ADM Investor Services, Inc.

Weekly Futures Market Summary

by the ADMIS Research Team
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BONDS:
The Treasury bond market fell precipitously late last week in a fashion that suggests some type of major shift in psychology has taken place. In fact, the initial slide yesterday was forged despite softer than expected jobs readings and today's slide is being forged without the benefit of critical US economic data. Perhaps the markets are buckling under the weight of comments from the Fed's Mester and George that they favored November tapering. In our opinion, the market was not anticipating a November taper but instead was expecting the Fed to announce tapering in their December meeting. It should be noted that there is not a scheduled FOMC meeting in November!

In our opinion, the significant slide in Treasury prices since last Wednesday's high were not presented because of scheduled US economic data and therefore we see the reaction as the beginning of a long-term adjustment higher in yields and lower prices. In retrospect, the Fed has pivoted from thinking about talking about tapering to talking about tapering and in some cases Fed members look to have deciding on when the tapering will begin. Certainly, a series of risk on large gains in equities provided some knee-jerk reaction selling but again seeing declines of 4 points in bonds without positive US scheduled data smacks of a shift down in trend.

Surprisingly, significant anti-capitalist/consolidation of power in China has not resulted in a significant jump in foreign buying of US treasuries. While the US durable goods reading early this week does not appear to offer up a significant reading, it is expected to post a gain that might add "minimally" to the early downward bias in bond and note prices. However, there will be several Fed speeches early this week with the Fed's Mester already indicating she thinks the bar has been met to begin tapering. Some analysts and traders think tapering could be seen in November while others think there will be some further debate before official tapering begins.

The US Federal Reserve balance sheet is expected to be above $8.5 trillion before the end of purchases are scheduled in the middle of next year. In other words, tapering means ongoing purchases will be made just at a slower pace. With the latest COT positioning report showing a significant addition of short positions and the market since the last COT report falling by 3 points the net short in bonds has ballooned again. The Commitments of Traders report for the week ending September 21st showed Bonds Non-Commercial & Non-Reportable traders added 27,645 contracts to their already short

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position and are now net short 87,657. In the T-Notes market Non-Commercial & Non-Reportable traders added 84,475 contracts to their already short position and are now net short 128,038. The latest US infection count for September 24th was 130,000.

CURRENCIES:
The dollar index was one of the few markets to see classic flight to quality flow late last week. In our opinion, the dollar should have garnering flight to quality buying interest ahead of last weekend's potential shakeout of the final outcome of the Evergrande situation in China. In other words, some traders were likely positioning for the potential breakdown of the conglomerate rather than be presented with the situation in the US market opening 12 hours after the event in Asia.
The dollar was poised to breakout to the upside perhaps because of the growing attractiveness of US treasury yields.

Furthermore, if the dollar is benefiting from foreign inflows seeking higher yields, than any notable notch lower in daily US infections might prompt strong dollar buying instead of dollar selling from moderating flight to quality sentiment. Obviously, the US durable goods will impact currencies early and the dollar might get additional lift from a series of Fed speeches. On the other hand, the US dollar will face a critical junction from upcoming debt ceiling negotiations, but at the start of this week, it appears that the Democrats will not get their debt ceiling agreement! The September 21st Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders are net long 30,377 contracts after net buying 629 contracts.

With the dollar seemingly poised to breakout up and the euro sitting just above key pivot point support, the bear camp has an edge in the euro. The lack of a decisive outcome from the German election adds to the vulnerability of the euro. Euro positioning in the Commitments of Traders for the week ending September 21st showed Non-Commercial & Non-Reportable traders were net long 42,394 contracts after decreasing their long position by 24,068 contracts. There is no indecision in the Yen early this week as the currency extended last week's sharp washout and has not been able to embrace a series of developments that historically would have supported the Yen. The Swiss franc as damaged its charts in the early going this week, the dollar appears to be in vogue and developments early this week look to leave the pressure on the Swiss franc.

Like the US, the UK is experiencing economic headwinds from a shortage of labor and from gas shortages hindering economic activity. In our opinion, the Pound can rally, but should be sold on rallies expecting the June through September downtrend to ultimately control. Clearly, the Canadian dollar is attempting to track favorably with the US dollar. However, the Canadian dollar spiked higher toward a 5-month downtrend channel resistance line early on and has retrenched as if an interim top has been forged. In the near term, we expect the Canadian dollar to correlate positively with equity markets and the US dollar.

