Cotton Compass

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Monday, January 17, 2022

Cotton – new high for March

	High	Low	Close	Change (week)	Change (month)
Mar 22	119.90	114,82	119.70	+4.58	+12.40
May 22	116.58	112.72	116.34	+3.46	+10.64

March Cotton bested its November high late this week and has rallied 17.20 cents from the early December low – yes all in five weeks. Given cotton closed on the high of the week it would seem a good bet that additional highs will be made this week. Whether the market has the bullish fundamentals to support such a move is up for debate – we suspect that is questionable – but it is what it is for now. The speculators appear to be a little circumspect with the market while the commercials are both increasing their longs and reducing shorts.

The USDA WASDE gave the market a little boost although the data was mixed. The USDA took 660,000 bales off the US crop (which was an unexpected positive) but reduced exports 500,000 bales with overall US ending stocks tightening to 3.2 million bales. The reduction in US production was largely slated to Texas. In a global sense the overall balance sheet changed marginally with notes to Indian production lower by 500,000 bales, Australia up 200,000 bales (to 5.50 million USDA bales - our own page 2 estimate equates to about 5.25 million USDA bales) and Chinese imports down 500,000 bales (as was their usage). Overall while their estimate of world trade was lower their estimate of global mill use barely changed.

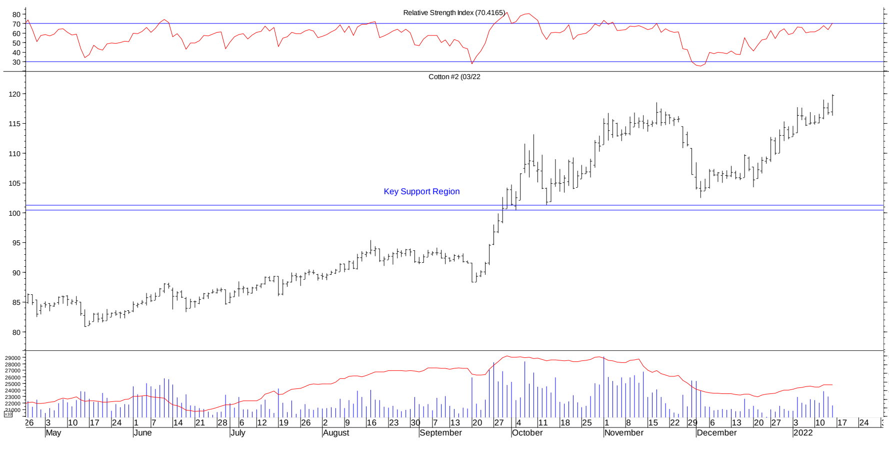
Omicron is working its way around the world including China where a “covid zero” policy does not appear to be going quite to plan. While the impact directly on cotton is difficult to determine (as we sit here in Oz) the logistical issues with shutting down cities (think transport let alone simply a shortage of labour), factories, and - in some cases port cities - can’t be ideal for supply chains let alone the overall Chinese economy. This bares monitoring over the coming weeks ahead of Chinese New Year and the Winter Olympics.

Mill purchases (unfixed on call) continues to grow (14.5 million bales) despite this being on the surface being a poor strategy for a number of months. This is a significant volume and will continue to provide the market with underlying support (unless there are significant cancellations).

US weekly export sales improved at 403,400 running bales (China, India and Turkey the top three buyers) while shipments (176,900 running bales) were the highest volume since mid September. The US needs to continue to markedly increase shipments if it is to reach even this weeks lowered USDA estimate – see page three.

US Federal Reserve FOMC will meet next week (25 Jan) and then again in March and May. The markets will be closely monitoring these meetings for any change in current Fed policy (which is to taper bond purchases to zero over the coming few months) and then begin to raise interest rates. The unknown is whether this can occur without creating havoc in financial markets or perhaps an economic slowdown in the US.

Technically look for additional upside for the next week or two targeting 121.67 at least (which is the current prompt contract high in cotton for the current bull market). With the Jul/Dec invert the timing of a major high (ie a cycle high) might come say somewhere in Feb through to May but how high? To this we are unsure, perhaps a little over 121.67 (say toward 124.00) – but this is little more than a guess.



