ADM Investor Services, Inc.

Weekly Futures Market Summary

August 21, 2023 **by the ADMIS Research Team**

BONDS:

As indicated in last Friday's newsletter, the treasury markets appear to have settled into a long-term pattern of rising interest rates in what appears to be a recalibration and/or a return to normal historic rates. On the other hand, treasury notes adjusted into the low prices last week have likely resulted in new record short positioning among speculators and that could be a sign of a temporary bounce this week. With a fresh downside breakout in treasury prices Monday morning resulting in interest rates forging upside breakouts, predictions of a long-term historical rate adjustment cycle are flooding the headlines. Others will suggest the additional pressure this morning is the result of hawkish expectations for this week's Jackson Hole symposium.

In fact, headlines touting "higher for longer" rates are commonplace now despite a portion of the markets holding on to the idea of a US Fed pause next month. The conflict in rate decision expectations is clear with the CME Fed Watch tool registering an 88.5% chance the Fed will pause at the same time treasury futures prices are signaling the opposite. Therefore, we think the treasury trade retains further selling capacity as those expecting the Fed to pause "throw in the towel". However, the US economic report slate on Monday is empty and the potential for rate inspired selling in equities could lend support to treasuries early this week. It should be noted that US Fed speeches will not began until mid-session Tuesday and the US trade will be without key market moving news until the Tuesday morning US existing home sales readings.

Partially offsetting very bearish fundamental conditions is the fact that the treasury markets are becoming significantly oversold in spec and fund categories with current short positioning adjusted for the slide the current COT report likely resulting in the largest net spec and fund bond short since May 2021. Adjusted for the slide from the last COT report treasury notes likely holding the largest net spec and fund short since October 2018! The Commitments of Traders report for the week ending August 15th showed Bonds Non-Commercial & Non-Reportable traders are net short 146,738 contracts after net buying 12,076 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders are net short 767,952 contracts after net selling 53,930 contracts.

CURRENCIES:

Obviously, the uptrend in the dollar has become very impressive and uniform suggesting more gains should be expected. However, the bull case from the charts is secondary to the reality that surging US interest rates will continue to pull in capital from around the globe. In short, higher US treasury rates facilitate foreign buying of US debt which requires the purchase of dollars. Other dollar bullish developments are escalating concerns toward the Chinese economy and the slide in the Chinese currency.

We think the dollar is in a self-perpetuating cycle with futures implied treasury yields grinding higher, which in turn increases foreign yield interest in US treasury instruments which then requires the purchase of dollars. In fact, with bond and notes early this week posting fresh upside yield breakouts, disappointment toward Chinese stimulus efforts and a significant contraction in German producer prices providing an array of reasons to buy the dollar. The Commitments of Traders report for the week ending August 15th showed Dollar Non-Commercial & Non-Reportable traders are net long 6,027 contracts after net buying 3,359 contracts.

As indicated already, German July PPI contracted massively (-1.1%) further reducing the need and perhaps lowering the capacity of the ECB to raise rates. Therefore, money held in euros should continue to flow to the US dollar for higher rates and currency appreciation. The August 15th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders net bought 5,519 contracts and are now net long 208,109 contracts.

While the Yen has managed to arrest the slide from the last 5 weeks over the last the 2 trading sessions, fundamentals remain bearish with recent weakness in the Nikkie and a lack of aggressive Chinese stimulus adding to the bear case today. We see no technical reason for the Swiss franc to reverse a 2-month downtrend channel on the charts and we see even less fundamental economic or interest rate differential prospects of a reversal of the downtrend.

Even though the Pound might hold up against the dollar strength better than other actively traded currencies, a massive contraction in a UK key house price index and recent evidence of softening of the UK jobs market gives the bear camp the edge. While the Canadian dollar has managed a noted bounce/short covering rally, the best the bull camp can hope for is a measure of technical balancing from the massive July and August washout. Certainly, rising interest rates are a headwind for the Canadian economy but it is possible the 73.75 level might hold up the currency and significant dollar strength could surprise the trade by shifting into a positive for the Canadian dollar.

