ADM Investor Services, Inc.

# Weekly Futures Market Summary

**October 17, 2022**

**by the ADMIS Research Team**

## BONDS:

In our opinion, the treasury markets are poised for a temporary bounce from both technical and fundamental perspectives. In addition to a significant net spec and fund short position into the Thursday low, US data on activity in the economy clearly softened last week. We also think the financial turmoil in the UK will likely return and expectations for US data early next week project weakness. Although the bias remains down in treasuries from a big picture Fed fixated perspective, the rally this morning is surprising given the risk on mentality flowing from equities.

Apparently, the chatter predicting a 75-basis point rate hike in the December Fed meeting has started following the St. Louis Fed President suggestions that he prefers to frontload the rate hike cycle and suggested the committee may have to "bring forward" rate hikes scheduled for next year. However, the US economic report slate is thin early this week highlighted by the New York Fed Empire State survey which is expected to signal softness. From a technical perspective, the bond market is oversold with the net spec and fund short positioning near the largest levels in 12 months which takes on added importance with December bonds continuing to build out a consolidation low support zone

Bonds positioning in the Commitments of Traders for the week ending October 11th showed Non-Commercial & Non-Reportable traders are net short 80,329 contracts after net buying 10,165 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders were net short 416,823 contracts after decreasing their short position by 10,522 contracts. While the markets appear to have found temporary support, growing speculation of 150 basis points higher in the Fed funds rate before the end of the year is a heavy burden on the back of the Treasury markets.

## CURRENCIES:

While the dollar spent a large portion of last Friday’s trade in the lower half of the prior large range downmove, it also spent most of the day in positive territory. In retrospect, the trade continues to discount evidence of soft US economic data and instead believes the Federal Reserve will continue to hike rates unless US economic conditions are severe. We see the dollar correcting an overbought condition, but expect it will regather its flight to quality and interest rate differential edge quickly.

While recent US economic data has not definitively favored the bull camp in the dollar, very hawkish Fed dialogue (especially from the St. Louis Fed Pres.) has sparked the beginning of a jumbo rate hike watch in December after a jumbo rate hike watch from the November Fed Meeting. Apparently last week's G7 meeting did not reach a consensus on intervening against the strong dollar. Dollar positioning in the Commitments of Traders for the week ending October 11th showed Non-Commercial & Non-Reportable traders were net long 36,869 contracts after increasing their already long position by 56 contracts.

While Italian consumer price index readings softened, they remain in inflationary status with the month over month increase of 0.3% and a year-over-year inflation rate of 8.9%. The euro is likely drafting support from relative calm toward UK financial markets, but the uniform downtrend pattern in the euro looks to extend. The Commitments of Traders report for the week ending October 11th showed Euro Non-Commercial & Non-Reportable traders were net long 58,096 contracts after increasing their already long position by 1,009 contracts.

Despite very favorable Japanese capacity utilization, industrial production, and Tertiary industry index readings for August, the Yen remains locked in a downward track on the charts. In fact, even higher inflation targeting by the Bank of Japan has failed to discourage ongoing selling of the currency. While the Swiss franc seemingly found consolidation support over the prior two trading sessions and has respected that level in the early going this week, problems for Europe and therefore Switzerland remain in place even if those problems are not front-page news to start the new trading week. Certainly, the ECB's intention to begin to run off the balance sheet discourages some sellers in the euro and Swiss franc but the status of the economy throughout Europe is likely to remain in favor of Swiss bears.

The new UK Chancellor reversed the tax plans of his predecessor and indicated he will raise 32 billion pounds from taxes and will limit subsidies for power companies. However, unwinding the economic and financial trouble facing the Pound will be difficult and time consuming as looming fear of an energy induced winter recession will be difficult to remove from the equation unless temperatures remain mild well into next month. In addition to an extreme oversold technical condition from last Thursday's washout, the Canadian dollar is benefiting from a temporary softening of the US dollar. In fact, Canadian home sales softened last month, the government has discounted the potential for stimulus packages and the Bank of Canada expects the strong US dollar will pump up interest rates in Canada.

## STOCKS:

Equity markets waffled around both sides of unchanged last Friday after forging a 5-day high which gave investors a bit of added confidence. While several major US banks posted profit "beats" news from that sector, was countervailed by a jump in loan loss reserves at Citigroup. The markets did see early support from a $25 billion buyout deal in the supermarket business and from less warlike comments from the Russian president who indicated there were no plans for further military mobilization in Russia.

