



Food & Agribusiness Research and Advisory (FAR) Group North American Agribusiness Review

August 2015



Rabobank

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Economy: re-acceleration, but not in all places

U.S.

- The GDP data confirmed that the U.S. economy has re-accelerated after the weak first quarter. However, a worrying detail of the GDP report was the 0.6% contraction in business investment. This underlines the problems that U.S. exporters are having in dealing with a stronger dollar, which in itself is related to the threat of a Fed rate hike (while other central banks are moving in the opposite direction). They find it more difficult to compete in international markets, scrambling to keep their market share in a global market that is slowing down to begin with. Consequently, U.S. manufacturing firms are less likely to invest in an expansion of their production capacity. At the same time, the low oil price has reduced the incentives to invest in the mining sector, which has effectively put an end to the U.S. shale oil boom.
- While the re-acceleration of GDP has made the Fed more confident of the economic recovery, it has become less confident about the inflation outlook. While a September rate hike remains a distinct possibility, we still have our doubts and we continue to attach a higher probability to a December lift-off. However, the Fed is getting closer to the first rate hike and we expect EUR/USD to decline to 1.05 in the next 12 months.

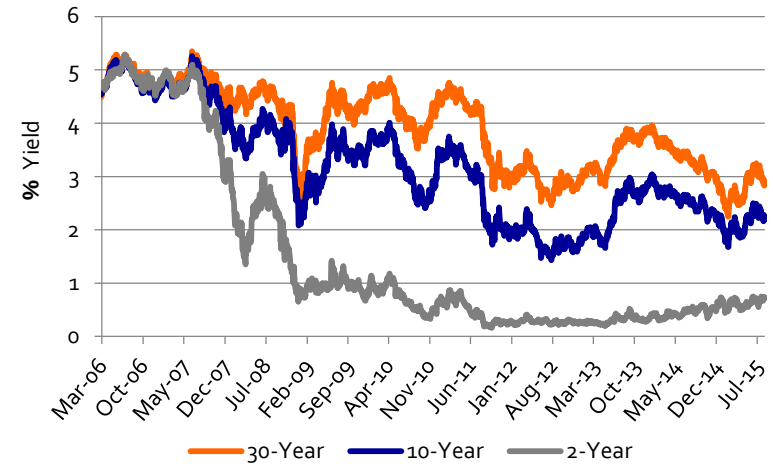
Mexico

- Net speculative positioning in MXN is deep in short territory at the most stretched levels seen since the series began back in 1995. This sees MXN ripe for a pull-back, as does the move in the relative strength index from overbought to neutral territory. We expect USD/MXN to fall back to 14.80 over the next 6 months. That said, MXN remains vulnerable to drivers outside of its borders and in this respect there are large hurdles for the currency to navigate going forward. But for us the main worry for MXN is BRL. Brazil is heading from bad to worse and the potential for a political blow-up could weigh heavily on BRL which would drag MXN down with it.

Canada

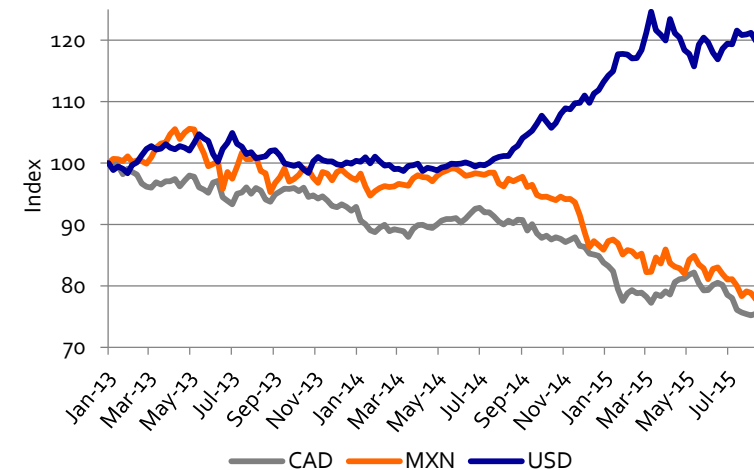
- In July the Bank of Canada was forced to cut rates for the second time this year, following a contraction in economic output in each of the first four months of the year. The current lack of synchronization between the U.S. and Canadian economies suggests it could be some time before the BoC follows the Fed with higher rates. A widening in interest rate differentials into 2016 is set to weigh on the CAD versus the USD and we have revised up our forecasts for USD/CAD to 1.31 on a 3-month view and to 1.32 by next spring.

Interest Rates



Source: Federal Reserve of St. Louis, 2015

Currencies



Source: Bloomberg, 2015; Note: Rebased at 100 as of 1st January 2013

Consumer: decline in misery index

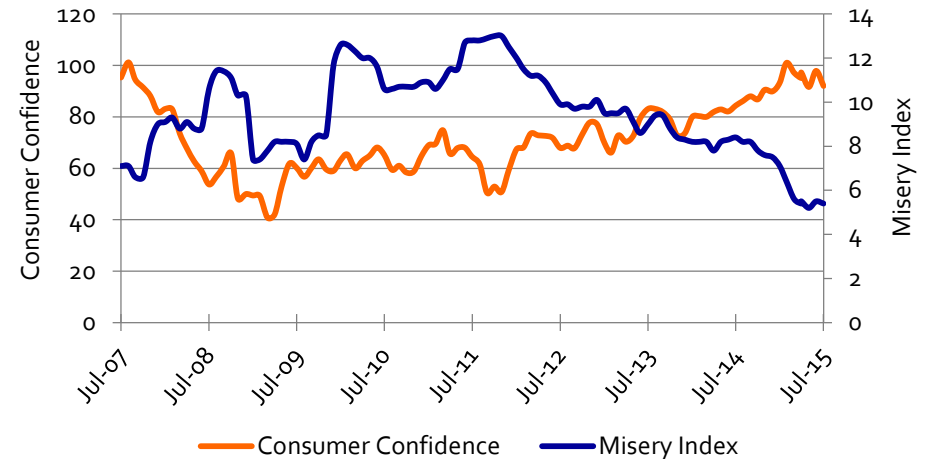
- Our measure of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board), fell to 92 in July compared to almost 100 in the previous month. Consumer sentiment in recent months has been range bound reflecting the mixed messages over the state of the economy and lackluster growth in GDP. However, with unemployment ebbing away and inflation remaining very low, the Misery Index (the aggregate of the two metrics) has fallen below pre-Great Recession levels.
- Over the last twelve months to June 2015, the rate of inflation as measured by the Consumer Price Index (CPI) turned positive to 0.1%. Although modest, this is the first increase since December 2014, despite energy prices falling by 15% over the past twelve months. Over the same period, retail food prices (food at home) rose by 1% and restaurant (food away from home) prices up by 3.0 %.
- In the U.S., about half of every dollar we spend on food is on food prepared away from home, mainly at restaurants and other food service establishments. For the year to June 2015, consumer expenditure on food away from home rose by 8.5% , suggesting a strong rebound in restaurant sales.

Food Sales

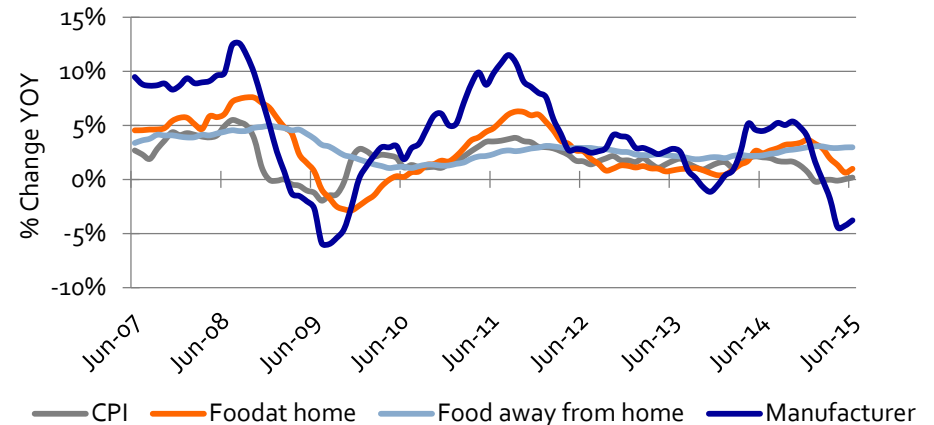
Food Sales (\$bn)	Annual			YTD Cumulative		
	2011	2012	2013	Apr-15	May-15	Jun-15
Food at home	\$650	\$675	\$695	\$245	\$311	\$375
YOY Change	5.2%	3.8%	2.9%	0.1%	0.1%	0.4%
Food away from Home	\$590	\$624	\$653	\$240	\$305	\$371
YOY Change	5.8%	5.8%	4.7%	7.6%	7.6%	8.5%
Total	\$1,240	1,299	\$1,348	\$486	\$616	\$745

Source: USDA ERS, Rabobank, 2015

Consumer Confidence Index



Food Price Inflation

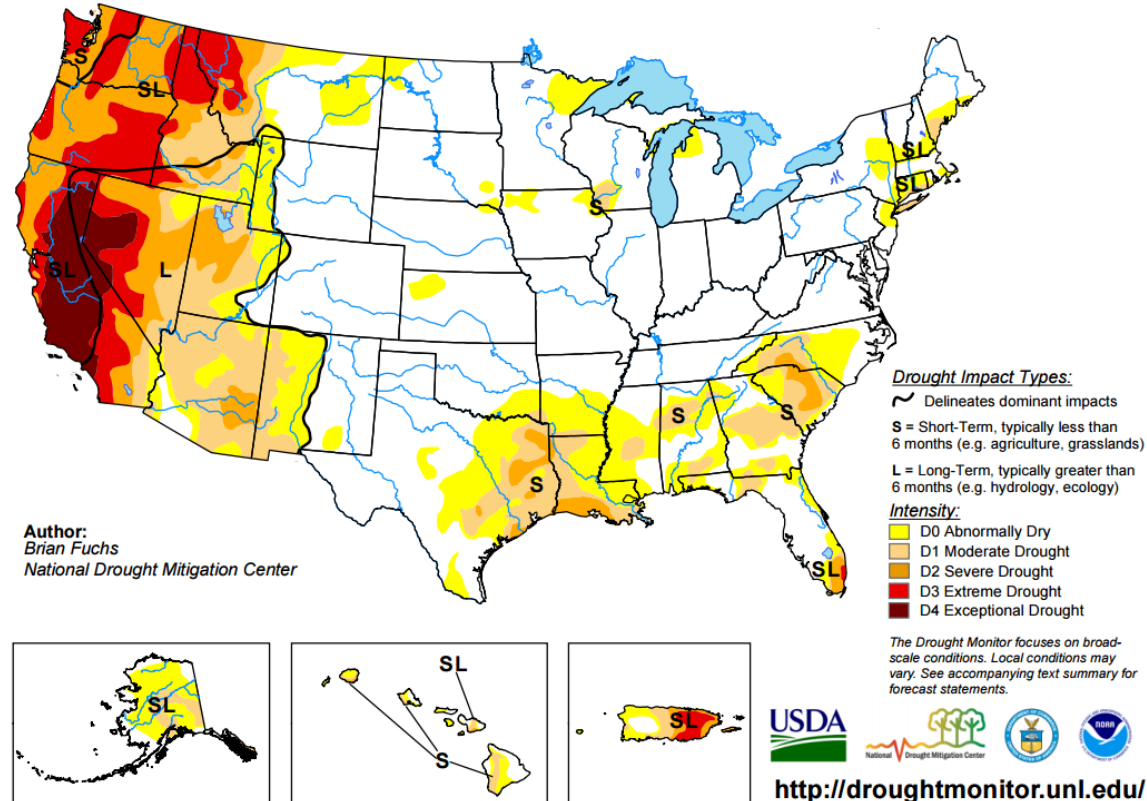


Climate: watching yield into harvest

- Growing conditions in central portions of the Corn Belt, particularly Iowa, have proven near ideal in the past month. Corn Belt precipitation was, in general, moderate though inconsistently distributed during the past 30 days. However, soil moisture is adequate throughout the region. Average July Corn Belt temperature posted at 73.3 degrees Fahrenheit, 1.1 degrees below average and supportive to higher production.
- The USDA has read conditions as highly conducive to production and reported a potential near record corn yield forecast of 168.8 bushels per acre in the August production report. However, the USDA may be optimistic as eastern Corn Belt conditions were too wet during the first half of the summer, though the area has since stabilized. The key question is if higher yield in the remainder of the Corn Belt can offset potential damage in the eastern portion..
- With precipitation 75 to 90 percent of normal during the past 60 days across the southeastern U.S., moderate drought conditions have developed in the region. Some relief is likely within the remainder of August with precipitation of 0.5 to 2 inches forecast across the region.
- The west coast is still mired in drought, especially California. Excessively high temperatures and humidity in California, even during overnight hours, continue to push crops ahead of schedule. However, the combination of heat and moisture, including unusual rain showers and hail, continue to negatively impact crop yields and quality.
- NOAA now estimates an above 90% chance of El Niño continuing through the Northern Hemisphere summer, and an 85% chance it will into early spring 2016. A mild El Niño should create an overall productive North American growing season

