ADM Investor Services, Inc.

Weekly Futures Market Summary

November 28, 2022

by the ADMIS Research Team

BONDS:

The Treasury markets maintained their strength through the weekend as they reached new 7 1/2 week highs, but they lost some of their upside momentum coming into Monday's action. Protests in China over ongoing Covid restrictions have weighed on global risk sentiment, which in turn have driven safe-haven flows towards Bonds and Notes. Early reports that US "Black Friday" sales reached a record high may bode well for "Cyber Monday", and that has kept further Treasury gains in check.

In addition, there have been some hawkish comments from ECB officials have also weighed on Bond and Note prices early in Monday's trading.
On the other hand, there have been few US economic numbers or Fed commentary for the market to digest since before the Thanksgiving holiday, so the recent pullback in Fed hawkishness continues to underpin Treasury prices near their November highs. Much of the market's focus will be on early readings for "Cyber Monday" sales, which may come in strong after last Friday's record "Black Friday" results.

CURRENCIES:

The Dollar started out this week with moderate strength, but it took a sharp turn to the downside and was under significant pressure coming into Monday morning's action. While protests in China initially drove safe-haven flows towards the Dollar, it continued to be undermined by a tempering of the Fed's anticipated rate hike pace. With the Dallas Fed's latest manufacturing business index reading expected to remain firmly in negative territory, the Dollar may need to hear hawkish comments from the Fed's William in order to regain upside momentum as the Dollar is within striking distance of reaching a 3 1/2 month low.

The Euro had an abrupt change in fortune as it shook off early losses and has reached a 2-week high early on Monday. Comments from the ECB's Kazimir and Knot have indicated further rate hikes will continue despite unfortunate economic developments. While there is some doubt whether the ECB will hike 50 or 75 basis points, their hawkish policy shift should continue to provide the Euro with support. However, the Euro may have to overcome sluggish global risk sentiment in order to climb above its 200-day moving average for the first time.

The Yen has extended last week's recovery move through the weekend and was within striking distance of a 2 1/2 month high. The BOJ's Kuroda said that a tightening Japanese labor market will help drive up wages, which follows the surprisingly strong Tokyo CPI readings from last Friday. While the Japanese

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economy remains too weak for the BOJ to take a hawkish policy shift, the Dollar's pullback may divert safe-haven flows towards the Yen early this week while it should benefit from end-of-month short-covering as well.

The Swiss franc held within an inside-day range early this week, but it has lagged behind the Euro and remains well below its mid-November high. While Swiss economic data over the past few weeks have avoided negative surprises, a pullback in Swiss CPI may give the SNB pause for thought on future rate hikes. The Swiss franc has a sizable gain for November and will be vulnerable to end-of-month long liquidation early this week.

The Pound was also a notable laggard early this week as it had trouble holding its ground in positive territory. A private survey of November UK retail sales had a sharp drop from its October reading, and that has been a source of pressure on the Pound early this week. The Pound remains short-term overbought and remains vulnerable to end-of-month profit-taking and additional long liquidation early this week.

The Canadian dollar rebounded from early lows but held in negative territory coming into this week's action. Slumping energy prices have been a source of pressure on the Canadian dollar, but the BOC should stay in a hawkish policy stance going forward. The Canadian dollar should stay clear of last week's lows and will be a major beneficiary if or when there is a positive turnaround in global risk sentiment.

STOCKS:

Global markets took a negative shift over the weekend and were generally under pressure coming into Monday morning's action. There were reports of protests in China after they reached a new record high for daily new COVID cases, both of which have cast a shadow over global risk sentiment. Asian shares finished Monday with moderate losses and were led to the downside by the Hong Kong Hang Seng indices. European stock markets and US equity index were posting moderate losses early this week. Much of the market's focus will be on early readings for "Cyber Monday" sales, which may come in strong after last Friday's record "Black Friday" results.

There is a clear decisive bearish tone for the market at the start of this week, and the bearishness seems to be centered around China. Not only did China post record high infection rates for COVID, protests were much more active than normal, and the social unrest is a major uncertainty for the China economy. These are two serious bearish forces. Traders also remain concerned that while US consumers are attempting to keep spending high, reports of surging consumer credit has traders nervous that nondiscretionary spending will drop off dramatically.

Slowing economic activity is a significant concern for the market and it appears that the China situation will bring significant uncertainties on demand for some time to come. Until cases of COVID in China reach a peak, demand concerns are significant. It was impressive action to see the Dow take out the August high on Friday. While there is no technical sign of a peak, the market remains quite overbought technically, and traders assume only mild recession for the US. If conditions in China or Europe are worse than trade expectations, the market appears set for a significant downside correction.

