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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 **December 19, 2018.** This report is intended to be informative and does not guarantee price direction.*

From mid-November to mid-December soybean, corn and wheat futures have traded mostly higher. Hope for a resolution to the U.S.-China trade war offered support. Talk of higher 2019 crops offers resistance. The USDA December crop report was neutral to negative. In December, the USDA estimated the 2018/19 soybean carryout was unchanged from November. The U.S. corn carryout was increased due to the lower estimate of ethanol production. The USDA increased the U.S. and world wheat carryout.

March soybeans are near 9.15. March corn is near 3.84 and March Chicago wheat is near 5.24. Global geopolitical issues and a slower world economy have kept currency, energy and financial markets volatile. South American weather is now key to soybean prices. Managed funds continue to be net soybean, soyoil, soymeal and wheat shorts and long corn. Central Brazil has turned dry and Argentina is too wet, but weather forecast looks for improvement in both areas.

United States

USDA estimates U.S. 2018/19 corn carryout near 1,781 (+45)
USDA estimates U.S. 2018/19 soybean carryout near 955 (unch)
USDA estimates U.S. 2018/19 wheat carryout near 974 (+25)

World

World 2018/19 corn end stocks were estimated at 308.8 mmt (+1.3)
World 2018/19 soybean end stocks were estimated at 115.3 (+3.3)
World 2018/19 wheat end stocks were estimated at 268.1(+1.4)

Argentina

The Argentine economy is expected to have remained in recession in the third quarter, battered by the turmoil in financial markets and a sharp depreciation of the peso. In the fourth quarter, economic weakness likely persisted although macroeconomic rebalancing continued. Consumer confidence was deep in negative territory in October-November, while the trade balance recorded the second consecutive surplus in October.

Brazil

The recovery regained lost momentum in the third quarter after growth slid in the second quarter due to disruptions from the May-June truckers' strike. Soaring investment led the acceleration, while imports also boomed due to higher imports of oil platforms under a special customs program. Incoming data for the fourth quarter suggests that the gradual growth revival continues.

The recovery is seen picking up the pace next year, thanks to an improving labor market, rising credit growth and a market friendly government agenda. The GDP is seen growing 2.3% in 2019, which is unchanged from last month's forecast, and expanding 2.5% in 2020.

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 December 20, 2018 and is intended to be informative and does not guarantee price direction.

Stock Index Futures

Stock index futures have come under pressure due to the headwinds of the U.S.-China trade war, prospects of a too hawkish Federal Reserve, the uncertainties of a possible U.S. government shutdown and political instabilities in Europe.

In addition, most economic reports have come in weaker than expected. For example, nonfarm payrolls increased 155,000 in November when economists forecast payrolls increasing by 200,000. Revised figures showed employers added 237,000 jobs in October and 119,000 in September for a net downward revision of 12,000. The average workweek fell to 34.4 hours from 34.5 hours in October.

The next advance for stock index futures will take place when central banks around the world that are hawkish, such as the Federal Reserve, realize they need to be less aggressive in hiking interest rates and those central banks that are still accommodative, such as the European Central Bank, will need to remain accommodative longer. This is likely to take a while, but downward pressure on interest rates globally will ultimately rescue this market.

U.S. Dollar

The U.S. dollar advanced to a 19 month high in mid-December due to bullish interest differential expectations that were prompted by the ongoing belief that the Federal Reserve would continue to be the most hawkish of the world's major central banks.

In addition, there was support for the greenback due to safe haven flows in light of the continuing global growth worries and rising political risks in Italy and the U.K.

The greenback was able to hold up well in spite of the on balance weaker than expected economic reports in the U.S. For example, there was news that the Empire State manufacturing survey significantly fell in December, declining to 10.9, which is down from 23.3 in November. Economists were expecting 20.1. This is the weakest sentiment in the area's manufacturing sector since July 2017.

