ADM Investor Services, Inc.

Weekly Futures Market Summary

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

BONDS:

In retrospect we see the recovery bounce in US treasuries last Friday as primarily technical short covering and to a lesser degree a pause in bearish fundamental news flow. In fact, US economic data was generally supportive of growth and indicative of softer inflation than the prior month. However, the ISM services prices paid reading remains at levels concerning to the Fed and a persistent shift back toward a jumbo rate by the Fed later this month could make the 122-00 level in June bonds solid fundamental value. Furthermore, after a 12-day slide in bond prices, a noted corrective bounce is to be expected.

With a strong range up extension of last Friday's recovery, June bond prices early this week sit 3 full points above last week's lows! Surprisingly, the significant gains in bond prices have not been generated by anxiety flowing from declining global equities. However, with the most recent COT report in bonds showing a reduction in the net spec and fund long, it appears the mid-to-late February washout saw shorts beginning to bank profits on the slide below 126-00 (starting on February 22nd and bottoming on March 1st) with open interest from that key pivot zone declining 100,000 contracts. The Commitments of Traders report for the week ending February 7th showed Bonds Non-Commercial & Non-Reportable traders reduced their net short position by 19,744 contracts to a net short 153,334 contracts.

In fact, June bonds from the last COT report into the low last week declined by nearly 7 1/2 points potentially putting bonds the shortest since April 2021. Furthermore, with the decline in treasury notes from the last COT positioning report nearly 3 points, the net spec and fund short in treasury notes was likely near the largest level since late 2018 last week. For T-Notes Non-Commercial & Non-Reportable traders are net short 588,215 contracts after net selling 44,867 contracts. With the initial upward track and expectations for US factory orders to contract significantly from the previous month's surprise gain bonds may have little resistance until a past double top at 126-18.

CURRENCIES:

While the magnitude of last week’s decline was played up by financial press outlets to be a significant development, the charts this week were more consolidated than directional. Nonetheless, dollar bulls should be very disappointed with the action in the dollar this week following several positive readings from the jobs front (especially ahead of next week's monthly payroll readings) and with some signs of lingering inflation. With the dollar range very narrow at the start of this week, and that action following directionless trade over the prior 7 trading sessions, the currency markets start the new week without a definitive leadership currency. With US factory orders slightly beating expectations, that could set the dollar up for a test of last week's low. The Commitments of Traders report for the week ending February 7th showed

Dollar Non-Commercial & Non-Reportable traders are net long 15,505 contracts after net selling 4,273 contracts.

Seeing the euro tracking positive early this week in the wake of indecision in the dollar trade is not surprising and perhaps not a reliable indicator of more euro gains straight ahead. In fact, euro zone Sentix Investor Confidence readings for March weakened significantly with overall Euro zone retail sales for February coming in with one third less than expected gains. Fortunately for the bull camp a lack of leadership throughout the markets might allow minimally bullish euro charts to feed the euro toward close resistance. The Commitments of Traders report for the week ending February 7th showed Euro Non-Commercial & Non-Reportable traders added 4,861 contracts to their already long position and are now net long 236,411.

With the Yen touching the downtrend channel resistance line from the early February highs and falling back, the currency probably corrected the oversold condition into last week's low. Given confusion, uncertainty, and the lack of market experience with new Japanese central bank leadership we are not inclined to chase the Yen higher with buy orders. While it is difficult to know for sure, the strong range up extension in the Swiss franc early this week might have been attributable to ongoing hot Swiss consumer price inflation readings. In fact, Swiss year-over-year CPI expanded over the prior month and a win by default rally to downtrend channel resistance might be ahead but might also be a fresh short entry price tomorrow.

With the Pound near a critical downtrend channel resistance line, upside action might be limited. However, a much stronger than expected UK construction PMI for February jumped very aggressively and that should provide fresh fundamental support for the currency. Furthermore, the UK also posted a significant 26% year-over-year jump in UK car registrations and that should add significant fundamental support in the Pound. After the upside spike high reversal last Friday the 3-day recovery effort in the Canadian dollar appears to have stalled. A limiting force for the Canadian are strong statements from the Bank of Canada indicating they will hold key interest rates at 4.5% for the rest of this year!

