

LAKEFRONT

FUTURES

February 14, 2025

THIS ISSUE

Near Term:

Bullish: Wheat

Bearish: Soybeans
Cocoa

Long Term:

Bearish: Bonds

Other:

US Midwest Refineries Continue to Need Canadian Crude Oil

Economic Focus

The global economy (and therefore commodities) remains in limbo, with global economic data maniacally mixed but trending toward slowing. Against significant global economic uncertainty from trade wrangling, the environment for equities and commodities favors the bear camp. The latest monthly CPI and PPI reports revitalized US inflation concerns and likely shifted the Fed away from a cut in the March FOMC meeting. While the first round of globally significant tariffs will not begin until March 12th, there will be a considerable amount of back-and-forth posturing by all parties involved, which should at times unnerve the equity markets.

Fortunately for the commodity markets, the dollar has temporarily lost its bullish buzz, removing at least one bearish force from the equation. As for the Middle East, the situation in Gaza is calmer but should not be discounted as an incendiary flashpoint. In our opinion, the rising threat from the Middle East is likely to be running towards exchanges between the US and Iran, especially after an Iranian dissident group warned that Iran's government is attempting an all-out race to finish a nuclear weapon

and in turn gain a seat at the international negotiating table. Therefore, flight to quality instruments like gold, silver, the dollar, and US treasuries will likely firm, with gold and silver potentially forging a massive blow-off top rally in the coming weeks!

From the agricultural sector, weather issues in South America continue to receive the market's attention, with recent precipitation helpful but not reaching all areas in enough quantities to eliminate developing yield loss concerns. It is important to note that the

Continued on Next Page...

MAJOR ECONOMIC EVENTS

February 17

- Presidents Day Holiday

February 18

- German ZEW Survey
- Canadian CPI
- NY Fed Empire State Survey
- NAHB Housing Market Index
- Treasury International Capital

February 19

- Housing Starts
- FOMC Meeting Minutes

February 20

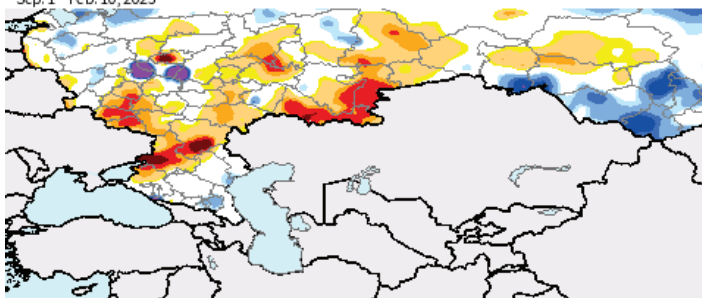
- Jobless Claims
- Philly Fed Survey
- Leading Indicators

February 21

- Euro Zone "Flash" PMIs
- Existing Home Sales
- Consumer Sentiment

SPI Seasonal Drought Severity (CPC)

Sep. 1 - Feb. 10, 2025



Drought Severity

D0: Abnormally Dry (-0.5 to -0.7)
D1: Moderate Drought (-0.8 to -1.2)
D2: Severe Drought (-1.3 to -1.5)
D3: Extreme Drought (-1.6 to -1.9)
D4: Exceptional Drought (-2.0 or less)

Wet Conditions

W0: Abnormally Wet
W1: Moderate Wet
W2: Severe Wet
W3: Extreme Wet
W4: Exceptional Wet

Source: NOAA/CPC

OVERVALUED/UNDERVALUED

Fundamental

Technical

COT

OVERVALUED

| | | |
|-------------|--------|-------------|
| Natural Gas | Copper | Coffee |
| Copper | Silver | Soybean Oil |
| Cocoa | Corn | Corn |

UNDERVALUED

| | | |
|--------------|-----------|------------|
| Dollar Index | Crude Oil | Cotton |
| Bonds | Cotton | Minn Wheat |
| Sugar | Cattle | Notes |

