



RaboResearch Food & Agribusiness

North American Agribusiness Review

February 2018



Rabobank

Report Summary



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Economy: The Inflation Spectre

U.S.

- The benefits of the tax cuts may go disproportionately to businesses and higher income individuals, rather than to middle and lower incomes, yet they could still provide a modest short-term boost to GDP growth. Therefore, we have revised our forecast for 2018 GDP growth upward, to 2.5% (from 2.0%), with a declining positive impact in the following years. While we expect the beneficial impact on GDP growth to be modest and short-lived, the adverse effect on the public debt to GDP ratio is, however, likely to be substantial and long-lasting.
- The FOMC expects inflation to move up this year and notes that *further* gradual increases in the policy rate are warranted. This is an effort to solidify expectations of three rate hikes this year. Initially, the FOMC succeeded in this, but the inflation spectre started to rattle markets after the reported 2.9% rise in average hourly earnings. Rate hike expectations have moderated somewhat due to this recent volatility. Meanwhile, 'realized' inflation continues to undershoot the Fed's 2% target. We expect that it will ultimately spoil the Fed's plan to hike three times this year and have pencilled in hikes in March and June. Therefore, we expect EUR/USD to rise to 1.28 in the next 12 months.

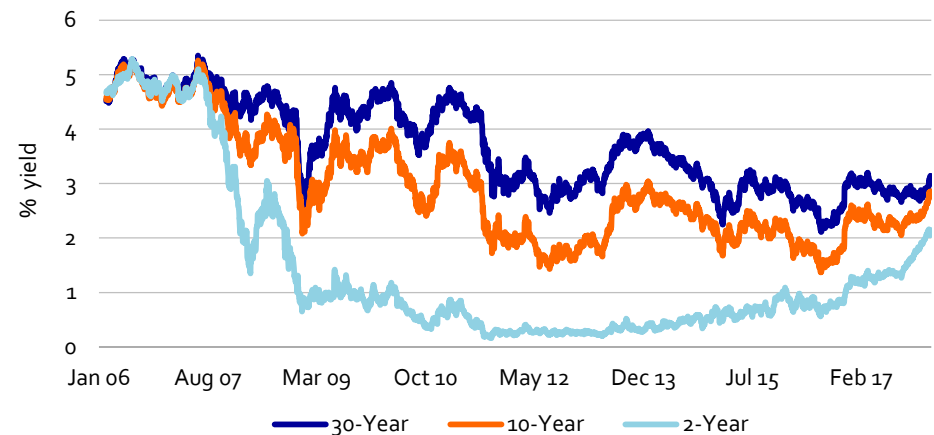
Mexico

- Our base case scenario remains unchanged in that we expect NAFTA to be renegotiated rather than terminated. That said, this is not a high conviction call. We are cognisant that there is a significant risk the U.S. may well announce its plans to withdraw from NAFTA. We would see this more likely to be a negotiation tactic employed by the Trump administration as a way of increasing pressure on Mexico and Canada, and not as a sign that the U.S. actually plans to follow through. A U.S. withdrawal remains the most unlikely scenario and we would argue that the negative impact on corporate America, at least in the short term, is enough of a risk to deter the U.S. from leaving the trading bloc.
- The Presidential election scheduled for 1 July will also be key in dictating both the performance and the volatility of Mexican assets. When campaigning picks up and the elections become front-page news in the global financial press, we expect investors to become increasingly concerned about the risk this event poses to USD/MXN.

Canada

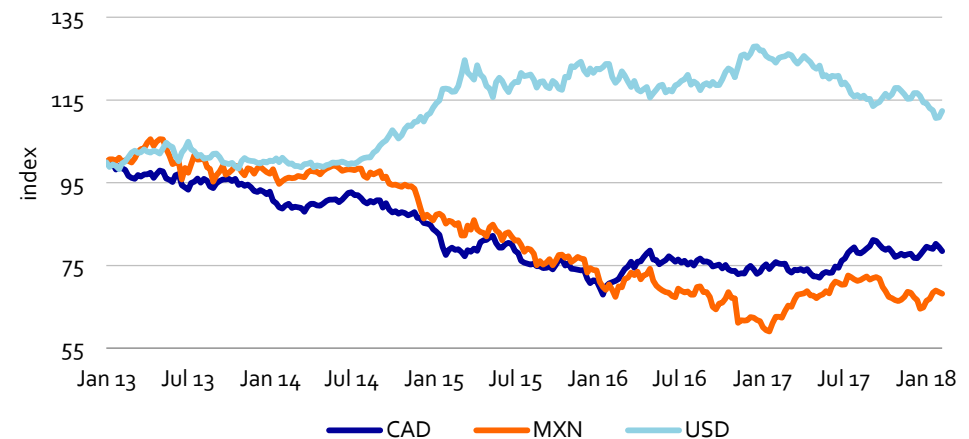
- The Bank of Canada increased the policy rate 25 bps to 1.25% in January. We foresee just one more rate hike this year, most likely at the April meeting, but this is based on the assumption that the U.S. does not announce its withdrawal from NAFTA. We expect USD/CAD to move to 1.25 on a three-month window.

Interest Rates, 2006-2018



Source: Federal Reserve of St. Louis 2018

Currencies, 2013-2018

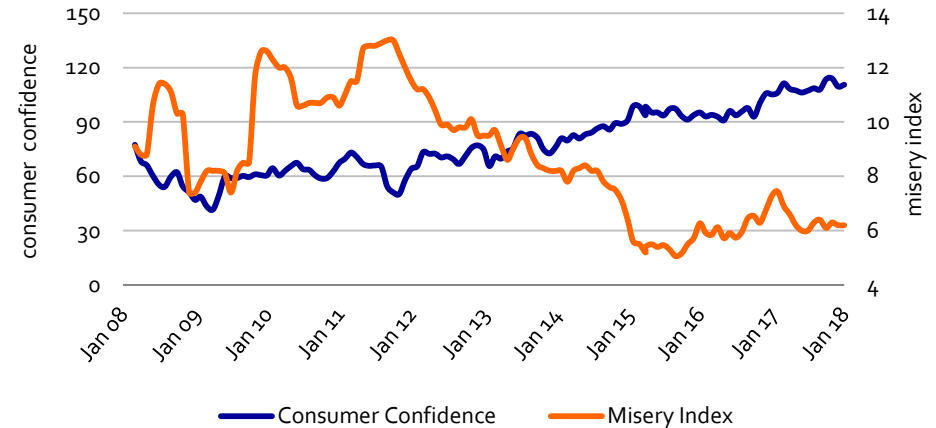


Source: Bloomberg 2018; Note: Rebased at 100 as of 1 January 2013

Consumer: Concerns over Higher Inflation

- Our two measures of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board) remained close to historical highs in January 2018. Rising confidence was attributed to the strong job market and expectations of a continuation of low unemployment despite stock market swings.
- Over the last twelve months to January 2017, the Consumer Price Index (CPI) came in at 2.1%, higher than many analysts had forecast, stoking fears of higher inflation after years of softness. Over the same period, food prices rose by 1.7% as a result of a 1.0% increase in retail prices and a 2.5% increase in restaurant prices. In January, unemployment dipped to 4.1%, which, together with changes in the CPI, led to the misery index remaining at 6.2%.
- In the U.S., about half of every dollar we spend on food is on food prepared away from home, mainly at restaurants and other food service establishments. For the year to November 2017, consumer expenditure on food away from home rose by 2.6%, while food at home expenditures rose by 3.1%.

Consumer Confidence Index



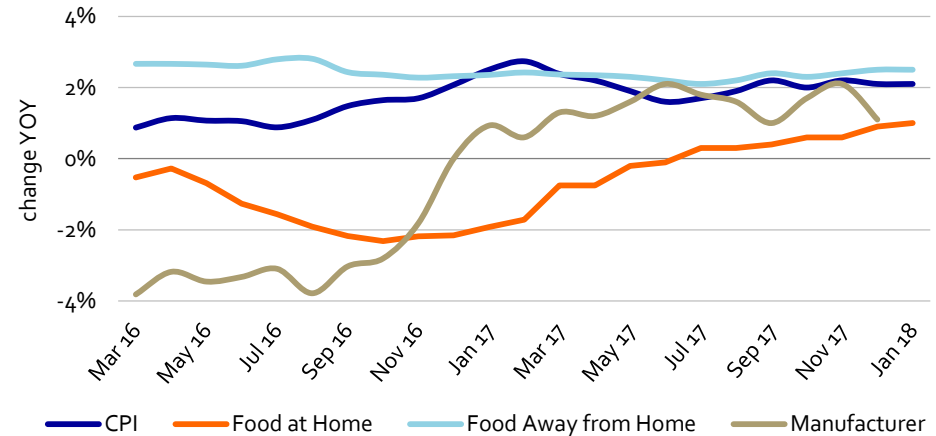
Source: U.S. Bureau of Labor Statistics, Rabobank 2018

Food Sales

| Food Sales (USD billion) | Annual | | | YTD Cumulative | | |
|--------------------------|--------------|--------------|--------------|----------------|--------------|--------------|
| | 2014 | 2015 | 2016 | Sep 17 | Oct 17 | Nov 17 |
| Food at home | 765 | 771 | 793 | 601.5 | 669.8 | 740.7 |
| YOY change | 3.0% | 0.8% | 2.9% | 2.9% | 2.9% | 3.1% |
| Food away from home | 697 | 741 | 801 | 614.8 | 683.6 | 750 |
| YOY change | 4.5% | 6.2% | 8.1% | 2.7% | 2.6% | 2.6% |
| Total | 1,462 | 1,511 | 1,594 | 1,216 | 1,353 | 1,491 |

Source: USDA ERS, Rabobank 2017

Food Price Inflation



Source: U.S. Bureau of Labor Statistics, Rabobank 2018

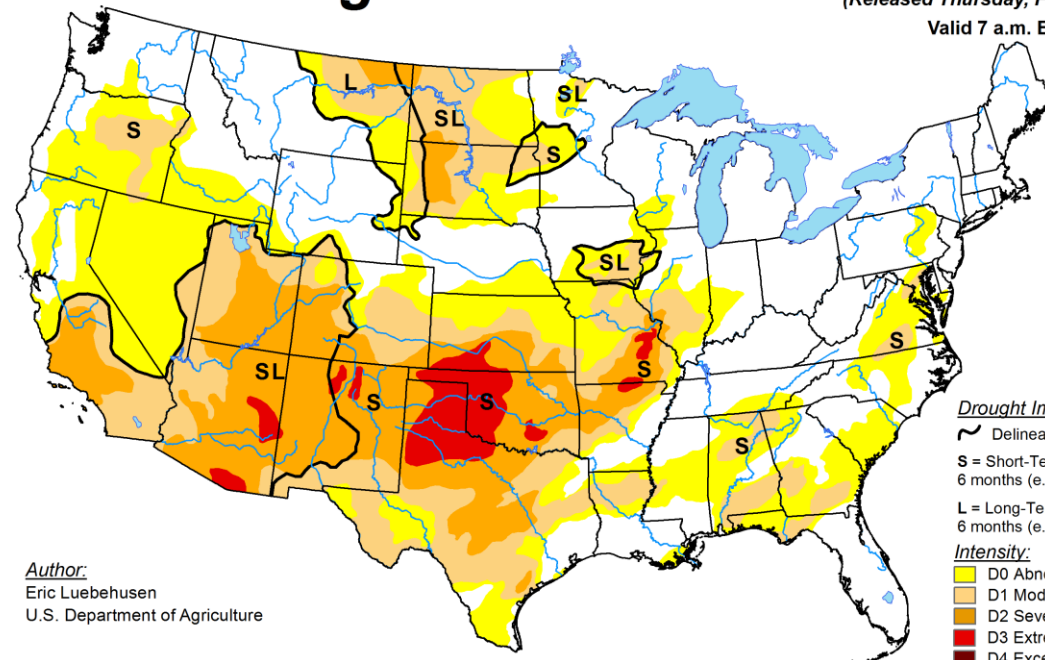
Climate: Increasing Dryness in the South

- January saw wild temperature variations across the U.S. The South, East, and lower Midwest were affected by periods of rain and wintry precipitation as well as strong, early January, cold waves, including some of the South's coldest weather in 20 years.
- Intensifying dryness and drought conditions were seen across the south and south-west of the country. Winter wheat conditions deteriorated across the southern plains as drought conditions expanded. Pasture and rangeland conditions in the Plains States were rated mostly fair to very poor due to persistent dryness.
- In contrast, states such as Nebraska and Montana saw enough snow to provide winter wheat in those regions with highly beneficial moisture .
- The west of the country presents diverging scenarios, with good season-to-date moisture supplies across the northern Rockies and Pacific Northwest—in sharp contrast to intensifying drought and a lack of vital snowpacks across central and southern portions of the Rockies and Sierra Nevada.
- La Niña conditions continued throughout February, although the forecast consensus indicates a transition to ENSO-neutral conditions during the spring. This translates to an expectation of above-average temperatures and below-median precipitation across the southern tier of the U.S. for the coming months, and below-average temperatures with above median precipitations across the norther tier of the country.

