ADM Investor Services, Inc.

Weekly Futures Market Summary

July 25, 2023 **by the ADMIS Research Team**

BONDS:

The latest Japanese CPI came in below trade forecasts while there were indications that the Bank of Japan will keep policy unchanged at next week's meeting, both of which provided a mild boost to risk appetites. In addition, the latest UK retail sales reading came in higher than expected. While there were no major US economic numbers for the market to digest, Canadian retail sales were highest than estimates while the Canadian new housing price index was in-line with forecasts. Treasuries have held within inside-day ranges and went on to close to mild gains during Friday's trading session.

While treasury prices at the start of this week are showing little definitive direction and may not show direction until after the widely anticipated US rate hike (the CME Fed watch indicator puts the probability of a 25-basis point rate hike at 99.1%) there is the potential for significant fireworks this week. Even though recent US scheduled data has been mixed, there has been evidence of a loss of momentum or simple idling and that should provide a measure of fundamental support under prices this week. An example of the loss of momentum/stagnation of economic data will likely be seen with a minimal gain in the Chicago Fed national activity index offset by mixed to slightly softer US PMI data.

It should be noted that positive equity market action in the first 3 weeks of July helped shape US economic sentiment into a positive as economic results have been mixed. Not surprisingly, speculators remain moderately net spec and fund short under the view that rates are starting a long and slow grind higher in a historical adjustment. The Commitments of Traders report for the week ending July 18th showed Bonds Non-Commercial & Non-Reportable traders net sold 6,193 contracts and are now net short 115,596 contracts. In fact, the net spec and fund short in T-Notes remains massive at 642,320 contracts in a sign that the market is heavily invested in the bear case. T-Notes positioning showed Non-Commercial & Non-Reportable traders net bought 51,492 contracts and are now net short 642,320 contracts.

CURRENCIES:

The Dollar was able to extend its recovery move to a 1 1/2 week high before finishing last Friday's trading session with a moderate early gain and a positive weekly reversal from Tuesday's 15-month low. While there were no major US economic numbers for the market to digest, weaker than expected readings for UK CPI on Thursday and Canadian retail sales on Friday provided the Dollar with underlying support. In contrast, the Japanese Yen came under severe pressure due to a lower than expected Japanese CPI reading as well as the prospect of steady rates and policy at next week's BOJ meeting. The Dollar forged a higher high to start the new trading week and appears poised to fill a gap up at 101.295/101.315.

While the US Fed and the ECB are both expected to hike rates later this week, the trade continues to see the US economy in a better position than the euro zone. In fact, soft euro zone business activity readings overnight should create concern that a desire to normalize rates in Europe are premature and carry more risk than US rate hikes. The dollar positioning in the Commitments of Traders for the week ending July 18th showed Non-Commercial & Non-Reportable traders reduced their net long position by 1,968 contracts to a net long 11,601 contracts. Unfortunately for the bull camp the dollar could see a measure of back and fill following Monday's scheduled data.

As indicated already, the euro remains on a downward track because of disappointing business activity data released early this week. In fact, given the aggressive spike down early move, a down trend for the week could be entrenched already. The euro is also vulnerable from a large net spec and fund long positioning built in from the July rally of 400 points. The July 18th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders are net long 248,758 contracts after net buying 41,532 contracts

While the Yen rejected the 71.00 level for a second straight session (at least initially), disappointing Jibun Bank manufacturing PMI readings for July heavily offset recent Bank of Japan hints of a tweak in policy away from unprecedented accommodation. However, despite the respect of 71.00 the fundamental bias is down, and we see a target of 70.68 in the days ahead. The Swiss franc bull camp hopes the 180-point correction off the July high has balanced what was a very significant overbought condition created by the July rally of 550 points! At least to start the 1.160 level offers suspect support but fundamentals leave the trend pointing down and aggressive compacted gains earlier in the month leave little chart support.

