ADM Investor Services, Inc.

Weekly Futures Market Summary

October 9, 2023 **by the ADMIS Research Team**

BONDS:

Even though treasury prices posted significant gains off of last Thursday's lows on Friday, prices generally remained within last Thursday's range in a sign that control of the market is lacking. However, the bull camp certainly has an edge with the definitive rejection of Thursday's spike low, but also because of soft University of Michigan sentiment readings, rising flight to quality buying interest from events in the Middle East, and suggestions from the Fed's Harker that US interest rate hikes are likely completed. While recent US economic data has not been definitively positive, seeing the Fed's Harker reiterate his views the Fed is probably done hiking interest rates again in a speech on Monday should provide lift to bond and note prices.

On the other hand, residual uncertainty from the war in the Middle East and chatter of a possible global debt crisis has not provided flight to quality lift for treasury prices in the early action. Therefore, the bias in treasuries is down especially if the Israeli ground war into Gaza fails to result in Iran providing physical support of Hamas as they have indicated they would. While we doubt the New York Empire State Manufacturing Index for October will be a notable event, expectation for a noted contraction in that reading following a modest gain last month should help underpin prices. On the other hand, as indicated already a speech from the Fed's Harker on Monday is widely expected to be dovish but that is offset by rising yields in Europe, India, and China.

In a potentially very supportive technical condition, the latest COT positioning report showed Bonds with a large speculative short, with the treasury note market showing a "massive" net spec and fund short. The Commitments of Traders report for the week ending October 10th showed Bonds Non-Commercial & Non-Reportable traders reduced their net short position by 37,622 contracts to a net short 156,864 contracts. T-Notes positioning showed Non-Commercial & Non-Reportable traders were net short 627,174 contracts after decreasing their short position by 14,127 contracts.

CURRENCIES:

As in gold and treasury markets, the dollar likely saw a wave of flight to quality buying last Friday from the potential for incendiary events in the Middle East over the weekend. In fact, given dovish dialogue from the Fed's Harker and much softer than expected University of Michigan sentiment reading the dollar posted a five-day high and appeared to be headed back to contract highs. Surprisingly, last week's CPI and PPI readings did not discourage dovish dialogue from Fed members this week which furthers the argument that the dollar is receiving safe haven flows.

Despite the dollar trading in a tight range early this week, the potential for significant volatility remains in place. However, the war in the Middle East has not yielded fresh flight to quality interest in the dollar. Unfortunately for the bull camp, Monday's New York Empire State Manufacturing Index reading is expected to contract sharply and global equity markets are mostly tracking around unchanged levels also reducing flight to quality interest in the dollar. The October 10th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders were net long 20,699 contracts after increasing their already long position by 542 contracts.

European inflation news generally favored Euro bears as part of that negative Euro influence offset by recent views of a dovish Fed. The October 10th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders reduced their net long position by 440 contracts to a net long 97,789 contracts. With generally soft European inflation readings partially balanced by a dramatic expansion of the European trade surplus, the euro is simply left at the mercy of action in the dollar.

The Pound is undermined because of a very minimal gain in UK home prices, which Reuters pegged as the smallest since the global financial crisis. Apparently, the pound is deriving some initial support from hawkish statements from the Bank of England indicating they still have work to do on inflation.

Comments from the Bank of Canada suggesting higher long-term interest rates are not the preferred policy to battle inflation was partially offset by a forecast that the Canadian economy was not headed for a deeper recession. In other words, merely mentioning the prospect of a deep recession entrenches a bearish view toward the Canadian. Therefore, the path of least resistance is down in the Canadian.

STOCKS:

Despite a significant jump in US treasury prices, dovish direction from the Feds Harker and signs of softer import price inflation, equity prices came under pressure last Friday. Unfortunately for the bull camp, favorable bank earnings and other bullish developments were overshadowed by escalating uncertainty in the Middle East. It is also possible that a $4.00 rally in crude oil prices created concern of economic slowing from reduced consumer disposable incomes. Global equity markets at the start of this week were mixed with a slight edge to the bear camp, while commodities were also mixed with a very slight edge to the bull camp. In retrospect, the market’s inability to show sustained strength from comments from the Fed’s Harker last week that the Fed might be "done" hiking interest rates highlights lack of bullish resolve and the presence of a bearish tilt. However, the focus of the trade today is likely to shift to earnings as the earnings season picks up pace.

