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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 ***February 14, 2019.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-January to mid-February soybean futures trended a little higher, while corn and wheat futures continued to trade mostly sideways. Hope for a resolution to the U.S.-China trade war offered support. Talk of higher 2019 crops offers resistance. Finally, the USDA came back to work and released old and new numbers on February 8. That was the good news. The bad news was that the numbers failed to generate new trade action. The USDA and the CFTC has slowly began to release daily and weekly U.S. export sales data and weekly CFTC commitment of traders reports.

May soybeans are near $9.25. May corn is near 3.85 and May Chicago wheat is near 5.20. Global geopolitical issues and the slower world economy have kept currency, energy and financial markets volatile. Most markets are hoping for a new U.S.-China trade deal. Managed funds are now estimated to be net long soybean, soymeal and corn and net short soyoil and wheat. Central Brazil has turned wetter and Argentina is drier. The USDA estimates the 2019 Brazil soybean crop to near 117 mmt and the corn crop near 94.5. Argentina's 2019 corn crop is estimated to be near 46.0 and soybeans to be near 55.0. The continued spread of African swine fever in China raises concern over their feed demand and soybean imports.

United States

USDA estimates U.S. 2018/19 corn carryout near 1,735 (-46)
USDA estimates U.S. 2018/19 soybean carryout near 910 (-45)
USDA estimates U.S. 2018/19 wheat carryout near 1,010 (+36)

World

World 2018/19 corn end stocks were estimated at 309.8 mmt (+1.0)
World 2018/19 soybean end stocks were estimated at 106.7 (-8.6)
World 2018/19 wheat end stocks were estimated at 267.5 (-0.6)

Argentina

The economy appears to have remained stuck in recession in the fourth quarter. This follows a second consecutive GDP contraction in the third quarter, which was triggered by plunging domestic demand on the back of sky-high inflation and interest rates and a sharp fall of the peso. Turning to the first quarter of this year, January's drop in consumer confidence points to protracted weakness in spending.

Brazil

Brazil's recovery is expected to have held up at the end of 2018 and at the start of the new year, although it remains a bumpy ride. The unemployment rate dropped in the fourth quarter and retail sales rebounded in November, pointing to a pick-up in household spending. In addition, economic sentiment continued its upward trend in January, while the manufacturing PMI also edged up in the same month. However, the recovery faced another unexpected shock in January when an inactive dam owned by Brazil's largest mining company collapsed.

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

The following report is an overview as of February 14, 2019 and is intended to be informative and does not guarantee price direction.

Stock Index Futures

After a dismal performance in December, stock index futures put in a stellar performance in January in spite of the ongoing U.S.-China trade rift. In fact, the S&P 500 enjoyed its best January in more than 30 years. Stock index futures advanced in price in spite of news that the World Bank said it sees growth in the global economy decelerating to 2.9% this year compared to 3.0% in 2018 due to elevated trade tensions and international trade moderation. Why have stock index futures performed so well in spite of weaker global economic growth?

There is a rule of thumb that any time markets can advance in price when the news is mostly bearish, it can be a sign of higher prices yet to come.

Could it be that U.S. stock index futures are anticipating a resolution to the U.S.-China trade dispute will come sooner rather than later? I believe this may be the case. If this assumption is correct, we could expect higher prices for stock index futures.

U.S. Dollar

The U.S. dollar has trended higher mainly by default as economies overseas have shown protracted weakness, especially in the euro zone. However, there have been some notable better than anticipated economic reports in the U.S., including the on-balance stronger than expected U.S. employment report, which showed nonfarm payrolls jumped 304,000 in January. That exceeded forecasts and was the largest gain since February 2018.

In addition, the JOLTS report (Job Openings and Labor Turnover Survey) showed there were 7.335 million job openings in December, and there were 6.294 million people unemployed. The median estimate called for 6.9 million. So, for the ninth consecutive month, there were more job openings than unemployed people.

If I am correct in my belief that the Federal Open Market Committee will keep its fed funds rate unchanged in 2019, or possibly increase the rate only one time, gains in the U.S. dollar will be limited.

Euro Currency

The euro currency has come under pressure in February due to evidence that the euro zone economy is struggling. The currency of the euro zone fell on news that GDP growth in 2018 in the euro area was 1.8% versus 2.4% in 2017. Also, the European Commission cut its growth forecast for the euro zone to 1.3% in 2019, which is substantially below the 1.9% growth rate that was forecast in November. The report partially blamed the U.S.-China trade war for the slower growth rate. In addition, the report lowered euro zone inflation expectations to 1.4% in 2019 and 1.5% in 2020.

Also, industrial output in Germany in December was down 0.4% from November when an increase of 0.8% was expected and German factory orders in December fell 1.6%, the steepest decline in six months, contributing to a 7% drop on an annualized basis.

Financial futures markets suggest the European Central Bank will not be able to hike its key interest rates until mid-2020, which is well past the timing suggested by the central bank’s policy guidance.

Interest rate differentials expectations appear to be neutral to slightly bearish for the euro currency.

Crude Oil

Prices have been bolstered recently by data suggesting the Organization of the Petroleum Exporting Countries and other top producers are following through on a promise made late last year to reduce output to slim down supplies and increase prices.

