


Food & Agribusiness Research and Advisory

North American Agribusiness Review

February 2015

Rabobank

Report Summary

This report is prepared by Rabobank's Food & Agribusiness Research and Advisory division, a team of leading agribusiness analysts from the United States and around the world.
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Economy: Disinflation

U.S.

- The U.S. economy cannot escape from global disinflation. Inflation (CPI) fell to 0.8% YOY in December, from 1.3% in November. Unless we see a rapid rebound in oil prices, Rabobank's econometric model predicts a further drop in inflation below 0.5% in the coming months. Nevertheless, the Fed thinks that the disinflationary pressures are transitory. What's more, lower energy prices should also provide a boost to real consumer spending.
- There are several ways in which disinflation may be longer lasting. For example, if gasoline prices remain low, they could drag down inflation expectations. Consumers may not make the distinction between core inflation & food or energy prices as the Fed does. If inflation expectations fall, this will also lead to a decline in core inflation. Moreover, the fall in oil prices is not simply a supply side phenomenon. The slowdown in world aggregate demand for goods and services, including those made in the U.S., may have a more sustained disinflationary impact. This effect is amplified by the appreciation of the U.S. dollar, which is partly caused by the Fed's termination of QE3 and expected rate hiking cycle.
- The combination of stronger-than-projected disinflation, wage deceleration and plunging market inflation expectations is testing the confidence of various FOMC participants. As such, it may be difficult to tick all the boxes on the Fed's checklist by the summer. Consequently, Rabobank remains doubtful of a mid-2015 rate hike and sticks to its 2015Q4 call.

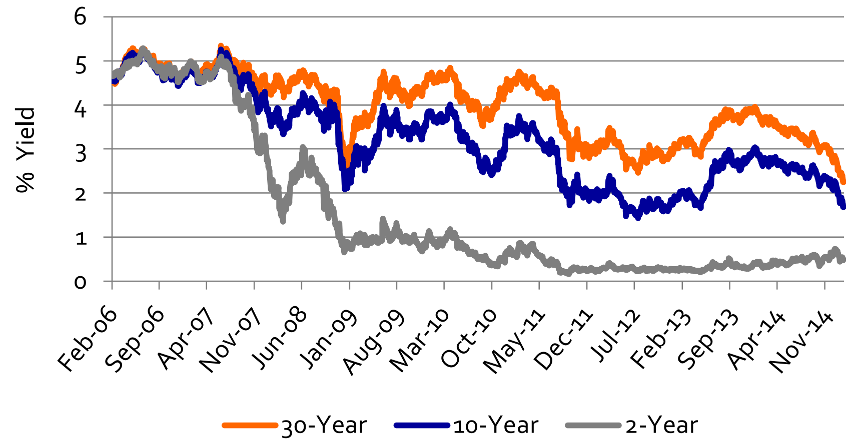
Mexico

- Mexican manufacturing is the main driver of growth with continued demand stemming from the U.S. Construction and mining have acted as a drag on growth and this is likely to continue. The rapid fall in oil prices has hit MXN particularly hard with USD/MXN trading above 15 briefly but the impact of oil on the economy is likely to be muted this year due to the government's hedging process. We expect the policy rate to be held at 3% throughout 2015 and we estimate growth of 3.3% YOY with risks to the downside.

Canada

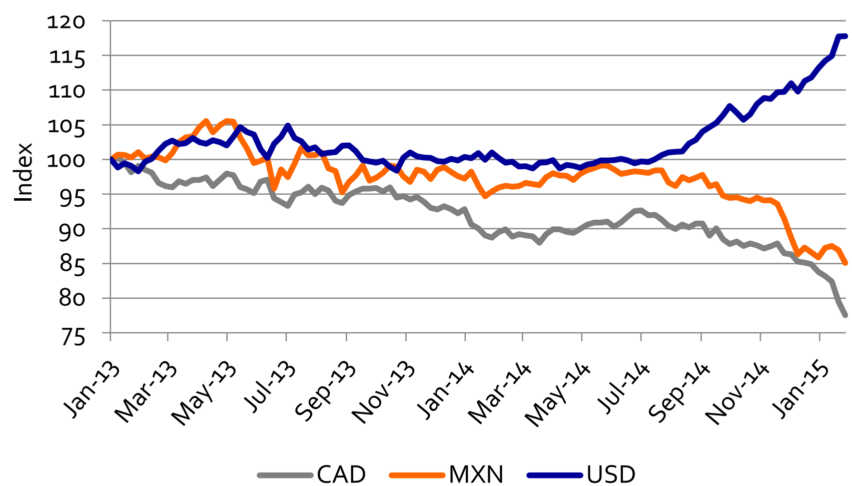
- The sharp drop in oil prices is hurting the Canadian economy through reduced business investment in the energy sector, and a slowdown in consumption due to setbacks in income and wealth. As insurance against increased downside risks, the Bank of Canada cut its policy rate in January. In respect of the CAD's sensitivity to the oil price, we see risk of USD/CAD 1.28 on a 3 month view. On the assumption that oil prices manage a moderate recovery this year we expect USD/CAD to push lower towards 1.25 on a 6 month view.

Interest Rates



Source: Federal Reserve of St. Louis, 2015

Currencies



Source: Bloomberg, 2015

Consumer: Record High Confidence

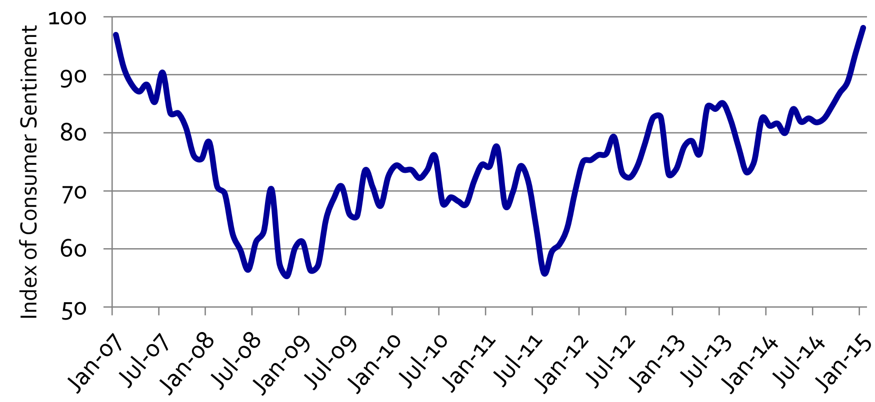
- Consumer confidence, as measured by the Index of Consumer Sentiment, rose to 98.1 in January compared to 93.6 in the previous month. The index has risen for the last six months and is now at a level not seen for over a decade suggesting that finally consumer s are shaking off concerns over the economic outlook.
- Over the last twelve months, the rate of inflation as measured by the Consumer Price Index (CPI), rose by a modest 0.8% because of the dramatic fall in oil prices. Retail food prices up by 3.7% and restaurant prices up by 3.0 % driven largely by higher protein prices. Over the same period food manufacturing prices rose by 3.6%.
- In the U.S., about 47% of each dollar spent on food is spent on food prepared away from home, mainly at restaurants/food service establishments. For the year to October 2014, consumer expenditure on food away from home rose by 3.6% , slightly above expenditures on food prepared at home.

