

Commodities Markets Report

By **Max Schulz**

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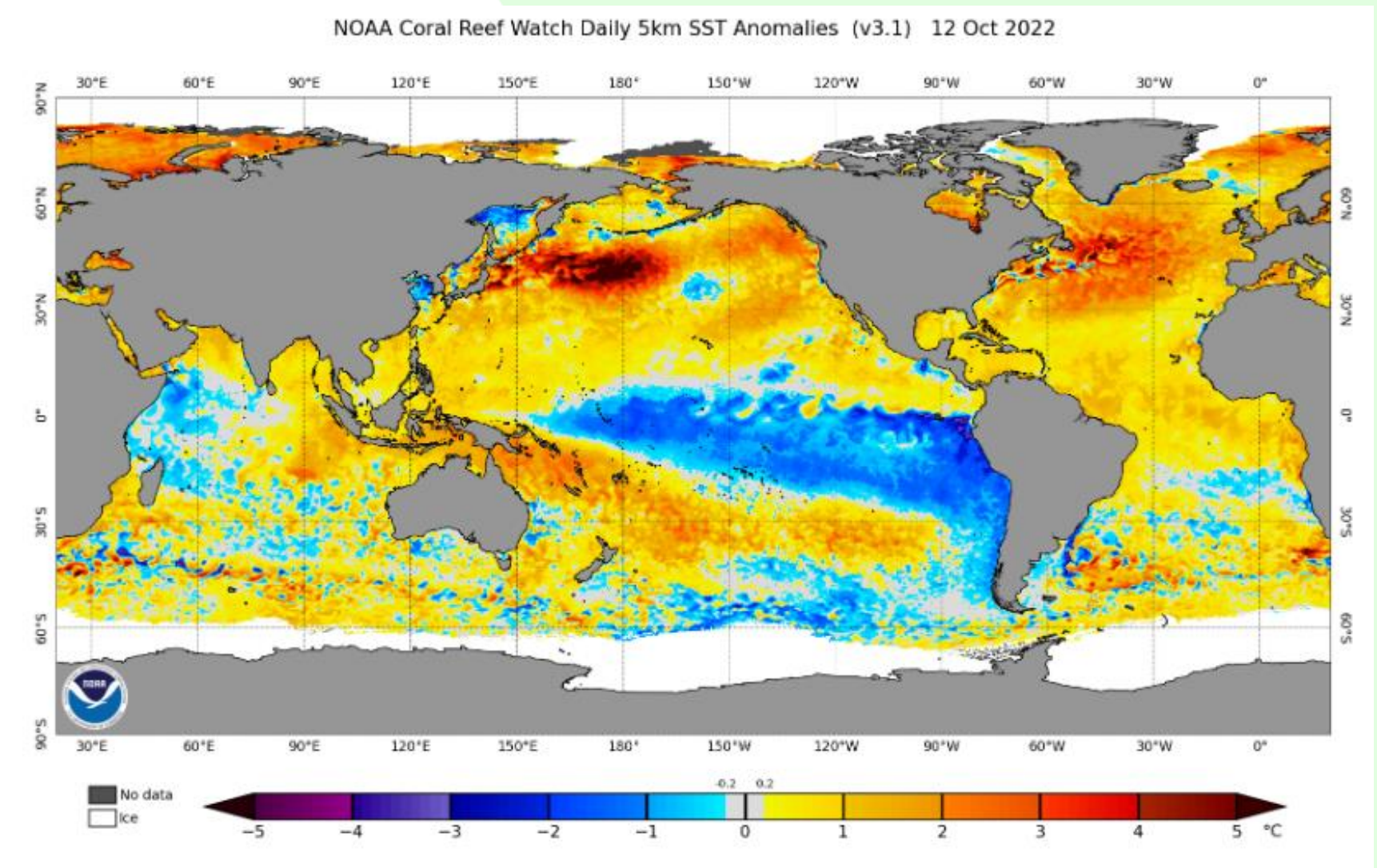


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Global weather review

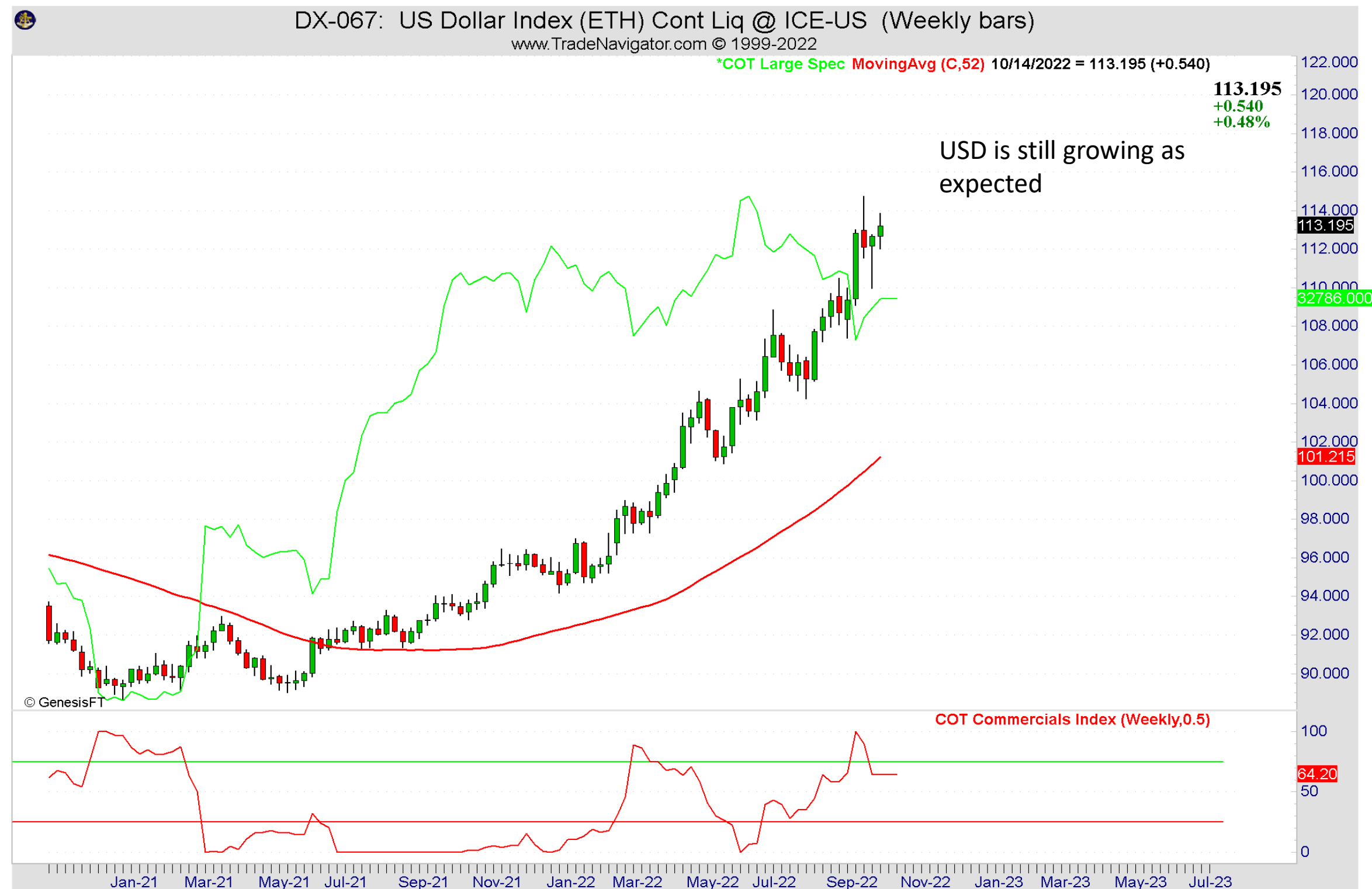
- La Niña continues in the tropical Pacific, and is likely to persist into early 2023. Both atmospheric and oceanic indicators of the El Niño–Southern Oscillation (ENSO) are consistent with an established La Niña, including tropical Pacific sea surface temperatures, the Southern Oscillation Index (SOI), trade wind strength, and equatorial cloudiness.
- Models indicate the La Niña is likely to decline over spring, with a return to ENSO-neutral conditions (neither La Niña nor El Niño) early in 2023. Sea surface temperatures in the tropical Pacific remain similar, compared to two weeks ago. The SOI remains well above La Niña thresholds.
- La Niña typically increases the chance of above average rainfall for northern and eastern Australia during spring and summer. La Niña is expected to intensify drought across the southern and central Plains, eastern Gulf Coast, and in California in the coming months. La Nina contributes to drought in Argentina and Southern Brazil, whereas West and Central Brazil is promising to be moderately wet
- The negative Indian Ocean Dipole (IOD) event also continues. The IOD index has satisfied negative IOD thresholds (i.e. at or below -0.4 °C) since June. Models indicate that the negative IOD is likely to persist until late spring. A negative IOD typically increases the chance of above average spring rainfall for most of the eastern two thirds of Australia.