STOCKS:
While the US equity markets followed international markets down into their opening and throughout most of the trading session last Friday, the market was able to reject big losses and avoided volatility. However, the markets should be on edge because of the potential final chapter in the Chinese real estate conglomerate story. However, the US dollar might find a surprising lift next week if US treasury

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yields continue to surge as that could attract interest rate differential inflows. Global equities markets were mostly higher at the start of this week, with the exceptions the TOPIX, SSE and Hang Seng trading lower. Apparently, the US equity markets were not undermined because of the highest treasury yields since July 14th, as the markets are following through on last week's risk on optimism in the early trade. However, the equity markets will have several tests of their bullish resolve through 3 Fed speeches early this week! Given the treasury market breakdown the trade is obviously embracing hawkish Fed views while the latest US infection count was 130,638 new cases as of September 24th!

As indicated already, the S&P has held up despite another pulse up in US treasury yields, a residual measure of anxiety from the Evergrande situation, and because of disappointing US jobs related data last Thursday. However, the equity markets appear to be capable of benefiting from slack data perhaps because undecided members of the Fed could remain accommodative. Reports that Apple and Tesla suppliers have idled production in China (due to power restrictions) and similar restrictions on economic activity in the UK from petrol shortages, there are some headwinds in the marketplace. The latest positioning report should leave the S&P with buying capacity as the net long is below the long-term average net long. E-Mini S&P positioning in the Commitments of Traders for the week ending September 21st showed Non-Commercial & Non-Reportable traders are net long 109,173 contracts after net selling 7,239 contracts.

With a significant range up extension following last week's noted recovery bounce, the bias favors the upside in Dow futures early this week. The Dow was trading moderately higher at the start of this week, and the press is posting stories regarding investor interest in large cap stocks. In other words, there would appear to be some speculation that US infection numbers are about to fall off and for business activity to progress toward normal. The Dow futures have likely reversed the most recent net spec and fund short in the weekly positioning report, and therefore the index should have a massive amount of speculative buying fuel. The September 21st Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders added 7,989 contracts to their already short position and are now net short 9,888.

Clearly, the NASDAQ was lagging the rest of the markets at the start of this week with the index waffling around both sides of unchanged instead of extending higher like the S&P and Dow. While not a dominating view, growing interest in large caps leaves high-tech in less favor than other segments. The net spec and fund longs in the NASDAQ were modest in the latest positioning report, indicating the market retains buying capacity. The September 21st Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders added 6,234 contracts to their already long position and are now net long 7,663.

GOLD, SILVER & PLATINUM:

With the US dollar seemingly poised to breakout to the upside, equities tracking higher and another higher high for the move in treasury yields leaves the bear camp in control of gold to start the week. The charts in gold also favor the bear camp with the market so far in September unable to throw off a pattern of lower highs and lower lows. In the most recent positioning report, the net spec and fund long in gold declined by more than 25,000 contracts which continues a trend of long liquidation. The September 21st Commitments of Traders report showed Gold Managed Money traders net sold 25,801

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contracts and are now net long 61,594 contracts. Non-Commercial & Non-Reportable traders were net long 220,791 contracts after decreasing their long position by 25,175 contracts.

While the Evergrande situation is anything but solved, seeing the government announce and prepare the markets for that situation probably removes the flight to quality benefits of an actual collapse for the gold market. From the virus front, the latest US daily infection count was 130,000 with the 7-day moving average as of Friday, September 24th falling to the lowest level since August 8th and that has tamped down uncertainty buying from the Covid story line. Going forward, the markets will be presented with a US durable goods reading today, and it should be noted that reading contracted last month and a similar contraction for the latest monthly reading should cause some fleeting buying in the gold market. In retrospect, news that China was moving to outlaw cryptocurrencies and outlaw crypto mining should have been a big benefit for gold, as an alternative flight to quality asset for Chinese investors, but no such chatter emerged.

