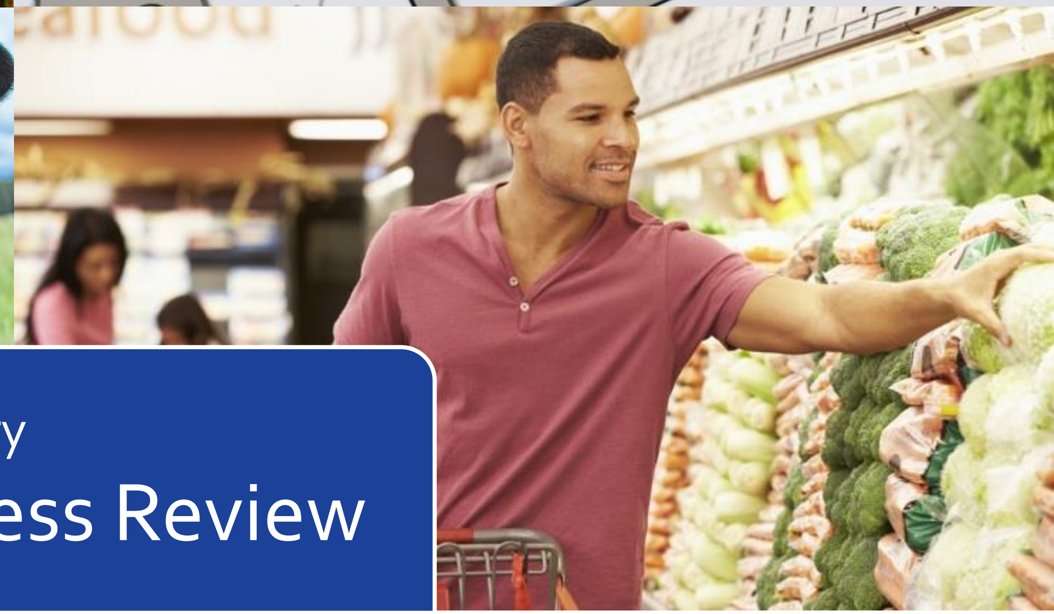

Food & Agribusiness Research and Advisory

North American Agribusiness Review

August 2016

Rabobank

Report Summary

Rabobank

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Economy: Headwinds

U.S.

- While the disturbingly weak employment growth in May destroyed the Fed's plans to hike interest rates in the middle of the year, the strong employment growth for June and July, and the resilience of financial markets after Brexit, have revived the Fed's hope of hiking interest rates before the end of the year.
- However, while the faster-than-anticipated rebound in employment growth boosted the Fed's confidence, a couple of days after the FOMC met in July GDP growth disappointed. The advance estimate for Q2 GDP growth was 1.2% (QOQ, at an annualized rate), which is only slightly better than Q1's 0.8%. While personal consumer spending was strong in Q2, both business investment and residential investment contracted. The weak GDP growth figure for Q2 has diminished the probability of a September hike.
- The November meeting of the FOMC takes place a week before the elections, which would make a hike unlikely. That leaves the December meeting as the most feasible option for a rate hike in our opinion.
- While headwinds have slowed down the Fed, the central bank still intends to resume its hiking path before the end of the year. Meanwhile, the ECB's asset purchase program continues. Based on this monetary policy divergence, we expect EUR/USD to decline to 1.07 in the next 12 months.

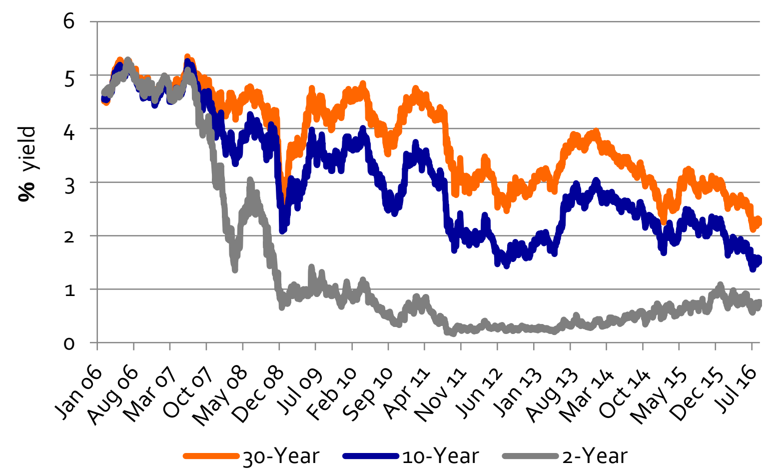
Mexico

- The outlook for the Mexican economy remains highly dependent on the US, especially now that it has become a topic in the U.S. elections. Over 80% of Mexico's exports are destined for the U.S. and rising remittances have helped support domestic demand, so a threat to either of these represents a significant threat to Mexican growth. We expect the election campaign to increase volatility in USD/MXN over the coming months. On balance, we expect USD/MXN to rise to 20.20 in the next 12 months.

Canada

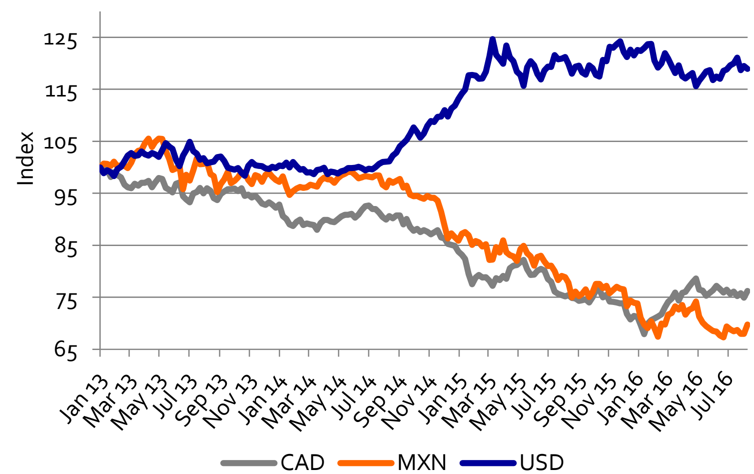
- Although there are strong calls for the Bank of Canada to ease rates, we still consider this unlikely and we expect the next move will be a hike, albeit not within the next 12 months. The Monetary Policy Report that accompanied the July 13 decision to leave rates on hold at 0.50% stated that the Bank views the risks of inflation as "roughly balanced" and that the "current stance of monetary policy is still appropriate". As the Fed is likely to resume hiking before the BoC does, we expect USD/CAD to rise to 1.32 in the next 3 months before falling back to 1.28 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: Cautiously Optimistic

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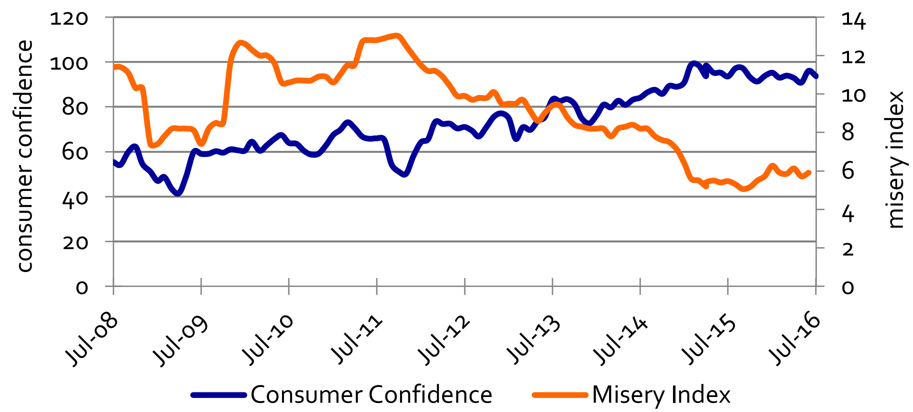
- Our measure of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board) stood at 93.7 in July—having changed little since May but notably down from last year's high of 101. Developments abroad, such as the Brexit vote in the U.K., appear not to have an impact so far on the U.S. consumer—they may have been offset by the higher than expected 287,000 jobs created in June, which is the highest rate of increase since October 2015. Despite this, the unemployment rate rose slightly to 4.9%, due to an increase in the labor force participation rate. As of June (the most recent month for both inflation and unemployment data), the misery index stood at 5.9.
- Over the last 12 months to June 2016, the rate of inflation as measured by the Consumer Price Index (CPI) fell slightly, to 1.0%, largely on the back of higher energy prices. Over the same period, food prices rose 0.3%, with retail food prices (food at home) down 1.3%, but restaurant prices (food away from home) up by 2.6 %.
- In the U.S., about half of every dollar spent on food goes towards food prepared away from home, mainly at restaurants and other food service establishments. For the 12 months prior to June 2016, consumer expenditure on food away from home rose by 4.1% and food at home by 7.8%.

Food Sales

Food Sales (USD bn)	Annual			YTD Cumulative		
	2011	2012	2013	Apr 16	May 16	Jun 16
Food at home	670	686	704	254	321	388
YOY change	3.6%	2.3%	2.6%	*3.8%*	*3.8%*	*4.1%*
Food away from home	619	644	675	259	328	393
YOY change	5.6%	4.1%	4.8%	*8.4%*	*8.6%*	*7.8%*
Total	**1,289**	**1,330**	**1,379**	**513**	**649**	**781**

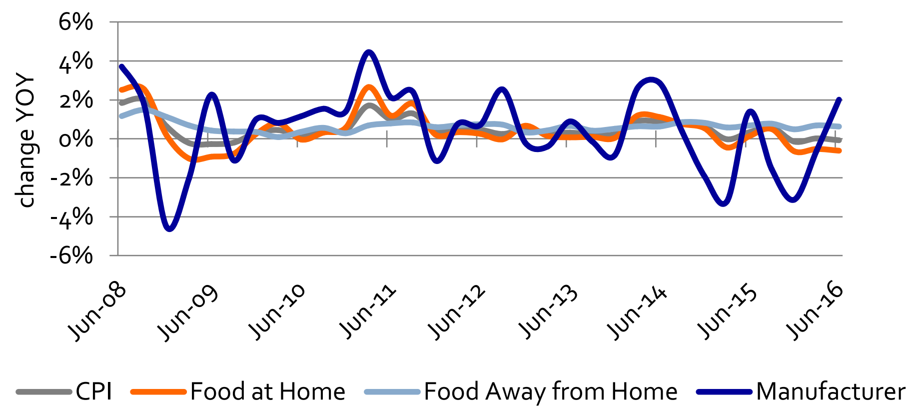
Source: USDA ERS, Rabobank 2016

Consumer Confidence Index



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

Food Price Inflation



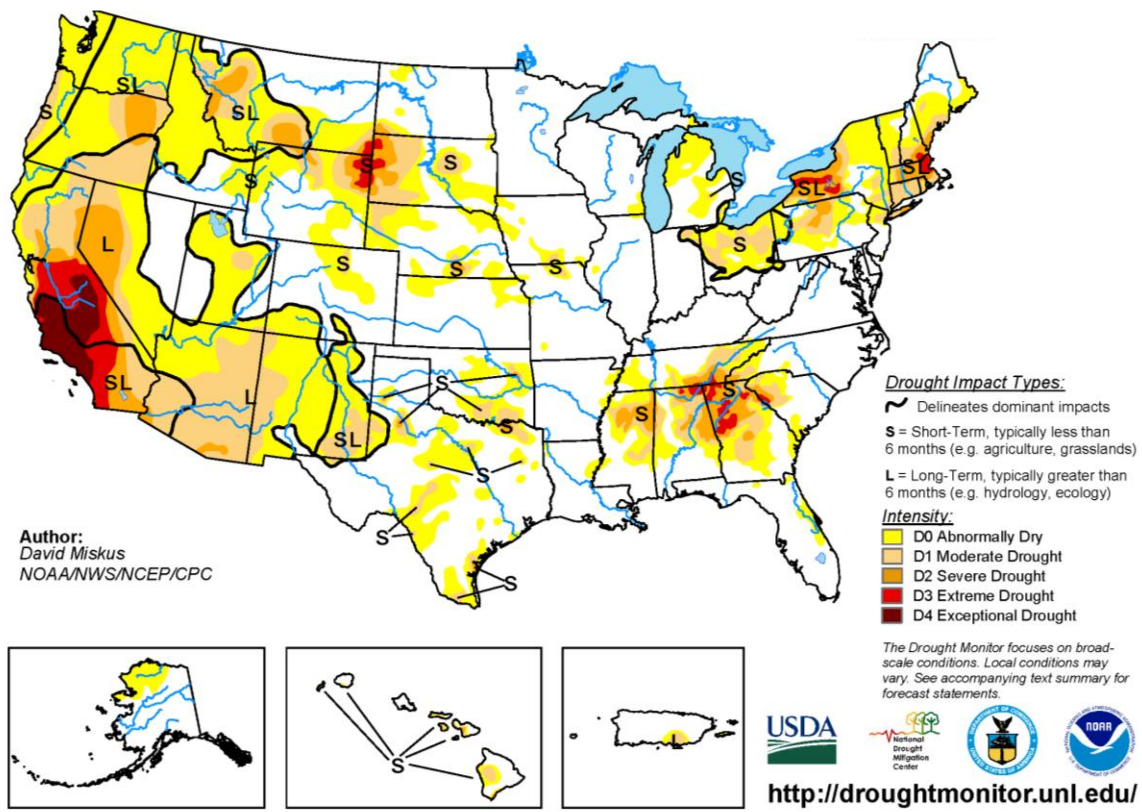
Source: U.S. Bureau of Labor Statistics, Rabobank 2016

Climate: Warm Summer

- During July, extreme heat developed across parts of the southern U.S., and August has seen above-normal temperatures for much of the continental U.S., particularly in the East. The effects of hot weather were partially offset by showers in some regions.
- Southern sections of the Rockies and High Plains suffered through a month-long heat wave, leading to topsoil moisture depletion and increased stress on cotton and other rain-fed summer crops.
- Hot weather and scarce showers led to drought persistence across the interior Southeast.
- Midwestern growing conditions remained mostly favorable, except for some lingering drought pockets in the eastern Corn Belt. The percentage of corn and soybeans rated in good to excellent condition is 76% and 70%, respectively.
- For the remainder of the month, temperatures are expected to continue above-normal across the U.S., with the exception of some parts of the Plains, the Upper Mississippi Valley and most of the Great Lakes region.
- Precipitation is forecast to be above median in parts of the central and northern Plains, the upper and middle Mississippi Valley, the desert Southwest and the Panhandle region. Below median precipitation is likely across the interior northwest, the central Gulf coast, and much of the Great Lakes region.
- According to the latest forecasts, the chance of La Niña conditions developing into fall and winter is 55%-60%.

