ADM Investor Services, Inc.

Weekly Futures Market Summary

September 26, 2022

by the ADMIS Research Team

BONDS:

The latest UK consumer confidence reading reached a record low while a set of European "flash" manufacturing PMI's all saw sizable declines from their previous results. While there was no major US data to digest last Friday, Canadian retail sales came in well below trade forecasts. Treasuries received significant flight-to-quality inflows as Bonds rallied from 11-year low to post a sizable gain during Friday's trading session. While the treasury bond market has forged an inside trading range in the early going this week, the two large range down probes at the end of last week following the very hawkish promises of the US Federal Reserve last week leaves fundamental and technical trends pointing down. However, global economic news at the start of this week showed further slowing evidence from Europe, global equity markets remain under noted pressure and the dollar remains in vogue and that should eventually provide cushion for bond and note prices.

Furthermore, reports indicate European banks will now be forced to raise reserves to cushion against bad loans in the face of significant slowing ahead. On the other hand, euro zone government bond rates rose to the highest level in several years and many nondollar currencies are crashing against the dollar and that could create an "auction" of higher sovereign bond rates. However, the US scheduled report slate early this week is thin with the Chicago Fed national activity index and the Dallas Fed manufacturing business index the only substantial readings scheduled Monday, and both those reports were expected to favor the bull camp. It should be noted that the US treasury will offer a series of note auctions this week and the interest or lack of interest in that supply will be very telling of current trade sentiment.

In short, the path of least resistance is down but evidence of slowing, and a sizable net spec and fund short positioning could result in a temporary bottom at or around last week's lows. Bonds positioning in the Commitments of Traders for the week ending September 20th showed Non-Commercial & Non-Reportable traders added 15,583 contracts to their already short position and are now net short 90,505. In fact, the treasury bond market with a 3-point slide following the last COT report is nearing the largest net spec and fund short positioning since October 2021. It should also be noted that the net spec and fund short in notes is less remarkable than in bonds, suggesting the Note market could remain more vulnerable than bonds from a technical perspective. T-Notes positioning showed Non-Commercial & Non-Reportable traders are net short 382,785 contracts after net buying 70,150 contracts.

CURRENCIES:

The Dollar rallied up to a new 20-year as it finished Friday's trading session with a sizable gain. The prospect of upcoming Fed rate hikes through the first quarter of 2023 helped to funnel safe-haven inflows that has supported the Dollar late this week. In sharp contrast, the British Pound sustained heavy losses in the wake of a badly-received UK "mini" budget and reached a new 37 1/2 year low before closing the day and week with a severe loss. With another big range up contract high in the dollar at the start of this week, the greenback continues to benefit from expectations of attractive US treasury yields.

Perhaps some traders see the dollar as a flight to quality destination and continue to have confidence in the US Fed not to overtighten and send the US economy into a deep recession. However, it appears that market sentiment generally expects a US recession but at this point a portion of the trade expects the Fed to handle the conundrum better than most international central banks. The Commitments of Traders report for the week ending September 20th showed Dollar Non-Commercial & Non-Reportable traders were net long 30,797 contracts after decreasing their long position by 7,604 contracts.

While big picture macroeconomic selling continues to dominate the euro, soft German Ifo readings for September add to the bearish track early this week. With the mantra in the markets suggesting a US recession will mean a significant recession in the euro zone and the fear of deep slowing from the economic activity sapping caused by 10x energy costs, the path of least resistance in the euro remains down with the next downside target derived from the "monthly charts" 200 points below this week's early trade. The September 20th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders were net long 53,753 contracts after increasing their already long position by 42,494 contracts.

News that McDonald's in Japan will raise prices on 60% of it is menu, mixed Japanese bank manufacturing/services PMI readings for September and fresh/significant chart damage, the near-term target in the Yen is the lows from 1998 below 70.00. About the most positive force for the Yen is its dramatic oversold technical condition. With the dollar showing no signs of letting up on its aggressive uptrend and threats of spillover recession from the euro zone, the next downside target in the Swiss franc are the June lows.

