ADM Investor Services, Inc.

# Weekly Futures Market Summary

**by the ADMIS Research Team**
**February 22, 2021**

**BONDS:**
A set of Markit "flash" manufacturing PMI readings came in well above forecasts which gave another boost to global risk sentiment. The latest US Markit "flash" manufacturing PMI and January existing home sales result were better than expected, and that more than offset lukewarm readings for Canadian retail sales and UK retail sales. The Fed's Barkin said that inflation was "not in the numbers", while the Fed's Rosengren said that he sees a robust US economy recovery underway by the second half of this year and that the Fed will keep rates at near-zero levels until the 2% inflation target has been reached.

Treasuries were pressured by safe-haven outflows and reached new lows for the move before closing Friday's trading session with sizable losses. Treasuries remain on the defensive early this week, but they have rebounded from new lows for the move coming into Monday morning's action. The latest 7-day average for US new COVID cases reached its lowest level since October, and that points toward further relaxation of COVID restriction sooner rather than later. In addition, the UK and Germany are putting out plans for easing restrictions while a stronger than expected German IFO survey should have boosted global risk sentiment. Yields have been on the rise in the US and in most other G-7 nations, with the 30-year TIPS rate climbing into positive territory last Friday for the first time since June.

Chinese equities lost their post-holiday positive tone and posted sizable losses, however, which put global equity markets under pressure that in turn fueled safe-haven inflows to Treasuries. While the Fed's Williams said that the rise in yields was not a concern, he said that the US economy is still in a "deep hole" and has quite a way to go in order to return to maximum employment and 2% inflation. Bonds positioning in the Commitments of Traders for the week ending February 16th showed Non-Commercial & Non-Reportable traders reduced their net short position by 992 contracts to a net short 229,502 contracts. For T-Notes, Non-Commercial & Non-Reportable traders are net short 43,182 contracts after net selling 31,638 contracts.

**CURRENCIES:**
The Dollar remained on the defensive late last week, but was able to put together a mild recovery before finishing Friday's trading session with a moderate loss. A decent existing home sales result fueled

safe-haven outflows from the Dollar going into the weekend. The British Pound reached a new multi-year high, while the Canadian Dollar reached a 4-week high as recovery currencies benefited from improved risk appetites. The Dollar had a volatile start to the week as it shook off early pressure with a sizable rally, only to fall back onto the defensive coming into Monday morning's action.

Sluggish global equity markets have fueled safe-haven inflows to the Dollar, but that has not been enough to sustain upside momentum for an extended recovery move. The market may be waiting on Fed Chair Powell's congressional testimony tomorrow and Wednesday before giving the Dollar any benefit of the doubt. The Dollar remains in close proximity to a downside breakout and we suggest traders look to sell an upside breakout in the dollar index. The Commitments of Traders report for the week ending February 16th showed Dollar Non-Commercial & Non-Reportable traders net sold 410 contracts and are now net short 12,459 contracts.

The Euro bounced back from an early selloff and has climbed into positive territory coming into Monday morning's trading. A better than expected German IFO survey has helped the Euro find its footing, while rising German and French bond yields are providing additional support. However, sluggish global risk sentiment may keep further gains in check while there have been mixed signals from Euro zone nations on COVID reopening measures. The Euro may need a "risk on" mood to develop before lifting clear of its recent trading range. Euro positioning in the Commitments of Traders for the week ending February 16th showed Non-Commercial & Non-Reportable traders were net long 193,880 contracts after increasing their already long position by 3,444 contracts.

The Yen rebounded from early lows early in this week’s action. While a better than expected Japanese corporate services price index reading provided some measure of support, it remains in negative year-over-year territory which reflects very low Japanese inflation levels. There has been safe-haven flows into the Yen due to weak global equities, however, and that may help the Yen to regain lost ground later today. The Yen may find additional strength if risk appetites remain subdued.

The Swiss franc made a sizable rebound from heavy early losses, but has some way to go in order to fully recover from last week’s pullback. There has been a spike upmove in the Euro/Swiss franc spread to a 15-month high which kept the Swiss franc on the defensive, which in turn has also limited safe-haven inflows at a time when global markets have a lukewarm risk tone. However, the Swiss franc may be showing early signs that a longer-term low may be in.