STOCKS:

While the US equity markets managed to recover from initial lower lows for the move last Friday, the markets continue to face several negative issues. Obviously rising rates are prompting some rotation from stocks to bonds but sellers last week were motivated by market sentiment embracing higher for longer US interest rate prospects. Sentiment toward equities is clearly subdued with the markets showing little if any benefit from favorable Deere & Company earnings. From a technical perspective, the markets could become technically oversold quickly as many stock index futures contracts were already maintaining large speculative shorts before the recent dramatic slide.

Global equity markets at the start of this week were higher except for the markets in Shanghai, Moscow, and Sydney. Despite US equities showing positive early action we see the threat of investment rotation away from equities and toward interest-bearing vehicles extending and perhaps accelerating. However, headline coverage of the yields offered by equity market alternatives has not become pervasive and large-scale exodus from the markets may not take place unless significant downside volatility in equity prices increases risks and anxiety toward stocks.

From a technical perspective, the spike down rejection on Friday combined with the upside follow-through this morning has fostered some investor interest in bargain-hunting buying of the S&P. Unfortunately for the bull camp the threat of hawkish interest rate dialogue looks to remain locked into the windshield this week with expectations of a Fed rate hike pause next month deteriorating because of dialogue flowing from the Fed's annual symposium in Wyoming.

Even though the net spec and fund short from the COT report is probably understated given the slide of 100 index points since the report and the index remains oversold on the charts, technical short covering interest could be countervailed by fundamental bearishness. The August 15th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders reduced their net short position by 45,929 contracts to a net short 109,664 contracts.

Not surprisingly, the Dow futures are also in a short covering move early this week with the market breakout above last Friday's high likely to spark further gains into and through the US cash market opening. On the other hand, Dow stocks should be heavily impacted by rising interest rates and a strengthening US dollar. In other words, international companies ultimately need to pull back foreign profits that have deteriorated in value because of dollar strength. Dow Jones $5 positioning in the Commitments of Traders for the week ending August 15th showed Non-Commercial & Non-Reportable traders went from a net long to a net short position of 2,884 contracts after net selling 5,343 contracts.

As would be expected, the NASDAQ is less concerned with rising interest rates than other sectors, but the index is not immune to slowing fears because of China and rising interest rates. Nasdaq Mini positioning in the Commitments of Traders for the week ending August 15th showed Non-Commercial & Non-Reportable traders went from a net short to a net long position of 9,099 contracts after net buying 19,048 contracts.

GOLD, SILVER & PLATINUM:

While a Chinese interest rate cut is a supportive development for gold, it is not enough to offset an extension of bearish outside market influences flowing from a higher dollar and rising US interest rates. Despite short-term technical indicators like RSI and stochastics being oversold, the downtrend in gold looks entrenched. In retrospect, the Federal Reserve meeting minutes combined with a recent hot US retail sales reading has fostered fear of even higher rates for longer, which is beginning to replace hope of a September pause. In a surprising conflict, the hawkish views of the US treasury trade and many traders that are now expecting higher for longer rates, the CME's Fed Watch Tool at the end of last week pegged an 89% chance the Fed would pause.

However, as we mentioned several times last week, treasuries have slid on soft US data and appear to be in the process of recalibrating current/abnormal rates and relationships within the yield curve. Another negative from the higher interest rate threat is this week's Jackson Hole symposium which is expected to present hawkish rate projections. Therefore, treasuries are likely to grind even higher which in turn should expand the US interest rate differential edge over other actively competitive alternatives to the dollar, which ultimately should propagate the rally in the dollar. In conclusion, the upward track in the dollar looks to remain entrenched thereby leaving a bearish fundamental issue hanging on the back of gold, silver, and many physical commodities.