U.S. Drought Monitor February 13, 2018

U.S. Drought Monitor

February 13, 2018
(Released Thursday, Feb. 15, 2018)
Valid 7 a.m. EST

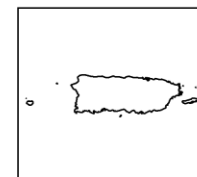
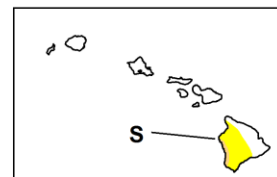
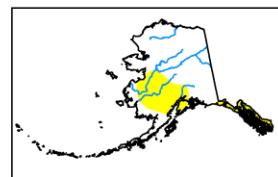


Author:
Eric Luebehusen
U.S. Department of Agriculture

Drought Impact Types:
 ~ Delineates dominant impacts
 S = Short-Term, typically less than 6 months (e.g. agriculture, grasslands)
 L = Long-Term, typically greater than 6 months (e.g. hydrology, ecology)

Intensity:
 D0 Abnormally Dry
 D1 Moderate Drought
 D2 Severe Drought
 D3 Extreme Drought
 D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

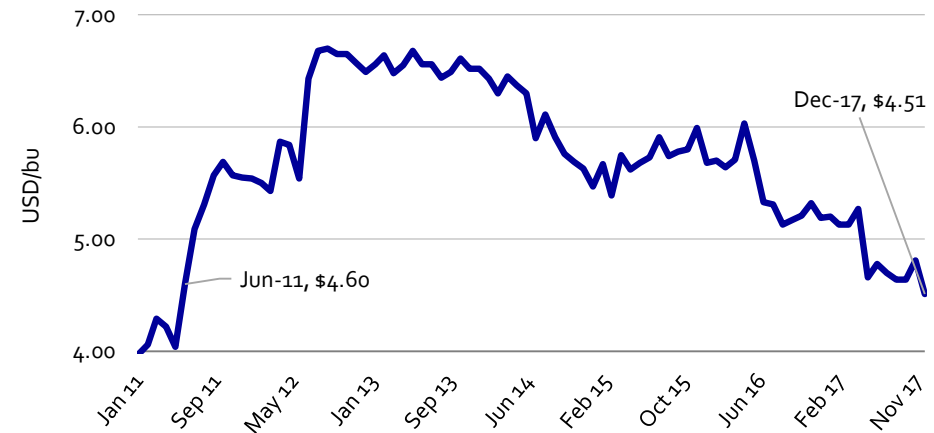


<http://droughtmonitor.unl.edu/>

Beer: Malting Barley and Sales To Wholesalers Slip

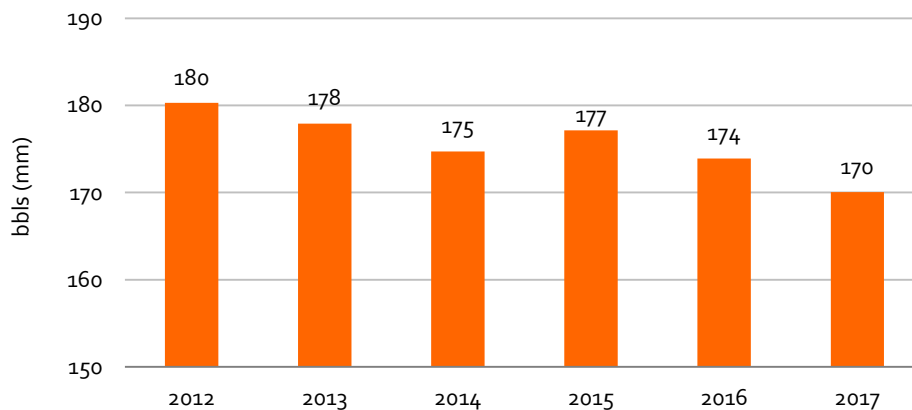
- According to Beer Institute data, the combined domestic tax-paid shipments to wholesalers fell by -2.2% in 2017 YOY. Since 2012, the number of barrels have fallen by 5.7%. The drop in 2017 represents the fourth time in the last five years that domestic shipments fell over the previous year.
- Imports continue their steady rise, according to the beer institute. Imports from Mexico rose by 4.4%, while German brews continue their rise, surpassing imports from Ireland, with imports growing 36.2% and 30.4%, in 2016 and 2017, respectively.
- The decline in shipments to wholesalers is partially due to shifting channels of beer distribution within craft. Production from brewpubs (breweries for which at least 25% of volume is consumed on site) has risen by more than 60% since 2012 to nearly 1.5m bbls. Additionally, 37 states allow self distribution.
- Malting barley prices continue to decline, falling to USD 4.51 per bushel, their lowest price since May 2011.

Historic U.S. Malting Barley Prices, Jan. 2011 – Dec. 2017



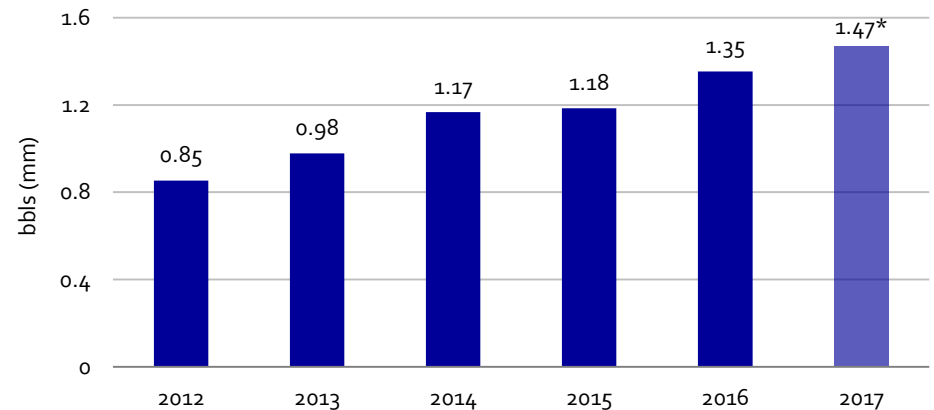
Source: USDA, 2018

Annual Domestic Tax-Paid Shipments, 2012-2017



Source: Beer Institute, 2018

Annual Brewpub Production, 2012-2017



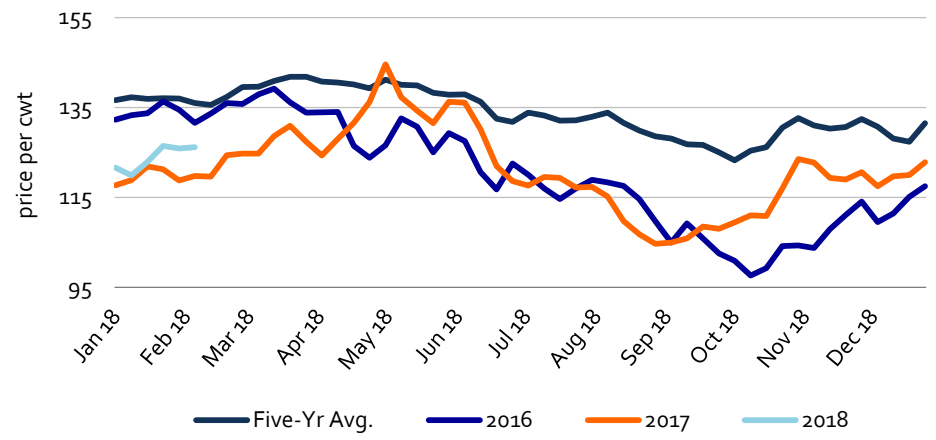
* Rabobank projection
Source: Brewers Assoc., 2018

Cattle: Demand Strong, Producers Have Guarded Optimism



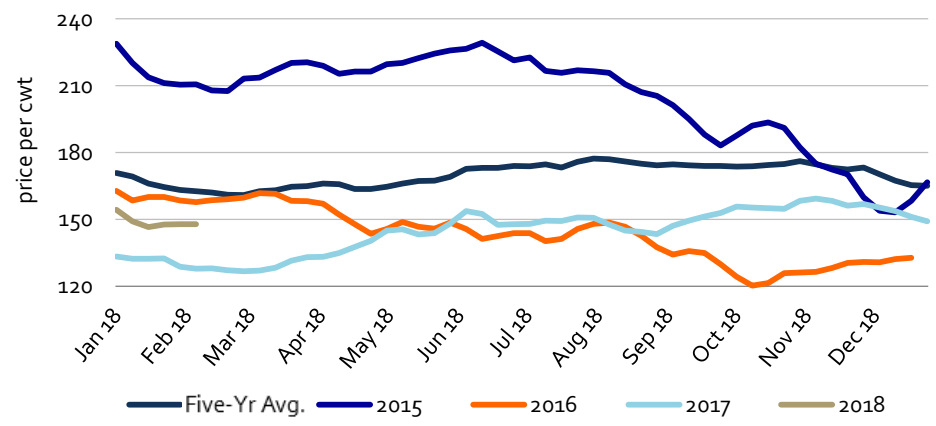
- The 1 January, Cattle Inventory Report was viewed as friendly by showing a measured slowdown in herd expansion from the previous three years. All Cattle and Calves are estimated at 94.3 million head, up 1%. Beef Cows at 31.7 million head are up 2% and Beef Heifers Retained for Breeding at 6.1 million are down 4%. Steers over 500 pounds and calves under 500 pounds are both estimated at 100% and the 2017 Calf Crop at 35.8 million head was up 2%. Due to aggressive fall placements because of weather, available cattle outside feed yards is estimated at 26.1 million head, down 2.3%, which should limit feeder cattle availability and support fed cattle prices through the second half of the year. Expansion is still taking place, but at a much slower pace. The Rabo Production model continues to suggest this production cycle will peak, with beef cow numbers peaking at the 32m to 32.5m head in late 2018 to 2019.
- The current U.S. Drought Monitor shows some level of drought-stress in 26 states that contain 76% of the U.S. cow population. Spring rain and summer temperatures will be critical to avoid forced liquidation of the breeding herd that could peak or delay the current expansion cycle.
- Feeder Cattle prices continue hold exceptionally well. Prices have been supported by cattle feeder profitability and strength in deferred live cattle futures which is offering hedge possibilities. Because of forced early placements of light calves during the fall and early winter, offerings of feeder cattle are expected to decline during the March – May period, and that should maintain underlying support.
- Despite increased numbers of cattle on feed, and fed and carcass weights above year-ago levels, fed cattle prices have been trading well-above year ago levels. Increased slaughter rates and solid packer competition for cattle have been supportive influences in the market. Fed cattle prices have been supported well in the USD 124.00 to USD 126.00 per cwt. Expectations are for spring highs to be in a range of USD 130.00 to USD 135.00. Reduced supplies of cattle outside feed yards are expected to force a reduced placement rate that will limit fed cattle supplies and support prices for the second half of the year.
- Beef demand, both domestic and export, has been exceptional. The strong domestic economy and growing exports are the underlying driver in the market.

Fed Steer Prices (Five-Market Average), 2016-2018



Source: USDA, Rabobank 2018

CME Feeder Index

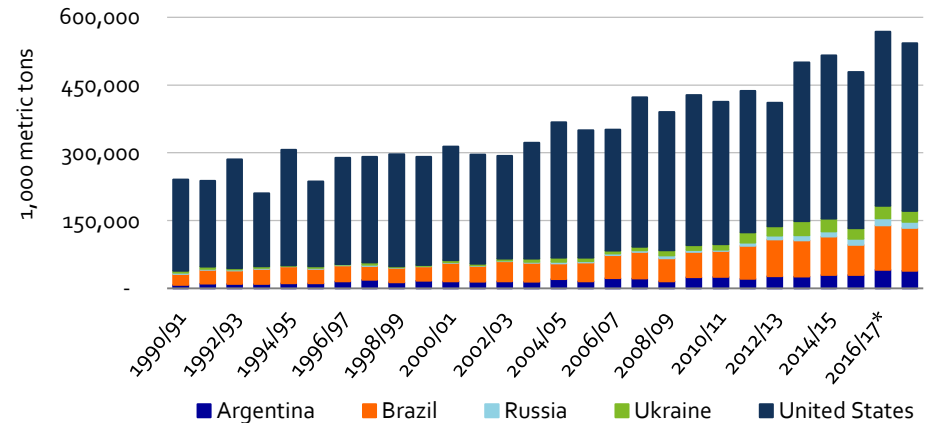


Sources CME, Rabobank, 2018

Corn: More of the Same

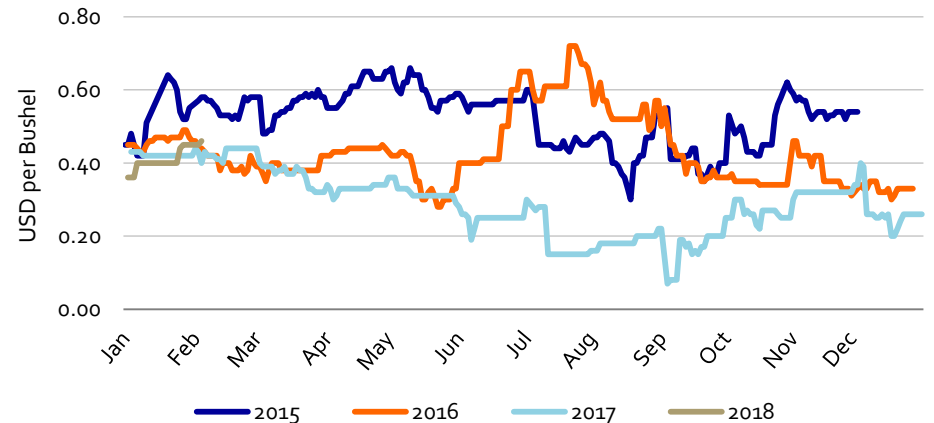
- Since the beginning of the year, corn futures have staged an approximately USD 0.20 per bushel rally, but that needs to be put in perspective. Nearby corn futures are still in a trading range established during the 2014 harvest at roughly between USD 3.20-USD 4.00 per bushel. The market has only traded above USD 4.00 three times since then, and only for four to five weeks. Recently, futures have traded in a narrower range between USD 3.50-USD 4.00 per bushel. With large U.S. corn stocks, the market appears comfortable trading in this narrow range. This type of market limits upside opportunities to sell and downside potential to buy.
- The current rally in corn has been fueled by concerns in South America and lower production in Ukraine. Hot and dry weather in Argentina has resulted in production estimates continuing to decline, now standing at 39m tons, versus earlier expectations of a 42m ton crop. While in Brazil, rainy weather has slowed export shipments of last year's crop and may delay planting of the second crop (safrinha) where production estimates are highly variable. Ukraine is looking at a smaller crop due to lower yields, which may result in lower exports. All this may result in an unexpected opportunity for U.S. corn exports.
- The market is turning to acreage prospects for the 2018/19 crop. Our baseline forecast has placed U.S. planted corn acreage at 89.0 million acres, down nearly 1.5 million acres from the 2017/18 crop. Lower production does bring down stocks by 400-500 million bushels, but is still above 2.0 billion bushels. Which is why corn prices, futures, and basis, will have difficulty breaking out of the narrow current trading range.
- Basis values have rallied above last year's levels, but not by much. Values have rallied as grain merchandisers have had to pay up to coax grain out of the country. Winter weather can slow movement as can the spring thaw, and that scenario could very well play out this year. Basis values can rally into and through spring planting. There may be basis opportunities ahead. Producers need to stay close to their local market for such an opportunity.
- While not impacting corn directly, China has began an anti-dumping investigation against U.S. sorghum. Just more bearish news for U.S. feed grain markets.

