ADM Investor Services, Inc.

Weekly Futures Market Summary

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by the ADMIS Research Team

BONDS:

In our opinion, the treasury markets have finally returned to classic fundamental behavior after deviating from those principles for the last 6 months. In other words, surging inflation and aggressive rate hike potential should have kept treasury prices glued to the June lows but instead, treasuries were seen as a flight to quality instrument. Now it appears that pockets of the world might not be able to contain inflation and the treasury market might have to raise expectations on the size of upcoming rate hikes (perhaps beyond 75-basis points). It should be noted that German producer price index readings for July jumped by 5.3% on a month over month basis and by 37.2% on a year over year basis!

Fear of a European recession is front and center early this week, especially with a temporary shutdown of the critical Nord Stream 1 pipeline supplying parts of Europe with gas resulting in a surge in retail gas prices. The markets also see significant slowing concerns in China where the Peoples Bank of China again reduced key lending rates overnight. Anxiety toward the global economy is also confirmed by the ongoing surge in the dollar (the euro broke the buck early this week) as that highlights growth anxiety. While expectations change by the hour, a recent Reuters poll now predicts the US Federal Reserve will slow the magnitude of its rate hikes in the September meeting to 50-basis points.
On the other hand, a Fed member at the end of last week indicated the central bank still has "a lot of time" for the decision on the hike is rendered.

However, sentiment toward treasuries/bonds has become very negative with hedge funds reportedly holding their largest ever bear position. In the near term, broad-based weakness in global equities is likely to provide some cushion for bond and note prices. Fortunately for the bull camp, the net spec and fund positioning in bonds is net short which in turn could slightly mitigate selling interest. The Commitments of Traders report for the week ending August 16th showed Bonds Non-Commercial & Non-Reportable traders are net short 36,371 contracts after net selling 1,174 contracts. Similarly, the note market remains net spec and fund short which should also take some steam out of the downside tilt. The T-Note market Non-Commercial & Non-Reportable traders are net short 390,703 contracts after net selling 96,750 contracts.

CURRENCIES:

Psychology has shifted in the currency markets with the dollar clearly back in control of the actively traded currencies. In addition to flight to quality buying from economic and inflation fears in China and Europe, the dollar is also seeing money flow from equity market funds toward US treasury instruments. In the near term, this increased bargain-hunting demand (resulting from the recent jump in rates) could suddenly expand foreign purchases seeking significantly higher US yields. At least for the near term the dollar is "King" as fears of a serious recession in Europe has put the euro, Pound, and the Yen almost in freefalls on their charts.

A slight moderation of bullishness toward the dollar is seen from a Reuters poll predicting a slowing of the magnitude of US rate hikes. However, the potential throttle back on the rate of gain in US interest rates could facilitate even more flight to quality interest in the dollar as the world sees the US Fed as the most adept steward in the face of recessionary conditions. Dollar positioning in the Commitments of Traders for the week ending August 16th showed Non-Commercial & Non-Reportable traders are net long 40,676 contracts after net selling 1,417 contracts.

The currency markets are abuzz with chatter regarding a "Breaking of the Buck" in the euro. In other words, a key psychological level has been violated and the euro is sitting at a key junction with the most likely outcome a downside extension. Seeing Russian gas flows halted into Europe has ignited a wave of higher European energy costs which in turn adds to the threat of slowing in the euro zone. In fact, expectations for a soft landing in the US economy are deteriorating and therefore the potential for the euro zone to avoid recession is very low. The Commitments of Traders report for the week ending August 16th showed Euro Non-Commercial & Non-Reportable traders are net short 21,939 contracts after net selling 8,304 contracts.

