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ROSE ON COTTON – COTTON MARKET CONTINUES TO MOVE HIGHER AHEAD OF OCT WASDE RELEASE

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The ICE Dec cotton contract continued to surge last week, gaining 607 points at 110.60, with the Dec – Mar spread inversion contracting to 269. The cotton market traded north of 116 on its intraweek high. 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 correct.

The cotton market was higher on continued demand from China, rains across the US Cotton Belt, production concerns in India and China, and Agriculture Secretary Tom Vilsack's statement of intention to hold China to its Trump era trade commitments.

USDA will publish its Oct WASDE report on Tuesday. Published pre-report estimates show an expectation for modestly lower aggregate world and domestic balance sheets. All other USDA reports will be released one day behind schedule, due to the Columbus Day holiday on Monday.

For the week ending Oct 3, the US crop was rated in 62% good, or better condition, off 3 percentage points Vs the previous assay period. This makes sense due to rains across The Belt. The US harvest was estimated at 13% complete, up only 2 percentage points on the week and Vs the rolling 5-year average of 19%. We all expected this to be a late crop.

On the production side, rains across The Belt have held harvest operations in check. Looking forward, producers in Oklahoma, Kansas, and the northern Mississippi River Delta are likely to see further delays this week due to rain and showers while the balance of The Belt is expected to see mostly favorable harvest conditions over the near- to medium-term.

Net export sales and shipments were lower Vs the previous assay period at approximately 260K and 125K RBs, respectively. The US is 51% committed and 11% shipped Vs the USDA's 15.5M bale export projection. Sales were again well ahead of the weekly pace required (and the expected rate) to meet the USDA's export target. Though short of the rate needed to meet the USDA export target, shipments are on par with historical expectation. China was responsible for 65% of 2021/22 new upland sales and bought all 55K RBs of new crop sales.

For the week ending Oct 7, the USDA classed approximately 173K running bales (RBs), of which 87% are deliverable against ICE contracts. The cumulative total for the season is now almost 855K RBs, with 88% tenderable.

Internationally, production concerns across India and China continue to buoy the market, as does the US commitment to hold China to its trade commitments (while still enforcing trade restrictions on items linked to Xinjiang).

For the week ending Oct 5, the trade increased its futures only net short position against all active contracts to just north of 18.6M bales as the trade continue to pick up cotton from producers; large speculators increased their aggregate net long position to around 9.75M bales. The spec position remains stacked in a severely bullish manner, which could lead to market breaks.

For next week, the standard weekly technical analysis for and money flow into the Dec contract remain bullish, while the market also remains extremely overbought. Impending harvest pressure and economic concerns could cause problems for the Dec contract over the near- to medium-term, with the Oct WASDE report, scheduled for release on Tuesday, Oct 12, and the weekly export report will likely be the market's primary points focus next week.

With pickers running, most of the crop priced, and weather a major issue, our advice to producers this week is simple and straightforward. If you haven't priced the safe majority of your cotton yet, do it ASAP. Tuesday's report could potentially be a minor market mover, but expect the major source of volatility to be the historically high futures levels. Producers who are already fully priced should either be happy with a price only seen a few times in history, or wade into the option pit.

Have a great week!

Report Courtesy: Rose Commodity Group

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