ADM Investor Services, Inc.

# WEEKLY MARKET SUMMARY

14 September, 2020

## For the Week of September 14, 2020

## BONDS:

Treasury prices seemed to have found some form of notable value at last week's lows, particularly as those lows coincide with consolidation low support that has been respected fairly consistently over the last 3 weeks. We would also suggest that the slight deflating of macroeconomic optimism last week suggests that it will take a very significant positive surprise headline to throw December bonds below a recent double low zone of 175-00. Going forward, it is likely that the Treasury bond market will garner residual support from solid auction demand and perhaps escalating hopes that the Fed will be forced to step up given the failure of other into these to provide support to the economy.

Despite a risk on vibe flowing from global equity markets to start this week, Treasury prices carved out minimal gains with the bond market forging a 3-day high. Therefore, it would appear as if the upward track from late last week has extended into the new trading week with the likely driving force ongoing fears that the US economic recovery is losing momentum. It is also likely that bonds and notes will see speculative buying ahead of this week's FOMC meeting result on Wednesday with the Fed potentially acting because of the failure of Washington to provide additional fiscal support for the economy.

In a side note, we want to make traders aware of recent Fed statements indicating they have been investigating "new tools" to support the economy, as some traders have been doubtful the Fed has ammunition left from their classic quantitative easing methods. It is also possible that bonds and notes are drafting some buying interest from news of infection spread in the US into geographic areas which have largely been out of the line of fire in the first 7 months of the pandemic. Furthermore, news of a new record in virus cases in emerging market countries confirms the threat of global slowing from the virus remains in a front and center position. In the end, unless there is a significant vaccine headline the primary driving force this week will be the FOMC statement on Wednesday with the ECB last week only providing dovish dialogue not dovish action.

From a technical perspective, the bull camp should have an edge from the positioning reports with the net short positioning in Bonds at some of the largest levels since December 2018 which increases the potential for a wave of stop loss buying in the event that key chart resistance levels are taken out. The Commitments of Traders report for the week ending September 8th showed Bonds Non-Commercial & Non-Reportable traders were net short 151,192 contracts after increasing their already short position by 1,498 contracts. For T-Notes Non-Commercial & Non-Reportable traders net bought 48,684 contracts and are now net long 51,985 contracts.

## CURRENCIES:

The dollar continued to track in a sideways pattern late last week with the Swiss Franc and the Euro showing only fleeting strength. The currency markets were left within their trading ranges from last week's developments as US data softened and both sides of the Atlantic failed to provide stimulus for their economies. With the dollar starting out the new trading week under pressure and in the process taking out Friday's low, the bear camp has regained a measure of confidence. Clearly, the bounce off last week's lows was the result of a return of safe haven buying of the dollar following disappointing US jobless claims data.

Therefore, the focus of the currency trade early this week is likely to be centered on the US economic outlook and it is likely that the dollar will "sell the rumor" that the US Fed might provide fresh support which in turn helps save the US economy from slowing momentum and in turn lowers global economic uncertainty. Keep in mind that recent Fed commentary the chairman suggested the Fed has been investigating new stimulus tools and perhaps those tools might be utilized this week. The September 8th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders reduced their net short position by 1,327 contracts to a net short 6,343 contracts.

While the shift up on the Euro charts is not overly impressive, the bull camp does appear to have minimal technical and fundamental forces providing lift. Unlike the dollar, seeing dovish ECB commentary provides support to the Euro at the same time that a risk on vibe flowing from global equities rekindles hope that the world recovery will continue thereby providing fresh lift to non-dollar currencies like the Euro. In short, expect the Euro to correlate with equities and pay little attention to European scheduled data. The September 8th Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders were net long 248,857 contracts after decreasing their long position by 7,115 contracts.

While the Yen has not seen significant reaction to or benefits from positive Japanese scheduled data recently, we suspect that news early this week is helping the currency carve out minimal gains. However, seeing the Yen track positively in the face of a tempering of safe-haven sentiment world-wide suggests that the Yen is garnering most of its lift from the weakness in the dollar. While the bias might be up in the Yen, we doubt the currency will be able to breakout of a sideways consolidation bound by 94.07 on the downside and 94.53 on the upside without something very significant in the headlines.

The charts in the Swiss Franc have shifted ever so slightly in favor of the bull camp with weakness in the dollar providing the brunt of the fundamental support for the currency. With a slightly positive market vibe to start the trading week and the potential for sentiment to be cushioned by the looming FOMC meeting we suspect that the 1.10 level will generally support the Swiss with the currency potentially retesting last week's high up at 1.1052 by midweek.

