ROSE ON COTTON – COTTON MARKET SUFFERS FIFTH CONSECUTIVE WEEKLY LOSS, BULLISHNESS OVER?

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The ICE May cotton contract suffered its fifth consecutive weekly setback, this time for a 430-point loss to finish at 80.38, with the May – July switch effectively unchanged at (103). The May contract has now given up 1010 points over the last 4 weeks and has traded around 1800 points off its Feb (and contract) high. The Dec contract finished significantly lower on the week at 78.74. 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 correct.

We can cite several inspirations for the bearish move.

Oil and equity markets have moved lower while US currency has continued to strengthen, especially notable given recent Fed comments and economic growth projections. Further, the managed money aggregate net long position is overwhelmingly stacked in a bullish manner, which poses the danger of fast liquidation. Index fund rolling out of Mar commences next week, so no specs are looking to build any sizeable, long position against the contract.

Finally, while we concede that COVID-19 has increased demand for cotton (at least partially) masks and other medical supplies, we also note that most of the world has seen a very strict reduction in sporting, concert, and other similar events (including general tourism) at which t-shirts and other cotton-value items are regularly sold. Combined with the economic impact of a practical shutdown in industries like restaurants and hospitality, the world's use of disposable income for textile goods remains substantially reduced. With new shutdowns being announced in Europe as we write this, this summer's expected recovery is anything but a sure thing.

The annual Bloomberg survey reflected expectations for the USDA to project US area committed to cotton at 12.1M acres this year in its Mar 31 Planting Intentions report. This would be 100K acres higher Vs this year's projection at the Ag Outlook Forum and on par with last year. We think acreage may be projected at around 12.5M acres, given that wet conditions are preventing sowing of significant planned southern US corn acreage. West Texas is expected to see little to no rainfall over the coming week, although they have received significant spotty relief over the last week, while areas of the Mid-south and the southeastern states are expected to see yet more rain.

Net export sales and shipments were lower Vs the previous assay period at approximately 278K and 323K RBs, respectively. New crop sales were almost 70K RBs. The US is 101% committed and 64% shipped Vs the USDA's 15.5M bale export projection. Both sales and shipments were ahead of the average weekly pace required to realize the USDA's target and remain ahead of the long-term average pace for this point in the season. Cancellations were significant at around 55K RBs and were mostly attributable to China. In other news, concerns remain that the EU will experience yet another shutdown due to its slow rate of COVID vaccinations and outbreaks of COVID variants.

Internationally, China has attacked H&M (the world's second largest retailer of clothing), and other entities via social media outlets for their ban on cotton and value-added textile items associated with Xinjiang, China and Chinese forced labor camps. China continues to raise tariffs against Australian goods (this time a 200% duty on Australian wine) in retaliation for Australia's stance on COVID origination and early handling and on accusation of human rights abuses. While this would normally be taken as somewhat friendly for the US cotton industry, the US and China are on similarly rocky terms.

For the week ending Mar 23, the trade modestly decreased its futures only net short position against all active contracts to around 14.3M bales; large speculators slightly trimmed (slightly) their aggregate net long position to approximately 6.1M bales. The spec position remains stacked in a bullish manner, which could lead to significant liquidation, some of which we expect has occurred since Mar 23.

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 May contract have turned bearish. The USDA's annual Mar 31 Planting Intentions report likely holds the greatest potential for market reaction next week. Traders will also likely keep a keen eye on weather forecasts as they make trading decisions.

We hope producers have heeded our advice and priced a modest portion of their crop. Volatility will absolutely be the name of the game in pricing new crop in the next few weeks.

Given limit moves, TX weather, and a more than usually variable trade situation, we can't rule out any price between 70 and 90 in the next 6-12 weeks. If ever there was a time to be hedged in the option pit and have standing orders with your local buyer, the spring of 2021 is it.

On a related note, producers occasionally ask us why forward contracting and basis levels tend to widen during the Spring, and this week's trading is an excellent example of how volatility drives the basis. A few minutes discussing contracting strategies with a good independent buyer will be time well spend in the next few weeks.

Have a great week!

Report Courtesy: Rose Commodity Group

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