ADM Investor Services, Inc.

February 2019 Monthly Commodity Market Overview Newsletter

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Stock Index Futures

After a dismal performance in December, stock index futures put in a stellar performance in January in spite of the ongoing U.S.-China trade rift. In fact, the S&P 500 enjoyed its best January in more than 30 years. Stock index futures advanced in price in spite of news that the World Bank said it sees growth in the global economy decelerating to 2.9% this year compared to 3.0% in 2018 due to elevated trade tensions and international trade moderation. Why have stock index futures performed so well in spite of weaker global economic growth?

There is a rule of thumb that any time markets can advance in price when the news is mostly bearish, it can be a sign of higher prices yet to come.

Could it be that U.S. stock index futures are anticipating a resolution to the U.S.-China trade dispute will come sooner rather than later? I believe this may be the case. If this assumption is correct, we could expect higher prices for stock index futures

S&P 500 Futures - Weekly

Charts from QST

Crude Oil

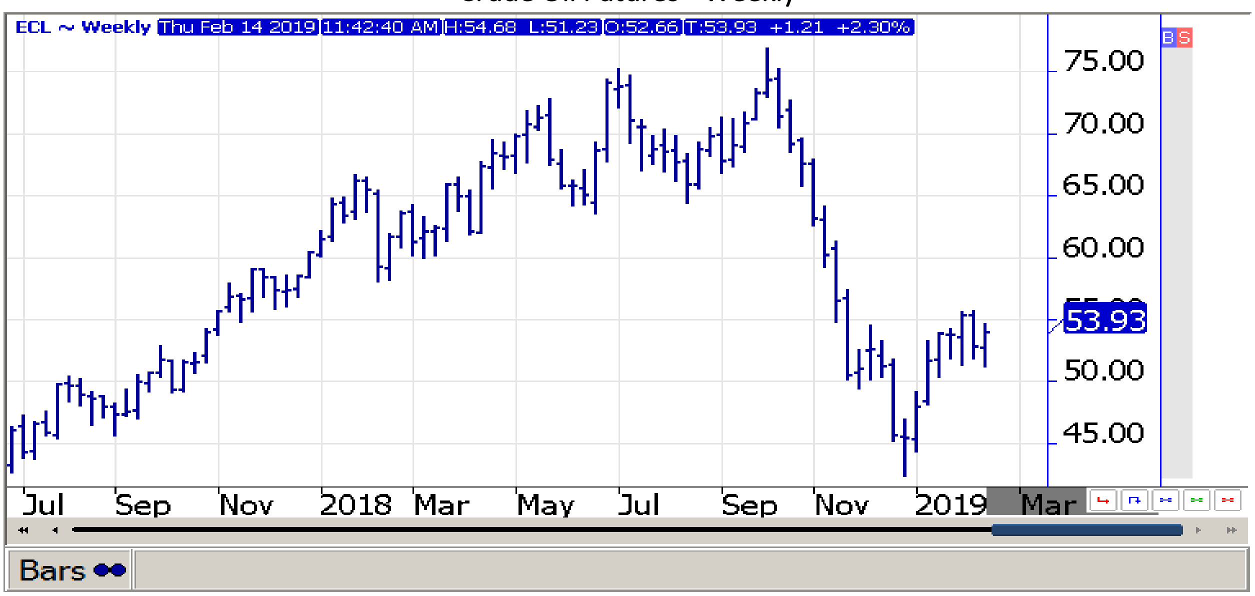
Prices have been bolstered recently by data suggesting the Organization of the Petroleum Exporting Countries and other top producers are following through on a promise made late last year to reduce output to slim down supplies and increase prices.

In its monthly report, the Energy Information Administration said global oil supplies fell by 1.4 million barrels a day to 99.7 million barrels in January due to lower supply from the Organization of the Petroleum Exporting Countries. The decline was driven by reductions in Saudi Arabia, the United Arab Emirates and Kuwait. It appears that the cartel has gone above and beyond the call of duty in lowering output as part of a new supply-cut agreement, which took effect in January.

Prices advanced despite data showing U.S. crude oil inventories are at a 15 month high, as investors focused instead on hopes for a U.S.-China trade deal.

Longer term, crude oil futures are likely to continue to advance, especially if a trade agreement between the U.S. and China is reached.

