ROSE ON COTTON – ICE COTTON POSTS LARGE WEEKLY GAIN DESPITE HIGHER THAN EXPECTED ACREAGE PROJECTION

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The May contract gained 624 points on the week, despite Friday's minor setback, finishing at 82.78. May gave up 125 on the month, and the Mar – May spread contracted to (32). 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. However, we did not recommend trading ahead of the USDA's annual Planting Intentions Report's release.

The cotton market finished notably higher on short covering and the conduction of fresh business. Surprisingly, nearly all the short covering through Mar 28 was at the hands of the trade as mills fixed on call positions.

According to USDA, US producers intend to plant 11.3M acres of cotton this season. Texas and Arkansas account for the largest reductions while the expectation was little changed Vs 2022 for Georgia. Only Arizona is expected to plant more cotton acreage Vs last year. California upland area is expected to continue to shrink, this year to nearly nothing. The USDA's projection suggests output will fall between 14M and 17M bales, mostly dependent on what happens across West Texas concerning rainfall.

As we wrote this, the Mid-south and the Southeast were preparing for another round of potentially very severe weather, and such actually occurred, both to the north and south of Memphis. There was again loss of life and too much rain fell on fields that were already nearly saturated. West Texas remains dry, and California remains wet. It is becoming very clear that 2023 corn acreage across the Mid-south will be shorter than originally expected, but we expect most lost acreage will roll to soybeans. There is no mention of significant rainfall over the coming 10 days across West Texas, and longer-term models show hot and dry conditions extending through the end of June or later.

For the week ending Mar 23, US export sales were lower Vs the previous assay period while shipments were notably higher at approximately 291K and 348K RBs, respectively. New sales were mostly into China and Vietnam, which are effectively the same country with respect to textile production. Cancellations were negligible.

Internationally, it was a very slow news week. While not directly affecting the cotton market, it is interesting that Cargill has now refused to export wheat from Russia.

For the week ending Mar 28, the trade increased its aggregate net short position to 1.8M bales while large specs held their aggregate net short near unchanged at around 2.67M bales. Hence, there is tremendous short-term (and quick) upward movement at the hands of potential spec short covering. Let us recall that merchants can be (and often do) act as specs, especially for short-term movements. The trade's current position suggests they are not terribly bearish for ICE cotton.

The standard weekly technical analysis for and money flow into the May contract remains bearish; but the technical analysis is quickly turning neutral. Forerunning of the April WASDE report will likely affect the market this week, with many second guessing the Mar numbers.

Given uncertain planting conditions and lukewarm forward contracting basis, we see no incentive to forward contract at current levels but do support pricing new crop with put options with a Dec market in the 85-90 range. Producers still holding old crop should very carefully watch for a pre-plant rally or friendly Apr WASDE, but be aware that storage and interest are offsetting likely gains. We see no reason for producers to own cotton past May 1, and very few reasons to own cotton more than another week or two.

Have a great week!

Report Courtesy: Rose Commodity Group

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