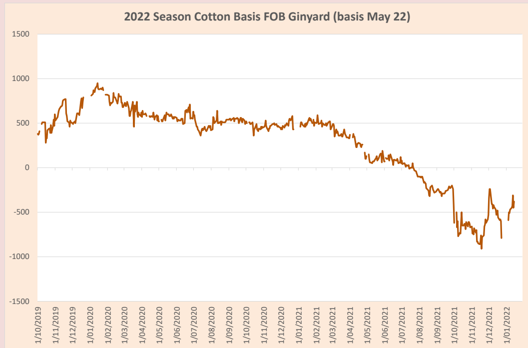
AUSTRALIAN CASH MARKET

	A$/bale Close	High Weekly	Low Weekly	Change this wk
2022	$760	$768	$758	+$10
2023	$602	$608	$602	-$4
2024				

2022 Crop

Markets were moderately active last week, although we anticipate activity will likely pick up more toward the end of the month – once this week’s unsettled weather pattern is behind us - if current prices hold. Encouragingly, we saw a number of merchants step up with more aggressive April-August ‘averaged’ bids (circa $750/bale) in the last week, which will likely be more attractive for many growers who are already 50%+ sold and looking at crops that are probably sitting around a week to 10 days behind normal development.

Needless to say, the varying approaches merchants have taken with “delivery month” pricing premiums and discounts will add a layer of complexity to many merchant’s back-office operations, and may require some monitoring/policing if ‘contract order’ ginning allocations are to be strictly adhered to. It may also lead to some tension at the gin/grower interface, as growers push for early ginning in order to capture premiums. We are comfortable with the concept (and reasons behind) variable delivery month pricing, but acknowledge we are about to witness an interesting test of how it works in practice for cotton.



Price Outlooks 2022 Crop:

Outlook this week: A$700 - 760/bale

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

2023 & 2024 Crop: Not a lot to report.

Hedging Model: Production for 2022 has been increased to 5000 bales (taking % sold down to 75%) in line with our updated production model on Page 2.

2022 Crop Hedging Model		
Prodn Guess	Sales	Orders
5000 bales – 75% 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

INDIA has remained an active market over the last week – with most of the transactions centred on US cotton. US offers to the subcontinent for Government Class 31-3-37 sat around1900 on March 2022 (about a 200pt premium to SE Asian offers), with "large" sales of GC 41-4-37 reported at 1500 on March 2022 CFR main Indian ports. Sources are suggesting that Australian sales to India have been more challenging in the last week, with merchant confidence again waning regarding their ability to source workable freight. Fixed price buying interest for Australian SM 1-1/4" was noted at basis levels equivalent to around 2750 on May (3050 on July) CFR Mumbai/Tuticorin – but even at those levels, we understand the business was not able to be concluded. Merchants are apparently only confirming a sale and/or counter-offering once they have a "firm" freight booking.

As mentioned last week, there are numerous theories to explain the suddenly strong levels of Indian inquiry, including prior "over-exporting" to neighbouring subcontinent consumers, slow domestic arrivals due to farmer hoarding of seed cotton (and/or a smaller than forecast crop), harvesting, transport and ginning delays due to COVID – or perhaps a combination of all of these factors. As always, in such a vast and divergent country it is near impossible to get an accurate read on the situation until 'after the fact'…but what we do know is that markets tend not to lie. As a side note – **Indian yarn offers** have continued to rise this week. This appears more a case of spinners trying to cover the increased cost of raw cotton replacement, rather than an indication of increased yarn demand (note – yarn prices are relatively flat in other markets). If Indian mills are unsuccessful in extracting a higher yarn price, it could lead to a build up of yarn inventory – which would not be healthy.

***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		+1500 (N) A/S/O	
Aus M, 37		+1425 (N) A/S/O	
US 31-3-36 GC	+1700 (H) A/M		
US 31-4 36 GC			
US 41-4 36 GC	+1550 (H) F/M		
Brazilian M, 36	+1465 (H) J/F	+1400 (Z) O/N	
Fr W Afr (s), 36	+1485 J/F/M		
****PSF**	53.09 US c/lb	+1.30 (week)	+4.05 (month)
Yarn 32Ne-China	4.50 US $/kg	+0.03 (week)	+0.04 (month)
Yarn 40Ne-China	5.07 US$/kg	0.00 (week)	-0.01 (month)
Yarn 30Ne-India	4.77 US$/kg	+0.21 (week)	+0.39 (month)
Yarn 40Ne-Paki	5.01 US$/kg	0.00 (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)

2022 PRODUCTION ESTIMATE UPDATE – GUESS # 5

The below table marks our 5th "official" production estimate for the 2022 season, and sees a slight reduction to around 5 million bales – almost wholly as a result of yield reductions (which may or may not eventuate). Area estimates are based on Bayer's preliminary audited planting figures – adjusted for our estimate of abandonment (mostly flooding/waterlogging related), and also where we are confident there has been additional area planted after the audit was taken. Whilst there are several variances by valley, overall planted area is very close to our last October 25 estimate (which had a total planted area of 578,100 ha). Most of the change is in the "sem irrigated" area which has largely come from our earlier dryland estimates (ie – overland flow etc has provided some water).

