ADM Investor Services, Inc.

WEEKLY MARKET SUMMARY

17 August, 2020

For the Week of August 17, 2020

BONDS:

Following disappointing readings for Chinese industrial productions and retail sales, French CPI and Euro zone GDP were in-line with trade forecasts. North American data included a retail sales reading that was lower than expected, but also had better than forecast results for non-farm productivity, unit labor costs and Canadian manufacturing sales. While industrial production was in-line with estimates, capacity utilization, business inventories and a private survey of consumer sentiment came in higher than trade forecasts. Treasuries kept within tight inside-day ranges but were moderately higher by the close of last Friday's trading session.

While September bonds have not forged a fresh lower low for the move prices have started out a 3rd straight session of trade right on the lowest levels since July 6th in a fashion that suggests the bias is pointing downward. We suspect that a large portion of the recent weakness in treasury prices has been the result of hope for a leveling out of US infections and or from signs that the infections will simply maintain a pace that can be kept under general control. In retrospect, it is also likely that last week's record amount of US treasury supply provided additional pressure to prices but traders should expect an avalanche of supply to continue and perhaps accelerate if another US stimulus package is agreed-upon and or US tax revenues continue to be anemic.

It is also clear that recent jobs data was "better than expected" and that added to the selling pressure even though the jobs related data did not eliminate the idea that the "pace of recovery" was leveling out. While one does not know where the Fed will draw the line in the sand with respect to capping interest rates (the Federal Reserve chairman has indicated they will consider that action) we suspect they will be unwilling to officially step in to limit rates for fear of restraining optimism. While we expect some bounce in bonds following the Empire State manufacturing survey that could be countervailed by a NAHB index.

Traders should keep in mind that the specs in the bond market added significantly to their net short position last week and that could mean any violation of key chart points on the upside could spark a wave of short covering buying. The August 11th Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders added 29,079 contracts to their already short position and are now net short 124,953. On the other hand, the note market was net long last week but did decrease their long position rather significantly last week and therefore they might also see a surprise wave of buying on upside chart breakouts. For T-Notes Non-Commercial & Non-Reportable traders were net long 121,883 contracts after decreasing their long position by 79,258 contracts.

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CURRENCIES:

The Dollar remained on the defensive going into the weekend as it finished last Friday's trading session with a moderate loss. While most of the major US economic numbers posted better than expected results, a lower than forecast retail sales number pressured the Dollar. On the other hand, the Japanese Yen benefited from safe-haven inflows and went on post a moderate gain. We see the action in the dollar early this week as negative with a fresh 6-day low and the prospect of a soft Empire State manufacturing reading.

Furthermore, the trade is largely expecting the Fed to be dovish in their meeting minutes from last month and it would appear as if the trade is becoming entrenched on the idea that the dollar remains within a long term downtrend. We would assume the bias is down unless the dollar index regains 93.23, but it should be noted that the dollar index is already net spec and fund short and that could rob the market of some selling fuel. The August 11th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders were net short 8,820 contracts after increasing their already short position by 825 contracts.

The action in the euro early this week favors the bull camp with the euro making a 6-day high. However, the euro bull case is heavily dependent on a continuation of a general risk on condition which in turn is surprisingly based in part on the US infection count. We would remain bullish toward the euro as long as it manages to hold above a quasi-double low last week around 1.1791. The August 11th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders hit a new extreme long of 259,362 contracts. Non-Commercial & Non-Reportable traders were net long 259,362 contracts after increasing their already long position by 10,890 contracts.

The Yen forged an upside breakout early this week in the face of a sweep of broad Japanese economic readings that should have been a restraint on the currency as the Japanese economy remains mired in extreme slowing because of the virus. In short the path of least resistance looks to be pointing upward unless the Yen falls back below 93.78.Like the euro, the Swiss charts have returned to a bullish posture with the Swiss likely using the 1.10 level to launch into new contract highs at some point later this week. However, the bull camp in the Swiss is heavily dependent on the continuation of a generally positive global environment which in turn is dependent on the US showing signs of containing its 2nd wave of infections.

