ADM Investor Services, Inc.

Weekly Futures Market Summary

March 13, 2023 **by the ADMIS Research Team**

BONDS:

In our opinion, the sharp upside action in US bond and note prices following last Friday's jobs data was massively overdone especially with various components of the job report countervailing. The critical nonfarm payroll headline reading much above expectations, but an uptick in the unemployment rate certainly prompted some economic consternation. Apparently, seeing 10 million plus jobs remain open from the JOLTS report was not enough to countervail the unemployment rate jump. It is also possible that average hourly earnings on a month over month basis did not soften enough to moderate inflation fears which will become even more important in the face of next week's monthly CPI and PPI report cycle.

Clearly, the flight to quality environment the last week has returned in force in treasuries to start the new trading week, with bond prices approaching 2-point gains above Friday's close. Certainly, the threat of a US financial banking system contagion is on the minds of global markets and the flight to quality buying is significant enough to be present beyond the treasury markets! In fact, gold, which has mostly lost its historical standing as a "hedge against inflation" and has mostly lost its "safe harbor" standing over the last decades is seeing "safe haven" buying today because of SVB. Therefore, SVB fear is significant and adds to the pre-existing allure of US treasuries. While we give the edge to the bull camp this week, traders must proceed with caution on Tuesday with the beginning of critical inflation reports from around the world, the most important of which is the US CPI reading for February!

While the treasury markets have posted significant short covering from the latest CFTC positioning report release, the short positioning in bonds was likely exaggerated into the early March lows with the net short possibly reaching the largest level since May 2021. Therefore, in addition to very bullish fundamental reasons to buy treasuries, treasuries likely have massive, short covering buying fuel in place. Bonds positioning in the Commitments of Traders for the week ending February 21st showed Non-Commercial & Non-Reportable traders reduced their net short position by 29,366 contracts to a net short 151,356 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders were net short 613,450 contracts after decreasing their short position by 36,289 contracts.

CURRENCIES:

Even though the US dollar plummeted last Friday, and forged surprising declines in the wake of a payroll report which favored growth over slowing trade expectations and was apparently pricing in "strength in the US jobs market". However, taking a step back, the US economy remains in good stead, upcoming inflation readings are likely to present buying of the rumor and we also suspect periodic predictions of a 50-basis point rate hike from the US Fed will lift the dollar. Nonetheless, the hard break in the dollar index is likely to provide a very advantageous long entry opportunity. It is somewhat rare to see the US dollar slide in the face of global financial uncertainty events. In fact, seeing the dollar slide in the face of strong gains in gold and treasuries signals less flight to quality status for the US dollar.

In the past, fears of a US debt downgrade, fear of US government shutdowns and even a significant explosion in US Covid infections has resulted in all US financial instruments seeing buying interest. Therefore, seeing the dollar track lower seems to suggest a loss of prestige. However, as it is said "it does not pay to fight the Fed" it also does not "pay to fade the dollar" in any global financial event. In short, press the short side of the dollar at your own peril. The Commitments of Traders report for the week ending February 21st showed Dollar Non-Commercial & Non-Reportable traders net bought 501 contracts and are now net long 16,643 contracts.

While the euro has surprised with a multi-week high in the early action this week, we are highly suspicious of a sustained rally in the euro if the global economic outlook deteriorates significantly from the US bank situation or if US inflation remains hot. In conclusion, buy the euro at current levels at your own peril! Euro positioning in the Commitments of Traders for the week ending February 21st showed Non-Commercial & Non-Reportable traders were net long 236,985 contracts after increasing their already long position by 2,039 contracts.

Even though the previous standing of the Japanese economy and the Bank of Japan have been poor, the currency has seemingly become the recipient of some flight to quality flow today. While we give the bull camp the edge and a rally to 77.50 is possible, we suggest traders use trailing stops on fresh longs in the Yen. It should be noted that the Swiss franc was already displaying classic flight to quality buying behavior last week from whispers of the inability to contain global inflation and the currency today has been given added lift as a harbor of safety. Near term upside targeting in the June Swiss franc is 1.12 but volatility could be the most expansive of the last 5 months.

