ADM Investor Services, Inc.

Weekly Futures Market Summary

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by the ADMIS Research Team

BONDS:

The Treasury markets enter the new week trading year under pressure with soft demand for auction supply last week, stronger equities and generally higher commodity prices undermining sentiment. Not surprisingly, the US scheduled economic report slate early this week looks to be countervailing. However, with daily US infections approaching 500,000 we suspect a measure of uncertainty will cushion treasury prices. While March treasury bonds clearly rejected the 159-00 level last week, the market also ran into significant resistance at 160-18.

Clearly, bullish resiliency remains in the treasury markets and that bullishness could be challenged if Friday's payroll report rebounds from the November nonfarm payroll gain of only 210,000. Looking ahead to 2022, the Chinese have issued significant domestic treasury bond supply and other countries have continued to tap debt to support their economies in the face of the most recent infection surge and that means a lot of competing supply. On the other hand, with the US dollar posting the best annual gain since 2015, international support for US treasuries should provide some support.

CURRENCIES:

While the dollar index rebounded from the spike low washout at the end of 2021, the damage to the charts is significant and remains in place at the start of this week. However, for the dollar to resume its downward action probably requires straightaway gains in equities and the global ability to accept the current infection surge without anxiety. With US scheduled economic data early this week expected to be "offsetting" a revisiting of last week's low is possible. The dollar has been under pressure as money shifts from the flight to quality dollar, to recovery currencies like the Swiss, Pound and Canadian.

While the euro tried to rally last week, it has fallen back early this week despite positive manufacturing PMI readings from Italy and France. To be fair, German manufacturing PMI was a disappointment while the overall Euro zone manufacturing PMI reading simply matched last month's result. In short, the euro is begrudgingly tracking higher with the Swiss, Obviously the Japanese Yen is oversold following the 200-point December decline. Like other flight to quality instrument the Yen continues to see pressure from a market "looking through" the current infection surge. While fundamentals do not justify a solid low and recovery the charts present four lows around 86.71.

The Swiss franc continues to be the main challenger of the US dollar with Swiss purchasing managers readings for December adding to the bullish tide in place since the middle of last month. With a double low around 1.0951 and uptrend channel support, the fledgling uptrend in the Swiss looks to extend above the 1.10 level. Like the Swiss franc, the Pound starts the new year fresh off a significant 300-point three-week rally. The Pound has managed the strength in the face of surging infection readings in a fashion that suggest it is also "looking through" the current surge in infections.

Surprisingly, the Canadian dollar has also been performing like a "recovery currency" with the currency fresh off a 2nd half of December low to high rally 200 points. The Canadian is supported because of a very strong monthly payroll reading last month and because of the largest annual jump in the TSX in 12 years. Unfortunately for the bull camp, the Canadian is fresh off a 2-day 120-point rally and therefore the currency lacks solid support.

STOCKS:

Global equity markets were generally higher at the start of this week with the exceptions the UK FTSE 100, Japanese TOPIX and the Australian All Ordinaries. However, European equity markets managed new record highs to start 2022 and have managed the gains despite higher treasury yields. Apparently, the market is unconcerned about the latest US daily record infection count of 486,000. The US markets are also fighting negative Tesla production woes while communication companies are locked in a battle with the airline industry over 5G wireless concerns. The airlines are further undermined because of 4,000 canceled flights on Sunday with airlines short staffed due to the infection surge.

While the S&P has not forged an all-time high in the early going this week, the index sits within proximity to all-time highs which sit just under the psychological 4,800 level. Apparently, the markets have embraced the idea that despite record infections, a large portion of negative health results have been less severe. Following last week's corrective action, the S&P looks to have solid support at 4750.50 with a triple high around 4799.75 a key pivot point early this week. With the S&P 500 up by almost 27% last year, the market is pricing in an eventual end to the pandemic, with extremely negative omicron news seemingly being ignored by the trade.

With a high to low correction last week of 520 points, the Dow Jones should have balanced its overbought technical condition from the 2nd half of December explosion of 2,000 points. Like the S&P, the Dow futures do not appear to be unnerved because of the surging infections. Unless headline flows shift dramatically, we expect the Dow Jones to post all-time highs soon. Clearly, the NASDAQ has seen the least amount of recovery action and remains under a negative pattern of lower highs and lower lows. In fact, we see a key pivot point early this week at 16,331. However, with companies moving to reverting to work at home, short staffing plaguing brick-and-mortar companies and the Tesla recall of 500,000 electric vehicles, the sluggish positive opening is suspect. We see a critical bull/bear line at 16,464 and suspect the NASDAQ will be "held up" by strength in other sectors of the market.

