PLEXUS Market Comments

Market Comments – September 05, 2019

NY futures didn't go anywhere this week, as December added just 12 points to close at 59.12 cents.

December has now closed the last five Thursdays within a 68-point range and today marked the 24th consecutive session in which the market's settlement price stayed within a 231-point range, between 57.82 and 60.13 cents

The CFTC report confirmed that it was once again speculative selling that was behind the late August selloff, as specs extended their net short by 0.21 million bales to 4.87 million bales as of August 27. The trade used the price break to buy 0.23 million bales net, which reduced its net short to 1.02 million bales. Index funds were basically unchanged at a 5.89 million bales net long.

Speculators still hold the key to the market, as they have sold around 17 million bales net since the middle of 2018 and thereby forced prices from the mid-90s to below 60 cents. Even though they are nearly 5 million bales net short by now, they still seem to have some room left to put pressure on the market, as we have seen last week.

Even though the trade remains considerably under-hedged with its almost square net position in the futures market, the government is now the ‘buyer of last resort’ via its loan program, so we don’t expect to see any selling pressure from the trade below 57 cents. In fact, last week has shown that certain elements of the trade use dips to go bargain hunting.

However, if the market were to lift its head above 60 cents, scale up producer selling would probably intensify in an effort to lock in better prices than the loan. It would therefore take a considerable amount of buying by the specs to push through this overhead resistance.

In other words, at the moment it looks like the market remains stuck in a tight range, with strong support near 57 cents and equally strong resistance above 60 cents. Meanwhile traders continue to be on the lookout for potential catalysts that could break the inertia.

To the upside we have a trade deal between the US and China, a significant setback in one of the major crops or weakness in the US dollar as potential triggers, while to the downside it is a jump in ending stocks and a slowing global economy that could eventually push the market through support

Hurricane Dorian reminded us that the crops are still vulnerable to weather. Currently Dorian is approaching the North Carolina coast, where it might make landfall later tonight. Some cotton areas will experience strong wind gusts and receive 4-6 inches of rain, but at this point it doesn't look like there will be any substantial losses. The USDA estimates North Carolina to produce 0.94 million bales this season and there are also 0.22 million bales in Virginia. Again, we don't think that the effects of this storm will alter the bearish US balance sheet.

Financial markets got a boost this morning from news that the US and China are going to resume trade talks in October. After both sides have been flexing their muscles lately, we feel that this next round of negotiations might positively surprise markets, because it would behove both countries to put this trade dispute to rest. This is definitely something we need to watch closely, because it could lead to a shift in market psychology and prompt speculators to cover their shorts.

So where do we go from here?

The market remains boxed into a 57-60 cents range and is still looking for a reason to break out. Despite plenty of bearish factors we see the downside as limited due to government support in the US and India, at least until the crops have moved in.

The upside offers greater potential in our opinion, mainly because speculators are sitting on one of their largest net short positions ever and if a trigger were to appear, like a positive resolution to the trade dispute, we could get a swift reaction to cover. Until that happens, we will have to endure this despondent market for a while longer.

https://plexus-cotton.com