U.S. Export Opportunity with Smaller Corn Crops in Argentina and Ukraine



Source: USDA, Rabobank 2018

Gulf CIF Values Remain Depressed from Weak Export Demand

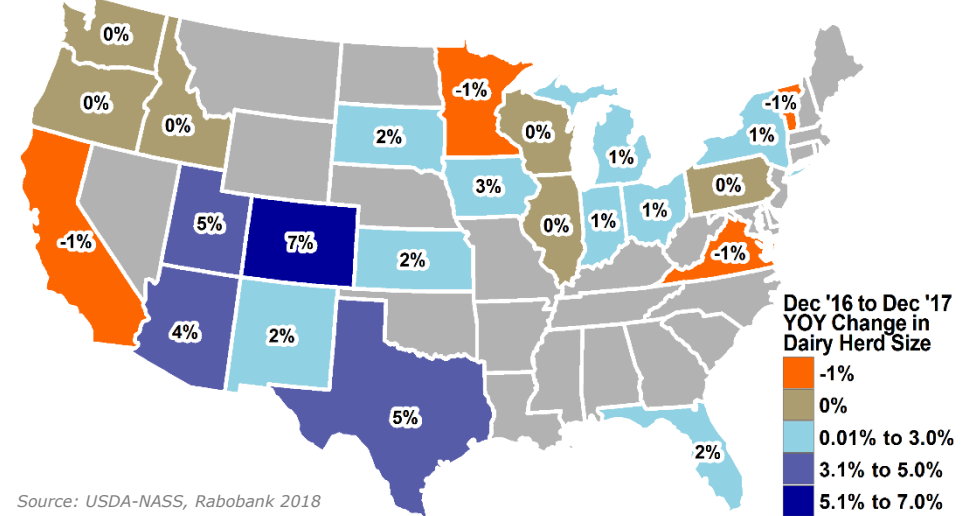


Source: Rabobank, 2018

Dairy: U.S. on Brink of a Downturn

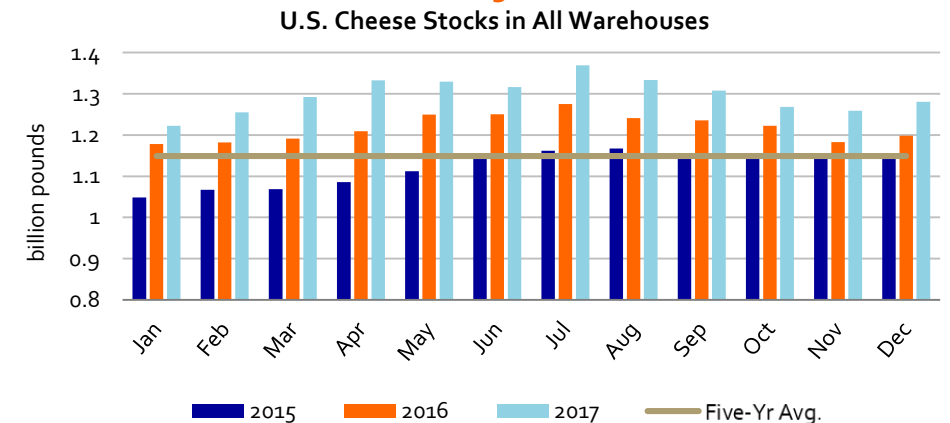
- Last year, total U.S. milk production reached 215.4 billion pounds, up 1.7% compared to 2016 (USDA-NASS adjusted for Leap Year), an eighth consecutive year of growth. The total herd inventory was up 0.7% year-on-year, up 64,000 head. The growth in dairy herd has been driven by Texas, New Mexico, Arizona and Colorado, which jointly added 56 thousand head (between December 2016 and December 2017) to the total U.S. dairy herd. California, the largest milk-producing state recorded a 23,000 head decrease in the state's herd.
- Year-ending 2017 U.S. cheese stocks reached a record high last year, at 1.28 billion pounds, 82 million pounds more than the same time prior year, and 21.9 million pounds up since November. At the end of the year, U.S. butter stocks were at 169 million pounds, up 9.8 million pounds from November and 3 million pounds more than December 2016. NDM stocks were also at a record high at the end of 2017, at 330.4 million pounds, and 46% higher than in December 2016. Record high year-end U.S. stocks, combined with global market sentiment and large EU skim milk powder intervention stocks weigh heavy on milk prices.
- National dairy demand was strong throughout the year. According to the USDA, commercial disappearance of American cheese increased by 2.5% and butter went up by 0.3%. Even with lower commodity prices, the total value of U.S. dairy exports rose by 15% last year.
- Through 2017, farmgate prices oscillated right near breakeven point for most producers. The 2017 U.S. All milk price, propelled by stronger fat component prices, averaged USD 17.60/cwt, up USD 1.60 from 2016. The 2017 Class III (cheese/whey) milk price at USD 16.17 remained below five-year average, but improved compared to 2016. Favorable weather conditions throughout the 2017 growing season manifested in lower feed prices, which reduced feed costs and took a little bit of pressure off margins. However, January 2018 didn't get off to a great start in the dairy complex, with Class III and Class IV prices, USD 2.77 and USD 3.06, respectively—lower than January last year. We saw a couple of spikes in dairy cow slaughter during 2017, but January 2018 slaughter was up 3.3% compared to previous year.
- Current CME butter prices near USD 2.05/lb are near the five-year annual average. However, cheese, NDM and whey prices remain below the five-year average. Even with increased consumption, rising cheese stocks pressure cheese prices lower. January 2018 CME Cheddar block cheese prices were 19 cents lower than a year prior. NDM prices remained well-below the five-year average, with January's monthly average 30 cents below January 2017.

Dairy Herd Change by State YOY (Dec 2016-Dec 2017)



Source: USDA-NASS, Rabobank 2018

U.S. Cheese Stocks Reach a Record High



Source: USDA, Rabobank 2018

Farm Inputs: a Partly Sunny Outlook

Sector Assessment

- Farm input providers continue to adjust to a 'new normal' environment of fundamentally lower grain prices (although corn, soybean, wheat, and cotton prices have risen YTD), weaker growth, and modest farmer profitability, as the row crop cycle enters a fifth consecutive year of downturn. Three of the four mega deals announced since 2015 have now closed, with Bayer / Monsanto being the sole outstanding open transaction. Recent headlines—namely, Monsanto's decision to divest its vegetable seed unit following Bayer's announced sale of certain seed/herbicide assets to BASF (for EUR 5.9 billion in October 2017)—foreshadows a mid-year 2018 deal closing. Aside from industry M&A, the sector is seeing increased investment and R&D activity related to robotics & automation and artificial intelligence & machine learning technologies, as production agriculture seeks to modernize to drive improved bottom line performance.

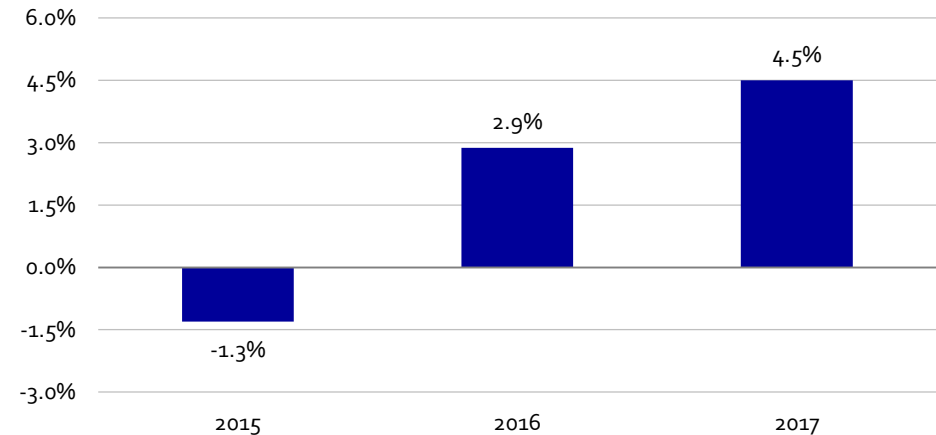
Equipment and Machinery

- The US farm equipment sector continued its positive recovery in 2017, as evidenced by retail unit tractor sales growth of +4.5% in 2017, vs. +2.9% in 2016 and -1.3% in 2015.
- The 4.5% growth figure is however a tale of three cities: for the year, low horsepower (under 40 HP) tractors sales rose by 8%, medium horsepower (40 to 100 HP) tractor sales were flat, while high horsepower (100+ HP) tractor sales declined by -8%.
- The picture was different for Canada, which posted +5% sales growth for the high horsepower tractor category. Canada also had stronger unit combine sales for 2017, growing by +24% vs. +4% for U.S.
- Conclusion: while the overall growth trajectory is positive for U.S. tractor sales, a mix shift is underway, away from large expensive tractors in favor of lower-priced, compact and utility tractors (often purchased by dairy, livestock and hobby farmers).

Fertiliser

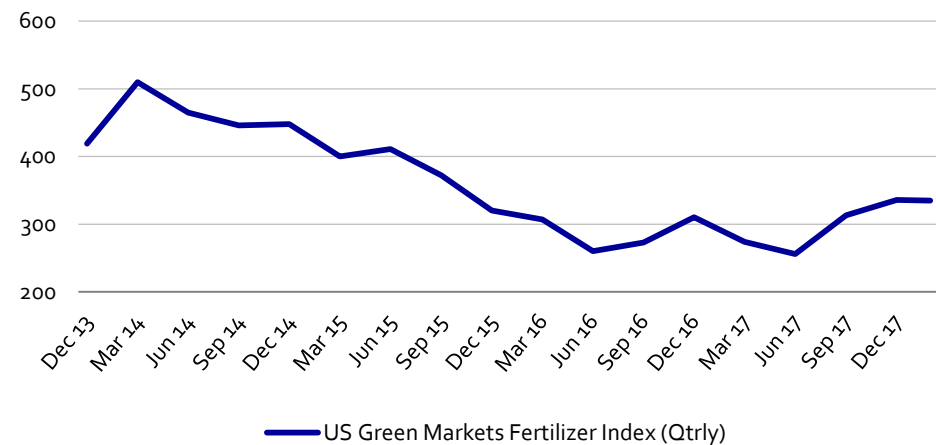
- Domestic nutrient prices – as measured by the U.S. Green Markets Fertilizer Index – have strengthened into the planting season, having gained +31% from the cyclical low level reached during the second quarter of 2017.