The Pound shook off early pressure and climbed to a new multi-year high early in this week’s action. Reports that the UK government is ready to move ahead with easing lockdown restriction in early March should give a significant boost to the UK economy, and that in turn has underpinned the Pound early this week. However, sluggish global risk sentiment, lingering issues with Brexit and last Friday's weak UK retail sales report may put some brakes on the Pound’s upside momentum. However, the Pound should climb further into new high ground when global risk sentiment turns positive again.

The Canadian dollar reached a new multi-year high early in this week’s action, but then fell back into negative territory. Energy prices have fallen back from their early highs as well while risk appetites have softened, both of which have put pressure on the Canadian dollar early this week. The Canadian dollar could see additional long liquidation and profit-taking if risk appetites remained subdued early this week.

**STOCKS:**
After a subdued start, global markets regained a mostly positive risk tone midway through Friday's trading session, but lost their strength going into the close. Chinese equity markets reopened after their holiday week, and a moderate gain by the Shanghai Composite index provided a mild boost to risk appetites. US equity markets rebounded from negative territory and were posting moderate gains at midsession, but fell back and finished with mixed results. Global markets started out the week with a positive tone, but they took a negative shift coming into Monday morning's action.

The People's Bank of China kept rates unchanged while the Japanese corporate service price index came in higher than expected. While the Japanese Nikkei finished with a mild gain, Chinese shares finished with sizable losses and were led to the downside by a 3% loss in the CSI-300. The latest German IFO survey came in above forecasts. European shares were posting moderate losses early in today's action and were led to the downside by the UK-FTSE 100 and German DAX. The 7-day average US COVID new case count continued to decline and reached its lowest levels since late October.

US equity markets are turning lower from an extreme overbought condition. Given the recent very strong economic news, traders are bit nervous with the massive $1.9 trillion Covid recovery package and there remains concern of an overheated economy. Interest rates are on the rise and weakness in Boeing has also sparked some selling. In addition, the selloff in China stock market plus uncertainties on the Myanmar political tensions are seen as potential negative forces. The Emini S&P is still operating under the negative technical influence of the February 16 key reversal, and the weekly key reversal for the week ending February 19.
The February 16th Commitments of Traders report showed E-Mini S&P Non-Commercial & Non-Reportable traders net sold 19,877 contracts and are now net short 30,174 contracts.

The March Dow has held up better than other indices recently. For the NASDAQ, the charts are bearish and the market still has a negative influence of the February 16th key reversal. The Commitments of Traders report for the week ending February 16th showed Dow Jones $5 Non-Commercial & Non-Reportable traders net sold 3,836 contracts which moved them from a net long to a net short position of 2,283 contracts. Nasdaq Mini positioning in the Commitments of Traders for the week ending February 16th showed Non-Commercial & Non-Reportable traders were net long 22,080 contracts after decreasing their long position by 2,468 contracts.

**GOLD, SILVER & PLATINUM:**
The gold market is starting off the week on a positive note despite a move to even higher interest rates for Treasuries, with Bonds and Notes prices moving to their lowest levels in 11 months. Gold may be viewed as an inflation hedge, but it is hard to compete with interest-bearing instruments when interest rates are climbing to their highest levels in a year. The negative shift in risk attitudes overnight may have sparked safe-haven interest for gold. April gold's outside day-higher close on Friday was the first technical indicator that the bulls could grab onto in quite a while, and it might be enough to spark a

modest correction this week. The trade will be look to the Fed Chairman's testimony this week to see if there is any change in the current policy, which is tolerating modest inflation until the economy gets back on track.

The bulls may also take some encouragement from reports that lower cash prices in India last week have sparked some end-user demand for gold coins and jewelry. Last week's low in the dollar index could be a critical technical low early this week, and a break below there could spark some renewed interest in gold. We still favor waiting for confirmation of the low before turning bullish in gold and would prefer to sell a bounce. As of Friday, holdings in the largest gold ETF fell to their lowest level since June. They have only increased one day so far in February and only three times since the start of the year. The negative shift in risk attitudes early this week may be weighing on sliver, which seems to be embracing the bullish economic news better than gold.