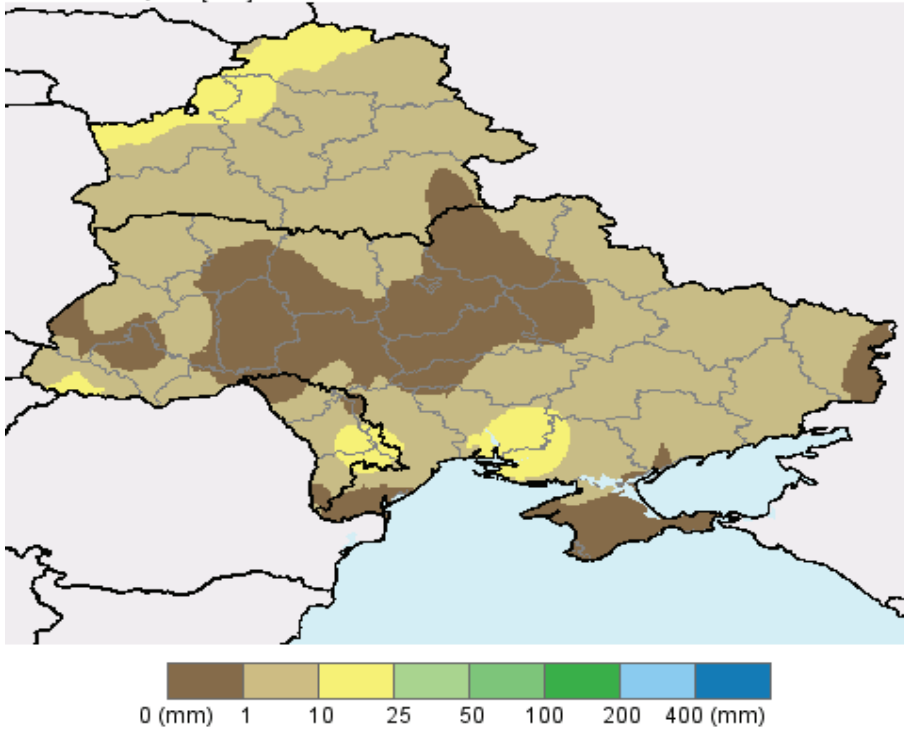
Economic Focus

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USDA cut the overall global corn supply outlook in this month's WASDE report, so a lack of sufficient rainfall and broad coverage in areas of southwestern Brazil could extend the recent rally in corn. Furthermore, as Eastern Europe and Former Soviet Union corn production areas begin planting later this year, the region is significantly short on soil moisture. Drier-than-normal conditions in those areas could become a front-and-center issue after the market has more visibility on the status of the Brazilian crop. Ukraine and Russia are experiencing drought, which could add another supply wrinkle to the corn market!

Precipitation (WMO)

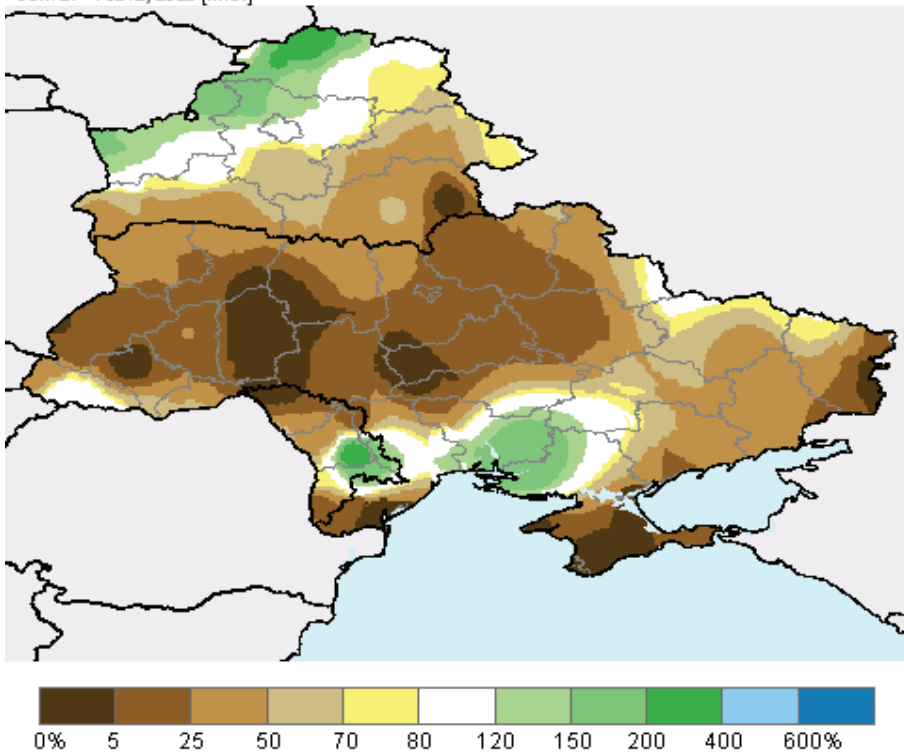
Jan. 27 - Feb. 2, 2025 [final]



Source: World Meteorological Organization

Percent of Normal Precipitation (WMO)

Jan. 27 - Feb. 2, 2025 [final]



Source: World Meteorological Organization

OUR OPINION... MARKET BY MARKET

| Market | | * |
|-----------------|---|---|
| Stocks | Too much uncertainty, not enough optimism. | S |
| Bonds | Hot inflation undermines, while tariff war underpins. | L |
| Dollar | US economy stronger than EU with hotter inflation. | L |
| Euro | ECB rate cut bias discourages flows toward Europe. | S |
| Gold | Setting up for a blow off top pattern ahead. | L |
| Silver | Heavily linked to gold; more up before a major top. | L |
| Copper | "Defying gravity", especially w/Africa supply jump. | S |
| Crude | Temporarily oversold but more supply & soft demand | S |
| Gasoline | Ample supply, soft demand & middle range prices. | S |
| Nat Gas | Expensive; moving toward end of winter demand. | S |
| Soybeans | Arg. weather drier next week. but slow US exports | S |
| Corn | Tech action points higher, lower Dollar supportive. | L |
| Wheat | More cold temps, global stocks are tightening. | L |
| Hogs | Gap into new contract highs is bullish. | L |
| L Cattle | Oversold conditions, cold weather supports. | L |
| Sugar | Brazil & India production issues providing support. | L |
| Coffee | Friday collapse a sign that a longer-term top is in? | S |
| Cocoa | 4th quarter grindings point to weakening demand. | S |
| Cotton | USDA raises China 24/25 production 1 million bales. | L |

