ADM Investor Services, Inc.

Weekly Futures Market Summary

September 12, 2022

by the ADMIS Research Team

BONDS:

Following a weaker than expected set of Chinese inflation readings, Canadian unemployment had a much higher than forecast increase. In addition, the Fed's George said that she prefers steadiness and steadfastness over speed with future Fed rate hikes. Treasuries were unable to build on early strength and finished last Friday's trading session with mild losses. Given the ability to respect last week's spike down extension lows, the build out of a consolidation pattern and given treasury prices are tracking positive in the face of global equity and commodity market optimism, that should indicate last week's lows as strong fundamental value.

However, the markets will face a minimal amount of economic data early this week and they are facing a very important US CPI reading Tuesday morning which could be discouraging active trading. On the other hand, there are classic fundamental developments supporting bond and note prices today with news of further Chinese city lockdowns, the potential for an economy killing US railroad workers strike and fresh hawkish global central bank dialogue. Keep in mind that treasury prices rallied sharply in June and July off the theory that to arrest inflation would require raising rates to a level that would result in recession. Therefore, traders should not underestimate the importance of the Tuesday morning US CPI report especially with expectations calling for a month over month decline of 0.1%.

It should be noted that headlines early this week produced fresh fear that inflation in Germany and the UK will continue to undermine economic activity in those countries. Furthermore, ECB governors expressed concern that rates might have to be raised to 2% to arrest the inflation spiral. From a technical perspective, recent consolidation lows could hold with both bonds and notes holding moderate net spec and fund short positioning. Bonds positioning in the Commitments of Traders for the week ending September 6th showed Non-Commercial & Non-Reportable traders net sold 21,424 contracts and are now net short 69,495 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders were net short 477,126 contracts after decreasing their short position by 35,730 contracts.

CURRENCIES:

The Dollar stayed under significant pressure throughout the day as it finished last Friday's trading session with a heavy loss and a negative weekly reversal. An inability to retest Wednesday's 20-year high fueled profit-taking and long liquidation going into the weekend. Hawkish commentary by ECB officials provided a boost to the Eurocurrency that lifted it back above parity with the Dollar. With a downside extension of last week's washout and the violation of psychological support at 108.00, the charts favor the bear track at the start of this week. However, the dollar could be under pressure because of growing hope that aggressive US rate hikes could be near an end.

On the other hand, for fears of recession off over tightening to decline significantly, will likely require confirmation of a contraction in US CPI readings Tuesday morning. Further weakness in the dollar is also the result of ECB official comments forecasting significantly higher EU rates will be needed to curb inflation. In addition, we continue to see the threat of severe recession in Europe as a significantly greater threat than recession in the US. In other words, extreme inflation in Europe from significantly higher relative to global energy prices) and the war should provide the dollar with flight to quality buying. Dollar positioning in the Commitments of Traders for the week ending September 6th showed Non-Commercial & Non-Reportable traders reduced their net long position by 70 contracts to a net long 38,498 contracts.

As indicated already, ECB officials extended their extreme hawkish views which combined with surging inflation evidence leave the euro zone much more vulnerable than the US to recession. Contrary to historical trading action, the prospect of a worsening of the conundrum of need the to raise rates on a faltering economy, that has not resulted in a break in the euro. The September 6th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders are net short 21,537 contracts after net buying 8,136 contracts.

The lack of strength in the Yen at the start of this week in the face of a fresh lower low in the dollar highlights the entrenched bearish view toward the Japanese currency. Adding into the negative view toward the Yen is the BOJ message that they are nowhere near shifting monetary policy back to accommodative standing. Obviously, part of the recent strength in the Swiss franc has been the direct result of a breakdown in the US dollar. However, traders should not rule out the prospect that the Swiss franc is beginning to see classic/historical flight to quality buying interest off the potential that global inflation will remain in place and could expand despite central bank efforts. However, given the massive gains off last week's lows we advise against chasing the Swiss with buy orders.

