ADM Investor Services, Inc.

Weekly Futures Market Summary

July 11, 2022

by the ADMIS Research Team

BONDS:

Obviously, last Friday's US nonfarm payroll result surprised the markets with the gain in payrolls more than 100,000 above expectations. However, the June gain in jobs was smaller than the gain in May and there were some prior month downward revisions. Clearly, the strength of the US jobs report reduces recession fear and ratchets up ideas that the US economy might withstand the additional rate hikes ahead. The treasury markets might have come under pressure from news that the Atlanta Fed President was in favor of a 75-basis point rate hike later this month, but more important news is some "hawks" at the Fed are thought to be lowering their post July rate hike plans.

Weakness in treasury prices early this week was a little suspect considering weaker global equity market action, fear of fresh Chinese lockdown announcements and a shift in market chatter from inflation to disinflation. However, the treasury markets are likely to benefit from comments from the Fed's Bostic over the weekend indicating he was in favor of a 75-basis point hike later this month. Furthermore, the Fed's Bostic indicated a "need to see more sustained, more significant slowing". In fact, Bostic indicated that a 75-basis point rate hike would not result in protracted damage to the economy and suggested that the Fed needed to move aggressively!

In another supportive development multiple Chinese cities have fresh Covid 19 restrictions in place this week from the closure of businesses to outright lockdowns. The Chinese apparently uncovered a highly transmissible BA.5 variant of Covid which is reportedly able to cause infection despite the presence of vaccine triggered antibodies! While the treasury markets appear to be accepting of a 75-basis point rate hike later this month and a 50-basis point rate hike in the following FOMC meeting, the magnitude and speed of hikes beyond this month could be heavily influenced by this week's CPI report.

The treasury markets will face fresh auction supply this week, with today bringing 3-month bills, 6-month bills and 3-year note supply. The markets will also be presented with 10-year note auction supply on Tuesday and a 30-year bond auction on Wednesday. The Commitments of Traders report for the week ending July 5th showed Bonds Non-Commercial & Non-Reportable traders were net short 15,280 contracts after decreasing their short position by 21,521 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders reduced their net short position by 51,578 contracts to a net short 249,717 contracts.

CURRENCIES:

With a major range up new contract high and sharp reversal in the dollar last Friday, the charts gave off the impression of a "blow off top". In retrospect, the dollar deserves to rally following a much stronger than expected nonfarm payroll addition, but it is possible that some longs decided to bank profits rather than be exposed to a continuation of the reversal into the opening Monday. With the Swiss franc unable to bounce in the wake of a dip back in the dollar and strength in non-dollar currencies, it remains the weakest actively traded futures currency. While the dollar has not forged a fresh contract high early this week, we see residual buying interest from last Friday's much better than expected US nonfarm payroll report.

The dollar also looks to garner ongoing lift from money fleeing the euro with a major gas pipeline shut down for maintenance reviving fear of an energy disaster in Europe. The dollar should draft support from comments from current and past Fed members with two views that the Fed needs to continue to act aggressively populating the headlines early on. However, the US scheduled report slate early this week is very thin which in turn should narrow ranges in the currencies. While the COT report is showing a significant overbought dollar condition, fundamentals remain patently bullish. The Commitments of Traders report for the week ending July 5th showed Dollar Non-Commercial & Non-Reportable traders reduced their net long position by 5,045 contracts to a net long 41,502 contracts.

The headlines from Europe at the start of this week are abuzz with fears of an energy crisis ignited by planned maintenance of a critical pipeline (Nord Stream one) as the trade fears Russia will not return flow to the pipeline after the shutdown. The euro did not benefit from a favorable Italian retail sales reading for May which jumped by a very significant 1.9% over April! In the end, the trade appears to be focused on the euro returning to parity! Euro positioning in the Commitments of Traders for the week ending July 5th showed Non-Commercial & Non-Reportable traders net sold 16,558 contracts which moved them from a net long to a net short position of 533 contracts.

Not surprisingly, the Yen continued to fall on the charts from political uncertainty, soft machinery orders for May and from premature views that the assassination of former prime minister Abe will result in the moderation of decades of spending and stimulus. The next downside historical price zone for the Yen sits at the top of a gap on the monthly charts from September 1998 at 72.33. The technical trend in the Swiss franc is entrenched in a downward motion with a sub 1.020 trade likely early this week. Like the euro, the Swiss is facing uncertainty from the European power price structure and a return to the May and June lows just above parity should not be discounted in the coming weeks.

