Weekly Futures Market Summary

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

BONDS:

While we upgrade the bullish position following the capacity to hold up near the recent highs through a series of good US data points, we suspect the recent rally was largely short covering/banking short profits following a wave of predictions that treasury yields may have peaked around 5% basis treasury notes. It is also that covering and fresh speculative buying was from news that Congress might kick the debt ceiling can down the road again with a continuing resolution government open until mid-December. No doubt, government workers will enjoy paid time off from the middle of December into the middle of January when the government shuts down.

In retrospect, it appears treasuries have become tightly range bound perhaps because of the approach of the FOMC meeting later this week. However, it is also possible that market sentiment is divided with expectations almost conclusively accepting of a US Fed pause this week offset by data that has continued to surprise on the upside. Therefore, it is possible that the pause by the Fed this week will be accompanied by indications that more hikes can and will be done to fight inflation. On the other hand, the Fed is also concerned about the growing economic headwinds from the surge in longer rates with that force braking the US economy more than needed.

Clearly, US treasuries are not seeing flight to quality interest from the escalation of the war (the beginning of the ground war), but a sudden flight to quality reaction should not be ruled out especially if Iran and US military forces engaged directly. In a longer-term and a largely unknown process, the SEC is apparently poised to enact new rules attempting to rein in debt fueled trading bets in Treasuries and repos by hedge funds which the SEC suggests is needed to bolster financial stability. The markets think the new rules will likely force cash treasury trading and repo transactions to a single central clearing system. The details of how the new rules will be implemented, what will be altered and if the process will be immediate or gradual are not known.

Bond traders indicate the new rules will likely increase costs and will likely push smaller dealers out of business. Depending on the rules implemented, if costs are raised considerably that could discourage international interest in US treasuries and repos thereby reducing liquidity. While it is too early to guess at the rules if the US government becomes the clearinghouse for cash trading that could also discourage money fearful of being confiscated for political and trade reasons and/or retaliation. In the near-term, the focus will remain locked onto the Fed with the latest CME Fed watch tool putting the probability of a pause this week at nearly 100%.

In addition to a market leaning exclusively in one direction, the latest positioning reports show the speculative positioning in bonds and notes remain heavily short! However, it should be noted that the net spec and fund short in bonds has been cut in half since the end of September, with the net spec and fund short in T-Notes falling from 766,952 contracts (as of August 15th) to 495,132 contracts net short as of October 24th. The Commitments of Traders report for the week ending October 24th showed Bonds Non-Commercial & Non-Reportable traders net bought 35,574 contracts and are now net short 86,838 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders were net short 495,132 contracts after decreasing their short position by 108,611 contracts. In action early this week, the treasury markets have already seen signs of softer inflation from Spain and likely from Germany which might give the treasury bulls a slight edge.

CURRENCIES:

In retrospect, the initial rally in the dollar last week was justified and expected due to US economic scheduled reports and in part due to talk of a potential recession in Europe. While we also suspect the dollar saw a measure of flight to quality buying, that action has been less than usual. It is possible that the retrenchment from the highs last week is profit taking/window dressing for the funds ahead of month-end. With the dollar tracking slightly weaker early this week and the dollar not benefiting from the launch of the feared ground war in Gaza, the bear camp retains a thin edge. Not seeing the dollar benefit from an escalation of the war (meaning direct involvement by the US and/or Iran ahead) would suggest to us that a major shift in view toward the dollar has taken place.

Perhaps this time, the world fears the debt ramifications of the US engaging in another war-based spending spree especially with Congress expected to kick the can of the November 15 debt ceiling deadline another month forward. In other words, global investors might be growing leery (like debt rating agencies) with almost no signs of US fiscal restraint. Fortunately for dollar bulls, the US economy and US treasury yields are head and shoulders among their direct foreign competition. With a pattern of lower highs and lower lows we see a trade below 105.81 as a major failure pivot. The Commitments of Traders report for the week ending October 24th showed Dollar Non-Commercial & Non-Reportable traders reduced their net long position by 243 contracts to a net long 20,526 contracts.