While the Pound has managed to take out Friday's high in the early going this week, internal UK political battles over the Brexit situation serves to thicken resistance. Certainly, the positive international vibe has prompted some short profit-taking from last week's hard dive in the currency, but we see the Pound as a "recovery currency" which needs a way through the Brexit and coronavirus situations to recover a substantial portion of the September washout.

With a recent series of highs in the Canadian around 76.07 providing resistance, renewed weakness in the US dollar very modest and the potential for another week of lower energy pricing, the bear camp has a very minor edge. However, the currency is likely to draft some support from last Friday's low and from news that Canada saw no virus deaths last week for the first time since March! On the other hand, in the event that the dollar violates close in support levels that could justify a shift up in the trend and result in the December Canadian entrenching above 76.00 into the Wednesday US Fed result.

## STOCKS:

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The equity markets continued to show vulnerability with many in the trade taking note that the current correction appears to be the most significant corrective event since the major bottom back in March. Obviously, the markets are disappointed by the lack of improvement toward the economy, lack of fiscal and monetary assistance and perhaps markets are fearful of even more political tension despite the fact that political tension is already ridiculous. Fortunately for the bull camp, the market did see some support from Tesla news of a potential purchase of low carbon nickel from Canada as that adds in further environmental attraction to the bellwether stock. Global equities at the start of this week were higher with gains less than 1%. The markets are cheered by comments from a front running vaccine developer CEO statement indicating he expects to be capable of delivering some vaccine doses before the end of the year. With a relatively thin US scheduled report slate early in the week and a looming FOMC meeting announcement on Wednesday we suspect equities will likely draft lift from hope of Fed action.

With a positive risk on vibe flowing from global equity markets and the S&P already taking out Friday's high it would appear as if the bull camp has control to start the new trading week. There were some indications that positive vaccine dialogue stimulated global investors and there have been several buyout announcements into the opening this morning and that should add modestly to the bull case. Yet another supportive development was seen from the weekly positioning report which posted another moderate "net spec and fund short" as that positioning could result in a wave of stop loss buying in the event that key chart resistance levels are violated. E-Mini S&P positioning in the Commitments of Traders for the week ending September 8th showed Non-Commercial & Non-Reportable traders were net short 113,746 contracts after decreasing their short position by 27,745 contracts.

Despite news that Microsoft might be excluded in the purchase of the TikTok US arm, the Dow has taken out Friday's high and has approached the psychologically important 28,000 level. Adding into the initial upward track is strength in Boeing and Caterpillar shares which suggest investors are speculating on a continuation of global growth patterns in recently poor performing issues. Given a net spec and fund short position in the latest COT report, a trade above 28,000 could provide enough stop loss buying to propel the index to 28,196. Dow Jones $5 positioning in the Commitments of Traders for the week ending September 8th showed Non-Commercial & Non-Reportable traders net sold 6,256 contracts and are now net short 11,887 contracts.

We are a little surprised that the NASDAQ futures are not showing more definitive gains early this week given the market’s liquidated status at last week's lows and more specifically from a series of buyout headlines. In fact, there were buyout indications involving the chip sector, pharmaceuticals retail and investment companies and that follows last week's news that Amazon plans to hire 100,000 more workers this year! In short, the path of least resistance is up but the NASDAQ looks to lack the potential seen in other market measures. Nasdaq Mini positioning in the Commitments of Traders for the week ending September 8th showed Non-Commercial & Non-Reportable traders are net long 8,113 contracts after net selling 8,057 contracts.

## GOLD, SILVER & PLATINUM:

The fortune of the gold market has changed from last Friday with the dollar showing some weakening perhaps in the wake of news from a leading vaccine developer CEO who indicated he will have doses of the vaccine available before the end of the year if authorized by the FDA. The dollar might also be showing some weakness in the face of favorable Chinese and Japanese data. Unfortunately for the bull camp, gold prices in Shanghai closed lower and Indian spot gold prices managed a very minimal gain suggesting two major gold consuming constituencies continue to slumber.

However, the bull camp has probably started to speculate on the potential lift from this week's FOMC meeting that starts on Tuesday and culminates on Wednesday. In our opinion, the most important force for the bull camp in gold and silver is to see "action" from the FOMC meeting as investment demand appears to have moderated recently and a rekindling of that headline bull story probably needs help from the Fed. Surprisingly, gold is not definitively undermined by news that last Friday gold ETF's saw an outflow of 159,543 ounces for the biggest single day outflow since August 12th.