Even though the Pound has not seen significant windfall from the breakdown in the dollar, the currency has rallied and is receiving flow of dollars out of the US. While we think the Pound will have difficulty forging significant and sustained gains, the Pound might be the safest short dollar instrument. With a failed upside breakout and a drift back toward last week's lows early, the Canadian dollar has been declared guilty by geographic and economic proximity to the US economy and the US dollar. Furthermore, the Canadian regulatory authorities have taken control of the Canadian branch of SVB and that casts a cloud of concern toward Canadian financial institutions.

STOCKS:

In our opinion, the ability of the US equity markets to avoid significant declines late last week was a function of the nearly unbelievable gains in US treasury futures prices and because the totality of jobs data might be considered a Goldilocks result. In other words, the higher-than-expected nonfarm payroll reading offset the jump in the unemployment rate and in turn potentially caused a portion of the trade pressing the downside to bank profits and move to the sidelines. Global equity markets overnight were sharply lower with the market in the UK suffering the largest losses.

Obviously, fears of a US bank/financial institution contagion undermined global equity markets at the start of this week and has kept the US early Monday trade off balance. While it appears that all deposits at SVB will be secured by the FDIC, the markets are also concerned about First Republic Bank and Signature Bank. However, it should also be noted that HSBC is apparently attempting to rescue the British subsidiary of SVB. Even though it is premature to speculate on the SVB impact on the Fed's March rate decision, Goldman predicted the Fed will not hike rates next week because of current US financial institution uncertainty.

Seeing the S&P near Friday's sharp range down extension lows early this week indicates the bear camp retains control and uncertainty among investors has been extended into another trading week. With the added uncertainty from looming critical inflation measures (from around the world) this week, investors are being presented with a very highly charged financial market environment.

While many perceived major junctions for markets fail to materialize, this week has all the hallmarks of a very significant financial market event capable of shaping trends for months and quarters ahead. With fundamentals bearish the expanding oversold speculative positioning in the S&P probably will not cushion the market against a quick return to 3800. The February 21st Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders reduced their net short position by 17,257 contracts to a net short 208,656 contracts.

With a lower low and lowest price since the 2nd half of October early today the Dow futures look to be on a straight track to 31,500. However, despite Goldman predictions that the US Fed will not hike rates next week, Dow stocks continue to fear higher rates and could see fear of higher rates explode following this week's heavy schedule of global inflation reports. The February 21st Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders were net short 17,567 contracts after increasing their already short position by 7,456 contracts.

Surprisingly, the NASDAQ has held up better than other sectors of the market and appears to have found value close to the 12,000 level. Seeing NASDAQ find support among investors with a major source of venture-capital, venture capitalists and funds threatened by the SVB event could signal less vulnerability for NASDAQ this week. Nasdaq Mini positioning in the Commitments of Traders for the week ending February 21st showed Non-Commercial & Non-Reportable traders net bought 8,768 contracts and are now net short 36,024 contracts.

GOLD, SILVER & PLATINUM:

While a lower low for the dollar and the lowest trade since February 16th certainly justifies strength in gold, some portion of the significant overnight pulse up move is likely to be flight to quality interest surrounding the California bank failure. Furthermore, Goldman Sachs over the weekend predicted the Fed will not hike rates later this month because of the current stress in the financial sector! The flight to quality buying of gold and treasuries without purchases of the dollar highlights some concern of a US financial contagion but contagion is not widely feared as of this writing. It should be noted that Indian gold ETF holdings saw a record inflow last month, but that inflow was preceded by massive withdrawals over the prior 3 months. Apparently, Indian gold investors are attracted to gold now on price weakness!

While the gains in gold last Friday were outsized and overdone, if the trade sees the upcoming wave of global inflation readings signaling inflation continues to rise the gains in gold could become surprising. However, both consumer and producer price readings for last month were highly divergent throughout the world with China posting soft inflation readings, Switzerland expected to produce soft producer and import prices, Spain expected to post a steady but still hot 1% month over month gain and the US is expecting consumer prices to tick down by 0.1%. The CFTC continues to catch up on its positioning reports with the delay now shortened to two weeks. Fortunately for the bull camp the net spec and fund long in gold has come down 64,000 contracts from the 2023 high and likely saw that net long decline further with the post COT position report slide of $34 into the late February low.

The Commitments of Traders report for the week ending February 21st showed Gold Managed Money traders net sold 4,896 contracts and are now net long 52,457 contracts. Non-Commercial & Non-Reportable traders net sold 4,497 contracts and are now net long 145,018 contracts. On the other hand, the large range up rally last Friday was forged on the highest trading volume since November 15th of 2022, suggesting the bull camp does have some breadth. Unfortunately for the bull camp, the gold market will continue a lockstep inverse relationship with the dollar which in turn will fluctuate off fresh market assumptions on the magnitude of the next US interest rate hike.

