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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 ***May 16, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-April to mid-May soybean futures traded mostly lower on concerns over a U.S. and China trade war. Corn futures trended higher on talk of lower U.S. and world 2018 supply. Wheat futures backed off the recent highs on improving U.S. and world weather. In May, the USDA lowered the 2017/18 soybean carryout and raised the U.S. 2017/18 corn and wheat carryout slightly. The USDA lowered U.S. and world 2018/19 corn, wheat and soybean carryout due to higher demand and trend yields.

July soybeans are near $10.00. July corn is near 4.00. July Chicago wheat is near 4.95. The U.S. Dow Jones stock index is near 24,850 and mostly sideways since the April 2 low. July crude oil futures are near $71.00 on talk of better global demand. Global geopolitical issues have kept currency and financial markets volatile. Growing global economies though remain supportive to equities. Uncertainty over the outcome of NAFTA and talk of normal 2018 global supply could limit the upside in corn prices. Talk of higher Russia 2018 wheat supplies could limit the upside in wheat. The U.S./China trade issue is a big soybean price unknown.

United States

USDA estimates U.S. 2017/18 corn carryout near 2,182 (unch)

USDA estimates U.S. 2018/19 corn carryout near 1,682

USDA estimates U.S. 2017/18 soybean carryout near 530 (-20)

USDA estimates U.S. 2018/19 soybean carryout near 415

USDA estimates U.S. 2017/18 wheat carryout near 1,070 (+6)

USDA estimates U.S 2018/19 wheat carryout near 955

World

World 2017/18 corn end stocks at 194.8 mmt (-3.0)

World 2018/19 corn end stocks at 159.1 mmt

World 2017/18 soybean end stocks was estimated at 92.2 mmt (+1.4)

World 2018/19 soybean end stocks was estimated at 86.7

World 2017/18 wheat end stocks was estimated near 270.5 mmt (-0.7)

World 2018/19 wheat end stocks was estimated near 264.3

Argentina

After days of financial volatility reminiscent of previous economic crises, the government announced on 8 May it was seeking IMF assistance to shore up the economy. Financial turbulence and growing concerns over Argentina's capacity to service its large foreign debt commitments caused the peso to lose over 10% of its value in a single day on May 3rd prompting the central bank to forcefully intervene.

Brazil

A stream of downbeat data on the Brazilian economy has rolled in, suggesting that the recovery is weak. Retail sales decelerated and unemployment rose in the first quarter. Moreover, recent figures for the industrial sector have also been soft, and the manufacturing PMI fell in April. To raise much needed funding, the government is pushing ahead with the privatization of state utility Eletrobras, which is Latin America's largest power company.

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 May 20, 2018 and is intended to be informative and does not guarantee price direction.

Stock Index Futures

Stock index futures advanced in early May in spite of recent increases in interest rates, and even though there were growing doubts about next month's summit between President Donald Trump and Kim Jong Un. The small-cap Russell 2000 stock index futures advanced to new record highs.

Futures were able to advance despite news that nonfarm payrolls increased 164,000 in April, which compared to expectations of a gain of 193,000 jobs. Futures continued to trade higher on news that the U.S. suspended its threat to impose tariffs on $150 billion in Chinese imports to the U.S., while negotiations with China continued. Futures remained firm when even though Treasury Secretary Mnuchin said President Donald Trump could impose the tariffs, if an agreement between the two countries doesn't progress. Optimism on the market increased on reports that U.S. Commerce Secretary Wilbur Ross will travel to China week to help finalize a trade deal, after Washington and Beijing reached an initial framework agreement.

In the longer term, traders will probably gradually shift their focus of attention more toward corporate earnings and the still overall accommodative global interest rate policies and away from a variety of geopolitical worries, including global trade tensions and now the situation between the U.S. and Iran.

Crude Oil

Crude oil prices advanced to their highest level since December 2014 due to reduced supply and to because of an anticipated increase in global demand. Turmoil in the Middle East and the reimposition of U.S. trade sanctions against Iran also supported crude oil prices.

However, prices declined more recently as major oil producers, including Saudi Arabia and Russia signaled a willingness to discuss lifting output. Saudi Arabian oil minister Khalid al-Falih said he would enter into discussions in June with other Organization of the Petroleum Exporting Countries members and external producers, such as Russia to reduce production caps.

OPEC and some external producers such as Russia have been involved in an effort since 2016 to remove almost 2% of the global crude supply in an effort to prop up the crude oil market. Some analysts are predicting the oil market will move into a deficit in the second half of this year and into 2019.

Longer term, crude oil futures are likely to resume the uptrend due to an improving global economy and supply and demand imbalances.

Gold

Gold futures declined since mid-April into the third week of May primarily due to a stronger U.S. dollar, along with slightly improved geopolitical tensions.

However, more recently, gold prices advanced to back above the psychological 1300 level as a result of President Donald Trump's cancellation of his June meeting with North Korean leader Kim Jong Un. President Trump blamed "tremendous anger and open hostility" from the North Korean regime as a reason that he scrapped the summit plans. North Korea, however, later said it was still willing to meet with President Trump.

Increased global inflation levels are likely to take place later this year, which should support the price of the yellow metal.

U.S. Dollar

The U.S. dollar advanced to a five month high, as interest rate differential expectations continue to support the greenback. The probability of a fed funds rate increase from the Federal Open Market Committee at the June 13 meeting is almost 100%. Analysts are anticipating two or three more interest rate hikes from the FOMC this year and two or three additional rate hikes in 2019.

There was support for the U.S. dollar on news that the Empire State manufacturing survey's general business conditions index, compiled by the Federal Reserve Bank of New York, improved to 20.1 in May from 15.8 in the previous month. Economists were predicting a reading of 15.

Prices for the U.S. dollar advanced even though St. Louis Federal Reserve Bank President James Bullard outlined a case against any further interest rate hikes, when he said rates may have already reached a “neutral” level that is no longer stimulating the U.S. economy.

Euro Currency

The euro currency fell to a six month low due to the growing belief that Europe's largest economy has slowed, following strong growth in the fourth quarter of last year.

Total manufacturing orders fell .9%, when economists had forecast an increase of .5%. In addition, the German statistics office revised lower its orders estimate for February. It now shows a monthly drop in orders of .2%, while the initial estimate had indicated a .3% increase.

In addition, the euro currency declined on news that the euro zone's annual inflation rate fell unexpectedly in April. The European Union's statistics agency said consumer prices were 1.2% higher than in April 2017, which is a decline from the 1.3% rate of inflation that was recorded in March.

There was pressure more recently on the currency of the euro zone due to concerns about the formation of a new governing coalition in Italy. The Five Star Movement and the League reached a coalition agreement last week to govern the country and outlined proposals that will likely put additional pressure public finances.

The European Central Bank will probably not be in a position to hike interest rates until possibly 2019.