ADM Investor Services, Inc.

Weekly Futures Market Summary

June 20, 2023 **by the ADMIS Research Team**

BONDS:

With another range trade in treasuries resulting in a full week of sideways consolidation last week, the trade is looking for its next focal point. In retrospect, with the inability of Treasuries to recover sharply after evidence of declining inflation from multiple US scheduled reports, we think the bull camp has lost resiliency. However, overall market conditions (especially given the gains in equities) seem to be suggesting that global economic uncertainty is on the decline and that is probably prompting flight to quality long liquidation in treasuries. Treasury prices tilt in favor of the bear camp to start the holiday shortened week, with 5 of the last 6 trading sessions showing downside probes toward initial consolidation support.

While the last US Treasury International Capital Flows report showed a minimal net influx of foreign capital to the US, overall sentiment toward US debt instruments is moderating and or beginning a rotation. Last month Chinese holdings of US treasuries declined while Japanese holdings increased. However last month Asian bonds in May posted the largest inflow of foreign investment in 2 years with South Korea seeing the largest influx by far. While it is largely psychological, the recent "pause" by the US Fed (in the face of a full round of "rate hikes" from other key central banks) justifies rotation from the US from a foundational fundamental perspective. In fact, UK yields touched a 15 year high above 5% and several other G7 countries have seen rates reach 22-year highs.

With several US Federal Reserve speeches early this week, we suspect both fundamental justification for the pause, and some hawkish dialogue intended to keep market inflation expectations anchored going forward. In a minimally bearish development on Monday, the June NAHB housing index came in higher than trade forecasts. However, yesterday's soft housing related data is likely to be countervailed with a May reading on housing starts which are expected to have a minimal downtick while May building permits are forecast to have a modest uptick. Another minimal support for treasury prices came from general weakness in global equity markets early this week.

CURRENCIES:

The very significant downside extension of the early June washout in the dollar has been given credence by the divergent action between foreign central bank rate hikes and the US "pause". The Dollar bears are also growing confident in their positions because clear evidence US inflation is falling as that in turn could reduce the amount and duration of remaining US rate hikes. Therefore, we expect the Pound, Canadian, Euro and Swiss to continue to "win by default" from dollar declines.

While the US dollar posted a 3rd straight day of positive action, US scheduled data is likely to provide a modest and temporary amount of selling. However, the markets will see several US Fed speeches and we suspect some hawkish statements will provide fleeting dollar buying action. It is possible that the dollar is benefiting from further Chinese interest rate cuts, but the dollar might see additional support if the trade decides to pull out Bank of Japan intervention threats to support the Yen. It should be noted that a speech from the Fed Chairman later this week could narrow ranges in the dollar over the coming sessions.

Even though the euro showed bearish chart action with a probe below last Friday's reversal low, at least four ECB members have indicated the central bank will hike rates further. The ECB's Wunsch said that the ECB could hike again in September unless core inflation drops substantially, the ECB's Holzmann said that if things continue as they are, further action will be needed beyond July while the ECB's Nagle said that the ECB may need to keep raising rates after the summer break. Furthermore, on Monday, the ECB's Lane said that another hike in July seems appropriate and then we shall see in September, while the ECB's Schnabel said that risks to the Euro zone inflation outlook are tilted to the upside.

With the Yen continuing to fall sharply and the Bank of Japan thought to be preparing to intervene we leave the path of least resistance pointing down. In fact, many times it is the "job" of the currency markets to pull out intervention threats from central bankers! Therefore, we leave the path of least resistance down with a decline below 71.00 likely in the sessions ahead. After keeping rates negative for eight years, the Swiss National Bank has made four consecutive hikes and is expected do so again at this week's meeting. SNB President Jordan said that he does not see a risk in overtightening. In conclusion, seeing a sharp range down extension following hawkish SNB threats, the Swiss franc is vulnerable from both technical and fundamental perspectives.

