ADM Investor Services, Inc.

Weekly Futures Market Summary

June 5, 2023 **by the ADMIS Research Team**

BONDS:

In last Friday's action, treasury prices retrenched as if they had returned to classic fundamental trading in the wake of a very strong headline nonfarm payroll reading which was significantly above estimates and the prior month. Tempering the washout was a 0.3% increase in the unemployment rate and disappointing wage figures. On the other hand, nonfarm payrolls in the 2 previous months were revised higher indicating the trend of the jobs market remains positive.

In the wake of a generally positive view toward the US jobs situation from Friday and US equities generally tracking higher through the payroll report, the bear camp in Treasuries seized control early this week. It is possible that a major credit rating agency indication they would keep the US on a negative rating watch (despite a debt limit bill being passed) prompted some funds to sell bonds given rules in their prospectuses. Apparently, a recent poll indicating only 30% of those surveyed expected the US to hike rates next week has had little supportive impact on prices early this week.

Perhaps, residual optimism emanating from US equities has been solidified by the removal of uncertainty of a US debt default and by generally supportive (Goldilocks) US data and that is pressuring Treasuries. It is also possible that a very minimal net spec and fund short in bonds has cleared the way for fresh sellers especially given the net spec and fund short in T-notes is approaching the largest levels since September 2018.

Bonds positioning in the Commitments of Traders for the week ending May 30th showed Non-Commercial & Non-Reportable traders were net short 22,832 contracts after decreasing their short position by 3,746 contracts. The treasury note market is extremely bearish toward prices with the net spec and fund short last week posting a new record level! For T-Notes Non-Commercial & Non-Reportable traders were net short 776,223 contracts after increasing their already short position by 49,573 contracts.

CURRENCIES:

While the dollar index posted a fresh lower low for the move last Friday, the index ultimately managed to aggressively reject that spike down move probably because elements of the monthly jobs report were stellar in might increase the prospects of a US Federal Reserve rate hike on June 16. However, currency markets might wait for a series of Fed discussions this week to measure the tone inside the Fed regarding the prospects of a rate hike. While we think the trend has turned down in the dollar, the risk to shorts increased because of the nonfarm payroll result.

While several outside markets have labeled the dollar action early this week as very strong, gains from Friday's low were minimal. Nonetheless, the dollar looks to extend the recovery from last week's slide, likely because of relief the US has ended the threat of default and perhaps because of "Goldilocks" US

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jobs readings. Holding back the dollar is a recent poll indicating the odds of a US rate hike next week are only 30%. Dollar positioning in the Commitments of Traders for the week ending May 30th showed Non-Commercial & Non-Reportable traders are net long 16,254 contracts after net buying 2,394 contracts.

European private services and composite PMI readings for May were softer than expected except for a slightly stronger than expected (but below the previous reading) Italian services PMI reading. With the euro zone struggling from factory and services, 7 straight monthly declines in euro zone producer prices, and German service sector strength prompting analyst to predict a "limited recession" fundamentals give the bear camp an edge to start the new trading week. While not significantly overbought the latest COT positioning report leaves the euro in overbought territory. The May 30th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders are net long 222,942 contracts after net selling 9,607 contracts.

With the BOJ Governor Ueda last week predicting Japanese CPI will slow later this year and that easy monetary policy will be maintained, the fundamental condition in the Yen remains negative. The technical set up on the charts also favors the bear camp with a violation of pivot point support. Even though Swiss consumer price index readings for May ticked lower, comments last week from the Swiss National Bank's Schlegel indicating the bank cannot rule out further monetary policy tightening has not provided support to the currency. However, the charts have turned negative.

While the Pound has held up better than other nondollar currencies and saw better than expected S&P global composite and services PMI data for May, the currency posted a 3-day low early this week. The Pound might draft minimal support from strength in energy prices and by reports the Prime Minister will cut taxes by as much as 2% before the election next year. Nonetheless, the charts are negative. Even though the Canadian dollar held onto last week's significant 120-point rally, indications from the Bank of Canada they are likely to hold rates unchanged for the rest of this year casts a slightly negative fundamental case. However, the Canadian dollar has shown recent positive correlation with the dollar and the Canada has a generally stabilized economy.