GOLD, SILVER & PLATINUM:

Unrest in China over Covid lockdowns seemed to provide gold and silver with a bit of a lift at the start of this week, but so did a weaker dollar. The markets were bailed out last week by weakness in the US dollar, but the bull camp could be disappointed with the lack of reaction to signs of a less aggressive US Federal Reserve. Unfortunately for the bull camp, Indian gold imports were reported to have declined in

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October with Indian officials also reporting a 17.38% decline of imports in the April through October timeframe (relative to year prior figures). In retrospect, the trade should be discouraged with the lower import figures as the World Gold Council recently indicated improving Indian demand.

In an equally disappointing development for the bull camp, Indian officials also reported a drop in silver imports of 34.8% from April through October. Analysts expect Indian demand to recover in January, but they also indicate that total gold consumption for 2022 could be lower than 2021. It appears that the best chance for the bull camp is moderation in the pace of US rate hikes, but that is hard to make that case. To really expect a slower rate-hike policy, the market will need to see soft inflation readings in a wave of global CPI releases.

With the big range down failure in December palladium briefly pushing prices below the psychologically important $1,800 level on Friday, the bear camp has control to start the new trading week. Despite recent upbeat global auto sales forecasts, the perpetual extension of Chinese Covid restrictions cast significant doubt on a recovery in PGM demand for auto catalyst production, and the growing unrest in China over the issue raises additional concerns. However, with a spec and fund net short positioning and the market's proximity to consolidation low support, we see downside price action moderating.

Nonetheless, any overt strength in the dollar, weakness in global equities and lingering recession fears could still throw December palladium below its contract low at $1,759.50. Unlike palladium, platinum sits very high in the past eight months' trading range and is facing suspect physical and investment demand prospects. Unfortunately for the bull camp the most recent positioning report showed an extended spec and fund net long position of 27,157 contracts.

COPPER:

Copper started out the week out under pressure, but it was able to post a sharp rebound after trading to its lowest level in more than three weeks. The protests in China have been a source of pressure, as that does not bode well for the near-term demand outlook. While the market has managed to claw up and away from last week's spike low for a second time, ongoing Covid infection concerns in China create a significant layer of fundamental resistance.

Fortunately for the bull camp, a 15,568-tonne decline in Shanghai copper warehouse stocks last week serves to temper concerns about sagging demand. Not only have daily new Covid cases in China hit record highs, but civil unrest is surfacing against tough local activity restrictions. Apparently, new Chinese infections are running above 35,000 a day, with 10% symptomatic and 90% asymptomatic. The copper trade fears Chinese recession and is discounting the significant tightness in domestic supply.

ENERGY COMPLEX:

With a poor close last Friday and initial downside follow-through pushing nearby crude oil futures well below critical consolidation low pricing of $75, the bear camp started out the trading week with a technical edge. Seeing daily new Chinese Covid cases balloon to record high territory, accompanied by protests in several major Chinese cities, could foster demand destruction fears that embolden the bear camp. While the implementation of the global price cap for Russian oil is approaching, some buyers may have pulled back on their purchases. However, in a world market (especially for oil), buyers are likely to buy at prices they deem attractive regardless of an international embargo. We see China's pulling back on purchases from Russia last week as a method to extract deeper discounts. India has also shown a softer pace of buying, prompting some analysts to predict crude oil prices below $70 in the next two weeks.

Rumors on the level of the price cap have already filtered into the marketplace, and prices are adjusting to expectations. On the other hand, with President Biden several weeks ago indicating the US may begin

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to refill the Strategic Petroleum Reserve when prices return to $70, that level becomes a critical juncture from several angles. It should be noted that the SPR is at its lowest level since March 1984. Last week's Baker Hughes US oil rig drilling count increased by 4 and is now at 627 rigs operating, which is the highest since March 2020. With the US winter heating season set to begin, US EIA crude oil stocks are 24 million barrels below the 5-year average and should begin to post consistent seasonal declines ahead. With the last COT positioning report showing a spec and fund net long in crude oil at 338,000 contracts and the market falling $9 since that data was collected, the net long is likely approaching its lowest levels since late 2016.