With the BOE continuing to offer warnings of turmoil from the ongoing conundrum of rising UK rates in a slowing environment, the minimal rally in the Pound off significant dollar weakness is not surprising. Fundamental news overnight also favors the bear camp with UK GDP softer than expected, UK industrial production declining on a month over month basis and manufacturing production in July gaining less than expected.
While a portion of the Canadian dollar rally over the prior 3 trading sessions is likely a reaction to dollar weakness, Canadian 2nd quarter industry capacity utilization last week reached the highest level since the midpoint of 2018. Without further fundamental evidence we are not prepared to call for an end to the 14-month slide in the Canadian.

STOCKS:

Global markets continued to build on early strength as they have a positive tone at the close of last Friday's trading session. Positive guidance from Kroger helped to soothe market concern over rising food prices. US equity markets extended their early gains and finished with sizable gains. Global equity markets at the start of this week were all positive with some gains above 2%. While central bank dialogue continues to reiterate the need to continue the battle against inflation, investors are growing hopeful that US inflation data this week will bring evidence of moderating prices. Global economic news released early this week was thin with New Zealand visitor arrivals in July jumping a massive 344% from year ago levels, a contraction in UK industrial production, a softer than expected gain in UK manufacturing production, a significant improvement in Japanese machine-tool orders for August and a slightly stronger than expected Italian industrial output month over month reading for July.

The extension of last week's rally in the face of several bearish fundamental developments at the start of this week could be the result of anticipation of a looming end to jumbo US interest rate hikes. In fact, the

S&P is surging higher this morning in the face of additional Chinese city lockdowns, a US move to expand curbs on US exports of chip and tools that manufacture chips and in the face of growing prospects of a US railroad strike! In conclusion, the stock market is seemingly climbing a "wall of worry" which in turn expands market hopes of a 50-basis point hike (instead of a 75-basis point hike) next week. Even the technical condition favors the bull camp, with an early higher high for the move and a considerable net spec and fund short positioning in place as of early last week. The Commitments of Traders report for the week ending September 6th showed E-Mini S&P Non-Commercial & Non-Reportable traders net bought 7,523 contracts and are now net short 277,117 contracts.

Like the S&P futures, the Dow Jones futures have also extended last week's impressive rally with the likely cause of that rally anticipated relief from the very aggressive US rate hike cycle. The early gains this week were impressive considering the negative headline flow for two Dow stocks. However, like the S&P, the Dow futures also had a net spec and fund short position as of early last week which justifies short covering gains. Dow Jones $5 positioning in the Commitments of Traders for the week ending September 6th showed Non-Commercial & Non-Reportable traders were net short 10,364 contracts after increasing their already short position by 7,351 contracts. As in other sectors of the market, the NASDAQ futures posted early gains despite bearish fundamental headlines. In fact, seeing the NASDAQ rally in the face of a broadening of US export limits for key chip and chip making items suggest that the rally is macroeconomic in nature. The Commitments of Traders report for the week ending September 6th showed Nasdaq Mini Non-Commercial & Non-Reportable traders net sold 4,346 contracts which moved them from a net long to a net short position of 2,932 contracts.

GOLD, SILVER & PLATINUM:

With the dollar extending last week's reversal/slide and reaching the lowest level since August 26th early this week, the precious metal markets clearly start the week with support from currency market action. In our opinion, the markets were upbeat in anticipation of evidence on Tuesday that US inflation might be coming under control. In other words, both commodities and equities are hopeful that jumbo rate hikes from the US Fed are over or will be over after next week's FOMC meeting. In fact, metals, equities, and other commodities are tracking positive at the start of this week despite the promise of more quantitative tightening from the European Central Bank. Therefore, the bull camp in gold and silver is factoring in expectations for a decline in CPI of 0.1%. The gains in commodities early this week was impressive given the additional Chinese Covid city lockdown announcements over the weekend.

