Food & Agribusiness Research and Advisory

North American Agribusiness Review

June 2016

Rabobank

Report Summary

Economy: Slowdown in Services

U.S.

- The services sector has slowed down in recent months. Since late 2014, this was the sector that had been driving the U.S. economy, while the manufacturing and mining sectors were dragged down by weak global economic growth, the strong dollar, and low oil prices. As most jobs are created in the services sector, the slowdown in services has also led to a slowdown in overall employment growth.
- The disturbingly weak Employment Report for May has derailed the Fed's plans to resume its hiking path in June or July. We now do not expect the first hike of this year before September, provided that growth in the services sector will pick up again.
- On the bright side, households are still supported by low interest rates, low oil prices, and falling unemployment. On balance, GDP growth in Q2 is likely to be better than the muted 0.8% in Q1 (quarter-on-quarter, at an annualized rate).
- While the Fed is slowed down by the global headwinds, the central bank still intends to resume its hiking path in the second half of the year. Meanwhile, the ECB is still purchasing bonds. Based on this divergence of central banks, we expect EUR/USD to decline to 1.08 in the next 12 months.

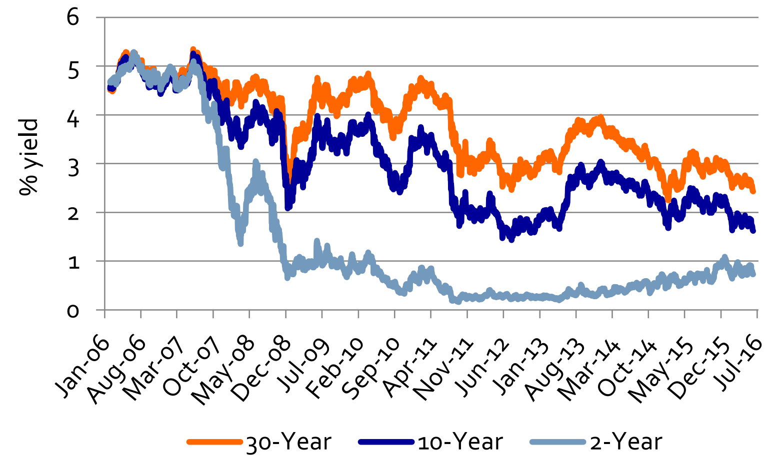
Mexico

- U.S. monetary policy still remains key for Banxico, and we fully expect them to follow any hikes seen north of the border. Further to that, the bank is clearly concerned about the potential for outflows and further MXN weakness. Rapid upward moves in USD/MXN could trigger central bank action in the form of additional rate hikes and potentially ad hoc intervention. Indeed, the bank 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 19.50 in the next 12 months.

Canada

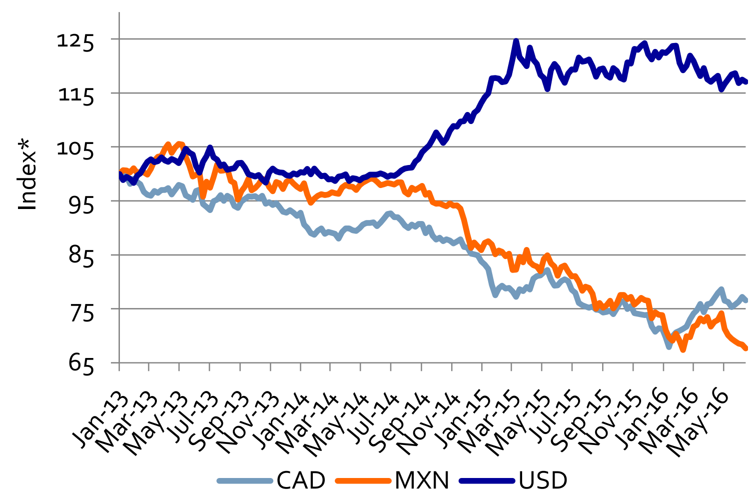
- The decision by the Bank of Canada to hold rates at 0.50% at the May 25 meeting was fully expected, but the accompanying statement was notable, given its comments on the likely economic impact of the tragic wildfire that swept across Alberta. The bank noted that "fire-related destruction and the associated halt to oil production will cut about 1¼ percentage points off real GDP growth in the second quarter," but "the economy is expected to rebound in the third quarter, as oil production resumes and reconstruction begins." As the Fed is likely to resume hiking before the BoC, we expect USD/CAD to rise to 1.33 in the next six months, before falling back to 1.26 at the 12-month horizon.

Interest Rates



Source: Federal Reserve Bank of St. Louis 2016

Currencies



Source: Bloomberg 2016

** Note: Rebased at 100 as of January 1, 2013*

Consumer: Receiving Mixed Messages over Economy

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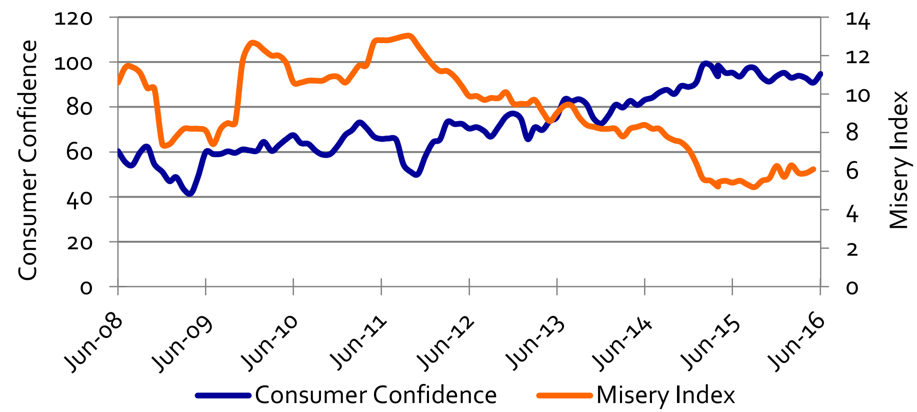
- Our measure of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board) stood at 93.7 in May, still below the recent high of 101 recorded in 2015. Uncertainty over the future direction of the economy, coupled with the recent slowdown in the labor market (with just 38,000 jobs added in May), is expected to lower consumer confidence in June. Despite the smallest monthly increase in new jobs since 2011, the unemployment rate fell to 4.7%, due to a decline in labor force participation. As of April (the most recent month for data for both inflation and unemployment), the misery index stood at 6.1.
- Over the last 12 months to April 2016, the rate of inflation as measured by the Consumer Price Index (CPI) rose slightly, to 1.1%, largely on the back of higher energy prices . Over the same period, food prices rose 0.9%, with retail food prices (food at home) down 0.3% and restaurant prices (food away from home) up by 2.7 %.
- 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 12 months to April 2016, consumer expenditure on food away from home rose by 3.7% and food at home by 9.0%.

Food Sales

Food Sales (USD bn)	Annual			YTD Cumulative		
	2011	2012	2013	Feb 16	**Mar 16**	Apr 16
Food at home	670	686	704	128	190	254
YOY change	3.6%	2.3%	2.6%	*3.1%*	*3.9%*	*3.8%*
Food away from home	619	644	675	123	190	258
YOY change	5.6%	4.1%	4.8%	*8.3%*	*7.6%*	*8.0%*
Total	**1,289**	**1,330**	**1,379**	**251**	**380**	**512**

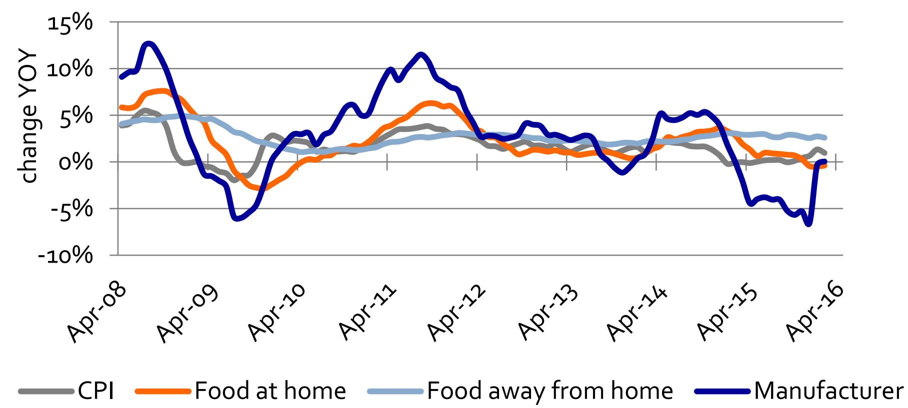
Source: USDA ERS, Rabobank 2016

Consumer Confidence Index



Source: Bloomberg, Rabobank 2016

Food Price Inflation

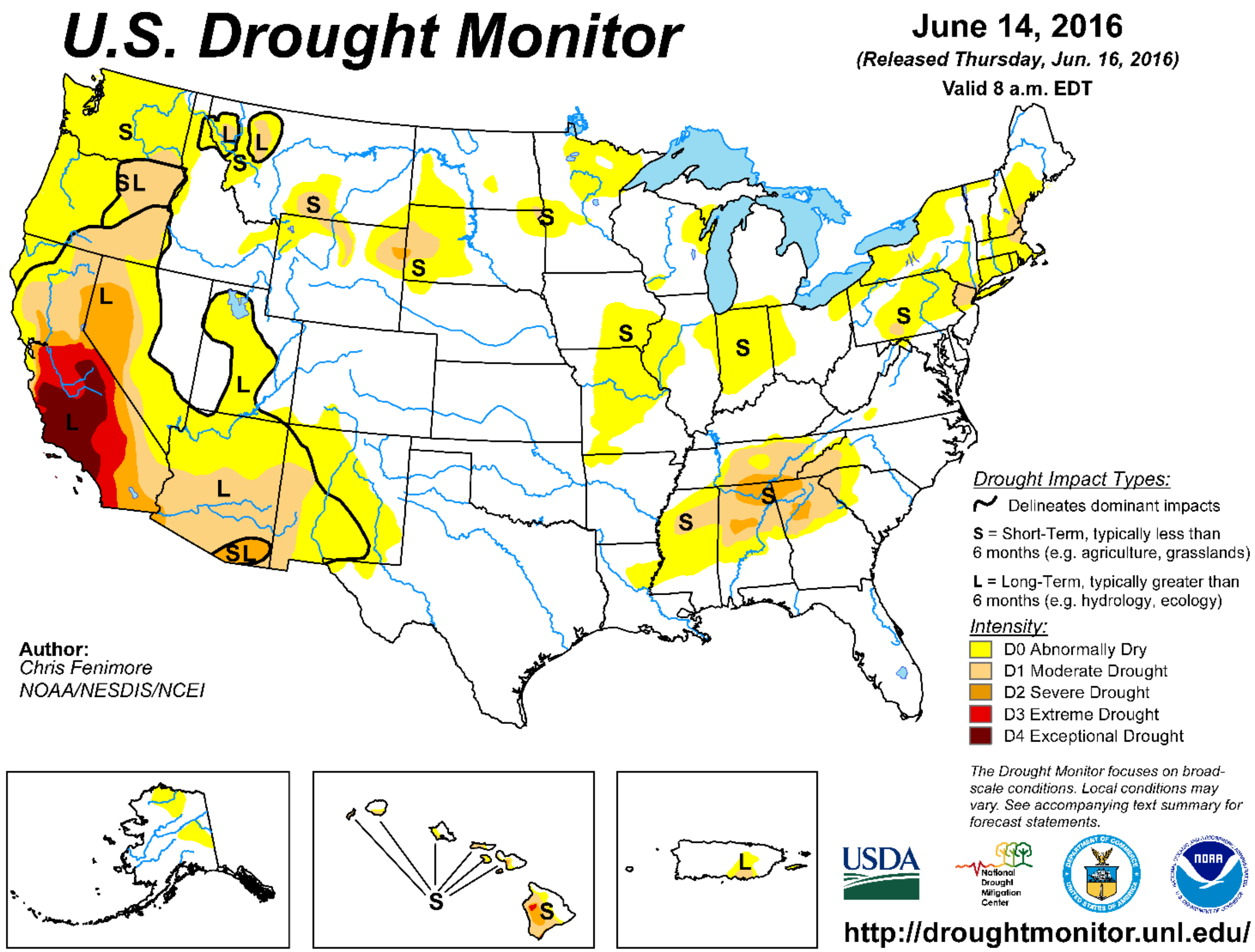


Source: Bloomberg, Rabobank 2016

Climate: Warm Summer

- During May, cool, showery weather covered many parts of the country, except for the northern tier, which saw warmer-than-average temperatures.
- Some of the most persistent rain fell across the Plains, slowing fieldwork, but maintaining mostly adequate soil moisture for pastures, winter wheat, and spring-sown crops. The western Gulf Coast region, and the middle and southern Atlantic States also experienced wet weather, leading to fieldwork delays.
- In contrast, drier conditions developed across the Great Lakes region, allowing fieldwork to accelerate in late May, but raising some short-term dryness concern in some locations. Dryness continues to be a concern in the interior Southeast, California, and the Pacific Northwest.
- Extended range forecasts indicate above-median precipitations for Texas and the western Gulf Coast, as well as for New England and the Eastern Great Lakes regions. Meanwhile, the Mississippi, Ohio, and Tennessee Valleys are likely to experience below-median precipitations.
- Temperatures for the summer months are forecast to be above-median across much of the continental U.S., with higher deviation towards the coasts and closer-to-median temperatures in central states.

