ADM Investor
Services, Inc.

WEEKLY MARKET SUMMARY

1 June, 2020

For the Week of June 1, 2020

BONDS:

While treasury prices showed some bounce off last week's lows, the bull camp has to come away from last week's action extremely discouraged. In other words, this week brought another wave of disastrous data and yet the net result in prices was simply sideways consolidation. However, there is a portion of the trade suggesting data has become less severe and that data will continue to improve now that the reopening has begun. It is also possible that Friday's personal income figure combined with a sharp decline in the last consumer credit reading and talk of a record jump in savings suggest the US consumer is not completely injured.

The lack of direction in Treasuries looks to extend into another trading week with disastrous economic data apparently offset by periodic signs of green shoots. China, Spain, Italy and France all showed better than expected manufacturing PMI readings for May and that serves to countervail what is likely to be concern for the upcoming US monthly nonfarm payroll reading. However, it should be noted that bonds did make a 4 day high early this week but that action is at least partially offset by the fact that the dollar made another new low for the move and therefore foreign investors might be temporarily afraid to push money into US Treasuries.

Furthermore, it would appear as if US economic data will be slightly bearish to prices early this week with the ISM manufacturing index thought to be poised to uptick. On the other hand, traders should begin to look ahead to the May jobs report with trade expectations calling for the unemployment rate to approach 20% and nonfarm payrolls expected to fall by 1 million. The Commitments of Traders report for the week ending May 26th showed Bonds Non-Commercial & Non-Reportable traders are net short 68,453 contracts after net buying 17,268 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders net sold 19,026 contracts and are now net short 26,387 contracts.

CURRENCIES:

While the trend appeared to have shifted down in the dollar and the trends in the euro and Swiss appeared to have shifted upward, all 3 markets probably were overdone from a technical perspective with last week's action. We continue to suggest that the Pound, euro and Swiss are recovery currencies that need consistent hope of progress toward growth for the trade to accept the risk of currencies that have been out-of-favor for 3 months. With the dollar forging another lower low and the lowest trade since March 16th early this week, it would appear as if the world is looking beyond the coronavirus problem and embracing the idea that restart activity will result in some improved economic activity and therefore a decline in safe haven flows to the Dollar.

However, others will suggest that the dollar is falling from favor because of its domestic problems but it should be noted that the dollar slide began in earnest ahead of the situation in Minneapolis. It should also be noted that four countries posted better than expected manufacturing PMI readings for May with China PMI actually coming in above the growth/no growth line of 50.0. Therefore, the trend is down in the dollar even if the market might be able to temporarily consolidate around the psychological 98.00 level. The May 26th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders were net long 16,439 contracts after decreasing their long position by 1,971 contracts.

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As indicated already, 3 European manufacturing PMI readings for May came in better than expected with Italy producing the most surprising reading. However, we continue to see the euro gaining significant ground off its historically cheap level and from speculative inflows looking for the market with the greatest technical short covering capacity. Like the dollar, the euro has regained a critical psychological level on the charts and might be expected to temporarily waffle around 1.11 before moving even higher. On the other hand, one could suggest that the 1.11 level is merely the bottom of the range seen at the end of last year with the top of that range not seen until 1.13. The Commitments of Traders report for the week ending May 26th showed Euro Non-Commercial & Non-Reportable traders were net long 108,210 contracts after increasing their already long position by 5,462 contracts.

Clearly the Japanese Yen was unmoved by the fact that it's capital spending in the first quarter came in significantly stronger than expected. Perhaps an unchanged bank manufacturing PMI reading for May discounts the Japanese economic recovery standing and perhaps the Yen is simply left in a range because of the inability to scare equities into a freefall in the face of US riots and increased trade threats. While the Swiss has been late in joining the euro rally/dollar washout, the path of least resistance has shifted upward with a breakout above 1.04 in each of the last 2 trading sessions. In fact the June Swiss has broken out to the upside with the highest price since April 1st which suggests the currency could be poised to retest 1.05 later this week. In the end given the washout in the dollar, the Swiss should see benefits from a rising tide lifting all boats.

