ADM Investor Services, Inc.

Weekly Futures Market Summary

December 19, 2022 **by the ADMIS Research Team**

BONDS:

We see the retrenchment last Friday's trade as a mere technical and fundamental balancing of the early December run-up. However, ongoing slowing fears, anxiety from declining equities, rising Chinese economic uncertainty and the passing of the latest rate hike barrage should set the stage for a recovery in prices this week. In a sign of potential overdone conditions, treasury bonds and notes failed to derive a lift from softer than expected S&P global manufacturing and services PMI readings. In retrospect, the treasury markets appear to have lost some bullish momentum with the March bond contract seemingly losing buying interest on trades above 132-00.

However, classic fundamentals favor the bull camp with fear of global slowing from rising rates a "fixture" in market psychology. Certainly, the downtick in US initial claims last week provided an offset to recent soft data but given signs of softening price pressures, the overall fundamental case in treasuries remains with the bull camp. While there is always the potential for a pre-Christmas holiday euphoria wave, recent corporate headlines and overt weakness in equity markets should limit consumer and investor confidence.

While the bond and note markets continue to maintain notable net spec and fund short positioning, without a close above 132-01 in March bonds and or a close above 115-03 in March Notes speculative shorts will likely remain in place. The Commitments of Traders report for the week ending December 13th showed Bonds Non-Commercial & Non-Reportable traders net bought 15,941 contracts and are now net short 74,893 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders reduced their net short position by 41,799 contracts to a net short 395,155 contracts.

CURRENCIES:

At times last Friday, the dollar index saw modest flight to quality buying interest from the sharp declines in US equities. However, US scheduled data points remain concerning and should thicken resistance over the dollar into next week. Sentiment has turned so negative toward the dollar that a portion of the trade thinks the euro zone economy could hold up despite comments from the ECB President indicating the markets were under stating the magnitude of the terminal rate in the euro zone.
While the dollar has established thin chart support at 103.76, sentiment toward the US economy remains negative with the focus of the trade shifting back to regularly scheduled data points in the weeks ahead.

Overall, we see the trend remaining down in the dollar but also see the potential for year-end short covering/profit-taking from the 4-month-old downtrend channel slide in the dollar. So far, consumer sentiment has been negative and holiday optimism from the shopping season has not been present in the

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headlines. Pushed into the market, traders should sell the March dollar index at 104.50. The Commitments of Traders report for the week ending December 13th showed Dollar Non-Commercial & Non-Reportable traders are net long 28,484 contracts after net buying 1,040 contracts.

In our opinion, the euro is set to extend its "win by default" against a sloppy dollar trade. However, the absence of critical scheduled economic data could rob the currency markets of speculative volume increasing the markets' reliance on chart points. While not a major benefit to the bull camp, a positive sweep of German IFO business climate, current assessment, and expectations readings for December should thicken support at this morning's lows. Euro positioning in the Commitments of Traders for the week ending December 13th showed Non-Commercial & Non-Reportable traders were net long 185,093 contracts after increasing their already long position by 8,372 contracts.

While the Yen is likely garnering initial lift from the weakness in the dollar, the Bank of Japan has provided some support from reports the Bank of Japan will reconsider the government's commitment to a 2% inflation target. In other words, the trade sees the Bank of Japan with more latitude to handle economic conditions if the inflation trigger is adjusted. With thin trading conditions and a less active scheduled report slate, the Swiss franc is poised to chop in a broad trading range ahead. While it is premature to expect year end book squaring early this week, longs in the Swiss have massive profits from the last 2 months rally and might rush to the sidelines if key chart levels are violated.

We detected a temporary breakdown in the uniform uptrend in the Pound at the start of this week. However, the Pound should draft support from an article last week from London suggesting the BOE will continue to be "more hawkish" than current trade expectations. That same sentiment was floated by the ECB President last week regarding the markets view of ECB policy. With the Canadian posting a 3rd straight weekly loss and weakness in energy prices the best hope of the bull camp is for the market to respect even number/consolidation low support at 73.00. While not a major fundamental support, seeing Canadian wholesale trade increase by 2.1% in October (figures released last week) should mean technical support is joined by a small measure of fundamental support.