STOCKS:

Apparently US equity markets benefited more than expected from positive global equity market tailwinds late last week, However, US scheduled data was seen by some economists as “Goldilocks” readings as in ISM services prices paid measure fell relative to the prior month and US ISM services employment index was strong providing hope that this week's monthly national jobs reading would be positive. Global equity markets generated more gains than losers at the start of this week with the Chinese markets and the FTSE 100 posting half percent declines.

With a higher high for the move, the S&P has forged a very significant recovery bounce from last week's lows and that has given investors initial hope that the markets have forged an early March value zone level capable of supporting prices ahead. While not likely a major impact on prices, seeing US factory orders decline could knock stock prices back from early gains. However, a slightly more bearish development (made more important by the recent jump in treasury yields) an investment fund over the weekend has indicated their focus of a new fund will be less dependent on equities!

As indicated already, the June S&P early this week was 67 points above last Friday's spike low reversal and could be poised to regain the 4,100 level. In retrospect, the sharp recovery in S&P prices after last week's increased concern of rate hike inspired slowing could suggest last week's low are fundamental in nature. In fact, the last COT positioning report available was calculated with the market 116 points higher than this morning's trade, thereby indicating the S&P net spec and fund short is likely understated. The Commitments of Traders report for the week ending February 7th showed E-Mini S&P Non-Commercial & Non-Reportable traders were net short 190,170 contracts after decreasing their short position by 21,622 contracts.

The Dow managed a higher high for the move despite generally bearish analyst weekend business program coverage with some analysts warning that defensive stocks may offer little protection ahead. Perhaps Ford shares will derive some support from news last week that February new vehicle sales were the 3rd highest since January 2022. The Dow might also garner some support from a weekend story touting Ford's increased marketing of data generated by trucks and vans in Europe. As in other stock index markets, the Dow futures remain net spec and fund short with those net spec short readings likely dramatically understated into last week's low.

The February 7th Commitments of Traders report showed Dow Jones $5 Non-Commercial & Non-Reportable traders reduced their net short position by 3,739 contracts to a net short 8,342 contracts. Seeing the NASDAQ post an upside new high for the move extension this morning, following news of price reductions in key Tesla models indicates the market is leaning bullish to start. However, chip sector maneuvering by both China and the US governments should keep tech sector investors cautious. The Commitments of Traders report for the week ending February 7th showed Nasdaq Mini Non-Commercial & Non-Reportable traders were net short 31,603 contracts after decreasing their short position by 2,570 contracts.

GOLD, SILVER & PLATINUM:

While the initial high in April gold early this week failed to take out the Friday high, prices remain significantly above last week's low and near the highest level since February 15th. Both gold and silver could have been undermined because of the Peoples National Congress meeting in China failed to present a major stimulus package. While there was a lack of definitive flows in gold ETF holdings last week, holdings increased by 49,406 ounces, while silver ETF holdings increased by 998,372 ounces. In a negative overnight psychological headline, gold demand was questioned by a survey in India which indicated 65% of Indian women think housing investments are more important than gold investments. In retrospect, gold and silver bulls were extremely fortunate last week that bearish outside market influences did not send prices reeling to the downside.

In fact, the gold market showed extremely impressive strength in the face of growing interest rate adversity and recent signs of a deterioration in investment interest. However, evidence of very strong buying from the Turkish central bank and news from the IMF that global central bankers purchased record gold for reserves last year should provide gold with a strong injection of important internal fundamental support. In other words, gold may be less of a hostage to fluctuations in the dollar and perhaps even less sensitive to further gains in US interest rates. While a very unlikely development at present, market chatter suggesting rate hikes are not containing inflation could be a "switch" capable of turning on classic inflation, speculation and flight to quality buying of gold.

Unfortunately for the bull camp, the sharp range up rally in gold at the end of last week was done on very low trading volume and a very minimal uptick in open interest. While the COT reports continue to be delayed by several weeks, the most recent positioning report showed gold reducing its net spec and fund long further from the 2023 highs and with the market at last week's lows $75 per ounce below the level where the report was measured the net spec and fund long in gold is probably the lowest in 4 months. Gold positioning in the Commitments of Traders for the week ending February 7th showed Managed Money traders net sold 32,701 contracts and are now net long 78,839 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 37,075 contracts to a net long 172,696 contracts.

