ADM Investor Services, Inc.

# WEEKLY MARKET SUMMARY

5 October, 2020

### For the Week of October 5, 2020

## BONDS:

All things considered, the treasury market action continues to confound traders as major fundamental news has not been able to drive prices out of a relatively tight trading range. Certainly, the flow of information from the monthly jobs report was countervailing with the headline payroll gain very supportive of prices while an upward revision in last month's payrolls combined with a larger than expected decline in the unemployment rate was cause to sell. Following that trend of countervailing news was a much stronger-than-expected Michigan consumer sentiment reading for September and a disappointing US factory orders report for August. However, the downside action in Treasury prices early last week was not surprising given a series of upbeat economic data points early last week.

The poor close on Friday and lower action this week is somewhat surprising considering that real progress on the stimulus package was not made as expected over the weekend and also because of reports that United and American Airlines are likely to go ahead with aggressive layoffs today. On the other hand, the global sweep of services PMI data gives off signs that a recovery bias continues globally with non-Chinese Asian manufacturing activity actually showing enough strength to suggest they are potentially growing at a faster pace than China! So far, the treasury trade doesn't seem to be particularly concerned about the prospect of a return to lock down in New York and to ongoing fears of lock down in Spain. In the end, the bear camp is likely parsing events and embracing the idea that some form of stimulus will be achieved this week and that is the result of somewhat positive dialogue from the US Speaker of the House.

On the other hand, the bond spec and fund positioning remains massively net spec short with the prices declines from the last report likely putting the net spec and fund short near the largest short position of the last 12 years. The likely take away from scheduled data early this week looks to favor the bull camp with all services, composite and new orders index ISM readings expected to soften relative to last month. Bonds positioning in the Commitments of Traders for the week ending September 29th showed Non-Commercial & Non-Reportable traders net sold 27,433 contracts and are now net short 174,208 contracts. For T-Notes Non-Commercial & Non-Reportable traders net bought47,582 contracts and are now net long 211,166 contracts.

## CURRENCIES:

On a number of occasions, we will suggest that a certain currency or currencies will "win by default" but in the current condition it would appear as if "no currency is capable of winning by default". In other words, the current market environment would appear to present a mixed environment for every currency with traders presented with so many major issues money is unwilling to commit fully to a single strategy. While the dollar has not broken out to the downside, it would appear as if it has settled back into last week's modest downward track. Not surprisingly, the dollar is seeing pressure in the face of a slightly positive early track in global equities, improvement in the president's health and from a modicum of optimism toward the US stimulus package from the Speaker of the House.

In the end, the progression or lack of progression on the stimulus package should be seen as the primary driving force for all currency prices. At least at the start of this week, hope springs eternal for some progress, and we think another round of significant US airline layoffs and chatter that New York might go back into lockdown increases the chance of a stimulus agreement. Therefore, we see a retest of last week's low down at 93.56, but to punch through that level probably requires really positive evidence of stimulus progression. The September 29th Commitments of Traders report showed Dollar Non-Commercial & Non-Reportable traders are net short 5,223 contracts after net buying 3,065 contracts.

Not surprisingly, the euro is showing some positive traction early this week with a partial global risk on condition lifting hopes for global recovery which in turn provides the risky euro with speculative buying. Furthermore, the euro is obviously seeing lift from favorable euro zone PMI data and more specifically from surprisingly good euro zone retail sales figures. Therefore, we see the euro clawing its way back to last week's high up at 1.1787 but the bull camp will need definitive US stimulus progress to breakout and sustained a multi-week high. Euro positioning in the Commitments of Traders for the week ending September 29th showed Non-Commercial & Non-Reportable traders are net long 236,100 contracts after net selling 2,494 contracts.

Obviously, the Yen received a definitive lift last week off the news of the President's ill health and with positive news from that issue early this week, the Yen is likely to fall back toward last week's consolidation lows around 94.59. However, in order to breakout and for a sustained move below consolidation low support will clearly require signs that a US stimulus bill is imminent. The charts in the Swiss franc early this week are the most positive of all actively traded currencies with the Swiss seemingly lifted by improved global PMI data, favorable overall Euro zone retail sales gains positive early traction in global equities and by the improvement in the President's health. In fact, the Swiss has already forged an upside breakout and could be on a path to test 1.0971 early this week.