While the Pound aggressively rejected a major range down extension at the start of this week and that in turn provides some deterrent to fresh selling interest, the fundamental backdrop hardly justifies a sudden reversal or a sustainable bottom. However, the Pound could become the least vulnerable non-dollar currency if the BOE or UK government offers up significant stimulus. Therefore, shorts should move to the sidelines and wait for a Pound recovery back above 1.11.

The early September bounce in the Canadian dollar clearly corrected the oversold technical condition and set the groundwork for the 2nd half of September washout. Discouraging Canadian economic statistics released on Friday and ongoing hawkish expectations from the Bank of Canada leave the next downside target in the Canadian dollar at 72.77. It should be noted that the 72.77 level is the beginning of a gap that would not be closed until a trade of 72.41.

STOCKS:

Global markets put together a modest recovery at midsession, but still finished last week with a severely negative risk tone. Following rate hikes by the Fed and other major central banks, an announcement of a UK "mini" budget was not well received and triggered a "risk off" mood in many market sectors. US equity markets rebounded from midsession lows but still finished Friday's trading session with heavy losses. Global equity markets at the start of this week were generally lower with some declines over 2.5%. However, the RTS (the Russian stock market) was down over 8%, but we no longer consider that an open market!

While the declines early this week are not indicative of high anxiety, we expect prices to take out Friday's lows and forge fresh new lows for 2022. Clearly, investors are moving to the exits under the extension of the "conundrum" of the need to raise interest rates further on an already slowing economy. Evidence of the breakdown in optimism came from the breakdown of a $13 billion buyout deal overnight and from news that Amazon will have a sale next month like its Prime Day to cushion against a soft holiday shopping season.

Obviously, the S&P remains entrenched in a bearish liquidation pattern with last week's major range down failure unable to signal an exhaustion bottom with a close back above the midpoint of the Friday range. While the most recent COT positioning report showed the net spec and fund short positioning near the prior 2 weeks readings, the post COT report slide of 219 index points likely puts the net spec and fund short at the largest level since 2012. The Commitments of Traders report for the week ending September 20th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 290,211 contracts after net buying 50,983 contracts.

While the December Dow has held above the contract low from Friday at 29,315 early this week, we expect fresh lower lows for 2022 in this week's action. As indicated already, the breakdown of a buyout deal, indications of even higher US treasury yields and the rush to factor in rate hike inspired recession remains in motion. In fact, with the latest net spec and fund short positioning reading not nearly as large as was seen from March through early August (the 2022 net spec and fund short was 29,664 contracts) the index has more selling capacity. Dow Jones $5 positioning in the Commitments of Traders for the week ending September 20th showed Non-Commercial & Non-Reportable traders were net short 15,843 contracts after increasing their already short position by 2,351 contracts.

While reports that Apple may manufacture a full quarter of its iPhone 14 in India (as opposed to riskier China) decreases the potential negative impact on the company from deteriorating US/Chinese relations, Chinese Covid, deteriorating disposable income levels are likely to hit high-tech companies in a similar manner as brick-and-mortar retail. Evidence of deteriorating disposable income was noted following news that McDonald's in Japan has decided to raise prices on 60% of its menu items. In another negative for the tech sector is an EU effort to push network/telecommunication costs onto big tech. Nasdaq Mini positioning in the Commitments of Traders for the week ending September 20th showed Non-Commercial & Non-Reportable traders net sold 5,142 contracts and are now net short 20,601 contracts.

GOLD, SILVER & PLATINUM:

On the one hand, the gold market at the end of last week saw a key chart support failure and downside extension from stop loss selling, and that should leave the bear camp in control to start the new trading week. On the other hand, the gold market last week initially held up impressively in the face of an aggressive US interest rate hike and a significant upside surge in the US dollar before succumbing to the big picture broad-based commodity market meltdown. However, with foreign central banks promising to raise rates in sync with the US, the dollar expected to aggressively extend its upside breakout and reports earlier last week of slower gold shipments into China, the gold market looks to be under ongoing pressure from inside and outside market forces.

