ADM Investor Services, Inc.

Weekly Futures Market Summary

by the ADMIS Research Team
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BONDS:
In retrospect, we see last week's high and the previous week's similar high as a significant resistance if not a top price. While treasury prices fell and yields increased from the PPI release, the reactions were undersized given the historical nature of some of the inflation data. Furthermore, the market did not fall precipitously after Cleveland Fed President Mester indicated she would still "like the central bank to begin tapering this year". In conclusion, the treasury markets continue to have the ability to discount bearish price developments and embrace bullish price developments.

At the start of this week, the treasury market was presented with a series of central bank/foreign sovereign bond developments with bearish central bank news reports that the Bank of Japan is beginning to unwind "radical policies" and euro zone bond yields clawing higher. Central bank news favoring the bull camp featured suggestions from Polish, Swiss, and Turkish central banks who indicated it is premature to raise rates or remove stimulus. However, seeing economies with slower growth in the US talking unwinding is a modest negative to treasury prices to start the trading week.

Another negative facing Treasuries was the potential for a sizable rally in the Dow Jones. On the other hand, another very minor supportive development for treasuries is a strengthening US dollar over the prior 6 trading sessions as attracts capital and hope of currency windfalls from a favorable US interest rate differential. The subject of inflation remains a front burner issue following a long list of global PPI and CPI readings recently as Treasuries will be presented with US CPI on Tuesday. With the latest CDC US infection count 162,279 there has been several infection readings above 160,000, leaving the infection surge as a threat against global macroeconomic sentiment.

The next FOMC meeting is a 2-day meeting on September 21st and September 22nd and at present there is thin consensus that the bank will not announce tapering but instead prepare the market for tapering in the next meeting in October. Bonds positioning in the Commitments of Traders for the week ending September 7th showed Non-Commercial & Non-Reportable traders are net short 90,401 contracts after net buying 17,344 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders were net short 191,280 contracts after decreasing their short position by 29,826 contracts.

CURRENCIES:
The dollar index rallied aggressively last Friday in the wake of a hotter than expected US producer price index reading for August. In fact, several of the components of the PPI report registered historic highs and the pressure on the Fed to begin tapering was notched higher today. However, the dollar was unable to make across-the-board gains against all currencies in a sign that the Dollar's rally was potentially a temporary knee-jerk reaction. While the next FOMC decision is still over a week away, the dollar appeared to have forged a 1 1/2 week high off residual US tapering expectations.

Surprisingly, the dollar has managed to return to flight to quality status at the same time it has expanded its interest rate differential edge. Unfortunately for the bull camp, the dollar will have to wait until Tuesday before getting the US CPI report which is expected to post a gain of 0.4% on a month over month basis and a 5.3% gain on a year-over-year basis. In short, the bull camp has an edge and the 93.00 level appears to be a near term target. The Commitments of Traders report for the week ending September 7th showed Dollar Non-Commercial & Non-Reportable traders added 877 contracts to their already long position and are now net long 27,059.

Not surprisingly, the euro ranged down sharply early this week and temporarily failed at the 1.1800 level in a fashion that projects the currency to extend down in the days ahead. Apparently, the euro was unable to draft support from a very hot German wholesale price index reading. While the net spec and fund long in the euro has likely come down significantly with the post COT report slide of 164 points, the market doesn't feel sold-out yet. The Commitments of Traders report for the week ending September 7th showed Euro Non-Commercial & Non-Reportable traders were net long 74,780 contracts after increasing their already long position by 21,300 contracts.

While we expect the Yen to remain within a coiling pattern in place since early July, strength in the dollar likely pushes the Yen to consolidation lows down at 90.60. However, the Japanese Yen is probably undermined because an unchanged (0%) producer price index reading for August thereby emboldening the bear camp. With the Swiss ranging down sharply and approaching a key breakout point at 1.0854 in the face of higher equity market action, fears of slowing in Europe are apparently in place.

The Pound showed initial weakness at the start of this week, but the currency remains within an uptrend channel from the middle of August low and the Pound appears to be capable of standing up to dollar strength better than other non-dollar currencies. Perhaps the Pound is supported by signals from the Bank of England that they will "lean" out their balance sheet ahead. On the other hand, the Pound could be limited with the UK release of its winter Covid 19 plans as those plans could contain more restrictive measures than are currently in place. The Canadian dollar was under minimal pressure because of initial US dollar strength but the currency should be underpinned because of last week's pandemic low Canadian unemployment rate.

