



## May 2018 Monthly Commodity Market Overview Newsletter

*By the ADMIS Research Team*

### **Stock Index Futures**

Stock index futures advanced in early May in spite of recent increases in interest rates, and even though there were growing doubts about next month's summit between President Donald Trump and Kim Jong Un. The small-cap Russell 2000 stock index futures advanced to new record highs.

Futures were able to advance despite news that nonfarm payrolls increased 164,000 in April, which compared to expectations of a gain of 193,000 jobs. Futures continued to trade higher on news that the U.S. suspended its threat to impose tariffs on \$150 billion in Chinese imports to the U.S., while negotiations with China continued. Futures remained firm when even though Treasury Secretary Mnuchin said President Donald Trump could impose the tariffs, if an agreement between the two countries doesn't progress. Optimism on the market increased on reports that U.S. Commerce Secretary Wilbur Ross will travel to China week to help finalize a trade deal, after Washington and Beijing reached an initial framework agreement.

In the longer term, traders will probably gradually shift their focus of attention more toward corporate earnings and the still overall accommodative global interest rate policies and away from a variety of geopolitical worries, including global trade tensions and now the situation between the U.S. and Iran.

## S&P 500 Futures -Weekly



## Crude Oil

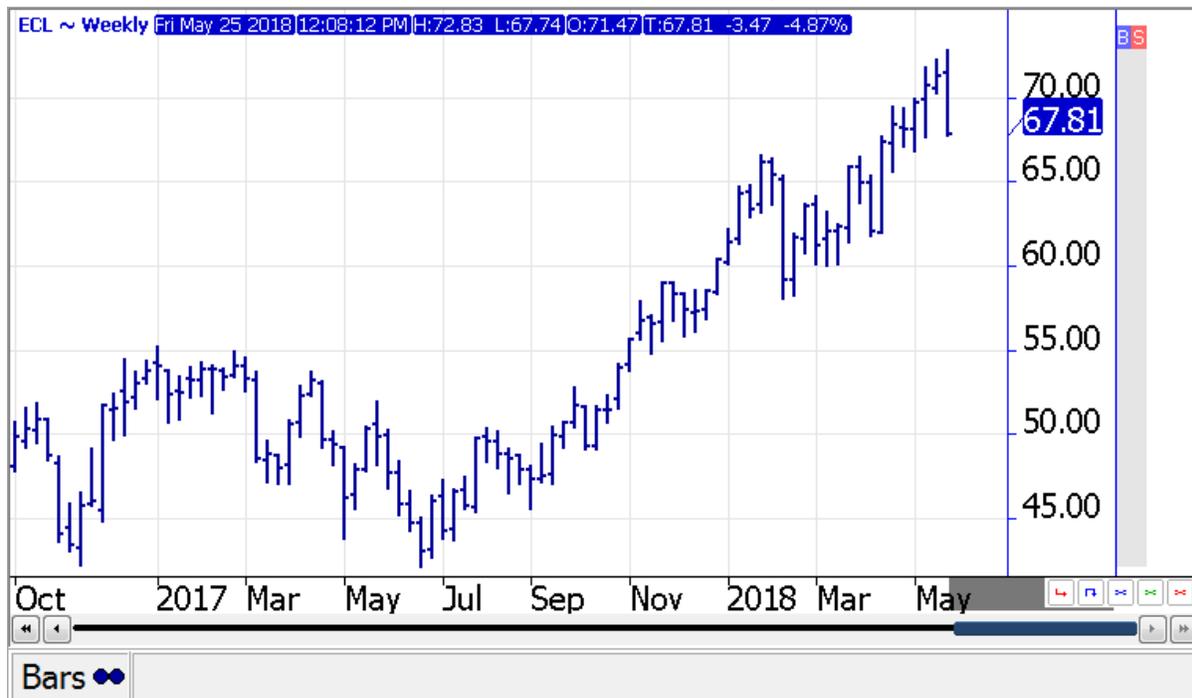
Crude oil prices advanced to their highest level since December 2014 due to reduced supply and to because of an anticipated increase in global demand. Turmoil in the Middle East and the reimposition of U.S. trade sanctions against Iran also supported crude oil prices.

However, prices declined more recently as major oil producers, including Saudi Arabia and Russia signaled a willingness to discuss lifting output. Saudi Arabian oil minister Khalid al-Falih said he would enter into discussions in June with other Organization of the Petroleum Exporting Countries members and external producers, such as Russia to reduce production caps.

OPEC and some external producers such as Russia have been involved in an effort since 2016 to remove almost 2% of the global crude supply in an effort to prop up the crude oil market. Some analysts are predicting the oil market will move into a deficit in the second half of this year and into 2019.

Longer term, crude oil futures are likely to resume the uptrend due to an improving global economy and supply and demand imbalances.

## Crude Oil Futures - Weekly



## Gold

Gold futures declined since mid-April into the third week of May primarily due to a stronger U.S. dollar, along with slightly improved geopolitical tensions.