STOCKS:

Clearly, sentiment toward equities is mirroring the deterioration in the outlook for the US economy. In fact, residual anxiety from the central bank rate hike barrage continues to gloss over normal holiday optimism. Prior to last week, the equity markets had forged impressive action in the quarter and further declines this week might prompt additional long liquidation as fund managers and investors protect gains made from the October lows. Global equity markets at the start of this week were mixed with higher markets outnumbering weaker markets and weakness generally seen in Asian markets.

While international equity markets were "mostly" higher, the US markets have clearly extended last week's bearish track into Monday's early trade. In general, corporate headline flow continues to favor the bear camp with focus on the vulnerability of big tech remaining in place. In fact, Elon Musk has apparently launched a poll on twitter asking if he should step down as the Twitter CEO and he has promised to abide by the results! In another negative, the January 6th committee is rolling out its latest accusations and that could temper any “Santa Claus” optimism. In a sign of negative sentiment, the CNBC millionaire poll believes stocks will suffer major losses in 2023.

As indicated already, the March S&P has ranged down to start this week putting prices at the lowest level since November 10th and seemingly extending the bear's control into the new week. With the S&P into Monday’s low trading 80 index points below the level where the COT positioning report was measured, the net spec-and-fund short position in the report today clearly understates the size of the net short. The December 13th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders net sold 22,936 contracts and are now net short 165,365 contracts. Fortunately for the bull camp the markets are working lower without anxiety.

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As indicated several times last week, the Dow Jones has been unable to benefit from a series of very positive classic fundamental headline developments at key bellwether companies. In fact, despite the passing of the latest wave of central bank rate hikes, the markets have not seen bargain hunting buying on weakness. Therefore, recession fears look to remain on the back of the Dow Jones. The Commitments of Traders report for the week ending December 13th showed Dow Jones $5 Non-Commercial & Non-Reportable traders were net-short 20,293 contracts after increasing their already short position by 1,183 contracts.

While the NASDAQ did not make a fresh lower low in the face of weakness in other market sectors, the charts favor the bear camp and fundamental headline news remains negative. The tech sector is put off balance this morning by a twitter poll asking users to vote on Elon Musk maintaining the CEO position. Apparently, Elon has promised to abide by the poll results. As of this writing the poll reportedly showed 57% want the CEO to step down. The December 13th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders added 8,304 contracts to their already long position and are now net long 14,771.

GOLD, SILVER & PLATINUM:

The gold and silver bulls hope that the constant buzz of rising rates moderates this week with the markets potentially benefiting from talk that the Chinese government will step up to support its economy next year. In a surprising development, gold ETFs on Friday saw the largest inflow in 6-months with funds adding 177,397 ounces. For the week gold ETF holdings increased by 328,719 ounces, while silver ETF holdings declined a massive 8 million ounces last week. Unfortunately for the bull camp, gold ETF weekly holdings (since the beginning of July) have posted only two net weekly inflow readings. However, weekly inflows to ETF holdings were exclusively positive from mid-January through the end of April which in turn sparked the belief some investors were returning to precious metal investments. In the end, year-to-date gold ETF holdings have declined by 4% and silver ETF holdings have declined by 15%.

While we think the gold and silver trade has begun to shift to a new paradigm, the recent barrage of aggressive central bank rate hikes and fears of significant global slowing are not conducive to that shift yet. Therefore, gold, and silver look to remain almost exclusively focused on the direction of the US dollar with the bull camp potentially needing a slide and close below last week's spike low down at 102.875 in the March dollar index to take some lingering control from the bear camp from last week. While the bull camp might draft minimal support from a Commerzbank prediction that February gold will return to $1,850 next year, it expects gold to retest $1,750 into the remainder of the world central bank tightening cycle.

