RaboResearch Food & Agribusiness

North American Agribusiness Review

August 2017

Rabobank

Report Summary

Economy: Higher Growth, Lower Inflation

Rabobank

U.S.

- US GDP growth rebounded to 2.6% in Q2 from 1.2% in Q1. Employment growth has remained solid after the brief slowdown in March. Therefore, the Fed appears to be aiming at a September announcement of balance sheet normalization and a third rate hike in December.
- A complicating factor for the September meeting of the Fed could be the debt ceiling, which should be raised before the Treasury runs out of money. According to the Congressional Budget Office this could happen in early or mid-October.
- Meanwhile, inflation continues to decline. While the Fed still thinks it is transitory, we expect that it will delay the next rate hike until next year. Therefore, we expect EUR/USD to rise to 1.20 in the next 12 months.

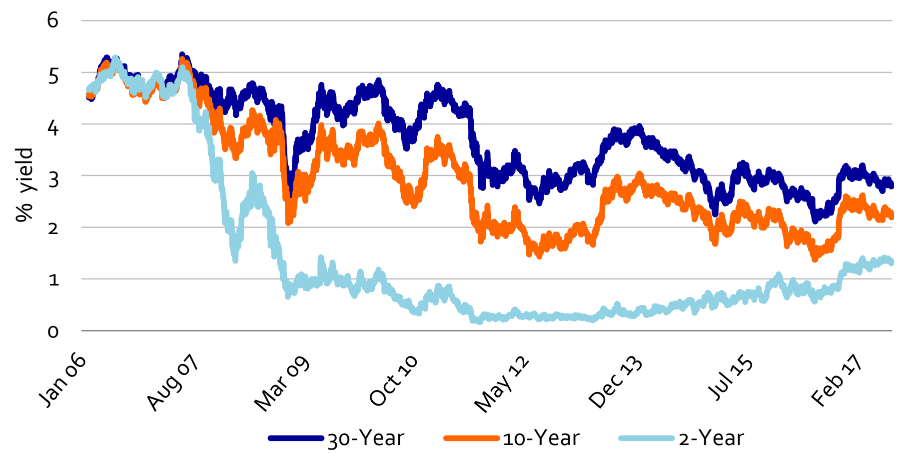
Mexico

- The peso is the top-performing currency so far this year, eking out gains of over 16% against the U.S. dollar. We believe pressure on USD/MXN has come from three main drivers: broad-based USD weakness, improving MXN carry, and subsiding risks from U.S. trade policy.
- We have long been concerned about the potential move to a protectionist agenda north of the border and the impact this would have on Mexico, where exports are still heavily reliant on U.S. demand. This was also reflected in our FX forecasts. Recent developments have seen this risk diminish substantially. This, coupled with the drivers mentioned above, have driven us to revise down our USD/MXN forecast. The main risk we now see on the horizon for MXN is the Presidential elections next year. We expect USD/MXN to rise to 19.5 at the 12-month horizon.

Canada

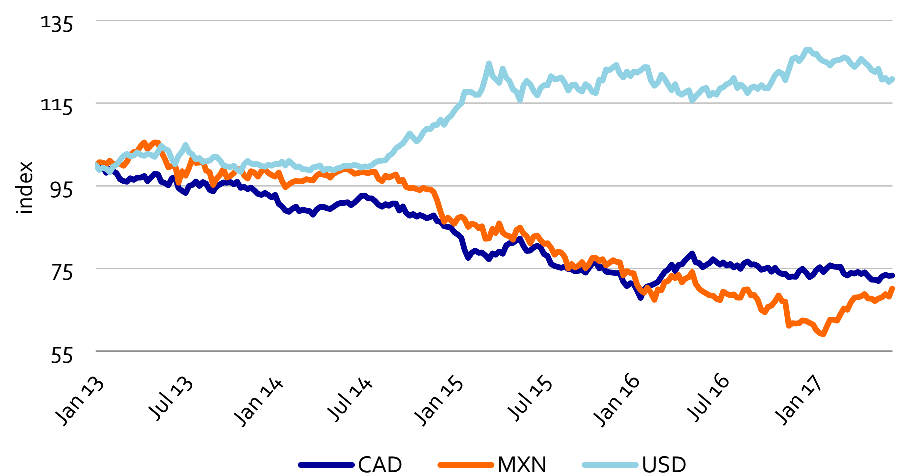
- The Bank of Canada raised rates by 25bps to 0.75% in the central bank's first move since 2015. Despite our view that wage growth and core inflation are unlikely to pick up in Canada anytime soon, we do now expect the BoC to raise rates again this year at the October meeting. This would mean a total of 50bps of hikes this year, pushing the policy rate up to 1%, thus effectively unwinding the 50bps of 'insurance' cuts that we saw in 2015.
- Given that another rate hike this year is nearly fully priced in, support for the Canadian dollar from rate expectations is likely to have reached its peak in the near term. We expect USD/CAD to rise to 1.32 at the 12-month horizon.

Interest Rates, 2006-2017



Source: Federal Reserve of St. Louis 2017

Currencies, 2013-2017

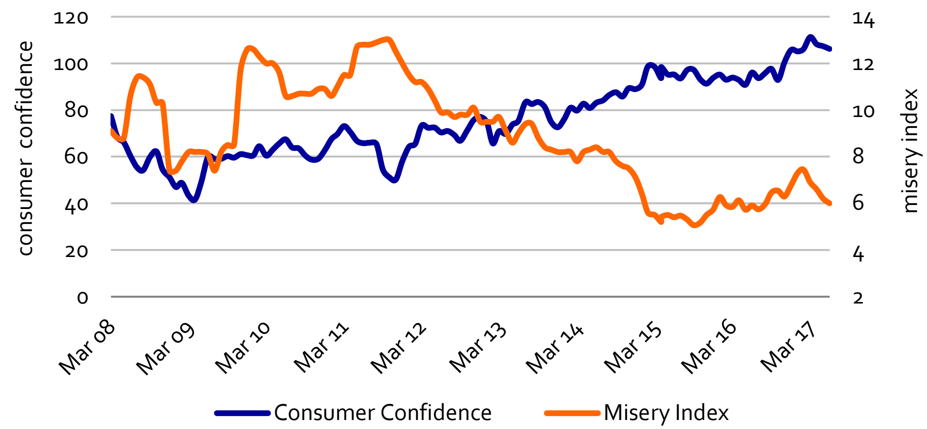


Source: Bloomberg 2017; Note: Rebased at 100 as of 1 January 2013

Consumer: Falling Retail Prices

- Our two measures of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board) moved in opposite directions in September, with a moderating reading by the University being offset an improvement by the Conference Board. The Conference Board rose to 121.1 in July but remained below its recent high of 124.9 in March. Rising confidence was attributed to the strong job and stock markets. Consumer optimism was not shared by the University of Michigan which fell to 93.4 in July, compared to 95.1 in June.
- Over the last twelve months to June 2017, the Consumer Price Index (CPI) was 1.6%, continuing its gradual decline from 2.7% in February. Over the same period, food prices rose by 0.9% with a 0.1% decline in retail prices being offset by a 2.2% increase in restaurant prices. The unemployment rate was 4.4% in June 2017, slightly up on the historic lows of May which together with low inflation caused the misery index to fall to 6.
- In the U.S., about half of every dollar we spend on food is on food prepared away from home, mainly at restaurants and other food service establishments. For the year to April 2017, consumer expenditure on food away from home rose by 3.2%, while food at home expenditures rose by 2.8%.

Consumer Confidence Index



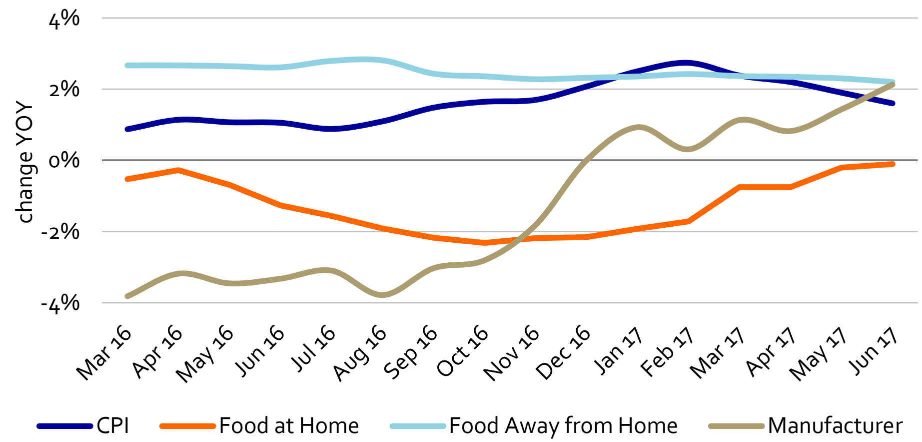
Source: U.S. Bureau of Labor Statistics, Rabobank 2017

Food Sales

Food Sales (USD billion)	Annual			YTD cumulative		
	2013	2014	2015	Feb 17	Mar 17	Apr. 17
Food at home	742	765	771	126.4	194.4	261.0
YOY change	3.7%	3.0%	0.8%	*2.1%*	*2.3%*	2.8%
Food away from home	668	697	741	126.3	197.7	267.2
YOY change	4.6%	4.5%	6.2%	*2.9%*	*3.8%*	3.2%
Total	**1,410**	**1,462**	**1,512**	**253**	**392**	528.2

Source: USDA ERS, Rabobank 2017

Food Price Inflation

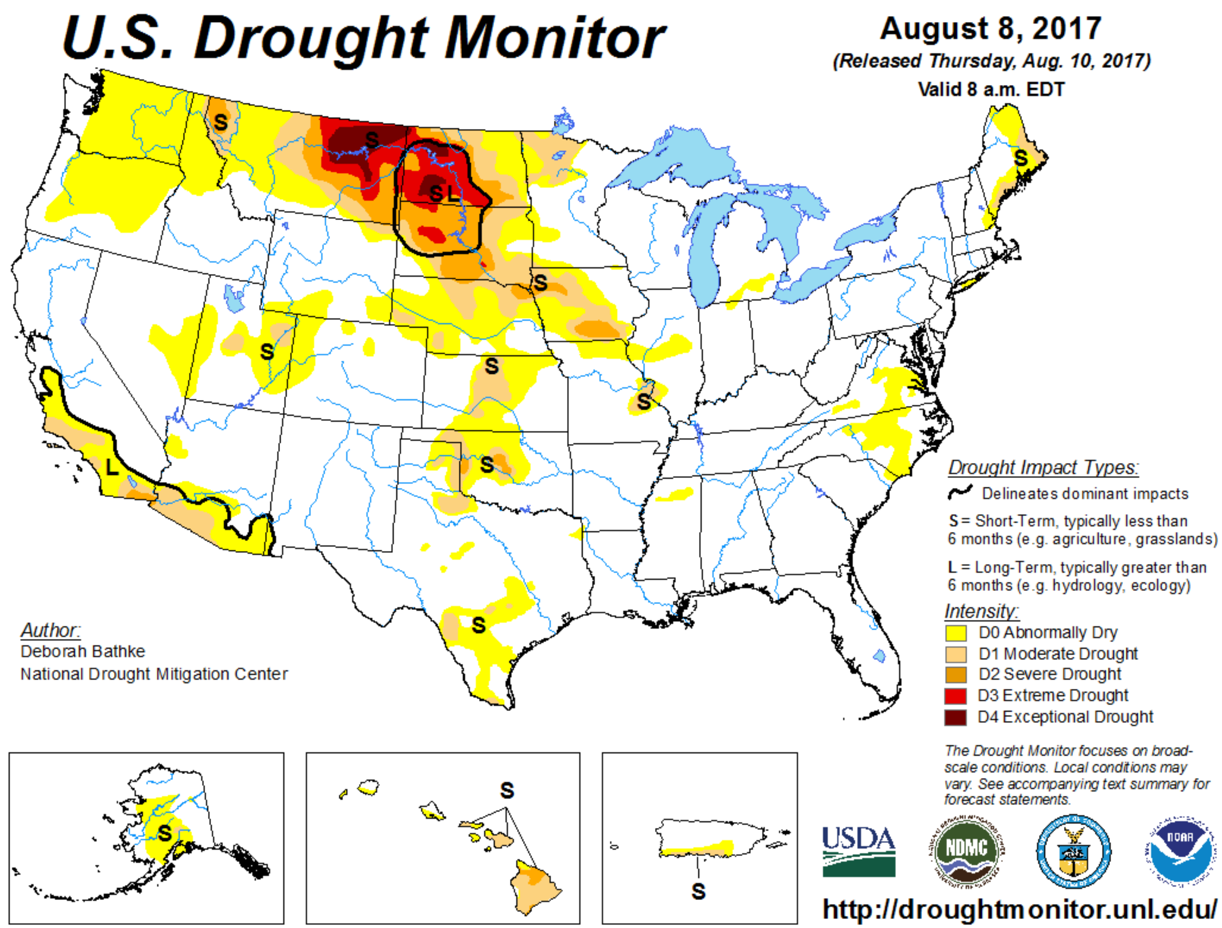


Source: U.S. Bureau of Labor Statistics, Rabobank 2017

Climate: Northern Dryness

- Rainfall was scarce in July for much of the western Corn Belt and from the Pacific Coast to the Northern Plains. The lack of rainfall, often accompanied by hot weather, had a variety of impacts, including a rash of wildfires in California and the Northwest; stress on reproductive to filling summer crops in the western Corn Belt; and major drought impacts on rangeland, pastures, and spring-sown small grains on the Northern Plains.
- Periods of rain spilled across the southern High Plains, easing stress on rain-fed summer crops. In other parts of the country, including the south, east, and central and eastern Corn Belt, hit-or-miss showers bypassed some areas but provided other spots with adequate to locally excessive moisture for pastures and crops.
- In general, Midwestern crop conditions declined during July, while Southern conditions remained nearly steady or slightly improved.
- Temperature and precipitation outlooks for August indicate below-average temperatures for the central and southern Great Plains and above normal temperatures across the western U.S., the Pacific Northwest and the northern High Plains, based in part on exceptionally low soil moisture.
- Above-median precipitation is forecast for the south-western U.S., the central and southern Great Plains, Gulf Coast, and south-eastern U.S. Little or no precipitation is likely across the Pacific north-west, northern Rockies and northern High Plains.
- For the Midwest and north-east of the country, equal chances for below or above median precipitation are forecasted.