STOCKS:
The equity markets waffled around both sides of unchanged late last week after a hotter than expected PPI report fostered some fresh concern over the subject of tapering. However, Apple avoided a major legal problem after a judgment partly exonerated their app payment restrictions. Perhaps more importantly to the tech sector is the judge's suggestion their job was not to determine if Apple was a

monopoly and that being successful is not illegal. Global equity markets at the start of this week were generally positive with the only losers located within China and Hong Kong.

Economic news of importance included a softer than expected month over month Japanese producer price index reading for August, a year-over-year 5.5% jump in Japanese producer prices, and a very significant jump in German wholesale prices on both a month over month and year-over-year basis. Therefore, this news adds minimally to global inflation concerns and notches the prospect of central bank tightening minimally. The latest US infection count was 162,179 cases as of September 10th.

The December Emini S&P contract forged a quasi-double low and respected the 4450.00 level for a 2nd straight trading session, but the market remains in a short-term downtrend from last week's slide and the trade sees the prospect for higher tax rates in the coming US spending package, tapering chatter is periodically surfacing and US infections continue to be worrisome. On the other hand, alternative investments pale in comparison to the gains being forged in equities this year and we see soft data as positive for equities going forward.

Fortunately for the bull camp, the most recent positioning report adjusted for the slide after the most recent report was calculated remains low compared to recent history and the figures are likely overstated given the slide of 58 points after the report mark off. E-Mini S&P positioning in the Commitments of Traders for the week ending September 7th showed Non-Commercial & Non-Reportable traders are net long 72,955 contracts after net selling 4,591 contracts. Obviously, given the higher opening indications the bull camp starts with an edge.

Like the S&P, the Dow futures also forged a quasi-double low early this week around the 34,481 level with that level very significant on many occasions since early May. Apparently, the US infection surge is undermining "opening up" stocks in the Dow, with GM in the headlines attempting to get beyond a battery fire issue in their Chevrolet Bolt. Given that the most recent positioning report for the Dow futures showed a "net short spec and fund" the odds of respecting the early week low are improved and stop loss selling might narrow ahead. The September 7th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders net sold 6,492 contracts which moved them from a net long to a net short position of 1,795 contracts.

While the NASDAQ rallied 70 points higher in the early going this week, the large range down washout with a close near that low on Friday followed a lower low for the move early this week leaves negative technical signals hanging over the market. However, like the Dow futures, the NASDAQ futures had a net spec and fund short as of early last week and since then the market has declined by 259 points suggesting the spec short has grown, which could reduce stop loss selling ahead. Nasdaq Mini positioning in the Commitments of Traders for the week ending September 7th showed Non-Commercial & Non-Reportable traders were net short 4,490 contracts after decreasing their short position by 10,963 contracts.

GOLD, SILVER & PLATINUM:
The gold and silver markets started out the new trading week out under pressure, likely the result of a firmer US dollar. In fact, if gold were to close at the opening level that would be a 12-day high close. Surprisingly, last week gold ETF holdings increased by 49,422 ounces which is surprising given the trend

of outflows. In retrospect, the gold and silver trade discounted a wave of global inflation news last week in a fashion that suggests the expectation of self-perpetuating inflation is not being embraced yet. Instead, the gold and silver trade focus is usually on a combination of the ebb and flow of physical demand views and the impact from the dollar.

In fact, recently the Chinese government has instructed businesses to "set commodity prices reasonably", which is another attempt by Beijing to dampen rising inflationary conditions that is not likely to yield results. In the near term, gold and silver look to remain unresponsive to inflation news despite record readings in components of last week's US PPI report. While the gold and silver markets may not react to the Japanese producer price index readings for August, the cycle of monthly inflation data will continue Tuesday with US CPI for August. We suspect that gold and silver will continue to monitor the ebb and flow of economic sentiment and derive some direction from equities and the crude oil market as both those markets are proxies for the direction of the economy.

Unfortunately for the bull camp, signs of improved demand have failed to wake gold from its slumber as a significant jump in Indian gold imports several weeks ago failed to prompt sustained buying. From a technical perspective, the charts remain negative in the short-term with the market exhibiting corrective action last week from the August and September rally. In addition, the most recent positioning report shows gold holding net spec and fund long positioning that is vulnerable to stop loss selling. Gold positioning in the Commitments of Traders for the week ending September 7th showed Managed Money traders are net long 83,540 contracts after net selling 15,325 contracts. Non-Commercial & Non-Reportable traders were net long 247,531 contracts after decreasing their long position by 6,456 contracts.

In the silver market, last Friday's trade damaged a short-term uptrend that started back in August but the break from last week's high was forged on decreasing trading volume which could be indicative of a market without significant bearish interest. In fact, the net spec and fund long in silver is near the lowest levels since June 2019 indicating stop loss selling could run its course with another moderate decline this week. The September 7th Commitments of Traders report showed Silver Managed Money traders were net long 17,912 contracts after increasing their already long position by 5,487 contracts. Non-Commercial & Non-Reportable traders were net long 43,735 contracts after increasing their already long position by 5,639 contracts. Unlike gold, the silver market appears to be more sensitive to the ebb and flow of physical demand than to the gold market.

