



THE KUEMMERLE REPORT



Published February 26th, 2023

our portfolio, commodity setups we're watching right now & our most important datasets visualized

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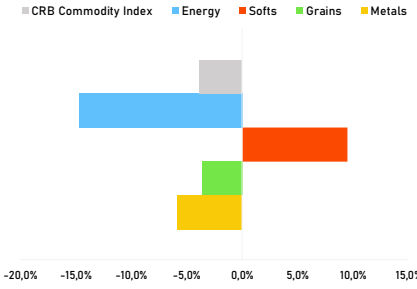
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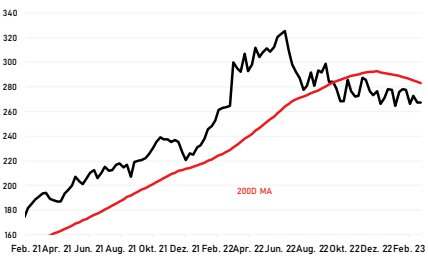
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Last Weeks Commodity Performance

YTD Performance Changes by **Kuemmerle Research**



CRB Commodity Index YTD **-3.8%**

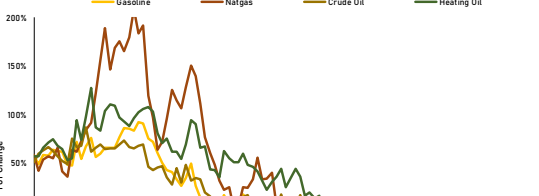
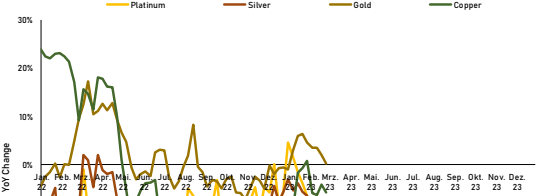
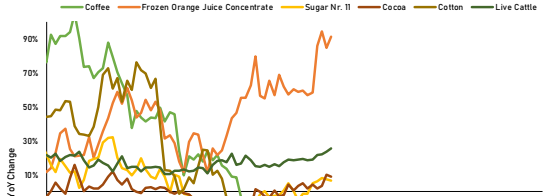
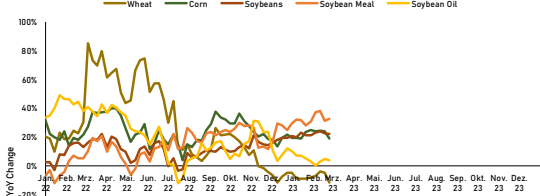
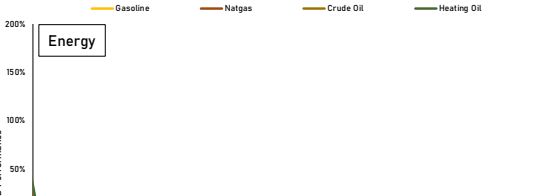
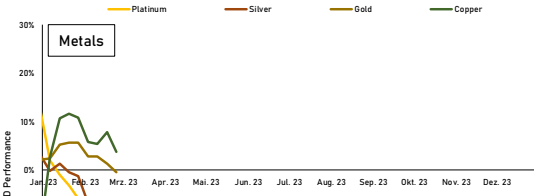
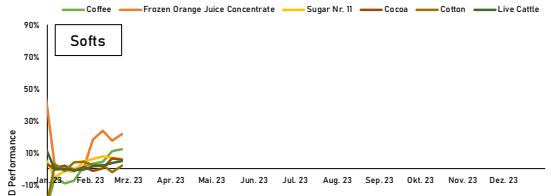
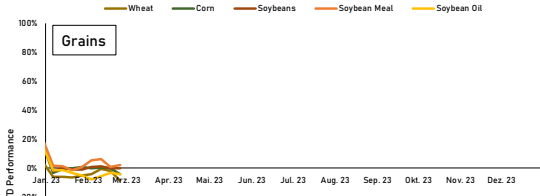


Energy		Metals		Grains		Softs		High Beta	
Heating Oil	-15.1%	Gold	-0.5%	Soybean Oil	-4.4%	Coffee	12.2%	Bitcoin	39.4%
Natural Gas	-43.1%	Silver	-10.5%	Soybeans	-0.3%	Orange Juice	21.6%	S&P500	3.0%
Crude Oil	-4.9%	Platinum	-16.0%	Soybean Meal	1.9%	Cocoa	5.7%	VWO EM ETF	1.2%
Gasoline	4.2%	Copper	3.7%	Wheat	-8.9%	Sugar	6.2%		
				Oats	-5.7%	Cotton	1.8%		
				Corn	-4.2%	Live Cattle	4.8%		

US Dollar Index		10Y Treasury Yield		10Y Break. Inflation		10Y Realyield	
105,16	1,8%	3,88		2,39		1,49	

Next week's top news events in the US:

- **Durable Goods Orders and Pending Home Sales on Monday**
- **CB Consumer Confidence and Richmond Manufacturing Index on Tuesday**
- **ISM Manufacturing PMI on Wednesday**
- **ISM Services PMI on Friday**



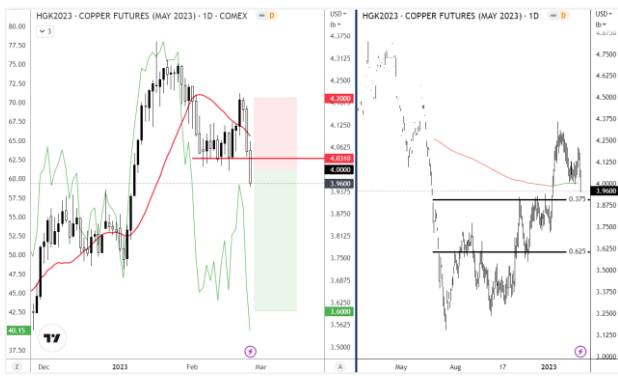
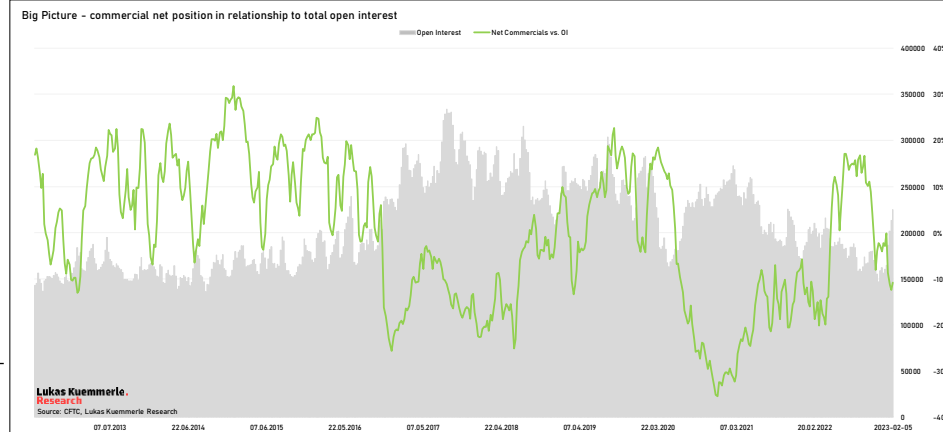
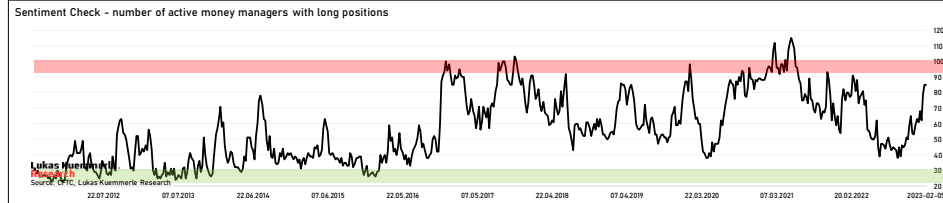
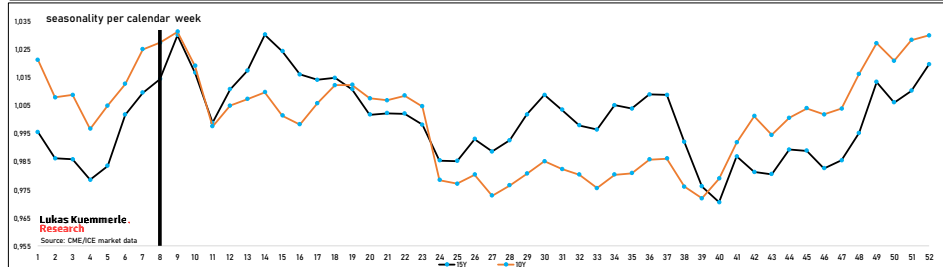
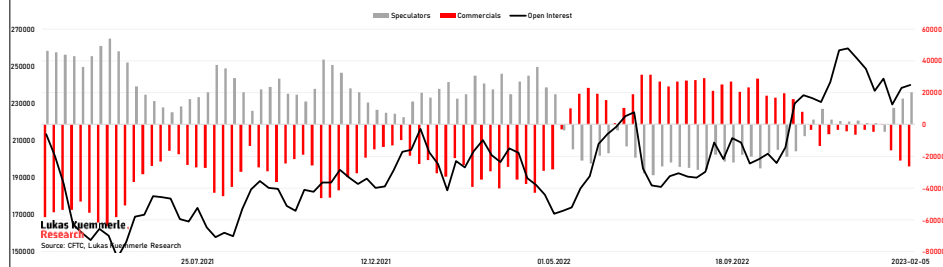
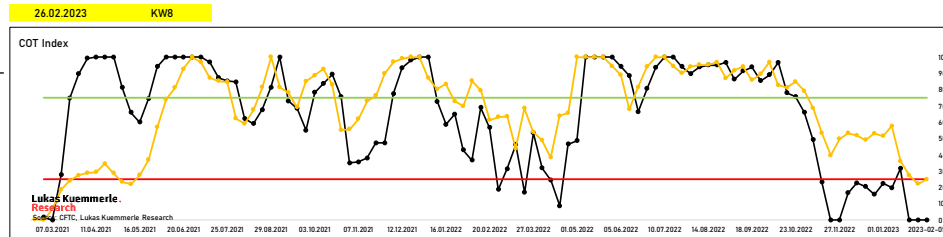
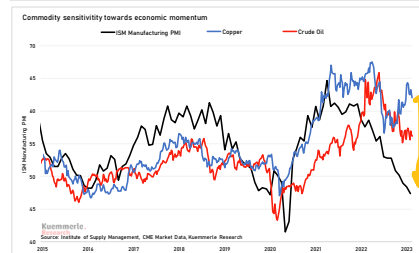
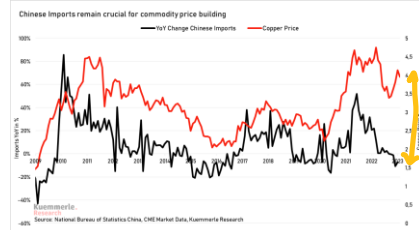
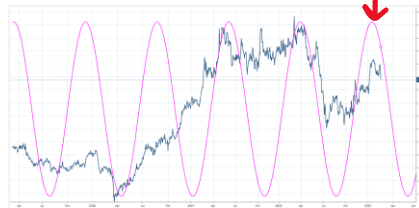
Portfolio Update

Our Trading Book

Copper broke down – we're looking for a little pullback to implement a position on Monday

The green transformation metal remains very much loved by all sides of the investment world. We remained skeptical for weeks about the surge in copper prices which was in our opinion mainly driven by the Chinese reopening story. This story is now priced in, and Dr. Copper has the potential to correct from these levels as economic woes will dominate the investment landscape again.

