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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 ***September 19, 2018.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-August to mid-September soybean, corn and wheat futures traded lower on the escalation of the U.S. and China trade war. The bearish USDA September crop report also sent prices lower. In September, the USDA estimated the 2018/19 soybean yield, crop and carryout at record highs. The USDA estimated a record U.S. 2018 corn yield.

November soybeans are near $8.30. December corn is near 3.45 and December Chicago wheat is near 5.20. The S&P 500 index is near 2910 and November crude oil futures are near $71.00. Global geopolitical issues have kept currency and financial markets volatile. China's economy may be slowing. The U.S./China trade issue is a big soybean price unknown. The approaching U.S. harvest and the slow start to the U.S. wheat export year could limit the upside in corn and wheat prices.

United States

USDA estimates US 2017/18 corn carryout near 2,002 (-25)
USDA estimates US 2018/19 corn carryout near 1,774 (+90)
USDA estimates US 2017/18 soybean carryout near 395 (-35)
USDA estimates US 2018/19 soybean carryout near 845 (+60)
USDA estimates US 2018/19 wheat carryout near 935 (unch)

World

World 2018/19 corn end stocks was estimated at 157.0 mmt (+1.5)
World 2018/19 soybean end stocks was estimated at 108.3 (+2.4)
World 2018/19 wheat end stocks was estimated at 261.3 (+2.3)

Argentina

President Mauricio Macri's plea to the IMF on August 29 triggered a sharp selloff in the peso, precipitating the worst chapter so far of this year's still unfolding economic crisis. Macri appealed to the IMF to accelerate the disbursements of its USD 50 billion standby arrangement agreed to in June, which is a move that sent investors fleeing as the depths of the government's fiscal woes grew more obvious.

Brazil

GDP data confirmed that the recovery slowed in the second quarter of the year, weighed by economic disruptions from the truckers' strike. Exports plunged due to transit disruptions, while household spending also slid in Q2, which was likely weighed on by deteriorating sentiment and a spike in inflation. More recent data for the third quarter continued to be downbeat, suggesting that a strong recovery has yet to develop after the worst recession in the country's modern history.

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 September 21, 2018 and is intended to be informative and does not guarantee price direction.

Stock Index Futures

On August 22 the bull market in S&P 500 futures turned 3,453 days old, surpassing the previous record of 3,452 days that took place between October 1990 and March 2000. This milestone makes the current bull market the longest such streak on record. It is widely accepted that the bull market started on March 9, 2009, which marked the low of the financial crisis. Many analysts consider this to be the birth date of the current bull market, since that was the absolute bottom for the prior bear market, which ended that day.

Stock index futures have performed very well since then, including new record highs for S&P 500 futures, even though on September 17 President Donald Trump said he will impose new tariffs on about $200 billion in Chinese goods and threatened to add hundreds of billions more as part of his campaign to pressure Beijing to alter its commercial practices, which escalated trade tensions between the world's two largest economies. China's Commerce Ministry threatened unspecified countermeasures, saying China "has no choice but to undertake synchronous retaliation" to defend its interests.

I believe the latest geopolitical worries, including global trade tensions, Brexit uncertainties, the political and economic upheavals in Turkey, a less steep yield curve and inflation concerns will only negatively affect stock index futures for a short time. The U.S. economy and the stock index futures market rally have plenty of fuel left in the tank. While this bull market and economic recovery may very well be old, the still relatively low global interest rate environment suggests U.S. equity markets have plenty of upside both in duration and in price.

U.S. Dollar

After peaking in mid-August the U.S. dollar has recently declined to a two month low. Recent selling pressure has taken place in spite or mostly stronger than expected economic reports. For example, nonfarm payrolls increased 201,000 in August, which compares to expectations of a gain of 191,000. In addition, wages rose 2.9% from a year ago in August.

Also, there was news that U.S. small business optimism soared to a record in August, according to a survey by the National Federation of Independent Business. The NFIB said the record number was due to the tax cuts and deregulation efforts from the White House, which led to more sales, hiring and investment.