In counterintuitive thinking, recent moderation of key US and UK consumer inflation readings should help underpin gold and silver prices above the December lows as that news punctures bullish sentiment toward the dollar again and provides impetus for interest rates to remain near 4-month lows. Despite the initial plunge in gold prices last week, the net spec and fund long position as of early last week was near the lowest levels since the beginning of August leaving the market technically vulnerable to fresh stop loss selling and a return to key support. The December 13th Commitments of Traders report showed Gold Managed Money traders are net long 56,554 contracts after net buying 18,936 contracts. Non-Commercial & Non-Reportable traders added 12,928 contracts to their already long position and are now net long 153,123.

While the massive 4-day washout of $1.66 last week in Silver culminated in a very aggressive rejection of the $22.735 level given silver's reliance on industrial/physical demand the outlook for the global economy remains a headwind for the silver bull camp. Furthermore, the most recent COT report's positioning showed the net spec and fund long in silver at the highest level since May! The December 13th Commitments of Traders report showed Silver Managed Money traders are net long 22,034 contracts after net buying 7,377 contracts. Non-Commercial & Non-Reportable traders net bought 5,413 contracts

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and are now net long 39,270 contracts. Total silver ETF holdings last week were 842-million ounces with a 26 month low posted in September at 832-million ounces and a 2022 high of 947-million ounces.

After several months of little if any bullish fundamental news, it was not surprising to see March palladium washout in the face of fear of global slowing from rising interest rates. However, the primary selling force in palladium last week was likely the escalating economic uncertainty of the economic situation in China. According to CNBC, fever clinics in Beijing saw 22,000 patients on Sunday, which was 16 times larger than the previous Sunday. While of little near term interest to the palladium trade, Commerzbank expects palladium prices to return to $2,100 by the end of next year. With the March palladium contract from the COT report mark off price into the low last week registering a decline of $234, the net spec and fund short reading is dramatically understated. Palladium positioning in the Commitments of Traders for the week ending December 13th showed Managed Money traders net bought 527 contracts and are now net short 3 contracts. Non-Commercial & Non-Reportable traders were net short 854 contracts after decreasing their short position by 371 contracts.

Given the prospect of ongoing macroeconomic spillover selling, near term downside targeting in palladium from the weekly charts is at $1,630! Not surprisingly, the platinum market weathered the big picture physical commodity market washout wave last week despite growing fear of softer platinum demand from China. The December 13th Commitments of Traders report showed Platinum Managed Money traders are net long 24,246 contracts after net buying 3,955 contracts. Non-Commercial & Non-Reportable traders added 2,791 contracts to their already long position and are now net long 32,629 contracts.

COPPER:

While copper futures are showing a positive trade early this week, the market will continue to be limited by the threat of slowing in China from explosive infection counts. However, the copper trade should see fresh support from news flow from a Chinese central economic conference at the end of last week as officials promised boosting the economy was going to be their primary focus in 2023. Another positive for copper prices is further tightening in Chinese copper (industrial) inventories which declined 12,400 tonnes to 81,900 tonnes which compares to 86,700 tonnes a year ago. We see the downtrend continuing in copper with the infection situation in China worsening and in turn fostering fresh short sales. In fact, if the Chinese government intention is to allow infections to flare and hopefully burn out, that should keep daily demand destruction pressure on copper prices.

In a minimal threat against supply, a Panamanian copper mine has been shuttered over a payment dispute with the government with that mine supposedly accounting for 3.5% of Panamanian GDP. With the net spec and fund long in copper early last week minimally long, the post report price drop of $0.11 probably shifted the spec trade "net short". Copper positioning in the Commitments of Traders for the week ending December 13th showed Managed Money traders net bought 305 contracts and are now net long 16,256 contracts. Non-Commercial & Non-Reportable traders have a net long of 6,403 contracts after net buying 1,973 contracts. Countervailing a small portion of the threat of declining Chinese copper consumption is last week's 18.5% decline in weekly Shanghai copper warehouse stocks.