The fundamental and technical bias is down in the Pound to extend last week's bearish track into the new trading week. In fact, a lower low for the move (a 6th straight lower low) combined with disappointing S&P global composite, manufacturing, and services PMI readings for July in the UK provide a definitive bearish environment. With the Canadian dollar peeking out to the downside with a 4-day low, the US dollar back in favor and disappointing Canadian economic news from less robust than expected Canadian retail sales last week we expect the currency to test the 75.57 level directly ahead.

STOCKS:

Global markets were able to build upon a positive early tone, but then lost some of their strength by the close of last Friday's trading session. Reports that China would introduce stimulative measures for their property and automotive industries gave early support to many market sectors. American Express and Schlumberger saw positive earnings results that gave a further boost to sentiment coming into early action. However, news that the Nasdaq stock index would see a special rebalancing over the weekend caused a mild flare-up of risk anxiety.

Following volatile price action, the major US stock indices fell back from their early highs as the Nasdaq index closed in negative territory. Global equities at the start of this week were generally lower except for the markets in Japan, Russia, and Germany. Despite weakness in global equity markets, the US market is showing early signs of positive action. Perhaps the trade is anticipating evidence of another looming pause in the US rate hike cycle, with this week's rate hike announcement accompanied by suggestions inflation has moderated and the Fed will become even more data dependent ahead.

The S&P is showing initial positive action this week and that highlights confidence in the US economy to withstand what could be the last rate hike of this year. Unfortunately for the bull camp in equities, for this week's Fed action to become a "one and done" will require further softening data and further moderation of inflation measures. However, the next US Fed meeting decision will be September 20th and the probability of a 25-basis point rate hike in that meeting also remains high at 83.9%!

Fortunately for the bull camp, the S&P futures remain significantly bearish in positioning reports which suggests the markets are already accepting even higher rates. The Commitments of Traders report for the week ending July 18th showed E-Mini S&P Non-Commercial & Non-Reportable traders are net short 254,109 contracts after net selling 39,582 contracts. Support in the September S&P today is 4544.75 with relative calm capable of limiting declines.

While the Dow futures remain just under last week's upside breakout, the large company index has remained relatively stronger than other sectors of the market through the recent corrective dip. However, the bull camp will be tested ahead with the reality of higher rates and several strike threats from major employers like UPS and American Airlines threatening investors. Dow Jones $5 positioning in the Commitments of Traders for the week ending July 18th showed Non-Commercial & Non-Reportable traders reduced their net short position by 14,376 contracts to a net short 6,949 contracts.

The NASDAQ remains the most vulnerable of the actively traded stock index futures contracts with negative legal/union related developments involving Elon Musk and the potential for additional trade barriers in the global chip markets after Japan joined the US battle against China in the chip trade war. Fortunately for the bull camp, NASDAQ futures already hold a net spec and fund short position which is understated given the slide after the positioning reports were compiled. The Commitments of Traders report for the week ending July 18th showed Nasdaq Mini Non-Commercial & Non-Reportable traders net sold 12,296 contracts which moved them from a net long to a net short position of 2,202 contracts.

GOLD, SILVER & PLATINUM:

We think the gold market is lucky to be holding above last week's lows in the early trade this week given a fresh higher high in the US dollar and in the face of almost certain rate hikes from the US and Europe later this week. In retrospect, investors remain cool toward gold and silver, with ETF holdings last week declining by 257,337 ounces in gold and by 6.4 million ounces in silver. Year-to-date both gold and silver ETF holdings are both more than 2% lower! With the dollar rallying 160 points last week, the Thursday/Friday reversal in August gold of $40 was clearly deserved and likely sets the stage for more declines early this week.

While treasury yields did not jump significantly, seeing treasury bonds forge a reversal of 2 full points from last week's high certainly adds an element of potential selling pressure from the interest rate markets. However, with the looming likelihood of a US interest rate hike on Wednesday very high (the CME Fed Watch tool pegs the probability of a 25-basis point rate hike at 99.2%), the trade is obviously fully anticipating a move by the US Fed. Furthermore, Bank of Japan hints over the weekend suggested the bank might be open to "policy tweaks" which is a major shift in a multiyear aggressive accommodative positioning.