Gold is probably seeing some lift from a Citibank 2021 forecast for gold of $2,275 but in the current environment, the ebb and flow of gold ETF investment is the most likely forced to propel prices higher. Clearly, the lower dollar action today is contributing to the initial strength in gold and silver but it could take a slide below last week's low down at 92.68 in the December dollar Index to lever the currency impact into a significant lift for metals prices.

From a technical perspective, the reversal at the end of last week combined with a lack of increased trading volume on the bounce from last week's lows increases the chance that prices will work back down toward recent consolidation support which starts at $1,926.30 and then is seen down at $1,921.60. Gold positioning in the Commitments of Traders for the week ending September 8th showed Managed Money traders net bought 3,608 contracts and are now net long 154,629 contracts. Non-Commercial & Non-Reportable traders are net long 310,689 contracts after net buying 1,125 contracts.

Unfortunately for the bull camp, the net spec and fund long position in the gold market as of last week is somewhat lofty and could foster modest waves of stop loss selling in the event that key chart levels are violated. While silver prices are showing a positive track early this week, the market has continued to coil within a range as if poised for a key trend decision. Unfortunately, for the bull camp silver ETF holdings extended a pattern of outflows to 7th straight day Friday with a rather large weekly decline last week of 11.3 million ounces.

The silver market is also holding a moderate net spec and fund long and would appear to be poised to slide back down to the bottom of the recent consolidation which starts at $26.56 and with more significant support seen down at $26.29. The September 8th Commitments of Traders report showed Silver Managed Money traders reduced their net long position by 1,971 contracts to a net long 35,742 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 3,043 contracts to a net long 54,935 contracts.
While the charts in the palladium market are not overly impressive, a pattern of higher highs and higher lows from last week combined with a jump in trading volume at the end of the week would seem to leave the bull camp with a technical edge to start the new trading week. With the fundamental focus in the PGM markets shifting toward platinum industrial uses beyond the auto catalyst sector and the press rife with stories suggesting platinum was beginning to benefit from price substitution for palladium (palladium has a $1,400 premium), it is possible that increased spread trading will be seen with long platinum and short palladium positions implemented on bullish precious metals market days.

Last week, palladium ETF holdings increased by a mere 1,264 ounces which highlights the lack of investment interest in the metal. Palladium positioning in the Commitments of Traders for the week ending September 8th showed Managed Money traders added 68 contracts to their already long position and are now net long 3,503. Non-Commercial & Non-Reportable traders reduced their net long position by 26 contracts to a net long 3,691 contracts.

The platinum charts also finished last week with a positive note with the highest trade since September 2nd forged despite significant headwinds flowing from the rest of the precious metal. As indicated in palladium coverage, platinum is seeing significant press coverage regarding its windfall from surging manufacturing demand for products requiring glass like laptops and computer screens. Adding into the physical demand theme is a continued inflow of investment into platinum ETF's with year to date holdings now more than 11% above year ago levels and reaching 3.7 million ounces. Last week platinum ETF holdings increased by 36,082 ounces in a development that is supportive, but not significant enough yet to drive prices consistently higher on that theme alone.

While the net spec and fund long position in platinum is relatively large compared to the palladium positioning the net long as of early last week was only 5,000 contracts longer than the lowest net spec long since July 2019. We are skeptical of a significant upside breakout after last week's rally was forged on declining trading volume. The Commitments of Traders report for the week ending September 8th showed Platinum Managed Money traders reduced their net long position by 4,089 contracts to a net long 5,949 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 5,302 contracts to a net long 21,834 contracts.

## COPPER:

While the December copper contract flared up to a 4-day high, we suspect that was a one off and temporary reaction to Chinese scheduled data at the start of this week. However, the Chinese house price index was not stronger than the prior month and remains well below the surging price gains forged in May and June. The market should see some residual lift from news of a significant jump in delivery orders for LME exchange supply and also because of reports from China that steel and aluminum production in China might be poised to hint new record output readings.

Certainly in the event that a significant risk on mentality returns to global equities and spreads in to other markets, copper could breakout to the upside but an upside breakout could quickly put the net spec and fund long positioning in copper at new all-time highs! The September 8th Commitments of Traders report showed Copper Managed Money traders net long 69,187 contracts after net selling 349 contracts. Non-Commercial & Non-Reportable traders net sold 63 contracts and are now net long 60,791 contracts.

