Rose Commodity Group

ROSE ON COTTON – COTTON MARKET FINISHES LOWER FOR SECOND CONSECUTIVE WEEK; WASDE RELEASE ON TUESDAY

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The ICE May cotton contract has suffered its second consecutive weekly setback, this time for 107 points to finish at 87.76 as the May – July switch weakened slightly to (91). The Dec contract finished at 84.54, just south of the pivotal 85.00 mark. 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 correct.

Per our recent comments, there is so little physical old crop US cotton left to hedge, the specs have gained control of our market. The data certainly suggest that spec liquidation has been responsible for the market's recent retreat. Additionally, rumors of Brazilian cotton being hedged against ICE contracts (as US cotton has become less competitively priced) also applied pressure to ICE futures.

USDA will release its Mar WASDE report on Tuesday, Mar 9 at noon, ET. The monthly Bloomberg survey of analysts and traders shows little expectation for major changes to the world aggregate balance sheet, while also predicting a significant reduction in domestic old crop carryout to around 4M bales; we believe it will be a bit lower.

Domestically, West Texas remains in the grip of a drought, with little to no relief in sight. Last week, at the annual Mid-south Farm & Gin Show, Allenberg chief Joe Nicosia outlined a bullish outlook for new crop cotton futures, saying the Dec contract could trade well above $1/lb. Nicosia credited increased demand due to a historical cyclic consumption pattern and increased consumption of cotton in the production of COVID-19 personal protective equipment (PPE).

While we concede that the manufacture of PPE has somewhat offset declines in textile purchases due to economic concerns, we remain very concerned about textile consumption as energy prices continue to rise and US unemployment continues at a troublesome pace.

Net export sales were off significantly Vs the previous assay period while shipments were higher at approximately 177K and 387K RBs (MY high), respectively. New crop sales were nearly 41K RBs. The US is 95% committed and 57% shipped Vs the USDA’s 15.5M 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 also ahead of the long-term average pace for this point in the season. Cancellations were significant at more than 44K RBs.

For the week ending Mar 2, the trade notably increased its futures only net short position against all active contracts to approximately 15.1M bales, while large speculators reduced their aggregate net long position to around 6.8M bales. The spec position remains stacked in a heavily bullish manner and is vulnerable to further profit-taking/liquidation.

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 May contract remains supportive to bullish, with the market no longer in overbought territory. Next week's trading action will likely be framed by movements in oil and equity markets, prices of competing crops and (mostly) by the WASDE report.

We recommend producers price 40-50% of estimated new crop yield against a Dec of 88.00 or better. This week's selloff notwithstanding, we believe ordinary volatility could move the Dec contract into the low 90s by late May, and the combination of a new administration, COVID issues, competing crops and the drought in Texas could potentially expand the range further.

Given that volatility is likely to increase the forward contracting basis as the market moves to or through the 90-cent level, the option pit offers the best option for setting price floors on the remainder of your estimated production. Given that options are showing the predictable effect of high volatility, beginning traders would be well advised to work with a good broker to keep their hedges both effective and affordable.

Have a great week!

Report Courtesy: Rose Commodity Group

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