The silver market action has been significantly less impressive than gold action since the late February low, but the bull camp has regained a slight edge. Unfortunately for the bull camp, the large range up move last week was forged on softening trading volume and declining open interest. However, silver ETF holdings remain 1.7% higher year-to-date and have seen a developing pattern of very large daily holdings change, potentially indicating increased investor activity or simple attention to the asset class. While the most recent COT positioning report remains outdated because of technical issues, the latest net spec and fund long in silver adjusted for the post report slide of $1.90 should put the net spec and fund long near the lowest level since early December. Silver positioning in the Commitments of Traders for the week ending February 7th showed Managed Money traders were net long 6,064 contracts after decreasing their long position by 18,782 contracts. Non-Commercial & Non-Reportable traders net sold 13,620 contracts and are now net long 29,878 contracts.

While a portion of the gains off the late February low in platinum were likely classic short covering from the sharp January through February high to low slide of $217, the platinum market is very likely benefiting from persistent improvement in Chinese economic expectations. Looking back on February US new vehicle sales were 14.88 million annualized units versus 15.87 million annualized units in January, but the February reading was still the highest since January 2022. While the magnitude of the inflows to platinum ETF holdings last week was modest at 14,304 ounces, those holdings remain 2.3% higher year-to-date. In other words, investors could be tip toeing into platinum as a long-term investment. As in other markets, the COT report in platinum remains a full month behind schedule due to mechanical issues and with the market following the latest report declining $83, the net spec and fund long probably reached the lowest level since October 2022 into the February low. Platinum positioning in the Commitments of Traders for the week ending February 7th showed Managed Money traders net sold 6,302 contracts and are now net long 1,062 contracts. Non-Commercial & Non-Reportable traders net sold 5,641 contracts and are now net long 16,587 contracts.

The most positive thing that can be said about the palladium market is the capacity to reject last week's spike low and began to build consolidation around the $1,400 level on the charts. However, a close second bullish issue is the fact that palladium ETF holdings have posted the largest year-to-date gain of precious metal market ETF instruments this year with a gain of 13%! Relatively speaking, seeing palladium ETF holdings increase last week by 32,087 ounces should foster positive views toward future investment demand. Another supportive condition is the likelihood that the palladium market into the February low posted a fresh record net spec and fund short with the market from the last COT positioning report mark off falling $313. The February 7th Commitments of Traders report showed Palladium Managed Money traders are net short 3,567 contracts after net buying 44 contracts. Non-Commercial & Non-Reportable traders were net short 4,378 contracts after decreasing their short position by 254 contracts.

COPPER:

With the copper market finishing last week on a back foot and sitting $0.15 below the high of the week early this week, the market does not appear to be impressed with Chinese growth projections from a national party meeting. Not surprisingly, talk of improving Chinese economic conditions has lost its directly positive impact on copper prices. In fact, copper failed to benefit from a trend reversing decline in weekly Shanghai copper warehouse stocks last Friday of 11,475 tons. However, the moderate decline last week followed nearly 2 months of extremely large weekly inflows.

The bull camp should also be discouraged following a lack of significant strength in copper prices following a very favorable Caixin manufacturing data report released last week. Looking ahead there will be Chinese inflation readings late this week but those figures are unlikely to have as much impact as CPI readings from other countries. The February 7th Commitments of Traders report showed Copper Managed Money traders net sold 23,609 contracts and are now net long 16,974 contracts. Non-Commercial & Non-Reportable traders are net long 9,864 contracts after net selling of 15,517 contracts.

ENERGY COMPLEX:

Not surprisingly, crude oil prices have started off under noted pressure today following disappointing Chinese growth projections from a National Party Congress. With the Chinese planning conference projecting growth at only 5% in the kickoff to its annual government meeting, targeting growth significantly below the growth expected in India, the intensive focus on Chinese demand could be moderated. On the other hand, the Saudis have increased their oil prices to Asia more significantly than in other areas. Apparently, energy demand concerns are also being raised by expectations of hawkish US Fed reserve testimony tomorrow. Fortunately for the bull camp weekly crude oil in floating storage declined by 6.1% but support from that news is mitigated from significant gains in storage in Asian-Pacific and European facilities.

With strong China economic data released early last week, (the extremely strong Chinese service sector reading for February was the strongest in 6 months) that should extend demand optimism ahead. From the most recent COT positioning report, into the low at the end of February crude oil prices declined nearly $4.00, likely putting the net spec and fund long in crude oil near 5-year lows. The February 7th Commitments of Traders report showed Crude Oil Managed Money traders were net long 174,615 contracts after decreasing their long position by 9,873 contracts. Non-Commercial & Non-Reportable traders' net longs were 288,552 contracts after decreasing their long position by 15,478 contracts. Therefore, the crude oil market retains a moderately large amount of net spec and fund buying fuel on the sidelines. In fact, the net spec and fund long adjusted into the February washout low was probably roughly half of the level seen in June last year!