However, more recently, gold prices advanced to back above the psychological 1300 level as a result of President Donald Trump's cancellation of his June meeting with North Korean leader Kim Jong Un. President Trump blamed "tremendous anger and open hostility" from the North Korean regime as a reason that he scrapped the summit plans. North Korea, however, later said it was still willing to meet with President Trump.

Increased global inflation levels are likely to take place later this year, which should support the price of the yellow metal.

## Gold Futures - Weekly



## U.S. Dollar

The U.S. dollar advanced to a five month high, as interest rate differential expectations continue to support the greenback. The probability of a fed funds rate increase from the Federal Open Market Committee at the June 13 meeting is almost 100%. Analysts are anticipating two or three more interest rate hikes from the FOMC this year and two or three additional rate hikes in 2019.

There was support for the U.S. dollar on news that the Empire State manufacturing survey's general business conditions index, compiled by the Federal Reserve Bank of New York, improved to 20.1 in May from 15.8 in the previous month. Economists were predicting a reading of 15.

Prices for the U.S. dollar advanced even though St. Louis Federal Reserve Bank President James Bullard outlined a case against any further interest rate hikes, when he said rates may have already reached a "neutral" level that is no longer stimulating the U.S. economy.

## Euro Currency

The euro currency fell to a six month low due to the growing belief that Europe's largest economy has slowed, following strong growth in the fourth quarter of last year.

Total manufacturing orders fell .9%, when economists had forecast an increase of .5%. In addition, the German statistics office revised lower its orders estimate for February. It now shows a monthly drop in orders of .2%, while the initial estimate had indicated a .3% increase.

In addition, the euro currency declined on news that the euro zone's annual inflation rate fell unexpectedly in April. The European Union's statistics agency said consumer prices were 1.2%

higher than in April 2017, which is a decline from the 1.3% rate of inflation that was recorded in March.

There was pressure more recently on the currency of the euro zone due to concerns about the formation of a new governing coalition in Italy. The Five Star Movement and the League reached a coalition agreement last week to govern the country and outlined proposals that will likely put additional pressure public finances.

The European Central Bank will probably not be in a position to hike interest rates until possibly 2019.

### **Grains**

In May, the USDA estimated world 2017/18 corn end stocks at 195 million tonnes. The USDA estimated total world exports near 151 million tonnes with U.S. exports still estimated to be near 56.5 million tonnes. The USDA estimates the Brazil and Argentina crop to be near 120.0 million tonnes. The first USDA estimate of world 2018/19 corn end stocks were only 159 mmt and below trade guesses. Higher demand and lower China stocks dropped the estimate. U.S. spring Midwest weather has been wetter and colder than normal. This has slowed early field work. Late May weather looks drier and warmer. The next USDA report is on June 12. The USDA will also update U.S. 2018 acres and June 1 stocks on June 29.

The USDA estimated world 2017/18 soybean production will be near 336.7 million tonnes. The increase is due to a higher Brazil crop. Total world exports are estimated to be near 151.2 million tonnes versus 147.5 last year and U.S. exports are estimated to be near 56.2 million tonnes versus 59.2 last year. The USDA continues to estimate China's 2017/18 soybean imports to be near a record 97.0 million tonnes. The USDA estimated world 2018/19 end stocks near 86.7. Exports were estimated near 161.8 mmt. China imports were estimated near 103.0. U.S. and China announced a hold on tariffs. China also announced they will buy more U.S. agricultural goods. This could include soybeans, sorghum, DDG, ethanol, cotton and meat.

