



ADM Investor
Services, Inc.

WEEKLY MARKET SUMMARY

21 December, 2020

For the Week of December 21, 2020

BONDS:

The Treasury markets were unable to hold onto early strength and closed last Friday's trading session with moderate losses. The prospect of US fiscal stimulus measures weighed on Treasuries even as a new package was yet to be approved late this week. With no major US data points to digest, the increasing prospect of a US government shutdown also was a source of pressure on Bonds and Notes going into the weekend. Not surprisingly, the bond market has bounced off last week's consolidation low zone off the sudden revival of global slowing fears from the mutation of the coronavirus. However, gains in bonds and notes are being limited by news that Congress reached a relief deal of \$900 billion.

On the other hand, official votes have not taken place yet and the agreements will have to be signed by the President when and if they are passed. Adding into the upward track in Treasury prices is word of an open market injection by China, spillover strength from rising JGB futures and the largest German Bund Yield decline in December. With reports that the Brexit negotiations have reached an impasse, combined with very significant equity market declines, that should have resulted in a larger initial rally.

Going forward, US economic data might be of little importance, with the markets instead focusing on overall psychology dominated by the action in equities. However, the treasury bond market reduced its net spec and fund short last week and that could leave the market vulnerable to fresh hedge selling in-the-event that March bonds return to the top of the December consolidation. Bonds positioning in the Commitments of Traders for the week ending December 15th showed Non-Commercial & Non-Reportable traders were net short 189,584 contracts after decreasing their short position by 32,939 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders net bought 41,604 contracts which moved them from a net short to a net long position of 33,671 contracts.

CURRENCIES:

The Dollar was able to put some brakes on late week's downdraft as it rebounded from a new multi-year low to finish Friday's trading session with a moderate gain. Ongoing uncertainty with Brexit negotiations and passing a new US fiscal stimulus package provided the Dollar with safe-haven support. With no major US data to digest, the Dollar also benefited from end-of-week short-covering. A lower than expected reading for Canadian retail sales led to end-of-week profit taking in the Canadian Dollar, while the British Pound and Eurocurrency were both pressure by negative Brexit vibes.

While the dollar has not shown definitive safe haven inflows since late September, the index is fully in vogue at the start of this week and broke out above a 7-week downtrend channel. While it is difficult to determine just how anxious the marketplace will become, one caveat against



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expecting an unrelenting panic attack is the potential for holiday optimism to support sentiment later this week. In the near term, the Dollar is likely to claw its way toward consolidation resistance. Dollar positioning in the Commitments of Traders for the week ending December 15th showed Non-Commercial & Non-Reportable traders selling 7,664 contracts.

With the euro obviously significantly overbought from a technical perspective into last week's highs, the shift down in global psychology should not be underestimated as a bearish force in the Euro trade. In fact, with the new strain potentially striking its initial blow in Europe (some European countries have already halted incoming flights from the UK) and given reports that Brexit talks have encountered difficulty, we would not rule out a slide below consolidation low pricing down. Euro positioning in the Commitments of Traders for the week ending December 15th showed Non-Commercial & Non-Reportable traders net sold 15,226 contracts and are now net long 201,329 contracts.

With the Yen coming under aggressive liquidation pressure in the face of a global risk-off environment and the charts clearly damaged, a slide directly down to 96.14 is likely. In fact, the Yen was also moderately overdone technically and it would appear that the Dollar will be the only flight to quality benefactor early this week. We would suggest that the Swiss was the most overbought non-Dollar currency into last week's highs and therefore traders should not discount the potential for a series of large declines. Initial targeting on the charts is seen at 1.12.

With the UK labeled as the "sick man of Europe" by the Press and talk that Brexit talks have hit an obstacle the Pound might be unable to hold above 1.32 early this week. In fact, we think another total UK lockdown would be capable of throwing the UK back into recession and the last thing the UK needs now is a messy no deal Brexit. Near term downside targeting is seen at 1.3146. The Canadian was also under wholesale attack with the ultra-strong US Dollar adding an extra measure of spillover selling in the Canadian Dollar. Given the negative global bias, news of a possible Canadian/UK trade deal is lost in the shuffle.