While the Pound has not broken out to the upside in the early action this week, the charts suggest a move above 1.30 might be seen early this week. However, we see gains in the Pound being forged in the face of patently discouraging political/infection developments inside the UK but that potential drag on the currency is offset by the leap in UK services PMI readings for September. The Canadian dollar has rejected last week's setback and appears to be poised to track back toward 76.00 with a 2-week upside breakout managed in the early going. In addition to initial weakness in the dollar from a downshift in safe-haven interest, the Canadian is hopeful of a US stimulus package and higher physical commodities. In fact, crude oil prices overnight are already up $1.60 and could head even higher if stimulus package progress is documented.

## STOCKS:

On one hand, the equity markets did register concern on the announcement of the President's positive Covid test. However we would not characterize the decline as indicative of a market overly vulnerable to panic selling as the index declined only 60 points. On the other hand, potential major negatives abound in the marketplace and it would appear as if a number of these issues are converging with volatility likely to explode in the coming weeks. Classic corporate news today was mixed with reports of recovering Ford sales bargain-hunting buying on FAANG stocks as well as news that Intel will be part of a contract to help the Pentagon develop chips. Global equity market action early this week favored the bull camp with the lone exception a lower trade in the Russian stock market. However, Australia China and other areas in Asia are still on holiday.

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# WEEKLY MARKET SUMMARY

5 October, 2020

From Europe a series of services PMI readings were all either as expected or better than expected with the lone exception the Spanish services PMI for September which came in significantly weaker. While Presidential polls show Joe Biden's lead is widening and the headlines are suggesting a Biden victory will be negative to equities, stock prices are showing a minimally positive track. However, the President appears as if his health has improved and that has contributed to the initial risk-on condition. As indicated already, the initial bias in equity prices was up but the bias is not definitive. In fact, the bull camp is holding its breath on every comment regarding the potential for or lack of movement on a stimulus package this week. Unfortunately, for the bull camp the Speaker of the House only offered up a suggestion that the chance for a deal remains in place without respect to when and if movement will be achieved.

Obviously, the initial gains are likely short covering following the negative revelation regarding the President's contraction of the virus and his deterioration in health last Friday but the S&P has already regained that ground lost and will now need fresh geopolitical and or economic positives to lift prices further. However, the markets look to be presented with slightly disappointing US PMI data early this week and that could serve to pull back some of the early gains. The September 29th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders were net long 63,590 contracts after increasing their already long position by 39,959 contracts.

While some might attribute the initial gains this week to the improvement in the President's health it should also be noted that international PMI data showed very positive results and global equity markets were generally charting a positive course. Unfortunately for the bull camp, the Dow is likely to be faced with negative layoff news from United and American Airlines and the index might also see some back and fill selling action following US PMI data. However, the charts are positive, the Dow futures maintained a net spec and fund short positioning and hope springs eternal for the US stimulus package. Dow Jones $5 positioning in the Commitments of Traders for the week ending September 29th showed Non-Commercial & Non-Reportable traders were net short 7,031 contracts after decreasing their short position by 6,833 contracts.

The NASDAQ has retained the-majority-of its losses from late last week despite improvement in several big picture issues. It is possible that the index is being held back by a major theater chain closing venues until virus threats subside but also because of lingering legal/regulation problems for Google in India. However, the NASDAQ has the most oversold spec and fund positioning of all the major indices and is likely to maintain respect for a key pivot point down at 11,167. Nasdaq Mini positioning in the Commitments of Traders for the week ending September 29th showed Non-Commercial & Non-Reportable traders reduced their net short position by 54,890 contracts to a net short 63,989 contracts.

## GOLD, SILVER & PLATINUM:

While the gold market last week made some inroads against the bearish control in place since the beginning of August, the overall fundamental and technical setup still favors the bear camp. With some press outlets overnight indicating gold has fallen back in the wake of news that the US President could be discharged on Monday, it would appear as if some form of flight to quality buying was behind last week's rally. Going forward, the dollar index has started out weaker despite the news that US airlines failed to get support from Congress, with at least two major airlines now moving to undertake significant layoffs. In short, we leave the edge with the bear camp in gold and silver, partly off the lingering potential for further delays in getting a stimulus deal.

