Cotton Compass

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Monday, February 21, 2022

Is the correction complete?

	High	Low	Close	Change (week)	Change (month)
May 22	123.17	118.76	121.16	-1.75	+3.18
Jul 22	120.20	116.00	118.13	-1.99	+2.69

A strong finish (albeit cotton was still lower week on week) opens up the idea that the correction in play since the start of February could be nearing an end. Additional gains this week (note the market is closed Monday for Presidents day) would go some way to supporting that idea. While technically we consider this rally as quite mature there is as yet no sign of a high in place and hence the trend remains higher. Uncertainty surrounding the Russia/Ukraine situation will play at the markets mind again this week although cotton seems to have been less impacted than the gyrations of some of the other commodities like wheat. Still the funds are long cotton and if they decide to move to the sidelines then these high prices will be done, and the risk would move very much to the downside.

Large Speculators have lightened their long positon a little in the past week or so (which is part of the reason for the correction in the market) and this will be around both uncertainty with Russia/Ukraine but also the approaching March contract expiry.

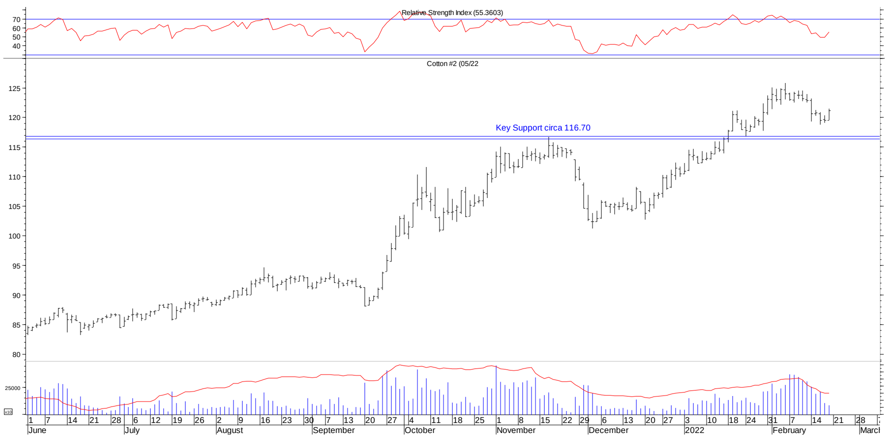
The March contract goes into delivery this week. Open interest is down to around 4,000 contracts and this should continue to wind down in an orderly fashion. Certified stocks are currently two parts of not much.

US Export Sales reached a mediocre 161,100 bales of 21/22 and 34,700 bales of 22/23 (Chinese New Year may not have helped). Actual shipments were 274,600 bales which is lacklustre. At this pace the US will struggle to meet the current USDA export estimate. Logistical issues yes, but the element to think about is the volume of bales that will be "rolled" down the shipping calendar and into a huge July/Dec inverse (if shipments don't pick up strongly, and fast). Renegotiations or cancellations anyone?

USDA Outlook Forum is later this week and the cotton session is Friday afternoon where the USDA will provide some early ideas on a US balance sheet and perhaps some global numbers (focus on 2022/23). We have had our first stab at the coming US crop size (see page three). We would expect the USDA will start with a higher production number.

Cotton futures in India continue to press new highs (albeit finishing the week lower) while Chinese cotton futures have maintained super high levels but not actually budged much since October (hanging around 10 year highs). Arrivals in India seem to be around an average pace (yes slower than last year) and there is some talk farmers are holding cotton back in the anticipation of better prices. Difficult to know whether this perception of a slower pace of arrivals is to do with price expectations or a sign the crop may not be all there.

Technically, the question is whether the correction in place since early February (limited in terms of price) is complete and the market is headed higher or whether the correction has further to run. For now we are calling this corrective price action and we would still be open to a drop toward 116-117 before then moving again higher. This week should provide a clearer direction. Additional upside early this week would go some way to supporting the idea the next leg higher is underway. Overall taking the wider angle lens, we think the next leg higher (assuming it comes) is likely the last and cotton will make a major high in the M/A/M timeframe.