The long and the short of this is that we are pretty comfortable with our area estimate, but know that there is a lot of water to go under the bridge until we can be comfortable with yield. Ultimately, we feel there is more scope for upside than downside to these numbers.

	IRRIGATED			SEMI IRRIGATED			DRYLAND			OVERALL		
	Hectares	Yield	PRODUCTION (bales)	Hectares	Yield	PRODUCTION (bales)	Brown Hectares	Yield	PRODUCTION (bales)	Hectares	PRODUCTION (bales)	PRODUCTION (seed)
WA (Ord)	6,000	9	54,000				-	-	-	6,000	54,000	13,500
NT	1,000	8	8,000				12,000	5.00	60,000	13,000	68,000	17,000
Far North QLD	1,500	8	12,000				8,000	3.00	24,000	9,500	36,000	9,000
Belyando	-	0	-				7,000	3.00	21,000	7,000	21,000	5,250
CQ	16,000	9.5	152,000				5,000	2.30	11,500	21,000	163,500	40,875
Dawson	6,500	9.5	61,750					3.00	-	6,500	61,750	15,438
Dirranbandi	12,500	11.5	143,750					-	-	12,500	143,750	35,938
St George	19,000	11.5	218,500					-	-	19,000	218,500	54,625
Downs	28,000	10.5	294,000	8,500	6	51,000	24,000	5.70	136,800	60,500	481,800	120,450
Macintyre	32,000	11.2	358,400	4,000	8	32,000	11,000	4.10	45,100	47,000	454,500	113,625
Mungindi	20,000	11.2	224,000				2,800	4.10	11,480	22,800	235,480	58,870
Gwydir	55,000	11.2	616,000	5,000	8	40,000	45,000	4.30	193,500	100,000	860,500	215,125
Walgett	14,000	11.2	156,800				3,000	3.60	10,800	17,000	167,600	41,900
Bourke	10,800	11.2	120,960				-	-	-	10,800	120,960	30,240
Lower Namoi	38,000	11.1	421,800				20,000	4.00	80,000	58,000	501,800	125,450
Upper Namoi	17,000	10.75	182,750				30,000	4.50	135,000	47,000	317,750	79,438
Macquarie	31,200	11.1	346,320				3,000	3.50	10,500	34,200	356,820	89,205
Lachlan	14,700	10	147,000				-	-	-	14,700	147,000	36,750
Bidgee/Murray	64,000	10	640,000				-	-	-	64,000	640,000	160,000
TOTAL	**387,200**	10.74	**4,158,030**	**17,500**	**7**	**123,000**	**170,800**	4.33	**739,680**	**570,500**	**5,050,710**	**1,262,678**

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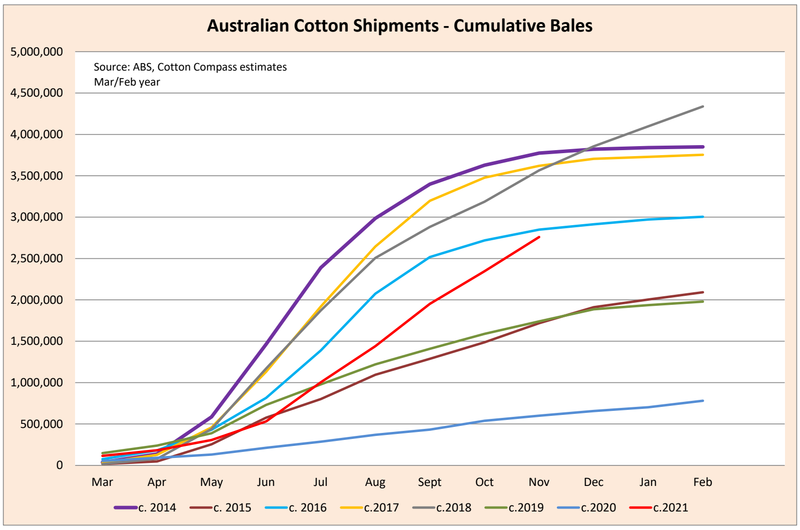
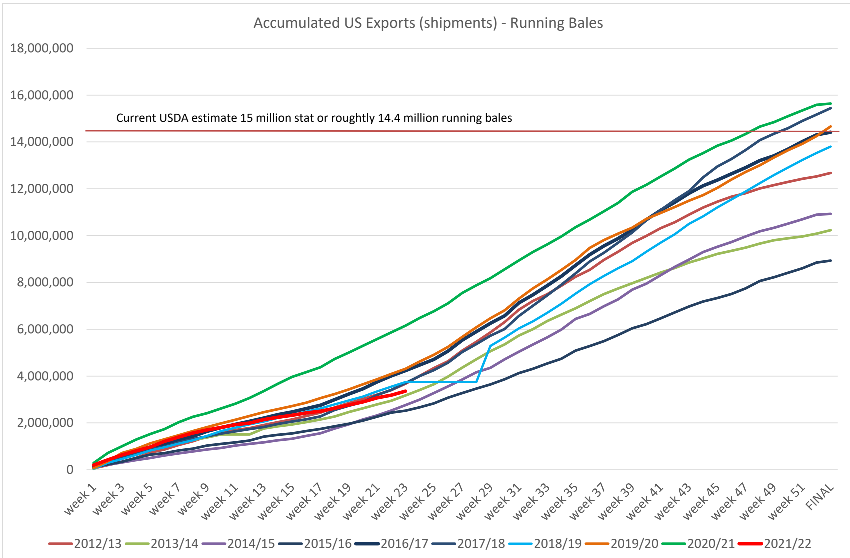
SHIPMENTS TRAVELLING IN STYLE

