ROSE ON COTTON – COTTON MARKET HAS ANOTHER BANNER WEEK, ANNUAL INDEX FIND REBALANCING AHEAD

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ICE cotton had another banner week. The Mar contract gained 308 points for the week ending Dec 18, finishing at 77.16 while the Mar – May switch strengthened to a level well-short of full carry, (67). 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. The cotton market has now closed all overhead gaps on the continuation chart. The next major resistance levels are thought to be at 100-point increments above the current market.

Major factors pushing cotton higher on the week included another round of strong US weekly export data, strength in equities, weakness in US currency and a technical breakout above 75.00.

US producers are now filling out the annual planting intentions survey from the National Cotton Council. Given current futures levels in cotton and competing crops, we expect planted area in 2021 to be off significantly Vs 2020. In other news, the

COVID-19 vaccine is being distributed and passage of a near $1T stimulus bill seems likely before Christmas.

Net export sales were slightly higher Vs the previous assay period while shipments were notably lower at approximately 410K and 274K RBs, respectively. The US is 77% committed and 34% shipped Vs the USDA's 15M 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 significant at around 36K RBs. China was again the largest taker at around 255K RBs.

As we said last week, US export sales and shipments tend to pick up in Dec, and we are again seeing this occur. Still, we found sales surprising and think China is buying high grade cotton for its reserve and making an effort to come as close to its Phase I commitments as possible. Keep in mind that China is not currently buying Australian cotton.

It is interesting to note that the Mar contract is inverted over Dec 21 (open interest of almost 25K) by around 350 points, signaling that cotton is expected to be worth less in the future, which we think speaks poorly of longer-term demand. Further, prices are now well beyond where the latest two rounds of strong export sales were accomplished.

Internationally, the USDA attaché in Uzbekistan has projected the nation's 2020/21 production at 3.1M bales Vs USDA at 3.45M. Going forward, Uzbekistan has abolished its strict state regulation of the country's cotton industry; we will be watching closely to see how this affects world trade. Overall, we think it could be somewhat supportive for US export business.

For the week ending Dec 15, the trade notably increased its futures only net short position against all active contracts to approximately 14.13M bales, which signals producer selling, while large speculators increased their aggregate net long position to around 7.15M 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 are bullish, with the market in an overbought condition. Next week's trading action will likely be framed by export data and movements in equity and currency markets. It should be noted that index funds tend to buy losers and sell winners during their annual rebalancing period in Jan, which would not be supportive for our market.

Producers who heeded our early season call to hold cotton for 4th quarter sales have reaped the rewards of their patience, and there is every likelihood they may see another few cents on top of current prices. The spot basis has stayed strong with all major merchants and most minor merchants actively competing for cotton. The holiday season is often feast or famine, and this year has been no exception, but given a lukewarm fundamental situation in the medium term, we can't rule out a return to a much less competitive spot market after the first of the year.

Our best advice to producers is to first and foremost work with an experienced broker who trades with multiple merchants and can react quickly to a changing competitive market. Combined with a disciplined sales approach, firm offers placed just under psychological resistance, and a long-term hedge in the option pit, producers have the opportunity to put another 3-5 cents into their net price in the next few weeks. But we continue to think the outlook isn't nearly as rosy after mid-January in the absence of substantial international events on the pandemic or Asian trade fronts.

Finally, on a somber note, we recently learned of the untimely passing of our friends and colleagues Owen Taylor and Deborah Ferguson. Owen and Deborah were instrumental in the founding of the Rose Commodity Group, publishing our work on AgFax and offering valuable advice and insight. Agfax was and remains a premiere source of ag and commodity news and perspective, and Owen was one of the first to recognize the potential of the internet to ag and commodity communication. Deborah Ferguson leaves a remarkable photographic legacy that tells of not only an outstanding eye, but also a thorough understanding of and love for agriculture and cotton. We extend our deepest condolences to their family, and will always appreciate what they did for us and our industry. Godspeed.

We want to wish all a Very Merry Christmas and a Happy Holiday Season!

Report Courtesy: Rose Commodity Group

With well over 60 years combined experience in the commodity trade, the partners of the Rose Commodity Group offer a wealth of knowledge and perspective to their clients. With expertise and direct experience in agronomy, crop production, futures and options, spot trading, hedging, shipping, and insurance, the Rose Commodity Group approaches marketing and risk management from a comprehensive perspective. Rose Commodity Group is not directly affiliated with any other commodity firm; we are not commission futures brokers. Our strategies and advice are based entirely on our client's specific needs and goals.

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