ADM Investor Services, Inc.

Weekly Futures Market Summary

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by the ADMIS Research Team

BONDS:

The US nonfarm payroll report was countervailing with a decline in the unemployment rate saving the positive economic view from the significant mess on the nonfarm payroll reading. Therefore, it is not surprising to see treasuries forge a relatively narrow range on a payroll report day. From an inflation perspective seeing average hourly earnings jump up to 4.7% and 0.6% on year-over-year and month over month basis respectively is a swing factor that left the overall report bearish to bonds. The December nonfarm payroll tally was a mere 199,000 compared expectations of 400,000 while the unemployment rate in December fell to an impressive 3.9% from 4.2% the prior month. With the 2-year note yield reaching a 2 year high, the track toward higher rates continues despite what could have been a very supportive US nonfarm payroll headline last Friday.

In a potential major change of pace, Reuters is reporting that hedge funds are reducing their support for US treasuries and that could be considered a signal of changing sentiment in the entire treasury market. In looking ahead to this week's action there will be several potential volatility junctions with the Federal Reserve Chairman testifying to Congress and the US releasing CPI and PPI readings. Furthermore, a veritable avalanche of price readings will be seen from many international sources and therefore the subject of inflation will be front and center. However, estimates for US inflation readings call for slight moderation of prices and that could be fully embraced by the market. Furthermore, seeing inflation moderate slightly could suddenly give the Fed renewed credibility on its transitory inflation prediction.

Not surprisingly, the selling of the past five weeks has shifted the bond market from a net long into a net spec and fund short. The January 4th Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders net sold 34,187 contracts which moved them from a net long to a net short position of 26,014 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders were net short 443,014 contracts after increasing their already short position by 26,487 contracts. However, it should be noted that the current net spec and fund short is a mere fraction of the net spec and fund short of 238,027 contracts seen in Bonds 11 months ago! Therefore, the treasury markets retain significant speculative selling capacity!

CURRENCIES:

Clearly, the dollar index was undermined because of the "headline nonfarm payroll miss". On the other hand, some traders claim that the totality of the US jobs report lends confidence to the idea that the economy continues to maintain positive traction despite record infection readings over the past 2 weeks. Going forward, even a minor slowdown in daily infections could suddenly reawaken bullish sentiment toward the Swiss franc, euro, and Pound. While the March dollar index has managed to respect the 96.00 level for most of the past 40 days, we detect a pattern of lower highs and lower lows and see the potential for a downside breakout below a key low of 95.57.

While the trade will be presented with US PPI and CPI readings this week, the US inflation story line appears to be moderating and without upcoming inflation readings "coming in hotter than expectations" the argument of transitory inflation could receive a lift. On the other hand, it is possible that the trade/economists have set a "low bar" for this week's consumer and producer price inflation results. In our opinion, the miss on nonfarm payrolls last Friday provides the bear camp in the dollar with an edge. The Commitments of Traders report for the week ending January 4th showed Dollar Non-Commercial & Non-Reportable traders were net long 44,698 contracts after increasing their already long position by 2,251 contracts.

While internal economic data does not look to be enough to send the euro into an upside breakout above the last 45 days sideways consolidation just around 1.14, a decline in Italian and overall Euro zone unemployment readings for November should help to firm up consolidation low support around 1.1291. However, as indicated in dollar coverage, the testimony by the Fed chairman on Tuesday combined with inflation readings from the US on Tuesday and Wednesday could be a major trend setting juncture. In our opinion, there is historic basis for expecting currency markets to "set" long term trends in the first month of the year! In the end, we see Tuesday as a more important juncture than last Friday's nonfarm payroll release. The Commitments of Traders report for the week ending January 4th showed Euro Non-Commercial & Non-Reportable traders added 7,841 contracts to their already long position and are now net long 22,678.

Despite a holiday in Japan, the Japanese Yen has remained near 5-day highs in the early going this week following what appears to be an accumulation of longs just above 86.00 over the prior 4 trading sessions. In fact, with the slow bounce from 86.00, the market saw rising open interest and a moderate jump in trading volume. Therefore the 86.00 level becomes a key pivot point with a fresh long-term trend potentially set within the coming 24 hours. However, the trend remains down for now and classic fundamentals for a major bottom are absent. We see the March Swiss franc trading in a range early this week bound by 1.0833 on the downside and 1.0929 on the upside.

