Rose Commodity Group

ROSE ON COTTON – DEC COTTON MAKES NEW CONTRACT HIGHS ON UNEXPECTED WASDE REVISIONS

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The ICE Dec cotton contract gained 262 points on the week to finish at 94.32, with the Dec – Mar spread inversion strengthened to 113. We did not recommend trading any bias for the week due to the Aug WASDE release on Thursday.Futures moved higher on the week on unexpectedly strong US export sales data and on much tighter than anticipated balance sheets within the Aug WASDE report.

As of Aug 1, the US crop was rated in 65% good, or better, condition, which is 5 percentage points higher Vs the previous assay period and notably higher Vs 2020. Only 7% of this season's crop remains rated in poor to very poor condition. Cotton is opening across the southernmost production regions of Texas, the Mid-south, and the Southwest.

Most US cotton growers will likely see shower activity and rains this week, with rains having already started across the Mid-south (which makes us especially happy). Market participants continue to watch tropical storm Fred, which is expected to eventually make landfall across the US Gulf Coast. At this time, we think beneficial rains associated with the storm's arrival will more than offset any damage done to the crop.

In its Aug WASDE report, the USDA projected of 2021/22 domestic carryout 300K bales lower Vs July at 3M bales. The adjustment came via a larger estimate of abandonment and lower yield of 800lbs/acre. The results were lower than nearly all published pre-report prognostications, which magnified their impact.

Aggregate world carryout for 2021/22 was projected 500K bales lower Vs July at approximately 87.23M bales, which remains a bearish figure.

We continue to disagree with the USDA on consumption. Inflation, the likelihood of increasing interest rates, continued worldwide pandemic shutdowns and regulations, increasing energy prices, and irresponsible governmental fiscal behavior and poor foreign policy decisions makes for a poor environment for consumption of textiles and other semi-durable goods. With that said, the market trades current numbers and expectations, so our concerns should be filed as a reminder for periodic review.

Net export sales were higher while shipments were lower Vs the previous assay period at approximately 353K and 191K RBs, respectively. The US is 35% committed and 1% shipped Vs the USDA's 16.4M bale export projection. 2020/21 is in the books now, with logged sales at just above 165M 480lb bales. Still, USDA maintains its export estimate at almost 16.4M 480lb bales. We can attest to the fact that reporting of sales and shipments is not as seamless as one might expect, and USDA (or at least the World Agricultural Outlook Board) clearly expects some adjustment to this figure.

Internationally, evidence of China's renewed battle with COVID continues to emerge, which we take as a harbinger for lower than currently projected aggregate world demand. The second half of India's monsoon season is expected to continue to produce good rainfall. The USDA's attaché in India has projected this year's Indian production at 29M 480lb bales, unchanged Vs the July WASDE report. In other news, the Taliban has now taken over most provinces within Afghanistan, which has prompted the US to reintroduce 3K troops into the nation to protect American civilians that are still living there. Those old enough to remember April 30, 1975 may understandably be thinking they've seen this before. We'll be watching for potential trade or economic fallout from the region.

For the week ending Aug 10, the trade notably increased its futures only net short position against all active contracts to approximately 16.8M bales, while large speculators increased their aggregate net long position to almost 7.4M bales. The spec position is stacked in a very bullish fashion, which could lead to quick market liquidation at the first sign of bearish news.

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 Dec contract remain bullish, with the market also remaining overbought. The market should experience resistance near 95.00 and then in 100-point increments up to 100.00.

We have previously advised producers that the air could get thin above 93 cents, but it turns out that specs are performing better than expected at high altitude. Given the WASDE's confirmation of bullish fundamentals, we could see a battle between spec enthusiasm and short-term demand versus the psychological and demand realities of trade over a dollar. To our mind that is a recipe for volatility and a 6-8+ cent trading range moving into September and early harvest.

Being priced at 60-75% of estimated yield makes sense at current levels, but we continue to see the possibility of well-timed recap sales performing very well.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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