Cotton Compass

Monday, March 7, 2022

An example of volatility.

	High	Low	Close	Change (week)	Change (month)
May 22	123.31	116.15	116.42	-2.21	-7.57
Jul 22	119.71	112.78	113.11	-2.23	-7.85

COTTON was quite volatile though the week albeit by week's end price action was largely contained within the range of the prior week, though the market finished the week nears it lows. A firmer US dollar and stock market losses seems to weigh on cotton – or at least they were the suspects rounded up. We suspect (will not know until next week's CFTC data) some speculative longs might have lightened up given the volatility. In the background there were some helpful elements for cotton like US export sales, rising energy prices (if you call that positive) and some positive economic data with the US adding 678,000 jobs in February (on top of 467,000 in January).

US Export Sales (week ended 25 Feb) continue to pick up with some 356,000 RB sold for 21/22 (Vietnam 96,000, China 75,800, Turkey 63,600 and Pakistan 42,500) and another 106,100 RB sold for 22/23 (mostly Vietnam). Actual shipments 365,100 RB which was slightly down on the week prior but continuing a theme of an increased shipment pace. The US though needs to lift their shipment pace to meet the current USDA export estimate. As we have alluded to in these pages before, a lift in the shipments will move stock from origin to destination and if mills have over purchased based on trying to get cotton to turn up from at least somewhere (and it ends up turning up from everywhere) then a possible overhang will exist leading to slowing demand while mill work through stocks.

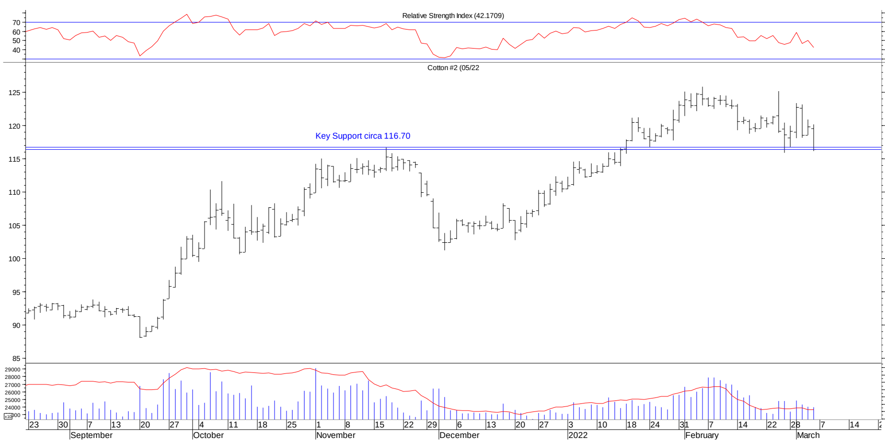
The USDA WASDE will be out this Wednesday. It will be the grain complex that will give the Interagency Commodity Estimates Committees' the major headache while cotton is unlikely to bother the scorer, although we will see what they do with the US export estimate.

Mill fixations (on call) is still statistically a major supportive factor with around 96,000 contracts to fix (buy) as at 25 Feb against around 11,000 contracts that need to be sold. Absent large scale cancellations this is a major help to the market.

China (as we note in the cash comment) is reported to be on buying bent to shore up commodities where supply could be interrupted by the conflict in Ukraine (read Russian invasion). Cotton will be well down the list (if it rates at all) given Russia is China's second largest coal supplier and close on its largest oil supplier. China also is a significant buyer of Ukrainian corn (almost a third of its imports) and sun oil (Russia/Ukraine supply all of it). Lint might or might not get a lift – cottonseed probably will. Whether this conflict leads to a loosening of "unofficial bans" on some Australian commodities (like cotton) remains to be seen.

Texas weather remains dry and the outlook remains dry. Plenty of time for that to change yet but the clock is ticking.