With the silver market showing significantly less upside action than gold from the May contract low on Friday, the silver bull camp is likely narrower in scope than in the gold trade. Furthermore, generally concerning global economic expectations look to leave headwinds hanging on physical commodities like silver. However, silver has seen consistent net spec and fund long liquidation action from the 2023 high spec long position registered early in January and the market has displayed some respect for consolidation support around $20.00. The February 21st Commitments of Traders report showed Silver Managed Money traders are net long 5,564 contracts after net buying 40 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,502 contracts to a net long 24,141 contracts.

While we expect ranges in platinum to remain narrow, we also expect the general bias in prices to try to link positively with gold. In fact, investment interest in platinum ETF holdings was already strong with holdings last week increasing by 23,738 ounces (+7,634 ounces last Friday), lifting the year-to-date gain in Platinum holdings to 3.1%. As opposed to the palladium market, the platinum market showed some positive sensitivity with the gold trade late last week and platinum has built a somewhat credible consolidation low support zone at $931. The Commitments of Traders report for the week ending February 21st showed Platinum Managed Money traders added 2,843 contracts to their already short position and are net short 6,552. Non-Commercial & Non-Reportable traders were net long 8,322 contracts after decreasing their long position by 3,719 contracts. As indicated already investment interest in palladium ETF instruments has been quite strong despite a net outflow from holdings last week of 12,226 ounces. However, palladium ETF holdings on Friday saw an inflow of 743 ounces and holdings are now approaching 10% higher year-to-date!

Fortunately for the bull camp, the palladium market net spec and fund positioning reported registered the largest ever net short in the February 21st COT report. Furthermore, with the palladium market from that report sliding nearly $200 yet another record short is likely in place! The Palladium positioning in the Commitments of Traders for the week ending February 21st showed Managed Money traders were net short 4,563 contracts after decreasing their short position by 50 contracts. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 5,523 contracts. Non-Commercial & Non-Reportable traders are net short 5,523 contracts after net selling 276 contracts. In conclusion, the palladium market is massively oversold with a net spec and fund short position likely 4 times greater than average daily trading volume! The bias is bearish without a sudden shift to ultra optimism toward China and a distinct leveling out of interest rate fears.

COPPER:

While the copper contract continues to respect and waffle around consolidation support just under $4.00, the early trade is encountering pressure from fear of a financial crisis which could trip up the global economy. We suspect the consolidation low support zone was given fundamental underpin following a 5-digit decline in weekly Shanghai copper stocks at the end of last week. However, to track higher in the $3.98 to $4.25 trading range will require much better global equity market action and perhaps very positive news from Chinese industrial production and retail sales releases for the month of February early in the Wednesday Asian trade.

Expectations for those reports predict significant improvement! With the CFTC positioning reports slowly catching up, a sense of speculative sentiment in the market is becoming clearer. However, despite a week-over-week increase in the net spec and fund long into the latest positioning report, a slide from that report mark off to the recent low was nearly $0.24 has likely shifted the net spec and fund long position into short territory. The February 21st Commitments of Traders report showed Copper Managed Money traders added 11,284 contracts to their already long position and are now net long 17,670. Non-Commercial & Non-Reportable traders were net long 7,161 contracts after increasing their already long position by 6,370 contracts.

ENERGY COMPLEX:

The crude oil trade continues to focus on ever changing global demand views and not surprisingly global energy demand views early this week have shifted negative from US bank sector travails. Obviously, the recent primary focus of the energy trade has been China and the "pace of Chinese energy demand recovery", but the market is likely to take a break from that focus over the next several sessions. Fortunately for the bull camp, US crude prices on Friday saw US jobs data as a positive demand development instead of cause for fresh economic headwinds from even higher US interest rates. Unfortunately for the bull camp outside market forces are likely to prevail over internal energy market fundamentals at least into midweek.

