ADM Investor Services, Inc.

Weekly Futures Market Summary

by the ADMIS Research Team
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BONDS:
Once again the invisible hand of the Fed (or the fear of the invisible hand of the Fed) served to lift treasury prices last week despite evidence of inflation, very strong US retail sales readings and in the aftermath of a very disappointing auction. On the other hand, the Delta variant infection rate has virtually exploded and quadrupled from the lows posted over the last month. We would also note that US scheduled data on-a-daily basis has maintained a pattern of positive data points matched up against negative data points which in the end indicates the economy is uneven and potentially losing momentum. The big question is, will the Delta variant because regional activity restrictions and provide the bulls in treasuries with a fresh and significant catalyst?

Not surprisingly, US treasury prices have forged another upside breakout with the market reaching the highest level since February 5th. The sharp decline in US treasury yields gained its foothold last week in the face of a significant bounce in US daily infections. In fact, the US has posted 2 straight days of infections near 40,000 and it should be noted that the jump in infections was very quick! In retrospect, we have been noting the disjointed and uneven economic data flow from the US which suggests the miracle recovery was already leveling out. The big question for the treasury-trade this week, is will the current infection surge result in the Fed pushing back the timing of tapering?

While a large portion of the extremely vulnerable portion of the US population has been vaccinated (79.5% of those over 65, 59.4% of the population over 18, those under 18 at 56.8% and the overall percentage of the US population only at 48.6%) there is residual vulnerability in the US. This vulnerability remains high enough to cause a noted washout in equities which in turn should feed treasury prices sharply higher and should feed treasury bond prices toward the 166-00 level in the September contract. In fact, with the treasury markets since May 4th consistently reducing the magnitude of a very large net spec and fund short, those looking to re-hedge is probably moderately large. The Commitments of Traders report for the week ending July 13th showed Bonds Non-Commercial & Non-Reportable traders net bought 35,363 contracts and are now net short 74,712 contracts. In the T-Note market Non-Commercial & Non-Reportable traders net bought 101,102 contracts and are now net short 87,491 contracts.

CURRENCIES:
In our opinion, the dollar is back into a flight to quality focus with the primary uncertainties in the marketplace the potential progression of the Delta variant infection surge. However, the dollar might also be drafting support from an ongoing pattern of mixed US scheduled data as that could leave the economy vulnerable in the event of another wave of infections and regional or localized lockdowns. The dollar was in a flight to quality mode at the start of this week with the index spiking higher, This could set the stage for return to the late March high which is another 50 points above the early trade. While one might have expected the dollar to have been undermined as-a-result of the significant US infection jump last Friday and Saturday, the trade instead is discounting the wave or thinks the Delta wave will wreak more havoc outside of the US than inside. The July 13th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders net bought 3,704 contracts and are now net long 16,723 contracts.

With a downside breakout to the lowest price since April and fears that Europe might be more vulnerable to a Delta variant wave of infections, we see the next downside support/targeting level at 1.1740. Euro positioning in the Commitments of Traders for the week ending July 13th showed Non-Commercial & Non-Reportable traders were net long 102,086 contracts after decreasing their long position by 18,647 contracts. With the net spec and fund long in the euro considerable and severe chart damage this morning we suspect follow-through stop loss selling. Given big picture issues the euro is not drafting support from a favorable overall Euro zone construction output reading for May.

The Yen has broken out to the upside to start this week as it is likely to benefit from flight to quality buying and could garner some long-term stop loss buying given an upside breakout of a long-held downtrend channel resistance line. While a highly suspicious view, some think the Yen is being lifted by the euphoria of the Olympics. Not to be left out, the Swiss franc extended down with the currency forging a 7-day low early in the week before turning back to the upside. As indicated in several other non-dollar currencies, however, the Swiss franc could be under significant threat of infections, given its relaxing of restrictions and a vulnerable population from unvaccinated individuals.