Food Sales

Sales (USD billion)	Annual				YTD Cumulative		
	2010	2011	2012	2013	Aug-14	Sep-14	Oct-14
Food at home	618	651	673	742	502	565	629
YOY change	2.7%	5.3%	3.4%	10.3%	2.9%	3.2%	3.2%
Food away from home	558	591	630	668	461	517	574
YOY change	3.3%	5.9%	6.6%	6.0%	3.6%	3.8%	3.6%
Total	**1,175**	**1,241**	**1,302**	**1,410**	**963**	**1,082**	**1,203**

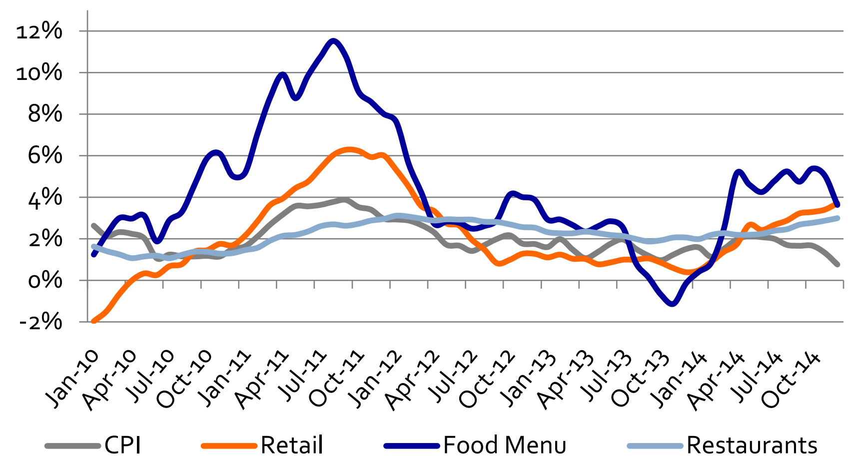
Source: USDA, ERS

Index of Consumer Sentiment



Source: University of Michigan Consumer Sentiment Index, 2015

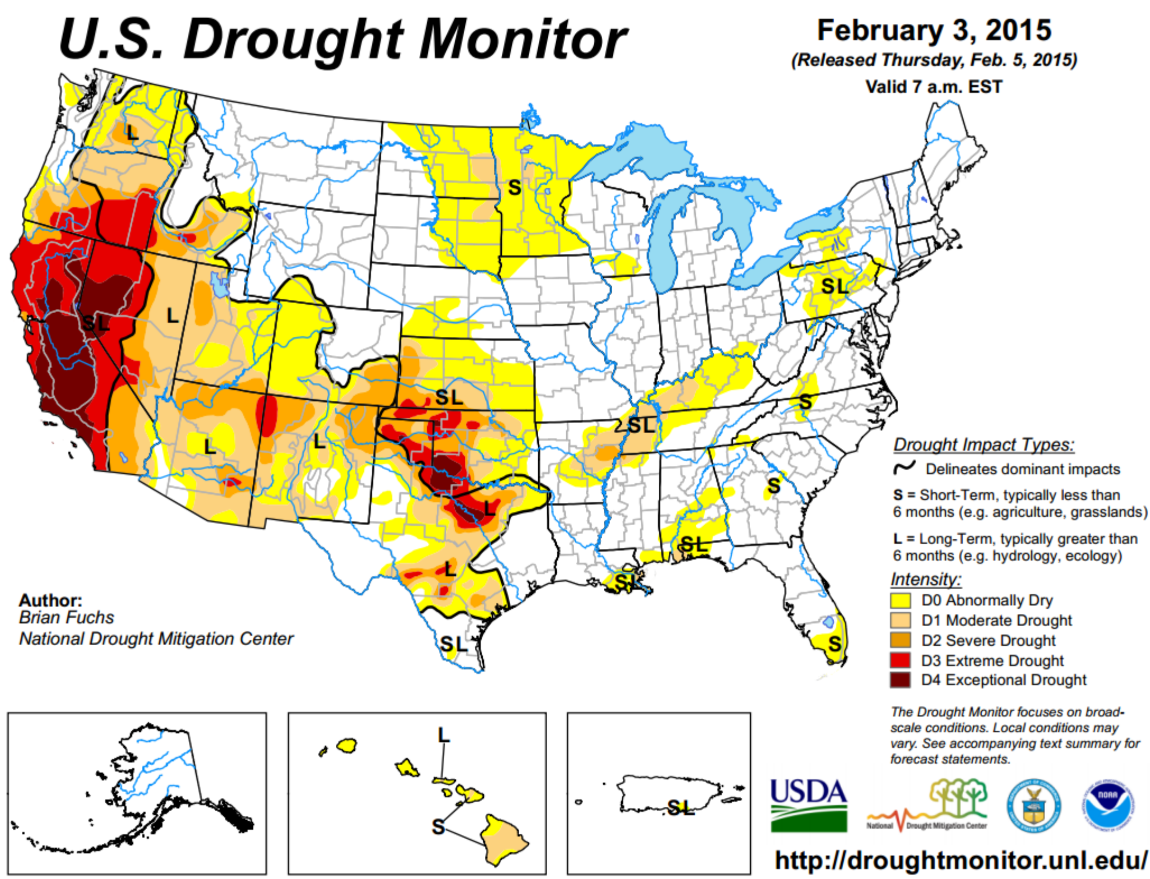
Food Price Inflation



Source: USDA, BLS, 2015

Climate: Low Snow for CA, Some Help on the Way

- California still languishes in drought along with much of the PNW. The lack of snowfall, especially in the higher elevations, remains a consistent issue in the west because much of regions' precipitation this winter fell as rain. While many of the California valley locations show adequate rain this winter, the lackluster snow accumulation will be an issue this year as the associated runoff is vital. Some relief is forecast during the next week with rainfalls expecting to total 10 to 18 inches in central and northern California.
- The generally mild winter experienced by the Corn Belt was lacking snowfall with much of the region being 10 to 25% below normal precipitation over the past three months. However, storm activity last week deposited about 1.0-1.50 inches over the area with some places receiving far more. For example, Chicago recorded stunning a total of 19.3 inches. Corn Belt temperatures are expected to moderate through the next two weeks with more above seasonal readings.
- The same storm which blanketed the Midwest also deposited 2 to 5 inches of snow across Nebraska and northern Kansas providing much needed coverage of the dormant Winter Wheat crop. Although most of the High Plains received some moisture last week, long-term dryness in southern Oklahoma and northern Texas still persists, adversely impacting winter forage availability in the area.