While the Pound is not showing definitive direction, the coiling pattern recently has held prices above the 1.30 level and would appear to be a plateau capable of launching the currency into a move back above 1.3250. While not significant it should be noted that a private UK house price index did show a year-over-year gain while the month over month price index showed a slight contraction. The charts in the Canadian remain supportive and the currency appears to be poised to draft some support this week from signs of renewed weakness in the US dollar. In our opinion, the Canadian could draft some fiscal support from signs that the Canadian Prime

Minister and the Finance Minister are conflicted over green plans as that suggest significant costs for Canadian businesses and the Canadian government might be held down.

STOCKS:

Global markets had a turbulent finish to last week as they struggled to hold onto a positive tone late into Friday's trading session. The Fed's Kaplan said that he sees US unemployment falling to 8% to 9% while fourth quarter GDP growth will come in around a 6% to 7% annualized pace. Positive guidance from Applied Materials provided an additional source of strength to the tech sector. US equity markets saw choppy price action as they finished the day near unchanged levels. Global equity markets were mixed at the start of this week with declines generally less than 1/2% with some gains (in Shanghai) above 2.3%.

While several US stock indices lost momentum last week, there is a widespread expectation of an upside breakout this week in the S&P with the primary focus of the trade shifting from earnings (the earnings season is coming to an end) to hopes of a leveling of the US infection counts. However, the markets will not be completely immune from earnings as a-number-of big retail earnings will be posted this week with some of those earnings presenting some temporary headwinds. Traders are upbeat over the potential that Walmart and Home Depot will show improve margins and increased sales.

One should give the edge to the bull camp with the market seemingly on track to regain the 3400 level and make a new high for 2020 which in turn would be a new all-time high. The markets look to traverse the earnings cycle with 81.4% of earnings managing to post better than expected but definitively low earnings expectations. While the S&P did shift from a net short into a net long last week, long positioning remains very low and should translate into significant residual buying capacity. E-Mini S&P positioning in the Commitments of Traders for the week ending August 11th showed Non-Commercial & Non-Reportable traders were net short 201,052 contracts after increasing their already short position by 27,971 contracts.

Like the S&P, the Dow futures have stalled at even numbers of 28,000 and have forged a series of lower highs as if the market has reached some form of equilibrium and is-in-need of a fresh bullish catalyst. Unfortunately for the bull camp the early August gains have resulted in long term support coming in significantly below the current market. Obviously, a trade above 28,000 (not a difficult task) reignites bullish headline coverage and probably pulls more buyers off the sidelines. In fact, with the positioning in the Dow futures remaining net short the market has stop loss buying and fresh outright buying capacity in reserve. Dow Jones $5 positioning in the Commitments of Traders for the week ending August 11th showed Non-Commercial & Non-Reportable traders reduced their net short position by 4,192 contracts to a net short 2,509 contracts.

Despite a recent lag-behind the rest of the market, the NASDAQ remains poised to return to the all-time highs with long-term uptrend channel support today somewhat far down at 11,007.

However closer in support is seen at the Friday low of 11,096. On the other hand, the NASDAQ does have a relatively larger net spec and fund long than the S&P and has recently suffered from rotation to lower valued market indices. The Commitments of Traders report for the week ending August 11th showed Nasdaq Mini Non-Commercial & Non-Reportable traders reduced their net long position by 5,654 contracts to a net long 17,347 contracts.

GOLD, SILVER & PLATINUM:

While gold is tracking higher to start this week, it remains within the trading range put in place at the end of last week. However, the US dollar forged a 6-day low and could begin to provide fresh speculative currency related buying. The trade might also buy the rumor of the Wednesday release of the FOMC meeting minutes as some traders think the Fed (at the time of that meeting) was very concerned with the second flare of US infections. In retrospect, the gold market failed to transition from a safe-haven commodity following leveling US infection counts last week and that combined with the ongoing allure of paper assets prompted the market to suffer a tremendous 2 day high to low washout of $166 and in the process broke the back of some bulls. In our opinion, traders should not be too quick to call for an end to the bull market as the dollar is showing signs of fresh weakness and a fresh new low for the move this week and surging investment interest from Wall Street could begin to firm up last week's fundamental and technical reversal action for all the metals.