While the downside work in the Pound early this week is minimal, the currency has traded below the previous day's low and the market environment for nondollar currencies has temporarily waned. However, after a modest corrective setback we expect the Pound to resume its late May and early June rally. Positive developments underpinning the Pound are a surprise reduction in food production costs and a positive UK manufacturers outlook for 2023. Like other nondollar currencies, the Canadian dollar charts have turned into a corrective track with a double high at 76.00 followed by a double low at 75.64. Apparently, the trade sees the Canadian dollar as overbought and potentially vulnerable to this week's US central bank president's speech. Adding to the downside bias is recent data showing a 1% decline in Canadian May producer price readings.

STOCKS:

With another new high for the move and most of last Friday’s trading session seeing action in positive territory, equity investors continue to be confident in more gains. As indicated in treasury market coverage, economic uncertainty and economic anxiety appears to be deflating and that in turn should lower fear among investors which has probably increased the interest in buying from "the fear of missing out". In retrospect, corporate news flow this week has favored the bull camp with an explosion in large cap evaluations attracting significant headline coverage which in turn boosts confidence among investors.

Global equity markets early this week were higher except for the Australian, British, and Spanish markets. With global equity markets unfazed by recent Chinese stimulus/support for their economy and global stocks tracking lower early this week, it is possible that the US stock index futures will correct a portion of last week's aggressive gains. While it may be premature to begin to speculate on the next move by the US Federal Reserve, it is possible that speeches from the Fed today will begin the next Fed watching cycle ahead of the July FOMC meeting. However, the next US Federal Reserve meeting is not until July 27th/28th.

With a slight bearish vibe to start the trading week and the S&P overbought from a low to high rally last week 140 points, simple back and fill corrective action is justified. However, headlines regarding tech/AI companies are positive with reports of strong Chinese AI chip demand, news of a significant investment in

Germany by Intel, a buyout deal announcement in software, and the CEO of Softbank group indicating he is a "heavy user" of ChatGPT. Fortunately for the bull camp we do not detect anxiety early on and think declines will be slow and measured.

Not surprising, the Dow Jones futures are also in a corrective mode after last week's aggressive and compacted rally. In the current posture, disappointing data from US housing starts and permits could add a measure of selling in the Dow, but we expect declines to be measured and orderly. As indicated already, the NASDAQ should be supported with tech/AI company headlines positive from reports of strong Chinese AI chip demand, news of a significant investment in Germany by Intel, buyout deal announcement in software, and following the CEO of Softbank group indicating he is a "heavy user" of ChatGPT.

GOLD, SILVER & PLATINUM:

From a technical perspective, we give the edge to the bear camp with August gold near the middle of the last month's consolidation zone and probing lower in a fashion that could target $1950. From a fundamental perspective, the bear camp also has an edge with the dollar initially making a 3-day high and extending the recovery off last week's spike down move. Even investors have turned cool toward gold with last Friday presenting a 15th straight day of outflows from gold ETF holdings. Last week, gold ETF holdings posted a decline of 241,857 ounces. On the other hand, silver ETF holdings increased slightly on Friday but saw a net outflow last week of 3.1 million ounces.

Apparently, seeing the Chinese cut interest rates again has not shifted Chinese gold demand hopes in favor of the bull camp and instead newswires carried predictions of softening gold and jewelry demand inside China. In fact, retail sales of gold and silver jewelry appear to have plateaued with May sales at only 24% above last May, while March and April retail sales of gold and silver jewelry were up 44% and 37% over year ago readings. However, all is not negative from the demand front with Swiss gold exports to India in May jumping 34% to 31.2 tons vastly offsetting a decline in sales to the US and China.

A sign of bearishness from last week came from a reduction in hedge fund gold long positions with the net long the lowest in 3 months. While gold and silver have not benefited from Chinese rate cuts, the growing prospects of Japanese intervention to support the Yen has traders looking for a currency market induced rally in gold after the previous BOJ intervention saw gold rally almost 2%. While the silver charts maintain a positive tilt, the massive washout last Thursday has left some would-be buyers on the sidelines. However, last week hedge funds increased their net bullish positioning to the highest levels in 5 weeks.

