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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 **October 17, 2018.** This report is intended to be informative and does not guarantee price direction.*

From mid-September to mid-October soybean and corn and futures have traded higher due to wet weather slowing U.S. harvest and farmer selling. Wheat futures traded sideways. The USDA October crop report was neutral to friendly. In October, the USDA estimated the 2018/19 soybean yield to be higher than September, but the corn yield was actually lower. The USDA did not raise the corn and soybean carryout as much as feared.

November soybeans are near $8.80. December corn is near 3.75 and December Chicago wheat is near 5.18. Global geopolitical issues have kept currency and financial markets volatile. China's economy may be slowing. The US/China trade issue is a big soybean price unknown. Managed funds continue to be small net soybean, soyoil and wheat shorts and small net soymeal and corn longs. The South American 2019 crop weather is mostly favorable.

United States

USDA estimates the U.S. 2018/19 corn carryout near 1,813 (+39)
USDA estimates the U.S. 2018/19 soybean carryout near 885 (+40)
USDA estimates the U.S. 2018/19 wheat carryout near 956 (+21)

World

World 2018/19 corn end stocks were estimated to be 159.3 mmt (+2.3)
World 2018/19 soybean end stocks were estimated to be 110.0 (+1.7)
World 2018/19 wheat end stocks were estimated to be 260.2 (-1.1)

Argentina

President Mauricio Macri's government and the IMF reached a new agreement on 26 September which provides further financial support and will most likely shield the country from any credit distress this year and next. The revised standby agreement (SBA), however, comes with conditions, most importantly including: a primary budgetary balance by 2019; one year earlier than stipulated in June's SBA and a strict monetary base rule to curb inflation. The latest fiscal data shows that, although the primary deficit narrowed by almost a third in January/August, interest payments surged. The SBA came after national accounts data showed that GDP shrunk dramatically in Q2, reflecting contractions in both domestic and external demand.

Brazil

Subdued economic data is rolling in for the Brazilian economy as the country's crucial election season is in full swing. Business and consumer confidence dropped in September in the run-up to the turbulent vote, while industrial production plunged in August. Moreover, economic stress in key trading partner, Argentina, is hampering export growth, while political uncertainty has sparked volatility in the country's financial markets.

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

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Stock Index Futures

Earlier this month stock index futures advanced, including record highs for Dow Jones futures. Stock index futures were also supported by news that the U.S. and Canada reached a last minute deal to revise the North American Free Trade Agreement, which is called the United States-Mexico-Canada Agreement (USMCA). The agreement removes tariff risks from approximately $1.2 trillion worth of a goods each year.

However, more recently global equity markets declined when the International Monetary Fund cut global growth forecasts due to trade risks. In addition, equity futures markets suffered their largest two day declines since February when U.S. interest rates advanced to multiyear highs.

Since then there has been a partial recovery as U.S. corporate earnings have come in better than expected.

The still relatively low interest rate environment and a likely less hawkish Federal Open Market Committee next year suggests recent weakness is a correction and we have not seen the top for stock index futures.

U.S. Dollar

The U.S. dollar advanced in the first part of October due to flight to quality buying in light of political tensions in the euro zone and also on the widespread belief that the Federal Open Market Committee will continue to increase interest rates this year and in 2019.

However, there was some selling pressure on news that U.S. nonfarm payrolls increased a seasonally adjusted 134,000 in September, the smallest gain in a year, when 180,000 were expected.

In addition, there was selling in the greenback on news that the U.S. consumer price index increased 0.1% in September after rising a seasonally adjusted 0.2% in August. Economists expected consumer prices to increase 0.2% in September. Core consumer prices advanced 0.1% when up 0.2% was anticipated. Also, retail sales in September increased only 0.1% when economists were expecting to see a gain of 0.7%.

Euro Currency

The euro currency was pressured by renewed concerns over Italy's budget deficit. Italy's Deputy Prime Minister Matteo Salvini said the government would not cave to market pressure and backtrack from its plans to increase deficit spending in 2019.

The currency of the euro zone was also pressured by news that German exports fell for the second consecutive month in August and when European Central Bank President Mario Draghi moderated his inflation outlook for the euro zone.

However, selling in the euro was limited by news that industrial production in the euro zone was 1% higher in August than in July, when economists had expected a monthly gain of only 0.2%.

More recently the euro currency advanced in spite of German Chancellor Angela Merkel's allies' election loss, which was the worst election result since 1950.

Crude Oil

Crude oil prices had been supported over the past month as a result of declining Iranian oil production ahead of the reimposition of sanctions on Iran's oil industry at the beginning of November. The International Energy Agency last week said Iranian supply fell to a 2½ year low in September, as buyers continued to reduce their purchases before the November 4 deadline. Crude oil production declined by 180,000 barrels a day month-on-month to 3.45 million barrels a day last month.

In addition, prices were also supported by a decision in late September by the Organization of the Petroleum Exporting Countries and its partner crude producers not to increase output at a faster rate than previously planned.

More recently crude oil prices fell below the $70.00 level for the first time in almost a month after data showed an unexpected increase in U.S. inventories. The U.S. Energy Information Administration reported crude oil stockpiles had increased by 6.5 million barrels to 416.4 million barrels. In addition, prices have come under pressure over the past week due to signs of weakening oil demand as both the International Energy Agency and OPEC lowered their oil demand growth forecasts for this year and 2019.

Crude oil futures are likely to come under additional downside pressure over the near term.

Gold

The lows were made in mid-August, which coincided with the highs for the U.S. dollar. Futures have been able to advance in spite of prospects of tighter credit from the Federal Reserve, including the fed funds rate increase on September 26 and another likely in December.

There are indications that a major bottom may be forming, as bearish sentiment on gold has surged with speculators having become extremely short. By some measures, speculators have not been this bearish since late 2001, which could be a contrarian bullish signal for the yellow metal.

