ADM Investor Services, Inc.

Weekly Futures Market Summary

January 30, 2023 **by the ADMIS Research Team**

BONDS:

Once again, US scheduled data produced good and bad data points which the trade seemed to embrace as a reason to liquidate shorts and reverse into longs. Certainly, the treasury charts were damaged with the bond spiking down to 8-day lows, with March bonds regaining the 130-00 level. Therefore, the 130-00 level has become a very significant layer of support for the bull camp. Looking into next week's schedule data flow, the bull camp in bonds and notes will encounter 2 major central bank rate decisions and will also be presented with significant inflation readings from the euro zone.

The treasury trade might continue to post narrow daily ranges as a series of central bank rate decisions/forward guidance is likely to reduce trading activity. However, with a US Federal Reserve meeting early in the week followed by critical monthly jobs data late in the week volatility and trading volume for the week should in the end be high. From a technical perspective, the treasury markets start out on a bearish footing with T-Note prices tracking toward last Friday's low which in turn was the lowest trade since January 17th. However, we suspect the net spec and fund short position in Bonds is likely the largest since April 2021!

The Commitments of Traders report for the week ending January 24th showed Bonds Non-Commercial & Non-Reportable traders net bought 10,777 contracts and are now net short 158,660 contracts. Similarly, the treasury note market maintains a significant net short which is probably understated in the latest COT report as prices this morning are almost one point lower than the market off date early last week. COT positioning for T-Notes Non-Commercial & Non-Reportable traders net bought 14,226 contracts and are now net short 556,167 contracts. The treasury markets might have a slight negative tone this morning as result of the much hotter than expected Italian Producer Price Index reading for December.

Given expectations for another significant negative number from the Dallas Fed manufacturing business index, the initial downward bias could be temporarily reversed. On the other hand, expectations for the Dallas Fed manufacturing reading suggest a slightly less negative reading than the prior month. In a development that is difficult to ascertain the directional impact on US treasuries, is signs that House Republican leadership met at the White House and rumors from that meeting indicant an agreement to raise the debt ceiling is getting closer to reality. While a higher debt ceiling will result in higher US treasury supply, recent action suggests bonds have periodically benefited from flight to quality issues from US debt and if the debt ceiling deadlock is ending that could prompt a measure of flight to quality long exit.

CURRENCIES:

In retrospect, the dollar index over the last week has been unable to garner a lift from periodic flight to quality sentiment from positive US scheduled data. Going forward, we suspect the dollar will continue to slide particularly if Chinese infection concerns begin to moderate and/or there is talk that the worst is over. We continue to see the bull trend in the euro as the most likely reliable long side position in the currency markets. In fact, despite dollar weakness the Pound and Swiss franc disappointed their bull camps. The dollar along with many other markets has settled into a trading range ahead of significant economic news this week.

In addition to the return of China from an extended holiday, the currency markets will face two central bank rate hikes followed by a very important reading on the status of the US jobs market. At this point, we see the "downtrend" in the dollar persevering but at a slow grinding pace. In fact, it appears that the dollar could slide off good and bad US data and perhaps even in the face of a neutral view of future US Fed action. Dollar positioning in the Commitments of Traders for the week ending January 24th showed Non-Commercial & Non-Reportable traders are net long 17,911 contracts after net buying 2,341 contracts.

While the charts in the euro were slightly damaged by last Friday's dip, the 4-month uptrend channel remains in place with traders expecting bearish dollar developments and or a lack of a significant bounce in the dollar, following dollar bullish developments. Spanish consumer prices contracted significantly (-0.3%) and Italian producer prices jumping by more than expected. Furthermore, a contraction in German GDP was offset by mostly favorable euro zone economic sentiment, industrial confidence, services sentiment, and business climate readings for January. The Commitments of Traders report for the week ending January 24th showed Euro Non-Commercial & Non-Reportable traders added 9,354 contracts to their already long position and are now net long 215,982.

While the Yen might see some support from further weakness in the dollar index, some traders are avoiding the Yen because of uncertainty with respect to the Bank of Japan inflation target. On the other hand, the Japanese 10-year bond yield at the end of last week reached the highest level since the last BOJ meeting, indicating a trade desire for even higher Japanese yields. The Swiss franc looks to remain the most volatile currency, with upcoming critical US financial market developments likely to accentuate swings in the Swiss.