* 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 S&P 6150/6220 bull call @ 25.00

Buy Apr Crude \$68.00 put @ 1.00

Buy Apr Gold 2890/2790 bear put @ 16.00 (on a rally)

Overvalued

Sell Mar Copper \$4.82 call @ 0.0520*

Sell Apr Coffee 490.00 call @ 5.10*

Sell Apr Cocoa 11,750 call @ 205*

Trend Reversals

Buy April Bond 115.00 call @ 0-50

Buy Apr Natural Gas \$3.40/\$3.00 bear put @ 0.065

Buy May Sugar 18.25 put @ 0.45

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 |
|---------------------|--|---|
| Natural Gas 1/03/25 | BUY May Natural Gas futures at \$2.980. | CANCEL STRATEGY. |
| Natural Gas 1/03/25 | Long a March Natural Gas \$3.15/\$3.60 bull call spread at \$0.101. | TAKE PROFITS at the market on the option strategy. |
| Bonds 1/10/25 | Long a March Bond 111-00/106-00 bear put spread at 0-60. Previously Long 5 March Bond 117-00 calls for 0-15 each, 2 Hit Objective at 0-36 and Took Profits on 3 at 0-26. | Use an objective of 2-10 on the bear put spread. |
| RBOB 2/7/25 | BOUGHT April RBOB \$2.18/\$2.12 bear put spread at \$0.0105 | Use an objective of \$0.0520, and risk the entire spread premium on the strategy. |
| Bonds 2/14/25 | SELL March Bonds at 116-17. | Use an objective of 112-30, and risk the trade to 117-22. |

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.

HEADWINDS FOR US TREASURIES

Over the coming weeks, the big question for the Treasury markets is whether the market will focus on the signs of slowing from economic data or will focus shift to inflation concerns. However, it is also possible that the focus of the Treasury market will change to the US deficit/budget wrangling process as the GOP seems to be back to classic Washington behavior, with a push for an extension of tax cuts, which they think can be funded by massive cost-cutting. In other words, US politicians are once again attempting to spend/reduce revenues off a promise of significant efficiency savings in government operations. On the other hand, bond vigilantes might not view “business as usual” favorably, and traders should not discount the threat of a US credit downgrade.

It is also possible that seeing the US “take on the world” concerning trade tariffs may push the dollar out of favor and discourage foreign buyers of US Treasuries. Yet another bearish threat to Treasuries is revitalized US inflation concerns from the monthly CPI/PPI report cycle, especially if global tariffs increase inflation as predicted by many economists. While China has consistently lowered its exposure to US Treasuries, it still can significantly impact the Treasury market. However, because they cannot rekindle economic growth, China has been borrowing heavily for their needs and may continue

repatriating those funds. If it were not for a fragile US economy, global trade anxiety, and regional geopolitical concerns, the US treasury market could fall sharply.

From a technical perspective, the bond market is trading almost seven full points above the early January low, which has priced in the economic slowing threat. Furthermore, Treasury bonds have been significantly overbought, with the net spec and fund long position recently reaching the highest level since 2018. From a shorter-term perspective, stochastics recently shifted into a “sell” mode, while March Bonds failed aggressively at a key retracement point from the December/January washout of 10 points. Given wave patterns since last year’s high (8 points in Sept/Oct, 9 points in Oct/Nov, 10 points in Dec/Jan), the next wave down could result in a decline of 11 points, which would project Bond prices down to 106-00.