While some traders suggest that gold and other metal markets might be poised to benefit from Chinese Mid-Autumn Festival demand, the economic condition inside China remains suspect and the yuan is trading at the weakest level since the beginning of the pandemic, thereby eroding Chinese purchasing power. Furthermore, Chinese August CPI and PPI readings last week weakened significantly which in turn gives credence to views that the Chinese economy is contracting. Furthermore, investor sentiment toward gold and silver remains negative with gold holdings last Friday declining for the 10th straight session and reducing holdings last week by 442,722 ounces. Similarly, silver ETF holdings on Friday declined by 711,955 ounces and reduced their holdings last week by 2.5 million ounces! With the most recent COT positioning report showing a net spec and fund gold long near the vicinity of the lowest levels since May 2019, some gold buyers saw the markets respect and ultimate rejection of the $1,700 level as a sign of fundamental value.

The September 6th Commitments of Traders report showed Gold Managed Money traders net sold 19,509 contracts and are now net long 1,217 contracts. Non-Commercial & Non-Reportable traders net sold 17,752 contracts and are now net long 112,977 contracts. Under further declines in the dollar and if the odds of a jumbo US rate hike next week decline, the October gold contract might regain the $1,750 level. With the silver market in the most recent COT positioning report posting a "net short" we suspect last week's gap higher upside extension was primarily the result of short covering. The September 6th Commitments of Traders report showed Silver Managed Money traders net sold 3,573 contracts and are now net short 24,632 contracts. Non-Commercial & Non-Reportable traders are net short 4,309 contracts after net selling 4,207 contracts.

Like other precious metal and commodity markets, the palladium market has extended last week's impressive recovery rally and has matched the highest price since August 26th in action early this week. While the PGM markets have not tracked tightly with the ebb and flow of fears of slowing from aggressive global central bank action, the markets this morning are obviously taking part in what appears to be an interest rate relief rally ahead of extremely critical US inflation data Tuesday. Unfortunately for the bull camp, palladium ETF holdings last week declined by 5,112 ounces and are now 17% below levels seen at the beginning of the year. Similarly, platinum ETF holdings currently sit 12% lower year-to-date. With the most recent COT positioning report showing a palladium "net spec and fund short", we assume a moderate portion of last week's sharp gains were short covering and not clearly fresh fundamental buying.

In fact, the macroeconomic condition last week deteriorated with equities ultimately recovering off the growing prospects the Fed might hike rates 50-basis points instead of 75-basis points. Palladium positioning in the Commitments of Traders for the week ending September 6th showed Managed Money traders net sold 646 contracts which moved them from a net long to a net short position of 404 contracts. Non-Commercial & Non-Reportable traders added 807 contracts to their already short position and are now net short 2,160. Platinum and palladium might have drafted some support from news that London will improve its traceability of PGM supply beginning January 1st with specific bar markings which could reduce Russian PGM supply flow to the world market. Like the palladium market, the platinum market early last week was "net spec and fund short" and that likely contributed classic short covering and interest rate relief buying into the platinum trade.

COPPER:

Given the weekend announcement of spreading lockdowns in China (2 more major cities) the strength in December copper this morning could be a signal that copper prices down at $3.40 represent fundamental value. Like other physical commodity markets, the copper market charts have shifted in favor of the bull camp and have managed that action despite an increase in LME copper warehouse stocks last Friday, residual Chinese slowing fears and, in the face, lingering fear of slumping Chinese copper demand. It should be noted that Shanghai copper warehouse stocks last week declined by 3% leaving the primary global copper supply measure very tight.

However, copper demand fears were partially offset late last week by news that Chilean copper producer "Escondida" asked the Chilean government for assistance in avoiding planned shutdowns due to protests. On the other hand, copper like other physical commodity markets is likely to benefit from expectations of a smaller US rate hike next week if US CPI readings match expectations for a decline. As in other physical commodity markets, the copper market remained net spec and fund short as of early last week which highlights definitively bearish sentiment and is likely to contribute additional short covering buying ahead. The September 6th Commitments of Traders report showed Copper Managed Money traders net sold 2,929 contracts and are now net short 11,241 contracts. Non-Commercial & Non-Reportable traders were net short 26,044 contracts after increasing their already short position by 1,744 contracts.

