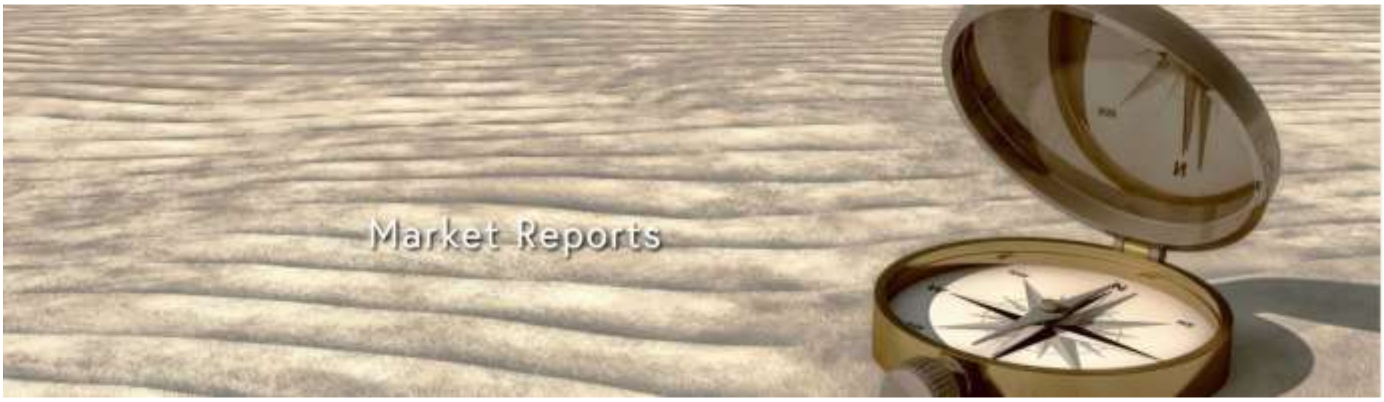


# PLEXUS Market Comments

Market Comments – April 4, 2019

NY futures closed an active week higher, as May rallied 145 points to close at 77.32 cents/lb.

Speculative buying into trade selling continued to be the main feature this week, as May further consolidated its breakout of two weeks ago. The market has been churning a lot of volume in a tight 250-point range over the last 11 sessions, as spec short covering and trade hedging appear to be evenly matched.

The CFTC spec/hedge report of Tuesday, March 26, showed that speculators bought another 1.27 million bales net, which made them 0.18 million bales net long. This marked the first time since Christmas that speculators were net long again. However, outright spec shorts still amounted to around 5.9 million bales, so there is plenty of potential buying power left.

The trade continued to sell into strength, increasing its net short position by 1.35 million bales to 7.3 million bales. We have long held the belief that the trade will have to increase its net short to somewhere around 11-12 million bales by planting time. This persistent selling pressure by the trade may prevent the market from advancing into the 80s.

Index funds were net buyers of 0.08 million bales, which increased their net long to 7.12 million bales.

Apart from a friendly technical picture, which confirms the breakout from a long-term bearish trend channel on both the daily and weekly charts, there was also some supportive fundamental news in the form of a bullish Plantings Intentions report and another strong US export sales report.

US Planting Intentions came in at 13.8 million acres, which was much below expectations of around 14.5-14.7 million acres. However, most of this supposed drop in acreage came from Texas and Georgia, which both experienced dry conditions over the winter months. This may have discouraged farmers when they were queried about their planting intentions, but with the April to September outlook calling for above normal precipitation in the eastern half of the US, we believe that additional acreage will eventually get planted. However, for now the market will have to live with a somewhat bullish uncertainty.

US export sales continued to excel last week, as no less than 489,600 running bales of Upland and Pima were sold for both marketing years, with China taking 188,000 running bales. Shipments were great as well at 427,900 running bales. For the season we now have commitments at 13.9 million statistical bales, whereof 7.75 million bales have so far been exported. Meanwhile new crop sales have risen to 2.8 million statistical bales, of which about half are to China.

The US balance sheet is definitely starting to tighten, as export and domestic mill commitments have reached 17.1 million bales, while the crop size will probably come down to just 18.2 million bales based on the latest ginnings report. This leaves a little over a million bales plus beginning stocks of 4.3 million bales, but if we account for export and domestic commitments for the period of August to October, there may be no more than 3 million bales left for sale. It is clearly getting tighter and with India expected to show up as an importer over the coming months, most of the remaining supplies may be spoken for in 3-4 months from now.

The market is also getting some tailwinds from a rebound in global asset prices. With the exception of Turkey, every stock market has shown gains in the first quarter, with an average return of 10%. This positive wealth effect has come on the back of a dovish Fed and an even more dovish European Central Bank, which seems to have staved off - or at least postponed - a recession for now.

Over $10 trillion of bonds are currently trading at negative yields, mainly in Europe and Japan. Since money that's sitting in bank accounts is being punished, investors are seeking higher real returns in various asset classes, which may be why in the first quarter the 100 largest exchange traded funds in stocks, bonds, commodities and real estate all had positive returns. This trend might continue for a while, especially since we believe that US rates are also headed lower.

**So where do we go from here?**

At the moment we are still seeing a fairly even match between spec buying and trade selling, and until one of these two forces gains the upper hand, the market may not move that much.

However, given the shrinking supply in major origins and the risk-on mentality in financial markets, we feel that the downside is limited to 75 cents, while the upside still holds some potential for move into the low 80s.