



RaboResearch Food & Agribusiness

North American Agribusiness Review

April 2017

Rabobank

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Economy: Downside Risk

U.S.

- The failure of the American Health Care Act underscores our view that financial markets—and the Fed—have been too optimistic about the feasibility of the fiscal policy plans of the new administration. Nevertheless, the Fed remains optimistic. In fact, they continue to emphasize the upward risk to the outlook from fiscal policy. The March dot plot implied three rate hikes of 25 bps each this year (including the March hike) and more recently—even after the sinking of the health care bill—several Fed speakers have repeated that they expect to hike three times this year, and even hinted at the possibility of four hikes depending on the economic data. Meanwhile, the possible repercussions of the new administration's trade policies do not seem to affect the Fed's economic outlook very much.
- In contrast, we expect fiscal policy to disappoint in terms of timing, size and impact on the economy. What's more, we see considerable downside risk to U.S. economic growth in case of protectionist measures by the U.S. and its trading partners. In addition, there are overseas risks to the U.S. economy, such as weak global growth—which would be amplified by protectionism—, the Chinese economy and developments in Europe. We therefore expect fewer hikes than the Fed currently anticipates. For 2017 as a whole, we expect two instead of three hikes. Therefore, we expect EUR/USD to rise to 1.10 in the next 12 months.

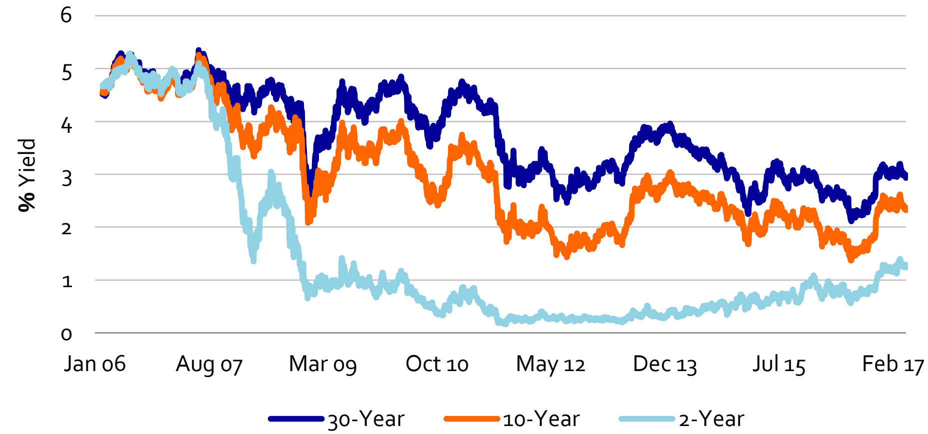
Mexico

- Banxico raised the Mexican policy rate 25 bps to 6.50% in March in line with our forecast. This marked the fifth consecutive rate increase from the Bank, which has now raised rates a total of 350 bps of tightening since the cycle low of 3.00% ended back in December 2015. The decision to raise rates 25 bps revealed a tempering of the pace of tightening given previous hikes were in the order of 50 bps. Going forward, we expect to see another two 25 bps hikes this year with the risk skewed to more over less.
- To our mind, the market has become too complacent about the risks of changing trade policies and its potential impact on MXN. We still expect to see a move back into the 20s for USD/MXN on the back of US trade talk.

Canada

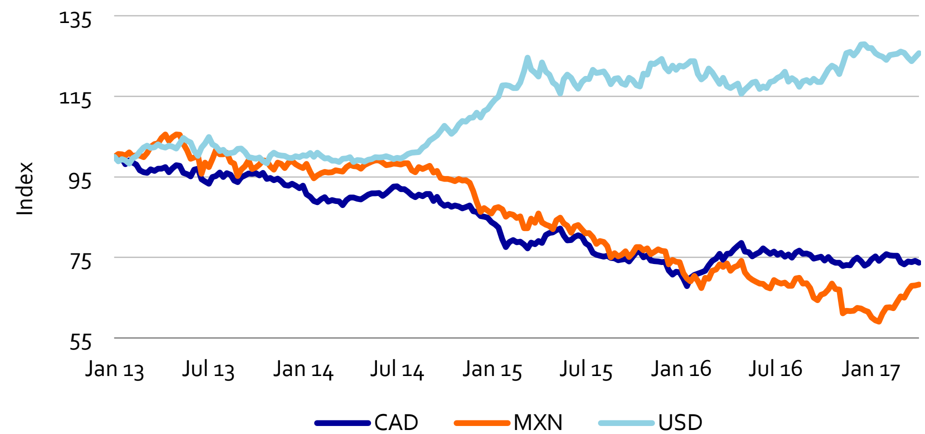
- Canadian data have generally surprised to the upside over the past month. We have been highlighting the notable improvement in the labor market and this trend has continued. At the same time, it is worth noting that, as we have seen south of the border and across much of the developed world, wage growth remains lacklustre .
- With the Bank of Canada likely to remain on hold for the next 12 months at least, and with domestic wage data failing to pick up, we have good reason to see the back end of the Canadian curve heading lower. We expect USD/CAD to rise to 1.36 at the 12-month horizon.

Interest Rates



Source: Federal Reserve of St. Louis 2017

Currencies

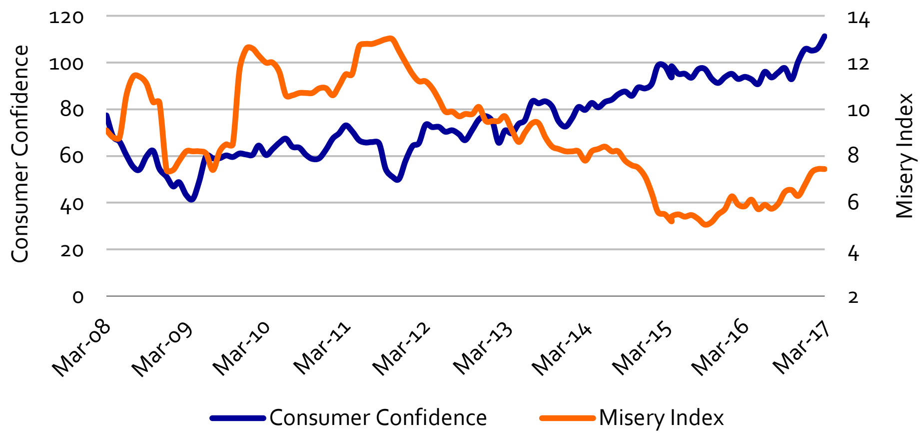


Source: Bloomberg 2017; Note: Rebased at 100 as of 1 January 2013

Consumer: Rising Confidence in 2017

- The Conference Board's consumer confidence index rose to 125.6 in March compared to 96.3 a year ago as consumers became increasingly optimistic about the future path of the economy in 2017. Similarly the University of Michigan's consumer sentiment index was also up to 98, the highest since May 2015.
- The unemployment rate fell slightly to 4.5% in March 2017, the lowest level in about a decade together with lower inflation caused the misery index to fall below 7%.
- Over the last 12 months to March 2017, the rate of inflation as measured by the Consumer Price Index (CPI) was 2.4%, largely on the back of higher energy prices. Over the same period, food prices rose by 0.5% as higher restaurant (food away from home) prices more than offset the fall in retail (food at home) prices.
- In the U.S., about half of every dollar spent on food goes towards food prepared away from home, mainly at restaurants and other food service establishments. For the 12 months prior to January 2017, consumer expenditure on food away from slowed down to 4.7% and food at home rose by 3.4%.

Consumer Confidence Index



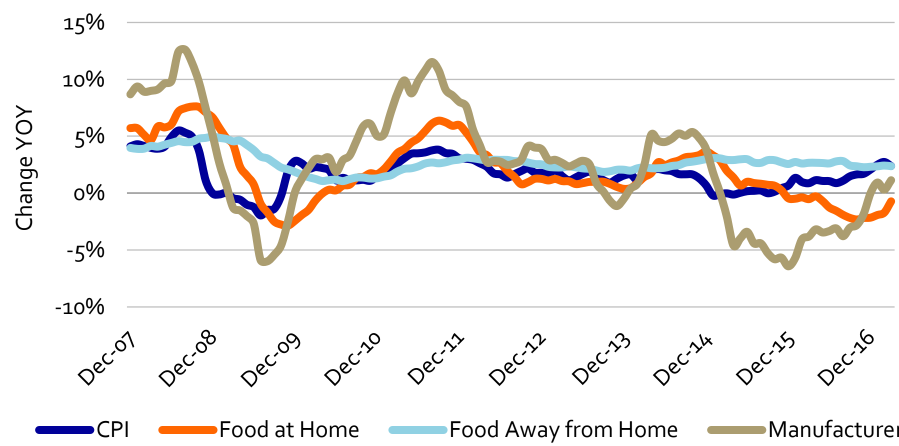
Source: U.S. Bureau of Labor Statistics, Rabobank 2016

Food Sales

Food Sales (USD bn)	Annual			YTD Cumulative		
	2013	2014	2015	Nov 16	Dec 16	Jan 17
Food at home	742	765	771	718	793	64.7
YOY change	3.7%	3.0%	0.8%	*2.9%*	*2.9%*	*3.4%*
Food away from home	668	697	741	730.6	800.3	63.5
YOY change	4.6%	4.5%	6.2%	*8.4%*	*8.0%*	*4.7%*
Total	**1,410**	**1,462**	**1,512**	**1,449**	**1593**	**128**

Source: USDA ERS, Rabobank 2016

Food Price Inflation



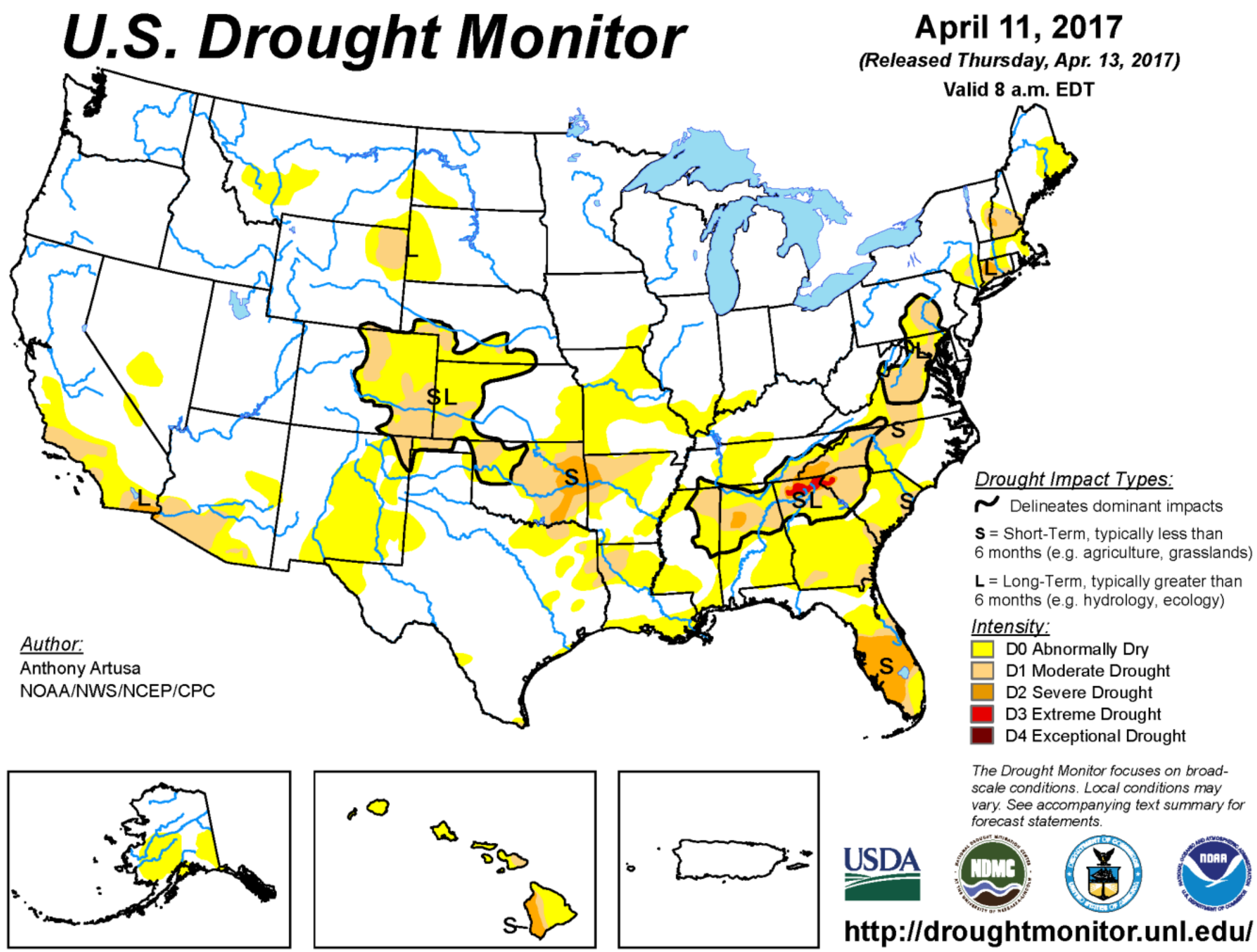
Source: U.S. Bureau of Labor Statistics, Rabobank 2016

Climate: Spring Showers

- Drier-than-normal March weather dominated the nation's southern tier, except in parts of southern Texas. The dry weather promoted a rapid fieldwork pace, allowing planting of corn and other summer crops to quickly proceed.
- Beneficial precipitation fell across the central and southern plains, reviving rangeland, pastures and winter wheat that had been experiencing drought stress.
- Increasingly showery weather in the central and eastern Corn Belt boosted soil moisture but ultimately slowed pre-planting fieldwork.
- The southeastern cold snap, which caused extensive fruit losses in Georgia, South Carolina and portions of neighboring states, peaked in mid-March, immediately in the wake of a northeastern blizzard.
- Looking forward, forecast for April speaks of above-normal temperatures over the Southwest, including southern California, as well as the Southeast and much of the eastern part of the United States.
- The precipitation forecast indicates an increased chance of above-median precipitation for coastal regions of northern California, Oregon and Washington State. Areas around eastern Texas, lower Mississippi Valley and central Gulf Coast also show likelihood of above-median precipitation.

