ROSE ON COTTON – COTTON MARKET CONTINUES TO CONSOLIDATE AS SEASONAL TREND TURNS BEARISH

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The ICE Dec cotton contract picked up 29 points for the week ending Sept 25, finishing at 65.95; the Dec – Mar switch tightened significantly at (71). 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 moved slightly higher on the week, but upward movement was hindered by a significant strengthening in US currency (almost 2% on the week), weakening US export sales, and weakness in equity markets. Volatility in equity markets seems to be (at least partly) due to growing sentiment that this year's US presidential election will be contested (and perhaps ultimately decided) in the courts. Markets abhor uncertainty and unrest, and a disputed election would be the icing on the cake of a year already marked by phenomenal uncertainty and unrest. This week's unwanted rains across the Mid-south – especially the mid- and southern Delta – and the southeastern states offered mild support to the market.

Domestically, little harvest progress is likely to be reported in the USDA's next weekly crop progress report. Fields across the Mid-south that were ready or nearly ready for harvest received 5+ inches of rainfall, which is not positive for either yield or quality. We caught 1 inch in our gauge just east of Memphis and a stone's throw north of the Mississippi line, but fields here do not look pretty in their current state. To make matters worse, temperatures across the Mid-south are unseasonably cool, which does not aid the efficacy of defoliants and boll openers.

Early yield reports have been mostly disappointing, which we have feared would be the case with this crop. The Mid-south is expected to see more rain next week, with the Atlantic coast expected to see particularly heavy rainfall; Texas, Oklahoma, and Kansas are currently expected to see mostly clear skies.

Net export sales were dramatically lower while shipments were higher Vs the previous assay period at approximately 111K and 294K RBs, respectively. The US is 56% committed and 14% shipped Vs the USDA's 14.6M bale export projection. Sales were off the pace required to realize the USDA's target while shipments were ahead of the pace requirement. Cancellations were large at almost 53K RBs.

Internationally, USDA attaché reports continue to relay a downward bias to production in 2020/21 Vs 2019/20; in some instances, the projected reductions are stark.

For the week ending Sept 22, the trade held its futures only net short position against all active contracts near unchanged at approximately 10.8M bales, while large speculators slightly increased their net long to almost 5M bales.

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 gain positive traction. The market remains somewhat overbought. The market will probably have to consider the probability of future production and consumption forecasts moving lower.

Producers are engaged in a game of chicken with the market. With most of the crop un-priced, futures stuck in a range too high for program support but too low to secure profit, and congressional Democrats threatening to de-fund the CCC, we would understand if rural sales of alcohol, tobacco, and antacids were on the increase.

With that said, our advice for the upcoming week remains the same as last weeks. Price 20-30% of estimated yield using options or forward contracting (if the basis improves) on moves to or through the 6800 level and price more aggressively (40-60%) on moves to or through the 7000 level. Producers in areas with a track record of producing high quality cotton should maintain flexibility to sell premium cotton on recaps in November if the basis for quality improves in reaction to expected quality issues.

Have a great week!

Report Courtesy: Rose Commodity Group

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