Food & Agribusiness Research and Advisory (FAR) Group

North American Agribusiness Review

April 2016

Rabobank

Report Summary

Rabobank

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Economy: Ploughing through

U.S.

- The headwinds caused by weak global economic growth, the strong dollar and low oil prices continue to slow down the U.S. economy. However, while the manufacturing and mining sectors continue to struggle, the services sector – which is less sensitive to the global economy – has been able to achieve a decent growth rate, sufficient to reduce unemployment. In combination with low interest rates, this has supported personal consumer spending and the housing market. Nevertheless, while the economy continues to grow, it is hardly at a breakneck speed. After 1.4% GDP growth (Quarter-over-quarter, at an annualized rate) in Q4 2015, we are likely to see an even more modest growth figure for Q1 2016 .
- The global headwinds and the slow rebound in inflation are also slowing down the Fed. In fact, at the March meeting, the FOMC participants cut their GDP growth and inflation projections for 2016 and removed two hikes from the dot plot, reducing the number of anticipated hikes in 2016 to 2 from 4 in the previous projections made in December 2015. Meanwhile, the ECB is still loosening monetary policy. Based on this divergence of central banks, we expect EUR/USD to decline to 1.07 in the next 12 months.

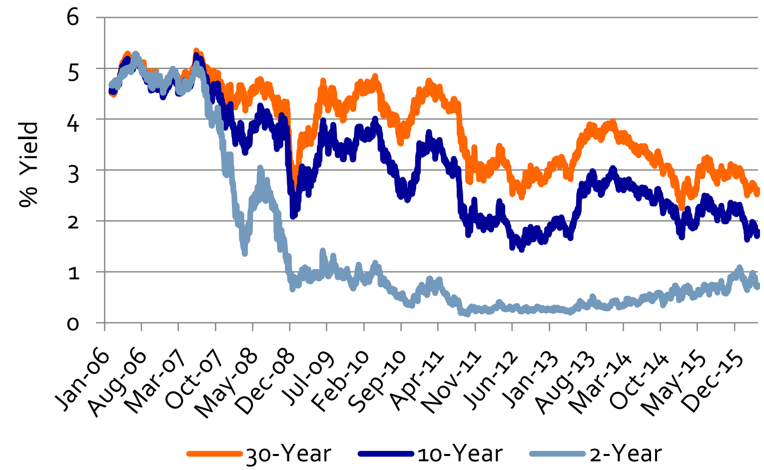
Mexico

- Banxico has likely returned to Fed watch mode following the surprise 50bps hike in February. That said, Governor Carstens has made it abundantly clear that Banxico will hike again to defend the currency if needed. This, of course, is also dependent on inflationary pressures but we are of the view that a rapid move towards the 20-handle would trigger a rate hike from Banxico, even if the emergence of price pressures observed over recent months starts to fade. Indeed, the bank itself noted three potential reasons for further rate hikes: the Fed raising rates, a pick up in domestic growth, or if MXN keeps depreciating. On balance, we expect USD/MXN to rise to 19.80 in the next 12 months.

Canada

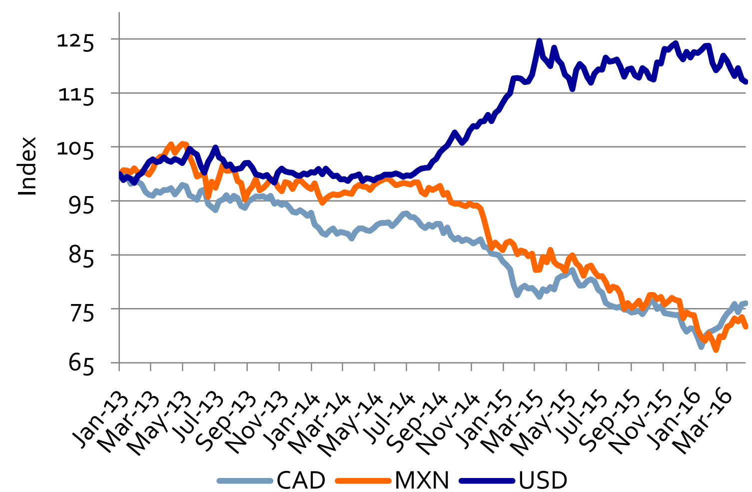
- The return of positive economic growth suggests that the Bank of Canada's rate cuts in January and July 2015 have provided sufficient monetary stimulus to restart the economy and support the recovery. Therefore, we do not expect further rate cuts by the BoC. In fact, unlike in some other countries, the Canadian central bank is not alone in its fight. The new Trudeau government has come to the rescue with an ambitious plan that will add CAD 11bn in government spending to the fiscal year that started on 1 April. As the Fed is likely to resume hiking before the BoC, we expect USD/CAD to rise to 1.35 in the next 6 months before falling back to 1.30 at the 12 month horizon.

Interest Rates



Source: Federal Reserve of St. Louis, 2016

Currencies



Source: Bloomberg, 2016; Note: Rebased at 100 as of 1st January 2013

Consumer: Confidence recovery trails economic growth

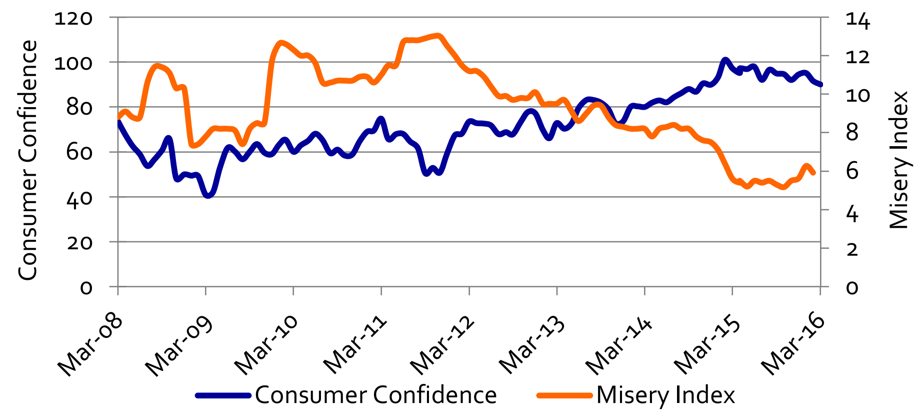
- Our measure of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board), fell to 91.6 in March compared to 101 a year ago. Despite the general improvement in the U.S. economy over the past twelve months, consumer sentiment is heading in the opposite direction as consumers remain cautious over the future direction of the global economy. As unemployment remains low at about 5% and with inflation also subdued, the Misery Index (the aggregate of the two metrics) continues to remain at pre-Great Recession levels.
- Over the last twelve months to February 2016, the rate of inflation as measured by the Consumer Price Index (CPI) was just 1%, despite energy prices falling by almost 13% over the past twelve months. Over the same period, food prices rose 0.9% with retail food prices (food at home) down 0.3% and restaurant (food away from home) prices up by 2.6 %.
- In the U.S., about half of every dollar we spend on food is on food prepared away from home, mainly at restaurants and other food service establishments. For the twelve months to February 2016, consumer expenditure on food away from home rose by 7.0% and food at home by 6.5%.

Food Sales

Food sales (USD bn)	Annual			YTD cumulative		
	2011	2012	2013	Dec-15	Jan-16	Feb-16
Food at home	$650	$675	$695	$771	$62.6	$128
YOY Change	5.2%	3.8%	2.9%	*0.8%*	*0.1%*	*6.5%*
Food away from home	$590	$624	$653	$741	$60.6	$121
YOY change	5.8%	5.8%	4.7%	*6.3%*	*4.7%*	*7.0%*
Total	**$1,240**	**1,299**	**$1,348**	**$1512**	**$123**	**$249**

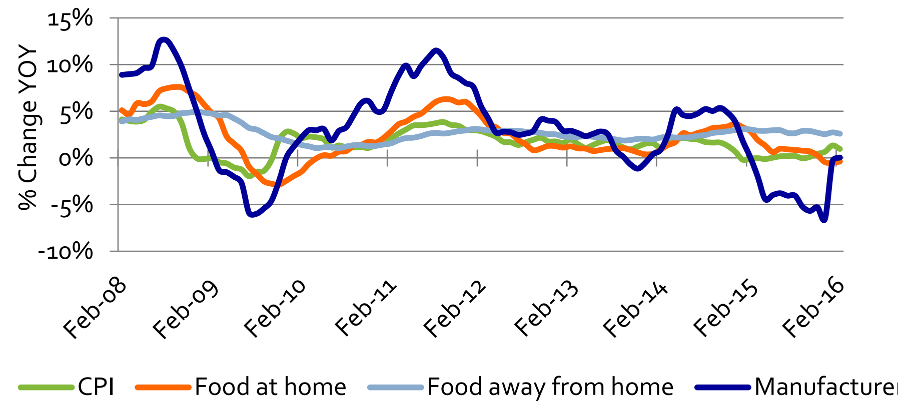
Source: USDA ERS, Rabobank, 2016

Consumer Confidence Index



Source: Bloomberg, Rabobank 2016

Food Price Inflation



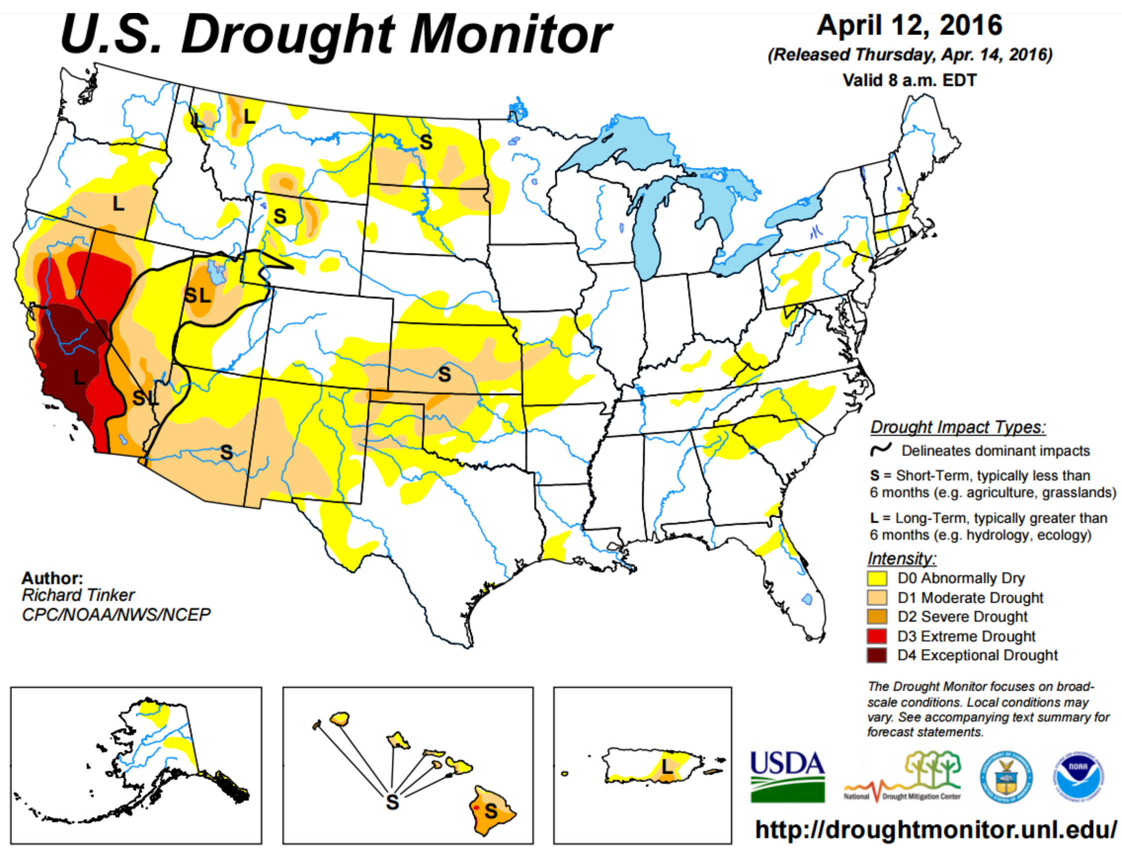
Source: Bloomberg, Rabobank, 2016

Climate: More dry out west; wetter in the east

- Temperatures for March and the beginning of April were above normal across most of the U.S.
- The eastern U.S.—from Florida to Massachusetts—experienced drier than normal March weather, favoring early season fieldwork but reducing topsoil moisture.
- Dryness also prevailed across the central and southern Plains and the Southwest, where conditions range from abnormally dry to moderate drought. The dryness, combined with large temperature oscillations during the period increased stress on winter wheat. Approximately 20% of winter wheat production is within an area currently experiencing drought.
- By contrast, the eastern corn belt, upper Great Lakes regions, and a broad section of the south stretching from southern and eastern Texas to the Mississippi delta were affected by wet weather. Heavy rains in mid March resulted in severe flooding and spring fieldwork delays from eastern Texas to the Mississippi valley.
- In the West coast, conditions vary sharply from North to South. While periods of stormy weather led to further reductions in drought coverage and intensity in Northern California and the Northwest, Southern California remains dry, and is currently in its fifth year of drought.
- Extended range forecasts indicate above median precipitation for parts of California, the Southwest and the Rockies, as well as the southern and central High Plains, and below median precipitations for the Northern Great Lakes region.