While last week's massive washout leaves a heavy weight hanging over palladium, the market aggressively rejected a sharp range down move to $2,050 and traded $87 above the early low! Obviously, last week's debacle-type washout in palladium (a high to low break of more than $300) indicates that a moderate measure of longs have "thrown in the towel". In fact, in the most recent positioning report the palladium spec and fund long was already net short and with the washout late last week the market is likely approaching a record net spec and fund short (especially if adjusted for the low this morning). Palladium ETF's last week reduced holdings by 15,297 troy ounces bringing their year-to-date gain down to 6.4%.

Palladium positioning in the Commitments of Traders for the week ending September 7th showed Managed Money traders are net long 931 contracts after net selling 180 contracts. Non-Commercial &

Non-Reportable traders added 195 contracts to their already short position and are now net short 370. From a bigger picture perspective, the bull camp appears to have given up on a quick return to normal global auto production, most likely because of the unending extension of the virus crisis. At the end of last week, the US posted 4 consecutive daily infection counts above 160,000 of the last 4 sessions that combined with an ongoing shortage of onboard vehicle computer chips leaves demand in favor of the bear camp.

While the platinum market avoided tracking down with the palladium market last week, and prices this morning remain near the Friday spike low that suggests the fundamental and technical outlook has shifted decisively negative. However, the market did show respect for recent consolidation lows by rejecting the breakout below $950 and all is not lost for the bull camp yet if the close today is back above $950. On the other hand, the net spec and fund long in platinum remains burdensome despite falling consistently this year.

Platinum ETF's last week reduced holdings by 35,666 ounces putting the year-to-date decline near 2%. Platinum positioning in the Commitments of Traders for the week ending September 7th showed Managed Money traders added 1,667 contracts to their already short position and are now net short 7,109. Non-Commercial & Non-Reportable traders net sold 803 contracts and are now net long 13,303 contracts. In conclusion, the $950 level is a line in the sand for the platinum trade this week with the brunt of inside and outside fundamentals favoring the bear camp.

COPPER:
While the copper market has fell back from a new high for the move early this week, prices have respected the $4.40 level during the early going as if that could be a plateau of support. However, LME copper warehouse stocks are negative to prices with a 6,400-tonne daily increase from Friday. In a sign of broad bullishness toward the entire copper related investment sector, shares of a Chinese based copper company reached 3-month highs following strength in other Western copper related shares last week. A 13-year high in aluminum prices follows a 7% gain in aluminum prices last week and that also favors the bull camp, as the Chinese government might have stoked commodity prices by their interventions.

In retrospect, the massive rally on Friday appears to be without solid specific fundamental justification. However, it is possible that big picture macroeconomic buying moved into copper following strong Chinese and US inflation signals. On the other hand, the market could be waking up to the fact that both Shanghai and LME copper warehouse stocks are very tight. It is also possible that copper saw classic technical short covering with the rally above a key pivot point at $4.3465 last week reversing some technical signals.

In fact, adjusted into the low after the previous COT report was measured the net spec and fund long in copper was likely the lowest in 15 months. The Commitments of Traders report for the week ending September 7th showed Copper Managed Money traders reduced their net long position by 227 contracts to a net long 31,436 contracts. Non-Commercial & Non-Reportable traders net bought 2,465 contracts and are now net long 29,409 contracts. While there have been several strike issues in South America, lower production from Poland and signs that Chinese efforts to hold down raw material inflation could spark more gains.

ENERGY COMPLEX:
With the crude oil contract early this week forging a higher high and reaching the highest price since August 3rd, the lingering US production losses are combining with favorable equity market sentiment to lift prices. Apparently, the bull camp is unfazed by ongoing demand concerns and from news that Asian refineries did not inquire about supply above their contractual levels for October. However, crude oil and floating storage in the past week declined by 8.9% and the markets remain upbeat on the potential for the Chinese to rebuild their reserves despite that fundamental argument being questioned.

While Goldman Sachs and Bank of America are projecting sharply higher oil prices (Bank of America sees $100 oil in the event of a cold winter) J.P. Morgan has reduced their 2nd half global oil demand and expects lower prices. In the near term, the focus on the return of storm battered US production will remain acute, with recent estimates pegging as much as 50% of Gulf production still shuttered. Additionally, the state of Louisiana has declared a state of emergency because of tropical storm Nicholas and that could complicate the return of US Gulf of Mexico production and potentially extend the production outages.