US Retail Unit Tractor Sales Growth (2015 to 2017)



Source: Agricultural Equipment & Machinery Association 12/31/2017

Nutrient Price Highlights (December 2013 to present)



Source: Bloomberg, L.P., 2018

Feed: DDG prices see some firmness while Alfalfa prices are supported through exports



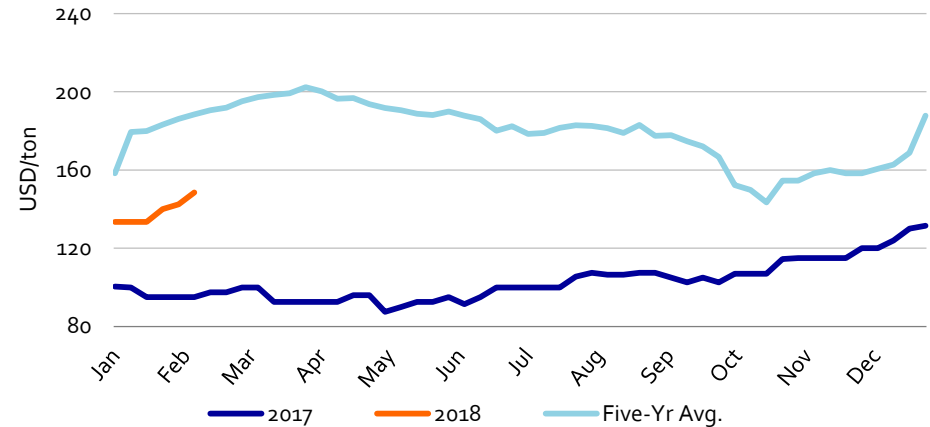
DDGs

- Prices for DDGs firmed up during the last months of 2017 and continued to increase in January, although they continue to be well-below soymeal prices, presenting an attractive feed alternative.
- In addition to its favorable comparison vis-a-vis soymeal, the price firmness seen in recent weeks is partly due to lower ethanol production, which translates into tighter DDG supplies at plants.
- U.S. DDGs exports finished the calendar year at 11.1m tons, a 2% decrease with respect to the previous year

Hay

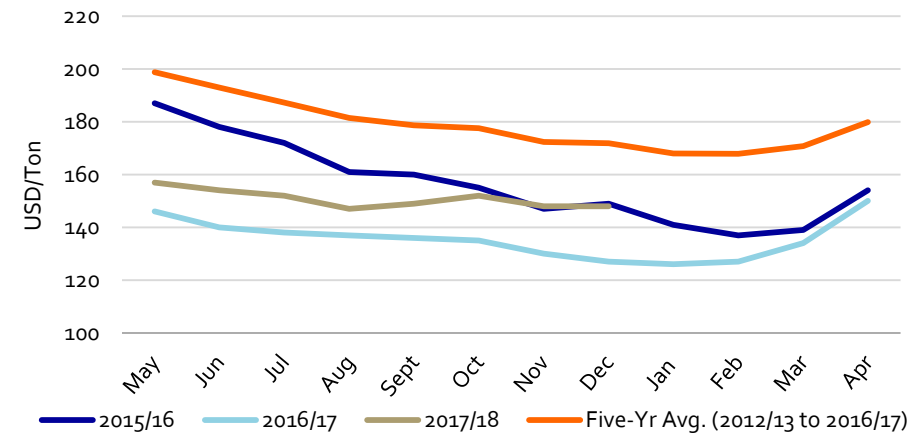
- Total U.S. harvested hay acreage in 2017 was 53.8m acres, a very modest increase of less than 1%. All Hay yields in 2017 were down slightly, to 2.44 tons per acre. Total hay production was 131.5m tons, off 2.6% YOY. Non-alfalfa hay production was virtually unchanged.
- Alfalfa production declined by over 5% YOY, to 55.1m tons, with harvested acres of alfalfa at 16.6m, the lowest level since 1948. In the western 7 states (W7), California and Washington had the largest absolute declines in harvested acreage, dropping by 60,000 and 40,000 acres respectively. W7 alfalfa production ended down by 5% YOY.
- U.S. alfalfa prices in December were 17% higher than year-ago levels, but still 14% lower than the previous five-year December average. Through the first eight months of the 2017/18 season, average alfalfa prices were 11% higher YOY.
- Alfalfa exports continue to be robust, ending 2017 up 7.2% YOY at 2.66m metric tons, and 35% higher than the previous five-year average. Exports to the key markets of China, Japan, Saudi Arabia, and South Korea were up 6.8%, 14.6%, 40%, and 3.2%, respectively. Exports to the UAE were down by 21.9%.
- An exceptionally dry 'water year', so far, for most of the western U.S. could put continued downward pressure on hay production in the upcoming season.
- Milk prices took a sharp drop late in 2017, and are expected to remain at relatively low levels through 2018. Tighter alfalfa supplies and continued growth in exports continue to help prices remain higher than year-ago levels, but milk prices are not expected to bolster demand.

Iowa DDG Price, 2017-Feb. 2018



Source: USDA-AMS, LMIC 2018; Note: 10% Moisture, 28% to 30% Protein

U.S. Alfalfa Hay Prices, 2016/17-Dec. 2017

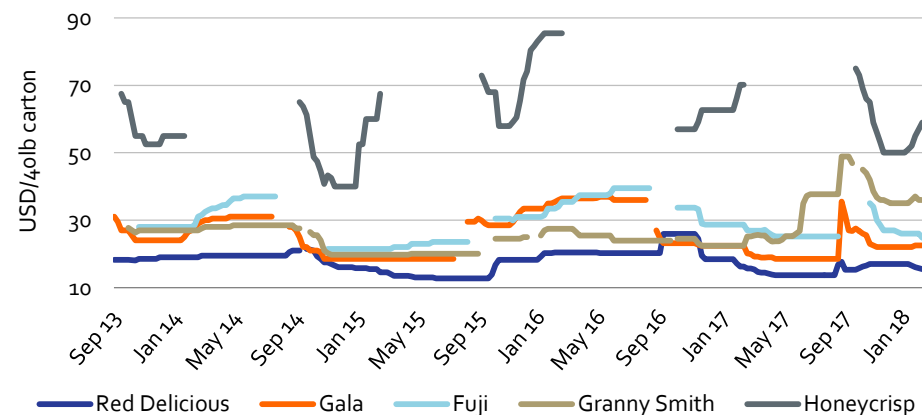


Source: USDA/NASS 2018

Fruits: Citrus Prices Continue their Strength

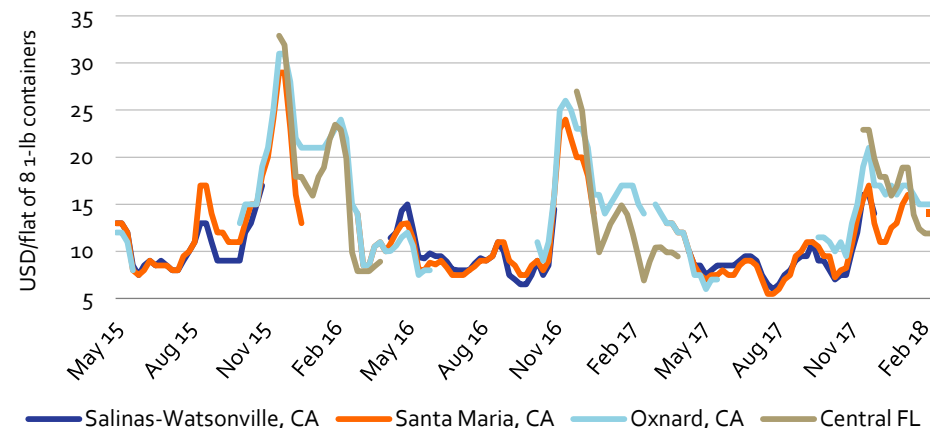
- Weather has cooperated with California strawberry growers so far this season, and while planted acreage is forecasted down 7%, positive yield trends and better weather could still result in a record crop. Oxnard prices in early February were on par with last year, while Florida pricing was 27% higher YOY, for the week ending February 11th.
- While Californian and Mexican avocado prices have tamed down a bit from record highs, California avocado prices started February strong, with 48s up 44% over 2016 levels. California table grapes finished another successful season, with prices stable to higher across most varieties.
- California citrus markets continue to be strong. With 5,000 fewer acres and a lighter fruit set, navel orange prices continue to be well-above traditional levels. This is following a summer orange crop that fetched historically high prices as well. Lemon prices also continue to be at elevated levels, with robust demand and supplies impacted by CA fires.
- Through December, Washington apple exports to China were significantly lower YOY, but overall exports were off only 2%. The later start to the season slowed early shipments, but exports are expected to continue to strengthen as the season plays out.

Washington Apple Shipping Point Prices—88s—WA Extra Fancy, 2013-18



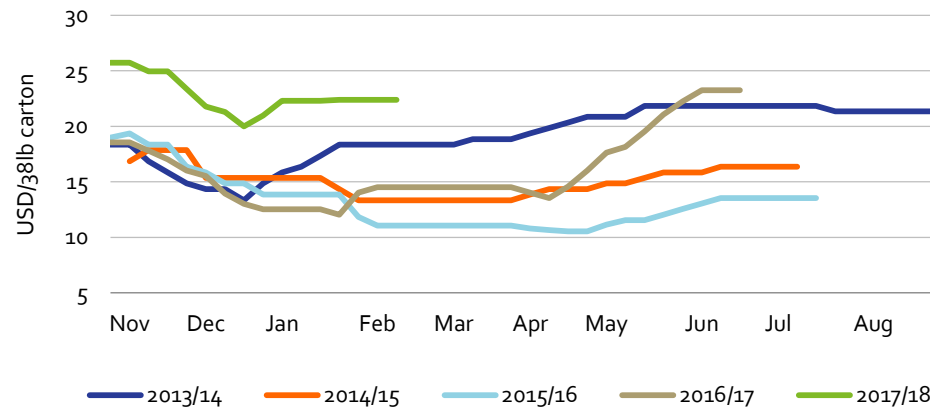
Composite of fine appearance & standard appearance prices
Source: USDA/AMS, Rabobank 2018

Strawberry Shipping Point Prices—Primary U.S. Districts, 2015-2018



Source: USDA/AMS, Rabobank 2018

Navel Orange Shipping Point Prices—88s—Shippers 1st Grade, 2013-2018



Source: USDA/AMS, Rabobank 2018

Pork: Volatile Hog Markets; Packers Squeezed

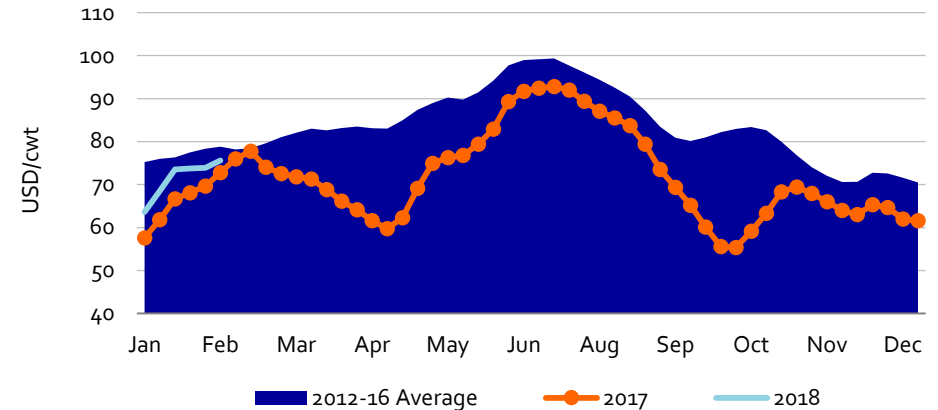
U.S.

- Hog production margins began 2018 on solid footing, but have since trailed off with market volatility. Despite record large inventories, prices remain well-above breakeven. Intense packer competition for hogs from newly-added capacity is driving stronger-than-expected lean hog prices to start the year with ample opportunities for producers to lock in good returns.
- Pig prices are well-ahead of year-ago levels, signaling strong producer demand for weaned pigs to support growth needs, while also reflecting higher-than-expected disease-related death loss this winter. We continue to anticipate 3.8% growth in U.S. pork availability in 2018.
- US exports of pork ended the year a bit softer, but still posted a near-record 2017. Total exports of pork were +7.6% YOY to 514m lbs. Late 2017 weakness in shipments to Mexico may reflect ongoing uncertainty regarding NAFTA, but also likely reflected the value of the dollar. Shipments to South Korea posted a record month on pre-Olympic buying and possible hoarding in front of KORUS discussions. We remain bullish on the outlook for pork exports in 2018 based on lower expected pork values and plentiful domestic pork supplies.

Mexico

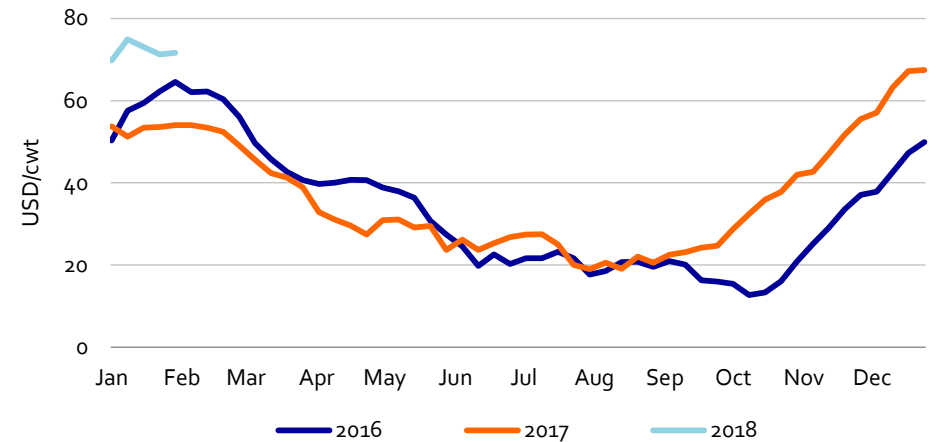
- Mexico's sow herd continues to expand, with 2018 expected to increase by 40,000 head, a 4.2% increase compared to 2017. Total sow imports in 2017 grew by 40,000 head, a +114% compared to 2016. Mexico continues to build its sow inventory as producers quickly expand to meet domestic demand.
- As NAFTA negotiations continue and uncertainty increases surrounding the final outcome of the negotiation, imports will remain key to meet domestic consumption. We are expecting a 4% increase in pork imports in 2018, reaching 1,170 thousand tons (CWE) for 2018. However, depending on the outcome of NAFTA and the volatility in the exchange rate, the level of imports could change.

