ADM Investor Services, Inc.

Weekly Futures Market Summary

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by the ADMIS Research Team

BONDS:

While the treasury market carved a tight trading range last Friday, the trade favored the upward track. US scheduled data was largely supportive of bond bulls with the Michigan sentiment and US spending readings consumer spending dropping. However, the employment cost index reading remained hot, and the net take away is the consumer is faltering at the seam time facing higher prices. Although March bonds did not forge a fresh higher high for the move early this week, prices remain near an upside breakout and are likely to be supported following the Chicago purchasing manager's report which is expected to come in soft.

A risk on vibe in equities and stronger energy prices provided fundamental opposition to the bull case. On the other hand, in looking ahead to the all-important Friday monthly nonfarm payroll report, expectations project a gain of only 155,000 which compares to the prior month gain of 199,000. With the rate of gain in nonfarm payrolls expected to fall for the 3rd straight month and equate to the minimal gains in payrolls seen back in the depths of the pandemic in January 2010, the pace of improvement in the job market seems to have slowed definitively!

So far, the treasury trade is confident in the Fed's ability to control inflation and that has also helped bond prices jump by 2 points off the mid-January spike low. In the bull's favor, the latest COT positioning report shows the bond and note trade holding significant net spec and fund shorts which should favor the bull camp (short covering?). Bonds positioning in the Commitments of Traders for the week ending January 25th showed Non-Commercial & Non-Reportable traders net sold 23,158 contracts and are now net short 81,177 contracts. For T-Notes Non-Commercial & Non-Reportable traders net bought 44,835 contracts and are now net short 474,003 contracts.

CURRENCIES:

While the dollar exploded for fresh contract high last Friday, it fell off in what is likely to be labeled a profit-taking setback. However, it is also possible that the dollar retrenched off ideas that US data continues to be weak and could along with a surge in infections pushback Federal Reserve rate hike timing. Keep in mind that some analysts last week were projecting four or more rate hikes this year with some projecting a 50-basis point hike in March. Therefore, the trade might have become overdone on its hawkish projections.

While the dollar index is showing weakness to start out this week’s trading, that action is insignificant but justified by a risk on global marketplace. In our opinion, the dollar is taking a "pause" largely because of the lack of fresh major developments in the Russian/Ukraine situation. Furthermore, seeing a global risk on vibe from equities has prompted some to bank long profits in the dollar. On the other hand, the market expects to see soft US scheduled data early on and that could facilitate a temporary dip below 97.00. The January 25th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders are net long 42,480 contracts after net buying 109 contracts.

Like the dollar, the euro is showing a bit of technical back and fill action with the currency "bouncing" from an extreme oversold condition. However, short-term technical indicators remain in sell modes, Spanish retail sales were very soft, and the euro zone GDP report came in softer than expected on a year-over-year basis. We do not see the end of the entrenched downtrend directly ahead. Euro positioning in the Commitments of Traders for the week ending January 25th showed Non-Commercial & Non-Reportable traders added 4,786 contracts to their already long position and are now net long 51,829.

Unlike other non-dollar currencies, the Yen did not benefit from the corrective dip in the dollar, Japanese economic data on housing and consumer confidence was very soft and short-term technical signals remain in clear sell modes. The Swiss franc remains very vulnerable on its charts with the initial trade this week right on last week's lows and seemingly the charts are without support until 1.0700. In retrospect, seeing the Swiss franc track lower throughout the latest Russian generated anxiety event highlights a lack of flight to quality interest.

The Pound appears to have found some value around the 1.3400 level and has traded on both sides of its 50-day moving average for 3 trading sessions. However, short-term technical indicators remain in sell modes and uncertainty on the future of the UK Prime Minister favors the bear camp. Like other non-dollar currencies, the Canadian dollar has halted the washout that began in the middle of January and has waffled around both sides of its 50-day moving average for 3 sessions. On the other hand, the failure of the Bank of Canada to hike interest rates combined with short-term technical signals remaining in sell modes, increases the likelihood of a sub 78.00 trade directly ahead.