ENERGY COMPLEX:

Fortunately for the bull camp, crude oil appears to be poised to benefit from improved macroeconomic sentiment flowing from growing speculation that the US central bank might become less aggressive if this week's US inflation data shows a "contraction". From a shorter-term perspective, energy prices early this week are also benefiting from fear of a breakdown in Iranian nuclear talks. In our opinion, if retail fuel prices continue to fall, the Biden administration will be less likely to agree to a deal which largely favors

Iran. It is also possible that crude oil prices will benefit from further efforts to implement a Russian oil price cap. Furthermore, the bull camp should remain inspired by comments from the Russian President threatening to stop all oil supply in the event a European price cap is imminent.

On the other hand, crude oil prices last week did post a lower low for the week, crude oil in floating storage over the last week increased by 11%, and a major Chinese province has been put into an extended lockdown. The bull case could be accentuated by a significant inflow to the United States Oil Fund (USO) last week, and with the potential for fresh speculative buying with recent positioning reports reaching the lowest level since August 2016! The September 6th Commitments of Traders report showed Crude Oil Managed Money traders added 1,695 contracts to their already long position and are now net long 174,407. Non-Commercial & Non-Reportable traders reduced their net long position by 15,625 contracts to a net long 296,804 contracts.

Certainly, gasoline futures are benefiting from spillover strength in crude oil early this week, but we see recent gains as a temporary bounce in a bear market. Fortunately for the bull camp, private services noted a contraction in global fuel oil supplies last week and an increase in Chinese independent oil refinery operating rates. While the gasoline market at the end of last week showed a significant technical recovery, prices could continue to benefit from hope that overly aggressive US rate hikes might be passing soon. Like the crude oil market, the gasoline market should benefit from Russian threats to "cut off all oil supply flow" in the event of a Price Cap and fundamental support from last week's 1.6% decline in European gasoline stocks. However, we doubt gasoline will manage sustained gains until global economic sentiment remains consistently upbeat.

The Commitments of Traders report for the week ending September 6th showed Gas (RBOB) Managed Money traders reduced their net long position by 2,941 contracts to a net long 55,363 contracts. Non-Commercial & Non-Reportable traders were net long 50,145 contracts after decreasing their long position by 2,948 contracts. While the Russian threat to cut off all oil supplies provides support for diesel, the markets muted upside response last week highlights a lack of bullish sentiment. However, market chatter on the tight situation in distillates into the winter should make last week's consolidation low a strong value zone on the charts at $3.48. The September 6th Commitments of Traders report showed Heating Oil Managed Money traders were net long 22,305 contracts after decreasing their long position by 8,287 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 7,803 contracts to a net long 36,193 contracts.

Despite escalation of winter tightness fears in Europe from fresh estimates suggesting storage capacity will not remove the potential for extreme winter tightness on the European continent, a forecast for continued hot US weather into next week, a beginning of the hurricane season, and a moderate net spec and fund short positioning, natural gas prices have not rallied at the start of this week. It is possible that reports of German storage reaching 88% of capacity has discouraged many would be buyers. However, last week's rejection of the sub $8.00 level provides a measure of technical support to the market as does the ongoing shutdown of the Nord Stream 1 pipeline. As in the petroleum markets, EU discussions of a gas price limit is creating uncertainty of future gas supply flow.

