ADM Investor Services, Inc.

WEEKLY MARKET SUMMARY

28 September, 2020

For the Week of September 28, 2020

BONDS:

The Treasury bond market surprised late last week with a quasi-upside breakout on its charts after a recent pattern of sideways coiling. While the miss on the durable goods headline reading was not significant and it remained in positive territory for the 4th straight month, that reading kept alive the idea that US growth was moderating. With equities under pressure last week, fears of an escalation of US tariffs this week and a high level of volatility in equities, the path of least resistance looks to remain up in bonds and notes. Historically, many markets have reached key tops or bottoms following extreme predictions from professional traders. Recently a respected economist/trader suggested that rates would remain low "forever" and while that might have been partially tongue in cheek, that type of view has been echoed by many other analysts.

In fact, the press carried a story suggesting that real rates on major sovereign debt are likely here to stay! However, equity markets have started out on a positive track with what would be a 3rd straight higher close and the highest trade since September 18th. With the Speaker of the House over the weekend indicating there is a chance for a stimulus package later this week (likely after the Presidential debates) it is not surprising that treasury bonds fell back from their early highs. Some political analysts have suggested the Democratic controlled House will agree to a slightly smaller package in-the-event that Biden is seen as the clear winner of the debate. Those same political analysts suggest if Trump clearly wins the debate the stimulus will be delayed, in-order-to avoid improving sentiment for the incumbent just ahead of the election.

On the other hand, there would not appear to be a quick pace of negotiations on either side of the aisle on the stimulus and therefore 2nd and 3rd tier US economic data is likely to drive treasury prices today. The lone US report is the Dallas Fed manufacturing business index which lacks might be bearish as Texas has been an above average performing economy since the pandemic panic hit in March. At least until the debate is past on Tuesday night, we suspect that treasuries will continue their coiling action. Bonds positioning in the Commitments of Traders for the week ending September 22nd showed Non-Commercial & Non-Reportable traders net sold 9,474 contracts and are now net short 146,775 contracts. For T-Notes Non-Commercial & Non-Reportable traders net bought 77,670 contracts and are now net long 163,584 contracts.

CURRENCIES:

The dollar index continues to be king with soft economic data, fear of further losses in equities and unrelenting infection problems throughout the world, the currency index appears to be settling into an uptrend. Obviously, the primary currencies under pressure because of the deteriorating global economic condition are the euro and Swiss franc which could have significant declines ahead. Even the British pound would appear to be vulnerable after avoiding some of the aggressive selling seen in the euro and Swiss franc las week. Given the currency trade's tendency to micro-manage action in the markets, the setback in the dollar early this week is perceived as something of significance.

On the other hand, in the event that the December dollar index takes out the recent double low at 94.22, that could embolden the bear camp and push the currency index back below 94.00. At least in the early going, talk of forward progress on a US stimulus package prompted safe-haven longs in the dollar to liquidate especially with US equity showing fairly strong gains early on. On the other hand, with the rally in the dollar last week we suspect that the spec and fund long from the COT positioning report shifting back into a net short that could facilitate some fresh stop loss selling. Dollar positioning in the Commitments of Traders for the week ending September 22nd showed Non-Commercial & Non-Reportable traders net bought 289 contracts and are now net short 8,288 contracts.

While all currencies are benefiting from the setback in the dollar and from the economic hope generated by positive US stimulus package prospects, the euro is not showing the type of gains one might expect if a major turn up in the currency was in the offing. Therefore, we see initial resistance in the December euro at 1.170 holding prices down unless US equities range up sharply and there are further optimistic stimulus comments from Washington officials. The September 22nd Commitments of Traders report showed Euro Non-Commercial & Non-Reportable traders net bought 1,714 contracts and are now net long 238,594 contracts.

Surprisingly, the Japanese Yen traded higher early this week despite the modest risk on environment. However Japanese leading and coincident economic indicators for July were significantly above the prior month providing some respect for the Japanese economy. Furthermore, the Yen last week rallied in the face of dollar gains and in the wake of US equity market gains. Therefore, it is possible that the Yen could reverse the late September downtrend with a trade back above 95.13. While the Swiss franc rejected the probe below 1.08 from last week, the charts remain distinctly negative from the entrenched downtrend from the middle of the month. In our opinion, without a very distinct extension of risk on, the current rally is highly suspect.