Not surprisingly, gold and silver investors continue to flee ETF instruments with gold holdings year-to-date posting a minuscule gain of 0.3% and silver ETF holdings posting a year-to-date decline of 13%. In fact, silver ETF net sales for the year are 117 million ounces highlighting an ongoing exodus from the precious metals sector. Furthermore, Goldman Sachs has reduced its Chinese growth forecast for 2023 and that should add another element of suspect demand selling interest. Yet another big picture negative for precious metals and commodities in general is a forecast from Goldman Sachs predicting the Fed will hike rates 75-basis points in November followed by 50-basis points in December and a potential final hike of 25-basis points in February for a peak Fed funds rate of 4.75%.

Fortunately for the bull camp, the net spec and fund long in gold has declined significantly from the recent peak on March 8th (at 280,000 contracts) as the net spec and fund long has reached the lowest level since April 2019. If the post COT report price decline of $22 is considered and the net spec and fund long is adjusted, the market is likely at the least net long since November 2018! Gold positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders added 22,834 contracts to their already short position and are now net short 32,966. Non-Commercial & Non-Reportable traders net sold 37,372 contracts and are now net long 72,174 contracts.

While the December silver contract showed some respect for key support, silver remains extremely vulnerable to negative overall commodity price action. However, if adjusted for the post report slide of $0.50, the silver market is likely seeing its spec position nearing the record net short position of 13,966 contracts forged back in September 2018. The September 20th Commitments of Traders report showed Silver Managed Money traders net bought 364 contracts and are now net short 7,095 contracts. Non-Commercial & Non-Reportable traders are net long 6,793 contracts after net buying 2,742 contracts. While close in support levels might hold the bear camp retains control.

Like other precious metal markets and many physical commodities markets, the December palladium contract posted a very damaging downside failure at the end of last week and could be poised for a quick slide down to even numbers at $2,000. Fortunately for the bull camp, palladium ETF holdings have remained relatively unchanged over the last several weeks but have seen holdings this year declined by 17%! Fortunately for the bull camp, the most recent COT positioning report showed a net spec and fund short which is likely understated given the slide of $110 after the latest report was measured.

However, the palladium market in the recent past has seen a net spec and fund short position of 4,354 contracts and more downside off stop loss selling and a bearish overall commodity market environment (rising rates, strong dollar, fears of global slowing) leave internal and external forces bearish in palladium. Palladium positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders were net long 300 contracts after increasing their already long position by 227 contracts. Non-Commercial & Non-Reportable traders were net short 1,261 contracts after decreasing their short position by 194 contracts.

Unfortunately for the bull camp, platinum ETF holdings continued to decline precipitously with the most recent outflow pegged at 5,060 ounces and year-to-date holdings down by 13%. Certainly, the declines in prices since the COT report mark off ($80) suggests the net long is "overstated" but not "mostly liquidated" yet! The September 20th Commitments of Traders report showed Platinum Managed Money traders net bought 8,945 contracts and are now net short 2,002 contracts. Non-Commercial & Non-Reportable traders added 4,483 contracts to their already long position and are now net long 5,988.

COPPER:

In addition to copper entering last week's action short-term overbought from both fundamental and technical perspectives, the extremely bearish shift in macroeconomics leaves December copper vulnerable to a failure at $3.25 early this week. Fortunately for the bull camp, the copper market in the most recent positioning report was net spec and fund short before the market declined $0.18! The Commitments of Traders report for the week ending September 20th showed Copper Managed Money traders net bought 250 contracts and are now net short 4,112 contracts. Non-Commercial & Non-Reportable traders are net short 20,898 contracts after net selling 2,493 contracts.

Obviously, big picture macroeconomics are factoring in increased odds of a global recession following last week's aggressive rate hike and threats of higher rates from several other central banks. Adding into the bearish track is a 2.9% weekly increase in weekly Shanghai copper stocks last Friday and a 1,950-tonne increase in LME copper warehouse stocks. Furthermore, last Thursday LME copper warehouse stocks increase by 4,775 tonnes after an increase of 10,850 tonnes last Wednesday! In a supportive development, Poland's KGHM indicated their August 2021 copper production declined from 64,600 tonnes last year to 60,300 tonnes in August 2022. Even a world refined copper market deficit projection of 30,000 tonnes in July from the International Copper Study Group is bearish as some traders were expecting a larger deficit.

