ROSE ON COTTON – COTTON MARKET RECOVERS PREVIOUS WEEK'S SETBACK AHEAD OF IDA COMING ASHORE

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The ICE Dec cotton contract gave up 174 points on the week to finish at 94.84, with the Dec – Mar inversion strengthened at 101. Dec seriously challenged the 95.00 level several times throughout the week but trading north of this level was not to be. Last weekend our models predicted a finish on the week that was to be near unchanged to higher Vs the previous Friday's settlement, which proved to be correct.

The cotton market was higher on the week on a nearly 1% weakening US currency, notions of lower acreage Vs USDA's June 30 estimate, producer selling, and Hurricane Ida's expected landfall somewhere near New Orleans.

For the week ending Aug 21, the US crop was rated in 71% good or better condition, which is 4 percentage points higher Vs the previous assay period and notably higher Vs 2020. When have we seen such condition ratings? The Texas crop is rated at 70% good+. Only 6% of this season's crop remains rated in poor to very poor condition. Even though these reports are based on subjective observations, a later than normal fall and absence of tropical activity could lead to monstrous yields across some locales.

For the week ending Aug 26, the USDA classed almost 70K running bales (RBs), of which nearly 88% are deliverable against ICE contracts. The cumulative total for the season is now almost 84K RBs. All bales classed so far this season are from Texas, with no ELS having yet been harvested.

Most of The Belt outside of California is expected to see rainfall this week, with producers across Mid-south and the lower and upper southeastern states expected to see the heaviest totals as Hurricane Ida makes landfall New Orleans as a category 4 or 5 storm. With cotton opening across the southern Mississippi River Delta this will not be positive for producers across this region. Still, any damage will probably be minimal. The balance of The Belt may benefit from one last rain event on a crop that, in general, remains 7 – 10 days behind schedule.

Net export sales were higher while shipments were lower Vs the previous assay period at approximately 260K and 210K RBs, respectively. The US is 38% committed and 4% shipped Vs the USDA's 15M bale export projection. Sales are ahead of the weekly pace required to meet the USDA's export target while shipments were off the pace requirement. Sales are well ahead the average expected pace for this point of the season while shipments are on par with the historical expectation. There is still no sign that 2020/21 total exports were significantly above 16M 480lb bales Vs the USDA's estimate of 16.35M.

Internationally, we continue to hear more troubling news regarding the crop across Xinjiang, China (the nation's largest producing area) due to excessive rainfall and hailstorms. In other news, the Biden administration continues to be committed to leaving Afghanistan by the last day of Aug. Pundits from all political sectors remain critical of the administration's handling of this situation, and it is not difficult to understand why.

While Afghanistan is not a major textile center per se, they do have a textile sector and there are reports of Indian merchants taking some losses. The larger concern is that of the regard for the US military, which is a major underpinning factor for keeping the US Dollar as the world's reserve currency. Hence, we could be looking at another weakening of US currency – perhaps one that is not particularly friendly to agricultural exports.

For the week ending Aug 24, the trade notably increased its futures only net short position against all active contracts to approximately 18.75M bales; large speculators increased their aggregate net long position to almost 8.55M bales. The spec position is stacked in a very bullish fashion, which could lead to quick market liquidation at the first sign of bearish news.

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 Dec contract remain bullish, with the market also remaining somewhat overbought.

Producers should expect substantial volatility as the hurricane season moves into its most historically active period. With futures hovering in the mid-90s, brief forays to or through the psychological important dollar level are not out of the question, but we would be very surprised to see futures linger at that level or much higher.

Have a great week!

Report Courtesy: Rose Commodity Group

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