The sharp upward extension in the Pound early this week is very surprising with headlines from the UK pointing to the potential for tighter restrictions on UK social interaction, news that UK retail shopping numbers have softened and from suggestions that the UK will not reach a trade agreement with US until "mid next year". Nonetheless, the strong technical

action and early risk on action looks to project a near term return to the top of the 2nd half of September trading range.
Despite definitive movement in other currency markets, the Canadian has remained in a tight coiling pattern perhaps because word of tightening of personal interactions in Canada and possibly from the oversold condition of the currency into last week's lows. However, the inability to hold above a recent double low around 74.54 could spark a sharp resumption of the September downtrend.

STOCKS:
With a significant washout for the week, the bear camp should be emboldened even if it would appear as if the December S&P found some sort of credible support at the 3200.00 level. Apparently, the hope for stimulus progress failed to propagate and without a strong likelihood of progress in the short term, it could be difficult for the equity markets to throw off the current downtrend/correction. On the other hand, Boeing saw positive news after a European regulator indicated they will likely lift the ban on the 737 Max in November. Global equities were mostly higher early this week with markets in China and Australia forging very minimal declines. Apparently, the Chinese equity markets were not lifted by news that Chinese industrial profits in the country expanded for the 4th straight month last month. Obviously, indications from the Leader of the House of Representatives that a stimulus package could be reached has added to the recovery bias in stocks from late last week.

While the S&P had a positive buzz from global equity gains, from slightly positive Chinese corporate profits and from some buyout/going private news, the gains in the market might be considered short covering. In other words, the latest positioning report showed the S&P into last Tuesday in the COT report transition from a long-held net short into a minor net long and that shows a buying trend was already transitioning before the late in the week recovery. E-Mini S&P positioning in the Commitments of Traders for the week ending September 22nd showed Non-Commercial & Non-Reportable traders went from a net short to a net long position of 23,631 contracts after net buying 108,260 contracts. However, in the end the sharp range up action could project an extension today up to 3363 if Washington news remains optimistic toward virus relief.

With the Dow futures early this week reaching the highest level since the big range down washout on September 21st, technical signals have shifted in favor of the bull camp. However, the bear camp could instantly gain control in-the-event that either side of the aisle in the House of Representatives suggests the stimulus package is still a long way from an agreement. On the other hand, the latest positioning report in the Dow futures still showed a net spec short and therefore the market probably has the capacity to fuel further gains. The September 22nd Commitments of Traders report showed Dow Jones $5 Non-

Commercial & Non-Reportable traders are net short 13,864 contracts after net selling 3,174 contracts.

Seeing a US judge stepping in against the Trump administration's ban on TikTok downloads combined with a generally optimistic global equity market bias justifies strength early this week. In fact, with a trade above 11,288 (the September 17th high) the technical condition favors a possible rally above 11,500. Furthermore, the latest positioning report in the NASDAQ showed a large net spec and fund short and that should feed stop loss buying action early this week. Nasdaq Mini positioning in the Commitments of Traders for the week ending September 22nd showed Non-Commercial & Non-Reportable traders net sold 64,004 contracts and are now net short 118,879 contracts.

GOLD, SILVER & PLATINUM:

Weakness in the gold and silver prices early this week is a very bearish development as a number of factors should have provided lift to the markets. In fact, last week gold and silver appeared to be tracking physical commodity market developments and yet further strength in equities and upbeat Chinese data has been discounted in favor of ideas that the pace of Chinese growth is leveling out. Even more disappointing to the bull camp is the fact that the dollar is showing signs of weakness and Nancy Pelosi has indicated there is a chance for a stimulus package and yet gold and silver are under pressure. So far, gold has not benefited from signs that the US election might offer significant turmoil from a mechanical perspective, as there have been several instances where full trays of mailed ballots have been tossed out or found in odd places. However, the internal developments in the political race are likely to ratchet up some safe haven interest into the debate on Tuesday.