Global equity markets at the start of this week were higher with the markets in Tokyo, Sydney and Hong Kong breaking the pattern and trading lower. About the most positive interpretation one can give for the current rate hike environment is the potential for the markets to be approaching the factoring of the "worst case" which is probably two sequential “jumbo” 75-basis point rate hikes from the Fed in November and December meetings. However, anxiety appears to have moderated perhaps because of comments from the Russian president indicating there were no plans for new wide-scale conscription mandates.

Unfortunately for the bull camp last Thursday's major spike down range up strong close reversal was negated with a lower close Friday, indicating that a technical all clear signal has not been registered yet especially with global recession fears entrenched further by excessive interest rate hike speculation. In fact, the trade is already looking anxiously at 3rd quarter earnings and how companies managed to pass on costs and how consumers have reacted to those higher prices. E-Mini S&P positioning in the Commitments of Traders for the week ending October 11th showed Non-Commercial & Non-Reportable traders reduced their net short position by 59,680 contracts to a net short 170,437 contracts.

While the Dow futures showed leadership at times last Friday, the 30,500 level has become thick technical support. With today a thin US economic report slate day the focus of the trade is likely to temporarily shift to corporate earnings from the financial sector ahead of the NYSE opening. We suspect large company borrowing costs increases are joined by increased operating costs and moderating revenues and therefore the bear camp retains a fundamental edge. Dow Jones $5 positioning in the Commitments of Traders for the week ending October 11th showed Non-Commercial & Non-Reportable traders were net short 16,614 contracts after decreasing their short position by 533 contracts.

The technical action in the NASDAQ clearly favors the bear camp with the market showing very little bullish resiliency in the wake of strong recovery attempts in other segments of the market recently. Perhaps the NASDAQ is held back by Apple workers unionization efforts and because Google is facing EU antitrust charges. The October 11th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders net bought 12,400 contracts and are now net short 7,734 contracts.

## GOLD, SILVER & PLATINUM:

With a bit of risk on mentality, a softer US dollar and a dip in treasury yields, gold and silver have surprised the trade with a higher start to the trading week. However, the bias remains down in gold and silver with prices likely set to return to the late September lows ahead. On the other hand, in addition to lift from outside market action today gold is reportedly gathering strength from a shift from discount to premium in India which could be a sign of pre-festival buying for auspicious dates later this month in India. Furthermore, Chinese premiums remain $27 to $32 an ounce, with prices being lifted domestically because of a lack of new gold import quotas from the government.

Last week gold ETF holdings declined by 535,568 ounces while silver ETF holdings increased by 11.4 million ounces! In retrospect, the takeaway from the sweep of US inflation readings last week has the markets ratcheting up the prospect of a continuation of jumbo rate hikes by the US. Late last week, the chairman of the St. Louis Fed indicated he prefers to frontload rate hikes and then wait and see in 2023. Therefore, the markets are moving to factor in a 75-basis point rate hike in December after a 75-basis point hike in November. While the Fed has made it very clear they are primarily focused on price pressures, the economic outlook in the US has generally held together which probably leads to broader consensus on the need for further sharp rate hikes.

With the Chinese sticking with a zero Covid policy, Europe caught in war inspired inflation and the US Fed likely locked into 150 basis points before the end of the year we suspect gold will fall below the September low. In the silver market the September low is likely to fail quickly at $17.89 and an approach of the early September low down at $17.74 is likely. The October 11th Commitments of Traders report showed Gold Managed Money traders net sold 3,651 contracts and are now net long 1,290 contracts. Non-Commercial & Non-Reportable traders were net long 101,359 contracts after increasing their already long position by 3,001 contracts. The October 11th Commitments of Traders report showed Silver Managed Money traders reduced their net long position by 6,036 contracts to a net long 1,123 contracts. Non-Commercial & Non-Reportable traders are net long 16,111 contracts after net selling 2,894 contracts.