In retrospect, the uptrend in the Pound over the past 35 days has been the most definitive "trend" of the actively traded currencies. However, the Pound has encountered longer-term downtrend channel resistance at the 1.36 level and recent hope that the UK might turn the corner on omicron has probably contributed to the December/January rally. Traders should acknowledge the Pound's display of strength and reserve that bullish view, bank longs now, and look to reset midweek following US Federal Reserve testimony and a barrage of price measures. Like the Pound, the Canadian dollar has shown impressive strength over the prior 3 weeks but has returned to long-term downtrend channel resistance and is now facing potential volatility from US inflation and central bank commentary. Furthermore, infection readings in Canada remain concerning and Canada added only 54,700 jobs last month. On the other hand, the Canadian unemployment rate declined to 5.9% and besides the Pound there are very few uptrends within the currency sector beyond the Pound and Canadian.

STOCKS:

The equity markets showed relatively narrow trading ranges late last week for a day with significant jobs-related data. However, as indicated in other coverage, the nonfarm payroll report brought good and bad data which left the stock market flatfooted for most of the session. On the other hand, with another round of higher U.S. treasury yields the bear camp is getting the news it needs to control. It should be noted that the Dow continued to outperform other sectors of the market in what some traders and analysts suggest is the beginning of a sustained rotation from the NASDAQ. Going forward, we see positive US economic data as bad for stocks.

Global equity markets at the start of this week were disjointed with Pacific rim stocks showing pockets of strength, Europe trading lower and US equities posting very minimal gains. We are not surprised to see a choppy to lower opening for the week in global equities given news of a Chinese port city lockdown. However, countervailing some of the negatives from the virus front is news of a downtick in Italian unemployment for November from 9.4% to 9.2%. It should also be noted that overall Euro zone unemployment rates dropped to 7.2% from 7.3%. However, the markets could be on edge later this week as the US Federal Reserve chairman testifies to Congress as that testimony will likely shed some light on the Fed's latest inflation views and the Fed's intended steps to unwind quantitative easing.

While the S&P has managed to discount record infections from omicron for several weeks, adding the weight of rising rates increases the risks to longs materially. On the other hand, in the event the US Federal Reserve Chairman reiterates his view that inflation forces will be "transitory" that could light up the market for new all-time highs. In the meantime, the list of potential bearish headline themes has grown with economic disappointment from payrolls, Russia/Ukraine tensions, reduced odds of the passage of the Build Back Better bill and daily infection numbers remaining significantly above those seen from Covid 19 and the Delta variant. In conclusion the path of least resistance is down with the bear camp lacking high amount of anxiety. The Commitments of Traders report for the week ending January 4th showed E-Mini S&P Non-Commercial & Non-Reportable traders net bought 20,740 contracts and are now net long 166,467 contracts.

With a probe below 36,000 in the early going this week, a pattern of lower highs and lower lows from last week has been extended. In addition to surging infection counts, the market has been presented with the closure of a key Chinese port because of infections, intense Russia/Ukraine/NATO discussions and widespread fear of even higher treasury yields. Certainly, the charts favor the bear camp until this week's inflation report kickoff takes place. The January 4th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders added 7,246 contracts to their already long position and are now net long 9,169.

Like the Dow, the NASDAQ has also found psychological support on the charts at even numbers of 15,500 which is a level that has been tested and respected on two previous instances. However, investors are somewhat spooked by a recent drift toward "value stocks" as that rotation is partially justified by sentiment suggesting big tech and tech in general are overvalued for the current environment. Nasdaq Mini positioning in the Commitments of Traders for the week ending January 4th showed Non-Commercial & Non-Reportable traders net bought 11,426 contracts and are now net long 26,351 contracts.

GOLD, SILVER & PLATINUM:

With a slight recovery in the US dollar, slightly higher US treasury yields and a good measure of risk off flowing from commodities and global equities, the gold market looks to have technical and fundamental resistance at the $1800 level to start the new trading week. After mounting a series of inflows last week, gold ETF holdings on Friday declined by 56,949 ounces bringing this year's net purchases down to 103,872. With infections surging around the world, a Bloomberg article suggesting that China's capacity to handle the surge will be a significant determinant for commodity price action in the coming weeks is right on the mark. While the closure of a key port city (Tianjin) in China due to infections is a negative sign, China's capacity to act with impunity served it well in the very first surge of the coronavirus. However, given that omicron is more transmissible, the current wave could be more difficult to arrest.

