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 EUROPE, THE UK, RUSSIA AND INDIA

Financial Outlook by Paul Mylchreest, Equity Strategist for ADM Investor Services International Ltd.

Grain Outlook by George Eddell, Grain and Oilseeds Derivatives Broker for ADM Investor Services International Ltd.

*The following is an overview of the European, Russian and Indian economic, political and crop situations as of **24th July 2017.** This report is intended to be informative and does not guarantee price direction.*

FINANCIAL OUTLOOK

Russia

Finally…we have the evidence that we've been waiting for regarding greater participation from consumers in the recovery of the Russian economy. Real retail sales grew by 1.2% year-on-year in June 2017, the strongest since December 2014 and the third consecutive positive data point (after more than two years of negative readings). The Russian service sector looks well placed to deliver further growth with the June 2017 PMI reading of 55.5. Export orders are currently registering some softness. The data for the manufacturing sector remains frustratingly choppy, although June 2017's 50.3 was the eleventh consecutive reading above the key 50.0 level.

We noted last month that the Rouble had been remarkably stable given the volatility in the crude price, trading in the 56-58 range versus the US$. Unfortunately, it didn't last and we've moved through 59.0. The upcoming meeting between OPEC and non-OPEC producers in St. Petersburg could extend the current 1.8m bpd reduction through March 2018. It's possible that Libya and Nigeria, which are currently excluded from the agreement, will be asked to moderate production growth. Whatever the outcome, we are getting increasingly nervous as cheating on quotas is becoming more of an issue. OPEC's July 2017 production is expected to rise by 145k bpd with Saudi Arabia being one of the guilty parties.

Political challenges for the Russian economy remain severe. The E.U. has extended sanctions on Russia to January 2018 and the U.S. Congress has expanded sanctions. In the meantime, the Trump administration's policy towards Russia remains, and alleged dealings before and after the election, remain as murky as ever.

India

Our nervousness that the optimism regarding the Indian economy is running ahead of reality is certainly not holding back the Sensex, as the index posts a new an all-time high. The rollout of the high profile GST reform is only days old, so it's impossible to judge whether it can triumph over the nation's famous rigidities. The transition for small companies, in particular, will be challenging, although the finance ministry recently stated that there has been no problems regarding implementation.

There is some risk of a slowdown in the Indian manufacturing sector, which was picked up by the decline in the PMI from 51.6 to 50.9 in the June 2017 data. GST was cited as being a possible culprit. New orders fell to a 4 month low. In contrast, feedback from the service sector remains more robust and growth in non-food bank credit remains healthy at over 7% year-on-year.

On a positive note, we remain on track for another rate cut from the RBI in August 2017. The May CPI print of 2.18%, a record low for Indian inflation, was followed by 1.54% in June 2017. The RBI's forecast of 2.0%-3.5% for the fiscal year ending March 2018 is suddenly looking aggressive and the RBI "cavalry" suggests further rate cuts may be inevitable.

U.K.

Brexit negotiations have hardly got off to an encouraging start and Theresa May's government is looking as inept and vulnerable as ever. Cabinet infighting is making it difficult to discern whether a softer or harder Brexit is now the goal, although we suspect the latter. Despite the uncertainty, the latest consumer credit data for May 2017 showed 10.3% year-on-year growth. This is helping the U.K. economy to continue performing fairly well, in spite of the obvious risks. However, not everybody is prepared to drink the elixir and the IMF downgraded its 2017 GDP forecast from 2.0% to 1.7%. A more challenging outlook is being signalled by the weakening purchasing managers' surveys, although both remain above 50.0. This, combined with the political uncertainties, makes us sceptical that the BoE's Carney will have the courage to raise rates before the end of the current year.

Europe

This time is different…and structural problems within the E.U. and its banking system are irrelevant now that Europe has regained its growth mojo. The forex market is giving the euro the benefit of the doubt with the recent surge above 1.16 versus the dollar. In our opinion, Draghi was emphatically not "hawkish", nor less "dovish", at his recent ECB press conference.

However, the constant "drip, drip" of adverse news for President Trump, as well as the improved economic outlook, has led to the euro's perception as a safe haven. It's hard to argue with the PMIs currently, with the manufacturing and services sectors registering impressive outcomes of 57.4 and 55.4, respectively for June 2017. Even the Greek manufacturing PMI has clawed its way back above the 50.0 level. It's good while it lasts, but experience tells us that a banana skin, either economic or political, is probably not that far away.

European Union

Market volatility has spiked this past month with Matif breaking out of its previous 169 to 178 range basis December lifting option volatility from 17% to 22%. Whilst not matching the 35% volatility in Chicago wheat, as the drought and extreme heat takes grip of Northern U.S. spring wheat areas, E.U. wheat has firmed in line with global markets as the world's matrix of high protein wheat is under threat.

Extreme heat and potential crop limiting conditions were evident too in Europe at the end of June across Northern France, U.K. and Germany when temperatures topped 40 degrees in the late development stages. Weekly winter wheat condition reports from French office FranceAgriMer tumbled to 66% good to excellent, which although better than last year's 49% to the middle of July, falls short of ideal.

