U.S. GRAINS COUNCIL

Market Perspectives

February 2, 2017

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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.

CHICAGO BOARD OF TRADE MARKET NEWS

Week in Review: CME Corn March Contract					
$/Bu	**Friday 27 January**	**Monday 30 January**	**Tuesday 31 January**	**Wednesday 1 February**	**Thursday 2 February**
Change	-1.250	-4.750	2.0000	8.5000	-0.7500
Closing Price	362.500	357.750	359.750	368.250	367.500
Factors Affecting the Market	Light volume and sunshine in Argentina sent corn lower. Planting in Argentina is almost completed at 12.1 million acres. Good U.S. export demand and strong ethanol margins are supportive for now. Outside markets were bearish with the dollar up and crude and equities lower.	Pressure from soybeans selloff took corn lower, along with good S. American weather. Exports were bullish at 41.8 million bu. Funds were once long but likely reduced positions last week. The dollar was 19 points lower, along with lower crude oil and equities.	Light volume and little news created a small bounce in the market. Weather in S. America is improving and creating over-supply concerns again. The U.S. dollar was lower after President Trump commented on dynamics between Germany and the Euro.	The Cattle on Feed report was bullish for feed demand, sending corn higher. Rains may return to Argentina. Ethanol production was again near-record, boosting basis levels. Higher crude oil was supportive to ethanol and corn. Both the dollar and equities were higher.	A slow but firm tone developed today with good export sales and ethanol demand. Ethanol margins are deteriorating but production remains high. The market is looking for next week's WASDE. Outside markets were mixed with a lower dollar.

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: Range-bound, quiet trading has defined the CBOT corn market this week. The week's largest daily change came on Wednesday as the market digested USDA's January 1 cattle inventory numbers which showed a 3 percent increase in beef cow numbers. The resulting implications for feed demand pushed the market higher. Bearish factors are still weighing against the market with improving weather in Argentina and Brazil and a probable slowdown in ethanol production. Despite another record-breaking production week ethanol margins are sharply lower than three months ago, and eventually production will slow – reducing corn demand. A combination of factors make the most probable outcome for the market continued, choppy trading for the next few weeks.

Decreasing export sales were noted in this week's USDA report as sales dropped to 45.6 million bushels, with 45.03 from the current marketing year. Weekly exports totaled 30.1 million bushels, a fall from the past two week's comparatively strong exports. YTD exports are 65 percent higher than last year as U.S. export prices have remained very competitive on the world stage. Exports will likely remain strong for a few weeks yet, before the Brazilian harvest kicks in, as South American farmer selling remains very light. A rally in the CBOT could shake loose some farmer-held corn but many farmers have good credit lines and little financial *need* to sell right now. Additionally, Argentine corn is priced $0.90/MT cheaper than U.S. corn which is not worth the quality difference to many global buyers. Look for exports to remain buoyant in the near-term with decreases coming in the next few months.

Commodity funds are still long corn futures, according to last Friday's CFTC data. Noncommercial traders are holding a net position of 106,000 contracts, their largest long since November, 2015. Commercials took advantage of the recent rally to sell and hedge inventory, adding 25,000 contracts to their short position. Going forward, the pattern of fund buying and commercial selling is likely to produce choppy trade. It's difficult to get funds to sell when prices are at multi-year lows and inflation is rising. At the same time, commercials hardly want to be long with 15 billion bushels of corn in the U.S. and more global production coming.

The March contract is still grinding higher along its shallow uptrend. The contract found significant support at the 40-day moving average earlier this week near $3.58 and has since bounced higher. Still, bulls appear unwilling to make a run at breaking out above $3.72, at least not without some new information to trade on. Sideways, choppy trading has been the *modus operandi* for the contract since September and it doesn't look likely to change soon. Major support and resistance are forming at $3.58 and $3.72, respectively, and the market will likely trade this range without any new information. Next week's WASDE report could be the catalyst to break out of this trading range.