GOLD, SILVER & PLATINUM:
While the gold market is tracking lower as of this writing, the February contract managed a higher high early this week and reached the highest price since November 22nd. However, the gold and silver markets appear to be on edge because of surging infection counts, higher interest rates and a higher US dollar. The gold market is fighting negative sentiment from gold's 3.6% annual decline in 2021 as that figure is circulating in the financial Press this morning. In a developing negative for silver, it should be noted that silver ETFs reduced their holdings by 9.4 million ounces last week, which suggest investment interest in the metal remains negative. It should also be noted that gold ETF holdings declined by 8.6% on the year in 2021 with total ounces held sitting at 97.8 million. The gold and silver markets are also held back by a lack of Indian jeweler purchases as they are concerned of a loss of further business in the event of shutdowns.

In fact, Indian gold remains at a $5 discount to world gold prices while Chinese gold premiums are at $6 to $8 (positive) with traders anticipating increased Chinese jewelry demand ahead of the Chinese New Year. Apparently, gold and silver are caught in classic physical commodity market standing, with surging Covid infections thought to slow physical demand even further. On the other hand, the charts in gold and silver are positive with the 2nd half of December rally intact following the higher highs overnight. Unfortunately for the bull camp, US treasury yields remain high and could threaten silver and gold longs as the markets look ahead to this Friday's nonfarm payroll report. Expectations for this week's monthly nonfarm payroll report project a gain of 400,000 jobs which is nearly double the surprisingly negative reading from November. From a technical perspective, the charts favor the bull camp with last week's higher low and higher high pattern extended so far in the Monday US trade.

The charts remain in favor of the bear camp in palladium with last Friday's large range down washout seemingly signaling the $2000 level as "too expensive". In fact, last week palladium ETFs reduced their holdings by 8,992 ounces but those holdings finished the year 7.2% higher! In retrospect, the palladium market leans in favor of the bear camp to start today with last year's 22.2% decline the first annual decline in 6 years. In other words, palladium prices declined despite an extended period of supply/demand deficits. While we see support at Friday's low of $1,855, we would not rule out a return to $1,800 this week. With a positive upside extension to 4-day highs to start the trading week, the platinum market appears to be marching to a different drummer than the rest of the precious metal markets. In a negative development, Platinum ETF holdings declined by 20,087 ounces in the last week of 2021 capping off a year where total holdings declined by 6.6%.

COPPER:
With a 4-day high early this week, the recovery bounce off of last week's lows looks to be extended. Perhaps the copper market continues to draft lift from recent Chinese support for their economy. However, we see March copper locked in a range bound by $4.4985 and $4.3820. In fact, with US infection counts nearing 500,000 per day, silence on the status of daily Chinese infections and a lack of consistent declines in world copper exchange stocks, the bear camp has plenty of ammunition. In retrospect, total world copper exchange stocks fell near 14-year lows before recovering slightly into the end of 2021 and that removes a critical supply side bullish argument.

ENERGY COMPLEX:
In a somewhat surprising reaction, the energy markets held up relatively well at the start of this week in the face of surging omicron infection numbers which suggest the fear of slumping demand is being discounted. In fact, OPEC+ is unconcerned about the prospects of a downtick in demand as they are expected to go ahead with a planned February output increase of 400,000 barrels per day in their meeting Tuesday. Certainly, the markets doubt OPEC plus capacity to match the projected increase in output for February as those producers missed their production targets in October and November. Underpinning prices into the new week is last week's sweep of contractions in crude oil, gasoline, distillates, and diesel stocks at the EIA.

Apparently, the ability to discount the omicron demand threat has tamped down news that crude oil in floating storage globally increased by 8.6% last week. Furthermore, with Asian-Pacific floating storage was up 22% on a week over week basis. Therefore, Asian economic news will have to improve to prevent a downward revision in supply flow to Asia. In addition to solid support at $75.00 the crude oil market should be supported because of widening backwardation in the 3-month spreads and by trade projections that Libyan oil production will fall by 200,000 barrels per day over last week! The markets are likely seeing some support from projections that 2022 global energy demand will surpass levels seen just ahead of the Covid outbreak.

