ADM Investor Services, Inc.

Weekly Futures Market Summary

July 17, 2023 **by the ADMIS Research Team**

BONDS:

The treasury markets added to last week's impressive rally with a higher high in treasuries last Friday before prices fell back in what we think was a profit-taking wave. However, treasury bonds rallied over 4 points last week in a move that was largely justified by several reports highlighting progress on the inflation battle. It should also be noted that demand for supply from this week's treasury note auction was extremely strong suggesting bonds are once again in favor. Despite an initial lower low, treasury bond prices look to be supported by evidence of inflows to US and global bond funds, with global bond funds seeing a 3rd straight week of inflows.

US bond funds saw a 2nd consecutive weekly inflow signaling investors are now downplaying the threat of interest rate hikes from the US beyond next week. We suspect US treasuries will benefit from disappointing Chinese economic data with a Reuters story labeling China's economy as frail. While not a top-tier data point, the New York Empire State manufacturing survey was expected to show moderate to significant softening which could be accentuated by a risk off vibe in equities. Clearly inflation concerns have moderated and that has reduced the fear of "two" more US rate hikes this year. Recent Fed watch tool probabilities suggest a 96% chance of a rate hike next week with expectations for the upcoming meeting made last month pegging the chances of a hike at only 74.4%.

While treasury bond prices from the last COT report have rallied 2 1/2 points and dramatically reduced the net spec and fund short, we see the potential for additional short covering buying especially if US equities see noted selling later today. The July 11th Commitments of Traders report showed Bonds Non-Commercial & Non-Reportable traders reduced their net short position by 665 contracts to a net short 109,403 contracts. In fact, with the net spec and fund short in treasury notes massive at 693,812 contracts, the note market should have significant short covering buying capacity. The COT report for T-Notes showed Non-Commercial & Non-Reportable traders net short 693,812 contracts after net buying 59,616 contracts.

CURRENCIES:

With the dollar index last Friday falling into new low ground for the 6th day in a row and extending the slide from the July high to nearly 400 points, the slight bounce off the low is likely position squaring ahead of the weekend. However, the US produced a series of inflation readings last week showing progress on the inflation front and that likely has lowered the prospects of 2 additional rate hikes before the end of the year which in turn has caused money to leave the dollar. Despite strong probabilities for a US interest rate hike on July 26th, the dollar remains off balance because of market views that US inflation is coming under control and the US rate hike cycle is likely to come to an end.

In fact, the CME Fed watch tool pegs the probability of a rate hike next week at 96% and recent Fed commentary remains hawkish toward the meeting next week but has also become very dovish regarding additional hikes. Apparently, traders and economists see the US economy slowing and are currently not concerned about growth in the EU faltering. Perhaps the softer Chinese data provided a measure of temporary dollar buying early this week but we are not inclined to suggest the dollar downtrend has ended. The Commitments of Traders report for the week ending July 11th showed Dollar Non-Commercial & Non-Reportable traders reduced their net long position by 3,004 contracts to a net long 13,569 contracts.

While Italian CPI for June was zero and replicated the prior month's zero reading, the euro was able to carve out a higher high early this week. Furthermore, the euro seemed to discount forecasts from the Bundesbank that the German economy will disappoint with sentiment deteriorating because of declining global demand for its goods. However, the bull camp was not deterred by the German central bank prediction that inflation will continue to decline in the coming months. Euro positioning in the Commitments of Traders for the week ending July 11th showed Non-Commercial & Non-Reportable traders net bought 3,901 contracts and are now net long 207,226 contracts.

With the Yen tracking sideways over the prior 3 trading sessions and sitting within that range early today the currency is facing technical and fundamental boundaries. In fact, Japanese June inflation is expected to come in above the central bank's target for the 15th straight month indicating the potential for a significant penalty from unwavering easy money policies. Those expecting gains in nondollar currencies should avoid the Yen given unfavorable risk and reward prospects. While the Swiss franc was significantly overbought from a 6-day 500-point rally and the currency has lost upside momentum, the Swiss franc is likely to forge even higher pricing ahead when the dollar resumes its downward trek.