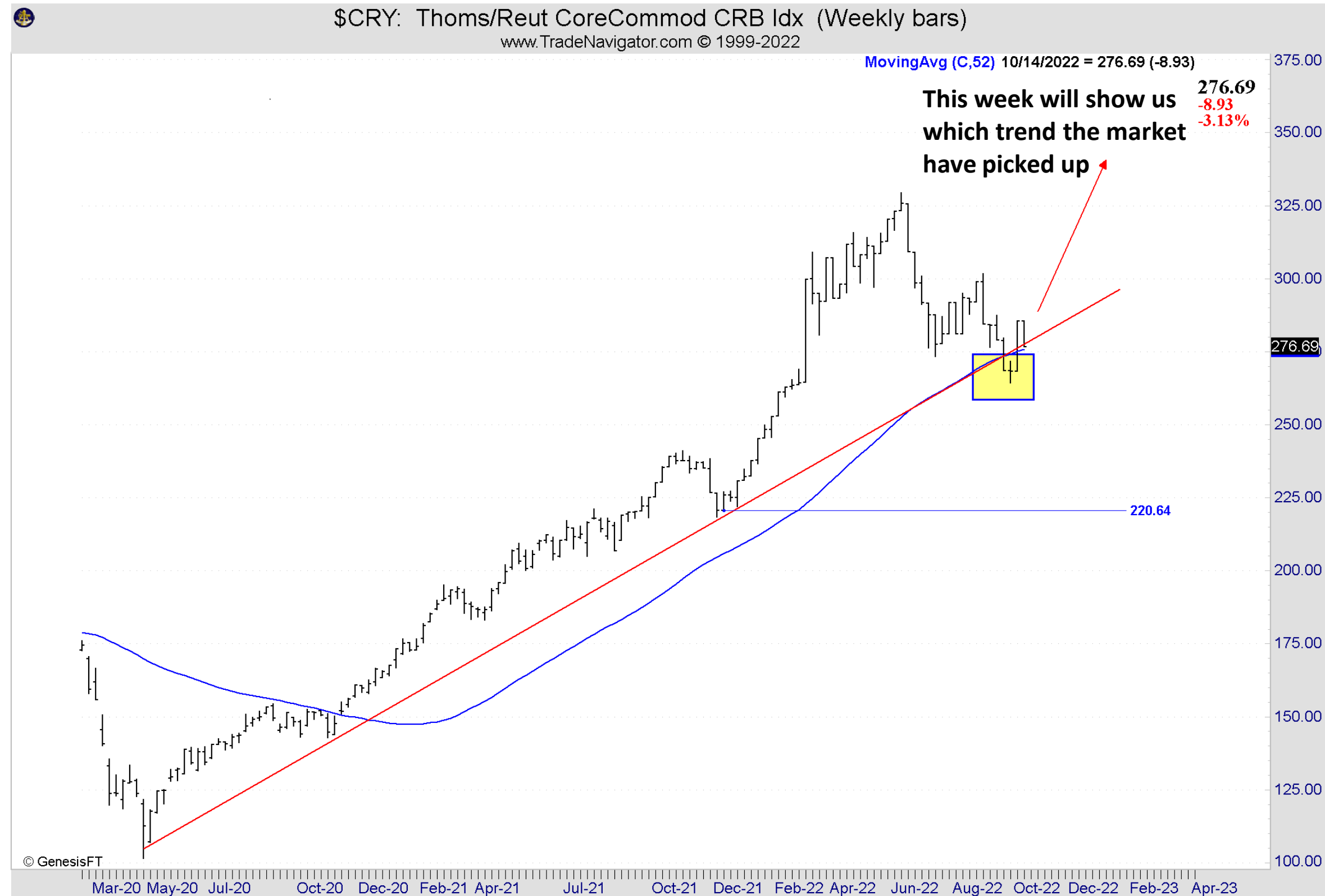
- The wet weather extended in a band that stretched from the upper Yangtze Valley to the North China Plain. Most areas in the band recorded 25 to 100 mm of rain with some locales receiving over 150 mm. downpours ensured ample soil moisture for winter crop sowing that is set to begin soon.



Dollar Index



Commodities Index



Sugar: Buy

- March NY world sugar on Wednesday closed down -0.06 (-0.32%), and Dec London white sugar closed down -3.40 (-0.61%).
- Sugar prices Wednesday gave up an early advance and turned lower as a stronger dollar and weakness in crude sparked long liquidation in sugar futures. Crude prices Wednesday fell to a 1-week low, which undercut ethanol prices and may prompt Brazil's sugar mills to divert more cane crushing toward sugar production rather than ethanol, thus boosting sugar supplies.
- Early Wednesday, NY posted a 2-1/2 month high, and London sugar posted a 1-month nearest futures high on signs of smaller global production.
- Unica reported that Center-South sugar output in the 2022/23 marketing year through September was down -9.9% y/y to 26.334 MMT.
- Conab, on August 19, cut its estimate for the 2022/23 Brazil sugar crop to 33.9 MMT from an April forecast of 40.3 MMT, citing lower plantings and falling sugar cane yields.
- This past summer's hot and dry weather in Europe, the world's third-largest sugar producer, caused smaller sugar beet yields and lower sugar production, which is bullish for sugar prices. Czarnikow Group predicts sugar output in the European Union (EU) and the UK should total 16.4 MMT this year, about 1 MMT lower than last year, which means the EU may have to import more sugar than usual.

