ADM Investor Services, Inc.

# Weekly Futures Market Summary

**by the ADMIS Research Team**
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**BONDS:**
Market psychology has settled on the idea that the US Federal Reserve Chairman is poised to shift "hawkish" with policy. The perception that the Fed Chairman will become more aggressive is partially justified by his re-nomination for a 2nd term as a new Fed Chairman might have waited to make major changes at the very beginning of their term. While the Treasury bond market is showing some retrenchment from the highs posted at the end of last week, the market has held most of the noted rally off the arrival of omicron in the headlines last Friday. Apparently, the markets are content to factor in a concerning outcome from the mutation found in South Africa. However, the jury remains out for at least 2 weeks before science provides an answer to the severity and communicability of this new strain.

In retrospect, US scheduled data from last week's holiday shortened trading week was mixed with durable goods orders softer than expected and offset by a new Covid low in initial claims. While it is premature to begin to discuss the potential for a delay in tightening of US policy off the latest virus headlines, seeing treasury prices approach the 164-00 level (which was the general consolidation high zone from July through September) factors in some delay in tightening Fed policy. Obviously, any sign that the latest variation of the virus is resistant to current vaccines would spark a quick return to the 2021 highs up at 165-12. US scheduled data early this week is likely to have a very fleeting impact on treasury prices as housing data has been disjointed and is not directly connected with the ebb and flow of jobs.

**CURRENCIES:**
While US scheduled data last week was disappointing, traders see the data as increasing economic uncertainty in the marketplace. The dollar is also underpinned by a current market view that the US Federal Reserve Chairman is poised to shift policy toward inflation fighting, and that should provide the dollar index with solid fundamental support around 96.00. The the trade is still "smarting" from the significant washout in the dollar last Friday in the face of an obvious and potentially historical risk off development and a temporary probe down to 95.85 is possible.

We categorize the rally in the euro last Friday as a counterintuitive of fundamentally flawed reaction. While not a major negative issue, inflation data from Spain was very soft and Europe was already in a flare of infections before the South African virus news was widely known. In short, we see recent gains in the euro may be an opportunity to get short at favorable levels.

While the Yen certainly showed evidence of flight to quality activity last Friday, we are highly suspicious of the currency's capacity to maintain that fundamental standing. While domestic scheduled data is not a driving force for the Yen, large retailer sales readings from Japan were disappointing and the Japanese stock market was one of only three equity markets to be under pressure at the start of this week. Like the euro, we are surprised with the reaction in the Swiss to the massive risk off vibe from late last week. However, we see the Swiss seemingly expensive within its anticipated trading range.

It should be noted that the Pound traded lower consistently throughout the month of November and has engineered the latest declines without significant volatility. It should also be noted that the Pound forged little in the way of gains in the face of the dollar washout Friday and that highlights the trades ongoing fear of vulnerability of the UK economy in another serious Covid wave lockdown. UK mortgage approvals and net lending to individuals came in as a negative for the Pound.

Like the Pound, the Canadian has seemingly tracked its own course on the downside despite weakness in the dollar. Apparently, the trade sees the Canadian economy as vulnerable to another wave of infections with Canada having two official cases of the omicron variant early this week. Support for the Canadian came from strong black Friday Shopify sales figures and from the noted bounce in crude oil prices.

**STOCKS:**
Global equity markets at the start of this week were mostly higher with the exceptions the Chinese, Australian and Japanese markets which traded fractions lower. Early analysis suggest that Black Friday/Cyber-Monday sales are disappointing but cyber-Monday sales could still surprise in the end. While oil sector stocks are likely to recover and provide lift for the broad market, significant economic uncertainty remains in place and could result in a sudden revival of selling. On the other hand, traders should not rule out the potential for the latest strain to be controllable but obviously the market could see a series of declines like last Friday if current vaccines are less effective than they are against initial strains of the disease.

