ADM Investor Services, Inc.

Weekly Futures Market Summary

August 7, 2023 **by the ADMIS Research Team**

BONDS:

Not surprisingly, treasury prices rebounded significantly off last Friday's new low for the move. In addition to buying from disappointing US jobs data, we suspect the soft data brought on a significant wave of stop loss buying and a smaller wave of speculative buying. The soft US nonfarm payroll data gave the bull camp additive bullish sentiment following the jumps in US initial and ongoing claims readings yesterday. There are reports that the cost to hedge against higher interest rates is ballooning in what could be a sign of a major fundamental value zone on the charts.

With the multi-quarter downside breakout in treasury prices at the end of last week, the market continues to give off signals of a major historic realignment in interest rates. In fact, several Fed members have indicated more rate hikes could be in store as the US central bank strives to finish its job to "reverse" inflation. The Fed's Goolsbee said that the non-farm payrolls report was pretty much what the Fed expected, while the Fed's Bostic said that the Fed is likely to be in restrictive territory well into 2024. Furthermore, from the weekend, the Fed's Bowman said that additional Fed rate hikes will be needed.

Just as many Fed members can be categorized as hawks or doves, the Fed's Goolsbee is a political animal and every word muttered is calculated to confirm good prospects for the US economy. Certainly, treasuries were oversold into the low last Friday but the low to high bounce of 2 1/2 points should have balanced the overdone technical condition allowing for the trade to react to classic fundamental developments ahead. Monday's consumer credit reading will be the only scheduled data point of the session, with expectations calling for a huge jump in consumer credit balances which can indicate several conditions.

On its face, a significant jump in consumer credit can highlight confidence among consumers, but some economists suggest that could also signal consumers are using up their capacity to buy. It is also possible that a large portion of the jump in consumer credit was a function of rising prices and perhaps most importantly rising interest charges on credit balances. Nonetheless, the primary impact on treasury prices early this week is likely to be from a series of Fed speeches from Harker and Bowman with the hawkish view of Bowman already signaled from previous dialogue. In the end, the primary driving force for treasury prices this week will be the cycle of global CPI and PPI readings with the US CPI reading on Wednesday a major pivoting point.

CURRENCIES:

Not surprisingly, the dollar corrected last Friday following a very disappointing US nonfarm payroll result. While the July nonfarm payroll number was just under the number of jobs gained in June, current nonfarm payrolls are near the lowest levels since the end of December 2020. Unfortunately for the bear camp in

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the dollar, European data ahead of US nonfarm payrolls was not distinctly upbeat, thereby leaving the dollar less vulnerable to foreign economic report results. In retrospect, the action in US financial markets from last week was telling as US interest rates climbed despite signs of slower growth in the US jobs market.

Therefore, the dollar could remain vulnerable to selling ahead of the US CPI report on Wednesday as expectations call for a benign reading. However, there will be a wave of US central bank speeches today and the speakers have displayed preference for more US rate hikes and that should help cushion the dollar above last week's spike low. The Commitments of Traders report for the week ending August 1st showed Dollar Non-Commercial & Non-Reportable traders reduced their net long position by 2,754 contracts to a net long 3,574 contracts.

The lower trade in the euro early this week is justified by disappointing German industrial production readings for June and perhaps from expectations of hawkish US Federal Reserve dialogue. However, trends in the euro are likely to be set by this week's US and European CPI readings, with European inflation expected to be a touch higher than US inflation.

In the end, the dollar should have significant classic interest rate differential control with US treasuries seemingly settling into a historical adjustment to higher/more normal rates. The August 1st Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders reduced their net long position by 17,040 contracts to a net long 229,450 contracts.

The Yen has managed a low to high bounce of 116 points/ticks leaving the currency vulnerable to fresh technical selling. In fact, despite a positive Japanese Eco Watchers survey, the outlook for the Japanese economy deteriorated with disappointing labor cash earnings, a decline in overall household spending and a moderation of Japanese bank lending.