Technically, while we see the 116-117 cent region as pivotal it could well be the market falls though this region only then to bounce again. So lets sit back and look at the larger picture. Thus far the fall in the market since early February appears corrective in nature. Given the primary trend is still up then the more likely outcome (given there is little technical evidence currently to suggest a major high is in place) is the correction finishes unfolding in the next few weeks and then the market resumes higher again.



AUSTRALIAN CASH MARKET

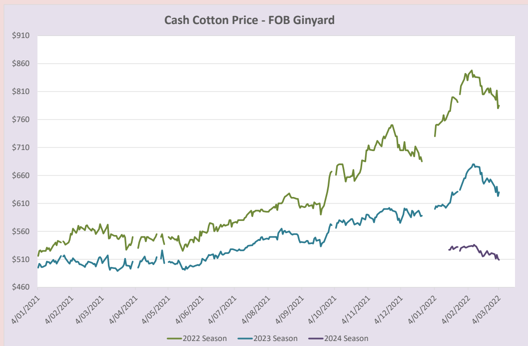
	A$/bale Close	High Weekly	Low Weekly	Change this wk
2022	$785	$812	$780	-$21
2023	$630	$640	$623	-$20
2024	$509	$519	$509	-$12

2022 Crop

While as of Friday the ICE cotton futures had changed little the intraday and daily volatility (5 cent ranges some days) has kept cash more more illiquid and traded levels on some days $20 a bale different. Activity in 22 crop included some larger parcels earlier in the week (increasing their sold %) but otherwise activity has been a little muted (not helped by cash values generally below $800) of late. There is generally good merchant interest although different players are focused in different ends of the estimated ginning period.

Cotton Seed: Values remain relatively firm as DCT bids slowly rise. Gin for seed is broadly a $15 credit from the Downs to the Gwydir. Chinese interest is the main driver on the export front and this might increase with China's NDRC (among other agencies) reportedly (Bloomberg) ordering state owned companies to buy oil, gas, iron ore, barley and corn (essentially covering potential gaps caused by the Russian invasion). This may well help seed – although actually logistically moving it in a timely fashion is another matter.

Production-wise: Well we have had a stab at an updated production estimate. See Page 3.



Price Outlooks 2022 Crop:

Outlook this week: A$750 - 820/bale

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

2023 & 2024 Crop: 2023 saw some activity with several merchants reasonably aggressive.

Hedging Model: No changes

2022 Crop Hedging Model		
Prodn Guess	Sales	Orders
5250 bales – 81% 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	

March 7, 2022

EXPORT MARKET SUMMARY

Limited reporting on our behalf relating to export markets this week. We will readdress that this coming week.

Aussie Shipments for Jan:
Australia exported some 128,400 bales through Janaury with some 37% going to Vietnam, 22% to Indonesia, 13% to Turkey and 11% to Thailand. For the marketing year to-date shipments cumulate to 3.098 million bales. Cottonseed shipments slowed dramatically to 3,540 tonnes of which 81% wound their way to China. Cumulative for the marketing year to-date some 273,400t has left out shores.

PSF values on the rise with oil:
PSF values are rising with its feedstock value (crude) and while Brent Crude only rose toward $87 a barrel though Oct 21 it is now $118 a barrel and climbing. Suggests the price of synthetics has some upside.

***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	
Aus M, 37			
US 31-3-36 GC	+1800 (K) A/M	+1600 (Z) N/D	
US 31-4 36 GC			
US 41-4 36 GC			
Brazilian M, 36	+1700 (K) M/A	+1500 (Z) N/D	
Fr W Afr (s), 36	+1800 (K) A/J		
****PSF**	58.19 US c/lb	+3.62 (week)	+3.48 (month)
Yarn 32Ne-China	4.67US $/kg	-0.05 (week)	NA (month)
Yarn 40Ne-China	5.19 US$/kg	-0.02 (week)	NA (month)
Yarn 30Ne-India	4.53 US$/kg	-0.26 (week)	NA (month)
Yarn 40Ne-Paki	5.30 US$/kg	-0.03 (week)	NA (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)

2021/22 PRODUCTION UPDATE

As promised, this week, we publish our updated 2021/22 production model – based on the results of our agronomist/industry survey. Key changes include the removal of the "semi irrigated" category, due to the ongoing rain and therefore water available for full irrigation. This has effectively increased the fully irrigated area on the Downs, Macintyre and Gwydir Valley.