While it may be premature to look out to November for the beginning of the Indian festival season, the potential for better-than-expected Indian demand is good and might become even more solid as prices slide. After seeing significant oil fuel consumption readings in India adding to its ability to see strong GDP (relative to G7 countries) and perhaps most importantly if gold prices continue to fall over the coming 2 months, that could provide a bullish gold demand surprise. Unfortunately for the bull camp ETF Holdings on Friday were reduced for the 6th straight trading session with total outflows last week of 511,869 ounces.

Similarly silver ETF holdings last week saw outflows of 1.63 million ounces. In the near term, outside market forces are entrenched in the bear camp with gold rallies likely to be temporary short covering reactions. In silver, the outside market selling pressure is not as definitive today as is present in the gold market, and therefore silver might manage to sidestep some selling pressure. However, given the slight softening of economic expectations throughout the world from China and spillover pressure from gold, the path of least resistance in silver is down.

Gold positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders are net long 46,540 contracts after net selling 29,042 contracts. Non-Commercial & Non-Reportable traders net sold 28,452 contracts and are now net long 141,877 contracts. Silver positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders were net short 6,688 contracts after increasing their already short position by 2,935 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 7,133 contracts to a net long 21,275 contracts.

While the Chinese attempted to support for their economy with a rate cut, the trade was thoroughly disappointed in the magnitude of their effort leaving China as a negative to PGM markets and most physical commodity markets. Even though the platinum market finished last week with an impressive short covering rally, fundamentals from the demand side of the equation have not improved and supply-side developments have been unchanged recently. However, continued problems with the Chinese economy and recent outflows from platinum ETF instruments flat to lower trading volume leave the bear camp with more ammunition than the bull camp.

Last week, platinum ETF holdings declined by 7643 ounces resulting in a reduction in the year-to-date gain to 4.7%. On the other hand, the net spec and fund long in platinum has come down significantly versus the April high and the spec long is probably near 12-month lows. Platinum positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders were net short 13,248 contracts after increasing their already short position by 4,929 contracts. Non-Commercial & Non-Reportable traders were net long 5,252 contracts after decreasing their long position by 3,185 contracts. At least to start this week, outside market forces clearly favor the bear camp in platinum.

While the palladium market did not register another record spec short in the weekly COT report, the net short remains near record territory which should provide a warning for those venturing into the short side. The August 15th Commitments of Traders report showed Palladium Managed Money traders were net short 8,536 contracts after decreasing their short position by 1,175 contracts. Non-Commercial & Non-Reportable traders were net short 9,800 contracts after decreasing their short position by 601 contracts. At least to start this week, outside market forces favor the bear camp in palladium.

COPPER:

While the 4 day high early last Friday was justified by the latest Chinese attempt to support their economy, the Chinese central bank effort is judged to be inadequate leaving copper vulnerable to surrendering recent gains. Furthermore, LME copper warehouse stocks continued to rise with a 3,125-tonne inflow last Friday, and we suspect Chinese copper demand views are softening from significant declines in Chinese equity markets overnight. In our opinion, international copper demand signals are also deteriorating with surging global interest rates capable of discouraging home and vehicle purchases.

With the situation in China failing to show improvement and the trade remaining highly skeptical of near-term Chinese government solutions capable of shifting economic views positive, the trend looks to remain down. Fortunately for the bear camp, the short covering bounce at the end of last week corrects an oversold condition and that action may help minimalize short side risks. The Commitments of Traders report for the week ending August 15th showed Copper Managed Money traders were net short 18,127 contracts after increasing their already short position by 14,732 contracts. Non-Commercial & Non-Reportable traders are net short 21,587 contracts after net selling 16,417 contracts.

ENERGY COMPLEX:

Certainly, positive sentiment flowing from global equities, an interest rate cut by the Chinese central bank and global chatter of supply tightness gives the bull camp fresh impetus to start the new trading week. In addition to recent sharp contractions in US API and EIA crude oil inventories, the trade was presented with news of a 7% week over week decline in global crude oil in floating storage. Perhaps most importantly, weekly Asian-Pacific inventories declined by 15% and have reached the lowest level since March. In fact, with very strong Chinese refinery throughput and very high US refinery operating rates, physical crude oil demand should remain strong. However, Chinese demand news is conflicted with Chinese oil imports in July up 17.1% versus last year while declining 16.1% versus last month.