STOCKS:

Global equity markets started out with a mildly positive tone, but then took a negative shift late in last Friday's trading session. Progress with rolling out COVID vaccines provided early support. Following better than expected results for UK retail sales and the German IFO survey, the latest reading on Canadian retail sales came in below estimates. A lack of progress on Brexit negotiations and a cyber-attack on US government websites also weighed on market sentiment going into the weekend. Global equity markets at the start of this week were lower with declines reaching nearly 3% in Spain.

The People's Bank of China left interest rates unchanged at 3.85%, they also injected 100 billion yuan in open market operations which is the first time such a tool was used since the end of September. Obviously, the major driving force for equity prices is the discovery of a mutation of the coronavirus in the UK with some unconfirmed reports that the new mutation has shown up



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outside of the UK border. However, it is not clear yet if the current vaccines will be effective, but some medical experts have suggested it "should" work against the new permutation. Furthermore, the press is reporting an agreement on a stimulus package, but so far official votes have not been taken. The addition of Tesla shares to the S&P could have been a major windfall for the bull camp if virus developments from the UK had not surfaced.

We would also note the potential for a preholiday rally later this week off past-history (on the day before closures) but historical action is not indicative of future results and might not be effective in the face of a big picture macroeconomic let down. Fortunately for the bull camp, the S&P was net spec and fund short early last week and that should reduce the amount of stop loss selling from this week's anxious environment. The December 15th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders were net short 100,507 contracts after increasing their already short position by 11,529 contracts. In the early going today the 3600 level is a critical pivot point with the inability to hold above 3596 likely setting the stage for a further decline down to 3583.75.

With the new trading week producing a series of very negative fundamental influences (Brexit negotiation setback, a new virus strain and word that an Amazon facility was forced to close until after Christmas due to infections) the sharp washout early this week is fully justified. Like other market measures, the Dow appears to have found some measure of support on the charts. Fortunately for the bull camp, the Dow futures were also net short a moderate amount and therefore the market could become oversold quickly. The Commitments of Traders report for the week ending December 15th showed Dow Jones \$5 Non-Commercial & Non-Reportable traders net sold 2,039 contracts and are now net short 12,671 contracts.

While the migration of Tesla into the S&P is a psychological negative for the NASDAQ, we suspect the index will find some cushion from a migration of capital back to stay-at-home stocks. However, the most recent spec and fund positioning report showed the NASDAQ as the only actively traded index to be holding a net long positioning and that could facilitate some early stop loss selling. The Commitments of Traders report for the week ending December 15th showed Nasdaq Mini Non-Commercial & Non-Reportable traders were net long 23,870 contracts after increasing their already long position by 4,763 contracts.

GOLD, SILVER & PLATINUM:

While it would appear as if the US is closing in on a fiscal stimulus agreement, news that Brexit talks have hit a roadblock and that the UK is experiencing a mutation of the virus (which appears to be more contagious) has slammed gold, silver, and most physical markets to start the new trading week. However, there is hope that the new vaccines will work against the new strain. Unfortunately for the bull camp, gold and silver prices were short-term overbought from last week's rallies, thereby leaving the markets susceptible to greater long liquidation selling. In fact, gold and silver prices were initially higher off the perceived progress on the US stimulus package with gold prices in Hong Kong closing higher. As if the bull camp needed additional worries the



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US dollar has literally exploded on the upside, thereby reversing a supportive influence from last week into a distinctly undermining impact.

Even bitcoin was under pressure with a 2.8% decline highlighting a marketplace more concerned about deflationary slowing than seeking safety. While both gold and silver ETF's added to their holdings last Friday, on the week gold holdings at ETF's declined by 138,957 ounces. On the other hand, silver holdings increased by 4.6 million ounces on the week with the addition Friday of 6.4 million ounces, the biggest one-day increase in 35 days. Going forward, reports out of the UK of the mutation of Covid-19 is likely to sink commodities further with a-number-of European countries already halting flights from the UK, and the entire country might be poised to return to lockdown. Fortunately for the bull camp, the latest positioning report the net spec and fund long in gold was close to the lows of the last 18-months.