U.S. Drought Monitor

April 12, 2016



Beer: Hops production rising, barley acreage down

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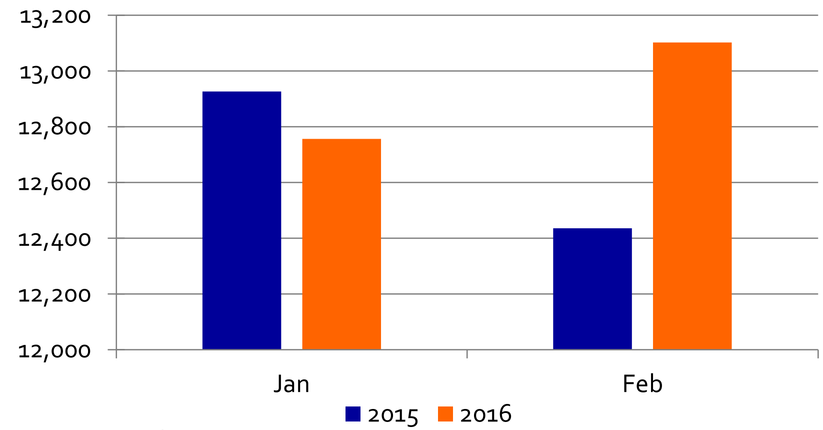
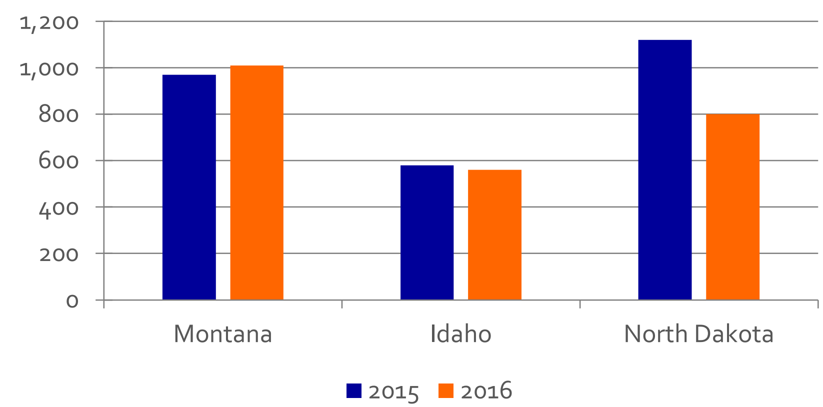
- Beer sales in the first two months of 2016 were up 2% compared to the same period of 2015. Sales in February were up 5.4%, which more than compensated for the mild decline (-1.3%) in January.
- Craft beer sales continue to drive the lion's share of the growth of the overall beer category. Sales of craft beer rose 12.8% in 2015, even as total beer sales saw a mild decline (-0.2%) according to data from the Brewer's Association.
- The Brewer's Association estimate of 13% growth in craft beer production represents impressive accomplishment, given that overall beer production saw a mild decline, but it is also worth noting that it is a far lower rate of growth than the craft beer segment saw in 2014 (42%). While the growth rate of craft beer consumption may indeed be slowing, it is also worth noting that the lower 2015 growth figure also reflects the fact that a number of craft brewers were acquired by larger brewers in 2015, and as a result their volumes were excluded from the calculation. More importantly, consumer interest in fuller-flavored beer continues to grow.
- Hops production in the U.S. rose by a healthy 15.4% in 2015, as producers seek to respond to rising demand, according to Hop Growers of America. This figure looks set to continue rising, as hops acreage has risen 47% in the Pacific Northwest (PNW) over the past three years, and hops do not reach their full productivity until the second or third year. Furthermore, while the PNW still accounts for 97% of hops production in the U.S., production is quickly spreading to other regions. Production of hops in regions beyond the PNW grew nearly 42% in 2015.
- Acreage planted to barley appears set to decline 12%, according to the USDA's Prospective Plantings report for 2016. Of the three largest barley producing states, only Montana appears set to increase production, as acreage in both Idaho and North Dakota is down from last year. Some reports suggest that the decline in acreage is the result of farmers looking to switch to planting corn, rather than barley.

Total U.S. Monthly Beer Depletion ('000 beer barrels), 2016



Source: Beer Institute, 2016

Barley Acres Planted ('000) for Key Producing States, 2015-2016



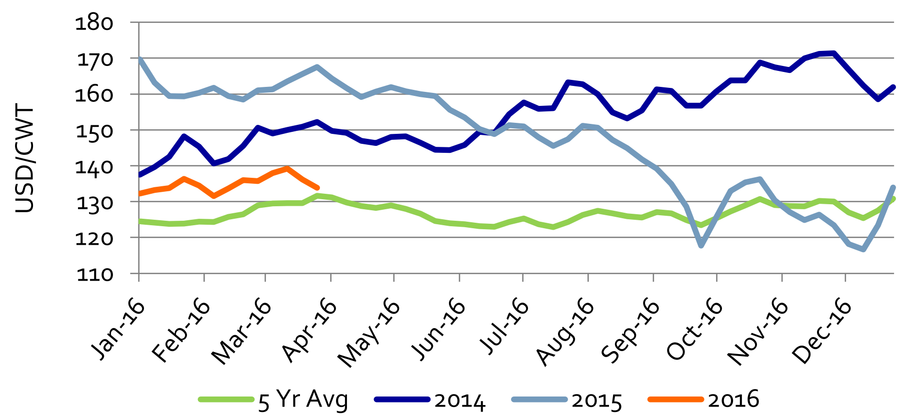
Source: USDA-NASS, 2016

Cattle: Seasonality and competitive meat supplies drive prices

Rabobank

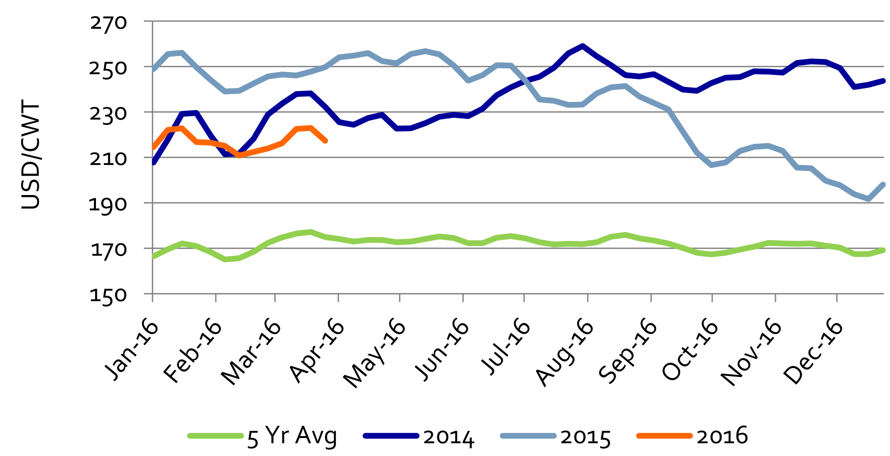
- Fed cattle prices for the year to date have been confined to an exceptionally narrow trading range of USD 132 to USD 138. While cattle supplies remain tight, especially in the northern feeding areas, the market has struggled to gain momentum.
- The timing for a normal seasonal peak is drawing short. While fed cattle prices are expected to return to the upper USD 130's in late April to early May, the earlier price projections of spring highs at the low USD 140 level are looking less likely.
- Disappointing market momentum has been driven by a number of issues: large supplies of competitive proteins, a slow start to the spring grilling season despite the early Easter. The largest driver of disappointing market performance has been an abnormally slow seasonal decline in carcass weights.
- While the fed cattle to feeder cattle swap is much more attractive than a year ago, the threat of heavier than expected carcass weights will likely be an ongoing issue. Not only are cattle genetically capable of finishing at heavier weights, the corn cattle ratio also encourages cattle feeders to push to heavier weights.
- The U.S. beef import/ export balance was still disappointing in February. Australian shipments of lean beef were down 24% but imports from Canada, Mexico and New Zealand filled the majority of the Australian decline. U.S. exports to grey channel countries improved, suggesting more U.S. beef is making its way to China.
- Feeder cattle prices have been a two tiered market. Calves and light-weight cattle suitable for grass have found solid price support. Light to moderate weight feeder cattle have held in a surprisingly narrow price range while heavy feeder cattle have been under pressure. Expectations are for receipts to flatten during April with another round of heavy, wheat graze out cattle expected in May. Price spreads between weight classes are expected to normalize as cattle supplies rebuild.

Fed Steer Prices (Five Market Average)



Sources USDA, Rabobank, 2016

Comprehensive Cutout

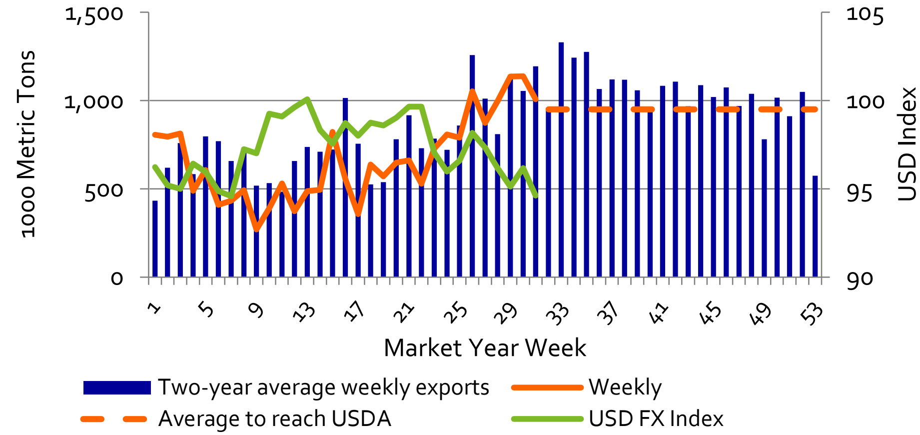


Sources CME, Rabobank, 2016

Corn: Price headwinds continue to build

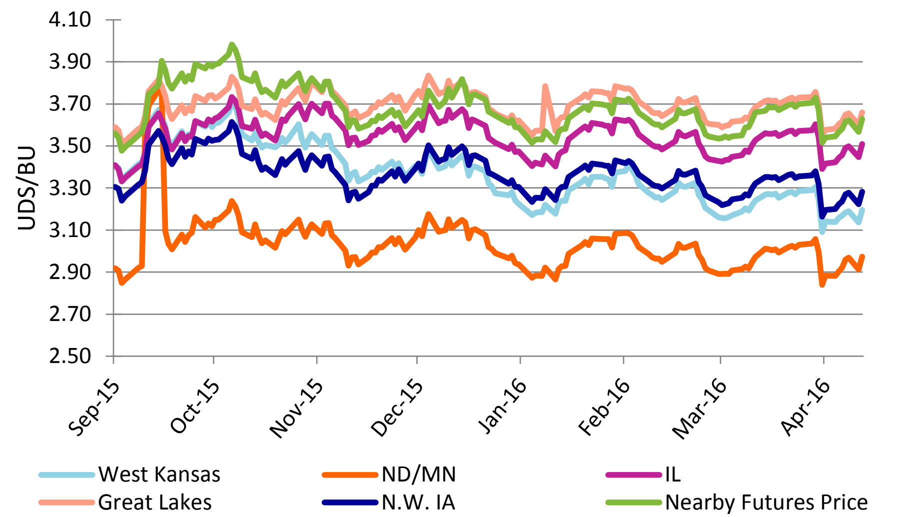
- The combination of a weaker U.S. dollar and tightening supplies from Brazil have increased the rate of U.S. corn exports. While still lagging recent years, the new level of cumulative exports puts the USDA projection of 1.65 billion bushels within striking distance. To reach the USDA projection, the rate of exports will need to average just under 1 million tons over the next 20 weeks, which is achievable especially as Brazilian corn harvest estimates are downgraded due to dryness.
- The most interesting driver of exports is a recent drop in the value of the U.S. dollar, which coincides with the pickup in exports. This will play a roll in where the final export number ends. We estimate that exports are on pace to fall between a relatively low 1.55 billion and 1.65 billion bushels (1.864 and 1.924 billion in 2013 and 2014 respectively).
- U.S. planting will be in full swing across the U.S. within the next three weeks. The USDA prospective planting survey, completed on March 1, indicated that farmers plan a 5.6 million increase in 2016 corn acres YOY. At trend line yields (estimate at ~166 bushels per acre), Rabobank estimates that only 90 million acres are needed to balance supply and demand. An additional three million acres will cost ~USc 30 per bushel in corn price, which increases the probability of another year of negative margins for most producers.
- There was an immediate market response after the USDA Prospective Planting report was released on March 31. It is a concern that 35% of the planned expansion is in the northern and southern Plains (not including Nebraska) where prices are already well below breakeven. This increases the potential for 'trapped grain' to create headwinds for price increases for multiple years.
- A surge in new crop soybean prices relative new crop corn is making the case to shift planting plans. With the current soybean to corn ratio over 2.5 (2.3-2.4 is where soybeans breakeven with corn) there is a building case for acres to move away from corn. However, there will likely be more than 90 million acres planted to corn.

