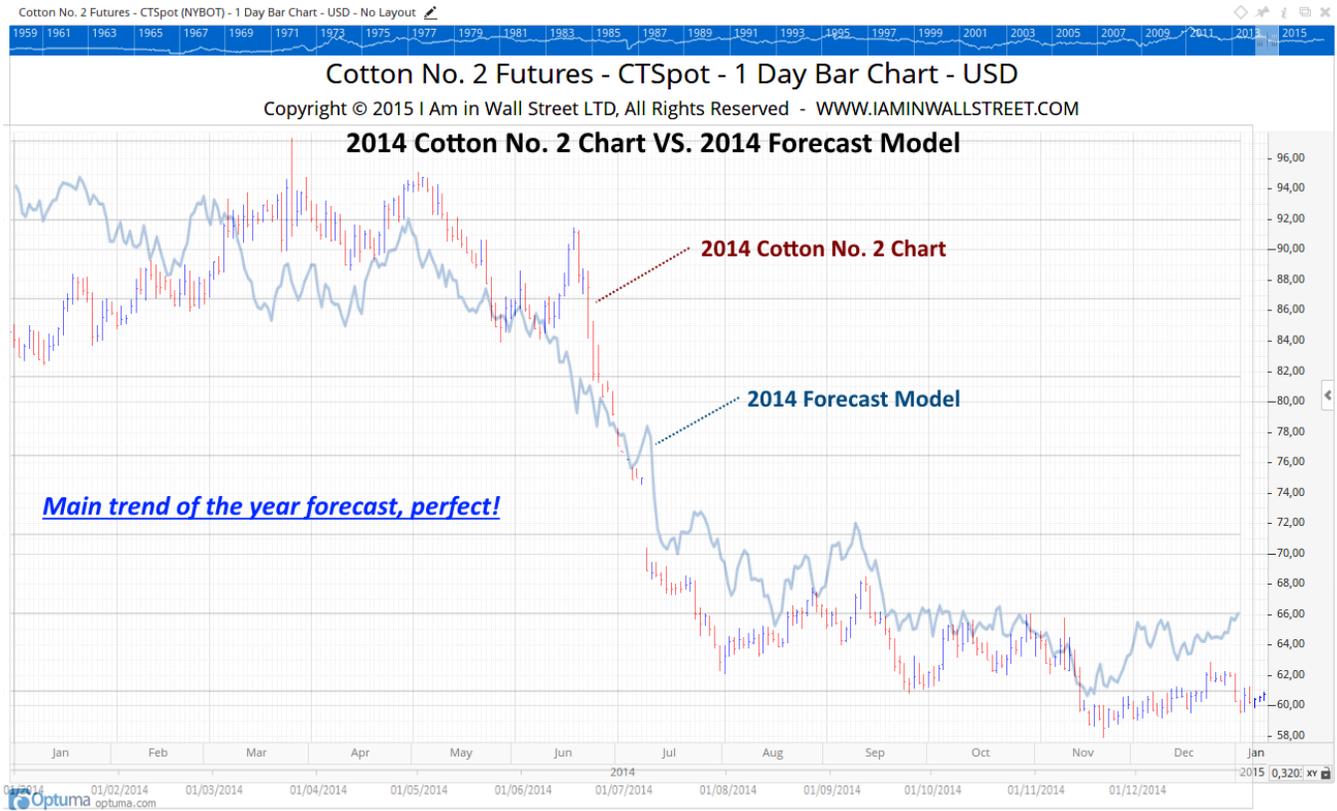
We are also able to provide some specific Key Levels for each contract, in this way we have one more tool to study the Market and have confirmations about the right trend to follow.

For now, here below you can see the Forecast Model results of the last four years. Even if sometimes it is not very precise, I am very happy about it because the Model was able to forecast the Top and the Bottom of the year 3 times out of 4, within a reasonable time window; in 2014 the Forecast Model was just perfect! In 2015 the Model did miss to forecast the Low of the year for just 20 days, and it did forecast the double Top perfectly in May and July; in 2016 it was only 15 days off to forecast the Bottom of the Year, and 1 month off for the Top of the year. In 2017, we saw the exceptional situation for the Forecast Model, because it got inverted during the summer, and the High suggested by the Model turned out to be the Low of the year. But we can appreciate the Low of January, just 2 days off, and the year is not over yet.