The Pound continues to carve out a consolidation low pattern in what might be described as a pause for a political reset. In our opinion the Pound is less vulnerable than the euro and Swiss franc to the energy price threat but still facing enough uncertainty to remain pinned down to support by dollar strength. While the Canadian dollar is underpinned because of a decline in the Canadian unemployment rate, other portions of the job report were definitively discouraging. Nonetheless, the market widely expects the Bank of Canada to raise interest rates by 75 basis points as a "record low" in the unemployment rate should give the Bank latitude to deal aggressively with inflation. Unfortunately for the bull camp, the Canadian lacks fundamental capacity to rise in the face of US dollar strength.

STOCKS:

Obviously, economic uncertainty has been tamped down by last Friday’s stronger than expected US nonfarm payroll report. Certainly, the strong jobs report clears the way for the Fed to hike rates by 125 basis points in the next 2 meetings, but the equity markets have fully accepted that outcome. However, a very critical US inflation reading looms this week and with the economy showing up better in the jobs report, the Fed should feel it has a free hand to be aggressive if CPI is hot. Therefore, the rally in equities off the June low into the CPI report creates the potential for massive two-sided swings in prices ahead.

Global equity markets at the start of this week were lower with declines reaching nearly 2% in the Hang Seng. With the equity markets chaining together a series of gains following a triple low to start the month, some anxiety has been extracted from the environment. However, reports of new variant infections in China, a breakdown in the buyout of Twitter, hawkish dialogue from the Fed's Bostic and a very critical US CPI report on Wednesday leave the potential for significant volatility in place. The bull camp this morning is attempting to embrace studies depicting strong seasonal performance in equities in the first 2 weeks of July.

From a short-term technical perspective, the S&P is overbought from a 4-day rally of 180 points with the September contract approaching downtrend channel resistance. Furthermore, the fundamental picture fosters uncertainty with press coverage presenting the trade with multiple negative economic outcome potentials. In fact, inflation appears to have lost its center stage status with recession, soft landing, stagflation, and disinflation now thought to be possible ahead.

Evidence of lingering bearish psychology is seen from the lack of optimism generated by a stronger than expected US jobs report for June. On the other hand, the most recent COT positioning report has the market net spec and fund short the largest amount since 2016. The Commitments of Traders report for the week ending July 5th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 204,998 contracts after net selling 50,673 contracts.

While macroeconomics, Chinese infections and the debate over inflation/recession will live on in daily chatter, the markets will begin to react to 2nd quarter earnings and guidance news. Fortunately for the bull camp, hawkish central bank dialogue does not appear to be creating as much anxiety among investors as was seen last month, but Reuters expects continued weekly outflows from equity funds ahead. In the previous two weeks Lipper posted investor withdrawals of $8.92 billion and $7.74 billion. Like the S&P, the Dow futures also maintain a significant net spec and fund short and that could moderate the aggressiveness of selling later this week.

The Commitments of Traders report for the week ending July 5th showed Dow Jones $5 Non-Commercial & Non-Reportable traders net bought 2,099 contracts and are now net short 27,527 contracts. With Meta announcing significant job cuts, and Twitter hiring counsel following the breakdown of buyout talks with Elon Musk, the tech sector is presented with negative fundamental headlines to start the trading week. Unlike other segments of the market the NASDAQ remains net spec and fund long which could leave it vulnerable to aggressive selling later this week. Nasdaq Mini positioning in the Commitments of Traders for the week ending July 5th showed Non-Commercial & Non-Reportable traders were net long 22,762 contracts after increasing their already long position by 2,193 contracts.

GOLD, SILVER & PLATINUM:

A Reuters article early this week indicating the treasury markets have thrown over the battle with inflation for a battle with disinflation highlights a bearish environment for gold and silver. Therefore, we think the bull camp will continue to fight an uphill battle with the dollar showing signs of forging more contract highs, bigger and faster rate hike chatter flowing daily, and sagging investment interest verified by outflows from ETF holdings. In retrospect, gold and silver were on the wrong side of the inflation story over the past 4 months with the trade remaining largely convinced inflation would ultimately be controlled.

