Weekly Futures Market Summary

February 21, 2023 **by the ADMIS Research Team**

BONDS:

With last week's US inflation readings hotter than expected, and the Fed immediately hinting at higher interest rates, the Bond market's ability to limit declines indicates bullish resiliency remains in place. However, the bull camp will simply argue that higher rates and increased economic uncertainty are justification for bullish resiliency in treasury prices. It is also possible that the trade does not see an extra 25 basis points on the terminal rate as a significant issue. Nonetheless, the treasury markets in the week technically oversold and possibly poised for lift next week from classic signs of macroeconomic slowing.

With March bonds testing and recoiling at Friday's high (at even numbers of 126-00) the bias remains down to start the new trading week. However, with treasury prices remaining soft in the face of deteriorating sentiment and some softer data, the focus of the treasury trade might have shifted back to classic trading behavior from the prospects of higher-than-expected interest rates later this year. While we are somewhat doubtful that increased US default risk (from the debt ceiling impasse) has reduced investor exposure to the debt markets, that angle should not be ruled out.

Adding to the bearish tilt early this week are higher euro zone and Japanese bond yields. Looking ahead, the release of the last FOMC meeting minutes tomorrow afternoon probably adds to the bearish track today. While we are not sure we seem to remember the Fed post meeting chairman press conference revealing the Fed typically does not know the jobs report before its release and therefore tomorrow's meeting minutes might not be patently hawkish. In the end, the path of least resistance is down especially with estimates for this week’s US scheduled data expected to post better readings than previous results.

CURRENCIES:

Certainly, the dollar index became short-term overbought highs and deserved a back and fill setback. However, with US equity markets mostly taking last week's negative interest rate threats in stride, global investors might continue to see the US as the best place to be. In fact, the euro zone will produce to key inflation reports of its own this week from Germany and Italy, but it is unclear if those reports can take control from US fundamentals. While the dollar has not shown early strength this week, the path of least resistance remains up from both charts and fundamental conditions. In fact, we detect a slight elevation of economic uncertainty and that combined with expectations of hawkish news from the US Fed meeting minutes Wednesday afternoon should result in higher dollar action ahead.

Even though the euro is benefiting from ongoing expectations of additional rate hikes beyond March, traders think European rates will top this summer which is earlier than the expected top in US rates. Furthermore, the trade in the euro is likely seeing pressure from expectations for Wednesday's Fed news.

However, economic news from the euro zone showed noted improvement, but that news might only serve to slow the decline in the currency.

While Japanese interest rates registered one-month highs, Japanese bond prices were lifted overnight because of the first looming testimony of the new Bank of Japan Gov. to the Japanese parliament. However, Japanese rates were also lifted because of higher yields around the globe. Even though domestic economic data has not impacted action in the Yen significantly, recent Japanese data has been mixed at best.

Even though internal domestic economic data has had little impact on the Swiss franc, import and export data for January was much stronger than in December and that could help solidify consolidation low support. However, outside market pressure from ongoing strength in the dollar and last week's major spike lower in the Swiss franc left the bear camp with an edge. On the other hand, last Friday's major breakout/spike down move was aggressively rejected on higher volume and that should not be discounted.

In addition to extended respect of consolidation lows at 1.20, the Pound is likely garnering support from favorable S&P global/CIPS composite, manufacturing, and services PMI data for February. In the end, if the dollar does not accelerate sharply on the upside, the Pound could respect support. With the Canadian falling sharply last week and rejecting a trade below consolidation support at 74.00, softer consumer price readings might not result in a downside extension. Fortunately for the bull camp Canadian retail sales expectations for December project minuscule gains and a contraction in retail sales excluding autos.

STOCKS:

While the bull camp in equities is not out of the woods yet, the markets' capacity to avoid a major washout in the wake of last week's inflation news is very impressive. Fortunately for the bull camp, interest rates halted their recent jump and Deere & Company helped the market out with good results and positive guidance. In the end, it is possible that investors are not unnerved because of the potential for slightly higher terminal rates at the end of the year. On the other hand, it is possible that the markets after consideration of the pace of the economy and the need to raise US rates further might result in large declines this week.

With a lower low and an approach of the February low the path of least resistance in the S&P is down to start the holiday shortened week. In addition to a miss on Home Depot revenue estimates (earnings beat expectations) the S&P is under pressure off fears of hawkish dialogue in the FOMC meeting minutes scheduled for release Wednesday afternoon. While the markets in general fear talk of higher rates, reports that Walmart suppliers are soliciting price hikes could help support the S&P as higher prices help profitability.

