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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, 2020.*** *This report is intended to be informative and does not guarantee price direction.*

Since our last report, corn, soybean and wheat futures traded lower. The spread of the coronavirus across China and now outside China has raised concerns about global food and fuel demand and weighed on futures. The USDA's February crop report failed to satisfy the bulls despite the USDA lowering the U.S. 2019/20 soybean and wheat carryout. The signing of a new Phase 1 trade deal between the U.S and China failed to bring in new China buying of U.S. agricultural goods, but recently China has begun to ask for U.S. prices for sorghum, soybeans, meats, DDGs, ethanol and high protein wheat. In general, market participants appear to prefer selling on rallies on either news of China buying, or weather scares.

South American weather is mostly good for 2020 crops. The USDA estimates the Brazil 2020 soybean crop will be near 125.0 mmt versus 117.0 last year. The Argentina 2020 soybean crop is estimated to be near 53.0 mmt versus 55.3 last year and the USDA estimated the Brazil 2020 corn crop will be near 101.0 mmt versus 101.0 last year. The Argentina 2020 corn crop is estimated to be near 50.0 mmt versus 51.0 last year.

In February, the USDA estimated world 2019/20 corn end stocks at 296.8 million tonnes. The decline was due to lower U.S. supplies. The USDA estimated total world corn exports to be near 165.7 million tonnes with U.S. exports estimated to be near 43.8 million tonnes. The USDA left the U.S. 2019 corn crop at 347.7 million tonnes.

The USDA increased slightly its world 2019/20 soybean end stocks to near 98.8 million tonnes. Total world exports are estimated to be near 151.5 million tonnes and U.S. exports are estimated to be near 49.6 million tonnes. The USDA estimates China's 2019/20 soybean imports at 88.0 million tonnes, versus 82.5 last year. May soybean futures have found support near 8.90 on optimism of new China buying. Talk of record South America 2020 soybean supplies and higher U.S. 2020 acres limits the upside on prices.

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The USDA left its estimate of world 2019/20 wheat end stocks at 288.0 million tonnes, versus 278.2 last year. The increase in China was offset by a lower U.S. estimate. The USDA estimated the world 2019/20 wheat crop at 763.9 mmt versus 731.4 last year. Wheat prices have traded lower due to lower Russian prices, as a result of slower export demand.

Corn Futures - Weekly

Charts from QST

Livestock Outlook by Chris Lehner, Senior Livestock Analyst, contracted by ADM Investor Services

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Live Cattle

The four month rally in live cattle futures came to an end in January 2020. Live cattle futures made a high on January 10th and then fell throughout the month. February live cattle futures dropped from the high close of $127.45/cwt on January 10th to settle on January 31st at $121.37/cwt. Boxed beef had topped in late November 2019 and dropped throughout December 2019, but live cattle futures on low volume traded mostly sideways during January and into the first two weeks in February. With continued losses in the top primal boxed beef cuts, primal ribs and primal loin sections, and beef packer profit margins dropping, beef packers paid less for cattle, and live cattle futures followed.

January did provide long term positive news for the U.S. cattle and beef markets. With the Phase One trade agreement on January 15th, China dropped three restrictions that will make it much easier to sell beef to China. No longer will beef exported to China need to be traced back to the cattle to their point of origin. No longer will beef sold to China have to be from cattle 30 months, or younger and China dropped the restriction from beef from U.S. feedlots using hormones. Dropping the restrictions at least opens some barricaded doors.

Live Cattle Futures - Weekly

Lean Hogs

January 2020 was a continuation of the trend lower for lean hogs that began in April 2019. December 2019 had a $6.00/cwt pop to the upside, as traders bought futures, as exports to China and Mexico increased. However, in January China began to auction pork from government storage and announced they would continue to auction pork after the end of their week long national holiday at the end of January. When the epidemic virus was announced to the world on January 23rd, the rug was pulled out from lean hog futures. From the settlement on January 2nd to January 31st, lean hog futures fell over $11.00/cwt.