CBOT MARCH CORN FUTURES

Source: Prophet X

Current Market Values:

Futures Price Performance: Week Ending February 2, 2017			
Commodity	**2-Feb**	**27-Jan**	**Net Change**
Corn			
Mar 17	367.50	362.50	5.00
May 17	375.00	369.75	5.25
Jul 17	382.00	376.50	5.50
Sep 17	388.25	383.00	5.25
Soybeans			
Mar 17	1037.25	1049.25	-12.00
May 17	1047.25	1058.75	-11.50
Jul 17	1055.25	1065.50	-10.25
Aug 17	1053.25	1062.75	-9.50
Soymeal			
Mar 17	333.80	343.00	-9.20
May 17	337.50	346.00	-8.50
Jul 17	340.20	348.10	-7.90
Aug 17	338.10	345.50	-7.40
Soyoil			
Mar 17	34.59	34.27	0.32
May 17	34.88	34.55	0.33
Jul 17	35.15	34.80	0.35
Aug 17	35.22	34.81	0.41
SRW			
Mar 17	434.50	420.50	14.00
May 17	447.00	434.50	12.50
Jul 17	460.75	449.25	11.50
Sep 17	475.25	464.00	11.25
HRW			
Mar 17	443.50	434.25	9.25
May 17	456.00	446.50	9.50
Jul 17	468.25	458.50	9.75
Sep 17	482.75	472.75	10.00
MGEX (HRS)			
Mar 17	561.00	560.00	1.00
May 17	558.75	556.00	2.75
Jul 17	561.25	555.75	5.50
Sep 17	564.00	556.25	7.75

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

U.S. WEATHER/CROP PROGRESS

U.S. Drought Monitor Weather Forecast: The NWS WPC 7-Day Quantitative Precipitation Forecast (QPF) calls for moderate-to-heavy rainfall in the lower elevations of central and northern California as well as Oregon while significant mountain snowfall accumulations are forecast for the higher elevations of the Sierra, Cascades of Oregon and Washington, and the northern Rockies of Idaho and western Wyoming. Moving eastward, lesser precipitation accumulations (less than 1.5 inches) are forecast for northern portions of Alabama and Mississippi, Kentucky, and Tennessee. Conversely, dry conditions are expected across the southwestern U.S. and western portions of the Southern Plains and Texas. The CPC 6–10 day outlooks call for a high probability of above-normal temperatures across the entire conterminous U.S., with the exception of the

Northern Plains and Pacific Northwest where there is a high probability of below-normal temperatures. Below-normal precipitation is forecast for the southwestern U.S., Central Rockies, and the Southern Plains. Above-normal precipitation is expected in the Eastern tier as well as the northern portion of the western U.S.

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

U.S. EXPORT STATISTICS

U.S. Export Sales and Exports: Week Ending January 26, 2017					
Commodity	**Gross Sales (MT)**	**Exports (MT)**	**YTD Exports (000MT)**	**YTD Bookings (000MT)**	**% Change YTD Bookings**
Wheat	468,500	324,200	15,978.1	22,887.7	36%
Corn	1,299,700	764,600	19,676.7	40,217.6	66%
Sorghum	71,500	200,200	2,089.0	3,241.7	-45%
Barley	0	0	13.4	16.8	-36%

Corn: Net sales of 1,143,700 MT for 2016/2017 were down 17 percent from the previous week, but up 21 percent from the prior 4-week average. Increases were for unknown destinations (235,600 MT), Colombia (212,900 MT, including 28,800 MT switched from unknown destinations), Japan (178,000 MT, including 83,100 MT switched from unknown destinations and decreases of 1,100 MT), Taiwan (133,900 MT, including decreases of 100 MT), and Morocco (80,800 MT, including 55,000 MT switched from unknown destinations). For 2017/2018, net sales of 14,000 MT were reported for Mexico. Exports of 764,600 MT were down 22 percent from the previous week and 5 percent from the prior 4-week average. The primary destinations were Mexico (151,000 MT), Japan (132,200 MT), Malaysia (69,700 MT), South Korea (58,000 MT), and Colombia (56,800 MT).

