

LAKEFRONT

FUTURES

THIS ISSUE

Near Term:

Bearish: Soybeans
Coffee

Long Term:

Bullish: Natural Gas

Other:

Minimal Commodity Inflation & Fed Rate Cuts

January 3, 2025

Economic Focus

At the start of 2025, most global economic data has been similar, with the US posting marginally better economic activity than most G7 nations. The Federal Reserve is less likely to cut interest rates aggressively in the months ahead, while many foreign central bankers are in aggressive easing modes. As a result, the US dollar has both economic and interest rate differential advantages and should continue to pressure currencies across the board. Despite ongoing political division in the US, political and economic problems are worse in Canada, the UK, Germany, France, and the Eurozone. In addition, the Chinese economy remains very vulnerable, which has prompted Chinese officials to gear up for massive debt offerings for local governments. Due to fear of softening commodity demand, a strengthening dollar, and, in most cases, significant

oversupply, US commodity prices remain under threat of liquidation during the first quarter of 2025.

Unfortunately for the bull camp, despite their economic edge, US equity markets are currently without a bullish theme and have been under pressure from rotation out of equities and into interest-bearing investments. While the Federal Reserve has hinted at two 25-basis point rate cuts this year, that prospect

alone has not reinvigorated investors following the initial post-election record run to the upside. However, last week, US equity markets returned to election day price levels, which in turn could mean prices have returned to a “value zone” and will need a revitalization of optimism from the changeover in political power or from the AI sector to return to “bull market” status.

MAJOR ECONOMIC EVENTS

January 6

- Factory Orders

January 7

- Euro Zone CPI/Unemployment
- International Trade Balance
- JOLTS Survey
- ISM Services Index

January 8

- ADP Employment Survey
- Consumer Credit
- FOMC Meeting Minutes

January 9

- President Carter Funeral
- Jobless Claims
- Wholesale Trade

January 10

- Employment Situation
- Canadian Unemployment
- Consumer Sentiment



OVERVALUED/UNDERVALUED

Fundamental

Technical

COT

OVERVALUED

Cotton	Bitcoin	Hogs
RBOB	Soybeans	Coffee
Soybeans	Gold	Crude Oil

UNDERVALUED

Bonds	British Pound	Natural Gas
Copper	Sugar	Soybean Meal
Soybean Oil	Cotton	Minn Wheat

OUR OPINION... MARKET BY MARKET

Market		*
Stocks	Rising bond yields are pulling money from stocks.	S
Bonds	Rate cut expectations at only 11%, US data ok.	S
Dollar	US economy better than its peers & Fed less dovish.	L
Euro	Soft Dec PMI's & a rise in German unemployment.	S
Gold	Revived safe haven buying & ongoing lower rate vibe.	L
Silver	Lift from gold, but industrial demand to restrain gains.	L
Copper	Value found at \$4.00, but China demand view is poor	L
Crude	Renewed ME fighting & potential Europe gas shortage.	L
Gasoline	Overbought technically, fundamentals no longer tight.	S
Nat Gas	Initial overreaction to Russian gas halt, but cold ahead.	L
Soybeans	Rally ending, US export to China closing.	S
Corn	Uptick in farmer selling, support on drop under 442.	N
Wheat	Lack of bull news, trend remains down.	S
Hogs	Technical breakdown this week, fund liquidation risk.	S
L Cattle	Major upside chart breakout, feeders @ all time high.	L
Sugar	India less likely to restart exports this season.	L
Coffee	Rain over Brazil growing areas may boost 25/26 crop.	S
Cocoa	Dry West African conditions continue to support.	L
Cotton	Export outlook clouded by a strong Dollar.	S

* For traders/commercials who need to be in a market, L = Long, S = Short, N = Neutral
These reflect our opinions for the next 7 days. They may contradict longer term viewpoints expressed elsewhere in this publication.

OPTIONS SCAN

Undervalued

Buy Mar Copper \$4.04/\$4.09 bull call @ 0.0160

Buy Mar Nat Gas \$3.50 call @ 0.120 (on a further dip)

Buy Mar Canadian Dollar 70.00 call @ 0.0048

Overvalued

Sell Mar Soybean 1020 call @ 22*

Sell Feb Gold \$2,730 call @ 15.50*

Sell Mar Corn 465 call @ 11* (on a further rally)

Trend Reversals

Buy Mar RBOB \$2.00/\$1.97 bear put @ 0.0100

Buy Mar Sugar 20.50/22.50 bull call @ 30

Buy Mar Soybean 1000/950 bear put @ 15

Only use these strategies during periods of high liquidity.

* When selling options, only risk to double the premium received.