As I said, it was able to forecast the main trend most of the times and it is not always precise to forecast the exact day of Tops or Bottoms! But still, even if you look at the 2016, you see the Forecast Model was suggesting an uptrend starting in February, top in July (top made at the beginning of August) and new Bottom in mid-August (bottom made at the end of August) and finally up. My conclusion is that the Forecast Model works well with Cotton. Do not forget this Model is calculated one year in advance, be realistic, do not expect it to be perfect! If it was, I would sell it for 50.000 USD, don't you think?

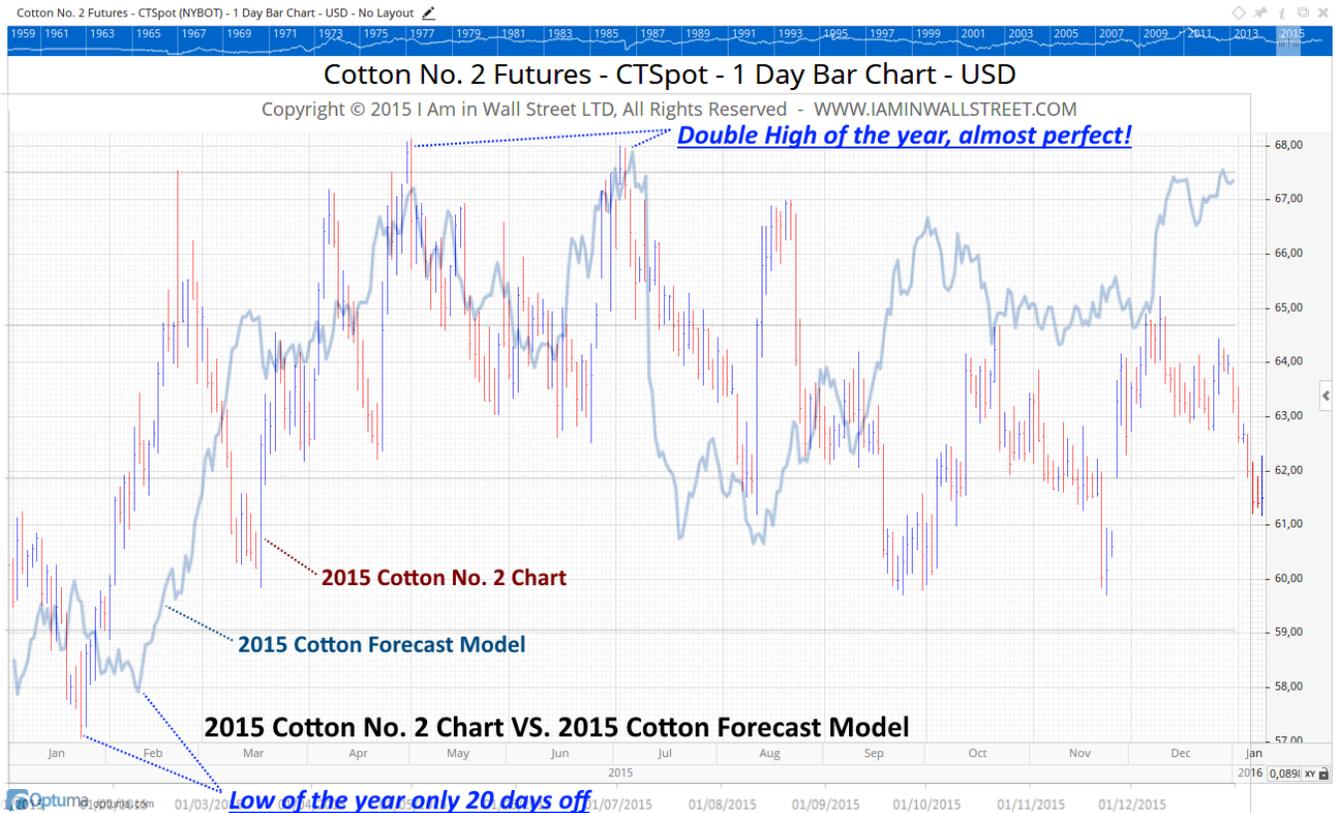
HOW THE FORECAST MODEL WORKED IN THE LAST YEARS

This is the 2014 Cotton Chart VS. the 2014 Cotton Forecast Model:



