Rose Commodity Group

ROSE ON COTTON – COTTON MARKET POSTS SIGNIFICANT GAINS, POST JULY WASDE RELEASE

18-Jul-2021

LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec cotton contract gained 222 points on the week to finish at 89.93, with the Dec – Mar inversion strengthened at 63. Dec made two serious runs at the 90.00 level during late-week trading. 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 post the release of the July WASDE report.

The cotton market moved higher on the week, despite notable weakening of US export data and strengthening US currency, on rumors of demand strength and tighter than expected balance sheets within the July WASDE report.

In the July WASDE report, the USDA projected of 2021/22 domestic carryout 400K bales higher Vs June at 3.3M bales, which is still a very supportive projection. The adjustment came via an 800K bale enhancement to the production estimate (17.8M bales) and a 400K bale enhancement to the 2021/22 export projection. No adjustment was made to the old crop export estimate of 16.4M bales, although we have only shipped just north of 15.2M 480lb bales, to date. Despite lower acreage Vs Mar 31, USDA dramatically decreased their estimate of abandonment and reduced projected yield, although it remains near average levels. We have no issue with these latter adjustments.

Aggregate world carryout for 2021/22 was projected 1.54M bales lower Vs June at approximately 87.75M bales. Changes came per a large reduction of beginning stocks and an enhancement to the consumption forecast, which is now at 1.23.16M bales. An increase in the production projection offset a further decrease to expected carryout.

We continue to disagree with the USDA on consumption. The combination of inflation, anticipated interest rates increases, continued worldwide pandemic shutdowns and regulations, increasing energy prices, and irresponsible governmental fiscal behavior make a poor environment for textiles and other semi-durable goods.

For the week ending July 4, the US crop was rated in 52% good, or better, condition, which is unchanged Vs the previous assay period. At an aggregate level, fruit-setting estimates show the crop is just off its expected development pace. Another thing is also unchanged -, a close examination shows the Mid-south remains woefully behind its normal development pace. However, the Delta crop is improving.

Most US cotton growers will likely see some rainfall this week. Producers north of Lubbock, TX saw significant rainfall and showers last while storms started moving across the Mid-south on Friday afternoon and such continues at the time of this writing.

For the week ending July 8, US export sales and shipments were disappointing at around 35K and 189K RBS, respectively. New crop sales were also slow at around 117K RBs with sales off around 800K RBs Vs this time last season. For the US to hit the USDA's export target, it will need to ship approximately 390K RBs per week for the remainder of July (a little over 3 weeks) and such is not likely to occur. We continue to estimate exports for 2020/21 at 15.75M 480lb bales.

Internationally, India has signed a memorandum of understanding with major US cotton buyer Bangladesh to purchase more Indian grown cotton. Through July 16 China has sold 100% of stocks made available for sale from their strategic reserve, which amounts to the equivalent of almost 395K 480lb bales.

For the week ending July 13, the trade increased its futures only net short position against all active contracts to approximately 14.7M bales; large speculators increased their aggregate net long position around 5.7M bales.

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 Dec contract remain supportive to bullish, with the market approaching an overbought condition. With the June 30 Acreage and July WASDE out of the way, next week's trading action could prove uneventful.

Producers should get a chance to price cotton against futures over 90 cents in the coming week. Based on recent weeks, we would not be surprised to see this occur with low volume and high volatility, which emphasizes the need tor a disciplined trading strategy. We see little reason not to have priced 60-80% of expected yield in the low 90s, leaving a portion of one's crop to be traded on recaps in the fall. Options continue to carry a substantial premium, but should provide the means to participate in rallies above the low 90s. While we aren't predicting the dollar+ prices some other market advisors are, we can't rule out such a move, making a limited call strategy worth consideration.

Have a great weekend!

Report Courtesy: Rose Commodity Group

With well over 60 years combined experience in the commodity trade, the partners of the Rose Commodity Group offer a wealth of knowledge and perspective to their clients. With expertise and direct experience in agronomy, crop production, futures and options, spot trading, hedging, shipping, and insurance, the Rose Commodity Group approaches marketing and risk management from a comprehensive perspective. Rose Commodity Group is not directly affiliated with any other commodity firm; we are not commission futures brokers. Our strategies and advice are based entirely on our client's specific needs and goals.

To learn more about Rose Commodity Group please visit: https://www.rosecommoditygroup.com/about/