Looking back, the US nonfarm payroll report was disappointing on its face with the number of US jobs gained softer than expected and that in turn prompting a high to low slide in gold of $16 with a similar reaction in December silver with a decline of $0.41. Therefore, we assume gold and silver remain classic physical commodity markets fearful of a continuation of soft physical demand due to ongoing US economic uncertainty. Unfortunately for the bull camp, hopes of an increase in jewelry demand in India from pre-festival purchases are unlikely to offset anemic global demand patterns in the near term.

Furthermore, the recent pattern of inflows into gold ETF's have been positive but have been less consistent with daily inflows from September 23rd to September 29th posting a net decline of 13 million ounces! Fortunately for the bull camp gold ETF holdings on Friday increased for the 5th straight session with year to date purchases back up to 28 million ounces. The Commitments of Traders report for the week ending September 29th showed Gold Managed Money traders reduced their net long position by 2,136 contracts to a net long 128,953 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,787 contracts to a net long 288,733 contracts.

As indicated already, the silver market showed less impressive upside action last week than gold with the initial spike up move last Monday followed by lower trade for the rest of the week. In retrospect, the silver market lacked the bullish sensitivity seen in the gold market at times last week and we attribute that to the fact silver is seen as a classic physical commodity market in the face of growing economic uncertainty. While not a significant addition, silver ETF holdings last Friday increased by 865,853 ounces putting their net gain last week at 8 million ounces. The Commitments of Traders report for the week ending September 29th showed Silver Managed Money traders were net long 35,772 contracts after increasing their already long position by 189 contracts. Non-Commercial & Non-Reportable traders net bought 755 contracts and are now net long 57,378 contracts.

In looking back at last week's action, it appeared as if the palladium market is tied to the action in equities and is clearly trading more physical related issues than flight to quality/precious metals developments. Furthermore, with China on holiday until the end of the week, the prospect of lift from favorable Chinese scheduled data is lost until Thursday, when the market will be presented with a Chinese private services PMI reading for September. However, expectations for that services PMI reading call for a decline in excess of 3 points, with the reading nearing the growth/no growth level of 50.0.

Therefore, we see the bear camp starting with a slight edge with the December palladium contract last week closing below its 50-day moving average after waffling on both sides of that average every day last week! Not surprisingly, palladium ETF holdings on Friday declined by 706 ounces with the holdings falling by 1,546 ounces for all of last week. The September 29th Commitments of Traders report showed Palladium Managed Money traders net sold 426 contracts and are now net long 3,542 contracts. Non-Commercial & Non-Reportable traders are net long 3,276 contracts after net selling 263 contracts.

While the platinum market at times last week showed some positive traction with gains from the spillover lift provided by gold and silver, the definitive reversal of the rally last week was seen with 2 straight lower closes. In fact, with classic physical commodity market demand deflated by last week's slightly disappointing nonfarm payrolls, surging US infection counts, developing vulnerability in equities and with the uncertainty created by the President's contraction of the virus the fundamental bias in platinum is down to start the trading week. Fortunately for the bull camp, the net spec and fund long position as of early last week was the lowest since the 3rd week of April which in turn was the lowest since April 2017.

The September 29th Commitments of Traders report showed Platinum Managed Money traders went from a net long to a net short position of 174 contracts after net selling 1,793 contracts. Non-Commercial & Non-Reportable traders are net long 14,884 contracts after net selling 2,452 contracts. Last Friday platinum ETF holdings increased by 1544 ounces and increase their holdings on the week by 23,203 ounces with net purchases on the year up 13%. In addition to a 4-day low close at the end of last week, the platinum market fell below its 100-day moving average with that level becoming a key resistance/pivot point at $899.10.

## COPPER:

Copper prices started the new week out on a positive footing, with Asian manufacturing readings seemingly jumping ahead of China in the recovery race. It is possible that copper is catching some additional speculative buying off the fact that 2 copper mines in Chile are in the midst of labor negotiations, with the talks reportedly at critical junctions early this week. Following tremendous volatility last week (a 2-day high to low trading range of nearly $0.20) the copper trade might be experiencing the impact of Chinese traders and buyers being on an extended holiday. In fact, the Chinese holiday extends into Thursday and therefore threats of a return to lock down in areas like Europe, UK or in regional US areas will present demand fears that are clearly unlikely to be countervailed by Chinese buying.

