RaboResearch Food & Agribusiness

North American Agribusiness Review

June 2017

Rabobank

Report Summary

Economy: Beyond the Seasonal Slowdown

U.S.

- While the U.S. economy slowed down to 1.2% in Q1, the economic data for Q2 look better, with the Atlanta Fed's now cast at 3.2%. Employment growth has also rebounded after the near standstill in March, so the Fed raised the target range for the federal funds rate in June for the second time this year. What's more, before the end of the year the Fed expects to hike a third time and also start to reduce its reinvestments of principal payments from its huge asset portfolio.
- However, while the economy has reaccelerated, inflation is falling. If inflation continues to undershoot the Fed's target and expectations, the doves in the Fed's monetary policy committee are likely to get nervous. Therefore, we continue to think that the Fed will not hike for a third time this year. Note that this could also delay the Fed's plan to reduce its reinvestments until next year. Therefore, we expect EUR/USD to rise to 1.17 in the next 12 months.

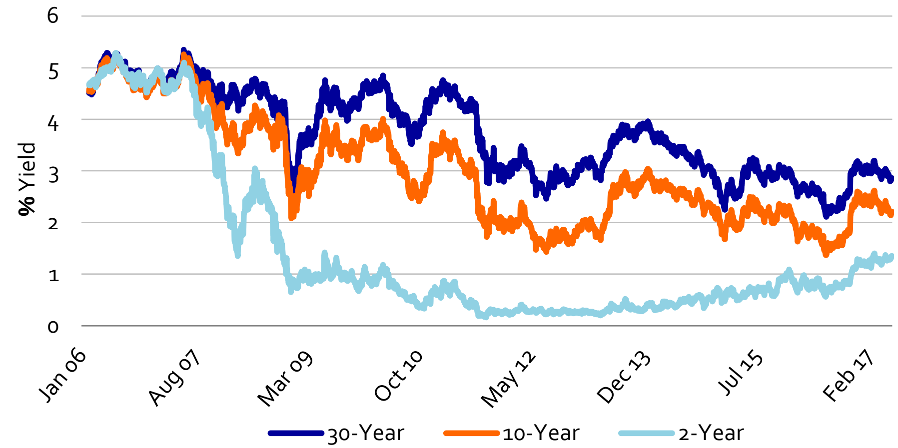
Mexico

- MXN has clung onto recent gains, with USD/MXN trading below 19. We continue to hold that this is primarily a function of broad-based USD weakness and a significant improvement in the carry attractiveness of MXN as Banxico continues to raise rates. MXN has moved from being the least attractive Latin American currency from a carry perspective to standing second only to BRL.
- Going forward, we expect demand for MXN to remain supportive as long as global volatility remains low. Carry remains key and a jump in volatility would likely trigger a sharp unwind of MXN longs. U.S. trade policy remains key and the renegotiation of NAFTA the coming months poses a significant risk to USD/MXN. Therefore, we expect to see a move back to 20.0 at the six-month horizon.

Canada

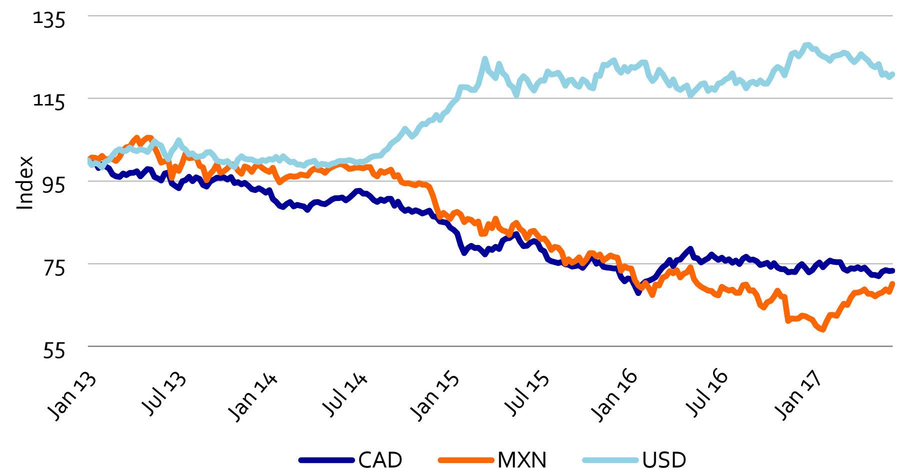
- USD/CAD finally broke out of the broad 1.30-1.36 range with a move up to resistance at 1.38. The breakout saw ten consecutive days of gains for USD/CAD and came as the Bank of Canada looked through better-than-expected data, U.S. rates fell and oil prices dropped below 50. This was not to last and a rally in oil prices saw USD/CAD return back into the range.
- Going forward, oil remains key for USD/CAD and will likely be the primary driver of the pair over the coming months. Interest rate differentials are important from a longer term perspective, but we see little risk of the Bank of Canada moving rates. We expect USD/CAD to rise to 1.36 at the three- and six-month horizon.

Interest Rates, 2006-2017



Source: Federal Reserve of St. Louis 2017

Currencies, 2013-2017

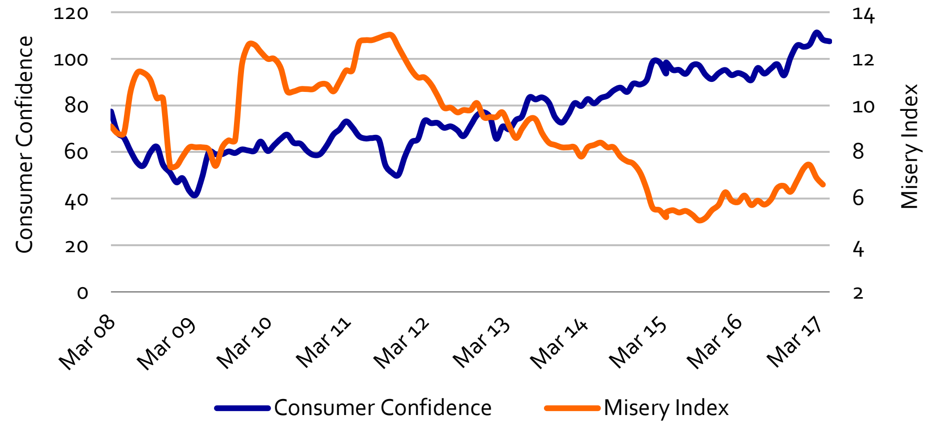


Source: Bloomberg 2017; Note: Rebased at 100 as of 1 January 2013

Consumer: Falling Retail Prices

- According to the official statistics, as of April 2017, the U.S. consumer was enjoying—and farmers, food companies, and retailers bemoaning—the 17th consecutive month of falling supermarket food prices. That is the longest stretch of declining prices seen since the 1950s.
- In the last twelve months to April, grocery prices fell by about 1%. Prices were down in most of the grocery sub-groups from cereals and bakery to dairy, meats, and eggs, with the only exception being fruits & vegetables.
- Cheaper food has no doubt brought some relief to the average American household, whose real median income has remained unchanged since the start of the century (USD 58,600 in March 2017 compared to USD 58,700 in January 2000). It also helped compensate for the overall rise in prices—the consumer price index (CPI) rose 2.2% in the twelve months to April 2017.
- The unemployment rate was 4.3% in May 2017, the lowest level in about a decade, which together with low inflation caused the misery index to remain below 7%.

Consumer Confidence Index



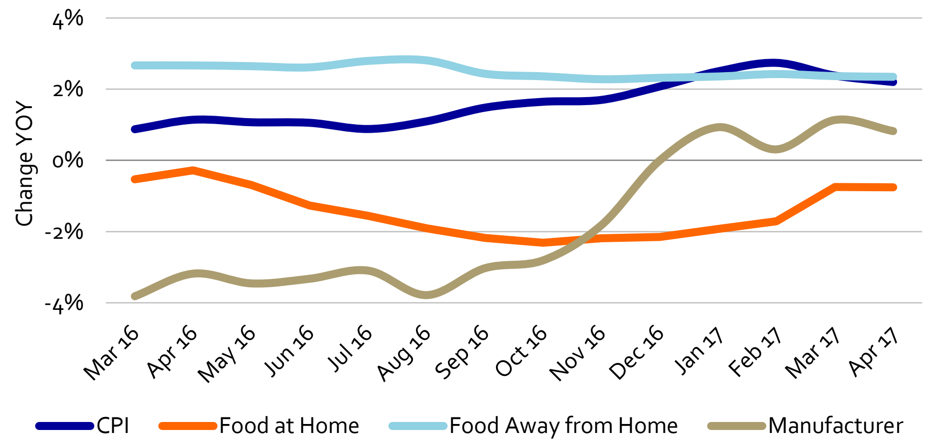
Source: U.S. Bureau of Labor Statistics, Rabobank 2017

Food Sales

Food Sales (USD bn)	Annual			YTD Cumulative		
	2013	2014	2015	Jan 17	Feb 17	Mar 17
Food at home	742	765	771	64.8	126.4	194.4
YOY change	3.7%	3.0%	0.8%	*3.5%*	*2.1%*	*2.3%*
Food away from home	668	697	741	63.5	126.3	197.7
YOY change	4.6%	4.5%	6.2%	*4.8%*	*2.9%*	*3.8%*
Total	**1,410**	**1,462**	**1,512**	**128**	**253**	**392**

Source: USDA ERS, Rabobank 2017

Food Price Inflation



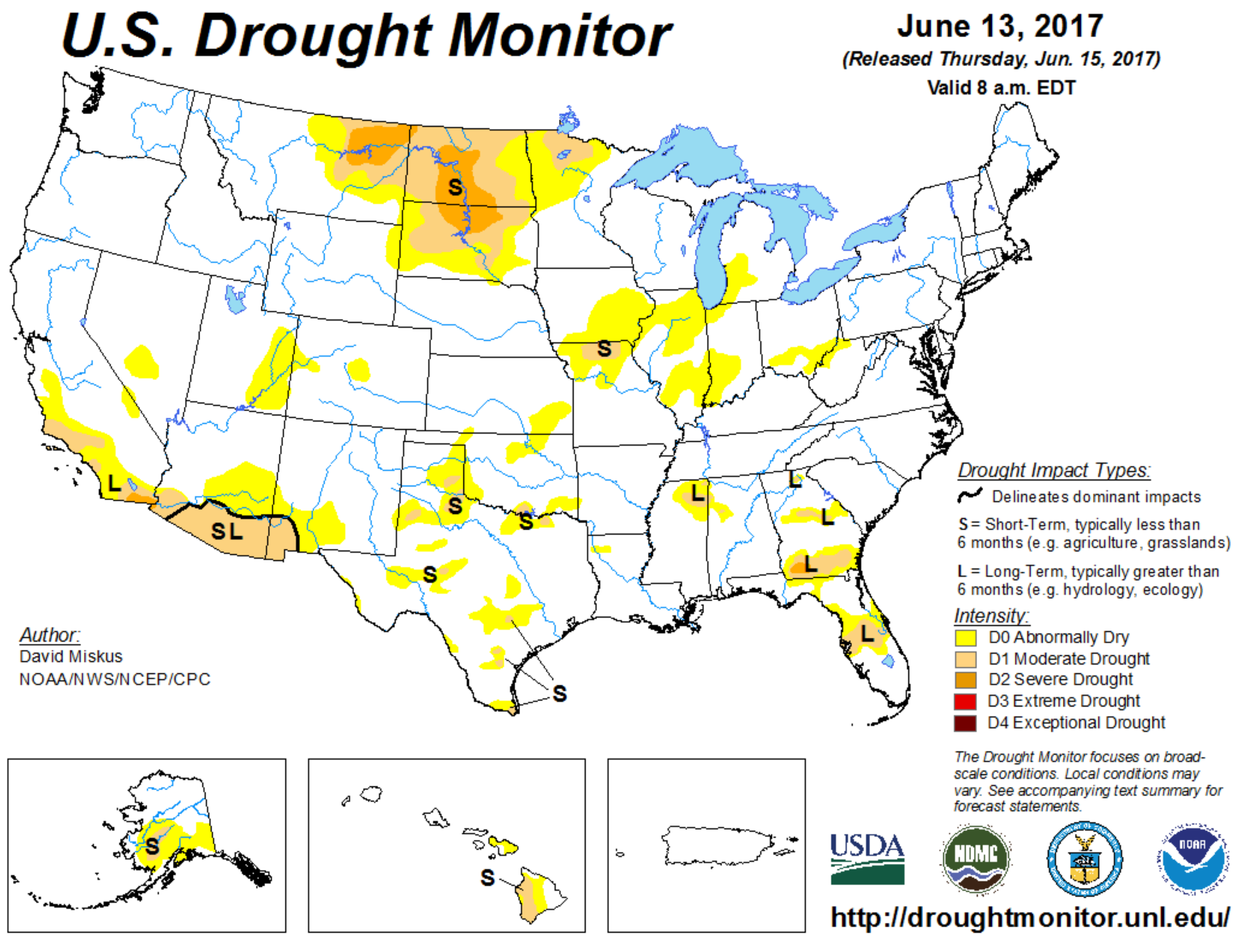
Source: U.S. Bureau of Labor Statistics, Rabobank 2017

Climate: Mostly Normal Summer Expected

- May was a fairly wet month across the U.S., with temperatures at or slightly below normal, resulting in favorable growing conditions for most crops. Abundant rainfall across the Central Plains as well as the Midwest, south, and east, periodically slowed fieldwork but kept pastures and summer crops well-watered.
- However, a dry spell has settled into the Central Plains and Midwest in the past several weeks, raising concerns of rapid top-soil moisture loss and declining crop conditions
- Farther south, late-May and early-June rainfall significantly reduced drought coverage and intensity across the lower south-east, including Florida’s peninsula.
- Elsewhere, warm, mostly dry weather in California and the north-west favored fieldwork and crop development that had been previously delayed by cool, damp conditions.
- The temperature outlook for the month of July indicates an increased likelihood of above-normal temperatures for most regions except for parts of the north-west, where there are equal chances of above- or below-normal temperatures. The precipitation outlook for most regions also indicates equal chances of above- or below-normal levels.