While not a major negative, Rite Aid has filed for bankruptcy with outstanding debt of $3.45 billion as that undermines psychology to start the new trading week. However, the equity markets are likely to see spillover pressure from the war in the Middle East especially with Israel launching a ground attack into Gaza, which has already resulted in Iran threatening to help Hamas. Finally, the equity markets not benefiting from a definitively dovish view from the Fed’s Harker and not benefiting from a 90.2% probability the Fed will hold steady next month. In conclusion, the bear camp extends its control from last week. Unfortunately for the bull camp, a very large net spec and fund short contracts has been reduced to just 90,476 contracts in the most recent COT report and that could mean selling fuel is once again building up on the sidelines. E-Mini S&P positioning in the Commitments of Traders for the week ending October 10th showed Non-Commercial & Non-Reportable traders added 43,431 contracts to their already short position and are now net short 90,476.

While US interest rates are not at the high levels seen at times last week, treasury market action suggests rates are more likely to rise which should thicken resistance in the Dow. As opposed to the S&P, the Dow futures hold a massive net spec and fund short (the largest since the financial crisis) and that is a very bearish signal of sentiment toward large company shares. The Commitments of Traders report for the week ending October 10th showed Dow Jones $5 Non-Commercial & Non-Reportable traders are net short 37,207 contracts after net selling 7,672 contracts. In addition to bearish macroeconomic conditions early this week, the NASDAQ also faces pressure from reports the US government is taking steps to toughen up restrictions on the export AI chips to China as that could cause retaliation. The October 10th Commitments of Traders report showed Nasdaq Mini Non-Commercial & Non-Reportable traders added 8,113 contracts to their already long position and are now net long 8,164.

GOLD, SILVER & PLATINUM:

What goes up aggressively can correct aggressively and that is more the case in gold early this week than in silver. Clearly, the markets were not supported by weekend developments in Gaza and with a thin US economic report slate at the start of this week, the primary focus will likely be on a speech from the Fed’s Harker. While the US intentions to contain the Middle East crisis are laudable, many times those types of efforts prove fruitless. Surprisingly, evidence of China's central bank increasing liquidity in their banking system has not cushioned their equity markets indicating ebb and flow of from the Chinese currency is not a primary focus of the metals trade. If anything, the action in the Chinese currency was slightly bearish to gold.

After an erosion in gold ETF holdings since the first week of September, recent declines have become less notable but that could be the result of fresh buyers simply offsetting long liquidators. The gold and silver markets should have tailwinds from last week's developments as the Fed's Harker indicated the US Federal Reserve may be "done" hiking interest rate. Surprisingly, the gold and silver markets managed gains last week despite a five-day high in the dollar, perhaps because of strength in treasury prices last Friday. However, outside market forces are likely to continue to foster volatility in the precious metal markets; however, good bull markets are capable of shifting focus when necessary.

While the net spec and fund long positioning as registered by the most recent COT report understates the size of the net long because of the rally forged after the report was measured, with the longs liquidating 11,784 contracts last week, we see the bull camp regaining buying capacity. The Commitments of Traders report for the week ending October 10th showed Gold Managed Money traders are net short 14,788 contracts after net selling 11,784 contracts. Non-Commercial & Non-Reportable traders are net long 81,526 contracts after net selling 17,498 contracts. Unfortunately for the gold bulls, the Chinese currency has shown some stability which in turn could reduce flight to quality buying of gold in China especially with large premiums.

Recent Chinese scheduled data suggests the economy remains on a back foot with some industrial commodity imports slowing (iron ore imports fell in in September), the markets need more stimulus from the Chinese government. With the large range up move in silver at the end of last week and the December silver contract from the COT positioning report mark off last week trading $0.90 higher, this week's positioning report likely understates the net speculative long. However, like specs in the gold market, speculators brought down their positioning which should leave the market with further speculative buying capacity.