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The U.S. cash hog and lean hog futures markets had to contend with increasing global competition and larger global hog inventories. By the end of 2019, year to date U.S. federal hog slaughter was up 4.1% compared to the previous year. Also, during January 2020 the strength in the U.S. dollar, the drop in the Brazilian real and the steep decline in the euro currency made U.S. pork less competitive on global markets. But, there was a silver lining during the month. With a signed agreement with Mexico and a strong Mexican peso, Mexico began steadily buying in January.

Lean Hog Futures - Weekly

Charts by QST

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

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Stock Index Futures

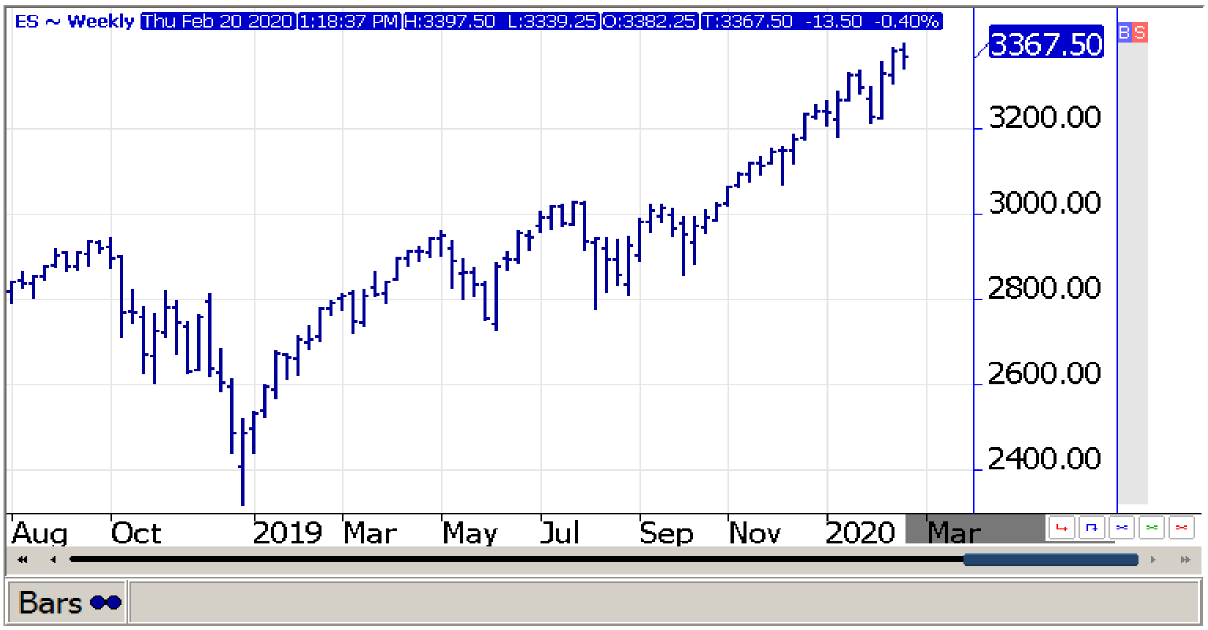
S&P 500, Dow and NASDAQ futures advanced new record highs, after the U.S. and China signed the historic “phase-one” trade agreement and also later on news that China said it will lower levies on $75 billion of U.S. goods.

Economic reports have been supportive. The Automatic Data Processing employment change report showed 291,000 private-sector jobs were created in January, which was the largest gain in four years. This was well above forecasts from economists of a gain of 154,000.

Also, there is the ongoing bullish influence of the relatively low global interest rate environment. In addition, futures are being supported by the belief that central banks around the world are coming under pressure to be more accommodative in an attempt to stem the negative consequences of the coronavirus on the global economy.

I anticipate U.S. stock index futures will continue to trend higher in the first quarter of 2020.

S&P 500 Futures - Weekly



U.S. Dollar Index

The U.S. dollar advanced to its highest level since May of 2017. Recent gains in the greenback are linked to the belief that the Federal Reserve will be less aggressive in adding more accommodation to the banking system than other major central banks. In other words, interest rate differential expectations remain bullish for the greenback.