ENERGY COMPLEX:

We see the bear camp with the edge to start the new trading week as demand destruction fears are not being offset by tight supply signals. Not surprisingly, analysts have begun revising their crude price targets lower with Citi indicating softening demand and "ample" Russian and OPEC supply will pressure prices potentially to "soft floor" pricing at $70 because of strategic stockpile replenishment targeting. In other fresh negatives at the start of this week, crude oil stocks in Saudi Arabia (in the latest monthly figures) increased as did Saudi exports. However, global crude oil in floating storage last week declined

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by 27% reaching the lowest level since April 2020. In retrospect, the $7.00 rally off the December lows last week feels like an unjustified rally. Going forward, traders might expect news from the war and perhaps from Russia (regarding their official response to the price cap) to drive prices without notice. A significant intensifying of Russia's barrage of Ukraine, increased pressure on both armies from extreme cold and perhaps an increase in domestic opposition to Putin creates a backdrop for price volatility in thin market conditions.

We see the markets vulnerable to escalating demand destruction concerns, particularly if China hints at travel restrictions in their coming holidays. Adding into the downward bias is news that hedge funds in Brent crude oil positions pulled down their bullish positions to "3 year-lows". On the other hand, bullish positioning in WTI instruments increased last week! However, downside action ahead could be moderated given the net spec and fund long position in crude oil has already declined to the lowest level since September of 2016. Crude Oil positioning in the Commitments of Traders for the week ending December 13th showed Managed Money traders are net long 175,653 contracts after net buying 4,376 contracts. Non-Commercial & Non-Reportable traders are net long 288,027 contracts after net selling 11,158 contracts. This week's Baker Hughes rig drilling count saw the biggest decline in 3 months, but that news is not a key impact on near-term prices. Crude oil is a physical commodity facing global slowing and perhaps significant slowing in China!

While gasoline is trading positive to start this week, indications are that China will continue to export significant fuel supply especially if domestic demand softens from Covid problems. In fact, Chinese November gasoline exports were reportedly up 84% versus year ago levels and reports suggest product exports will remain strong as Chinese oil companies attempt to use up expanded crude oil import quotas. As in the crude oil market, the early rally in gasoline last week did not appear to be justified by supply fundamentals. As indicated already Chinese November gasoline exports reached the highest level in a year at 1.49 million tonnes (versus 810,000 tonnes) that pattern could become a trend with Chinese refinery throughput strong and Chinese road congestion moderating again.

Last week, US EIA gasoline stocks reached the highest level since July and were above year ago levels for the first time since early April. Furthermore, the US refinery operating rate remains very high for this time of the year, which should mean supply will at least match increased holiday driving demand. EIA weekly gasoline stocks have increased every week since the end of October. The Commitments of Traders report for the week ending December 13th showed Gas (RBOB) Managed Money traders reduced their net long position by 5,160 contracts to a net long 47,452 contracts. Non-Commercial & Non-Reportable traders are net long 51,768 contracts after net selling 4,664 contracts. As indicated already Chinese November diesel exports reached 2nd half of 2022 highs and traders expect a strong December diesel export figure. Unfortunately for the bull camp, the massive $0.50 rally from the December low in ULSD leaves the contract vulnerable to significant weakness.

As of this writing the European temperature forecast over the next week has limited much colder than normal areas limited to northern Italy, Switzerland, southern Germany, and northern portions of the UK. The Commitments of Traders report for the week ending December 13th showed Heating Oil Managed Money traders net sold 6,637 contracts and are now net long 14,069 contracts. Non-Commercial & Non-Reportable traders were net long 31,517 contracts after decreasing their long position by 6,618 contracts. A normal retracement of the December rally was tested last Friday at $3.064 and that should be considered a key pivot point for ULSD.

In our view, the temperature outlook for Europe is neutral at best with the lack of significant cold areas tilting the forecast in favor of the bear camp. While we are not certain of the impact on natural gas prices from the war into the end of the year, intensified bombing by Russia, deteriorating conditions on the ground (cold-weather stress) and promises from the Russian government to announce their official response to the crude oil price cap could spark dramatic volatility without notice. Fortunately for the bull camp, the latest positioning report in natural gas shows the market aggressively net spec and fund short.