The Commitments of Traders report for the week ending February 16 showed managed money traders were net sellers of 22,270 contracts of gold, reducing their net long to 83,581. Non-commercial & non-reportable traders were net sellers of 21,210, reducing their net long to 262,382. The managed money net long has fallen to its lowest level since May, when the market was recovering from the Covid selloff. The good news for the bulls is that they do not have to fear heavy long liquidation. In silver, managed money traders were net buyers of 1,299 contracts, increasing their net long to 40,990. Non-commercial & non-reportable traders were net sellers of 1,605, reducing their net long to 73,082. The market is not overbought in the classic sense, and the buying trend is supportive for the near term.

Platinum was lower early this week as the slightly negative risk tone seems to be weighing on the market. Prices rose last week on ideas the Biden Administration's push for green initiatives would boost demand for the metal, which is used in electric automobiles. We view platinum as having strong bullish potential this year, not only from the electric car standpoint (for which demand growth would be gradual) but also because global production deficit is expected to extend one or two years. Platinum and palladium recovered from early setbacks on Friday to close higher on the day. Better than expected economic data spurred ideas of increasing demand for automobiles. April platinum's outside day higher on Friday puts the market in a positive tone to start the week, with the potential to test last week's contract high at $1,348.20 if the risk tone shifts positive.

March palladium is well off its overnight highs, which war highest level in a month. The market may be ready to resume the uptrend off the January lows, with an initial target of $2,465. The Commitments of Traders report showed managed money traders were net buyers of 472 contracts of palladium for the week ending February 16, increasing their net long to 1,654. Non-commercial & non-reportable traders were net buyers of 437, increasing their net long to 1,663. In platinum, managed money traders were net sellers of 463 contracts, reducing their net long to 28,418. Non-commercial & non-reportable traders were net buyers of 1,692, increasing their net long to 44,843.

**COPPER:**

Copper prices have risen more than 58.00 cents over the past 18 sessions and it at its highest level since the summer of 2011, but the market is extremely overbought with and record spec net long position. March copper blew past the key $4.00 level on Friday and went on to post massive gains, and it followed through with sizable early gains today, but then it fell more than 10.00 cents coming into Monday morning's action. The market finished last week with a gain of 28.60 cents (up 7.6%) and a third weekly gain in a row. There was a sizable build in Shanghai exchange copper stocks of more than 34,000 tonnes, which was third build in a row. They are back above the 100,000-tonne level for the first time since November.

The positive post-holiday risk tone seen in Chinese financial markets pointed to stronger copper demand, but Chinese shares finished Monday with sizable losses, which has taken the steam out of copper's updraft. A decline in LME copper stocks Monday provided some support as they have been close to last September's multi-decade low throughout February, which may be further evidence of stronger global demand. The Commitments of Traders report for the week ending February 16 showed managed money traders were net sellers of 359 contracts of copper, reducing their net long to 87,312. Non-commercial & non-reportable traders were net buyers of 4,348, increasing their net long to 87,302, which is an all-time high.

**ENERGY COMPLEX:**

While crude oil price had pulled back from their highs on Thursday, they remain nearly $25 above the early November lows. The market may have corrected its technically overbought condition, but it remains vulnerable to profit-taking and long liquidation early this week. April crude oil was pressured by end-of-week profit-taking and long liquidation on Friday and posted heavy losses, but it found renewed strength at the start of this week. The market finished last week with a loss of 12 cents, which broke a 2-week winning streak and formed was a negative weekly reversal from last Thursday's multi-year high.

There was some optimism that oil wells in Texas and Oklahoma would restart soon as the electrical grid operator ERCOT declared an end to the state's emergency conditions, but it may take several days for that to happen. There were reports that more than 4 million barrels per day of production in the south-central US were shut in during the storm. Keep in mind that many major refineries in Texas have yet to restart operations, which is likely to create a sharp buildup of crude stocks in the PADD 3/Gulf Coast region. Reports that the recent run-up in prices may lead OPEC plus nations to relax their output cut quotas weighed on the crude oil market on Friday.