U.S. Drought Monitor

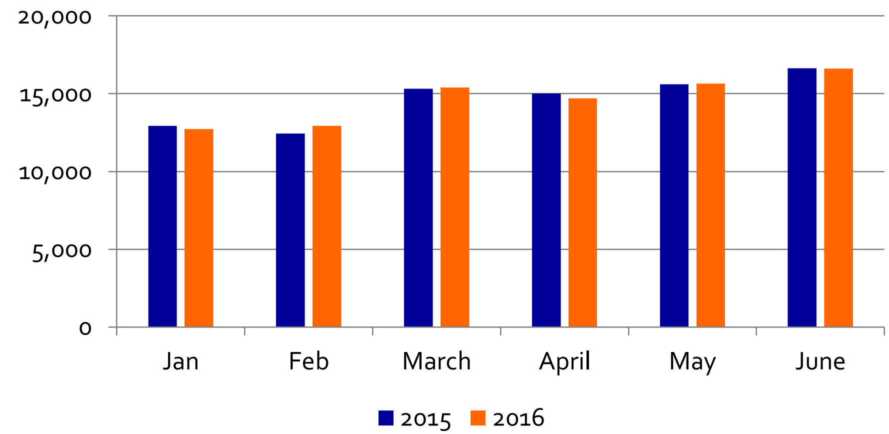
August 16, 2016



Beer: Craft Consumption Growth Slows, as Imports Rise

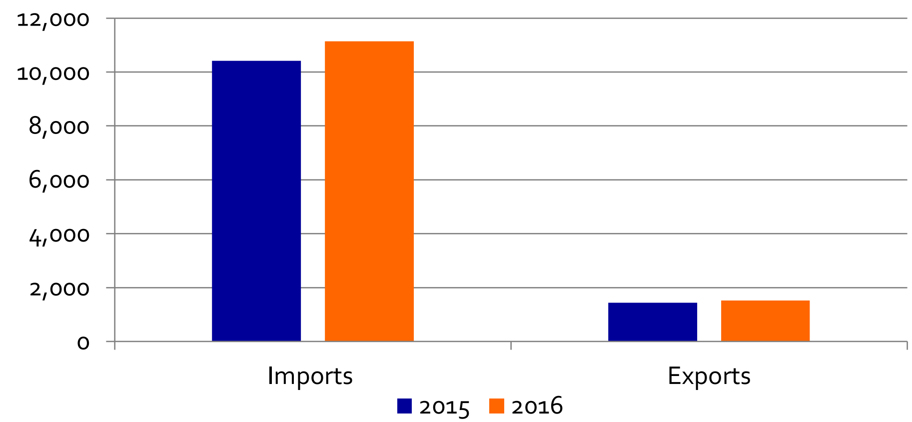
- Consumption of domestic beer in the U.S. remained relatively flat in 1H 2016, with the Beer Institute showing domestic tax-paid shipments rising just 0.1% for the first six months of the year through June, compared to the same period in 2015.
- U.S. beer exports grew 7.1% in the five months through May, though this represents only a small portion of total U.S. beer production.
- Beer imports represent more than 16% of the U.S. beer market, and are also growing at a healthy pace, rising 7.8% in the first five months of 2016. Mexico remains the overwhelming driver of growth in imports, rising 18.4% for the period. The growth in imports from Mexico was greater than the overall growth in beer imports, suggesting that Mexico's growth more than compensated for the declines in imports from other countries.
- Combining domestic tax-paid shipments with imports, total U.S. beer consumption appears to have risen 1.3% over the first five months of 2016.
- Rising consumption of craft beer continues to drive higher demand for hops, and the U.S. has seen an 8,303 acre increase in production acreage for the crop in 2016, which is at 53,215 acres in total. The Pacific Northwest (Washington, Oregon and Idaho) remains the major hops region, representing over 96% of U.S. production, but a number of other states are also seeing strong growth in hops production, though from a much smaller base.

Total U.S. Monthly Beer Depletion ('000 beer barrels), 2015 vs 2016



Source: Beer Institute, 2016

Beer imports and exports ('000 barrels), 2015 vs. 2016

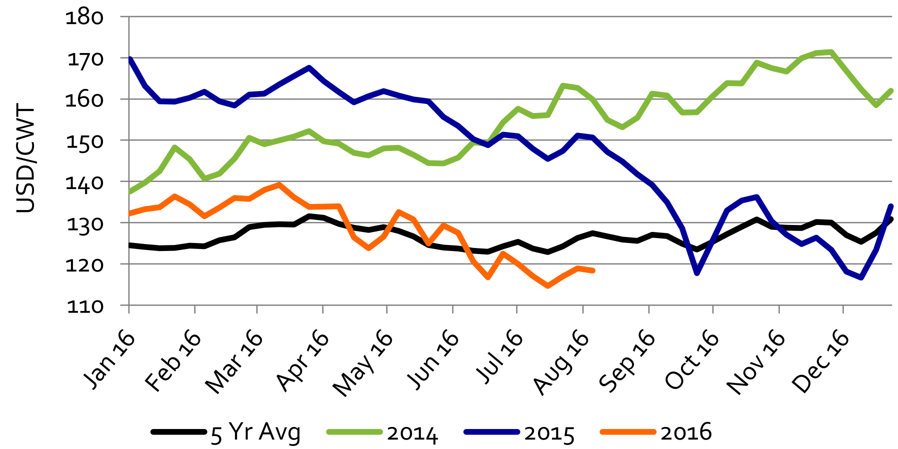


Source: USDA-NASS, 2016

Cattle: Can Seasonal Strength Soften Volatility?

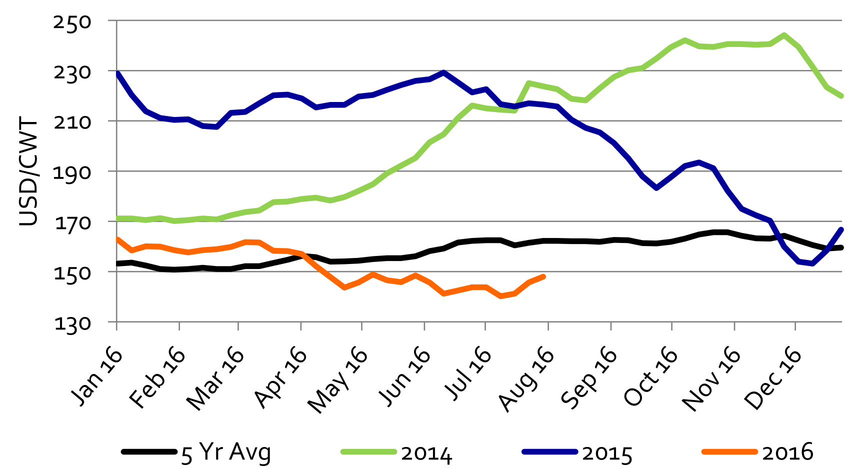
- As disappointing as the fed cattle market has been YTD, the market has followed the seasonal pattern surprisingly well, aside from the failure of a true spring rally. Because the market is following the seasonal pattern, we are maintaining our price projection of USD 120 for Q3 and still expect a Q4 average between the upper USD 120's to USD 130.
- As of the week ending July 30, the calculated fed carcass weight was 860 pounds, compared to 861.5 pounds the same week a year ago, and 20.5 pounds over the 5-year average. It was early August last year that carcass weights really began to escalate. Expectations are for carcass weights to take a much more seasonal trajectory this year. Cattle feeders still have a vivid memory of the complications related to heavy carcasses a year ago, and market conditions have changed in a way that is not encouraging the continued feeding of heavy cattle that existed a year ago.
- Market volatility continues to be the focal point of attention. Cash prices continue to be choppy from week to week, but are following the seasonal pattern surprisingly well. Futures markets continue a downward trend, supporting exceptionally wide basis levels. We expect the spot basis to converge over the next couple of weeks, as the August contract expires. After August, expiration market action currently suggests a return to an abnormally wide basis. Futures are well past the point where prices should be increasing seasonally and to date seasonal considerations aren't having much of an impact.
- Feeder cattle prices have improved seasonally, but continue to trade below anticipated prices. Pressure has come from equity erosion of cattle feeders, the deep discount of deferred live cattle futures, and increased offerings. Growing expectations of a record corn crop and lower feed grain prices have been the primary relief in the market. Without measured improvement in the deferred live cattle futures, additional improvement in feeder cattle prices could be difficult. The biggest drag in the market is the calf market. Stocker operators are skittish after two years of severe losses. There is uncertainty over how many calves have traded in the early video sales and how many unsold calves will be on the fall market.

Fed Steer Prices (Five-Market Average)



Source: USDA, Rabobank, 2016

CME Feeder Index



Source: CME, Rabobank, 2016

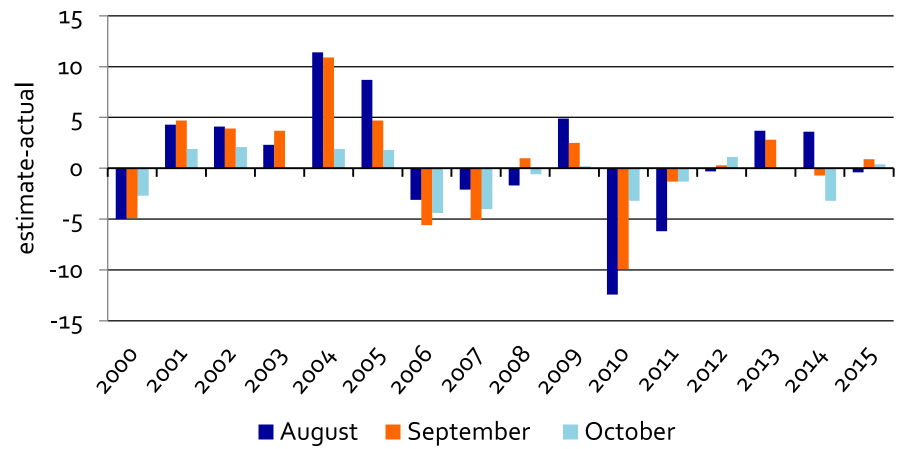
Corn: Large Stocks + Large Crop = Price Head Winds

Rabobank

U.S.

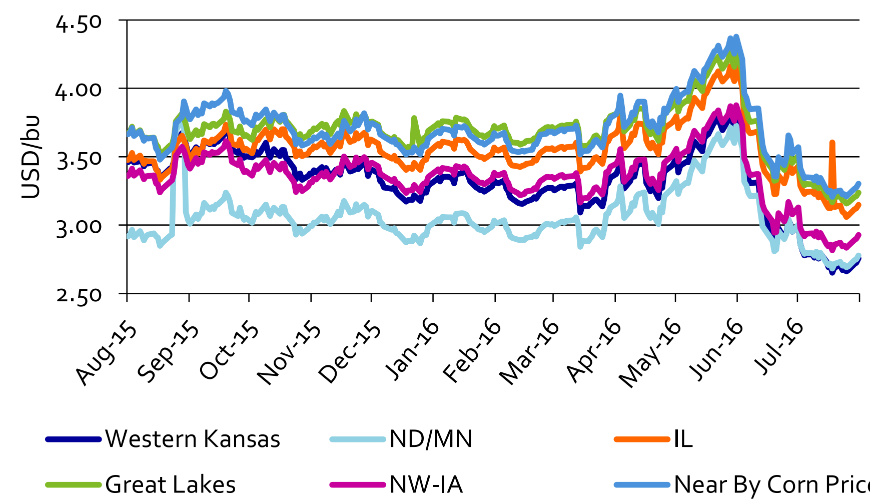
- A USD 1.00 decline (22%) in July price per bushel showed how low the bid for corn is willing to go for now. Given the large stocks-to-use ratio—now projected at 16.6% (2.9bn bushels of stocks/14.5bn bushels of usage)—we believe the current CBOT December contract is fairly priced at an August average price of USD 3.34.
- Based on ear counts that were the lowest since 2012, the 2016 August record production estimate of 15.1bn bushels (11.4% YOY increase) seems to have been heavily based on the subjective farmer crop-size survey. This can lead to decreasing estimates over the next three months, much like in 2010.
- However, 2016 is likely to see a record crop. With crop conditions ranking 74% good to excellent, whereas the strong yields from 2015 were at 69% during the same week.
- Exports have remained strong throughout the second half of the 2015/16 marketing year. Outstanding sales for 2016/17 are 12% higher for 2016 than the three-year average. The market is waiting to see what happens over the Brazilian winter to recover from the recent drought.
- With June-old-crop corn stocks up 12% and wheat up 30% YOY, combined with an expected 30% YOY increase in 2016/17 HRW stocks, it will likely be difficult to sustain price rallies in grain. To increase pressure, protein levels in U.S., European and Russian crops are expected to be low. This will flood the global market with feed-level wheat which will compete directly with corn, especially in Mexico.
- The grain-stocks-in-storage situation continues to make 2015/16 and 2016/17 a different story from east to west in the U.S. Due to the large wheat harvest and existing corn stocks (20% higher YOY) in the plains region, the local cash price is likely to remain lower relative to the national price. Conversely, stocks are down in Ohio, Indiana and Michigan by a combined 5.7%.
- Moving into the harvest season, good crops in the western Corn Belt and some dryness in the East are expected to cause this cash price divergence to continue. With CBOT prices at least somewhat supported by imports and a dryer eastern Corn Belt, the Palins and western Corn Belt basis is likely to be more negative as harvest approaches.