If I am correct in my belief that the Federal Open Market Committee will increase the fed funds rate no more than one time next year, gains in the U.S. dollar will be limited.

Euro Currency

Since the late September highs, the euro currency has steadily marched lower as interest rate differential expectations continued to undermine the currency of the euro zone.

Also, many of the economic reports out of the euro zone have come in weaker than analysts' expectations. For example, the Ifo Institute's measure of corporate confidence in Germany, Europe's largest economy, fell to 101.0 in December from 102.0 in November. This was the fourth consecutive decline.

The European Central Bank left interest rates unchanged at its December 13 policy meeting and reaffirmed its plans to end its asset purchase program. The ECB previously signaled bond purchases would conclude at the end of 2018. However, the central bank softened the move by promising to hold its inventory of bonds for an extended period of time past the date when it starts raising key ECB interest rates. The Governing Council of the ECB kept the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility at 0.00%, 0.25% and minus 0.40%, respectively.

There was pressure on the euro when ECB President Mario Draghi said recent economic data has been weaker than expected and the central bank is ready to adjust all instruments, if necessary. Draghi also said headline inflation will decrease over the coming months.

I believe the ECB has found themselves in a dilemma, when earlier this year the central bank promised to scale back its accommodation at the end of 2018, and now finding themselves in a situation where it may have to extend accommodation in 2019.

There was a limited recovery recently on news that Italy's populist government secured a deal with the European Union over its spending plans. Under the compromise, Italy will lower its headline deficit for next year to 2.04% of output from 2.4% that it had planned previously.

Crude Oil

Since early October, crude oil futures have steadily worked lower, falling to their lowest level in 15 months, as investors have been increasingly concerned about oversupply, the health of the global economy and a Federal Reserve that continues to hike interest rates. In addition, there are fears of declining fuel consumption.

Prices have declined in spite of reports that Saudi Arabia plans to reduce its oil output by more than the December commitment. It was reported that Saudi Arabia will curb its crude oil output by approximately 322,000 barrels a day from October, which is up from the previous 250,000 barrels a day reduction announced earlier this month. In addition, there was little help from declining oil inventories in the U.S. The U.S. Energy Information Administration said crude stockpiles fell by 500,000 barrels in the week ended December 14, which is less than analysts' expectations for a 3.1 million barrel draw.

Longer term, crude oil futures are likely to come under additional downside pressure.

Gold

The lows were made in mid-August, which coincided with highs for the U.S. dollar. Gold futures have been able to trend higher in spite of tighter credit from the Federal Reserve, including the fed funds rate increase on December19 and predictions of two more rate hikes from the Fed in 2019 and other one in 2020.

Gold futures advanced to five month highs as safe haven demand continues. In addition, the technical picture has brightened, as major downtrend lines have been taken out on the upside. The next upside objective is at the 1276-1282 gap area on the weekly charts.

Further gains are likely for gold futures.

MARKET OUTLOOK FOR CHINA AND ASIA REGION

By Alex Poon, ADMIS Hong Kong & Kevin Yang, ADMIS Shanghai Representative Office

*The following is an overview of the Chinese and Asian economic, political and crop situations as of **20th December 2018**. This report is intended to be informative and does not guarantee price direction.*

The key Chinese and Asian event over the last 30 days has been the positive trade talk between the U.S. and China, and China restarting buying U.S. soybeans. Japan recorded negative growth since exports to the U.S. and China decelerated significantly. The Bank of Korea hiked interest rates.

