ROSE ON COTTON – COTTON MARKET CONTINUES IT'S TREK HIGHER; USDA SLASHES DOMESTIC PRODUCTION AND CARRYOUT ESTIMATES

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The ICE Mar cotton contract gained 93 points for the week ending Jan 15, finishing at 80.70 as the Mar – May switch weakened to (92), still short of full carry. It is worth noting that the Mar contract managed to breach the 82.00 level on the week. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be incorrect. However, we did not recommend trading this bias ahead of the Jan WASDE report's release – and we certainly did not advise doing so after the report was disseminated.

ICE cotton's move higher was largely based on a large cut in the USDA's official domestic production and carryout projections, strong US weekly export data, strength in corn and soybeans, and droughty conditions across West Texas. Strengthening US currency and domestic political unrest applied drag to the market.

Domestic factors worth noting last week included a continuing drought across West Texas, with little relief in sight.

President-elect Biden released his (very costly) plan for pandemic recovery, inspiring macro-economic concerns. Several economists have published essays and projections of the Biden administration's policies causing US GDP to contract 1.5% - 2.5% over the next four years, with job growth contracting between 500K – 600K – that is on top of pandemic job losses. Energy prices seem likely to rise, which will hit US farmers in the pocketbook. Given the fact that clothing and home textiles are among the first consumer purchases to show the effects of economic slowdown, concern seems justified for long term demand.

In its Jan WASDE report, the USDA projected 2020/21 domestic carryout 1M bales lower Vs Dec on lower estimated production and an enhanced export projection. Production was estimated at 14.95M bales (300K lower than our estimate, 600K lower than our pre-report expectation, and 1M bales lower Vs Dec) while exports were projected at 15.25M bales. Domestic consumption was projected at a paltry 2.4M bales, down 100K Vs Dec. US production was estimated lower on higher abandonment and lower yield of 825 lbs/acre. Domestic figures should not change until the final ginning report for the year has been released.

Aggregate world carryout was projected approximately 1.2M bales lower at 96.3M bales on a lowering of the production estimate to just south of 113M bales and an increase of the consumption forecast 100K bales to almost 115.75M bales. We take issue with the latter figure.

Despite tighter carryout projections, the world balance sheet is far from bullish, but the domestic sheet is supportive, as cotton will actively compete with corn and soybeans for acres in 2021. This will prove especially true if the drought across West Texas persists.

Net export sales and shipments were higher Vs the previous assay period (sales notably so) at approximately 362K and

285K RBs, respectively. The US is 84% committed and 41% shipped Vs the USDA's upwardly revised 15.25M bale export projection. Sales were again ahead of the average weekly pace required to realize the USDA's target while shipments were again just off the pace requirement. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were modest at around 34K RBs. China accounted for almost 50% of new sales.

In international news, the US will ban the importation of cotton (and other) value added products produced in Xinjiang, China because of the use of ethnic slave labor. This could affect many major brands marketed within the US and serves as another source of strife between the two countries. President-elect Biden issued a statement that seemed to be in support of the ban. We hear from our sources that rising cotton prices are finally causing significant concerns for producers of yarn as inventories rise. In the (much) longer term, we are hearing that the Biden administration intends to pursue US participation in the TPP, which could potentially create new markets for US cotton and isolate China.

For the week ending Jan 12, the trade increased its futures only net short position against all active contracts to approximately 14.62M bales, which signals further producer selling, while large speculators trimmed their aggregate net long position to around 7.26M 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 markets and political news. In particular, Wednesday's inauguration plans and the threatened violent protests around the US add a great deal of tension and uncertainty to the short-term forecast. The market will take the day off on Monday in observance of the Martin Luther King, Jr. holiday.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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