ROSE ON COTTON – COTTON MARKET FINISHES WEEK SLIGHTLY LOWER AFTER EARLY WEEK REBOUND

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The May contract gave up 35 points on the week, finishing at 77.83. The market finished limit -down on Friday, and the Mar – May spread strengthened to (61). 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 correct. May is little changed to start the new week.

The cotton market finished lower (despite an early week rebound) on recession fears as major domestic and international banks found themselves in trouble last week, which forced equity markets lower. Crude oil, which is also highly correlated with the cotton market, has also been weak.

Domestically, West Texas remains under droughty conditions, and the National Weather Service expects this to remain largely unchanged into early June, at least. Across the balance of The Belt eastward, drier conditions are expected, but so are unseasonably cold temperatures.

Planting season typically begins on or around April 10 and April 20 for the lower and upper Mid-south, respectively.

For the week ending Feb 9, the US sold and shipped approximately 233K and 275K RBs, respectively, against the current MY. Both were off Vs last week's reports, but the report can be considered constructive. Data released for the week ending Mar 16 are expected to be very strong.

Indian cotton stocks are expected to retreat to two-decade lows, which could bolster US export business into major consumers across Southeast Asia.

For the week ending Mar 14, CFTC data has yet to be updated. We believe data will ultimately show large specs taking the net position to near even.

The standard weekly technical analysis for and money flow into the May contract remains bearish and not oversold. Economic news will likely be the main focus for markets this week.

Producers still holding old crop have two scenarios to improve on current price levels. First and foremost is the planting 5-10 cent planting rally we would typically see in a scenario with shrinking acres and low prices. This rally should occur by mid-May if it is to be effective in moving soybean acres to cotton. Secondarily, we could see a summer rally if the drought in TX continues into July, although this will likely occur too late for old crop to trade on the Jul contract.

Clearly, both of these strategies are speculative, and involve substantial risk, given a macroeconomic climate complete with Chinese-Russian negotiations, continued trade tensions, consumer concern over inflation and interest, domestic political uncertainty going into the 2024 campaign season, and potential protests from Trump supporters. We are currently watching for a planting rally, but will be selling any remaining old crop by mid-May and buying Dec or Mar24 calls if that doesn't materialize. Producers holding for a drought rally in late summer will be required to use a similar strategy to avoid storage penalties and old crop discounts. Unless you own the warehouse, there is little advantage to be had in owning spot cotton past May.

New crop has the same potential to benefit from either a planting or drought rally, but given lukewarm basis on forward contracts, the option pit is the most attractive strategy to price cotton. Setting a minimum price via Dec23 or Mar24 put spreads offers both flexibility and the ability to take advantage of improved basis or futures later in the season.

Have a great week!

Report Courtesy: Rose Commodity Group

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