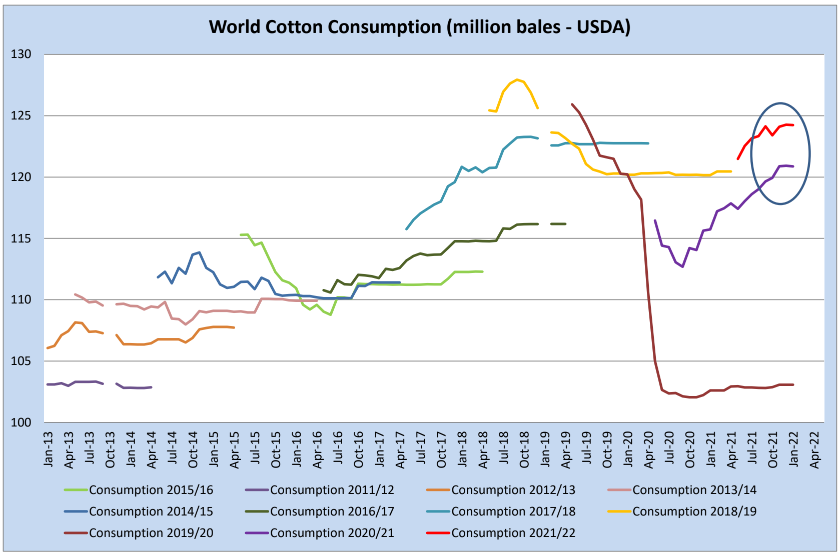


November shipments were some 413,200 bales which is the best effort since 2012. The strong pace of shipments is interesting. We currently esitmate some 2.95 million bales will be shipped for the year and if this is the case then shipments must fall in a heap from here. Back to the data at hand. The larger volume destinations for November were Vietnam with 40%, Indonesia 18% and Thailand 10% among 14 buyers (Subcontinent totalled 10%). Marketing year to-date exports have reached 2.76 million bales with still three statistical months to run. Cottonseed exports ran at 35,665 tonne (of which 62% headed to China, the balace to Japan and Korea) for November taking the marketing year to-date to 255,800 tonne in round numbers.

THE US – LESS STYLISH

The USDA did what must expected and cut their esitmate of US exports for the 21/22 year (down 0.5 million to 15.0 million bales) in last weeks WASDE. Export progress to-date has been sluggish considering the job at hand. While it is still possible the target/estimate could be reached, the volume of shipments would need to increase rapidly. For instance if the US for each week, until the end of the market year, achieved its best weekly rate for each particular week of the past decade then the target could be exceeded. In the current logistical environment this is unlikely. Even a 10 year average shipment pace for each week would see the US reach only 13 million statistical bales. So shipments need to be significantly better than average. The next 4-8 weeks are important for a seasonal upturn. The US is currently in week 24 and shipments seasonally rise from week 16 through to a peak near week 31 and thereafter decline. The point is that the odds are shortening that the USDA will continue to cut the estimate.





LET'S SEE WHAT HAPPENS

The USDA in the latest WASDE marginally lowered its estimate of Global use. The chart displays historical estimates month by month (to show adjustments to estimates along the way) and for the past few, estimates or consumption are starting to flatline. Whether this is a view held that global use will stagnate or whether it's a view of "ok lets see how things go", we are unsure. If we assume a recovery to a more usual world (notice we did not use the over used word normal) and ignore 2019/20 then estimates of use for 21/22 are sitting in ther ball park of 17/18, 18/19 and 20/21 levels.

In reality the USDA is looking at record global use and whether the market can live up to that time will tell. Growth year on year is currently estimated at 2.8%.

We don't have a particular opinion on the estimate. We do think mills have "overbought" to ensure consistency of suppy but how this will gel with overall global use will take time to play itself out.