ENERGY COMPLEX:

At this point the energy complex is likely locked in a downward motion unless a fresh and significant supply threat materializes. As of this writing, the most threatening supply issue is the approach of tropical storm/hurricane Ian, but that storm track has been consistently shifted away from Gulf of Mexico production areas. Certainly, some disruption of shipping and oil platform activity is likely given precautions already undertaken, but lasting supply disruption is unlikely at this time. Movement toward a price Cap on Russian oil by the EU has failed to spark threats from Putin and has also failed to support crude oil prices in the early going. In fact, the talk of an enforceable EU oil embargo of Russian oil will obviously reduce outlets for Russia and adding into the negative track this morning is a 20% increase in global crude oil in floating storage over last week and significant weakening of purchasing power of nearly all non-dollar currencies.

The bearishness in the market is so definitive that talk of a proactive move by OPEC+ to support prices with a production cut back has failed to garner headline status. Not surprisingly, the crude oil market saw aggressive long liquidation in the wake of slowing fears resulting from renewed speculation of recession from rising global interest rates. Furthermore, it goes without saying that a surging US dollar is adding pressure on WTI prices. While tropical storm Fiona is projected to track away from key US production areas, there are currently 5 storms in the region with tropical storm Gaston not a threat to any landfall and post cyclone Hermine not a threat to production. However, tropical storm Ian is a threat to US production areas even though its latest tracking shows the storm skirting only far Eastern Gulf of Mexico offshore platforms. The key pivot date for Ian is early Tuesday morning US central time. Yet another tropical disturbance is being monitored in the Eastern Atlantic signaling a ramping up of storm activity.

The most recent US rig operating count showed US oil rigs up 3 (602 operating) but the overall August rig count declined and is expected to decline again this month breaking a 24-month pattern of expansion. While we see the market focused on sagging energy demand, a survey from Reuters predicts US oil output to grow by 500,000 to 700,000 barrels per day from the 4th quarter into the first quarter of 2023. The EIA projected an increase of 800,000 barrels per day into the end of this year compared to last year. Furthermore, the charts are distinctly bearish with last week's definitive downside breakout extension to the lowest levels since early February. Fortunately for the bull camp the crude oil market adjusted for the $7.00 slide from the last positioning report, likely reduces the net spec and fund long to the lowest level since February 2016! Crude Oil positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders are net long 192,740 contracts after net buying 7,941 contracts. Non-Commercial & Non-Reportable traders net bought 16,314 contracts and are now net long 315,885 contracts. In retrospect, buyers are not emboldened by aggressive Russian leader escalation threats and global demand is being revised lower.

While the gasoline market rejected a sub $2.30 trade last week and temporarily held well above the early September low, the outside market pressure from falling crude oil and deteriorating macroeconomic issues leaves significant pressure on prices. However, recent mobility readings showed decent demand and a refinery fire in the US last week provides cushion to gasoline prices. At the end of last week, retail pump prices in Indiana increased by $0.06 in a single day prompting sharp jumps in Ohio and Michigan retail pump prices. According to Bloomberg US Midwest fuel supplies were already extremely tight at 44 million barrels, which is the lowest reading in 24 years. Furthermore, with the BP refinery fire resulting in two deaths, Midwest gasoline supply should be expected to tighten further and in turn provide cushion to gasoline futures prices.

Fortunately for the bull camp the net spec and fund long positioning in gasoline is likely overstated, given the post report slide of $0.16. The September 20th Commitments of Traders report showed Gas (RBOB) Managed Money traders are net long 51,811 contracts after net buying 1,552 contracts. Non-Commercial & Non-Reportable traders were net long 47,692 contracts after increasing their already long position by 2,240 contracts. In addition to tightening US Midwest gasoline supplies, gasoline stocks at the main European hub (ARA) declined last week.

The diesel market clearly held up better than the rest of the petroleum markets with a previous consolidation low support zone starting at $3.12 initially holding up prices despite an early failure of that level last week. Unfortunately for the bull camp, upcoming US weather is expected to be warm thereby reducing the potential for early heating demand in the next 15 days. However, the net spec and fund long positioning in diesel remains moderately net long thereby increasing the potential for stop loss selling if risk off conditions extend into the new trading week. Heating Oil positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders are net long 15,701 contracts after net selling 3,132 contracts. Non-Commercial & Non-Reportable traders are net long 26,217 contracts after net selling 5,359 contracts.