On the other side of the world, Shanghai has apparently closed port operations because of a typhoon and that could restrict shipments into southern China. The rally last Friday was mostly the result of a surprisingly slow return of US Gulf of Mexico production, but the markets also saw support from a disruption of loadings in Libya, a downward revision in 2021 US crude output by the EIA and residual support from the extending pattern of weekly declines in EIA crude oil stocks. In a roundabout way, the trade might also be factoring the failure of the Chinese government to dampen crude oil prices designed to help small refiners in China.

Evidence of the bullish bias in the crude oil market is seen from the trade interpreting the Chinese strategic oil sales as a development that will boost future demand when China refills strategic reserves. Estimates of lost production have risen to 15 to 20 million barrels and that is likely to result in a 7th straight week of declining US crude stocks. Even the positioning report is bullish for crude oil as the most recent positioning report showed the spec and funds to have the smallest net long since March 2020. The Commitments of Traders report for the week ending September 7th showed Crude Oil Managed Money traders reduced their net long position by 1,725 contracts to a net long 271,192 contracts. Non-Commercial & Non-Reportable traders were net long 461,743 contracts after decreasing their long position by 2,748 contracts.

Even though the supply situation in gasoline from residual refinery closures is supportive, the gasoline market did not show as much bullish sensitivity as crude oil last Friday. We attribute that to the probability of the return of more US refineries and declining seasonal demand in Europe and the US. Furthermore, a recent 4 year high in crack margins should stimulate a jump in the US refinery operating rate in the weeks ahead. On the other hand, gasoline stocks in the US last week fell by a massive 7.2 million barrels, the RBOB market maintains an annual deficit of almost 12 million barrels and last week's implied gasoline demand reading of 9.60 million barrels per day was healthy despite delta infection fears.

It should also be noted that the net spec and fund long in the gasoline market remains low compared to the last 2 years and the gasoline market from the report mark off fell by a further $0.10 thereby likely pulling the net spec and fund long down to levels that should provide buying potential on the sidelines. The Commitments of Traders report for the week ending September 7th showed Gas (RBOB) Managed Money traders are net long 47,368 contracts after net selling 3,694 contracts. Non-Commercial & Non-Reportable traders net sold 2,305 contracts and are now net long 48,227 contracts. In conclusion, the speed of the return of US refinery capacity will be in a front and center focus in the gasoline market with a critical pivot point in prices seen at $2.1516 in the October RBOB contract.

The ULSD market showed even less sensitivity to the significant rally in crude oil last Friday than gasoline highlighting very disappointing air travel numbers and disappointing implied distillate demand reading last week of 3.6 million barrels per day. In fact, implied distillate demand forged a 5-week low and is facing a near term seasonal demand slide. It should also be noted that the net spec and fund long in diesel is at the highest level since late 2018! The September 7th Commitments of Traders report showed Heating Oil Managed Money traders are net long 45,647 contracts after net buying 763 contracts. Non-Commercial & Non-Reportable traders added 2,356 contracts to their already long position and are now net long 59,066.

While the natural gas market is significantly short-term overbought from more than $1.25 in gains over the past 3 weeks and should be restricted by the bearish larger than expected storage injection last week, the most recent positioning report showed the market maintaining a rather large "net spec and fund short". Natural Gas positioning in the Commitments of Traders for the week ending September 7th showed Managed Money traders were net long 87,174 contracts after increasing their already long position by 15,206 contracts. Non-Commercial & Non-Reportable traders added 1,044 contracts to their already short position and are now net short 110,236.

In looking forward the latest US temperature forecast shows two thirds of the US locked in a much above normal temperature pattern and that increases the likelihood that US inventories will be "tight" into the beginning of the heating season. In fact, current forecasts reach out to September 25th extending the heat nearer to the beginning of the heating season. Furthermore, significant wave action in the Western half of the Gulf of Mexico has resulted in a tropical storm (Nicholas) and that leaves a threat against supply in place. With a portion of US production still off-line, a net spec and fund short of significance and a tropical weather threat, the bull camp retains a fundamental edge.

On the other hand, the nearly $0.50 in gains over the final 4 trading sessions of last week leave the market short-term technically overdone. However, a slow stochastic reading remains in a buy signal and the natural gas market generally remains cheap relative to the last 10 years trade. Furthermore, the current natural gas market is fundamentally supported by a very slow return of US natural gas rig operating activity, persistent expansion of US exports and extremely tight European gas supply. In fact, over the weekend a US official has indicated lives could be lost in Europe this winter due to the gas supply and surging prices.

