ADM Investor Services, Inc.

Weekly Futures Market Summary

May 23 2022

by the ADMIS Research Team

BONDS:

We leave the edge with the bull camp given ongoing uncertainty flowing from equities, periodic recession chatter, and fears that energy prices are slowing activity. Limiting the treasury market on the upside is 19th straight weekly outflow from bond funds which in turn posted the biggest weekly outflow in 3 months. We see the Minneapolis Fed Kashkari's unwillingness to give odds for recession as a story that benefits the bull camp by default. Despite the initial risk on created by higher global equity market action, pressure on treasury prices early this week is modest! Nonetheless, the bear camp started the week with a slight edge with stronger German economic data pushing up euro zone bond yields and comments from the European Central Bank predicting the euro zone will exit negative rates by September providing bearish international fodder. In fact, the head of the ECB has predicted 50 basis point rate hikes by the end of September!

Underpinning bond and note prices are residual fears of slowing brought on by persistently hawkish Fed dialogue and by US economic data showing less than stellar readings. On the other hand, fears of recession are elevated by bouts of significant economic and investor anxiety from out of nowhere/nearly instant major declines in equities. With the US economic report slate offering a single 3rd tier reading from the Chicago Fed, equities, energies, and infection reports from Beijing are likely to be primary drivers of treasury prices. In a slight bearish development, German IFO survey readings for May all bested expectations and that certainly provides some of the positive equity market/negative Treasuries tone early this week. The trade will be presented with auction supply this week with 2-year, 5-year, and 7-year notes auctions.

From a technical perspective the June bond contract has remained within an upward trend since the May 9th low and the market retains speculative buying capacity with the net long nearly balanced. The May 17th Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders net sold 3,969 contracts and are now net long 11,069 contracts. On the other hand, the note market remains net spec and fund short a moderate amount but to reverse that long-held speculative/hedge bear position will likely require greater economic uncertainty than is present to start out this week. T-Notes positioning showed Non-Commercial & Non-Reportable traders added 69,056 contracts to their already short position and are now net short 323,842.

CURRENCIES:

Relatively speaking, the currency markets went into the weekend with less volatility than was present early in the week. In our opinion, the dollar recovery was classic week ending profit-taking by the shorts. The dollar is likely to remain under pressure following hot German PPI readings, rising expectations of a July ECB rate hike and comments from the Bank of England suggesting they need higher rates. In our opinion the range down action in the dollar over the last 2 weeks is the result of the US economy facing with a difficult combination of broadening evidence of economic slowing and a Fed interested in getting rates closer to normal.

On the other hand, it is possible that the trade sees the deterioration in US economic numbers as a force potentially tempering the Fed and reducing the potential for a surging US interest rate premium. However, that theory will be tested this morning in the wake of the Chicago Fed national activity index, with a soft number possibly extending the June dollar index below the 102.00 level. The Commitments of Traders report for the week ending May 17th showed Dollar Non-Commercial & Non-Reportable traders were net long 39,509 contracts after increasing their already long position by 2,333 contracts.

While the euro has exploded on the upside, near term conditions suggest the rally is a windfall of definitively bearish dollar views and technical stop loss buying from the oversold condition earlier in the month. However, very upbeat German IFO May survey readings provides the bull camp with fundamental justification. The Commitments of Traders report for the week ending May 17th showed Euro Non-Commercial & Non-Reportable traders net bought 9,801 contracts and are now net long 46,163 contracts. The next critical resistance point in the June euro is 1.0718.

With the Yen steadily rising off the spike low earlier in the month, the rally appears to have more substance than gains in other non-dollar currencies. Gains in the Yen are clearly related to foreign issues, as the Japanese economy and fundamentals are not attracting money. The gains in the Swiss franc continue to be massive with some traders beginning to assert the Swiss franc has become the "flight to quality" currency. Furthermore, given the massive 5-day rally, suggesting the rally is a simple relief/technical rally is highly questionable.

Not to be left out, the Pound has also extended sharply, likely at the expense of the US dollar. However, like the Swiss franc, a 7-day high should reduce the likelihood that strong gains are simple technical short covering. On the other hand, UK economic data has not supported the bull camp over the last 2 weeks, with the sagging fundamentals in the US probably providing the brunt of the long interest. While the gains in the Canadian dollar have been less stellar than other non-dollar currencies, one could argue that the uniform grind higher reduces volatility ahead and that favors the bull camp. Furthermore, a risk on vibe with higher commodities early today should allow for a higher high and a possible test of the next key resistance point.

