Cotton Compass

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Monday, February 14, 2022

For lovers…….of cotton

	High	Low	Close	Change (week)	Change (month)
Mar 22	127.37	124.92	125.28	-1.46	+9.26
May 22	124.55	116.72	122.49	-1.08	+8.60

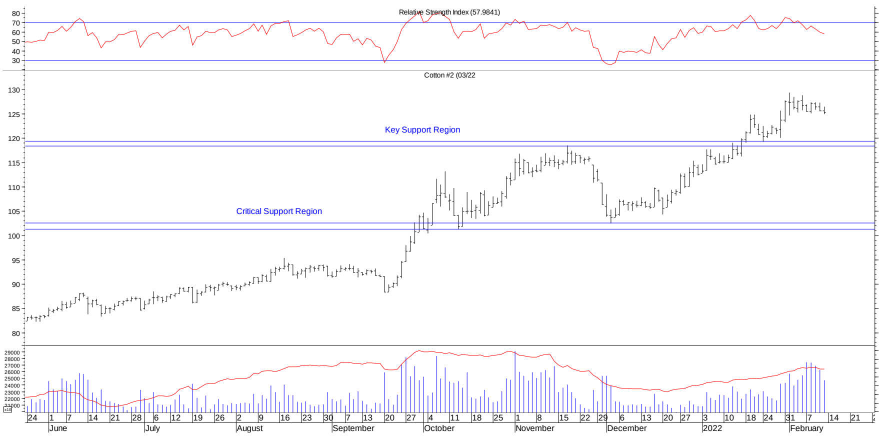
HMMM. Last week was the first "down" week for the cotton market since the last week in November 2021. In those 10 weeks, we have seen the spot March contract rally 26.87 US c/lb (low to high) – or an incredible 26.2%. To suggest that a pullback – or at least a pause in the one way traffic – is due, is perhaps more than fair. Its just that right now – in the absence of an outside 'black swan' type event, or widespread mill defaults – the reality remains that this market likely has more 'natural' buyers than sellers for perhaps the next 4 months, regardless of price and regardless of traditional valuation methodology. Why 4 months? Well…..we feel the approach of First Notice Day for the July contract (June 24)…..combined with end of quarter influences and crystalisation of new crop prospects in the Northern Hemisphere (particularly US)….and supply relief from our own large Australian harvest (followed by Brazil) could start to tip the balance. That said - we are very open to the possibility of the market topping out before then – and feel that every step up from here is just further inflation of a bubble, and that the inevitable burst when it comes will not be painless.

Key Factors this week have included the much publicised "Goldman Roll" with long only fund players rolling positions into May (selling March/buying May), against mill on call fixations and/or rolls (buying March outright, or buying March/selling May). Oh yeah…..and of course we had that scary inflation print from the US – more below. The USDA report, meanwhile, was a bit of a non event.

Inflation is starting to weigh increasingly heavily on financial market sentiment – with last week's US inflation print showing a 7.5pc year on year hike fueling the uncertainty. That was the largest year on year CPI increase in 40 years. Anyone else remember what interest rates were doing in 1982? How does a US Fed Funds rate of 21.5% grab you? Clearly things are different today (most of the current inflationary forces at play are supply side (rather than demand related)…..but there now can be absolutely no doubt that the era of free money that investors have become used to is coming to a rather abrupt end. Global stock markets are increasingly jittery – and how this plays out remains to be seen. Are we looking at a potential "black swan" event for financial market….and if so, what would be the impact on our market? Who knows…..and regardless, we can expect tightening credit conditions to have an impact on cash-flows and therefore trade-flows….particuarly given the fact that more cash is currently required for the purchase of everything – including cotton.