More Movement Expected in Yield Estimates As Harvest Nears



Source: USDA, Rabobank 2016

Local Cash Basis Continue to Diverge From East To West



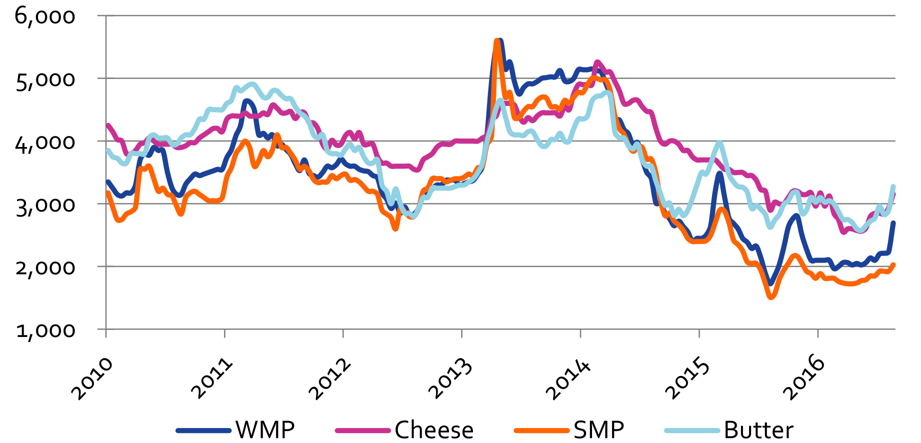
Source: DTN, Rabobank 2016

Dairy: We Have Lift-off, but There Is a Ceiling

Rabobank

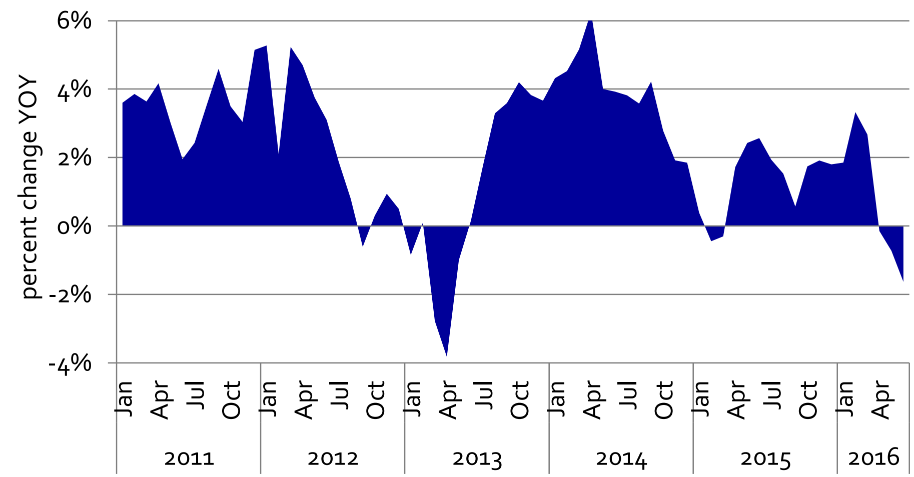
- We have lift-off: global dairy prices have moved higher with the last two Global Dairy Trade auctions, posting two successive price increases of 6% and 12% respectively in the last month. These increases include an 18% increase in the price of whole milk powder, which will have the New Zealand dairy industry dusting off their gumboots.
- This price jump is in line with Rabobank's expectations for an upward movement as the global supply of milk moves further into contraction. Global low margins have pushed dairy farmers to reduce costs, cull, and in some cases exit the industry, while demand growth has continued to chug along. However, the timing and magnitude of the price jumps have come as a bit of a surprise, considering global inventories of dairy products still remain well above normal levels.
- Milk supply from the big 7 (Argentina, Brazil, Uruguay, U.S., EU, Australia, and NZ) contracted in April and May, and preliminary numbers for June look like they will be down nearly 2%. The EU accounts for the majority of the reduced volumes, with June looking to be the first monthly decline since March 2015. The magnitude of declines in Argentina (-16% in May) and Uruguay (-10%) are also having an impact. Meanwhile in Oceania, farmers have significantly reduced costs and have in some cases exited altogether. The U.S. remains the only market where milk supply has grown, although at 1.2% this is not enough to cover the domestic demand growth of 1.8%.
- Meanwhile, demand throughout most of Asia has continued to show steady growth. It appears that importers throughout the region have been caught off guard by the rapid downward shift in milk output and buyers are now rushing in to top up on supply while product lasts. The U.S. has also seen continued demand growth for butter, cheese, and even fluid whole milk, which has helped to tighten the market.
- Rabobank expects modest upward pressure to remain on global and domestic prices as we move through 2016 and into 2017. However, there are three factors which will tamp the price rally: EU intervention stocks (4m MT of milk worth), weak demand from oil-dependent markets, and a strong USD, which lowers the purchasing power of developing markets. So while these increases are music to many producers' ears, we are not out of the woods just yet.

Global Dairy Prices Jumped by up to 20% in Recent Weeks (US/MT)



Source: Rabobank. USDA, GDT 2016

In May, Milk Supply Contracts Nearly 1% YOY for the Big 7 Exporters



Source: USDA, Rabobank 2016

Feed: Ample Substitutes

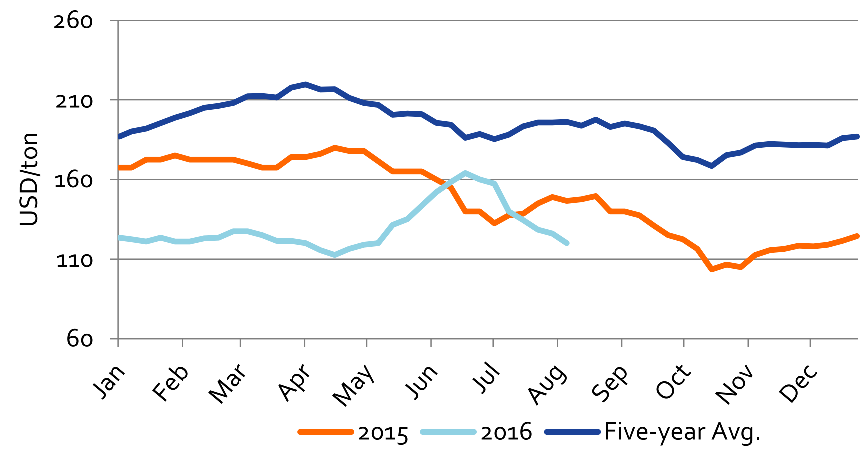
DDGs

- DDG prices remain under pressure from lower corn and soybean meal prices. Buyers are coming to market on an as-needed basis for product, as they watch the corn price move lower.
- Domestic demand has been flat in recent weeks as a result of extreme heat in some regions, while ethanol production continued to increase. The EIA recently estimated ethanol production as the second largest on record.
- The export market also shows weakness, partly due to abundant supply and partly due to China's anti-dumping case.

Hay

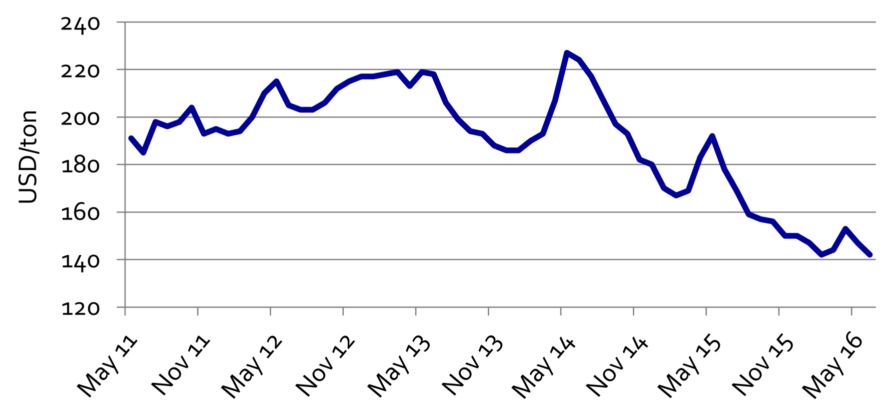
- Alfalfa production has exceeded consumption across the U.S., putting downward pressure on prices. Low alfalfa consumption is prompting some producers to plow their fields and exit the hay market entirely.
- The average U.S. alfalfa price is at or below USD 142 per ton, falling 24% from a year ago. California's current average alfalfa price is USD 155 per ton—the lowest since December 2010. Nevada alfalfa is averaging USD 160 per ton, 13% less than June 2015. The New York average alfalfa price is USD 200 per ton—decreasing 15% from March 2016. Idaho alfalfa is currently averaging USD 140 per ton—a 17% price decrease since the beginning of 2016.
- California high-quality alfalfa stocks are tight, with minimal premium or higher grades available. Most inventories of premium hay reside in surrounding western states.
- Prices will remain less than favorable until dairy and feedlot consumptions begins to increase

Iowa DDG Price



Source: USDA-AMS, LMIC, 2016; Note: 10% Moisture, 28% to 30% Protein

U.S. Average Alfalfa Hay Price

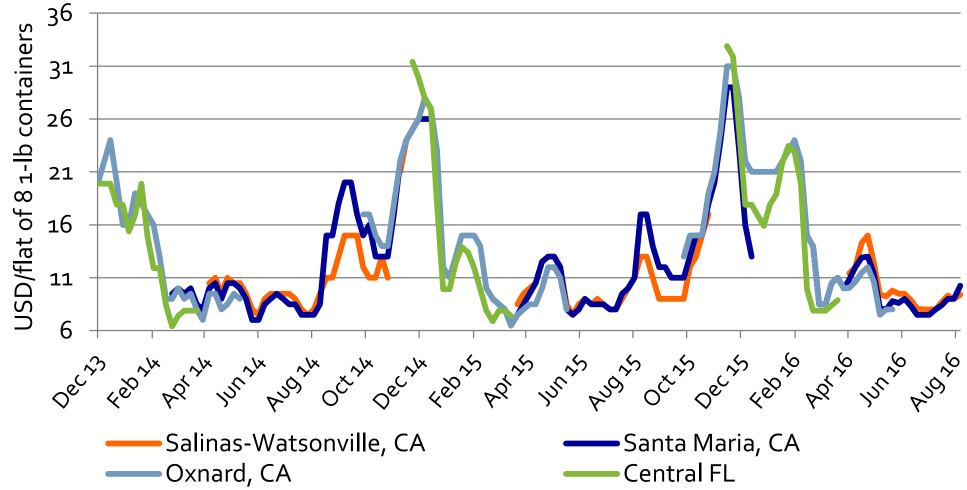


Source: USDA-AMS, LMIC, 2016

Fruits: Table Grape Story Continues to Be Positive

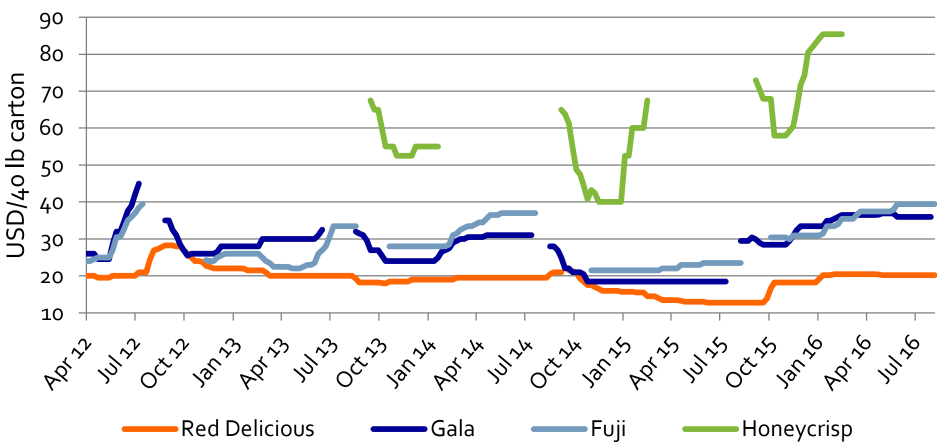
- Weekly California strawberry volumes since late June have remained above 2015 levels and above the 3-year average. This has pressured prices over the summer, with YOY weekly prices beginning July averaging 12% lower in 2016. Salinas-Watsonville is past peak, and a shortage of labor is also weighing on supplies. Santa Maria has begun packing summer-planted crop, which is getting a premium in the market. These forces are now driving prices higher.
- Central Valley table grape prices are heavily dependent on variety, but are generally higher than in 2015, even as a new production record is expected. This underscores a strong demand-side story, both domestically and globally. Extreme heat in August has brought on high sugar content and eating quality is expected to be excellent, as the bulk of the season lies ahead.
- As the PNW 2016/17 apple season kicks off, the Washington crop is expected to be 15% larger than 2015/16, but 6% smaller than the 2014 record. Coupled with Michigan expecting their largest fresh-market crop in history, fear of weakening prices is justified. However an ongoing shift to consumer-preferred varieties gives the industry hope that average price impacts can be softened. In fact, WA expects its volume of Reds to be down 23% versus 2014.

