ROSE ON COTTON – MAR CONTRACT CONTINUES TO THREATEN BREAK ABOVE 70.00; CAN DEC BREAK 75.00 BEFORE SPRING?

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The Mar contract picked up 28 points for the week ending Jan 3, finishing at 69.20, with the Mar – May spread effectively unchanged Vs the previous week at (118). Our proprietary model (timely prediction available in our complete weekly report) predicted a settlement that was to be near unchanged to lower Vs the previous Friday's finish, which proved to be correct – depending on one's definitions of "near unchanged". However, we did not recommend trading any bias over the holiday-shortened week.

ICE cotton found support on continued strength in equity markets, strengthening US export data, optimism over an official signing date (Jan 15) for the Phase One US – China trade accord, strengthening technical factors, and rumors of China considering large purchases of US cotton.

Cotton Grower magazine's annual survey of US producer's planting intentions suggests that US growers currently plan to commit nearly 12.1M acres to cotton production in 2020, which would be off around 12% Vs 2019. We are taking the "overs" on this projection – cotton is again a program commodity, with the Dec contract looking to threaten 75.00 (or higher) ahead of planting season. Additionally, Nov soybeans continue to trade south of 1000 while Sept corn is below 410.

In our corner of the world, Memphis had its 5th wettest year on record and its wettest since 1957. As a significant amount of this year's rainfall either delayed planting or hindered harvest, such was an underlying cause of lower than expected yields in the 2019 crop.

US net export sales and shipments against 2019/20 were significantly higher for the week ending Dec 26 Vs the previous sales period at around 262K and 231K running bales (RBs), respectively. The US is 73% committed and 25% shipped Vs the USDA's export projection. Sales were again ahead of the average weekly pace required to meet the USDA's 16.5M bale export target while shipments were approximately 60% of the pace requirement. Sales against 2020/21 were just north of 20K RBs. Sales cancellations were modest at approximately 32K RBs and were mostly attributable to China.

Internationally, tensions are increasing between the US and Iran. While we do not see any major supply and demand disturbance emanating from any potential further conflict between the two nations, specs tend to sell instability. Elsewhere, widespread rumors out of China suggest considerations of large purchases by the nation of US cotton, potentially up to 3.5M – 4.0M bales. This would, of course, prove bullish for ICE cotton futures.

CFTC Commitments of Trader's data for the week ending Dec 31 will not be released until Monday, Jan 6. Recent data has indicated that specs now hold a modest net long position via short covering and outright buying while the trade has consistently sold into the current rally.

For this week, the standard weekly technical analysis for and money flow into the Mar contract remain supportive to bullish, with the market also remaining in an overbought condition. The USDA will release its Jan WASDE report on Friday, Jan 10 at noon, ET. We have not yet made all adjustments to our balance sheet for Jan, but we think that another large debit to the US production estimate is unlikely. Still, we expect the Mar contract to breach the 70.00 level, an event that will likely spike the market via the triggering of stop orders.

Producers with unsold cotton are faced with a classic bird in the hand vs two in the bush conundrum. With prices testing the 70-cent level on the spot month, recaps are currently bringing the highest prices of the season, and a level considerably above expectations when harvest began. It is hard to argue against selling for a good price.

On the other hand, a growing consensus of commentators suggest a mid-term high of 73-77 cents on the Mar contract makes a strong argument for paying another month's storage if the payoff is $20-$50/bale. Producers opting to hold for higher prices should follow US/China trade news closely, with a close eye out for confirmations of US export sales (bullish), or 11th hour tweet storms (bearish). For the past 18 months, trade talks inspired rallies have tended to be derailed by last minute changes, and the potential still exists with current developments. Additionally, expectations often prove better at fueling market moves than actual performance, so producers should be prepared for some consolidation following signing or trade confirmation.

Finally, given the likelihood of volatility moving into the Spring, January is an excellent time to begin hedging a new crop (or recap sales) in the option pit. More on that next week.

Have a great week and a prosperous New Year!

Report Courtesy: Rose Commodity Group

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