As in other physical commodity markets, last week's developments pulled the rug out from underneath the PGM markets with surging interest rates likely to pull down auto sales and decrease consumption of auto catalyst materials. Fortunately for the bull camp, the net spec and fund positioning adjusted into the low last Friday produces a moderately oversold/moderately bearish condition in the market. The Chinese Congress meeting has warlike dialogue from the President indications that China is accelerating the building of a world-class military and indicated China will never renounce the right to use force over Taiwan. Therefore, the focus of the Chinese Congress appears to be on Covid and Taiwan and to a lesser degree on stimulus for the economy going forward.

While the platinum market held up better than the palladium market against big picture outside market negatives recently, the market is subject to wide fluctuations in global demand perceptions which leaves the bias pointing down. Platinum positioning in the Commitments of Traders for the week ending October 11th showed Managed Money traders went from a net short to a net long position of 685 contracts after net buying 2,807 contracts. Non-Commercial & Non-Reportable traders are net long 8,569 contracts after net buying 1,336 contracts. Palladium positioning in the Commitments of Traders for the week ending October 11th showed Managed Money traders net sold 291 contracts and are now net long 469 contracts. Non-Commercial & Non-Reportable traders are net short 810 contracts after net selling 447 contracts.

## COPPER:

As indicated in other coverage at the start of this week, the Chinese central planning meeting appears to be focused on Taiwan and Covid instead of stimulating the economy and boosting infrastructure activity. However, given that 14% of China is thought to be in Covid lockdown we suspect the planning meeting will soon produce some pro-growth initiatives. On the other hand, last week Shanghai weekly copper stocks doubled in a single week in a negative demand signal. However, supplies inside China remain tight but to make that tightness a trigger for a rally in prices likely requires a formal stimulus package announcement from the Chinese leadership meeting.

Granted, the weeklong holiday might have resulted in some physical supply backup in China but given surging interest rates global copper demand from housing and the auto sector should be expected to soften. Fortunately for the bull camp the copper market has a net spec and fund short positioning of near 16,000 contracts leaving the market somewhat sold-out. The October 11th Commitments of Traders report showed Copper Managed Money traders went from a net short to a net long position of 830 contracts after net buying 3,299 contracts. Non-Commercial & Non-Reportable traders net bought 1,413 contracts and are now net short 15,595 contracts.

## ENERGY COMPLEX:

The charts in crude oil favor the bear camp early this week with the outlook for demand also favoring the bear camp despite the presence of early risk on sentiment flowing from equities. In a negative supply development crude oil in floating storage increased by 4.7% on a week over week basis and that news is amplified by last week's large jump in EIA crude oil inventories of nearly 10 million barrels! Like most other physical commodity markets, the energy complex is likely to remain under pressure from big picture outside market forces. The prospect of more jumbo US rate hikes has rekindled strength in the dollar and eroded confidence in the world economy which in turn has rekindled demand destruction fear in energies.

In a surprising development at the end of last week, the Russian president indicated that there were no plans for additional national force building efforts which could be seen as a de-escalation of sorts. Nonetheless, Russia has regularly provided supply threats in either words or actions and a surprise shift in that narrative is not to be discounted. In this week's positioning reports money managers have increased their bullish positioning to a 16-week high in Brent crude oil which could facilitate stop loss selling in that contract ahead. Last week, the US oil rig count jumped by 8 to 610 rigs in what should be seen as a glaring bearish supply signal.

With reports of product shipment diversions from ship monitoring services the focus of the petroleum markets is shifting toward the products and away from crude oil. In fact, diesel shipments bound for Europe have been diverted toward the US which continues to show extreme tightness in both distillate and diesel inventories. While the net spec and fund long position in crude has been brought down by the $8 slide last week, the positioning is not at a level we would consider "mostly liquidated". The Commitments of Traders report for the week ending October 11th showed Crude Oil Managed Money traders were net long 208,666 contracts after increasing their already long position by 19,305 contracts. Non-Commercial & Non-Reportable traders are net long 333,236 contracts after net buying 18,311 contracts.

While the charts in gasoline favor the bear camp, the continuation of refinery strikes in France has sparked the fear of significant shortages and could result in panic buying. With implied gasoline demand in the US last week plummeting, EIA gasoline stocks building and the year-over-year gasoline stock deficit narrowing, the bullish tilt toward gasoline has dissipated. In fact, speculative interest has likely shifted toward diesel, with volatility likely to expand in the face of any cold front in Europe. While some economists pointed to resilience among consumers in last week's US retail sales report, extreme rate hike projections have undermined market psychology and in turn are pushing down demand projections.