As indicated already, the US dollar maintains a very definitive macroeconomic and interest rate differential edge with most large actively traded currencies. However, despite softer Spanish CPI, a contraction in German GDP and disappointing euro zone consumer confidence, industrial confidence, and economic sentiment indicators for October, the euro trade appears to have embraced a very positive Eurozone services sentiment reading for October. Unfortunately for the bull camp the euro looks to barely "win by default". However, the failure to hold 1.0542 could result in a quick return to the early October low down at 1.0484. The Commitments of Traders report for the week ending October 24th showed Euro Non-Commercial & Non-Reportable traders were net long 103,800 contracts after increasing their already long position by 5,104 contracts.

Given data from the UK, the Pound has been unable to benefit from a softer dollar. However, trading ranges early this week look to be narrow perhaps because of the uncertainty from the war and from the looming FOMC press conference statement later this week. UK consumer credit was softer than expected, UK money supply continues to contract aggressively, UK mortgage approvals last month fell sharply as did UK net lending to individuals. The precipitous declines in housing data should mean the Pound weakens, even if the dollar is soft. Clearly, the Canadian dollar is also not capable of benefiting from minimal weakness in the US dollar perhaps because of bearish headlines of a Canadian auto workers strike at Stellantis and news that Canada has a $4.3 billion budget deficit from just the first five months of this year. If the Canadian dollar were not so oversold technically, it would be a fundamental sell this week.

STOCKS:

Initial gains in equities last Friday were likely from short covering as uncertainty from the fighting in the Middle East expanded overnight following the US airstrikes against suspected terrorism strongholds in Syria before the bull camp the markets were not cheered by suggestions from Hamas that a release of hostages require a cease-fire. In other words, the markets were presented with the first sign of negotiations to deescalate the situation. Holding back equity markets last Friday were less than stellar results from Exxon Mobil, Chevron, and Boeing. Global equity markets were higher at the start of this week except for the markets in Japan, and Australia.

While global equity markets were higher surprisingly in the face of the beginning of the ground war in Gaza) sentiment in the market does not feel as injured as was seen last week. In fact, bank sector earnings news has generally disappointed, and GM is now facing strikes impacting more than 50 percent of their total production and yet investors are not anxious to start the new trading week. While the S&P is trading higher in the wake of the feared launch of the Israeli ground attack, the focus of the US equity markets might be shifting toward this week's US Fed meeting and the monthly cycle of US jobs data.

From the charts, we see little evidence the downward track has culminated and with the net spec and fund short positioning in the S&P showing a net spec and fund "long" for the first time since May 2022, the market is no longer oversold in the spec categories. The Commitments of Traders report for the week ending October 24th showed E-Mini S&P Non-Commercial & Non-Reportable traders net bought 92,068 contracts which moved them from a net short to a net long position of 30,983 contracts. Given existing fundamentals and a lack of noted change in the headlines, the bear camp retains control

Certainly, the Dow has become heavily short-term oversold with the sharp plunge last Friday but as indicated in the S&P coverage this week, it is difficult to embrace a bullish fundamental theme capable of turning very bearish market sentiment around. However, with the latest COT position posting the largest (most negative speculative sentiment reading) since March 2007, trade sentiment is aggressively vested in the bear case. The October 24th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders net bought 610 contracts and are now net short 39,641 contracts.

The hills are alive with the sound of regulation of the AI industry and that should leave some headwinds for the NASDAQ in place this week. From a speculative perspective the NASDAQ maintains a minimal net spec and fund long which adjusted for the declines after the report was measured last week could now be considered "leveled". The Commitments of Traders report for the week ending October 24th showed Nasdaq Mini Non-Commercial & Non-Reportable traders were net long 4,721 contracts after decreasing their long position by 7,824 contracts. Therefore, it is possible the NASDAQ is poised for a measure of sideways consolidation, as the trade waits for Apple earnings.

GOLD, SILVER & PLATINUM:

Gold futures gapped higher at the start of this week to new post-Hamas attack high of $2,004. Gold positioning in the Commitments of Traders for the week ending October 24th showed Managed Money traders net bought 48,815 contracts and are now net long 90,682 contracts. Non-Commercial & Non-Reportable traders were net long 169,754 contracts after increasing their already long position by 43,725 contracts. With the December gold contract into the high last Friday sitting $37 above the level where the last positioning report was measured, the net spec and fund long is only the highest since July. Fortunately for the bull camp, the 2023 net spec and fund long high was 251,000 contracts compared to this week's 169,754 contracts long which should leave the market with additional buying capacity.

