ADM Investor Services, Inc.

Weekly Futures Market Summary

by The ADMIS Research Team
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BONDS:
The treasury bond market ranged sharply lower late last week with the highest yield readings since the week of February 24th, but the market did bounce moderately from that low after the nonfarm payroll disappointment was quantified. We would note a gap on the weekly charts that begins one point below the Friday close and would be filled with a decline of 5 points below the Friday close. In retrospect, the nonfarm payroll result was heavily offset by declining infections, Johnson & Johnson vaccine news and another uptick in hopes for a swift passage of the rescue package. With the primary monthly US economic report on Friday (nonfarm payrolls) on its face disappointing, and in turn furthering the view that the US economy continues to decelerate under the unending extension of lockdowns is surprising. Therefore, it would appear as if the Treasury markets are factoring-in increased inflation potential.

In fact, the markets early this week have discounted a downtick in the Italian bond yields and news that Japanese investors are turning bullish toward foreign bonds. However, we suspect that the downside will be limited by last Friday's payroll disappointment. On the other hand, the CDC reported daily infections on February 7th of only 107,489 cases and that is the lowest daily reading since November 15th and the lowest 7 day moving average since November 10th. We suspect that the markets in general will soon factor in the psychological end to high anxiety from the flare in inflections and the beginning of a series of openings which in turn should begin to dissipate headwinds for growth. On the other hand, the treasury bond market is certainly oversold from a technical perspective with prices from the last COT report into the low this morning nearly 2 1/2 points lower.

In fact, given the additional downside since the last positioning report, we suspect bonds are nearing the largest net spec and fund short record again. Bond positioning in the Commitments of Traders for the week ending February 2nd showed Non-Commercial & Non-Reportable traders were net short 238,027 contracts after increasing their already short position by 32,929 contracts. With the note trade last week highlighting the climb back above 1% and a fresh downside breakout at the start of this week, we see the note market following bonds lower. T-Notes positioning showed Non-

Commercial & Non-Reportable traders went from a net short to a net long position of 8,615 contracts after net buying 41,096 contracts.

CURRENCIES:
With a new high for the move followed by a definitive reversal taking out the prior session's low and a measure of disappointment from the US nonfarm payroll result, the bull camp in the dollar index is facing some adversity. In fact, given the pattern of declining US infections, another vaccine poised to be administered against the virus and yet another uptick in Hope for stimulus passage, traders should consider long entry in non-dollar currencies that have exhibited significant profit-taking declines recently. The dollar is showing signs of bouncing early this week, but a mere bounce label suggests that ultimately, we think the trend will remain down.

Apparently, the trade sees the US nonfarm payroll reading as a slight increase in economic uncertainty, but it would also appear as if the dollar last week benefited consistently from a theme that yield potential in the US was improving faster than in Europe and other areas. In fact, some analysts think that those attacking the dollar from the short side are very vulnerable to a short squeeze especially in the event the US stimulus is suddenly found on the cusp of becoming law. The Commitments of Traders report for the week ending February 2nd showed Dollar Non-Commercial & Non-Reportable traders net bought 647 contracts and are now net short 12,008 contracts.

While the euro has shown an impressive bounce off last week's new low for the move, it would not appear as if risk on psychology flowing from global equities has altered the prevailing bearish view toward the euro. In fact, it would appear that the slight miss on the US nonfarm payroll gain on Friday and disappointing German industrial production readings leaves the euro fundamentally vulnerable (it is a recovery currency). The bias in the euro looks to remain down unless the currency climbs back above its January/February downtrend channel resistance line. The Commitments of Traders report for the week ending February 2nd showed Euro Non-Commercial & Non-Reportable traders are net long 184,190 contracts after net selling 37,437 contracts.

The trend in the Yen is down from fundamental and technical perspectives as money seems to be concentrated on the dollar and when the dollar falters the focus shifts to the euro, Pound, and Swiss. While Japanese domestic data is not a dominating impact on daily action in the Yen an Eco-Watchers survey showed both outlook and current surveys deteriorating from the prior month. While the Swiss clearly rejected last week's sharply lower action, the technical trend clearly favors the bear camp especially with Swiss unemployment for January failing to show improvement. However, there would appear to be a critical double high resistance, and a trade above that level could result in a surprise short covering extension.