The net spec and fund short positioning in natural gas remains near the lowest levels since March and that should leave the market capable of further technical short covering buying. Natural Gas positioning in the Commitments of Traders for the week ending September 6th showed Managed Money traders net sold 19,586 contracts and are now net short 71,836 contracts. Non-Commercial & Non-Reportable traders were net short 106,026 contracts after increasing their already short position by 13,344 contracts. We see support solidifying around $7.77 with the increased risk of hurricane supply threats returning to the headlines which in turn is likely to put a large net spec and fund short position under pressure to liquidate, especially if the threat of a halt to Russian energy supply flow gains traction.

BEANS:

The soybean market faces the USDA report Monday and has absorbed bearish supply and demand news over the last few weeks. Vegetable oil prices continue to collapse with palm oil at a 20 month low, and Argentina soybean producers are thought to have sold 3 to 4 million tonnes of soybeans this past week. This should increase meal and oil sales and could pressure prices over the near term. November soybeans closed sharply higher on the session Friday but still lower on the week. Exporters announce the sale of 104,000 tonnes of US soybeans sold to Taiwan. Positioning ahead of the USDA supply/demand report plus bullish outside market influences helped to support. December meal also closed higher on the day but with an inside trading session and still closed lower on the week. December soybean oil closed moderately higher on the session and experienced follow-through buying from Thursday's hook reversal, but also closed lower for the week.

The average trade expectation for US 2022/23 soybean yield is 51.5 bushels per acre (50.7-52 range) versus 51.9 in the August update. Soybean production is expected near 4.500 billion bushels, down 31 million bushels from the August report. US ending stocks are expected to come in around 246 million bushels (203-335 range) versus 245 million in the August update. World ending stocks are expected near 101.2 million tonnes (98.2-103 range) versus 101.4 million in August. If there are no weather issues, the market looks vulnerable to increased selling pressure into the US harvest. Conab announced that the Brazil's 2021/22 soybean crop production reached 125.5 million tonnes, up from 124.05 million in their previous forecast and opening the door for larger global beginning stocks for 2022/23.

The USDA attache lowered China's 2022/23 soybean import forecast to 96.5 million tonnes, which could boost world ending stocks for 2022/23 as well. The September 6th Commitments of Traders report showed Soybeans Managed Money traders were net long 99,629 contracts after decreasing their long position by 2,172 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 4,914 contracts to a net long 50,083 contracts. For Soyoil, Managed Money traders were net long 43,982 contracts after decreasing their long position by 5,204 contracts. The long liquidation selling trend is a bearish force. For Soymeal, Managed Money traders net sold 12,005 contracts and are now net long 81,621 contracts. Non-Commercial & Non-Reportable traders net sold 13,568 contracts and are now net long 119,186 contracts.

CORN:

December corn closed sharply higher on the session last Friday and experienced the highest close since June 22nd. The market closed just shy of key resistance at 688, and this leaves bullish traders with a tough decision going into the USDA report. If yield comes in anywhere close to the crop tour results, the outlook for US and world ending stocks will tighten to historic levels. Outside market forces carried a very bullish tilt. For the reports, the average trade expectation for US 2022/23 corn yield is 172.4 bushels per acre, with a range of expectations from 170-174.9. This would be down from 175.4 in the August report. Corn production is expected near 14.089 billion bushels, which would be down 270 million bushels from the August update. US corn ending stocks are expected to come in near 1.195 billion bushels (980-1.412 range), down from 1.388 billion in August. World corn ending stocks are expected near 301.7 million tonnes (290-305.9 range) versus 306.7 million in August.

The US was not the only place with poor weather this summer. There could be additional revisions lower for the European crop, which saw even hotter weather. China's weather was nowhere near normal either, with extreme heat across much of the central region and plenty of uncertainty regarding the rest of the country. If we lose 10 million tonnes from China's production, 7 million from the US (based on the average trade expectation), and 2 to 4 million from Europe, then world ending stocks could drop to 286.7 million tonnes, the lowest since the 2014/15 season. The stocks/usage ratio would drop to 24.1%, the lowest since 2013/14. The September 6th Commitments of Traders report showed Corn Managed Money traders net bought 5,012 contracts and are now net long 226,479 contracts. Non-Commercial & Non-Reportable traders are net long 223,371 contracts after net buying 3,658 contracts for the week.