U.S. Drought Monitor
August 8, 2017



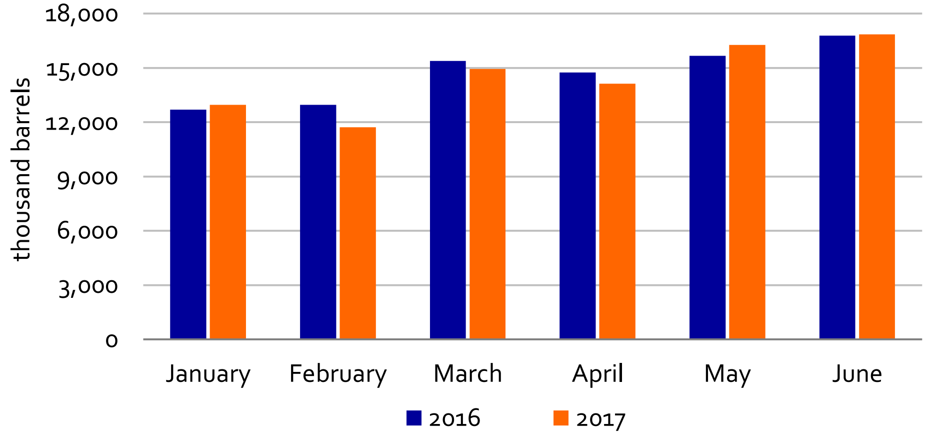
Sources: National Weather Service, Climate Prediction Center, U.S. Drought Monitor

Beer: Mexican Beer and U.S. Malting Barley

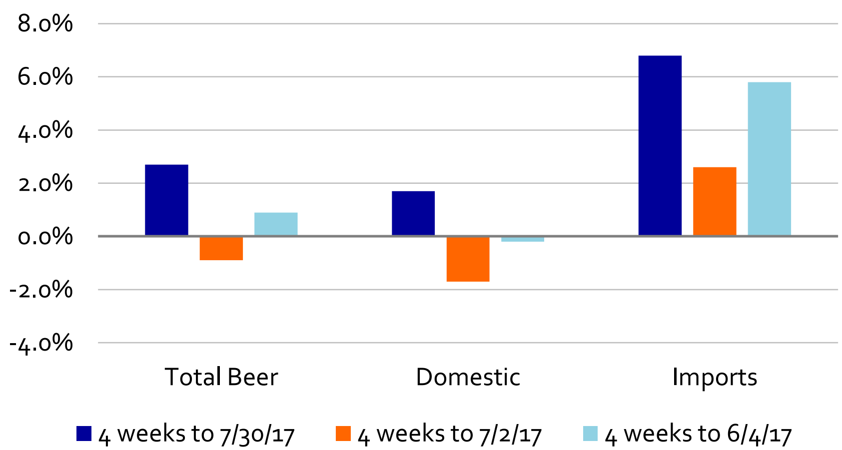
Rabobank

- Beer Institute estimates suggest that domestic tax-paid shipments of beer rebounded slightly in May and June following three straight months of declines. Beer exports fell 4.3% in June, but are up 11% YTD, with significant growth in sales to Canada and Chile among others, offsetting a large decline to Mexico.
- Beer imports have rebounded strongly in the last four weeks, rising almost 7%. Most notably, imports from Mexico, the main driver of import growth in recent years outperformed the overall import category over this period. For U.S. barley producers, the increase in imports from Mexico is similar in impact to growth in U.S. production, as Mexico is the largest export market for U.S. malting barley.
- Malting barley prices were down 12% on a month-on-month basis and 18% from the same period last year. Prices fell in June after remaining fairly steady in the USD 5.13 – USD 5.27 per bushel range for the first five months of the year.

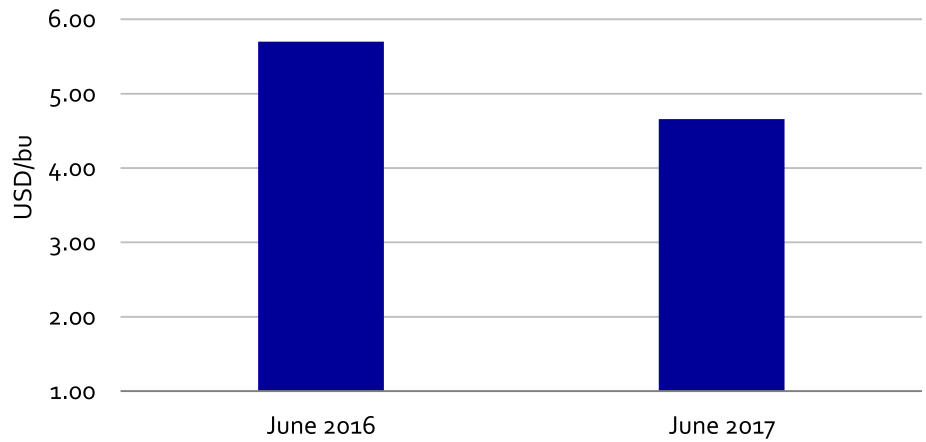
Domestic Tax-Paid Shipments of Beer, YTD 2016 vs 2017



Domestic vs Imports Sales Growth



Average U.S. Malting Barley Price



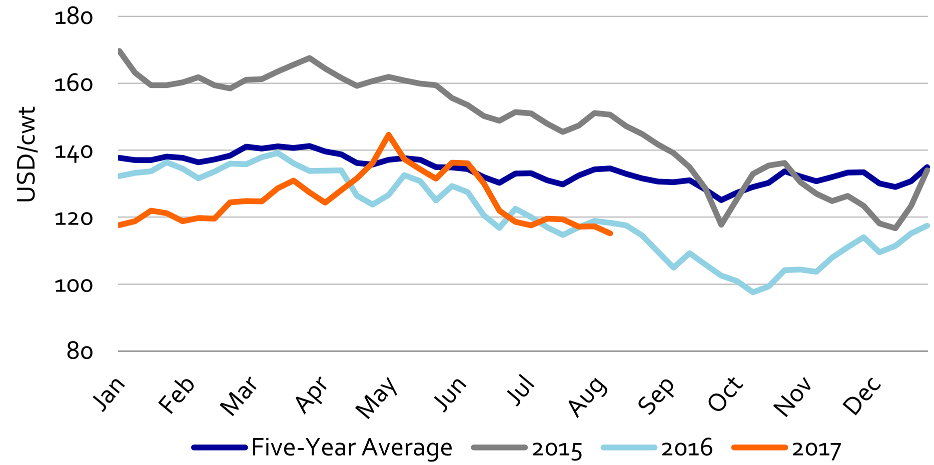
Source: Beer Institute, IRI, U.S. Grains Council, Montana Wheat and Barley Committee, Asociación Cervecera de la República Mexicana, USDA NASS 2017

Cattle: Managing Carcass Weights Key for the Rest of 2017

Rabobank

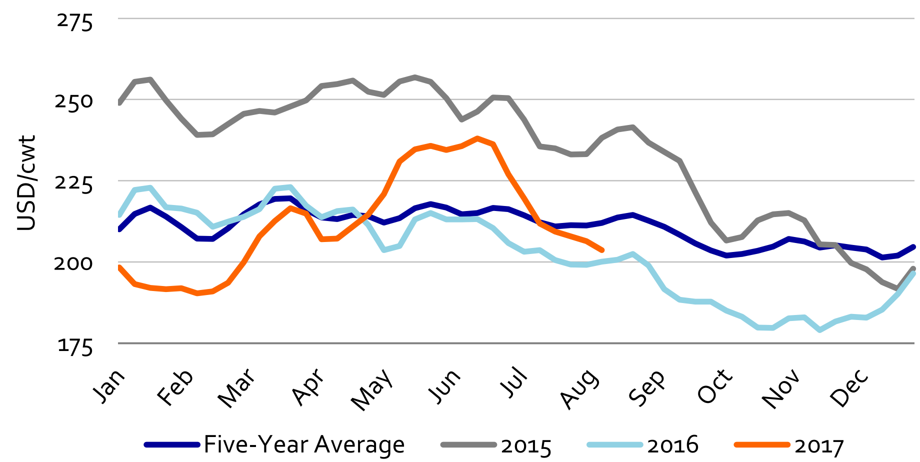
- Since posting a seasonal price peak during the first week of May at $143.00 per cwt, fed steer prices have suffered a 20% price decline, currently trading in a range of $113.00 to $114.00 per cwt. Cattle feeders have been profitable since the first of the year with a combination of profitable cattle feeding with the added bonus of exceptionally positive basis. At this time cattle are marginally profitable to break even. The price decline has been driven following the peak in the spring grilling season easing demand, seasonally escalating carcass weights with large numbers of cattle on feed that will provide a large fed beef supply for the remainder of the year.
- Year to date slaughter is up 6.1%. However; year to date beef production is only up 3.6% due to cattle feeders willingness to sell cattle at lighter weights. The aggressive selling has been driven by profitability, exceptionally attractive basis and the fear that increased numbers of market ready cattle will soon be coming to market. There is also a growing concern that available supplies of market ready cattle will meet or exceed slaughter capacity at some time this fall that would back up fed cattle supplies causing a rapid increase in carcass weights.
- Additional seasonal price declines are expected driven by increased fed cattle numbers and rapidly escalating carcass weights. At the extreme fed steer carcass weights were 33 pounds below year ago levels. Since bottoming, carcass weights have been escalating at a faster pace than a year ago and expected to reach year ago levels in the next several weeks. The combination of increased numbers of market ready cattle and weights that equal or exceed year ago s beef production is expected to be a problem during the late third and early fourth quarter. We are expecting a seasonal low in October of $105.00 to $110.00. Fourth quarter price recovery is expected to be less than seasonal with prices recovering to a range of $115.00 to $125.00
- Feeder cattle and calf prices are trading at above year ago levels and are not expected to see the same level of price erosion as a year ago. Cattle feeders have a much improved balance sheet over a year ago that has encouraged them to be more aggressive buyers. Cow/calf and stocker operators have been selling cattle in a much more orderly fashion this year. Not only do they remember the late fall prices from last year, drought conditions across Montana and the Dakota's has forced many producers to sell cattle early in order to avoid weight loss and to extend grass conditions the best they can.

Fed Steer Prices (Five-Market Average), 2015-2017



Source: USDA, Rabobank 2017

USDA Comprehensive Cutout

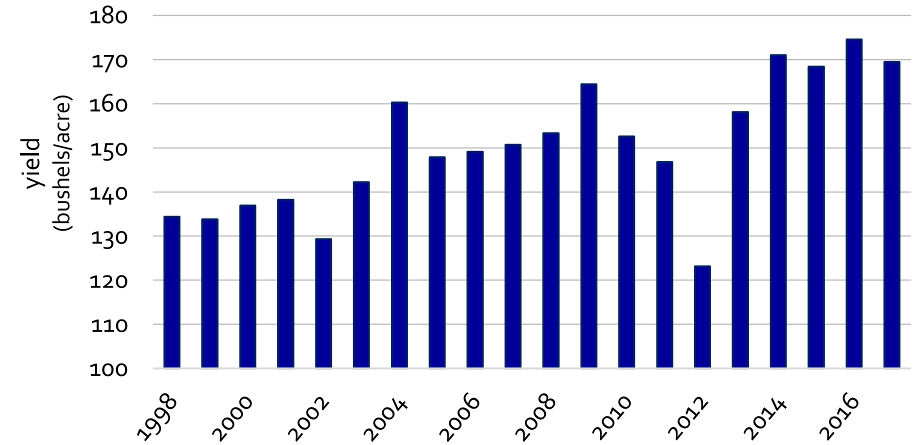


Sources CME, Rabobank, 2017

Corn: Weather is not Scaring the Bears

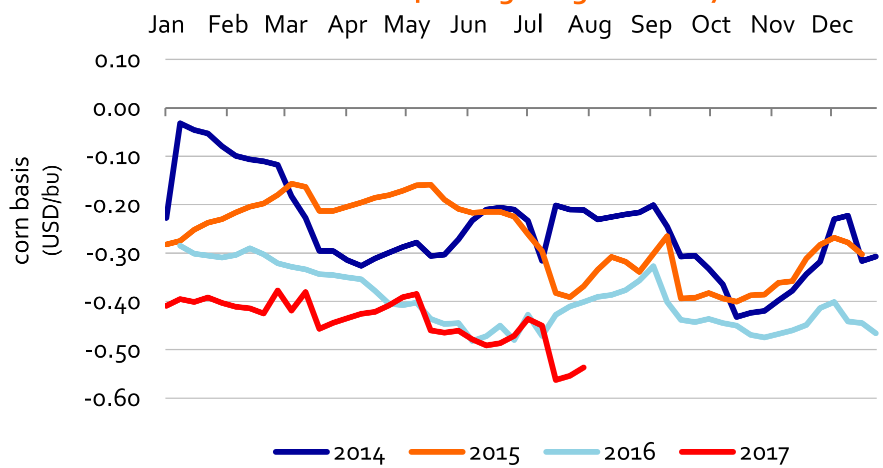
- August has seen weather as a large unknown factor but generally neutral to favorable for expected corn yields, continuing to keep December corn futures below USD 4.00. USDA lowered national corn yield estimates by 1.2 bushels/acre to 169.5 bushels in the August WASDE report. The corn futures market responded to WASDE corn yields being slightly higher than expected by trimming December corn contracts closing 15 and one-quarter cents lower for that day. While still early in the growing season, the RaboResearch F&A team currently expects some additional reductions in the U.S. corn crop with national average yields closer to 165 to 166 bushels per acre. The market is currently pricing corn in a very wide range of yield expectations. We will closely monitor additional information on the new crop and resulting price impacts.
- Variable corn conditions continue to be reported from throughout the major corn-producing states. The timing of planting and rains at critical times are making major differences – even between contiguous fields. The USDA's most recent corn yield projections are their first reported for the year based on this year's field observations rather than trends. The USDA is now looking at evidence of this year's crop for yields rather than prior years' achievements lending strength to the current numbers that supplies may be larger than the market projected.
- While U.S. corn production projected for 2017/18 may have dropped from July's 14,255 million bushels to 14,153 million bushels in the August WASDE, there is still a lot of corn in the country that needs to move and make way for the new crop. Examining a few spot cash corn markets shows that basis levels remained relatively constant through the changes in futures prices through the August WASDE. Corn still appears to be plentiful in the western corn belt and with need in the eastern U.S.
- In the aggregate, corn will have to be sold from high stocks areas. Moving corn prior to harvest may help relieve storage pressures and avoid greater erosion of basis if stocks continue to build. General decline of relative basis in areas with large corn stocks and realized large corn harvest this autumn is a risk for producers who have not yet priced. This would also spur greater premiums for handling and logistics resources to move greater volumes of corn to areas of need.
- The September 29, 2017 Grain Stocks report from USDA will be watched closely. This is especially true if we do not see further evidence of corn moving from areas where higher stocks appear to be wedging more negative basis (as seen in the lower right chart for northwest Iowa). We anticipate large stocks of corn and soybeans to be reported in the western corn belt.