STOCKS:

While the stock markets showed gains and broke out to the upside in the NASDAQ and S&P contracts late last week, the markets displayed a delayed reaction to the relief provided by congressional passage of a debt ceiling bill. Clearly, NASDAQ shares are benefiting from ongoing long-term buying of companies expected to see major benefits from artificial intelligence technology. We also suspect the S&P saw additional lift today from stop loss buying from a massive net spec and fund short position of 437,160 contracts. While global equity market action was generally mixed there was a slightly positive tilt with up markets outnumbering down markets.

Apparently, US equities are not undermined by an early spike in US interest rates. Furthermore, the markets are not undermined following stories that US bank regulators might increase capital requirements by 20% after this year's bank failures. Looking ahead the markets will face US factory orders and German factory orders tomorrow which could give the trade a fresh look at recent economic activity. In a fresh negative US development after Friday's close, West Coast ports have been shut down as labor negotiations have failed to make progress.

While the early action this week in the S&P is benign from a directional perspective and the range was extremely narrow, the equity markets maintain a generally positive tone after the strong recovery from last week's low. However, the markets should draft some support from the expectation global airlines expect their profits to "more than double" this year and perhaps because of a survey showing odds favor a pause by the Fed next week.

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We remain skeptical of the bull case, especially given talk that US banks could face a 20% increase in their capital requirements. On the other hand, the most recent noncommercial net short reached a record level, insinuating extreme bearishness by at least one segment of the market. The May 30th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders added 23,800 contracts to their already short position and are now net short 460,960 contracts.

With a fresh new high for the move in the Dow futures and the highest trade since May 3rd, the bull camp obviously retains control of the market. While the net spec and fund short in Dow futures is not as extreme as in the S&P, given the net spec and fund short the rally from the May 30th COT report measurement (900 points) might not have shifted the market into a net spec and fund "long" yet. The Commitments of Traders report for the week ending May 30th showed Dow Jones $5 Non-Commercial & Non-Reportable traders are net short 22,332 contracts after net buying 3,642 contracts.

The NASDAQ remains in an upward tilt as the index early last week was net spec and fund short which could mean the market is not overbought yet from a positioning perspective. The index could see support from comments from OpenAI suggesting Israel could play a very important role in reducing the threat from out-of-control AI. The May 30th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders net sold 10,845 contracts which moved them from a net long to a net short position of 2,586 contracts.

GOLD, SILVER & PLATINUM:

Gold and silver prices followed Friday's breakdown with further notable losses early this week off dollar strength. Therefore, both markets damaged their charts and are likely to set back to consolidation support at recent consolidation lows. On the one hand, Chinese trade desks are suggesting buyers there are waiting on the premium and/or flat prices to cheapen before becoming buyers, but that should be offset by a move by the Indian government to reduce the gold import price basis for taxation. We would note that Indian buyers have also shown price sensitivity, and perhaps it will take a setback in gold and silver to consolidation support to get buyers in the world's two largest consuming countries to turn buyers.

While the gold market held an average spec and fund long as of early last week, in this morning's action, August gold is $20 below the level where positioning was measured, and therefore the market is probably close to a "mostly liquidated or balanced" positioning. Gold positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders are net long 107,853 contracts after net selling 9,537 contracts. Non-Commercial & Non-Reportable traders net sold 15,548 contracts and are now net long 193,685 contracts. Last week gold ETF holdings declined by 96,492 ounces with a decline on Friday alone of 39,496 ounces. Last week silver ETF holdings declined by 2.5 million after a single day decline on Friday of 838,200 ounces.

While silver held up relatively better than gold in the late washout last Friday and its chart are not severely damaged, silver might be able to avoid being dragged down by outside market action in Bonds, the Dollar and even gold. However, July silver is less overbought than gold and might find balance on a modest break. The Commitments of Traders report for the week ending May 30th showed Silver Managed Money traders net sold 2,899 contracts and are now net long 10,278 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 1,652 contracts to a net long 32,817 contracts. Fortunately for the bull camp Chinese Caixin services PMI readings for May released expanded as composite and services PMI readings throughout Europe contracted in May.

The platinum market finished last week under pressure but has close-in support on the charts. Fortunately for the bull camp, platinum ETF inflows have continued to build despite seeing outflows in other precious metals markets. The $1,000 level might offer psychological support, but the most recent net spec and fund long might leave the market vulnerable to further liquidation. The May 30th Commitments of Traders report showed Platinum Managed Money traders net sold 4,724 contracts and

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are now net long 17,579 contracts. Non-Commercial & Non-Reportable traders net sold 4,006 contracts and are now net long 29,068 contracts.

