Weekly Futures Market Summary

February 14, 2022

by the ADMIS Research Team

BONDS:

Despite a significant oversold condition bond and note prices were pinned down to last week's spike low. With energy prices forging another strong rally, grain prices surging, and the dollar steady traders were uninterested in bargain hunting buying and failed to rally off a much softer than expected Michigan consumer sentiment index for February that was nearly 6 points below expectations! However, Treasury received significant safe-haven inflows following reports that Russia may invade Ukraine next week. Obviously, the treasury markets are garnering flight to quality lift at the start of this week along with the dollar and precious metal markets.

A Reuters story suggesting hedge funds have "caught and positioned for" a "seismic" shift in US interest rate market fundamentals. The weekly positioning report showed both bonds and notes to be holding significant speculative short positioning. The February 8th Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders reduced their net short position by 1,415 contracts to a net short 67,310 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders reduced their net short position by 28,827 contracts to a net short 565,126 contracts.

Over the weekend, there were reports that Biden and Putin spoke for an hour and agreed to stay engaged, while the Ukrainian government told airlines to avoid airspace over the Black Sea. The Fed appears to be pushing back against aggressive rate hike projections in the marketplace with San Francisco Fed President Daly warning against being too aggressive on rate hikes, as that could destabilize the US economy. Historically, we have seen the markets run well ahead of the Fed, with the Fed ultimately being forced to concede to reality and catch up with market perceived rate hikes.

CURRENCIES:

Once again the dollar index forged a significant range up new high for the move late last week following reports that Russia may invade Ukraine this week. We were not surprised to see the Pound firm as UK economic data was generally positive and economists are suggesting the omicron flare did not hold back the UK economy as much as was feared. Countervailing the bullish inflationary news flowing from the US is the fact that inflation has been documented in a long list of countries.

The dollar along with treasuries and precious metals are benefiting from uncertainty over the Ukraine battle for survival.

At the same time fundamentals favor the bull camp in the Dollar and the most recent COT positioning report showed a small net spec and fund long which in turn could provide the dollar with follow-through technically related buying interest. In the end, with the Russians poised on the Ukrainian border, being short the dollar could be extremely painful without notice. Dollar positioning in the Commitments of Traders for the week ending February 8th showed Non-Commercial & Non-Reportable traders reduced their net long position by 1,045 contracts to a net long 40,792 contracts.

The Euro is out of favor to start this week, as the Ukraine situation could spark an explosion in energy costs throughout Europe. In fact, natural gas prices in the futures market have gapped higher with price levels in European cash markets also up sharply. Furthermore, the euro remains under pressure because of ECB foot dragging on when they will shift policy toward tightening. The Commitments of Traders report for the week ending February 8th showed Euro Non-Commercial & Non-Reportable traders were net long 70,119 contracts after increasing their already long position by 18,349 contracts.

In addition to a significant oversold technical condition off the slide from the middle of last week, the Yen is seeing some fundamental flight to quality buying. However, strength in the dollar should keep the Yen off balance and in turn leave the Yen capable of sliding back to the early January lows. Furthermore, the Yen will likely remain out of favor as the Bank of Japan has indicated they will intervene to keep interest rates low. With a pattern of lower highs in place since the beginning of the month, and the Swiss franc hovering near extremely critical support levels on the charts, a key trend decision looks to be in the offing. Unfortunately for the bull camp, the initial view toward the Swiss franc is bearish which is surprising considering the Swiss franc historically has been a haven instrument.

The Pound is poised on a shelf above 1.350 and is garnering minimal support from Bank of England commentary suggesting they will raise rates again next month. However, the Bank of England also expect to see UK inflation begin to level out! Clearly the markets believe central bankers can contain inflation, but it is unclear if slightly higher rates from virtually zero rates will have the capacity to squelch commodity driven inflation. While a major international trade blockade has been removed in Ottawa, the Canadian dollar is undermined because of dollar strength and from fears of falling Canadian commodity prices in the event of war.