While the EIA has explained some of the significant jump in US oil inventories recently as balancing of crude blending, and recent underreporting, it is clear the US internal supply will keep headwinds blowing against WTI prices. Fortunately for the bull camp, the US oil rig count declined by 8 rigs in the most recent Baker Hughes count putting activity at the lowest level since last September. Another bullish development likely to bring support into this week are rumors last week of the UAE exiting OPEC which would certainly reduce the cartel's capacity to support prices. On the other hand, if the UAE simply wants production autonomy, that could result in a steady increase in their output. While Chinese demand will continue to be the primary daily driving force for energy prices, Indian economic news, global equity market action and upcoming global inflation/jobs data will grow in importance throughout the week until jobs data on Friday.

Like the crude oil market, the gasoline market surprised the trade with a sharp large range up extension last Friday with optimism once again originating from Chinese economic growth expectations. However, seasonal readings also project improvement in US implied gasoline demand ahead and improved demand could also be accentuated by recent mild temperatures. In fact, last week was the 2nd week in a row where US implied gasoline demand registered levels above the previous year. Furthermore, EIA gasoline stocks remain at a moderate deficit over year ago levels of 6.8 million barrels despite all other major EIA inventory readings showing year-over-year surplus readings. However, despite recent strength in US gasoline exports, traders suggest dollar gains are beginning to threaten the attractiveness of US products to global customers. While the latest Chinese road congestion readings softened a bit, the Caixin manufacturing index last week reached the highest level since 2012 suggesting an upward trend in Chinese road congestion should be expected. The February 7th Commitments of Traders report showed Gas (RBOB) Managed Money traders net sold 10,286 contracts and are now net long 57,964 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 7,421 contracts to a net long 72,872 contracts.

While the diesel market managed to forge a higher high for the move last Friday, it continues to lag crude oil and gasoline which is not surprising considering strong possibilities that the northern hemisphere winter will end up consuming very little heating oil. Fortunately for the bull camp jet fuel consumption continues to rise, but total US implied distillate demand continues to run significantly below year ago and 5-year average levels. With diesel prices $0.06 above the level where the most recent COT report was measured, the net spec and fund long basically sit in the middle of the range of net long positioning seen since August of last year. The Commitments of Traders report for the week ending February 7th showed Heating Oil Managed Money traders net sold 9,236 contracts and are now net long 13,473 contracts. Non-Commercial & Non-Reportable traders were net long 31,128 contracts after decreasing their long position by 14,364 contracts.

With some signs of slower industrial activity in Europe, a slight downward adjustment in Chinese growth forecasts, further builds in US EIA gas inventory storage levels last week and mild temperatures on both sides of the Atlantic, the corrective reversal this morning could gather momentum. However, a cold snap has impacted UK to EU gas flows temporarily. Even though there has been significant Press coverage of the reopening of the Freeport, Texas LNG export facility, those flows have not prevented EIA working gas in storage to build to a large surplus of 19.3% above the five-year average! As indicated, a large portion of the last several weeks buying was likely short covering/profit-taking especially with open interest and trading volume declining on the late February early March rally in prices.

The Commitments of Traders report for the week ending February 7th showed Natural Gas Managed Money traders were net short 70,337 contracts after decreasing their short position by 12,892 contracts. Non-Commercial & Non-Reportable traders net sold 5,389 contracts and are now net short 139,710 contracts. At this point, we do not see fundamental justification for the recent upside action in natural gas prices and therefore the setback today is not surprising. In fact, mixed cold and mild temperature forecasts project average consumption and gas flows from Russia through Ukraine continues at a normal pace. In the past, the $3.00 level was a key value zone (in 2021) but the aggressive rejection of that level last week and initial sharp weakness this morning now projects prices back down to $2.50.

BEANS:

May soybeans closed moderately higher on the session last Friday and the market has already bounced as much as 47 1/4 cents from last week's low. On the other hand, the market failed to close above 1522 1/4 which might be considered a slight negative. Traders expect further losses out of Argentina due to recent weather, and this might support nearby meal prices, but the market still faces record production from Brazil and a record soybean crop from the US this summer. Traders believe the Brazil crop is near 43% harvested from near 55% last year. The portion of the Argentina crop rated poor or very poor increased to 67% from 56% two weeks prior.

