PLEXUS Market Comments

Market Comments – August 22, 2019

NY futures lost some ground this week, as December dropped 68 points to close at 58.94 cents.

Not much has happened this week, as the market is still locked into a narrow sideways trend. December has now settled the last 15 sessions in a tight 199-point band between 58.14 and 60.13 cents and at the moment there seems to be no escaping from this confinement.

The latest CFTC report showed that specs started to reverse their recent trend, which may have been why the market was able to bounce off the lows. Between August 7-13 speculators bought 0.48 million bales net to reduce their net short to 4.89 million bales. Index funds were also light net buyers, adding 0.10 million bales to increase their net long to 5.61 million bales.

The trade sold into this spec and index fund buying, increasing its net short by 0.58 million bales to 0.72 million bales. We believe that growers will sell into rallies in order to lock in slightly better prices than the government loan provides them. It would therefore take a massive amount of spec buying to chew through all the overhead trade resistance.

Of interest is that spec and trade positions are comprised of relatively large outright long and short exposures. Speculators were 4.93 million bales outright long and 9.81 million bales outright short, while within the trade it amounted to 8.79 million longs and 9.51 million shorts. In other words, while the net positions are relatively small, these large outright positions have the power to move the market in a big way if they were to get triggered.

US export sales were mediocre last week, as net sales of Upland and Pima cotton amounted to just 158,700 running bales for both marketing years. Shipments on the other hand improved a bit from recent weeks, as 352,400 running bales left the country. Total commitments for the current season are now at around 8.3 million statistical bales, of which 0.75 million bales have so far been exported.

There have been persistent rumors of impending large cancellations by China, which could total a million bales or more. Given the significant price differential on some of the earlier sales it is plausible that not all of the 1.76 million running bales that are currently open with China are going to be honored. This seems to have weighed on traders' minds this week.

The market is still looking for potential bullish catalysts, but it is difficult to identify any. The balance sheet is already negative with the latest WASDE report projecting a global production surplus of 2.54 million bales, which could easily double if crops maintain their current potential, while mill use continues to trend lower.

Some traders were hoping for a weaker US dollar to spark a commodities comeback, but even with the Fed cutting interest rates we don’t see the greenback losing any ground. Most developed economies are already in negative interest rate territory – nearly 16 trillion dollars so far - and as long as the US pays some interest to customers rather than charging them, we don’t see the dollar getting weaker. Furthermore, with all that’s going on around the globe, the US has once again assumed its ‘safe haven’ role and continues to attract capital.

Then there is always the wildcard ‘weather’. Overall the US crop is in decent shape and so is India’s, after monsoon rains have finally caught up. But with summer nearly over, we are about to enter the more volatile harvest period, which could still lead to some issues for crops around the globe. The biggest concern is an early fall, which some weather models see as a possibility.

West Texas will be of particular interest in this regard, since the ‘week two’ forecast calls for a drastic drop in temperatures from above normal in recent weeks to below normal. While the expected shot of cooler air from the north doesn’t pose a problem at this juncture, a shift to a colder pattern needs to be watched in October.

So where do we go from here?

The market is currently stuck in a tight range, as the downside is limited by the US government loan support at around 57/58 cents, while the upside is equally limited by an abundance of bearish factors.

The loan floor should hold at least until the US crop has been harvested and the upside will remain capped until a pertinent bullish factor enters the scene and forces specs to react. Until that happens, expect the market to be confined to a 57-62 cents range.

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