ADM Investor Services, Inc.

Weekly Futures Market Summary

January 17, 2023 **by the ADMIS Research Team**

BONDS:

The latest Chinese trade balance data showed larger than expected year-over-year declines for imports and exports. European data included lower than expected UK industrial production and an in-line French CPI result. US import prices and US export prices came in lower than trade forecasts, while a private survey of US consumer sentiment came in much higher than expected. Treasuries fell back from 4-week highs and went on to close Friday's trading session with moderate losses. Apparently, a risk-off vibe and a lack of flight to quality interest in Treasuries have resulted in a range down move below Friday's reversal low in a manner that shifts the charts negative. Interest rate market action might be restricted today because of a BOJ meeting and US PPI readings scheduled for Wednesday morning.

Chinese economic data was shaped into a negative, but the trade has "Shaped" the data to signal slowing and yet Treasuries and European bond yields rose as flight to quality buying failed to surface. Given recent Treasury market strength, seeing a contraction in US PPI should increase talk that the Fed might be able to pivot ahead and that is likely to return Bond and Note prices back to last week's highs. However, if US activity data remains positive and there is a pattern of risk-on reaction to soft inflation readings, that could send the markets back to the early December lows. On the other hand, seeing Treasuries fall after soft PPI might signal a 180-degree shift in longer-term sentiment back in favor of the bear camp.

CURRENCIES:

The Dollar rallied from a 7-month low into positive territory but could not hold midsession strength as it finished Friday with a mild loss. Increasing expectations that the Fed will reduce the size of their upcoming rate hikes continues to weigh on the Dollar going into the holiday weekend. In contrast, the Yen has rallied sharply in the wake of JGB buying by the Bank of Japan. The Dollar bounced from the spike down attempt last Friday, but the rally does not appear to have significant commitment. Therefore, soft New York manufacturing readings and a contraction in US PPI should knock the Dollar back into the Friday range and rekindle bearish confidence. In other words, we are skeptical of the Dollar's capacity to trend higher.

The euro is overbought technically and seeing thicker resistance given soft German inflation and no change in Italian CPI readings for December. Classic activity reports saw better than expected Euro zone Economic sentiment and German Economic sentiment, both of which were much improved in December which gives the bull camp a very narrow edge. In fact, bullish sentiment was tempered by continued weakness in ZEW German current situation readings.

While the Yen forged a higher high early this week, it might be restricted today because of a BOJ meeting ahead, initial readings are that the BOJ will be very responsive with policy news and directives of policy. In fact, with new leadership at the BOJ, a test of their reactions and policy might be in the offing. Expect the Swiss to gyrate sharply through the US PPI report on Wednesday with an extension of range trading likely. The bias to start this week is higher with the bull camp hopeful that US PPI will be soft.

In addition to Dollar weakness, a fresh uptrend extension and good UK jobs readings, the Pound bull camp has the edge. However, the improvement in UK jobs data was minimal and not indicative of a strong recovery in the UK economy but the outlook is improved by an increase in the "rate of pay growth". The action in the Canadian dollar a little disappointing to the trade as favorable Canadian home sales readings were discounted and the currency is under a cloud from a downbeat outlook from the BOC.

STOCKS:

Global markets started out under pressure but regained a positive tone by the close of Friday's trading session. Comments from J.P. Morgan that they expect a mild recession as their "central case" weighed on sentiment early. However, Bitcoin and Ethereum both reached 2-month highs, which provided a boost to global risk appetites. US equity markets climbed up into positive territory and finished with modest gains. Global equity markets were lower at the start of this week with declines generally of less than 1%. We suspect that US manufacturing readings from New York will set the tone of the US NYSE opening but an increase in earnings report flow will likely produce temporary volatility events.

With the pattern of higher highs extended into this week, bullish control of the S&P remains in the driver seat despite weakness in international markets. Certainly, earnings will impact prices, but we do not think that news will dictate the direction of the market unless several earnings reports lean in one direction and are surprising. With the prior earnings cycle showing mixed results and the trade widely expecting this cycle to confirm slowing, favorable earnings would be a bullish surprise. The trend is up with a slight corrective tilt to start this week.

With a higher high to start this week, the US markets are performing better than international markets. However, the screen presents a risk-off environment and that probably thickens resistance in the March Dow Index. With key earnings from Goldman resulting in a lower trade in the shares, financial related stocks in the Dow should see negative spill over impacts. We suspect the Nasdaq will continue to track the S&P and Dow but moves are likely to be smaller in magnitude.