The fundamental setup for stock prices is partially improved following scientific cautions that it is not known if the new strain will be controllable. Obviously, some of the strength in prices early this week is classic short covering, but some is likely speculative buying off hopes that current vaccines and treatments will be effective against omicron. Not surprisingly, the Dow is also showing corrective bounce action in the early going this week. Traders should realize large/brick-and-mortar companies in the Dow could suffer significant damage in the event activity restrictions are put back in place in the US. Not surprisingly, the NASDAQ stood up to the massive global equity market washout at the end of last week because of the support from big tech and from support from stay-at-home Internet sales related businesses.

**GOLD, SILVER & PLATINUM:**
With divergence between gold and silver prices at the end of last week, it appears as if silver is embracing a physical commodity market focus while the gold market is garnering some flight to quality

buying. In other words, gold is skirting the threat of demand destruction and instead is holding together off the prospect of safety buying. In a surprising development, the dollar fell in the face of the risk off environment at the end of last week, which explains some of the gold market's ability to rally/diverge with the rest of the precious metal complex. Unfortunately for the bull camp, the gold market failed to hold the brunt of Friday's rally, thereby putting a portion of the bull camp under duress into the start of the new trading week. Some would-be bulls probably see the return to restricted travel as a development that will halt the progression toward tighter rates/tighter policy in the US.

From a technical perspective, the gold market fell below its 200-day moving average last week and closed below that average which was $1,794.95 on Friday. However, December gold climbed back above the 200-day moving average in the early action this week. Going forward, we see the initial trade in gold as a key leading indicator for action in the rest of the trading week with volatility likely to expand dramatically. Fortunately, for the bull camp noted strength in crude oil has rekindled some inflation buying interest in gold and silver and that positive action could extend if OPEC+ decides to pause its systematic return of idled oil production. In the end, the markets will decide if the gold market is facing deflationary uncertainty, or developments that delay world central bankers from raising rates!

We see the PGM markets as classic physical commodity markets vulnerable to deteriorating demand expectations ahead. In fact, it could take a significant rally in gold to provide support to PGM prices as the prospect of increased demand from the auto sector (off reports that the chip shortage is beginning to lessen) could be extracted in the event the flare in infections causes world governments to lockdown travel. From the initial reaction, palladium has decided to embrace the deflationary side of the current situation and therefore we see a key pivot point in December contract at $1,800. On the other hand, the $1,700 level looks to be fair value unless the Omicron virus is resistant to vaccines and is truly more transmissible than Delta. Not to be left out, the platinum market also came under definitive liquidation pressure in the wake of the South African virus news and has found a critical pivot point at $950. Unfortunately for the bull camp, recent news about the potential for switching from high priced palladium to cheaper platinum in auto catalysts is pushed into a background mode.

**COPPER:**
At least to start out this week, December copper has managed to regain its 200-day moving average. Fortunately for the bull camp, daily LME copper stocks declined by 3725 tons after 3 daily stock inflows in a row last week. While we doubt the copper market will react as negatively as was seen in the initial Covid outbreak, seeing a mutation less vulnerable to current vaccines could evoke a selloff of significance. So far, December copper saw a $0.22 decline off the latest virus twist, but the market seems to have respect for the $4.25 level. The copper market in January 2020 slid from $2.92 down to $2.15 from the initial lockdown of the US.

While it is premature to expect the worst from the Omicron variant, the copper market in the last COT positioning report showed a net spec and fund long of 31,099 contracts and that is likely understated due to the rally after the report was measured. While the market will continue to focus on all things China, global (non-Chinese) copper demand is still important to the trade and could result in follow-through from last week's washout. In a minor negative development, Shanghai copper stocks at the end of last week increased by 6,944 tonnes and that news hangs over the market to start the new trading week. In fact, over the last several weeks, the prospect of tightening global copper exchange stocks has been a key pillar of the bull case.