With Japanese manufacturing activity in a key industrial city deteriorating rapidly, extremely negative chart action and support for the Japanese Prime Minister faltering, the path of least resistance is down in the Yen to start the new trading week as a retest of the July low down at 72.08 is possible later this week. Apparently, bullish sentiment in the Swiss from the June low into the August high has largely evaporated with the Swiss economy seen as increasingly vulnerable to severe slowing in the euro zone and from escalating negative spillover from higher energy prices likely to produce headwinds for the Swiss economy.

With the Pound testing 2022 lows early this week, the Pound continues to be pressured by relatively extreme high gas prices which in turn resulted in expectations for British CPI to reach 18% by early next year. Even though Canadian retail sales for June were much stronger than expected, the Canadian economy is expected to produce softer economic readings for July and August. In fact, the Bank of Canada sees current inflation as too high which should leave the Canadian central bank in the need to raise rates in the face of a slowing economy conundrum.

STOCKS:

The equity markets obviously suffered a significant outflow from risk off conditions fomented by a combination of hawkish Fed commentary, fear that European and Chinese inflation might not be contained and from growing expectations of a European recession contributing to slowing of the global economy. In fact, the market today embraced poor earnings and a cut in forward guidance from John Deere, which is a key bellwether stock. However, in a positive development, General Motors has restored its quarterly dividend after 2 years on hiatus, and that signals management confidence in getting beyond the chip shortage. Global equity markets at the start of this week were lower with the exceptions the Shanghai Composite.

The only economic development of importance overnight was a minimal Chinese interest rate reduction. Apparently, economic sentiment toward Europe has deteriorated significantly with ultra-high gas prices reducing disposable income further and likely facilitating what is increasingly seen as a significant recession potential in Europe. However, the markets should have been lifted following comments from the Fed's Barkin last week who suggested the magnitude of the September rate hike is not yet carved in stone. In fact, a recent Reuters poll indicated that next month's rate hike might only be 50-basis points.

A noted downside extension early this week (after a significant downside extension last Friday), leaves the technical picture in the S&P very negative into the US trade. Apparently, a Chinese rate cut and emerging expectations of a slightly smaller US rate hike next month has had little supportive influence for stock prices. However, with a very large net spec and fund short (the largest since 2012) the S&P has already factored in a large amount of recession prospects. The Commitments of Traders report for the week ending August 16th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 336,521 contracts after net selling 46,013 contracts.

Not surprisingly, the Dow futures are also off sharply and have extended the washout pattern from last week. In fact, with severe recession fears flowing from Europe, a surging US dollar and higher taxes (legislation from Washington usually results in higher taxes with the current round of legislation likely to cost small businesses more in audit fees than costs from increased taxes) and therefore large brick-and-mortar companies in the Dow are vulnerable to big picture issues. Dow Jones $5 positioning in the Commitments of Traders for the week ending August 16th showed Non-Commercial & Non-Reportable traders reduced their net short position by 7,724 contracts to a net short 9,444 contracts.

With the net spec and fund short in Dow futures from last week dramatically understating the magnitude of the net spec and fund short (due to the post report slide of 800 points) the pace of downside action could be moderated. Ongoing weakness in the latest meme stock (Bed, Bath & Beyond) fears of bankruptcy at the world's second-largest cinema operator and a significant increase in price for a key Tesla add-on feature, the NASDAQ has fundamental justification for a near term pullback. The Commitments of Traders report for the week ending August 16th showed Nasdaq Mini Non-Commercial & Non-Reportable traders were net short 18,994 contracts after increasing their already short position by 16,433 contracts.

GOLD, SILVER & PLATINUM:

With the dollar index forging another new high for the move and the 3rd highest daily trade of 2022, initial weakness in gold and silver is fully justified. While gold ETF holdings on Friday increased by 69,512 ounces, last week gold ETF holdings declined by 307,558 ounces. Similarly, silver ETF holdings on Friday fell by a very significant 1.8 million ounces, with a weekly reduction of 1.38 million ounces last week. Chatter regarding the magnitude of the next US interest rate move (more news on that front is expected from the Fed symposium on Friday) and an established uptrend in the dollar leaves the bear camp in gold and silver in control. Granted, some Fed members have contrasting views, and therefore action in equities is likely to be the best proxy of the market's expectations on the magnitude of next month's hike.