The Buenos Aires Grain Exchange is expected to lower its forecast from the current 33.5 million tonnes, which itself is down from 48 million tonnes at the beginning of the season. For the USDA supply/demand report this week, traders see the Argentina crop near 36.8 million tonnes, 32-40 range, as compared with 41 million tonnes last month. Traders see Brazil production near 153 million tonnes, 151-154.7 range, as compared with 153 million tonnes in the February estimate. Traders see US ending stocks near 221 million bushels, 200-250 range, as compared with 225 million bushels in February. World ending stocks are expected near 100 million tonnes, 99-101.9 range, as compared with 102 million in the February update.

Soybeans positioning in the Commitments of Traders for the week ending February 7th (one month old) showed Managed Money traders reduced their net long position by 10,429 contracts to a net long 165,075 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 9,832 contracts to a net long 126,089 contracts. For Oil, Managed Money traders reduced their net long position by 8,729 contracts to a net long 22,495 contracts. For meal, Managed Money traders are net long 142,710 contracts after net buying 1,767 contracts.

CORN:

May corn closed moderately higher on the session Friday and the buying pushed the market up to a three session high. However, the market closed 9 1/2 cents lower on the week. Talk of the oversold condition of the market and a strong advance for meal and soybeans helped to support. In addition, weakness in the

US dollar and strength in metal markets and energy markets helped to support. Brazil has enabled 90 companies to export corn to China in the first two months of the year, the agriculture ministry. The total number of companies that have clearance was raised to 446. The outlook for a record corn crop could allow Brazil to surpass the US as world's top corn shipper.

The weekly export sales report showed that cumulative sales have reached just 59.8% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 72.8% sold. Traders will monitor the USDA supply/demand report this week closely, with a special emphasis on the size of the Argentina corn crop. Traders see Argentina corn production near 43.5 million tonnes, 41-46 range, as compared with 47 million tonnes in the February USDA update. Brazil corn production is expected near 125.1 million tonnes, 122.0-130.6 range, as compared with 125.0 million tonnes for the February update.

Traders see ending stocks coming in near 1.303 billion bushels, 1.267-1.335 range, as compared with 1.267 billion bushels in the February update. World ending stocks are expected near 293.2 million tonnes, 287-297 range, as compared with 295.3 million tonnes as the February update. The Commitments of Traders report for the week ending February 7th (one month old) showed Corn Managed Money traders reduced their net long position by 17,906 contracts to a net long 202,018 contracts. Non-Commercial & Non-Reportable traders net sold 20,357 contracts and are now net long 181,193 contracts.

WHEAT:

The wheat market remains in a deeply oversold condition but there is still no technical sign of a low, and the market lacks the type of fundamental news which might spark short covering. The USDA supply/demand report does not seem to have the type of data which could spark a significant rally. Traders see US ending stocks near 574 million bushels, 557-612 range, as compared with 568 million bushels last month. Traders see world wheat ending stocks near 269.3 million tonnes, 267.0-271.3 range, as compared with 269.3 million tonnes in the February update. May wheat closed slightly lower on the session Friday with a fairly small range and this left the market with a loss of 12 1/2 cents for the week. Talk of the oversold condition of the market helped to spark an early bounce but even with a positive tilt to outside market forces, the market closed lower.

Weakness in the US dollar plus strength in energy and metal markets were seen as positive forces but talk that the Ukraine crop was better than expected helped to pressure. In addition, US weather looks wet and could help ease drought concerns. Wheat positioning in the Commitments of Traders for the week ending February 7th (one month old) showed Managed Money traders added 7,763 contracts to their already short position and are now net short 71,391. This is a hefty net short position. Non-Commercial & Non-Reportable traders were net short 50,884 contracts after increasing their already short position by 9,671 contracts. For KC Wheat, Managed Money traders added 2,443 contracts to their already long position and are now net long 3,782. Non-Commercial & Non-Reportable traders were net short 436 contracts after decreasing their short position by 4,269 contracts.

