ADM Investor Services, Inc.

Weekly Futures Market Summary

February 13, 2023 **by the ADMIS Research Team**

BONDS:

Apparently, last Thursday's jump in initial and ongoing unemployment claims was quickly forgotten, perhaps because the latest Michigan consumer sentiment index posted the highest reading since January 2022 (13 months). It is also possible that longs have decided to bank profits and exit ahead of this week's CPI release, as the combination of strong jobs and softer inflation could put the treasury markets in a position to begin to catch up to Fed rate hikes. In retrospect, disappointing treasury auction demand is not surprising given the low level of yields offered and strong evidence of growth in US jobs data.

While the lower low for the move early this week reinjures the treasury bond chart, the range was so tight the downside breakout should be given less importance. Nonetheless, the technical and fundamental bias remains down with treasuries seemingly drifting back into a more "normal" pattern of reactions to classic fundamental news. Normally inflation signals have knocked treasury prices down (yields up) but treasury prices over the last year have rallied off hot inflation because of a sharp jump in fears of recession resulting from over tightening of global interest rates.

Expectations for Tuesday's US consumer price index reading for January have been revised upward to +0.5% and a reading of that magnitude should clearly put inflation fear back in a front and center position. On the other hand, it is not clear if classic fundamental reactions have returned to the treasury trade with recent Treasury price action diverging significantly versus US Fed funds. In other words, treasury price reaction to the Tuesday CPI report has the potential to be a major fundamental junction, with long rates potentially beginning a long-term grind higher and potentially ending the yield curve inversion. Our gut suggests that treasuries have pivoted and are now poised to grind lower.

CURRENCIES:

While the dollar at times this week showed significant strength which prompted talk of a trend reversal, a significant loss of upside momentum disappointing US claims data, the US CPI report Tuesday could be a watershed moment for the greenback. Into next week's avalanche of global CPI and PPI readings we expect Swiss franc volatility to expand again and the Yen to come under renewed selling pressure.

Although the dollar has posted a series of lower highs and lower lows on its charts, bearish technical signals could be easily overwhelmed by bullish fundamental developments early this week. In fact, if the January US CPI reading is above 0.4% the January through early February uptrend is likely to resume. Given the potential for a major reaction to CPI traders should consider the March dollar index at or in the money bull call or bull put spreads instead of futures positions.

As we also indicated in dollar coverage, the Tuesday US CPI report is likely a very important fundamental junction for the euro, especially with the euro into the low early this week 400 points below the early February high. It should be noted that price readings will flow from both producer and consumer reports from many countries in the coming sessions. Since we see the euro as a "recovery currency" the bull camp is facing a very significant threat in the coming 36 hours.

Regardless of the fundamental condition of the Japanese economy (which is somewhat precarious), the Yen the charts have been damaged with a breakout below consolidation and support. Clearly, Swiss domestic data is relatively unimportant given the flow of data from the US in the coming sessions. However, Swiss consumer price index readings for January came in much stronger than expectations with a 0.6% gain which in turn pushed up year-over-year inflation to 3.3% and yet the Swiss franc failed to display volatility. Fortunately for the bull camp, the Swiss franc sits just above relatively solid support with the currency potentially and surprisingly sidestepping massive volatility

Like the Swiss, the Pound has relatively credible support just under the market but could see a spike down trade in the coming 36 hours. News headlines indicating British companies are likely to increase pay by the most in over a decade, some traders might view the UK economy vulnerable to inflation pressures. While we expect the Canadian dollar to gyrate within the range of the last 2 weeks (74.21-75.40) the currency sits in the upper quarter of the last 30 days range creating more risk for fresh longs than fresh shorts. However, the Canadian should have a strong fundamental underpin from the Canadian January jobs reading which added a blockbuster 150,000 jobs and in turn rekindles Bank of Canada rate hike potential which last month was reportedly paused.