It should be noted that US crude oil gulf prices firmed at the end of last week, potentially adding to the argument that WTI has found solid support on the charts. While the Saudis could certainly cut production and exports even further, with oil prices holding above $82.00, that bullish argument should already be fully factored into prices. While the tropical disturbance maps are quite active at the start of this week, (with 5 separate systems present Monday morning), the storm in the middle of the Gulf of Mexico is not yet fully organized or definitively rotating and may not have enough time or distance before landfall to become strong.

On the other hand, a significant strong system sits under Puerto Rico and while the track is expected to shift to the east, the storm should be monitored. In the near term, the biggest threat to the bull camp is further deterioration in macroeconomic sentiment brought on by strong equity market declines which in turn might be partially related to the relentless run up in US treasury yields. The August 15th Commitments of Traders report showed Crude Oil Managed Money traders are net long 178,820 contracts after net selling 31,338 contracts. Non-Commercial & Non-Reportable traders net sold 10,737 contracts and are now net long 306,315 contracts.

In a clear change of leadership, the diesel market took over from gasoline with a strong finish last week in the face of a very poor finish in gasoline. In fact, headlines overnight tout several bullish diesel developments with the best bull argument in gasoline a slight lift from higher US equities. Clearly global traffic congestion readings have slowed with the looming end of the northern hemisphere travel window. However, some traders think that travel will remain firm with stronger business travel partially offsetting the normal end of season peak US gasoline demand after the Labor Day holiday.

In retrospect, US implied gasoline demand over the last 2 weeks has been impressive and given the markets reversal last week, the bull camp may be without fresh ammunition. Gasoline showed a moderately overdone fund long position and that could feed stop loss selling on a failure to hold key support this week. On the other hand, reports that Russian fuel prices have reached sanction limits and signs of reduced Russian refinery activity could provide a measure of indirect support for US gasoline prices. Gas (RBOB) positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders net bought 5,503 contracts and are now net long 74,173 contracts. Non-Commercial & Non-Reportable traders are net long 69,000 contracts after net buying 4,285 contracts.

As indicated already, the diesel market appears to have seized the leadership role with prices launching sharply higher last Friday while gasoline prices faltered. While it is possible that some traders are buying diesel and selling gasoline in spread positions, we think the rally will create a short sale opportunity in diesel after upside follow-through early this week from talk of winter shortages. The Commitments of Traders report for the week ending August 15th showed Heating Oil Managed Money traders were net long 32,867 contracts after decreasing their long position by 656 contracts. Non-Commercial & Non-Reportable traders were net long 59,047 contracts after increasing their already long position by 447 contracts.

While some might consider last week's EIA injection as a major bearish influence, adequate supply in the US is not the only source of bearish natural gas news. As indicated last week, Europe continues to aggressively build its strategic storage of natural gas well ahead of typical seasonal timing, and that should allow for a complete refill prior to the beginning of heating demand. However, we remain incredulous with the ongoing uninterrupted pipeline movement of Russian gas through Ukraine into Europe, especially with the Russians aggressively attacking Ukraine's grain transportation infrastructure.

In addition to a hot weather system moving into the US, the natural gas market could see additional volatility later in the week as tropical storm activity is becoming very active. However, the oversupplied natural gas market has dramatically increased the importance of LNG exports to the bull camp, and a disruption of exports from storms would certainly back up inventories in the face of near record US production. Unfortunately for the bull camp, the net spec and fund short is not excessive yet but even then, without a fundamental shift of significance, it will be difficult to take control from the bear camp.

Natural Gas positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders were net long 9,965 contracts after decreasing their long position by 4,115 contracts. Non-Commercial & Non-Reportable traders are net short 66,552 contracts after net buying 14,721 contracts. The downward bias is easy to ascertain but the magnitude of downside is difficult given the likelihood of very narrow ranges ahead. Certainly, the bear camp has added risk with heat and a possible hurricane in the news this week.