Optional Origin Sales: For 2016/2017, the current optional origin outstanding balance of 760,000 MT is for South Korea (536,000 MT) and unknown destinations (224,000 MT).

Barley: There were no sales or exports reported during the week.

Sorghum: Net sales of 58,800 MT were down 23 percent from the previous week, but up 59 percent from the prior 4-week average. Increases were reported for unknown destinations (53,000 MT), Japan (5,100 MT), Mexico (1,100 MT, including decreases of 1,900 MT), and Indonesia (100 MT). Reductions were reported for China (500 MT). Exports of 200,200 MT were up 61 percent from the previous week and 91 percent from the prior 4-week average. The primary destinations were China (195,900 MT), Mexico (4,000 MT), Nigeria (200 MT), and Indonesia (100 MT).

U.S. Export Inspections: Week Ending January 26, 2017					
Commodity (MT)	**Export Inspections**		**Current Market YTD**	**Previous YTD**	**YTD as Percent of Previous**
	Current Week	**Previous Week**			
Barley	575	264	30,495	29,188	104%
Corn	1,061,865	986,268	20,890,943	11,963,116	175%
Sorghum	240,053	145,529	2,540,193	4,415,955	58%
Soybeans	1,630,581	1,294,769	38,786,985	32,984,636	118%
Wheat	321,479	288,973	16,797,611	13,364,278	126%

*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 26, 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	735,354	74%	63,672	100%	158,193	66%
PNW	110,533	11%	0	0%	75,902	32%
Interior Export Rail	152,306	15%	0	0%	5,958	2%
Total (Metric Tons)	998,193	100%	63,672	100%	240,053	100%
White Corn Shipments by Country (MT)			32,632	to Colombia		
			31,040	to Mexico		
Total White Corn (MT)			63,672			
Sorghum Shipments by Country (MT)					195,224	to China
					661	to Kenya
					38,210	to Sudan
					5,958	to Mexico
Total Sorghum (MT)					240,053	

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	+0.65 H	$170.27	-	-
March	+0.63 H	$169.48	+0.91 H	$180.50
LH March	+0.57 H	$167.12	+0.91 H	$180.50

#2 White Corn (U.S. $/MT FOB Vessel)		
Max. 15.0% Moisture	**February**	**March**
Gulf	$205	$205

Sorghum (USD/MT FOB Vessel)				
#2 YGS FOB Vessel Max 14.0% Moisture	**NOLA**		**TEXAS**	
	Basis	**Flat Price**	**Basis**	**Flat Price**
February	-	-	+0.55 H	$166.33
March	+0.70 H	$172.23	+0.55 H	$166.33

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

Corn Gluten Feed Pellets (CGFP) (FOB Vessel U.S. $/MT)		
	February	**March**
New Orleans	$145	$145
Quantity 5,000 MT		
Corn Gluten Meal (CGM) (FOB Vessel U.S. $/MT)		
Bulk 60% Pro.	**February**	**March**
New Orleans	$600	$600
**5-10,000 MT Minimum*		
Corn Gluten Meal (CGM) (Offers, Rail and Truck Delivered U.S. $/ST)		
	February	**March**
Rail Delvd. East Coast	$550	$560
Rail Delvd. Chicago	$540	$540
Truck Delvd. Chicago	$540	$540
Truck Delvd. Channahon/Elwood	-	-

All prices are market estimates.

DDGS Price Table: February 2, 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	138	139	140
FOB Vessel GULF	151	152	152
Rail delivered PNW	172	174	175
Rail delivered California	175	177	178
Mid-Bridge Laredo, TX	173	174	176
FOB Lethbridge, Alberta	145	146	147
40 ft. Containers to South Korea (Busan)	173	174	176
40 ft. Containers to Taiwan (Kaohsiung)	171	172	174
40 ft. Containers to Philippines (Manila)	181	181	183
40 ft. Containers to Indonesia (Jakarta)	174	175	177
40 ft. Containers to Malaysia (Port Kelang)	176	177	179
40 ft. Containers to Vietnam (HCMC)	180	180	182
40 ft. Containers to Japan (Yokohama)	176	176	178
40 ft. containers to Thailand (LCMB)	174	174	176
KC & Elwood, IL Rail Yard (delivered Ramp)	132	134	136