The NFIB Small Business Optimism Index jumped to 108.8 last month and above the previous record high of 108 in 1983 under the Reagan administration. The August number was up from the 107.9 reading that was reported in July.

Not all of the economic reports were better that anticipated. For example, producer inflation pressure in the U.S. came in below expectations in August. The producer price index declined 0.1% in August following an increase of 0.1% in July. Economists were expecting up 0.2%. The annual PPI also missed the market's consensus, coming in at 2.8%, which compares to the expected 3.2%.

Also, the Empire State manufacturing survey's general business conditions index declined to 19 in September, which is down from 25.6 in August. Consensus expectations had been for a reading of 23. The report indicated sentiment in the manufacturing sector is at its lowest level since April.

The U.S. dollar is lower in spite of the ongoing trade tensions between the U.S. and China, which should be viewed as a sign of weakness for the greenback.

Euro Currency

The euro currency bottomed in mid-August as it was perceived that interest rate differential expectations were turning friendlier toward the currency of the euro zone. The economic outlook for the euro zone has improved recently, especially after German financial analysts and institutional investors raised their economic outlook for Europe's largest economy in September. The ZEW think tank's measure of economic expectations increased for the second consecutive month to minus 10.6 points from minus 13.7 points in August. This compares to economists' forecasts of minus 12.9.

The euro currency is likely to trend higher over the near term.

Crude Oil

Futures bounced off of the mid-August lows due to signs of declining U.S. petroleum inventories. U.S. inventories of both crude oil and gasoline declined more recently, as well. For the week ended September 14, according to data released on September 19 by the Energy Information Administration in its weekly report, crude oil stockpiles fell 2.1 million barrels to 394.1 million barrels and remain approximately 3% below the five year average for this time of the year. Oil stored at Cushing, Oklahoma, which is the delivery point for U.S. stocks, fell 1.3 million barrels to 22.3 million barrels. Gasoline stockpiles declined 1.7 million barrels to 234.2 million barrels, which compares to expectations of a drop of 300,000 barrels from the previous week.

Crude oil prices are likely to firm in the months ahead as the U.S. economy remains strong and predictions of a dramatic slowdown in the global economy appear to be overstated.

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 a probable fed funds rate increase on September 26 and another in December.

Currently there are indications that a 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.

In spite of recent short covering gains for gold, the next sustained bull market for precious metals may not emerge until there is a resolution to one degree or another to the still raging global trade wars.

MARKET OUTLOOK FOR EUROPE, THE UK, RUSSIA AND INDIA

Grain Outlook by George Eddell, Grain and Oilseeds Derivatives Broker for ADM Investor Services International Ltd.