Later this week (Wednesday), the US will release the June CPI report and a reading of +1.0% or higher is likely to stoke talk of two 75-basis point hikes from the US Fed. In other words, we see gold and silver in a position where soft inflation data is needed to take fuel away from the dollar bulls, but also to lower recession fear selling of most physical commodities. On the other hand, US CPI, and the potential influence on the Fed from that report may be completely tossed aside in the event the Chinese government is forced to return portions of Shanghai and other urban areas to lock down. In short, another lockdown by China adds to recession fears and likely rekindles aggressive selling of commodities like gold and silver.

Fortunately for the bull camp in gold, the net spec and fund positioning this week is at the lowest level since May 2019 which could begin to limit the magnitude of downside washouts. The July 5th Commitments of Traders report showed Gold Managed Money traders net sold 19,831 contracts and are now net long 26,806 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 22,883 contracts to a net long 167,042 contracts. While September silver has built a consolidation around the $19.00 mark on the charts, recent large daily outflows from silver ETFs suggest silver has not found fair value yet. The July 5th Commitments of Traders report showed Silver Managed Money traders went from a net long to a net short position of 8,309 contracts after net selling 9,302 contracts. Non-Commercial & Non-Reportable traders net sold 7,675 contracts and are now net long 10,251 contracts.

While the most recent COT positioning report did not show a record spec and fund short position in palladium, the positioning was very near a record and therefore some of last Friday's rally was likely generated by stop loss buying. Palladium positioning in the Commitments of Traders for the week ending July 5th showed Managed Money traders are net short 2,378 contracts after net buying 291 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 337 contracts to a net short 4,104 contracts. With global economic conditions still highly vulnerable, and very little evidence showing Russian PGM supplies are being blocked we are highly suspicious of the $400 rally off the early June lows!

However, a near record spec and fund short combined with the world's largest supplier at war with the world suggests that it is unwise to sell palladium. It should be noted that outflows from platinum ETFs have also picked up pace despite what some saw as good value at last week's lows. The positioning report showed platinum holding a net spec short, and that should discourage fresh sellers. Platinum positioning in the Commitments of Traders for the week ending July 5th showed Managed Money traders were net short 15,141 contracts after increasing their already short position by 4,978 contracts. Non-Commercial & Non-Reportable traders were net long 725 contracts after decreasing their long position by 2,177 contracts.

COPPER:

With the September copper contract into the close last Friday sitting $0.25 above last week's lows and reports of infection problems in China that should leave the bear camp with control early this week. In fact, as testing results in Shanghai flow in, talk of significant copper demand destruction are likely to populate the headlines again. However, the copper market should see support from news that Peruvian copper production in May declined by 11% versus year ago levels.

In addition, Chile said that their May copper production to be down by 2.5% from your ago levels. Certainly, the copper market has aggressively liquidated its spec and fund long positioning but in our opinion the market is not "mostly sold-out" yet. The Commitments of Traders report for the week ending July 5th showed Copper Managed Money traders are net short 26,497 contracts after net selling 1,095 contracts. Non-Commercial & Non-Reportable traders are net short 29,959 contracts after net selling 261 contracts.

ENERGY COMPLEX:

In our opinion, crude oil is lucky to have avoided even larger losses at the start of this week as standard cyclical energy demand fears have been surfacing from widening recession expectations and that news has been joined by fresh Chinese Covid 19 restrictions. While not a front and center issue, recently unending strength in the dollar is likely costing the US some international oil sales business. Fortunately for the bull camp, the US jobs report was strong enough to temper fears of recession from over tightening by the US Fed. It should also be noted that net spec and fund long positioning in crude oil has fallen sharply since the June highs and could reduce downside volatility ahead.

Crude Oil positioning in the Commitments of Traders for the week ending July 5th showed Managed Money traders were net long 200,957 contracts after decreasing their long position by 42,354 contracts. Non-Commercial & Non-Reportable traders net sold 24,439 contracts and are now net long 362,590 contracts. The most recent positioning report put the crude oil market at the smallest net spec and fund long since February 2019! Furthermore, the bull camp is likely drafting some support from the planned outage of the Nord Stream 1 gas pipeline as that has fostered talk that Russia may shut other energy flows as well. In yet another supportive development weekly crude oil in floating storage declined by 13% with the important Asian-Pacific storage down by 21% and reaching a 12-month low.

