ROSE ON COTTON – ICE COTTON FINISHES HIGHER ON WASDE WEEK; S&D BALANCE SHEETS STILL FAR FROM BULLISH

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The ICE Mar cotton contract gained 251 points for the week ending Dec 11, finishing at 74.08 as the Mar – May switch strengthened a bit to (81). 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. Still, we did not recommend trading the model's bias ahead of the Dec WASDE report's release.

ICE cotton was higher on the week on strong US weekly export data and a Dec WASDE report that was bullish (at least on its face).

In the Dec WASDE report, the USDA projected the 2020/21 domestic carryout 1.5M bales lower Vs Nov on lower estimated production and an enhanced export projection. Production was estimated at 15.95M bales (400K lower than our estimate) while exports were projected at 15M bales, which is on par with our figure. We (and many others) have waited for the USDA to put forth a more realistic estimate of this season's US production, and it did so by dropping estimated yield 61 lbs/acre to 850 lbs.

Aggregate world carryout was projected approximately 4M bales lower at 97.5M bales on a lowering of the production estimate to just South of 114M bales and increasing their consumption forecast 1.6M bales to just north of 115.63M bales. We disagree with the latter figure.

In a full analysis, the reports are far from bullish despite tighter carryout figures than previously published.

Domestically, we expect the crop will be effectively harvested by the end of this week. Attention will soon turn to early winter surveys and projections of 2021 Us planted area, which we expect to be off significantly Vs 2020.

Net export sales were notably higher Vs the previous assay period at approximately 416K and 350K RBs, respectively. The US is 76% committed and 33% shipped Vs the USDA's 14.6M 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 negligible. China was again the largest taker at around 158K RBs.

US export sales and shipments tend to quicken in Dec, and we think the latest data is likely evidence of a rush to procure US high grades and an effort by China to replenish its strategic reserve. However, China's sales (as always) are subject to cancellation, and especially so with the recent ban on importation of Xinjiang cotton value added items.

Another consideration regarding surprisingly large sales is the slight carry current in the market, which may be prompting merchants to push bales out the warehouse doors. We are getting mixed reports from our friends with small country warehouses, but we understand merchant warehouses are very busy.

Internationally, the USDA released a rash of attaché reports last week. The USDA's attaché in China has projected the nation's 2021 production 400K bales lower Vs USDA at 27.1M bales while also predicting US exports into China higher. In India, the attaché has estimated 2021 production at 29.3M bales Vs USDA at 30M bales. The correspondent in Mexico has projected 2021 production essentially on par with USDA at around 1.1M bales. The USDA's liaison in Thailand has projected the nation's 2020/21 cotton consumption at 725K bales Vs USDA at 850K.

For the week ending Dec 8, the trade reduced its futures only net short position against all active contracts to approximately 12.75M bales while large speculators trimmed their aggregate net long to just south of 6M bales. The spec position has seemed vulnerable to some liquidation of late, and remains stacked in a heavily bullish manner.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For this week, the standard weekly technical analysis for the Dec contract remains supportive with money flow turning positive. Next week's trading action will likely be framed by export data and movements in equity and currency markets.

Producers find themselves in their best position in months, with a friendly spot basis, active competition between the major merchants, and growing interest from small to moderate sized merchants. With the first COVID vaccines being distributed worldwide and a growing consensus that the US Presidential election "is all over but the shoutin'", some producers (and at least one notable commentator) may understandably be looking for prices in the 80s and above.

We hope they're right.

But while the S&D and macroeconomic situation has improved dramatically in the past few weeks, we are still looking at substantial carryouts, and the post-COVID recovery is still very much a theoretical construct, subject to a host of potential complications. We believe producers should take advantage of year end optimism, particularly through sales of lower quality cotton (higher grades should continue to see a basis premium into the Spring), and consider building a position in May or July 21 puts to take advantage of a likely post-holiday hangover.

While there is far too much uncertainty for us to issue a strong advisory for 2021 crop, our initial thinking is that the 2021 crop is far more likely to be strong in the 3rd or 4th quarters, and spot sales should be more profitable than forward contracting. This advice assumes use of options and insurance as a hedge.

Have a great week, and a Happy Chanukah to our Jewish friends.

Report Courtesy: Rose Commodity Group

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