In addition, economic reports have been coming mostly stronger than expected. For example, the economic activity in the manufacturing sector of the Philadelphia area expanded at a strong rate in February. The Philadelphia Federal Reserve manufacturing index jumped to 36.7 when

12.0 was anticipated. This reading was the highest since February 2017. The January leading indicators index was up 0.8% when up 0.3% was anticipated.

In the longer term, higher prices are likely for the U.S. dollar, which is an unpopular view, but remains my minority opinion.

Euro Currency

The Governing Council of the European Central Bank decided to leave the interest rates on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and -0.50%, respectively, as had been expected.

The euro currency fell to a new three year low against the U.S. dollar due to mostly weaker than expected economic reports. The ZEW economic research institute said a measure of economic expectations declined to 8.7 in February from 26.7 in January. The outcome was worse than economists' forecast of 21.0. In addition, the euro currency was pressured after a report showed December industrial output in the euro zone fell 2.1% on the month when a decline of 1.6% was expected. There was only temporary strength on news that Germany's construction sector expanded at the fastest pace in 10 months in January and was the second fastest over the last two years.

A joint document adopted by E.U. finance ministers said the euro zone needs to be ready to ramp up fiscal spending to battle the economic downturn.

In the longer term view, interest rate differential expectations are bearish for the euro currency.

Crude Oil

After topping in early January, crude oil futures steadily declined through the first week of February, as the economic ramifications of the coronavirus took its toll on demand. However, more recently there has been a partial recovery to near a four week high. There are increasing expectations that supply issues in Venezuela due to U.S. sanctions and increased violence in Libya will offset shrinking global oil demand from the deadly coronavirus. Crude oil is now more than 10% off its lows, but is still substantially short of the pre-coronavirus levels. In addition, U.S. crude oil inventories advanced less than expected last week while stockpiles of gasoline and other fuels declined, according to the Energy Information Administration.

Crude Oil Futures - Weekly

Gold

Gold futures advanced to seven year highs, after breaking out above a triangle pattern.

The negative economic implications of the coronavirus caused flight quality buying to come into safe-haven vehicles, including gold.

Longer term, the outlook remains bullish for gold futures, as the Federal Reserve and other major central banks are likely to lower interest rates.

Gold Futures - Weekly

All charts provided by QST

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Support and Resistance

Grains

May 20 Corn

Support	3.80	Resistance	4.00

May 20 Soybeans

Support	8.90	Resistance	9.30

May 20 Chicago Wheat

Support	5.40	Resistance	5.80

Livestock

April 20 Live Cattle

Support	116.40	Resistance	125.95

April 20 Lean Hogs

Support	60.62	Resistance	72.00

Stock Index

March 20 S&P 500

Support	3305.00	Resistance	3395.00

March 20 NASDAQ

Support	9415.00	Resistance	9790.00

Energy

April 20 Crude Oil

Support	52.00	Resistance	55.50

April 20 Natural Gas

Support	1.850	Resistance	2.070

Metals

April 20 Gold

Support	1600.0	Resistance	1675.0

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March 20 Silver

Support	17.850	Resistance	19.300

March 20 Copper

Support	2.5500	Resistance	2.6450

Currencies

March 20 US Dollar Index

Support	98.850	Resistance	100.500

March 20 Euro Currency

Support	1.07400	Resistance	1.09100

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 **18 February 2020**. 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 outbreak of coronavirus in China, which is drastically slowing the economic activities in China. Manufacturing activities are recovering slightly and might have a material positive impact on the supply chain. Some countries, such as Thailand and Philippines have already cut interest rates as a result, and more easing in China and in the Asia region is expected in an effort to mitigate the negative economic impact of the coronavirus.

