ROSE ON COTTON – DEC COTTON POSTS SECOND CONSECUTIVE 27-POINT WEEKLY SETBACK

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The ICE Dec cotton contract gave back another 27 points last week to finish at 89.39, with the Dec – Mar spread inversion weakening modestly at 32. Dec managed to settle above the 90.00 level multiple times last week but finish the week above the mark. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to higher Vs the previous Friday's settlement, which proved to be correct.

For the week ending July 25, the US crop was rated in 61% good or better condition, which is 1 percentage point higher Vs the previous assay period and notably higher Vs 2020. Further, only 8% of this season's crop is rated in poor to very poor condition. At an aggregate level, fruit-setting estimates continue to show the crop is off its expected development pace, but the figures do not do the crops lateness justice. Our own windshield surveys of crops in the MidSouth and the Southeast show a concerning lack of blooms and small boll size, raising concerns should we have a cool wet fall.

I had an opportunity to see a lot of cotton this weekend between Memphis and Nashville and it does look pretty. Still, most acreage is at least two weeks off its normal development pace.

Most US cotton growers across the southeastern states will likely see significant to heavy rains this week; the rest of us are not expected to see much shower activity.

Net export sales and shipments were lower Vs the previous assay period at approximately 3K and 248K RBs, respectively. New crop sales were higher at 192K RBs; the running total is approximately 400K RBS off Vs last year. The US is 107% committed and 96% shipped Vs the USDA's 16.4M bale export projection. Sales were ahead of the average weekly pace required to realize the USDA's target while shipments again fell short of the pace requirement.

Internationally, demand for polyester in China has reportedly been quite strong for the first half of the calendar year. China has increased its cotton imports 146% for the first half of this year Vs the first 6 months of 2020. Domestic cotton prices in China continue to climb – likely due to what is now expected to be a smaller-than-originally-expected crop and in order to source cotton for mills that are doing business with retailers and brands that have banned the use of Xinjiang cotton and/or yarn. India has seen strong sales of raw cotton into China for the current Indian marketing year, which ends at the end of Sept. However, COVID-19 levels have disrupted logistics systems and shipments are currently only around 50% of commitments. Harvest pressure across Brazil is applying drag to spot prices across the nation's producing regions.

For the week ending July 27, the trade increased its futures only net short position against all active contracts to approximately 16.2M bales, which suggests producer selling;

large speculators increased their aggregate net long position to more than 6.2M bales.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For this week, the standard weekly technical analysis for and money flow into the Dec contract remain bullish, with the market still approaching an overbought condition. In order to move measurably higher, the cotton market will likely need fresh bullish news, and its next best opportunity is likely with the Aug WASDE release.

Producers should expect to see continued moderate volatility, with a range of 87-92 cents base Dec possible without a change in fundamentals. We recommend pricing above 92, but are confident enough in harvest season demand to encourage producers to keep 25-35% of estimated yield free to market based on quality in the fall.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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