A slightly higher US dollar, ongoing improvement in US yields and thick consolidation high resistance locks the Pound into a consolidation range of roughly 200 points. Pushed into the market we see the Pound sitting in the upper quarter of its near-term range and we suggest that traders sell resistance at looking for a chop down to consolidation low support ahead.

We see the construction of consolidation support in the Canadian over the last 2 weeks as a sign of value in the Canadian dollar. Obviously, soaring oil prices are beneficial to the Canadian, but that supportive influence is heavily offset by a very discouraging Canadian January job loss. From a short-term perspective we see the Canadian caught in a trading range bound by 70.40 and 77.70.

STOCKS:

While most US equity markets managed new highs late last week, the amount of euphoria gains was disappointing in our opinion. In fact, the markets were presented with a long list of very bullish fundamental developments prior to the nonfarm payroll release, but a slight miss of the 50,000-payroll gain estimate appeared to deflate investor interest. In retrospect, last week's avalanche of corporate earnings news should support the markets this week, especially if the stimulus package finally becomes law. Global equity markets early this week were all higher with the exception the Hang Seng. In other words, it would appear as if global equities have traversed a disappointing US nonfarm payroll report without embracing fear that the US economy is stalling under the unending infection wave. On the other hand, the daily US infection count for February 7th was only 107,489 and that continues consistent weekly declines since early January. In the end, the upward trend looks to extend with signs of inflation potentially a bullish impact on corporate earnings and corporate share prices.

It should be noted that the net spec and fund long positioning in the Emini S&P remains surprisingly low for a market posting consistent new highs. The market continues to benefit from a decline in US infections, signs that consumers are confident enough to use credit for purchases and positive leadership from oil patch shares in the face of $60 Brent crude. While the rate of vaccinations remains generally disappointing to the bull camp, US doses delivered are approaching 60 million, with doses administered at 41 million and that combined with lower daily infections provides a solid foundation for the bull camp. The Commitments of Traders report for the week ending February 2nd showed E-Mini S&P Non-Commercial & Non-Reportable traders net bought 13,718 contracts and are now net long 25,267 contracts.

With tailwinds from corporate earnings, fresh new highs in Dow futures and a recent net spec and fund short in Dow futures, the bull camp retains control. While we suspect gains in Dow stocks will be slower than in other sectors of the market, solid buying support has moved up to 30,924 and the next objective is the next century mark at 32,000. The Commitments of Traders report for the week ending February 2nd showed Dow Jones $5 Non-Commercial & Non-Reportable traders net bought 11,378 contracts which moved them from a net short to a net long position of 687 contracts. The bull camp controls the NASDAQ into another new trading week with investors seeing the high-tech stay-at-home stocks continuing to benefit from ongoing lockdowns but bullish leadership within the index could shift to opening-up stocks which in turn could target 14,000. Nasdaq Mini positioning in the Commitments of Traders for the week ending February 2nd showed Non-Commercial & Non-Reportable traders reduced their net long position by 6,328 contracts to a net long 29,774 contracts.

GOLD, SILVER & PLATINUM:
Apparently many market participants continue to embrace the potential for a $1.9 trillion US stimulus package, but it would appear that some estimates are the stimulus will not be passed in the coming weeks. Furthermore, US treasury yields have clawed to a one year high and a Canadian investment bank has reduced its price objectives on a number of mining and precious metals shares. On the other hand, Bank of America Merrill Lynch sees gold prices reaching $2,063 this year before falling back to $1900 next year. Bank of America also forecast silver prices to average $28.74 this year and $31 next year in a forecast that is somewhat disappointing to the bull camp. With signs of early buying in the dollar and periodic negative divergence with silver and the rest of the precious metal markets, the gold market feels like it lacks significant bullish resolve and could be vulnerable in-the-event that equities falter and or the dollar returns to last week's high. The bias might be bullish but gains in April gold are likely to be hard-fought given the presence of resistance from the underside of the January consolidation. Gold positioning in the Commitments of Traders for the week ending February 2nd showed Managed Money traders are net long 105,841 contracts after net selling 9,875 contracts. Non-Commercial & Non-Reportable traders are net long 289,578 contracts after net selling 4,401 contracts.

