Market Perspectives

January 19, 2017

Developing Markets • Enabling Trade • Improving Lives

CONTENTS

CHICAGO BOARD OF TRADE MARKET NEWS

Week in Review: CME Corn March Contract					
$/Bu	**Friday 13 January**	**Monday 16 January**	**Tuesday 17 January**	**Wednesday 18 January**	**Thursday 19 January**
Change	0.250	0.000	7.0000	-0.5000	1.2500
Closing Price	358.500	0.000	365.500	365.000	366.250
Factors Affecting the Market	Record Q1 disappearance and 15.15 billion bu. of production left the market essentially unchanged. S. American weather pushed soybeans higher but was ignored in corn. The U.S. dollar fell 26 points while equities were mixed.	Markets were closed for the Martin Luther King Jr. holiday.	Weekend flooding in Argentina sent all grains higher. The flooding is sufficient to cause significant crop damage. The U.S. dollar fell 127 points and USDA reported the sale of 4.1 million bushels; both were supportive.	Slow news led to light volume, narrow range trading. Argentine weather is concerning but markets need more proof of damage. Basis levels are narrowing which is supportive. Outside markets were mixed with the dollar higher.	Another week of record ethanol production boosted corn markets. However, lower DDGS prices are keeping a lid on gains. Funds are adding length based on S. American weather which could sustain the present rally.

For more information on the contents of this newsletter or the U.S. Grains Council, its mission and programs, please contact Manuel Sanchez or Alvaro Cordero at (202) 789-0789.

The U.S. Grains Council is a private, non-profit partnership of producers and agribusinesses committed to building and expanding international markets for U.S. barley, corn, grain sorghum and their products. The Council is headquartered in Washington, D.C. and has ten international offices that oversee programs in more than 50 countries. Financial support from our private industry members, including state checkoffs, agribusinesses, state entities and others, triggers federal matching funds from the USDA resulting in a combined program value of more than $26 million.

USGC is looking for a new manager of global trade. This position supports worldwide activities, monitors and tracks trade issues and manages programs to expand markets. More information can be found here.

Outlook: In a holiday-shortened week of trading, March corn once again bumped up against the upper end of its recent trading range. The rally was specifically fueled by poor South American weather which will likely trim corn production from the region, though soybean production is more at risk currently. The weather in Argentina looks very hot and dry in the near-term with hints of changes coming toward the end of the month as the high-pressure ridge weakens. Brazil's weather is rainy but normal for January and will likely only marginally slow the harvest.

USDA's weekly Export Sales report was delayed this week due to the holiday and will be released Friday. The USDA did report 110,400 MT of corn sold to unknown destinations for the 2016/17 MY. Combined with earlier reported sales of 102,944 MT (also sold to unknown destinations), the figures point to a modest gain in weekly export sales in tomorrow's report. Exports have been trailing off since early November but the 30-cent discount the U.S. Gulf holds to Brazil should be supportive for the next few weeks. So far, U.S. corn exports are up 72 percent for the current marketing year. However, the U.S. dollar is presenting some headwinds due to recent Federal Reserve statements that additional rate increases are appropriate due to tightening labor markets.

One bearish consideration for corn is the apparent deterioration in ethanol margins. A third week of record ethanol production is building stocks rapidly and pressuring Midwest ethanol prices. Margins, which were exceptionally good, are now to the point where negative returns to production are likely. A pullback in production will likely weaken interior corn basis levels and put bearish pressure on the markets.

From a technical perspective, March corn has substantial bullish pressure building but is still restrained by resistance at $3.69. The contract is near three-month highs and fresh news will be required to get bulls buying above this level. There is still a lot of corn in the world but some unexpected, bullish factors are creeping up on the market (notably, South America's weather). Funds are reportedly adding to their length in corn, even as commercial selling remains active at these prices, but not so much as to generate a breakout. It will take significant fundamental news and a sustained breakout above $3.69 to generate a new buying wave. On the other hand, the weakening high-pressure ridge across Argentina could ease weather concerns and allow prices to fall back into their trading range. Should that occur, support lies at $3.52 and $3.45. The market feels like it wants to go higher but is unwilling to do so without sound fundamental reasons.