U.S. Drought Monitor

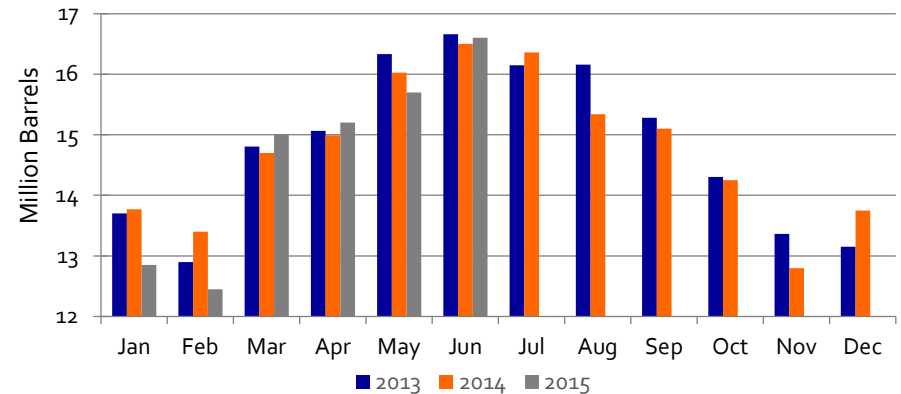
August 11, 2015



Beer & Barley: subdued consumption in H1 15

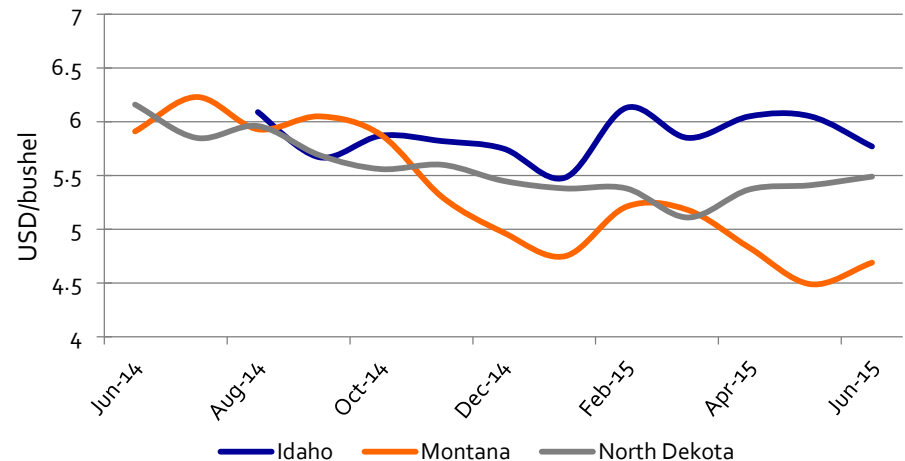
- Beer depletion in June 2015 showed a mild upward trend of 0.6% following a weak performance in May (-2.0%), according to Beer Institute's domestic tax paid. During the first half of 2015, beer depletion was down 1.7% or 1.5 million barrels, compared to the rate during the same period last year. While the tanked consumption is largely contributed to the harsh winter, but in spite of better weather in more recent months, consumption has remained subdued, resulting in a weak performance for the first half of 2015.
- The craft beer boom in the U.S. has yet to lose steam as more brewers continue to enter the craft space. The Brewers Association reports that craft beer sales grew 15% by volume – an equivalent of 12.2 million barrels in H1 2015. According to the NBWA, nearly 600 new craft brewery permits have been issued in the first half of 2015. Craft beers with ABV >8% also saw an obvious lift as much of the consumption growth is driven by IPAs. The growth of craft beer continues to create strong demand for U.S. barley and hops.
- Total beer imports registered 7.9% growth for H1 2015 while imports during the month of June were largely flat. The top six importing countries all saw strong positive growth YTD, with Mexico and the Netherlands imports rose 7% each and Belgium, Ireland, and Germany all registered double digit growth. Favorable forex situation contributed to the overall success in beer imports and we expect this trend to continue.
- Malting barley prices started to moved higher across the major production states in the U.S. Canadian production regions are experiencing severe drought, and inventory levels are lower than normal, creating a positive effect on prices for growers within the U.S. In spite of drought stress earlier this year in Montana minimum negative impact on the protein content is foreseen. Montana's harvest season is running two weeks ahead of schedule and is expected to conclude by mid-September.

Total U.S. Beer Depletion



Source: Beer Institute, 2015

Malting Barley Prices for Idaho, Montana, and North Dakota

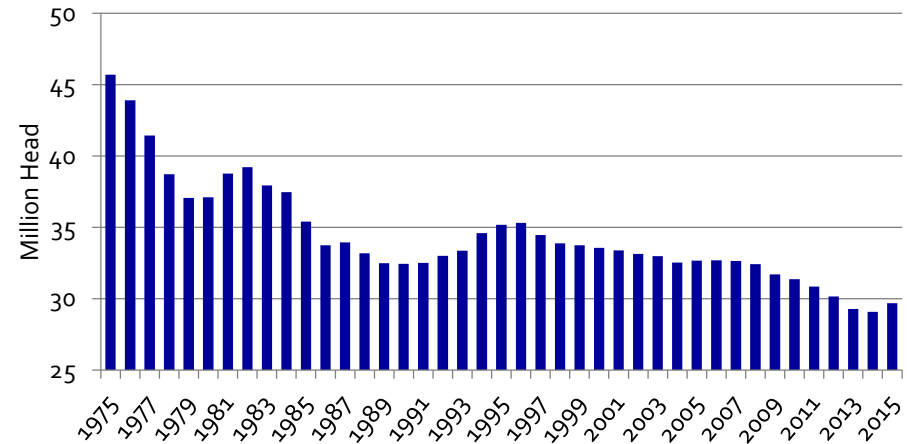


Source: USDA-NASS, 2015

Cattle: market in transition

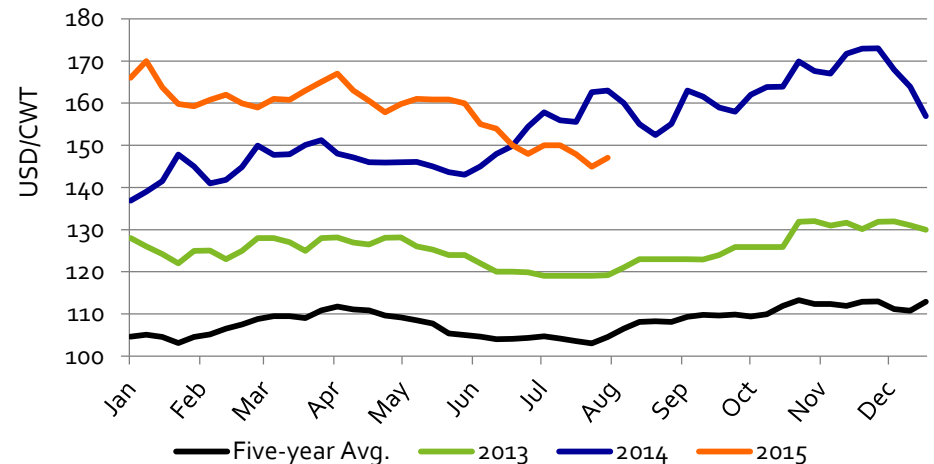
- The U.S. cattle and beef complex continues to be a struggle between production sectors. Cow/calf producers are having a phenomenal year with return per beef cow in the USD 500 a head range. On top of the continuation of high calf prices, the majority of the U.S. has experienced a drastic recovery in pasture and range conditions that, combined with profitable returns, are encouraging aggressive female retention of both cows and heifers for herd expansion. Year to date beef cow slaughter is 17% below year ago levels, and heifers kept for breeding in the July 1 Cattle Inventory report posted a 7% increase in heifers kept for breeding.
- Cattle feeders are not having a good year. The combination of tight availability for replacement cattle have held feeding margins in negative territory for the year to date. We expect difficult margins to continue through the remainder of 2015 and at least the first quarter of 2016.
- Beef processors are having an extremely difficult year as well. Year-to-date fed beef slaughter is 6% below a year ago. Packers are fighting tight supplies of market ready cattle while at the same time fighting continuous head winds from escalating supplies of competitive proteins. A 10% reduction in U.S. beef exports has been driven by tight available beef supplies, high U.S. prices in relation to other global beef suppliers, and an exceptionally strong U.S. dollar.
- The U.S. beef complex is going into a transition period. Light cattle placements through the first half of 2015 should enable a modest increase in available feeder cattle supplies for the second half of the year. Reduced cow slaughter and heifer retention will start to make a measured increase in available cattle supplies that will gradually increase in 2016 and expected to show a sizable recovery in 2017.

U.S. Beef Cow Population January 1



Sources: USDA, Rabobank, 2015

Weekly CME Feeder Index

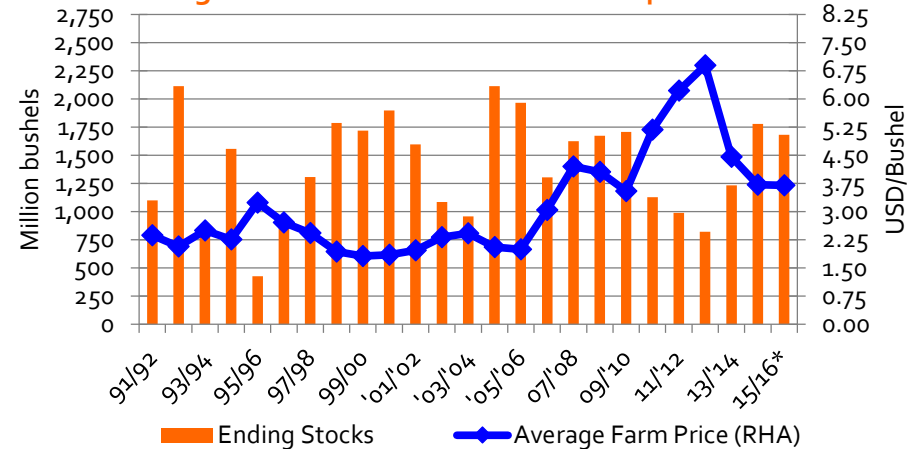


Sources: CME, Rabobank, 2015

Corn: market reacting to USDA projections

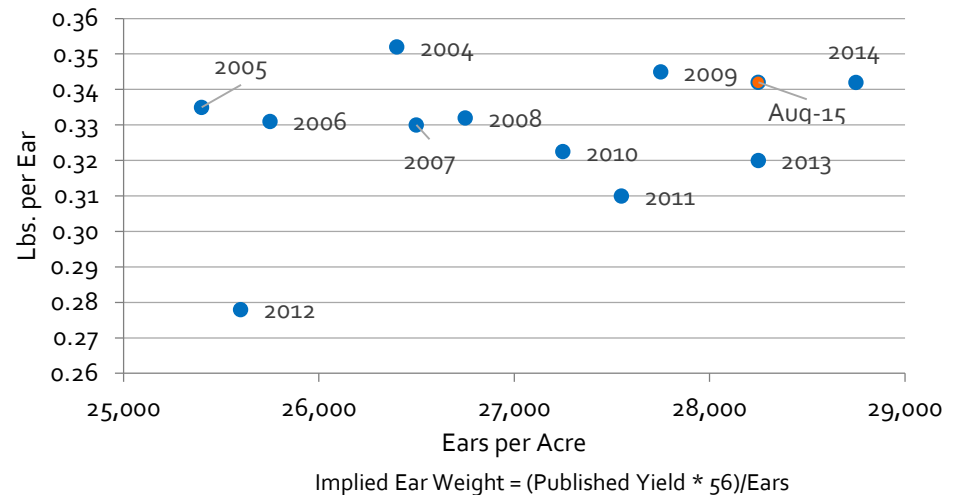
- The August USDA Crop Production report and market expectations were not on the same page. USDA pegged the national average corn yield at 168.8 bushels per acre, which was over 4.0 bushels per acre above the trade's average estimate. In addition, USDA's projection was even above the trade's highest estimate of 167.5 bushel.
- The higher yield was result of near record ears per acre and implied ear weights. If realized, the 28,225 ears per acre would equal 2013 and only be surpassed by 2014, which was a all-time record yield of 171.0 bushels per acre. Yields have been increasing due to higher and higher plant populations, so it is reasonable to assume that ears per acre will continue to increase.
- There will be much debate about the implied ear weights until objective yield data is available in later Crop Production reports. USDA implied 2015 ear weights at over 0.34 lbs. per ear, which is slightly above 2014 and third highest on record. With the challenges this crop has had in some areas of the Corn Belt, wet conditions, smaller ears, shallow kernel, etc. many are skeptical of such an high ear weight.
- The average ear weight over the past ten years is closer to 0.33 lbs. per year. If you use a 0.33 lb. ear weight and 28,225 ears per acre, the calculated national average yield is above 166 bushels per acre, which would still be the second highest yield on record.
- USDA's 2015/16 U.S. corn ending stocks forecast increased 114 million bushels from last month's estimate. The near record yield, no change in harvested acres and just a 40 million bushel increase in demand USDA pushed 2015/16 ending stocks to 1.713 billion bushels. While this is actually a decrease from USDA's 2014/15 ending stocks projection, U.S. corn stocks are more than adequate and will keep prices under pressure throughout the crop year.
- Based on current stocks-to-use ratio and the demand curve, December corn futures are trading just slightly below where we would expect them to trade in the USD 3.80 to 4.05 per bushel area.