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In fact, if prices fall back toward the early December lows, the short positioning in natural gas is likely to become the highest of the pandemic.

The Commitments of Traders report for the week ending December 13th showed Natural Gas Managed Money traders were net short 47,911 contracts after decreasing their short position by 23,921 contracts. Non-Commercial & Non-Reportable traders were net short 130,112 contracts after decreasing their short position by 5,765 contracts. While last week's EIA working gas in storage report was not definitively bearish, the US deficit to 5-year average stock levels narrowed to insignificant levels and that does not indicate tight supply in the beginning of the US heating season. However, debate over the restart of a Freeport LNG export facility remains a major issue for US natural gas prices and exports. On the other hand, there are reports of increased vessels destined for loading at the Freeport LNG facility which indicates the company is expected to overcome FERC restart hurdles.

BEANS:

Soybeans fell to the lowest price level in a week early on Monday as traders see better Argentina weather beginning later this week. Dry conditions are set to persist in most Argentine growing areas, though it may become wetter in parts of Cordoba province later this week. Traders are uncertain if this will be a significant shift in the weather, or if heat and dryness will return after that. March soybeans fell back to the lowest level since December 13 on Friday. However, minor support held and the market rallied back to trade higher. March soybean oil experienced an outside day down and closed lower while March meal traded sharply higher on the session and challenged the contract highs. A rally in the US dollar plus weakness in energy and the stock market helped to limit the buying early in the day.

Central banks are continuing the fight against inflation which has traders worried that there will not be a soft landing. Traders are fearful of a global economic recession. The US dollar traded down to the lowest level since June late last week which is a positive development. China's largest soybean-producing province set new records in 2022 in terms of soybean output and planting area. Indonesia's mandate to use more palm oil for producing biofuels plus lower stocks in Malaysia may continue to support palm oil which is still at a huge discount to the soybean oil market. The new mandate, (B35) will require the country's biodiesel to contain 35% palm oil from next year, compared with the current 30% mix.

The Commitments of Traders report for the week ending December 13th showed Soybeans Managed Money traders are net long 119,580 contracts after net buying 20,126 contracts for the week. Non-Commercial & Non-Reportable traders added 22,371 contracts to their already long position and are now net long 83,849. For Soyoil, Managed Money traders were net long 53,349 contracts after decreasing their long position by 9,235 contracts in just one week. Non-Commercial No CIT traders reduced their net long position by 14,032 contracts to a net long 18,835 contracts. For Soymeal, Managed Money traders added 15,977 contracts to their already long position and are now net long 114,486. Non-Commercial & Non-Reportable traders were net long 152,733 contracts after increasing their already long position by 12,246 contracts.

CORN:

Argentine weather is still dry over the near-term, but some traders see better rains by the weekend. Corn plantings have reached 42.6% complete as compared with 32.7% last week. March corn experienced choppy and two-sided trade on Friday with mixed fundamental signals. Traders see a dry stretch just ahead for Argentina, but also see increasing risk of declining global demand due to recessionary-type economies around the world. The corn market managed to close up 9 cents for the week. Weakness in the stock market was seen as a bearish force, and it did not help that the crude oil market was under significant pressure. Open interest continues to decline and reached the lowest level since 2013. Cash corn prices have traded higher in Brazil as higher Brazil exports recently and the possible increase in

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exports due to bombings in Ukrainian ports and possible drought issues in Argentina could all boost exports further. In the first 7 working days of December, Brazil exported 1.51 million tonnes of corn, which accounts for 44% of the volume shipped in December 2021.

