ADM Investor Services, Inc.

January 2019 Monthly Commodity Market Overview Newsletter

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Stock Index Futures

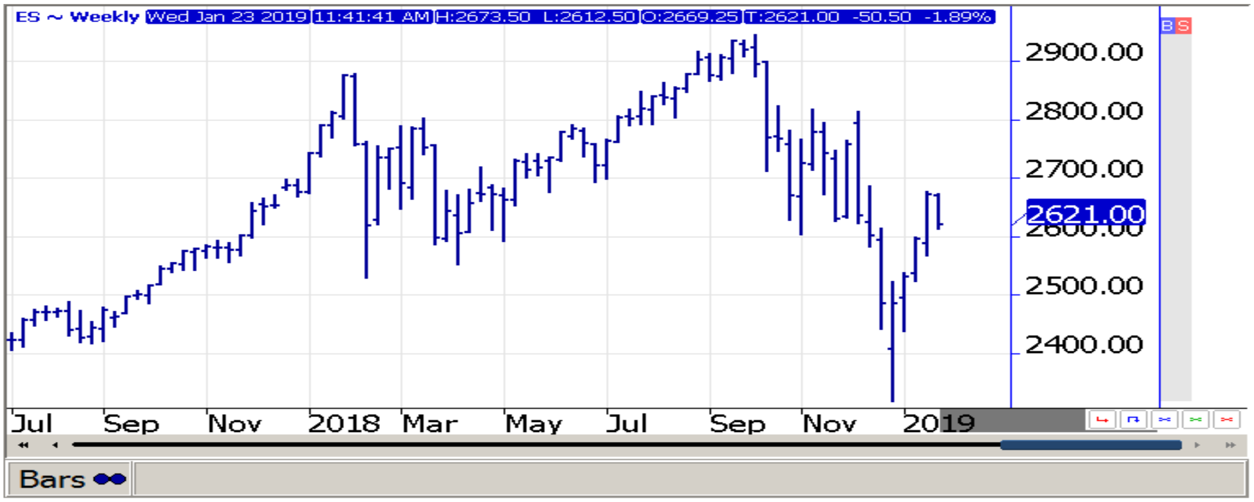
After a dismal performance in December stock index futures have put in a stellar performance in January due to a variety of reasons. For one, the Federal Reserve dramatically backed away from its December comments calling for two fed funds rate hikes in 2019. The FOMC is now "data dependent," which is more of a neutral policy stance. In addition, there has been apparent substantial progress made in the U.S.-China trade talks. Also, global equity markets received a lift on news that authorities in Beijing promised more measures to help China's ailing economy, including tax cuts on a larger scale and support from monetary policies.

There was only temporary pressure on futures on news of weak Chinese economic data and the International Monetary Fund downgrading its outlook for global economic growth. China's economy, the world's second largest, grew 6.6% in 2018, which is the slowest annual rate since 1990. The economic downturn was more severe in the last months of 2018, with fourth quarter growth increasing 6.4% from a year ago. The IMF reduced its forecast for global economic growth in 2019 to 3.5% from a 3.7% estimate in October.

It could be viewed as a sign of strength when futures were able to rally in spite of news that analysts lowered their fourth quarter earnings forecast for S&P 500 companies to 14.2% year-to-year growth from 20.1% that was estimated on October 1, according to Refinitiv.