The Pound at the start of this week is clearly a "recovery currency" facing lower odds of positive economic progression in the UK. An additional negative for the Pound was a slower house price index gain for July. The Canadian dollar is by far the most ruptured/injured non-dollar currency with the range down move similar-to the massive washout seen on June 10th. Adding into the fear of resurgent infections in North America, the Canadian dollar is also under pressure from significant weakness in crude oil and gold. Fortunately for the bull camp, the Canadian has returned to the proximity of the next lower consolidation support zone around the 78.00 level. It should also be noted that the massive washout on June 10th was aggressively rejected into the close of that day.

STOCKS:
The stock markets were on edge about something late last week as prices have stalled and in the case of the S&P retrenched over the past week. In fact, despite favorable corporate earnings news and dovish Federal Reserve chairman dialogue, the markets have still lost their very uniform strength seen before this week's high. Obviously, the Delta variant infection spread is a component of investor concern, but it is also likely that disappointment with the progression toward a self-propagating recovery is beginning to cause valuation concerns.

Global equity markets at the start of this week were lower with declines typically ranging from -1.6% to as high as -2.1%. While some will suggest that the equity markets are primarily under pressure due to weakness in tech sector stocks, we suspect the surge in daily infections is the primary driving force. On the other hand, President Biden is engaged in a war of words with Facebook regarding misinformation killing people and with the tech sector has been the stalwart performer in the markets since the May lows that is not insignificant. Traders should monitor the CDC website this week for the latest update on the number of US infections. However, it should be noted that the earliest readings released will be for Sunday figures which have been lower than other days of the week.

The correction looks to continue and perhaps extend aggressively in-the-event that the trade fully embraces another wave of infections, which officials attribute to the highly contagious Delta variant. While the Press has the NASDAQ and the tech sector in its sights (as the primary force of the initial dive) we think tech weakness, infections, and the fear of slowing off renewed activity restrictions are distracting investors from the potential that tapering will be pushed back. E-Mini S&P positioning in the Commitments of Traders for the week ending July 13th showed Non-Commercial & Non-Reportable traders added 3,755 contracts to their already long position and are now net long 89,543.

In the early going this week Dow futures have been as much as 800 points lower and therefore the reaction to IBM earnings before the opening could be critical to finding support on the charts. Fortunately for the bull camp, the net spec long positioning in Dow futures was very modest and is likely significantly overstated given the slide from the calculation date of 615 points! The July 13th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders were net long 16,658 contracts after increasing their already long position by 3,978 contracts.

With the President charging Facebook with killing people by vaccination misinformation and Facebook responding by suggesting the President is attacking because his administration failed to meet vaccination goals, the reversal in the NASDAQ should continue. In addition, the Press is suggesting the tech sector is a key component in the slide and the big tech sector could be indirectly impacted by IBM earnings. However, the NASDAQ should be cushioned by the fact that the speculators in the NASDAQ were net short as of last Tuesday and are now likely even more short. The Commitments of Traders report for the week ending July 13th showed Nasdaq Mini Non-Commercial & Non-Reportable traders added 4,141 contracts to their already short position and are now net short 21,955.

GOLD, SILVER & PLATINUM:

The reaction in gold and silver prices to the overall market condition at the start of this week is a major disappointment to the bull camp, as a surge in US and global infections has fostered uncertainty and gold and silver appear to have embraced a slowing/deflation theme. In our opinion, the metals markets are correctly adjusting lower for the potential of renewed headwinds in the economy (mainly the international economy) with the US less vulnerable due to its high vaccination rate. In retrospect, investors also appeared to be turning negative toward gold and silver at the end of last week with gold ETF holdings cut by 188,572 ounces on Friday for the biggest one-day decline since June 7th and that decline was the 3rd straight day of declines! Last week, ETF gold holdings declined by 286,225 ounces, while silver ETFs increase their holdings by 1.47 million.