In fact, we would have expected bitcoin and other crypto currencies to have come under intense selling pressure if one-fifth of the world is prevented from using electronic currency. In short, the path of least resistance is down in gold from technical and fundamental perspectives. In the silver market, the bias from the charts remains down but the market appears to have built some form of credible "shelf" support, but we suspect the $22.00 level will fail in the event of a return to severe risk off sentiment in equities and or in the event US scheduled data is softer than expected. Silver positioning in the Commitments of Traders for the week ending September 21st showed Managed Money traders are net long 900 contracts after net selling 13,178 contracts. Non-Commercial & Non-Reportable traders were net long 26,619 contracts after decreasing their long position by 13,305 contracts.

Like most other precious metal and physical commodity markets, the month of September has favored the palladium bear camp with macroeconomic slowing in the numbers, projections of unending chip shortages in the auto industry, and threats of severe economic change in China from reform measures. However, from a technical perspective, the palladium market is oversold with the most recent positioning report showing a new "record short" in the spec and fund categories. The September 21st Commitments of Traders report showed Palladium Managed Money traders hit a new extreme short of 1,698 contracts. Managed Money traders are net short 1,698 contracts after net selling 819 contracts. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 3,095 contracts. Non-Commercial & Non-Reportable traders added 781 contracts to their already short position and are now net short 3,095.

In the platinum market, last week's rally was forged on significant trading volume but also was accompanied by a significant decline in open interest. In our opinion, seeing a reversal with falling open interest and a previously large spec and fund position suggests the bull camp ran out of interest at the $1,000 level on the charts. Platinum positioning in the Commitments of Traders for the week ending September 21st showed Managed Money traders reduced their net short position by 2,832 contracts to a net short 13,490 contracts. Non-Commercial & Non-Reportable traders added 1,506 contracts to their already long position and are now net long 7,416.

COPPER:

We are surprised that copper managed to rally last week in the face of a wave of significant Chinese economic/political structural changes. Many of the new regulations were anti-open market and, in some

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views, anti-capitalistic and that could have sent copper tumbling. In looking back to last week's news for justification of holding prices above $4.20 is the fact that Shanghai copper stocks have fallen to the lowest levels since May of 2009! Relatively speaking LME copper warehouse stocks are tight relative to history but not tight relative to the last 19 months. Another underpin for copper prices is the latest International Copper Study Group monthly supply and demand forecast which pegged the world copper market to have a 60,000-tonne deficit.

Citigroup Research pegged London copper prices to average $9,162 this year and $9,250 per tonne next year. The current LME futures trade is $9,205. The latest positioning report shows the copper market to be holding a middle-of-the-road net spec and fund long which coincides with prices in the near center of the last 3 1/2 months consolidation. The Commitments of Traders report for the week ending September 21st showed Copper Managed Money traders net sold 13,269 contracts and are now net long 22,813 contracts. Non-Commercial & Non-Reportable traders are net long 24,773 contracts after net selling 11,336 contracts.

ENERGY COMPLEX:
With another contract high range up move to start the new week, the bull camp picks up where it left off. While the crude oil market saw a flurry of bullish news from both the supply and demand fronts last week, and Goldman Sachs over the weekend raised their upside targeting by $10 per barrel from their previous forecast! However, the US Gulf production disaster is slowly normalizing, with the latest lost output forecast labeling the net loss to be above 30 million barrels! Even more impressive is the fact that crude oil prices forged new contract high/new highs for the year in the face of China's first ever strategic oil sale at the end of last week. The amount of initial oil auctioned was 4.4 million barrels, with the overall strategic sales of 7.3 million barrels announced 2 weeks ago. In other words, instead of fearing the added supply from strategic Chinese sales, the market instead discounted the sales and looked forward to China's restocking.

While Hurricane Sam has become a category 4 storm, the current track does not appear to put the hurricane into the Gulf of Mexico production area. Consensus in the world oil market is that demand in many areas has returned to pre-pandemic levels which has made the US supply losses of late an outsized bullish condition. In another minor bullish demand orientated note, the latest US temperature forecast showed a slight expansion of the area of much above normal temperatures into the first 10 days of October. From a longer-term perspective, the US continues to add significant drilling rigs with last week showing a gain of 10 putting the operating count at 421 and the highest level since April 2020. Canadian oil rigs increased by one rig up to 96 rigs operating.

