ADM Investor Services, Inc.

CHICAGO

ADM Investor Services
141 W. Jackson Blvd.
Suite 2100A
Chicago IL 60604
www.admis.com

LONDON

ADM Investor Services International
4th Floor
Millennium Bridge House
2 Lamberth Hill
London EC4 V3TT
www.admisi.com

HONG KONG

ADMIS Hong Kong
Suite 908-10
9/F Lincoln House
Taikoo Place
979 Kings Road
Hong Kong
www.admis.com.hk

MARKET OUTLOOK FOR UNITED STATES & SOUTH AMERICA

Grain Market Outlook for the United States and South America
By Steve Freed, Vice President of Grain Research, ADM Investor Services

Financial Market Outlook for the United States
By Alan Bush, Senior Research Economist, ADM Investor Services

The following report is an overview of the US and South American economic, political and crop situations as of ***April 25, 2017.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-March to mid-April, soybean futures traded lower. Corn and wheat futures have traded mostly sideways. USDA increased the World 2016/17 soybean, corn and wheat carryouts from March. USDA also raised the 2017 Brazilian soybean crop. Potential changes to US trade policy and a delay in attempts to stimulate the US economy could impact the financial and grain markets.

July soybean futures are trading near $9.65. July corn is trading near $3.73. July Chicago wheat is trading near $4.23.

The US stock market is trending higher and is now near 21,000. June crude oil futures are trading near $49.10. June gold futures are trading near $1,260.

UNITED STATES

- The USDA estimates the US 2016/17 corn carryout at 2,320 million bushels (mil bu), unchanged from March.

- The USDA estimates the US 2017/18 corn carryout at 2,215 mil bu.
- The USDA estimates the US 2016/17 soybean carryout at 445 mil bu, up 10 mil bu from March.
- The USDA estimates the US 2017/18 soybean carryout at 507 mil bu.
- The USDA estimates the US 2016/17 wheat carryout at 1,159 mil bu, up 30 mil bu from March.
- The USDA estimates the US 2017/18 wheat carryout at 930 mil bu.

WORLD

- The USDA estimates World 2016/17 corn ending stocks at 223.0 million metric tons (mmt), up 2.3 mmt from March.
- The USDA estimates World 2016/17 soybean ending stocks at 87.4 mmt, up 4.6 mmt from March.
- The USDA estimates World 2016/17 wheat ending stocks at 252.3 mmt, up 2.4 mmt from March.

ARGENTINA

- The USDA estimates the 2017 Argentine soybean crop at 56.0 mmt, up 0.5 mmt from March, vs 56.8 mmt in 2016. The 2017 Argentine corn estimate at 38.5 mmt (up 1.0 mmt from March) compares with 29.0 mmt in 2016.
- In January, Argentina's economy expanded on an annual basis for the first time in almost a year, suggesting that activity is continuing to firm up, albeit at an uneven pace. Comprehensive data for Q4 GDP point to an increase in export volumes as the main driver behind the improved momentum while the domestic economy is stuck in the doldrums.

BRAZIL

- The USDA estimates the 2017 Brazilian soybean crop at 111.0 mmt, up 3.0 mmt from March, vs 96.5 mmt in 2016. The 2017 Brazilian corn crop is estimated at 93.5 mmt, up 2.0 mmt from March, vs 67.0 mmt in 2016.
- Monthly data suggests the economy has turned a corner following the sharp contraction of GDP in 2016. The manufacturing PMI in March recorded the best result in over two years, and both business and consumer confidence rested at multi-year highs. In addition, the country logged a record $7.1 billion trade surplus in March, aided by strengthening commodity prices. However, dynamics are still weak, highlighted by a worsening labor market in February.

US STOCK INDEX FUTURES

S&P 500 and Dow futures made new historical highs in early March. However, pressure developed more recently due to delays in healthcare and tax reform. In addition, there are geopolitical tensions, including the cruise missile attack on Syria, saber rattling in North Korea and the political uncertainties of the upcoming elections in France.

However, geopolitical pressures have been mitigated by an optimistic corporate earnings outlook. First-quarter corporate earnings for S&P 500 companies are expected to increase 10.4%, which would be the best year-to-year gain since the third quarter of 2011, when earnings grew 18%. In addition, revenues are anticipated to be up 7.1%, which would be the best rate of growth since the 11.1% gain in the third quarter of 2011.