U.S. Drought Monitor

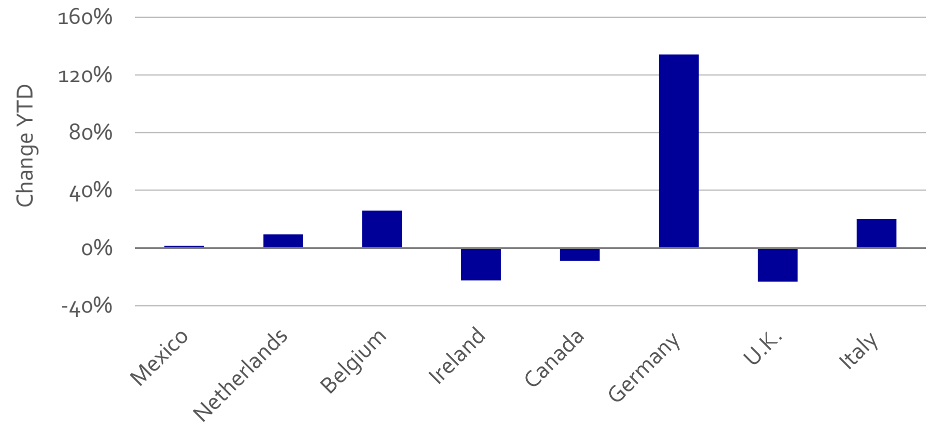
April 11, 2017



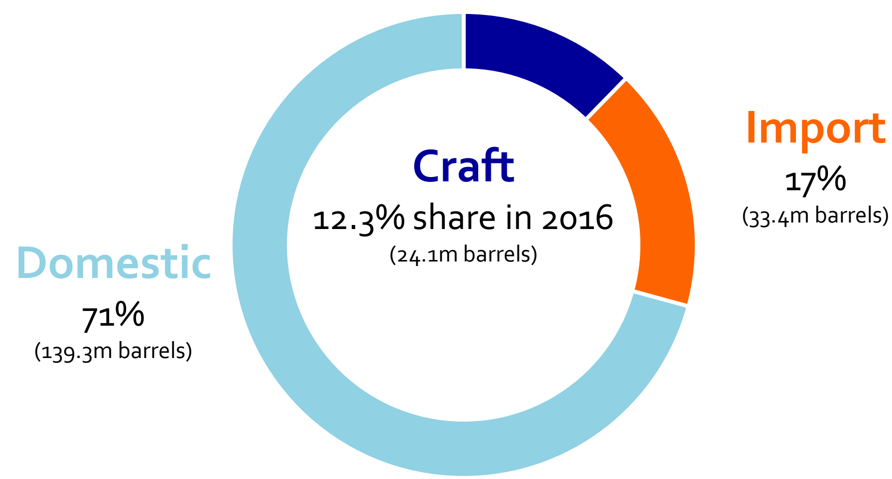
Beer: Barley Update, Import Growth, Craft Slowdown

- Domestic shipment taxes paid in the first two months of the year show volumes down 3.7% YTD, or 957,000 barrels. February 2017 alone saw a YOY decrease of 9.4%, or 1,217,000 barrels.
- Craft volumes grew 6.2% in 2016, making 2016 the first in recent years where craft's volume sales growth is in the single digits. On the other hand, brewery-premise, or "own-premise" volumes surged 60%, which indicates shifting growth opportunities in the on-premise channel. Craft "own-premise" sales have increased to 2.3m barrels in 2017, which represents about 1% of overall U.S. beer sales by volume.
- Topping the growth in craft by volume in 2016 were imports, up 6.8%. Imports from Mexico in January 2017 were up 8.3% YTD, which, although early in the year, represents a slight deceleration from 2016's 14.3% YOY growth figure. Imports from the Netherlands were up 26% YTD, nearing its 2015 highs. Imports from the U.K. continued their steady declines, falling 29.5% on the year. U.K. imports have fallen over 50% since 2015. Imports from Germany, on the other hand, are up 181% on the year.
- In February 2017, Anheuser-Busch and MillerCoors, the two largest brewers in the U.S., announced that they will reduce barley contracts by up to 60%. A realized 60% drop would lead to a loss of over USD 65 million in revenue for the state.

Imports by Country of Origin, February 2017



U.S. Market Share by 2016 Volume of Sales



Source: Beer Institute, Brewers Association, Montana Wheat and Barley Commission 2017

Cattle: Tighter-than-Expected Supplies and Surging Exports

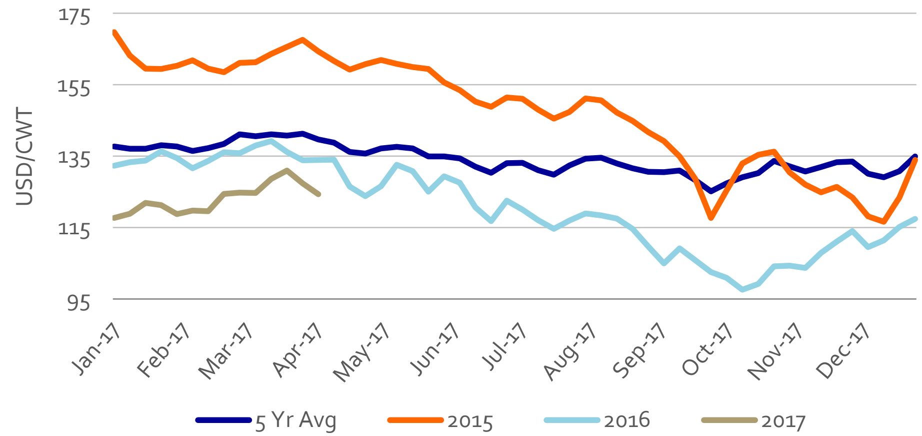
U.S.

- Easter in 2017 is late, not coming until April 16. Mother's Day follows on May 14. Memorial Weekend is May 29, and Father's Day is June 18. All of these holiday occasions are associated with the heaviest beef movement of the year. Because of the time needed to charge and recharge distribution centers with product for the spring grilling season, it will require rapid turn-over by beef managers to keep the pipeline filled. Because of so much product traded on either a formula or forward pricing, the majority of that inventory has already been booked. As a result, this year's seasonal strength in cut-out values could already be in place.
- Cash cattle prices have been much stronger than expected, driven by tight available supplies of cattle that have escalated competition between packers. Domestic beef demand has been good with a solid economy and unseasonably warm late winter and spring enabling early season grilling. The real unexpected driver in the market has been robust beef exports.
- While the cash market has been stronger than expected, cattle futures have been trading at a substantial discount to cash, because of concerns of larger cattle supplies in the pipeline as well as escalating supplies of competitive proteins. As a result basis, the spread between cash price and futures has been exceptionally to record strong. The positive basis continues to encourage cattle feeders to sell cattle as aggressively as possible in an effort to capture the basis. The wide basis and expectation of correction is also causing a high degree of uncertainty in the market.
- The Q1 average Five Market Fed Steer price of USD 122.96 is providing a better-than-expected price platform for the year, causing a revised forecast of Q2 at USD 117, Q3 at USD 105 and Q4 at USD 110.

Mexico

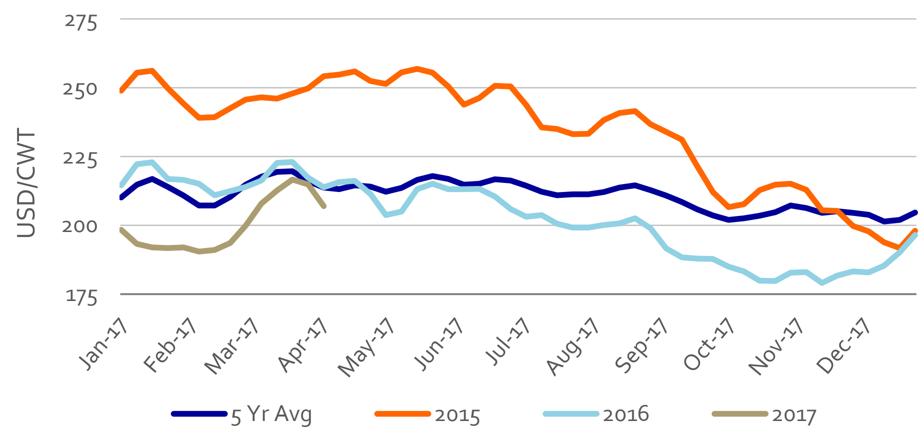
- Mexican cattle exports continue to outpace previous years on a month-by-month basis. This year we have seen the biggest volume of cattle exported to the U.S. since 2014, reaching 348,000 heads YTD, a 36% increase compared to the same time last year. Beef exports to the U.S. continue to increase due to exchange rate effects, making exports a more attractive market. Beef exports to the U.S. are 37% higher YTD compared to same time last year.

Fed Steer Prices (Five Market Average)



Sources USDA, Rabobank, 2017

USDA Comprehensive Cutout

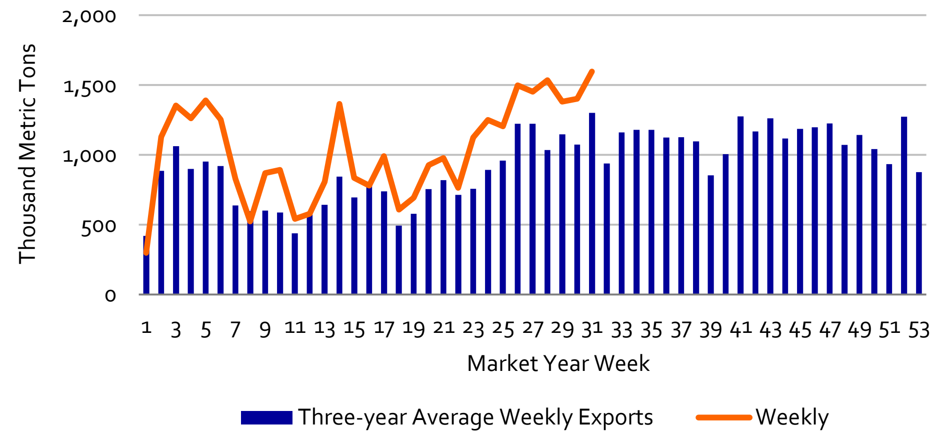


Sources CME, Rabobank, 2017

Corn: Expect More Futures and Basis Volatility

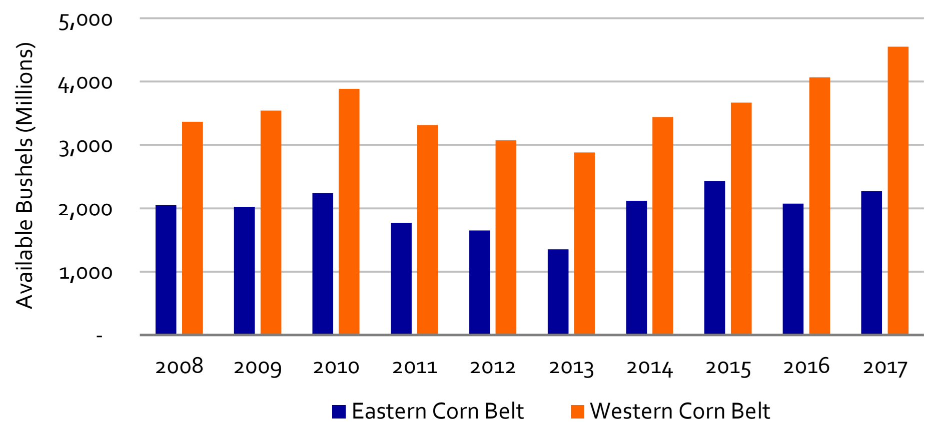
- So far in 2017, the U.S. corn market has maintained a balance between existing stocks, exports and the future amount of corn acres to be planted in the U.S. 2017 crop year. While each of these factors has created volatility in prices, the effects have been short term, netting very little in either a positive or negative direction. Until more about the U.S. and second Brazilian crop is known, volatility is likely to remain the key component of the futures price. Basis will likely see volatility as well.
- Exports have continued on a strong pace averaging over 1.3m tonnes per week in February and April. This despite increased estimates for Brazilian production that will likely eat into U.S. exports over the next three months. The current pace of exports alone puts the USDA export projection of 2.25bn bushels at risk of being slightly to low.
- The prospective planting survey released at the end of March showed a much more elastic response to prices than we projected, with corn planting plans dropping 4m acres to a total of 90m. If this amount of acreage is planted, corn production expectations will be very near equilibrium, where trend line production would neither build nor deplete ending stocks. Consequently, weather concerns are likely to introduce more volatility into pricing throughout the growing season.
- The biggest effect of the prospective planting reports has been that it reorganized the market spreads between crops. Soybeans enjoyed a pre-report futures price advantage of 2.55 to 2.60 times the price of corn. The soybean-to-corn ratio has now dropped to 2.43 which is near break-even levels between the two crops. This signals greater market concern over corn production relative to soybean production in 2017. As planting season heats up, there is still potential for corn acres to increase at the expense of soybeans.
- While available stocks generally grew across the U.S. corn belt from March 2016, the growth in the western corn belt was more dramatic. In the key eastern corn belt states of IL, IN, and OH, March stocks were estimated at 9-10% higher YOY (amounting to a 200m-bushel increase). The western part of the corn belt, including IA, MN, and SD, saw a near 12 percent increase in March stocks YOY (nearly a 500m-bushel increase). North Dakota is the notable standout, with an increase of 53% YOY (106m bushels). With the bulk of the stocks in the West and Plains region, basis pressure is likely to continue working to reduce acres planted on lower yielding soils.