Brazilian officials are monitoring crop development in Brazil and remain concerned about the lack of rains in Rio Grande do Sul and in Argentina. According to data from Conab, 76.6% of the summer crop of corn had been planted in Brazil by December 10th. Ukrainian farmers have harvested corn from 70% of planted areas as of December 16, according to the Agriculture Ministry. Ukraine's grain area for the 2023 season is pegged at 8.7 million hectares, down 22% from 2022 and 45% below the pre-war level of 2021. The Commitments of Traders report for the week ending December 13th showed Corn Managed Money traders added 6,893 contracts to their already long position and are now net long 127,106. Non-Commercial & Non-Reportable traders are net long 138,236 contracts after net buying 18,253 contracts. For the month of November, China imported 740,000 tonnes of corn, down 5.8% from last year. Cumulative imports for 2022 reached 19.75 million tonnes, down 26.9% from last year's pace.

WHEAT:

With plenty of bearish outside market forces for last week, March wheat managed to close 19 1/4 cents higher for the week. China demand is still coming in better than expected, and there is still plenty of uncertainty about the US crop conditions in the spring. Increased bombing in Ukraine may have also provided underlying support. March wheat closed lower on the session Friday with a quiet inside trading day. Outside market forces carried a bearish tilt as the dollar continued to rally and the stock market continued to fall. This has traders nervous that global recession could limit new demand. India wheat stocks have fallen below a mandatory threshold limit known as buffer norms for the first time in nearly a decade. The lower production in Argentina has been offset by increases in production from other key exporters. Traders remain uncertain about the US winter wheat crop, but weather in the early spring is much more important for yield. For the month of November, China imported 1.01 million tonnes of wheat, up 35.4% from last year. Cumulative imports for 2022 reached 8.88 million tonnes, up 0.6% from last year's pace.

Grain yields in Western Australia are outperforming across most growing regions, further boosting the outlook for what is already expected to be a record harvest this season, according to the Grain Industry Association of Western Australia. Farmers in India planted the crop in 28.65 million hectares (70.8 million acres) of land as of December 16, up about 3% from a year earlier, according to the farm ministry. The December 13th Commitments of Traders report showed Wheat Managed Money traders were net short 63,004 contracts after decreasing their short position by 378 contracts for the week. Non-Commercial No CIT traders were net short 71,197 contracts after decreasing their short position by 574 contracts. For KC wheat, managed money traders net sold 1,189 contracts and are now net long 8,540 contracts. Non-Commercial No CIT traders are net short 9,888 contracts after net buying 400 contracts.

HOGS:

The hog market experienced a very impressive rally on Friday and it appears mostly due to the oversold technical condition of the market and some short covering. Open interest is down to the lowest level since 2016 and with holiday-type trade it did not take much in the way of buying to trigger stops above Thursday's high and above Wednesday's high. China futures are down nearly 25% over the past two weeks and China import demand remains very sluggish. For the month of November, China imported 180,000 tonnes of pork, down 11.1% from last year. Cumulative pork imports for 2022 reached 1.56 million tonnes, down 56% from last year's pace. In addition, some traders are looking at Brazil pork exports for 2023 to come in near 12% above this year. The hog market is technically oversold so we cannot rule out some further bounce, but the market does not seem to have the supply fundamentals for

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further strong gains. February hogs closed sharply higher on the session Friday after opening slightly lower on the session.

Pork cutout improved some in the past week and producers are still current with marketing's. The USDA pork cutout, released after the close Friday, came in at $85.63, up $1.70 from Thursday but down from $85.79 the previous week. The CME Lean Hog Index as of December 14 was 81.88, up from 81.68 the previous session but down from 82.47 a week prior. The USDA estimated hog slaughter came in at 461,000 head Friday and 199,000 head for Saturday. This brought the total for last week to 2.596 million head, up from 2.570 million the previous week but down from 2.655 million a year ago. Estimated US pork production last week was 560.6 million pounds, up from 553.2 the previous week and down 2.7% from a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 9,638 contracts of lean hogs for the week ending December 13, reducing their net long to 40,116. Non-commercial, no CIT traders were net sellers of 8,651, which took them went from a net long position to a net short of 111.