BEANS:

With a sharp gap up spike early this week, the market has returned to "weather market" status which means expectations of adverse conditions stressing the crop take precedence over many bearish fundamentals. In fact, recent significant rainfall to the eastern portion of the Grain Belt should have reduced the threat to the crop from the upcoming bulge in temperatures. However, with a rally in November soybeans from last week's low of nearly $0.80, the trade is clearly moving to factor in a sustained return of stressful conditions with large areas in key pod filling stage. It should also be noted that funds were estimated to have purchased 11,000 contracts in the last 2 days of trade last week. In other words, there is clearly fundamental justification for the market to insert additional weather premium into prices for now.

At least in the action early this week, the trade discounts the risk that Monday's US crop conditions readings will improve again. Therefore, traders should expect a measure of volatility with this week potentially the highest volatility of the "weather market". An added measure of volatility will be seen from a Pro Farmer tour with the initial feedback usually more specific on the corn crop numbers than on soybeans. However, pod counts will be available with the trade sensitive with last year showing a significant drop in Nebraska. Furthermore, US crop conditions are likely to remain at precarious levels.

With Illinois (the highest US producing state) showing the largest rebound in crop conditions of 12% last week, another large improvement is possible today. There is certainly justifiable concern of very low yields because of the disastrous first half of the crop, but soybeans have the capacity to cease maturity under stress and the crop should rebound with last week's mild/wet weather. Minimal negatives covered up by the weather focus at the start of this week are a reduction in US feed demand given reduction in cattle on feed, lower Chinese July soybean imports from the US, news China will subsidize soybean production in the North and the prospect of further gains in the US dollar.

In longer-term supportive developments for global soybeans, headlines overnight indicate Brazil has opened the world's first pipeline moving soybean-based ethanol supply and there is news of $20 million in drone damages at the largest Ukrainian Sun oil producer. The Commitments of Traders report for the week ending August 15th showed Soybeans Managed Money traders reduced their net long position by 13,362 contracts to a net long 50,719 contracts. CIT traders net sold 2,836 contracts and are now net long 147,322 contracts. Non-Commercial No CIT traders net sold 15,039 contracts and are now net long

23,827 contracts. Non-Commercial & Non-Reportable traders are net long 32,268 contracts after net selling 20,309 contracts.

Soyoil Managed Money traders added 145 contracts to their already long position and are now net long 46,668. CIT traders were net long 114,105 contracts after decreasing their long position by 703 contracts. Non-Commercial No CIT traders are net long 8,427 contracts after net buying 2,378 contracts. Non-Commercial & Non-Reportable traders net bought 2,752 contracts and are now net long 59,024 contracts. Soymeal Managed Money traders were net long 56,860 contracts after decreasing their long position by 12,283 contracts. CIT traders reduced their net long position by 1,169 contracts to a net long 118,392 contracts. Non-Commercial No CIT traders are net long 40,082 contracts after net selling 15,175 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 20,846 contracts to a net long 102,622 contracts.

CORN:

Extreme temperatures and no moisture will lend support this week along with the Pro Farmer crop tour which begins on Monday. Early week weather is void of precipitation across all the Midwest and models continue to suggest the hottest temperatures will be in the central corn belt from Tuesday to Friday with virtually no rain expected until next weekend. In addition, the heat does briefly reach the Eastern corn belt with upper 90's midweek. 8-14-day models show moderating temperatures in the eastern corn belt but rain chances look limited. Ukraine says they are in talks with global shippers about insurance coverage for ships transiting Ukraine's grain corridor. With one ship moving through the corridor last week, Ukraine says they are ready for others to do the same.