However, there were reports over the weekend that Iraq had frozen oil prepayments, which indicates that the OPEC-plus nations believe that prices are likely to rise to even higher levels if they don't raise production levels. The latest Baker Hughes report showed US oil rigs declined by 1 to 305, which was the first weekly decline in 12, but the Permian basin (203 rigs) and Eagle Ford basin (28 rigs) held at their highest levels since last May. The Commitments of Traders report showed managed money traders were net buyers of 10,022 of crude oil for the week ending February 16, increasing their net long to 389,892. Non-commercial & non-reportable traders were net buyers of 3,716, increasing their net long to 620,691.

RBOB And ULSD saw early strength at the start of this week that follows mixed results on Friday. April RBOB posted a strong gain last week for a fifth positive week in a row. April ULSD saw a fourth positive week in a row. Several Texas facilities were able to get back on-line over the weekend, but many are still down. Keep in mind that seven of the 20 largest US refineries in southeast Texas, so these issues could lead to drawdowns in US gasoline and distillate stocks. Poor weather is likely to cut back on already lukewarm driving demand, however, and that may weigh offset the lower output.

Euroilstock said that European refineries processed 8.55 million barrels per day crude in January. This was a slight increase from December but more than 14% below last year. The Commitments of Traders report showed managed money traders were net buyers of 121 contracts of RBOB for the week ending February 16, increasing their net long to 61,140. Non-commercial & non-reportable traders were net sellers of 9,794, reducing their net long to 71,818. For heating oil, managed money traders were net sellers of 268, reducing their net long to 18,270. Non-commercial & non-reportable traders were net buyers of 479, increasing their net long to 38,420.

While natural gas saw volatile action, it held above the February 12th close last week. April natural gas finished last week with a gain of 0.115 (up 4.0%), which was a fourth positive week in a row. However, it was unable to shake early pressure and fell to a 1-week low early Monday. While many pipelines and gas wells in Texas are still shut-in from to last week's extreme cold and lack of electrical power, that situation is expected to be mostly resolved by the end of the week. There were reports that more than 20 billion cubic feet per day of production was shut down, which would be 22% of US national production prior to the storm.

Several LNG shipments to were discharged at Mexican facilities late last week, but exports to Mexico and overall LNG exports are likely to remain below their recent pace over the next few weeks. The latest 6-10 day forecast has warmer than normal conditions across the eastern third of the continental US, but it also showed colder than normal conditions for the Plains, Rockies, and Pacific Coast. Natural gas storage is close to its 5-year and 10-year averages, so the drop-off in production should not lead to lasting supply bottlenecks.

As more pipelines and production come back on-line, it could help boost LNG exports, which might underpin prices at the recent consolidation zone. Until that happens, the market is vulnerable to additional long liquidation. The Commitments of Traders report for the week ending February 16th showed managed money traders were net buyers of 4,504 contracts of natural gas, increasing their net long to 111,672. Non-commercial & non-reportable traders were net buyers of 3,82 increasing their net long to 61,753.

**BEANS:**

A drier southern Brazil this week could boost their harvest. The market seems poised for a resumption of the uptrend but a lack of new import news from China plus ideas that South America yields are improving have helped to hold old crop soybeans in a consolidation. There is very little rain in the forecast for Argentina for the next week or more and traders see the second driest February in more than 30 years as a possible supportive force. The cool weather and good rains in late January have kept crop conditions good but this could change in the next few weeks. November soybeans broke out to the highest level since January 15 on Friday and posted contract highs this morning.

In their Agricultural Outlook, the USDA forecast the 2021/22 US soybean crop at 4.525 billion bushels, which would be a record high, but they called for only a modest increase in ending stocks to 145 million bushels, up from 120 million in 2020/21 and still historically low. US crush is expected to be a record high, but exports are expected to decline by 50 million bushels, and this news was supportive to the new crop. The outlook leaves the market vulnerable to yield issues as a minor reduction in yield could drive ending stocks to historically tight levels.