BEANS:
The USDA report carried a bearish tilt, but was not bearish enough to entice new selling interest. November soybeans fell to the lowest level since June 25, but close sharply higher on the day with an outside day higher close on Friday. India cut import taxes on edible oils which could boost demand. Yield came in at 50.6 bushels/acre versus 50.3 expected. Production came in at 4.374 billion bushels versus an

average expectation of 4.365 billion. Ending stocks came in at 185 million bushels versus expectation for 182 million. World 2021/22 soybean ending stocks came in at 98.89 million tonnes versus an average expectation of 96.70 million and a range of 91.20 to 98.70 million tonnes. The previous month's estimate was 96.15 million tonnes.

The US data was considered neutral against trade expectations, but the world ending stocks coming in above the range of estimates is a bearish development. However, most of this came from higher beginning world stocks. The demand tone is mixed, as crush was revised lower by 25 million bushels and exports were revised higher by 35 million. China import demand was left unchanged at 101 million tonnes from 99 million last year and 98.5 million two years ago. In order to reach world ending stocks this high, the USDA sees the Brazilian crop for next year at 144 million tonnes from 137 million this year, and Argentina at 52 million tonnes from 46 million this year.

It is a little early in the season to be trading the weather in South America, but with US harvest underway soon and the September USDA reports out of the way, that may be what command's the market's attention. Over the last 90 days, Mato Grosso, Brazil has been well behind average in rainfall, and most of the region is under some level of drought stress. Current conditions are better than they were a year ago, and they have been improving over the past several weeks. Much of Parana is also experiencing drought stress, and it is at generally higher levels than in Mato Grosso.

The area is looking more stressed than last year, and it has been seeing increasing levels for the past several weeks. The US Climate Prediction Center indicates a 70% to 80% chance of La Nina continuing into the winter of 2021/22. This could affect the key growing regions of South America and would suggest drier than normal conditions are possible for parts of Brazil and Argentina. If Brazil stays dry into late September, it would be difficult to get the crop planted in the ideal window. There is very little rain in the 1 week forecast except for far southern Brazil. The week 2 forecast is even drier.

For soybean oil, ending stocks were revised higher and biofuel usage for the 2021/22 season is pegged at 11.000 billion pounds, down 500 million from August but still up from 8.800 billion last year and 8.658 billion for the 2019/20 season. World vegetable oil stocks were revised higher to 22.72 million tonnes, from 23.7 million last year and 26.4 million two years ago. The weekly export sales report showed that for the week ending September 2, net soybean sales came in at 1,471,917 tonnes. Cumulative soybean sales have reached 37.6% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 35.2%. Net meal sales came in at 60,714 tonnes for the current marketing year and 48,265 for the next marketing year for a total of 108,979.

The September 7th Commitments of Traders report showed soybeans managed money traders are net long 57,516 contracts after net selling 11,625 contracts for the week (long liquidation). Non-Commercial & Non-Reportable traders are net long 31,586 contracts after net selling 9,527 contracts. For soyoil, managed money traders net sold 2,226 contracts and are now net long 53,080 contracts. For meal, managed Money traders net sold 19,618 contracts which moved them from a net long to a net short position of 7,762 contracts. Non-Commercial No CIT traders are net short 20,079 contracts after net selling 17,931 contracts for the week.

CORN:
While the USDA data carry a bearish tilt, the 16.3% break from the August report to the September report may have more than priced in the fact that world beginning stocks came in much higher than expected. While the 9.5% stocks/usage ratio is well up from 8.5% last month and 7.9% last year, this remains much tighter than the 12.6% to 15.7% ratios seen during the previous six years. In fact, the 7.9% stocks/usage for the 2020/21 season resulted in July corn going off the board at $6.83. The USDA indicates an average farm price of $5.45 from $5.75 last month. With the oversold condition of the market and the improving demand outlook, it appears that a short term low may be in place. The 50% mark of the contract range for December Corn is 497 1/2, and that was the low of the day on Friday.

Yield came in at 176.3 bushels/acre versus an average pre-report estimate of 175.6 (range 173 to 177.5). Production came in at 14.966 billion bushels, 65 million above trade expectations. Harvested area was revised up by 600,000 acres. Ending Stocks came in at 1.408 billion bushels versus an average estimate of 1.341 billion and a range of 1.018 to 1.610 billion. World 2021/22 corn ending stocks came in at 297.63 million tonnes versus an average estimate of 285.10 million and a range of 278.00 to 290.50 million. China corn production was adjusted higher by 5 million tons to 273 million from 260.7 last year and 260.8 two years ago. China's imports are expected at 26 million tons, unchanged from last year and compares with 7.58 million tonnes for the 2019/20 season.

