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## **ROSE ON COTTON – COTTON MARKET CONTINUES TO PUSH HIGHER, HAS OUTSTANDING HOLIDAY SEASON**

04-January-2021

### **LOUIS W. ROSE IV AND BARRY B. BEAN**

The ICE Mar cotton contract gained 192 points for the week ending Dec 31, finishing at 78.12 as the Mar – May switch strengthened to (58), well short of full carry. The spot month gained nearly 1100 points in 2020 and almost 2000 Vs the market's 2020 low and gained nearly 600 points in Dec. 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. Still, we did not recommend trading the model's bias.

ICE cotton was higher on the week on relatively strong US weekly export data (especially for the holiday season), further weakness in US currency, and notable strength in competing crops (corn and soybeans).

Ginning of the crop in the Mississippi River Delta is nearing completion, with most small- to medium-sized gins finished for the season. From most sources we hear that the bulk of the Delta crop has moved from producer to merchant hands.

Net export sales and shipments were lower Vs the previous assay period at approximately 303K and 291K RBs, respectively. The US is 82% committed and 38% shipped Vs the USDA's 15M bale export projection. Sales were again 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 modest at around 21K RBs. China was again the largest taker at around 255K RBs.

Internationally, the USDA attaché in Bangladesh has projected the nation's 2020/21 consumption at 7.2M bales Vs USDA at 7.3M. The official 2019/20 consumption currently stands at 6.5M. Elsewhere, China has reduced rates in their import tariff quotas (which applies to cotton), and this could enhance sales into China for addition to the nation's strategic reserve.

CFTC Commitments of Traders data for the week ending Dec 29 will not be published until Monday, Jan 4 because of the New Year's holiday.

For this week, the standard weekly technical analysis for and money flow into the Mar contract remains bullish with the market now significantly overbought. Next week's trading action will likely be framed by export data, movements in equity and currency markets and position evening ahead of the Jan WASDE report's release. Further, index fund rebalancing commences this month, which could be less than supportive for ICE cotton futures.

Producers were widely (in our opinion) selling recaps into the holiday rally, and we see no reason to hold spot cotton into the medium term. On a related note, we believe the best chance for a rally in the 2021/22 crop will be in the 3rd or 4th quarter, so we are not encouraging forward contracting at this time. Option strategies, on the other hand make a lot of sense. With Dec 21 currently in the 75-cent range, it is hard to see a

downside to protecting 25-50% of your estimated crop with near the money puts.

*Have a happy, safe, and prosperous New Year!*

**Report Courtesy: Rose Commodity Group**

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