Not surprisingly, the charts in the Swiss franc are bearish with last week's bounce correcting the oversold condition and perhaps setting the stage for a downside breakout this week. In fact, with Swiss unemployment unchanged from +1.9%, optimism toward the Swiss economy is lacking which leaves the prospect of higher US interest rates as a bearish dominating force in the Swiss franc.

The Pound retains a definitive downtrend pattern on its charts with the bear case benefited by a minimally larger than expected decline in GBP Halifax House Prices in July. With a fresh lower low for the move early this week, modest long interest in the US dollar, and the potential for soft Canadian export data on Tuesday (because of slack demand from China) the bias in the Canadian dollar remains down.

STOCKS:

In retrospect, the stock market survived a massive jump in US treasury yields last Friday, perhaps because of dissipating recession fear and very supportive Amazon earnings. However, the markets were disappointed with Apple sales and given the fear of rising real rates, the bull camp needs Goldilocks data and signs of softer inflation on Wednesday to avoid returning to the early corrective track this week to keep the recent upward track intact.

Global equity markets at the start of this week were lower except for the RTS index, the Topix and early US stock market action which traded moderately higher. The path of least resistance is pointing down in US equities with the threat of rotation from stocks to fixed income/higher yielding investments looming. In fact, the equity market is likely to be undermined following what could be a wave of hawkish US central bank commentary.

Certainly, the 4500 level in the S&P has offered hope of a consolidation low with the market respecting that level for 3 straight sessions. Fundamental/internal issues are mixed with disappointing iPhone sales

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news last week offset by a very strong Amazon quarter. On the other hand, seeing venerable US trucking firm Yellow Transit declare bankruptcy and reports that first half 2023 US bankruptcy filings have jumped significantly leaves plenty of economic uncertainty to discourage some investors.

Nonetheless, the S&P 500 has exhibited bullish resiliency from the middle of March, but the current correction is the largest correction since the February/March setback. The August 1st Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 211,046 contracts after net buying 28,944 contracts. However, the positioning report released on Friday shows an ongoing very large net spec and fund short which is likely understated given the slide after the report was measured.

As indicated in the S&P coverage, the Dow charts remain bearish and the threat of rotation from equities to interest-bearing investments remains a potential major negative. Fortunately for the bull camp, the Dow futures net spec and fund long positioning is nearly flat, potentially signaling the capacity for a consolidation low pattern to build. The August 1st Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders net bought 1,691 contracts which moved them from a net short to a net long position of 1,447 contracts.

Even though the NASDAQ futures have not forged a fresh new low for the move early this week, prices sit just above failure pricing and as the supportive Apple news drains from the equation, we expect new lows for the move in the coming sessions. The August 1st Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders net sold 3,282 contracts and are now net short 8,311 contracts.

GOLD, SILVER & PLATINUM:

The initial trade in gold early this week was lower in a knee-jerk reaction to slightly higher US dollar action and from a slight blip up in US interest rates. The Peoples Bank of China posted another incremental increase in gold reserves in July of roughly 2 million ounces in a continuation of their gradual and difficult to monitor buildup of gold reserves. Unfortunately for the bull camp, gold ETF holdings saw a 10th straight daily outflow last Friday bringing net sales from holdings this year up to 2.86 million ounces. Furthermore, silver ETF holdings on Friday declined by 2.3 million ounces bringing this year's net sales tally to 21.7 million ounces. The outflow from silver holdings was the fifth straight day of outflows.

The focus of the gold trade will shift to Chinese trade data Tuesday and then to European CPI followed by Chinese inflation readings early Wednesday morning and then capping off the week with readings on US CPI on Thursday and US PPI on Friday! A fresh negative for gold and silver are comments from the Fed's Bowman indicating that more hikes may be needed in the battle against inflation. In retrospect, the hard down attempt last week in gold and silver was indicative of a market behaving bearishly even in the face of supportive signals from its strongest outside market indicator (the dollar). In fact, the dollar came under aggressive pressure and violated a series of technical points and traded against bullish developments of surging US interest rates.