The Commitments of Traders report for the week ending December 15th showed Gold Managed Money traders were net long 127,828 contracts after increasing their already long position by 1,091 contracts. Non-Commercial & Non-Reportable traders are net long 290,368 contracts after net buying 3,678 contracts. Unfortunately for the bull camp in silver, the net spec and fund long adjusted into the high last Friday probably put the positioning at the biggest long since January and that leaves the market very vulnerable to the broad based macroeconomic selling wave. The Commitments of Traders report for the week ending December 15th showed Silver Managed Money traders are net long 44,187 contracts after net buying 520 contracts. Non-Commercial & Non-Reportable traders were net long 71,121 contracts after increasing their already long position by 2,118 contracts.

While the chart action last Friday suggested a back and fill dip was in order this week that bias has exploded into a major range down washout which in turn should discourage bargain hunting buying in the near term. Obviously, platinum has confronted a noted deterioration of global sentiment because of the potential new strain of the virus, and therefore the trade is suffering from both fundamental and technical influences. In fact, adjusted into last week's highs, the platinum spec positioning might have been the largest since March 10th. The December 15th Commitments of Traders report showed Platinum Managed Money traders added 1,259 contracts to their already long position and are now net long 17,914. Non-Commercial & Non-Reportable traders are net long 34,605 contracts after net buying 992 contracts.

With the palladium market gaining the upper hand at the end of last week, the market might have been vulnerable to aggressive selling in the wake of the macroeconomic downshift, but instead the market is holding up impressively. It is possible that the market is benefiting from liquidation from the long platinum/short palladium spread trade. In our opinion, the trade is likely to see further spread-unwinding-buying of palladium thereby increasing the potential of respecting support or \$2,300. The December 15th Commitments of Traders report showed Palladium Managed Money traders net sold 30 contracts and are now net long 3,176 contracts.



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Non-Commercial & Non-Reportable traders are net long 3,204 contracts after net selling 0 contracts.

COPPER:

While Chinese equity markets managed gains early this week and iron ore prices continued to surge above \$170 a tonne, positive Chinese demand hopes are temporarily shunted to the sidelines by the latest twist in the virus saga. However, copper prices should be somewhat supported by news that the People's Bank of China injected money in open market operations. On the other hand, given that the net spec and fund long positioning has forged a lengthening string of new all-time high readings and there appears to be a broad reversal in global sentiment leaving both technical and fundamental forces pointing to a sharp setback in copper prices. In fact, throughout modern/recent history the record spec and fund long in copper was sturdy around 67,894 contracts.

Adjusted for the gains after last week's report (+\$0.10), we suspect copper was net long roughly 84,000 contracts and that positioning could now produce excessive declines early this week. The Commitments of Traders report for the week ending December 15th showed Copper Managed Money traders reduced their net long position by 3,265 contracts to a net long 87,169 contracts. Non-Commercial & Non-Reportable traders are net long 79,775 contracts after net selling 6,937 contracts. While the market has not been overly concerned about Non-Chinese demand prospects, the ominous report from the UK that the virus might have mutated could be a major game changer in copper. On the other hand, global exchange stocks of copper continue to fall precipitously suggesting that restricted global demand is seemingly still capable of tightening supply.

ENERGY COMPLEX:

While the net spec and fund long in crude oil in the most recent report remained well below the 2020 high of 616,630 contracts, gains after the report should have added another layer of spec-longs. With demand destruction fears back in a front and center standing at the start of this week, it is clear that the energy markets are in for a combination of technical and fundamental liquidation. In fact, February crude oil on the month had forged a low to high rally of \$5.30 and on many occasions the market seemed to charge higher despite confirmation of slack EIA demand readings, unrelenting record US daily infections and in the face of disappointing US scheduled data. While it is unclear if the new virus strain will provide a wave of fresh global lockdowns or if the new vaccines will work against the strain, the bias in the near term is down.

The December 15th Commitments of Traders report showed Crude Oil Managed Money traders added 1,257 contracts to their already long position and are now net long 330,578. Non-Commercial & Non-Reportable traders were net long 579,174 contracts after decreasing their long position by 2,721 contracts. Cushioning the market against wholesale liquidation is news that crude oil in floating storage last week declined 16%, China allocated import quotas for Non-State entities and the Indian Oil Company was bidding for Middle East supply. In retrospect, the



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bull camp appears to have aggressively factored-in an eventual containment of the virus and short-term wrinkles in that expectation are likely, especially if the reports of a mutation in the UK are confirmed.