Crude Oil Futures - Weekly



Gold

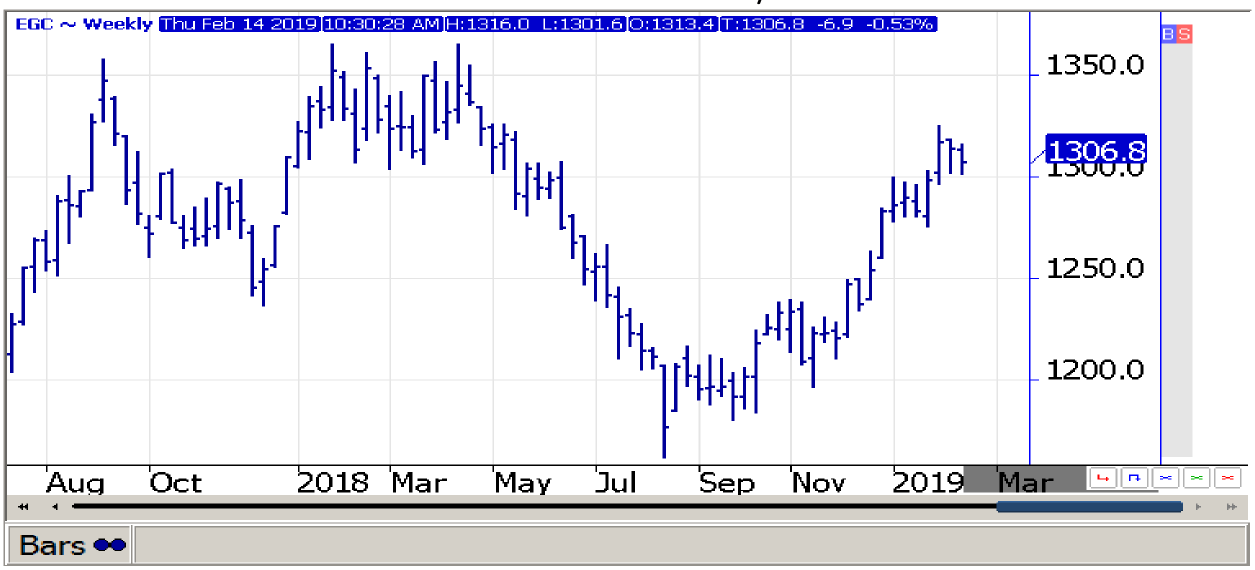
Gold futures smashed above the psychological 1300.00 level, as recent tepid U.S. inflation data bolstered the case for the Federal Reserve to pause its monetary tightening. Reinforcing this view was the January consumer price index, which remained the same for the third month in a row. On an annualized basis, inflation was up only 1.6% from the prior year, which was the smallest year-over-year gain since the middle of 2017.

Federal Reserve officials in recent weeks have pointed to muted inflation pressures as one reason why they can pause from raising their short term rate. Signs of a more dovish Federal Reserve tend to increase the price of gold, which struggles to compete with yield-bearing assets when borrowing costs rise.

The technical picture has improved, as well, as major downtrend lines have been taken out on the upside. The next upside price objective for the yellow metal is the 1334.40-1335.30 gap area on the weekly charts.

Further gains are likely for gold futures.

Gold Futures - Weekly



U.S. Dollar

The U.S. dollar has trended higher mainly by default as economies overseas have shown protracted weakness, especially in the euro zone. However, there have been some notable better than anticipated economic reports in the U.S., including the on-balance stronger than expected U.S. employment report, which showed nonfarm payrolls jumped 304,000 in January. That exceeded forecasts and was the largest gain since February 2018.

In addition, the JOLTS report (Job Openings and Labor Turnover Survey) showed there were 7.335 million job openings in December, and there were 6.294 million people unemployed. The median estimate called for 6.9 million. So, for the ninth consecutive month, there were more job openings than unemployed people.

If I am correct in my belief that the Federal Open Market Committee will keep its fed funds rate unchanged in 2019, or possibly increase the rate only one time, gains in the U.S. dollar will be limited.

Euro Currency

The euro currency has come under pressure in February due to evidence that the euro zone economy is struggling. The currency of the euro zone fell on news that GDP growth in 2018 in the euro area was 1.8% versus 2.4% in 2017. Also, the European Commission cut its growth forecast for the euro zone to 1.3% in 2019, which is substantially below the 1.9% growth rate that was forecast in November. The report partially blamed the U.S.-China trade war for the slower growth rate. In addition, the report lowered euro zone inflation expectations to 1.4% in 2019 and 1.5% in 2020.

Also, industrial output in Germany in December was down 0.4% from November when an increase of 0.8% was expected and German factory orders in December fell 1.6%, the steepest decline in six months, contributing to a 7% drop on an annualized basis.

Financial futures markets suggest the European Central Bank will not be able to hike its key interest rates until mid-2020, which is well past the timing suggested by the central bank's policy guidance.

Interest rate differentials expectations appear to be neutral to slightly bearish for the euro currency.

Grains

The U.S. government is finally back to work and the USDA released the January U.S. and world crop report on February 8. That was the good news. The bad news was the numbers failed to attract new trading. Managed funds are small net longs in soybeans, soymeal and corn and small net short soyoil and wheat.