2016/17 Exports Show Strength, Awaiting Second Brazilian Crop



Source: USDA, Rabobank 2017

More Stocks in the Western Corn Belt, Additional Basis Pressure

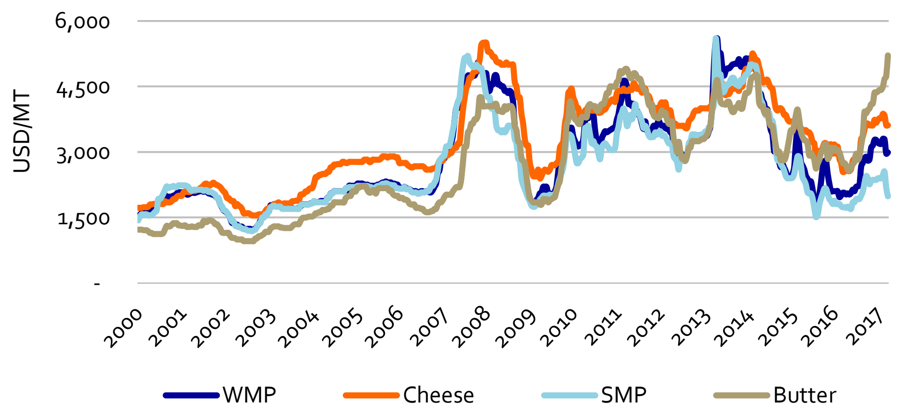


Source: USDA, Rabobank 2017

Dairy: Strong in Tough Times

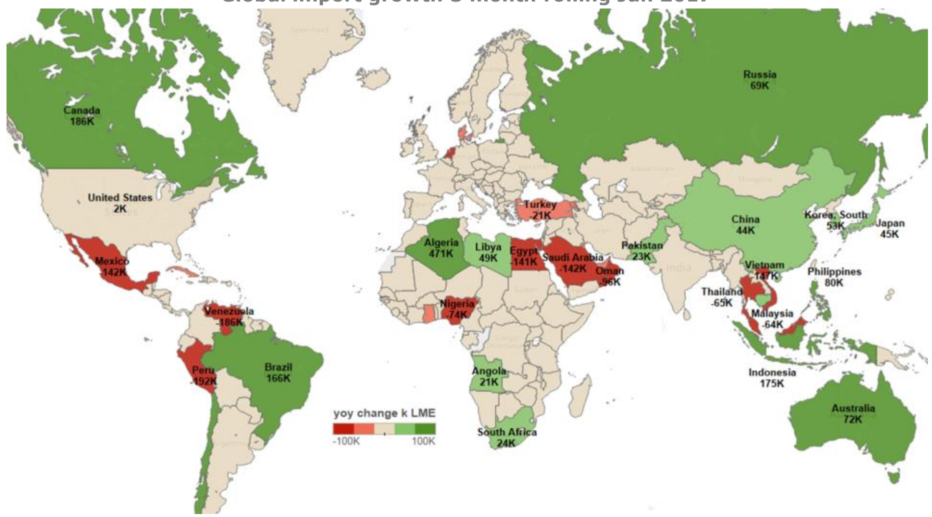
- The new administration's negative attitudes towards free trade and existing trade agreements have caused key trading partners, e.g. Mexico, to seek import diversification to lessen their dependency on U.S. products. In the short run, U.S. dairy producers will face more difficulty in the market, as the product that historically was exported may be slower to move overseas, driving down local prices. In the long run this may be positive, as broader trading relationships will be important for U.S. dairy in the future.
- Despite the strong dollar and the trade uncertainties, the U.S. managed to increase dairy exports in the last quarter of 2016 by 18% YOY. This was mainly due to U.S. prices finally converging with the rest of the world. However, because of lower dairy prices, modest production growth, continually strong domestic demand and uncertainty in the export markets, we see very little or no incremental exports through 2017. Fewer exports mean more product going to the domestic market and into already substantial stocks. This will ultimately negatively affect the local price and create more short-term market uncertainty.
- As of 7 April 2017, Oceania prices for all major dairy commodities are down 17% compared to March. The only exception was butter, which is up 5% compared to March 2017, and over 78% YOY compared to April 2016. We see a similar trend in Europe where butter and lactose are the only two commodities trending up—butter at USD4,700/MT and lactose at USD 1,000/MT, up 75% and 41% YOY respectively. These prices point to the strengthening of the global demand growth trend for dairy fats and proteins. In the long term, this can strengthen the U.S. position as a main global dairy ingredients supplier, as we already supply almost 60% of the global ingredients market.
- At the end of March, Poland, one of the few growing milk producers in the EU, offered 472 MT SMP for intervention, adding to the 35,000 MT of SMP currently available in storage. The issue of releasing those stocks continues to hang heavy on the market, as almost 22,000 MT of SMP currently in storage have been sitting there since before November 2015. Current trends suggest the EU might move the stocks into humanitarian aid and animal feed. Presence of these stocks has already impacted and will continue to impact global dairy prices, regardless of assurances by EU Ag Commissioner Phil Hogan that the release to the market will be controlled and will not disrupt the overall global improvement trend in the dairy markets.
- Going forward, we expect U.S. dairy commodity prices to respond to increasing pressures from the continuing supply expansion. Lower prices will push down margins for most U.S. dairy producers. Another tough year of shrinking margins will put increasing pressure on some U.S. dairy operations to minimize overhead and seek more production efficiency. To successfully compete for the consumer dollar here in the U.S., dairy producers will have to be creative and responsive to target the needs and wants of ever-changing consumer demands.

Butter Remains on the Rise as Other Oceania Prices Go Down by 17%



Source: USDA, Rabobank 2016

World dairy exports—a mixed bag



Feed: Prices Eroding from Abundant Grain Alternatives

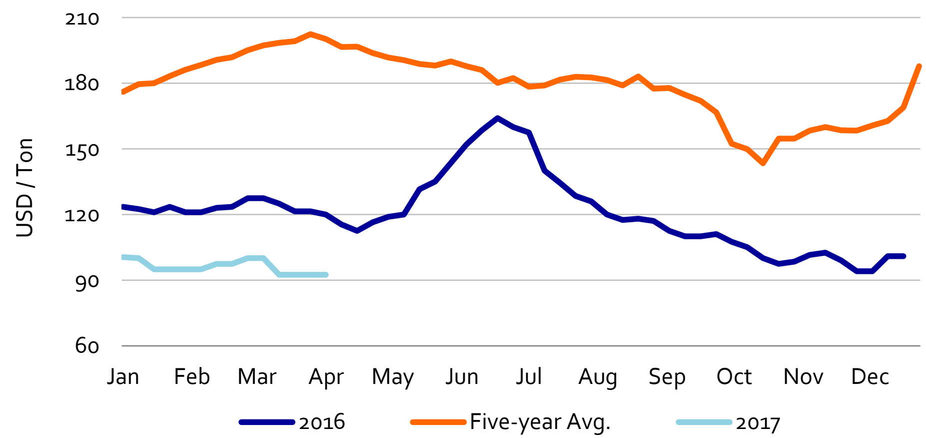
DDGs

- DDG plant prices remained steady throughout March, remaining 20% down compared to a year ago, mainly as a result of increased ethanol production.
- The cost per unit of protein for DDGs is about USD 3 lower than for soybean meal.
- Even expectations for output declining slightly in the next few weeks as plants take their scheduled downtimes won't offer much support to prices given temperatures are warming up and pastures are greening. Seasonal slowdowns and the fact that there are plenty of other feed ingredients around will likely keep some pressure on prices for now.

Hay

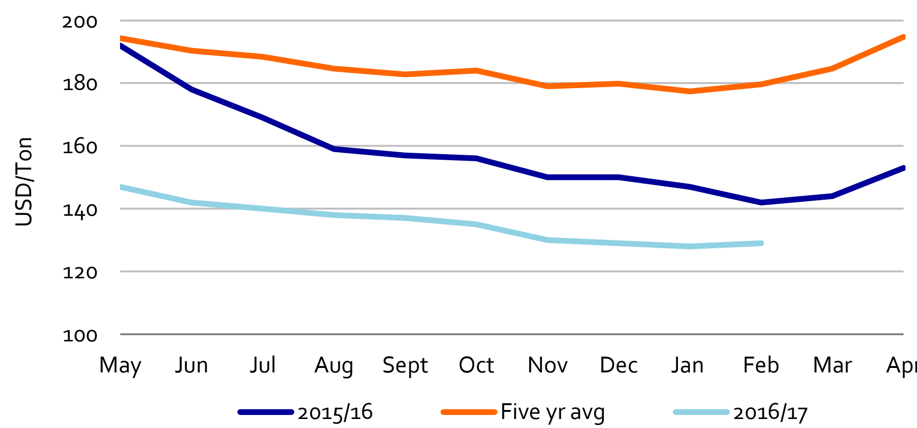
- The 2017 alfalfa season has started in many of the western States.
- The USDA's March hay acreage estimate suggests that total acreage will be down ~3% over last. If realized, this will be the lowest harvested acreage since 1908. In total, acreage has fallen 8% in the last five years. Lower hay prices in relation to a global drop in milk prices have contributed to this decline.
- Many hay exporters in Arizona, California, Nevada, and Utah are receiving inquires to set 2017 contracts early while prices are still low. FAS has reported that total exports through February are up nearly 26%—nearly 100,000 tons. The largest increases in shipments through February by volume were to China (+66,000 tons), Japan (+19,000 tons), and Saudi Arabia (+15,000 tons).
- There is still an approximate USD 100 per ton price difference between premium/supreme quality alfalfa and fair quality. This is unlikely to change given the increase in demand from the global market along with slowly rising milk prices. If anything hay prices should slowly increase as milk prices increase.
- Producers in Central California are taking advantage of the few dry spells between rains to cut and bail their first cuttings. Many fields in the North Central part of the State are suffering as the winter rains left many of them under water, permanently damaging some. This along with slowly rising milk prices could put upward pressure on hay prices.

Iowa DDG Price



Source: USDA-AMS, LMIC 2017; Note: 10% moisture, 28% to 30% protein

Alfalfa Hay Prices

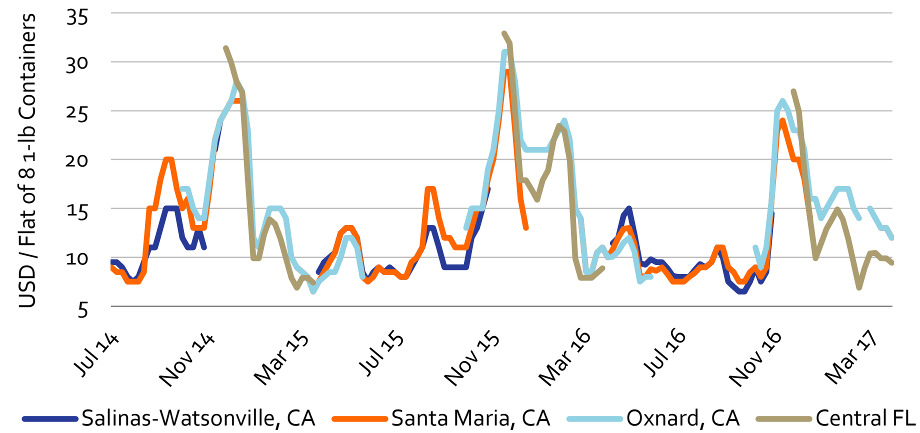


Source: LMIC 2017

Fruits: Light Avocado Supplies Keep Prices Strong

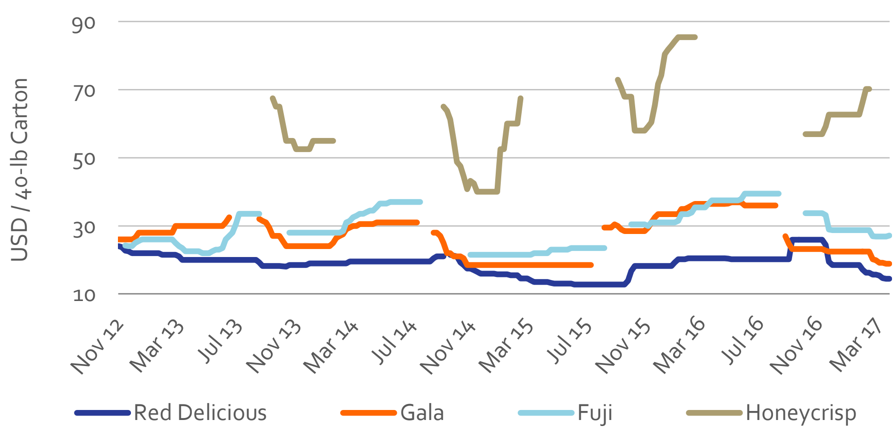
- California strawberry volumes have begun to ramp up, but forecasted rain for the central California coast later in April could keep supplies and prices volatile. A March freeze will impact Georgia blueberry supplies, but seasonally increasing California and Florida production may begin to pressure the current high prices.
- Domestic and export demand remains robust for fresh citrus. In early April, California navel prices were up 40% for large fruit and 17% for small fruit, YOY. Prices for small to mid-sized lemons were at multi-year highs for early April.
- Avocado prices remain at a multi-year high, as both Californian and Mexican shipments remain relatively low. California 48s were selling at twice last year's price in early April. Light shipments and high prices are expected to continue.
- Apple prices in general continue to be under pressure, due to strong supplies. Notable exceptions include small Granny Smith, for which prices have strengthened since late February, due to tight availability, as well as Honeycrisp, for which prices should continue to rise as available volumes dwindle.

