Cotton Compass

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Monday, January 10, 2022

Welcome to 2022

	High	Low	Close	Change (week)	Change (month)
Mar 22	117.68	112.76	115.12	+2.52	+8.89
May 22	114.62	110.43	112.88	+2.40	+7.95

COTTON took a little breather Thursday but overall it has started the year on a positive bent right from the opening bell. While the calendar might have changed to 2022 the market factors being bandied around are broadly the usual suspects lined up through Q4 of 2021. The key supportive element remains nearby demand and speculative inflows while the logistical issues that are currently supporting nearby premiums for cotton (tight availability and mills paying up for prompt arrival) could end up weighing on the market later on down the track. The slow pace of US shipments is perhaps somewhat of an indicator here.

US weekly export sales were a light 147,600 running bales (21/22) while shipments were poor at just 112,100 running bales. To be fair the holiday period should be taken into account but it does point to the US needing to seasonally ramp up to more than 400,000RB a week for some months if the USDA export estimate is to be met. The market will be looking for the USDA to lower it's US export estimate in this week's WASDE. Of course lowering exports simply flows into higher ending stocks and this could end up being the negative down the track.

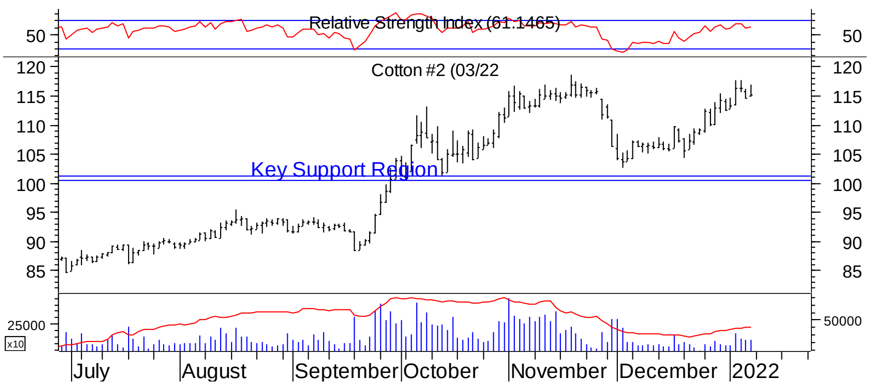
The July/Dec invert finished the week with July a 15.76 cent premium (US$78.80 a bale) over December. During November this reached almost 20 cents but fell to 11.50 cents in mid-December. An invert this large will continue to be supported by nearby demand but it will also continue to make life difficult for seller and buyer alike with a strong incentive for buyers to delay ponying up for second half 2022 requirements. Of course our local cash markets (see cash comment) will continue to be fickle regards the timing of availability of the ginned bale.

Mill fixations as in 2021 will remain a key supportive element for at least the first half of this year. At year end a combined 121,483 contracts are required to be fixed by mills against Mar, May and July as compared to producers with 17,521 contracts. This will continue to support the market absent a serious volume of cancellations (which is possible given mills have probably overbought in an attempt to ensure supply).

Indian crop size will gain closer attention over the coming weeks (see export section on page 2). Indian cotton prices (MCEX futures) reached new and record highs last week. Indian cotton is now trading at significant premiums (Bangladesh demand for prompt arrival) and will likely shut itself out of most export markets. As it is, the crop looks to be lower than that the USDA's current 28 million (480lb) bales and it would seem that India will play an increased role as an importer for the balance of the year.

Interest rates and currencies will play an increased role in the market in coming months. Inflationary expectations and economic growth will be a focus.

Technically there is, as yet, no sign of a high in this market. Given the July/Dec invert the timing of a major high might come say somewhere in Feb through to May but how high? The high to-date is 121.67 and an obvious target. If one sees the period through December as merely a correction in an overall bullish uptrend then one might assume this market is not done on the upside just yet (ie new highs).



AUSTRALIAN CASH MARKET

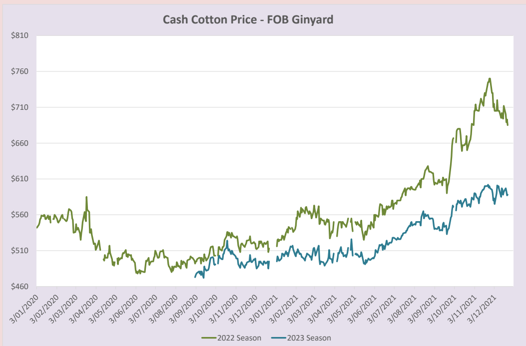
	A$/bale Close	High Weekly	Low Weekly	Change this wk
2022	$750	$751	$730	+$NA
2023	$606	$606	$603	+$NA
2024				

2022 Crop

Cash markets were reasonably active – considering the 'holiday mood' and crop timing – with perhaps 25-30,000 bales changing hands from grower to merchant over the week. Merchants continue to take a divergent approach to dealing with the invert – which is making the grower's selling decision an interesting one. Some continue to price a premium for April and May deliveries, with discounts of around $10/month out to July, rising to $20/month heading into August and September (when greater competition from Brazilian cotton can be expected in international markets). Others are still working on providing the option of 'average' pricing for specific periods (eg April-July or April-August).

We closed out the week with the best Central Valley pricing sitting around A$765/bale for May (less discounts for later delvieries) or $745/bale April-July / $735/bale April-August with alternate merchants.

As mentioned earlier, whilst activity has been active….several growers are waiting until the crop is better established later in the month (or early Feb) before adding to sales positions.