Long-term Trading Strategies

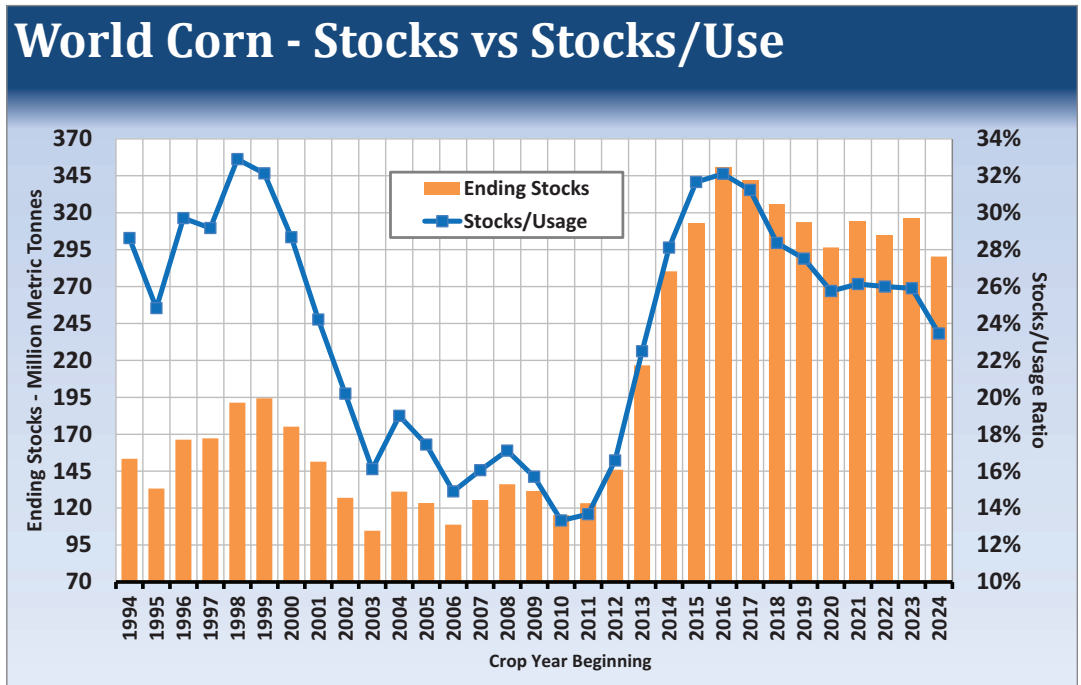
SELL March Bonds at 116-17 with an objective of 112-30. Risk the trade to 117-22.



GRAIN AND OILSEED UPDATE

The grain markets are entering spring on a firm footing, with President Trump's tariffs having less impact on prices than during his first term. While the USDA's February Supply/Demand report left US grain and oilseed balance sheets unchanged, global balance sheets tightened more than expected. For corn, the world stocks-to-use ratio is projected to hit an 11-year low, and when excluding China (a non-exporter), the stocks-to-use ratio is anticipated to fall to the lowest level since the 1995/96 season. Along with South American weather concerns, the USDA forecast has supported corn prices. However, weaker seasonal trends in late February may pressure the market before traders shift focus to US Midwest weather, where expanding dryness highlighted in the latest Drought Monitor signals a critical need for spring rains to replenish soil moisture before planting.

In the soy complex, Brazil's soybean harvest remains slow, though field conditions in Mato Grosso should improve after this weekend. In Argentina, recent rains have offered relief, but dry and warm conditions are set to return, potentially further impacting yields. The soybean harvest in Argentina begins in April. While Argentina's crop estimates are declining, Brazil's estimates have been stable or slightly increased this week.