TRADERS TOOLBOX

UPDATES TO PRIOR LONGER-TERM TRADE STRATEGIES

Original Trade Date	Trade	Action
Bonds 10/25/24	Long a January Bond 121.00 call at 1-30. Previously Long a December Bond 116.00 put at 0-62 which expired at 0-00.	January 121.00 call EXPIRED at 0-00 for a loss of 2-28 on the strategy.
Corn 10/25/24	Long 2 May Corn 430 Calls and Short 2 May Corn 490 Calls at a net cost of 17 1/2 cents per spread.	Look to take profits on the spread if May Corn futures hits 476, and risk 13 cents of the 18 cent cost of the position.
Bonds 11/15/24	Long a February Bond 115.00/111.00 bear put spread for 0-58. Previously Long a January Bond 117.00/120.00 bull call spread for 0-47 that Hit Objective at 1-55.	Use an objective of 2-15 on the bear put spread.
ULSD 12/06/24	BUY a February ULSD \$2.14/\$2.23 bull call spread at 0.0200.	Use an objective of 0.0490, and risk the trade to 0.0100.
Gold 12/06/24	BUY a February Gold \$2,650/\$2,740 bull call spread at 10.40.	Use an objective of 51.00, and risk the trade to 4.80.
Nasdaq 12/13/24	Long a March Nasdaq 24,000/25,000 bull call spread at 60.50.	HIT PROTECTIVE STOP at 38.50 for a loss of 22.00 on the strategy.
Gold 12/20/24	BOUGHT a February Gold \$2,580/\$2,500 bear put spread at 16.70.	HIT PROTECTIVE STOP at 6.80 for a loss of 9.90 on the strategy.
Crude Oil 12/20/24	SOLD February Crude Oil at \$69.85.	HIT PROTECTIVE STOP at \$70.95 for a loss of \$1.10 on the strategy.
Crude Oil 12/20/24	BOUGHT a February Crude Oil \$66.00 put at 0.72.	HIT PROTECTIVE STOP at 0.30 for a loss of 0.42 on the strategy.
Natural Gas 1/03/25	BUY March Natural Gas futures at a recent double low of \$2.868.	Use an objective of \$3.400, and risk the trade to \$2.740.
Natural Gas 1/03/25	BUY a March Natural Gas \$3.15/\$3.60 bull call spread at \$0.114.	Use an objective of \$0.390 and risk the option spread to a price of \$0.049.

Trade recommendations are only suggestions. This is not to be construed as a trading system or tracking account. No representation is being made that any account will or is likely to achieve profits or losses to those shown. By reading or following this report, you acknowledge and accept that all trading decisions are your own sole responsibility, and The Hightower Report or anybody associated with The Hightower Report cannot be held responsible for any losses that are incurred as a result. Trade fills are hypothetical. Traders may not be able to enter or exit the trades exactly at the prices indicated due to liquidity or market slippage.

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Trading futures contracts and commodity options involves substantial risk of loss, and thus is not appropriate for all investors. Investors should carefully consider the inherent risks of such an investment in light of their financial condition.

NATURAL GAS PRICES MAY BE CLOSE TO A KEY LOW

While we currently see natural gas prices as near-term expensive, the prospect of a key price low is ramping up. From a longer-term perspective, the halt of Russian natural gas flow through Ukraine should ramp up anxiety for European gas buyers and increase their willingness to pay a premium for gas supply during the coldest period of the year. While the reignition of the Russian/Ukraine war in February 2022 resulted in a dramatic explosion of natural gas prices in Europe, price gains in the US were significantly smaller given the abundance of domestic gas supply. Nonetheless, US natural gas prices rallied from a first-quarter low of \$3.03 to a high of \$9.66. With Europe vulnerable to severe gas shortages from cold temperatures, European gas prices will support US gas prices.

Granted, the US currently has an export capacity ceiling. However, less end-user consumption of Russian LNG should result in more consumption of non-Russian LNG supplies and gradually tighten a historically oversupplied global natural gas market. The oversupply in the US was severe at its peak, with natural gas inventories running roughly 31% above five-year average levels. However, the latest EIA natural gas storage figures showed a current surplus of only 4.7% versus five-year average stocks, with the previous week showing a surplus of only 4.9%. In other words, the US has seen a two-year reduction in oversupply levels. While it is difficult to project when and if new US LNG export capacity will begin operations, we suspect the incoming Trump Administration will slash red tape. Likely, overall natural gas export values will finally show a notable year-over-year expansion.