Like other nondollar currencies, the Pound temporarily lost upside momentum and should be considered temporarily vulnerable to chart balancing selling. Even fundamentals favor the bear camp early with a softening of house prices for sale potentially highlighting economic concern from what was one of the strongest sectors of the GBP economy. In fact, GBP Rightmove house price index readings declined by 0.2% and UK 2-year fixed mortgage rates last week reached the highest levels in 15 years! In retrospect, the Canadian dollar reversal from last week's high appears to be partly the result of a pause in US dollar weakness but also more importantly from growing ideas that the Bank of Canada rate hike cycle could have ended already. It should be noted that the BOC's Macklem said the central bank forecast has pegged Canadian inflation at 3% for most of next year.

STOCKS:

While the equity markets extended last week's rally in Friday’s early trade, the market clearly lost some momentum, especially with the market unable to continue to extend following much better-than-expected large bank profits. Clearly, the banks benefited from increased interest income, but Citigroup failed to match other big bank earnings because of negative trading and increased expenses. It is also likely that the low to high rally this week of 150 points left the S&P short-term bought out. Global equity markets at the start of this week were mostly lower with the lone exception the Russian market. In addition to bearish spillover from international equity markets, the US trade was undermined by a lack of investor optimism and lingering expectations for a US Fed rate hike next week. The markets might also be undermined following comments from Elon Musk indicating Twitter still has negative cash flow and lost 50% of its ad revenues. It should be noted earnings from Tesla, Bank of America, Morgan Stanley, Goldman Sachs, and Netflix are due out this week.

With a lower low early and bearish spillover from international markets, the bear camp has the initial edge. However, we do not detect anxiety or definitively negative sentiment, with the declines so far likely to be simple technical balancing from the aggressive low to high rally of 150 points in the S&P in 4 days last week! Certainly, the COT positioning in the S&P reported on Friday understates the magnitude of the net spec and fund short as the index rallied 88 points after the report was released. However, the net spec and fund short in the S&P remains large which ultimately should favor the bull camp. The July 11th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders net bought 8,376 contracts and are now net short 214,527 contracts.

While higher interest rates have reportedly helped US bank profits, rising interest rates are a drag on companies with large capitalization and debt loads. It should also be noted that the bank news last week suggested slowing in the general economy which could discourage bargain-hunting buying on weakness in the Dow Jones futures index today. However, as in other stock index futures the Dow futures remain heavily net spec and fund short suggesting the mid-July rally has not shifted sentiment definitively bullish yet. Dow Jones $5 positioning in the Commitments of Traders for the week ending July 11th showed Non-Commercial & Non-Reportable traders net sold 7,089 contracts and are now net short 21,325 contracts. With the NASDAQ posting a new high for the move and failure on Friday and the index failing to hold above Friday's low, the market is vulnerable to technical stop loss selling. The Commitments of Traders report for the week ending July 11th showed Nasdaq Mini Non-Commercial & Non-Reportable traders were net long 10,094 contracts after increasing their already long position by 3,933 contracts.

GOLD, SILVER & PLATINUM:

While the initial trade is not definitive, we give the edge to the bear camp as dollar declines are insignificant, treasury prices are up minimally, and many commodities are tracking higher. Fortunately for the bull camp last Friday gold ETF holdings increased by 11,620 ounces breaking a 19-day pattern of outflows. Nonetheless, gold ETF holdings last week still fell by 131,350 ounces and silver ETF holdings declined by 5.4 million ounces. While the Chinese data on its face was not particularly discouraging, the growth rate in China was significantly softer than in the prior quarter with Chinese retail sales posted a gain of 3.1% versus the 12.7% gain in May. In retrospect, last week's rally in gold was undersized considering the magnitude of dollar weakness and the significant moderation of US interest rates.

In fact, at the low last week in the dollar, the currency index from July 6th posted a decline of 400 points with should have ignited gold for a massive rally. However, the silver market appears to be the leadership market indicating precious metals are likely to focus on classic physical commodity market fundamentals associated with the forward view on industrial and investment interest. In the most recent positioning report, the gold market had a net spec and fund long 50,000 contracts below the largest net long COT positioning since May of last year leaving the market vulnerable to stop loss selling on trades below $1,950. Gold positioning in the Commitments of Traders for the week ending July 11th showed Managed Money traders were net long 100,619 contracts after increasing their already long position by 1,414 contracts. Non-Commercial & Non-Reportable traders were net long 190,870 contracts after increasing their already long position by 3,837 contracts.