In its monthly report, the Energy Information Administration said global oil supplies fell by 1.4 million barrels a day to 99.7 million barrels in January due to lower supply from the Organization of the Petroleum Exporting Countries. The decline was driven by reductions in Saudi Arabia, the United Arab Emirates and Kuwait. It appears that the cartel has gone above and beyond the call of duty in lowering output as part of a new supply-cut agreement, which took effect in January.

Prices advanced despite data showing U.S. crude oil inventories are at a 15 month high, as investors focused instead on hopes for a U.S.-China trade deal.

Longer term, crude oil futures are likely to continue to advance, especially if a trade agreement between the U.S. and China is reached.

Gold

Gold futures smashed above the psychological 1300.00 level, as recent tepid U.S. inflation data bolstered the case for the Federal Reserve to pause its monetary tightening. Reinforcing this view was the January consumer price index, which remained the same for the third month in a row. On an annualized basis, inflation was up only 1.6% from the prior year, which was the smallest year-over-year gain since the middle of 2017.

Federal Reserve officials in recent weeks have pointed to muted inflation pressures as one reason why they can pause from raising their short term rate. Signs of a more dovish Federal Reserve tend to increase the price of gold, which struggles to compete with yield-bearing assets when borrowing costs rise.

The technical picture has improved, as well, as major downtrend lines have been taken out on the upside. The next upside price objective for the yellow metal is the 1334.40-1335.30 gap area on the weekly charts.

Further gains are likely for gold futures.

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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 **19th February 2019**. 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 more data show Chinese economy is slowing down and market is awaiting the result of trade talk between US and China. With Fed turn dovish in 2019, major central banks in the region kept the interest rate unchanged.

CHINA

- In January, the CAIXIN China Manufacturing PMI stood at 48.3, which is down from December 2018 and is the lowest reading since March 2016. The output index failed to extend the slight expansion at the end of 2018 and fell into the contraction zone. New orders fell at an accelerated rate for two consecutive months because of sluggish domestic demand. Thanks to improved overseas demand new export orders bounced back to expansion, ending a decline for nine months in a row. Because of factories downsizing to improve efficiency, the employment index remained in contraction area, but the contraction rate was the lowest over the past nine months. Manufacturing input costs declined for the second month in January, which according to surveyed factories, reduced the cost burden for them. The manufacturing industry's confidence in the business outlook for the next 12 months rebounded to an eight month high.
- In spite of the holiday season, China’s consumer prices index only increased 1.7% year-on-year in January, while the PPI annual growth slipped to 0.1% in the meantime. On a monthly basis, the CPI increased 0.5% while the PPI declined 0.6%, suggesting a weaker-than-expected domestic consumption situation. During the Chinese New Year holiday, China’s sales revenue for retail and catering posted an annual growth of 8.5%, which is far worse than previous years, when two digit growth was typical. A statistic from the China Association of Automobile Manufacturing echoed the trend saying that China’s car sales in January fell 17.71% from last year. As consumption remains weak, it won’t be surprising that the CPI will be relatively low and PPI might further fall into the deflation area.

- Despite trade tensions between China and the U.S., China's dollar-dominated exports growth rebounded to 9.1% year-on-year in January, while imports declined 1.5%, both beating expectations. The trade surplus for January stood at $39.2 billion. But, it is unconvincing that the robust exports data points to a robust recovery, since worries over weakening domestic investment and consumption persisted. For the coming months, as comparative basis escalates and trade negotiations between China and the U.S. continues, the exports sector might see increasing pressure.
- China's soybean imports in January increased nearly 30% compared to last month to 7.38 million tons, partly because of delayed customs clearance. China's soybean imports are expected to pick up in coming months, as shipments from the U.S. arrive and the Brazilian new harvest hits the market. According to shipping statistics, soybean imports for February will stand at around 7.6 million tons. In the long run, soybean imports are expected to recover. But in light of the current downstream demand for soymeal, it is unrealistic to expect it to recover to the record level in 2018.

OTHER ASIAN COUNTRIES

- The Bank of Japan kept its key interest rate unchanged at -0.1%, as expected by the market. December household spending was at 0.1% growth, the first time it was over the level of the last four months, but still below the market expectation of a 0.8% gain. The January Tokyo core CPI, excluding fresh food, which is the leading indicator of Japan's consumer inflation, increased 1.1% year-on-year, higher than 0.9% compared to both the market expectation and the December reading, which may indicate a further improvement in spending during January.
- The Bank of Korea kept its interest rate unchanged at 1.75%, matching market expectations. South Korea's December industrial output growth was at -1.4%, which fell short of market expectation of a stable output at 0% growth rate. The January CPI growth year-on-year was at 0.8%, below the market expectation of 1.3% and marking the worst growth since 2017. Persistent low inflation has been one of the reasons hindering the BOK from hiking interest rates.
- Australia's December labour market has shown signs of improvement with a 5% unemployment rate, which was below both market expectations and the November reading of 5.1%. The fourth quarter CPI quarter-to-quarter was 1.8%, which is below 1.9% in third quarter and the market expectation of 1.7%. The RBA kept its interest rate unchanged at 1.5%, matching market expectations. The RBA reduced its growth forecast for 2019, due to slumping property prices.

- New Zealand's fourth quarter CPI year-to-year remained unchanged at 1.9%, which was higher than the market expectation of 1.8%. The fourth quarter labour market disappointed, with the unemployment rate reaching 4.3%, which is higher than both the market expectation and the previous reading. The participation rate and the employment change both fell short of market expectations, as well.