With treasuries falling sharply in the face of soft US economic data, both the dollar and treasuries look to remain in downward motion. Therefore, the markets appear to be set to discount the benefits of a weaker dollar and instead fret over higher rates. In early week action, the markets will be presented with Chinese currency and gold reserve holdings which are likely to be supportive or inconsequential. While the net spec and fund long in gold has declined over the past several weeks, it remains large enough to feed sustained selling of gold ahead. The Commitments of Traders report for the week ending August 1st showed Gold Managed Money traders reduced their net long position by 16,954 contracts to a net long 99,337 contracts. Non-Commercial & Non-Reportable traders net sold 12,052 contracts and are now net long 192,088 contracts.

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While the silver market aggressively rejected its range down move last Friday fundamental reasons to pick a low are lacking and the charts suggest buying closer to $23.00 is preferred. In fact, the most recent COT positioning report in silver maintained an overbought condition capable of feeding waves of selling ahead. The Commitments of Traders report for the week ending August 1st showed Silver Managed Money traders were net long 13,231 contracts after decreasing their long position by 7,487 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 5,673 contracts to a net long 44,001 contracts.

While the platinum market has managed a 3 day high in the early trade this week, we remain bearish toward the market with ongoing signs of outflows from ETF instruments, the threat of rising rates and a strengthening dollar all combining for a conclusive bearish environment.
Last week platinum ETF holdings declined by 7,497 ounces on a world base of holdings of 3.1 million ounces. A negative supply development came from one of the world's largest platinum mining companies Implats report of a 2% year-over-year increase in their 6-month production readings to a final output of 3.2 million ounces. With fresh internal supply and demand information mostly offsetting, outside market forces bearish and the charts projecting a move down to $900 the bear camp has control. Furthermore, the most recent COT positioning showed a slightly vulnerable net spec and fund long positioning. The Commitments of Traders report for the week ending August 1st showed Platinum Managed Money traders net sold 3,404 contracts and are now net long 3,626 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,957 contracts to a net long 18,130 contracts.

With platinum continuing lower despite evidence of 3 straight months of strong US vehicle demand from last week the trade is not interested in bullish demand prospects. The palladium market continues to coil in a trading range bound by $1,324.50 and $1,215.50 and we expect that action to continue. However, the market remains record net spec and fund short suggesting the market should lack fresh selling and stop loss selling capacity. Palladium positioning in the Commitments of Traders for the week ending August 1st showed Palladium Managed Money traders hit a new extreme short of 8,849 contracts. Managed Money traders were net short 8,849 contracts after increasing their already short position by 1,029 contracts. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 9,646 contracts. Non-Commercial & Non-Reportable traders are net short 9,646 contracts after net selling 688 contracts.

COPPER:

While the charts remain bearish in copper, there are countervailing issues flowing from the world's largest copper consumer China. On the one hand, supply/inventories inside China are growing extremely tight despite the buildup of inventory in London exchange warehouses. Therefore, it is not surprising Goldman has predicted copper to hold up despite slack economic conditions in the country. According to a report, the Chinese government has instructed its economic analysts to avoid the use of deflation and recession in their official descriptions of the economy!

Fortunately for the bull camp, Codelco cut its full year copper production forecast to 1.31-1.35 million tons from 1.35-1.4 million tons or a 3.97% decrease. Furthermore, given the reduced production, the net year-over-year reduction in supply flow from one of the world's largest mining companies is likely to be in a range of 6.6-9.4%! While Shanghai copper warehouse stocks last week posted a noted decline of 14.9% (-9,138 tonnes) LME copper warehouse stocks continue to reel off a string of daily inflows in an approximate range of 1,500 to 2,500 tonnes a day and that has left more than enough copper available to non-Chinese customers to suppress copper prices.

However, China is scheduled to release trade figures which include copper and copper concentrate flows which could set the tone for the remainder of the week. From a technical perspective, the copper market is overbought with the net spec and fund long moving decisively away from previously held net spec and fund short positioning thereby leaving the market vulnerable to stop loss selling on a violation of consolidation support. The Commitments of Traders report for the week ending August 1st showed

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Copper Managed Money traders are net long 21,513 contracts after net buying 8,011 contracts. Non-Commercial & Non-Reportable traders added 13,718 contracts to their already long position and are now net long 17,244.