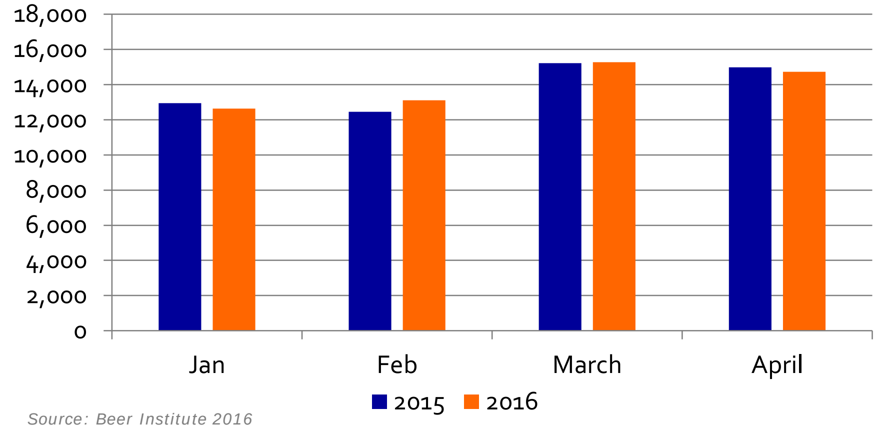
U.S. Drought Monitor, June 14, 2016



Beer: Craft Beer Consumption Slows

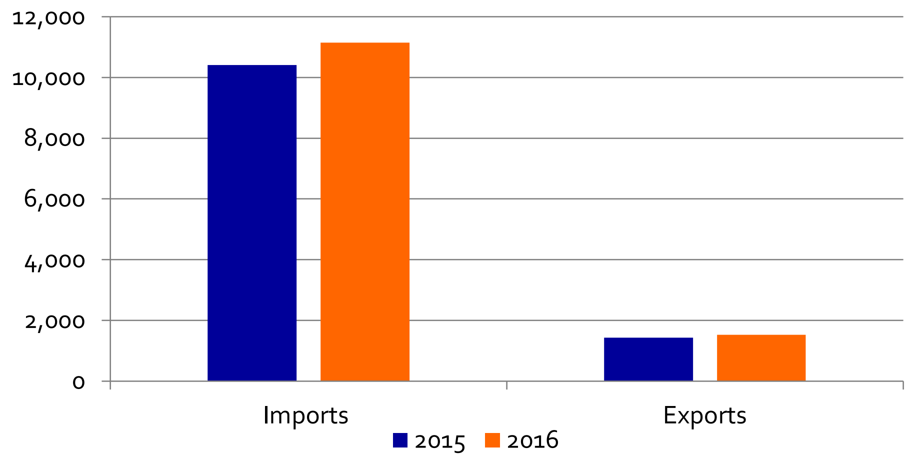
- The overall U.S. beer market remains flat in 2016, with the Beer Institute showing domestic tax-paid shipments rising a meager 0.3% for the first four months of the year through April, compared to the same period in 2015. Imports and exports are growing at similar rates, but imports from a larger base.
- Craft beer sales remain the driver of growth, up 6.5% YTD through May, according to Brewbound reports on IRI data, in spite of the overall softness of the total beer market.
- Although craft beer remains the core driver of growth in the U.S. beer market, there has been a marked slowdown in growth, and there are clear changes in key trends. The 6.5% growth in craft beer sales is dramatically lower than the 17% growth generated in the same period in 2015. In recent periods, it is no longer only the large domestic mainstream brewers who are losing volume to smaller craft players, but also the large, established craft brewers, such as Boston Beer and New Belgium.
- While high single-digit growth is respectable in most categories, it is a worrisome development for the craft beer sector, as consumption growth now lags behind the rate of growth of new brewery openings. In addition to new breweries entering the market, many established craft brewers are also currently in the process of expanding production capacity (often with funding from private equity), as there is a growing belief that production efficiency will be a key success factor for brewers in the future. If craft suppliers reach a point at which production capacity heavily outweighs consumption, a period of heavy discounting will likely emerge, resulting in a shake-out of weaker brands and inefficient producers. (And some craft brewers are already complaining of irrational pricing in the market.)
- As craft beer consumption continues to grow, albeit at a slower pace, hops and barley producers should continue to experience strong demand. If craft beer pricing pressure becomes more intense in the coming years, we believe brewers may begin to explore adjunct grains (alternatives to malted barley) more aggressively as a means of controlling costs.

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



Source: Beer Institute 2016

Beer Imports and Exports ('000 barrels), 2015 vs. 2016



Source: USDA-NASS 2016

Cattle: Market Volatility Continues

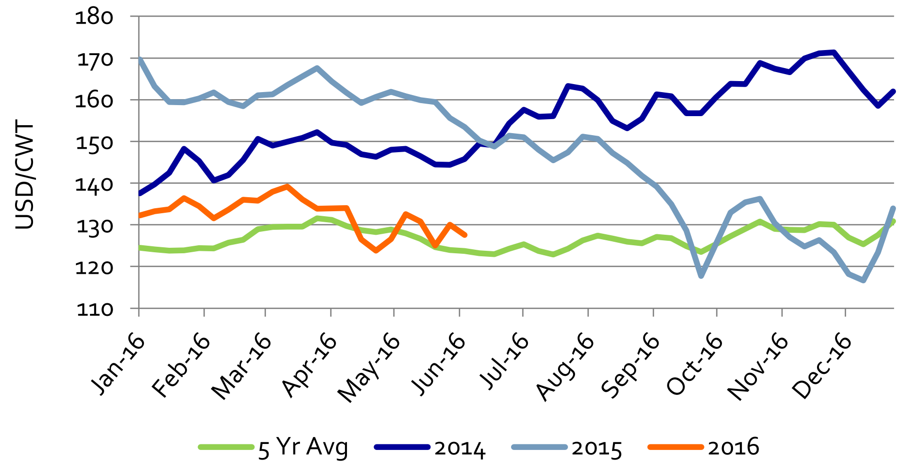
U.S.

- Fed cattle prices traded well off of projections during the second quarter, trading in a range of USD/CWT 124 to USD/CWT 134. Cattle feeders have aggressively been marketing cattle in reaction to exceptionally strong basis and a much improved fed-to-feeder swap.
- Since the beginning of the year, average steer carcass weights have declined by 43lb and are currently 5lb below those a year ago. The timing for a normal seasonal bottom in carcass weights is early May. Weights are expected to start increasing seasonally, but could be below-year ago levels for the remainder of the year. The reduced tonnage could have a significant impact on prices for the second half of the year.
- Market volatility in both the cash and futures markets is creating a business environment that is unsustainable. Basis levels have been exceptionally strong. While the positive basis has provided hedgers with incentive to sell cattle into a declining cash market, it is also making the placement of new hedges difficult, and placing additional pressure in feeder cattle and calf prices.
- As of this writing, the choice/select spread is trading between USD 24 and USD 25. The five-year norm for the spread at the spring peak should be about USD 10 and narrow to something under USD 5 by mid- to late summer. The percentage of carcasses grading choice & prime is currently 75%, off 4% from the spring high. With the majority of carcasses grading choice & better, it could be that demand for choice beef is good, but the number of outlets to sell select beef is declining.
- Feeder cattle prices were under pressure during the spring, with cattle feeders forced to buy replacement cattle with a hedgeable break-even. Compounding the problem was a large number of wheat cattle coming to market. Since posting a low at USD/CWT 143.50 in early May, the CME Feeder Index price has slowly recovered. Seasonally, prices are expected to show most improvement through the summer. A summer rally in feeder values is expected, but less than a normal summer advance.

Mexico

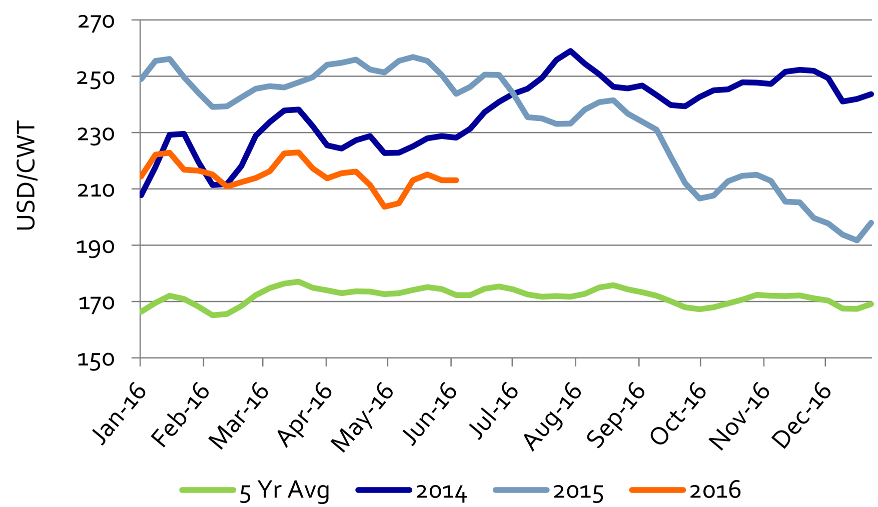
- Cattle availability continues to gradually improve, but feeder prices remain high as competition by either feedlots or exporters remains high. Beef consumption remains a challenge, but pork prices will give some support.

Fed Steer Prices (Five-Market Average)



Source: USDA, Rabobank 2016

Comprehensive Cutout



Source: CME, Rabobank 2016

Corn: The Case for Downside Price Risk

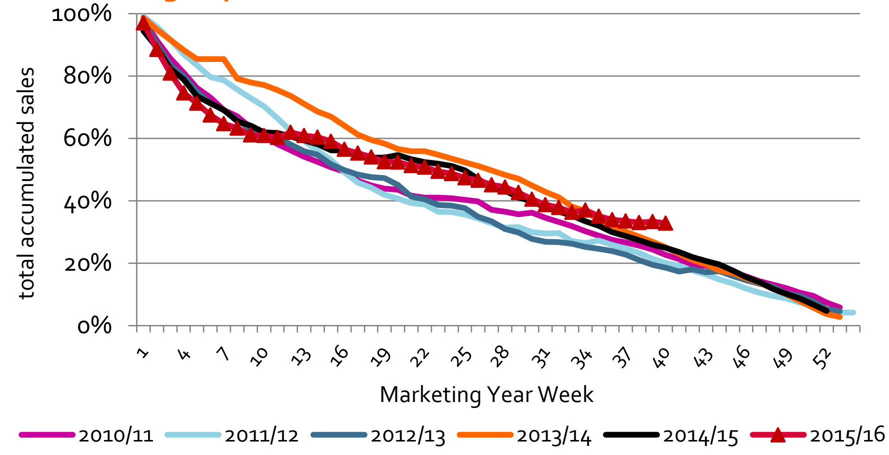
U.S.

- A combination of the soybean price rally, reduced carry-over stock from 2015, and mid-year weather has driven the corn price above USD 4/bu. However, it is too early in the production process to project that current price levels are sustainable. The key unknown, yield, will not begin to become clear until the first USDA surveys are reported at the beginning of August. The critical value of planted acres will be known in the June 30 acreage report. Until more is known, the current corn price should be viewed as speculative, with a USc 40/bu or more risk premium.
- 2015 exports have continued to grow over the past month, to keep pace with the 1.83bn bushel projection set by the USDA in the June WASDE report. While the pace is clearly in favor of these higher export levels, a stronger-than-normal 32% of accumulated sales are outstanding (not yet shipped). Historically, by mid-June, the outstanding portion of sales is 22% or lower. While it is likely the booked grain will be shipped, cancelations are a risk, as more solid production numbers are known.
- Soil moisture is reported to be reasonable across most of the corn belt. This supports the 75% good to excellent crop conditions estimate, compared to 68% for the five-year average. Recent dryness and projection of a La Niña weather pattern have created some uneasiness. However, there is still a long way to go before a yield-damaging drought can be comfortably called.
- The basis across the U.S. is becoming more negative for old crop and either holding steady to more negative for new crop bids. Across much of the Midwest, new crop basis is showing little interest in hurrying the sales of the 2016/17 crop. Cash bids are running from negative USc 30/bu to negative USc 40/bu in Iowa and Minnesota to negative USc 60/bu in Minnesota. The signal is that there is no current concern over securing sufficient corn stock, from either the old or new crops.
- Despite the current rally, the weight of evidence favors more downside risk than upside. The key period for setting a price pattern is the end of June and the first half of July. If conditions remain good for crop production over the next two weeks, the first part of July will be key in determining how low prices can fall.

Mexico

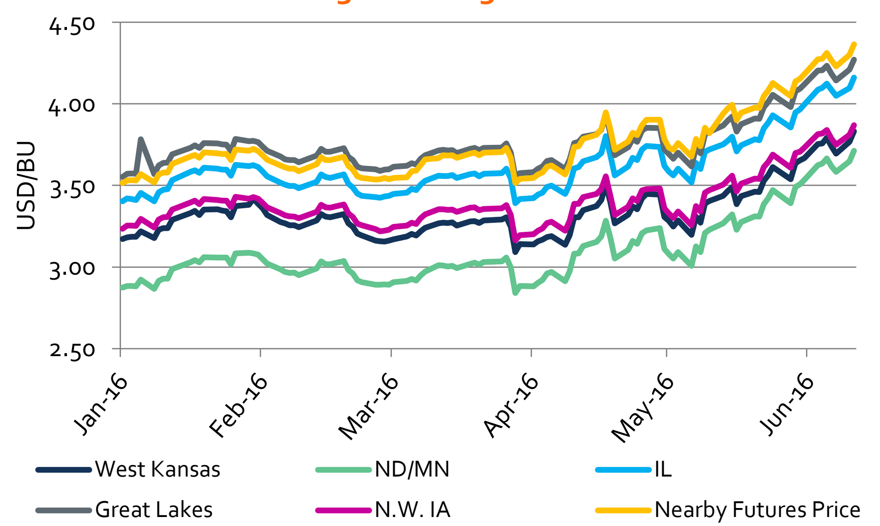
- Despite Mexico´s ample corn production in the latest two cycles, Mexican corn prices remain on the upside, as a result of the appreciation of the U.S. dollar and the rally of U.S. corn prices. White and yellow corn prices have increased 30% and 25%, respectively, over a year ago.