Irrigated Yields, meanwhile have been increased in most valleys (with the notable exception of the Upper Namoi) in line with the survey results – with the estimated national average rising from 10.74 bales/ha on January 17 to 11.13 bales/ha. There is likely some upside to these numbers, although we are conscious that the late February rain event has created some uncertainty – with plenty of reports of boll shedding and some boll rot and instances of flooding.

Dryland Yields, by comparison are pretty close to our Jan 17 numbers at this stage. We do feel there is large potential for further upside to these estimates, with later crops in particular benefiting from the recent rain. We believe our survey respondents were (understandably) conservative on their crop conditions reports. We also note that there is so far very little confidence in the WA, NT and FNQ numbers (given the relatively early stage of those crops).

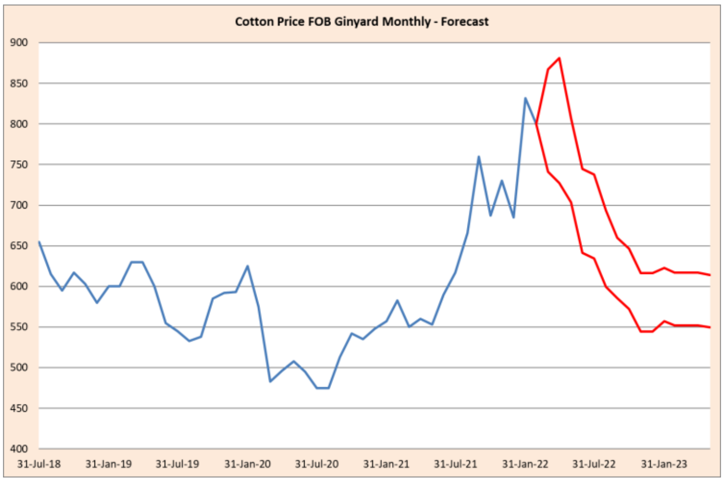
Overall – we are feeling increasingly confident that we are looking at a crop in the order of 5.2-5.3 million bales – which would make it the second largest by a pretty slim margin (2011/12 was 5.4 million). For the record, whilst we haven't yet applied any serious methodology, we have fair confidence that level will be exceeded in 2022/23.

Thank you to all of our survey respondents, and congratulations to Dallas King of St George who won our draw (or participants).
A $50 pre-paid Visa is on its way
We are sure you will spend it wisely!

	IRRIGATED			DRYLAND			OVERALL		
	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	4.25	34,000	9,500	46,000	11,500
Belyando	-	0	-	7,000	4.25	29,750	7,000	29,750	7,438
CQ	16,000	9.5	152,000	5,000	4.25	21,250	21,000	173,250	43,313
Dawson	6,500	9.9	64,350		-	-	6,500	64,350	16,088
Dirranbandi	12,500	12.6	157,500		-	-	12,500	157,500	39,375
St George	19,000	11.3	214,700		-	-	19,000	214,700	53,675
Downs	36,500	11.2	408,800	24,000	5.25	126,000	60,500	534,800	133,700
Macintyre	36,000	11.8	424,800	11,000	3.95	43,450	47,000	468,250	117,063
Mungindi	20,000	12.1	242,000	2,800	3.65	10,220	22,800	252,220	63,055
Gwydir	60,000	11.7	702,000	45,000	4.18	187,875	105,000	889,875	222,469
Walgett	14,000	12	168,000	3,000	3.50	10,500	17,000	178,500	44,625
Bourke	10,800	11.8	127,440	-	-	-	10,800	127,440	31,860
Lower Namoi	38,000	11.4	433,200	20,000	4.90	98,000	58,000	531,200	132,800
Upper Namoi	17,000	10.05	170,850	30,000	3.95	118,500	47,000	289,350	72,338
Macquarie	31,200	11.7	365,040	3,000	3.50	10,500	34,200	375,540	93,885
Lachlan	14,700	10.8	158,760	-	-	-	14,700	158,760	39,690
Bidgee/Murray	64,000	10	640,000	-	-	-	64,000	640,000	160,000
TOTAL	**404,700**	11.13	**4,503,440**	**170,800**	4.39	**750,045**	**575,500**	**5,253,485**	**1,313,371**