*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: DDGS prices FOB Gulf are now $14.50/MT higher than they were four weeks ago as the DDGS rally continues. The rally took a pause this week to reassess market conditions, leaving prices with a slightly weaker tone and FOB Gulf prices down $1.50/MT at $151/MT. FOB Gulf prices have come under some pressure to compete with falling FOB corn offers and a $12/MT drop in FOB soybean meal prices. Rail-delivered DDGS at the PNW fared better, losing only $2/MT as export and international prices were largely steady. Prices for 40-foot containers to Korea, Taiwan, and the Philippines were steady to $1/MT higher this week while prices for DDGS exported to Vietnam and Japan fell.

The value of DDGS FOB ethanol plants is 72 percent of corn futures this week and 28 percent of soybean meal futures. On a per protein unit basis, DDGS are $3.24 cheaper than soybean meal which will aide in feed ration inclusion. On the export front, FOB Gulf DDGS prices are retaining 89 percent of FOB corn value and 39 percent of FOB soybean meal value. Last week's logistical issues (slow barge movement due to fog) have largely been resolved and exporters are catching up on contracted deliveries. Looking forward, ethanol production in unlikely to continue its record-breaking pace and will eventually slow, bringing DDGS supplies lower. This should underpin the DDGS market and provide a platform for prices to move higher.

Ethanol Comments: New record highs in ethanol production were achieved once again this week. The EIA's weekly report showed ethanol producers rolled out an average of 1.061 million barrels per day (311.9 million gallons per week), an increase of 10,000 barrels/day (1 percent) from the prior week. At the same time, ethanol stocks were up 0.7 percent to their highest level since last February and gasoline supplied increased by 4 percent. Ethanol prices have been steadily falling for two months, commensurately pressuring ethanol production margins. Some estimates have ethanol returns over fixed costs at -$0.40-60/bushel right now. Surely these low margins will eventually stifle production, but when these forces will take effect remains unclear.

Across the four reference markets, ethanol margins fell in three; Illinois, Iowa, and Nebraska. Iowa producer margins took the largest hit, falling $0.27/bushel. South Dakota margins increased, helped by a $3/ton increase in DDGS prices. This week's average margin of $1.30/bushel is now $0.09/bushel lower than one year prior.

- Illinois differential is $1.18 per bushel, in comparison to $1.27 the prior week and $1.35 a year ago.
- Iowa differential is $0.99 per bushel, in comparison to $1.26 the prior week and $1.21 a year ago.
- Nebraska differential is $1.27 per bushel, in comparison to $1.44 the prior week and $1.41 a year ago.
- South Dakota differential is $1.74 per bushel, in comparison to $1.71 the prior week and $1.55 a year ago.

COUNTRY NEWS

Algeria: The government increased the value-added tax on grain and feed products (corn, sorghum, barley, oats, DDGS, etc.) from 7 to 9 percent with the goal of slowing the pace of imports. U.S. sales of grain and feed products to Algeria had been expanding, amounting to around $200 million last year. (USDA/FAS)

Brazil: Conab will release its first planted acreage numbers for 2017's winter corn crop on February 9 but it is still quite early in the Brazilian planting period. Two-thirds of USDA's forecast for Brazilian corn exports this year is predicated on a crop just now being planted and susceptible to unknown weather events. Moreover, bearish forward pricing is signaling Brazilian farmers to cut back on inputs, which will make the crop even more susceptible to adverse weather. The key will be to watch weather in Mato Grosso, the largest safrinha corn growing region. (seeitmarket)

China: A plan to reduce the nation's huge corn stock pile by converting it into biodegradable plastic (polylactide, PLA) products could upend producers and suppliers elsewhere in the world. China has been importing PLA products but the government is financing startup domestic production. (Reuters)

Colombia: Private exporters sold 105 KMT of corn to Colombia, which at 2.509 MMT of imports to date, is the fourth largest buyer of U.S. corn. (Platts)

