ADM Investor Services, Inc.

Weekly Futures Market Summary

October 23, 2023 **by the ADMIS Research Team**

BONDS:

Just as investors stepped aside from equities because of the potential uncertainty of events in the Middle East over the weekend, we suspect shorts in treasuries stepped aside as a significant escalation of the war could turn treasuries into a flight to quality instrument. However, the bear camp should be emboldened by broad headline coverage of the benchmark treasury yield reaching the psychological 5% level. In addition to the potential for flight to quality buying from the Middle East, last week's US economic data adds to the bull case. With a fresh downside breakout in prices resulting in the highest treasury bond Yields since 2007 (the beginning of financial crisis) bearish charts have been enhanced with downside follow-through very likely.

However, in addition to massive/record short positions in treasuries, the market has also seen massive shorts buildup in "leveraged shorts" instruments and that lays the foundation for off-the-wall volatility ahead. In fact, with the US Fed concerned with surging longer-term rates and the risk that poses for the economy, a showdown between the market and the Fed looms. In fact, leveraged short treasury bets have reached record levels with those typically trading the basis in 10-year notes holding 4.7 million short contracts compared to the previous record from 2009 of just over 4 million contracts. While many traders suggest the market is simply doing the Fed's job for it, there is increased fear of severe slowing prospects given the extremely fast pace of the increase in rates.

However, if bond vigilantes are attacking treasuries, it is possible that prices will break away from classic fundamental relationships and become excessive in a market that is usually under control. We mention the bond vigilantes because Washington remains focused on control of the Speaker of the House and the Middle East, with the looming debt ceiling deadline not even in the discussions. In the near-term, regularly scheduled economic data is unlikely to have an impact unless the data is much stronger than expected or is much weaker than expected. The Commitments of Traders report for the week ending October 17th showed Bonds Non-Commercial & Non-Reportable traders are net short 122,412 contracts after net buying 34,452 contracts. For T-Notes Non-Commercial & Non-Reportable traders net bought 23,431 contracts and are now net short 603,743 contracts.

CURRENCIES:

In retrospect, the dollar failed to rally last week following several typically bullish fundamental developments. In addition to the failure to rally from a decline in US initial claims, the dollar did not see flight to quality interest in the escalation of uncertainty in the Middle East. Perhaps the short-term dovish view from the Fed discouraged buying of the dollar for global investors are becoming skittish regarding the potential for a debt rating downgrade in the US. With the dollar unresponsive to escalating global economic, geopolitical, and unprecedented treasury market volatility, the currency index is obviously out-of-favor.

Certainly, if conditions become "extreme", flight to quality interest for the dollar may return, but with the lack of lift from massive increases in US treasury yields (especially given the exploding US interest rate differential edge with the world), that suggests a historic anomaly is underway. Therefore, the bias in the dollar is down but extreme volatility and uncertainty might provide the dollar with support. In other words, historical respect for the dollar will discourage some sellers, unless the full faith and credit standing of the US is questioned. Dollar positioning in the Commitments of Traders for the week ending October 17th showed Non-Commercial & Non-Reportable traders were net long 20,769 contracts after increasing their already long position by 70 contracts.

As in the dollar trade, the trade is hesitant to buy the euro and other nondollar currencies because of the potential from the historical flight to quality standing of the US dollar. Therefore, we are hesitant to buy the euro and the currencies in general look to have difficulty picking a leadership currency. Furthermore, regularly scheduled euro zone data is of little consequence this week with US regularly scheduled data also given less focus. We suggest traders utilize option strategies which benefit from volatility and not as much from directionThe October 17th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders added 907 contracts to their already long position and are now net long 98,696.

Not surprisingly, the pound has also settled into a sideways consolidation pattern with a slight bearish tilt from the charts. Fundamentally, the pound could have the strongest fundamental case of non-US dollar currencies, but domestic political uncertainty and UK jobs data could discourage some buyers. Clearly, the Canadian dollar is out-of-favor despite the lack of strength in other actively traded currencies. Furthermore, the trade remains fundamentally bearish toward the Canadian with widespread views the Bank of Canada is "done" raising rates especially with Canadian retail sales down and September producer prices up.