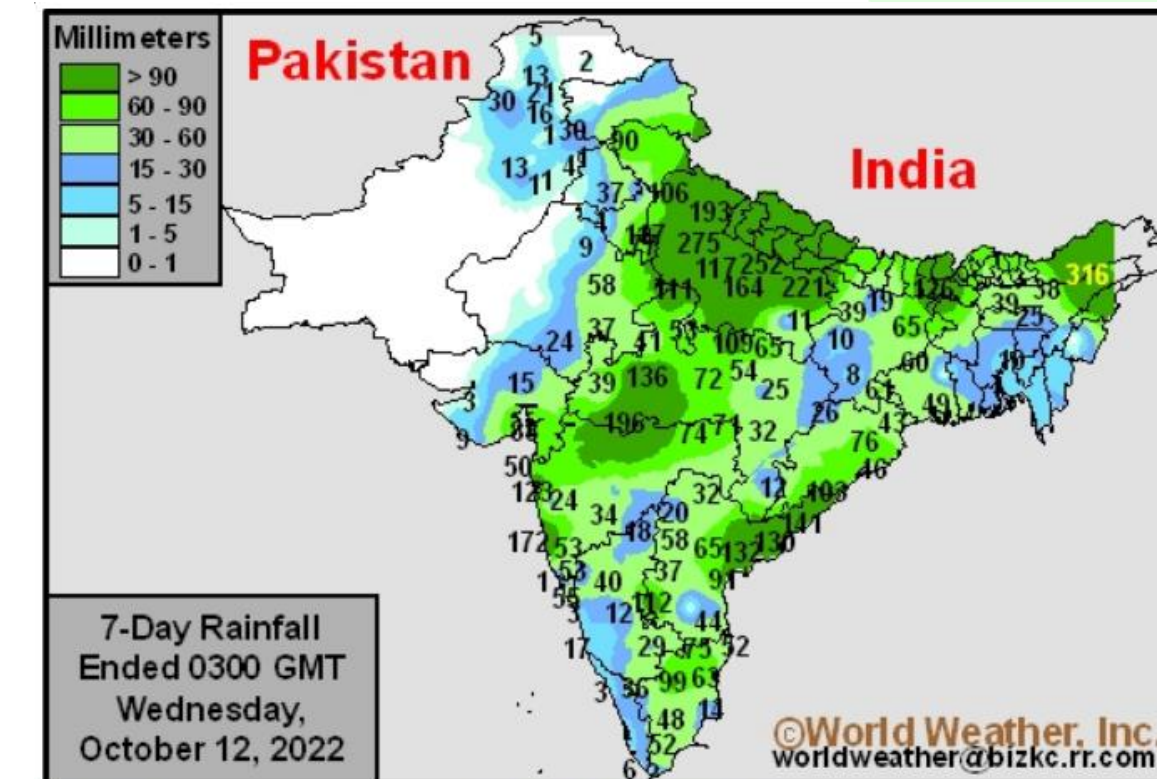
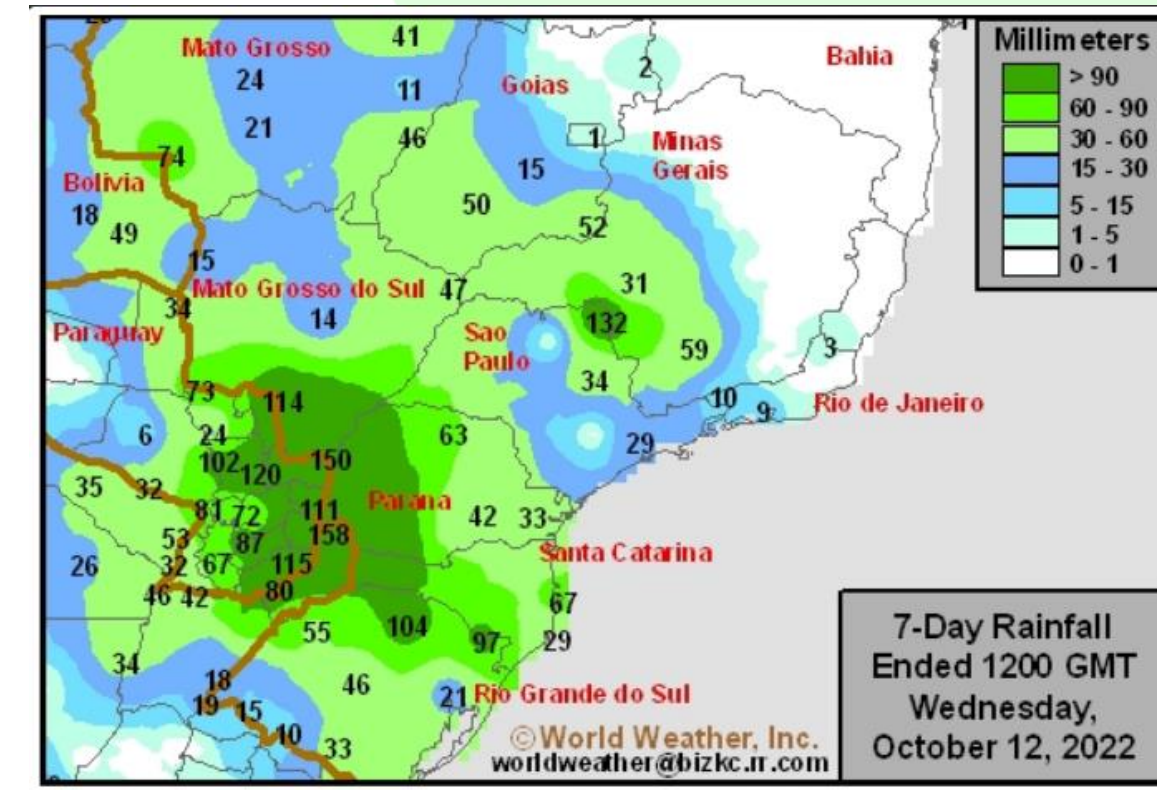


- **Sugar is bullish on the back of rising crude prices and smaller supply from major sugar producers globally.**