On the other hand, given the significant high to low slide in gold of $111 and the fact that the net spec and fund long positioning in gold "early last week" was still large at 291,520 contracts, we suspect that more specs and funds will be forced from the market. In order to see the net spec and fund long in gold reach one-year lows and mostly liquidated status, might require another 30,000 net long liquidations. On the other hand, December gold into the lows early this week has fallen $57 from the COT report mark-off and that should mean the market is getting closer to mostly liquidated status. The Commitments of Traders report for the week ending September 22nd showed Gold Managed Money traders reduced their net long position by 34,162 contracts to a net long 131,089 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 28,507 contracts to a net long 291,520 contracts.

In the end, the gold market appears to be behaving like a classic physical commodity market fearful of a return to slower growth and therefore without straight away continued declines in the Dollar and sharply higher equities, the gold bulls will need to see forward movement toward a US stimulus package or gold will fail at critical support of $1,850. From the technical side of the equation, the December gold contract needs to avoid closing below its 100-day moving average at $1.863.40. Another negative for the bull camp in gold is the fact that gold ETF's on Friday reduced their holdings by 96,830 ounces and that was the 4th straight day of declines. However, gold ETF's last week overall, increased their gold holdings by 548,206 ounces.

While the silver market fell below its 100-day moving average last Thursday it bounced aggressively from that average and that level could be some type of fresh failure point if prices return to that level down at $22.09. In other words, silver needs forward progress on stimulus gains and/or gains in equities in excess of 2% to begin to build solid consolidation pricing above $22.50. Unless the fundamental headline flow changes 180 degrees, a rally in silver should be considered nearly a bounce. As for spec positioning in the silver market, the latest COT report showed the specs and funds still have a long 56,623 contracts above the 2020 low posted in May which suggest more long liquidation is possible. On the other hand, from the last COT report silver prices into last week's low declined by $2.30 and that could have put the net spec and fund long down at the lowest levels since June of 2019. Silver positioning in the Commitments of Traders for the week ending September 22nd showed Managed Money traders are net long 35,583 contracts after net selling 3,704 contracts. Non-Commercial & Non-Reportable traders net sold 5,263 contracts and are now net long 56,623 contracts.

Like the rest of the precious metals markets, the palladium market was hit hard last week but did appear to respect what has been fairly solid support in the recent past at $2,200. In our opinion, the palladium market has a much better chance of delinking with the rest of the precious metals markets (which are trading like physical commodities fearful of slackening economic activity) primarily because of its demand expectations are linked to China and economic news from China was generally supportive. However, given the sluggishness of palladium over the prior 4 trading sessions, the bull camp might need help from a sharp surge in equities, sharp declines in the Dollar and forward progress on stimulus to forge anything other than a technical bounce.

While the net spec and fund long in palladium was already very low, we suspect it was lowered even further by the post report slide of $45. Palladium positioning in the Commitments of Traders for the week ending September 22nd showed Managed Money traders are net long 3,968 contracts after net buying 66 contracts. Non-Commercial & Non-Reportable traders net sold 525 contracts and are now net long 3,539 contracts. On Friday, palladium ETF's liquidated 2,979 ounces from their holdings with net holdings on the week declining by only 539 ounces. While the platinum contract is not showing significant gains early this week, it continues to recoil from last week's hard washout and might be catching some fresh buying from news that platinum ETF's on Friday added 19,525 ounces to their holdings, with total ETF holdings increasing last week.

Certainly the platinum market saw a significant washout last week, but into the low last week the market had fallen by $173 from the September high and that likely pulled down a somewhat burdensome net spec and fund long sharply. However, given that platinum positioning early last week was already the lowest since April and the market from that report into last week's low fell by another $21 the market probably has the smallest net long since July 2019! The September 22nd Commitments of Traders report showed Platinum Managed Money traders were net long 1,619 contracts after decreasing their long position by 9,851 contracts. Non-Commercial & Non-Reportable traders are net long 17,336 contracts after net selling 9,347 contracts. The platinum market has liquidated its internal overbought condition and appears to have found some measure of support at the $850 level, but the market will need persistent risk-on psychology from equities and forward motion on the stimulus package to respect $850.

