Cotton Compass

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Monday, February 07, 2022

Mills fixated

	High	Low	Close	Change (week)	Change (month)
Mar 22	129.37	123.25	126.74	+2.98	+11.62
May 22	125.83	120.42	123.99	+3.15	+11.11

COTTON finished higher for the week although most of the gains were last Monday with the market then drifting amid and more insulated from what appeared to be at times volatile and fund flow driven commodity markets more broadly. Markets have appeared skittish ever since it dawned that the US Federal Reserve may have to raise interest rates harder and earlier than their original guidance. Stockmarkets, the US dollar and crude oil to mention a few have been volatile. The problem with this skittishness is that it is adding to the noise in various markets making the signal harder to determine. For cotton this is perhaps less so given its volatility in the past week has been relatively less and its path higher is uninterrupted thus far.

The US Export Sales report were agan impressive with a solid 340,000 bales of 2021/22 crop (including Pima) and a large 318,300 bales of 2022/23 sold for the week ending January 27. Shipments reached a marketing year high at 316,100 bales which is a solid improvement but still well behind the required pace to meet the current USDA export estimate. The USDA will updated their WASDE this week and it will be interesting to see if they adjust the US export estimate (and the China import estimate or that matter).

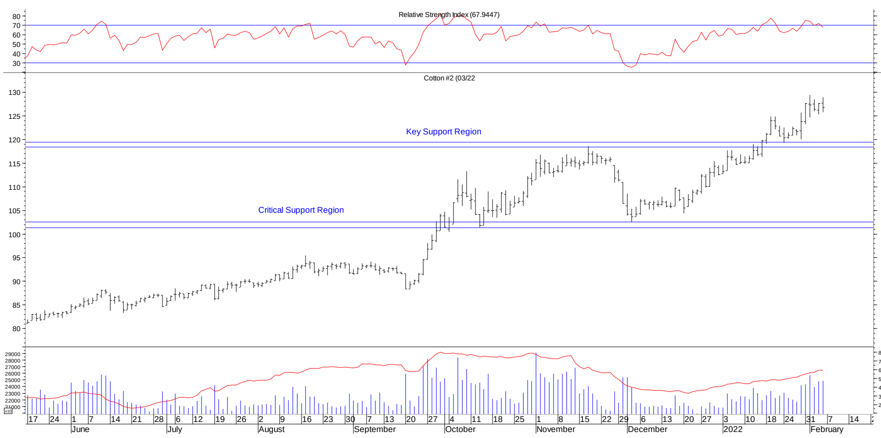
Mill Fixations are part of the reason for support in the market last week, in particular the front end of the market. With February starting to tick away mills have been busy fixing commitments against March futures albeit at the same time increasing their on call position against the new crop December contract. There is still a significant volume to complete against the March position and this should continue to provide support in the market near term.

The speculative community have continued to add to their long positions while the commercial sector has added longs but also a large number of shorts (the main sellers in the market). The speculative long position, while large, is not at historically high levels. Speculators do not appear to be throwing money at the market but they are steady and consistent buyers, adding to what is already a profitable position.

With La Nina hanging around and West Texas remaining dry and likely to remain dry the market will begin to focus more on US new crop prospects. In the past two months the new crop December contract has risen from circa 90 cents to 103 cents and weather will be part of this.

Inflation will be an underlying theme for some years to come. While some of the recent rises in prices will prove transitory (lessen once supply chains catchup), and hopefully input costs will be one of these it is not clear that it will. While input prices (think fert and chemicals) might back off from their current highs, any product that relies on oil/gas for production (in reality almost everything) is likely going to face higher values through the 2020's then they did through the 2010's an therefore crop prices may well begin to exist on a higher plain. We are running out of space here so in the next few weeks we will expand on our throughts.

Technically, we feel this current rally is very mature. Where it stops is a known unknown although we feel F/M/A is the better timing for a major turn in this market.



AUSTRALIAN CASH MARKET

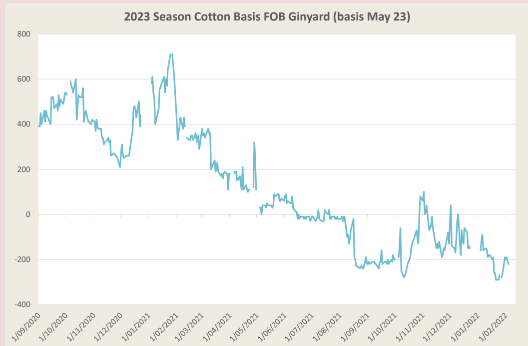
	A$/bale Close	High Weekly	Low Weekly	Change this wk
2022	$841	$841	$832	+$21
2023	$670	$670	$655	+$31
2024	$533	$533	$531	+$3

2022 Crop

It was either a quiet week, or a busy week…. (with maybe 50K bales done – maybe) depending on whether you are a merchant focused on buying early bales (in which case there are not many spare ones and you are quiet) or one of the merchants that are bidding up the Aug/Sep period (where more of the action is now taking place).

