PLEXUS Market Comments

Market Comments – January 30, 2020

NY futures came under some pressure this week, as March gave up 98 points to close at 69.05 cents.

March traded sideways in a 292-point range this week, between 68.00 and 70.92 cents, but closed today at its lowest level since December 31. While mill fixations and a decent amount of export business supported the market on dips, speculators didn't seem too interested in the market at this point in time.

The latest CFTC report showed that speculators were actually light net sellers during the week of January 15-21, as they reduced their net long by 0.41 to 2.26 million bales. Interestingly, when we look at the last five months dating back to late August, we find that the big move from the high 50s into the low 70s was basically all driven by spec short covering, while spec longs remained on the sidelines.

Between August 27 and January 21 spec shorts covered 6.18 million bales, while spec longs added just 0.60 million bales. The current outright spec long of 5.58 million bales and outright spec short of 3.32 million bales represent the smallest directional exposure by speculators since 2013, not counting spread positions.

The lowest outright spec long position was 2.84 million bales in early 2009, while the lowest outright spec short position was 1.04 million bales in the summer of 2009. Based on these numbers spec shorts could potentially cover another 1-2 million bales, while spec longs might have room to liquidate 2-3 million bales. But speculators seem to have removed themselves from the game for now and are waiting on the sidelines.

The trade was a light buyer of futures during the week of January 15-21, reducing its net short by 0.42 to 10.32 million bales. That makes sense and we expect the trade to further reduce its current crop exposure over the next four months, as mills continue to fix on-call sales, while merchants and growers unload basis-long positions. The latest on-call report showed that 6.94 million bales in on-call sales and 2.65 million bales in on-call purchases remain open, which adds up to support going forward.

US export sales didn't disappoint, as net new sales amounted to a marketing-year high of 413,100 running bales of Upland and Pima cotton for both marketing years, with China's 140,700 bales leading a group of 13 markets. Shipments picked up their pace as well with 340,000 bales leaving the country. Total commitments for the season are now at 13.3 million statistical bales, of which 5.4 million bales have so far been exported.

When we look at the US balance sheet, we now have 16.3 million bales in export and domestic commitments out of a supply of around 24.7 million bales (beginning stocks of 4.85 + an estimated crop of 19.85 million). This leaves some 8.4 million bales up for grabs, which isn't that much considering that we are just halfway through the marketing year.

Outside the US there is still some West African, a bit of Brazilian old crop and a decent chunk of Indian cotton available. But the West African basis is quite stiff and unlikely to drop by much, while the Indian surplus is in the hands of the CCI, who has vowed not to sell it below its procurement price. In other words, we don't expect to see much price pressure over the coming weeks.

As we move deeper into the season, there will be Southern Hemisphere new crop available, but with Australia having a tiny output this year due to drought conditions, Brazil will be the main supplier. This could pose some challenges as there are limits as to how much Brazil is able to ship every month.

So where do we go from here?

As outlined above, speculators are currently on the sidelines, which leaves the trade in charge. Mills will fix on dips and buy additional supplies from merchants, which is going to reduce the amount of current crop shorts needed.

This should add up to net buying between now and June, unless outside factors come into play to change the narrative. Upside potential looks limited as well, given the supply that India is able to bring to the market if prices were to increase by a few cents. A sideways trend between 68 and 72 cents therefore still makes the most sense to us.

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