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ROSE ON COTTON – WEATHER NOT CONDUCTIVE THIS SEASON FOR COTTON PLANTING

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The July contract picked up 65 points on the week, finishing at 80.80. July lost 230 points during April, and the July – Dec inversion strengthened slightly to 30. Last week, our models predicted a finish on the week that was to be near-unchanged to lower Vs the previous week’s finish, which proved to be correct.

Cotton market weakness continued early in the week but found strength on surprisingly strong US export data. US GDP growth for Q1, which was only 1.1% (estimated) may have actually helped our market by virtue of signaling to The Fed that interest rate hikes need to be slowed.

Domestically, it continues to rain across the Mid-south and the southeastern states while West Texas remains dry. Temperatures also remain unseasonably cool and are not currently expected to improve significantly ahead of mid-May. Very little cotton has been planted across our region but, given current conditions, this is probably a blessing. We used to worry very little about total planned acreage getting sown, but this has changed in recent years.

For the week ending April 20 US export sales and shipments were notably higher Vs the previous assay period at approximately 212K and 419K RBs against the current MY. While the sales figure was not stellar, it was larger than expected, and our market trades expectations. China, Vietnam, and Turkey were the major takers, with the return of significant sales to the latter very encouraging. This hopefully represents signs of recovery in the Turkish spinning sector following this year's devastating earthquakes. The shipment number was strong.

Now, the sales data were far from stellar, and we would have dubbed them poor if Turkey had not purchased a significant amount of cotton. It is not yet evident if the purchase was tied to reduced production capacity after this year's earthquakes.

Internationally, the textile sector in Vietnam has lost 90K jobs, which is primarily being blamed on the US ban against Xinjiang (China) cotton. However, it is also due to decreasing demand at the hands of rampant inflation. To put US inflation in perspective, a fast-food burger meal for one now is costing nearly \$10, with "higher-grade" fast food dinners now going for nearly \$15. Bear in mind that this is in the Memphis area, not New York, Chicago, or Los Angeles. The increase in food costs, which is also noticeable at grocery stores seems likely to continue to curb textile demand.

For the week ending April 18, the trade significantly reduced its aggregate net short position to approximately 3M bales while large specs notably increased their net short position to around 2.2M bales. We take the latter as potentially supportive.

The standard weekly technical analysis for and money flow into the July contract remains bearish with the market no longer oversold. Planting progress, weather reports,

forerunning of the May WASDE Report (an important one), and economic data will likely frame market movement next week. May is often not friendly for the bulls, but that may not be the case this season.

Producers with old crop cotton get one last bite at the apple between now and mid-May. If the improved export sales report does indicate demand in the upper 70s, futures may well run to the mid-upper 80s to free up supply. If this range bound trading pattern coincides with continued droughty conditions across Texas and cool/wet conditions in the Delta and Southeast, we could potentially see the much-hoped-for pre-plant rally.

But this is viewing the market through our favorite rose-colored glasses, so we encourage producers to take advantage of any move into the mid-80s base July and let someone else own physical cotton. We do still favor bullish call spreads on the Dec 23 and Mar 24 contracts.

Poor planting decisions firm up our conviction that there is no incentive to forward contract cotton below a Dec of 90 cents, and certainly not to forward contract more than 25% of estimated yield. There will be plenty of opportunities for rallies through the season, and producers can afford to focus on planting for the next few weeks.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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