Fortunately for the bull camp, both China and India recently showed positive jewelry import demand. Indian gold imports up by 6.4% during the 2nd quarter and Chinese imports were up 7% in the first 4 months of 2022. With the most recent COT net spec and fund long overstated (because of the $30 slide after the report was measured) the net spec and fund long remains low compared to readings since June of 2019. Gold positioning in the Commitments of Traders for the week ending August 16th showed Managed Money traders were net long 46,236 contracts after decreasing their long position by 6,561 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 3,339 contracts to a net long 157,338 contracts.

In the end, the most reliable focus of the gold trade has been action in the dollar and the dollar appears to be poised for new contract highs later this week and will likely weigh heavily on gold prices in the meantime. The bias is also pointing down in silver but a very low net spec and fund long positioning (which is overstated due to the $1.15 break since the report was compiled), the market retains stop loss selling capacity. The August 16th Commitments of Traders report showed Silver Managed Money traders were net short 5,766 contracts after decreasing their short position by 463 contracts. Non-Commercial &

Non-Reportable traders were net long 12,908 contracts after decreasing their long position by 1,354 contracts.

With the palladium market rejecting the vicinity of $2,102 on two occasions last week, the early failure of that level today suggests the correction off the August high looks to extend. While the net spec and fund long in palladium remained net spec and fund short last week, the short positioning was likely moderated with last week's sideways chop and therefore fresh selling could surface and foster a quick return to $1,980. Last week palladium ETF holdings declined by 1288 ounces and currently sit 15% lower year-to-date. Palladium positioning in the Commitments of Traders for the week ending August 16th showed Managed Money traders are net short 254 contracts after net buying 371 contracts. Non-Commercial & Non-Reportable traders net bought 507 contracts and are now net short 1,532 contracts. In a positive development from the middle of last week, Sprott Physical Platinum and Palladium Trust filed for a fresh $100 million of trust units and if demand for those units is slightly positive, that should support palladium futures prices.

Unlike palladium, the platinum market is in freefall with the market sliding to a fresh low for the month of August. Last week, platinum ETF holdings declined by 14,941 ounces and are now 12% lower year-to-date. Obviously, the platinum market is heavily impacted by the fear of aggressive US rate hikes which in turn are thought to be slowing the economy and hindering global auto sales. Also, unlike palladium, the platinum market maintains a moderate net spec and fund long positioning which could allow for additional stop loss selling. The August 16th Commitments of Traders report showed Platinum Managed Money traders are net short 3,606 contracts after net buying 2,649 contracts. Non-Commercial & Non-Reportable traders net bought 2,246 contracts and are now net long 6,534 contracts.

COPPER:

While the ability to consolidate on the charts and reject the $3.5420 level offers technical support to copper, lingering demand fears offer fundamental resistance. Fortunately for the bull camp, last week both LME and Shanghai warehouse copper stocks declined sharply with evidence of extreme tightness in China surfacing frequently. In fact, industrial power cuts (because of extreme heat) were included in Sunday's emergency response in China which should tighten copper supplies inside China even further. Last week, Shanghai copper warehouse stocks declined by 10,606 tonnes (-25.4%) and reports that 200,000 tonnes of copper have gone missing inside China should discourage traders from pressing the short side at last week's low.

From a technical perspective, the most recent COT positioning report showed a significant net spec and fund short and that could also reduce the amount of selling potential from global macroeconomic demand fear. The Commitments of Traders report for the week ending August 16th showed Copper Managed Money traders reduced their net short position by 3,122 contracts to a net short 16,204 contracts. Non-Commercial & Non-Reportable traders net sold 1,290 contracts and are now net short 27,223 contracts.

