ROSE ON COTTON – COTTON MARKET CONTINUES TO RECOVER

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The ICE July cotton contract gained 129 points on the week to finish at 85.03 as the July – Dec inversion strengthened to 250. The Dec contract finished higher on the week at just north of 82.50. 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.

The cotton market moved higher for a second consecutive week on economic data releases that were mostly considered encouraging. However, we would also like to remind readers – especially regarding cotton-specific economics – that inflation is running rampant in many sectors. Building supplies and energy costs continue to rise, and these are a heavy drag for downstream textile demand.

The US planting season has arrived, although soil temperatures in the mid and north Delta remain far too cool to risk planting of expensive GMO seed. Overnight lows across our area this week will approach freezing. West Texas is expected to see little precipitation over the coming week while the Mid-south and the southeastern states are expected to see moderate to significant shower activity.

Net export sales and shipments were lower Vs the previous assay period at approximately 125K and 330K RBs, respectively. New crop sales were around 23K RBs; running total is now 1.6M RBs. The US is 102% committed and 70% shipped Vs the USDA's 15.75M bale export projection. Both sales and shipments were ahead of the average weekly pace required to realize the USDA's target. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were negligible. Slower sales may have been partially due to Good Friday.

Internationally, the USDA's attaché in China has projected the nation's 2021/22 production and consumption lower Vs 2020/21 at around 27M and 39M bales, respectively. The attaché in Turkey has projected 2021 production notably higher Vs 2020 at 3.4M bales. Personnel across the African Franc Zone are forecasting a significant increase in production for 2021 Vs 2020. Hence, the world S&D outlook (this far) seems to be for lower overall consumption and higher production across both US export competitors and standard customers. Combined with the increasing spread of COVID variants in Europe, this makes it hard to paint a bullish picture outside normal seasonal fluctuation.

For the week ending April 13, the trade trimmed its futures only net short position against all active contracts to around 13.2M bales while large speculators reduced their aggregate net long position to just south of 5M bales. The spec position remains stacked in a bullish manner, which could lead to significant liquidation.

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 July contract are supportive. The weekly US export report, weather forecasts and conditions, and economic data seem likely to be potential market moving factors this week.

With planting season upon us, the next 6-8 weeks will be crucial for US producers. While we still recognize the possibility that normal volatility could run Dec futures into the 90s in a weather market, slowing demand will serve as a wet blanket on any long-term rally. We will continue to recommend pricing 50-60% of estimated yield in the mid-80s, adding 10-15% to those numbers as we approach mid-June. As always, the option pit is an excellent place to price cotton, but given the volatility premium evident in Dec 21 and Mar 22 options, straightforward 'fix and buy calls' or 'hedge with puts' strategies will require some finessing.

Have a great week!

Report Courtesy: Rose Commodity Group

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