So far for the month of January, February gold has seen a high to low break of $52 and the market saw a big range down aggressive reversal on strong volume and a decline in open interest last Friday. Therefore, the gold market corrected its overbought fundamentals from the January highs and should be considered at some form of value zone. The most recent COT report partially showed the liquidation, but clearly overstates the magnitude of the net long which we now estimate to be near the lowest levels since April 2021. The January 4th Commitments of Traders report showed Gold Managed Money traders net sold 3,893 contracts and are now net long 94,942 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 7,061 contracts to a net long 253,462 contracts. From a fundamental perspective, the gold market also looks to find support as the US dollar fell precipitously last week and several financial markets might have started new trends on Friday and with a trade below 95.57 in the dollar index, the currency impact on gold and silver could suddenly become very supportive.

Looking ahead to this week's scheduled data, the markets will be presented with a series of price readings in the form of Chinese consumer prices, US consumer prices, US producer prices and price readings from Japan, Australia, Germany, France, and Spain. With Chinese inflation expectations projected to be relatively benign and forecasts for US consumer prices soft, we suggest that traders look to get long on a coming break into of off the reports as we think economists are setting too low of a bar for the reports. We also think the very disappointing US nonfarm payroll tally leaves the US Federal Reserve in a difficult position, potentially delaying tightening. It should also be noted that recently gold ETF holdings had begun to show a pattern of inflows and further weakness in prices in the near term could attract further bargain-hunting buying.

Like the gold market, the silver market also forged a downside extension and aggressive rejection/recovery of a sub $22.00 trade. It should also be noted that the $22.00 level has been very credible support since late September, with that level potentially a long-term value zone. Unfortunately for the bull camp, a recent pattern of significant outflows from silver ETFs highlights a lack of investment interest in silver. Since the last COT positioning report, March silver into the low Friday declined by $1.15 and adjusting the most recent net spec and fund long reading for that action, the long could be near some of the lowest levels since June 2019! The January 4th Commitments of Traders report showed Silver Managed Money traders are net long 21,909 contracts after net buying 4,210 contracts. Non-Commercial & Non-Reportable traders are net long 44,554 contracts after net buying 1,806 contracts.

While the PGM markets have not paid much attention to classic inflation signals (like CPI and PPI), this week could bring a key test of the focus of the markets following an avalanche of inflation reports. In other words, platinum and palladium have not shown a tight correlation with gold and silver prices, but that relationship might manifest itself later this week. While UBS sees a PGM price recovery in 2022, analysts there prefer platinum over palladium because of substitution of cheaper platinum for palladium. In fact, UBS expects platinum substitution will be double last year at 300,000 ounces. As a result, UBS suggest palladium could see large surpluses in the coming 2 or 3 years! Recent PGM ETF flows have not shown a pattern, but a lack of investment interest is generally assumed. From a technical perspective, the net spec and fund short in palladium adjusted for the low last Thursday, would likely put the market at a new "record short".

In short, palladium has forged a consolidation low pattern, the specs are heavily short already, significant inflation data looms and open interest is near some of the lowest levels since mid-October. The January 4th Commitments of Traders report showed Palladium Managed Money traders were net short 2,538 contracts after increasing their already short position by 43 contracts. Non-Commercial & Non-Reportable traders added 116 contracts to their already short position and are now net short 3,434. Similarly, the platinum market has also forged an extended pattern of pivots around the $950 level since September and therefore that level appears to offer value. However, the net spec and fund long in platinum is somewhat burdensome at 12,882 contracts. The Commitments of Traders report for the week ending January 4th showed Platinum Managed Money traders were net short 1,927 contracts after decreasing their short position by 1,870 contracts. Non-Commercial & Non-Reportable traders net bought 1,437 contracts and are now net long 12,882 contracts.

COPPER:

We continue to see the copper market caught in a trading range defined as $4.31 and $4.49 with that range enclosed by a larger range of $4.20 and at $4.53. In a limiting development, Chinese copper production is expected to remain high with a month over month gain in December of 5.4% resulting in a net gain for the year of 1%. In fact, some traders are suggesting China could export some copper which in the current condition would likely shift copper prices back down toward the bottom of the consolidation channel. However, we see a very minimal upward bias to start out this week with the market's preference to trade in the upper half of the range defined as $4.35 and $4.50 remaining in place to start the new week.