National Average Corn Yields for U.S. from 1998 through 2017(f)



Source: USDA, Rabobank 2017

Northwest Iowa Corn Basis 2014 through August of 2017

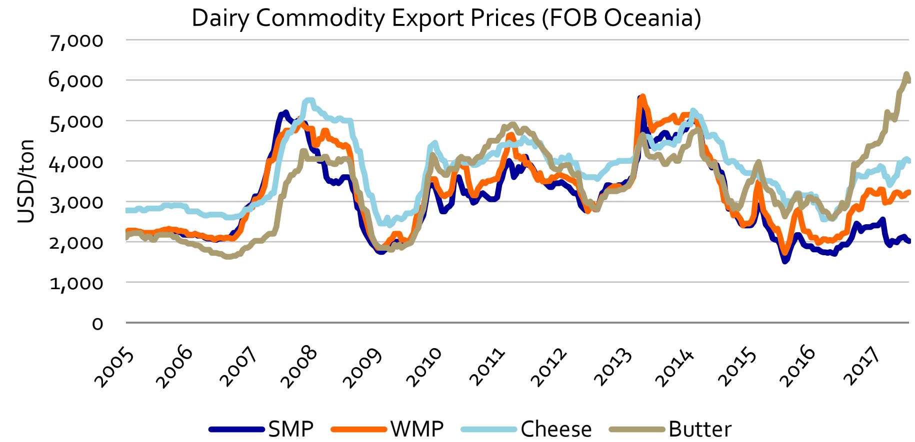


Source: USDA, Rabobank 2017

Dairy: Butter Prices Still High, U.S. Exports Up

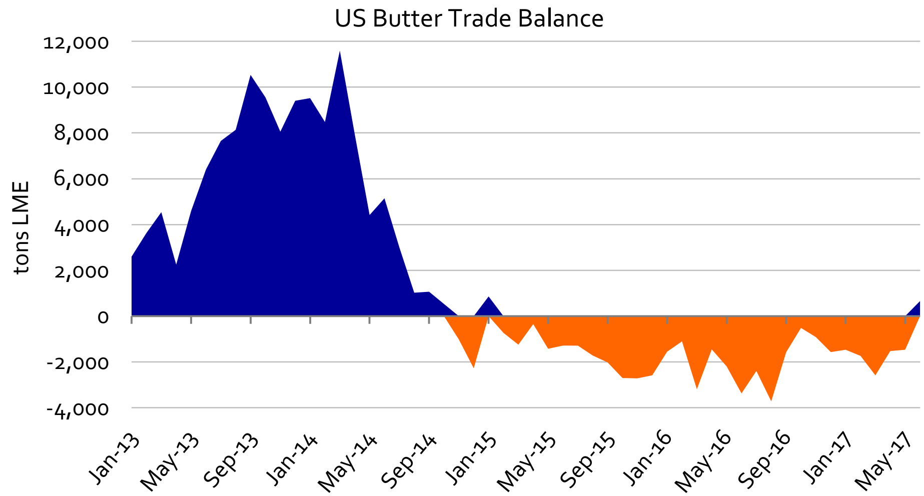
- June U.S. milk production increased 1.6% YOY, dropping slightly from the spring flush high. The year-to-date cow slaughter was up 0.6% in 2017 versus 2016. Still, cow numbers continually increased over the last twelve months amounting to a total 1% YOY increase in June. The average yield came off slightly with the end of spring and that decrease was then amplified in response to very high temperatures (above 105 degrees Fahrenheit) in the early summer months. Feed remained relatively cheap, keeping the pressure off margins, however, farmers remain concerned about increasing labor costs due to political tensions around immigration reform.
- Demand continued strong through the first half of the year, matching the overall positive economic trends and decreasing unemployment (at 4.3% in July). The main driver of U.S. high prices is continuing growth in dairy fat consumption, however, retail demand for butter in the U.S. slowed down in the summer months with 1% volume growth in July vs 19% growth in May. However, that decrease in butter demand swung the balance in favor of ice cream (3.5% growth in July) and cheese (0.7% growth).
- Total U.S. dairy exports were 14% higher YOY in the first half of 2017, although exports of SMP/NFDM came off in June to the lowest levels since the beginning of the year. The U.S. butter trade balance was positive in June by 658m tons LME for the first time since January 2015.
- Strong global butter demand continued to support high butter prices. CME spot butter price closed on 3 August at USD 2.7/lb, the highest butter price since December 2015. The Oceania Butter prices in July reached a record high of USD 6,150/ton average and came off slightly in the beginning of August to an average of USD 5,975/ton.
- Global SMP prices are continuing to be tempered by the EU stocks hanging over the market with over 357,000MT of SMP. In addition, Canada moved 30,000MT of SMP onto the global market in the first half of 2017, which is a 377% increase compared to last year, further lowering SMP prices. The shifting dynamic between dairy protein and fat demand is tipping the scale towards fats. The continuing strong demand for fat in butter and ice cream was reflected in an 8% increase in Class II price (USD17.48/cwt), and 4% increase in Class IV price (USD16.6/cwt) and a -6% drop in Class III price (USD15.45/cwt) in July vs. June. The announced class prices are also reflective of the higher butter premiums.

Butter Still on the Rise, SMP Continues Low



Source: USDA, Rabobank 2017

Despite High Exports, U.S. Butter Trade Balance Turns Positive



Source: USDA, Rabobank 2017

Farm Inputs: Stabilizing Fertilizer Prices

Rabobank

Sector Assessment

- The purchase and utilization of crop inputs are largely dependent on three interrelated variables: 1) the current and future levels of grain prices relative to breakeven costs of production; 2) farmers' expected free cash flows available for expenses and debt service; and 3) credit availability including non-traditional sources of liquidity (e.g. hedge funds and alternative capital pools).
- While the U.S. crop cycle endures its fourth consecutive year of a downturn, it appears to be undergoing a bottoming process. Farmers have shifted acres away from corn and wheat into soybeans, and Ag commodity prices are generally rising, albeit incrementally. This is consistent with Rabobank's recently released baseline forecast which (with a 75% probability) estimates forward corn prices of at/below USD 4.25/bu over the next five years, nearly 20c higher than what the model had forecasted last year at this time.

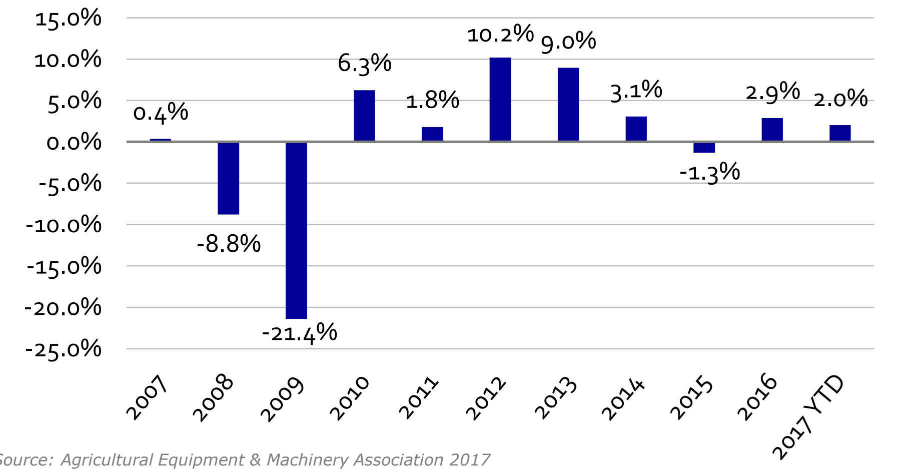
Equipment and Machinery

- The farm equipment subsector is also bottoming/stabilizing with unit growth in the low single digits on an all product lines basis. Revenue growth, however, remains pressured due to the continued mix shift from expensive high horsepower to less expensive, lower horsepower, tractors. We continue to monitor credit loss trends in light of a recent uptick in credit card and auto loan delinquencies that were reported by several major U.S. banking institutions, as deterioration in mainstream consumer credit metrics can be a precursor to farmer stress.

Fertilizer

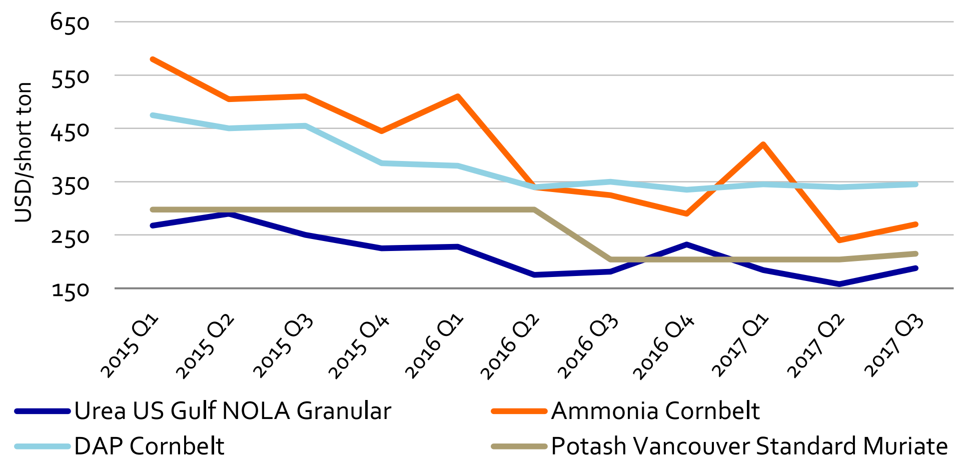
- The fertilizer complex can be described as 'same old, same old' with price levels stabilizing at/near trough levels (with average selling prices down in the low double digit range year-on-year) amid a generally oversupplied global marketplace. Given the low probability of a rapid upturn in the crop cycle, the industrial case is growing for continued consolidation among the major fertilizer companies.

Total USA Retail Tractor Sales (YOY growth)



Source: Agricultural Equipment & Machinery Association 2017

Nutrient Price Highlights (2015 to present)



Source: CRU and Rabobank 2017

Feed: Prices Low, but Making Some Headway

Rabobank

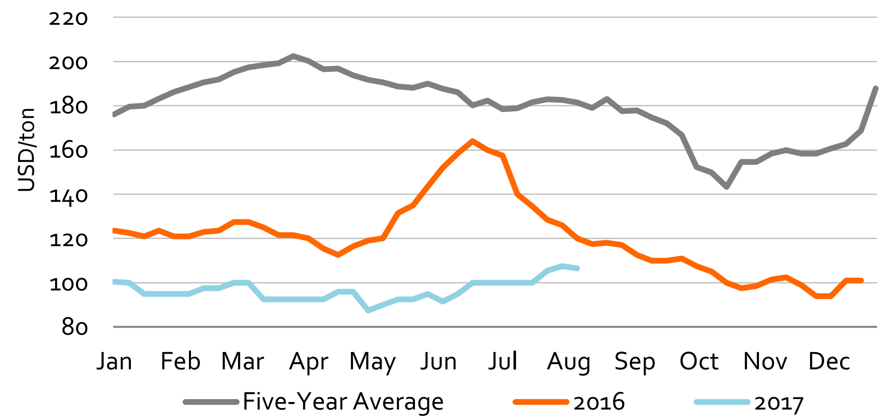
DDGs

- DDG cash prices have been strengthening since early June, with current prices USD 11 above those two months ago. Higher cash corn as well as soy meal prices have been supportive of the DDG market.
- Merchandisers are noting the great value of DDGs at the moment, with price ratios to both corn and soymeal at discounts compared to historical averages, and feed inclusion rates kept high.
- Volatility is expected to increased in the coming weeks as more contracts are typically executed and the USDA's estimate for corn and soybeans production above previous expectations will have a bearish influence.