The US Export Sales report over the last few weeks has provided a glimmer of hope that the US may finally be getting its house into some kind of order as far as shipments go – with circa 300,000 bales/week hitting the water over the last couple of weeks – albeit a far cry from the (still) 400,000+ bales/week required to meet the USDA's 14.75 (revised lower) export target. And just taking a 'devils advocate' view to this improvement, whilst (if it continues), it helps keep US carryout manageable…what it also does is push product through the pipeline to destination….and when that product arrives into mill inventory…..what do you think it does that do to demand? Just sayin'.

Technically, the market feels more uncertain. We are vulnerable to a pullback – with initial support (on May) in the 116.3-116.7 zone (prior high and 38.2% retracement).



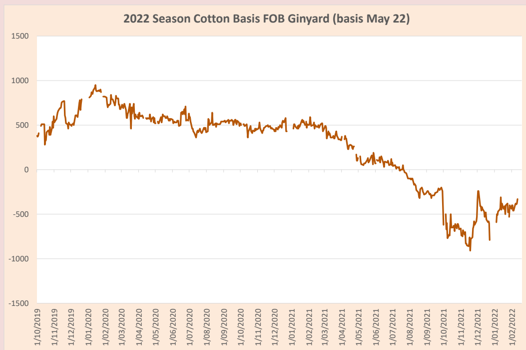
AUSTRALIAN CASH MARKET

	A$/bale Close	High Weekly	Low Weekly	Change this wk
2022	$836	$848	$836	-$5
2023	$676	$680	$675	+$6
2024	$533	$536	$533	$0

2022 Crop

Activity appeared to run at a low ebb last week – with only 'routine' sales activity from the grower front, despite the outstanding prices being bid. It's hard to believe – but perhaps we have become used to values above $800. Or perhaps its more an issue of timing, with most irrigators now likely close to 65% sold (and some likely closer to 85%), and dryland growers still looking for one more rain to really crystalise production prospects.

That said, we suspect if this market continues to plateau, or even drops a little, we might see some more engagement from those growers with a little more room to move than others in coming weeks.



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 – by comparison – somewhat more active, with reasonable engagement around $680/bale from a range of valleys. With another run in several rivers (after the week prior's rain in the hills) we are seeing increasing production confidence from irrigators in particular. That said, we are hearing plenty of comments along the lines of "$680 is good, but $700 would be better."

2024 crop was, meanwhile, a bit of a non event. Plenty of time.

Hedging Model: Our pricing order at $670 for 2023 crop would have filled on Monday.

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

Prodn Guess	Sales	Orders
5000 bales – 40% sold @ $600	500 @ $550 500 @ $580 500 @ $600 500 @ $670	

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EXPORT MARKET SUMMARY

WE GET the sense that it was a relatively subdued return from Chinese New Year – at least as far as fresh inquiry from most markets was concerned. Perhaps it was a bit of "wait and see" ahead of the monthly USDA WASDE report, perhaps it was anxiety after the surprisingly high US CPI print, perhaps frustrating over what appears to be a general stagnating yarn market, perhaps just more of a focus on fixing and/or rolling of on call positions. Perhaps a little from column A, B, C and D. Needless to say, merchants will be anxious to see a return of more robust demand in coming weeks – and Australia should be a good barometer, given we are extremely well priced to win the business (against traditional competitors) and will be the first freely available new crop in a few short months time.

Subcontinent markets meanwhile, remain strong – as slow local arrivals and subsequently high domestic prices force mill inquiry toward imports…assuming they can be executed. Domestic raw cotton prices in Pakistan – for example - hit all time highs last week. The Karachi cotton brokers association has production at 5.85 million USDA sized bales (USDA is at 5.8), but with consumption at 13.65-14.05 million (vs USDA at 11.2).

