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MARKET OUTLOOK FOR UNITED STATES & SOUTH AMERICA

Grain Market Outlook for the United States and South America
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Financial Market Outlook for the United States
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The following report is an overview of the US and South American economic, political and crop situations as of ***May 16, 2017.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-April to May 16, soybean futures drifted higher and corn futures traded mostly sideways. Wheat futures drifted lower. The USDA increased the world 2016/17 soybean, corn and wheat carryout from April. Also, the USDA increased the 2017 Brazil soybean crop. The USDA increased the world 2017/18 wheat and soybean end stocks, but lowered corn. Potential changes to U.S. trade policy and a delay in attempts to stimulate the U.S. economy could impact financial and grain markets.

July soybeans are near $9.48. July corn is near $3.65 and July Chicago wheat is near 4.23. The Dow Jones Industrial average is near 20,600. June Crude oil futures are near 49.40 and June Gold futures are near 1,255.

United States

USDA estimates U.S. 2016/18 corn carryout near 2,295 (-35)
USDA estimates U.S. 2017/18 corn carryout near 2,110
USDA estimates U.S. 2016/17 soybean carryout near 435 (-10)
USDA estimates U.S. 2017/18 soybean carryout near 480
USDA estimates U.S. 2016/17 wheat carryout near 1,159 (unch)
USDA estimates U.S. 2017/18 wheat carryout near 914

World

USDA estimates world 2016/17 corn end stocks at 223.9 mmt (+0.9)

World 2016/17 soybean end stocks was est. at 90.1 (+2.7)

World 2016/17 wheat end stocks was est. near 255.3 (+3.0)

World 2017/18 corn end stocks at 195.3 mmt

World 2017/18 soybean end stocks was est. at 88.8 mmt

World 2017/18 wheat end stocks was est. near 258.3

Argentina

The USDA estimated the Argentina 2017 soybean crop at 57.0(+1.0) and the 2017 corn crop was estimated at 40.0(+1.5). The economy began to recover in 4Q16 and will grow 2.8% in 2017 driven by investment. The downward stickiness of core inflation and the increase in tariffs will keep inflation at 20.8% YoY in 2017, and the CB in a tight stance. The 2017 financial needs are at USD 40 billion to be covered by debt issues that will result in capital inflows and tend to appreciate the real exchange rate

Brazil

The USDA Brazil 2017 soybean crop is estimated to be near 111.6(+0.6) vs 96.5. Brazil's 2017 corn crop is estimated to be near 96.0(+2.5) mmt. Dubbed a key driver of global growth only a few years ago, Brazil has since faced a staggering reversal of fortune. Encouragingly, the central bank has come to the rescue, even as the government tries to get public finances back to health.

US Stock Index Futures

S&P 500 and NASDAQ futures advanced to new historical highs this month with much of this strength attributed to on balance better than expected corporate earnings reports. S&P 500 first quarter corporate earnings are projected to increase 14.6%, which would be the best rate of increase in six years. Also, the percentage of companies beating estimates is 78%, which is substantially above the historical average of approximately 62%.

Economic reports have been mixed to better than expected. On the bullish side employment numbers have improved with hiring rebounding in April. Nonfarm payrolls increased 211,000, which compares to expectations of up 190,000 and private payrolls expanded 194,000, when a gain of 190,000 was estimated. Also, the unemployment rate fell to 4.4%, which is the lowest since May 2007, when 4.6% was anticipated.

In addition, futures were able to hold up well in spite of the weaker than anticipated gross domestic product report. The first quarter gross domestic product, the broadest measure of goods and services produced in the U.S., rose .7%, at a seasonally adjusted annual rate, which compares to expectations of a gain of 1% and personal consumption was up .3%, when a gain of .9% was anticipated.

Now that the French elections are out of the way and the situation with North Korea apparently has not gotten any worse, traders once again are focusing on the long term bullish interest rate influence, an expanding global economy and an improving corporate earnings outlook.

The long term outlook for stock index futures remains positive.

Energy

Prices fell during most of April and into the first part of May. Recently released data from the Organization of the Petroleum Exporting Countries showed the cartel reduced production further in April, even as the top oil exporter, Saudi Arabia, increased output by almost 50,000 barrels a day. Overall, production fell by 18,000 barrels a day in April to average 31.73 million barrels a day. Also, the report said that non-OPEC oil supply could increase by 950,000 barrels a day later this year. That would be 370,000 barrels a day more than in its previous forecast.

However, recent sharp gains are a result of traders becoming more optimistic about the influence of production cuts made by the OPEC. Futures advanced on news that Saudi Arabia and Russia said they were in favor of extending a production reduction agreement for another nine months, which was longer than most analysts had predicted.

It is likely that an expanding global economy will be the dominant influence that takes crude oil prices higher.

Precious Metals

In mid-April gold and silver topped after the December 2016 lows were made. Gold rallied over $170.00 and silver advanced almost $3.00. Much of this strength early in the year was attributed to ramped-up inflation expectations that were being stoked by President Donald Trump’s tax cutting and infrastructure spending plans. In addition, there was flight to quality buying in light of the ongoing tensions involving North Korea and the uncertainties of the French presidential election. However, more recently these bullish factor have faded, as the situation with North Korea apparently has not gotten any worse, along with the perception that President Trump’s economic growth agenda has slowed. More recent strength can be attributed to renewed domestic political uncertainties.

Inflation is becoming more of a bullish factor with recent reports suggesting the seeds of inflation are sprouting again. For example, the April producer price index increased .5%, which compared to expectations of a gain of .2% and the producer price index, excluding food and energy, advanced .4%, when up .2% was anticipated.

Ultimately, the influence of the strengthening global economy and rising global inflation levels will be the catalysts for the next leg up in this long term bull market.

U.S. Dollar

The U.S. dollar fell to a six month low this month as the fundamentals have turned against the greenback this year. A massive political headwind for the U.S. dollar developed earlier this year due to the belief that the Trump administration is not interested in pursuing strong U.S. dollar policy, and in fact, it may be just the opposite. Bolstering this belief were comments from President Donald Trump when said the U.S. currency is “too strong” and also from U.S. Treasury Secretary Steven Mnuchin who said an “excessively strong dollar” could have a negative short term impact on the economy.

Since these comments were made, the U.S. dollar has shown an inclination to underperform the news. For example, the greenback initially advanced when the bullish U.S. employment numbers were reported. However, the gains were only temporary.

In addition, interest rate differential expectations continue to undermine the greenback. While the Federal Open Market Committee is on a measured path to increase rates, other major central banks, such as the European Central Bank are likely to scale back their accommodative policies later this year and the Bank of England is on course to increase its key lending possibly in 2019.

In light of the U.S. apparently not interested in a strong dollar policy in addition to the greenback losing its interest rate differential expectations advantage, it will be difficult for the U.S. dollar to mount a sustained rally.

Euro Currency

The euro currency advanced to its highest level since November due to increasing prospects of less accommodation from the European Central Bank. This belief was underscored by comments from German Finance Minister Wolfgang Schaeuble when he said the period of extremely low interest rates could be coming to an end. Specifically he said “The interest rate development will start to normalize again shortly.”

In addition, the currency of the euro zone firmed on news that euro zone manufacturing expanded at its fastest pace in six years. The final euro zone manufacturing PMI was 56.7 in April, which is up from 56.2 in March. In addition, there was news that orders for Germany's manufacturing sector increased by more than expected in March.

In light of recent mostly better economic data from the euro zone and the Trump administration apparently not interested in a strong dollar policy, the euro currency is likely to be well supported.