AUSTRALIAN CASH MARKET

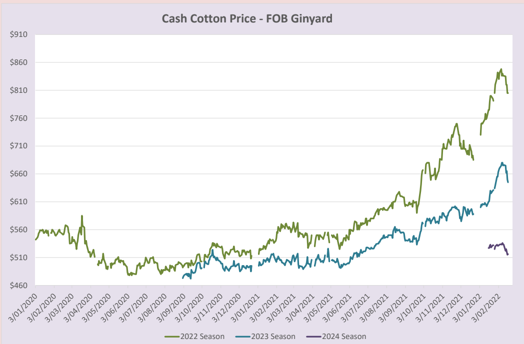
	A$/bale Close	High Weekly	Low Weekly	Change this wk
2022	$805	$835	$805	-$31
2023	$645	$675	$645	-$21
2024	$516	$525	$515	-$17

2022 Crop

Cash markets were substantially more active in the last week – with growers spurred into action by the retracement on ICE, and subsequent "Fear of Missing Out" while prices still held above $800/bale for April-August throughout the week.

With so much macroeconomic and geopolitical uncertainty, we are on the same page – and believe that for anyone with room to move on forward sales there is little (if any) reason not to take some more price risk off the table at current levels. We would be surprised if grower sales totals did not exceed 75,000 bales last week – with most of the business concluded in the $810-820/bale (April-August) zone.

Production-wise: Whilst we are long overdue for a formal 'agronomist survey' – reports from the field are mostly encouraging. In general, the crop is probably a little slow/late – but appears to be filling well….and growers/agronomists are cautiously optimistic for at least average yields. With rain forecast next week likely to benefit dryland fields, we feel there is room for upside – perhaps toward 5.2 million bales. We will update 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 similarly active – with most of the action in the $660-670 range, and again we suspect circa 75,000 bales would have changed hands.

Hedging Model: No changes

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 – 40% sold @ $600	500 @ $550 500 @ $580 500 @ $600 500 @ $670	

EXPORT MARKET SUMMARY

EXPORT market has demand remained pretty routine over the last week – with the bulk of the demand focused on bales available for prompt shipment (eg Argentinian, Brazilian and US), with Aussie cotton still finding favour for third quarter and 2023 over alternate growths on price considerations.

For prompt deliveries, sales are generally only being made once merchants are able to confirm container freight to destination (for obvious reasons), with mills willing to pay solid premiums in order to bolster depleted inventories. Pakistan has been particularly aggressive, with immediate stocks very tight. The challenge….for subcontinent markets in particular…..is finding the boxes (and shipping lines willing) to get the product there. Otherwise, notable prompt business has included Argentinian Middlings into Indonesia at better than 1100 on March – which is well above the basis levels they would traditionally expect to receive.

Aussie Cotton, meanwhile, is probably the origin of choice for most Asian markets (other than China) for third quarter (and second quarter if any merchants are still willing to offer) – with trades reported into Indonesia at 1250-1300 on July for July/Aug/Sept this week – with other markets also active. This continues to look very attractive against US Government Class 31-3-36 offered at circa 1600 on cover – and even West African s types, which are now offered around 1550 on May for A/M shipment.

We understand some 2023 crop Aussie SM 1-5/32" cotton has also traded around 1300 on for May/June/July 23 shipment.

***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	+1450 (N) J/A	+1400 (N) A/S	+1300 (cover)
Aus M, 37			
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	+1500 (Z) O/N	
Fr W Afr (s), 36	+1550 (K) A/M		
****PSF**	52.82 US c/lb	-2.15 (week)	-0.77 (month)
Yarn 32Ne-China	4.72US $/kg	+0.22 (week)	+0.21 (month)
Yarn 40Ne-China	5.21 US$/kg	+0.10 (week)	+0.08 (month)
Yarn 30Ne-India	4.68 US$/kg	-0.10 (week)	-0.10 (month)
Yarn 40Ne-Paki	5.33 US$/kg	0.00 (week)	+0.27 (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)

Yarn Offers, meanwhile, have moved in divergent directions.
Chinese yarn offers have increased, with spinners attempting to extract higher values from downstream knitters and weavers, who they are expecting to return to full production now that the Chinese New Year holidays are behind them. Subcontinent yarn markets, by comparison are less bouyant (having rallied more during January), with downstream processor demand apparently easing as stock levels become more comfortable (and perhaps some capacity being reduced amid rising energy prices).

COTTONSEED…..holding…..but for how long?

Cottonseed markets have remained well supported in recent months – despite the prospect of production levels exceeding 1.2 million MT. With annual domestic consumption estimated at a nominal 350,000, there is clearly a solid export task to perform – and we know that with ginning set to hit full throttle some time around mid-April (and many gins with limited 'on site' storage) there will be a certain amount of forced selling in the April/May/June period. Our understanding is that several traders are securing off site bunker/shed storage and packing so that overflow can be handled reasonably efficiently and placed into export channels on a longer spread. That said, with big crops of everything….storage and logistics will not come without its challenges.

