ADM Investor Services, Inc.

Weekly Futures Market Summary

February 6, 2023 **by the ADMIS Research Team**

BONDS:

Clearly, the massively better than expected jump in US nonfarm payrolls, the lowest US unemployment rate since 1964 and a very strong ISM reading justified the hard wash in treasury prices today. However, treasuries have displayed significant bullish resiliency for months and a portion of the trade continues to embrace the idea that even higher US interest rates will ultimately result in recession. Therefore, even though the January jobs report would normally result in a significant top and sustained downward motion, we are not convinced the bear camp has seized control.

Treasuries have followed through on last Friday's pullback with sizable early losses coming into this week's action, with Bonds reaching a 3-week low and 10-year notes falling to a 4-week low. Despite slumping global equity markets, an earthquake in Turkey and simmering US/Chinese tensions, there has been little if any safe-haven inflows towards the Treasury markets at the start of this week. While inflation gauges have been declining, last Friday's US data appears to have pushed a potential "Fed pivot" further into the future.

The US employment situation report featured a January non-farm payroll reading that was far above trade forecasts as well as a surprise downtick in the unemployment rate to a 69-year low, while average hourly earnings were roughly in-line with trade forecasts. In addition, the latest ISM services index came in much higher than expected. The Fed's Daly said that the US jobs data was a "wow" number, but that a Fed rate decision will depend on inflation. The market may have to wait on Fed Chair Powell's speech tomorrow before Treasuries can receive fresh near-term direction.

CURRENCIES:

While we are not sure if the dollar paradigm has shifted with the extremely strong US jobs report, the magnitude of the low to high rally over Thursday and Friday of 200 points certainly unnerves the bear camp and emboldens the bull camp. It should be noted that instead of the dollar plummeting off reduced flight to quality following the strong payroll report, the trade seems to have shifted to interest in the dollar from the prospects of even higher US interest rate yields ahead and because of an expanded macroeconomic edge.

The Dollar has extended its recovery move to a 4-week high early in this week’s action and is close to climbing back above its 50-day moving average for the first time since early November. Last Friday's blockbuster non-farm payroll reading has likely pushed a potential Fed pivot beyond the March FOMC meeting. With slumping global equity markets and yesterday's strong earthquake in Turkey, the Dollar is also receiving fresh safe-haven flows early this week. The Dollar will have no major US data or Fed speakers to erode support early this week.

The Euro has followed through on an outside-week down and a weekly reversal with moderate early pressure at the start of this week. The ECB strongly hinted at upcoming rate hikes at last Thursday's policy meeting, with the ECB's Holzmann saying the risk of not raising rates high enough was bigger than the risk of raising them too high. However, a weaker than expected Euro zone retail sales reading has put more pressure on the Euro. The Euro is likely to remain on the defensive if global markets stay in a "risk off" mood.

The Yen has started out this week with a gap-lower opening and is now within striking distance of a 1-month low. While Japanese inflation has been on the rise, the BOJ remains far from taking a hawkish shift in policy. As a result, the Yen is likely to remain a second choice behind the Dollar as a safe-haven destination. The Yen is likely to slide further to the downside.

After a 2-cent pullback from last Thursday's 8-month high, the Swiss franc appears to have found its footing as it has only found mild pressure and continues to hold its ground above last Tuesday's low. While it has seen volatile action since the start of this year, the SNB's hawkish policy shift can help the Swiss franc hold its ground above the early January lows as it may regain upside momentum later this week.

The Pound has reached a new 1-month low, but it continued to hold within a fairly tight trading range after losing 3 cents in value on Thursday and Friday. The BOE's Mann said the BOE is more likely to hike rates than to cut rates and that there are material upside risks to the BOE's inflation outlook. This can help to underpin the Pound early this week as it would benefit from a positive turnaround in global risk sentiment.