US Corn Ending Stocks Remain More Than Adequate



Sources: USDA, Rabobank, 2015

Corn Objective Yield: Ears per Acre vs. Implied Ear Weight

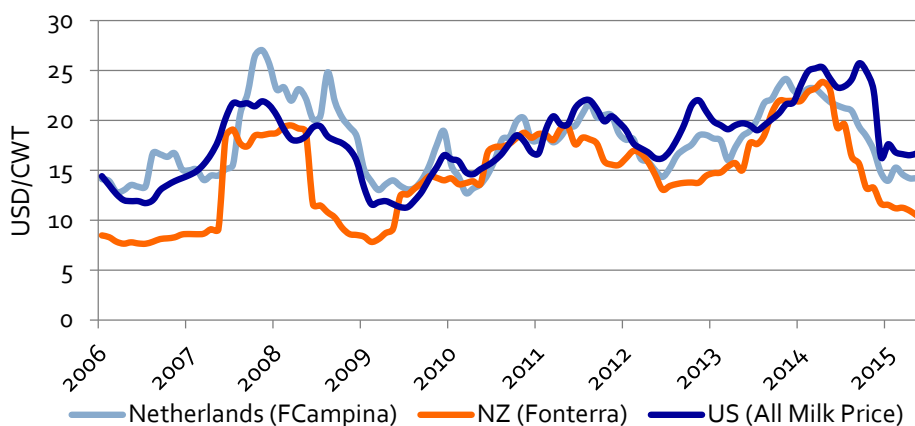


Source: USDA, Rabobank, 2015

Dairy: a long road ahead for U.S. dairy markets

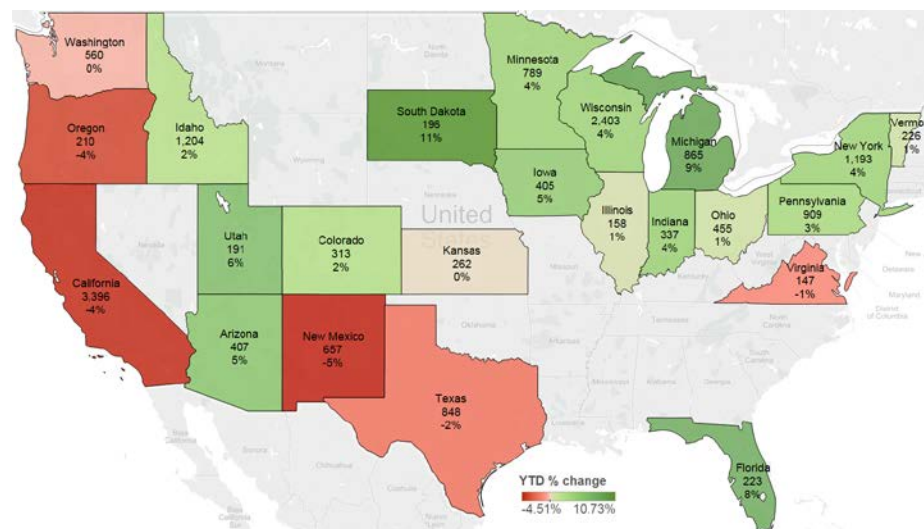
- While global markets face the bleakest market since 2009, dairy farmers in the U.S. have continued to bask in profitability. Although the cracks are beginning to show.
- U.S. milk production slowed to a trickle in June, with the U.S. posting growth of 0.7% - the slowest in over 18 months. This was partly because of lower prices and adverse weather (flooding in the plains region).
- Many producers, particularly in the Midwest, have continued posting strong growth figures through the year as margins for many have been positive. This is the result of domestic commodity prices performing well. U.S. CME prices for butter and cheese have remained elevated relative to USDA Oceania prices through August, butter +50% and cheese +20%.
- While U.S. dairy farmers have mostly been profitable in 2015, New Zealand producers are now facing a season worse than 2009 with farmgate prices currently sitting at \$3.85 kgms (less than \$10/CWT) which is well below local costs of production.
- The reason the U.S. has continued to perform well is the fact we have the best of both worlds at our fingertips; access to burgeoning markets overseas and a very large domestic market. The export market behaves as a release valve for the U.S. which helps to balance the complex and to optimize sales for the highest returning market whether at home or overseas.
- Unfortunately it does not fully insulate us from the conditions of the global market. The premiums seen in the U.S. market relative to the rest of the world will continue to result in increased imports of cheese and butter products. Total imports were up 12% for the first half of 2015, and this will likely be the same picture we see in the second half of the year.
- There looks to be some tough times ahead for the global industry and the U.S. is unlikely to make it out unscathed. The months ahead will likely bring more downside than upside to commodity prices. As a result we should expect to see lower farmgate prices ultimately putting the breaks on US milk supply until the global market is able to work its way through excess stocks.

U.S. Farmgate Prices Remain Significantly Elevated Relative to World



Source: USDA, Rabobank, 2015

U.S. Milk Production Growth Slowed to a Trickle; Up 0.7% YOY June



Source: USDA, Rabobank, 2015

Farm Inputs: commodity price blues

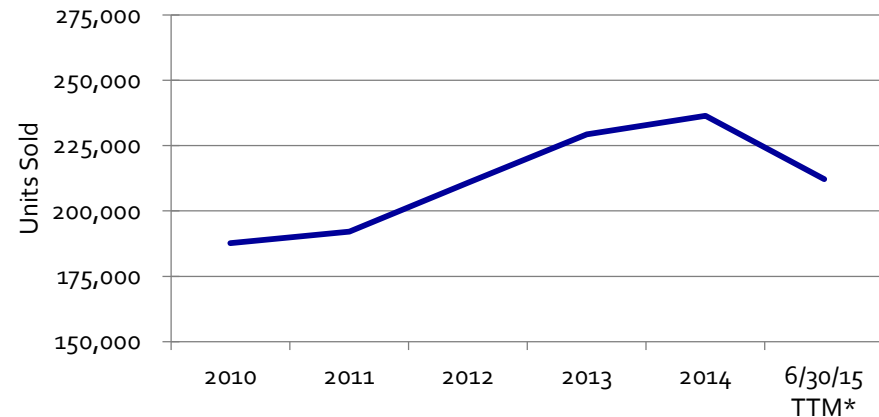
Equipment

- Protracted weakness in grain prices has resulted in a double-digit decline in sales of new large tractors and combine harvesters since mid-2014.
- The pressure on the equipment sector has continued into 2015: for the first six months of 2015, unit sales of high horsepower tractors fell by 17.7% in the United States and 14.3% in Canada, and unit sales of combines were under even more pressure, declining by 41.7% and 14.9%, respectively.
- The large original equipment manufacturers (OEMs) have responded to difficult market conditions by suspending production, reducing inventory levels, selling customer receivables, shrinking staff and reducing overhead expenses. Farmers remain in the driver's seat from the standpoint of buying power.

Fertilizer

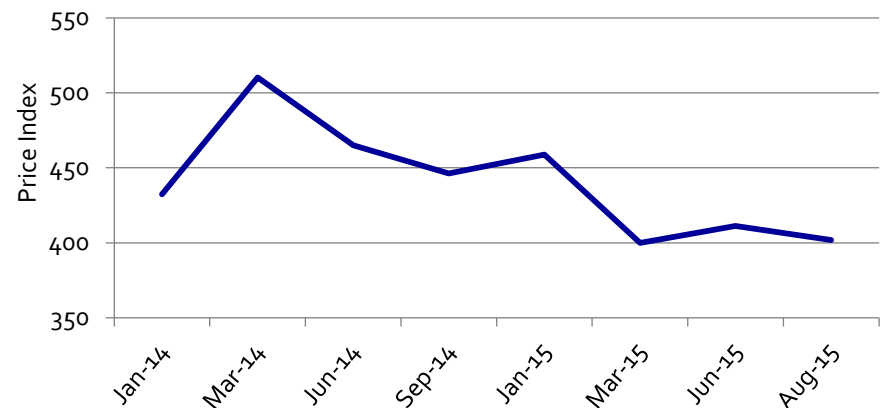
- Wet Midwest weather during June caused speculation that fertilizer prices would firm based on the prospects for higher demand as farmer reapplied nutrients to the field. The temporary rise to a high of 452 on the Green Markets Weekly Index reversed itself and is currently priced at 402, very close to the March 30, 2015 close price level.
- Expected projects coming online during 2016 will eventually place incremental downward pressure on nitrogen / UREA prices due to increased supply. Interestingly, but not so surprisingly, project cost estimates continue to rise, as evidenced by LSB Industries' recent announcement that costs for its El Dorado ammonia plant expansion project will total USD 660 to 680 million vs. its recent estimate of USD 560 to 575 million, an 18% increase at the midpoint of estimated cost range.

North America Total Tractor Retail Unit Sales



Note: TTM is "Trailing Twelve Months" or the timeframe of the past 12 months for reporting financial figures
Source: Association of Equipment Manufacturers, 2015

Green Markets Fertilizer Composite Index

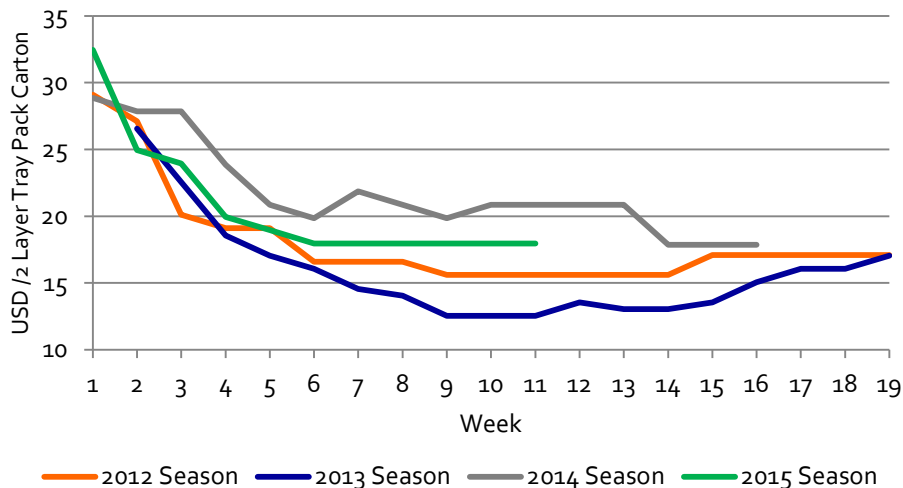


Source: Green Markets, 2015

Fruits: export markets are key, but fickle

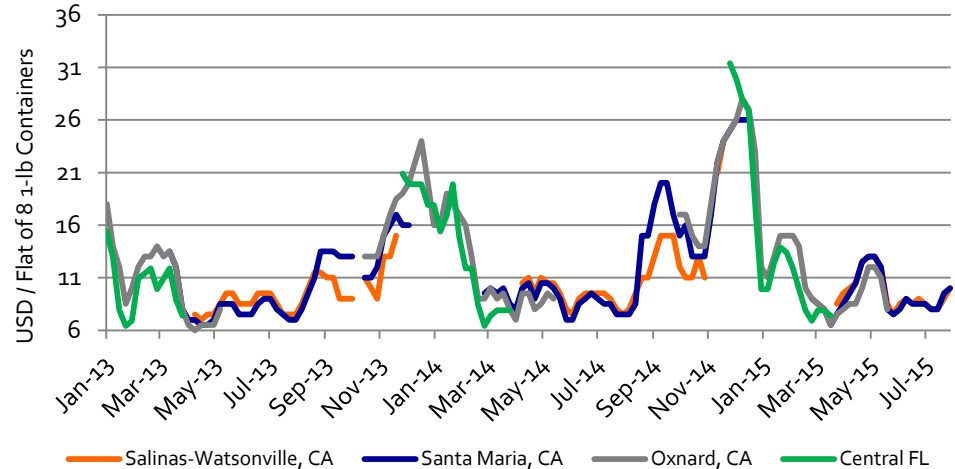
- California strawberry production, through July, kept pace with last year, but only because of an early-season surge in supply. Cool spring weather, followed by an excessively hot and humid summer, have since slowed shipments. The weather has continued to impede availability, fruit size, and overall quality. Tighter supplies and strong demand had price strengthening in late July, to USD 10.00 per flat; 33 percent higher than the same time last year.
- Table grape yields have been off a bit, due to summer weather. Reported quality has been excellent, and pricing heavily dependent on variety. Sixty percent of CA table grapes are shipped after September 1, and fall quantities are expected to be on-track.
- The stone fruit market is steady, with later-season fruit peaking on larger sizes. Supply of smaller fruit has been tight, and food-service demand strong.
- The 2015-16 Washington apple season is expected to see a 33 percent rise in Honeycrisp production, and 26 and 24 percent declines in Reds and Goldens, respectively. China is now open to all U.S. varieties, but beware of potentially fickle export markets.

