ADM Investor Services, Inc.

CHICAGO

ADM Investor Services
141 W. Jackson Blvd.
Suite 2100A
Chicago IL 60604
www.admis.com

LONDON

ADM Investor Services International
4th Floor
Millennium Bridge House
2 Lamberth Hill
London EC4 V3TT
www.admisi.com

HONG KONG

ADMIS Hong Kong
Suite 908-10
9/F Lincoln House
Taikoo Place
979 Kings Road
Hong Kong
www.admis.com.hk

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 ***January 17, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-December to mid-January soybean futures traded mostly lower and corn and wheat futures traded mostly sideways. In January, the USDA raised slightly the U.S. 2017 corn crop and carryout and increased the 2017/18 soybean and wheat carryout due to lower soybean exports and wheat feed use. The USDA also estimated U.S. 2018 winter wheat acres higher than expected. Traditional funds continue to be net short in corn, wheat and soybean contracts.

March soybeans are near $9.84. March corn is near 3.51 and March Chicago wheat is near 4.19. S&P 500 futures are at record highs near 2845. February crude oil futures are near $63.60. February gold futures are near $1,336. 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, although uncertainty over the outcome of NAFTA could limit the upside in corn prices.

United States

USDA estimates US 2017/18 corn carryout near 2,477 (+40)
USDA estimates US 2017/18 soybean carryout near 470 (+25)
USDA estimates US 2017/18 wheat carryout near 989 (+29)

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World

World 2017/18 corn end stocks at 206.5 mmt (+2.5)
World 2017/18 soybean end stocks was estimated at 98.5 mmt (+0.2)
World 2017/18 wheat end stocks was estimated near 268.0 mmt (-0.4)

Argentina

The USDA's estimate of the Argentina 2018 soybean crop was at 56.0 and 2018 corn was estimated at 42.0. President Mauricio Macri's government made important progress in his drive to liberalize the economy. The 2018 budget and a highly controversial tax and pension reform plan were approved by the congress in the final weeks of 2017. The pension and tax reform envisages lowering the government's elevated public sector spending and making Argentina a more attractive investment destination.

Brazil

The USDA Brazil 2018 soybean crop is estimated near 110.0. Brazil 2018 corn crop is estimated to be near 95.0 mmt. The economy is gaining momentum despite political uncertainty. GDP growth accelerated in the third quarter thanks to faster household consumption and a smaller fall in investment. Available data for the fourth quarter points to another pick-up in activity, although growth is not yet firing on all cylinders. Retail sales rebounded in November and exports grew by double digits in December. However, consumer confidence edged down in the same month.

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

Stock Index Futures

Major stock index futures finished 2017 with their best performance since 2013 due to optimism that the new tax law in the U.S. will benefit corporations, the strengthening global economy, solid corporate earnings and still relatively low interest rates that have been the fuel for this bull market. Stock index futures continued to advance in January to new historical highs in an increasing risk-on sentiment among investors.

The bullish on balance economic fundamentals continue to dominate, which includes news that U.S. consumer credit posted its largest gain in 16 years, increasing $27.95 billion in November from the prior month, when an increase of $18 billion was expected.

There was only temporary pressure on futures following reports that China is considering slowing or halting purchases of U.S. government debt, but large gains the next day when China's foreign exchange regulator said the previous day's report could be based on erroneous information, adding that the country was diversifying its foreign exchange reserves in an effort to safeguard their value.

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The U.S. government shutdown had only a slightly negative effect on this bull market for stock index futures, which in itself should be viewed as a sign of strength.

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

Energy

Crude oil prices surged since mid-December and into the first weeks of 2018, pushed higher by a combination of strong demand, ongoing geopolitical risks and tightening supplies. However, in the past few days, oil prices have remained in a relatively narrow trading range as the market weighed expectations of increasing U.S. production against indications from Saudi Arabia that the Organization of the Petroleum Exporting Countries would be willing to extend production cuts beyond 2018.

In addition, there was some concern on the part of the bulls that the rapid rise in prices could bring on a wave of new production, especially when the International Energy Agency in its monthly oil market report, predicted U.S. crude production would likely climb above 10 million barrels a day this year

Higher prices are likely for crude oil futures in light of ramped up geopolitical risks, along with an improving global economy.

U.S. Dollar

The U.S. dollar advanced in early December due to reports that U.S. infrastructure spending plans are on the horizon and after Congress passed a two week stopgap spending bill. However, pressure developed later in the month and into 2018, as some of the bullish euphoria of the compromise U.S. tax reform plan wore off.

Also, there was some pressure on the greenback on news that nonfarm payrolls increased only 148,000 in December, which compared to expectations of a gain of 180,000. In addition, the U.S. dollar has shown a tendency recently to ignore bullish news, which is a sign of weakness. Interest rate differential expectations appear to be bearish on balance for the U.S. dollar.

Euro Currency

The euro advanced to its highest level since December 2014 after the European Central Bank made comments that boosted expectations that policymakers are getting ready to reduce their massive monetary stimulus program. Prior to this there was more talk that the ECB may withdraw from its stimulus programs sooner rather than later.

Germany's unemployment rate fell to a record low of 5.5 % in December, while the previous month’s rate was revised lower to the same level. Also, the number of jobless plunged by 29,000, which is more than twice as much as the median forecast. The euro area jobless rate fell to the lowest level in almost nine years to 8.7% in November from 8.8% in the prior month.

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The euro was also supported by news that a composite purchasing managers' index for manufacturing and services advanced to 58.1 in December from 57.5 a month earlier, beating analyst's expectations. There was additional support for the euro after a report showed euro area activity accelerated at its fastest rate since early 2011.

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