ADM Investor Services, Inc.

October 2018 Monthly Commodity Market Overview Newsletter

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Stock Index Futures

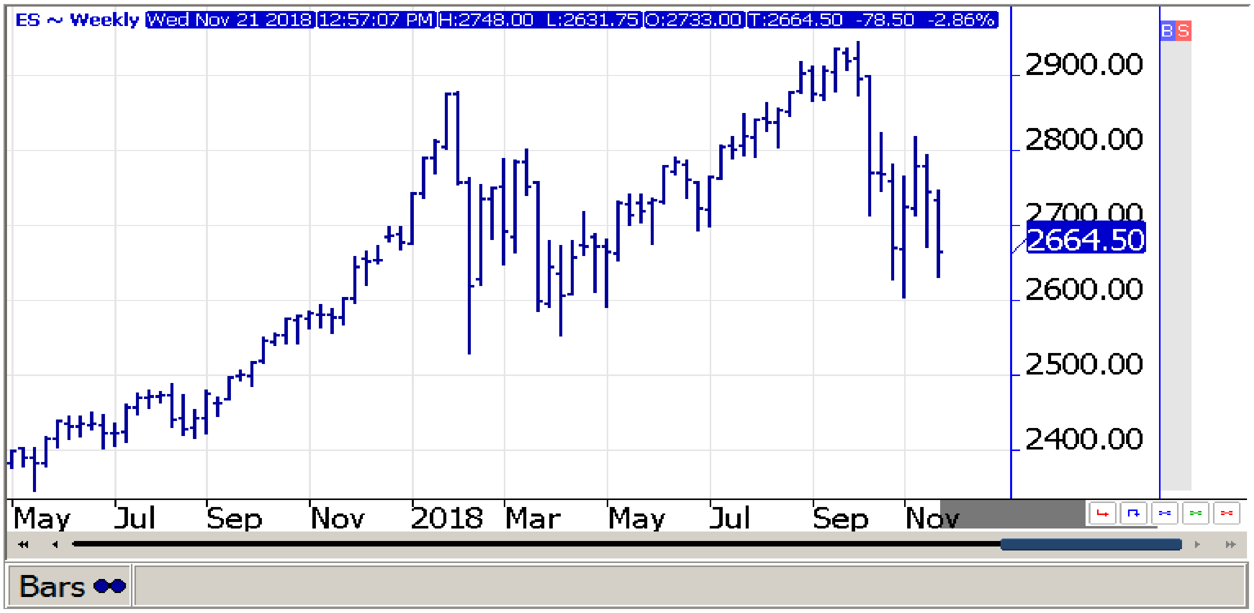
Recent weakness in stock index futures recently was due to ongoing political uncertainties in Europe, questions concerning the fate of the U.S. - China trade talks and fears of a slowing global economy.

Also, economic reports have been mostly weaker than expected. For example, orders for durable goods in October, which are products designed to last at least three years, decreased 4.4% from the prior month. That was the largest monthly decline in new orders since July 2017. Economists had expected a 2.6% decline for orders last month. In addition, housing starts in October were 1.228 million, which compares to expectations of 1.240 million.

In spite of the recent pressure on stock index futures, history has shown that U.S. equity markets after the midterm elections have a tendency to advance through year-end and also into the following year. The third year of a presidential term is historically the strongest year for stock index futures.

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.

S&P 500 Futures - Weekly



All Charts from QST

Crude Oil

Since early October, crude oil futures have steadily worked lower, falling to their lowest level in more than a year, as investors have been increasingly concerned about oversupply and the health of the global economy.

There was a limited recent recovery in spite of news that the U.S. Energy Information Administration reported that crude stockpiles increased by 4.9 million barrels in the week ended November 16, compared with analysts' estimates of a 1.9 million barrel increase. Overall, however, there was a total petroleum draw, as stockpiles of oil products such as gasoline and distillates fell. Gasoline inventories declined by 1.3 million barrels and distillate fuel inventories were down by 100,000 barrels. Also, the American Petroleum Institute released figures showing a surprising 1.5 million barrel decrease in crude supplies.

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 September 26 and another likely in December.

There are indications that a major bottom may be forming, as bearish sentiment on gold has surged with speculators having become extremely short. In addition, gold futures are likely to be supported by the increasing probabilities of a less hawkish Federal Reserve in 2019.

Gold Futures - Weekly

U.S. Dollar

Earlier this month the U.S. dollar index advanced to a 17 month high due to safe haven flows in light of 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 on balance weaker than expected economic reports in the U.S.

However, more recently there has been pressure when Federal Reserve policymakers showed more concern about a potential global slowdown, causing analysts to suspect the Fed's tightening cycle may not have much further to run. Some analysts are going so far as to say the Federal Reserve may be starting to consider at least a pause next year to its gradual monetary tightening policy.