Beef: Confusion & Volatility Reigns

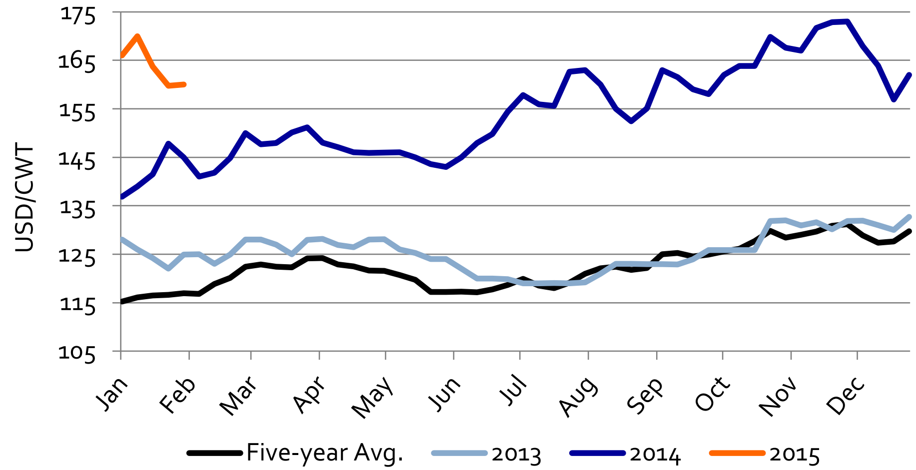
U.S.

- After spending 2014 in a year-long price rally, the recent decline in the futures market has been from first-of-year position rebalancing, along with concerns over global economic and social instability. In addition, recent heavy liquidation of long futures positions has loomed over the market and curbed the bullish enthusiasm. The steep run up in the value of the U.S. dollar and the potential impact on trade balance has also proved concerning.
- As a result of the sharp break in cattle futures, there has been a separation from price expectations generated in the futures market and the reality of the true underlying fundamentals of the cash market. The sharp break in futures prices and relative reluctance to break the cash market has caused incredibly wide basis levels. The reality is that while lower, cash prices in beef cutout values, fed cattle and feeder cattle are still trading at price levels that would have appeared impossible even a year ago.
- Feeder cattle prices that are largely impacted by the hedge able price levels of deferred live cattle futures have corrected about USD 20 per cwt since the first of the year. It should be noted that because of improvement in winter forage sources, there are about 20% more cattle than usual turned out on winter grazing. The majority of those cattle will return to market over the next 45 days. Once that set of feeder cattle are sold there are relatively light supplies to follow. The normal seasonal low in feeder cattle prices is March. That seasonal low is expected this year as well and once established feeder prices should rally into fall.
- In spite of a recent break in live cattle futures in excess of USD 20 per cwt, cash fed cattle prices have held fairly well and to date suffered a USD 10 per cwt break from an early January peak at USD 170 to current prices at USD 160 per cwt. Seasonally the fed cattle market suffers early in the year as beef consumption declines and consumer attention goes to paying down holiday season credit card debt. It often takes the approaching of spring and the opening of the grilling season to revive prices. The same is expected this year.

Mexico

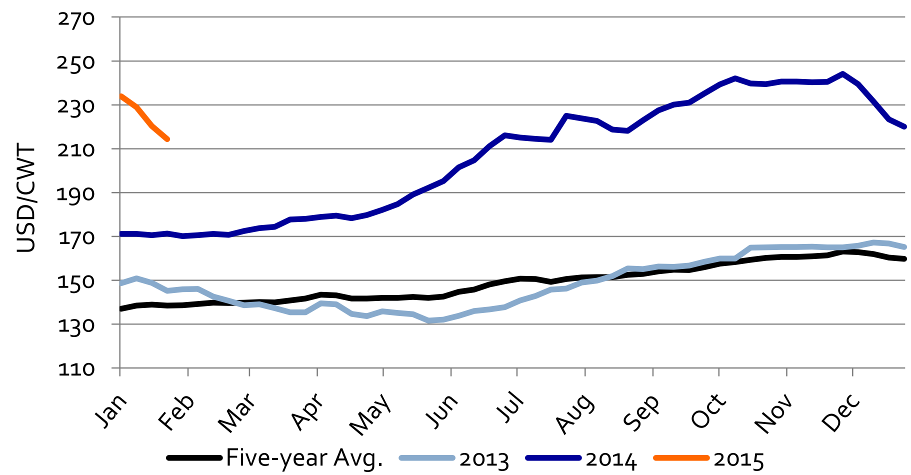
- Hopes for the Mexican beef industry rose after expectations that the U.S. cattle inventory will begin its rebuilding phase. However, we expect the Mexican herd to decline at a slower rate (1.7%) than last year (5%). Despite that, we forecast another decline in slaughter numbers at around 1.4 percent with an increase in weights. At the end of next year, we anticipate beef production flat from last year.