Some sources feel that natural gas is likely to become the highest-valued US commodity export category in the coming years, surpassing crude oil, chemicals, and even petroleum products! From a shorter-term perspective, a large section of the United States will have much colder than expected temperatures, with the coldest portion of the winter season directly ahead. A “polar vortex” is forecast to produce negative temperatures as far south

Mean Surface Temperature (°F)
during the period:

???, 03 JAN 2025 at 00Z

-to-

???, 11 JAN 2025 at 00Z

???, 11 JAN 2025 at 00Z

-to-

???, 19 JAN 2025 at 00Z

Temperature Anomaly
during the first period:

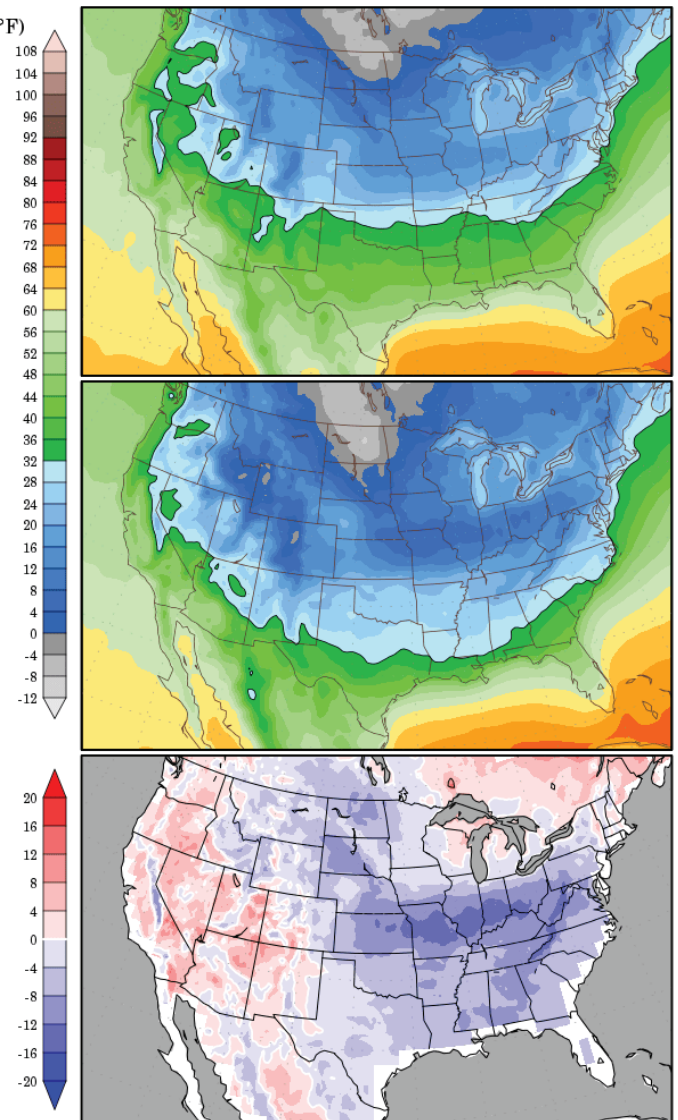
???, 03 JAN 2025 at 00Z

-to-

???, 11 JAN 2025 at 00Z

GrADS/CO LA

Temperature Forecasts



Temperature forecasts from the National Centers for Environmental Prediction.
Normal Temperature derived from CRU monthly climatology for 1901-2000
Forecast Initialization Time: 00Z03JAN2025

as the middle of Kansas and Missouri during the coming week, with milder temperatures not seen until mid-January. In addition, European temperatures from January 11th through January 19th are expected to plunge. While this cold front looks significant, it follows warmer-than-normal temperatures in the first 10 days of January. However, seeing the US and Europe chained together with extreme cold events would continue to expand recent newfound bullish sentiment. Seeing sentiment shift distinctly positive could also have the impact of sparking widespread short-covering buying, with a recent COT positioning report showing a net spec short position of more than 113,000 contracts.

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NATURAL GAS PRICES MAY BE CLOSE TO A KEY LOW

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Suggested Long-term Trading Strategies

1) **BUY** March Natural Gas futures at a recent double low of \$2.868 with an objective of \$3.400. Risk the trade to \$2.740.

2) **BUY** a March Natural Gas \$3.15/\$3.60 bull call spread at \$0.114 with an objective of \$0.390. Risk the spread to a price of \$0.049.