We continue to see silver with more upside capacity than gold, with silver prices sitting slightly above 50% of their all-time high and the net spec and fund long position in silver sitting 43,000 contracts below its all-time high! Silver should garner some added buying interest following a bullish view from Goldman Sachs regarding silver, with analysts there suggesting silver has become a "populist commodity" which could bring in a wave of buying from smaller investors/traders. The Commitments of Traders report for the week ending February 2nd showed Silver Managed Money traders were net long 40,615 contracts after decreasing their long position by 3,705 contracts. Non-Commercial & Non-Reportable traders net bought 1,027 contracts and are now net long 75,420 contracts. Going forward, we see silver as a physical demand driven market in need of further declines in US infections and signs that the US is beginning to reopen certain regions. It should also be noted that last Friday silver ETF's reduce their holdings by 12.6 million ounces for the single biggest one-day decline since May 5th of 2011!

It would appear as if leadership in the PGM markets has shifted again with palladium showing notable strength Friday and the market opening sharply higher this week and spiking up to the highest level since January 29th. Therefore, it appears as if palladium has bullish momentum and has begun to track positively with platinum in a fashion that suggests spread trading has given way to outright long speculation. Bank of America projected palladium prices to average $2,563 this year before seeing that average fall next year down to $2,125 an ounce. The most recent spec and fund long positioning in palladium is very modest which in turn should mean the market retains significant speculative buying capacity. The Commitments of Traders report for the week ending February 2nd showed Palladium Managed Money traders are net long 1,140 contracts after net selling 1,550 contracts. Non-Commercial & Non-Reportable traders were net long 898 contracts after decreasing their long position by 1,576 contracts. While the platinum market only made a 3-day high on Friday, it orchestrated the 2nd highest close of the contract and appears to be poised for fresh contract highs this week. In fact, the latest positioning report suggests the market retains significant buying capacity with the net spec and fund long sitting 40,000 contracts below the last 13 month's highs. The February 2nd Commitments of Traders report showed Platinum Managed Money traders added 1,062 contracts to their already long position and are now net long 22,004. Non-Commercial & Non-Reportable traders were net long 37,628 contracts after increasing their already long position by 788 contracts.

COPPER:
In retrospect, the strong finish last week seemed somewhat out of place for the copper market as exchange warehouse stocks increased last week, the US nonfarm payroll report was a little disappointing and indications on the Chinese migration for the holidays are for less travel. However, there are reports that travel limitations for the Chinese New Year have left some Chinese factories reducing downtime which in turn provides a surprise psychological support from demand expectations. Furthermore, the trade continues to embrace the idea that world copper supplies are narrowing despite what should be a seasonal pattern of building supply.

On the other hand, the copper market will be presented with January Chinese imports and exports on Tuesday and while those readings have been a bright spot for the global economy over the last 6 months, we think they will prove disappointing. With the March copper contract into the close Friday trading $0.10 above the level where the last COT report was measured, the market is likely approaching a record spec and fund long again! The February 2nd Commitments of Traders report showed Copper Managed Money traders net sold 1,101 contracts and are now net long 77,732 contracts. Non-Commercial & Non-Reportable traders are net long 76,988 contracts after net selling 2,880 contracts.

ENERGY COMPLEX:
With Brent crude oil reaching $60, US equities posting new all-time highs to start the trading week and ongoing widespread views that global oil stocks will continue to narrow, the bull camp retains control. A Bloomberg story indicates that global supplies have declined by 300 million barrels since the aggressive OPEC plus production cuts last May. Last week's global crude oil in floating storage report showed a 22% week over week decline (VLCC's are at their lowest in 8 months) and US Gulf Coast supply is down by 58% on the week! Furthermore, time spreads remain in backwardation and that highlights ongoing bullish psychology among commercial traders. Even the technical condition appears to allow for more gains, as a breakneck February low to high rally of nearly $7, has not lifted the net spec and fund long in crude to the highs of the last 12 months. Therefore, the market would not appear to be "bought out" from a technical perspective yet.