ENERGY COMPLEX:

The crude oil market at the start of this week is faced with mixed fundamentals as reports that OPEC+ failed to meet their production targeting by 2.9 million barrels per day in July is a major supportive supply development within an environment rife with global recession fears and expectations of energy demand destruction. In fact, Chinese apparent oil demand in July fell 9.7% on a year over year basis and economist expect Chinese demand to soften even further because of high prices/less disposable income. In addition to the weekend shutdown of natural gas flow through the Nord Stream 1 pipeline, the energy markets are supported by export reductions of Kazakh oil via Russia again because of damaged equipment! Yet another supportive weekend development is a week over week decline in global crude oil in floating storage of 5.6% with European stocks down by 35% in one week!

In our opinion, gains in crude oil off last week's low were likely an overreaction to the risk on vibe that surfaced last Monday. However, with a very poor close in equities on Monday, ongoing demand fears from a widely anticipated global recession and a sharp upside extension in the US dollar all set the stage for crude oil for a setback in prices toward $85.00. Signs of softening demand include a reduction in European refinery activity and a reduction in the crude oil net long in the COT report. From a supply-side perspective, the crude oil market might garner support from an upcoming planned maintenance shutdown of Shell Gulf of Mexico pipelines (the Odyssey and Delta pipelines) which supply 220,000 barrels per day to a key Shell refinery in Louisiana. Also supporting prices from last week US EIA crude oil stocks fell by 7.1 million barrels and from expectations that US refiners will ramp up activity near full capacity this quarter.

In a long-term supportive supply-side development of low significance, US oil rigs operating were unchanged last week at 601 and production remains below pre-pandemic levels. However, the US shale oil basins have seen production reach the highest level since March 2020 with a net record output in Permian basins in Texas and New Mexico (a record of 5.4 million barrels). In a minor demand side positive, a Chinese firm purchased November delivery crude from Middle East sellers. While the recent combination of COT positioning readings indicated funds reduced their net longs net spec and fund positioning showed an addition of net longs. The August 16th Commitments of Traders report showed Crude Oil Managed Money traders net sold 13,379 contracts and are now net long 153,403 contracts. Non-Commercial & Non-Reportable traders added 3,072 contracts to their already long position and are now net long 306,608. Going forward, the focus of the crude oil trade should be on the ebb and flow of the US economic outlook.

Like the crude oil market, the gasoline market also posted an impressive rally off last week's low of $0.19 and to extend last week's bounce will require an improvement in the general economic outlook and perhaps strength in equity prices worldwide. However, supply influences from last week are positive with EIA gasoline stocks posting a 2nd straight week of much larger than expected declines in gasoline inventories. In fact, EIA gasoline stocks have fallen by just under 10 million barrels over the past two weeks and the annual deficit expanded significantly to 12.4 million barrels last week. Even the demand side of the equation is positive with last week's 9.3 million barrel per day implied demand reading reaching the highest level since the end of June. European demand for US fuel could pick up given that some sectors of the Rhine River are now impassable because of low water levels. In fact, according to Reuters, the Rhine River has sections that empty vessels are unable to continue their deliveries.

The August 16th Commitments of Traders report showed Gas (RBOB) Managed Money traders added 7,903 contracts to their already long position and are now net long 60,551. Non-Commercial & Non-Reportable traders were net long 52,564 contracts after increasing their already long position by 2,353 contracts. In retrospect, the diesel market made the most pronounced upside extension last week and posted strong gains on a significant jump in trading volume last Wednesday and Thursday. We suspect refilling of strategic diesel/heating oil supply will be hindered by the inability to fully utilize the Rhine River for delivery. It should be noted that China, Europe, and portions of the Middle East have seen demand significantly jump this summer due to extreme use of air-conditioning in the face of heat waves. The August 16th Commitments of Traders report showed Heating Oil Managed Money traders were net long 28,395 contracts after increasing their already long position by 244 contracts. Non-Commercial & Non-Reportable traders added 3,692 contracts to their already long position and are now net long 39,977.