If yield comes in the same as last year, ending stocks slide to just 93 million bushels. If yield comes in at 49 bushels per acre, ending stocks would come in at a -14 million bushels. US soybean export sales for the week ending February 11 came in at 455,944 tonnes for the 2020/21 (current) marketing year and 167,994 for the next marketing year for a total of 623,938. This was towards the middle to low end of expectations and was down from 983,222 the previous week and the lowest weekly total since December 31. Cumulative sales have reached 98% of the USDA's forecast for the marketing year versus a five-year average of 81%.

Soybeans positioning in the Commitments of Traders for the week ending February 16th showed managed money traders are net long 161,410 contracts after net selling 10,360 contracts (long liquidation). Non-Commercial & Non-Reportable traders were net long 201,500 contracts after decreasing their long position by 23,591 contracts. For Soyoil, managed money traders added 4 contracts to their already long position and are now net long 110,396. CIT traders were net long 129,894 contracts after decreasing their long position by 2,829 contracts. Soymeal managed money traders are net long 69,422 contracts after net selling 203 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 9,013 contracts to a net long 115,329 contracts.

**CORN:**

While the USDA news was supportive on Friday and Argentine weather still looks dry for the rest of the month, the technical action was negative on Friday as the market is still correcting the overbought condition. China plans to enhance its ability to secure supplies of grains according to an annual document issued by the state Council and published by the official news agency Xinhua. The news puts grain production at a higher priority in the country, and food security as a more important issue. Old-crop corn fell under pressure with the March, May and July contracts closing lower after an outside day down on Friday, while December corn was near unchanged after trading to a new contract high. The USDA expects US corn ending stocks to increase slightly in 2021/22 to 1.552 billion bushels, up 50 million from 2020/21. Total use is expected to increase 3% based on increases in domestic consumption and continued strength in exports.

If yield comes in at the same level as last year, ending stocks drop to just 919 million bushels. This leaves very little room for any production issues for the new crop season and is a supportive development for corn. US corn export sales for the week ending February 11 came in at 999,165 tonnes for the current marketing year and 182,612 for the next marketing year for a total of 1,181,777. This was towards the low end of expectations and was down from 1,460,816 the previous week and was the lowest weekly total since December 24. Cumulative sales have reached 89% of the USDA's forecast for the marketing year versus a five-year average of 63%. Sales need to average 261,000 tonnes per week to reach the USDA forecast.

The largest buyer this week was Mexico at 226,515 tonnes for 2020/21 and 90,000 for 2021/22 for a total of 316,515. Costa Rica was second at 252,944. China bought 957 tonnes, and unknown canceled 242,479. China has made the most commitments for 2020/21 at 17.722 million bales, followed by Mexico at 11.767 million, Japan at 8.193 million, and unknown at 7.911 million. Corn positioning in the Commitments of Traders for the week ending February 16th showed managed money traders were net long 365,785 contracts after increasing their already long position by 6,978 contracts for the week. CIT traders net bought 6,934 contracts and are now net long 402,076 contracts. Non-Commercial & Non-Reportable traders are net long 499,665 contracts after net selling 4,341 contracts.

**WHEAT:**
With the tightening US ending stocks outlook, and fears that the US will be hit with winter kill damage, the market is trying to hold onto a positive short-term uptrend. With tight supplies in Europe, traders remain concerned over Russia's new crop export tax impact. Since July 1, Russia wheat exports have reached 30.1 million tonnes, up 28.2% from last year. Cold weather for the Black Sea region may be providing some buying support this morning as well. New and old crop wheat prices closed lower on Friday after trading higher earlier in the session. The USDA is projecting 2021/22 US wheat ending stocks to come in at 698 million bushels, which would be the tightest in eight years. This is based on expectations of an increase in the amount of wheat use for livestock feed. US wheat export sales for the week ending February 11 came in at 399,121 tonnes for the 2020/21 (current) marketing year and 214,400 for 2021/22 for a total of 613,521. This was down from 635,396 the previous week and was the lowest since overall total since January 14. Current year sales were at the low end of expectations, but new crop sales were much better than expected.