Over the last week, WTI crude gained nearly 10%, while Brent crude gained 6% suggesting that the trade is expecting global demand "will soon recover". It also appears as if energy markets are benefiting from a measure of "reflation" and that highlights a capacity to embrace a-number-of bullish forces. Last week's US rig operating count reached the highest level since last May with a gain of 4 rigs (40 week high) while Canadian oil rigs fell by 3 rigs to 95 rigs operating. The Commitments of Traders report for the week ending February 2nd showed Crude Oil Managed Money traders added 9,998 contracts to their already long position and are now net long 352,699.

Non-Commercial & Non-Reportable traders were net long 585,284 contracts after decreasing their long position by 2,501 contracts.

While the rally from the COT report mark off was $2.50, seeing the net spec and fund long reduced in the prior week mitigates the overbought condition. While US daily infections on February 6th were the highest since January 30th, the 7-day moving average of US infections declined to the lowest level since November 11th this weekend! Therefore, it would appear as if the wave of infections in the US continues to dissipate, even though total vaccinations as of February 6th administered were still under 40 million. Going forward, supporting nearby crude prices to $60 probably requires straightaway gains in equities and increased odds of daily infections consistently below 120,000 (on February 7th daily US infections were only 107,489).

While the gasoline market spiked higher at the end of last week, the market reversed from that high and closed $0.024 below the high in a fashion that hints at an intermediate top. Perhaps the markets are concerned with the recent narrowing of the US gasoline year-over-year deficit which declined to 8.19 million barrels versus 14.8 million barrels 2 weeks prior. Furthermore, reports show February loading of shipments of clean fuel from Asia to America increased to 150,000 tonnes today from only 115,000 tonnes a week earlier! Certainly EIA implied gasoline demand readings are subject to variability and are not exceptional in their ability to measure true demand, but last week's implied demand reading was the lowest since the first week of January with implied demand currently running 1.2 million barrels per day below year ago levels.

Fortunately for the bull camp, the US refinery operating rate continues to have almost 18% of its capacity idled and maintenance of that low level several weeks into the future, combined with "regional openings" and a normal upswing in seasonal demand could accelerate the rally. In fact, in the event "opening up" activity is anything more than piecemeal, it is possible that a single week-over-week jump in gasoline demand could be shocking. Certainly, the most recent COT report understates the net spec and fund long in gasoline as prices from that report rallied $0.05 above the level where the report was calculated. On the other hand, the net spec and fund long in gasoline is still nearly 10,000 contracts below the January high. Gas (RBOB) positioning in the Commitments of Traders for the week ending February 2nd showed Managed Money traders are net long 66,506 contracts after net selling 19,087 contracts. Non-Commercial & Non-Reportable traders net sold 19,383 contracts and are now net long 80,611 contracts.

In conclusion, expectations for demand improvement and residually low US refinery activity leaves the bull camp in control but there will also be significant potential for wild two-sided volatility. The ULSD market continues to be the stellar performer in the energy complex and we attribute that to the market's desire to play for an improvement in jet fuel demand in the event the markets began to factor in an extended trend of lower infection. It should also be noted that the net spec and fund long in ULSD is relatively low compared to the rest of the markets and diesel prices remain $0.37 below the 2020 highs! The February 2nd Commitments of Traders report showed Heating Oil Managed Money traders added 2,758 contracts to their already long position and are now net long

17,985. Non-Commercial & Non-Reportable traders net bought 2,180 contracts and are now net long 40,098 contracts.

While extreme polar-type temperatures were seen in a large portion of the US over the weekend and many areas see ongoing cold weather directly ahead, it is possible that the extreme cold is "too little, too late" for the bull camp. Certainly, another large draw from inventories is expected for this Thursday, but to completely shift fundamentals in favor of the bull camp probably requires a surprise extension of extreme cold in the US. In fact, anticipation of US LNG exports to China have been a large component of the rally off the late December low, but the presence of the Chinese holiday and the potential that China is up-to-date on its purchases, might prevent demand from overcoming and significantly chewing down the US surplus.

In last week's storage report, the US maintained a 7.9% surplus versus 5-year average storage levels and heating degree days might only regain average over the coming 6-days. The February 2nd Commitments of Traders report showed Natural Gas Managed Money traders net bought 45,706 contracts and are now net long 106,279 contracts. Non-Commercial & Non-Reportable traders added 19,296 contracts to their already long position and are now net long 47,265. We are highly skeptical of the bull case given last week's spike breakout and reversal. However, extreme record temperatures, throughout a large portion of the US should make it difficult for the Bears to attack natural gas in the coming sessions.