STOCKS:
Not surprisingly, volatility continued in the equity markets last week with Chevron and Caterpillar disappointing the markets while Apple managed to cushion prices. On the other hand, Caterpillar sales figures were very strong and therefore the problem for the company was in its profit margin. Nonetheless anxiety toward tech sector issues remains in the marketplace even though the level of fear of a hawkish Fed has moderated. Global commodity and equity markets were higher at the start of this week with a risk on vibe flowing from equities. While the fear of a war in eastern Europe remains a threat, inflation signals continuing to flow from rising energy prices and the technical foundation of equities damaged over the last 3 weeks, the markets appear to have stabilized against patently bearish developments.

As indicated already, the stock markets have rebounded from last week's carnage, with the S&P making a 3-day high and threatening to post a 6 day high with a trade above 4446.25. However, it should be noted that the early-week high coincided with the first retracement point of the December high to low washout, and that leaves 4440.25 as a key pivot point. While the market could show its disappointment with soft data, it is also possible that soft data could shift the pendulum against a March US rate hike, which should then result in a window of opportunity for the bull camp. The January 25th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders were net long 287,779 contracts after increasing their already long position by 81,547 contracts.

While the Dow fell back from a 5-day high, prices remain well off last week's debacle lows in a fashion that suggests a key low may have been forged. In fact, short-term technical signals have turned bullish, and we see a key pivot point today at 34,410. While the net spec and fund short in the Dow has been moderated with the rally from the last report, seeing the market last Tuesday "net spec and fund short" suggests part of the rally was short covering but also suggests the market retains additional technical short covering buying capacity. Dow Jones $5 positioning in the Commitments of Traders for the week ending January 25th showed Non-Commercial & Non-Reportable traders were net short 5,995 contracts after increasing their already short position by 1,151 contracts. Like other segments of the market, the NASDAQ forged a higher high for the move and appears to be settling down from last week's extreme negative volatility. The Commitments of Traders report for the week ending January 25th showed Nasdaq Mini Non-Commercial & Non-Reportable traders added 5,275 contracts to their already long position and are now net long 35,269.

GOLD, SILVER & PLATINUM:

Fortunately for the bull camp, the gold and silver trade are catching a lift from a broad-based risk on vibe flowing from equities and higher commodities. However, so far gold and silver are unable to get a positive lift from the inflationary argument, with the markets fully confident in the Fed's ability to squelch inflation before it becomes a problem. In our opinion, the bull camp needs evidence of soft economic activity and the potential for a delay in hiking US rates beyond March, and that might not be a reasonable expectation. Adding in the noted range up in-vogue US dollar action from last week, the gold and silver trade are facing the prospect of slackening physical demand from China which is on week-long holiday.

The most recent COT positioning report in gold showed an ongoing middle-of-the-road spec and fund long but since the report was marked off into the low last Friday, prices have declined by $70 additionally thereby rendering the latest positioning report long as overstated. The Commitments of Traders report for the week ending January 25th showed Gold Managed Money traders are net long 117,708 contracts after net buying 33,169 contracts. Non-Commercial & Non-Reportable traders are net long 275,331 contracts after net buying 37,225 contracts. Certainly, the situation in Ukraine could cause a sudden flight to quality condition, but the last iteration of the crises was judged by the international press as a slight softening of the Russian tone. In the end, the technical condition of gold is bearish with short-term technical indicators like stochastics in a sell mode.

Like the gold market, the silver market also sees the potential for inflation overshadowed by the potential for Fed action. Also like the gold market, the latest COT positioning report silver has likely overstated the net spec and fund long given the market post report slide of $1.70. The Commitments of Traders report for the week ending January 25th showed Silver Managed Money traders net bought 3,613 contracts and are now net long 27,440 contracts. Non-Commercial & Non-Reportable traders net bought 6,639 contracts and are now net long 48,752 contracts. Last week silver ETF holdings increased by 5.6 million ounces and are now 0.6% higher on the year. We see a key pivot point to start the week at $22.38 and note that slow stochastics are still in a sell mode. In the end, a sub $22.00 trade is expected this week.

Despite being significantly short-term and intermediately overbought, the palladium market extended its rally to start out the week as the Russian situation remains tenuous. Therefore, the threat against supply remains in play with short-term technical signals like stochastics remaining in a "buy mode". While the weekly COT report failed to catch the market shift from net short to net long, the market since the last report was measured managed a low to high rally of $209! The January 25th Commitments of Traders report showed Palladium Managed Money traders are net short 1,540 contracts after net buying 1,286 contracts. Non-Commercial & Non-Reportable traders are net short 2,365 contracts after net buying 1,123 contracts.