Hay

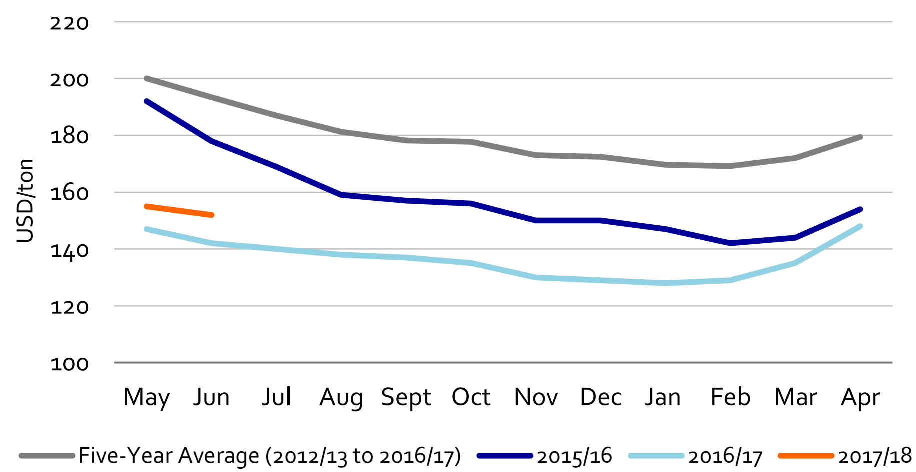
- The recent U.S. hay forecast has total 2017 U.S. alfalfa hay production at 56.18 million tons, down 3% YOY. Alfalfa production in the western 7 states (W7) is forecast down by 2% YOY in 2017, at 18.75 million tons. An expected 2% increase in Idaho, does not offset declines in California, Washington, and Montana, which are expected to be down 2%, 17%, and 12% respectively, on lower YOY yields.
- U.S. milk prices are expected to stay range-bound, near the mid-teens, over the next few quarters. While the expected price range is well-above the 2016 lows, prices are not high enough to be a driver of significant increases in domestic, high-quality hay purchases.
- The most positive part of the hay story remains exports, which continue to help prop-up prices at above 2016 levels. Total U.S. alfalfa, and other hay export volumes through June were up 29% and 3.8% respectively, YOY. Alfalfa export volumes to China, Japan, and Saudi Arabia, rose by 39%, 26.4%, and 59.9% respectively.
- In August, supreme and premium alfalfa prices, delivered to San Joaquin Valley dairies, were up 14% and 19% respectively, versus August 2016. Good quality export alfalfa, FOB Columbia Basin, was selling for 13% more in August 2017, versus a year earlier.
- West coast dockworkers recently agreed to extend their existing labor contract to July 2022, which pushes out labor negotiations and the risk of repeating the port slowdowns/shutdowns experienced in 2014/15.

Iowa DDG Price 2016-Aug 2017



Source: USDA-AMS, LMIC 2017; Note: 10% Moisture, 28% to 30% Protein

Alfalfa Hay Prices 2015/16-June 2017

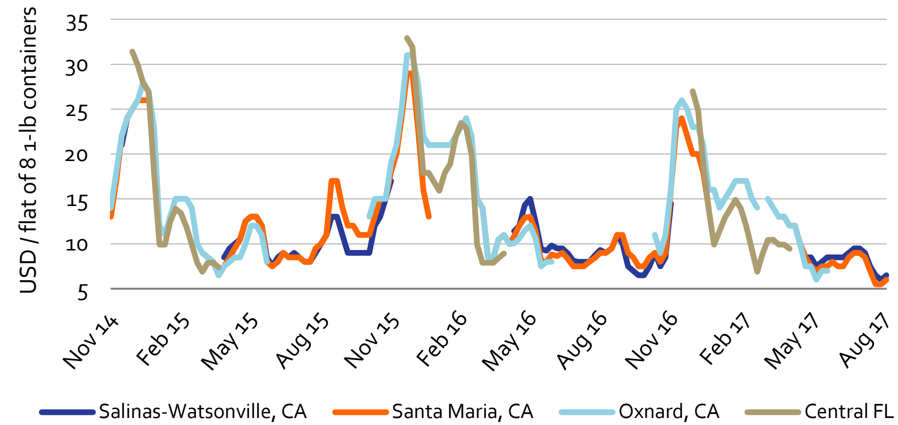


Source: USDA/NASS 2017

Fruits: Current Situation Depends on Specifics

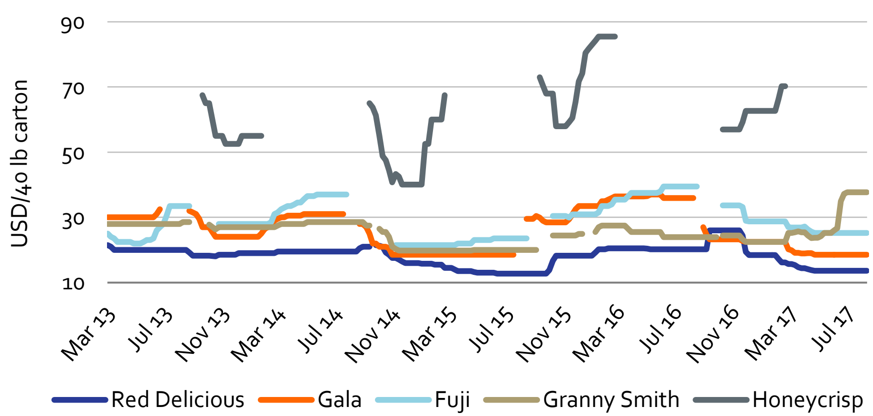
- Strawberry prices have hit multi-year lows, as shipments during the first week in August were 22% higher YOY. While total shipments for the year were only tracking 3% higher, volumes since late June have been well-ahead of estimates. A hot summer has pushed berries along rapidly, which increases the likelihood of a gap, as the season progresses.
- U.S. avocado prices had been drifting lower over the summer, while still at high levels, but took a sharp turn upward in August. As Peru and California wound down, Mexican shipments were not yet high enough to stabilize prices. Prices are expected to ease some when Mexico begins to hit stride in September.
- Table grapes continue to have solid markets, on strong domestic and global demand. The south-eastern freeze, which decimated the Georgia peach crop, has driven California stone fruit prices to multi-year highs this summer. Supported in part by limited supplies of Chilean navels, Valencia orange prices have been at historically high levels, with 88s selling at 65% above the five-year average in early August.
- The U.S. apple industry should see stronger prices in the 2017/18 season, as the EU apple crop is expected to be 21% lower YOY. Current west coast port labor contracts have been extended to July 2022, lowering the risk of near-term transportation interruptions.

Strawberry Shipping Point Prices—Primary U.S. Districts, 2014-2017



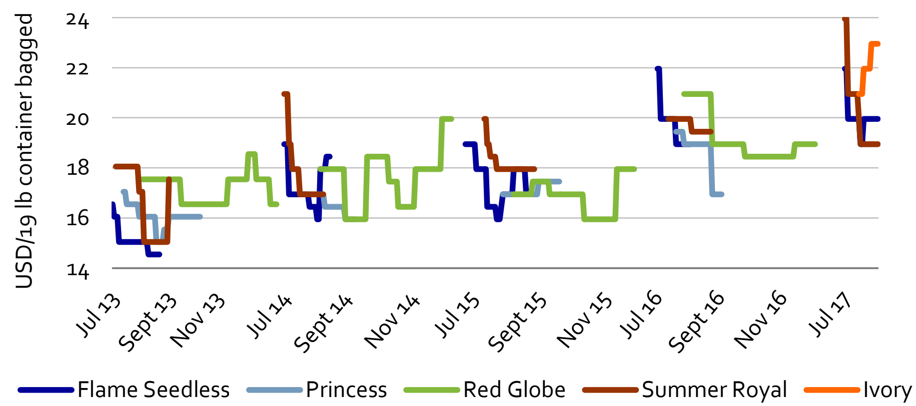
Source: USDA/AMS, Rabobank 2017

Washington Apple Shipping Point Prices—88s—WA Extra Fancy, 2013-17



Composite of fine appearance and standard appearance prices
Source: USDA/AMS, Rabobank 2017

Table Grape Shipping Point Prices—Kern District, CA, 2013-2017



Sizes range from Large to Large-Ex. Large depending on year and variety.

Source: USDA/AMS, Rabobank 2017

Pork: Prices and Profits on a Rollercoaster

U.S.

- U.S. lean hog futures in August closed at 84.38 USD/cwt as cash prices remained higher than expected at the beginning of August. This price dynamic includes robust domestic and international demand for U.S. pork, a drop in cold storage inventories for pork bellies, and lower slaughter weights. However, for the remainder of 2017, the futures curve is anticipating a decrease in hog prices, dropping to 63.48 USD/cwt in December.
- The expected drop in lean hog future prices for the remainder of the year is expected as slaughter numbers year to date are 3.4% higher compared to same period last year and this is expected to continue as we move towards the fall. During the fall, we expect more plants coming online which could result in higher slaughter numbers putting pressure on domestic prices. However, higher slaughter numbers will be conditional to whether packers believe strong demand for exports and domestic consumption will continue.

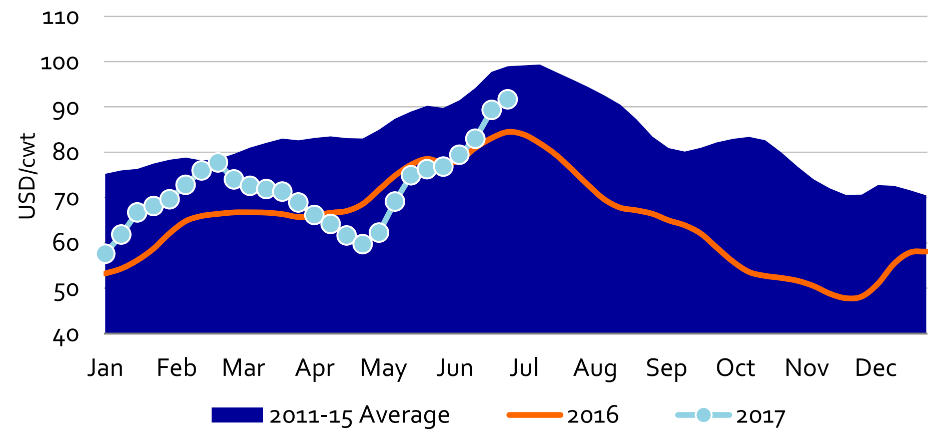
Canada

- While the U.S. increases the sow herd to adjust for demand for live hogs for slaughter as capacity increases, Canadian hogs for feeder and slaughter are expected to increase. Year-to-date, Canadian total hog exports to the U.S. are down by 1.5% compared to last year (Jan-May), however within total hog exports, feeder hog exports are up by 1.2% and for the coming months, Canadian feeder hog exports to the U.S. are expected to increase.

Mexico

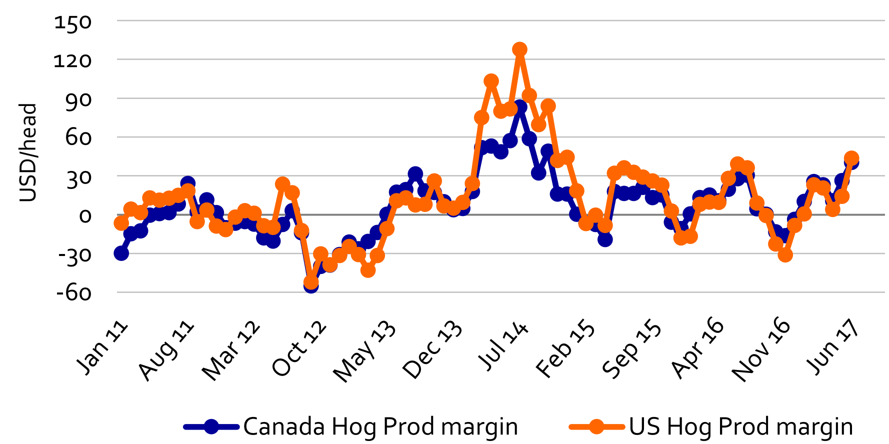
- Export demand for U.S. pork continues to be strong, mainly driven by increased imports from Mexico, Japan, and South Korea. Mexico continues to be the main importer of U.S. pork. So far, year-to-date, Mexican imports from the U.S. have increased by 24% compared to same period last year. Despite U.S. cutout prices being higher, ham prices have remained stable with monthly average prices from January to July, being 1.2 % lower than same period last year.

U.S. Lean Hog Futures, 2016-2017



Source: StatCan, USDA, Bloomberg 2017

U.S. and Canadian Hog Producer Margin, 2011-2017



Source: Confepor, Bloomberg 2017

Poultry: Exports Needed to Support Domestic Prices

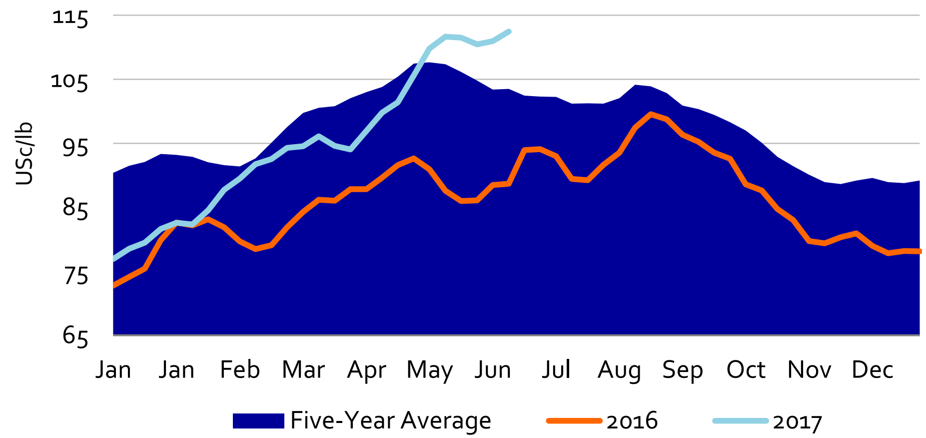
U.S.

- U.S. demand for chicken breast has been strong this summer, and this has supported the national composite price for U.S. poultry with prices going from 85 cents per lb. in January to 105 cents per lb. in July—almost a 24% increase year-to-date. Although prices might decrease somewhat for the second half of the year, feed costs are expected to remain stable for the coming months.
- Chicken slaughter year-to-date is 4% higher than last year same period and 4.2% higher than the five-year average. As demand in the U.S. eases after peak consumption during the summer, exports will play a crucial role for any additional production and to keep prices supported for the rest of the year.
- U.S. poultry exports are 4% higher this year compared to last year. However, the amount of exports to traditional export markets like Mexico, Canada, Hong Kong and Taiwan have seen a decrease, while markets like Angola, Cuba, South Africa and Kazakhstan are markets showing growing demand for U.S. poultry this year.

