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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 ***July 18, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-June to mid-July soybean futures traded sharply lower on concerns over a U.S. and China trade war. Corn futures also trended lower on talk of a trade war with Mexico and Canada. Wheat futures backed off the recent highs on a higher U.S. dollar and improving U.S. weather. In July, the USDA increased the 2018/19 soybean and wheat carryout. The USDA tried to factor in the impact of the U.S./China trade war and how this could impact U.S. soybean demand. The USDA left the U.S. 2018/19 corn carryout unchanged, which some thought was supportive to prices.

November soybeans are near $8.50. December corn is near 3.60 and September Chicago wheat is near 5.00. The S&P 500 index is near 2800.00 and August crude oil futures are near $67.50. Global geopolitical issues have kept currency and financial markets volatile, while growing global economies though remain supportive. Uncertainty over the outcome of NAFTA and talk of normal 2018 global supply could limit the upside in corn prices. The U.S./China trade issue remains a big unknown for soybean prices.

United States

USDA estimates U.S. 2017/18 corn carryout near 2,027 (-75)
USDA estimates U.S. 2018/19 corn carryout near 1,552 (-25)
USDA estimates U.S. 2017/18 soybean carryout near 465 (-40)
USDA estimates U.S. 2018/19 soybean carryout near 580 (+195)
USDA estimates U.S. 2017/18 wheat carryout near 1,100 (+20)
USDA estimates U.S. 2018/19 wheat carryout near 985 (+39)

World

World 2017/18 corn end stocks at 191.7 mmt (-1.0)
World 2018/19 corn end stocks at 152.0 mmt (-2.7)
World 2017/18 soybean end stocks was estimated at 96.0 mmt (+3.5)
World 2018/19 soybean end stocks was estimated at 98.3 (+11.3)
World 2017/18 wheat end stocks was estimated near 273.5 mmt (+1.1)
World 2018/19 wheat end stocks was estimated near 260.9 (-5.3)

Argentina

On 20 June, the IMF and Argentina formalized a three year USD 50 billion stand-by arrangement. The deal aims to shield the economy from financial turbulence as the government rebuilds economic buffers, stabilizes debt levels and substantially lowers fiscal spending. The agreement coincided with an upgrade to emerging market status by the MSCI index on the same day. The upgrade is expected to result in investment inflows of USD 4.5 billion into the economy and represents an important political victory for the government against a complicated economic situation.

Brazil

Economic data has taken a turn for the worse following a nationwide truckers' strike in May and early June that reduced economic activity. Industrial production recorded the largest contraction in almost 10 years in May, and the manufacturing PMI plunged into contractionary territory in June. In addition, both business and consumer sentiment dropped in June, weighed down by the slower industrial activity.

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

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

Stock Index Futures

Stock index futures advanced after traders detected a subtle change in China's rhetoric, which appeared to be a possible softening of its response to President Donald Trump’s tariff threats. China’s Commerce Ministry held off on detailing exactly how it plans to retaliate against President Trump’s latest plans to impose tariffs on $200 billion of Chinese products. NADSAQ futures advanced to new historical highs and S&P 500 futures reached a five month high.

Futures have been supported by on balance stronger than anticipated corporate earnings reports. Second quarter S&P 500 earnings growth is now estimated to be 22% compared to the same period last year, which is up from 20.7% that was predicted on July 1, according to Thomson Reuters. Most economic reports are coming in stronger than expected. For example, nonfarm payrolls increased a seasonally adjusted 213,000 in June when economists had expected 195,000 new jobs. This was higher than the 177,000 positions that the Automatic Data Processing employment change report predicted.

Stock index futures traded higher in spite of the bearish housing starts and building permits reports. Housing starts in June declined 12.3% from the previous month to 1.173 million and was the largest monthly percentage drop since November 2016. Economists had expected a 2.2% decline for starts. Residential building permits also declined, falling 2.2% from May to an annual rate of 1.273 million last month. Economists predicted a 2.2% gain for permits in June.

U.S. stock index futures are holding up well in spite of the ongoing global trade uncertainties, as the still relatively low global interest rate environment and the mostly stronger than estimated U.S. corporate earnings reports remain supportive.

U.S. Dollar

The U.S. dollar trended higher in June, being supported by the increasing probability of a fed funds rate increase in September. In addition, there was support for the greenback when Federal Reserve Chair Powell, in his semiannual monetary policy testimony to congressional committees delivered an upbeat assessment of the economy and was consistent with his previous opinions on rate hikes.

The U.S dollar was also helped by news that U.S. producer prices increased at the fastest rate since 2011. The producer price index increased a seasonally adjusted .3% in June from a month earlier, when up .2% was expected and the producer price index, excluding the food and energy categories, was also up .3% in June from the previous month, which compares to the anticipated gain of .2%.

In recent weeks interest rate differential expectations have turned slightly less favorable to the U.S. dollar.

Euro Currency

The euro currency bottomed in mid-June when European Central Bank officials hinted that the central bank of the euro zone could increase its key interest rate in July 2019, when previously the consensus view was that the ECB could hike rates in the fall of next year.

There was support for the euro on news that German industrial output soared 2.6% in May from April, according to the Economics Ministry. Economists had expected an increase of only.1%. The euro was also underpinned by a report that showed euro zone house prices increased at the fastest rate in 11 years during the first three months of 2018. House prices in the first quarter were 4.5% higher than in the same quarter a year ago.

Crude Oil

September crude oil futures advanced to almost 73.00 earlier this month before declining to 66.29 last week. Much of the recent pressure came from the bearish influence of rising inventories in the U.S. This comes at a time when the International Energy Agency in its latest monthly report forecast global demand growth would slow to 1.3 million barrels a day in the second half of 2018, which compares to 1.5 million barrels a days in the first half of the year.

At the same time, increasing production from Russia, Saudi Arabia and other members of the Organization of the Petroleum Exporting Countries has also pressured prices. Slowing demand growth is likely from China, whose economic growth weakened slightly in the second quarter compared to the first quarter of this year. There was pressure on prices on the belief that Iranian oil would still find its way to the international marketplace after U.S. sanctions are applied. Also, President Trump has repeatedly called on OPEC to hike production, although the cartel denied that it was responding to pressure from the U.S.

Gold

Gold futures dropped to their lowest levels in a year last week and prices have fallen about 10% from their January peak. Much of the pressure on the gold futures market can be attributed to gains in the U.S. dollar. The latest advance for the greenback took place after Federal Reserve Chair Powell's semiannual testimony before the Senate Banking Committee and the House Financial Services Committee. In his testimony Powell was upbeat on U.S. economic growth prospects, which should keep the central bank on track to gradually raise short term interest rates.

However, gold futures advanced more recently and the U.S. dollar weakened after President Trump said he wasn't happy about Federal Reserve interest rate increases. President Trump also said raising interest rates "now hurts all we have done" and lashed out at China, the European Union and others for manipulating their currencies lower.

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.