With the passage of the most critical driving season of the calendar in the northern hemisphere, the onus is on the bull camp to shut off and reverse the major washout from last Friday. In a minimally supportive development, Asian gasoline cracks strengthened. Furthermore, with over 15,000 flights canceled in the US from the winter storm and short staffing, we suspect demand over the recent holidays surged. In retrospect, gasoline demand picked up last week with an implied gasoline demand reading of 9.72 million barrels per day which probably leads to another strong implied demand reading from the EIA this week.

As for the diesel market, weekend headlines were trumpeting the fact that Indian fuel sales climbed toward pre-pandemic levels last month. Last week, the implied distillate demand reading came in above year ago and 5-year average levels and has maintained that edge since the 3rd week of October. Another underpin for distillate/diesel pricing are year-over-year deficits in distillates and Diesel of 29.6 million and 28.9 million barrels respectively.

Like the regular petroleum complex markets, the natural gas market enters the week oversold from a massive 2-day washout last week. Underpinning prices to start the week is the fact that Russian gas flows continue to flow east for the 14th straight day. Surprisingly, the natural gas futures markets posted the strongest year since 2016 but that action fails to consider the massive washout in prices over the prior 3 months of $3.00! A fresh negative facing the bull camp in gas early this week is evidence that China's largest oil and gas production area set record production last year.

Surprisingly, the natural gas market was presented with news that US natural gas consumption declined by 3.5% on a year-over-year basis, but that was offset by an increase in US LNG exports. While the European Union is relenting on its aggressive green energy petroleum resistance and is now allowing for transitory natural gas use, US weather looks to be bearish with the only below normal temperature area seen in the extreme upper Northeast. In a final supportive development, Russian gas behemoth Gazprom failed to meet their targeting for exports to Europe last year.

BEANS:

March soybeans managed to trade slightly higher on the session Friday with an inside trading session. This left the market with a gain of $1.17 1/4 for the month of December, and a gain of 22.7% for all of 2021. There are still scattered rains for southern Brazil and northern Argentina for the next week, but there is also a still dry second week forecast, and the rain over the next week does not seem to be enough to relieve the dryness. As a result, the market looks to start the week off with a bullish tilt. The trend seems likely to remain up until there is a major shift in the weather pattern. Malaysia palm oil futures closed higher on Friday and experienced a third straight annual gain. The market was up 30.7% for 2021 as the pandemic-fueled labor shortage hurt output. The 3.4% surge at the start of this year is seen as a positive force for soybean oil prices

Soybeans managed to hit the highest level since 2012 on the spring 2021 rally during May, while vegetable oil prices likely peaked in 2021. Export demand remains sluggish with China not very active in recent weeks, but crush demand looks to remain very strong. January crush traded to a new contract high at $2.06 1/2 and this shows very strong demand from the crushing industry. Northeast China's Heilongjiang Province will increase its soybean planting area by about 666,667 hectares in 2022, local authorities said. The soybean yield is expected to increase as well. Heilongjiang is the major soybean production base in China, with the planting area and output remaining the first in the country.

CORN:

March corn experienced the lowest close since December 20 on Friday as the market adjusts to the short term rain in the forecast for southern Brazil and Argentina. While there are more rains in the forecast for this week, the forecast turns dry again for the second week out and this supported solid gains overnight. For the month of December, the market gained 25 3/4 cents and March corn was up 34.7% for all of 2021. Demand trends remain very strong as profitability for ethanol production and export sales data is positive. Cumulative export sales have reached 64.2% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 53.3%.

Corn used in last week's ethanol production is estimated at 107.5 million bushels. Corn use needs to average 98.7 million bushels per week to meet this crop year's USDA estimate. Ethanol production is still highly profitable and the USDA is likely to raise their corn usage estimate for ethanol in the next supply/demand update. Ukraine has exported 32.2 million tons of grain in the first half of the 2021/22 season, up 23.5% from last year's pace. The country harvested a record crop of 84 million tons, up from 65 million in 2020. Corn exports for the 21/22 season could reach 30.9 million tons as compared with 23.1 million last season.

WHEAT:

Weather models for the next two weeks have shifted back to a warmer and drier than normal set-up and this might provide some underlying support. March wheat closed lower on Friday and ended down

$0.18 for the month of December. The market managed to see gain of 20% for all of 2021. New bullish wheat news seems to be lacking as Northern Hemisphere winter wheat is in dormancy and US HRW areas are expected to receive some moisture. With the very dry soils, crops in Kansas, Oklahoma and Texas appear vulnerable to significant winter kill damage without good snow cover. Dry powdery soil allows cold weather to seep into the soil and could damage some crops. For now, there is nothing threatening in the forecast but the market continues to see dryness as a potential issue.