The Canadian dollar remains on the defensive and is finding moderate pressure early this week. With a positive turnaround in energy prices providing support, the Canadian Dollar can find additional strength if Monday's Canadian Ivey PMI reading shows a sizable monthly increase. The Canadian dollar should be closing in on a near-term low and should head back towards last Thursday's 2-month high when risk appetites improve.

STOCKS:

While the equity markets fell sharply in the face of an extremely positive monthly jobs report, prices recovered, and it is possible that the era of bad economic news is good for stock prices (because of the Fed threat) has ended. Certainly, corporate news flow will continue to be a headwind and a considerable amount of economic uncertainty remains in place regardless of the January jobs surprise. In retrospect, it is impressive for the stock market to regain its footing late last week in the face of disconcerting mega tech news.

Global markets have extended their pullback through the weekend and have a generally negative tone coming into this week’s action. Most major Asian stock indices finished with moderate losses, although the Japanese Nikkei closed in positive territory. European shares and US equity index futures are finding moderate early pressure this week. European data included a lower than expected reading for Euro zone retail sales, there was a severe earthquake in southern Turkey on Sunday while Dell became the latest tech company to announce layoffs.

Uncertainty normally causes increased selling pressures. There is plenty of uncertainty this week as the market continues to attempt to absorb the extremely positive monthly jobs report which triggered the lowest US jobless rate since 1969. Uncertainty over how fast the Fed will act to tackle inflation, fears of weakening corporate earnings and fears over trade relations with China after the balloon incident are all seen as negative forces.

With strained relations with China, a war in Ukraine and a major earthquake, there are plenty of bearish implications short-term. Earnings for mega-tech companies and a potentially more hawkish Fed might be factors to add to the negative tone. This may be the type of environment where investors shift more money to the sidelines.

GOLD, SILVER & PLATINUM:

Gold prices were higher at the start of this week despite a stronger dollar, as Friday's selloff appears to have attracted some buyers. The jobs report on Friday came in much stronger than expected, which stoked fears that the long-awaited Fed pivot could be put off. This sparked a rally in the dollar and steep declines in gold and silver. Prior to the report, a trend of moderating inflation measures had prompted expectations that the Fed would end its rising rate policy soon. But Friday's jobs report showed a much larger increase in payrolls for January than expected and the US unemployment rate falling to its lowest level since 1969.

A key reversal in April gold on Thursday had suggested at least a temporary top was in place, and the jobs report on Friday offered a fundamental basis for selling. However, the long-term implications for gold are still bullish. The selloff on Friday seems to have attracted some bargain hunting, and gold bulls are hoping that Friday's jobs report will not push the Fed's benchmark target much above the current forecast 5%. The World Gold Council reported that global gold demand increased 18% in 2022 to 4,741 tonnes, the highest since 2011. Central bank buying more than doubled to 1,136 tonnes, up from 450 the year before and a 55-year high.

Russians bought more than 50 tonnes of gold bars in 2022, a record amount and ten times more than in 2021, according to Russian finance ministry data. Tax cuts on precious metals encouraged people to stock up on bullion as a safe asset. This data was through November. The fundamental picture leans bullish, with strong a trend of central bank and investor buying, but the market had gotten overbought prior to Friday. Not surprisingly, ETFs were net sellers of 16,680 ounces of gold on Friday, which brought their total holding down to 95.054 million. However, the drop was modest, as it was only down 0.02%. Silver holdings increased by 138,320 ounces, to 758.1 million, also a modest change.

March palladium traded to a new contract low early this week, while April platinum saw a modest recovery after Friday's steep selloff. Like gold and silver, the PGMs have felt pressure from the surprisingly strong jobs report on Friday, but unlike gold and silver, neither of these markets were in an uptrend, and neither had reached overbought status prior to the selloff. Gold's fundamental support stems from central bank and investor buying.

For the PGMs, strong economic data should be supportive unless the market fears the Fed will get in the way. The jobs report suggests the Fed could turn more aggressive, but the moderating inflationary data could temper that tendency. Impala Platinum PGM output fell 9% year on year during the second half of 2022, as power cuts and a furnace rebuild hit smelter operations. This underscores the challenges that South African mines are facing. The bulls should have been buoyed by last week's news that US light vehicle sales in January reached their highest level since May 2021.