However, it is possible a downward adjustment in demand expectations will be partially offset by threats against supply in the Middle East as rockets were fired at the US Embassy in Baghdad over the weekend which means the region has seen 3 separate attacks in as many weeks. Unfortunately for the bull camp, the US Baker Hughes oil rig count increased by 5 last week and has reached the highest levels since May 8th. Offsetting the jump in US rig activity is a decline of 11 rigs in Canada. Going forward, the primary trend deciding force is likely to be action in global equities, with that action setting risk appetites in all markets.

The gasoline market has been on fire recently and in turn has outperformed crude oil and diesel prices and that could now leave RBOB more vulnerable to long liquidation than other markets. In fact, the gasoline market has forged stellar gains despite stable inventories and frequent evidence of anemic US implied demand readings. However, floating oil-product inventories are expected to drop by the largest amount since July this month and the February gasoline contract has now returned the vicinity of consolidation low support around \$1.30. The December 15th Commitments of Traders report showed Gas (RBOB) Managed Money traders were net long 56,258 contracts after increasing their already long position by 3,367 contracts. Non-Commercial & Non-Reportable traders are net long 75,480 contracts after net buying 2,915 contracts.

We were recently skeptical of the capacity to continue to rally prices, and now the bull camp has been caught in a 180-degree shift in market sentiment and the February contract technically failed at uptrend channel support from the November and December lows early this week! While the ULSD generally has the least bullish of all fundamental set ups in the energy complex, reports of a very large decline in floating storage of diesel stocks could cushion the market from a massive wholesale liquidation. Heating Oil positioning in the Commitments of Traders for the week ending December 15th showed Managed Money traders were net long 11,063 contracts after increasing their already long position by 299 contracts. Non-Commercial & Non-Reportable traders were net long 34,432 contracts after decreasing their long position by 2,970 contracts.

In retrospect, the natural gas market did not garner significant buying fuel during the early December rally from positive macroeconomic conditions. Therefore, the risk off event this morning has not knocked gas prices lower. While the US temperature forecast shifted slightly toward supportive, with below-normal temperatures projected for the Western third of the US into the end of the year, the North of Europe is warmer. The most recent Baker Hughes gas rig operating count increase by 2 and reached the highest since the beginning of May. Furthermore, Canadian gas rigs operating increased by 2 to stand at 61. Natural Gas positioning in the Commitments of Traders for the week ending December 15th showed Managed Money traders were net long 48,311 contracts after increasing their already long position by 15,901 contracts.



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Non-Commercial & Non-Reportable traders net bought 16,177 contracts and are now net long 53,899 contracts.

BEANS:

Fears that a new strain of the virus in Europe could cause the global economy to contract, plus the collapse in energy prices and strength in the dollar helped to spark the selloff from the highs. With some dryness in Argentina and the potential for tightening Argentina oil and meal supply, the uptrend looks to continue. January soybeans closed sharply higher on the session Friday and the buying drove the market to new 6 1/2 year highs. Argentina oilseed workers and grain inspectors continue a more than one week old strike which is tightening the soybean meal supply and slowing exports and there is still no sign that a wage deal is close at hand.

Outside market forces were negative but tightening stocks more than offset the weakness in the stock market and strength in the US dollar. Persistent dryness in parts of South America has supported buying. Demand for US exports is strong, as labor strikes and dry weather in Argentina have raised new concerns about availability from South America. US soybean ending stocks for 2020/21 are currently forecast at 175 million bushels, which would be the lowest they have been since 2013/14. The stocks/usage ratio is estimated at 3.86%, the second lowest on record. With the US soybean export sales pace so strong, a further tightening is possible.