ENERGY COMPLEX:

With a minimal higher high for the move, the bull bias in crude oil has been moderated by a $2.57 setback from the initial high. Nonetheless, the bull camp should garner confidence from a 4.6% weekly decline in global floating storage of crude oil with the biggest declines registered in Asia, the Middle East, and Europe. Not surprisingly, US Gulf Coast floating storage saw the echo impact from the decline in global floating storage, with a week over week increase of 123%. In other words, the US supply remains the marginal supply source with those supplies potentially backing up inside the US because of higher dollar adjusted pricing.

However, September crude oil traded to the highest level since November 2022 early this week, likely from confirmation of OPEC+ (mainly Saudi Arabia) intending to keep supplies balanced. In the mind of OPEC members, balanced effectively means "tight"! Therefore, seeing Saudi Arabia indicate they could extend and deepen production cuts pushes users to cover forward needs and speculators to return to the long side as that actively provides a price "put". Developments from the Black Sea add to the bull case as does the increase in Saudi selling prices for September delivery to Asia and Europe. In fact, it appears that Ukraine military efforts are specifically targeting Russian crude/energy shipments and infrastructure!

Longer-term additions to the bull case include eight straight weeks of reduced US drilling activity with a decline of five rigs which is 105 rigs below year ago levels. Furthermore, oil rigs alone fell by five and are at the lowest level since March 2022. Yet another bullish development came from the EIA which indicated US oil production fell to 12.66 million barrels per day in May, the lowest since February, and they also indicated the lower production is likely a sign that persistent reductions in rig operating counts are finally beginning to show up in US production numbers. A minor supply glitch was seen over the weekend with a Russian oil pipeline to Poland damaged with flows projected to resume early Tuesday.

From the bullish demand side of the equation, the Indian oil minister indicated his country's energy consumption is growing at 3 times the global average rate perhaps because reduced Indian fuel taxes have helped make fuel more affordable to consumers. Looking ahead, China will report its monthly trade data on Tuesday (reportedly) and that will likely provide volatility to oil prices with the trade already factoring in strong Chinese oil import demand. While the most recent COT net spec and fund long position is understated because of the post report rally, the net long remains relatively modest and buying fuel should be plentiful on the sidelines. The Commitments of Traders report for the week ending August 1st showed Crude Oil Managed Money traders are net long 205,959 contracts after net buying 13,855 contracts. Non-Commercial & Non-Reportable traders were net long 305,407 contracts after increasing their already long position by 16,492 contracts.

With a measure of divergence/lag with crude oil over the last 3 days of trade, we think gasoline is sensing a softening of demand and less tight gasoline supplies. However, product prices should be supported because of Indian oil minister estimates that Indian energy consumption growth is running at 3 times the global average rate. Furthermore, as indicated in crude oil coverage, the Indian government has reduced taxes on fuel to lessen pressure on consumers which should help cushion demand. Given the purchase of heavily discounted Russian crude oil and the reduction in taxes, Indian consumers have only seen a 2.3% increase in the price of fuel over the last 2 years which is 30% under other developing and developed countries! While we expect crude oil to lift gasoline prices with gasoline stocks and implied demand still favoring the bull camp. However, prices above $2.90 will likely need implied gasoline demand to remain near 8.8 million barrels per day while the EIA year-over-year gasoline stocks must remain in a deficit.

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The August 1st Commitments of Traders report showed Gasoline (RBOB) Managed Money traders were net long 77,663 contracts after increasing their already long position by 6,153 contracts. Non-Commercial & Non-Reportable traders are net long 73,386 contracts after net buying 3,716 contracts. With the rise in diesel measured and uniform since late June low and international jet fuel demand helping to soak up supply, more grinding gains are possible in ULSD directly ahead. However, the latest COT positioning report showed the net spec and fund long in gasoline poised to breakout to the highest level since October 2021! Heating Oil positioning in the Commitments of Traders for the week ending August 1st showed Managed Money traders net bought 3,640 contracts and are now net long 28,432 contracts. Non-Commercial & Non-Reportable traders net bought 1,340 contracts and are now net long 50,558 contracts.

