ADM Investor Services, Inc.

Weekly Futures Market Summary

August 29, 2022

by the ADMIS Research Team

BONDS:

While it may be premature to suggest that the treasury bond market is returning to classic reactions to fundamental developments, we see that action unfolding over the coming weeks. However, treasury prices failed to rally in the face of softer inflation readings from the PCE report and in the face of distinct weakening of the consumer from personal income and spending reports. While the hawkish chorus from the US Federal Reserve chairman speech last Friday has treasury prices under moderate pressure early this week, the markets are likely seeing some small measure of flight to quality buying interest from escalating fear of recession, disappointing Chinese industrial profits, horror stories projecting the pain in Europe/UK from exploding electricity prices and from residual anxiety flowing from the 1000-point slide in the Dow at the end of last week.

Certainly, the trade was expecting blatantly hawkish policy directives from the US Federal Reserve Chairman, but market did not seem to be prepared for the Fed's prediction that a tightening regime could remain in place for a long time. With the only US scheduled data point early this week (the Dallas Fed manufacturing business index for August) expected to improve from the prior month but remaining deep in contractionary territory, prices should see a fleeting measure of buying support. Therefore, the biggest impact on treasuries at the start of this week could be the machinations in the US equity markets.

While the treasury markets will be presented with a speech from the Fed's Brainard, we doubt anything fresh will be garnered beyond the sentiments offered in the Jackson Hole symposium. Certainly, the treasury markets might see less than normal stop loss selling on weakness given a moderate pre-existing net spec and fund short but in the current condition bullish technical forces are unlikely to offset bearish fundamentals. The August 23rd Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders were net short 37,213 contracts after increasing their already short position by 842 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders were net short 439,106 contracts after increasing their already short position by 48,403 contracts.

CURRENCIES:

While the dollar index ran out of buying fuel at contract highs, technical and fundamental issues suggests the bull trend will continue. In fact, the US Fed remained definitively hawkish which likely will result in US interest rates expanding their interest rate differential edge versus Europe. Furthermore, with electric/heating feedstock prices in the UK and Europe already 10 times higher than in the US (and likely to head even higher) the threat of recession in the euro zone is significantly higher than the odds of recession in the US. The currency markets have fully embraced the US Federal Reserve's resolve to snuff out inflation along with aggressive and sustained tightening.

While the strength in the dollar is justifiable, the failure to sustain the new contract highs offers technical pause to would-be buyers. However, the war and 10 times normal energy costs in Europe increases the prospect of a European recession exponentially above the prospects of recession in the US. In short, flight to quality, interest rate differential, macroeconomic rate of return differential and less energy uncertainty gives the dollar a distinct edge against the euro, pound, and Swiss. Dollar positioning in the Commitments of Traders for the week ending August 23rd showed Non-Commercial & Non-Reportable traders reduced their net long position by 3,056 contracts to a net long 37,620 contracts.

As indicated already, the euro zone economy is facing a disastrous conundrum with the ECB. like the US Federal Reserve willing to slow their economy to reduce inflation. However, as we have also indicated the euro zone is facing exponentially higher energy costs which are already robbing consumers in the UK, and euro zone disposable income. Euro positioning in the Commitments of Traders for the week ending August 23rd showed Non-Commercial & Non-Reportable traders added 5,105 contracts to their already short position and are now net short 27,044.

With a spike down failure in the Yen to start out this week, fresh contract highs in the dollar, disappointing Chinese economic data and recent Japanese central bank commitments indicating they will continue to "hold rates down" it is not surprising to see the Yen plummet. While the Swiss economy might not suffer ultrahigh energy prices as much as other European countries (less heavy industry), consumers in Switzerland are likely to feel the pinch to keep their homes heated. Unfortunately for the bull camp, the Swiss sits 350 points above the May and June lows with many other non-dollar currencies already at or below contract lows. Therefore, the trade is separating Swiss economic prospects from EU economic conditions, but cost headwinds and negative sentiment is likely to result in September Swiss falling below 1.03 later this week.

Energy costs in the UK are every bit as severe as in continental Europe with UK consumers in large cities expected to face a barrage of higher costs for consumer goods, petrol, electricity, and interest rates. However, the Pound made a spike down move into fresh contract lows which discourages us from recommending a short sale. With a fresh low for the move and the lowest trade since July 15th the downtrend in the Canadian from the August high has been extended. While it is possible the Canadian could shift back into a positive correlation with the US dollar, that is probably unlikely without sharply higher energy prices and or much stronger than expected Canadian scheduled data.