## ENERGY COMPLEX:

Clearly, fundamentals in the crude oil market have shifted bearish over the last 3 weeks and the negative news has extended into the new trading week. In addition to OPEC plus allowing some restricted production back on-line last month, US oil production declines are showing signs of leveling out above 10 million barrels per day. Other fresh negatives presented to energy prices include news that global floating storage of crude oil remains 225% above year ago levels, that the US continued to produce more valuable light crude oil than heavy oil in 2019 and fresh suggestions that the bounce in global energy demand will now soften directly ahead. On the other hand, tropical storm Sally is expected to become a hurricane and is set to move toward some offshore facilities and make another transit of key US refineries later this week.

However, the strength of the storm and the fact that it is entering the oil production region further north and east than normal, reduces the threat of sustained shutdowns of offshore operations. While news from Platts that OPEC+ crude production in August recovered is negative to prices, the presence of an OPEC plus meeting later this week should discourage bears and encourage bulls to speculate on a low from the recent capacity to consolidate above last week's spike low. Certainly, a slight risk on vibe helps cushion energy prices, but we suspect OPEC plus will be taking a long hard look at global demand levels in deciding whether-or-not to continue their unwinding of production restraint.

Other key developments overnight include a noted jump in tanker bookings but that was offset by fears of a price war in Asia to secure sales in the face of fewer offers to buy. However, the US refinery operating rate last week fell down to the lowest level since the end of May with 28.2% of US refineries offline and that means demand for US crude will remain soft and further increases in weekly US crude oil supplies are likely. The Commitments of Traders report for the week ending September 8th showed Crude Oil Managed Money traders net sold 57,391 contracts and are now net long 269,488 contracts. Non-Commercial & Non-Reportable traders were net long 507,436 contracts after decreasing their long position by 48,029 contracts.

In our opinion, we would say the most significant bearish fundamental force in the energy complex right now is the lack of recovery in US gasoline demand. In fact, US implied gasoline demand has not managed to regain the 10-year average or last year's demand levels in any week after the US lockdown in early March and the reading is not showing any signs of noted recovery off loosening US lockdown rules. Fortunately for the bull camp, the gasoline surplus versus year ago levels has been consistently narrowed and with a further decline this week gas stocks could fall below year ago levels for the first time since late March.

Therefore, it is clear that extremely low US refinery operating activity is resulting in a pull down of gasoline inventories despite extremely disappointing demand! Unfortunately for the bull camp, the November gasoline chart at the end of last week damaged the charts late and could be poised for a near term slide to consolidation low support unless macroeconomic conditions and or OPEC+ chatter provides consistent support. The September 8th Commitments of Traders report showed Gas (RBOB) Managed Money traders reduced their net long position by 12,414 contracts to a net long 47,560 contracts. Non-Commercial & Non-Reportable traders are net long 63,880 contracts after net selling 14,905 contracts.

On one hand, the distillate and diesel stocks surpluses versus year ago levels remain extremely burdensome to prices but given the potential for a "mostly liquidated" spec and fund long positioning (following last week's washout) the ULSD market might not be as vulnerable to classic selling as other segments of the complex. The Commitments of Traders report for the week ending September 8th showed Heating Oil Managed Money traders net sold 9,071 contracts and are now net short 18,564 contracts. Non-Commercial & Non-Reportable traders were net long 7,160 contracts after decreasing their long position by 6,607 contracts.

With the natural gas market technically oversold from last week's massive washout, tropical storm Sally thought to become a category one hurricane before landfall, global gas prices making noted gains and US

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LNG production restarting from the last storm shut down prices have reversed course and potentially prompting some stop loss buying. Certainly, the approach of a storm is cause for concern of lost supply, but the track and velocity of the storm does not appear to be as significant as the last storm. While not as important at the storm the US temperature forecast has also shifted in favor of the bull camp with much above normal temperatures pushing to almost the entire western half of the US.

The latest Baker Hughes rig operating count saw a decline of one rig with 71 rigs operating. Canadian gas rigs were unchanged last week at 33. The September 8th Commitments of Traders report showed Natural Gas Managed Money traders were net long 118,358 contracts after decreasing their long position by 13,102 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 3,938 contracts to a net long 58,577 contracts. We see the rally in natural gas this week as primarily short covering action unless initial risk on psychology becomes very prevalent and longer-term demand prospects are improved for all commodities.