The British Pound has forged a higher high early this week but is probably held back slightly by the fact that UK manufacturing PMI merely matched expectations. However given the extremely negative lingering virus situation in the UK and generally negative economic views toward the UK, seeing the manufacturing PMI notch above the prior month could offer some hope of improvement ahead. Given the dollar slide a return above 1.25 could be seen in the June Pound later this week. With the fresh downside breakout in the dollar and the fresh upside breakout in the Canadian, it would appear as if the bull camp has extended control into the new trading week. In fact, we doubt the Canadian will be held back by the fact that it's manufacturing PMI readings for May simply treaded water from the prior month. In retrospect, the Canadian doesn't appear to be tracking internal domestic economic news, as Canadian GDP for April declined by a startling 11% last week and yet the currency has rallied since that report.

STOCKS:

We suspect the combination of significant monthly and weekly gains provided some profit-taking incentive for equities late last week. Certainly investors were unnerved by portions of the scheduled data, but one could dissect the data and come away with an optimistic view. In other words, the sharp decline in consumer spending was to be expected given the shut-down however the trade did not expect a huge jump in income and a record increase in savings. Therefore, it is possible that consumers are more capable than many would have expected following the protracted lockdown of the economy. Global equity markets early this week were higher despite US riots, China using US protests against the US involvement in Hong Kong affairs and against reports of new infections in China. However, global markets might have seen support from a flow of positive PMI readings which investors see as a sign that the world economy is capable getting beyond the coronavirus shutdowns.

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Surprisingly, US equities remain near last week's highs despite severe domestic turmoil and a looming US nonfarm payroll report that is likely to show a loss of 1 million jobs last month. It is also likely that the combination of US protests and a falling US dollar is temporarily discouraging foreign investors which in turn might set the stage for the June S&P to retest uptrend channel support. We see a critical bull bear/pivot point in the June S&P at 3037.25. However underpinning the S&P is the fact that the market showed a net spec and fund short in last week's positioning report. The Commitments of Traders report for the week ending May 26th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 19,310 contracts after net selling 17,083 contracts.

Not surprisingly, large cap stocks in the Dow are showing signs of vulnerability in the wake of widespread US protests. Additionally US/Chinese trade conflict casts further doubt on multinational company performance. As in the S&P, the Dow is also undermined as a result of a downtrend in the dollar as that action gives pause to foreign investors considering US stocks. The Commitments of Traders report for the week ending May 26th showed Dow Jones $5 Non-Commercial & Non-Reportable traders net bought 1,267 contracts and are now net short 21,655 contracts. While other sectors of the market showed slightly negative charts at the start of this week, the NASDAQ did manage a brief 4 day high in a fashion that leaves the charts in favor of the bull camp. The May 26th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders net bought 7,931 contracts which moved them from a net short to a net long position of 4,838 contracts.

GOLD, SILVER & PLATINUM:

Surprisingly, the gold market has fallen back from its early-week high into negative territory despite an ongoing wave of geopolitical uncertainty from inside and outside of the US. Apparently China has openly questioned US officials if it is right for China to support the protests in the US as the US is doing in Hong Kong. However, economic news overnight was generally upbeat with PMI readings around the world more positive than negative. In fact the Chinese PMI actually returned to "growth" territory and that suggests at least one economy is coming out from under the virus disaster.

However in the early going this week, gold's negative divergence with silver is glaring and possibly a sign of silver moving to the forefront especially after silver ETF's on Friday pulled in 4.6 million ounces bringing the year to date purchases (5 months) up to 126.3 million ounces! However gold ETF's also saw an inflow of 241,076 ounces on Friday, the 26th straight day of inflows bringing this year's net purchases up to 17.2 million ounces. While the dollar rejected a sharp slide on Friday, we continue to think the path of least resistance is down in the dollar and therefore gold and silver should begin to get a small amount of currency related lift.

Certainly there is the prospect for a surge in safe haven buying in the event that US/Chinese trade relations escalate into a trade war like condition. However, seeing the potential for headwinds against the global recovery could be a double edged sword for precious metals. Nonetheless, the precious metals markets have continued to garner a lot of coverage in the financial press and that in of itself is fostering investment interest. In fact, both gold and silver ETF holdings have already seen net additions for the year that are very material to their supply and demand conditions. On the other hand, Asian physical demand for gold has been anemic and Russia last week posted a 9.3% year-over-year gain in gold production.