HOGS:

April Lean Hogs remain in a downtrend with the potential for more downside ahead. They continue to carry a higher-than-normal premium to the cash market while the supply fundamentals suggest they should hold a smaller than normal premium or no premium at all. US pork production in the first quarter is expected to come in 1.5% higher than last year. It is also expected to be 91 million pounds higher than the fourth quarter of 2022. Pork production normally declines 100-300 million pounds during this time of year. This year will be only the second time production has increased in the first quarter since 1976. In other years when production has increased or declined only slightly, futures markets have tended to move lower.

April hogs closed higher on the session Friday as the break to the lowest level since February 10 failed to attract new buying interest. The USDA pork cutout, released after the close Friday, came in at $84.14, down 40 cents from Thursday and down from $84.16 the previous week. The CME Lean Hog Index as of March 1 was 78.65, up from 78.58 the previous session and 77.73 the previous week. The USDA estimated hog slaughter came in at 475,000 head Friday and 124,000 head for Saturday. This brought the total for last week to 2.520 million head, up from 2.375 million the previous week and up from 2.419 million a year ago.

Estimated US pork production last week was 545.3 million pounds, up from 514.5 the previous week and up from 543.2 a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 4,053 contracts of lean hogs for the week ending February 7, increasing their net short to 11,918. This was their largest net short since July 2019 and would be considered oversold. The record net short is 20,278 from July 2007. April hogs put in a low at 81.27 on February 7 and subsequently rallied to 89.87 by February 21 before settling back to 84.50 last Friday. This suggests that the net short position has shrunk since the COT data was collected.

CATTLE:

The cattle market seemed to have the demand export news to turn down late last week but the technical action is positive. Brazil's agriculture ministry said that the World Organization for Animal Health confirmed that a case of mad cow disease was deemed "atypical," according to a statement. Atypical means the disease was found to occur naturally in a single animal that is nine years old with all health measures applied, and this could cause a quick recovery in Brazil exports to China. April cattle closed sharply higher on the session Friday and even took out Thursday's high. Ideas that the beef market and the cash market remain in a steady uptrend, plus talk that beef production is still coming in well below last year are factors which helped to support. The steady rise in open interest would suggest that long liquidation is a threat but not ongoing.

The USDA boxed beef cutout was up $1.58 at mid-session Friday and closed 82 cents higher at $289.32. This was up from $287.28 the previous week and was the highest it had been since January 31, 2022. Cash live cattle traded in heavy volume on Friday, with 13,905 head reported in Kansas at $165-$167.50 and an average of $165.01. There were 4,172 reported in Nebraska at $165-$165.50 with an average of $165.04. As of Friday afternoon, the five-day, five-area weighted average prices was $164.93, up from $163.67 the previous week. The USDA estimated cattle slaughter came in at 117,000 head Friday and 11,000 head for Saturday. This brought the total for last week to 629,000 head, up from 618,000 the previous week but down from 659,000 a year ago.

The estimated average dressed cattle weight last week was 826 pounds, up from 827 the previous week but down from 843 a year ago. The 5-year average weight for that week is 827.8 pounds. Estimated beef production last week was 518.4 million pounds, down 5.2% from last year. Friday's Commitments of Traders report showed managed money traders were net buyers of 7,777 contracts of cattle for the week ending February 7, increasing their net long to 95,610. This is their largest net long since May 2019. The record net long is 153,000 from April that year. As of Friday, April Cattle were about 2.00 higher than they were on February 7, suggesting the current net long is even larger.

COCOA:

While the cocoa market lost more than 80 points in value over the past 2 sessions (down 2.8%), it held above its late February lows and avoided a negative weekly key reversal. If global risk sentiment and key outside markets continue to improve, cocoa may be able to regain upside momentum early this week. May cocoa remained on the defensive as it reached a new monthly low before finishing Friday’s trading session with a second sizable daily loss in a row. For the week, however, May cocoa finished with a gain of 12 points (down 0.4%) which was a second positive weekly result over the past 3 weeks.

Updated forecasts call for daily rainfall over West African growing areas through the end of next week may signal the finish for the region's dry season, which pressured cocoa prices going into the weekend. Recent inflation readings in Europe and North American remain at historically high levels, which may diminish demand for discretionary items such as chocolate and continue to weigh on cocoa prices. Although Ivory Coast and Ghana are both expected to have increased production this season, Ivory Coast port arrivals are running behind last season's pace.