## BEANS:

After posting a new contract high, a lower close on Monday will be a key reversal and would suggest the start of a technical correction. November soybeans closed 18 1/2 cents higher for the session on Friday, and this left the market with a gain of 28 cents for the holiday shortened week. The USDA report showed a yield of 51.9 bushels per acre which is slightly above pre-report estimate of 51.7 bushels and the second highest on record. In 2003, with similar July and August weather, the August USDA report showed a soybean yield of 39.4 bushels per acre, up from 38.0 the previous year. But in the Sept report, the USDA lowered its yield estimate to 36.4 bushels per acre. In October that number fell to 34, and by the final update in January it was down to 33.4. In mid-July 2003, 80% of Iowa's crop was rated good to excellent, but by September 10th, the percentage had fallen to 24%. This year, Iowa's crop ratings fell from 84% good to excellent in early July to 47% as of September 6th. This suggests that yield might continue to slide in next month's update.

Ending stocks were revised lower to 460 million bushels, slightly lower than the average estimate of 469 billion bushels and down from August's 610 million bushels. Beginning stocks were revised down by 40 million bushels due to recent strong demand. This is the estimate as of September 1st and we would note that since September 1st, China or unknown destination exports reported on the daily wire of 2.604 million tonnes or near 957 million bushels. World soybean ending stocks came in about as expected at 93.59 million tonnes compared with 96.01 last year and 113.1 million tonnes 2 years ago. We would note that Brazilian production for the coming year was revised up by 2 million tonnes to 133 million. Traders viewed the report as neutral, but with US exports and China data left unchanged, future reports could show higher demand and tighter ending stocks and this supported strong buying. The weekly export sales report showed that for the week ending September 3rd, net soybean sales came in at 3.162 million tonnes as compared with trade expectations for 1.1-1.9 million.

Cumulative soybean sales have reached 53.6% of the USDA forecast for the 2020/2021 (current) marketing year versus a 5 year average of 31.6%. With the fast start, the USDA may already have the data they need to adjust exports higher in the next update in October. Soybeans positioning in the Commitments of Traders for the week ending September 8th showed Managed Money traders added 11,300 contracts to their already long position and are now net long 173,907. The record net long position is 253,889 contracts. For Soyoil, managed money traders were net long 85,299 contracts after increasing their already long position by 3,742 contracts. Non-Commercial & Non-Reportable traders were net long 120,218 contracts after increasing their already long position by 4,551 contracts. For meal, managed money traders are net long 32,119 contracts after net buying 16,248 contracts in just one week.

## CORN:

December corn closed 3 1/2 cents higher on the session Friday and the buying pushed the market up to the highest level since March 20th. For the week, December corn closed 10 1/2 cents higher. The September USDA update was neutral with regards to the US data, but world ending stocks were at the low end of expectations. In addition, traders see some additional damage to Chinese production since September 1st. Yield came in at 178.5 bushels per acre, which was near the pre-report estimate of 178.4 and down from 181.8 in the August report. If achieved, this would be a new record high yield.

Production is pegged at 14.9 billion bushels versus the August estimate of 15.278 billion. If achieved, this would be the second highest on record. Ending stocks were revised lower to 2.503 billion bushels, a little higher than the average estimate of 2.461 billion bushels and down from August's 2.756 billion bushels. This is the highest ending stocks since the 1987/1988 season. The 17.1% stocks/usage ratio is the highest since the 2005/2006 season. The demand news carried a bearish tilt.

Beginning stocks were increased by 25 million bushels and feed usage was revised down by 100 million bushels. Corn used for ethanol production also written devised down by 100 million bushels, but exports were revised higher by 100 million bushels. Ethanol exports may receive a boost from news Friday that the Brazil government plans to extend a tariff-free import program with the US for 90 days starting September 14.

World corn ending stocks came in at 306.8 million tonnes from 317.5 million in August, 309.1 million last year, 320.5 million for 2018/19 and 341.2 million tonnes for the 2017/18 season. Revisions lower for production occurred for the EU and Ukraine, but Brazil production was revised higher by 3 million tonnes to 110 million. The USDA left China's production unchanged and raised their usage. Traders see smaller China corn production ahead.