If we list the highs for the July/December meal spread against the stocks/usage ratio from highest (22.9% in 2018) to lowest (2.65% in 2013), we see that in tight years July Meal tends to trade at a significant premium to the December contract. Prior to 2020/21, there have been six years since 1970 in which the stocks/usage was 4.65% or less. In five of those years, the July/December meal spread traded to at least \$105.20. The Commitments of Traders report for the week ending December 15th showed soybeans managed money traders are net long 190,218 contracts after net buying 4,563 contracts for the week. Non-Commercial & Non-Reportable traders were net long 235,574 contracts after increasing their already long position by 10,343 contracts.

For soyoil, managed money traders net bought 8,656 contracts and are now net long 97,719 contracts. CIT traders reduced their net long position by 4,565 contracts to a net long 125,059 contracts. Non-Commercial & Non-Reportable traders were net long 141,174 contracts after increasing their already long position by 10,156 contracts. For meal, managed money traders added 14,565 contracts to their already long position in just one week and are now net long 77,207. Non-Commercial & Non-Reportable traders are net long 121,842 contracts after net buying 13,357 contracts.

CORN:

While Brazil looks to receive plenty of rain this week, Argentina looks dry in the market is in a position where stocks will tighten significantly if there are any issues down in South America. March corn closed sharply higher on the session Friday and the market experienced a contract



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high close. A continued strong demand tone plus talk of dryness issues for Argentina helped to provide support. Outside market forces were mostly negative, but the continued advance in energy prices helped corn. March corn closed 14 cents higher for the week or up 3.3%. Traders are nervous with current crop conditions in Argentina, and the demand for US corn has remained very strong. Ethanol margins are weak, but the rally in gasoline prices helped to support the market last week.

The strong sales pace would suggest the USDA will be in position to raise exports and lower ending stocks in the next USDA update. China is selling corn out of reserves which suggests that supply is tight. The weekly export sales report showed sales of 1,934,521. Cumulative sales have reached 70.4% of the USDA forecast for the 2020/2021 marketing year versus a 5 year average of 46.2%. Sales need to average 463,000 tonnes per week to reach the USDA forecast. The December 15th Commitments of Traders report showed managed money traders were net long 250,260 contracts after decreasing their long position by 19,323 contracts for the week and the selling trend is a short-term negative force. Non-Commercial & Non-Reportable traders reduced their net long position by 10,763 contracts to a net long 376,140 contracts.

WHEAT:

Wheat has been following the other grains so it will take a turn back up in the grain markets or KC wheat looks especially vulnerable to some long liquidation selling brought on by too many uncertainties over a new virus strain. Managed money traders are net long 52,613 contracts from Friday's COT. The market has consolidated in recent days but with the sharp decline in the US dollar and strength in the other grains, the market found plenty of support. Ukraine grain exports so far this season (since July) have reached 23.87 million tons which is down 15.9% from last year. Exports are expected to decline to near 44.8 million tonnes for the 2020/21 season. March wheat opened higher on Friday and traded near 6 cents higher on the session before closing lower on the day. For the week, March wheat closed 6 1/4 cents lower. March Kansas City wheat also close lower after bouncing to a 4-day peak and the market closed 12 cents lower on the week. Some concerns for spring crops in Russia and the US have been offset by excess short-term supply.

Wheat positioning in the Commitments of Traders for the week ending December 15th showed Managed Money traders went from a net short to a net long position of 6,672 contracts after net buying 12,364 contracts. The buying trend is a short-term positive force. Non-Commercial & Non-Reportable traders net bought 9,888 contracts which moved them from a net short to a net long position of 5,866 contracts. For KC Wheat, managed money traders are net long 52,613 contracts after net buying 7,839 contracts for the week. CIT traders are net long 69,928 contracts after net buying 1,324 contracts. Non-Commercial & Non-Reportable traders were net long 55,311 contracts after increasing their already long position by 7,789 contracts.



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HOGS:

While traders seem to be hopeful of some consumer hoarding ahead, the big supply and the continued collapse in pork values leaves the market vulnerable to increased selling ahead. The USDA pork cutout released after the close Friday came in at \$70.41, down \$1.62 from \$72.03 on Thursday and \$78.63 the previous week. This was the lowest the cutout had been since August 11. The market opened lower on Friday but rallied to close 40 higher on the session and up 267 for the week (+4.2%). The sharp break in pork values last week leaves the market vulnerable to increased selling. While the vaccines will help provide better demand base into February, the short-term demand tone remains weak, and traders remain fearful of too much meat domestically if exports were to slow.