STOCKS:
While the equity market waffled around both sides of unchanged in the early trade last Friday, the markets in general did impressive job in standing up to a significant rising interest rate threat. However, the bull camp burned through a lot of favorable corporate earnings news this week without sustaining the recovery from earlier in the week. As a result, US equity markets were vulnerable to their late downdraft following reports that Russia may invade Ukraine next week.

Global equities were lower at the start of this week with the declining markets led by a 4.4% decline in the Russian RTS index. Obviously, the threat of war has many markets fearful of a jump in economic headwinds, but one should not rule out a magnification of supply chain problems if Russian goods are embargoed. If the threat of war was not enough to discourage the bull camp, the equity markets also face negative sentiment from fear of rising US interest rates. In fact, rising rates have become standard fixture among global central banker policy directives.

With a range down new low for the move to start this week, the S&P is obviously starting the week out under duress. As indicated already, the markets are fighting two major bearish themes of rising rates and the prospect of war. Unfortunately for the bull camp, the net spec and fund long positioning in the S&P is problematic for the longs and is likely feeding stop loss selling into the equation to start the new trading week. The Commitments of Traders report for the week ending February 8th showed E-Mini S&P Non-Commercial & Non-Reportable traders were net long 197,950 contracts after increasing their already long position by 8,429 contracts.

With a big range down trade to start the new week the technical and fundamental condition for the Dow Jones is bearish. In fact, with flight to quality markets like treasuries, gold, silver, and the dollar in favor early this week, we expect equities to open weak and slide from there. The Commitments of Traders report for the week ending February 8th showed Dow Jones $5 Non-Commercial & Non-Reportable traders were net short 5,613 contracts after decreasing their short position by 1,802 contracts. However, the most recent COT long positioning in the Dow Jones index is likely overstated with the market into the low early this week below the last report mark off level by 1,100 points.

Not to be left out the NASDAQ has also fallen to a new low for the move in the early going and appears to be poised to return to the late January lows. In the short-term positive news from strong Tesla sales in China are all but forgotten in the current trade with investors fearful of losses instead of fearful of missing out on gains. The Commitments of Traders report for the week ending February 8th showed Nasdaq Mini Non-Commercial & Non-Reportable traders were net short 2,986 contracts after decreasing their short position by 8,733 contracts.

GOLD, SILVER & PLATINUM:

While the gold market did not forge a higher high for the move early this week, prices remained close to their breakout price levels. Unfortunately for the bull camp, the dollar has also forged a 9-day high and appears to be positively correlated with other flight to quality instruments like bonds. Nonetheless, the gold and silver trade are not undermined by the dollar action and instead are embracing "war headlines". In fact, gold, and silver managed gains last Friday despite a 6-day high in the dollar. However, inflation fears also drove money to gold and silver at the end of last week, which was at least partially the result of a rally in crude oil that at times surpassed $3.50 a barrel. In conjunction with the sharp gains in crude oil prices, multi-decade highs in various US consumer inflation components leaves the inflation theme in play.

The bull camp should be skeptical of the markets capacity to benefit consistently from an inflation storyline but with US consumer sentiment plunging to a 10-year low, inflation is causing consumers anxiety and some of that anxiety is flowing toward precious metals. Despite the run up in prices over the last two weeks, the net spec and fund long positioning in gold remains very modest and in turn the market retains a lot of speculative buying fuel. The Commitments of Traders report for the week ending February 8th showed Gold Managed Money traders added 22,341 contracts to their already long position and are now net long 84,889. Non-Commercial & Non-Reportable traders were net long 235,562 contracts after increasing their already long position by 16,404 contracts.

Part of the major run up on Friday was inspired by the US led conference call among those opposing Russia which in turn probably upset the Russian leader. According to the US President and others in the administration, Russia has enough troops along the border to attack, but widespread rallies in the Ukraine point to a very bloody result in the event of a Russian incursion. At least at the end of last week, chatter in the marketplace predicted a Russian incursion at any time after aerial assaults. Going forward, inflation buying is one thing whereas buying for war is another thing altogether! While the silver market finished sharply higher last Friday, the market failed miserably, dipped back below $23.00 and then came roaring back into the close in a fashion that suggest it is also benefiting from flight to quality interest.