With Atlantic diesel refining margins at a record, the tightness in US distillate stocks is apparent and is exaggerated by the tightness in Europe from ongoing French refinery strikes. Classic supply fundamentals also favor the bull camp with very large inventory declines posted from the EIA last week, with distillate and diesel inventories holding year-over-year deficits of more than 23 million barrels. It should also be noted that weekly implied distillate demand jumped and the subject of Russian supply of diesel to Europe could become a front burner issue again at any time. Unfortunately for the bull camp, ULSD will fight negative macro forces and will need to drag crude and gasoline higher. The Commitments of Traders report for the week ending October 11th showed Gas (RBOB) Managed Money traders are net long 52,825 contracts after net selling 2,845 contracts. Non-Commercial & Non-Reportable traders are net long 48,936 contracts after net selling 4,751 contracts. The Commitments of Traders report for the week ending October 11th showed Heating Oil Managed Money traders were net long 23,963 contracts after increasing their already long position by 6,416 contracts. Non-Commercial & Non-Reportable traders are net long 38,810 contracts after net buying 6,512 contracts.

With European leaders and energy consulting services suggesting European gas in storage is nearing capacity targeting for the winter, US storage levels jumping by triple digits for four straight weeks and no threatening tropical wave activity, the bear camp should have control to start the new trading week. While the weekly rig operating count declined by one, the focus of the gas market will likely be shorter-term and locked onto demand prospects. However, the Russian national gas company (Gazprom) has reiterated that a gas price cap would lead to a supply "halt" and that is a serious threat. Another element favoring the bear camp besides the big picture macroeconomic slowing expectations is aggressive European efforts to reduce consumption!

While the return of a damaged/shut down US LNG export facility will provide support, the deficit to 5-year average storage levels in the US has narrowed to 6.4% with several weeks left in the injection season! Fortunately for the bull camp, the natural gas market could become excessively oversold quickly with the most recent positioning report showing the specs net short 130,000 contracts which is the most bearish positioning since the early days of the pandemic. The October 11th Commitments of Traders report showed Natural Gas Managed Money traders net bought 4,635 contracts and are now net short 94,123 contracts. Non-Commercial & Non-Reportable traders added 4,097 contracts to their already short position and are now net short 130,707.

## BEANS:

There appears to be significant factors in play that could hurt soybean demand over the near-term and unless the weather is poor in Brazil or Argentina this coming season, the market looks vulnerable to more selling, especially if transportation issues continue to turn bearish. Harvest pressure plus a bearish tilt to outside markets including another surge higher in the US dollar and weakness in the stock market were all seen as bearish forces. Exporters announced the sale of 392,000 tonnes of US soybeans sold to China and also 198,000 tonnes of US soybeans sold to unknown destination. In addition, exporters announced the sale of 230,000 tonnes of meal to the Philippines.

For the US NOPA September soybean crush report, traders see crush at 160.7 million bushels, up 4.5% from last year (152.00-170.40 range). This would be down from 165.50 million in August. Oil stocks are expected near 1.499 billion pounds, down 1475-1522 range. The weekly export sales report showed that for the week ending October 6, net soybean sales came in at 724,405 tonnes as compared with trade expectations for 600,000-1.4 million tonnes. Cumulative soybean sales have reached 50.7% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 48.5%. Net meal sales came in at 491,854 tonnes as compared with trade expectations for 100,000-300,000 tonnes. Cumulative meal sales have reached 24.8% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 29.4%. Net oil sales came in at 3,298 tonnes. Cumulative oil sales have reached 3.1% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 15.1%.

The October 11th Commitments of Traders report showed Soybeans Managed Money traders net sold 11,750 contracts and are now net long 65,738 contracts. This is a long liquidation selling trend and a bearish development. Non-Commercial & Non-Reportable traders reduced their net long position by 10,585 contracts to a net long 21,102 contracts. For Soybean oil, Managed Money traders net sold 1,770 contracts and are now net long 60,984 contracts. Non-Commercial & Non-Reportable traders were net long 67,130 contracts after increasing their already long position by 1,106 contracts. For meal, Managed Money traders reduced their net long position by 9,311 contracts to a net long 70,389 contracts which is a long liquidation selling trend. Non-Commercial & Non-Reportable traders were net long 110,807 contracts after decreasing their long position by 8,459 contracts.