In fact, if inflation readings are residually hot, we think that will ignite a wave of massive risk off selling in equities and commodities. Nonetheless, crude oil should garner some support from a 9% decline in weekly crude oil in floating storage readings especially with further evidence of very strong Indian energy demand last month surfacing in the headlines early this week. Unfortunately for the bull camp, April crude is flirting with severe damage on its charts again early this week while option skews have also shifted very bearish which in turn could result in April crude oil retesting the late February low down at $73.80. In fact, supply news also favors the bear camp with Iran over the weekend indicating its crude oil sales reached the highest level in 4 years with officials indicating net revenues of $14 billion over 11 months with 83 million barrels more sold this year than last!

Another negative story from the weekend came from Saudi Aramco plans to expand operations and increase supply flow to refineries. The CFTC continues to "catch up" to the back log of weekly positioning reports with the latest report "as of" February 21st. With the net spec and fund long positioning in crude bouncing over the last several reports and likely expanded further with the rally into last week's high, the crude oil market remains very overbought and remains vulnerable despite last week's setback off the high of more than $6.00. Crude Oil positioning in the Commitments of Traders for the week ending February 21st showed Managed Money traders were net long 164,292 contracts after decreasing their long position by 26,959 contracts. Non-Commercial & Non-Reportable traders net sold 5,360 contracts and are now net long 282,701 contracts. The weekly Baker Hughes rig count last week showed a decline of two rigs operating which in turn lowers rigs operating to the lowest level since June.

While we continue to see the gasoline market as the strongest fundamental component of the petroleum complex, the trade last Friday severely damaged chart support with a failure below $2.60. Furthermore, the early environment for gasoline demand expectations today has turned sour meaning fundamental sellers are likely to become more active. On the other hand, the latest COT positioning data in gasoline showed the market recently shifting from a net spec and fund short into a very minimal net spec and fund long. Furthermore, from the last COT positioning report the gasoline market into the low Friday was down $0.06 likely putting the market close to net spec and fund short territory again. The February 21st Commitments of Traders report showed Gas (RBOB) Managed Money traders were net long 55,396 contracts after decreasing their long position by 3,950 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 6,064 contracts to a net long 64,449 contracts. However, what little demand news is surfacing from China has been bearish recently with road congestion readings softening consistently from the highs posted in mid-February.

As in most other markets, the coming week will have at least several days of big picture developments driving physical commodity prices. While we see the potential for a noted softening of inflation, evidence of ongoing inflation will likely unleash a wave of selling and a retest of $2.52 in April gasoline. Fortunately for the bull camp, the diesel market also managed to reject severe damage on the charts last Friday and has added to the perception of credible consolidation low support around $2.60. However, US demand for diesel continues to be very soft and recent reports of Russian floating diesel supply backing up on floating storage indicates a near term trade in April diesel below $2.66 is likely. The February 21st Commitments of Traders report showed Heating Oil Managed Money traders are net long 17,003 contracts after net buying 59 contracts. Non-Commercial & Non-Reportable traders net sold 5,251 contracts and are now net long 26,199 contracts.

The short covering bounce off the February low has obviously been reversed, and seeing the media declare the end of a winter gas shortage disaster, that should give the bear camp confidence to press prices back to contract lows. As was experienced last week, weather forecasts in North America and Europe have contained pockets of below normal temperatures, but the typical seasonal upswing in temps is underway which should result in slower consumption and higher stocks on both sides of the Atlantic. Last week's Baker Hughes US gas rig count declined by one with 153 rigs operating. On the other hand, there are now reports from oil companies indicating they are set to cut the number of rigs drilling for gas because of low prices.

With average inventory levels 21% above the 5-year averages and the year over year change in US EIA working gas in storage at +500 billion cubic feet, the chance of developing tightness is remote. With the natural gas market from the last delay COT positioning report forging gains of nearly $0.85, the large net spec and fund short position has likely been balanced, increasing the chances of a fresh bulge of selling ahead The February 21st Commitments of Traders report showed Natural Gas Managed Money traders net sold 9,425 contracts and are now net short 76,888 contracts. Non-Commercial & Non-Reportable traders were net short 142,438 contracts after increasing their already short position by 4,789 contracts. The path of least resistance is down with a return to the February contract low likely without a very surprising headline development.

BEANS:

Soybeans traded lower last Thursday and last Friday in spite of downward revisions in Argentina and Brazil soybean production and the market is inching lower at the start of this week. The market seems to have the short-term supply news from Argentina to rally, but the technical action remains weak. Brazil exports to the world could rise to as high as 94 million tonnes, a 19% increase over last year. Soybean oil finished the week with another down day.