While part of that deficit is due to more beans being processed by domestic grinders, a portion of this season's production has been smuggled to Ghana due to higher farmgate prices. The February 7th Commitments of Traders report showed Cocoa Managed Money traders are net long 493 contracts after net selling 3,238 contracts. CIT traders reduced their net long position by 6,300 contracts to a net long 16,695 contracts. Non-Commercial No CIT traders net bought 5,855 contracts which moved them from a net short to a net long position of 3,131 contracts. Non-Commercial & Non-Reportable traders are net long 11,877 contracts after net selling 733 contracts.

COFFEE:

Coffee prices have lost 15.5 cents in value (down 8%) during the past 7 sessions as market concern over Brazil's upcoming crop have eased. While there may be some improvement on the demand front, coffee is likely to extend this current pullback early this week. May coffee was unable to shake off early pressure and fell to a 2-week low before finishing Friday's trading session with a sizable loss. For the week, May coffee finished with a loss of 9.85 cents (down 6.2%) which broke a 6-week winning streak. There is a wide range of forecasts for Brazil's 2023/24 Arabica production, but improved weather since the start of this year have led to a growing consensus of opinion that Brazil will avoid the normal output decline that occurs with an "off-year" crop.

A significant increase in Central American coffee exports since the start of this year continues to pressure coffee prices. Indications that Brazil's 2022 consumption fell 1% from the previous year was further evidence of demand issues that continue to weigh on coffee prices. ICE exchange coffee stocks fell by 12,075 bags on Friday and are at their lowest levels for 2023 so far. There has not been any grading of coffee for several sessions, however, and there were more than 53,000 bags waiting to go through the ICE exchange warehouse grading process.

The February 7th Commitments of Traders report showed Coffee Managed Money traders reduced their net short position by 5,417 contracts to a net short 7,003 contracts. CIT traders net bought 1,188 contracts and are now net long 52,596 contracts. Non-Commercial No CIT traders are net short 16,346 contracts after net buying 3,742 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 1,643 contracts to a net short 4,485 contracts.

COTTON:

May cotton closed moderately higher on Friday but down 73 for the week. The dollar was lower, and the stock market and crude oil were higher on Friday, all of which was supportive to cotton. The trade was disappointed with last week's export sales report, which showed net sales of 267,823 bales for the week ending February 23, down from 437,202 the previous week. To keep things in perspective, the previous week's number was the highest since last May, and last week's number was the second highest since September. For this week's USDA supply/demand report, the average trade expectation for US 2022/23 ending stocks is 4.26 million bales, with a range of expectations from 4.05 to 4.50 million. This would be down from 4.30 million in the February update.

World ending stocks are expected to come in around 89.07 million bales (range 88.37-90.00) versus 89.08 million in February. Friday's Commitments of Traders report showed managed money traders were net sellers of 5,869 contracts of cotton for the week ending February 7, reducing their net long to 2,354. This is about as close to flat as you can get. The record net long is 108,778 from January 2018, and the record net short is 47,428 from September 2019. May cotton is currently trading about 3.00 lower than where it was on February 7, which is not a big change. This suggests the net position has not changed very much since then.

SUGAR:

Sugar prices have been unable to shake off recent whipsaw price action, but finished last week with an upside breakout to a new 6-year high. If near-term supply remains tight, sugar extend this current rally further into new high ground. May sugar extended their coiling two-side action by building on early strength and reaching a new 6-year high before finishing Friday's trading session with a very large gain. For the week, May sugar finished with a gain of 125 ticks (up 6.4%) which broke a 2-week losing streak and was the largest weekly gain by the May contract.

The India Sugar Mills Association (ISMA) reported that their nation's 2022/23 sugar production through the end of February was only 1.8% ahead of last season's pace, and also reported that there were 467 mills processing cane on February 28th versus 484 on that date last year. This followed reports last week that more than two dozen mills in India's top-producing state of Maharashtra had already finished their operations for the season by February 28th. If more mills finish their operations due to a lack of cane to crush, India's 2022/23 output is more likely to come in below last season's production total.

Indonesia ordered 2 state-owned food companies to import 215,000 tonnes of white sugar through the end of May to control rising food costs. The February 7th Commitments of Traders report showed Sugar Managed Money traders were net long 224,202 contracts after decreasing their long position by 15,810 contracts. CIT traders were net long 188,327 contracts after increasing their already long position by 9,915 contracts. Non-Commercial No CIT traders net sold 13,326 contracts and are now net long 158,646 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 13,186 contracts to a net long 287,841 contracts.

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