Fortunately for the bull camp, both LME and Shanghai copper stocks have seemingly returned to a contractionary pattern as that was a predominant factor in the bull case at times last year. On the other hand, copper prices have been content to swing in a wide range of $4.10 and $4.75 for the better part of 8 1/2 months and to us that highlights a market in need of fundamental change. From a positioning perspective, adjusted into last Thursday's low, the net spec/fund long is in the vicinity of the lowest levels since June 2020! The Commitments of Traders report for the week ending January 4th showed Copper Managed Money traders added 5,460 contracts to their already long position and are now net long 26,002. Non-Commercial & Non-Reportable traders net bought 5,011 contracts and are now net long 24,045 contracts.

ENERGY COMPLEX:

With the crude oil market continuing to scratch out higher highs and higher lows into the end of last week, trend signals still favor the bull camp. However, the bull camp will likely need several closes above $80.00 to discourage talk of a top at a psychological level. Furthermore, a setback in crude oil prices below Friday's lows to start this week could embolden short-term sellers. In supportive developments early this week, it should be noted that crude oil in global floating storage fell by 3.7% over the last week, Libya has seen weather reduce exports further and US temperatures have been more supportive of heating demand. However, with the recent OPEC decision to raise production in February, over-compliance with production cuts should begin to moderate, as those members capable of increasing production again will likely do so!

On the other hand, Iranian nuclear talks, the potential for Covid supply interruptions, tight US crude oil stocks and a relatively low net spec and fund long position leaves the bull camp with a solid argument. It should also be noted that the US EIA inventories of crude oil are at a 67-million-barrels deficit to year ago levels, with the net crude oil stocks of 417-million barrels, 54-million barrels below the lowest tally for this time of the year since 1999! The January 4th Commitments of Traders report showed Crude Oil Managed Money traders net sold 463 contracts and are now net long 266,377 contracts. Non-Commercial & Non-Reportable traders were net long 436,126 contracts after decreasing their long position by 2,826 contracts.

In a counterintuitive view, seeing US inflation data moderate in this week's reports could lift energy and commodity prices off the theme that the pressure on the US Fed to act has been moderated. In a near term negative development, Algeria managed to increase its exports in 2021, but that is more than offset by the ongoing supply flow disruptions in Libya. We also suggest traders keep a close watch on Russia (particularly in the event of extreme cold) as that could be the catalyst for Russian President Putin to kick off an incursion of Ukraine and or order a complete shutdown of natural gas shipments to Eastern Europe. In fact, the trade continues to monitor the west to east flows of key pipelines from Russia and the string of days flowing west to east clearly highlights a pattern. In conclusion, the trade has been capable of discounting threats against demand consistently and has continued to climb without specific and major supply-side issues!

While the gasoline market also forged a higher high for the move last Friday, the higher high was incremental, and the February contract failed to hold the brunt of those gains. In a potential major negative development for gasoline and diesel prices, there were reports that Asian clean fuel flows toward the Americas in January are scheduled to exceed the flows seen in December. However, the latest positioning report in gasoline shows an average net spec and fund long and therefore the December and January rally has not put the market in an "overbought" positioning. The January 4th Commitments of Traders report showed Gas (RBOB) Managed Money traders were net long 74,520 contracts after increasing their already long position by 7,177 contracts. Non-Commercial & Non-Reportable traders net bought 7,256 contracts and are now net long 70,757 contracts.

Like the crude oil market, the gasoline market could see a benefit from this week's global inflation data as moderating inflation in the US could shift market fear of the US Fed into hope for a temporary reprieve from rates which should lift prices. On the other hand, US gasoline stocks sit near the upper end of the historic levels for this time of the year, and last week saw a large 10-million-barrel inflow to those stocks. In our opinion, demand has softened due to the explosive infection count and could soften further due to restricted winter travel. An example of shifting demand in the US was exhibited in the last two EIA reports with a very strong 9.7 million barrel per day implied demand reading two weeks ago followed by a very soft 8.1-million-barrel per day reading last week.