In fact, Goldman Sachs, Ray Dalio and Warren Buffet have turned very positive toward gold and have committed significant money to the sector. Goldman has reiterated several times that gold is a primary instrument in the face of currency debasement which appears to be underway. While the gold-related investment by Warren Buffett is dated (given that the news was learned in a 13F filing), the prolific investor reportedly bought $563 million worth of Barrick Gold. In another supportive large-investor headline, a large Chinese macro fund manager (who has definitively outperformed his peers this year) has indicated he is "avoiding equity investments" to focus on gold-related assets. The Chinese manager indicated that gold "might hit" $5,000 within a 5-year horizon.

Unfortunately for the bull camp, gold ETF holdings have now posted 6 straight days of liquidation, leading some to conclude that investors saw recent highs as a place to take profits and/or the heartbreak of the huge reversal has temporarily scared out some weak handed longs. However the net spec and fund long positioning in gold remains in the lower quarter of the last 18 months range and given the washout last week, one should think the market now has a stronger collection of longs remaining in position. The Commitments of Traders report for the week ending August 11th showed Gold Managed Money traders reduced their net long position by 23,344 contracts to a net long 150,129 contracts. Non-Commercial & Non-Reportable traders net sold 16,686 contracts and are now net long 306,400 contracts.

While the silver market also suffered a slide last week from $29.00 down to $24.48 Friday, the market rallied back to $27.88 in a fashion that certainly gave warning to the bear camp that pressing the market could prove to be painful. Last Friday, silver ETF's added 6.08 million ounces of silver to their holdings for the 3rd straight day of growth bringing their year to date net purchases up to 286.9 million ounces. To put the ETF purchases in perspective the "net additional purchases" this year are near one third of projected annual world silver fabrication demand. The most recent net spec and fund long position in silver is in the lower 25% of the last 2 years range and should not be an impediment for prices to continue higher. The August 11th Commitments of Traders report showed Silver Managed Money traders reduced their net long position by 8,590 contracts to a net long 22,949 contracts. Non-Commercial & Non-Reportable traders are net long 51,154 contracts after net selling 5,166 contracts.

The technical action in the palladium market at the end of last week leaves the market vulnerable to a retest of last week's lows (a quasi-double low) at $2,105. With slightly discouraging Chinese data at the end of last week and ongoing inconsequential inflows into palladium ETF holdings, we can't rule out a further retrenchment down to $2,079 in the event that a modest amount of risk off sentiment is thrown off from global equity markets to start the trading week. Fortunately for the bull camp, the net spec and fund long position in palladium is very small and a modest amount of selling should put the positioning into a "mostly liquidated" condition. The Commitments of Traders report for the week ending August 11th showed Palladium Managed Money traders added 45 contracts to their already long position and are now net long 3,418. Non-Commercial & Non-Reportable traders are net long 3,603 contracts after net selling 122 contracts.

While the platinum charts are also bearish like the palladium charts and the October contract lacks solid support until the $930.10 level it should be noted that platinum ETF holdings last week increased by 75,640 ounces and are now 5.7% higher year to date! On the other hand, the net spec and fund long positioning in platinum is at the highest levels since March and is relatively larger than in palladium. Platinum positioning in the Commitments of Traders for the week ending August 11th showed Managed Money traders added 2,150 contracts to their already long position and are now net long 15,411. Non-Commercial & Non-Reportable traders were net long 27,956 contracts after increasing their already long position by 2,431 contracts. Going forward, we suspect that both palladium and platinum will need significant recovery action in gold and silver to avoid a return to last week's lows.

COPPER:

While the copper market is showing some initial strength early this week, to make a splash in the market and threaten the bear camp probably requires a trade above a month-long downtrend channel resistance line at $2.9005. However, the copper market should be emboldened by notable strength in nickel and zinc prices in China which indicates the base metals saw the PBOC assistance as facilitating the already in-place Chinese economic recovery. On the other hand, the charts in the copper market do favor the bear camp to start this week with a series of lower highs and periodic lower lows continuing to post on a regular basis. It should also be noted that the net spec and fund long positioning in copper remains at some of the highest levels since June 2018, and the inability to hold above $2.80 could force a fresh and significant wave of longs from the market.