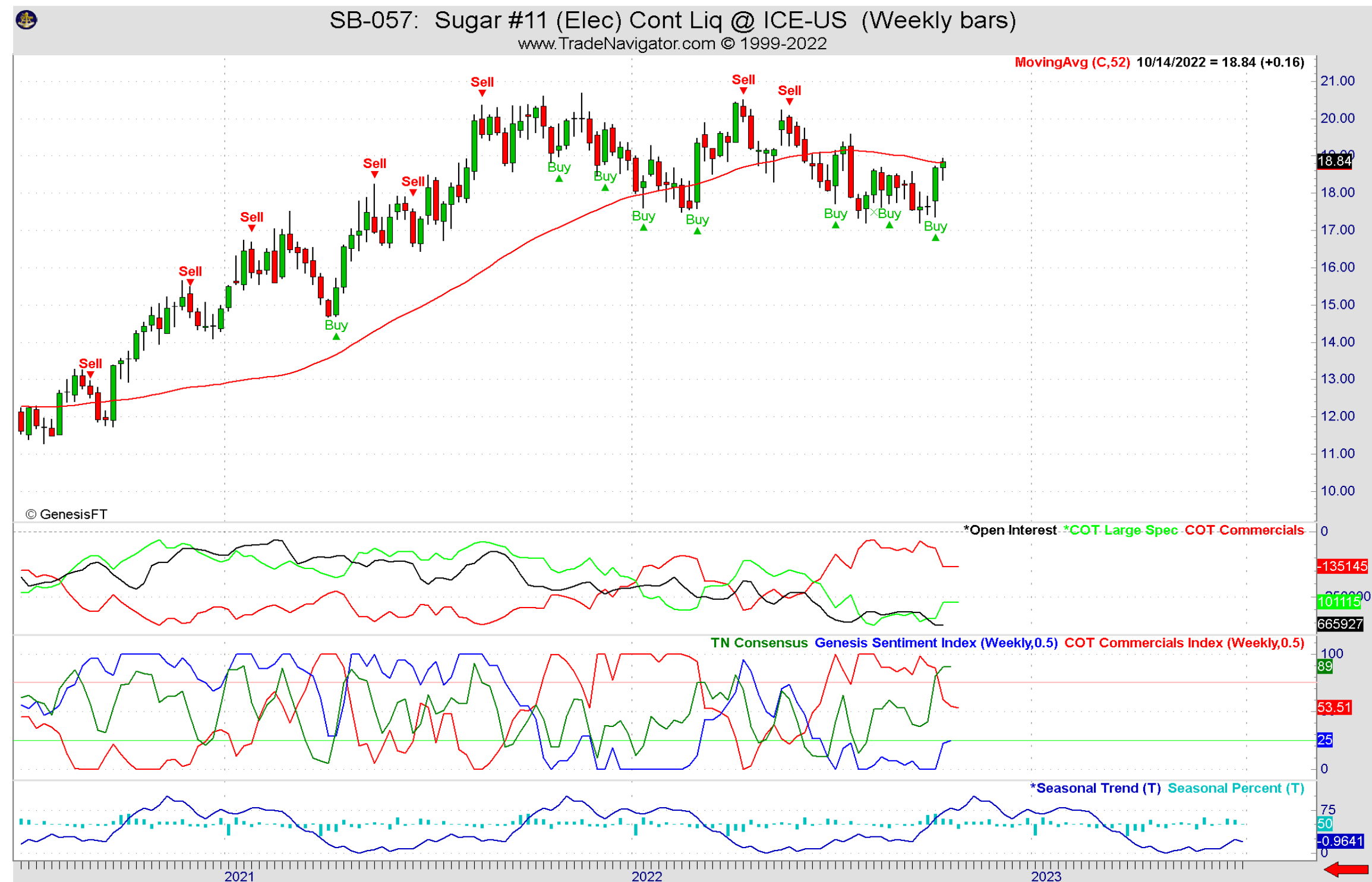


Weather review

- Weather outlook for Brazil is a bit too wet however direct threat to sugar production is absent as summer was a bit too dry for sugar.
- Monsoon season is over in India however key India's producing sugar (Uttar Pradesh, Karnataka, Tamil Nadu) saw more than average amount of rain, there is risk of flooding,



Sugar Price Chart



Wheat: Buy

- The outlook for 2022/23 U.S. wheat this month is for lower supplies, domestic use, exports, and stocks.
- Supplies are reduced on lower 2022/23 production based on the NASS Small Grains Summary that indicated reductions in both harvested area and yield.
- This lowered production by 133 million bushels to 1,650 million, leaving production only minimally higher than last year. Partially offsetting the production decline are higher projected imports, raised 10 million bushels to 120 million, all for Hard Red Spring.
- Wheat exports are lowered 50 million bushels to 775 million on reduced supplies, slow pace of export sales, and continued uncompetitive U.S. export prices. This would be the lowest U.S. wheat exports since 1971/72.
- Projected ending stocks are lowered 34 million bushels to 576 million, which would be the lowest since 2007/08.
- US season-average farm price is raised \$0.20 per bushel to \$9.20 on reported NASS prices to date and expectations for futures and cash prices for the remainder of 2022/23.
- The global wheat outlook for 2022/23 wheat is for reduced supplies, consumption, trade, and stocks.
- Supplies are lowered 1.9 million tons to 1,057.7 million on reduced production for the United States and Argentina more than offsetting higher EU production although world production remains at a record.



- Argentina is lowered 1.5 million tons to 17.5 million with reductions in both area harvested and yield on continued widespread dry conditions. EU production is raised 2.7 million tons to 134.8 million, mainly on higher government estimates from Poland and Germany.
- Global consumption is reduced 0.9 million tons to 790.2 million on lower food, seed, and industrial use more than offsetting higher feed and residual use. World trade is lowered 0.6 million tons to 208.3 million on reduced exports by the United States and Argentina more than offsetting higher EU exports.
- Projected 2022/23 ending stocks are lowered 1.0 million tons to 267.5 million mostly on a reduction for the United States.
- **Wheat is bullish on the back of lower ending stocks, however growth is constrained by lower international trade.**