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

S&P 500 Futures - Weekly



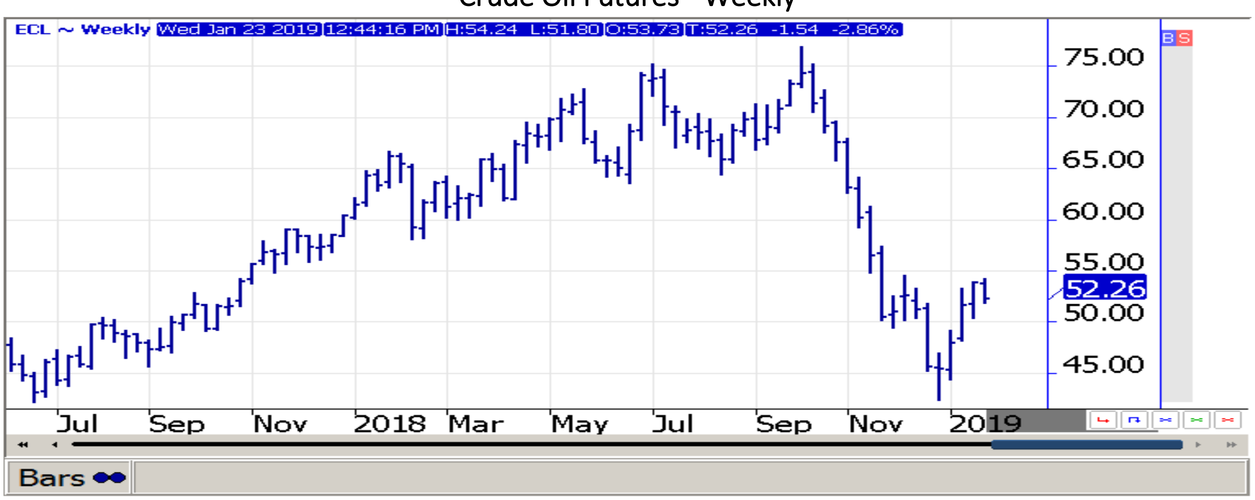
Crude Oil

Since the last week in December crude oil futures have staged an impressive advance, increasing by around 20%, largely moving in tandem with global equities markets. Much of the strength can be attributed to growing optimism that a U.S.-China trade deal will be hammered out.

In addition, the crude oil market has been bolstered since the beginning of 2019 by the implementation of production cuts by the Organization of the Petroleum Exporting Countries and its allies. OPEC and 10 producers outside the oil cartel, led by Russia, agreed in late 2018 to collectively curtail crude output by 1.2 million barrels a day for the first half of 2019 in an effort to rein in supply and boost prices.

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



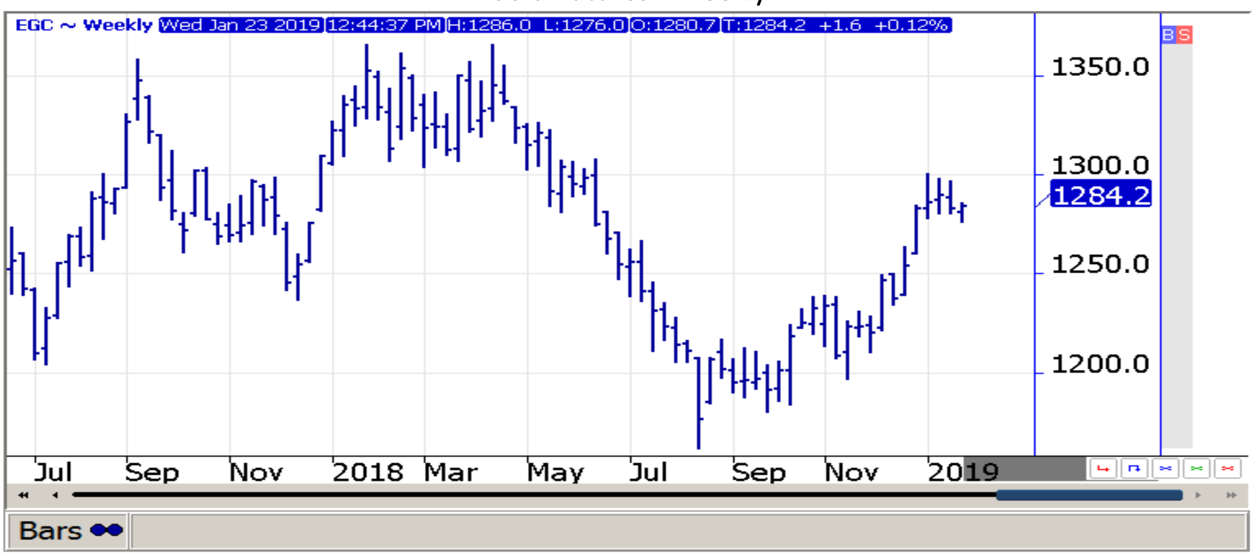
Gold

Gold futures have steadily advanced since the second week in November into the first part of January, although the 1300.00 level has been formidable resistance, at least for now. Geopolitical worries and a less hawkish Federal Reserve policy propelled gold higher.

