ROSE ON COTTON – COTTON MARKET FINISHES WEEK SIGNIFICANTLY HIGHER, CAN BULLISH RUN CONTINUE?

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The ICE Mar cotton contract gained 210 points for the week ending Feb 5, finishing at 82.74 as the Mar – May switch weakened to (128). The Mar contract managed to trade a high of 84.89 on the week. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be incorrect. The Dec contract finally followed old crop contracts higher and managed to settle closer to 81.00 than to 80.00 – time to consider marketing some new crop bales. Finally, the May contract is now the *de facto* lead month by virtue of having the largest open interest.

ICE cotton was significantly higher, despite index fund rolling, on strength in equity markets, crude oil prices and US export sales, and also on expectations of an increase in world trade and a tightening of domestic carryout per the USDA's Feb WASDE report.

The US, outside of Hawaii, is expected to receive a polar blast of air next week, which should set record low temperatures for this winter. For cotton producers, this is something of welcome news as overwintering insect populations may experience increased mortality, especially given the current lack of snow cover. The National Cotton Council will release the results of its annual Planting Intentions survey on Thursday, Feb 11; most expect results to be around 11.5M acres, give or take. The recent surge in Dec futures has caused us to reconsider our internal projection of just north of 11M acres for the upcoming season.

The USDA will release its Feb WASDE report on Tuesday, Feb 9 at the usual time. The monthly Bloomberg survey of analysts and traders shows little expected change in the USDA's domestic balance sheet Vs Jan; in fact, the USDA's production estimate will not be altered from Jan until the final ginning report of the season has been logged. At the world aggregate level, 2020/21 carryout is expected to be trimmed, but also to remain very bearish at more than 96M bales.

We expect to eventually see USDA debit their consumption estimate significantly. The US accounts for a large slice of the consumption of cotton value added items, and our nation is currently adopting precarious (in our opinion) economic policies. These policies continue to prompt energy prices to move northward. To see what economic uncertainty and rising energy prices do to the domestic consumption of semi-durable items we need only to review data from around a decade ago, when gasoline prices were more than $5 per gallon.

Net export sales were lower while shipments were higher Vs the previous assay period at approximately 306K and 339K RBs, respectively. The US is 90% committed and 48% shipped Vs the USDA's 15.25M bale export projection. Both sales and shipments were ahead of the average weekly pace required to realize the USDA’s target. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were negligible. China, Turkey, and Pakistan were the largest takers for the period.

Internationally, the International Cotton Advisory Committee (ICAC) has projected 2020/21 world aggregate production at mere 110.16M bales, with most reductions expected in major cotton spinning nations. We believe ICAC is closer to correct, with respect to consumption, than is USDA. ICAC’s latest estimate of world trade has increased to around 42.7M bales. Elsewhere, dour sentiments against cotton products linked to alleged slave labor in Xinjiang, China continues to expand worldwide.

For the week ending Feb 2, the trade trimmed its futures only net short position against all active contracts to just south of 13.8M bales, while large speculators trimmed their aggregate net long position to less than 6.8M bales. The spec position remains stacked in a heavily bullish manner and is vulnerable to profit-taking.

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 Mar contract remains bullish with the market also remaining overbought. Next week’s trading action will likely be framed by continued index fund rolling (which is not supportive), movements in oil and equity markets, political news, the Feb WASDE report and the National Cotton Council’s publishing of its Planting Intentions Survey.

We continue to encourage producers to price 25% of their estimated new crop yield at current levels. While long term prospects are decidedly hazy and depend heavily on the progress of vaccine distribution and the return of economic activity post-COVID, the domestic S&D is lending support to the notion that the Dec 21 contract could move 5-10 cents upwards between now and June.

One veteran merchant we spoke to this week (a consistent bear in recent years) described himself as "wildly bullish", and a representative of the largest of the Major Memphis Merchants s is telling producers "DEC will trade to the 90s". For producer's sake, we hope they're correct, but we think the smart money will be 50% priced at 85 cents and will be hedging with put options if the market reaches that level.

Have a great week!

Report Courtesy: Rose Commodity Group

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