U.S. Drought Monitor

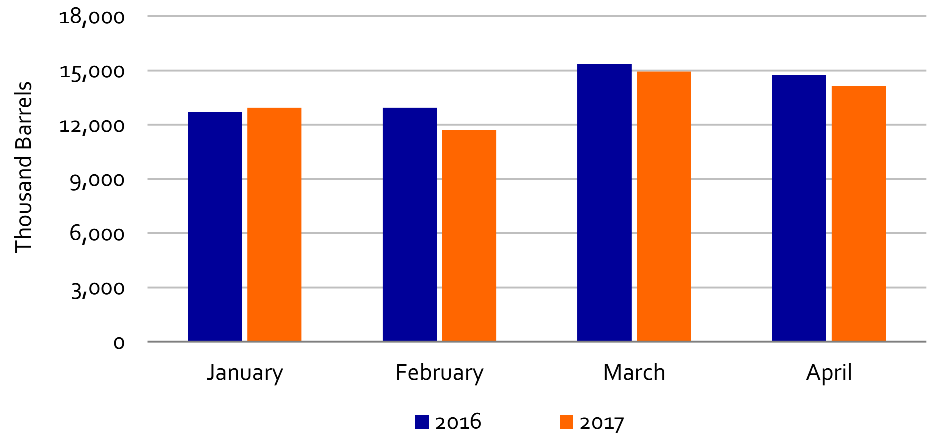
June 13, 2017



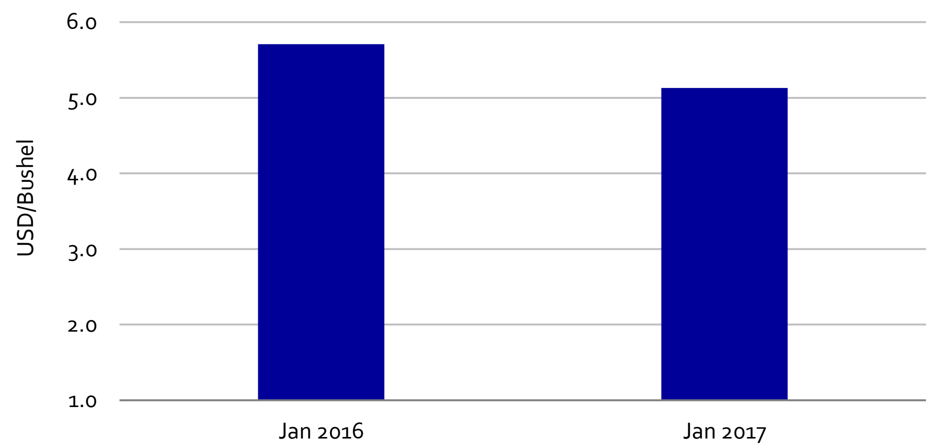
Beer: Mexican Beer and U.S. Malting Barley

- Beer Institute estimates suggest that domestic tax-paid shipments of beer continued to decline in the first four months of 2017, falling 3.6% compared to the same period in 2016. April shipments were down 4%, but that was driven mainly by one fewer selling day. When the loss of a selling day is taken into consideration, trends were more positive. More broadly speaking, poor weather seems to be weighing on beer sales, as it has been a wet spring in most states, particularly California.
- Barley prices remain soft in 2017, due to the large inventories that brewers are carrying in the wake of the large 2016 crop. For many farmers, the lack of production contracts with brewers this year has been a harder hit than the 10% decline in average prices. This has hit Montana particularly hard, where malting barley acreage has reportedly fallen by 40%.
- The growth rate of craft beer in the U.S. may be slowing, but in Mexico craft beer production is accelerating, though from a much smaller base. The Mexican Brewers' Association (ACERMEX) estimates that the number of craft brewers in Mexico grew to 400 in 2016, which constitutes a 56% increase. Craft beer sales were estimated to have grown by more than 60% in the same period. Mexican craft brewers are natural buyers of U.S. malting barley, but are reportedly shifting more sourcing in favor of the EU out of fear of disruptions to NAFTA.
- Beer exports rose 19.9% YTD April 2017, with significant growth in sales to Canada and Chile among others.
- Beer imports slowed considerably at the start of 2017, rising only 0.2%. Most notably, imports from Mexico, the main driver of import growth in recent years, registered a 1.4% decline through April 2017, compared to the prior year. For U.S. barley producers, the decline in imports from Mexico is similar in impact to a decline in U.S. production, as Mexico is the largest export market for U.S. malting barley. The decline in imports from Mexico were partially offset by growth in imports from other countries, most notably Germany and the Netherlands.

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



Average U.S. Malting Barley Price



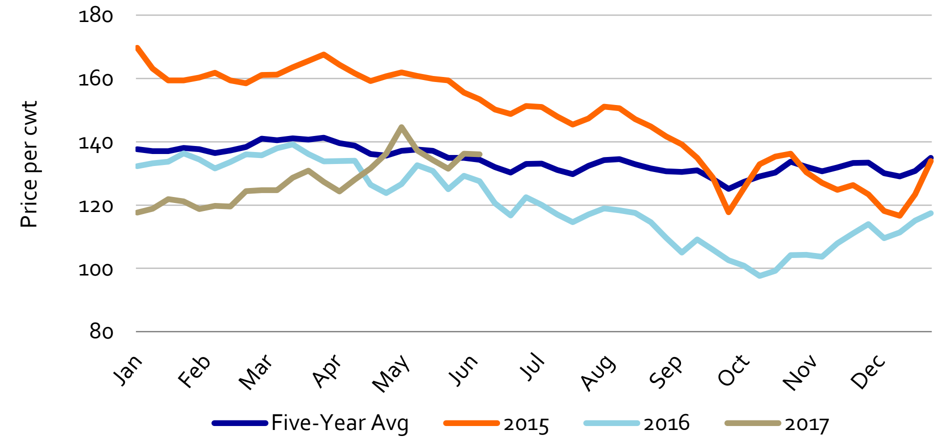
Source: Beer Institute, U.S. Grains Council, Montana Wheat and Barley Committee, Asociación Cervecera de la República Mexicana, USDA NASS 2017

Cattle: China Opens to Direct Sales of U.S. Beef

- China has officially opened to U.S. beef after an almost 14-year barrier to direct sales due to the 2003 BSE event. China's conditions to entry have been favorable. The three primary requirements to entry are:
  1. A national traceability program. The origination ranch and terminal feed yard must be verified by identifying ear tags and third-party audits.
  2. Cattle must be non-hormone treated (NHTC).
  3. Cattle are to be ractopamine free.

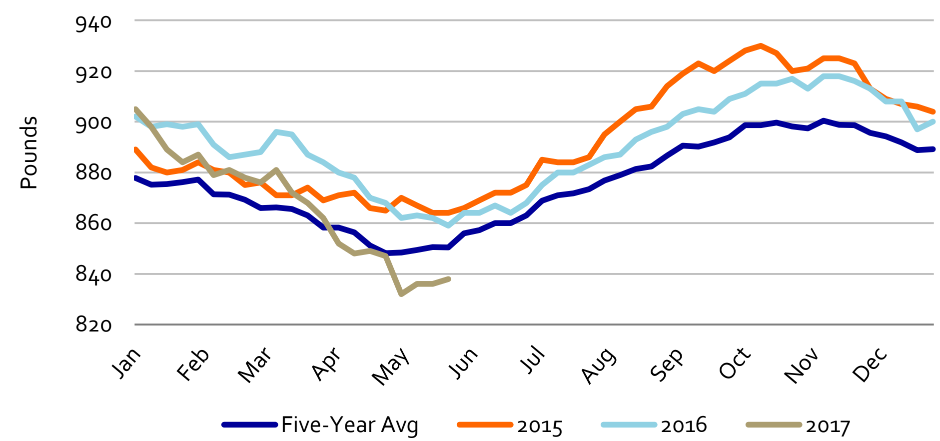
  It is important to note that on top of the acceptance of direct sales indications there will be no effort to close or tighten U.S. beef through grey channel trade. Initial sales could be slow but hold incredible opportunity in the long term. In connection to the acceptance of U.S. beef, the U.S. is expected to open to Chinese cooked chicken in the near future.
- Over the past three quarters, fed cattle prices have rallied from a low of USD 0.97 to a peak of USD 1.45, a 49% price increase. Even though prices did not get as high as those recorded in 2014 and 2015, this rally has been way more impressive. The 2014 rally was driven by tight supplies of all animal proteins as well as supply-rationing. The current rally has been driven by solid buying interest in both the domestic and export market.
- Throughout the year, packers have been aggressively processing cattle, driven by attractive margins and active out-front beef sales. Cattle feeders have been aggressive sellers with profitable close-outs, very strong basis levels and a fear of increased offerings of fed cattle to come. As the result of strong interest from both buyers and sellers and solid beef demand from end-users, slaughter rates have been at or above sustainable levels. As a result, carcass weights have declined well below seasonal expectations. The lighter carcass weights have further reduced total beef tonnage, which has also encouraged the aggressive slaughter. The lighter-than-expected carcass weights could well be a supportive market influence deep into the remainder of the year.
- Feeder cattle prices were confined to attractive prices and a narrow trading range during Q1, while during Q2 tighter supplies and profitable fed cattle prices have encouraged cattle feeders to be more aggressive. Seasonal considerations should support the feeder market for the summer.

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



Source: USDA, Rabobank 2017

Steer Carcass Weights, 2015-2017

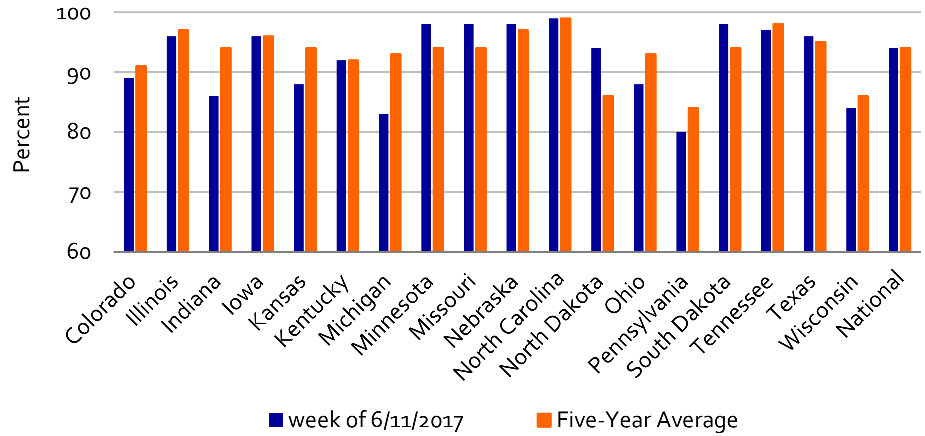


Sources USDA, Rabobank 2017

Corn: Expect More Futures and Basis Volatility

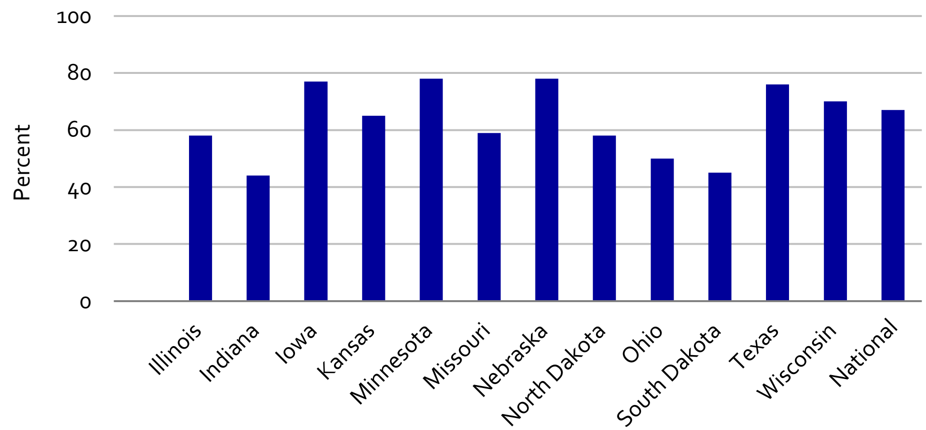
- Corn futures for December 2017 made a brief run over USD 4.00 in June for prices they had not seen since early March 2017. Some weather issues in the coming months could provide other opportunities for marketing strategies to be implemented at these levels, but bearish factors for corn prices can also be seen on the horizon.
- Corn emergence nationally at 94% through June 11, 2017 is on par with the prior five-year period. Indiana, Ohio, Michigan, and Kansas are each more than five percentage points below their five-year average emergence. Notably, North and South Dakota are well above their five-year average emergence, but that does not translate to favorable relative condition ratings for corn in those states.
- Good-to-excellent corn condition ratings are lower than last year for the 18 states reported by USDA. The eastern corn belt states of Illinois, Indiana, and Ohio in particular are weighing down on the percentage of the crop in the most favorable categories. South Dakota, North Dakota, Missouri, and Kansas are the other states with ratings below the national percentage of the corn crop in the good-to-excellent categories.
- The soybean-to-corn price ratio is now in the 2.37 range for closing prices between November soybean futures and December corn. This price ratio is actually higher than it has registered in the past few weeks. While we have reports of corn rolling or curling from dry conditions, we have a while before the yield forecasts from USDA would be expected to deteriorate and there is still time for weather issues to impact prices during the growing season.
- South American corn exports may create some additional pressure on U.S. exports and prices. We expect a later-than-normal—and large—Argentine corn crop. If Argentina is still harvesting corn rather than finishing up deliveries to ports in August, that could impact the U.S. more when the 2017 crop looks to ramp up exports in September.