COPPER:

Copper has had a rough start to February, as it closed lower for the third straight day on Friday and fell to a new four-week low at the start of this week. Friday also marked the second straight weekly decline. The negative shift in global risk sentiment following the strong US jobs report on Friday and the strong recovery in the dollar have made it difficult for copper to find its footing, much less regain upside momentum.

While the bear camp might be right in its assumptions that the lack of positive Chinese Covid news could be bad news, that question has yet to be decided. Despite a massive, 86,542-tonne jump in Shanghai stocks last week, world stocks are near their lowest levels since 2014. LME copper stocks have fallen in 17 of the last 18 sessions and have reached their lowest level this century. Operations at Peru's Las Bambas mine have been halted due to protests, which could help underpin prices today.

ENERGY COMPLEX:

Crude oil prices were nearly unchanged at the start of this week after pushing lower, but they remain well below their late-January highs. It appears that crude oil and the products need to see stronger global risk sentiment to regain upside momentum. March crude oil ended last week $6.29 lower (down 7.9%) for its second negative week a row. The strong US jobs report on Friday initially pulled prices higher, but the market lost momentum and violated some key chart support levels, which opened the door for heavy selling. The markets seemed to discount several positive headlines, such as a sharp, 13.2% increase in Spanish crude imports for December and increased uncertainty regarding product availability with the start of the EU ban on Russian fuel imports.

The Baker Hughes US oil rig count on Friday showed rigs in operation declining by 10 rigs last week to 599. This was the largest decline since June 2020 and was the lowest total number since September. Over the weekend an official with the International Energy Agency (IEA) said that major oil producing nations may have to reconsider their output policies following a demand recovery in China. The Saudi oil minister said that sanctions and underinvestment could lead to a shortage of energy supplies in the future.

The products led the charge on the downside with double-digit losses on Friday, both have found mild support at the start of this week. These markets appear to have found little benefit from Sunday's start of the EU ban on Russian refined product imports. US domestic demand has been lukewarm, as evidenced by US refinery utilization holding well below 90% over the past five weeks. On Friday, Lyondell announced that it will run its Houston refinery at 85% capacity until the facility is permanently closed at the end of the year. After a rebound in January, average US retail gasoline prices have started to fall back and are close to unchanged from a year ago. An IEA official said that Chinese jet fuel demand is exploding, which could provide some support to ULSD prices.

Natural gas traded in a narrow range early this week and managed to hold above Friday's two-year lows. The market has fallen 40% since the start of the year and is deep into oversold territory, and it may not take much in the way of bullish supply news to fuel a short-covering rally. Despite steep declines in other energy markets, March natural gas finished Friday with only a moderate loss. However, it finished the week with a loss of 43.9 cents (down 15.4%), for the seventh negative week in a row. A report that January US temperatures averaged 41.8 degrees Fahrenheit (their second warmest on record) has weighed on prices.

The EIA storage report this week is expected to show a sizable draw, but the total will likely remain well above the 5-year average. There are indications that the Freeport LNG export facility will restart soon, but it may not reach full capacity until mid-March. The COT report has been delayed, but we think the spec net short position could be approaching its 2020 high. After the brutally cold weather this past weekend in the northeastern US, heating demand may be larger than initially thought, which could set the stage for a short-covering rally.

BEANS:

There is no rain in the five day forecast models for Argentina, but scattered rain events emerge in the 6-14 day models. The outlook for some rain into the weekend and next week might be enough to spark some long liquidation selling. It is a tough call at this point as traders cannot rule out that the forecast turns drier. March meal remains in an uptrend and pushed to new contract highs again Friday. Meal remains in a tight situation in South America as long as Argentina crush remains slow and until there is more plentiful supply of new crop soybeans to crush. Argentina's exports of meal in January are estimated to have been the lowest for that month in any year since 2002. A combination of the Argentina drought and the late harvest in Brazil has helped to support but these factors could change soon.

