ADM Investor Services, Inc.

October 2018 Monthly Commodity Market Overview Newsletter

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Stock Index Futures

Earlier this month stock index futures advanced, including record highs for Dow Jones futures. Stock index futures were also supported by news that the U.S. and Canada reached a last minute deal to revise the North American Free Trade Agreement, which is called the United States-Mexico-Canada Agreement (USMCA). The agreement removes tariff risks from approximately $1.2 trillion worth of a goods each year.

However, more recently global equity markets declined when the International Monetary Fund cut global growth forecasts due to trade risks. In addition, equity futures markets suffered their largest two day declines since February when U.S. interest rates advanced to multiyear highs. Since then there has been a partial recovery as U.S. corporate earnings have come in better than expected.

The still relatively low interest rate environment and a likely less hawkish Federal Open Market Committee next year suggests recent weakness is a correction and we have not seen the top for stock index futures.

S&P 500 Futures - Weekly

NASDAQ Futures - Weekly

Crude Oil

Crude oil prices had been supported over the past month as a result of declining Iranian oil production ahead of the reimposition of sanctions on Iran's oil industry at the beginning of November. The International Energy Agency last week said Iranian supply fell to a 2 ½ year low in September, as buyers continued to reduce their purchases before the November 4 deadline. In addition, prices were also supported by a decision in late September by the Organization of the Petroleum Exporting Countries and its partner crude oil producers not to increase output at a faster rate than previously planned.

More recently crude oil prices fell below the $70.00 level for the first time in almost a month after data showed an unexpected increase in U.S. inventories. The U.S. Energy Information Administration reported crude oil stockpiles increased by 6.5 million barrels to 416.4 million barrels. In addition, prices have come under pressure over the past week due to signs of weakening oil demand as both the International Energy Agency and OPEC lowered their oil demand growth forecasts for this year and 2019.

Crude oil futures are likely to come under additional downside pressure over the near term.

Crude Oil Futures - Weekly

Gold

The lows were made in mid-August, which coincided with the highs for the U.S. dollar. Futures have been able to advance in spite of prospects 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. By some measures, speculators have not been this bearish since late 2001, which could be a contrarian bullish signal for the yellow metal.

A recent chart breakout above downtrend lines suggests there may be follow through to the upside.

Gold Futures - Weekly

U.S. Dollar

The U.S. dollar advanced in the first part of October due to flight to quality buying in light of political tensions in the euro zone and also on the widespread belief that the Federal Open Market Committee will continue to increase interest rates this year and in 2019.

However, there was some selling pressure on news that U.S. nonfarm payrolls increased a seasonally adjusted 134,000 in September, the smallest gain in a year, when 180,000 were expected.

In addition, there was selling in the greenback on news that the U.S. consumer price index increased 0.1% in September after rising a seasonally adjusted 0.2% in August. Economists expected consumer prices to increase 0.2% in September. Core consumer prices advanced 0.1% when up 0.2% was anticipated. Also, retail sales in September increased only 0.1% when economists were expecting to see a gain of 0.7%.

Euro Currency

The euro currency 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.

The currency of the euro zone was also pressured by news that German exports fell for the second consecutive month in August and when European Central Bank President Mario Draghi moderated his inflation outlook for the euro zone.

However, selling in the euro was limited by news that industrial production in the euro zone was 1% higher in August than in July, when economists had expected a monthly gain of only 0.2%.

More recently the euro currency advanced in spite of German Chancellor Angela Merkel's allies' election loss, which was the worst election result since 1950.