The Commitments of Traders report for the week ending October 10th showed Silver Managed Money traders added 2,231 contracts to their already short position and are now net short 4,079. Non-Commercial & Non-Reportable traders net long 22,223 contracts after decreasing their long position by 3,659 contracts. The Commitments of Traders report for the week ending October 10th showed Platinum Managed Money traders were net short 12,321 contracts after increasing their already short position by 2,698 contracts. Non-Commercial & Non-Reportable traders have a net long 5,307 contracts after net selling 2,183 contracts. The October 10th Commitments of Traders report showed Palladium Managed Money traders were net short 10,439 contracts after increasing their already short position by 1,650 contracts. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 11,585 contracts. Non-Commercial & Non-Reportable traders are net short 11,585 contracts after net selling 1,578 contracts.

COPPER:

While signs of increased liquidity from the Bank of China lends support to copper prices, bearish price projections from Citigroup emboldens the bear camp. Furthermore, talk of improved seasonal demand from China is also offset by last Friday's massive jump in Shanghai copper. Similarly, last week's supportive move by the Chinese government to support the big four Chinese banks is lost on the trade early this week as Chinese stock markets traded lower. Reports of level copper premiums for sales in Europe from Codelco and reports of declining copper premiums from the company into the US clearly offsets aggressive Chinese efforts last week to sharply reduce copper premiums paid next year.

In a major negative from last week, Chinese September imports of iron ore were very soft, and Shanghai copper stocks at the end of last week increased by a massive 17,898 tons which is a single week jump of 45.9%. Unfortunately for the bull camp, the spec traders reduced their short position last week leaving the prospect of further stop loss selling in place. Copper positioning in the Commitments of Traders for the week ending October 10th showed Managed Money traders are net short 5,116 contracts after net buying 7,859 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 4,909 contracts to a net short 15,454 contracts.

ENERGY COMPLEX:

With an early new high from the move, the bull camp in crude oil has extended control into the new trading week. While last week's US inventory data challenged the tight global supply argument (largely in place from early July until late September), the bull camp has shifted its focus toward threats against Middle East supply. While the Arab world was relatively calm late last week with the retaliation by the Israeli army expanding, the beginning of a ground incursion into Gaza and calls for Palestinian people to move to the south of Gaza, leaves headlines from the Middle East as likely a major catalyst for oil prices.

Clearly, Chinese energy demand expectations could be questioned following their trade data and from reports their refinery activity has declined to the lowest levels in two months. However, Iran is a major swing producer of low-grade global diesel supply, and a disruption of their oil exports could further tightening the diesel market and potentially take 1 million barrels per day of crude oil off the world market. However, so far blame has not been officially cast at Iran (other than by Israel) and there is no reason to expect an export ban on Iran as that would send global oil prices through $100 and diesel prices would certainly explode. A minimally supportive fresh development is a week over week decline in global crude oil in floating storage especially with Asia-Pacific and US Gulf Coast inventories down.

With December crude oil into the high Friday trading $6.30 above the early October low, the net spec and fund long position is rapidly rising and could now be at the highest level since January 2022. The Commitments of Traders report for the week ending October 10th showed Crude Oil Managed Money traders were net long 268,908 contracts after decreasing their long position by 37,754 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 19,795 contracts to a net long 400,871 contracts. In a longer-term negative development, US rig drilling counts jumped by the most since March and increased for the first time in four weeks with an increase of four rigs bringing the total operating to 501 rigs.

The diesel market has become the leadership market with reports of severe tightness in global diesel supply and improved seasonal demand expected ahead. Therefore, we expect December to regain the $2.30 level and perhaps the $2.40 level if there is a mere whisper of proof Iran had a direct role in the attack on Israel. It should be noted that Iran is a significant source of low-grade diesel export supply! With both distillate and diesel inventories falling last week (both markets saw their year-over-year deficits expand), the tight supply argument in diesel is more prominent than in crude oil. In fact, with Chinese refinery activity reportedly falling to the lowest level in two months another major source of diesel supply to the world market is reduced.

It is well-known that Russia has an export ban on certain fuels and the beginning of colder temperatures there will likely leave that export ban in place. Furthermore, the US refinery rate is currently running 14.3% below full capacity rates and operating rates have fallen since the first week of September. In fact, US operating rates are likely to fall further due to heavy seasonal maintenance. Unfortunately for the bull camp given the diesel rally of $0.15 since the last positioning report was measured, the net long in diesel is likely nearing the highest level since November 2021. The October 10th Commitments of Traders report showed Heating Oil Managed Money traders net sold 7,222 contracts and are now net long 32,445 contracts. Non-Commercial & Non-Reportable traders net long 61,982 contracts after decreasing their long position by 5,686 contracts.