Strawberry Shipping Point Prices—Primary U.S. Districts



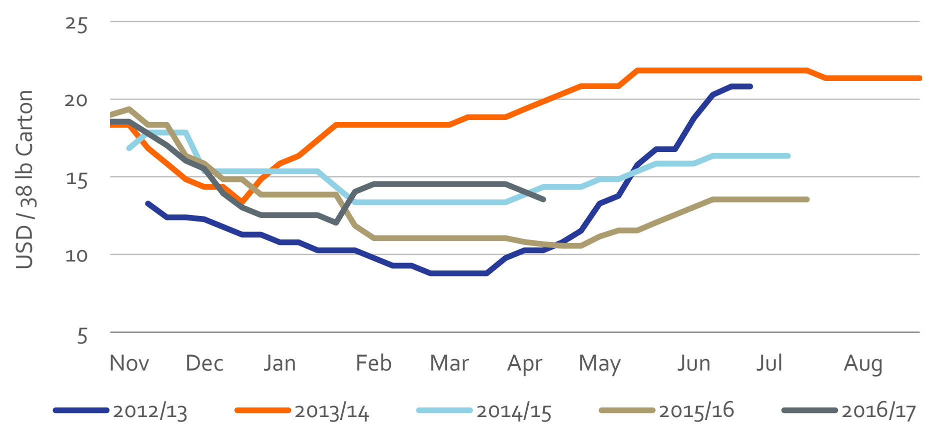
Source: USDA/AMS, Rabobank 2017

Washington Apple Shipping Point Prices—88s—WA Extra Fancy



Composite of Fine Appearance & Standard Appearance Prices
Source: USDA/AMS, Rabobank 2017

Navel Orange Shipping Point Prices—88s—Shippers 1st Grade



Source: USDA/AMS, Rabobank 2017

Pork: Prices and Profits in Flux

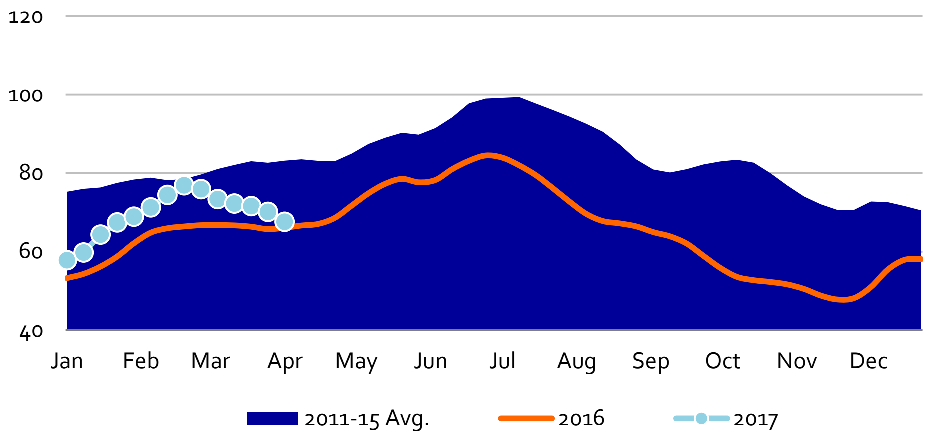
U.S.

- The U.S. pork sector got off to a great start in 2017, driven by very strong exports and moderate growth in hog numbers. Hog futures started the year at USD ~55/cwt and climbed steadily through January, peaking in late-February with USD 77/cwt. During this period, hog slaughter was running just 2.5% above 2016 levels, but hog numbers started to climb in March and averaged 6% above March 2016, which has eroded a good deal of the lift in prices in January and February. Q1 ended with prices in the mid USD 60s, which is still profitable for producers but disappointing from the trajectory the market had been on.
- U.S. pork supply remains a moving target, with new plant capacity coming online and hog numbers never quite in line with indications from the USDA hog report. This has added a good deal of volatility to hog prices, which we expect to continue as two sizable pork plants are coming online at the end of the third quarter. The Q1 USDA report indicated continued increases in hog supplies ,which so far this year are being offset by flat to slightly lower hog weights, which has been the trend for a few years since hog weights spiked during PEDv. We expect the U.S. pork supply to increase by 3% to 4% in 2017, which will require exports to keep the upward trend started in Q1 for producers to enjoy another profitable year.

Mexico

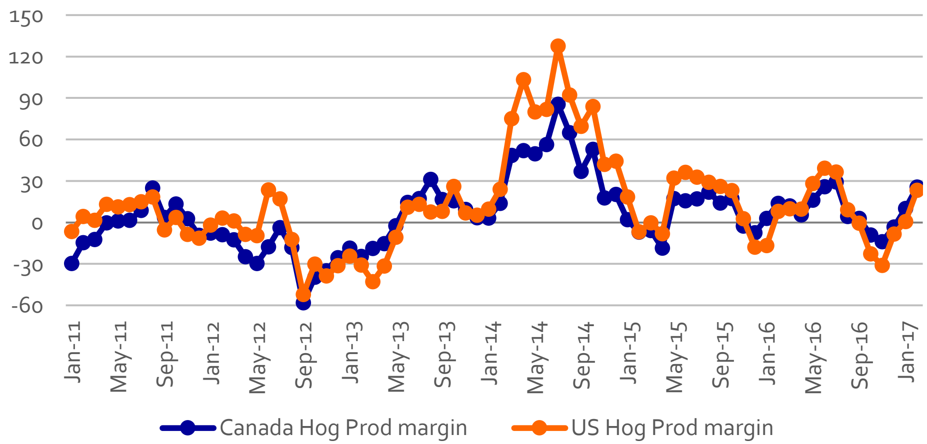
- Mexican hog production continues to face challenges with PEDv. However, producers continue to invest and change their operations, and while PEDv continues to be a challenge in this industry, the effect seems to be smaller than in previous years. The summer of this year will be challenged by the recent outbreaks in December and February, but hog production is expected to recover over the second half as producers continue to expand the sow herd.
- While pork consumption is expected to resume after spring, given the continued growth in per capita consumption, Mexico will import 1.1m tons (CWE) to cover domestic demand, which is an increase of 4.7% compared to last year. The exchange rate has not been a factor in slowing down imports from the U.S.—January to February imports are 30% higher than for the same time last year.

US Lean Hog Futures (USD/cwt)



Source: StatCan, USDA, Bloomberg 2017

US and Canadian Hog Producer Margins (USD/head)



Source: Confepor, Bloomberg 2017

Poultry: Modest Supply Growth and Robust Exports

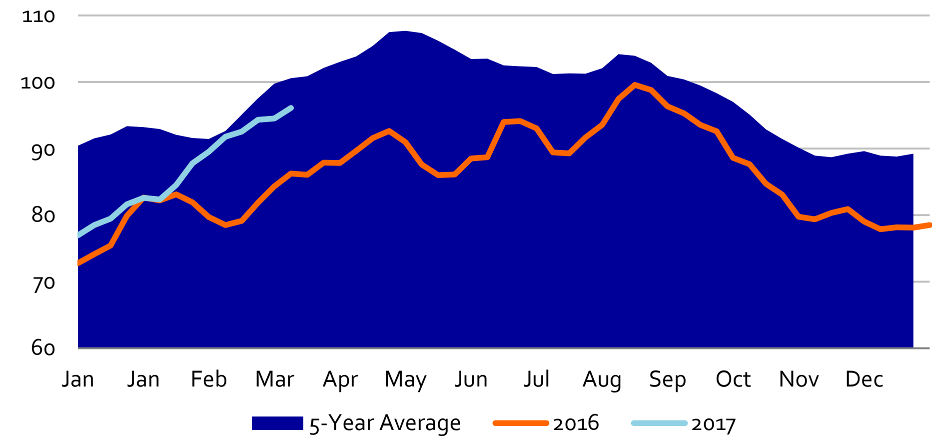
U.S.

- Despite an outbreak of highly pathogenic avian influenza in Tennessee in early March, the U.S. poultry sector has gotten off to a very strong start to 2017. Prices are up more than 20% on a composite basis driven by higher values for white meat as well as leg quarters. While chicken prices seasonally climb during the first quarter of the year, the rate of increase we have seen this year is more than double the increase we normally see seasonally.
- Poultry production is up 1.5% to 2% in the first quarter, but with exports up at least 6%, supply remains well balanced. U.S. exports to Mexico, the largest customer for US poultry, have struggled so far this year, but this has been offset by increased shipments to South Africa, West Africa and Cuba. A number of the African markets benefit from increased oil prices, which are up by one-third versus this time last year, helping to improve spending power in the region.
- We expect supply growth to remain muted in 2017, as chicken weights remain flat if not below 2016 and growth continuing to be driven by an increase in bird numbers.

Mexico

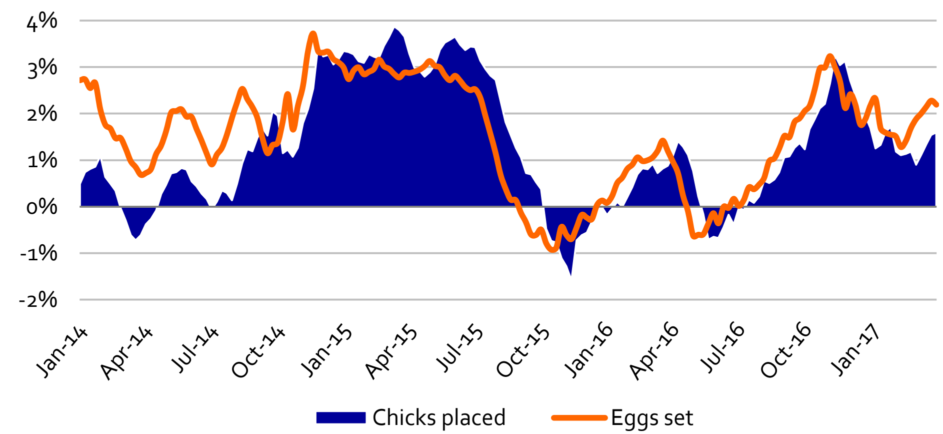
- Avian influenza in the U.S. is contained, with the highly pathogenic disease variety only found in Tennessee, and no ban from Mexico. Despite the lack of Mexican ban, chicken imports from the U.S. are 10% lower than previous year. Moreover, in March, Mexico joined other countries in the decision to ban livestock imports from Brazil, until there is more information regarding the case.
- Despite the first four months of the year being the lowest consumption months in Mexico for all animal protein, we see prices of chicken beginning to rise in Mexico. With the high inflation and lower expected growth in the economy, consumers could be adjusting their consumption by substituting other proteins with more chicken.

Chicken Prices, Composite Basis Based on Part Values, USc per pound



Source: USDA, Rabobank 2016

US Chicks Placed and Eggs Set, YoY Change

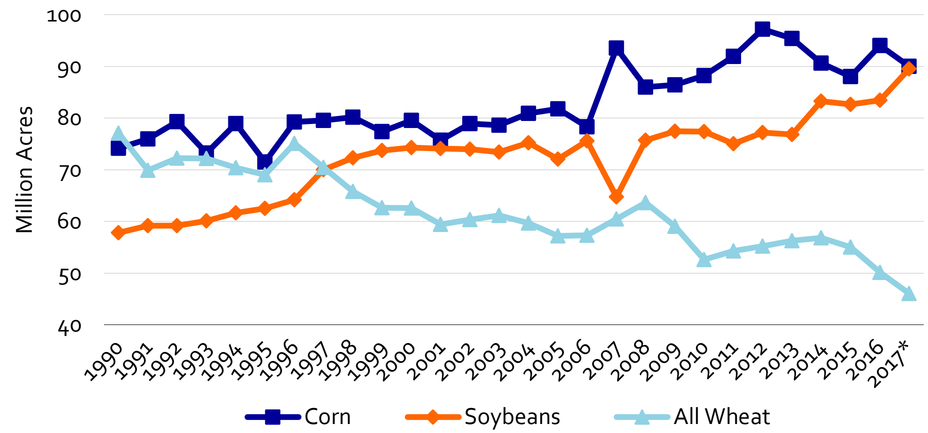


Source: USDA 2016

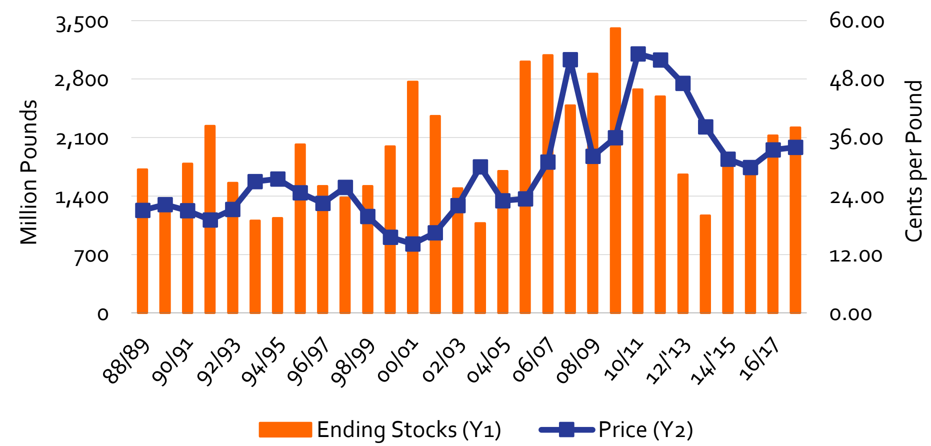
Soy Complex: More Acres and Lower Prices