The gold market is likely to see some volatility from US S&P global services PMI readings, from the home price survey on Tuesday and to a lesser degree from Japanese and Australian price measures 12 hours ahead of the US Fed decision. The latest gold COT positioning report showed a lofty relative net spec and fund long with the potential liquidation capacity of 90,000 contracts before the gold market enters a mostly sold-out status. The July 18th Commitments of Traders report showed Gold Managed Money traders were net long 135,907 contracts after increasing their already long position by 35,288 contracts. Non-Commercial & Non-Reportable traders were net long 220,302 contracts after increasing their already long position by 29,432 contracts.

The charts in the September silver contract have also broken down with last Friday's 7-day low and little in the way of support from the major two-day rally 2 weeks ago of $1.80. While silver has managed to track better than gold in the face of risk on conditions, we suspect silver will fall in line with gold this week and slide on the charts in the wake of further gains in the US dollar. In fact, with the net spec and fund long in silver as of early last week reaching the highest level since April 2022, the silver market is obviously vulnerable to significant technical selling. Silver positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders added 24,067 contracts to their already long position and are now net long 30,515. Non-Commercial & Non-Reportable traders net long 55,847 contracts after net buying 26,166 contracts.

With platinum prices tracking lower early this week following reports of a 13% decline in Amplats platinum production (profits down 71%) and in the face of a bullish price outlook from UBS, it is clear the bull camp lacks motivation. In fact, UBS thinks platinum prices will grind above $1,000 in the coming 2 months from an expansion of the world platinum deficit because of sagging production and increased demand for hydrogen related PGM technology. However, investors remain cool toward PGM ETF holdings with platinum holdings last week declining by 10,349 ounces and palladium holdings declining by 1,016 ounces. Even though the platinum market rejected Friday's new low for the move, the charts remain bearish and demand support from hope of a Chinese recovery remains elusive. In fact, with the latest Chinese stimulus targeted at the automobile and electronic sectors, followed up by a poor close last Thursday, speculative demand clearly remains a negative for the PGM markets. A part of the lack of support from the Chinese auto sector stimulus is the heavy push toward EV vehicles in China.

While the October platinum contract was down $34 from the COT report mark off the net spec and fund long is still in the upper 25% of the net spec and fund long range since May 2021. The Commitments of Traders report for the week ending July 18th showed Platinum Managed Money traders went from a net short to a net long position of 7,343 contracts after net buying 11,621 contracts. Non-Commercial & Non-Reportable traders had 20,621 contracts after increasing their already long position by 6,620 contracts. We see thin and unreliable support in October platinum at $961, with a retracement of the late June and July rally providing support at nearly that same level. In fact, the October platinum market tested the $961 level last Thursday and again on Friday rejecting that price both times.

Not surprisingly, the fundamental outlook for palladium remains nondescript with the market showing all the signs of remaining in a sideways chop. However, the latest COT positioning report in palladium showed another "record short" and with the market into last week's low falling a further $55, it is likely an even larger net spec and fund record short position will be registered this Friday. While it has not mattered yet a net spec and fund short position of 8,800 contracts is significant in a market with an open interest of only 16,000 contracts. Palladium positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders net bought 134 contracts and are now net short 7,758 contracts. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 8,876 contracts. Non-Commercial & Non-Reportable traders net sold 23 contracts and are now net short 8,876 contracts.

COPPER:

Despite hope remaining eternal on additional Chinese stimulus efforts, copper prices have started the week out on a downward track and a failure to hold last week's low at $3.781 could open the door for a quick down move to $3.7665. In retrospect, the inability to hold rallies on 2 occasions last week in the wake of yet another Chinese stimulus announcement is very disappointing to the bull camp. In fact, with the Chinese government offering specific assistance for the automobile and electronics industries, the inability to launch on the upside highlight a lack of interest by the bull camp. Unfortunately for the bull camp, recent exchange warehouse stock data has also favored the bear camp, but that was offset by very aggressive commentary from a major copper mining CEO who indicated copper prices will have to be significantly higher to expand production to meet the demand from the energy transition.