Brazil harvest is thought to have reached 7.8% complete from 4.4% the previous week and 17% year ago. Eventually, the South America supply will move on the world market. The 5-day outlook for rain in Argentina is very dry and crops could move into a stressful situation, but the weekend rains and more next week might help ease concerns. A surge higher in the US dollar was seen as a factor to pressure commodity markets in general on Friday, and a sharp break in crude oil and the stock market added to the bearish tone. Open interest remains in a strong uptrend since the start of the year. Exporters announced the sale of 132,000 tonnes of US soybeans sold to unknown destination.

For the USDA Supply/Demand report, traders see US ending stocks near 211 million bushels, 176-230 range, as compared with 210 million bushels in the last USDA update. Argentina soybean production is expected near 42 million tonnes, 38-45 range, as compared with 45.5 million in the January update. Brazil soybean production is expected near 153.2 million tonnes, 152-154.2 range, as compared with 153 million tonnes in the January update. World ending stocks are expected near 101.8 million tonnes, 100-103.9 range, as compared with 103.5 million in the last USDA update.

CORN:

The forecast is not as bearish as it was over the weekend, but there are some rains into next weekend and next week for Argentina. Five days of hot and dry weather is likely to cause more damage, and bullish traders might be hoping that the 6-14 day forecast models dry out. Given the technical action however, sellers could remain active over the short term. March corn managed to close higher on the session Friday after the early break to the lowest level since January 24 failed to attract new selling interest. Even with the bounce, the market closed lower on the week. South Korea bought 126,000 tonnes of corn and Egypt bought 60,000 tonnes of corn from Ukraine. Outside market forces carried a bearish tilt with a strong rally in the US dollar and a sharp break in crude oil.

For the USDA supply/demand update this week, traders see ending stocks near 1.273 billion bushels, 1.200-1.335 range, as compared with 1.242 billion bushels in the January update. World ending stocks are expected near 294.9 million tonnes, 292-298 range, as compared with 296.4 million tonnes in the January update. Traders see Argentina corn production near 48.5 million tonnes, 44.0-51.5 range, as compared with 52 million tonnes in the January update. Brazil corn is seen near 125.3 million tonnes, 124-129.9 range, as compared with 125 million tonnes in the January update. In January, Brazil exported 6.34 million tonnes of corn, 132% more than last year. In the 2021/22 season (Feb/22-Jan/23), exports totaled 47 million tonnes, up 128% from the previous year's pace.

WHEAT:

With smaller crops in Russia and Ukraine, and a continued drought conditions in the US, early spring weather will be an important indicator for direction. The USDA update seems unlikely to include much in the way of surprises. March wheat closed lower on the session Friday as the early rally to the highest level since January 4th failed to attract new buying interest. The market managed to close higher on the week. July Kansas City wheat also closed lower on the session but still higher on the week. Open interest has traded up to the highest level since March. European milling wheat futures traded higher Friday supported by the sharp drop in the euro against the dollar. Outside market forces for Chicago wheat were bearish with weakness in the stock market, weakness in the crude oil market and a very sharp rally in the US dollar.

Traders believe that Egypt's purchase of 535,000 tonnes of wheat on Thursday was sourced from Russia. For the USDA supply/demand report this week traders see wheat ending stocks near 575 million bushels, 557-612 range, as compared with 567 million bushels in the January update. World wheat ending stocks are expected near 268.8 million tonnes, 266.1-270.2 range, as compared with 268.4 million tonnes in the January update. SovEcon indicates a growing accumulated moisture deficit for Southern Russia, a key growing region. The South received only 40-80% of normal precipitation during the last three months, and needs more rain ahead of the start of vegetation in a month.