With very poor action on the charts at the end of last week, the divergence between platinum and palladium remains very significant. As indicated in all other metals coverage besides palladium, short-term technical indicators like stochastics remain in sell mode in platinum. Furthermore, the platinum market probably retains stop loss selling capacity given that the most recent positioning report had the market holding a moderate net spec and fund long. The January 25th Commitments of Traders report showed Platinum Managed Money traders went from a net short to a net long position of 8,001 contracts after net buying 9,370 contracts. Non-Commercial & Non-Reportable traders were net long 21,498 contracts after increasing their already long position by 7,122 contracts.

COPPER:

With a failure below the 50-day moving average last Friday, the copper market sees that level ($4.3825) as a resistance/pivot point to start out this week. With Chinese markets closed for a holiday, the copper bulls are lucky to be presented with risk on flowing from equities. About the most positive thing that can be said about the copper market is it had a modest net spec and fund long ahead of last week's $0.22 washout. However, given the size of the positioning before the latest report, we suspect the market retains some stop loss selling capacity.

The January 25th Commitments of Traders report showed Copper Managed Money traders net bought 564 contracts and are now net long 28,785 contracts. Non-Commercial & Non-Reportable traders net bought 2,229 contracts and are now net long 32,488 contracts. Underpinning copper is reports of a Covid outbreak at a very important mine in South America earlier in the month and a 37,000-tonne global copper deficit projection by the International Copper Study Group. Leaving the pressure on copper is last week's jump in Shanghai copper warehouse stocks and residual concern toward the Chinese economy.

ENERGY COMPLEX:

While the crude oil market is short-term overbought and the Russia situation seems to have moderated somewhat, the threat against supply remains and is combined with residual demand optimism to leave the bull camp with the edge. In addition to the threat against supply created by the Russian situation, the crude oil market should be supported following news that crude oil in global floating storage declined by 23% over the last week! Apparently, that storage level is now the lowest since September, with the largest declines posted in the US Gulf Coast and West Africa regions. Other bullish influences early this week are strong WTI spread action and reports of very tight Asian supplies. While the Chinese holiday could be dented by virus restrictions, the holiday is likely to expand or speed up Chinese oil demand temporarily. In another minor supportive development, the United Arab Emirate's managed to intercept a missile fired by rebels in Yemen that took place with the Israeli President in country at the time of the attack. From the bearish side of the ledger, Russian January oil production increase by 0.6% and Iranian oil sales have increased.

While the latest COT positioning report showed a net spec and fund long near 500,000 contracts, that positioning remains 150,000 contracts below the 2nd half of 2021 high spec long reading! The January 25th Commitments of Traders report showed Crude Oil Managed Money traders were net long 297,442 contracts after decreasing their long position by 14,154 contracts. Non-Commercial & Non-Reportable traders were net long 496,614 contracts after decreasing their long position by 1,894 contracts. While the press is suggesting the Russians have moderated their dialogue, it should also be noted that the Russian army moved blood/plasma supplies to the probable "front" late last week. While the trend remains up and short-term technical indicators remain bullish, weekly API crude oil stocks have increased in the prior 2 weeks and are therefore showing signs of rebuilding. On the other hand, the magnitude of the builds has been very small and could easily be offset by extreme cold weather or because of military exchanges along the Ukraine border.

With the supply and demand fundamentals in the gasoline market, the least supportive of the energy complex, the RBOB market is likely to continue to take its direction from the diesel market. However, it should be noted that recent implied gasoline demand readings have returned to 5-year average levels which is somewhat deceiving considering that implied demand has grown consistently over the last 5 years. On the other hand, there are reports of significant amounts of gasoline shipments headed to the US and that could offset minor improvements in demand. The latest COT positioning report shows a very modest net spec and fund long, which is 32% below the highest net spec and fund long of the past 18 months. The January 25th Commitments of Traders report showed Gas (RBOB) Managed Money traders net sold 843 contracts and are now net long 75,284 contracts. Non-Commercial & Non-Reportable traders were net long 68,038 contracts after decreasing their long position by 7 contracts. The reason the gasoline market has the softest fundamentals of the energy complex is a surplus in its year-over-year inventories, with the market shifting into surplus mode 2 weeks ago.