While not a direct impact on copper, there are concerns that LME restrictions on Russian metals flowing through exchange warehousing and through the pricing mechanism could result in a severe aluminum squeeze which in turn could provide indirect support for copper prices. With the September copper contract from the COT report mark off into the low last week down $0.05, the minimal net spec long has likely shifted back into a net short. Copper positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders net bought 6,912 contracts and are now net long 10,699 contracts. Non-Commercial & Non-Reportable traders net bought 8,640 contracts which moved them from a net short to a net long position of 507 contracts.

ENERGY COMPLEX:

With a higher high extending last week's recovery and putting crude oil prices into a fresh upside breakout, the bullish tilt from last week has been extended into this week. While there have been recent signs of softening US energy demand, signs of residual strength in Asian demand have apparently taken precedence. In another sign of residual Asian demand and Russian compliance with output reduction agreements, reports are Russian discounts on sales to China have narrowed and that should embolden the bull camp. On the other hand, the prospect of tighter supply has also been a key element of the bull case with the primary catalyst hope and recent evidence of reduced Russian August shipments. Another minimal fresh supply-side development for crude oil is a 2.2% decline in floating storage from weekly figures provided by Vortexa.

With the net spec and fund long positioning in crude oil consistently eroding since July 2021, and the latest net spec and fund long only 50,000 contracts above the 7 year low posted in March of this year, one could say crude oil is devoid of weak handed longs and has significant speculative buying capacity. The Commitments of Traders report for the week ending July 18th showed Crude Oil Managed Money traders are net long 173,285 contracts after net buying 45,074 contracts. Non-Commercial & Non-Reportable traders added 36,631 contracts to their already long position and are now net long 269,139. Even though a slight downtick in US implied gasoline demand from 3 weeks ago is not a significant negative for crude oil, the trade is sensitive to any signs of softening demand, especially with crude oil currently $11 per barrel above the late June lows. However, Indian crude oil imports increased by 0.6% in June and Chinese import/implied demand readings keep demand as a supportive development.

In the near term, if a risk on vibe remains in place, the bull camp retains the edge. Positive leadership from crude oil prices, evidence of strong Americas clean fuel sales to Asia and warnings of a gasoline supply shock from tight East Coast inventories extends bullish control into another week. In fact, with the aggressive range up strong close last Friday and extension early this week, the gasoline contract remains on fire and is likely to test the June 2022 high up at $2.8215. However, Bloomberg over the weekend showed a significant softening of US fuel demand following the July 4th holiday with 2023 demand narrowly holding above year ago levels and significantly below 2015/2021 average seasonal levels. Given the strength in gasoline and the slack demand condition, we suspect the ultra-tight East Coast supply situation is the main underlying bull theme.

On the other hand, with the parabolic rally into the high early this week resulting in September gasoline prices trading $0.16 above the level where the last positioning report was measured, the net spec and fund long is likely approaching the highest levels since January 2021! The July 18th Commitments of Traders report showed Gas (RBOB) Managed Money traders added 7,212 contracts to their already long position and are now net long 64,667. Non-Commercial & Non-Reportable traders net bought 6,012 contracts and are now net long 68,210 contracts. With the massive gain off the lows last week, the importance of continued economic optimism to the bull camp cannot be overstated.

In the diesel market, a bearish Bloomberg weekend article indicated US diesel demand was softening along with jet fuel and gasoline demand! Therefore, with the September diesel contract this morning sitting $0.15 above the level where the last positioning report was measured, the net spec and fund long is likely approaching the largest level since October 2021. As indicated already demand for distillate supply is softening, increasing the suspicion of last week's low to high rally of $0.20! Heating Oil positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders net sold 5,359 contracts and are now net long 18,609 contracts. Non-Commercial & Non-Reportable traders net long 43,246 contracts after net selling 5,036 contracts.