Brazil dryness must be watched closely as planting starts there in the next 30 days. Last Friday's strong close turned the technical indicators higher. Corn prices did gap up early Monday but as we expected, there has been limited follow-through to the upside. Reports from the Pro Farmer crop tour should reach the market late Monday. Managed Money was the most bearish in three months, but Friday's rally included some short covering which would reduce that total somewhat. The Commitments of Traders report for the week ending August 15th showed Corn Managed Money traders added 45,924 contracts to their already short position and are now net short 72,580. Non-Commercial & Non-Reportable traders added 48,553 contracts to their already short position and are now net short 103,210.

WHEAT:

A massive heat dome will engulf the Midwest this week, which will help the wheat harvest move forward. Black Sea news over the weekend, Romania said 60% of Ukraine exports could go through Romanian ports, although for the last four weeks total Ukraine grain exports were 3.2 million tons versus 4.8 million in June before the corridor expired. Denmark and the Netherlands agreed to send F-16 fighters to Ukraine and the new grain corridor Ukraine established two weeks ago is ready for use, according to Ukrainian authorities.

Virtually no rain is expected across the Midwest except for a few showers in North Dakota and southern Canada Prairies. Spring wheat conditions on Monday afternoon are expected to hold around steady. The other major news over the weekend was the limited rains for the Indian monsoon as 66% of their crop area will be under stress by the beginning of next week. The first 3 weeks of August have been the driest since records were kept starting in 1901.

Wheat positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders added 10,195 contracts to their already short position and are now net short 65,590. Non-Commercial & Non-Reportable traders added 9,244 contracts to their already short position and are now net short 48,483. Commitments of Traders report showed KC Wheat Managed Money traders reduced their net long position by 4,670 contracts to a net long 587 contracts. Non-Commercial & Non-Reportable traders net sold 7,505 contracts and are now net short 9,128 contracts.

HOGS:

October hogs saw a sharp two-day rally last week that took them back inside the relatively narrow July 5-August 10 trading range and helped alleviate a short-term oversold condition. It will be important for the market to take out the August 1 high at 86.75 to resume its uptrend. Hogs could see some support today from a bullish tone in global equity markets. Cash pork prices are weak, and hog weights are increasing, but October hogs' larger than normal discount to the cash market lends support. The USDA estimated hog slaughter came in at 469,000 head Friday and 61,000 head for Saturday. This brought the total for last week to 2.414 million head, up from 2.354 million the previous week and 2.407 million a year ago. Estimated US pork production last week was 501.9 million pounds, up from 491.3 million the previous week and down from 506.1 a year ago.

The CME Lean Hog Index as of August 16 was 100.32, down from 101.03 the previous session and 103.91 the previous week. The USDA pork cutout, released after the close Friday, came in at $105.71, down 75 cents from Thursday and down from $109.05 the previous week. This was the lowest the cutout had been since July 6. October hogs were trading at a 22.05 discount to the Lean Hog Index as of August 16, narrower than the 24.25 from a year ago but almost twice as wide as the five-year average discount of 12.19. Friday's Commitments of Traders report showed managed money traders were net sellers of 10,865 contracts of lean hogs for the week ending August 15, reducing their net long to 22,961. This is their smallest net long since July 3, but this data was collected the day before the October hogs reversed direction and proceeded to rally 4.07 in two sessions.

CATTLE:

The Cattle on Feed report Friday afternoon came in at the bullish end of expectations and could support a higher opening on Monday, especially in the wake of Friday's selloff. The market could also see support from a better risk tone in global equity markets early this week in the wake of China's decision to cut near term interest rates. The On-Feed report showed placements for the month of July at 91.7% of last year versus an average trade expectation of 94.5% and a range from 90.4% to 96.5%. Marketings came in at 94.7% versus 94.8% expected (range 94.5%-95.1%). August 1 on feed supply was 97.7% of last year versus 98.4% expected (range 98% to 99.1%). Both placements and on-feed came in lower than the average expectations. This could spark a move higher this week, as the report confirms once again the tight supply situation.