STOCKS:

After a positive opening salvo, equities reversed course and before midsession the Dow was down nearly 300 points which in turn keeps investors nervous because of the quick shifts in sentiment. Stocks were undermined because of negative Caterpillar views toward their Chinese business and because Deere revenues disappointed. While banks and mega-cap growth stocks provided support early that cushion evaporated quickly.
Global equity markets were generally higher at the start of this week but until there is a very definitive fundamental headline shift, we remain skeptical of the bull case in equities. In fact, we categorize recent gains as further relief gains largely attributable to the aggressive oversold condition into last Friday's low. In conclusion, the equity markets remain between a rock and a hard place with global central bankers in tune on undermining inflation even with the impact of slowing the world economy.

As indicated already, we see Friday's recovery and Monday's higher high as a temporary condition. In fact, technical traders are touting a shift to a bear market with the three large downside extensions last week. Obviously, investors are concerned with what is likely to be an unrelenting hawkish Fed and therefore soft scheduled economic can unnerve the markets without notice. From a technical perspective, the net spec and fund long positioning in the last COT report is likely significantly overstated with the market from the COT report mark off into the low Friday falling by 290 points. The Commitments of Traders report for the week ending May 17th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net long 46,662 contracts after net selling 76,373 contracts.

Like the S&P, the Dow futures also forged a relief rally and managed a second day of higher high action. In our opinion, despite this week's higher opening, deep investor anxiety remains in play and the current "bounce" is likely to be reversed soon. Fortunately for the bull camp, the latest positioning report showed the Dow net short a significant amount and from the COT report mark off into the low last week, the market fell 2,000 points! The May 17th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders added 2,143 contracts to their already short position and are now net short 25,609.

With legal concerns against Elon Musk casting shadow over the Twitter deal, delivery problems for the heralded EV maker Rivian and Apple forced to boost production outside of Covid-restricted China, the tech sector has ongoing internal and external negatives sitting on the back of the index. The May 17th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders net bought 865 contracts and are now net long 12,408 contracts.

GOLD, SILVER & PLATINUM:

At least to start this week, a precipitous downside extension in the dollar and general risk on psychology has given the bull camp the edge. While many media outlets suggested the Chinese mortgage rate reduction is providing lift to prices, that development was already in the market last week. Unfortunately, for the bull camp, gold ETF holdings last week declined by 145,856 ounces and silver ETF holdings declined by 9.01 million ounces. In retrospect, the gold market performed very impressively last week in the face of threats of global slowing and unending central bank promises to stop inflation by reducing demand (slowing the economy). Not surprisingly, the gold rally last week was most likely the result of the washout in the dollar, but it is also likely that some buying was flight to quality orientated.

However, the gold bulls are on a razors edge with surging economic anxiety from sliding equities and over tightening fears, suddenly prompting selling from sagging physical demand expectations. From a technical perspective, the trade attached importance to a higher weekly close last week reversing the pattern seen over the last 30 days. While this week's COT report understates the net spec and fund long positioning (given the post report rally), the net long remains within striking distance of the lowest levels since March 2021. The Commitments of Traders report for the week ending May 17th showed Gold Managed Money traders reduced their net long position by 19,322 contracts to a net long 54,569 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 22,820 contracts to a net long 210,825 contracts.

Going forward, the worst-case scenario for the gold bulls would be gradual declines in economic sentiment and modest declines in equity prices as that could limit flight to quality buying and discourage physical buying. While the silver market also extended an impressive bounce off the May spike low, fear of slowing in China and the world tempers demand hopes. However, into the low last Thursday July silver had prices $0.26 below the level where the last positioning report was measured and that should have put the net spec and fund long reading at the lowest level since June 2019! The May 17th Commitments of Traders report showed Silver Managed Money traders are net long 670 contracts after net selling 1,034 contracts. Non-Commercial & Non-Reportable traders are net long 23,145 contracts after net selling 4,926 contracts.

Apparently the palladium market is finally being threatened with lost supply from Russia, following reports that some metals traders are starting to shun Russian palladium supply. Since the war started the trade has discounted severe tightening with prices into the low last week sitting more than $200 or 10% below start of war pricing. Apparently, the lack of a specific palladium embargo on Russia was allowing supply to flow under the radar of the EU. We also suspect intensive smuggling is underway, but this week's headlines might spark greater focus on Russian PGM supply flows. Given the post COT report slide of $120, the net spec and fund long in palladium likely tested the record net spec and fund short of 4,084 contracts last week. The May 17th Commitments of Traders report showed Palladium Managed Money traders added 229 contracts to their already short position and are now net short 1,495. Non-Commercial & Non-Reportable traders are net short 3,617 contracts after net selling 188 contracts.

