ADM Investor Services, Inc.

Weekly Futures Market Summary

July 18, 2022

by the ADMIS Research Team

BONDS:

Following disappointing Chinese GDP and industrial production readings, last Friday's European data included an in-line result for Italian CPI that remained at a multi-decade high. June US retail sales came in slightly above trade forecasts, but were not the strong data "beat" that Fed officials were looking for to justify a 100 basis point Fed rate hike later this month. Although the latest Empire State survey and a private survey of consumer sentiment came in higher than expected, both industrial production and capacity utilization were lower than trade forecasts. Treasuries were able to build on early strength and finished last Friday's trading session with sizable gains.

With a conclusive risk on vibe in commodities and equity markets earl y this week, the treasury markets started out under minimal pressure. The markets are likely to be presented with less US Federal Reserve commentary as the Fed has moved into its news blackout period ahead of the 2-day Federal Reserve open market committee meeting next week. In looking back, the last Federal Reserve commentary came from the Fed's Bullard who suggested the Fed is likely to "stick" with a 75-basis point rate hike in their meeting next week. In other words, market suspicions of a 100-basis point rate hike have been moderated. Minimal support for treasuries is likely to flow from the potential for a change in the Italian Prime Minister role after a failure to put together a supportive coalition.

Other modest support for treasuries is Bank of Japan promises of ongoing dovish policies, signals of increased risk from credit markets and signs of debt market anxiety toward developing market supply. It goes without saying that the inverted yield curve storyline continues to help underpin prices above key support on the charts. While not excessive both bond and notes remain net spec and fund short as of early last week. The July 12th Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders are net short 16,844 contracts after net selling 1,564 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders were net short 186,131 contracts after decreasing their short position by 63,586 contracts.

CURRENCIES:

The Dollar continued to be pressured late last week by the slightest of shifts in Fed rhetoric as it followed through on Thursday's pullback by finishing Friday's trading session with a sizable decline. Comments by the Fed's Waller and Bullard raised the bar for today's US retail sales reading which beat trade forecasts, but was not enough to reaffirm expectations for a 100 basis point Fed rate hike later this month. This

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provided across the board support for major currencies, with the Euro finding an additional boost from a multi-decade high Italian CPI reading.

The trade in the dollar index could see an ongoing wave of profit taking selling and perhaps a wave of stop loss selling given the widespread bullish sentiment toward the dollar since the beginning of the month.
Apparently, the dollar is undermined because of comments from the Fed's Bullard indicating the Fed would likely stick with a 75-basis point hike next week. However, the dollar has already violated first retracement support from the July rally and until the US posts a positive scheduled economic reading, a test of the 50% retracement is possible. The July 12th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders net sold 593 contracts and are now net long 40,909 contracts.

About the most positive thing we can say about the euro is it deserves technical short covering after the significant declines of the past 30 days. Apparently, shorts have banked profits and moved to the sideline because of US Fed comments indicating the US central bank might not move 100-basis points next week. In a very minimal supportive development, Italian trade surplus figures for May following the deficit last month could signal stronger tourism which is a tonic for the Italian economy. On the other hand, a power struggle for the Italian leader is probably set to hold back rallies. Given definitively bearish fundamentals short covering is likely to be limited. The July 12th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders added 11,011 contracts to their already short position and are now net short 11,544.

Like other non-dollar currencies, the Yen has a reprieve from the selling because of back and fill action in the dollar. Unfortunately for the Yen bulls, the Japanese equity market was closed (while all other markets traded higher) and therefore the Yen missed out on a positive outside market force. The early action in the Swiss franc points to a leadership role in the current technical bounce. Certainly, slightly less hawkish US central bank dialogue is adding to strength in non-dollar currencies, but a distinct fundamental shift in favor of the bulls has not taken place.

Like the Swiss franc, the Pound has apparently made the most out of the corrective setback in the dollar. Perhaps the Pound is lifted because of tax cut talk among those seeking the Prime Minister position. Initial resistance and a possible top are pegged at a downtrend As in several non-dollar currencies, the Canadian dollar was excessively oversold from a technical perspective last week and was likely overdone fundamentally into the washout low last week. Furthermore, very lofty inflation projections by the Bank of Canada Governor Macklem probably adds fresh speculative buying.