At times, the diesel market has been a leadership market within the energy complex and has managed that action despite extremely poor demand from the travel sector and from early mild temperatures. However, the US recently saw a wave of extremely cold temperatures and therefore US heating degree days should be climbing back toward more normal levels. Fortunately for the bull camp, the net spec and fund long in the heating oil market remains very low for the last two years trade, but the positioning is understated due to the rally after the report. Heating Oil positioning in the Commitments of Traders for the week ending January 4th showed Managed Money traders added 4,137 contracts to their already long position and are now net long 19,678. Non-Commercial & Non-Reportable traders were net long 31,844 contracts after increasing their already long position by 7,157 contracts.

While it is difficult to determine which bullish fundamental story sparked the gap higher opening early this week, we assume that extreme cold in the US and reports that Gazprom has not booked any gas pipeline space this week are at the top of the list. In fact, reports indicate that one critical Russian pipeline has documented 21 straight days of "reversed flow"! Furthermore, Uzbekistan has apparently halted its exports due to high domestic demand. However, the range up action in natural gas prices early this week is surprising considering that European natural gas prices have declined for a 2nd day following the arrival of tankers. Therefore, the extreme cold in the US is likely the primary focus of the gas futures market early this week.

With the net spec and fund short in natural gas near the highest levels since March 2020 and the February natural gas contract showing an extended sideways consolidation between $3.50 and $4.00, the market appears to have carved out a value zone. In fact, with the December lows prices have returned to those lows seen in June 2021 where the fear of severe winter tightness began to be factored. In other words, the market has removed the tight winter supply pricing premium with the potential for extreme temperatures possible but not projected to sustain at this time. Therefore, the big driving force for natural gas in the coming weeks is likely to be Russia and their actions toward the Ukraine and the flow of supply to or away from Eastern Europe.

The January 4th Commitments of Traders report showed Natural Gas Managed Money traders net bought 1,258 contracts and are now net short 20,186 contracts. Non-Commercial & Non-Reportable traders were net short 110,467 contracts after decreasing their short position by 5,216 contracts. The most likely action in natural gas is for prices to continue to chop within a range defined as $4.177 and $3.51. However, the market maintains a large net spec and fund "short", the brunt of the northern hemisphere winter is still ahead, and it would be very surprising for Russia to not continue to use gas supply as a political and economic lever. From a short-term perspective, the February contract has forged 6 days of a general higher highs and higher lows pattern, and two closes above $4.00 could shift the technical bias up.

BEANS:
The soybean market was called higher on the weather news but a negative tilt to outside market forces and continued general Covid fears helped to pressure. March soybeans pushed up to the highest level since June 11th on Friday. Southern Brazil and Argentina look to receive harsh weather over the next seven days with high temperatures and very dry conditions. This is likely to stress the crops and cause further production losses for the region. Exporters announced the sale of 120,000 tonnes of US soybeans for delivery to unknown destination for the 2022/2023 marketing year. For the supply/demand report, the average trade expectation for US 2021/22 soybean ending stocks is 353 million bushels, with expectations ranging from 305 to 411 million. This would be up from 340 million in the December update. US soybean production is expected to come in around 4.434 billion bushels (4.396-4.484 range), up from 4.425 billion in December. World soybean ending stocks are expected to come in near 99.7 million tonnes (95.0-103.6 range), down from 102 million in December.

The trade is looking for the USDA to lower Brazil's production by 2.5 million tonnes and Argentina's by less than 1 million for the report, but with the hot and dry weather forecast for the next week, traders think Brazilian production could eventually be lowered by about 13 million tonnes and Argentina by 4 million tonnes. If so, world stocks could tighten dramatically. For the grain stocks report, the average trade expectation for December 1, 2021 US soybean stocks is 3.128 billion bushels (2.975-3.227 range) versus 2.947 billion for December 1, 2020. Members of Coopavel, one of Brazil's largest oilseeds and grains cooperatives, expect to harvest 50% less soybeans than initially forecast due to the severe drought that hit Parana state in November and December.

Farmers reporting soy yields between 20 and 30 bags per hectare at start of harvest, vs 65 bags/hectare previously expected. For the official Conab crop production report, traders see Brazil soybean production near 135.82 million tonnes, 132-140.48 range, as compared with 142.79 million tons last month. Argentina's major agriculture areas will face intense and prolonged heat coupled with little or no rain through Jan. 12, fueling concerns over corn and soybean crops, according to a report from Buenos Aires Grain Exchange. Far southern Brazil will also be very hot and dry next week, diminishing the benefit of rains expected for the second half of January.