Copper positioning in the Commitments of Traders for the week ending August 11th showed Managed Money traders reduced their net long position by 6,326 contracts to a net long 47,407 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 8,187 contracts to a net long 36,781 contracts. While the copper market did not benefit greatly from a long held pattern of declining LME copper warehouse stocks (40 days), those stocks changes have become less supportive of the bull camp recently. Therefore the bull camp has to hope that the large decline Monday morning of 3,200 tonnes at LME copper warehouse stocks signals a resumption of a pattern of declines.

ENERGY COMPLEX:
With the crude oil market not getting a definitive benefit from stories regarding boosted Chinese purchases of US supply and that action likely to help US/Chinese trade relations, it would seem as if the market is not in a particularly strong posture to start the new trading week. On the other hand, trade expectations call for oil exports to China from the US next month to double as US crude currency adjusted prices are favorable for China to buy from the US and that could kill two birds with one stone (improved trade relations and getting the lowest price). Perhaps news that crude oil in floating storage remains 266% above year ago levels is a limiting force for prices near $42.00. However, it should be noted that floating storage has declined by 10% from August 10th. In a slightly supportive development overnight Russia increased its September oil export duty in a fashion that should restrain some exports from the country.

At least to start the week the charts in the crude oil market favor the bear camp following last week's series of lower highs, and the inability to forge a distinct positive reaction following another decline in US weekly crude oil stocks last week and failing to rally off news of expanding US exports to China. However, the market might be undermined as a result of proof that OPEC oil output increased last month after nearing a 30 year low recently. With Saudi output increasing by 46,000 barrels per day, the market is sensing a peeling back of the restraint. Fortunately for the bull camp, the EIA offset the Saudi notch upward in production with a US July production estimate showing a contraction of 1.2 million barrels for the lowest output reading since October 2017. In conclusion, US production continues to fall as low prices, bankruptcy, and financial trouble keeps the pressure on US producers. In a similar impact, the Baker Hughes weekly oil rig count declined by 4 last week to reach a new 15 year low with the biggest loss documented in the Permian which lost 5 rigs while other areas gained two and Woodford was down 1 to zero operating! Offsetting the supportive US oil drilling activity is a jump in Canadian oil rig activity of 6 which in turn reached a 21-week high.

Last week, US refinery demand increased with a 1.4% jump in refinery utilization (a 19-week high) a rise in implied distillate demand and a rise in implied gasoline demand which reached the highest level in 21 weeks. There are also reports that US airport security screenings continue to rise and some expect an increase in back to school demand, albeit restrained by widespread remote learning. The speculative positioning in crude oil has waffled sideways since April 21st with the net spec long generally in the upper 70% of the past 2 years trading range and therefore the market is technically vulnerable to stop loss selling. Crude Oil positioning in the Commitments of Traders for the week ending August 11th showed Managed Money traders were net long 341,038 contracts after decreasing their long position by 12,692 contracts. Non-Commercial & Non-Reportable traders are net long 572,700 contracts after net selling 8,044 contracts.

As opposed to the crude oil market, the gasoline market starts this week with very positive charts from a general pattern of higher highs and higher lows last week and because of a significant pulse up breakout move this morning. While some of the 6.2% jump in July US gasoline sales from June (from the inflation report) are the result of slightly higher average prices over the month, the takeaway from the retail sales report is stronger US gasoline demand last month. As we indicated in the crude oil coverage, implied gasoline demand expanded and posted a 21-week high and we suspect that subsequent implied demand readings over the coming weeks will increase as those that physically return to classes will largely use individual transportation. Obviously, the bump in back to school demand will probably level out in the first or 2nd week of September as some openings were delayed several weeks but in the near term, demand is likely to be supportive as long as a general risk on environment remains in place. The net spec and fund long in gasoline remains very low and would seem to suggest the market has plenty of speculative buying fuel. The August 11th Commitments of Traders report showed Gas (RBOB) Managed Money traders net bought 4,935 contracts and are now net long 42,665 contracts. Non-Commercial & Non-Reportable traders added 3,337 contracts to their already long position and are now net long 63,901.

