ROSE ON COTTON – COTTON MARKET CURBS WEEKLY LOSSES ON FRIDAY

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The July contract lost 337 points last week, finishing at 83.34, with the July – Dec inversion little changed at 281. 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 incorrect. Dec is not the lead month by virtue of having the greatest OI; this is the earliest that the switch has occurred this early. Dec has commenced the abbreviated week slightly lower.

Futures moved lower on the market's technically overbought condition, poor US export (and domestic) business, rains across West Texas, and economic concerns. Lower than expected US planted area and an agreement on raising the US debt limit – no surprise there – caused the market to rebound late in the week.

Domestically, rains have finally occurred over much of West Texas, but the heaviest accumulations have been from Lubbock northward. Much more rain is needed – and will continue to be needed throughout the growing season – as the region remains under a severe drought. Planting across the Mid-south and the southeastern states is all but finished.

For the week ending May 18 US export sales were little changed Vs the previous assay period while shipments were notably slower at around 142K and 282K RBs, respectively. Sales against 2023/24 were approximately 84K RBs. China, Vietnam, and Turkey continue to be the major buyers of US cotton. Cancellations were negligible.

Australia is expected to harvest a record crop this season at the equivalent of 5.75M bales. Ivory Coast is expected to see a 70% increase in production at around 1.85M bales; the WAF region experienced significant production issues last season. Evidence continues to suggest that India's new crop is larger than originally expected. All of these are bearish for ICE cotton.

For the week ending May 23, the trade notably increased its aggregate net short position to approximately 6.2M bales, as producers likely sold cotton above 85.00 basis Dec, while large specs reduced their net short position to around 662K bales.

The standard weekly technical analysis for and money flow into the July contract remains supportive, with the market no longer overbought. Dec is now our focus, and the technical analysis is identical to that of July. Weather reports across West Texas and forerunning of the June WASDE will be major market factors this week. Index fund rolling, which begins on Tuesday, should support Dec.

Futures and the basis are conspiring to deny incentives to forward contract 2023 crop cotton at current levels. We believe the combination of macroeconomic concerns, weak demand, and production uncertainties should keep the Dec contract in a 75-92 cent range through the summer barring unforeseen and unlikely changes. We currently recommend contracting 25% of estimated production at the 85-cent level, with an eye toward using Dec23 and Mar24 puts to put a floor under an additional 50% above 90 cents.

Have a great week!

Report Courtesy: Rose Commodity Group

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