Price Outlooks 2022 Crop:

Outlook this week: A$700 - 760/bale

Outlook 1-2 months: A$640-750/bale

2023 & 2024 Crop: Business was also relatively active on 2023 crop – with perhaps 20-25,000 bales selling from grower hands at values from $600-$610/bale Central Valleys.

Hedging Model: Sitting back for now.

2022 Crop Hedging Model		
Prodn Guess	Sales	Orders
4750 bales – 79% sold @ $614 average	500 @ $550 250 @ $575 500 @ $575 1000 @ $595 500 @ $625 500 @ $655 500 @ $720	
2023 Crop Hedging Model		
5000 bales – 30% sold @ $577	500 @ $550 500 @ $580 500 @ $600	

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EXPORT MARKET SUMMARY

WHILST information flow over the holiday period has, perhaps, been a little slower than normal – it appears as though Subcontinent export markets in particular have been reasonably active, including for Australian cotton.

India: It's hard to pin down the exact reason for the sudden increase in Indian import appetite…..perhaps stronger yarn markets (Indian combed cotton yarn values appear to be up 5-6% in the last couple of weeks), perhaps shrinking crop expectations as a result of their pink bollworm infestation (see Page 1)…..or perhaps a shift in 'internal' trade flows amongst subcontinent consumers that has had a 'tightening' effect on the Indian balance sheet. On that last point, the theory is that Bangladesh consumers have been aggressively chasing Indian cotton to replace previously contracted US, Brazilian and West African cotton that has been caught up in logistics bottlenecks and has been slow arriving. This has had the impact of driving Indian internal prices higher….and hence, making imported cotton relatively more attractive…..assuming exporters can 'find the freight' to execute the business.
Interestingly, if recent transactions are anything to go by, it appears Australian merchants at least are feeling a little more confident in their ability to ship to Indian main ports, with several transactions reported in the last week. For example, early last week (prior to the sharp run up in ICE futures), Aussie SM 1-3/16" sales were reported around 135 US c/lb CFR main Indian ports for May/June (seller's option) shipment. This would have been a basis level of around 2500 on May 22 CFR (2650 on July) on the day. We also note reports of sales of SM 1-7/32" for a premium of around 4 US c/lb.
This is clearly a very healthy (CFR) basis premium to other destinations – with merchants still no doubt pricing in a high level of execution risk. That said, *the fact merchants are willing to commit at all suggests a growing confidence that at least some of these logistics issues will start to resolve themselves by Q2, 2022.*

Indonesia: Meanwhile, SE Asian markets have generally been less active. West African S/type cotton has sold at 1425 on May 22 for April shipment in the last week, and there was some Australian SM 1-5/32" business reported into Indonesia just before Christmas at around 1350 on July 22 for June/July shipment, with 2023 crop selling at around 1250 on cover. We are hearing that several finer count spinners have left some open positions for April/May delivery in the hope that they may be able to purchase Australian cotton at a reasonable discount to US (GC 31-3-37 is currently offered just shy of around 2000 May 22 on for A/M shipment). With Australian merchants already well sold in early shipment slots, ongoing container freight challenges ex East Coast Australian ports and delays to the crop, this may be a hope in vain.

China: With Chinese New Year (January 31-February 6) fast approaching, business in China is slowing down. Large mills are well covered, with State Owned Enterprises currently the main buyer – with Brazilian Middling 1-5/32" changing hands around 1300 on Dec 22 for Sept/Oct shipment and US Government Class 31-3-37 tradeing around 1500 on Dec 22 for guaranteed arrival prior to Dec 31, 2022. Chinese markets are likely to remain fairly flat from now through to the end of Chinese New Year. Meanwhile, we are hearing that some mills have confirmed the NDRC has notified them of the quantity of TRQ quota they will be allocated this year.

The bottom line is that it appears there could be a shift in fundamentals starting in India and/or the subcontinent. We are unsure of the reasons…there are plenty of "theories"…...but the market tells us something is afoot. It will be interesting to see if and how this plays out for other markets.

***Estimated offer US c/lb (C&F Main Asian Ports, 1-1/8", 3.5-4.9 NCL)**
Note – add 400-600pts for subcontinent markets

Origin	Offer Nearby	Offer Deferred	Eg Sales
Aus SM, 37		+1350 (N) A/S/O	+1350 Jun/Jul
Aus M, 37		+1300 (N) A/S/O	
US 31-3-36 GC	+1700 (H) A/M	+1950 (K) A/M	+1500 Dec 22
US 31-4 36 GC			
US 41-4 36 GC	+1550 (H) F/M	+1800 (K) A/M	
Brazilian M, 36	+1425 (H) J/F	+1300 (Z) O/N	+1300 Dec 22
Fr W Afr (s), 36	+1400 J/F/M		+1425 April
****PSF**	51.03 US c/lb	+1.02 (week)	+1.82 (month)
Yarn 32Ne-China	4.47 US $/kg	+0.02 (week)	+0.00 (month)
Yarn 40Ne-China	5.07 US$/kg	+0.01 (week)	-0.01 (month)
Yarn 30Ne-India	4.56 US$/kg	+0.21 (week)	+0.29 (month)
Yarn 40Ne-Paki	5.01 US$/kg	-0.04 (week)	-0.04 (month)

*Offers estimated based know/est levels Friday Asian business hours adjusted for futures
** PSF = Polyester Staple Fibre (1.4 D / 38mm) ex works China
*** Yarn (India) = 30Ne 100% Cotton Combed, ring spun knitting yarn (ex work)
**** Yarn (China) = 40Ne combed cotton yarn (Qiangqing Market (Zhejiang))
*****Yarn (Pakistan) = 40Ne combed cotton yarn (C&F Main Asian ports)