Corn futures continue trending mostly sideways. Prices were supported by good export demand and hopes for a resolution of the U.S.-China trade war. The 3.95 level for May corn is key resistance. The USDA had estimated world 2018/19 corn end stocks at 309.8 mmt. The increase in Argentina offset the drop in the U.S. and Brazil. The USDA estimated the U.S. 2018 corn crop down 206 mil bu to 14,420. Total 2018/19 demand was lowered to near 14,865 million bushels. This suggests a carryout near 1,735 million bushels verses 2,140 last year. The USDA dropped feed and residual and ethanol production. The USDA is estimating 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 92.2 million, versus 89.1 last year.

May soybean futures tested 9.40 on hopes of a U.S. and China trade deal. The USDA had estimated world 2018/19 soybean end stocks to be near 106.7 mmt. The increase in Brazil and China could not offset a big drop in Argentina supplies. Exports were estimated to be near 154.3 mmt. China's imports were lowered to 88.0 mmt. Some analysts forecast actual imports are closer to 85.0. The continued spread of African swine fever in China could reduce the size of their hog herd, reduce feed demand and reduce their soybean imports. Brazil has improved. Still, the USDA lowered its estimate of the Brazil 2019 soybean crop to near 117 mmt. The USDA estimated the U.S. 2018 soybean crop to be down 56 mil bu to 4,544. The USDA estimated December 2018 U.S. total soybean demand to be near 4,092 million bushels. This lowered the carryout to near 910 million bushels. The USDA is estimating 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 89.2 last year.

Wheat futures continue to trade sideways. Higher Russian domestic wheat prices offered support. The USDA estimated the 2018/19 world wheat end stocks to be near 267.5 mmt. Higher Russian supplies could not offset the drop in China. The U.S. 2018 wheat end stocks are estimated to be near 27.5 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 178.6 mmt. So far the drop in 2018 European and Russian crops has not resulted in higher U.S. export demand. The USDA estimated U.S. 2019 winter wheat planted acres to be near 31.3 million versus 32.5 last year. The U.S. winter conditions are mostly favorable for crops.

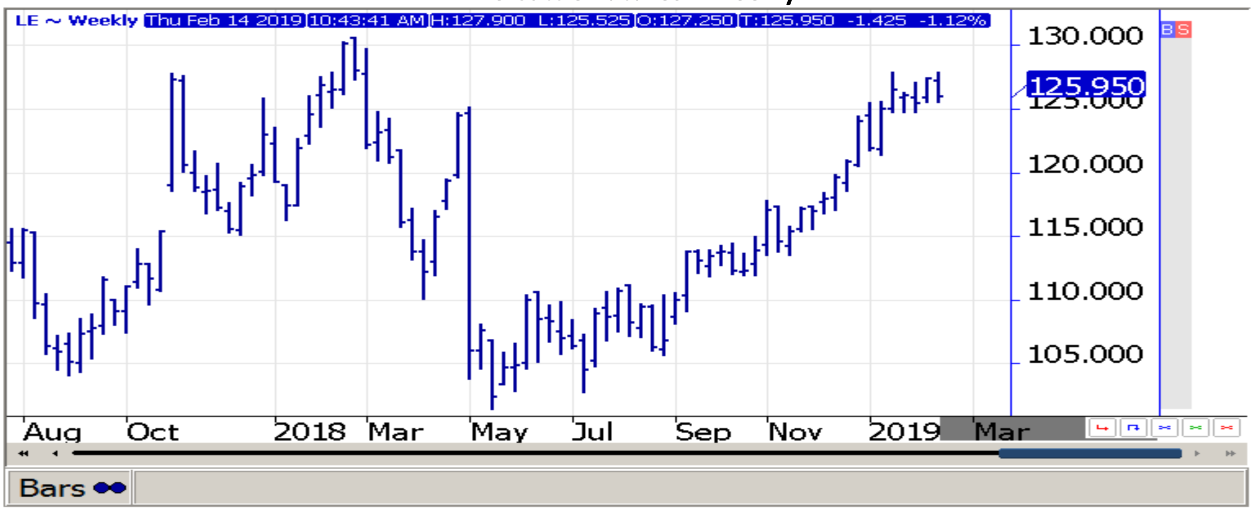
Livestock

Cattle

Live cattle futures during January 2019 continued the rally that began in the first week of November 2018 and through the end of 2018. The gain for futures in January was close to $6.00/cwt. Cold and snow in the upper Midwest with cold and wet weather from the central Plains to Texas made feedlots soupy and muddy and cattle just maintained their weight. Throughout January the USDA boxed beef market held together with choice boxed beef bouncing up and down in a range from between $212/cwt to $218/cwt. During the U.S. partial government shutdown there was concern that beef and cattle markets might be affected, but it wasn't the case because the U.S. cattle and beef markets benefited from strong exports, especially for high valued primal cuts.