Western Kansas Steers



Source: USDA-AMS, Rabobank, 2015

Weekly CME Feeder Index

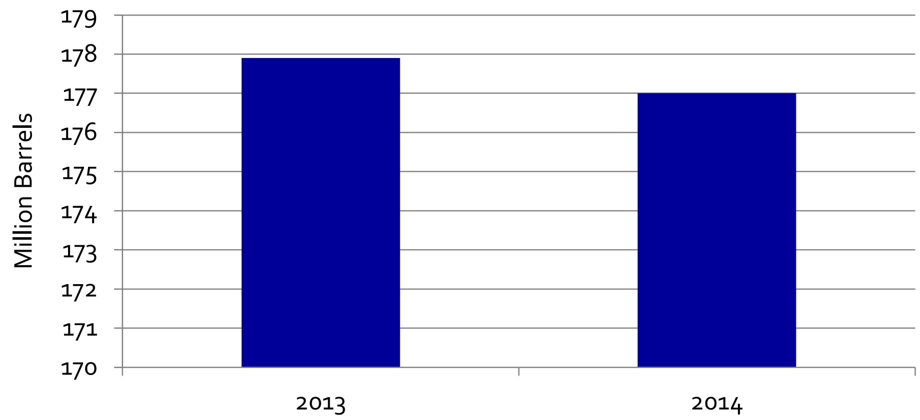


Source: CME, Rabobank, 2015

Beer, Hops & Barley: Barley on the Rise

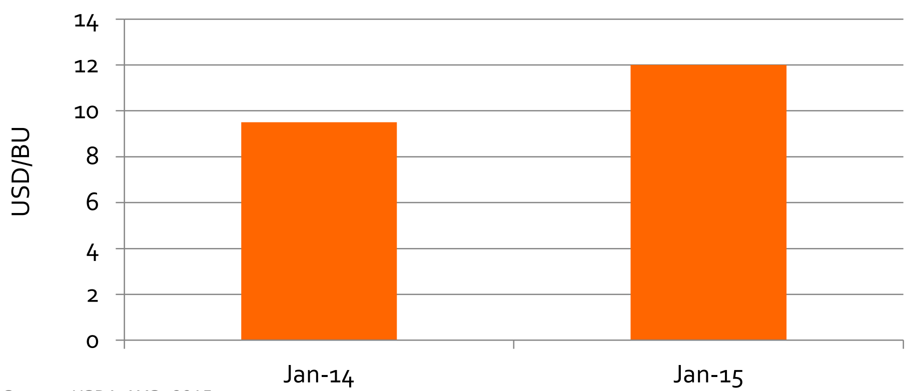
- Domestic tax paid shipments of domestic beer registered an almost imperceptible decline in 2014, down 0.5% to 177 million beer barrels. This represents a marked slowdown in the rate of decline for beer sales and seems to bode well for the beer sector moving forward.
- Craft beer continues to make impressive share gains in the U.S. market, which is attracting further attention to the category from the large brewers. In November 2014, AB Inbev announced its acquisition of famed Oregon craft brewery 10 Barrel. This was only the latest in a series of craft beer acquisitions by the major beer companies in the US, and further acquisitions of this nature can be expected.
- Beer imports continue to show impressive growth, up 7.6% in 2014. Declining imports from the Netherlands (Heineken) were more than offset by increasing shipments from Mexico , driven by the ongoing success of Constellation's Mexican beer portfolio.
- In spite of some mild declines in overall sales of domestic beer, barley growers appear to be seeing very favorable pricing. Available supplies have tightened and inventories of many malting companies are below desired levels, which is driving notable improvements in spot prices. Spot prices for malting barley in Montana are now more than 25% higher than they were one year ago.

Total U.S. Beer Depletions



Source: Beer Institute, 2015

Malting Barley Prices for Montana

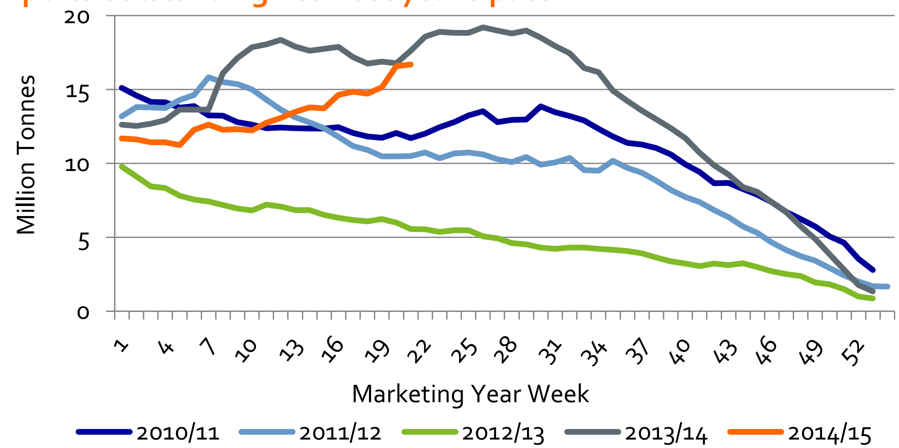


Source: USDA-AMS, 2015

Corn: Storage Still an Issue

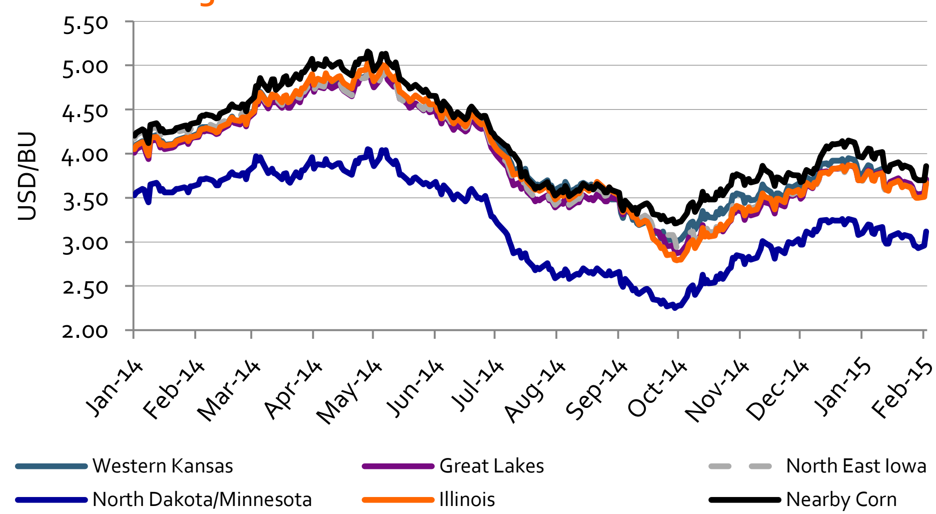
- The tighter than historic regional price spreads indicates that a significant amount of corn continues to be held in storage. For the second straight year, USDA reported that 14 percent of the record 11.2 billion bushels of corn in storage as of December 1, 2014 was being held in the Eastern Corn Belt states of Indiana, Ohio and Kentucky. Total stocks in all Eastern Corn Belt positions was up 2.16% year on year. In a bumper crop year, this would normally lead to a wider spread between export market cash bids and the Eastern Midwest regional cash bids as stocks are more readily available in the central Midwest (Iowa and Illinois). However, despite the estimate that the Central Corn Belt December stocks were up nearly 14 percent year on year, the average Eastern Corn Belt to average Illinois River export terminal cash bid is nearly 50 percent lower year on year at USc -9.4. Until the majority of corn stocks are priced, rallies will be difficult to sustain and downward pressure will continue.
- Sold but not exported corn orders have pushed to match the unprecedented levels of 2014 with 52% of total exports sales outstanding (normally at or below 40% by Feb 1). As transportation issues are not nearly as challenging in 2015 compared to 2014, (average grain car speeds has increasing by 1.7 mph YOY near the three year average) difficulty pricing and shipping corn being held in storage is likely the key bottleneck. A stronger basis than normal bumper crop years in corn deficit processing and export areas is expected until the need for liquidity to plant and warmer temperatures incentivize increased physical selling.
- Fewer acres planted to new crop is the next opportunity for sustained price support. As new crop prices lose ground, our corn planting projection has edged up slightly to 89 million acres. However, a trend yield of 164 bushels per acres and 92% harvest rate would draw ending stocks down year on year by 200 to 300 (14% year on year) million bushels. As a result, a risk premium is expected to result from any challenge with Northern hemisphere planting or Southern hemisphere harvest which is already expected to decline 7% year on year (over 7 MMT).