Yet another negative that contributed to the large opening break in gold, is news that Chinese factory gate pricing for July has not shown renewed strength and for some that indicates the Chinese economy continues to muddle along. Not to be left out, the surging US dollar is also contributing to the selling in gold and silver even though falling US treasury yields should be cushioning prices. It should be noted that gold (in the immediate aftermath of the US revelation of the first infection wave on March 17th) fell $135 before exploding through the later portion of first wave and continued through the 2nd wave of infections for an ultimate gain of $620! Nonetheless, the gold market forged 4 weeks of gains before the reversal at the end of last week but forged the gains with very modest even stepwise gains and that could mean gold will correct orderly.

On the other hand, for those seeing the gold market in a longer-term bull status the market regained the 50% retracement before the beginning of June to late July washout and therefore aggressive buyers might see that level today as a long re-entry signal. While the most recent positioning report likely understates the net spec and fund long into the recent highs in gold that long positioning was not overbought. Gold positioning in the Commitments of Traders for the week ending July 13th showed Managed Money traders were net long 102,989 contracts after increasing their already long position by 9,985 contracts. Non-Commercial & Non-Reportable traders are net long 234,542 contracts after net buying 8,027 contracts.

After coiling for over 30 trading sessions, the silver market washed out Friday and violated a series of key technical points. However, the silver market has already violated the bottom of the recent consolidation and could be headed to the next lower critical support point from the charts. With China at the end of last week indicating once again that they would work to deflate speculation in commodities, silver, copper, palladium, iron ore, nickel, aluminum, and zinc have probably seen a-number of would-be industrial material buyers move to the sidelines. Silver positioning in the Commitments of Traders for the week ending July 13th showed Managed Money traders reduced their net long position by 879 contracts to a net long 34,678 contracts. Non-Commercial & Non-Reportable traders are net long 61,059 contracts after net selling 2,478 contracts.

Apparently, the prediction by UBS that platinum will come into favor over palladium from a substitution perspective last week, yanked the rug out from under the palladium market as the market is caught under a wave of physical commodity market selling from the Covid spike. We would also suggest that palladium is fearful of Chinese intervention against historic high commodity pricing, and we also see last week's failure to rally in the face of positive Chinese economic news as a sign that bull sentiment was already deteriorating last week. In a very minor supportive development, Citigroup has turned bullish toward palladium with predictions that auto production will recover over the next 3 months with palladium prices potentially forging all-time highs up at $3,200 an ounce. The Commitments of Traders report for the week ending July 13th showed Palladium Managed Money traders added 30 contracts to their already long position and are now net long 3,581. Non-Commercial & Non-Reportable traders are net long 2,995 contracts after net buying 52 contracts.

After gaining favor over palladium, the platinum market failed and reversed course in a fashion that nearly punctures last week's optimism emanating from the talk of manufacturing substitution for palladium. Unfortunately for the bull camp, the net spec and fund long in platinum adjusted into the recent high leaves the market vulnerable to further liquidation with the market in our view not mostly sold-out until the net spec and fund long falls below 18,000 contracts. Platinum positioning in the Commitments of Traders for the week ending July 13th showed Managed Money traders net bought 746 contracts and are now net long 4,346 contracts. Non-Commercial & Non-Reportable traders are net long 23,375 contracts after net buying 1,533 contracts.

COPPER:

On one hand, the copper market is down aggressively to start this week's trading but on the other hand, China logged a net gain in June copper concentrate imports of 5% compared to year over year readings and that should increase the chance that September copper will respect consolidation low support. It should be noted that Chinese June refined copper output increased by 2.6% over year ago levels in what we consider to be a fresh bearish influence. As indicated in PGM coverage this morning, China's intention to discourage speculation weighs on prices for key all inputs to their economy including platinum.

Fortunately for the bull camp, the net spec and fund long in copper has continued to decline in the face of "sideways consolidation" and that could suggest short selling is being evenly met with bargain-hunting buying. Copper positioning in the Commitments of Traders for the week ending July 13th showed Managed Money traders reduced their net long position by 2,090 contracts to a net long 30,416 contracts. Non-Commercial & Non-Reportable traders net bought 903 contracts and are now net long 27,343 contracts. On the positive side of the ledger, Shanghai copper stocks continued to slide last week, and the most recent Chinese economic data (retail sales) was better-than-expected.

