PLEXUS Market Comments

Market Comments – April 29, 2021

NY futures ended the reporting period little changed, as July edged up 49 points to close at 86.49 cents, while December added 9 points to close at 83.84 cents.

The market was on fire earlier this week, with July posting an intraday high of 91.66 cents, before rain in West Texas cooled this ‘overbought’ move off in the last two sessions.

West Texas finally got some rain in the areas that needed it the most, namely between Lubbock and the New Mexico border. However, amounts of somewhere between 0.2 to 1.25 inches will most likely not be enough to change the overall drought situation, unless they are followed by more rain over the coming days and weeks.

We doubt that farmers will risk it to plant into this limited amount of rain, since there is hardly any subsoil moisture for roots to dig into. However, as one reader from Texas has pointed out to us, planted acreage might actually exceed the ‘Prospective Plantings’ estimate of 6.8 million acres due to a favorable crop insurance scenario.

In 2011, which was the year with the worst drought on record, Texas plantings were forecast at 6.0 million acres at the end of March, but then increased to 7.0 million acres by the end of June, as the drought and high insurance price induced growers to ‘dry plant’. Not much cotton made it out of the ground as abandonment exceed

60% and we ended up with a tiny crop of just 3.5 million bales. We might see a similar scenario this season, unless we get a lot more moisture over the next 5-6 weeks.

US export sales were about as expected last week, as 100,700 running bales of Upland and Pima cotton were sold for both marketing years. Participation was broad-based with 20 markets buying. This tells us that there is still plenty of interest in US cotton and that the 'disappointing' sales figure may be the result of dwindling supplies. Shipments continued strong, as 356,400 running bales went to 25 destinations.

Total commitments for the season have now reached 16.3 million statistical bales, whereof 11.7 million bales have so far been exported. The pace of shipments remains 1.1 million bales ahead of last season. With still 14 weeks left in the marketing year, shipments needs to average around 277k running bales in order to make the current USDA export estimate of 15.75 million statistical bales.

Unfixed on-call sales in current crop remain stubbornly high, as 3.31 million bales need to get fixed on July over the next seven weeks. On-call purchases on July are at a more manageable 0.56 million bales. Overall on-call sales are still at 9.68 million bales, up 0.12 million on the week. Thanks to the rain in West Texas a potentially explosive situation in NY futures has been defused for now, but we still feel that these on-call sales present a risk if the drought were to prevail.

The pandemic in India is reaching catastrophic proportions, as cases are rising daily and the death toll is likely to grow further over the coming weeks or even months. This is disrupting daily life and will likely take a toll on cotton consumption. So far cotton and yarn prices have remained firm, with MCX futures closing nearly three percent higher this week, but this might change as the situation worsens!

Outside influences remained supportive, as soybeans and corn continued to advance, the US dollar weakened and the Fed continues to print around USD 120 billion/month, which is underpinning asset prices. The S&P 500 index closed at yet another record high today!

Commodities have been on a tear, as the Bloomberg Broad Commodities Index is having its best monthly performance in ten years and with inflation expectations rising, there is still no end to this commodity boom in sight.

The US trade deficit widened to a record USD 90.6 billion in March, which is weighing on the US dollar. All this stimulus money acts as a 'double whammy', because the handouts are being used to import goods made elsewhere, which boosts both the fiscal and the trade deficit.

Meanwhile the Fed has no other choice but to mop up the mess these massive twin deficits create by printing more money, which is throwing more fuel on an already inflationary situation. We therefore expect to see surprisingly high inflation numbers over the next two quarters!

So where do we go from here?

After rallying nearly 13 cents since the April 5 low, July became quite 'overbought' and needed to pull back. The rain in Texas over the last two days has killed upside momentum for now and forced the market to retreat.

However, July's primary uptrend dating back thirteen months and even the short-term uptrend have so far remained intact. We expect to see some consolidation in the mid-to-low 80s and then possibly another push higher, depending on how plantings progress.

The recent showers in West Texas are more hope than help at this point and unless they are followed by more moisture soon, they won't amount to much more than a spit in the dust. With the 10-day forecast not showing much promise, we may be back to talking about drought next week.

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