In a surprise development from last week, prices should be supported following reports from the EIA of a decline in April US oil production thereby matching the lowest monthly output since February. US crude oil production in April (the latest data available) dropped to 11.6 million barrels per day and is sitting far below its record high of 12.3 million barrels per day registered in 2019. Another minimal support against the potential demand destruction tidal wave are projections from the EIA of record US oil exports and reports of significant amounts of US strategic oil flowing offshore. While the latest US monthly production tally slacked off, US drillers added to oil rigs in the last week putting the rig count to the highest level since March 2020. Unfortunately for the bull camp, we see the threat against Chinese demand destruction dominating over other forces unless the markets manage to settle back into a full-blown risk on environment.

Like the crude oil market, we see the gasoline market facing a potential demand destruction liquidation threat in the event the Chinese government puts large areas of Shanghai in lockdown. While seasonal demand will remain strong, that issue will not lift prices without a very broad-based risk on market environment holding in place. On the other hand, US retail gasoline prices saw the biggest one-day decline since the financial crisis with pump prices falling 3.1 cents late last week. Going forward, we see gasoline stocks in the US beginning to repair with the recent spike up in the refinery operating rate combined with a slight softening of seasonal demand likely to extend the recent pattern of narrowing of gasoline inventories versus year ago levels for a fourth straight week in a row!

Fortunately for the bull camp the net spec and fund long in gasoline in last week's report was the lowest since June 2017 which should help mitigate losses on broad-based physical commodity market washout sessions. The July 5th Commitments of Traders report showed Gas (RBOB) Managed Money traders are net long 45,486 contracts after net selling 8,042 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 9,914 contracts to a net long 32,615 contracts. Despite a very high US refinery operating rate over the past 2 weeks, both distillate and diesel stocks have declined with their year-over-year deficits also expanding.

Therefore, supply remains tight, and prices could hold up if the markets avoid major broad-based recession style liquidation trading. It should be noted that US distillate demand jumped higher last week in what was the most bullish demand reading of the 2022 summer cycle. While not as liquidated as other components of the energy market, the diesel market has seen its net spec and fund long position drop by two thirds since last October. The July 5th Commitments of Traders report showed Heating Oil Managed Money traders net sold 219 contracts and are now net long 12,699 contracts. Non-Commercial & Non-Reportable traders net sold 2,936 contracts and are now net long 22,670 contracts. We see key support in the August ULSD contract at $3.7016.

Underpinning natural gas prices to start the week is a planned 10-day maintenance shutdown of the Nord Stream One pipeline and a widespread area of much above normal US temperatures (6-10 and 8-to-14-day forecasts). Some flow from Russia is restricted due to a damaged turbine, and the acuteness of the impact is clear with Germany moving to its 2nd highest stage of supply emergency. Even ahead of the shutdown on Monday, capacity of the Nord Stream One pipeline was off by 40%. In a disastrous demand destruction forecast, economists suggest a complete halt of Russian natural gas exports could cause Germany a loss of 12.7% of growth!

In a potential positive development, four of the largest US LNG exporters have solicited the US administration to exempt some pollution rules that some industry experts suggest could result in a significant shutdown of US capacity ahead if the companies comply with environmental rules. The most recent US weather forecast has 2/10 degrees above normal temperatures through the West Central and Southwest regions, with the 11/15 day forecast also carrying temperatures 2 to 10 degrees above normal in the Midwest and central regions. However, tempering the bullishness from the temperature scan is near normal temperatures in the Northeast, Southeast, Western and Southwest regions.

Natural Gas positioning in the Commitments of Traders for the week ending July 5th showed Managed Money traders were net short 51,393 contracts after increasing their already short position by 1,919 contracts. Non-Commercial & Non-Reportable traders added 1,249 contracts to their already short position and are now net short 92,775. The risk of a significant supply shock continues to expand with European users faced with a maintenance shutdown and a hot temperature forecast. Certainly, demand destruction threats hang in the marketplace, but natural gas appears to be underpinned better than petroleum markets against risk off events.