WHEAT:

December wheat closed sharply higher on the session last Friday and experienced the highest close since July 11. The market seems to have had plenty of bearish news to break out of the July-September consolidation, but the major reversal for the US dollar and poor weather in Argentina were factors to spark significant short covering. Strength in the other grains and a much improved risk tone for global markets added to the positive tone. The average trade expectation for US 2022/23 wheat ending stocks is 618 million bushels (594-650 range), up from 610 million bushels in the August report but still be the lowest since the 2013/14 season. World ending stocks are expected to come in near 268.2 million tonnes (263.6-274 range), up from 267.3 million in August. This would be the lowest since 2016/17.

IKAR raised their 2022/23 Russian wheat crop estimate to 97 million tonnes from 95 million previously, which would be a new record high. Export potential has been revised to 46 million tonnes from 44 million in July. Traders are hesitant to believe that there will be significant disruptions in Ukraine exports, as there were fewer concerns with Russia's criticism of the export corridor out of the Black Sea. Increasing supply from the US, Australia, and soon Canada should help ease any near-term tightness. A key reversal in the dollar (and a weekly key reversal from a 20-year high) leaves some hope that US wheat could become more competitive on the world market. However, it will take a bigger decline in the US dollar to spark any meaningful increase in demand. A cold front moving through Argentina late last week was expected to bring in another round of cold air, producing some frosts through the weekend. Limited rainfall and cold temperatures have been detrimental for crop development so far this season.

The September 6th Commitments of Traders report showed Wheat Managed Money traders net bought 816 contracts and are now net short 21,431 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 687 contracts to a net short 12,771 contracts. For KC wheat, Managed Money traders net sold 1,371 contracts and are now net long 11,087 contracts. Non-Commercial No CIT traders were net short 9,150 contracts after decreasing their short position by 6 contracts. Non-Commercial & Non-Reportable traders net bought 561 contracts and are now net long 8,115 contracts.

HOGS:

December Hogs appear to have posted a significant low last Friday, as the market fell to its lowest level since July 5 before closing moderately higher on the session. December futures are trading at a massive discount to the cash market, and it is difficult to come up with a scenario to rationalize this set-up. The CME Lean Hog Index as of September 6 was 101.48, down from 103.26 the previous session and 109.36 the previous week. This leaves December Hogs trading at an 18.76 discount to the cash market versus 17.18 last year and a five-year average of 5.00. If December Hogs were trading at the five-year average basis, they would be priced at 96.47, not at 83.12, where they were at the close on Friday. With US pork production expected to be 1.5% below year ago levels in the fourth quarter, there does not seem to be much reason for such a big discount.

The CME Lean Hog Index as of September 7 was 100.26, down from 101.48 the previous session and 107.62 the previous week. The USDA pork cutout, released after the close Friday, came in at $101.90, up 75 cents from Thursday and up from $100.55 the previous week. The USDA estimated hog slaughter came in at 480,000 head Friday and 317,000 head for Saturday. This brought the total for last week to 2.243 million head, down from 2.356 million the previous week and from 2.248 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 9,965 contracts of lean hogs for the week ending September 6, reducing their net long to 45,498. Non-commercial & non-reportable traders were net sellers of 6,982, reducing their net long to 35,596.

CATTLE:

The cattle market opened steady on the session Friday and closed sharply higher on the session. October cattle pushed up to the highest level since August 18. Traders see tightening supply into the fourth quarter as a supportive factor, and outside market forces carried a bullish tilt. The stock market rally is helping to ease concerns of weak demand ahead. The USDA boxed beef cutout was down 77 cents at mid-session Friday and closed 75 cents lower at $257.26. This was down from $258.07 the previous week and was the lowest it had been since May 12th. Cash live cattle traded in decent volume for a Friday at 6,901 head, but Thursday was the peak trading day for the week at 31,031 head. There were 956 head reported in Kansas on Thursday at $141, which was steady with earlier in the week and with the previous week. In Nebraska 3,824 head were reported at $142-$143 with an average of $142.93 versus an average of $143.87 the previous week. The 5-day, 5-area weighted average price as of Friday was $142.14 versus $142.62 the previous week.