Looking ahead, carnage of the unrelenting Israeli air attacks and the beginning of the ground war and talk of massive casualties are likely to whip up threats and perhaps action from the Arab world, especially from Iran. Therefore, the path of least resistance remains up in gold with open interest well below the high seen in May at the peak of the 2023 rally. Obviously, the silver market is not tracking the same focus as gold market with last week's pattern of lower highs suggesting it is tracking classic commodities fearful of global slowing from the economic uncertainty of war.

We suspect silver will eventually benefit from continued gains in gold as flight to quality players look for cheaper alternatives than the soon-to-be overbought gold market. With the silver market at its lows last week $0.37 below the level where the last COT positioning report was measured, the net spec and fund long positioning has likely reached the lowest levels since the end of March. The Commitments of Traders report for the week ending October 24th showed Silver Managed Money traders added 3,895 contracts to their already long position and are now net long 8,909. Non-Commercial & Non-Reportable traders net bought 2,749 contracts and are now net long 32,171 contracts.

While the bias in silver is down, we think the risks of being short in a flight to quality environment is unattractive. Platinum positioning in the Commitments of Traders for the week ending October 24th showed Managed Money traders net sold 52 contracts and are now net short 11,635 contracts. Non-Commercial & Non-Reportable traders are net long 4,927 contracts after net selling 881 contracts. The October 24th Commitments of Traders report showed Palladium Managed Money traders net bought 256 contracts and are now net short 10,739 contracts. Non-Commercial & Non-Reportable traders are net short 11,268 contracts after net buying 393 contracts.

COPPER:

Risk assets were mainly up at the start of this week giving copper prices a lift. On the supply side, Glencore reported a 5% drop in copper production compared with this time last year. This comes after Anglo American dropped its copper guidance last week as well. Inventory levels in both Shanghai and at the LME dropped last week. There have been rumors of a mass exodus of copper traders from Amer, China's largest copper importer and trader. With $90.5bn in revenues, Amer represents 10% of the Chinese copper market. In addition to news of stimulus from the Chinese government, copper should also be cheered by the decline in weekly Shanghai copper warehouse stocks last week of 21,815 tonnes which put those inventories at the lowest level since September 2022.

However, demand remains strong in China as the operating rates at copper rod plants saw a material increase last week, following the golden week holiday. The freshest concern for copper demand is the Canadian UAW strike. While December copper into the high today was $0.06 above the level where the last COT positioning report was measured, the market still maintains a healthy "net short" which was likely a large part of the short covering gains last Friday. Copper positioning in the Commitments of Traders for the week ending October 24th showed Managed Money traders are net short 17,844 contracts after net buying 3,709 contracts. Non-Commercial & Non-Reportable traders net bought 2,559 contracts and are now net short 21,692 contracts.

ENERGY COMPLEX:

The bull camp in crude oil should be disappointed with the lower price action in the wake of the launch of the Israeli ground attack of Gaza. While we give the edge to the bull camp, action at the end of last week also showed a lack of bullish resiliency with a war unfolding in the Middle East. In fact, with the launch of the Israeli ground attack, we suspect Arab relations with the West will deteriorate, potentially producing threats of not selling oil to those supporting Israel. Perhaps even more likely is an Iranian attack of oil tankers in the Gulf of Hormuz. With Iranian leadership last week making it clear that the US would not be exempt from retaliation, the escalation of the war could take many unexpected turns.

Other negative developments early this week included evidence of higher Canadian oil sands production and recent oil patch earnings reports detailing sharp and ongoing declines in investment in the development of future fossil fuel supply. With the crude oil market sitting $7.50 below the late September high and the most recent net spec and fund long in crude oil 385,829 contracts, the net long is only nearing one-year highs! The October 24th Commitments of Traders report showed Crude Oil Managed Money traders reduced their net long position by 6,603 contracts to a net long 214,269 contracts. Non-Commercial & Non-Reportable traders are net long 385,829 contracts after net selling 707 contracts. We suspect crude oil will trade in sync with gold and highly divergent with global equity market action. The payoff for long positions could be significant, but the mere mention of peace talks could result in a $10 plus washout!