Even though the Pound has lost momentum from the January 23rd new high for the move, chart structure remains bullish. However, for the Pound to resume the January uptrend pattern will certainly require a downside breakout in the dollar early this week. With the upside breakout and consistent trade above 75.00 the Canadian is likely to follow the euro higher with less relative gains expected. A headwind for the Canadian is a Canadian budget deficit reading which is reportedly the result of a jump in rates on Canadian sovereign debt.

STOCKS:

Looking back last week, the equity markets stood up to an avalanche of negative corporate headlines and they managed to throw off extremely negative macroeconomic and market conditions with a low to high recovery in the S&P on Wednesday, January 25th of 77 points. However, investor sentiment might be set to improve thiis week following the US Federal Reserve rate decision, but the Fed will need to acknowledge some inflation battling progress to extend this week's very impressive gains.

Global equity markets were mostly lower at the start of this week with declines ranging from 0.1% to 0.86% in Spain. With corporate headlines over the last several weeks favoring the bear camp and looming uncertainty from a pair of central bank policy decisions that leaves the bear camp with an edge especially with the reversal down early today. Adding to the uncertainty and some fear of equity positions is a growing buzz of Wall Street recession forecasts.

In fact, several analysts have indicated the stock market trade ahead might favor "stock pickers" instead of diversified positions. With a range down slide early this week, the S&P has declined 62 points from the Friday high potentially prompting stop loss selling into the NYSE opening. Weekend developments for equities were mixed or minimally bearish with hints of restructuring at Ford. E-Mini S&P positioning in the Commitments of Traders for the week ending January 24th showed Non-Commercial & Non-Reportable traders are net short 186,979 contracts after net buying 22,329 contracts.

While supportive news from Boeing regarding plans to hire 10,000 workers this year moderates some recession fears, a combination of rising rate fears and economic uncertainty favors the bear camp this week. The January 24th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders are net short 12,219 contracts after net buying 76 contracts.

Relatively speaking the NASDAQ has held up better than other sectors of the market following the reversal from a significant spike high. NASDAQ related news/tech news favors the bear camp with headlines from Asia indicating confusion following the US Chip deal with the Netherlands and Japan. Furthermore, confusion towards twitter operations combined with noted weakness in Dow and S&P futures gives the bear camp an edge. The Commitments of Traders report for the week ending January 24th showed Nasdaq Mini Non-Commercial & Non-Reportable traders are net short 37,552 contracts after net selling 7,593 contracts.

GOLD, SILVER & PLATINUM:

Apparently, the sideways track in the US dollar has prompted some gold longs to exit possibly because of a lack of patience. Furthermore, with gold ETF holdings on Friday falling by a significant 112,515 ounces and silver ETF holdings increasing by a modest 17,481 ounces gold and silver are also seeing divergence in investment demand. Gold might be undermined from reports of heavy gold discounting in India with prices at times reaching $42 below the official gold price set for the government import duty. Therefore, Indian consumers are price resistant. Underpinning gold and silver in the early going this week is the return from holiday in China and indications that the Chinese economy showed modest improvement through the weeklong holiday.

However, a slightly hotter than expected US PCE index reading last week combined with a decline in US consumer spending are a bad combination for the gold bulls. In other words, inflation remains a problem, and yet that did not push the dollar up. Therefore, into the new trading week the charts are bearish toward gold with mixed too slightly bearish silver charts slightly bearish. Perhaps the slight increase in US yields last week prompted long profit-taking along with the markets sideways chop. The bull camp should be cheered by a sharp jump in Chinese net gold imports through Hong Kong as those inflows jumped by 150% from the prior month and reached the highest level since September.

Unfortunately for the bull camp, the net spec and fund long in gold as of last Tuesday was near the highest level since last May leaving gold vulnerable to stop loss selling on failures of support levels. Gold positioning in the Commitments of Traders for the week ending January 24th showed Managed Money traders net bought 13,274 contracts and are now net long 106,631 contracts. Non-Commercial & Non-Reportable traders were net long 206,016 contracts after increasing their already long position by 7,071 contracts. Clearly the silver market is tracking other physical commodities and equities in a sign that physical demand remains the number one trade focus.