The Commitments of Traders report for the week ending January 4th showed Soybeans Managed Money traders added 839 contracts to their already long position and are now net long 98,919. Non-Commercial & Non-Reportable traders are net long 92,681 contracts after net selling 794 contracts. For Soyoil, Managed Money traders net bought 7,794 contracts and are now net long 53,188 contracts. For Meal, Managed Money traders were net long 70,768 contracts after increasing their already long position by 9,606 contracts for the week. Soymeal CIT traders hit a new extreme long of 116,448 contracts. Non-Commercial & Non-Reportable traders added 7,609 contracts to their already long position and are now net long 123,919.

CORN:

While the January USDA reports usually have a big impact on the grain markets, South American weather could dominate the news this year. The data in the reports was collected prior to January 1, but most of the weather damage in South America has occurred since then. This suggests that barring a complete surprise, the corn and soybean markets will not pay much attention to the reports. The market found support from the forecast for harsh weather for southern Brazil and Argentina over the next 7 days, weakness in the US dollar and strength in soybeans. Exporters announced the sale of 176,784 tons of US corn sold to Mexico.

For the official Conab crop production report, traders see Brazil corn production near 115.74 million tons, 111.25-117.6 range, as compared with 117.18 million tons last month. Brazil's fertilizer market had a slow start to 2022, and prices remain stubbornly high. Farmers are reluctant to close contracts amid sustained high prices, even after a slight year-end drop. High prices may curtail usage ahead of the Safrinha season which might lower yield potential. For the USDA supply/demand report, the average trade expectation for US 2021/22 corn ending stocks is 1.483 billion bushels (1.359-1.600 range) versus 1.493 billion in the December update. US 2021/22 corn production is expected to come in near 15.078 billion bushels (14.941-15.190 range) versus 15.062 billion in December.

World corn ending stocks are expected to come in near 303.6 million tonnes (295-307 range) from 305.5 million in December. December 1 US corn stocks are expected to come in around 11.607 billion bushels (11.200-11.951 range) versus 11.294 billion bushels on December 1, 2020. The Commitments of Traders report for the week ending January 4th showed Managed Money traders are net long 365,905 contracts after net selling 7,440 contracts for the week. Non-Commercial & Non-Reportable traders net sold 26,389 contracts and are now net long 387,688 contracts.

WHEAT:

March wheat closed sharply higher last Friday as the early break to the lowest level since October 15 failed to attract new buying interest. Strength in the other grains, weakness in the US dollar and talk of the oversold condition of the market helped to support. July Kansas City wheat closed moderately higher on the day after trading sharply lower and down to the lowest level since October 26. Jordan is tendering to buy 120,000 tonnes of optional origin wheat. For the winter wheat seedings report, the average trade expectation for US all winter wheat planted area is 34.3 million acres (33.3-35.6 range). This would be down from 33.6 million for 2021. For the supply/demand report, traders are looking for US 2021/22 all wheat ending stocks to come in at 609 million bushels (580-648 range), up from 598 million in the December report.

World wheat ending stocks are expected to come in around 278.7 million tonnes (275-281 range) versus 278.2 million in December. December 1 US all wheat stocks are expected near 1.415 billion bushels (1.315-1.680 range) versus 1.703 billion for December 1, 2020. The Buenos Aires Grains Exchange is estimating Argentina's wheat harvest at 21.8 million tonnes, up from their previous estimate of 21.5 million and up from 17 million tonnes last year. China sold 100% of the wheat put up for auction on January 5, or 506,568 tonnes, said a statement from the National Grain Trade Center on Monday.

The grain, targeted only at millers, came from the 2014 through 2020 crop years and sold at an average price of 2,707 yuan ($424.73) per tonne.
The Commitments of Traders report for the week ending January 4th showed Wheat Managed Money traders are net short 19,845 contracts after net selling 8,072 contracts for the week. Non-Commercial No CIT traders are net short 36,068 contracts after net selling 5,570 contracts. For KC wheat, Managed Money traders net sold 7,593 contracts and are now net long 51,813 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 6,565 contracts to a net long 47,421 contracts.