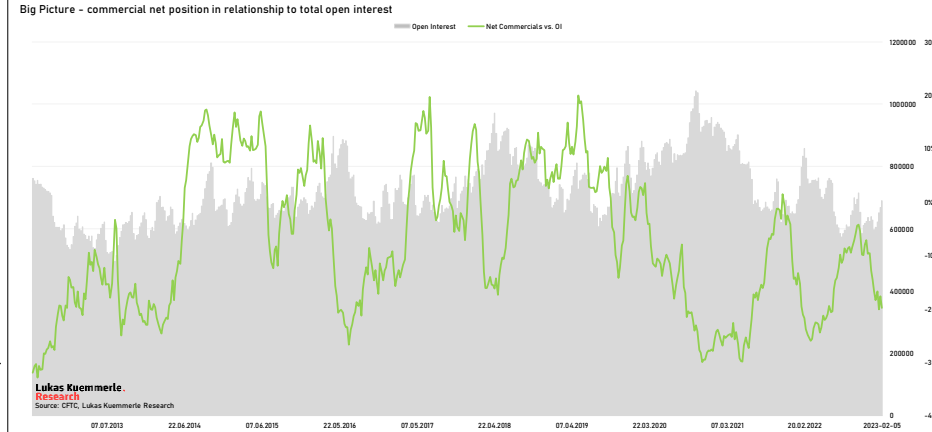
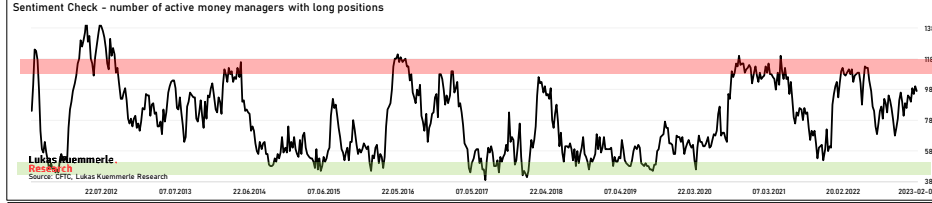
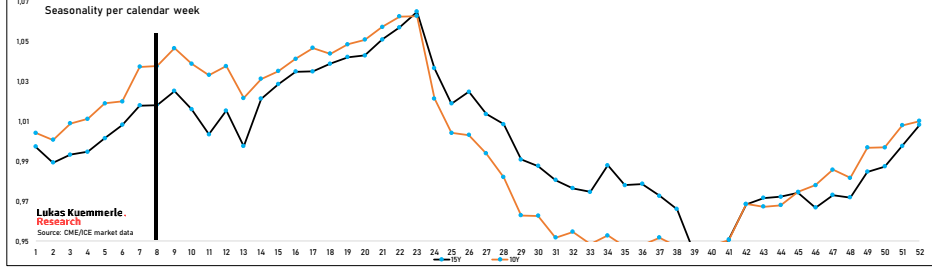
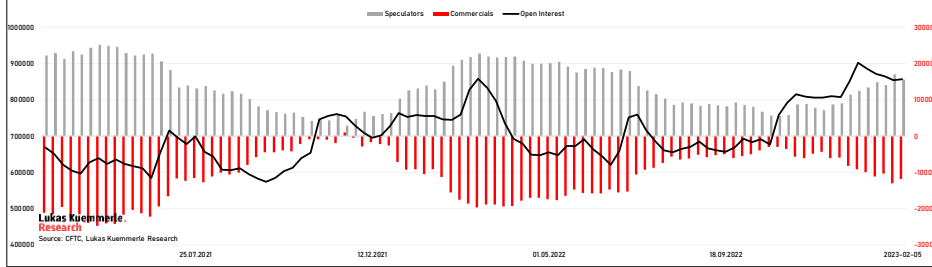
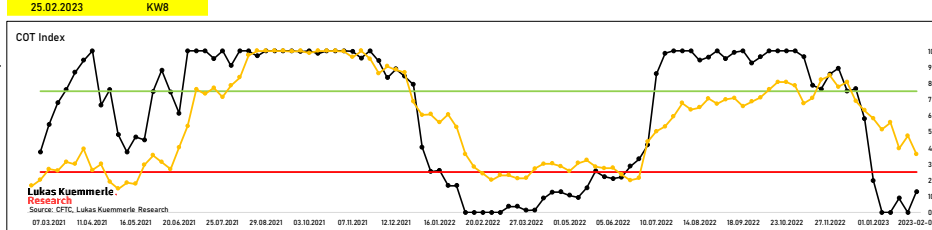
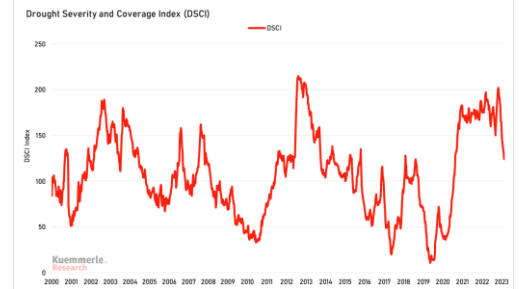
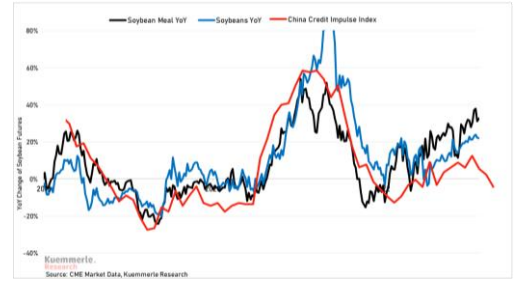
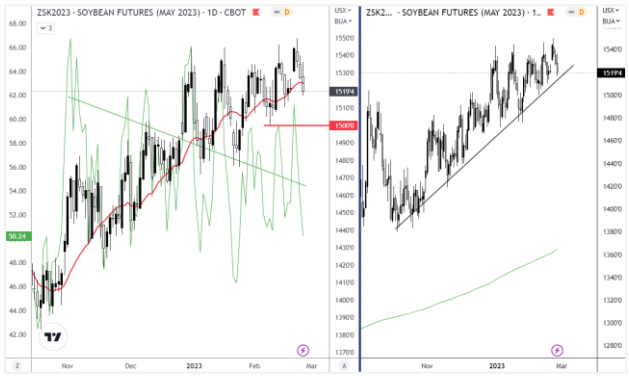
We therefore placed a SELL order @ 4,0USD in the MAY23 contract. We place a S/L @ 4,2USD. Our profit target is at about 3,6USD. Let's see if our order gets triggered on Monday.



Potential Short Soybean Setup

Corn prices started to collapse during last week from a technical viewpoint. We expect the same to be the case for soybean prices soon. By now we build a large backlog of trading ideas, but we remain confident that those ideas will play out over the next few weeks – those times are normal – it takes patience to execute trades at the right time with the right risk to reward ratio.

A daily close below 1500USX combined with a lower low in the 1Y Futures Spread would trigger a sell order for us. Cycle momentum remains bearish till April/May. Moreover, the drought pain continue to ease in the US – usually both corn and soybeans correlate with the degree of drought. The declining Chinese Credit Impulse which works as a leading indicator for soybean meal and soybeans supports our thesis as well.



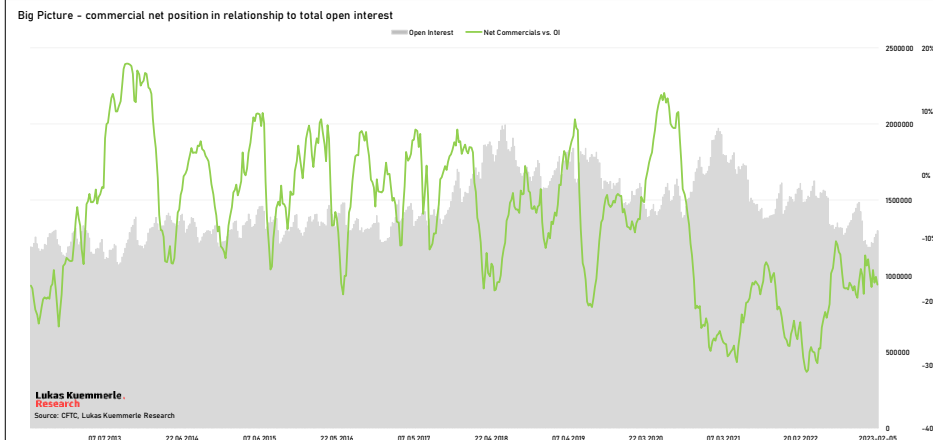
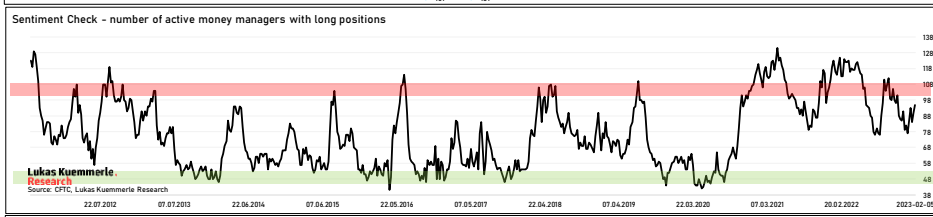
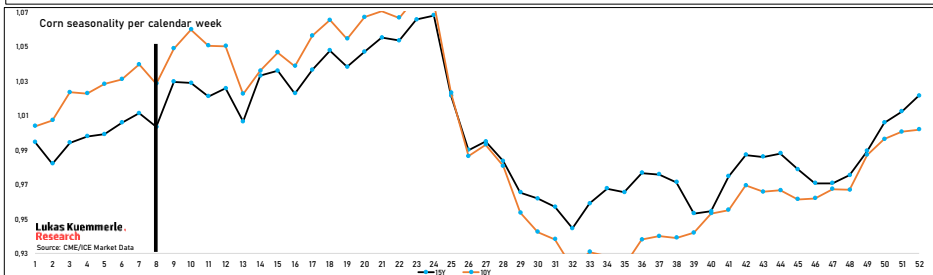
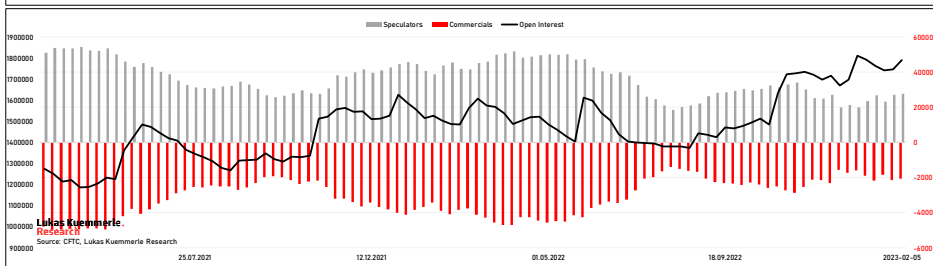
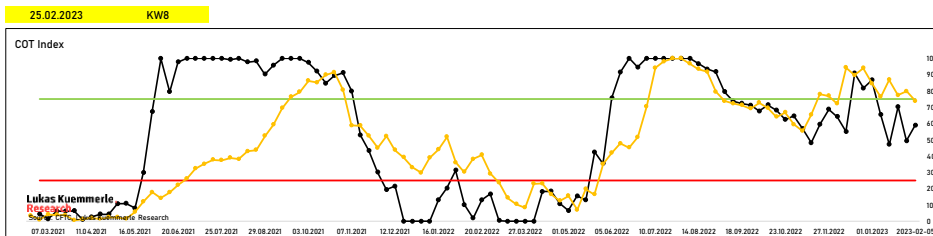
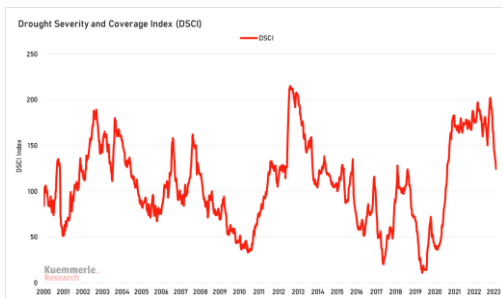
Kuemmerle's Observations

Corn broke down – but we didn't receive CoT confirmation.

Corn prices broke down throughout Thursday and Friday of last week. According to our analysis we would have been triggered for a short trade on Thursdays close. **But the CoT index wasn't in the selling zone (and the data was one month old due to the hack) so we weren't confident enough to enter a trade here.**

As we still don't know how the latest positioning looks like (CFTC CoT Report) I would like nevertheless present you the setup for this trade – as the fundamentals actually look bearish.

Drought pain in the US continues to ease, the 1Y Futures Spread broke down and from a technical perspective the chart broke to the downside as well.



Weekly Comments

After a delay of three weeks, we received CoT data from the CFTC for the first time again on Friday - but only for the last week of January. Therefore, the CFTC is still three weeks behind with the data evaluation after the Russian hack on a major clearing player. By mid-March, all reports should be available again, according to the agency.

By now the Chinese reopening seems to be fully priced in but also offset by fresh growth and demand concerns. The PCE index, which the FED has chosen as its favorite inflation indicator, again surprised to the upside. As we have seen since the beginning of the year, inflation remains sticky and the room for maneuver of the monetary authorities thus small. Also important to note is that the stickiness of inflation is currently largely driven by service and not goods inflation. It still seems reasonable that the FED will continue with its cycle of interest rate hikes. The labor market remains strong and the growth so far also still. But the goal of price stability is still frighteningly out of control. we do not see a soft landing as likely - a hard landing will be necessary to get inflation back under control.

On the other hand, many commodities remain at high levels. These include soy, corn, orange juice and sugar, which remain stable due to fundamental data (low inventories and subsector reasons). However, we continue to think that commodities have further corrective potential - demand will not increase but decrease as the FED runs the economy into the ground to regain the upper hand over inflation.

We continue to see very conflicting data across the economic board. I therefore remains difficult to forecast a clear trend direction for economic growth over the next few quarters. Nevertheless, as we wrote this week in [our monthly State of the Commodity Markets economic outlook](#), we expect momentum to decline further and to rebound towards Q3 of this year. We remain mainly interested in the short side of the market, as we see some markets where the washout of speculative positioning is not yet complete. Meanwhile, henry hub gas and wheat have become attractive again to look for setups in the long direction soon. These setups are also likely to become a theme for Q2.

(be aware that we use small SL but often make many re-entries in order to achieve the best timing and risk management. I always use the most liquid contracts to trade and roll contracts accordingly.)

Closed/Stopped-Out:

- none

Still Active:

- none

Markets we're waiting for corrections to implement positions

- [Short Cocoa](#)
- [Short Orange Juice](#)
- [Short Sugar No. 11](#)
- [Short Soybean Meal](#)
- [Risk of 70s inflation playbook](#)
- [Coffee Setup and why we don't trade on the long side](#)
- [Short Soybeans](#)

We now received the CoT data for Deb 05th.

According to the CFTC it will take to mid March until we receive all the CoT data backlog

This week

In which direction we trade markets at the moment	
Crude Oil	buy higher highs
Gasoline	neutral
Natural Gas	buy higher highs
Corn	buy higher highs
Soybeans	sell lower lows
Soybean Oil	buy higher highs
Soybean Meal	sell lower lows
Wheat	buy higher highs
Coffee	buy higher highs
Orange Juice	sell lower lows
Cotton	buy higher highs
Sugar	sell lower lows
Cocoa	sell lower lows
Copper	sell lower lows
Gold	sell lower lows
Bitcoin	buy higher highs
S&P 500	sell lower lows
10Y Treasuries	neutral
US Dollar Index	neutral

No Open Positions

none

How our ideas and setups would have played out over the year with a sample account of 100.000\$

Account Size 2023	\$ 100.000
Account Size Now	\$ 96.486

YTD Performance Kuemmerle	-3,5%
YTD Performane CRB Index	-3,7%

open trade

Date	Instrument	Long/Short	Contracts	\$ Value/point	Entry Price	S/L	SL in \$	Avg. Close (\$ PL trade total
04.01.2023	SB	Short	6	\$ 1.120	19,65	20,48	\$ -5.578	20,48	\$ -5.578
22.12.2022	ZL	Short	1	\$ 6.000	6,454	6,7	\$ -1.476	6,11	\$ 2.064
18.11.2022	ZL	Short	2	\$ 6.000	7,035	7,476	\$ -5.292	6,583	\$ 5.424
11.11.2022	ZN	Long	2	\$ 1.000	112,07	110,12	\$ -3.900	112,07	\$ -
12.10.2022	KC	Short	2	\$ 375	209,9	219	\$ -6.825	165	\$ 33.675