Despite an impressive uptrend since the middle of August, the net spec and fund long positioning in the crude oil remains near the lowest levels since March 2020, thereby signaling buying fuel remains in play. Crude Oil positioning in the Commitments of Traders for the week ending September 21st showed Managed Money traders are net long 285,963 contracts after net selling 10,099 contracts. Non-Commercial & Non-Reportable traders added 1,096 contracts to their already long position and are now net long 474,433.

As we suggested last week, the gasoline market looks to lag the rest of the markets with seasonal demand softening and weekly inventory readings more likely to show inflows to stocks as opposed to

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outflows. However, reports that fuel tankers are moving toward the UK and Europe to help alleviate severe fuel shortages and that creates a bullish demand environment especially with headlines touting panic UK buying! Last week, gasoline stocks jumped by 3.4 million barrels, with the year-over-year deficit also falling precipitously from 13 million barrels down to 5 million barrels.

Big picture/longer-term analysis is that global traffic is returning to pre-pandemic levels and has likely produced record consumption (given the additional cars put on the road over the last 3 years). Like the crude oil market, the gasoline speculative positioning is a middle of the road reading suggesting bullish buying fuel remains abundant. Gas (RBOB) positioning in the Commitments of Traders for the week ending September 21st showed Managed Money traders net sold 1,103 contracts and are now net long 49,033 contracts. Non-Commercial & Non-Reportable traders are net long 44,079 contracts after net selling 7,298 contracts.

With the range up/contract high in ULSD early this week following last week's impressive rally, the bulls have the bear camp on their heels. Current gains are partially the result of a US reopening of international air travel, but also because diesel/distillate inventories are still contracting. The sentiment in the trade is demand recovery in diesel and distillates is set to tighten supplies further even in the heating/cooling shoulder season.

Last week, the decline in distillates and diesel stocks were the 4th consecutive week of declines with both product markets holding year-over-year deficits in-excess-of 44 million barrels. With the upside breakout last week, the next upside target is derived from the weekly charts up at $2.35. On the other hand, the most recent positioning report in ULSD adjusted into the high early this week is likely at the highest level since October 2018! The September 21st Commitments of Traders report showed Heating Oil Managed Money traders are net long 47,218 contracts after net buying 8,306 contracts. Non-Commercial & Non-Reportable traders added 6,531 contracts to their already long position and are now net long 59,772.

With headlines from Bloomberg suggesting China is ramping up gas imports (SINOPEC) and paying significant premiums to surging European cash prices, the bull trend has been reignited in natural gas. Apparently, the Chinese Petroleum and Chemical Corp. forged the biggest purchases in months, and that is given added influence by reports that Apple and Tesla suppliers have idled some output because of energy restrictions in China. Obviously, the tightness in Europe has left it susceptible to even normal winter temperature mixes ahead and we suspect that further price signals will be needed to significantly increase US LNG exports.

However, a full-blown winter bull market is not assured unless injection rates slow and the "deficit to 5-year average inventory levels" remains larger than 8%. While there in a hurricane in the Atlantic tracking West, that storm track at present does not appear to be threatening production areas. The weekly Baker Hughes rig operating count showed US gas rigs declining by one to 99 rigs, with Canadian gas rigs increasing by 6 to 65 rigs operating and reaching the highest operating rate since February. The US temperature forecast out to October 10th showed a slight expansion in the above normal US temperature area but not enough to be a noted bullish market influence.

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The most recent positioning report in natural gas shows a relatively large net spec and fund short, which should leave stop loss buying and speculative buying in good numbers on the sidelines. The Commitments of Traders report for the week ending September 21st showed Natural Gas Managed Money traders net sold 38,008 contracts and are now net long 40,432 contracts. Non-Commercial & Non-Reportable traders were net short 98,343 contracts after decreasing their short position by 8,216 contracts.

While we give the edge to the bull camp the magnitude of gains from the mid-August low to the September high should coincide with expanded two-sided volatility. With Europe and China scrambling for supply and US exports picking up, that should begin to reduce injections for a tight supply opening to the northern hemisphere winter demand season. On the other hand, the November natural gas contract from last week's low has recovered by nearly $0.65 and the pressure for further short covering should dominate price action. Given the magnitude of the rally it is nothing short of astounding to see a very large net spec and fund short maintained!