Corn Emerged 2017 for Selected States vs Five-Year average



Source: USDA, Rabobank 2017

Crop Conditions as of June 2017 (Good to Excellent)

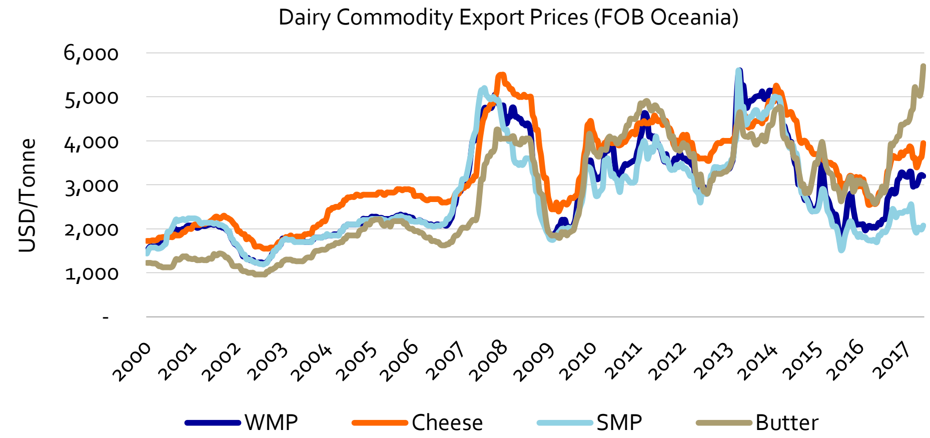


Source: USDA, Rabobank 2017

Dairy: Flat Prices, Butter and Change

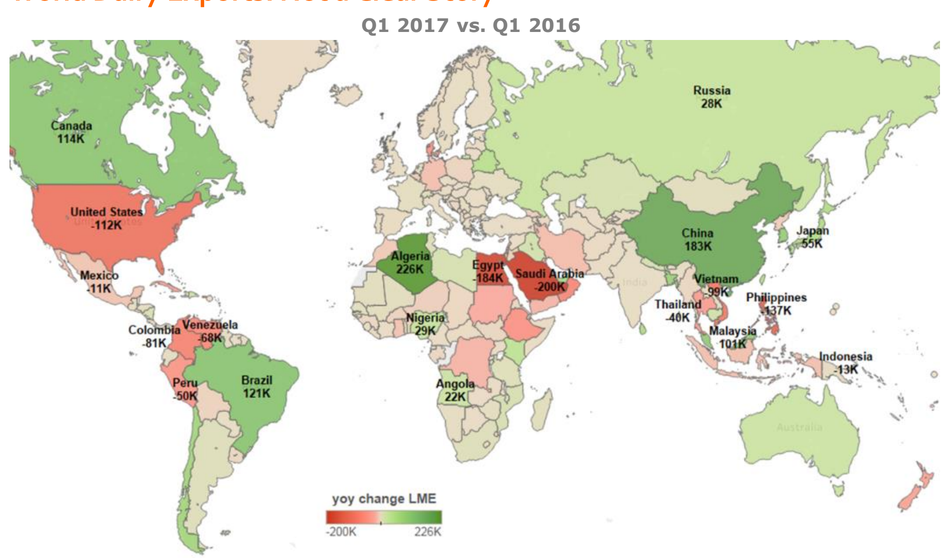
- U.S. milk production has continued to grow in the first four months of 2017 at +2% YOY. The U.S. herd has grown 0.6% over the four months through April versus last year, while yields have increased 2%. The growth in supply is a tale of favorable weather, cheap feed, and profitability. There have been hiccups to supply growth with bouts of unfavorable weather.
- On the demand side, the U.S. economy has continued to perform well, boosted by low unemployment (4.3% in May) and consumer confidence. However, commercial disappearance for dairy was only up 0.2% in Q1 2017. Retail sales for natural cheese and butter were both up 1% and 4%, respectively, in volume terms over the first five months of the year. Meanwhile, fluid milk has continued to contract, down 2.6% over the same time. With production modestly outstripping demand, the U.S. saw exports ramp back up in Q1 2017, at +12% in LME terms. Both Mexico and Canada have remained the key export destinations, despite Class 7 milk pricing and tensions in NAFTA ramping up throughout the period.
- Strong growth in demand for milk fat—in the form of cheese, ice cream, high-fat yoghurts, butter, and full-fat milk—has taken its toll on the U.S. milk fat supply, with April butter stocks down 1.2%. This has driven June butter futures to USD 2.45/lb, placing the butter premium over NFDM 250% above the ten-year average. Surprisingly, this large imbalance in prices for milk protein and milk fat hasn't been reflected in changes in farmgate production behavior, with the milk fat percentage increasing 2.1% in Q1 2017. As the demand for milk fat continues to grow, producers are making changes to herd composition for further boosts of milk fat production.
- Looking ahead, Rabobank forecasts U.S. milk prices to remain range-bound excessive global protein inventories. There is a risk of shrinking margins due to increasing labor costs, which will keep enough pressure on producers to ensure supply growth remains below 2% over the coming 18 months.
- On the demand side, despite some economic uncertainty as a result of geopolitical tensions and numerous crises around the world, we anticipate that the U.S. consumer will benefit from favorable economic conditions, and exporters may benefit from a weaker U.S. dollar. The continuation of milk fat acceptance by consumers will also help to drive demand growth. With our expectation of production growing by around 1.3%, Rabobank forecasts that U.S. exports will grow by 9% over the coming 12 months.

Prices Bounced around, Butter Continues Upward, 2010-2017



Source: USDA, Rabobank 2017

World Dairy Exports: Not a Clear Story



Feed: Some Recovery in Prices despite Ample Availability

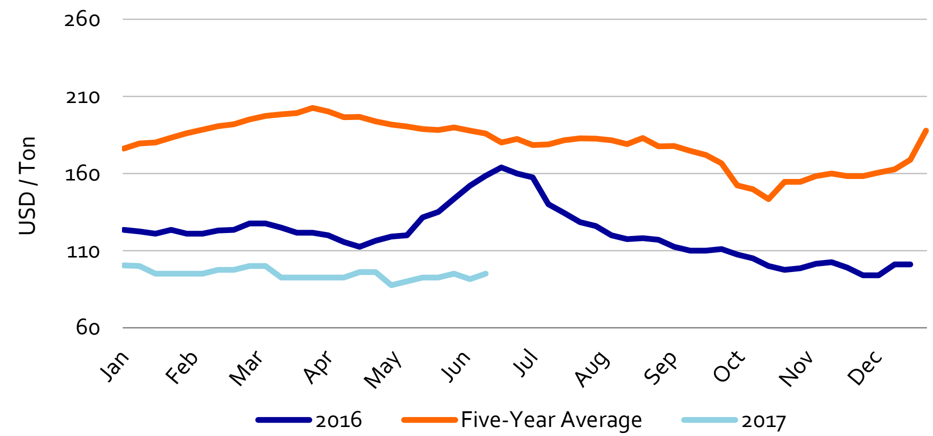
DDGS

- DDGS prices remained stubbornly flat throughout May, but showed a modest rally in the past week, led by increased corn and soymeal prices and as a result of prospects of hot temperatures during the next few days. The strengthening is likely to continue as long as weather concerns remain with respect to summer crops.
- Domestically, DDGS are priced at a discount to soybean meal. Rising soybean and soybean meal prices should help further improve this metric and expand DDGS consumption in livestock rations. Additionally, increases in the number of cattle on feed this spring—the USDA's May Cattle on Feed report showed a 2% increase in feedlot inventories from last year—should support increased domestic consumption.
- In the first four months of 2017, exports of U.S. DDGS were up 19% from one year ago (6% for the marketing year), and, looking toward the summer, international demand is expected to remain strong. This, together with increased cattle usage, should be price supportive, even as ethanol/DDGS production picks up from its seasonal spring lull.

Hay

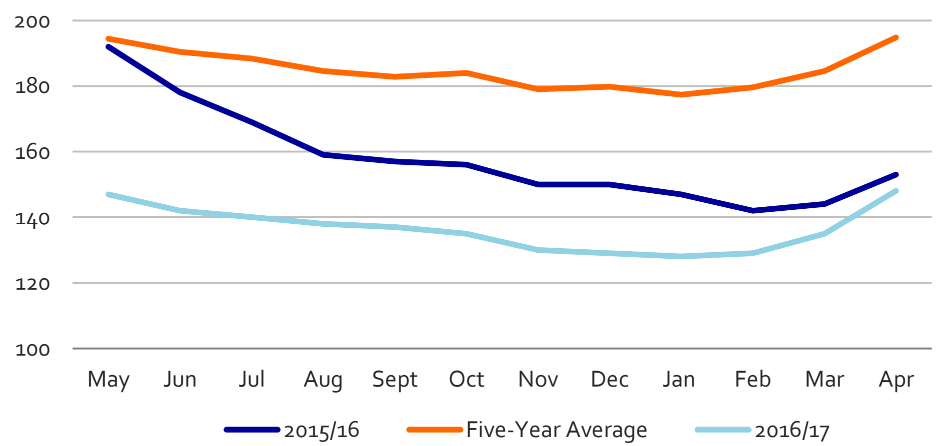
- The USDA May 1, 2017 hay stock report estimates total U.S. stocks to be 3% lower than last year, although they are still 16% higher than the five-year historic average volume. May 1, 2017 hay stocks saw the largest YOY reduction in the west, whereas many states further east saw stocks grow, particularly Texas, Kentucky, Pennsylvania, New York, and Indiana.
- Nationally average grower hay prices hit a five-year low in January, but have recovered somewhat due to a slight recovery in domestic milk prices, a reduction in stocks, and an increase in export volumes. Prices have additional upward potential, as the USDA estimates total hay acreage to be at a 100-year low, milk prices are relatively stable, and export volumes are still strong.
- Alfalfa and other hay exports from January to April 2017 are respectively 33% and 3% higher compared to the same period in 2016. Alfalfa exports during this period to Saudi Arabia, China/Hong Kong and Japan are respectively 61%, 53%, and 27% higher. South Korea had a poor grass hay crop last year, which they are supplementing with imports—shipments through April to South Korea are 30% higher than for the same period last year. Nearly all other hay exports destinations have reduced their shipments.