Canadian canola oil futures fell to the lowest level since January of 2022. Vegetable oils around the globe were sharply lower on the week last week. If Argentina's production does end up being 6 million tonnes below the current USDA estimate, demand for old crop US soybeans (for domestic crush and for export) may be higher than current expectations. If we assume soybean demand increases 500,000 tonnes, US ending stocks could drop to 191.6 million bushels and result in a stocks/usage ratio of 4.4%, down from the current forecasts of 210 million bushels and 4.8%.

There is a strong correlation between tightening stocks/usage and the highs for the July/November Soybean and July/December Meal spreads. The current high for the July23/November23 soybean spread is 157 1/2. If the stocks/usage ratio falls to 4.4%, it would be the second tightest on record and would suggest the spread could move much higher. The average maximum for spread for the six years that were tighter than 4.8% is 302 3/4. For the July/December Soybean Meal spread, the average maximum for the six years that were tighter than 4.8% is 90.30.

The February 21st Commitments of Traders report showed Soybeans Managed Money traders were net long 189,009 contracts after increasing their already long position by 6,801 contracts for the week. Non-Commercial & Non-Reportable traders net bought 2,095 contracts and are now net long 146,801 contracts. For soyoil, Managed Money traders net bought 11,978 contracts and are now net long 34,301 contracts. For meal, Managed Money traders hit a new extreme long of 154,141 contracts after net buying 1,742 contracts for the week. Soymeal Non-Commercial & Non-Reportable traders also hit a new extreme long of 189,357 contracts after net buying 2,094 contracts.

CORN:

The hook reversal after trading down to the lowest level since August 4th is a positive technical development for the corn market, and the reversal comes from an extreme oversold condition. However, the market is testing Friday's lows this morning and if taken out, this would negate the reversal. Traders in the corn market await fresh news of the extension of a deal between the UN and Russia that would keep grain exports flowing out of Ukraine. However, Russian officials claim they are not in negotiations yet to extend grain exports for Ukraine. Meetings are set to start today in Geneva. U.S. corn exports to destinations other than China are at a multi-year low, showing tepid demand for US exports at moment - a further hindrance on prices.

If we plug-in the new beginning stocks number for the new crop season and use the USDA baseline projections for the 2023/24 season, ending stocks would jumped to 1.962 billion bushels with a stocks/usage of 13.5%. This would be the highest since the 2018/19 season. If we add 1 million acres, which seems reasonable given the drop in fertilizer prices, ending stocks would jump to 2.143 billion bushels. The February 21st Commitments of Traders report showed Corn Managed Money traders net sold 18,937 contracts and were net long 215,928 contracts. Non-Commercial & Non-Reportable traders are net long 184,861 contracts after net selling 16,799 contracts.

WHEAT:

From a deeply oversold level, it will not take much in the way of positive news to expect a recovery bounce. The wheat market found support on Friday from short covering going into the weekend, and also from a sharp break in the US dollar. Wheat futures hit the lowest level since July 13th of 2021 on Friday before closing higher on the session and the hook reversal is a positive technical development. Traders were also looking for a concrete resolution between the UN and Russia that would extend a deal that allows grain exports out of Ukraine.

No fresh news on the deal had been reported into the close, adding to market jitters. Russia has made cheap wheat available on the world market to help keep prices muted. However, Russian officials claim they are not in negotiations yet to extend grain exports for Ukraine. Meetings are set for today in Geneva. A possible heat wave is expected to hit the wheat crop in India and has supported sharply higher prices and also restrictions on exports. The hottest February since 1901 has sparked expectations for heat waves to hit India during the March-May timeframe.

The amount of France's wheat crop in good or very good condition was unchanged at 95% as of March 6. That's the best score for this point of the season in at least a decade. The February 21st Commitments of Traders report showed Wheat Managed Money traders net sold 12,088 contracts and are were net short 72,045 contracts. Non-Commercial & Non-Reportable traders were net short 50,345 contracts after increasing their already short position by 8,136 contracts for the week. For KC wheat, Managed Money traders added 4,367 contracts to their already long position and were net long 15,974.