STOCKS:

The trend in equities looks to remain down with last Friday's rupturing investor sentiment and fostering a measure of anxiety. Not surprisingly, the equity markets failed to benefit from favorable earnings results from American Express and the oil services giant SLB. However, fear of what turmoil could face the equity markets on Monday's opening because of Middle East events likely resulted in some investors liquidating in moving to the sidelines. Global equity markets at the start of the week were lower as were many physical commodity markets. Given the explosion in US interest rates, earnings news is likely to be downplayed this week in favor of renewed recession concerns and because of rapidly expanding uncertainty. Historically, investors do not like uncertainty and are already eyeing rotating into interest rate investments.

While the S&P will likely see upcoming big tech earnings as important events, without wildly outside of expectation results, macroeconomic concerns from surging interest rates are likely to dominate. As indicated already, the markets are on edge from unfolding large losses, with many investors becoming fearful of another major negative "October" debacle. Therefore, positive events like buyouts in the drug and energy sectors and upbeat earnings potential among food companies from a new obesity drug are shunted to the sidelines. The Commitments of Traders report for the week ending October 17th showed E-Mini S&P Non-Commercial & Non-Reportable traders were net short 61,085 contracts after decreasing their short position by 29,391 contracts. Even the technical picture favors the bear camp with the net short held by small specs and speculative funds relatively small versus recent history.

While December Dow futures have respected the 33,000 level on two previous occasions this month, broad bearish fundamental conditions should foster downside follow-through action with the potential for a quick return to the 2023 lows below 32,500. However, the Dow futures might become "mostly sold out" quicker than other segments of the market with the net spec and fund short as of last Tuesday within 20,000 contracts of the record during the financial crisis. Dow Jones $5 positioning in the Commitments of Traders for the week ending October 17th showed Non-Commercial & Non-Reportable traders are net short 40,251 contracts after net selling 3,044 contracts.

As indicated already, big tech earnings throughout this week could be a temporary driving force but interest rate fears accentuated by Middle East uncertainty and rising energy costs probably overshadow internal fundamentals for the tech giants. Even technical conditions are bearish with the NASDAQ futures and options index holding the only net long among futures index markets. The Commitments of Traders report for the week ending October 17th showed Nasdaq Mini Non-Commercial & Non-Reportable traders added 4,381 contracts to their already long position and are now net long 12,545.

GOLD, SILVER & PLATINUM:

While the gold market is certainly overbought from the low to high October rally of $180, flight to quality uncertainty looks to entrench in the marketplace with the prospects of a ground war keeping the region and the world anxious. However, the markets have partially embraced potential for diplomatic efforts (perhaps because of the release of some hostages) despite the failure of such efforts early last week. On the other hand, given increased airstrikes, widespread expectations of a ground offensive by Israel and violence around the world, the prospect of a broadening of the conflict is rising.

Fortunately for gold bulls, the dollar seems to be missing out on flight to quality buying interest despite surging implied treasury yields. Therefore, the biggest threat to gold and silver bulls might be higher US treasury yields as the latest breakout up in 30-year treasury yields is prompting slowing fear at the Fed and by many economists. Despite the aggressive rally off the October low the spec and fund long in gold remains relatively modest at 121,000 contracts below the 2023 high net spec and fund long of 237,557 contracts. Gold positioning in the Commitments of Traders for the week ending October 17th showed Managed Money traders net bought 56,655 contracts which moved them from a net short to a net long position of 41,867 contracts.

Non-Commercial & Non-Reportable traders net bought 44,503 contracts and are now net long 126,029 contracts. Similarly, the net spec and fund long in silver is modest, sitting 21,000 contracts below the 2023 high and 40,000 contracts below the last two-year highs. The Commitments of Traders report for the week ending October 17th showed Silver Managed Money traders went from a net short to a net long position of 5,014 contracts after net buying 9,093 contracts. Non-Commercial & Non-Reportable traders net bought 7,199 contracts and are now net long 29,422 contracts.