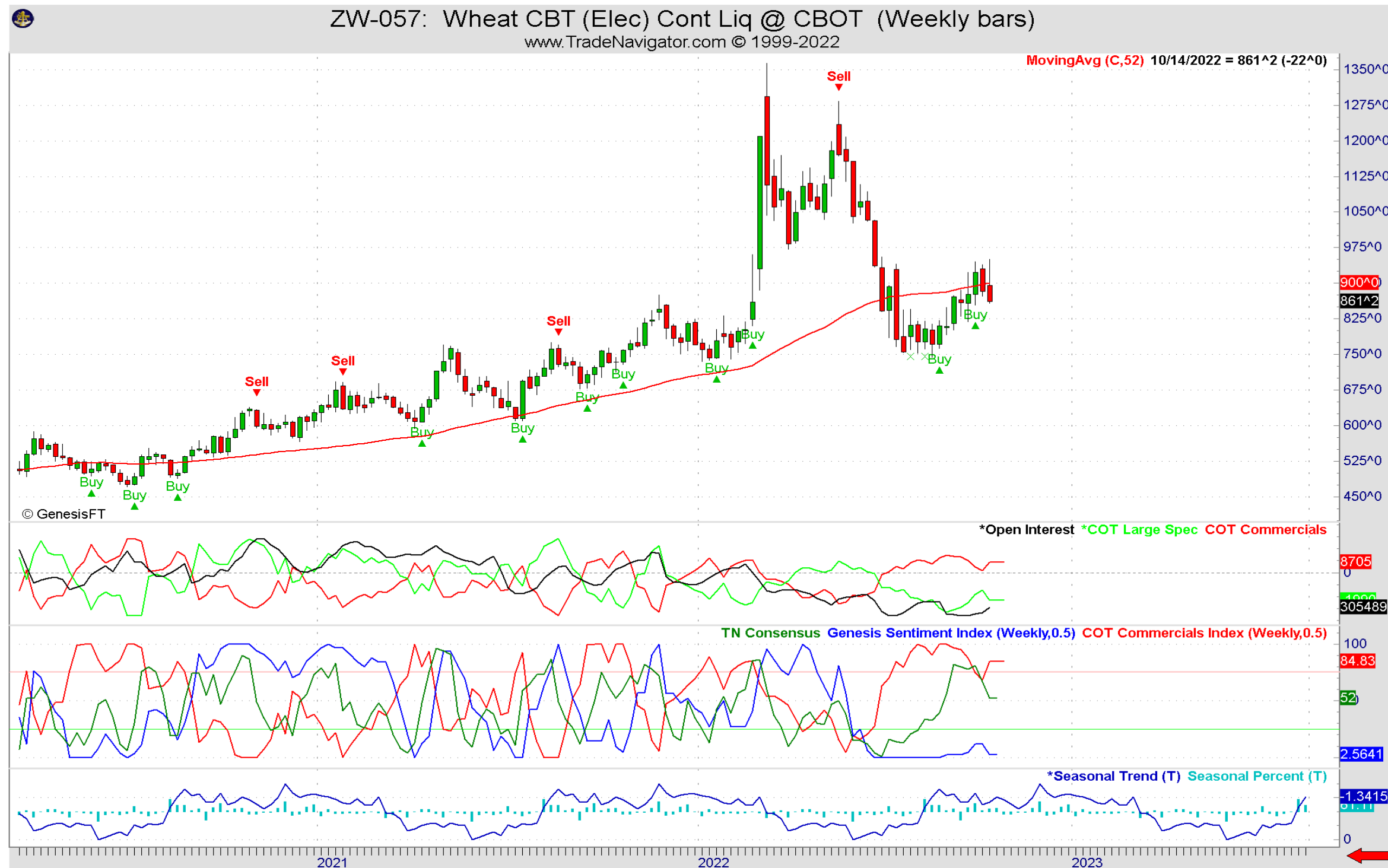


Weather review

- Showers propagated along a stalled frontal boundary in eastern sections of China. The wet weather extended in a band that stretched from the upper Yangtze Valley to the North China Plain. Most areas in the band recorded 25 to 100 mm of rain with some locales receiving over 150 mm. The wetness was unwelcome for summer crop harvesting and likely reduced yields locally. However, the downpours ensured ample soil moisture for winter crop sowing that is set to begin soon. Meanwhile, a widespread freeze in northeastern China ended the growing season for most corn and soybean growers. Though the freeze was one to three weeks earlier than normal, crops were already mature in most areas.
- In US Weather outlook for the rest of October remains unfavorable with more than above-average temperatures expected to continue in the northern Plains and upper Midwest, both key grain-producing regions. Poor water level conditions in rivers and inland waterways have led to surging barge freights rates, further aggravating an already slow start to US grain exports for the 2022-23 marketing year (September-August), according to market sources.
- In Brazil cloudy weather and low temperatures in the south have slowed crop development but concerns around declining crop yield have not emerged so far. In Argentina, rains are seen in north Entre Rios, Santa Fe, Cordoba, La Pampa, west Buenos Aires through the week of Oct 8, according to space technology provider Maxar.
- The withdrawal of the southwest monsoon stalled, allowing rainfall to persist across large sections of India. Seasonably dry weather was well established in the northwest (including Pakistan), but many other areas recorded 25 to 100 mm of rain. Although most kharif crops benefited from the late-season moisture, parts of northern India received over 150 mm of rain, causing localized flooding and bringing unwelcome wetness to mature cotton and rice. The southwest monsoon typically lingers into mid-October before fully withdrawing from the region.
- Chances of above-median rainfall in wheat-growing regions of New South Wales and Queensland remain higher over the next two weeks to Oct. 23, according to the Australian Bureau of Meteorology. Farmers in Western Australia, the country's largest wheat-producing state, could start harvesting in late October or early November, but wet weather could raise concerns around crop quality, market sources said.
- Given expected lower yields due to hot and dry conditions seen in key wheat regions, total EU cereal production has been slashed by 8% on the year, to 270.9 million mt, according to the European Commission. France and Germany, the top two wheat producers in Europe, both are expected to receive below-than-normal precipitation through Oct. 19, according to weather analysts.



Wheat Price Chart



Cocoa: Buy

- Cocoa prices Wednesday moved lower for a third day, with NY cocoa falling to a 1-1/2 week low.
- Harvest pressures are weighing on cocoa prices as beneficial weather in West Africa has allowed cocoa farmers in the Ivory Coast and Ghana to harvest and dry beans. The 2022/23 cocoa season began on October 1.
- The Ivory Coast government reported Monday that Ivory Coast cocoa farmers sent a cumulative 21,452 MT of cocoa to Ivory Coast ports for the 2022/23 season (Oct-1-Oct 9).
- Cocoa prices have pushed higher over the past 2-weeks on concern about next year's West African cocoa crop. A lack of fertilizer for cocoa farmers in West Africa risks undercutting next year's cocoa yields in the Ivory Coast and Ghana. The war in Ukraine has limited Russian exports of potash and other fertilizers worldwide.
- Smaller supplies from Nigeria, the world's fifth biggest cocoa producer, are bullish for cocoa prices after Nigeria reported that its Aug cocoa bean exports tumbled -48% y/y to 10,823 MT.
- According to ICCO Global production is expected to decrease by 6.8% to 4.890 million tonnes. Production is projected to drop by almost 9.9% to 3.655 million tonnes in Africa, whereas in the Americas as well as in Asia and Oceania, crop output is anticipated to increase by 3.6% to 969,000 tonnes and by 5.1% to 266,000 tonnes respectively. As at 7 September, cumulative arrivals of cocoa beans at Ivorian ports amounted to 2.072 million tonnes, down by 4.1% year-on-year.