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GRAIN AND OILSEED UPDATE

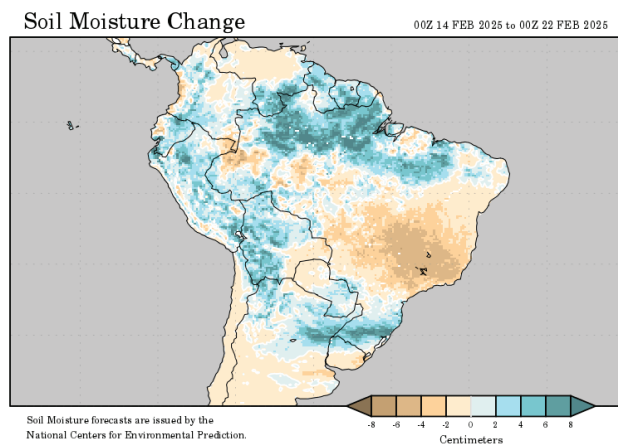
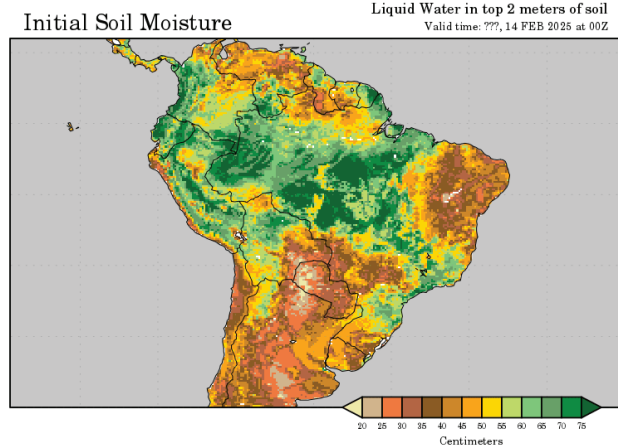
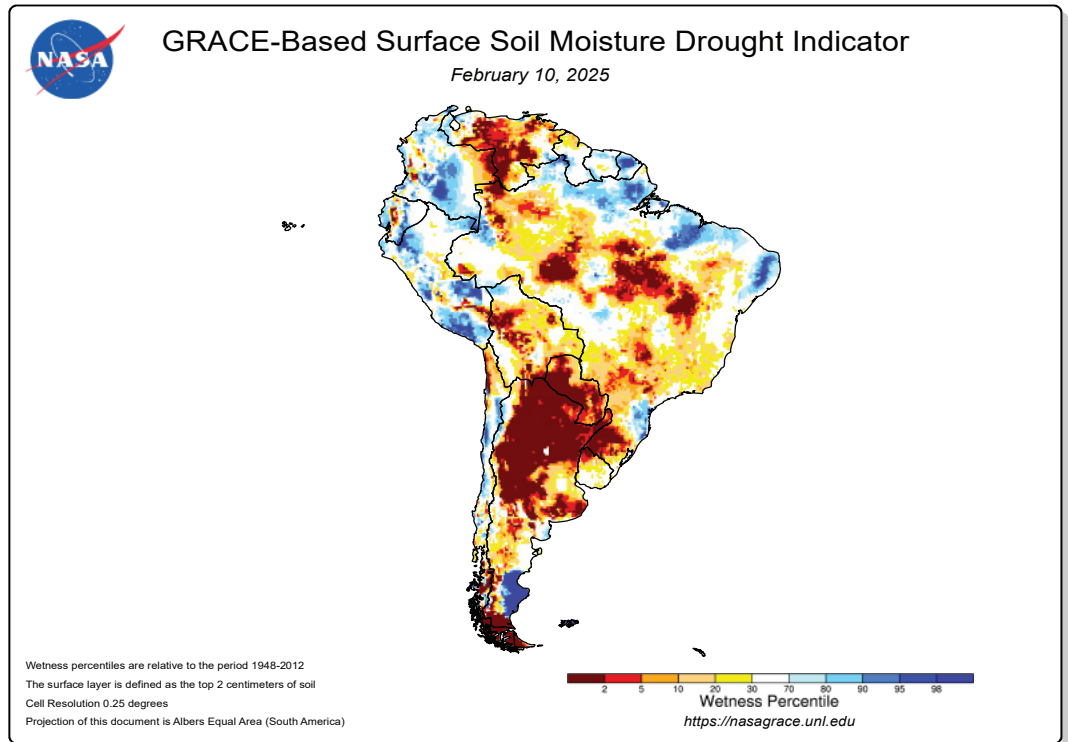
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Meanwhile, China's soybean ending stocks for 2024/25 are projected to reach a 20-year high, reducing their urgency for tariff negotiations. With Brazil on track for a record crop, China will be unlikely to rush into a deal. US soybean export market share improved slightly in 2024 to 27.3%, but diversification of export markets will be critical as Chinese demand for US beans declines.

In wheat, prices are bullish, with May Chicago wheat climbing to its highest levels since late October. Factors driving this rally include managed money short covering, expanding US Plains dryness, potential winterkill risks in the Plains and Black Sea regions, tightening global stocks, and a weaker US dollar. Russian wheat stocks as of January 1 were pegged at 28.7 million tonnes, down 21% year-on-year, further adding to bullish momentum this past week.

Bottom Line: The soy complex faces headwinds from tariff uncertainty and Brazil's harvest pressure, which may result in a pullback during the next few weeks. Spring US weather becomes a more critical factor heading into March. For corn, shrinking global supplies will keep good support under the market, but May corn is nearing

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GrADS/CO2LA

GRAIN AND OILSEED UPDATE

Continued from Previous Page

strong resistance, making it a problematic buy in this area. The wheat market looks to have the best potential for a further rally on weather issues and lower global stocks.

Suggested Trading Strategies

1) **BUY** May Chicago Wheat on a pullback to 604. Risk 15 cents on the trade. Use an objective of 649.

2) **Bear Put Spread: BUY** 1 April Soybean 1060/1020 Bear Put Option spread at a net cost of 15 cents or better. Risk 11 cents of the 15-cent cost of the trade. Plan to take profits on the spread if May soybean futures fall to 1015.

| USDA SUPPLY/DEMAND | | | | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| US WHEAT | Feb USDA 22-23 | Feb USDA 23-24 | Jan USDA 24-25 | Feb USDA 24-25 |
| Area (M Acres) | | | | |
| Planted | 45.8 | 49.6 | 46.1 | 46.1 |
| Harvested | 35.5 | 37.1 | 38.5 | 38.5 |
| Yield (Bu/Acre) | 46.5 | 48.7 | 51.2 | 51.2 |
| Beginning Stocks (M Bu) | 674 | 570 | 696 | 696 |
| Production | 1,650 | 1,804 | 1,971 | 1,971 |
| Imports | 122 | 138 | 130 | 130 |
| Total Supply | 2,446 | 2,512 | 2,798 | 2,798 |
| Food | 972 | 961 | 966 | 970 |
| Seed | 68 | 62 | 64 | 64 |
| Feed/Residual | 74 | 85 | 120 | 120 |
| Domestic Total | 1,114 | 1,108 | 1,150 | 1,154 |
| Total Exports | 762 | 707 | 850 | 850 |
| Use, Total | 1,876 | 1,815 | 2,000 | 2,004 |
| Ending Stocks | 570 | 696 | 798 | 794 |
| Stocks/Use Ratio | 30.4% | 38.3% | 39.9% | 39.6% |