HOGS:

Talk of the oversold condition of the market and a bounce in pork product prices last week helped trigger a two-day jump off the lows in April hogs. The USDA pork cutout, released after the close Friday, came in at $77.32, down $2.34 from Thursday and down from $77.70 the previous week. The upside seems limited, as the supply fundamentals look bearish enough to drive the market significantly lower if the premium of April Hogs to the cash market is challenged. We do not see the justification for the large premium. As of February 1st, April Hogs were trading at an 11.68 premium to cash. Last year, the premium was 12.36, but the five-year average is 5.27.

Given this year's production outlook, April Hogs should be trading at a smaller than normal premium, not a larger one. The only other recent year when pork production increased like this was in 2015, and that year April Hogs fell from 75.32 on January 29 to a contract low of 57.77 on March 20. In 2020, when production declined slightly, April Hogs fell from 71.35 on January 29 and to a contract low of 37.50 on April 6. In 2008, when production declined less than normal, April Hogs fell from 66.35 on January 29 and to a contract low of 54.12 on March 20.

In years when pork production declines sharply from the fourth to the first quarters (which is the opposite of this year), the seasonal move higher into spring can be exaggerated. For example, in 2014 pork production experienced its largest decline on record from the fourth quarter, April Hogs rallied from 93.40 on January 29 to a contract high of 128.77 on April 2. Last year, April Hogs climbed from 93.62 on January 28 to a contract high of 112.85 on February 23.

The CME Lean Hog Index as of February 1 was 72.85, up from 72.51 the previous session and up from 72.52 a week prior. The USDA estimated hog slaughter came in at 484,000 head Friday and 153,000 head for Saturday. This brought the total for last week to 2.575 million head, up from 2.536 million the previous week and 2.436 million a year ago. Estimated US pork production last week was 563.0 million pounds, up from 554.8 million the previous week and 554.6 million a year ago.

CATTLE:

April cattle traded to a new contract high on Friday after choppy and two-sided trade. June and August cattle also posted new contract highs. The estimated average dressed cattle weight last week was 827 pounds, down from 829 the previous week and 845 a year ago. The 5-year average weight for that week is 833 pounds. Estimated beef production last week was 529.1 million pounds, down from 552.5 million a year ago. The USDA boxed beef cutout was down 20 cents at mid-session Friday and closed 36 cents lower at $264.74. This was down from $267.76 the previous week and was the lowest it had been since December 19. Cash live cattle trade was very quiet last week. There were 5,512 head reported from Iowa/Minnesota over the course of the week at an average price of 156.93, up from 154.72 the previous week. The only other trades reported were 90 head in Kansas on Thursday at 154 versus an average of 155.93 the previous week. This was not enough for an adequate test.

The USDA estimated cattle slaughter came in at 122,000 head Friday and 19,000 for Saturday. This brought the total for last week to 641,000, down from 659,000 the previous week but up from 635,000 a year ago. First quarter beef production is expected to come in around 4.7% below last year, with second quarter production down 5.4%. Production normally increases by 50 to 300 million pounds from the second to the third quarters, but this year it is expected to decline by 155 million pounds, which would be a significant departure from normal. Third quarter production is also expected to be down 8.6% from last year. This leaves August cattle looking undervalued.

COCOA:

Cocoa prices have had trouble sustaining upside momentum since reaching an 8-month early in January. Demand concerns remain a source of pressure and could fuel a near-term pullback this week. March cocoa was able to rebound from early and midsession pressure but could not climb back into positive territory as it finished Friday's trading session with a moderate loss. For the week, March cocoa finished with a loss of 58 points (down 2.2%) which was a second negative weekly result over the past 3 weeks. A negative shift in global risk sentiment following US jobs data pressured the cocoa market as that may diminish near-term demand prospects.

There were sharp selloffs in the Eurocurrency and British Pound that put carryover pressure on cocoa prices, as that will make it more difficult for European grinders to acquire near-term supplies. Inflation readings continue to pull back from their multi-decade highs in Europe and the US, which should help to strengthen cocoa's demand outlook as that can encourage consumers to purchase more discretionary items such as chocolate.