Mexico

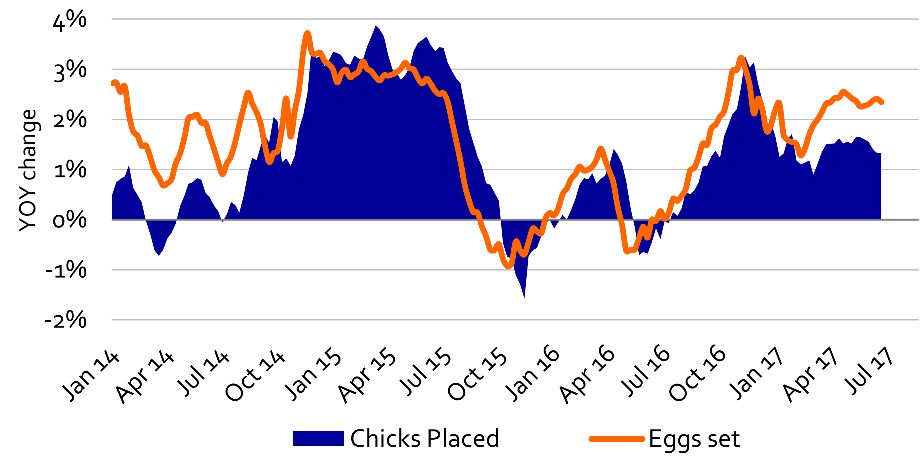
- Mexican consumption continues to increase year after year, with 2017 expecting to reach 4.2 million tons (CWE). Chicken continues to be the preferred meat in Mexico, although beef, pork and chicken prices have been on the rise due to inflationary pressure, being partly caused by the depreciation of the peso, making the purchase of inputs from abroad more expensive.
- Mexico continues to be largest importer of U.S. chicken, despite a 10% decrease year-to-date compared to last year. This comes into play when NAFTA negotiations start on August 16, and the U.S. experiences an expansion in the three proteins, creating competition among chicken, pork and beef with exports being a wild card to maintain domestic prices.

Chicken Prices, Composite Basis Based on Part Values, 2016-2017



Source: USDA, Rabobank 2017

U.S. Chicks Placed and Eggs Set, 2014-2017



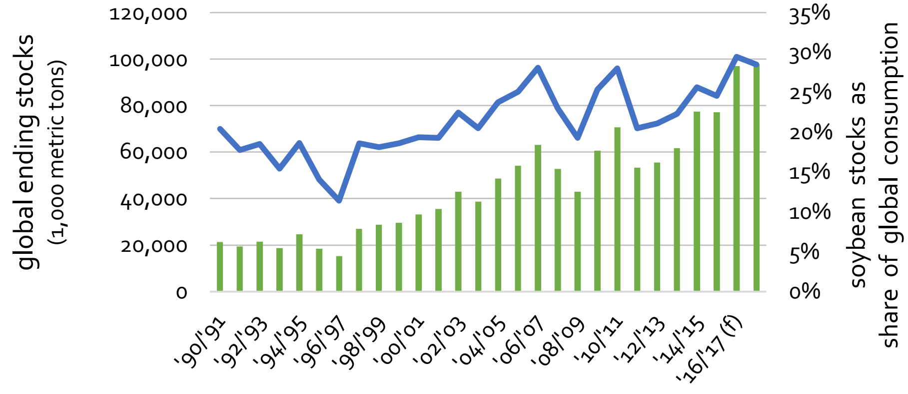
Source: USDA 2017

Soy Complex: Bean Expansion Price Contraction

Rabobank

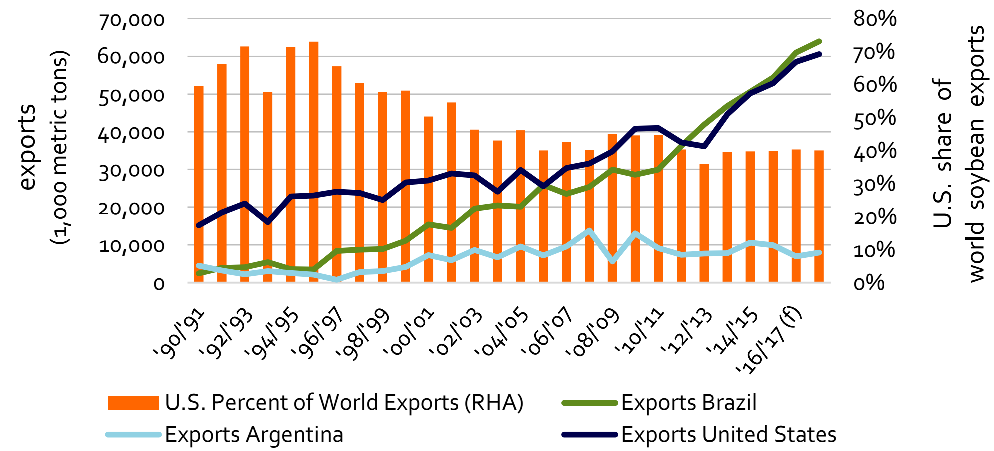
- November 2017 soybean futures reached USD 10.47 on July 11, but haven't touched the USD 10.00 mark since August 1. The August 10 WASDE report projected soybean national average yields gaining 1.4 bushels/acre more than estimated in July, with USDA now projecting 49.4 bushels per acre. November soybean futures contracts lost 33 cents that day on higher projected supplies and carryout. A strong U.S. soybean yield in the 47 to 49 bushel per acre is well within reach and could continue to pressure markets with large supplies domestically and around the world.
- USDA trimmed projected 2017/18 exports of U.S. soybean meal by 200,000 short tons. Maintaining a constant ending stocks for soybean meal, a projected lower domestic crush was forecast. This places more weight on exports to move more soybeans out of U.S. supplies when a growing level of ending soybean stocks is already projected. This could be a difficult task without continued downward price pressure on soybeans because the world has soybeans available.
- Globally, USDA projects nearly 20 million metric tons more soybeans in ending stocks in 2016/17 than in 2015/16, an increase of 26 percent. The pressure of a higher level of soybean carryout and large exports coming from Brazil for whole soybeans and growth in soybean meal and oil from Argentina are bearish for the large U.S. soybean crop.
- Brazil is likely to harvest their largest soybean crop ever and set a new record export level. While the U.S. continues to produce more soybeans, the share of global exports is stagnant. Exports from Brazil will likely compete strongly on price and pressure U.S. domestic soybean prices as a large crop combines with high carryover stocks. The September 29 USDA Grain Stocks report could hold more bearish news for additional soybean stocks, resulting from the 2016/17 crop.
- We anticipate season average cash prices below USD 9.00 for U.S. soybeans. The projected large volumes of soybeans still being held in storage, large new crop, global supply availability, and slight demand growth would point to the potential for greater pressure on storage and logistics assets resulting in a wider basis.

Soybean Ending Stocks Climb through 2017/18 (f) and are Near Record Share of Global Consumption



Source: USDA, Rabobank 2017

Soybean Exports from U.S., Brazil, and Argentina Cumulatively Grow with stagnation in Export Market Share of U.S. Soy through 2017/18 (f)



Source: USDA, Rabobank 2017

Tree Nuts: Records Being Set

Almonds: The 2016/17 crop year set new records for the U.S. almond industry. The 2.136bn pound crop produced was the largest on record, as was the 2.13bn pounds shipped (16% higher YOY). Bearing acreage in California is expected to hit a new record this year, at 1m (up 6% YOY), and is projected to result in a 2017/18 record crop of 2.25bn meat pounds. Prices are stable to firming, as the 2017/18 crop estimate is viewed as a modest increase.

Hazelnuts: The U.S. hazelnut industry shipped over 36,000 in-shell equivalent tons during the 2016/17 crop year. While this is not a record for the industry, it represents a 17% increase YOY, and is 5% higher than the previous five-year average. Global hazelnut supplies are expected to rise by 5.7% YOY in 2017/18, on a 16% larger crop (in-shell basis).

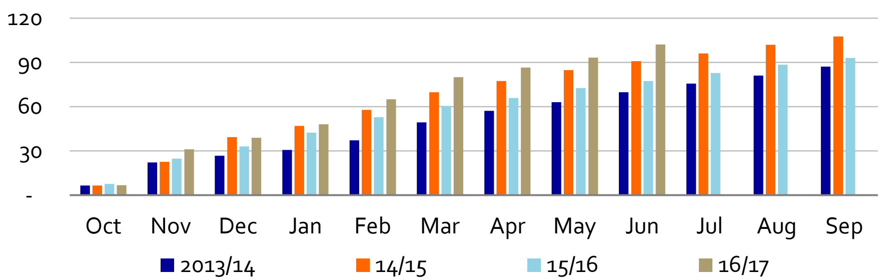
Walnuts: 2016/17 walnut shipments through July were at record levels, up 13% YOY, with 89% of available product shipped. While domestic shipments for the crop year were up slightly, 1.4%, export shipments were up 19% YOY. Global walnut supplies are expected to rise 4.6% YOY in 2017/18, on larger crops in China, USA, Chile, Ukraine, Iran, and Australia. Walnut prices are reported as stable to strengthening this summer.

Pistachios: Total crop year shipments through July are up 127% YOY. Domestic shipments are up over 50%, while exports have nearly tripled. Carry out is expected to be manageable, especially given the expectation of lower global production in the coming season. Global pistachio supplies are projected to decrease by 7.5% YOY in 2017/18, due largely to an alternate-bearing off-year in California. Turkey is expected to have a 33% lighter crop YOY, while Iran's production is estimated to rise by 63%. Prices remain stable and firm.

Pecans: Cumulative 2016/17 U.S. pecan exports were tracking 26% higher YOY, through June. Pecan prices have seen upward momentum, on potential damage to Mexican crop.

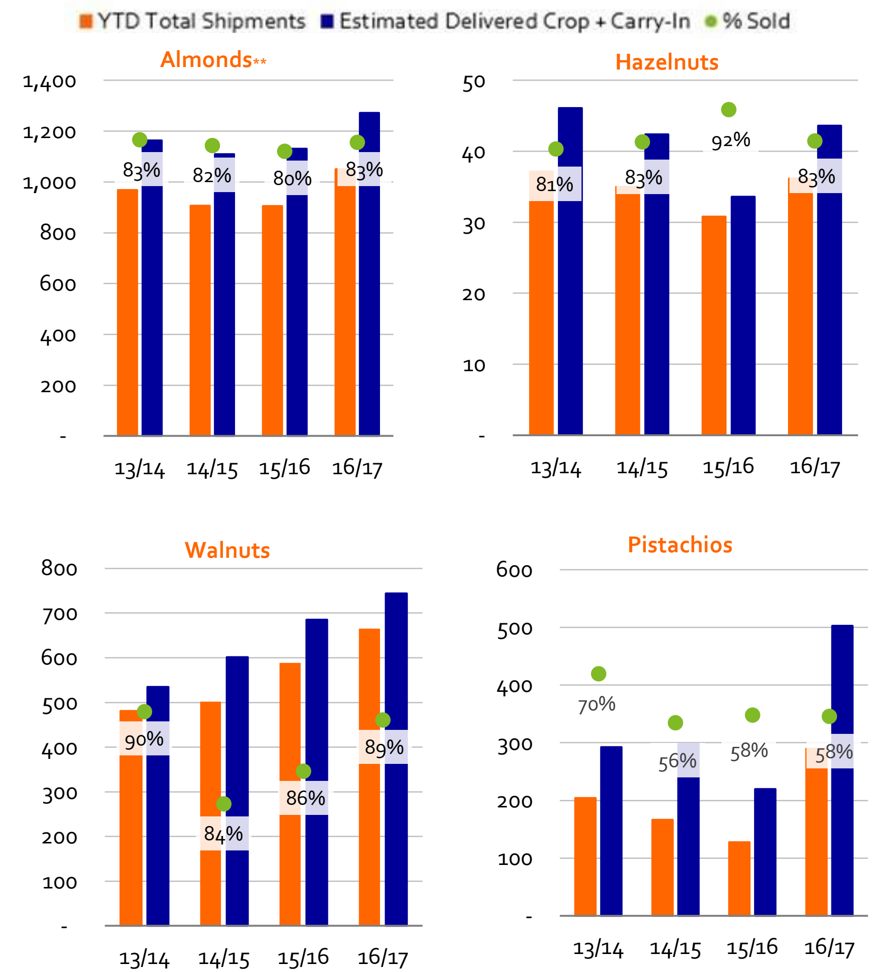
Cumulative Pecan Exports

(thousands of in-shell equivalent tons)



Cumulative U.S. Tree Nut Shipments*

(thousands of in-shell equivalent tons)

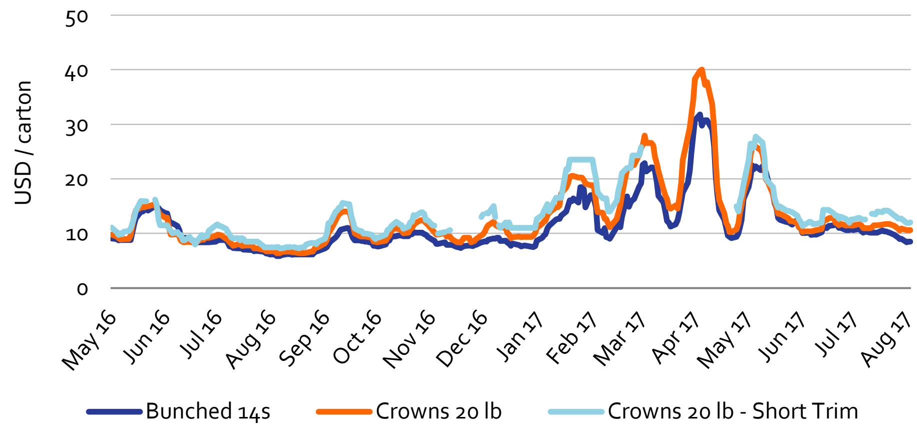


Source: Administrative Commission for Pistachios, Almond Board of California, California Walnut Board, Hazelnut Marketing Board, INC, FAS 2017
**through July 2017 for almonds, pistachios and walnuts, and June 2017 for hazelnuts*
***meat pound equivalent*

Vegetables: Darn-It, Back to Normal

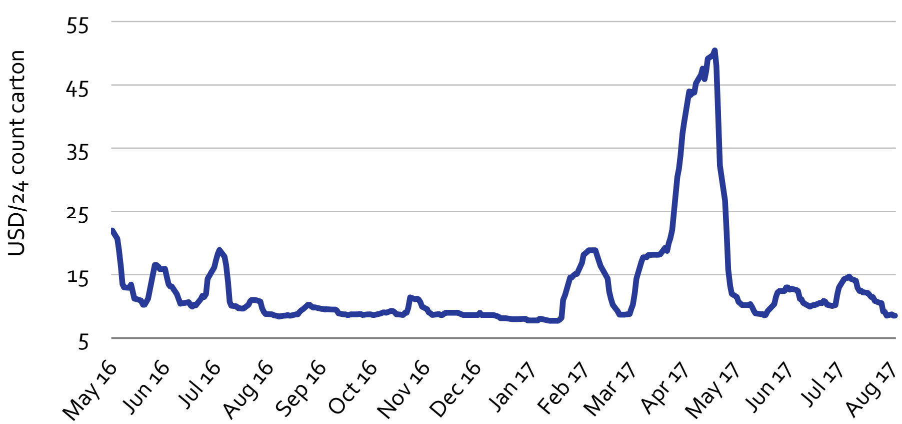
- Earlier supply gaps have been ironed-out. Supplies have been more than ample, and prices reflect it. Regional deals also tend to weigh on price during this time of year. Demand is also hampered by seasonal fruits pulling consumer attention and dollars. The excessive August heat experienced in the west has pushed crops along rapidly and gotten growers ahead of current acreage, so supplies should lighten-up as the month progresses.
- Broccoli supplies have been plentiful with good reported quality, as weather has been ideal for this crop. Cauliflower supplies have been abundant, which had pushed prices down to USD 9.00 per carton in late July/early August. Pricing could get a little stronger for both crops as school demand picks up. The rising availability and demand for riced cauliflower, as a carb replacement, has garnered some media attention this summer, and new products continue to roll out.
- The recent heatwave in California caused some quality issues on leaf items, but impacts were minor. Supplies remain abundant. Iceberg markets also remain weak, but the potential for a September gap has been reported.
- Roma tomato prices have been strong, due to excessive rain in Mexico.