Economic reports have been mixed. On the bullish side, the fourth-quarter gross domestic product report showed a 2.1% increase, which compared to expectations for a 2% gain, and personal consumption was up 3.5% when an advance of 3% was anticipated. In addition, the gross domestic product price index gained 2%, as expected. On the bearish side, nonfarm payrolls increased only 98,000, when a gain of 180,000 was expected, and private payrolls were up 89,000 vs an anticipated increase of 170,000. The average hourly earnings portion of the report, which some analysts believe is becoming more important than nonfarm payrolls, came in up .19%, which compared to expectations for an increase of .2%.

There was also some pressure when the minutes from the Fed's March 15 policy meeting showed the Federal Reserve might start to whittle down its $4.5 trillion portfolio of Treasury and mortgage securities later this year. The U.S. central bank acquired these massive securities holdings through asset purchase programs during and following the 2007-2009 recession with the purpose of holding down long-term interest rates and kick-starting economic growth. The Fed minutes also showed that some officials believe that stock prices are high relative to valuation measures.

Our analysis suggests recent weakness in stock index futures is only temporary. Once the domestic and overseas political uncertainties settle down, traders will again focus on the long-term bullish interest rate influence, an expanding global economy and an improving corporate earnings outlook.

CRUDE OIL

The production cuts from the Organization of the Petroleum Exporting Countries provided underlying support for crude oil earlier this year. However, early in March prices fell as the bullish impact of OPEC cuts was offset by growing U.S. crude supplies. The latest weekly data published by the U.S. Energy Information Administration showed crude oil output was 9.24

million barrels a day, with rising output mostly coming from shale producers, who are able to react to price moves quickly by adjusting their production. In addition, the U.S. oil rig count in the week of April 13 rose for the 13th consecutive week, according to recent data. At a total of 683, the current number is the highest in two years.

While many analysts expect OPEC to continue cutting production, with Saudi Arabia set to support the extension, there are many reports that are now suggesting that a six-month extension of the cuts is largely factored into the market.

It is likely that an expanding global economy will be the dominant influence that takes crude oil prices higher.

PRECIOUS METALS

Since the December 2016 lows, gold has rallied over $170.00 an ounce and silver almost $3.00. Much of this strength early in the year was attributed to ramped-up inflation expectations that were being stoked by President Donald Trump's tax cuts and infrastructure spending plans. However, more recently these bullish factors have faded a bit and were replaced by strong flight-to-quality flows due to geopolitical risks.

In addition, there is a supportive impact on precious metals from the weaker U.S. dollar. Some of the pressure on the greenback recently was due to President Trump's comments that the dollar was too strong. Gold and silver, but especially gold, have all of the major fundamentals lined up on the bullish side.

U.S. DOLLAR

A massive political headwind developed earlier this year on the belief that the Trump administration was not interested in pursuing a strong U.S. dollar policy and, in fact, it could be interested in just the opposite. As mentioned, bolstering this belief were the president's comments that the U.S. currency is "too strong." In addition, U.S. Treasury Secretary Steven Mnuchin said an "excessively strong dollar" could have a negative short-term impact on the economy.

Since then, the U.S. dollar has shown a marked tendency to underperform the news. For example, the greenback initially advanced when the Fed policy minutes showed the Fed is likely to pare its massive balance sheet later this year. However, all of the gains were given back when traders weighed the potential negative impact a delay in tax cuts could have on economic growth and the dollar.

In addition, while the Federal Open Market Committee is on a measured path to increase rates, other major central banks, such as the European Central Bank, are likely to scale back their accommodative policies. The Bank of England is on course to increase its key lending rate next year.

In light of the administration's apparent disinterest in a strong dollar policy in addition to the greenback losing its interest rate differential expectation advantage, it will be difficult for the U.S. dollar to match last year's gains.

EURO CURRENCY.

Since multiyear lows for the euro currency were made late last year, prices have stabilized in 2017, with the currency of the euro zone well supported by mostly stronger-than-anticipated economic reports. For example, there was news that euro area unemployment declined to its lowest level in almost eight years, and the average jobless rate in February fell to 9.5% from 9.6% in January.

In addition, the euro currency firmed after a report showed German investor confidence increased more than estimated. The ZEW Center for European Economic Research said its index of investor and analyst expectations in April increased to 19.5 from 12.8 in March. The median estimate called for an advance to 14.8. Pressure developed more recently, however, when European Central Bank President Mario Draghi warned that it was too early to reduce the bank's massive monetary stimulus.

In light of recent generally upbeat economic data from the euro zone and the Trump administration's apparent disinterest in a strong dollar policy, the euro currency is likely to be well supported.