Iowa DDG Price, 2016-2017



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

Alfalfa Hay Prices, 2015/16-2016/17

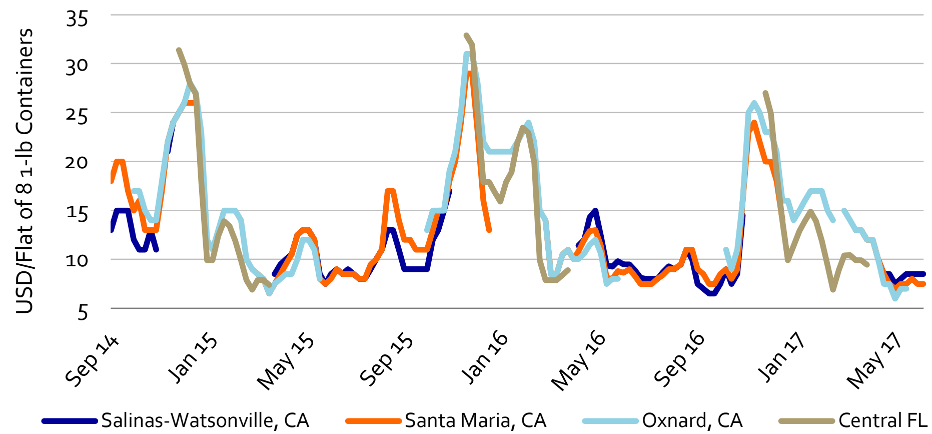


Source:LMIC 2017

Fruits: Fresh Citrus Markets Are Strong

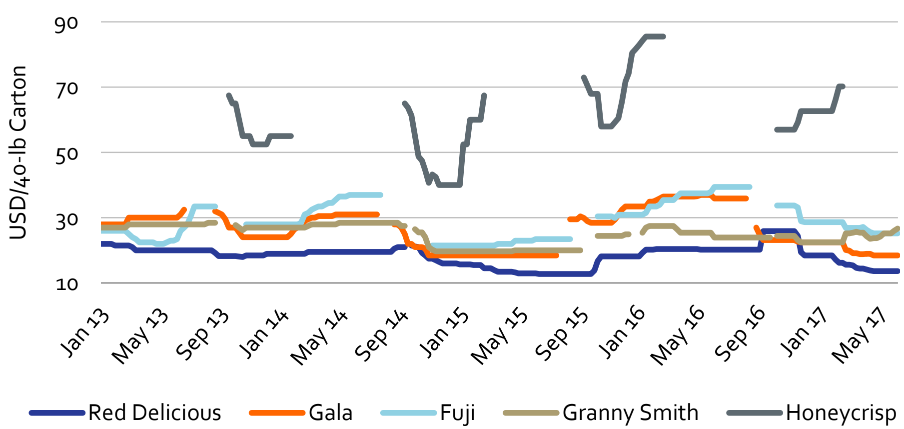
- Strawberry prices are following their typical seasonal pattern and have come under pressure as weekly California volumes have continued to rise. 2017 fresh California strawberry shipments started slow, but were at 11% above projection by the end of May. The Georgia and South Carolina blueberry crops were significantly impacted by the March freeze, with some growers reporting up to a 50% crop loss. Blueberry prices have come well off their April highs, but were 36% higher during the first week of June, YOY.
- Historically high avocado prices continue, on the back of lighter volumes combined with rapidly expanding global demand. California 48s continued to sell for more than twice last year's price through April and into May. Prices in June are still 35% higher YOY and are likely to remain elevated, at least through the summer.
- The California navel season finished with strong pricing as volumes wound down and domestic as well as export demand remained robust. Valencia pricing has begun strong, as production continues on its historical downward trend. Lemon prices continue to be elevated YOY, especially for smaller fruit, which is in short supply.
- Apple prices, especially for reds and galas, have been challenging due to the large crop. Initial crop-size estimates for 2017/18 are coming soon.

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



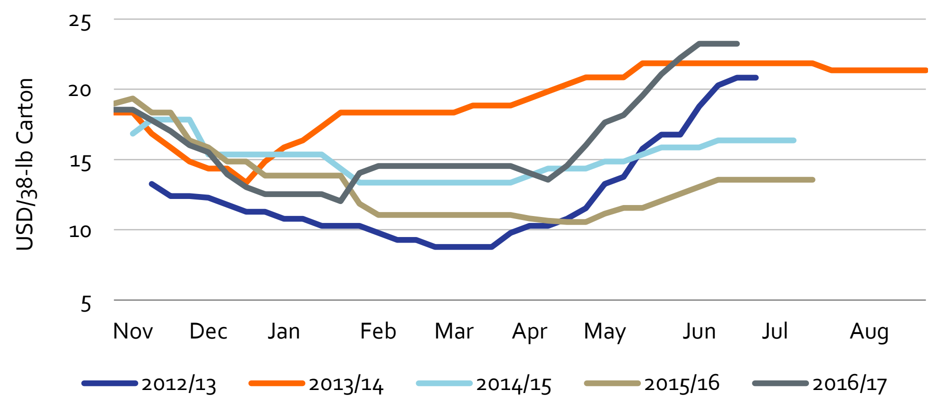
Source: USDA/AMS, Rabobank 2017

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



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

Navel Orange Shipping Point Prices—88s—Shippers 1st Grade, 2012/13-2016/17



Source: USDA/AMS, Rabobank 2017

Pork: Prices and Profits on a Rollercoaster

Rabobank

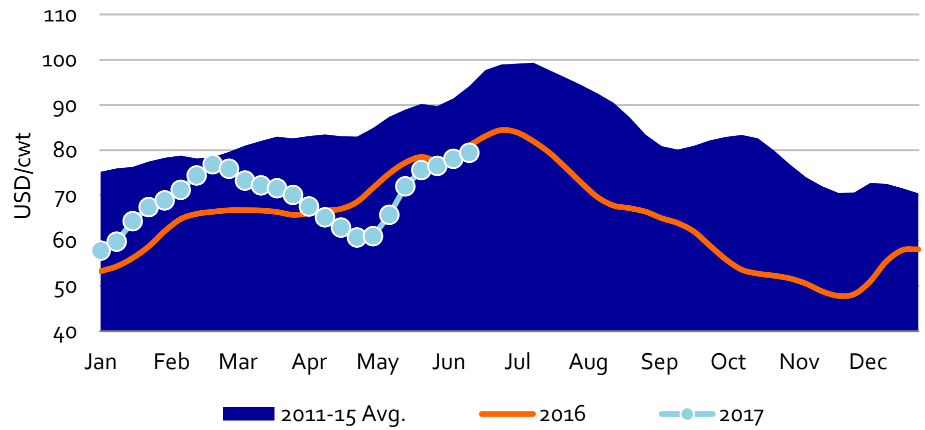
U.S.

- U.S. pork prices continue to ride a rollercoaster this year, with futures having started the year under USD 60/cwt, climbing rapidly to USD 75/cwt by mid-February to fall precipitously to USD 60/cwt by the end of April and now being very close to where they started the year. Thankfully for producer profitability, hog prices have climbed again since then, and today stand above USD 80. All this volatility has not been driven by hog weights by any means, which have trended below 2016 levels throughout 2017, but by hog numbers and the prevailing views on domestic and international demand.
- So far both international and domestic demand have been quite strong, as has demand for all U.S. animal protein. We have seen robust exports to the vast majority of major pork-exporting markets including Mexico, despite the political uncertainty of the last six months. This has helped to lift hog values and keep the outlook for producers quite robust.
- We estimate average hog producer profitability around USD 20/head for the month of June, and if the futures curve holds at current levels for both hogs and grain, then producers could see an average per-head profitability near that level for 2017 overall. That would be a fantastic result and the most profitable year since the PEDv outbreak of 2014.

Mexico

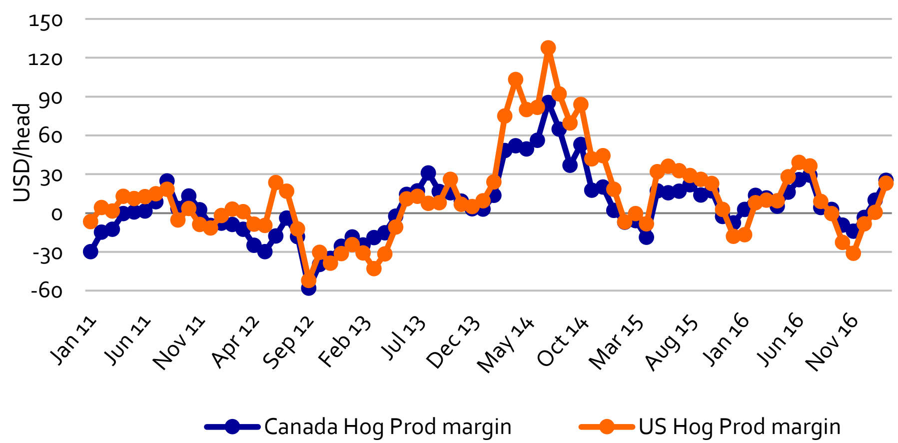
- Hog prices in Mexico are starting to increase, for two reasons. First, PEDv hit hog producers in February 2017, reducing the availability of hogs in the market and putting upward pressure on domestic hog prices, which is slowly starting to become visible. Second, the resumed demand of pork after religious holidays is picking up, adding upward pressure to domestic prices.
- January to May pork imports from the U.S. are 11.6% higher than the previous year. Pork exports are rapidly accelerating and we expect to see close to a 1.2m tonnes of imports this 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: Modest Supply Growth and Strong Margins

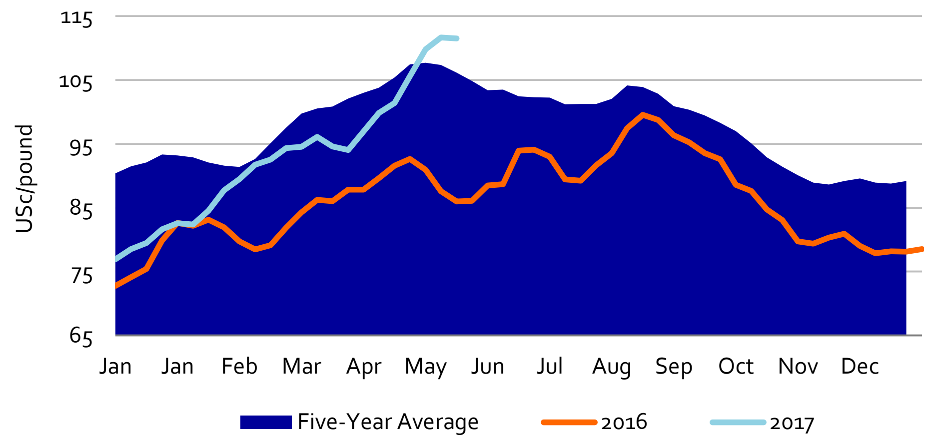
U.S.

- Poultry prices in the U.S. have climbed significantly since the beginning of the year. While the summer months are the seasonal peak in poultry prices, the 30% climb in chicken prices on a composite basis has made for quite an unusually strong increase. What is especially noteworthy is that the vast majority of the increase was driven by breast meat prices—the traditional indicator of domestic poultry demand—and is occurring while supplies of pork and beef are climbing in 2017.
- We would expect poultry prices to plateau from current levels, if not decline somewhat, but remain at a very profitable level going into the fall months. If this trend continues, profitability for U.S. producers could very well meet some of the highest margins the industry has experienced over the last five years.
- Trade is a major topic not just for poultry but for U.S. animal protein in general. The U.S. has recently announced an agreement which would allow processed poultry from China and also states that U.S. beef would regain access to China, and we wonder what this may mean for China reopening to U.S. poultry imports, which have been banned there since early 2015. The Chinese delegation visiting the U.S. this summer is a good sign.
- Exports through April have shown moderate growth of 5%, with the vast majority of growth being driven by increased shipments to Angola, Kazakhstan, and Cuba.

Mexico

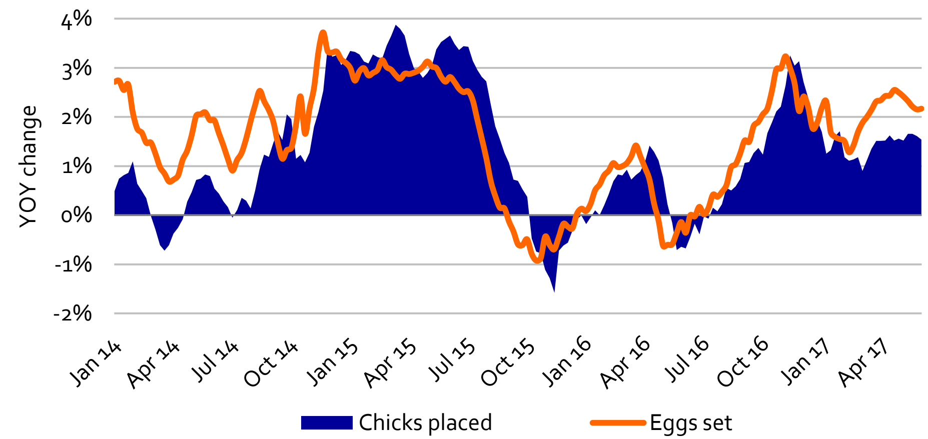
- Chicken imports have been declining since the start of 2017, as production and the domestic flock have fully recovered. The amount of exports for this year indicate a better domestic production. Mexican exports from January to May are up 173% compared to last year, which is an increase from 478 tonnes to 1,300 tonnes. At the same time, imports between January and May are slowing down compared to the previous year, having decreased 6.8%. Nevertheless, we expect around 800,000 tonnes of chicken imports.