With recent Boeing sales news positive, the Dow futures might have a minimal cushion against a trade below 33,500 in the coming sessions. Nonetheless, the Dow is facing ongoing macroeconomic related selling, and anxiety among investors and consumers. With negative big picture sentiment and ongoing regulatory battling between Microsoft and EU officials and the UK also investigating Microsoft's Call of Duty deal, the bear camp has definitive control.

GOLD, SILVER & PLATINUM:

While April gold managed a 3-day high and attempted to sustain a trade above $1850, it ultimately fell $14 from its early-week high. Some of the early weakness in gold is likely attributable to minimal strength in the dollar, risk off in global equity markets and slightly higher treasury yields. Unfortunately for the bull camp, the market is confronted with a 7.6% decline in Swiss gold exports in January, with Chinese imports down 58% and Indian imports down by 33%! With the low at the end of last week $150 below the early February high the net spec and fund long positioning in gold has probably moderated significantly from the last reading in January of 206,016 contracts long. However, due to a hacking incident weekly COT report readings have been suspended and the trade is left to estimate market positioning.

Although the story has not gained traction, global speculation that China is poised to supply Russia with weapons in its war against Ukraine. If that is the case that could create flight to quality buying interest in gold and will likely result in further deterioration of US/Chinese relations. In a supportive internal supply development for gold leaving gold ETF holdings down, Russia's Polyus estimated its 2022 gold production declined by 11% on a net output of 2.4 million ounces. However, partially offsetting that supportive news is a forecast from the company indicating their 2nd half 2022 production increase by 38% versus the first half 2022.

Last week gold ETF holdings declined by 207,259 ounces and gold holdings have declined for seven straight sessions leaving gold ETF holdings 1.2% lower year-to-date. Silver ETF holdings last week declined by 521,062 ounces, but in the last 2 days sessions holdings have increased by nearly 2 million ounces and holdings are currently 2.1% higher year-to-date. We suspect gold and silver will remain under pressure in the near term as the trade fears Wednesday's release of the FOMC meeting minutes. However, according to the US Federal Reserve Chairman, the Fed was not aware of the jobs data in their last meeting. With March silver initially posting a 4 day high overnight and reversing course the bear camp retains an edge.

COPPER:

Despite a risk off vibe in financial and many physical commodities markets at the start of this week, the copper market has extended last week's sharp recovery move and nearly tested the February high. While the COT report has been suspended due to hacking, the last spec positioning report showed a relatively low net long with the market currently sitting $0.05 below the level where that positioning was last measured.

Apparently, the copper trade is unconcerned about the buildup of Chinese domestic physical supply and has also seen signs that China continues to utilize scrap copper to produce cathode rods. In fact, Bloomberg overnight indicated that domestic copper stocks inside China added 4,500 tonnes over the weekend. However, the current copper trade is willing to discount the 2023 trend of higher Shanghai copper stocks and even higher regional copper inventories in China.

ENERGY COMPLEX:

An escalation of political tensions between Russia and the allies combined with rumors China will supply military equipment to Russia should provide cushion for crude oil at the $75.00 level. While the US, EU and the United Nations are unlikely to punish China for a direct support of Russia, that potential could interject some supply-side premium to energy prices ahead. Unfortunately for the bull camp crude oil starts the trading week facing deteriorating global economic sentiment which in turn questions positive demand projections. Furthermore, Asian demand expectations and prices moderated at the start of this week, reportedly from heavy arbitrage action.

Even though some traders will see a doubling of Chinese Urals oil purchases in the first half of February as a negative from the ineffectiveness of the embargo, seeing China increase imports should provide optimism toward the Chinese economy. In a major bullish development Bloomberg coverage overnight forecasts Chinese apparent oil demand this year to rise by 6.2% to 13.7 million barrels per day. Furthermore, Indian January crude oil imports reached a 6-month high, but those imports were of Russian origin. In the end, deteriorating global economic psychology is countered by signs of strong Chinese demand. While March crude oil might claw back to the $80.00 level, we think the risk of longs in the upper quarter of the last 3 weeks consolidation zone has become unattractive.

From a technical perspective, the gasoline market last Friday aggressively rejected a significant washout on strong volume and that could discourage the bear camp. However, prospects of improving Chinese fuel demand which in turn reduces fuel exports helps to offset last week's significant correction. Unfortunately for the bull camp EIA gasoline stocks have increased every week this year and have narrowed the year-over-year deficit significantly. Furthermore, implied gasoline demand remains soft relative to year ago levels and macroeconomic sentiment in general starts the week on the back foot. Clearly, the diesel market remains the weakest market of the petroleum complex with its inability to aggressively reject 11-month lows. Even the demand side of the equation is bearish with US implied distillate demand currently.4% below year ago levels. While not a definitive impact on prices, very mild US temperatures have likely reduced heating consumption.