GOLD, SILVER & PLATINUM:

With the gold and silver markets overbought with upside extensions forged to start this week, it appears that the dollar has prompted a reversal and perhaps a measure of long liquidation or stop loss selling. However, the dollar has not forged a significant upside at the start of this week, and the index could pull the index back into the prior two days trading range. According to Reuters, South African November gold output declined by 4.6% on a year over year basis while South African October gold output was revised downward to a decline of 6.6% year-over-year. In the prior trading session, gold ETF holdings declined by 7,062 ounces and silver ETF holdings declined by a notable 2.2 million ounces. Apparently, the reduction in gold ETF holdings was the 7th straight day of outflows.

Chinese economic data was positive with respect to industrial production expectations but was disappointing in retail sales and that could be consider a slight net negative result. We think gold and to a lesser degree silver are benefiting from Bank of American claims that inflation has peaked, as that should help move the needle toward a Fed pivot which in turn should pressure the Dollar and improve economic sentiment for physical commodities. The trade should begin to look forward to this week's US PPI release on Wednesday which has expectations of a month-over-month drop of.01%. Therefore, bullish fundamentals largely remain in place but risk-off, a higher Dollar, and a higher US rate environment give the bear camp temporary control.

The PGM markets should draft support against the risk-off vibe early this week because of a 22% November year-over-year decline in South African PGM production! Unfortunately for the bear camp, the palladium charts are negative to start the holiday shortened week with a 7-day low forged and the lowest trade since January 5th. While April platinum has not technically broken down in the early going, the charts are negative and a retest of $1,050 is probable if the Risk-off vibe becomes more serve and or the Dollar breaks out above the 102.40 level. The platinum market has another negative from a 1,737-ounce outflow from platinum ETF holdings.

COPPER:

With the copper market early this week not forging a new high for the move on its initial attempt to rally and recoiling from that rally, the market has the feel of a temporary top. Like the precious metal markets, the copper market saw a contraction in Chinese retail sales as more important than better than expected Chinese Industrial production and GDP data. Apparently, the copper trade saw unchanged GDP as a negative. It should be noted that the general daily pattern of outflows from LME copper warehouses has dissipated, and daily changes have become narrow and are not showing a pattern. Certainly, the markets have been confident that China will come out from under the Covid threat, but the world is not sure how long the outbreak will continue.

ENERGY COMPLEX:

Despite a risk-off environment and a stronger Dollar, crude oil has forged another higher high. The market is also higher in the face of a negative takeaway from Chinese economic data overnight and in the face of a 2.9% increase in 2022 Chinese oil production and therefore upside action this morning is impressive. In fact, the crude oil market has also ignored lower Chinese refinery 2022 throughput. Clearly, the oil market is not buying into the negative view toward Chinese data and the trade continues to embrace reopening progression in China. However, the recent rally has pumped up crude oil open interest to 6-month highs in a possible sign that bullish fuel is being consumed aggressively.

On the other hand, some traders think the rise in open interest on a rally indicates buyers see the trend remaining up. The trade should be drafting support from favorable Goldman Sachs 2022 demand projections which were likely the result of expectations of a recovery in the Chinese economy. A large decline in Brent crude yesterday during the US closure might be sparking some short covering spillover into WTI. In the wake of an increase in Chinese imports of Russian ESPO for February loadings and an EU ban of Russian fuel is likely to prompt further Chinese crude buying especially given the likelihood of a jump in Chinese refinery margins ahead.

Like the crude oil market, RBOB has forged a higher high for the move and has discounted negative fundamental news. As indicated in crude oil coverage, the EU has moved to strengthen the ban of Russian fuel buying. However, the prospects of a significant jump in Chinese fuel exports later this month (because of an expected jump in margins from the European ban of Russian fuel) should prompt China to increase refinery runs. However, Chinese naphtha margins dipped following soft Chinese data, but we think that will be a temporary reaction.

The trend is up especially with a higher high early this week in the face of risk-off track and weak global equity market action. The ULSD market did not post a higher high perhaps because of mild weather in the US and forecasts for a return to mild weather in Europe. With the EU stepping up restrictions on Russian fuel exports there is fundamental support for ULSD. However, traders expect China to respond to the

Russian fuel export ban and provide diesel to Asia in the weeks ahead. The trend is up but ULSD is the most suspected petroleum market.