Strawberry Shipping Point Prices – Primary U.S. Districts



Source: USDA/AMS, Rabobank, 2016

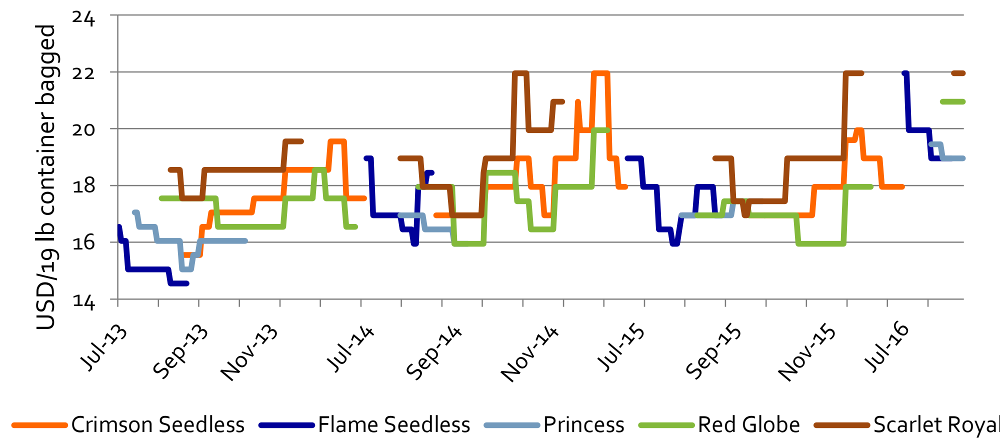
Washington Apple Shipping Point Prices – 88s – WA Extra Fancy



Composite of Fine Appear. & Standard Appear. Prices

Source: USDA/AMS, Rabobank, 2016

Table Grape Shipping Point Prices – Kern District, CA



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

Source: USDA/AMS, Rabobank, 2016

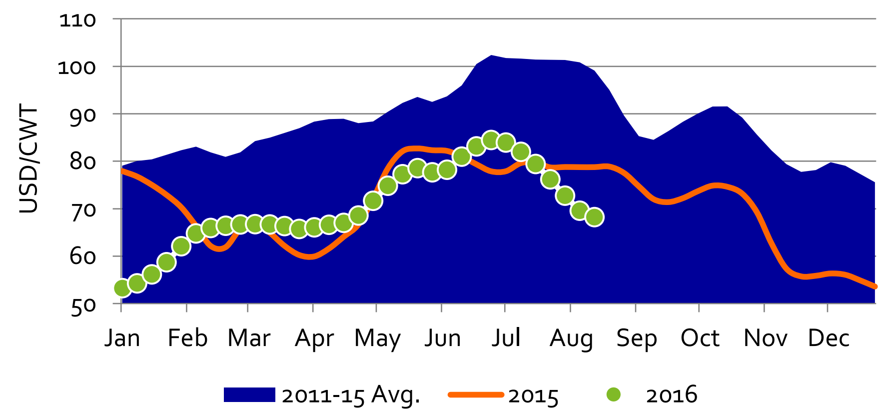
Pork: Trade Opportunities and Challenges Driving Prices

Rabobank

U.S.

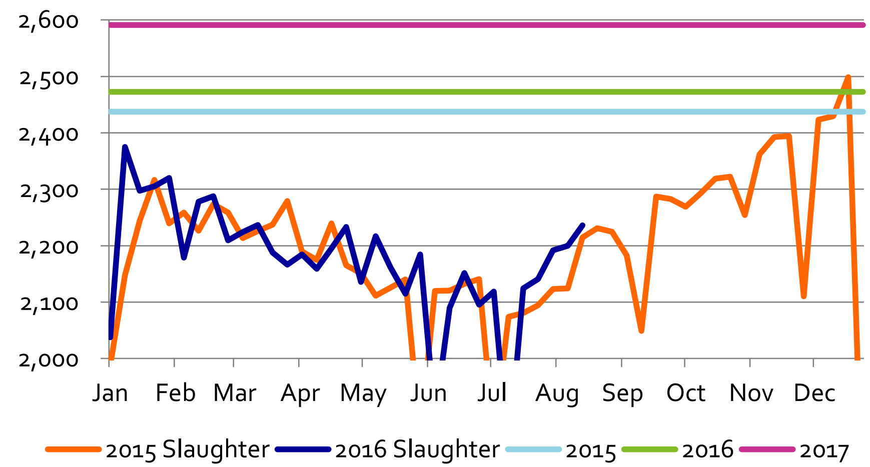
- U.S. hog prices have been quite volatile this summer on the back of excitement around increased exports to China and uncertainty regarding the supply, or rather oversupply, of hogs. Hog prices today, which are under 70 USD/cwt, are in line with April 2016 levels, but in the interim prices climbed to as high as 85 USD/cwt around the July 4th Holiday.
- Pork exports have been a hot topic this year, despite the fact that through 1H 2016 pork exports were up less than 2%. On the positive side, U.S. pork exports to China and Hong Kong are up 164% and 70%, respectively, so far this year as hog supplies in the region have been rationalized in recent years sending prices to all-time highs. This rate of growth will likely slow during the back-half of this year based on the weekly trade data, but will remain well above 2015 levels. This growth in trade to China/HK has been offset though by lower volumes to Japan, Korea and Mexico, which are three of the biggest customers for U.S. pork, driven by strengthening of the U.S. dollar and increased competition from EU exports.
- Despite the volatility in both hog prices and feed costs, profitability for hog producers and packers has been generally quite good. Margins averaged +38 USD/head in July but are now only +5 USD/head, driven by the decline in hog prices. Hog margins look to be in the red for the remainder of the year. Still, we expect hog producer margins to average around 10 USD/head for 2016.
- Looking ahead to 2017, the major questions are:
  (1) What will be the new run-rate of pork trade with China?
  (2) How will prices be impacted by the new plant capacity coming online in the summer?
  (3) Will the bumper crop in North America live up to expectations?
  (4) Will TPP ever be ratified by the U.S. or remain off the table?

U.S. Hog Futures



Source: Bloomberg 2016

U.S. Hog Slaughter and Estimated Capacity ('000 head)



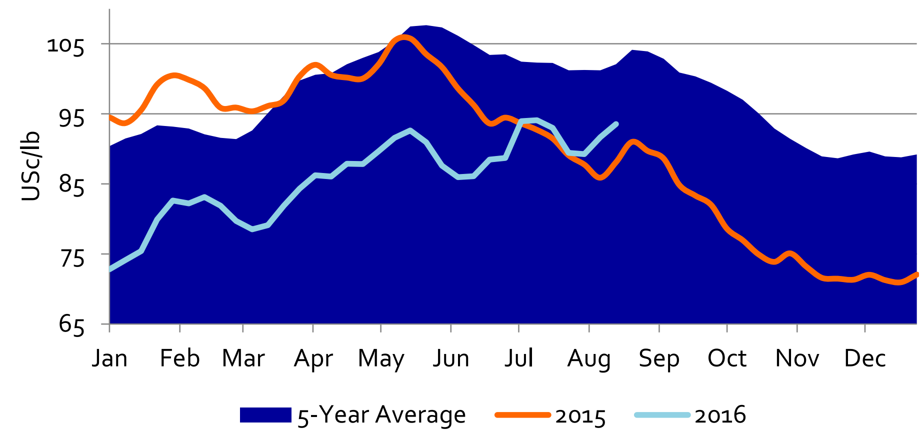
Source: LMIC 2016

Poultry: Prices Volatile but Climbing

U.S.

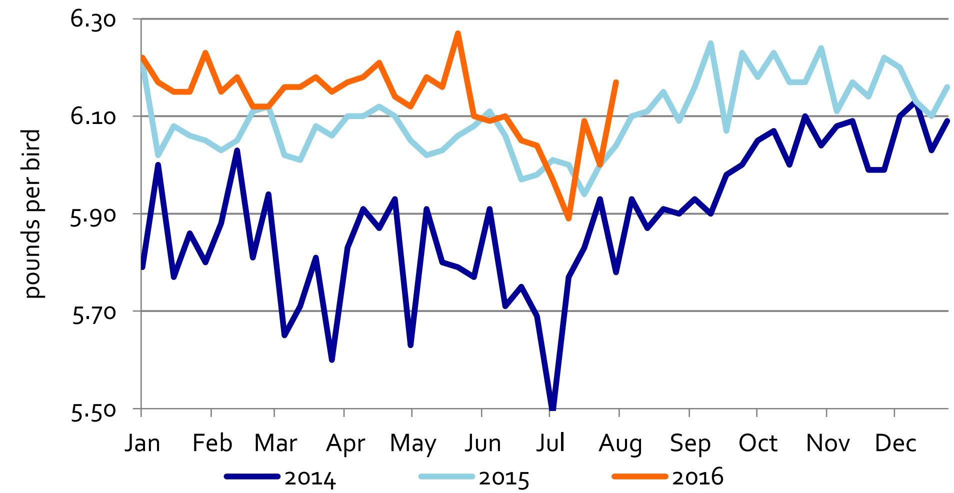
- Poultry prices have been on quite a rollercoaster this summer, but are still on a general upward trend after a very weak start to the year. Leg quarter prices, which were very depressed through most of 2015 due to HPAI-related trade bans, have climbed and leveled off in recent months at 0.33 to 0.38 USD/lb, reflecting the better environment for U.S. dark meat trade. The major driver of U.S. chicken prices this summer has been white meat, which is under increased competition from lower beef prices. After breast meat prices reached a multi-year low of 1.00 USD/lb, prices today are close to 1.40 USD/lb, which has helped the poultry complex overall this summer.
- Profitability in U.S. poultry remains quiet as, given the rather favorable feed cost environment, most notably driven by sub 3 USD corn prices recently. Operating profit margins for the publicly traded chicken companies averaged close to 12% in the June quarter, which nearly matches last decade's peak in the June quarter last year. Given the improvement in prices in July and August, the September quarter will likely have an even better result.
- Chicken production through the first half of the year was up about 3%, with an equal mix of increased weights and bird numbers. Based on recent slaughter data, weight increases have tapered off, which we attribute to the very high temperatures across the U.S. this summer. For the back-half of 2016, we expect production to be up closer to 2%, with increased bird numbers being the dominant factor to supply growth.