BEANS:

After two weeks ahead of dry weather with much of the Midwest showing temperature highs in the mid-90s or into the 100's, the soybean crop could be showing stress going into the key reproductive period during early August. A USDA report which may show tightening ending stocks this week may just add to the bullish tone. November soybeans closed sharply higher on the session Friday and this left the market closing higher on the week. The market managed to rally as much as 96 1/4 cents off of Wednesday's low. Meal closed sharply higher on the day and sharply higher on the week, while December soybean oil closed higher on the session but well down for the week. A more positive tilt to outside market forces, strength in crude oil and more talk of drier weather in the extended forecast models helped to support.

China's soybean import estimates for the current and upcoming marketing years were lowered slightly by the USDA Agriculture's Beijing post. The outlook for imports in 2021-22 was trimmed by 1 million metric tons to 94 million. The 2022-23 forecast was pared 2 million tonnes to 98 million as compared with the USDA official estimate at 99 million tonnes. The weekly export sales report showed that for the week ending June 30, net soybean sales came in at -160,035 tonnes (cancelations) for the current marketing year and 240,089 for the next marketing year for a total of 80,054. China, and unknown destination, were noted with cancellations of 465,000 tonnes of US soybeans for the old crop season. Cumulative soybean sales have reached 102.8% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 103.4%. Net meal sales came in at 148,812 tonnes for the current marketing year and 30,430 for the next marketing year for a total of 179,242. Net oil sales came in at -12 tonnes (cancelations).

Indonesia will start imposing higher palm oil content in gasoil on July 20 in a bid to reduce stocks. The B35 program mandates that local diesel must contain 35% palm oil, up from the current 30% mix. China will sell 500,000 tonnes of imported soybeans from its state reserves on July 15, according to the National Grain Trade Center. For the USDA Supply/Demand report coming up Tuesday, traders see soybean ending stocks near 211 million bushels, 141-275 range, as compared with 280 million in June. World ending stocks are expected near 99.37 million tonnes, 96.5-101.0 range, as compared with 100.46 million tonnes last month. Traders see Brazil production at 125.86 million tonnes, 125-126.96 range, as compared with 126 million tonnes as the June estimate.

Argentina production is expected at 43.32 million tonnes, 43-43.5 range, as compared with 43.4 million tonnes in June. The Commitments of Traders report for the week ending July 5th showed Soybeans Managed Money traders net sold 19,450 contracts and are now net long 105,048 contracts. Non-Commercial & Non-Reportable traders were net long 63,272 contracts after decreasing their long position by 23,739 contracts for the week. For Soyoil, Managed Money traders are net long 24,929 contracts after net selling 8,676 contracts. Non-Commercial & Non-Reportable traders net sold 13,857 contracts and are now net long 36,632 contracts. For meal, Managed Money traders added 3,320 contracts to their already long position and are now net long 65,777.

CORN:

A shift to a much drier and hotter weather pattern for the next two weeks opens the door for more aggressive buying from speculators over the short run. The five day weather forecast shows only trace amounts of rain across the Corn Belt. The 6-10 and 8-14 day forecast models show much above normal temperatures and below normal precipitation. For example, after five days of dryness in Omaha, beginning Friday there will be 9 of 10 days at 96 or above and continued dryness. How long the heat dome last is in question. December corn closed sharply higher on the session Friday, and this left the market with a gain of 16 cents for the week. The market rallied as much as 59 1/2 cents off of the lows Wednesday. Talk of drier weather ahead plus a positive tilt to outside market forces and strength in crude oil were all seen as supportive forces.

Ukraine's corn stocks in the 2022-23 season are expected to climb six-fold versus the 2020-21 year, according to the UN's Food and Agriculture Organization says in a report. The agency boosts its outlook for global coarse-grain stockpiles to 363.3 million tonnes, up 6 million from a month earlier. For Tuesday's USDA supply/demand update, traders see corn ending stocks near 1.442 billion bushels, 1.310-1.565 range, as compared with 1.400 billion bushels in the June forecast. World ending stocks are expected near 310.49 million tonnes, 308.50-312.30 range, as compared with 310.45 million tonnes in the June update. Traders see Brazil corn production near 116.47 million tonnes, 114.0-119.30 range, as compared with 116 million tonnes in the June update. Argentina corn production is expected near 52.38 million tonnes, 49-53 range, as compared with 53 million tonnes in the June update.