U.S. Lean Hog Prices, 2017-2018



Source: USDA, Bloomberg 2018

Weaned Pig Prices, 2011-2017



Source: USDA 2018

Poultry: Tight Supplies Supportive to Price

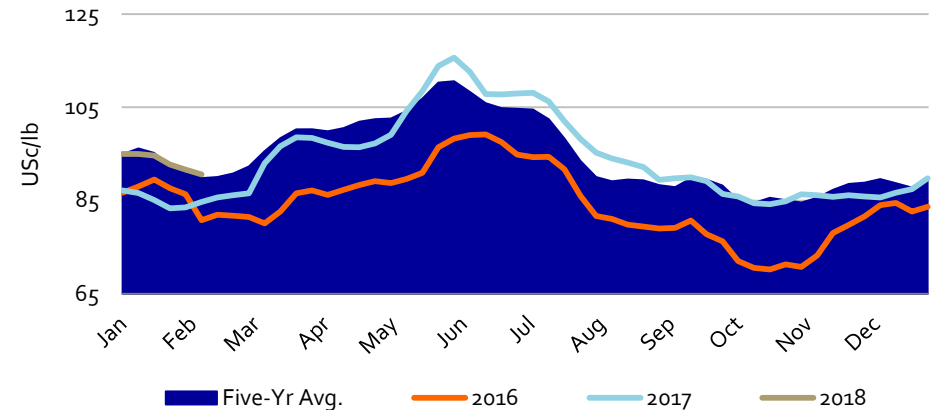
U.S.

- Poultry live weights averaged 6.2 lbs. to start the year (+1% YOY) as producers continue to raise lighter birds to address the woody breast issues and as weather-related disruptions continue to impact production. Weekly slaughter has averaged 155m birds per week year-to-date, down 2.9% YOY, again impacted by weather. We continue to forecast 1.8% production growth in 2018, driven by modest increases in slaughter and limited growth in weights.
- U.S. chicken exports ended the year +2% YOY, with mixed results in key markets. Shipments to Mexico, the largest export market (20% of total), were up in December, but ended the year down 6.5%. The industry recorded double-digit growth in several core markets in Asia and Africa, but were weaker into key NAFTA partners Mexico and Canada. Current trends remain supportive to continued growth in 2018, with current leg quarter prices at a four-year high for the month of February.
- Ongoing weakness in breast meat and wing markets continues to weigh on the national composite. Nevertheless, integrators continue to operate at or near breakeven as feed costs remain favorable. Relatively low cold storage inventories and healthy domestic demand remain supportive and should drive seasonal improvement in the coming months. We continue to expect chicken to be well-positioned as a lower cost protein alternative, despite increasing supplies of competing meats.
- Hatch percentages continue to trail expectations (down 1.2% YTD) reflecting an aging hen population, changing genetics and company-specific production issues that are having a greater impact than anticipated to start the year. We expect these issues to moderate as the industry works through some of these short-term production challenges.

Mexico

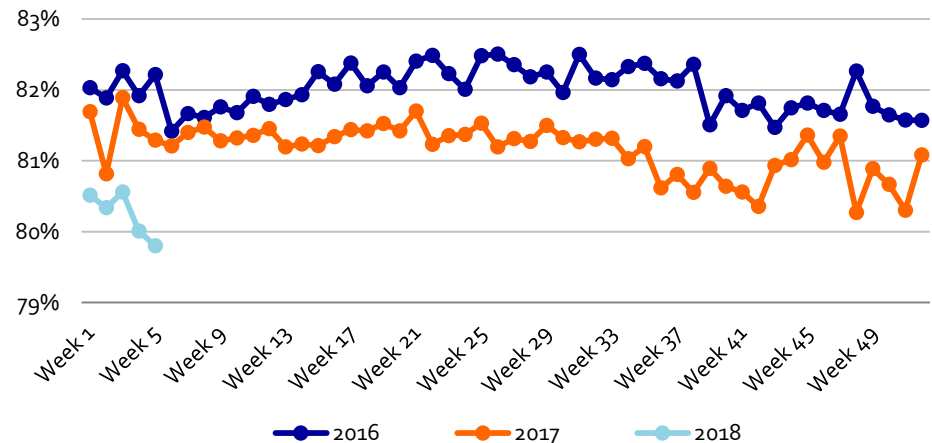
- Mexican imports of broiler meat fell short of expectations. The drop in import volumes from the U.S. reflected the country's move to diversify its poultry suppliers with the primary beneficiary of the shift being Brazil. In 2017, Brazil contributed with 17% of total Mexican imports of chicken and this number could increase depending on NAFTA outcomes. In 2018, chicken imports are expected to increase by 3%, to a total of 775,000 tons.

Chicken Prices, Composite Basis Based on Part Values, 2016-2018



Source: USDA, Rabobank 2018

U.S. Hatchability Rates, 2016-2018

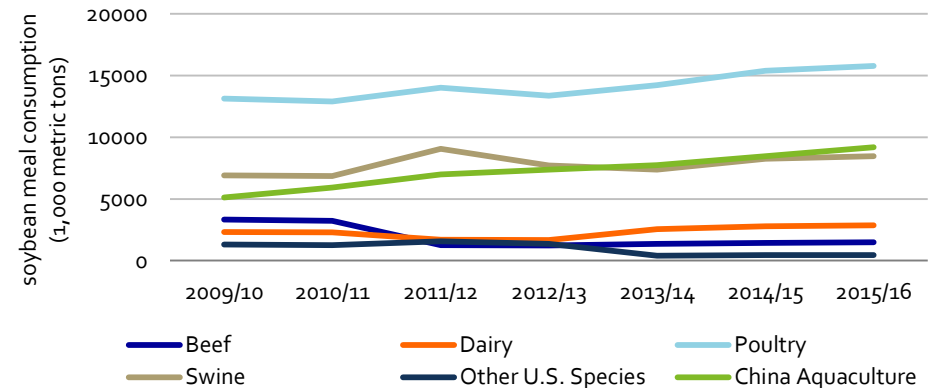


Source: USDA 2018

Soybean Complex: Go Big and Go Fish!

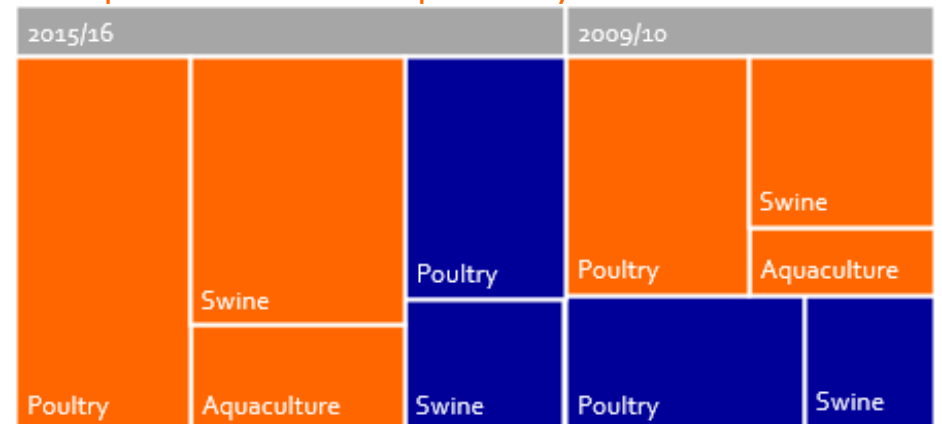
- Cash and futures prices have continued to be stronger for the world's primary oilseed+protein crop than for many other field crops. This price resiliency is despite coming off a number of otherwise bearish factors. However, a protein hungry world may demonstrate the sensitive demand for soybeans when one global soybean power gets poor news and animals still need to eat.
- Offsetting reports for strong soybean yields in Brazil, is news from Argentina. Threats to Argentina's soybean production following dry weather establish a risk for the global leader in exports of soybean meal and oil. Given the slower pace of U.S. exports for whole soybeans heading to China, the potential shortage of soybean meal from Argentina is bullish for the U.S. domestic crush. Strength for soybeans in the near term is expected from the meal/protein side. While poultry and pork make up the largest share of global consumption of soybean meal, don't underestimate the power of fish food.
- Soybean meal has been the primary contributor to higher crush margins and soybean price support recently. That strength for soybean meal stems from a strong animal feed demand. The graphic with this report shows the significant growth of U.S. poultry and pork demand for soybean meal. While that demand has been strong, the growth in feeding soybean meal to China's animals and fish has been growing so that even their aquaculture now consumes more soybean meal than U.S. pigs!
- China's overall demand growth to be a massive global customer for soybeans includes growth in several species. That China's aquaculture eats more soybean meal than U.S. hogs is a testament to the size of that market, and its importance in sustaining global soybean demand. At the same time, growth potential in the U.S. and in species domestically, should continue to enhance soybean meal demand – including potential in aquaculture, where the FDA has recently approved the addition of taurine in fish feed to benefit soybean potential in that market. The potential growth in the U.S. market will bring potential for even more domestic soybean meal demand.

Soybean Meal Consumption in the U.S. has Grown Mostly in Dairy and Pork; China's Aquaculture Grew Even More from 2009/10 to 2015/16



Source: United Soybean Board Market View Database, Rabobank 2017

China's Consumption of Soybean Meal has Grown Tremendously, and in More Species than U.S. Consumption of Soybean Meal



China Soybean Meal Consumption for Key Species Represented in Orange; U.S. Soybean Meal Consumption for same Species in Blue
Source: United Soybean Board Market View Database, Rabobank 2017

Tree Nuts: Exports Robust for Most Products

Almonds: New, all-time high monthly records continue to be set for both domestic and export shipments. Domestic shipments were up 17%, 7.7%, and 5% YOY in November, December, and January respectively. Export volumes were up 4.1%, 23.7%, 41.6%, and 22.9% YOY in October, November, December, and January respectively. The record 2017 crop, combined with 2017/18 marketing year carry-in is estimated to be 47% sold, tracking better than previous years, and underscoring that almond prices have remained in a comfortable range for both domestic and international buyers. Unseasonably warm/dry weather has almonds blooming early, and surface water availability could be challenging this year for all CA crops.

Hazelnuts: Through December, cumulative U.S. hazelnut shipments were up 5.4% YOY for the season. While carry-in was up significantly, the lighter crop has resulted in an estimated 67% of available inventory sold. While initial contract prices are lower, shipments through December were at a four-year high, with in-shell exports in December up significantly YOY.

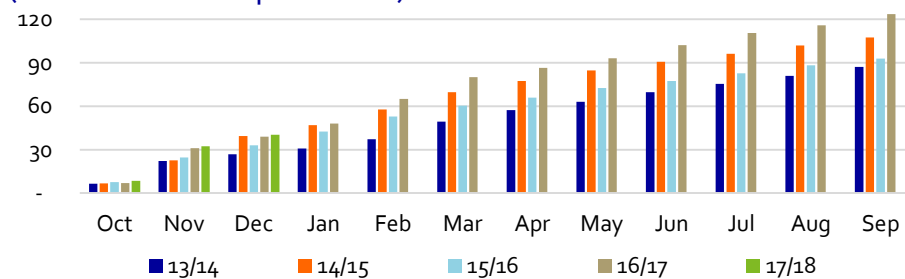
Walnuts: Walnut shipments through January are off 15% YOY, but are still tracking well to have minimal carry-in, due to last year's lighter crop. Export shipments have been the weakest component, down by 19%. Domestic, in-shell shipments have been significantly stronger YOY, up 60% through January, but in-shell exports are down by 30%.

Pistachios: Pistachio shipments through December were at an all-time record, 139.5 thousand tons. With 33% of estimated inventory sold, carry-in should prove to be more modest next season. Total December in-shell shipments were up 36% YOY on a 60% increase in exports. Prices are being reported as stable to firm.

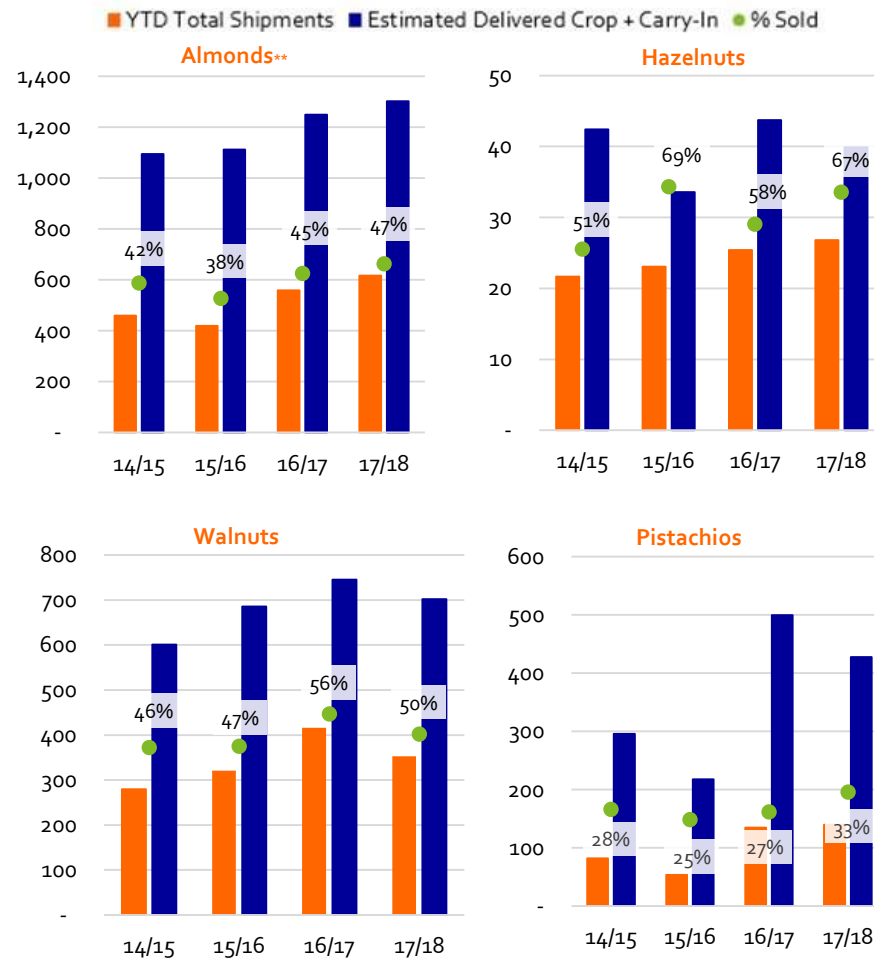
Pecans: As expected, Mexican pecan imports are down significantly due to the lighter crop, while U.S. exports continue to be robust. In-shell product in cold storage was 28% lower YOY at the end of December, while shelled product in cold storage was up 20%.

