Rose Commodity Group

ROSE ON COTTON – COTTON MARKET FINISHES WEEK LOWER AMID FUND ROLLING, BIDEN LOOKS TO DIVERT CCC FUNDS FOR CLIMATE CHANGE

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The ICE Mar cotton contract gave up 92 points for the week ending Jan 29, finishing at 80.64 as the Mar – May switch weakened to (120). The Mar contract gained 252 points for Jan. 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 incorrect.

ICE cotton was off modestly on the week on scheduled index fund rolling, weakness in equity markets, a modest strengthening of US currency, and continued strength in crude oil prices. For the second consecutive week, the market failed to respond significantly to continued strength in US export data.

The drought persists across West Texas despite sporadic showers and snowfall. Most of The Belt outside of West Texas is expected to see precipitation this week, but little is forecast for the nation's largest contiguous area of cotton production. We have projected 2021 planted area just north of 11M acres (upland + ELS). Application of trendline yields and average abandonment values would suggest 2021 Us production of almost 18M bales. In other news, the Biden administration wants to spend $30B held in reserve in the Commodity Credit Corporation by the Trump administration for a safety net for trade wars on climate change initiatives.

Net export sales were higher while shipments were lower Vs the previous assay period at approximately 349K and 288K RBs, respectively. The US is 88% committed and 46% shipped Vs the USDA's 15.25M bale export projection. Sales were ahead of the average weekly pace required to realize the USDA's target while shipments were just off the pace requirement. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were negligible. Turkey and Vietnam were the largest takers for the period.

Internationally, the American Cotton Shippers Association reported on Wednesday that a container of cotton in China's Fujian province was found to contain the COVID19 virus. The origin of the shipment was not provided but given literature on the virus' expected life span on clothing, we doubt very much the validity of the claim. Given that the claim originated in China and potentially benefits Chinese interests, we encourage healthy skepticism. Elsewhere, cotton sowing continues in Brazil, with Bahia already having sown almost 80% of intended acreage.

For the week ending Jan 26, the trade trimmed its futures only net short position against all active contracts to approximately 14.35M bales, while large speculators trimmed their aggregate net long position to just south of 7.1M bales. The spec position remains stacked in a heavily bullish manner and is vulnerable to profit-taking.

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 Mar contract remains bullish with the market also remaining overbought. Next week's trading action will likely be framed by continued index fund rolling (which is not supportive), movements in oil and equity markets, political news, and anticipation of 2021 acreage. The market will have the Feb WASDE to consider on Feb 9, the release of National Cotton council's annual Planting Intentions Survey on Feb 15 and initial S&D projections for 2021/22 on Feb 18 and 19 at the annual Ag Outlook Forum.

Given the selloff this week in the Dec contract, some producers may question whether they missed the boat by not contracting more aggressively the previous week. While we cannot rule out a January contract high, we believe ordinary market volatility, the spring weather market, competition for acres, and the continuing distribution of COVID-19 vaccine all argue for higher prices in the spring and/or next fall. We strongly encourage producers to consider put option hedges of 50%+ against a Dec contract between 78 and 80 cents, but would not encourage forward contracting beyond 25% until planting season is closer.

We see no reason for producers to hold old crop.

Have a great week!

Report Courtesy: Rose Commodity Group

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