Exports outstanding near last year's pace



Sources CBOT, Rabobank, 2015

Better Growing Conditions Drive Corn Prices Lower

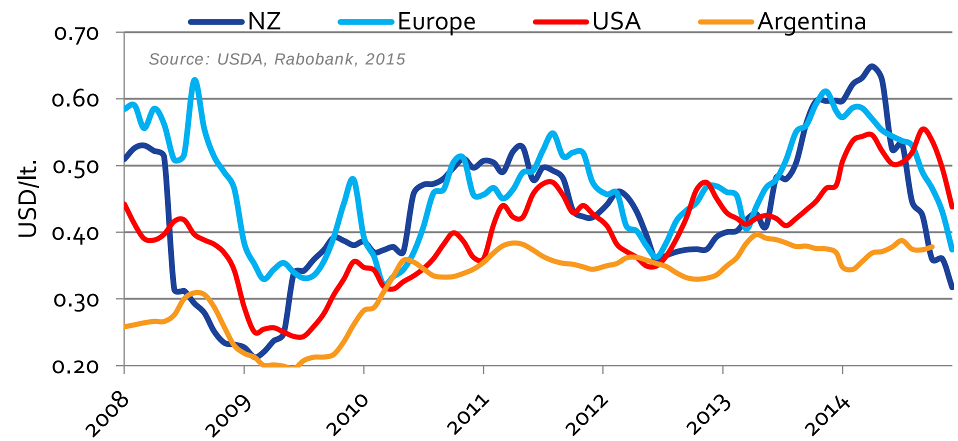


Source: DTN, Rabobank, 2015

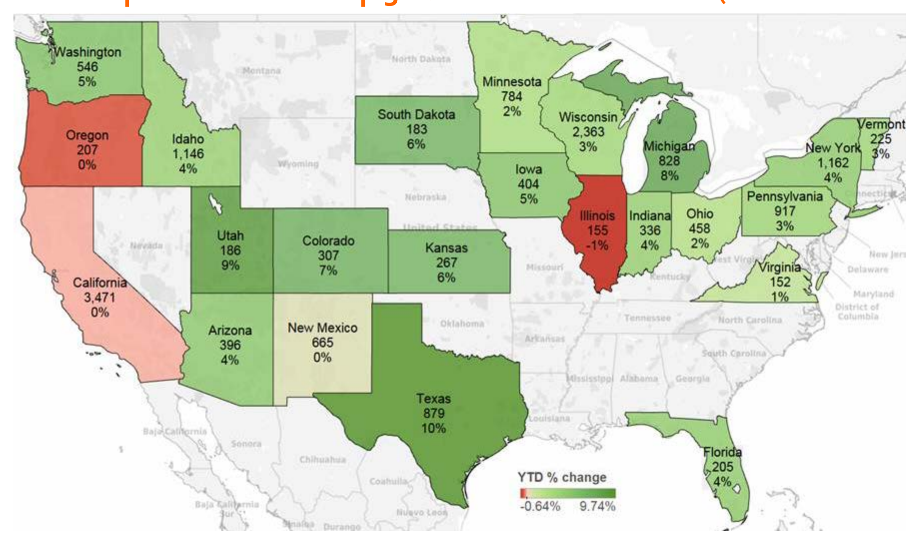
Dairy: Further Price Declines in the U.S. Almost Inevitable

- USDA production data for the month of December showed U.S. milk production grew by 3.1%. This is representative of the relatively high all milk price US farmers continued to enjoy in December (USD 20/cwt).
- Higher prices in the international market helped drive U.S. exports early in 2014. After record export volumes in the first half of 2014, exports slowed significantly in the second half of the year (-9% in liquid milk equivalent terms LME) as international prices started to collapse. Meanwhile U.S. imports picked up in the second half of 2014 (13% LME) as U.S. dairy commodity prices held a significant premium to the international market and exporters such as the EU and NZ took advantage of this arbitrage opportunity, coupled with a strong US dollar.
- Prices in the U.S. finally eased in November and December, falling to international levels. The U.S. price of block cheddar cheese has fallen more than 30% from October highs while butter has declined by more than 40% and NFDM has declined by more than 20%. These declines are making their way back to the farmer . The all milk price has fallen 18% from October to reach $20/cwt in December. Looking forward the CME dairy futures' contracts are pricing in somewhat of a price recovery later in the year from current levels for both class iii and iv. This apparent recovery in prices is largely driven by Fonterra's announcement for a -3.3% decline in forecasted production for the 2014/15 season which Rabobank feels will have limited impact in tightening the global supply demand balance.
- As outlined in our latest Global Dairy Quarterly - Chinese buyers remain absent from the market, Russia has banned more than 50% of its dairy imports, and concerns have surfaced about the global economy; 2015 is shaping up to be a tough year for dairy farmers. Many dairy producers in the U.S. have looked to hedging strategies as a way to help protect margins. The USDA recently indicated that over 50% of U.S. farmers have enrolled in their new margin protection program. One good thing dairy farmers have going for them in 2015 is low feed prices which look to remain exceptionally low through the year.

Farmgate milk prices have eased in most major production regions



U.S. milk production was up 3.1% YOY for December (volume in million lbs.)



Source: USDA, Rabobank, 2015

Feed: Moving Toward Normality

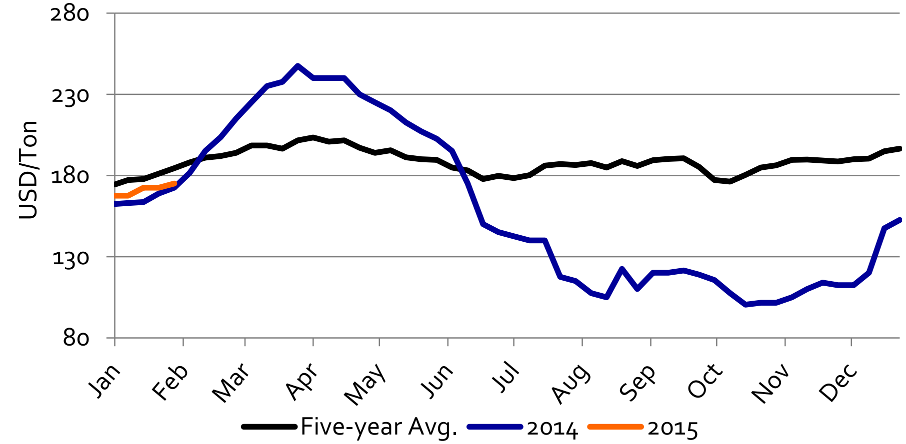
DDGs

- The Chinese approved the gene MIR162, ubiquitous in US corn, last December which pulled DDG prices back to near the five-year average. With at least one ship-load being sent to China so far, prices should return closer to the five-year average after plummeting during H2 2014 with this export venue restored.
- Recovering DDG prices over the past 60 days are acting to correct feeder cattle prices lower as higher feed costs are pressuring margins.
- With petroleum prices plummeting and the ethanol blend wall met, the aggregate volume of DDGs will no longer increase, which will help support prices.

