ROSE ON COTTON – COTTON MARKET MOVES HIGHER ON WASDE WEEK

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The ICE Dec cotton contract had another strong week, gaining 204 points to finish at 89.92, with the Dec – Mar spread now inverted at 19, which implies the market expects cotton to be worth less in the future. 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. However, we did not recommend trading this bias ahead of the release of the June WASDE report.

The cotton market was higher on rumors of nearby demand, index fund buying, weakness in US currency, and a supportive to bullish June WASDE report.

In the June WASDE report, the USDA projected 2021/22 domestic carryout off around 200K bales Vs May at an astonishingly low 2.9M bales. The adjustment came via a 200K bale enhancement to the official export target for the current MY to 16.4M bales and a 100K bale enhancement to the 2021/22 export projection. No adjustment was made to the production projection Vs the May estimate.

Aggregate world carryout for 2021/22 was projected notably lower Vs May at approximately 89.3M; changes came per a large reduction of anticipated begging stocks, a debit to production and a small enhancement to the consumption forecast. We continue to disagree with the USDA on consumption. Inflation, the likelihood of increasing interest rates, continued pandemic shutdowns, increasing energy prices, and irresponsible governmental fiscal behavior makes for a poor environment for demand for textiles and other semi-durable goods.

The lower half of the Delta has continued to be pounded with heavy rains, flooding, and severe thunderstorms. Some acreage has been lost and the condition of the crop is less than desirable. Across the northern portion of the region, rainfall totals are much lower, but drier conditions are needed to enable much needed fieldwork. We are hearing widespread reports of thrips and out of control grass. West Texas is not expected to see general rainfall over the next 10 days, but temperatures are expected to cool significantly. More showers are expected across the southeastern states over the coming week.

Net export sales and shipments were lower Vs the previous assay period at approximately 112K and 216K RBs, respectively. New crop sales were lower (and disappointing) at around 21K RBs; running total is now 2M RBs Vs more than 3M last year. The US is 104% committed and 85% shipped Vs the USDA's upwardly revised 16.4M bale export projection. Sales were just ahead of the average weekly pace required to realize the USDA's target while shipments fell short of the pace requirement. Sales are ahead of the long-term average pace for this point in the season while shipments are on par. Cancellations were negligible.

Internationally, Conab estimated this season’s Brazilian production significantly lower Vs its May survey at the equivalent of 10.75M 480lb bales.

For the week ending June 8, the trade increased its futures only net short position against all active contracts to approximately 13.9M bales while large speculators modestly increased their aggregate net long position around 3.6M bales. The proportion of spec longs to shorts suggest that liquidation could occur before month-end reports are published.

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. We expect the culmination of index fund rolling and spec long liquidation ahead of the June 30 acreage report release will translate to some weakness for Dec over the near-term.

Producers are getting yet another bite at the apple with the market making efforts to move to or through the 90-cent level. We would caution growers not to let too many more opportunities pass before firming up their position, but will note that given far less than ideal planting conditions do help set up a bullish scenario. This, combined with increasing volatility, hasn’t escaped merchant attention, and we saw the forward contracting basis widen this past week, and would not be surprised to see it widen prior to the June 30 report. This volatility is also very evident in option premiums, but a good broker can walk you through strategies to hedge in options while leaving your contracting and spot sales options open. Some commentators have made a strong case for harvest rally to fill the pipeline followed by a post-new year’s slump. Plan accordingly.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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