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

Euro Currency

Since the highs were made in late September, the euro currency has stair-stepped lower. There are two main reasons for this. First of all, many of the economic reports in the euro zone have been weaker than anticipated. Underscoring this were comments from the European Union when it said the euro zone economy will cool this year and in the coming years, as global demand for the bloc's exports slow.

Secondly, the euro was pressured by renewed concerns over Italy's budget deficit. Italy's Deputy Prime Minister Matteo Salvini said the government would not cave to market pressure and backtrack from its plans to increase deficit spending in 2019. Salvini also said his government could stop European Union budget decisions if the E.U. continues to show disrespect to his countrymen.

It will be difficult for the currency of the euro zone to mount a sustained rally, as political issues remain unresolved and the European Central Bank will not be in a position to increase interest rates until possibly late in 2019, or later.

Grains

Corn futures have trended mostly sideways since mid-October. Wet U.S. Midwest harvest weather and good demand for corn supported prices. The 3.80 level for December corn is key resistance. The USDA lowered the November U.S. 2018 corn yield. In November the USDA estimated world 2018/19 corn end stocks at 307.5 mmt versus 159.3 mmt in October. This is due to a multiyear upward revision of China's supply and demand data. The USDA now estimates the U.S. 2018 corn crop at 14,626 million bushels. Total demand is estimated to be near 15,080 million bushels. The USDA lowered feed use 50 and exports 25. This leaves a carryout near 1,736 million bushels verses 2,140 last year. U.S. December 1 corn stocks are estimated to be near 12,160 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 93.0 million, versus 89.1 last year.

Soybean futures have also trended sideways since the middle of October. The USDA estimated world 2018/19 soybean end stocks to be near 112.1 mmt. This was above the average trade expectation. Exports were estimated to be near 155.4 mmt. China's imports were lowered to near 90.0. Some analysts forecast actual imports are closer to 88.0. The U.S. and China tariffs on goods continue to have a negative influence on soybean prices. The concern is that China may source more of their soybean imports from South America and reduce their need for U.S. soybeans.

The U.S. offered a onetime aid package to U.S. farmers due to the drop in soybean prices. The USDA estimated November 2018 U.S. soybean crop near 4,600 million bushels. This suggests total supply to be near 5,063 million bushels versus 4,734 last year. Total demand is estimated to be near 4,107 million bushels. The USDA lowered exports 160. This leaves a record carryout near 955 million bushels, verses 438 last year. U.S. December 1 soybean stocks are estimated to be near 3,775 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 bushels versus 9.33 last year. Early estimates of U.S. 2019 soybean planted acres are near 83.5 million versus 89.1 last year. The South America 2019 soybean planting season has started under favorable conditions. Some analysts estimate South American farmers will produce a record 2019 soybean crop. An El Nino type world weather pattern should be favorable for 2019 South America crops.

Wheat futures traded lower since the middle of October. The USDA estimated the 2018/19 world wheat crop to be near 733.05 mmt versus 730.9 previously. The increase was due to a higher China estimate. World end stocks were estimated to be near 266.7 mmt. The USDA continues to estimate the U.S. 2018 all wheat crop will be near 51.3 mmt versus 47.4 last year. The U.S. 2018 wheat end stocks are estimated to be near 25.8 mmt versus 29.9 last year and U.S. wheat exports are estimated to be near 27.9 mmt. Global world trade is estimated to be near 178.8 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 49.0 million versus 47.5 last year. The U.S. fall conditions are favorable for planting. US December 1 wheat stocks are estimated near 2,000 million bushels versus 1,873 last year.

Livestock

Cattle

The first day of October, Live Cattle futures began to top out. From August 27th to October 1st, October Live Cattle futures rallied $8.15/cwt. Throughout the month, October futures traded up and down in a $2.00 range. The months from December 2018 into 2019 did top on October 1st and like October bounced up and down to make their last high on October 27th.

Cash cattle prices in October were $111.00/cwt to $112.00/cwt from the beginning until the last week when packers put on $3.00/cwt to $4.00/cwt to finish out at $114/cwt. Since July 2018 through October, cash cattle prices have remained in the same trading range, steady for most of the month with a one week pop to settle back the following week. Packers fared better than cattle producers with choice boxed beef starting the month out slightly above $203.00/cwt and ending the month $10.00/cwt better above $213.00/cwt. Boxed beef rallied with choice primal beef rib sections rallying $36.00/cwt, as wholesalers and retailers contracted high quality cuts for December holidays.

Beef net exports sales were low in October. Brazil, with more cattle moved into feedlots on grain and grading choice, increased exports over 30% in October. At the same time, Mexico bought less U.S. beef in October, which is likely due to the new cattle slaughter facility running full capacity in Durango, Mexico. This plant may also have impacted October feeder cattle.