STOCKS:

Global markets were able to regain a positive tone going into the weekend after an eventful trading session last Friday. Disappointing earnings from Wells Fargo and BlackRock weighed on sentiment early in the day. Although there was a mixed set of US economic data, retail sales did not have a much better than expected result, which diminished the case for a 1.00% Fed rate hike later this month. The Dollar extended its pullback, which benefited US multinational firms. US equity markets continued to build on early strength as they finished last Friday with sizable gains.

Global equity markets were all higher at the start of this week with the exception the market in Tokyo which was closed for a holiday. Adding into the optimistic initial market environment were gains in nearly all commodities. So far, financial sector earnings reports have been mixed with Citigroup posting a profit beat and Wells Fargo registering softer results from increased loan loss reserves and developing weakness in the real estate mortgage business. As indicated in other market coverage, the US Federal Reserve has entered its "blackout" period ahead of next week's rate decision meeting and that could reduce selling flares inspired by fears of a 1% hike next week.

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With a 6-day high extending last week's significant bounce, the bear camp likely remains off balance. However, investors continue to seek the relative safety of value stocks as they justifiably fear ongoing inflation and even higher interest rates ahead. Even though the fundamental outlook remains very bearish, the S&P into last Thursday's low probably posted the largest net spec and fund short since 2016. The Commitments of Traders report for the week ending July 12th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 223,239 contracts after net selling 18,241 contracts.

After maintaining the most constructive charts through the early July two-sided chop, the September Dow Jones futures forged 13-day highs and have regained a potential psychological pivot point at 31,500. The Commitments of Traders report for the week ending July 12th showed Dow Jones $5 Non-Commercial & Non-Reportable traders are net short 25,612 contracts after net buying 1,915 contracts. With recent positive news from Boeing and a major air show underway it is possible that talk of Boeing airplane sales will give the Dow a positive fundamental storyline.

While the NASDAQ has not forged as impressive of a range up move as other measures of the market, a 3rd straight day of higher closes could be in order today, potentially resulting in an upside breakout above key resistance at 12,211. The Commitments of Traders report for the week ending July 12th showed Nasdaq Mini Non-Commercial & Non-Reportable traders are net long 7,679 contracts after net selling 15,083 contracts.

GOLD, SILVER & PLATINUM:

If metal market views begin to think rapidly rising interest rates might not deter inflation, that could begin to discourage aggressive and very confident selling interest in gold and silver. Fortunately for the bull camp, hawkish market sentiment from the US central bank will likely moderate this week as the US Fed entered its blackout period over the weekend ahead of the July 26th-27th meeting. At least to start this week, gold and silver benefited from further weakness in the dollar which at times had reached 5-day lows! On the other hand, hawkish foreign central bank dialogue and continued private analyst hawkish dialogue will keep a lid on gold and silver prices.

However, the bull camp might have hope of a turn down in the dollar following what appeared to be a blowoff reaction reversal at the end of last week. In fact, with no US Fed dialogue in the coming week, the infection situation in China could become a key driving force for gold and silver prices again. Investor capital continues to flow out of gold and silver ETFs, with signs of aggressive outflows from silver ETFs. Gold holdings have declined for 13 straight sessions and declined last week by 673,409 ounces. As indicated, silver ETF outflows have become very significant with 10.3 million ounces leaving the funds last week.

Seeing the October gold contract from the last positioning report into the low decline by $30.00 and given the net spec and fund long was already at the lowest level since May 2019, weakened longs are being pushed out of the market. The latest net spec and fund long position in gold was 136,589 contracts with the net spec and fund long in silver only 8,116 contracts. Adjusted for the post COT report slide in silver of $0.86, it is possible that the net spec and fund long in silver has turned into a net spec and fund "short".

The July 12th Commitments of Traders report showed Gold Managed Money traders net sold 24,058 contracts and are now net long 2,748 contracts. Non-Commercial & Non-Reportable traders net sold 30,453 contracts and are now net long 136,589 contracts. The Commitments of Traders report for the week ending July 12th showed Silver Managed Money traders net sold 1,633 contracts and are now net short 9,942 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,135 contracts to a net long 8,116 contracts.

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Despite the initial lift from positive outside market forces, the palladium market maintains an overall bearish technical and fundamental condition. In fact, investors remain negative toward both palladium and platinum with PGM ETF holdings last week posting 44,289 ounces moving out of platinum ETFS putting the year-to-date contraction in holdings at 9.4%. Similarly, palladium ETF holdings last week declined by 7,489 ounces and are now 12% lower on the year. The palladium market has not had specific fundamental developments justifying the gyrations in prices ($400) over the last 30 days.