In fact, it is possible that the downtrend might be now reversed as the world begins turn away from Russian supply. The platinum market with the opening early this week has posted the fifth straight higher high for the move. The latest positioning report in platinum adjusted into the low last week (a decline of $18) reached near the smallest net spec and fund long position since September 2018. The Commitments of Traders report for the week ending May 17th showed Platinum Managed Money traders reduced their net short position by 972 contracts to a net short 6,317 contracts. Non-Commercial & Non-Reportable traders added 1,254 contracts to their already long position and are now net long 6,972. Unfortunately for the bull camp, demand remains questionable and recent supply threats have been very modest.

COPPER:

In retrospect, the sharp reaction in copper last week was probably the result of a specific opening date for Shanghai, but the markets are also embracing last week's Chinese mortgage rate cut and there is certainly a risk on vibe in place early this week. While it is too early to predict a trend, LME copper warehouse stocks have shown declines recently thereby revitalizing supply concern. An outside market positive for copper is a 2-week high in iron ore prices which are also thought to be tracking higher off the lifting of activity restrictions in Shanghai. In fact, copper premiums in China have firmed in a sign that smelting activities are expected to pick up pace. Another significant supply-side support is the prospect of ongoing production losses in Peru, due to local protests.

The crisis in Peru is worsening with the Peruvian President removing four ministers following last week's failure to reach a settlement. Unfortunately for the bull camp, China reported 570 asymptomatic cases on May 21st and that could result in a delayed opening of Shanghai given the Chinese zero Covid policy. From a technical perspective, the latest COT positioning report in copper (likely understated given the rally after the report) probably reached the largest net spec and fund short since May 2020 into last Wednesday's low! The Commitments of Traders report for the week ending May 17th showed Copper Managed Money traders reduced their net short position by 538 contracts to a net short 17,198 contracts. Non-Commercial & Non-Reportable traders added 3,008 contracts to their already short position and are now net short 21,519.

ENERGY COMPLEX:

With a 3-day high early, risk on sentiment flowing from equities and many commodities and the IEA expressing concern of a deeper fossil fuel related energy crisis, the bull camp has a broad spectrum of issues in its favor. Furthermore, crude oil in global floating storage over the last week fell by 15%, Bank of America has projected crude prices to $120, and suggested that global oil demand will increase this year by 3.4 million barrels per day. Perhaps most importantly, the reduction in floating storage in the Asian-Pacific rim fell by 22% with US Gulf Coast supplies posting a startling decline of 49%. While prices might be benefiting from predictions of a more active hurricane season, we attach little credibility to that forecast this early in the season.

In bearish developments, China has apparently stepped-up purchases of Russia's far Eastern supply, the US President uttered incendiary comments regarding US defense of Taiwan and the fear of recession remains ever present. In the end, near term strong demand for fuel combined with the normal seasonal escalation in demand should allow the bull camp to remain in control. In fact, reports that this week's US refinery capacity will increase by 379,000 barrels per day signals ongoing fuel tightness and that in turn should result in strong US demand for spot crude oil. In the end, absolute demand for prompt and future needs is running hot despite signs of moderating global growth. However, Europe used 2.5 million barrels per day of Russian oil before the war and continues to struggle to replace that flow quickly.

An issue that popped up last week that could be significant in the future is a move by the Iraqi government to take control of Kurdish oil as that could result in hostilities in Iraq and in turn threatened needed supply flow. The latest net spec and fund long position in crude oil as of last Tuesday was the lowest since October 2019 and with crude oil into the low last week trading $5.70 below the level where the last positioning report was measured, the net spec and fund long should have approached the lowest levels since June 2017! The May 17th Commitments of Traders report showed Crude Oil Managed Money traders are net long 284,830 contracts after net buying 35,878 contracts. Non-Commercial & Non-Reportable traders added 13,844 contracts to their already long position and are now net long 423,531. In short, crude oil continues to retain speculative buying capacity and has periodically cleansed overbought conditions with hard breaks like last week.