While we see the crude oil market as the tip of the bullish sword, the gasoline market last week had a $0.17 rally and likely has the largest net spec and fund long since July of last year. The October 24th Commitments of Traders report showed Gas (RBOB) Managed Money traders net bought 3,408 contracts and are now net long 29,372 contracts. Non-Commercial & Non-Reportable traders net bought 4,077 contracts and are now net long 40,773 contracts. While the readings might level out, US implied gasoline demand remained strong from a seasonal perspective last week but that has not prevented EIA gasoline inventories from building a 15-million-barrel surplus over last year's level. The US refinery operating rate has 14.4% of capacity idled, and that offsets a portion of the seasonal demand slide. In the end, gasoline fundamentals are shunted to the sidelines and the trade instead looks to track in lockstep with crude oil and Middle East developments.

The diesel market also suffered a significant corrective track over the last two weeks and appears to have found value around $2.90. While the headlines touting a dramatic global shortage of diesel have moderated, that tight supply situation remains in place with diesel stocks falling six straight weeks in a row and narrowing the EIA surplus to year ago levels notably. Even though the impact might not be significant in the current environment, temperatures in the northern hemisphere have entered the heating season and that could provide a demand underpin. With the diesel market at last week's low sitting nine cents below the level where the last positioning report was measured, the net spec long is at the lowest level since the beginning of July. The Commitments of Traders report for the week ending October 24th showed Heating Oil Managed Money traders reduced their net long position by 4,030 contracts to a net long 32,619 contracts. Non-Commercial & Non-Reportable traders net sold 4,869 contracts and are now net long 52,951 contracts.

With a gap down failure at the start of this week, the recent rally has been reversed and natural gas prices are likely headed back to the mid-August low down at $3.216. We have been very skeptical of the recent rally in natural gas as a shift to cooler temperatures this early in the season does not signal the potential for strong early heating demand. However, some buyers are possibly concerned of major Middle East supply interruptions which could spill over into natural gas. In fact, with the 2023 net spec and fund short peak in natural gas 142,000 contracts and last week's 51,000 contract net short, bearish sentiment in natural gas is moderating.

With the post COT report rally of $0.32, it is possible that natural gas has seen the smallest net spec and fund short since March of 2021! The October 24th Commitments of Traders report showed Natural Gas Managed Money traders added 16,682 contracts to their already short position and are now net short 22,027. Non-Commercial & Non-Reportable traders were net short 51,410 contracts after increasing their already short position by 17,449 contracts. From a technical perspective December natural gas regained an 11-month downtrend channel resistance line at $3.6025 on Friday but was unable to hold that breakout. With open interest declining on the new high for the move reversal, we think the rally has run its course.

BEANS:

The slow planting pace in Brazil and strong soymeal demand give the edge to the bull camp. A Brazil Ag consultancy said bean planting is 38.4% complete and that compares with 52.3% done last year. In addition, southern Brazil continues to get heavy rains which have caused some replanting concerns. Central, Western and some parts of northern Brazil are expecting scattered showers this week, but concerns remain, especially for northern Brazil. Argentina will see scattered showers this week and conditions are improving overall. Soymeal was the star of last week and has moved well into overbought territory technically. However, it must be noted, soymeal is a different animal than soybeans due to its limited shelf life and there are no global reserves of meal to be tapped when shortages occur, or prices get high.

With only a couple days left in the month of October, it appears the monthly meal continuation chart will get a large outside monthly reversal higher, a longer-term bullish development. Commitment of Traders data showed a 41,000 contract increase in fund longs in meal as of Wednesday of last week to 92,000 contracts, a six-month high, and more longs were probably added on Friday's strength. Fund longs in Soybeans on the other hand, stand at only 8,000 contracts. Argentina's soy processing has hit an 18-year low, down 26% from a year ago and this has US meal export projections for 2023/24 accounting for 20% of global meal shipments, the highest since the 2000/2001 season. If South American crops bounce back in 2024 Argentine is expected to return to the global meal shipment leader at 34% of total sales with Brazil right on their heels at 32%.