STOCKS:

Fortunately for the bull camp, the markets did not face anxiety as corporate headlines remained squarely in the bear camp last week and are likely to extend into this week. In addition to a pulse up in interest rate markets, the trade was undermined by disappointing news and stock price action in sharing company LYFT. Not surprisingly, the NASDAQ saw noted pressure as the outlook for the tech sector has been severely damaged by unrelenting layoff announcements from tech companies. Going forward, we see equity prices caught in a limiting conundrum with the need for good data to discourage investor fears in recession forecasts and soft data needed to moderate rising rate concerns.

Global equity markets at the start of this week were higher with markets in Japan, Russia, and Australia bucking the trend with declines. Typically, equity markets do not like uncertainty and economic uncertainty should be very high over the coming 36 hours of trade. In retrospect, equities continue to be undermined by discouraging corporate headline news largely attributable to earnings reports. However, the biggest threat to the bull camp in equities is the potential for rotation away from equities into higher yielding interest rate instruments.

While the March S&P has apparently produced a consolidation support shelf (thin in scope), that level is likely to become resistance over the coming 2 trading sessions. However, as in most financial and industrial demand driven commodities, the stock market is facing a very critical fundamental junction in the form of tomorrow's January US CPI report. With analyst expectations calling for +0.4% and +0.5% readings the bear camp should have control with last week's low likely to fail as support.

While Boeing news continues to be extremely volatile and has mostly been bearish for the Dow over the last year, news this weekend that the plane maker is investing in a logistics center in India to improve aircraft deliveries, combined with a massive purchase by the Tata Group of 220 planes that is likely to pull Boeing out of a very disastrous time in the company's history. While the Dow might ultimately find support after CPI related selling, a retest of the Friday low is likely early this week. As indicated in other sectors, the NASDAQ continues to face a pattern of negative fundamental headlines from the beleaguered tech sector.

GOLD, SILVER & PLATINUM:

With the dollar showing significant two-sided volatility last week, volatility in gold was clearly justified and is likely to extend early this week. In fact, with the dollar charts shifting up and the April gold chart producing damaging action last Friday, the path of least resistance is down in gold. Looking ahead, we suspect the US CPI report on Tuesday will be a major event for gold, silver, platinum, and palladium. In a twist of historical trade action, gold and silver bulls probably need softer than expected inflation readings to shake off last week's setback. Unfortunately for the bull camp last Friday, gold ETF holdings fell by 3,024 ounces and are 0.8% lower year-to-date. Last week, gold ETFs reduced holdings by 85,492 ounces.

From a technical perspective, the February washout in gold prices has resulted in a significant drop in open interest and trading volume potentially an indication that downside action is being seen as against the overall trend. In another supportive recent development, reports of improving Asian demand on price weakness should help gold and silver find solid support later this week. In fact, at the end of last week Chinese gold premiums continue to strengthen, but seeing Indian demand show up on dips could be more important. While silver ETF holdings declined 140,771 ounces on Friday, they remain 2.1% higher year-to-date after adding 6.4 million ounces overall last week.

While the recent surge in platinum ETF holdings has not garnered headline status, ongoing inflows should soon spark speculation of a return of investment interest. At the end of last week, platinum ETF holdings were up 1.9% year-to-date with inflows last week resulting in holdings reaching 2.36 million ounces versus 2.33 million less than one month ago. With a total global ETF platinum holding reading of 3 million ounces, continued inflows can change the global supply and demand condition. However, in the near-term, platinum appears to be on a liquidation track with last week's washout resulting in a sharp decline in trading volume and open interest.

With the palladium market smaller in scope than the platinum market, a year-to-date gain in palladium holdings of 4% is significant especially given total world palladium ETF holdings are only 465,301 ounces. In addition to early signs of a ramping up of investment demand this year we suspect March palladium is significantly oversold and could forge an exhaustion washout this week. While the weekly COT positioning reports are still off-line, adjusted from the most recent net spec and fund short reading of 3,531 contracts on January 24th (a decline of more than $200) the net spec and fund short could be approaching the record spec short of 4,511 contracts from June of last year.

COPPER:

Fortunately for the bull camp in copper, last week's trend extending increase in Shanghai copper warehouse stocks has been offset by several global production issues. In addition to Freeport Indonesia suspending work at its Grasberg mine after flooding from heavy rains damaged facilities, the trade is also watching production disruptions in Peru at 2 major mining facilities. However, hope for improving Chinese demand has shifted into concern of softer demand, as demand has not picked up strong after the holiday. Therefore, some analyst to predict Chinese copper demand might not recover until the 2nd quarter.