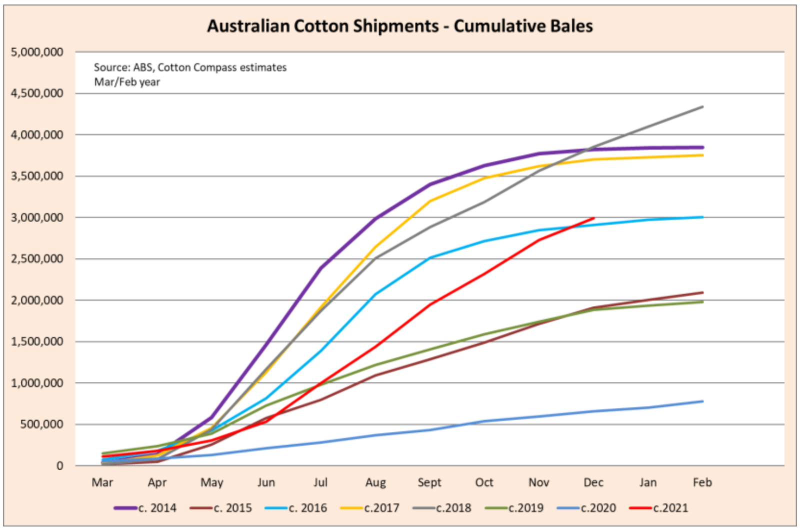
US Apparel Imports data for Q4, 2021 point to strong recoveries as wholesalers and retailers worked to rebuid inventory – gaining 23% in volume terms from Q4 2020, and – in the process – returning to pre-pandemic levels. Turkey and Bangladesh were key winners - up a massive 49.4% and 49.2% respectively, while Indonesia 38.0% and India 41.2% were also impressive. Chinese imports were up 27%, while Vietnam was only up 4.8% year on year (with the poor result attributed to severe lockdowns in the country).

***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

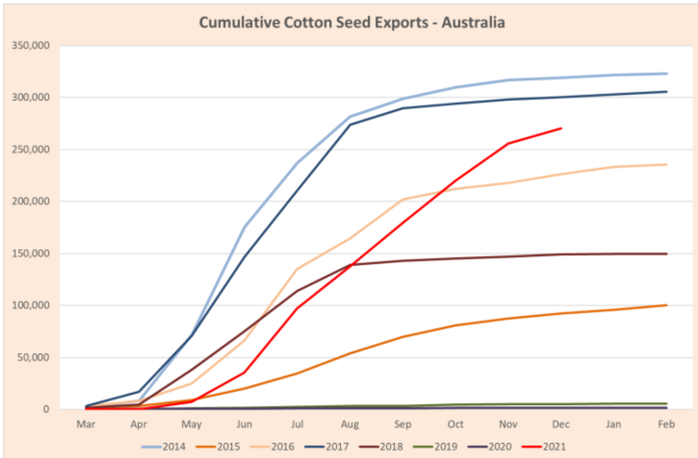
Origin	Offer Nearby	Offer Deferred	Eg Sales
Aus SM, 37		+1550 (N) J/A/S	
Aus M, 37		+1525 (N) J/A/S	
US 31-3-36 GC	+1600 (H) A/M	+1600 (K) J/J	
US 31-4 36 GC			
US 41-4 36 GC			
Brazilian M, 36	+1650 (H) M/A	+1550 (Z) O/N	
Fr W Afr (s), 36	+1550 (K) A/M		
****PSF**	54.97 US c/lb	+0.26 (week)	+1.88 (month)
Yarn 32Ne-China	4.52US $/kg	+0.01 (week)	+0.02 (month)
Yarn 40Ne-China	5.11 US$/kg	0.00 (week)	+0.04 (month)
Yarn 30Ne-India	4.78 US$/kg	0.00 (week)	+0.01 (month)
Yarn 40Ne-Paki	5.33 US$/kg	+0.06 (week)	+0.32 (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)