Exports Catch up Yet Lag Previous Years



Sources USDA, Rabobank, 2016

National Price Down, Plains/Western Corn Belt Basis Remains Wide

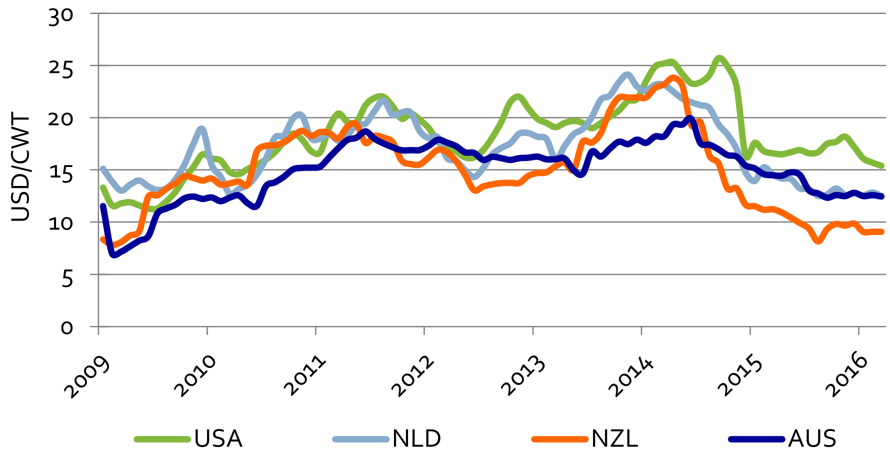


Source: DTN, Rabobank, 2016

Dairy: U.S. not immune to global market conditions

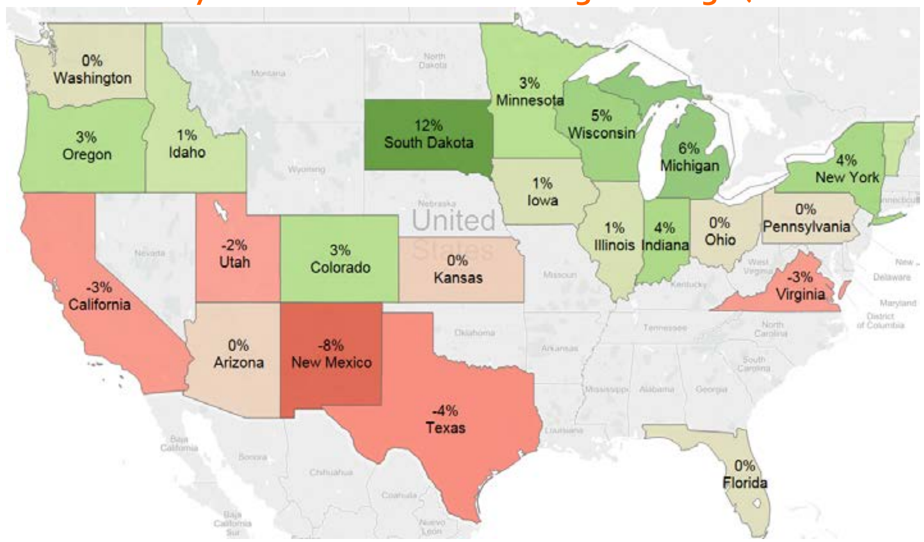
- The U.S. saw milk supply growth crawl into 2016 with January's figure up just 0.3%. February was a bit of a surprise with production growing just under 1% YOY—mostly the result of a very mild winter.
- Supply growth remains split across the U.S. with states out west continuing to contract—for February New Mexico was down 6%, California was down 3%, and Texas was down 2%,
- Meanwhile, the Midwest continues to grow, despite the global downturn in pricing. This is in part due to the mild winter, but also because of relatively higher regional milk prices which are weighted towards class iii, which has benefited from solid U.S. demand growth for cheese.
- However, trade has put continued pressure on U.S. price premiums with import growth (+11% 2H 2015) as products (butter and cheese) spill into the U.S. from the flooded international market. Exports remain down (-8% 2H 2015) as prices remain unattractive for most exporters.
- U.S. inventories continued to build into 2016 with February figures for butter (+32% YOY and cheese +11%).
- Demand for dairy products in the U.S. saw continued growth in 2H 2015 with commercial disappearance up 4% through the period. Driven by increased demand for cheese and butter, and contracting demand for fluid milk continuing to slow.
- The U.S. demand outlook for 2016 remains positive as the economy continues to perform relatively well and consumers benefit from cheap gas prices, leaving them more money in their pockets for spending on food and in particular, on eating outside of the home. Also the 'fat is back' trend has proven stable, and we believe we will see this continue as Americans opt for more butter, cheese, full-fat yogurts, and fluid milk beverages.
- Despite the slow milk supply growth and solid demand growth, U.S. prices will continue to feel pressure from the oversupplied global market in 2016 as inventories continue to accumulate due to increased imports and fewer exports.

U.S. Milk Prices Continue to Benefit from Butter and Cheese Premiums



Source: Fonterra, RFC, Dairy Australia, Rabobank, 2016

US Production by State –Three Month Rolling % Change (Dec-Feb 2016)



Source: USDA, Rabobank, 2016

Feed: Ample substitutes

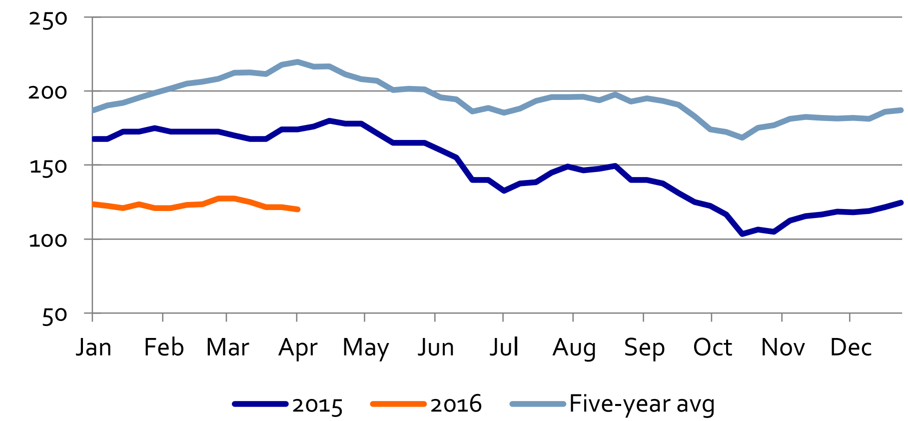
DDGs

- Lackluster export demand continues to place downward pressure on distillers' grains prices. Chinese buyers are holding off from buying until they know the outcome of the anti-dumping investigation against the U.S.—a decision which should be known within the next month.
- The domestic market is also sluggish, with April sales prices trading down. According to the latest data, DDGs production was 1.8 million tons during February 2016, down 4% from January 2016, but up by 11% YOY. Higher corn production estimates have a bearish influence on DDG prices going forward.

Hay

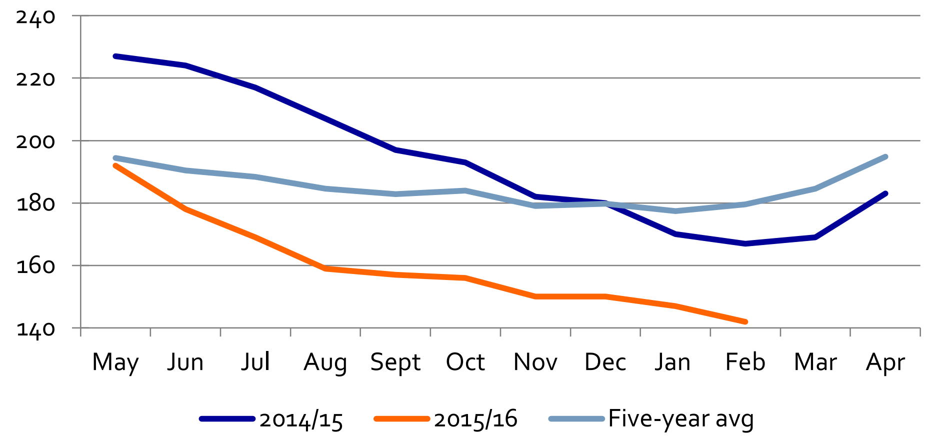
- U.S. alfalfa hay is trading well below historic average prices of USD 167/ton. Those buying premium hay should expect to pay USD 50 to USD 75 more per ton. These alfalfa prices directly correlate with current milk prices. It is unlikely that there will be a change in pricing until milk prices see a rebound.
- Japan is receiving more hay this year, in comparison to last year, when port strikes hindered shipments. However, total alfalfa imports are behind their historic average. Timothy exports have been nearly 10 percent ahead of historic average.

Iowa DDG Price (USD/Ton)



Source: USDA-AMS, LMIC, 2015; Note: 10% Moisture, 28% to 30% Protein

Alfalfa Hay Price (USD/MT)

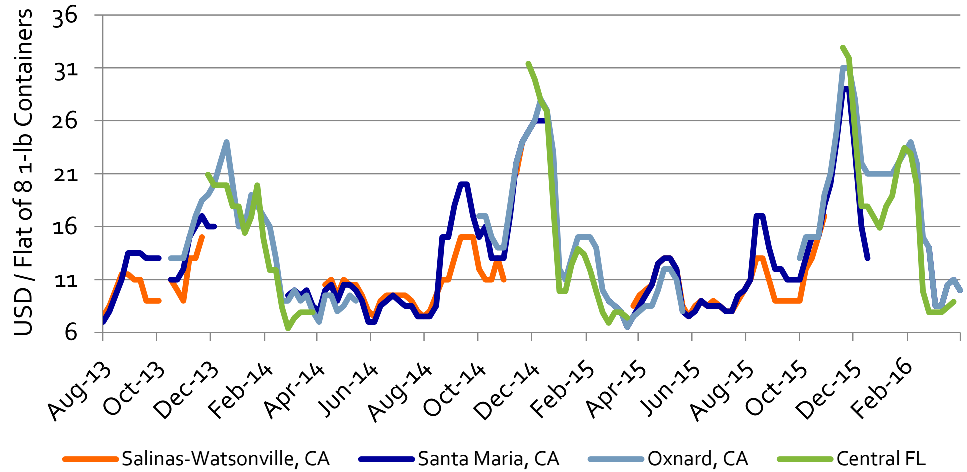


Source: USDA-AMS, LMIC, 2016; Note: National Average Price

Fruits: April freezes taking their toll

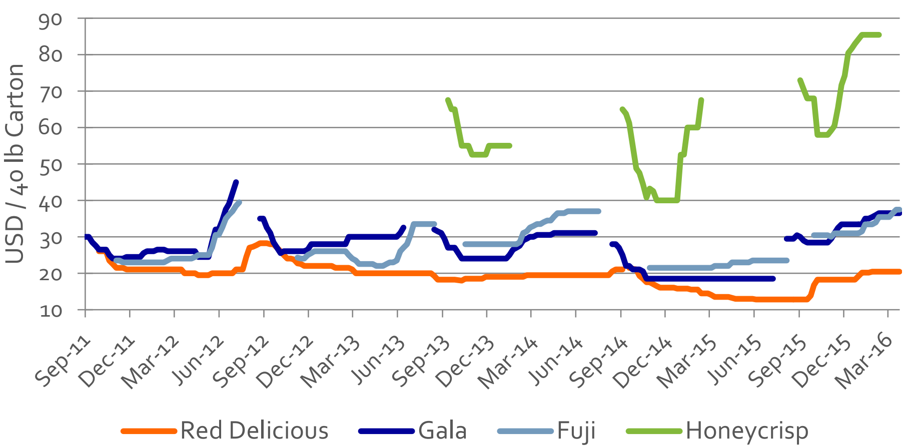
- While strawberry prices have come off their winter peaks, lighter shipments have resulted in generally higher YOY prices during February and March. As of March 5, 6.7 million flats of California strawberries had shipped, down from 12.9 million at the same time last year. Rain and cooler weather have slowed shipments, but fall planted acreage was also reported to be down by 12% YOY.
- Ample navel supplies, and ongoing consumer competition from mandarins, continue to push navel prices lower.
- Apple prices continue to be considerably higher than last year, and gained strength through February and March. The lighter Washington crop, bad weather in the southern hemisphere growing region, and strong U.S. demand led by better-eating varieties, have all contributed to the upswing in price. As of April 1, U.S. apple holdings were 23% lower, YOY.
- Damage to upper-Midwestern, mid-Atlantic and Northeastern tree fruit and vine crops, caused by unseasonable, freezing temperatures in April, is currently being assessed, and could substantially impact this year's crop.