Apparently, fear of further Russian gas flow reductions has been pushed to the sidelines off ideas that slumping global demand will make shortages caused by Russia less significant. Last week US gas drilling rig activity saw a decline of two rigs to stand at 160 rigs operating. Fortunately for the bull camp, the net spec and fund positioning in natural gas prior to the aggressive slide of $0.90 was already heavily net short potentially leaving the net spec and fund short at the largest level since March 2020 if adjusted into the lows this morning! Natural Gas positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders are net short 82,642 contracts after net selling 4,060 contracts. Non-Commercial & Non-Reportable traders were net short 121,639 contracts after increasing their already short position by 10,564 contracts. As indicated already, tropical storm activity has increased significantly over the last week with Ian potentially threatening Gulf of Mexico oil infrastructure by early Wednesday US time.

In fact, it is possible that Ian could become a category 3 hurricane on midday Tuesday US time. However, the anticipated track of the storm will likely skirt the far eastern edge of production areas. US weather is bearish in the coming week with mild to slightly above normal temperatures seemingly delaying the Fall season. In a positive longer-term note, there are reports that China finished its biggest liquefied natural gas storage facility on September 22nd but that is offset by news that California is moving to ban natural gas furnaces and heaters within 8 years. The path of least resistance is down in natural gas from both technical and fundamental perspectives. Obviously, surprise supply threatening dialogue from Putin could suddenly reverse the downward bias, and it is also possible that the $6.9 level will offer some measure of support. It should be noted that some technical analysts are suggesting the development of a massive head and shoulders top, but to complete the right shoulder of a head and shoulders pattern will likely require another trade back above $9.00.

BEANS:

The soybean market looks vulnerable to more selling over the near term, especially if actual yields reach or exceed current expectations. The two week outlook for US harvest is near ideal with warm and dry conditions expected. In addition, Argentina soybean exports are picking up now, and product exports should pick up soon as farmers have sold an estimated 12.8 million tonnes of soybeans since the devaluation, according to the Buenos Aires Grain Exchange. There were reports of 26,000 trucks loaded with soy arriving at river ports last week, the most for any week in September since 2015. Biodiesel usage and production is increasing rapidly and should eventually provide support to soybean oil.

For now, fears of global recession and a collapse in crude oil prices to the lowest level since February is seen as a bearish force. November soybeans close sharply lower on the session Friday as the outlook for active harvest combined with bearish outside market forces helped to drive the market lower. A collapse in energy prices pushed soybean oil sharply lower, and December meal experienced follow-through technical selling following Thursday's key reversal. The surge higher in the US dollar plus a sharp selloff in most all agricultural markets added to the bearish tone.

The September 20th Commitments of Traders report showed Soybeans Managed Money traders reduced their net long position by 7,436 contracts to a net long 104,691 contracts. The long liquidation trend is a bearish force. Non-Commercial No CIT traders reduced their net long position by 9,287 contracts to a net long 41,703 contracts. For Soyoil, Managed Money traders net bought 3,040 contracts and are now net long 58,310 contracts. For Soymeal, Managed Money traders were net long 102,168 contracts after increasing their already long position by 14,454 contracts for. Non-Commercial & Non-Reportable traders net bought 16,238 contracts and are now net long 148,488 contracts. This is a historically high net long position and compares with the record high of 179,557 contracts.

CORN:

December corn closed sharply lower on the session last Friday, but the market managed to hold above the previous week's low. This is a relatively positive performance given the collapse in many other agricultural commodities. The surge in the US dollar, a collapse in energy markets and a very sharp break in the stock market helped to keep the demand tone bearish. The weather outlook also suggests active harvest activity over the next two weeks. Traders are still nervous that actual yields may come in lower than expectations and this would tighten the stocks situation significantly.

