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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* ***February 20, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-January to mid-February Soybean and soymeal futures traded higher. Corn and wheat futures followed soybean and soymeal futures higher. In February, the USDA raised the 2017/18 soybean and wheat carryout due to exports. The USDA lowered the SU 2017/18 corn carryout due to higher exports. The rally in soybean and soymeal was due to dry weather in Argentina lowering their crop outlook.

March soybeans are near $10.36. March corn is near 3.70. March Chicago wheat is near 4.61. S&P 500 futures are near 2700 after a wild ride. March crude oil futures are near $61.74 on too much U.S. supply. April gold futures are near $1,341. Global geopolitical issues have kept currency and financial markets volatile. Growing global economies though remain supportive to equities. China's new infrastructure policy could continue to help some commodities. Uncertainty over the outcome of NAFTA could limit the upside in corn prices.

**United States**

USDA estimates U.S. 2017/18 corn carryout near 2,352 (-125)
USDA estimates U.S. 2017/18 soybean carryout near 530 (+60)
USDA estimates U.S 2017/18 wheat carryout near 1,009 (+20)

**World**

World 2017/18 corn end stocks at 203.1 mmt (-3.4)

World 2017/18 soybean end stocks was estimated at 98.1 mmt (-0.4)

World 2017/18 wheat end stocks was estimated near 266.1 mmt (-1.9)

**Argentina**

The USDA estimate of the Argentina 2018 soybean crop is at 54.0. Corn was estimated at 39.0. Recent data suggests economic growth cooled in the fourth quarter of 2017. Industrial production barely increased in December after eight consecutive months of expansion, and the index of economic activity lost steam in November. The external sector closed 2017 with the largest trade deficit on record and will likely cause the current account deficit to swell in Q4.

**Brazil**

The USDA's Brazil 2018 soybean crop is estimated to be near 112.0. The Brazil 2018 corn crop is estimated to be near 95.0 mmt. February 13, 2018 hard data for the fourth quarter suggests the recovery gained steam, after GDP grew at the fastest pace since Q1 2014 in the third quarter. Economic activity inched up in November, and industrial production grew at the fastest pace in over two years in December. In addition, the unemployment rate edged down in Q4, boding well for private consumption in the period. Early data for 2018 also points to improving economic conditions.

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

## Stock Index Futures

There was a severe decline in the first week of February with S&P 500 futures posting the biggest reversal since February 2016. The decline was triggered by fears of rising interest rates and increased political tensions in Washington. However, in the following week, in a stunning reversal, the S&P 500 enjoyed its largest weekly gain since 2013.

The fundamentals remain positive with most economic reports coming in stronger than expected. For example, the National Federation of Independent Business said its small business optimism index rose by a stronger than expected 2 percentage points to 106.9 in January, which is the third highest reading since the NFIB began the monthly surveys in 1973. Economists expected a January reading of 106. Also, with approximately two thirds of the companies in the

S&P 500 reporting fourth quarter earnings so far this season, some analysts are expecting earnings to grow 15% from the same period in 2016.

Keep in mind that from when the recession lows for stock index futures were made in 2009, it has been the historically accommodative global monetary policies that have been the driver behind the meteoric price gains for stock index futures. However, from time to time, there have been a variety of geopolitical, or worrisome domestic political events that have temporarily interrupted the advance.

I stress the word temporary because every time traders and analysts have become too focused on the geopolitical risk-off event of the day, the bull market for stock index futures was eventually rescued by global central bank accommodation. Even with some central banks hiking interest rates and others withdrawing accommodation, global interest rates still remain supportive to stock index futures.

In spite of the recent correction, I am not seeing the beginning of any new long term bear market for stock index futures.

The long term outlook for S&P 500, Dow Jones, NASDAQ and Russell 2000 futures appears to be higher.

## Crude Oil

In late January crude oil futures advanced to its highest levels since December 2014. However, there was a 12% decline in the first part of February. Some of this correction appears to be in sympathy with the selloff in stock index futures.

Recently there have been offsetting influences with lower than expected inventories being a supportive factor in the U.S. crude trade, while refinery maintenance in several regions including Europe is putting a damper on demand.

Higher prices are likely for crude oil futures in light of an improving global economy.

## U.S. Dollar

The U.S. dollar recently fell its lowest level since January 2015. Pressure on the greenback came in spite of mostly better than expected economic news in the U.S. and despite the release of President Trump's infrastructure plans. Also, the U.S. dollar has not benefited from expectations of tighter credit from the Federal Open Market Committee.

The greenback only firmed temporarily on news that the U.S. Treasury was preparing to sell $258 billion in new debt this week, which could push yields higher and, at least in theory, support the U.S. dollar.

The problem for the U.S. dollar is that while the FOMC is tightening credit, other central banks are either withdrawing accommodation or raising interest rates at a faster pace.

## Euro Currency

The euro currency advanced on news that the European Union said gross domestic product in the 19 member euro zone will grow 2.3% in 2018, raising its forecast from 2.1% in November. The economy is expected to expand 2% in 2019, which is up from 1.9% previously. The euro temporarily fell on news that German investor sentiment declined, as measured by the ZEW index, which fell to 17.8 in February. The median estimate was 16.

In the longer term, the euro currency will be underpinned by the belief that the European Central Bank will remove some of its accommodation later this year and may actually hike interest rates in the first quarter of next year.

The main trend for the currency of the euro zone is higher.