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



Source: USDA, Rabobank 2017

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

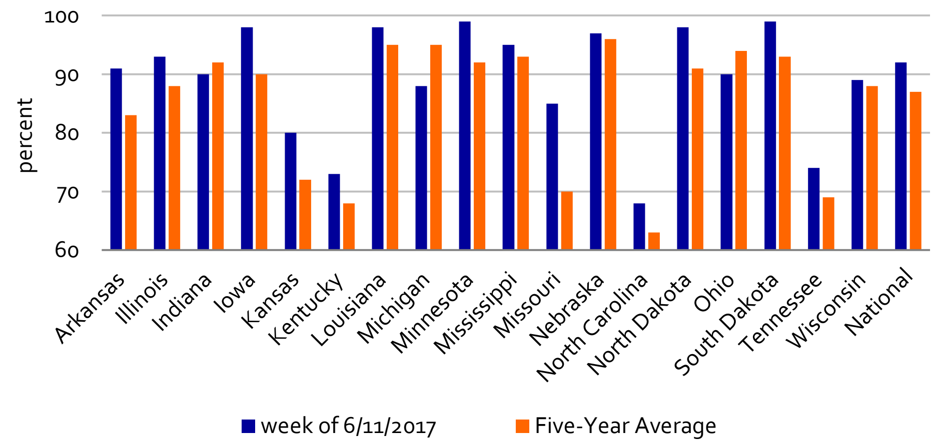


Source: USDA 2017

Soy Complex: Large Stocks Weighing on Prices

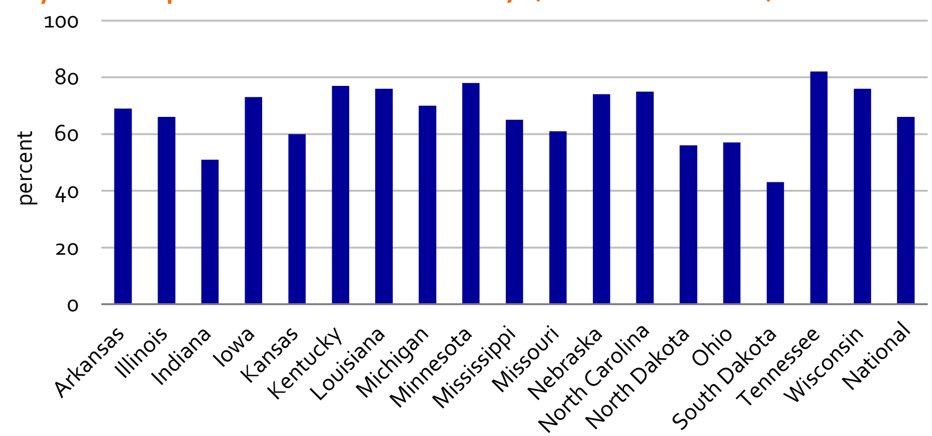
- November soybean futures reached a low point of USD 9.155 on May 31 and then rebounded upwards surpassing USD 9.50 on June 8. Continued downward pressure on soybean prices is likely from larger expected carry-in from the 2016/17 crop in the U.S. and from Brazil and Argentina. Pricing opportunities should be monitored closely.
- The upcoming USDA's acreage report is not expected to provide any surprise to rally soybean prices higher. The 2017/18 marketing year faces large beginning stocks and expectations for another large soybean crop in the U.S. and globally.
- The biggest news has been the lack of news. The eastern corn belt states of Ohio and Indiana have below-national average condition ratings for percentage of the crop in good-to-excellent categories. These states join Missouri, Kansas, and North and South Dakota for pulling down the national good-to-excellent average, with Mississippi missing the average by only one point.
- Soybean emergence at 77% nationally is running even with 2016 and above the prior five-year average of 73%. That Indiana and Ohio are behind their five-year averages and last year for emergence does not come as a surprise what with the weather challenges they have faced. Michigan is behind as well in terms of the five-year average and last year's emergence reported for this week.
- YOY growth in projected domestic use of soymeal and soy oil for 2017/18 has for the most part not resulted in an increase in prices for soybeans or its components above the current-season average prices. Higher beginning stocks for the marketing year, pressure from higher export volumes from Brazil, and expected ending stocks in the U.S. at the highest level since 2006/07, will likely mean continued downward pressure on soybean prices.
- If domestic crush is adjusted downward further into 2017/18 with a weakness in soymeal seen from higher ending stocks, there is a potential for basis deterioration and downward pressure on soybean prices, as stocks for the whole bean will either rise or likely clear at lower prices in the export market.
- While the production levels for the current year's output from Brazil and Argentina are expected to be high, many will be watching for planting indications from South America as we move into the next marketing year. The lower prices in place now and relative currency values can make a difference on South American planting intentions, which will impact prices for the latter portion of the 2017/18 U.S. soybean crop. Given the policy shifts in Argentina that resulted in more corn production, a shift to higher soybean production from further reduction in export taxes could impact global markets again.

Soybean Planted Acres 2017 vs Five-Year average



Source: USDA, Rabobank 2017

Soybean Crop Conditions as of June 2017 (Good to Excellent)

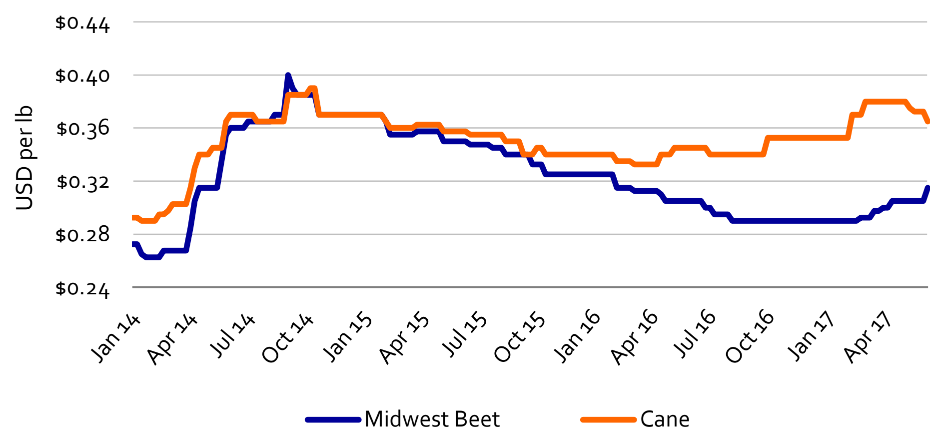


Source: USDA, Rabobank 2017

Sweeteners: An Agreement Has Been Reached

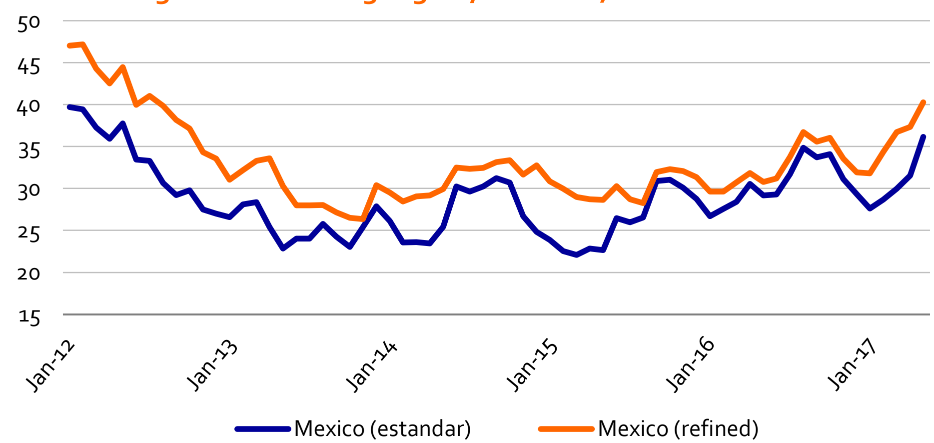
- After a long and drawn-out review of the suspension agreement between the U.S. and Mexico, the Secretary of Commerce Wilbur Ross announced an "agreement in principle" on June 7.
- There are five major provisions; (1) the agreement raises the FOB price Mexican Mill at which raw and refined sugar can be sold, (2) volumes of refined sugar that may be imported are reduced from 53% to 30%, (3) The dividing line or polarity between refined and raw are reduced from 99.5 to 99.2 polarity, (4) Penalties for violations are increased, and (5) Mexico will have first right of refusal to supply 100% of any additional U.S. sugar needs identified by USDA after April 1. This agreement does not change earlier agreed-on import volumes.
- The agreement addresses the issue of providing more raw sugar for U.S. sugar refiners. In addition, reaching the agreement heads off any retaliatory tariffs on U.S. HFCS exports to Mexico.
- The final provision allowing Mexico "first right of refusal" has been most controversial. U.S. sugar interests are unhappy with the agreement because of this provision, believing it is a loophole for more Mexican sugar to enter the U.S.
- The sugar beet crop is developing well, but trade is carefully watching dryness in Northern Plains for signs of stress.
- The Mexican zafra is coming to an end as only 12 sugar mills continue to register activity. The end of this zafra is expected to finish by June 24, at a lower production level of 5.9m metric tons of sugar, a decrease of 8% compared to last year. A lower area harvested and lower productivity has caused a drop in the sugar production.
- Mexican sugar exports have accelerated compared to last year, reaching a total of 1.07m metric tons (U.S. and other parts of the world) from January to May of the 2016/2017 marketing year. Compared to the same period last year, this is a total increase of 28%. Mexican exports to the U.S. should slow down for the remainder of the zafra as we are looking at lower domestic production and already accelerated exports. Mexico has filled only 76% of the export limit granted by the U.S.

Beet Sugar Prices Are Rising as Processors Sold Out, 2014-2017



Source: Sosland Publishing, Rabobank 2017

Mexican Sugar Prices Moving Higher, 2012-2017



Source: USDA, Sosland Publishing, Rabobank 2017

Tree Nuts: Shipments Continue Their Climb

Almonds: The USDA's subjective estimate has bearing acreage at 1m acres and the crop at 2.2bn pounds. Grower prices have softened to a mixed average of USD 2.20/lb. Shipments through May are up 18% over last year. The Almond Board estimates that 200m pounds of new crop have been committed.

Hazelnuts: The Hazelnut Marketing Board has petitioned the Federal Government to allow them to "regulate quality for the purpose of pathogen reduction and the authority to establish different regulations for different markets" should it be required. YTD shipments are on par with years past, and a majority of kernels have been shipped to the Nutella plant in Canada.

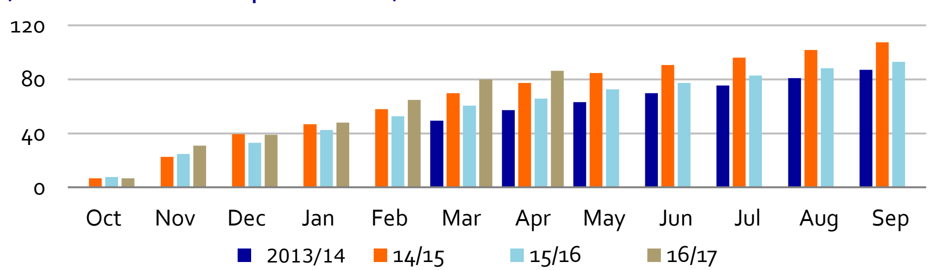
Walnuts: Total shipments continue to set new records, despite prices increasing over last year's levels. In-shell shipments to India from September 2016 to April 2017 are nearly four times higher than for the same period last year—more than offsetting weak demand in other parts of South-East Asia.

Pistachios: While shipments as a percentage of the total crop are on par with previous years, processors still have over 450m pounds in inventory, of which nearly 40% is either closed shell or shelling stock. As inventories of good quality product continue to shrink, prices will firm. The industry does not have the capacity to crack out all of the closed-shell by the end of the season. This will add a large amount of volume to next year's carry-in.

Pecans: For the third consecutive year, Mexico has outproduced the U.S. with an estimated crop of over 300m pounds. Chinese in-shell demand has been in line with years past, but meat consumption during the first four months of the year has been 50% higher than last year's total imported volume. Their demand has supported prices at their near-record levels.

