ROSE ON COTTON – COTTON MARKET SURGES ON VACCINE HOPES

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The ICE Mar cotton contract gained 256 points for the week ending Nov 20, finishing at 72.96 as the Mar – May switch strengthened to (86), which is shy of full carry. 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.

ICE cotton was higher on the week despite weakening US export data and COVID concerns, on weakness in US currency, expectations for Republicans to retain control of the US Senate, the likelihood that COVID-19 vaccines are ready (or nearly so) to move into the deployment phase.

Domestically, the USDA estimated the US crop 69% harvested as of Nov 15, 5 percentage points ahead of the 5-year rolling average pace and 8 percentage points higher on the week (27 percentage points over the past 3 weeks). Significant progress was anticipated. With respect to harvest weather, much of The Belt is expected to see at least some rain and showers over the coming week, but significant to notable progress is again thought to have occurred over the past week.

Net export sales and shipments were lower Vs the previous assay period at approximately 136K and 296K RBs, respectively. The US is 68% committed and 28% shipped Vs the USDA's 14.6M 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 large at approximately 48K RBs. Sales to China were a net negative of around 20K bales.

In fully expected news, China is said to be lobbying the Biden administration to renegotiate the term of the Phase I trade agreement. While this may potentially provide short term benefit to US producers, it remains to be seen what the long-term impact of these talks will be. Traders and producers with some gray in their hair will remember that it was cooperation with China that moved spinning mills from the US to China following a previous administration's efforts to improve relations.

For the week ending Nov 17, the trade held a futures only net short position against all active contracts of approximately 13.25M bales, while large speculators held a net long to just south of 5.7M bales. The spec position is stacked heavily in a bullish way, but seems vulnerable to some liquidation.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For next week, the standard weekly technical analysis for the Dec contract remains supportive to bullish with money flow continuing to turn negative. Next week's trading action will be truncated by the US thanksgiving holiday. At times, the Friday after the Thursday holiday has exhibited significant volatility in the customary abbreviated trading session but more often than not it is a rather boring session.

Producers should re-read the previous paragraph. The Thanksgiving week has historically been a challenging one for cotton marketers, and large traders have been known to take advantage of holiday distraction to make large purchases at advantageous prices to the buyer. This is exactly the time to maintain a disciplined approach to marketing, and to very seriously consider using the futures pit to exercise your bullish strategies. We think spot sales in the low mid 70s with May or July calls against a portion of your crop to participate in spring rallies is a wise move. Keep in mind that for a substantial portion of 2020, producers were eager to sell cotton in a 68-cent market.

Have a Happy Thanksgiving and a great and safe long weekend!

Report Courtesy: Rose Commodity Group

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