BEANS:
The soybean market experienced choppy trade all week last week and May soybeans closed 1 3/4 cents lower for the week. The soybean market seems set for a resumption of its uptrend as demand data (export and crush) continues to come in at a record pace and points to historically tight US supply at the end of the 2020/21 marketing year. Any shipping or crop problems in South America would add to the bullish outlook. The Argentine President is threatening farmers with a tax hike or quota for exports as he seeks relief for families grappling with inflation that is forecast to reach 47% this year. For the USDA monthly supply/demand (WASDE) report on Tuesday, traders are looking for 2020/21 US soybean ending stocks to come in around 123 million bushels (estimates range from 105-140 million). This would be down from 140 million bushels in the January update.

Cumulative soybean export sales have reached 97% of the USDA's forecast for the 2020/21 marketing year versus a five-year average of 77%. If we were to adjust the annual forecast higher to put cumulative sales at the average pace, the export estimate would increase by 565 million bushels. Therefore, it is not unreasonably to expect ending stocks to be reduced by a mere 17 million bushels. More rationing may be needed. Traders will be monitoring the impact of the South America harvest, and the increase of supply on the world market closely in the weeks just ahead. So far, more dry weather for key growing areas in Argentina, plus too much rain in Brazil are factors which will keep available supply tight.

The Commitments of Traders report for the week ending February 2nd showed managed money traders are net long 156,265 contracts after net selling 325 contracts. Non-Commercial & Non-

Reportable traders net bought 1,786 contracts for the week and are now net long 206,951 contracts. For soyoil, managed money traders net sold 1,404 contracts and are now net long 105,930 contracts. Non-Commercial No CIT traders reduced their net long position by 4,409 contracts to a net long 70,998 contracts. For Soymeal, managed money traders are net long 67,511 contracts after net selling 7,079 contracts. Non-Commercial & Non-Reportable traders were net long 117,353 contracts after decreasing their long position by 5,055 contracts for the week.

CORN:
March corn experienced some follow through to the downside after Thursday's key reversal on Friday, but low volume and the small ranges do not leave much confidence that a major top is in place. The market faces a key USDA report on Tuesday and indications from the current export sales pace would suggest a low bar is set for the bulls. In addition, the UN Foreign Agriculture Organization lowered their Chinese stocks situation dramatically. The USDA has plenty of evidence to make a major revision higher in exports for this report. The market consolidated for much of the week with May corn closing unchanged on the session Friday and unchanged for the week. The weekly US export sales report for the week ending January 28 showed net corn sales of 7.520 million tonnes, a record high for a single week. Cumulative sales for the 2020/21 marketing year have reached 87% of the USDA's forecast versus a five-year average of 57% at this point in the season. If we were to adjust the annual forecast higher to put cumulative sales at the average pace, the export estimate would increase by 1.312 billion bushels.

For the USDA supply/demand report, traders are looking for US corn ending stocks at 1.392 billion bushels (1.108-1.515 billion range), down from 1.552 billion in the January report. We are looking for exports to be revised higher by at least 300 million bushels, which would push ending stocks down to 1.252 billion bushels. World ending stocks are expected to come in near 279.79 million tonnes (270.5-287.6 million range) versus 283.8 million tonnes in the January update, but it could be lower considering the FAO revisions. Corn positioning in the Commitments of Traders for the week ending February 2nd showed managed money traders were net long 345,147 contracts after decreasing their long position by 19,082 contracts. CIT traders were net long 386,625 contracts after decreasing their long position by 11,624 contracts. Non-Commercial & Non-Reportable traders were net long 495,975 contracts after decreasing their long position by 8,088 contracts.

WHEAT:
The wheat market found solid support early this week from bitter cold temperatures moving into the Corn Belt and for parts of the Plains. The USDA attache in Argentina believes 2020/21 wheat exports will reach just 11.3 million tonnes, down 700,000 tonnes from the official USDA forecast. In late January, crop conditions in Kansas were rated 43% good/excellent which was down from 46% at the start of the month of January, but still up from 34% one year ago. The market is struggling with a lack of a serious production issue for key North American exporters. Weather will become more important into the spring, and the bitter cold weather in the week ahead is a potential positive force. Cumulative wheat sales are still ahead of the pace to reach the current USDA estimate which will at least allow the market to expect a neutral or slightly positive USDA supply/demand update on Tuesday.