STOCKS:

Not surprisingly, the equity markets fell apart in the wake of the Fed's promise to unrelentingly battle against inflation through the aggressive use of the monetary tools available to them. Apparently, suggestions from the Fed chairman that the magnitude of the September hike would not be determined until "all available data" was released into the late September meeting. In retrospect, last week's flow of corporate earnings and sales/revenue forecast deteriorated relative to the early portion of the current earnings cycle. Global equity markets were lower at the start of this week with two notable exceptions being the Shanghai stock exchange composite and the RTS index in Russia. Obviously, the 1,000-point drop in the Dow last Friday weighs heavily on investor sentiment to start the new trading week. Furthermore, the Fed has solidified respect in the market for its intentions to snuff out inflation and that should discourage bargain-hunting and bottom picking.

While we do not detect panic, we sense anxiety from last Friday's dive will extend into this week’s trading. In fact, newswires did not offer anything positive with fear of higher interest rates joined by a wave of fear in Europe of energy prices 10 times higher than in the US. In other words, economists have already predicted softening consumer spending because of falling disposable income from higher costs and therefore disposable income in the UK and euro zone is expected to plummet and produce recession.

Typically, the equity markets would have the potential to see soothing dialogue from central bankers but instead central bankers "need" to keep inflationary expectations anchored with restrictive policies. Fortunately for the bull camp, the S&P was already net spec and fund short and the index this morning is trading over 100 points below the level where the COT report was measured. E-Mini S&P positioning in the Commitments of Traders for the week ending August 23rd showed Non-Commercial & Non-Reportable traders are net short 295,196 contracts after net buying 41,325 contracts.

In looking at the Dow chart, the destruction on the charts from last Friday has been magnified with the initial failure to hold at 32,000 today. As indicated already, panic is absent in the early going but anxiety is clearly scaring some investors to the sidelines. Even though the Dow futures were net spec and fund short in the last COT report, the net short is dramatically understated given the post report slide of 800-points. The August 23rd Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders net bought 4,522 contracts and are now net short 4,922 contracts. Like the Dow, the NASDAQ futures also pierced a key psychological level at 12,500 in the early going this week with the index seemingly ignoring comments from Elon Musk suggesting a self-driving Tesla will be ready by the end of the year. The August 23rd Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders net bought 33,814 contracts which moved them from a net short to a net long position of 14,820 contracts.

GOLD, SILVER & PLATINUM:

With a fresh new contract high in the dollar in the early going this week, the reverberations of hawkish global central bank dialogue have extended into the new trading week. Therefore, it is not surprising to see both gold and silver off sharply, with gold posting a new low for the month and seemingly poised for a slide to $1,700. While gold ETF holdings on Friday increased by 23,447 ounces, last week investors pulled 187,681 ounces from holdings. Certainly, the strength in the dollar is the primary bearish focus of the gold trade, but most physical commodity markets have also seen buyers rush to the sidelines from Fed commentary indicating tightening policy will remain in place for some time. Sentiment toward gold and silver is so negative that sharp declines in global equity markets are not resulting in flight to quality buying interest.

In fact, the gold and silver markets failed to embrace flight to quality buying in the wake of a 1,000-point Dow slide Friday and in the face of a downside follow-through early this week. Furthermore, the Fed made it very clear that they are willing to take the risk of recession to rid the economy of a spiraling inflation scenario. However, the net spec and fund long positioning in gold has moderated recently, but the net spec and fund short is large enough to mitigate stop loss selling and perhaps help October gold show some respect for the late July lows. Gold positioning in the Commitments of Traders for the week ending August 23rd showed Managed Money traders were net long 30,326 contracts after decreasing their long position by 15,910 contracts. Non-Commercial & Non-Reportable traders were net long 140,153 contracts after decreasing their long position by 17,185 contracts.

While the silver market in the latest COT report did not hold a "net short" as in the gold market, the net spec and fund long is near the "lowest levels" since June 2019! Like the gold market, the silver market has extended sharply lower early this week and appears on track to retest $18.00. Unfortunately for the bull camp, silver ETF holdings saw a large withdrawal last Friday of 2 million ounces resulting in a net outflow on the week of 10.3 million ounces! The Commitments of Traders report for the week ending August 23rd showed Silver Managed Money traders were net short 15,634 contracts after increasing their already short position by 9,868 contracts. Non-Commercial & Non-Reportable traders were net long 4,319 contracts after decreasing their long position by 8,589 contracts.