Like the gold market, the silver market remains marginally overbought in net spec and fund positioning with last week's reading near the highest level since April of last year. The Commitments of Traders report for the week ending January 24th showed Silver Managed Money traders are net long 20,923 contracts after net selling 7,119 contracts. Non-Commercial & Non-Reportable traders are net long 41,959 contracts after net selling 6,007 contracts. While we think gold and silver will respect key chart support levels, to reignite fresh buying interest in gold probably requires an dollar index trade below 101.29.

Over the weekend, the PGM markets were undermined following a Reuters story indicating the historical rally in palladium prices has likely run its course with recycling and substitution with platinum thought to be well underway. On the other hand, disappointing physical and industrial demand for platinum might be offset today with a massive 23,711-ounce ETF inflow last Friday! Unfortunately for the bull camp, the latest COT positioning report for platinum remained 27,000 long contracts above the net spec and fund long position posted in the middle of last September. Platinum positioning in the Commitments of Traders for the week ending January 24th showed Managed Money traders reduced their net long position by 3,685 contracts to a net long 13,212 contracts. Non-Commercial & Non-Reportable traders net long 25,891 contracts after decreasing their long position by 2,949 contracts.

As indicated already, a Reuters story over the weekend rang the death knell for the palladium market pointing out its extreme high pricing over the last two years, increased recycling and most importantly the shift to electric cars thereby reducing demand for catalytic converters. Fortunately for the bull camp, the palladium market continues to hold a "net spec and fund short" which could arrest the slide started at the end of last week but perhaps not until prices fall to the next chart support level. Palladium positioning in the Commitments of Traders for the week ending January 24th showed Managed Money traders are net short 2,458 contracts after net selling 499 contracts. Non-Commercial & Non-Reportable traders net sold 632 contracts and are now net short 3,531 contracts.

COPPER:

While the March copper contract has generally maintained periodic higher highs for the move since the first two trading sessions of the year, the spike down failure later last week and a retest of the Friday low early today, shifts the bias slightly in favor of the bear camp. The bull camp should already be on edge waiting for the latest Chinese infection count readings and/or hospital utilization rates as intense exposure during the holidays could result in a temporary spike in infections. According to other trade sources the weakness in copper this morning is the result of a lack of "upbeat" Chinese economic stories in the Press. However, China posted a net increase in 2022 refined copper output of 4.5% which should provide modest fundamental demand support for prices.

Additionally, the supply-side of the equation remains definitively in the bull camp with a series of longer-term forecasts for 2023 indicating tight supply will be easily overcome by demand this year with a slight revival in Chinese growth. As for the technical position in the market, copper into the low Friday traded $0.07 below the level where the last positioning report was measured and therefore, we think the copper market at the start of this week has a net spec and fund long half of the highest levels since late 2021. The January 24th Commitments of Traders report showed Copper Managed Money traders added 5,868 contracts to their already long position and are now net long 41,116. Non-Commercial & Non-Reportable traders were net long 26,820 contracts after increasing their already long position by 3,198 contracts.

ENERGY COMPLEX:

In retrospect, the petroleum markets bought the rumor of a recovery in Chinese energy demand from "opening up" optimism last week. However, global macroeconomic psychology appears to have shifted bearish from last week, perhaps because of concern for central bank rate hikes this week. On the other hand, the Russians have aggressively escalated their attacks perhaps because of the promise of sophisticated Tanks from the US and UK. Fortunately for the bull camp, bearish macroeconomic pressure will be partially mitigated with a 16% decline in global crude oil in floating storage on a week over week basis. Another potential supportive element in today's trade is evidence of a significant increase in bullish Brent and gasoline long speculation. Certainly, the petroleum markets could derive support from an attack on an Iranian military complex rumored to be carried out by Israel.

In another bullish crude oil development and a potential bearish development for product markets, China indicates state refiners will increase their run rates by 1%-2% next month. Given the large range down failure in March crude at the end of last week and a fresh lower low for the move this morning, the bear camp has the edge from a technical perspective. Furthermore, sentiment of more than adequate US supply has surfaced over the last month with EIA crude oil stocks reaching a surplus of 32.3 million barrels. It should also be noted that the trade has seen a significant jump in Cushing crude oil inventories with a 4-million-barrel jump last week.