Chicken Prices, Composite Basis Based on Part Values



Source: USDA, Rabobank 2016

Chicken Weights

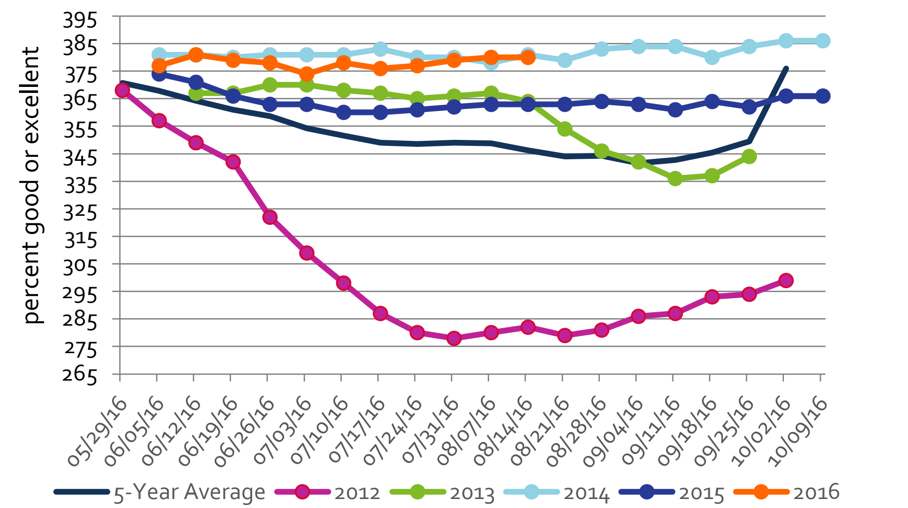


Source: USDA 2016

Soy Complex: Showing Resilience

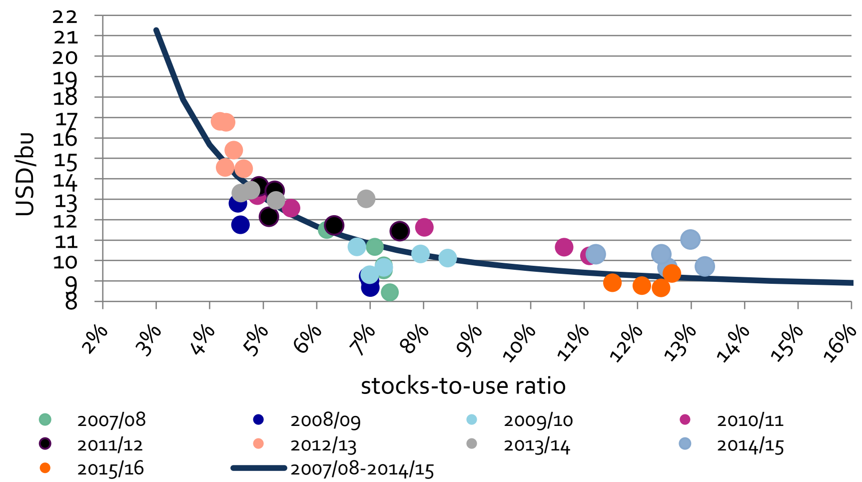
- On August 12, the USDA released its first crop production projection for the 2016 growing season, which showed both a record national average yield of 48.9 bu/acre and a record 4.060bn bushel crop. This is the first time the U.S. soybean production has topped the 4.0bn bushel mark.
- The first crop production report was above trade expectations, which resulted in futures dropping nearly 0.30 USD/bu. However, by the end of trading on August 12, November futures had nearly recovered all of it losses after the report release and has since traded higher. A market that, in the face of bearish news, rebounds like November soybeans futures is a market that has already discounted a large crop and has significant underlying support.
- Despite record production, U.S. stocks are projected to build up to well above 300m bushels. Plus the stocks-to-use ratio will increase to between 8.0-9.0%. This is the highest levels for both stocks and the STU ratio have been since 2006/07.
- Applying a 8-9% stocks-to-use ratio to the "new" demand curve, the futures prices of soybeans in Q4 center around USD 10.00. This doesn't mean soybean futures can't dip to near USD 9.50 during the glut slot of harvest this fall. However, it doesn't seem like futures will have an eight in front of them.
- Soybean products have held up remarkably well considering all the underlying market volatility. The star has been soybean oil. A number of factors have contributed to a 400 point rally in December soybean oil futures. Since the beginning of August, crude oil futures have rallied over USD 6.00 per barrel. Strong demand for palm oil has rallied palm oil, and soybean oil has followed along. U.S. soybean oil stocks are seasonally declining. In addition, new crop soybean meal export commitments are weaker than a year ago and therefore crushing may need to be cut back on, which may curtail soybean oil production and tighten up supplies.
- The late-season drought in Brazil, which cut corn production with nearly 20% and has significantly increased corn prices there, may negatively impact soybean acreage in Brazil and Argentina. Early projections put Brazilian corn planted area up 10 to 15%, while soybean area could be down 1 to 2%—stay tuned!

U.S. Soybean Crop Condition Index—2016 Matching 2014 Record Crop Conditions



Source: USDA, Rabobank, 2016

U.S. Soybeans Demand Curve Points to Price Hovering Around USD 10

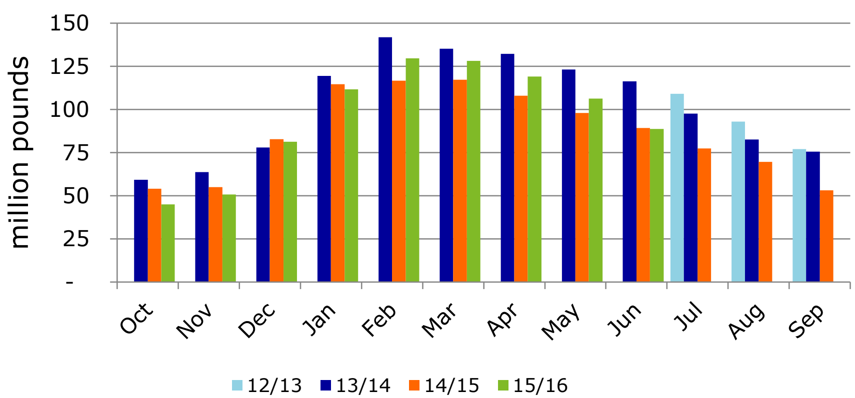


Source: DTN, Rabobank, 2016

Tree Nuts: Harvest is Eminent

- The USDA released its Almond Objective Estimate Survey on 6 July, estimating this coming harvest at a whopping 2.05bn meat lbs. Neither buyers nor sellers were surprised, as prices have increased from their lows a few months ago and there has been continued interest from buyers. Prices are approaching the historical 10-year average of 2.31 USD/lb for all varieties.
- This year's pistachio crop promises to be much bigger than the official 650m lb forecast, given it's a 'limb breaker'. The largest processor announced a price of 1.80 USD per lb, and only successful marketing efforts this coming year will make for additional bonuses.
- California's walnut harvest subjective projection is 649m lbs, which is another record crop, as expected. While still low, prices have been stable in recent months. Buyers are waiting to see what the quality of the nuts will be before making offers on the new crop.
- This year's pecan harvest promises to be better than last year's, but it may still be average. Marketers were hoping for a larger crop to make up for short supplies. So prices may remain high for growers.
- Oregon Hazelnut growers are hopeful for a larger crop than they had last year. Although an official estimate hasn't been made, many within the industry believe it will be between 35,000 and 40,000 tons. Shipments have waned this year, as last year's crop was much smaller than anticipated.

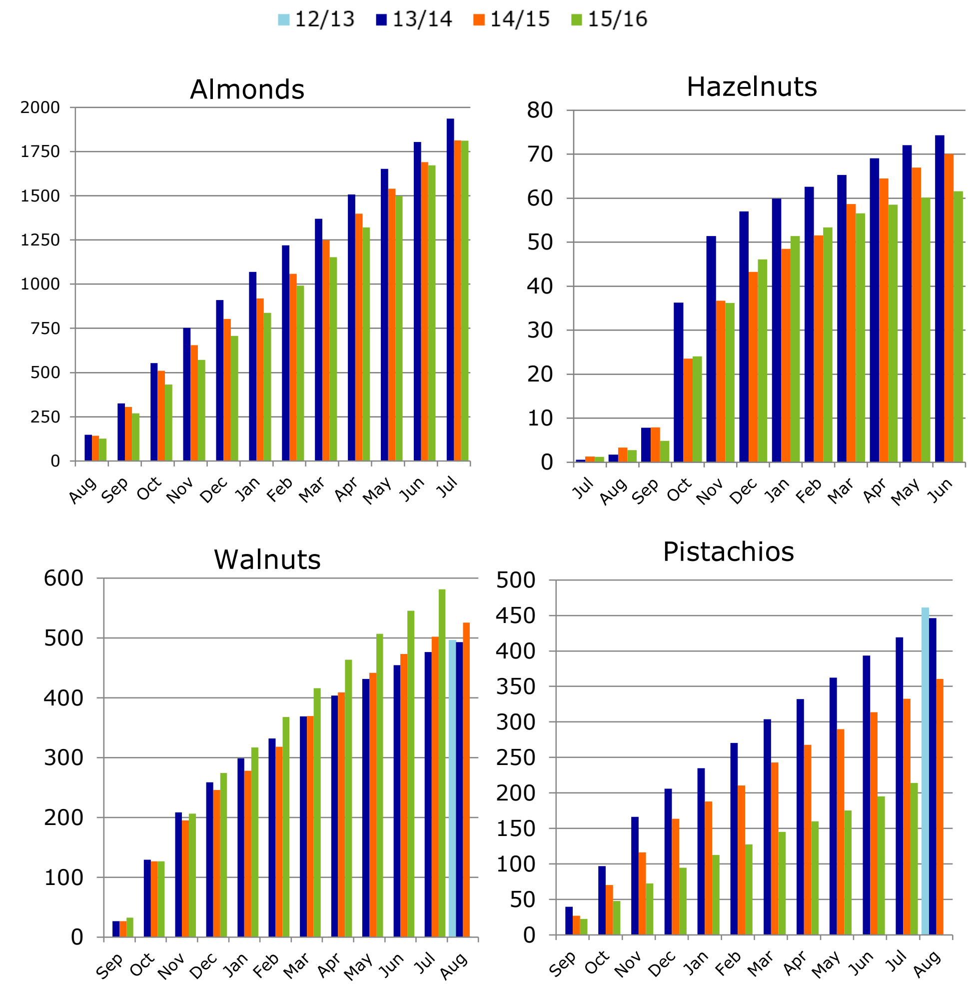
Pecans in Cold Storage



Source: USDA/AMS 2016

U.S. Tree Nut Shipments

million pounds

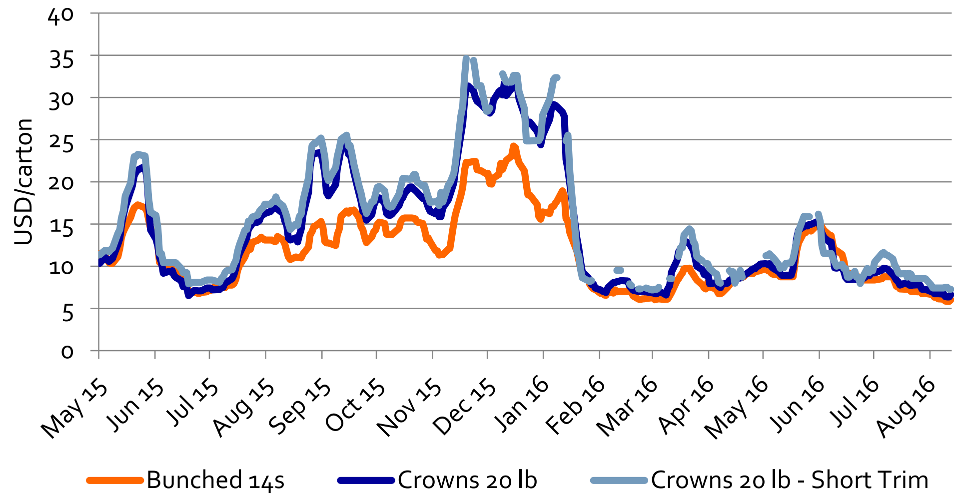


Source: Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, USDA Census Bureau, 2016

Vegetables: Prices Fading Amid Regional Competition

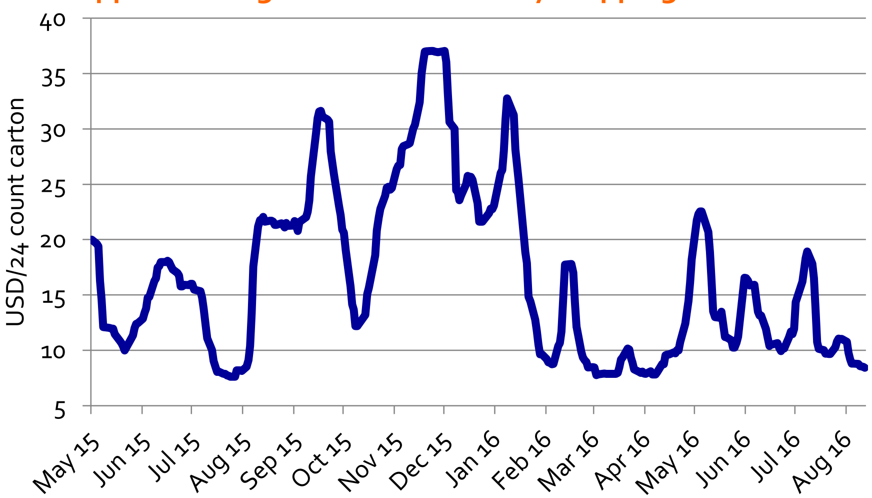
- We're at the time of year when homegrown (regional) vegetable supplies are exerting some pricing pressure on the market. Increases in back-to-school demand should come, but are materializing slowly. Promotions of seasonal fruit at retail also continue to shift consumer focus. Despite ongoing reports that labor availability is a supply-side challenge, prices are generally lower.
- Broccoli supplies are abundant, and unlike last year, we have not experienced weather-related supply gaps in July or early August, and prices resemble a more typical summer season.
- High temperatures in June, followed by lower-than-normal temperatures in early July, created price volatility in the lettuce markets, but recent prices have tended to the low end of the range. In mid-August, head lettuce prices were flirting with last summer's lows and were off 61% on August 12 versus the same day last year, but daily prices during July 2016 averaged 27% higher YOY. Prices for romaine 24s have been weaker, YOY, since the first week in July, while hearts fared better than last year until August.

