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Rose on Cotton

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ICE Mar cotton gave up 225 points on the week, finishing at 80.95, with the Dec – Mar inversion contracting to only 5 points. Last weekend our models predicted a finish on the week that was to be near unchanged to higher Vs the previous weekly settlement, which turned out to be incorrect, but we did not recommend trading any bias ahead of Friday’s WASDE release. Thus far,, the Mar contract is higher on the week.

The cotton market was lower, mostly on a bearish Dec WASDE release and another round of very weak US export data. The current break in US currency offered the market some support, but we will not be optimistic based on this until the US Dollar is again below par.

In its Dec WASDE report, the USDA increased its domestic production projection 200K bales Vs Oct to 14.2M bales and decreased its export projection to 12.25M bales, with US carryout for the new crop now projected at 3.5M bales. At the world aggregate level, 2022/23 production was estimated 700K bales lower Vs Nov while consumption was projected notably lower (3.25Mbales) at around M and 111.7M bales. Carryout was projected 2.3M bales higher at almost 89.6M bales, which is still not bearish.

Analysts expectations were tightly grouped, which often proves to be foreboding of large USDA changes. We have constantly moved out world consumption estimate lower, and it now stands at around 109M bales. While the USDA has capitulated on its consumption expectations, we think more downward adjustments are in the offing.

Domestically, USDA Crop Progress reports are over for this season. We believe the US crop is 90%+ harvested at this point. Harvest weather across the southeastern states and Texas and Oklahoma are expected to be most favorable this week. For all practical purposes, the only remaining cotton left on the stalk across the Mid-south is in Tennessee and, given recent heavy

rains that have lasted for almost two weeks, it is going to be a while before the last of the Tennessee crop is harvested.

For the week ending Dec 1 total US export sales against the current MY were 34K RBs while shipments remained tepid at 148K. Cancellations were negligible. So, business continues to be slow amid a sour economy while a low Mississippi River means that nearly all cotton shipped must be done so by road and rail, and will be competing for trucks with grain, coal, and other goods being shifted from river to road transportation.

Internationally, China continues to ease its zero-tolerance COVID policies. In other news, ABARE estimated last season's Aussie crop 500K bales lower Vs the previous estimate due to late-season rains. Still, we continue to hear positive things regarding this season's crop. For the week ending Nov 29, the trade noticeably notably reduced its futures only net short position against all active contracts to approximately 4.1M bales, which continues to suggest that the trade is taking delivery of cotton and has confidence in the market remaining range-bound over the near- to medium-term. Large speculators significantly reduced their aggregate net long position to around 1.4M bales.

For the week ending Dec 6, the trade increased its net short to almost 4.9M bales, which suggests they believed the WASDE would be bearish, while large specs increased their net long to almost 1.8M bales, which is nothing special.

For this week, the standard technical analysis for and money flow into the Mar contract remain bearish. The market will be quickly moving into holiday mode, which, given the market current structure, could well be bearish in light of the Dec WASDE report.

Producers should join the trade in expecting rangebound trading in the short to mid-term. We continue to recommend selling spot cotton at the top of the current range (mid-high 80s) and investing in Dec 23 or Mar 24 bull call spreads.

It will also be worth watching Washington closely this week. The government is funded through Friday with a continuing resolution, but if congress cannot agree on either a budget (unlikely), or a new continuing resolution, the government will shut down, likely until a new congress is sworn in in January. This causes obvious problems for cotton going in and out of the CCC loan, among other services that may be suspended during a shutdown. While we expect to see a deal made by late Thursday, producers and ginneres should consider holding off on putting cotton into the CCC loan until and unless the new CR is passed. A week's delay could prove the difference in being able to sell your cotton or being stuck in limbo for weeks.

Have a great week!

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