Broccoli—U.S. Daily Shipping Point Price, 2016-2017



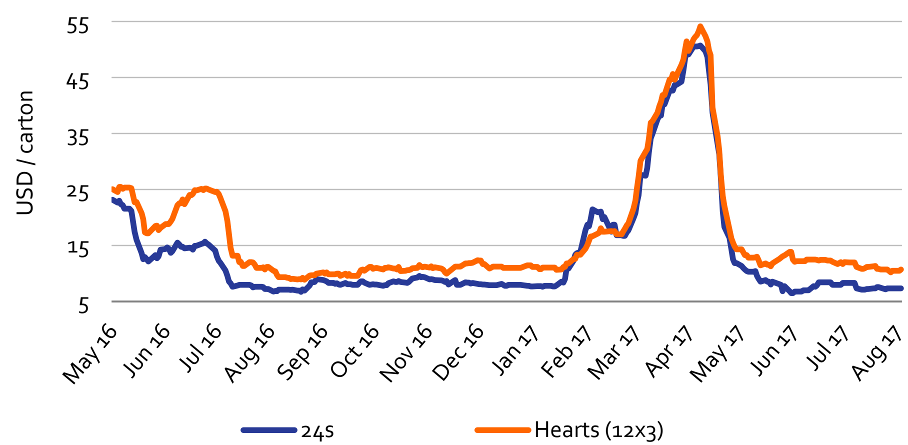
Source: USDA/AMS, Rabobank 2017

Wrapped Iceberg Lettuce–U.S. Daily Shipping Point Price, 2016-2017



Source: USDA/AMS, Rabobank 2017

Romaine Lettuce–U.S. Daily Shipping Point Price, 2016-2017

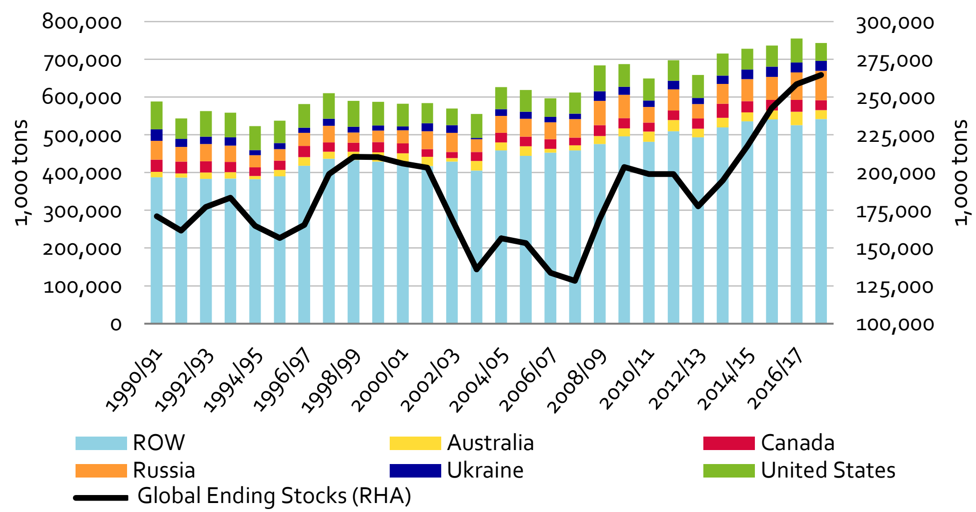


Source: USDA/AMS, Rabobank 2017

Wheat: Prices in the Short-Term are Following Grains Lower

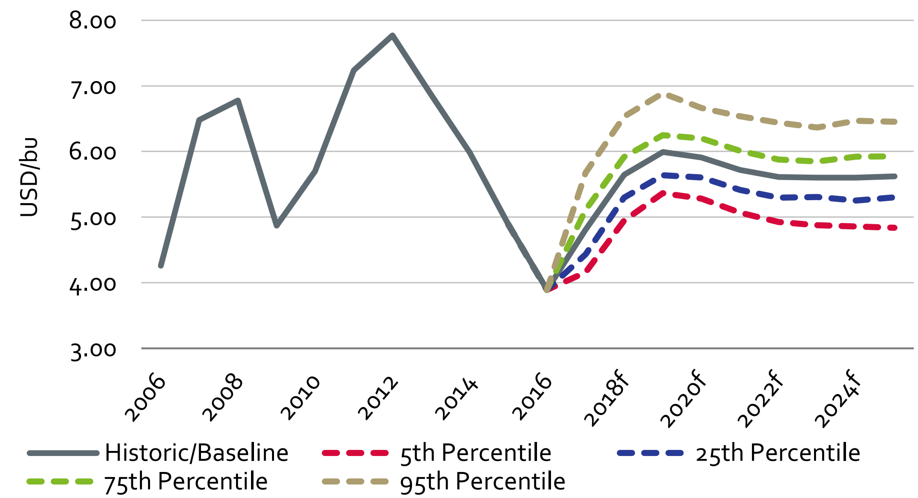
- Throughout the summer, wheat continued to capture headlines due to demand for high-protein wheat, drought in the Dakotas and Australia and the global wheat exporters supply/demand situation. As expected, wheat prices have responded positively, but since early July wheat prices had a significant setback.
- On the surface, the world wheat situation appears to be bullish with production in the top six global wheat exporters down 11% and ending stocks in four out of the six countries declining in 2017/18. However, overall 2017/18 global production is projected to be down only 1.5% and global stocks are up 2.4% to a record 264.7 MMT. Of the top six exporters, only Russia (the world's largest wheat exporter) will increase production for the fifth consecutive year, to a record 77.5 MMT. Add the fact that Russia is the lowest cost producer in the world and they can keep selling low-priced wheat into the world market for extended periods of time thereby keeping pressure on global wheat prices.
- With all the concern about drought in the northern Plains, early harvest reports coming out of North Dakota are surprising. Yields are wide ranging from 50 to 70 bushels per acre and are below last year's yields, but better than expected. The USDA is currently project spring wheat yields in North Dakota at 36.0. USDA may very well need to raise their yield estimate for spring wheat in future reports. In addition, protein content is a respectable 14%-15%.
- Early in the growing season, as the HRW crop struggled and there was drought in the northern plains, protein premiums began to climb. The need for high-quality wheat drove both the Minneapolis/Kansas City spread out. Despite first-half harvest reports, this spread has remained wide. We believe this will continue to be the case, as the need for protein will need to be filled by HRS due to low protein HRW crop.
- While wheat prices have been following corn lower, the U.S. projected all-wheat national average farmer received price is expected to rise into the 2019/20 crop year with prices reaching nearly USD 6.00 per bushel. This is in direct response to low planted wheat acres, primarily HRW. While antidotal, wheat farmers are already responding to this year's higher prices by indicating that more wheat acres will be planted in 2018/19.

Wheat Exporter Production is Down, But Ending Stocks Reach Record Levels



Source: USDA, Rabobank 2017

Cash Wheat Prices are Poised to Move Higher

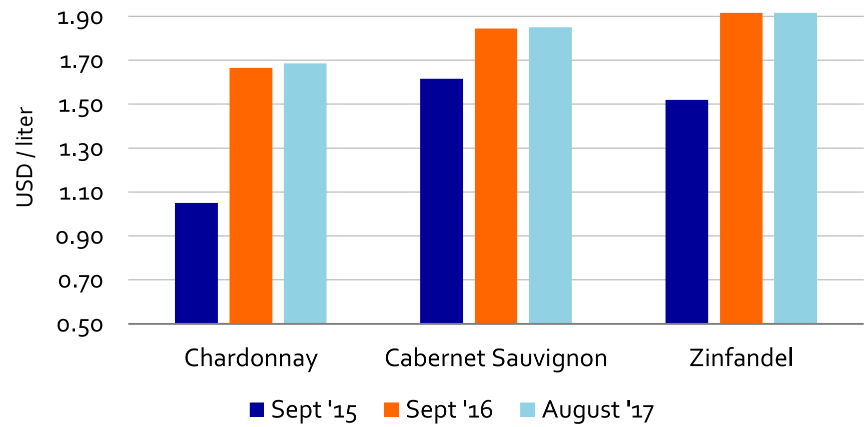


Source: Rabobank Baseline 2017

Wine: Tight Supply, Soft Consumption Trends

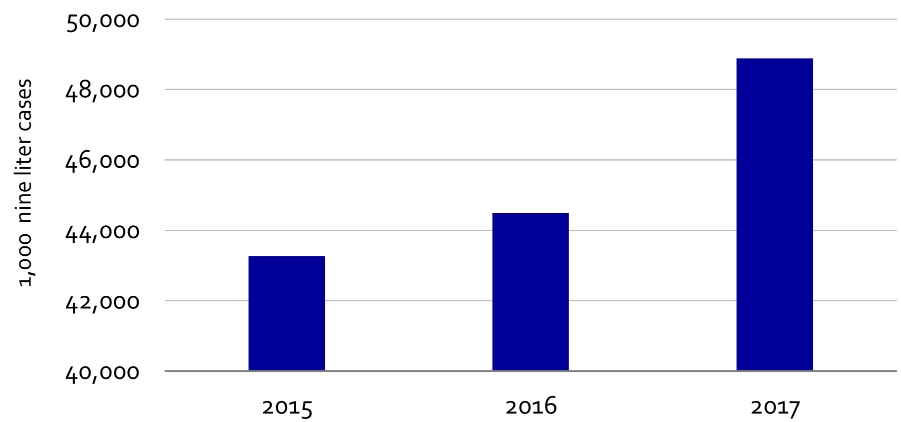
- Current estimates from Allied Grape Growers suggests that the California wine grape crop for 2017 will likely be approximately 4.0m tons. This would represent a 2% increase over the previous year.
- Production in the North Coast will likely be slightly higher than in 2016, but any increases in that region will be offset by what appears to be a light crop in the Central Valley, where the lion's share of production occurs.
- Given how tight inventories have been after the light harvests in 2015 and 2016 (and the upward pressure this has put on bulk wine prices), an increase in production is better than a decrease, but a 4.0m ton crop is unlikely to create a tangible improvement in the current supply situation.
- Limited availability of supply in the market is pushing wine companies to source from abroad. Still wine imports were up 11% in the first four months of 2017, with bottled wine imports rising only 2%, but bulk wine imports up 33%. In absolute numbers, the U.S. imported 4.4 million additional cases (or case equivalents) of wine compared to the same period in 2016.
- The first four months of 2017 suggest a concerning trend, as wine shipments have been negative. Shipments of California wines to the U.S. market were down 3% for YTD April, and total wine shipments to the U.S. market (including imports) were down 1%, according to the Gomberg-Fredrikson Report. This does not necessarily mean that consumption is down (it may be a reflection of wholesalers drawing down inventory) but it is a trend worth watching.
- US wine exports remain challenged, declining 12% in the period. Bottled wine exports fell 14% and bulk wine exports were down 10%. The decrease was led by significant declines in the two largest foreign markets for U.S. wines, the EU (-27%) and Canada (-8%).