Broccoli – U.S. Daily Shipping Point Price



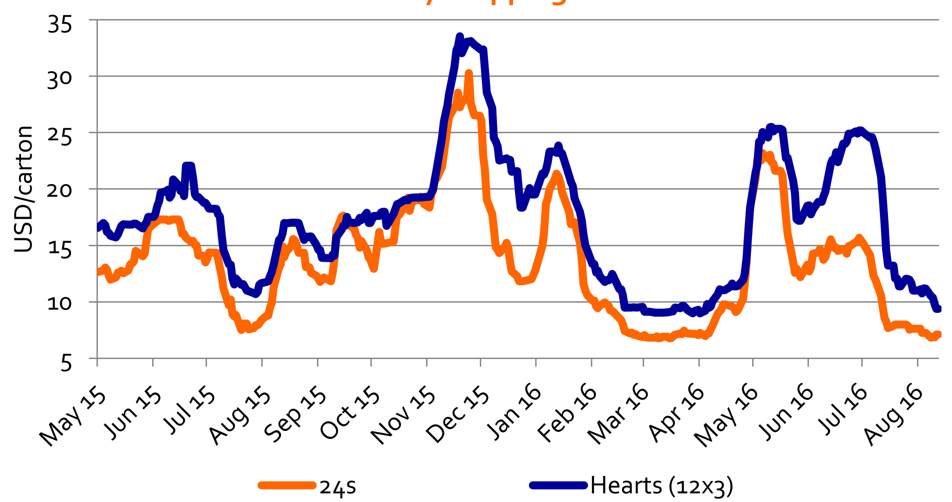
Source: USDA/AMS, Rabobank, 2016

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



Source: USDA/AMS, Rabobank, 2016

Romaine Lettuce – U.S. Daily Shipping Point Price



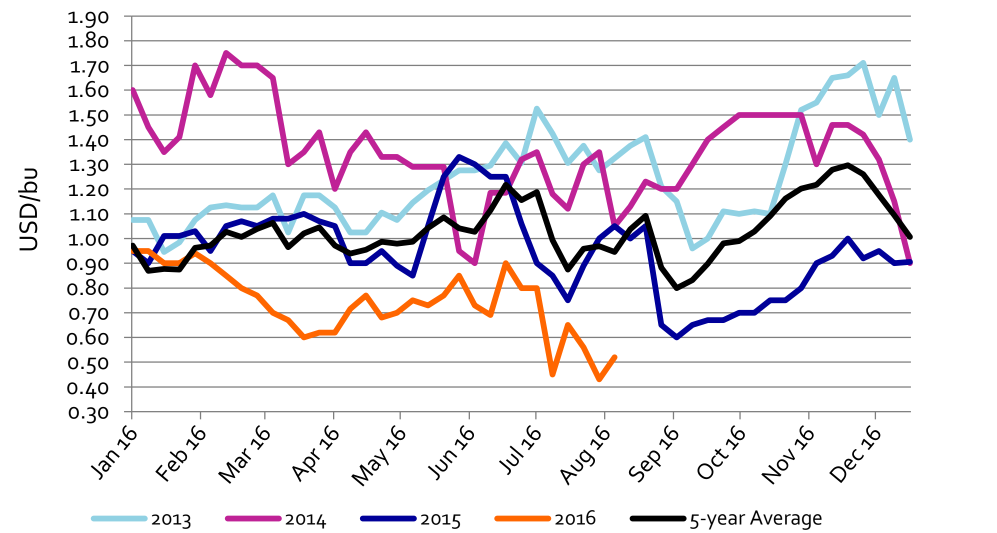
Source: USDA/AMS, Rabobank, 2016

Wheat: Futures Prices Pressured to 10-year Lows

Rabobank

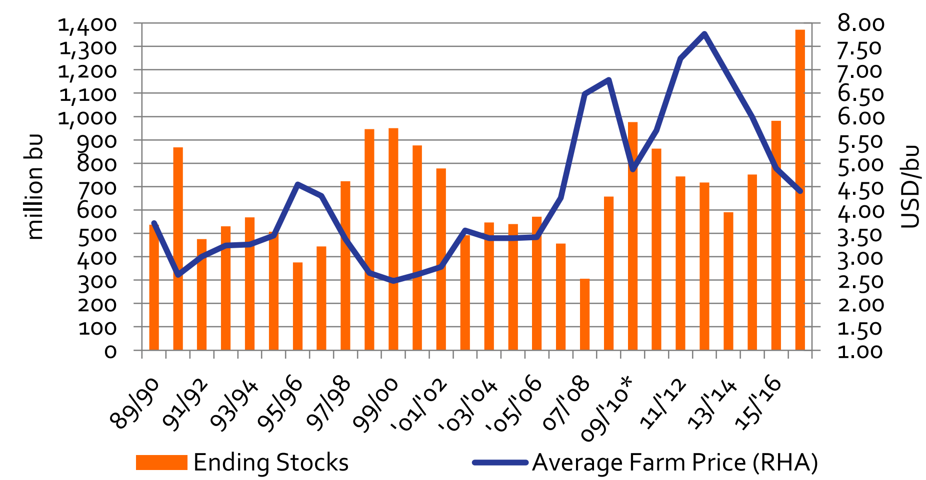
- With record global and U.S. wheat stocks, prices remain under pressure. With record or near-record wheat production in Australia, the U.S. and Ukraine plus a record U.S. corn crop in the field, wheat futures in Chicago, Kansas City and Minneapolis are hitting 10-year lows with little upside potential.
- In northern France and parts of Germany, heavy rains in June and July resulted in significant crop losses. France is looking at the lowest wheat yields in 30 years (5.56 MT/ha) and a production decrease of around 25% compared to last year's record (29.0 MMT versus 40.9 MMT in 2015). Not only has production suffered, but so has quality.
- Unlike France, Australia is projected to produce its largest winter wheat crop since the 2011/12 crop year. Moisture has been abundant across Australia's row crop areas of Western Australia and New South Wales. However, large yields may result in lower protein levels.
- The U.S. winter wheat crop (HRW) was the largest crop since the 2008/09 crop year. But surveys of the crop coming out of the field showed it is a low protein crop. As of the end of July, U.S. Wheat Associates reported an average protein content of 11.2%, a full percent point below last year's. Bread bakers prefer 12% protein. New crop wheat will likely be blended with old crop HRW or spring wheat (HRS), of which protein content is still unknown, to achieve the desired protein level.
- With lower protein wheat crops in Europe, the U.S. and potentially Australia, there is the potential for protein premiums to rally this year as millers and end users alike seek milling quality and higher protein wheat. However, 12% Kansas City protein premium values are not showing any increased demand at this time. Large old crop stocks will temper any rally in protein premiums which, at the current usage rate, could last 7-8 months. Consequently, a potential protein premium may not occur until the first quarter of 2017.
- As discussed above, protein premiums for HRW may not increase until old crop HRW supplies are exhausted. However, protein premiums for other classes such as HRS wheat may increase significantly as flour millers try to meet the protein requirements of bread bakers.

12% Kansas City Protein Premiums Are not Showing Signs of Increased Demand



Source: NASS, Rabobank, 2016

U.S. Wheat Stocks at Record Levels

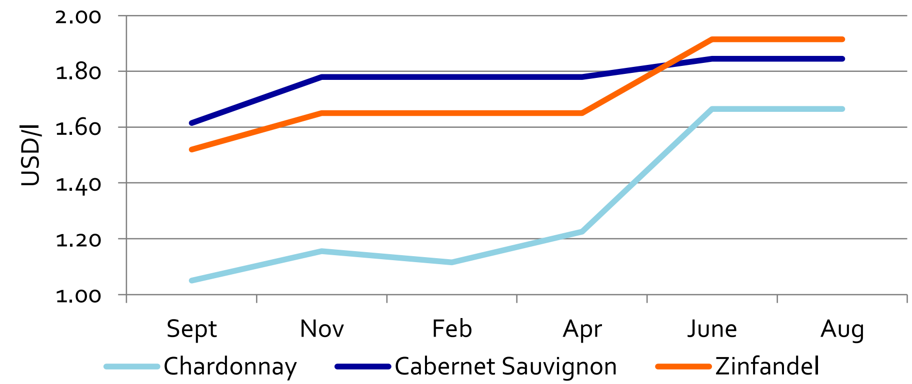


Source: DTN, Rabobank, 2016

Wine: California Supply Situation Remains Tight

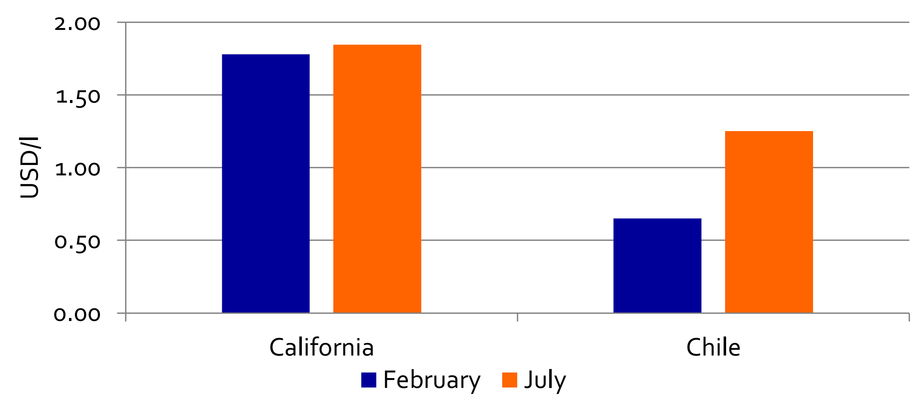
- The impact of the light 2015 harvest continues to be felt throughout the California wine industry as supply remains tight. Pricing has risen across nearly all varietals and buyers are being forced to become more flexible in order to secure supply. There had been hopes that a larger harvest this year would ease pricing pressure, but it appears that the 2016 harvest will not be exceptionally large.
- The supply situation in California has been relatively tight overall. But the premiumization trend among U.S. consumers, coupled with the recent plantings in the San Joaquin Valley, led to soft demand for available bulk wine in that region for much of this year. The prospect of another unspectacular harvest in 2016 has led to some renewed interest in bulk wine available in the San Joaquin Valley, but this interest has been somewhat tenuous, and the bulk imports have kept a ceiling on prices.
- With supplies being relatively tight in California, demand for imported bulk was relatively robust in the first half of 2016, driven mainly by imports from Chile. Prior to the recent Chilean harvest, high inventory levels were creating downward pricing pressure on bulk wine, making it particularly attractive to U.S. wineries given the current strength of the USD. However, during the harvest, Chilean vineyards experienced heavy rainfalls that dramatically reduced the size of the harvest to the point that bulk wine prices nearly doubled. It should be noted, though, that even with the dramatic increase in pricing, Chilean bulk continues to maintain some pricing advantages relative to Californian wines.

Average Bulk Wine Price (USD/l) for California Chardonnay, Cabernet Sauvignon and Zinfandel, September 2015 to August 2016



Source: Ciatti, 2016

Bulk Wine Prices for Cabernet Sauvignon from California and Chile, February and July, 2016



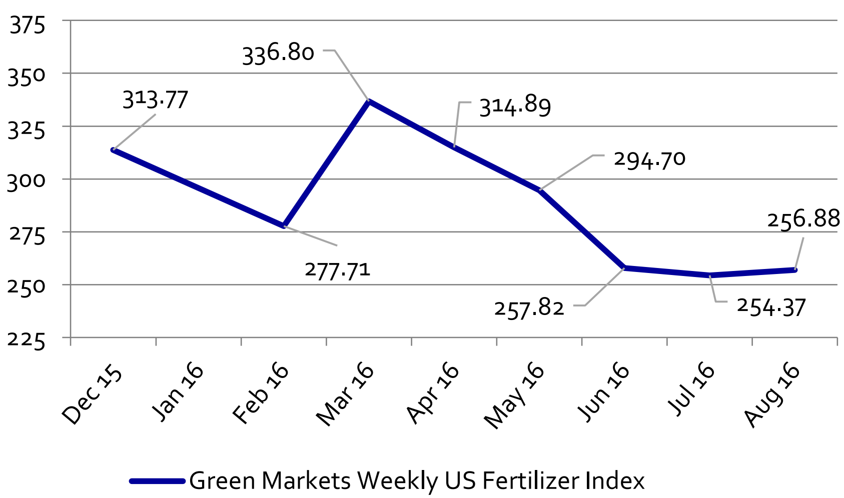
Source: Ciatti, 2016

Farm Inputs

Fertilizer Continues to Search for the Bottom

- Fertilizer prices, as measured by the composite Green Markets Weekly U.S. Fertilizer Price Index, are holding steady at present after declining by 18% thus far in 2016. However, recent negative earnings reports by several major manufacturers and distributors (namely Agrium and CF Industries) suggest that it is too early to call for a bottom.
- Several drivers have contributed to the current level of stability, the first being that growers are locking in purchases at presently attractive levels. Additionally, certain North American potash manufacturers have apparently been 'talking up' the market to help improve investor psychology heading into the important fall application season.
- On the former, Fertilizer Week recently reported that the spread between the absolute decline in fertilizer prices versus crop prices (corn, soybean and what) is the widest it has been in 18 months, making the case that current fertilizer price levels are extremely attractive relative to crop values.

Nutrient Price Change Index



Source: Bloomberg, Green Markets, Rabobank 2016

Forestry

Rabobank

- 1H 2016 housing starts actuals are at 573,000 units—up 7% compared to 1H 2015. Analysts have adjusted the 2016 forecast to 1.19m units. This is less than the 10% gain projected in January; however it would equate to a 7% gain over 2015. Contractors are finding it difficult to work amid the ever-changing regulatory requirements. They are also having trouble locating adequate labor.
- Canadian exports to China during 1H 2016 have declined 7% over 1H 2015. U.S. shipments have slowed to a mere 2% growth rate. The excess supply in North America has put downward pressure on stud lumber prices. China is now procuring their lumber from Europe.
- Panel production increased over 5% during 1H 2016. Prices are the highest they've been in over 3 years. This increase has aligned with the growth in the housing market. Many buyers are having a difficult time finding prompt shipments as mills are operating at full capacity to meet current contracts.
- China, being a major buyer of pulp, is currently oversupplied and the renminbi has weakened further in relation to the USD, hence the decrease in price for product shipped to China. Producers are trying to push for a price increase to 830 USD/tonne. However, buyers will be reluctant to acquiesce to such a hike.

