Weekly Futures Market Summary

by the ADMIS Research Team
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BONDS:
While the treasury bond market forged a 3 day high last Friday, the regularly scheduled US data was countervailing. Certainly, there were some hot inflation readings, but the ISM employment index was disappointing and that could have ramifications for next week's payroll report. In fact, the soft ISM employment index reading follows 3 straight weeks of increased initial claims and that should lead some economists to expect a disappointing nonfarm payroll reading this Friday. In retrospect, macroeconomic news from inside and outside of the US has been indicative of a softening of global economy with the US and China posting concerning jobs and slack manufacturing information.

Therefore, the recovery bounce in bonds and notes from last week's lows is justified from classic fundamental developments. Furthermore, ongoing sloppy to lower action in equities adds a further bid to bond and note prices. On the other hand, expectations for this morning's US factory orders report call for an improvement versus the prior month and that could temper part of the prevailing concern for US slowing. With a 3rd US Federal Reserve member (the vice chairman) being investigated for trading securities ahead of key Fed policy decisions, it is possible that the Fed will shift in a dovish direction.

In other words, two of the under-siege Fed members were noted "hawks" and expectations are that two doves will be replacing those FOMC members. Using simplified classic fundamental analysis, the bull camp should have an edge into the Friday nonfarm payroll report especially given that three straight September initial claims data points have increased! Officially, supplemental unemployment payments were made in the very beginning of September and therefore there could be some hesitancy on the part of unemployed to secure jobs last month.

The September slide in prices/increase in yields appears to be ahead of current fundamentals by anticipating straight away growth in the US. However, it is possible that some of the selling of the past 3 weeks has been from anticipation that the Delta wave of US infections are beginning to shrink. Bonds positioning in the Commitments of Traders for the week ending September 28th showed Non-Commercial & Non-Reportable traders were net short 108,752 contracts after increasing their already short position by 21,095 contracts. In the T-Notes market Non-Commercial & Non-Reportable traders were net short 88,961 contracts after decreasing their short position by 39,077 contracts.

CURRENCIES:
With the dollar attempting to return to last Thursday's high and then recoiling aggressively, some traders feel a temporary top has been forged. However, economic data from the US last week was disappointing, leaving economic uncertainty in place and a flight to quality bid in the dollar trade. At this point, non-dollar currencies fail to have a strong fundamental bull case to stand up to residual dollar strength. From a technical perspective, the dollar index did reach a significant short-term overbought condition into last Thursday's high, and a measure of corrective action is justified.

However, we think US economic data this week will be soft, and that could support the Dollar from economic uncertainty. On the other hand, soft jobs data could result in Fed dialogue shifting back into an on-hold positioning and that could sink the dollar sharply. While regularly scheduled data is likely a major focal point of the currency trade ahead, Fed tracking of daily US infections might be a bigger force than the markets realize. The September 28th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders were net long 31,761 contracts after increasing their already long position by 1,384 contracts.

The feeble bounce in the euro from an extreme 3-day oversold condition suggest the bull camp is lacking interest and numbers. However, the "trend" in the dollar remains up and we suspect disappointing US data from the job sector will return buyers to the dollar and sellers to the euro. While not a significant influence on the track in the euro, a European Sentix Investor Confidence report for October registered a disappointing number. Euro positioning in the Commitments of Traders for the week ending September 28th showed Non-Commercial & Non-Reportable traders net sold 11,965 contracts and are now net long 30,429 contracts.

As in other non-dollar currencies, we see the Yen action this week as a mere technical balancing recovery and not a sign of a major low following last week's recovery action. While there have been some favorable Japanese numbers recently, the action in the currency remains on the ebb and flow of dollar action. Obviously, the Swiss franc was extremely oversold from a technical perspective into last week's low and the rally on Friday and the attempt to firm again this week appears to be almost fully the result of a minor corrective setback in the dollar. While Swiss domestic information has been a minimal influence on the currency, a 0% Swiss CPI month over month reading is negative to the Swiss.