The downside extension early this week following a new low for the move on strong volume last Friday leaves the technical bias pointing down. Clearly, the market is discounting news that LNG floating supply in the latest weekly readings declined by 22%. Even with news of increased buying from emerging countries prices have softened below $15 per MMBTU in the region. Certainly, much above normal temperatures throughout the US has further reduced the prospect of winter tightness in the US especially with the idled US export facility coming back online so late in the season. In the near term, the likelihood of the largest ever net spec and fund short in natural gas is of little concern to the trade especially with those weekly numbers suspended until further notice. In fact, the bear camp shows little concern despite futures prices falling below some cost of production levels.

BEANS:

Dry conditions in Argentina and reports of frost over the weekend may have caused some damage to immature corn and soybeans and this helped to support the market at the start of this week. Any showers will be limited for the rest of February, keeping stresses high for both crops. Another burst of heat could come next week. Scattered showers continue for central and northern Brazil, where breaks in the heavy showers are few and far between. Soybean harvest and safrinha corn planting remain behind schedule. May soybeans closed slightly higher on the session Friday but down near 11 1/4 cents on the week. Meal closed slightly lower as well and down on the week while May soybean oil closed lower on the session but higher for the week. The forecast is dry for Argentina but cool, and the trade believes that some additional damage may be possible to the crop, but this could be offset by a large Brazil crop.

Brazil producers have harvested 25% of the soybean area according to AgRural. This was up 8% from the previous week but down from 33% complete last year. Because of drought conditions in the South, they lowered their Brazil production forecast to 150.9 million tonnes from 152.9 million as their previous estimate. From a Bloomberg survey, traders see soybean planted area near 88.6 million acres, 87.0-89.5 range, as compared with 87.5 million acres this year. Production is expected near 4.510 billion bushels, 4.300-4.622 range, as compared with 4.276 billion bushels this year. Ending stocks are expected near 297 million bushels, 217-430 range, as compared with 225 million bushels this year. Palm oil climbed to a six-week high on further weakness in the Malaysian currency and hopes of robust demand from the Middle East. Supply concerns have resurfaced following a recent move by Indonesia to freeze some export quotas in a bid to cool domestic cooking oil prices ahead of Islamic religious holidays in March and April.

CORN:

Dry conditions in Argentina and reports of frost over the weekend may have caused some damage to immature corn and soybeans and this helped to support the market overnight. Any showers will be limited for the rest of February, keeping stresses high for both crops. Another burst of heat could come next week. Scattered showers continue for central and northern Brazil, where breaks in the heavy showers are few and far between. Soybean harvest and safrinha corn planting remain behind schedule. If the delays are too great this week and next week, as they are forecast to be, safrinha corn will be more exposed to the dry season in a couple of months, which may include pollination. May corn traded higher on the session Friday but still closed slightly lower on the week.

Weakness in outside market forces was offset by continued fears of a smaller production outlook for Argentina, and also concerns that the second crop from Brazil will be planted late. Private exporters reported the sale of 120,800 tonnes of US corn sold to unknown destination. Traders will monitor the USDA Outlook Forum this week for the first look at planted acreage. From a Bloomberg survey, traders see corn planted area for the 2023/24 season near 90.9 million acres, 88.3-92.0 range, as compared with 88.6 million this year. Production is expected near 14.888 billion bushels, 14.000-15.320 range, as compared with 13.730 billion bushels this year. Ending stocks are expected near 1.761 billion bushels, 1.365-2.240 range, as compared with 1.267 billion bushels this year.

Argentina's corn exports should fall some 40% year-on-year between March and June, the Rosario Grains exchange said on Friday, as fewer hectares were planted early this season due to the impacts of a historic drought. They forecast just 8.7 million tonnes of corn exports in those four months, after just 19% of an estimated 7.3 million hectares (18.04 million acres) were sown in the early weeks of the campaign. Argentina's government imposes limits on corn exports to guarantee domestic supply. As campaigns progress, the volume of grain allowed to be shipped abroad is adjusted. The current allowance for 2022/23 is 20 million tonnes. Ukraine corn exports are down 28.7% from last year.