Strawberry Shipping Point Prices – Primary U.S. Districts



Source: USDA/AMS, Rabobank, 2016

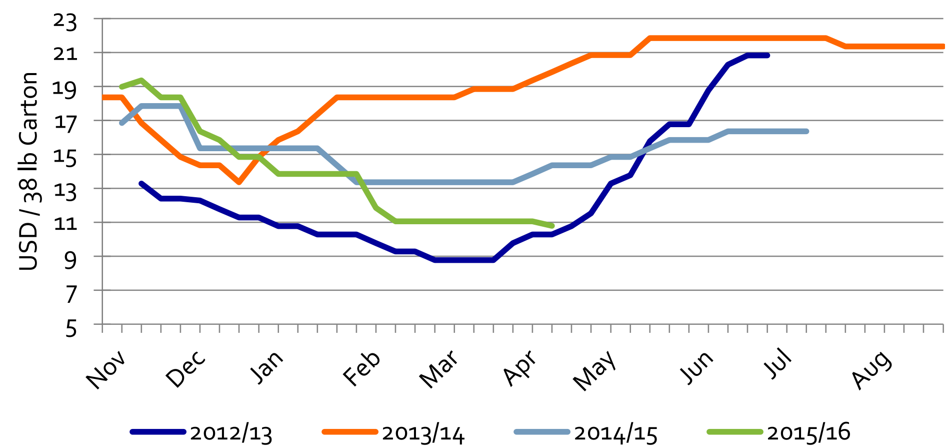
Washington Apple Shipping Point Prices – 88s – WA Extra Fancy



Composite of Fine Appear. & Standard Appear. Prices

Source: USDA/AMS, Rabobank, 2016

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

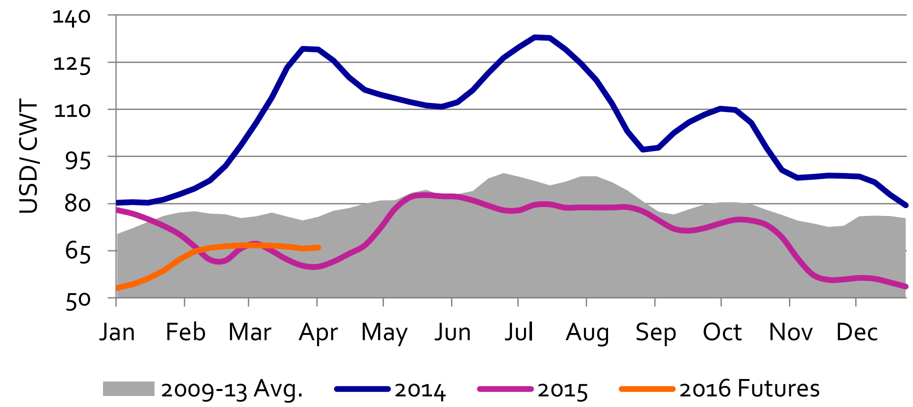


Source: USDA/AMS, Rabobank, 2016

Pork: Prices and profitability rallying after poor start to the year

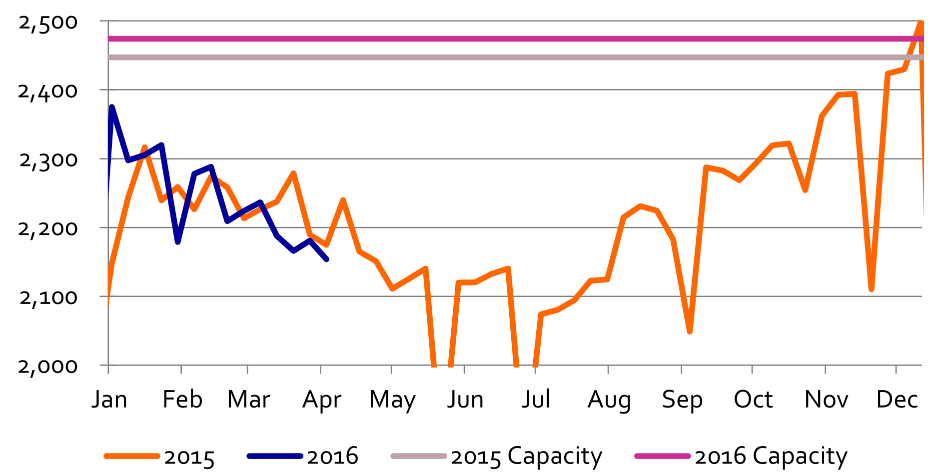
- After the massive sell-off in hog prices through the winter of 2015/16 the U.S. hog market has rallied quiet significantly, to reach levels up 25% from where they started the year. We attribute this price move to (1) indications of very modest supply growth in 2016, (2) increased optimism of improved trade and (3) having managed through the capacity constraints.
- In the aftermath of PEDv, U.S. pork production climbed 7.5% in 2015 but current indications are for a much more modest 1% to 2% increase in 2016—based on the most recent USDA quarterly hog report. The U.S. dollar remains a significant headwind for pork exports, but with additional pork packers developing and expanding trade opportunities with China, we see trade helping to absorb some of the expansion. Finally, capacity was an issue of significant concern in the final months of 2015, which we largely attribute the decline in prices to during that time. The industry has managed through that issue in the last few months and the talk of two small plants coming online before the end of the year has given the market confidence that it can manage through the issue again in 2016.
- The lift in hog prices has improved the outlook for producer profitability quite significantly. Today's futures prices for hogs and feed imply a profit of approximately USD 10 per head in 2016. A key component of that outlook is low cost grain, which looks likely to be with us for some time. With corn prices well below USD 4.00 per bushel and soy meal below USD 300 per ton, U.S. livestock producers are experiencing significantly lower costs of production than in many years.
- Trade remains a key variable for U.S. pork as the industry continues to rebound from the West Coast port slowdowns of 2015. Through the first two months of 2016, exports are up 6% versus the same period in 2015, but still down 10% from the same period in 2014.

U.S. Hog Futures



Source: Bloomberg, 2016

U.S. Weekly Hog Slaughter and Estimated Capacity (1000's head)

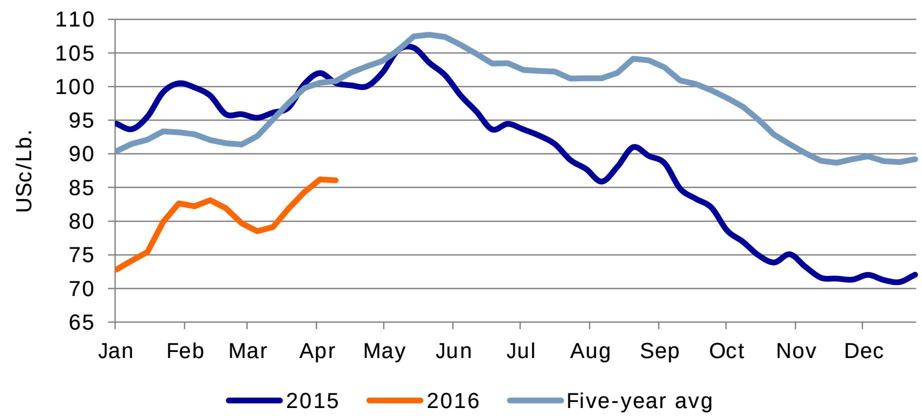


Source: LMIC, 2016

Poultry: Prices rebounding as producers pullback on supply

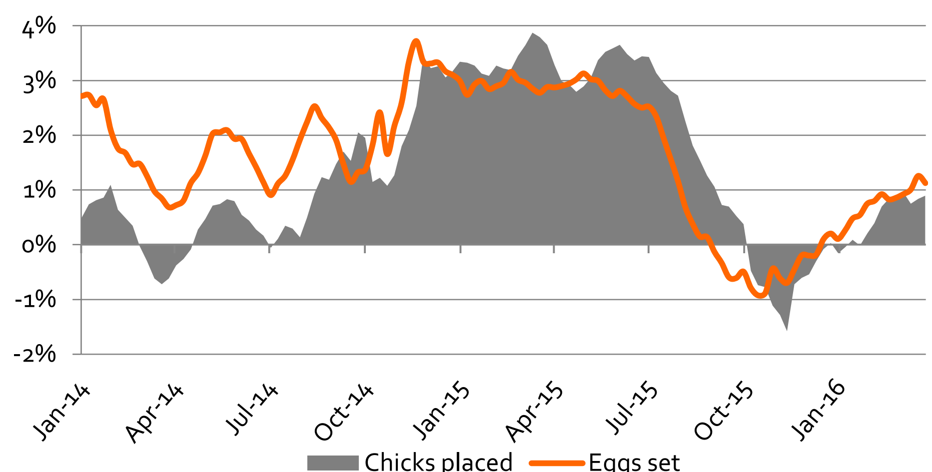
- After a sluggish start to poultry prices this year, prices have made a significant improvement in the last few months, driven by improved values across the poultry complex. Year-to-date, prices of breast meat are up 13%, while leg quarter prices have climbed by more than a third and on a composite basis prices have risen by 15%. This has been driven by the factors of disciplined supply growth by producers as well as the lifting of a number of trade bans given the solitary high-path avian influenza (HPAI) case in 2016 thus far.
- The outbreak of HPAI in the U.S. which started in the fall of 2014 and went through June 2015 brought with it widespread trade bans from a number of key export partners of U.S. poultry. To the surprise of many in the poultry industry, there has been just a single case since last June, which has helped to pave the way to the reopening of a number of trade avenues and lifting of U.S. leg quarter prices. North-east leg quarter prices bottomed in the low 20 cents/lb range last fall and much lower than that in some other parts of the country. Since then leg quarter prices have climbed to just of 30 cents/lb, which has significantly helped to improve producer profitability.
- Supply discipline has been an important factor, not just in bringing producer margins back in to the black this spring but also in keeping industry profitability so strong in recent years. As industry prices declined late last summer, we saw a sharp pullback in supply growth as eggs set levels turned negative in September relative to 2014 levels. This trend continued through the beginning of 2016 and has kept supply growth minimal in Q1. We expect chicken production growth to slow from the 4% growth in 2015 to 3% in 2016 but with a modest rebound in exports helping to keep domestic availability growth favorable to pricing and producer profitability.

Chicken Prices, Composite Basis Based on Part Values



Source: USDA, Rabobank Estimates, 2016

Chick Placed and Eggs Set, YOY Change

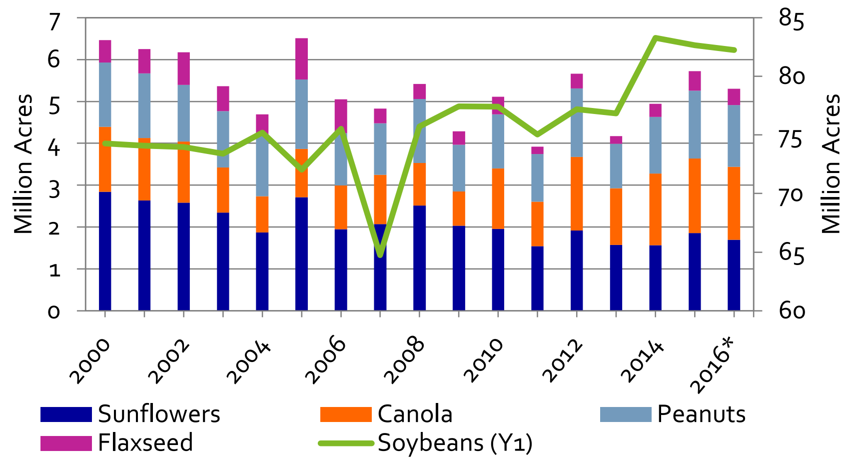


Source: USDA, 2016

Soy Complex: Prices expected to remain range bound

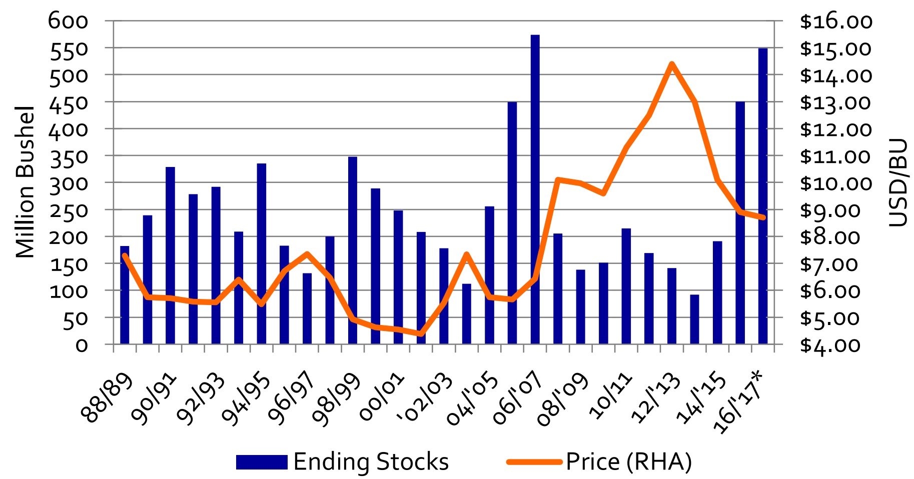
- The soybean market has been digesting the Prospective Plantings report both for soybeans and corn. Soybean planting were estimated at 82.3 million acres, just 100,000 acres below our projections. The surprise came in the corn planted acres at 93.6 million. Since the beginning of March, the soybean market has been trying to buy acres from corn, rallying over USD 0.80 per bushel. At this moment, the soybean/corn ratio is over 2.5, which points to more soybean acres being planted. In four of the last five years, soybean plantings have increased from the March to the June report by an average of 1.0 million acres.
- Using the Prospective Plantings figure, the 2016/17 U.S. soybean balance sheet balloons to over 500 million bushels, even with a slight increase in demand. It is very likely that the U.S. will build soybeans stocks in the 2016/17 crop year, putting more downward pressure on prices.
- Soybean oil prices have been the star of the complex. Since last August soybean oil futures have rallied approximately 800 points. As discussed previously, the major reason for the rally has been the concern over reduced palm oil production due to El Niño. March Malaysian palm oil production increased from February, but year-to-date is lagging last year by 10%. Last year at this time, 2015 was running behind 2104 by 11%. In addition, the March data showed Malaysian palm oil stocks down at their lowest level since February 2015 and matching the five-year average. Soybean oil prices are also getting a boost from crushers as they boost soybean oil prices to prop up declining crush margins. Funds are also jumping on the bandwagon by holding on to a near record net long position in soybean oil and therefore supporting prices.
- Again with the exception of soybean oil, exports of soybeans and soybeans meal have kept downward pressure on their prices. Year-to-date, soybean and soybean meal exports are down 7.4% and 17.5%, respectively from the 2014/15 crop year. The slowdown in the global economy, strong U.S. dollar and increased competition from Argentina have all slowed U.S. exports. In addition, this is the first time since the 2005/06-2006/07 crop years that soybean stocks have been adequate. Consequently, end-users don't feel the pressure to buy ahead and to lock in supply. Therefore, the producer is left with large stocks which hang over the market and keep a lid on prices.