While the natural gas market will continue to get support from hot temperature forecasts, there were suspicions about the upper end temperatures forecasted in last week's trade and some chatter suggesting heat might not entrench. In fact, the 7-day forecast shows extreme heat limited to Southern California, Southwest Arizona, and a large portion of Kansas and that is certainly not a bullish forecast for the end of July in the US. In a not surprising bearish headline, the Russian state gas transit service indicated that Russian shipments of gas to Europe yesterday were up slightly from the day before. A longer-term bearish headline indicates European gas storage is now roughly 83% capacity compared with the five-year average at this time of the year of roughly 68%. In the end, the Russians have not shown any sign of reducing flows despite the escalation of political maneuvering in the war.

From a technical perspective, the natural gas market could see resistance thickening considerably as prices have seemingly stalled at the $2.75 level on the charts and with the rally off the COT positioning report of $0.14 the net spec and fund short in natural gas has probably shrunk to the lowest level since March 2021. Natural Gas positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders went from a net long to a net short position of 15,230 contracts after net selling 26,768 contracts. Non-Commercial & Non-Reportable traders are net short 65,409 contracts after net selling 9,672 contracts. While temperature forecasts can change, forecasts as of this writing do not show US heat to be excessive, widespread or sustained and therefore the bear camp has the edge.

BEANS:

Not surprisingly, the soybean trade continues to show dramatic shifts in its views toward the weather and the status of the US soybean crop. In fact, late last week the trade was discounting the potential for entrenched, widespread extreme heat, but has embraced the hotter and drier forecast again this morning. However, the latest US drought monitor showing some improvement, the extension of the cooler and wetter general pattern through the weekend, the potential for improved US soybean crop conditions readings this afternoon are high. While we think corn crop conditions will deteriorate that is the result of the longer and more significant stress and lower crop condition in corn and from the soybean plant's ability to pause/withstand adversity. On the other hand, the potential for renewed stress is obvious with forecasts for 100 degree temperatures likely in the central and southern Plains and in the Southwestern Midwest.

It should be noted that very heavy rains were seen in portions of central Missouri, southern Illinois, Tennessee and in patches throughout Minnesota, Wisconsin, Indiana, and southern Ohio since the last conditions report which should help improve those crop numbers. The forward forecast for precipitation shows most of the Midwest receiving less than one half inch with a one-hundred-mile circle in central Illinois expected to receive more than one inch through this coming Saturday. While not as important to soybeans as the grain markets, Russian attacks on Ukrainian Danube grain facilities lifted Palm oil prices overnight from the sunflower oil angle. Even the demand side of the equation supports the bull case as Brazilian processors have increased soybean purchases recently which has resulted in stronger bidding against international shippers in the country. Exports from Brazil are 74% higher than the same period last year which means upward pressure for global soybean prices from Brazil.

From a positioning perspective, estimates from the trader's sheet showed funds were net sellers of minimal contracts last Thursday and Friday but that was heavily countervailed by evidence that significant overall long positions were added over the prior week from the latest COT positioning report. Soybean positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders were net long 95,814 contracts after increasing their already long position by 13,066 contracts. CIT traders are net long 148,292 contracts after net buying 5,140 contracts. Non-Commercial No CIT traders added 16,258 contracts to their already long position and are now net long 61,112. Non-Commercial & Non-Reportable traders are net long 82,536 contracts after net buying 7,701 contracts.

The Commitments of Traders report for the week ending July 18th showed Soyoil Managed Money traders were net long 44,914 contracts after decreasing their long position by 4,658 contracts. CIT traders added 1,223 contracts to their already long position and are now net long 115,426. Non-Commercial No CIT traders are net long 7,914 contracts after net selling 6,839 contracts. Non-Commercial & Non-Reportable traders are net long 52,838 contracts after net selling 5,830 contracts. Soymeal positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders net bought 4,750 contracts and are now net long 58,949 contracts. CIT traders reduced their net long position by 683 contracts to a net long 112,364 contracts. Non-Commercial No CIT traders were net long 52,557 contracts after increasing their already long position by 266 contracts. Non-Commercial & Non-Reportable traders were net long 112,963 contracts after increasing their already long position by 5,247 contracts.