While October natural gas faltered at last Wednesday's high and posted a quasi-double top, that double top was clearly taken out in action early this week with that pulse up move the result of another disruption of Russian supply flow into Europe. Taking a step back, supply fundamentals should underpin prices well above last Thursday/Fridays double low at $8.86. Extreme heat in the southwest of China has resulted in power cuts but that negative demand development is discounted in the face of fresh contract highs in US futures prices. While the spec and fund contingent last week reduced their net short, the market remains significantly net short creating the potential for stop loss buying on rallies.

The August 16th Commitments of Traders report showed Natural Gas Managed Money traders are net short 51,461 contracts after net buying 14,292 contracts. Non-Commercial & Non-Reportable traders were net short 82,942 contracts after decreasing their short position by 4,008 contracts. In a minimally longer-term supportive development, US gas rigs operating fell by one last week, but that is offset by higher US production readings from the EIA last week. In the end, the most significant development early this week is the Russian halt of flow from the Nord Stream 1 pipeline for 3 days. In fact, the Russian national gas company last week indicated that European gas prices could climb 60% from current levels.

BEANS:

Unless China emerges as a major buyer over the near term, the soybean market may find a difficult time moving higher. With huge profitability, traders suspect South America will see a surge in production this year as acreage will expand. Argentine producers are still holding onto soybeans as a hedge against inflation, and this may support the products but not so much soybeans. With slow producer selling in Argentina and monthly crush coming in lower on the year for 7 consecutive months, meal exports from Brazil and the US might come in better than expected. If the Pro Farmer crop tour confirms the USDA yield outlook, production and yield will end up at a record high. In addition, world ending stocks are projected to reach the second highest level ever.

November soybeans closed just slightly lower on the session Friday and up near 18 cents from the lows. Meal closed lower and soybean oil closed sharply higher on the session. Traders are monitoring the heat wave in China for any signs of crop losses. The central China region has about 15 to 20% of soybean production, but the market was choppy with concerns for the large world supply, and record US production. The government says it will try to protect China's grain harvest from record-setting drought by using chemicals to generate rain, while factories in the southwest waited Sunday to see whether they might be shut down for another week due to shortages of water to generate hydropower. The hottest, driest summer since the government began recording rainfall and temperature 61 years ago has wilted crops and left reservoirs at half their normal water level.

The coming 10 days are a "key period of damage resistance" for southern China's rice crop, said Agriculture Minister. Soybeans positioning in the Commitments of Traders for the week ending August 16th showed Managed Money traders are net long 99,336 contracts after net selling 2,173 contracts for the week. Non-Commercial & Non-Reportable traders reduced their net long position by 12,091 contracts to a net long 50,059 contracts. For Soyoil, Managed Money traders net bought 11,025 contracts and are now net long 33,235 contracts. Non-Commercial No CIT traders went from a net short to a net long position of 6,006 contracts after net buying 9,921 contracts. For Soymeal, Managed Money traders are net long 86,264 contracts after net buying 1,882 contracts. Non-Commercial & Non-Reportable traders are net long 128,122 contracts after net selling 520 contracts.

CORN:

December corn closed moderately higher on the session Friday after choppy to lower trade early in the day. With uncertainty on the impact of China's weather on their crop, plus China buying corn in the weekly export sales report plus uncertainty on US yields with the Pro Farmer tour this week, buyers turned active. Talk that cooler and wetter weather in Europe came too late to help the crop was seen as a positive factor. The 5-day forecast shows little or no rain for most of the Midwest. The annual Pro Farmer crop tour starts today and traders will monitor the tour closely as the results should allow a clearer sense of how crops are faring as the harvest draws nearer for the world's top producer.