While natural gas continues to respect consolidation support fundamentals are still decidedly bearish. Over the weekend, An industry expert said that the Freeport LNG export facility "might be" blocked from restart because of generators throwing off formaldehyde which would clearly justify continued delays. Furthermore, weather in the US and Europe looks to be bearish and forecasts for 2023 Chinese LNG imports from April to September 2022 are expected to post a record jump in summer supply. While that news is offset by forecasts for improving Chinese gas demand from a recovery that prospect is still uncertain. Yet another bearish signal is a jump of 9% in global floating LNG supply over the last week.

BEANS:

There is still not much rain in the next week for Argentina with hotter temperatures, however, there is rain in the second week out and the technical action for March meal is bearish. In addition, traders still expect a record Brazil crop. March meal experienced a key reversal on Friday from an overbought level and the gap lower opening today is a bearish technical development. Palm Oil futures managed to rally 0.18% on Monday and the market closed 5.2% lower last week and is down sharply this morning. March soybeans closed moderately higher on the session Friday and the buying pushed the market up to the highest level since December 30.

A positive tilt to the energy markets plus continued concerns for the Argentina crop given the dry outlook for the next week plus follow-through buying from Thursday's bullish USDA report were all seen as positive forces. While there is some rain in the forecast, a large share of crops are likely to remain under stress. So far, the harvesting of the Brazil 2022/23 crop has begun in Mato Grosso, mainly in the areas allocated to the second crop of cotton. Productivity may decrease in some areas of a water deficit; however, this decrease may be offset by high productivity in other regions within the state, according to Conab. In Southern Brazil, the 2022/23 soybean output is estimated to increase, despite irregular rains during sowing.

The Commitments of Traders report for the week ending January 10th showed Soybeans Managed Money traders net sold 11,290 contracts and are now net long 131,704 contracts. This is a long liquidation selling trend. Non-Commercial & Non-Reportable traders net sold 7,446 contracts and are now net long 98,641 contracts. For Soymeal, Managed Money traders hit a new extreme long of 142,711 contracts after adding 834 contracts to their already long position. Non-Commercial & Non-Reportable traders were net long 178,055 contracts after increasing their already long position by 4,634 contracts. For Soyoil, Managed Money traders are net long 54,614 contracts after net selling 9,148 contracts for the week. Non-Commercial & Non-Reportable traders reduced their net long position by 11,269 contracts to a net long 67,878 contracts.

CORN:

Some traders are hopeful that there will be enough rain in the next two weeks to see parts of the Argentina corn crop recover, and a continued expectation for a big Brazil crop helped to pressure the market this morning. China demand looks to remain strong with expanding livestock production. China pork production for 2022 was up 4.6% from 2021 and reached the highest level since 2014. March corn closed moderately higher on the session Friday and the buying pushed the market up to the highest level since January 3rd. The market closed more than 20 cents higher on the week with help from the bullish USDA report. There is still not much rain for central and eastern growing areas in Argentina for the next week and temperatures look to increase. This could cause further stress to the crop over the next 10 days or so, and there is plenty of uncertainty for the weather two weeks out.

Follow-through buying from the bullish USDA report which showed much smaller than expected US production added to the positive tone. December 1 stocks in storage came in near the low end of trade expectations as well. The new revisions put the US corn stocks/usage ratio at 8.9%, the second lowest since 2012/13. World ending stocks for 2022/23 came in a 296.42 million tonnes versus 297.7 million expected. If South American production falls another 8 million tonnes from the current forecasts, world ending stocks could slide to 288.4 million tonnes, the lowest since 2014/15, and the stocks/usage ratio could be the lowest since 2013/14.

Given the current crop conditions in Argentina and the lack of rain in the forecast, production could fall significantly more than the 8 million tonnes mentioned above. Argentina's corn crop ratings are dismal, with 13% good/excellent versus 41% a year ago, and 32% poor/very poor versus 20% last year. The crop is only 83% planted, and the planted area forecast was revised down 200,000 acres this week by the Buenos Aires Grain Exchange. The January 10th Commitments of Traders report showed Corn Managed Money traders reduced their net long position by 46,852 contracts to a net long 149,605 contracts. Non-Commercial & Non-Reportable traders were net long 153,908 contracts after decreasing their long position by 41,779 contracts.

WHEAT:

March wheat managed to close just slightly higher on the session Friday with talk of the oversold condition, concerns that weather in key growing areas could turn more threatening after the three day weekend and strength in the other grains helping to support. It was a small range and the market is technically oversold. European Milling wheat futures hit a near 10 month low last Friday with talk of stiff competition from Black Sea producers helping to pressure. On Monday, the market hit a new 10-month low. Egypt bought 120,000 tonnes of wheat from Russia. Philippines are tendering for 165,000 tons of feed wheat. IKAR raised their Russia wheat export forecast to 45.5 million tonnes from 44 million previous.