Industry Highlights

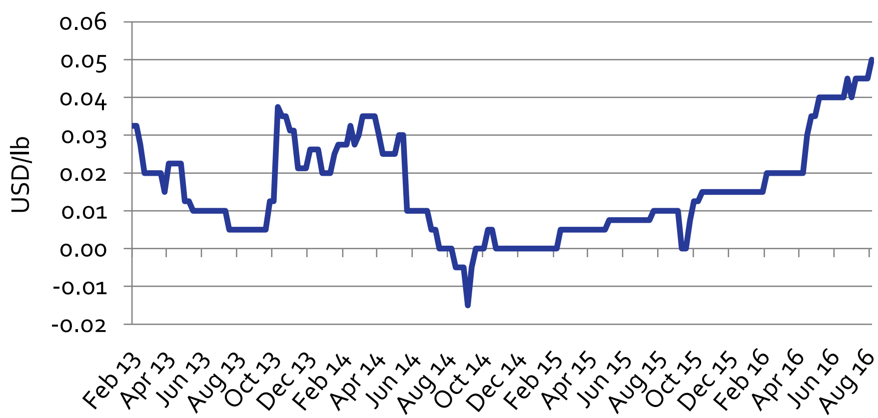
	July/ Most Recent	Last Month	Last Year
Southern Yellow Pine Stud lumber, USD/mbf	330	384	335
Oriented Strand Board 15/32" Shipped to Los Angeles, USD/mbf	330	314	232
Douglas Fir #2 Saw Log NW Oregon, USD/mbf	609	607	620
NBSK from North America to China, USD/ton	710	725	775
U.S. Housing Starts (thousand units)	1,189	1,135	1,211

Source: Random Lengths, Forest2Market, RISI 2016

Sweeteners

- The U.S. and Mexico are back at the negotiating table to adjust the Countervailing Duty Suspension Agreements. Under the 20-month old agreement, a larger share of Mexican sugar was going to 'melt houses' as direct consumption sugar rather than to U.S. cane refiners. Hence, U.S. cane refiners were always short on sugar for refining. In these negotiations, the U.S. is looking to adjust the mix of Mexican raw and refined sugar coming into the U.S.
- If the issue cannot be resolved and duties are placed on Mexican sugar coming into the U.S., both countries lose. U.S. corn wet millers could potentially lose a big HFCS export market, while Mexican sugar growers and refiners would have reduced access to U.S. sugar market. Either way, prices are expected to increase.
- With the supply tightness and strong demand for non-GMO sugar, cane sugar continues to widen its premium over beet sugar.
- U.S. corn wet millers have put out 2017 pricing letters. Reports indicated a price increase of 2.50 USD/CWT for HFCS-55, corn syrup and dextrose over 2016 contracted prices. The price increase stems from solid demand for dextrose and corn syrup and high capacity utilization rates for all three products. There will be more negotiating room for buyers of HFCS-42.

Cane's Premium to Beet Widens to Historical Levels



Source: Food Business News, Rabobank 2016

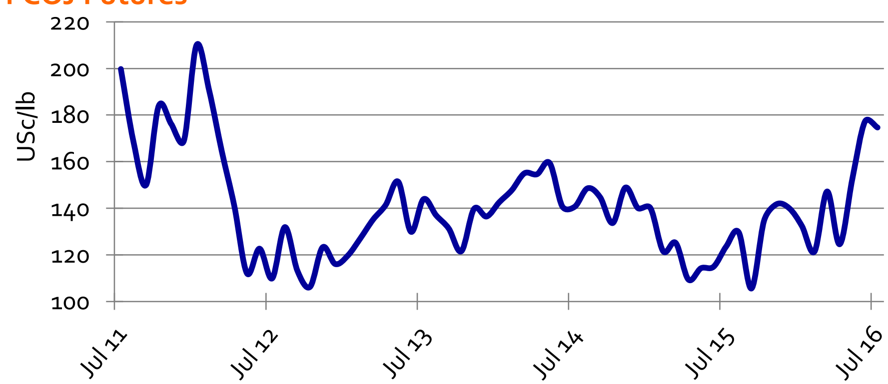
Orange Juice

- **Florida Orange Juice**
  - USDA's forecast on Florida orange production remains positive. There was a minor increase in production estimates to 81.4 million boxes, mainly coming from Valencia varieties. Harvest for non-Valencia varieties is now complete.
  - Final yield for frozen concentrated orange juice (FCOJ) is in line with the previous forecast at 1.41 gallons per 42 brix box, the lowest since 1986.
  - The FCOJ futures market has soared to 1.93 USD/lb by the end of July but has slightly declined since then. This is the highest level since March 2012, and the increase is mainly driven by the low Brazilian stock level for the next season as well as a low production forecast.

Brazilian Orange Juice

- Once again, we see a trend of large Brazilian producers pricing upward because of the tight supply—some processors have increased their offer to USD 2300/tonne 66 brix FCA Europe, another 18% increase compared to our last publication.
- There is limited supermarket ordering from Europe due to the current inflated price of orange juice and the relatively attractive price of apple juice.

FCOJ Futures

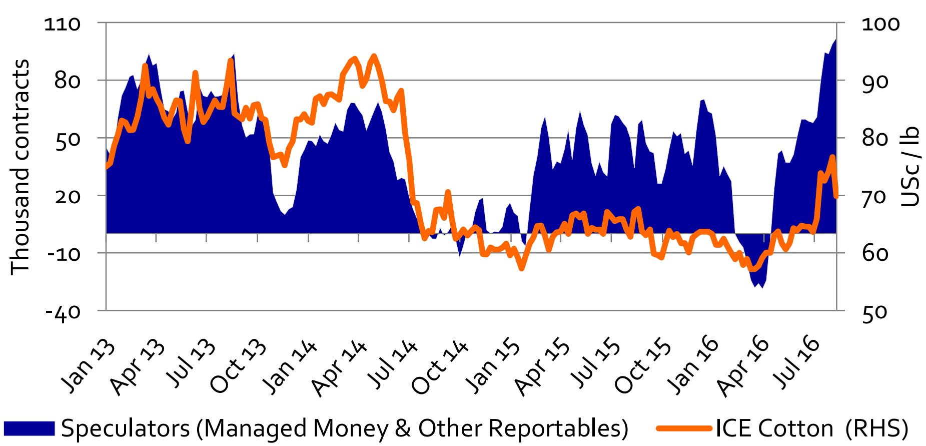


Source: Bloomberg-ICE 2016

Cotton

- December ICE #2 Cotton futures surged to 2-year highs in early August, peaking at 76 USc/lb, before abruptly returning to below 70 USc/lb. Initially triggered by nearby Asian supply tightness and weather risk, the rally was highly exaggerated by speculator buying, leaving prices vulnerable to long liquidation. Prices are expected to average 71 USc/bu through Q3 2016, with heavier immediate downside risk, edging higher to 73 USc/lb in late 2016 on a second consecutive deficit year.
- An anticipated extension to the Chinese Reserve auctions has been confirmed until September 30, while the previous 2m tonne volume limit has been removed. The extension will improve nearby supplies and has removed tightness concerns—pressuring the ZCE some 8% lower since late July. However, this further drawdown in Chinese domestic stocks will speed up the pace of global supply-and-demand rebalancing, which is a constructive factor for prices in the long term.
- The U.S. crop maintains above-average conditions of 48% rated good/excellent, with recent rainfall and favorable nearby forecasts across West Texas. Similarly, Indian growing areas have seen improved monsoon rainfall, easing rainfall deficits in the key state of Gujarat.

Speculators Hold a Record 101,951 Lot Net Long Position across the ICE #2 Cotton, Just 19 Weeks after Holding a Record Net Short

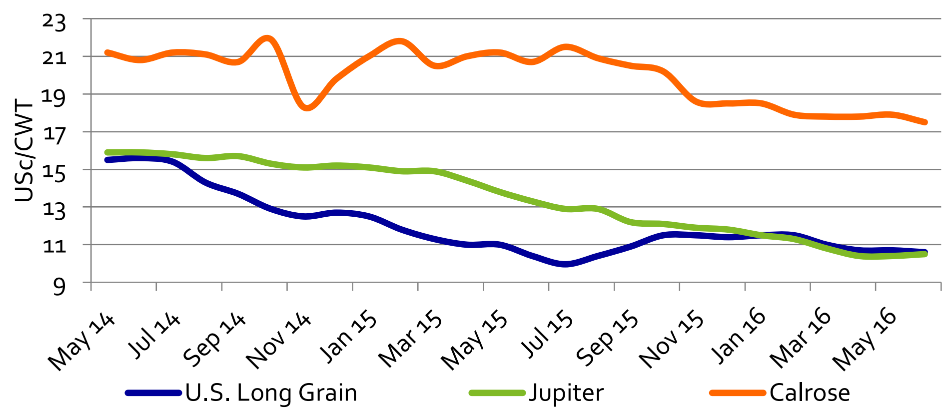


Source: CFTC, Bloomberg, Rabobank 2016

Rice

- U.S. rice prices have continued to decrease. The USDA reported June's long grain and Jupiter prices respectively at 10.60 and 10.50 USD/cwt. As of 1 August, long grain and Jupiter spot market prices are as low as 6.80 per cwt. The USDA reported Calrose June price at 17.50 USD/cwt—falling 15% from one year ago. Calrose spot prices are as low as 12 USD/cwt.
- In 2016/17, U.S. production is estimated to reach a record high of 245m cwt. The large production total is attributed to additional long grain plantings in the south, as 183m cwt of long grain rice is estimated to be produced this year, which is 38% more than 2015/16.
- In 2016/17, global production is expected to measure 481.2m tons, the highest in history. This is projected to slightly raise ending global stocks to 107.3m tons. U.S. ending rice stocks are projected to be 56.9m cwt in 2016/17, the largest in over 20 years. As worldwide rice stocks increase, there will be more downward pressure on U.S. prices.
- Hot and dry conditions in Arkansas, Louisiana and along the delta will impact this year's Southern long grain and medium grain quality. Millers will have to be cautious as it is likely the rice will be chalkier than normal.

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



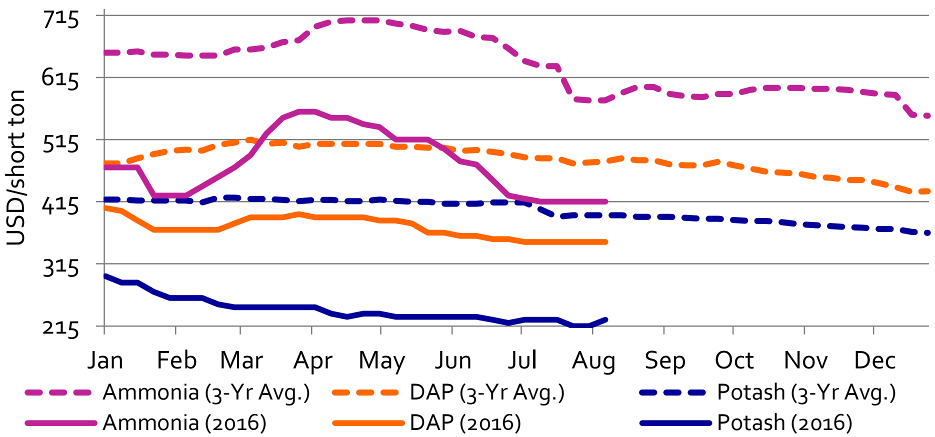
Source: USDA/NASS 2016

Input Costs

Rabobank

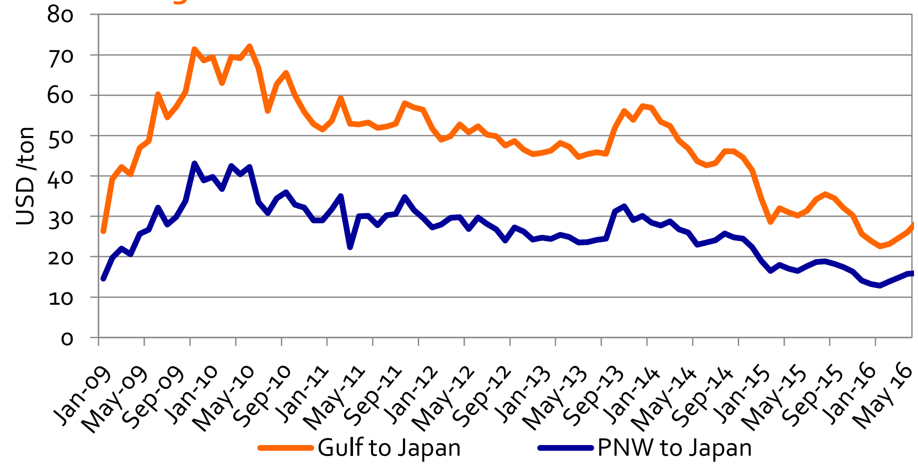
As of August 19, 2016

Corn Belt Input Prices*



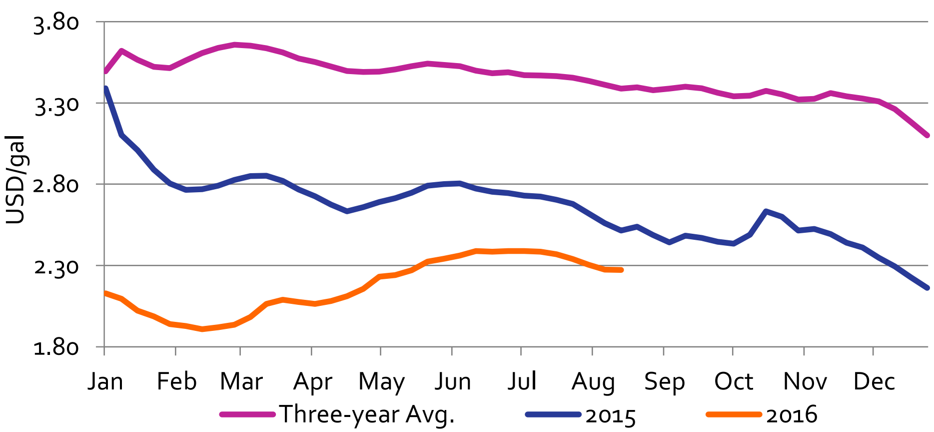
Source: Bloomberg 2016
** Note: granular potash*

