ADM Investor Services, Inc.

Weekly Futures Market Summary

November 27, 2023 **by the ADMIS Research Team**

BONDS:

In retrospect, it appears that the Treasury markets saw a wave of economic optimism late last week perhaps because of the kickoff of the holiday shopping season which has resulted in December bonds falling back from last week's high by two points. However, soft economic data is likely to return with a chain of softer than expected data later this week likely to result in an upside breakout in bonds to the highest level since September 26th. It should be noted that this week will bring another US treasury auction cycle with treasury supply expanding to refund/finance the ever-expanding US debt load.

With a negative technical trade resulting in a six-day low in December bonds, the new trading week starts out under technical pressure, with a key pivot point through US scheduled data seen at 114-22 and at 108-06 in December notes. On Monday, the market will be presented with three-month bills, six-month bills, two-year notes, a five-year note auction and a seven-year treasury note auction on Tuesday. It should be noted that recent auction results have been dramatically different between the short end and the long end supply suggesting uncertainty and activity in the yield curve will likely remain very volatile.

CURRENCIES:

We leave the edge in the Dollar with the bear camp as the market has embraced the themes of softening in the US economy, a sustained on hold US central bank policy view, and negative chart action. Certainly, the 103.00 level could be seen as a shelf of support, but the tone of US economic data in the first three sessions this week is likely to set the trend in the dollar for the rest of this year. In fact, without a better-than-expected US new home sales report and/or higher equities from upbeat US Cyber Monday sales, we see the dollar failing to hold 103.00.

While the euro remains near the top of the last two week sideways to slightly higher consolidation pattern, euro bulls need constant evidence of softening in the US economy to extend the November rally. However, there is some conflict within the EU central bank community with Poland and Hungary seeing internal political battles between elected officials and central bankers with the usual debate of elected officials seeking lower rates and central bankers cognizant of the need to keep inflation under control. A move above 1.10 is likely with a little help from soft US data.

With a new high for the move and the highest trade since September 1st, the Pound looks to be the leadership currency early this week. Positive UK retailer views, residual weakness in the US dollar and residual hope of support from UK tax cuts leaves the Pound on a bull track. With massive volatility over the prior two trading sessions and a short-term overbought technical condition action in the Canadian Dollar, early this week is likely to set the tone for the Canadian through the end of this year. While we give the edge to the bull camp, the currency is short-term overbought from a technical perspective and will need a downside breakout in the dollar to extend the rally.

STOCKS:

Global equity markets at the start of this week were mostly lower with declines ranging from 0.2% to 0.7% in the Australian market. In the rearview mirror, the equity markets saw record Friday online spending with a gain of 7.5% over last year and yet that has not stoked bullish investment interest in the early going this week. However, buzz from "Cyber Monday" is likely to help underpin sentiment early and that leaves a minimal bullish bias in place.

While the uptrend throughout November in the S&P has been a stealth rally, the frequency of higher highs and higher lows and the magnitude of the rally over the last 30 days (440 index points) provides a bullish backbone for the markets. In fact, one could target a near-term rally above 4,600 off a combination of dovish interest rate views and ongoing evidence of a “Goldilocks” US economy.

The Dow Jones sits just under the highest price levels since the end of August with large companies likely riding a wave of support from the general view that interest rates have peaked and inflation costs at companies are now moderating. However, there is the threat of slowing from recent US data and without a debate over the potential for a rate cut following bad data, the bull camp must watch out for too much slowing which in turn begins to erode future earnings prospects. Unlike the S&P and Dow Jones futures, the NASDAQ has lost momentum around the 16,000 level on the charts and the inability to rally off strong cyber-Monday sales expectations may thicken secondary resistance.