Cumulative sales have reached 87% of the USDA's forecast for the marketing year versus a five-year average of 84%. Sales need to average 119,000 tonnes per week to reach the USDA forecast. The largest buyer this week was Nigeria at 138,000 tonnes for 2020/21 and 30,000 for 2021/22 for a total of 168,000. China was the next largest at 131,673, followed by South Korea at 85,505. Wheat positioning in the Commitments of Traders for the week ending February 16th showed managed money traders added 1,979 contracts to their already long position and are now net long 21,285. CIT traders are net long 149,601 contracts after net buying 6,586 contracts. For KC Wheat, managed money traders are net long 57,133 contracts after net selling 2,959 contracts for the week. Non-Commercial & Non-Reportable traders are net long 54,402 contracts after net selling 2,019 contracts.

**HOGS:**
The hog market remains in an overbought technical set-up, but the pork value uptrend continues and news of increased food security measures are factors which support. The USDA pork cutout, released after the close Friday, came in at $90.14, up $1.03 from $89.11 on Thursday and $86.82 the previous week. This was the highest the cutout had been since October 26. April hogs ended lower after starting the session out stronger on Friday. The CME Lean Hog Index as of February 17 was 77.20, up from 76.53 the previous session and up from 72.36 the previous week. The USDA estimated hog slaughter came in at 488,000 head Friday and 173,000 head for Saturday. This brought the total for last week to 2.438 million head, down from 2.654 million the previous week and down from 2.611 million a year ago. Slaughter last week was down 6.6% from last year but pork production was down just 4.9%.

US pork export sales for the week ending February 11 came in at 33,279 tonnes, down from 36,898 the previous week and the lowest they have been since January 7. The average of the previous 4 weeks is 42,334. Cumulative sales for 2021 have reached 583,466 tonnes, down from 670,276 last year at this time but still the second highest on record. The 5-year average is 376,761. Japan was the largest buyer this week at 9,465 tonnes, followed by Mexico at 8,440, South Korea at 2,962 and China at 2,503. Mexico has the largest commitments so far for 2021 at 162,011 tonnes, followed by China at 154,512 and Japan at 54,869.

Hogs positioning in the Commitments of Traders for the week ending February 16th showed managed money traders added 11,011 contracts to their already long position and are now net long 67,187 contracts. This is the highest since December 2017 and leaves the market a bit overbought and also holding a premium to the cash market. CIT traders were net long 90,379 contracts after increasing their already long position by 3,278 contracts. Non-Commercial & Non-Reportable traders added 11,416 contracts to their already long position and are now net long 64,076. China's national average spot pig price as of February 22 was down 5.16% from the previous day. For the month, prices are down 14.7% and down 20% year to date.

**CATTLE:**

The Cattle on Feed Report was bearish. Placements for the month of January came in +3.2% from a year ago versus an average trade expectation calling for -0.2%. The placements number was also well-above the upper end of the range as well (+1.3% to -4.4%). Marketings in January were close to expectations, declining 5.6% versus an average estimate of calling for a 5.3% decline. This put the February 1st On-Feed supply at the bearish end of expectations, +1.5% from last year versus an average estimate calling for +0.9% and a high-end estimate of +1.1%. The extremely high placements number is especially bearish for the deferred contracts, but with the strong premium the nearby futures have to the cash market, and the tenuous technical setup, we could see active selling across the board. The USDA boxed beef cutout closed 38 cents higher at $239.23. This was up from $232.37 the previous week and was the highest the cutout had been since December 2.