While the shortage of fuel in UK is a negative for the Pound, that issue is a background item. As in other non-dollar currencies this week, the rally in the Pound appears to be a corrective balancing reaction and not a fundamental shift! The outlook for the Canadian is positive relative to other non-dollar currencies, as the currency has shown positive correlation with the dollar and Canada has seen upbeat economic data from the hospitality sector and from recent factory activity readings. From a technical perspective, the Canadian has also breached a 4-month-old downtrend channel resistance line three times since early September.

STOCKS:
The equity markets initially forged a downside breakout extension last Friday before recovering back into positive territory. The markets were supported because of suggestions from General Motors that the chip shortage was moderating, but an even bigger bullish development was the major

pharmaceutical breakthrough by Merck with a "pill" alternative to the Covid 19 vaccine. An issue that could serve to hold back equities this week came from ratings agency Fitch who warned of a possible debt rating warning if US debt ceiling negotiations put the US in turmoil at the end of this year. Global equity markets were mostly lower early this week as negative news from Evergrande and Facebook creates a negative bias to start. On a positive note, Johnson & Johnson plans to seek authorization of its booster shot this week.

While fundamental conditions remain bearish for the S&P into the new trading week (recent soft data and hawkish Fed views), we would note last Friday forged a classic Hightower Report bottom signal. Our classic bottoming signal in the S&P contract unfolds with a large range down new low for the move, with a reversal recovery in that session back above the midpoint of the washout range. The middle of the Friday washout range is 4312 and that looks to be a key pivot point early this week. However, for the bull camp to come away from this week's action with definitive control will likely require a shift in tapering psychology from disappointing jobs reports throughout the week. E-Mini S&P positioning in the Commitments of Traders for the week ending September 28th showed Non-Commercial & Non-Reportable traders were net long 110,873 contracts after increasing their already long position by 1,700 contracts.

The Dow futures also forged a big range down reversal last week which partially shifts a very bearish technical condition temporarily toward the bull camp. However, the environment for Big Stocks remains suspect with the index monitoring the action in treasury prices closely. Therefore, we see the potential for a major shift in psychology this week, from growth to the potential for a delay in US tapering. However, at least in the early trade this week, sloppy US data could be a negative to Dow pricing. The Commitments of Traders report for the week ending September 28th showed Dow Jones $5 Non-Commercial & Non-Reportable traders were net short 1,978 contracts after decreasing their short position by 7,910 contracts.

With the NASDAQ the laggard among the key traded stock index futures and in the cash markets, economic data looks to favor the bear camp, especially with the whistleblower problem at Facebook. Like other measures of the market, soft US data initially favors the bear camp before that type news suddenly becomes positive for equities after Friday's nonfarm payroll report. The September 28th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders went from a net long to a net short position of 6,727 contracts after net selling 14,390 contracts.

GOLD, SILVER & PLATINUM:
While December gold did manage a 7-day high early this week, the market was unable to hold those gains and fell back to the psychological support level of $1,750. It is likely that the initial pulse up move was the result of weakness in the dollar index and fresh concern toward Evergrande, but the dollar does not appear to be poised to fully reverse the September and early October rally. On the other hand, in the event the dollar index falls below a key pivot point of 93.78, that would put the currency index back in the June through mid-September sideways consolidation and squelch a large measure of bearish sentiment flowing toward gold from the currency markets. Fortunately for the bull camp, the dollar seems to have stalled below the 94.50 level, but the trend remains up and therefore problematic for the longs in gold.

However, the bull camp has been able to shape US Federal Reserve dialogue recently into a positive despite several Fed members indicating tapering was likely in November or December. From the ETF front, it should be noted that gold saw ETF holdings decline by 577,807 ounces last week, while the silver market saw silver ETF holdings increase by a very significant 7.4 million ounces! In fact, silver ETF holdings have risen to the highest level since August 19th and therefore daily flows of silver ETFs should be monitored directly ahead.