The weekly export sales report showed that for the week ending September 3, net corn sales came in at 1,823,300 tonnes from trade expectations for 1.0-1.9 million tonnes. Cumulative sales have reached 33.3% of the USDA forecast for the 2020/2021 (current) marketing year versus a 5 year average of 22.1%. The Commitments of Traders report for the week ending September 8th showed managed money traders net bought 14,835 contracts for the week and are now net long 33,494 contracts. Non-Commercial & Non-Reportable traders were net long 63,183 contracts after increasing their already long position by 16,220 contracts for the week and the buying trend is a positive development.

## WHEAT:

December wheat closed 6 1/4 cents lower on the session Friday and the selling pushed the market down to the lowest level since August 27. The market closed 8 1/4 cents lower on the week. The September USDA US report news was neutral, with ending stocks left unchanged at 925 million bushels, which was right on the average estimate. However, the report did help remind the trade that the world is flush with supply. World wheat ending stocks for 2020/21 came in at 319.4 million tonnes, up from 316.8 million in the August report, 299.8 million for 2019/20 and 283.9 million for 2018/19. Both world ending stocks and the world stocks/usage ratio (42.5%) are at all-time highs.

By the end of the 2020/21 marketing year, there will be 154 days of supply on the world market. Ending stocks for major world exporters are expected to increase to 206.65 million tonnes in 2020/21, up from 195.8 million in 2019/20, 182.05 million in 2018/19, and 177.6 million in 2017/18. It will be important for US prices to stay low enough to be competitive on the world export market, as there is plenty of excess supply and plenty of competition. The USDA is estimating Russian 2020/21 wheat production at 78 million tonnes, but there seem to be plenty of analysts who see this number increasing. The USDA left US exports unchanged in this report but raised Canadian exports by 500,000 tonnes to 25 million.

Australian exports were raised to 19 million tonnes from 17.5 million last month. The weekly export sales report showed that for the week ending September 3, net wheat sales came in at 484,400 tonnes as compared with trade expectations for 250,000-600,000 tonnes. Cumulative sales have reached 48.8% of the USDA forecast versus a 5 year average of 46.3%. The September 8th Commitments of Traders report showed managed money traders reduced their net long position by 9,294 contracts for the week and are now net long 23,175 contracts. For KC Wheat, managed money traders added 5,763 contracts to their already long position and are now net long 8,923. Non-Commercial & Non-Reportable traders were net long 14,880 contracts after increasing their already long position by 1,316 contracts.

## HOGS:

It is a major event that Germany has found ASF in a wild boar as the impact could be significant. With enhanced biosecurity measures, it is possible that the disease will not enter the commercial production for a long time. On the other hand, Japan and South Korea and now China over the weekend banned imports from Germany. About 2/3rds of German exports go to China. Imports from the EU have accounted for 53% of total China pork imports so far this year. Germany is the second largest EU supplier and accounted for nearly 14% of China pork imports. Ideas that less German pork available on the world market should help boost both US and Brazil exports helped to support aggressive buying and short covering last week.

December hogs closed 255 points higher on the session Friday after another gap higher opening for the second day in a row. The market closed up 707 points (up 12.1%) for the week. The CME lean index as of Sep 9 was 62.44, up from 61.92 the previous session and up from 57.51 a week before. The USDA pork cutout, released after the close Friday, came in at $80.56, up 61 cents from $79.95 on Thursday and $79.91 the previous week.
In the monthly USDA supply/demand report, the pork production estimates were lowered by 90 million and 30 million pounds for the third and fourth quarters of 2020, and they were lowered by 15 million and 35 million for the first and second quarters of 2021. Total production for 2020 was decreased by 120 million pounds, likewise for 2021.

The USDA estimated hog slaughter came in at 480,000 head Friday and 415,000 head for Saturday. This brought the total for last week to 2.335 million head, down from 2.475 million the previous week and down from 2.632 million a year ago. US pork export sales for the week ending September 3 came in at 30,195 tonnes for 2020 delivery and 58 for 2021 for a total of 30,253. This was down from 53,945 tonnes the previous week and just slightly below the average of the previous four weeks at 31,310.

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Cumulative sales have reached 1.580 million tonnes, up from 1.108 last year and the 5-year average of 950,000. The largest buyer this week was Mexico at 8,854 tonnes, followed by China at 8,301 and Japan at 5,579. China has the largest commitments for 2020 at 599,000 tonnes, followed by Mexico at 407,000 and Japan and 174,000. Friday's Commitments of Traders showed managed money traders were net buyers of 4,839 contracts of lean hogs for the week ending September 8, increasing their net long to 33,616. Non-commercial & non-reportable traders were net buyers of 6,866, increasing their net long to 37,275.