Total Planted U.S. Oilseed Acres are down nearly 1%



Source: USDA-NASS, Rabobank, 2016

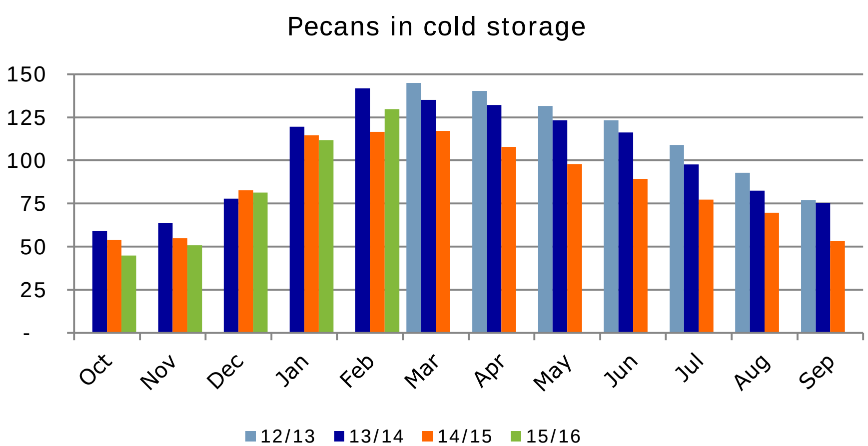
U.S. Soybean Ending Stocks at Record Levels



Source: USDA-ERS, Rabobank, 2016

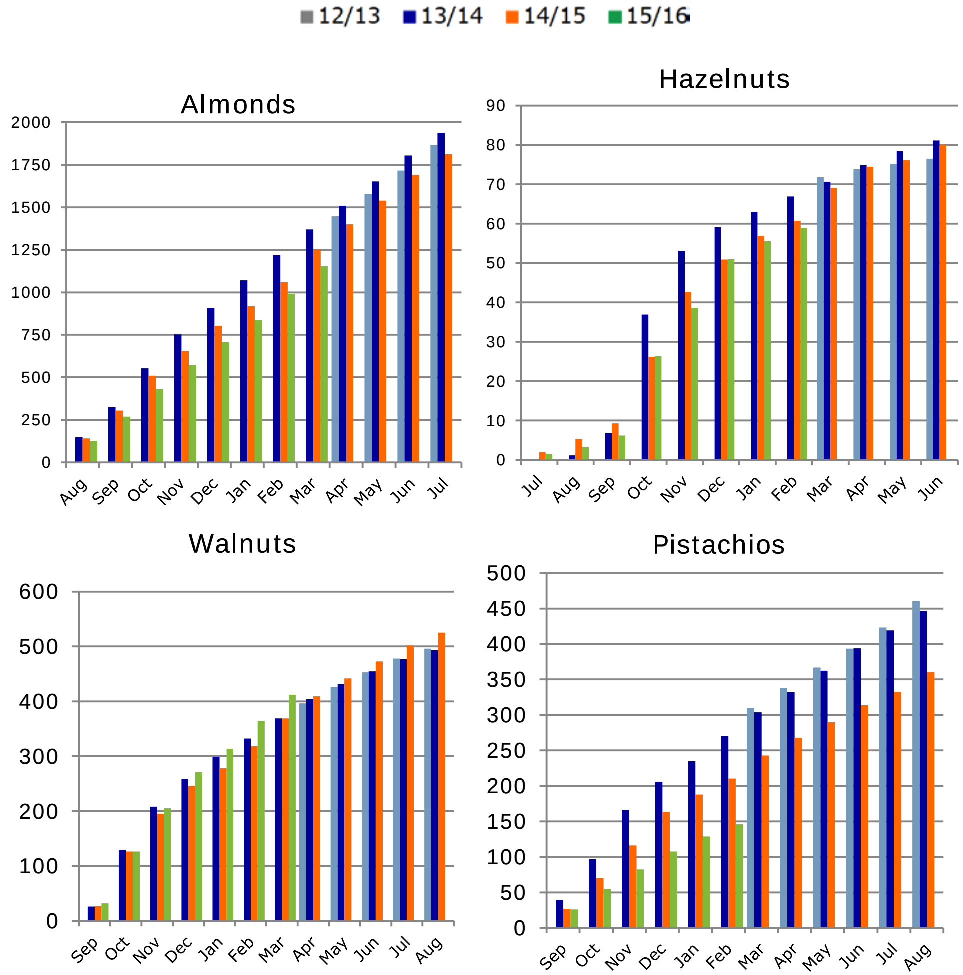
Tree Nuts: Too much

- The strong US dollar continues to make U.S. nut exports less competitive, and China's crack-down on the 'grey market' causes confusion in exports to China. China has lowered its tariffs on imported nuts and wants importers to follow the rules, but importers hesitate to make deals, until they know what their competitors intend to do.
- Excessive nut production is in most instances still the driver behind significant reductions from record high prices last year. Yet, prices remain profitable provided the grower has not taken on too much debt to buy higher priced orchards in recent years.
- Pecans are the exception, given their yield problems last year and their record high prices. Pieces are even selling for more than halves, around USD 6.50 per lb.
- U.S. almond exports and domestic sales are down, as buyers pushed back against high prices in recent years and are waiting to learn about crop size prospects for 2016. Wholesale prices are down more than 50 percent from last August's highs.
- U.S. pistachio exports are down 41 percent and domestic sales are down 12.5 percent market year-to-date. Iran's large crops in the last two years slowed our exports and higher prices may have slowed domestic sales.
- U.S. walnut exports are up; evidence that a 50 percent plus price drop sells more nuts. While the crop in 2016 may not be a record setter as the last two were, it will be big.
- U.S. hazelnut shipments are up, indicating lower prices are increasing sales domestically and especially to China.



U.S. Tree Nut Shipments

(millions of pounds)

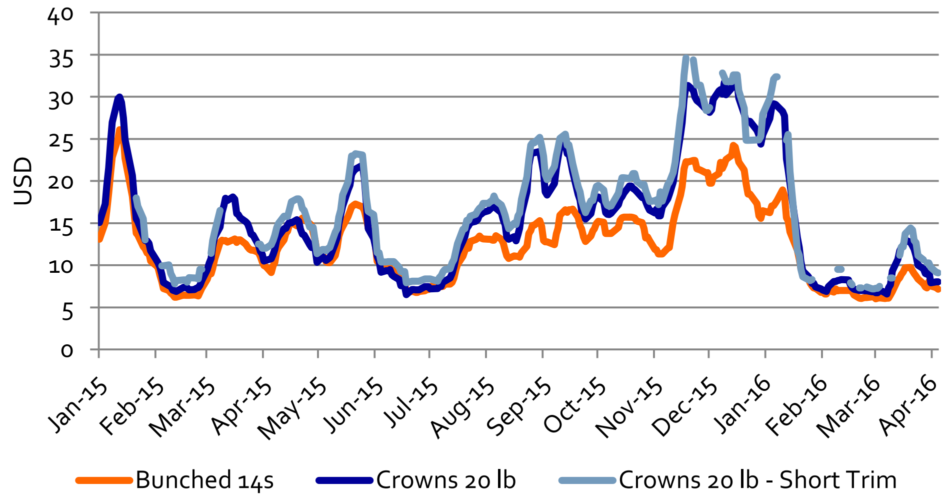


Source: Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, USDA Census Bureau, 2015

Vegetables: The cool-off period

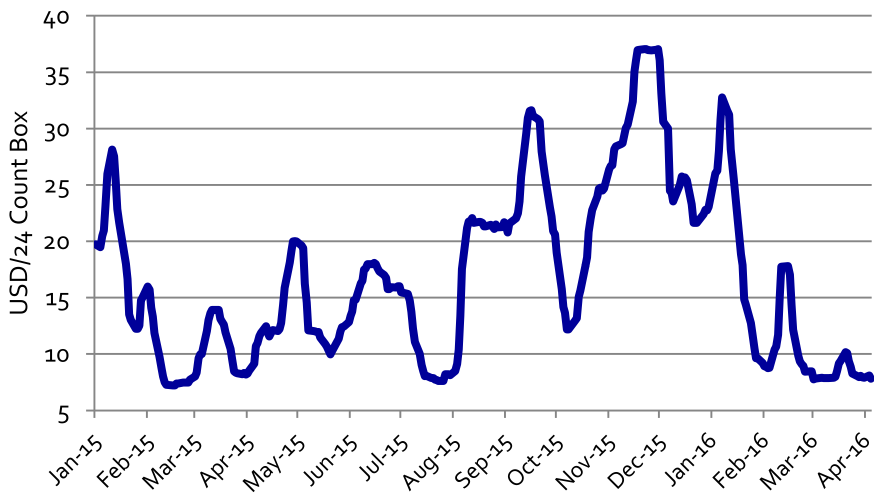
- No major supply-side issues have been reported during the ongoing transition from the desert to the northern growing regions. In fact, the overlap of Arizona and Central Coast production during March has pressured prices. Iceberg lettuce out of Yuma and Huron is winding down and Central Coast production will continue to pick up weekly. The frequent rains in the Salinas Valley during the first half of March, reportedly did little damage. Salinas and Santa Maria have solid production of leaf lettuce, and broccoli supplies are plentiful out of those production regions.
- Mid-March prices for head lettuce and romaine were reported down 43% and 56% respectively, YOY. Cold weather in the desert during late 2015, caused high prices, which turned consumers off, and has hurt markets in early 2016. As consumers re-adjust their purchasing decisions based on lower current prices, demand-side balance should set-in.
- Any supply gap, caused by weather-related delayed plantings on the coast, are most likely to hit in May or June, not April.