Traders seem to be waiting for a better indication of US corn yields, with increasing concerns that the far western Corn Belt (South Dakota, Nebraska, and Kansas) may come in well below trade expectations. The return to drought conditions, with 78% of Kansas' pasture and range in poor to very poor condition, extraordinarily high basis levels for corn, and the lack of hay supply could support higher corn usage for the fourth quarter. It also raises the possibility of a sharp increase in corn cut for silage. Livestock producers in these three states see silage as a viable feed alternative to extremely high-priced corn. Increased silage production could cause total harvested acres for corn to fall.

Analysts at Argentina's Rosario Grains Exchange see a bigger switch from corn soybean plantings for the upcoming season than they thought a month ago. Corn planting estimates have fallen from 7.2 million hectares last month to 7 million this month, a 2.8% decline. Last season's corn planted area was 7.4 million hectares. Fields are extremely dry, which is particularly bad for corn yields, so farmers are shifting to soybeans and late-planted corn. As of September 21, traders see just 3-4% of the crop planted as compared with 6% last year. Corn positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders are net long 247,909 contracts after net buying 7,266 contracts.

WHEAT:

December wheat closed sharply lower on the session last Friday as bearish outside market forces and talk of a record high crop from Russia helped to pressure. A massive rally in the US dollar plus weakness in nearly all commodity markets helped to pressure. Traders see high yields for Russia's spring wheat crop as a bearish factor. The surging US dollar to the highest since 2002 should help to further reduce demand for US wheat. Weekly export sales for wheat already dropped to the lowest since May last week.

Global recession fears continue to pressure commodity markets but wheat still closed higher on the week. Traders fear that an agreement allowing the resumption of Ukrainian grain shipments could be at risk as Russia escalates the war. Argentina crop conditions continue to deteriorate due to cold and dry weather. Exports of grain and oilseeds from Ukraine in the past week reached 1.1 million tons, up 200,000 from the previous week. The International Grains Council raised its outlook for global grain production, primarily because of a jump in expectations for the Russia crop.

Wheat positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders net bought 4,683 contracts and are now net short 15,703 contracts (short-covering). Non-Commercial No CIT traders net bought 6,095 contracts and are now net short 47,491 contracts. For KC Wheat, Managed Money traders are net long 19,059 contracts after net buying 2,067 contracts. Non-Commercial & Non-Reportable traders net bought 2,191 contracts and are now net long 16,471 contracts. Seven more ships left Ukrainian ports on Sunday, the country's infrastructure ministry said, bringing the total to 218 since a U.N.-brokered corridor through the Black Sea came into force at the start of August.

HOGS:

December hogs gapped lower on the open on Friday and closed sharply lower. The seasonal increase in slaughter combined with last week's slaughter running well above a year ago helped trigger a sharp, three-day selloff. However, last week's slaughter and production were down from last year. The USDA estimated hog slaughter came in at 475,000 head Friday and 134,000 head for Saturday. This brought the total for last week to 2.538 million head, up from 2.465 million the previous week but down from 2.583 million a year ago. Estimated US pork production last week was 534.5 million pounds, up from 517.6 million the previous week but down from 545.6 million a year ago. The large discount of futures to the cash market might help provide some support to the market soon.

The CME Lean Hog Index as of September 21 was 98.01, up from 97.96 the previous session and 97.77 the previous week. This leaves December hogs trading at a $15.21 discount to the cash market versus with a 5-year average discount of $2.62. The USDA pork cutout, released after the close Friday, came in at $100.05, down $1.25 from Thursday and down from $105.07 the previous week. Friday's Commitments of Traders report showed managed money traders were net buyers of 13,167 contracts of lean hogs for the week ending September 20, increasing their net long to 64,664. Non-commercial & non-reportable traders were net buyers of 12,357, increasing their net long to 50,036. With the active buying just ahead of the break last week, long liquidation is a threat.

CATTLE:

The USDA Cattle on Feed report had August placements at 100.4% of last year versus trade expectations of 97.9% (range of 93.2% to 100.9%). This was bearish against expectations for the December and February live cattle contracts. Marketings came in at 106.4% of last year. The average estimate was 105.4% with a range of 99.8% to 106.5%. The news was supportive for cash and possibly October cattle. Cattle on Feed supply as of September 1st came in at 100.4% of last year versus the average estimate of 100.1% (range of 99.0% to 101.3%). This was bearish. The news was positive for the cash market for the immediate future as more cattle moved in August than traders had expected.