On the other hand, from a technical perspective with the palladium contract from the last COT report mark off posting a decline of nearly $100 (into the Friday low), the net spec and fund "short" positioning is likely the largest ever! In the end, without a very significant improvement in global economic "tone" and persistent gains in equities we see downside targeting of $1,791.50 and then again down at $1,765. While the platinum market from the last COT positioning report into the low last week only declined by $22, that washout likely resulted in a record "net spec and fund short". Unfortunately for the bull camp, the platinum market has little fundamental news flow and what news flow there is creates demand concern.

The Commitments of Traders report for the week ending July 12th showed Platinum Managed Money traders added 3,896 contracts to their already short position and are now net short 19,037. Non-Commercial & Non-Reportable traders went from a net long to a net short position of 2,582 contracts after net selling 3,307 contracts. The July 12th Commitments of Traders report showed Palladium Managed Money traders net bought 786 contracts and are now net short 1,592 contracts. Non-Commercial & Non-Reportable traders net bought 852 contracts and are now net short 3,252 contracts.

COPPER:

With the copper market becoming significantly short-term and intermediately oversold from technical perspectives last week, and most fundamentals remaining distinctly bearish, rallies are likely to be temporary. In fact, a pattern of daily increases in Chinese infection counts increases the prospect of lockdowns in China and fresh economic headwind fears. However, the market early this week caught distinct lift from positive global market psychology and from reports the Chinese central bank will continue to provide supportive monetary policy.

Furthermore, ongoing whispers of Chinese support for developers on unfinished projects is likely causing some short covering buying to start today. It should be noted that the pattern of declining exchange stocks from early June until early July has largely dissipated which in turn keeps some demand destruction fears in play. The markets should garner some minimal support from a court-ordered shutdown of copper exports in the Congo, but total supply involved in that disruption should be very modest. In the end, sentiment toward copper is likely to remain bearish into the new trading week with the press trumpeting last week as the biggest weekly decline of the year.

We attribute the bounce on Friday to week ending profit-taking, especially with the net spec and fund short in copper likely progressing toward the old record "short" with the post report decline of $0.16. The net spec and fund long in copper was 26,213 contracts as of July 12th. The Commitments of Traders report for the week ending July 12th showed Copper Managed Money traders reduced their net short position by 8,184 contracts to a net short 18,313 contracts. Non-Commercial & Non-Reportable traders are net short 26,213 contracts after net buying 3,746 contracts.

ENERGY COMPLEX:

While last week's spike below $90.00 in September crude oil could represent a key bottom, the outlook for demand from economic data and equity market action will likely drive prices sharply in both directions this week. In the short term, the daily direction of crude oil prices is likely to take significant guidance from the equity markets as the ebb and flow of demand destruction from equity market signals has been the

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dominating force since the June highs in crude oil. Therefore, initial upside action (a 4-day high) is at least partially the result of higher equities but also because of a decline in floating global crude oil storage of 6.3% on a week over week basis.

Most importantly Asian-Pacific floating stock was down 11% with North Sea supply down 52%! In retrospect, President Biden's meeting with the Saudi King failed to produce a promise of increased production from the kingdom, thereby providing a modest underpin for prices around the $90.00 level. Bearish supply news from Russia was floated over the weekend with the Russians announcing a $2.20 reduction in their oil export duty, as that is likely to foster more around the embargo type buying. Even the UK has continued to buy Russian crude oil and that combined with the IEA forecasting world oil production increased by 690,000 barrels per day in May to 99.5 million barrels per day Russian supply flowing freely and from increased production by the US.

This week's COT positioning report showed crude oil net spec and fund long at 354,614 contracts with the noncommercial net spec and fund long making up 321,317 contracts of that tally. The net spec and fund long positioning is now at the lowest level since February of 2019 and could easily fall to the lowest level since November 2016 with a return below $90.00. This week's Baker Hughes rig operating count showed a 2nd straight week of increase in active oil rigs. The overall number of oil rigs reached the highest since March 2020 and traders expect rig operating gains to moderate given the June and July washout in prices.