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

European Union

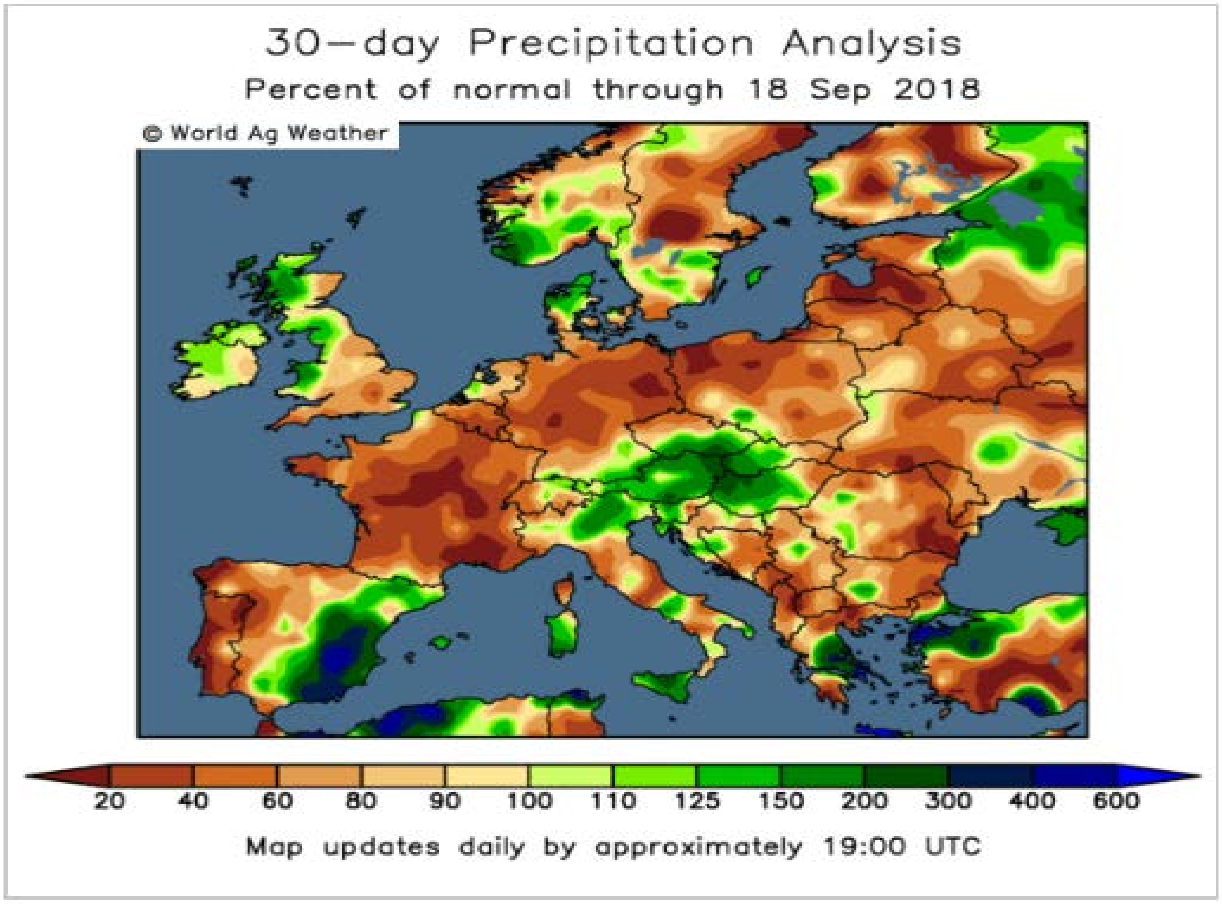
E.U. heatwaves and 2018's problematic harvest is yesterday's news now seeing the converging of forecasts for Europe's soft wheat crop starting at Strategie Grains's 126.774mlnt, to Coceral's more optimistic 129.9mlnt, whilst the E.U. Commissions number is at 128.777mlnt. Compared to last year's crop of 142mlnt, the E.U.'s crop is some 10% lower, which whilst doesn't sound completely drastic; the detail shows that most major reductions come from Europe's exporting origins of Germany, UK, Poland, Denmark and Baltic States.

The domestic trade is therefore dictating markets currently with E.U. exports expected to be more realistic at below 15mlnt showing a 25% decline vs. last year's 20.1mlnt exports and marking the fourth straight year of declining shipments, reducing the E.U.'s grip further to the world's global export market. With exports to the middle of September down 41% from last year at 2.881mlnt, the USDA's current all wheat number of 23mlnt is wholly unrealistic as said previously and even Strategie Grains idea of 18.8mlnt also appearing optimistic. The intra-E.U. trade however is expected to be robust at 26.309mlnt vs. last year's 28.442 despite the recovery in Spanish wheat production.

Romania in particular is seeing intra-E.U. shipments 21% higher following the wheat quality downgrades to feed (over half the crop said to be feed quality) due to summer rains. The market however has become void over the past month of any fresh news and disappointing export progress from U.S. markets despite the shift in demand the global balance sheet suggests. News has also been in a void ahead of the arrival of the E.U. and U.S. corn harvest. Both of which have been a bearish influence with record yields in the U.S. and also better than anticipated E.U. yields from the lows once forecasted at the start of August due to the marginal improvements in weather at the end of August. September's crop monitoring update, MARS, from the E.U.

commission, stated that whilst conditions of drought continues in central and eastern Germany and Western Poland, weather conditions generally turned more favourable from mid-August onwards. Improvements however arrived generally too late to dramatically add to yield potential of corn crops, but overall the outlook remained positive and above the five year trend.

