PLEXUS Market Comments

Market Comments – November 07, 2019

NY futures closed the week basically unchanged, as December lost just 9 points to close at 64.35 cents/lb.

The market remains stuck in a relatively tight range, as December has now closed the last four Thursdays within 64 points, between 64.35 and 64.99 cents. And over the last 16 sessions the front month has moved in a range of just 254 points, between 63.45 and 65.99 cents.

While speculative buying was responsible for lifting the market out of the high-50s into the mid-60s, the latest CFTC report showed, somewhat surprisingly, that speculators had taken a pause from buying. During the week of October 23-29, when December ranged between 64.40 to 65.70 cents, speculators sold 0.10 million bales net to extend their net short to 0.88 million bales, which broke a four-week buying streak. Index funds were also light net sellers, as they cut their net long by 0.10 million to 5.67 million bales.

The trade was a net buyer of 0.20 million bales, thereby reducing its net short to 4.79 million bales.

This too was unexpected since the trade is still considerably under-hedged compared to previous seasons.

Part of the reason why the market may refuse to go lower is that US cotton is already one of the cheapest growths available, along with Brazilian cotton. This is reflected in the latest US export sales report, which showed that commitments of Upland and Pima cotton rose by a healthy 345,600 running bales for both marketing years combined. Pakistan, which is experiencing another crop failure, was the top buyer with 100,000 running bales, leading a group of 14 markets. Shipments remained slow at just 134,300 running bales.

Total commitments for the current season are now at just under 10.1 million statistical bales, of which nearly 2.7 million bales have so far been exported. For next marketing year there are so far 0.95 million statistical bales on the books.

Tomorrow we will get the latest WASDE report, which we expect to show reductions in both global production and mill use. Pakistan, Turkey, China, and possibly also India and the US are not living up to earlier expectations and we feel that global cotton production is down to around 121.5-122.0 million bales, which compares to 124.77 million bales in the October report.

However, global mill use is trending lower as well and based on the feedback from various markets we don’t see mills consuming more than 119 million bales, which would be considerably lower than the 121.61 million the USDA had last month. Our number may actually prove to be optimistic if the global economy doesn’t show some vigour soon.

We may not see the above changes reflected in tomorrow’s report yet, because the government is often slow when it comes to making adjustments, but the downward trend on both sides of the cotton balance sheet seems pretty obvious.

Of note this week is that the US stock market made new all-time highs, which in our opinion is a function of the very accommodative monetary policy by the Fed. Last week we talked about the Fed’s denial in regards to renewed quantitative easing, yet all we have to do is look at its balance sheet, which has expanded from USD 3.76 trillion to USD 4.02 trillion since late August.

With the US fiscal deficit running out of control at around USD 1.1 trillion a year and nothing being done to reign it in, we expect ‘debt monetization’ by the Fed and historically cheap interest rates to further inflate asset prices. The stock and bond markets are leading the way, but at some point we expect commodities to join the party. The ‘stagflationary’ threat makes it increasingly dangerous to short anything and we believe that money managers are starting to catch on to this.

So where do we go from here?

From a technical point of view the market is still in a short-term uptrend within a longer-term downtrend. However, with the short-term uptrend running through around 6400 at the moment, it won't take much to breach it and this would open the door for a quick washout as sell-stops would get triggered.

However, if the market manages to hold, then a retest of recent highs at 6600 and a possible challenge at the long-term downtrend line would follow.

From a fundamental point of view the market has a slightly firmer appearance due to lower production in several origins, although demand has softened as well. Tomorrow's WASDE along with December options expiration could make for a volatile session.

While the trading range may expand somewhat over the coming weeks, we would buy the market on breaks to 61-62 cents and sell it on rallies toward 66-67 cents.

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