Outside market forces and other grain markets are influencing wheat prices as well. Besides strength in the other grains, it is difficult to find reasons which might tighten the stock situation. For the USDA supply/demand report, traders see wheat ending stocks near 834 million bushels (807-864 million range) as compared with the January estimate of 836 million bushels. World wheat ending stocks are expected near 312.8 million tonnes (310-316.1 million range) as compared with 313.19 million tonnes for the January update. March wheat bounced on Friday finding support from a sharp drop in the US dollar and talk of the short-term oversold condition. Bitter cold weather moving into the Plains over the next week helped to support, but traders do not seem to see much in the way of weather risks.

Wheat stocks in Canada at the end of December came in at 24.845 million tons, down 3.8% from a year ago and down from trade expectations for 25.4 million. with the bounce, March wheat still closed 21 3/4 cents lower on the week. Inflationary fears, especially food inflation plus a lower US dollar are seen as positive forces. Wheat positioning in the Commitments of Traders for the week ending February 2nd showed managed money traders reduced their net long position by 1,391 contracts to a net long 19,884 contracts. CIT traders added 3,109 contracts to their already long position and are now net long 143,009. Non-Commercial & Non-Reportable traders net sold 3,872 contracts and are now net long 23,997 contracts. For KC wheat, managed money traders were net long 56,401 contracts after decreasing their long position by 3,838 contracts.

HOGS:

China's national average spot pig price as of February 08 was down 0.2% from Friday. For the month, prices are down 7.3% and down 13.1% year to date and down 18.3% versus a year ago. Dalian live hog futures at the start of this week were up 4.0% from Friday's close. Exports appear to be holding in better than expected while traders remain concerned over the setback in China production due to a jump in pig disease issues. Traders believe producers in China are afraid of the disease spread and are selling hogs now. The USDA pork cutout released after the close Friday came in at $83.19, down $1.29 from $84.48 on Thursday and $83.70 the previous week. April hogs closed sharply higher on the session Friday and the buying pushed the market up to a new contract high. The market closed 365 higher for the week. The surge higher in pork cutout values has added to the positive tone.

The CME Lean Hog Index as of February 3 was 69.09, down from 69.17 the previous session but up from 67.29 the previous week. The USDA estimated hog slaughter came in at 477,000 head Friday and 291,000 head for Saturday. This brought the total for last week to 2.691 million head, up from 2.658 million the previous week and 2.672 million a year ago. For the week, pork production was 594.2 million pounds, up 3.2% from last year. Friday's Commitments of Traders showed managed money traders were net buyers of 8,206 contracts of lean hogs for the week ending February 2, increasing their net long to 51,353. Non-commercial, no CIT traders were net buyers of 6,998, increasing their net long to 21,275. Non-commercial & non-reportable traders were net buyers of 6,100, increasing their net long to 46,773. CIT traders were net sellers of 1,883 contracts, reducing their net long to 86,113.

CATTLE:
June cattle closed lower after a move to new highs on Friday and the reversal is seen as a negative technical development. However, the range was small and the volume light. April cattle closed slightly higher on the session and the early buying pushed the market up to the highest level in more than one year. For the week, April cattle closed up 192 points. Traders continue to believe there will be a very strong rally in the cash market in the weeks ahead, but steer weights remain at the highest level on record for this time of the year. Average dressed steer weights for the week ending January 23rd came in at 926 pounds, up from 925 pounds the previous week and 901 a year ago. The 5-year average weekly weight for that week is 892.2.

The USDA estimated cattle slaughter came in at 113,000 head Friday and 70,000 head for Saturday. This brought the total for last week to 653,000 head, unchanged from the previous week but up from 631,000 a year ago. Beef production for the week was 551.3 million pounds, up 5.4% from last year. The USDA boxed beef cutout was up 26 cents at mid-session Friday and closed 33 cents higher at $234.58. This was up from $233.95 the previous week. Demand has remained very strong with traders expecting active beef demand as the economy reopens. Cash live cattle traded in decent volume on Friday, and the trade was around $1 higher than the previous week.