BEANS:
Soybean prices held within a tight range last Friday trading with a minimal gain. For the week, November soybeans finished with a gain of 1 cent and a positive weekly reversal from Tuesday's 3-month low. Soybean oil remained the strongest member of the soy complex as it extended its upside following from Tuesday's daily reversal with a fourth positive daily result in a row. Meal could not find its footing as it reached a 2-week low before finishing with a mild loss. Improving weather over Brazilian growing areas was a source of early pressure for the soy complex. The five day forecast shows no rain for the Eastern Corn Belt with not much rain for Iowa and Minnesota but more than an inch of rain for much of Kansas and Nebraska. Heat is ideal for dry down as well. In addition, the 6-10 day forecast models show above normal precipitation for Kansas, Nebraska and South Dakota, with normal precipitation for the rest of the Western Corn Belt and below normal precipitation for the Eastern Corn Belt.

This suggests fairly active harvest progress and might be considered a bit negative. The 8-14 day forecast models show above normal temperatures and below normal precipitation for much of the Midwest. Soybean harvest is now active with moisture coming across the scale low and in a narrow band of highs to lows. Soybean bids may continue to slide down. Crushing capacity is ramping higher as the last few plants finish up seasonal downtime. One of the challenges as we move into a heavier harvest will be freight. Truck freight is the most immediate, as the truckers that are hauling are working the combine to town routes. We don't hear any gasping changes at this point from the old crop beans yet. The natural gas or energy story continues to be a focus especially in light of the Chinese cutting power to plants. Shutting plants down makes soybean inventories swell and products short.

For the quarterly grain stocks report, traders see soybean stocks at 174 million bushels, 145-202 range, as compared with the current USDA estimate at 185 million bushels. The Commitments of Traders report for the week ending September 21st showed managed money traders are net long 49,701 contracts after net selling 5,679 contracts for the week which is a long liquidation selling trend. Non-Commercial & Non-Reportable traders were net long 23,350 contracts after decreasing their long position by 9,913 contracts for the week. For soyoil, managed money traders net sold 8,114 contracts and are now net long 38,980 contracts. Non-Commercial & Non-Reportable traders are net long 38,112 contracts after net selling 10,297 contracts. For meal, managed money traders added 2,221 contracts to

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their already short position and are now net short 18,553. Non-Commercial & Non-Reportable traders added 3,097 contracts to their already long position and are now net long 23,080.

CORN:

The weather in July is far and away the most important for the corn crop, but for soybeans, August is critical. Even if the weather in July is questionable, good rains in the last three weeks of August can have a big impact on soybean yields. For example, in 2005 dry weather caused extreme drought into the end of July for parts of the Midwest. The drought eased somewhat in August and especially in September after the remnants of Hurricane Katrina brought ample rains to the Delta and much of the Corn Belt. For corn, the final yield for 2004 was 160.4 bushels per acre. The 2005 forecast in September was 143.2 bushels per acre, and it eventually improved to 147.9, but it was still down substantially from the previous year. For soybeans, the final yield for 2004 was 42.2 bushels per acre.

The 2005 estimate in September was 39.6 bushels per acre, but it eventually reached 43.0, surpassing the previous year. We are not suggesting the same thing will happen this year, but it does seem unlikely that corn yield will recover much from the current estimate. Given the concerns about fungus and yield being expressed by producers, we cannot rule out a slightly lower yield in the October report. On the other hand, the good weather in August and the good harvest weather in the forecast for the next few weeks suggest soybean yields could improve. For the week, December corn finished with a loss of 1/2 cent.

The weather looks favorable for active harvest in the next two weeks and Brazil weather is also improving. In addition, the USDA Hogs and Pigs report came in with inventory well below trade expectations which is a bearish demand development. For the quarterly grain stocks report, traders see corn stocks at 1.155 billion bushels, 998,000-1.252 billion range, as compared with the current USDA estimate at 1.187 billion bushels. If so, this would be the lowest ending stocks since the 2012/2013 season. The September 21st Commitments of Traders report showed managed money traders net bought 2,121 contracts and are now net long 214,350 contracts. Non-Commercial & Non-Reportable traders were net long 206,672 contracts after increasing their already long position by 4,291 contracts.