The charts in the diesel market are negative from last week despite the fact that US jet fuel demand is thought to be increasing and despite the fact that both distillate and diesel stocks in the US declined rather significantly last week. In fact, implied distillate demand last week pulled above year ago levels for the first time since early March. Unfortunately for the bull camp, Indian diesel demand fell sharply last month and the trade expects some of that unused supply is headed toward the US. Another limiting development is that large portion of schools are starting remotely and that will keep diesel fuel demand low from bus use. While the net spec and fund long has built from a net short in February and the spec long is nearing the upper portion of the range in place since November 2018, the market might not be vulnerable to aggressive stop loss selling but it could be a little short on speculative buying capacity. The August 11th Commitments of Traders report showed Heating Oil Managed Money traders reduced their net short position by 1,783 contracts to a net short 462 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 3,348 contracts to a net long 23,289 contracts.

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The natural gas market continues to surprise the trade with the massive range up rally putting the market up to the highest level since early May and in turn sparking conversations that the market has made a major low. With another major delay in an Australian gas plant operation prompting buyers in the area to turn to other sources, a hotter than expected heat wave in the US pushing up demand and evidence that the tropical storm season is in full force have a nearly perfect bull storm has been built. There have also been some hiccups in Norwegian production and the trade has seen increased demand from Japan, China and India with California needing to supplement energy needs due to the inability to rely on wind power. However, the most recent EIA natural gas storage report showed the highest injection reading since June 26th and for some that suggests the cooling season in North America is likely to end without resulting in a serious drawdown of historically burdensome inventories. While the US weather forecast out to August 29th showed a dissipating of extremely hot temperatures in the eastern half of the US, significant heat has built in from the southwest into the northern Plains for a slightly supportive overall US weather condition.

As of this writing, Tropical Depression Josephine is showing a track away from US production/transportation areas, but there are also 4 separate disturbances lined up off the coast of South America and East toward Africa. Unfortunately for the bull camp, the natural gas market is becoming more overbought with the speculative long (adjusted for the rally after the last report) likely reaching the highest level since January 2019! The August 11th Commitments of Traders report showed Natural Gas Managed Money traders net bought 24,622 contracts and are now net long 122,740 contracts. Non-Commercial & Non-Reportable traders are net long 36,071 contracts after net buying 23,219 contracts. Last week's Baker Hughes rig count showed an increase of one to a 70-rig operating count with Canadian gas rigs operating also up by 1 to a 20-week high. While the path of least resistance is pointing up, the difficulty is ascertaining the true long-term fundamental price for natural gas, as prices were severely deflated for a long period of time and they held below cost of production in many areas. Going forward, traders should expect expanded two-sided volatility with prices returning to the $2.50 level over the near term which has been a major resistance point on two separate occasions since last November.

BEANS:

With November soybeans breaking out to the upside and reaching their highest prices since July 9, any bearishness from the recent report is apparently forgotten. While China is asking for documentation that shipments of soybeans are Covid-19 free, that at least shows interest on their part for imports. Even the President added to the bullish vibe with suggestions that the US/Chinese trade deal remains intact, even though the trade discussions scheduled for this past Saturday were delayed. With the trade buzzing with reports that China is booking significant US crude oil commitments for next month and the spin from the virus documentation import requirement, US export news is supportive of prices. Also supporting soybeans are reports of rising soybean oil prices in and reduced palm oil production expected now in Malaysia. It is also likely that dry weather continuing for the next 10 days is providing bulls with confidence.

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Only light rains at the most are expected for the heart of the Corn Belt for the next five days, and the 6-10 and 8-14 day forecasts show below normal precipitation. On top of that, the damage to Iowa's crop from last week's storm appears to be considerable. The USDA says that 5.64 million acres of soybeans were affected by the storm, 60% of the total planted area of 9.4 million acres in that state. Monday afternoon's crop progress report may provide an additional assessment of the damage. China bought 126,000 tonnes of US soybeans on Friday. They have been noted buyers on the daily export wire for eight sessions in a row. There has been talk of a La Nina weather event this fall that could hurt South American plantings. Traders are having a difficult time believing that the USDA's forecast for record high yield will be realized with the outlook for mostly dry weather over the next two weeks.