The charts favor the bear camp in platinum to start the holiday shortened trading week with a possible target early this week seen down at $959.20. Adding to the negative track is evidence that hedge fund managers reduced their net long to the lowest levels in 2 months. From a bearish demand perspective Swiss platinum export last month dropped 27% compared to April with a reduction of 220 kilos. Even investment demand has weakened as last week platinum ETF holdings declined by 80,978 ounces leaving year-to-date gains at only 6.4%. Last week palladium ETF holdings increased by 2,756 ounces and are 15% higher year-to-date. While the charts in palladium tilt in favor of the bull camp, Swiss palladium exports in May increased over April and hedge funds raises their net short positioning to a "record high".

COPPER:

With copper early this week at times trading $0.05 below the high last Friday in the face of another Chinese interest rate cut, the trade shows entrenched fear of reduced Chinese copper demand from a sluggish economy. On the other hand, in a potential contrary signal, hedge fund managers shifted from a net short to a net long reading in last week's positioning report, potentially signaling the late May and early June rally might become "bought out" with further gains. However, daily LME copper warehouse stocks posted a 2nd straight day of declines while there was a sizable weekly decline last week in Shanghai exchange copper stocks of 20.1%. On the other hand, at the end of last week daily LME copper warehouse stocks saw a massive single day inflow of 11,100 tonnes.

ENERGY COMPLEX:

With a 7 day high in August crude to start this week forged in the face of soft global equity market action, the focus of the crude oil trade remains on anything related to Chinese energy demand. Clearly, the trade has discounted statements from the Chinese National Petroleum Corporation pegging their oil demand this year to see slower "growth" than last year with a year-over-year gain of only 3.5%. However, evidence of strong Chinese imports of crude oil have been seen from Russia, Kuwait, and other Middle East exporters. In fact, Chinese crude oil imports from Russia posted a record at 2.29 million barrels per day last month! Furthermore, the markets see solid evidence of a surge in Chinese imports with the number of supertankers destined for China reaching the highest level in 12 months. While some traders have discounted the increase in Chinese crude oil imports to typical improving seasonal and summer demand patterns the reality is more oil is disappearing from the world market. Positive Chinese energy demand expectations have been further bolstered by strong Chinese traffic level measurements from Bloomberg news.

While the Chinese interest rate cut has not lifted global sentiment early this week and critical Chinese physical commodity inputs are soft, their rate cut should be an underlying fundamental support for energy prices at the start of this week. The positive tilt from Chinese oil import figures is tempered significantly by indications from the Russian president that output in his country is growing! However, the Chinese National Petroleum Company does expect 2nd half oil demand to accelerate, thereby making up for a slow first half. Keep in mind that the Russians committed to other OPEC+ members they would reduce their crude oil production. The Commitments of Traders report for the week ending June 13th showed Crude Oil Managed Money traders reduced their net long position by 15,200 contracts to a net long 104,224 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 10,495 contracts to a net long 222,957 contracts.

While the gasoline market has not forged a fresh upside breakout, the charts remain very supportive, and gasoline should see indirect support from strengthening of Chinese traffic patterns. Limiting the gasoline market are residual concerns toward US implied gasoline demand reportedly from the East Coast suffering from wildfire smoke this weekend thereby keeping people indoors. In surprising counter intuitive development gasoline cracks continue to rise despite market fears of a slumping demand environment ahead! The June 13th Commitments of Traders report showed Gas (RBOB) Managed Money traders added 3,735 contracts to their already long position and are now net long 56,898. Non-Commercial & Non-Reportable traders added 5,468 contracts to their already long position and are now net long 57,085. With chatter in the marketplace suggesting the trade has shifted its focus from gasoline to diesel, it is possible that the double low of $2.4456 could be a key low. Traders cited strength in ICE gas oil cracks as a positive fundamental force for ULSD this week.