CHINA

- In November, the China CAIXIN manufacturing PMI edged up to 50.2 from 50.1 in October, while the official manufacturing PMI slipped to 50.0 from last month's 50.2. Analysts attributed that difference to the recent policies to support private sectors, which is the area that the CAIXIN manufacturing PMI survey covers. New orders slightly recovered, primarily cushioned by domestic demand. New export orders continued to decline for eight months in a row. Job shedding at factories continued, but the confidence in business outlook for the next 12 months slightly picked up. In total, domestic demand improved while external demand remained suppressed and the economy stayed weak, but didn't deteriorate significantly.
- China's consumer and industrial inflation both eased in November. The CPI increased 2.2% year-on-year, while the PPI grew 2.7% from last year. The decline of pork and vegetable prices are the main reasons of the soft CPI reading, while plunging crude oil prices drove the PPI down. Looking ahead, as pork and food prices are expected to further drop, the CPI will probably continue to decline in December. On the industrial side, weak production and demand might drag the PPI lower.
- China's exports in dollar-dominated terms increased 5.4% year-on-year in November, while imports grew 3% in the meantime. The monthly trade surplus expanded 16.4% from last year to $44.74 billion. In the context of the "trade war," where buyers rushed to make shipments before higher tariff kicked in, exports to the U.S. grew 9.8% from last year and

imports from the U.S. shrank 25% year-on-year, pushing the trade surplus from the U.S. to $35.55 billion, up 27.5% year-on-year. Given that President Xi and President Trump have agreed to put a pause on the tariff hiking and China has started purchasing U.S. goods such as soybeans, the trade surplus for December is expected to ease.

- As expected, China's soybean imports fell sharply in November to 5.38 million tons, down 38% from a year earlier, because buyers stopped buying U.S. soybeans amid the "trade war" with the U.S. In the first 11 months, China imported 82.30 million tons of soybeans, down 4.3% year-on-year. On December 2, the U.S. agreed to postpone the scheduled tariff hike on January 1, 2019, because the two countries reached an agreement to resolve the trade problems. China then restarted purchasing U.S. soybeans in the middle of December. Shipments for the purchases are scheduled in January to March of 2019. The pressure of supply shortages of soybeans ahead of Chinese New Year holiday might be eased.

OTHER ASIAN COUNTRIES

- Japan's Q3 annualized GDP growth rate was at -2.5%, recording the worst performance since 2014 Q2, as investments and exports slowed down. Japan's November exports year-on-year growth slowed down to 0.1%, below market expectation of 1.8% and down from the 8.2% growth in October, due to weakened exports to the U.S. and China. Despite weakening exports and a weaker economy, the BOJ still signaled confidence in Japan's economy, but they also warned that ramping up stimulus is possible due to rising economic risks.
- South Korea Q3 annualized GDP growth rate was at 0.6% and consumer price rose 2%, year-on-year, both meeting market expectation. November export growth was 4.5%, compared with market expectation of 6.6% with a 2.2% drop in exports to China. The BOK hiked its interest rate to 1.75% to prevent "financial imbalance," The BOK also kept its projection on 2018 annual growth unchanged at 2.7%.
- India's IMF latest data has shown that India has become the fastest growing economy, with a growth rate of 7.1% in GDP in 2018 Q3. The share of the economy in the world has increased to 3.2% in 2017. However, the Q3 GDP has disappointed the market because the rate was expected to be at 7.4%.
- Indonesia's central bank has kept its rate unchanged at 6% at its December meeting. Before the meeting, the benchmark interest rate has risen for six times in seven months from May to November. The central bank was worried that capital outflows and depreciation in the Rupiah will hurt the economy as the U.S. Fed has continued its rate hikes.

- Australia's November employment change surprised the market once again at 37,000 new jobs, compared to the forecast at 20,000 new jobs. However, the unemployment rate has risen to 5.1% from 5.0% unexpectedly. The Reserve Bank of Australia has kept its rate unchanged at a record low, and it is still optimistic on the economy. The Q3 GDP growth was 2.8%.
- New Zealand's Q3 annualized GDP growth rate was at 2.6%, below market expectation of 2.8%, and dropped from 3.2% previously. The weaken growth was mainly due to contracting manufacturing sector and it also recorded the slowest growth in five years. In November, the RBNZ had signaled that it is still possible for a rate cut despite the economy's performance in Q2 was better than anticipated.