While the gasoline market might find residual support from the Saudi comments that high global energy prices in the US are the result of a shortage of refinery capacity/activity, the market will face ongoing demand destruction fear selling. Unfortunately for the bull camp, demand concern was given traction by recent high-frequency road use declines in China but that negative demand news was significantly offset by reports that Chinese gasoline shipments over the first 6 months of this year declined by 42%. This week's COT report put the net spec and fund long in gasoline just above the lowest net spec and fund long since 2017. However, we see cyclical and seasonal demand softening ahead and nearby gasoline futures prices below $3.00 without a dramatic sustainable risk on environment.

Last week, EIA gasoline stocks posted the biggest inflow of key inventory readings and have seen the year-over-year supply deficit cut in half since the June 17th report! Going forward, the onus is on the bull camp to prove that the $3.00 level is more than a temporary stopping point on the way to $2.90. The charts in the diesel market remain the strongest of the complex with the September contract building consolidation support around the $3.50 level. In a bullish overnight development, Bloomberg is reporting a reduction in first-half Chinese diesel exports of 80%. Unfortunately for the bull camp, the weekly implied distillate demand came in very soft again adding into the cyclical demand destruction argument. The most recent COT spec and fund long positioning in diesel leaves the market vulnerable with the net long nearly 3 times the level seen in March.

With a fresh upside breakout, the natural gas market continues to find buyers off the combination of strong global cooling demand and from ongoing anxiousness over the July 21st scheduled reopening of the Nord Stream 1 pipeline. In fact, a portion of the rally last week might have been European factoring of a delayed return of that supply following maintenance. On the other hand, the Russian national gas company supply flow to Europe through Ukraine remained steady over the weekend. In our opinion, Russia has not shown the inclination to shut off the pipeline and halt the revenues from that pipeline. Underpinning gas prices going forward are indications from Germany, UK, and Hungary indicating their reserve building is still only half of winter storage targets.

While the US will continue to see extremely hot temperatures in the coming week, the hot zone is isolated around and north of Texas into the middle of the country thereby leaving most of the Gulf Coast with average cooling demand. This week's Baker Hughes rig operating count showed no change in the weekly gas rig operating rate for the 2nd week in a row. On one hand, the gas market has seen US temperature

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forecast narrow extreme hot areas and that in turn tempers demand hopes. However, as indicated already, the buyers probably support prices into July 21st projected restart of the Nord Stream 1 pipeline. For the time being very hot US and European weather (Spain at 109 degrees) and persistent risk on sentiment flowing from equities, gives nearby natural gas prices a temporary capacity to sustain prices above $7.00.

BEANS:

In the last seven days, dry spots have developed with very little rain in southern Illinois and Indiana, much of the Western two thirds of Iowa, southern Minnesota, parts of North and South Dakota and a few spots in Nebraska. The five day forecast shows very little or no rain much of the Midwest. The 6-10 day forecast models show above to much above normal temperatures for most of the Corn Belt with below normal precipitation. The 8-14 day models are similar with the heat most intense in Nebraska, western Iowa, Missouri and Kansas. Still well above normal temperatures are expected for all of the Midwest.

The forecast goes out through July 30, and areas that do not get much rain through July 30 could be showing significant stress going into the most important phase of pod setting and filling in August. Stressed crops could yield less. The USDA is currently forecasting the 2022/23 US soybean yield at 51.5 bushels per acre and ending stocks at 230 million bushels. If the yield were to come in 1% below the forecast, ending stocks could fall to 185 million bushels and result in a stocks/usage ratio of 4.1%. This would be the lowest the ratio has been since the 2013/14 season. If yield is 2% lower, ending stocks would drop to 140 million bushels and stocks/usage to 3.1%, which would be the second tightest on record.

Argentina had trouble getting enough moisture to plant their winter wheat crop, and this opens the door for higher plantings of soybeans. December meal closed sharply lower on the session Friday while December oil closed sharply higher on the day. Outside market forces carried a positive tilt. Basis levels across the board were weaker on Friday as end users seem happy to wait for cheaper new crop pricing. The Safras and Mercado trade house in Brazil believes their nation's 2022/23 soybean production could reach 151.56 million tonnes, up 20.3% from this season and up from the recent USDA estimate of 149 million tonnes. Soybean crush rose to 164.7 million bushels in June from 152.4 million last year, according to National Oilseed Processors Association data released Friday.