Brazil's 2020/21 corn production came in at 86.00 million tonnes versus an average estimate of 84.80 million and a range of 82.00 and 87.00 million. The weekly export sales report showed that for the week ending September 2, net corn sales came in at 905,815 tonnes. Cumulative sales have reached 39.9% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 23.3%! The Commitments of Traders report for the week ending September 7th showed managed Money traders were net long 215,172 contracts after decreasing their long position by 43,613 contracts in just one week. Non-Commercial & Non-Reportable traders reduced their net long position by 34,730 contracts to a net long 201,894 contracts. The report shows a massive long liquidation trend.

WHEAT:
The 13.9% break off of the August 13 peak seems to have priced in an increase in world production and stocks from last month's report. US ending stocks were reduced by 12 million bushels to 615 million and now 27% below last year, and the lowest in 8 years. Traders expected 613 million (range of 555 to 652). World supply jumped 7.1 million tonnes led by larger beginning stocks from Canada and higher production from Australia, India and China. Australia production jumped 1.5 million tonnes which would be the third largest on record, and India production also increased 1.5 million tonnes for the fifth consecutive record crop in a row. World consumption increased 3 million tonnes led by China increased feed demand.

World ending stocks increased 4.2 million tonnes to 283.2 million with a range of estimates at 275.00 to 281.70. Ending stocks for major exporters increased to 35.18 million tonnes from 32.04 million last month and compared with 36.82 million for the 2020/21 season and 31.92 for the 2019/20 season. The US Supply/Demand news came in right on trade expectations, but the world numbers for ending stocks came in above the range of estimates, giving the report a bearish tilt. The weekly export sales report showed that for the week ending September 2, net wheat sales came in at 388,384 tonnes. Cumulative sales have reached 41.2% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 45.1%. Alberta farmers have harvested 54% of spring wheat. Saudi Arabia bought 382,000 tonnes of wheat at their tender.

The Commitments of Traders report for the week ending September 7th showed managed money traders reduced their net long position by 6,203 contracts to a net long 5,167 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 5,882 contracts to a net long 8,029 contracts. The long liquidation selling explains the recent break but speculators do not hold much of a net position. For KC wheat, managed money traders reduced their net long position by 6,470 contracts to a net long 41,235 contracts. Non-Commercial & Non-Reportable traders are net long 36,291 contracts after net selling 5,854 contracts for the week. The fund trader long liquidation selling trend is more of a concern for KC wheat.

HOGS:
The downside breakout for October hogs with a four day collapse leaves 80.25 as the next downside target. The COT report shows an overbought condition and the as of date is September 7. The market hit a high of 89.97 on September 7 and closed at 82.80 last Friday. The sharp drop in open interest during that timeframe would suggest long liquidation selling from speculators. The USDA supply/demand report carried a bearish tilt. While 2021 production was revised significantly lower, this was more than offset by a sharp drop in exports and an increase in imports. As a result, per capita supply for 2021 increased to 50.3 from 50.2 in August. For 2022, per capita supply increases to 50.9.

The USDA pork cutout released after the close Friday came in at $103.65, down $4.38 from $108.03 on Thursday and $108.19 the previous week. This was the lowest it had been since March 22. The CME Lean Hog Index as of September 8 was 97.96 down from 98.74 the previous session and down from 102.67 the week prior. October hogs closed sharply lower on the session Friday and the selling pushed the market down to the lowest level since June 24th. The aggressive selling developed even after better-than-expected export demand from China. Cash markets remain in a steady downtrend and this seems to be helping to rationalize the stiff discount of futures to the cash market.

Traders also sense that slaughter levels will be increasing in the weeks just ahead, and that the three day weekend last week may help boost hog weights. US pork export sales for the week ending September 2 came in at 33,802 tonnes versus 33,503 the previous week and a four week average of 23,049. Cumulative sales for 2021 have reached 1.445 million tonnes, down from 1.550 at this time last year but the second highest on record. The 5-year average is 1.113 million. The largest buyer this week was China at 14,953 tonnes, followed by Mexico at 8,214. Mexico is the largest buyer so far this year at 487,100 tonnes, followed by China at 359,600. A year ago China had purchased 590,600 by this time.

The USDA estimated hog slaughter came in at 477,000 head Friday and 370,000 head for Saturday. This brought the total for the holiday-shortened week to 2.274 million head, down from 2.391 million the previous week and 2.338 million a year ago. Friday's Commitments of Traders showed managed money traders were net buyers of 1,010 contracts of lean hogs for the week ending September 7, with a net long of 84,399. This is near the highest since 2013 and leaves the market vulnerable to increased selling pressures if support levels are violated. China's national average spot pig price as of September 13 was down 2.36% from the previous day. For the month, prices are down 8.49% and down 64.25% year to date.

