ADM Investor Services, Inc.

December 2018 Monthly Commodity Market Overview Newsletter

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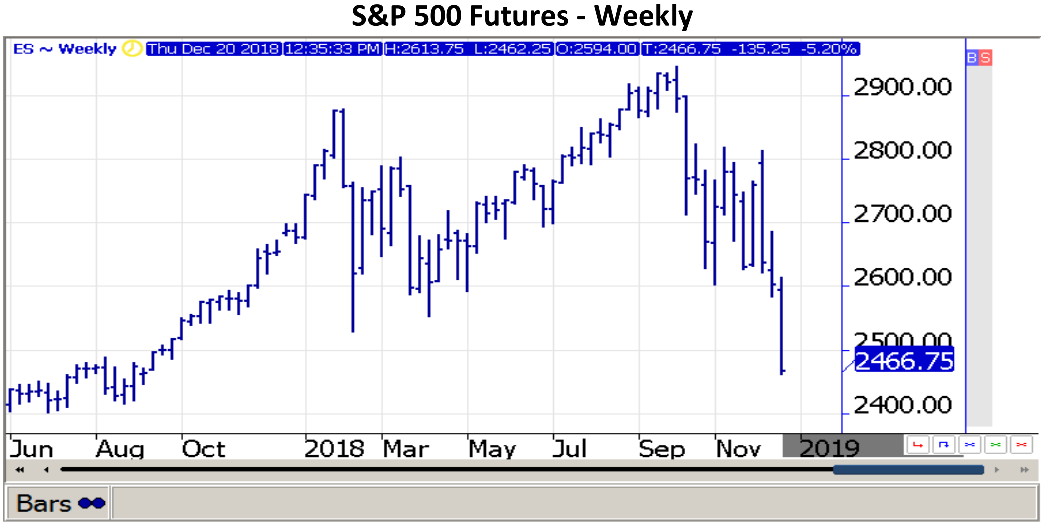
Stock Index Futures

Stock index futures have come under pressure due to the headwinds of the U.S.-China trade war, prospects of a too hawkish Federal Reserve, the uncertainties of a possible U.S. government shutdown and political instabilities in Europe.

In addition, most economic reports have come in weaker than expected. For example, nonfarm payrolls increased 155,000 in November when economists forecast payrolls increasing by 200,000. Revised figures showed employers added 237,000 jobs in October and 119,000 in September for a net downward revision of 12,000. The average workweek fell to 34.4 hours from 34.5 hours in October.

The next advance for stock index futures will take place when central banks around the world that are hawkish, such as the Federal Reserve, realize they need to be less aggressive in hiking interest rates and those central banks that are still accommodative, such as the European Central Bank, will need to remain accommodative longer. This is likely to take a while, but downward pressure on interest rates globally will ultimately rescue this market.

S&P 500 Futures - Weekly



Crude Oil

Since early October, crude oil futures have steadily worked lower, falling to their lowest level in 15 months, as investors have been increasingly concerned about oversupply, the health of the global economy and a Federal Reserve that continues to hike interest rates. In addition, there are fears of declining fuel consumption.

Prices have declined in spite of reports that Saudi Arabia plans to reduce its oil output by more than the December commitment. It was reported that Saudi Arabia will curb its crude oil output by approximately 322,000 barrels a day from October, which is up from the previous 250,000 barrels a day reduction announced earlier this month. In addition, there was little help from declining oil inventories in the U.S. The U.S. Energy Information Administration said crude stockpiles fell by 500,000 barrels in the week ended December 14, which is less than analysts' expectations for a 3.1 million barrel draw.

Longer term, crude oil futures are likely to come under additional downside pressure.

Crude Oil Futures - Weekly

Gold

The lows were made in mid-August, which coincided with highs for the U.S. dollar. Gold futures have been able to trend higher in spite of tighter credit from the Federal Reserve, including the fed funds rate increase on December19 and predictions of two more rate hikes from the Fed in 2019 and other one in 2020.