While the odds favor a continuation of sideways chop in place since the end of March, the fundamental path of least resistance is pointing down. Certainly, the natural gas market has managed an anemic bounce off warmer US temperatures which have air conditioning demand for natural gas generated electricity running strong, but Asian spot gas prices finished last week soft on reports of soft demand. A bullish supply development came from a Bloomberg article predicting Russian gas exports will decline by 25% this year after Russian gas exports fell 32% in 2022.

Fortunately for the bull camp, the EIA reported US natural gas exports to Mexico posted record readings in June which could help siphon off burgeoning US supply. Another underpin for prices is two straight weeks of smaller than expected US injections to EIA working storage. The Commitments of Traders report for the week ending August 1st showed Natural Gas Managed Money traders went from a net long to a net short position of 16,823 contracts after net selling 20,447 contracts. Non-Commercial & Non-Reportable traders are net short 77,980 contracts after net selling 7,241 contracts.

BEANS:

With respect to the weather, we could have saved time over the last several weeks by simply copying rainfall totals and forecasts from one day to the next. However, one could suggest that recent rain events have been definitively more bearish given increased rainfall amounts and coverages. While areas of southern Illinois continue to miss heavy rains, larger high yield producing areas throughout the belt have received significant precipitation over the prior 72 hours which should be facilitating pod setting/pod filling. Despite funds turning bullish toward soybeans in the last 2 trading sessions of last week, reports from Bloomberg indicate that hedge fund managers have cut soybean oil long positions and reduced net long positioning in soybeans, and we suggest that signals a bearish posture from critical components of the trade.

In our opinion, it is extremely difficult to discount the bear case from the weather with a crop conditions report on Monday potentially a watershed moment. It seems as if the trade has stubbornly held onto the potential for major production losses while there has been an unrelenting conveyor belt of rain events recently joined by cooler temperatures. However, despite rain cycles started back in mid-June, soybean conditions have not improved yet (as measured by the crop conditions report), and therefore this week's readings could keep the prospect of serious tightness in the market alive if good to excellent ratings failed to jump. Keep in mind that August is the most important weather month in determining final soybean yields and the weather so far has favored good development.

On the other hand, unless the crop was permanently impacted early in the season, Monday could be the death knell for the bull camp. Even pre-existing supply is favoring the bear case with Brazilian record sales for the season because of the very strong harvest in Brazil. Fortunately for the bull camp and US producers, the dollar reversed course and moved lower late last week but it could take a significant washout in bean futures prices to bring China out for more US beans. The lack of competitive status of US beans compared to Brazilian beans is brought home by soybean shipments from Brazil to China increasing by 32% in July and January through July Brazil shipments to China reaching a record 50.4 million tons.

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The soybean market should also feel the pressure from weakness in crude palm oil futures given the breakdown off fears of increased production and rising inventories. Furthermore, CPO traders have expressed definitively bearish forward views toward this week's upcoming trade. From a technical perspective, the soybean market remains vulnerable to liquidation of speculative positions given a net long last week above 83,000 contracts. Soybean positioning in the Commitments of Traders for the week ending August 1st showed Managed Money traders are net long 94,493 contracts after net selling 26,246 contracts. CIT traders were net long 151,227 contracts after decreasing their long position by 1,478 contracts. Non-Commercial No CIT traders reduced their net long position by 25,542 contracts to a net long 61,476 contracts. Non-Commercial & Non-Reportable traders net sold 32,957 contracts and are now net long 83,637 contracts.

The Commitments of Traders report for the week ending August 1st showed Soymeal Managed Money traders net bought 177 contracts and are now net long 70,351 contracts. CIT traders added 3,224 contracts to their already long position and are now net long 119,177. Non-Commercial No CIT traders are net long 59,685 contracts after net selling 1,169 contracts. Non-Commercial & Non-Reportable traders are net long 123,905 contracts after net selling 1,081 contracts. Soybean oil positioning in the Commitments of Traders for the week ending August 1st showed Managed Money traders were net long 49,477 contracts after decreasing their long position by 4,713 contracts. CIT traders reduced their net long position by 79 contracts to a net long 114,351 contracts. Non-Commercial No CIT traders are net long 8,305 contracts after net selling 7,511 contracts. Non-Commercial & Non-Reportable traders were net long 58,562 contracts after decreasing their long position by 5,492 contracts.