Grains

Corn futures trended higher after making new contract lows near 3.42 December corn on September 18. Wet U.S. Midwest harvest weather and solid demand for corn supported the rally. The 3.80 level for December corn is key resistance. The USDA lowered the October U.S. 2018 corn yield. In October the USDA estimated world 2018/19 corn end stocks at 159.3 mmt and near trade guesses. The USDA also estimated the U.S. 2018 corn yield at a record 180.7. Total demand is estimated to be near a record 15,155 million bushels. This leaves a carryout near 1,813 million bushels verses 2,140 last year. The USDA continues to estimate the U.S. 2018/19 average farm corn price to be near $3.50 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 trended higher after making new contract lows near 8.12 November soybeans on September 18. The USDA estimated world 2018/19 soybean end stocks to be near 110.0 mmt. This was near the average trade expectation. Exports were estimated to be near 157.4 mmt. China's imports were left near 94.0. Some analysts forecast actual imports are closer to 86.0. 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 in October a record 2018 U.S. soybean crop. This suggests total supply to be near 5,153 million bushels versus 4,734 last year. Total demand is estimated to be near 4,268 million bushels. This leaves a record carryout near 885 million bushels verses 438 last year. The USDA estimated the U.S. 2018/19 average farm soybean price to be near $8.60 per bushels. Early estimates of U.S. 2019 soybean planted acres are near 82.3 million versus 89.6 last year. The South America 2019 soybean planting season has started under favorable conditions. Some analysts estimate South America farmers will produce a record 2019 soybean crop. An El Nino type world weather pattern should be favorable for 2019 South America crops.

The USDA estimated the 2018/19 world wheat crop to be near 731.0 mmt versus 733.0 previously. The USDA lowered the Russian crop 1.0 mmt, but that was less than hoped. End stocks were estimated to be near 260.2 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 26.0 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 180.4 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 50.0 million versus 47.5 last year. The U.S. fall conditions are favorable for planting.

Livestock

Cattle

September was profitable for traders that were long futures from the beginning of the month through month's end. There were losses to slight profits for the cattle producer and big profits for the packers. Cattle futures reversed to the upside in September. After dropping from mid-August to the end of August $6.00/cwt, traders returned after the Labor Day break and Live Cattle futures rallied from a low of $108.17 to $113.95 by erasing the losses in August and closing $2.00 higher than the August high. Cash cattle markets were flat during September. Week after week cash cattle prices were from $110.00 to $111.00 with a few cattle topping at $112.00. Packer profits ranged from $250/head to over $300/head. Choice Boxed Beef prices were the highest during the first week over $210/cwt and dropped to $202/cwt mid-month and then remained range bound from $202 to $205 the last half of September.

Live Cattle Futures - **Weekly**

Lean Hogs

The free fall from mid-June 2018 for cash and futures Lean Hogs bottomed on August 31st and throughout September. Futures rallied from a low on the October Lean Hog contract of $49.12/cwt to September 28th at $62.17/cwt. The reversal started with news China found African swine fever and hopes China soon would buy pork again from the U.S. Traders realized

Mexico throughout the summer remained a strong importer of U.S. pork and there was the stopping of hog slaughter in the Southeast due to Hurricane Florence.

Pork became extremely cheap by the end of August for wholesalers and retailers in the U.S. and for export buyers. Shortly before September 4th, Labor Day, USDA prices for pork showed the pork carcass cutout below $65/cwt, pork loins nearing $65/cwt, fresh hams close to $55/cwt and pork bellies below $70/cwt. When Hurricane Florence reduced slaughter on the East Coast, stores from Maine to Florida saw pork supplies drop. The storm didn't stop consumers wanting pork in all the states not effected by the storm and supplies from the Midwest were being shifted to the East coast that also cut supplies for all states and the export markets. Florence started the demand ball, which was tied to traders talking about African swine fever and realizing exports weren't as bad as previously thought they might become with China out of the U.S. pork market.

Lean Hog Futures - Weekly

All charts provided by QST

SUPPORT and RESISTANCE

<u>Stock Index</u>

December 18 S&P 500

Support 2730.00 Resistance 2880.00

December 18 NASDAQ

Support 6960.00 Resistance 7550.00

Energy

December 18 Crude Oil

Support 67.25 Resistance 72.50

December 18 Natural Gas

Support 3.170 Resistance 3.400

Precious Metals

December 18 Gold

Support 1218.0 Resistance 1243.0

December 18 Silver

Support 14.350 Resistance 14.960

Industrial Metals

December 18 Copper

Support 2.7100 Resistance 2.8400

Currencies

December 18 US Dollar Index

Support 94.700 Resistance 96.600

December 18 Euro Currency

Support 1.14300 Resistance 1.16800

Grains

December 18 Corn

Support 3.35 Resistance 3.80

November 18 Soybeans

Support 8.25 Resistance 9.00

December 18 Chicago Wheat

Support 4.90 Resistance 5.35

Livestock

December 18 Live Cattle

Support	115.50	Resistance	120.50

December 18 Lean Hogs

Support	49.85	Resistance	56.55

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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