Natural Gas - Non-Commercial & Non-Reportable COT - Futures & Options - Net Position



Temperature Forecasts

Mean Surface Temperature (°C)
during the period:

???, 03 JAN 2025 at 00Z

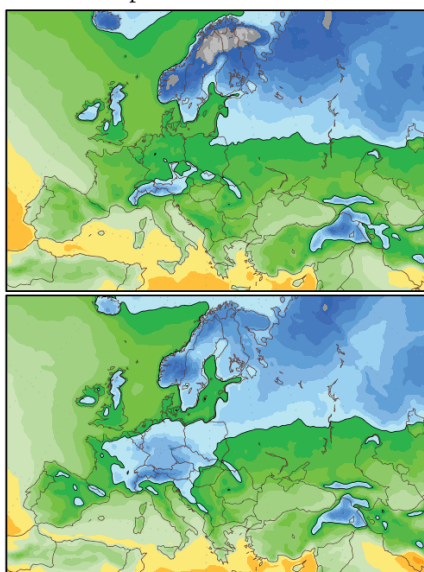
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-to-

???, 19 JAN 2025 at 00Z



TOP 12 NATURAL GAS PRODUCERS

The EIA reported US natural gas production during October came in at **115.87 billion cubic feet (bcf) per day**, which was a **1.1% increase** from September.

Courtesy of the EIA, here are the 11 states & 1 region with the largest October natural gas production (in bcf per day):

Texas	36,487
Pennsylvania	19,811
New Mexico	10,351
Alaska	9,675
West Virginia	9,460
Louisiana	9,079
Oklahoma	7,427
Ohio	5,906
Colorado	5,065
North Dakota	3,443
Wyoming	3,360
Gulf of Mexico	1,874

FUNDAMENTALS SUGGEST SOYBEAN RALLY MAY NOT LAST

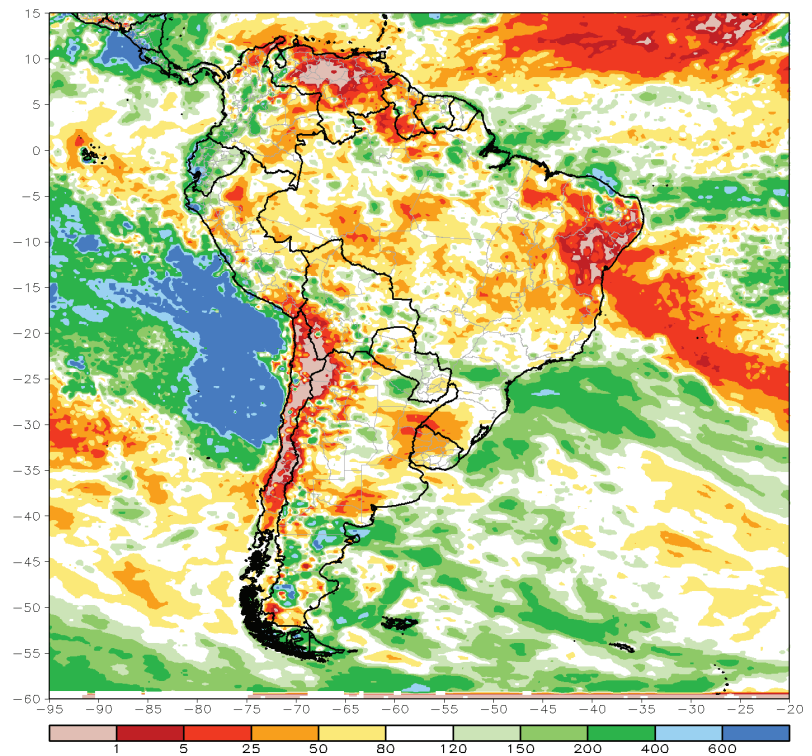
The soybean market has experienced a notable rally since the upside reversal on December 19, gaining over \$0.75 to reach this week's highs. However, the upward momentum may be nearing its end. The rally was primarily driven by fund short-covering and concerns soil moisture declines in Argentina and southern Brazil. Open interest in soybean contracts has dropped from 915,745 on December 18 to 807,455 as of January 2, reflecting significant short covering following the technical upside reversal. The CFTC Commitment of Traders report (delayed until Monday 1/6) will likely show a considerably smaller net short position among funds than the prior week.

Weather forecasts for the next two weeks indicate expanding dryness for nearly half of Argentine growing regions accompanied by rising temperatures. Southern Brazil is also forecast to face crop stress across its southernmost 30%, although favorable conditions in the rest of Brazil will likely offset these losses. Supporting this outlook, StoneX recently increased its Brazil production estimate to 171.4 million tonnes, up from 166.2 million. Many private estimates now exceed 170 million, marking a significant 17-million-tonne increase from last season. A harvest of this magnitude may lead to logistical challenges in storing and transporting the crop. Still, it firmly positions Brazil to expand its market share in 2025, especially given the strength of the U.S. dollar and the relative weakness of Brazil's currency.