CORN:

Corn prices shrugged off weekend news of a Ukrainian strike on a commercial oil tanker carrying Russian crude. This was the first attack targeting commercial shipping and could cause shipping insurers to rethink their coverage. It is very clear Ukraine is trying to put maximum pressure on Russia to reinstate the grain corridor by disrupting their exports. Offsetting the Black Sea news, good rains fell across portions of the Midwest over the weekend, including the 3 "I" states. More is expected this week in those same areas. Moderate temperatures will shrink crop stress to just 10 to 15% of the corn belt and that limits the threat of yield loss the next two weeks, especially after private yield estimates last week came out near the USDA or slightly above.

In fact, it's very possible the USDA supply and demand report Friday could raise corn yields slightly and this week's crop condition report could telegraph that if conditions improve significantly. The fresh weekend Black Sea news failed to create any bullish excitement to start the week and we doubt the conditions report will change that. Even if conditions don't improve in Monday's report, with the latest rains right in the heart of the corn belt it will be assumed that the crop is recovering. The August 1st Commitments of Traders report showed Corn Managed Money traders were net long 16,741 contracts after decreasing their long position by 9,862 contracts. Non-Commercial & Non-Reportable traders went from a net long to a net short position of 48 contracts after net selling 11,852 contracts.

WHEAT:

Prices received a boost by the Ukrainian weekend strike of a commercial oil tanker carrying Russian crude and comments by Ukraine that ships moving toward six Russian ports would be considered possible military targets. Ukraine is likely hoping that this new risk to commercial shipping will disrupt Russian exports and bring them back to the table on the grain corridor deal. In addition, J.P. Morgan severing SWIFT access to the Russian Ag Bank on Friday was intended to exert additional pressure on Russian exports.

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Friday's news that India is considering scrapping or eliminating their wheat import tax would also be a significant development if they decide to proceed with it. Beneficial rains fell in South Dakota and southern Minnesota over the weekend, and weather models have a slightly wetter short-term forecast for the Canadian Prairies. KC has closed lower for 8 of the last 9 days. Looking back since March, the major breaks have been between 6 and 13 days in duration. Therefore, this week, we should be coming into a timeframe with a high probability of a rebound.

The Commitments of Traders report for the week ending August 1st showed Wheat Managed Money traders added 10,096 contracts to their already short position and are now net short 50,428. Non-Commercial & Non-Reportable traders were net short 39,797 contracts after increasing their already short position by 8,377 contracts.

The Commitments of Traders report for the week ending August 1st showed KC Wheat Managed Money traders reduced their net long position by 5,912 contracts to a net long 17,233 contracts. Non-Commercial & Non-Reportable traders net sold 7,736 contracts and are now net long 9,583 contracts.

Minn Wheat positioning in the Commitments of Traders for the week ending August 1st showed Managed Money traders were net long 7,592 contracts after decreasing their long position by 1,374 contracts. Non-Commercial & Non-Reportable traders net sold 2,029 contracts and are now net long 11,263 contracts.

HOGS:

The gap lower last week in October hogs leaves the market vulnerable to more pressure this week. The market has been maintaining a mild uptrend over the past month but may be losing its seasonal support soon. The CME Lean Hog Index as of August 2 was 105.86, up from 105.80 the previous session and 105.84 a week prior. The USDA estimated hog slaughter came in at 418,000 head Friday and 30,000 head for Saturday. This brought the total for last week to 2.338 million head, down from 2.392 million the previous week but up from 2.335 million a year ago.

Estimated US pork production last week was 489.1 million pounds, down from 501.0 million the previous week and 490.3 million a year ago. The USDA pork cutout, released after the close Friday, came in at $112.90, down $1.45 from Thursday but up from $112.56 the previous week. Friday's Commitments of Traders Report showed managed money traders were net buyers of 3,399 contracts of lean hogs for the week ending August 1, increasing their net long to 30,707. This is less than half of their record net long and is not burdensome.