As mentioned already, the diesel market continues to be the primary leading force in the energy markets. Contrary to belief of oversupply and anemic demand for distillate products (jet fuel), stocks at the EIA remain in significant year-over-year deficits of 37.6 million barrels and 35.2-million-barrels (respectively). From a technical perspective, the net spec and fund long in heating oil is relatively longer than in gasoline, with this week's report likely understating the net long due to the gains after the report of $0.11. The January 25th Commitments of Traders report showed Heating Oil Managed Money traders were net long 31,886 contracts after increasing their already long position by 4,484 contracts. Non-Commercial & Non-Reportable traders net bought 861 contracts and are now net long 44,056 contracts.

While the Russia situation has moderated slightly, that issue remains paramount to near term natural gas price action. In fact, pipeline flows from Russia are still not providing badly needed gas to Europe. Reports suggest that the Russian national gas company (Gazprom) will not offer gas on the electronic spot marketplace this week! Despite cold weather in the UK over the weekend and a significant winter storm hitting the US eastern seaboard, weather in Europe has limited gains from the weather front. While gas bulls were benefited because of a Norway LNG plant outage, that disruption was offset by slack demand from Europe. While the latest COT positioning report net spec and fund short is obviously overstated due to the rally since the report was measured, the market is anything but overbought in the net spec and fund categories.

The Commitments of Traders report for the week ending January 25th showed Natural Gas Managed Money traders net sold 6,378 contracts and are now net long 10,388 contracts. Non-Commercial & Non-Reportable traders were net short 97,815 contracts after increasing their already short position by 11,706 contracts. In fact, to anticipate a "mostly bought out" positioning might require a net spec and fund long of 61,000 contracts. Therefore, 150,000 net spec and fund long contract buys (short covering buying) could be seen in the January 25th without an excessive level of long speculation registered. Short-term technical indicators remain in "buy mode", with near term upside targeting in March natural gas at $5.100 and significant volatility expected in the days ahead.

BEANS:

Weather forecasts for Argentina and southern Brazil showed just some light scattered rains for eastern Argentina and southern Brazil over the next week. However, the 8-14 day forecast models show higher rain amounts for this region. Traders expect to see significant damage to the crop in South America due to a lack of rain during a key growing period in January, damage that was not reflected in the January USDA supply/demand report. Brazil firm AgRural lowered their soybean crop estimate down to 128.5 million tons from 133.4 million as their previous estimate. This is down 10.5 million tons from the January USDA estimate.

If total South American production declines 24 million tonnes from the January USDA forecast, world ending stocks could fall to 71.2 million tonnes, which would be the tightest since the 2013/14 season. More importantly, the stocks/usage ratio could drop to 19%, which would be the lowest since 1999/2000. March soybeans closed sharply higher on the session Friday and posted new contract highs for the second day in a row. Technical indicators are overbought, but the continued advance in open interest is a positive technical development. Exporters announced the sale of 264,000 tonnes of US soybeans to China. In addition, there was 141,514 tons of US soybeans sold to Mexico and 251,500 tonnes of US soybeans sold to unknown destination.

The Commitments of Traders report for the week ending January 25th showed Soybeans Managed Money traders were net long 114,895 contracts after increasing their already long position by 15,256 contracts. CIT traders were net long 191,114 contracts after decreasing their long position by 14,150 contracts. Non-Commercial & Non-Reportable traders were net long 112,737 contracts after increasing their already long position by 23,294 contracts. For Soyoil, Managed Money traders are net long 68,773 contracts after net buying 10,565 contracts for the week. For Soymeal, Managed Money traders are net long 64,334 contracts after net selling 409 contracts. Non-Commercial & Non-Reportable traders are net long 104,632 contracts after net selling 4,379 contracts.