Hay

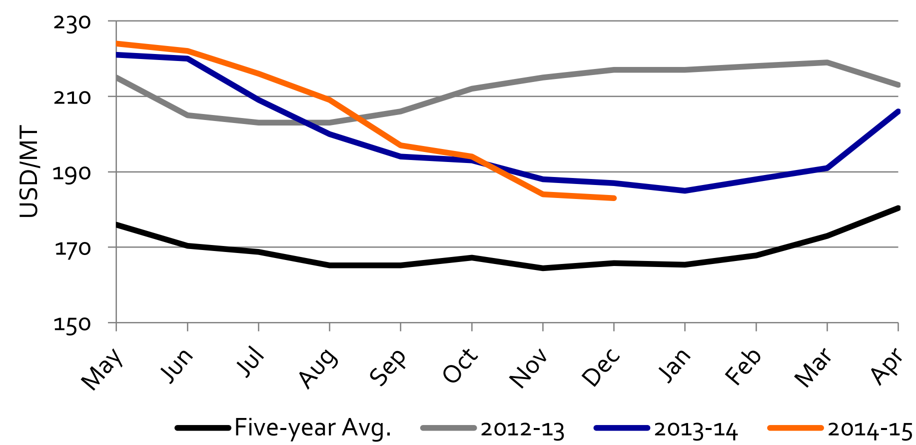
- The Hay complex is slowly trending back toward the usual production, stocks, and prices seen before the 2010 through 2012 droughts. The December 2014 hay stocks were reported up 3% YOY with sizable increases of 27% and 31% in Texas and Oklahoma respectively. This constitutes the largest increases in stocks for those states since 2010. Despite the gains, current production is still about 5% below pre-drought levels while and stocks are 10% below.
- With corn prices low, some marginal land should be rotated back to hay this year. Increasing production and stocks should further suppress hay prices back closer to the five-year average.
- Hay prices are experiencing great regional variation this year with uneven geographic distribution of precipitation over the winter. Stocks are currently tighter in the drought stricken western states which will require regional trade of supplies.
- Rapid development of large corporate dairy farm projects and a prolonged drought in the United Arab Emirates have been the primary causes for the 30% increase in export demand for U.S. hay in the last five years

Iowa DDG Price



Source: USDA-AMS, LMIC, 2014; Note: 10% Moisture, 28% to 30% Protein

Alfalfa Hay Price

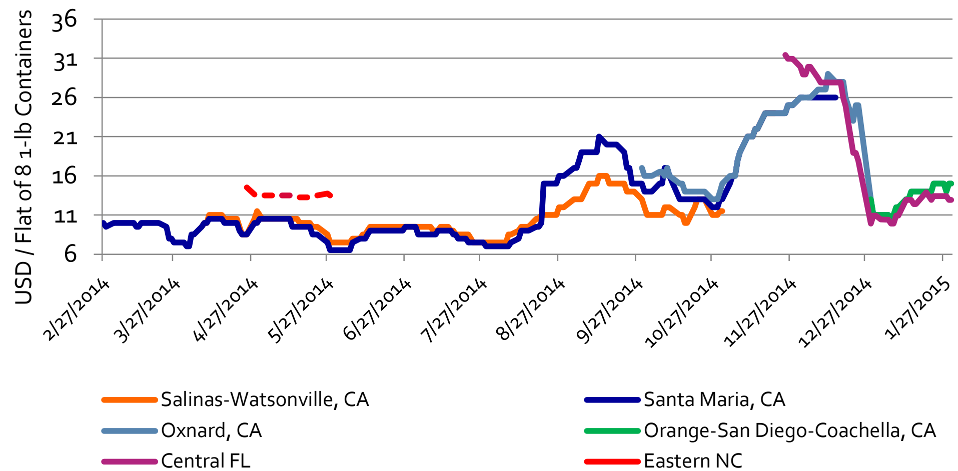


Source: USDA-AMS, LMIC, 2014; Note: National Average Price

Fruits: Export Markets need supPORT

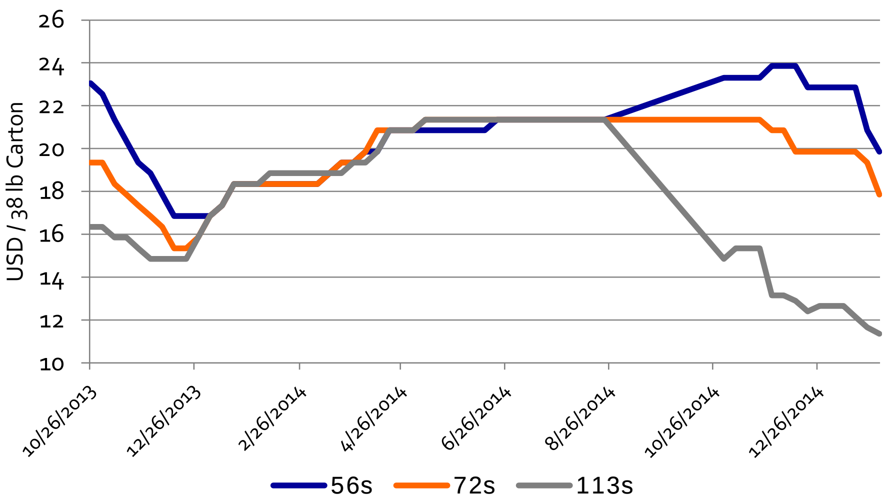
- Labor-related port disruptions on the West Coast of the U.S. continue to plague fresh fruit export potential. Apple and pear exports from the Pacific Northwest, and navel orange exports from California have been affected. It is estimated that Washington state apple and pear growers have lost USD 70 million in export revenue since Nov. 1. Export challenges, coupled with the record 150 million bu. Washington apple crop and very ample supplies from Michigan and New York pushed prices down by 10% to 30% YOY in January, depending on variety.
- Strawberry prices hit season highs in November and December as weather hampered California supplies, and Florida and Mexico got a late start. Once the new California crop , Mexican imports, and Florida production came on line, prices dropped to more normalized, yet still profitable, levels.
- Freezing temperatures in California's San Joaquin Valley during December and early January have resulted in approximately USD 441 million in lost revenue for citrus growers, and an additional USD 49 million has been spent for frost protection during the current season. Prices have been stronger than last season for large fruit, but weaker for smaller pack sizes.

Fresh Strawberry Prices – Medium to Large Berry Size



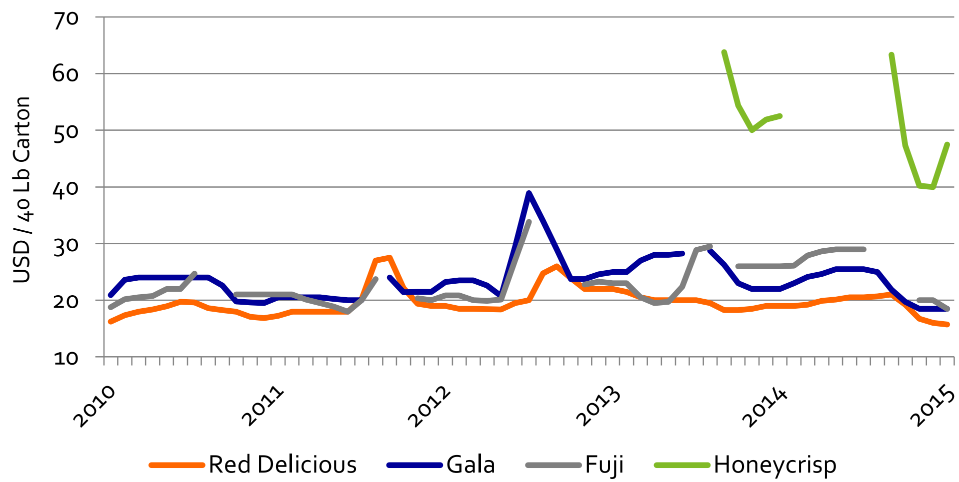
Source: USDA/AMS, Rabobank, 2015

Navel Orange Prices – Shippers 1st Grade



Source: USDA/AMS, Rabobank, 2015

Washington Apple Prices – 100 Pack Size – WA Extra Fancy



Source: USDA/AMS, Rabobank, 2015

Pork: Supply Rebounding After PEDv Shortages in 2014

U.S.

