

8<sup>th</sup> April 2020

## THIS IS NOT INVESTMENT ADVICE

### Mileura Capital - Update

This is a brief update on markets after last week's Newsletter. I have closed my remaining open position of Short Iron Ore on Monday morning for a small profit. Firstly, I feel capital can be deployed better elsewhere. Secondly, the price action last week whilst not bullish, showed good support in the \$74-\$75 area, rebounding twice from this level. Prices are also failing in the mid \$80's. I think whichever way price breaks will be the best indicator of medium-term direction.

As of today, prices are trying to break higher with the May contract back above \$80. Be patient and see if we get another re-rest of the high \$80s.

### New Trade Ideas

Cotton spreads have been volatile and for me counterintuitive. Despite the collapse in flat price the front spread of the May & July contract remained very well supported and inverted into backwardation at the peak of the sell off. Rumours persist of a large taker for the May contract. It would be hard to see how export sales have not been delayed or renegotiated however the spread has remained relatively strong. The inversion got over 50 pts last week (shown as a negative number on this chart) and since moved to about 30 pts carry.

### Cotton: July/Dec 2020 Calendar Spread



During the steep decline in outright price the July/Dec spread widen into a steeper carry as you would expect. The market is trying to anticipate the probability of a larger carry out for this 2019/20 crop year. This spread went out towards 300 pts carry. On the recent bounce higher in outright prices, the spread recovered and snapped back to only 100 pts carry. In theory it should be closer to a 350-400pts carry. With demand slowing at the critical period and the commercials needing carry in

the market to sell old crop cotton in Q3 and Q4 this spread should move towards a wider contango. I have initiated shorts (selling July / buying Dec) in the 125/150 range. Looking for a move to 350+ carry. A move higher on this chart is greater carry (December at a greater premium to July)

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## Markets I am watching

### Wheat



#### Bullish

- Wheat been one of the beneficiaries of the potential for disruption to the supply chain.
- Demand globally is still strong and;
- There have been rumours of further supply disruption out of Russia.

#### Bearish

- To a certain extent a lot this news is priced into the US wheat futures markets and;
- Positioning is quite long in the market.
- EU wheat looks a lot more attractive on a relative basis but is also a consensus

### Coffee



#### Bullish

- Cash market still firm
- Spread relatively tight
- Demand strong

#### Bearish

- Starting to become a consensus trade
- Weak producer country FX
- Demand slows H2 2020

Mileura is always looking for feedback. So please respond either via email or via Twitter @mileura1.

If any of our advisory or financing services are of interest please reach out via email to [info@mileura.com](mailto:info@mileura.com)

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