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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

The following report is an overview of the US and South American economic, political and crop situations as of ***April 18, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-March to mid-April soybean futures traded mostly higher. This is due to talk of higher U.S. soymeal demand. Higher demand was offset by concern over the U.S./China trade dispute. Corn and wheat futures also trended mostly higher, but are now working lower due to talk of better U.S. spring weather. In April, the USDA lowered the 2017/18 soybean carryout and raised the U.S. 2017/18 corn and wheat carryout due to lower feed and residual. Some analysts may now feel prices have factored in the lower South America crops and now look forward to the USDA May 2018/19 supply and demand report and U.S. spring weather.

July soybeans are near 10.55. July corn is near 3.90 and July Chicago wheat is near 4.85. The Dow Jones Industrial Average is near 24,800 and has been in a steady uptrend since the April 2 low. May crude oil futures are near $68.15 on talk of better global demand. Global geopolitical issues kept currency and financial markets volatile, while growing global economies though remain supportive to equities. Uncertainty over the outcome of NAFTA and talk of normal 2018 global supply could limit the upside in corn prices. Talk of higher Russia 2018 wheat supplies could limit the upside in wheat.

United States

USDA estimates U.S. 2017/18 corn carryout near 2,182 (+55)

USDA estimates U.S. 2017/18 soybean carryout near 550 (-5)

USDA estimates U.S. 2017/18 wheat carryout near 1,064 (+30)

World

World 2017/18 corn end stocks at 197.9 mmt (-1.4)

World 2017/18 soybean end stocks was estimated at 90.8 mmt (-3.6)

World 2017/18 wheat end stocks was estimated near 271.2 mmt (+2.3)

Argentina

The USDA estimate of the Argentina 2018 soybean crop is at 40.0, while 2018 corn was estimated at 33.0. GDP growth in annual terms accelerated to a multi-year high in Q4 2017. The expansion came in above market estimates and underscores a domestic economy that is showing signs of recovery, with declining unemployment and robust industrial production.

Brazil

The USDA Brazil 2018 soybean crop is estimated to be near 115.0. Brazil's 2018 corn crop is estimated to be near 92.0 mmt. The economic recovery appears to be on track, after growth accelerated in the final quarter of 2017. Business and consumer confidence hit multi-year highs in March, and the manufacturing PMI rose further into expansionary territory in the same month. However, economic slack lingers, and the improvement is expected to be gradual.

Stock Index, Precious Metals and Currency Market Outlook
by Alan Bush, Senior Financial Economist, ADM Investor Services

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Stock Index Futures

Near term lows were made on April 2, as traders centered on the potential negatives of the ongoing global trade tensions. President Donald Trump threatened to impose tariffs on an additional $100 billion in Chinese goods. In response China warned it would fight back "at any cost" with new trade measures if the United States continued on its path of protectionism.

However, since then prices have recovered, as traders look past geopolitical risks, including the U.S. led missile attack on Syria and focus more on what is likely to be the strongest earnings season in seven years. Some analysts are predicting quarterly earnings for S&P 500 companies will increase 17% to 18.6% from a year ago.

Also, there was support on news that China’s economy grew 6.8% in the first quarter of 2018 from a year earlier, when 6.7% was expected and on reports that China's central bank will reduce its reserve requirement ratio for qualified banks by one percentage point, which will be effective April 25.

Longer term, traders will probably gradually shift their focus of attention more toward earnings and the still accommodative global interest rate environment.

U.S. Dollar

From January through mid-April the U.S. dollar traded in a broad trading range. In this period the greenback received only temporary support from mostly better than expected economic news, including strong housing data. Housing starts increased 1.9% in March from the prior month, when a 1.6% increase was expected and residential building permits rose 2.5%, which compares to the estimate of a .8% gain. Also, retail sales rose .6% in March from the previous month, after three preceding months of declines. Economists expected a .3% increase.

However, more recently the U.S. dollar advanced above this range due to increasing prospects of a fed funds rate hike in June. Follow through sustained gains are unlikely, since a U.S. dollar that is too strong could prompt the Trump administration to talk down the greenback again as it did on April 17. The U.S. dollar fell when President Donald Trump tweeted, "Russia and China are playing the currency devaluation game as the U.S. keeps raising interest rates. Not acceptable!" Treasury Secretary Mnuchin later attempted to walk back the President’s comments.

Euro Currency

The euro currency also has been in a broadly based trading range, but is currently near the bottom of that range. There was temporary support for the currency of the euro zone after a report showed house prices recorded their biggest annualized gain last year since 2006. House prices in the last quarter of 2017 were 4.2% above the comparable quarter a year ago.

There as some pressure on the euro currency on news that German output unexpectedly declined. Output dropped 1.6% in February compared to the estimate of a .2% gain and also when the European Union's statistics agency said industrial output in February was .8% lower than in January. Economists anticipated a .2% increase.

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Crude Oil

Crude oil prices hit three year highs as government data showed U.S. stockpiles declined by more than analysts were expecting. The U.S. Energy Information Administration reported that crude stockpiles fell 1.1 million barrels in the week ended April 13, which exceeded average estimates from analysts. In addition, gasoline inventories fell by 3 million barrels in the previous week and distillate inventories fell by 3.1 million barrels.

Traders interpreted the latest storage data as a sign that the global glut in crude oil continues to be reduced, as major oil exporters held back production and inventories declined. In addition, prices have also been supported by geopolitical risks to supply in the Middle East.

Crude oil futures are likely to continue to advance due to an improving global economy and reduced geopolitical tensions.

Precious Metals

Gold prices are holding up relatively well in spite of prospects of higher interest rates. Federal Reserve officials have continued to point to two or three more interest rate increases in 2018. The bearish impact of tighter Fed policies were offset by flight to quality buying in light of geopolitical worries, including trade tensions, sanctions against Russia and conflict in the Middle East. In spite of a better tone to some of the geopolitical issues recently, gold has held up relatively well.

Prospects of increased global inflation levels and an improving global economy should push gold prices higher in the longer term.

Silver futures broke out to the upside on April 18, but a perceived easing of geopolitical tensions caused the gains to be given back more recently. The longer term supply and demand fundamentals remain supportive for silver futures.