The USDA estimated cattle slaughter came in at 118,000 head Friday and 9,000 head for Saturday. This brought the total for last week to 616,000 head, up from 603,000 the previous week but down from 664,000 a year ago. The estimated average dressed cattle weight last week was 815 pounds, up from 814 the previous week and down from 821 a year ago. The 5-year average weight for that week is 822 pounds. Estimated beef production last week was 501.0 million pounds, down from 543.2 million a year ago. The USDA boxed beef cutout was $1.97 higher on Friday at $316.11. This was up from $302.61 the previous week and was the highest it has been since July 7. Cash live cattle were somewhat weaker last week.

As of Friday afternoon, the five-day, five-area weighted average price was $184.76, down from $185.27 the previous week. The USDA Attache in China expects China's beef imports to decline in 2024, citing their economic headwinds. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,216 contracts of cattle for the week ending August 15, increasing their net long to 97,007. This is not far from the 2023 peak at 120,000, which leaves the market vulnerable to long liquidation if support levels are taken out. Concerns about Chinese demand and the burdensome fund net long are negative, but cattle supplies are tight and are likely to stay that way for a while.

COCOA:

Sluggish global risk sentiment and significant weakness in key outside markets caught up with cocoa prices going into the weekend as it broke a 4-day winning streak on Friday. With a bullish global supply outlook, however, cocoa should regain upside momentum early this week. December cocoa was unable to shake off early pressure as it went on to post a sizable loss for Friday's trading session. For the week, however, December cocoa finished with a gain of 92 points (up 2.7%) which broke a 2-week losing streak. Sizable weekly losses in European and US equity markets were a notable source of carryover pressure on the cocoa market as that may diminish near-term chocolate demand in both regions.

In addition, increasing Chinese economic concerns may diminish the Asian near-term demand outlook, and that may have been the trigger for a wave of profit-taking in the cocoa market. On the other hand, West African supply issues are likely to continue into next year which helped to keep further losses in check going into the weekend. While the Cocoa Association of Nigeria forecast their nation's 2023/24 cocoa production to increase 3.5% from this season, they also expect that black pod disease will continue into next season. After back-to-back global production deficit last season and this season, early expectations are for the 2023/24 season to have a global production deficit.

Marex Spectron forecast a 2023/24 global production deficit of 279,000 tonnes, which compares to deficits of 77,000 tonnes this season and 180,000 tonnes last season. While they expect higher prices to result in 2023/24 global grindings to decline 4% from this season, Marex Spectron also estimates 2023/24 cocoa stocks/usage to fall to 30% which would be the lowest reading since the mid-1980's. The Commitments of Traders report for the week ending August 15th showed Cocoa Managed Money traders were net long 66,771 contracts after decreasing their long position by 1,578 contracts. CIT traders net sold 1,254 contracts and are now net long 25,457 contracts. Non-Commercial No CIT traders net bought 288 contracts and are now net long 50,408 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 628 contracts to a net long 75,038 contracts.

COFFEE:

After a failed recovery move in late July and early August, coffee prices reached a seven-month low last week. The last time coffee prices were last these levels was in mid-January, which was followed by a 34.65-cent rally (23.9%) through the start of February. December coffee rebounded from a 7-month low as it went on to post a moderate gain and a reversal for Friday's trading session. For the week, December coffee finished with a loss of 7.70 cents (down 4.9%) and a second negative weekly result in a row. Sluggish global risk sentiment over the past few weeks weakened coffee's demand outlook on ideas it would have a negative impact on restaurant and retail shop consumption. However, out-of-home demand prospects should improve with the continued decline of inflation levels, and that has given coffee prices underlying support.

Brazil arabica production has a two-year cycle, with "on-year" crops usually outperforming the off years. The 2022/23 season was an on-year crop, but the Brazil's coffee trees had come through two straight years of drier than normal conditions due to La Nina. With the end of La Nina earlier this year, 2023/24 is expected to be Brazil's largest off-year crop on record. However, it is only expected to exceed the second largest off-year (2019/20) by 2.7 million bags and be roughly 5 million bags below Brazil's 2018/19 and 2020/21 Arabica crops. Colombia's coffee production has seen little benefit from the end of La Nina. Their 12-month running production totals have seen incremental improvements in June and July, but nothing too impressive. The last four monthly readings have come in below an 11 million-bag annualized pace, and they are the lowest 12-month running totals since the end of 2013.