In Kansas, 12,288 head were reported at 113-114 with an average price of 113.96, up from 112.80 the previous week. In Nebraska, 8,142 head traded at 112-114 with an average price of 113.45, up from 112.40 the previous week. In Texas/Oklahoma, 5,309 were reported at 114, up from an average of 113.09 the previous week. This leaves April cattle trading near a $10 premium to the cash market as compared with the 5-year average near a $2 premium. Friday's Commitments of Traders report showed managed money traders were net buyers of 3,368 contracts of live cattle for the week ending February 2, increasing their net long to 75,171. Non-commercial & non-reportable traders were net buyers of 5,117, increasing their net long to 83,961.

COCOA:
Cocoa prices have seen coiling price action since mid-December as near-term demand concerns have made it difficult to maintain upside momentum. The market continues to hold its ground above the mid-December lows, however, as a positive longer-term demand outlook has helped to underpin prices. May cocoa was able to bounce back from early and midsession pressure as a late rally helped it to finish Friday’s trading session with a sizable gain. For the week, May cocoa finished with a loss of 2 points (down 0.1%) and a second negative weekly result in a row. A sharp recovery rally in the Eurocurrency after reaching a new 10-week low provided cocoa with significant carryover support as that may help Euro zone grinders to acquire near-term supplies.

In addition, the recent strength in European and US equity markets have helped to soothe concerns with first quarter demand in both regions. The market also found support from news that a group of major Ivory Coast grinders saw their January cocoa processing increase by more than 7% from last year’s total. Ivory Coast is the world’s top cocoa-grinding nation with the International Cocoa Organization (ICCO) forecasting they will process 610,000 tonnes of cocoa beans this season. The ICCO forecasts Ghana will process 300,000 tonnes of cocoa this season which has them as the seventh largest cocoa processing nations. Both countries exports the vast majority of their cocoa product production, so an uptick in Ivory Coast and Ghana grindings provides some evidence of improving global demand.

While this year's Valentine's Day holiday is widely expected to have lower consumer spending, recent forward guidance from Barry Callebaut, Hershey and Mondelez have reinforced market expectations of stronger demand by late this year. Cocoa positioning in the Commitments of Traders for the week ending February 2nd showed Managed Money traders were net long 22,585 contracts after increasing their already long position by 1,143 contracts. CIT traders added 700 contracts to their already long position and are now net long 50,403. Non-Commercial No CIT traders are net long 12,255 contracts after net buying 1,877 contracts. Non-Commercial & Non-Reportable traders are net long 48,042 contracts after net buying 2,711 contracts.

COFFEE:
Coffee prices have not put together more than 3 positive daily results in a row as near-term demand concerns have made it difficult for the market to sustain upside momentum. Although it will start this week firmly within its recent consolidation zone, coffee may be on the verge of an extended upside move. May coffee was able to see early upside follow-through from Thursday's wide-sweeping positive daily reversal, but lost strength late in the day before it finished Friday's trading session with only a modest gain. For the week, however, May coffee finished with a gain of 1.65 cents (up 1.3%) which broke a 2-week losing streak and was a positive weekly reversal from last Thursday's 3 1/2 week low. The Brazilian currency regained its strength going into the weekend, which in turn gave coffee prices an early boost as a stronger currency eases pressure on Brazil's producers to market their near-term supply to foreign customers.

Rising ICE exchange coffee stocks have kept further gains in check as it provided evidence of subdued near-term European demand, with Friday's increase of 13,730 bags lifting stocks levels to their highest level since June of last year. Brazilian Arabica coffee at ICE warehouses have risen from less than 6,000 bags on October 5th (the date that the total Arabica stocks reached a 20-year low) to nearly 644,000 bags on Friday, putting Brazil in second place for largest share behind Honduras who was at just over 805,000 bags. While the surge in Brazilian coffee over that timeframe reflects their near-record 2020/21 production, keep in mind that all other origins saw their ICE warehouse coffee stocks levels decline.