CORN:

Russia struck port facilities along the Danube River over the weekend in a bid to further limit Ukrainian's export capabilities. This escalation, along with hot temps and mostly dry weather this week in the Midwest, turned prices up at the start of this week and DEC corn took out last week's highs and looks poised for more gains. With some Ukrainian grain looking to be "stranded" in country as Russia hits the ports, Ukraine's export pace will likely slow dramatically and give a bullish backdrop to prices, especially in the face of less-than-ideal weather here in the US. Also, crop conditions this afternoon are expected to be steady or lower.

There were reports that Argentina may reduce their currency exchange rate for corn exports by 25%, like what they've done with the 'soy dollar' program, which could help Argentina reach their export quota of 20 million tonnes and raise needed hard currency for the government. Corn positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders are net short 46,926 contracts after net buying 16,126 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 15,436 contracts to a net short 45,303 contracts. Low water on the Rhine River is back in the news as levels at the chokepoint at Maxau hit their lowest since March 8th. Look for bulls to stay firmly in control to start a volatile week. Next resistance is $5.74.

WHEAT:

In an escalation of the war Sunday night, Russia attacked grain storage facilities along the Danube River for the first time. There can now be no doubt that Russia is trying to shut down Ukraine's food export capabilities and that can only be construed as very bullish to prices. NATO-Ukraine Council will meet Wednesday to discuss any new ideas to keep shipments moving but already, Black Sea shipping traffic last week fell 35% from the previous week. Prices have reacted violently higher overnight, not only reacting to the Black Sea events, but also the weather for the Midwest looks mostly dry through late this week with temperatures rising and the Canadian Prairies likely to see only limited relief. Last week's highs on DEC at $7.68 3/4 look easily reachable and the late June highs of $7.84 1/4 are now in the markets sights as well.

The July 18th Commitments of Traders report showed KC Wheat Managed Money traders are net long 12,650 contracts after net selling 1,934 contracts. CIT traders reduced their net long position by 352 contracts to a net long 44,698 contracts. Non-Commercial & Non-Reportable traders net sold 2,662 contracts and are now net long 4,765 contracts. Chicago 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.

HOGS:

The heat wave heading to the Midwest looks a little less severe than it did last week, and producers may be less concerned about weight gain. October hogs were lower on Friday, as the market was likely disappointed at the feeble attempt to build on Thursday's rally. Hogs traded to their highest level since early April last week, and longs may have been anxious to take profits ahead of the weekend. The 6-10-day forecast is still calling for much above and above temperatures across most of the US, with conditions most extreme in the south and less so in the north. The USDA pork cutout, released after the close Friday, came in at $114.13, down 23 cents from Thursday and down from $114.82 the previous week. The CME Lean Hog Index as of July 19 was 103.60, up from 103.30 the previous session and 100.29 a week prior.

The USDA estimated hog slaughter came in at 438,000 head Friday and 32,000 head for Saturday. This brought the total for last week to 2.316 million head, down from 2.328 million the previous week but up from 2.295 million a year ago. Estimated US pork production last week was 485.8 million pounds, down from 489.9 the previous week but up from 484.2 a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 2,918 contracts of lean hogs for the week ending July 18, increasing their net long to 27,932. This is their largest net long since January but far short of the record 98,000 from 2013. The buying trend is short term bullish.

CATTLE:

Friday's Cattle on Feed report was bearish, particularly for the deferred contracts, with June placements coming in at the top of the range of expectations and above a year ago, but the cattle market may be able to quickly move past the report and focus on the tight supply. The report showed placements for the month of June at 102.7% of last year versus trade expectations of 98.4% and a range of expectations from 96.0% to 102.7%. June marketings came in at 95.0% of last year versus 95.1% expected (range 94%-96%). June 1 on feed supply came in at 98.2% versus 97.7% expected (range 97% to 98.9%).