Mexico: A ban on planting genetically modified corn is likely to continue for many years. It has been subject to a slow rolling legal battle with a court last week upholding a 2013 ban on even pilot plots due to environmental concern. (Reuters)

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	Down $0.25	Handymax at $36.00/MT
55,000 U.S. PNW-Japan	$17.75	Down $0.25	Handymax at $18.25/MT
55,000 U.S. Gulf-China PNW to China	$34.00 $17.00	Down $0.25 Down $0.25	North China
25,000 U.S. Gulf-Veracruz, México	$15.50	Down $0.25	3,000 MT daily discharge rate
35-40,000 U.S. Gulf-Veracruz, México	$13.75	Down $0.25	Deep draft and 8,000 MT per day discharge rate.
25/35,000 U.S. Gulf-East Coast Colombia, from Argentina	$19.00 $31.00	Down $0.25 Down $0.25	West Coast Colombia at $27.50
40-45,000 U.S. Gulf-Guatemala	$25.50	Down $0.25	Acajutla/Quetzal - 8,000 out
26-30,000 U.S. Gulf-Algeria	$24.00 $27.00	Unchanged Unchanged	8,000 MT daily discharge 3,000 MT daily discharge
25-30,000 U.S. Gulf-Morocco	$23.00	Down $0.25	5,000 discharge rate
55,000 U.S. Gulf-Egypt PNW to Egypt	$21.00 $24.50	Down $0.25 Down $0.25	55,000 -60,000 MT St. Lawrence to Egypt $22.00
60-70,000 U.S. Gulf-Europe-Rotterdam	$14.20	Down $0.30	Handymax at +$1.50 more
Brazil, Santos-China Itacoatiara Port up river Amazonia-China	$23.00 $22.75 $30.00	Down $1.05 Down $0.95 Down $1.00	54-58,000 Supramax-Panamax 60-66,000 Post Panamax
56-60,000 Argentina-China Upriver with Top-Off	$31.50	Down $1.05	—

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: Given the big holiday week in Asia, things have been pretty quiet. And, as is common in quiet markets, rates have slipped lower. There is a lot of talk/questions in the market regarding the potential economic impact of the new policies the new U.S. President may enact. For now, the answer is simply unknown and the uncertainty that brings is not bullish on international markets – nor on any type of ocean freight rate projections.

I'm currently in Panama meeting with the management of the Panama Canal Authority. Our discussions revolve around the new canal lock, canal capacity and the future outlook for various types of vessel traffic through the canal. At the moment, the Canal Authority is only locking through 6 vessels per day (3 ships in each direction) via the new lock with a draft of 45 feet (going to 46 feet). Only 4 dry-bulk carriers have used the new lock since it was opened (all 4 were coal vessels) and the outlook does not seem to favor dry-bulk versus container and LNG vessels. A big container ship will pay tolls of $800,000 to use the new lock. LNG will pay $400,000 and Neo-Panamax dry-bulk vessels will pay $280,000. You do the math on what type of vessel produces the best revenue per transit.

On the container side of the markets, I saw a news article that stated that two thirds of the Hanjin Box ships remain unemployed and that 7 percent of the total box ship fleet was idled with rates still under overcapacity pressure.

Baltic-Panamax Dry-Bulk Indices				
February 2, 2017 Route	**This Week**	**Last Week**	**Difference**	**Percent Change**
P2A: Gulf/Atlantic – Japan	12,978	13,225	-247	-1.9%
P3A: PNW/Pacific– Japan	5,600	5,666	-66	-1.2%

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:

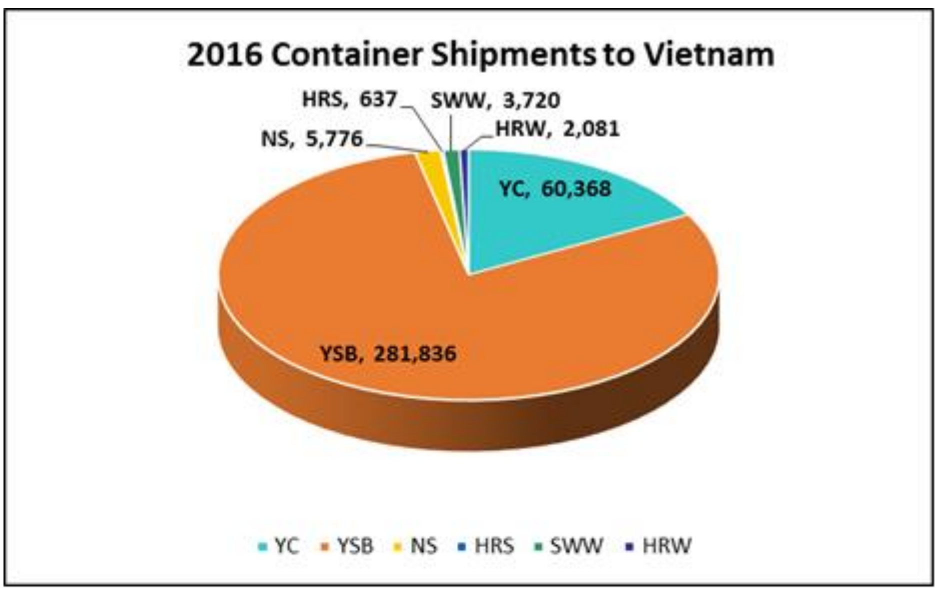
Week Ending February 2, 2017	
Four weeks ago:	$5.45-$6.30
Three weeks ago:	$5.40-$6.30
Two weeks ago:	$5.70-$5.95
One week ago:	$5.05-$5.85
This week	$4.95-$5.15

Source: O'Neil Commodity Consulting

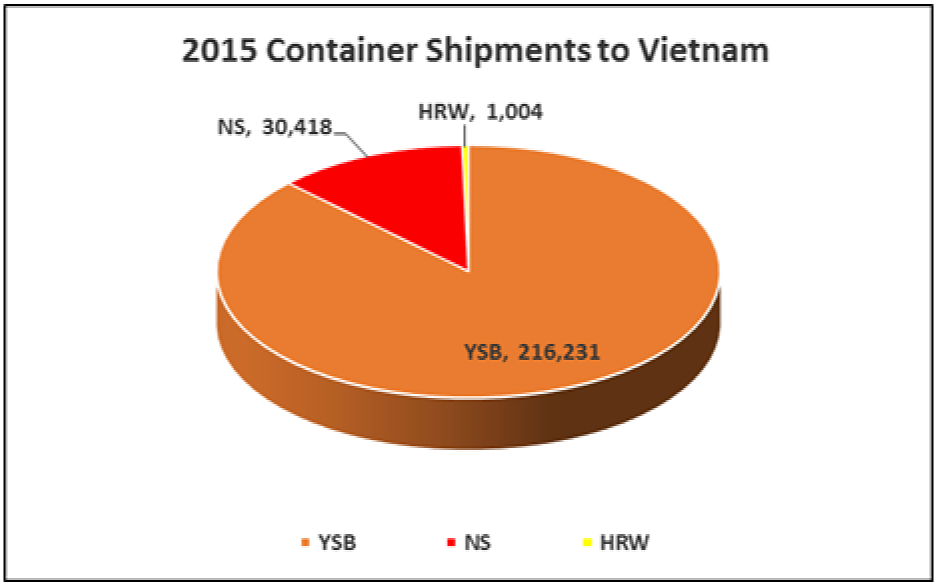
U.S.-Asia Market Spreads					
February 2, 2017	**PNW**	**Gulf**	**Bushel Spread**	**MT Spread**	**Advantage**
#2 Corn	0.90	0.56	0.34	$13.39	PNW
Soybeans	0.80	0.44	0.36	$14.17	PNW
Ocean Freight	$17.00	$34.00	0.43-0.46	($17.00)	March