CORN:
March corn closed sharply higher on the session Friday and the buying push the market up into new contract highs. There is some additional dryness for much of southern Brazil and most of Argentina for the next week, but the 8-14 day forecast shows wet conditions. Strength and energy markets and a more positive tilt to the US stock market added to the positive tone. Further damage to the Argentina or Brazil crop could tighten world ending stocks even more. Corn open interest is on the rise as index and trend-following fund traders have been active buyers. More and more talk that total production losses for South America could already be 16-20 million tonnes leaves the world supply situation historically tight.

China's corn demand is expected to remain strong, as prices there are close to $11 per bushel compared to $6.25 in the US. The amount of corn used in last week's weekly US ethanol production is estimated at 105.07 million bushels. Usage needs to average 100.3 million bushels per week to meet the USDA estimate for the 2021/22 marketing year. US corn export sales have reached 71% of the USDA's forecast for the marketing year versus a five-year average pace of 60%. All of this suggests that the USDA could increase domestic usage for ethanol production and US exports in upcoming monthly supply/demand updates. This would lower ending stocks for 2021/22.

The EPA on Friday finalized plans to give refineries more time to prove they have fulfilled 2020, 2021 and 2022 biofuel-blending requirements. In a final rule, the agency also said small refineries will have until the next quarterly reporting deadline after the 2021 blending quotas are established to fulfill them. The January 25th Commitments of Traders report showed Corn Managed Money traders added 39,082 contracts to their already long position and are now net long 365,605. Non-Commercial & Non-Reportable traders are net long 386,929 contracts after net buying 47,847 contracts in just one week. The buying trend is supportive.

WHEAT:
March wheat close moderately higher on the session last Friday following an inside trading day. Outside market forces improved and this provided some support after the sharp 2-day setback. Strength in the other grains helped to fuel the higher trade. Milling wheat futures in Europe closed 0.5% higher on the session. Traders monitored the Egypt tender but there is talk that Black Sea exporters were making offers in the tender and that helped to limit the buying support. Egypt bought 420,000 tonnes of wheat at their tender which was mixed between Russia, Ukraine and Romania.

Wheat production across major exporters is expected to increase for the new crop season. Traders also see feed-wheat demand on the decline if global corn prices come down. For the old crop season however, while world ending stocks are relatively high, when we combined US and major exporter ending stocks, stocks are at a relatively tight 51.59 million tonnes. This is the lowest since the 2012/2013 season and the second tightest in the last 14 years. This is an important indicator of wheat available to importers on the world market.

China wheat usage surged to a record high for the last two seasons as corn prices are currently at $11 per bushel and the China feed industry is using plenty of wheat. New-crop wheat is trading at a discount to current prices. The possibility of conflict between Russia and Ukraine remains a potential bullish force. Russian wheat shipments for the 2021-22 season have reached 23.6 million tons as of Jan. 27, down 21% from a year earlier.

The Commitments of Traders report for the week ending January 25th showed Wheat Managed Money traders net bought 11,474 contracts and are now net short 13,427 contracts (short-covering). Non-Commercial No CIT traders reduced their net short position by 9,143 contracts to a net short 33,001 contracts. For KC Wheat, Managed Money traders were net long 40,634 contracts after increasing their already long position by 4,515 contracts for the week. Non-Commercial & Non-Reportable traders were net long 36,637 contracts after increasing their already long position by 3,040 contracts.

HOGS:

April hogs opened higher last Friday and rallied all the way to above Thursday's high before a sharp break into the midsession. The market closed slightly higher on the day with an outside trading day and a large range. Technical indicators are extremely overbought, and the market is still operating under the negative influence of the key reversal from January 26th. The USDA pork cutout, released after the close Friday, came in at $93.89, down $2.20 from Thursday but up from $91.21 the previous week. The CME Lean Hog Index as of January 26 was 79.75 up from 79.20 the previous session and up from 76.79 the previous week. This leaves April hogs holding a much higher than normal premium to the cash market.

The USDA estimated hog slaughter came in at 468,000 head Friday and 209,000 head for Saturday. This brought the total for last week to 2.546 million head, up from 2.440 million the previous week but down from 2.660 million a year ago. Estimated US pork production last week was 556.9 million pounds, up from 531.4 the previous week but down from 581.6 a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 18,112 contracts of lean hogs for the week ending January 25, increasing their net long to 66,907. Non-commercial & non-reportable traders were net buyers of 16,879, increasing their net long to 56,583.