COPPER:

Not surprisingly, the copper market has shown some bullish reaction to news that Chinese corporate profits managed to gain for the 4th straight month. However, some economists suggested the reading represents a "cresting" of the recovery and that discourages some buying. While global equity markets were higher early this week, Chinese equity market action was negative to copper prices as was a report that Chinese aluminum "supply/imports" have reached unprecedented levels. On the other hand, the trade is pointing out the fact that aluminum inventories inside the country are not building from the massive incoming flow and that has been interpreted as a sign of strong consumption for copper and iron ore markets in the last several weeks. While the copper market fell back from the level where the last positioning report was calculated, the net spec and fund long in that report was a new record high.

However, the net spec and fund long in copper was brought down after the COT report but it probably would probably registered a significantly higher all-time high if the report was measured at last week's high! Certainly, the copper market is gaining some support from a very large weekly Shanghai copper stocks decline last week as the Shanghai copper stocks decline was the largest weekly decline since May and the LME copper stocks were within 205 tonnes from a new multi-decade low. Offsetting the significant tightness in LME copper warehouse stocks is news that LME copper stocks jumped by a very significant 29,000 tonnes. The September 22nd Commitments of Traders report showed Copper Managed Money traders net long 87,308 contracts after net buying 10,611 contracts. Copper Non-Commercial & Non-Reportable traders hit a new extreme long of 69,224 contracts. Non-

Commercial & Non-Reportable traders are net long 69,224 contracts after net buying 6,694 contracts.

ENERGY COMPLEX:
The crude oil market generally coiled within a range last week, but technical traders will suggest the coiling pattern still had a very modest upward tilt, which in turn extended the recovery from the September 20th low. In fact given a risk-on condition early this week, word that floating storage is now 33% below the June highs and signs of a reversal down in the Dollar the bull camp looks to have some protection against bearish news. Unfortunately for the bull camp, Brent crude spreads might be negative to prices this week and initial news this week has already offered fresh fears of demand destruction from a large drop of August global refinery activity off the unrelenting virus spread. In fact, Indian August crude runs were down by 26.4% from year ago levels, which in turn represents an 8.7% decline from July.

Further negative news was seen from headlines touting overall declines in Asian demand. Additional negative supply news from the end of last week included a 4-rig increase in the Baker Hughes oil rig count which brought that reading up to a 12-week high! Furthermore, Canadian oil rigs operating increased by 3 rigs to a 27-week high. Yet another negative heading forward is evidence that Iranian oil exports this month have jumped above sanction levels! However, if the US President decides to come down hard on Iran could incite some type of bullish threat to Middle East supply flow. Another potential bullish item in the week ahead is the potential for a strike in Norway on September 30th which in turn could lock out 900,000 barrels per day of oil equivalent.

From a positioning perspective, the crude oil market has seen its net spec and fund long position come down considerably since the 2020 high but the reading is still above 4 month lows. The Commitments of Traders report for the week ending September 22nd showed Crude Oil Managed Money traders net bought 29,108 contracts and are now net long 324,496 contracts. Non-Commercial & Non-Reportable traders were net long 524,610 contracts after increasing their already long position by 21,844 contracts. Like many other physical commodities, the energy markets will take a significant amount of direction from US equities, the US dollar and the US political wrangling over stimulus.

In retrospect, the gasoline market was the standout performer of the energy complex last week, with the US refinery operating rate continuing to be "more than" an offset to sluggish demand. In fact, the US refinery operating rate last week declined by 1% and has more than 25% of its refineries idled which in turn sent the EIA gasoline stocks readings below year ago levels for the first time since the beginning of the pandemic! It should also be noted that an estimate last week indicated up to 1 million barrels per day of global refinery capacity would be "permanently" shut down.

However, demand fears continue to lurk under the surface, with Indian demand thought to be in a sharp decline due to its spiraling infection count, reports that September fuel oil flows to the Americas from Asia might reach a 5-month high and from ongoing demand threats accentuated by renewed activity restrictions in the US. As for technical positioning, the gasoline market continues to hold in the lower half of the last 12 months range for the spec long categories and therefore, the market is not overly vulnerable to aggressive stop loss selling. In conclusion, the gasoline market will take significant macroeconomic direction from equities and the headlines flowing from global infections. The September 22nd Commitments of Traders report showed Gas (RBOB) Managed Money traders were net long 46,449 contracts after increasing their already long position by 2,121 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 4,068 contracts to a net long 56,992 contracts.