CATTLE:
The cattle market is probing for a short-term low as technical indicators are extremely oversold, and open interest has come down significantly from the August peak. The USDA monthly supply/demand update carried a bullish tilt for the cattle market with lower production expected for 2021 and also for 2022. Exports for 2021 were revised higher as well so the 2021 per capita supply dropped to 58.3 from 58.6 in the August update. The continued drop in production for 2022 is expected to pull per capita supply all the way down to 56.5, the lowest since 2016. October cattle closed lower on the session Friday with a range similar to Wednesday and Thursday.

After the 11-day collapse, the inside trading session Thursday might suggest either a recovery bounce, or at least some short-term consolidation. The market is trading at a discount to the cash market as traders see short-term demand indicators as bearish. Packer profit margins are very high but they have been able to buy live inventory at steady prices for the last month or so. The cash live cattle market ended up lower last week. As of Friday afternoon, the 5-day, 5-area weighted average prices was 124.78, down from 125.68 the previous week.

The USDA boxed beef cutout closed $5.36 lower at $327.22. This was down from $337.92 the previous week and was the lowest the cutout had been since August 13. US beef export sales for the week ending September 2 came in at 12,842 tonnes versus 15,555 the previous week and a 4-week average of 12,705. Cumulative sales for 2021 have reached 833,700 tonnes versus 690,900 a year ago and the highest on record. The 5-year average is 652,600. The largest buyer this week was Japan at 5,535 tonnes, followed by China at 2,745. South Korea has the most commitments so far for 2021 at 232,100 tonnes, followed by Japan at 209,500 and China at 129,000.

China's US beef purchases are the highest on record by far. In 2020 sales had reached 24,000 tonnes by this time versus 5,569 in 2019 and 2,814 in 2018. The USDA estimated cattle slaughter came in at 121,000 head Friday and 91,000 head for Saturday. This brought the total for the holiday-shortened week to 577,000 head, down from 624,000 the previous week and 581,000 a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 16,053 contracts of live cattle for the week ending September 7, reducing their net long to 67,593. This is a long liquidation selling trend. Non-commercial & non-reportable traders were net sellers of 14,962, reducing their net long to 74,124.

COCOA:
Following a new contract high last Wednesday, December cocoa has fallen 114 points (down 4.2%) and posted 3 negative daily results in a row. Unless there is a significant rebound in global risk sentiment, cocoa is likely to remain on the defensive early this week. December cocoa found early support, and then turned sharply to the downside and reached a 1-week low before finishing Friday’s trading session with a heavy loss. For the week, December cocoa finished with a loss of 51 points (down 1.9%) which broke a 2-week winning streak and was also a negative weekly key reversal.

Lukewarm global risk sentiment continued to weigh on cocoa prices as that is likely to keep near-term demand at subdued levels. In addition to sluggish equity markets in Europe and the US, a pullback in the Eurocurrency also weighed on cocoa prices as a weaker currency will make it more difficult for Euro zone grinders to acquire near-term supply. Forecasts calling for extended wet weather over many West African growing areas pressured the cocoa market as that should benefit the region's upcoming main crop production.

There has been concern that several West African producers will see a decline in upcoming cocoa production, with reports that Ivory Coast's Cocoa and Coffee Board is projected a 6% to 10% decline from their 2020/21 output. However, Ivory Coast is expected to have record production this season above 2.2 million tonnes, Ecuador is on-track for record high production while Ghana is reported to have climbed above 1 million tonnes in their 2020/21 official cocoa purchases. As a result, the cocoa market is expected to be fairly well supported during the early part of the 2021/22 season that starts in October.

The September 7th Commitments of Traders report showed Cocoa Managed Money traders net bought 2,974 contracts and are now net long 16,727 contracts. CIT traders added 4,483 contracts to their already long position and are now net long 27,716. Non-Commercial No CIT traders are net long 4,336 contracts after net buying 2,612 contracts. Non-Commercial & Non-Reportable traders added 4,262 contracts to their already long position and are now net long 28,362.

COFFEE:
Coffee has been unable to sustain upside momentum since having a more than 43 cent pullback during late July and early August as it lost nearly 20% in value. The market continues to find its footing at increasingly higher price levels, however, and that can help coffee to regain upside momentum again during this week's action. December coffee kept within a fairly tight trading range, but managed to shake off midsession pressure as it finished Friday's inside-day session with a modest gain. For the week, however, December coffee finished with a loss of 4.95 cents (down 2.6%) which broke a 2-week winning streak.