While March copper has built a shelf of consolidation support, hope for improved Chinese copper demand is being countervailed by evidence of rising physical supply inside China. Granted, LME copper warehouse stocks are nearing 24-year lows, but Shanghai copper stocks have virtually exploded with 5 straight weeks of 5-digit inflows. In fact, Shanghai warehouse stocks are at the highest level since 2020 and supplies are above normal seasonal levels of the last 5 years. On the other hand, there are signs of improving economic activity inside China with road congestion readings jumping and signs of increased refinery activity thought to be gearing up for domestic consumption. In our opinion, production news from South America remains mixed with periodic disruptions widely expected.

ENERGY COMPLEX:

With the range up action at the end of last week, crude oil prices posted a rally of nearly $6.00 primarily because of the 500,000 barrel per day production cut by Russia. Furthermore, according to the Russian Deputy Prime Minister, the risk of additional declines in Russian oil output later this year should not be ruled out. While Russia has indicated the production cuts will be limited to oil, they also announced efforts to limit crude price discounts with their Urals price at times at a $34 to $20 discount to Brent crude oil. However, just as EU price caps are largely ineffective, Moscow's attempt to limit discounts to those ignoring sanctions would be similarly difficult to enforce.

Obviously, optimism toward growth in Chinese oil demand has been a key component of the bounce off the early February low, with Chinese imports, total Asian oil movement, increased Middle East prices into Asia and significant Chinese refineries throughput levels all contributing buying to the market. Unfortunately for the bull camp optimistic energy demand views from the prior 5 trading sessions are likely to be challenged with Tuesday's US CPI reading. In other words, petroleum prices are likely to react to big picture macroeconomic headlines, with the trade already partially embracing a theme of improving global energy demand. However, the crude oil market should benefit from a large 9.5% week over week decline in global crude oil in floating storage!

In a slightly bearish longer-term development, US oil rig drilling activity in the most recent Baker Hughes report showed the largest one week increase since last June. With 609 US oil drilling rigs operating compared to just 516 rigs a year ago, over time US production and supply will rise unless the dollar weakens and gives the US a significant price advantage in Asia. Given the positive market view toward Chinese demand, the OPEC Secretary General's comments over the weekend predicting global oil demand will reach pre-pandemic levels this year at 102 million barrels per day adds to the demand positive trade, even though most forecasters expect China to account for virtually all global demand increases. Weekly COT positioning reports remain on hold following technical issues from hacking at the CFTC.

A surprise prediction Friday that Chinese February gasoline exports will hit their lowest level in 8 years should be a strong sign of solid domestic gasoline demand, especially with Chinese state-run refineries ramping up activity aggressively over the past 2 months and supply not building to comfortable levels. According to Reuters, the Chinese exports were between 285,000 tonnes at 360,000 tonnes which is a significant drop from 840,000 tonnes in the prior month. Reuters also reported that Chinese exports are declining in conjunction with increased road traffic with holiday travel reportedly at 5-year highs. A rough analysis of traffic congestion patterns for major cities in China have already seen congestion above year ago levels. However, without straightaway macroeconomic optimism flowing from extremely important US inflation data on Tuesday, nearby gasoline prices sitting $0.24 above last week's lows will likely result in a volatility event.

While weekly positioning reports have been interrupted because of mechanical issues, we think the net spec and fund long in gasoline is nearing the highest levels since February of last year. Keep in mind that last week the EIA report showed a massive 5-million-barrel jump in gasoline inventories with US implied demand running 700,000 barrels per day below year ago levels! In short, the bull camp has the technical edge, but prices are now overbought, and macroeconomic influences are likely to temporarily control in the coming 36 hours of trade. In retrospect, the diesel market seriously lagged the energy complex last week perhaps because US inventory data appears to be building and annual deficits have almost been eliminated. Like gasoline, US distillate demand is running soft with 500,000 barrels per day being consumed versus year ago levels.