| USDA SUPPLY/DEMAND | | | | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| US CORN | Feb USDA 22-23 | Feb USDA 23-24 | Jan USDA 24-25 | Feb USDA 24-25 |
| Area (M Acres) | | | | |
| Planted | 88.2 | 94.6 | 90.6 | 90.6 |
| Harvested | 78.7 | 86.5 | 82.9 | 82.9 |
| Yield (Bu/Acre) | 173.4 | 177.3 | 179.3 | 179.3 |
| Beginning Stocks (M Bu) | 1,377 | 1,360 | 1,763 | 1,763 |
| Production | 13,651 | 15,341 | 14,867 | 14,867 |
| Imports | 39 | 28 | 25 | 25 |
| Supply, Total | 15,066 | 16,729 | 16,655 | 16,655 |
| Feed & Residual | 5,486 | 5,805 | 5,775 | 5,775 |
| Food, Seed & Industry | 6,558 | 6,868 | 6,890 | 6,890 |
| Ethanol for Fuel | 5,176 | 5,478 | 5,500 | 5,500 |
| Domestic Total | 12,044 | 12,673 | 12,665 | 12,665 |
| Total Exports | 1,662 | 2,292 | 2,450 | 2,450 |
| Use, Total | 13,706 | 14,966 | 15,115 | 15,115 |
| Ending Stocks | 1,360 | 1,763 | 1,540 | 1,540 |
| Stocks/Use Ratio | 9.9% | 11.8% | 10.2% | 10.2% |

| USDA SUPPLY/DEMAND | | | | |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
| US SOYBEANS | Feb USDA 22-23 | Feb USDA 23-24 | Jan USDA 24-25 | Feb USDA 24-25 |
| Area (M Acres) | | | | |
| Planted | 87.5 | 83.6 | 87.1 | 87.1 |
| Harvested | 86.2 | 82.3 | 86.1 | 86.1 |
| Yield (Bu/Acre) | 49.6 | 50.6 | 50.7 | 50.7 |
| Beginning Stocks (M Bu) | 274 | 264 | 342 | 342 |
| Production | 4,270 | 4,162 | 4,366 | 4,366 |
| Imports | 25 | 21 | 20 | 20 |
| Supply, Total | 4,569 | 4,447 | 4,729 | 4,729 |
| Crushings | 2,212 | 2,287 | 2,410 | 2,410 |
| Exports | 1,980 | 1,695 | 1,825 | 1,825 |
| Seed | 75 | 78 | 78 | 78 |
| Residual | 39 | 45 | 36 | 36 |
| Use, Total | 4,305 | 4,105 | 4,349 | 4,349 |
| Ending Stocks | 264 | 342 | 380 | 380 |
| Stocks/Use Ratio | 6.1% | 8.3% | 8.7% | 8.7% |

RECORD COCOA PRICES MAY FINALLY BE HURTING DEMAND

After a sharp rally to record price highs earlier in the year, cocoa finished 2024 with another sizable rally to a new record high. A significant factor in cocoa's fourth-quarter updraft was the belief that global demand for chocolate would stay resilient despite severely higher prices for raw materials. Following the release of fourth-quarter grindings data, however, it appears that cocoa's historic price move is starting to take its toll on global demand.

