PLEXUS Market Comments

Market Comments – April 08, 2021

NY futures rebounded during this holiday-shortened week, as May rallied 346 points to close at 81.41 cents, while December gained 321 points to close at 81.12 cents.

The market finally regained its footing after struggling near major resistance for several days, with today's strong US export sales report pushing the spot month back above its primary uptrend line, as well as a short-term downtrend line. This triggered renewed spec buying, as newly established shorts were forced to cover and we probably got some new longs coming in from the side-lines.

US export sales didn't disappoint high expectations, as a total of 326,400 running bales of Upland and Pima cotton were added for both marketing years. Participation remained active with 17 markets buying, while shipments of 393,300 running bales reached 27 destinations.

For the current marketing year we now have commitments of around 16.0 million statistical bales, whereof 10.65 million bales have so far been exported. For the marketing year starting in August there are currently around 1.65 million statistical bales on the books.

Between export sales of 16.0 million and domestic mill use of 2.3 million bales we have commitments of 18.3 million bales so far this season, against a total supply of 21.95

million bales, which would leave around 3.65 million bales. But since we need to supply export and domestic needs for the August to October period from existing stocks as well, we have probably no more than 1.7-1.8 million bales available at this point.

Export sales in current crop will therefore have to slow down, for the simple reason that we can't sell what isn't there! New crop sales will eventually pick up, but both sellers (new crop uncertainty) and buyers (lack of economic visibility) are currently hesitant to commit.

The latest CFTC report showed that speculators were behind the market's recent weakness. During the week of March 24-30, when the May contract posted a low of 77.12 cents, speculators sold 0.73 million bales net and thereby reduced their net long to 6.47 million bales. Index fund were also light sellers, cutting their net long by 0.16 to 7.51 million bales.

The trade was a strong net buyer on the dip, reducing its net short by 0.88 million to 13.97 million bales. Surprisingly, it was new outright trade longs (0.60 million bales) that accounted for most of the buying, while short-covering (0.28 million bales) played only a minor role. In the past these new trade long positions have been linked to China, which would fit the rumored purchases by government sponsored entities, although we have yet to see evidence of that.

The on-call report showed less progress than anticipated, considering that prices dropped into the high 70s last week. Unfixed on-call sales in May declined by just 0.24 million to 0.85 million bales, while July actually saw a slight increase of 0.03 million to 3.00 million bales. On the purchase side there were still 0.34 million bales open on May and 0.48 million on July. The net position is still showing over 3 million bales of buying power, with around 2-1/2 months left to square these positions away.

Outside markets continued to act in support of higher cotton prices, as the US stock market bubbled up to yet another record high, while soybeans and corn are holding near multi-year highs. New crop soybeans closed today at 12.70 dollar/bushel, which is up 8 percent since the Prospective Plantings report last week. Cotton cannot afford to head in the other direction if it wants to defend its 12 million acres as we head into the planting period!

While the US stock market is at a record high and the VIX index (fear indicator) is at a very relaxed 17 reading, we might be headed for troubled waters in the near future. With public and corporate debt at record levels, it won't take much to derail the rosy scenario.

Although the 10-year treasury yield has calmed down to 1.63%, we believe that inflation readings are going to surprise the market over the coming months. A record amount of cash in consumer hands combined with supply constraints and higher import prices are adding up to upward price pressure.

This in turn would once again shock financial markets into higher inflation expectations and spike long-term yields, which the stock market doesn't like. It might also give another boost to the US dollar, which combined with an upset stock market might weigh on commodity prices. So far this is all conjecture, but definitely something we need to keep our eyes on.

So where do we go from here?

The market has been in a battle between bearish technicals and bullish fundamentals, and today's bounce above key resistance points has given the bulls hope that the market has finally bottomed.

However, more confirmation is needed, since one session doesn't make a trend yet. Maybe tomorrow's WASDE report is helping to solidify the turnaround, as most traders expect neutral to slightly bullish numbers. The US should see its balance sheet tighten further as exports are expected to increase based on recent evidence, while world numbers are probably not going to show any major changes.

We are cautiously optimistic that the market has turned the corner and is headed higher again, especially if West Texas continues to miss out on rain.

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