In conclusion, the gold and silver trade are likely to see significant volatility with gold remaining the leadership market and silver at times vulnerable because of its physical commodity market standing. In fact, while there is an avalanche of global scheduled data this week, with PMIs dominating, we see gold and silver almost exclusively focused on the Middle East and perhaps at times on Treasury yields. The Commitments of Traders report for the week ending October 17th showed Platinum Managed Money traders reduced their net short position by 738 contracts to a net short 11,583 contracts. Non-Commercial & Non-Reportable traders are net long 5,808 contracts after net buying 501 contracts.

Palladium positioning in the Commitments of Traders for the week ending October 17th showed Palladium Managed Money traders hit a new extreme short of 10,995 contracts. Managed Money traders added 556 contracts to their already short position and are now net short 10,995. Palladium Non-Commercial & Non-Reportable traders hit a new extreme short of 11,661 contracts. Non-Commercial & Non-Reportable traders were net short 11,661 contracts after increasing their already short position by 76 contracts.

COPPER:
The path of least resistance is down in the copper early this week with December copper posting a new low and the lowest trade since 2022. While aggressive purchases of aluminum by China on a year over year basis is helping to support copper prices, Chinese economic news is neutral at best. Unfortunately for the bull camp, the International Copper Study Group pegged the global refined copper deficit at 33,000 tonnes in August which is only 3,000 tonnes larger than the deficit in July. Furthermore, the International Copper Study Group forecasts a significant jump in copper supplies next year with their last estimate projecting a 2024 surplus of more than 470,000 metric tonnes.

With a lack of upcoming Chinese scheduled data, the trade is likely to assume disappointing Chinese demand with likely return prices to the late-September 2022 low down at $3.5015. While the last COT positioning report understates the size of the net spec and fund "short" the market is not excessively oversold yet and more small traders selling is likely. The Commitments of Traders report for the week ending October 17th showed Copper Managed Money traders were net short 21,553 contracts after increasing their already short position by 16,437 contracts. Non-Commercial & Non-Reportable traders net sold 8,797 contracts and are now net short 24,251 contracts.

ENERGY COMPLEX:
We are not surprised with a slight retrenchment in crude oil prices this morning as the trade is temporarily unmoved by the relentless Israeli bombardment of suspected Hamas targets in Gaza. It appears the Israelis are trying to soften up positions for a widely anticipated ground war. Several Arab groups, Arab countries and reported terrorist groups have warned there will be serious repercussions of an occupation force. Along those lines, the US Defense Secretary over the weekend suggested the US government is very concerned of an escalation or broadening of the war with the involvement of any other key oil producers in the fighting immediately throwing crude oil prices back to the late September highs around $92.50.

Even though the tight global supply theme has lost traction in the press recently, floating storage estimates this week projected a decline of 11%! While this week's COT positioning report for crude oil understates the net spec and fund long, given the rally after the report was measured of $4.50, we suspect the net spec and fund is the highest since June 2022. Furthermore, trading in Brent crude oil calls registered record volume with the skew unsurprisingly favoring the long case. The Commitments of Traders report for the week ending October 17th showed Crude Oil Managed Money traders reduced their net long position by 48,036 contracts to a net long 220,872 contracts. Non-Commercial & Non-Reportable traders are net long 386,536 contracts after net selling 14,335 contracts.

We suspect classic supply factors may be a secondary thought in the trade this week with the global supply tightening theme only likely to support but not lift prices. In a negative intermediate development, officials from the Venezuelan oil company Citco were already on their way to the US to resume trade and that could increase supply flow to the US and more importantly could allow the Venezuelan oil sector to secure parts and technology to facilitate their efforts to expand production. Recent estimates have pegged Venezuelan oil production at 700,000 barrels per day which compares to more than 3 million barrels per day at their peak!