The October 24th Commitments of Traders report showed Soymeal Managed Money traders are net long 92,027 contracts after net buying 41,329 contracts. Non-Commercial & Non-Reportable traders net bought 38,986 contracts and are now net long 131,353 contracts. The Commitments of Traders report for the week ending October 24th showed Soybeans Managed Money traders net bought 9,737 contracts which moved them from a net short to a net long position of 7,753 contracts. CIT traders net sold 46 contracts and are now net long 125,610 contracts. Non-Commercial No CIT traders are net short 6,948 contracts after net buying 13,077 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 16,852 contracts to a net short 3,647 contracts. The Commitments of Traders report for the week ending October 24th showed Soyoil Managed Money traders were net long 11,523 contracts after decreasing their long position by 9,206 contracts. Non-Commercial & Non-Reportable traders net sold 13,127 contracts and are now net long 22,156 contracts.

CORN:

Market moving news is scarce at the start of this week and prices are chopping in a small range since the middle of last week, frustrating both bulls and bears. There is no current compelling bullish story for corn, although longer-term it's all about South American weather. There is some concern regarding the slow planting pace of beans in Brazil as that can delay second crop Safrinha corn planting and push pollination into the dry season. Second crop corn accounts for roughly two-thirds of Brazil's total corn output. Brazil's Center-West drought areas will see some better rains this week, but a rebound to normal precipitation is not expected over the medium-term.

Argentine planting is right on last year's pace at 22% complete and expected scattered showers over the next week will improve planting conditions. Harvest progress Monday afternoon is expected to be in the 70-73% range. Rain will move out of the Eastern corn belt today and the bulk of the Midwest will have a dry week with temperatures back to normal to above for the Western belt next week. Mississippi River levels at Memphis are still near record lows but are expected to rise after the weekend rains. The US says there is an elevated risk of regional escalation and widening of the Mideast conflict after Israel started their ground operation this weekend.

Although we look for support below the market, an extension of rallies beyond 5.09 on December futures does not look likely currently. The October 24th Commitments of Traders report showed Corn Managed Money traders are net short 100,430 contracts after net buying 8,440 contracts. CIT traders net sold 2,818 contracts and are now net long 241,806 contracts net. Non-Commercial No CIT traders net bought

19,947 contracts and are now net short 148,617 contracts. Non-Commercial & Non-Reportable traders are net short 111,510 contracts after net buying 10,655 contracts.

WHEAT:

Despite increasing geopolitical risks, whet prices have been unable to gain traction and Kansas City wheat fell to another new contract low, keeping the bears in control. The weekend featured more beneficial rains across the southern Plains and that is pressing prices lower on KC. Israel says the second stage of the war has begun with a ground operation into Gaza, and the US warns of elevated risks of the conflict widening. Mass protests have broken out across the Mideast and Turkey's president warned Israel that Turkish troops could enter Gaza in support of the Palestinians.

Ukraine says they will move to an export licensing system to better control export flow, but this may further slow exports as companies now have to apply for a license first. Argentine wheat conditions are expected to improve slightly over the next two weeks as scattered showers move in. Harvest is approaching so rain may already be too late in some areas. The first US Winter Wheat crop ratings from NASS start this afternoon. Since prices are not reacting to the Mideast conflict, the bulls must wonder what it's going to take to turn prices up.

The October 24th Commitments of Traders report showed Wheat Managed Money traders reduced their net short position by 12,153 contracts to a net short 92,254 contracts. CIT traders were net long 61,734 contracts after increasing their already long position by 3,096 contracts. Non-Commercial No CIT traders reduced their net short position by 7,577 contracts to a net short 84,279 contracts. Non-Commercial & Non-Reportable traders are net short 68,387 contracts after net buying 9,562 contracts.

KC Wheat positioning in the Commitments of Traders for the week ending October 24th showed Managed Money traders were net short 28,994 contracts after increasing their already short position by 2,043 contracts. Non-Commercial & Non-Reportable traders net sold 1,230 contracts and are now net short 30,999 contracts.

HOGS:

December hogs finished last week with three straight higher closes, as the market continued its recovery off contract lows. The larger than normal discount to the cash market had been lending support to the futures, but the rally has closed the gap. As of October 25, the discount was 10.77, down from 12.04 the previous session but still higher than 8.72 the last year and the five-year average of 7.29. The CME Lean Hog Index as of October 25 was 78.19, down from 78.41 the previous session and 80.45 the previous week. The USDA estimated hog slaughter came in at 482,000 head on Friday and 191,000 for Saturday. This brought the total for last week to 2.614 million head, up from 2.610 million the previous week and 2.564 million a year ago.

