ROSE ON COTTON – COTTON MARKET FINISHES WEEK LOWER AFTER SERIOUSLY CHALLENGING OVERHEAD RESISTANCE

August 22, 2021

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The ICE Dec cotton contract gave back 122 points on the week to finish at 93.10, with the Dec – Mar spread inversion weakened at 84. Although our models predicted a higher finish on the week, we ultimately recommended a short position.

Futures were lower on the week on weakening US export sales data, a 1% strengthening in US currency, spec profit-taking, producer selling, and the market's overbought condition.

For the week ending Aug 15, the US crop was rated in 67% good, or better, condition - 2 percentage points higher Vs the previous assay period and notably higher Vs 2020. Only 5% of this season's crop remains rated in poor to very poor condition. Cotton is opening across the southernmost production regions of the Mid-south, and the Southwest, with harvest having commenced within the RGV.

US cotton growers across the southeastern states will likely see the most shower activity and rain over the coming week, with significant to heavy rains having occurred last week across the Mid-south and West Texas.

It is now clear that an overwhelming majority of the US crop has not been significantly affected by droughty conditions this season. Harvest will tell us whether there are correlated quality concerns. With good soil moisture in mid-Aug and a later than normal arrival of autumn weather, yields could be much higher than USDA currently expects. However, US planted area is being seriously called into question.

USDA-RMA crop insurance data currently shows approximately 10.65M insured acres, and, while the data are not yet complete, they certainly suggest lower acreage than the USDA's June 30 estimate of 11.7M acres. While some expect that USDA is off around a million acres, we are more conservative (we are tentatively at 11.25M acres). We are re-working our S&D with revised acreage estimates. USDA will update its estimate of acreage per the first certified acreage report of this season, which will not be made public until after the USDA publishes its Sept WASDE report.

Net export sales were lower while shipments were higher Vs the previous assay period at approximately 253K and 225K RBs, respectively. The US is 37% committed and 3% shipped Vs the USDA's 15M bale export projection. Sales are well ahead the average expected pace for this point of the season while shipments are on par with the historical expectation. There is still no sign that 2020/21 total exports were significantly above 16M 480lb bales Vs the USDA's estimate of 16.35M.

Internationally, the status of the US amid its allies and the world community continues to spiral amid the debacle that continues to unfold in Afghanistan. While this does not directly bear on the cotton market in terms of S&D, it does make commodity investors cautious.

For the week ending Aug 17, the trade notably increased its futures only net short position against all active contracts to approximately 18M bales, while large speculators increased their aggregate net long position to almost 8.25M bales. The spec position is stacked in a very bullish fashion, which could lead to quick market liquidation at the first sign of bearish news.

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 Dec contract remain bullish, with the market also remaining overbought, per some indicators.

Producers with crop to price are understandably debating whether this week's rally and selloff signals the end of a long term upward move going back to March 25. It is difficult to argue against the possibility of a short-term correction, possibly a larger than normal correction. However, we are seeing increasing volatility, a widening basis, and merchants are moving their forward contracting options to the March 22 contract from the Dec 21 contract. This signals to us that the trading range could be very wide and volatile for the next 8-12 weeks while the trade gets a better handle on exactly what the 21 crop looks like. COVID continues to be a moving target as well, and while global supply pipelines continue to move in an inconsistent fashion, economic recovery will be tentative at best.

We cannot argue against selling cotton at current levels, but continue to see the potential for volatility to move futures to psychologically significant levels. Our closest customers are at 75% priced, and will carry the remainder of their harvest to the spot market.

Have a great week!

Report Courtesy: Rose Commodity Group

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