Crushing was just above trade expectations. Soybean-oil inventories at the end of June rose to 1.767 billion pounds vs 1.537 billion a year ago which was above trade expectations for 1.713 billion. Palm oil reserves in Indonesia jumped about 18.5% month over month to 7.23 million tonnes in May following an temporary export ban on some palm oil products, the Indonesian palm oil association said. Exports in May drop by almost 68% to 678,000 tonnes from the previous month. In Argentina, farmers are hanging on to more of their crops than normal to defend against rampant inflation. This year, producers have sold just 46% of the soy harvest, compared with 57% at the same stage last year.

The July 12th Commitments of Traders report showed Soybeans Managed Money traders were net long 95,711 contracts after decreasing their long position by 9,337 contracts in just one week as the long liquidation selling trend continues. Non-Commercial & Non-Reportable traders were net long 57,122 contracts after decreasing their long position by 6,150 contracts for the week. For soyoil, Managed Money traders were net long 18,877 contracts after decreasing their long position by 6,052 contracts for the week. Non-Commercial & Non-Reportable traders net sold 8,006 contracts and are now net long 28,626 contracts. For meal, Managed Money traders added 2,513 contracts to their already long position and are now net long 68,290.

CORN:

With a threatening weather forecast, buyers should be active. The outlook for hot and dry weather in the Western Corn Belt clashed against good moisture expected over this past weekend for the Eastern Corn

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Belt. Traders said the heat in the EU provided more support than the US weather as traders see pollination yield damage in Europe with temperatures in the triple digits. Ethanol demand remains strong, but Brazil and Argentina corn prices are cheaper than the US at present. The USDA confirmed private sales of 133,000 tonnes of US corn to China for the new crop season. The French heatwave is expected to intensify from Sunday, according to Meteo France and temperatures could exceed 104 degrees in some areas. In the US, parts of southern Minnesota, Iowa, South Dakota and Nebraska have missed out on rain in the last week and these areas should see much above normal temperatures and below normal precipitation all the way out to July 30th. The crop is behind, which leaves it vulnerable to hot and dry weather.

As of July 10, only 15% of the US corn crop had reached the silking stage versus 24% a year ago and a five-year average of 25%. If the yield comes in 1% below the current (record high) forecast, ending stocks could fall to 1.306 billion bushels and result in a stock/usage ratio of 9.0%, which would be the lowest since 2020/21. If yield is 2% lower, ending stocks could fall to 1.183 billion and result in a stocks/usage ratio of 8.1%, the lowest since 2012/13. The July 12th Commitments of Traders report showed Corn Managed Money traders were net long 151,174 contracts after decreasing their long position by 21,693 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 10,048 contracts to a net long 148,697 contracts as the long liquidation selling trend continues.

WHEAT:

September wheat close moderately lower on the session last Friday and the selling drove the market down to the lowest level since February 8. Egypt is tendering for wheat with a deadline for offers on July 19th. Traders are hopeful that Ukraine may eventually be able to export grain out of the Black Sea, but details are still uncertain and the market is absorbing harvest in the US and Europe. The market is extremely oversold technically, but there is still no sign of a short-term low. A strong US dollar has discouraged buyers even after the highest weekly sales total in two years last week. The French soft-wheat harvest has reached the halfway mark, holding well ahead of last year's pace. Warm (up to 104 degrees Fahrenheit) and dry conditions should favor winter-crop harvesting this week.

China imported 520,000 tonnes of wheat in June, down 31.3% from last year. For the year so far China has imported 4.94 million tons, down 7.8% from last year. The Commitments of Traders report for the week ending July 12th showed Wheat Managed Money traders were net short 6,444 contracts after increasing their already short position by 6,402 contracts for the week. Non-Commercial No CIT traders are net short 48,176 contracts after net selling 740 contracts. Non-Commercial & Non-Reportable traders were net short 11,239 contracts after increasing their already short position by 8,479 contracts for the week. For KC Wheat, Managed Money traders are net long 16,387 contracts after net selling 5,650 contracts for the week. Non-Commercial & Non-Reportable traders reduced their net long position by 4,551 contracts to a net long 9,198 contracts.

HOGS:

A continued strong advance in pork product prices to a 13 month high has provided underlying support. Pork production for the third quarter is expected to remain relatively tight, and heat across the Midwest could push weights lower and production a bit lower. The CME Lean Hog Index as of July 13 was 113.39 up from 112.82 the previous session and 110.16 the previous week. The USDA pork cutout, released after the close Friday, came in at $120.34, up from $116.46 on Thursday and $112.69 the previous week. This was the highest the cutout had been since August 19, 2021.