HOGS:

February hogs closed sharply lower on the session Friday after a higher opening. The selling pushed the market down to the lowest level since December 21st. Talk that the cash market will struggle to rally as much as normal over the next two months helped to trigger aggressive long liquidation selling. The two day Lean Index is at 73.57 so the opening at 83.07 was seen as too rich. Average weights are higher than normal which suggests some back up of hogs in the country and export news has been bearish. While there is seasonal strength expected at this time of the year, the latest monthly export report showed that exports represent just 24.1% of total production as compared with a peak last year in May of 33%. Monthly exports to China were the lowest since March 2019. The USDA pork cutout released after the close Friday came in at $82.90, down from $88.02 on Thursday and $89.10 the previous week.

The USDA estimated hog slaughter came in at 463,000 head Friday and 262,000 head for Saturday. This brought the total last week to 2.578 million head, up from 2.181 million the previous (holiday-shortened) week but down from 2.829 million a year ago. Estimated US pork production last week was 559.5 million pounds, up from 484.7 the previous week and down 10.9% from a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 2,046 contracts of lean hogs for the week ending January 4, reducing their net long to 55,674. Non-commercial & non-reportable traders were net sellers of 134, reducing their net long to 47,718. The long liquidation selling trend is a bearish force.

CATTLE:

February cattle closed slightly lower on the session Friday after choppy and 2-sided trade. A sharp break in the hog market helped to limit the advance. Traders remain nervous over the potential demand hit from the record high COVID case counts, but the beef market has held steady/firm for much of the week. The USDA boxed beef cutout was up $2.75 at mid-session Friday and closed $3.26 higher at $271.82. This was up from $265.26 the previous week and was the highest the cutout had been since December 6. Cash live cattle ended last week down slightly from the previous week. The 5-day, 5-area weighted average price as of Friday afternoon was 138.45, down from 139.59 the previous week.

The USDA estimated cattle slaughter came in at 112,000 head Friday and 58,000 head for Saturday. This brought the total for last week to 620,000 head, up from 537,000 the previous (holiday-shortened) week but down from 652,000 a year ago. The average estimated dressed cattle weight last week was 841 pounds, up from 840 from the previous week but down from 844 a year ago. The 5-year average weekly weight for that week is 832.0 pounds. Estimated beef production came in at 519.9 million pounds, down 5.3% from a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 2,744 contracts of live cattle for the week ending January 4, increasing their net long to 72,346. Non-commercial & non-reportable were net buyers of 1,210, increasing their net long to 75,529.

COCOA:

Friday's abrupt turnaround indicates that the cocoa market should continue to find solid longer-term support around last week's lows. With bullish supply factors and an improving demand outlook, cocoa should see upside follow-through early this week. March cocoa continued to build on early support throughout the day as it went on to finish Friday's trading session with a very large gain that broke a 5-session losing streak. For the week, March cocoa finished with minimal gain of 1 point which also resulted in a positive weekly reversal from Monday's 5-week low.

A sizable rally in the Eurocurrency provided cocoa with carryover support as that may help Euro zone grinders acquire near-term supply. Hot and dry weather over West African growing areas provided cocoa with additional support going into the weekend, as that strengthens the case that Ivory Coast and Ghana (who combined accounted for over 63% of 2020/21 global production) will see a significant decline in output during the 2021/22 season). The current La Nina weather event is expected to last through the end of March, which normally brings wetter than normal conditions to West African growing areas.

Keep in mind, however, that timeframe is normally West Africa's "dry" season. Although this season's Harmattan winds have been seen as milder than normal so far, the timing of the current La Nina should result in a diminished benefit to West African cocoa trees. As a result, 2021/22 mid-crop production is unlikely to come in at strong levels which in turn increases the potential for a third global production downtick over the past 5 seasons.

Cocoa positioning in the Commitments of Traders for the week ending January 4th showed Managed Money traders are net short 9,604 contracts after net buying 1,299 contracts. CIT traders are net long 28,706 contracts after net buying 2,294 contracts. Non-Commercial No CIT traders are net short 16,512 contracts after net selling 1,082 contracts. Non-Commercial & Non-Reportable traders went from a net short to a net long position of 1,083 contracts after net buying 3,620 contracts.