As indicated last week, long-term fundamentals of supply and demand are in favor of the silver bull camp and a true inflationary spiral could send silver out of a 13-month downtrend pattern to the upside. Fortunately for the bull camp, the net spec and fund long in silver remains very modest and within "relative proximity" to the lowest levels seen since June 2019. Silver positioning in the Commitments of Traders for the week ending February 8th showed Managed Money traders were net long 10,139 contracts after decreasing their long position by 1,434 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,091 contracts to a net long 33,322 contracts.

Palladium finished last week with a very damaging move on the charts, suggesting the bull camp has lost its control. Certainly, palladium will benefit in the event of spiraling inflationary fears but in the near term the rising rate, sharply lower equities, and auto plant closures (due to protests) has fostered some near-term demand concerns. On the other hand, Russian Nornickel recently projected the world palladium market deficit would be 300,000 ounces this year and that should underpin prices. With the palladium market in the most recent positioning report maintaining a net spec and fund short, a moderate down move could put the market moderately oversold. The Commitments of Traders report for the week ending February 8th showed Palladium Managed Money traders net sold 125 contracts and are now net short 324 contracts. Non-Commercial & Non-Reportable traders are net short 1,129 contracts after net selling 70 contracts.

There is little remarkable about the platinum charts and for that matter platinum fundamentals. Obviously, the threat of supply lost by a Russian trade embargo would impact palladium more than platinum and therefore platinum could remain in a range bound by $1,056 and $1,000. The net spec and fund positioning in platinum is very modest which is not surprising for a range bound market. Platinum positioning in the Commitments of Traders for the week ending February 8th showed Managed Money traders were net long 7,426 contracts after decreasing their long position by 2,334 contracts. Non-Commercial & Non-Reportable traders net sold 2,776 contracts and are now net long 19,274 contracts.

COPPER:

Entering this week's trading, copper was boosted by strength in aluminum and nickel prices in Asia and undermined by iron ore prices from Asia. Early last week, market chatter centered on the prospects of a "short squeeze" but instead the opposite seemed to happen at the Shanghai exchange. In fact, Shanghai copper exchange stocks on a weekly basis more than doubled with an inflow of 66,213 tonnes (+164%) and that went a long way toward killing the short squeeze story in London. Unfortunately for the bull camp, a Russian incursion of the Ukraine would likely be bearish initially from the fear of demand destruction.

For an invasion to drive copper higher would likely require a specific embargo on Russian copper. In the near term, the market continues to see supply threats against South American production due to road blockades and LME copper stocks remain tight. The most recent positioning report in copper showed enough net spec and fund long positioning to allow for further liquidation. The Commitments of Traders report for the week ending February 8th showed Copper Managed Money traders were net long 24,813 contracts after increasing their already long position by 5,557 contracts. Non-Commercial & Non-Reportable traders net bought 4,227 contracts and are now net long 25,479 contracts.

ENERGY COMPLEX:

While crude prices forged fresh contract highs at the start of this week, prices have initially retrenched from those highs as if waiting for additional Russian/Ukraine news. In fact, Brent crude oil pricing is now within striking distance of the psychologically important $100 price level and the energy markets are likely to see further inflation buying from the funds. It should also be noted that Asian buyers have stepped up their interest in securing supply as they are fearful that Russian exports could be blocked. In addition to Western leaders traveling to the Ukraine, we suspect Western military equipment is flowing into the Ukraine which could make it more difficult for Russia to achieve minimal objectives. Furthermore, with Ukrainian citizens promising to support their military a Russian incursion could result in a "bloodbath".