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While the net spec and fund long in gold is lofty on its face, the 291,000 contracts long last week is the lowest since June 2019 thereby leaving the market with buying fuel. Gold positioning in the Commitments of Traders for the week ending May 26th showed Managed Money traders were net long 148,915 contracts after decreasing their long position by 24,362 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 31,552 contracts to a net long 291,254 contracts. The July silver contract exploded at the end of last week and impressed the trade in a fashion that may attract additional buying early this week.

In fact, the July silver contract reached up to the highest level since February 25th early this week and weekend financial press coverage has become enamored with silver as an attractive investment. Furthermore, the financial press has aggressively touted silver to outperform gold and historic price relations indicate that could be the case. While the net spec and fund long in silver has risen over the past several weeks, the net long remains 50,000 contracts below the February highs leaving the market with buying capacity. Silver positioning in the Commitments of Traders for the week ending May 26th showed Managed Money traders are net long 26,570 contracts after net buying 5,453 contracts. Non-Commercial & Non-Reportable traders added 4,848 contracts to their already long position and are now net long 50,893.

Divergence also continues within the PGM markets with platinum lately showing leadership at the expense of palladium. Both markets should be supported by news late last week projecting South African mining output would drop by 30% and by projections that both PGM markets would show larger demand than supply readings. In our opinion, it is a very bold prediction to suggest that coronavirus mining shutdowns were large enough to offset a tremendous setback in world auto production demand. With gold and silver exploding on Friday and the PGM markets not benefiting, the bear camp should enter the week confident.

In fact, it could take substantial gains in gold and silver to drag palladium higher and put prices up to a level that would force traders to purchase palladium as a cheaper alternative to gold. However, the net spec and fund long position in palladium from last week showed a minimal long before the market dove nearly $30. Therefore, the palladium market might have found some form of value at $1,893.10. The Commitments of Traders report for the week ending May 26th showed Palladium Managed Money traders were net long 1,045 contracts after increasing their already long position by 181 contracts. Non-Commercial & Non-Reportable traders are net long 1,246 contracts after net buying 120 contracts.

The platinum market managed to reject a downside breakout below $850 on Friday as if that level is some form of support/value. The charts in platinum continue to be much more constructive than the charts in palladium, and platinum prices are certainly much cheaper than palladium on a historical basis. As in palladium, it will probably take significant gains in gold and silver to drag platinum higher with the market holding a relatively larger spec and fund long than palladium and with thick consolidation resistance seen just above the market at $900. The Commitments of Traders report for the week ending May 26th showed Platinum Managed Money traders were net long 13,619 contracts after increasing their already long position by 1,822 contracts. Non-Commercial & Non-Reportable traders were net long 25,693 contracts after increasing their already long position by 852 contracts.

COPPER:

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The copper market early this week forged a higher high for the move off the better than expected Chinese manufacturing PMI for May. In fact the Chinese PMI data point rose above the growth/no growth reading of 50.0 and 3 other European countries showed better than expected PMI readings. Yet another positive for the copper market was seen from a large 6075 ton decline in LME copper warehouse stocks which followed another massive weekly decline in Shanghai copper stocks last week. However, the copper market should be held back by US protests and by ongoing political tensions between the US and China. On the other hand, it should be noted that Chinese copper concentrate imports from the US have resumed following tariff waivers and it is likely that global copper demand will inch up following reopening activity.

Furthermore, China is pushing forward aggressively to stimulate its own economy and there are signs that Chinese copper demand is indeed strengthening. In fact, weekly Shanghai copper stocks have declined in 10 of the last 11 weeks. It should also be noted that the copper market remains net spec and fund short which means the May rally has not robbed the market of potential buying fuel. The Commitments of Traders report for the week ending May 26th showed Copper Managed Money traders were net short 5,300 contracts after decreasing their short position by 4,402 contracts. Non-Commercial & Non-Reportable traders are net short 9,985 contracts after net buying 6,257 contracts.

