Rose Commodity Group

ROSE ON COTTON – COTTON MARKET POSTS MODEST WEEKLY GAIN

October 25, 2021

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The ICE Dec cotton contract picked up 93 points last week, finishing at 108.26, with the Dec – Mar spread inversion contracting to 207. Last week our models predicted a finish on the week that was to be near unchanged to lower Vs the previous Friday's settlement, which proved to be incorrect, although recent volatility invites a discussion of what "near unchanged" means.

Futures moved modestly higher on better-than-expected export sales for the week ending Oct 14 and a weakening of US currency value. Continued slow shipments and harvest pressure amid favorable harvest conditions helped to hold the market in check.

For the week ending Oct 17, the US crop was rated in 64% good, or better, condition, unchanged Vs the previous assay period. The US harvest was estimated at 28% complete, up 8 percentage points on the week and Vs the rolling 5-year average of 34%. We think harvest progress over the past week will prove to have been strong.

On the production side, the Mid-south and the southeastern states will likely see rain over the coming week while the balance of The Belt is expected to see favorable harvest conditions.

Net export sales and shipments were higher (sales notably so) Vs the previous assay period at approximately 416K and 123K RBs, respectively. The US is 55% committed and 13% shipped Vs the USDA's 15.5M bale export projection. Sales were well ahead of the weekly pace required to meet the USDA's export target while shipments continue to woefully miss the mark. Sales are well ahead the average expected pace for this point of the season while shipments are on par with historical expectation. China was responsible for the vast majority of 2021/22 and 2022/23 new sales. If China is buying for its reserve, then current US logistical issues are less of a concern for them.

The many retailer boycotts of Chinese cotton produced in Xinjiang may prove to be a manageable issue for China if demand continues to rebound. Imported cotton can be used to fulfill nearby orders, while Xinjiang cotton (hard to track) can be shipped eastward to other traditional spinning facilities or moved into reserve.

For the week ending Oct 21, the USDA classed approximately 569K running bales (RBs), of which almost 85% are deliverable against ICE contracts. The cumulative total for the season is now nearly 1.7 RBs, with almost 87% tenderable. The pipeline is beginning to fill.

Internationally, production in Turkey is expected to rebound this season to around the equivalent of 3.5M bales; however, the country's consumption is expected to be almost 8.5M 480lb bales, which bodes well for US export business. The Cotton Association of India has modestly reduced its estimate of its 2020/21 production to the equivalent of 27.53M 480lb bales Vs USDA's assessment of

28M bales. This season's harvest across Egypt, which is mostly extra-long staple varieties, is reportedly producing a bumper crop. In other news, traders are not only aware of poorer than expected economic data out of China recently; they are also aware that China successfully tested a hypersonic missile capable of carrying a nuclear warhead last week and the continue to closely monitor China's actions toward Taiwan.

For the week ending Oct 12, the trade reduced its futures only net short position against all active contracts to approximately 16.76M bales as the trade continues to pick up cotton from producers; large speculators reduced their aggregate net long position to just south of 8.2M bales. Managed money firms have kept their outright shorts at an alarmingly low level, and this could lead to quick (and potentially lasting) market breaks.

For this week, the standard weekly technical analysis for and money flow into the Dec contract remain bullish. Harvest pressure and economic concerns could cause problems for the Dec contract over the near- to medium-term, with scheduled index fund rolling (which is also normally less than supportive) to commence on Oct 28.

Have a great week!

Report Courtesy: Rose Commodity Group

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