While the gasoline market is likely to lag crude oil and diesel this week, significant gains in those outside markets should drag gasoline prices upward. Unfortunately for the bull camp, US gasoline inventories remain high and seasonal demand is expected to fall further leaving long RBOB positions as the riskiest in the petroleum complex. Gas (RBOB) positioning in the Commitments of Traders for the week ending October 10th showed Managed Money traders reduced their net long position by 15,415 contracts to a net long 33,021 contracts. Non-Commercial & Non-Reportable traders are net long 41,660 contracts after net selling 9,586 contracts.

The natural gas market showed virtually no sensitivity to the outbreak of war in the Middle East and is unlikely to see lift from the beginning of a ground war and even from surging petroleum prices. In a very negative longer-term fundamental impact, Bloomberg news projects global LNG supplies will "rise 21% this winter". However, the massive oversupply condition in the US has continued to moderate but still maintains a 4.8% surplus to five-year average stock levels. Furthermore, with Russian Gazprom officials indicating shipping via Ukraine to Europe remains steady, and no indication Russian culpability of the destruction of a gas line under the Baltic Sea supply flow from the Baltic region is limited.

Last week the Baker Hughes rig operating count fell by one leaving 117 rigs operating compared to 157 rigs last year at this time. Unfortunately for the bull camp, the net spec and fund short in natural gas has been brought down consistently over the last several weeks and potentially clears the way for fresh selling and a spike below $3.50. Natural Gas positioning in the Commitments of Traders for the week ending October 10th showed Managed Money traders went from a net short to a net long position of 25,965 contracts after net buying 67,189 contracts. Non-Commercial & Non-Reportable traders are net short 32,543 contracts after net buying 29,015 contracts. In the end, the bears maintain control as supply concerns are missing and demand remains seasonally soft.

BEANS:

An expected higher start to the week for soybeans after last week's post-report performance finally puts the bulls in charge, especially with the USDA confirming tight ending stocks for the season. The unchanged month over month US carryout certainly reinforces the importance of South American weather through the winter. US harvest progress is expected in the 57 - 60% range and after some heavy rains over parts of the Midwest in the last three days, drier weather this week will allow farmers to get back in the fields quickly. NOPA crush will be released Monnday and the average guess is 161.7 million bushels. Oil stocks are expected at 1.208 billion pounds. US crush should stay very strong through the winter. Commitment of Traders data showed funds were long 2,000 contracts as of last Wednesday, and the strong action late last week probably added to the net longs.

The October 10th Commitments of Traders report showed Soybeans Managed Money traders reduced their net long position by 2,835 contracts to a net long 2,166 contracts. Non-Commercial & Non-Reportable traders reduced their net short position by 3,290 contracts to a net short 18,747 contracts. The Commitments of Traders report for the week ending October 10th showed Soyoil Managed Money traders reduced their net long position by 15,417 contracts to a net long 25,967 contracts. Non-Commercial & Non-Reportable traders were net long 38,898 contracts after decreasing their long position by 14,769 contracts. The Commitments of Traders report for the week ending October 10th showed Soymeal Managed Money traders net sold 8,926 contracts and are now net long 32,059 contracts. Non-Commercial & Non-Reportable traders were net long 70,956 contracts after decreasing their long position by 7,740 contracts.

CORN:

Corn’s bull camp gets the edge to start the week although fresh market moving news is scarce. Seasonal strength is expected in the last half of October as harvest moves past halfway. Harvest delays should be short-lived with mostly dry conditions expected this week across the Midwest. Harvest progress is expected to be in the 45 - 48% range. Heavy rains over the last three days may result in some slight improvement of US Midwest River levels but the upcoming drier trend will mitigate the gains. The drought in the northern Amazon is disrupting corn barge movement to the northern Brazil ports.

In some cases, barges must reduce freight by 50% to navigate the low spots. Above normal temperatures are expected in the Western Delta this week and conditions are expected to be mostly dry. Commitment of Traders data showed significant liquidation by the fund shorts through Wednesday of last week, with the net short at 113,000 contracts, down 46,000 from the previous week. In our opinion, breaks will be supported by ideas yields could fall again in the November supply/demand report. 5.00 on December futures is key nearby resistance with 5.10 next. Although we favor prices moving somewhat higher, any push above 5.25 would be a chance for producers to lock in prices.