However, active feedlot placements could boost production for the December-February time frame. The USDA estimated cattle slaughter came in at 125,000 head Friday and 33,000 head for Saturday. This brought the total for last week to 667,000 head, unchanged from the previous week but up from 643,000 a year ago. Estimated beef production last week was 548.9 million pounds, up 3.1% from last year. The estimated average dressed cattle weight last week was 826 pounds, up from 823 the previous week and down from 831 a year ago. The 5-year average weight for that week is 832.2 pounds.

The futures premium to the cash market could encourage higher weights and help ease beef production concerns for the 4th quarter. December cattle closed sharply lower on Friday after trading to their lowest level since August 2. Very bearish outside market forces helped to pressure the market with a sense that a global recession is looming. Consumer confidence numbers are falling rapidly, and leading economic indicators have dropped for six months in a row. Traders expect beef production to drop off rapidly into the 4th quarter, but prices are in a steep downtrend and have fallen to their lowest level since March 2021. The USDA boxed beef cutout was down 11 cents at mid-session Friday but closed 23 cents higher at $248.63. This was down from $252.40 the previous week.

Cash live cattle were firmer last week. The 5-day, 5-area weighted average price as of Friday afternoon was 144.62, up from 142.87 the previous week. Friday's Commitments of Traders report showed managed money traders were net buyers of 3,836 contracts of live cattle for the week ending September 20, increasing their net long to 73,223. Non-commercial & non-reportable traders combined were net buyers of 4,461, increasing their net long to 84,216. Open interest remains high, and the market looks vulnerable to long liquidation selling if support levels are violated. The USDA Monthly Cold Storage report last week showed frozen beef stocks at 515.6 million pounds at the end of August, up 24.3% from last year and up 0.7% from July.

COCOA:

Cocoa is traditionally one of the more economic sensitive commodities, so the “risk off” mood following last week’s FOMC meeting results has driven prices sharply to the downside. While the market is technically oversold and well into “bargain” price territory now, cocoa will need to see clear improvement in global risk sentiment in order to regain upside momentum. December cocoa started out with a gap-lower opening and remained on the defensive all day as it reached a new 2022 low before finishing Friday’s trading session with a heavy loss. For the week, December cocoa finished with a loss of 113 points (down 4.8%) which was a second negative weekly result over the past 3 weeks.

A badly-received UK “mini” budget added to the severe negative shift in global risk sentiment that pressured the cocoa market late las week as it weakened its near-term demand outlook. In addition, huge losses in US equity markets, the Eurocurrency and the British Pound were all sources of carryover pressure on the cocoa market going into the weekend. As a discretionary purchase for most consumers around the globe, chocolate demand has been hurt by rising prices for many consumer staples.

The Fed and other major central banks have forecast inflation will remain stubbornly high into next year, and that has diminished cocoa demand prospects for the 2022/23 season. There is less than one week left to go in the 2021/22 season, with Ivory Coast and Ghana (the 2 largest cocoa growing nations who account for 59% of global production) are on-track for a combined output decline of over 400,000 tonnes from the 2020/21 season. This should result in 2021/22 global production having the largest year-over-year decline since the 2006/07 season.

The September 20th Commitments of Traders report showed Cocoa Managed Money traders were net short 36,545 contracts after increasing their already short position by 101 contracts. CIT traders reduced their net long position by 1,534 contracts to a net long 21,418 contracts. Non-Commercial No CIT traders net bought 1,212 contracts and are now net short 25,458 contracts. Non-Commercial & Non-Reportable traders net sold 1,072 contracts and are now net short 21,411 contracts.

COFFEE:

Last week’s Fed rate hike increased concern about commodity demand destruction, but while there were selloffs across most markets last Friday, coffee had a positive weekly reversal from last Monday’s 4 ½ week low. While the coffee market may experience some volatility ahead, bullish supply factors could spark a new leg higher. December coffee continued to see coiling action, but managed to hold within its recent consolidation zone before finishing Friday’s trading session with a moderate loss. For the week, however, December coffee finished with a gain of 5.35 cents (up 2.5%) which broke a 3-week losing streak.