However, the last economic report from China and US jobs figures last Friday are viewed as slightly supportive of platinum demand this morning. Like the rest of the metals markets, the palladium market faces residual outside market pressure from last week and a retest of consolidation support if global economic sentiment becomes significant risk-off. Fortunately for the bull camp, palladium is significantly oversold in the spec categories with the net short approaching the record net spec and fund short. The Palladium positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders were net short 5,347 contracts after increasing their already short position by 964 contracts. Non-Commercial & Non-Reportable traders net sold 825 contracts and are now net short 6,482 contracts.

COPPER:

While the copper market has been one of the strongest commodity markets over the last week, (which is surprising considering that recent official Chinese manufacturing PMI readings were disappointing) but were apparently fully offset by a strong private manufacturing PMI result. The copper market is also supported by the release of a Chinese Caixin Services PMI reading for May. Furthermore, the outlook for the US economy was boosted slightly, but not so much to foster concerns of Fed action as odds from surveys suggest only a 30% probability that the US Fed will hike rates next week. There are also whispers from Chinese analysts suggesting that beyond targeted stimulus for parts of the economy, there could be broad stimulus action like reducing interest rates.

Unfortunately for the bull camp, the latest weekly Shanghai copper stocks report showed almost no change after a long string of weekly drawdowns. However, the technical condition of copper is slightly bullish with the upside breakout last week and a large net spec and fund short position. Copper positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders were net short 23,012 contracts after increasing their already short position by 6,574 contracts. Non-Commercial & Non-Reportable traders were net short 34,243 contracts after increasing their already short position by 7,242 contracts.

ENERGY COMPLEX:

While Saudi Arabia and Russia have suggested the large Saudi July production cut promise of 1 million barrels per day is justified to "stabilize" the world energy markets we are skeptical. The Saudi oil minister also indicated the surprise move was an effort to create uncertainty for aggressive speculation in the markets. The Saudi production cut for the month of July is expected to be roughly 1 million barrels per day compared to the most recent figures from May. Furthermore, OPEC+ members yesterday decided to reduce overall production targets next January by an additional 1.4 million barrels per day.

The OPEC Plus meeting resulted in the group extended their production cuts through the end of 2024. OPEC+ members represent roughly 40% of global oil production. Saudi Arabia made a voluntary reduction to their output starting in July, which should provide the markets with lift through the coming week. Russia Oil Minister Novak said that his nation is fulfilling their output cut obligations in full, although there has been some speculation that the OPEC Plus Russia output target (along with those for Nigeria and Angola) are more cosmetic in nature and are just bringing them in-line with their current output levels.

We suspect that gains in the petroleum markets last Friday were partly a function of short covering by traders unwilling to accept the risk of the Sunday OPEC Plus meeting. Holding back energy prices today is a weekly increase in global floating storage of 1.8 billion barrels. The latest Baker Hughes oil rig count

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fell by 15 rigs which is the largest weekly decline since September 2021, with the current total of 555 rigs operating, the lowest US oil rig count since April of 2022. Crude Oil positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders were net long 111,338 contracts after decreasing their long position by 31,829 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 20,634 contracts to a net long 231,425 contracts.

Both product markets have started June on an upbeat note with RBOB continuing to outperform ULSD on the upside. In contrast to the RBOB futures market, average US retail pump prices for regular unleaded gasoline have fallen more than 5 cents a gallon since late Wednesday, and lower prices should help stoke demand. However, the slide in retail prices might also reflect lukewarm early-summer driving demand. On the other hand, last week US fuel demand increased and is now running above 2021 and 2022 seasonal levels but still remain below 2019 seasonal levels. However, a stronger Dollar may encourage a resumption of aggressive gasoline imports from Europe.

Furthermore, last week presented almost a "clean sweep" of bearish supply and demand figures from the latest EIA report and API surveys, with the only bullish data being a 1.1-million-barrel weekly decline in jet fuel stocks. The May 30th Commitments of Traders report showed Gas (RBOB) Managed Money traders were net long 56,507 contracts after increasing their already long position by 653 contracts. Non-Commercial & Non-Reportable traders are net long 52,727 contracts after net buying 320 contracts. The Commitments of Traders report for the week ending May 30th showed Heating Oil Managed Money traders are net long 7,897 contracts after net buying 2,343 contracts. Non-Commercial & Non-Reportable traders added 6,546 contracts to their already long position and are now net long 23,559.