The USDA estimated cattle slaughter came in at 109,000 head Friday and 63,000 head for Saturday. This brought the total for last week to 552,000 head, down from 608,000 the previous week and 626,000 a year ago. Plant closures due to the weather left slaughter down 11.8% from last year with beef production down 10%. Cash live cattle ended last week slightly firmer than the previous week. The 5-area, 5-day moving average as of Friday afternoon was 114.05, up from 113.74 the previous week. This leaves April cattle trading at a premium of $9.62 to the cash market as compared with the 5-year average basis which shows a $1.41 discount. Cattle positioning in the Commitments of Traders for the week ending February 16th showed managed money traders added 5,478 contracts to their already long position and are now net long 92,088. Non-Commercial & Non-Reportable traders are net long 97,481 contracts after net buying 4,490 contracts for the week.

This leaves cattle vulnerable to increased selling if support levels are violated. US beef export sales for the week ending February 11 came in at 22,868 tonnes, up from 17,544 the previous week and slightly below the average of the previous four weeks at 27,175. Cumulative sales for 2021 have reached

325,719 tonnes, up from 252,366 last year and the highest on record. The five-year average for this point in the year is 186,388 tonnes. The largest buyer this week was South Korea at 9,590 tonnes, followed by Japan at 3,514, Canada at 3,065 and China at 2,388. South Korea has the most commitments for 2021 at 91,517 tonnes, followed by Japan at 67,273, China at 44,499, and Hong Kong at 42,974.

**COCOA:**

While cocoa continues to face pressure from near-term global demand issues, the market has rejected several downside breakout moves since mid-December. With a much more positive demand outlook for the second half of this year and beyond, cocoa may be in a good position to extend a recovery move. May cocoa saw an abrupt change in fortune as it shook off early pressure and rallied sharply at midsession before finishing Friday's trading session with a sizable gain. For the week, May cocoa finished with a gain of 10 points (up 0.4%) which broke a 3-week losing streak and was a positive weekly reversal from last Wednesday's 14-week low.

A new multi-year high in the British Pound helped to fuel arbitrage buying of New York cocoa versus the London cocoa contract which is denominated in Pounds. In addition, sizable gains on Friday for the Eurocurrency and major European stock indices may help to strengthen chocolate demand in the Euro zone, where over 30% of global cocoa processing occurs and does not have a domestic source for cocoa beans.

Last week's estimate by the International Cocoa Organization that the 2020/21 season would have a global production surplus provided more evidence of the COVID pandemic's impact on global demand, it was well below some trade forecasts of a 200,000 surplus or larger. The prospect that COVID shutdown measures will be relaxed by mid-year has been boosted by the decline in new case counts in many areas, and that bodes well for the upcoming 2021/22 season as well. Starting on Wednesday, there are several days with light rainfall over West African growing areas that will provide some limited to their upcoming mid-crop cocoa production.

The February 16th Commitments of Traders report showed Cocoa Managed Money traders reduced their net long position by 4,123 contracts to a net long 14,843 contracts. CIT traders are net long 49,662 contracts after net selling 425 contracts. Non-Commercial No CIT traders are net long 3,399 contracts after net selling 3,511 contracts. Non-Commercial & Non-Reportable traders were net long 40,027 contracts after decreasing their long position by 2,947 contracts.

**COFFEE:**

While coffee's post-holiday rally ran out of steam, the market has once again climbed back to the upper portion of its recent consolidation zone. With demand showing some early signs of improvement as the market prepares for a sharp drop in Brazilian production, coffee may regain upside momentum and retest the mid-January high before the end of February. May coffee shook off midsession pressure from end-of-week profit-taking and climbed back into positive territory before finishing Friday's trading session with a modest loss. For the week, however, May coffee finished with a gain of 6.10 cents (up 5.0%).

Brazil’s upcoming 2021/22 production is an “off-year” in their 2-year crop cycle which normally leads to a drop in output. There were extensive periods of very dry conditions last year, while the current La Nina weather event normally leads to drier than normal conditions for the region. As a result, many analysts expect Brazil’s 2021/22 coffee production to decline at least 30% and potentially up to 50% below this season’s output. In addition, a rebound in the Brazilian currency should ease pressure on Brazil’s producers to market their coffee to foreign customers.