WHEAT:

May wheat closed unchanged on the session last Friday after choppy and two-sided trade. Traders await developments on whether or not Ukraine exports will continue to flow freely, and also the USDA's first look at new crop plantings and production expectations from the Outlook Forum. Traders also await any updates on the weather pattern for early March when the US winter wheat crop comes out dormancy. From a Bloomberg survey, traders see wheat planted area for the 23/24 season near 48.5 million acres, 46.0-50.0 range, as compared with 45.7 million last year. Production is expected near 1.882 billion bushels, 1.696-1.995 range, as compared with 1.650 billion bushels this past season. Ending stocks are expected near 646 million bushels, 544-780 range, as compared with 568 million bushels this year. Canadian officials see wheat production for the 23/24 season near 34.327 million tons as compared with 33.824 million this season.

France is undergoing an unprecedented winter drought that could cause production issues ahead. It hasn't rained in the nation since Jan. 21, a 27-day streak that's a record for winter, weather forecaster Meteo France said Friday. While some regions may see showers this week, France will likely end the month with a 50% rainfall deficit. Soft-wheat and winter-barley are just emerging from dormancy in France, and crops are faring well so far. Wheat yields in Algeria and Morocco are seen as well below normal. Harvest shortfalls stem from the driest seasons since 1979. Yields in Morocco and Algeria in 2023 could fall about a quarter below the five-year average, according to a Monday report from the European Union's Monitoring Agricultural Resources Unit. Tunisia's yields are also seen falling 15%.

HOGS:

The supply fundamentals for hogs look bearish, and the market may be setting up for a contra-seasonal move lower. However, with the jump in pork values and better than expected export sales news this past week, it may see a further advance over the near term. April hogs closed lower on the session Friday after a strong rally early in the day. The jump in pork cutout values last week was a reason to expect a firm trade in the cash market and this helped to support. Strength in the cattle market and ideas that the market is still hoping for a seasonal advance at this time of the year helped to support. April Hog basis as of February 15 was still showing a premium of 10.38 to the cash market. This was close to the 10.39 premium a year ago, but well above the five-year average of 5.65 for this time of year. If April Hogs were trading at the five-year average basis, the market would be trading near 81.45.

The CME Lean Hog Index as of February 15 was 75.85, up from 75.62 the previous session and 73.80 the previous week. The USDA estimated hog slaughter came in at 478,000 head Friday and 107,000 head for Saturday. This brought the total for last week to 2.505 million head, up from 2.486 million the previous week and up 0.9% from a year ago. The USDA pork cutout, released after the close Friday, came in at $80.25, down $1.53 from Thursday but up from $79.33 the previous week. However, cutout came in at $85.09 yesterday, up $4.84 from Friday and up from $78.99 the previous week. This was the highest the cutout had been since December 30. The CME Lean Hog Index as of February 15 was 75.85, up from 75.62 the previous session and 73.80 the previous week.

CATTLE:

Estimated beef production last week was 517.5 million pounds, down 8% from last year. The tightening supply situation continues to support the uptrend. April cattle closed higher on the session Friday and the buying pushed the market up to a new contract high. Strength in the cash market plus the jump in beef prices which might push cash higher this week were seen as positive forces. In addition, packer profit margins are strong and this could help to keep the cash trend up. June cattle also traded higher but still shy of the February 7 peak, and August cattle is well shy of the contract high. The USDA boxed beef cutout closed $1.49 higher on Friday at $281.04. This was up from $269.66 the previous week and the highest since January 10. The cutout was up $1.26 at mid-session yesterday and closed $1.85 higher at $282.89. This was up from $269.95 the previous week. This was the highest the cutout had been since January 10. Cash live cattle trade was quiet on Monday with no trades reported. The five-day weighted average steer price last week was $161.17, up from $159.62 the previous week and $142.36 a year ago.

The estimated average dressed cattle weight last week was 827 pounds, unchanged from 827 the previous week and down from 840 a year ago. The 5-year average weight for that week is 830.4 pounds. The low weight is a supportive factor. The market is consolidating as a way to correct the still overbought condition of the market. US beef export sales last week hit the highest level since May 5. Sales have picked up recently, with three of the past four weeks coming in above 25,000. Prior to this, you have to go back to July to see weekly sales this high. South Korea has the most commitments for 2023 at 76,252 tonnes, followed by Japan at 62,147 and China at 49,536. The USDA estimated cattle slaughter came in at 121,000 head Friday and 7,000 head for Saturday. This brought the total for last week to 627,000 head, down from 630,000 the previous week and down from 670,000 a year ago. The USDA estimated cattle slaughter came in at 104,000 head yesterday. This was down from 126,000 last week and down from 110,000 a year ago.