The drought conditions mentioned in Germany and Poland now however are bringing to cause concern to next season's crop prospects with drilling of winter rapeseed dramatically impacted and likely to impact the drilling decisions of winter wheats, which are just about to start. Significant areas of Europe are calling for rainfall to help preparations for next year's crop after what was a hot and dry summer with the past 30 day rainfall anomaly chart showing the percentage precipitation as normal demonstrating below.



Russia

The merry-go-round of rumours regarding Russia's crop size and exportable surplus has continued over the past month with comments from the deputy prime minister to the Ag ministry muddying the waters. Talk aside and focusing on the facts, Russian wheat harvest progress to

20th September reported the ministry is 80% complete harvesting 64.495mlnt vs. 80.23mlnt harvested at the same point last year. Yields to date are down just 11% recovering from yield comparisons that at one point were 20% lower suggesting some improvement, but comparing harvest progress basis the same dates is not an exact science. Harvest is now firmly in eastern central districts and Siberia where conditions are said to be less than ideal given the cold temperature and even reported issues of snow!

Basis the current harvest progress though and improving yield structure, forecasts have bucked the tide and have started to increase with analysts IKAR and SovEcon both increasing their forecasts to 69.6mlnt and 69mlnt respectively. This month's USDA report also increased their Russian wheat forecast by 3mlnt to 71mlnt, which I personally feel is closer to the mark. Russia's exportable surplus is however all about the overall grain supply outlook including corn, barley, oats and rye. According to the USDA, total grain production is forecast at 107.15mlnt, which would surpass the 105mlnt total grain production target quoted by the Russian Ag Ministry. Overall domestic consumption is seen at 72mlnt for total grains allowing for grain exports of 35mlnt as widely stated. Of this, 30mlnt is anticipated wheat, which given the current export pace July to August of 8.4mlnt, plus anticipated September exports of 4mlnt means Russia will be met by Christmas. What the Ag Ministry does from there is anyone's guess, but pressure is being applied from the domestic market to limit food price inflation and for the time being this is at least the first target.

As a result of this, the cash market is building in big carries for forward prices from December onwards to deter the exports of Russian wheat in the event of any restrictions that could be put in place. It is from this point onwards that U.S. wheat becomes competitive against Russian 12.5 pro values, which should lead to the switch in exports. Once Russia is out of the market, the star to the new 2019 year could look very different from a global trade and price point of view.

This month the Ministry of Agriculture also reported on programmes to reclaim up to 10mln ha of land back into agricultural production. The current area under arable production in Russia of 80mln ha still lags the soviet farming years of 118mln ha at its peak. Whilst Russia claims this to be productive arable area that will further help them to develop their strategic policies of increasing agricultural production and therefore exports, the reality is that this will be marginal land with some potential, but remains marginal land. Maybe opening up of the new Silk Road under China's belt and road initiative will improve the commercial viability of marginal land in eastern Russia.

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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 **20th September 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 continuous deteriorating of China's economic data prompting slowdown worries concerning the world's second largest economy. The recent depreciation of Indonesia Rupiah failed to lift exports with the growth rate seriously below market forecasts.