Corn positioning in the Commitments of Traders for the week ending October 10th showed Managed Money traders were net short 112,691 contracts after decreasing their short position by 46,742 contracts. Non-Commercial & Non-Reportable traders are net short 117,410 contracts after net buying 47,411 contracts. The Export Sales Report showed that for the week ending October 5, net corn sales came in at 910,411 tonnes for the current marketing year and 87,384 for the next marketing year for a total of 997,975. Cumulative sales have reached 29.7% of the USDA forecast for the 2023/2024 marketing year versus a 5 year average of 34.5%. Sales need to average 764,000 tonnes per week to reach the USDA forecast.

WHEAT:

Weekend events in the Mideast are bullish as the conflict is deepening and Israel's neighbors are warning don't go too far. A widening of the conflict is bullish wheat as countries may look to extend their stockpile of supplies with the ongoing uncertainty in the region. Interestingly, Egypt's Minister of Finance says there's a good possibility Egypt will hedge wheat in 2024 in case of a rally in prices, something they have not done in recent years. US soft red wheat is the cheapest in the world and a slight pickup in US demand is expected. Ukraine says Russia has destroyed 300,000 tonnes of grain in port attacks recently.

There is little relief in sight for Australian wheat as the dryness deepens there. Latest forecast models still show some shower chances for Argentina in the 6-10-day timeframe and they are critically needed. 5.97 is key resistance in December Chicago and we would expect that to be tested this week. The path of least resistance looks higher. Wheat positioning in the Commitments of Traders for the week ending October 10th showed Managed Money traders net sold 5,547 contracts and are now net short 104,335 contracts. Non-Commercial & Non-Reportable traders are net short 76,705 contracts after net selling 6,842 contracts.

The October 10th Commitments of Traders report showed KC Wheat Managed Money traders added 2,043 contracts to their already short position and are now net short 25,870. Non-Commercial & Non-Reportable traders added 1,807 contracts to their already short position and are now net short 30,154. The Export Sales Report showed that for the week ending October 5, net wheat sales came in at 651,964 tonnes for the current marketing year and -189 for the next marketing year for a total of 651,775. Cumulative sales have reached 53.0% of the USDA forecast for the 2023/2024 marketing year versus a 5-year average of 52.8%. Sales need to average 189,000 tonnes per week to reach the USDA forecast.

HOGS:

It may be too much to ask for much of a rally in hogs in the face of soft pork prices, seasonally higher hog weights, and expectations for a large increase in US pork production this quarter. The weekly export sales report on Friday was disappointing, with US pork sales for the week ending October 5 at 21,250 tonnes, down from 42,893 the previous week and the lowest since July 27. The four-week average is 30,500 tonnes. Cumulative sales for 2023 have reached 1.446 million tonnes, up from 1.312 million a year ago but below the five-year average of 1.474 million.

The USDA is forecasting US pork production to increase by 705 million pounds this quarter, which would be the biggest jump for timeframe since 2019 and the fifth largest increase in 20 years. The CME Lean Hog Index as of October 11 was 82.42, up from 82.40 the previous session but down from 83.70 the previous week. The USDA estimated hog slaughter came in at 480,000 head on Friday and 187,000 head for Saturday. This brought the total for last week to 2.609 million head, up from 2.564 million the previous week and 2.555 million a year ago. Estimated US pork production last week was 545.0 million pounds, up from 533.4 million the previous week but down from 546.9 million a year ago.

The USDA pork cutout came in at $89.39 on Friday, down $1.63 from Thursday and down from $92.68 the previous week. This was the lowest it had been since June 15. December hogs were trading at a 12.45 discount to the lean index as of October 11 versus 12.54 a year ago and a 5-year average is 8.05. The larger-than-average discount is supportive to the futures. Friday's Commitments of Traders report showed managed money traders were net buyers of 2,251 contracts of lean hogs for the week ending October 10, increasing their net long to 15,970. This is down from 41,000 in late September and is relatively close to a flat position.

