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ROSE ON COTTON – COTTON MARKET HIGHER AHEAD OF MID-WEEK WASDE RELEASE

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The May contract gave back 73 points on the week, and 292 points for the month finishing at 84.17, with the Mar – May spread weakening to (62). Last week, our models predicted a finish on the week that was to be near-unchanged to higher Vs the previous week's finish, which proved to be incorrect. However, we recommended no trading bias on the week. The market has commenced WASDE week higher.

The cotton market remains in the middle of its long-term trading range of 80.00 – 90.00, basis the front month. That there was little weekly change in the settlement is likely the result of weaker US export sales and position evening ahead of this week's WASDE release. As updated CFTC commitments of traders data continues to be updated it is apparent that specs were net short during the latter portion of the period when data was not being disseminated, and covering of this net short seems likely, given movements in open interest, to have kept the market above the lower portion of its trading range, which May approached recently.

USDA will release the Mar WASDE report on Wed, Mar 8 at the usual time. The monthly Bloomberg survey of analysts

and traders show an expectation for US carryout to be nearly unchanged Vs Feb while world carryout is expected to contract a million bales to around 89M on higher expected world production and lower offtake. We expect domestic carryout to be around 4M bales, mostly on lower than currently estimated US production for 2022.

Domestically, West Texas remains under drought conditions, and this is now seriously raising production concerns for 2023. The majority of the balance of The Belt has no drought issues; in fact, most producers are hoping for drier weather so that pre-planting fieldwork can be accomplished.

For the week ending Feb 23 US export sales were notably lower Vs the previous assay period while shipments were higher at around 172K and 211K RBs, respectively. Almost half of new sales were to China. Cancellations were large at almost 78K RBs and were mostly attributable to Pakistan.

Internationally, Cotlook has projected 2023/24 world aggregate production and consumption at the equivalent of 116.6M and 112.7M 480lb bales, respectively, which also helped the market finish lower. In other news, China has announced it will increase its military spending 7.2% per year, prompting some analysts to suggest that an invasion of Taiwan is possible by 2027. Overall, international tensions remain high among some of the world's most powerful nations, and this is not good for markets.

For the week ending Feb 7, the trade trimmed its net short position to approximately 4.4M bales while large specs pared their aggregate position to effectively flat. We are confident that data for the week ending Feb 14 will show that specs were net short.

The standard weekly technical analysis for and money flow into the May contract remains somewhat bearish but are turning neutral. The WASDE report and weekly USDA export

data will likely hold the potential to be this week's major market-moving factors.

Producers looking to price new crop face a test of faith. Conventional wisdom says that if we don't see a pre-plant rally in the next 12 weeks, acres will shift to other crops, increasing the likelihood of a late season rally in July-Sept. This model is confounded somewhat by weather models calling for W. Texas to get higher than normal rainfall in the late summer and fall. Given lukewarm basis from major merchants, this gives little incentive for producers to forward contract in the absence of a 5-10 cent rally. We find ourselves strongly recommending option strategies, which have the added advantage of allowing producers full flexibility to shift crops if either market or weather conditions dictate.

Have a great week!

Report Courtesy: Rose Commodity Group

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