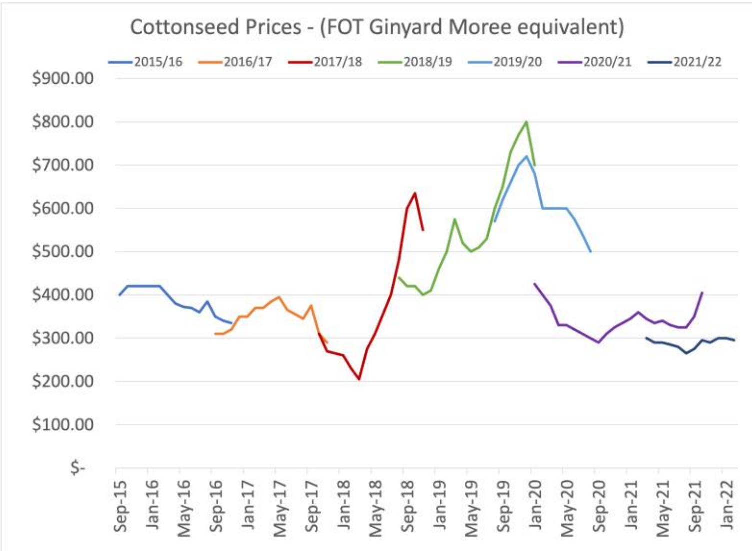
The bulk of the export demand profile is likely going to be container trade - thankfully to China, where shipping lines are more willing to reposition boxes. That said, there will be plenty of competition from a very large national sorghum crop, which some observers now believe is approaching 3 million MT.

We feel the anticipation of supply side pressure – and local logistics choke points, combined with finite export capacity - will almost inevitably force cottonseed values lower in the March/April/May (and probably June) window.

We note that in 2017/18 (our last big crop) cottonseed traded below A$300/MT FOT Moree until mid June – before drought conditions started to bite and domestic demand ramped up.

Whilst we are reasonably confident that similar demand side conditions are unlikely to return by the second half of this year, we are equally confident that supply side pressures will begin to ease from mid July as ginning draws to a close.

For reference, this week we saw Narrabri bid circa $290/MT FOT, Moree $295-300/MT FOT and Mungindi $300-305/MT FOT. We suspect these levels are likely tenuous for now, and thus it makes sense for growers to get at least 50-70% cover in place, with the knowledge that if you are going to "punt" any, you will probably need to ensure your gin can store seed until at least August if you hope to realise much upside from current levels.