GOLD, SILVER & PLATINUM:

The precious metals markets will now be assessing last week's Black Friday sales figures as it looks forward to Cyber Monday. Clearly, the gold market has seen the bull camp revitalized by signs of a resumption of the dollar’s downtrend and has managed the rally despite evidence of a decline in Chinese October net mainland gold imports through Hong Kong. Therefore, the gold trade continues to focus on dollar and interest rate action at the expense of classic internal supply and demand developments. In fact, while the story should be regarded as "old", the market continues to pound the drum on an on hold global central bank theme.

Apparently, Chinese October net gold imports through Hong Kong declined by 23% on a month over month basis with that negative development partially offset by market expectations of ongoing Chinese central bank buying. However, the bull camp should monitor the launch of the latest US government debt refunding auction cycle, as action in the rate markets appears to be the second most important driving force for gold and silver prices at present. With the prospect of low and/or lower US treasury yields, growing chatter of slowing in the US and signs of weakening inflation pressure from falling grain and energy prices, we expect the dollar to continue to slide and gold prices continuing to rise.

COPPER:

While the copper market appears to have settled into a consolidation pattern bound by $3.82 and $3.72, the upward bias from the mid-November low leaves the longer-term technical trend pointing up. However, the trade continues to monitor contract negotiations regarding treatment charges for Chinese/Asian customers using the magnitude or lack of magnitude of the TC charges as a relative measure of demand. If treatment charges are high, that might indicate Chinese demand is strong enough to give the copper companies pricing power.

On the other hand, some analysts interpret higher treatment charges as a penalty for smaller than anticipated Chinese contract volumes. Chinese spot copper treatment charges (TC's) dropped sharply again last week to $81.30 per tonne. This is down from $84.37 the week before and $93.23 two months ago. In the near-term, the trade starts with a negative track as the latest Chinese industrial profit data disappointed and Beijing has announced it has opened a criminal investigation into shadow lender Zhongzhi Enterprises. The fear now is that this investigation will force shadow lenders to stop lending to needy Chinese property developers, further dampening Chinese demand prospects for copper.

Monday's New Home Sales and the Dallas Fed's Manufacturing index will give copper traders minimal direction at the start of this week's trading, and we suspect that direction will be bearish. Copper miner First Quantum is now seeking arbitration against protestors who have been blocking the ports in Panama, making it impossible to export ore. Although banks, like Goldman Sachs, have started to turn bullish metals once again a bullish copper outlook has been noticeably absent. Copper inventories in both Chinese and LME warehouses dropped last week.

ENERGY COMPLEX:

With a poor early trade this week, the bias in the crude oil market looks to remain down with a test of the $72.50 level likely in the days ahead. However, crude oil in floating storage last week declined by 2.9% with sharp declines seen in Europe and minimal declines seen in the Asian Pacific region and that should help cushion the market against residual energy demand fear selling. The bull camp is undermined while the bear camp is emboldened by signs of turmoil within OPEC+ following the postponement/delay of their meeting scheduled for this past weekend. Apparently, part of the rift among the cartel is the result of South African compliance with oil quotas but Bloomberg indicates some progress on that conflict has been made.

The term structure of the Brent crude oil market continues to hover in contango partially because of an emerging pattern of rebuilding US crude oil inventories especially with US inventories building 28 million barrels in just five weeks! While there are forecasts of colder weather in Europe to start the month of December, a temporary disruption of black Sea terminal activity because of a storm and general expectations OPEC+ will extend their production restraint, the bull items do not appear to have the capacity to prevent a return to the November low down at $72.37. The OPEC+ meeting was delayed until Thursday because of debate among members regarding compliance by South African producers.

Despite talk of a cold start to the month of December, Asian natural gas prices finding support at $16.00 and the EIA weekly withdrawal week, the gas market has posted another contract low. However, even though colder weather has not threatened the bear camp yet, the net spec and fund short should be rebuilt quickly, setting up the potential for a key bottom in the coming weeks. However, exports of US LNG are experiencing backlogs because of low Panama water levels and with the US working gas in storage starting the heating season at a 7% surplus to five-year average storage levels, the bear camp clearly has oversupply entrenched in its side of the equation. The path of least resistance is down but the risk of fresh shorts and the prospect of limited gains for short positions has become very unattractive.