On the bullish side of the supply equation, it is possible that the Russian "workaround" of price caps, shipping limitations and other embargo factors has resulted in a backup of cargo shuttle tankers with Russian Sokol crude destined to be loaded on oceangoing tankers building. Crude Oil positioning in the Commitments of Traders for the week ending January 24th showed Managed Money traders added 6,422 contracts to their already long position and are now net long 188,474. Non-Commercial & Non-Reportable traders net bought 21,161 contracts and are now net long 311,273 contracts. At least until midweek the focus of the energy markets will likely center are on demand with equity markets (particularly those in China) providing some direction in the coming sessions.

As indicated already, most EIA product supplies continue to be in deficit from year-ago levels with the gasoline market holding the largest year-over-year deficit of nearly 16 million barrels. While the US refinery operating rate has rebounded by more than 6% since the spike low back on December 30th, the refinery operating rate remains below year ago and average levels for this time of the year and that could leave US gasoline stocks tight. Given a US refinery overhaul and periodic French refinery strikes gasoline should have some ability to moderate what could be a slide toward $2.50.

In a bearish longer-term development, the Chinese government has indicated state run refiners will boost their activity next month. Gas (RBOB) positioning in the Commitments of Traders for the week ending January 24th showed Managed Money traders added 10,553 contracts to their already long position and are now net long 67,091. Non-Commercial & Non-Reportable traders added 8,377 contracts to their already long position and are now net long 72,535. Like the gasoline market, the diesel market at the end of last week severely damaged its charts despite lower EIA inventories and cold in the US.

Unfortunately for the bull camp, recent cold temperatures have not fostered a significant jump in heating demand with the most significant demand coming from jet fuel and diesel for trucks. With the sharp downside extension into last Friday's low the diesel market enters the trading session down $0.16 from the last positioning report date. Therefore, adjusting the net spec and fund long for the washout at the end of last week might put the net spec and fund long at the smallest level since September. The January 24th Commitments of Traders report showed Heating Oil Managed Money traders added 8,499 contracts to their already long position and are now net long 26,126. Non-Commercial & Non-Reportable traders long 48,712 contracts after increasing their already long position by 8,188 contracts.

Even though the natural gas market is significantly oversold from both short-term and intermediate perspectives, periodic and limited duration cold weather systems are being more than offset by higher-than-average temperatures. In fact, at this point a significant deep freeze might not result in anything but a loss of downside momentum. On the other hand, from a technical perspective the net spec and fund short in natural gas adjusted for the slide of $0.39 (into last week's low) should leave the gas contract with the largest net spec and fund short positioning since March of 2020. The January 24th Commitments of Traders report showed Natural Gas Managed Money traders reduced their net short position by 5,748 contracts to a net short 81,530 contracts. Non-Commercial & Non-Reportable traders were net short 139,399 contracts after decreasing their short position by 8,221 contracts.

The bear camp continues to have a firm grip on prices with bearish fundamentals firmly entrenched in the headlines. However, Freeport's public relations personnel reportedly indicated last week that they are already testing the system with pressure flows which could lead to a resumption of seaborne LNG exports. Unfortunately for the bull camp, the trade is fully aware of the potential for increased US exports from the Freeport facility and is largely unmoved. Therefore, unless the trade shows a significant bounce from the reopening of the Freeport LNG export terminal, the bear camp will maintain its iron grip on gas prices.

BEANS:

There are scattered rains for parts of Argentina growing areas over the next week, but today's models show no rain for the second week out and only widely scattered rains for this week. While there is plenty of uncertainty for the forecast this far out, if it verifies, significant stress could return to any fields which misses out on this week's scattered rain events. There is still significant tightness in the short-term supply situation for meal as traders await new crop supply from South America. Soybean planting looks profitable for the coming year, and this could pull acreage from cotton. Planted area this coming year may increase to 88.5 million acres, up 1 million from last year.

If we use trend yield and assume a jump in usage to 4.468 billion bushels from 4.355 billion in 2022/23, 2023/24 ending stocks would come in near 318 million bushels. This would be up from 210 million in 2022/23. March soybeans closed moderately lower on the session Friday but still higher for the week. Ideas that crop conditions in Argentina could continue to improve helped to pressure. Weakness in the energy complex and some strength in the US dollar were seen as negative forces. March meal closed lower on the session after the early rally to the highest level since January 18, also the contract high date, failed to attract new buying interest. March soybean oil closed lower on the session and the selling pushed the market down to the lowest level since December 12.