Active Setups

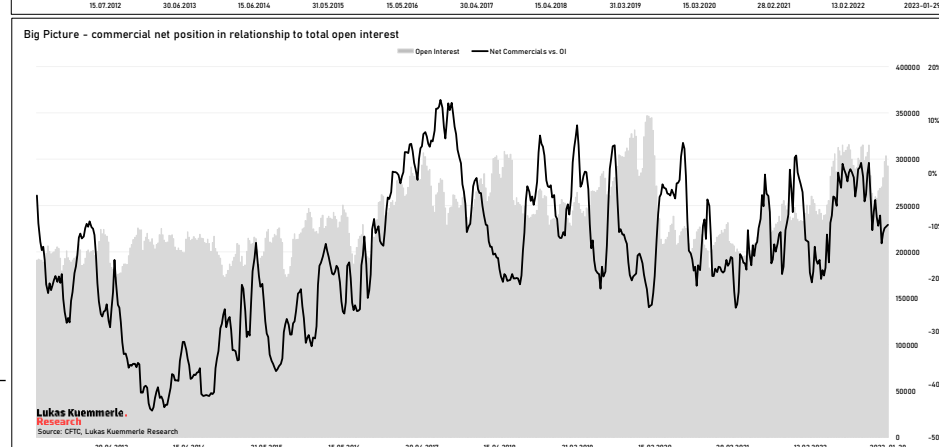
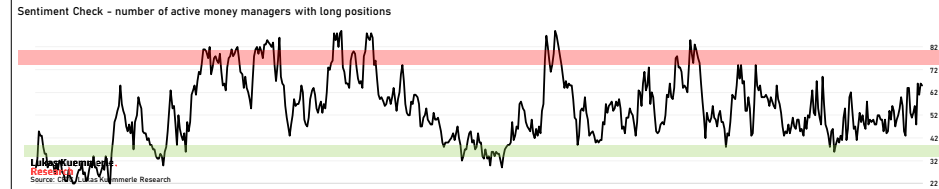
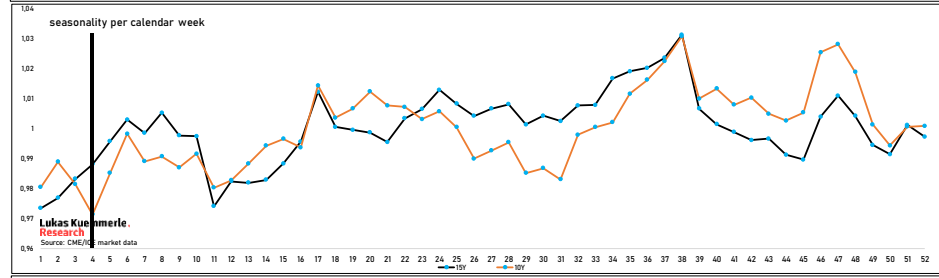
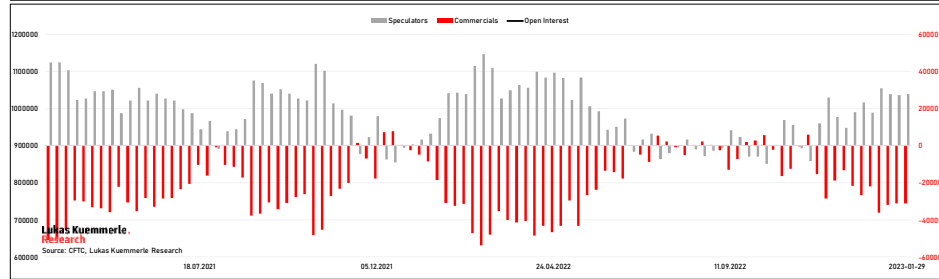
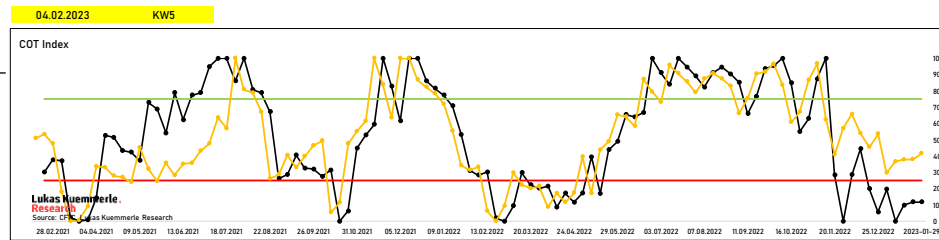
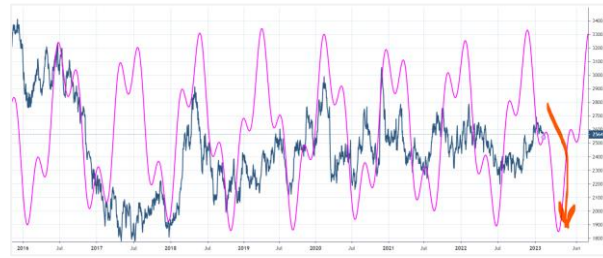
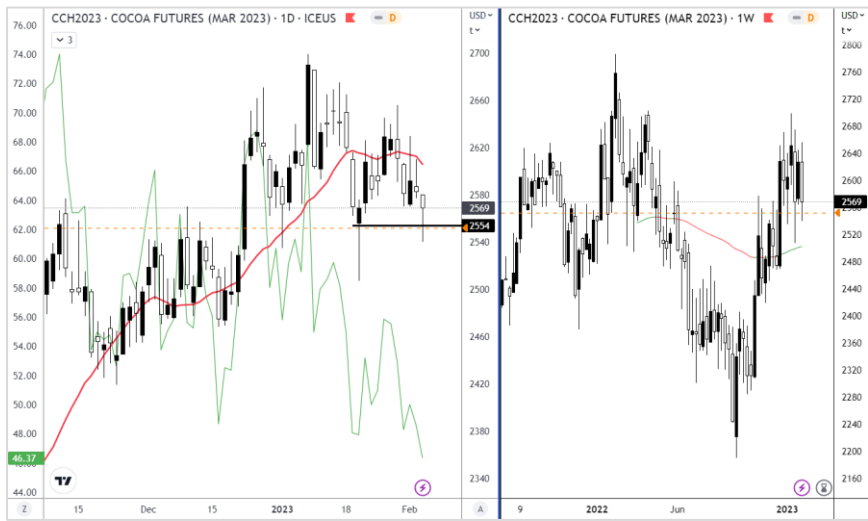
Setups where we wait for a trigger in form of price action, and we highlighted during the last few weeks

Kuemmerle's Observations

Potential Short Cocoa Setup

Cocoa futures have been trading within a large range since 2018. Since the end of November 2022, our CoT index has been on "look out for lower lows setups".

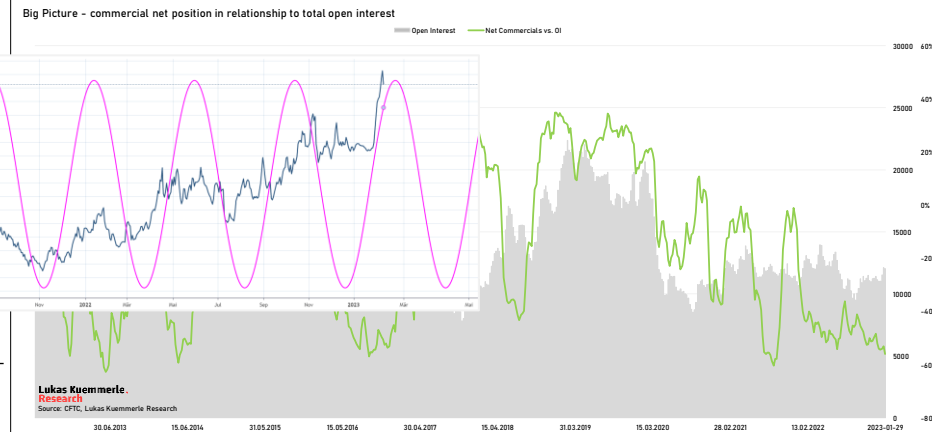
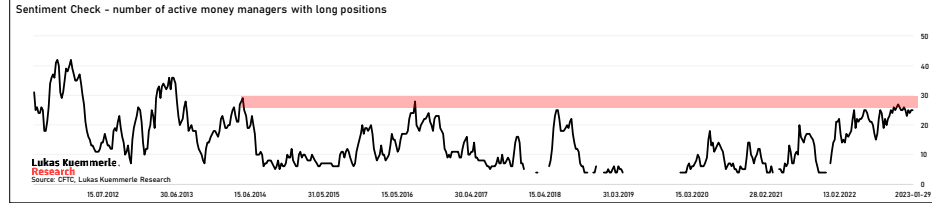
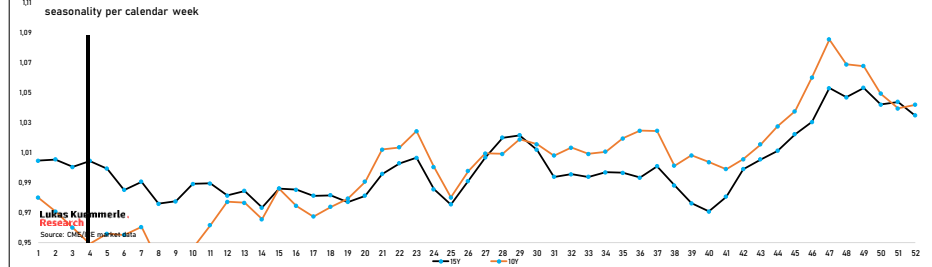
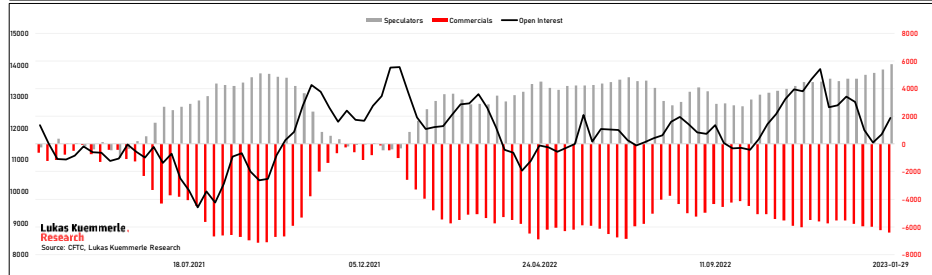
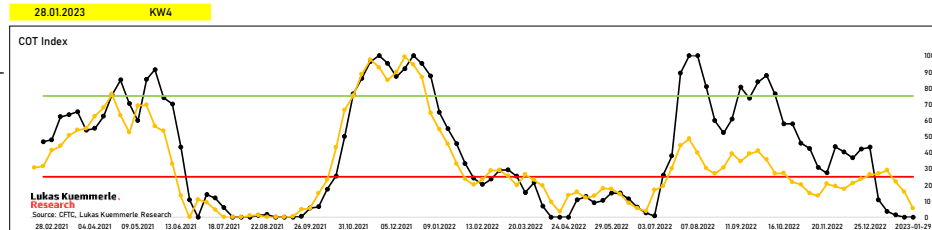
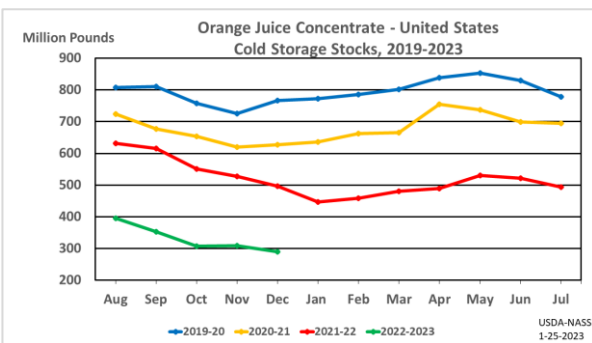
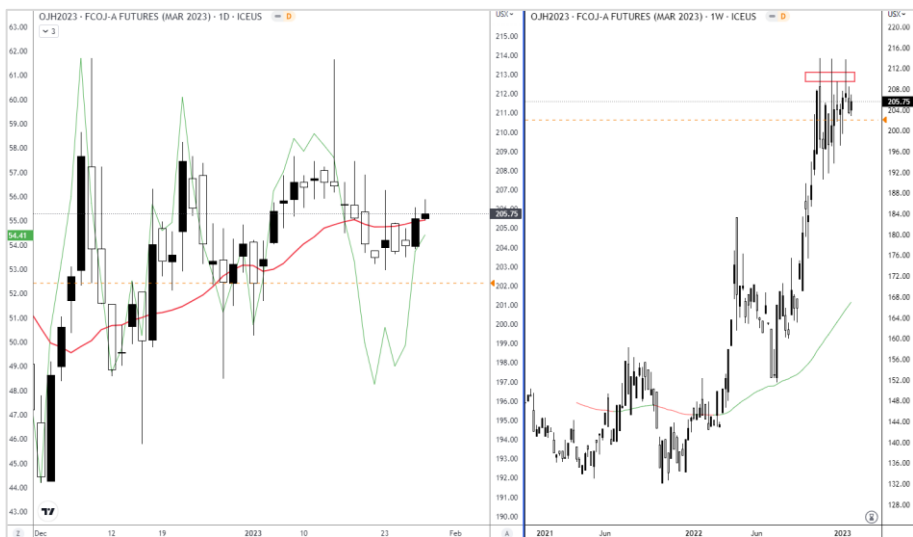
Now the price is no longer moving upwards, and we are already seeing a divergence to the RSI line. The momentum seems to be basically tipping. The seasonality remains relatively uninformative. Moreover, the 1Y futures spread signals weakness since the middle of January. **A close below 2554 USD would be the trigger for us.**



Potential Short Frozen Orange Juice Setup

The short OJ setup has been on our radar for quite some time. Looking at the price action on the weekly chart, the futures now seem to be losing momentum. We still have a falling seasonality and commercials have a very high net short position. Due to the low inventory levels after hurricane Ian last year, the market is still littered with many speculators. However, we find it difficult to find further reasons for the forecast harvests to deteriorate further.

We continue to wait for the short- and long-term spreads to show weakness to find an entry into the market. In soft commodities, only sugar and orange juice are near their highs. We think this will become more relative in the coming weeks.



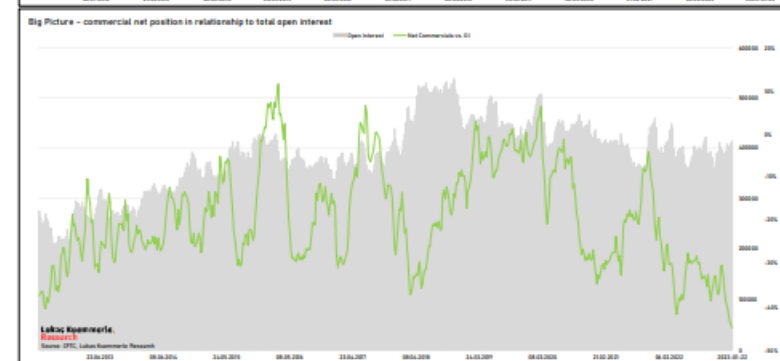
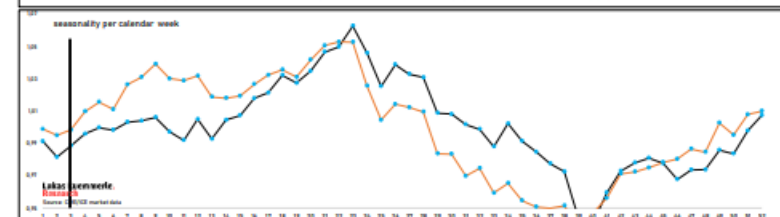
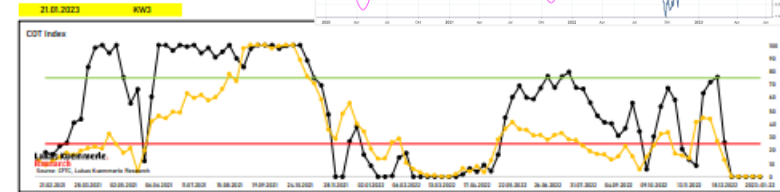
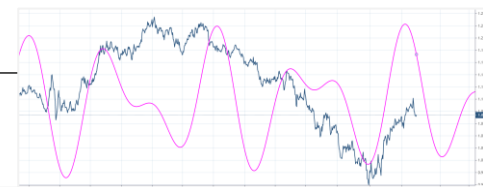
Short Soybean Meal Setup

The short soybean meal is on our watchlist for some time now – but sometimes it takes time for these setups to involve. By now commercials hold the largest short position measured against total open interest since a decade. The sentiment remains way too euphoric with the most amount of money managers holding long positions ever recorded.