Dryness has hit areas of Nebraska and the Dakotas and Iowa this summer, while better rains spanned further east. If average US corn yield were to fall just 1% from the current USDA estimate, ending stocks could drop to 1.306 billion bushels with a 9% stocks usage. If yield slides 2%, ending stocks drop to 1.225 billion bushels with an 8.4% stocks/usage. This compares with 8.3% for the 20/21 season and could be the second lowest since the 2012/2013 season. Corn positioning in the Commitments of Traders for the week ending August 16th showed Managed Money traders added 11,778 contracts to their already long position and are now net long 153,840. Non-Commercial & Non-Reportable traders are net long 141,807 contracts after net buying 11,232 contracts.

WHEAT:

In just 64 trading days, December wheat is down as much as 42% to last week's low. The market continues to struggle with record production from Russia and increasing exports out of Ukraine. Four more ships carrying grain and foodstuffs left Ukraine ports over the weekend, and this brought the total number of vessels to leave Ukraine Black Sea ports to 31. Indian officials have indicated sufficient wheat stocks and that no imports will be required. This comes after a report last week that India wheat reserves have declined in August to the lowest level for the month in 14 years due to record-breaking heat wave which in theory cut production and pushed up local prices.

Ukraine wheat harvest for 2022 has reached 91% complete at 17.4 million tonnes. Ukraine produced 32.2 million tonnes last year. December wheat closed sharply higher on the session Friday but stayed inside of Thursday's range. The market found support from a jump in rice prices as China's heatwave may have a significant impact. With the off season, the impact on wheat is uncertain. Talk of the oversold condition of the market, plus divergence on the technical indicators helped to support as well. Open interest also jumped on the last break, and this suggests fund traders have added to their already net short position in wheat.

The Commitments of Traders report for the week ending August 16th showed Wheat Managed Money traders are net short 18,107 contracts after net buying 2,241 contracts. Non-Commercial No CIT traders are net short 55,991 contracts after net buying 1,916 contracts for the week. For KC Wheat, Managed Money traders net sold 503 contracts and are now net long 7,520 contracts. Non-Commercial & Non-Reportable traders were net long 2,988 contracts after increasing their already long position by 1,525 contracts.

HOGS:

October hogs managed to turn up Friday after key support at 92.50 was violated, but not for long. The close above this level is considered a positive development. The market is holding a much larger than normal discount to the cash market. Cash markets are drifting lower while futures markets collapsed last week. As of August 17, October futures closed at a 22.35 discount to the 2-day Lean Index as compared with the five-year average for this time of the year at 9.19. The CME Lean Hog Index was 120.60 on August 19, down from 120.62 the previous session and 121.86 a week prior. The USDA pork cutout, released after the close Friday, came in at $116.00, down $2.56 from Thursday and down from $120.41 the previous week. This was the lowest the cutout had been since July 11.

The USDA estimated hog slaughter came in at 467,000 head Friday and 58,000 head for Saturday. This brought the total for last week to 2.395 million head, up from 2.325 million the previous week but down from 2.432 million a year ago. Estimated US pork production last week was 504.6 million pounds, up from 491.4 million the previous week but down from 506.9 million a year ago. October hogs were trading near 86.70 last year at this time. Friday's Commitments of Traders report showed managed money traders were net buyers of 6,804 contracts of lean hogs for the week ending August 16, increasing their net long to 71,957. Non-commercial & non-reportable traders were net buyers of 3,143, increasing their now net long to 62,225.

CATTLE:

The cattle market rally has left futures in an overbought condition, but weights are down and cash cattle traded $2 higher last week. However, the USDA Cattle on Feed report carried a bearish tilt. July placements came in at 101.8% of last year versus trade expectations of 98.7% (range of 95.0% to 101.3%). This is outside of the range and considered bearish against trade expectations. Marketings came in at 96.1% of last year. The average estimate was 97.3% with a range of 96.0% to 102.1%. The lower than expected number is a bearish factor for October cattle. Cattle on Feed supply as of August 1st came in at 101.4% of last year versus the average estimate of 100.8% (range of 100.1% to 101.1%). This is well above the range of estimates and is considered bearish.