**ENERGY COMPLEX:**
While internal fundamental developments might not dominate price action early this week, the market should garner support from rumblings that OPEC+ might reconsider their plan to bring back incremental supply with each passing month. OPEC+ meets on Wednesday with the cartel indicating it will focus on the omicron strain of the coronavirus. The crude oil market is also likely to find support from a 17% decline in global crude oil in floating storage especially with Asian-Pacific storage down by 24%! Obviously, a noted technical bounce is justified after crude oil on Friday experienced its 7th worst daily decline in history! However, until the threat of a return to lock down is diminished traders should remain on guard as a resumption of deflationary selling could easily surface.

In fact, the markets are showing signs of positioning for a return to lockdowns with the WTI/Brent spread posting the widest level in 18 months and that is likely a function of the "negative" crude pricing in the US on the initial Covid-19 lockdown announcement in 2020. In retrospect, the market appeared to rush to factor in "demand destruction" of the type seen in the first wave of the pandemic and that could be wrong or right; it is unknown at the time of this writing. Obviously, the crude oil market has violated a series of key technical points with the January contract cutting through the 100-day moving average and pulling up short of the 200-day moving average.

While there are reports of an oversupply of supertankers in the Persian Gulf, without increased production from OPEC+, the world will likely remain tight supplied unless demand is indeed ruptured again. In the US, last week's EIA report showed crude oil stocks increased minimally, but US supply at the EIA remains 54 million barrels below year ago levels with Cushing, Oklahoma crude oil supplies sitting near their lowest levels since 2018. In conclusion, it is difficult to determine where prices will bottom until the status of normal activity/lockdown is known. With tests underway regarding the vaccine efficacy against the new variant unlikely to yield results this week, the bear camp has a psychological edge.

Like the crude oil market the gasoline market has managed an impressive bounce from the Friday washout, with the trade apparently rejecting a test of the 200-day moving average. In a fresh negative supply-side development, floating storage of fuel off Singapore has increased by 6% over the prior week. Yet another negative is noted from reports that Chinese state-owned refiners will export more gasoline in December than in November with some projections predicting a 48% month on month increase. Countervailing negative supply developments is reports that the US holiday resulted in the most active holiday driving period in history.

In the end, traders should be cautious selling gasoline off the prospect of renewed lockdowns as gasoline consumption could surprise as mass transportation is once again replaced by individual commuting. The ULSD market also rejected a sub-200-day moving average trade Friday and respected the 200-day moving average early this week. Seeing an increase in Chinese fuel December exports is not a negative to the diesel market as there were reportedly no Chinese diesel shipments this month. Furthermore, projections that exports in December will be only 210,000 tons means Chinese exports will not have a markedly negative influence on global diesel prices.

The natural gas market was one of the very few physical commodities to stand up to the prospect of demand destruction from the latest variant of the coronavirus last Friday. However, the January natural gas contract early this week opened in the lower half of the Friday trade and appears to be vulnerable to further declines. In retrospect, the gas market could have been disappointed with last week's EIA report showing the US storage deficit as a percentage of the 5-year average narrowed from 2.2% to 1.8%. In our opinion, the prospect of a winter shortage is heavily impacted by the level of US supply relative to the 5-year average and we expect the deficit to begin to expand again in the coming weeks.

Traders should take note of the potential for political driven supply disruptions involving several Eastern Europe countries and Russia as Russia has in the past attempted to pressure satellite countries during the winter. From a demand perspective, cold winter weather provided a lift to prices last week from the US cooldown over the weekend, but the weather going forward is less supportive. Prices softened in Europe at the end of last week, but US futures finished strong in a reaction that suggests the natural gas market is less concerned about demand destruction than most other physical commodity markets. However, increased volatility is likely this week.

**BEANS:**
With Brazil planting now 91% complete, it may take a significant weather issue to keep the market in a short-term uptrend. While closing near the highs of the day, the market closed sharply lower on the session Friday as fears of a weaker global economy and fears of further shutdowns and a slower economic growth around the globe due to COVID helped to pressure. There is enough uncertainty over the virus situation to turn sellers active. The sharp drop in crude oil prices along with a drop of nearly 3% for palm oil last week added to the bearish tone. While there is some drier than normal conditions for parts of Argentina and far southern Brazil, it would take a major weather problem in South America in order to avoid a significant increase in supply.