Continued concerns with aggressive export competition on the world market helped to pressure the market. Wheat positioning in the Commitments of Traders for the week ending January 10th showed Managed Money traders are net short 63,134 contracts after net selling 10,419 contracts for the week. Non-Commercial No CIT traders added 10,660 contracts to their already short position and are now net short 73,459. For KC Wheat, Managed Money traders went from a net long to a net short position of 8,023 contracts after net selling 9,780 contracts for the week. Non-Commercial No CIT traders are net short 23,951 contracts after net selling 7,806 contracts.

HOGS:

With the oversold condition of the market and a turn up in pork values, the market may see a short-term recovery bounce. February hogs closed lower on the session Friday after choppy and two-sided trade. It was an inside trading session. The USDA update last week showed a higher export forecast for 2023, and this brings down per capita supply for US which makes the supply outlook less burdensome. The market is oversold after the collapse from the December 27 high of 91.60, down to last Thursday's low of 77.57. The USDA pork cutout released after the close Friday came in at $80.15, up $2.27 from Thursday but down from $82.77 the previous week. The CME Lean Hog Index as of January 11 was 75.49, down from 75.96 the previous session and 78.26 a week prior. The USDA estimated hog slaughter came in at 486,000 head Friday and 281,000 head for Saturday. This brought the total for last week to 2.688 million head, up from 2.296 million the previous week and up 8.7% from a year ago.

Estimated US pork production last week was 581.8 million pounds, up from 495.9 the previous week and up from 559.7 a year ago. Hogs positioning in the Commitments of Traders for the week ending January 10th showed Managed Money traders were net long 22,735 contracts after decreasing their long position by 27,624 contracts for the week. Non-Commercial No CIT traders went from a net long to a net short position of 10,796 contracts after net selling 24,090 contracts in just one week. Non-Commercial & Non-Reportable traders are net long 14,323 contracts after net selling 18,443 contracts for the week. China pork production for 2022 was up 4.6% from 2021 and reached the highest level since 2014.

CATTLE:

The USDA boxed beef cutout was up 94 cents at mid-session Friday and closed 87 cents lower at $276.62. This was down from $282.99 the previous week and was the lowest it had been since December 23. The market acts a bit top-heavy, and we cannot rule out a short-term downside correction. However, the recent consolidation has corrected the overbought condition. Cash live cattle trade was on average weaker last week. As of Friday afternoon, the five-day, five-area weighted average price was 156.56, down from 157.60 last week. February cattle managed to close slightly higher on the session last Friday as the move to the lowest level since January 9th failed to spark new selling interest. The recent drop in open interest would suggest some long liquidation selling has emerged in recent days. The USDA supply/demand update showed less supportive supply news for the first quarter with an adjustment higher in beef imports for the coming year.

The estimated average dressed cattle weight last week was 832 pounds, down from 834 the previous week and 843 a year ago. The 5-year average weight for that week is 832.2 pounds. Estimated beef production last week was 548.4 million pounds, up from 521.3 million a year ago. The USDA estimated cattle slaughter came in at 123,000 head Friday and 33,000 head for Saturday. This brought the total for last week to 661,000 head, up from 563,000 the previous week and 618,000 a year ago. The January 10th Commitments of Traders report showed Cattle Managed Money traders added 8,727 contracts to their already long position and are now net long 91,489. CIT traders were net long 79,357 contracts after decreasing their long position by 3,676 contracts.

COCOA:

Cocoa prices have fallen back from last Monday’s 9-month high but remain well supported after climbing well above their January lows. With the market receiving critical demand-side data later this week, recent bullish supply developments can help cocoa to extend its current recovery move. March cocoa was able to shake off early pressure to finish Friday’s trading session with a moderate gain and a third positive daily result in a row. For the week, March cocoa finished with a gain of 46 points (up 1.8%) which was a third positive weekly result over the past 4 weeks.

Stronger equity markets in Europe and the US provided cocoa prices with carryover support. This was able to soothe near-term demand concerns in front of the release of fourth quarter European grindings before Thursday’s open, and fourth quarter North American grindings after Thursday’s close. While fourth quarter Malaysia grindings came in 3% above their third quarter total, they were 7.7% below last year’s total. This may not bode well for the fourth quarter Asian grinding total and kept further cocoa price gains in check going into the holiday weekend.
While their full-season arrivals total is still ahead of last season’s pace, the latest Ivory Coast port arrivals total came in below the comparable period last year.