When the crude oil market rallies more than $3.00 in a single session, there are usually several forces at work. Apparently, buyers were stirred late last week by International Energy Agency predictions of a stellar recovery in energy demand from pandemic lows to pre-pandemic highs. The IEA also indicated that Saudi Arabia and the UAE could help balance the world market with increased production, but that news was combined with evidence that OPEC on a month over month basis is adding back only incremental supply. From a longer-term perspective, supply is on the way with the US Baker Hughes rig operating count jumping by "19" rigs in a single week, with Canadian oil drilling rigs up by only one. A sign of demand is seen from continued declines in key US storage facilities like Cushing, Oklahoma especially given reports that significant Canadian oil has been flowing through to the Gulf to meet international demand!

In addition to outright speculative buying into last Friday’s close, (positioning for a possible invasion), the market saw significant option skew and contracts spread readings flashing bullish. While the most recent COT positioning report likely understates the magnitude of the net spec and fund long (due to gains after the report was compiled) the net spec and fund long is still very modest, and the market should retain buying capacity from those two categories of participants. The February 8th Commitments of Traders report showed Crude Oil Managed Money traders were net long 296,149 contracts after decreasing their long position by 7,723 contracts. Non-Commercial & Non-Reportable traders net bought 407 contracts and are now net long 489,002 contracts. Obviously, the situation along the

Ukraine border is paramount to this week's price action with any incursion of Ukraine militarily possibly resulting in part of the 4/5.5 million barrels per day of oil exported by Russia!

In the short-term, mild temperatures are keeping the bear camp in natural gas emboldened, and a slide down to $3.75 should not be ruled out directly ahead. On the other hand, prices below $4.00 have little "war premium" and Russian gas supply continues to flow in reverse fashion. Given the sharp washout in natural gas prices last week, this week's COT positioning report dramatically understates the size of the net spec and fund "short". The February 8th Commitments of Traders report showed Natural Gas Managed Money traders were net long 35,297 contracts after decreasing their long position by 13,192 contracts. Non-Commercial & Non-Reportable traders are net short 84,987 contracts after net buying 4,404 contracts. The weekly Baker Hughes gas rig count came in with a gain of 2 gas rigs in the US, with no change in rigs in Canada. From a long-term perspective, the natural gas market should be supported by stories suggesting China will set long-term gas contracts with the US to facilitate their move away from dirty coal.

BEANS:

With plenty of uncertainty in outside markets and rain in the forecast for Argentina in the 8-14 day models, the bears have the edge early this week. March soybeans closed moderately higher on the session Friday as selling interest remained low with a very dry forecast for the next two weeks for Argentina, and only scattered rain amounts for southern Brazil. As of the start of this week, however, the one week forecast is dry for Argentina but scattered rains for southern Brazil. The second week forecast calls for widespread moderate to heavy rains across Argentina so the forecast has improved significantly since Friday.

Traders already see significant damage to South America production since February 1, and more dry weather is likely to add to the production losses. China soybean meal futures hit a new record high and corn prices remain stubbornly high in China. China's pig herd as of the end of December was up 10.5% from a year ago. China plans a 15% increase in total meat output by 2025. Paraguay's agriculture and livestock minister indicates that soybean harvest could fall by as much as 50% to near 5 million tonnes, the lowest in the last decade due to drought.

The Brazil harvest is thought to have reached 25.6% complete. US exporters announced the sale of 108,000 tonnes of US soybeans sold to China. In addition, there was 30,000 tonnes of US soybean oil sold to unknown destination. For the NOPA crush report tomorrow traders see a record high crush of 186.677 million bushels. The range of estimates is 183.6-188.5. Soybean oil supplies at the end of January are expected near 2.062 billion pounds, this would be up 14.6% of from a year ago. The Commitments of Traders report for the week ending February 8th showed Soybeans Managed Money traders were net long 166,315 contracts after increasing their already long position by 11,827 contracts for the week.

Non-Commercial & Non-Reportable traders were net long 169,220 contracts after increasing their already long position by 13,263 contracts. For Soyoil, Managed Money traders are net long 72,782 contracts after net selling 7,694 contracts for the week. For Soymeal, Managed Money traders were net long 88,138 contracts after increasing their already long position by 11,395 contracts for the week.