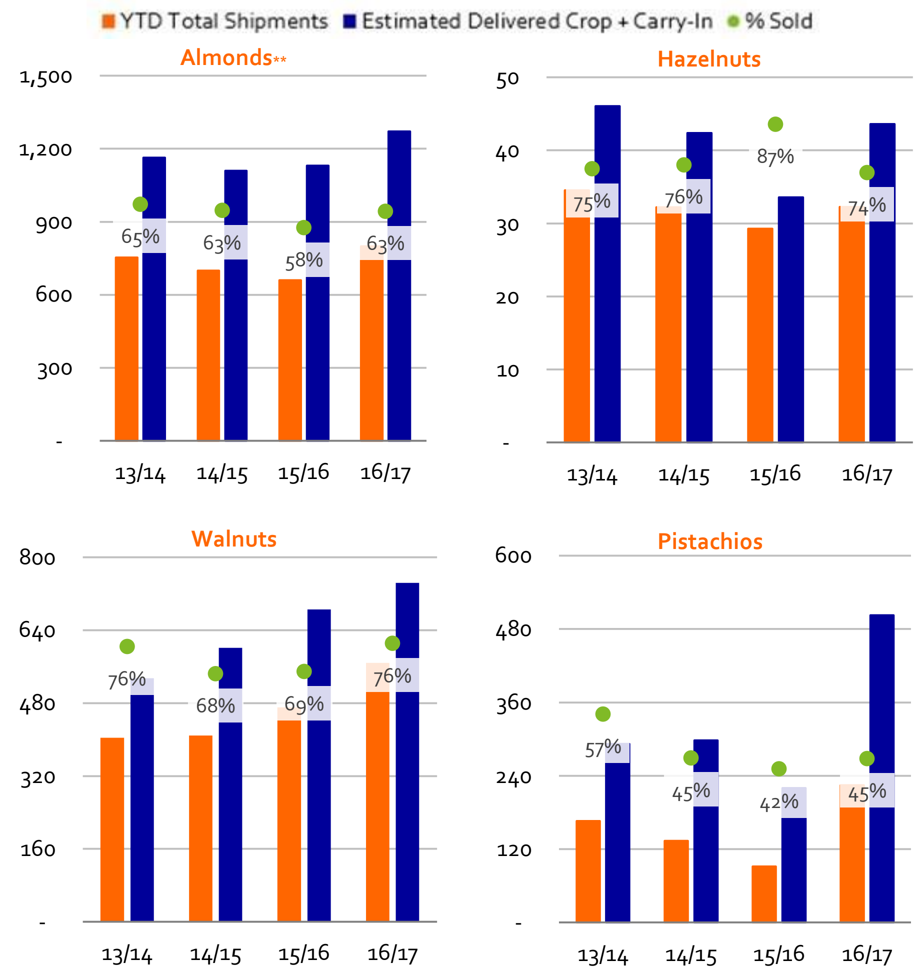
Cumulative Pecan Exports

(thousands of in-shell equivalent tons)



Cumulative U.S. Tree Nut Shipments*

(thousands of in-shell equivalent tons)

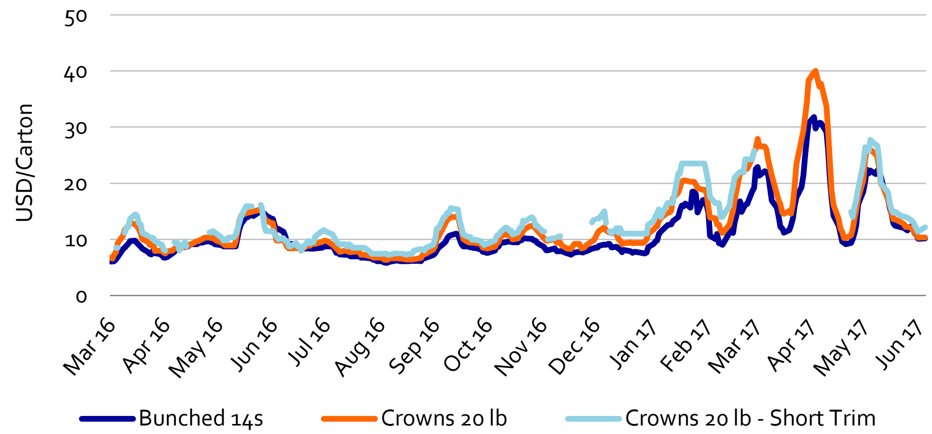


Source: Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, FAS 2017
**through April 2017*
***meat pound equivalent*

Vegetables: Minor Gaps Continue for Some Crops

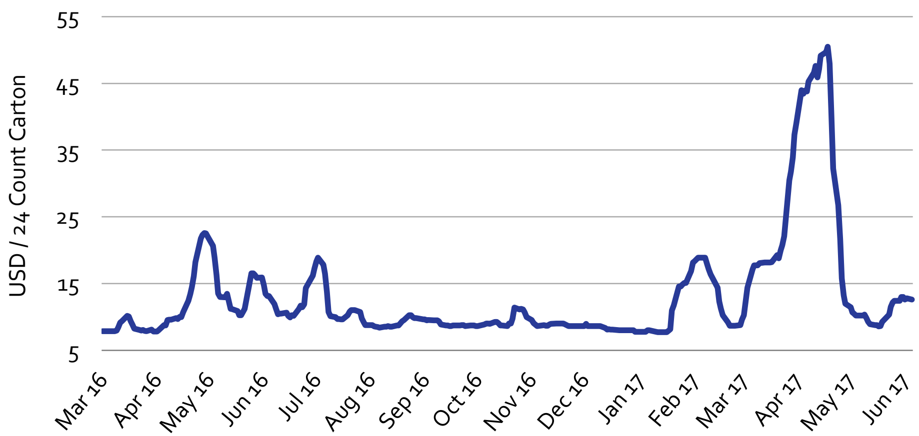
- Broccoli prices have continued to exhibit extreme, weather-related price volatility. They had once again found some support at around USD 10.00 in late May/early June, as the impacts of cooler weather and lighter plantings started firming things up. While broccoli supplies have finally steadied, cauliflower supplies and prices continued to be volatile, with continued supply gaps expected in the short term.
- Ample supplies and lighter demand for romaine have been reported in recent weeks, and prices are reflecting that combination. The reported price for romaine 24s was off by 50% YOY during the first week of June.
- North Carolina sweet potato prices have continued to deteriorate, and were flirting with 2013 lows in early June. Marketers continue to focus on export markets to help manage the rapid increase in domestic supply growth.
- Despite the March freeze that impacted some of the early vegetable plantings in the south-east, late spring and summer crops appear to be largely on target.
- Iceberg prices have gotten a recent bounce, as planting gaps (due to earlier rains) are being felt. Lighter supplies are expected through mid to late June.

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



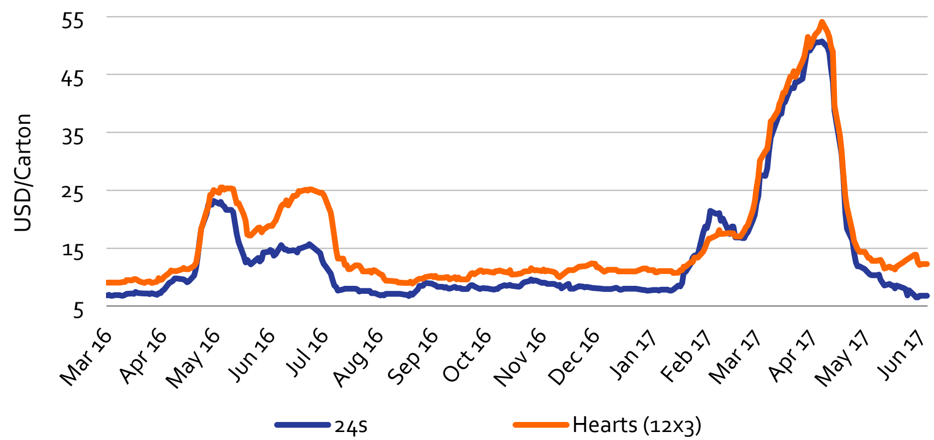
Source: USDA/AMS, Rabobank 2017

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

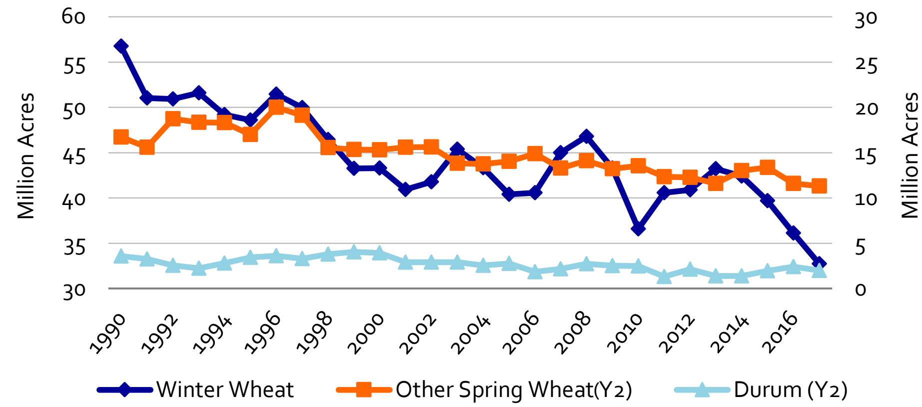


Source: USDA/AMS, Rabobank 2017

Wheat: Prices Remain Under Pressure

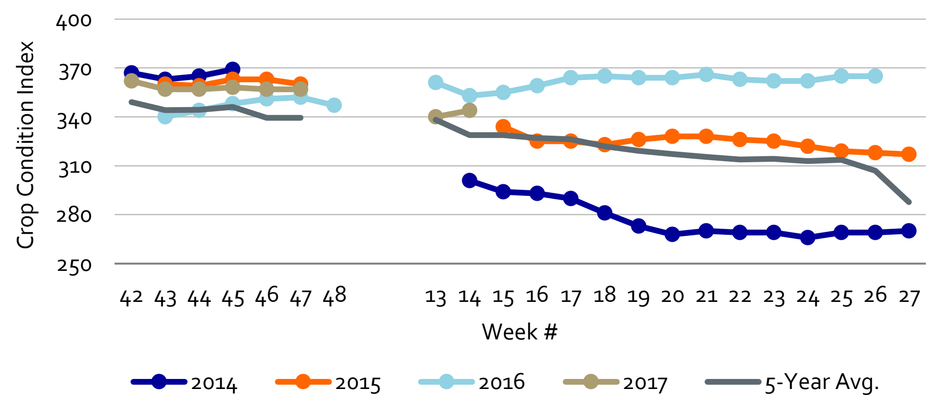
- The headlines in the wheat market remain the same—low prices, burdensome stocks and a similar outlook lasting seemingly forever. There is no question that U.S. wheat and global fundamentals are still bearish. However, our GE model is projecting that we may be near the bottom with respect to planted acres, price and burdensome stocks, with subsequent years showing average farm-level prices going above USD 5.00/ bushel.
- The USDA projected all-wheat planted acres for 2017 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 the 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 exacerbate 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 the 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, 1990-2016



Source: NASS, Rabobank 2017

Winter Wheat Conditions—Second Only to Record Yields of 2016, 2014-2017

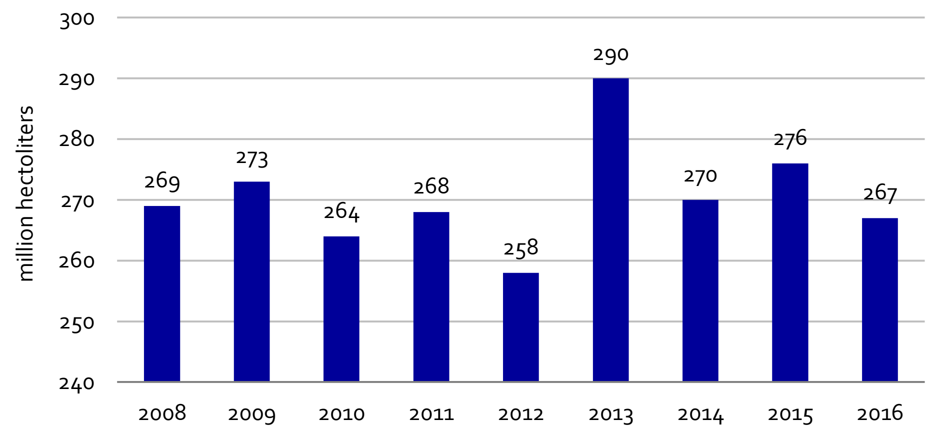


Source: NASS, Rabobank 2017

Wine: Drivers of Change in the International Market

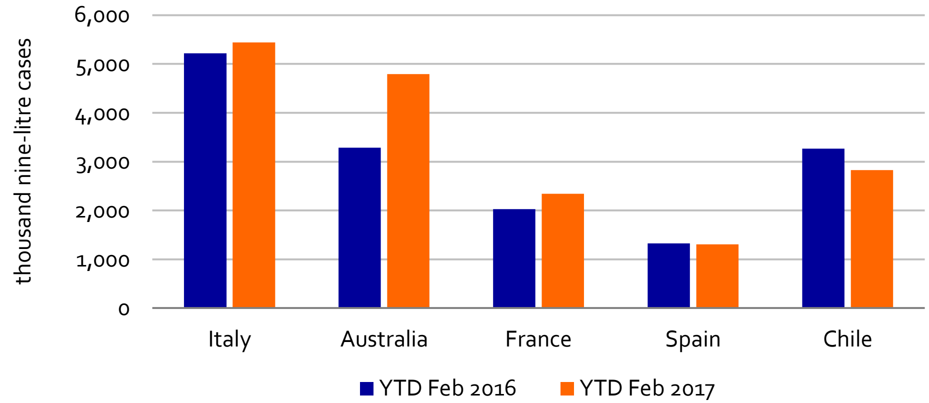
- According to the International Organization of Wines and Vines (OIV), global wine production was approximately 267m hectoliters (MHL) in 2016, a 3.3% decline from the 276m hectoliters produced in 2015. With the recent frost that hit some of the main wine-producing regions of Europe, 2017 could see global production fall even further.
- Tighter supplies should help keep some upward pressure on wine grape pricing and bulk wine in many regions in the near term, but declining demand in the UK market could create a counterbalance to lower supply levels over time. The Wine and Spirits Trade Association suggests that wine prices were already rising more in the first few months of 2017 than they had in the previous two years, mainly as a result of the declining value of the British pound. They expect wine prices to continue rising this year as a result of a triple whammy of Brexit, inflation and steep increases in excise taxes. Australian economists Kym Anderson and Glyn Wittwer have predicted that wine consumption in the UK will fall by 28% by 2025 as a result of Brexit.
- As the UK is the second-largest wine import market in the world—by both volume and value—significant volume declines in this market will have important reverberations throughout the global market. Some of the impact of the soft demand in the UK could be compensated by growth in other markets, such as China, but even China has seen a notable decline in its growth rate of wine imports. Chinese bottled wine imports rose just 3.0% by volume in the first four months of this year, with both Chile and Australia continuing to gain market share, given the recent free trade agreements.
- With the challenges in many of the main traditional importers, we believe that many exporters—particularly in Europe—will put increasing focus on the U.S. market.
- Wine imports in the U.S. showed strong growth in the first two months of 2017, with nearly all major suppliers showing solid gains. Even bulk wine, which had declined in 2016, showed strong growth at the start of 2017. Imports from Australia registered the biggest absolute gains in the period, while imports from Chile declined the most.