Broccoli – U.S. Daily Shipping Point Price



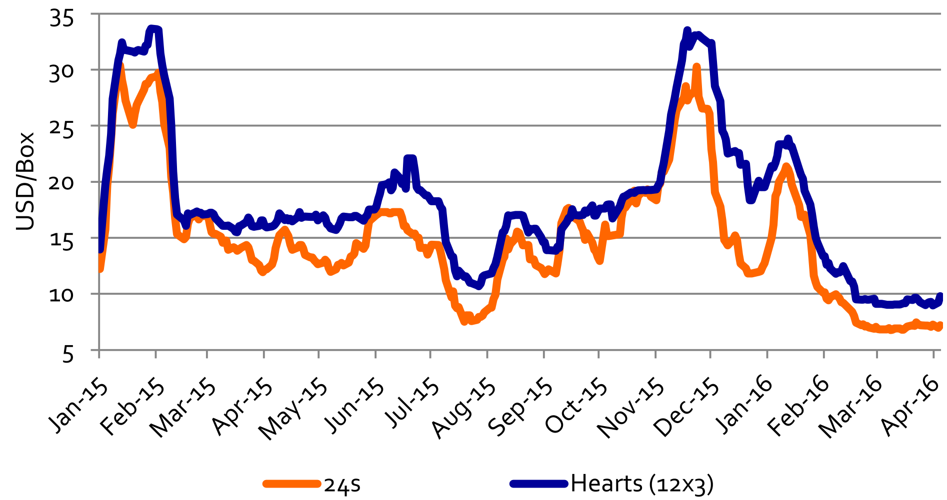
Source: USDA/AMS, Rabobank, 2016

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



Source: USDA/AMS, Rabobank, 2016

Romaine Lettuce – U.S. Daily Shipping Point Price

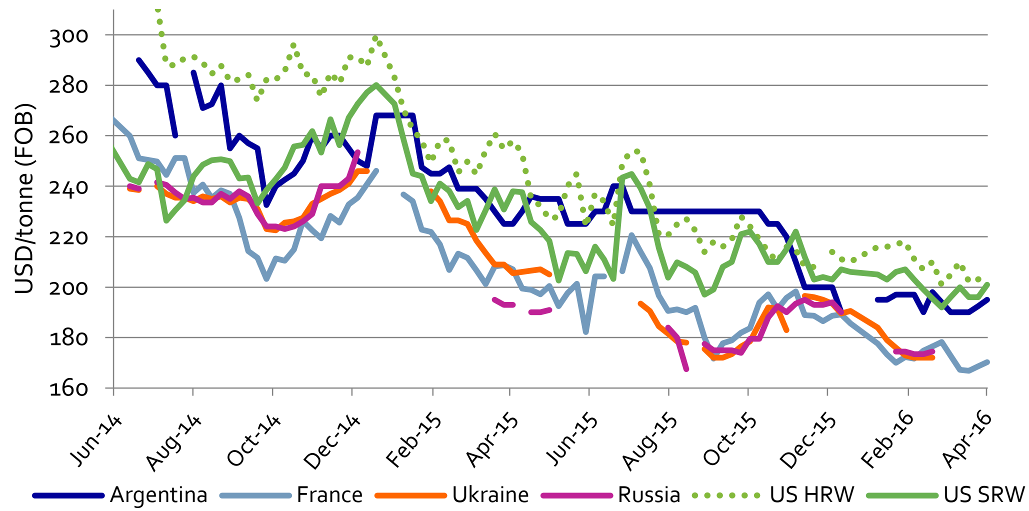


Source: USDA/AMS, Rabobank, 2016

Wheat: Rallies being curbed by aggressive export competition

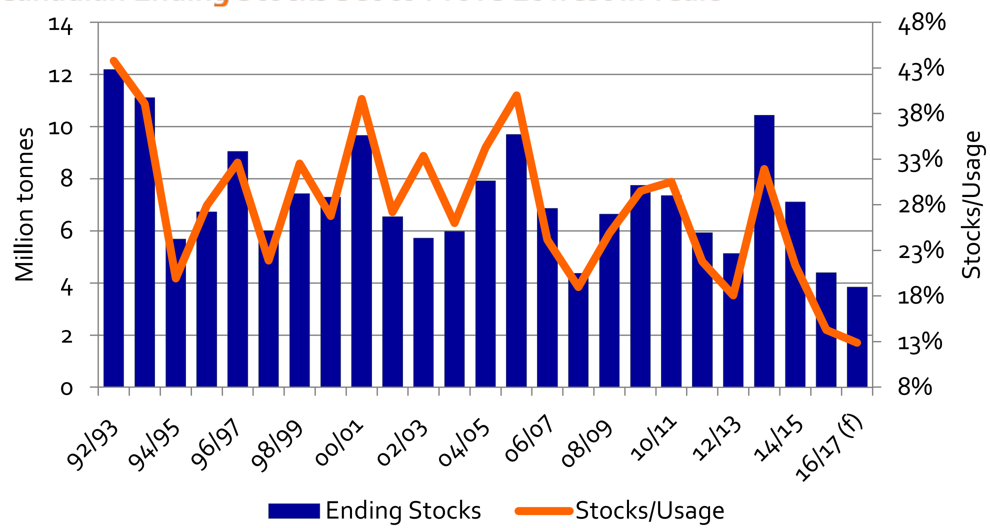
- U.S. wheat prices remain under pressure by bleak global fundamentals. Accumulated U.S. wheat exports are dragging 16% behind last year's pace. Heavy inventories in key exporting countries—which are also enjoying weakened currency—will curb any significant rally in the coming weeks. U.S. prices during 2016/17 will remained pressured as forecasted ending stocks are set to increase 3% YOY, despite the projected 7.2% YOY reduction in winter wheat plantings.
- Unseasonably dry conditions in parts of the central and northern Great Plains are providing some weather concerns, sparking limited rallies for MGE and KBOT prices in recent weeks. The current dryness is not yet severe enough yet to damage yield, and would need to persist into May to do so. Some limited support from weather concerns will persist until the needed moisture, though NOAA's spring weather outlook suggests normal/above-normal rainfall in key regions. Initial U.S. Crop Progress reports show conditions generally above average for this time of year.
- Lower expected Canadian spring wheat plantings, down 1% YOY, have led to expectations of about a 10% reduction to ending stocks, to 3.7m tonnes, the lowest level seen since the 1950, according to the AAFC. Lower acreage follows dwindling spring wheat producer margins, which will see plantings likely favor canola. In addition, Canada shows strong exports this season, tracking around 17% above the five-year average, thanks to weakness in the Canadian dollar. However, tightening stock levels in 2016/17 should constrain next-season exports by 5% YOY, to less than 21m tons.

Expensive U.S. Wheat is Pressuring Export Demand (FOB prices)



Sources: HGCA, USDA-FAS, Rabobank, 2016

Canadian Ending Stocks Set to Prove Lowest in Years

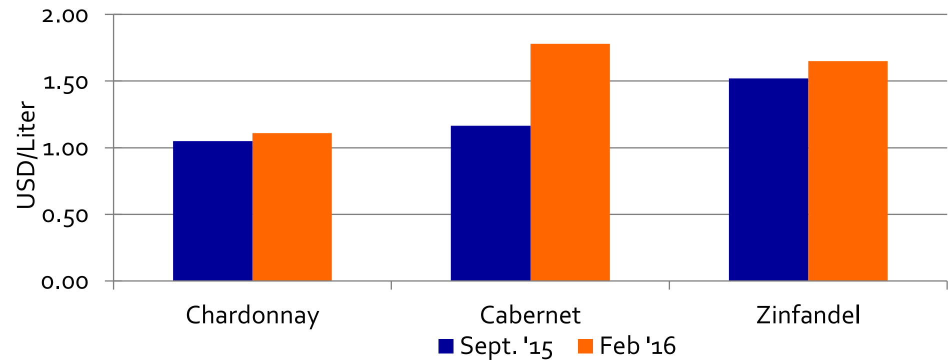


Sources NOAA, Rabobank, 2016

Wine: Imports benefiting from premiumization

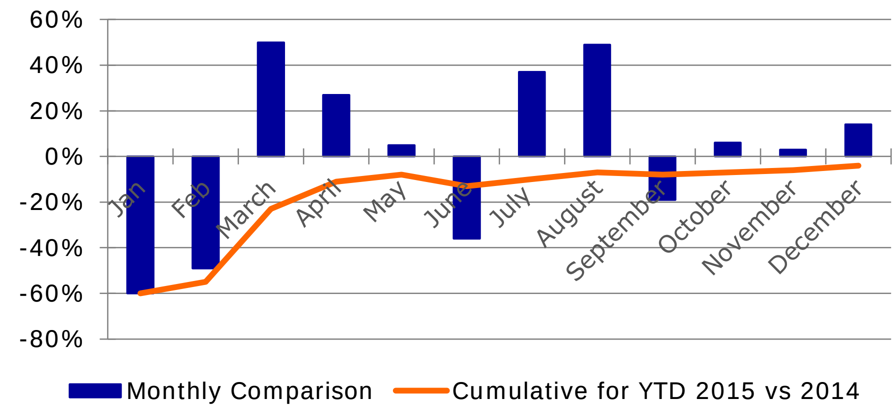
- U.S. wine consumption growth is slowing in terms of total volumes. While consumption grew in volume terms at a CAGR of 3.5% from 2000 to 2010, the growth rate has been well under 2% for the past two years.
- Slowing growth in volumes masks the deep underlying changes that are occurring in the market, with sharp declines in wines priced below USD 10 / bottle, even as wines priced USD 10- USD 25/bottle show strong growth.
- The dramatic declines in yields in much of the North and Central Coast during the 2015 harvest have provided some support to bulk wine prices in the San Joaquin Valley (SJV), which rose 12%- 15% across most major varietals, according to data from The Ciatti Co. However, even with these increases, pricing remains fairly soft.
- Broad availability of supply in the SJV and robust existing inventory in brand owner tanks helped keep bulk wine imports in check for much of 2015, despite the strong U.S. dollar, but as the year progressed, imports of foreign bulk gained momentum.
- Bottled wine imports grew 4% in 2015, with growth coming mainly from Italy, France and New Zealand. The growth of these wines reflect the benefits of the ongoing premiumization trends in the U.S., as well as the ongoing strength of the U.S. dollar.

Average Bulk Wine Price (USD/lt.) for California Chardonnay, Cabernet Sauvignon and Zinfandel, Sept. 2015 vs Feb 2016



Source: Ciatti, 2016

Change in US bulk wine import volumes, monthly and YTD cumulative results, 2015



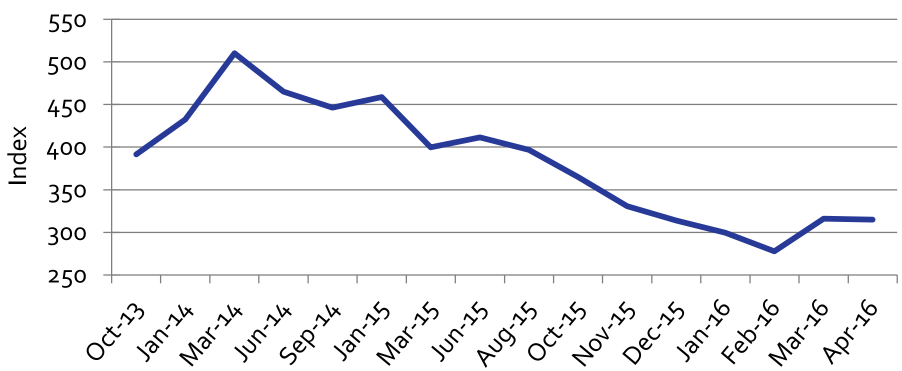
Source: Gomberg-Fredrikson, 2016

Farm Inputs

FERTILIZER

- After falling -45% peak to trough over the past two years, fertilizer prices as measured by the Green Market Composite Index experienced a 13% bounce since our February report, following an upward move in energy commodity prices. The major driver was price strengthening ahead of spring application season, against the backdrop of higher than expected corn acreage planting intentions released by the USDA on March 31.
- Fundamentally speaking, fertilizer markets remain oversupplied globally with lackluster demand stemming from pressure on farmer margins. Most U.S. row crop producers are bracing for a third consecutive year of negative net income and have responded by reducing applications as well as switching to cheaper seed.
- In potash, the failure to secure a deal with China thus far (China's price is seen as a benchmark) has raised concerns of another leg down in pricing this year. (China agreed to USD 305 /metric tonne in 2015.) According to CRU, China is pushing to settle in June, however buyers there may seek an earlier agreement before spot prices for granular MOP rise further in Brazil.

Green Market Fertilizer Price Index



Source: Green Markets, Rabobank, 2016

Forestry

- It is evident that spring has come early to the U.S. housing market where starts are 30 percent higher than they were this time last year and are the second highest they've been in 6 months. Many construction sites across the U.S. are bustling as warmer weather helps to entice jobs.
- Many mills which are reliant on exports have had to lower their prices to be more competitive on a global scale, as relatively stronger currencies in both Canada and the U.S. have hindered exports. Some exporters have reported that Mexico is purchasing competitively priced products from Central America.
- Chinese demand has faded for both Canadian and U.S. mills. Canadian processors have been shipping into the U.S. and Mexico to alleviate some of the excess supply.
- Steady OSB is helping maintain prices at their current levels. Growing demand from the housing sector has put upward pressure on prices.
- U.S. Bleached Softwood Kraft pulp shipments declined in February as the stronger US dollar relative to the RMB has slowed exports. This combined with some U.S. suppliers announcing a price hike in late 2015, has resulted in some Chinese buyers withholding purchases to fight against the rate increase.

Industry Highlights

	Mar/ most recent	Last month	Last year
Southern Yellow Pine Stud lumber, price per mbf	USD 346	USD 321	USD 376
Oriented Strand Board 15/32" shipped to Los Angeles, price per mbf	USD 286	USD 270	USD 244
Douglas Fir #2 Saw Log NW Oregon, price per mbf	USD 601	USD 570	USD 599
NBSK from North America to China, price per metric tonne	USD 700	USD 698	USD 800
U.S. Housing Starts (thousands of units)	1,178	1,120	908

Source: Random Lengths, Forest2Market, RISI, 2016

Sweeteners

- With Hershey's announcement last year that it would no longer put GMO sugar (beet sugar) in their products, the sugar market has become all about non-GMO sugar. With no federal rules on labelling GMO food products or ingredients, food companies have begun to take it upon themselves to label their products accordingly. This raises the possibility that other food manufacturers will eliminate GMO sugar from their products in order to maintain a 'clean' label. While this is favorable to cane sugar prices, it is not positive for sugar beet prices. As result we have seen the spread between beet and cane widen, with cane at a premium. This spread is expected to widen.
- The debate now turns to whether the sugar beet farmers should switch back to non-GMO seed in order to avoid losing their market. This raises a number of issues. Is there non-GMO seed available and if so, is there enough? Are sugar beet processors set up to separate GMO and non-GMO beets? Challenges ahead for the sugarbeet industry.
- The April WASDE showed a tighter stocks-to-use ratio of 13.3% versus 13.5% last month. This is a direct result of a decrease in sugar production due to lower sucrose recovery from both sugarbeet slicing and sugarcane milling in Florida.

Cane's Premium to Beet has Widened 200 points Since October

Source: Food Business News, Rabobank 2016

Orange Juice

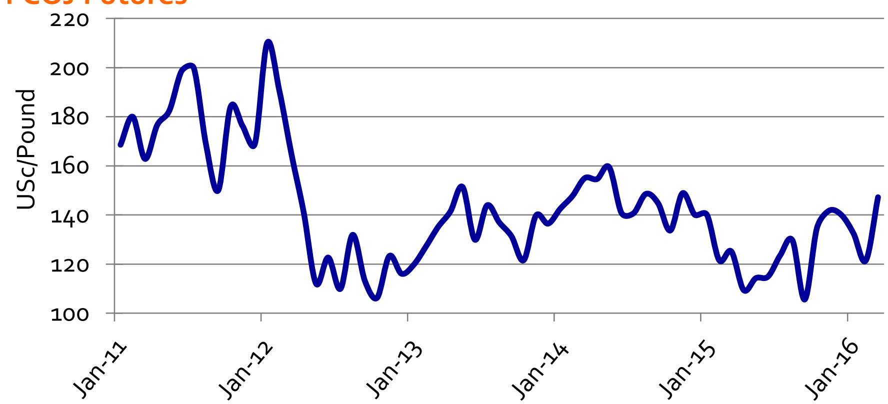
Florida Orange Juice

- The USDA forecast for the current 2015/16 orange crop in Florida was raised to 76 million boxes, 7% higher than their previous forecast due to lower fruit droppage. Based on this forecast the current season total will be 21.6% lower than the previous 2014/15 crop.
- The projection for frozen concentrated orange juice (FCOJ) yield declined to 1.42 gallons per 42 brix box, compared to 1.50 gallons per box last season.
- Upward momentum continued for FCOJ futures over the past month – with the market trading at USD1.40/lb by early April given tight supply.

Brazilian Orange Juice

- Low fruit yields added costs to the industry in the 2015/16 crop with up to 260-290 boxes needed to produce a tonne of FCOJ.
- Early forecasts for the 2016/17 crop year signal a slightly larger crop of around 290 million boxes, that would enable Brazil to increase production slightly.
- Exports started the year on a strong note, with Brazilian shipments to the U.S. up by 26% in the combined January and February total compared to the first two months of 2015.