Soymeal CIT traders hit a new extreme long of 126,926 contracts. Non-Commercial & Non-Reportable traders added 6,470 contracts to their already long position and are now net long 133,716.

CORN:
With abundant rainfall for next week in Argentina and a little less concern with a Russia/Ukraine confrontation, selling pressures emerged at the start of this week. May corn closed sharply higher on the session Friday and challenged Thursday's high but failed to take it out. The key reversal from Thursday is still a technical force but it will take significant selling below 637 1/2 to confirm a near-term top is in place. A continued bullish weather forecast for South America for one more week plus increase concern about the Russia/Ukraine conflict helped to support the market Friday. The weather forecast is still a negative for crop conditions in Argentina for this week but the forecast is not as bullish as it was on Friday.

Ukraine is the world's third largest exporter of corn, and the concerns with the potential conflict, along with the weather were supportive forces last week. The White House continues to urge US citizens who are still in Ukraine to leave in the next 24 to 48 hours. US Exporters reported the sale of 128,000 tonnes of US corn to Japan. The Commitments of Traders report for the week ending February 8th showed Corn Managed Money traders were net long 337,332 contracts after decreasing their long position by 35,219 contracts in just one week. This is a long liquidation selling trend. Non-Commercial & Non-Reportable traders were net long 384,247 contracts after decreasing their long position by 25,152 contracts.

WHEAT:
At the start of this week, Ukraine hinted at concessions to Russia and this leaves the door open for diplomacy, and this caused wheat futures to move from positive territory down into negative territory. March wheat closed sharply higher on the session Friday as strength in the other grains, and continued concerns with the Russia/Ukraine situation has helped to support. The Biden administration continues to urge US citizens to leave Ukraine indicating a Russian invasion could occur at any time. European wheat futures jumped 2.8% on the session Friday and that added to the positive tone. The European wheat crop is in good shape with a lack of freeze issues and recent warm weather keeping the crop in good condition. The farm ministry in France sees plantings for 2022 down by 0.3% to 4.75 million hectares. Germany's winter wheat area increased 0.4% and Britain's wheat area increased 1.3%. Poland's winter wheat area was about unchanged.

Wheat output in the key growing state of Western Australia is estimated to have hit 12.9 million tonnes during the 2021 season, up 29% from previous year, according to the Grain Industry Association of Western Australia. The February 8th Commitments of Traders report showed Wheat Managed Money traders are net short 29,552 contracts after net selling 3,100 contracts for the week. This leaves the market vulnerable to short-covering if resistance is violated. Non-Commercial & Non-Reportable traders net sold 3,537 contracts and are now net short 20,699 contracts. KC Wheat positioning in the Commitments of Traders for the week ending February 8th showed Managed Money traders reduced their net long position by 3,326 contracts to a net long 34,473 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 1,090 contracts to a net long 34,838 contracts.

HOGS:

The short-term technical action is bearish but the pork market remains in a steep uptrend and this could keep futures volatile over the near term. The market experienced follow-through technical selling on Friday from the sweeping key reversal on Thursday and this helps confirm that at least a short term top is in place. While the cash fundamental news is positive, futures remain at an extreme premium to the cash market and this leaves plenty of room for a technical correction even with the cash trend higher. The USDA pork cutout released after the close Friday came in at $108.09, up $8.70 from Thursday and up from $95.76 the previous week. This was the highest the cutout had been since October 7. April hogs closed sharply lower on the session Friday and near the lows.
Technically, the market remains extremely overbought and the premium to the cash market remains at a much higher than normal premium, but the continued strong action in the pork market has helped support.

The market will need a steady flow of bullish cash market news to rationalize the premium. The CME Lean Hog Index as of February 9 was 87.74 up from 87.22 the previous session and 83.33 the previous week. The USDA estimated hog slaughter came in at 474,000 head Friday and 144,000 head for Saturday. This brought the total for last week to 2.516 million head, up from 2.445 million the previous week but down from 2.643 million a year ago. Estimated US pork production last week was 551.6 million pounds, up from 536.6 the previous week and down from 573.6 a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 8,704 contracts of hogs for the week ending February 8, increasing their net long to 78,672. Non-commercial & non-reportable traders were net buyers of 10,500, increasing their net long to 71,050.

