



Monthly Global Research Newsletter

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MARKET OUTLOOK FOR THE UNITED STATES AND 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 **October 14, 2015**. This report is intended to be informative and does not guarantee price direction.*

Grain markets traded mostly sideways to higher from mid-September to early October. USDA lowered US acres but also lowered soybean and wheat demand in the October report. Concerns about El Nino have helped soyoil, wheat and sugar prices. Expectations for more global economic stimulus may be helping commodity prices.

November soybeans are trading near \$8.91. December corn is trading near \$3.82. December Chicago wheat is trading near \$5.06.

The US stock market is near 17,080. Talk that the US Fed may not increase interest rates soon has helped US stocks.

UNITED STATES

- The USDA estimates the US 2015/16 corn carryout at 1,561 million bushels (mil bu), down 31 mil bu from September.
- The USDA estimates US 2015/16 corn farm prices between \$3.50-4.10.



- The USDA estimates the US 2015/26 carryout at 425 mil bu, down 25 mil bu from Sept.
- The USDA estimates US 2015/16 soybean farm prices between \$8.40-9.90.
- The USDA estimates the US 2015/16 wheat carryout at 861 mil bu, down 14 mil bu from September.
- The USDA estimates US 2015/16 wheat farm prices between \$4.75-5.25.

WORLD

- The USDA estimates World 2015/16 corn ending stocks at 187.8 million metric tons (mmt), down 1.9 mmt from September.
- The USDA estimates World 2015/16 soybean ending stocks at 85.1 mmt, up 100,000 mt from September.
- The USDA estimates World 2015/16 wheat ending stocks at 228.5 mmt, up 2.0 mmt from September.

ARGENTINA

- The USDA estimates the 2016 Argentine soybean crop at 57.0 mmt vs 60.8 mmt in 2015. It estimates the 2016 corn crop at 24.0 mmt vs 26.5 mmt in 2015.
- Argentina's October election will be key to its economic outlook.

BRAZIL

- The USDA estimates the 2016 Brazilian soybean crop at 100.0 mmt vs 96.2 mmt in 2015. It estimates the 2016 Brazilian corn crop at 80.0 mmt vs 85.0 mmt in 2015.
- Economists have cut Brazil's 2015 economic growth forecast. There is ongoing talk that its economy is in a recession.



US STOCK INDEX FUTURES

In mid-September, stock index futures came under pressure due to new evidence that China's economy is slowing. One report that underscored the weak Chinese economy was news that profits at Chinese industrial companies fell 8.8% in August from a year ago. This was the largest decline in at least four years.

In addition, there was a quick downdraft in prices when the substantially weaker-than-anticipated September employment data was released. September nonfarm payrolls increased only 142,000, which compared to the estimate for a gain of 201,000, and private payrolls were up 118,000, when an advance of 197,000 was anticipated. Also, average hourly earnings fell .4% when an increase of .2% was expected, and average weekly hours declined to 34.5, which compared to the estimate of 34.6. In addition, the labor force participation rate declined to 62.4% vs 62.6% the previous month.

However, the decline in prices was halted when traders took a second look at the numbers and realized that, while the data showed a less rosy assessment of the nation's employment situation, it would likely be a major stumbling block on the Fed's road to increasing its fed funds rate. Stock index futures actually ended the day sharply higher in spite of the substantially worse-than-expected employment news.

Since then, futures have remained firm on the growing belief that this market will ultimately be rescued again due to additional economic stimulus from central banks. This could come in the form of a combination of lower interest rates, delayed interest rate increases from the Federal Reserve and the Bank of England, and extended or expanded quantitative easing programs from the European Central Bank and the Bank of Japan.

U.S. DOLLAR AND FOREIGN CURRENCY FUTURES

U.S. DOLLAR

The U.S. dollar declined to a one-month low after weaker-than-estimated retail sales and inflation reports. September retail sales increased .1%, which compared to the estimate for a .2% increase, and retail sales (excluding autos) declined .3% when down .1% was anticipated.

In addition, many analysts believe the Federal Reserve will not be able to hike the fed funds rate, which is bearish for the U.S. dollar from an interest rate differential point of view.

The greenback continues to underperform the news, which has to be viewed as a sign of weakness.

EURO CURRENCY

The euro currency recently advanced to a four-week high in spite of mostly weaker-than-anticipated economic data.



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The euro currency remained strong in spite of a report that showed the inflation rate in the euro zone unexpectedly turned negative in September for the first time in six months, falling .1% from a year ago. The median estimate called for unchanged.

One better-than-anticipated report was the euro zone economic confidence number, which unexpectedly increased in September to the highest level in over four years. The index of executive and consumer confidence advanced to 105.6 from a revised 104.1 in August.

The stronger euro can be explained by changing interest rate differential expectations, which favor the currency of the euro zone over the U.S. dollar.

BRITISH POUND

The Bank of England voted 8 to 1 to keep its key interest rate unchanged at a record low 50 basis points and decided to keep its asset purchase plan unchanged at 375 billion pounds.

The British pound peaked in the middle of September, but precipitously declined to an eight-month low by the end of the month. Most of the recent economic reports have come in weaker than the consensus estimates. For example, a report showed U.K inflation in September turned negative for only the second time since 1960.

Consumer prices in the U.K. declined .1% on an annualized basis, which compared to the median estimate of unchanged. The report suggests a threatened interest rate increase from the Bank of England will be pushed farther out into the future. The Bank of England's key interest rate currently stands at a record low 50 basis points.

Financial futures markets are now predicting the Bank of England will not be able to increase its key interest rate until 2017. The Bank of England's official interest rate has been at 50 basis points since March 2009. A delayed interest rate hike from the Bank of England is bearish for the pound from an interest rate differential point of view.

JAPANESE YEN

The Japanese yen has traded in a relatively narrow range since late September. There was limited pressure on news that the Bank of Japan's main inflation gauge declined into negative territory, falling .1% in August, which was the first decline since April 2013. This negative inflation report suggests the Bank of Japan may be forced to expand its quantitative easing program, which is bearish for the yen.

The Japanese yen was only temporarily pressured by news that Japan's export growth slowed for a second month. The value of shipments in August increased 3.1% from a year ago, which compared to estimates for a 4.3% gain. Countering this bearish news was the outcome of the Bank of Japan's policy meeting, when the central bank refrained from adding more economic stimulus to its economy.



AUSTRALIAN DOLLAR

The Australian dollar fell below .7000 for the first time in six years on news that Australia's economy expanded by only .2% in the second quarter from the first quarter. The median estimate called for a .4% gain. Much of the selling pressure can be attributed to disappointing Chinese economic data.

However, more recently the Australian currency recovered in conjunction with a move higher in the crude oil market.

INTEREST RATE MARKET FUTURES

Since the lows were made in the middle of September, futures have trended higher. Much of the strength can be attributed to the belief that the stagnating global economy will be addressed by additional economic stimulus from some of the world's major central banks.

In addition, futures advanced when the Federal Open Market Committee decided to leave its fed funds rate unchanged at near zero. Federal Reserve officials said they see stronger GDP growth in 2015, but a slower pace of growth in 2016, 2017 and 2018. A likely less hawkish Federal Reserve should be supportive to the interest rate futures market.