Outstanding Exports above Normal Levels



Source: USDA, Rabobank 2016

Local Cash Basis Growing More Negative

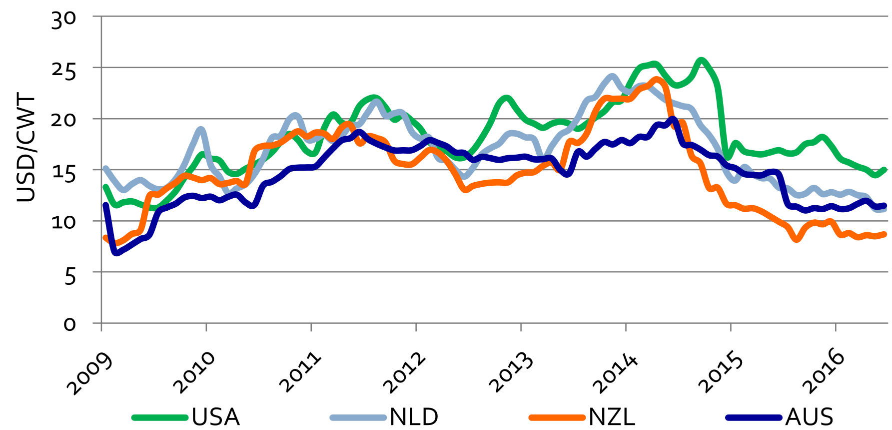


Source: DTN, Rabobank 2016

Dairy: U.S. Prices on the Rise

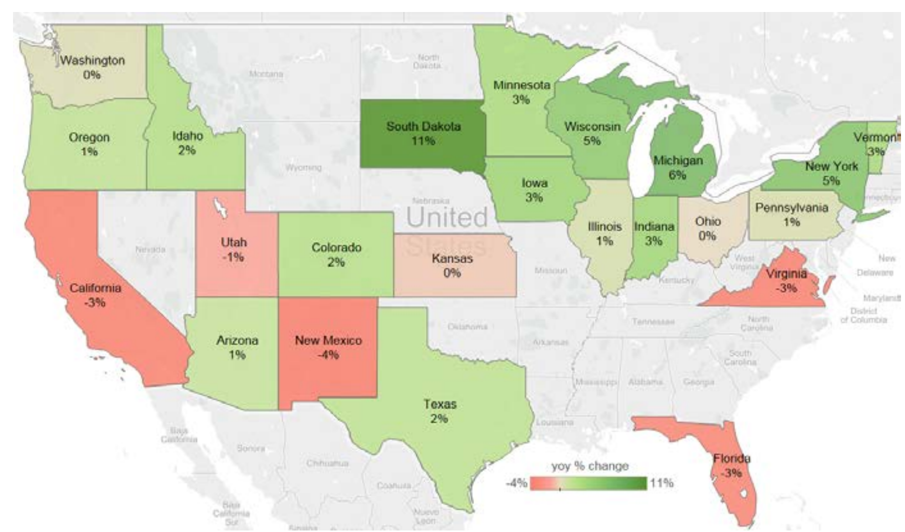
- Despite the substantial inventories for cheese and butter the U.S. is currently facing, prices for both commodities have moved higher in recent weeks: June prices for class iii were up 9%, with class iv up 4%.
- The drivers for this upward pressure in prices have been the result of both domestic and international supply-and-demand dynamics. The domestic pressure has come from exceptional demand growth for both cheese and butter. Commercial disappearance for cheese is on track to be up 6% for the first half of the year, while butter is on track to be up around 7%. With consumer demand continuing to track at these levels, buyers of commodity cheese and butter are aggressively procuring supply in order to avoid running short for end-of-year peak demand.
- The international market has increased risk of short-term supply shortages, as the European Commission is mulling over an extension of intervention ceilings. If approved and filled, total EU interventions would wipe around 6bn lb of milk (3m MT) from today's market.
- Meanwhile, lower supply growth is further fueling fears of potential supply shortfalls. Continued lower milk prices throughout the world have driven five of the world's seven key export markets to contract supply through the first half of the year. U.S. supply has remained up around 1% for the first half of the year, with the Midwest remaining a powerhouse of growth: Wisconsin +5%, Michigan +6% for April. A warm spring and a marginally profitable income over feed cost for much of the country have allowed producers to continue to grow volumes. EU supply, which was up 5.4% in Q1, has slowed to 2% in April and will likely slow further, as lower milk prices take their toll on farmer finances and new phosphate regulations mean increased culling in the Netherlands.
- As milk production continues to slow and the EU chooses to store excess milk (in the form of powders) instead of selling it, the market will remain tighter than most buyers had expected. As a result, the second half of 2016 will see prices for dairy commodities continue to slowly work their way to modestly higher levels. However, there is a ceiling in place as to how far prices will go. Eventually, inventories will have to be consumed, displacing future volumes of milk.

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



Source: Fonterra, RFC, Dairy Australia, Rabobank 2016

U.S. Production Volume Growth by State



Source: USDA, Rabobank 2016

Feed: Ample Substitutes

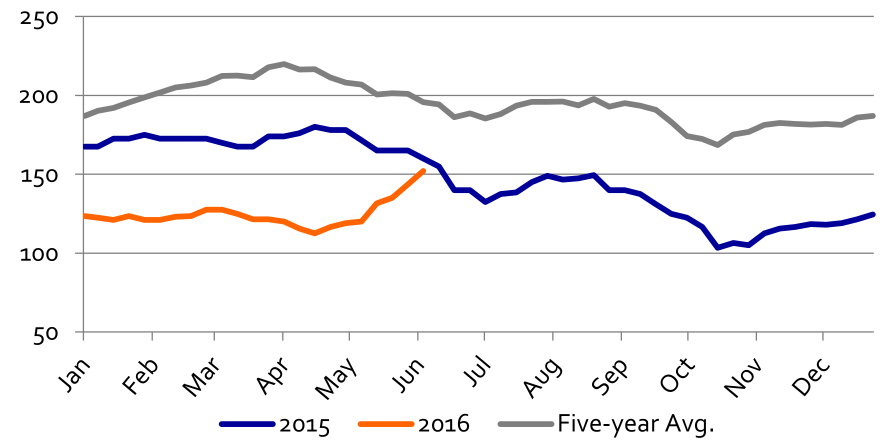
DDGs

- DDG prices increased steadily in May, as a result of increased demand for near-term deliveries to Asian markets. Chinese demand is partly behind this, but overall buyer interest has also increased. South Korea, Taiwan, and Vietnam all saw large jumps. In addition, the strong upward pressure on soybean meal prices does not look like it will abate soon.
- According to the latest data, DDG production was 1.7m tons in April, a 2% increase with respect to the previous year. This increase is offset by a decline in the production of DDG without solubles and non-modified wet DDG. U.S. ethanol production and stocks continue to decline.

Hay

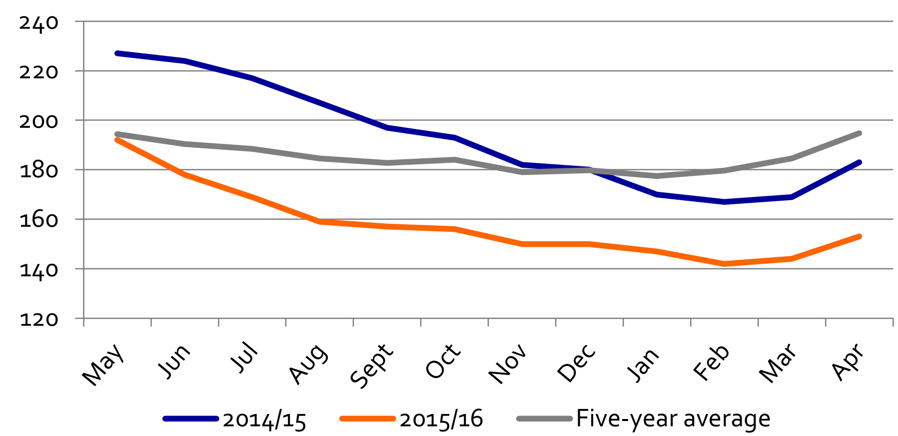
- Hay producers continue to observe the less-than-favorable outcomes of declining consumption from dairies and feedlots. Continued low consumption has forced some producers to exit the hay market entirely, planting alternative crops.
- In April 2016, the average price of U.S. alfalfa was USD 153/ton, a 16% decrease with respect to the previous year, although it's a slight improvement over March numbers. Comparative to the rest of the U.S., the western states have seen the greatest decline in prices. Year-to-date, California's average hay price has been USD 164/ton, down 32% from its peak in 2014. Oklahoma alfalfa has averaged USD 146/ton through 2016, a 22% YTD decline. Texas dairies' and feedlots' low consumption continues to apply downward pressure on the market, as they are only buying hay as needed. The year-to-date average price for Texas alfalfa is USD 201/ton, declining from USD 231/ton last year.
- Hay producers will continue to feel the pressure of lower prices, until lower-quality stocks are worked through and milk prices start to recover.

Iowa DDG Price (USD/ton)*



Source: USDA-AMS, LMIC 2016
* *Note:* 10% moisture, 28% to 30% protein

Alfalfa Hay Price (USD/ton)

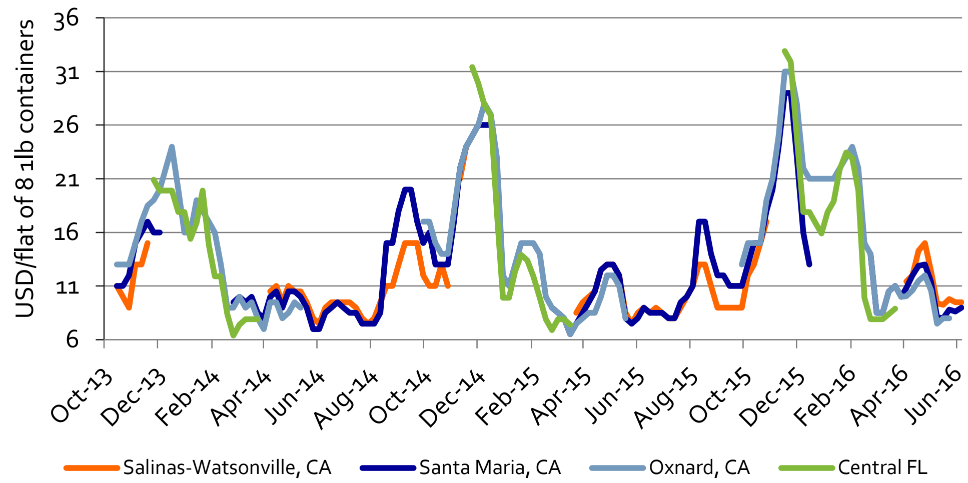


Source: USDA-AMS, LMIC 2016

Fruits: We'll Take the Rain, But…

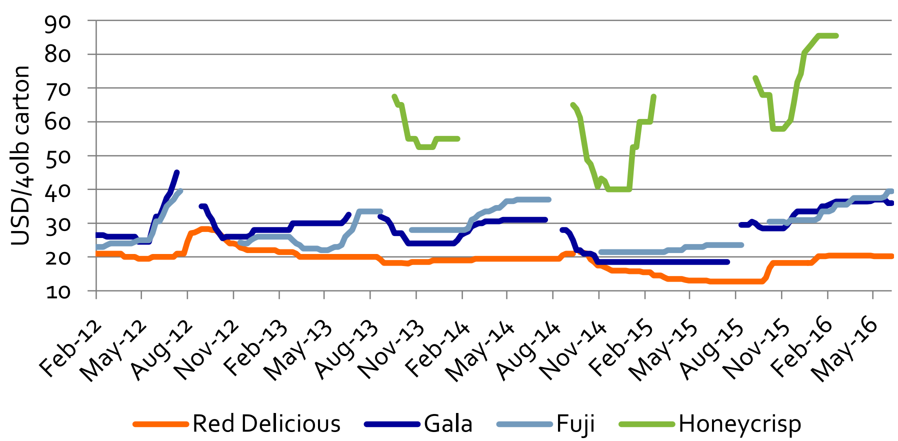
- Strawberry prices since April have averaged very close to those of the same period last year. Year-to-date, U.S. shipments were down 13% YOY as of June 6. Production has been slower to ramp up in California, due to weather, and acreage is down. But if weather cooperates moving forward, final volumes out of California should be close to those seen last year.
- The 2015/16 California navel crop will likely end up being at least 10% larger than last season, and on 2,000 fewer bearing acres. The fruit set was better, and the crop has picked heavy this spring, as winter rains increased sizing. Large fruit has been in ample supply, and small fruit availability has been tight. Since the end of April, the price for 40s has increased by 8%, while the price for 138s has gone up by 39% as of June 9.
- Apple prices should continue their strength, as supplies get more limited into the end of the marketing year. This month, the Mexican government removed the provisional tariffs on U.S. apples.
- Cherries are now shipping out of the Pacific Northwest, after the California crop missed estimates by 42%, due to splitting caused by excessive, late rains.

