ROSE ON COTTON – COTTON MARKET CONTINUES HIGHER, USDA FORECASTS ACREAGE NEAR UNCHANGED IN 2021

21-February-2021

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The ICE May cotton contract gained 261 points for the week ending Feb 19, finishing at 90.48; the May – July switch was little changed at (73). Dec again finished near its weekly high, this time at 85.50. 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 was higher, despite a continued slowing in export business, on likely further tightening to the domestic carryout estimate, continued strength in competing crops and bullish futures mechanics associated with on-call commitments.

Domestically, temperatures will warm notably over the coming week, especially across The Belt. Little precipitation is expected across West Texas over the coming week while cotton producing areas east of the region are expected to see significant rainfall. Still, recent snowfall across western portions of Texas has likely provided some much-needed moisture to parched soils. With respect to old crop, the latest classing data suggests that USDA may have overestimated 2020 production by as much as 500K bales.

The National Cotton Council (NCC) projected 2021 planted area at 11.5M acres, as expected, and many (including us) believe acreage will be at least 12M acres. USDA projected 2021 domestic planted area and expected production significantly higher Vs NCC at 12M acres and 17.5M bales.

Net export sales and shipments were off significantly Vs the previous assay period at approximately 134K and 324K RBs (MY high), respectively. New crop sales were next to nothing. The US is 92% committed and 52% shipped Vs the USDA's 15.5M 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. Sales were again spread across the board.

China was on holiday last week, so we are likely to see another round of slow export sales reported next Thursday morning. Elsewhere, sowing across Brazil is off its normal pace, but is quickly racing toward a close. The state of Mato Grosso advanced more than 20 percentage points on the week to around 80% complete.

For the week ending Feb 16, the trade slightly increased its futures only net short position against all active contracts to just north of 13.3M bales, while large speculators expanded their aggregate net long position to almost 7.1M bales. The spec position remains stacked in a heavily bullish manner and is vulnerable to profit-taking. However, there is a net of approximately 6M bales of on-call mill commitments that will have to be fixed by July 1, which will result in the covering of trade shorts and such could well drive the market higher.

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 moving further into overbought territory. Next week's trading action will likely be framed by movements in oil and equity markets, political news and US export sales and shipment data.

Producers have taken advantage of the rally in the Dec contract to forward contract cotton, and we continue to encourage pricing 50% of estimated yield at a futures price of 85 or higher. We also continue to favor using options to price beyond 50%, given the likelihood of moves to or through the 90-cent level between now and planting season, continued volatility in competing crops, and the perpetual possibility of adverse planting conditions.

Have a great week!

Report Courtesy: Rose Commodity Group

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