While there were some upbeat headlines for diesel last week in the form of a sharp decline in Singapore stocks, a nearly liquidated net spec and fund long positioning and from declines in both distillate and diesel stocks at the EIA, the market remains vulnerable to selling. Fortunately for the bull camp, the market does have solid consolidation low support down at $1.0988 and the market could draft some support from residual strength in RBOB. Heating Oil positioning in the Commitments of Traders for the week ending September 22nd showed Managed Money traders net sold 4,868 contracts and are now net short 16,915 contracts. Non-Commercial & Non-Reportable traders net bought 2,529 contracts and are now net long 9,328 contracts.

We view the natural gas market as too expensive given classic supply and demand fundamentals. Certainly, the bull camp took control last week off what appeared to be a sudden shift in long-term demand prospects following very cold winter forecasts and a sharp upward adjustment in Chinese LNG import readings (Chinese also indicated they would add significant LNG storage). However, the potential to see a strike in Norway could idle as much as 990,000 barrels oil equivalent (meaning combined oil and gas production) and that lends some support to prices. However, the strike is not expected to start until September 30th and that leaves some time for government negotiators to solve the conflict. From a technical perspective, the net spec and fund long in natural gas adjusted into the high last week, probably leaves the net spec and fund long at the highest level since May 2017 which in turn was the record long reading!

The Commitments of Traders report for the week ending September 22nd showed Natural Gas Managed Money traders are net long 99,766 contracts after net selling 21,782 contracts. Non-Commercial & Non-Reportable traders were net long 68,012 contracts after decreasing their long position by 8,423 contracts. It is possible that the market might draft some support from a slightly hotter US near term temperature forecast out to October 11th as that forecast shows nearly 2/3rds of the US above normal. As of this writing, there were no tropical storm activities documented in the Atlantic Ocean. Last week the Baker Hughes gas rig operating count in the US was up two to an 11-week high, while Canadian gas rigs increased by 4 which in turn was a 27-week high.

BEANS:

Traders believe that China may have slowed their buying of US soybeans, and this along with an active harvest over the weekend were seen as factors to limit the bounce on Friday. November soybeans closed higher on the session Friday after the break to the lowest level since September 16th failed to attract new selling interest. This left the market down 41 cents for the week or down 3.9%. Exporters announced the sale of 100,000 tonnes of US soybean meal to unknown destination. The Buenos Aries Grains Exchange sees the 2020/21 soybean crop for Argentina at 46.5 million tonnes as compared with 49.6 million last year. La Nina dry conditions have traders nervous over potential production problems ahead. Keep in mind that the USDA forecast is 53.5 million tonnes so if the exchange estimate is correct, world ending stocks would be adjusted lower by 7 million tonnes. If so, this would drop the world's stocks/usage to 23.4%, the lowest since 2013/14 season. Traders continue to monitor the dryness situation in parts of Argentina and Brazil with a La Nina threat.

Crushing for the 2020 season that began in April, with start of the soy harvest, was 18.8 million tonnes through August, 12% less than in 2019, the Rosario Board of Trade indicated. Argentina has crushed just 32% of soybeans that it produced and will import so far this season, the lowest proportion for Rosario data going back to 2014. Into the heart of the harvest, traders will monitor the producer results out of the field as an abundance of reports of below expectation yield could provide support. For the USDA quarterly grain stocks report for release next week, traders see soybean stocks on September 1 at 576 million bushels, 490-608 range, as compared with 909 million bushels last year.

The September 22nd Commitments of Traders report showed soybeans managed money traders added 19,369 contracts to their already long position in just one week and are now net long 211,143 contracts. Non-Commercial & Non-Reportable traders are net long 216,280 contracts after net buying 10,445 contracts. For soyoil, managed money traders added 7,138 contracts to their already long position and are now net long 101,702 contracts. Non-Commercial No CIT traders are net long 84,023 contracts after net buying 7,984 contracts. For meal, managed money traders were net long 65,248 contracts after increasing their already long position by 21,551 contracts for the week. The aggressive buying from fund traders is positive but leaves soybeans overbought.