Both product markets started out this week's trading under pressure, although RBOB and ULSD have held up better than crude oil throughout the month of November. Unfortunately for the bull camp, neither market appears to have any close-in support, and they both seem vulnerable to further selling. Furthermore, the spec and fund net long in gasoline is overbought relative to the last 90 days, leaving the January gasoline contract vulnerable to a quick slide. However, EIA gasoline stocks remain 11 million barrels below the 5-year average, a persistently stronger than normal US refinery operating rate has been unable to rebuild inventories.
The diesel market has held up better than crude and gasoline against the November washout, but the market lacks close in credible support. EIA distillate stocks are currently at their lowest ever for this week of the year, and diesel stocks are 14 million barrels below 5-year average levels and were at their lowest seasonal levels ever last week.

While the natural gas market showed divergence with petroleum prices for most of last week, the markets seemed to be back in sync early this week with natural gas under pressure. The market had gotten short-term overbought during the November rally, and some longs might have banked profits and moved to the sidelines on fears of heavy volatility from the approaching Russian gas price cap. Prices should draft residual support from last week's EIA storage report, which showed the first withdrawal of the season. The storage level entered the new season with a 1.1% deficit to the 5-year average. Supplies are tighter than last year at this time and could become much tighter if US export capacity returns to normal in the weeks ahead with the much-delayed restart of the fire-damaged Freeport facility. An increase in exports and cooler temperatures could result in natural gas finding significant value at $6.50. Last week's Baker Hughes rig drilling count showed a decline of 2 gas rigs operating, bringing the current number to 155. While we see natural gas prices above $8.00 as expensive, we also see $6.50 as a value zone.

BEANS:

The Argentine government will introduce another temporary exchange rate for soy exporters today, according to an Economy Ministry. Soy companies have committed to exporting at least $3 billion while the rate is in place. The government is giving a temporary exchange rate for soy exporters between today and December 30, setting the new rate at 230 pesos per dollar, well above the official exchange rate of 166 per dollar. There is a clash between tight soybean supply for now but an outlook for record production this season and a massive global production surplus. In addition, US policy on biofuel is tightening world vegoil supply temporarily. Palm oil production is on the decline seasonally and demand for palm is strong due to the record discount compared to other oils including soybean oil.

In Brazil, according to Conab, 75.9% of the total (43.24 million hectares) had been sown by Nov. 19th, less than the 85.7% sown in the same period last season. In Argentina, rainfall has been even lower than in Brazil. According to Bolsa de Cereales, only 19.4% of the area (16.7 million hectares) had been sown in Argentina by November 24, a delay of 20 percentage points compared to that in the same period last year. The weekly export sales report showed that for the week ending November 17, net soybean sales came in at 690,140 tonnes for the current marketing year and 10,000 for the next marketing year for a total of 700,140. Traders were looking for sales near 500,000 to 1.7 million tonnes.

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Cumulative soybean sales have reached 65.8% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 61.7%. Net oil sales came in at -97 tonnes (cancelations). Cumulative oil sales have reached 5.5% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 30.5%. Argentina crush continues to come in well below expectations and this may be a factor for the jump in US meal exports. Net meal sales came in at 516,444 tonnes for the current marketing year and 17,073 for the next marketing year for a total of 533,517 which was well above expectations for 150,000 to 300,000 tonnes. Cumulative meal sales have reached 39.6% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 40.4%. Sales need to average 166,000 tonnes per week to reach the USDA forecast.

CORN:

March corn has stayed inside of the November 15 range ever since. If the South America crop is as big as advertised, US corn could struggle to move on the export market. However, sales are strong this past week and ethanol demand is improving. If Argentina weather continues on a drier trend, traders might begin to take notice soon. The weekly export sales report showed that for the week ending November 17, net corn sales came in at 1,850,271 tonnes for the current marketing year and 628,054 for the next marketing year for a total of 2,478,325. Cumulative sales have reached 32.5% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 44.6%.

Ethanol producer margins have improved, and this may help boost ethanol production over the near term. The amount of corn used in last week's production is estimated at 104.6 million bushels. Corn use needs to average 102 million bushels per week to meet the USDA's forecast. Sluggish export sales may already be priced in the market with the November break, and the market is still operating under the positive technical influence of the November 15 sweeping reversal. With the protests in Brazil earlier last week which blocked roads in Mato Grosso, truck freight jumped 20% and this may help narrow the differential between US and Brazil export prices.