Certainly, last week's high to low pummeling of $0.45 in July RBOB punctured some bullish market sentiment, but supply side fundamentals should continue to out punch sagging demand fear. Perhaps more importantly is the beginning of the seasonal upswing in gasoline demand for the northern hemisphere summer especially with US implied gasoline demand last week climbing above 9 million barrels per day which if maintained and extended by normal seasonal patterns suggest that record prices are not markedly damaging demand. On the other hand, according to the EIA, US gasoline demand last week was 1.3% below the same week in 2019, while the four-week moving average of demand reached the highest of the year! As in the crude oil market, the gasoline market net spec and fund long position remains surprisingly low especially if the latest net long is adjusted downward for the post report slide of $0.32 last week. Adjusting the net spec and fund long to the low last week likely puts the net spec and fund long down to the lowest level since July 2021. The May 17th Commitments of Traders report showed Gas (RBOB) Managed Money traders are net long 60,557 contracts after net buying 4,080 contracts. Non-Commercial & Non-Reportable traders were net long 46,750 contracts after increasing their already long position by 2,641 contracts.

While the ULSD market has diverged negatively with gasoline and crude oil since the early May high, its fundamentals remain very supportive even though recent diesel and distillate stock annual deficits narrowed. Nonetheless, the world diesel market remains extremely tight and should tighten further as the lock down of Russian fuel exports slowly progresses. In the most recent COT positioning report, the net spec and fund long remains 50,000 contracts below the long seen in October and with the post report slide into last week's low of $0.23, the diesel market likely had a "mostly liquidated" net spec and fund long. The May 17th Commitments of Traders report showed Heating Oil Managed Money traders net bought 1,798 contracts and are now net long 17,583 contracts. Non-Commercial & Non-Reportable traders net bought 333 contracts and are now net long 16,644 contracts. We see solid value at $3.50 and then $3.48 but expect diesel to remain the weakest component of the energy complex. In a potential major bullish development, Exxon workers at a UK refinery are planning strikes and that could result in fuel flow from Europe being redirected to the UK.

With the gas market appearing to run out of buying fuel at last week's high and posting a setback of $0.70 from that high, the market has recently found value or a pivot price of $8.00 in the July contract. While slowing threats obviously threaten gas demand, gas demand should be more inelastic compared to RBOB and less Russian gas is likely going forward. On the other hand, the market looks vulnerable early this week with European gas prices reaching 3-month lows, Dutch prices falling 5.2% for tomorrow's spot gas and market chatter regarding increased supply from Norway. At least initially the market is discounting Poland's halt of consumption of gas from the Yamal pipeline. The source of Poland's decision to cut off Russian gas supply is news that European imports of LNG increased by nearly 70% in the first 4 months of 2022 which signals strategic supply building.

In short, we see continued aggressive strategic reserve purchasing and a consistent rise in cooling demand in the weeks ahead. While not a new condition, the natural gas futures market continues to hold a significant net spec and fund short in the positioning report, indicating the potential for aggressive stop loss buying if key chart levels are breached on the upside. The Commitments of Traders report for the week ending May 17th showed Natural Gas Managed Money traders were net long 8,095 contracts after decreasing their long position by 3,554 contracts. Non-Commercial & Non-Reportable traders added 186 contracts to their already short position and are now net short 63,592. We are somewhat confident in the July Gas contract's ability to "generally" respect the key pivot point of $8.00 but without a sustained burst of hot weather in the US or Europe, the market might lack the fundamentals to avoid temporarily spikes below the $8.00 level.

BEANS:

While the wheat and corn markets are struggling, the soybean market continues to show signs of strong demand, and traders are looking for tightening supply ahead. Spot basis bids for soybeans were higher at River terminals in the eastern half of the US on Friday. Solid export sales news continues to provide underlying support. July soybeans closed moderately higher on the session Friday and have now closed higher for 8 of the past 9 trading sessions. Strong demand has helped support the higher market and the buying pushed the market up to the highest level since April 22. Both meal and oil closed higher on the day.

US cash market remains firm as crush margins are strong. Soybean futures reached a three-week high as the US reported strong export data and Indonesia continues to alter policies on palm-oil supplies. The US reported export sales up noticeably from the prior week. Indonesia officials indicated it will re-impose a measure requiring producers to sell a portion of their output to the local market. That comes just a day after its president pledged to lift a ban on exports.