FCOJ Futures

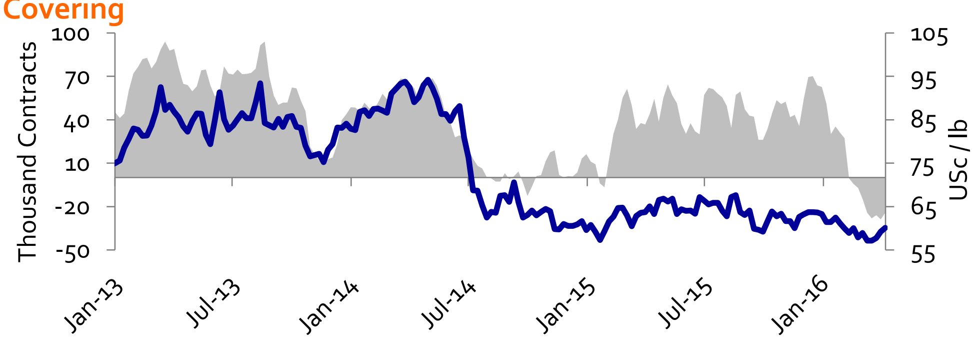


Source: Bloomberg – ICE, 2016

Cotton

- The cotton market's recent rally has pushed nearby futures on the ICE #2 off 6.5 year lows, and up towards our Q2 2016 price forecast of 63 USc/lb. Both speculative short covering—off a record net short position—and a tightening U.S. supply outlook supported the 9% rally from March lows. Our bullish ICE #2 price forecast is maintained in 2016—at USc 65/lb through Q3, with the arrival of a smaller Southern Hemisphere crop YOY, and USc 67/lb in Q4, with the onset of the new crop and further contraction of world stocks.
- In our view, the USDA's estimate defines the upper limit of 2016/17 U.S. cotton acres. We are a little more conservative, at 8.8m ac up 3% YOY relative to the USDA who estimate 9.56m acres, up 11% YOY. We anticipate that reductions in seed rebates, recent soybean price strength and wet conditions through the Delta will weigh on expansion potential. But with lower abandonment YOY, production is expected to reach 14.4 million bales. The latest 15/16 U.S. cotton production was cut by 73k bales MOM—following smaller ginning results—pulling back ending stocks to 3.5 million bales, a revision we've been expecting for some time.
- China will auction 2 million tonnes of cotton (9.2 million bales) of government held reserve stocks onto the domestic market from May to August this year. The market has long awaited this guidance and had been expecting around 10 million bales – so no big surprise here. But this clarity will provide more certainty for farmers, the trade and funds going forward.
- Global consumption increased for the first time in eight months to 109.5m bales, up 28k bales MOM, in the USDA's April WASDE. This was led by China and Pakistan consuming more in light of a recent weaker price environment, which, coupled with production downgrades across Côte d'Ivoire, Mali, Brazil and of course the U.S., drives a 9% YOY deterioration in global stocks, to 102.2m bales. A deepening 15/16 deficit of -9.8m bales, previously -8.2m bales, brings the USDA further in line with our projected -9.1m bales.

Speculators Held a Record -28,816 Lot Net Short Position Across the ICE #2, as of 29/03, Which Still Remains Susceptible to Short Covering

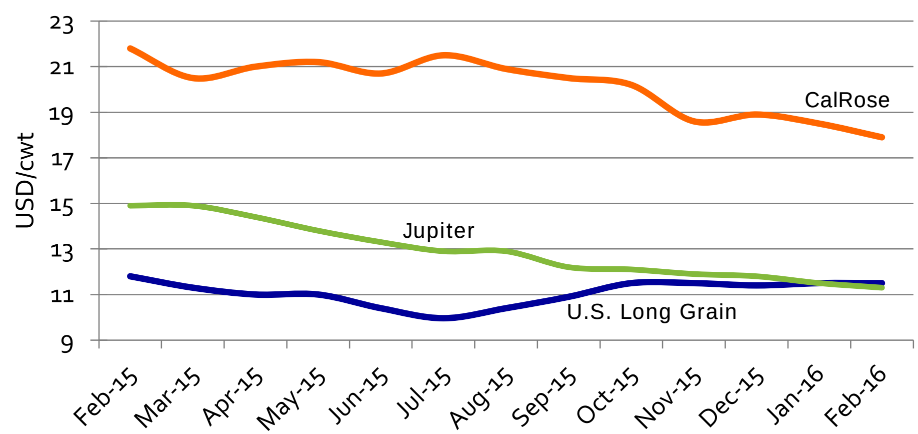


Source: CFTC, Bloomberg, Rabobank, 2016

Rice

- The strength of the USD relative to other currency has put downward price pressure on U.S. rice exports.
- The USDA reports that Jupiter stocks are only slightly ahead of last years. Some believe this number to grossly under-estimate total southern medium stocks, as much on farm storage hasn't been accounted for. Until these stocks are worked through, it is unlikely that prices will rebound in the immediate future.
- The USDA forecasts the 2015/2016 long grain price, Jupiter, and Calrose respectively to be between USD 11.00 and 11.60 per cwt., USD 11.40 and 12.00 per cwt., and USD 18.50 and 19.50 per cwt. Growers who sold most of their crop early in the season could see those prices. However, those still holding on to their crop will likely see prices lower than those the USDA reported.
- The USDA Prospective Planting report was recently released reporting long grain acres to be 25% higher than last year, and Jupiter acres to be nearly 70% below 2015. Calrose was relatively unchanged; however, as more water is allocated, it is likely farmers will plant additional acreage. In total, U.S. acreage will be up between 15% and 20%. Much of the increase in planting is due to the poor outlook for corn and soybean acres.

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



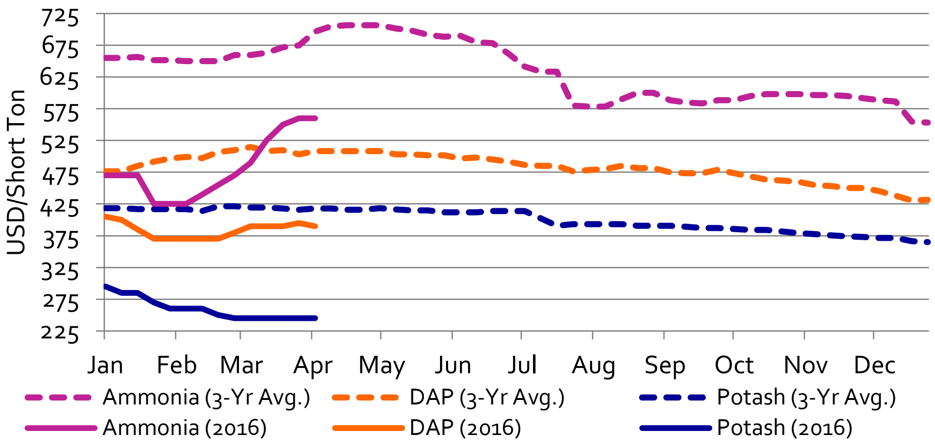
Source: USDA/NASS, 2016; Note: Average rough rice basis

Input Costs

Rabobank

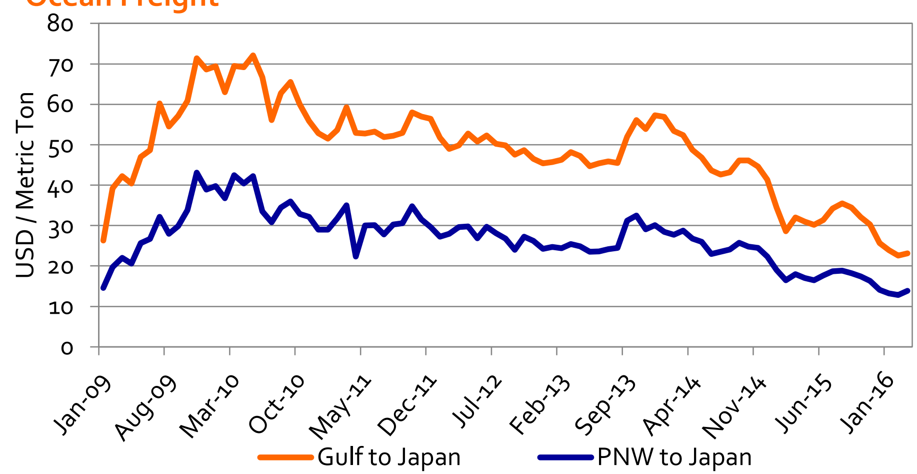
As of 4/14/2016

Corn Belt Input Prices



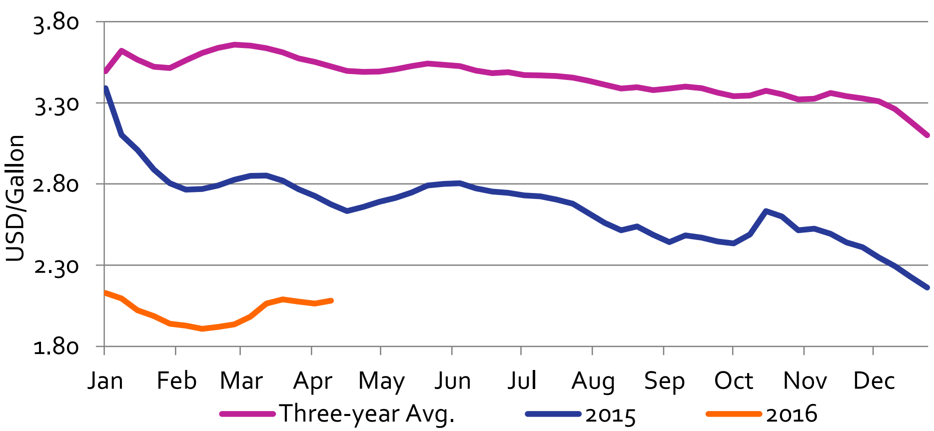
Source: Bloomberg, 2016; Note: Granular Potash

Ocean Freight



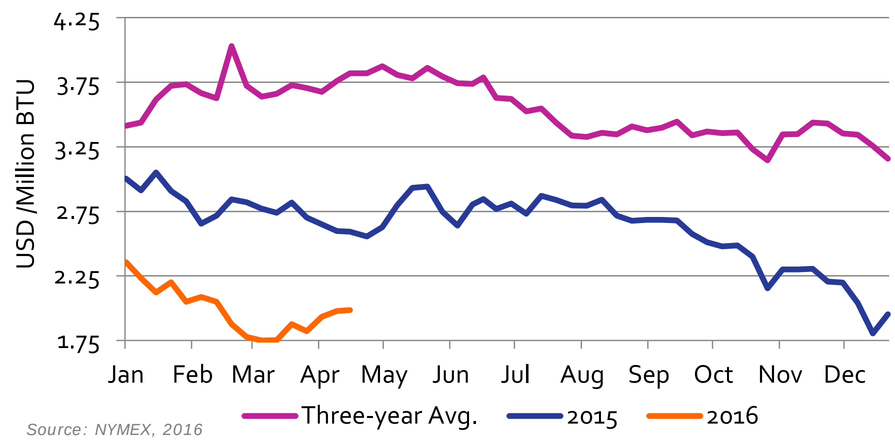
Source: O'Neil Commodity Consulting, AMS-USDA, 2016