The CME Lean Hog Index as of December 16 was 64.39, down from 65.05 the previous session and down from 65.61 the previous week. The USDA estimated hog slaughter came in at 481,000 head Friday and 380,000 head for Saturday. This brought the total for last week to 2.792 million head, up from 2.762 million the previous week but down from 2.825 million a year ago. Friday's Commitments of Traders Report showed managed money traders were net sellers of 1,840 contracts of lean hogs for the week ending December 15, reducing their net long to 31,744. Non-commercial, no CIT traders were net sellers of 4,519, reducing their net long to 8,993. Non-commercial & non-reportable traders were net sellers of 5,093, reducing their net long to 29,890.

CATTLE:

There is plenty of uncertainty early this week with a new strain of the virus in the UK which could bring about more shortage concerns and might provide some temporary support. In the end, there appears to be plenty of short-term supply for the market and the recent rally leaves the market overbought. The Cattle on Feed Report was considered very neutral. Placements for the month of November came in at 91.1% from trade expectations for 91.4% of last year (85.5%-95.2% range). Marketing's during November came in at 98.3% of last year as compared with expectations near 98.4% of last year (97.6%-102.3%). As a result, the December 1 On-Feed supply came in at 100.0% of last year from expectations for 100% of a year ago with a range of 99.1%-100.8%. The report should have little or no impact on the market.

February cattle closed 40 higher on the session last Friday and this left the market with a gain of 160 points for the week. The buying pushed the market up to the highest level since November 12. The USDA boxed beef cutout was down \$1.46 at mid-session Friday and closed 88 cents lower at \$208.63. This was down from \$213.88 the previous week. The cash live cattle market steadied a bit last week after falling for the previous two weeks. On Friday 1,343 head traded at 107-108 ad an average price of 107.22, up from 105 earlier in the week. The 5-day, 5-area weighted average price as of Friday afternoon was 106.21 versus 106.77 the previous week.

The USDA estimated cattle slaughter came in at 117,000 head Friday and 69,000 head for Saturday. This brought the total for last week to 659,000 head, down from 665,000 the previous



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week and down from 668,000 a year ago. Friday's Commitments of Traders Report showed managed money traders were net buyers of 3,047 contracts of live cattle for the week ending December 15, increasing their net long to 41,269. Non-commercial & non-reportable traders were net buyers of 2,671, increasing their net long to 54,388. The average dressed steer weight for the week ending December 5 came in at 922 pounds, up from 921 the previous week and 906 a year ago. The 5-year average weekly weight for that week is 906.4.

COCOA:

The shutdown of travel out of the UK and news of another strain of COVID are enough to keep the demand tone very bearish and the market in a long liquidation selling mode. Demand concerns continue to weigh on the cocoa market as they have kept the supply pipeline full going into year-end. For the week, March cocoa finished with a loss of 116 points (down 4.4%) which was a third negative weekly result in a row. Concern over global demand continues to be a front and center issue for the cocoa market as several European nations have reinstated new COVID shutdown measures. Although COVID vaccines are expected to be in widespread use by the end of the first quarter, cocoa demand may not pick up until the second quarter of 2021. Negative vibes over Brexit negotiations led to near-term pullbacks in the British Pound and Eurocurrency put carryover pressure on cocoa prices, and this could continue to weigh on cocoa prices as there were few signs of progress over the weekend.

Lukewarm European equity markets and sluggish US equity markets were source of pressure on the cocoa market. This season's output from Ivory Coast and Ghana has been behind last season's pace, while there are dry and very warm conditions in the daily forecast through the middle of next week that will negatively impact the region's late main crop and early mid-crop output. The Commitments of Traders report for the week ending December 15th showed managed money traders are net long 34,014 contracts after net selling 6 contracts. CIT traders were net long 49,186 contracts after increasing their already long position by 2,595 contracts. Non-Commercial & Non-Reportable traders net bought 2,094 contracts and are now net long 46,596 contracts.