- The soybean market has been in freefall, losing over USD 1.00 per bushel since November futures topped out at USD 10.43 on November 28. Futures held up longer than expected, but have now succumbed to the bearish supply-side fundamentals. The combination of record production in Brazil (with projections as high as 114m metric tons) and record 2017 projected U.S. soybean plantings is going to keep downward pressure on futures prices and has already depressed basis values for the foreseeable future.
- As expected, USDA did project record U.S. soybean plantings in 2017 at 89.5m acres, which is an increase of 6.05m acres from 2016. From our perspective, the magnitude of the increase was unexpected. The biggest increases came in wheat states: Kansas, +950,000 acres, North Dakota, +850,000 and Nebraska, +500,000. Somewhat surprisingly, both Iowa and Minnesota had large increases in soybean acres, with +600,000 and +700,00, respectively. The delta also saw double-digit percentage increases, ranging from 170,000 acres in Louisiana to 370,000 acres in Arkansas.
- Weather will be a determining factor if all these acres get planted. Over the last ten years, U.S. planted soybean acres have increased 3.3m acres and decreased 2.4m acres from March 1 Prospective Plantings to the final acreage. On average the changes have been small, so the weather should be watched.
- The increase in planted acres is more than likely going to add to ending stocks and pressure price lower. Using Prospective Plantings projection and USDA's February 2017/18 balance sheet, it shows ending stocks ballooning to over 500m bushels and stocks-to-use increasing to over 12.0%. Our projections using a trend yield show the ending stocks forecast falling to just below 400m bushels with a stocks-to-use ratio of 9.4%. Despite stocks decreasing YOY, our price projection shows the national average farm price falling to USD 8.90 per bushel for 2017/18 versus USD 9.40-9.70 price range projected for 2016/17.
- On the product side of the market, USDA has lowered domestic use of both soybean oil and meal. This is a bit surprising for meal, considering the increase in hog and broiler numbers. Both USDA and our forecast are showing oil stocks increasing for 2016/17 and 2017/18 to over 2.0 million pounds, putting further downward pressure on futures and basis values.

Projected Soybean and Corn Planted Acres are Nearly Identical



U.S. Soybean Oil Stocks Reach Highest Level 2011/12



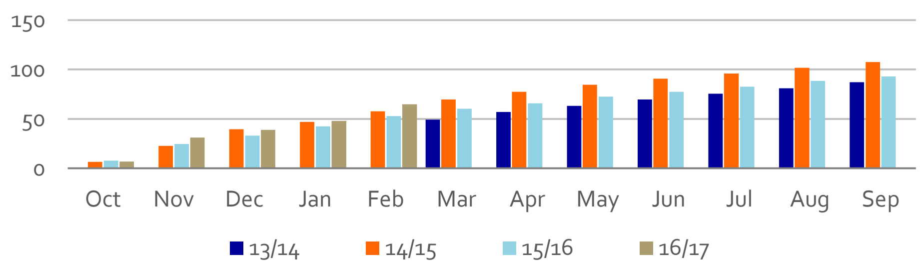
Source: Rabobank, 2017

Tree Nuts: China is Buying

- **<u>Almonds:</u>** California growers experienced less than ideal weather during the 2017 bloom period. We will not know the full effect of the winter wind and rains until later in the season. Shipments have seen their eighth consecutive month of YOY gains. China has been a significant contributor, increasing its purchases of shelled product 56% over last year. Prices are steady across all varieties, with an average shelled blend price of USD 2.45/lb.
- **<u>Walnuts:</u>** There is still uncertainty surrounding the 2017/18 crop since there are trees which are still under water. Some fields have been severely damaged. Total shipments have experienced positive YOY growth for the last 12 months. Exporters have experienced increased demand, especially from China and India. China has more than doubled their consumption of shelled nuts. This increased demand has helped lift prices to over USD 1.25/ in-shell pound.
- **<u>Pistachios:</u>** The 2017/18 crop will likely be shorter than last year, but with reasonable chill hours, adequate water, and new bearing trees, it could reach 500m lbs. Shipments YTD are the highest on record. China has increased it purchases of U.S. pistachio totaling more than 150m pounds—this is more than 6 times the volume they imported last year.
- **<u>Pecans:</u>** Exporters are seeing a significant increase in demand, especially from China—where according to FAS, exports have increased over 20m pounds. The high prices experienced late last year have come off nearly USc 50/lb to be more competitive than other substitute nuts.
- **<u>Hazelnuts</u>**: The Turkish crop has been experiencing favorable weather the past month, which could boost their 2017 production. In Oregon, over 90% of total exports has gone to Hong Kong and Vietnam, for re-export into China.

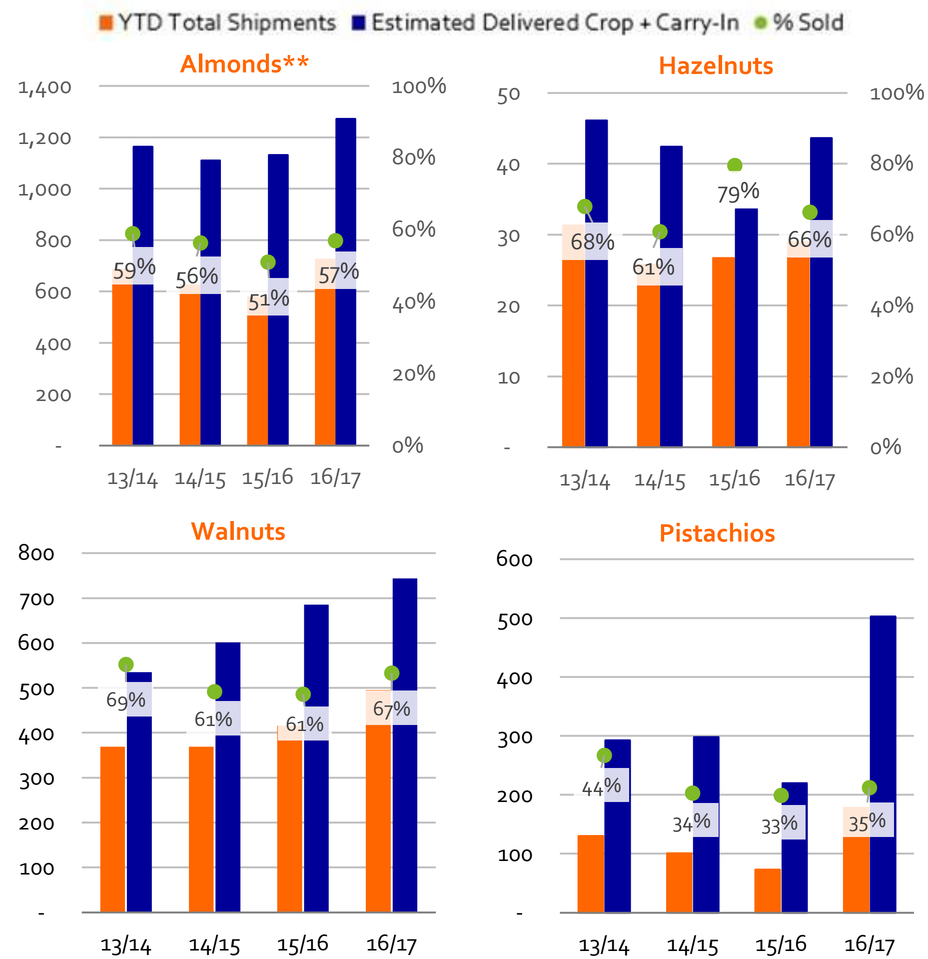
Cumulative Pecan Exports

(thousand in-shell equivalent tons)



Cumulative U.S. Tree Nut Shipments*

(thousand in-shell equivalent tons)

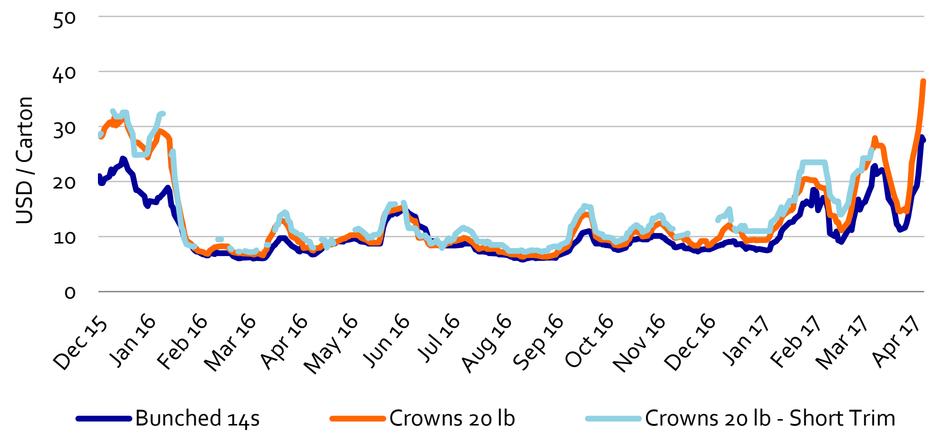


Source: *Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, FAS, Rabobank 2017*
**through February 2017*
***meat pound equivalent*

Vegetables: Leafy Greens in Tight Supply

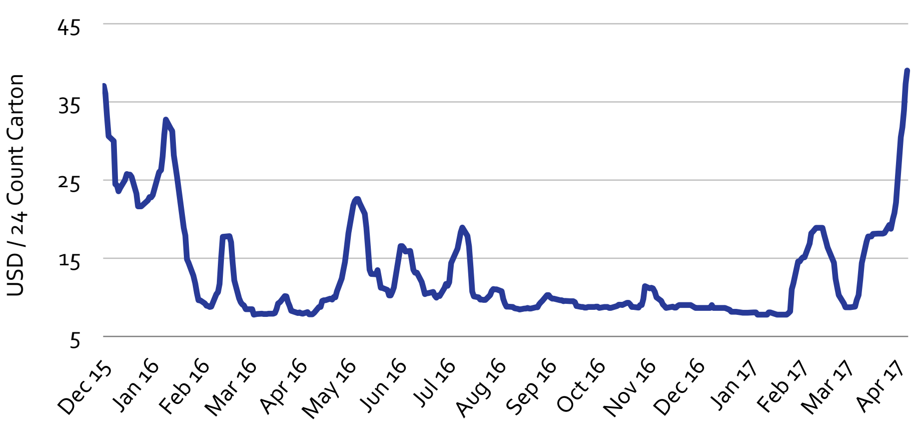
- Prices for many western U.S. vegetable crops were hitting a multi-year high as of early April. The desert season wound down a little early, while heavy rains in California's coastal growing regions this winter and spring have led to ongoing quality and volume issues. While Huron production has helped bridge the transition, the limited supplies out of that region have not been nearly sufficient to overcome the slow ramp-up on the coast.
- Supply gaps are expected to get somewhat better in the coming weeks, but weather forecasts also show continued chance of rain. While prices could come down some as Salinas production gets more in-stride, expect volatile markets and relatively elevated prices at least through April and likely through mid-May.
- Expansion of sweet potato demand has been a positive story in recent years, but short-run supply growth has caught up, as shipping-point prices have been pushed to four-year lows. As of early April, 40# carton prices for U.S. #1 product out of North Carolina were USD 15, versus USD 17 two years ago.