ENERGY COMPLEX:

In addition to a pre-existing washout move on the charts, crude oil is undermined as-a-result of demand fears from the surge in Delta variant infections and from news that OPEC plus has agreed to a supply increase for August of 400,000 barrels per day, with further intentions to increase production by 2 million barrels per day before the end of this year! In our opinion, the potential for renewed "demand destruction" could seriously knock prices down as that fundamental lifted the market persistently between March and early July! While the $5 washout last week probably serve to deflate the net spec and fund long position in crude oil, it is likely that the spec long adjusted to the high last week posted the largest net long since October of 2018! Therefore, the magnitude of potential stop loss selling in crude oil could be quite significant. The July 13th Commitments of Traders report showed Crude Oil Managed Money traders net bought 7,621 contracts and are now net long 381,491 contracts. Non-Commercial & Non-Reportable traders net bought 181 contracts and are now net long 628,312 contracts. Going forward, the trade will quickly pick up on this week's Reuter's poll for US crude oil inventories, and at the same time will be focused on the change in US gasoline inventories.

In other words, the high refinery operating rate is being watched closely for signs that it will result in product supply gaining an edge over demand. From an international supply perspective, the Russian oil minister has indicated that they will increase production in the 2nd half of the year with a 100,000 barrel per day increase in August, and that increase in supply will join other OPEC plus producers increasing supply. On the other hand, the Russian oil minister thinks the world oil market will remain in a deficit and the Saudi oil minister has indicated that the production restraint will continue to the respect what is being called "a full agreement". In the near term, we see the threat of demand destruction fear fully rekindled by the virus again. The most recent Baker Hughes oil rig drilling counts in US increased by 2 with Canadian oil rigs operating increasing by 6 and reaching the highest level since February.

Like the crude oil market, the threat of demand losses could be factored in in-the-event that US daily infections continue to "grow" again this week. At the end of last week, the daily US infection rate was approaching 40,000 after bottoming around 8,000 several weeks ago. However, the focus of the trade should begin to shift to the upcoming weekly EIA and API inventory statistics later this week. We continue to expect US gasoline inventories to begin to repair their deficit to year ago levels, but it should also be noted that gasoline stocks versus the 5-year average show a deficit of 1.3 million barrels. Certainly, the net spec and fund long in gasoline has come down with the break off last week's highs exceeding $0.15. Therefore, it is not surprising that the net spec and fund long remains within a range in place since February. The Commitments of Traders report for the week ending July 13th showed Gas (RBOB) Managed Money traders net bought 4,303 contracts and are now net long 56,365 contracts. Non-Commercial & Non-Reportable traders are net long 60,362 contracts after net buying 1,076 contracts.

With the inventory levels in distillate and diesel showing significant builds last week and annual deficits beginning to fall precipitously, we see the ULSD market as very vulnerable to supply and demand factors. While a record June Chinese refinery run is supportive for crude oil demand hopes, China's June diesel exports doubled compared to the same period last year! Furthermore, the net spec and fund long in ULSD into the recent highs was likely the largest net long since October 2018. The July 13th Commitments of Traders report showed Heating Oil Managed Money traders were net long 31,906 contracts after increasing their already long position by 3,358 contracts. Non-Commercial & Non-Reportable traders net bought 1,914 contracts and are now net long 47,844 contracts.

With a 6-day downside breakout last Friday the charts turned negative, but that tilt has been completely reversed at the start of this week. Apparently, the Gas trade is not embracing the threat of demand destruction. It should be noted that the US temperature forecast early this week show a very large portion of the US above normal, with the areas normal and below normal very limited. Another supportive issue for natural gas is the fact that the net spec and fund short has grown recently and that could prompt technical short covering buying.