A surge higher in soybean production plus a strong recovery in sunflower and hopes for a much better rapeseed crop next year are seen as bearish forces. Soybean oil export prices from Argentina are up near all-time highs due to current tightness of vegetable oils, but expanding vegetable oil supplies for the next year is a bearish longer-term set up. The weekly export sales report showed that for the week ending November 18, net soybean sales came in at 1,564,459 tonnes for the current marketing year and 6,000 for the next marketing year for a total of 1,570,459.
Traders expected sales near 900,000 to 1.8 million tonnes. Cumulative soybean sales have reached 64.8% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 64.5%.

Net meal sales came in at 136,866 tonnes for the current marketing year and -777 for the next marketing year for a total of 136,089. Cumulative meal sales have reached 41.0% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 40.4%. Net oil sales came in at 42,034 tonnes for the current marketing year and -7 for the next marketing year for a total of 42,027. Cumulative oil sales have reached 44.5% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 30.9%. On top of the weekly export sales news, exporters announced the sale of 330,000 tons of US soybeans sold to unknown destination.

**CORN:**
Fears that expanding COVID issues will slow the global economy and spark speculative long liquidation selling in many markets helped to trigger the early selloff on Friday to the lowest level since November 10. However, the market rallied nearly 20 cents into the close to experience the highest close for March corn since July 1. This is impressive technical action in the face of bearish outside market forces. The collapse in the crude oil market was a major bearish force, but good export news plus a major collapse in the US dollar were positive forces. In addition, the Argentina and southern Brazil weather outlook is on the dry side and might have provided some underlying support. The weekly export sales report showed that for the week ending November 18, net corn sales came in at 1,429,161 tonnes for the current marketing year and 90,000 for the next marketing year for a total of 1,519,161.

This compares with trade expectations for 750,000 to 1.4 million tonnes. Cumulative sales have reached 54.2% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 43.7%. On top of weekly sales, exporters announced the sale of 100,000 tonnes of US corn sold to Mexico. March corn managed to gain 3.63% for the week. China's sow heard at the end of October was estimated at 43.48 million head, up 6.6% from last year. China seems to be under pressure to stabilize grain prices and has underscored the importance of food security. The strong spike in corn and wheat prices and longer-term concerns as rice and wheat were used significantly in the last year as a substitute for corn are seen as positive factors.

**WHEAT:**
COVID fears increased uncertainty levels across all commodity markets and equity markets, and this helped drive wheat prices sharply lower early in the session Friday. News that Egypt is tendering for wheat on the first break from the highs helped to support overnight. A very sharp break in the US dollar along with a recovery in corn helped the market close well up from the early lows. March wheat experienced follow-through selling from Wednesday's sweeping key reversal which is a bearish technical development. The rally to the multi-year high on Wednesday was led by concerns about availability of global wheat supply from key exporters. Too much rain on the bumper Australia harvest was seen as a factor which might hurt quality. For the week, March wheat managed to gain 0.72%.

While many key exporters are seeing tightening supply, Ukraine is expected to export near 24.5 million tonnes of wheat, up sharply from 16.6 million last year. The weekly export sales report showed that for the week ending November 18th, net wheat sales came in at 567,487 tonnes as compared with trade expectations for 250,000 to 550,000 tonnes. Cumulative sales have reached 60.8% of the USDA forecast for the 2021/2022 marketing year versus a 5 year average of 64.0%. Sales need to average 224,000 tonnes per week to reach the USDA forecast. Declining US winter wheat crop conditions have helped to push the market up to the multi-year highs last week. There is no rain in the 5-day forecast for the central and southern Plains, and the 6-10 day and 8-14 day forecast models are showing below normal precipitation. Egypt is tendering for wheat and traders will monitor the results closely.