Cumulative Pecan Exports

(thousands of in-shell equivalent tons)



Cumulative U.S. Tree Nut Shipments* (thousands of in-shell equivalent tons)



Source: Administrative Commission for Pistachios, Almond Board of California, California Walnut Board, Hazelnut Marketing Board, INC, FAS 2018

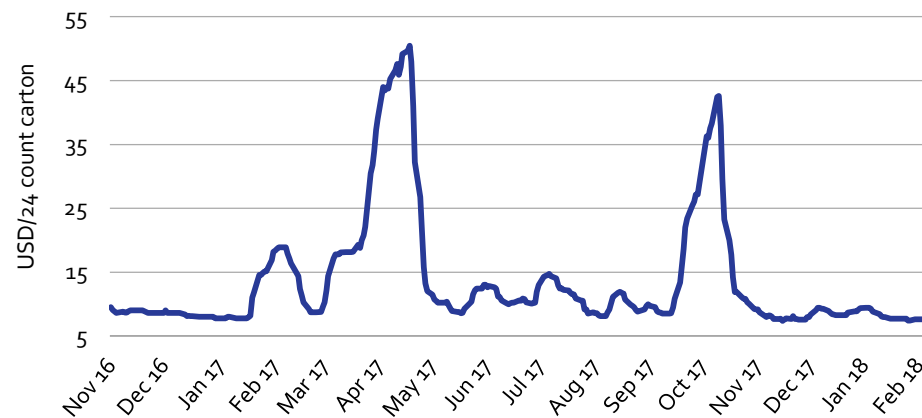
*Through January 2018 for almonds and walnuts, through December 2017 for pistachios and hazelnuts

**Meat pound equivalent

Vegetables: What a Difference a Year Makes

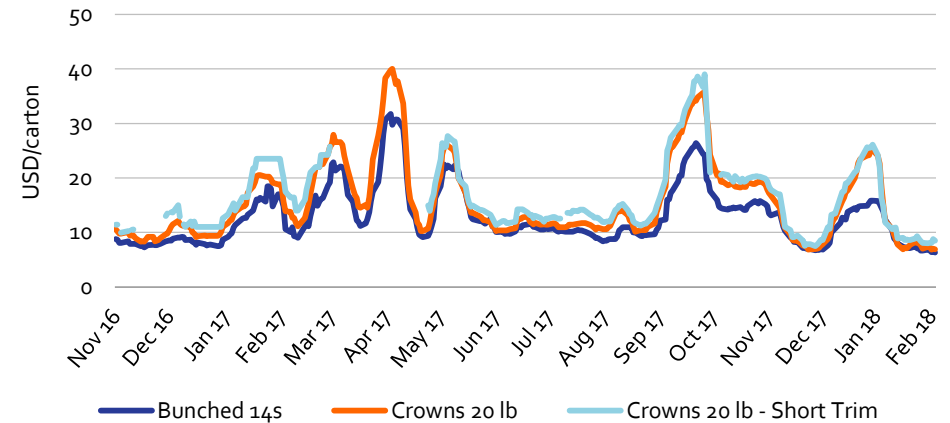
- Warm weather in late January/early February caused an over-supplied situation, and vegetable prices were under pressure. Anticipated cooler weather as we roll through February should slow things down a bit, and bring a little lift to the markets.
- Weather in the desert region and Florida has continued to be favorable for adequate yields. However, the recent unseasonable heat out west could create a short supply gap, as things transition back to Salinas this spring.
- Broccoli supplies out of Yuma were tight from mid December to mid January, which resulted in an elevated price, but supplies have surged since, and prices were at multi-year lows in early February, with bunched 14s averaging USD 6.33 on February 9th. Cauliflower prices were also at a multi-year low of USD 5.93 per carton of wrapped 12s.
- Romaine and iceberg lettuce prices were also skimming the bottom of their price ranges in February, both off roughly 60% from the same time last year.
- Sweet potato prices continued to be under more pressure in January and February, but a steep decline in North Carolina planted acres last year is a sign that a continued downward supply response could be forthcoming, which should help support higher prices in the medium term.

Wrapped Iceberg Lettuce—U.S. Daily Shipping Point Price, 2016-2018



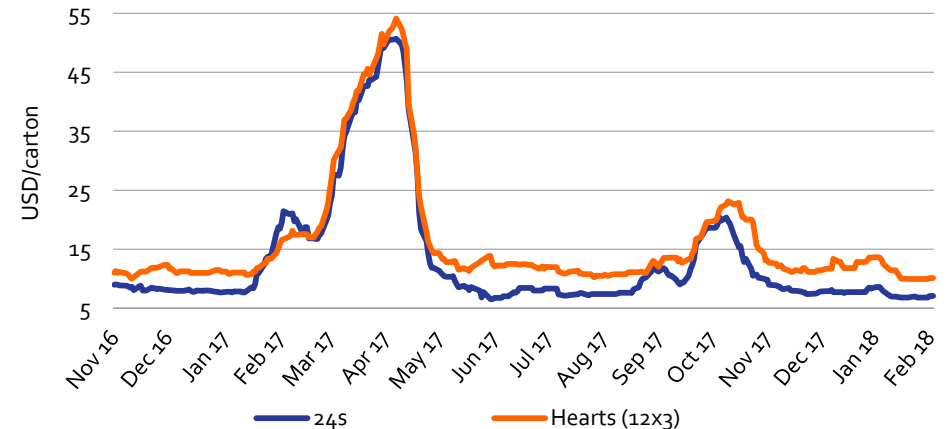
Source: USDA/AMS, Rabobank 2018

Broccoli—U.S. Daily Shipping Point Price, 2016-2018



Source: USDA/AMS, Rabobank 2018

Romaine Lettuce—U.S. Daily Shipping Point Price, 2016-2018

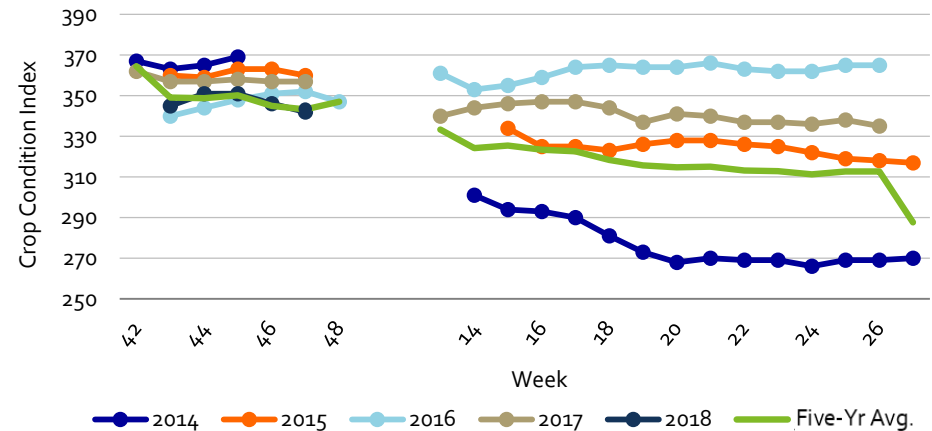


Source: USDA/AMS, Rabobank 2018

Wheat: A 'Wait-and-See' Game

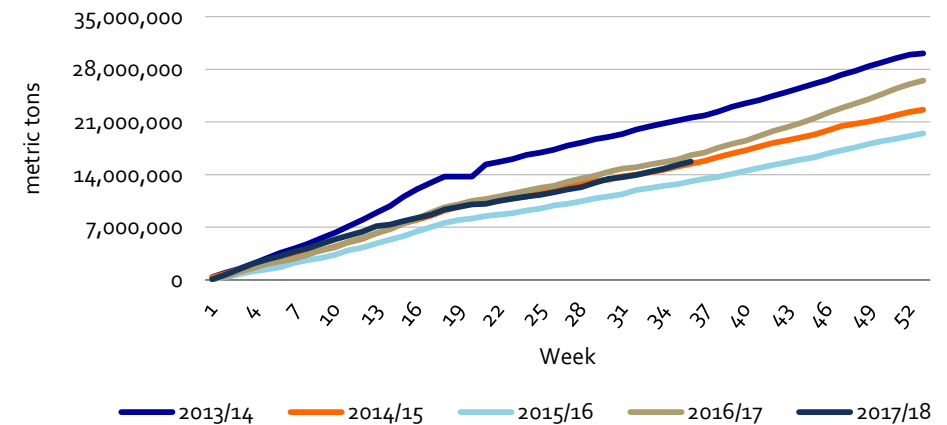
- Chicago and Kansas City wheat markets have rallied mostly on concerns about dry weather in the Great Plains. Surprisingly, Minneapolis wheat has not followed the other two markets higher. However, nearby Minneapolis wheat has remained in the same tight trading range since last September, USD 6.00-USD 6.50 per bushel.
- Whether it is the U.S. Drought Monitor or percentage of normal rainfall, major HRW growing areas are dry. The U.S. Drought Monitor shows the Great Plains suffering from abnormally dry to extreme drought conditions. While the percentage of normal rainfall is running 50%-75% of normal over the last six months, reports from Kansas indicate that the HRW crop there is short compared to normal.
- While the dryness is a concern, there is still time for late winter moisture and spring rains to turn crop prospects around. Winter wheat conditions before going into dormancy would confirm those concerns. They were the lowest since 2013/14 crop year. However, there is little if any correlation between early season crop conditions, spring crop conditions, and ultimately yield. The current rally may be a marketing opportunity for producers to take advantage.
- Despite rising export competition, U.S. wheat exports are holding their own this year. Year-to-date, U.S. accumulative wheat exports are running just 5.1% behind last year's pace. However, the export pipeline is concerning. Currently, outstanding exports are running nearly 32% behind last year. Russia is sitting on a record crop and is forecast to be the world's largest wheat exporter this year. Likewise, Argentina has just harvested a big crop and has resumed shipments to Brazil, pushing the U.S. out. In addition, low-priced Argentine wheat is pushing U.S. wheat out of other markets such as South-East Asia and Sub-Saharan Africa. Long-term global consumption is expected to continue growing which is good for wheat exporters, but to be sure, competition is going to remain stiff.
- Proteins premiums have come off their highs, but still remain historically high. Kansas City 12% protein premium is still above previous year and the five-year average. The Minneapolis-Kansas City spread has also narrowed, mainly due to Kansas City wheat moving higher. Wheat basis remains depressed, but look for increased volatility in Kansas City futures and proteins premiums.

Early Poor Crop Conditions Don't Portend A Bad Winter Wheat Crop



Source: USDA, Rabobank 2018

U.S. Wheat Exports Lagging due to Increased Global Competition



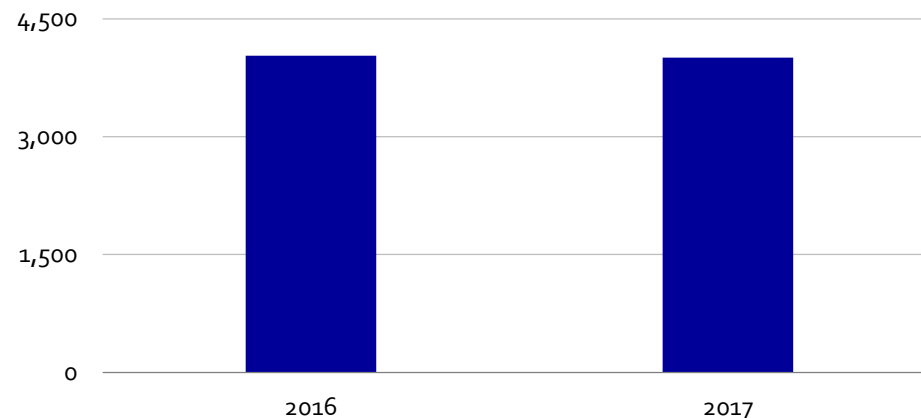
Source: USDA, Rabobank 2018

Wine: How Will Consumption Fare in 2018?

- The initial crush report from the USDA suggests that the 2017 wine grape harvest fell to 4.007m tons in 2017, from 4.031m tons in 2016 (-0.6%).
- U.S. wine consumption growth slowed to 1.3% in 2017, according to bw166. This growth rate is well-below the average growth rate of the last ten years, although there have been other years with even lower rates of growth.
- Several sources suggest that consumption growth was generally better in the first half of the year, but tapered off in the second half, though it was generally somewhat choppy from month to month.
- It may still be somewhat early to tell if this slowdown is permanent. Past years have seen temporary slowdowns in consumption that have subsequently bounced back, and it is important to note that the second half of 2017 had some one-off interruptions to trade (hurricanes in TX and FL).
- Consumption in 2018 will also be somewhat dependent on how affluent consumers' tax returns are affected by the new Trump tax regime. Assuming that consumers fared better on their tax returns this year compared to last year, it may also provide some impetus for increased wine consumption.
- Lower taxes may provide some support for wine consumption in 2018, but pricing will be an issue to watch, as the impact of tightening global supply continues to play out.