CATTLE:

December cattle were supported last week by higher US cash cattle prices, but that support was undermined Friday by a poor export sales report. The market also felt pressure from hotter than expected price inflation data that raised concerns about beef demand, but recent Fed commentary have suggested they are leaning towards no rate hike next month, and this idea could ease concerns about demand. As of Friday afternoon, the five-day, five-area weighted average cattle price was $184.22, up from $182.67 the previous week. US beef export sales for the week ending October 5 came in at 9,076 tonnes, down from 13,602 the previous week and the lowest since September 2. The four-week average is 13,700. Cumulative sales for 2023 have reached 751,500 tonnes, down from 906,700 a year ago and below the five-year average of 829,000.

South Korea was the largest buyer at 2,444 tonnes, followed by Japan at 1,923. China bought 301 tonnes. The USDA is projecting US beef production to increase by 205 million pounds in the fourth quarter, the biggest jump for that timeframe in at least 20 years. However, production is still expected to be down 177 million pounds from the same period last year. First quarter 2024 production is expected to be down 460 million from this quarter, which would be the biggest decline for that timeframe since 2014 and the third largest in 20 years. The USDA estimated cattle slaughter came in at 112,000 head Friday and 6,000 head for Saturday. This brought the total for last week to 617,000 head, down from 628,000 the previous week and 662,000 a year ago.

The estimated average dressed cattle weight last week was 829 pounds, unchanged from the previous week and down from 832 a year ago. The 5-year average weight for that week is 833 pounds. Estimated beef production last week was 510.0 million pounds, down from 549.9 million a year ago. The USDA boxed beef cutout was up 2 cents at mid-session Friday but closed 39 cents lower at $300.80. This was down from $302.01 the previous week. Friday's Commitments of Traders report showed managed money traders were net sellers of 7,916 contracts of live cattle for the week ending October 10, reducing their net long to 86,262. This is down from a high this summer of 120,000, but there is ample room for more long liquidation if support levels are taken out.

COCOA:

Cocoa prices have yet to regain strong upside momentum following the start of the 2023/24 season, but they have lifted clear of 3-month lows despite a “risk off” mood seen in many global markets. Near-term demand will be a front and center issue for the market this week, but a bullish supply outlook should continue to underpin cocoa prices early this week. December cocoa fell back from an early 1 1/2 week high but regained strength late in the day to finish Friday’s outside day session with a mild gain. For the week, December cocoa finished with a gain of 46 points (up 1.3%) which was a second positive weekly result in a row.

A pullback in the Euro and British Pound early in the day put pressure on cocoa prices as that will make it more difficult for European grinders to acquire near-term cocoa supplies. European third quarter grindings had a 6.7% increase from their second quarter total, which indicates that demand has been resilient despite rising cocoa prices. A group of major Ivory Coast cocoa processors said that their September grindings were 6.5% above last year’s total while their 2022/23 full-season grindings were 10% above their 2021/22 total.

In addition to being the world’s largest cocoa growing nation, Ivory Coast has become the world’s largest cocoa processing nation due to the growth of “origin” grindings (when cocoa processed in the nation where it is produced). As a result, Ivory Coast’s 2022/23 grindings increase is another sign of improving global demand. There was a surge of Ivory Coast port arrivals last week as producers took advantage of higher minimum farmgate prices this season. The results of the second weekly port arrivals total of the 2023/24 season will provide a gauge of cocoa supply from last season that will be marketed this month.

The Commitments of Traders report for the week ending October 10th showed Cocoa Managed Money traders net sold 2,503 contracts and are now net long 52,768 contracts. CIT traders reduced their net long position by 1,434 contracts to a net long 33,390 contracts. Non-Commercial No CIT traders are net long 42,050 contracts after net selling 334 contracts. Non-Commercial & Non-Reportable traders were net long 65,276 contracts after decreasing their long position by 1,275 contracts.

COFFEE:

Since early June, coffee prices have seen a pattern in which a selloff to a new low has been followed by a period of consolidation and then a subsequent rally that could not be sustained. At last Tuesday’s low, December Coffee had declined 43.95 cents (23%) from its June 8 close. Since then, it has put together four positive daily results in a row and rallied 11.20 cents. December coffee broke out of its September/October consolidation zone to the upside and went on to post a sizable gain for Friday’s trading session. For the week, December coffee finished with a gain of 8.85 cents (up 6.1%) which broke a 3-week losing streak and was a positive weekly key reversal.