Natural gas prices were able to finish last week by breaking a 5-session losing streak with a mild gain on Friday, but they will start this week within striking distance of a new low for the move. We suspect natural gas will derive some spillover support from the sharp gains in petroleum prices from the OPEC+ production reduction in July. However, last week gas flows to US LNG export terminals declined by 14% and European gas storage has reached 70% of capacity relative to the 5-year average for this time of the year of only 52%. Therefore, it is not surprising that Goldman Sachs reduced its gas futures price target by $0.15 into the end of the year. On the other hand, natural gas exports to Mexico reached 7.6 bcf last week which would be a record high.

Hot weather will continue in the Midwest while there will be above-average temperatures in the Pacific Northwest late this week, but showers in Florida, Texas and other areas of the US will limit cooling-related natural gas demand. As a result, US weather remains a slight positive for natural gas as the market needs above normal demand to reduce current storage levels which have been running 16% above their 5-year average. Tropical Storm Arlene has lost strength and will not threaten Gulf Coast infrastructure which will pressure natural gas prices early this week. However, the markets were previously presented with predictions that the hurricane season this week would be very interactive and yet the season has started out with an early storm.

Natural Gas positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders net sold 12,153 contracts and are now net short 45,060 contracts. Non-Commercial & Non-Reportable traders are net short 74,808 contracts after net buying 6,115 contracts. The threat of a downside breakout in natural gas remains in place as US natural gas production remains close to record highs, near-term weather forecasts remain only slightly bullish, and the net spec short position is not yet at an extreme level. Until there is strong-enough cooling demand to work down ample US storage, natural gas will have trouble sustaining upside momentum.

BEANS:

Now that the macroeconomic condition has seemingly entered calmer waters, the focus of the soybean market will turn to the weather. At first glance, the US drought monitor shows a bifurcated growing area

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with a line running straight down just west of Omaha to Dallas. Comparing the May 23rd map with the May 30th map, an isolated extreme drought area has expanded in northern Missouri with Illinois beginning to see significant dryness in the upper 3rd of the state. It should also be noted that moderate drought has creeped into Indiana, Ohio, and northern Arkansas. The near-term weather forecast has chances for pop-up showers more likely to traverse extreme drought areas with other areas expected to have several systems passing through along with pop-up storms.

At the end of last week, yield predictions from Planalytics vegetation measures projected total US soybean yield at 51 bushels per acre versus 49.5 last year and a long-term average yield of 51.2. With last week's aggressive washout, the November soybean contract certainly extracted a large portion (perhaps too much) of weather premium. However, the last soybean crop conditions report showed soybeans in good to excellent condition running on year ago and average levels and poor to very poor showing only minimal higher levels than last year at this time. Granted, a large portion of the soybean production area has not had dryness until the May 30th report.

On the other hand, as indicated already, the dryness has stretched to at least 5 new states and the upcoming week will be extremely critical for developing crops. However, the market remains under a fundamental selling threat following confirmation that Brazilian soybean exports produces the highest volume since April 2021 in early May. In addition to what seemed to be a full extraction of weather premium into last week's lows and a net spec and fund short in beans of 10,776 contracts, that short is probably understated given the market after the report was measured and into the low last week fell $0.23.

The Commitments of Traders report for the week ending May 30th showed Soybeans Managed Money traders net sold 3,618 contracts and are now net long 529 contracts. CIT traders are net long 109,874 contracts after net buying 314 contracts. Non-Commercial No CIT traders were net short 10,960 contracts after increasing their already short position by 6,272 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 878 contracts to a net short 10,776 contracts. Soyoil positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders added 572 contracts to their already short position and are now net short 37,449. CIT traders net bought 2,281 contracts and are now net long 96,788 contracts. Non-Commercial No CIT traders reduced their net short position by 114 contracts to a net short 53,896 contracts. Non-Commercial & Non-Reportable traders added 997 contracts to their already short position and are now net short 42,492.

