ROSE ON COTTON – COTTON MARKET LOWER POST LAST WEEK'S STRONG FINISH

May 09, 2023

LOUIS W. ROSE IV AND BARRY B. BEAN

The July contract gained 310 points on the week, finishing at 83.90, with the July – Dec inversion strengthened at 66. Last week, our models predicted a finish on the week that a to be near-unchanged to higher Vs the previous week's finish, which proved to be correct. July has commenced the new week modestly lower.

The cotton market produced a nice win for the week on better-than-expected US export sales and shipments and serious production concerns due to weather and seed sales cancellations.

I am late this week because I was on a brief vacation to the 149th running of the Kentucky Derby. I know very little about horse racing, but this was on my wife's "bucket list", so I was happy to attend the "Cumberland Mountain Mardi Gras", and I enjoyed it very much and even came out about even on my wagers. Not too bad for a novice. I do, however, know something about bourbon and I enjoyed Bardstown, the "Bourbon Capital of the World" very much. Maybe too much.

During my travels I saw a great deal of unplanted cotton ground in Tennessee and less than expected corn and beans in Tennessee and Kentucky. Post weekend rains, there will be very little planted across these areas, or across much of the Mid-south and the southeastern states ahead of mid-week.

There was some rain across West Texas over the last few days, but the most important areas received little precipitation, and no one received enough rain to give more than momentary relief from drought pressure.

For the week ending April 27, the US sold and shipped approximately 256K and 439K RBs against 2022/23, respectively. Sales were again mostly to China, Vietnam, and Turkey. Cancellations were nonexistent.

While we were surprised, perhaps we shouldn’t be. There is no carry in the market and very little domestic industry to incentivize merchants to carry cotton in the current market. We think that basis for mills has been very reasonable. We also continue to hear that production totals from the southern hemisphere are likely to be substantial, which is not friendly for US cotton, particularly with US currency continuing to trade above par.

For the week ending May 2, the trade held its aggregate net short position near unchanged at approximately 3M bales while large specs modestly increased their net short position to around 2.35M bales. We continue to take the latter as potentially supportive.

The standard weekly technical analysis for and money flow into the July contract has turned supportive, with the market no longer oversold. The May WASDE Report (an important one), US budget talks and economic data will likely frame market movement next week.

Our advice for producers remains consistent. While we did take heart in the minor futures rally at the end of last week, it seems to be taking a consolidation day today, which doesn't bode well for the much hoped for run to the high 80s. We are also hearing that merchant trading desks have already moved into summer doldrum mode, and activity on The Seam is consistent with low volume and limited demand. It is increasingly difficult to make the case for any spot strategy other than taking the best price available and moving on.

New crop has the advantage of a longer tail, and the prospect of a late summer rally if the Texas drought continues. Given current basis and lukewarm interest from major merchants, there is no incentive to forward contract for the next several weeks.

Have a great week!

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.

To learn more about Rose Commodity Group please visit: https://www.rosecommoditygroup.com/about/