The Commitments of Traders report for the week ending May 17th showed Soybeans Managed Money traders were net long 147,335 contracts after increasing their already long position by 16,674 contracts for the week.
Non-Commercial No CIT traders are net long 82,242 contracts after net buying 16,375 contracts. For Soyoil, managed money traders are net long 86,237 contracts after net selling 2,139 contracts for the week. For Soymeal, managed money traders reduced their net long position by 16,391 contracts to a net long 35,923 contracts and the long liquidation selling trend helps explain some of the weakness recently. Non-Commercial No CIT traders are net long 23,023 contracts after net selling 10,094 contracts for the week.

CORN:

July corn closed moderately lower on the session last Friday but stayed inside of Thursday's range. December corn also closed lower on the day as the five day forecast was wide open for the Dakotas and most of Nebraska. Minnesota and northwest Iowa should see less than 1/2 inch while much of Iowa and the rest of the Corn Belt look to receive at least one inch. December corn closed 16 3/4 cents lower for the week after posting a new all-time high and the weekly key reversal is seen as a potential sign that a major top in in place. Argentina raised its export quota to 35 million tonnes from 30 million currently.

However, the USDA sees exports at 39 million tonnes for the 2021/22 season. Demand remains firm but traders see the weather as a bearish factor.

A major consulting firm in Brazil cut their estimate for the crop to 87.6 million tonnes, down from their previous estimate of 92.2 million. In addition, gasoline prices are trading at a record premium to ethanol in the US and in Brazil and this could spark increased blending demand in the industry. Cumulative weekly export sales have reached 93% of the USDA's forecast for the 2021/22 marketing year versus a 5-year average of 90%. The May 17th Commitments of Traders report showed Corn Managed Money traders were net long 339,711 contracts after increasing their already long position by 1,149 contracts for the week. Non-Commercial & Non-Reportable traders added 14,609 contracts to their already long position and are now net long 403,873.

WHEAT:

With ending stocks for key world exporters already extremely tight this year, news that India, not normally a major exporter, banned exports was enough to drive wheat prices to all-time highs last week. There is some short-term improvement in US weather, but the market still lacks confidence that US weather will improve and that the European crop will come in better or even normal. July wheat closed sharply lower on the session Friday and closed near the lows of the day. The selling has pushed the market down to the lowest level since May 13 and also closed lower for the week after posting a new all-time high. The weekly key reversal is sometimes seen as a technical sign of a significant top.

Better rains in the forecast for the next few days has helped to pressure the market, but it appears the weather will turn hot and dry again in the southern Plains for the 6-10 day forecast model. The 8-14 days stays hot but shows above normal chances for rain. However, the 1-5 day models show 1 to 2 1/2 inches of rain for the southern and eastern half of Kansas and all of Oklahoma and much of Texas. Drier weather in the northern Plains should promote increased planting. In addition, the French wheat crop continues to deteriorate, and temperatures were expected near 95 degrees in many areas this past weekend. July KC wheat was also lower on the day and down to the lowest level since May 12 on Friday and Minneapolis wheat closed down 51 1/2 cents for the week and experienced a weekly key reversal from an all-time high as well.

The May 17th Commitments of Traders report showed Wheat Managed Money traders are net long 26,586 contracts after net buying 11,039 contracts. Non-Commercial No CIT traders are net short 32,072 contracts after net buying 3,631 contracts (short-covering). Non-Commercial & Non-Reportable traders are net long 28,539 contracts after net buying 6,201 contracts. For KC wheat, Managed Money traders added 3,877 contracts to their already long position and are now net long 46,790. Non-Commercial & Non-Reportable traders were net long 43,688 contracts after increasing their already long position by 2,543 contracts.

HOGS:

June hogs closed sharply higher on the session Friday after mostly lower trade early. The buying has pushed the market up to the highest level since April 29. The recent jump in pork cutout values opens the door for steady to higher trade in the cash market over the near term. The USDA pork cutout, released after the close Friday, came in at $105.16, up from $101.67 on Thursday and $99.77 the previous week. This was the highest the cutout had been since April 22. The CME Lean Hog Index as of May 18 was 100.37, up from 100.08 the previous session but down from 101.04 the previous week. With plenty of supply and sluggish exports, the upside potential looks limited to a technical recovery bounce.