Strawberry Shipping Point Prices: Primary U.S. Districts



Source: USDA/AMS, Rabobank 2016

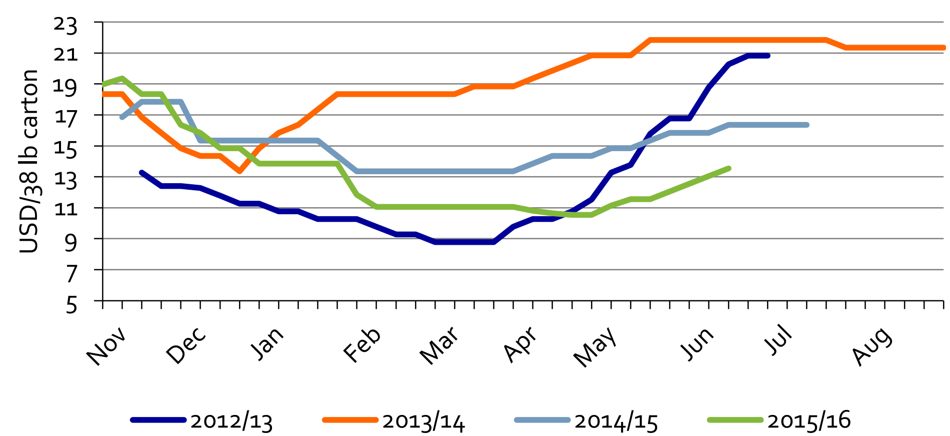
Washington Apple Shipping Point Prices: 88s/WA Extra Fancy*



Source: USDA/AMS, Rabobank 2016

* Note: Composite of Fine Appear. & Standard Appear. Prices

Navel Orange Shipping Point Prices: 88s/Shippers 1st Grade



Source: USDA/AMS, Rabobank 2016

Pork: Supply Stabilizing after Near-Record Increase in 2015

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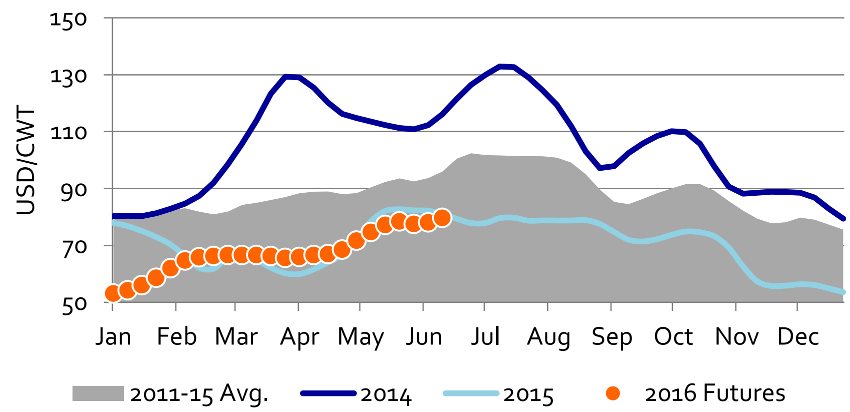
U.S.

- After a sluggish start to U.S. hog prices, tight supplies and optimism of increased imports have helped to lift prices throughout the year and brought producer margins into quite favorable margins. Hog producer margins were barely positive in the first quarter of this year, but have turned positive since, to a Q2 average of USD 25/head. We expect 2016 producer margins to average around USD 15/head in 2016, which is quite favorable and a very similar margin to 2015.
- A major surprise in U.S. grain markets has been the spike in feed costs, especially soymeal prices, since the end of the first quarter. Since March 30, corn prices are up over 10%, and meal prices are up over 50%, which has resulted in a 25% increase in the feed cost for U.S. hog producers, putting a slight damper on the excitement of strong hog prices and the possibility of very high margins this summer.
- Through the first third of the year, U.S. pork exports are largely flat with prior-year levels, which significantly understates the shifts in trade volume we've seen so far this year. On the positive side, exports to China are up 180% and up 60% to Hong Kong, as the rationalization of the hog herd there has driven hog prices to all-time highs, along with a rapid spike in imports from the U.S., Europe, and Canada. We expect this rate of trade flow to continue, if not accelerate, as hog prices in Europe climb later this year, reflecting lower domestic production. On the negative side, trade is down in Mexico and South Korea, by 8% and 34%, respectively. Volume to Mexico should improve this summer, as the peso has strengthened again. South Korea, meanwhile, could very well remain under pressure, as domestic production there is rebounding in 2016, and overall imports are down.
- Not only have hog production margins been favorable in recent months, but pork packing margins have continued the run of strong margins we saw last fall and winter. With very tight available packing capacity and robust demand, both domestically and abroad, U.S. pork processors are enjoying high capacity utilization. Two relatively small pork plants are scheduled to come online in Q4, which will offer much-needed capacity, as utilization looks to be tight again this year (as it was in 2015).

Mexico

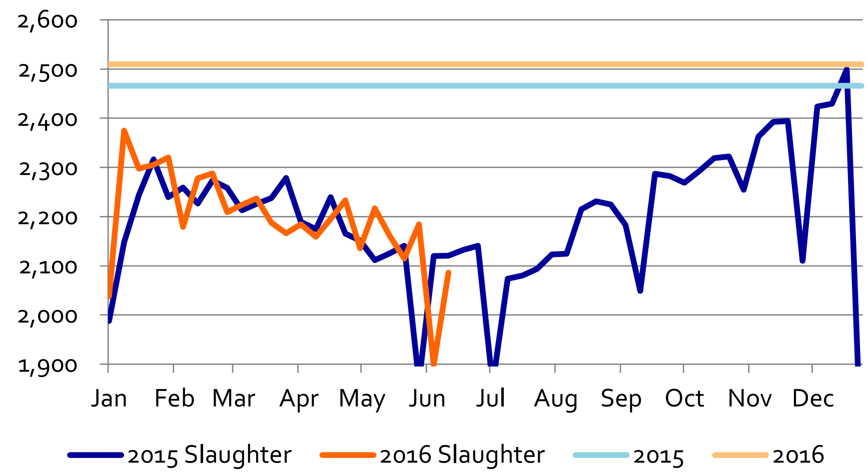
- The effects of PEDv started to be reflected on hog prices. In June, live hog prices increased over 20%, compared to a month ago, and we anticipate them to remain well-supported through the summer. Pork meat prices have increased around 14%, but we anticipate a further rise, as hog supplies shrink along with the rise in U.S. prices and the appreciation of the U.S. dollar.

U.S. Hog Futures



Source: Bloomberg 2016

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



Source: LMIC 2015

Poultry: Producers Keeping Supply in Check

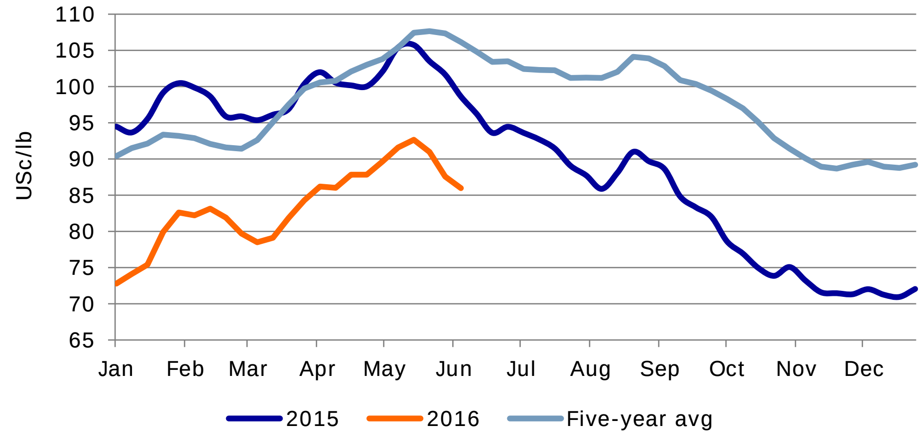
U.S.

- What a difference a year makes. That's the feeling we've had about the change in U.S. poultry prices recently. Producer profitability is still quite good, but the drivers of those favorable margins have reversed. Leg quarter prices are up by 50%, as the U.S. was able to limit the impact of HPAI to just a single case this year (vs. the six-month-long outbreak of 2014/15). This has led to the reopening of a number of export markets. Conversely, breast meat values are down 20% to 25%, which we read as indicative of increased competition in the meat case. On an overall basis, poultry prices are just 10% below last year, aided by lower feed costs.
- Based on the results of the three U.S. chicken companies for the March quarter, EBIT margins averaged 11%, which is down from 14% in the same period last year, but still one of the highest levels of profitability in many years. With chicken prices having continued to climb during this spring and into the summer, we expect the U.S. to remain profitable for 2016.
- We continue to expect chicken production to be up 2% in 2016, which will partly be driven by the introduction of two new poultry plants this year, as well as increased bird weights. We hear of two or three other plants that are in the pipeline and will keep supply climbing at a 2% clip for the next couple of years.
- The major question facing U.S. poultry is as to how the coming additional pork and beef production will impact prices. Beef remains quite the premium product relative to poultry, but that premium will begin to erode in the back half of 2016 and into 2017. We expect U.S. beef production to increase by 4% in 2016, which will be the largest increase in beef supply in many years. Given the price competition between ground beef and chicken at retail, we also expect this incremental supply of beef and resulting lower prices to put pressure on chicken breast prices.

Mexico

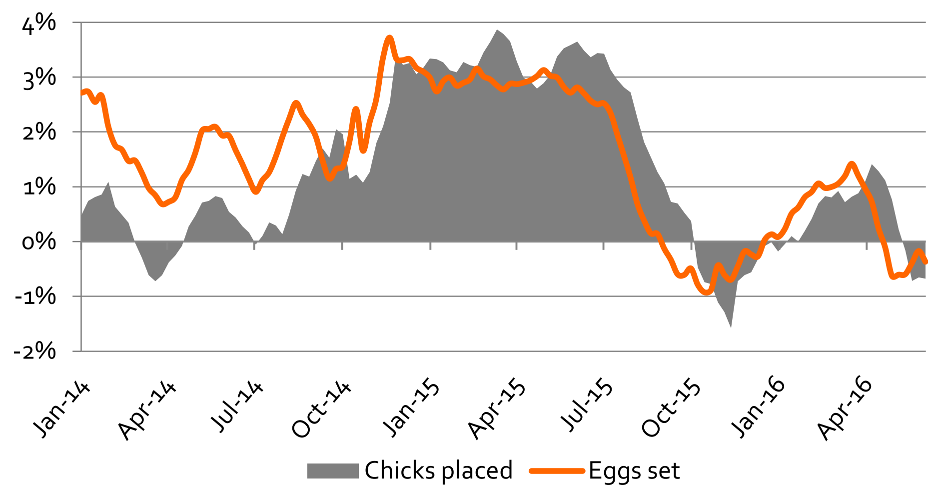
- In Mexico, chicken continues to be the cheapest alternative protein, as pork production struggles due to the PEDv effect, with beef production remaining constrained. Broiler and chicken meat production is anticipated to get a boost, as soon as avian influenza and the Newcastle virus are mitigated.

Chicken Prices, Composite Basis Based on Part Values



Source: USDA, Rabobank 2016

Chick Placed and Eggs Set, YOY Change

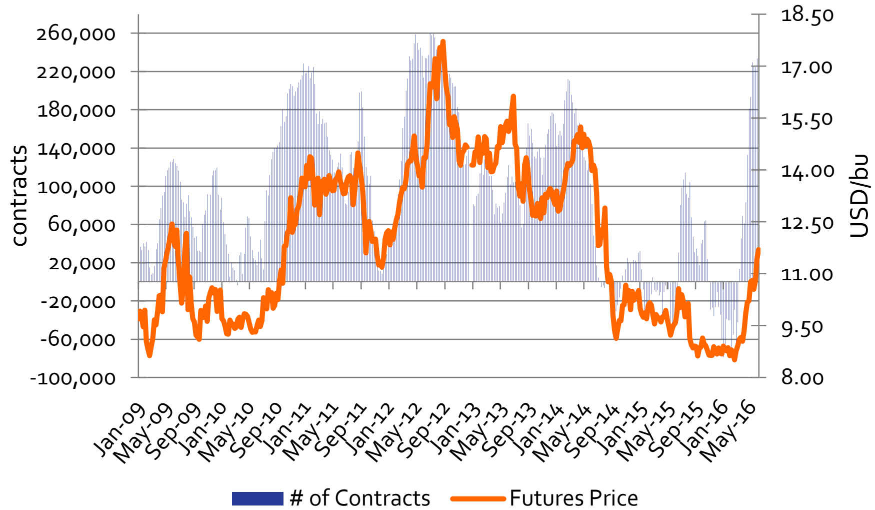


Source: USDA 2016

Soy Complex: Money Flow Is Driving Futures Higher

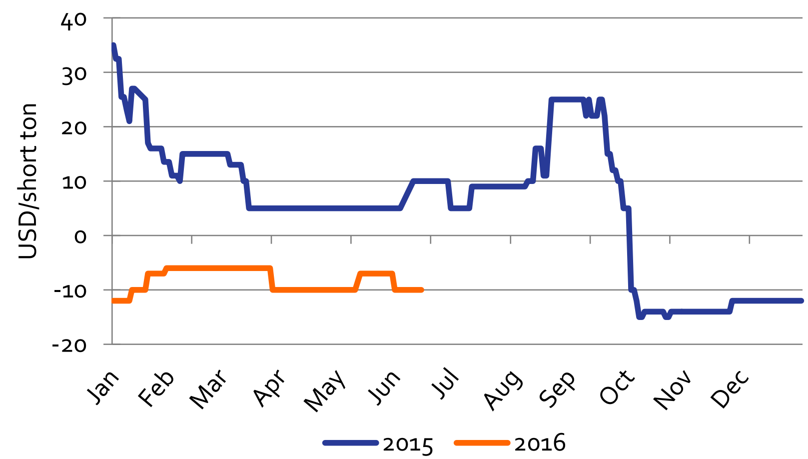
- Since April 1, November soybean futures have appreciated over USD 2.50/bu and soymeal over USD 150/short ton. During the same timeframe, soy oil futures have traded as much as 400 points lower. And during this rally, concerns began to be voiced about soybean stocks being tighter than expected and shortages of soymeal occurring.
- This rally was not the result of a shortage of soybeans or soymeal, but a number of factors coming together to push this market higher. It started with lower-than-expected soybean acres, heavy rainfall in Argentina (reducing the expected soybean crop), and lower-than-expected (below projected 2015/16 numbers) 2016/17 soybean ending stocks. Add to that a waning El Niño and the prospects of a La Niña, and talk of a North American drought surfaced.
- With that background, the fund money flowed money back into commodity markets and, in particular, the soybean market, as prices had been trading at a low level in tight range for nearly eight months. The non-commercial net position of net long has nearly reached the level seen during the 2012 drought.
- Money flow has been the primary driver of the 2016 spring rally. While the market's expectations and reality have differed, the underlying fundamentals of the market remain bearish. While it is true that projected 2016/17 stocks of soybean are currently less than 2015/16, the U.S. and the world are not running out of soybeans or soybean products.
- While soymeal futures have rallied significantly, there is no concern about soymeal supplies. U.S. stocks of soymeal have actually been increasing. According to the most recent USDA figures, soymeal stocks at the end of the April were 365,653 short tons, while soymeal production remains high. In addition, soy oil stocks are over 2bn lb. For perspective, both meal and oil stocks are running near the upper end of their historic ranges.
- Soybean products' basis values have stayed weak. Soymeal basis values across the U.S. Corn Belt are all running well below year-ago levels. Likewise, both soybean and soy oil basis levels are weak—a clear indication that supplies are adequate and that supply is able to fulfil demand.