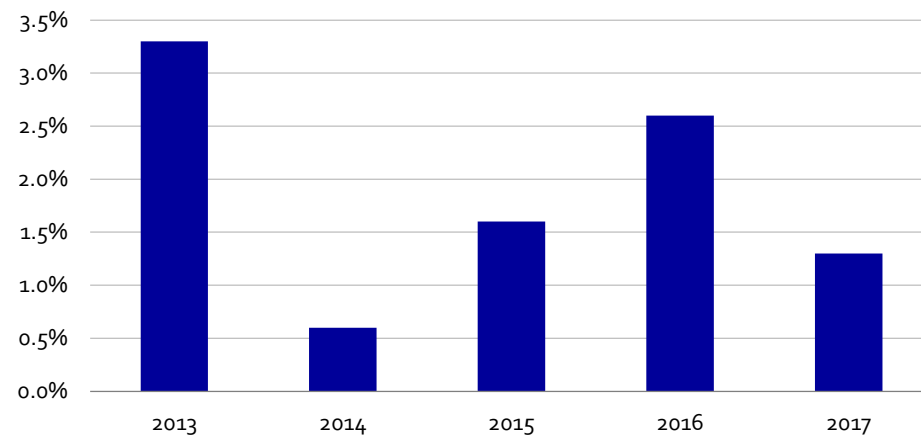
Source: USDA ERS ; UCDAVIS AIC; Gomberg-Fredrikson Report ; Rabobank 2018

California Wine Grape Crush (thousand tons), 2017



Source: California Department of Food & Ag, 2018

US Wine Consumption Growth Rate (%) by Volume, 2013- 2017

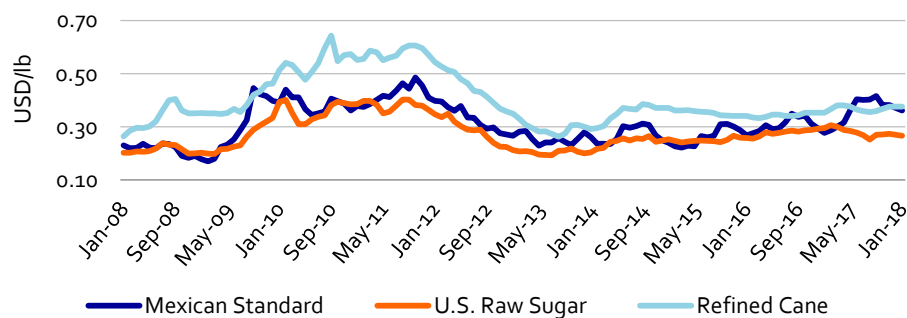


Source: bw166, 2018

Sweeteners

- U.S. sugar prices have started to turn up, led by higher beet sugar prices. Beet sugar is well sold or sold out for the 2017/18 crop and any remaining available beet sugar will be sold at higher prices. In addition, buyers are looking at nailing down some of their requirement for the 2018/19 marketing year.
- One of the reasons, buyers are looking ahead is tight U.S. sugar supplies and expected higher prices. Despite higher 2017/18 sugar production than expected, the USDA is projecting a 2017/18 stocks-to-use ratio at 14.6%, versus 15.1% last year and 17.0% in the 2015/16 crop year.
- Contributing to the high prices is what is happening in Mexico, as Mexican sugar prices have been trading above U.S. sugar prices. The higher prices have made Mexican sugar non-competitive in the U.S. and therefore exports to the U.S. have dropped off, further tightening U.S. sugar supplies.
- While prices certainly play an important part in exports to the U.S. There are other contributing factors. Under the suspension agreement, Mexican sugar exports to the U.S. are to be 70% raw and 30% refined. Mexico is having difficulty meeting those quotas. During the early years of the NAFTA, Mexico ramped up their refined sugar capacity to meet U.S. needs and specifications. Reports are that Mexico only had two mills producing raw sugar. Hence, the sugar situation in Mexico is contributing to the tight sugar supplies and rising sugar prices in the U.S.

High Mexican Sugar Prices are Trading Above Historic Range



Source: USDA, Rabobank 2018

Orange Juice



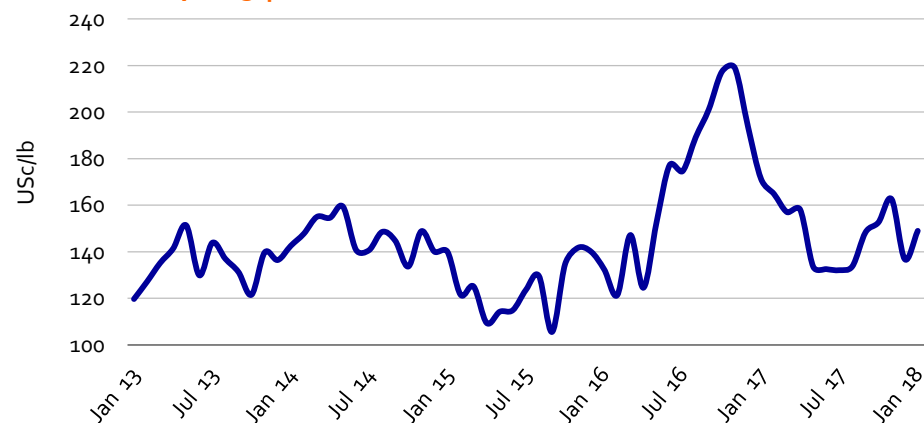
Florida Orange Juice

- The current USDA forecast for the Florida orange crop for the 2017/2018 season is 46.0m boxes, down 33% from the previous season. This would mark the lowest production in 75 years, and is less than one-quarter of the production during the 01/02 through 03/04 growing seasons. Already under pressure from citrus greening and other production issues, the impact of hurricane Irma in September 2017 caused a reported 30%-70% crop loss. Florida growers are looking for the passage of a disaster recovery fund to help stabilize the production market.

Brazilian Orange Juice

- The historically weak U.S. crop will be offset by another strong crop from Brazil. Orange crop size in Brazil for the 2017/18 season is predicted by USDA FAS at 425 million boxes, which is a 15% decline over 2016/17 production of 471m boxes, but still well-above 2015/16 production of 352m boxes..

FCOJ Futures, 2013-present

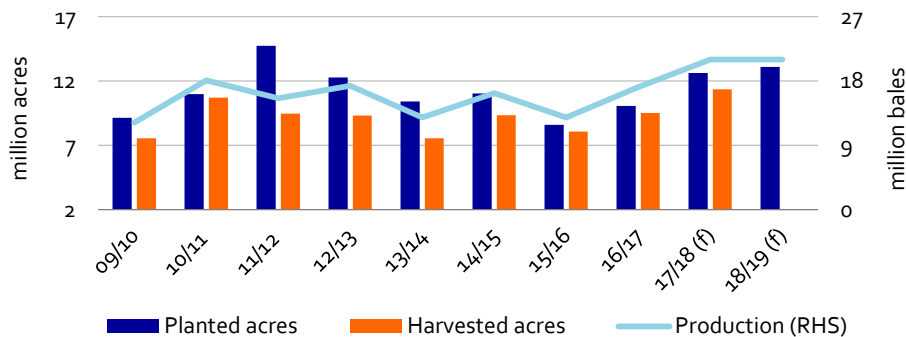


Source: Bloomberg-ICE 2018

Cotton

- ICE #2 Cotton prices have faced a surge of volatility through late 2017/early 2018, with March 2018 trading a USc 17 /lb range since October. A record unfixed on-call mill sales position has been the largest supporting factor, driving speculators to squeeze the market with record bullish bets—read more in [Rabobank's latest cotton note](#). Heavy unfixed mill sales still feature on old crop contracts (May and July) which, in our view, will keep prices elevated in the high USc 70/lb region—likely until July. Come July, these mill sales will need to be fixed with long futures, prompting a period of volatility followed by an ICE #2 price slump on a heavy supply outlook.
- The gap in export sales and shipments has become a key risk for the U.S. market. Robust 2017/18 export sales—the highest since the 2010/11 season—are faced with an unusually slow shipment pace, broadening the sales/shipment gap to 7.6m bales. This gap reduces the likelihood of U.S. shipments delivering on commitments—especially as Indian and Australian exports come online—leading the USDA to revise 2017/18 exports in-line with Rabobank's 14.5m bales. With prices elevated, further cancellations may be in store.
- Looking ahead, much focus will surround U.S. acreage, as December 2018 price ratios favor cotton over grains. Expansion is generally a given, but to what extent? Rabobank and the National Cotton Council agree on a 2018/19 planted area at 13.1m acres, up 0.5m acres YOY, while others forecast up to 13.5m acres. The key limitation to this expansion is if drought remains across the southern states.

Good Relative Margins Drive the U.S. Cotton Planted Area up by an Estimated 0.5m Acres YOY, to 13.1m Acres. Production Is Similar YOY Assuming a U.S. Trend Yield.



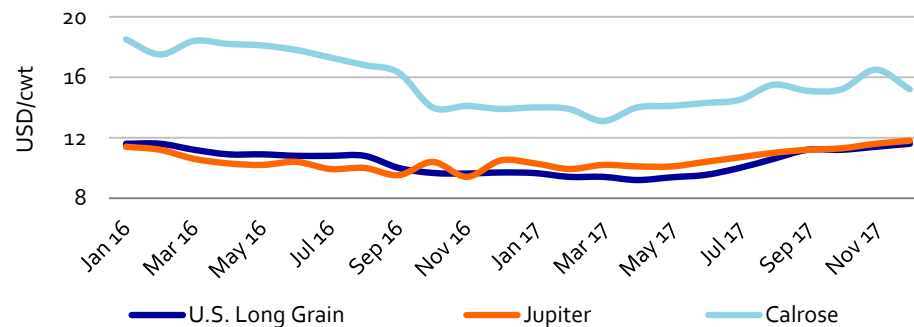
Source: USDA, Rabobank 2018

Rice



- The 2017/18 U.S. rice crop forecast was again lowered in January, to 178.2m cwt, a decline of over 20% YOY, due to a lower area estimate. At 2.37 million acres, harvested area is 23% lower than the previous year. Harvested area was lower in all reported states. Yields were up by 270 pounds YOY, at 7,507 pounds per acre. U.S. total rice supplies are projected to be 15% below a year earlier. Long-grain beginning stocks were 37% higher YOY, but the decline in production has helped to strengthen prices, versus year ago levels. Combined medium- and short-grain beginning stocks were down 45% YOY, the lowest level since 2009/10.
- U.S. long-grain and combined medium- and short-grain imports are projected up 6%, while total exports are expected down 14% YOY. Domestic and residual use are forecasted down 9% YOY. Ending 2017/18 stocks for long-grain and combined medium- and short-grain are expected to be down 47% and 19% respectively.
- In January, USDA lowered its season-average farm price for long-grain rice, but raised it for combined medium- and short-grain. U.S. long-grain prices are expected to average USD 11.30 – USD 12.30 per cwt, still up from USD 9.64 a year earlier. Southern medium- and short-grain price projections were lowered to USD 11.50 – USD 12.50 per cwt, up from USD 10.10 YOY. California 2017/18 medium- and short-grain price estimates were raised in January, back to the September Outlook level of USD 15.50 – USD 16.50 per cwt, up from USD 13.70 a year earlier.
- A potentially challenging water outlook could impact 2018/19 planted acreage in CA.

24-Month U.S. Medium/Short and Long Grain Prices, Jan 2016-Dec 2018

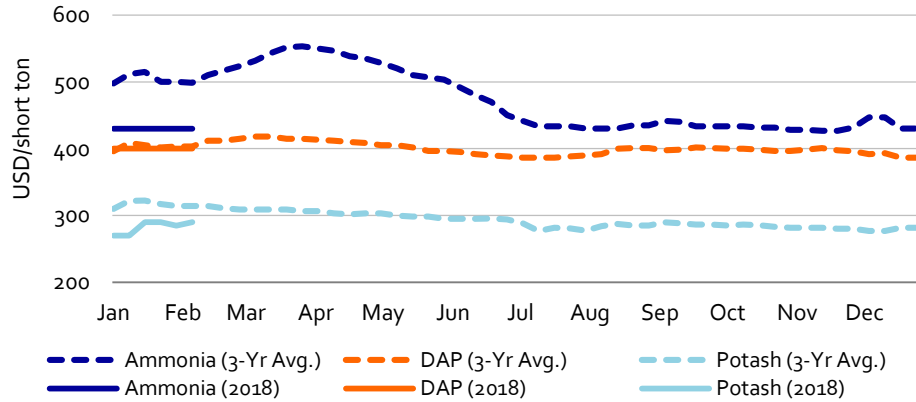


Source: USDA/NASS, USDA/ERS, Rabobank 2018
Note: Average rough rice basis

Input Costs

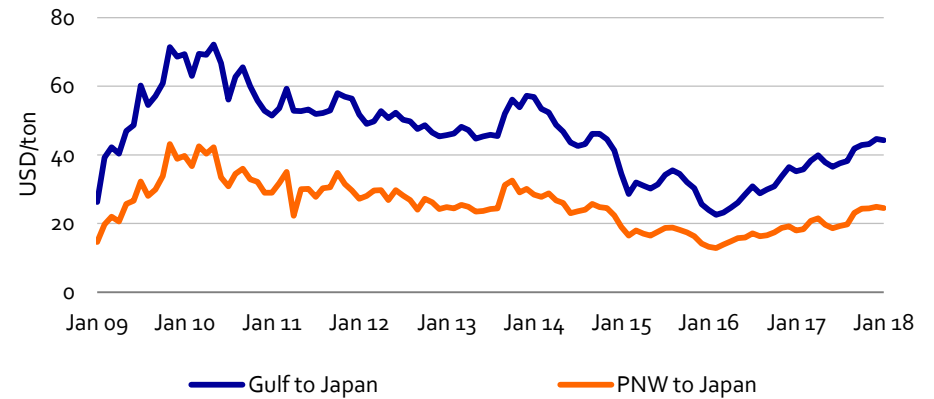
As of 15 February 2018

Corn Belt Input Prices*



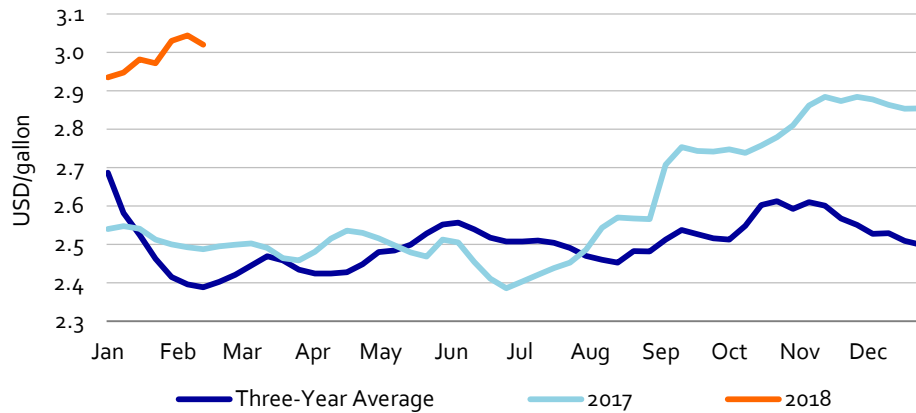
Source: Bloomberg 2018
* Note: granular potash