WHEAT:

Wheat prices were able to shake off early pressure Friday as they climbed above their 50-day moving average and reached a 2 1/2 week high before finishing Friday's trading session with a moderate gain. For the week, December wheat finished with a gain of 15 cents. A rebound in the Dollar put early pressure on the wheat market as that could make US wheat less competitive in the global export marketplace. Dry conditions in Canadian growing areas have resulted in a sharp decline in their spring wheat production, which provided underlying support to wheat prices. While the wheat market is not very sensitive to changes in economic conditions around the world, inflationary expectations can have a significant impact on the urgency of end users to get product bought.

Easing of concerns about the troubled Chinese real estate developer and whether it would spread trouble around the globe have lent support to markets in general. Talk that Russia may raise its export taxes this week was also seen as a positive force. China is buying wheat cargoes from Australia despite the trade standoff between the two countries. This is occurring as Australia is expecting a second

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consecutive bumper harvest and seems to be a positive indicator for global demand. Inflationary expectations are on the rise.

This has had a tendency in the past to support the wheat market. Food inflation has become a significant concern in many nations, as this could cause unrest and political turmoil. This could lead governments to hold larger inventories than normal and could also create the appearance of stronger demand. For the USDA small grains and September 1 stocks report, traders see wheat production at 1.68 billion bushels, 1.628-1.720 range, as compared with the current USDA estimate of 1.697 billion bushels. Spring wheat production is expected near 327 million bushels, 273-357 range, as compared with 343 million bushels as the current USDA estimate.

For the stocks report, traders see wheat stocks near 1.852 billion bushels, 1.775-1.998 billion range, as compared with 2.158 billion for September 2020. Wheat positioning in the Commitments of Traders for the week ending September 21st showed managed money traders net bought 514 contracts and are now net short 5,491 contracts. Non-Commercial & Non-Reportable traders are net short 11,238 contracts after net selling 1,621 contracts. For KC Wheat, managed money traders added 1,388 contracts to their already long position and are now net long 39,034. Non-Commercial & Non-Reportable traders are net long 30,145 contracts after net selling 1,036 contracts.

HOGS:
The USDA September 1st Hogs and Pigs report was considered bullish. All hogs and pigs on September 1 came in at 96.1% of last year, which was well below the average trade expectation of 98.3% and even below the bottom end of the range of expectations (97.3%-99.8%). Kept for breeding supply came in at 97.7% of last year, which was below trade expectations of 98.9% of last year and below the range (98.3%-99.7%). Kept for market supply was 95.9% of last year versus an average expectation of 98.2% (97.2%-99.9% range). The pig crop for June-August was 94.0%, which was also below the average expectation and below the low end of the range 96.1% to 97.6%. The report looks quite friendly against trade expectations across the board.

Of note is the June-August pig crop (December-February marketings), which came in well below trade expectations and suggest tighter supply into the end of this year and early next year. Given the stiff discount of the futures to the cash market, the report news is especially bullish for February hogs. After choppy and two-sided trade early in the session Friday, October hogs rallied to close higher on the session. February hogs also traded higher on the day after trading to the highest level since September 10. The massive discount of futures to the cash market plus some stability in pork values last week may have helped spark some short covering. The USDA pork cutout, released after the close Friday, came in at $109.14, up from $103.16 on Thursday and $104.18 the previous week. This was the highest the cutout had been since September 8.

The CME Lean Hog Index as of September 22 was 91.89, down from 92.65 the previous session and 94.45 a week prior. This leaves February hogs trading at a discount of $11.89 to the cash market as compared with the 5-year average premium of $3.34. The USDA estimated hog slaughter came in at 472,000 head Friday and 237,000 head for Saturday. This brought the total for last week to 2.578 million head, up from 2.537 million the previous week but down from 2.606 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 8,063 contracts of

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lean hogs for the week ending September 21, reducing their net long to 55,858. Non-commercial & non-reportable traders were net sellers of 5,688, reducing their net long to 60,316.