CHINA

The CAIXIN China manufacturing PMI for January came in at 51.1, dropping to five month low. New export orders fell into contraction and ended the expansion of the previous three months, dragging the new orders index to the lowest level since October 2019. Output also dropped to lowest level since September 2019, but managed to stay in expansion territory. In order to control costs, some factories chose to reduce the production scale, which caused China's manufacturing employment to decline again in January. The employment index fell below 50 for the first time since November 2019. Although business confidence has been boosted by the "phase-one" agreement between China and the U.S. that was signed in middle of January, both internal and external demand hasn't improved significantly. The outbreak of the coronavirus is taking its toll on the country, as China's economy faces greater downward pressure.

- The combination of the Africa swine fever, the coronavirus outbreak and the Chinese New Year holiday resulted in surging food prices in January, which continued to push China's inflation rate higher. Consumer prices index rose 5.4% year-on-year, 0.9% higher than last month. Pork prices increased 116% from last year, contributing 2.76% to the CPI increase. Food prices climbed 20.6% year-on-year. On the industrial side, PPI growth turned positive by growing 0.1% from last year. Because of the coronavirus epidemic, many factories postponed resumption of work, which weakened demand and might drag PPI back into negative growth in February and March.

- To mitigate the impact of the outbreak of the coronavirus, China's central bank injected 1.7 trillion CNY of liquidity into the market on the first two days after the Chinese New Year holiday, which pushed down the interest rate in the money and bond markets. The Shanghai Composite Index plunged over 9% in the first two trading days to 2,685 and then recovered all the lost ground in approximately two weeks. In the meantime, the USD/CNY went back below 7.0 after penetrating the critical position out of concern about the gloomy outlook for the economy. Some analysts estimate China's economy is likely to experience a period of restorative growth when the epidemic gradually calms down.

OTHER ASIAN COUNTRIES

- Japan's Manufacturing PMI in January rose to 48.8 from 48.4, while the service PMI rose to 51 from 49.4, which entered into the expansion zone. The Bank of Japan's monetary policy remained unchanged. The committee members of BOJ were convinced that the effect of the global economic slowdown was limited for Japan, as they expected Japan's economy would be in a moderate uptrend based on hopes of overseas economies recovering and strong domestic demand. Because of natural disasters and the consumption tax hike, a decline in domestic demand incurred, but the BOJ decided to stick to its massive easier monetary policy with the 2.0% inflation target. However, the head of the country's banking industry lobby tried to convince the BOJ to loosen up on the 2.0% inflation target because Japanese banks lost profitability under the massive ongoing easy monetary policy.

- Korea recorded a positive consumer price index in January. The CPI rose 1.5%, which outperformed the expectation of 1.1%. This is the largest increase in 14 months, which was driven by strong local fresh products prices. However, the core inflation rate rose 0.6%. In addition, exports dropped 6.1% year-on-year, which outperformed the expectation of a decline at 7.8%. The Bank of Korea decided to keep its key interest rate unchanged at 1.25%. The BOK indicated it is aware of a recovery in the semiconductor industry, a fall of Korean won-U.S. dollar exchange rate, the trend of increasing household debt and geopolitical risks. The BOK said it will monitor these influences and their effects on the domestic economy in order to adjust the interest rates, if necessary.

- The Reserve Bank of Australia maintained its key interest rate at 0.75%. Although Australia recorded strong economic growth last year of 2.25% and the bushfires had almost been put out by rain, the economy already sustained some damage. Moreover, the coronavirus would be a second hit on Australia's economy. The first wave of economic disruption hit airports, airlines, travel agencies, casinos, hotels and educational institutions. The second hit is disruptive to business demand chains. According to

Bloomberg, China accounted for over 30% of the goods exported to Australia and tourism from China accounted for 15% of total arrivals. Since China experienced a big hit on its economy, the RBA's governor Philip Lowe believed that Australia's economy immediately was affected by the China's situation.

- The Reserve Bank of New Zealand kept its key interest rate unchanged at 1.0%. The unemployment rate dropped to 4.0% from 4.2% and the inflation rate rose to 1.9% in January. The committee believed that the current interest rate level was a major contributing factor to maintain its employment and inflation target. However, due to the coronavirus outbreak, the government reduced its forecast for GDP growth to between 2.0% and 2.5% in 2020.