Soybean Meal is like many commodities less correlated towards the typical seasonality. Nevertheless the positive seasonality till the end of June remains a risk for the setup. Moreover we really need to see these sky high futures spreads to roll over to the downside again. The 1Y Futures Spread remains sky-high, signaling a huge backwardation an scarcity of the product relative to demand.

Meanwhile we also need to see how the Chinese Credit Impulse will develop from here onwards as soybean meal prices, especially since 2018, remain very correlated with the stimulus data.

Also important – **the Chinese government expects soybean meal imports to decline significantly from here on!** The country's soybean imports declined by 8.1%, YoY, during the first 11 months of 2022 as the country is on its way to become more reliant on domestic soybean production and less soybean meal feed for animals. The pillar of strong Chinese soybean demand could therefore weaken further.



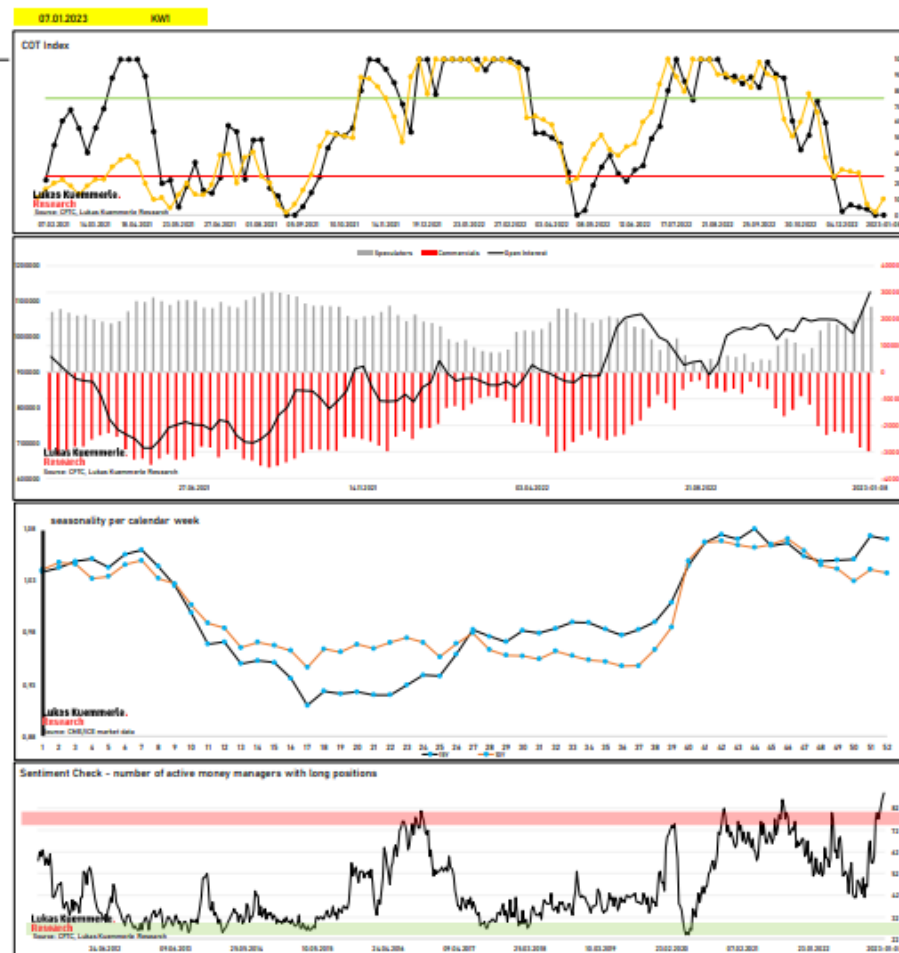
We received a trigger event for shorting Sugar!

Last week Brazil's new president Lula announced an extension of the Fuel-Tax Break. At the same time as this news, the price of sugar on the ICE also dropped considerably. The weakness has been fueled by the president's move to extend the tax break for gasoline and ethanol for two months, in a nod to consumers.

The exemption has the majority of local Brazilian mills selling ethanol below production costs, according to an industry group. The decision also reduced to zero certain taxes on diesel, biodiesel, liquefied petroleum gas and natural gas until the end of 2023. Moreover, the risk is that ethanol prices in Brazil getting capped, potentially hurting mills' cash-flow generation and restricting their ability to invest.

Those changes to the Brazilian government's fuel policy are set to encourage cane mills to favor sugar over ethanol.

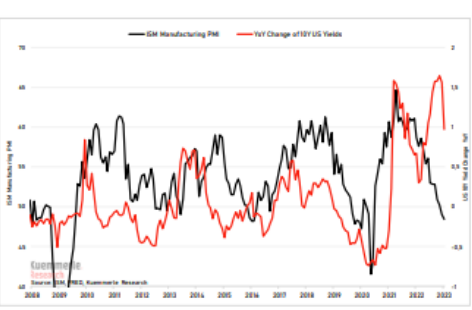
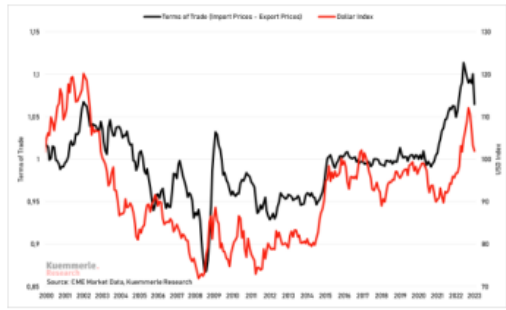
Potential implications would be better margins for producers/refiners of sugar. Perhaps that news also leads to more planting incentive under farmers to actually plant more sugar cane. Therefore, this news could indirectly lead to more sugar cane supply and therefore to more sugar in the future. This is also the conclusion we got and why we interpreted this move as bearish news for the price of sugar. We used this move lower to finally start implementing a short Sugar Nr. 11 position in the market.



My game plan for the USD and US Treasuries over the next weeks

I'll buy bonds and sell the US dollar. However, it now makes sense to wait for a correction first, as the positioning data suggest that the consensus will already be lower yields and a weak USD over 2023. I agree with the consensus, however, I do not believe that this will happen in a straight line. A positioning washout is what I'm waiting for right now.

In my opinion the following dollar decline will go hand in hand with lower yields on US treasuries. Even more I do believe that this trade will also go hand in hand with a steepening of the 10Y-2Y Spread – a very popular recession indicator. Therefore I expect that the 2Y yield will fall faster than the 10Y yield.

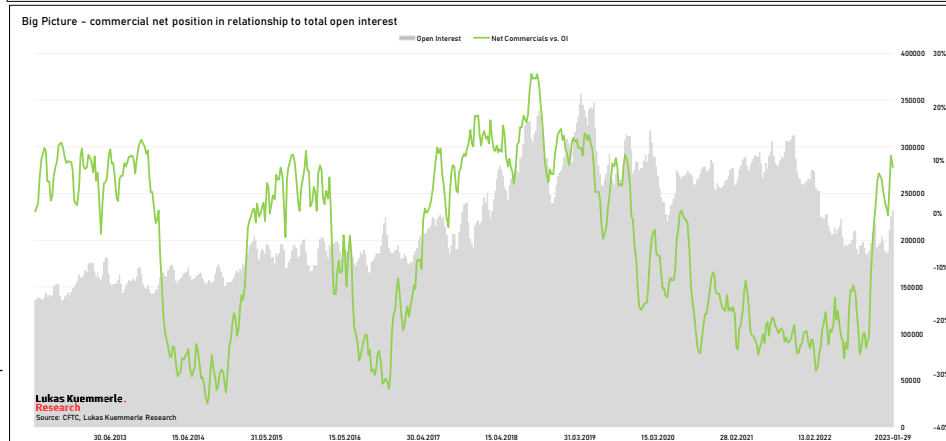
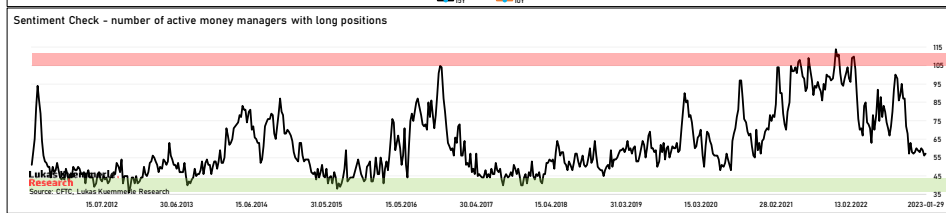
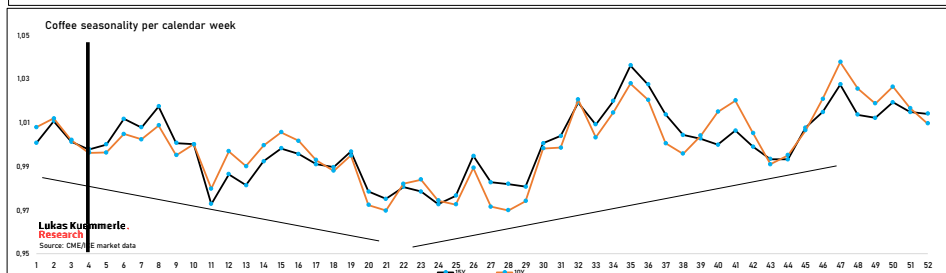
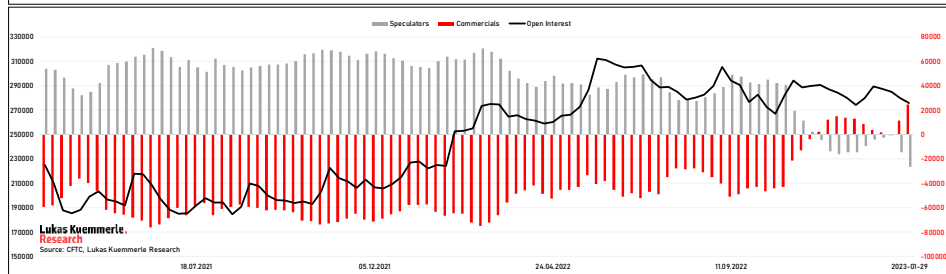
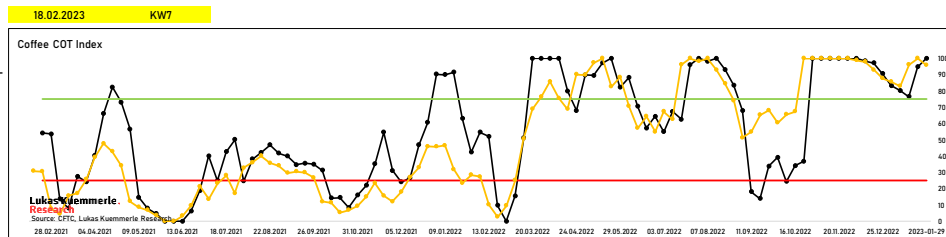
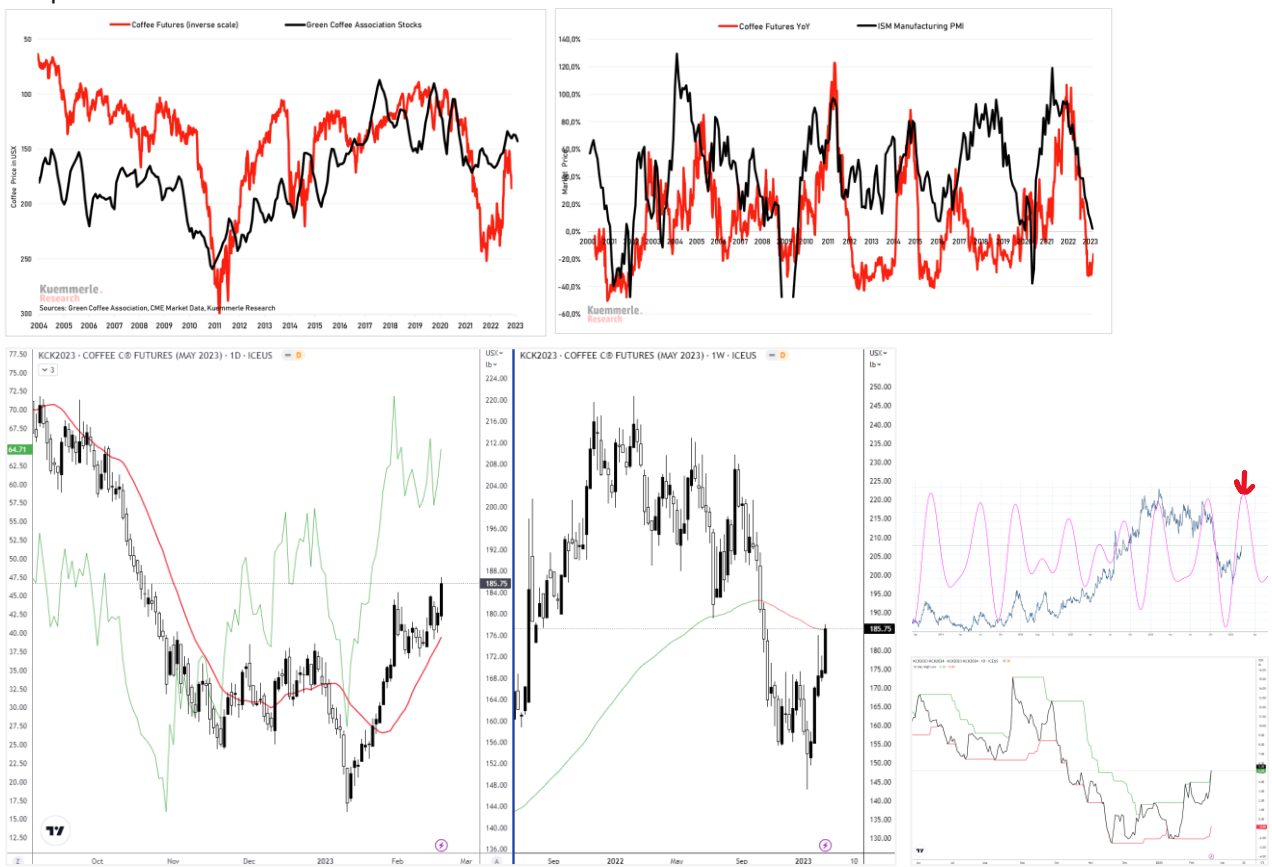


Kuemmerle's Observations

Coffee sends a buying signal – but we ignored it for weeks

We're not a friend of holding soft commodities when the leading PMI indicators still pointing downwards. The YoY performance in times of a declining PMI is very poor as you can see in the graphic below. Judging the latest drought data from Brazil those weather conditions do not seem to be an issue. The consensus is even that the coffee crop is in good shape and that Brazil will have a bumper harvest in August that can than be shipped to the US – but here also lays the problem. The coffee stocks in the US continue to deplete, so it will be the question of how fast these beans can be transported to the US. As much as we like the setup (notice also the net commercial position vs. open interest) we feel not confident to go long this market with these economic headwinds.