The July 13th Commitments of Traders report showed Natural Gas Managed Money traders are net long 95,865 contracts after net selling 7,800 contracts. Non-Commercial & Non-Reportable traders are net short 79,295 contracts after net selling 9,950 contracts. This week's Baker Hughes US natural gas rig operating count showed an increase of 3 (highest rate since March), while Canadian gas rigs posted a notable gain of 7 and reached the highest level since March. While we acknowledge the deterioration in the charts last Friday, the market did reject that slide aggressively and has flared higher early this week in the face of very negative overall physical commodity market conditions.

BEANS:

With the anticipated sharp drop in rapeseed and canola production, and exports around the world, the world will be more dependent on soybean meal and oil supplies. In the long run, the market is counting on a high soybean yield from the US, and a significant surge in soybean production from South America next year. As a result, US weather for the next 2 to 5 weeks will be important to achieve that goal. Crop conditions are near the 10 year average currently, and there is no rain in the five day forecast for the Dakotas, Minnesota, Iowa and very little rain for Illinois Indiana and Ohio.

The 6-10 day forecast models show above normal temperatures for the Dakotas and Minnesota and below normal precipitation for all of the Western Corn Belt. The 8-14 day forecast models also show above normal temperatures and below normal precipitation for the same region all the way out to August 1st. November soybeans managed to close higher on the session Friday but well off of the early highs. The buying pushed the market up to the highest level since July 2nd, but a selloff in the corn market helped to pull the market off of the highs. There is plenty of uncertainty over the weather into early August, and there could have been some profit taking ahead of the weekend.

Brazil 2021/22 soybean planting is seen up +2.3% to 39.8 million hectares, a record high, according to a survey from consulting firm Safras & Mercado. Strong profitability in 2020 and 2021, combined with continued higher prices in the 2nd half of the year, will likely support the increase in planted area. Soybean yields in India may fall due to delayed rains in some areas. June edible palm oil imports from China reached 370,000 tons, down 21.1% from last year. Year-to-date edible palm oil imports rose 15.7% to 2.1 million tonnes.

The July 13th Commitments of Traders report showed managed money traders net bought 593 contracts and are now net long 82,773 contracts. Non-Commercial & Non-Reportable traders net sold 2,571 contracts and are now net long 74,878 contracts. For Soyoil, managed money traders were net long 48,927 contracts after increasing their already long position by 753 contracts. Non-Commercial & Non-Reportable traders net bought 3,107 contracts and are now net long 56,818 contracts. For Meal, managed money traders net sold 4,260 contracts for the week and are now net long 16,704 contracts. Non-Commercial & Non-Reportable traders net sold 3,450 contracts and are now net long 59,823 contracts.

CORN:

After last week's rains, crop conditions might improve for the weekly update tonight, but the 2-week outlook still has above normal temperatures and below normal precipitation for the Western corn belt through the end of the month. Traders need to become more confident that a record yield is on the way in order to avoid further tightness for the new crop season. July corn went off the board this past week at 683 and traded above 750 and this pricing is a reflection of the tight ending stocks of 1.082 billion bushels.

Keep in mind that if we assume the previous record high yield of 176.6 bushels per acre, ending stocks drop to 1.197 billion bushels with an 8.1% stocks/usage. Since 1960, there have been only three years in which stocks/usage was under 8%. If yield comes in at the simple five-year average, ending stocks would slide to 926 million bushels, with the stocks/usage of only 6.2%. There has been only one year since 1960 with stocks/usage was under 6.2%. If yield comes in at last year's 172 bushels per acre, ending stocks slide to just 808 million bushels with a 5.4% stocks usage which would be the second tightest year ever.

December corn managed an early rally Friday up to the highest level since June 30, and above the 50 day moving average but closed lower on the day with an outside trading day. This is a short-term negative technical development. Traders see most of the corn crop in pollination and without much stress as recent rains have helped ease yield concerns. The other grains managed to hold onto their gains but corn saw profit-taking after the strong surge off of last Friday's lows left futures a bit overbought.