The USDA estimated cattle slaughter came in at 127,000 head Friday and 92,000 head for Saturday. This brought the total for last week to 604,000 head, down from 638,000 the previous week but up from 579,000 a year ago. Last month, Brazil exported 203,230 tons of beef (in natura), a record and 21.5% more than that from July and 11.81% above the volume shipped in August 2021. Until then, the highest monthly volume exported by Brazil had been registered in September of 2021, when 187,020 tons were shipped. This year (Jan-Aug), Brazil has exported 1.3 million tonnes of beef (in natura), a record for the period, 20% more than that in the same period last year and 17.39% above that in 2020. US beef exports reached 306.926 million pounds in July, down from 314.970 million in June and 297.015 million pounds in July 2021. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,143 contracts of live cattle for the week ending September 6th, increasing their net long to 61,886. Non-commercial & non-reportable traders were net buyers of 1,025, increasing their net long to 76,210.

COCOA:

Concern over demand destruction has weighed on many commodities during the third quarter, particularly for the cocoa market. With global risk sentiment and key outside markets on the mend, cocoa prices may be able to extend a recovery move well above its July/September consolidation zone. December cocoa was able to regain upside momentum and break a 3-day losing streak as it finished Friday’s trading session with a sizable gain. For the week, however, December cocoa finished with a loss of 56 points (down 2.3%) which broke a 2-week winning streak.

A rebound in global risk sentiment helped to soothe near-term demand concerns in the cocoa market, while a rebound in the Eurocurrency and British Pound provided carryover support to cocoa prices as that can make it easier for European processors to acquire near-term cocoa supplies. COVID restrictions in China, threats of energy supply shortages in western Europe, and very high inflation levels have soured the demand outlook for discretionary items. Chocolate is a discretionary item for most consumers around the globe, so the rising cost of basic items would not bode well for cocoa demand.

However, the latest quarterly supply report from the International Cocoa Organization (ICCO) showed 2021/22 global grindings at 5.071 million tonnes. This was a record high, and it marked a 23,000-tonne increase from their previous forecast. While most of this increase was attributed to Bulgaria’s 21,000 tonnes being added to the list, it also shows that global demand has been resilient the past two years. The ICCO is also forecasting global cocoa production to fall 354,000 tonnes in 2021/22, which would be the largest year-over-year decline since 2006/07.

The September 6th Commitments of Traders report showed Cocoa Managed Money traders added 5,527 contracts to their already short position and are now net short 23,818. CIT traders net sold 334 contracts and are now net long 23,864 contracts. Non-Commercial No CIT traders were net short 18,188 contracts after increasing their already short position by 3,398 contracts. Non-Commercial & Non-Reportable traders were net short 10,708 contracts after increasing their already short position by 6,674 contracts.

COFFEE:

Coffee prices were unable to complete a positive weekly reversal, but their abrupt turnaround on Friday put firm brakes on their August/September pullback. If global risk sentiment continues to improve, coffee should be able to sustain upside momentum. December coffee was able to build onto a strong opening and climbed back above their 200-day moving average to finish Friday's trading session with a sizable gain. For the week, however, December coffee finishing with a loss of 0.30 cent (down 0.1%) which was a second negative weekly result in a row.

A more than 1% gain in the Brazilian currency provided coffee with carryover support, as an extended recovery would ease pressure on Brazil's producers to market their remaining near-term supply to foreign customers. Production issues in Brazil and Colombia due to the La Nina weather event remain a source of strength for the coffee market, with the US Climate Prediction Center now forecasting a 91% chance that the current La Nina will continue through the end of this year.