Non-Commercial Net Position in Soybeans: Reaching 2012 Drought Levels



Source: CFTC, Rabobank 2016

Minnesota Soybean Meal Basis Values Well below Last Year

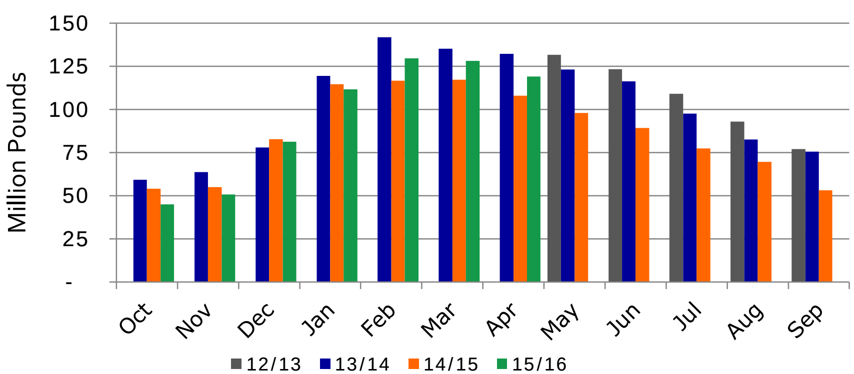


Source: DTN, Rabobank 2016

Tree Nuts: Supplies Are Driving Nut Prices

- The USDA projects the almond harvest to be 2bn lb, and many think it may be slightly larger. Exports have increased slightly, and, in recent weeks, market prices have strengthened a bit, giving growers hope for better-than-expected prices.
- The pistachio harvest will be a record-breaker, given projections range from 650bn to 850bn lb. The smaller crop expected in Iran this year and our larger harvest promise to increase shipments next year. Marketers have also reduced wholesale prices by over 25%, in the hope of increasing sales.
- Given increasing walnut acreage, the harvest this year will probably be another record-breaker. The lower prices have encouraged both export and domestic shipments. Prices for lighter walnut meats have improved in recent weeks, probably boosted by short supplies of high-quality U.S. walnuts and the rain-damaged harvest in Chile.
- Most shipments for hazelnuts are up slightly, other than kernels to Canada. Ferrero is making Nutella from Turkish kernels again, now that the crop there has recovered. Growers are apprehensive about blight damage in Oregon this year, as it could reduce yields, as it did last year.
- Pecan wholesale prices are still high, given the short crop in the U.S. and Mexico last year. Exports are down sharply, and there is concern about domestic retail sales slowing. Weather has been good for pecans in both Mexico and the U.S. so far this year. The big news for pecans is their newly-approved Federal Marketing Order.

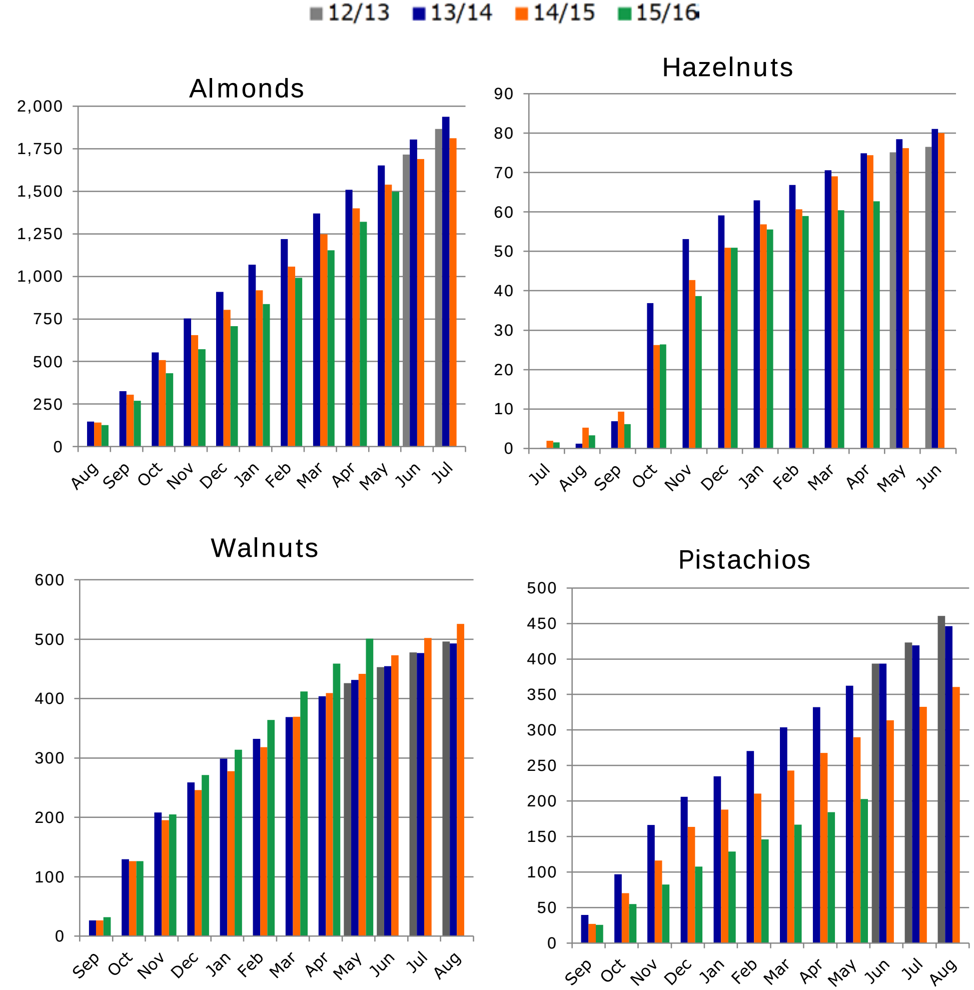
Pecans in Cold Storage



Source: USDA/AMS 2016

U.S. Tree Nut Shipments

(million lb)



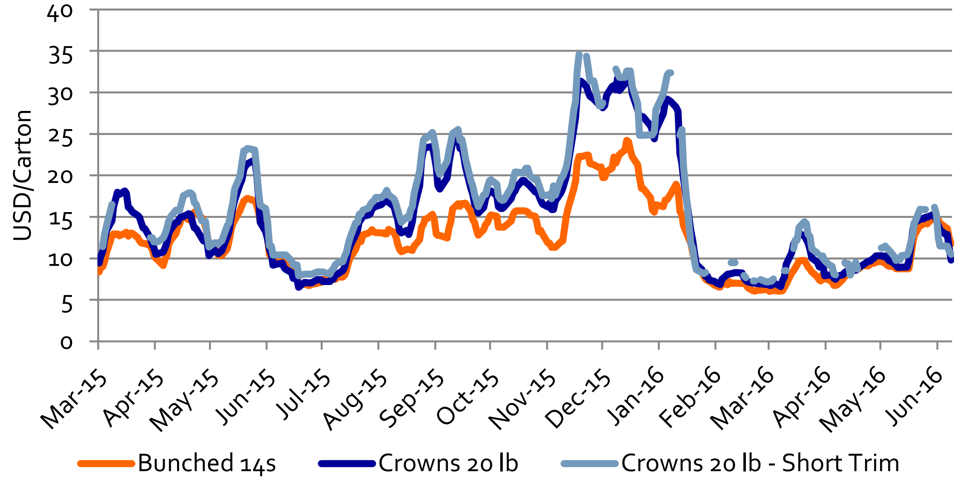
Source: Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, USDA Census Bureau 2016

Vegetables: Volatile Weather = Volatile Prices

Rabobank

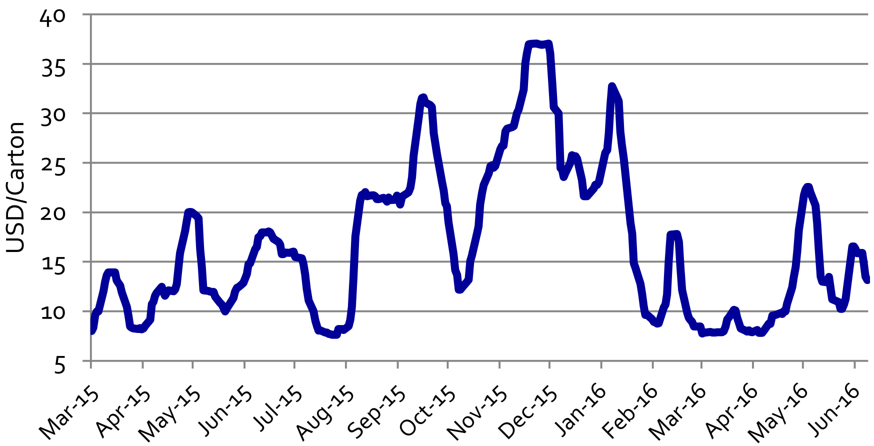
- Broccoli prices have come down in June, as supplies are picking up due to warmer weather, but price has been in a gradual upward trend since April. Supplies from Mexico have been steady, but quality issues have been reported. Quality on Central Coast broccoli has been excellent. Crowns have been especially plentiful, which has eroded the premium over bunched.
- The Huron lettuce deal ended in late April, as weather-related quality issues impacted supply from the Coast. Earlier planting delays also contributed to the supply gap, which caused the price spike in late April/early May. By late May, overall good weather prevailed, and supplies were steadier. Relatively extreme daily/weekly temperature/weather fluctuations returned in June. They are challenging quality/yields and increasing price volatility.
- Weather continues to negatively impact leaf/romaine lettuce yields, contributing to lighter supplies since May. Heart supplies have been especially light in recent weeks. Missed plantings, due to earlier rain events, should continue to help support prices as we move through the summer.