The USDA estimated hog slaughter came in at 457,000 head Friday and 58,000 head for Saturday. This brought the total for last week to 2.414 million head, up from 2.375 million the previous week and 2.391

million a year ago. Estimated US pork production last week was 527.6 million pounds, up from 518.4 million the previous week and up from 512.9 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 10,045 contracts of lean hogs for the week ending May 17, reducing their net long to 10,563. This is a long liquidation selling trend. Non-commercial & non-reportable traders were net sellers of 8,731, reducing their net long to 10,111.

CATTLE:

Traders have a bearish demand tilt as consumers are stuck with very high energy and food prices, and this leaves less disposable income for luxury items such as high-priced steak. While the short-term demand factors remain negative, and the market looks well supplied over the short term, June is trading at a stiff discount to the cash market. The USDA boxed beef cutout was up $1.08 at mid-session Friday and closed 47 cents higher at $262.17. This was up from $258.95 the previous week, and the highest the cutout had been since May 2. The USDA Cattle on Feed report showed placements for April at 99.1% of last year versus trade expectations for 95.4% of last year (guesses ranging from 89.1% to 97.8%). This is bearish and outside the range. Marketings came in at 97.8% versus expectations of 98%. Cattle-on-feed supply as of May 1 came in at 102% of last year versus expectations for 101.3% of last year (range 100.5% to 101.8%). The report news is bearish against expectations with both placements and on feed supply above the range of estimates.

Cash live cattle traded was quiet on Friday, with only 121 head reported in the five areas, not enough for an adequate test. As of Friday afternoon, the five-day, five-area weighted average price was 140.35, down from 142.10 the previous week. The USDA estimated cattle slaughter came in at 123,000 head Friday and 58,000 head for Saturday. This brought the total for last week to 680,000 head, up from 657,000 the previous week and 672,000 a year ago. The estimated average dressed cattle weight last week was 828 pounds, down from 831 the previous week and up from 823 a year ago. The 5-year average weight for that week is 805.2 pounds. Estimated beef production last week was 561.8 million pounds, up from 552.2 million a year ago. The drought in the western US coupled with surging grain prices has left the cattle market in a steady downtrend with cow slaughter running at a record high in March and still at least a 10-year high in April. Friday's Commitments of Traders report showed managed money traders were net sellers of 4,321 contracts of live cattle for the week ending May 17, reducing their net long to 25,628. Non-commercial & non-reportable traders were net sellers of 4,290, reducing their net long to 42,416.

COCOA:

The cocoa market finished the trading week in a definitively negative chart set up, and analysts are anticipating a downside breakout to the lowest price level since mid-December. Although last Friday’s late turnaround in global risk sentiment may provide some carryover support, cocoa will continue to have concern with near-term demand prospects that will weigh on prices early this week. July cocoa was unable to hold onto initial support and remained on the defensive for most of the day as it fell to a new 6 1/2 month low before finishing Friday’s trading session with a sizable loss. For the week, July cocoa finished with a loss of 40 points (down 1.6%) which was a fifth negative weekly result over the past 6 weeks as well as an outside-week lower close.

Cocoa’s near-term demand outlook has been pressured by the global COVID pandemic for over two years now, with recent Chinese lockdowns weighing especially hard on Asian demand prospects. While Russia’s invasion of Ukraine is located away from major western European nations, it has had a negative impact on travel within the EU which has traditionally been a major source of European chocolate purchases. Last week’s negative guidance from Target and Walmart indicated that consumers were pulling back on discretionary purchases, and that should diminish the North American demand outlook.

Starting on Tuesday, there is daily rainfall in the forecast for many West African growing areas through early next week.

This season's West African cocoa production is still expected to have a sizable decline from last season, highlighted by a more than 20% decline in Ghana's output. The Commitments of Traders report for the week ending May 17th showed Cocoa Managed Money traders are net long 1,230 contracts after net selling 4,323 contracts. CIT traders are net long 32,547 contracts after net buying 885 contracts. Non-Commercial No CIT traders were net short 4,656 contracts after increasing their already short position by 1,820 contracts. Non-Commercial & Non-Reportable traders were net long 14,831 contracts after decreasing their long position by 3,238 contracts.

COFFEE:

With the coffee market unable to sustain an early higher high for the move late last week, the market looks to remain in a slow downwardly sloped consolidation pattern. While reports of improving demand have not been broadly accepted or strong enough to be a market changing factor, coffee continues to find support from bullish supply-side development. July coffee found initial support before turning to the downside as it finished Friday's trading session with a sizable loss. For the week, however, July coffee finished with a gain of 1.95 cents (up 0.9%) which was a second positive weekly result in a row.