WHEAT:

The wheat market remains in a steady downtrend off of the October 10 peak. A more steady flow of grain from the Ukraine plus the lack of a major production issue from key exporters except for Argentina has kept the market in a steady downtrend. In addition, US wheat is not that competitive on the world market. Egypt's wheat reserves are enough for more than five months of consumption. While Ukraine crop might be smaller, Russia has seen a record production this year and will likely move the wheat onto the world market. The weekly export sales report showed that for the week ending November 17, net wheat sales came in at 511,769 tonnes from trade expectations for 250,000 to 600,000 tonnes.

Cumulative sales have reached 63.0% of the USDA forecast for the 2022/2023 marketing year versus a 5 year average of 64.2%. Sales need to average 190,000 tonnes per week to reach the USDA forecast. Argentina's breadbasket region of southern Buenos Aires and La Pampa provinces will see the wheat harvest shrink year-on-year after drought and frosts, according to a Nov. 23-24 crop tour. The harvest, which starts in the region next month, is forecast at 3.7 million tonnes as compared with 5.3 million last year. Farmers in India have planted the crop on 15.29 million hectares (37.8 million acres) of land as of Nov. 25, an increase of 10.5% from a year earlier, according to the farm ministry. The crop is harvested in March-April.

HOGS:

February hogs have stayed in a choppy consolidation pattern since October 19, but the short-term cash fundamental news remains bearish, and the market looks vulnerable to more long liquidation selling over the near term. Pork production normally declines by 100-300 million pounds from the fourth quarter to the

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first quarter. This year, production is expected to decline just 65 million pounds versus 281 million pounds last year. This is a bearish factor. The cash market remains in a short-term downtrend, and pork product prices remain in a downtrend as well.

The USDA pork cutout, released after the close Friday, came in at $86.88, down $1.19 from Wednesday and down from $90.86 the previous week. This was the lowest the cutout had been since January 18. The CME Lean Hog Index as of November 22 was 86.17, down from 86.54 the previous session and 88.22 the previous week. The USDA estimated hog slaughter came in at 465,000 head Friday and 328,000 head for Saturday. This brought the total for last week to 2.223 million head, down from 2.599 million the previous week and 2.255 million a year ago. Estimated US pork production last week was 478.1 million pounds, down from 558.4 million the previous week and 488.7 million a year ago.

US pork export sales for the week ending November 17 came in at 45,768 tonnes for 2022 delivery and 4,401 for 2023 for a total of 50,169. This was up from 26,189 the previous week and the highest since March 2021. Cumulative sales for 2022 have reached 1.503 million tonnes, down from 1.763 million a year ago and the lowest since 2018/19. The five-year average is 1.630 million. The largest buyer this week was Mexico at 18,799 tonnes, followed by Japan at 10,427 and Canada at 7,020. Mexico has the most commitments for 2022 at 646,800 tonnes, followed by China at 215,200 and Japan at 202,300.

CATTLE:

April cattle remains under the negative technical influence of the November 23 sweeping key reversal. The market experienced follow-through selling on Friday, and the short-term consumer demand tone could
be negative early this week with weakness in the stock market and concerns about Asian demand. The supply outlook for April cattle is clearly bullish, with first quarter beef production expected to be down 405 million pounds from the fourth quarter, for its largest decline for that period since 2019 and the second largest since 2014. In addition, first quarter production is expected to be down 4.5% from 2022 and second quarter is expected to be down 7.3% on the year. A continued technical correction over the near term looks like a buying opportunity.

The USDA boxed beef cutout was down 61 cents at mid-session Friday and closed 73 cents lower at $251.83. This was down from $257.10 the previous week and was the lowest it had been since October 18. Cash live cattle prices were significantly higher last week. As of Friday afternoon, the five-day, five-area weighted average price was $156.10, up from $152.65 the previous week. The USDA estimated cattle slaughter came in at 112,000 head Friday and 81,000 head for Saturday. This brought the total last week to 581,000 head, down from 674,000 the previous week but up from 568,000 a year ago. The estimated average dressed cattle weight last week was 836 pounds, up from 835 the previous week but down from 843 a year ago. The 5-year average weight for that week is 838.4 pounds.

Estimated beef production last week was 484.6 million pounds, up from 477.4 million a year ago. US beef export sales for the week ending November 17 came in at 12,886 tonnes for 2022 delivery and 4,012 for 2023 for a total of 16,898. This was down slightly from 17,255 the previous week but above the four-week average of 15,407. Cumulative sales for 2022 have reached 986,700 tonnes, down from 1.021 million a year ago but the second highest on record for this time of year. The five-year average is 884,400. The largest buyer this week was South Korea at 6,361 tonnes, followed by China at 4,449 and Japan at 2,217. South Korea has the most commitments for 2022 at 275,400 tonnes, followed by Japan at 251,400 and China at 165,000.