With the palladium market unable to hold Friday's range up retest of the $2,200 level, investment continuing to flow out of ETF instruments, and softer Chinese industrial profits released during the weekend, palladium looks to be on track to retest $2,000. Furthermore, spillover weakness from gold and silver, additional contract highs in the dollar, and risk off economic sentiment flowing from equities should thicken resistance in September palladium. Palladium ETF holdings last Friday declined by 2,691 ounces, on the week holdings were down 7,119 ounces and holdings year-to-date are now down 16%. However, minimal support for the PGM markets last week came from Chinese policy directives indicating China would begin to secure supply of strategic and industrial metals/materials as a cushion against inflation and for domestic security reasons. While the palladium market in the most recent positioning report remained net short, a large portion of that net short was probably liquidated given the post COT report bounce of $28.

The August 23rd Commitments of Traders report showed Palladium Managed Money traders were net short 354 contracts after increasing their already short position by 100 contracts. Non-Commercial & Non-Reportable traders net sold 579 contracts and are now net short 2,111 contracts. With a very poor close last week pushing platinum to very critical support, risk off sentiment from weak equities and central bank promises of even higher rates a return toward the July lows is possible. Fortunately for the bull camp, the net spec and fund long positioning in platinum is very modest especially with the market from that report mark off already trading $20 lower. The August 23rd Commitments of Traders report showed Platinum Managed Money traders are net short 9,373 contracts after net selling 5,767 contracts. Non-Commercial & Non-Reportable traders are net long 2,257 contracts after net selling 4,277 contracts.

COPPER:

As indicated in our latest weekly market letter, we see the potential for a major short squeeze in the copper market in the coming weeks. In addition to several signs of extreme tightness inside China, the copper market continues to maintain a large net spec and fund short positioning. Furthermore, the Chinese government continues to aggressively support its economy and a recovery in Chinese copper demand could result in panic style buying ahead. In addition to a worldwide fear of global slowing from unrelenting central bank tightening, the copper market is under added pressure because of disappointing Chinese industrial profit readings released over the weekend.

The prospect of global recession is also being accentuated by sensational media coverage on the potential for brutal winter heating costs for the UK and euro zone. Copper market sentiment is so bearish that 9-month highs in Chinese copper premiums were tossed aside because of weakness in US and European copper prices. However, the Chinese impact on copper prices is not all supportive as several economists have offered downward revisions for the Chinese economy. From the supply-side of the equation, Chile's Codelco reduced their 2022 output forecast by roughly 100,000 tonnes and that news is given added credence by evidence of extremely tight Chinese copper market conditions.

Recently Comex copper stocks were at the lowest level since September 2021, while Shanghai copper warehouse stocks this week were the 3rd lowest since the beginning of the year. The most powerful supply forces are the extreme tightness of supply inside China combined with tightness throughout the global supply chain. While the net spec and fund short in copper was probably reduced with the rally following the report was measured last week, the market action this morning is probably rebuilding the net short which is large enough to fuel stop loss buying and discourage buyers. The August 23rd Commitments of Traders report showed Copper Managed Money traders net bought 11,436 contracts and are now net short 4,768 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 7,704 contracts to a net short 19,519 contracts.

ENERGY COMPLEX:

In the coming trading sessions, determining the trend will likely be extremely difficult and could be determined by outside market forces. Obviously, the fear of European, UK, and US recession are front and center which in turn undermines energy demand prospects. Fortunately for the bull camp, global crude oil in floating storage over the last week declined by 7.8% with the biggest declines seen in the US Gulf Coast and the Middle East. In fact, OPEC+/Saudis threatening to cut production combined with residual demand fears should give the bear camp the edge to start the new trading week.

However, threats against supply have been surfacing quite frequently and we suspect Middle East producers will increase those hold back threats if October crude oil falls back down to $85.00. Fortunately for the bull camp, the net spec and fund long in crude oil is at the second lowest level since September of 2016. The Commitments of Traders report for the week ending August 23rd showed Crude Oil Managed Money traders were net long 183,431 contracts after increasing their already long position by 30,028 contracts. Non-Commercial & Non-Reportable traders are net long 326,804 contracts after net buying 20,196 contracts.