Of course - draw your own conclusions if you think economic momentum will rebound from this point forward.



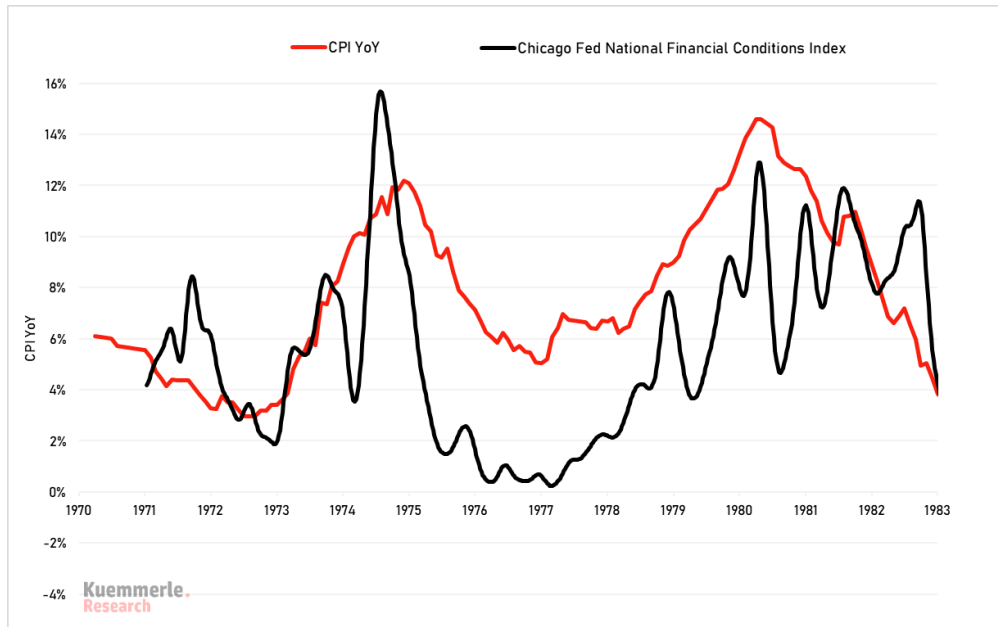
We run the risk of going through the 1970 playbook again

The FED is making a big mistake and it is time to address it properly. Financial conditions are now as loose as exactly a year ago. This fact provides a major, major threat to the goal of getting inflation back under control and below the 2% target.

Not only the Chicago Financial Conditions Index is signaling that but also the Net US Money Market Inflows. this component is bottoming out as we can see on the chart but in order to continue to tighten financial conditions this balance sheet has to be reduced further. We looked at this trend for two months now and we believe that it is providing a big threat to the US economy by now. **Our conclusion for now is that if this trend continues - inflation will reaccelerate with the beginning of Q3 or stay way above the target rate and therefore provide a major headwind for asset prices - except real assets and commodity prices.**

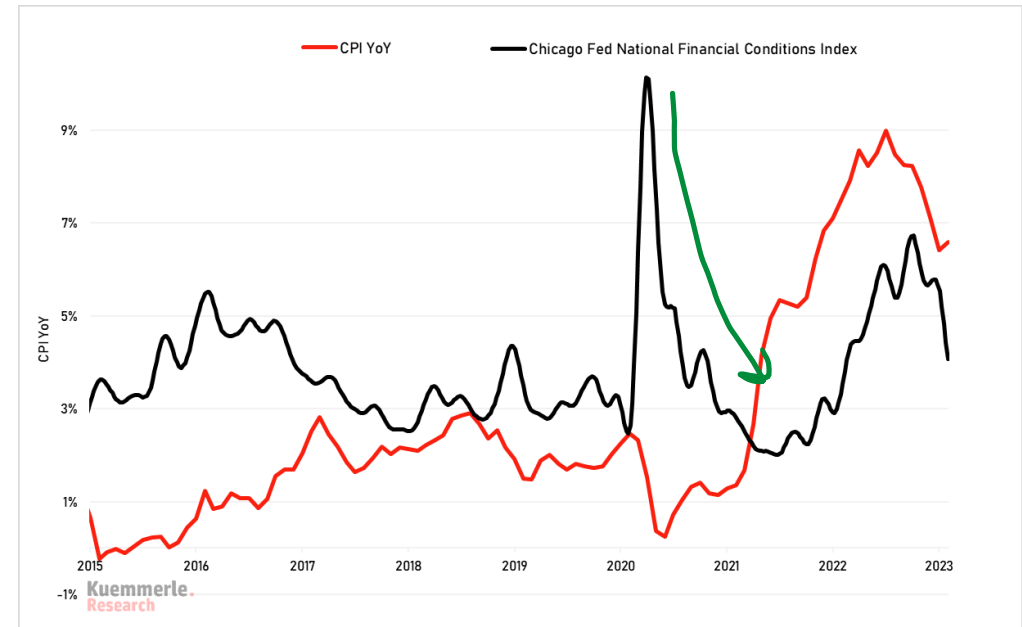
We highlighted therefore the 1970s playbook - there is the possibility that we are NOW in the same scenario. In our opinion there is a direct relationship between financial conditions and inflation – especially during times of high inflation.

1970s double dip inflation playbook



As inflation showed signs of easing – financial conditions started to loosen and laid the foundation of the double dip inflation in the 70s

NOW

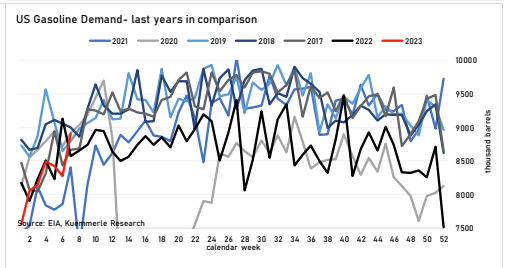
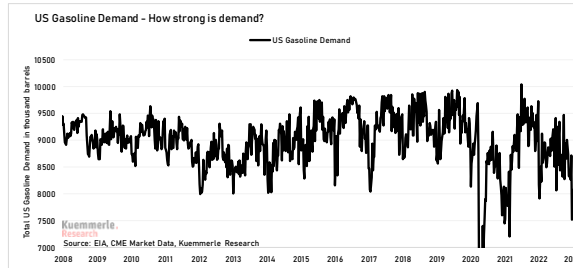
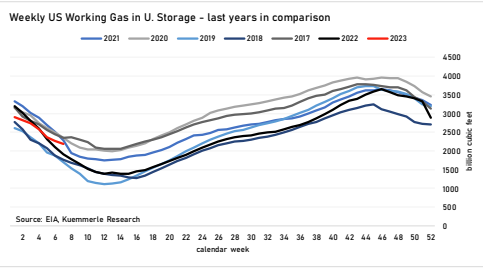
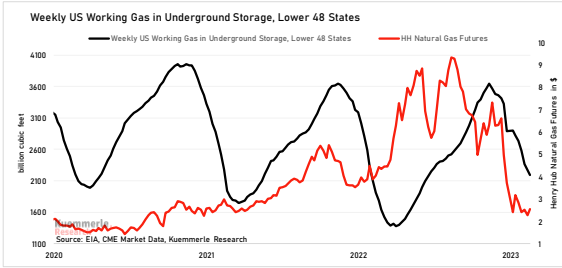
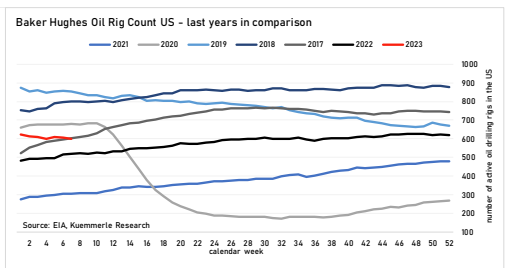
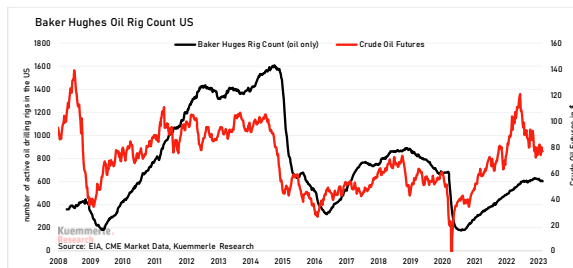
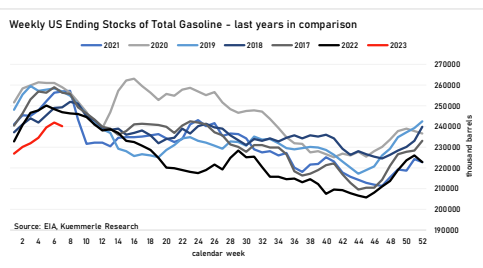
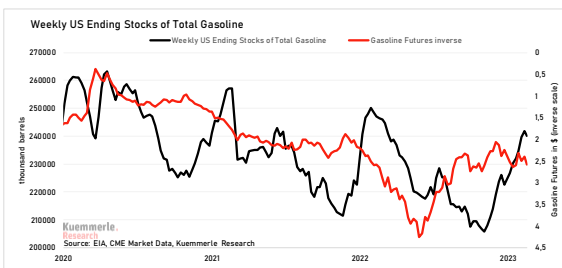
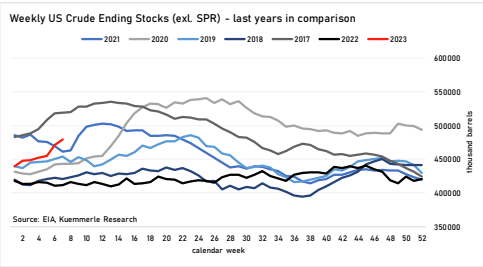
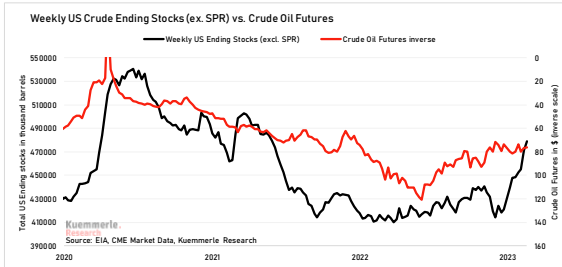
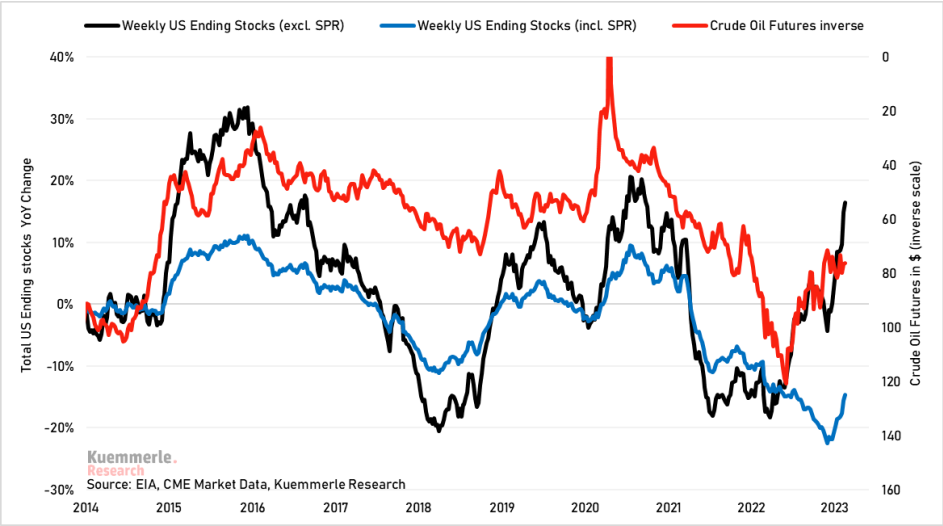
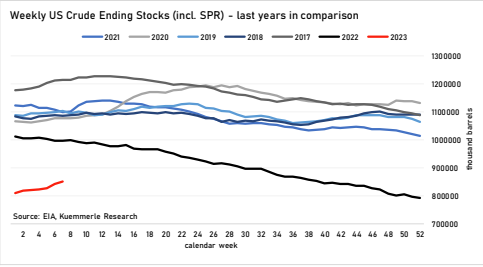
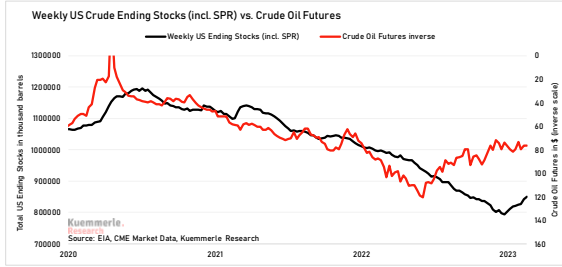


The current setup looks scarily similar.

