PLEXUS Market Comments

Market Comments – April 15, 2021

NY futures continued to advance this week, as July jumped 360 points to close at 86.26 cents, while December gained 196 points to close at 83.08 cents.

The market has switched back into bullish mode after July, which is now the lead month, has gained an impressive 699 points over the last 9 sessions. The spec and index fund roll to July came at an opportune time, because the July chart looks a lot healthier than that of its predecessor, since it never broke below the primary uptrend line.

The recent bounce looks very constructive from a technical perspective and has brought back spec buying, which combined with trade short-covering is creating new upside momentum.

Looking at the most recent on-call report, the trade seems to have missed a great opportunity to make some headway with its fixations when the market was trading in the high 70s. As of last Friday, unfixed on-call sales were down just 0.18 million bales in May and 0.03 million bales in July, leaving still 0.67 million open on May and 2.97 million bales on July.

US export sales came in at 148,200 running bales of Upland and Pima cotton, which was below most traders' expectations, but nevertheless still a decent number considering how little cotton remains available.

Participation was slightly lower than in previous weeks with 15 markets buying, while shipments remained strong as 329,600 running bales went to 21 destinations.

Total commitments for the current marketing year are now at 16.15 million statistical bales, of which 11.0 million bales have already been exported. Compared to a year ago commitments are 0.1 million bales ahead, while we have shipped 0.9 million bales more so far. Sales for the coming season are at just under 1.7 million statistical bales.

Outside markets continued to act in support of cotton, as strong economic data has pushed the Dow Jones index for the first time above 34,000 today. US retails sales for March came in stronger than expected at a 9.8% increase, with clothing and accessories up a stellar 18.3% from February. Consumers are clearly in a mood to spend, armed with plenty of stimulus money and excess savings.

However, while we don't want to rain on the 'Roaring 20s' parade, as economies like the US and UK are opening up, we need to keep an eye on a potential immune escape by some of these newer Covid variants. A study in Israel suggests that the South African variant may evade the Pfizer vaccine, while Chile has seen a record amount of new cases and intensive care patients despite having a higher vaccination rate than the US.

In other words, it may be too early to declare victory over this tricky virus and only time will tell whether the worst is really over. While this is a tail risk, it would be devastating to markets and people's psyche if some of these variants were to gain the upper hand.

Competing crops continued to hover near recent highs, with May soybeans holding above 14 dollars/bushel and May corn closing in on 6 dollars/bushel. Meanwhile spot lumber futures rallied to 1260.70 dollar (per 1000 board feet), up from just over 400 dollar back in early October.

Lumber’s chart reminds us of the 2011 short squeeze in cotton!

Being short stocks or commodities seems to be a dangerous game these days and we feel similar about cotton. Although the market has been sending mixed signals with its recent selloff, we would rather be long than short given the nearly sold-out US crop and the lack of rain in West Texas

West Texas saw some thunderstorm activity this week, but with the exception of Seminole, which registered 1.18 inches, most cotton locations around Lubbock received only a trace to minor amounts, which won’t change the dire drought situation the region is in.

Although La Niña conditions in the Equatorial Pacific are fading towards neutral, the just released 3-month forecast for West Texas still calls for above normal temperatures and below normal precipitation, which combined with the dry winter does not bode well for the coming cotton crop.

So where do we go from here?

July managed to hold above its long-term uptrend line dating back to April of last year and over the last six sessions it also broke away from its short-term downtrend line that had its origin in late February.

This has switched the signal for speculators back to ‘green’, while trade shorts are now scrambling to fix on-call sales after missing an opportunity to do so several cents below.

With the US having less than two million bales for sale according to our calculations, with West Texas still waiting for rain and with consumers in spending mode, we don’t expect much selling pressure at the moment and the path of least resistance seems to be higher.

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