HOGS:

With pork production about unchanged from a year ago this past week, and with a more stable pork product market, futures are in a position for a technical recovery bounce as the market corrects from the oversold condition. The market had priced-in a bigger production outlook but the stability in cash and pork product prices has been enough to spark short covering and some new seasonal buying. April hogs are trading at a premium of 6.29 to the cash market as compared with a premium of 1.70 last year and the 5 year average premium of 3.45 at this time of the year. April hogs closed sharply higher on the session Friday and well off of the early highs. The slower than expected slaughter this past week plus a jump in pork values helped to support the gains. Estimated US pork production last week was 545.3 million pounds, up from 510.2 million the previous week and 543.2 million a year ago.

The USDA pork cutout, released after the close Friday, came in at $86.13, down 19 cents from Thursday but up from $84.14 the previous week. The CME Lean Hog Index as of March 8 was 79.39 up from 79.29 the previous session and up from 78.65 the previous week. The USDA estimated hog slaughter came in at 480,000 head Friday and 105,000 head for Saturday. This brought the total for last week to 2.497 million head, down from 2.512 million the previous week but up from 2.472 million a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 9,303 contracts for the week ending February 21, which moved them from a net short position to a net long of 6,056. The market on Friday was slightly higher than it was on the 21st, suggesting the managed money position is still close to neutral. Non-commercial & non-reportable traders were net buyers of 8,986, taking them for a net short to a net long of 4,591 contracts.

CATTLE:

The cattle market remains in a choppy to lower pattern but is holding above the early March lows and the mid-February lows. A firm tone to the cash and beef markets has been enough to provide underlying support. Beef production was down 5.2% from a year ago last week and a tightening supply situation continues to provide underlying support. Weights remain low enough to suspect that producers are current with marketing's. April cattle closed moderately lower on the session Friday and the selling pushed the market down to the lowest level since March 3rd. Slow exports and sluggish trade in the beef market helped to pressure the market last week. The USDA estimated cattle slaughter came in at 114,000 head Friday and 18,000 head for Saturday. This brought the total for last week to 634,000 head, up from 629,000 the previous week but down from 637,000 a year ago. The estimated average dressed cattle weight last week was 826 pounds, down from 827 pounds the previous week and 843 a year ago. The 5-year average weight for that week is 827.8 pounds.

Estimated beef production last week was 518.4 million pounds, down from 546.9 million a year ago. The USDA boxed beef cutout was up $1.31 at mid-session Friday and closed 31 cents higher at $284.91. This was down from $289.32 the previous week. Cash live cattle ended last week slightly firmer than the previous week. As of Friday afternoon, the five-day, five-area weighted average price was 165.09, up from 164.94 the previous week. Friday's Commitments of Traders report showed managed money traders were net buyers of 3,397 contracts of live cattle for the week ending February 21, increasing their net long to 108,582. This was their largest net long since April 2019. On Friday the market closed slightly lower than where it was on February 21, which suggests the net long is still large and the market could still be considered overbought. Non-commercial & non-reportable traders combined were net buyers of 3,952, increasing their net long to 110,981.

COCOA:

While inflation levels have been in a longer-term decline since last year, the negative shift in global risk sentiment late last week has put cocoa’s demand concerns back into a front-and-center position. Even with recent bullish supply developments in West Africa, cocoa is likely to be pressured by additional long liquidation early this week. May cocoa opened under pressure and remained on the defensive all day as it fell to a 3-week low before finishing Friday’s trading session with a sizable loss. For the week, May cocoa finished with a loss of 56 points (down 2.0%) which was a second negative weekly result over the past 3 weeks.

While the US jobs data saw mixed results, the collapse of Silicon Valley Bank weighed heavily on global risk sentiment. This weighed on cocoa prices as that may weaken its near-term demand outlook.

Ideas that a tight near-term supply situation in West Africa may be relieved as the mid-crop harvest reaches full speed next month also weighed on cocoa prices going into the weekend. Keep in mind that many analysts are projecting cocoa will have a second global production deficit in a row during the

2022/23 season. The International Cocoa Organization's latest supply/demand forecast had cocoa's 2022/23 global grindings at 5.027 million tonnes, slightly below last season but also the second highest total on record. As a result, they estimated cocoa's 2022/23 stock/usage at 32.9 which would be the lowest reading since the 1984/85 season.

The February 21st Commitments of Traders report showed Cocoa Managed Money traders were net long 32,043 contracts after increasing their already long position by 20,204 contracts. CIT traders were net long 24,244 contracts after increasing their already long position by 6,786 contracts. Non-Commercial No CIT traders net bought 11,968 contracts and are now net long 21,162 contracts. Non-Commercial & Non-Reportable traders added 19,701 contracts to their already long position and are now net long 42,856.