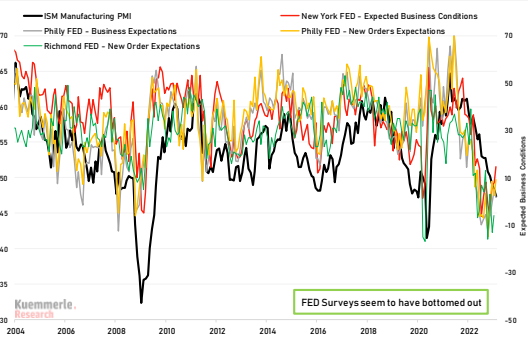
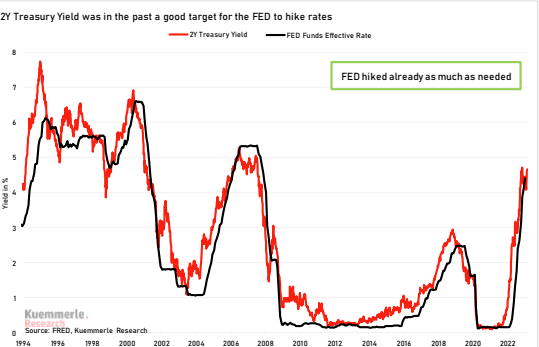
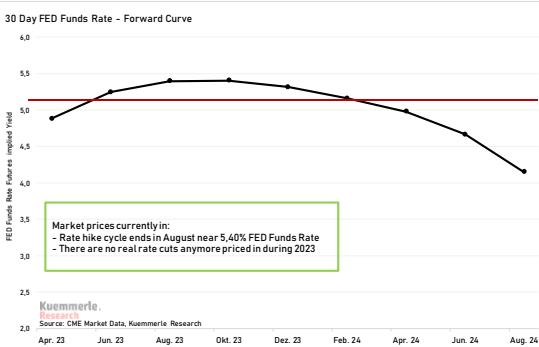
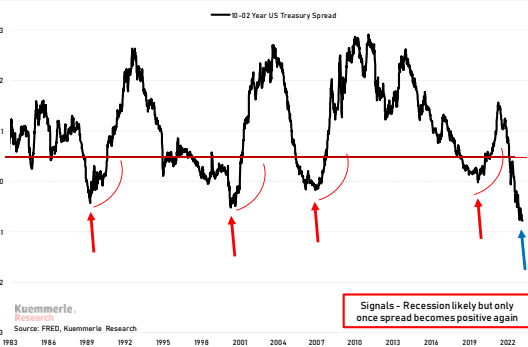
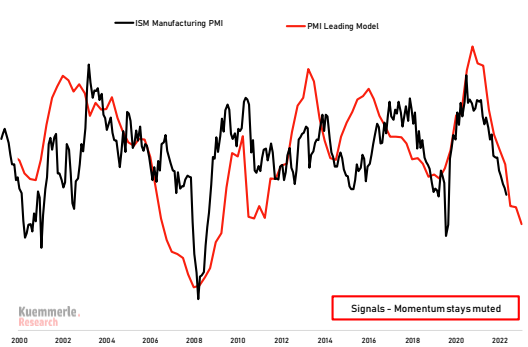
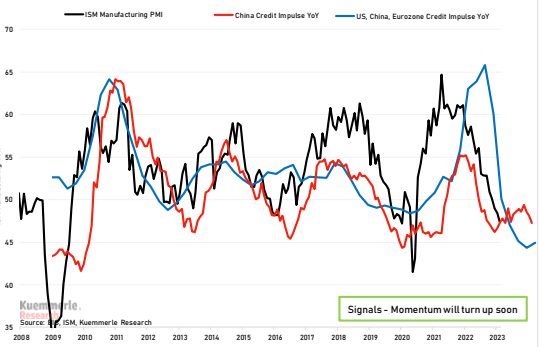
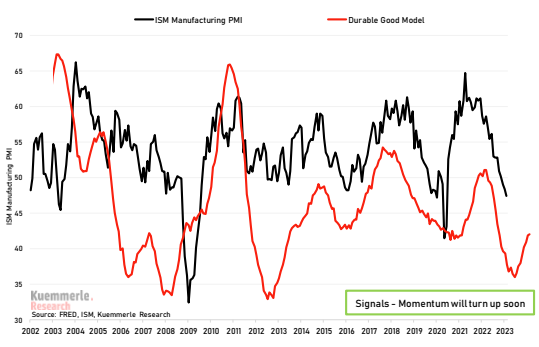
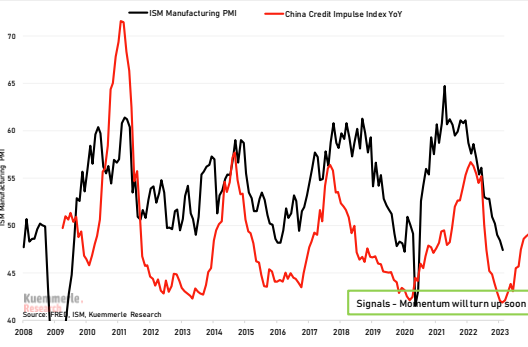
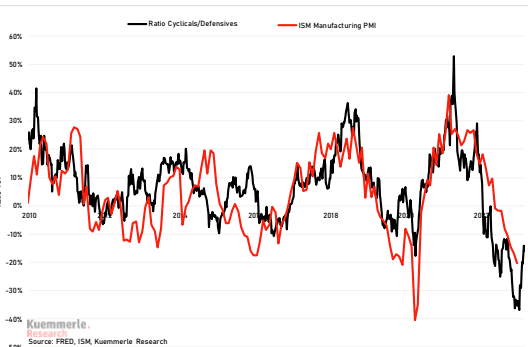
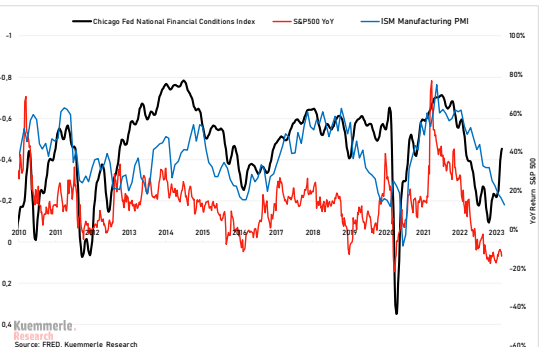
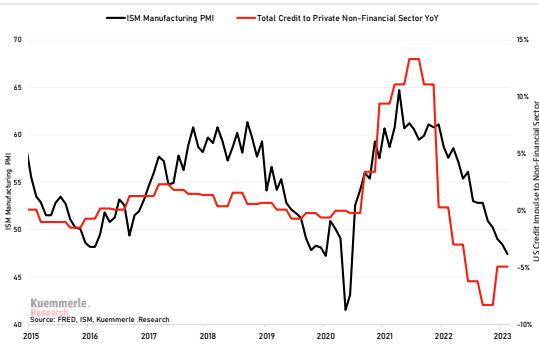
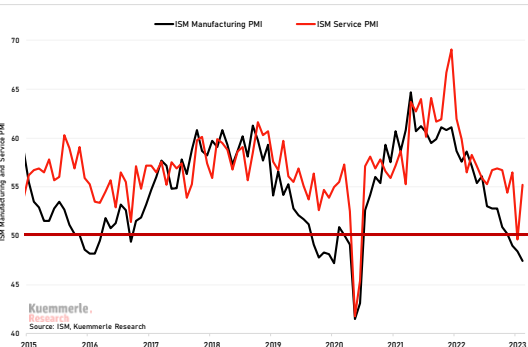
Important Charts and Correlations

Weekly & Monthly Updates that highlight the fundamental environment

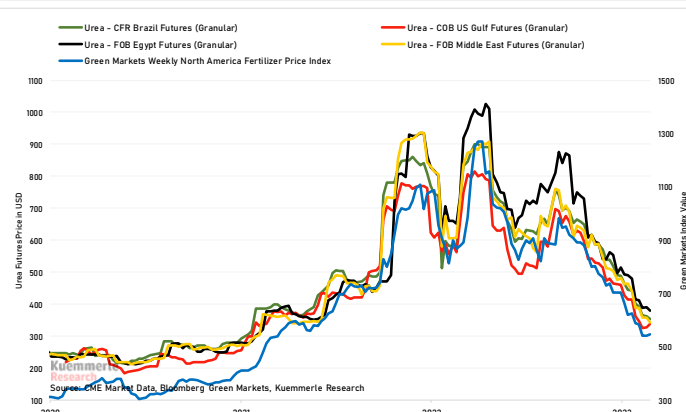
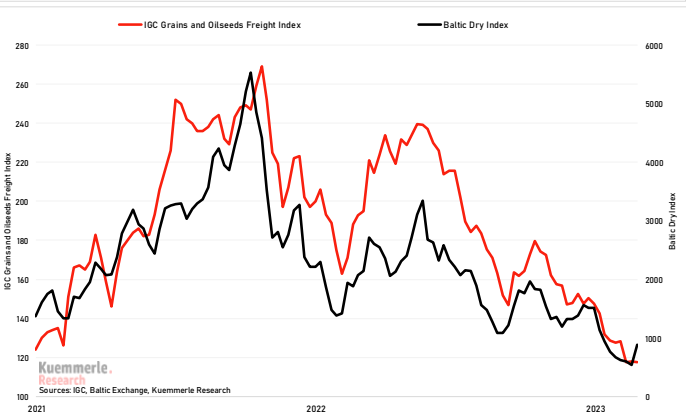
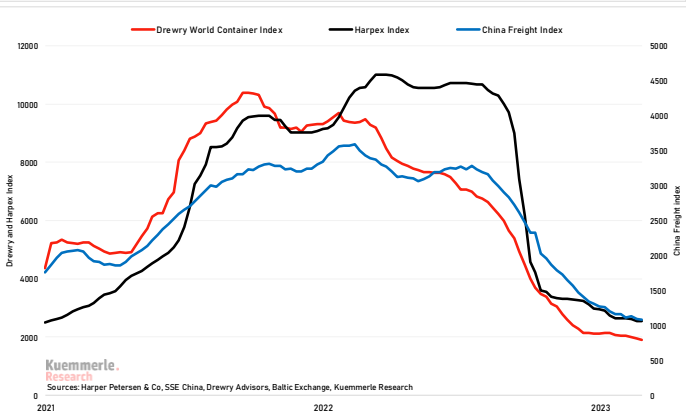
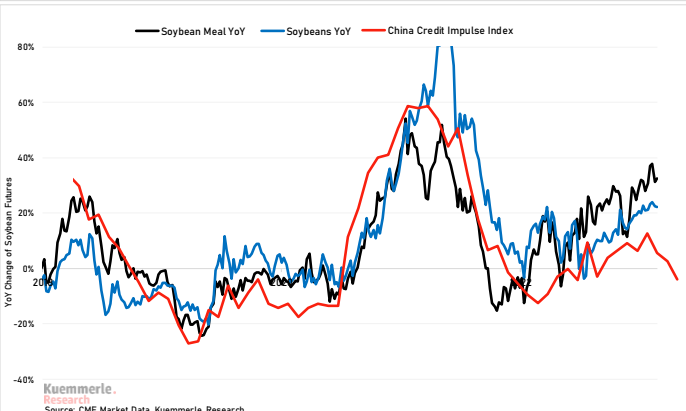
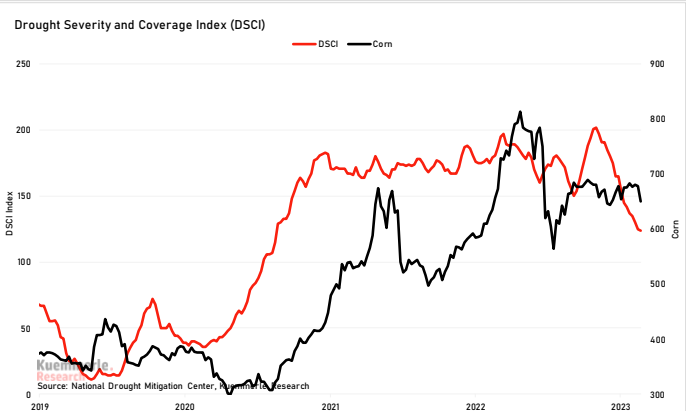
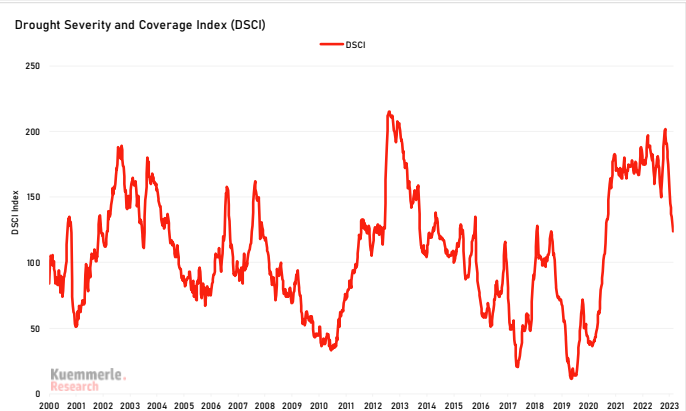
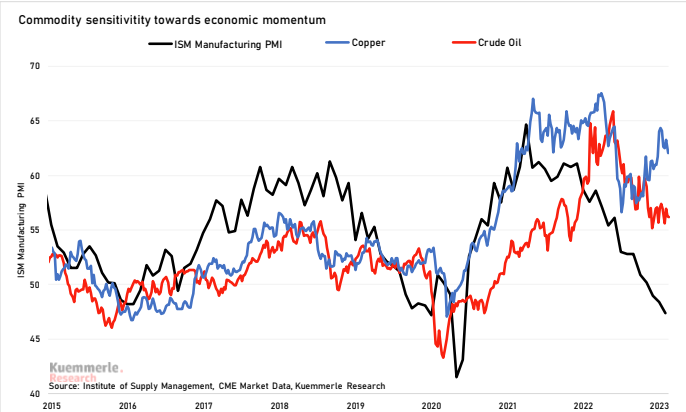
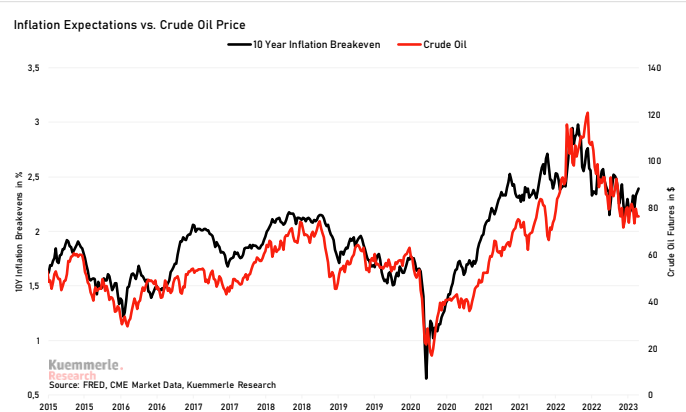
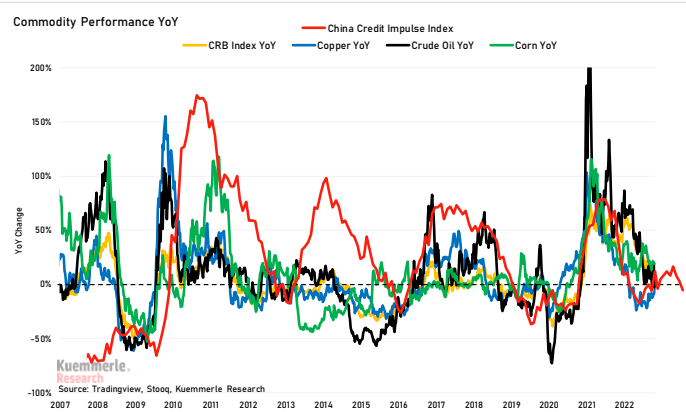
Energy Inventories