While Western countries are pushing India to join a Russian crude price cap effort India is unlikely to stop buying Russian oil for strategic reserves, especially with India reportedly receiving significant price discounts. While last week's Baker Hughes rig operating count has seen the rig counts low in recent weeks, the total number of US rigs operating is currently only 29 rigs below pre-pandemic (normal) operating levels. In the near term, without a very surprising development, the Russian impact on energy prices will remain mostly on natural gas and not crude oil. Left to its own internal fundamentals, crude oil prices might respect $90.00 but will be unlikely to respect that price level if the major risk off environment from last Friday resumes this week.

While the gasoline market rejected a major spike down move below $2.60 at the end of last week, the violation of a key chart support level, a relatively high refinery operating rate and the passing of the last major summer driving holiday of Labor Day ahead will probably result in a softening of physical and speculative buying gasoline. Furthermore, with the net spec and fund long positioning sitting 20,000 contracts above 2 weeks ago levels, gasoline is likely to exhibit more downside action like last Friday. Gas (RBOB) positioning in the Commitments of Traders for the week ending August 23rd showed Managed Money traders are net long 66,040 contracts after net buying 5,489 contracts. Non-Commercial & Non-Reportable traders were net long 58,131 contracts after increasing their already long position by 5,567 contracts.

The ULSD market is the most overbought market of the energy complex with the high last week $0.93 above the August low and the market closing $0.13 above the level where the COT report was measured. Even though the net spec and fund long positioning in diesel was not overly large, it is understated and should offer significant stop loss selling if key chart levels are violated. The Commitments of Traders report for the week ending August 23rd showed Heating Oil Managed Money traders were net long 28,082 contracts after decreasing their long position by 313 contracts. Non-Commercial & Non-Reportable traders added 1,047 contracts to their already long position and are now net long 41,024.

As in other energy markets, natural gas prices flared up aggressively on Friday and then failed from that effort. The natural gas market should be supported following a media feeding frenzy off projections of the pain from energy costs in the coming winter. The markets are also supported from a continuation of ultra-hot and dry conditions in portions of Europe China and Japan. In a potential major negative development, German officials are indicating their effort to fill up strategic storage is proceeding at a faster pace than anticipated. German officials predict that the goal of 85% of total storage capacity will be achieved by October but could be achieved sometime in September. We suspect other European governments are attempting to build similar buffer stocks, and therefore buying by European sources is likely to cushion natural gas price declines.

Furthermore, the technical condition of the natural gas market is supportive with the market respecting $9.000 on multiple occasions over the last 2 weeks and the market holding a moderately large net spec and fund short positioning. The Commitments of Traders report for the week ending August 23rd showed Natural Gas Managed Money traders were net short 55,491 contracts after increasing their already short position by 4,030 contracts. Non-Commercial & Non-Reportable traders added 8,288 contracts to their already short position and are now net short 91,230. With the Russian national gas company on Sunday indicating that gas flows to Europe remain stable with volume at 42.2 mcm, traders are not emboldened to enter the market on weakness. Last week the Baker Hughes weekly natural gas drilling count increased in a minor longer-term negative development.

BEANS:

Traders were hopeful that the Pro Farmer crop tour would show a smaller yield than the USDA August estimate. The tour pegged yield at 51.7 bushels per acre, which is down slightly from the August estimate, but production was pegged at 4.535 billion bushels which is slightly above the August USDA estimate and a record high and considered a bearish development. Outside market forces carried a bearish tilt. November soybeans closed sharply higher last Friday and experienced the highest close since July 29. Brazil export premiums are at a high level and producer selling is slow and this has helped to support the local market. At the Brazilian port of Paranagua, the export premium for the contracts with shipment scheduled between September and October have been at USD 2.60/bushel last week. It will be several more months before the tight stocks situation in Brazil is relieved by the forecast for a record high crop.

Russia's sunseed crop looks to be a record high, and sunflower oil is moving out of the Black Sea region now. In addition, the outlook for a huge recovery in the Canadian canola crop from last year plus the massive discount of palm oil to other veg oils, the market could see pressure.
Parts of South Dakota, Iowa, Minnesota and Wisconsin received decent rains in the last week which could help ease any stress. Indonesia imposed a higher allocation of palm-based biodiesel to be mixed with gasoil to 11.03 million kiloliters this year from 10.15 million kiloliters to meet demand.

