PLEXUS Market Comments

MARKET COMMENTS – SEPTEMBER 09, 2021

NY futures ended this holiday-shortened week basically unchanged, as December dropped just 7 points to close at 93.22 cents. The Dec/March inversion increased from 65 points to 81 points.

December stayed in a 92.30 to 94.90 settlement range, which it has occupied for the last 20 sessions. Open interest continued to expand, as it rose another 7k to 273k this week. This shows that neither spec longs nor trade shorts have been willing to part with their positions yet. Maybe tomorrow's WASDE is going to change that.

The consensus estimate for the US crop is at 17.7 million bales, or about 400k bales higher than the USDA in August. This week the FSA's (Farm Service Agency) planted acreage number came in at 10.5 million acres, after accounting for 'failed' acres. Thanks to plenty of moisture during the growing season across the cotton belt, abandonment is not expected to increase by much more and we therefore expect harvested acreage to stay above 10 million acres.

The USDA had 10.36 million harvested acres in its August report, but even if we were to drop to 10 million acres in the final count and achieved a yield of 850 pounds, we would still arrive at the consensus estimate of 17.7 million bales. We still feel that the crop has the potential to make 18 million bales or more if the weather continues to cooperate. By comparison, last year only 8.3 million acres made it through with a yield of 847 pounds, which produced a crop of 14.6 million bales.

Global numbers are not expected to show any big changes, as the consensus is near the August WASDE numbers, with global production at 119.0 and mill use at 123.4 million bales. However, tomorrow's report could still harbor some surprises, like a much overdue downward revision in Indian stocks, which were definitely not 20.3 million local bales at the beginning of this season.

The CFTC spec/hedge report for the week of August 25-31, during which December dropped from a high of 94.98 to a low of 92.35 cents, showed only minor changes in the respective positions.

Speculators were basically unchanged, up just 0.01 million bales to 9.33 million bales, while Index funds added 0.18 million bales to increase their net long to 8.86 million bales The trade sold 0.19 million bales and increased its net short to 18.19 million bales.

Although the index fund position has risen to its highest level since 2008, we have recently seen some outflows from commodity ETFs. Most of that has been concentrated in the precious metals space, but we have also seen some weakness in key commodities like crude oil, copper, corn or lumber, which should be taken as a warning sign.

The inflation narrative is starting to fade as the global economy is losing steam. While supply chain shortages continue to keep prices of many goods elevated, they also cut into consumption, because there are fewer goods available to begin with and consumers are not willing, or able, to pay these high prices.

This is especially true for the US, where over 7 million people have lost their unemployment benefits this week and we no longer have any fiscal stimulus like earlier this year. And with Congress about to engage in a budget battle, it will likely be a while before more handouts are authorized. In other words, we are now entering a 'hangover' phase after all the binging earlier this year and it will probably take another economic downturn before politicians are willing to come to the rescue again.

The on-call position showed a further increase in unfixed sales as of last Friday, as they rose by another 0.3 million to 15.55 million bales. Unfixed on-call purchases increased by half as much to 4.22 million bales, which means the net unfixed on-call position grew to 11.33 million bales in favor of sales. That's just 0.08 million bales shy of the record set three years ago and poses a big risk to all these mills who are facing off against spec and index fund longs.

So where do we go from here?

We feel that after trading sideways in a 92-95 cents box for the last four weeks, December is getting ready to make a move. Tomorrow's WASDE could provide the trigger if there are any surprises, but we also need to watch economic developments, which could trip up the spec long like it did in 2018.

While we can't rule out another spike higher, we become increasingly concerned about an economic slowdown going forward and believe that it is prudent to start putting some downside protection in place.

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