Source: O'Neil Commodity Consulting

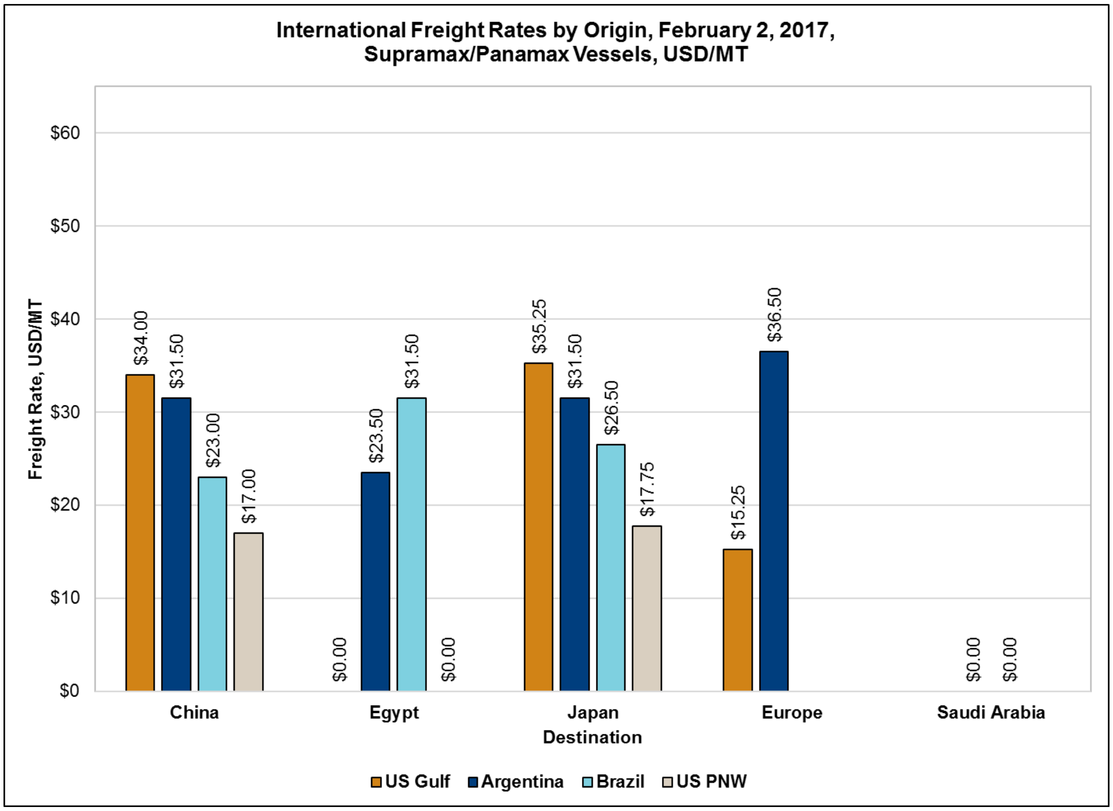
The charts below represent January-December 2016 annual totals versus January-December 2015 annual totals for container shipments to Vietnam.