CATTLE:
The Cattle on Feed Report was considered bearish, particularly for the deferred contracts. August placements at 102.3% of last year were above the average expectation of 99.1% and very close to the upper end of the range. This means larger than expected supply 90-120 days out and is bearish for December and February cattle. These contracts also hold a huge premium to the cash market which adds to the bearish tone. August marketings at 99.6% of last year were below the average expectation of 100% and slightly above the low end of the expected range. This brought the on-feed number as of September 1 to 98.6% of last year versus an average expectation of 98.2% and a range of 97.7%-99.9%. This is somewhat bearish for the October contract.

Overall, the report was negative, but more so for the deferred contracts. However, the effect may be mitigated by the fact that futures were down on Friday ahead of the report. The USDA boxed beef cutout closed $2.28 lower at $303.32. This was down from $314.47 the previous week and was the lowest the cutout had been since September 23. No cash cattle trades were reported on Friday. The 5-day, 5-area weighted average price last week was 123.64 versus 123.88 the previous week. October cattle closed lower trade ahead of the USDA Cattle on Feed report. April cattle closed moderately lower as well. The lack of positive news, a drift lower in cash cattle prices, and a continued sharp drop in beef prices helped pressure the futures.

Average estimated dressed cattle weights for the week ending September 25 came in at 825 pounds, up from 823 from the previous week and down from 845 a year ago. The 5-year average weekly weight for that week is 833.0. Estimated beef production for the same week came in at 527.9 million pounds, down from 551.5 million a year ago. The USDA estimated cattle slaughter came in at 110,000 head Friday and 54,000 head for Saturday. This brought the total for last week to 641,000 head, down from 657,000 the previous week and 655,000 a year ago. Friday's Commitments of Traders showed managed money traders were net sellers of 11,339 contracts of live cattle for the week ending September 21, reducing their net long to 34,704. Non-commercial & non-reportable traders reduced their net long position by 8,564 contracts to a net long 45,256 contracts.

COCOA:
Since falling back from a multi-year high early this month, cocoa prices have made three attempts to rally, all of which were followed by sharp selloffs. While the market rebounded on Friday, cocoa is likely to see further downside price action before it can find a near-term floor. December cocoa bounced back from a 3-week low at midsession, but could not climb out of negative territory as it finished Friday’s trading session with a moderate loss. For the week, December cocoa finished with a loss of 74 points (down 2.8%) and a second negative weekly result in the past 3 weeks.

News that the Chinese real estate firm Evergrande defaulted on a debt payment weakened Asian near-term demand prospects, and that was a significant source of pressure on the cocoa market. Over the past 5 seasons, Asian grindings have accounted for 22% to 24% of the world total, with Indonesia the third largest grinding nation and Malaysia the sixth largest grinding nation during the current 2020/21

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season. Indonesia has to import over 50% of the cocoa beans that they process while Malaysia has to import most of their cocoa supply.

As a result, Chinese economic difficulties have a significant impact on both Asian and global cocoa demand prospects. In addition, moderate pullbacks in the Eurocurrency and the British Pound on Friday also weighed on the cocoa market going into the weekend. EU nations have accounted for at least 31% of global grindings over the past 5 seasons without a domestic source for cocoa beans, so extended weakness in the Eurocurrency could make it more difficult for European grindings to acquire near-term supplies.

Cocoa positioning in the Commitments of Traders for the week ending September 21st showed Managed Money traders were net long 12,780 contracts after decreasing their long position by 3,101 contracts. CIT traders are net long 29,924 contracts after net selling 609 contracts. Non-Commercial No CIT traders net sold 3,133 contracts which moved them from a net long to a net short position of 2,632 contracts. Non-Commercial & Non-Reportable traders net sold 3,580 contracts and are now net long 21,636 contracts.

COFFEE:
Since plunging more than 42 cents below a multi-year high in late July, coffee prices has seen 2 extended recovery moves run out of steam. With signs that global demand is on the mend, however, coffee's current recovery move has a good chance to reach 2-month highs by the end of the third quarter. December coffee extended its upside breakout move to a new 2-week high before finishing Friday's trading session with a sizable gain and a fourth positive daily result in a row. For the week, December coffee finished with a gain of 7.95 cents (up 4.2%) which broke a 2-week losing streak and was a positive weekly reversal from last Monday's 4 1/2 week low.