The natural gas market appears to be extending last week's recovery off ideas that US and European cooling demand is beginning to ratchet up and there has been reduced water flows in Norway and lower wind power supply in Europe which adds to the early upward price bias. In a minimal supply supportive development private estimates of LNG floating inventories showed a decline of 10% versus the previous week. In a longer-term bullish development China indicated they will sign a 27-year LNG import deal with Qatar even though that movement will not start until 2026. The Commitments of Traders report for the week ending June 13th showed Natural Gas Managed Money traders are net short 58,514 contracts after net buying 8,553 contracts. Non-Commercial & Non-Reportable traders are net short 87,039 contracts after net buying 5,280 contracts. While some might see the potential for a hurricane entering the Gulf of

Mexico later this week as a supply threat, a storm that delays US LNG exports could be a more significant negative demand threat.

BEANS:

With a significant bulge in early trading volume this week feeding a higher high thrust, and then seeing a high to low setback of $0.36 that could indicate a temporary blowoff top, we suspect recent extremely active and widespread weather events and similar activity projected ahead has led to a shift towards a negative bias in soybeans. Granted, aggregate precipitation amounts do not appear to be "drought busting" and in most cases rainfall was spotty. Therefore, the idea of falling US production remains just under the surface. In fact, recapping precipitation in key US soybean growing areas has been extremely difficult with each general growing area receiving recent showers.

Looking ahead to another system later this week and yet another into the weekend, with highly variable and difficult to measure aggregate precipitation many expect this week's US crop conditions report to remain steady with a portion of projections expecting a minimal decline.
Areas for traders to monitor directly ahead include the canola growing areas of Canada and minimal 7-day total rainfall measurements (below 1/2 inch) running on a wide diagonal from North Dakota, Minnesota, South Dakota through Illinois, and Indiana through the eastern portion of Kentucky. However, forecasts for the rest of the month point to lower-than-normal rainfall thereby keeping the weather market alive.

While a 40% year-over-year jump in Chinese May soybean imports from Brazil is bearish in terms of US soybean prices, seeing Chinese overall demand reach 10.94 million metric tonnes (versus 7.79 million tonnes May of 2022) does provide long-term support for global soybean prices. Not surprising, Chinese imports from the US so far this year were down 47% versus year ago levels. The running tally of Chinese imports from the US show imports are down by 2.4 million tonnes. Unfortunately for the bull camp, US Soybean and Oil prices are showing weakness despite an upside extension in palm oil yesterday after 5 days of gains, Malaysian Palm oil exports declined 16.8% in the first 20 days of June, and Chinese edible oils imports increased by 44% versus year ago levels.

The Commitments of Traders report for the week ending June 13th showed Soybeans Managed Money traders net bought 33,901 contracts and are now net long 47,882 contracts. CIT traders are net long 109,674 contracts after net buying 1,649 contracts. Non-Commercial No CIT traders net bought 28,902 contracts which moved them from a net short to a net long position of 27,786 contracts. Non-Commercial & Non-Reportable traders net bought 24,290 contracts and are now net long 26,163 contracts. The Commitments of Traders report for the week ending June 13th showed Soymeal Managed Money traders were net long 60,608 contracts after decreasing their long position by 5,208 contracts. CIT traders are net long 109,850 contracts after net buying 1,183 contracts.

Non-Commercial No CIT traders reduced their net long position by 2,323 contracts to a net long 49,776 contracts. Non-Commercial & Non-Reportable traders net sold 2,709 contracts and are now net long 100,141 contracts. The June 13th Commitments of Traders report showed Soyoil Managed Money traders went from a net short to a net long position of 8,748 contracts after net buying 27,054 contracts. CIT traders added 10,414 contracts to their already long position and are now net long 115,091. Non-Commercial No CIT traders were net short 15,882 contracts after decreasing their short position by 17,616 contracts. Non-Commercial & Non-Reportable traders went from a net short to a net long position of 12,022 contracts after net buying 28,858 contracts.