Sloppy trade in the energy markets and a sharp break in the stock market may have contributed to the late Friday selling. With the possibility of Brazil canceling exports already on the books, US corn exports might come in better than expected over the near term. Prices have been moving up in Brazil for 15 consecutive days. The July 13th Commitments of Traders report showed managed money traders reduced their net long position by 10,572 contracts to a net long 208,799 contracts. Non-Commercial & Non-Reportable traders net sold 18,005 contracts and are now net long 244,120 contracts.

WHEAT:

The technical action in the wheat market is impressive and the short term forecast models are still threatening. There is very little rain in the 5-day forecast for Montana, the Dakotas, and Minnesota. The 6-10 day forecast model shows continued above normal temperatures for this region and below normal precipitation. In addition, the 8-14 day forecast models show above normal temperatures and below normal precipitation for this region all the way out to August 1st. Traders would like to see better rains for the Russia/Ukraine region in order to avoid some late season damage to the crop. IKAR has cut its forecast for Russia wheat production to 81.5 million tonnes from 83.5 million previous. The Ukraine grain harvest has reached just 8.6% complete.

Ukrainian milling wheat export prices rose by $3 to $6 a tonne over the past week on uncertainty over the harvest. Crop conditions for the French wheat fell to 76% good/excellent as compared with 79% a week ago. Too much rain is the issue in France. September wheat closed sharply higher on the session Friday finding support from news of better demand from China and continued harsh weather developments for the spring wheat crop. Exporters reported the sale of 134,000 tonnes of soft red winter wheat to China for the 2021/22 season. June wheat imports from China reached 750,000 tons, down 17% from last year. Year-to-date wheat imports rose 60.1% year over year to 5.37 million tonnes. September wheat managed to rally 77 1/2 cents for the week or up 12.6%.

September Kansas City wheat also closed sharply higher and jumped 9.7% for the week. December Minneapolis wheat closed sharply higher on the session and into new contract highs for the fourth session in a row. The market managed to rally 98 1/4 cents on the week or up 12.2%. The outlook for more hot and dry weather in the spring wheat growing areas help to support. The Commitments of Traders report for the week ending July 13th showed managed money traders net sold 10,019 contracts and are now net short 23,636 contracts. These traders were caught short the market for the 3-day surge. Non-Commercial & Non-Reportable traders were net short 17,298 contracts after increasing their already short position by 8,685 contracts for the week. For KC Wheat, managed money traders added 787 contracts to their already long position and are now net long 21,667. Non-Commercial & Non-Reportable traders are net long 17,210 contracts after net buying 1,739 contracts for the week.

HOGS:
The hog market is probing for a short-term peak as the outlook for increasing supply along with a pullback in demand from China could spark lower pricing. June pork imports by China reached 340,000 tons, -13.7% from last year. Year to date pork imports have reached 2.3 million tonnes, up 8.5% from last year's pace. The continued strong advance in pork cutout values plus news of African swine fever in Germany were factors to support the strong gains in the hog market late last week.

Some of the short-term news is positive for the market but the slowdown in buying from China, and news of the very fast growth in the China pig heard are seen as limiting factors for a rally. In addition, weekly production levels are likely to increase in the weeks and months ahead as the seasonal advance in slaughter should continue through November. The CME Lean Hog Index as of July 14th was 111.34, up from 111.00 the previous session and up from 109.77 the previous week. The USDA pork cutout, released after the close Friday, came in at $118.59, down from $118.63 on Thursday but up from $114.59 the previous week.

The USDA estimated hog slaughter came in at 427,000 head for Friday and 12,000 head for Saturday. This brought the total for last week to 2.280 million head, up from 1.923 million the previous (holiday) week but down from 2.517 million a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 2,239 contracts of lean hogs for the week ending July 13, increasing their net long to 69,446. Non-commercial & non-reportable traders were net buyers of 2,786, increasing their net long to 70,725.