- With the outbreak of PEDv driving hog prices and producer profitability to all-time highs more than once in the last 12 months, U.S. producers are in the early stages of industry expansion that we expect to materialize into increased pork supplies by the beginning of the second quarter. As indicated by the USDA's Quarterly Hogs and Pigs report, released 23 December, the U.S. breeding herd has expanded by 2% in the last year, and farrowings in Q4 2014 and Q1 2015 are up 3% to 4% over the previous year.
- Our expectation for pork production growth is for a much smaller impact from PEDv in 2015 and for much of the supply growth implied in the USDA report last month to reach the market. We see hog slaughter increasing 4% on average in 2015 but being partially offset by a decline in hog weights of about 1%. With increased hog supplies and less slack in U.S. hog barns, we see average dressed hog weights declining by about 2 pounds or 1%, with larger year-over-year declines in the summer.

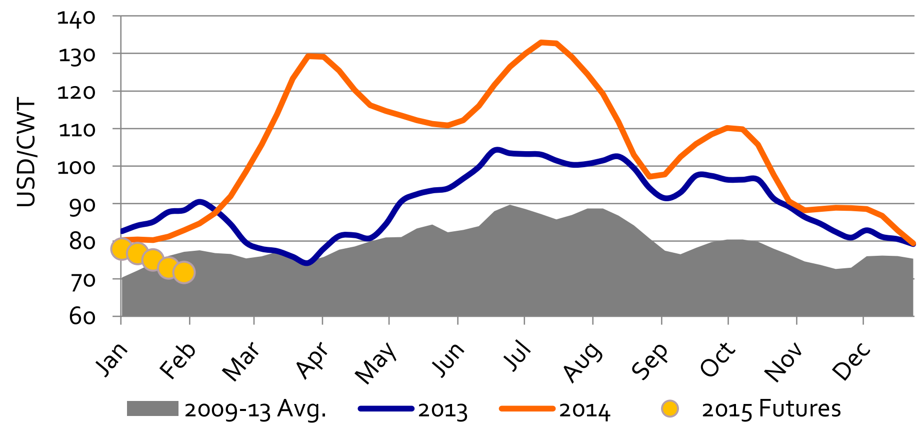
Canada

- The PEDv fear that pushed U.S. hog futures to all-time highs yielded very high margins for Canadian producers in 2014. While PEDv outbreaks were nearly nonexistent in Canada relative to the U.S., supply shortages in the U.S. meant hog production margins of USD 38 per head for Canadian producers, which could not have come at a better time after the industry struggled for the last decade.

Mexico

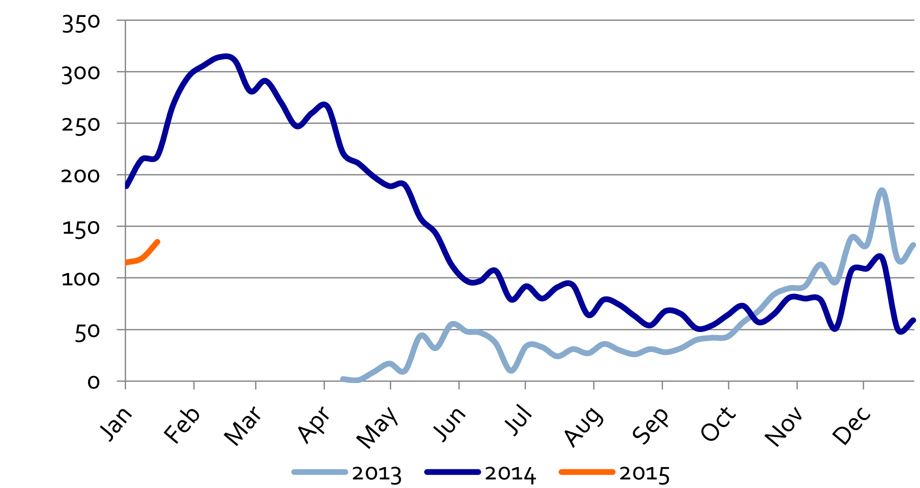
- The Mexican sow herd continues on the road for expansion. This year, we anticipate sow heard to increase at least 5%. However, some farms continue to struggle to get rid of the PEDv. That, in addition to the PRRS virus, could complicate the expansion of domestic meat production. Hog prices will lose support as the U.S. supplies increase, however we hold our expectation that prices will find a support at 24 pesos per kilo.

U.S. Hog Futures



Source: Bloomberg, 2015

Cases of PEDv in the U.S. by Week



Source: AASV, 2015

Poultry: Prices Up on Beef and Pork Shortages

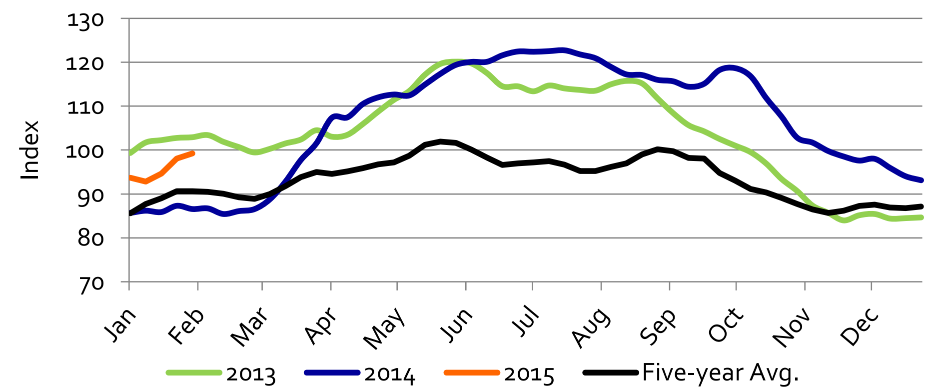
U.S.