It should also be noted that US mint gold coin sales in September declined by 45% from August, in a sign that retail investment demand for coins and small bars remains weak. While the most recent COT positioning report in gold showed one of the lowest net spec and fund long positioning since June 2019, the gold market lacks a major definitive bullish fundamental focal point. The Commitments of Traders report for the week ending September 28th showed Gold Managed Money traders net sold 19,471 contracts and are now net long 42,123 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 24,956 contracts to a net long 195,835 contracts.

From a bigger picture perspective, the downtrend in the gold market that began in August 2020 remains in control). Given the significant range down action in December silver last week, we suspect the net spec and fund long in silver has reached the lowest level since June 2019. The September 28th Commitments of Traders report showed Silver Managed Money traders are net long 3,518 contracts after net buying 2,618 contracts. Non-Commercial & Non-Reportable traders were net long 27,876 contracts after increasing their already long position by 1,257 contracts. In other words, weak handed longs have probably been largely liquidated in silver thereby increasing the potential for respecting value and support at $22.

While the palladium market garnered some support from General Motors comments suggesting that the chip shortage was leveling out and that 4th quarter car production would be steady, demand expectations are not being embraced in the marketplace. However, the most recent COT positioning report showed a fresh record "net spec and fund short" in palladium. The September 28th Commitments of Traders report showed Palladium Managed Money traders hit a new extreme short of 2,357 contracts. Managed Money traders net sold 659 contracts and are now net short 2,357 contracts.

Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 3,672 contracts. Non-Commercial & Non-Reportable traders were net short 3,672 contracts after increasing their already short position by 577 contracts. While the platinum net spec and fund long is nearing the lowest levels since February 2019, the market lacks bullish fundamental forces and supply news has been thin. Platinum positioning in the Commitments of Traders for the week ending September 28th showed Managed Money traders are net short 7,142 contracts after net buying 6,348 contracts. Non-Commercial & Non-Reportable traders are net long 10,840 contracts after net buying 3,424 contracts.

COPPER:
In retrospect, both the US and China have disappointed the copper market with slack economic data and with an ongoing holiday in China, the copper market might lack buying interest. However, US daily infections are on the decline, and we suspect the Chinese are stimulating their economy in the background. From the demand front it is a positive that Japanese smelter Mitsubishi announced it

expects second half output to increase by 14.5%. However, last week's slide below $4.25 suggests the new range directly ahead might be $4.25 and $4.00.

Fortunately for the bull camp, the net spec and fund long in copper has declined consistently since February, with the net spec and fund long positioning near the lowest level since June 2020. Copper positioning in the Commitments of Traders for the week ending September 28th showed Managed Money traders were net long 29,629 contracts after increasing their already long position by 6,816 contracts. Non-Commercial & Non-Reportable traders were net long 22,113 contracts after decreasing their long position by 2,660 contracts.

ENERGY COMPLEX:

With global economic views suspect over the past 2 weeks and floating storage of crude oil increased by 15 weeks, the energy markets instead appear to be confident in a persistent pattern of recovery of energy demand. In fact, the entire energy complex ranged up sharply in forged new contract highs at the end of last week. More impressively, the markets forged recent gains in the face of chatter of rising OPEC output! In fact, the trade is likely facing an increase in overall OPEC production partly because OPEC+ last week hinted at raising production by more than their current production return deal had scheduled.

Apparently, the markets were not fearful that OPEC+ would follow through on a greater than prescribed increase in output, perhaps because of other reports noting that the oil cartels have consistently over complied with production limits. According to a weekend report, the trade now sees US shale to fall short of meeting a return to normal global energy demand. Therefore, it is not surprising for the market to have discounted news that US drillers increased activity for the 4th week in a row. This week the Baker Hughes oil rig operating count posted 7 additional drilling rigs in the US with 3 offshore rigs returned to service last week.

