PLEXUS Market Comments

Market Comments – October 10, 2019

NY futures ended the week basically unchanged, as December was down just 18 points at 61.42 cents/lb.

After last week's spike December settled into a sideways trend this week, trading in a band of 168 points, between 60.79 and 62.47 cents. Technically the market has been acting well over the last three weeks, but it is quite evident that there is plenty of overhead trade selling waiting, which keeps the upside contained for now.

Today's much awaited WASDE report failed to inject new momentum into the market, as there were hardly any surprises. The US crop was taken marginally lower to 21.71 million bales, down 0.16 million bales from last month, which was mainly due to a 200k reduction in Texas. However, after hearing recent yield reports from the Southeast and Mid-South, we still feel that the US crop has the potential to surpass 22 million bales, provided nothing goes wrong in West Texas over the coming weeks.

Global numbers showed a slight reduction in production and mill use, which were both taken down by 0.13 million bales. World production of 124.77 million bales is still expected to outpace global mill use of 121.61 million bales by more than 3 million bales. While global ending stocks are about unchanged from last month at 83.69 million bales, the fact that Chinese imports were taken down by 0.5 million to 9.5 million bales means that ROW ending stocks are rising by 0.5 million bales to a record 50.45 million bales.

While this was probably the reason the market came under pressure after the report was released, the situation may not be quite as bearish when take a closer look at where these ROW stocks are located. India's crop was raised by 1.0 million bales to 30.5 million bales and this resulted in a corresponding increase in India's ending stocks from 12.38 to 13.38 million bales.

However, when we take India out of the ROW stocks calculation, we actually have a decline of 0.5 million bales in the rest of the countries, from 37.57 to 37.07 million bales. There were a number of prominent origins that saw sizeable crop reductions, like Brazil (-0.4 million bales), Pakistan (-0.4 million), Australia (-0.2 million) and the US (-0.16 million).

This is important from a pricing point of view, since India's price level is still considerably above that of its competitors due to the MSP (Minimum Support Price).

In other words, while there may be plenty of higher priced Indian cotton around, there is less of the attractively priced cotton in other origins available. However, supplies outside China and India are still plentiful, since the 37.07 million bales in projected ending stocks compare to 35.03 million bales last season and 33.71 million bales two years ago.

US export sales were about as expected last week, as net new sales of Upland and Pima cotton amounted to 193,100 running bales for both marketing years. However, outside of Pakistan (142,500 RB) and Vietnam (37,600 RB), sales to other markets were rather dismal. Shipments continued to lag at 159,400 running bales, as the supply pipeline is still in the process of filling up.

Total commitments for the current season are now at around 9.4 million statistical bales, of which a little over 2.0 million bales have so far been exported. Sales for the next marketing year are at around 0.7 million statistical bales.

The CFTC report showed relatively few changes during the week of September 25 - October 1, during which December futures traded between 59.63 and 61.13 cents. Speculators were light net buyers, reducing their net short by 0.16 million bales to 3.30 million bales. Interestingly the trade was also a net buyer, reducing its short by 0.05 million bales to 2.51 million bales. Index funds were the only net seller, cutting their net long by 0.21 million to 5.80 million bales.

So where do we go from here?

From a technical perspective the market has performed quite well over the last three weeks, showing an ability to bounce back from weakness and forming a ‘rounding bottom’ in the process, which is often a sign of further strength to come. However, as soon as the market reaches above 6200 there seems to be strong resistance from scale-up trade selling.

As pointed out earlier, the trade is currently around 9-10 million bales less net short than in the previous two seasons and has plenty of selling power to absorb whatever speculators are willing to buy. Therefore, unless trade selling backs off and lets the market rise, maybe in reaction to a positive development on the trade front or a freeze in West Texas, we see it difficult for the market to rally.

At the same time the market has shown its reluctance to move back below 60 cents, since both the trade and speculators were light net buyers last week when the market was trading near the 60 cents level. As pointed out above, while there is plenty of supply around the globe, not all cotton is priced at the same level, with the US being one of the cheaper origins. In other words, there is no reason for US prices to move much lower at this point in time, although we still expect the amount of unsold cotton to weigh on values later in the season.

In the absence of any new fundamental developments we therefore continue to see the market in a relatively tight range between 60 and 64 cents.

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