## CATTLE:

Cattle fundamentals look sloppy for the cash market and the beef market but the surge higher in hogs continues to provide overflow support. December cattle closed 47 higher on the session last Friday and closed up 142 points for last week. The USDA estimated cattle slaughter came in at 119,000 head Friday and 95,000 head for Saturday. This brought the total for last week to 574,000 head, down from 633,000 the previous week and down from 636,000 a year ago. The cash live cattle trade exhibited a bit of firmness at the end of last week. The only place with any volume reported was Texas/Oklahoma, where 2,205 head traded at $101.5-$102 and an average price of $101.92, up from $100-$101 the previous session. This was still down from $101-$104 the previous week. As of Friday afternoon, the 5-area, 5-day average price was $101.21, down from $103.04 the previous week.

The USDA boxed beef cutout was down 75 cents at mid-session Friday and closed 94 cents lower at $219.89. This was down from $227.24 the previous week and was the lowest the cutout had been since August 17. In the monthly USDA supply/demand report, the beef production estimates were increased by 5 million, 15 million and 35 million pounds respectively for the third and fourth quarters of 2020 and the first quarter of 2021, respectively. Total production for 2020 was increased by 30 million pounds. Second-quarter 2021 production was lowered by 115 million. This is a bit negative for nearby contracts. Friday's Commitments of Traders report showed managed money traders were net buyers of 593 contracts of live cattle for the week ending September 8, increasing their net long to 58,622 contracts. Non-commercial & non-reportable traders were net sellers of 616, reducing their net long to 61,409.

US beef export sales for the week ending September 3 came in at 15,519 tonnes for 2019 delivery and 85 for 2020 for a total of 15,604. This was up from 11,785 the previous week and above the average of the previous four weeks at 13,800. Cumulative sales for 2020 have reached 706,400 tonnes, down from 735,800 last year at this time but above the five-year average of 659,000. The largest buyer this week was South Korea at 5,641 tonnes, followed by Japan at 4,380, Mexico at 1,298 and China at 1,205. Japan has the largest commitments so far for 2020 at 208,500 tonnes, followed by South Korea at 195,400, Hong Kong at 79,400, and Taiwan at 57,334. China is in seventh place at 25,183 tonnes.

## COCOA:

While cocoa prices consolidated in a relatively tight range over the past 3 sessions, they were unable to avoid a second negative weekly result in a row. Although the market continues to find support from bullish near-term supply factors, cocoa will have trouble regaining upside momentum until there is a definitive rebound in global demand prospects. For the week, however, December cocoa finished with a loss of 47 points (down 1.8%). Drier than normal weather across West African growing areas over the past few months is expected to have a negative impact on the region's 2020/21 main crop production, which provided underlying support to the market as the four major producers in the region (Ivory Coast, Ghana, Cameroon and Nigeria) are all looking to have lower cocoa output this season. In addition, a moderate rebound in the Eurocurrency provided an additional source of strength as it bodes well for European near-term demand prospects.

The global demand outlook over the rest of this year remains subdued, however, particularly with major US cities such as Los Angeles putting significant restrictions on Halloween trick-or-treating. Halloween is the major North American holiday for chocolate consumption and while early wholesale purchases were stronger than market expectations, they will certainly be lower than in previous years. Coronavirus restrictions have also led to a sharp reduction in travel purchases of chocolate, and that has also taken its toll on global demand over this year. The Commitments of Traders report for the week ending September 8th showed managed money traders are net long 35,600 contracts after net buying 2,134 contracts for the week. Non-Commercial & Non-Reportable traders added 277 contracts to their already long position and are now net long 48,603.

## COFFEE:

With demand continuing to show signs of improvement while Brazil's harvest is almost completed, coffee could reach new high ground if dryness issues persist in Brazil. For the week, December coffee finished with a loss of 1.55 cents (down 1.2%). The Brazilian currency fell back into negative territory after first reaching a new 1-week high, which helped to keep further coffee gains in check. The Brazilian trade group Cecafe said that last month's Brazilian coffee exports were 2.2% less than last year's total, which provided early support to the market as it reflects tighter than expected near-term supply in spite of Brazil's 2020/21 "on-year" crop that is widely expected to reach a record high total.

