ROSE ON COTTON – COTTON MARKET OFF MODESTLY AHEAD OF LONG HOLIDAY WEEKEND, SEPT WASDE RELEASE

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The ICE Dec cotton contract gave up 82 points on the week to finish at 94.02, with the Dec – Mar spread inversion weakened to 76. Dec again seriously challenged the 95.00 level on the week but failed to trade north of this level. Last weekend our models predicted a finish on the week that was to be near unchanged to higher Vs the previous Friday's settlement, which proved to be incorrect.

The cotton market moved lower on less than expected damage done to the crop by Hurricane Ida; in fact, property damage, injuries, and deaths from the remnants of the storm have been higher across the northeastern states Vs the Delta and the Gulf Coast. Weakening US export data, data suggesting that any acreage reduction in the Sept WASDE report will be modest (at worst), and the continuation of expectations of strong yields this fall across The Belt. Further, releases of poor US economic data and forward-looking economic indicators continue to call strong long-term demand into question, which applied drag to the market.

For the week ending Aug 21, the US crop was rated in 70% good, or better, condition, off 1 percentage point Vs the previous assay period and notably higher Vs 2020 (as well as most other historical crop years). Most of The Belt is expected to see nearly excellent weather over the coming week for the crop's final development stage, but concerns remain over late cotton, with some regions still seeing widespread blooming and little sign of boll opening.

For the week ending Sept 2, the USDA classed approximately 95K running bales (RBs), of which nearly 87% are deliverable against ICE contracts. The cumulative total for the season is now almost 180K RBs. All bales classed so far this season are from Texas, with no ELS having yet been harvested.

Net export sales and shipments were lower Vs the previous assay period at approximately 120K and 110K RBs, respectively. The US is 39% committed and 6% shipped Vs the USDA's 15M bale export projection. Both sales and shipments were well off the weekly pace required to meet the USDA's export target. Sales are well ahead the average expected pace for this point of the season while shipments are on par with the historical expectation. There is still no sign that 2020/21 total exports were significantly above 16M 480lb bales Vs the USDA's official estimate of 16.35M.

Issues with container availability continues to hamper the pace of US shipments; the closure of the Port of New Orleans will likely on exacerbate this issue. Note that sales are not normally expected to be robust at this point of the season, especially given the relatively tight carryout projection for 2020/21 that USDA has thus far maintained. Strong demand from US cotton importers Mexico and Pakistan has been noted of late, but such can turn quickly.

For the week ending Aug 31, the trade notably reduced its futures only net short position against all active contracts to approximately 17.5M bales; large speculators increased their aggregate net long position to almost 9.15M bales. The spec position is stacked in an extremely bullish manner, which could lead to quick market liquidation at the first sign of significant bearish news (or perhaps ahead of the Sept WASDE report's release).

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

For next week, the standard weekly technical analysis for and money flow into the Dec contract remain bullish, with the market also remaining somewhat overbought. Impending harvest pressure and forerunning of the Sept WASDE will likely be major market moving factors next week. The market will close for Labor Day but will open for Monday's evening session.

Producers should be prepared to take advantage of volatility over the next few weeks. We believe ordinary volatility could be enough to move Dec or Mar 2-3 cents in the next week in the absence of fundamental news and encourage producers to confirm that they have 60-75% of their estimated yield/production priced. Opportunities to price the remainder of the crop should present themselves at harvest.

There is also talk in the country of a major merchant aggressively marketing a forward contract for 2022 crop. We believe the current level of political/economic/pandemic uncertainty make this a risky move, and we currently look to 2022 with a friendly price bias. At some point, the pandemic will cease to be a primary driver in the economy, and there will be a lot of supply pipeline to fill at such time. Producers should keep their options open on 2022 crop.

Of course, Labor Day means that it will be a fashion faux pas ahead of Easter to wear white to any social event, so plan and dress accordingly. We will be retiring our seersucker suits and white bucks to the rear of the closet ‘til spring and hope our readers will join us in seeking grown and sewn in the US cotton alternatives for the fall and winter.

Have a great week!

Report Courtesy: Rose Commodity Group

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