The weekly export sales report showed that for the week ending June 30, net corn sales came in at -66,600 tonnes (cancelations) for the current marketing year and 111,200 for the next marketing year for a total of 44,600 tonnes. Cumulative sales have reached 95.1% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 97.9%. The July 5th Commitments of Traders report showed Corn Managed Money traders reduced their net long position by 55,748 contracts in just one week to a net long 172,867 contracts. Non-Commercial No CIT traders reduced their net long position by 64,988 contracts in just one week (aggressive long liquidation) to a net long 73,449 contracts. Non-Commercial & Non-Reportable traders net sold 84,556 contracts and are now net long 158,745 contracts.

WHEAT:

A much above normal temperature forecast for the spring wheat crop areas combined with the potential for a weather rally in the other grains may help support the wheat market over the near term. September wheat closed 55 cents higher on the session Friday and this left the market with a gain of 45 1/2 cents for the week. A lack of progress on the Black Sea front plus strength in the other markets helped to support. After the recent very sharp break, there seemed to be a lack of aggressive new sellers on the rally. Talk of some demand from China helped to provide buying support as well. Traders are positioning ahead of the USDA Crop Production and Supply/Demand report.

Traders see All Wheat production near 1.745 billion bushels, 1.662-1.805 range, as compared with 1.737 billion bushels in June. Traders see Spring Wheat production near 458 million bushels with a range of

336-526 million bushels. Traders see wheat ending stocks for the 2022/23 season near 638 million bushels, 559-690 range, as compared with the June estimate of 627 million bushels. World ending stocks are expected near 266.26 million tonnes, 240.0-272.5 range, as compared with 266.85 million tons in June. The weekly export sales report showed that for the week ending June 30, net wheat sales came in at 286,400 tonnes for the current marketing year. Cumulative sales have reached 28.7% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 28.9%. Sales need to average 246,000 tonnes per week to reach the USDA forecast.

The Commitments of Traders report for the week ending July 5th showed Wheat Managed Money traders net sold 1,062 contracts which moved them from a net long to a net short position of 42 contracts. Non-Commercial & Non-Reportable traders went from a net long to a net short position of 2,760 contracts after net selling 6,509 contracts. For KC wheat, Managed Money traders were net long 22,037 contracts after decreasing their long position by 2,819 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 3,805 contracts to a net long 13,749 contracts.

HOGS:

August hogs closed lower on the session Friday but well up from the early low. The market held minor support on the early setback as the recent strength in the pork market plus ideas that pork production will remain relatively tight in the next month helped to support. The USDA pork cutout, released after the close Friday, came in at $112.62, up $2.50 from Thursday and up from $107.61 the previous week. The USDA estimated hog slaughter came in at 468,000 head Friday and 118,000 head for Saturday. This brought the total for last week to 1.983 million head, down from 2.281 million the previous week but up from 1.916 million a year ago. Estimated US pork production last week was 426.1 million pounds, down from 494.6 million the previous week but up from 401.4 million a year ago. The CME Lean Hog Index as of July 6 came in at $110.16, up from $109.93 the previous session.

U.S. pork export sales for the week ending June 30 came in at 31,200 tonnes compared with the average of the previous four weeks of 26,000 tonnes. Cumulative sales for the 2022 marketing year have reached 963,500 tonnes, down 5.6% versus last year's pace. Friday's Commitments of Traders report showed managed money traders were net sellers of 2,154 contracts of lean hogs for the week ending July 5, reducing their net long to 28,485. Non-commercial & non-reportable traders were net sellers of 1,955, reducing their net long to 16,484. The technical action is impressive but the market upside seems somewhat limited given the poor packer profit margins. However, US pork production normally increases 50-200 million pounds from the second quarter to the third quarter, but this year third quarter production is expected to be down 115 million pounds from the second quarter. This is the second biggest decline on record and is a factor which may dilute the normal late-summer doldrums for pork values and may support.

CATTLE:

August cattle closed moderately lower on the session last Friday after trading higher on the session early in the day. Demand concerns persist and traders see somewhat ample supply short-term. With high gas prices and inflation for basic commodities, short-term consumer demand for higher price beef cuts might be in question. The USDA boxed beef cutout was up 7 cents at mid-session Friday and closed 18 cents lower at $267.89. This was up from $263.82 the previous week. Cash live cattle trade was moderate for a Friday with trades consistent with earlier in the week. As of Friday afternoon, the 5-day, 5-area weighted average price was 143.56, down from $145.10 the previous week but well up from August (133.95).