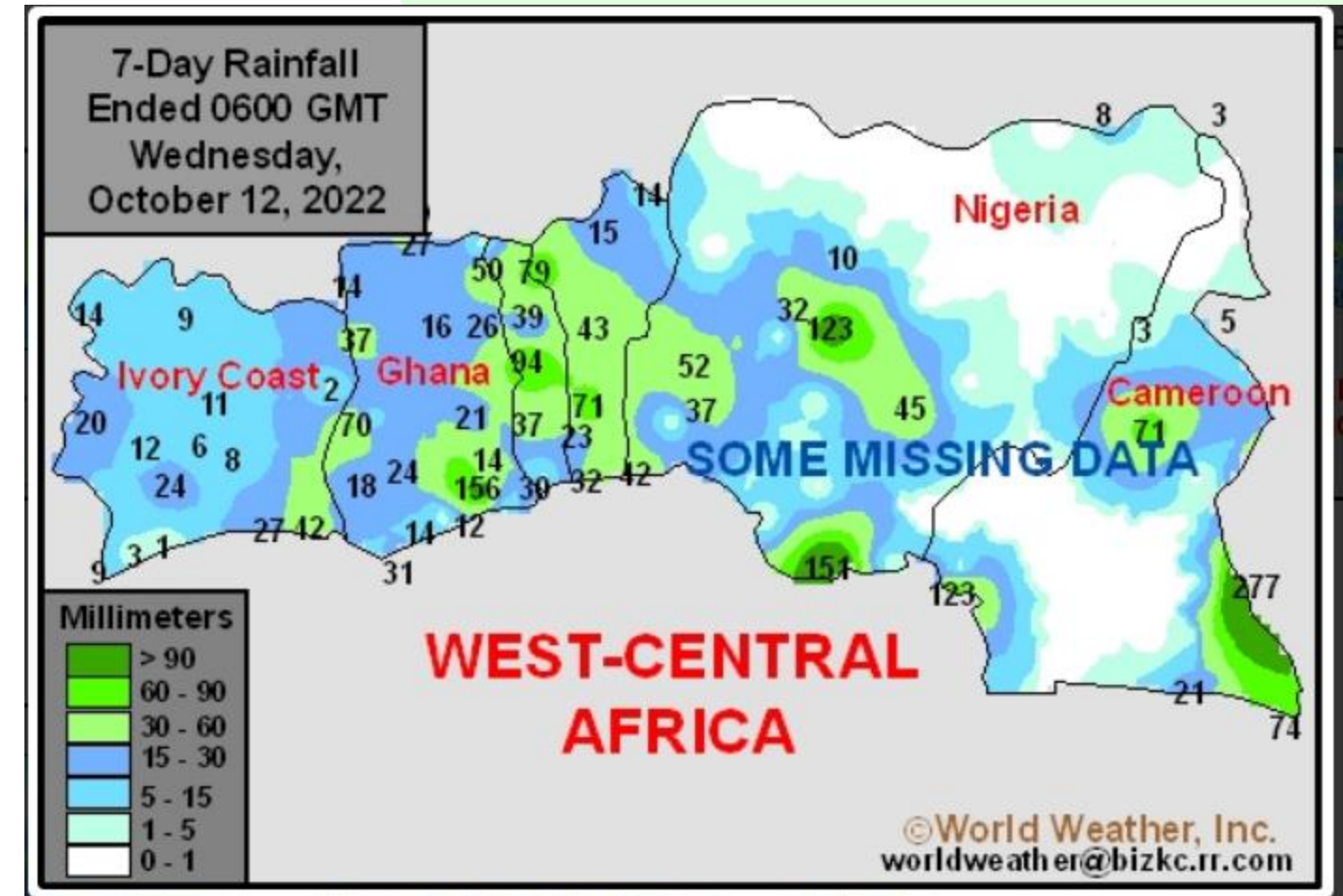


- ICCO on September 1 raised its 2021/22 global cocoa deficit estimate to -230,000 MT from a June forecast of -174,000 MT.
- Ghana reported on July 27 that its 2021/22 cocoa crop fell by -35% y/y to 685,000 MT, the smallest crop in 12 years, due to drought and swollen shoot virus. Ghana is the world's second-largest cocoa producer. However, the Ghana Cocoa Board estimates 2022/23 Ghana cocoa production will rebound +31% y/y to 850,000 MT.
- **Cocoa prices find bullish support on the back of lower global production and overall cocoa deficit**



Weather review

- West Africa region saw more than average rain this week, there is risk of flooding in the region and damaging maturing cocoa crops.



Cocoa Price Chart



Coffee: **Sell**

- Coffee prices fell sharply on Wednesday, with arabica posting a 2-month nearest-futures low.
- A rally in the dollar on Wednesday to a 1-1/2 week high weighed on coffee prices
- Increased coffee exports from Brazil are bearish for prices after Cecafe reported late Tuesday that Brazil Sep green coffee exports rose +7.1% y/y to 3.1 mln bags
- Vietnam's General Department of Customs reported last Friday that Vietnam exported 1.73 MMT of coffee in the 2021/22 season that ended Sep 30, a 4-year high. Vietnam is the world's biggest producer of robusta coffee beans.
- Coffee prices are being undermined by news of abundant rain in Brazil that may promote flowering for next year's coffee crops, excessive rain main damage flowering trees.
- Cooxupe cooperative, one of Brazil's biggest coffee producers, reported Sep 21 that Brazil's coffee harvest was 99.4% completed as of Sep 16. Coffee producer sales typically increase during harvest time to make space for storing their newly-picked crops.
- Green Coffee Association on Sep 15 reported that U.S. Aug green coffee inventories rose +3.6% m/m and +5.2% y/y to a 2-year high of 6,450,086 mln bags.
- USDA, in its bi-annual report released on June 23, projected that 2022/23 global coffee production would climb +4.7% y/y to 174.95 mln bags, primarily due to Brazil's arabica crop entering the on-year of the biennial production cycle.

