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ROSE ON COTTON – COTTON MARKET FINISHES HIGHER ON WEEK AMID VOLATILE TRADING ACTION

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LOUIS W. ROSE IV AND BARRY B. BEAN

The ICE Dec cotton contract commenced the week with a sharp break but finished with an even more impressive rally to finish up 366 points on the week at 95.99, with the Dec – Mar spread inversion ballooning to 142. Last weekend 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.

The cotton market fell early in the week on impending harvest pressure (fueled by spec liquidation) and the real estate crisis in China, but rallied on week's end on a variety of factors including strong US export sales data and trade short covering as business is rolled forward to the Mar contract. We put considerable effort into finding a single major factor behind Friday's rally, but we found the most pertinent data to be the weekly CFTC Commitments of Traders data. As of Tuesday (post Monday's break) spec sold (outright) an additional 200K bales of cotton; stop orders were likely placed at 92.00 -93.00 and covering of these new shorts likely help fuel Friday's rally.

For the week ending Sept 19, the US crop was rated in 64% good, or better, condition, which is unchanged Vs the previous assay period. The US harvest was estimated at 9% complete Vs the rolling 5-year average of 11%.

Most of The Belt east of West Texas is expected to see favorable defoliation and harvest conditions over the near-term. Producers across West Texas, Oklahoma, Kansas, New Mexico, and Arizona could see some heavy rains later this week, slowing harvest and introducing both yield and quality concerns. There are currently no near-term tropical threats to the US crop.

Here in the Mid-south, we should see some cotton harvested by this time next week. No doubt a bit has already been harvested across southern portions of the region, but we have not seen any harvested fields yet. As the leaves come off the crop does look very good; however, some producers and consultants are concerned with smaller than normal boll size in this year’s crop.

Net export sales were higher Vs the previous assay period while shipments were lower at approximately 370K and 180K RBs, respectively. The US is 45% committed and 9% 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 again fell short of the pace requirement. Sales are well ahead of the average expected pace for this point of the season while shipments are nearly on par with historical expectations. There is still no sign that 2020/21 total exports were significantly above 16M 480lb bales Vs the USDA’s official estimate of 16.35M. China was again the major taker of US cotton, with sales cancellations negligible.

For the week ending Sept 23, the USDA classed approximately 134K running bales (RBs), of which 87% are deliverable against ICE contracts. The cumulative total for the season is now almost 533K RBs, with more than 88% tenderable.

Internationally, the real estate crisis in China was originally thought by many economists to have the potential to destabilize of the country's banking system, but the Chinese central government now appears to be handling the issue acceptably. The International Cotton Advisory Committee (ICAC) continues to project 2020/21 world consumption well below USDA at around 120M bales, which resembles our projection more so than it does USDA's. In other news, members of the textile industry in Japan remain in a dilemma over the use of Xinjiang cotton – US customs has rejected shipments of apparel from Japan, citing its link to Xinjiang cotton in China. China is now endeavoring to punish manufacturers, retailers and brands by not granting them access to its domestic market unless it endorses the use of cotton from the Xinjiang region.

For the week ending Sept 21, the trade slashed its futures only net short position against all active contracts to just north of 15.5M bales; large speculators reduced their aggregate net long position to around 8.5M bales. The spec position remains stacked in an extremely bullish manner, which could lead to further sudden market breaks.

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

For next week, the standard weekly technical analysis for and money flow into the Dec contract remain supportive to bullish, with the market again in overbought territory. Impending harvest pressure and economic concerns could cause problems for the Dec contract over the near- to medium-term. The US government will need to shut down Thursday evening if an expansion of the debt limit is not agreed to; any interruption of government services (USDA) will result in a lack of reporting of US export and classing data and harvest progress estimates and would further truncate the USDA's Sept objective yield survey. A lack of information flow would likely be bearish as specs head for the door.

Producers can look to continued volatility in the coming week. As the late great Benjamin Baruch advised, specs can be counted on to overact to any given piece of news, and we've seen a two-sided demonstration of that phenomenon in the past week. There is resistance just above 9700, and a dollar will present a major psychological hurdle. These two points should be major factors as on call orders are placed this week.

Have a great week!

Report Courtesy: Rose Commodity Group

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