US beef export sales for the week ending June 30 came in at 11,000 tonnes, down from 17,000 the previous week and the lowest since January 6. Cumulative sales for 2022 have reached 706,100 tonnes, up from 698,700 a year ago and the highest on record for this point in the year. The five-year average is

567,600. The USDA estimated cattle slaughter came in at 125,000 head Friday and 88,000 head for Saturday. This brought the total for last week to 593,000 head, down from 636,000 the previous week but up from 581,000 a year ago. The estimated average dressed cattle weight last week was 810 pounds, unchanged from the previous week and down from 814 a year ago. The 5-year average weight for that week is 813.6 pounds.

Estimated beef production was 479.3 million pounds, up from 471.9 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 9,968 contracts of live cattle for the week ending July 5, reducing their net long to 14,297. Non-commercial & non-reportable traders were net sellers of 6,391, reducing their net long to 30,620. Third quarter beef production is expected to be up 2.1% from last year, but fourth quarter beef production is expected to be down 5.8% from last year. The USDA sees 4th quarter beef production down 430 million pounds from the third quarter as compared with an increase of 127 million pounds last year. This will be the largest decline since 2008, and the drop in production may provide support.

COCOA:

Since the start of April, cocoa has been unable to sustain recovery moves as near-term demand concerns continue to be a major source of pressure. While the market will received key demand-side data this week, cocoa may slide further to the downside before it can find a near-term floor. September cocoa saw downside follow-through from Thursday’s late pullback as it finished Friday’s trading session with a sizable loss. For the week, however, September cocoa finished with a gain of 4 points (up 0.2%) which broke a 2-week losing streak and was a positive weekly key reversal.

The Eurocurrency rebounded from a multi-year low into positive territory, and that provided the cocoa market with carryover support as an extended rebound could make it easier for European grinders to acquire near-term cocoa supplies. However, Wednesday’s release of the European second quarter grinding total may have fueled additional long liquidation going into the weekend. Multi-decade high inflation levels in many European nations have led to sharply higher prices for many consumer staples, which in turn has weakened demand for discretionary purchases such as chocolate.

In addition, Russia’s invasion of Ukraine has also weighed on cocoa demand throughout Europe. The second quarter Asian grindings total will be released early in Friday’s trading session, which follows their first quarter result that posted the first negative year-over-year result since the end of 2020. China continues to see COVID restrictions in their major metropolitan areas which are likely to dampen overall Asian chocolate demand.

Cocoa positioning in the Commitments of Traders for the week ending July 5th showed Managed Money traders are net short 29,409 contracts after net selling 18,616 contracts. CIT traders were net long 26,556 contracts after decreasing their long position by 5,192 contracts. Non-Commercial No CIT traders added 10,759 contracts to their already short position and are now net short 27,444. Non-Commercial & Non-Reportable traders were net short 17,663 contracts after increasing their already short position by 15,339 contracts.

COFFEE:

Coffee prices started July with a wide-sweeping outside-day down session and a 4-session losing streak, but the market continues to hold its ground within a wide consolidation zone since early March. With bullish supply developments providing underlying support, coffee may be able to see upside follow-through this week. September coffee came under midsession pressure and reached a new 6-week low, but rallied late in the day to finish Friday’s trading session with a mild gain and a positive daily reversal.

For the week, however, September coffee saw a loss of 4.20 cents (down 1.9%) which was a fourth negative weekly result over the past 5 weeks.

Ongoing concern with out-of-home consumption due to high inflation weighed on coffee prices late last week. However, ICE exchange coffee stocks fell by 15,096 bags on Friday as they drop below 800,000 for the first time since October of 1999. Coffee stocks located at Euro zone warehouses have fallen nearly 103,000 bags (down 12.3%) since the end of June, which reflect tight near-term supply as well as some improvement in European demand.

In addition, a more than 1% gain in the Brazilian currency helped to lift coffee prices into positive territory as that eases pressure on Brazil's farmers to market their near-term supply to foreign customers. Although Vietnam's coffee exports during the first half of 2022 were more than 20% ahead of last season's pace, there are reports that most of this season's coffee has already been sold and that their near-term supply will be fairly tight over the next few months.