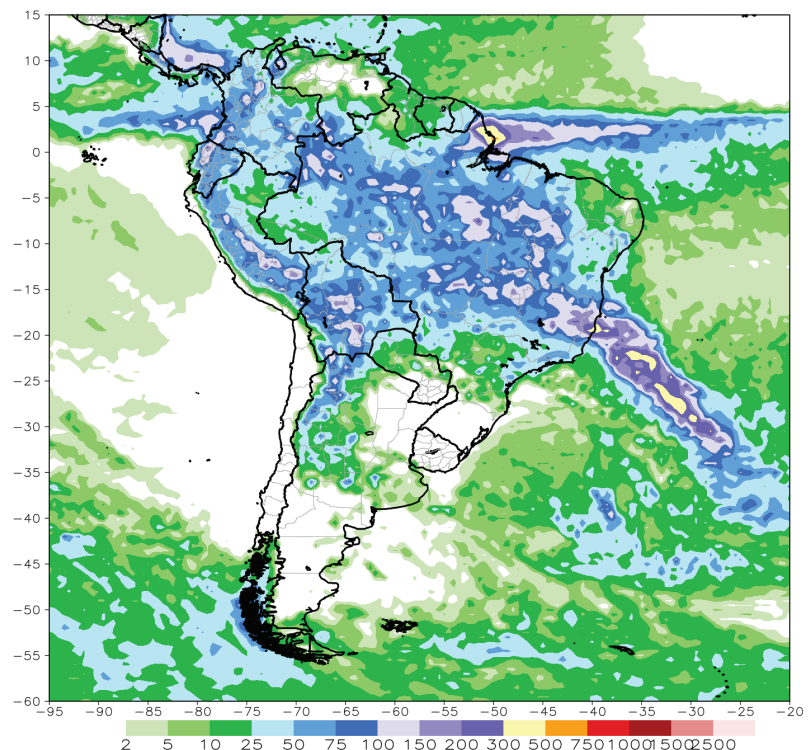
Meanwhile, geopolitical factors could add uncertainty to the market. The upcoming U.S. Presidential Inauguration on January 20 could usher in significant policy shifts that potentially reignite trade tensions. If China retaliates against U.S. trade measures, it may prioritize sourcing soybeans from Brazil, particularly given the large expected Brazilian harvest. The U.S. export window to China is already narrowing as South American new-crop soybeans begin to enter the market later this month and into early February. Furthermore, potential U.S. tariffs on Mexican and Canadian imports could create additional volatility across grain markets.

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CMORPH ADJ EOD 1-Month Percent of Normal Rainfall (%)
Period: 01Dec2024 - 31Dec2024



GFS week1 Total Rainfall (mm)
Period: 06z04Jan2025 - 06z10Jan2025



FUNDAMENTALS SUGGEST SOYBEAN RALLY MAY NOT LAST

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Additional bearish pressure has emerged from the recent rally in the U.S. dollar, which hit its highest level since November 2022. The technical breakout in the weekly dollar chart suggests further gains are likely, presenting another significant headwind for U.S. soybean prices.

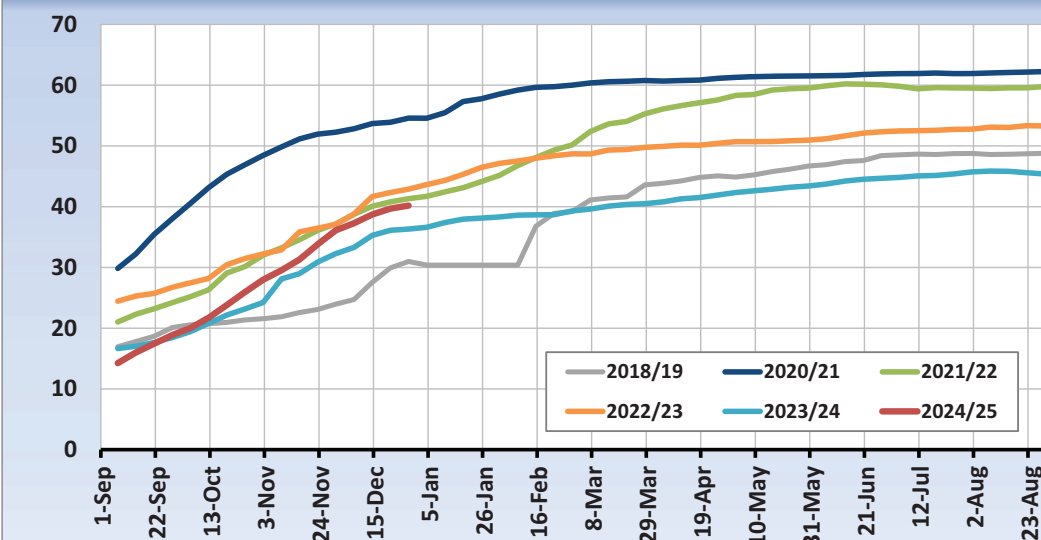
Given these factors, the soybean market appears poised for a pullback following its sharp recent rally. While weather concerns and geopolitical developments could generate short-term volatility, the overall outlook suggests downside potential. As such, a short positioning strategy may be prudent on minor price bounces in the near term.