The coffee market had been pressured by Brazil’s production outlook, with their 2023/24 “off-year” Arabica crop expected to come in 17% larger than 2022/23’s “on-year” crop. However, the June/October selloff may have made Brazilian growers and their potential buyers reluctant to complete deals, and this could be the reason why Brazilian exports were surprisingly low in September. Brazil’s Arabica harvest is nearly finished, which will give the market a good idea of the potential size of Brazilian exports as their supply is drawn down over the next few months.

Unlike Brazil, Colombia does not appear to have benefited much from the conclusion of La Nina early this year. Their September production came in at 854,000 bags, 1.5% above a year ago. However, their 12-month running production total (October 2022 to September 2023) was 10.617 million bags, only a slight increase from August's 12-month running total of 10.602 million, which was the lowest 12-month reading since October 2013. The Honduras Coffee Institute expects their nation's 2023/24 coffee exports to be 6.6% below 2022/23. Honduras is the largest Arabica producer in Central America and the fourth largest in the world, so this may not bode well for Central American production this season.

ICE exchange coffee stocks fell by 7,249 bags Friday to reach a 11-month low, and that reflects improving demand, particularly in Europe where most of those stocks are located. The October 10th Commitments of Traders report showed Coffee Managed Money traders were net short 29,418 contracts after increasing their already short position by 2,662 contracts. CIT traders were net long 42,949 contracts after decreasing their long position by 652 contracts. Non-Commercial No CIT traders are net short 24,406 contracts after net selling 1,996 contracts. Non-Commercial & Non-Reportable traders are net short 18,388 contracts after net selling 1,517 contracts.

COTTON:

The US cotton crop is tightening, but global supply appears large enough to meet demand. In the USDA supply demand report last week, US cotton ending stocks were lowered to 2.8 million bales, down from 3.0 million in the September report. This is the lowest since 2016/17. World ending stocks at 79.92 million were down from 82.84 million last year but up from 76.64 million two years ago. The world numbers were revised down by some 10 million bales from the September estimates, but that was due to change in way the USDA accounts for the Brazilian crop, and it did not reflect any change to actual supply.

US cotton export sales for the week ending October 5 came in at 43,399 bales, down from 242,175 the previous week and the lowest since July 27. Cumulative sales for the 2023/24 marketing year have reached 5.824 million bales, down from 8.285 million a year ago and the lowest for this point in the season since 2016/17. Sales have reached 51% of the USDA forecast for the marketing year versus a five-year average of 62% for this point in the season. Friday's Commitments of Traders report showed managed money traders were net sellers of 6,613 contracts of cotton for the week ending October 10, reducing their net long to 47,740. The record net long is above 100,000 contracts, so this position would not be considered overbought.

SUGAR:

Sugar's Friday rally was due in large part to significant carryover support from energy prices that will likely remain a source of strength this week. With a bullish supply outlook from south Asia also underpinning the market, sugar is likely to remain well supported early this week. March sugar followed through on Thursday's late rebound with a sizable gain during Friday's trading session. For the week, March sugar finished with a gain of 29 ticks (up 1.1%) and a second positive weekly result in a row.

A sharp recovery rally in crude oil and RBOB gasoline prices was a major source of support for the sugar market as that should strengthen ethanol demand. The latest Unica Center-South supply report was highlighted by larger than expected sugar production and cane crushing totals, but also showed Brazil's Center-South domestic ethanol sales having a second month in a row with a year-over-year increase. If crude oil and gasoline prices continue to rise, there will be additional incentive for mills in Brazil and India to shift a portion of their cane crushing from sugar production over to ethanol production.

India and Thailand (who combined accounted for 24% of global sugar production during the 2022/23 season) will be negatively impacted by the El Nino weather event that is expected to last through the first quarter of 2024. As a result, both nations are expected to see their 2023/24 sugar production come in below their 2022/23 output totals. China's Ag Ministry are maintaining their forecast for 5 million tonnes of Chinese sugar imports this year despite their nation's economic difficulties, which also provided support to the sugar market going into the weekend.

The Commitments of Traders report for the week ending October 10th showed Sugar Managed Money traders net bought 6,095 contracts and are now net long 189,373 contracts. CIT traders net sold 1,711 contracts and are now net long 178,307 contracts. Non-Commercial No CIT traders net bought 6,360 contracts and are now net long 133,329 contracts. Non-Commercial & Non-Reportable traders were net long 248,887 contracts after increasing their already long position by 13,400 contracts.