The May 30th Commitments of Traders report showed Soymeal Managed Money traders net sold 14,113 contracts and are now net long 59,676 contracts. CIT traders are net long 110,769 contracts after net selling 2,617 contracts. Non-Commercial No CIT traders reduced their net long position by 13,177 contracts to a net long 45,594 contracts. Non-Commercial & Non-Reportable traders are net long 93,561 contracts after net selling 13,395 contracts. Hindering the bull camp in beans is last week's continuation of soft soybean export inspections and periodic pressure from a strong dollar. On the other hand, current export inspections as a percentage of the USDA estimate are running at 88.3% or 7.2% above the five-year average!

CORN:

With the upside breakout at the end of last week initially extended into this week, the corn market is obviously responding to the spread of drought conditions with portions of the northern 3rd of Illinois seeing drought conditions worsen, and large portions of Indiana, Iowa and Arkansas joining notable drought conditions from the May 23rd drought monitor maps into the May 30th drought maps! The most recent poor to very poor crop conditions ratings were close to the 10-year average, but it is very early in the crop. On the other hand, US corn in good to excellent condition is running 3% below average levels with that seasonal trend typically stair stepping down until September. However, in the latest meetings, Mexico has indicated they will fight the US over GM corn after talks failed to yield a solution last week.

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On the other hand, Mexico has indicated they could raise the tariff on grain imports from non-US countries which do not have a free-trade agreement as the country attempts to support domestic corn prices. Planalytics a service using vegetation measurements forecast the US corn yield to be 175.4 bushels per acre versus 173.3 last year and versus the long-term average of 180.7.With a large net spec and fund short position in corn of 98,447 contracts reduced significantly by 46,649 contracts from the prior week, the net spec and fund short is probably falling quickly especially with the market early this week $0.23 above the level where the positioning report was measured.

Corn positioning in the Commitments of Traders for the week ending May 30th showed Managed Money traders are net short 51,065 contracts after net buying 46,962 contracts. CIT traders added 9,974 contracts to their already long position and are now net long 291,443. Non-Commercial No CIT traders were net short 112,046 contracts after decreasing their short position by 37,590 contracts. Non-Commercial & Non-Reportable traders were net short 98,447 contracts after decreasing their short position by 46,649 contracts. In the bull's favor is a developing pattern of strong weekly export inspections which have posted above the amount needed to meet the USDA estimate for two consecutive weeks.

WHEAT:

Wheat continues to be dragged higher by gains in corn and soybeans as all markets continue to inject weather premium into prices. Furthermore, the wheat market should see modest support from lower French wheat ratings and from another delay in the Indian monsoon arrival on the West Coast. The wheat market's deeply oversold condition has left it vulnerable to heavy short covering when the weather, economic strength, or uncertainty about global crops emerge. Recent heavy rains in Kansas and Oklahoma have revived crops on parts of some fields, but it may make harvest more difficult because the revived crops are behind in development relative to other plants on the same field.

Recent hot and dry conditions in the upper Midwest have raised concerns about spring wheat in Minnesota, and the forecast does not show much relief. The 1-5-day map calls for rainfall of less than 0.5 inch across most of the state (with some isolated areas approaching an inch), and the 6-10 and 8-14-day maps show below normal chances of rain and normal to above normal temperatures. This could support the Minneapolis contract but could lend carryover support to the other markets as well. China's largest wheat growing province of Henan is expected to be hit by more rain in the coming days, which further complicates efforts to harvest grain already damaged by much wetter than normal conditions in late May.

Some of the wheat has sprouted, which makes it unfit for human consumption. News last week that Russia was limiting the ship registrations though the Black Sea until all parties agreed to allow Russian ammonia shipments raised new concerns about the status of the grain export deal. US wheat export sales for the week ending May 25 came in with net cancellations of 210,472 tonnes for the 2022/23 (current) marketing year and net sales of 466,537 for 2023/24 for a total of 265,065. This was up from the previous week but below the four-week average of 277,658.

Cumulative sales for 2022/23 have reached 88% of the USDA forecast for the marketing year versus a five-year average of 97%. Friday's Commitments of Traders report showed spec traders holding large net short positions in Chicago wheat and mostly neutral positions in KC wheat. For Chicago wheat, managed money traders were net sellers of 8,210 contracts of Chicago wheat for the week ending May 30, increasing their net short to 126,998. This is their largest net short position since January 2018. In KC wheat, managed money traders were net sellers of 6,993 contracts, reducing their net long to 9,628.