Diesel – Midwest



Source: EIA, 2016

Natural Gas Spot



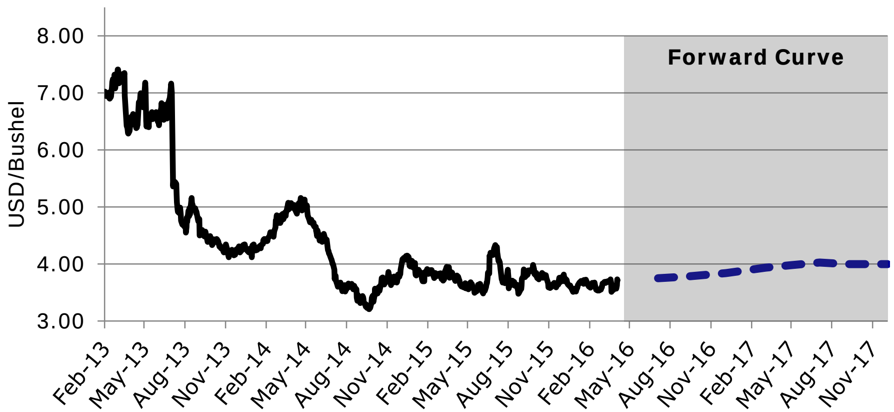
Source: NYMEX, 2016

Forward Price Curves

Rabobank

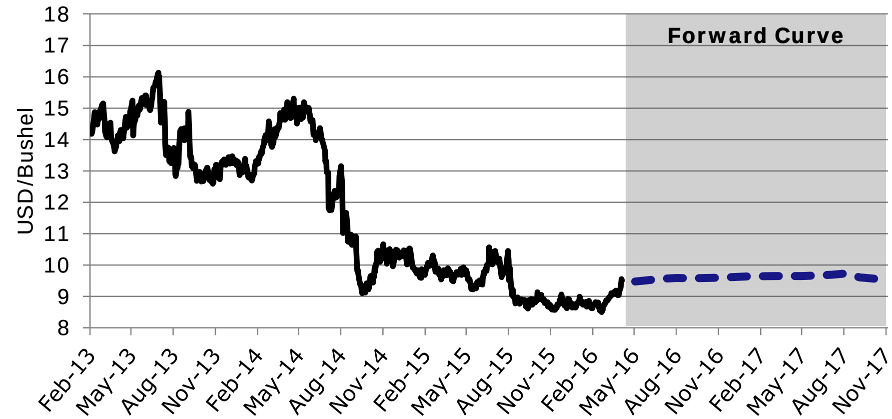
As of 4/14/2016

CBOT – Corn



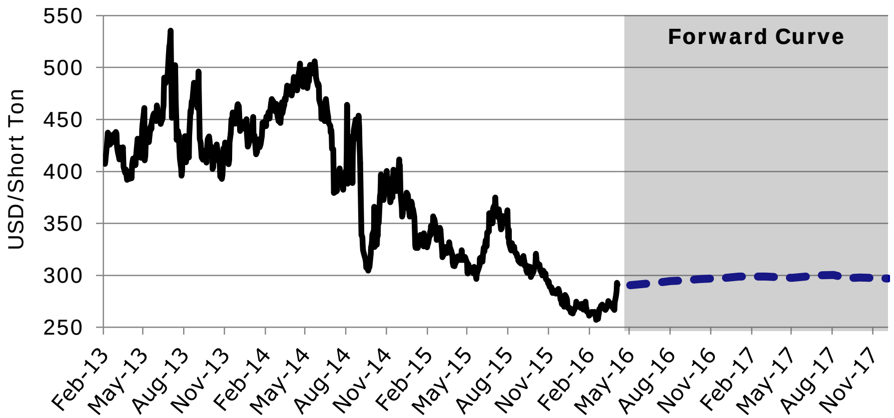
Source: CBOT, Rabobank, 2016

CBOT – Soybeans



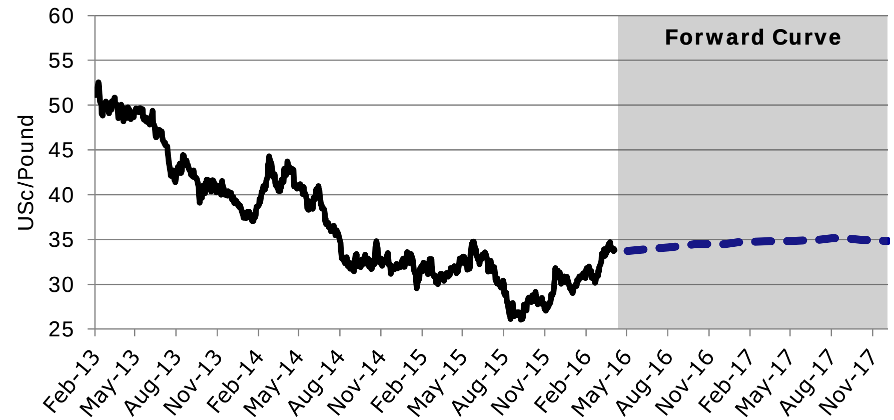
Source: CBOT, Rabobank, 2016

CBOT – Soymeal



Source: CBOT, Rabobank, 2016

CBOT – Soy Oil

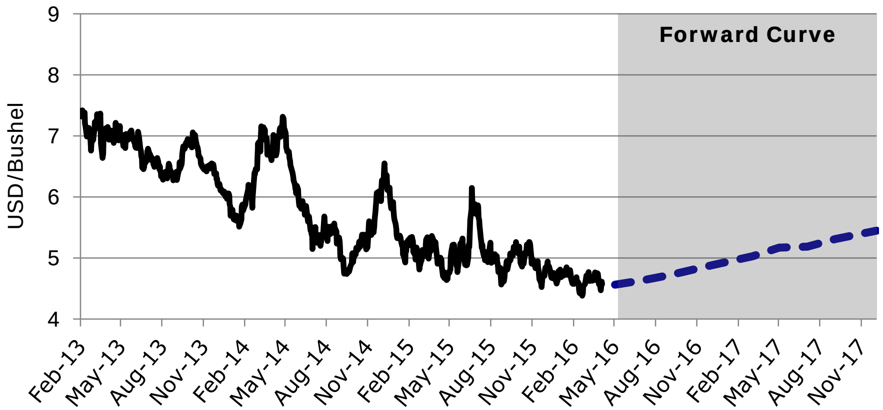


Source: CBOT, Rabobank, 2016

Forward Price Curves

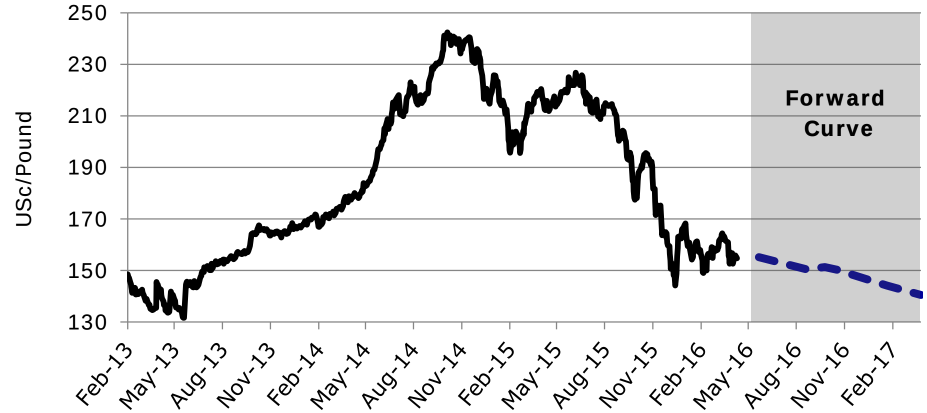
As of 4/14/2016

CBOT – Wheat



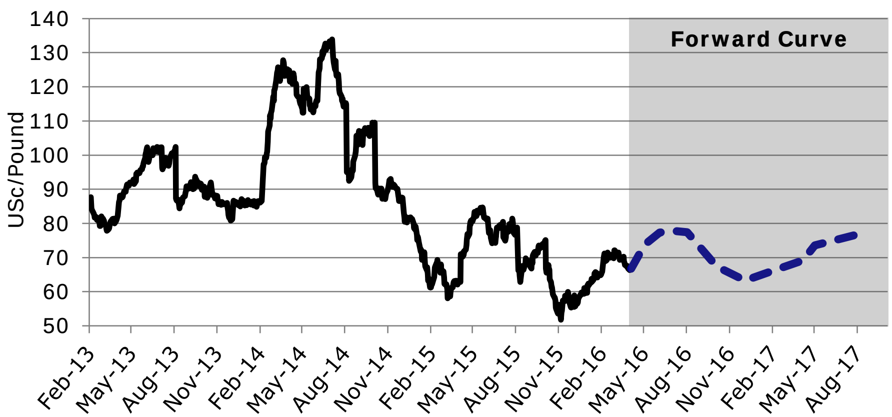
Source: CBOT, Rabobank, 2016

CBOT – Feeder Cattle



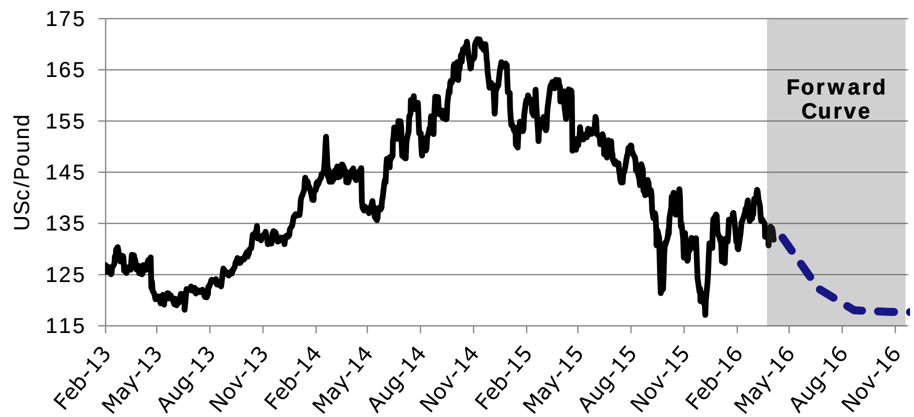
Source: CBOT, Rabobank, 2016

CBOT – Lean Hogs



Source: CBOT, Rabobank, 2016

CBOT – Live Cattle



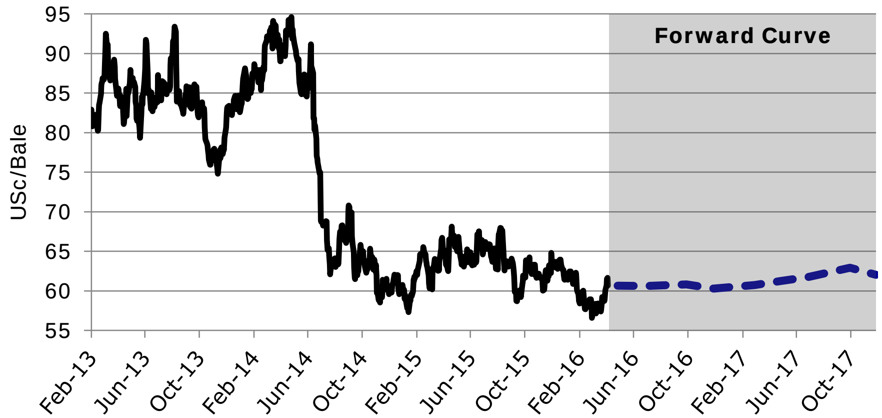
Source: CBOT, Rabobank, 2016

Forward Price Curves

Rabobank

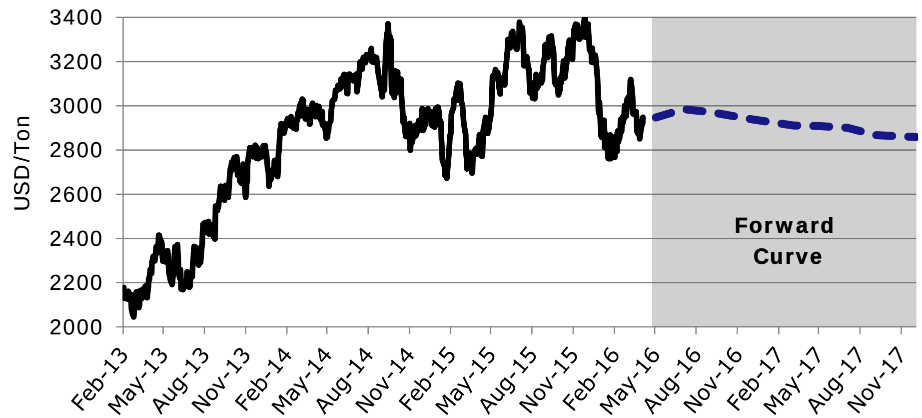
As of 4/14/2016

ICE – #2 Cotton



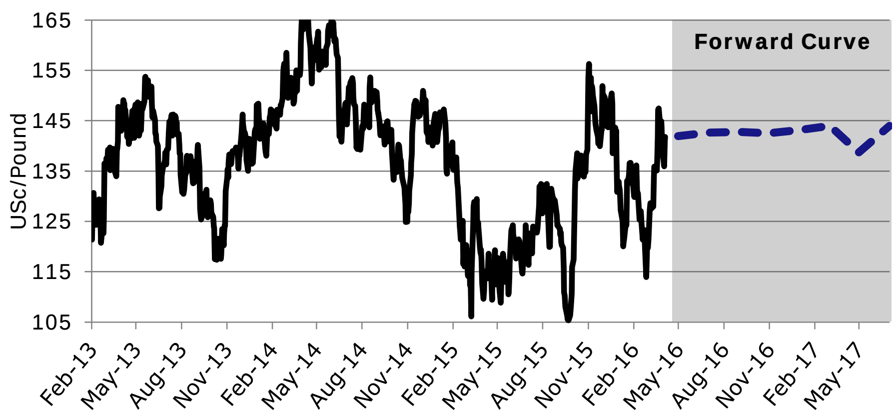
Source: ICE, Rabobank, 2016

ICE – Cocoa



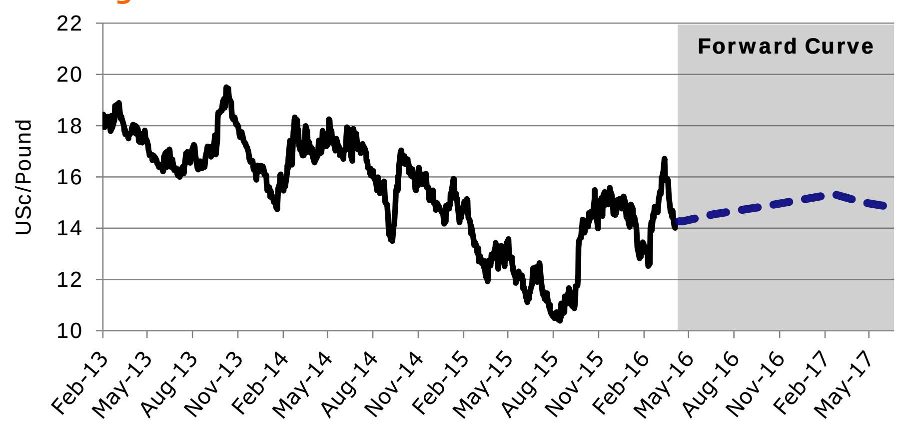
Source: ICE, Rabobank, 2016

ICE – FCOJ



Source: ICE, Rabobank, 2016

ICE – Sugar #11



Source: ICE, Rabobank, 2016

Food & Agribusiness Research and Advisory

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