Friday's Commitments of Traders report showed managed money traders were net sellers of 17,355 contracts of soybeans for the week ending August 11, reducing their net long to 26,864. They were also net sellers of 8,306 contracts of soymeal, increasing their short to 29,291. However, the sharp rallies in both markets since that data was collected suggest the selling trends have reversed. These traders were also net buyers of 3,810 contracts of soyoil, increasing their net long to 52,143, their biggest net long since February.

CORN:

December corn has broken out to the upside with a possible near-term target seen at a gap from early July up to $3.43 3/4. With President Trump indicating China made the largest-ever purchase of US corn and the market still attempting to digest the Midwest storm damage from last week, the bull camp has several reasons to extend the initial upside probe. In addition to the wind damage in Iowa, the markets are suggesting that more rain is needed, which is probably why the specs poured into futures and options in the face of ongoing expectations of a record crop. As in soybeans, traders are coming to suspect that the US corn crop may not be as strong as was indicated in last week's monthly USDA supply/demand report.

As more details from last week's "derecho" storm in the Midwest come in, the damage appears to be considerable. Pictures of flattened fields from hurricane-force winds highlight the extent of the damage. The USDA says that 8.18 million acres of corn were affected, 61% of the total planted area of 13.5 million acres in that state. Traders will be looking to Monday afternoon's crop progress report for any additional insight. Only light rains at most are expected for the heart of the Corn Belt for the next five days, and the 6-10 and 8-14 day forecasts show below normal precipitation.

There is also talk that planted acreage might be down from initial USDA forecasts, and there are also concerns about the dry conditions in South America and a potential "La Nina" this fall. Reports of strong feed demand in China due to the rapid recovery of their pig herds are also supportive for export demand. Another bullish demand development is the expansion of chicken production there. The weaker dollar helps too because it make US corn that much more competitive of the export market. Friday's Commitments of Traders report showed managed money traders were net buyers of 459 contracts of corn for the week ending August 11, reducing their net short to 172,361 contracts. The large net short position leaves plenty of fuel for fund short covering.

WHEAT:

While massive world ending stocks remain a headwind, the wheat markets are in a good position to extend their recovery moves this week. December Chicago wheat ended last week with a gain of 6 cents, breaking a 2-week losing streak and forming a positive weekly reversal from last Wednesday's 6-week low. December Kansas City gained 8 1/2 cents on the week, breaking a 4-week losing streak. The wheat markets have found support from dryness issues in Argentina, but that was offset by talk of big yield potential for Canada and Australia. A sharp drop in French production has been a source of support. German 2020/21 wheat production is on track to fall more than 6% from last season, but this is an improvement from previous readings, and Polish production is on track for a 5% increase from last year. Ukraine's Economy Minister said that their wheat harvest was 96% complete as of Friday. SovEcon forecast Russian wheat exports this month at 4.400 million tonnes versus 4.867 million last year. IKAR overnight raised its estimate for Russian 2020 wheat production to 82 million tonnes from 81 million previously. The USDA's recently raised its estimate to 78.00 million from 76.50 million previously.

Ukraine's government and the country's largest grain traders agreed on a wheat-export target of 17.5 million tonnes for this marketing year. Actual exports can exceed those levels if the government sees no threat to food security. The USDA recently raised its Ukrainian export forecast to 18.00 million tonnes from 17.50 million previously. Turkey's State Grain Board issued a tender to purchase 390,000 tonnes of milling wheat and 110,000 tonnes of durum. Algeria has tendered for 50,000 tonnes of milling wheat. Friday's Commitments of Traders report showed managed money traders were net sellers of 16,710 contracts of Chicago wheat for the week ending August 11, which took them from a net long position to a net short of 15,532. These traders spent only a few weeks net long, and this seemed to cured them of an oversold condition. In KC Wheat, managed money traders were sellers of 8,781 contracts, increasing their net short to 34,592. This is not too far above the 2020 record net short of 37,292 and indicates a deeply oversold condition. The all-time record net short is 58,494 from May 2019.

