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## **ROSE ON COTTON – COTTON MARKET SUFFERS FOURTH CONSECUTIVE WEEKLY SETBACK, ANNUAL PLANTING INTENTIONS REPORT & INDEX FUND ROLLING LOOM**

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

The ICE May cotton contract has suffered its fourth consecutive weekly setback, this time for a significant 288-point loss to finish at 84.68 as the May – July switch weakened slightly to (104). The May contract has now given up 580 points over the last 4 weeks. The Dec contract finished significantly lower on the week at 82.51. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted (very slightly) a finish that would be near unchanged to higher Vs the previous Friday's settlement, which proved to be incorrect. All things considered, though, we recommended a short position at this time last week.

Data certainly suggest that further spec liquidation has been responsible for the market's retreat, and mill on-call fixations combined with fresh demand have continued to support the market well above the 80.00 level. Weakness in the market late in the week was a bit surprising given the stunning export report, released on Thursday, which covered

the week ending Mar 11. Strengthening US currency most certainly contributed to the weekly decline.

Some have laid partial blame for market softness on improving weather across The Belt, but it remains droughty across West Texas and the Mid-South is saturated with planting season less than a month from commencement - and more rain is in the forecast. While the former region could receive some light to moderate shower activity over the coming week, no drought busting systems are expected over the area. The Fed has stated that it wants to hold the US annualized inflation rate to just north of 2%, which many specs have seen as a warning that an increase in interest rates is on the horizon. This may also have contributed to further weakness in our market.

Net export sales and shipments were higher (sales notably so) Vs the previous assay period at approximately 438K and 362K RBs, respectively. New crop sales were more than 143K RBs. The US is 99% committed and 62% 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.

Internationally, the EU may have to undergo a second complete shutdown of its economy at the hands of COVID-19. Thus far, only 8% of the EU's population is estimated to have been vaccinated. This is yet another reason we are skeptical regarding many optimistic estimates and forecasts of world demand. In other news, the first official meeting between Chinese and Biden administration officials was publicly contentious, which may have caused some investors to take caution.

For the week ending Mar 16, the trade modestly increased its futures only net short position against all active contracts

to almost 14.5M bales; large speculators slightly increased their aggregate net long position to approximately 6.12M bales. The spec position remains stacked in a bullish manner, which could lead to significant liquidation.

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 May contract remains supportive. The next major data release for market participants, outside of weekly export reports, is the USDA's annual Mar 31 Planting Intentions report, which we do not expect to be bullish. Traders will also likely keep a keen eye on weather forecasts as they make trading decisions next week. Too, scheduled index fund rolling commences on the last two days of the month, which often results in weakness for the front month.

Our advice for producers remains consistent. We recommend being 50% priced against Dec in the 85.00 – 88.00 level and recommend pricing more aggressively above that level. We do still see the potential for a planting season rally into the low 90s, while also expecting substantial volatility over the next 12-16 weeks. We are seeing the basis for new crop contracts widen somewhat, raising the question of whether on-call marketing is safe for producers.

Given the substantial volatility premiums we are seeing in the option pit, we do not anticipate a tightening of the basis any time soon, making on call contracts a viable option for disciplined traders. Options remain a viable method for managing producer risk but will require more effort and attention in 2021 than in previous years.

Finally, as we are going to press with this week's column, the Biden Administration is holding their first high level talks with the Chinese government. To judge from initial reports, the talks are going poorly, with Chinese authorities making it clear that the US is not in a position of strength in their

eyes. Given a backdrop of growing unrest over anti-Asian violence in the US and growing tensions with Russia, it is not unreasonable to expect international trade to introduce a substantial level of volatility and anxiety into the new administrations first months in office.

*Have a great week!*

**Report Courtesy: Rose Commodity Group**

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