California Peach Shipping Point Prices – Yellow Flesh – 48-50s



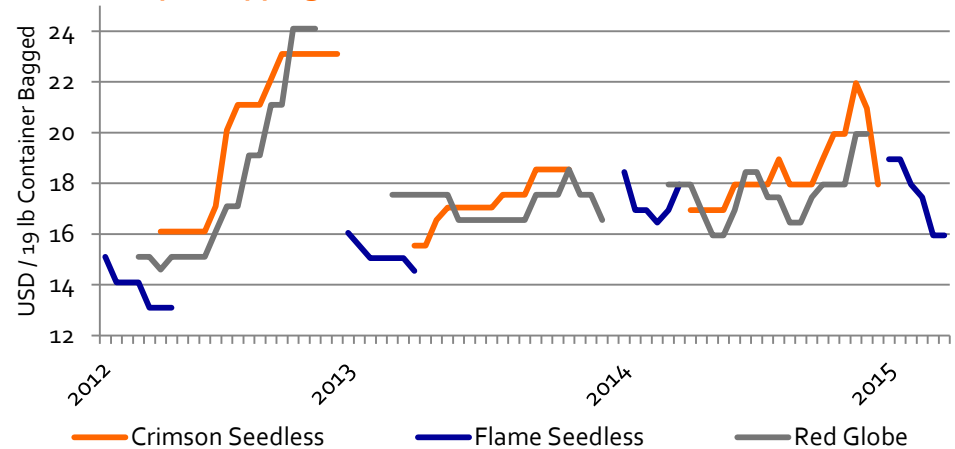
Source: USDA/AMS, Rabobank, 2015

Strawberry Shipping Point Prices – Medium to Large Berry Size



Source: USDA/AMS, Rabobank, 2015

Table Grape Shipping Point Prices – Kern District, CA



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

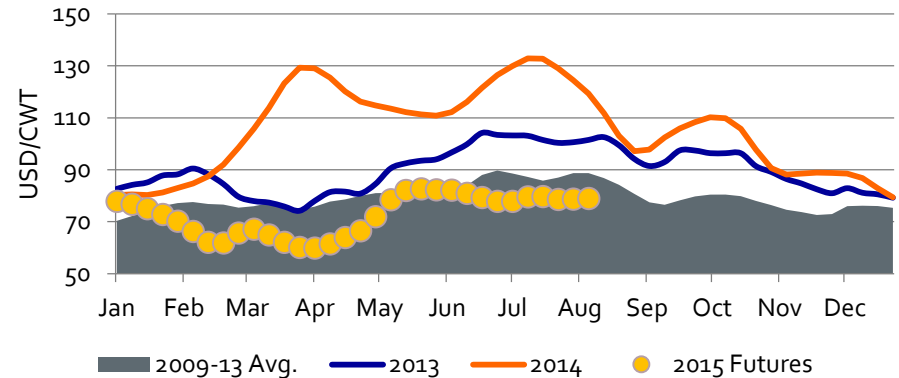
Source: USDA/AMS, Rabobank, 2015

Pork: hog prices rebound as weights come off

U.S.

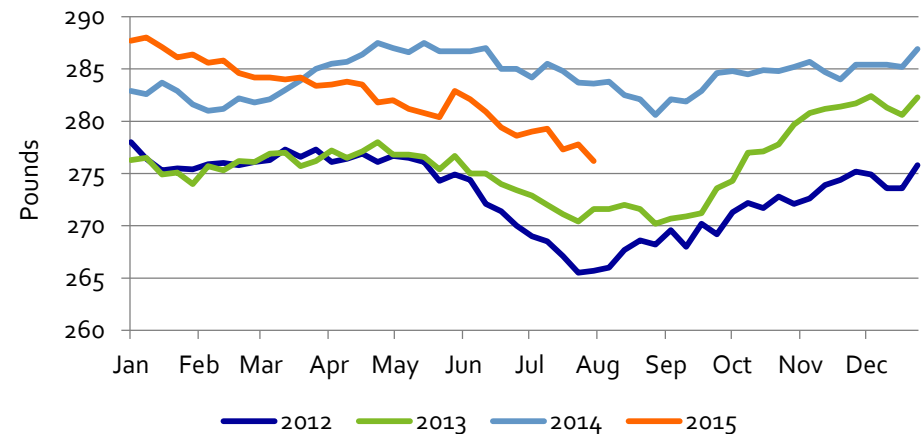
- After U.S. hog prices experienced a sharp decline in Q1 ending the quarter 55% below prior levels, futures have rebounded bringing producer profitability back into the black. While the larger than anticipated hog herd, due to the lack of PEDv last fall and winter, continues drive increased supplies, producers have reduced hog weights which has caught some market participants by surprise. Producer margins for 2015 today are break-even on an annual basis, when including the current futures curve for hogs and feed.
- Increased hog weights was the key lever allowing producers to offset the significant number of hogs lost to PEDv starting in the summer of 2013 through 2014. Since the first cases of PEDv, producers have increased hog weights by about 10 pounds or 5% to 6% as excess finishing capacity due to PEDv allowed for increased feed times and keeping total pork supplies more stable. With hog supplies now back to pre-PEDv levels and without a material increase in finishing capacity, producers have steadily reduced hog weights this year to levels now just 1.5% above pre-PEDv levels.
- Pork exports have also been challenged this year driven by a number of factors including: a stronger U.S. dollar, the U.S. West Coast port shutdowns, and weak import demand from important Asian markets most notably Japan and China. The stronger U.S. dollar continues to weigh on overall U.S. competitiveness, but this headwind is largely offset by the significantly lower hog prices this year even with the run-up in values the last two months.
- We expect a rebound in trade flows in the back half of 2015 driven by Mexico and China. While PEDv appears to be behind most U.S. producers, the hog industry in Mexico continues to deal with the virus keeping domestic prices high and the opportunity for the U.S. strong. In China, which has experienced a significant cull the last eighteen months is seeing a rebound in in hog prices and the opportunity for increased pork imports from the U.S. and others. Please see our recently released report detailing our views of increased pork trade flows with China.

U.S. Hog Futures



Source: Bloomberg, 2015

U.S. Hog Weights (barrow & gilts, live weights, pounds)

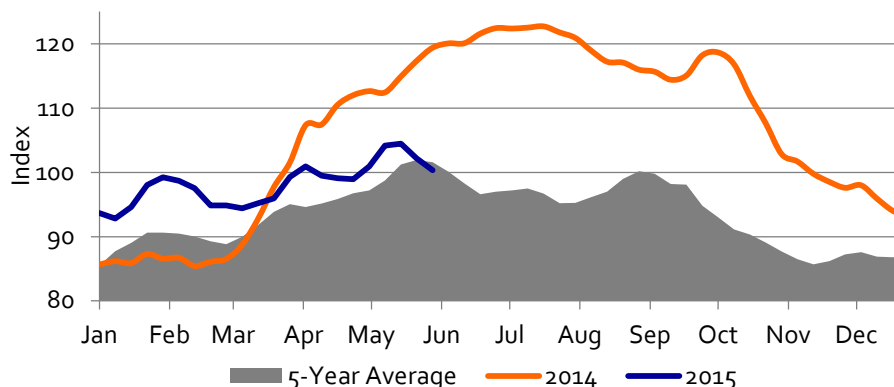


Source: LMIC, 2015

Poultry: robust domestic demand helping to offset weak export from outbreak of AI

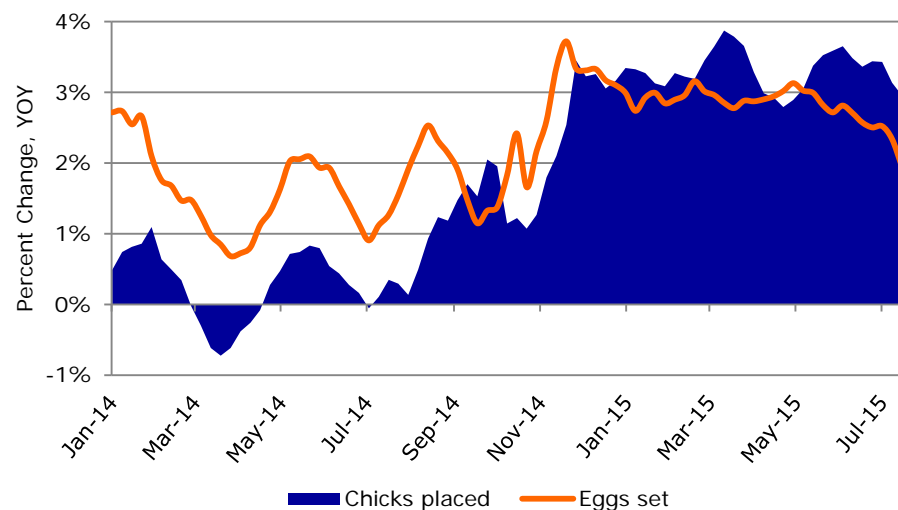
- Despite a myriad of challenges in the first-half of the year, the U.S. poultry sector weathered these issues quite well as reflected by robust producer profit margins over the period. Challenges include: a strengthening U.S. dollar, avian influenza (AI) in the U.S. and the resulting trade bans, West Coast port shutdowns, shifting consumer demands for poultry production, and falling prices of some competing proteins.
- U.S. poultry producer profit margins averaged 15% in the 1H of 2015, as indicated by the results of Tyson, Pilgrim and Sanderson Farms, which is the highest 1H margin we have on record. In the midst of a 4.3% increase in U.S. poultry production in H1, prices struggled to overcome the challenging export markets and increased competition from lower pork prices. Consumers are feeling the boost of lower gas prices which is being reflected in better restaurant demand.
- Exports in the 1H have struggled declining 11% versus last year on a volume basis. The industry continues to feel the pain of the Russian ban that was instituted in August of last year. In addition a number of export markets have placed bans on poultry products from the states affected by bird flu while some markets have banned U.S. poultry outright. With the lift in volume to Hong Kong and Taiwan by 27% and 96%, respectively, it appears that at least some of that product will find its way to the Chinese market.
- The supply outlook is mostly unchanged with eggs set and chick placements running 2.5%-3.0% above last year. We see another 1.5%-2.0% of growth coming from increased bird weights which drives our view that overall poultry supplies will increase 4% to 5% on a RTC basis. The favorable feed cost environment and strong domestic demand for poultry are supportive of this level of supply growth even with the headwinds on the export front.

Indexed Chicken Prices



Source: USDA, Rabobank Estimates, 2015

Chicks Placed and Eggs Set

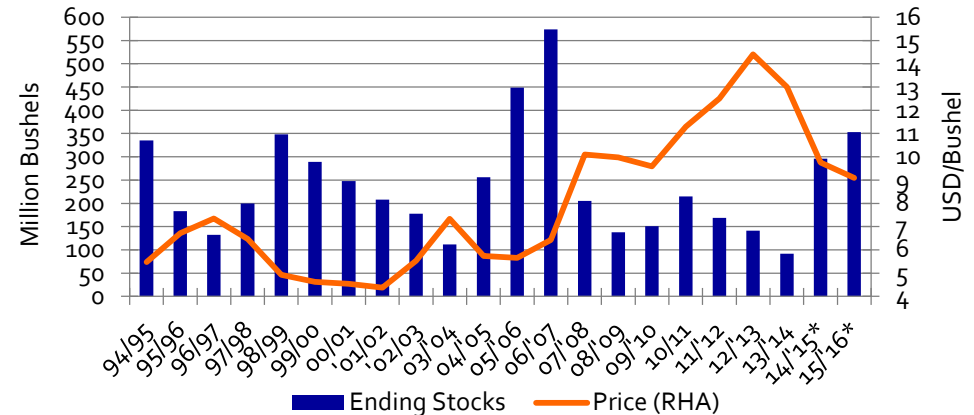


Source: USDA, 2015

Soy Complex: differing market views

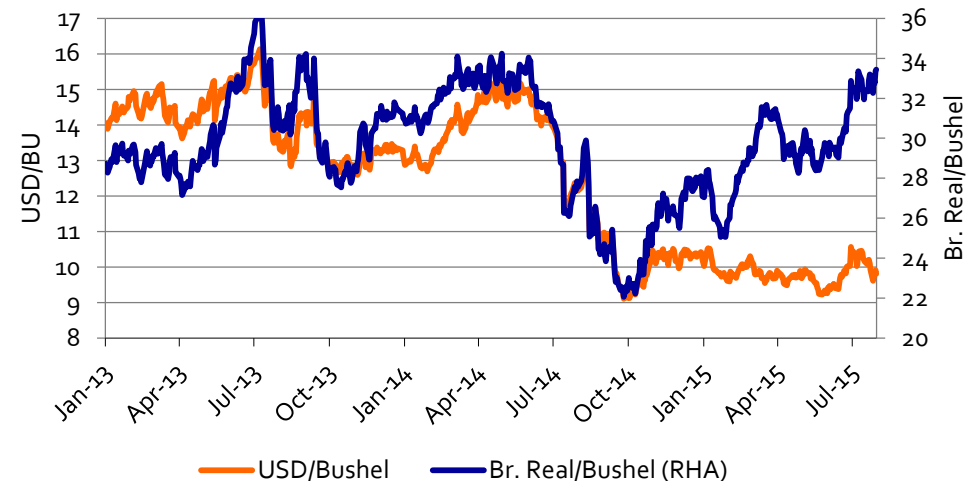
- The August USDA Crop Production report took everyone by surprise and as a result the market tumbled. As with the June 30 Acreage report, the market's expectations and USDA projections were not in line. USDA projects the 2015 U.S. soybean crop at 3.916 billion bushels, if realized it would be the second largest crop on record and was nearly above Their yield forecast was 46.9 bushels per acres. This was 2.3 bushels per acre above the trade estimate.
- The August yield projection could very well be high water mark. While soybeans are made in August and could reach USDA projection, producers are concerned about the less-than ideal start of this year's crop and long-term impact on pod setting...stay tuned.
- U.S. planted soybean acres was adjusted downward due to wet spring conditions. In a special survey in August, USDA revised planted soybeans acres to 84.3 million acres. This is down from previous estimate of 85.1 million acres and is much closer to March Prospective Plantings estimate of 84.6 million.
- Despite the 1.8 million acre decline in planted acres, the 2015/16 USDA U.S. soybean balance sheet is showing a 45 million bushel increase in ending stocks to 470 million, largest ending stocks figure since 2005/06 crop year. This compares to Rabobank's ending stocks forecast of 353 million. We are more optimistic about the demand side of balance sheet than USDA.
- While the Chinese devaluation of the RMB has cast a negative pall over all markets, the impact on commodities will be minimal. The bottom line for China is that they need to feed their population. While the mix of commodities and food they import may change, the negative impact on demand and consequently prices will be short-lived.
- We have adjusted our price forecasts down based on the market's reaction to USDA's crop production projections. The August report sets the foundation for both production and prices expectation going forward. In our view, current soybean futures prices are trading USD 0.20 to 0.30 per bushel below where they should be given the current U.S. soybean balance sheet.