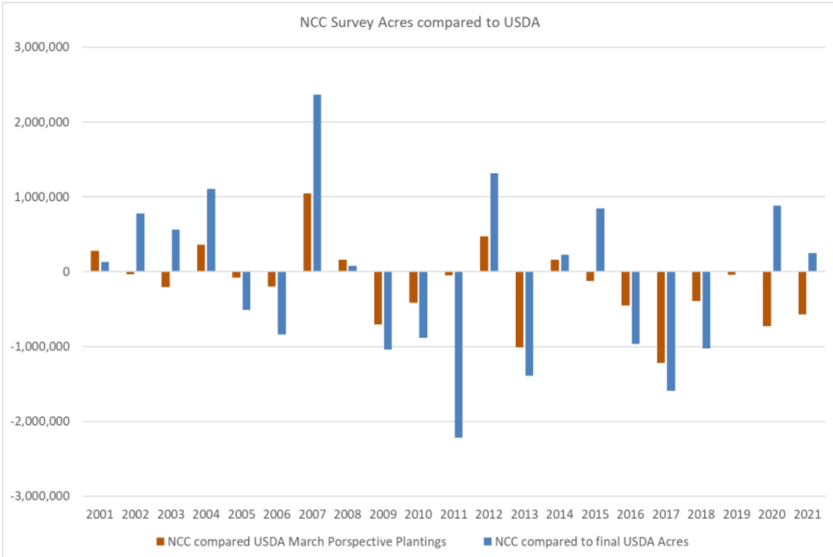
February 21, 2022

AN EARLY STAB AT THE COMING US CROP

The National Cotton Council put out the results of their Prospective Plantings survey on 13 February. The result was 12.035 million acres (although we add up 12.037 but who is counting). This, if achieved, would be 7.3% higher than 2021 final acreage. The NCC in their press release noted a 10 year average abandonment by state, for 9.8 million harvested acres which with a five year average yields generates a crop of 17.3 million bales. The NCC also noted that respondents in the S-E were reducing corn acres as they are in the mid-south. Respondants in the S-W were talking of shifting sorghum acres to cotton. As we all know what is intended can and will change due to relative price moves, input costs, weather and which seed is readily available or easier to access. As we have done in recent years we have taken the NCC survey numbers and applied our own methodology to have a stab at US crop size. *Of note we are almost 1.0 million bales less than the NCC.* Without doing the numbers, the difference will largely be in Texas and Oklahoma. In almost all cases, on a state by state basis, we used average 10 year abandonment numbers and either 5 or 10 year average yields. The exceptions were Florida, Georgia, South Carolina, Tennessee and Missouri (we used a slightly lower abandonment than the 10 year av), Texas and Oklahoma (we used an average abandonment of 34% in La Nina years and an adjusted La Nina yield) and Kansas where we hedged our bets a little toward an increased abandonment due to La Nina. The results are reflected in the table. The NCC survey in our view has been reasonably reflective of USDA March Planting Intentions (Prospective Plantings Report) and in recent years reasonably close to final acres (2019-2021). Aside from changes in acres, weather will dominate - and specifically in this case any lasting La Nina impact into early US summer. IRI models for A/M/J display a higher probability of below normal rainfall for Texas, Western Oklahoma and SW Kansas. Current thoughts are La Nina will transition during April/May – with the question being how long will weather patterns remain in its grip?

US Cotton Production (Upland and Pima)

	Planted		Harvested		Yield		Production	
	2021	2022*	2021	2022*	2021	2022*	2021	2022*
Alabama	405,000	425,000	400,000	419,155	846	882	705,000	770,200
Arizona	120,000	93,000	119,000	92,022	1291	1281	320,060	245,600
Arkansas	480,000	555,000	475,000	547,374	1263	1236	1,249,844	1,409,500
California	26,000	24,000	25,500	23,623	2071	1875	110,022	92,300
Florida	91,000	87,000	89,000	85,043	674	764	124,971	135,400
Georgia	1,170,000	1,186,000	1,160,000	1,174,140	931	902	2,249,917	2,206,400
Kansas	110,000	127,000	101,000	116,840	950	957	199,896	232,900
Louisiana	110,000	166,000	105,000	161,708	960	1010	210,000	340,300
Mississippi	450,000	479,000	435,000	472,648	1015	1107	919,844	1,090,000
Missouri	315,000	334,000	310,000	325,650	1293	1243	835,063	843,300
New Mexico	36,000	40,000	26,000	30,405	868	980	47,017	62,100
North Carolina	375,000	405,000	365,000	389,485	999	907	759,656	736,000
Oklahoma	495,000	523,000	435,000	345,180	783	687	709,594	494,000
South Carolina	210,000	231,000	205,000	224,070	995	853	424,948	398,200
Tennessee	275,000	333,000	270,000	323,440	1067	1069	600,188	720,300
Texas	6,350,000	6,791,000	5,250,000	4,482,060	695	636	7,601,563	5,938,700
Virginia	75,000	79,000	74,000	78,059	1232	1029	189,933	167,300
Arizona AP	9,000	10,000	8,800	9,900	1091	965	20,002	19,900
California AP	88,000	115,000	87,000	114,155	1694	1574	307,038	374,300
New Mexico AP	12,500	14,000	12,000	13,665	600	766	15,000	21,800
Texas AP	17,000	20,000	16,000	18,158	750	870	25,000	32,900
US	11,219,500	12,037,000	9,968,300	9,446,781	849	830	17,624,553	16,331,400



AUSTRALIAN MARKET SHARE INTO TURKEY

Last week we took a quick look at Turkey and the growth in mill use there, and some of the reasons for that. These were largely geographical and duty free access to the EU. Given China's defacto ban on Australian cotton, Australia has had to find other markets to move the crop – especially now with large 2022 and 2023 crops. Australian cotton has become significantly more competitive (think of strict middling being more like 1200-1400 on CFR Asia against 1800-2200 on CFR of recent years) and it is buying market share into a number of destinations including Turkey – where until more recent history we have been little more than a bit player. This makes sense in that we should be far more competitive into Asia (which is much closer) whereas US, Brazil and "the Stans" work better into Turkey. Still Australia's market share will likely climb in 2021/22 and perhaps 2022/23 as more cotton is available without a Chinese 'sponge'. Australia has already shipped some 185,000 bales into Turkey (Aug 21-Jan 22 import period) and this could well double by the end of the marketing year – perhaps taking our 2021/22 market share toward 6-7%. Plenty of room for upside if required.