Ukraine's government limited price increases for wheat loaves and rye-wheat bread to stabilize prices for staples, according to a decree by the Cabinet of Ministers. Producers of such bread are prohibited from setting the wholesale-price margin above 10%. Ukraine has exported 32.2 million tons of grain in the first half of the 21/22 season, up 23.5% from last year's pace. The country harvested a record crop of 84 million tons, up from 65 million in 2020. Wheat exports for the 2021/22 season could reach 24.5 million tonnes as compared with 16.6 million last season. In the current fiscal year, India wheat exports are expected to achieve an all-time record high in volume terms. India's wheat exports are mainly to neighboring countries, with Bangladesh having the largest share.

HOGS:

February hogs closed sharply lower on the session Friday. The selling pushed the market down to the lowest level since December 21. Ideas that the strength in pork prices on Thursday was a temporary bounce plus continued talk of the overbought technical condition of the market, and the higher than normal weight data suggests that cash markets could struggle to hold onto recent gains. News that China's sow heard at the end of November was up 4.7% from year ago was also seen as a negative factor. The market may need to adjust to less import demand from China for the coming year, and to expanding production from other key world exporters. For all of 2021, February hogs managed to gain 17.7%. Technically, the market looks overbought short-term and vulnerable to a further long liquidation selling break.

The December USDA hogs and pigs report carried a bullish tilt, but the market has struggled to add to the upside as the market may have already priced in a tighter supply. With the USDA closed, there was no pork pricing released on Friday. There were no estimated hog slaughter or pork cutout reports on Friday because the USDA was closed. On Thursday the cutout came in at $85.64, up from $80.94 the previous week. The CME lean hog index as of December 28 was 72.20, up from 71.82 the previous session but down from 73.02 the previous week. Cumulative export sales for 2021 reached 1.887 million tonnes, down from 2.097 million a year ago but above the 5-year average of 1.579 million. Outstanding sales for 2022 have reached 90,100 tonnes versus 148,800 a year ago.

CATTLE:
The cattle market remains in a solid uptrend and short-term corrective breaks may represent buying opportunities. For all of 2021, February cattle managed to gain 14.8%. February cattle inched lower on the session Friday with the market down to a three session low. It was a slow volume day and traders see the market as short-term overbought, with some uncertainties for demand in the short run with record new COVID cases last week. Cash markets are up for the week but traded down from earlier last

week and that added to the negative tone on Friday. The USDA was closed so there were no estimated cattle slaughter or no boxed beef cutout reports because it was a federal holiday. On Thursday the cutout came in at $265.26, up from $262.94 the previous week. There was no trade reported in cash live cattle, either.

The five-area weighted average last week was $139.72, up from $135.64 the previous week and the highest since December 10th. While the supply/demand fundamentals may improve during January, there could be a short-term lull in demand, and average weights remain somewhat elevated. Traders are a little worried that fill-in beef business this week could be very slow as the record high COVID case count may have caused significant cancellations from restaurants and other events. Cumulative US beef export sales for 2021 reached 1.887 million tonnes, up from 936,100 a year ago and the highest on record. The five-year average is 852,600.

COCOA:

In contrast to many other commodities, cocoa had a fairly modest 2021 price gain as concern over near-term demand continued to shadow the market throughout the year. With better demand prospects and a bullish supply outlook to provide support, cocoa should start out the new year on an upbeat note. March cocoa was unable to shake off early pressure as it finished Friday's trading session with a sizable loss that broke a 3-session losing streak. For the week, however, March cocoa finished with a gain of 47 points (up 1.9%) which was a second positive weekly result over the past 3 weeks.

Last season's record production from Ivory Coast and strong output from Ghana has been a source of headwinds for cocoa as well. The sharp break in cocoa prices in late November was led by concerns that the West African crops were doing better than expected and that the new surge in COVID cases would slow demand once again. Ivory Coast officials have said that this season's cocoa port arrival were running 12% to 12% behind last season's pace, and many traders think this will continue into the first quarter of 2022. In addition, early results for Ghana's arrivals have them well below last season's pace, and that increases the chances that the 2021/22 season will produce a global supply deficit.

The Omicron variant continues to show signs that it causes a less severe impact than traders had feared. With the possibility that lockdown measures could be smaller than expected, traders are turning optimistic about demand. During October and November, Ivory Coast bean exports were 5.4% above last year's total while cocoa product exports were 4% above their 2020 total which may reflect an improving demand outlook for early 2022. Many global equity markets had a lukewarm finish to last year, and that put carryover pressure on cocoa prices. The Eurocurrency rallied to a 1-month high, however, which could benefit cocoa prices as an extended upside move could make easier for Euro zone grinders to acquire near-term supply.