In retrospect, we are very surprised that natural gas prices managed to hold consolidation support last week with mild temperatures on both sides of the Atlantic, a normal seasonal weekly withdrawal from EIA inventories and evidence of ongoing Russian Gazprom shipments through Ukraine on Sunday. While reports on the restart of the disabled Freeport LNG export facility have been rumored for months, the company indicated they resumed shipments on Sunday moving supply for the first time since June 8th. Therefore, a 5.5% week over week increase in net flows to US LNG export terminals could be the beginning of a narrowing of US gas in working storage surplus readings to year ago levels. The most recent lower 48 state dry gas production for the US was 99.9 BCF (up 4.6% year-over-year) but well under the record high of 103.6 BCF.

Unfortunately for the bull camp, lower 48 US gas demand was unchanged at 87.2 BCF per day leaving a net implied surplus of 12.7 BCF. While the COT positioning report has been delayed due to mechanical issues at the CFTC, we expect the net spec and fund short reading is at the largest level of the last 3 years and the recent consolidation could be balancing that oversold technical signal. While the restart of the US export facility could begin to tighten US inventories in the weeks ahead, without below normal temperatures, the increase in exports might not offset a building backlog of US supply. Therefore, we see substantial risk in fresh long positions and if there is a major macroeconomic risk-off event from US inflation on Tuesday we suspect new contract lows will be posted.

BEANS:

Hot weather for Argentina over the weekend (100 degrees) added some stress to dry areas. A front brought showers to southern areas yesterday and will move north today. Another front will move through in a few days but forecasts models have trended down with precipitation coverage and intensity. Some models still have decent rain totals this week. Forecasts remain dry for the following week. The market priced-in a mostly dry forecast over the next 10 days, but the weather models continued to flip-flop over the weekend and some models show decent rains. Brazil harvest reached 17% complete as compared with 24% last year.

The Buenos Aires Grain Exchange in their weekly update pegged the soybean crop production at 38.0 million tonnes, down 3 million tonnes from their previous estimate. In the USDA update Wednesday, Argentine production came in at 41 million tonnes versus an average expectation of 42 million (range 38-45 million). This was down from 45.5 million in January. The Rosario Board of Trade said in a monthly report that Argentina soybean production will come in at 34.5 million tonnes, the lowest since 2009, and 6.5 million below the USDA forecast. This was down 7% from the January estimate.

March meal managed to trade up to a new contract high on Friday as the slow crush pace in Argentina and in the US combined with the potential drop in the Argentina production were seen as bullish forces. In Brazil, export premiums for soybeans have dropped in the past week while premium for meal and oil improved. This should help boost crush margins significantly and spark more crush activity just ahead.

Once there is a better feel for the size of the Argentina crop, the focus of attention will switch to the new crop season in the US. If planted acreage increases by 1 million acres to 88.5 million, and we use a trendline yield, ending stocks come in near 333 million bushels with a 7.4% stocks/usage. This compares with 225 million bushels and 5.2% stocks/usage this year. This assumes an increase in usage, and if we use this year's usage, ending stocks swell to 461 million bushels.

CORN:

May corn closed sharply higher on the session last Friday, and this helped the market trade near three cents higher for the week. Drier than expected weather forecasts over the next 10 days for Argentina helped to spark the buying. In addition, traders see too much rain in Brazil as a reason to suspect late plantings of the second crop corn in Brazil. Plantings of the second crop as of February 4th, reached just 10% as compared with 22% in the same period last year. The forecast on Friday was quite threatening for Argentina, but forecasts "flipflopped" over the weekend and they shifted back to just scattered rains this coming week and dry conditions next week.

The fluctuating weather forecast might be a factor to keep volatility high. The early outlook for Ukrainian corn production is down sharply from last year, which could tighten the global exportable surplus. Traders expect production for 2023/24 to come in near 18 million tonnes, down from 27 million in 2022/23 and 42.13 million in 2021/22. An expected reset of spring ammonia prices pushed new offers in the Corn Belt lower and this trend is likely to continue. Spot prices on the international and coastal markets along with inland dealer markets for urea and urea ammonia nitrate are trending sharply lower and have dropped back all the way to price levels not seen since mid-2021.