A more than 1% decline in the value of the Brazilian currency weighed on coffee prices, as a weaker currency gives more incentive to Brazil's farmer to market their near-term supply to foreign customers. While there was rainfall last week, Brazil's major Arabica growing regions will shift back into a mostly dry weather pattern through this week. This follows drier than normal conditions since last year and frost events in July, while there are forecasts for a new La Nina weather event that will bring back dry conditions to those areas starting late this year.

As a result, the increasing likelihood that Brazil's next 2 crops have been negatively impacted by weather helped to underpin the coffee market going into the weekend. While many regions of the world continue to have COVID restrictions in place, global demand is expected to improve by year-end. ICE exchange coffee stocks fell by 375 bags on Friday and remain on track for a third monthly decline in a row, which has not occurred since September of 2020.

Coffee positioning in the Commitments of Traders for the week ending September 7th showed Managed Money traders reduced their net long position by 423 contracts to a net long 38,234 contracts. CIT traders net sold 2,732 contracts and are now net long 58,570 contracts. Non-Commercial No CIT traders were net long 36,511 contracts after increasing their already long position by 2,691 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 226 contracts to a net long 58,484 contracts.

COTTON:
Choppy trade continues for the cotton market with a higher on Friday after trading to its lowest level since August 24. The USDA report was mixed. US production and stocks increased from last month and were much higher than expected, but world ending stocks decreased and came in lower than expected. The report showed US 2021/22 cotton production at 18.51 million bales versus and average trade expectation of 17.69 million and a range of 17.00-18.45. This was up from 17.26 million in the August report. US exports came in at 15.50 million versus 15.06 expected and up from 15.00 million in August. Ending stocks came in at 3.70 million bales versus 3.43 expected (range 2.82-4.40). This was up from 3.00 million in August. This puts the stocks/use ratio at 20.6%, up from 17.1% last month, 16.8% last year and 41.1% in 2019/20.

World production for 2021/22 came in at 119.59 million tonnes versus an average trade expectation of 119.01 (range 117.50-120.50). This was up from 118.84 million in the August report. Consumption came in at 124.14 million tonnes versus 123.33 in August. Ending stocks came in at 86.86 million tonnes versus 87.67 expected (range 86.44-89.00). This was down from 87.23 the previous month. US cotton export sales for the week ending September 2 came in at 453,042 bales for the 2021/22 (current) marketing year and 19,536 for 2022/23 for a total of 472,578. This was up from 128,985 the previous week and the highest since December 17, 2020. The average of the previous four weeks is 275,489.

Cumulative sales have reached 43% of the USDA's forecast for the marketing year versus a five-year average of 50%. China had the bulk of the purchases this week at 261,466 bales. China has the most commitments for 2021/22 at 1.081 million bales, followed by Pakistan at 1.077 million and Mexico at 788,700. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,666 contracts of cotton for the week ending September 7, increasing their net long to 91,107. These traders have reached their largest net long since May 2018 and are only 16% below their all-time high of 108,778 from Jan 2018.

SUGAR:
Sugar has been pressured by sluggish outside markets and bearish near-term supply factors as prices have fallen well below their August highs. This pullback should help to improve global demand prospects, so sugar may be closing in on a longer-term low. March sugar remained on the defensive as they reached a new 4 1/2 week low before finishing Friday’s trading session with a heavy loss and a fifth negative daily result in a row. For the week, March sugar finished with a loss of 81 ticks (down 4.0%) and a third negative weekly result over the past 4 weeks.

A sizable pullback in the Brazilian currency weighed on the sugar market as extended currency weakness may encourage Brazil’s Center-South mills to produce sugar for the global export marketplace. The Brazilian trade group Unica released their latest bimonthly supply report which showed Center-South sugar production during the second half of August came in at 2.954 million tonnes which was 0.69% above last year’s comparable total while Center-South cane crush was 2.08% above last year’s total.

Although full-season (April-August) totals for cane crush, sugar production and ethanol production are still running behind last season's pace, sugar's share of crushing this season has been 46.27% which compares with 46.95% during the first 5 months of the 2020/21 season. Indications that India will continue their strong export pace during the fourth quarter also pressured the sugar market, with early estimates calling for 2021/22 exports of 6 million tonnes in spite of their government ending their subsidies. The USDA trimmed their 2021/22 US sugar stocks/usage from 13.6 to 13.5, which compares to 13.2 during the 2020/21 season.

The September 7th Commitments of Traders report showed Sugar Managed Money traders were net long 251,265 contracts after decreasing their long position by 13,050 contracts. CIT traders net sold 11,461 contracts and are now net long 183,346 contracts. Non-Commercial No CIT traders are net long 189,471 contracts after net selling 2,466 contracts. Non-Commercial & Non-Reportable traders are net long 322,388 contracts after net selling 15,192 contracts.

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