CATTLE:

The cattle market experienced follow-through selling below Thursday's low which helps to confirm the key reversal top. April cattle closed moderately lower on the session Friday after the early strong rally to test Thursday's high failed, and sellers turned active. Slow stochastic measures crossed over to the downside which is a bearish technical signal, and technical indicators are holding an extreme overbought status. In addition, the market is holding a higher than normal premium to the cash market. Cash live cattle were firmer last week. As of Friday afternoon, the five-day, five-area weekly average price was 140.45, up from 139.76 the previous week. The USDA boxed beef cutout was down 10 cents at mid-session Friday and closed 30 cents lower at $274.52. This was down from $279.81 the previous week and was the lowest it had been since January 7.

The USDA estimated cattle slaughter came in at 120,000 head Friday and 51,000 head for Saturday. This brought the total for last week to 659,000 head, up from 639,000 the previous week and up from 606,000 a year ago. The average estimated dressed cattle weight last week was 843 pounds, up from 842 the previous week and unchanged from 843 a year ago. The 5-year average weight for that week is 826.6 pounds. Estimated beef production 554.3 million pounds, up from 510.1 million a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 12,570 contracts of live cattle for the week ending February 8, increasing their net long to 81,842. Non-commercial & non-reportable traders were net buyers of 7,175, increasing their net long to 82,359.

COCOA:

Cocoa prices were unable to extend their February updraft into new high ground, but they will start this week's action more than 300 points above their late January lows. While it may see volatile action due to the ebb and flow of global risk sentiment, a bullish supply/demand outlook should keep cocoa well-supported on any near-term pullbacks. May cocoa was able to bounce back from a sharply lower opening, but could not climb up into positive territory as it finished Friday's trading session with a moderate loss. For the week, however, May cocoa finished with a gain of 87 points (up 3.2%) for a second sizable weekly gain in a row.

A large pullback in the Eurocurrency was a notable source of pressure on the cocoa market as that could make it more difficult for Euro zone grinders to acquire near-term supply. European demand would be prone to a negative shift in near-term demand if Ukraine/Russian tensions flash over into armed conflict. As a result, Friday's sharp decline in global risk sentiment put additional pressure on cocoa prices. This season's West African production is showing more signs that it will fall well short of last season's total.

There were reports that this season's Ghana cocoa arrivals were more than 40% behind last season's pace earlier this month, which would put them on-track for their lowest full-season production total since the 2014/15 season. There is rain in the forecast for many West African growing regions this week, but daily total are unlikely to climb above 0.25 inch in most areas while daily high temperatures are expected to reach 90 degrees Fahrenheit.

The February 8th Commitments of Traders report showed Cocoa Managed Money traders were net long 34,258 contracts after increasing their already long position by 19,523 contracts. CIT traders were net long 30,157 contracts after increasing their already long position by 1,854 contracts. Non-Commercial No CIT traders added 14,913 contracts to their already long position and are now net long 18,056. Non-Commercial & Non-Reportable traders were net long 41,089 contracts after increasing their already long position by 16,049 contracts.

COFFEE:

Coffee's 2-day/16.00 cent updraft last week lifted prices more than 6.7% in value and to 10-year highs, but may have been "too far, too fast" given the recent volatility in global risk sentiment. Although the market continues to have a bullish longer-term supply/demand outlook, coffee may fall further to the downside before it can find its footing. May coffee followed through on Thursday's negative key reversal and was unable to hold onto early strength as it finished Friday's trading session with a sizable loss. For the week, however, May coffee finished with a gain of 9.60 cents (up 4.0%) and a second positive weekly result in a row.