ENERGY COMPLEX:

With the crude oil market forging another upside breakout early this week and doing so in the face of concerning US domestic problems and further US/China trade barrier action, the bull camp appears to have a hidden well of buying capacity. Apparently the $35 level in July crude is not an equilibrium price as Monday's upside breakout pushed prices above that key psychological level. However, the market is garnering ongoing lift off news that US production fell again last week, that OPEC is living up to a large portion of its May production target, the US rig operating count dropped to the lowest level since June 2009 and perhaps most importantly that OPEC+ is discussing "extending the cuts".

It should also be noted that the 222 US rigs operating last week was 455 rigs below the level seen in mid-March and the count is only 44 rigs away from posting the lowest level in 20 years. Limiting the market on the upside this morning is a headline touting the fact that the oil market is still facing a 1 billion barrel backlog of global supply. On the other hand, the markets are seeing a growing number of $40 price forecasts which would send oil prices back toward a gap left from the early March timeframe that resulted from the rising panic of the virus spread in the US. In retrospect, it would appear as if the trade is of a mind that the world oil market is balancing off the combination of historic production cuts and revitalized demand. It is also possible that prices are seeing the market build in a premium because of increased US/Iranian tensions.

In fact, on Friday the US government warned foreign governments against allowing oil shipments from Iran to Venezuela and that follows US Presidential directions to US ships to aggressively protect their vessels if threatened. Furthermore, the Iranians last week added additional speedboats which in the past have harassed and threatened U.S. Navy ships. With the oil market rallying after the latest positioning report was measured it is possible the spec long positioning is approaching the highest levels since early October 2018. The May 26th Commitments of Traders report showed Crude Oil Managed Money traders net long 362,724 contracts after net buying 14,266 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,234 contracts to a net long 580,303 contracts.

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While the gasoline market did not forge an upside breakout like crude oil Monday morning, it was pulled higher by the surprising pulse up in crude oil last week. However, we are highly suspicious of views that the rally Friday was built on less than feared incendiary commentary from the US President against China. On the other hand, it is likely that further openings in more states over the weekend and has begun to lift gasoline consumption. From a technical perspective, the gasoline market is surprisingly holding a minimal net spec long with last Friday's reading the lowest net long since October. The Commitments of Traders report for the week ending May 26th showed Gas (RBOB) Managed Money traders were net long 32,594 contracts after decreasing their long position by 1,347 contracts. Non-Commercial & Non-Reportable traders net sold 3,982 contracts and are now net long 66,857 contracts. With the US refinery operating rate remaining very low (71.3%) into a seasonal demand period and into a restart mode, it is possible that gasoline stocks will continue a general pattern of decline which has seen gasoline stocks decline in 4 of the last 5 weekly reports.

It should also be noted that the annual surplus of gasoline stocks has fallen by 8 million barrels since April 24th and refinery margins are not yet enticing a quick expansion of refinery run rates. Obviously the ULSD market was pulled up by the overt strength in crude oil at the end of last week. While we suspect optimism toward demand helps, the market also rejected an 8 day low which improves the technical look in favor of the bull camp. However it is very difficult to suggest demand for jet fuel will recover enough to offset what has been a very bearish buildup in both distillate and diesel stocks lately. In fact, implied distillate demand last week declined to a 3 week low and security checkpoint counts suggests very few airlines are adding flights. However, the net spec long in ULSD is very modest and with last week's slide following the report, the net long is very limited. In the end, given such negative supply data over the last 4 weeks and given significant consolidation resistance, we see July ULSD encountering stiff resistance quickly. The Commitments of Traders report for the week ending May 26th showed Heating Oil Managed Money traders are net short 12,135 contracts after net selling 3,815 contracts. Non-Commercial & Non-Reportable traders are net long 6,128 contracts after net selling 1,837 contracts.