CATTLE:
Cash live cattle ended last week slightly higher than the previous week. Trade was light on Friday except for Nebraska, where 2,139 head traded at 121-123 with an average price of 121.93, down from an average of 123.87 the previous week. The 5-day/5-area weighted average price as of Friday afternoon was 122.59, up from 121.61 the previous week. The USDA boxed beef cutout was down $2.24 at mid-session Friday and closed $1.93 lower at $267.94. This was down from $278.59 the previous week and was the lowest the cutout had been since April 7. If beef could stabilize, long liquidation from speculators might slow. August cattle closed moderately lower on the session Friday and closed near the lows. The market experienced choppy and two-sided trade early in the day but Covid concerns and a weak stock market may have sparked long liquidation selling into the weekend.

With choppy trade in the cash market and a steady decline in the beef market, traders seem to lack the confidence for aggressive buying. On the other hand, weights are down and suggest feedlots are current with marketings. The USDA estimated cattle slaughter came in at 118,000 head for Friday and 56,000 head for Saturday. This brought the total last week to 653,000 head, up from 575,000 the previous (holiday) week and 646,000 a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 7,767 contracts of Live Cattle for the week ending July 13, reducing their net long to 55,114. This is a long liquidation selling trend. Non-commercial, no CIT traders were net sellers of 5,454, reducing their net long to 41,914. Non-commercial & non-reportable traders combined were net sellers of 7,372, reducing their net long to 70,354.

COCOA:
While the market received evidence that second quarter demand was stronger than expected, the near-term outlook remains subdued which kept cocoa prices on the defensive late last week. Although it has fallen back into “bargain” price territory, cocoa could see significant downside follow-through early this week. September cocoa was unable to benefit from a “clean sweep” of positive quarterly grindings results as it gave up early gains and fell sharply to the downside as it finished Friday’s trading session with a sizable loss. For the week, September cocoa finished with a loss of 27 points (down 0.9%) which was a seventh negative weekly result over the past 9 weeks and was also a negative weekly reversal from Monday’s 1-month high.

The Cocoa Association of Asia released their Asian second quarter grindings total which came in at 220,865 tonnes. This was 8.98% above last year’s second quarter total, which was well above trade forecasts and was 3.28% above this year’s first quarter grindings total. In addition, this was the largest Asian second quarter grind on record, the third largest Asian grind for any quarter, and the eleventh quarter in a row that Asian grindings have come in above 200,000 tonnes. There are reports that the spread of the Delta variant is leading to fresh COVID restrictions in many regions of the world, however, which will lead to reduced travel in those areas that in turn will negative impact chocolate consumption.

While the Eurocurrency found its footing, European and US equities finished last week on a downbeat note that in turn fueled additional long liquidation in the cocoa market. Cocoa positioning in the Commitments of Traders for the week ending July 13th showed Managed Money traders were net short 6,644 contracts after decreasing their short position by 5,100 contracts. CIT traders reduced their net long position by 708 contracts to a net long 25,298 contracts. Non-Commercial No CIT traders net bought 6,273 contracts and are now net short 15,606 contracts. Non-Commercial & Non-Reportable traders added 6,589 contracts to their already long position and are now net long 8,883.

COFFEE:
After a sluggish start to the month, coffee prices regained upside momentum and were within striking distance of their early July highs at the end of last week. While the global supply outlook remains bullish, this current upsurge has been fueled by near-term weather concerns which will either be soothed (or given even more strength) by the middle of this week. September coffee built on early strength and reached a 2-week high before finishing Friday’s trading session with a sizable gain and a third positive daily result in a row. For the week, September coffee finished with a gain of 9.85 cents (up 6.5%) which broke a 2-week losing streak.