The technical picture has brightened, as well, as major downtrend lines have been taken out on the upside. The next major upside 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 advanced to a 19 month high in mid-December due to bullish interest differential expectations that were fueled 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 the U.K.

The U.S. dollar declined in the latter half of December, with much of the pressure linked to the release of the minutes of the December 19 Federal Open Market Committee meeting, which showed the Fed is unlikely to increase rates for at least a few months, while they assess the impact of recent market volatility on the economy. Recovery gains in the greenback in January were linked to a better tone to the U.S.-China trade talks.

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 continues to hover near three week lows, as a result of recent weak euro zone economic data. Euro area economic confidence fell for a twelfth month in December. An economic confidence sentiment gauge dropped to 107.3, which is lowest in almost two years. In addition, the euro area annual inflation rate was 1.6% in December 2018, which is down from 1.9% in November. However, there was limited pressure on the euro on news that industrial output in the euro area fell the most in almost three years in November.

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 bank's policy guidance.

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

Grains

The U.S. partial government shutdown has delayed release of the USDA January U.S. and world crop, daily and weekly U.S. export sales data and weekly CFTC commitment of traders reports.

Corn futures have trended mostly sideways since mid-December. Prices were supported by good export demand and hopes for a resolution of the U.S. and China trade war. The 3.90 level for March corn is key resistance. The USDA had estimated world 2018/19 corn end stocks at 308.8 mmt. The USDA had estimated 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. Some feel final U.S. exports could be a little higher and the final estimate of the 2018 U.S. corn crop could be a little lower. This could offset talk of lower 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 91.9 million, versus 89.1 last year.

Soybean futures have also trended sideways since the middle of December. The USDA had 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 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. Dryness in parts of Brazil has some private crop watchers lowering their estimate of the Brazil 2019 soybean crop to closer to 115 mmt versus the USDA at 122. The USDA had estimated December 2018 U.S. total soybean demand near 4,107 million bushels. This kept the carryout near 955 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 89.1 last year.

Wheat futures traded sideways since the middle of December. Higher Russian domestic wheat prices offered support. The USDA had estimated the 2018/19 world wheat end stocks to be near 268.1 mmt. 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 and winter conditions are favorable for crops.

Livestock

Cattle

December cattle futures continued the rally that began mid-November and traded higher from the first trading day, December 3rd, and continuing higher throughout the month. On December 3rd futures settled at $116.87/cwt and closed out the month on December 31st at $124.80/cwt. Cash cattle markets also rallied, moving from $116/cwt to $124.00/cwt at month end.

Cattle and beef markets in December benefited from strong retail demand in the U.S. with grocery stores and restaurants featuring specials on high value cuts such as rib and loin roasts for December holidays. According to the U.S. Meat Export Federation, there was also spectacular beef demand from exports. Although final numbers have not been available because the partial U.S. government shutdown in December, export demand for beef in 2018 was higher for most countries importing U.S. beef. The beef export value per head is likely to be up 15% by the end of 2018 compared to 2017 and setting a new value record.