Indonesia has imposed a national mandate to use 30% of palm-biodiesel blended with 70% gasoil since 2020. Soybeans positioning in the Commitments of Traders for the week ending August 23rd showed Managed Money traders added 5,135 contracts to their already long position and are now net long 104,471. Non-Commercial & Non-Reportable traders are net long 62,558 contracts after net buying 12,499 contracts. For Soyoil, Managed Money traders are net long 42,208 contracts after net buying 8,973 contracts. For Soymeal, Managed Money traders net bought 9,454 contracts and are now net long 95,718 contracts. Non-Commercial & Non-Reportable traders net bought 11,277 contracts and are now net long 139,399 contracts.

CORN:

After the close Friday, the Pro Farmer crop tour pegged the corn crop at 13.759 billion bushels, which would be the smallest since 2019, with an average yield of 168.1 bushels per acre. This compares with the current USDA estimate of 175.4 bushels per acre with production at 14.359 billion bushels. This is a bullish report and yield is down 4.2% from the USDA estimate just a few weeks ago. If we plug-in 168.1 yield, and leave the rest of the USDA numbers unchanged, ending stocks drop to 791 million bushels with a stocks/usage at 5.4%. The lowest stocks/usage on record was 5% in 1995/96 season. December corn closed moderately higher on the session after a lower opening, and experienced the highest close since June 24. Continued concerns over the potential for the crop tour to show smaller yield and production than the current USDA estimate helped to support.

Fields in Illinois and Indiana fared better than the west, but just not enough to offset losses in the Nebraska and western Iowa. Corn production in 27 European member states will total 59.3 million tonnes in the 2022-23 season, according to the European Commission. This compares with a July estimate of 65.8 million tonnes and compares with the USDA August estimate of 60 million tonnes. Corn positioning in the Commitments of Traders for the week ending August 23rd showed Managed Money traders were net long 182,216 contracts after increasing their already long position by 28,376 contracts for the week. Non-Commercial & Non-Reportable traders net bought 49,649 contracts and are now net long 191,456 contracts.

WHEAT:

December wheat closed moderately higher on the session last Friday as the market recovered some of Thursday's steep losses. The market closed 34 1/4 cents higher on the week last week after first trading down to the lowest level since October 18th. This is a positive technical development. Strength in the other grains and talk of the oversold condition of the market helped to support. In addition, technical indicators continue to show significant divergence in RSI which suggests a loss in downside momentum.

Some uncertainties for supply from India, and demand from China helped to provide underlying support. Bangladesh is set to import 500,000 tonnes of wheat from Russia in a government to government deal as the country secures supply in order to ease recent price pressures. Algeria is tendering for 50,000 tonnes of wheat from optional origin. Kazakhstan plans to scrap wheat and flour export quotas next month as forecast for a bumper harvest ease concerns about domestic tightness. Officials in June indicated they would allow the shipment of 550,000 tonnes of wheat and 370,000 tonnes of flour up until September 30.

For the Statistics Canada crop production report, traders expect to see all wheat production near 34 million tonnes, 31.7-35 range, as compared with 21.65 million tonnes last year. Spring wheat production is expected near 25.4 million tonnes, 23-28 range, as compared with 16 million tonnes last year. IKON Commodities raised its forecast for Australia's 2022-23 wheat crop to 35.8 million tons due to favorable conditions. The production outlook was raised by 6.6%, or 2.2 million tonnes from a May forecast. The new estimate is 40% above the 5-year average and compares with a record 39 million tonnes a year earlier.

The Commitments of Traders report for the week ending August 23rd showed Wheat Managed Money traders are net short 26,069 contracts after net selling 7,962 contracts for the week. Non-Commercial & Non-Reportable traders are net short 20,267 contracts after net selling 2,355 contracts. For KC Wheat, Managed Money traders net bought 1,905 contracts and are now net long 9,425 contracts.

HOGS:

The USDA pork cutout released after the close Friday came in at $100.95, down 62 cents from Thursday and down from $115.95 the previous week. This was the lowest the cutout had been since May 17. October hogs closed lower on the session Friday after choppy trade. A collapse in hog prices helped to drive pork values down 12.9% for the week. However, traders are pricing in a $20 break in the cash market as compared with the five-year average break of $10 from late August into October. This may limit the downside potential over the near term. In addition, the market experienced a successful test of key support last week and closed back above this support.

