



PLEXUS Market Comments

MARKET COMMENTS – SEPTEMBER 2, 2021

NY futures moved slightly lower this week, as December gave back 87 points to close at 93.29 cents. The Dec/March inversion dropped from 96 to 65 points.

December has settled the last 16 sessions since August 13 in a narrow 260-point range, between 92.30 and 94.90 cents. Daily trading volume has generally been slow at around 20-25k per session, while open interest has grown from 260k to 267k during that period, as spec longs and trade shorts continue to dig in.

The latest CFTC report for the period of August 18-24 showed that speculators reduced their net long by 0.55 million bales to 9.32 million bales, after it had grown by 3.79 million bales during the preceding six weeks. However, most of the reduction came from new shorts rather than long liquidation.

Index funds were net buyers, adding 0.12 million to increase their net long to 8.68 million bales, while the trade bought 0.44 million bales to reduce its net short to 18.01 million bales.

The on-call report continued to show a worrisome trend, as unfixed sales grew by another 0.57 million bales to 15.26 million bales last week. Since unfixed purchases declined by

0.04 million to 4.06 million bales, the net position increased to 11.20 million bales in favor of sales, which represent tremendous underlying support.

The on-call exposure is getting close to its record set in August 2018, when unfixed sales reached 15.90 million bales and unfixed purchases were at 4.49 million bales, for a net position of 11.41 million bales. Back then mills were let off the hook, thanks to massive spec long liquidation, but whether they will get lucky again this time around remains to be seen.

US export sales slowed last week, as 143,500 running bales of Upland and Pima cotton were sold for both marketing years. Buying was widespread with 19 markets participating, while shipments of 173,300 RB went to 22 destinations. Shipments remained slow because there is simply not much cotton left to apply at the moment, with EWRs (electronic warehouse receipts) showing just 1.35 million bales open as of this morning.

Total commitments for the current season are now at 5.9 million statistical bales, of which 0.85 million have so far been exported. Last year we had 7.4 million in sales and 1.35 million bales shipped.

The US crop is still doing well, with the crop condition index showing 70% as good or excellent, which is the highest rating in over a decade. By comparison, last year's crop was at just 44% at this date.

Hurricane Ida spared major cotton areas and while it brought some heavy downpours, the consensus is that it didn't cause much damage and may in some cases even have helped to fill bolls.

West Texas continued to enjoy hot summer conditions this week, although many fields are still about 150-180 heat

units behind normal and need a warm September to reach their full potential. There will be a brief cooldown over the weekend, but temperatures are expected to warm up again next week. Plants are generally healthy with good boll counts, so let's hope they will win the weather lottery down the stretch!

Economic signals continue to point to a global slowdown, as PMIs in the US, China, Europe and India are now all pointing lower and consumer confidence readings have come in below expectations. Some of it is related to the flare up in Covid cases, but we also feel that the dearth of government handouts to companies and individuals is starting to expose financial stress.

So where do we go from here?

Not much has changed since last week, as spec longs and trade shorts continue the standoff with their historically significant positions. This has boxed the market into a 92-95 cents window for the last three weeks.

The WASDE on September 10 could be the next trigger point, as most traders expect an upward revision of the US crop to over 18 million bales, but there could also be some bullish surprises, like a much overdue downward adjustment of Indian ending stocks.

Unless there is a weather event or a surprise on the economic front, we expect the market to remain in a holding pattern until we get to the WASDE report.

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