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## **ROSE ON COTTON – COTTON MARKET POST WEEKLY GAIN BUT FINISHES WELL BELOW INTRAWEEK HIGH**

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The ICE Mar cotton contract gained 202 points on the week, finishing at 113.24, with the Dec – Mar spread inversion unchanged at 363. Despite this week's move higher, the Mar contract finished well off its intraweek high. 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 index fund rolling, (which tends to favor the second month - Mar 22), the release of positive economic jobs figures, and an expectation for some tightening of balance sheets in next week's WASDE release. A sharp increase in ICE initial margin requirements likely applied some drag as it undoubtedly caused the trade some notable pain, notwithstanding the discount in margin for bona fide hedgers.

USDA will release its Nov WASDE report on Tuesday, Nov 9 at the usual time. The monthly Bloomberg survey of analysts and traders (to which we contribute) shows little expected change in the USDA's official balance sheets next

week Vs those put forth within the Oct WASDE report. However, we look for the US carryout projection to expand modestly – if USDA finally reconciles export data from the previous marketing year.

We opined in this space last week that certificated stocks were likely to increase over the near- to medium-term, which would be less than supportive to bearish. While we still believe stocks will increase, logistical issues and a late crop are hindering any such immediate accumulation of potential deliveries against the board. In fact, the level of cert stocks is unchanged on the week at less than 19K bales but continuing logistical issues and a lack of significant demand outside of China and Turkey mandate that this situation be closely monitored. This is especially pertinent given this week's increase in margin requirements.

For the week ending Oct 31, the US crop was rated in 62% good or better condition, which is off 2 percentage points Vs the previous assay period. As we said last week, we believe that condition ratings are a moot point at this juncture. The US harvest was estimated at 45% complete, up 10 percentage points on the week and Vs the rolling 5-year average of 48%. Harvest progress was a bit higher than we had expected. Worth noting is that a major fire in the Dumas, AR classing facility is introducing delays in classing throughout the Mid-south and southeast, so 45% harvested does not equate to 45% available for delivery on contracts or available to the spot market.

On the production side, the Mid-south and the southeastern states are likely to see rain over the coming week, with rainfall totals across coastal areas of the latter and southern Georgia potentially significant. Producers across the balance of The Belt are likely to see a continuation of fine harvest conditions.

Net export sales were lower while shipments were higher Vs the previous assay period at approximately 171K and 150K RBs, respectively. The US is 58% committed and 14% shipped Vs the USDA's 15.5M bale export projection. Sales were again well ahead of the weekly pace required to meet the USDA's export target while shipments continue to woefully miss the mark. Sales are dramatically ahead the average expected pace for this point of the season while shipments are off par with the historical expectation. China was responsible for most new sales. Cancellations were significant at nearly 32K RBs and mostly attributable to China.

For the week ending Nov 4, the USDA classed more than 1M (RBs), of which almost 84% are deliverable against ICE contracts. So, quality is holding up very well. The cumulative total for the season is now nearly 3.7M RBs, with more than 85% tenderable.

Internationally, reports out of India indicate a serious pink bollworm infestation across portions of the nation's cotton producing regions. Cotton production in India sans pink bollworm is akin to Christmas without snow, but there is much buzz about the seriousness of this year's infestation. We'll see how the USDA assesses the situation in the next WASDE release on Nov 9. Elsewhere, this season's production in Pakistan looks to be far improved Vs last year per timely rainfall during the growing season.

For the week ending Nov 2, the trade modestly increased its futures only net short position against all active contracts to approximately 16.55M bales; large speculators slightly increased their aggregate net long position to just north of 7.77M bales. Managed money firms continue to keep their outright shorts at an alarmingly low level and have cut them to less than 55K 480lb bales. Such could lead to quick (and

potentially lasting) market breaks, especially if an increase in certificated stocks underlies a market break.

For this week, the standard weekly technical analysis for and money flow into the Mar contract remain bullish, with the market not yet overbought. Harvest pressure, index fund rolling, which continues next week, and, of course, the Nov WASDE report, look like the most likely market moving factors for the coming week.

We continue to recommend producers take advantage historically high futures prices. While arguments can be made for rallies to \$1.25 or beyond, sideways trading and corrections seem more likely in the near- to mid-term. Given net producer prices running as much as 40% over cost of production, it is hard to justify holding more than a small portion of the crop for rallies.

New crop is similarly attractive, but the arguments for holding are much stronger. We recommend contracting 10-20% against futures in the 90s, but caution against being too aggressive. As we've seen recently, the whole world can turn upside down between November and May, to say nothing of the uncertainties of production.

*Have a great week!*

**Report Courtesy: Rose Commodity Group**

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