COFFEE:

While the threat of year-end profit-taking and additional long liquidation may have passed, coffee prices remains vulnerable this week due to the annual commodity index fund rebalance. With near-term demand concerns easing while the supply outlook remains firmly bullish, coffee should remain relatively well support on near-term pullbacks. March coffee came under pressure and while it had a late rebound, finished Friday’s trading session with a moderate loss. For the week, March coffee finished with a loss of 5.10 cents (down 2.2%) for a third negative weekly result over the past 4 weeks.

With sizable gains for the fourth quarter and for 2021, many traders have elected to take their profits and head to the sidelines over the past few weeks. Many of Brazil’s major agricultural regions have seen much drier than normal conditions since the middle of 2020 brought on in part a by La Niña event last year. In addition, many Arabica-growing areas saw severe frost conditions in July. As a result, many coffee trees sustained damage that could take several years to overcome. The 2021/22 season was considered an “off-year” for Brazilian Arabica coffee production, and the 2022/23 season has been expected to be an “on” year that would bring a substantially larger coffee crop.

After the frost damage in July and the drier than normal conditions, early forecasts for the 2022/23 crop are not promising. Colombia’s coffee production has been negatively impacted by La Niña as well as their output has fallen well below a 14 million bag annual pace over the past few months. Add to that the global shipping issues that are likely to last well into 2022, and global Arabica coffee supplies could remain tight. ICE exchange coffee stocks were unchanged on Friday and finished 2021 at 1.541 million bags which was the lowest month-end total since December 2020. In addition, it was a sixth monthly decline in a row as ICE exchange stocks have fallen 26% during the fourth quarter.

COTTON:

March cotton closed lower on Friday after the market failed to follow through on Thursday's rally to its highest level since November 24. The market is showing solid gains early today and has been following the stock market. The rally on Thursday failed to close the gap it left on the open on November 24, and traders may have been eager to exit their positions ahead of the New Year. The stock market was also weaker on Friday, and this may have also encouraged some long liquidation. The dollar was also sharply lower, which normally would have been supportive to cotton, but traders seemed to ignore that.

Nearby cotton futures ended the year with a gain of 34.48, a 44% increase from December 2020 after trading to their highest level since 2011. The trade is looking for demand to remain strong in 2022, with China a lead buyer of US cotton. US cotton export sales for 2021/22 had reached 10.451 million bales as of December 24, which is respectable but not exceptional. This is down from 11.385 million the previous year and 11.228 million the year before that, but it is above the five-year average of 10.347 million.

SUGAR:

Sugar prices have been unable to lift decisively clear of their early December lows, but they have held their ground above the 200-day moving average over the past few weeks. With a positive turnaround in key outside markets and expectations of a second global supply deficit in as many seasons, sugar may start out the new trading year with an extended upside move. March sugar was unable to hold onto early strength, but regained upside momentum late in the day to finish Friday’s inside-day trading session with a moderate gain. For the week, however, March sugar finished with a loss of 26 ticks (down 1.9%) which was a second negative weekly result over the past 3 weeks.

The Brazilian currency regained more than 2% in value and reached a new 3-week high, which benefited sugar prices as that eases pressure on Brazil's Center-South mills to produce sugar for the global export marketplace. As a result, that offset a pullback in crude oil and RBOB gasoline prices that would normally put carryover pressure on sugar as it encourages Center-South mills to stick with their current crushing mix instead of shifting more towards ethanol production. Among the most severely hurt regions from much drier than normal conditions brought on in part by the 2020-21 La Niña event were the cane-growing areas of Sao Paolo state.

While that La Niña dissipated early last year, a new La Niña event has reemerged and has brought drier than normal conditions back to Brazil and Argentina. The US Climate Prediction Center (CPC) has given it a 95% chance of lasting through February, and it is expected to have a negative impact on Brazil's upcoming cane crops. Early forecasts by the Brazilian trade group Unica call for a larger cane crush and higher yields for the 2022/23 Center-South season. However, many Brazilian mills have been shifting their crushing operations from sugar production to ethanol production due to the strength of crude oil and gasoline prices. If this continues, Brazil's Center-South sugar production could stay low, and Brazilian sugar exports could see a second decline in as many seasons.

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