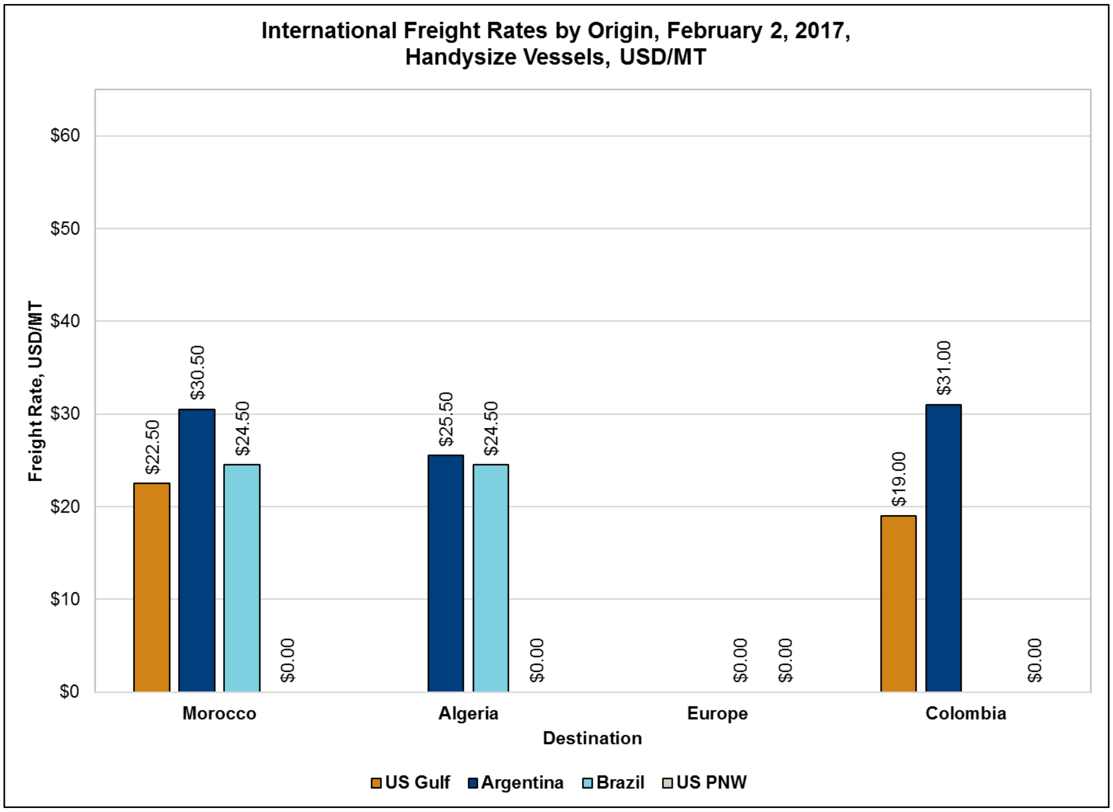
Source: O'Neil Commodity Consulting



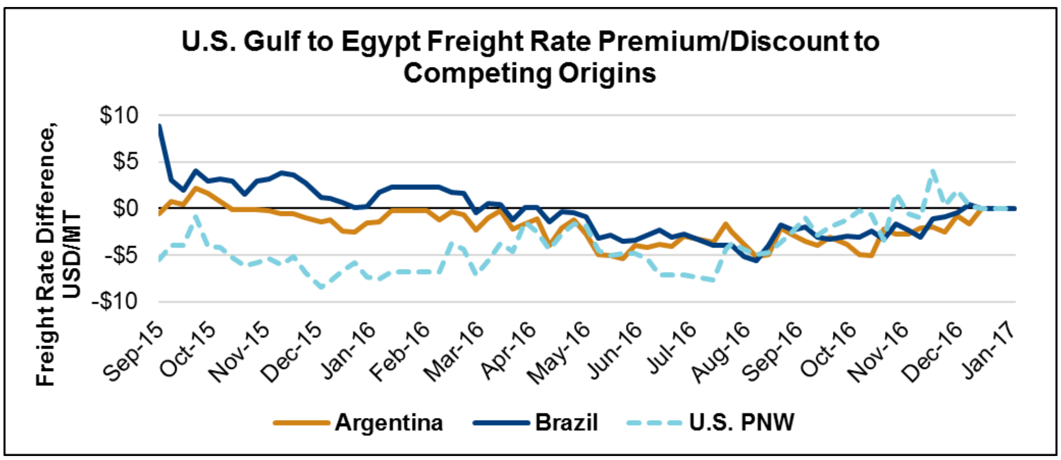
Source: O'Neil Commodity Consulting



Source: DTN, O'Neil Commodity Consulting and WPI



Source: DTN, O'Neil Commodity Consulting and WPI



Source: DTN, O'Neil Commodity Consulting and WPI

INTEREST RATES

Interest Rates (%): February 2, 2017			
	Current Week	**Last Week**	**Last Month**
U.S. Prime	3.75	3.75	3.75
LIBOR (6 month)	1.35	1.35	1.32
LIBOR (1 year)	1.72	1.73	1.69

Source: www.bankrate.com