Broccoli – U.S. Daily Shipping Point Price



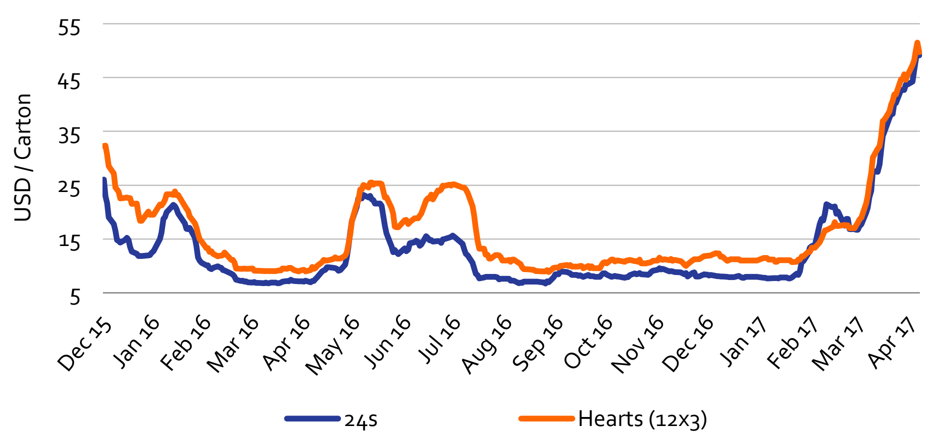
Source: USDA/AMS, Rabobank 2017

Wrapped Iceberg Lettuce – U.S. Daily Shipping Point Price



Source: USDA/AMS, Rabobank 2017

Romaine Lettuce – U.S. Daily Shipping Point Price

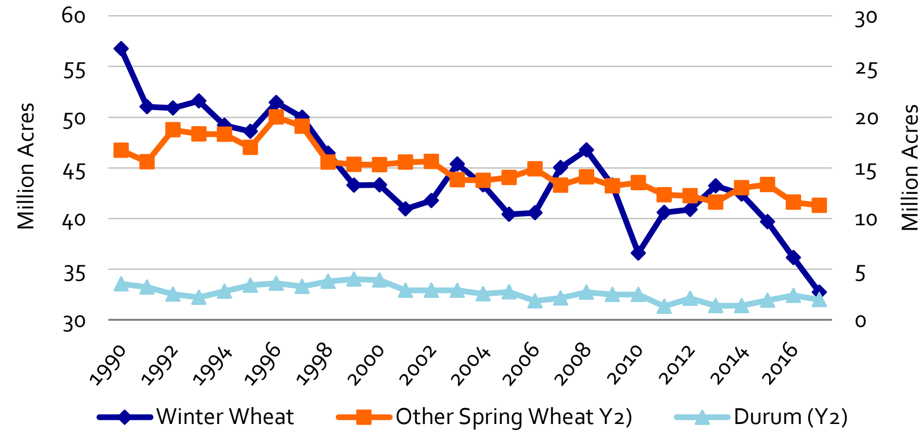


Source: USDA/AMS, Rabobank 2017

Wheat: Prices Remain Under Pressure

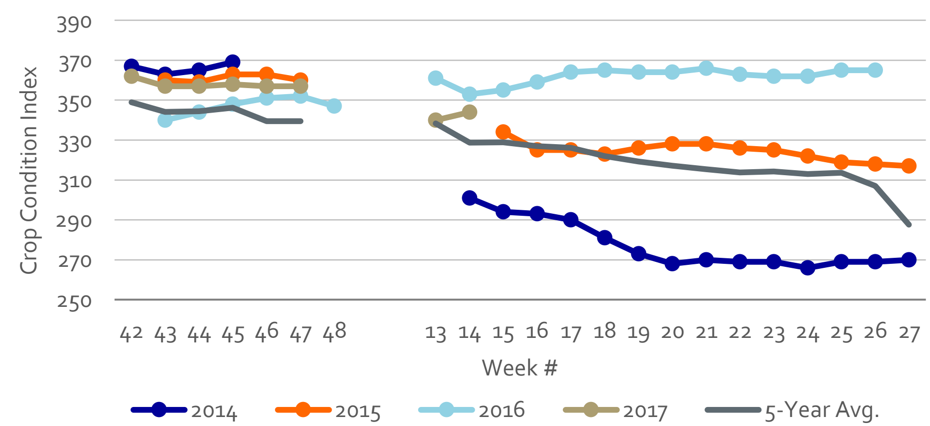
- The headlines in the wheat market remain the same—low prices, burdensome stocks and a similar outlook seemingly forever. There is no question that U.S. wheat and global fundamentals are still bearish. However, our GE model is projecting that we may be near the bottom with respect to planted acres, price and burdensome stocks, with subsequent years showing average farm-level prices going above USD 5.00 per bushel.
- USDA projected 2017 all-wheat planted acres at 46.4m acres, down 4.1m from 2016. The largest decrease came in winter wheat acres, which are down 3.4m from last year at 32.7m. Both durum and spring wheat acres were down versus previous year, at 2.0m (-408,000) and 11.3m (-297,000), respectively. We are projecting that 2017 will be the low point for U.S. wheat. Over the next several years, U.S. wheat acres are expected to slowly increase along with price.
- There has been talk this winter about dry conditions in winter wheat areas and the resulting downgrade in crop conditions this spring versus last fall. First, there has been favorable late winter/early spring moisture. Second, current crop conditions are above the five-year average and second only to the 2016 crop, and all-time record yields were achieved. Third, it is very early in the growing season to draw any hard and fast conclusions about this year's winter wheat crop.
- Some in the wheat trade are looking longer-term and thinking about supplies of higher quality (protein) wheat. The view in the trade is that higher protein wheat supplies will continue to shrink compared to others. While this year's shortage of high quality was due to short crops in Europe last year. The market rewards do not yield quality. The current market structure will only exasperate the shortage of high protein wheat. Consequently, spreads between spring and hard red wheat will remain wide and may widen from current levels should there be a weather issue in 2017 growing season.
- Farm-level basis levels remain wide. With current burdensome stocks, winter wheat crop conditions indicating potential good yields and a rebound in European wheat production in 2017, basis values are likely to remain wide.

Lowest Winter Wheat Acres on Record Leaves Little Cushion for Production Issues



Source: NASS, Rabobank, 2017

Winter Wheat Conditions—Second Only to Record Yields of 2016

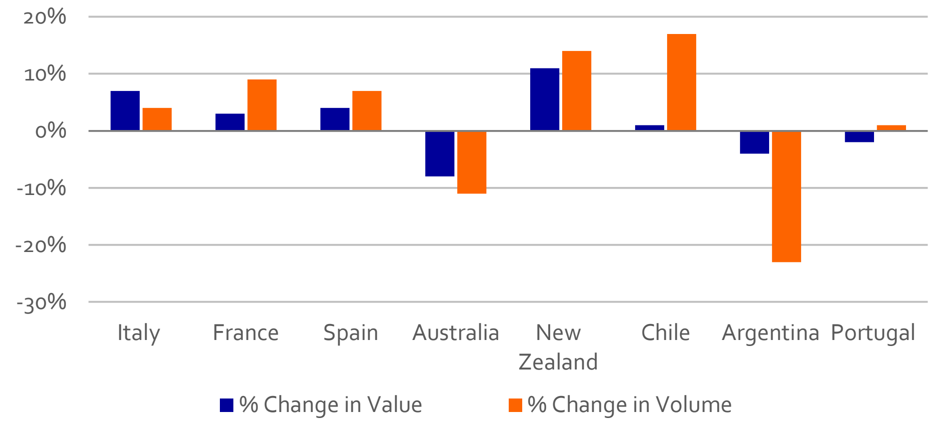


Source: NASS, Rabobank, 2017

Wine: Premiumization, M&A, Domestic Supply

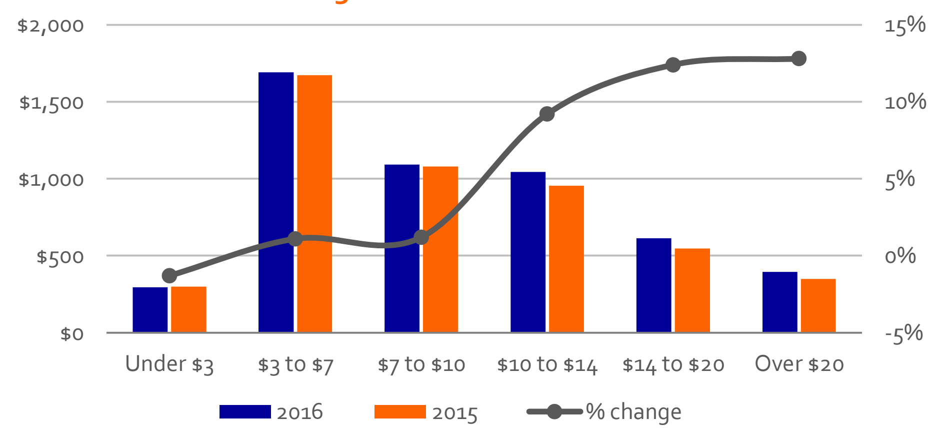
- Imports of wine to the U.S. strengthened throughout the entirety of 2016, expanding 11.5 million cases, or 3%, to 399 million cases. While the overall annual growth is consistent with the trailing ten-year CAGR also at 3%, the value of wine imports to the U.S. from New Zealand surpassed Australia by over USD 40m.
- California wines in the USD 14 to USD 20 and USD 20+ price range saw double-digit growth throughout 2016, with a 12% increase in retail sales for both categories. Imports in Italy, France, and New Zealand, which all generally command a higher price point at the border, are also driving growth in volume terms, increasing at 3%,11%, and 20% respectively. Thus, premiumization continues to drive expansion in domestic wine and imports sales.
- E. & J. Gallo acquired Stagecoach vineyard out of Napa Valley in March 2017. Stagecoach is the largest contiguous vineyard in Napa, and supplies grapes to over 90 wineries. While E. & J. Gallo will honor all existing contracts with Stagecoach, the long-term implication of this acquisition is that Gallo aims to secure supply for its own brands, which would further pressure supply constraints in the North Coast.
- Inventories in the U.S., despite a remarkable 2016 harvest that produced 4m tons, remain tight. Bulk wine prices remain high, in spite of the rise in production.

U.S. Imports by Country of Origin, Jan-Dec 2016



Source: Rabobank 2017

Domestic Sales of CA. Origin Wine



Source: Gomberg-Fredrikson, Rabobank 2016

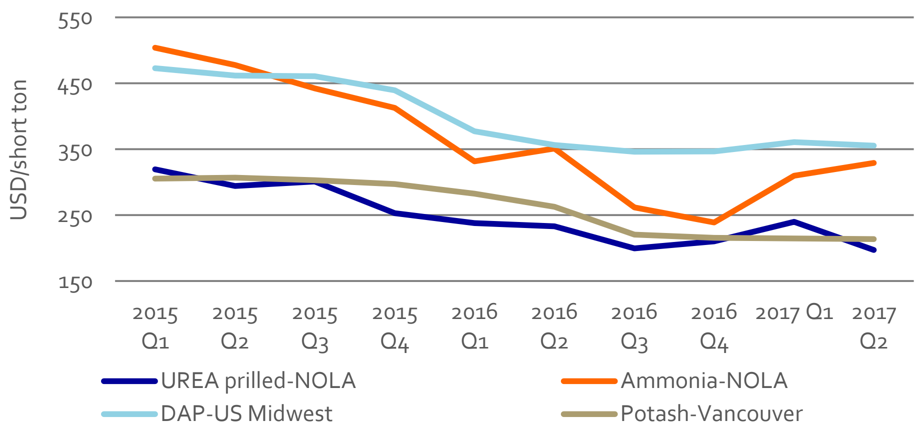
Source: USAhops, Beverage Industry Insider, Brewbound, Nielsen, The Ciatti Company 2016

Farm Inputs

Fertilizer Prices Mixed

- Fertilizer price movement was mixed in North America over the past two months with ammonia increasing, urea decreasing and DAP and potash remaining generally unchanged. As expected, the level of upward movement began to dissipate as the spring planting season approached, with the exception of ammonia.
- For the major nutrient categories (NPK):
  - Nitrogen (N)—key theme is that an already oversupplied global market is poised to see new low cost capacity come online in the U.S. CF Industries in particular has new ammonia and urea plants up and running at its Port Neal operation.
  - Phosphate (P)—Although Mosaic recently called for a bottom in phosphate pricing, we still believe supply including capacity additions will exceed demand.
  - Potash (K)—the latest data point is that Indian fertilizer companies are expected to raise prices following a 20% reduction in that government's subsidy program.

Nutrient Prices (2015 to present)



Source CRU, Rabobank 2017

Pulp & Paper Products

- Spot market pulp prices are increasing as many mills in North America mills are taking maintenance downtime. Many producers have announced a USD 20/ton increase across grades.
- Containerboard manufacturers have announced a USD 50/ton price increase to take effect 1 April 2017. This comes on the heels of a USD 40/ton increase just last fall. Semi-chemical medium is also expected to increase USD 30/ton. The challenge will be for converters as they attempt to pass yet another increase on to consumers.
- The announced closure of the Pensacola kraftliner machine will take a toll on the industry—especially the export market, as they have benefitted from lower cost excess U.S. production. This mill is responsible for approximately 10% of U.S. unbleached kraftliner. It is anticipated that export prices could increase as much as USD 100 by the end of the year.
- Export kraftliner prices to Southern Europe, Mexico, and Central & South America have respectively seen a USD 50 per ton, 40 per ton, and 60 per ton increase since December.
- OCC is currently selling for over USD 170 per ton—primarily driven by increased demand from China. At this level, many U.S. manufacturers of recycled products are no longer competitive with on the global market. If prices do not come down in coming months, these producers may be inclined to announce an increase in prices.

Industry Highlights

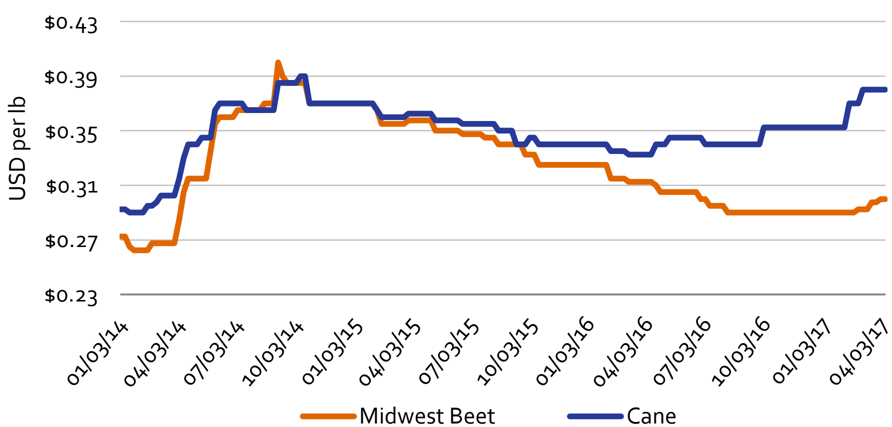
	April or most recent	1 Month Previous	Last year
NBSK from North America to China, price per MT	$776	$783	$713
North American Domestic, Old Corrugated Containers (OCC), USD/Ton	$152	$173	$80
Unbleached Kraft, U.S. East, 42lb, open market price per ton	$655	$655	$615
Semi-chemical Corrugating Medium, US East, 26lb, open market price per ton	$540	$540	$515

Source: Rabobank, RISI 2017

Sweeteners

- Nothing has changed and uncertainty remains around U.S./Mexican sugar trade. Talks on the suspension agreement resumed in mid-March between U.S. and Mexican negotiators, but it is not known whether any progress has been made. The U.S. is trying to increase the percentage of raw sugar imports and reduce the amount of refined sugar imports from Mexico.
- The trade tensions over NAFTA continue to simmer. Mexico has indicated that U.S. high-fructose corn syrups exports to Mexico are at risk if NAFTA trade issues are not resolved to their satisfaction.
- According to USDA Prospective Planting report, U.S. sugar beet plantings will be down 2.5% to 1.135m acres in 2017. The largest sugar beet producers Minnesota and North Dakota are projected to be down 1.6% and 3.3%, respectively. This is not surprising considering the decrease in beet payments to producers for the 2016 crop.
- Mexican zafra (sugarcane harvest) is reaching the end of the campaign with sugar production reaching 4.52 MMT at week 28. This is 9,000 MT lower than the same period last year. However, Rabobank increased the 2017 sugar production estimate to 6.6 MMT versus the earlier estimate of 6.55 MMT. This compares to last year's crop of 6.5 MMT.