Live Cattle Futures - Weekly

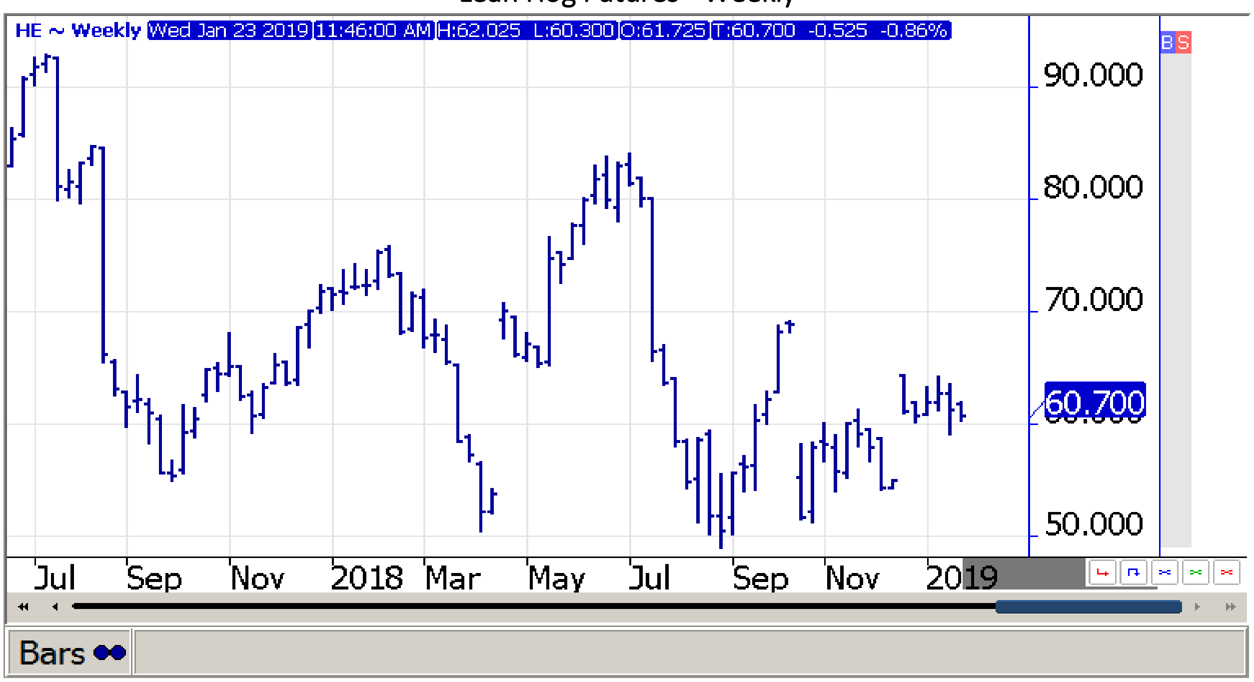
Lean Hogs

Hogs didn't fare too well in December. From the first trading day, December 3rd when lean hog futures gapped higher on the open and closed lower on the day, hog futures lost $8.02/cwt during December. Rumors since October of renewed Chinese demand appeared to finally happen in the last days of November when the Chinese government purchased U.S. pork. However, it turned out to be a quick purchase, a tease, and China failed to buy pork in December.

Speculative trading also used lean hogs as the short leg on cattle/hog spreads and spreaders also used December lean hogs as the short leg on intra-market spreads. For example, the February 2019 live cattle/ February 2018 lean hog spread had hogs lose close to $11.00/cwt to February cattle and the December 2018 lean hog to February 2019 lean hog spread from December 3rd to December 14th when December hogs went off the board lost $5.80/cwt.

The pork market pressured cash and futures hogs. Ham prices were steady the first half of December, but by the end of the month had dropped almost $7.00/cwt hurting the total cutout with hams 25% of the hog. Hams fell to $46.00/cwt making them extremely cheap. Disappointment that China has not bought U.S. pork has also pressured pork from June 2018 through December except for the small one week purchase likely for the Chinese New Year in February where pork is often given as a gift. The pork purchased was for a region where there is little pork production.

Lean Hog Futures - Weekly



All charts above provided by QST

Support and Resistance

Stock Index

March 19 S&P 500

Support 2540.00 Resistance 2765.00

March 19 NASDAQ

Support 6450.00 Resistance 7060.00

Energy

March 19 Crude Oil

Support 50.65 Resistance 56.55

March 19 Natural Gas

Support 2.820 Resistance 3.360

Precious Metals

February 19 Gold

Support 1276.0 Resistance 1335.0

March 19 Silver

Support 15.060 Resistance 16.400

Industrial Metals

March 19 Copper

Support 2.6000 Resistance 2.7800

Currencies

March 19 US Dollar Index

Support 95.200 Resistance 96.250

March 19 Euro Currency

Support 1.13250 Resistance 1.15500

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	121.50	Resistance	128.37

February 19 Lean Hogs

Support	56.65	Resistance	64.45

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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