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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 **January 22, 2019.** This report is intended to be informative and does not guarantee price direction.*

From mid-December to mid-January soybean, corn and wheat futures have traded mostly sideways. Hope for a resolution to the U.S. and China trade war offered support. Talk of higher 2019 crops offers resistance. The U.S. partial government shutdown has delayed the USDA January crop report. The shutdown has also delayed the release of daily and weekly U.S. export sales data and weekly CFTC commitment of trader's reports.

March soybeans are near $9.05. March corn is near 3.78 and March Chicago wheat is near 5.17.

Global geopolitical issues and a slower world economy have kept currency, energy and financial markets volatile. South America weather is now key to soybean prices. Managed funds continue to be net short soybean, soyoil, soymeal and wheat and long corn. Central Brazil has turned dry and Argentina is too wet. Some private crop watchers have lowered their estimate of the 2019 Brazil soybean crop to near 115 mmt vs the USDA estimate of 122. The continued spread of African swine fever in China raises concern over their feed demand and soybean imports.

United States
The USDA estimates U.S. 2018/19 corn carryout near 1,781 (+45)
The USDA estimates U.S. 2018/19 soybean carryout near 955 (unch)
The USDA estimates U.S. 2018/19 wheat carryout near 974 (+25)

World
The world 2018/19 corn end stocks were estimated at 308.8 mmt (+1.3)
The world 2018/19 soybean end stocks were estimated at 115.3 (+3.3)
The world 2018/19 wheat end stocks were estimated at 268.1 (+1.4)

Argentina
The economy contracted again in the third quarter, weighed down by plummeting domestic demand amid soaring inflation and interest rates and a significant depreciation of the peso. Recession likely carried over into the fourth quarter, as suggested by shrinking economic activity in October and plunging industrial production in October-November.

Brazil
Incoming data suggests Brazil's economic recovery continued in the fourth quarter after growth jumped in the third quarter. Returning confidence in the economy is expected to have increased momentum with business and consumer sentiment edging up in December.

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 January 20, 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 have put in a stellar performance in January due to a variety of reasons. For one, the Federal Reserve dramatically backed away from its December comments calling for two fed funds rate hikes in 2019. The FOMC now appears to be "data dependent," which is more of a neutral policy stance. In addition, there has been apparent substantial progress made in the U.S.-China trade talks. Also, global equity markets received a lift, on news that authorities in Beijing promised more measures to help China's ailing economy, including tax cuts on a larger scale and support from monetary policies.

There was only temporary pressure on futures on news of weak Chinese economic data and the International Monetary Fund downgrading its outlook for global economic growth. China's economy, the world's second largest, grew 6.6% in 2018, which is the slowest annual rate since 1990. The economic downturn was more severe in the last months of 2018, with fourth quarter growth increasing 6.4% from a year ago. The IMF reduced its forecast for global economic growth in 2019 to 3.5% from a 3.7% estimate in October.

It could be viewed as a sign of strength when futures were able to rally in spite of news that analysts lowered their fourth quarter earnings forecast for S&P 500 companies to 14.2% year-to-year growth from 20.1% that was estimated on October 1, according to Refinitiv.

The next advance for stock index futures will take place when central banks around the world realize they need to be less aggressive in hiking interest rates, as the Federal Reserve apparently just did and those central banks that are still accommodative, such as the European Central Bank and the Bank of Japan, will need to remain accommodative longer. This may take a while, but downward pressure on interest rates globally will ultimately rescue this market.

U.S. Dollar

The U.S. dollar advanced to a 19 month high in mid-December due to bullish interest differential expectations that were fueled by the ongoing belief that the Federal Reserve would continue to be the most hawkish of the world's major central banks. In addition, there was support for the greenback due to safe haven flows in light of the continuing global growth worries and rising political risks in Italy and the U.K.

The U.S. dollar declined in the latter half of December, with much of the pressure linked to the release of the minutes of the December 19 Federal Open Market Committee meeting, which showed the Fed is unlikely to increase rates for at least a few months, while they assess the impact of recent market volatility on the economy. Recovery gains in the greenback in January were linked to a better tone to the U.S.-China trade talks.

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 continues to hover near three week lows, as a result of recent weak euro zone economic data. Euro area economic confidence fell for a twelfth month in December. An economic confidence sentiment gauge dropped to 107.3, which is lowest in almost two years. In addition, the euro area annual inflation rate was 1.6% in December 2018, which is down from 1.9% in November. However, there was limited pressure on the euro on news that industrial output in the euro area fell the most in almost three years in November.

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 bank's policy guidance.

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

Crude Oil

Since the last week in December crude oil futures have staged an impressive advance, increasing by around 20%, largely moving in tandem with global equities markets. Much of the strength can be attributed to growing optimism that a U.S-China trade deal will be hammered out.

In addition, the crude oil market has been bolstered since the beginning of 2019 by the implementation of production cuts by the Organization of the Petroleum Exporting Countries and its allies. OPEC and 10 producers outside the oil cartel, led by Russia, agreed in late 2018 to collectively curtail crude output by 1.2 million barrels a day for the first half of 2019, in an effort to rein in supply and boost prices.