BEANS:

Although Center-West Brazil saw showers over the weekend, those were anticipated, and the market is looking at a more stressful week on tap and that is giving prices a boost. Week 2 of the forecast still holds some potential for more relief rains. AgRural pegs Brazil's total bean planting pace at 74% complete, which is the slowest in eight years. Rio Grande do Sul is especially behind at only 26% planted, compared to 64% average. Santa Catarina, Minas Gerais, and Sao Paulo areas are all 20% or more below the average pace.

Recent rains will help planting move forward. Safras and Hedgepoint both lowered their estimated Brazilian crops by 2 million tonnes, citing reduced yields in Mato Grosso and Goias. Unknown and China bought 452,000 tonnes of beans Friday and the lower US dollar should continue to help exports outperform. Brazil is looking to raise their 2024 biodiesel blend mandate to a 14% from 12% in 2023.

Argentina's crush remains greatly reduced at 1.9 million tonnes in October, compared to 2.92 million last year and bean planting stands at 35% complete. Argentine weather is forecast to have a good mix of rain and sun this week. January beans bounced off moving average support again overnight and with some crop stress returning in Brazil this week before possible rains next week, we give the bull camp the edge.

The Export Sales Report showed that for the week ending November 16, net soybean sales came in at 961,270 tonnes for the current marketing year and 9,000 for the next marketing year for a total of 970,270. Cumulative soybean sales have reached 60.8% of the USDA forecast for the 2023/2024 marketing year versus a 5 year average of 61.4%. Sales need to average 453,000 tonnes per week to reach the USDA forecast.

Net meal sales came in at 203,619 tonnes for the current marketing year and none for the next marketing year. Cumulative meal sales have reached 44.3% of the USDA forecast for the 2023/2024 marketing year versus a 5 year average of 40.3%. Sales need to average 170,000 tonnes per week to reach the USDA forecast.

Net oil sales came in at 282 tonnes for the current marketing year and 372 for the next marketing year for a total of 654. Cumulative oil sales have reached 16.1% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 30.9%. Sales need to average 3,300 tonnes per week to reach the USDA forecast.

CORN:

Weak action to finish last week has the corn market sitting just above the 2023 lows and there was little weekend bullish news to turn prices higher. US Gulf corn is competitive and with prices of the US dollar sitting at a nearly three month low, US exports may have a chance to see a boost. Friday's weekly export sales were above the highest guess. The White House is concerned about raising gas prices in an election year and has stalled approval of E-15 ethanol blend nationwide. AgRural has Brazil's Center-South first crop corn planting at 83% done as of the end of last week.

CONAB says Brazil's total first crop corn planting is still behind and stands at 49% complete, compared to 63% last year. Brazil saw rains across Center-West areas over the weekend, crop stress will rebuild this week, but next week's forecast features some showers again. Mississippi River levels, which had risen recently, are expected to drop again as the Midwest looks to have a dry week. The higher transportation costs will be passed through to the consumer. Commitment of Traders data will be delayed till this afternoon.

The Export Sales Report showed that for the week ending November 16, net corn sales came in at 1,432,407 tonnes for the current marketing year and none for the next marketing year. Cumulative sales have reached 42.7% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 43.3%. Sales need to average 731,000 tonnes per week to reach the USDA forecast.

WHEAT:

Sideways action remains the theme in the wheat market to start the week and the chart offers little direction. The wheat trade saw some small, short covering on rising Russian prices and reduced Ukrainian exports, however, the overall trend continues to stay within the two-month sideways pattern.

Interior Russian wheat prices are up $12 - $15 a ton above last month. Russia's ban of hard wheat exports, specifically durum, will extend from December 1, 2023, to May 31, 2024, however, Russia is not a major exporter of the Durum class. Weekly export sales on Friday were at the lower end of the range of guesses.