Gold futures advanced to five month highs as safe haven demand continues. In addition, the technical picture has brightened, as major downtrend lines have been taken out on the upside. The next upside objective is at the 1276-1282 gap area on the weekly charts.

Further gains are likely for gold futures

Gold Futures - Weekly

U.S. Dollar

The U.S. dollar advanced to a 19 month high in mid-December due to bullish interest differential expectations that were prompted by the ongoing belief that the Federal Reserve would continue to be the most hawkish of the world's major central banks.

In addition, there was support for the greenback due to safe haven flows in light of the continuing global growth worries and rising political risks in Italy and the U.K.

The greenback was able to hold up well in spite of the on balance weaker than expected economic reports in the U.S. For example, there was news that the Empire State manufacturing survey significantly fell in December, declining to 10.9, which is down from 23.3 in November.

Economists were expecting 20.1. This is the weakest sentiment in the area's manufacturing sector since July 2017.

If I am correct in my belief that the Federal Open Market Committee will increase the fed funds rate no more than one time next year, gains in the U.S. dollar will be limited.

Euro Currency

Since the late September highs, the euro currency has steadily marched lower as interest rate differential expectations continued to undermine the currency of the euro zone.

Also, many of the economic reports out of the euro zone have come in weaker than analysts' expectations. For example, the Ifo Institute's measure of corporate confidence in Germany, Europe's largest economy, fell to 101.0 in December from 102.0 in November. This was the fourth consecutive decline.

The European Central Bank left interest rates unchanged at its December 13 policy meeting and reaffirmed its plans to end its asset purchase program. The ECB previously signaled bond purchases would conclude at the end of 2018. However, the central bank softened the move by promising to hold its inventory of bonds for an extended period of time past the date when it starts raising key ECB interest rates.

The Governing Council of the ECB kept the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility at 0.00%, 0.25% and minus 0.40%, respectively.

There was pressure on the euro when ECB President Mario Draghi said recent economic data has been weaker than expected and the central bank is ready to adjust all instruments, if necessary. Draghi also said headline inflation will decrease over the coming months.

There was a limited recovery recently on news that Italy's populist government secured a deal with the European Union over its spending plans. Under the compromise, Italy will lower its headline deficit for next year to 2.04% of output from 2.4% that it had planned previously.

I believe the ECB has found themselves in a dilemma, when earlier this year the central bank promised to scale back its accommodation at the end of 2018, and now finding themselves in a situation where it may have to extend accommodation in 2019.

Grains

Corn futures have trended mostly higher since mid-November. Prices were supported by good export demand and hopes for a resolution or the U.S. and China trade war. The 3.90 level for March corn is key resistance. The USDA estimated world 2018/19 corn end stocks at 308.8 mmt versus 307.5 mmt in November. This is due to an increase in the U.S. carryout. The USDA estimates the U.S. 2018/18 total demand near 15,030 million bushels. This suggests a carryout near 1,781 million bushels verses 2,140 last year. The U.S. December 1 corn stocks are estimated to be near 12,135 million bushels versus 12,567 last year. The USDA estimated the U.S. 2018/19 average farm corn price to be near $3.60 per bushel versus $3.36 last year. Early estimates of U.S. 2019 corn planted acres are near 91.9 million, versus 89.1 last year.

Soybean futures have also trended higher since the middle of November. The USDA estimated world 2018/19 soybean end stocks to be near 115.3 mmt. This was due to an increase in Argentina supplies. Exports were estimated to be near 156.0 mmt. China's imports remain near 90.0. Some analysts forecast actual imports are closer to 88.0. This past week, China returned to the U.S. soybean market buying for their reserves. Key will be if they will buy enough to push U.S. stocks low enough to support prices. Initial price reaction to the news was lower.