CORN:

As in the soybean market, the corn market overnight sharply extended last week's strong rally but has recoiled aggressively from that high. In fact, December corn as of this writing is trading $0.12 below the overnight high on reports of very active trading volume. Unfortunately for the bull camp, China posted a 10.6% year-over-year decline in May corn imports and a yield forecast for European corn showed only a very minimal decline from 7.64 to 7.61 tonnes per hectare. China is thought to be using more wheat than corn in feed rations.

EU corn yield downgrades are offset by better rains expected in the dry areas of Europe this week as that could stabilize conditions in some areas. Corn and bean spot Midwest basis levels fell Friday, which is not surprising as cash often doesn't keep up when futures see supercharged weather buying. In addition to lower Chinese May corn imports last month the corn trade saw slower and lower corn supply flowing from the Black Sea shipping corridor.

The reduction of corn and wheat flow from the Black Sea area have been widely anticipated the latest weekly reading shows a 33% week over week decline in Ukraine exports. In a minimally positive development Taiwan's MFIG tendered to buy 65,000 metric tonnes of corn. The latest Brazil center South 2nd crop harvest tally shows 4.7% of the crop harvested compared to 11.4% last year. However, the Brazilian harvest did show an increase in pace of 2.5%. A minimal negative demand development is efforts by the Mexican president to prioritize the use of domestic produced corn.

The Commitments of Traders report for the week ending June 13th showed Corn Managed Money traders net bought 46,637 contracts which moved them from a net short to a net long position of 2,145 contracts. CIT traders added 15,011 contracts to their already long position and are now net long 318,468. Non-Commercial No CIT traders are net short 63,782 contracts after net buying 47,039 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 57,296 contracts to a net short 25,666 contracts.

WHEAT:

Wheat rode the coattails of corn and beans last week and as those markets pull back on rain chances, wheat could weaken into support. More soil moisture boosting rains hit the southern HRW belt over the weekend. EU Crop Monitor lowered SRW yields to 5.92 tonnes/hectare from 6.01 tonnes/hectare last month, but still ahead of the 5.81 tonnes/hectare 5-year average and rain relief slated for N Europe this week is expected to end the crop conditions slide for at least the short term. The grain corridor looks all but dead as it seems Russia says nearly every day it's not working or impossible to extend. Grain moving through the corridor fell 33% last week from the prior week, however, US wheat markets have grown tired of reacting to Black Sea news.

Even though Russian wheat export prices look to have bottomed, high grain stocks in primary ag areas will keep a lid on global prices. Funds still hold a significant short position in Chicago wheat as the Commitments of Traders for the week ending June 13th showed Managed Money traders are net short 113,430 contracts after net buying 6,044 contracts. KC Wheat Managed Money traders were net long 3,616 contracts after decreasing their long position by 3,490 contracts. Minn Wheat Managed Money traders reduced their net short position by 1,552 contracts to a net short 7,422 contracts. Without corn and bean support today, wheat may struggle to gain footing, however, Dec wheat chart has a bottom formation that will offer support on breaks.

HOGS:

Open interest in lean hogs has fallen sharply as the market has posted a steep and quick recovery off its contract lows from May 26, and this does not bode well for continuation. The hog market has drawn support from stronger pork prices, which have reached their highest levels in almost six months. The

USDA pork cutout, released after the close Friday, came in at $89.60, up 27 cents from Thursday and up from $86.20 the previous week. This was the highest the cutout had been since December 23. The weekly average Iowa-Minnesota hog weight fell sharply last week, which also lent support. Weights do tend to decline this time of year, but the current weight is 7.4 pounds below a year ago and 4.8 pounds below the five-year average.

The CME lean hog index as of June 14 came in at 86.87, up from 86.25 the previous session and 83.80 a week prior. The USDA estimated hog slaughter came in at 455,000 head Friday and 22,000 head for Saturday. This brought the total for last week to 2.330 million head, down from 2.358 million the previous week and 2.362 million a year ago. Estimated US pork production last week was 498.2 million pounds, down from 505.4 million the previous week and 508.4 million a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 11,543 contracts of lean hogs for the week ending June 13, reducing their net short position to 4,630. This has reduced the market's oversold condition, and the buying trend is short-term positive.