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CBOT MARCH CORN FUTURES

Source: Prophet X

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Current Market Values:

Futures Price Performance: Week Ending January 19, 2017			
Commodity	**19-Jan**	**13-Jan**	**Net Change**
Corn			
Mar 17	366.25	358.50	7.75
May 17	373.25	365.50	7.75
Jul 17	380.00	372.50	7.50
Sep 17	386.50	379.50	7.00
Soybeans			
Mar 17	1070.25	1046.25	24.00
May 17	1078.50	1055.50	23.00
Jul 17	1083.75	1061.50	22.25
Aug 17	1077.75	1057.25	20.50
Soymeal			
Mar 17	348.20	333.90	14.30
May 17	350.30	336.40	13.90
Jul 17	350.80	337.80	13.00
Aug 17	347.60	334.90	12.70
Soyoil			
Mar 17	35.44	35.60	-0.16
May 17	35.68	35.86	-0.18
Jul 17	35.90	36.09	-0.19
Aug 17	35.78	36.03	-0.25
SRW			
Mar 17	423.50	426.00	-2.50
May 17	439.25	439.75	-0.50
Jul 17	455.25	454.75	0.50
Sep 17	470.75	469.50	1.25
HRW			
Mar 17	442.25	449.00	-6.75
May 17	454.25	461.00	-6.75
Jul 17	466.00	472.75	-6.75
Sep 17	480.25	485.75	-5.50
MGEX (HRS)			
Mar 17	576.50	582.75	-6.25
May 17	564.25	565.75	-1.50
Jul 17	561.00	559.25	1.75
Sep 17	561.25	561.50	-0.25

**Price unit: Cents and quarter-cents/bu (5,000 bu)*

U.S. WEATHER/CROP PROGRESS

U.S. Drought Monitor Weather Forecast: During the next five days (January 19-23), above-normal precipitation (2-5 inches) is expected across most of the Gulf Coast states from far eastern Texas to and including northern Florida, most of the southern Atlantic Coast region, the Tennessee Valley, and southwestern portions of Kentucky and Virginia. Excessive precipitation amounts (liquid equivalents of 9-13 inches) are forecast for coastal California and most of the Sierras. These anticipated areas of heavy precipitation are likely to result in additional improvements to next week's U.S. Drought Monitor depiction. Little if any relief, however, is forecast for most of the Great Plains and Northeast. For the ensuing five-day period (January 24-28), there are elevated chances for above-median precipitation across much of the contiguous U.S. However, odds favor below-median precipitation across the south-central states. Taking the two periods as a whole, Oklahoma and most of Texas are the least likely areas to receive beneficial precipitation.

Follow this link to view current U.S. and international weather patterns and future outlook: Weather and Crop Bulletin.

U.S. EXPORT STATISTICS

Due to the Monday, January 16 holiday, weekly U.S. export sales will be published on Friday, January 20. Updated U.S. export sales will be published in the January 26 edition of *Market Perspectives*.

U.S. Export Sales and Exports: Week Ending January 5, 2017					
Commodity	**Gross Sales (MT)**	**Exports (MT)**	**YTD Exports (000MT)**	**YTD Bookings (000MT)**	**% Change YTD Bookings**
Wheat	429,300	172,300	14,962.4	21,340.6	33%
Corn	708,800	693,900	17,005.7	36,336.0	72%
Sorghum	19,300	180,500	1,712.3	3,049.4	-44%
Barley	0	500	13.2	16.6	-36%

Corn: Net sales of 603,300 MT for 2016/2017 were up 41 percent from the previous week, but down 42 percent from the prior 4-week average. Increases were for unknown destinations (207,000 MT), Japan (126,500 MT, including 35,300 MT switched from unknown destinations), Taiwan (80,600 MT, including decreases of 2,700 MT), the Dominican Republic (48,400 MT), and Peru (43,500 MT, including 33,000 MT switched from unknown destinations). Reductions were for South Korea (17,500 MT), Canada (2,900 MT), and Cuba (1,100 MT). For 2017/2018, net sales of 151,700 MT were reported for unknown destinations (150,300 MT) and Japan (1,400 MT). Exports of 693,900 MT were up 14 percent from the previous week, but down 14 percent from the prior 4-week average. The primary destinations were Mexico (167,300 MT), Japan (149,400 MT), Colombia (93,300 MT), Chile (44,800 MT), and South Korea (43,300 MT).