As indicated already, the silver market clearly outperformed the gold market last week with a low to high rally of $2.31, especially with gold not fully benefiting from a massive slide in the dollar. However, the last COT positioning report showed the net long in silver 18,000 contracts below the recent high and 40,000 contracts under the last 13-month high net spec and fund long reading. The Commitments of Traders report for the week ending July 11th showed Silver Managed Money traders are net long 6,448 contracts after net selling 3,935 contracts. Non-Commercial & Non-Reportable traders added 2,167 contracts to their already long position and are now net long 29,681.

While the platinum market is starting the week off under pressure, the bull camp should be emboldened by the prospect of lower mined production and from a net inflow to platinum ETF holdings last week of 20,203 ounces which puts the year-to-date gain at 7.2%. Fear of softer supply was reiterated from Anglo American Platinum warnings of declines in profits due to the power crisis in South Africa. Apparently, the mining company expects a 20% drop in output. While October platinum last Friday failed to take out the high from last Thursday, the platinum charts have shifted positive with the market managing a gain of

$100 from the late June lows in an environment offering little in the way of favorable demand news. However, platinum probably drafted some lift from weakness in the dollar and because platinum ETF holdings have displayed relatively positive ETF inflows recently. We suspect platinum will trade somewhat in sync with global equities and will see marginal windfalls from further weakness in the dollar. While the last COT positioning report showed a minimal net spec and fund long position, that positioning has likely been inflated by the post COT report rally of $60.

The Commitments of Traders report for the week ending July 11th showed Platinum Managed Money traders are net short 4,278 contracts after net selling 978 contracts. Non-Commercial & Non-Reportable traders were net long 14,001 contracts after increasing their already long position by 605 contracts. As indicated already, China released a flurry of economic data with GDP and retail sales disappointing and that probably prompts some selling of platinum and palladium. Therefore, the palladium market should give back the gains forged last week but given a record net spec and fund short positioning were most likely short covering instead of fresh bargain-hunting buying. The July 11th Commitments of Traders report showed Palladium Managed Money traders hit a new extreme short of 7,892 contracts. Managed Money traders are net short 7,892 contracts after net selling 346 contracts. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 8,853 contracts. Non-Commercial & Non-Reportable traders net sold 405 contracts and are now net short 8,853 contracts.

COPPER:

With the rally last week in copper of $0.11 and disappointing Chinese growth readings early this week, an aggressive correction is not surprising and is likely to extend with a test of $3.80. In fact, the trade continues to be disappointed with the lack of broader-based Chinese stimulus spending on infrastructure. Furthermore, after seeing LME copper warehouse stocks venture near 17 1/2-year lows they have had two days in a row of inflows with total gains of 4,450 tonnes while weekly Shanghai copper stocks last week showed an inflow of 8,052 tonnes. However, a bullish supply-side development from the weekend came from Zambia where their budgeting estimate predicted 2023 copper production to decline from 763,550 tonnes last year to only 682,431 tonnes this year.

From a technical perspective, the rally last week might have burnt excess buying fuel with the hedge funds in the latest positioning report cutting their long position to the lowest level in 5 weeks. On the other hand, the net spec and fund short positioning in copper last week expanded slightly and is at a moderately oversold level which could provide stop loss buying on a trade back above $3.96. The Commitments of Traders report for the week ending July 11th showed Copper Managed Money traders net long 3,787 contracts after net selling 5,309 contracts. Non-Commercial & Non-Reportable traders are net short 8,133 contracts after net selling 856 contracts. However, the copper market will take fresh direction from Chinese GDP, industrial production, and retail sales readings for June which generally disappointed the markets. Therefore, the copper bears look to see an ongoing benefit from soft Chinese data.

ENERGY COMPLEX:

Like global equities and currency markets, the petroleum markets have reversed course in what is likely a technical balancing of very significant late June and early July rally. In fact, the September crude oil contract last Friday stalled at the highest price since April 25th and then finished almost $2 below its early high, therefore, the crude oil market has the appearance of an intermediate top. In retrospect, the petroleum markets have priced in an upbeat energy demand outlook which may overstate current consumption patterns especially given soft Chinese economic data released at the start of this week! The bear tilt is further evidenced by the markets lack of positive reaction to news that crude oil in floating storage declined by 21% over the last week, Saudi Arabian crude exports in May declined by 388,000 barrels per day and following news that Chinese daily oil throughput last month increased.