Honduras, Guatemala and Nicaragua are still dealing with the impact of last November’s severe storms. While Colombia’s January production was 8% above last year, their production is still below a 14 million bag annualized pace. ICE exchange coffee stocks declined by 2,550 bags on Friday which was a second daily draw in a row. There are over 83,000 bags at Antwerp waiting to be graded, so ICE exchange coffee stocks are likely to climb further before they reach a near-term high.

The February 16th Commitments of Traders report showed Coffee Managed Money traders are net long 21,059 contracts after net selling 1,745 contracts. CIT traders are net long 74,664 contracts after net selling 173 contracts. Non-Commercial No CIT traders are net long 19,454 contracts after net selling 298 contracts. Non-Commercial & Non-Reportable traders are net long 45,239 contracts after net selling 3,408 contracts.

**COTTON:**

March cotton closed higher for the sixth session in a row on Friday and the market surged to new highs early this week even with weakness in equity markets. It has made new contract highs in five of the past six sessions. The USDA Outlook Forum expects US cotton production to increase by 2.5 million bales in 2021/22 to 17.50 million. However, ending stocks are expected to fall to 3.80 million bales from 4.30 million in 2020/21, due to an increase in domestic consumption. Exports are unchanged. This would make ending stocks the lowest since 2016/17. US cotton export sales for the week ending February 11 came in at 119,515 bales for the 2020/21 (current) marketing year and 2,112 for 2021/22 for a total of 121,627. This was down from 445,468 bales the previous week and was the lowest since October 8. Cumulative sales for 2020/21 have reached 13.161 million bales, slipping below last year for the first time since December 10 but still well above the 5-year average of 10.609 million.

Sales have reached 92% of the USDA's forecast for the marketing year versus a 5-year average of 80%. The largest buyer this week was China, which bought 44,079 bales, all for 2020/21. Vietnam was the next-largest buyer at 27,187 bales. Turkey bought 44,600, all for 2020/21. China has the most commitments so far for 2020/21 at 4.5553 million bales, followed by Vietnam at 2.3200 million, Pakistan at 1.433 million, and Turkey at 1.014 million. The Commitments of Traders report for the week ending February 16th showed managed money traders are net long 68,568 contracts after net buying 335 contracts. CIT traders were net long 80,364 contracts after increasing their already long position by 2,489 contracts. Non-Commercial & Non-Reportable traders are net long 106,288 contracts after net selling 873 contracts.

**SUGAR:**

Sugar prices have rallied to their highest levels in nearly 4 years with the front-month contracts in backwardation, but the March/May spread has been unable to retest its 1.09 cent from early November since the start of the year. While sugar has a bullish supply/demand outlook and carryover support from key outside markets, it may be vulnerable to profit-taking and additional long liquidation during the final month of February. May sugar built upon a gap-higher opening and shook off midsession pressure to extend their longer-term uptrend with a moderate gain during Friday's trading session. For the week, May sugar finished with a gain of 1.25 cents (up 8.0%) which was only the second positive weekly result over the past five weeks.

Sugar was able to maintain last week's strong upside momentum in spite of a sizable pullback in energy prices during Thursday and Friday. Crude oil prices have risen over $25 a barrel since early November, and that price rise should still give Brazil's Center-South mills plenty of incentive to increase ethanol's share of next season's crushing at the expense of sugar. The Brazilian currency regained more than 1% in value following its post-holiday pullback, and that also boosted sugar prices as it eases pressure on Center-South mills to produce sugar for export.

An ongoing shipping container shortage has restricted the flow of India's sugar exports, which also provided support to the market as they were widely expected to make up for Thailand's low export totals this season. There was further evidence of improving global demand when Pakistan tendered for 50,000 tonnes of white sugar, as they had been an aggressive sugar exporter in recent years.

The Commitments of Traders report for the week ending February 16th showed Sugar Managed Money traders are net long 197,124 contracts after net buying 2,872 contracts. CIT traders net bought 7,398 contracts and are now net long 266,684 contracts. Non-Commercial No CIT traders are net long 144,718 contracts after net buying 5,068 contracts. Non-Commercial & Non-Reportable traders were net long 298,201 contracts after increasing their already long position by 2,732 contracts.

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