## CORN:

December corn continues to find selling pressures as transportation issues, harvest pressures and a bearish tilt to outside market forces has helped to pressure. The sharp rally in the US dollar and very sluggish export sales news added to the bearish tone. The weekly export sales Report showed that for the week ending October 6, net corn sales came in at 200,191 tonnes for the current marketing year and 60,480 for the next marketing year for a total of 260,671. Traders were looking for 300,000-900,000 tonnes. Cumulative sales have reached just 24.6% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 33.8%. Argentina corn planting is at the slowest pace in six years due to drought conditions.

The Rosaria Grains Exchange said that it expected early planted corn to only make up about 10% of the total which would be the lowest in a decade. Late planted corn has lower yields. Argentina producers have planted just 1.6 million hectors, down from 2.8 million at the same time a year ago. Planted area was expected to reach 8 million hectors this year. Russia and Ukraine are both seeking changes to the grain-export deal as part of discussions to extend the initiative beyond the current deadline next month, according to the United Nations. Russia wants to see a pipeline that transports its ammonia to Ukraine's Odesa port for shipment reopened as part of the new terms.

Ukraine is seeking to extend the deal by more than year, and includes a fourth exporting port. The pact is due to end November 19th. More than 7 million tonnes of grains have departed from three of Ukraine's Black Sea ports since signed in late July. The October 11th Commitments of Traders report showed Managed Money traders are net long 267,377 contracts after net buying 23,649 contracts for the week. The buying trend is a positive factor and the rise in open interest is also supportive. However, the market is overbought and sellers could turn active is support levels are violated.

## WHEAT:

With more intense fighting in Ukraine, traders see the odds of a new agreement for the export corridor as a less likely event, and this supported the bounce early this week. December wheat experienced the lowest close since September 26th on Friday as bearish demand indications have helped to pressure.

Bearish outside market forces and continued weak export sales news helped to pressure. The surging US dollar and fears of transportation issues ahead added to the bearish tone. Hopes of progress in negotiations after a meeting between Turkey and Russia on the Ukraine export corridor added to the negative tone. Russia and Ukraine are both seeking changes to the grain-export deal as part of discussions to extend the initiative beyond the current deadline next month, according to the United Nations.

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Extreme weather in India devastated both the winter-sown wheat and summer-sown rice harvests, pushing up retail food prices to a 22-month high. As a result, India's federally-owned cereal inventories, have dropped to a five-year low. The government was only able to obtain approximately half of its target because farmers were increasingly selling to private merchants due to rising export demand as a result of the Ukraine crisis. While rice supplies are enough to cover domestic needs, wheat stocks have plummeted to a 14-year low.

India has allowed the export of wheat flour produced from imported wheat against advance authorization by export-oriented units and firms in the special economic zones. The shipments will have to be exported within 180 days from the date of import of the wheat consignment. Procurement of domestic wheat for the purpose of export of wheat flour will not be allowed. The Argentina Agriculture Secretary met with representatives of the wheat industry to discuss the drought on the wheat crop. The Buenos Aires Grains Exchange sees wheat production at 16.5 million tonnes, down from 17.5 million as there prior estimate and down from 22.4 million tonnes last year. Fuel shortages in France are preventing some farmers getting the crop planted.

Wheat positioning in the Commitments of Traders for the week ending October 11th showed Managed Money traders are net short 19,502 contracts after net selling 7,283 contracts for the week. Non-Commercial & Non-Reportable traders added 7,959 contracts to their already short position and are now net short 11,486. For KC Wheat, Managed Money traders net bought 877 contracts and are now net long 26,508 contracts. Non-Commercial & Non-Reportable traders added 1,226 contracts to their already long position and are now net long 21,042. China sold 41,359 tonnes of wheat, or 100% of the total offer, at an auction of its reserves held on Oct. 12.

## HOGS:

December hogs closed sharply higher on the session Friday and the buying has pushed the market up to the highest level since September 26. For the seventh day in a row, the market has taken out the previous session high which leaves futures a bit overbought. However, the basis is wide enough compared to normal to offset short term technical indicators. The USDA pork cutout, released after the close Friday, came in at $100.23, down $1.21 from Thursday but up from $99.98 the previous week. US pork export sales for the week ending October 6 came in at 29,000 tonnes. This was down from 34,272 tonnes the previous week and below the four-week average at 31,890. Cumulative sales for 2022 have reached 1.312 million tonnes, down from 1.601 million a year ago, 1.768 million the year before that and below the five-year average at 1.405 million.