On the other hand, it is confirmed that all offshore rigs (14) put off-line due to hurricane Ida were back in operation. It should be noted that US oil rigs operating reached 428 last week which is the highest level since April 2020. From a longer-term perspective, the trade sees the markets pricing in a green initiative premium to petroleum prices off the idea that major oil companies will be grudgingly invest in the future with most spare funds going to cash flow, debt reduction and providing returns to shareholders!

Surprisingly, the net spec and fund long in crude oil remains relatively low compared to the past 2 years despite the September low to high rally of nearly $9 per barrel. The September 28th Commitments of Traders report showed Crude Oil Managed Money traders added 12,079 contracts to their already long position and are now net long 298,042. Non-Commercial & Non-Reportable traders are net long 502,514 contracts after net buying 28,081 contracts. The bias is up but pricing favorable demand in the face of rising supply suggest risk to the longs is increasing!

In addition to leading the complex with the least supportive US inventory data, the gasoline market also continues to hold a surprisingly modest net spec and fund long! In fact, the net spec and fund long is near the lowest levels in 4 years! The September 28th Commitments of Traders report showed Gas

(RBOB) Managed Money traders are net long 52,310 contracts after net buying 3,277 contracts. Non-Commercial & Non-Reportable traders are net long 49,616 contracts after net buying 5,537 contracts. As indicated already, expectations of demand improvement are apparently lifting prices even though standard demand readings like EIA weekly implied gasoline demand have not shown consistent improvement.

Nonetheless, several global traffic, activity, congestion studies have signaled demand levels proceeding to and or reaching pre-Covid levels! However, the EIA has posted 2 straight weeks of increased inventories and has narrowed the annual deficit by more than half in just 2 weeks! Nonetheless, residual tightness from the dual hurricane hit and a stubbornly slow refinery rate return to production leaves the bull camp with a slight edge in supply and demand. The outlook for the diesel market is also very bullish with the two key inventory readings (distillates and diesel) in the US holding at year-over-year deficits more than 41.5 million barrels.

In our opinion, the markets are "anticipating" increase jet fuel demand given the opening of international travel in the US. Unfortunately for the bull camp, daily TSA security checkpoint numbers remain mired between 1.3 million and 2.1 million per day compared to pre-pandemic levels generally between 2.0 million and 2.6 million. However, the net spec and fund long in diesel is the most limiting of the energy markets with the net spec and fund long (adjusted into the high last Friday likely the highest level since October 2018!

The September 28th Commitments of Traders report showed Heating Oil Managed Money traders are net long 44,541 contracts after net selling 2,677 contracts. Non-Commercial & Non-Reportable traders added 1,878 contracts to their already long position and are now net long 61,650. As in the rest of the energy complex the trend is up in the market is discounting negatives and embracing positives. On the other hand, prices feel rich, and a very favorable macroeconomic environment is needed to extend a very aggressive rally.

We expect extreme volatility to remain in place in natural gas as the long-held fundamental focus of tight supply into the northern hemisphere winter should remain in hot debate. A partial limiting force is the moderating of temperatures in the US and Europe because of normal seasonal patterns. Another limiting force for US natural gas prices is significant weekly injection readings over the past 3 weeks as that questions the potential for "extreme" tightness in the heating season. In fact, the US inventory level versus the 5-year average is now at a deficit of 6.3% relative to 7.4% into the start of the shoulder season.

On the other hand, given the 8-14-day temperature outlook for the US, much above normal temperatures have returned to over half of the continental US that could spark late-season air-conditioner/electric generating demand! Certainly, there are bullish fundamentals operating in natural gas, but the question is: how high is fundamental fair value? Last week's Baker Hughes gas rig operating count was unchanged. The natural gas drilling return has been much slower than petroleum rig operations with US natural gas rigs operating remaining 100 rigs below the level seen from 2017 to 2019.