The only major Arabica-growing nation besides Brazil to have a significant jump in 2023/24 production has been Peru with an 15.8% increase. They represent 4% of global Arabica production versus 46% for Brazil and 12% for Colombia. The Commitments of Traders report for the week ending August 15th showed Coffee Managed Money traders are net short 27,282 contracts after net selling 13,001 contracts. CIT traders are net long 46,666 contracts after net selling 2,437 contracts. Non-Commercial No CIT traders net sold 10,533 contracts and are now net short 26,042 contracts. Non-Commercial & Non-Reportable traders are net short 19,610 contracts after net selling 13,481 contracts.

COTTON:

The cotton market is torn between threats to the US crop and concerns about Chinese demand. An improved risk tone early this week after China lowered its short-term rates over the weekend is lending support to December cotton. Last week's US Crop Progress report showed the percentage of the crops rated poor/very poor were at record highs for Texas and the US, and they could be even worse this week, as high temperatures limited the benefit of any rain that did fall. There are chances for rain this week in Texas but again, temperatures continue to be well above normal, which will speed evaporation. The 6-10 and 8-14-day forecasts are also showing above normal temperatures and below normal chances of rain.

There is a chance for rain in the Delta this coming weekend that could help with filling the crop. China imported 110,000 tonnes of cotton in July, up from 80,000 in June but down 6.7% from a year ago. Year to date imports were down 45.6% from a year ago. India's monsoon rainfall through Sunday was 7% below the long-period average, which would put 2023 in the "below normal" category. There have also been reports that pink bollworm has hit a few villages in the Punjab. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,866 contracts of cotton for the week ending August 15, increasing their net long to 33,796. With a record net long of 108,000 contracts, the market is far from overbought. The buying trend is short-term positive.

SUGAR:

Sugar prices were unable to benefit from bullish supply news late last week as larger Brazilian production remains a front and center issue for the market. Unless a “risk on” mood develops in global markets, sugar may be heading for a retest of its July lows early this week. October sugar followed through on last Thursday’s negative reversal as it stayed under pressure and finished Friday’s trading session with a moderate loss. For the week, October sugar finished with a loss of 57 ticks (down 2.3%) which was a third negative weekly result over the past 4 weeks as well as a negative weekly reversal from last Thursday’s 3-week high. There were reports that India’s August rainfall through last Thursday was 40% below their long-period average and on-track for their lowest August rainfall in more than a century. India’s monsoon rainfall through Sunday is 7% below the long-period average which would put 2023 in the “below normal” category.

On the other hand, Brazil’s sugar production this season remains well ahead of last season’s pace with their government agency Conab projecting an 11% increase over last season’s output, and that continues to be a major source of pressure on the sugar market late this week. Brazil’s Center-South mills devoted 50.6% of their crushing to sugar production during the second half of July, which was 3% above the crushing share seen over the comparable period last year and slightly above the 50.1% share during the first half of July. Keep in mind that crude oil rose $6 a barrel and RBOB gasoline rose 27 cents a gallon during the second half of July, but that had little impact on shifting Center-South crushing from sugar to ethanol.

China’s economic woes may further diminish their sugar imports this year as their July sugar imports were just 110,000 tonnes which was 60.5% below last year’s total. This put China’s 2023 sugar imports through July at 1.21 million tonnes which is 40.9% behind last year's pace. Sugar positioning in the Commitments of Traders for the week ending August 15th showed Managed Money traders net sold 5,734 contracts and are now net long 143,095 contracts. CIT traders reduced their net long position by 4,138 contracts to a net long 181,781 contracts. Non-Commercial No CIT traders net sold 2,778 contracts and are now net long 77,879 contracts. Non-Commercial & Non-Reportable traders net sold 344 contracts and are now net long 193,442 contracts.

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