Brazil's major Arabica-growing regions have daily rainfall in the forecast through early next week that will provide some relief from drier than normal conditions last year and a La Nina expected to last several more months. Coffee positioning in the Commitments of Traders for the week ending February 2nd showed Managed Money traders added 353 contracts to their already long position and are now net long 25,358. Coffee CIT traders hit a new extreme long of 72,829 contracts. CIT traders added 179 contracts to their already long position and are now net long 72,829. Non-Commercial No CIT traders are net long 22,827 contracts after net buying 722 contracts. Non-Commercial & Non-Reportable traders added 821 contracts to their already long position and are now net long 51,626.

COTTON:
A key reversal from the contract high on Friday with the sharply lower close is a bearish technical development for the cotton market. The reversal suggests a near term peak may be in place. Part of the rally has been based on ideas that Chinese demand will stay strong and that US ending stocks will continue to tighten. While stocks may tighten, they seem a long way away from being tight. March cotton closed lower on Friday, giving back half of the gains from its breakout rally on Thursday, in what appeared to be a bout of profit taking ahead of the weekend. The market closed 1.54 higher for the week, and it has closed higher in five of the last six weeks. The dollar closed sharply higher on Friday and the stock market ended the week with strong gains. These moves were supportive to cotton. Friday's Commitments of Traders report showed managed money traders were net sellers of 3,955 contracts of cotton for the week ending February 2, reducing their net long to 63,706 contracts. This action was lightly reversed with the rally on February 4. Non-commercial & non-reportable traders combined were net sellers of 5,007, reducing their net long to 91,793.

For Tuesday's USDA supply/demand report, the average trade estimate for US 2020/21 cotton production is 14.87 million bales (range 14.65-14.95 million) which would be down from 14.95 million in the January report. US exports are expected to increase to 15.35 million (range 15.20-15.70 million) from 15.25 million in January. US ending stocks are expected to come in at 4.41 million bales (range 4.00-4.60 million), down from 4.60 million in January. This would be down from 7.25 million in 2019/20 and still be the lowest since 2017/18, when they came in at 4.20 million. World ending stocks are expected to come in at 96.13 million bales (range 95.72-96.75 million), down from 96.32 million in January. ICE warehouse stocks increased to 89,949 bales on February 4, up 2,010 from the previous session and up 10,514 from the previous week. This is the highest they have been since December 7.

SUGAR:
While it clearly benefited from strength in key outside markets, sugar has also found support from bullish supply/demand factors as well. If global markets can sustain a “risk on” mood, sugar can climb up to multi-year highs early this week. May sugar broke out of their recent consolidation zone to the upside and came within 3 ticks of a new high for the move before finishing Friday’s trading session with a sizable gain. For the week, May coffee finished with a gain of 62 ticks (up 4.1%) and the first positive weekly result in 3 weeks.

Crude oil prices have risen more than $4.50 a barrel since the end of January which provided sugar with significant carryover support as it will likely result in Brazil’s Center-South mills increasing ethanol’s share of crushing during the 2021/22 season. During the 2020/21 season so far, sugar’s share of crushing has been 46.2% but it was 34.3% during the 2019/20 season and 35.2% during the 2018/19 season. Excluding the early-COVID pandemic plunge last year, crude oil prices were in a range between $42 and $77 a barrel during those 2 seasons, an area that they re-entered late last year. If Brazilian driving demand rebounds if and when COVID vaccine use increases, Center-South mills are likely to return their crushing mix to levels seen during the 2019/20 and 2018/19 seasons.

In addition, stronger global risk sentiment should strengthen the value of the Brazilian currency which would be an additional source of carryover support to the sugar market. A 24% production decline in Thailand so far this season has been a key factor in tight near-term Asian white sugar supplies which has also provided underlying support this month. While India's production this season is running far ahead of last season's pace, a shortage of shipping containers has restricted India's sugar exports over the past weeks. As a result, India may be hard-pressed to reach their government's 2020/21 sugar export target of 6 million tonnes.

The February 2nd Commitments of Traders report showed Sugar Managed Money traders were net long 197,183 contracts after decreasing their long position by 9,304 contracts. CIT traders reduced their net long position by 3,886 contracts to a net long 261,849 contracts. Non-Commercial No CIT traders are net long 149,896 contracts after net selling 6,171 contracts. Non-Commercial & Non-Reportable traders were net long 306,253 contracts after decreasing their long position by 8,775 contracts.

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