

COTTON COVERAGE

A comprehensive review of global market conditions

The cotton market has continued to keep traders on their toes as we come closer to the finish line of the 2021 Australian cotton crop. Whilst US fundamentals are supporting the hold of speculative money in the cotton market above 80 USc/lb, global macro risk sentiment seems to be whipsawing cotton futures around in daily trading. Tighter production, more robust exports and persisting drought conditions are currently keeping a lid on new crop production prospects and supporting a bullish balance sheet for the US. Speculators are holding a 7.1 million bale net long position, and index funds are topping up this buying support, owning 7.72 million bales net long.

As the ginning season for the 2020 US crop draws to a close, attention begins to turn to new crop prospects. Ginning estimates for the 2020 crop has most of the trade believing that a reduction of approximately 100,000 bales in the USDA's production estimate from the current 14.7 million bales is likely. The current ginning figures suggest production will be finalised closer to 14.56 million bales. US cotton has continued to sell well into export markets taking the total volume of commitments to 15.37 million bales, leaving only 130,000 bales left to sell to meet the USDA's US export figure. If we assume carry over of one million bales in sales into the next marketing year, only approximately 56,000 bales per week needs to be sold each week for the remaining 20 weeks of the marketing year – a target that is easily reachable. Once again, there is high expectation that the USDA will have to increase its US export target and tighten further already low US ending stocks at 4.2 million bales.

We are coming into the period where traders will look to US new crop prospects and will receive our first look at the US production prospects via the planting intentions report due to be released on March 31. Around 12 million acres seems to be the consensus figure amongst the trade, but a long term forecast indicating persistence of drier than average conditions

throughout the 2021 growing season – and fierce competition from soy and corn for acres – has many believing the upcoming production estimate has bias to the downside.

In the Foreign Exchange markets, economic recovery across the globe remains at the forefront of traders' minds. The current economic recovery is greatly dependent on the vaccination success. In the current climate, a lot can change in days, let alone weeks. Vaccine news remains encouraging with AstraZeneca's phase 3 trials in the US showing the vaccine to be safe and effective in preventing symptomatic disease. Latest vaccination data in the US suggests a greater re-opening of the economy may be close. President Biden is a key focal point of the market, to determine how his administration will navigate the US through an economic recovery. The congress approved the US\$1.9 trillion stimulus package with most recent reports that President Biden is now seeking a US\$3 trillion infrastructure package. Strategists and analysts are indicating an upward hike for the AUD/USD to 80 cents by the third quarter, with a short term trading range for the Aussie between 0.7610 to 0.7850. Reports are projecting further gains as commodity prices rise. Volatility in the US Treasury yields market remains a key focus. Lower US yields have helped boost risk sentiment, sending US equities higher.

Looking ahead, the next few months will be largely guided by macro-economic trading trends for market direction. The transition between old crop and new crop is currently keeping the basis under pressure as the market seeks certainty on supply and demand.

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USDA world consumption 2020/21 increased 14.5% to 117,460 million bales.

USDA World ending stocks 2020/21 decreased 4.3% to 94,589 million bales.