Although Harmattan winds are thought to be milder than normal, West African growing nations continue to see mostly dry conditions with daily high temperatures above 95 degrees Fahrenheit. This is likely to have a negative impact on late main crop and mid-crop cocoa beans and keep full-season production totals close to last season. The January 10th Commitments of Traders report showed Cocoa Managed Money traders were net long 13,474 contracts after decreasing their long position by 834 contracts. Non-Commercial & Non-Reportable traders reduced their net long position by 2,129 contracts to a net long 18,863 contracts.

COFFEE:

While coffee remains on track for a fifth negative monthly result in a row, the market is starting to show early signs that a longer-term low is close at hand. In order to sustain a recovery move, however, coffee needs to see additional signs that global demand is improving. March coffee rebounded from early pressure to finish Friday's trading session with a moderate gain and the first back-to-back positive daily since mid-December. For the week, however, March coffee finished with a loss of 6.60 cents (down 4.2%) which was a third negative weekly result in a row.

The Brazilian currency remains close to 7-week highs, which provided the coffee market with carryover support as that should ease pressure on Brazilian producers to market their coffee supply to foreign customers. Concern with global demand prospects continue to weigh on coffee prices and keep the market well below its late December consolidation zone. ICE exchange coffee stocks rose by 5,146 bags on Friday to reach their highest levels since July and are on-track for a third monthly increase in a row.

Most ICE exchange coffee stocks are located at warehouses in Belgium and Germany, so their buildup from late October to early January reflects lukewarm near-term European demand. The US Climate Prediction Center (CPC) is predicting a 73% chance that the current La Nina weather event will shift into "neutral" conditions during the February/April timeframe. While this will improve growing conditions in Brazil and Colombia, La Nina has already taken its toll on the two nations who combined account for more than half of global Arabica output.

The Commitments of Traders report for the week ending January 10th showed Coffee Managed Money traders were net short 30,172 contracts after increasing their already short position by 18,274 contracts. Non-Commercial No CIT traders are net short 31,070 contracts after net selling 16,598 contracts for the week. Non-Commercial & Non-Reportable traders were net short 21,896 contracts after increasing their already short position by 16,011 contracts.

COTTON:

March cotton closed slightly lower on the session last Friday with choppy and two-sided trade, but the market closed 3.9% lower for the week. The bearish tilt to the USDA supply/demand report helped to limit any recovery bounce. The jump and US production, US ending stocks and an adjustment lower in global demand were all seen as bearish forces. The surge higher in crude oil helped to provide some support. Global 2022/23 consumption was revised 0.8% lower than projected for December which helped to boost stocks.

China, India, and Pakistan are facing demand issues including a downward trend in profit margins and yarn orders, which in turn have resulted in conservative buying practices for cotton. The Commitments of Traders report for the week ending January 10th showed Cotton Managed Money traders were net long 9,110 contracts after decreasing their long position by 2,295 contracts. CIT traders net sold 4,176 contracts and are now net long 61,735 contracts. Non-Commercial & Non-Reportable traders are net long 16,197 contracts after net buying 964 contracts.

SUGAR:

The sugar market put together a strong rally late in December that took it to its highest level since February 2017, as it received carryover support from stronger energy prices and benefited from expectations of lower output this season for several key producers. Global 2022/23 production remains on-track to reach a record high, however, so the sugar market could drop to much lower price levels during the first quarter. March sugar held within an inside-day range as it finished Friday's trading session with a moderate gain. For the week, March sugar finished with a gain of 77 ticks (up 4.1%) which broke a 2-week losing streak and was a positive weekly reversal from last Monday's 9 1/2 week low.

Crude oil and RBOB gasoline extended their recovery moves which provided the sugar market with carryover support. However, the prospects for higher production and exports from Brazil and Thailand kept further gains in check. Brazil's Center-South sugar production continues to increase as several mills are still operating in January. Thailand had a late start to their cane harvest, but they are still expected to see their sugar production increase at least 10% production from last season. The India Sugar Mills Association (ISMA) said that India's October through December sugar production was 3.7% ahead of last season's pace.

India's 2022 monsoon rainfall was 6% above their long-period average, and with several years with normal to above-normal monsoons, India's reservoirs are at 68.8% capacity, which is 20% above the 10-year average for this time of the year. This supports the idea that India's 2022/23 production should come at least close to last season's record high level.
The January 10th Commitments of Traders report showed Sugar Managed Money traders reduced their net long position by 64,962 contracts in just one week to a net long 174,796 contracts. Non-Commercial & Non-Reportable traders net sold 51,392 contracts and are now net long 233,695 contracts.

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