CATTLE:

Cash cattle prices ended lower last week, but the beef market remained strong, and this could support the cattle futures this week. August live cattle closed higher on Friday after trading back above the 170.95 level, which appears to have been a bull/bear line the past couple of sessions. That level represents the first retracement of the May-June rally to contract (and all time) highs, and the move back above there on Friday could be viewed as technically bullish. The market is still respecting the key reversal top in the October futures on June 7.

Cash live cattle were $2.50-$3.50 lower last week, depending on the region. The five-day, five-area weighted average price as of Friday afternoon was $185.95, down from $188.49 the previous week. The USDA boxed beef cutout was up 88 cents at mid-session Friday and closed $1.02 higher at $343.09. This was up from $332.93 the previous week and was the highest it had been since August 27, 2021. The USDA estimated cattle slaughter came in at 118,000 head Friday and 16,000 head for Saturday. This brought the total for last week to 634,000 head, up from 616,000 the previous week but down from 668,000 a year ago.

The estimated average dressed cattle weight last week was 815 pounds, unchanged from the previous week and up from 808 a year ago. The 5-year average weight for that week is 811 pounds. Estimated beef production last week was 515.7 million pounds, down from 539.3 million a year ago. Friday's Commitments of Traders Report showed managed money traders were net buyers of 5,284 contracts of live cattle for the week ending June 13, increasing their net long to 119,921. This is their largest net long since April 30, 2019, and it is close to a record. This leaves the market in an overbought condition and vulnerable to heavy selling if support levels are taken out.

COCOA:

Cocoa prices will start this holiday-shortened week 217 points above their May month-end close (up 7.2%) which would the largest monthly gain during its 9-month winning streak. With a negative shift in global risk sentiment following Friday’s close, cocoa is vulnerable to a wave of profit-taking and additional long liquidation early this week. September cocoa started out in a tight early trading range before finding midsession pressure as it went on to post a moderate loss for Friday’s trading session. For the week, however, September cocoa finished with a gain of 61 points (up 1.9%) which was a seventh positive weekly result over the past 8 weeks. The prospect of higher Euro zone interest rates by the end of this year may dampen European chocolate demand, and that became a source of pressure on cocoa prices going into the weekend.

As a result, this offset strong gains this month for the British Pound and Euro that can help out European grinders with acquiring near-term cocoa supplies. Tight West African near-term supplies have kept cocoa prices relatively close to Thursday’s 7-year high. Recent heavy rainfall over many West African growing areas have results in disruption to the flow of cocoa beans to the region’s major port facilities. The latest weekly reading for Ivory Coast port arrivals was roughly in-line with the comparable period last year which kept their full-season arrivals total behind last season’s pace.

A group of major Ivory Coast cocoa processors said that their May grindings were 9% above last year’s total, and that has kept their full-season 2022/23 grindings 12% ahead of last season’s pace. Increasing amounts of “origin” grindings will reduce the amount of cocoa beans available for export. Last Friday’s Commitments of Traders report showed managed money traders were net buyers of 15,989 contracts of cocoa for the week ending June 13, increasing their net long to 73,890. This is the highest since February 2020 and is approaching the record of 83,674 from 2013. This leaves the market vulnerable to heavy long liquidation if support levels are taken out.

COFFEE:

Coffee prices saw choppy action last week as very tight supply in Vietnam and Indonesia was balanced against increasing Brazilian Arabica production. With signs of improving global demand, coffee may be able to regain and sustain upside momentum early this week. September coffee was unable to hold onto early strength as it finished Friday’s trading session with a sizable loss. For the week, September coffee finished with a loss of 5.90 cents (down 3.2%) which was a third negative weekly result over the past 4 weeks.

