ROSE ON COTTON – COTTON MARKET AGAIN FINISHES MODESTLY HIGHER, MANCHIN KILLS "BUILD BACK BETTER"

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The ICE Mar cotton contract picked up 107 points on the week, finishing at 107.30, with the Mar – May inversion strengthened at 160. Last weekend our models predicted a finish on the week that was to be near unchanged to higher Vs the previous Friday's settlement, which proved to be correct.

Futures moved modestly higher on encouraging US export sales, the market's technically oversold condition, and the general belief that the Omicron COVID variant may not have severe economic effects. Persistent strengthening of US currency, inflation concerns, and index fund end of year liquidation applied drag to the market.

Domestically, the thrust of the autumn/winter holiday season is upon us, which means that most producers will be taking well earned time to spend with family and friends. Consideration of planted area for 2022 will likely take on a serious tone just after the holidays. In other news, Senator Joe Manchin of West Virginia effectively killed the Biden Administration's Build Back Better initiative on a Sunday morning interview with Fox News. Given that inflationary pressure has historically dampened value-added textile consumption, this may prove beneficial for medium- to longer-term raw cotton offtake.

For the week ending Dec 16, the USDA classed approximately 1.19M running bales (RBs), of which nearly 83% of upland bales are deliverable against ICE contracts. Quality continues to hold up very well, even though classing progress remains dramatically behind schedule. The cumulative total for the season is now almost 11.12M RBs (62% of expected production), with more than 85% tenderable.

US export sales for the week ending Dec 9 were just above 287K RBs (lower Vs the previous assay period), but it was not the amount of cotton sold that was surprising, it was the fact that sales were spread across the board. The shipment pace remained dismal at 140K RBs; if shipments do not improve notably by mid-Jan USDA will probably start walking back/down their export forecast, which we have already done. It is worth noting that there is a direct correlation between classing delays and shipping progress, as unclassed cotton cannot be invoiced or delivered.

The most pertinent recent international news remains focused on Russia’s build-up of troops along the Ukrainian border (widely considered saber-rattling), and a potential Chinese invasion of Taiwan following the culmination of the winter Olympics. It goes without saying that it is difficult to view either of these scenarios as bullish. The Chinese situation will draw more widespread attention as the Winter Olympics proceed, with protests and diplomatic boycotts drawing mainstream media coverage.

For the week ending Dec 14, the trade trimmed its futures only net short position against all active contracts to approximately 14.34M bales; large speculators trimmed their aggregate net long position to around 7.15M bales. Managed money firms continue to keep their outright shorts at an alarmingly low-level and such could lead to further market breaks.

For next week, the standard weekly technical analysis for the Mar contract has turned supportive while money flow remains bearish. The weekly release of US export data will be the most pertinent scheduled reports ahead of the end of the year. Holiday trading can be tricky and is often volatile. Index fund liquidation will likely apply drag to the market while unforeseen sales could move the market higher.

Our recommendations for producers remain consistent. While many commentators are growing more aggressively bullish going into the spring, it is hard to find a downside to selling old crop cotton at any price north of a dollar. We think it makes sense to price 10-20% of new crop against a 90+ cent market but advise caution in committing beyond that level.

Have a great week!

Report Courtesy: Rose Commodity Group

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