On the other hand, Brazil's 2021/22 "off-year" crop is already dealing with much drier-than-normal conditions going into the early stages of their flowering period, and that could set the stage for a reduction in Arabica yields. A 31% year-over-year decline in August Guatemalan exports provided further evidence of tightening Central American supply that may become a stronger factor for the market now that Brazil's harvest is nearly complete. Colombia's national coffee growers federation said that their 2021 production could fall to 13.5 million bags if a La Nina weather event negatively impacts their flowering.

ICE exchange coffee stocks fell by 15,760 bags on Friday and have reached another multi-decade low as they are over 116,000 bags lower than their August month-end total less than halfway through the month of September. The Commitments of Traders report for the week ending September 8th showed managed money traders net bought 5,866 contracts for the week and are now net long 48,450 contracts. Non-Commercial & Non-Reportable traders were net long 60,941 contracts after increasing their already long position by 3,834 contracts.

## COTTON:

The cotton market reacted positively to the USDA supply/demand report Friday, but sold off steadily after that and made new lows before closing unchanged. News of more rain and possible flooding this week in Texas helped to support the bounce. The report showed a drop in the US production estimate, but overall it was less bullish than trade expectations due to revisions lower in US exports and domestic usage. US 2020/21 cotton production came in at 17.06 million bales, down from 18.08 million in the August estimate and below the average pre-report trade estimate at 17.57 million. The decline was due to revisions lower in acreage and yield. However, exports were lowered to 14.60 million bales from 15.00 million in August. This was counter to average expectations calling for an increase to 15.19 million. US ending stocks were lowered to 7.20 million bales from 7.60 million in August, but this was above the average pre-report estimate of 7.01 million.

The world numbers were a bit more supportive against expectations but the burdensome world supply is a longer-term bearish force. World ending stocks for 2020/21 were lowered to 103.84 million bales from 104.91 million in August and below the pre-report estimate of 104.44 million. This was primarily to due to a decline in 2019/20 ending stocks to 99.44 million bales from 100.56 million in August. Even with the slight improvement in the supply/demand setup, the US stocks/use ratio for 2020/21 is estimated at 42.1%, which is the highest is has been since 2007/08. World ending stocks are the highest they have been since 2014/15. The weekly export sales report showed US cotton export sales for the week ending September 3 came in at 126,671 bales for the 2020/21 (current) marketing year and 70,400 for 2021/22 for a total of 197,071. This was up from 131,458 the previous week and was the highest weekly total since June 25. Cumulative sales for 2020/21 have reached 7.110 million bales versus 8.248 million last year at this time, 8.754 million in 2018, and a five year average of 6.224 million.

Cumulative sales have reached 51% of the USDA's forecast for the marketing year versus a five-year average of 45%. China was the largest buyer this week at 79,077 bales, followed by Vietnam at 20,272. China has the largest commitments for 2020/21 at 2.628 million bales, followed by Vietnam at 1.073 million. China's commitments are up from 1.782 million bales a year ago and a five-year average of 1.111 million. Friday's Commitments of Traders report showed managed money traders were net sellers of 6,767 contracts of cotton for the week ending September 8, reducing their net long to 46,464. This was still the third-longest they had been since October 2018.

## SUGAR:

The sugar market is finding little carryover support from outside markets and continues to be weighed down by bearish global supply factors. March sugar fell to a new 6 1/2 week low Friday. For the week, March sugar finished with a loss of 1 tick and a fourth negative weekly result in a row. The combination of sluggish energy prices and a pullback in the Brazilian currency weighed on the sugar market as they continue to encourage Brazil's Center-South mills to produce more sugar at the expense of ethanol. Over the first five months of their 2020/21 season (April-August), Center-South mills have devoted 47% of their crushing to sugar production (versus 35.5% over that same timeframe last year). That came with crude oil prices during late August nearly $20 per barrel above their late April lows, while they finished Friday over $5 below their August month-end levels.

The USDA's latest Supply/Demand report adjusted US 2020/21 stocks/usage from 14.6 to 13.5 due in part to a drop in imports from Mexico, and that provided some measure of support. In addition, the USDA boosted US sugar import quotas by more than 90,000 tonnes during the 2020 fiscal year and extended their quota deadline through the end of October which is a positive sign for domestic demand. Sugar positioning in the Commitments of Traders for the week ending September 8th showed managed money traders were net long 166,472 contracts after decreasing their long position by 23,609 contracts in just one week (long liquidation).

ADM Investor Services, Inc.

## WEEKLY MARKET SUMMARY

14 September, 2020

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