Optional Origin Sales: For 2016/2017, the current optional origin outstanding balance of 828,000 MT is for South Korea (604,000 MT) and unknown destinations (224,000 MT).

Barley: No net sales were reported for the week. Exports of 500 MT were reported to Japan.

Sorghum: Net sales of 14,900 MT were up noticeably from the previous week, but down 84 percent from the prior 4-week average. Increases were reported for Japan (10,000 MT), China (6,800 MT, including decreases of 2,400 MT), and Indonesia (100 MT). Reductions were reported for unknown destinations (2,000 MT). Exports of 180,500 MT were up noticeably from the previous week and up 31 percent from the prior 4-week average. The destinations were China (179,800 MT) and Indonesia (700 MT).

U.S. Export Inspections: Week Ending January 12, 2017					
Commodity (MT)	Export Inspections		Current Market YTD	Previous YTD	YTD as Percent of Previous
	Current Week	Previous Week			
Barley	871	0	29,656	28,380	104%
Corn	888,009	879,330	18,827,313	10,636,533	177%
Sorghum	174,376	192,221	2,154,611	4,090,811	53%
Soybeans	1,409,466	1,467,653	35,849,221	30,579,085	117%
Wheat	344,436	263,295	16,145,920	12,890,469	125%

*Source: USDA/AMS. *Marketing Year is June 1-May 31 for wheat and barley and September 1-August 31 for corn, sorghum and soybeans. Week-to-week reports will vary due to exporter reported conditions and cancellations to previous week's reports.*

USDA Grain Inspections for Export Report: Week Ending January 12, 2017						
Region	YC	% of Total	WC	% of Total	Sorghum	% of Total
Lakes	0	0%	0	0%	0	0%
Atlantic	0	0%	0	0%	0	0%
Gulf	497,873	58%	34,434	100%	167,091	0%
PNW	257,405	30%	0	0%	122	6%
Interior Export Rail	98,297	12%	0	0%	7,163	94%
Total (Metric Tons)	853,575	100%	34,434	100%	174,376	100%
White Corn Shipments by Country (MT)			2,934	to Japan		
			31,500	to Mexico		
Total White Corn (MT)			34,434			
Sorghum Shipments by Country (MT)					167,581	to China
					122	to Korea
					73	to Indonesia
					6,355	to Mexico
					245	to Nigeria
Total Sorghum (MT)					174,376	

Source: USDA, World Perspectives, Inc.

FOB

Yellow Corn (USD/MT FOB Vessel)				
YC FOB Vessel Max. 15.0% Moisture	**GULF**		**PNW**	
	Basis (#2 YC)	**Flat Price (#2 YC)**	**Basis (#2 YC)**	**Flat Price (#2 YC)**
LH February	+0.70 H	$171.74	+0.99 H	$183.16
March	+0.65 H	$169.77	+0.98 H	$182.77
LH March	+0.57 H	$166.62	+0.98 H	$182.77

#2 White Corn (U.S. $/MT FOB Vessel)		
Max. 15.0% Moisture	**February**	**March**
Gulf	-	$180

Sorghum (USD/MT FOB Vessel)				
#2 YGS FOB Vessel Max 14.0% Moisture	**NOLA**		**TEXAS**	
	Basis	**Flat Price**	**Basis**	**Flat Price**
January	-	-	+0.65 H	$169.77
February	-	-	+0.65 H	$169.77

Barley: Feed Barley (FOB USD/MT)			
	January	**February**	**March**
FOB PNW	$185	$190	$195

Corn Gluten Feed Pellets (CGFP) (FOB Vessel U.S. $/MT)		
	February	**March**
New Orleans	$150	$150
Quantity 5,000 MT		

Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)		
Bulk 60% Pro.	**February**	**March**
New Orleans	$610	$610
**5-10,000 MT Minimum*		

Corn Gluten Meal (CGM) (Offers, Rail and Truck Delivered U.S. $/ST)			
	January	**February**	**March**
Rail Delvd. East Coast	-	-	-
Rail Delvd. Chicago	-	$570	$570
Truck Delvd. Chicago	$565	$560	$560
Truck Delvd. Channahon/Elwood	-	-	-

