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ROSE ON COTTON – COTTON MARKET POSTS ANOTHER BANNER WEEK, PRODUCERS SELLING 2021 CROP

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The ICE May cotton contract gained 464 points for the week ending Feb 12, finishing at 88.96 as the May – July switch strengthened to (75). Dec finished near its weekly high at 83.89. Again, time to consider pricing new crop bales. 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. However, we did not recommend trading this bias due to major data releases over the course of the week.

ICE cotton was notably higher, despite slowing export business, based on a supportive Feb WASDE, expectations of further tightening of the domestic carryout, strong export shipments, and continued strength in competing crops.

Domestically, the contiguous 48 are in the deep freeze and are expected to remain there for much of the coming week. We are hopeful that low temperatures will cause mortality on at least some portion of overwintering insect populations. Unfortunately, snow and ice may shield insect populations from the worst of the cold. Some light to modest precipitation is expected across West Texas over the coming week while cotton producing areas east of the region are expected to see significant to heavy precipitation.

The National Cotton Council has projected 2021 US cotton acreage (planted) at just shy of 11.5M bales (off around 5% Vs 2020), with 2021/22 carryout estimated at 4.3M bales. Results from the survey were on par with trade and analyst expectations, but, given the current rally in Dec futures and data that suggests producer selling, we think planted area will now likely be at least 12M acres. NCC also forecast a sharp increase in aggregate world consumption at almost 121M bales, which we think is optimistic.

In its Feb WASDE report, the USDA projected 2020/21 domestic carryout off around 300K bales Vs Jan at 4.3M bales. The adjustment came per an enhanced export projection. While 4.3M bales is still a healthy carryover, we think many believe this number will ultimately be smaller as it looks as if the USDA has significantly overestimated US production at 14.95M bales. However, projected carryout is now at a level which may cause USDA to lower its export forecast with further debits to the production estimate. The latest classing figures continue to suggest that a significant downward adjustment to the 2020 estimate is forthcoming. Many have opined that USDA did a poor job in tracking domestic production this season, and we concur. Interestingly, the American Farm Bureau has established a working group to review USDA estimate processes in light of a number of gaffes in recent reports.

Aggregate world carryout was projected 600K bales lower Vs Jan at almost 95.75M bales on a reduction to beginning stocks. The USDA’s estimate of consumption was enhanced 1.5M bales, which was offset by an increase in the production projection, to more than 117M bales. We continue to disagree with the latter figure, as do many others. ICAC has estimated consumption around 7M bales lower Vs USDA.

Despite tighter carryout projections, the world balance sheet is far from bullish, while the domestic sheet is supportive.

Net export sales were lower while shipments were higher Vs the previous assay period at approximately 285K and 44K RBs (MY high), respectively. New crop sales were approximately 170K RBs (total of 1.1M RBs, thus far). The US is 91% committed and 50% shipped Vs the USDA's 15.5M bale export projection. Both sales and shipments were ahead of the average weekly pace required to realize the USDA's target. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were negligible. Sales were across the board.

Internationally, news was slow, with increased production estimates and projections in the Feb WASDE report (especially China) garnering the most attention. Elsewhere, official production estimates out of Pakistan continue to move lower.

For the week ending Feb 9, the trade notably increased its futures only net short position against all active contracts to more than 16.25M bales, while large speculators expanded their aggregate net long position to just above 7M bales. The spec position remains stacked in a heavily bullish manner and is vulnerable to profit-taking; the increase in the trade long position, coupled with other pertinent data, suggest producers are marketing their 2021 crop.

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 moving further into overbought territory. Next week's trading action will likely be framed by movements in oil and equity markets, political news, and the release of the USDA's initial S&D projections (including planted and harvested acreage) for 2021/22. USDA data will be released on Thursday, Feb 18 and Friday, Feb 19.

As stated earlier, producers should consider pricing a minimum of 25% of their estimated production at current levels. We would not price over 50% of estimated yield at current levels, given the calendar and expected volatility through planting season. Perhaps the smartest course of action at this point would be to set price on 25% of estimated yield, and set a floor under another 25-50% of estimated production through options. With 78-80 cent puts trading in the 300 pt range, a put hedge looks affordable and leaves producers in the game if a stronger basis should appear later, and uncommitted if weather or market conditions change planting intentions.

Have a great week!

Report Courtesy: Rose Commodity Group

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