Furthermore, US rigs operating are more than "900" rigs operating below the all-time high! Fortunately for the bull camp, the net spec and fund "short" in natural gas remains large despite recent gains. The Commitments of Traders report for the week ending September 28th showed Natural Gas Managed Money traders net sold 9,692 contracts and are now net long 30,740 contracts. Non-Commercial & Non-Reportable traders added 5,819 contracts to their already short position and are now net short 104,162. Over the past 3 weeks, supply-side fundamentals have become "less bullish" with US inventory builds mostly above expectations and the deficit versus the 5-year average narrowing slightly.

On the other hand, this is the "injection season" and some rebuilding is to be expected. The question that cannot be answered is the severity of the coming northern hemisphere winter, but a very slow return of rigs operating, serious shortages in Europe, UK, and Russia have sparked a noticeable jump in US export activity. Therefore, the potential for tightening will likely remain in place until the official heating season begins November 1st. Unfortunately for the bull camp, wild swings last week (high to low range of $1.00) leaves volatility in place.

BEANS:
The soybean market is in a short-term downtrend and probing for some type of support. Beginning stocks for the new crop season came in well above trade expectations last week as there was an upward revision in production for 2020, and also a significant slowdown in demand during July and August. In addition, harvest is just accelerating in the US and yields continue to come in above trade expectations. Traders will monitor the weather situation in Brazil closely, but it is likely too early to be concerned with the lack of moisture in some areas of Mato Grosso. Palm oil prices surged to new highs last week with a pickup and demand from China and India.

The slowdown in China soybean crushing due to energy issues might spark higher vegetable oil and meal imports if it continues. November soybeans closed lower on the session Friday and pushed down to the lowest level since June 17th. This left the market with a loss of 38 1/2 cents for the week. December meal closed lower again and traded down to the lowest level since November 4th with a loss of $12.10 for the week. The bearish USDA report on Thursday plus concerns for a slowdown in demand from China and more talk of good yields helped to pressure. Brazil exported 4.388 million tons of soybeans in September, down from 6.5 million in August but up from 4.261 million last year.

Strategie Grains has increased its monthly forecast for this year's European Union rapeseed harvest to 17.03 million tonnes from 16.93 million. Price of glyphosate imported from China to Brazil has jumped about 2.5 times this year through September, due to the increase in raw material costs and restrictions in factories due to energy rationing. Soybean positioning in the Commitments of Traders for the week ending September 28th showed managed money traders are net long 59,311 contracts after net buying 9,610 contracts for the week. Given the price action, the market looks vulnerable to increased selling as support levels are violated.

Non-Commercial & Non-Reportable traders added 7,794 contracts to their already long position and are now net long 31,144. For meal, managed money traders net bought 3,589 contracts and are now net short 14,964 contracts. Non-Commercial & Non-Reportable traders were net long 24,519 contracts after increasing their already long position by 1,439 contracts. For soyoil, managed money traders are net long 59,311 contracts after net buying 9,610 contracts for the week. Non-Commercial & Non-Reportable traders added 7,794 contracts to their already long position and are now net long 31,144.

CORN:

The corn market remains in a short-term uptrend since the September 10th USDA report. December corn closed moderately higher on the session Friday and experienced the highest close since late August. The market managed to close 14 3/4 cents higher for the week. The market found strength from sharply higher wheat prices, a firm tone to cash markets and positive technical action. Continued talk that yield is not coming in as high as producers expected has provided underlying support. On top of strength from the wheat market, December oats rallied to 5.95, the highest since 2014 as tight supply from Canada continues to support. Brazil exported 2.855 million tonnes of corn in September, down from 4.349 million in August and down from 6.371 million tonnes last year.

Beginning stocks are now 36% below last year which was a bit higher than expected but a minor adjustment in yield could be a force to tighten the ending stocks ahead. The Commitments of Traders report for the week ending September 28th showed managed money traders added 30,391 contracts to their already long position and are now net long 244,741. Non-Commercial No CIT traders are net long 170,126 contracts after net buying 10,912 contracts for the week. Non-Commercial & Non-Reportable traders are net long 231,910 contracts after net buying 25,238 contracts for the week.