CATTLE:

April cattle closed sharply higher on the session last Friday and the buying pushed the market up to the highest level since January 20th. A strong recovery in the stock market plus ideas that packer margins are strong enough to support higher cash markets ahead helped to support. The USDA boxed beef cutout was up $1.54 at mid-session Friday and closed $1.31 higher at $290.42. This was down from $292.41 the previous week. Cash live cattle trade was light on Friday, but it continued to trend lower from the previous week. The five-area weighted average price was 136.84 on Friday, down from an average of l37.50 the previous week. The USDA estimated cattle slaughter came in at 117,000 head

Friday and 57,000 head for Saturday. This brought the total for last week to 643,000 head, up from 636,000 the previous week but down from 656,000 a year ago.

The average estimated dressed cattle weight last week was 843 pounds, down from 844 the previous week and 846 a year ago. The 5-year average weight for that week is 828.6 pounds. Estimated beef production last week was 540.8 million pounds, down from 553.2 million a year ago. The US cattle herd as of January 1st is seen falling by over 1 million head to 92.5 million, the lowest level in six years, according to a Bloomberg survey. It would be the third year over year decline in a row for the herd. Beef cows are seen down 1.9% from last year and milk cows are seen falling by 0.3%. The 2021 calf crop is seen down 1% to 34.8 million head. Friday's Commitments of Traders report showed managed money traders were net sellers of 12,856 contracts of live cattle for the week ending January 25, reducing their net long to 49,321. Non-commercial, no CIT traders were net sellers of 13,255, reducing their net long to 29,664.

COCOA:

After falling more than 200 points over 5 sessions, cocoa appeared to find its footing late last week. While near-term demand is a source of concern, cocoa has fallen into bargain price territory given what remains a bullish longer-term supply/demand outlook. March cocoa put in a strong day on Friday, bouncing off a three-week low as it finished with a sizable gain that took back most of its losses from Thursday’s session. For the week, however, March cocoa finished with a loss of 82 points (down 3.2%) which was a second negative weekly result in a row. A late rebound in US equity markets provided cocoa with carryover support as that may help to soothe North American near-term demand concerns.

North America was the one major region which had a negative year-over-year fourth quarter grindings result, so the positive turnaround in US equities helped to take cocoa well above its early lows. Mondelez reported better than expected revenue due in part to stronger demand for chocolate, which provided additional strength to cocoa prices. However, major Euro zone stock markets finished Friday in negative territory while the Eurocurrency remains in close proximity to multi-year lows, which does not bode well for near-term European demand prospects.

In addition, soaring energy prices, the Russia/Ukraine situation, and Covid concerns have fueled concerns about European demand going forward. Europe accounts for more than one-third of global cocoa processing without a domestic source of beans, so their demand outlook has a significant impact on global cocoa exports as well. The International Cocoa Organization (ICCO) reported that global identified cocoa stocks at the end of the 2020/21 season increased by 403,000 tonnes from levels at the end of the 2019/20 season. This was due in part to additional data results from south-east Asia, but also reflects record high production from Ivory Coast and near-record production in Ghana.

Cocoa positioning in the Commitments of Traders for the week ending January 25th showed Managed Money traders were net long 17,226 contracts after decreasing their long position by 1,593 contracts. CIT traders were net long 30,260 contracts after decreasing their long position by 136 contracts. Non-Commercial No CIT traders added 879 contracts to their already long position and are now net long 5,608. Non-Commercial & Non-Reportable traders net bought 750 contracts and are now net long 26,309 contracts.

COFFEE:
Coffee was one of the best performing commodities in 2021 with the nearby contract reaching its highest price level since 2011, which led to end of year profit taking and a selloff that allowed the market to correct a technically overbought condition. After last week's bumpy ride, the coffee market may be ready to begin a longer-term upside move. March coffee bounced back after trading to its lowest level since January 6 as it finished Friday's trading session with a sizable gain that took back most of its losses from last Thursday's session. For the week, however, March coffee finished with a loss of 2.00 cents (down 0.8%) which was a second negative weekly result in a row.