While the gas market was already moderately net spec short early last week and was clearly even more oversold Monday, morning the charts still favor the bear camp to start the new trading week. Clearly the natural gas market does not see the prospect of a balancing of world gas supply and demand as is being seen in the petroleum complex. However, at some point restart activities throughout the world will begin to notch up demand but so far, weekly electric generation readings have still shown contraction instead of expansion. Furthermore, US weather continues to be normal thereby reducing early cooling demand. One could also suggest that hope for US gas exports to China are dented by the showdown between the US and China over Hong Kong. On the other hand, this week's rig operating count declined by 2 to reach only 77 rigs operating and that is a new low for the move. While the Canadian gas-rig count was unchanged at 13 rigs, the combined oil and gas rigs operating in Canada were at a new 21st century low. Natural Gas positioning in the Commitments of Traders for the week ending May 26th showed Managed Money traders went from a net long to a net short position of 7,332 contracts after net selling 19,144 contracts. Non-Commercial & Non-Reportable traders were net short 34,340 contracts after decreasing their short position by 731 contracts.

BEANS:

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The soybean market was on a strong rally to start the month earlier this morning but China officials have ordered major state run firms to pause some purchases of farm goods from the US. This includes soybeans and pork as Beijing evaluates tensions with the US over Hong Kong. Chinese buyers have canceled an unspecified number of US pork orders. This news sparked a quick 15 cent break off of the highs. The market seems to be in a position to see a seasonal advance over the near term. The weakness in the US dollar, some uncertainty on the weather and news of more purchases from China are all factors which might spark the building of some weather premium over the near term. For the week, July soybeans finished with a gain of 7 1/2 cents.

Meal prices held within an inside-day range after Thursday's key reversal. Elevated US/Chinese trade tensions continue to weigh on soybean prices as it may lead to lower Chinese purchases of US soybeans. A 1% gain in the Brazilian currency provided some measure of support to the soy complex as it benefits US exports at the expense of Brazil's exports. The Brazilian currency has seen a strong rally off of its lows, which may slow sales from Brazil. The coronavirus is spreading quickly through Brazil, which could cause issues with agricultural production as well as transportation bottlenecks. This could impede their export capabilities, at least temporarily.

If trade tensions between the US and China ease, and the weather turns threatening, grain buyers could turn more active. The weekly export sales report showed that for the week ending May 21st, net soybean sales came in at 644,300 tonnes for the current marketing year and 203,000 for the next marketing year for a total of 847,300. Cumulative soybean sales have reached 92.5% of the USDA forecast versus a 5 year average of 96.4%. Sales need to average 233,000 tonnes per week to reach the USDA forecast.

On top of weekly export sales, the USDA also announced a sale of 132,000 tons of US soybeans to China. Net meal sales came in at 127,200 tonnes for the current marketing year and 44,700 for the next marketing year for a total of 171,900. Net oil sales came in at 56,600 tonnes. Cumulative oil sales have reached 98.3% of the USDA forecast versus a 5 year average of 81.4%. The May 26th Commitments of Traders report showed soybeans managed money traders were net long 5,813 contracts after decreasing their long position by 6,251 contracts. CIT traders were net long 155,788 contracts after decreasing their long position by 1,897 contracts.

For Soyoil, managed money traders were net long 3,984 contracts after increasing their already long position by 1,303 contracts. Non-Commercial No CIT traders were net short 12,468 contracts after decreasing their short position by 2,624 contracts. For soymeal, managed money traders net sold 12,371 contracts and are now net short 41,775 contracts. CIT traders were net long 74,197 contracts after decreasing their long position by 1,290 contracts. Non-Commercial No CIT traders were net short 33,716 contracts after increasing their already short position by 5,783 contracts.

CORN:

With threats of less trade from China and less threat for dry weather in the 8-14 day models, the market is seeing fairly aggressive selling. One of the key factors that could shift trade psychology is the potential for stronger demand "if" the US dollar were to continue to weaken. The dollar experienced a downside breakout Friday and fell to its lowest level since March 16th this morning. The 7-day forecast models show very little rain across all of the Midwest, with the exception of Minnesota, Northern Iowa, Ohio and portions of southern Wisconsin.

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The 6 to 10 day forecast shows much above normal temperatures across most of the central US and below normal precipitation for much of the central and southern Corn Belt and south. Above normal precipitation is expected for North Dakota, Minnesota and Wisconsin. The 8 to 14 day forecast models this morning are wetter and not as warm. This "ring of fire" pattern coming this early in the year will help producers finish planting and encourage strong emergence. But if the pattern lasts longer, it could become a bullish influence. Crop conditions are likely to show some improvement in the update for this afternoon, but they could deteriorate in the next few weeks.