WHEAT:

The technical action in the wheat market is bullish and the close above 744 1/2 for December wheat leaves the market in a position for a resumption of the major uptrend. The buying Friday pushed the market up to the highest level since August 17. Another new contract high for milling wheat futures in Paris plus weakness in the US dollar and a positive tilt to outside market forces were all seen as positive factors. For the week, December wheat closed up 31 1/2 cents. Fears of inflation has sparked more active buying from key world importers.

Pakistan bought 550,000 tonnes of wheat at their tender. Minneapolis wheat traded right up to near contract highs. US wheat stocks on Thursday came in at just 1.780 billion bushels. This was well below expectations for 1.855 billion. Wheat production came in at 1.646 billion bushels, down 36 million bushels from expectations. South America remains dry and this is a potential positive force and there is talk that too much rain in Russia has slowed the planting pace and traders are concerned that the crop will not get totally planted on time.

The September 28th Commitments of Traders report showed managed money traders were net short 9,815 contracts after increasing their already short position by 4,324 contracts for the week. The two-day surge higher may have attracted significant short-covering. Non-Commercial & Non-Reportable traders added 2,365 contracts to their already short position and are now net short 13,603.

For KC wheat, managed money traders were net long 46,127 contracts after increasing their already long position by 7,093 contracts. Non-Commercial & Non-Reportable traders net bought 8,004 contracts and are now net long 38,149 contracts. Russia's total winter wheat sowing area could fall by 0.7-1.2

million hectares from a year ago, Sovecon consultancy said. IKAR, another consultancy, currently sees the reduction at 0.5-1.0 million hectares from 17.8 million hectares sown a year ago.

HOGS:
While we can't rule out more buying from fund traders, the hog market seems to have priced-in much of the sharp reduction in supply versus trade expectations for the September USDA hogs and pigs report. Short-term, the market looks a bit overbought and if pork values turned down, cash markets could drift lower as supply increases in the next month. December hogs were quiet on Friday as traders are absorbing the massive increase in price with a gain of 812 points for the week, up 10.5%. China was a good buyer in the weekly export sales report, but traders are hesitant to believe that they will continue to be an aggressive buyer given the collapse in China pork prices so far this year.

December is still trading at a wider than normal discount to the cash market. The CME Lean Hog Index as of September 29 was 92.90 down from 92.92 the previous session but up from 91.89 the week prior. This leaves December hogs holding a $7.60 discount to the cash market as compared with a normal discount of $2.50. The turn up in open interest and the still wide basis are seen as positive forces. However, the USDA pork cutout, released after the close Friday, came in at $111.21, down from $115.24 on Thursday but up from $109.14 the previous week. The USDA estimated hog slaughter came in at 475,000 head Friday and 163,000 head for Saturday. This brought the total for last week to 2.524 million head, down from 2.578 million the previous week and 2.612 million a year ago.

Estimated US pork production for the week ending October 2 came in at 529.5 million pounds, down from 539.1 the previous week and down from 560.4 a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 9,775 contracts of lean hogs for the week ending September 28, increasing their net long to 65,633. Non-commercial, no CIT traders were net buyers of 4,755, increasing their net long to 43,122. Non-commercial & non-reportable traders were net buyers of 5,066, increasing their net long to 65,382.

CATTLE:
The cattle market is still probing for some type of near term low, but the continued weakness in the beef market and the cash cattle market, plus the premium structure of futures above cash are factors which have led to lower trade for December cattle for the sixth session in a row on Friday. The COT report shows a long liquidation selling trend and technical indicators are not at an extreme as of yet. December cattle closed down 295 points for the week last week. The technical action remains weak and the beef market remains in a steep downtrend in recent weeks.