March 7, 2022

READING THE TEA LEAVES



Our cash price forecast is graphically presented to the right. It is a forecast and as a forecast it will change as events change – probably quite quickly in the current environment. As a forecast it will rarely ever be right but forecasting does provide context. Overall we see cash prices staying relatively high into mid-year but thereafter we see values being pressured. In the near term we are uncertain as to whether the ICE cotton futures market has made a high as yet. Given there is no clear evidence of this we do allow for one more run higher Mar/Apr. That said our forecast allows for the possibility that a high could be in place (a fall basis May below 115 cents would increase this possibility). Either way we do not expect cotton to remain at these lofty levels. While the Russian invasion of Ukraine increases uncertainty in the markets we anticipate that through the second half of the year that some of the logistical logjams will have sorted themselves out, that there will be increased questions around the level of Global economic growth (end of COVID related pump priming), mills will have caught up on inventory and there will be the expectation of a fresh Northern Hemsisphere crop coming on line (current high prices in various regions should attract acres). At the end of the day the old saying that nothing cures high prices like high prices rings true, it is just the question of how high is how and for how long? It is the question that stumps most of us.

BALANCE SHEETS

AUSTRALIAN BALANCE SHEET

Mar-Feb year	Cottonseed ('000t)				Lint ('000 bales)			
	2018/19	2019/20	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
Opening Stock	73	50	22	47	217	456	264	-126
Production	553	149	660	1313	2211	593	2750	5253
Total Supply	626	199	682	1360	2428	1049	3014	5127
Crush/Dom lint	0	0	0	0	10	10	10	10
Feed and Residual	570	175	350	350				
Exports	6	2	285	850	1962	775	3130	5000
Total Use	576	177	635	1200	1972	785	3140	5010
Ending Stocks	50	22	47	160	456	264	-126	117

Cotton Compass - bales = 227kgs

We have a delima in our balance sheets that may or not be fixed once we do a final estimate of the 2021 Season lint production number. The delima is a negative carry-out which his highly likely once we have ABS Febraury export data. Whether this negative number is larger or smaller than we currently estimate we will know more in the coming weeks. In the meantime if anyone has some useful suggestions we would be happy to hear them. We will in the next few weeks tripple check the export data as well although we do not expect much to change there. In the meantime we have updated our 21/22 (22 Crop) marketing year estimates and once we have Feb export data we will re-run and re-publish the numbers.

FERTILISER

Fert has continued to be a topic of conversation and as such we thought we would update a graph for interest. There are monthly prices gathered by The World Bank and you can bet since the end of February prices have risen a little more. Coming out of the second half of 2021 fertiliser prices were already on the rise. Higher input costs (think natural gas to make amonia), geopolitics (sanctions on Belarus and more recent disruptions), tariffs and strong commodity prices (keeping demand elevated) have all been part of the puzzle. Add to this Russia's invasion of Ukraine and the geopolitical side just ramped up. Russia is the world largest exporter of N (Ukraine is No.7), the world's third largest exporter of Phosphate and the world's second largest exporter of Potash (Belarus is No.3). Trade dispution here, whether though sanctions (financial/bans etc), through dislocation of freight in parts of the Black Sea or other means is likely to keep fertiliser prices elevated and put pressure on other major exporters such as China, Canada. MENA and the US (N), US, China, Morocco (Phosphate) and Canada (Potash) to increase their availability and pressure on growers around the globe to either be more efficient or cut corners. How quickly this could occur we do not know. Your fertiliser supplier will have a better handle on this than we do.