Given "averaged" values across the gin spread are now $820 and better with many merchants, most growers are happy enough to ignore the premiums they could achieve in the unlikely event they do get a gin run in May or June for what in most cases is now bales in the last 50% of their crop.

Cottonseed seems slightly weaker the past few days. Moree appears to be somewhere in the $300 ex gin with the Namoi more like $295 and the Downs $340. There would seem good inquiry from China (less so last week with Chinese New Year) which should support the market (depending on availability of boxes – bulk may not find shipping stem given wheat/sorghum commitments).



Price Outlooks 2022 Crop:

Outlook this week: A$800 - 880/bale

Outlook 1-2 months: A$680-820/bale

2023 & 2024 Crop: 2023 crop was again moderately active on days where prices reached above $660 Central Valleys. Not hearing of any thing doing on 2024 crop.

Hedging Model: We like 23 values at $670 to add.

2022 Crop Hedging Model		
Prodn Guess	Sales	Orders
5000 bales – 85% sold @ $635.94 average	500 @ $550 250 @ $575 500 @ $575 1000 @ $595 500 @ $625 500 @ $655 500 @ $720 500 @ $803	
2023 Crop Hedging Model		
5000 bales – 30% sold @ $577	500 @ $550 500 @ $580 500 @ $600	500 bales @ $670

EXPORT MARKET SUMMARY

EXPORT market signals were far more muted over the last week, with most markets taking a breather for Chinese New Year.
So, we thought it more relevant to simply provide a chart of Australian cotton prices as a ratio of 32Ne combed cotton yarn values ex China – which is arguably a reasonable "proxy" for "commodity" type yarn values. This demonstrates that we are now punching into the upper end of affordability from a 'ratio' perspective. We do note, however, that this conversion ratio is less 'extreme' when comparing to finer count yarns, and some other destination markets (particularly India).

***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		+1550 (N) J/A/S	
Aus M, 37		+1475 (N) J/A/S	
US 31-3-36 GC	+1600 (H) A/M	+1550 (K) J/J	
US 31-4 36 GC			
US 41-4 36 GC			
Brazilian M, 36	+1625 (H) M/A	+1600 (Z) O/N	
Fr W Afr (s), 36	+1500 (H) F/M		
****PSF**	54.71 US c/lb	-0.04 (week)	+3.68 (month)
Yarn 32Ne-China	4.51US $/kg	-0.01 (week)	+0.04 (month)
Yarn 40Ne-China	5.11 US$/kg	0.00 (week)	+0.04 (month)
Yarn 30Ne-India	4.78 US$/kg	-0.04 (week)	+0.22 (month)
Yarn 40Ne-Paki	5.27 US$/kg	+0.07 (week)	+0.26 (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)

SOME ADDITIONAL PERSPECTIVE

Current 2022 Season cash prices are clearly historically high – and for that matter, so are are 2023 Season values – just not quite as eye watering. 2023 Season is currently circa $165 a bale below the 2022 price – which seems huge. It is, but it is not enormous, or necessarily unusual. The last time cash prices were above $800 for the nearby crop (the 2011 Crop) the discount for the next crop was as wide as $375 a bale for a time. Simply because 2022 Crop could rally even more does not mean (and is likely not to mean) that 2023 will follow it. Last time around, while the nearby contract hit $1000 (somewhat driven by local conditions as well as nearby futures being 160 c/lb to well over 200 c/lb) the following 2012 crop could not sustain above $650. Today as we write 2023 Crop is $670 with the nearby circa $840 – 2022 Crop values are still enormous for a forward crop (near enough to record levels). While the cash chart displays this succinctly, the large driver was the blow out in the Jul-Dec spread (ie back in 2011). The Jul-Dec spread equates to the difference in market expectations of the value of current crop (ie 2022 Season this time around) and new crop (ie 2023 Season). While we think the current Jul-Dec 22 spread (red line on the chart) is very wide - and it is - it has nothing on the Jul-Dec 11 spread (at least to-date). The blow out in the Jul-Dec 11 spread essentially says current crop could boom higher (not to say that it will – it probably won't) without the next crop rising much at all.
The point is, when you are thinking about 2023 Crop – recognise it for what it is – a near record (or record) level to-date for a future crop.
This does not mean it can't move higher – it can. As an aside while we were fiddling with the spread chart we decided just for interest to include the Jul-Dec 11 spread to essentially almost the death of the Jul contract – it is awfully scary stuff. We think about the issues a 17 cent inverse is going to create with a late-ish crop: logistical issues; grower contracts with premiums for early delivery; buyers trying to take the minimum they need given the forward discount, and; what angst this will create.
If the spread blows out like 2011, then just dial all that up.