CATTLE:

October live cattle are back testing contract highs with their rally on Friday. The market benefited from an improved risk-on attitude in the wake of the US jobs report and a sharply lower dollar. Cash live cattle trade was quiet during most of last week, with Iowa/Minnesota the only region showing any significant volume and average prices $2 higher than they were the previous week. The USDA estimated cattle slaughter came in at 113,000 head Friday and 6,000 head for Saturday. This brought the total for last week to 613,000 head, down from 619,000 the previous week and 648,000 a year ago.

The estimated average dressed cattle weight last week was 815 pounds, up from 813 the previous week and 812 a year ago. Estimated beef production last week was 498.5 million pounds, down from 525.4 million a year ago. The 5-year average weight for that week is 818 pounds. The increase in cattle weights is seasonal. Production is still running well behind a year ago and well behind average, which is supportive to cattle prices. Iowa cattle producers reported that "hundreds" of animals died from extreme heat and humidity in July.

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The numbers are not large, but the deaths are unusual. Kansas and Nebraska also reported problems. The USDA boxed beef cutout was down 13 cents at mid-session Friday and closed 22 cents lower at $301.79. This was down from $302.00 the previous week. Friday's Commitments of Traders report showed managed money traders were net sellers of 4,624 contracts of live cattle for the week ending August 1, reducing their net long to 99,491. The net long is in the upper third of the historic range, which leaves the market vulnerable to heavy selling if support levels are violated.

COCOA:

Since a negative daily key reversal on July 27th, cocoa's coiling price action has signaled a loss of upside momentum. While it continues to have a bullish supply outlook, the cocoa market is vulnerable to a sizable downside move this week. September cocoa found early support before losing strength late in the day as it finished Friday's trading session with a moderate gain. For the week, September cocoa finished with a loss of 15 points (down 0.4%) which broke a 3-week winning streak.

A large rebound in European equity markets, the Euro and the British Pound provided carryover support to cocoa prices as that should give a further boost to the European chocolate demand outlook. Positive earnings guidance from several major chocolate makers may be evidence that consumers demand has remained strong despite cocoa prices reaching 12-year highs. On the other hand, all 3 major cocoa processing regions (Europe, Asia and North America) saw their second quarter grindings totals come in at least 5% or more below last year's results.

Over the weekend, there were updated forecasts for West African growing areas showing daily rainfall on most days this week, and that could lead to harvesting and transportation delays for their late midcrop cocoa production. A strike throughout Nigeria was suspended after 1 day, however, so the flow of their cocoa beans to port facilities should reach full speed again over the near future.

Cocoa positioning in the Commitments of Traders for the week ending August 1st showed Managed Money traders were net long 78,197 contracts after decreasing their long position by 200 contracts. CIT traders reduced their net long position by 272 contracts to a net long 34,347 contracts. Non-Commercial No CIT traders net sold 1,167 contracts and are now net long 50,853 contracts. Non-Commercial & Non-Reportable traders added 526 contracts to their already long position and are now net long 83,524.

COFFEE:

For the second week in a row, coffee prices saw a more than 7.00 cent pullback from Thursday's high to Friday's low. While the coffee market has been lifting clear of its mid-July lows, it may have trouble regaining upside momentum early this week. September coffee remained under significant pressure as they followed through on last Thursday's negative daily reversal and went on to post a sizable loss for Friday's trading session. For the week, however, September coffee finished with a gain of 3.45 cents (up 2.2%). Forecasts for dry weather over Brazil's major Arabica growing regions should help to minimize delays for this year's harvest, and that weighed on coffee prices going into the weekend as it should lead to more of Brazil's coffee supply reaching the global export marketplace.

While the Brazilian currency broke a 3-day losing streak on Friday, it still finished with a sizable weekly loss that pressured coffee prices as that may encourage Brazil's farmers to market their coffee supplies to foreign customers. The end of the La Nina weather event earlier this year was a key factor in Brazil's 2023/24 Arabica production coming in larger than their 2022/23 season output, and that can offset Colombia's production pace holding close to a 9 1/2 year low. ICE exchange coffee stocks were unchanged on Friday as they continue to have no coffee either going through or waiting to go through the exchange's grading process.