Global Wine Production, 2008-2016



Source: OIV 2017

U.S. wine imports ('000 9 lt. cases) by country of origin for selected countries, YTD Feb 2016 vs YTD Feb 2017



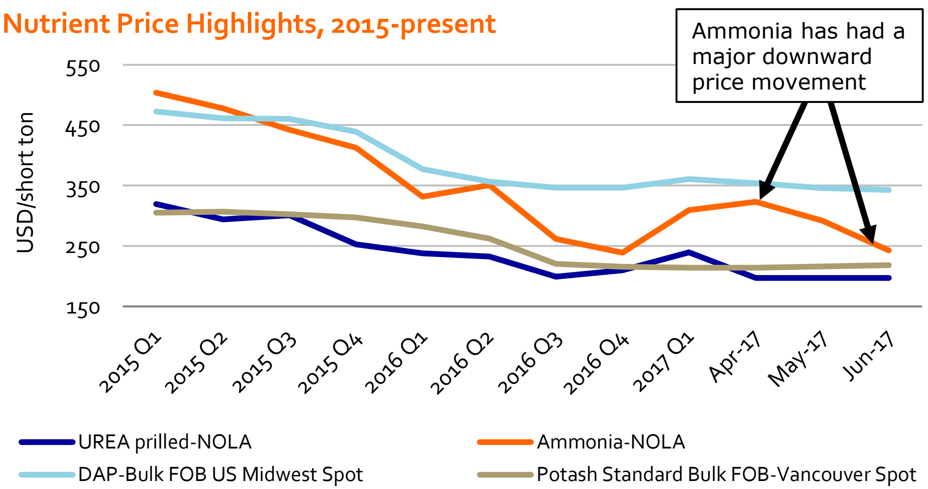
Source: Gomberg-Fredrikson, Rabobank 2017

Source: China Association for Import and Export of Wine and Spirits, The Wine & Spirits Trade Association, The Ciatti Company 2016

Farm Inputs

- Since our April update, fertilizer prices have generally remained stable, with the exception of ammonia, which has fallen significantly to levels last seen during 2H 2016. On the geopolitical front, the turmoil in Qatar is not expected to impact fertilizer exports from that region, but we continue to keep an eye on near-term dynamics impacting supply and demand.
- **Nitrogen (N)**—abundant supplies causing price pressure remains at the forefront with the recent drop in ammonia prices.
- **Phosphate (P)**—the "buyer's rush into a rising market" (as it was put by an executive at The Mosaic Company) has lessned, as seasonal demand for DAP as well as MAP is over in the U.S.
- **Potash (K)**—the latest news in the potash complex involves Canadian capacity expansions, specifically involving BHP Billiton which is developing its Jansen mine. Apparently this is considered a phased expansion which could produce around 15% of global supply, and K+S, whose Bethune mine became operational just last month.

Nutrient Price Highlights, 2015-present



Source CRU, Rabobank 2017

Orange Juice

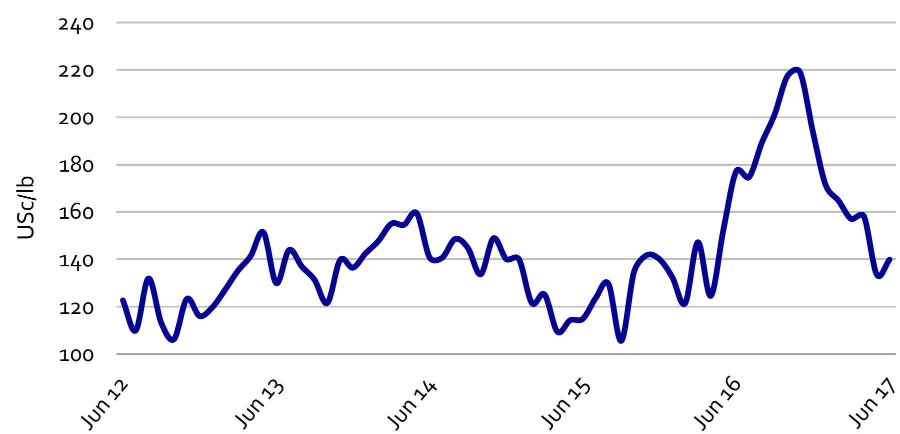
Florida Orange Juice

- The forecast for the Florida orange crop for the 2017/18 season continues with negative trends for a small crop. USDA forecast is for 68.5m boxes, up 0.5m boxes from the last 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.
- The FCOJ futures approached record levels at USD 2.25/lb in early November but have declined significantly since then. Traders are as bearish on prices as they have been since October 2015.

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 365.5 million boxes. This is a significant increase over 2016/17 production of 245m boxes. 73% of the Brazilian crop is expected to come from the initial bloom.

FCOJ Futures, 2012-present

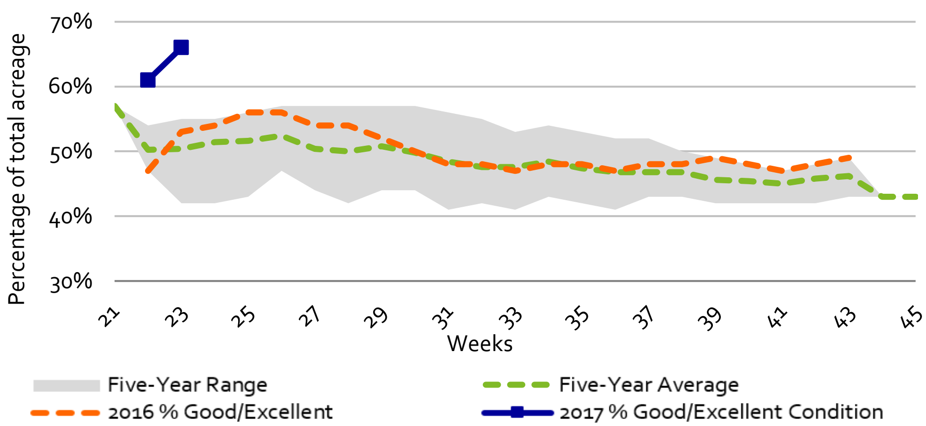


Source: Bloomberg-ICE 2017

Cotton

- July ICE #2 futures exhibited substantial volatility through May, peaking at USc 87/lb before a slump to Usc 74/lb. This sizeable USc 13/lb price move was the result of a squeeze on unbalanced on-call mill sales, driven by speculators. Since then prices have softened as both on-call unfixed sales and long speculator positions are unwound prior to July First Notice Day (FND). Potential for volatility on July remains up until the FND date.
- New crop USDA forecasts came largely as expected, with stocks rising outside of China. Strong U.S. 2017/18 production was estimated at 19.2m bales, versus Rabobank at 19.7m bales. Although early, the 2017/18 exports forecast at 13.5m bales seems optimistic, given USD strength and higher available stocks in rival exporting nations. Rabobank maintains a bearish price outlook for cotton, with prices anticipated to reach USc 68/lb by Q1 2018.
- A promising monsoon, with rainfall forecast at 98% of the long-period average, is favorable for the Indian new crop. Improved plantings, up nearly 10% YOY, should see Indian production recover to between 27-30m bales, up from 26.5m bales in 2016/17.
- Very little weather risk is priced into the ICE #2, despite 57% of total U.S. area being concentrated across Texas in the coming season. This is partially a function of exceptional new crop conditions so far—rated 66% GD/EX versus 53% last year. However, weather will form a key upside risk for new crop prices in the coming weeks.

Exceptional 2017 Good to Excellent Crop Conditions; Yet Weather Risks Remain



Source: USDA, Rabobank 2017

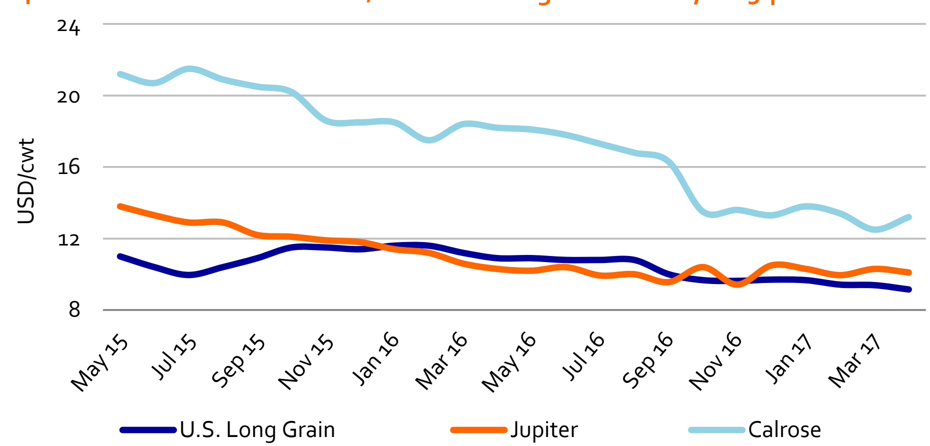
Rice

Rice plantings across the U.S. are largely complete. The only major hiccup was in California, where an abnormally wet winter made it so that producers could not get into their fields until the beginning of May 2017—nearly a month late. A significant amount of acreage in California will go unplanted due to the inability to plant rice.

Prices for this crop season have yet to recover and continue to be well below breakeven for many producers. Average YTD grower prices for Long Grain, Jupiter, and CalRose are respectively USD 9.71/cwt, USD 10.06/cwt, and USD 14.04/cwt. April's Long Grain and Jupiter prices may have hit a floor at their current levels of USD 9.15/cwt and USD 10.10/cwt, while Calrose has picked up, albeit marginally in the last few months, rising to USD 13.20/cwt.

From January 2017 to April 2017, rice exports are 30% higher than the same period last year. Exports are being supported by a slight decrease in the value of the USD relative to other currencies and very low prices. Regional exports between January and April 2017 are up for most regions. Exports to Asia have increased over 11%. Exports to Central and South America have climbed nearly 17%. Exports to Africa and the Middle East are up nearly 175% above January to April 2016 levels.

24-Month Historic U.S. Medium/Short and Long Grain Prices, 2015-present

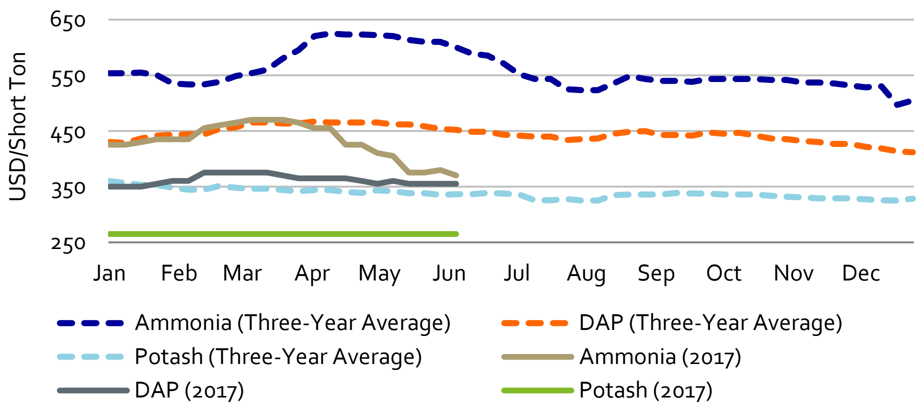


Source: USDA/NASS, Rabobank 2017
Note: Average rough rice basis

Input Costs

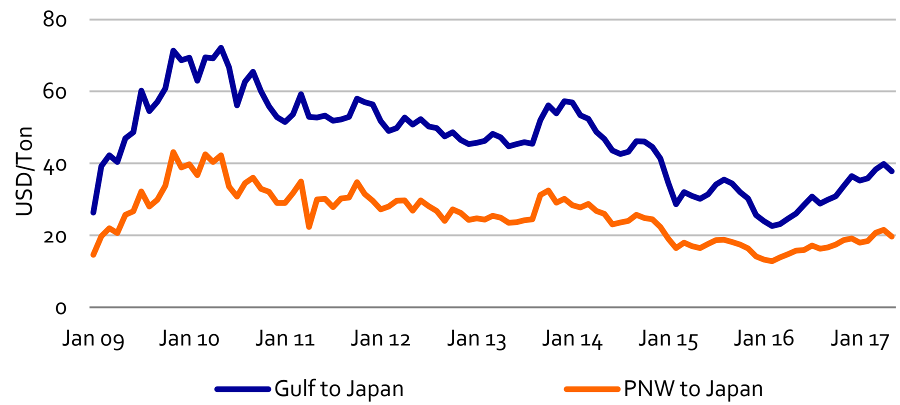
As of 14 June 2017

Corn Belt Input Prices*



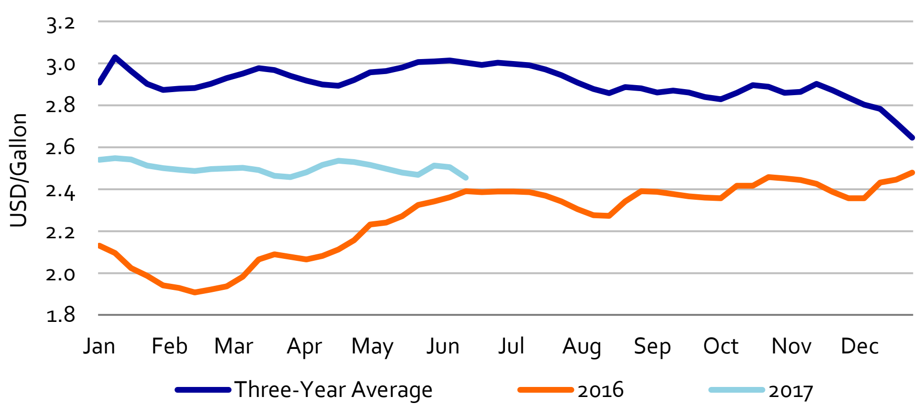
Source: Bloomberg 2017
** Note: granular potash*