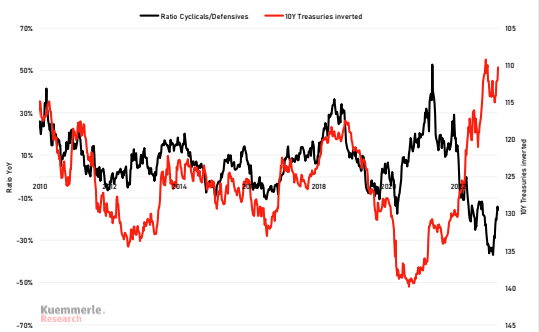
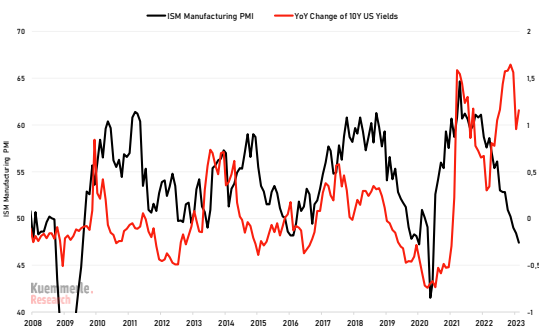
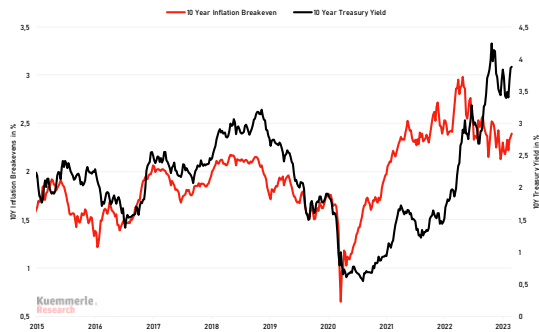
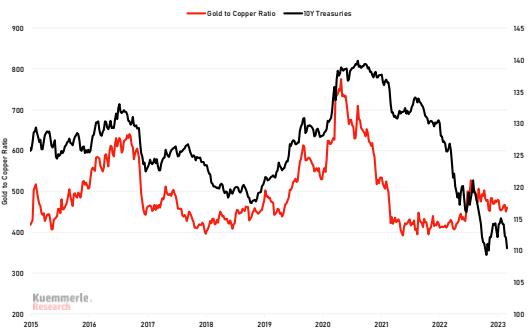
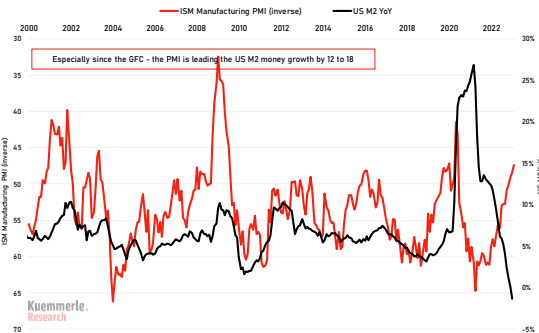
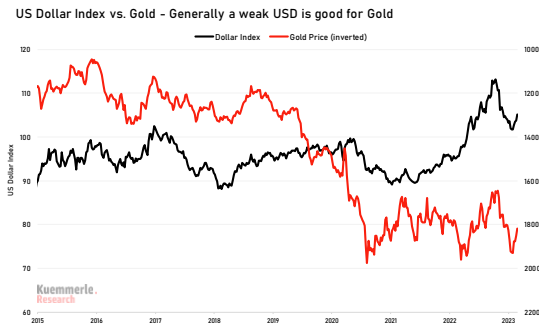
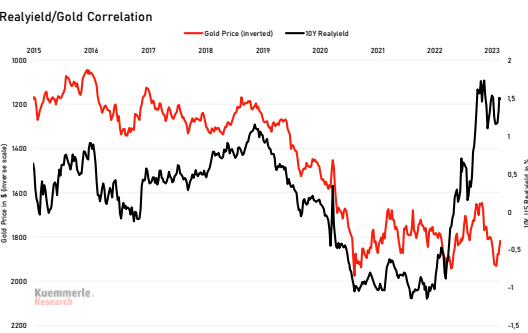
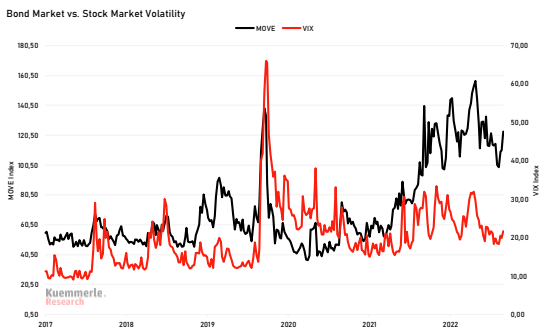
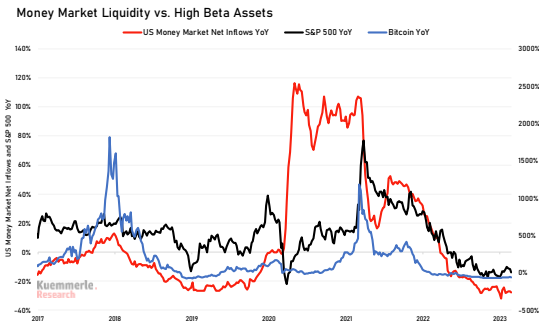
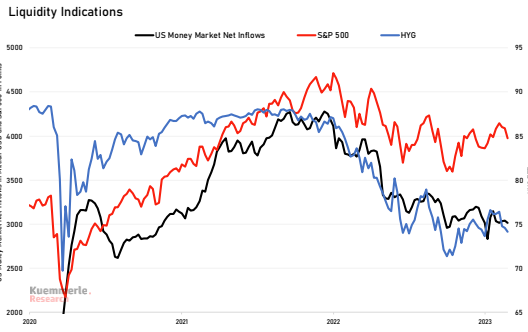
Macro Picture – Economic Momentum



Macro Picture – Commodity Linked

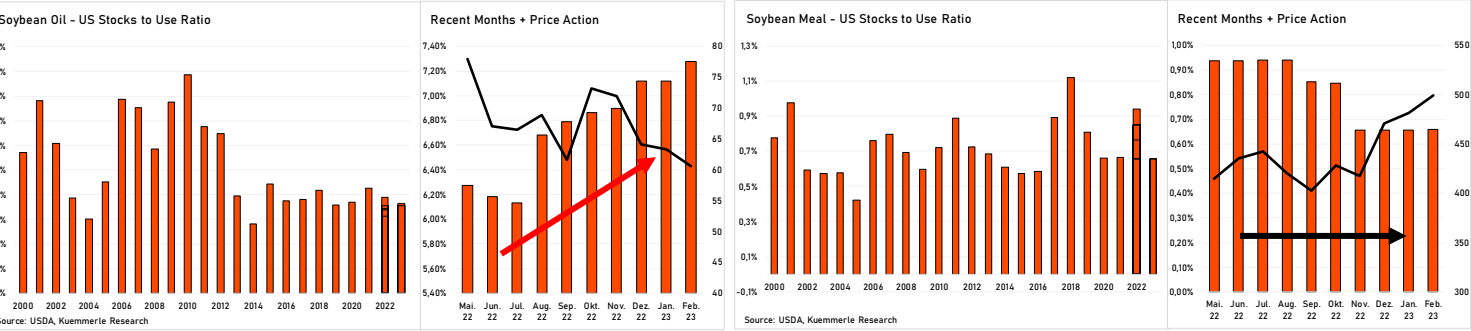


Macro Picture – Bonds/High-Beta/Gold



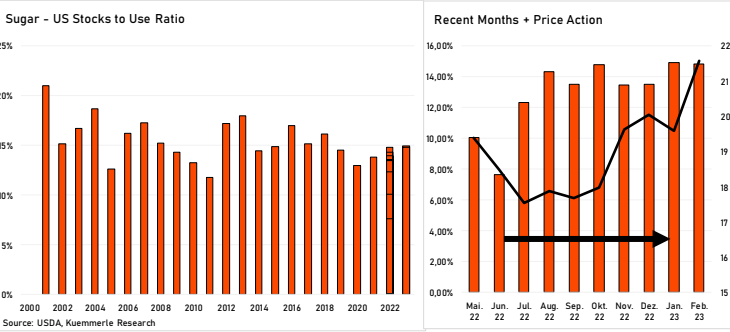
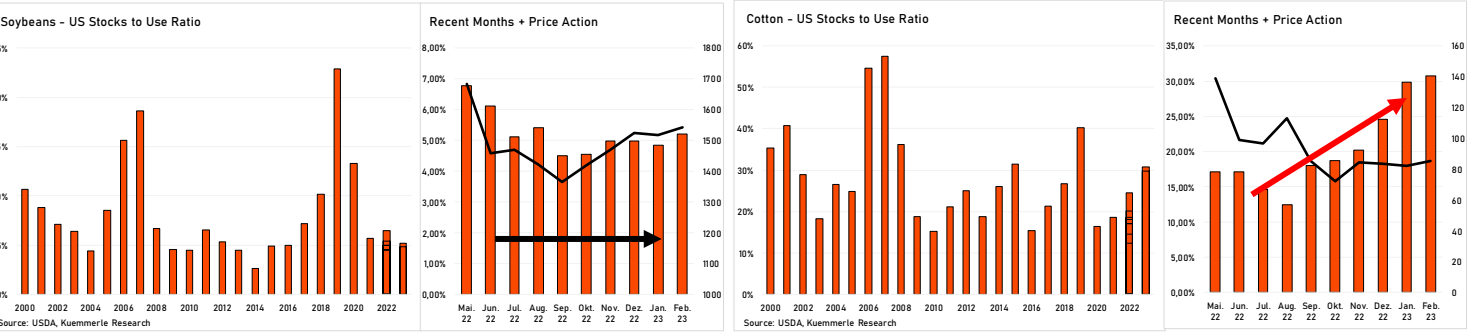
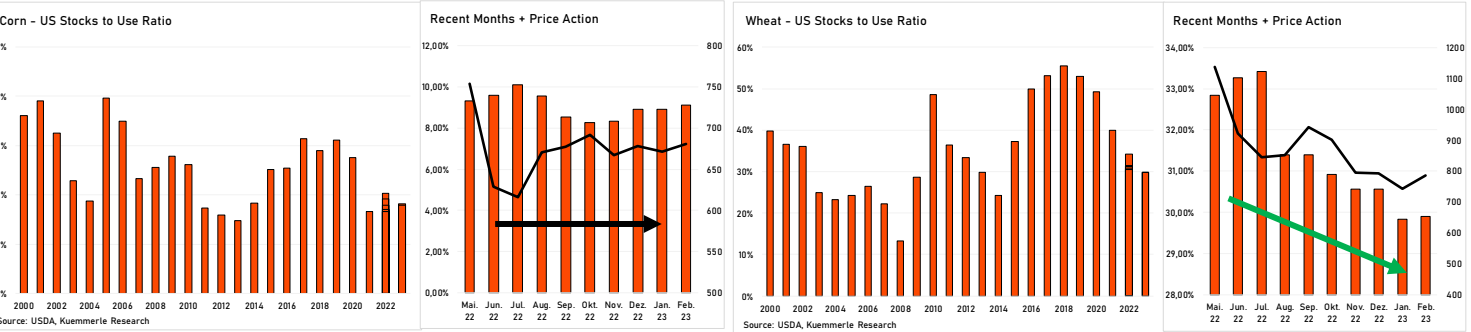
Stocks to Use Ratio// February 2023

Last week's WASDE report was neutral with a few surprises. The report highlighted reduced production estimates for South America, but the reality is that even with lower estimates, their production is going to be large. The question is, how quickly can those quantities get to market to satisfy demand or will the U.S. hang on as an origin for a longer period of time.



Stocks to use ratios (keep in mind higher ratio means more excess supply and therefore indicates bearish momentum)

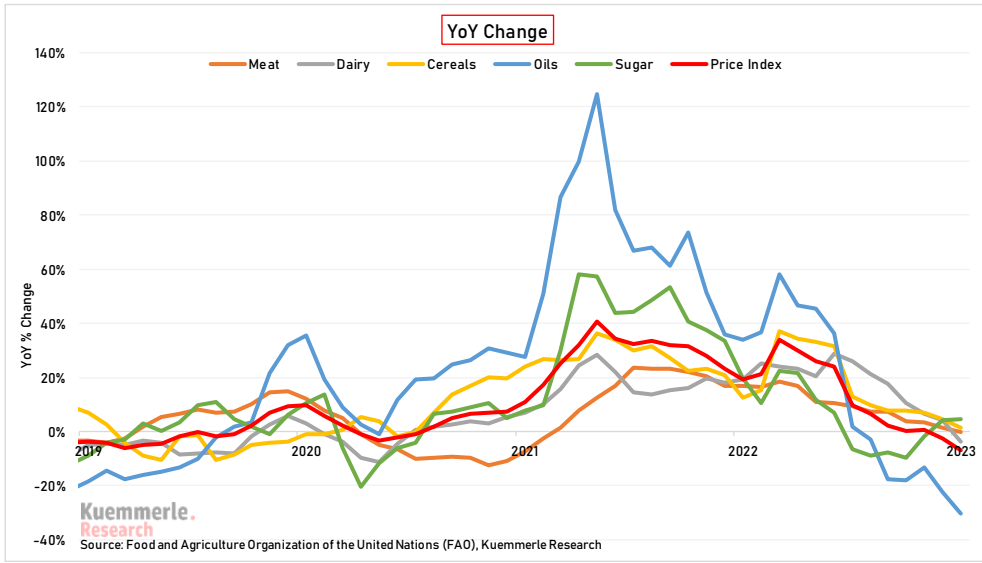
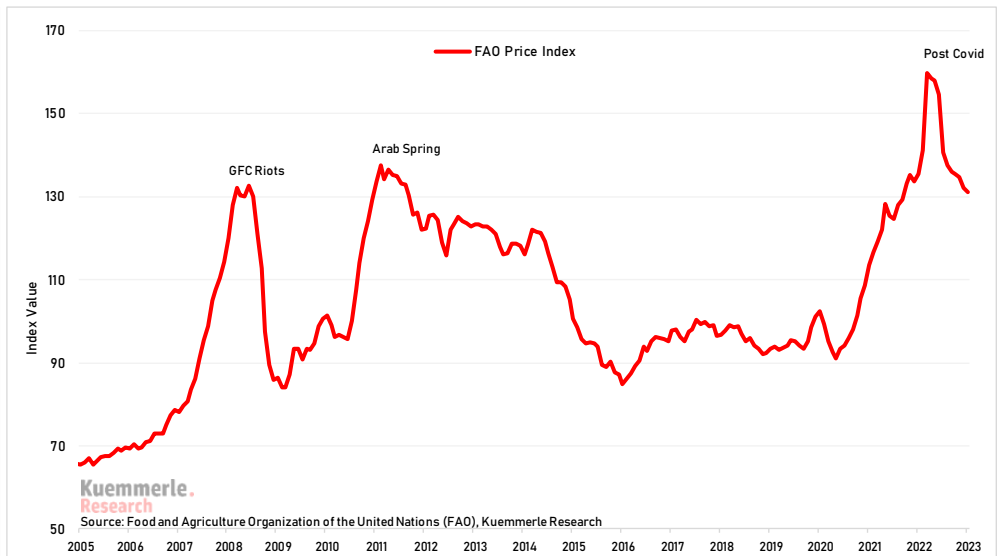
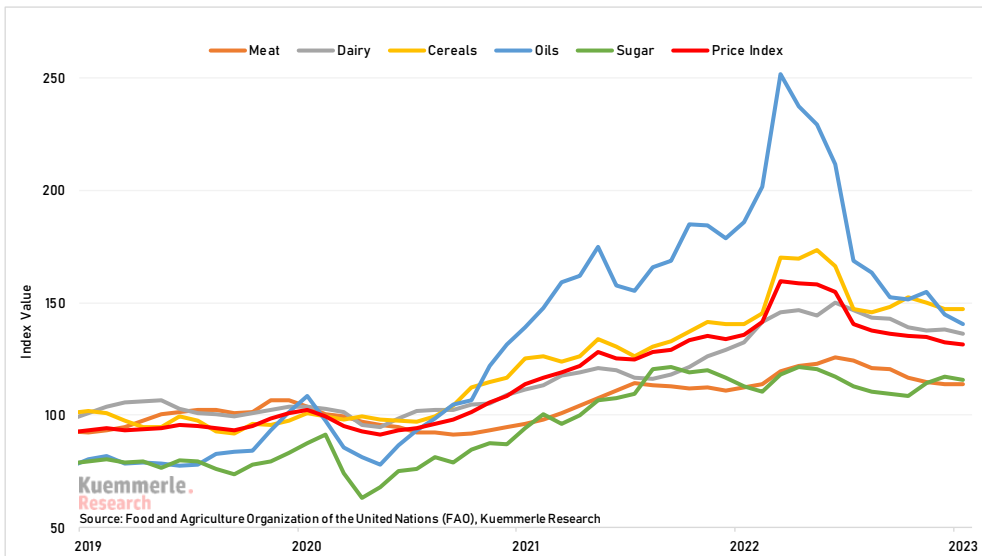
- soybeans:** slightly higher - overall ratio stays at the same level for months - no good indication
- soybean oil:** much higher ratio, 7th month in a row - shows that demand stays suppressed
- soybean meal:** slightly higher - another build next month could make the way free for lower prices
- corn:** slightly higher - overall ratio stays at the same level for months - no good indication
- wheat:** slightly higher - but overall ratio remains low - divergence to price action visible
- cotton:** higher for the 6th month in a row - demand stays depressed
- sugar:** slightly lower ratio - but ending stocks data wasn't a reliable indicator for sugar over the last months - in general ending stocks remain high compared to usage - so still a divergence to price action