While the gasoline market showed leadership action last Friday, the trade fell away from the high in a fashion that could indicate an interim peak for prices. Furthermore, China appears to be drawing from reserves and increasing gasoline output with September production up 17.5% versus year ago levels and a 4.1% increase in Indian oil refinery activity in September. However, tensions in the Middle East remain high, the US refinery operating rate is very low on a seasonal basis and reports are that Chinese traffic congestion continues to improve.

Surprisingly despite the explosive rally of the last three weeks, the net spec and fund long position in gasoline remains relatively low with the latest weekly reading sitting at half of the largest net spec and fund long of this year. The Commitments of Traders report for the week ending October 17th showed Gas (RBOB) Managed Money traders net sold 7,057 contracts and are now net long 25,964 contracts. Non-Commercial & Non-Reportable traders net-long 36,696 contracts after decreasing their long position by 4,964 contracts. The low US refinery operating rate might set the table for a 3rd straight week of lower EIA gasoline inventories, especially with recent implied gasoline demand readings reaching levels normally seen in mid-August!

Unfortunately for the ULSD bull camp US and European temperature forecasts remain bearish but on the other hand, EIA distillate stocks have declined in four of the last five weeks while diesel stocks have declined 6 straight weeks. Obviously, the diesel market is technically overdone with the rally last week likely resulting in the net spec and fund long positioning returning to the 2023 highs! The Commitments of Traders report for the week ending October 17th showed Heating Oil Managed Money traders are net long 36,649 contracts after net buying 4,204 contracts. Non-Commercial & Non-Reportable traders net sold 4,162 contracts and are now net long 57,820 contracts.

Last week's EIA storage data was patently bearish with the injection above most estimates and the surplus to the five-year average storage levels increased. We remain bearish with mild temperatures not expected to change until the end of the month. However, with prices approaching 2023 lows, we suspect strategic buying might surface with Chinese and European buyers looking to top off reserves at very cheap price levels. Unfortunately for the bull camp, the latest COT positioning report showed a very minimal short of 33,961 contracts compared to the largest net spec and fund short this year of 150,000 contracts. Natural Gas positioning in the Commitments of Traders for the week ending October 17th showed Managed Money traders went from a net long to a net short position of 5,345 contracts after net selling 31,310 contracts. Non-Commercial & Non-Reportable traders were net short 33,961 contracts after increasing their already short position by 1,418 contracts.

BEANS:

Weekend rains in Argentina, slightly lower energy prices and good harvest progress expected this afternoon are putting slight pressure on beans this morning and we give the slight edge to the bear camp. Although Argentine bean planting doesn't begin in earnest until November, weekend rains of 1 to 3 inches were beneficial but much more will be needed to reverse the effects of the recent drought. The Rosario grain exchange says some Argentine farmers who were planning on putting in an early corn crop are now deciding to plant beans instead.

The Argentine election results were a bit of surprise as the leftist current economic minister tallied 36% of the vote compared to Libertarian candidate Melei with 30%. There will now be a runoff between the two next month. Brazilian bean planting stands at 29.8% done compared to 37.6 year ago, due to dryness slowing the pace. Northern Brazil has light showers late this week in the forecast, but Southern Brazil remains too wet with up to 5 inches to fall in the state of Parana. US beans off the Pacific Northwest coast are competitive with Brazil and we expect to see additional demand for beans and soybean meal.

Soybean availability in Argentina for processing will continue to be a problem until their harvest late next spring. A much more active pattern in the US begins midweek with showers expected from the southern and eastern Plains into the Eastern corn belt. Harvest progress this afternoon is expected near 75% complete. Although prices have started the week on a down note, we think good support will emerge on breaks. Beginning November 1, the soybean price limit will be $0.95 a bushel down from $1.05 a bushel, meal $25 per ton down from $30 per ton and bean oil stays unchanged at 400 points.