CATTLE:

February cattle closed higher on the session Friday with a quiet inside trading session. The market seems to have the supply fundamentals to trend higher, but the short-term demand fundamental news is helping to limit the buying support. Given the tightening supply situation in 2023, corrective breaks look like buying opportunities. The USDA boxed beef cutout was up $6.58 at mid-session Friday and closed $8.53 higher at $262.83. This was up from $248.93 the previous week and the highest it had been since November 10. Cash live cattle ended last week nearly unchanged from the week before. As of Friday afternoon, the five-day, five-area weighted average price was 155.65 versus 155.69 the previous week. The USDA estimated cattle slaughter came in at 119,000 head Friday and 24,000 head for Saturday. This brought the total for last week to 629,000 head, down from 652,000 the previous week and 658,000 the year before.

Estimated beef production last week was 546.1 million pounds, down from 550.4 million a year ago. The estimated average dressed cattle weight last week was 839 pounds, unchanged from the previous week and a year ago. The 5-year average weight for that week is 833.6 pounds. Friday's Commitments of Traders showed managed money traders were net buyers of 7,602 contracts of live cattle for the week ending December 13, increasing their net long to 66,919. Non-commercial & non-reportable traders combined were net buyers 6,319, increasing their net long to 69,169. First quarter beef production is expected to be down 5.2% from 2022, with second quarter down 6.6% and third quarter down 9.2%. The shift in beef production from the fourth quarter to the first quarter also looks supportive.

COCOA:

While the market is heading for a second sizable global production deficit in a row, cocoa continues to face headwinds from near-term demand concerns. Cocoa prices continue to hold their ground above the 200-day moving average, however, as it is finding support from bullish supply developments. March cocoa started out under pressure and fell to a 2 1/2 week low before finishing Friday’s trading session with a sizable loss and a third negative daily result in a row. For the week, March cocoa finished with a loss of 29 points (down 1.2%) which was a second negative weekly result in a row.

Continued weakness in European and US equity markets put carryover prices on cocoa prices as that may weaken near-term demand prospects in both regions. The Eurocurrency and British Pound followed through on Thursday’s pullback with moderate losses that also weighed on cocoa prices going into the weekend. Although last Friday’s Euro zone CPI reading had a sizable pullback from the previous month, it was the Euro zone’s second highest year-over-year CPI result on record.

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High inflation has led to a sizable increase to costs for regularly purchased items, and that had led many consumers to pull back on purchases of discretionary items such as chocolates. Although this season's Ivory Coast port arrivals have climbed ahead of last season's pace, outbreaks of black pod disease in Ghana and Nigeria make it unlikely that overall West Africa 2022/23 cocoa production will have a sizable increase from last season's total. As a result, the 2022/23 season should result in a global production deficit of 200,000 tonnes or larger.

The December 13th Commitments of Traders report showed Cocoa Managed Money traders net bought 7,303 contracts which moved them from a net short to a net long position of 2,162 contracts. CIT traders were net long 21,564 contracts after increasing their already long position by 1,417 contracts. Non-Commercial No CIT traders are net short 2,820 contracts after net buying 4,666 contracts. Non-Commercial & Non-Reportable traders added 6,248 contracts to their already long position and are now net long 13,998.

COFFEE:

Coffee's demand issues returned to a front and center issue as they prevented the market from climbing above the early December high and its 50-day moving average. The global supply outlook remains firmly bullish, however, so coffee prices should remain well supported on a near-term pullback this week. After finding early support and reaching a 2 1/2 week high, March coffee turned sharply to the downside as they finished Friday's outside-day session with a sizable loss that broke a 4-session winning streak.

For the week, however, March coffee finished with a gain of 6.25 cents (up 4.0%) which broke a 2-week losing streak and was a positive weekly reversal from last Monday's 1-month low. There has been a buildup of coffee stocks in the US and the Euro zone that continues to weigh on coffee prices. ICE exchange coffee stocks (most of which are held in Euro zone warehouses) rose by 10,974 bags on Friday and have risen above the 750,000 level for the first time since July. After reaching a 23 1/2 year low in late October, ICE exchange stocks have risen by over 369,000 bags (up 95%).