Harvest progress in France is estimated at 30% currently with the market waiting on more information regarding quality and yield as combines move into important producing regions. Some heavy thunder storms in the first weekend of July have started some rumblings of deterioration however, generally crops were first said to be too advanced to be impacted by the initial heatwave before then being sturdy enough to dismiss any significant damage from rains. Latest forecasts from Strategie Grains expect a French wheat crop of 36.25mlnt, which itself was a revision from a temporary 35.63mlnt following the heat damage hysteria. The French Farm office is forecasting 36.3mlnt and with the Matif Sep/Dec spread trading at its widest carry of 7 EUR, which shows some optimism from the market. In Germany, the German Cooperatives association expects 25.39mlnt, which is a 3% increase on last year and critical conditions in Bulgaria and Romania have been said to be good prompting forecasts of 6.38mlnt and 7.82mlnt.

Latest E.U. forecasts from Strategie Grains for 2017/18 sit at 141.6mlnt with the E.U. Commission's forecast of 141.3mlnt, compared to last year's 135.9mlnt. Export expectations are penciled at 26.5mlnt up from 23.35mlnt in 16/17, but still down from 31.51mlnt in 15/16. The Spanish crop therefore remains the only disaster story for Europe with the market quietly confident about other origins and prospects, although we need to see more harvest data and grower selling.

Rapeseed

The 2016/17 E.U. imports to Europe totaled a massive 4.66mlnt with Australia the biggest importer at 2.598mlnt followed by .932mlnt from Ukraine and .691mlnt from Canada. The continued pace of Australian imports into the end of the season ensured carry out stocks of 1mlnt however, a fire in June at the Frances Saipol plant capable of crushing 1mlnt and a number of annual maintenance shutdowns across E.U. plants resulted in shortages and a late spike in Rape oil prices.

For 2017/18, the E.U. Commission's latest production forecast is 21.7mlnt, which is down from their previous estimate of 21.9 mlnt last month. Plants are thought to have survived the hot and dry conditions, which if anything tends to favour oil content with early harvest results in France promising. Better yields than expected have been witnessed increasing the chances of revisions to current estimates of 4.7 mlnt to more like 5.2 mlnt as the yield increases from 3.2mt/ha to 3.6mt/ha. In Germany the cooperative association estimated production at 4.78 mlnt making a 4.6% increase and in Poland production is expected at 2.9 mlnt, which will be a 31% increase.

From an import point of view, production in Ukraine is expected at 2 mlnt, providing Europe with 1.7 mlnt imports. Harvest pressure so far has been minimal thanks to slower crop development in Ukraine keeping the August vs. November spread between 3 to 4 EUR carry rather than anything wider as we have seen in previous seasons. Down under Australian weather is in the spotlight with some of the driest conditions on record for South Australia and Western Australia limiting production forecasts to 3.2 mlnt for the time being. This and the current concern to Canadian Canola from hot and dry conditions has added volatility to markets although with a global poor crush appetite from low margins has restricted any forward buying. Rapeseed markets generally face some very influential political changes with the E.U. Commission expected to make an announcement on Malaysian Palm oil imports in August and changing E.U. Renewable Energy Directive from 2030, which will reduce the mandated production of biodiesel. Both of these add uncertainty and limit investment.

ADM Investor Services, Inc.

Grain Outlook

Russia / Ukraine

Values of Russian 12.5 pro wheat have rallied over $15 as markets assess fears around global high protein wheats. It is estimated that circa 12 mlnt of wheat has been lost from across U.S., Canada and Australia thanks to hot and dry conditions, which combined with the U.S. dollar at 8 month lows on the eve of harvest has seen values firm. Russian wheat was and still is the cheapest global origin and so with values globally rising and limited farmer selling, offers have moved with the market higher. Harvest progress that is running a week behind schedule thanks to slow crop development during the cool and wet spring, but shorts to GASC/Egypt for first half July shipments have compounded front end issues driving markets higher.

Firstly Russian old crop wheat stocks of 10.84 mlnt as estimated by the USDA are thought to be too high with the consensus of private estimates closer to 5 to 6 mlnt. A smaller harvest number of 72.5 mlnt and higher disappearance from farm feeding and domestic use are said to be underestimated helping to explain the lower grower liquidity and these phantom stocks.

The 2017/18 production ideas are a race to the top with first the USDA increasing its July estimate by 3 mlnt to 72 mlnt, and then followed by private estimates in the 71 to 75 mlnt range. As of 12th of July it was estimated that farmers had harvested 1 million hectares less than previous years showing the week long delays with combines rolling in southern states of Adygea, Dagestan, Stavropol and Krasnodar. So far, average Russian yields from the Ag. Ministry for all grains are said to be making 4.41 mt/ha compared to last year's 4.34 mt/ha, which is feeding the optimistic crop size but as is normal, yields will drop off as harvest move north.

Limiting factors however, are firstly quality with a higher portion of the crop so far making grade 4, 10% protein wheat and grade 5 wheat. Logistics will also cause bottlenecks with a later harvest said to limit the capacity to export much more than 28 mlnt despite the USDA's forecast of 30.5mlnt.

Ukraine

Conditions are not too dissimilar to Russia in that slower crop development this spring from cooler weather is delaying harvest with 1.2 mln hectares cut as of 11th July, compared with 2.6 mln hectares cut at the same point last year. Average yields for wheat are said to be 3.32 mt/ha compared to 3.7 mt/ha last year suggesting a 9% decline, which is in line with the USDA's 17/18 24 mlnt production from last year's 26.8 mlnt. The USDA's weather report measured previous 60 days precipitation totals of 50% below normal levels with heat and dryness experienced across the region end of June.