In a longer-term bullish development, the US Baker Hughes rig drilling count showed crude oil activity down 3 with a total operating level of 537 rigs. The US Permian Basin (the largest sector of drilling activity) showed a decline of 5 rigs and at 337 operating rigs the activity is now far below the record high of 568 rigs. From a technical perspective, the net spec and fund long positioning in crude oil remains very low with the recent net long at the lowest levels since February 2016. The Commitments of Traders report for the week ending July 11th showed Crude Oil Managed Money traders net bought 32,848 contracts and are now net long 128,211 contracts. Non-Commercial & Non-Reportable traders are net long 232,508 contracts after net buying 23,113 contracts.

Furthermore, the precipitous slide in the US dollar should kick up the attractiveness of US supply, especially with global prices reaching the Cap set forth in the sanctions against Russia. Traders are already expecting shipping delays of Russian oil as sellers, shippers, and buyers hesitate from fear of reprisals for paying up for Russian supplies. In conclusion, the trade has factored in a significant improvement in demand from the end of June and last week's EIA report shifted definitively bearish in almost every reading. Therefore, we see the market vulnerable to corrective action unless a global risk on vibe permeates throughout the markets.

In retrospect, we see the range up and reversal action in gasoline last week as a sign of an intermediate top in prices, especially with the low Monday morning resulting in a high to low setback of $0.07. In fact, with a 10-week low in US implied gasoline demand last week, disappointing implied distillate demand and multiple headlines touting a jump in Chinese fuel exports, we see gasoline vulnerable to further corrective action. Granted, US gasoline stocks remain tight with a year-over-year deficit of 5.4 million barrels and refiners are likely to begin pulling back product output in anticipation of the end of the summer driving season (35 days out) therefore, we see the threat of summer tightness in US and European gasoline supplies diminishing.

The Commitments of Traders report for the week ending July 11th showed Gas (RBOB) Managed Money traders were net long 57,455 contracts after increasing their already long position by 11,713 contracts. Non-Commercial & Non-Reportable traders added 7,926 contracts to their already long position and are now net long 62,198. With the diesel market basically dragged higher by the rest of the petroleum complex last week, last week's EIA report showing distillate and diesel stocks up by roughly 5 million barrels and implied distillate demand very soft, we expect a further retrenchment back toward recent consolidation low support. Heating Oil positioning in the Commitments of Traders for the week ending July 11th showed Managed Money traders net bought 4,984 contracts and are now net long 23,968 contracts. Non-Commercial & Non-Reportable traders net bought 6,105 contracts and are now net long 48,282 contracts.

While it took a week's worth of slow grinding losses on the charts, the natural gas trade has embraced the idea that significant natural gas supply tightening in the northern hemisphere cooling season is unlikely to unfold. In fact, natural gas continues to see a steady pattern of injections despite extreme heat in the southern US, the west and in portions of Europe. Certainly, the EIA working gas in storage surplus relative to 5-year average storage levels has continued to shrink but with a surplus of 14.2% versus 5-year average storage levels the US supply condition remains bearish. Last week US output increased with LNG feedstock supply flow to export facilities declining and thereby increasing the prospects of a large storage injection this week.

At least early this week, another extreme heat blast flowing from North Africa into southern Europe has been discounted despite forecasts of record temperatures in areas of Europe and the US West. The net spec and fund short in natural gas has been reduced and given the gradual and uniform slide from the late June high, the net spec and fund short has probably started to expand but is not near oversold levels. The July 11th Commitments of Traders report showed Natural Gas Managed Money traders added 11,065 contracts to their already long position and are now net long 11,538. Non-Commercial & Non-Reportable traders reduced their net short position by 12,521 contracts to a net short 55,737 contracts.

We leave the edge with the bear camp with supply influences negative and US cooling demand settling in at average levels.

BEANS:

In addition to favorable technical action at the start of this week, the trade expects June soybean crush 4.1% higher versus June of last year, there are signs of increased Chinese buying interest in Brazil (and eventually even US beans) and the markets see weekend rainfall totals leaving some areas stressed. Furthermore, the trade expects China to buy more beans from Brazil in the 4th quarter as Chinese buyers fear significantly higher world soybean prices if US crop losses rise further. However, the USDA predicted record soybean yields last week which we think is unlikely. Certainly, the potential reduction in yield is a major issue given the significant reduction in the US planted area.