***All prices are market estimates.*

DDGS Price Table: January 19, 2017 (USD/MT) (Quantity, availability, payment and delivery terms vary)			
Delivery Point Quality Min. 35% Pro-fat combined	**February**	**March**	**April**
Barge CIF New Orleans	132	135	138
FOB Vessel GULF	145	148	150
Rail delivered PNW	176	177	178
Rail delivered California	179	180	181
Mid-Bridge Laredo, TX	180	181	182
FOB Lethbridge, Alberta	153	153	153
40 ft. Containers to South Korea (Busan)	172	173	176
40 ft. Containers to Taiwan (Kaohsiung)	171	172	174
40 ft. Containers to Philippines (Manila)	182	182	184
40 ft. Containers to Indonesia (Jakarta)	176	177	179
40 ft. Containers to Malaysia (Port Kelang)	178	178	181
40 ft. Containers to Vietnam (HCMC)	182	182	185
40 ft. Containers to Japan (Yokohama)	177	178	181
40 ft. containers to Thailand (LCMB)	175	176	178
40 ft. Containers to Shanghai, China	180	180	185
KC & Elwood, IL Rail Yard (delivered Ramp)	130	132	135

*Source: WPI, *Prices are based on offer indications only; terms of delivery, payment and quality may vary from one supplier to another, impacting the actual value of the price.*

DISTILLER'S DRIED GRAINS WITH SOLUBLES (DDGS)

DDGS Comments: Some DDGS prices were higher this week in the Midwest, helped along by strong truck demand. The cold snap across much of the nation's middle helped boost feed demand for DDGS while the rally in soybean meal put some urgency into buyers. On a per-protein unit basis, DDGS are now fully $1.00 cheaper relative to soybean meal than they were two weeks ago. Domestic DDGS prices were higher this week with FOB Gulf prices gaining $4/ton and prices to the PNW and California up $3/ton.

The DDGS outlook is looking brighter with improved demand prospects and supply reductions likely ahead. While the latest export data shows November exports were down from the prior year, lower CNF Gulf and container yard prices suggest ample opportunities to entice new export demand. Moreover, tightening ethanol margins will start to restrict production; commensurately reducing DDGS supply.

Some merchandisers are reporting that international prices seem to have bottomed out. With DDGS near 60 percent of corn value buyers are emerging and covering February-April positions. Sales to Southeast Asia have been noted along with some to China. Now that China's final ruling on tariffs for U.S. DDGS are known, traders will begin the process of adapting to new trade terms and pricing. Some buying interest is noted heading into China but firm bids have yet to be established. Sale prices for DDGS to Southeast Asia were mixed this week with strength in Vietnamese and Philippines bids and weakness in Malaysia, South Korea, and Taiwan.

Ethanol Comments: Ethanol producers seem determined to break production records and they did so again this week, producing 309.88 million gallons. This marks the third straight week of record-breaking production as ethanol plants increased their output by 5,000 barrels/day (0.5 percent) which boosted ethanol stocks by 1.106 million barrels (up 5.5 percent). At the same time, gasoline consumption increased by 2.1 million barrels this week (up 11 percent) which helped keep stocks from growing even faster.

The record-breaking ethanol production was driven by a spike in ethanol prices and extremely good production margins. U.S. ethanol exports have been excellent, boosting prices. Data from the USDA suggests ethanol margins during the first weeks of December were the highest since May, 2015. Now, however, Iowa ethanol prices have fallen $0.40 from their recent highs and margins are beginning to turn negative by some measures. This will likely restrict production growth and weekly output should fall next week.

Continued record production forced margins lower again this week. Ethanol margins fell in all four of the reference markets; declining $0.20 per bushel in Illinois and Nebraska while Iowa and South Dakota saw decreases of $0.15-0.18 per bushel. This week's average margin of $1.48/bushel is still $0.33 higher than one year prior.

- Illinois differential is $1.34 per bushel, in comparison to $1.62 the prior week and $1.13 a year ago.
- Iowa differential is $1.38 per bushel, in comparison to $1.56 the prior week and $1.02 a year ago.
- Nebraska differential is $1.55 per bushel, in comparison to $1.79 the prior week and $1.26 a year ago.
- South Dakota differential is $1.64 per bushel, in comparison to $1.79 the prior week and $1.20 a year ago.