Furthermore, from a technical perspective the copper market is very vulnerable to stop loss selling in the event that key chart support points are violated as its net spec and fund long positioning as of September 22nd was the largest ever at 69,224 contracts! Obviously, the impact of global equity market action will be the initial driving force for copper prices early this week. Copper positioning in the Commitments of Traders for the week ending September 29th showed Managed Money traders were net long 76,736 contracts after decreasing their long position by 10,572 contracts. Non-Commercial & Non-Reportable traders net sold 12,719 contracts and are now net long 56,505 contracts.

## ENERGY COMPLEX:

While the energy complex returned to a demand destruction focus last week given a slightly disappointing US jobs headline result, furloughs in airlines underway, a virus spread within the upper levels of the US government and an extended Chinese holiday the market has rebounded early this week off an uptick in stimulus hopes and the improvement in the President's health. Furthermore, developments from the supply front could provide some countervailing force to recent demand threats, with the Norway oil strike potentially expanding and two threats against production in the Gulf of Mexico. With Libyan exports thought to have rebounded by 300,000 barrels per day the bull camp is fortunate that the amount of oil shut from the Norway strike is thought to be even larger at 330,000 barrels per day. Unfortunately for the bull camp the markets saw a 200% jump in weekly floating storage levels from year ago levels, Brent options skews are bearish to start the week and the market saw Saudi September output increase from August levels.

While not a major short-term negative impact, the latest Baker Hughes rig count increased by 6 and reached a 15-week high at the same time that Canadian oil rigs increased by 4 and reached a 27-week high and that creates the potential for building supply farther down the road. However, from a shorter-term perspective, the markets are faced with a recent tripling of Libyan oil production to 300,000 barrels per day and that negative impact is amplified by reports that Venezuelan oil exports reached a 5-month high. Fortunately for the bull camp, the spec and fund long positioning as of early last week reached the lowest level since March 5th, and that positioning into the close Friday was probably reduced even further by the post COT report plunge of $3.00. The September 29th Commitments of Traders report showed Crude Oil Managed Money traders net sold 19,682 contracts and are now net long 304,814 contracts. Non-Commercial & Non-Reportable traders were net long 515,909 contracts after decreasing their long position by 8,701 contracts.

Obviously, gasoline prices last week were put under significant pressure by a resurgence of demand fears propagated by the negative action in US equities, surging infection rates throughout the US, increased talk of more US airline layoffs and from a slightly disappointing US nonfarm payroll headline result. However, big picture risk-on sentiment has returned and has caught the bear camp in losing short positions and that has sparked a wave of short covering at the same time fresh spec buying has surfaced off upbeat US stimulus headlines. While the EIA showed a slight uptick in implied gasoline demand last week, the gain was very minimal and could be the result of one-off developments within the week. Furthermore, last week the EIA showed a slight build in gasoline stocks which in turn broke a 7-week pattern of declines.

The major dominating force for prices this week will be the ebb and flow on the stimulus talks and that force generally favors the bull camp. Fortunately for the bull camp, the US refinery operating rate remains extremely low with 24.2% of US refinery capacity inactive and that should continue to keep supply low enough to offset part of the demand contraction fears currently back in play in the US and Europe. From a technical perspective, the downward bias in gasoline might be tempered by the fact that the net spec and fund long positioning (adjusted for the decline after the report was calculated) was likely near the lowest levels since October 2019. The September 29th Commitments of Traders report showed Gas (RBOB) Managed Money traders were net long 48,286 contracts after increasing their already long position by 1,837 contracts. Non-Commercial & Non-Reportable traders were net long 59,250 contracts after increasing their already long position by 2,258 contracts.

While the ULSD market continues to be the weakest component of the energy complex, the bull camp is bailed out from ongoing bearish fundaments by outside market influences. Certainly, the very low refinery operating rate is supportive overall but with the US airline sector on the verge of further layoffs/flight reductions and the threat of renewed restrictions of activity in certain portions of the US, improved demand could be highly unlikely in the near term. From a technical perspective, the downside could be limited given the fact that the net spec and fund positioning (adjusted for the post report slide of nearly $0.04) could have pushed the net long toward zero. Heating Oil positioning in the Commitments of Traders for the week ending September 29th showed Managed Money traders are net short 14,217 contracts after net buying 2,698 contracts. Non-Commercial & Non-Reportable traders were net long 9,309 contracts after decreasing their long position by 19 contracts.

