ROSE ON COTTON – COTTON MARKET FINISHES MODESTLY HIGHER, POST BLAND WASDE REPORT

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The ICE Mar cotton contract picked up 203 points on the week, finishing at 106.23, with the Mar – May inversion effectively unchanged at 130. Last weekend our models predicted a finish on the week that was to be near unchanged to lower Vs the previous Friday's settlement, which proved to be incorrect. However, we did not recommend trading any bias ahead of the Dec WASDE release.

The cotton market moved higher on strengthening US export sales, the market's technically oversold condition, and general belief that the Omicron COVID variant will not prove as lethal as feared. A relatively bland WASDE report did not seem to produce a significant market effect.

The Dec WASDE projected the 2021/22 domestic carryout unchanged Vs Nov at 3.4M bales - just below our expectation. The adjustment came per a modest increase of the US yield and production estimate which was offset via the "loss" or "unaccounted for" category. USDA continues to officially hold 2020/21 exports at 16.37M bales despite

USDA-FAS only reporting 16.03M bales were shipped for the previous marketing year.

Aggregate world carryout for 2021/22 was projected 1.23M bales lower Vs Nov, which was not generally expected, at 85.73M bales. Production was estimated 220K bales lower Vs Nov; USDA did not lower expected Indian production per the current pink bollworm infestation nor production in China, despite reports to the contrary from its own attaché. Consumption was estimated 170K higher at 124.27M bales. We continue to consider the USDA's thinking/methodology regarding world offtake unnecessarily optimistic.

USDA weekly crop/harvest progress reports are over for this season, but we believe that the US crop is now around 95% harvested. While the harvest here in the Mid-south is effectively complete, we can show you where a few hundred acres of cotton remains on the stalk.

Domestically, producers are mostly enjoying some time off (or at least out of the field) as they plan planted area commitments for 2022. We would like to mention that a deadly tornado passed through portion of northeastern Arkansas, northwestern Tennessee, southeastern Missouri, and western Kentucky on Friday evening leaving a 200+ mile trail of destruction and casualties prior to dissipating in Ohio. Some of our friends and neighbors suffered substantial property damage in the storm, but we are thankful the casualty count wasn't higher than it was. At least one cotton gin – the Adams Gin in Leachville, Arkansas – suffered notable damage, as did the roughly 12000 b/c that were on the yard when the tornado hit. Our thoughts and prayers remain with those still in the midst of cleanup and mourning.

For the week ending Dec 9, the USDA classed approximately 1.25M running bales (RBs), of which nearly 85% of upland bales are deliverable against ICE contracts. Quality continues to hold up very well. The cumulative total for the season is now almost 9.93M RBs (56% of expected production), with more than 85% tenderable.

For the week ending Dec 2 US export sales and shipments were higher at approximately 390K and 124K RBS, respectively. Sales were encouraging with respect to volume, but, once again, China, Vietnam, and Turkey accounted for the vast majority of business conducted. Sales cancellations were negligible.

China's continued talk of potential reunification with Taiwan and Russia's amassing of troops along the border with Ukraine are raising tensions internationally. Despite limited cotton trade with Russia, the Ukrainian scenario seems to be the one with the most potential to effect outside markets, should Russia decide to invade the former Soviet state.

For the week ending Dec 7, the trade reduced its futures only net short position against all active contracts to approximately 14.45M bales; large speculators reduced their aggregate net long position to just south of 7.2M bales. Such risk-off trading is not uncommon ahead of the monthly WASDE release. Managed money firms continue to keep their outright shorts at an alarmingly low-level and such could lead to further market breaks.

For this week, the standard weekly technical analysis for and money flow into the Mar contract are effectively neutral. The weekly release of US export data will be the most pertinent scheduled reports ahead of the end of the year. ICE certificated stocks have started to slowly accrue, and we continue to monitor this daily.

Producers holding 2021 crop cotton are looking at two likely scenarios between now and the end of the year. One scenario is that cotton trades sideways, albeit with high volatility, and covers a range from just over a dollar to the low "dollar teens". Be aware that the holidays and end of the year can inspire dramatic short-term moves, and no single week's trading should be considered indicative of a long-term move.

As we have repeatedly noted for weeks, cotton is at a historically high level. Any sale over a dollar is a successful sale, and there is limited to no downside. With that said, there are a number of commentators who are bullish into the spring, and producers holding small portions of their crop may be able to take increased profits by holding past the first of the year. Note that at the Rose Commodity Group we're not as bullish as these commentators, and the potential for military conflict in Ukraine, Chinese expansion, and continued COVID/supply chain disruptions have the potential to spark a 10-15 cent selloff, particularly if combined with end of the year/holiday market closings.

We continue to recommend pricing 10-20% of new crop at any price over 90 cents.

Have a great week!

Report Courtesy: Rose Commodity Group

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