Forecasts for cool weather over Brazil’s Arabica growing regions early this week continued to be a major source of strength for the coffee market. Although this current event is not considered to be as strong as the June frost that impacted Parana and Sao Paolo states, there are possibilities that it could reach as far north as top-producing Minas Gerais state. Brazilian coffee trees have already dealt with very dry conditions since last year, so more weather issues could lead to further reductions to their upcoming 2022/23 “on-year” Arabica crop.

In addition, US green coffee stocks at the end of June came in at 5.779 million which was more than 35,000 below their May month-end total. Although the monthly decline is due in part to shipping container shortages, this was more than 18% below June 2020 levels and close to the lowest month-end total in 5 years. ICE exchange coffee stocks (most of which are held in Euro zone warehouses) rose by 2,187 bags on Friday and are now less than 1,000 bags below their June month-end total.

Coffee positioning in the Commitments of Traders for the week ending July 13th showed Managed Money traders are net long 28,190 contracts after net selling 2,431 contracts. CIT traders were net long 72,899 contracts after decreasing their long position by 948 contracts. Non-Commercial No CIT traders reduced their net long position by 2,526 contracts to a net long 20,839 contracts. Non-Commercial & Non-Reportable traders are net long 46,688 contracts after net selling 2,623 contracts.

COTTON:

December cotton closed higher on Friday and near its high of the day after trading a few ticks above Wednesday's contract high. Friday's close was just shy of that high. Some traders are acknowledging how strong this year's crop looks but see strong demand as well. Others think we are near the top unless there is a turn for the worse in the weather. Recent rains have all but eliminated any threat to the cotton crop in west Texas. Last week's US drought monitor showed the dry areas that had been covering west Texas a month ago have now shrunk back westward across the Texas/New Mexico border. The 1-5 day forecast call for little to no rainfall in west Texas, with heavy amounts in the Delta and moderate in the southeast.

The 6-10 day forecast calls for normal to below normal temps and below precipitation in west Texas. A dry pattern continues in the 8-14 day. Friday's Commitments of Traders report showed managed money traders were net buyers of 4,105 contracts of cotton for the week ending July 13, increasing their net long to 56,822. Non-commercial, no CIT traders were net buyers of 4,197, increasing their net long to 55,732. Non-commercial & non-reportable traders were net buyers of 5,537, increasing their net long to 85,412.

SUGAR:

Sugar’s change in fortune late last week was in part by fresh Brazilian weather concerns that could evaporate quickly early this week. If global risk sentiment recovers and boost key outside markets, however, sugar would be able to regain upside momentum and head towards a retest of the early July highs. October sugar extended its recovery move to a new 1-week high before finishing Friday’s trading session with a sizable gain. For the week, October sugar finished with a gain of 43 ticks (up 2.5%) which was a third positive weekly result over the past 4 weeks as well as a positive weekly reversal from Tuesday’s 3 1/2 week low.

There was cold weather forecast over Brazil’s Center-South cane-growing areas early this week. This raises the potential for frost damage to this season’s late-harvested cane following the very dry conditions seen since last year, and that provided sugar prices with underlying support. Although crude oil and RBOB gasoline prices remain well below their recent highs, both markets had positive daily reversal on Friday that could lead to early upside follow-through this week. This could benefit Brazilian domestic ethanol demand which could lead to Center-South mills shift some of their crushing away from sugar production.

In addition, moderate strength in the Brazilian currency gave a further boost to sugar prices going into the weekend as an extended rebound for that currency will ease pressure on Center-South mills to produce sugar for the global export marketplace. In spite of a rapid start, India's monsoon rainfall this year was 8% below the long-period average as of Sunday. However, cane-growing areas of western Uttar Pradesh state are expected to receive heavy monsoon rainfall early this week.

The July 13th Commitments of Traders report showed Sugar Managed Money traders were net long 202,847 contracts after decreasing their long position by 25,900 contracts. CIT traders net sold 6,340 contracts and are now net long 216,505 contracts. Non-Commercial No CIT traders are net long 150,525 contracts after net selling 17,330 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 36,179 contracts to a net long 284,807 contracts.

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