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While they have only fallen 810 bags during the first four days of August, ICE exchange coffee stocks are on course for their third lowest month-end total since May of 1999. Coffee positioning in the Commitments of Traders for the week ending August 1st showed Managed Money traders are net short 12,078 contracts after net buying 2,609 contracts. CIT traders added 1,807 contracts to their already long position and are now net long 47,788. Non-Commercial No CIT traders net bought 914 contracts and are now net short 13,956 contracts. Non-Commercial & Non-Reportable traders net bought 1,829 contracts and are now net short 5,250 contracts.

COTTON:

Based on the action in December cotton last week, it doesn't appear that the trade is too concerned about the US cotton crop, perhaps because weather worries are offset by weak demand. The weekly crop conditions reports, and the near-term weather outlook, suggest this year's crop will be smaller than USDA's latest projections. The market closed lower on Friday despite a turn lower in the dollar that should be good for US exports. After another week of hot and dry weather in West Texas last week, Texas crop conditions could see further declines in this afternoon's Crop Progress report.

Last week's report showed 41% of the US crop was rated good/excellent as of July 30 versus 38% a year ago and 51% on average and 31% rated poor/very poor versus 28% a year ago and 17% on average. Texas was 17% G/E versus 24% a year ago and 39% on average and 50% P/VP versus 37% a year ago and 24% on average. Depending on how you measure it, the crop is behind average and could be considered as bad if not worse than last year. Hot weather is expected to continue across the south over the next two weeks, with much above normal temperatures in west Texas that could hurt crop fill.

However, there are normal to above normal chances of rain that could mitigate some of the damage if it arrives in time. The Panhandle and the northern part of west Texas could see up to 0.5 inch in the next 5 days. Friday's Commitments of Traders report showed managed money traders were net buyers of 7,081 contracts of cotton for the week ending August 1, increasing their net long to 36,365. This is their largest net long since last September, but it is far from the record 105,000 from 2018 or even the 2021 peak at 95,000 and would not be considered burdensome. The buying trend is short-term supportive. China sold another 10,000 tonnes from state reserves today.

SUGAR:

After a sharp selloff in late June, sugar prices were able to regain a good portion of those losses during the first three weeks of July. Following that rally, sugar prices ran out of upside momentum and could be heading for a retest of their late June lows. October sugar was unable to hold onto mild early gains and fell to a 3-week low before finishing Friday’s trading session with a sizable loss. For the week, October sugar finished with a loss of 23 ticks (sown 1.0%) and a second negative weekly result in a row.

Energy prices extended their recovery move which provided sugar with early carryover support. However, sugar’s main source of pressure continues to come from Brazil’s Center-South sugar production, which over the first 3 1/2 months of the 2023/24 season was 21.9% ahead of last season’s pace. The Center-South cane crush was 10.1% ahead of last year, but sugar’s share of that crushing was 4.4% higher. Ethanol is expected to have a larger share of Brazil’s gasoline mix by the 2024/25 season.

However, ramped-up corn-based ethanol production could reduce the amount of cane that will be diverted to ethanol production from sugar. Recent weather over Center-South cane growing regions has been mostly dry, which could minimize harvesting and crushing delays. As a result, this season’s Center-South sugar production should stay ahead of last season’s pace through the end of July. The Brazilian currency reached its highest level against the dollar in 14 months on July 28, but last week’s pullback may provide an added incentive for Center-South mills to produce sugar for the export market.

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With Brazil heading for a record high export total this season, that could help offset a large portion of the export declines from India and Thailand. The August 1st Commitments of Traders report showed Sugar Managed Money traders reduced their net long position by 10,279 contracts to a net long 168,251 contracts. CIT traders were net long 185,447 contracts after increasing their already long position by 7,646 contracts. Non-Commercial No CIT traders are net long 98,859 contracts after net selling 14,196 contracts. Non-Commercial & Non-Reportable traders are net long 214,874 contracts after net selling 5,601 contracts.

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