Corn prices held within an inside-day trading range before finishing Friday with a modest loss. For the week, however, July corn finished with a gain of 7 3/4 cents. Stronger energy prices also provided support. The weekly export sales report showed that for the week ending May 21st, net corn sales came in at 427,200 tonnes for the current marketing year and 46,500 for the next marketing year for a total of 473,700. Cumulative sales have reached 88.4% of the USDA forecast for the 2019/2020 (current) marketing year versus a 5 year average of 90.6%.

On top of weekly export sales, the USDA indicated a sale of 101,600 tons of US corn to unknown destination. The May 26th Commitments of Traders report showed managed money traders were net short 276,203 contracts after increasing their already short position by 30,817 contracts and just one week. CIT traders net sold 5,311 contracts and are now net long 268,440 contracts. Non-Commercial No CIT traders are net short 312,459 contracts after net selling 22,354 contracts.

WHEAT:

For last week, July wheat finished with a gain of 12 cents. KC wheat reached a 2 1/2 week high while Minneapolis wheat closed above its 50-day moving average for the first time since early April. A mostly dry forecast over Plains growing areas for the next 2 weeks provided wheat prices with underlying support. The Dollar reached a new 2-month low, and that provides some benefit for US wheat in the global export marketplace. The "ring of fire" pattern coming this early in the year will help producers finish planting and encourage strong emergence. But if the pattern lasts longer, it could become a bullish influence. For hard red winter wheat, the hot and dry weather could cause further deterioration ahead of the harvest. The weekly export sales report showed wheat sales at 209,800 tonnes for the current marketing year and 496,500 for the next marketing year for a total of 706,300.

Cumulative sales have reached 101.4% of the USDA forecast for the 2019/2020 (current) marketing year versus a 5 year average of 98.8%. Wheat positioning in the Commitments of Traders for the week ending May 26th showed managed money traders reduced their net short position by 4,272 contracts to a net short 12,204 contracts. CIT traders were net long 122,412 contracts after decreasing their long position by 2,324 contracts. For KC wheat, managed money traders were net short 25,743 contracts after increasing their already short position by 10,705 contracts for the week. CIT traders were net long 56,253 contracts after decreasing their long position by 1,119 contracts.

HOGS:

Talk that China has asked buyers of US soybeans and pork to hold off on purchases for now is a bearish development but there is clearly plenty of politics in the air and for now, China has recently been active buyers of both. July hogs closed sharply higher on the session Friday and

managed to rally 282 points off of the lows into the close. The market traded moderately lower on the session and the selling has pushed the market down to the lowest level since April 24th before the rally. Traders remain concerned with the potential for increased slaughter and production in the weeks just ahead.

The USDA estimated hog slaughter came in at 414,000 head Friday and 302,000 head for Saturday. This brought the total for last week to 1.966 million head, down from 2.137 million the previous week and down from 2.131 million a year ago. Export sales recovered from the previous week's poor numbers, but traders are concerned with the trade tensions developing with China. Weakness in the US dollar with a break to the lowest level since March 16 is a supportive force. In addition, virus problems are developing at packing plants in Brazil and this could lead to a slowdown in production, and a short-term slowdown in exports from Brazil.

The USDA pork cutout released after the close Friday came in at $87.16, down $1.21 from Thursday and down from $96.94 the previous week. This is the lowest the cutout has been since April 27. US pork export sales came in at 20,579 tonnes for the week ending May 21 versus an average of 25,700 over the previous four weeks. This is an improvement on the net cancellations of 5,800 the previous week. Cumulative sales have reached 1.117 million tonnes for 2020, up from 794,000 last year at this time and a 5-year average of 631,000. Mexico was the largest buyer this week at 9,014 tonnes, followed by China at 6,075, Canada at 2,174 and Japan at 2,162.