The largest buyer this week was Mexico at 8,099 tonnes, followed by China at 5,913. Mexico has the most commitments for 2022 at 559,800 tonnes, followed by China at 189,900 and Japan at 172,500. The USDA estimated hog slaughter came in at 473,000 head Friday and 113,000 head for Saturday. This brought the total for last week to 2.545 million head, down from 2.558 million the previous week and down from 2.630 million a year ago. Estimated US pork production last week was 540.2 million pounds, down from 542.7 the previous week and down 4.1% from a year ago. Fridays' Commitments of Traders report showed managed money traders were net sellers of 1,803 contracts of lean hogs for the week ending October 11, reducing their net long to 21,024. CIT traders were net buyers of 1,548, increasing their net long to 72,490.

## CATTLE:

Since late September, the cattle market has remained in a choppy consolidation phase as positive supply news has been offset by a more bearish demand tilt for beef. A firm tone for the beef market short-term and some strength in the cash market gives the bulls a slight advantage short-term. However, there could be significant demand issues longer-term and we still cannot rule out that beef production will end up higher than expectations into the fall. December cattle opened sharply higher on the session Friday but closed slightly lower. Traders suspect tightening supply ahead but the market is also concerned about a very weak consumer demand tone developing due to high inflation. The USDA boxed beef cutout was up 72 cents at mid-session Friday and closed 45 cents higher at $246.98. This was up from $246.07 the previous week.

Cash live cattle were about $1 firmer last week. As of Friday afternoon, the five-day, five-area weighted average prices was $146.77, up from $145.98 the previous week. The USDA estimated cattle slaughter came in at 112,000 head Friday and 37,000 head for Saturday. This brought the total for last week to 660,000 head, down from 664,000 the previous week but up from 643,000 a year ago. Estimated beef production last week was 547.1 million pounds, up 2.2% from a year ago. The estimated average dressed cattle weight last week was 831 pounds, up from 830 the previous week and down from 834 a year ago. The 5-year average weight for that week is 829.4 pounds.

US beef export sales for the week ending October 6 came in at 13,184 tonnes for 2022 delivery and 1,574 for 2023 for a total of 14,758. This was down from 16,492 the previous week and the lowest since September 1. Cumulative sales for 2022 have reached 906,700 tonnes, down from 912,300 a year ago and the second highest on record for this time of year. The five-year average is 781,900. The largest buyer this week was Japan at 6,049 tonnes, followed by South Korea at 2,869 and Mexico at 2,328. China cancelled 334 tonnes. South Korea has the most commitments for 2022 at 248,900 tonnes, followed by Japan at 233,100 and China at 159,600. Friday's Commitments of Traders showed managed money traders were net sellers of 7,874 of live cattle for the week ending October 11, reducing their net long to 35,062. Non-commercial & non-reportable traders were net sellers of 7,049, reducing their net long to 51,664.

## COCOA:

Cocoa prices were able to finish last week at the upper portion of their July/October trading range despite disappointing third quarter European grinding results. This would indicate that cocoa's ongoing demand issues have been priced into the market, and that a shift in focus towards West African production can help to support. While cocoa fell back from early highs, it did manage to hold onto most of Thursday's gains and finished last week with only a loss of 11 points (down 0.4%). High inflation levels in many nations have weighed on cocoa prices as that likely to reduce purchases of discretionary items such as chocolates. Concerns about a slow start to the Ivory Coast harvest have provided some underlying support to cocoa prices, and that could put additional emphasis on the latest weekly Ivory Coast port arrivals total released early this week.

There have been periods of heavy rainfall over recent weeks, and that has resulted in delays to harvesting, drying and transporting beans to port facilities. Fertilizers and pesticides have unaffordable prices this year which has resulted in reduced use by many West African cocoa farmers. As a result, it may be difficult for Ivory Coast, Ghana and Nigeria to see their 2022/23 cocoa production reach last season's output levels. The October 11th Commitments of Traders report showed Cocoa Managed Money traders net bought 16,520 contracts and are now net short 16,720 contracts. Non-Commercial & Non-Reportable traders were net short 3,372 contracts after decreasing their short position by 15,004 contracts.