Ratio is trending **higher** over the last months Ratio is trending **lower** over the last months Ratio is **unchanged** over the last months

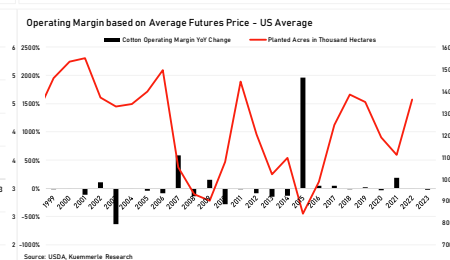
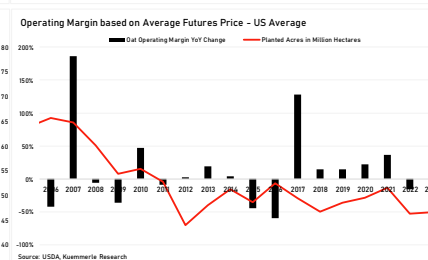
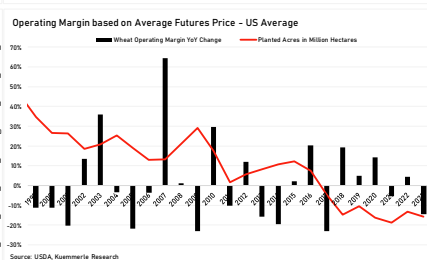
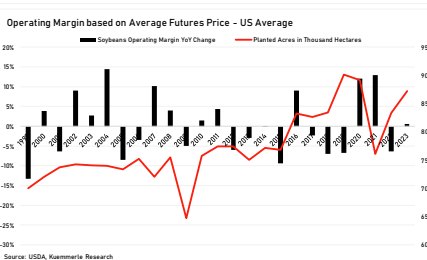
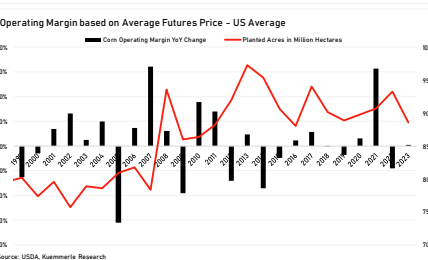
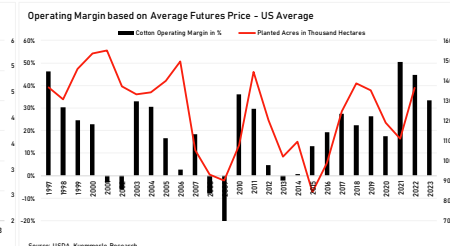
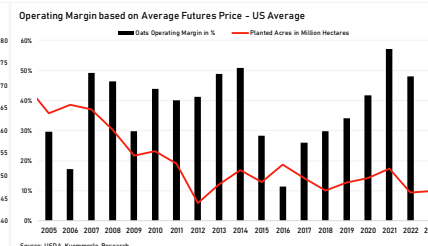
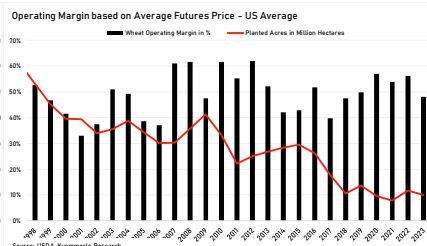
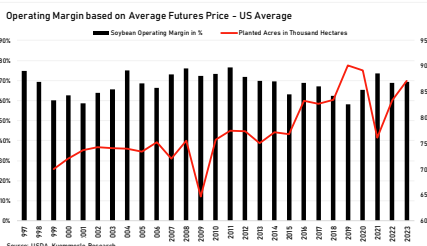
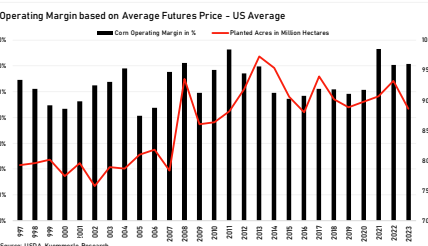
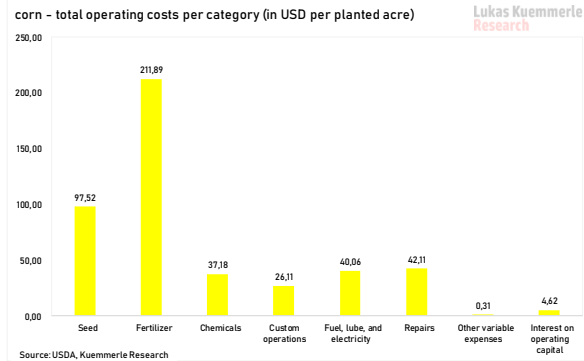
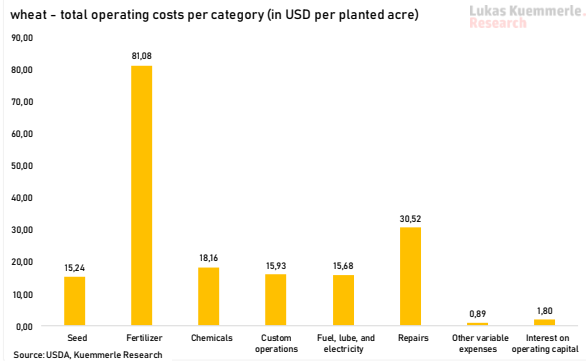
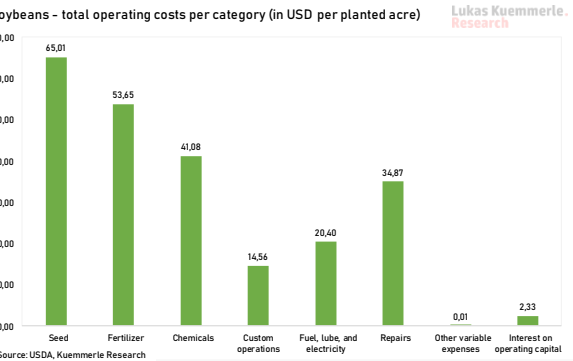
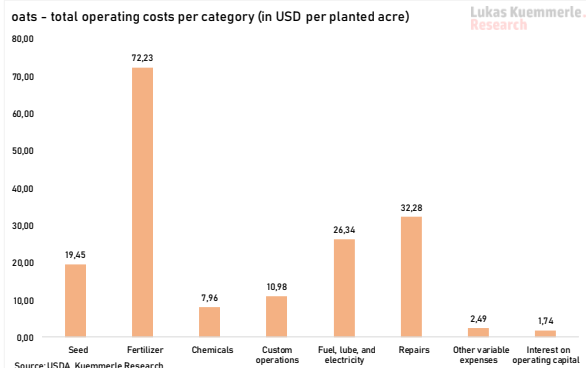
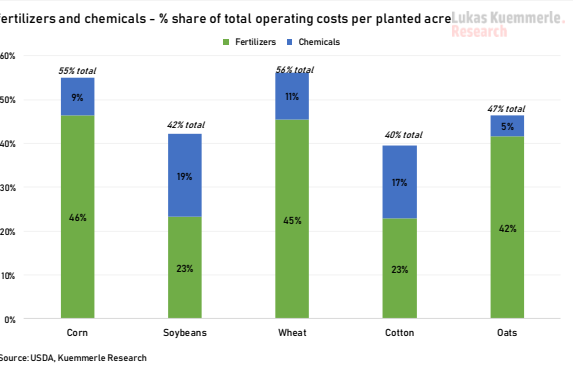
FAO Food Price Development // February 2023

The FAO Food Price Index averaged 131.2 points in January 2023, down 1.1 points (0.8%) from December, marking the 10th consecutive monthly decline. With this latest decline, the index has fallen 28.6 points (17.9%) from the peak it reached in March 2022. **The drop in the index in January was driven by declines in the price indices of vegetable oils and dairy, while those of cereals and meat remained largely stable.**



Date	INDEX	YoY	Meat	YoY	Dairy	YoY	Cereals	YoY	Oils	YoY	Sugar	YoY
Jan. 23	131,20	-7,1%	113,60	-0,2%	136,20	-3,7%	147,40	1,4%	140,40	-30,4%	115,80	4,8%
Dez. 22	132,2	-2,5%	113,7	1,4%	138,2	4,2%	147,3	4,8%	144,60	-22,2%	117,2	4,0%
Nov. 22	134,7	0,8%	114,6	3,2%	137,4	6,5%	150,1	6,8%	154,70	-13,3%	114,4	-1,7%
Okt. 22	135,4	0,1%	116,8	3,8%	139,3	10,6%	152,3	7,7%	151,30	-18,0%	108,6	-9,6%
Sep. 22	136,0	2,1%	120,3	7,4%	142,7	17,5%	147,9	7,9%	152,60	-17,4%	109,7	-7,9%
Aug. 22	137,6	6,5%	121,1	7,5%	143,4	21,4%	145,6	9,6%	163,30	-3,1%	110,5	-8,8%
Jul. 22	140,6	9,9%	124,1	9,4%	146,5	26,1%	147,3	13,0%	168,82	1,8%	112,8	-6,4%
Jun. 22	154,7	24,2%	125,9	10,3%	150,2	28,7%	166,3	31,7%	211,80	36,2%	117,3	7,1%
Mai. 22	158,1	26,2%	122,9	11,0%	144,2	20,3%	173,5	33,1%	229,24	45,4%	120,4	11,7%
Apr. 22	158,4	29,8%	121,9	16,8%	146,7	23,2%	169,7	34,5%	237,53	46,5%	121,5	21,6%
Mrz. 22	159,7	34,0%	119,3	18,4%	145,8	24,1%	170,1	37,3%	251,83	58,1%	117,9	22,6%
Feb. 22	141,2	21,2%	113,9	16,5%	141,5	25,1%	145,3	15,2%	201,72	36,8%	110,5	10,3%
Jan. 22	135,6	19,4%	112,1	16,9%	132,6	19,2%	140,6	12,5%	185,93	33,9%	112,7	19,7%
Dez. 21	133,7	23,1%	111,0	17,1%	129,0	18,1%	140,5	20,7%	178,51	36,1%	116,4	33,6%
Nov. 21	135,3	28,2%	112,5	20,6%	126,0	19,6%	141,4	23,1%	184,56	51,4%	120,2	37,3%
Okt. 21	133,2	31,4%	112,0	22,0%	121,5	16,3%	137,1	22,3%	184,84	73,6%	119,1	40,6%
Sep. 21	129,2	31,8%	112,7	23,2%	118,1	15,5%	132,8	27,3%	168,57	61,2%	121,2	53,5%
Aug. 21	128,0	33,4%	113,4	23,0%	116,2	13,8%	130,4	31,4%	165,86	68,0%	120,5	48,6%
Jul. 21	124,6	32,5%	114,1	23,7%	116,7	14,7%	126,3	29,8%	155,50	66,8%	109,6	44,1%
Jun. 21	125,3	34,3%	110,7	16,7%	119,9	21,9%	130,3	33,9%	157,68	82,1%	107,7	43,8%
Mai. 21	128,1	40,6%	107,4	12,5%	121,1	28,3%	133,7	36,4%	174,88	124,9%	106,8	57,4%
Apr. 21	122,1	31,9%	104,3	7,7%	119,1	24,4%	126,2	26,6%	162,19	99,8%	100,0	58,3%
Mrz. 21	119,2	25,3%	100,8	1,3%	117,5	15,7%	123,9	26,4%	159,30	86,5%	96,2	30,1%
Feb. 21	116,6	17,3%	97,8	-2,7%	113,1	9,9%	126,1	26,7%	147,46	51,2%	100,2	9,5%
Jan. 21	113,5	10,7%	96,0	-7,4%	111,2	7,1%	125,0	24,2%	138,87	27,7%	94,2	7,6%

USDA Planting Costs (published twice a year) // November 2022





Founder & Editor Lukas Kuemmerle

„It is one thing to write nice reports about what is happening in the commodity world, it is a whole different story if you write a report which investors and institutions can use to identify the right commodity setups and provide the right timing to trade them.“



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