ROSE ON COTTON – ICE COTTON STYMIED AHEAD OF WASDE AS INDEX FUNDS ROLL

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The May contract gained 42 points on the abbreviated week, finishing at 83.20, with the May – July spread contracting slightly to (27). Last week, our models predicted a finish on the week that was to be near-unchanged to higher Vs the previous week's finish, which proved to be correct. May has started WASDE week little changed Vs Friday's settlement.

Thursday's market finished notably higher, despite the release of poor US export data, in part due to new crop production concerns.

USDA will release the April WASDE report on Tuesday, April 11 at the usual time. The monthly Bloomberg survey (to which we contribute) shows an average expectation for very little change in the domestic balance sheet Vs Mar and a modest reduction in world carryout to 90.8M bales. While we agree with the latter, we expect domestic carryout to be projected 200K bales higher at 4.1M bales. We base this expectation on a reduction in the US production estimate, which is clearly too high. We do, however, expect exports to reach the currently projected 12M bales because of low domestic consumption and scant carry in the market.

Domestically, much of the Mid-south and the Southeast were inundated last week, and this is troubling; the current weather pattern has significantly curbed planned acreage for corn, and this could spill over to cotton with planting season having arrived. Most medium-term forecasts for West Texas do not mention much expected rainfall over the coming 10-day period.

For the week ending Mar 30, US export sales and shipments were notably lower at approximately 169K and 252K RBs, respectively, against the current MY. China and Vietnam were again the largest takers. Cancellations were negligible. The latest report was discouraging in that cotton is not a hot commodity at the recent dip below 80.00. While it is true that not all new business is reported in a timely manner, the latest on-call report (CFTC) does not suggest a large uptick in business.

Internationally, 2022 cotton production in Pakistan has been estimated at a four-decade low of 3.83M 480lb bales. We are also paying very close attention to Chinese military exercises and diplomatic signals than an invasion of Taiwan could be closer to a possibility.

For the week ending April 4, the trade significantly increased its aggregate net short position to approximately 2.3M bales while large specs reduced their net short position to just below 2M bales. While the potential for higher market movement on spec short covering exists, some of this has occurred over the last two trading days.

The standard weekly technical analysis for and money flow into the May contract remains bearish. The April WASDE report will likely be the major market moving factor next week, but index fund rolling will also likely pressure the front month while, potentially supporting the July contract.

We have been fielding calls in our offices from producers still holding old crop, and we see two strategies worth considering, depending on risk tolerance and exposure. Producers who have delivered cotton on provisional terms can consider holding cotton for a (any minute now) potential pre-plant rally to or through the mid-upper 90s. If that rally doesn't occur in the next 30 days, they'll be gambling on TX staying dry and seeing a summer drought rally. This assumes they have priced the majority of their crop previously, as there are 5-10 cents upside potential (best realistic case), but 10-20 cents downside potential if TX gets rain and tensions with China, inflation, and consumer confidence continue to exert bearish pressure.

For those less bullish or more risk averse, we do still see potential for a rally to the mid-high 80s, and that may be worth holding for, given the previous condition that the majority of your old crop has been previously priced.

Finally, far and away the safest route is to simply cut losses and sell spot before adding another 30- or 60-days storage. In this case, call spreads on Dec 23 are a good place to recoup some portion of market losses.

Current basis and market levels offer little incentive to forward contract new crop. This is compounded by the aforementioned planting conditions in TX, the Southeast and the Mid-South. Should Dec 23 trade to or through the 90-cent level, we recommend selling 25% of estimated production prior to planting or 33% after planting, but recommend keeping a close eye on conditions in the high plains before pricing beyond that percentage.

Have a great week!

Report Courtesy: Rose Commodity Group

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