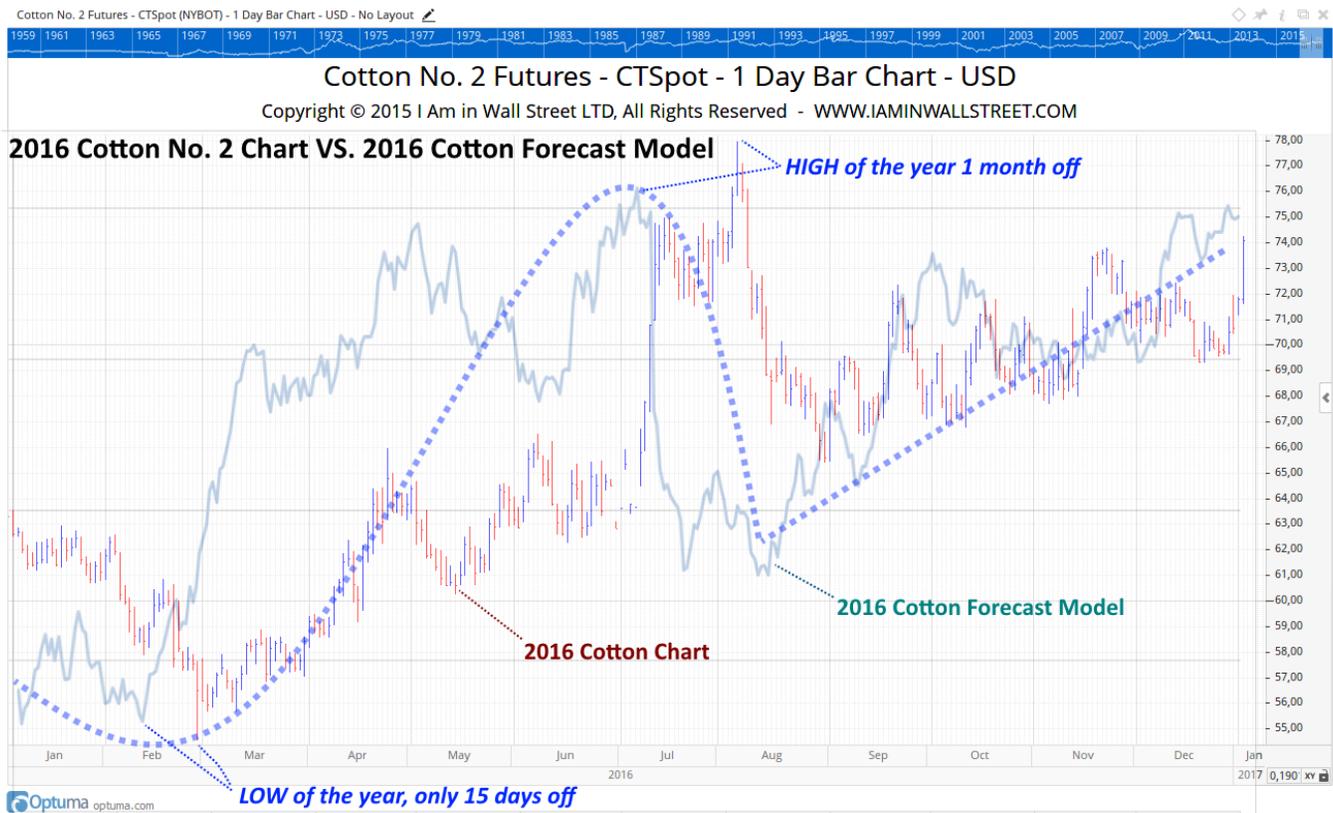
There is no reason to explain anything; the 2014 Cotton Forecast Model was just perfect.

This is the 2015 Cotton Chart VS. the 2015 Cotton Forecast Model:



The 2015 was not an easy year; you see how many choppy movements we had to deal with! But still, as I said before, the Model was able to forecast the main trend of the year.