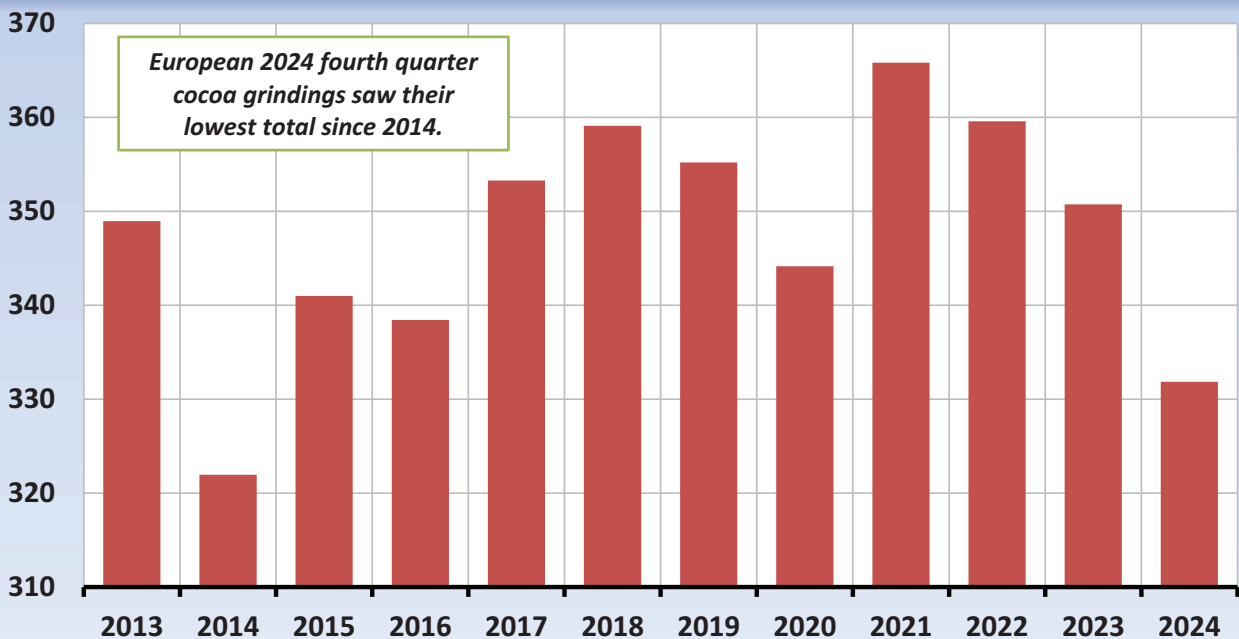
Europe continues to have the largest share of cocoa processing, and it does so despite not having any domestic source of cocoa beans. Fourth quarter European cocoa grindings came in at 331,853 tonnes, a 5.4% decline from the fourth quarter of 2023 and the lowest reading for any European fourth quarter since 2014. As a result, the 2024 full-year total for European grindings came in at 1,410,976 tonnes, down 1.7% from 2023 and Europe's lowest full-year grindings total since 2020.

Asian fourth-quarter grindings came in at 210,111 tonnes. While this was a minimal decline from 2023, it was the lowest total since 2018. North American fourth-quarter grindings were 102,761 tonnes, down 1.16% from 2023, as all three major regions had year-over-year declines in fourth-quarter grindings. Lukewarm demand readings indicate that cocoa prices are overvalued at current levels and may be setting up for a downside move.

Suggested Trading Strategy

Option Spread: **BUY** a May Cocoa 10,100/9,300 bear put spread at 275 or better. Use an objective of 725 and risk the spread premium to 165.

European Cocoa Grindings Fourth Quarter/Thousand Tonnes



Source: European Cocoa Association

US MIDWEST REFINERIES STILL TO NEED CANADA CRUDE

The EIA's latest weekly supply/demand report showed US crude oil imports at 6.309 million barrels per day (bpd), a sizable decline from the previous week's reading of 6.915 million bpd. The sharp weekly decrease may be partly due to relief that the White House postponed US tariffs on imports from Canada and Mexico to at least March 1st. Over the first 11 months of 2024, Canada accounted for 54.8% of US crude oil imports and Mexico 7.5%.

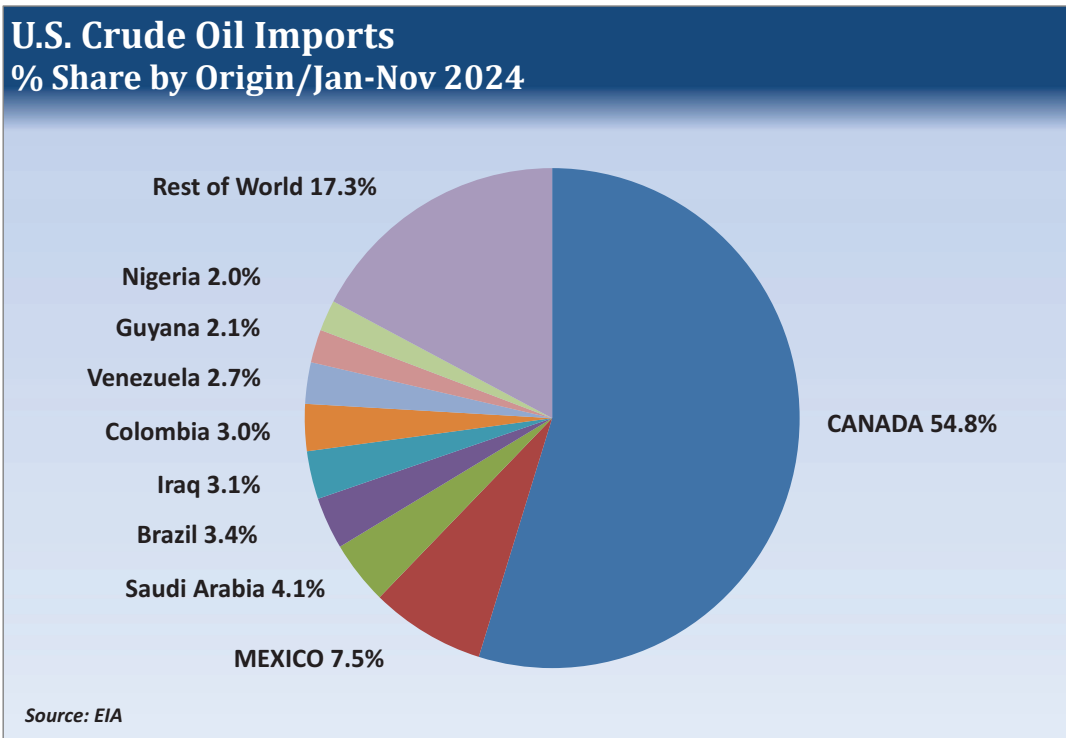
Crude oil imports reached their highest level during the early 21st century, routinely seeing weekly readings above 10 million bpd. As the fracking "boom" boosted domestic production, US crude oil imports began a long-term decline. Imports consistently came in below 6 million bpd during 2020 and 2021. The two lowest readings (4.900 million bpd in August 2020 and 4.599 million bpd in February 2021) were due to weather-related supply bottlenecks.