The Commitments of Traders report for the week ending October 17th showed Soybeans Managed Money traders went from a net long to a net short position of 1,984 contracts after net selling 4,150 contracts. CIT traders are net long 125,656 contracts after net selling 2,158 contracts. Non-Commercial No CIT traders were net short 20,025 contracts after decreasing their short position by 347 contracts. Non-Commercial & Non-Reportable traders are net short 20,499 contracts after net selling 1,752 contracts.

The October 17th Commitments of Traders report showed Soyoil Managed Money traders net sold 5,238 contracts and are now net long 20,729 contracts. CIT traders are net long 109,794 contracts after net buying 3,084 contracts. Non-Commercial No CIT traders were net short 2,530 contracts after increasing their already short position by 1,145 contracts. Non-Commercial & Non-Reportable traders were net long 35,283 contracts after decreasing their long position by 3,615 contracts.

The Commitments of Traders report for the week ending October 17th showed Soymeal Managed Money traders are net long 50,698 contracts after net buying 18,639 contracts. CIT traders are net long 112,112 contracts after net selling 528 contracts. Non-Commercial & Non-Reportable traders added 21,411 contracts their already long position and are now net long 92,367.

CORN:

Weekend rains in Argentina were beneficial for a good portion of their corn growing area and that is giving the bear camp the slight edge. Although some showers are forecast for northern Brazil they are expected to be light and the 10 day rainfall will remain below normal. Argentina's election went a bit different than expected as the current economic minister led with 36% of the vote and libertarian candidate Melei received 30% of the vote. The two will now face a runoff election to decide the result on November 19th. Peronist social policies have crashed the economy and caused runaway inflation so it is interesting the public would vote for someone in the current administration.

A heavy rain band this week will move from the south-central Plains up through Iowa, Wisconsin, and northern Illinois where harvest delays will be seen. Some snow will be seen in the far northern Plains and the 6-10-day temperatures will be below normal for most of the Midwest. The bull camp had to be disappointed with the failure to close above 5.00 on December last week after finally getting above it. But the strong base of the last couple months should be supportive for breaks below 4.90. Beginning November 1, the price limit for corn will be $0.35 a bushel down from $0.45 previously.

The October 17th Commitments of Traders report showed Corn Managed Money traders reduced their net short position by 3,821 contracts to a net short 108,870 contracts. CIT traders reduced their net long position by 3,338 contracts to a net long 244,624 contracts. Non-Commercial No CIT traders are net short 168,564 contracts after net selling 1,723 Contracts. Non-Commercial & Non-Reportable traders were net short 122,165 contracts after increasing their already short position by 4,755 contracts.

WHEAT:

Although beneficial rains fell in some of Argentine's wheat areas over the weekend, the spreading Mideast violence is more important and should be a supportive factor to the market this week. The weekend featured worsening violence and protests in the Mideast as Hezbollah, backed by Iran, joined the fight and fired rockets into Israel and the Yemen Houthis threatened Israel if they go through with the Gaza ground incursion. Furthermore, an Israeli missile accidentally hit an Egyptian border facility and reportedly the US is asking Israel to wait on the ground war so negotiations for US hostages can continue.

The Black Sea supply news continues to be bearish as IKAR upped Russia's total grain production to 142.2 million tonnes compared to 141.6 last month and wheat exports were slightly raised to 65 million tons from 64.7 million last month. The Ukraine grain corridor has seen 40 ships transit the route and hopes are for 2.0 - 2.5 million tonnes to move through the corridor monthly. Argentina's election will move to a runoff between the current economic minister and libertarian Melei on November 19. The US southern Plains will see some good rains this week, but the far southwest areas may miss out. We look for support on breaks for Chicago wheat and doubt pullbacks can get very deep in the current geopolitical environment. Beginning November 1, price limits for Chicago and KC wheat are set at $0.50 a bushel down from $0.60 a bushel previously.