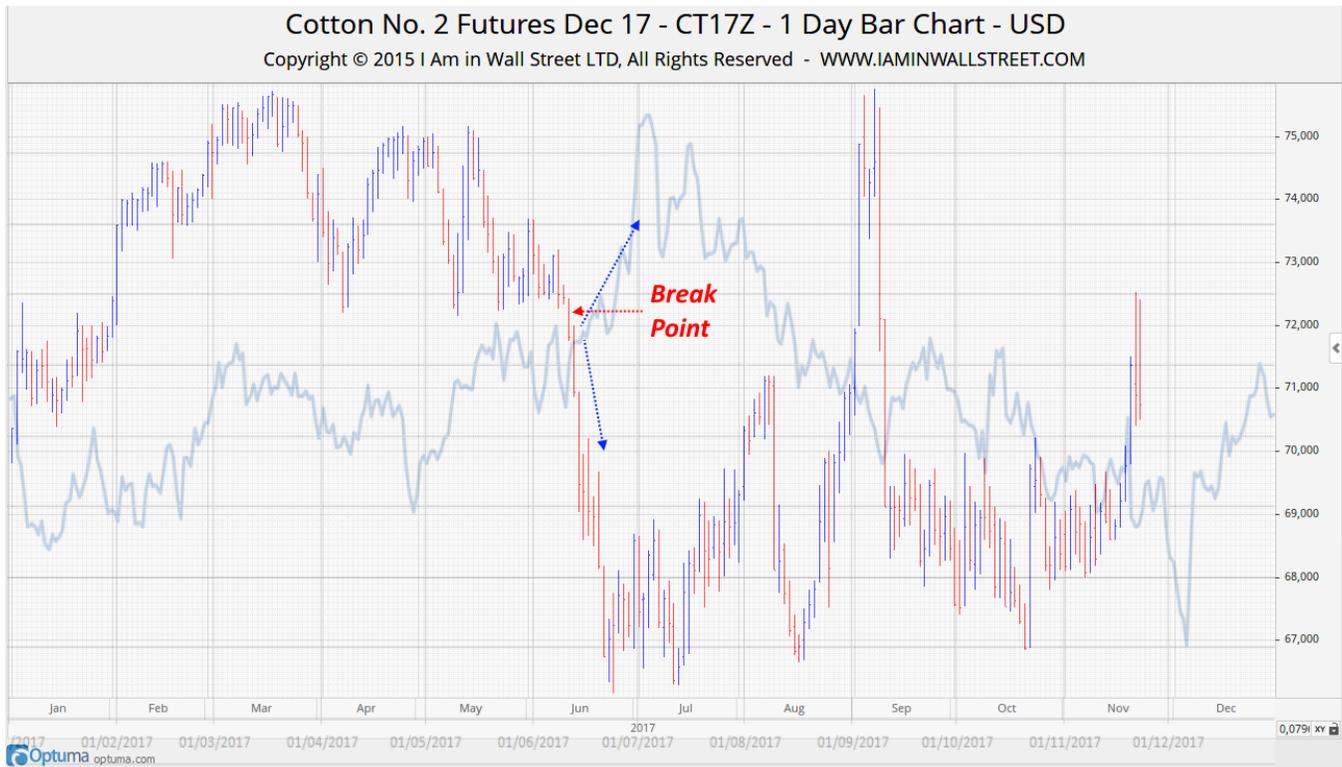
This is the 2016 Cotton Chart VS. the 2016 Cotton Forecast Model:



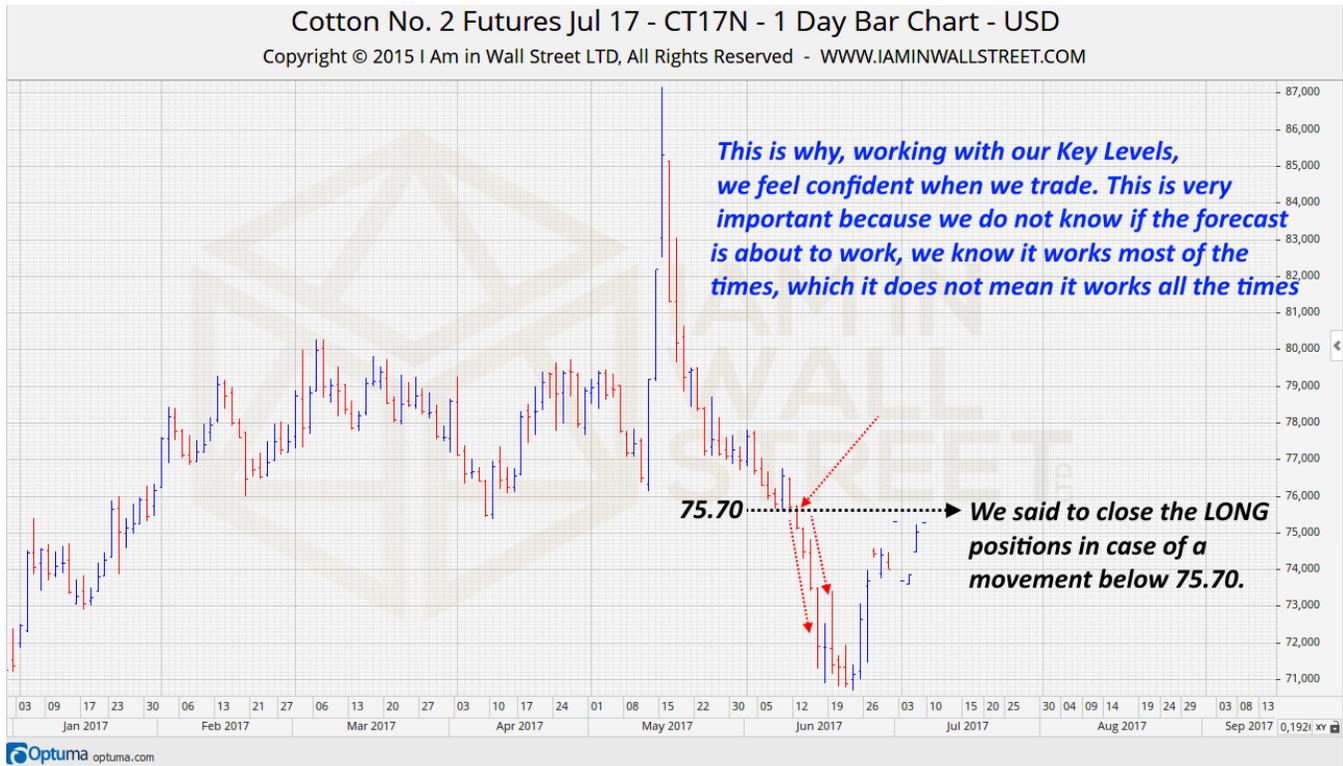
The 2016 Cotton Forecast Model was able to forecast the main trend of the year, but we had probably some troubles in July due to a strong fast up push, lasting just 3 days. The dots blue line tries to simplify the model, showing how the main trend was the real one we had to follow, and even if we had to suffer in July, with patience we could make very good profits! A constant uptrend started in February as suggested by the forecast, and even if we were about to close the position at the beginning of July, it was a great trade anyway. We cannot trade every swing buying at the Low and selling at the Top!

What make the difference in using the forecast model, it is you: how you handle a hypothetic position, above all when you have to let the position to run, taking some safe profits when you have them, do not be greedy!

This is the 2017 Cotton Chart VS. The 2017 Cotton Forecast Model:



The forecast was good until June, when Cotton was to at the make or break point: the PFS (the Polarity Factor System forecast model) was about to push to new Highs, but Futures broke the support of the previous days, beginning a strong fall. In the Update of April 20, we said: *“If something goes wrong, we need a level to protect our position and remain FLAT, this is at 75.70: a consolidation under it can be a dangerous signal”*. The down acceleration under 75.70 is evident in the July Contract; we had to close any LONG position under it:



With the December Contract, we simply said that we were expecting weakness, and we said to use the level 72.00, always SHORT under it with STOP above it, or waiting for a movement below 66.40, which has not happened. Unfortunately, the last months have been quite boring, because Cotton remained choppy around the same levels. We saw a strong up push between August/September, but that was the Irma Hurricane effect, indeed Cotton moved back again, as we were expecting.