Futures are attempting to hold a premium to the cash market, but cash markets traded $1.00 lower again last week. The USDA boxed beef cutout was down $2.28 at mid-session Friday and closed $2.62 lower at $292.36. This was down from $303.32 the previous week and was the lowest the cutout had been since August 4. Cash live cattle traded in moderate volume on Friday at steady to soft prices. In Iowa/Minnesota 2,323 head traded at 122-123, with an average price of 122.08. This was towards the low end of the week's range and down from an average of 122.96 the previous week.

In Nebraska 1,082 head traded at 122, which was at the low end of the week's range and down from an average of 123.99 the previous week. The 5-day, 5-area weighted average price as of Friday afternoon was 122.58, down from 123.64 the previous week. The Commitments of Traders showed managed money traders were net sellers of 5,934 contracts of live cattle for the week ending September 28, reducing their net long to 28,770. This is a long liquidation selling trend.

Non-commercial & non-reportable combined were net sellers of 4,096, reducing their net long to 41,160. Average estimated dressed cattle weights for the week ending October 2 came in at 828 pounds, up from 825 from the previous week and down from 843 a year ago. The 5-year average weekly weight for that week is 832.4. The USDA estimated cattle slaughter came in at 107,000 head Friday and 57,000 head for Saturday. This brought the total for last week to 637,000 head, down from 641,000 the previous week and 664,000 a year ago.

COCOA:
For much of the 2020/21 season which ended on September 30, cocoa prices felt pressure from the supply and demand sides of the market. Cocoa saw a sharp turnaround last week, climbing more than 170 points (+6.7%) after putting in a four-week low on Tuesday as the 2021/22 season will begins with a notable change in tone on the production side. December cocoa continued to see upside follow-through from Tuesday's positive daily reversal as it shook off early pressure and reached a new 2021 high before finishing Friday's trading session with a sizable gain.

For the week, December cocoa finished with a gain of 119 points (up 4.6%) and a positive weekly reversal from Tuesday's 4-week low. Strong gains in European and US equity markets strengthened cocoa prices as that may help to soothe near-term global demand concerns. Flare-ups in the COVID pandemic kept travel restrictions in place that had a negative impact on chocolate purchases by travelers. Despite the pandemic, global grindings have had their three highest totals on record over the past three years, with the just-completed 2020/21 season posting a new all-time high.

Some regions of the world are likely to see a temporary setback in demand, most recently in Asia due to the economic problems emanating in China. The long-term trend remains positive, and there is a strong likelihood that 2021/22 will see another new record for grindings. Global production last season climbed above 5 million tonnes for the first time in history, with record high output by Ivory Coast and Ecuador and a 10-year high for Ghana. Early 2021/22 forecasts from Ivory Coast and Nigeria call for production in those nations to decline 10% or more from last season while Ghana's output may decline by more than 8%.

As a result, early forecasts for the 2021/22 season call for a global supply deficit of more than 100,000 tonnes. This would be the largest deficit since 2015/16 and would be in sharp contrast to last season's surplus of 230,000 tonnes. Cocoa positioning in the Commitments of Traders for the week ending September 28th showed Managed Money traders are net long 9,488 contracts after net selling 3,292 contracts. CIT traders reduced their net long position by 426 contracts to a net long 29,498 contracts. Non-Commercial No CIT traders net sold 462 contracts and are now net short 3,094 contracts. Non-Commercial & Non-Reportable traders are net long 20,358 contracts after net selling 1,278 contracts.

COFFEE:

Coffee prices started October and the fourth quarter by breaking out of their near-term consolidation zone as bullish supply factors in Brazil and an improving global demand outlook are providing underlying support to the market. With both likely to continue through the end of this year, coffee should be heading for a retest of its 2021 high from late July over the next few weeks. After a subdued start, December coffee drove sharply to the upside and reached a new 2-month high before finishing Friday's outside-day trading session with a very large gain.