The magnitude of the drop is very significant. For example, inland dealer bid prices have dropped from near $925 per short ton in the spring of 2022, down to $380 per short ton this week. This opens the door for increasing planted acres for the US, and around the world for this spring. Once the market prices in any further damage to the Argentina crop, the trade's focus will shift to the US production and stocks outlook for the upcoming season.

If we assume US corn planted acreage is 92 million acres in 2023/24 and use the USDA baseline forecasts for demand, then a trendline yield would put ending stocks to 1.829 billion bushels and result in a stocks/usage ratio of 12.4%. This would be up from 1.267 billion for 2022/23 9.1% stocks/usage for 2022/23. This assumes higher usage for the new crop season. If we use the same usage as 2022/23, ending stocks would swell to 2.689 billion bushels, the highest since 1987/88.

WHEAT:

A little less tension in the Black Sea and ideas that the export corridor will remain open helped to pressure the wheat market early this week. Traders are nervous with the potential for a sharp drop in Ukraine wheat production for the coming season, and also a much smaller Russian crop. Increased concerns about the Black Sea region and the impact on exports and production from the region due to escalating tensions between Russia and Ukraine late last week helped to support the market. The market has become accustomed to aggressive exports from the Black Sea region, so if the situation changes in the future, exportable surplus could tighten. May wheat closed sharply higher on the session Friday and experienced the highest close for the year.

July Kansas City wheat also closed sharply higher on the session and experienced the highest close since November 30. Focus will shift more and more to the new crop outlook. Traders already assume a sharp drop in Ukraine production and a significant drop in Russia production from this year's record high. In the US, weather will become more and more of a factor. The 5-day forecast shows significant rain for Oklahoma and for most all of Kansas. The 6-10 day and the 8-14 day forecast models show above normal precipitation for the central and southern plains. If we assume total US wheat plantings at 48.8 million acres, and a trend yield, ending stocks would increase to 707 million bushels as compared with 568 million this year. Even if yield comes in 3% below trend, ending stocks come in at 648 million bushels.

HOGS:

The hog market remains in a short-term downtrend and the hook reversal on February 7 might suggest the start of a technical correction. Supply is coming in above last year and above the fourth quarter which is a contra seasonal bearish force. Hong Kong reported an outbreak of African swine fever on a farm near the border with mainland China. Traders will monitor the situation closely, but it may provide some underlying support. April hogs closed slightly lower on the session Friday after choppy and two-sided trade with a small range. The market is still trying to hold a premium to the cash market as the cash market has remained in an uptrend over the past week or so, weights are low and pork product prices have bounced.

The USDA pork cutout, released after the close Friday, came in at $79.33, up 52 cents from Thursday and up from $77.32 the previous week. The CME Lean Hog Index as of February 8 was 73.80, up from 73.75 the previous session and 72.85 the previous week. The USDA estimated hog slaughter came in at 481,000 head Friday and 93,000 head for Saturday. This brought the total for last week to 2.498 million head, down from 2.595 million the previous week and 2.513 million a year ago. Estimated US pork production last week was 543.9 million pounds, down from 567.4 million the previous week but up 2.4% from a year ago.

CATTLE:

Cash live cattle traded in active volume last Friday, rounding out the week $1-$1.50 higher than the previous week. As of Friday afternoon, the five-day, five-area weighted average price was $159.19, up from $158.05 the previous week. April cattle closed slightly higher on the session Friday with a small range and an inside trading session. The market remains in an overbought condition, but supply is likely to tighten ahead and demand factors short-term still look okay. The estimated average dressed cattle weight last week was 827 pounds, unchanged from the previous week and down from 846 a year ago. The 5-year average weight for that week is 833 pounds.

Estimated beef production last week was 519.7 million pounds, down 3% from last year. The USDA boxed beef cutout was up 62 cents at mid-session Friday and closed 37 cents higher at $269.66. This was up from $264.74 the previous week and the highest since January 23. The USDA estimated cattle slaughter came in at 122,000 head Friday and 14,000 head for Saturday. This brought the total for last week to 630,000 head, down from 641,000 the previous week and 671,000 a year ago.

