ROSE ON COTTON – COTTON MARKET BREAKING AFTER SMALL LOSS LAST WEEK

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Our apologies for the late publication. We are well behind schedule due to power and internet outages over the last two days as strong storms have moved across the Mid-south.

The market gave up 184, 124 and 2923 points on the week, month, and year, respectively. The market has commenced the abbreviated trading week off significantly Vs Friday's settlement. For last week, our models predicted a finish on the week that was to be near-unchanged to lower Vs the previous week's finish, which proved to be correct.

The market moved higher on US export data that was much improved Vs previous weeks, but still less than impressive.

Domestically, there still remains a bit of cotton to harvest in Tennessee which will be impossible accomplish until soils either freeze solid or dry out. We would not be surprised to see many of these acres abandoned, increasing abandonment in an area that typically sees very low abandonment. Recent rains across the US have improved droughty conditions that have plagued the western twothirds of the US over past months, but West Texas remains under severe drought stress. This will be a factor that most market participants (and all savvy ones) will watch closely as planting season approaches.

For the week ending Dec 29 the US classed approximately 453K RBs of cotton, with around 77% of upland bales tenderable. Total US classing this season is now at 12.33M RBs (89% of projected US production). Overall deliverability is almost 83%, which is astounding. Classing was less than half the total of the previous data release, but we think much of this is due to the holiday season.

Net export sales for the week ending Dec 22 were notably higher Vs the previous assay period at approximately 88K RBs, which certainly isn't not strong, but is at least positive. Shipments were almost 145K RBs. The rise in export sales was associated with an increase in mill on-call commitments last week.

Mill on-call commitments against all active months were up around 140K bales for the week ending Dec 23 Vs the previous assay period at around 7.35M bales. Producer commitments were little changed at around 4.45M bales. Internationally, Australia is expecting a 5M bale (500lb bales) harvest in 2023. Elsewhere, data out of India indicate that domestic textile offtake is well below earlier expectations.

Internationally, Australia and India have completed a sales pact that should send more Aussie cotton into India. China continues to forsake its favorite origin of cotton due to disputes over the origination of COVID-19. US benefit from this standoff has been limited due to the US ban on imports of textile products associated with the Xinjiang region.

For the week ending Dec 26, the trade increased its aggregate net short position to approximately 4.7M bales while large specs increased their aggregate net long to around 1.5M bales. Lots of room for movement in both sectors.

For this week, the standard technical analysis for and money flow into the Mar contract remain bearish. The market will, most likely, be watching West Texas weather and economic news ahead of the Jan release of the monthly WASDE report.

Producers should expect to see continued volatility in the weeks ahead. In the short term, the macro economy will likely be more relevant than cotton's S&D balance sheet in determining overall direction, and between Covid in China, the new (thinly) divided congress in Washington, and continued extreme weather events, there will be plenty to push the macro economy too far in any given direction.

We do expect to see a planting rally in the Dec23 contract in the next 8-10 weeks, and encourage producers to hold off on price or acreage commitments until that rally develops. While much has been made of dropping energy and fertilizer prices, those prices are dropping from historic highs, so 2023 crop plans should be the result of close consultation with your spot broker, your accountant and your banker.

Happy New Year!

Report Courtesy: Rose Commodity Group

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