The Commitments of Traders report for the week ending October 17th showed Wheat Managed Money traders added 72 contracts to their already short position and are now net short 104,407. Wheat CIT traders hit a new extreme long of 58,638 contracts. CIT traders net sold 3,895 contracts and are now net long 58,638 contracts. Non-Commercial No CIT traders net bought 2,893 contracts and are now net short 91,856 contracts. Non-Commercial & Non-Reportable traders added 1,244 contracts to their already short position and are now net short 77,949. The October 17th Commitments of Traders report showed KC Wheat Managed Money traders added 1,081 contracts to their already short position and are now net short 26,951. Non-Commercial & Non-Reportable traders were net short 29,769 contracts after decreasing their short position by 385 contracts.

HOGS:

December hogs finally broke below the May contract low on Friday after testing that level for three sessions. This leaves the next target area down at 63.50. The futures are trading at a steep discount to the cash market, with the December hog basis on October 18 at 12.43 versus 7.18 a year ago and a five-year average of 6.96. This could ultimately lend support to December hogs, but the market is facing a seasonally weak period for hog prices, large production, and heavier hog weights. The market is also concerned about the potential for recession, with long term Treasury rates soaring and the stock market jittery about the war in the Mideast.

The China Farm Ministry reported their nation's sow herd at 42.4 million as of September 30 versus 42.41 million at the end of August. This is.4% higher than the "normal" level. Production efficiency is improving as well, with the average sow breeding 0.5 more pigs per year than a year ago. This does not bode well for US exports to China, which are well off their peak from their levels when the Chinese hog industry was decimated by African swine fever. The CME Lean Hog Index as of October 18 was 80.45, down from 80.70 the previous session and 82.42 the previous week.

The USDA estimated hog slaughter came in at 479,000 head Friday and 207,000 head for Saturday. This brought the total for last week to 2.610 million head, up from 2.609 million the previous week and 2.570 million a year ago. Estimated US pork production last week was 547.2 million pounds, up from 545 million the previous week but down from 550.9 million a year ago. The USDA pork cutout came in at $86.56 on Friday, up 93 cents from Thursday but down from $89.39 the previous week. Friday's Commitments of Traders report showed managed money traders were net sellers of 12,639 contracts of lean hogs for the week ending October 17, reducing their net long to 3,331, which is close to a neutral position.

CATTLE:

Last Friday's Cattle on Feed report was negative across the board, with placements, marketings and on-feed all coming in at the bearish end of expectations. On top of that, placements and on-feed were above the high end of the range of expectations. Placements for the month of September came in at 106.1% of last year versus an average trade expectation of 101.2% and a range of 95.9% to 104.8%. September marketings came in at 89.4% versus 90.4% expected (range 89.5%-91.5%). Cattle on Feed supply as of October 1 was 100.6% of last year versus 99.7% expected (range 99.0% to 100.3%). The results indicate that supply is increasing at a faster rate than expected.

The USDA estimated cattle slaughter came in at 118,000 head Friday and 18,000 head for Saturday. This brought the total for last week to 638,000, up from 617,000 the previous week but down from 675,000 a year ago. The estimated average dressed cattle weight last week was 829 pounds, unchanged from the previous week and down from 834 a year ago. The 5-year average weight for that week is 831 pounds. Estimated beef production last week was 527.8 million pounds, down from 561.8 million a year ago.

The USDA boxed beef cutout closed $1.26 higher on Friday at $305.38. This was up from $300.80 the previous week and the highest it had been since September 15. Friday Commitments of Traders report showed managed money traders were net sellers of 2,451 contracts of live cattle for the week ending October 17, reducing their net long to 83,811. This is well below the high for the year at 120,000, but there is room for additional long liquidation.

COCOA:

December cocoa overcame a disappointing third quarter North American grindings report on Thursday with a sharp rally on Friday and a gap higher open at the start of this week. This has put the contact high from mid-September in the market's sights. Asian and European third-quarter grindings data were also below year ago levels, but they were higher than expected, and this has eased concerns that high prices are cutting into demand.