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CORN:

Traders will monitor harvest results over the near term closely as very strong demand could cause a tighter corn stocks situation if yield begins to come in below expectations. If corn yield in the October report is adjusted down to 176 bushels per acre, and China buys an extra 8 million tonnes from the US, ending stocks could drop below 2 billion bushels which would be a five year low. December corn managed to close higher on the session Friday even with a strong US dollar and expectations for an active harvest over the weekend. The demand tone is strong and open interest has been steady which might suggest that long liquidation selling is not a huge issue. In fact, the COT report showed fund traders as significant new buyers, not in long liquidation mode. For the week, December corn closed 13 1/4 cents lower.

China imported 460,824 tonnes of corn from the U.S. in August to cool down local prices. China bought 134,397 tonnes in July. Imports from Ukraine, the country's top supplier, dropped to 543,781 tonnes in August from 773,821 tonnes in July. For the USDA quarterly grain stocks report, traders see corn stocks on September 1 at 2.250 billion bushels (2.120-2.574 billion range) as compared with 2.221 billion last year. Very strong demand from China and talk of a slight revision lower for yield in the US are factors which could provide longer-term support for the corn market. Cumulative export sales have already reached 38.3% of the USDA forecast for the 2020/2021 marketing year versus a 5 year average of 24.9%. The September 22nd Commitments of Traders report showed managed money traders net bought 37,356 contracts for the week and are now net long 95,912 contracts. Non-Commercial No CIT traders added 45,681 contracts in just one week to their already long position and are now net long 75,610.

WHEAT:

Russian wheat prices pulled back this week after seen gains the previous three weeks. The winter wheat crop is about 60% planted which is about normal for this time of the year but the topsoil is dry and crops will run out of time for development without some good rain soon. Producers need rain to advance the planting progress and this will become a more important issue just ahead. December wheat closed moderately lower on the session Friday with an inside trading day. It was the lowest close since September 16th and the market closed 30 3/4 cents lower on the week or down 5.3%. A rally in the US dollar to the highest level since July 23rd was seen as a negative force.

The USDA shows record world ending stocks, and gains in the US dollar will just limit US exports. Better weather for crops in Argentina and Ukraine over the weekend added to the negative tone. For the USDA quarterly grain stocks report, traders see wheat stocks as of September 1 at 2.242 billion bushels (2.15-2.38 billion range) as compared with 2.346 billion last year. For the wheat production estimates, traders see all wheat production at 1.841

billion bushels (1.823-1.920 range), as compared with the August USDA estimate of 1.838 billion bushels. Traders see a small adjustment lower in soft red winter wheat.

Without some significant help from production problems at one of the key world producers, the wheat market may continue to find selling pressure from the burdensome world supply. The September 22nd Commitments of Traders report showed managed money traders were net long 14,543 contracts after decreasing their long position by 569 contracts. CIT traders reduced their net long position by 2,528 contracts For KC wheat, managed money traders added 8,271 contracts to their already long position and are now net long 18,463. CIT traders added 1,492 contracts to their already long position and are now net long 60,799.

HOGS:

December hogs opened sharply lower on the session Friday after the bearish Hogs and Pigs report, but the market closed sharply higher with an outside-day up. The buying pushed the market up to the highest level since September 14th. The bearish hogs and pigs report was offset by very strong rally in both the lean index and also the recent strength in the pork product market. This suggests that short-term export demand is stronger-than-expected. The CME lean index as of Sep 23 was 73.70, up from 72.89 the previous session and up from 67.84 a week before. The USDA pork cutout, released after the close Friday, came in at $90.79, down 72 cents from Thursday but up from $86.46 the previous week and $72.30 a year ago.

The USDA estimated hog slaughter came in at 478,000 head Friday and 230,000 head for Saturday. This brought the total for last week to 2.627 million head, up from 2.578 million the previous week but down from 2.641 million a year ago. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,108 contracts of lean hogs for the week ending September 22, increasing their net long position to 43,580 contracts. Non-commercial & non-reportable traders combined were net buyers of 3,364, increasing their net long to 51,143. CIT traders were net buyers of 771 contracts, increasing their net long to 77,968.