U.S. Beet Sugar Price Remain at Significant Discount to Cane



Source: Sosland Publishing, Rabobank 2017

Orange Juice

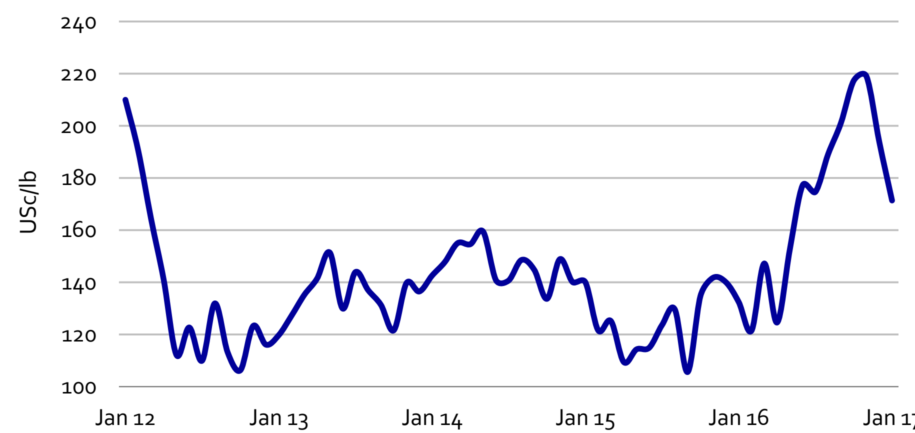
Florida Orange Juice

- The forecast for the Florida orange crop for the 2016/17 season continues with negative trends for a small crop. USDA forecast is for 70 million boxes, a 14% decline from last year's already small harvest, and the lowest since 1963/64. Although many industry experts consider this an extreme situation, the general outlook for next year's harvest remains gloomy, affected by various diseases such as Postbloom fruit drop and greening disease.
- The FCOJ futures approached record levels at 2.25 USD/lb in early November but have declined significantly since then. Higher prices are driven by both low forecasts in Florida for the upcoming season and tight supply from Brazil.

Brazilian Orange Juice

- Orange crop size in Brazil for the 2016/17 season came in at 244 million boxes, well below the 300m boxes in the previous year. We expect very little carry-over in Brazil between the harvests, and uncertainty about supply is driving a decrease in trading activity.
- In January the USDA forecast the 2017/18 Brazilian crop at 340 million boxes, though some in the industry feel this is too high, given lower tree numbers and potential for greening disease.

FCOJ Futures

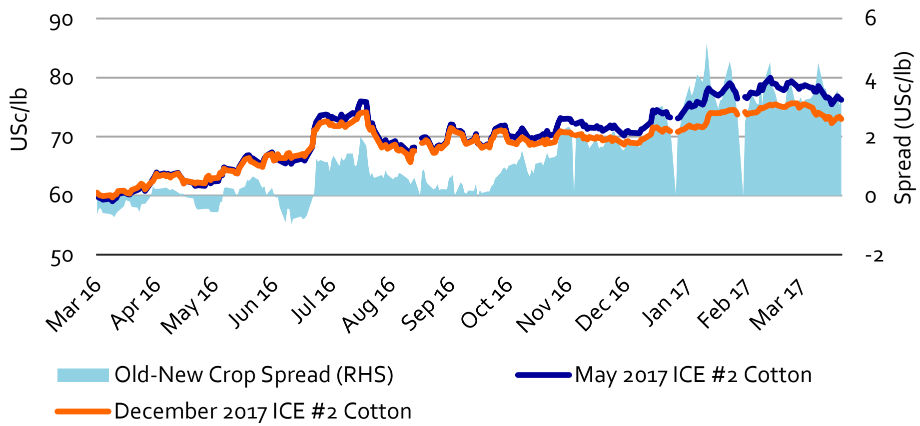


Source: Bloomberg-ICE 2017

Cotton

- ICE #2 optimism faded after slumping 2% from March highs, amid a volatile 4.5 USc/lb trading range. A higher-than-expected 2017/18 USDA prospective planting figure of 12.2m acres, up 21% YOY, has the potential to see 19m bales in US output and +7m bales in stocks—assuming a trend yield. Relative price ratios have put cotton well above other major crops; especially in Texas, where 57% of expected total acreage is accommodated.
- The recent CFTC on-call report (as of 7 April) highlighted a 73% fall in May 2017 unfixed on-call sales in the past fortnight. This is bearish in the short term, as it lessens the potential for funds to squeeze the mills, while recent price action may have reduced this position further. However, unfixed on-call sales remain high on the July 2017 contract, heightening the prospects of volatility as we approach this contract.
- US export sales remain exceptionally strong, now at 12.9m bales, which is the the highest pace since 2010/11—led by Asian demand. The USDA now forecasts 2016/17 exports at 14m bales.
- This back-and-forth in the near-term is expected to continue, especially while US export demand remains so strong. Looking forward, forecasts highlight a moderation in new crop contracts on fundamentals—most notably a 2017/18 increase in global production.

With Unfixed Call Positions Remaining in Old Crop Contracts, Plus Exceptional US Export Sales, the Old-New Crop Spread Continues to Trade Historically High

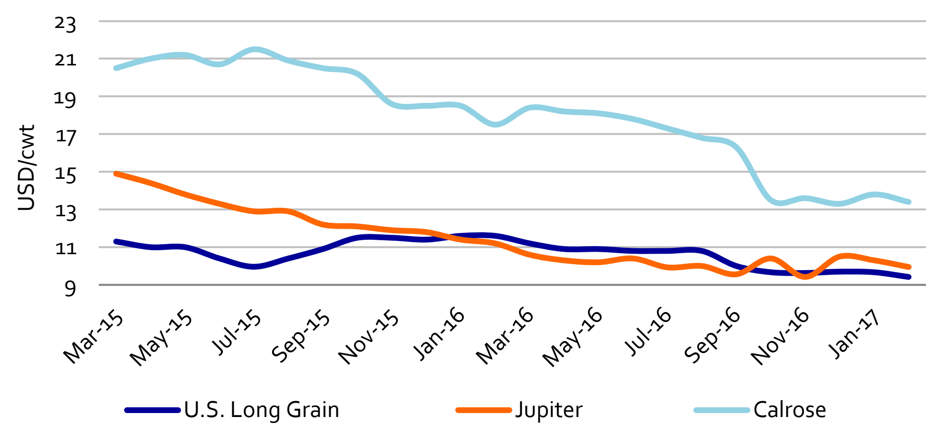


Source: USDA, Rabobank 2017

Rice

- The USDA estimates total U.S. rice acreage to be down 17% from last year's record levels. Other analysts suggest acreage could be as much as 35% below last year. The largest drops in production will come from Arkansas, Mississippi, and Louisiana. where the USDA estimates they will respectively reduce planted acres by approximately 400,000 acres, 75,000 acres, and 40,000 acres. Acreage in Northern California is projected to be around 540,000 acres, if producers are able to get into their soaked fields.
- The decline in acreage is reflective of the mood among industry members. Prices received for rice are the lowest they've been in ten years. The 2016/17 YTD average long grain price is USD 9.82/cwt. While Southern medium/short grain (Jupiter) YTD is estimated to be USD 10.03/cwt, CalRose YTD estimate is USD 13.55/cwt. While these prices are substantially higher than global averages, many are still struggling to break even.
- Stocks and quality continue to be an issue, especially for Southern rice growers—quality issues are tarnishing the U.S.' quality reputation and are also driving lower prices. Many growers in the South will likely opt to plant corn or soybeans in lieu of rice with the hope of higher returns in 2017.

12-Month Historic U.S. Short/Medium and Long Grain Prices

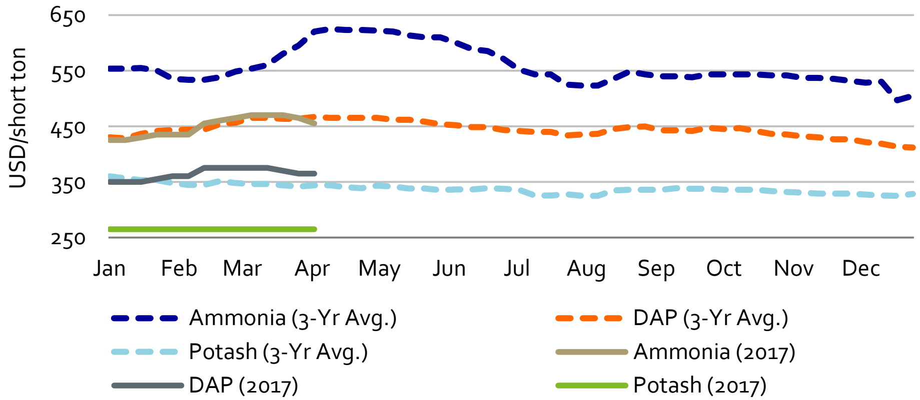


Source: USDA/NASS, Rabobank 2017
Note: Average rough rice basis

Input Costs

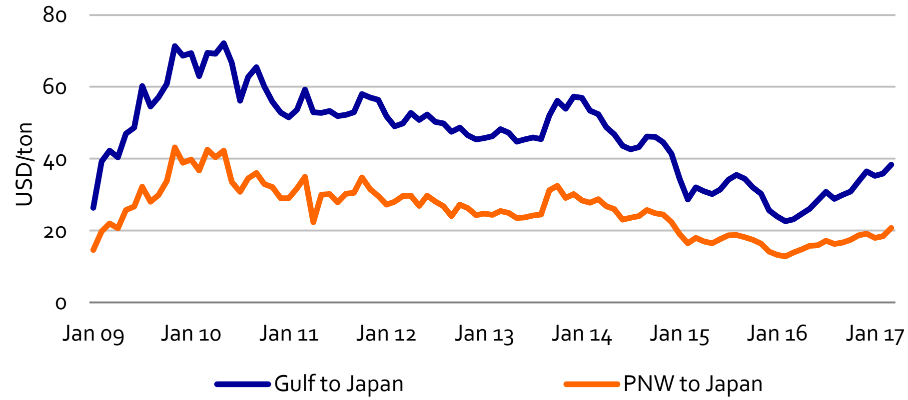
As of 13 April 2017

Corn Belt Input Prices*



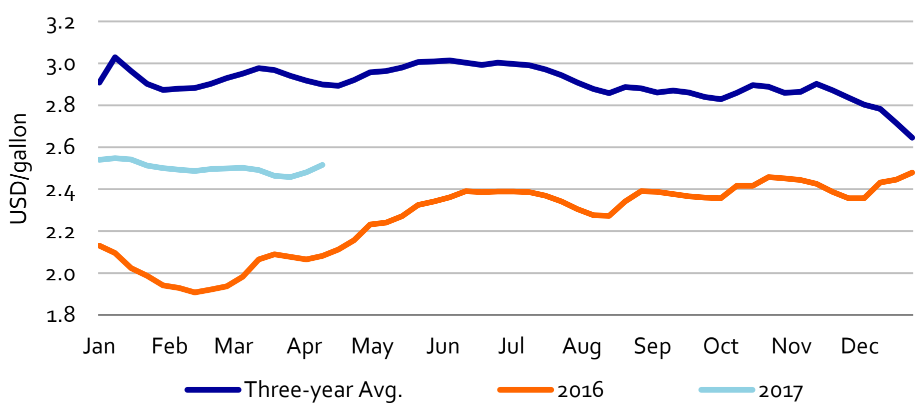
Source: Bloomberg 2017
** Note: granular potash*

Ocean Freight



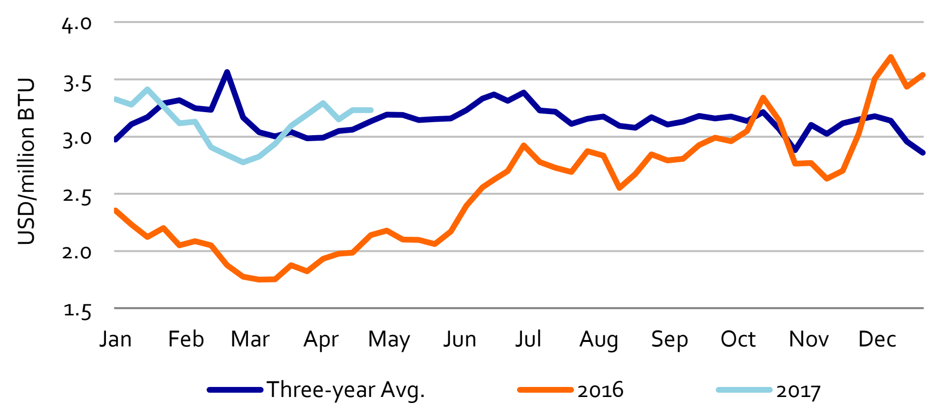
Source: O'Neil Commodity Consulting, AMS-USDA 2017