With severe technical damage on the charts at the end of last week, a slight tempering of hot temperatures in the US, three consecutive closes below the 100 day moving average, the bear camp thought it would retain control early this week. However there are two tropical storm threats emerging, the eastern half of the US continues to see above normal temperatures and the strike in Norway looks to idle more production. Unfortunately for the bull camp, the net spec and fund long positioning in natural gas early last week posted the largest net spec and fund long since May 2017. On the other hand, since the last COT positioning report, into the low last week, natural gas prices fell by nearly $0.22 and that should moderate some of the stop loss selling potential.

Last week, the Baker Hughes gas rigs operating count declined by one while the Canadian gas rigs were unchanged. Going forward, the 100-day moving average around $2.5350 looks to be a critical bull/bear line but weather concerns should push some sellers to the sidelines. Natural Gas positioning in the Commitments of Traders for the week ending September 29th showed Managed Money traders were net long 112,531 contracts after increasing their already long position by 12,765 contracts. Non-Commercial & Non-Reportable traders are net long 71,616 contracts after net buying 3,604 contracts.

## BEANS:

While the US harvest weather looks nearly ideal, the soybean and meal markets appear to have plenty of supply uncertainties ahead. In addition, soybean and soybean meal demand seems to be picking up steam. In Mato Grosso (largest producing state) plantings have reached just 1.7%, and this is down from 6.65% last year and 9.59% as the five-year average for this time of the year. Malaysia officials have reduced their palm oil production forecast by 1 million tonnes to 19.7 million tonnes for the 2020/21 season. In a move to boost foreign reserves, Argentina's government has temporarily cut the soybean export tax by 3% to 30%. Oil and meal export taxes which have been 33% will fall to 28% in October. November soybeans closed 2 3/4 cents lower on the session Friday but this left the market up 18 1/4 cents for the week. Strong export demand plus dryness concerns in South America have helped offset fears of aggressive harvest activity and commercial selling. Exporters announced the sale of 252,000 tonnes of US soybeans sold to unknown destination. In addition China was a noted buyer of 264,000 tonnes of US soybeans.

With Argentina's crushers still struggling to get a hold of soybeans for processing due to their currency fluctuations and with South America's planting weather still mostly dry, the tighter than expected supply of soybeans in the US just adds another supply uncertainty for the meal market. In Argentina, producers have sold 32.2 million tonnes of soybeans from the 2019/20 season which is down 4.4 million tonnes from the sales registered at the same point last year. The focus of attention may quickly shift to the October 9 Crop Production and Supply/Demand reports. US export sales are off to a strong start, with cumulative sales for the 2020/21 season already reaching 66% of the USDA's forecast for the marketing year versus a five-year average of 39% sold for this point in the season. If we assume that the USDA raises 2020/21 exports by 125 million bushels and plug in the new stocks number, ending stocks would come in at 280 million bushels. These would be the lowest ending stocks since the 2015/16 season.

If we assume yield drops to 50.9 bushels per acre (still the second highest on record), ending stocks could slip to 197 million bushels, which would be the lowest since 2014/15. The September 29th Commitments of Traders report showed managed money traders are net long 229,043 contracts after net buying 17,900 contracts for the week. Soybeans CIT traders hit a new extreme long of 203,154 contracts. The record net long position is at 253,889 contracts. For soyoil, managed money traders reduced their net long position by 7,604 contracts to a net long 94,098 contracts (long liquidation). CIT traders added 1,698 contracts to their already long position and are now net long 117,183. For Soymeal, managed money traders net bought 7,751 contracts and are now net long 72,999 contracts. CIT traders are net long 96,059 contracts after net buying 6,151 contracts for the week.