Unfortunately for the bull camp, the US dollar has stabilized over the last 36 hours of trade and estimated fund buying on Friday was pegged at only 500 contracts. While not a direct support/lift for soybeans, Russia apparently halted the grain shipments deal through the Black Sea corridor. Weekend US rainfall totals were not drought busting, with the past 48 hours showing key areas getting enough precipitation to moderate deterioration and in many areas slightly improve the crop. However, areas of South Dakota, Minnesota, Iowa, and Missouri received scant amounts of rain leaving stress and ongoing concern in those areas.

On the other hand, the 72-day and 120-day precipitation models show significant precipitation falling on the areas missing recent rains and expecting rain on diagonal line from Southeast South Dakota eastern Nebraska, northern Missouri, (heavier in) southern Illinois, southern Indiana, most of Kentucky and the bottom quarter of Ohio. The most important areas to monitor in the crop conditions report later today are Minnesota, Illinois, and Indiana. In retrospect, soybeans forged a very solid higher weekly trade with the market expanding its weather premium. In our estimation the weather premium in soybeans is currently $1.40!

From the demand front, a precipitous slide in the US dollar helps to improve the attractiveness of US soybeans and the market on Friday saw Indian palm oil imports jump 56% from the prior month with imports of soybean oil up 37% and overall Indian vegetable oil imports increasing by 24%. Therefore, the edible oils situation adds fundamental support for soybean prices especially given an expansion in bio diesel mandates last week in Malaysia. As in the corn market, Monday's crop conditions report will focus on those states posting below normal good to excellent ratings and above normal poor to very poor conditions last week. However, we see the soybean crop capable of rebounding significantly compared to the corn crop and see prices at current levels as expensive unless forecast maps turn off dry quickly.

From a positioning perspective, Managed Money in soybeans is somewhat overbought with managed money in soybean oil significantly overbought at 41,919 contracts which is the highest since January! Soybean positioning in the Commitments of Traders for the week ending July 11th showed Managed Money traders were net long 82,748 contracts after decreasing their long position by 6,394 contracts. CIT traders net sold 2,416 contracts and are now net long 143,152 contracts. Non-Commercial No CIT traders were net long 44,854 contracts after decreasing their long position by 1,789 contracts. Non-Commercial & Non-Reportable traders net bought 2,563 contracts and are now net long 74,835 contracts.

The Commitments of Traders report for the week ending July 11th showed Soybean oil Managed Money traders net bought 7,653 contracts and are now net long 49,572 contracts. CIT traders net sold 796 contracts and are now net long 114,203 contracts. Non-Commercial No CIT traders are net long 14,753 contracts after net buying 6,488 contracts. Non-Commercial & Non-Reportable traders were net long 58,668 contracts after increasing their already long position by 9,273 contracts.

The Commitments of Traders report for the week ending July 11th showed Soymeal Managed Money traders were net long 54,199 contracts after increasing their already long position by 1,378 contracts. CIT traders were net long 113,047 contracts after increasing their already long position by 393 contracts. Non-Commercial No CIT traders were net long 52,291 contracts after increasing their already long position by 2,815 contracts. Non-Commercial & Non-Reportable traders net bought 4,468 contracts and are now net long 107,716 contracts.

CORN:

While one can never predict actions of the Russian president, as of this writing Russia has halted the Black Sea shipping deal and has indicated the bridge attack was not a force in their decision. The Russians probably decided to increase pressure on the west following shipments of US cluster bombs to Ukraine and the bridge bombing was simply icing on the cake. The funds have turned bullish toward corn with estimates of 20,500 contracts bought last Thursday and Friday. We continue to be surprised with the rally in corn as the conveyor belt of storms continued over the weekend with some storms projected ahead.

With US corn pollination creeping up from the south, Monday afternoon's crop conditions report will be an important junction as the condition of the crop in high yielding areas just ahead of pollination will be important to ultimate yields. As for the outlook for precipitation, extreme dry areas in southern Illinois, Kentucky and Indiana are expected to receive more than 1 to 1.75 inches of rain this week with other rain totals near 1 inch in northern Missouri, eastern Nebraska, southeast South Dakota, and the lower half of Ohio. However, it should be noted that rain of less than 2 inches over a full week in heavy evaporation and plant needs is not a precursor to significant improvement.