For the week, December coffee finished with a gain of 9.70 cents (up 5.0%) and a second positive weekly result in a row. Indications that Brazil may see their exportable coffee supply cut in half during the next 12 months continues to provide underlying support to the market, as Brazil accounted for more than one-third of all global coffee bean exports during the 2020/21 season. A more than 1% increase in the Brazilian currency provided additional carryover support to coffee prices as a stronger currency eases pressure on Brazil's farmers to market their near-term coffee supply to foreign customers.

The Honduran Coffee Institute has forecast their nation's 2021/22 production at 5.7 million bags, which would a 2% decline from last season's output. Coffee is among many commodities that have seen their exports constricted by the global shipping container shortage, and that may impact near-term supply levels in many nations well into next year. There are reports that some end-users are resorting to drawing down exchange stocks in order to have physical coffee supply on hand.

ICE exchange coffee stocks fell by 12,835 bags on Friday and are now over 112,000 below their multi-year high from the end of June. The September 28th Commitments of Traders report showed Coffee Managed Money traders are net long 43,039 contracts after net buying 4,606 contracts. CIT traders added 772 contracts to their already long position and are now net long 54,613. Non-Commercial No CIT traders added 4,368 contracts to their already long position and are now net long 41,512. Non-Commercial & Non-Reportable traders net bought 6,068 contracts and are now net long 62,666 contracts.

COTTON:

December Cotton rallied 21% in nine trading sessions, and it posted new contract highs for five straight sessions. If global economic concerns emerge, buyers could back away and sellers could turn more active. The recent rally made sense when the two of the world's largest exporters (US and India) were seeing excessive rainfall right into harvest and the world's largest importer (China) was aggressively buying on the world market. There are reports that China has had crop issues as well. While global stocks are tightening and US ending stocks look lower, there seems to be plenty of cotton around to reach near-term demand. World ending stocks for the 2021/22 season are forecast at 86.68 million bales, which represents 70% of a year's consumption.

With a very dry forecast for Texas this week, traders should be able to get a better grasp on crop damage from the recent rains. The 1-5-day forecast calls for heavy rains in the southeastern US and moderate rains in the Delta, another possible danger. The 6-10 and 8-14-day forecasts call for continued moisture in the southeast and upper delta with drier conditions elsewhere. Friday's Commitments of

Traders report showed Managed Money traders were net buyers of 13,327 contracts of cotton for the week ending September 28, increasing their net long to 94,599, their largest since May 2018.

SUGAR:
Sugar continues to see coiling price action at the start of the fourth quarter, but has been unable to break out of a consolidation zone that it has held in since early last month. With key outside markets and Brazilian supply issues working in its favor, however, sugar could turn back to the upside early this week. March sugar kept within a fairly tight range, but could not follow-through on Thursday's outside-day higher as it finished Friday's inside-day session with a moderate loss. For the week, March sugar finished with a gain of 13 ticks (up 0.7%) which was a third positive weekly result in a row.

Sugar's pullback came in spite of strength in both energy prices and the Brazilian currency that would provide more incentive for Brazil's Center-South mills to shift their crushing from sugar towards ethanol. Indications that India's monsoon will not start to withdraw until the middle of next week weighed on sugar prices as that could benefit their upcoming 2021/22 cane crop, while expectations for increased production from Thailand and the EU were another source of pressure.

India reached a record high sugar export total of 7.1 million tonnes during the just-completed 2020/21 season and are expected to export 6 million tonnes this season without a government subsidy. However, there are reports that India's government will target a 20% ethanol blending rate in their gasoline by 2024 with that becoming mandatory the following year. This should lead to India's mills ramping up their ethanol production, and that could have a significant impact on both their sugar production and sugar exports this season.

The Commitments of Traders report for the week ending September 28th showed Sugar Managed Money traders net bought 1,280 contracts and are now net long 226,695 contracts. CIT traders reduced their net long position by 2,453 contracts to a net long 192,262 contracts. Non-Commercial No CIT traders net bought 137 contracts and are now net long 163,298 contracts. Non-Commercial & Non-Reportable traders are net long 290,832 contracts after net buying 448 contracts.

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