CATTLE:

The Cattle on Feed Report was bearish against trade expectations, especially for the deferred contracts. August placements came in at 109.2% of last year which was well above trade expectations for 5.8% above last year and near the high end of estimates. Marketings for the month of August came in at 96.9% of last year as compared with expectations for 96.6%. This brought the September 1st On-Feed number to 103.8% of last year, which was well above the average estimate of 103.3% and near the high end estimate. The higher than expected placements would suggest higher than expected slaughter for early 2021.

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December cattle closed moderately lower on the session Friday with an inside trading session. The USDA boxed beef cutout was up $1.74 at mid-session Friday and closed $1.86 higher at $219.34. This was up from $215.64 the previous week and was the highest the cutout had been since September 11. Cash live cattle trade volume was moderate on Friday, but heavy volume was confirmed on Thursday at prices that were generally $1.00-$1.50 higher than the previous week. As of Friday afternoon the 5-day, 5-area average price was $104.97, up from $103.55 the previous week and $101.21 the week before that.

The market seems hesitant to move to new high ground with the very heavy weights and with fears of a slowdown in demand just ahead. The USDA estimated cattle slaughter came in at 112,000 head Friday and 57,000 head for Saturday. This brought the total for last week to 651,000 head, up from 645,000 the previous week and up from 650,000 a year ago. Beef production last week was up 2% from last year. Friday's Commitments of Traders showed managed money traders were net sellers of 1,621 contracts of live cattle, reducing their net long to 57,999. This is a slight long liquidation selling trend. Non-commercial & non-reportable traders were net sellers of 1,352, reducing their net long to 61,570.

COCOA:

With global demand concerns a front and center issue, cocoa prices have been weighed down by a generally negative tone from its key outside markets. As the 2020/21 season starts later this week, however, several bullish near-term supply developments may help the cocoa market hold its ground above its mid-September lows. December cocoa was unable to hold onto moderate early support as it fell back on the defensive and finished Friday’s trading session with a sizable loss. For the week, December cocoa finished with a loss of 73 points (down 2.8%) which was a third negative weekly result over the past 4 weeks.

The Eurocurrency extended its pullback to a new 9-week low, and that became a major source of carryover pressure on the cocoa market as a weaker currency will make it more difficult for Euro zone grinders to acquire near-term supply during the early stages of the 2020/21 season. Major Euro zone stock indices had a negative finish to the week, but the late rally in US shares Friday could lead to knock-on buying in Asian and European equities that in turn can provide fresh carryover support. Cocoa still had a sizable quarterly gain after last week’s pullback, and so the market came under additional long liquidation going into the weekend. With sizable increases in minimum farmgate prices for Ivory Coast and Ghana during the 2020/21 season, last week’s port arrivals are likely to be at low levels.

There is daily rainfall in the forecast for many West African growing areas through the middle of next week and while that should provide some overall benefit for the 2020/21 main crop, it may disrupt the drying of cocoa beans and the transportation of beans to port facilities over the next few weeks. Cocoa positioning in the Commitments of Traders for the week ending September 22nd showed Managed Money traders were net long 34,541 contracts after decreasing their long position by 6,390 contracts. CIT traders net sold 1,695 contracts and are now net long 43,634 contracts. Non-Commercial No CIT traders reduced their net long position by 4,708 contracts to a net long 18,069 contracts. Non-Commercial & Non-Reportable traders were net long 50,806 contracts after decreasing their long position by 5,972 contracts.

COFFEE:

Coffee prices remain well below their early September highs, but they appear to have turned a corner after last week's late recovery that came in spite of a record high Brazilian crop. While coffee prices are still showing a quarterly gain, they are on-track for a sizable monthly loss which may help to limit end-of-quarter long liquidation this week. December coffee was able to bounce back from a midsession pullback and extend its recovery move with a sizable gain during Friday's trading session. As a result, December coffee finished with a weekly gain of 0.15 which was also a positive weekly reversal from Wednesday's 9-week low.

A shift towards drier and warmer conditions over major Brazilian Arabica-growing region provide significant support to the coffee market as it could indicate that last week's rainfall event did not provide lasting benefit to their 2021/22 crop going into their major flowering period. Early estimates are calling for Brazil's coffee exports to reach a record high for any September, and the largest coffee exports for any month since December 2018. As a result, Friday's more than 1% pullback in the value of the Brazilian currency may have kept further coffee prices gains in check as extended weakness in their currency could make Brazil's producers more aggressive in marketing their near-term supply to foreign customers. The Honduran Coffee Institute forecast their nation's 2020/21 coffee exports at 6.29 million bags which would be a 14% increase from this season.