HOGS:

Pork prices continue to strengthen in a strong seasonal demand period, and this is supporting the hog market. October hogs closed 72 higher on Friday, and this left the market with a gain of 200 points for last week. The pork rally is especially impressive given the large increase in production from year-ago levels. The USDA pork cutout released after the close Friday came in at $74.42, up $1.17 from Thursday and up from $71.42 the previous week. This was the highest the cutout had been since June 1. China's pig herd grew 13.1% from year-ago levels in July, the first year-on-year growth since April 2018. The sow herd increased by 20.3%. This suggests that in six months, slaughter-ready hogs will be above year ago levels. This also suggests that China's import demand will slow but not fall off all of a sudden. China's national average spot pig price as of August 17 was up 0.41% from the previous day. Prices are down 2.65% for the month but up 7.95% year to date and 55% from a year ago.

The USDA estimated hog slaughter came in at 472,000 head Friday and 219,000 head for Saturday. This brought the total for last week to 2.565 million head, up from 2.534 million the previous week and up from 2.491 million a year ago. October continues to hold a much smaller than normal discount to the cash market. The CME lean index as of Aug 12 was 53.48, down from 53.82 the previous session but up from 52.78 a week before.
Friday's Commitments of Traders report showed managed money traders were net buyers of 4,715 contracts of lean hogs for the week ending August 11, increasing their net long to 18,286. This is still short of their 2020 peak net long of 24,000 from early March and their 2019 peak of 62,000.

CATTLE:
The cattle market closed lower on Friday but it remains in an uptrend. The market is seeing strong seasonal demand with the approach of Labor Day, and cash cattle and boxed beef prices continue to advance. October cattle closed slightly higher on Friday and managed to gain 377 points for the week, +3.5%. The USDA boxed beef cutout was up $3.09 at mid-session Friday and closed $3.29 higher at $214.24. This was up from $205.47 the previous week and was the highest the cutout had been since June 17. Cash live cattle traded in light volume on Friday about steady with Thursday's prices, which was up $2-$4 from last week. As of Friday afternoon, the 5-day, 5-area weighted average price was $104.44, up from $100.20 the previous week.

The USDA estimated cattle slaughter came in at 112,000 head Friday and 63,000 head for Saturday. This brought the total for last week to 640,000 head, up from 633,000 the previous week but down from 653,000 a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 7,433 contracts of live cattle for the week ending August 11, increasing their net long to 45,612. This is their largest net long since early February but well below the 2020 peak at 90,000 and the 2019 peak at 155,000, so the market could not be described as overbought from a COT perspective.

COCOA:
Cocoa's abrupt change in fortune last Friday may be symptomatic of its overbought status, but it also reflects the impact of sluggish global risk sentiment on its near-term prospects. While bullish supply developments provide some support, the market may see early downside action this week until stronger risk appetites emerge. December cocoa had a wild finish last week, first rallying to its highest level since August 10 and then dropping 80 points to finish with an outside-day lower. It finished the week with a loss of 69 points (-2.7%), breaking a 3-week winning streak and forming a negative weekly reversal from Monday's 5-month high. This is a negative technical development that could indicate a near term change in trend after rallying $320 off of the contract lows from July 8.

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There has been a flare-up of political unrest in Ivory Coast in front of their October Presidential election, and that has fueled some near-term supply anxiety. However, a negative shift in global risk sentiment has highlighted concerns about weaker global chocolate consumption over the next few months. There is rain in the forecast this coming weekend for many West African growing areas, but that follows below-normal precipitation over the past few weeks. This coming weekend's rains may not be enough for Ivory Coast and Ghana to meet their early forecasts for increased cocoa production. Friday's Commitments of Traders report showed managed money traders were net buyers of 11,766 contracts of cocoa for the week ending August 11, bringing their net long to 17,876. This is far from their net long of 79,000 contracts from February.