Compared to January 2018, cash cattle markets traded from between $10/cwt to $12/cwt better in 2019 and the choice boxed beef market had the same amounts added compared to 2018. Because of the poor conditions of the feedlots in January, slaughter levels dropped nearly 2% from a year ago at a time the cattle industry was having stronger exports. Combining fewer cattle and the better export demand were the primary reasons cattle futures and cash cattle markets were better.

Live Cattle Futures - Weekly

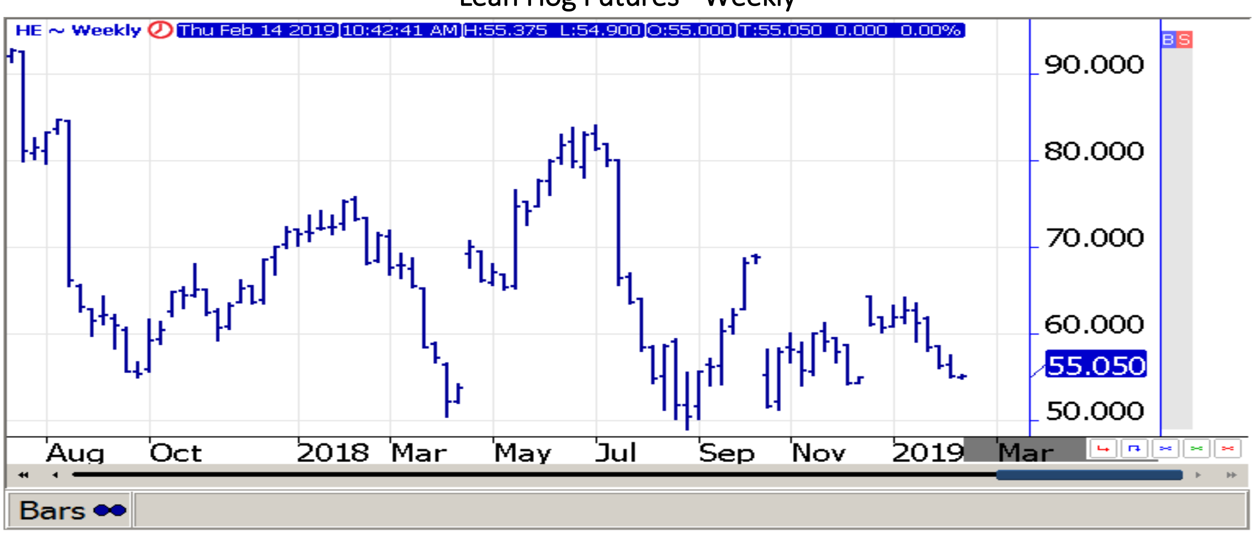


Lean Hogs

Lean Hog futures and Live Cattle futures in January traded in completely opposite directions. Except for a brief pop to the upside the first six trading days of January, Lean Hog futures returned to the downside from the high made in November 2018. From the high close on January 10th at $64.07/cwt on the February 2019 Lean Hog contract, the February contract closed out January with a loss of $7.82/cwt.

U.S. hog production has gone through an expansion at a time global hog production has increased. Similarly, by January 2019 the expansion in production was supposed to be met with expansion in hog processing that has been too slow adding to the drop in prices. With the processing industry falling behind in 2018 and in January 2019, hog production increases continued to feel the brunt of it in January 2019 when seasonal demand drops. At the same time, hog producers were hoping by January 2019, trade disputes with China would be over and exports would at the least resume for offal, hogs heads and feet adding from $4.00/cwt to $6.00/cwt on cash hog markets.

Lean Hog Futures - Weekly



Support and Resistance

Stock Index

March 19 S&P 500

Support 2705.00 Resistance 2795.00

March 19 NASDAQ

Support 6840.00 Resistance 7155.00

Energy

April 19 Crude Oil

Support 50.65 Resistance 56.55

April 19 Natural Gas

Support 2.570 Resistance 2.750

Precious Metals

April 19 Gold

Support 1299.0 Resistance 1329.0

March 19 Silver

Support 15.400 Resistance 16.000

Industrial Metals

March 19 Copper

Support 2.7400 Resistance 2.8400

Currencies

March 19 US Dollar Index

Support 96.350 Resistance 97.250

March 19 Euro Currency

Support 1.27050 Resistance 1.14030

Grains

May 19 Corn

Support 3.70 Resistance 4.00

May 19 Soybeans

Support	8.75	Resistance	9.75

May 19 Chicago Wheat

Support	5.00	Resistance	5.50

Livestock

April 19 Live Cattle

Support	123.750	Resistance	131.42

April 19 Lean Hogs

Support	52.50	Resistance	59.75

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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