The Cattle inventory report showed all cattle and calves as of July 1 totaling 95.9 million head versus an average trade expectation of 96.36 million. This was down from 98.6 million a year ago. Cash live cattle ended last week roughly $2-$4 higher than the previous week. As of Friday afternoon, the five-day, five-area weighted average price was $187.75, up from $184.14 the previous week. The USDA boxed beef cutout was down 2 cents at mid-session Friday but closed 18 cents higher at $302.74. This was down from $305.94 the previous week.

The USDA estimated cattle slaughter came in at 118,000 head Friday and 15,000 head for Saturday. This brought the total for last week to 628,000 head, down from 633,000 the previous week and 663,000 a year ago. The estimated average dressed cattle weight last week was 812 pounds, up from 810 the previous week and 811 a year ago. The 5-year average weight for that week is 815 pounds. Estimated beef production last week was 509.2 million pounds, down from 537.1 million a year ago. Friday's Commitments of Traders report showed managed money traders were net sellers of 3,078 contracts of live cattle for the week ending July 18, reducing their net long to 114,630. Despite the selling, the net long is near its highest level since April 2019, when it reached a record 152,634 contracts.

COCOA:

The cocoa market has digested disappointing demand news over the past few weeks as the three major processing regions (Europe, Asia and North American) all reported second quarter grindings that were 5.7% or more below last year’s level. Cocoa prices have resilient as they continue to find support from bullish supply development and are on course to reach a new 12-year high early this week. September cocoa reversed Thursday’s selloff and was back in bullish mode as it finished Friday’s outside-day session with a moderate gain. For the week, September cocoa finished with a gain of 63 points (up 1.9%) and a third positive weekly result over the past 4 weeks. The cocoa market shifted back to focusing on tight near-term supply and the threat to the upcoming 2023/24 crop from black pod disease and El Nino.

Ivory Coast has suspended forward sales of next season's cocoa production to foreign customers, with further sales allowed to domestic cocoa processors. Ivory Coast officials took this step before their near-term cocoa bean supplies became too tight that 2023/24 export contracts would be cancelled due to a lack of cocoa beans. Their move is likely to put Ivory Coast further ahead of Netherlands as the world's largest cocoa grinding nation and should boost their 2023/24 cocoa product exports. If this suspension stays in place, however, this will have a significant impact on Ivory Coast cocoa bean exports and result in buyers having to look towards other growing nations for sourcing their 2023/24 bean supplies.

Keep in mind that Ghana and Nigeria are also having issues with the spread of diseases to cocoa trees while Indonesia will also have drier than normal conditions during El Nino. The July 18th Commitments of Traders report showed Cocoa Managed Money traders net bought 1,921 contracts and are now net long 74,545 contracts. CIT traders net bought 688 contracts and are now net long 36,083 contracts. Non-Commercial No CIT traders added 1,991 contracts to their already long position and are now net long 49,557. Non-Commercial & Non-Reportable traders are net long 82,649 contracts after net buying 3,027 contracts.

COFFEE:

After reaching a six-week high in early June, the coffee market fell 32.75 cents (down 17%) by the end of the month with the main source of pressure an outlook for a stronger Brazilian 2023/24 crop. With Colombian supply issues and an improving global demand outlook, coffee may be undervalued at current price levels. September coffee reached a 2-week high before finishing Friday's trading session with a sizable gain. For the week, September coffee finished with a gain of 1.05 cent (up 0.7%) and a positive weekly reversal from last Tuesday's 5 1/2 month low.

After two seasons dealing with the negative impact of La Nina, Brazilian growing conditions have improved. This brought a rebound in coffee production to the point where the 2023/24 "off-year" crop should come in well above the 2022/2 "on-year" crop. Safras and Mercado reported that Brazil's 2023/24 coffee harvest had reached 66% of the total area by July 18 versus a five-year average of 71%. A year ago, only 58% had been completed by this time. The Arabica harvest was 58% complete versus 57% a year ago and a five-year average of 63%. Colombia was also negatively impacted by La Nina, and their coffee output has not recovered and is hovering around 9 1/2-year lows.