Building U.S. Soybean Ending Stocks Pressures Price Lower



Source: EIA, EPA, 2015; Note: * denotes projections

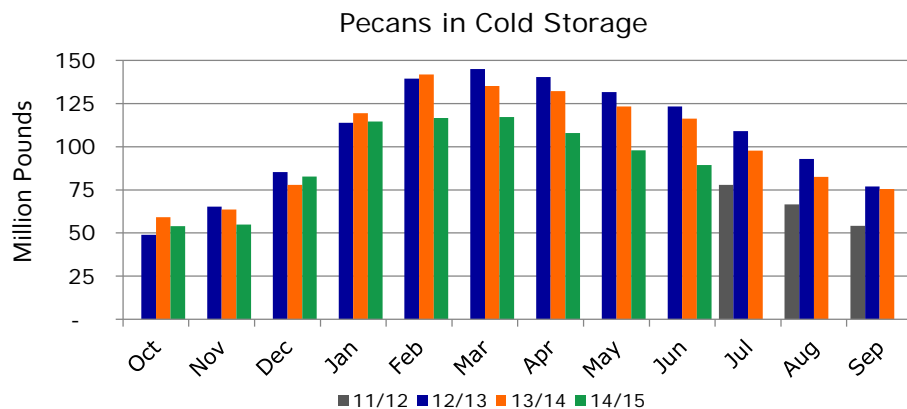
Declining Brazilian Real Encourages 4-6% Increase in 2016 Brazilian Planted Soybean Area



Source: Milling & Baking News and Food Business News, Bloomberg, 2015

Tree Nuts: 2015 harvest is early across the U.S.

- The USDA objective estimate of this year's California almond crop is 1.8 compared to 1.87 billion pounds and 10 percent less than 2013's 2.01 billion pounds. This may still be optimistic, given the deficit irrigation and the use of ground water on almond trees. All prices remain very high. Shipments are down, as the crop size was.
- The 2015/16 U.S. Pecan crop will be larger than last year's, by 10 to 30 percent. The harvest is much better in Georgia, where grower's are getting needed rain. Prices are only slightly softer due to the anticipated larger harvest. China continues to be a major buyer, since North America is the only producer.
- California's pistachio crop will likely be 425 to 475 million pounds compared to last year's modest 519 million pounds. Reduced irrigation this season and warmer temperatures during last Winter have had more negative impact than initially thought. The base price for the 2015 pistachio crop should be similar to last year. Iran's crop is expected to be much less than last year.
- The higher value of the USD and increased carry-in inventory is weighing heavily on California walnut prices. Prices are down nearly a third from where they were last year, yet, shipments from California are doing well.
- Oregon growers are hoping for a normal harvest this year and will know shortly as harvest is expected to be two to three weeks early, which is good given diminishing inventories. Mixed signals are being received from Turkish growers and processors, where growers expect another short crop, though larger than last years, and processors are talking about a much larger crop to try hold down prices.

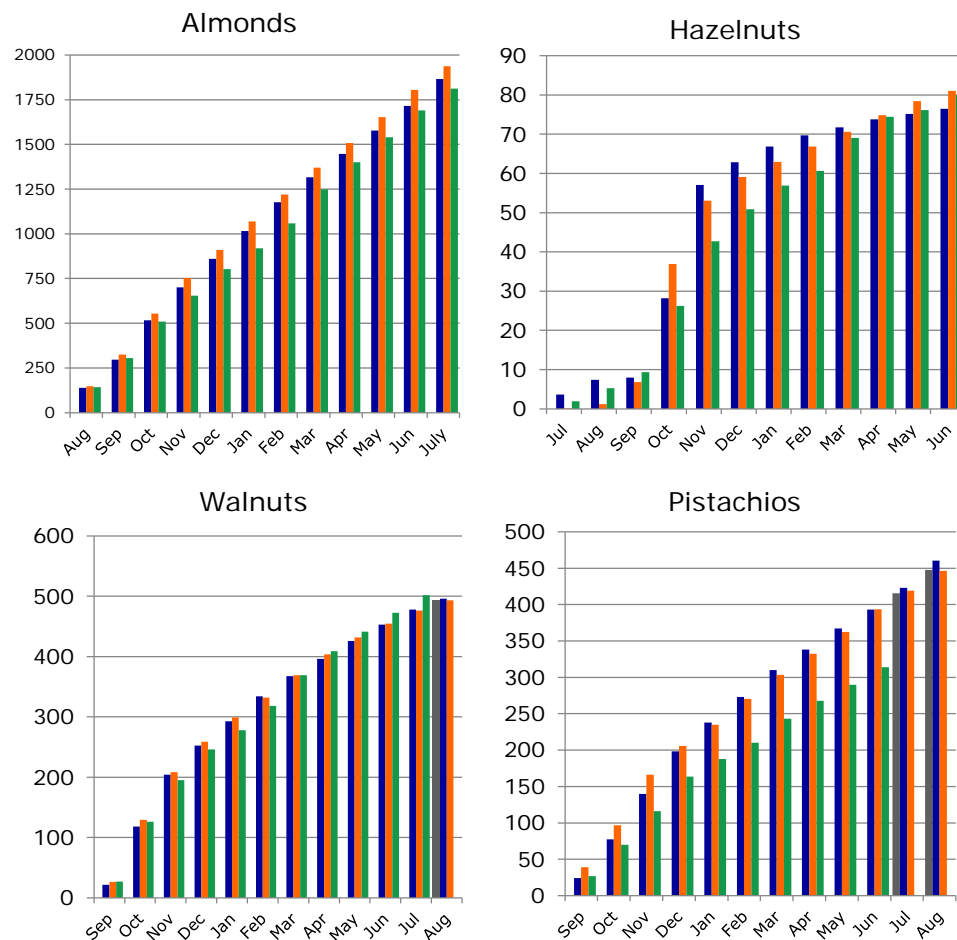


Source: USDA Census Bureau, 2015

U.S. Tree Nut Shipments

(millions of pounds)

■ 11/12 ■ 12/13 ■ 13/14 ■ 14/15

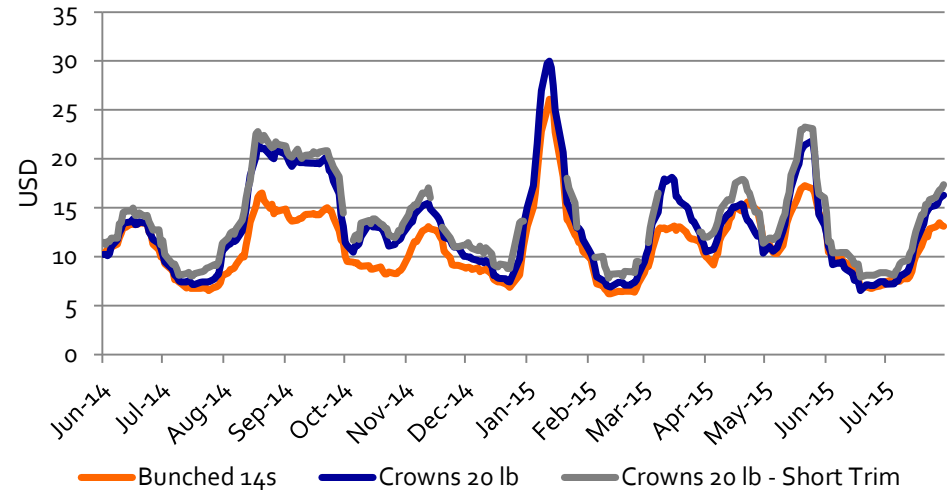


Source: Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, USDA Census Bureau, 2015

Vegetables: but it's a dry heat, right? Wrong

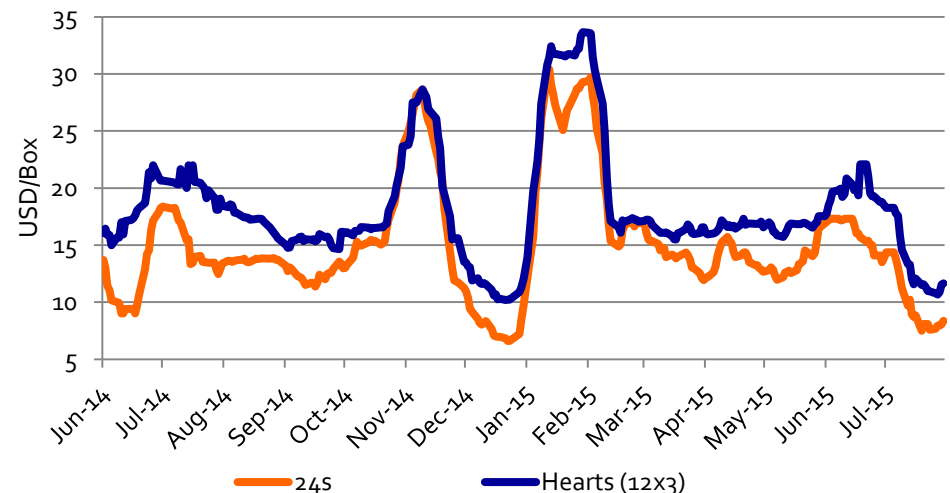
- The volatility of this year's weather continues to impact the vegetable sector. Excessively high temperatures and humidity in California, even during overnight hours, continue to push crops ahead of schedule. However, the combination of heat and moisture, including unusual rain showers and hail, continue to negatively impact crop yields and quality. Moderate to light supplies in June, supported stronger iceberg and romaine prices, but supplies were more abundant by mid July. As the weather conditions continue to weigh on yields, lettuce prices have begun to show some signs of recovery.
- Broccoli supplies were seasonally strong in June, with production primarily out of the Salinas Valley, but augmented by Southern California, Texas, and Mexican imports. By mid-June, the market was in an over-supplied situation, and prices reflected the glut. Supplies have since lightened-up, as So. Cal., Texas, and Mexican shipments eased in late June, and the excessive heat in California has likely created somewhat of a supply gap. Quality has continued to be reported as good, despite the excessive heat and moisture.