Estimated US pork production last week was 550.1 million pounds, up from 547.2 million the previous week but down from 550.9 million a year ago. The USDA pork cutout came in at $85.25 on Friday, up 46 cents from Thursday but down from $86.56 the previous week. US pork production is expected to increase by 705 million pounds this quarter, which is the highest for this period since 2019. Friday's Commitments of Traders report showed managed money traders were net sellers of 9,330 contracts of lean hogs for the week ending October 24, which took them from a net long position to a net short of 5,999 contracts. This is close to a neutral position. December hogs have rallied 4.25 (6.4%) since the COT data was collected.

CATTLE:

December cattle rallied sharply last Friday and recovered a good portion of the losses they incurred earlier last week in the wake of the Cattle on Feed report from October 20. Cash cattle prices have stabilized and boxed beef values are higher. While the on-feed report showed a surprising increase in placements for the month of September, traders were reminded of the overall tight supply situation and how long it may take to change that. Last week's export sales report showed US beef sales for the week ending October 19 at 21,342 tonnes, the highest since July 20. Cash cattle prices were lower last week, but they recovered by Friday, and this turnaround was viewed as supportive.

The five-day, five-area weighted average price as of last Friday afternoon was $184.04, down from $186.04 the previous week. On Friday, Kansas reported 7,038 head at $185-$186 with an average of $185.05 versus an average of $183.94 the previous week. Nebraska reported 1,388 at $186 versus an average of $186.54 the previous week. Texas/Oklahoma reported 4,183 at $184-$185 with an average of $184.86 versus $183.97 for the previous week. The USDA boxed beef cutout came in at $307.57 on Friday, up from $305.38 the previous week and the highest it had been since September 12. The USDA estimated cattle slaughter came in at 118,000 head Friday and 16,000 head for Saturday. This brought the total for last week to 636,000, down from 638,000 the previous week and 667,000 a year ago.

The estimated average dressed cattle weight last week was 831 pounds, up from 829 the previous week but down from 835 a year ago. The 5-year average weight for that week is 831 pounds. Estimated beef production last week was 527.0 million pounds, down from 555.8 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 20,526 contract of live cattle for the week ending October 24, reducing their net long to 63,285. The heavy selling occurred on Monday in response to the bearish Cattle on Feed report the previous Friday. The net long is now the lowest it has been since March, but it is still large enough to leave room for additional long liquidation if the downtrend continues.

COCOA:

The cocoa market has been in a long-term uptrend since September 2022, with prices rising 1,657 points (up 75%) over that timeframe. Cocoa has been one of the strongest performing markets this year, and it has increased more than 400 points since the start of October. However, cocoa may have gotten ahead of itself over the past few weeks and could be vulnerable to a pullback. December cocoa fell back from a new 44-year high early in the day, but continued to hold its ground in positive territory as it finished Friday’s trading session with a sizable gain. For the week, December cocoa finished with a gain of 158 points (up 4.3%) which was a fourth positive weekly result in a row.

Officials with Ivory Coast’s Coffee and Cocoa Board expect their nation’s main crop port arrivals to fall 25% below last season’s total, and that continued to underpin cocoa prices late this week. There has been higher than normal rainfall over Ivory Coast and Ghana growing areas which has resulted in delays with harvesting and drying cocoa beans, and those conditions can also help to spread diseases and pest to cocoa trees. In addition, a rebound in the Euro provided carryover support for cocoa prices as that can help European grinders with acquiring near-term cocoa supplies.

However, early Ivory Coast forward sales for next season (2024/25) have been slow as companies are reluctant to pay for cocoa at current prices and are looking for a downward adjustment in Ivory Coast’s origin differential. Cocoa positioning in the Commitments of Traders for the week ending October 24th showed Managed Money traders were net long 68,720 contracts after increasing their already long position by 7,506 contracts. CIT traders are net long 36,789 contracts after net buying 2,762 contracts. Non-Commercial No CIT traders added 3,219 contracts to their already long position and are now net long 50,759. Non-Commercial & Non-Reportable traders added 5,389 contracts to their already long position and are now net long 77,323 contracts.