A more than 2% selloff in the Brazilian currency put carryover pressure on the coffee market as that will encourage Brazil's producers to market their remaining near-term supply to foreign customers. The La Nina weather event has negatively impacted coffee production in Brazil and Colombia which together account for more than half of global Arabica output. The Brazilian agency Conab cut their 2022/23 Brazilian Arabica production forecast by 3.3 million bags recently to 32.41 million which would be one of their lowest "on-year" Arabica crops in recent memory.

High inflation will increase the cost of many consumer staples and reduce the demand for discretionary items. While a good portion of coffee consumption occurs in restaurants and retail shops and may be considered "discretionary," a large portion also occurs at home. As a result, many traders may be underestimating global coffee consumption during the 2022/23 season. ICE exchange coffee stocks fell by 13,402 bags on Friday and with one week left in September are more than 200,000 bags below their August month-end total.

Coffee positioning in the Commitments of Traders for the week ending September 20th showed Managed Money traders were net long 34,665 contracts after decreasing their long position by 1,618 contracts. CIT traders are net long 43,869 contracts after net selling 614 contracts. Non-Commercial No CIT traders are net long 24,026 contracts after net buying 80 contracts. Non-Commercial & Non-Reportable traders were net long 42,078 contracts after decreasing their long position by 1,113 contracts.

COTTON:

December cotton sold off sharply Friday and closed 4.00 cents lower, the daily limit. Limits expand to 5.00 for Monday. It was the lowest close since July 25. The market was down 6.75 on the week. It has closed lower in three of the past four weeks and is down 27.05 (-23%) since putting in a secondary top on August 15. Cotton was pressured by a sharply higher dollar on Friday, which marked another new 20-year high. Traders are blaming the strong dollar and worsening economic outlook for the selloff in cotton. The worry is that tightening by the major central banks will induce a global recession and crimp cotton demand.

They fret that the market is ignoring the supply fundamentals, specifically the deteriorating outlook for US cotton production. Friday's Commitments of Traders report showed managed money traders were net sellers of 6,040 contracts of cotton for the week ending September 20, reducing their net long to 42,093. Non-commercial, no CIT traders were net sellers of 5,650, reducing their net long to 10,922. The long liquidation selling trend is a bearish force.

SUGAR:

While the sugar market has seen wide-sweeping coiling price action over the past 2 weeks, it has been unable to climb above its 50-day moving average. Unless there is significant improvement in key outside markets and global risk sentiment, sugar prices are likely to remain on the defensive early this week. March sugar was unable to shake off early pressure as it finished Friday's trading session with a sizable loss. For the week, however, March sugar finished with a gain of 8 ticks (up 0.5%) which broke a 3-week losing streak and was a positive weekly reversal from last Monday's 13-month low.

A severe selloff in crude oil and RBOB gasoline prices weighed heavily on the sugar market as that will weaken near-term ethanol demand. The latest Unica supply report will be released early this week, and could show a further shift by Center-South mills from ethanol production to sugar production. In addition, a heavy selloff in the Brazilian currency was another source of pressure on sugar prices as that encourages mills to produce more sugar for the global export market.

India's monsoon season will conclude on Friday, with this year's rainfall 7% above the long-period average as of Sunday. This should benefit India's 2022/23 and 2023/24 cane crops and in spite of mills increasing their ethanol output, India should see their 2022/23 sugar production come in above 35 million tonnes. China's Jiangxi province is a major sugar cane producing area, and news that their drought was raised to the highest level could lead to further reductions in China's 2022/23 cane production forecasts.

The Commitments of Traders report for the week ending September 20th showed Sugar Managed Money traders reduced their net long position by 21,953 contracts to a net long 8,587 contracts. CIT traders added 16,125 contracts to their already long position and are now net long 195,683. Non-Commercial No CIT traders net sold 21,984 contracts and are now net short 39,516 contracts. Non-Commercial & Non-Reportable traders net sold 36,127 contracts and are now net long 18,007 contracts.