California Bulk Wine Prices for Select Varietals, 2015-2017



Source: Ciatti, 2017

Total U.S. Wine Imports, YTD April 2015-YTD April 2017



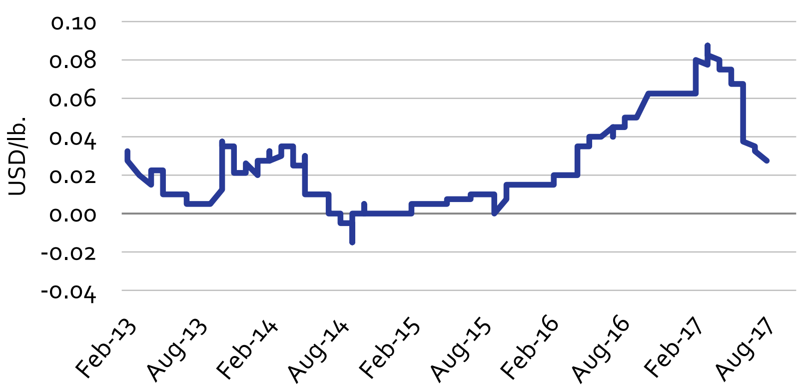
Source: Gomberg-Fredrikson, Rabobank 2017

Source: The Ciatti Company, The Gomberg-Fredrikson Report, 2017

Sweeteners

- U.S. sugar prices continue to have a firm tone despite increased 2017/18 stocks-to-use ratio and USDA action to boost U.S. raw sugar supplies by 414,000 tons by reassigning marketing allotments and increasing the TRQ. Higher beet sugar prices have been the major driver as processors are sold out this year and are well sold for next, giving them little incentive to discount pricing. Expect sugar prices to remain firm through the 2017/18 crop year due to strong sales and cane refiners wanting to maintain solid margins.
- As a result, the cane's premium to beet sugar has decreased significantly. Despite concerns over GMO sugar beets, sugar beet prices sub –USD 0.30 per lb. FOB Midwest attracted buyers. Year-to-date beet sugar offtake is up 17.5% versus year ago, while cane is down 5.6% for the same time period. Interestingly, combined beet and cane offtake is up 4.0% year-to-date even though the consumer wants less sugar in their diet. The risk is whether this pace can be maintained.
- The end of the Mexican zafra finished lower, as anticipated, with total sugar production at 5.96m tons of sugar, 2.6% lower than the previous year. Lower production added to accelerated exports have resulted in lower ending stocks than expected at 992,000 metric tons. As a result, domestic prices have seen prices moved higher which should incentivize cane sugar growers to increase planted area for the next zafra.

Higher Beet Sugar Prices has Collapsed Cane's Premium



Source: Sosland Publishing, Rabobank 2017

Orange Juice

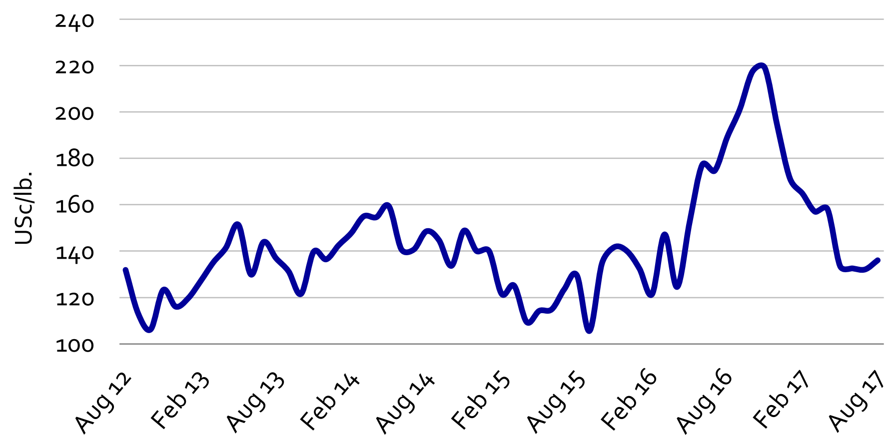
Florida Orange Juice

- The final forecast for the Florida orange crop for the 2016/17 season continues with negative trends for a small crop. USDA forecast is for 68.7m boxes, nearly flat from the previous forecast. This would mean the lowest production since the 1963/64 season. The crop is under pressure from citrus greening disease, which causes oranges to drop before ripening, as well as other traditional crop challenges. However, industry consultant Elizabeth Steger has forecasted a boost in production for the 2017/2018 crop to 75.5m boxes

Brazilian Orange Juice

- The weak crop in the U.S. should be offset by a strong crop from Brazil. Orange crop size in Brazil for the 2017/18 season is predicted by Fundecitrus at 364.5 million boxes. This is a significant increase over 2016/17 production of 245m boxes.
- Brazilian FCOJ production is projected at 1.26m tons in 2017/18, up 55% from the previous year, driven by more fruit available for crushing.

FCOJ Futures, 2012-present

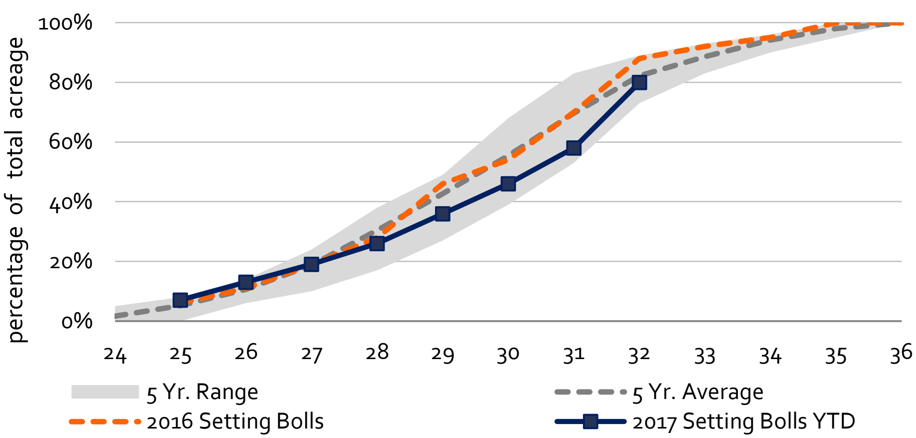


Source: Bloomberg-ICE 2017

Cotton

- The December 2017 ICE Cotton roller-coaster ride continues, as the market trades a 7 USc/lb. range since June. A function of U.S. crop conditions, prices have trended lower since the demise of Managed Money net long positions and, more recently, reduced weather risk. National conditions have so far been exceptional, rated 61% GD/EX vs. 48% last year, with 80% of crops reaching boll setting. West Texas has raised some abandonment issues, which are expected to be offset by exceptional yields across other states.
- Latest U.S. new crop production forecasts, from the USDA, came in much higher than expected—driving a 4.2% price slump on release. At 20.55m bales, vs. an 18.8 average trade estimate, this output forecast uses a 892 lb/acre yield—a record high—plus a 14% Texas abandonment rate (up from 10% in July). If realized, 2017/18 production takes U.S. stocks to 5.8m bales—a nine-year high—based on exports at 14.2m bales. Rabobank sees scope for stocks to build further, as this season's increasing competitive export environment highlights 14.2m as optimistic. This, plus a heavier global balance sheet, will keep prices on a downtrend to 66 USc/lb by Q2 2018.
- Between India, Pakistan, China and the US, 2017/18 brings 7.5m bales of additional production YOY—a factor which almost completely offsets Chinese destocking. While global stocks remain within 1m bales YOY, the allocation of more cotton stocks to non-China regions (therefore available for export) is a bearish price influence.

The 20.55m bale U.S. crop progresses at pace, with 80% of bolls set nationally

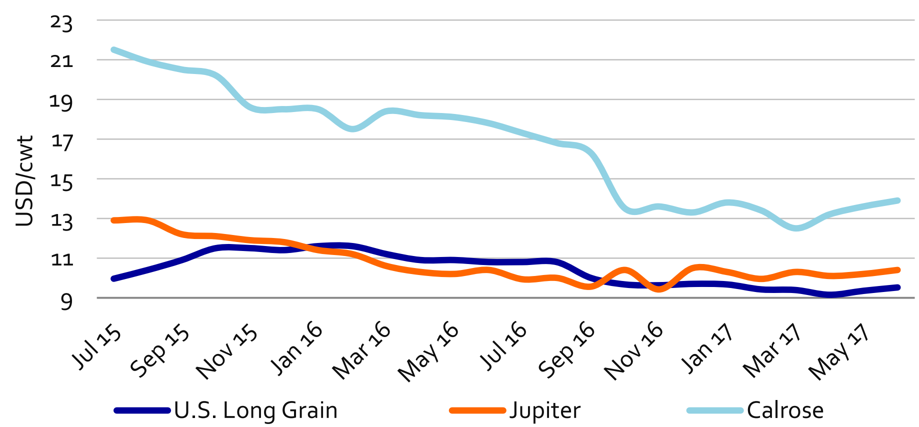


Source: USDA, Rabobank 2017

Rice

- The 2017/18 U.S. rice crop forecast was lowered in August to 186.5m cwt, the lowest since 2011/12 and 17% lower than 2016/17. Yields are expected to be up 4%, while harvested acreage is expected to be down by 20% YOY. Coupled with a marginal reduction in beginning stock estimates and just a 4% rise in imports, total U.S. supply is set to be the smallest since 2013/14. Domestic and residual use estimates are lower by 2.5m cwt, while export projections remain unchanged. 2017/18 ending stocks are expected to be 34.5% lower YOY.
- Long-grain production is expected to show the largest YOY decline, 20%, while combined medium- and short-grain production is projected to fall by 6%. Delta states account for 85% of the projected decline in production. YOY production in Mississippi, Arkansas, and Missouri is expected to decline by 40%, 23%, and 14% respectively. Low rice prices and severe flooding during planting season have impacted the region. California's 2017/18 rice production is expected to decline by 9% to 43.6m cwt, due primarily to an 8% decline in acreage. Substantial flooding impacted rice plantings.
- The projected 2017/18 long-grain season-average farm price is USD 11.50-12.50 per cwt, versus the current estimate of USD 9.60 for 2016/17. Southern medium- and short-grain price is expected to be USD 11.70-12.70, up from USD 10.10 in 2016/17, while the California rice price is projected to average USD 15.00-16.00, up from USD 13.50 in 2016/17.

24-Month U.S. Medium/Short and Long Grain Prices, July 2015-June 2017



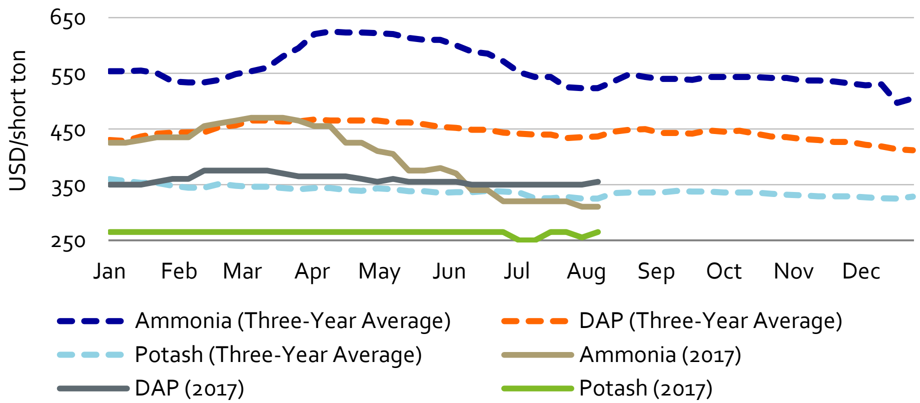
Source: USDA/NASS, USDA/ERS, Rabobank 2017
Note: Average rough rice basis

Input Costs

Rabobank

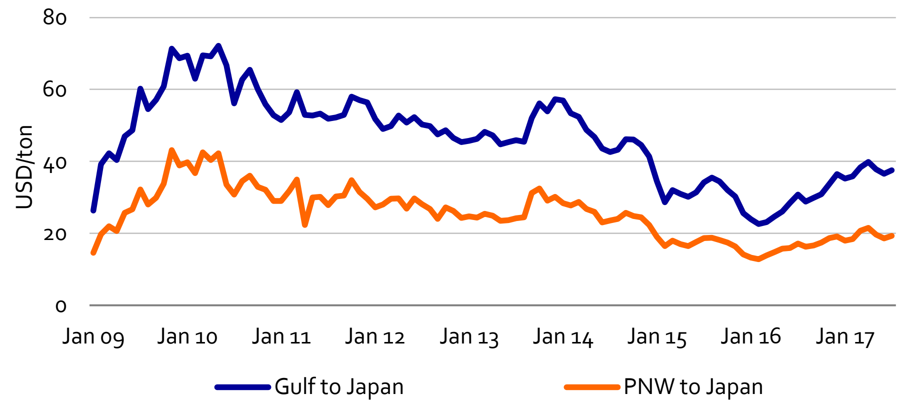
As of 16 August 2017

Corn Belt Input Prices*



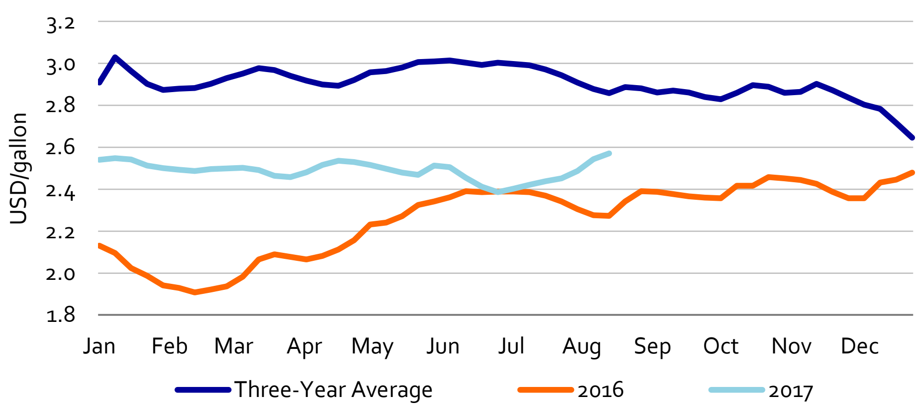
Source: Bloomberg 2017
** Note: granular potash*

Ocean Freight



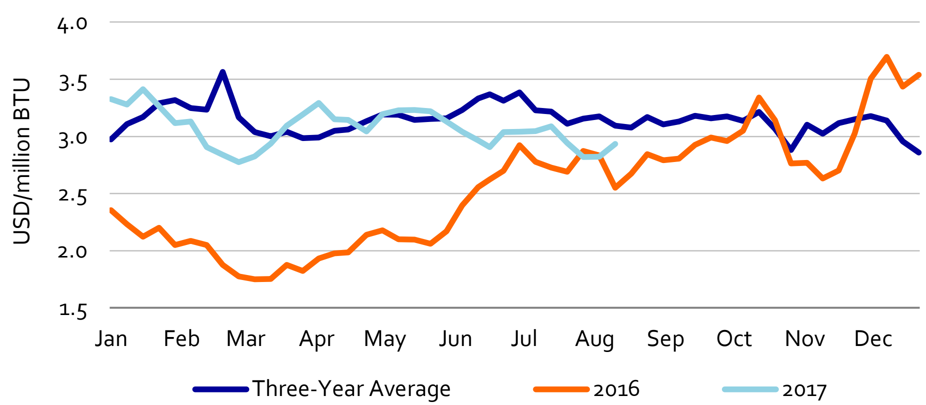
Source: O'Neil Commodity Consulting, AMS-USDA 2017