COCOA:

May cocoa’s rally last week took the market well above its previous contract high from February 2022. While it is technically overbought and vulnerable to a near-term pullback, near-term supply issues will continue to underpin cocoa prices this week. May cocoa continued to build onto early support as it reached a new 2023 high before finishing Friday’s trading session with a moderate gain and a fifth positive daily result in a row. For the week, May cocoa finished with a gain of 165 points (up 6.3%) which broke a 2-week losing streak. Market concern that several Ivory Coast firms may default on export contracts were given added weight by comments by an official from that nation’s Coffee and Cocoa Board late last week. In contrast to previous exporter defaults due to a lack of financing, this current threat is due to unusually tight near-term cocoa bean supplies.

The latest weekly Ivory Coast port arrivals reading came in well below the comparable total last year. As a result, the full-season Ivory Coast port arrivals total is now minimally behind last season's pace. Recent weather has improved the prospects for West Africa's mid-crop production, but there will not be large port arrivals until early April. There was a positive shift in global risk sentiment going into the holiday weekend which provided an additional source of support to cocoa prices and continued to fuel this current rally. While they have fallen back in recent months, inflation levels in many developed economies are still at fairly high levels which will negatively impact demand for discretionary items such as chocolates.

COFFEE:

Coffee prices continue to face near-term demand concerns that may be given added strength from this week's economic data in Europe and the US. With the market seeing evidence of tighter near-term supply, however, coffee should hold its ground above its early February high. May coffee Coffee prices shook off early pressure and reached a 3 1/2 month high before finishing Friday's trading session with a sizable gain. For the week, May coffee finished with a gain of 11.10 cents (up 6.3%) which was a fifth positive weekly result in a row. ICE exchange coffee stocks fell by 8,374 bags on Friday, which was their seventh daily decline in a row. ICE exchange coffee stocks are now than 29,000 bags below their January month-end total with no coffee waiting to be graded, which increases the likelihood of their first monthly decline since October.

A more than 1% rebound in the Brazilian currency provided coffee with additional support as that eases pressure on Brazil's farmer to market their remaining coffee supply. Safras and Mercado said that Brazil's coffee farmers had sold 78% of this season's crop by last Wednesday, which compares to 86% at that point last year and a longer-term average of 81% on that data. Starting today, Brazil's major Arabica growing region have heavy rainfall each day in the forecast through the end of February. While that will provide some relief from the drier than normal conditions seen during the La Nina weather event, it will also delay the use of fertilizers and pesticides and could also result in damage to coffee trees.

COTTON:

The cotton market is following the grains early this week as traders see the break last week as too far, too fast. The longer-term demand fundamentals still look negative but short-term demand factors are positive and the outlook for a sharp drop in planted area may help support. However, traders see a jump in production even if planting drops. From a Bloomberg survey, traders expect cotton planted area near 11.4 million acres, 10.0-13.5 range, as compared with 13.8 million acres last year. Production is expected near 16 million bales, 14.0-19.0 range, as compared with 14.7 million this year. Ending stocks are expected near 4.7 million bales, 2.9-6.4 range, as compared with 4.3 million this year.

The weekly export sales on Thursday came in at 216,900 running bales (RB) of cotton for 2022/2023 versus a marketing year high of 262,800 bales last week. May cotton closed at its lowest level since January 4 on Friday, following steep declines last week. The dollar index traded to its highest level since January 6 on Friday, which makes cotton less competitive on the world market. Crude Oil and stock markets fell sharply late last week. Demand concerns due to the current situation in Turkey after the earthquake is also weighing on cotton prices, analysts said. Turkey is one of the big buyers of U.S. cotton.

SUGAR:

The sugar market continues to receive bullish supply updates from India which may be heading towards a sizable production decline from last season. Sugar prices remain well below their early February highs, however, and are vulnerable to a downside breakout from their recent consolidation zone. May sugar continued to see coiling action as it found early support before turning back to the downside late in the day to finish Friday's trading session with a modest gain. For the week, however, May sugar finished with a loss of 24 ticks (down 1.2%) for a first negative weekly result since early January. A sizable rebound in the Brazilian currency provided sugar prices with early carryover support as that eases pressure on mills to produce sugar for export.

Crude oil and RBOB gasoline both dropped sharply to 1 ½-week lows, however, which may weaken near-term ethanol demand and pressured the sugar market. The India Sugar Mills Association said that their nation's sugar production is running 5.4% ahead of last season's pace. There are indications that cane in the Indian states of Maharashtra and Karnataka is maturing early, which will significantly reduce their sugar yields. Many analysts have downwardly revised their forecasts for India's 2022/23 sugar production, with some estimates falling below 33 million tonnes which compares to the record high 35.8 million tonnes produced last season. As a result, India's government is increasingly likely not to allow any further sugar exports beyond the 6.1 million tonnes in their first export tranche.