Suggested Trading Strategies

1) **SELL** 1 March Soybean futures on a bounce to 1004. Risk the trade to 1024. Use an objective of 949 on the downside.

2) **Option Trade:** **BUY** 1 March Soybean 990 Put option and **SELL** 1 March Soybean 1030 Call option for a net cost of 14 cents or better. Risk 15 cents on the entire position. Take profits on the strategy if March Soybean futures reach 949.

Soybean Export Sales - Weekly
Total Commitments - Current Year - Million Tonnes



Source: USDA

USDA SUPPLY/DEMAND							
US SOYBEANS							
	18-19	19-20	20-21	21-22	Dec USDA 22-23	Dec USDA 23-24	Dec USDA 24-25
Planted Area (M Acres)	89.2	76.1	83.4	87.2	87.5	83.6	87.1
Harvested Area (Acres)	87.6	74.9	82.6	86.3	86.2	82.3	86.3
Yield (Bu/Acre)	50.6	47.4	51.0	51.7	49.6	50.6	51.7
Beginning Stocks (M Bu)	438	909	525	257	274	264	342
Production	4,428	3,552	4,216	4,464	4,270	4,162	4,461
Imports	14	15	20	16	25	21	15
Supply, Total	4,880	4,476	4,761	4,737	4,569	4,447	4,818
Crushings	2,092	2,165	2,141	2,204	2,212	2,287	2,410
Exports	1,753	1,683	2,266	2,152	1,980	1,695	1,825
Seed	88	97	101	102	75	78	78
Residual	39	11	-4	5	39	45	35
Use, Total	3,971	3,952	4,504	4,463	4,305	4,105	4,348
Ending Stocks	909	525	257	274	264	342	470
Stocks/Use Ratio	22.9%	13.3%	5.7%	6.1%	6.1%	8.3%	10.8%

COFFEE PRICES LOOKING TOP-HEAVY AT CURRENT LEVELS

Coffee was one of the strongest performing commodities last year with an annual price increase of 68%, with over half of that price gain occurring in November and December. However, the market has been unable to climb above the mid-December high with a pattern of “lower highs” during the past few weeks. This may be a sign that coffee prices are “top-heavy” at current levels, and that could set the stage for a sizable downside move.

Brazil is the world’s largest Arabica coffee-growing nation, accounting for 46% of global Arabica production during the 2024/25 season. During the second half of last year, Brazil experienced drought conditions that negatively impacted the flowering period for their upcoming 2025/26 crop.

Over the past few weeks, there has been a shift towards wetter conditions over Brazil’s south Minas Gerais (their major Arabica growing region). While there is concern that Brazilian coffee

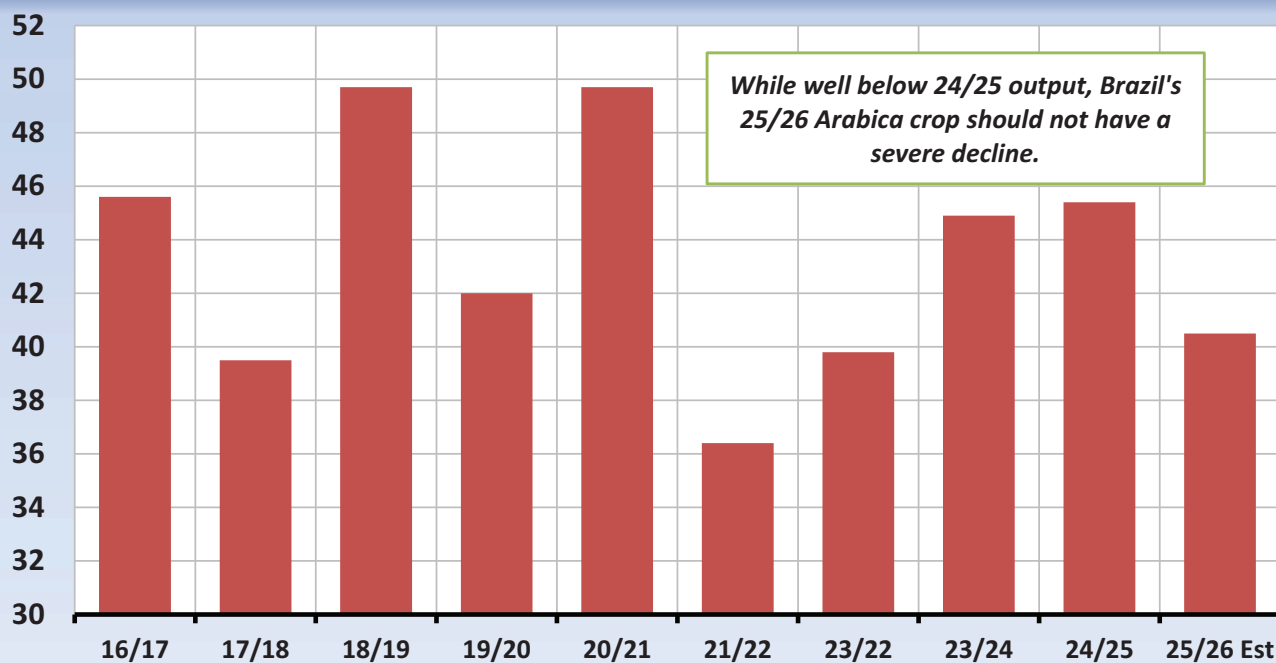
trees received longer-term damage from last year’s drought, the production outlook can improve before the 2025/26 harvest reaches full speed in mid-May.

