ROSE ON COTTON – COTTON MARKET CONTINUES TO RALLY, ANOTHER STORM BREWING IN THE GULF

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The ICE Dec cotton contract gained 137 points for the week ending Oct 23 (547 over the last three weeks), finishing at 71.29 as the Dec – Mar switch strengthened to only (58). Still, Dec finished 84 points off the intraweek high of 72.13. 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 on the week despite weakness in equity markets on improved (but far from stellar) US export data, increased spec buying on the breakout, and weakening US currency.

Domestically, USDA continues to estimate this season's harvest progress effectively on par with the rolling 5-year average pace, but we expect that a lot has been accomplished over the past week. And it is a good thing if such is so, because most of The Belt is expected to see at least some rainfall over the coming week. Worse, there is yet another tropical storm has formed in the Gulf of Mexico, just south of Cuba.

Net export sales were significantly higher Vs the previous assay period while shipments were lower at approximately 257K and 201K RBs, respectively. The US is 62% committed and 20% shipped Vs the USDA's 14.6M bale export projection. Sales were ahead of the average weekly pace required to realize the USDA's target while shipments were off the pace requirement. Sales and shipments are ahead of the average pace for this point in the season.

China has announced that it will buy 500K MTs (~2.3M bales) of this season's bumper (reportedly) crop. We think that China is simply taking an opportunity to enhance its reserve stocks with high quality cotton at a time that it has effectively forbade the purchase of Aussie bales. They were also able to offload a similar amount of reserve cotton from the 2011, 2012, and 2013.

For the week ending Oct 20, the trade increased its futures only net short position against all active contracts to approximately 13.6M bales, which signals that producer selling continues to occur, while large speculators increased their net long to almost 6.3M bales. The spec position is now becoming approaching burdensome.

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 the market remaining notably overbought; money flow remains supportive to bullish. Market participants will soon need to begin to decide just how the US election(s) and the Nov WASDE report could affect markets.

We continue to see a very strong spot basis for higher quality recaps, combined with immediate shipping orders, signaling strong nearby demand. If the storm in the gulf should develop and come onshore next week, we could see another modest rally in futures, but we will almost certainly see a continuation or even improvement in the spot basis for 31-3-36 and better qualities. We continue to encourage producers to sell recaps into a market over 71 cents, and caution that any mover over 73 cents could be short lived, barring unforeseen developments. Cotton still in the field should be priced using a put option strategy, leaving open the possibility of participating in basis shifts or market moves following the election.

Have a great week!

Report Courtesy: Rose Commodity Group

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