While Colombia's June production came in 0.5% above last year, their 12-month running total (July 2022-June 2023) was 10.776 million bags. This was a third month in a row that it came in below 11 million bags, which is the first time this has occurred since October-December of 2013. Global coffee consumption at restaurants and retail shops has been weakened by high inflation, but year-over-year CPI readings for many major economies have seen sharp declines over the past year. This bodes well for consumer spending and coffee demand.

ICE exchange coffee stocks fell by 5,396 bags on Friday and are now 9,045 below their June month-end total. Coffee positioning in the Commitments of Traders for the week ending July 18th showed Managed Money traders net sold 3,111 contracts and are now net short 15,920 contracts. CIT traders are net long 44,664 contracts after net selling 880 contracts. Non-Commercial No CIT traders were net short 16,274 contracts after increasing their already short position by 2,932 contracts. Non-Commercial & Non-Reportable traders net sold 2,646 contracts and are now net short 8,757 contracts.

COTTON:

December cotton had a wild day on Friday, trading to its highest level since February and then falling back below Thursday's low before settling in middle of the day's range. News that China will issue 750,000 tonnes in sliding tariff rate cotton import quotas to non-state-run firms sparked heavy buying by speculators. But expectation that most of the cotton purchased would come from Brazil sparked selling. The document announcing the tariffs did not specify when the quotas will be issued. At the high, the market had rallied 5.6% on the week and 12% from the low on June 27, and traders may have been anxious to take profits. Extreme heat in China's Xinjiang region, the southwestern US and Texas have growers concerned about the crops, but some relief could be coming next week.

The 1-7 day forecast calls for above normal temperatures and below normal precipitation across Texas, but the 6-10 day has a normal chance of rain and the 8-14 day has an above-normal chance. Above normal temperatures persist, but the worst of it moves east. Last week's Crop Progress report showed a decline in crop conditions, and it looks like there could be another decline this afternoon after the hot and dry weather in west Texas. Friday's Commitments of Traders report showed managed money traders were net buyers of 3,348 contracts of cotton for the week ending July 18, increasing their net long to 5,397. This is a neutral position, but the buying trend is short-term positive.

SUGAR:

Sugar prices have only had one negative daily result over the past 9 sessions as they have climbed up to 4-week highs. Although the market may have to face bearish supply news later this week, sugar should remain well supported during today's action. October sugar extended its July rally to its highest level since June 23 before finishing the day with a sizable gain. For the week, October sugar finished with a gain of 0.69 cent (up 2.8%) and a third positive weekly result in a row.

The rally in nearby RBOB (gasoline) futures to their highest price level since June 2022 lends support on ideas it will strengthen ethanol demand in Brazil and India. It was reported last week that the Brazilian government is considering an increase the ethanol blending requirement to 30% from the current 27%. This would increase the incentive for Brazilian cane crushers to adjust their operations towards a larger share of ethanol at the expense of sugar and could reduce Center-South 2024/25 sugar production by more than 3 million tonnes. Upcoming sugar production in India and Thailand should be negatively impacted by the El Nino weather event that will bring drier than normal conditions to their cane-growing regions.

In addition, sugar's demand outlook has improved with the more optimistic view towards the global economy, and the World Health Organization's recent warning about aspartame. Unica will release their latest supply report this week which will cover Center-South cane crushing and sugar production during the first half of July. There were few days lost to weather delays during that timeframe, so Center-South harvesting and crushing should have been close to full speed. With energy prices rising early this month, sugar's share of crushing could see a pullback from recent levels.

The Commitments of Traders report for the week ending July 18th showed Sugar Managed Money traders were net long 146,550 contracts after increasing their already long position by 7,191 contracts. CIT traders net bought 3,489 contracts and are now net long 172,204 contracts. Non-Commercial No CIT traders are net long 89,314 contracts after net buying 3,879 contracts. Non-Commercial & Non-Reportable traders added 6,154 contracts to their already long position and are now net long 191,041.

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