The Commitments of Traders report for the week ending January 24th showed Soybeans Managed Money traders are net long 146,261 contracts after net selling 22,037 contracts in just one week. CIT traders were net long 128,588 contracts after increasing their already long position by 5,544 contracts. For Soyoil, Managed Money traders were net long 35,961 contracts after decreasing their long position by 18,047 contracts for the week. CIT traders were net long 96,250 contracts after increasing their already long position by 2,583 contracts. For Soymeal, Managed Money traders were net long 135,503 contracts after decreasing their long position by 15,436 contracts. Last week was a record high. Non-Commercial & Non-Reportable traders net sold 16,642 contracts and are now net long 168,219 contracts.

CORN:

While there is decent rain for the past week, Argentina corn growing areas should see just scattered rain amounts for this week, and no rain in the forecast for next week. If this forecast verifies, many corn areas could be back under stressful conditions. Crops in poor to very poor condition reached 32% before last week's rains as compared with 28% the previous week and 20% last year. March corn closed slightly higher on the session Friday and moderately higher for the week. The market managed to trade up to the highest level since January 18 before pulling back into the close. Weakness in crude oil and weakness in soybeans were seen as negative factors. More talk of potential irreversible damage to the Argentina crop helped to support the market last week. With strong profitability for corn production this year, producers may shift to more acres in 2023. We are estimating that plantings could come in near 91.5 million acres, up from 88.6 million last year.

If we use a trend yield and boost total usage to 14.750 billion bushels from 13.915 billion in 2022/23, ending stocks for 2023/24 would increase to 1.721 billion bushels and result in a stock/usage ratio of

11.7%. This would be up from 2022/23 ending stocks at 1.242 billion bushels and a stocks/usage ratio of 8.9%. If exports are as slow in 2023/24 as they are this year, ending stocks would jump to 2.071 billion bushels. Even if yield comes in 3% below last year, ending stocks would still be higher. Corn positioning in the Commitments of Traders for the week ending January 24th showed Managed Money traders net bought 9,660 contracts and are now net long 201,797 contracts. Non-Commercial & Non-Reportable traders net sold 6,209 contracts and are now net long 181,133 contracts.

WHEAT:

The wheat market may follow the other grains higher short-term. March wheat closed slightly lower on the session Friday with a quiet inside trading day. The market managed to close 8 cents higher on the week after first trading down to the lowest level since September 2021. The weekly reversal is a positive technical development and the market is still correcting the oversold condition. European milling wheat futures also closed lower but posted its first weekly gain in a month. News of a potential record high production and record high exports for the Australia crop this year helped to limit the buying. July Kansas City wheat closed higher and experienced the highest close since January 3. A Farm Futures survey showed US producers expecting wheat planted area to come in at 48.8 million acres for the 2023/24 season.

Using this estimate, plugging in trend yield of 49.2 bushels per acre, and increasing usage to 1.952 billion bushels from 1.901 billion in 2022/2023 would put ending stocks at 706 million bushels, up from 567 million for the current marketing year. Even if all wheat yield comes in 3% below trend, ending stocks would still reach 647 million bushels. The January 24th Commitments of Traders report showed Wheat Managed Money traders are net short 73,933 contracts after net selling 8,844 contracts for the week. Non-Commercial & Non-Reportable traders added 7,001 contracts to their already short position and are now net short 54,476. For KC Wheat, Managed Money traders reduced their net short position by 459 contracts to a net short 6,832 contracts.

HOGS:

Technically, the market experienced a sweeping reversal on Thursday and also experienced an outside week higher close which are positive developments. However, the lack of tightening supply this quarter from the fourth quarter combined with the April premium to the cash suggests the market will need some type of supply catalysts in order to experience more than just a technical bounce. April hogs closed lower on the session Friday after an early rally to the highest level since January 17 failed to attract new buying interest. While still in an oversold condition, and still in a position to bounce, the upside looks limited due to ample short-term supply. In addition, April holds a large premium to the cash market. The premium is normal for this time of the year, but the shift to lower production into the first quarter is the reason for the premium, and this year production is not shifting lower. Packer profit margins are supportive and average weights are low so producers are current with marketings.