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# WEEKLY MARKET SUMMARY

5 October, 2020

## CORN:

December corn closed 14 1/2 cents higher for the week last week. Harvest was active all last week and traders expect the harvest pace to push above average for Monday afternoon's crop progress report. The corn market is still adjusting to a tighter supply/demand situation. The longer-term fundamentals improved significantly with the adjustments made by the USDA. The smaller than expected beginning stocks number plus expectations for stronger exports are bullish forces. In their September WASDE report, the USDA put China's total corn imports for 2020/21 (from all sources) at 7 million tonnes, but China has already booked more than 9 million tonnes from the US alone, and we are only four weeks into the marketing year. Total US export sales for 2020/21 have reached 48% of the USDA's forecast for the entire marketing year versus a five-year average of 27%.

For the October 9 USDA update, we are looking for the 2020/21 US corn yield to come in around 177 bushels per acre, with production at 14.78 billion bushels. We expect to see demand increase to 14.9 billion bushels, mainly due to the very fast start to exports. This would leave ending stocks around 1.9 billion bushels versus 2.5 billion in the September report and 2.756 billion in August. This would result in the lowest ending stocks figure since the 2015/16 season. Even if yield is raised to 179.5 bushels per acre, ending stocks would fall to 2.108 billion also the lowest since 2015/16. The September 29th Commitments of Traders report showed managed money traders are net long 106,820 contracts after net buying 10,908 contracts for the week. Non-Commercial & Non-Reportable traders net bought 9,767 contracts and are now net long 129,861 contracts.

## WHEAT:

Continued concerns with the dry conditions in Russia, and to some extent Ukraine, has helped to drive the market higher early this week. In Russia, northern parts of the wheat belt should see rains this week, but the rest of the key growing areas should remain mostly dry for the next few weeks which appears to be poor growing conditions and the short-term dryness is supportive. The market remains in a choppy uptrend and the technical action is improving. December wheat managed to close 3 cents higher on the session Friday and this left the market with a gain of 29 cents for the week. In the US Plains, there are finally some showers in 11-15 day models but dryness is still likely to hamper establishment in at least 1/3 of belt.

French wheat shipments outside of the European Union for September fell to the lowest level in at least 11 years. The smaller crop and the fact that Russia and Ukraine wheat continues to be priced below French values has helped to keep European shipments slow. Russia wheat export prices rose last week and this provided underlying support. There is talk that Russia could provide details into the middle of this month on a possible grain export quota for the first half of next year. Outside market forces are also seen as a significant force, and traders will monitor the US dollar movement closely.

Wheat positioning in the Commitments of Traders for the week ending September 29th showed managed money traders reduced their net long position by 2,119 contracts to a net long 12,424 contracts. CIT traders net bought 1,666 contracts and are now net long 138,542 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 4,286 contracts to a net long 6,849 contracts. For KC Wheat, managed money traders net sold 438 contracts and are now net long 18,025 contracts. Non-Commercial & Non-Reportable traders are net long 15,928 contracts after net selling 4,661 contracts.

ADM Investor Services, Inc.

# WEEKLY MARKET SUMMARY

5 October, 2020

## HOGS:

The CME lean index as of Sep 30 was 76.74, up from 76.54 the previous session and up from 73.70 a week before. This leaves December hogs holding a discount of $14.27 to the cash market as compared with the five-year average discount of $2.35 for this time of the year. This is a factor which may limit the selling pressures as traders have already priced in a larger than normal decline in the cash market into the winter. Pork cut-out values are very volatile but managed to close slightly higher on the week even with the break on Friday. The USDA pork cutout released after the close Friday came in at $91.30, down $4.79 from Thursday but up from $90.79 the previous week and $74.44 a year ago.

December hogs closed slightly lower on the session Friday after the early rally failed to attract new buying interest. The USDA estimated hog slaughter came in at 464,000 head Friday and 213,000 head for Saturday. This brought the total for last week to 2.603 million head, up from 2.601 million the previous week but down 2.1% from a year ago and pork production for the week was down 2.1%. Friday's Commitments of Traders report showed managed money traders were net sellers of 2,773 contracts of lean hogs for the week ending net long September 29, reducing their net long to 40,807. Non-commercial & non-reportable traders were net sellers of 3,913, reducing their net long to 47,230.