## COFFEE:

The coffee market lost more than 21 cents in value (down 9.7%) in just three sessions. Even with reports of good Brazilian flowering over the past few weeks, coffee seems undervalued at current price levels. December coffee closed sharply lower Friday and dropped down to the lowest price level since July 15. For the week, December coffee lost 21.40 cents (down 9.8%) which was a second negative weekly result in a row. Improved weather for Brazil combined with more aggressive export activity in the past month were two key factors for the selling pressure last week. Long liquidation selling also emerged to add to the bearish tone to the market going into the weekend. Concerns about consumption were given additional weight with the surge in inflation, as that could result in consumers cutting back on their restaurant and retail shop purchases.

A large portion of coffee demand comes from at-home consumption which has seen a notable increase since the start of the COVID pandemic. The current La Nina weather event is expected to continue through early 2023. La Nina has a negative impact on coffee production in Brazil where it tends to bring drier than normal conditions, and in Colombia where it brings heavier than normal rainfall. ICE exchange coffee stocks are on track for a sixth monthly decline in a row and have reached their lowest level since May 1999. Even with high inflation, 2022/23 global coffee consumption is expected to reach a record high. The October 11th Commitments of Traders report showed Coffee Managed Money traders net sold 1,314 contracts and are now net long 33,961 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 1,091 contracts to a net long 41,258 contracts.

## COTTON:

December cotton garnered some support from the weekly export sales report on Friday, but it failed to hold those gains as longer-term demand concerns persist. The report showed US cotton export sales for the week ending October 6 at 144,820 bales for the 2022/23 (current) marketing year and 34,816 for 2023/24 for a total of 179,636. This was up from 169,698 the previous week and the highest since September 1. Cumulative sales for 2022/23 have reached 8.285 million bales, up from 7.617 million a year ago and the highest for this time of year since 2019/20. Sales have reached 68% of the USDA's forecast for the marketing year versus a five-year average of 58%. The largest buyer this week was Pakistan at 61,882 bales, followed by Bangladesh at 31,746, Mexico at 21,092, and China at 14,427.

China has the most commitments for 2022/23 at 1.825 million bales, followed by Pakistan at 1.601 million and Turkey at 1.117 million. Sales are running well ahead of pace, but traders worry that demand will be cut off if there is a global recession next year. The dollar recovered on Friday, and that does not bode well for US exports. Friday's Commitments of Traders report showed managed money traders were net sellers of 5,688 contracts of cotton for the week ending October 11, reducing their net long to 26,844. Non-commercial & non-reportable traders were net sellers of 6,112, reducing their net long to 29,869 contracts. The long liquidation selling trend is a bearish force.

## SUGAR:

Sugar prices have maintained an upward bias through choppy action over the past few weeks as the market has found support from recent bullish supply news from Brazil. The market is technically overbought and unless there is a positive turnaround in key outside markets, sugar is vulnerable to a pullback. For the week, March sugar finished with a gain of 0.9% which was a fourth positive weekly result in a row. Continued concerns with the slow pace of cane harvesting and sugar production in Brazil were a major source of strength. Many traders fear that continued wet weather all the way into the Center-South wet season could cause further adjustments lower in Brazilian sugar production, with Czarnikow reducing their 2022/23 Center-South production forecast by 700,000 tonnes down to 32.5 million. Keep in mind that Center-South late-harvested cane plants should benefit from recent rainfall following the dry conditions seen during the La Nina weather event.

Energy prices have been sluggish while the Brazilian currency has fallen below its early October highs, and that combination will encourage Brazil's Center-South mills to shift some of their crushing from ethanol production over to sugar production. India should see their 2022/23 sugar production come in close to last season's record high 35.9 million tonnes, and their government is expected to set their full-season sugar export quota at 8 million tonnes. The Commitments of Traders report for the week ending October 11th showed Sugar Managed Money traders were net long 78,995 contracts after increasing their already long position by a whopping 63,903 contracts in just one week. This helps to explain the surge higher for the week. Non-Commercial & Non-Reportable traders were net long 120,118 contracts after increasing their already long position by 74,699 contracts.

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