Broccoli – U.S. Daily Shipping Point Price



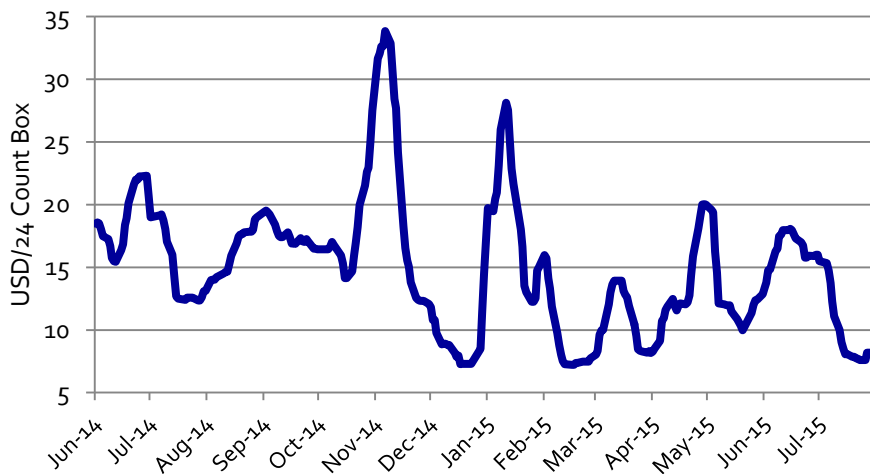
Source: USDA/AMS, Rabobank, 2015

Romaine Lettuce – U.S. Daily Shipping Point Price



Source: USDA/AMS, Rabobank, 2015

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

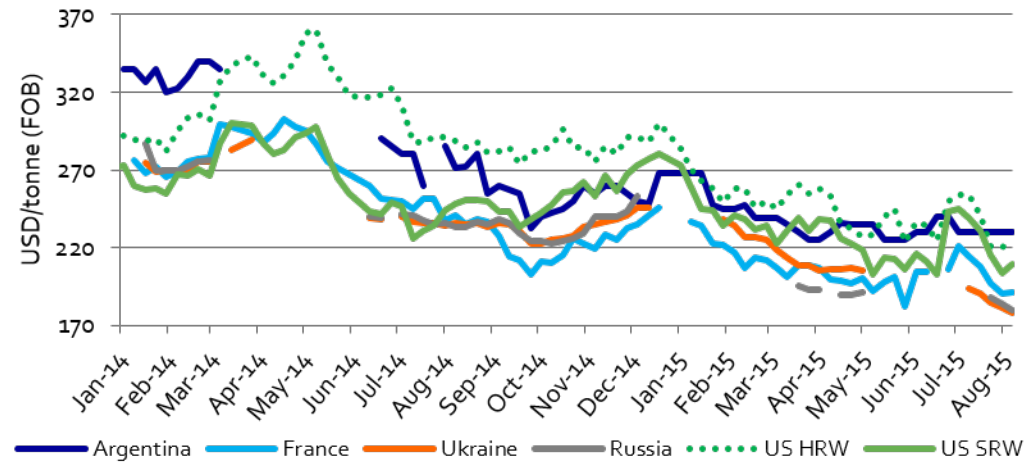


Source: USDA/AMS, Rabobank, 2015

Wheat: brutal export competition likely through H2 2015

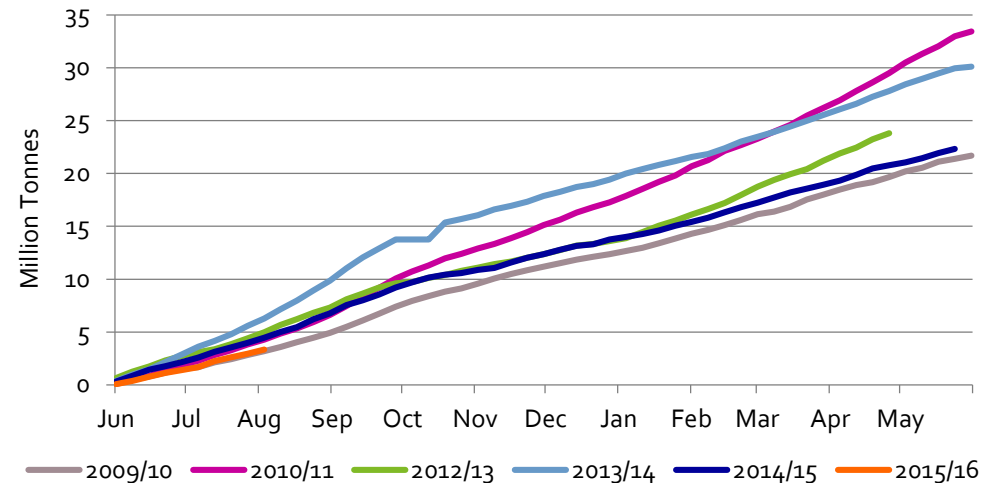
- Northern hemisphere wheat production has advanced far enough for relative certainty that 2015/16 supplies will be sufficient. Global fundamentals are largely unchanged within the past month. Slightly higher wheat ending stocks proved the main balance sheet adjustment in the August USDA reports. The global market continues to shift in favor of Black Sea exporters as increased production in Ukraine, Russia, and Kazakhstan offset lower production in the U.S., Canada, and Argentina. These mild changes further indicates growth in global ending stocks, now to a potential record of 214 MMT, constituting the fourth consecutive year of increases.
- Lingering dry weather is facilitating early North American spring wheat harvest, as U.S. progress surging ahead to 53% complete, well beyond the average of 31%. With U.S. winter wheat harvest finished, attention has turned to spring wheat where harvest in every reporting state is now ahead of average while national crop condition scores are in tandem to the five year average. North Dakota, the largest production state, is driving the brisk pace where the current progress of 45% is almost twice that of the 26% historical rate. Dry and hot weather in the western U.S. has hastened harvest ahead of average throughout the region, especially in Washington. Arid conditions in western Canada has also hastened spring wheat harvest progress, now about 10 days ahead of usual, while also cutting production by a MMT to an expected 26.5 MMT.
- A combination of strong dollar and domestic quality concerns has resulted in the slowest cumulative U.S. exports since 2009/10. Most tenders from major Middle Eastern importers are being easily won by Black Sea exporters thanks to both currency and freight advantages to key buyers. The E.U. has captured most other competitive business for the same reasons, leaving the U.S. relegated to traditional customers. Prospects for improved U.S. wheat exports are deteriorating as SRW basis rallied 8 cents per bushel in the past week. This, along with strength from the futures market is further widening the U.S. premium over other exporters even further. China's currency devaluation makes a strong dollar even more likely to persist. With an El Niño pattern strongly entrenched, Southern Hemisphere production risk is the last unknown which could change the bleak outlook for U.S. exports during 2015.

Expensive U.S. Wheat is Pressuring Export Demand



Sources: HGCA, USDA-FAS, Rabobank, 2015

U.S. Wheat Exports 2015/16 Setting Slowest Pace Since 09/10

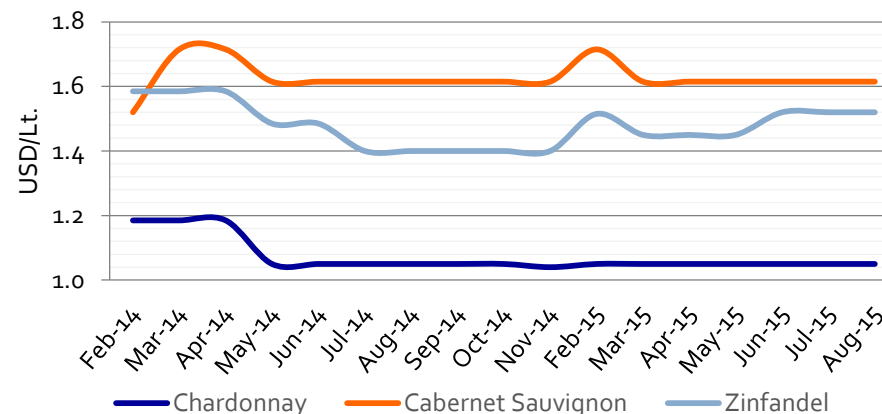


Sources: USDA-NASS, Rabobank, 2015

Wine: supply-demand imbalance in California

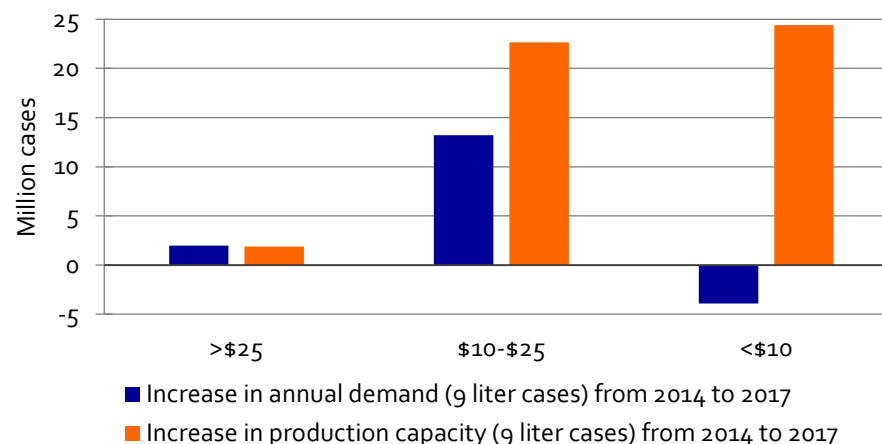
- Value growth of U.S. wines continues to outpace volume growth, with dollar sales rising 5.3% for the last 52 weeks ending 08-02-2015, according IRI.
- Wineries from the north coast have benefited the most from the rise of ultra-premium wines. In 2014, Napa DTC shipments rose 14.6% while the average price rose over 8%. Demand growth for the north coast is forecast to outpace supply growth in the coming three years due to the limited land suitable for new vineyards combined with political constraints on vineyard expansion. Any future supply growth is likely to be driven more by increasing yields than by major increases in vineyard acreage.
- 90% of volume growth in 2014 fell onto wines priced between USD 10 to 25 per bottle and the trend is expected to continue. This price range has traditionally been a sweet spot for the central coast and we forecast mid-single digit growth in demand for the region over the next two years. Recent vineyard expansion may create marginal excess supply in the coming years, but excess supply is unlikely to be a major problem in 2015 due to relatively light yields foreseen for the incoming crop.
- The combination of increased production capacity due to recent vineyard expansion, and declining consumer demand in lower-priced wines has left a glut of wine grapes in the San Joaquin Valley (SJV). Given the poor prospects for this segment, 20,000 acres of wine grapes were removed since the 2014 harvest and the situation is unlikely to improve in the near term. Rabobank forecasts consumption of wines priced below USD 10 per bottle to decline by an additional 3.9 million cases by 2017. Under this scenario, we estimate that an additional 40,000 acres of vineyards will need to be removed in the region to restore balance.
- While prices for most bulk wine varietals have remained depressed this year, Zinfandel began to see a modest improvement in June, likely because of its popular uses in the sweet red blends.

Pricing for California Bulk Wine Varietals



Source: Ciatti Company

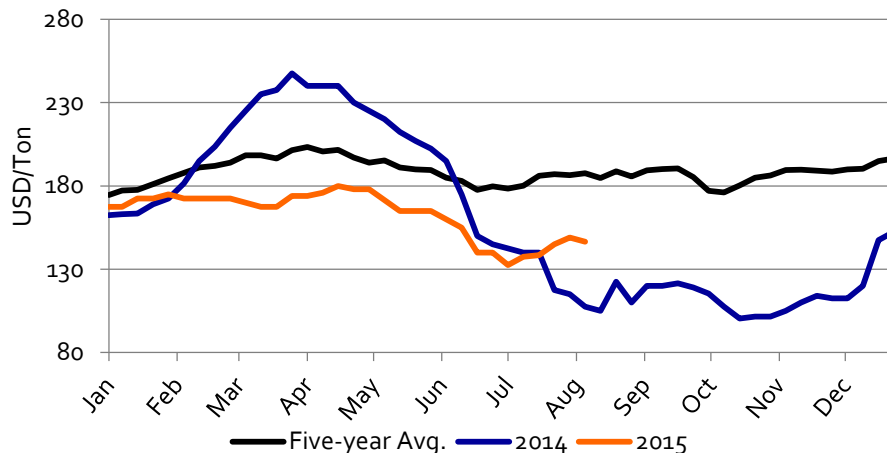
Demand vs. Production Capacity



Source: Rabobank estimates based on Gomberg-Fredrikson and Allied grape Growers data, 2015

- The Chinese government has announced a new policy to limit the importation of alternative feed grains. Effective Sept. 1 2015, sorghum, barley, cassava, and DDGS imports must be registered with the Chinese government to complete customs declaration. The process for importing these crops into China was less tightly regulated compared to corn until now.
- China has built large state-owned domestic corn reserves during the past three years and much of it is in poor condition. Beginning mid-2014, the government has sought methods to encourage domestic producers to use these stocks by limiting corn imports (e.g. MIR-162 ban), yet these efforts were circumvented by importing cheaper feed substitutes.
- This sudden influx in feed demand during mid 2014 caused a sharp rise in alternative feed basis in the U.S. and encouraged higher plantings this year for effected crops. For example, 2015/16 U.S. sorghum production is estimated at 14.1 million tonnes, up 28% YOY. With lower export demand expected from China, this extra product will be forced to compete with abundant corn supplies within the U.S. market.

Iowa DDG Price



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

- Framing lumber sales slowed and the prices have reflected the decline. Exports to China are down over 25% YoY, though Canada and Mexico have absorb some of the excess, limiting the total impact on the lumber industry—1H 2015 total lumber exports are only three percent behind last year.
- Production has out-paced consumption and the further decline of the Canadian dollar has pushed OSB prices to their 12 month low. Demand will continue as the housing market strengthens, but producers expect more shipments out of Canada as the exchange rate is in their favor.
- The strength of the USD and international competition are working against the pulp market. Recent softness in the NBSK market encourage major producers to drop list prices USD 20 per ton while spot prices fell an additional USD 10 per ton.