China is the biggest buyer of US pork so far in 2020 at 464,000 tonnes, followed by Mexico at 252,000. Pork cut-out values at mid-session came in at $90.83, up $1.37 on the day. The CME Lean Hog Index as of May 27th was 62.95, up from 62.53 the previous session but down from 65.98 a week before. Friday's Commitments of Traders report showed managed money traders were net buyers of 903 contracts of lean hogs for the week ending May 26, increasing their net long to 10,273. Non-commercial, no CIT traders were net sellers of 2,307 contracts, which moved them from a net long position to a net short position of 17.

CATTLE:

June cattle closed sharply lower on the session last Friday at 99.72 after an early rally to 101.40 failed to find new buying interest. Talk of the overbought condition of the market plus increasing weights and slaughter helped to pressure. Clearly, traders expect a sharp break in the cash cattle market over the next several weeks, and even bigger production increases into the July-September timeframe. Cash live cattle traded in lighter volume on Friday, mostly steady with the previous day. The 5-area, 5-day average price as of Friday afternoon was 116.16, down from 117.59 a week before. The USDA estimated cattle slaughter came in at 111,000 head Friday and 83,000 head for Saturday. This brought the total for last week to 524,000 head, down from 555,000 the previous week and down from 588,000 a year ago. The USDA boxed beef cutout was down $3.99 at mid-session Friday and closed $6.22 lower at $363.34. This was down from $401.81 the previous week and was the lowest the cutout had been since April 29.

US beef export sales for the week ending May 21 came in at 11,483 tonnes, versus 4,108 the previous week and the average of the previous four weeks at 5,700 tonnes. It was the highest the weekly total since April 16. Cumulative sales for 2020 have reached 451,614 tonnes, down -6.6% from last year's pace. Up until April 30, sales for 2020 had been running ahead of last year. The pace started to slow in early April. The biggest buyer this week was South Korea at 5,426 tonnes,

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followed by Japan at 2,591, China at 1,561, Taiwan at 568, Canada at 504 and Hong Kong at 496. This was China's largest purchase since May 2002. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,773 contracts of live cattle for the week ending May 26, increasing their net long to 14,977. Non-commercial & non-reportable traders combined were net buyers of 1,314, increasing their net long to 37,734.

COCOA:

Cocoa prices have had a difficult time over the past 3 1/2 months overcoming demand concerns created by global coronavirus restrictions. While they will not be fully soothed for some time, there is evidence to suggest that global demand has held up better than expected, and that may help the market break out of its recent consolidation zone. For the week, July cocoa finished with a gain of 60 points (up 2.5%) which broke a 3-week losing streak. Cocoa regained its strength Friday following the release of critical supply/demand data.

The International Cocoa Organization (ICCO) released their second quarter supply/demand update which forecast a 2019/20 global production deficit of 80,000 tonnes. The ICCO pegged 2019/20 global grindings at 4.783 million tonnes and while this was a decline of 77,800 tonnes from its early March forecast, it was only 800 tonnes below a record high 2018/19 total which was downwardly revised as well. Of the world's top 10 grinding nations, the largest downward revisions were Ghana (down 18,000) Indonesia (down 12,000) and Malaysia (down 10,000) while Brazil's grindings were increased by 8,000 tonnes.

As a result, Ivory Coast, Indonesia and Malaysia remain on track for an increase in grindings during the 2019/20 season. On the supply side, the ICCO cut global cocoa production by 74,200 tonnes down to 4.750 million which is now a decline of 30,100 tonnes from an upwardly revised record high 2018/19 total. Ivory Coast production was cut by 30,000 tonnes (to 2.150 million) and Ghana's production was cut by 50,000 tonnes (to 800,000) while Nigeria saw an uptick of 10,000 tonnes (to 260,000).

All 3 of those nations are now on-track for lower 2019/20 production. While global cocoa stocks/usage increased from 31.5 to 34.2, it remains at a 35-year low. Cocoa positioning in the Commitments of Traders for the week ending May 26th showed managed money traders added 1,529 contracts to their already short position and are now net short 8,390. Non-Commercial No CIT traders added 1,989 contracts to their already short position and are now net short 16,190.