Indications that Brazilian production could have 3 seasons in a row that are negatively impacted by weather continue to underpin coffee prices. The Brazilian government agency Conab has projected 2021/22 Arabica production will decline by over 36% from last season. While this is an "off-year" in their 2-season crop cycle, the Arabica output has been hurt by dry conditions seen since late year. In addition, severe frosts in July led to significant damage to many coffee trees which will reduce Arabica production during the 2022/23 and 2023/24 seasons.

Supply bottlenecks in Vietnam also provided support to the coffee market going into the weekend. ICE exchange coffee stocks fell by 2,910 bags on Friday and with 4 sessions left in September are now more than 42,000 bags below their August month-end total. This would be a third monthly decline in a row for ICE exchange coffee stocks, the first time that has occurred since September 2020. Most ICE exchange coffee stocks are located in the Euro zone, so a 3-month drawdown bodes well for European near-term demand prospects.

Coffee positioning in the Commitments of Traders for the week ending September 21st showed Managed Money traders added 1,663 contracts to their already long position and are now net long 38,433. CIT traders reduced their net long position by 4,289 contracts to a net long 53,841 contracts. Non-Commercial No CIT traders net bought 3,113 contracts and are now net long 37,144 contracts. Non-

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Commercial & Non-Reportable traders were net long 56,598 contracts after increasing their already long position by 1,313 contracts.

COTTON:
December cotton surged higher on Friday to close up for the fourth session in a row, and the market pushed to new contract highs at the start of this week. The five day forecast models show hefty rain totals for parts of the Delta but mostly Texas and heavy rains with bolls open could cause quality issues. In addition, pink bollworm has hurt the India crop and may lower the production outlook. The six-10 day forecast models show above normal precipitation for all of West Texas which is also supportive. Parts of West Texas show above normal precipitation for the 8-14 day forecast models as well. A further strong advance in the US stock market and news that China was the most active buyer in the weekly export sales report were seen as positive forces as well. The rally was especially impressive given the strength in the US dollar.

Cotton positioning in the Commitments of Traders for the week ending September 21st showed managed money traders reduced their net long position by 10,645 contracts to a net long 81,272 contracts. This is a long liquidation selling trend but the market has rallied from a low of 89.02 on September 21st to a high of 96.15 on Friday. Non-Commercial No CIT traders net sold 14,529 contracts for the week and are now net long 71,690 contracts. Non-Commercial & Non-Reportable traders were net long 100,657 contracts after decreasing their long position by 21,160 contracts in just one week.

SUGAR:
Sugar prices have stronger energy to provide underlying support, but have been unable to sustain upside momentum since a negative daily reversal at the end of August. Brazilian supply issues continue to underpin prices, however, so a fresh reminder of this season's lower production could help sugar prices turn back to the upside early this week. March sugar was unable to extend last week's recovery move as it came under early pressure before finishing Friday's trading session with a sizable loss. For the week, however, March sugar finished with a gain of 7 ticks (up 0.4%) and a second positive weekly result in a row.

There has been an uptick with India's monsoon rainfall this month that has put the full-season total 2% below the long-period average, while there are forecasts that the monsoon will have a later than normal withdrawal from the Indian mainland. This weighed on sugar prices late last week as those conditions should benefit India's upcoming 2021/22 cane crop. In addition, a pullback in the Brazilian currency put carryover pressure on the sugar market as that could encourage Center-South mills to maintain sugar's share of crushing at present levels.

The Brazilian trade group Unica will release their latest bimonthly supply report early this week, and that is expected is show Center-South sugar production at least 15% below last year with the Center-South cane crush at least 12% below last year. This should keep 2021/22 full season sugar production and cane crush totals well behind last season's pace. While Center-South mills are expected to keep sugar's share of crushing within 2% of last year's levels, there are increasing signs that dry longer-term conditions and frost damage in July could result in harvesting and crushing in many areas to finish up earlier than normal.

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The September 21st Commitments of Traders report showed Sugar Managed Money traders are net long 225,415 contracts after net selling 2,476 contracts. CIT traders are net long 194,715 contracts after net buying 14,677 contracts. Non-Commercial No CIT traders reduced their net long position by 2,483 contracts to a net long 163,161 contracts. Non-Commercial & Non-Reportable traders are net long 290,384 contracts after net selling 8,417 contracts.

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