COFFEE:

Coffee prices have spent the past month vulnerable to additional long liquidation, either from quarter-end/year-end profit-taking or from annual commodity index fund rebalancing. Now that market focus should shift back towards bullish supply/demand factors, coffee could see a retest of its multi-year high from early December. March coffee was were able to follow-through on Thursday's late rebound as it reached a 3-week high before finishing Friday's trading session with a sizable gain. For the week, March coffee finished with a gain of 12.35 cents (up 5.5%) which broke a 2-week losing streak and was a positive weekly reversal from Monday's 7 1/2 week low.

Indications that Brazil's upcoming 2022/23 crop will be negatively impacted by the La Nina weather event provided coffee with underlying support, as major Arabica growing areas have already seen very dry conditions since mid-2020 as well as frost events last July. Flowering for the upcoming 2022/23 crop was disappointing in many Arabica-growing regions, and there were early expectations that it will come in on the lower end of Brazil's recent "on-year" production totals.

In addition, there are reports of heavy rainfall in areas of northern Minas Gerais state that will negatively impact coffee production from those areas as well. Ongoing global shipping container shortages have obstructed the flow of coffee exports to major consuming nations, and that has also given coffee prices a significant boost. ICE exchange coffee stocks fell by 9,937 bags on Friday and are close to falling below 1.5 million for the first time in nearly a year, which indicates that warehouse stocks continue to be worked down into 2022.

Coffee positioning in the Commitments of Traders for the week ending January 4th showed Managed Money traders were net long 48,218 contracts after decreasing their long position by 793 contracts. CIT traders are net long 55,202 contracts after net buying 678 contracts. Non-Commercial No CIT traders are net long 38,417 contracts after net selling 1,004 contracts. Non-Commercial & Non-Reportable traders are net long 59,912 contracts after net buying 134 contracts.

COTTON:

March cotton closed higher for the fifth straight week. Outside market forces were mixed. The dollar was weaker but so were the stock market and crude oil. For Wednesday's USDA supply/demand report, the average trade expectation calls for US cotton 2021/22 ending stocks coming in at 3.46 million bales (range 3.00-385 million), down from 3.60 million in the December report. World ending stocks are expected to come in around 85.61 million tonnes (range 84.00-86.50), down from 85.73 million in December.

Friday's Commitments of Traders report showed managed money traders were net buyers of 5,452 contracts of cotton for the week ending January 4, increasing their net long to 80,277. Non-commercial, no CIT traders were net buyers of 4,879, increasing their net long to 77,234. Non-commercial & non-reportable traders were net buyers of 6,219, increasing their net long to 114,522. CIT traders were net buyers of 1,909 contracts, increasing their net long to 78,983. The buying trend is supportive over the near term, but the market is approaching an overbought status.

SUGAR:

Sugar prices have had a sluggish start to the year as focus has shifted towards production in Thailand and India. The market has fallen well into technically oversold levels, however, so further strength in key outside markets can help sugar to regain upside momentum early this week. March sugar found early support, but turned back to the downside and reached a 5 1/2 month low before finishing Friday's outside-day session with a moderate loss. For the week, March sugar finished with a loss of 83 ticks (down 4.4%) which was a third negative weekly result over the past 4 weeks.

Indications that the La Nina weather event will have a negative impact on Brazil's Center-South cane production provided the sugar market with mild early support. There is rain in the forecast for Center-South cane growing regions through this weekend, however, and that weighed on sugar prices as that should provide some relief from drier than normal conditions the region has seen since mid-2020. Indications that Thailand will have a significant rebound in sugar production have been a source of pressure on the sugar market since mid-December.

In addition, a negative turnaround in energy markets put further pressure on sugar prices as that could diminish near-term ethanol demand in Brazil and India. India's ethanol blending with gasoline reached 8% last year with their government hoping to reach their 20% blending target by 2025. As a result, several of India's major sugar producers have expanding their ethanol production capacity which in turn should divert a large portion of their crushing away from sugar production.

The January 4th Commitments of Traders report showed Sugar Managed Money traders net sold 11,818 contracts and are now net long 138,139 contracts. CIT traders were net long 186,830 contracts after increasing their already long position by 122 contracts. Non-Commercial No CIT traders net sold 13,160 contracts and are now net long 88,112 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 17,963 contracts to a net long 188,176 contracts.