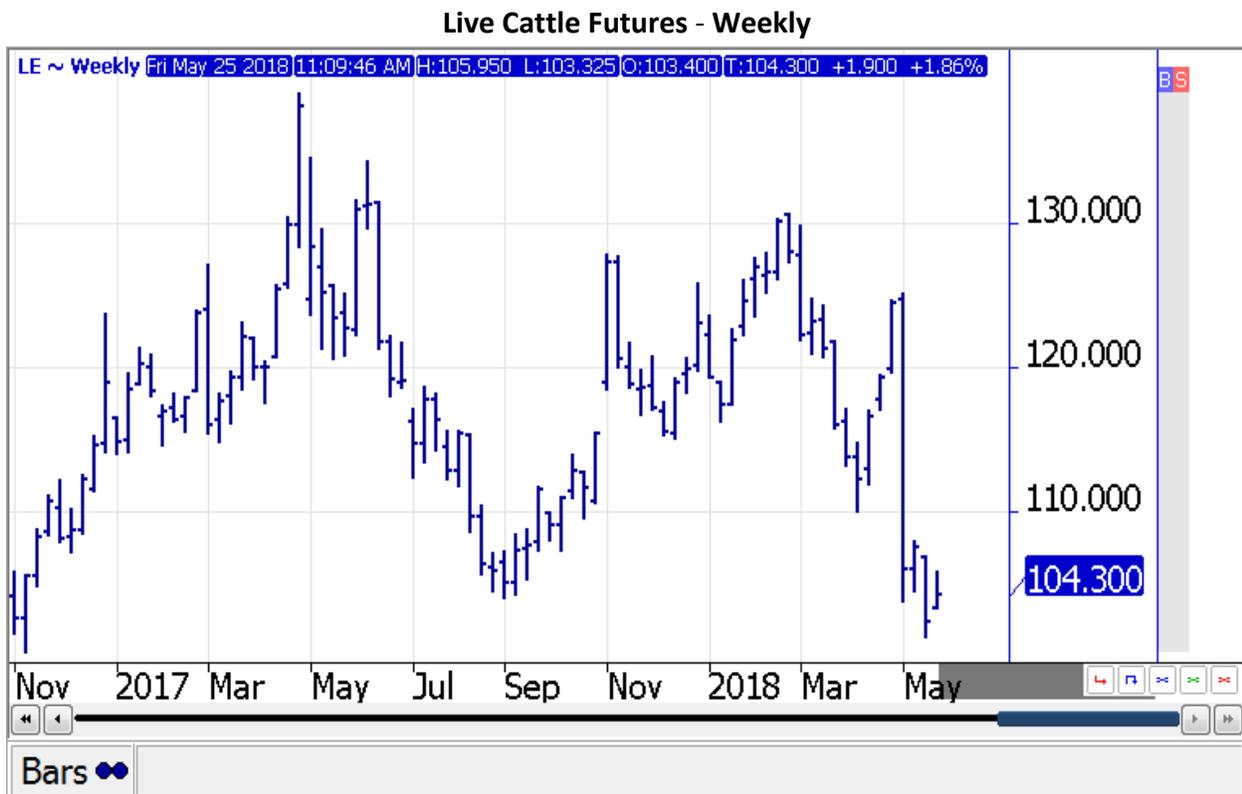
The USDA estimated world 2017/18 wheat end stocks at 270.4 million tonnes. Russian wheat exports were raised to 39.5 million tonnes versus 27.8 last year. The USDA is rating the U.S. 2018 winter wheat crop 37% good to excellent versus 52 last year. The USDA estimated the 2018/19 world wheat crop near 747.7 mmt. End stocks were estimated near 264.3 mmt. Potential dryness in parts of Canada, Australia, and Russia may help prices. The next USDA report is on June 12 and June 1 stocks and 2018 acres on June 29.

## Livestock

### Cattle

The first three days of April were a continuation of the free falling cash and futures markets that began in mid-February. However, on April 4<sup>th</sup> speculative traders stepped forward taking profits on short positions and also started buying cattle. From the low made on April 4<sup>th</sup> through the end of April live cattle Futures moved up \$10.80/cwt.

Cattle and the beef markets in 2018 are trying to assimilate the increased numbers of cattle in the U.S. and around the world. For April cattle numbers increased by 2.6% compared to a year ago and global increases are nearly the same. Along with increasing cattle, hog numbers are up and there is red meat competition at the retail level.



### Lean Hogs

April gave lean hog traders two sides of the market to trade. Lean hogs from January 8<sup>th</sup> to April 4<sup>th</sup> were in a free fall dropping close to \$27.00/cwt. But from April 4<sup>th</sup> to April 20<sup>th</sup>, hogs had moved off their low by \$9.00/cwt, but to drop by April 30<sup>th</sup> almost \$7.00/cwt.

U.S. pork producers are fighting stiff global pork competitors. Over the past year it is estimated that over 65% of all pork exported originated from Europe with the U.S. the second exporter with

15.2% on top of strong international sales. China has a glut of pork. The problem in China was twofold. They had contracted and exported pork and saw a large increase in their own numbers. Exports needed to be shifted to other countries and there were times hogs waited for slaughter three to four weeks.



All charts provided by QST

## Support and Resistance

### Stock Index

#### June 18 S&P 500

Support	2700.00	Resistance	2766.00
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#### June 18 NASDAQ

Support	6854.00	Resistance	7084.00
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### Energy

#### July 18 Crude Oil

Support	66.80	Resistance	72.40
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### **June 18 Natural Gas**

Support	2.900	Resistance	3.010
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### **Precious Metals**

#### **June 18 Gold**

Support	1293.0	Resistance	1322.0
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#### **July 18 Silver**

Support	16.330	Resistance	16.860
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### **Industrial Metals**

#### **July 18 Copper**

Support	3.0500	Resistance	3.1650
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### **Currencies**

#### **June 18 US Dollar Index**

Support	93.200	Resistance	94.800
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#### **June 18 Euro Currency**

Support	1.15800	Resistance	1.18500
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### **Grains**

#### **July 18 Corn**

Support	3.90	Resistance	4.20
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#### **July 18 Soybeans**

Support	10.00	Resistance	10.75
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#### **July 18 Chicago Wheat**

Support	4.90	Resistance	5.40
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## **Livestock**

### **June 18 Live Cattle**

Support      99.10                      Resistance      115.75

### **June 18 Lean Hogs**

Support      71.37                      Resistance      76.65

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