A recent chart breakout above downtrend lines suggests there may be follow through to the upside.

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MARKET OUTLOOK FOR CHINA AND ASIA REGION

By Alex Poon, ADMIS Hong Kong & Kevin Yang, ADMIS Shanghai Representative Office

*The following is an overview of the Chinese and Asian economic, political and crop situations as of **18th October 2018**. This report is intended to be informative and does not guarantee price direction.*

The key Chinese and Asian event over the last 30 days has been the PBOC cutting the RRR to release more liquidity to support the economy. The depreciation of Renminbi is positive on exports to different countries including the U.S. The India Rupee and Indonesian Rupiah dropped to record lows and the lowest levels since the Asia financial crisis respectively on the higher U.S. interest rates.

CHINA

- In September, the CAIXIN China manufacturing PMI came in at 50.0, declining for the fourth consecutive month and at a significantly accelerated rate compared to a reading of 50.6 in August. The new orders index continued to drop, suggesting manufacturing demand further weakened. The new export orders index fell to the lowest level since 2016. The prolonged contraction of demand took its toll on production, which led to a sharp decline of the output index. The employment index also fell further and continued to struggle in the contraction area. Out of concern about the impact of Sino-U.S. trade dispute and uncertainty of environmental protection policies, manufacturing industry's confidence in business prospects for the next 12 months has fallen to its lowest level in September.
- Thanks to a combination of extreme weather, the mid-autumn holiday and seasonal factors, which drove higher food prices, China's consumer inflation rose to a seven month high of 2.5% year-on-year in September. As the PBOC cut the RRR by 1%, which eases liquidity of around 750 billion RMB, the CPI is expected to moderately climb in months to come. On the industrial side, PPI growth stood at 3.6% year-on-year, the weakest reading in the past five months, indicating that the real economy is cooling and needs more stimulus. Looking ahead, the PPI is expected to grow on a monthly basis since crude oil

prices have risen significantly. But on a yearly basis, PPI growth rate is estimated to further drop to around 3.3%.

- China's exports in dollar dominated terms surprisingly increased 14.5% compared to last year and imports rose 14.3%, leaving the country a trade surplus of $31.69billion. Exports to the U.S., E.U. and Japan climbed up 14.0%, 17.4% and 14.3% year-on-year respectively, versus a growth of 13.2%, 8.4% and 3.7% in last month. The robust exports to the U.S. in the context of the trade war were partly attributed to a rush in importing goods from China before the new tariff takes effect, but it needs more time to observe the change. The Yuan's depreciation also facilitated the exports.
- In September, China imported 8.01 million tons of soybeans, significantly lower than last month's 9.15 million tons, but higher than expectations of seven million tons, because some shipments purchased in August from Brazil were delayed. As the trade war between China and the U.S. escalates, Chinese buyers are snapping up Brazilian harvests, pushing up the prices of Brazilian soybeans, which are even higher than U.S. soybeans with the tariff included. But most of Chinese buyers still choose to steer clear of U.S. soybeans to avoid further possible restrictions. China's soybean imports are expected to fall in coming months as Brazil runs out of supply. China is considering reducing the protein content in animal feed to cope with the soybean shortage situation.

OTHER ASIAN COUNTRIES

- The BOJ kept a key interest rate unchanged at -0.1%. BOJ Governor Haruhiko Kuroda highlighted in his speech that the BOJ must also consider the side effect of ultra-easy monetary policy while achieving the 2% inflation target. Japan experienced its first fall in exports since 2016. Its exports in September fell 1.2%, disappointing the market expectation of a 1.9% gain and below the previous 6.6% gain in August. While BOJ Board member Makoto Sakurai warned that Japan's GDP growth may fall short of BOJ's estimate of 1.5% growth this year due to global trade protectionism rising, the U.S. may set new trade talks with Japan to resolve the disputes on the tariffs imposed on Japan's autos export.
- Korea's September exports dropped 8.2% due to fewer working days and a high base in August. Although it has recorded the largest decline since 2016, it is still below the market estimate of an 11.5% drop. The BOK kept monetary policy unchanged at 1.5% in October, but has signaled that the BOK planned to raise the rate in November. The BOK revised lower its previous growth forecast of 2.9% to 2.7% due to uncertainty over the trade tensions.

- While the International Monetary Fund has lowered the growth forecast for various countries, it has kept India's growth forecast unchanged at 7.3% in 2018. The Reserve Bank of India has unexpectedly retained its repurchase rate at 6.5%, with most of the economists surveyed forecasting a cut in rate at the October rate decision meeting. The surprise rate decision has pushed India's rupee to a historical low level.
- The Indonesian Rupiah has fallen to the lowest since the 1998 financial crisis, to Rp 15,000 per U.S. dollar. Bank Indonesia has increased its benchmark rate in late September to 5.75%. This is the fifth rate hike since May. However, the worries over rising U.S. Treasury yields and trade tensions have overridden the rate hike effect on the Rupiah.
- There is a growing concern about Australia's housing market. Building permits have dropped 13.6% over the last year, and the house price index and new home sales data have been together dropping in recent months. As Australia's economy highly depends on China, the trade tensions are hurting the optimism in the Australian market. In September, only 5,600 new jobs were created, compared to a forecast of 15,000 and 44,600 last month.
- The latest NZIER survey showed that New Zealand's Q3 business confidence dropped to a new nine year low due to international trade tensions. Although the RBNZ kept its interest rate at 1.75% in September, the latest Q3 CPI data, which increased to 1.9% from 1.5% in Q2, may highlight a higher chance of rate hike in the coming RBNZ meeting in November. The RBNZ has addressed previously that the next move in interest rates is uncertain and could be up or down.