While this season's Ivory Coast port arrivals remain ahead of last season's pace, their recent weekly arrivals totals have come in below the comparable period last year. In addition, Nigeria's Cocoa Association have reduced their nation's production forecast this season due to adverse weather and disease. As a result, 2022/23 global cocoa production is unlikely to have a sizable increase from last season's output total.

COFFEE:

Coffee's nearly 30% increase in value since the mid-January lows has left the market overbought and vulnerable to a near-term pullback. Unless there is a significant rebound in global risk sentiment, coffee could see further downside price action early this week. March coffee opened under pressure and remained on the defensive all day as it finished Friday's trading session with a sizable loss. For the week, however, March coffee finished with a gain of 2.90 cents (up 1.7%) which was a third positive weekly result in a row.

A negative shift in global risk sentiment following US jobs data weighed on coffee prices as that may diminish out of home consumption prospects. While inflation readings have been heading lower in Europe and the US, restaurant and retail shop demand may remain subdued during the first quarter. A more than 1.5% decline in the Brazilian currency put carryover pressure on the coffee market going into the weekend, as that could encourage Brazil's farmers to market their remaining near-term coffee supply.

Comexim forecast Brazil's upcoming 2023/23 Arabica production at 41.3 million bags which would be a 15.8% increase over this season's output. ICE exchange coffee stocks were unchanged on Friday which keeps them on-track for a fourth monthly increase in a row. There are just over 36,000 bags waiting to be graded, however, and that indicates that ICE exchange coffee stocks will reach a near-term top well below 1 million bags. The International Coffee Organization said that December global Arabica exports came in at 6.097 million bags, down 13.7% from year-ago levels.

COTTON:

March cotton experienced choppy, sideways action last week and spent the entire week inside Monday's range. Outside market forces were negative to cotton. The dollar rallied sharply higher in the wake of a strong US payrolls report that increased expectations that the US Fed will resume aggressive rate hikes and/or extend the duration. Crude oil was down, which makes man-made fibers more competitive with cotton. The stock market was down as well. The suspected Chinese supply balloon detected over the US raised concerns about further deterioration in US/China relations and the potential impact on cotton exports.

China has been the number-one buyer of US cotton so far for the 2022/23 marketing year. For the USDA WASDE report on Wednesday, the average trade expectation for US 2022/23 production is 14.56 million bales, with a range of expectations from 14.28 million to 14.68 million. This would be down from 14.68 million estimated in January. Ending stocks are expected to come in at 4.08 million bales (range 3.90-4.40 million), down from 4.20 million in January. World ending stocks are expected to come in at 90.06 million bales (range 89.20-91.00 million), up from 89.93 million in January.

SUGAR:

Sugar finished January with a seven-session winning streak that took prices to their highest levels since November 2016. However, the market followed that with a key reversal, which suggests at least a near-term top is in place. March sugar found mild early support before turning sharply to the downside as they finished Friday's trading session with a heavy loss. For the week, however, March sugar finished with a gain of 28 ticks (up 1.3%) which was a third positive weekly result over the past 4 weeks.

A sizable pullback in crude oil and RBOB gasoline prices put carryover pressure the sugar market as that may weaken near-term ethanol demand. One factor that supported sugar's recent rally was a move by Brazil's Petrobras to raise its wholesale gasoline prices, which was viewed as supportive to ethanol demand. Also, several organizations in India lowered their 2022/23 sugar production forecasts, which increased the chance that the government would restrict any additional exports this season.

However, Thailand continues to recover from that nation's extended drought. Thai Sugar Millers Corporation projected their Thailand's 2022/23 sugar production at 11.55 million tonnes, which would be a 14% increase over last season. The USDA has projected Thai 2022/23 production at 11.0 million tonnes, which would be a record high. Brazil's 2022/23 Center-South sugar production is expected to come in above last season, and their 2023/24 crushing and harvesting is likely to have an early start because they did not harvest all the cane from 2022/23.