Diesel — Midwest



Source: EIA 2017

Natural Gas Spot

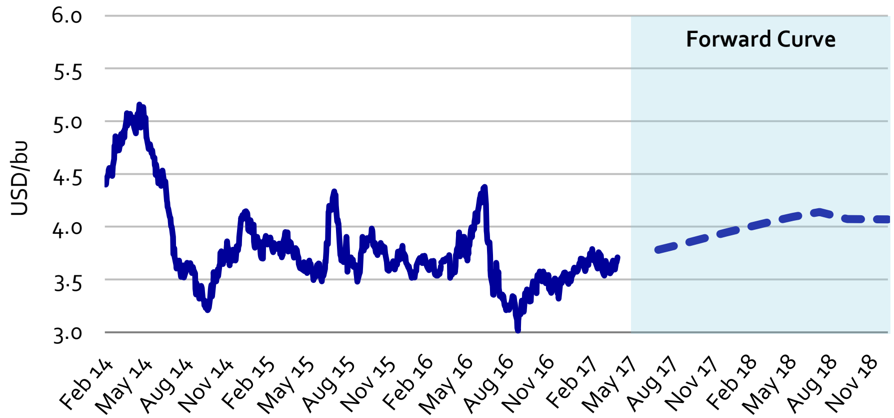


Source: NYMEX 2017

Forward Price Curves

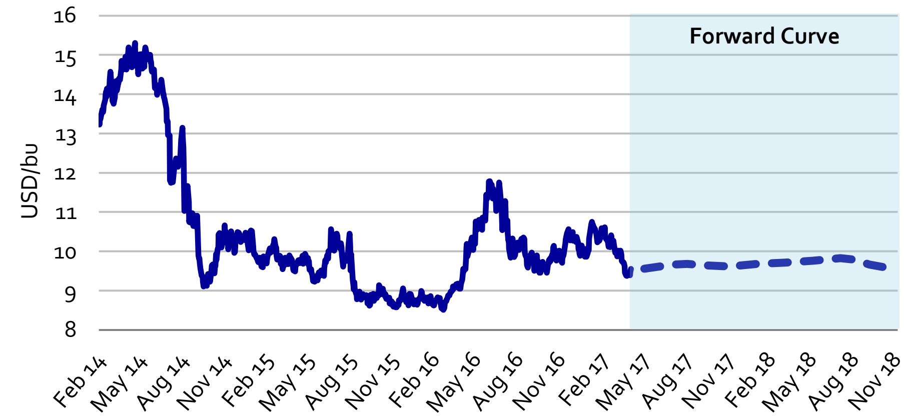
As of 13 April 2017

CBOT – Corn



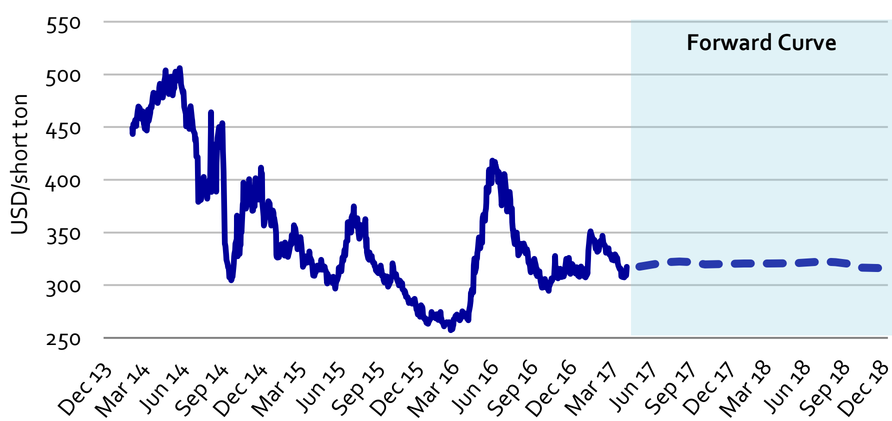
Source: CBOT, Rabobank 2017

CBOT – Soybeans



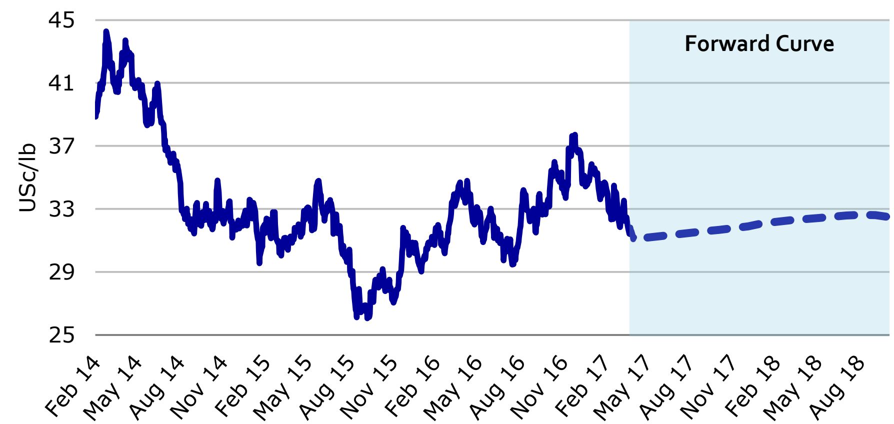
Source: CBOT, Rabobank 2017

CBOT – Soymeal



Source: CBOT, Rabobank 2017

CBOT – Soy Oil

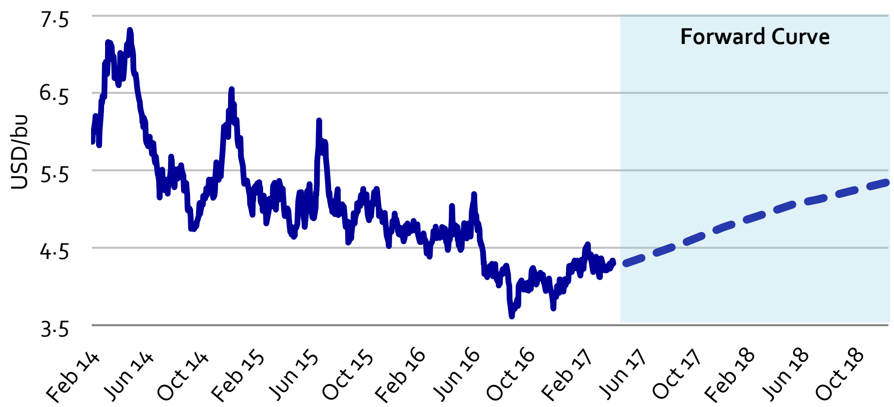


Source: CBOT, Rabobank 2017

Forward Price Curves

As of 13 April 2017

CBOT – Wheat

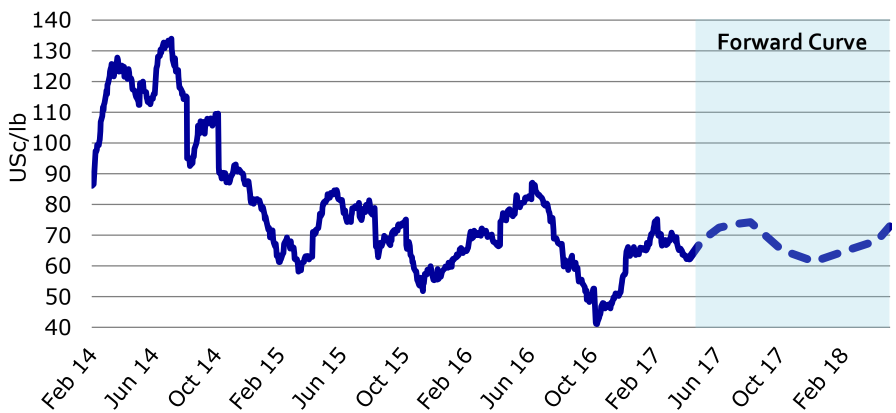


Source: CBOT, Rabobank 2017

CBOT – Feeder Cattle

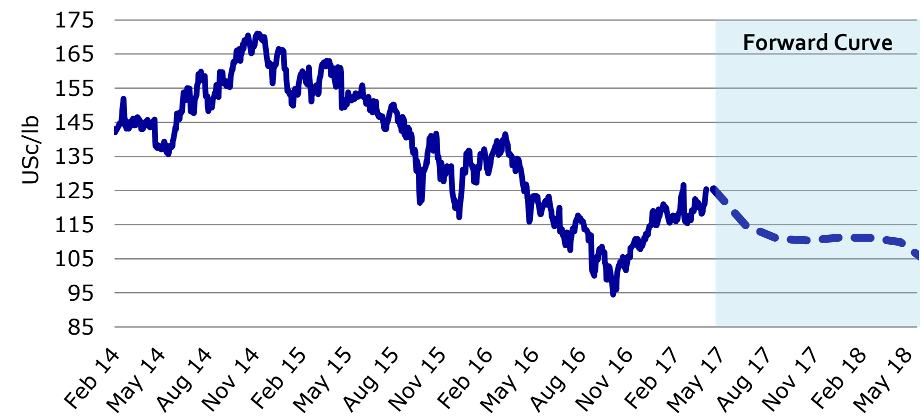
Source: CBOT, Rabobank 2017

CBOT – Lean Hogs



Source: CBOT, Rabobank 2017

CBOT – Live Cattle

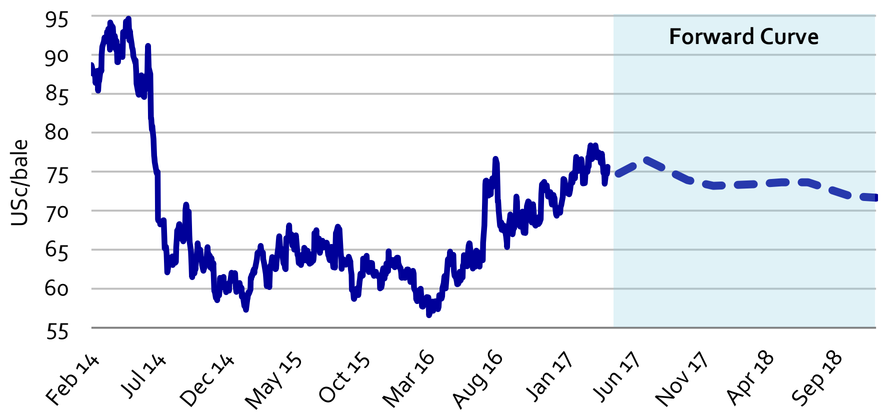


Source: CBOT, Rabobank 2017

Forward Price Curves

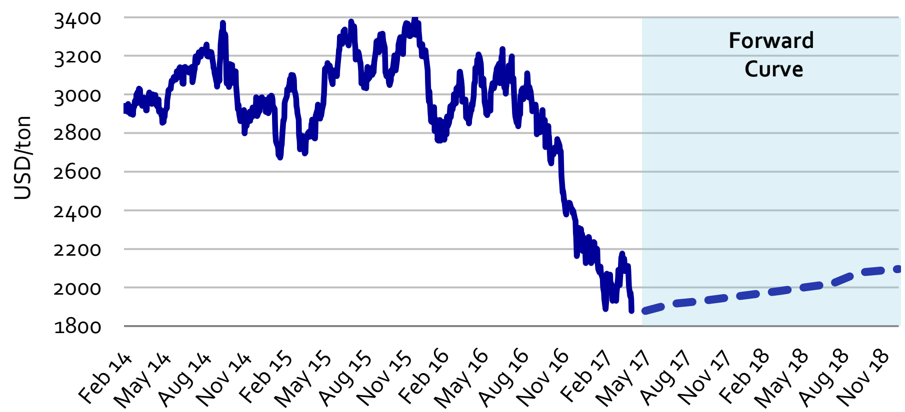
As of 13 April 2017

ICE – #2 Cotton



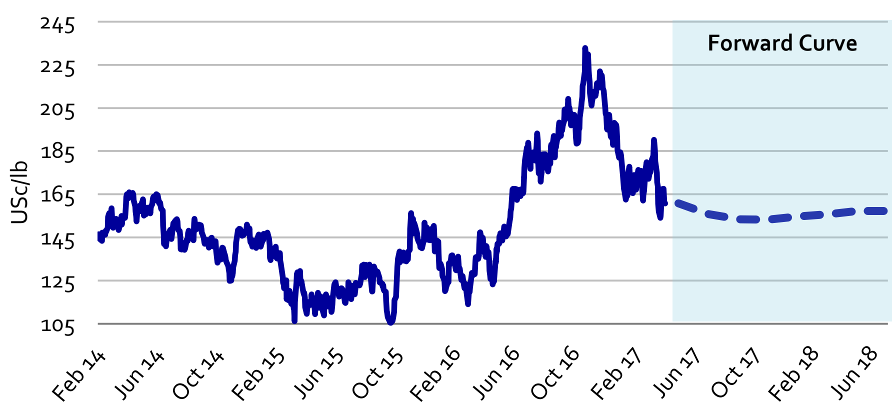
Source: ICE, Rabobank 2017

ICE – Cocoa



Source: ICE, Rabobank 2017

ICE – FCOJ



Source: ICE, Rabobank 2017

ICE – #11 Sugar

Source: ICE, Rabobank 2017

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