The Brazilian currency regained its strength and approached a 5-month high which provided coffee with early carryover support. However, the negative shift in global risk sentiment dampened near-term demand prospects that put coffee back on the defensive late in the day. The Safras and Mercado Consultancy said that Brazilian farmers have sold 32% of their upcoming 2022/23 coffee production by last week, which compare to 21% at this point last season but was only 1% higher than their total in early January.

This may reflect some concern over production prospects for Brazil’s 2022/23 output. Brazil’s major Arabica-growing regions have daily rainfall in the forecast through early next week. While daily totals are unlikely to exceed 0.50 inch, this precipitation can provide some relief for the region’s coffee trees following drier than normal conditions since mid-2020. ICE exchange coffee stocks were unchanged on Friday which kept them at a new 22-year low, but their Thursday/Friday decline of 453 bags is far smaller than their February daily average decline of 20,350 bags.

The February 8th Commitments of Traders report showed Coffee Managed Money traders are net long 56,251 contracts after net buying 4,154 contracts. CIT traders were net long 44,660 contracts after increasing their already long position by 1,447 contracts. Non-Commercial No CIT traders were net long 50,918 contracts after increasing their already long position by 4,294 contracts. Coffee Non-Commercial & Non-Reportable traders hit a new extreme long of 74,630 contracts. Non-Commercial & Non-Reportable traders net bought 6,439 contracts and are now net long 74,630 contracts.

COTTON:

May cotton closed lower on Friday and near the low end of the consolidation of the previous two weeks. More importantly, the market penetrated and closed below the key uptrend channel support which is seen as a bearish technical development. The US dollar rallied to its highest level since February 3 (and up again at the start of this week), and the stock market broke sharply to end the week (and is down sharply at the start of this week). Neither of these moves are supportive to cotton.
The bulls had grown a bit cautious after the USDA raised its US 2021/22 ending stocks forecast in the monthly supply/demand report.

While the weekly export sales report showed sales down from the previous week, it should be noted that the USDA lowered world ending stocks in the report. Friday's Commitments of Traders showed managed money traders were net sellers of 457 contracts of cotton for the week ending February 8, reducing their net long to 80,405. Non-commercial & non-reportable traders net sellers of 907, reducing their net long to 114,948. CIT traders were net buyers of 1,872 contracts, increasing their net long to 76,508.

SUGAR:

While sugar prices have had trouble sustaining upside momentum over the past few weeks, they continue to hold their ground above their January and February lows. If they can continue to receive carryover support from key outside markets, sugar can climb above its recent consolidation zone this week. May sugar was able to bounce back from a midsession pullback, but could not climb up into positive territory as it finished Friday’s trading session with a second moderate loss in a row. For the week, however, May sugar finished with a gain of 2 ticks (up 0.1%) which broke a 3-week losing streak.

Energy prices rallied sharply due to increasing Ukraine/Russian tensions, and that provided a significant boost to sugar prices as that should strengthen ethanol demand in both Brazil and India. Thailand and

India's sugar production this season remains ahead of last season's pace, however, and that pressured sugar prices going into the weekend. While the Brazilian currency had midsession strength that provided the sugar market with carryover support, it fell back late in the day which could pressure the sugar market early in today's action.

The March London white sugar contract expired on Friday with reports that more than 7,170 lots were delivered, which many analysts fell was a relatively large delivery which may be a sign of high consumer demand for sugar. Starting on Thursday, there is daily rainfall in the forecast for Brazil's Center-South cane-growing regions through early next week, which should provide some benefit following drier than normal conditions since 2020. While their 2022/23 cane harvest and sugar production are widely expected to increase from this season's output, Center-South mills will not reach full-speed with next season's crushing operations until April.

The February 8th Commitments of Traders report showed Sugar Managed Money traders reduced their net long position by 10,542 contracts to a net long 60,472 contracts. CIT traders added 2,057 contracts to their already long position and are now net long 171,840. Non-Commercial No CIT traders were net long 25,427 contracts after decreasing their long position by 11,768 contracts. Non-Commercial & Non-Reportable traders net sold 20,885 contracts and are now net long 96,152 contracts.

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