HOGS:

July hogs gapped higher on Friday and traded to their highest level since May 19, but we fear the rally may run out of momentum unless the cash pork market resumes its upward trend. Just last week the July

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futures were trading at a discount to the cash market, but the futures are now trading at a slight premium, and this could limit further gains. The market benefited from aggressive short covering last week after it put in a contract low the previous week. The USDA pork cutout, released after the close Friday, came in at $83.80, down 20 cents from Thursday but up from $79.67 the previous week. It was the first time in six sessions that the market closed lower, and it could put some pressure on the market early this week.

The CME lean hog index as of May 31 came in at 79.63, up from 79.53 the previous session and but down from 80.67 a week prior. US pork export sales for the week ending May 25 came in at 22,617 tonnes, down from 29,939 the previous week and the lowest they have been since March 2. Cumulative sales for 2023 have reached 934,400 tonnes, up from 830,400 a year ago but slightly below the five-year average of 949,700. The largest buyer was Mexico at 9,290 tonnes, followed by Japan at 3,917. China bought 851 tonnes. The USDA estimated hog slaughter came in at 471,000 head Friday and 119,000 head for Saturday. This brought the total for the holiday-shortened week to 2.033 million head, down from 2.366 million the previous week and 2.044 million a year ago.

Estimated US pork production last week was 437.8 million pounds, down from 510.8 million the previous week and 444.5 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 6,981 contracts of lean hogs for the week ending May 30, increasing their net short position to 31,110, a new record. The market has rallied since that data was collected but the size of the net short seems to leave room for more short covering if the cash markets show improvement.

CATTLE:

August live cattle traded to contract highs for the fifth straight session on Friday. The market is in lofty territory and is vulnerable to a correction, but there has been no indication of top. The rally has been driven by expectations of lower production and strong cash cattle and beef markets. Cash live cattle prices were sharply higher last week. As of Friday afternoon, the five-day, five-area weighted average price was 181.36, up from 177.56 the previous week. The USDA boxed beef cutout was up $2.17 at mid-session Friday and closed $3.49 higher at $309.93. This was up from $299.94 the previous week and the highest it had been since May 1. The cutout has increased for six sessions in a row and in 11 out of the past 12. The USDA estimated cattle slaughter came in at 124,000 head Friday and 67,000 head for Saturday. This brought the total for the holiday-shortened week to 573,000 head, down from 625,000 the previous week and 608,000 a year ago.

The estimated average dressed cattle weight last week was 817 pounds, unchanged from the previous week and up from 813 a year ago. The 5-year average weight for that week is 808 pounds. Estimated beef production last week was 467.1 million pounds, down from 493 million a year ago. The return to a normal slaughter schedule for this week may ease some of the short-term supply crunch. US beef export sales for the week ending May 25 came in at 18,075 tonnes, down from 18,256 the previous week but above the four-week average of 17,595. Cumulative sales for 2023 have reached 487,300 tonnes, down from 631,700 a year ago and the lowest for this point in the year since 2020. The five-year average is 532,300. The largest buyer last week was Japan at 5,683 tonnes, followed by South Korea at 4,745 and China at 3,411.

Friday's Commitments of Traders report showed managed money traders were net buyers of 5,845 contracts of live cattle for the week ending May 30, increasing their net long to 107,835. This is an historically large position but not a record. After the successive moves to new contract highs last week, we suspect the position is even larger. This leaves the market vulnerable to long liquidation if selling emerges. Reminder: US second quarter beef production is expected to be down 6% from last year, and third quarter production is expected to be down 5%. How much of this has been baked into the rally?

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COCOA:

Improved global risk sentiment in the wake of last Friday's US jobs data, bullish equity market action, and a forecast the second global production deficit in a row could put the cocoa market in position to break out above its recent consolidation. July cocoa finished last week with a gain of 35 points (up 1.2%) for its third positive week in the past four. The steady decline in consumer inflation is expected to support consumption of discretionary items like chocolate. The latest supply/demand update from the International Cocoa Organization more than doubled the size of the 2022/23 global production deficit from their previous forecast. This would result in the largest back-to-back deficit total (367,000 tonnes) since ICCO records began in 1960.