Live Cattle Futures - Weekly

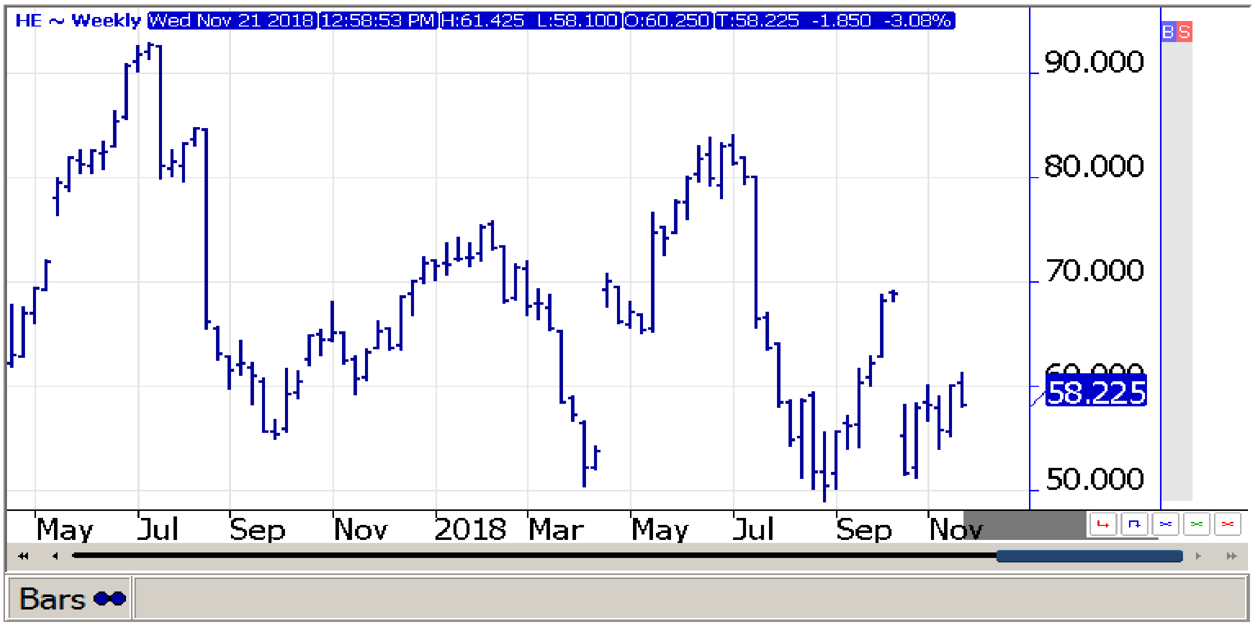
Lean Hogs

Lean Hog futures during October acted like they were on a see-saw. On October 1st, Lean Hog futures made a high and then fell $8.67/cwt through October 22nd to recover and rally $8.92/cwt by the end of the month. For the month there was a gain of .25 cents on December futures.

A good part of lean hog trading throughout October was spreading. Traders bought October futures and sold December futures. The spread differential on October 1st had October $4.90/cwt over December by the close of the day. When October futures ended trading on October 12th, the spread differential between October and December put October $13.25/cwt over December.

It was not the pork market that fluctuated October futures. While October futures see-sawed, the pork cutout dropped. Primal pork loins and hams make up 50% of the carcass. On October 1st, the pork carcass cutout was $81.05/cwt, loins were 83.97/cwt and hams were $62.05. On October 12th, the loin price was $78.35/cwt and hams were $55.23. The futures spread indicated not what was taking place in October, but what futures should do, the spread was indicating the negativity into the future. By October 31st, loins were 74.57/cwt and hams were 50.34/cwt.

Lean Hog Futures - Weekly



Support and Resistance

Stock Index

December 18 S&P 500

Support	2605.00	Resistance	2750.00

December 18 NASDAQ

Support	6410.00	Resistance	7250.00

Energy

January 19 Crude Oil

Support	51.25	Resistance	58.50

January 19 Natural Gas

Support 4.050 Resistance 5.020

<u>Precious Metals</u>

December 18 Gold

Support 1211.0 Resistance 1243.0

December 18 Silver

Support 14.050 Resistance 14.950

<u>Industrial Metals</u>

December 18 Copper

Support 2.7200 Resistance 2.8800

<u>Currencies</u>

December 18 US Dollar Index

Support 95.700 Resistance 97.450

December 18 Euro Currency

Support 1.13200 Resistance 1.15450

<u>Grains</u>

March 19 Corn

Support 3.65 Resistance 3.90

January 19 Soybeans

Support 8.40 Resistance 9.20

March 19 Chicago Wheat

Support 4.90 Resistance 5.25

<u>Livestock</u>

February 19 Live Cattle

Support 111.85 Resistance 123.75

February 19 Lean Hogs

Support 56.65 Resistance 73.37

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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