The USDA pork cutout, released after the close Friday, came in at $77.70, down $1.56 from Thursday but up from $77.62 the previous week. The CME Lean Hog Index as of January 25 was 72.52, up from 72.32 the previous session but down from 73.28 a week prior. The USDA estimated hog slaughter came in at 487,000 head Friday and 95,000 head for Saturday. This brought the total for last week to 2.536 million head, up from 2.531 million the previous week and 2.530 million a year ago. Friday's Commitments of Traders showed managed money traders were net sellers of 14,335 contracts of lean hogs for the week ending January 24, taking them from a net long position to a net short of 3,672. This is an aggressive selling trend. Non-commercial & non-reportable traders were net sellers of 12,733, taking them from a net long position to a net short of 8,840. In just 20 trading sessions, April hogs fell 14% to Thursday's low before a sweeping reversal from an extreme oversold condition.

CATTLE:

The cattle market seems to have the supply fundamentals in the months ahead to expect a resumption of the uptrend. However, beef prices are at the lowest level since December 22 and cash markets remain sloppy. January is a seasonally weak demand timeframe but any actions which might tighten supply further could be seen as supportive. For now, choppy trade is still possible. April cattle closed higher on the session Friday after the early break to the lowest level since January 23 failed to attract new selling interest. Sluggish action for beef prices and weakness in the cash market last week helped to pressure. The USDA boxed beef cutout was down 21 cents at mid-session Friday and closed 99 cents lower at $267.76. This was down from $271.72 the previous week and was the lowest it had been since December 22. The estimated average dressed cattle weight last week was 829 pounds, down from 830 the previous week and 845 a year ago. The 5-year average weight for that week is 833.6 pounds.

Estimated beef production last week was 545.2 million pounds, up from 537 million a year ago. Cash live cattle trade was lower last week. As of Friday afternoon, the five-day, five-area weighted average price was 154.26, down from 155.29 the previous week. The USDA estimated cattle slaughter came in at 124,000 head Friday and 31,000 head for Saturday. This brought the total for last week to 659,000 head, up from 646,000 the previous week and 655,000 a year ago. The Commitments of Traders report showed managed money traders were net sellers of 7,815 contracts of live cattle for the week ending January 24, reducing their net long to 76,857. This is a long liquidation selling trend. Non-commercial & non-reportable traders were net sellers of 5,684, reducing their net long to 76,309.

COCOA:

While cocoa's recovery move ran out of steam at the end of last week, the market will start today's action 120 points above its mid-January low (up 4.8%) and on-track for a fourth positive monthly result in a row. With the demand outlook showing signs of improvement, cocoa prices should remain well supported early this week. March cocoa held within a fairly tight range before finishing Friday's inside-day session with a minimal loss. For the week, however, March cocoa finished with a gain of 58 points (up 2.3%) which was a third positive weekly result over the past 4 weeks.

Continued improvement in global risk sentiment along with recent gains in European and US equity markets provided carryover support to cocoa prices as they can help to soothe near-term demand concerns. The 3 major cocoa demand regions (Europe, Asia and North America) all saw their 2022 fourth quarter grindings come in below their 2021 results. Lower than expected results for December US PCE and core PCE on Friday helped to reinforce ideas of a sustained pullback in US and Euro zone inflation.

If that continues, it should benefit first quarter cocoa demand as that may encourage consumers to increase their purchases of discretionary items such as chocolate. The director general of Ivory Coast's Coffee & Cocoa Council (CCC) announced plans for a new cocoa processing plant in their port city of San Pedro, while two processing plants will begin operations at the start of the 2023/24 season in October. This would bring Ivory Coast's grinding capacity to over 1 million tonnes per year, which bodes well for cocoa's longer-term demand outlook.

The January 24th Commitments of Traders report showed Cocoa Managed Money traders were net long 1,295 contracts after decreasing their long position by 9,779 contracts. CIT traders are net long 23,504 contracts after net selling 4,981 contracts. Non-Commercial No CIT traders added 2,794 contracts to their already short position and are now net short 4,860. Non-Commercial & Non-Reportable traders net sold 4,341 contracts and are now net long 12,551 contracts.

COFFEE:

Coffee prices are on-track for their first positive monthly result since August after regaining more than 19% in value over the past 2 1/2 weeks. While this leaves the market vulnerable to end-of-month profit-taking and long liquidation, coffee should continue to find support from an improving demand outlook. March coffee shook off early pressure and reached a new 3 1/2 week high before finishing Friday's trading session with a sizable gain that was a sixth positive daily result in a row. For the week, March coffee finished with a gain of 15.10 cents (up 9.8%) and a second positive weekly result in a row.