Broccoli: U.S. Daily Shipping Point Price



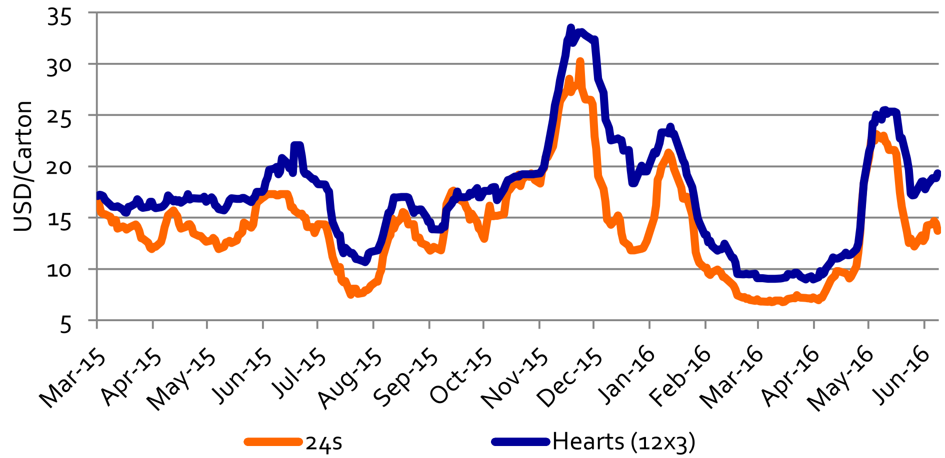
Source: USDA/AMS, Rabobank 2016

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



Source: USDA/AMS, Rabobank 2016

Romaine Lettuce: U.S. Daily Shipping Point Price

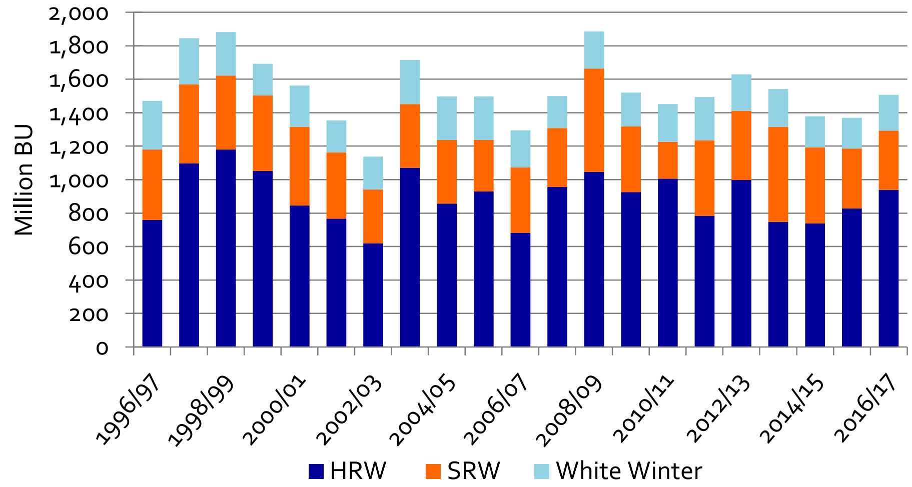


Source: USDA/AMS, Rabobank 2016

Wheat: Big Crop Coming

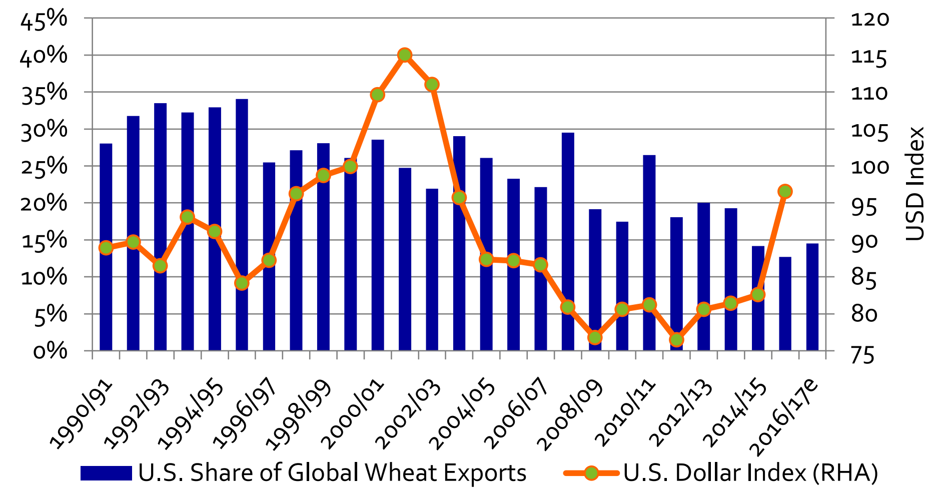
- All signs are pointing to a large winter wheat crop. As of June 12, winter wheat conditions showed 61% of the crop rated good or excellent, which compares to 43% last year. The winter wheat crop is poised to be the largest crop since the 2012/13 crop year, at 1.51bn bu.
- By class, hard red winter wheat crop is forecast at 938m bu, up 9% from the May forecast and up 13% from last year. Soft red winter wheat production is up 1% from last month's forecast and last year's production. White winter is estimated at 214m bu, up 3% from the May forecast and up 16% from last year.
- While this year's crop is big, there is concern about the quality of the crop, particularly in the southern plains. The heavy rains have helped push yields higher, but that is generally inversely related to protein levels. We won't know for sure until the crop is harvested, but we will be watching proteins premiums in the new crop year.
- Exports of U.S. wheat continue to be a disappointment. The USDA is forecasting a slight increase in exports for the 2016/17 crop year. However, with the U.S. dollar remaining strong, it may be difficult to reach the USDA's export projection of 900m bu this crop year.
- One of the hottest topics in the wheat sector today is organic wheat. Producers are seeing large premiums for organic wheat. And millers and bakers are seeing increased demand for organic products. While organic certification takes three years to achieve, along with careful production management, organic wheat production is slowly growing and providing producers with new revenue source.
- With harvest just beginning in the southern plains, wheat prices have retreated rapidly from their early June highs. A revisit of the lows around the USD 4.50/bu area in both Chicago and Kansas City wheat is very likely.

Largest Winter Wheat Crop in Four Years, at 1.51bn bu



Source: NASS, Rabobank 2016

U.S. Share of Global Exports Negatively Impacted by Strong USD

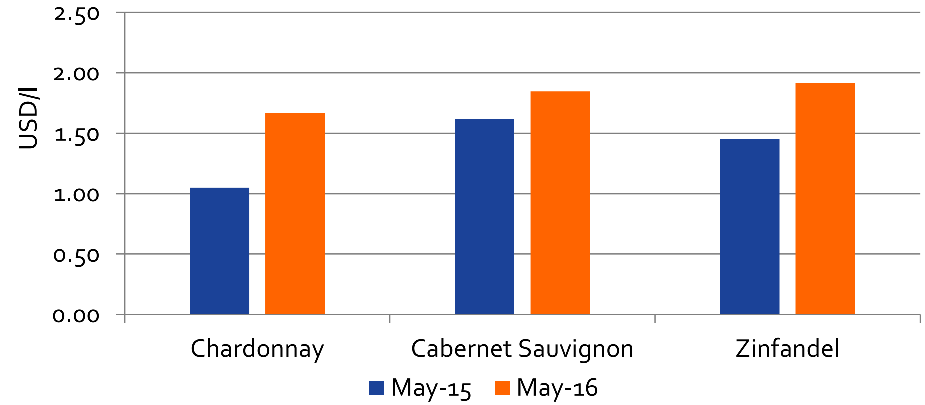


Source: DTN, Rabobank 2016

Wine: Shifting Competitiveness of Imports

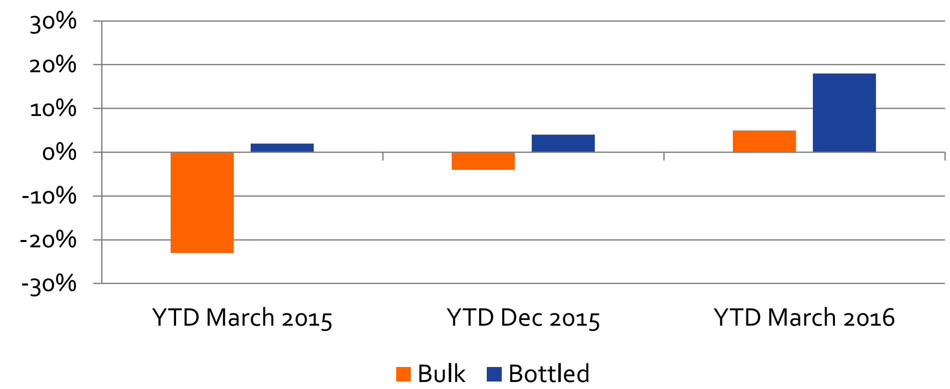
- The impact of the light 2015 harvest continues to be felt throughout the California wine industry, as supply has tightened perceptibly. Bulk wine pricing has seen significant appreciation across most major varietals.
- The tightening supply situation is also having important impacts on bulk wine imports. In the first quarter of last year, broad availability of bulk wine in the San Joaquin Valley, coupled with the heavy inventories that wineries were already carrying, led to significant declines in the demand for imported bulk wine. With the light harvest, the ongoing strength of the U.S. dollar, and attractive pricing from foreign bulk wine suppliers, bulk imports began to return to growth in the latter half of 2015.
- The first quarter of 2016 saw strong growth in bulk wine imports, though this will likely be more difficult to sustain throughout the remainder of the year.
- Argentina, which saw a notable depreciation of the peso to start the year, should have been well-positioned to grow exports to the U.S., but instead has seen a decline due to the exceptionally light 2016 harvest.
- Chile has been, by far, the biggest beneficiary of the rise in U.S. bulk wine imports this year, single-handedly generating nearly all of the growth. Prior to harvest, wineries were already carrying very heavy inventories, and the 2016 crop looked to be coming in quite large. Wineries were beginning to talk about limiting grape purchases, leading to dramatic declines in bulk wine pricing. However, during harvest, unusually heavy rains dramatically reduced the harvest, and this has led to a notable tightening in supply of red varietals, which now appears to be pushing up bulk prices.

Average Bulk Wine Price for California Chardonnay, Cabernet Sauvignon, and Zinfandel, May 2015 vs. May 2016



Source: Ciatti 2016

Change in U.S. Bulk and Bottled Wine Import Volumes (YTD Cumulative Results), Mar 2015 vs. Dec 2015 vs. Mar 2016



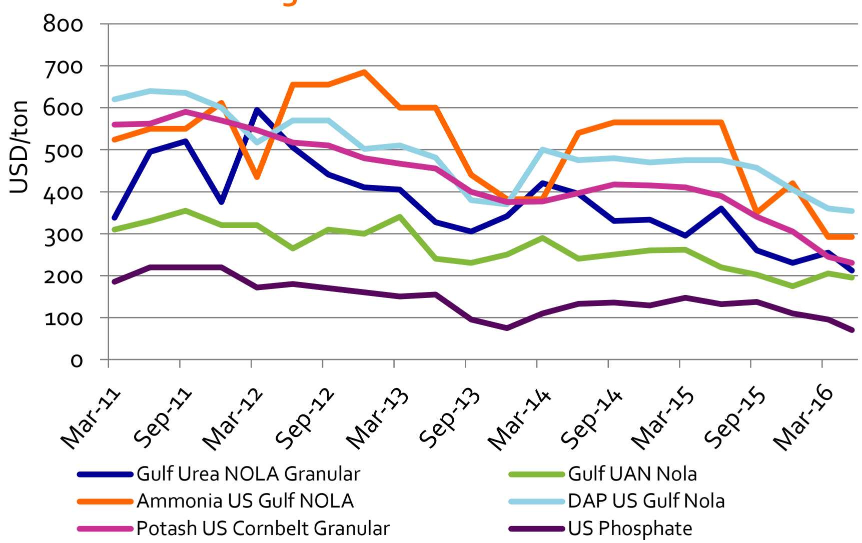
Source: Gomberg-Fredrikson 2016

Rabobank

Fertilizer

- After showing some upward strength ahead of the important spring application season, fertilizer prices have been trending down again. This occurs within the context of an already oversupplied market and incrementally weak demand from row crop farmers, many of which have been operating at a loss for three consecutive years.
- The time series analysis below provides a visual picture of price trends for key nutrient categories over the past five-and-a-half years. The magnitude of the price pressure has been quite large over time, ranging from -37% to -63% on a cumulative basis during the reference period.
- Following are the cumulative changes by specific nutrient: Urea: -37.3%, UAN -37.1%, Ammonia -44.3%, DAP -42.9%, Potash -58.9%, and Phosphate -62.2%.

Nutrient Price Changes



Source: Bloomberg, Green Markets, Rabobank 2016

- The summer pick-up for the housing and lumber markets is underway. Weather has been favorable, as builders are keeping pace with growing demand. Current global economic conditions are helping keep input costs at a moderate level.
- Most of the growth in the housing market during Q1 2016 was due to increases in single-family units, rather than multi-unit dwellings. The summer climb has begun in most regions, and will likely continue through Q2 and into Q3. The housing market is being supported by a buoyant labor market, which is increasing employment opportunities for millennials and, in turn, bolstering household formations.
- Increasing consumption is driving higher prices for lumber. SYP recently peaked at over USD 420/mbf. Canadian mills have been exporting more to the U.S., as the exchange rate is favorable. Exports from Canada into the U.S. were up 29% over last year's level.
- The U.S. pulp, paper, and forest products industry has shown greater resilience when confronted by market challenges. This was on display in Q1 2016, when offshore markets were more competitive because of the strong U.S. dollar.

Industry Highlights

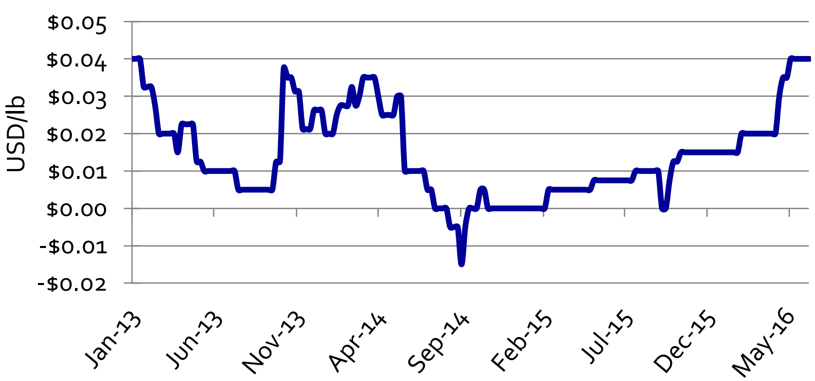
	May/ Most Recent	Last Month	Last Year
Southern Yellow Pine Stud lumber, USD/mbf	418	400	375
Oriented Strand Board 15/32" Shipped to Los Angeles, USD/mbf	333	305	230
Douglas Fir #2 Saw Log NW Oregon, USD/mbf	582	581	648
NBSK from North America to China, USD/ton	718	714	800
U.S. Housing Starts (thousand units)	1,172	1,099	1,194

Source: Random Lengths, Forest2Market, RISI 2016

Sweeteners

- The USDA has begun the balancing act of managing the U.S. sugar supply and demand. In May, the USDA raised FY 2016 TRQ for speciality sugars and set the minimum TRQ for FY 2017. In addition, they increased the Overall Allotment Quantity (OAQ), reassigning surplus sugar marketing allotments to raw cane sugar. No one was happy with the USDA actions, particularly cane refineries, who have been talking about short raw cane sugar supplies for quite sometime.
- U.S. cane refiners are claiming that the current U.S.-Mexico trade agreement is limiting their procurement. While Mexican sugar is entering the U.S. in compliance with the agreement, some claim that more of that sugar is going straight to end users in the form of refined sugar. Cane refiners are having to procure raw sugar from sources other than Mexico.
- Cane sugar continues to hold a premium to beet sugar of 400 points. Cane deliveries continue to outpace beet. Through April, cane deliveries are up 4.8%, vs. beet down 6.8%. This premium is expected to hold, if not widen, due to demand for non-GMO cane sugar and the lack of Mexican raws.
- The Mexican sugar market is fully balanced, and prices remain well-supported.

