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ROSE ON COTTON – COTTON MARKET FINISHES WEEK HIGHER BUT HINDERED BY WEAKNESS IN COMPETING CROPS

24-January-2021

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The ICE Mar cotton contract gained 86 points for the week ending Jan 22, finishing at 81.56 as the Mar – May switch weakened to (110). It is worth noting that the Mar contract managed to breach the 83.00 level on the week, marking the market's highest nearby intraday high in more than two years. 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.

ICE cotton was higher on the week on supportive sentiments regarding the Jan WASDE report, a weakening of US currency, strength in crude oil and equity markets, and droughty conditions across West Texas. The market did not respond positively to continued strength in US export data. Stark weakness in corn and soybean futures likely limited cottons weekly gain.

Domestically, a drought persists across West Texas, with little relief in sight. President-elect Biden has angered Canada (and many in the US) with his executive order cancelling the

Keystone Pipeline project - and there is further expected to be a moratorium on new oil and gas drilling on federally owned lands. From Nov 2, 2020 (the Monday prior to Election Day) to the time of this writing nearby crude prices have risen more than 30%, posing issues for both producers and the general economy, which is not good for consumer textile demand.

Net export sales were lower while shipments were higher Vs the previous assay period at approximately 316K and 331K RBs, respectively. The US is 86% committed and 44% shipped Vs the USDA's 15.25M 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 significant at almost 40K RBs. Vietnam was the largest taker for the period.

While the US continues to sell cotton, India is seeing slow export business, with the Cotton Association of India stating that continued COVID concerns continue to apply drag to demand. Elsewhere, Uzbekistan's transfer of its cotton production infrastructure to "cluster monopolies" has proven to be a system that is rife with corruption from both government officials and the private sector. Some producers say the new system has left them in a "swamp of poverty".

For the week ending Jan 19, the trade trimmed its futures only net short position against all active contracts to just south of 14.5M bales, while large speculators trimmed their aggregate net long position to around 7.12M 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 remains bullish with the

market also remaining overbought. Next week's trading action will likely be framed by export data, movements in oil and equity markets, political news, and anticipation of 2021 acreage. Scheduled index fund rolling will commence late this month, which should pressure Mar futures.

Producers still holding 2020/21 production are either the smartest/luckiest producers around or should be thankful for slow ginning. It is difficult to make a case for paying storage to hold cotton with futures in the 80s and the basis friendly.

New crop marketing is a bit more of a judgement call. We encourage producers to price 25% of estimated production against a Dec in the 78-80 cent range, but believe that between planting risk, competition for acres, and the likelihood of a 3rd or 4th quarter recovery better opportunities could well present themselves later in the year. That wouldn't preclude a 50% position in out of the money Z21 puts – 300 pts for a mid-70s strike price looks like a reasonable price for a floor with a long tail.

Have a great week!

Report Courtesy: Rose Commodity Group

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