Brazil's major growing areas have mostly dry weather in the forecast through early next week, and that extends the drier than normal conditions that La Nina produces for the region. While early forecasts for the 2022/23 season show a rebound in their output, Honduras reached an 8-year low in this season's coffee production. Guatemala's August coffee exports were 0.8% above last year's total, but that has kept their 2021/22 full season total behind last season's pace. ICE exchange coffee stocks fell by 8,648 bags on Friday and are now less than 44,000 away from a new 23-year low.

The Commitments of Traders report for the week ending September 6th showed Coffee Managed Money traders are net long 42,185 contracts after net selling 1,886 contracts. CIT traders net bought 2 contracts and are now net long 45,295 contracts. Non-Commercial No CIT traders were net long 28,752 contracts after decreasing their long position by 2,002 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 1,651 contracts to a net long 48,715 contracts.

COTTON:

December cotton closed moderately higher last Friday at the upper end of last week's range but still down sharply from where it was at the end of August. The dollar broke lower on Friday, which is supportive to US export commodities like cotton and the dollar is sharply lower again today. Crude oil was higher as well, which makes man-made fibers less competitive with cotton. Traders are looking for a slight increase in the US production estimate for today's USDA supply/demand report, but not much. The average trade expectation for US 2022/23 cotton production is 12.77 million bales, with a range of expectations from 12.20 to 13.50 million. This would be up from 12.57 million bales in the August report but down from 17.52 million last year. Ending stocks are expected to come in around 1.86 million bales (range 1.50-2.50) versus 1.80 million in August at 3.50 million for 2021/22.

World ending stocks are expected to come around 82.56 million bales (range 81.20-84.00, down from 82.77 million in August and 84.72 million bales for 2021/22. Massive losses in Pakistan this month would suggest a sharp drop in world stocks next month. Friday's Commitments of Traders report showed managed money traders were net sellers of 3,784 contracts of cotton for the week ending September 6, reducing their net long to 50,109. Non-commercial & non-reportable traders were net sellers of 5,237, reducing their net long to 55,794. The selling trend is short term bearish, but this may be overtaken by the results of Monday's USDA supply/demand report.

SUGAR:

Sugar prices continue to see coiling action that has gotten tighter in early September, which may be setting the stage for a longer-term trend decision. Although it should receive carryover support from the improvement in key outside markets, sugar remains vulnerable to a near-term pullback. March sugar was able to shake off early pressure as it finished Friday's trading session with a moderate gain. For the week, October sugar finished with a gain of 7 ticks while March sugar closed with a weekly loss of 18 ticks (down 1.0%) which was a third negative weekly result over the past 4 weeks.

A rebound in the Brazilian currency provide sugar with carryover support, as that should ease pressure on Brazil's Center-South mills to produce sugar for the global export marketplace. In addition, the continued turnaround in crude oil and RBOB gasoline prices from 6-month lows last Thursday benefited the sugar market as that should help to improve ethanol demand prospects in both Brazil and India.

The latest Unica supply report will be released early this week, and is forecast to show Center-South crushing, sugar production and ethanol production during the second half of August to show slight increases over last year's level. The full 2022/23 season totals for all 3 should remain well behind last season's pace, however, due in part to a late start to harvesting and crushing, but also to lower sugar yields as a result of the current La Nina weather event. The current La Nina is projected to have a 91% chance to last through year-end, and that should also have a negative impact on the upcoming 2023/24 Center-South cane crop as well.

The September 6th Commitments of Traders report showed Sugar Managed Money traders were net long 17,412 contracts after decreasing their long position by 10,385 contracts. CIT traders were net long 182,484 contracts after decreasing their long position by 2,656 contracts. Non-Commercial No CIT traders net sold 7,455 contracts and are now net short 30,173 contracts. Non-Commercial & Non-Reportable traders were net long 35,587 contracts after decreasing their long position by 15,774 contracts.