COCOA:

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After holding within a tight consolidation zone in front of the Thanksgiving holiday, cocoa's abrupt turnaround has lifted the market back above its 200-day moving average. However, bearish demand indicators overnight have pressured the cocoa market early this week. With recent bullish supply developments providing support, cocoa may bounce if outside forces weaken. For the week, March cocoa finished with a gain of 28 points (up 1.1%) which was a third positive weekly result over the past 4 weeks. In addition, cocoa had a positive weekly reversal from Wednesday's 3-week low. "Black Friday" sales in the US reached a record high and were 2.3% above last year's levels, which helped to soothe cocoa's near-term demand concerns and provided early support.

While they saw minimal to mild gains, Euro zone and US equity markets, the Eurocurrency and the British Pound all finished Friday in positive territory which provided carryover support to the cocoa market, but those outside markets were under pressure early this week which weighed on cocoa prices. While recent weekly totals have come in above the comparable period last year, Ivory Coast's 2022/23 port arrivals remain well behind last season's pace, due in part to a dockworker strike in the port of San Pedro. A lack of adequate fertilizer and pesticide use for this season's main crop will have a negative impact on full-season production throughout West Africa.

COFFEE:

Coffee prices were able to finish last week on an upbeat note. For the week, March coffee finished with a gain of 9.95 cents (up 6.4%) which broke a 2-week losing streak. In addition, coffee was able to overcome a more than 1.5% selloff in the Brazilian currency which put carryover pressure on the coffee market as extended weakness in their currency will encourage Brazil's production to market their remaining coffee supply to foreign customers.

Several analysts (including the USDA) have dialed back their forecasts for Brazil's upcoming 2023/24 coffee production, which is an "off year" in their biannual crop cycle. Both Brazil and Colombia have had a negative impact on their coffee production from the current La Nina weather event which is expected to continue into the first quarter of 2023. ICE exchange coffee stocks rose by 7,189 bags Friday to reach their highest level since September. Coffee waiting to be graded fell by 4,413 bags, however, which may be evidence that the surge of coffee to ICE warehouses may be close to an end.

COTTON:

The export sales report last Friday was disappointing for the cotton market. Instead of net sales, there were net cancellations of 116,428 bales for old crop, with China cancelling 109,546. This seemed to verify concerns about Covid lockdowns and their potential effects on Chinese demand. The report showed sales for the week ending November 17 net cancellations of 116,428 bales for the 2022/23 (current) marketing year and net sales of 12,323 for 2023/24, for a total of -104,105. This was down from 33,155 the previous week and the lowest since April 2020.

Cumulative sales for 2022/23 have reached 8.685 million bales, up from 8.970 million a year ago and the lowest since 2016/17. Sales have reached 732 of the USDA forecast for the marketing year versus a five-year average of 66%. The largest buyer this week was Mexico at Turkey at 12,212 bales. In addition to China's cancelling 109,546 bales, Pakistan canceled 14,079. China has the most commitments for 2022/23 at 1.860 million bales, followed by Pakistan at 1.731 million and Turkey at 1.154 million. March cotton closed sharply lower on Friday and down for the second straight week. China's cotton production is expected to increase 5.8% in 2022, despite a severe drought in the Yangtze River region.

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SUGAR:

While sugar has dealt with increased production from India and Thailand, the bearish shift in Brazil's production outlook kept the market on the defensive last week. Unless it can find fresh support from key outside markets, sugar is likely to extend its pullback. For the week, March sugar finished with a loss of 72 ticks (down 3.6%) which broke a 3-week winning streak. Crude oil and RBOB gasoline weakness is seen as a bearish force and combined with a sharp selloff in the Brazilian currency drove sugar prices into negative territory last Friday.

The Brazilian trade group Unica released their latest supply report which showed Center-South sugar production during the first half of November came in at 1.665 million tonnes which was 162% above last year's total. The Center-South cane crush was 109% above last year's total while Center-South ethanol production was 72% above last year's total. Sugar's share of crushing was 48.4% which compares to 39.6% over last year's timeframe. Center-South domestic ethanol sales during the first half of November were 20% above last year's comparable total. While there were early delays to this season's harvesting and crushing, Center-South sugar production and sugar's share of crushing are ahead of last season's pace.

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