The USDA estimated hog slaughter came in at 436,000 head Friday and 22,000 head for Saturday. This brought the total for last week to 2.255 million head, up from 1.971 million the previous week but down from 2.288 million a year ago. Estimated US pork production last week was 426.1 million pounds, down

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from 484.7 million the previous week but up from 401.4 million a year ago. China imported 120,000 tons of pork in June, down 64.2% from last year. For 2022, imports have reached 800,000 tons, down 65.1% from last year. Friday's Commitments of Traders report showed managed money traders were net buyers of 11,449 contracts of lean hogs for the week ending July 12, increasing their net long to 39,934. Non-commercial & non-reportable traders were net buyers of 11,598, increasing their net long to 28,082.

CATTLE:

The estimated average dressed cattle weight last week was 809 pounds, down from 810 the previous week and down from 817 a year ago. The 5-year average weight for that week is 814.6 pounds. Weights could continue to drop over the near term with temperatures in the plains from the mid-90s to the mid-100's over the next two weeks. The highs Monday for Lubbock Texas are expected to reach 105 degrees, with temperature highs expected from 98 to 108 through Monday, August 1. Traders remain concerned with current market-ready supply which seems to be higher than a year ago, and traders are also concerned with sluggish demand.

The USDA boxed beef cutout was up 82 cents at mid-session Friday and closed $1.16 higher at $268.91. This was up from $267.89 the previous week and was the highest it had been since June 14. Cash live cattle ended last week with a weaker tone. As of Friday afternoon, the five-day, five-area weighted average price was 140.72, down from 143.61 the previous week. There continues to be a big gap between north and south. Kansas and Texas/Oklahoma average prices were 137.29 and 136.77 respectively, while Iowa/Minnesota and Nebraska were 144.17 and 143.49. The USDA estimated cattle slaughter came in at 123,000 head Friday and 54,000 head for Saturday. This brought the total for last week to 677,000 head, up from 593,000 the previous week and 650,000 a year ago.

Estimated beef production last week was 546.9 million pounds, up from 530 million a year ago. Friday's Commitments of Traders showed managed money traders were net buyers of 3,783 contracts of live cattle for the week ending July 12, increasing their net long to 18,080. Non-commercial & non-reportable traders were net buyers of 5,147, increasing their net long to 35,767. A sharp drop in production from last year is expected in the 4th quarter and expected to continue into 2023, with first quarter beef production expected to be down 7.4% from this year, and second quarter production expected to be down 10.1% from this year.

COCOA:

Cocoa’s abrupt turnaround late last week was fueled in large part by a rebound in global risk sentiment and renewed strength in key outside markets. Until there are more signs that global demand is on the mend, however, cocoa remains vulnerable to further downside price action this week. September cocoa found immediate support and continued to build on early strength as it finished Friday’s trading session with a sizable gain. For the week, September cocoa finished with a gain of 3 points (up 0.1%) which was a second positive weekly result in a row, as well as a positive weekly key reversal from last Thursday’s contract low.

A rebound in US and European equity markets provided cocoa with carryover support, while the Eurocurrency and British Pound also recovered from multi-year lows which gave cocoa an additional boost. News that a group of major global chocolate makers will work with Ivory Coast and Ghana to support their Living Income Differential provided further support to cocoa prices last week.

Second quarter European grindings posted a 2% year-over-year gain which helped to soothe concern over cocoa’s demand prospects. Soaring inflation levels in many developed economies is likely to diminish demand for discretionary items such as chocolate. The market will receive second quarter grindings results from Asia and North America later this week. Of the two, Asian grindings may be more

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vulnerable to a negative year-over-year result as recent Chinese COVID restrictions have cast a shadow over the region's chocolate demand outlook.

Cocoa positioning in the Commitments of Traders for the week ending July 12th showed Managed Money traders net bought 2,530 contracts and are now net short 26,879 contracts. CIT traders net sold 767 contracts and are now net long 25,789 contracts. Non-Commercial No CIT traders net bought 3,475 contracts and are now net short 23,969 contracts. Non-Commercial & Non-Reportable traders were net short 15,164 contracts after decreasing their short position by 2,499 contracts.

COFFEE:

Coffee was able to put some brakes on its July selloff, but remains more than 30.00 cents below its June month-end price coming into this week's action. September coffee was able to rebound from a new 9 1/2 month low to finish Friday's trading session with a sizable gain and a positive daily reversal. For the week, however, September coffee finished with a sizable loss of 20.65 cents (down 9.4%) which was a fifth negative weekly result over the past 6 weeks.

