PLEXUS Market Comments

Market Comments – November 19, 2020

NY futures bounced this week, as March gained 105 points to close at 71.67 cents.

Although March extended its sideways range slightly on the upper end, it has nonetheless settled the last 17 sessions in a tight 209-point band, between 69.72 and 71.81 cents. It appears that the market has found an equilibrium between several bullish and bearish forces.

On the bearish side we have what looks like a ‘double-dip’ recession, after rising COVID cases and deaths have caused Europe and the US to lock down again. This has dashed hopes for a continuation of the strong recovery we witnessed in late summer, with mills now reporting slower or delayed orders.

On the one hand we see increasing supplies as Northern Hemisphere crops are moving in, while on the other hand there is slowing demand due to the ongoing health crisis. Although this should lead to price pressure, the market has so far been quite resilient.

There are several countervailing forces that are keeping this apparent supply pressure in check. For one the US, Brazil and India - the top three exporters accounting for 29.6 million bales or 70% of global exports - are currently not discounting their offers.

The US and Brazil are well committed at this point and additional quantities will probably not become available until next month or January, when the quality composition of the balance is known. At that time we expect there to be active trading of recaps, with discounted cotton finding ready takers.

In India we have the CCI with its high support price that is keeping values from dropping, at least for now. Once daily arrivals increase substantially over the coming weeks and months, they might overwhelm the government's ability to take up cotton and this could put some pressure on prices, although that depends mainly on how growers react.

Apart from a lack of supply pressure, we have several outside factors that are underpinning our market. There is the US dollar, which has been steadily losing ground, not just against the Euro or the Japanese Yen, but against emerging market currencies as well. The Chinese Yuan, the Indian Rupee and the Mexican Peso have seen their currencies strengthen in recent months and with debt in the US rising faster relative to other economies, this trend is likely to continue.

Then there is the strength in competing crops, with January soybeans closing today at 11.78 dollars/bushel, their highest level in over four years. That's three dollars/bushel more than in early August. Grains have similar stories, with December corn closing at 4.22 dollars/bushel, which is over a dollar more than three months ago. Against this backdrop cotton can ill afford to head in the other direction if it wants to defend its acreage.

China is another supporting factor, since the CC-Index is still at over 99 cents today and as long as this massive difference to international prices exists, it will provide support via imports of cotton and yarn, although there seems to be a bit of a lull at the moment. But we expect China to be there again on dips.

US export sales cooled off a bit last week, as just 136,000 running bales of Upland and Pima were sold. There were still 18 markets participating, but China was at a negative 24,200 RB after some cancellations. Shipments were still solid at 296,400 RB to 24 destinations, with China taking 139,300 RB.

For the current season we now have commitments of 9.95 million statistical bales, whereof nearly 4.1 million bales have so far been shipped. That's over 1.1 million bales more than at this time last season. New crop sales continue to lag, as only 0.6 million statistical bales are on the books so far, which compares to 1.0 million bales a year ago.

The CTFC spec/hedge report for the week of Nov 4-10, during which March traded between 70.07 and 72.05 cents, showed further spec selling and trade buying. Specs sold 0.27 million bales and reduced their net long to 6.13 million bales, while Index funds sold 0.14 million bales to cut their net long to 7.91 million bales. The trade was on the other side buying 0.41 million bales, which reduced its net short to 14.04 million bales.

So where do we go from here?

The December liquidation failed to move the market despite the certified stock growing to 123k bales. With just 8.4k contracts remaining open before today's session, December is now for all practical purposes history and whatever happens in the notice period is at best of some psychological value.

March is in its fourth week of trading in a 70-72 cents band and sits currently at the upper end of this range. At the moment March remains about 200 points clear of major support near 69.50 cents. A sideways trend would sooner or later catch the rising trendline, which could trigger spec selling, so the market needs to stay ahead of the trend and find new fuel to move higher.

However, with plenty of supplies in the system there is no need for mills to pay up, which is why we see it difficult for the market to generate upside momentum, unless the catalyst were to come from outside markets. We therefore expect the current sideways trend to continue, with increasing odds for a technical break to occur over the coming weeks.

https://plexus-cotton.com