While some areas of Brazil's Arabica-growing regions saw damage to leaves, last week's cold temperatures appears to have avoided significant damage to coffee trees. Even so, Brazil's upcoming 2022/23 Arabica production is expected to come in at the lower end of recent "on-year" crop totals. The current La Nina weather event is forecast to last until late this year, which is likely to extend drier than normal conditions over that timeframe.

La Nina also brings heavier than normal rainfall to Colombian coffee growing areas that cause flooding and transportation delays which in turn are likely to reduce their production over the next few months. Guatemala's National Coffee Federation expects their 2021/22 exports to come in at 3.3 million bags which is 10% below last season's total. The USDA forecast Uganda's 2022/23 production at a record high 6.65 million bags, which would be a 6.4% increase above their 2021/22 output.

ICE exchange coffee stocks fell by 3,348 bags on Friday and with 6 sessions left in May are more than 13,000 bags below their April month-end total. Coffee positioning in the Commitments of Traders for the week ending May 17th showed Managed Money traders net bought 9,755 contracts and are now net long 29,054 contracts. CIT traders added 2,015 contracts to their already long position and are now net long 40,500. Non-Commercial No CIT traders are net long 21,305 contracts after net buying 7,933 contracts. Non-Commercial & Non-Reportable traders were net long 38,172 contracts after increasing their already long position by 10,836 contracts.

COTTON:

July cotton closed lower last Friday after trading in a wide range that was inside last Thursday's wide range but the market slipped down to the lowest level since April 28th this morning before a bounce. December cotton closed sharply lower and down for the 4th session in a row and the selling pushed the market down to the lowest level since May 12th. The S&P 500 ended up closing moderately higher on Friday but that was after trading to new lows for the move earlier in the session. It was down sharply at the time the cotton market closed, which was negative for cotton. Wheat was down sharply on reports that India could loosen its export ban and on negotiations taking place that would allow exports out of Ukraine to resume. The 1-5-day forecast calls for heavy rainfall in eastern Texas, and eastern Oklahoma, and across the Delta, with diminishing amounts as you move west.

Western Texas can see 3/4 inch up to 2 inches. This could begin to ease the drought conditions, especially if it is marking the beginning of a change in trend. The 6-10 day forecast calls for below normal precipitation and above normal temperatures, which does not bode well for an end to the drought but the 8-14 day model shows above normal precipitation. Friday's Commitments of Traders report showed managed money traders were net sellers of 3,041 contracts of cotton for the week ending May 17, reducing their net long to 67,686. Non-commercial & non-reportable traders were net sellers of 1,717, reducing their net long to 90,024. This is a slight long liquidation selling trend.

SUGAR:

While sugar became significantly short-term overbought into last Tuesday high, the 60-point setback should have balanced the market. While global slowing fears have fostered concern over slower sugar demand, fears of losses in Brazilian production should underpin prices going forward. July sugar was able to build on early strength as it finished Friday's trading session with a moderate gain. For the week, July sugar finished with a gain of 78 ticks (up 4.1%) which was a third positive weekly result in a row.

It was clear that improved overall market psychology helped sugar finish the week near the 2-month high close. While the sugar market has found support from soaring energy prices and a stronger Brazilian currency, recent pressure from production increases in Thailand and India have weighed on prices. A shift in focus towards Brazil's Center-South region should continue to provide support. Brazil Center-South cane yields are down due to the dry conditions of the past 1 1/2 years.

So far this season, only 29.11 million tonnes have been processed, down from 45.34 million at this point last year. This trend may continue through late this year due because of La Nina. Brazilian gasoline prices are at a record premium to ethanol, which should keep ethanol demand strong and suggests that mills will have plenty of incentive to shift even more of their crushing from sugar to ethanol. In April, the first month of the 2022/23 crushing season, Center-South mills only devoted 35% of their activity to sugar production versus 43% for the same period last year.

If the heat wave in Europe continues, it could hamper the EU's 2022/23 sugar beet crop, lowering their sugar output as well. The Commitments of Traders report for the week ending May 17th showed Sugar Managed Money traders added 23,015 contracts to their already long position and are now net long 181,850. CIT traders net sold 2,218 contracts and are now net long 242,464 contracts. Non-Commercial No CIT traders net bought 22,210 contracts and are now net long 81,034 contracts. Non-Commercial & Non-Reportable traders net bought 34,907 contracts and are now net long 253,507 contracts.

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