In the end, Monday afternoon's US crop conditions report will set the tone for the week and we expect today's report to define areas with the sharpest yield loss potential. In our opinion, southern Illinois and Indiana will be the trouble spots, but an improvement in those areas would be extremely negative as other areas likely rebounded even more. From the demand side of the equation, the precipitous slide in the dollar last week has reduced US corn prices below Brazilian prices and could approach Argentine corn pricing with more declines.

While the most recent hedge fund short position of 63,052 contracts is probably reduced with the Friday recovery, that short position is joined by a net spec and fund short of similar size leaving the corn market capable of surprise stop loss buying if key levels like $5.20 in the December contract are regained. The Commitments of Traders report for the week ending July 11th showed Corn Managed Money traders added 44,843 contracts to their already short position and are now net short 63,052. CIT traders reduced their net long position by 21,836 contracts to a net long 286,503 contracts. Non-Commercial No CIT traders added 42,141 contracts to their already short position and are now net short 85,795. Non-Commercial & Non-Reportable traders are net short 60,739 contracts after net selling 41,028 contracts.

WHEAT:

Russia's termination of the grain corridor favors the bull camp at the start of this week’s trading. Overland routes and the Danube River will now be Ukraine's only export outlets. But the uncertainty recently about the continuation of the deal has given Ukraine a head start in finding alternate routes, which may mean the focus shifts back to weather and exports fairly quickly. Russia did say they would return to the deal if conditions are met for Russian fertilizer exports so the door is cracked open. Also on the bulls side early this week, China wheat output was cut 0.9% due to the wet harvest weather and Bangladesh is tendering for 50,000 tonnes of wheat.

Traders early this week will be focused on the forecast for the northern Plains and upper Midwest where models are showing limited rain potential, indicating spring wheat conditions will likely be lower again on the condition report. EU wheat areas are expected to see hot temps as well, however, some beneficial rains have fallen the southern crop areas and the Rhine river levels have risen there, but remain too shallow in the north. Funds bought 7,500 contracts Friday as the technical picture improved. Managed money positioning did not change drastically last week.

The Commitments of Traders report for the week ending July 11th showed Wheat Managed Money traders net bought 1,878 contracts and are now net short 52,128 contracts. CIT traders were net long 86,578 contracts after decreasing their long position by 242 contracts. Non-Commercial & Non-Reportable traders net bought 3,287 contracts and are now net short 46,677 contracts. KC Wheat Managed Money traders added 824 contracts to their already long position and are now net long 14,584. Non-Commercial No CIT traders were net short 4,891 contracts after increasing their already short position by 575 contracts. Non-Commercial & Non-Reportable traders net bought 3,275 contracts and are now net long 7,427 contracts.

HOGS:

Strong pork prices support lean hog values, but higher hog weights and a 3% increase in pork production last week over year ago levels could limit traders' bullish ideas. The USDA pork cutout released after the close Friday came in at $114.82, up $4.53 from Thursday and up from $106.53 the previous week. This was the highest the cutout had been since August 22, 2022. The CME Lean Hog Index as of July 12 was 100.29, up from 99.36 the previous session and 96.07 a week prior. Extreme heat in the southern half of the nation could raise concerns about animal health and weight gain. However, Iowa/Minnesota hogs saw an increase in weights last week, which is unusual for this time of year. That was attributable to moderating temperatures.

The USDA estimated hog slaughter came in at 460,000 head Friday and 33,000 head for Saturday. This brought the total for last week to 2.340 million head, up from 1.954 million the previous week and 2.255 million a year ago. Estimated US pork production last week was 492.4 million pounds, up from 413.6 million the previous week and 477.8 million a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 10,128 contracts of lean hogs for the week ending July 11, increasing their net long to 25,014. Last week's USDA supply/demand report showed third quarter US pork production is expected to decline 30 million pounds from the second quarter, which is a contra-seasonal but modest change. Third-quarter production is expected to be just 0.6% higher than last year.