Ocean Freight



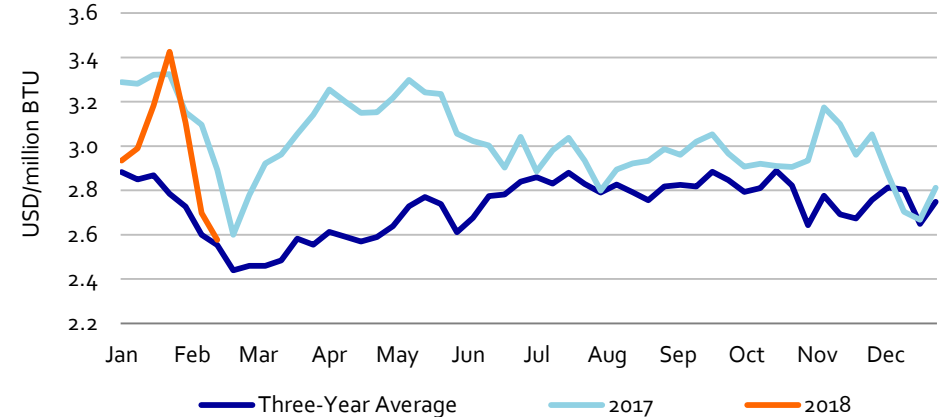
Source: O'Neil Commodity Consulting, AMS-USDA 2018

Diesel — Midwest



Source: EIA 2018

Natural Gas Spot

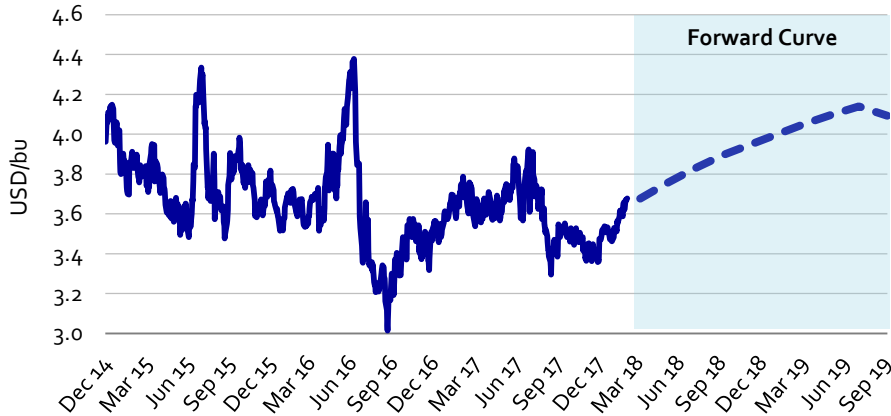


Source: NYMEX 2018

Forward Price Curves

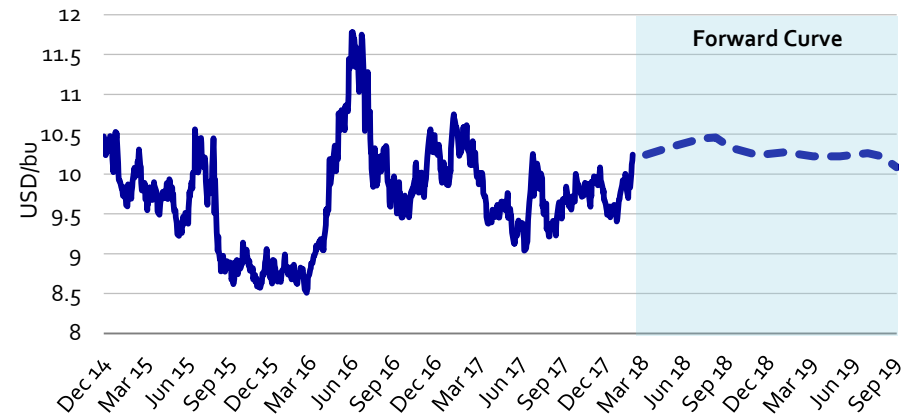
As of 15 February 2018

CBOT – Corn



Source: CBOT, Rabobank 2018

CBOT – Soybeans



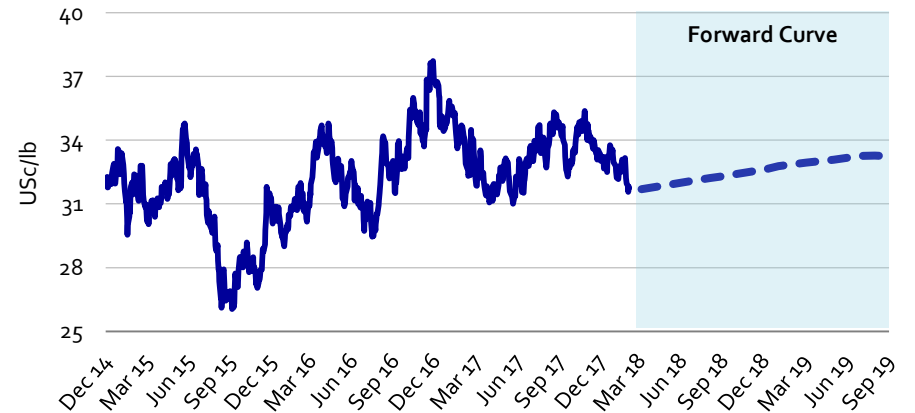
Source: CBOT, Rabobank 2018

CBOT – Soymeal



Source: CBOT, Rabobank 2018

CBOT – Soy Oil

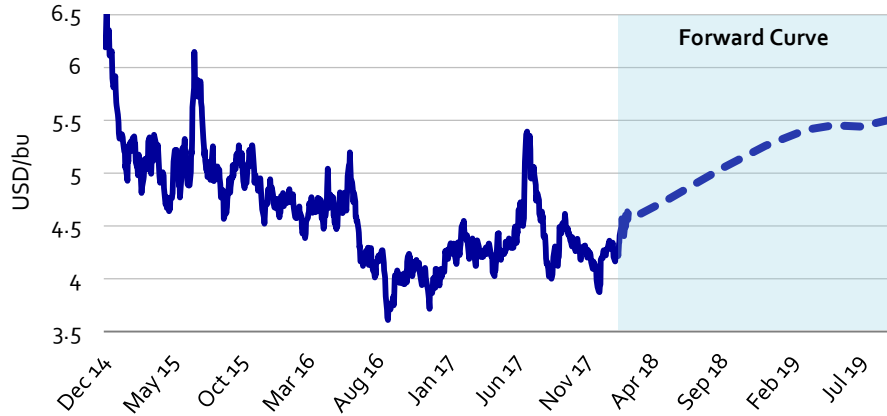


Source: CBOT, Rabobank 2018

Forward Price Curves

As of 15 February 2018

CBOT – Wheat



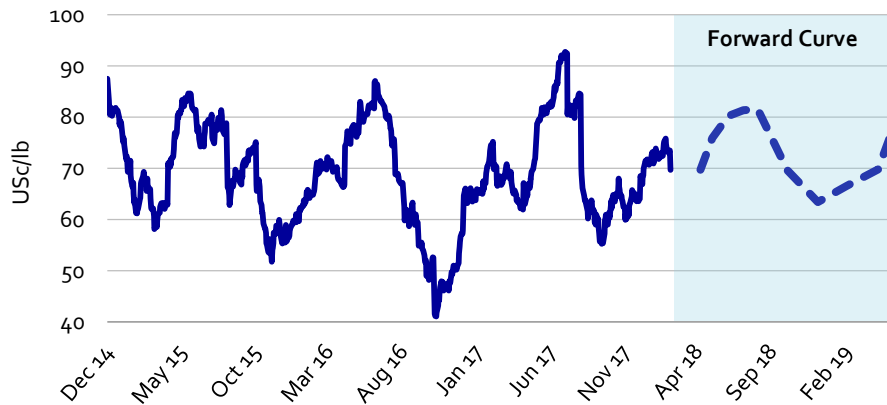
Source: CBOT, Rabobank 2018

CBOT – Feeder Cattle



Source: CBOT, Rabobank 2018

CBOT – Lean Hogs



Source: CBOT, Rabobank 2018

CBOT – Live Cattle

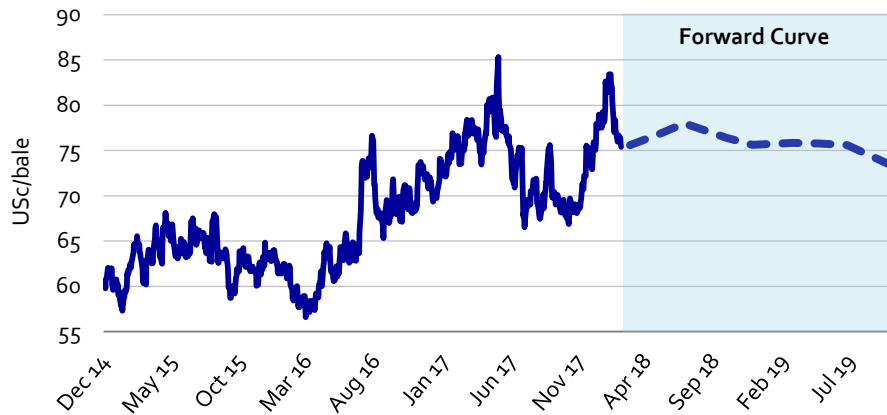


Source: CBOT, Rabobank 2018

Forward Price Curves

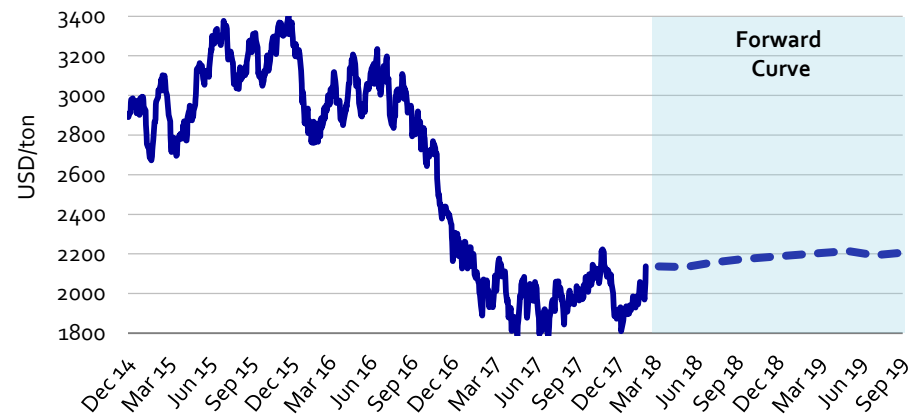
As of 15 February 2018

ICE – #2 Cotton



Source: ICE, Rabobank 2018

ICE – Cocoa



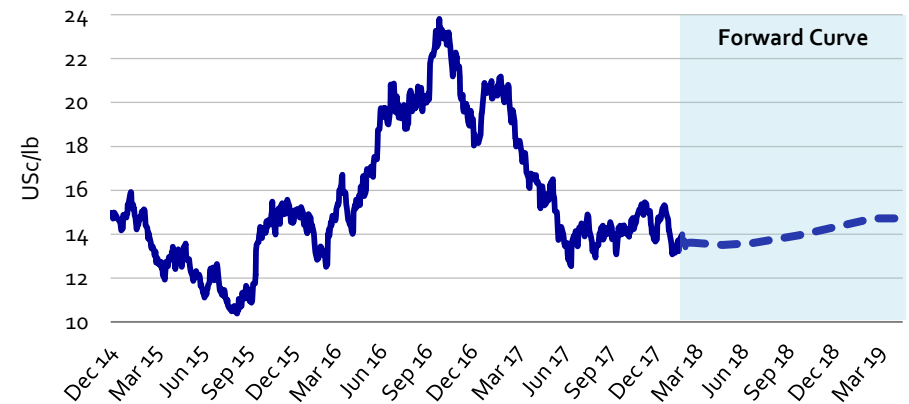
Source: ICE, Rabobank 2018

ICE – FCOJ



Source: ICE, Rabobank 2018

ICE – #11 Sugar



Source: ICE, Rabobank 2018

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