Price Highlights

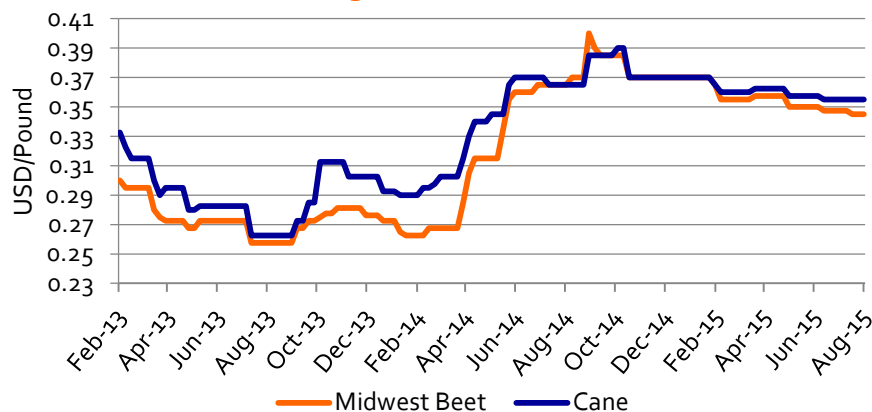
Price Highlights	July/ most recent	Last month	Last year
Southern Yellow Pine Stud lumber, Price per mbf	\$330	\$338	\$352
Oriented Strand Board 15/32" Shipped to Los Angeles, Price per mbf	\$230	\$240	\$263
Douglas Fir #2 Saw Log NW Oregon, price per mbf	\$620	\$579	\$613
NBSK from North America to China, price per mt	\$765	\$790	\$840
U.S. Housing Starts (thousands of units)	1,174	1,069	909

Source: Random Lengths, Forest2Market, RISI, 2015

Sweeteners

- While the anti-dumping suit against Mexico has not been fully resolved, the market is moving forward as if the provisions of the suspension agreement are in place. U.S. sugar prices, while slowly declining since last September have remained relatively steady as the markets adjust to the rules by which Mexican sugar enters the U.S. market. We are expecting prices to remain steady in USD 0.33 to 0.35 per lb. basis Midwest beet sugar.
- However, if USDA's production forecast becomes reality there may be some price pressure this fall. USDA is projecting both beet and cane production to be up 9.1% and 5.7%, respectively in 2015.
- The first salvo in the annual corn sweeteners negotiations has begun. Two corn wet millers have already put out price letters for 2015 which are showing a USD 4.50 per CWT increase in corn syrup, USD 3.50 per CWT for HFCS-42, and USD 4.50 per CWT for HFCS-55.
- Estimated year-over-year net corn costs are actually down, so it is difficult to justify price increases based on costs. However, the corn wet millers are pointing to tight supplies of product as justification for a price increase. This was one of the arguments used last year to command a higher price. This announcement was in line with expectations. As the price spread between corn sweeteners and sugar narrows further, there will be increased interest from end users to switch to sugar.

U.S. Cash Cane & Beet Sugar Prices



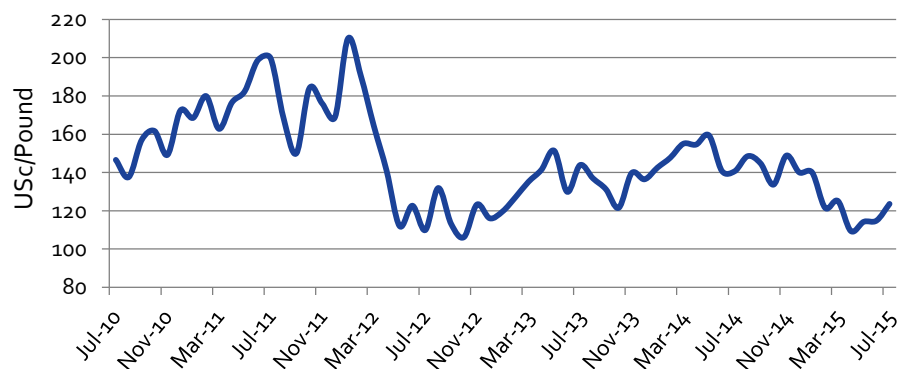
Source: Milling and Baking News, 2015

Juice

Florida Orange Juice

- The final USDA forecast for 2014/15 crop in Florida has turned to a slightly more positive note on all orange production, targeting 96.7 million boxes. Forecast for non-Valencia oranges remains unchanged at 47.4 million boxes, while the later Valencia varieties rose 1% from June to 49.3 million boxes. Final yield for FCOJ has been released by the Florida Department of Citrus: on average at 1.50 gallons (at 42.0° brix) per 90 pound box for all oranges, Valencia varieties at 1.58 gallons, and non-Valencia oranges at 1.42 gallons.
- As the 2014/15 harvest season concludes, attention has been shifted to next year's crop. Reports are confident in the fruit sizes and quality as favorable growing conditions (heat and humidity) are expected. Minor concern of recent heavy rain fall is unlikely to lead to much damage.
- FCOJ futures are trading at USD 1.23 per pound, a slight upward trend compared to last month. However, the trading floor has been quiet lately as traders anxiously await reports for the 2015/16 crop, and inventories remain at a higher than expected levels. As U.S. consumers continue to turn away from fruit juices for health concerns, the industry is facing continued headwinds for growth in per capita consumption.

FCOJ Futures



Source: Bloomberg – ICE, 2015

Cotton

- The ICE #2 is expected to edge marginally higher through 2015/16, towards an average of 67 USc/lb in Q3 and 70 USc/lb through Q4. Growers across the world have cut their acreage by some 7% YOY, driving production to the lowest level in five years. The world supply and demand balance is forecast to swing into a deficit in 2015/16 of some 5-6 million bales, as consumption outstrips supply for the first season in six. However world ending stocks remain very heavy, and with a STU ratio still above 90%, it will take some years to erode inventory pressures. Mill demand is key however, and has been seasonally weak over recent months – we anticipate a pick up as the new crop flows through December to April.
- Cotton futures spiked following the USDA's 12th August WASDE and crop report. U.S. production was cut to 13.1 million bales, an unbelievable [sic] 10% MOM reduction following the re-survey, on vastly higher abandonment of 11%, lower acreage and lower yields. On our recent crop tour, we noted the impact that the extreme night-time temperatures across the Delta had on yields. Crops looked good, but boll counts were lower than last season, and shedding was reported. August weather is critical and the crop is far from made – particularly in West Texas.
- We maintain our U.S. production estimate at 14.3 million bales, with abandonment at 8%. The USDA now estimates that U.S. ending stocks will contract to 3.1 million bales, the tightest since 2013/14 when futures ranged from 75-85 USc/lb.

Yields look good, but shy of the records

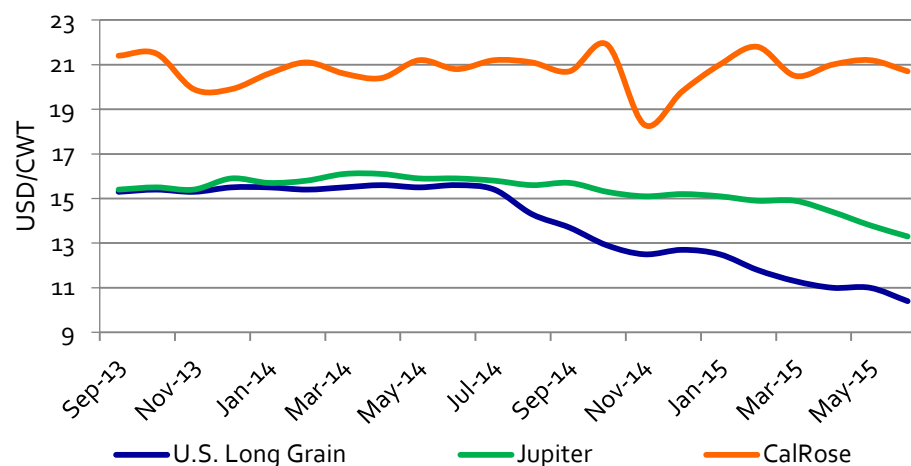


Source: Rabo Agri Finance team boll counting in McGehee Arkansas, Rabobank, 2015

Rice

- Harvest is on the forefront of growers minds. There have been reports of growers in the Southern U.S. starting harvest early as weather has been permissible. Buyers are holding their positions, to wait and see what quality and price will be like for the new crop. September and November long grain futures are trading at USD 11.5 and 11.755 per cwt, respectively.
- Southern crop prices have come off as buyers are more interested in new crop. In the South, long and Southern medium grain Jupiter prices have fallen to their season lows of USD 10.40 and 13.30 per cwt, respectively.
- CalRose prices remain stable at USD 20.70 per cwt, last year's short crop and this year's decline in acreage has kept prices near historic highs. These higher prices have forced buyers to look for alternatives, leaving California growers with larger than anticipated inventories.
- Current CalRose acreage is estimated at 350,000 acres, though growers are struggling to find adequate water to finish the crop. There has been some importation and mixing of Jupiter rice with CalRose, causing discord amongst California growers. Reports are that some loads have been rejected by Japan.

U.S. Short/Medium Grain and Long Grain Price

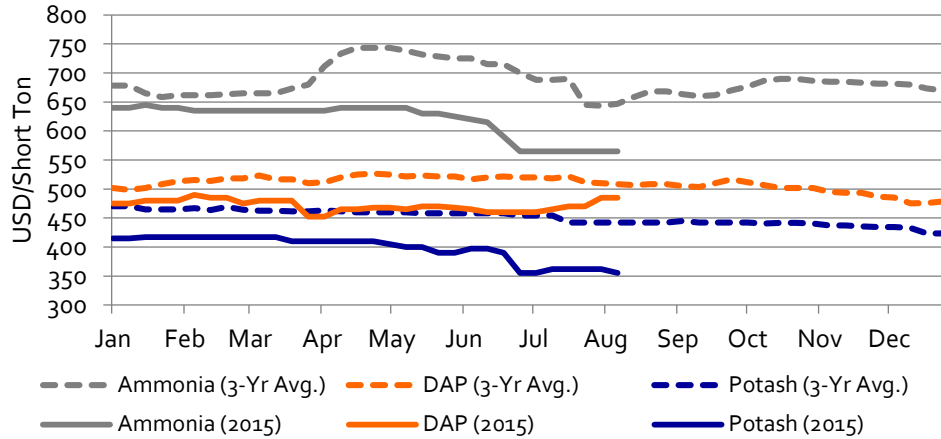


Source: USDA/NASS, 2015; Note: Average rough rice basis

Input Costs

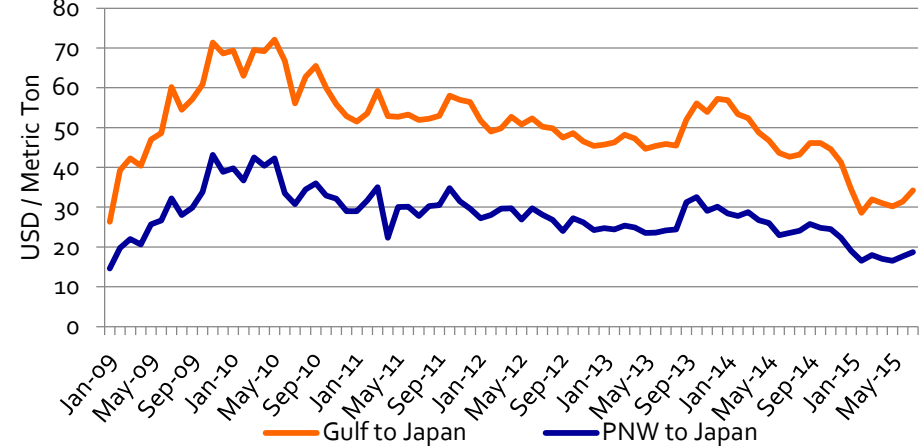
As of 8/14/2015

Corn Belt Input Prices



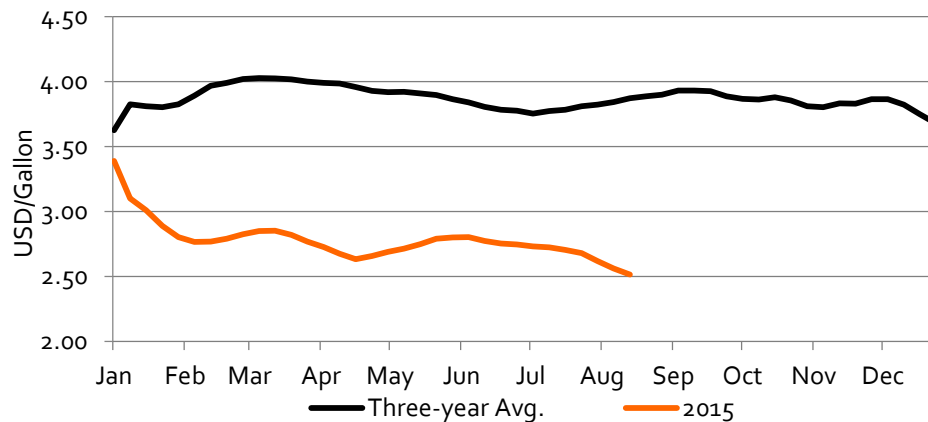
Source: Bloomberg, 2015; Note: Granular Potash

Ocean Freight



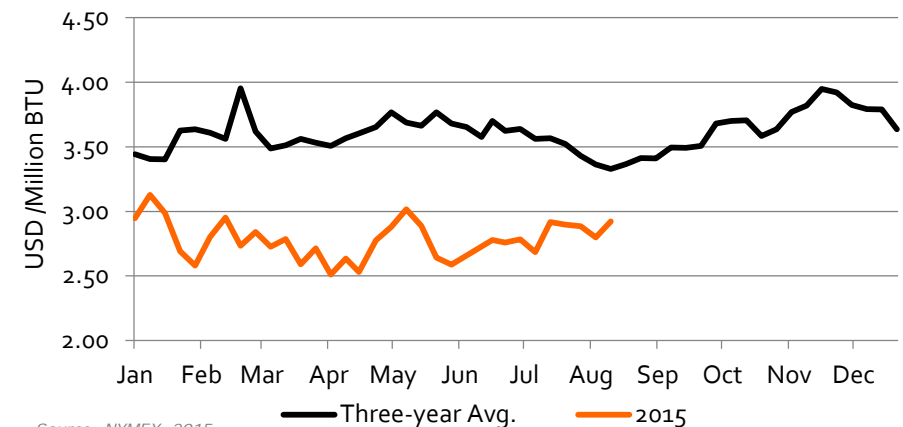
Source: O'Neil Commodity Consulting, AMS-USDA, 2015