SHIPMENTS SHOULD TONE DOWN NOW



Australia shipped some 263,200 bales through December to bring the season to-date to just shy of 3.0 million bales (in-fact our total export estimate with two months to run). For December, Vietnam was the largest market with 33% followed by Indonesia with 21% and Turkey with 9%. Overall cotton headed toward 15 different markets with China accounting for less than 1%. With now some 2.99 million bales shipped we will need to re-evaluate our balance sheets in the sense of either we are using a crop number for 2021 Season that is too low (a number we should be able to verify very shortly) or our carry-in stocks were underestimated (which would suggest we underestimated the 2020 Crop which is unlikely) or exports for Jan/Feb will be minimal (in-fact very minimal which is unlikely). The answer is likely to be a little bit from each and a carryout heading into 2022 Crop season that will be down to fumes. We will re-run our balance sheets next week and publish in the coming Cotton Compass Issue. Overall though it is pleasing to see amid the supply chain issues a rapid shipment pace and good amount of cotton being able to make it into the sub-continent. Cotton Seed shipments for December were 14,480 tonne with 10,424 tonne of that off to China or 72% with Japan 3,310 tonne and Korea 746 tonne rounding out the major markets. The pace and volume of exports has also been remarkably good given supply chain issues - although re-delivering containers back into China is much easier than other shipping routes. Cotton Seed cumulative shipments are 270,260 tonne with Jan/Feb data left to accumulate. Our current export estimate is 300,000 tonne and while we will review that number this week – it will probably not materially change.



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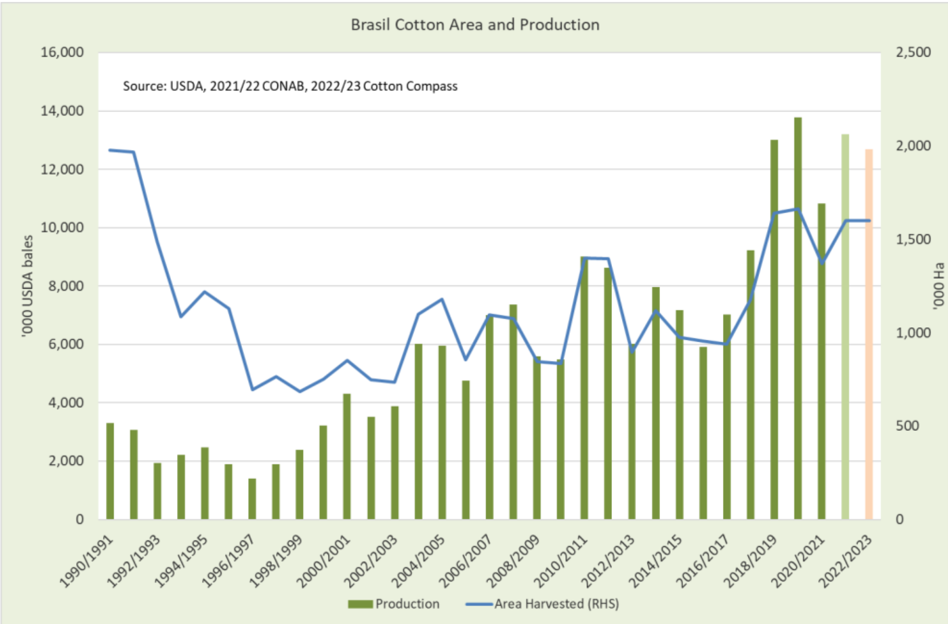
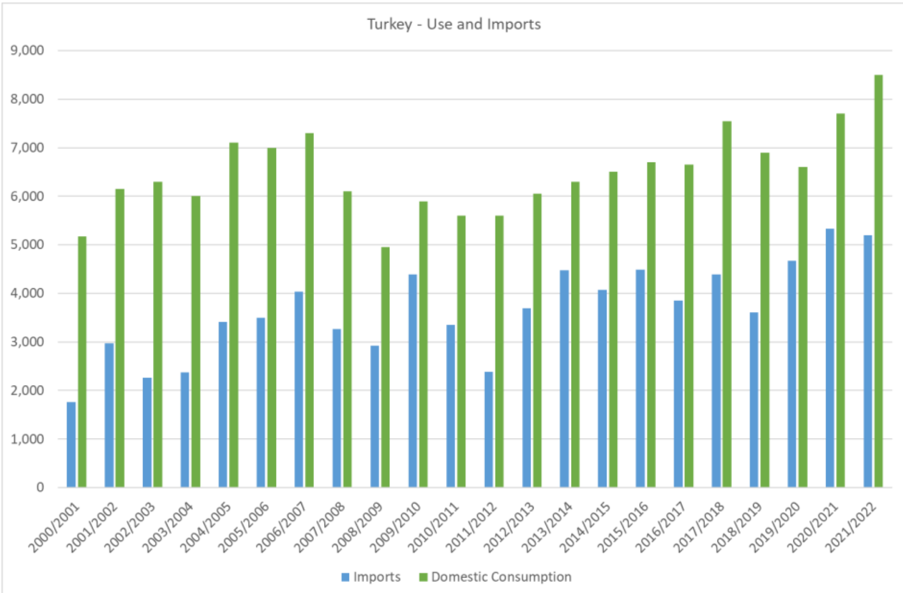
BRAZILIAN PRODUCTION