## CATTLE:

The cattle market struggled on Friday attempting to absorb a negative economic tone from the employment data. The market has held up very well with stronger-than-expected demand for much of the summer, and a not too burdensome production pace. This week, the market will need to absorb increased production, (last week's beef production was up 5.7% from a year ago), and also the prospects for less than normal seasonal demand factors for the fourth quarter. Restaurant demand is still struggling to recover, and bookings for corporate and family events should be sharply reduced from normal. Hot and dry weather for the plains does not help as this could boost short-term movement for both feeder and fat supplies. December cattle gapped lower on the opening Friday and the market closed moderately lower on the day. Cash markets managed to rally to $107.00 last week but beef prices pushed lower on the week and this does not bode well for traders expecting a continued rally in cash.

Traders are nervous that slaughter and production levels could pick up steam in the weeks ahead. The USDA estimated cattle slaughter came in at 117,000 head Friday and 70,000 head for Saturday. This brought the total for last week to 665,000 head, up from 651,000 the previous week and up 3.1% from a year ago. The USDA boxed beef cutout was up $1.17 at mid-session Friday but closed 10 cents lower at $218.88. This was down from $219.34 the previous week but up from $211.96 a year ago. Cash live cattle traded at $107 in Kansas, Nebraska and Texas/Oklahoma on Friday, which was steady with earlier in the week and up from $105 the week before. As of Friday afternoon, the 5-day, 5-area average price was $107.12, up from $104.97 the previous week. Friday's Commitments of Traders report showed managed money traders were net buyers of 4,925 contracts of live cattle for the week ending September 29, increasing their net long to 62,924. Non-commercial, no CIT traders were net buyers of 6,363 contracts, increasing their net long to 42,777.

ADM Investor Services, Inc.

# WEEKLY MARKET SUMMARY

5 October, 2020

## COCOA:

Cocoa prices have bounced back from early lows during each session of October so far, but they have been unable to put any lasting brakes on their current downdraft. With demand concerns likely to be a front and center issue over the next month, cocoa will need to find fresh supply-side support in order to find its footing. December cocoa came under early pressure and reached a new 5 1/2 week low, but made a late recovery for a second day in a row as it finished Friday's trading session with a moderate loss and a third daily loss in a row. For the week, December cocoa finished with a loss of 86 points (down 3.3%) which was a second weekly loss in a row.

A significant negative shift in global risk sentiment weighed on global equity markets as well as on the Eurocurrency, and that in turn put carryover on cocoa prices as that further dampens an already subdued near-term demand outlook. The cocoa market will digest third quarter grindings totals from Europe and North America late next week, with both regions expected to show a year-over-year decline. In addition, this year's Halloween holiday is likely to have coronavirus restriction in place for many regions that are likely to diminish chocolate purchases at both the wholesale and retail levels. Recent bullish supply developments helped the cocoa market find its footing going into the weekend, as it appears that both Ivory Coast and Ghana have finished the 2019/20 season with a decline in production from the previous season.

Significantly higher minimum farmgate prices this season should lead to a near-term marketing surge in cocoa beans for both nations over the first weeks of October. Ivory Coast political tensions continue to simmer, however, and there are increasing concerns that supply bottlenecks will occur during the first weeks of their main crop harvest. The September 29th Commitments of Traders report showed Cocoa Managed Money traders added 3,421 contracts to their already long position and are now net long 37,962. CIT traders are net long 42,866 contracts after net selling 768 contracts. Non-Commercial No CIT traders net bought 3,475 contracts and are now net long 21,544 contracts. Non-Commercial & Non-Reportable traders were net long 53,560 contracts after increasing their already long position by 2,754 contracts.

## COFFEE:

Coffee's 3-week slide resulted in an over 20% loss in value, but the market was able to find its footing in a price areas that has provided support this year. While Brazilian near-term supply will continue to weigh on prices, a shift in focus towards next season's crop can help coffee extend a recovery move early this week. December coffee saw an abrupt change in fortune as it reached a new 2 1/2 month low at midsession only to rally more than 5.00 cents before finishing Friday's trading session with a moderate gain and a positive daily reversal. For the week, December coffee finished with a loss of 4.70 cents (down 4.1%) which was a third weekly loss over the past 4 weeks.