Ocean Freight



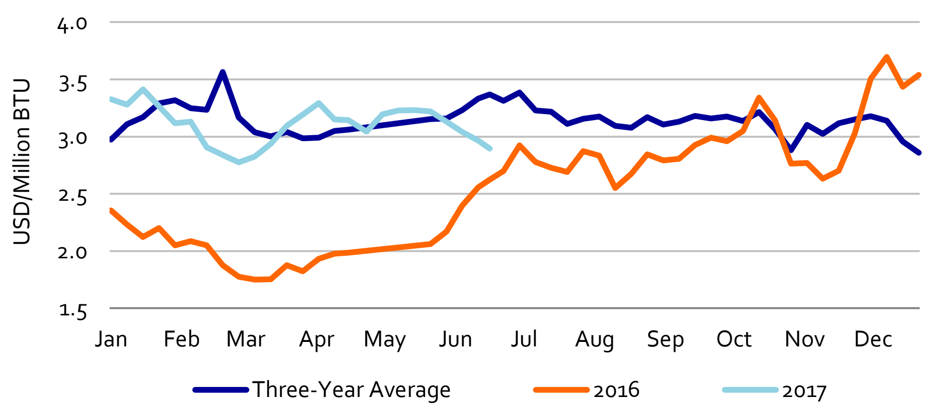
Source: O'Neil Commodity Consulting, AMS-USDA 2017

Diesel — Midwest



Source: EIA 2017

Natural Gas Spot

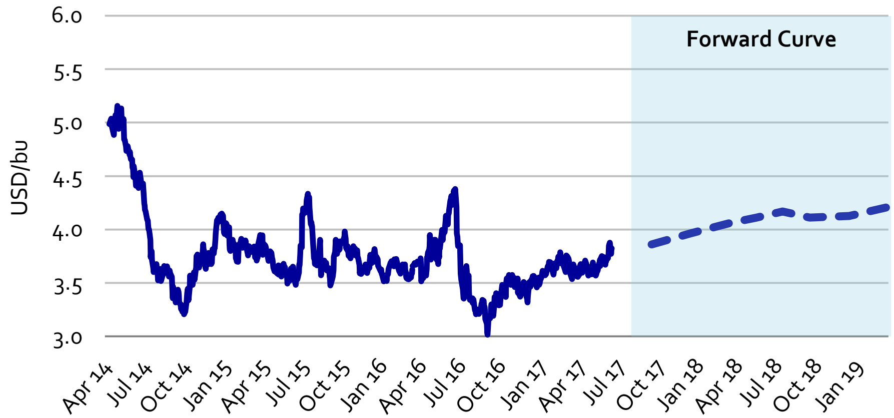


Source: NYMEX 2017

Forward Price Curves

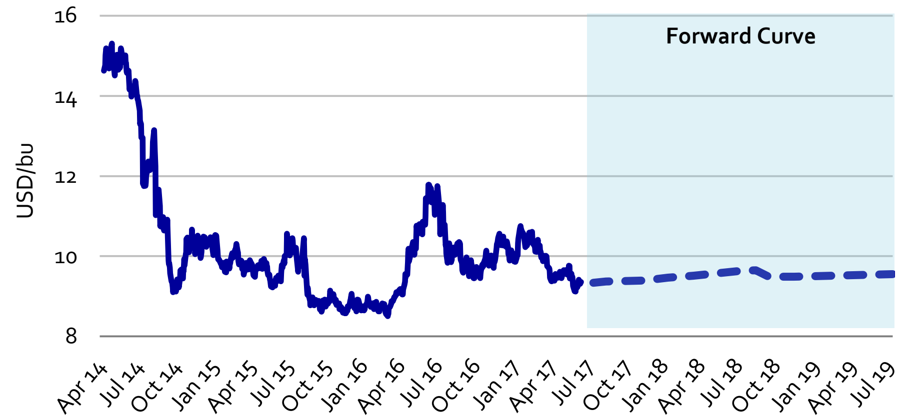
As of 14 June 2017

CBOT – Corn



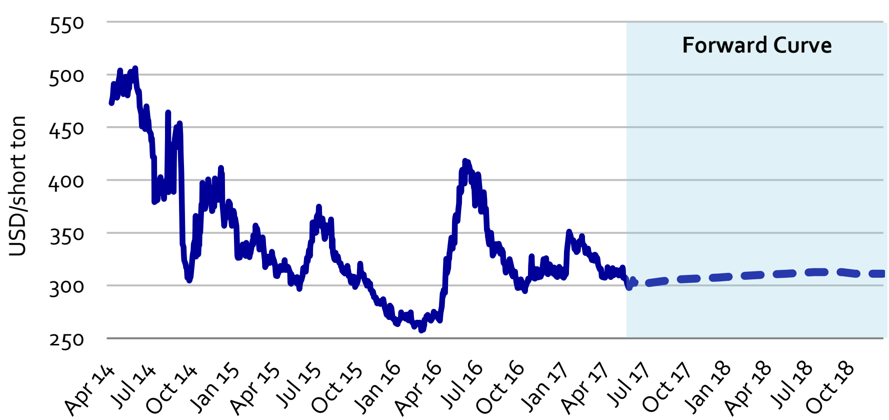
Source: CBOT, Rabobank 2017

CBOT – Soybeans



Source: CBOT, Rabobank 2017

CBOT – Soymeal



Source: CBOT, Rabobank 2017

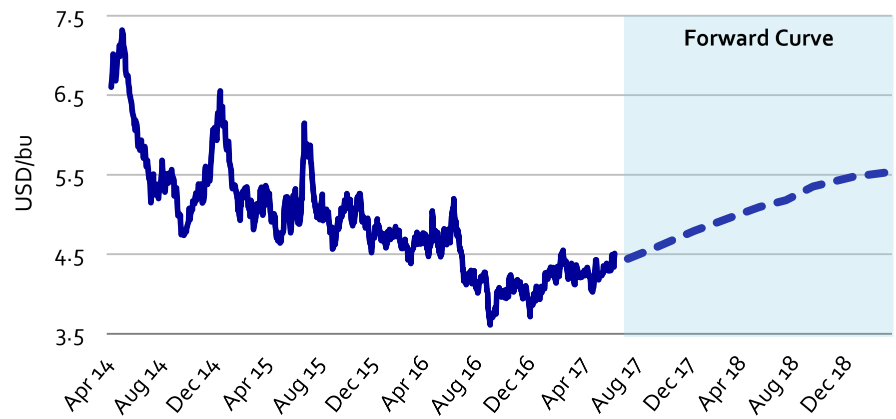
CBOT – Soy Oil

Source: CBOT, Rabobank 2017

Forward Price Curves

As of 14 June 2017

CBOT – Wheat

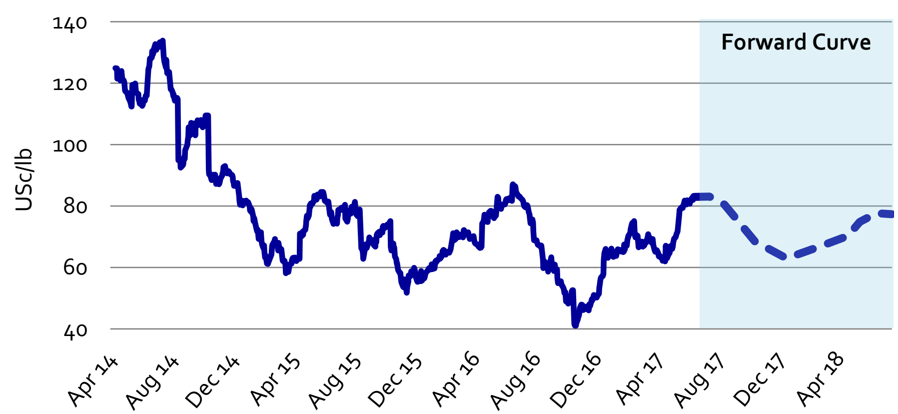


Source: CBOT, Rabobank 2017

CBOT – Feeder Cattle

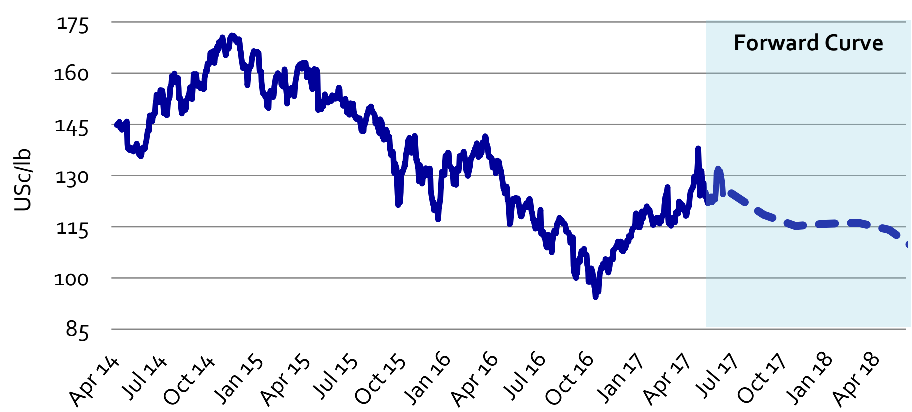
Source: CBOT, Rabobank 2017

CBOT – Lean Hogs



Source: CBOT, Rabobank 2017

CBOT – Live Cattle

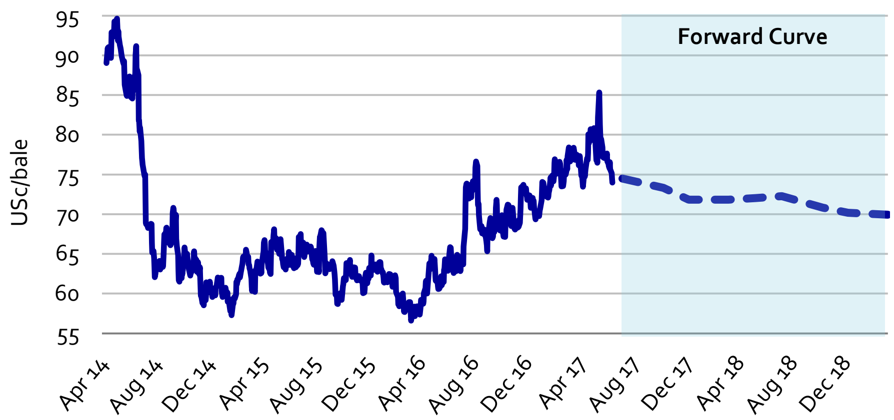


Source: CBOT, Rabobank 2017

Forward Price Curves

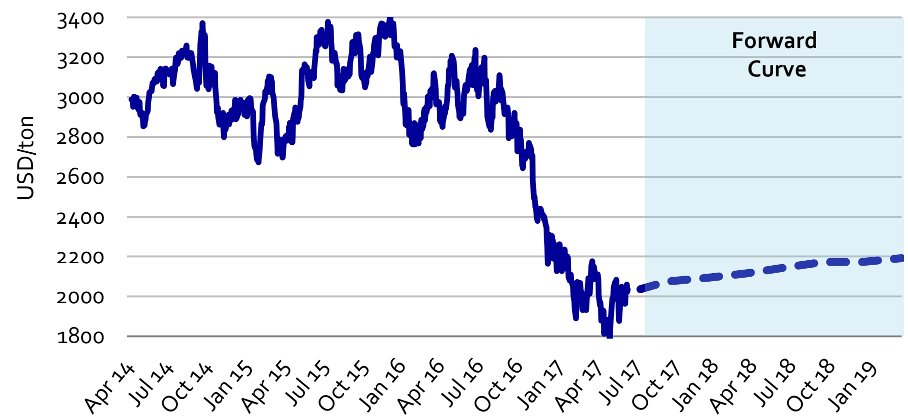
As of 14 June 2017

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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