Adding to the bearish leaning for ethanol is a change in China's ethanol import tariff. The move has reportedly caused some buyers to washout several Q1 cargoes already. The U.S. has been China's largest supplier lately and 2016 exports (through November) were up 51 percent year-over-year.

COUNTRY NEWS

Argentina: Chicago corn futures added a weather premium as concurrent extreme wet and dry conditions in Argentina likely lower corn production by 2.5-6.8 percent below USDA's last estimate of 36.5 MMT. (Reuters; Bloomberg)

China: Using a slightly increased harvested area and yield, the January estimate for 2016/17 corn production was increased by 680 KMT above the December estimate and carryover stocks was raised by 5.1 MMT. (China Agricultural Supply and Demand Estimates-CASDE) report. Meanwhile, the National Grain and Oils Information Center forecasts China's corn imports in 2016/17 at 2 MMT, versus the 1 MMT predicted in the CASDE report.

Separately, China will increase the import tariff on ethanol, which would make imports uneconomic. (Platts)

Mexico: Juan Pablo Rojas of CNPAMM says that Mexico will import one-fifth more yellow corn next season because of higher fuel costs and a weaker peso hitting domestic crop production. This means imports will rise from 14-16 MMT to 16.8-19.2 MMT. He also said that Mexican farmers would welcome an end to NAFTA. (Reuters)

Philippines: The Philippine Maize Federation Inc. (PhilMaize) has asked the government for assistance including authority to export corn. Purchases by the National Food Authority have been minimal and low prices have likely caused a drop in production by 5-10 percent, and there could be further reductions. PhilMaize also wants a commodity exchange warehouse system to help manage supply and demand. (Business Mirror)

South Africa: A survey by Bloomberg indicates farmers will increase the area planted to maize by 31 percent in the 2017 season. Production was reduced by 27 percent last year due to drought. (Bloomberg)

Vietnam: The Vietnam Animal Feed Association has imported 4 MMT of corn so far this year, 80 percent of it GMO. Vietnam only produces half the 8-10 MMT of animal feed needed each year and allowing the production of higher yielding, pest resistant GMO varieties could help self-sufficiency, though it may also harm meat exports to some countries. (VnExpress)

OCEAN FREIGHT MARKETS AND SPREAD

Bulk Freight Indices for HSS — Heavy Grain, Sorghum and Soybeans*			
Route and Vessel Size	**Current Week (USD/MT)**	**Change from Previous Report**	**Remarks**
55,000 U.S. Gulf-Japan	$35.25	Up $0.25	Handymax at $35.50/MT
55,000 U.S. PNW-Japan	$18.00	Unchanged	Handymax at $18.50/MT
55,000 U.S. Gulf-China PNW to China	$34.25 $17.25	Up $0.25 Unchanged	North China
25,000 U.S. Gulf-Veracruz, México	$15.75	Unchanged	3,000 MT daily discharge rate
35-40,000 U.S. Gulf-Veracruz, México	$14.00	Unchanged	Deep draft and 8,000 MT per day discharge rate.
25/35,000 U.S. Gulf-East Coast Colombia, from Argentina	$19.25 $31.25	Up $0.25 Up $0.25	West Coast Colombia at $27.75
40-45,000 U.S. Gulf-Guatemala	$25.75	Up $0.25	Acajutla/Quetzal - 8,000 out
26-30,000 U.S. Gulf-Algeria	$24.00 $27.00	Up $0.25 Up $0.25	8,000 MT daily discharge 3,000 MT daily discharge
25-30,000 U.S. Gulf-Morocco	$23.25	Up $0.25	5,000 discharge rate
55,000 U.S. Gulf-Egypt PNW to Egypt	$21.25 $24.75	Up $0.25 Up $0.25	55,000 -60,000 MT St. Lawrence to Egypt $22.00
60-70,000 U.S. Gulf-Europe-Rotterdam	$14.50	Unchanged	Handymax at +$1.50 more
Brazil, Santos-China Itacoatiara Port up river Amazonia-China	$24.25 $23.90 $31.00	- - -	54-58,000 Supramax-Panamax 60-66,000 Post Panamax
56-60,000 Argentina-China Upriver with Top-Off	$32.75	Up $1.25	—

Source: O'Neil Commodity Consulting
**Numbers for this table based on previous night's closing values.*

OCEAN FREIGHT COMMENTS

Transportation and Export Report: Jay O'Neil, O'Neil Commodity Consulting: The global Dry-Bulk shipping industry has not returned to rough seas but market rates are bobbing around in this relatively quiet start to the New Year. The Chinese Lunar New Year commences in another 8 days. All in all, things are not moving in any decisive direction. I saw a Shipping Herald news headline earlier this week that read: "Dry Bulk-Capesize Rates to Slip; Low Demand, Overcapacity Weigh." Where have we heard that before?