COFFEE:

Coffee’s October rally appears to have run out of steam as it finished last week’s trading with three negative daily results in a row. Until the demand outlook is strengthened by improved global risk sentiment, coffee is likely to remain on the defensive this week. December coffee was unable to hold onto early gains as it finished Friday’s trading session with a modest loss. For the week, December coffee finished with a loss of 4.30 cents (down 2.6%) which broke a 2-week winning streak and was a negative weekly reversal from last Wednesday’s 4-month high. Recent rainfall over Brazil’s major Arabica growing areas should improve the prospects for their upcoming 2024/25 crop and continues to weigh on coffee prices late last week. Brazil’s 2024/25 Arabica crop is an “on-year” in their 2-year crop cycle, which normally leads to an increase in production from the previous season. There have been bottlenecks with loading ships at Brazil’s major port of Santos, which may slow down their coffee exports over the next few weeks and has provided mild support to coffee prices.

ICE exchange coffee stocks fell by 12,291 bags on Friday and have dropped below 400,000 bags for the first time since November 2022. The drawdown in ICE exchange coffee stocks to an 11 1/2 month low reflects some improvement with demand, particularly in Europe where most of those coffee stocks are located, and that provided support to the coffee market going into the weekend. Coffee positioning in the Commitments of Traders for the week ending October 24th showed Managed Money traders net bought 25,541 contracts which moved them from a net short to a net long position of 7,456 contracts. CIT traders are net long 53,364 contracts after net buying 6,687 contracts. Non-Commercial No CIT traders are net short 2,152 contracts after net buying 13,629 contracts. Non-Commercial & Non-Reportable traders went from a net short to a net long position of 13,122 contracts after net buying 18,548 contracts.

COTTON:

December cotton is continuing its recovery off the mid-month lows, as it balances a poor US crop with mediocre demand expectations and what appears to be enough global supply, and it may not be ready to resume its downtrend until US harvest is further along. US crop conditions are close to record low levels, and ending stocks are expected to be the tightest since 2016/17. Wet weather in west Texas has delayed harvest and raised concerns about quality, but conditions look drier this week. The 6-10- and 8-14-day forecasts show below normal to normal chances of rain for most of Texas. Last week's Crop Progress report showed 41% of the US crop was harvested, with Texas at 40% as of October 22. An update will be released this afternoon.

US 2023/24 exports are off to a slow start and are well behind the average pace relative to the USDA's (already low) expectations. Brazil may surpass the US in exports this year. There was in an improvement in US export sales last week, with China being the main buyer. China is expected to shift more of their buying to Brazil and Australia this year. Friday's Commitments of Traders report showed managed money traders were net sellers of 5,619 contracts of cotton for the week ending October 24, reducing their net long to 27,724. The selling trend is short-term negative. The record net long is above 100,000, so these traders are far from overbought, but there is plenty of room for additional long liquidation if the selling trend resumes.

SUGAR:

Sugar prices have seen coiling action for most of October but will start this week on course for a fourth positive monthly result in a row. With signs that stronger energy prices are improving the ethanol demand outlook, sugar prices should remain well supported going into month-end. March sugar was able to build onto early support as it finished Friday’s trading session with a moderate gain. For the week, March sugar finished with a gain of 49 ticks (up 1.8%) which was a third positive weekly result over the past 4 weeks.

A rebound in crude oil and RBOB gasoline prices provided carryover support to the sugar market as that should encourage Brazil's Center-South mills to shift more of their crushing from sugar production to ethanol production. The latest Unica report showed sugar's share of Brazil's Center-South cane crushing at 48.1%, which was in-line with last year but was the first result below 50% in several months. Center-South domestic ethanol sales are on-track for a third month in a row above last year's total.

With signs of improving demand, continued strength in crude oil and RBOB gasoline prices should provide an additional boost to Center-South ethanol demand. Congestion at Brazil's major port of Santos is likely to slow down sugar exports over the next few weeks, and that provided support to sugar prices late last week. The Brazilian currency rallied to a 4 1/2 week high, which also gave a boost to sugar prices as extended currency strength should ease the pressure on Brazilian mills to produce sugar for the export market.

The Commitments of Traders report for the week ending October 24th showed Sugar Managed Money traders net bought 805 contracts and are now net long 196,551 contracts. CIT traders are net long 176,783 contracts after net buying 993 contracts. Non-Commercial No CIT traders are net long 130,559 contracts after net selling 5,937 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 7,142 contracts to a net long 253,242 contracts.