ROSE ON COTTON – COTTON MARKET MOVES HIGHER AHEAD OF BIG REPORT WEEK

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The ICE July cotton contract gained 158 points on the week to finish at 89.66 as the July – Dec inversion weakened to 277. The Dec contract gained 183 points for the week, finishing at 86.89. 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 cotton market bucked the upward trend in grains early this week until another bullish export figure was put forth by USDA, after which the July contract flirted with limit up. Expectations for the USDA's initial 2021/22 domestic S&D balance sheet to be tighter (potentially partially due to an increase in the 2020/21 export estimate) Vs 2020/21 also moved the market higher.

It is planting season, but little has been accomplished across the Mid-south until late this week. Overall planting progress remains on par with the expected pace, but the Mid-south is significantly off its rolling 5-year average pace. For the coming week, little rain is expected across West Texas and

Oklahoma while the upper Delta and the southeastern states are expected to see light showers; the southern Delta will likely see unwanted significant rainfall.

USDA will release the May WASDE report on May 12 at the usual time. This will be the first official projections put forth by USDA for the 2021/22 marketing year. The monthly Bloomberg survey shows an expectation for 2021/22 domestic carryout to be initially projected at 3.61M bales while also expecting USDA to slightly reduce its forecast for aggregate world ending stocks.

Net export sales were lower Vs the previous assay period while shipments were higher at approximately 75K and 481K RBs (MY high), respectively. New crop sales were higher at around 61K RBs; running total is now 1.73M RBs Vs 2.44M last year. The US is 104% committed and 77% shipped Vs the USDA's 15.75M 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 large at 71K RBs and were mostly attributable to China and Vietnam.

Internationally, the drought across South America that is threatening grain and oilseed production is also threatening the continent's 2020/21 cotton production. Brazil has a significant amount of irrigated area, but rains and cooler temperatures are needed.

For the week ending May 4, the trade held its futures only net short position against all active contracts effectively unchanged at around 15.15M bales while large speculators trimmed their aggregate net long position to 5.8M bales. The spec position remains stacked in a bullish manner, which could lead to significant liquidation in a very quick fashion.

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 July contract remain supportive to bullish. The weekly US export report, weather forecasts and conditions, planting progress, and forerunning of the May WASDE report are likely to be potential market moving factors next week.

Producers who missed the Feb fireworks are getting a second bite at the apple, and we encourage producers to price cotton in the 88-92 cent range. While weather and pandemic recovery could inspire moves beyond those levels, we see significant resistance to moves above 9300. Fortunately for producers worried about getting their intended acres planted, we expect to see seasonal volatility keep the mid-high 80s or above within range through mid-June. As always, this is a great time to stay in close contact with your local broker or buyer to stay up to date on basis volatility and forward contracting options.

Have a great week!

Report Courtesy: Rose Commodity Group

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