With the overbought condition of the market and the supply higher than expected, the market looks vulnerable to a correction. October cattle closed moderately higher on the session Friday with an inside trading day. The USDA estimated cattle slaughter came in at 122,000 head Friday and 40,000 head for Saturday. This brought the total for last week to 661,000 head, up from 647,000 the previous week but down from 666,000 a year ago. The estimated average dressed cattle weight last week was 812 pounds, unchanged from the previous week and down from 824 a year ago. The 5-year average weight for that week is 824 pounds. The weight data is positive.

The USDA boxed beef cutout was up 12 cents at mid-session Friday and closed 11 cents lower at $264.28. This was up from $263.37 the previous week. Cash live cattle traded was quiet on Friday, with less than 1,000 reported at mostly steady with earlier in the week. As of Friday afternoon, the 5-day, 5-area weighted average price was 145.98, up from 143.99 the previous week. The Commitments of Traders report for the week ending August 16th showed Cattle Managed Money traders are net long 66,036 contracts after net buying 16,964 contracts for the week and the buying trend is a short-term positive force. Non-Commercial & Non-Reportable traders net bought 14,928 contracts and are now net long 76,589 contracts.

COCOA:

Since finishing June and starting July with a 6-session pullback, the cocoa market has extended a wide-sweeping coiling pattern as it has been unable to sustain upside momentum. Cocoa prices continue to stay clear of their mid-July lows and have recent supply-side developments working in their favor, however, as the market should be able to find its footing early this week. December cocoa started out with a gap-lower opening and remained on the defensive all day as it finished Friday’s trading session with a sizable loss. For the week, December cocoa finished with a loss of 20 points (down 0.8%) which was a third negative weekly result over the past 5 weeks.

A negative shift in global risk sentiment led to sharp selloff in major Euro zone and US equity markets that put carryover pressure on cocoa prices. In addition, the Eurocurrency and British Pound reached new 5-week lows as both currencies posted heavy losses Friday that also weighed on cocoa prices as extended currency weakness could make it more difficult for European grinders to acquire near-term supplies. On the other hand, inflation gauges for several of the G7 economies have seen notable pullbacks in their latest readings. If that trend continues, consumers in those nations may increase their purchases of discretionary items such as chocolates.

West African farmers continue to have trouble acquiring fertilizer supply due to high costs and a lack of availability. As a result, the market is starting to dial back expectations for West Africa’s upcoming 2022/23 main crop cocoa production. The August 16th Commitments of Traders report showed Cocoa

Managed Money traders net bought 3,009 contracts and are now net short 28,513 contracts. CIT traders were net long 22,638 contracts after increasing their already long position by 449 contracts. Non-Commercial No CIT traders were net short 22,323 contracts after decreasing their short position by 1,411 contracts. Non-Commercial & Non-Reportable traders net bought 1,150 contracts and are now net short 14,180 contracts.

COFFEE:

Coffee prices have fallen well below their mid-August highs as the market is finding some relief from a tight near-term supply situation. The world's top 2 Arabica-growing nations continue to have production issues, so coffee prices should remain well supported on near-term pullbacks. December coffee saw choppy early trading and a 1 1/2 week low at midsession, but regained their strength late in the day to finish Friday's trading session with a mild gain. For the week, however, December coffee finished with a loss of 9.05 cents (down 4.1%) which was a second negative weekly result over the past 3 weeks.

The Brazilian currency extended its pullback to a new 2-week low early in the day, which put carryover pressure on the coffee market as that encourages Brazil's farmers to market their remaining near-term coffee supplies to foreign customers. On the other hand, Nicaragua's July coffee exports came in 4.9% below last year's total which provided additional evidence of lower Central American output this season. A negative shift in global risk sentiment weakened coffee prices by diminishing out of home consumption prospects.

