ROSE ON COTTON – COTTON MARKET CONTINUES HIGHER DESPITE DOMESTIC UNREST

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The ICE Mar cotton contract gained 165 points for the week ending Jan 8, finishing at 79.77 as the Mar – May switch weakened to (78), still well short of full carry. It is worth noting that the Mar contract spent significant time north of the 80-level for the week. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to higher Vs the previous Friday's settlement, which proved to be correct.

ICE cotton rallied, despite slowing US weekly export data and domestic political unrest, on weakness in US currency, strength in equity markets, a drought across West Texas, and notable strength in competing crops (corn and soybeans).

The drought persists across West Texas, with little relief in sight. We expect this to translate into further bullishness for ICE cotton in 2021 in the absence of a wet spring. Energy prices continue to move higher, which will likely translate into higher nitrogen costs for corn and cotton producers, further facilitating an acreage shift toward soybeans. The annual Cotton Grower magazine survey indicated producers (in late 2020) intended to plant just north of 11.6M acres to cotton in

2021, which is off nearly 5% Vs 2020 in which US producers planted cotton on almost 12.2M acres.

The USDA will release its Jan WASDE report on Tuesday, Jan 12 at the usual time. At this time, most analysts, including us, expect both US and world carryout projections to move modestly lower Vs figures put forth in within the Dec report.

Regarding other domestic events on the week, many US voters have lost at least some of their faith in our electoral system. Given the popularity of such doubt, we are not surprised at the breakout of violence – especially given the strain of a global pandemic and several years of increasingly violent protests on social and economic issues. As predictable as it might have been, we are saddened by the breach of our Capitol on Wednesday and find the loss of life deplorable. However, we are also saddened by the finger-pointing by members of Congress (from both parties) that have tried to paint all Trump supporters as insurrectionists. Given that Congress' approval rating is closer to 10% than 20%, perhaps they should share in some of the blame. Finally, the level of domestic strife and unrest seen last week is not taken as a sign of either stability or domestic health and Wednesday's events may yet have significant consequences for equity and commodity markets.

Net export sales and shipments were lower Vs the previous assay period (sales notably so) at approximately 159K and 282K RBs, respectively. The US is 83% committed and 40% shipped Vs the USDA's 15M bale export projection. Sales were again ahead of the average weekly pace required to realize the USDA's target while shipments were just off the pace requirement. Sales and shipments remain ahead of the long-term average pace for this point in the season. Cancellations were modest at around 34K RBs. We continue to hear that business is strong, so the latest data may just be due to the holidays. There is also talk that with consumer demand and textile production still impacted by the pandemic, much of this cotton is being purchased to take advantage of the cheap dollar, and little of it will see a mill laydown in the near or medium term. This could have implications for a third or fourth quarter recovery if the pipeline has plenty of reserves and reduced need for nearby sales to respond to improved consumer demand when the pandemic is more controlled.

Internationally, most news this week surrounded Wednesday's breach of the US Capitol building by supporters of President Donald Trump. It is fair to say that events on Wednesday were not comforting for our friends across the world, but our adversaries reveled in it.

For the week ending Jan 5, the trade increased its futures only net short position against all active contracts to approximately 14.35M bales, which signals further producer selling, while large speculators increased their aggregate net long position to almost 7.36M 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 export data, movements in equity and, of course, the Jan WASDE report's release.

Producers continue to sell into the rally, and we encourage them to continue doing so. We see no reason to hold cotton at current levels, given the possibility of a correction if and when buying slows, or if the pandemic should deliver yet another unpleasant surprise.

We are hearing talk of forward contracting from some of our producers, and at least one major merchant is aggressively encouraging producers to commit cotton. We believe this is premature. While it absolutely makes sense to commit 25% of estimated production in a 75-80 cent market, we still see the likelihood of a late season rally in futures and/or basis if the pandemic should subside and current predictions of acreage hold. While committing 25% on a forward contract is a relatively safe commitment, keep in mind that options and insurance are even safer strategies when we are still months away from putting seed in the ground.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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