The CME Lean Hog Index was 116.05 on August 24, down from 118.00 the previous session and 120.60 a week prior. The USDA estimated hog slaughter came in at 451,000 head Friday and 28,000 head for Saturday. This brought the total for last week to 2.393 million head, down from 2.395 million the previous week and down 1.7% from last year. China has suspended some meat imports from U.S. processor Tyson Foods Inc. The halt affects products from a plant owned by Tyson Fresh Meats Inc. after some pig trotters from the producer failed inspection.

The Tyson may not have much impact on the meat trade as there are still a lot of U.S. plants eligible to export to China. China will sell pork from state reserves in batches from September, National Development and Reform Commission indicated. China's sow herd at the end of July was at 42.98 million head, down 5.3% from a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 7,150 contracts of lean hogs for the week ending August 23, reducing their net long to 64,807. Non-commercial & non-reportable traders were net sellers of 10,951, reducing their net long to 51,274.

CATTLE:

October cattle experienced choppy to higher trade early in the session last Friday but closed moderately lower on the day. The selling pushed the market down to the lowest level since August 3rd. Some weakness in the cash market plus talk that Labor Day specials are complete plus the current slaughter which was up 3.8% above last year's pace last week, were all seen as negative factors. The USDA boxed beef cutout was down 19 cents at mid-session Friday and closed 78 cents lower at $262.76. This was down from $264.28 the previous week and was the lowest the cutout had been since May 20. Cash live cattle traded lower last week. As of Friday afternoon, the 5-day, 5-area weighted average prices was 144.33, down from 146.06 the previous week.

The USDA estimated cattle slaughter came in at 123,000 head Friday and 56,000 head for Saturday. This brought the total for last week to 678,000 head, up from 661,000 the previous week and 653,000 a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 520 contracts of live cattle for the week ending August 23, increasing their net long to 66,556. Non-commercial & non-reportable traders were net buyers of 1,993, increasing their net long to 78,582. The estimated average dressed cattle weight last week was 815 pounds, up from 812 the previous week and down from 822 a year ago. The 5-year average weight for that week is 824.8 pounds. Estimated beef production last week was 551.3 million pounds, up from 534.9 million a year ago.

COCOA:

Cocoa prices held up fairly well during last Friday's severe negative shift in global risk sentiment and key outside markets that weakened its near-term demand outlook. With supply-side factors returning to a front-and-center position in the market, cocoa should finish August by breaking a 4-month losing streak. December cocoa held within an inside-day range near the top-end of this week's activity, but could not hold onto early strength as it finished Friday's trading session with a mild loss. For the week, however, December cocoa finished with a gain of 39 points (up 1.6%) which was a third positive weekly result over the past 5 weeks and was a positive weekly reversal from Tuesday's 3-week low.

A severe negative turnaround in global risk sentiment after Fed Chair Powell's Jackson Hole speech sent cocoa prices into negative territory, as his emphasis on forcefully fighting inflation reflects the impact of high inflation on the demand for discretionary items such as chocolates. However, increasing concern that upcoming 2022/23 West African production will remain near this season's levels due to a lack of fertilizers continues to provide support to the cocoa market.

Even in areas where they are available, the shortage of fertilizers have driven their costs to very high levels, and many farmers have decided to use much lower amounts (or none at all) for their cocoa trees over the past few months. The International Cocoa Organization will release their quarterly supply report later this week which will have updated forecasts for this season's cocoa production and cocoa grindings.

Cocoa positioning in the Commitments of Traders for the week ending August 23rd showed Managed Money traders net sold 495 contracts and are now net short 29,008 contracts. CIT traders were net long 23,433 contracts after increasing their already long position by 795 contracts. Non-Commercial No CIT traders are net short 24,446 contracts after net selling 2,123 contracts. Non-Commercial & Non-Reportable traders net sold 694 contracts and are now net short 14,874 contracts.

COFFEE:

From mid-July until mid-August, the coffee market saw coiling price action, with sharp rallies followed by quick pullbacks. After a daily reversal on August 19, prices rallied more than 26 cents (+12%) in just four sessions, but the coffee market has a bullish supply outlook that could improve further by the end of September. December coffee came under early pressure and in spite of late rebound finished Friday's trading session with a modest loss. For the week, however, December coffee finished with a gain of 24.75 cents (up 11.6%) which was a third positive weekly result over the past 5 weeks.