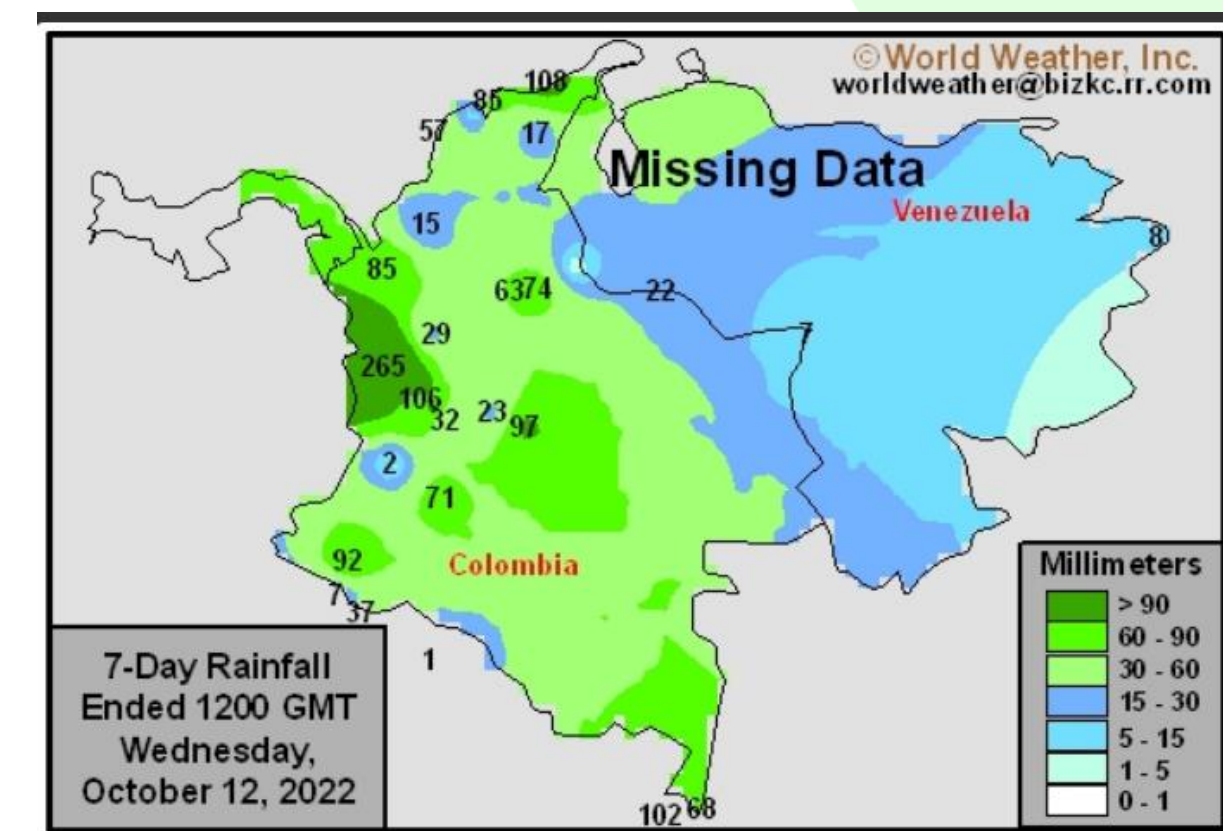
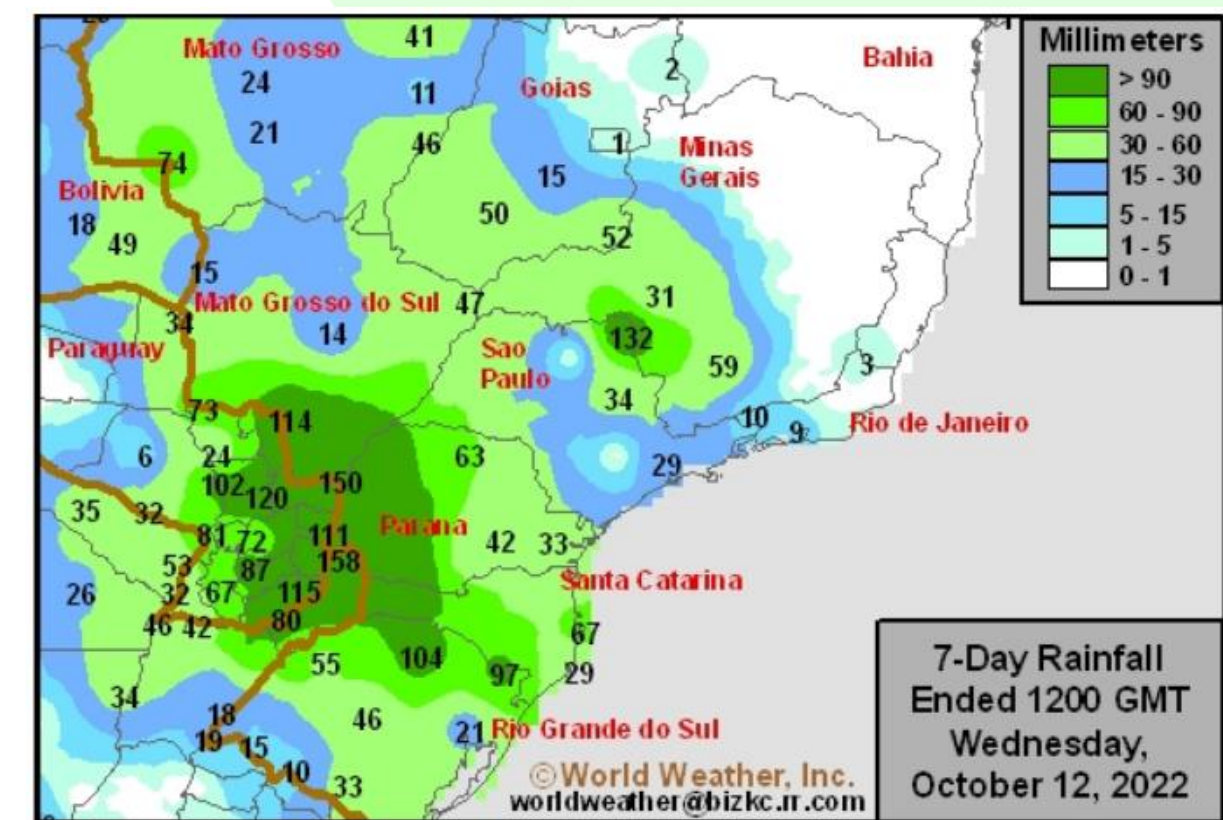


- **Coffee prices are undercut by abundant supply due to harvest season in Brazil and larger US certified stocks, larger Brazil exports.**