The ICCO forecast 2022/23 global production at its second largest on record at 4.980 million tonnes, but grindings are also expected to reach a record at 5.072 million tonnes. This would be the sixth record grindings total of the past seven seasons. Friday's Commitments of Traders report showed managed money traders were net sellers of 1,460 contracts of cocoa for the week ending May 30, reducing their net long to 52,456. The net long has been on a general upward track since late last year, but it is well below the 2020 peak of 76,000 and the all-time high of 84,000 from 2013.

COFFEE:

July coffee had an outside reversal down day on Friday, which could pressure the market early this week. However, ICE exchange stocks continue to fall, which suggests strong demand. The demand outlook should improve as inflation declines, especially for coffee shop and restaurant sales. The Brazilian real rallied to a 1 1/2 week high on Friday, and it is approaching its highest level since 2020. The strong currency should ease pressure on coffee growers to market their crops aggressively. Dry weather over Brazilian growing areas is expected to speed up the pace of the Arabica harvest, and this weighed on coffee prices late last week.

Brazil's 2023/24 "off-year" Arabica crop is expected to come in above last season's "on-year" crop, which was negatively affected by La Nina. Colombia's annualized production pace has fallen to its lowest level since December 2013 due to La Nina. As with many commodities, coffee's demand outlook has been recovering from the impact of the COVID pandemic. 2022/23 global consumption reached a record 167.945 million bags, but that was up only 742,000 bags from 2021/22. Traders are looking for more gains in the coming year.

ICE exchange coffee stocks fell another 935 bags on Friday, to their lowest level since November. Stocks have declined for four months in a row, posting their third lowest month-end total this century in May. Friday's Commitments of Traders report showed managed money traders were net sellers of 10,095 contracts of coffee for the week ending May 30, reducing their net long to 18,893. The selling trend is short-term negative, but the market is far from overbought.

COTTON:

July cotton closed a bit weaker on Friday after the dollar strengthened, but December cotton held its gains. US cotton export sales for the week ending May 25 came in at 267,767 bales for the 2022/23 (current) marketing year and 75,567 for 2023/24 for a total of 344,328. This was up from 215,549 the previous week and was the highest they had been since February 16. China was the largest buyer at 230,544 bales, followed by Turkey at 64,255. China has the most commitments for 2022/23 at 3.219 million bales, followed by Pakistan at 2.064 million. The fact that China emerged as a strong buyer could be encouraging for the bulls.

The 1-5-day forecast calls for rainfall of up to 0.5 inch in west Texas, which may not be enough to greatly improve soil conditions this week. The 6-10-day map shows above normal chance of rain and normal

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temps, but the 8-14-day has near normal precipitation and a warmer than normal trend. This could also limit the chances for improvement. Friday's Commitments of Traders showed managed money traders were net sellers of 6,470 contracts of cotton for the week ending May 30, reducing their net long to 1,510. The funds are about as close to "neutral" as they have been.

SUGAR:

Sugar's inability to benefit from strength in key outside markets or from improving global risk sentiment shows the impact of the bearish Brazilian supply outlook on the market. With few signs that Brazil's Center-South production will slow down, prices are likely to remain on the defensive. July sugar fell a 5 1/2 week low on Friday and finished with a moderate loss. The market fell despite significant, two-day rallies in crude oil, gasoline, and the Brazilian currency, which would normally be expected to lend support to the market.

Brazil's Center-South cane harvest was running 24% ahead of last year's pace by the middle of May, and sugar's share of crushing was 7% above last season. This put Center-South sugar production 48% ahead of last season's pace. This coupled with the processing of leftover cane from last year could result in significantly higher Brazilian sugar supply by the end of the second quarter. The Unica Center-South (Brazil) supply report for the second half of May is due later this week, and it is expected to show sugar production and cane crushing ahead of last season's pace. Brazil exported 2.47 million tonnes of sugar in May, up from 1.57 million a year ago.

An Indian government official said that there will be no announcement of a 2023/24 sugar export tranche until they receive advance estimates of sugar production and/or initial cane estimates. The USDA is estimating India's 2023/24 production at 36 million tonnes with domestic consumption 31 million. With the potential for a 5 million-tonne surplus, we may see India's mills urge their government to allow for some sugar exports. Friday's Commitments of Traders report showed managed money traders were net sellers of 19,975 contracts of sugar for the week ending May 30, reducing their net long 204,672. This is down from 240,000 in January and below the record of 286,000 from 2016, but it still is on the high end of the historic range.

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