The Commitments of Traders report for the week ending July 5th showed Coffee Managed Money traders were net long 34,692 contracts after increasing their already long position by 1,831 contracts. CIT traders reduced their net long position by 3,033 contracts to a net long 44,044 contracts. Non-Commercial No CIT traders net bought 3,734 contracts and are now net long 23,648 contracts. Non-Commercial & Non-Reportable traders were net long 43,722 contracts after increasing their already long position by 2,190 contracts.

COTTON:

With the oversold condition of the market and strength in grain markets overnight, December cotton looks vulnerable for a rally into the USDA report. The five day forecast has turned very dry for West Texas, and the 6-10 day forecast models and the 8-14 day forecast models both show above normal temperatures and below normal precipitation for West Texas. This would suggest deterioration in the cotton crop over the next two weeks. For the USDA report on Tuesday, traders see US production near 16.03 million bales, 15.25-17.31 range, as compared with 16.50 million bales in the June estimate.

Exports are expected to be revised lower to 14.19 million bales from 14.50 million in June with ending stocks expected near 2.87 million bales, 2.2-3.85 range, as compared with 2.90 million bales in June. World ending stocks are expected near 82.45 million bales, 81.00-83.25 range, as compared with 82.77 million in June. India announced it was extending its duty-free policy for cotton imports to October 31. Patchy monsoon rainfall has delayed sowing of the crop in some regions. India mainly imports cotton from the US, Brazil, and Egypt.

US cotton export sales for the week ending June 30 came in at 37,350 bales for the 2021/22 (current) marketing year and 381,855 for 2022/23 for a total of 419,205. This was up from 94,468 the previous week and the highest since May 26. Cumulative sales for 2021/22 have reached 15.640 million bales, down from 16.116 million a year ago and 17.037 million at this point in 2020. Sales have reached 112% of the USDA's forecast for the marketing year versus a 5-year average of 111%. The largest buyer this week was Turkey at 110,261 bales, followed by Pakistan at 98,648, Bangladesh at 66,089, Vietnam at 61,089, and China at 32,008.

China has the most commitments for 2021/22 at 5.030 million bales, followed by Turkey at 2.114 million and Vietnam at 2.092 million. India is seventh at 500,700 bales. Friday's Commitments of Traders report showed managed money traders were net sellers of 6,052 contracts of cotton for the week ending July 5, reducing their net long to 40,686. Non-commercial & non-reportable traders were net sellers of 8,650, reducing their net long to 53,578.

SUGAR:

Sugar's sizable 3-day rally was fueled in part by renewed strength in key outside markets. However, there have been supply-side developments that can help the sugar market maintain upside momentum this week. October sugar shook off mild early pressure and rallied to a new 4-week high before finishing Friday's trading session with a sizable gain. For the week, October sugar finished with a gain of 95 ticks (up 5.3%) which broke a 6-week losing streak and was a positive weekly reversal from Tuesday's 4-month low.

Crude oil and RBOB gasoline extended their recovery moves going into the weekend, which in turn provided the sugar market with carryover support as that can help to strengthen ethanol demand in Brazil and India. In addition, the Brazilian currency regained more than 1% in value which also gave a boost to sugar prices as it eases pressure on Brazil's mills to produce sugar for export. The Unica Center-South supply reports for the second half of June will be released this week, and will be scrutinized for any shifts in crushing share from ethanol to sugar.

India has extended their deadline for exporting 800,000 tonnes of sugar from July 5th to July 20th as heavy monsoon rainfall has led to transportation delay to port facilities. India will have a limit for this season's sugar exports at 10 million tonnes, but there are indications that next season's (2022/34) export limit may only be 6 to 7 million tonnes. With high inflation increasing the prices for many household items, India's government may continue to limit sugar exports in order to weaken domestic prices.

The Commitments of Traders report for the week ending July 5th showed Sugar Managed Money traders reduced their net long position by 27,761 contracts to a net long 43,321 contracts. CIT traders are net long 223,193 contracts after net selling 9,078 contracts. Non-Commercial No CIT traders net sold 40,627 contracts which moved them from a net long to a net short position of 39,021 contracts. Non-Commercial & Non-Reportable traders are net long 60,269 contracts after net selling 56,412 contracts.

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