In viewing the vessel lineups in Brazil, it looks like we are starting the shift to South American supply of soybeans to China and other destinations. Between now and February 8 the port of Paranagua has over 19 soybean vessels scheduled. Santos has over 27 vessels and there are more at the other 12 Brazilian ports as well.

Baltic-Panamax Dry-Bulk Indices				
January 19, 2017 Route	**This Week**	**Last Week**	**Difference**	**Percent Change**
P2A: Gulf/Atlantic – Japan	13,265	14,031	-766	-5.5%
P3A: PNW/Pacific– Japan	5,593	5,888	-295	-5.0%

Source: O'Neil Commodity Consulting

Below is a recent history of freight values for Capesize vessels of iron ore from Western Australia to South China:

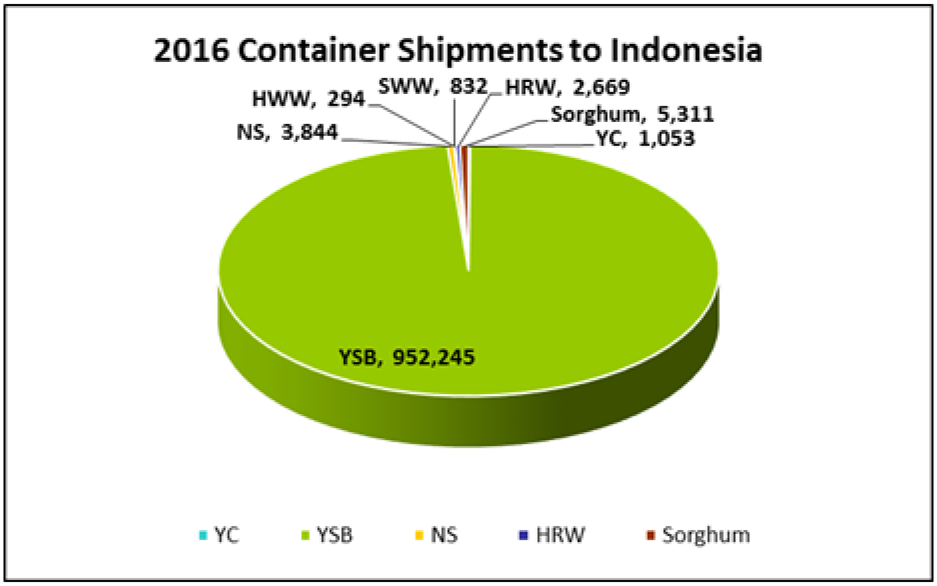
Week Ending January 19, 2017	
Four weeks ago:	$5.10-$5.85
Three weeks ago:	$4.95-$5.10
Two weeks ago:	$5.45-$6.30
One week ago:	$5.40-$6.30
This week	$5.70-$5.95

Source: O'Neil Commodity Consulting

U.S.-Asia Market Spreads					
January 19, 2017	**PNW**	**Gulf**	**Bushel Spread**	**MT Spread**	**Advantage**
#2 Corn	1.00	0.59	0.41	$16.14	BOTH
Soybeans	0.90	0.50	0.40	$15.75	PNW
Ocean Freight	$17.25	$34.25	0.43-0.45	($17.00)	February

Source: O'Neil Commodity Consulting

The charts below represent January-December 2016 annual totals versus January-December 2015 annual totals for container shipments to Indonesia.



Source: O'Neil Commodity Consulting

Source: O'Neil Commodity Consulting

INTEREST RATES

Interest Rates (%): January 19, 2017			
	Current Week	Last Week	Last Month
U.S. Prime	3.75	3.75	3.75
LIBOR (6 month)	1.33	1.33	1.32
LIBOR (1 year)	1.70	1.70	1.70

Source: www.bankrate.com