Diesel — Midwest



Source: EIA 2017

Natural Gas Spot

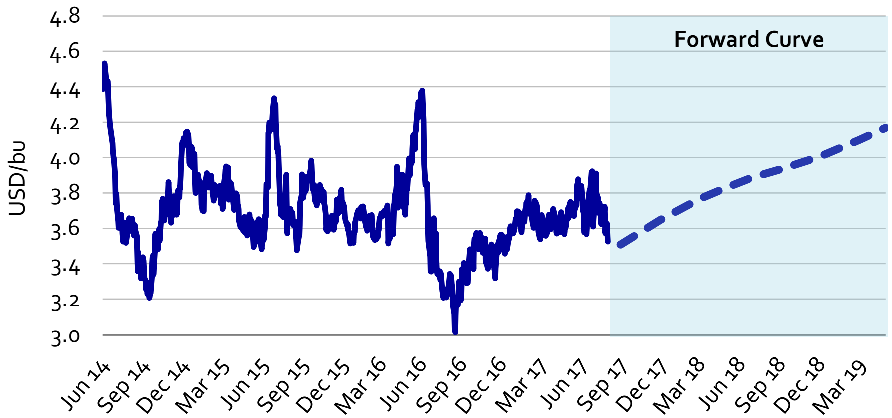


Source: NYMEX 2017

Forward Price Curves

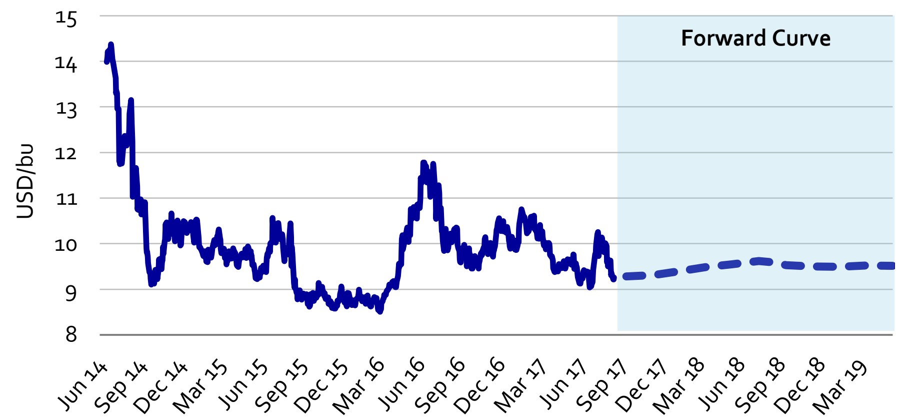
As of 16 August 2017

CBOT – Corn



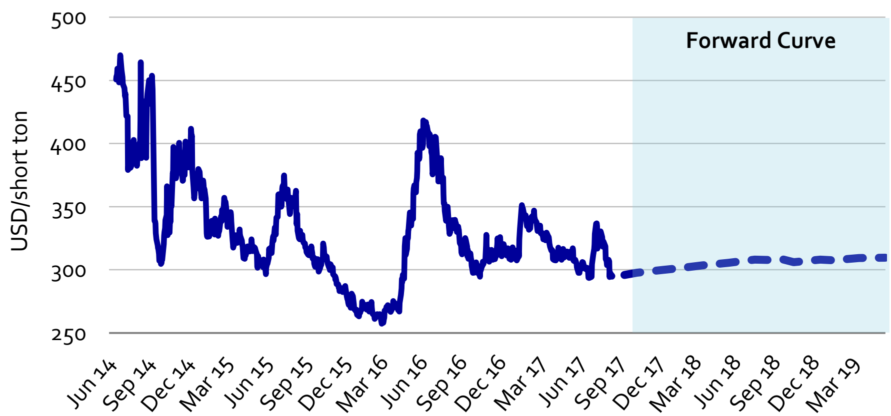
Source: CBOT, Rabobank 2017

CBOT – Soybeans



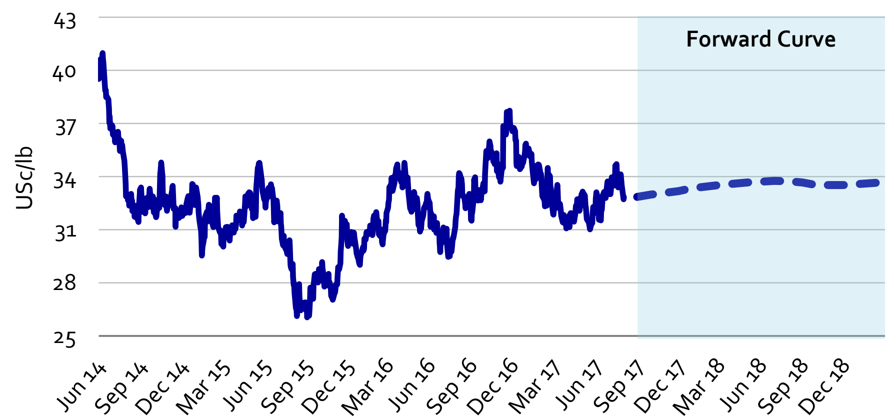
Source: CBOT, Rabobank 2017

CBOT – Soymeal



Source: CBOT, Rabobank 2017

CBOT – Soy Oil

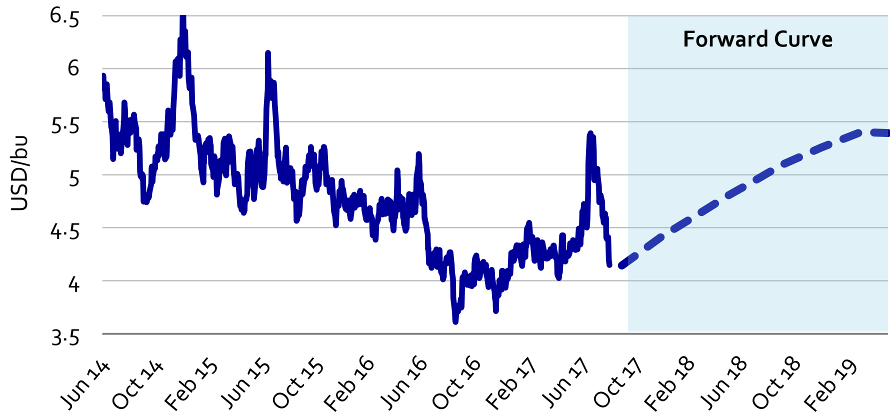


Source: CBOT, Rabobank 2017

Forward Price Curves

As of 16 August 2017

CBOT – Wheat

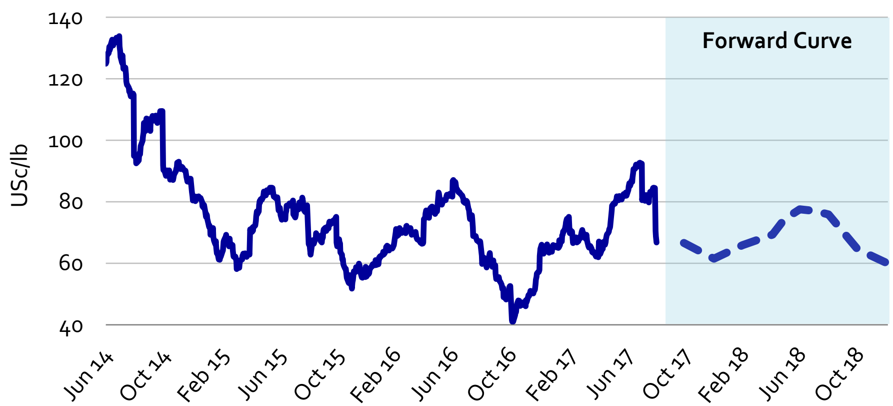


Source: CBOT, Rabobank 2017

CBOT – Feeder Cattle

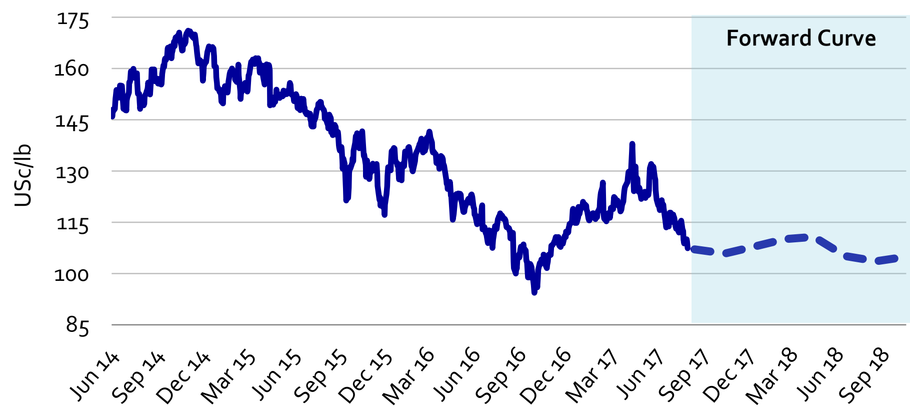
Source: CBOT, Rabobank 2017

CBOT – Lean Hogs



Source: CBOT, Rabobank 2017

CBOT – Live Cattle

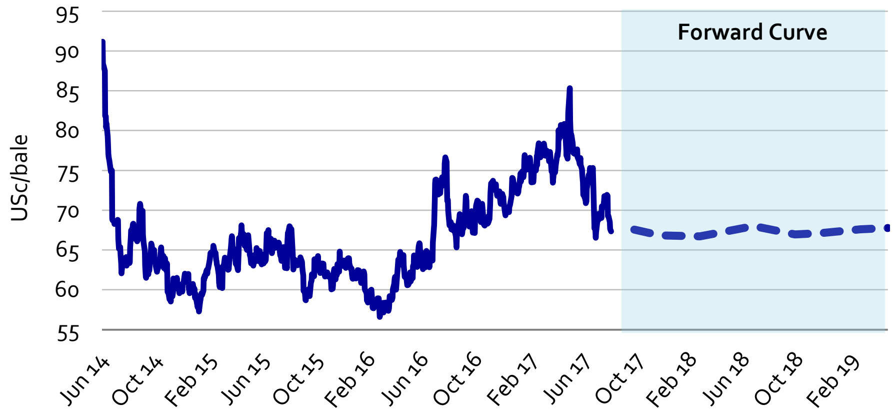


Source: CBOT, Rabobank 2017

Forward Price Curves

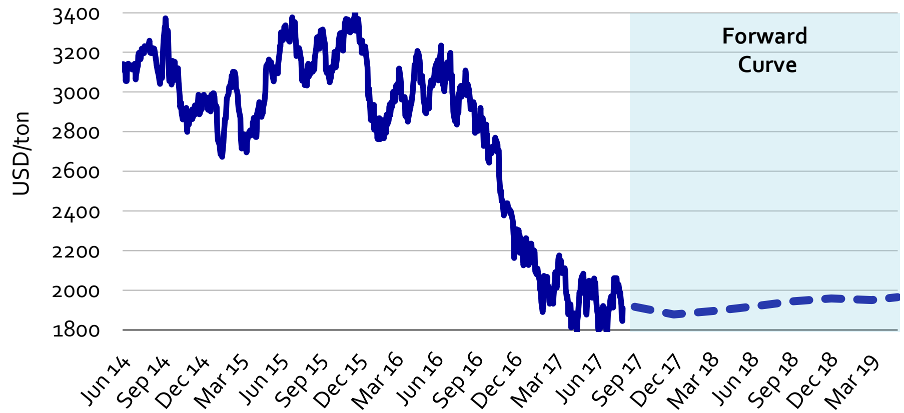
As of 16 August 2017

ICE – #2 Cotton



Source: ICE, Rabobank 2017

ICE – Cocoa



Source: ICE, Rabobank 2017

ICE – FCOJ

Source: ICE, Rabobank 2017

ICE – #11 Sugar

Source: ICE, Rabobank 2017

RaboResearch Food & Agribusiness

Rabobank

Sterling Liddell
Senior Analyst — G&O
E-mail Sterling.Liddell@raboag.com

Don Close
Senior Analyst — Beef
E-mail Don.Close@raboag.com

Roland Fumasi
Senior Analyst — Fresh Fruits and Vegetables
E-mail Roland.Fumasi@rabobank.com

Al Griffin
Senior Data Analyst
Coordinator of the Agribusiness Review
E-mail Al.Griffin@raboag.com

Pablo Sherwell
Head of RaboResearch Food & Agribusiness, North America
E-mail Pablo.Sherwell@rabobank.com

Nick Fereday
Senior Analyst — Consumer Foods
E-mail Nick.Fereday@rabobank.com

Philip Marey
Senior Market Economist— Financial Markets Research
E-mail Philip.Marey@rabobank.com

Charlie Clack
Commodities Analyst — ACMR
E-mail Charles.Clack@rabobank.com

Stephen Rannekleiv
Global Strategist – Beverages
E-mail Stephen.Rannekleiv@rabobank.com

Thomas Bailey
Senior Analyst — Dairy
E-mail Thomas.Bailey@rabobank.com

Andrick Payen
Associate Analyst
E-mail Andrick.Payen@rabobank.com

Steve Nicholson
Senior Analyst — G&O
E-mail Stephen.Nicholson@raboag.com

Kenneth S. Zuckerberg
Senior Analyst — Farm Inputs
E-mail Kenneth.Zuckerberg@rabobank.com

Paula Savanti
Senior Analyst — Consumer Foods
E-mail Paula.Savanti@rabobank.com

Aga Dobrowolska-Perry
Analyst - Dairy
E-mail Agnieszka.Perry@raboag.com

Sam Funk
Senior Analyst – G&O
E-mail Sam.Funk@raboag.com

Jim Watson
Senior Analyst — Beverages
E-mail James.Watson@rabobank.com