ROSE ON COTTON – COTTON MARKET CONTINUES SKID AHEAD OF DEC WASDE RELEASE

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The ICE Mar cotton contract gave up 758 points on the week, finishing at 104.20, with the Mar – May inversion weakened at 129. The Mar contract lost 481 points in Nov. Last weekend our models predicted a finish on the week that was to be near unchanged to lower Vs the previous Friday's settlement, which proved to be correct.

The cotton market moved lower, despite another notable strengthening US export sales, on news of the Omicron COVID variant and related weakness in outside markets, spec liquidation, in continued abysmal export shipments, the Fed's acknowledgement that US inflation is likely a long-term issue, and recent strengthening of US currency. Continued releases of poor US economic data also did not help our market.

We will be privy to the USDA's latest S&D balance sheet updates on Dec 9 within the monthly WASDE release. We think USDA should finally reconcile its export figure for 2020/21 with weekly FAS data. Perhaps they will. Currently, it looks to us as if actual 2021/22 domestic beginning stocks are 300K – 400K higher Vs USDA and 2021/22 exports could be a million bales off the USDA's 15.5M bales projection. However, we do have US production off 450K bales Vs USDA.

For the week ending Nov 28, the US harvest was estimated at 85% complete, up 10 percentage points on the week (for the fifth consecutive week) and Vs the rolling 5-year average of 79%. Harvest operations across the Mid-south are now effectively complete. Both Kansas and Texas – two states that have been lagging far behind their expected pace – made notable harvest strides last week. Slow classing continues to be a drag in moving this cotton to market.

For the week ending Dec 2, the USDA classed approximately 1.36M running bales (RBs), of which 86% of upland bales are deliverable against ICE contracts. Quality continues to hold up very well. The cumulative total for the season is now almost 8.7M RBs (48% of expected production), with more than 85% tenderable.

The southeastern US states will likely see significant rainfall while the balance of The Belt will likely see favorable harvest conditions in the coming week.

Net export sales were notably higher while shipments were lower Vs the previous assay period at approximately 377K and 74K RBs, respectively. The US is 64% committed and 17% shipped Vs the USDA's 15.5M bale export projection. Sales were well ahead of the weekly pace required to meet the USDA's export target while shipments were only 20% of the target. Sales remain dramatically ahead the average expected pace for this point of the season while shipments are off pace with the historical expectation. Almost 75% of sales were to China and Vietnam, with Turkey and Pakistan accounting for nearly all the remaining balance. Given prices in China, sales into China and Vietnam are nearly indistinguishable. Cancellations were negligible.

Internationally, reports out of China suggest that this season's crop out of Xinjiang is getting bigger. However, China also announced that it will halt sales from its strategic reserve in effort to bolster its domestic supplies.

For the week ending Nov 30, the trade notably reduced its futures only net short position against all active contracts to approximately 15.2M bales; large speculators reduced their aggregate net long position to just north of 8M bales. However, we believe that significant spec (including index funds) has occurred over the last three trading days. Still, there is likely room for notable further spec liquidation.

For next week, the standard weekly technical analysis for and money flow into the Mar contract have turned bearish. The weekly release of US export data and the Dec WASDE release are likely the defining events for the market next week.

The numbers we have available suggest most producers have priced most of their 2021 crop, with less than 25% of the crop still available to spot buyers. Given the fact that this year's crop was largely priced between 80 cents and $1.05, most producers can afford to take a slightly riskier strategy in pricing the remainder of their crop. Old timers used referred to this as selling "casino cotton", or that portion of the crop marketed after input costs were covered.

Note that there is still substantial debate within our own consulting group as to whether the recent selloff is primarily due to (over?) reaction to news of the omicron variant, or whether this week's trading was due to more fundamental S&D factors. Taking that into account, we can make convincing arguments for any price between 95 cents at $1.15. That's a very wide range, but it should give growers some confidence in attempting to price casino cotton near or above the top of that range. As always, it is worth remembering that even the bottom of this range is a historically high price and well above the cost of production.

Our new crop advice remains consistent. We recommend pricing 10-20% of estimated 2022 crop production against a Dec22 of 90 cents or above.

Have a great week!

Report Courtesy: Rose Commodity Group

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