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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 ***August 21, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-July to mid-August soybean futures have traded higher then lower on initially hope that U.S. and China can resolve their trade war. The bearish USDA August crop report sent prices lower. Corn futures followed soybeans. Wheat futures rallied on concern about world production, but have dropped recently as Russia has turned into an active seller of wheat. In August, the USDA estimated the 2018/19 soybean yield, crop and carryout to be record high. The USDA estimated a record U.S. 2018 corn yield, but tried to increase demand to offset the higher production.

November soybeans are near $8.85. December corn is near 3.75. December Chicago wheat is near 5.50. The S&P 500 index is near 2875 and September crude oil futures are near $67.25. Global geopolitical issues have kept currency and financial markets volatile. China's economy may be slowing. The U.S./China trade issue is a big soybean price unknown. Approaching U.S. harvest and uncertainty over the outcome of NAFTA could limit the upside in corn prices.

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United States

USDA estimates U.S. 2017/18 corn carryout near 2,027 (unch)

USDA estimates U.S. 2018/19 corn carryout near 1,684 (+132)

USDA estimates U.S. 2017/18 soybean carryout near 430 (-35)

USDA estimates U.S. 2018/19 soybean carryout near 785 (+205)

USDA estimates U.S. 2018/19 wheat carryout near 935 (-50)

World

World 2017/18 corn end stocks at 193.3 mmt (+1.6)

World 2018/19 corn end stocks at 155.5 mmt (+3.5)

World 2017/18 soybean end stocks were estimated at 95.6 mmt (-0.4)

World 2018/19 soybean end stocks were estimated at 105.9 (+7.6)

World 2017/18 wheat end stocks were estimated to be near 273.1 mmt (-0.4)

World 2018/19 wheat end stocks were estimated to be near 259.0 (-1.9)

Argentina

Recently released data shows that the financial storm that hit the country in the second quarter, coupled with a prolonged drought, took a heavy toll on the economy. In an effort to reduce the fiscal deficit—one of the goals of the stand-by arrangement reached with the IMF in June—the government announced it will gradually raise public transport tariffs in the Buenos Aires metropolitan area. Moreover, the federal housing plan will be discontinued, and capital spending will be cut.

Brazil

Weak economic data continues to roll in for the second quarter, confirming that the nationwide truckers' strike derailed the recovery. Economic activity recorded the largest contraction on record in May. Retail sales plunged in the same month and the manufacturing PMI fell into contractionary territory in June.

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

The following report is an overview as of August 24, 2018 and is intended to be informative and does not guarantee price direction.

Stock Index Futures

On Wednesday, August 22 the bull market in S&P 500 futures turned 3,453 days old, surpassing the previous record of 3,452 days that took place between October 1990 and March 2000. This milestone makes this bull market the longest such streak on record. It is widely accepted that the bull market started on March 9, 2009.

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Stock index futures continue to be supported by mostly stronger than expected economic reports. For example, U.S. retail sales grew strongly in July, increasing .5% from the prior month. Economists had expected only a .1% increase. In addition, the Empire State Manufacturing Survey's general business conditions index increased to 25.6 in August from 22.6 in July. Consensus expectations had been for a reading of 20. There was only temporary pressure on futures when the Trump administration warned that it is prepared to impose more sanctions on Turkey if it doesn't release the American pastor who is facing 35 years in prison on disputed espionage charges.

Since the 2009 lows were made, there have been a multitude of geopolitical problems that temporarily adversely affected stock index futures, and every time stock index futures were able to recover. I believe the latest geopolitical issues, including global trade tensions and the problems in Turkey will only negatively affect stock index futures for a short time.

The still relatively low global interest rate environment and the mostly stronger than estimated U.S. corporate earnings reports remain supportive to stock index futures.

U.S. Dollar

Earlier this month the U.S. dollar advanced to a 14 month high, as the Federal Reserve is the most hawkish of all the world's major central banks. The probability of a fed funds rate hike at the Federal Open Market Committee's September 26 meeting is approximately 95%, according to financial futures markets. In addition, it is likely that there will be an additional rate increase in December. The Fed has already raised interest rates twice this year.

More recently, however, pressure on the greenback took place after President Trump criticized the Federal Reserve's interest rate increases. President Trump told Reuters in an interview earlier this week that he was "not thrilled" with Jerome Powell's rate increases and said the Federal Reserve should do more to help strengthen the economy.

Overall, interest rate differentials are on balance a little negative for the U.S. dollar.

Euro Currency

There was some support for the euro currency on news that Germany's economic growth accelerated in the second quarter. Germany's gross domestic product grew at a quarterly rate of .5%, or 1.8% in annualized terms. The European Union raised its first quarter growth estimate to an annualized rate of 1.5% from 1.2% growth that was reported in May. In addition, the European Union raised its second quarter growth estimate for the euro zone to 1.5% in annualized terms

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from 1.4% that was reported in late July.

There was some pressure on the euro after a report showed German manufacturing orders plunged in June. The economics ministry said total manufacturing orders dropped 4.0% compared to May. Economists had forecast a .5% decline.

In addition, gains in the currency of the euro zone were limited by concerns that the currency crisis in Turkey could hurt euro zone banks. Also, there is uncertainty about the Italian government's planned budget.

Interest rate differential expectations are on balance slightly friendly for the currency of the euro zone.

Crude Oil

Futures bounced off of the mid-August lows due to signs of declining U.S. petroleum inventories. The American Petroleum Institute this week released data showing a 5.2 million barrel decline in U.S. crude oil stockpiles for the week ended August 17. U.S. inventory data has been volatile in recent weeks, with the Energy Information Administration last week reporting a 6.8 million barrel increase in crude stocks for the previous week.

In addition, prices have also been supported by renewed trade negotiations between the U.S. and China, along with upcoming U.S. sanctions on Iran's oil industry that are expected to reduce the Islamic Republic's exports. The re-imposition of economic sanctions on the Islamic Republic resulted after President Trump in May pulled the U.S. out of a 2015 international agreement to reign in Iran's nuclear program. Some sanctions took effect this month, although measures that specifically target the Islamic Republic's oil industry are scheduled to be in place by November.

Crude oil prices are likely to firm in the months ahead as the U.S. economy remains strong and predictions of a dramatic slowdown in the global economy appear to be overstated.

Gold

Gold futures dropped to their lowest levels in a year last week with much of the pressure on the being attributed to gains in the U.S. dollar. In addition, prospects of tighter credit from the Federal Reserve weighed on prices. However, gold futures advanced more recently and the U.S. dollar fell after President Donald Trump said he wasn't happy about Federal Reserve interest rate increases. In addition, ramped-up political uncertainty has been supportive.

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Currently there are indications that a bottom may be forming, as bearish sentiment on gold has surged with speculators having become extremely short. By some measures, speculators have not been this bearish since late 2001, which could be a contrarian signal for the yellow metal.

In spite of recent short covering gains for gold, the next sustained bull market for precious metals may not emerge until there is a resolution to one degree or another to the still raging global trade wars.

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