US crude oil production has fully recovered from its COVID-related contraction, reaching a record high of 13.634 million bpd during the week ending December 6th. In two of the three weeks before that record production high, US crude oil imports saw weekly readings of 7.684 million bpd (week of November 15th) and 7.290 million bpd (week of November 29th). If US production is at historic highs, why have US crude oil imports risen from their multi-decade lows?

The largest share of US crude oil imports is from pipelines originating in Canada are in the PADD 2 (Midwest) region. As a result, major refineries in

the Midwest have set aside a significant amount of their refining capacity to process Canadian crude oil. In contrast to the "sweet" crude oil (with a low sulfur content) produced in the Permian and Eagle Ford basins of the US, most crude oil produced by Canada is considered "sour" (with a higher sulfur content).

Canadian crude oil tends to have a sizable price discount compared to WTI crude oil as it is more expensive to refine. However, those Midwestern refineries would have to undertake a significant expense (and severely reduce their output) to make a large-scale shift towards refining domestic crude oil. As a result, a large portion of US production will head out to the global export market, while US refineries will continue to source a large portion of their crude oil from Canada.





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COMMITMENTS OF TRADERS

Data As of February 11, 2025
Non-Commercial & Non-Reportable
Combined Futures & Options

| Market | Net Position | Net Change | 4-Wk Net Change | 52-Wk Ranking |
|---------------|----------------------|----------------------------|-----------------|---------------|
| Grains | | | | |
| CBOT Grains | 222,292 | -60,756 | 10,200 | 50 |
| Corn | 304,731 | -35,988 | 18,124 | 50 |
| KC Wheat | -13,894 | 3,340 | 7,779 | 42 |
| Minn Wheat | -8,501 | 2,557 | 13,976 | 43 |
| Rice | -3,986 | -914 | -1,303 | 1 |
| Soybeans | -9,262 | -32,488 | -14,494 | 48 |
| Soyoil | 66,143 | 5,640 | 25,924 | 48 |
| Soymeal | -12,095 | -11,332 | 14,227 | 18 |
| Wheat | -73,177 | 7,720 | 6,570 | 9 |
| Livestock | | | | |
| Cattle | 119,204 | -12,362 | -4,670 | 47 |
| Feeder Cattle | 10,267 | -442 | -812 | 48 |
| Hogs | 104,003 | 4,128 | 8,481 | 43 |
| Metals | | | | |
| Copper | 22,180 | 5,345 | 2,244 | 18 |
| Gold | 318,130 | -17,177 | -11,054 | 43 |
| Platinum | 29,368 | 5,671 | 10,078 | 38 |
| Silver | 66,510 | -344 | 6,921 | 24 |
| Softs | | | | |
| Cocoa | 28,066 | -7,683 | -13,362 | 15 |
| Coffee | 68,260 | -7,142 | -7,445 | 32 |
| Cotton | -40,004 | 5,762 | -5,127 | 3 |
| Lumber | #N/A | #N/A | #N/A | #N/A |
| Milk | -3,464 | 671 | -249 | 27 |
| OJ | 5,496 | -1,148 | -2,162 | 32 |
| Sugar | -42,642 | 11,901 | 23,033 | 4 |
| Currencies | | | | |
| Canadian | -161,852 | 7,176 | 1,846 | 20 |
| Dollar | 16,370 | 499 | -127 | 39 |
| Euro | -69,718 | -4,347 | -20,311 | 1 |
| Energies | | | | |
| Crude Oil | 257,511 | -16,535 | -82,004 | 18 |
| Gas (RBOB) | 67,884 | 6,707 | 2,567 | 38 |
| Heating Oil | 22,967 | 5,781 | 1,190 | 35 |
| Natural Gas | -56,399 | -7,173 | -10,443 | 48 |
| Financials | | | | |
| Bonds | 134,040 | 51,232 | 50,499 | 52 |
| E-Mini S&P | 96,633 | -5,339 | 43,940 | 40 |
| Dow Jones \$5 | 7,270 | 1,187 | 1,706 | 11 |
| T-Notes | -666,773 | -110,476 | -164,725 | 18 |
| | Extreme | Ranking 1 = Shortest Short | | |
| | 5% of Extreme | 52 = Longest Long | | |