Australia's wheat harvest is moving forward, and reports suggest crop quality is very good even with lower output. Ukraine announced they will be using convoys to escort ships through the corridor. Their total grain exports since July have dropped to 12.7 million tonnes, compared to 17.6 million for the same timeframe a year ago. Recent and ongoing severe weather has snarled transportation around the Black Sea. Commitment of Traders data will be released later today. December Chicago close-in resistance is 5.64 with support at this year's low of 5.41 1/2.

The Export Sales Report showed that for the week ending November 16, net wheat sales came in at 171,753 tonnes for the current marketing year and 25,450 for the next marketing year for a total of 197,203. Cumulative sales have reached 63.3% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 63.3%. Sales need to average 169,000 tonnes per week to reach the USDA forecast.

HOGS:

Hog prices collapsed last Tuesday on reports the Chinese government views their nation's pig supply as burdensome. February hogs broke below their three-week consolidation and traded to their lowest level since October 27. The Chinese government commented that its hog herd of 4.21 million was too large, and this canceled any hopes that Chinese demand would relieve burdensome US pork supplies. US pork production is projected to have a larger than average increase this quarter, and next quarter it is expected to be close to unchanged during a period when it typically declines by 200-300 million pounds.

The USDA pork cutout released after the close last Friday came in at $83.61, down $1.77 from Monday and down from $86.54 the previous week. This is the lowest the cutout had been since June 6, and it points to sluggish demand and/or too much supply. The CME Lean Hog Index as of November 22 was 73.60, down from 73.90 the previous session. The USDA estimated hog slaughter came in at 486,000 head yesterday. This brings the total for the week so far to 972,000 head, up from 943,000 last week but down from 980,000 a year ago. China's national average spot pig price was down 0.67% on Monday, but prices are still up 1.3% for the week and 4.9% for the month.

CATTLE:

February cattle have been in a choppy, sideways pattern for several sessions, being pressured by weaker cattle and beef prices and indications that the herd is expanding but drawing support from the market's oversold condition. The USDA estimated cattle slaughter came in at 126,000 head yesterday. This brings the total for the week so far to 251,000, unchanged from last week but down from 258,000 a year ago. The USDA boxed beef cutout was down 24 cents at mid-session yesterday and closed 6 cents higher at $295.81. This was up from $295.67 the previous week.

Cash live cattle traded in light volume at the low end of last week's range. Volume was too light for an adequate test of the market. The recent trend higher in boxed beef prices may be due to retailer purchases ahead of the holiday season, and this could lend support to the cattle market. February cattle have fallen to their lowest level since May, and it may be difficult to press too much lower until there is more evidence that supply is increasing. Rebuilding the cattle herd entails holding back supply from the market.

COCOA:
Cocoa prices will start this week on course for their twelfth positive monthly result over the past 13 months, but they have started to have tightening coiling action just below last Tuesday's 45-year high. If global risk sentiment has a lukewarm start to the week, cocoa could finish November with a sizable pullback. March cocoa found early support, but lost strength late in the day to finish Friday's trading session with only a modest gain. For the holiday-shortened week, however, March cocoa finished with a loss of 19 points (down 0.5%) which broke a 7-week winning streak and was a negative weekly key reversal.

Cocoa prices continue to be underpinned by production issues in West Africa, a region where more than 72% of global output originates from. Heavier than normal rainfall during the third quarter disrupted the flowering process on many cocoa trees. As the region starts the annual "dry" season, the current El Nino weather event is likely to intensify those conditions through the first quarter of 2024.

Cocoa's near-term demand outlook may receive a mild boost this week from early reviews of "Black Friday" online sales that were stronger than expected. Retailers have been able to pass along higher cocoa prices onto their customers over the past year, but that may become more difficult with cocoa reaching the highest price levels since the late 1970's. As a result, multinational firms may become more insistent on price breaks on their 2024/25 forward cocoa purchases.