The USDA estimated December 2018 U.S. total demand near 4,107 million bushels. This kept the carryout near 955 million bushels, verses 438 last year. The U.S. December 1 soybean stocks are estimated to be near 3,760 million bushels versus 3,161 last year. The USDA estimated the U.S. 2018/19 average farm soybean price to be near $8.60 per bushel versus 9.33 last year. Early estimates of U.S. 2019 soybean planted acres are near 85.0 million versus 89.1 last year. The South America 2019 crop has seen too much rain in Argentina and below normal rains in central Brazil. Analysts still estimate South American farmers will produce a record 2019 soybean crop.

Wheat futures traded higher since the middle of November. The USDA estimated the 2018/19 world wheat end stocks near 268.1 mmt versus 266.7 in November. The U.S. 2018 wheat end stocks are estimated to be near 26.5 mmt versus 29.9 last year and U.S. wheat exports are estimated to be near 27.2 mmt. Global world trade is estimated to be near 177.4 mmt. The trade will need to see increases in demand for U.S. wheat exports to push prices higher. Early estimates of U.S. 2019 all wheat planted acres are near 48.1 million versus 47.5 last year. The U.S. fall conditions are favorable for planting. The U.S. December 1 wheat stocks are estimated near 2,000 million bushels versus 1,873 last year.

Livestock

Cattle

Live cattle futures began November with a slight dip for the first two weeks, losing a little over $2.50/cwt on December futures, but regained the loss in the second half of November ending the month just down .20 cents. Fundamental news in November was more positive than negative and cash cattle markets benefited. There was strong demand for Choice primal rib and loin sections that moved up boxed beef prices giving feedlots bargaining power for higher cash cattle prices and profitable feeding margins. The November Cattle and Feed Report also showed a better outlook for cattle prices in 2019 with feeder cattle placement numbers down 6% compared to a year earlier. But, weekly exports during November showed U.S. beef exports were continuing the slowdown of 2018. Mexico often the biggest export buyer for the two previous years has been backing off U.S. beef. More than likely the new slaughter facility in Mexico that is able to work at full capacity in 2018 is supplying more of Mexico's demand for beef.

Live Cattle Futures - Weekly

Lean Hogs

With Lean Hog open interest declining, speculative intra-market spreading continued in November. When the spreaders finished spreading October lean hogs to December lean hogs, they moved into buying February hogs and selling December lean hogs. On November 9th February 2019 lean hogs were $3.70 over December lean hogs and by November 26th February gained $5.00 on December. December Lean hog futures from November 1st to November 30th lost .32 cents/cwt.

Fundamental news was more hope than news in November for the hog market. With the outbreak of African Swine Fever in China, reports during November concentrated on the possibility of the trade dispute between the U.S. and China settling sooner than later. Without the news the pork cutout lost value, especially primal loins and hams. On November 1st primal pork loin prices were $74.57/cwt and on November 30th they were down to $62.26/cwt. Hams during November traded around $50/cwt.

Lean Hog Futures - Weekly

All charts provided by QST

Support and Resistance

Stock Index

March 19 S&P 500

Support 2423.00 Resistance 2690.00

March 19 NASDAQ

Support 6005.00 Resistance 6895.00

Energy

February 19 Crude Oil

Support 43.25 Resistance 53.20

February 19 Natural Gas

Support 3.370 Resistance 4.120

Precious Metals

February 19 Gold

Support 1228.0 Resistance 1283.0

March 19 Silver

Support 14.560 Resistance 15.450

Industrial Metals

March 19 Copper

Support 2.6100 Resistance 2.7500

Currencies

March 19 US Dollar Index

Support 95.050 Resistance 96.750

March 19 Euro Currency

Support 1.14200 Resistance 1.16450

Grains

March 19 Corn

Support 3.70 Resistance 4.00

March 19 Soybeans

Support 8.75 Resistance 9.75

March 19 Chicago Wheat

Support 4.90 Resistance 5.60

Livestock

February 19 Live Cattle

Support 116.67 Resistance 123.90

February 19 Lean Hogs

Support 56.65 Resistance 69.50

If you would like more information about the markets featured in this monthly newsletter, please send us an email to sales@admis.com. Thank you.

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