Friday's rebound in global risk sentiment benefited the coffee market as that may help to soothe near-term demand concerns. Many nations are seeing recent inflation readings at multi-decade highs, and the likelihood that will diminish consumption at restaurants and retail shops continues to weigh on coffee prices this month. The Brazilian currency remains close to its 2022 lows which have also put carryover pressure on the coffee market.

Brazil and Colombia continue to have production issues that helped to strengthen coffee prices going into the weekend. The current La Nina weather event brings drier than normal weather to Brazil's major Arabica growing issues, while it bring heavier than normal rainfall to Colombia's growing areas which could result in damage to coffee trees. The US Climate Prediction Center has forecast this La Nina event will continue through the end of this year, so these conditions will continue to negative impact production for the world's 2 largest Arabica producing nations.

ICE exchange coffee stocks fell by 10,535 bags on Friday, and are now less than half the size of their 2021 year-end total. Coffee positioning in the Commitments of Traders for the week ending July 12th showed Managed Money traders net sold 9,983 contracts and are now net long 24,709 contracts. CIT traders are net long 39,657 contracts after net selling 4,387 contracts. Non-Commercial No CIT traders reduced their net long position by 6,705 contracts to a net long 16,943 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 10,893 contracts to a net long 32,829 contracts.

COTTON:

A sweeping reversal in December cotton last Friday offers the first indication that the steep selloff from the May high may have finally concluded. The dollar was weaker on Friday, and crude oil and the stock market were higher, all of which is supportive to cotton prices. Despite the outside reversal, some in the trade were dismissing Friday's rally as being merely short covering. Better than expected US retail sales data helped alleviate nagging concerns that a recession would hurt demand. The latest 1-5-day forecast calls for little rain in Texas but ample amounts in the Delta and Southeastern US.

The 6-10-day forecast calls for above or much above normal temperatures across the US, including the cotton growing areas, with below normal precipitation in Texas, the Delta and the Southeast. This is particularly troubling to the Texas crop. Temperatures are expected to reach the upper 90's Fahrenheit to as high as 110 degrees in some parts, which will accelerate evaporation, and the pattern could last for weeks. Even if conditions change in August, it may be too late for non-irrigate crops given the extent of the dryness. Friday's Commitments of Traders report showed managed money traders were net sellers of

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5,055 contracts of cotton for the week ending July 12, reducing their net long to 35,631. Non-commercial, no CIT traders were net sellers of 8,422, reducing their net long to 15,111.

SUGAR:

After falling to its lowest price level in four months on July 5, October sugar rallied to a five-week high on Friday. This recovery occurred despite significant weakness in crude oil prices and the Brazilian currency, and that should bode well for sugar prices going forward. October sugar continued to build on early strength as it finished Friday's trading with a moderate gain. For the week, October sugar finished with a gain of 23 ticks (up 1.2%) and a second positive weekly result in a row.

Crude oil and RBOB gasoline extended recovery moves, and that provided carryover support to the sugar market as that can boost ethanol demand in Brazil and India. Normally, extended weakness in energy markets combined with a sluggish Brazilian currency would pressure the sugar market on ideas it would encourage Brazilian cane mills to produce more sugar for the global export market (where it is paid-for in foreign currencies) as opposed to crushing for ethanol for domestic consumption.

However, indications that Brazil's Center-South production will come in below last season's total has been an additional source of strength to the sugar market. Brazil's Center-South sugar production was 22% below year-ago levels during the first three months of the 2022/23 season (beginning in April) Cane crushing was 12% behind last year as producers delayed harvest to give the crop more time to boost sugar yields, yet sugar yields are still 4.3% below last season. The second La Nina weather event in two years has again brought drier than normal conditions to Brazil's Center-South cane-growing regions, and this has had a negative impact on 2022/23 production.

In addition, Brazil's legislature has reinstated a tax advantage for biofuels that should boost domestic ethanol demand. The July 12th Commitments of Traders report showed Sugar Managed Money traders net bought 25,184 contracts and are now net long 68,505 contracts. CIT traders were net long 205,164 contracts after decreasing their long position by 18,029 contracts. Non-Commercial No CIT traders were net short 1,061 contracts after decreasing their short position by 37,960 contracts. Non-Commercial & Non-Reportable traders are net long 96,552 contracts after net buying 36,283 contracts.

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