A pullback in the Brazilian currency has put carryover pressure on the coffee market as that may encourage Brazil’s farmers to market their near-term supply to foreign customers. Brazil’s Arabica harvest has picked up speed in recent weeks, which will bring more of their new-crop supply to global export markets. In contrast, Vietnam and Indonesia have seen their near-term coffee drawn down to very tight levels as Robusta coffee prices reached record highs this month. Both nations are expected to see drier than normal conditions as a result of the El Nino weather event that are expected to reduce their upcoming coffee production.

The premium of Arabica prices to Robusta prices reached a 3-year low this month, and that may boost the outlook for Arabica demand during the third quarter. ICE exchange stocks fell by 998 bags to reach a new 2023 low and are on-track for a fifth monthly decline in a row. While there are 11,857 bags waiting to go through the grading process, no ICE exchange grading has taken place since April. Last Friday's Commitments of Traders report showed managed money traders were net buyers of 3,410 contracts of coffee for the week ending June 13, increasing their net long to 27,400. The buying trend is short-term positive.

COTTON:

The 1-5 day forecast now has up to 2 inches of rain for parts of West Texas and the Panhandle, which is a significant increase from late last week. The forecast for the next seven days calls for above normal temperatures and close to normal rainfall and a slight to moderate loss of soil moisture. The 6-10 and 8-14-day forecasts call for above normal temperatures and below normal rainfall. However, the 30-day forecast has above normal temperature and normal precipitation, which does not appear to be a big threat. As of June 13, 18% of the US cotton growing area was under drought, down from 28% two weeks prior and 52% a year ago. Traders may also be counting on an increase in moisture this summer from El Nino, but NOAA cautions that the correlation between El Nino and rain in the southern US is not very strong during the summer.

Global Times, an English language newspaper published under the auspices of the Chinese Communist Party, reported that cotton trade between China and Brazil is likely to be settled in yuan in the "near future." Brazil hopes to overtake the US in exports to China. In the first four months of the year, China reported importing 382,000 tonnes of cotton, with 52.2% of that coming from the US and 31.5% from Brazil. Friday's Commitments of Traders report showed managed money traders were net sellers of 3,513 contracts of cotton for the week ending June 13, reducing their net long to 557. This is close to a neutral position and shows no burden on longs or shorts. The selling trend is short-term negative. India's delayed monsoon is expected to establish itself in the next 3-4 days, which would allow cotton growers to start planting. Further delays could spark concerns about this year's crop.

SUGAR:

Sugar's 3-day rally going into the holiday weekend has lifted the market back to within striking distance of its late May and early June highs. While El Nino is expected to cause production issues for several major cane-growing nations, a bearish Brazilian supply outlook leaves sugar overvalued at current price levels. October sugar continued to build on early strength as it reached a 4 1/2 week high before finishing Friday's trading session with a sizable gain. For the week, October sugar finished with a gain of 107 ticks (up 4.3%) which was a second positive weekly result in a row.

Crude oil and RBOB gasoline prices extended their recovery moves with moderate gains that provided the sugar market with carryover support. A slow start to this season's India monsoon this year has meant that many cane growing areas in Maharashtra have not received rainfall yet, while areas of western Uttar Pradesh may not see the monsoon arrive until the end of this month. With El Nino already underway, this combination is expected by many in the market to have a negative impact on India's upcoming cane crop. Thailand's 2023/24 cane harvest will not reach full speed until December, so they are also expected to see drier than normal conditions from El Nino that will negatively impact their cane crop.

In contrast, the first two months of Brazil's Center-South 2023/24 season has seen their cane crush running 16.8% ahead of last season's pace while sugar production has been 37.7% ahead of last season's pace. Sugar's share of Center-South crushing during April and May was 6.3% higher than last season and is likely to stay ahead of last season unless energy prices reach much higher levels. Last Friday's Commitments of Traders report showed managed money traders were net buyers of 10,874 contracts of sugar for the week ending June 13, increasing their net long to 206,001. This is not too far from the record net long of 286,000 and suggests the market is subject to heavy long liquidation if support levels are taken out.