CHINA

- The CAIXIN China manufacturing PMI dropped to 50.6 in August from 50.8 last month, suggesting China's manufacturing activities further slowed in the context of a trade war. Growth of new orders dropped to the lowest level since July 2017 and new export orders have been in contraction area for the fifth month in a row, while job shedding continued. Weak demand and the deteriorating employment situation will further threaten the growth of consumption. The Chinese economy faces obvious downward pressure. In the meantime, China's official manufacturing PMI, which covers large SOEs, slightly climbed to 51.3 from last month's 51.2.
- Due to flooding and bad weather, China's food prices, especially vegetable prices, jumped in August, which resulted in China's CPI increasing 2.3% in August compared to last year. The ongoing African swine fever also added fuel. As it approaches the Mid-Autumn holiday, the CPI is expected to remain moderately high next month. On the industrial side, PPI growth narrowed for two consecutive months. The PPI grew 4.1% year-on-year. As commodity prices remain restrained, the PPI is not likely to climb in months to come. The growth of the PPI is expected to further narrow.
- In August, China's exports in dollar dominated terms grew 9.8% year-on-year, which is lower than last month's 12.2%. Imports growth also saw a dip, down to 20% year-on-year from 27.3% in July. The trade surplus slightly declined to $27.91 billion from last month's

$28.05 billion. The decline in exports growth was attributed to two reasons. One is because the comparative base from the same period last year was high. The second is that some exporters' sentiment has shifted from "rushing exports" in July to "wait and see" in August due to the uncertainty of the Sino-U.S. trade war. Looking forward, as the negative impact of the first round of tariffs on $50 billion worth of goods will be slowly released, China's exports and imports will be under pressure in short term.

- Be concerned that soybean prices might pick up in Q4 because of a supply shortage, as China's buyers rushed to purchase Brazil soybeans. In August, China's soybean imports increased 14% from last month to 9.15 million tons. In the first eight months, China's soybean imports amounted to 62 million tons, 2.1% less than last year. High imports pushed up inventories. Soymeal stocks stayed near a record high. Soybeans imports are expected to exceed 7 million tons in the next two months. But, some officials from state owned crushing plants said China's soybean stock might be exhausted in early 2019, when its Brazil supply has run out, while imports from the U.S. will be ground level due to high tariffs.

OTHER ASIAN COUNTRIES

- Japan's August core consumer price index, excluding fresh food prices, has reached 0.9%, meeting market expectation and higher than the previous 0.8%.The Q2 annualized GDP growth rate was revised up to 3%, compared with 1.9% in the previous estimate and above market expectations of 2.6%. The BOJ kept it unchanged at -0.1% and maintained its view of a moderately expanding economy.
- Korea's August export growth was at 8.7% year-to-year, which is higher than 6.2% in July, but is still below the market expectation of 10.1%. The growth is largely due to stronger exports of memory chips. The market expects the trade tensions between U.S. and China would not have a strong impact to South Korea yet, unless Chinese's import demand was further harmed by U.S.'s tariffs imposed. Despite the good export market, the labour market has recorded the worst performance since 2010, as the August unemployment rate rose to 4.2% from 3.8% previously.
- Investors were optimistic about India's economy over the last few months, while the SENSEX index has kept refreshing its historical high. However, the SENSEX index has fallen nearly 10% over the past four weeks because of the worries over risks in emerging markets. Despite the worries over EM, India was able to keep its pace of growth in industrial output and manufacturing output.
- Indonesia's export growth in August dropped drastically to 4.15%, with expectations at 11.35% and the last reading at 19.33%. The Indonesian Rupiah has fallen to the lowest level since 1998, which is when the Asian financial crisis happened. The foreign reserves

of the central bank has been reduced almost 10% due to defending the strength of Indonesian Rupiah over the last few months.

- Australia's housing price index has dropped by 0.6% from last year, according to the latest figure announced. With the unemployment rate unchanged at 5.3%, the employment change was positive and outstanding at 44K, compared to forecast at only 15K.The Australian dollar gained its strength over the last few weeks due to the weakness of U.S. dollar, as well as the easing worries of the trade war.
- New Zealand's Q2 GDP grow at 1%, which is significantly higher than the market expectation of 0.7% and 0.5% at Q1, recording the highest quarterly rise since 2016. The improvement is largely due to the agriculture sector with production up 4.1%. The strong performance has lessen market expectations of a rate cut for the RBNZ. The New Zealand Dollar spiked to U.S. $0.6680 after the surprising GDP data.