**HOGS:**
The sweeping reversal for February hogs after a rally to the highest level since October 8th is a bearish technical development. In addition, with cash markets near 72.50, new buyers were hesitant near 84.70 and the market looks vulnerable to at least correct the wide basis. China hog futures were down 3.7% early this week as Asia reacted to travel restrictions. Technically, the market took out the range of the

last seven trading sessions before closing sharply lower on the day Friday. Technical indicators are at extreme overbought readings and the market looks vulnerable to at least a correction. The USDA pork cutout released after the close Friday came in at $81.68, down from $83.62 on Wednesday and $87.65 the previous week. This was the lowest the cutout had been since February 3. The CME Lean Hog Index as of November 23 came in at 72.56, down from 73.15 the previous session and down from 76.28 the week prior. China's sow heard at the end of October was estimated at 43.48 million head, up 6.6% from last year.

US pork export sales for the week ending November 18 came in at 17,472 tonnes for 2021 and 15,621 for 2022 for a total of 33,093. This was up from 30,030 the previous week but below the four-week average of 35,622. Cumulative sales have reached 1.763 million tonnes down from 1.964 million a year ago but above the 5-year average of 1.460 million. The largest buyer this week was Mexico at 11,343 tonnes, followed by Japan at 10,709 and South Korea at 5,295. China was a net seller of 243 tonnes. The USDA estimated hog slaughter came in at 470,000 head Friday and 363,000 head for Saturday. This brought the total for last week to 2.261 million head, down from 2.629 million the previous week and 2.340 million a year ago. Estimated US pork production for the week ending November 27 came in at 487.9 million pounds, down from 565.4 the previous week and down from 511.3 a year ago.

**CATTLE:**

While the technical indicators are at extreme overbought readings, the continued strong advance in the cash market plus the uptrend in open interest are seen as bullish forces. December cattle has managed to close higher for seven sessions in a row and had stochastic indicators at 92 and 96 with RSI is at 86.4 at the start of this week’s trading. While overbought, the cash market continues to advance at a strong pace. Much depends on the demand impact of the virus and the extent of shutdowns for the economy. Cash live cattle traded in light volume on Friday at prices that were in line with the gains from earlier in the week. In Kansas 1,111 head traded at 140 versus an average of 133.04 the previous week. As of Friday afternoon, the 5-day, 5-area weighted average prices was 137.96, up from 133.11 the previous week. The USDA boxed beef cutout was up $1.04 at mid-session Friday and closed 90 cents higher at $280.01. This was up from $276.16 the previous week and was the highest the cutout had been since November 16.

The USDA estimated cattle slaughter came in at 119,000 head Friday and 81,000 head for Saturday. This brought the total for last week to 566,000 head, down from 677,000 the previous week but up from 564,000 a year ago. Average estimated dressed cattle weights for the week ending November 27 came in at 833 pounds, up from 832 from the previous week and down from 845 a year ago. The 5-year average weekly weight for that week is 839.0. Estimated beef production for the same week came in at 470.5 million pounds, down from 475.5 million a year ago. US beef export sales for the week ending November 18 came in at 19,330 tonnes for 2021 and 5,786 for 2022 for a total of 25,116. This was down from 30,059 the previous week and below the average of the previous four weeks a 23,883. Cumulative sales for 2020 have reached 1.021 million tonnes up from 918,800 a year ago and the highest on record. The 5-year average is 816,300. The largest buyer this week was South Korea at 7,858 tonnes, followed by China at 4,961 and Canada at 3,774.

**COCOA:**
Cocoa's downdraft on both sides of the Thanksgiving holiday has quickly dropped the market back into "bargain" price territory. In spite of bullish supply factors and a positive longer-term demand outlook, global risk sentiment will need to see a significant rebound before cocoa prices can find their footing. March cocoa started out with a gap-lower opening and remained squarely on the defensive as it reached a new 4-month low before finishing Friday's trading session with a very heavy loss. For the week, March cocoa finished with a loss of 187 points (down 7.2%) which broke a 2-week winning streak.

