ROSE ON COTTON – COTTON MARKET FINISHES WEEK NEAR 80.00

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The July contract lost 278 points on the week, finishing at 80.15. The July – Dec spread inverted to 23. 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 incorrect. July has commenced the new week higher.

The cotton market found weakness late last week on very poor export sales for the week ending April 13. Bearish macroeconomic news and signals contributed to an across the board selloff in ag commodities.

Domestically, it is raining again across the Mid-south; our region, along with the southeastern states, is expected to see rainfall through much of next week. On a positive note, there are significant chances for rainfall across West Texas over the coming week, and this will, most likely, further pressure our market.

For the week ending April 13 US export sales and shipments were approximately 87K and 307K RBs, respectively. The sales figures were very disappointing while the shipment level was fine. Cancellations were significant at around 34K RBs.

Cotlook (with whom we normally find ourselves in general agreement on S&D balance sheets), has estimated 2022/23 world consumption at 110.7M bales and 2023/24 consumption at 115.5M bales. In this instance, we think both figures are a bit high, especially the latter.

For the week ending April 11, the trade significantly increased its aggregate net short position to approximately 4.6M bales while large specs reduced their net short position to just above 1M bales. So, potential for higher market movement per spec short covering endures.

The standard weekly technical analysis for and money flow into the July contract remains bearish with the market oversold. Planting progress, weather reports, and economic data will likely frame market movement this week.

Producers holding old crop hoping to take advantage of a pre-plant rally are rapidly running out of time. We aren't willing to entirely write off the possibility of a rally back to or through the 85-cent level, but the odds are getting increasingly slim. It may be time to cut losses, and consider putting bullish sentiment into Dec 23 and Mar 24 call spreads.

New crop still has a long tail, and the likelihood of problems in Texas through the summer make a convincing argument for improved S&D projections later in the year. We see no incentive to forward contract at current levels but would support Dec 23 put spreads as an insurance policy against bearish moves based on larger macroeconomic issues and political unrest.

Have a great week!

Report Courtesy: Rose Commodity Group

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