COFFEE:

December coffee pushed through last Friday's lows, yet it comes into the week well above last Tuesday's 3-week low. It finished last week with a loss of 1.45 cents (down 1.2%) which was a second negative weekly result in a row. On Friday, the market rallied to its highest level since August 6 after tight near-term supply in Europe was viewed as a sign of improving demand. ICE exchange coffee stocks (of which more 93% are held in the European ports of Antwerp, Hamburg and Bremen) fell 1,863 bags on Friday and reached their lowest level since April 2017. However, the Brazilian currency lost more than 1% in value on Friday, which helped to send coffee back lower by the close. Weakness in their currency encourages Brazilian farmers to market their supplies to foreign customers.

Brazil's major Arabica growing regions have seen an extensive period of dry weather, and the only rainfall in the forecast for the next 1 1/2 weeks is on Friday and Saturday. While these conditions can help the harvest, they also have a negative impact on coffee trees for this season's and next season's crops. Friday's Commitments of Traders report showed managed money traders were net buyers of 7,359 contracts of coffee for the week ending August 11, bringing their net long to 23,777. This is their largest net long since January.

COTTON:

The cotton market has been drawing support from the hot and dry conditions in west Texas, but we question whether some additional damage to the crop there will offset the bearish developments from last week's USDA reports. US 2020/21 ending stocks are now projected at 7.6 million bales, which is the highest they have been since the 2007/08 marketing year. The stocks/use ratio has reached 42.9%, up from 40.9% in 2019/20 and the highest it has been since 2008/09. World ending stocks at 104.91 million bales is the highest they have been since 2014/15 and the second highest on record. December cotton closed lower on Friday but spent the day inside Thursday's range. Apparently there were some concerns ahead of the US/China trade talks that China might back off the Phase 1 agreements. The talks had been scheduled for Saturday but ended up being postponed due to "scheduling conflicts" or possibly to allow China more time to meet it pledge. The peak hurricane season is the next 6-8 weeks, and developing storms will be watched closely for risk of crop damage.

The weather forecast for Texas shows some moisture over the next 5 days, with the entire state expected to see some rains and the panhandle and Oklahoma expected to get 0.25-1.25 inches. West Texas is expected to get 0.10-0.25 inches. The 6-10 and 8-14 day forecasts show a return to abnormally hot and dry conditions. Traders will be looking to the Crop Progress report Monday afternoon for evidence of further deterioration this past week. Friday's Commitments of Traders report showed managed money traders were net buyers of 8,503 contracts of cotton for the week ending August 11, increasing their net long to 39,838. They have reached their largest net long since December 2018, but they are still less than half of their record net long 108,000 contracts.

SUGAR:

October sugar broke out above its August consolidation zone last week on bullish supply news. However, the market remains on track for a large production surplus for 2020/21 and may be starting to get top heavy. After reaching a five-month high early on Friday, October sugar finished the day with a minimal loss and a negative daily reversal. It finished the week with a gain of 43 ticks that was a third positive weekly result in a row. A 1% decline in the Brazilian currency and weaker crude oil prices Friday put carryover pressure on sugar that fueled some end-of-week long liquidation. Thailand has seen some rainfall in recent weeks, but they still look to be on track for a second season in a row with production near 10-year lows. That country is the world's second largest sugar exporter, so their production issues have an outsized impact on the global market.

2020/21 EU sugar production looks to have a notable decline from the previous season, while Russia may be heading for a sharp drop as well. Czarnikow pegged Russia's 2020/21 output at 5.5 million tonnes, a 5-season low and 25% lower than 2019/20. India's monsoon rainfall has improved in recent weeks with the full-season total rising to 4% above the long-term average. This falls under the "normal" category and should benefit their 2020/21 and 2021/22 cane crops. In Brazil, there is only one day in the next 1 1/2 weeks in which the Center-South cane growing areas are expected to see rainfall. That will negatively impact late harvested cane, but it will also minimize near term harvesting and crushing delays. Friday's Commitments of Traders report showed managed money traders were net buyers of 28,618 contracts of sugar for the week ending August 11, increasing their net long to 145,879. This is their largest net long since February, when it peaked at 189,000. That was the largest since net long since November 2016.

ADM Investor Services, Inc.

WEEKLY MARKET SUMMARY

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