In spite of a pullback in recent months, inflation remains at high levels in many developed economies which continues to pressure coffee prices as that may diminish the out-of-home consumption outlook. The world's 2 largest Arabica producing nations (Brazil and Colombia) continue to face production issues from a La Nina weather that is not expected to finish until the first quarter of 2023. While there is a wide range of forecasts for Brazil's upcoming 2023/24 crop, Colombia's annualized production has reached its lowest levels since mid-2014.

Coffee positioning in the Commitments of Traders for the week ending December 13th showed Managed Money traders were net short 18,282 contracts after decreasing their short position by 4,209 contracts. CIT traders are net long 34,332 contracts after net selling 1,478 contracts. Non-Commercial No CIT traders reduced their net short position by 4,410 contracts to a net short 20,490 contracts. Non-Commercial & Non-Reportable traders net bought 3,159 contracts and are now net short 12,918 contracts.

COTTON:

March cotton managed to close higher on the session last Friday with an outside day up, and also closed higher on the week. While outside market forces carried a very negative tilt due to concerns for global economic recession, traders view the current set up for planted area in the US to drop off sharply. Some traders see a sharp drop in planted area for the coming season, and this continues to provide underlying support. The market has stayed in a consolidation pattern since early November and some traders see the price as too cheap. Even if planted area is down 15% from this year, if we assume 10-year average

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yield and 10-year average abandonment and this year's total usage, ending stocks would still increase to 5.78 million bales as compared with 3.5 million this year.

The International Cotton Advisory Committee indicates global cotton consumption for the 2022/23 season will come in more than 1.4 million tonnes below production, leaving a global production surplus of 1.4 million tonnes. Consumption is expected near 23 million tonnes, with output of 24.27 million tonnes. The US dollar fell to the lowest level since June last week which is a positive force. In India's textile industry, manufacturers have sought duty free imports of cotton, saying that higher domestic prices have hit profit margins. Nearly one-sixth of the total acreage under cotton in Punjab this year suffered losses due to excessive rains and whitefly infestation. Friday's Commitments of Traders report showed managed money traders were net sellers of 7,537 contracts of cotton for the week ending December 13, reducing their net long to 10,720. Non-commercial & non-reportable traders were net sellers of 6,267.

SUGAR:

Near-term bullish supply developments helped to lift sugar prices up to a new 5 1/2 year high last Thursday, but an inability to extend their rally does not bode well going into year-end. Unless it can find fresh carryover support from key outside markets, sugar will have trouble regaining upside momentum early this week. After seeing initial downside follow-through from last Thursday’s key reversal, March sugar was able to shake off early pressure and finish Friday’s trading session with a moderate gain. For the week, March sugar finished with a gain of 49 ticks (up 2.5%) which was a third positive weekly result in a row.

A mild recovery in the Brazilian currency provided sugar with carryover support as further strength in their currency will ease pressure on Brazil’s Center-South mills to produce sugar for export. Even so, those mills have kept sugar’s share of crushing well above last season’s comparable levels. Crude oil and RBOB gasoline posted sizable weekly gains last week which helped sugar prices to find their footing on Friday, but they remain far below levels that would encourage Center-South mills to shift a large portion of their crushing from sugar production over to ethanol production.

The Brazilian trade group Unica said that over 60 Center-South mills will continue their operations into early January, and that should result in 2022/23 Center-South sugar production coming above last season’s total. India’s Food Minister said that the government will consider allowing a second tranche of India’s sugar exports starting next month. China’s November sugar imports were 17% above last year’s total, but their January through November sugar imports are 9.8% behind last year’s pace.

The December 13th Commitments of Traders report showed Sugar Managed Money traders net bought 2,255 contracts and are now net long 201,133 contracts. CIT traders net sold 1,265 contracts and are now net long 199,228 contracts. Non-Commercial No CIT traders are net long 127,409 contracts after net buying 8,708 contracts. Non-Commercial & Non-Reportable traders are net long 241,584 contracts after net buying 1,940 contracts.

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