COFFEE:

After falling more than 20 cents below its late February highs, coffee prices were able to find their footing in spite of severely negative global risk sentiment going into the weekend. With the market still technically oversold, coffee prices may be able to maintain upside momentum early this week. May coffee came under early pressure and reached a 4-week low, but regained strength late in the day as it finished Friday's trading session with a sizable gain. For the week, however, May coffee finished with a minimal loss of 0.05 cent which was a second negative weekly result in a row, but it just missed posting a positive weekly reversal.

Brazilian and Colombia coffee exports have come in below last year's total so far this year, which has provided the market with underlying support. The US Climate Prediction Center has declared the end of the mid-2021/early 2023 La Nina, and that should result in both areas seeing a normal weather pattern over the next few months. With back-to-back La Ninas leading to drier than normal conditions over Brazil's growing areas for much of the past 2 1/2 years, coffee trees in the region may not return to normal yields until the 2024/25 season. In addition, the prospect of Brazilian port congestion as their 2023/24 crop is exported also supported prices.

ICE exchange coffee stocks increased by 8,126 bags on Friday and are now less than 8,000 bags below their February month-end total. Coffee positioning in the Commitments of Traders for the week ending February 21st showed Managed Money traders net bought 9,049 contracts which moved them from a net short to a net long position of 7,651 contracts. CIT traders are net long 54,477 contracts after net buying 797 contracts. Non-Commercial No CIT traders are net short 3,529 contracts after net buying 7,369 contracts. Non-Commercial & Non-Reportable traders are net long 11,964 contracts after net buying 8,461 contracts.

COTTON:

May cotton collapsed last Friday, falling to its lowest level since November 28 and closing limit-down. Large cancellations by Pakistan of US cotton reported in last week's export sales report has raised concerns about global demand. Pakistan has been the second largest buyer of US cotton for the current (2022/23) marketing year. There was a report about Pakistan facing a crisis with foreign exchange. A strong jobs report for February also raised expectations that the US Federal Reserve would extend its tightening policy and increase the chances for recession.

The stock market fell sharply last Friday, and this undermined cotton prices. Friday's Commitments of Traders report showed managed money traders were net sellers of 15,770 contracts of cotton for the week ending February 21, taking them from a net long position to a net short of 13,238. Although modest, this was the biggest net short these traders had held since May 2020. However, the net short had gotten as deep as 45,000 in July 2019. After Friday's steep selloff, the net short has likely gotten even larger.

SUGAR:

Sugar prices were able to overcome negative global risk sentiment late last week and will start this week's action within striking distance of a new 6-year high. With a significant increase in Brazil's near-term supply expected over the next month, sugar prices are overvalued at current levels. May sugar came under early pressure, but regained strength late in the day as it finished Friday's trading session with a minimal gain. For the week, May sugar finished with a gain of 24 ticks (up 1.1%) which was a second positive weekly result in a row.

A pullback in the Brazilian currency put pressure on sugar prices as that may encourage Center-South mills to produce sugar for export. Later in the day, a rebound in crude oil and RBOB gasoline prices provided carryover support to the sugar market as that can help to shore up ethanol demand in Brazil and India. Recent forecasts have dialed back this season's production estimates for India and Thailand which continues to underpin sugar prices. However, early forecasts for Brazil's upcoming 2023/24 sugar production have them below this season's output.

The Brazilian trade group Unica released their latest supply report which showed no sugar was produced in the Center-South region during the second half of February. Keep in mind that sugar production during March will count toward their 2022/23 total, so the current total of 33.504 million tonnes is expected to rise. Center-South domestic ethanol sales during February were 0.9% below last year's total, which was their first year-over-year monthly decline since July.

The February 21st Commitments of Traders report showed Sugar Managed Money traders net sold 16,078 contracts and are now net long 211,639 contracts. CIT traders net bought 4,468 contracts and are now net long 189,985 contracts. Non-Commercial No CIT traders were net long 153,276 contracts after decreasing their long position by 7,606 contracts. Non-Commercial & Non-Reportable traders are net long 273,066 contracts after net selling 7,618 contracts.

Please contact us at + 1 877 690 7303 or via email at sales@admis.com for questions or comments on this report or would like more information about our ADMIS research reports.

Follow ADMIS on Social Media