Diesel – Midwest



Source: EIA, 2015

Natural Gas Spot

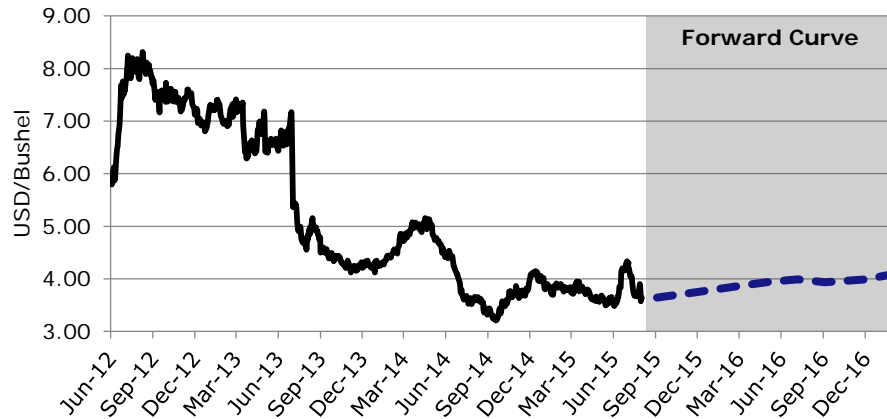


Source: NYMEX, 2015

Forward Price Curves

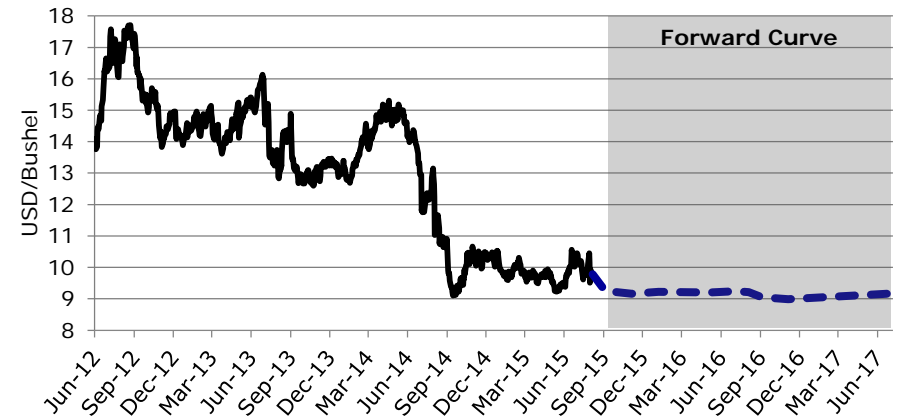
As of 8/14/2015

CBOT – Corn



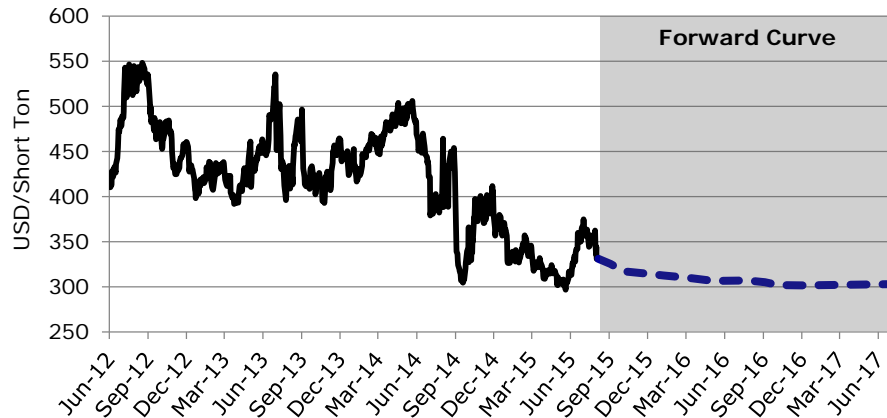
Source: CBOT, Rabobank, 2015

CBOT – Soybeans



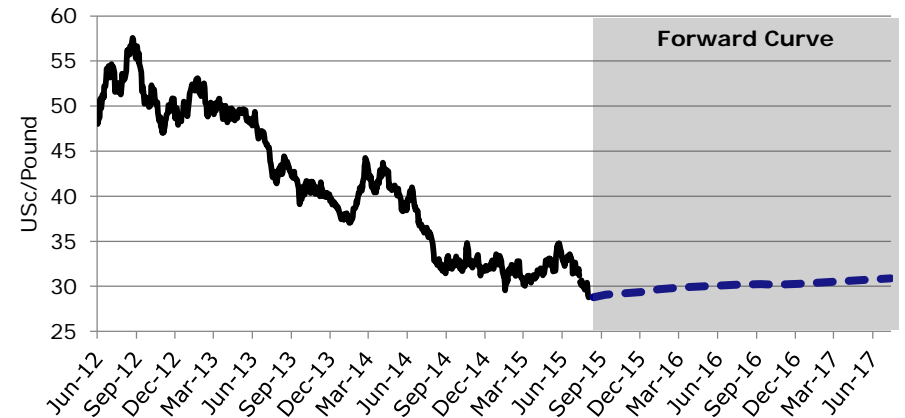
Source: CBOT, Rabobank, 2015

CBOT – Soymeal



Source: CBOT, Rabobank, 2015

CBOT – Soy Oil

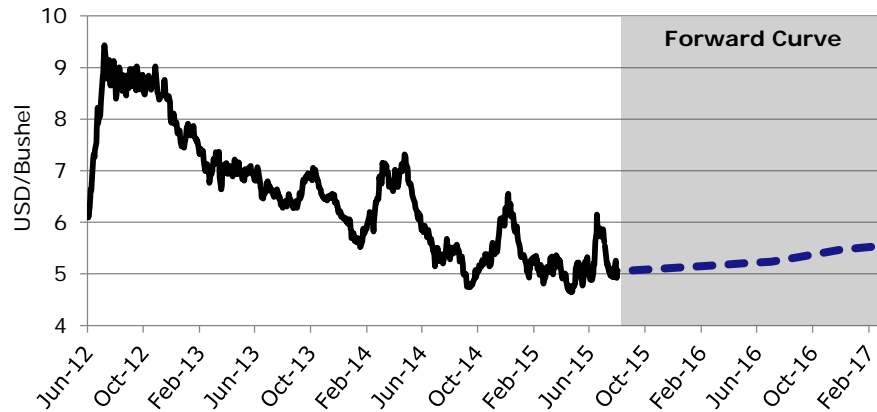


Source: CBOT, Rabobank, 2015

Forward Price Curves

As of 8/14/2015

CBOT – Wheat



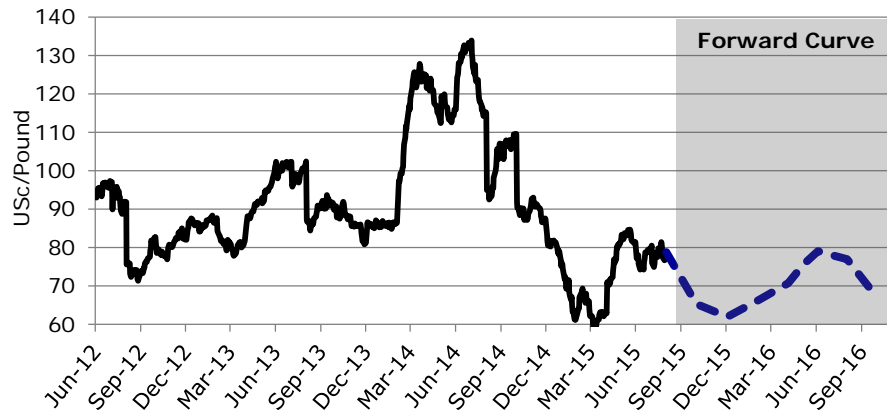
Source: CBOT, Rabobank, 2015

CBOT – Feeder Cattle



Source: CBOT, Rabobank, 2015

CBOT – Lean Hogs



Source: CBOT, Rabobank, 2015

CBOT – Live Cattle

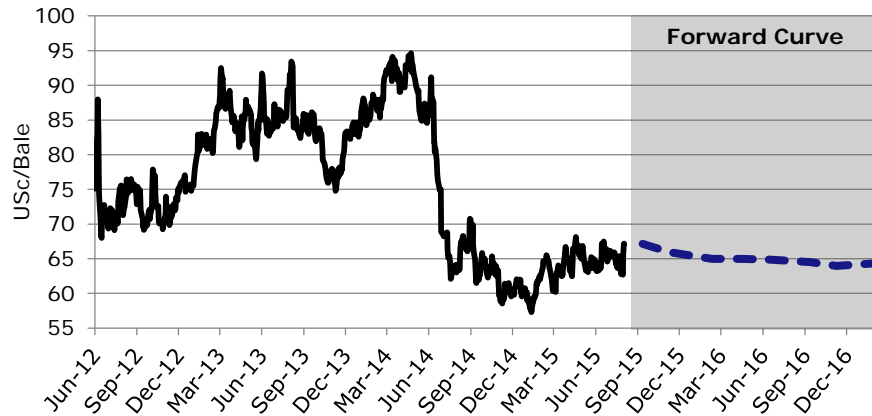


Source: CBOT, Rabobank, 2015

Forward Price Curves

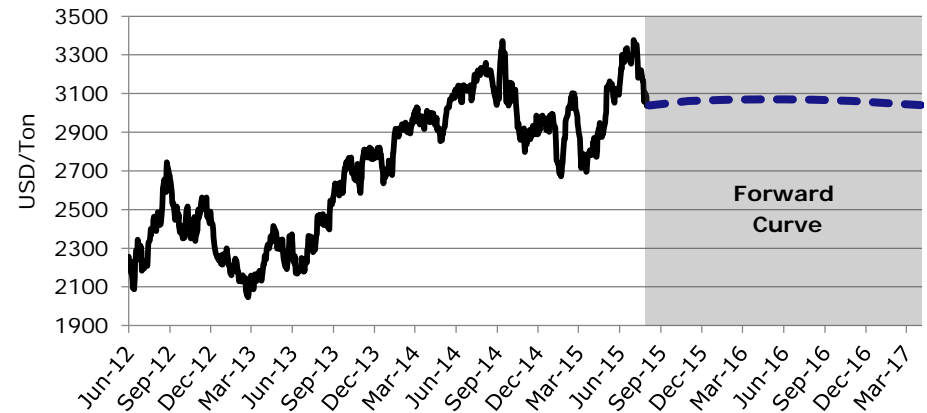
As of 8/14/2015

ICE – #2 Cotton



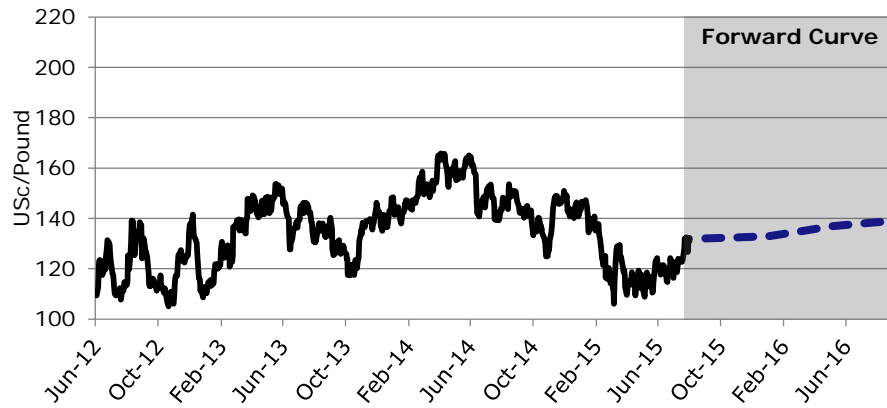
Source: ICE, Rabobank, 2015

ICE – Cocoa



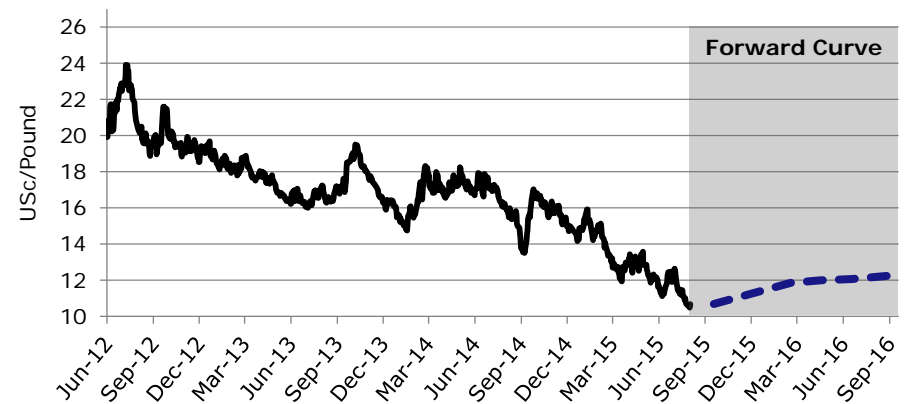
Source: ICE, Rabobank, 2015

ICE – FCOJ



Source: ICE, Rabobank, 2015

ICE – Sugar #11




Source: ICE, Rabobank, 2015

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