In addition, the La Nina weather event should bring wetter than normal conditions to Colombia and Central America, which are key Arabica growing areas. Colombia has already seen increased output over the past year, and improved Central American production can also help to offset the shortfall in Brazilian production.

Suggested Trading Strategy

Option Spread: **BUY** a March Coffee 300.00/280.00 bear put spread at 4.80 or better. Use an objective of 12.50 and risk the option spread to 2.60.

Brazil Arabica Production Million 60-kilo Bags by Season



While well below 24/25 output, Brazil's 25/26 Arabica crop should not have a severe decline.

Source: USDA/Hightower Report

MINIMAL COMMODITY PPI MAY LEAD TO ADDITIONAL FED RATE CUTS

The PPI Commodities is one of the longest running inflation measures and has been in existence since 1913. The index has stayed in a tight range since early 2024 with the lowest monthly reading in September at a 2.4% year-over-year decline, while the highest reading since February 2023 has been a 1.4% year-over-year increase in July 2024.

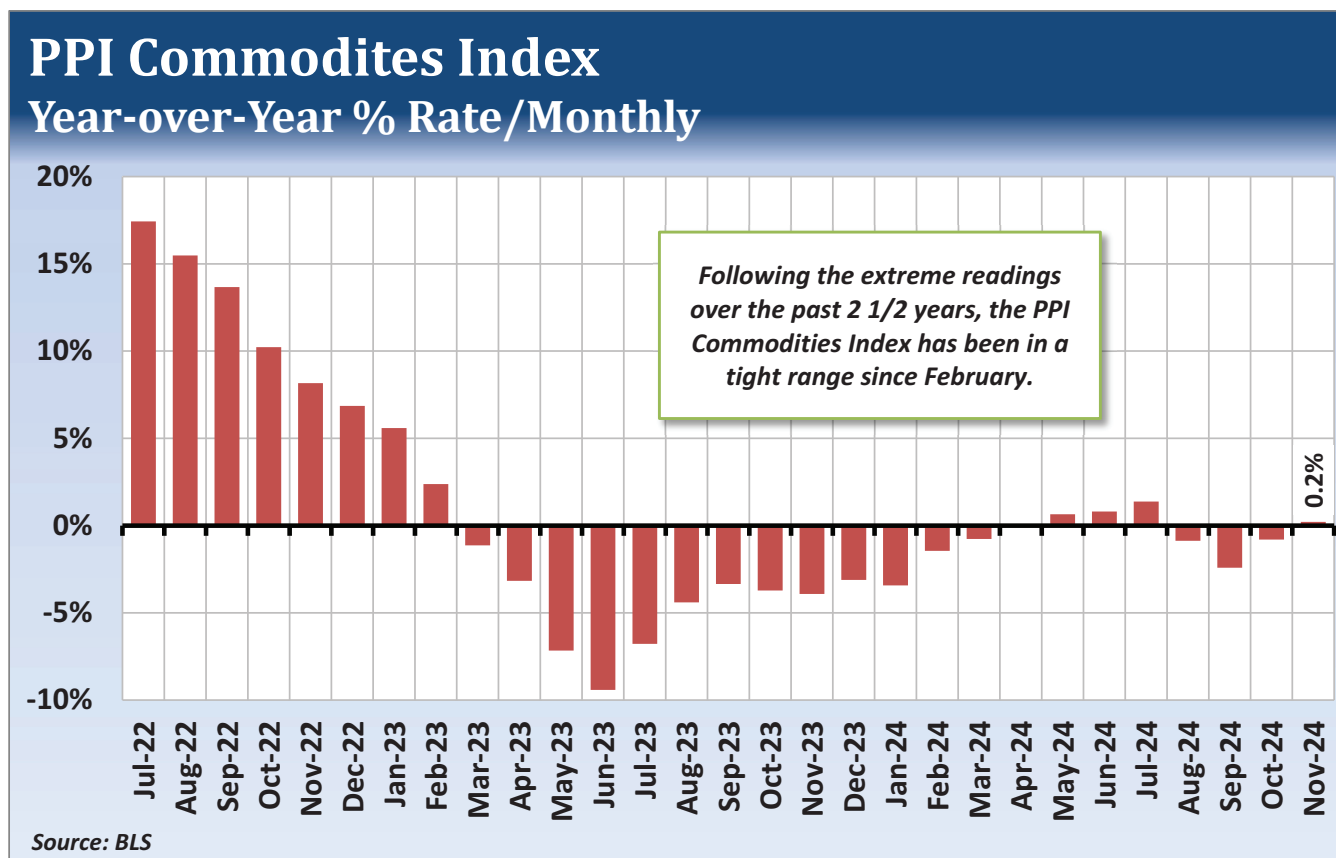
The recent tight range of PPI Commodities index readings is in sharp contrast to its recent volatility. It reached a 22.7% year-over-year rate in November 2021 as the US economy recovered from COVID-19, the highest reading since November 1974. In June 2023, it posted a 9.4% year-over-year decline, the largest decline since September 2009.