Safras and Mercado forecast Brazilian 2020/21 coffee exports would reach a record high 41.8 million bags, and that put pressure on the market as that underscores their near-record 2020/21 production. Brazil's harvest is nearly completed, so their coffee stocks should gradually be drawn down over the rest of the 2020/21 season. The International Coffee Organization (ICO) forecast the 2019/20 season would have a global production surplus of 1.54 million bags due to the decline in consumption from the impact of the coronavirus. The ICO also said that August global coffee exports came in 7.5% below last year's total. The trade house Marex Spectron forecast that Brazil's upcoming 2021/22 coffee crop would face a severe impact from drought conditions, and that provided a boost to coffee prices going into the weekend.

With dry and warm weather forecast for major Brazilian Arabica growing regions through this weekend, the flowering period for their 2021/22 crop could have very negative results. ICE exchange coffee stocks fell by 2,240 bags on Friday and reached a new multi-decade low. Coffee positioning in the Commitments of Traders for the week ending September 29th showed Managed Money traders reduced their net long position by 8,170 contracts to a net long 36,246 contracts. CIT traders net sold 3,614 contracts and are now net long 58,825 contracts. Non-Commercial No CIT traders were net long 25,645 contracts after decreasing their long position by 6,449 contracts. Non-Commercial & Non-Reportable traders were net long 52,843 contracts after decreasing their long position by 6,996 contracts.

## COTTON:

Demand has stayed stronger than traders have expected, and the focus of attention is shifting to the October 9 USDA crop production and supply/demand report. With several hurricanes and some dry weather periods, traders are likely looking at smaller yield and tighter ending stocks for the report. The market remains in a choppy consolidation pattern and December cotton closed only slightly lower on Friday after falling sharply earlier in the session. The market had fallen along with the stock market on the news of President Trump testing positive for Covid-19 and like the stock market recovered off of its lows as the day progressed.

The 6-10 and 8-14 day forecasts call for above normal precipitation in the southeast, which increased the chances for harvest delays and potential damage to the crop. Texas looks dry, and the Delta looks close to normal. Dry conditions prevail for the most part in the next 5 days. Friday's Commitments of Traders report showed managed money traders were net sellers of 183 contracts on cotton for the week ending September 29, reducing their net long to 51,128. Non-commercial & non-reportable traders were net buyers of 1,219, increasing their net long to 69,823. CIT traders were net buyers of 1,962 contracts, increasing their net long to 75,312.

## SUGAR:

While sugar prices have been unable to take out their mid-August high, they have been resilient in the face of negative global risk sentiment, sluggish key outside markets and what continues to be a bearish global supply outlook. There have been bullish supply-side developments that can help sugar extend its recovery move into early October, but the market may have may limited upside and remains increasingly vulnerable to a long liquidation selloff. March sugar bounced back from midsession pressure, but could not hold its ground in positive territory and finished Friday’s trading session with a modest loss. For the week, March sugar finished with a gain of 4 ticks (up 0.3%) which was a third positive weekly result in a row.

A moderate pullback in the Brazilian currency to a new 4 1/2 month low combined with sizable pullbacks in energy prices to put early carryover pressure on the sugar market as extended weakness in those markets will encourage Brazil’s Center-South mills to produce more sugar at the expense of ethanol production. In fact, the Brazilian government agency Secex said that Brazil’s September sugar exports came in at 3.62 million tonnes which was more than double the 1.71 million they exported in September

2019. There is dry and very warm weather forecast for Brazil's Center-South cane growing regions though the rest of this week and with a La Nina weather event in its early stages, these conditions could have a negative impact on late-harvest cane this season and with the 2021/22 cane crop harvested next year.

While Brazil and India should see sizable upticks in output, the likelihood of an 11-year low in 2020/21 Thailand production and a drop in EU production this season continue to underpin sugar prices going into the fourth quarter. Reports that Pakistan (who was a net exporter in recent season) will need to import 300,000 tonnes of sugar during the 2020/21 season provided additional late support to the market. The September 29th Commitments of Traders report showed Sugar Managed Money traders were net long 202,723 contracts after increasing their already long position by 20,141 contracts. CIT traders net sold 1,195 contracts and are now net long 250,619 contracts. Non-Commercial No CIT traders added 14,390 contracts to their already long position and are now net long 158,938. Non-Commercial & Non-Reportable traders net bought 23,703 contracts and are now net long 294,645 contracts.

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