COFFEE:
The coffee market saw choppy price action last week as it continues to hold below a 4 1/2 month high from November 16th. All four of last week's closes were above the 200-day moving average, which may be evidence that coffee can regain and sustain upside momentum going into month-end. March coffee shook off early pressure and rallied through midsession, and then lost strength late in the day to finish Friday's trading with a mild loss. For the week, however, March coffee finished with a gain of 1.50 cents (up 0.9%) which was a third positive weekly result over the past four weeks.

ICE exchange coffee stocks were unchanged on Friday with over 22,000 bags waiting to go through the exchange's grading process. ICE exchange coffee stocks are more than 98,000 bags below their October month-end total, and with four sessions left in November are on-track for a tenth monthly decline in a row. Recent rainfall over Brazil's main Arabica growing regions should benefit their upcoming 2024/25 crop, and that continues to weigh on coffee prices late this month.

The USDA cut their 2023/24 Vietnamese production estimate by a hefty 3.8 million bags down to 27.5 million, which is expected to reduce their 2023/24 exports by 2.5 million bags to 25.0 million. The USDA also reduced their 2023/24 Indonesian export forecast to 5.0 million bags, a 35% decline from the 2022/23 season which is due in large part to lower production caused by the El Nino weather event.

COTTON:
It is hard to build a bullish case for March cotton when Brazil stands ready to make up for the shortfall in US production this season. The market seemed to find support from a decent export sale report on Friday, but it failed to hold those gains and traded its lowest level in a week early on Monday. The export sales report showed US cotton sales for the week ending November 16 at 322,212 bales for the 2023/24 marketing year and 5,720 for 2024/25 for a total of 327,932. This was down from 358,735 the previous week and the lowest since October 19, but it was still the fourth highest weekly total since June.

Cumulative sales for 2023/24 have reached 7.584 million bales, down from 8.685 million a year ago and the lowest for this point in the marketing year since 2016/17. Sales have reached 66% of the USDA forecast for the marketing year versus a five-year average of 68% for this point in the season. The largest buyer this week was China at 237,335 bales, followed by Mexico at 30,358. China has the most commitments for 2023/24 at 2.903 million bales, followed by Pakistan at 1.288 million. The fact that China remains an active buyer of US cotton may be viewed as supportive.

Traders are still concerned that Brazil is becoming the key source of cotton for China this year and that China will lift its ban on Australian imports soon. Given Brazil's strong crop and the relatively weak one in the US, it would not be surprising to see more business go to Brazil and Australia. China's commitments for US cotton are the highest for this point in the season since 2020. However, outstanding sales are high as well, reaching 1.861 million last week, up from 886,500 last year and above the five-year average of 1.504 million. This increases the chance of cancellations.

SUGAR:

Sugar's pullback on both sides of the Thanksgiving Day holiday has left the market on course for its first negative monthly result since June. With a fresh update on Brazil's supply situation at midsession today, sugar prices could see a sluggish finish to November. March sugar found moderate early support before turning lower at midsession as it reached a 3 1/2 week low to finish Friday's trading session with a sizable loss. For the week, March sugar finished with a loss of 20 ticks (down 0.7%) and a third negative weekly result in a row.

Although recent port congestion has slowed their flow of exports, Brazil's Center-South sugar production continues to weigh on sugar prices going into month-end. The latest Unica supply report will be released at midsession today as is expected to show Brazil's Center-South sugar production during the first half of November well above last year's comparable total. While a rebound in their domestic ethanol demand helped to take sugar's share of Center-South crushing below 50% in the last two Unica reports, the April/October share of 49.4% compares to 45.8% over that period last year.

The USDA cut their forecast for 2023/24 global sugar production by 4.4 million tonnes to 183.5 million as they reduce Brazil's output by 1.01 million tonnes and cut Thailand's production by 1.8 million tonnes. The USDA also reduced 2023/24 global consumption by 1.6 million tonnes to 178.4 million, which should still result in a global production surplus.

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