CATTLE:

Tight supplies and low weights are sending August live cattle back to contract highs despite the drift lower in beef prices. Extreme heat is raising concerns about weight gain in the southern Plains, particularly Texas. The USDA estimated cattle slaughter came in at 121,000 head Friday and 8,000 head for Saturday. This brought the total for last week to 633,000 head, up from 539,000 the previous week but down from 673,000 a year ago. The estimated average dressed cattle weight last week was 810 pounds, unchanged from the previous week and down from 812 a year ago. The 5-year average weight for that week is 815 pounds. Weights typically bottom out this time of year, but this year the recovery has been slower than normal. Estimated beef production last week was 511.6 million pounds, down from 545.4 million a year ago. The lag in beef production from a year ago is bullish.

Cash live cattle prices were firmer last week. As of Friday afternoon, the five-day, five area weighted average price was $183.85, up from $181.68 the previous week. There was notably higher trade on Friday in Nebraska, which reported 3,678 head at $183-$186 with an average of $185.62. This was up from an average of $184.37 the previous Friday, but trade volume that day was 9,446. The USDA boxed beef cutout was down 77 cents at mid-session Friday and closed 97 cents lower at $305.94. This was down from $316.90 the previous week and was the lowest it had been since May 31. Friday's Commitments of Traders report showed managed money traders were net buyers of 5,794 contracts of live cattle for the week ending July 11, increasing their net long to 117,708. The net long is in the vicinity of all-time highs. Previous peaks in the managed money position occurred at 145,000, 137,000, 138,000, and 153,000.

COCOA:

While the cocoa market received disappointing demand news from Europe on Thursday, its supply outlook has become even more bullish due to events late last week. As a result, cocoa prices may reach a new 7 1/2 year high this week. September cocoa shook off mild early pressure and recovered all of Thursday’s heavy selloff as it went on to post a sizable gain for Friday’s trading session. For the week, September cocoa finished with a gain of 42 points (up 1.3%) and a weekly reversal from last Thursday’s 2-week low.

There are reports that Ivory Coast regulators have halted forward sales of their upcoming 2023/24 cocoa production as they are concerned that they will not have enough cocoa to cover next season’s sales contracts. Recent heavy rainfall has resulted in black pod disease spreading through Ivory Coast’s cocoa farms, while that disease has also been reported in Ghana and Nigeria over the past few months. The US Climate Prediction Center are now forecasting the current El Nino weather event has a 90% chance of lasting through the upcoming North American winter.

An El Nino is likely to bring drier than normal conditions to West African and southeast Asia growing areas, and that has provided additional support to cocoa prices. A group of major Ivory Coast cocoa processors reported that their June grindings were 3.6% above last year’s total, and that has put their 2022/23 cocoa grindings 11.1% ahead of last season’s pace. Ivory Coast is the world’s largest cocoa processor as well as the world’s largest cocoa growing nation. The growth of “origin” grindings (where cocoa is processed in the nation where it was grown) may explain part of the year-over-year decline in European second quarter grindings.

Cocoa positioning in the Commitments of Traders for the week ending July 11th showed Managed Money traders reduced their net long position by 2,643 contracts to a net long 72,624 contracts. CIT traders reduced their net long position by 500 contracts to a net long 35,395 contracts. Non-Commercial No CIT traders net sold 1,587 contracts and are now net long 47,566 contracts. Non-Commercial & Non-Reportable traders were net long 79,622 contracts after decreasing their long position by 1,724 contracts.

COFFEE:

While the coffee market has been unable to climb above its late June/early July consolidation zone, it has climbed well above last Tuesday’s 5 1/2 month low and just missed out on a positive weekly reversal. If global risk sentiment can regain a positive tone, coffee prices can extend their recovery move early this week. September coffee was able to build on early strength as it went on to post a sizable gain for Friday’s trading session. For the week, September coffee finished with a minimal loss of 0.10 cent which was a fourth negative weekly result over the past 5 weeks.

Out of home consumption prospects have improved by the longer-term decline in consumer inflation, and that has underpinned coffee prices within their recent consolidation zone. The Brazilian currency remains close to a 1-year high which also provided carryover support to the coffee market as that eases pressure on Brazil’s farmers to market their coffee to foreign customers. Brazil’s major Arabica growing regions should avoid the heavier than normal rainfall that other part of their nation will receive during the El Nino weather event. This should help coffee beans avoid damage during harvest while trees will avoid problems during their flowering period later this year.