CONAB released their updated crop estimates last week (a day after the USDA). CONAB lowered total area just under 6,000ha to 1,536.5 million ha (Bahia actually 10,700ha higher while Mato Grosso was 14,400ha lower – the two major changes) and overall they lifted their yield estimate by 9 kg/ha to 1,765 kgs/ha to produce a crop estimate of 2,711.7mmt of lint (12.455 million USDA bales). The production number is little different to their prior month estimate. The USDA in their February WASDE last week called the Brazil crop 13.2 million bales so reasonably above CONAB. Given much of the Mato Grosso crop is being planted currently there is still ample room for these estimates to change. Weather will play a hand as will corn prices (corn is the major competitor for cotton as a second crop planted behind soybeans) which are very competitive. For now we will assume CONAB estimates for 2021/22 with a watching brief. For interest we took an early crack at 2022/23 (USDA will provide a first run in May) for Brazil. For now we see area not changing significantly (yes prices are high but so are input costs and corn/beans look to remain very competitive for area) although we recogise planting decisions are well in front of the Brazilian grower currently. Brazil as an industry will look to consolidate its recent expansion - and the potential area in Mato Grosso that could be utitlised for second crop cotton is enormous.

TURKEY FINDS ITS FEET

It would seem odd, at least to us, that textile capacity would move into another "autocratic regime", however, cotton use in Turkey is increasing and with it imports and with that, market potential for Aussie cotton. The USDA in its February issue of Cotton: World Markets and Trade, takes a look at the Turkish market. Turkey's cotton use had been on a solid growth path since 2012 and in particualr the past 12 months. The USDA put recent growth down to changing sourcing patterns of global retailers (moving somewhat away from Asian suppliers) and duty-free access to the EU along with being close to MENA markets. Aside from our comment above Turkey does have some difficulties to manage like its currency volatility, energy costs (a factor to a greater or lesser extent everywhere), credit and interest costs. Still, a weak currency can also be an advantage when moving the product into export markets. At an estimated 8.8 million bales use in 2021/22 Turkey would rank fourth in the world only behind China (39.5 million bales), India (26 million bales) and Pakistan (11.2 million bales) making it an import market especially for Australia where the Chinese market is out of reach for the time being. The challenge is establishing a reliable logistics path – particularly in the current environment. We noted on Page 2 that Turkey took 9% of our December exports and has featured as a destination for much of this marketing crop year. It is some time since we attempted a look at Australian market share into Turkey and over the coming week or two we will attempt to update this work.



US CROP ESTIMATE FOR 2022

The US National Cotton Council held its AGM over the past few days. Traditionally they release the survey results for US cotton area (intended planted area from their survey – this will be we think their 41st Survey) and once we have some detail we will take a poke at a 2022 US crop estimate. This estimate we can then contrast with numbers that will evolve out of the USDA Outlook Forum (24-25 February – cotton outlook will be afternoon of the 25th) and then after that wait for the USDA Planting Intentions Report in March.