Gold

Gold futures have steadily advanced since the second week in November into the first part of January, although the 1300.00 level has been formidable resistance, at least for now. Geopolitical worries and a less hawkish Federal Reserve policy propelled gold higher.

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

Further gains are likely for gold futures.

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 **22nd January 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 the drop of the Chinese PMI into contraction area, which heightened investor's concerns about the slowdown of the global economy. The recent decline in oil prices eased inflation pressures in the region, including India and Indonesia.

CHINA

- The CAIXIN China manufacturing PMI for December 2018 came in at 49.7, which is lower than November's 50.2. It was the first time since June 2017 that it has fallen into the contraction zone. The trend is in line with the official manufacturing PMI, which went down to 49.4 in December from last month's 50.0 and fell into contraction for the first time since August 2016. New orders declined for the first time since July 2016, while new export orders fell for its ninth consecutive month. Jobs shedding continued in December, but at a moderate rate, similar to November. Manufacturing employment has been shrinking for 62 months. With domestic demand being weak, external demands being suppressed, corporations' willingness to destock increasing, prices of industrial products going down, the downward pressure on China's economy has shown clear signs of increasing.
- China's consumer inflation rate fell to 1.9% in December 2018, from 2.2% in November, primarily because of a sharp decline in prices of non-food products like gasoline and diesel, which fell 10.1% and 10.8% in December. The consumer inflation rate for the year 2018 stood at 2.1%. The consumer inflation rate might bounce back to 2% in January 2019, because of Chinese New Year. But, for year 2019, given that domestic demand is still weak, the CPI is expected to stay moderate. On the industrial side, the PPI dropped significantly from last month's 2.7% to 0.9% in December. With commodities prices

suppressed, the PPI is expected to further fall and is highly likely to fall into contraction in 2019 again.

- In December, as “rush shipments ahead of higher tariffs” faded, both China’s imports and exports unexpectedly posted negative growth. On dollar dominated terms, China’s exports declined 4.4% year-on-year in December, the worst performance since December 2016, while imports dropped 7.6% from last year, which is the lowest reading since July 2016. That left the country a trade surplus of $57.06 billion. China’s exports might be under more pressure in 2019, especially in the first half of 2019. If the negotiations between China and the U.S. goes well and results with a deal, then the situation for China’s exports might improve in the second half.
- China’s soybean imports plunged 40.1% year-on-year to 5.72 million tons in December 2018 and for the first time since 2011, China’s annual soybean imports declined, by 7.9% to 88.03 million tons. The soybean imports in December mostly came from Brazil, because of the ongoing “trade war” between China and the U.S. As China has made progress with the U.S. on negotiations and agreed to purchase U.S. agricultural products, soybean imports in Q1 of 2019 might pick up. But, because the African swine fever spreading and alternatives for soy meals increasing, China’s demand for soybean is unlikely to recover to its previous level in short run.

OTHER ASIAN COUNTRIES

- Japan’s November industrial output slowed down by 1% month-to-month, which is better than the market expectation of a 1.9% fall. The market expects December output to rise 2.2%, but decline to 0.8% in January. The December Tokyo core CPI, excluding fresh food, the leading indicator of Japan’s consumer inflation, increased 0.9%, year-on-year, slowing from the previous 1% in November. Despite weakening economic data in December and uncertainties from the global trade friction, the BoJ maintained its upbeat view on the Japanese economy due to improving private consumption and exports.
- South Korea’s Q4 GDP growth year-on-year was 3.1%, which is higher than the market expectation of 2.8% and marks the greatest growth over 2018. Much of the gain can be attributed to strong spending due to the government’s stimulus policy. December export growth was at -1.2%, year-on-year, which is below the market expectation of 3.3%, due to declining China demand and falling prices for memory chips, leaving South Korea with a gloomy 2019 outlook under the global trade tension.
- India’s November industrial output was at 0.5%, which disappointed the market with an expectation of 4.1% growth. The IMF expects India will expand 7.5% in FY19-20 and 7.7% in FY20-21 respectively, benefiting from low oil prices. The low fuel price level has slowed down the December wholesale inflation rate to 3.8% from 4.6% previously, and lowered

the market expectation of 4.4%.

- Indonesia's December inflation rate was at 3.13%, which is lower than the November inflation of 3.23%, but still slightly higher than the market expectations. The Bank of India has kept its rate unchanged at 6% at the January meeting, which was the market expectation. The Bank of India considers the 6% rate is "near the peak" of the benchmark rate to keep financial stability and slow capital outflows.
- Australia's Q4 trade surplus has narrowed to 4.4% to 1.93 billion, which is worse than the market expectation of 2.23 billion, due to big drag of oversea sales of non-rural goods. November retail sales grew by 0.4%, which is higher than both the market expectation and the October's reading of 0.3%. Yet some may expect the December figure would show weakness as December spending was brought forward to November due to Black Friday and Cyber Monday sales.
- New Zealand Q4 business confidence remained negative at -17%, but less than the previous quarter of -30%.The December manufacturing PMI also rose to 55.1 from 53.5 previously. New Zealand's November building permit slowdown was at -2% from the previous 1.4% in October. None of the eight New Zealand's housing markets is considered affordable under the annual Demographia International Housing Affordability study.