Cane's Premium to Beet Has Widened 200 Points Since October



Source: Food Business News, Rabobank 2016

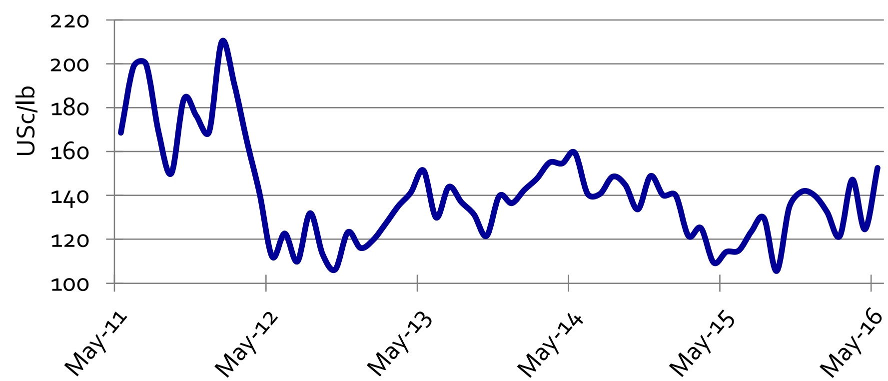
Juice

- **Florida Orange Juice**
  - The USDA has once again raised the Florida orange production forecast, up 7% from last month, to 81.1m boxes. This still represents a contraction of 16% compared to last season and would be the smallest crop since 1964 if the forecast proves accurate.
  - The USDA also projected frozen concentrated orange juice (FCOJ) yield to decline to 1.41gal/42 brix box, reaching the lowest level since 1986.
  - FCOJ futures have gradually been rising over the past few months—with the market trading at USD 1.52/lb by the end of May, given tight supply.

Brazilian Orange Juice

- Fundecitrus has released the lastest orange production forecast, at 246m boxes for the 2016/17 crop. However, analysts expect a more positive output due to favorable weather conditions, larger fruit sizes, and a better yield.
- Pricing is seeing an upward trend due to the tight supply—some processors are now offering USD 1,950/ton 66 brix FCA Europe, an 8% increase from last month.
- Trading did not continue the strong trend seen at the start of the year. Shipments to the U.S. Slipped, while shipments to Europe are up.

FCOJ Futures

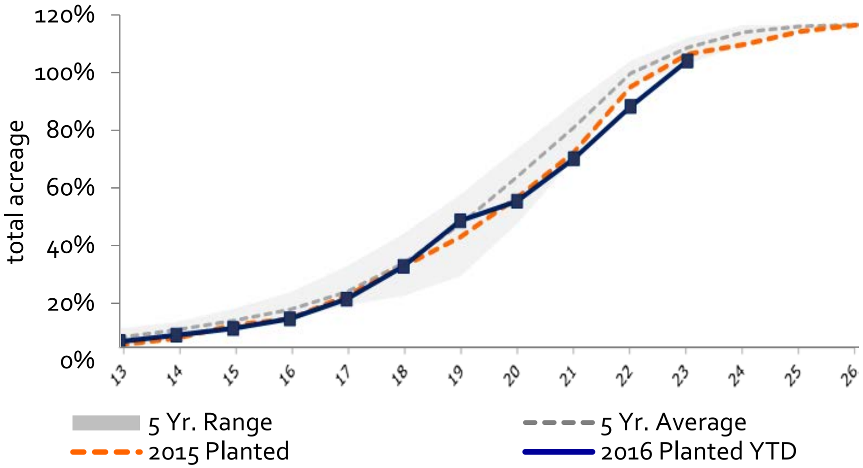


Source: Bloomberg-ICE 2016

Cotton

- Active ICE #2 Cotton futures continue to show strength through Q2 2016, making nine-month highs and sailing through our USc 63/lb forecast. Concerns surround U.S. cotton planting pace in light of weather difficulties, particularly in Texas, which stands at 86% complete vs. the 91% five-year average. These delays, coupled with the passing of insurance dates and excellent soy prices, justify our view that the USDA's 9.56m acre planting estimate is too high. On the other hand, water availability should promote excellent yield potential.
- China's reserve auction continues to face excellent demand, with clearance rates near 99% and over 800,000 tons sold so far. We see this impressive uptake limiting prices in the short term, but, longer-term, this should alleviate the weighty influence of Chinese stocks. In addition, a projected above-normal Indian monsoon could see 2016/17 acreage switch to thirstier crop alternatives, which, according to the Cotton Association of India, may cut acres 7% YOY, to 11m ha. The above factors, coupled with a projected second global deficit in 2016/17, maintain our bullish outlook on the ICE #2 to reach USc 67/bu by the end of 2016.

Planting Progress Slightly behind Usual Pace, 2015 vs. 2016

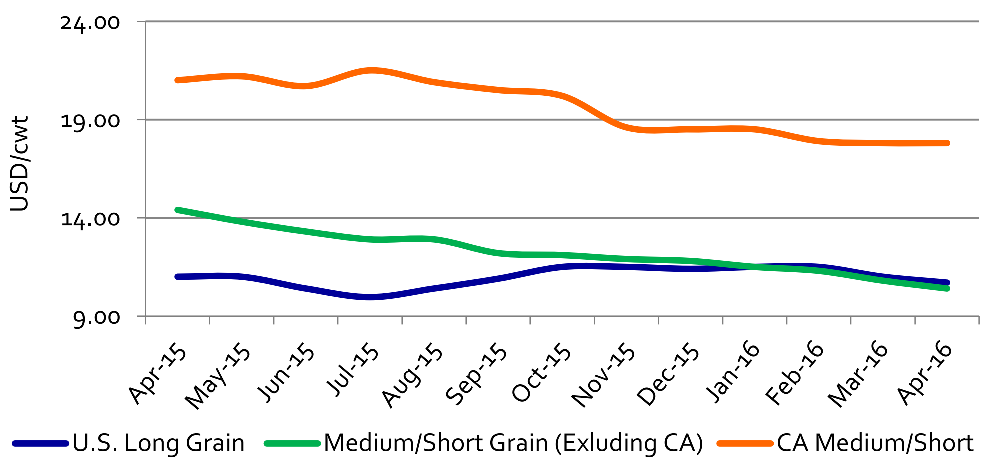


Source: CFTC, Bloomberg, Rabobank 2016

Rice

- U.S. rice prices are lower than they were at this time last year. Year-to-date, the U.S. long-grain price is projected to be at, or below, USD 10.70/cwt. Some Arkansas long-grain producers have been reported to have been offered USD 13/cwt for new crop; however, a sale hasn't been made, as growers are hopeful for a higher price, given short stocks globally and drought in Asia. Jupiter has been selling at a discount of USD 0.30/cwt to USD 0.50/cwt to long-grain. The USDA reports Calrose prices at, or near, USD 17.80/cwt, down USD 3.20/cwt from April 2015.
- U.S. rice acreage is estimated to be over 3m acres, up 17% from 2014/15. Jupiter acreage is estimated to be 191,000 acres, down about 41% from last year. The USDA estimates Calrose acreage at 427,000 acres; however, many believe this is much lower than what the actual acreage will be. Many suggest that the remainder of the 2015/16 Calrose crop in inventory has been committed and is waiting to be shipped to buyers. With supplies very tight, many would expect to see a Calrose price increase, but this has yet to happen.
- Despite enduring less-than-favorable weather conditions, 82% of the 2016/17 crop has been planted, up 5% from one year ago. In Texas and Louisiana, growers have experienced flooding, humidity, and lack of sunshine, which is limiting production. Producers in Arkansas have been experiencing above-average temperatures, which may pose a threat to rice quality. Thus far into the production season, California weather has been conducive to a healthy 2016/17 crop.

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

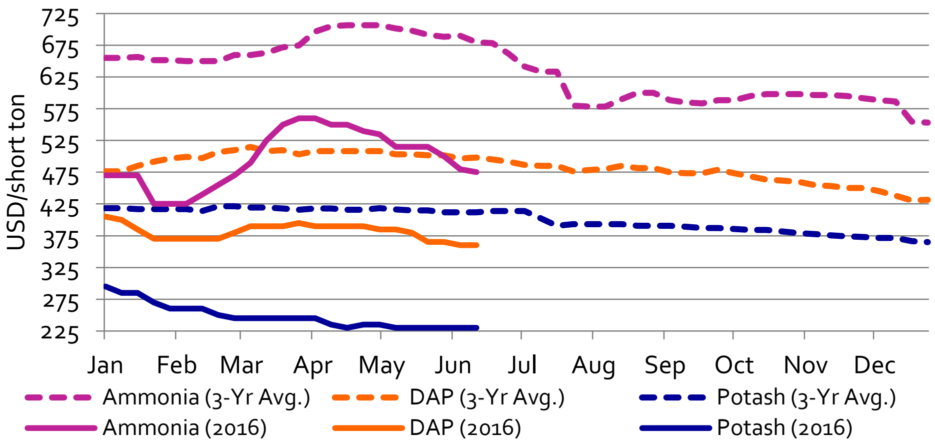


Source: USDA/NASS 2016 * Note: average rough rice basis

Input Costs

As of June 15, 2016

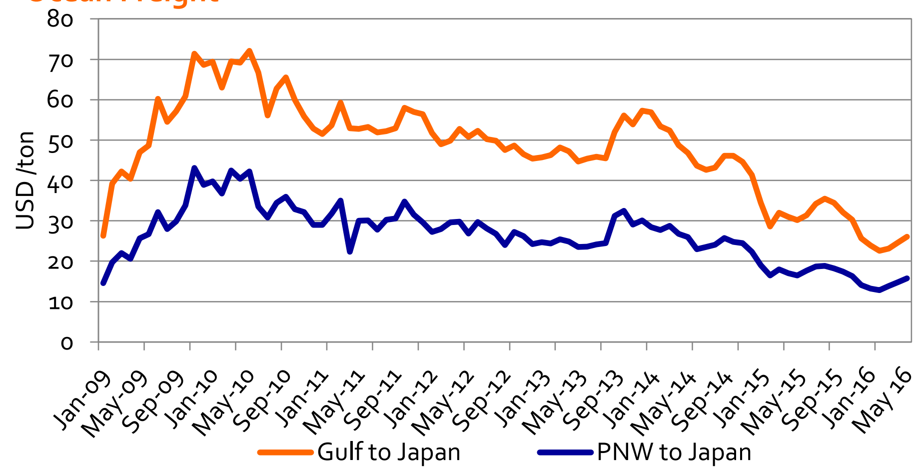
Corn Belt Input Prices*



Source: Bloomberg 2016

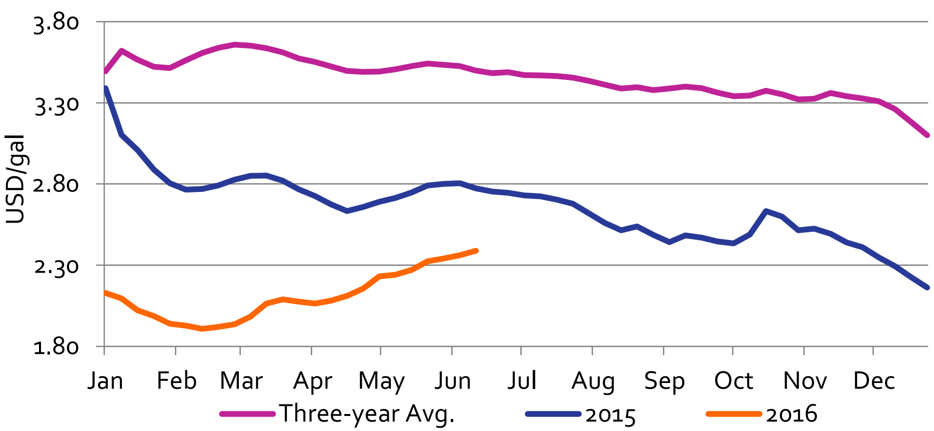
** Note: granular potash*

Ocean Freight



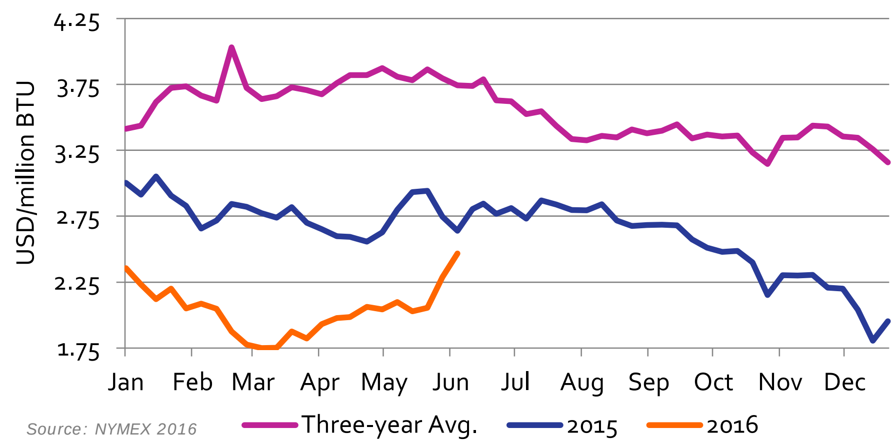
Source: O'Neil Commodity Consulting, AMS-USDA 2016