The Brazilian currency reached a 2-week high which provided the coffee market with early support. Given last week's sizable gains, however, a negative shift in global risk sentiment after Fed Chair Powell's speech fueled a wave of profit-taking and additional long liquidation late in the day. The world's two largest Arabica-growing nations, Brazil and Colombia, are both having production issues due to the current La Nina event. La Nina normally has brought drier than normal conditions to Brazilian growing areas, and their 2022/23 Arabica crop is expected to be their second lowest of the past nine "on-year" crops.

Colombia usually sees heavier than normal rainfall from La Nina, which could damage trees and pull their 2022/23 Arabica production to a 10-year low. The coffee market was rattled earlier this month by news that more than 250,000 bags were brought to ICE warehouses to be recertified. ICE exchange coffee stocks fell by 1,220 bags on Friday, however, which was a second negative daily result in a row.

The Commitments of Traders report for the week ending August 23rd showed Coffee Managed Money traders were net long 31,899 contracts after increasing their already long position by 5,278 contracts. CIT traders added 241 contracts to their already long position and are now net long 42,120. Non-Commercial No CIT traders added 4,928 contracts to their already long position and are now net long 23,777. Non-Commercial & Non-Reportable traders net bought 4,764 contracts and are now net long 38,871 contracts.

COTTON:

December cotton closed higher on Friday and experienced the highest close since June 17. The dollar reversed higher, but this had little effect on cotton as traders are more focused on the poor US crop and the expected strong export demand even as the dollar gains strength. Reports that China will take more steps to support their economy were supportive as well, as that would support US cotton exports. The 1-5-day forecast calls for ample rain across West Texas and moderate amounts in the Delta. The 6-10 and 8-14 day forecasts call for normal to above normal chances of rain across Texas, the Delta, and the Southeast. The rain is coming too late to save the Texas crop, and we are getting to the point in the season where growers will be concerns about rainfall damaging open bolls.

Last week's Crop Progress Report showed 19% of the US crop had open bolls, up from 15% the previous week. Traders will be looking to Monday afternoon's report for an update. The fundamental setup is extremely tight, and higher prices may be necessary to slow demand. In other years of extremely tight ending stocks, July Cotton has traded to a significant premium to the new crop December contract. In 1986 July traded to a 37.56 premium to December, and in 1991, 1995, and 2011, it traded to premiums of 18.35, 36.70, and 79.66 cents. Friday's Commitments of Traders report showed managed money traders were net buyers of 6,016 contract of cotton for the week ending August 23, increasing their net long to 50,778. Non-commercial & non-reportable traders were net buyers of 5,126, increasing their net long to 58,160.

SUGAR:

After seeing coiling action for most of last week, sugar's upsurge on Friday lifted prices back above their 50-day moving average for the first time since mid-August. While key outside markets are providing carryover support, sugar is also receiving bullish supply news that can help sugar maintain upside momentum through month-end. October sugar continued to build onto early support as it reached a 1 1/2 week high before finishing Friday's trading session with a sizable gain. For the week, October sugar finished with a gain of 38 ticks (up 2.1%) which was a third positive weekly result over the past 4 weeks.

The Brazilian currency climbed to a 2-week high in spite of the Dollar's sizable rebound, and that gave a boost to sugar prices as that can help ease pressure on Brazil's Center-South mills to produce sugar for the global export market. This season's Center-South sugar production was 12.8% behind last season's pace by mid-August, due in part to a late start to harvesting and crushing, but also to a 2% decline in sugar yields from drier than normal conditions. August Center-South domestic ethanol sales are on-track for their first monthly year-over-year increase since April, and that may encourage mills to hold back on shifting more of this season's crushing to sugar production.

There were reports that India's 2022/23 export limit will be 8 million tonnes (versus more than 11 million shipped this season) provided additional support going into the weekend. India's Minister for Road Transport and Highways said that there is a need for India to diversify their cane output towards ethanol production. If India continues to ramp up their ethanol output, their 2022/23 sugar exports could come in well below 8 million tonnes.

The August 23rd Commitments of Traders report showed Sugar Managed Money traders are net long 17,115 contracts after net buying 3,669 contracts. CIT traders were net long 183,824 contracts after decreasing their long position by 205 contracts. Non-Commercial No CIT traders reduced their net short position by 7,485 contracts to a net short 30,191 contracts. Non-Commercial & Non-Reportable traders are net long 34,323 contracts after net selling 3,826 contracts.