With inflation levels showing signs of falling back in developed economies, that could lead to an increase in restaurant and retail shop demand over the next few months. ICE exchange coffee stocks rose by 13,905 bags on Friday, which was a fourth daily increase in a row as they climbed back above the 600,000 bags level. There were over 215,000 bags left to be graded in Antwerp with over 13,000 bags now to be graded in New York, so ICE exchange coffee stocks are likely to climb well above their current levels.

Coffee positioning in the Commitments of Traders for the week ending August 16th showed Managed Money traders were net long 26,621 contracts after increasing their already long position by 5,349 contracts. CIT traders net bought 2,930 contracts and are now net long 41,879 contracts. Non-Commercial No CIT traders net bought 2,792 contracts and are now net long 18,849 contracts. Non-Commercial & Non-Reportable traders were net long 34,107 contracts after increasing their already long position by 5,349 contracts.

COTTON:

December cotton closed higher on Friday, and the market appears to be consolidating its gains off the previous week's USDA supply/demand report that showed US 2022/23 ending stocks are expected to fall to their lowest level on record. Keep in mind that in order to hold ending stocks at the record low of 1.8 million bales, the USDA had to lower exports to just 14.3 million bales, down 2.9 million bales from this season. The dollar was sharply higher, and the fact that cotton held up in the face of that move is impressive. The Texas crop is in big trouble after a heat wave and long-term drought that is only just ending.

The 1-5-day forecast calls for heavy rainfall across Texas, and the 6-10 and 8-14-day forecast call for below normal temperatures and above normal chances of rainfall, but this looks to be too late to save the crop. The extreme heat and dry conditions in China have raised concerns about production as well. They were the biggest buyers of US cotton in 2021/22, but they were also the largest producer. Friday's Commitments of Traders report showed managed money traders were net buyers of 11,694 contracts of cotton for the week ending August 16, increasing their net long to 44,762. This is well below the 2021 peak of 97,000 and the all-time high of 109,000. The buying trend is short-term positive.

SUGAR:

While sugar could not avoid a weekly loss, the market received bullish supply news that fueled a sizable positive turnaround. If it can receive additional carryover support from key outside markets, sugar should be able to extend a recovery move early this week. October sugar was unable to hold onto mild early support and dropped down to a new 2-week low, but then turned sharply to the upside late in the day to finish Friday's trading session with a sizable gain and a positive daily reversal. For the week, however, October sugar finished with a loss of 51 ticks (down 2.7%) which broke a 2-week winning streak and was a negative weekly reversal from Monday's 4-week high.

The Brazilian currency extended its pullback from last week's highs while crude oil and RBOB gasoline had a lukewarm finish to the week, both of which put early carryover pressure on the sugar market. The turning point came when the Brazilian government agency Conab released updated supply forecasts that showed 2022/23 Center sugar production at only 30.7 million tonnes, which was a sharp decline from their estimate of 36.4 million in April. In addition, Conab also projected the 2022/23 Center-South cane crop at 514 million tonnes, which is down from their 539 million April estimate and would be an 11-year low.

China's main cane-growing region has been negatively impacted by this year's severe drought, which increases the prospects for a sharp increase in their imports over the next year. In addition, there are ideas that tight near-term supplies could lead to a sizable increase in Philippines sugar as well. Sugar positioning in the Commitments of Traders for the week ending August 16th showed Managed Money traders net bought 35,512 contracts which moved them from a net short to a net long position of 13,446 contracts. CIT traders are net long 184,029 contracts after net selling 1 contract. Non-Commercial No CIT traders were net short 37,676 contracts after decreasing their short position by 33,833 contracts. Non-Commercial & Non-Reportable traders net bought 41,648 contracts which moved them from a net short to a net long position of 38,149 contracts.