COFFEE:

The coffee market was trading sharply lower at the start of this week as outside market forces turned negative. Next year should bring improved global demand and a sizable decline in Brazilian production, both of which will help coffee to extend its November/December uptrend. For last week, March coffee finished with a gain of 3.65 cents (up 3.0%) which was a sixth positive weekly result over the past 7 weeks. A sizable pullback in the Brazilian currency weighed on coffee prices as it encourages Brazil's farmers to market their remaining 2020/21 supply to foreign customers.

Although there was above-normal rainfall last week, drier than normal conditions for Brazil's main Arabica-growing regions this year provided support to the coffee market as that should contribute to a sharp drop in Brazil's 2021/22 crop. With a La Nina weather event expected to



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extend drier than normal conditions through the first quarter of next year, there have been several trade forecasts calling for Brazil's 2020/21 "off-year" crop to decline more than 25% from this season's output total.

Increased COVID vaccine usage should improve global restaurant and retail shop coffee consumption by the second quarter of 2021, but near-term demand prospects remain subdued due to several European nations instituting fresh shutdown measures.

ICE exchange coffee stocks (most of which are held in Euro zone warehouses) fell by 1,375 bags on Friday which was the first back-to-back daily declines since the end of November, but they remain more than 126,000 bags (up 10.1%) above their November month-end total. The December 15th Commitments of Traders report showed managed money traders net bought 4,399 contracts and are now net long 18,803 contracts. Non-Commercial & Non-Reportable traders are net long 44,378 contracts after net buying 3,150 contracts.

COTTON:

With the overbought condition of the market and the new virus news overnight, cotton looks vulnerable to a significant downside correction over the near term. While ending stocks, both world and US, have been tightening, they are long way from being called tight. March cotton closed near unchanged last Friday after spending the day in the upper reaches of Thursday's breakout range up. The stock market traded to a new all-time high, but the dollar backed off Thursday's two-year, eight-month low, so outside market signals were mixed. Official data from China has put their cotton output for 2020 at 5.91 million tonnes (27.1 million 480-pound bales), up 0.4% from last year. The December USDA report put China's production for 2020/21 at 27.5 million bales, up from 27.25 million last year.

Thursday's rally followed a second strong weekly export sales report in a row and a bullish monthly USDA report the previous week. Friday's Commitments of Traders Report showed managed money traders were net buyers of 11,221 contracts of cotton for the week ending December 15, increasing their net long to 69,997. The managed money net long is getting up there, but it has yet to take out the late October high of 70,201 and is still quite a way from the all-time high of 109,000 from January 2018. Non-commercial & non-reportable traders were net buyers of 15,892, increasing their net long to 97,732.

SUGAR:

The collapse in crude oil prices at the start of this week has helped to spark some long liquidation selling. Keep in mind that managed money fund traders net sold 16,816 contracts for the week and are now net long 198,423 contracts. This leaves the market vulnerable to increased selling if support levels are violated. For the week, March sugar finished with a gain of 1 tick which nonetheless resulted in a positive weekly reversal from a 7-week low and also broke a 3-week losing streak. Stronger energy prices provided a source of early carryover support as they may encourage a shift in Brazilian crushing from sugar production over to ethanol production.



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A sizable pullback in the Brazilian currency likely triggered a wave of end-of-week profit-taking as a weaker currency gives those mills more incentive to produce sugar for the global export marketplace. While Brazil's 2020/21 harvesting and crushing has been winding down, their April-November sugar production was more than 11.5 million tonnes above last year's total so they may continue to see large export totals into early 2021. India's 2020/21 sugar export subsidy is smaller than last season, and that could make it difficult for mills to reach their government's sugar export target of 6 million tonnes.

India is seeing a sharp increase in production this season which fueled export sales before a subsidy was agreed upon, however, and that increases the chances that the 2020/21 season will have a record high export total above 5 million tonnes. The Commitments of Traders report for the week ending December 15th showed managed money traders net sold 16,816 contracts and are now net long 198,423 contracts. CIT traders net sold 4,685 contracts and are now net long 272,501 contracts. Non-Commercial & Non-Reportable traders were net long 291,901 contracts after decreasing their long position by 20,598 contracts.

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