March coffee put in a low on January 2 before rallying back to a seven-week high by mid-January, until a negative shift in global risk sentiment fueled more selling which took prices back below their 50-day moving average. Outside market volatility has risk appetites fluctuating, but last Friday's sizable rebound in US equities provided coffee with carryover support. Brazil's biannual coffee crop cycle makes 2022/23 an "on-year" for their Arabica production, but drier than normal conditions since mid-2020 have lowered expectations for the upcoming season. In addition, many coffee trees were damaged by last July's frost events which will have a longer-term negative impact on their output.

While Brazil is still expected to see larger coffee output this season than last year, the current forecast by the Brazilian government agency Conab puts Brazil's Arabica production at 38.78 million bags, which would be their second smallest on-year crop in the past nine seasons. The La Nina weather event is expected to continue to bring drier than normal conditions to Brazil through March, and is also expected to bring heavier than normal rainfall to Colombia which may keep their 2022 production below 14 million bags.

Global shipping container shortages have obstructed the flow of coffee exports while ICE exchange coffee stocks have fallen 37% since the end of September. Coffee positioning in the Commitments of Traders for the week ending January 25th showed Managed Money traders were net long 53,647 contracts after decreasing their long position by 574 contracts. CIT traders added 1,224 contracts to their already long position and are now net long 46,162. Non-Commercial No CIT traders are net long 47,022 contracts after net selling 834 contracts. Non-Commercial & Non-Reportable traders are net long 68,456 contracts after net selling 709 contracts.

COTTON:
March cotton closed higher last Friday after breaking out of its recent rally and trading to another new contract high. The market has closed higher for eight weeks in a row, and the nearby contract has traded to its highest level since July 2011. The export sales report was strong last week, but traders are concerned that the higher prices could hurt short term demand. A move in the dollar index to its highest level since July is also a concern for exporters.

Friday's Commitments of Traders report showed managed money traders were net sellers of 1,212 contracts of cotton for the week ending January 25, reducing their net long to 76,396. Non-commercial, no CIT traders were net sellers of 1,720 contracts, reducing their net long to 75,075. Non-commercial &

non-reportable traders were net sellers of 3,636, reducing their net long to 110,522. CIT traders were net sellers of 1,452 contracts, reducing their net long to 74,105.

SUGAR:

Sugar prices will start this week on a 7-session losing streak as market focus has shifted towards major Asian producing nations. Given the recent strength in key outside markets, however, sugar prices are relatively cheap at current levels and should find their footing before they retest their January lows. March sugar sold off sharply on Friday and traded to its lowest level since January 14 before finishing with a moderate loss. For the week, March sugar finished with a loss of 70 ticks (down 3.7%) which broke a 2-week winning streak.

Sugar remained on the defensive Friday in despite another move to new contract highs in crude oil and RBOB gasoline, both of which would normally lend support on ideas that it would boost ethanol demand and pull cane crushing operations away from sugar. While Brazil's Center-South domestic ethanol sales came in below the previous year's total for the past 5 months, energy prices are well above levels seen during the 2018/19 and 2019/20 seasons when sugar's share of Center-South crushing was below 36%. In comparison, sugar's share of Center-South crushing this season so far is running just above 45%. Rain forecast for Brazil's Center-South growing regions over the weekend could improve soil moisture levels and improve the prospects for next season's cane crop, and that pressured the sugar market going into the weekend.

India is reporting strong yields in their top-producing state of Maharashtra, and that has improved their sugar production outlook for the 2021/22 season. However, India's 2021/22 ending stocks are projected to come in at their second lowest total over the past 10 seasons, which is due in part to an increase in sugar diverted to ethanol production as mills prepare for the India government's target of 20% ethanol blending with gasoline by 2025. In addition, India's 2021/22 sugar exports are expected to decline from last season's 7.2 million tonnes, with some forecasts falling below 6 million tonnes.

The Commitments of Traders report for the week ending January 25th showed Sugar Managed Money traders added 18,483 contracts to their already long position and are now net long 94,299. CIT traders net bought 3,620 contracts and are now net long 176,116 contracts. Non-Commercial No CIT traders are net long 60,248 contracts after net buying 13,581 contracts. Non-Commercial & Non-Reportable traders added 22,164 contracts to their already long position and are now net long 144,104.

Please contact us at + 1 877 690 7303 or via email at sales@admis.com for questions or comments on this report or would like more information about our ADMIS research.