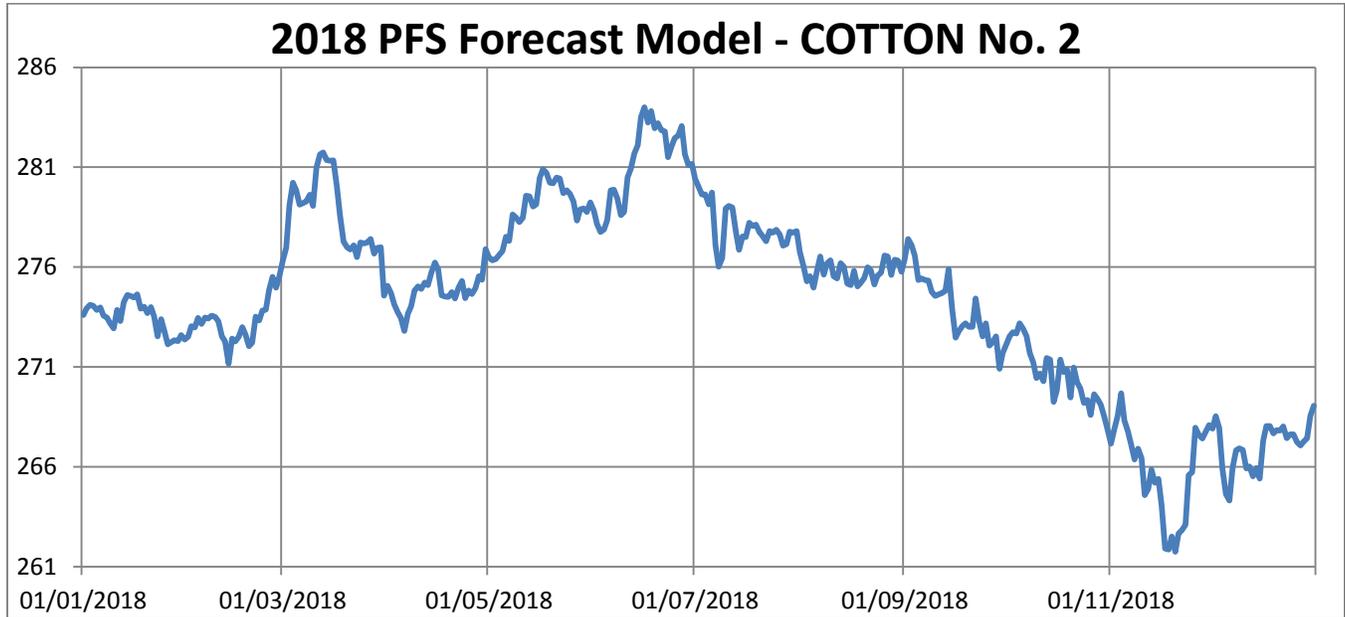
In July, we said Cotton had a very important level at 75.80, and the Irma Hurricane effect pushed Cotton to a High at 75.75. We are working with great levels, and for a trading purpose, these are even more important than any forecast.

The up push of the last days, in the December Contract, moved Cotton above 72, which is very important, and we can follow any uptrend above it with stop under it. We are expecting higher levels from 72, in December.

I will never stop saying this: the price map is very important to plan a trading strategy.

2018 COTTON NO. 2 FORECAST MODEL

It is now time to see the 2018 Cotton No. 2 Forecast Model:



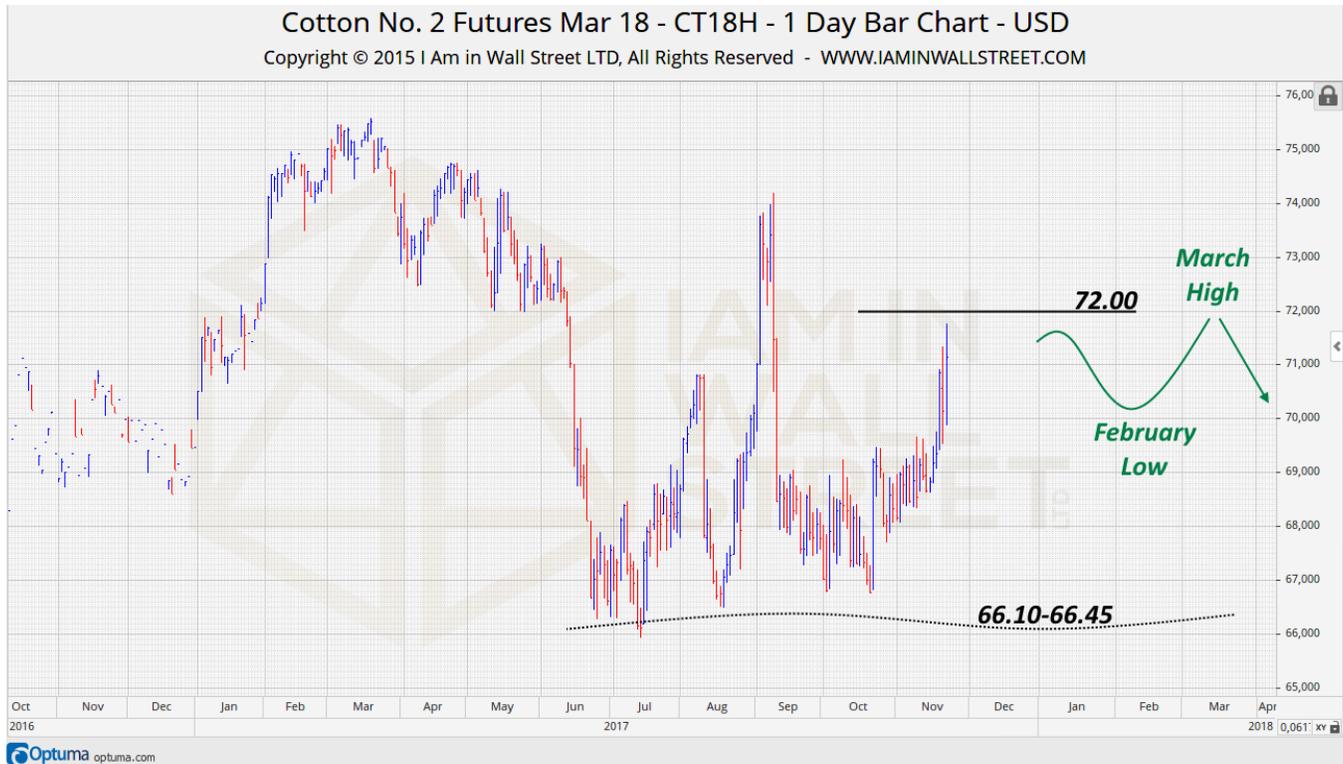
The 2018 Forecast Model suggest a sideways or weak movement until February. February should be a Low and a new buy opportunity because Cotton in March should be higher than in February. March should be an intermediate top, with a pullback to an intermediate Low in April. From April we should see an up push, leading to a top in the summer; July is my favorite month for the High. From that High, we should see a drop until November/December. This is the general outlook, the natural cycle Cotton should follow. Different scenarios can always happen, even if I feel confident using the Cotton Forecast, which is one of the favorites I own.

We must speak about the price map, for this reason, at fixed dates, I will send you an Update a few days before the Roll-Over, because the Contracts change, and so our price map.

Updates appointments:

- January 2, 2018
- February 21, 2018
- April 25, 2018
- June 27, 2018
- September 26, 2018
- November 28, 2018

We can talk about the March 2018 Contract, where we pay attention to the most important levels at: 72.00, area 74.35, area 66.10-66.45.



These three levels are the Keys to set any strategy, for me. Obviously, we need to wait for January to see where Cotton will be. From the forecast, we are expecting a little weakness until February, for this reason we can wait, or open SHORT positions using the Key Level at 72, where we will be always SHORT under it with stop above it (strategy starting in January, not in December 2017). The level at 74.35 is less reliable in my opinion, better we use 72.00. Also 66.10-66.75 is super important. At higher levels, attention to the very important area at 77.40-77.70.

The first Update will be sent on the first trading day of January, to take stock of the situation.

The Spot-Chart shows an evident important area at 66.40-67.25. At higher levels, attention to the area 81.40-81.50: this is a level not always very precise, but definitely a long-term level. Any consolidation above it can suggest new important uptrend. I suggest paying attention to the March Contract, level 77.40-77.70.

You know I like to be pragmatic; an analysis without the purpose of enlightening any possible strategy is very sad, because better spend our time in a better way. For what I see, I believe the best strategy to make profits is using the level 72.00 to open SHORT positions below it, with stop above it, always. We can follow this strategy until February, where we are expecting a new buy opportunity. Pay attention to the Key Levels, they help us to understand if Cotton is in a weak or strong position.

For any question you have, please [contact us](#).

Good Trading!

Best Regards,
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