Diesel — Midwest



Source: EIA 2016

Natural Gas Spot

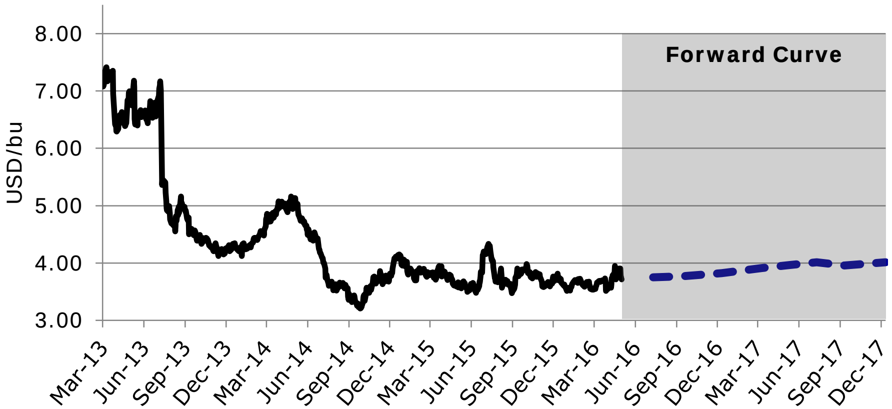


Source: NYMEX 2016

Forward Price Curves

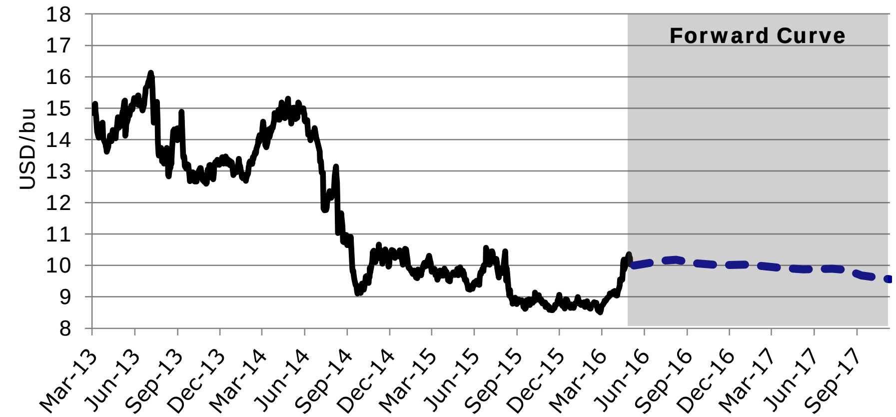
As of June 15, 2016

CBOT – Corn



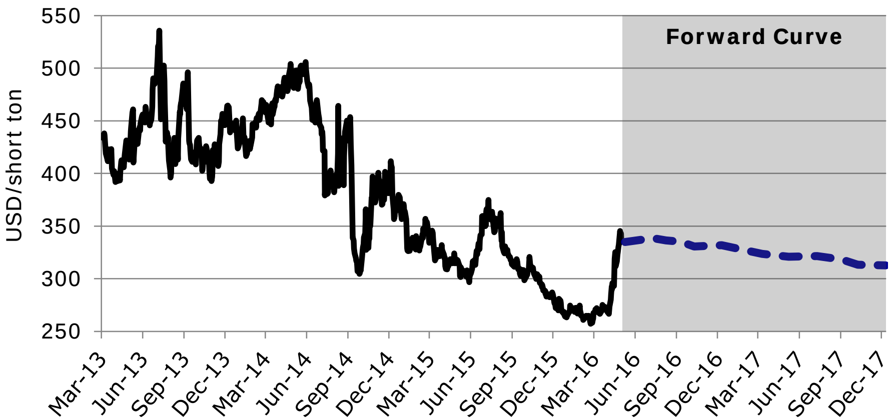
Source: CBOT, Rabobank 2016

CBOT – Soybeans



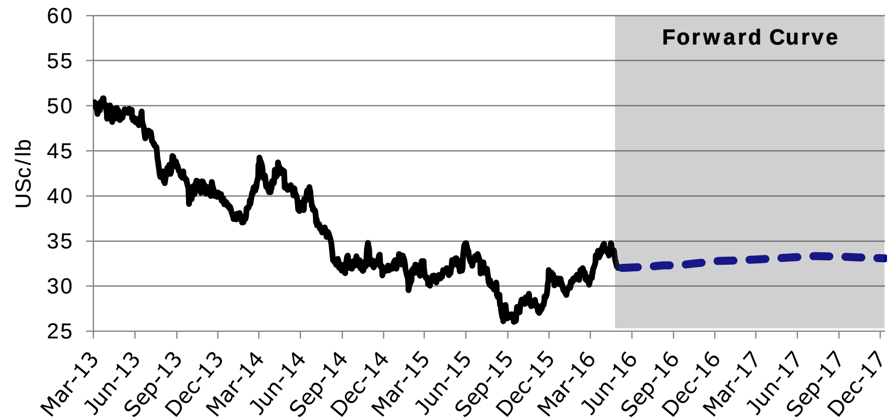
Source: CBOT, Rabobank 2016

CBOT – Soymeal



Source: CBOT, Rabobank 2016

CBOT – Soy Oil

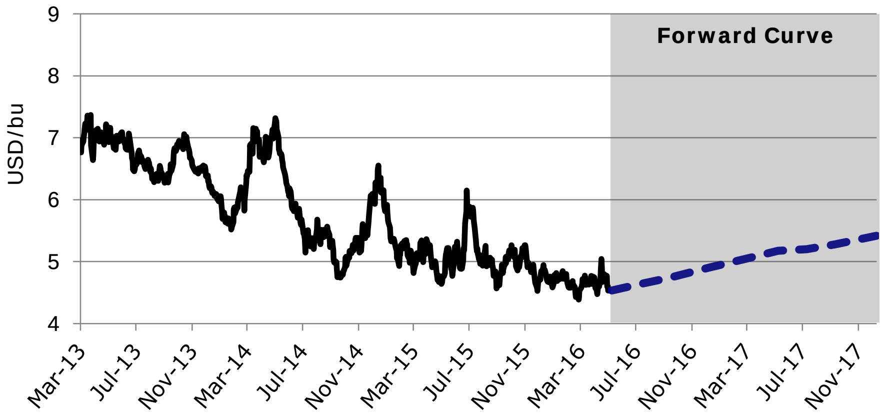


Source: CBOT, Rabobank 2016

Forward Price Curves

As of June 15, 2016

CBOT – Wheat

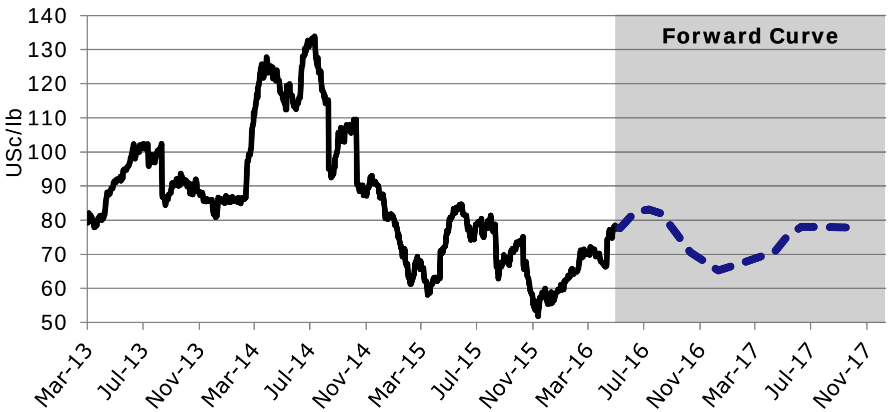


Source: CBOT, Rabobank 2016

CBOT – Feeder Cattle

Source: CBOT, Rabobank 2016

CBOT – Lean Hogs



Source: CBOT, Rabobank 2016

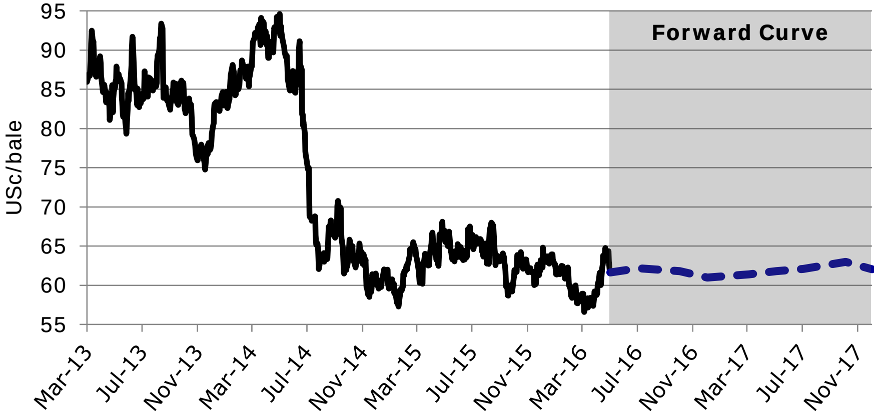
CBOT – Live Cattle

Source: CBOT, Rabobank 2016

Forward Price Curves

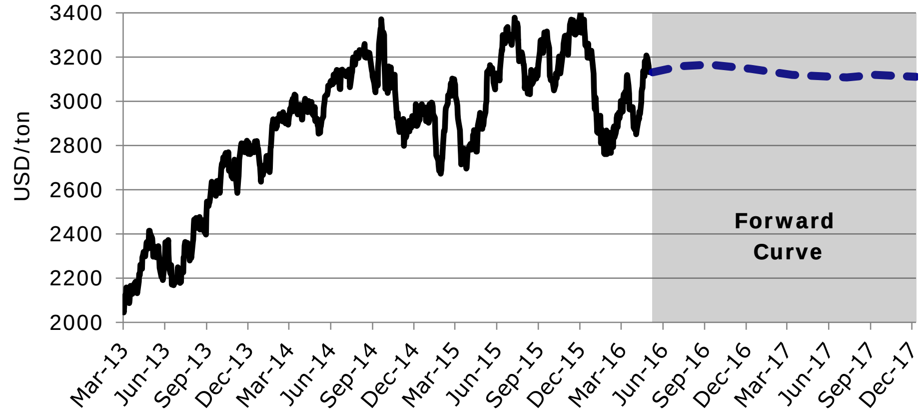
As of June 15, 2016

ICE – #2 Cotton



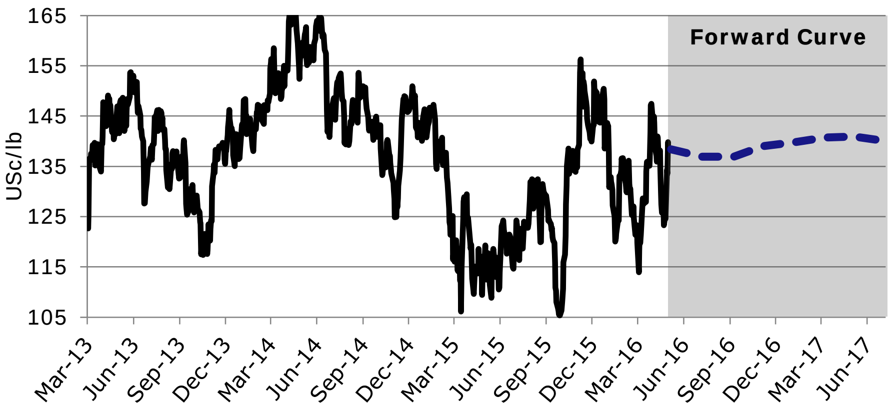
Source: ICE, Rabobank 2016

ICE – Cocoa



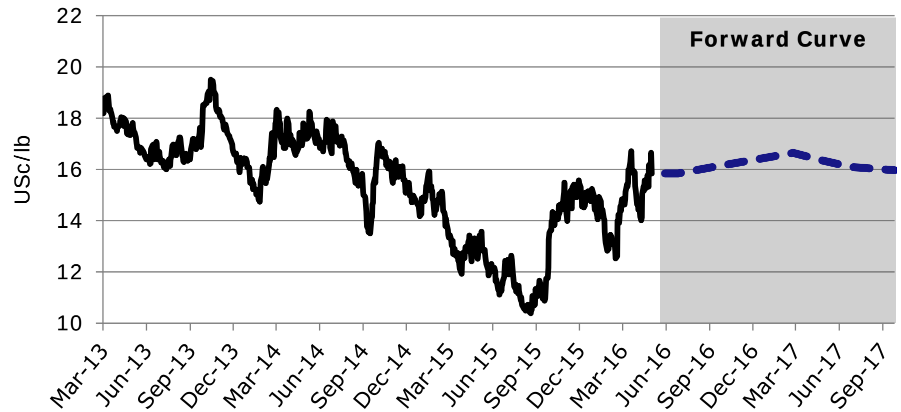
Source: ICE, Rabobank 2016

ICE – FCOJ



Source: ICE, Rabobank 2016

ICE – #11 Sugar



Source: ICE, Rabobank 2016

Food & Agribusiness Research and Advisory

Thomas Bailey
Senior Analyst — Dairy
Rabobank
E-mail Thomas.Bailey@rabobank.com

Don Close
Senior Analyst — Beef
Rabo AgriFinance
E-mail Don.Close@raboag.com

Ross Colbert
Head of Food & Agribusiness Research and Advisory, Americas
Global Strategist — Beverages
Rabobank
E-mail Ross.Colbert@rabobank.com

Charlie Clack
Commodities Analyst — ACMR
Rabobank
E-mail Charles.Clack@rabobank.com

Vernon Crowder
Senior Analyst
Rabobank
E-mail Vernon.Crowder@rabobank.com

Nick Fereday
Senior Analyst — Consumer Foods
Rabobank
E-mail Nick.Fereday@rabobank.com

Roland Fumasi
Senior Analyst — Fresh Fruits and Vegetables
Rabobank
E-mail Roland.Fumasi@rabobank.com

Al Griffin
Analyst — G&O
Coordinator of the Agribusiness Review
Rabo AgriFinance
E-mail Al.Griffin@raboag.com

Xinnan Li
Analyst
Rabobank
E-mail Xinnan.Li@rabobank.com

Sterling Liddell
Senior Analyst — G&O
Rabo AgriFinance
E-mail Sterling.Liddell@raboag.com

Philip Marey
Senior U.S. Strategist — GFM Research
Rabobank
E-mail Philip.Marey@rabobank.com

Steve Nicholson
Senior Analyst — G&O
Rabo AgriFinance
E-mail Stephen.Nicholson@raboag.com

Steve Rannekleiv
Senior Analyst — Wine & Spirits
Rabobank
E-mail Stephen.Rannekleiv@rabobank.com

Paula Savanti
Senior Analyst — Consumer Foods
Rabobank
E-mail Paula.Savanti@rabobank.com

Will Sawyer
Senior Analyst — Pork & Poultry
Rabobank
E-mail Will.Sawyer@rabobank.com

Pablo Sherwell
Senior Analyst
Rabobank
E-mail Pablo.Sherwell@rabobank.com

James Williamson
Associate Analyst
Rabobank
E-mail James.Williamson@rabobank.com

Ken Zuckerberg
Senior Analyst — Farm Inputs
Rabobank
E-mail Kenneth.Zuckerberg@rabobank.com