ROSE ON COTTON – COTTON MARKET POSTS WEEKLY GAINS BUT FALTERS POST RELEASE OF BLOCKBUSTER EXPORT DATA

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The ICE Dec cotton contract gained 85 points for the week ending Sept 18 finishing at 65.66, the Dec – Mar switch tightened a bit at (92). 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.

ICE cotton moved modestly higher on the week on continued consideration of last week's tightened USDA domestic balance sheet (which was still bearish) and ahead of hurricane Sally's landfall. However, the market ignored blockbuster US export data and Sally's actual landfall on Thursday and Friday.

Domestically, we have been talking to contacts across the gulf coast and we hear that crops in Florida, southern Alabama and Georgia have in fact suffered some significant damage at the hands of heavy rains associated with Sally. Worse, tropical storm Beta is now churning in the Gulf of Mexico, near the Yucatan peninsula. Still, little precipitation is currently expected across The Belt in association with this storm. Here in the Mid-south, cotton is opening and defoliants and boll openers are being applied, but it looks like this will prove to be an average crop, at best, for our area.

Net export sales were notably higher and quite impressive while shipments were lower Vs the previous assay period at approximately 548K and 204K RBs, respectively. The US is 55% committed and 12% shipped Vs the USDA's 15M bale export projection. Sales were well ahead of the pace required to realize the USDA's target while shipments were off the pace requirement. Cancellations were negligible; China was the major taker for the period, accounting for around 82% of new sales.

The latest data took us by surprise. We are currently are projecting US exports at 15M bales, 400K ahead of USDA.

The WTO has decided the US violated international trade rules by placing tariffs on imports from China during the recent trade war between the two nations. The WTO made this ruling despite evidence of China's theft of intellectual property. However, the WTO has no teeth to effectively enforce such a ruling. To many observers, this is appropriate given that the WTO allows nations to declare their economic status rather than relying on hard data. Still, this convention was created with the blessing of the US. In other news worth watching, the US is now considering a ban on all cotton imports from Xinjiang, China due to the central government's treatment of its Muslim community and allegations of slave labor.

No matter, China continues to buy US agricultural commodities at a breakneck pace. One wonders.

For the week ending Sept 15, the trade increased its futures only net short position against all active contracts to approximately 10.8M bales, while large speculators increased their net long to almost 4.9M bales. Such a spec position seems vulnerable to 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 the Dec contract remains supportive to bullish, with money flow continuing to gain positive traction. The market is somewhat overbought. We continue to find it difficult to envision an enduring bullish run, and it seems others (at least some) agree.

Producers have priced a remarkably low percentage of a remarkably large crop (despite lackluster conditions in many areas). Given a large projected carryout, continued trade friction with our largest customer, an impending election, and the continued effects of the pandemic, it would be easy to paint a bearish picture. With that said, we do continue to see brief hurricane rallies, and there is a likelihood of 1-3 storms making it to the cotton belt prior to the end of the season. We can make an argument for brief rallies into the low 70s, but we'll need some dramatic (and unexpected) news to move the market beyond that level.

We're maintaining our advice to price 25-30% of estimated yield on moves to and through the 6800 level, and to price 40-60% on moves to or though 7000. We currently favor the option pit for pricing, given the possibility that quality issues could increase the basis for white cotton with premium micronaire substantially as the harvest comes in.

Have a great week!

Report Courtesy: Rose Commodity Group

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