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MARKET OUTLOOK FOR UNITED STATES & SOUTH AMERICA

Grain Market Outlook for the United States and South America
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Financial Market Outlook for the United States
By Alan Bush, Senior Research Economist, ADM Investor Services

The following report is an overview of the US and South American economic, political and crop situations as of ***July 18, 2017.*** *This report is intended to be informative and does not guarantee price direction.*

From mid-June to July, Soybean futures rallied. Corn futures traded mixed between 3.80 and 4.15. Wheat futures rallied led by Minneapolis, but have now backed off the highs. The USDA increased the world 2016/17 soybean, corn and wheat carryout from June. The USDA did lower world 2017/18 wheat end stocks. Potential changes to U.S. trade policy and a delay in attempts to stimulate the U.S. economy could impact financial and grain markets.

November soybeans are near $10.00. December corn is near $3.95 and September Chicago wheat is near 5.00.

The Dow Jones Industrial Average is near 21,500. August Crude oil futures are near $46.70 and August Gold futures are near $1,250.

United States
USDA estimates U.S. 2016/18 corn carryout near 2,370 (+75)
USDA estimates U.S. 2017/18 corn carryout near 2,325 (+215)
USDA estimates U.S. 2016/17 soybean carryout near 410 (-40)
USDA estimates U.S. 2017/18 soybean carryout near 460 (-35)
USDA estimates U.S. 2016/17 wheat carryout near 1,185 (+23)
USDA estimates U.S. 2017/18 wheat carryout near 938 (+14)

World

USDA estimates world 2016/17 corn end stocks at 227.5 mmt (+2.9)
World 2016/17 soybean end stocks was est. at 94.8 (+1.6)
World 2016/17 wheat end stocks was est. near 257.5 (+1.1)
World 2017/18 corn end stocks at 200.8 mmt (+6.5)
World 2017/18 soybean end stocks was est. at 93.5 mmt (+1.3)
World 2017/18 wheat end stocks was est. near 260.6 (-0.6)

Argentina

The **USDA** estimate of Argentina's 2017 soybean crop was at 57.8 and 2017 corn was estimated at 41.0(+1.0). The economic recovery is firming up, with recently released data showing that GDP expanded on an annual basis in Q1 after three quarters of sizeable drops. The expansion was underpinned by a turnaround in private consumption despite rising unemployment and fixed investment.

Brazil

The USDA's Brazil 2017 soybean crop is estimated to be near 114.0. The Brazil 2017 corn crop is estimated to be near 97.0 mmt. The political scene has gone from bad to worse in recent weeks, jeopardizing the economy's recovery. The political unrest dampened both consumer and business confidence in June, although less recent hard data suggests that a moderate recovery is underway. Industrial production expanded for a second consecutive month and the unemployment rate fell in May.

Financial Market

The following report is an overview of U.S. stock index, precious metals and currency futures as of July 21, 2017. This report is intended to be informative and does not guarantee price direction.

S&P 500, Dow Jones and NASDAQ futures advanced to new historical highs in spite of several bearish economic reports. Stock index futures only declined temporarily on news that retail sales in June declined for the second consecutive month. Retail sales decreased a seasonally adjusted .2% in June from the prior month, the first back-to-back sales drop since July and August of 2016, when economists expected a .1% increase. Also, excluding autos, retail sales were down .2% last month, which compares to the predicted .2% gain.

So why has this bull market for stock index futures been so resilient in the face of so many potential catalysts for a bear market? The answer is that interest rates in the U.S. and overseas, in spite of the four rate hikes from the Federal Reserve, are still low enough to sustain the bull market for stock index futures.

With U.S. and global interest rates as low as they are, and in many countries they are still negative, there is plenty of accommodation left in the domestic and international banking system. U.S. and global interest rates will likely remain low enough for long enough to sustain the bull market for quite a while.
Any bearish political news that pressures the stock index futures market should be used as an opportunity to enter the market from the long side on the belief that the influence of bearish news will probably last for a short time, while the bullish ongoing low interest rate environment is there constantly.

S&P 500, Dow Jones and NASDAQ futures are likely to trend higher.

Energy

Crude prices advanced to a seven week high with gains coming from a decline in U.S. stockpiles. The U.S. Energy Information Administration said U.S. oil stockpiles fell by 4.7 million barrels. Large drawdowns of refined fuels, including gasoline, brought total stockpiles of oil and petroleum products down by 10.2 million barrels.

U.S. oil inventories have now declined in 13 of the last 15 weeks. That has increased confidence that production cuts by the Organization of the Petroleum Exporting Countries and other major producers are having an impact on large U.S. stockpiles. Recently the International Energy Agency raised its expectations for global demand growth.

Higher prices are likely for crude oil futures in light of an improving global economy.

Precious Metals

Gold and silver prices bounced from their early July lows due to a weak U.S. dollar, political turbulence in the U.S., as well as indications that the Federal Reserve will take a more gradual approach to tightening monetary policy.

The technical situation has improved as major downtrend lines have been taken out on the upside in both gold and silver.

Expectations that interest rates will stay low tend to boost prices for precious metals, which compete with yield bearing investments when borrowing costs rise.

The influence of the strengthening global economy, a weakening U.S. dollar and rising global inflation levels will be the catalysts for a resumption of this long term bull market.

U.S. Dollar

The U.S. dollar fell to a 13 month low this month as the fundamentals continue to turn against the greenback. It appears that the Federal Reserve is likely to embark on a slower path to interest rate hikes, especially after recent dovish comments from Federal Reserve Chair Yellen. In her testimony to congressional committees she indicated the Fed will approach tightening cautiously given the uncertain inflation situation. The Fed Chair said the central bank of the U.S. plans to continue raising interest rates gradually, but is ready to change course if inflation remains weak.

While the Federal Open Market Committee is on a measured path to increase interest rates, other major central banks, such as the European Central Bank are likely to scale back their accommodative policies later this year and the Bank of England is on course to increase its key lending rate possibly in 2018.

Expect the U.S. dollar to continue to decline.

Euro Currency

The euro currency advanced to almost a two year high as speculation mounts that the European Central Bank could announce plans to wind down its quantitative easing program sometime this year. The currency of the euro zone continued to advance in spite of news that German economic sentiment fell in July. A measure of economic expectation fell to 17.5, when economists had predicted 18.0.

Also, the euro currency only temporarily declined on news that the housing market in the euro zone cooled in the first three months of this year. House prices in the three months through March were up .4% from the fourth quarter of 2016, and up 4% from a year ago. That was the smallest quarter to quarter gain since the end of 2015.

The main trend for the currency of the euro zone is higher.