However, Vietnam, Indonesia and India are likely to have drier than normal conditions during the El Nino event that should significantly reduce their upcoming Robusta production. This in turn should provide underlying support to Arabica coffee prices as many coffee retailers will substitute Robusta coffee with Arabica coffee. ICE exchange coffee stocks fell by 300 bags on Friday and remain close to their 2023 lows. Coffee positioning in the Commitments of Traders for the week ending July 11th showed Managed Money traders added 4,463 contracts to their already short position and are now net short 12,809. CIT traders were net long 45,544 contracts after decreasing their long position by 2,789 contracts. Non-Commercial No CIT traders are net short 13,342 contracts after net selling 2,819 contracts. Non-Commercial & Non-Reportable traders are net short 6,111 contracts after net selling 3,912 contracts.

COTTON:

A stronger US cotton crop this year and a bearish supply/demand setup appear to have the capacity to limit upside potential for December cotton in the face of potentially threatening weather. Last week's USDA supply/demand report put the US 2023/24 stocks/use ratio at 23.8%, up from 21.6% in the June report, 21.7% last year and the highest since 2019/20. The world ratio came in at 81.2%, up from 79.3% in June but down from 85.6% a year ago. Last week's Crop Conditions report showed the US crop was much improved crop over last year and was close to the 10-year average. Even Texas was nearing its 10-year average, as drought conditions have improved significantly. However, the region has endured some hot weather over the past week, which could affect conditions in this afternoon's conditions report.

The entire south and especially Texas and points west show above or much above normal temperatures in the 6-10- and 8-14-day forecasts, but only western Texas shows below normal chances of precipitation. Demand has been disappointing, with cumulative old and new crop export sales at their lowest levels in eight years. This month's selloff in the dollar could help improve the export outlook for US cotton. Friday's Commitments of Traders report showed managed money traders were net buyers of 10,306 contracts for the week ending July 11, which moved them from a net short position to a net long of 2,049. The buying trend is short-term positive.

SUGAR:

After failing to take out its late April high in two attempts in May and June, October Sugar fell 4.31 cents (16%) in eight sessions. The market has since regained more than 2.50 cents as it found support from an $8 rally in crude oil prices. Despite the recovery, the global supply outlook for sugar remains bearish. Sugar prices extended their July rebound to a 2 1/2 week high as they went on to finish Friday with a moderate gain. For the week, October sugar finished with a gain of 0.79 cent (up 3.4%) and a second positive weekly result in a row.

A slow start to India’s monsoon resulted in June rainfall coming in 10% below their long-period average. This caused delays in cane planting in Maharashtra and Karnataka, two of India’s three top-producing state. The monsoon regained momentum and eventually covered the entire nation several days earlier than normal. This should help farmers with planting cane for their 2024/25 crop and should benefit their 2023/24 cane crop as well.

The recent Unica supply report put Brazil’s Center-South sugar production during the second half of June at 2.695 million tonnes. This was 7.6% above year-ago levels but was lower than what the trade was expecting. Unica blamed a 3% decline in sucrose yield for the shortfall and pointed out that dry conditions during that period encouraged farmers to harvest aggressively, including cane that was less mature and had lower yields. The Unica report also indicated that Center-South mills kept sugar's share of crushing at 49.4% which was well ahead of the 45.5% rate from last year.

Three months into the 2023/24 season, Center-South production is running 25.8% ahead of last season's pace. If this continues, Brazilian exports could offset the declines in exports from India and Thailand. Rising crude oil and gasoline prices supports ideas that processors in Brazil and India will shift more of their crushing to ethanol. With sugar prices having reached their highest levels in over a decade earlier this year and hovering in the general vicinity of those levels, it may take further gains in energy prices to get processors to change their mix.

The July 11th Commitments of Traders report showed Sugar Managed Money traders net sold 745 contracts and are now net long 139,359 contracts. CIT traders net bought 3,116 contracts and are now net long 168,715 contracts. Non-Commercial No CIT traders are net long 85,435 contracts after net selling 4,344 contracts. Non-Commercial & Non-Reportable traders were net long 184,887 contracts after decreasing their long position by 4,455 contracts.

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