COCOA:

Cocoa prices have seen choppy price action so far during the month of February, but the market continues to hold its ground above the mid-January lows. If global risk sentiment can improve this week, the cocoa market may be able to climb above its recent consolidation zone. May cocoa came under early pressure as it fell to a new 3-week low, and then turned back to the upside as it finished Friday’s trading session with a moderate loss. For the week, May cocoa finished with a loss of 15 points (down 0.6%) which was a third negative weekly result over the past 4 weeks.

Both the Eurocurrency and British Pound had sizable pullbacks late last week that put carryover pressure on cocoa prices, as that will make it more difficult for European grinders to acquire near-term supply. However, a shift back towards drier and very warm weather over West African growing areas helped the cocoa market to find its footing later in the day.

West Africa’s dry season normally ends in mid-March, so these weather conditions are likely to have a negative impact on the region’s upcoming mid-crop cocoa production. Although the full-season total continues to run ahead of last season’s pace, recent weekly Ivory Coast port arrivals total have come below the comparable period last year, which indicates a pullback in their main crop output.

COFFEE:

Coffee prices have held within a fairly tight trading range and have been unable to sustain upside momentum since a negative daily reversal on February 1st. With a bearish shift in the Brazilian production outlook weighing on prices, coffee could see a downside breakout. May coffee rallied through midsession, but came under pressure late in the day as it finished Friday’s trading session with a mild gain. For the week, May coffee finished with a gain of 1.35 cents (up 0.8%) which was a fourth positive weekly result in a row.

The Brazilian currency rebounded from a new 1-month low to post a moderate daily gain, as that provided carryover support to the coffee market as that should ease pressure on Brazil’s farmers to market their near-term supply. In addition, reports that those farmers have been holding off on near-term coffee sales also provided support to the market late last week.

Brazil's largest co-op Cooxupe said that their region's 2023/24 coffee production will be larger than the previous two season's output, and that the 2024/25 season could result in a record high production total. The 2023/24 season is an "off-year" for Brazil's Arabica production, but the likely finish for La Nina during the first quarter should benefit their upcoming crop. ICE exchange coffee stocks fell by 6,068 bags on Friday but are still above their January month-end total.

COTTON:

The cotton market has been in a coiling pattern since putting in a low in November. The market closed slightly lower on Friday but well up from the lows on the day. The dollar was higher but so was crude oil, so two key outside market forces conflicted with each other. The export sales report on Thursday was supportive, but the USDA supply/demand report was bearish.

China has been the number-one buyer of US cotton so far for the 2022/23 marketing year, but traders are apprehensive that rising political tensions between the US and China could interfere. The recent US weekly Drought Monitor shows lingering drought conditions in west Texas, but they are better than they were a year ago and much better than they were last summer. The 6-10 day and 8-14 day forecast models show above normal precipitation for West Texas.

SUGAR:

Sugar prices are on a 4-session winning streak, but appear to have lost upside momentum going into the weekend. Unless the market can receive fresh bullish supply news, sugar remains vulnerable to a near-term pullback. May sugar continued to see coiling action late last week as the market was able to match Thursday's weekly high before finishing Friday's trading session with a mild gain. For the week, May sugar finished with a gain of 5 ticks (up 0.3%) which was a third positive weekly result in a row.

A moderate rebound from a 1-month low in the Brazilian currency combined with sizable gains in crude oil and RBOB gasoline to provide the sugar market with early carryover support. The Brazilian trade group Unica released their Center-South supply report for the second half of January, which showed a modest amount of cane crushing and sugar production as 3 mills were still operating over that timeframe. Those mills gave sugar a 43% share of crushing, which is less than the nearly 46% share it received during the full 2022/23 season but compares to mills producing no sugar over that timeframe last year.

The Unica supply report also showed that January Center-South domestic ethanol sales had a sixth month in a row above the previous year's total, which provided additional support to the market as it reflects some improvement in ethanol demand. Thailand's Cane and Sugar Board forecast their nation's 2022/23 sugar exports at 9 million tonnes, which would a 17% increase from last season's total.

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

Follow ADMIS on Social Media