West Africa and southeast Asia are expected to see drier than normal conditions due to El Nino, which has been forecast to continue into the second quarter of 2024. This could have a negative impact on cocoa production in Ivory Coast, Ghana, Nigeria, and Indonesia, which together accounted for 68% of global production in the 2022/23 season. Cocoa arrivals at Ivory Coast ports reached 171,000 tonnes as of October 22, down 16% from the same period last year. This was the second week in a row that arrivals came in below year-ago levels, which provides further evidence of tight supply.

Mild recoveries in the euro and British pound provide additional support on ideas it makes it cheaper for European grinders to buy cocoa. Friday's Commitments of Traders report showed managed money traders were net buyers of 8,446 contracts of cocoa for the week ending October 17, increasing their net long to 61,214. The net long is hovering around all- time highs, but it is near the low end of the range of the past five months, which suggests there could be more buying fuel.

COFFEE:

December coffee was close to at the start of this week after last week's move to its highest price level since August 3. The market has gained 16% in just nine sessions, which has left it in an overbought condition, but there has been no technical indicator of a top. ICE exchange coffee stocks fell 190 bags on Friday and reached an 11-month low. The drawdown in stocks has underpinned prices, as it suggests that demand has been strong enough to overcome increased Brazilian supply from their 2023/24 crop. A rebound in the Brazilian currency has provided additional support on ideas it will ease pressure on Brazilian growers to market their supply to foreign customers.

There have some shipping delays due to heavy congestion at major Brazilian ports that have reduced the flow of coffee. Colombia's production pace remains close to a 9 1/2 year low, and forecasts for Central American growers are indicating a decline in production. Friday Commitments of Traders report showed managed money traders were net buyers of 11,333 contracts of coffee for the week ending October 17, reducing their net short to 18,085, Considering the market has gained 9.75 (+6%) since the data was collected, we would be surprised if these traders were close to flat or even slightly long at this point.

COTTON:

December cotton has fallen to its lowest price level since July 17, as the market puts aside the tight US supply and focuses on a more ample global supply. This negative attitude has been fed by a resumption in the downtrend in equity markets, which bodes poorly for cotton demand. Global stock markets were down at the start of this week as concerns mounted over the war in the Middle East. Traders are also concerned about Chinese demand, and they will be watching economic data closely.

The poor condition of the US crop suggests further reductions in US production and ending stocks forecasts are possible in upcoming USDA supply/demand reports, but Brazilian exports could fill the gap in the global market, especially if demand stays stagnant. US export sales are off to their slowest start in seven years, which is not surprising given the smaller crop and the relatively strong dollar.

In the most recent supply/demand report, the USDA put US 2023/24 exports at 12.2 million bales and Brazil's at 11.8 million. One factor that could support cotton would be concerns about the upcoming Australian crop, which could be affected by El Nino. Friday's Commitments of Traders report showed managed money traders were net sellers of 14,397 contracts of cotton for the week ending for the week ending October 17, reducing their net long to 33,343. This is well below the record high, which is above 100,000, but it leaves room for more selling.

SUGAR:

March sugar was lower at the start of this week on follow-through selling from last week after the market put in a 4-1/2 week high on Wednesday. India's Food Secretary said last week that his country is not likely to face any shortages of sugar in their domestic market, and this was views as increasing the chance that India would resume sugar exports later in the marketing year. The market had priced in expectations that the export ban would last the entire season. This statement offset support from recent strength in energy prices and in the Brazilian real. Brazilian sugar production remains well ahead of last year's pace.

The Unica Center-South (Brazil) supply report is expected to be released late this week, and it could provide an indication whether the recent rally in energy prices has encouraged mills to shift their cane crushing from sugar production to ethanol. Friday's Commitments of Traders report showed managed money traders were net buyers of 6,373 contracts of sugar for the week ending October 17, increasing their net long to 195,746. The net long is in the upper end of the historic range, which leaves the market vulnerable to heavy selling if key support levels are taken out.