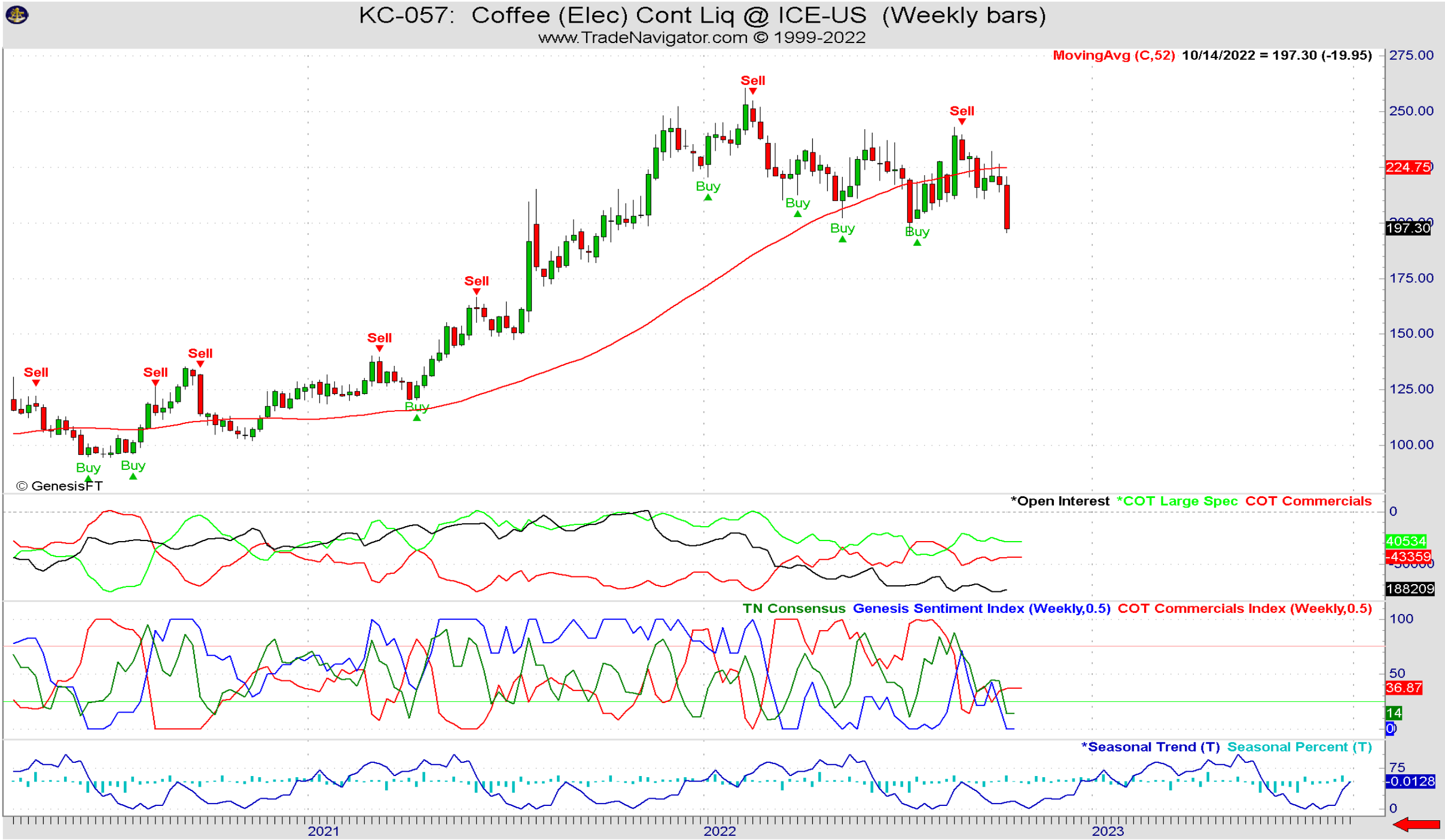


Weather review

- Somar Meteorologia reported Monday that Minas Gerais had 62.9 mm of rain last week, or 243% of the historical average. Minas Gerais accounts for about 30% of Brazil's arabica crop. However, there is no threat to coffee trees as most of crops is already have been collected.
- Colombia experiencing extended period of extremely wet weather, however coffee most crops are already collected.



Coffee Price Chart

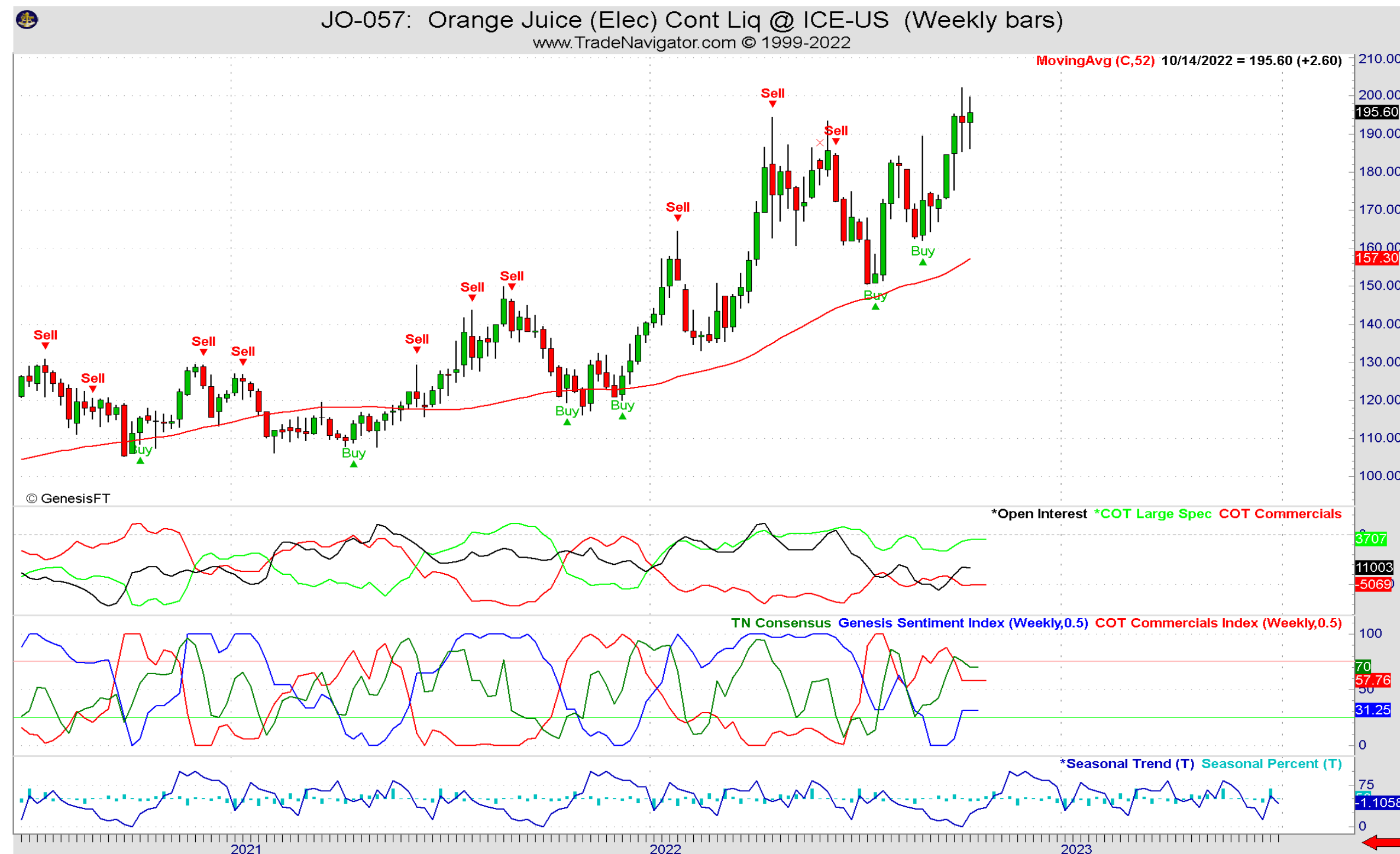


Orange Juice: Sell

- Orange juice futures on ICE exchange traded lower after rally caused by Hurricane Ian.
- The panic after hurricane is over and therefore price is going down as not much of orange trees have been damaged
- Also, October to June is season in Florida for oranges to be collected, seasonality puts downward pressure for Orange Juice prices.
- Hurricane Ian damaged what was the lowest Florida orange crop in decades.
- The U.S. Department of Agriculture said orange production in Florida is down by 32% from last season, marking the scantiest predicted harvest in nearly 80 year.
- In an October citrus report, the agency said the all-orange forecast for the Sunshine State was 28 million boxes, compared to 41 million boxes the year before
- Despite lower production consumption of orange juice is lower too.
- **Orange juice bearish stance is supported by lower consumption, hurricane Ian damage was not dramatic to orange trees in Florida.**



Orange Juice Price chart





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