While the Eurocurrency and British Pound made sizable recovery move from new 2021 lows, that carryover support was more than offset by sizable losses in European and US equity markets. Reports of the new "Omicron" COVID variants were an early source of pressure, but news that it had been reported in Belgium fueled a significant long liquidation wave. Europe accounts for one-third of all global cocoa grindings, and the likelihood of fresh travel restrictions should have a negative impact on European near-term demand. The start of the West African "dry" season should help with harvesting, drying and transporting cocoa beans, it will also have a negative impact on upcoming output.

**COFFEE:**
Coffee prices have been resilient in the face of the new "Omicron" COVID variant as stronger at-home consumption should offset a larger portion of lost business from restaurant and retail shops. Coffee also has a bullish supply outlook that can help prices hold their ground near multi-year highs early this week. March coffee came under sharp pressure early in the day, but was able to make a quick recovery followed by choppy action as it finished Friday's trading session with a moderate loss. For the week, however, March coffee finished with a gain of 9.55 cents (up 4.1%) and a third positive weekly result in a row.

Most of the world's top Arabica-producing nations are having supply issues that are fueled coffee's longer-term uptrend. Brazil's coffee trees have seen drought and frost since mid-2020 that will impact several seasons of their production, while Colombia's output has fallen below a 14 million bag pace. In addition, the shortage of shipping containers has disrupted the flow of coffee exports from producing nations towards North America and Europe. ICE exchange coffee stocks (most of which are held at Euro zone warehouses) fell by a massive 79,979 bags on Friday and are over 278,000 bags below their October month-end total which would be largest monthly decline in 15 months.

**COTTON:**
March cotton gapped lower on the open Friday and sold off sharply on elevated concerns about a new variant of the Covid-19 virus. The selling pushed the market down to the lowest price level since October 29th. Reports of the new variant emerging from southern African nations that appears to spread more quickly, and which has raised some concerns that it may be more resilient to the vaccines panicked the markets. Heavy selling was seen in equites and crude oil, and this spilled over to many commodities, including cotton. Epidemiologists have stressed that it is too early to tell, but the structure of the new variant is what has raised concerns.

The weekly US export sales report for the week ending November 18 showed net sales of 196,394 bales for the 2021/22 (current) marketing year and 46,200 for 2022/23 for a total of 243,134. This was up from 143,918 the previous week and the highest since October 21. Cumulative sales for 2021/22 have reached 8.970 million bales, down from 9.583 million a year ago and below the 5-year average of 9.049 million. Sales have reached 61% of the USDA's forecast for the marketing year versus a 5-year average of 63%. The biggest buyer this week was China at 67,299 bales, followed by Vietnam at 44,539, Pakistan at 38,584, Bangladesh art 36,476, and Turkey at 33,269.

**SUGAR:**

Sugar's post-holiday downdraft was fueled in large part by severe weakness in key outside markets, but it could also face headwinds by a negative shift in demand prospects as well. With the potential for a third negative monthly result in a row, sugar could be vulnerable to additional long liquidation early this week. March sugar found its footing after a gap-lower opening, but came under pressure at midsession and reached a new 4 1/2 week low before finishing Friday's trading session with a heavy loss. For the week, March sugar finished with a loss of 64 ticks (down 3.2%) for a second negative weekly result in a row.

Reports that the new "Omicron" COVID variant had spread to Europe resulted in crude oil and RBOB gasoline losing 13% in value on Friday, which is likely to put a serious dent into ethanol demand in Brazil and India. Although Brazil's Center-South mills have shifted more of their crushing towards ethanol production during the fourth quarter, the latest Unica supply report put Center-South domestic ethanol sales on track for a fourth month in a row below 2020 levels. An official with Egypt's Ag Ministry that their sugar production will come in at 3 million tonnes this season, which is higher than early forecasts and reduces the chances that they will be importing sugar over the next few months.

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