ICE exchange coffee stocks fell by 1,130 bags on Friday and with 3 sessions left in September are on-track for an eighth monthly decline in a row with 5 of those larger than 100,000 bags. Coffee positioning in the Commitments of Traders for the week ending September 22nd showed Managed Money traders are net long 44,416 contracts after net selling 7,415 contracts. CIT traders are net long 62,439 contracts after net selling 1,605 contracts. Non-Commercial No CIT traders net sold 3,438 contracts and are now net long 32,094 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 5,167 contracts to a net long 59,839 contracts.

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28 September, 2020

COTTON:

The cotton market remains in a short-term consolidation period and the technical action improved with the rally on Friday. Open interest remains very high and it will take reports of significant damage to the cotton crop in order to expect a resumption of the uptrend. There have been significant flooding issues with bolls open, and we cannot rule out a resumption of the uptrend with 67.80 as next upside target for December cotton. There are concerns that the wet weather in the southeast is delaying the harvest, not necessarily damaging the crop. There are 1-3 inches of rain expected in the western part of the Carolinas. The 6-10 and 8-14 day forecasts are calling for below normal temperatures and precipitation across the Delta and southeastern US. West Texas is expected to see low rainfall as well, but temperatures are closer to normal.

The Dollar Index continued its rally off the September 1st low and traded to its highest level since July 23 on Friday. The stronger dollar makes US cotton less competitive on the world market. However, equity markets were also higher on Friday, and this presents a more optimistic tone for demand. Increasing financial volatility ahead of the election could make cotton bulls nervous. Safras & Mercado has revised its forecast for Brazil's 2020/21 cotton crop to 2.595 million tonnes (11.92 million bales) from 2.865 million tonnes. (13.16 million bales) previously. The September USDA estimate was 12.00 million bales. Friday's Commitments of Traders report showed managed money traders were net buyers of 1,483 contracts of cotton for the week ending September 22, increasing their net long to 51,311.

SUGAR:

Sugar remains on-track for a fifth monthly gain in a row and second quarterly gain in a row in spite of a bearish 2020/21 global supply outlook. This has resulted in a sizable build-up in sugar's net spec long position, so sugar will need to receive sizable carryover support from its key outside markets to avoid additional month-end and quarter-end long liquidation. March sugar kept within a fairly tight range as it built on early support and finished Friday's trading session with a moderate gain. For the week, March sugar finished with a gain of 13 ticks (up 1.0%) which is a second positive weekly result in a row. Thailand Sugar Mills forecast their nation's 2020/21 sugar production at 7.2 million tonnes, which is on the lower end of recent trade estimates and would be an 11-year low, which provided the sugar market with underlying support as a large portion of their output shortfall will be reflected in lower Thai exports.

A 1% pullback in the Brazilian currency kept further gains in check as that will encourage Brazil's Center-South mills to continue favoring sugar over ethanol for their remaining crushings this season. Keep in mind that 47% of Center-South crushings from April through mid-September have been diverted to sugar production, which compares to 35% during the same timeframe last season and occurred in spite of a sizable rebound in energy prices during that period. There are dry and very warm conditions forecast for many Center-South cane-growing regions through the middle of next week that will have a negative impact on late-harvested cane, but will also reduce harvesting and crushing delays through the first week of October.

S&P Global Platts said that 2019/20 global sugar consumption was cut by 2.5 million tonnes due to the negative impact of the coronavirus pandemic, which reduced their global production deficit forecast down to just 260,000 tonnes. However, they expect global consumption to increase by 1.5% during the 2020/21 season. The September 22nd Commitments of Traders report showed Sugar Managed Money traders net bought 33,041 contracts and are now net long 182,582 contracts. CIT traders are net long 251,814 contracts after net selling 3,234 contracts. Non-Commercial No CIT traders net bought 32,059 contracts and are now net long 144,548 contracts. Non-Commercial & Non-Reportable traders added 35,193 contracts to their already long position and are now net long 270,942.

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