COFFEE:

The coffee market will start this week squarely on the defensive after the July, September and December contracts reached new contract lows on Friday. The market is now well into "bargain" price territory. For the week, July coffee finished with a loss of 7.30 cents (down 7.0%) which was a sixth negative weekly result over the past 7 weeks. While the Brazilian currency regained 1.2% in value, that provided little carryover support to coffee. The Minasul co-op in south Minas Gerais reported that last week's cold-weather event resulted in no major damage to the current crop, but there was some concern that heavy rains last week could have a negative impact on the quality of late-harvested coffee. Even so, there is a growing consensus that in spite of harvest delays, Brazil will have record high coffee production during the 2020/21 season.

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Vietnam's General Statistics Office forecast their nation's May coffee exports at 130,000 tonnes (2.17 million bags) which was 10.4% below last year's levels, while their 2020 coffee exports were pegged at 813,000 tonnes (13.55 million bags) which is 4.7% ahead of last year's pace. ICE exchange coffee stocks fell by 13,635 bags on Friday and finished May at 1.761 million, which is a thirteenth monthly decline over the past 14 months as stocks have fallen to their lowest levels since September of 2017. The May 26th Commitments of Traders report showed managed money traders reduced their net long position by 4,489 contracts to a net long 7,493 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 4,638 contracts to a net long 16,367 contracts.

COTTON:

The clash of strong export sales and some threatening weather with the outlook for huge ending stocks in the US "if" the weather is anywhere near normal has kept the trade choppy since May 13th. July cotton closed higher last Friday after trading to its lowest level since May 12th. For the week, the market was down 2 points as some consolidation continues. The market came in weak on concerns over US/China relations, reacted negatively to the export sales report, and drifted lower throughout the morning. The weekly export sales report showed US upland cotton export sales at 44,601 bales for the 2019/20 (current) marketing year and 171,8644 for 2020/21 for a total of 216,505. This was the lowest current crop sale (and the first time below 100,000 bales) since April 16. Total current and new crop combined were also the lowest since April 16.

Cumulative sales have reached 16.334 million bales versus 14.911 million last year at this time and a 5-year average of 12.751 million. Sales have reached 117% of the USDA's forecast for 2019/20 year versus a 5 year average of 103%. This suggests that the USDA could increase its export forecast for 2019/20 in future supply/demand reports or that the USDA is expecting further cancellations ahead. China was the largest buyer this week at 55,556 bales for 2019/20 and 113,168 for 2020/21 for a total of 171,724 bales. China's current crop sales were down quite a bit from the last several weeks, but their new crop sales are large, and the combined current and new crop was the fifth largest since August. Friday's Commitments of Traders report showed managed money traders were net buyers of 2,825 contracts for the week ending May 26, reducing their net short to 6,859.

SUGAR:

Sugar prices have managed to hold its ground within its recent consolidation zone and above their 50-day moving average for the past 1 1/2 weeks, but that has been due in large part to carryover strength from key outside markets. Even if a global economic recovery from lower coronavirus restrictions improves demand prospects, the supply outlook remains firmly bearish which leaves the sugar market vulnerable to a sizable pullback. Sugar's main source of strength came from the Brazilian currency which regained 1.2% in value and from sizable gains in crude oil which reached an 11-week high.

In addition, some cane-growing areas of Brazil's Center-South region had several nights with frost last week which provided additional support to prices. However, Center-South mills have made a sharp increase in sugar's share of crushing during the first 1 1/2 months of the 2020/21 season from 32.2% last year to 45.3% this year. As a result, Center-South sugar production is running over 83% ahead of last season's pace and while that will not be maintained for the full

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season, total production should easily come in above 32 to 33 million tonnes compared to 26.73 million last season.

India is widely expected to have a sizable increase in their 2020/21 sugar production up above 33 million tonnes versus 28.9 million last season. This year's monsoon was forecast by the India Meteorological Department (IMD) to reach their mainland today while private forecaster Skynet said that it arrived on Saturday. The IMD has forecast full season rainfall to come in at 100% of the longer-term average, and that should reduce the chances of flooding and drought disruptions that impacted India's 2019/20 cane crop. The May 26th Commitments of Traders report showed managed money traders net bought 16,544 contracts and are now net short 19,573 contracts. CIT traders net bought 2,307 contracts and are now net long 217,554 contracts.

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