Ocean Freight



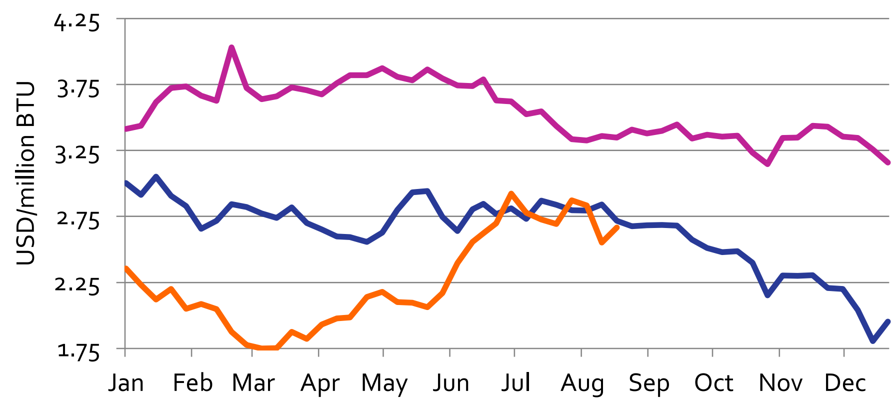
Source: O'Neil Commodity Consulting, AMS-USDA 2016

Diesel — Midwest



Source: EIA 2016

Natural Gas Spot



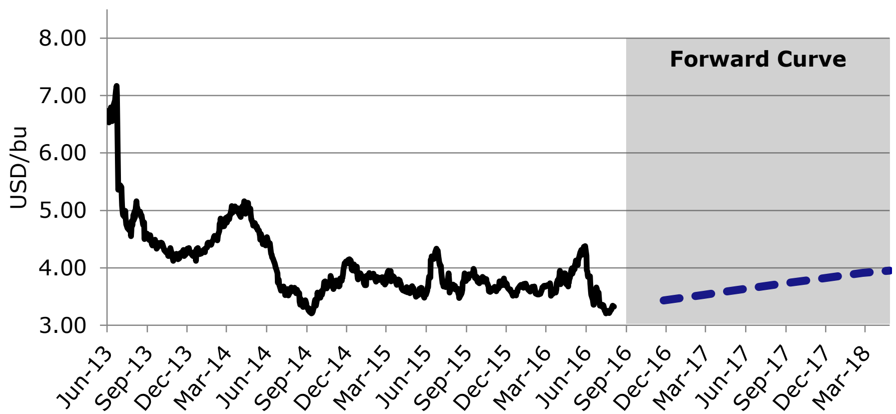
Source: NYMEX 2016

Forward Price Curves

Rabobank

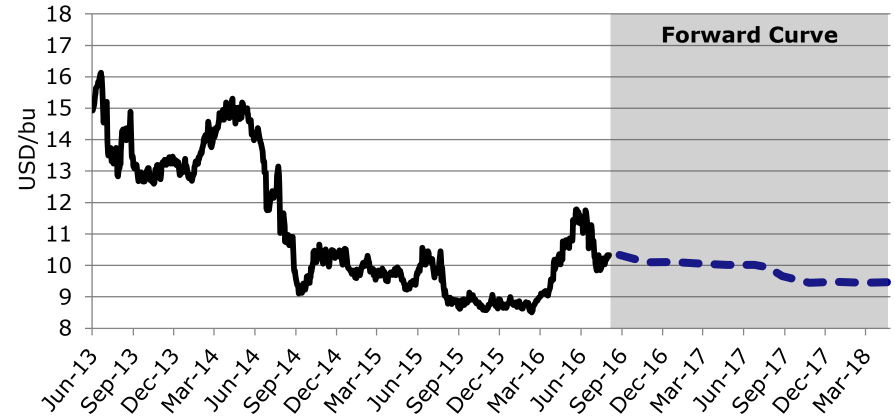
As of August 22, 2016

CBOT – Corn



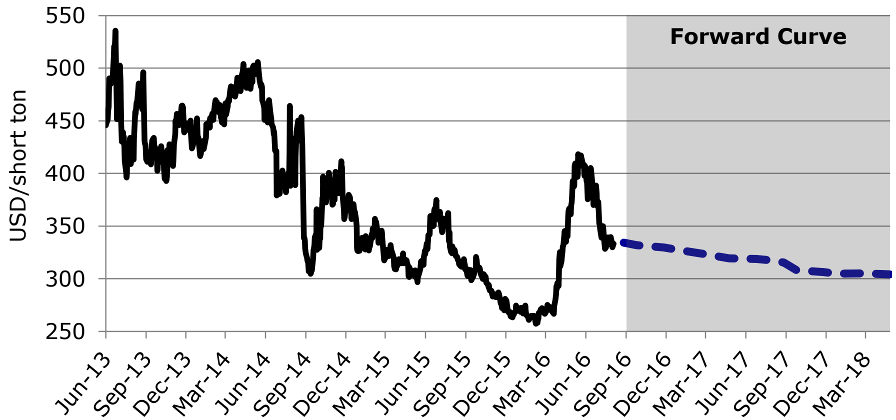
Source: CBOT, Rabobank 2016

CBOT – Soybeans



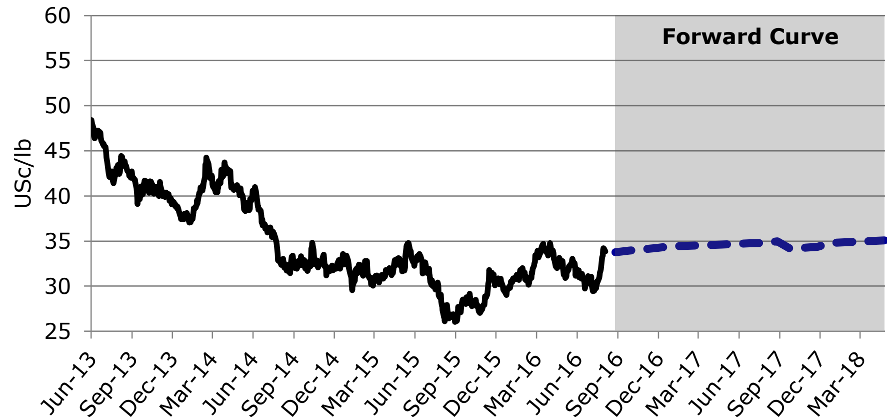
Source: CBOT, Rabobank 2016

CBOT – Soymeal



Source: CBOT, Rabobank 2016

CBOT – Soy Oil

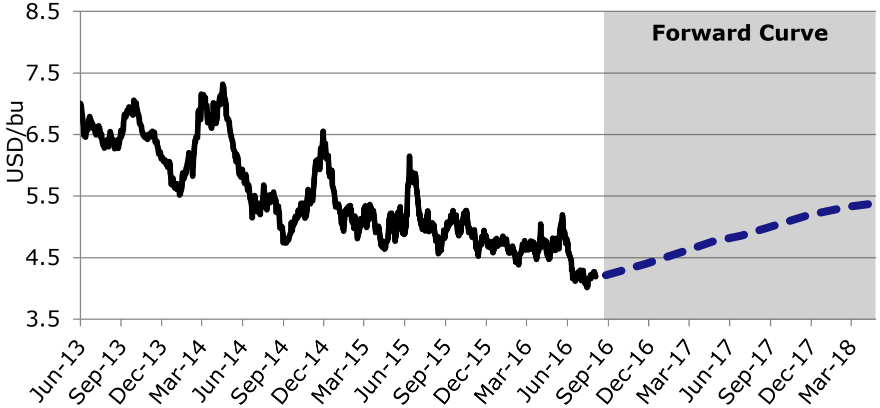


Source: CBOT, Rabobank 2016

Forward Price Curves

As of August 22, 2016

CBOT – Wheat



Source: CBOT, Rabobank 2016

CBOT – Feeder Cattle

Source: CBOT, Rabobank 2016

CBOT – Lean Hogs

Source: CBOT, Rabobank 2016

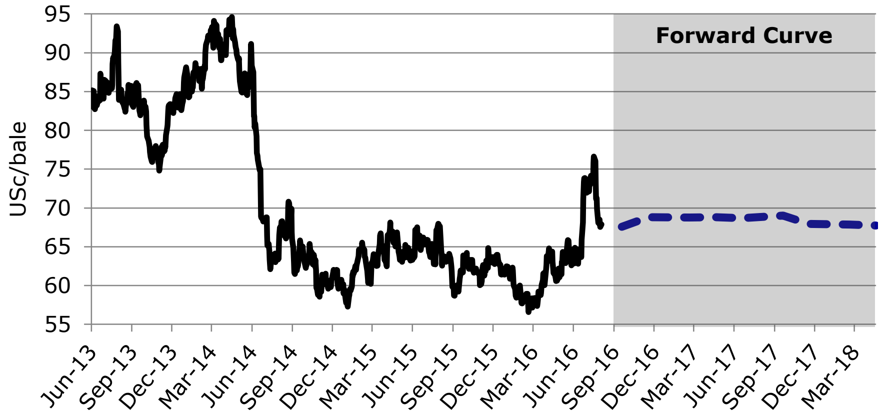
CBOT – Live Cattle

Source: CBOT, Rabobank 2016

Forward Price Curves

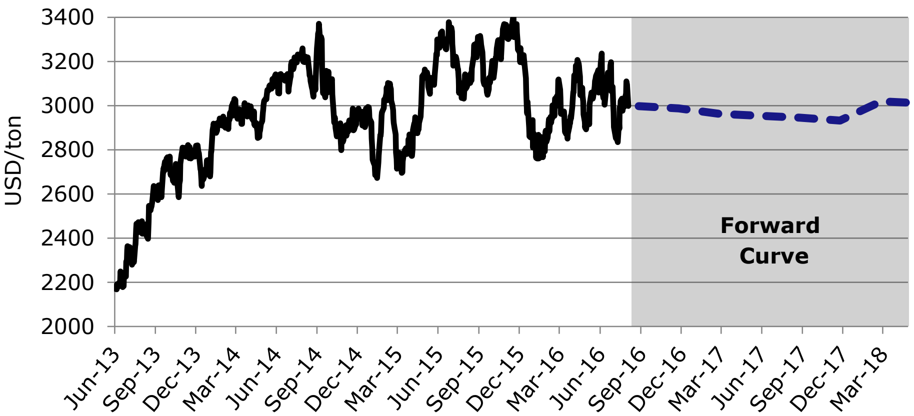
As of August 22, 2016

ICE – #2 Cotton



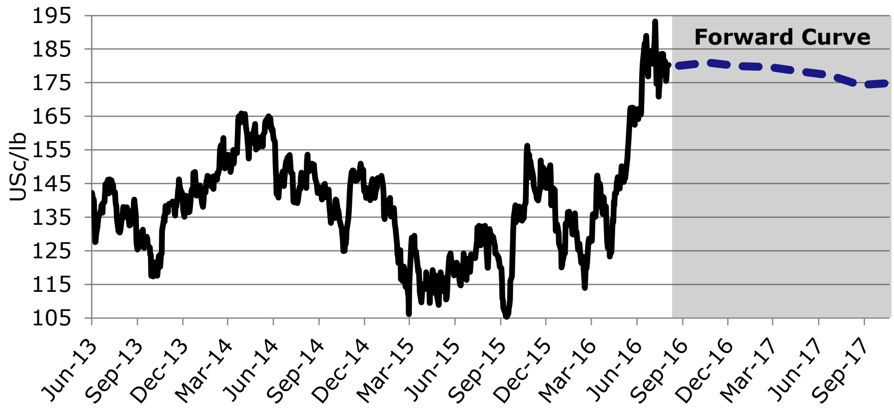
Source: ICE, Rabobank 2016

ICE – Cocoa



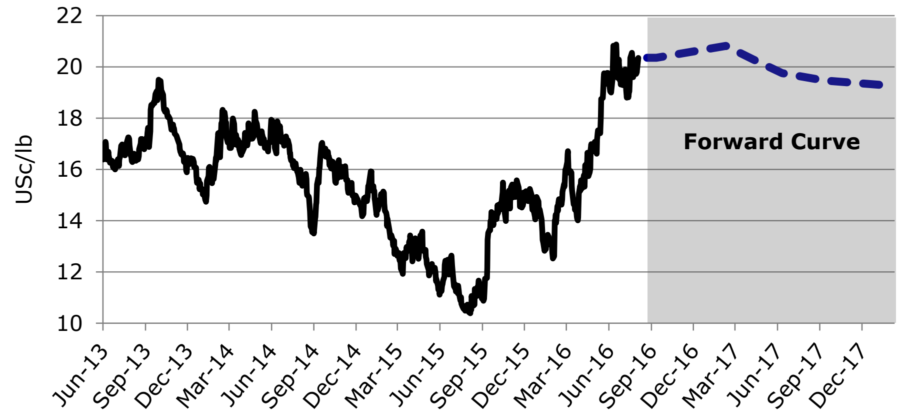
Source: ICE, Rabobank 2016

ICE – FCOJ



Source: ICE, Rabobank 2016

ICE – #11 Sugar



Source: ICE, Rabobank 2016

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