Last month's FOMC meeting included a 25 basis-point rate cut as expected, but it made a lasting impact on market sentiment with the Fed's quarterly economic projections. The "dot plot" showed

two 25 basis point cuts to the Fed Funds rate this year instead of four. A key factor was the Fed's inflation projections as they increased their median forecast for 2025 year-end PCE (personal consumption expenditures) from 2.1% to a 2.5% year/year rate, while core PCE went from 2.2% to a 2.5% year/year rate.

There was an uptick in "headline" inflation measures during the fourth quarter, with CPI rising from 2.4% to a 2.7% year/year while PPI final demand rose from 2.0% to a 3.0% year/year rate. In addition, the Fed may anticipate higher inflation if the incoming Trump Administration follows through on imposing import tariffs.

Higher prices at wholesale and retail levels would result in headwinds for the US economy this year. However, if the trend of minimal and stable PPI Commodity readings continues, it could give Fed members more confidence that overall inflation will remain subdued and could lead to one or two additional Fed rate cuts this year.





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COMMITMENTS OF TRADERS

Data As of December 17, 2024
Non-Commercial & Non-Reportable
Combined Futures & Options

Market	Net Position	Net Change	4-Wk Net Change	52-Wk Ranking
Grains				
CBOT Grains	-79,145	-49,844	50,327	50
Corn	123,624	-9,352	76,443	51
KC Wheat	-18,531	3,875	1,248	39
Minn Wheat	-23,807	1,574	263	27
Rice	-362	-180	1,247	9
Soybeans	-118,537	-26,427	-6,563	30
Soyoil	28,635	-20,508	-8,579	41
Soymeal	-40,194	-17,119	-10,819	4
Wheat	-84,232	-14,065	-19,553	1
Livestock				
Cattle	118,473	10,232	19,479	52
Feeder Cattle	6,123	-560	742	50
Hogs	118,107	-10,029	-7,320	48
Metals				
Copper	11,528	-5,373	-5,285	12
Gold	285,689	-12,643	15,482	35
Platinum	18,841	-2,318	-4,921	19
Silver	54,425	-2,618	-3,448	13
Softs				
Cocoa	40,286	-1,116	-1,020	40
Coffee	64,030	-1,144	-3,718	21
Cotton	-24,105	-7,416	-9,064	11
Lumber	#N/A	#N/A	#N/A	#N/A
Milk	-6,346	2,757	3,539	25
OJ	8,293	1,157	992	52
Sugar	73,083	-38,004	-24,224	28
Currencies				
Canadian	-192,623	1,479	-35,396	3
Dollar	7,327	9,290	9,575	39
Euro	-36,046	9,369	-11,471	2
Energies				
Crude Oil	256,407	29,169	22,736	25
Gas (RBOB)	70,651	-4,623	3,716	34
Heating Oil	-22,848	13,618	-68	3
Natural Gas	-121,850	15,815	28,813	11
Financials				
Bonds	39,251	561	11,657	41
E-Mini S&P	141,889	49,864	52,173	46
Dow Jones \$5	13,165	-3,135	-1,053	18
T-Notes	-644,389	154,220	163,424	26
	Extreme	Ranking 1 = Shortest Short		
	5% of Extreme	52 = Longest Long		