ICE exchange coffee stocks fell by 24,947 bags on Friday, which was the largest daily outflow in recent memory. Although they are more than 31,000 bags above their December month-end total, there are less than 97,000 bags of coffee waiting to be graded while there has been a 64% failure rate for coffee that went through the grading process this month. This should result in ICE exchange coffee reaching a near-term top well below earlier market expectations, and that has provided underlying support to the market.

Peruvian coffee growers are set to go on strike today, which also led to near-term supply concerns that have underpinned coffee prices late this week. The Brazilian currency reached an 11-week high early Friday before it fell back into negative territory. While this may have kept further coffee price gains in check going into the weekend, the Brazilian Real has risen sharply in value during the past 3 weeks, and that should ease pressure on Brazil's farmers to market their remaining coffee supply.

The Commitments of Traders report for the week ending January 24th showed Coffee Managed Money traders reduced their net short position by 3,696 contracts to a net short 36,784 contracts. CIT traders net bought 1,225 contracts and are now net long 43,874 contracts. Non-Commercial No CIT traders are net short 40,020 contracts after net buying 3,920 contracts. Non-Commercial & Non-Reportable traders are net short 30,618 contracts after net buying 3,529 contracts.

COTTON:

March cotton closed moderately lower on the session last Friday and this left the market with a slight gain for the week. The US dollar was slightly higher which was seen as a negative, and US consumer spending fell for a second straight month in December. Spending on non-durables like clothing and footwear declined 1.4%. Weakness in the crude oil market was also seen as a negative factor. Some traders believe Brazil and India cotton are cheaper than US cotton for now, and this may cause export sales to soften over the near term. Sales have been positive for the last couple of weeks, but cumulative cotton sales still significantly lag a normal pace to reach the current USDA projections. There has been plenty of talk about the potential for a sharp drop in US cotton plantings this year given the high price of competing crops.

Even if we assume a 20% drop in planted area and use a 20-year average abandonment rate and trendline yield, ending stocks could surge to 6.24 million bales for the 2023/24 marketing year. This would be up from 4.2 million in 2022/23, 3.75 million in 2021/22, and 3.15 million in 2020/21. This scenario assumes the same usage as the 2022/23 season. The Commitments of Traders showed managed money traders were net buyers of 9,052 contracts of cotton for the week ending January 24, taking them from a net short position to a net long of 7,122. Non-commercial & non-reportable traders were net buyers of 10,889, increasing their net long to 15,626. December cotton remains in a significant uptrend off of the October 31 low. Traders continue to believe that the sharp drop in planted area could save the market from building stocks in the year ahead. But like the other grains, it appears that it will take a continued drought to expect tightening supply.

SUGAR:

Sugar prices have risen more than 5% in value over the past 3 sessions and are back to within striking distance of a new 5 1/2 year high. Following recent bullish supply developments in India, sugar prices could finish January by reaching new high ground. March sugar found early strength before falling back into negative territory, but regained upside momentum and reached a 5-week high before finishing Friday's trading session with a sizable gain. For the week, March sugar finished with a gain of 1.24 cents (up 6.3%) which was a second positive weekly result over the past 3 weeks.

A negative turnaround in crude oil and RBOB gasoline prices put early carryover pressure on the sugar market, as that may weaken near-term ethanol demand in Brazil and India. There were further indications that India will halt this season's sugar exports until further notice, however, which provided a boost to sugar price late in the day. A state government official said that mills in India's largest sugar-producing state of Maharashtra will finish this season's crushing operations 1 1/2 to 2 months earlier than last season as heavy rainfall reduced the amount of cane available for crushing.

While Maharashtra's sugar production this season is currently ahead of last season's pace, the official estimated their full-season production at 12.8 million tonnes which compares to last season's record-high 13.7 million. This provides more evidence that India's 2022/23 sugar production will come in at least 1 million tonnes below last season's 35.8 million, which in turn strengthens the case for India's government to hold off on a second export tranche for this season.

The Commitments of Traders report for the week ending January 24th showed Sugar Managed Money traders reduced their net long position by 5,578 contracts to a net long 172,143 contracts. CIT traders are net long 173,617 contracts after net selling 2,075 contracts. Non-Commercial No CIT traders reduced their net long position by 4,237 contracts to a net long 115,106 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 7,871 contracts to a net long 230,194 contracts.

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