- U.S. poultry prices and overall industry profitability ended 2014 on a high note indicative of the robust domestic and international demand for US chicken production. On an indexed prices, chicken prices ended 2014 approximately 10% above prior year levels largely driven by improved prices for wings and legs.
- During December, the first reports of high-path bird flu were reported in British Columbia, Canada which soon spread into Washington, Oregon and most recently California. For the most part, bird flu cases have been limited to wild birds which migrate South from Canada that time of year. There was a case of bird flu discovered in a commercial turkey farm in California which raises the risk that it could spread to other commercial poultry production in the region but rapid response actions from the producer as well as government agencies will aid in keeping the issue contained.
- As a result of these cases of bird flu a number of countries have banned chicken exports from these three states but China and Korea have banned chicken exports form all of the U.S. U.S. trade representatives are working to limit these bans to only the states affected by bird flu in accordance with WTO policy, but this will likely take time.
- These bans have pressured leg quarter prices which have declined 18% since the beginning of the year which have been more than offset by higher breast meat and wing prices. Breast meat is up 13% in the same period reflecting strong domestic demand for chicken and the strong relative value of chicken to beef. The ratio of beef over chicken prices at retail exceeded 3.0x at the end of 2014 for the first time which is up from 2.56x a year earlier.
- U.S. supply growth is on the way with eggs set and chicks placed up 3% to 4% over the last year for a few months now which we expect to bring 4% more chicken production in 2015 including a slight increase in bird weights.

Mexico

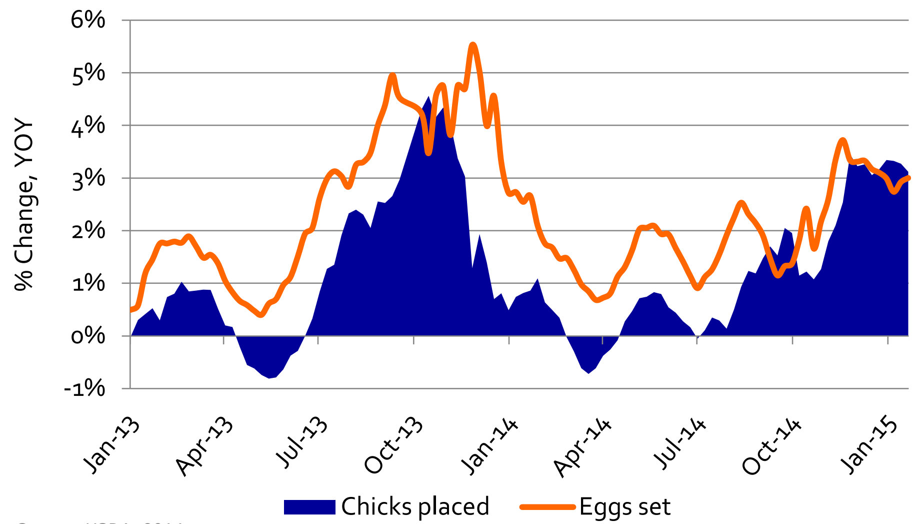
- Avian Influenza continues to be main headache of the Mexican industry. In 2015, production expectation of 3% is very likely to be optimistic as outbreaks in central Mexico remain affecting production. We expect chicken prices to remain relatively strong as consumption remains strong while production expansion is struggling.

Indexed Chicken Prices



Source: USDA, Rabobank Estimates, 2014

Chicks Placed and Eggs Set

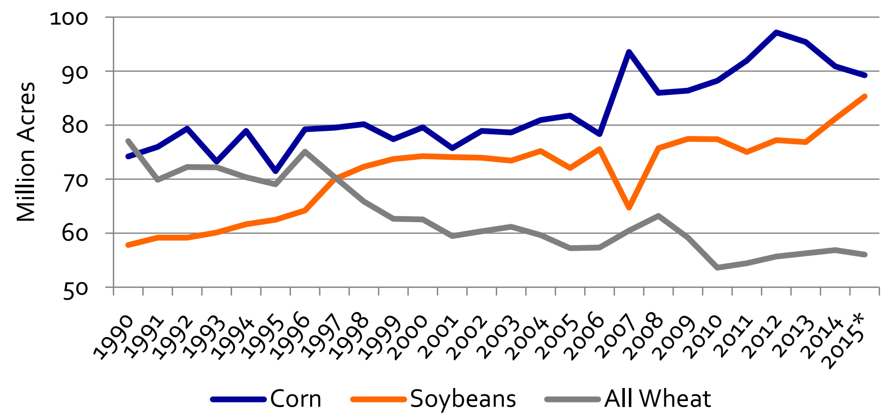


Source: USDA, 2014

Soy Complex: More Acres & Lower Prices

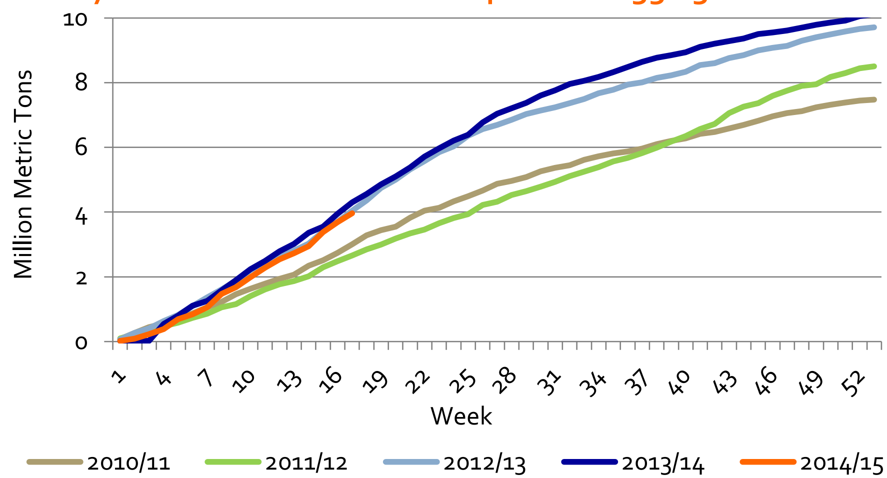
- Market is expecting another record U.S. soybean plantings in 2015. These expectations are driven by falling corn prices and the high cost of corn production versus soybeans. It should be noted that new crop margins for producing both U.S. corn and soybeans are currently negative. Our current forecast calls for record 2015 US soybean plantings to be 85.3 million acres, up 1.3% from 2014. With higher acreage, the 2015/16 US soybean balance sheet shows a further building of stocks.
- South American soybean production will be another record in 2015. Timely rains in dry areas of NE Brazil and SW Argentina have improved soybean production prospects. With harvest underway in parts of the Brazil, production estimates are cantered around 95 MMT, up nearly 10% from last year. While Argentina crop has potential to grow from 55-58 MMT, up from 54 MMT last year.
- Recently, the U.S. EPA gave the go-ahead to Argentina's biofuel producers to qualify for U.S. biofuel credits (RINs). This opens up the U.S. biodiesel market to the importation of Argentine-produced biodiesel. The announcement was perceived negatively by the market as U.S. soybean oil futures traded below USD 0.30 per lb. Adding this development to depressed crude oil prices and it is difficult to be bullish on biodiesel production. The market is looking at adding anywhere from 250-500 million pounds to U.S. soybean oil stocks and therefore creating a much more comfortable balance sheet which will take some upward pressure off futures and basis prices.
- Total export commitments of U.S. soybean meal continue to be strong, but curious dichotomy has developed. Year-to-date shipments of U.S. soybean meal exports are lagging last year's pace by nearly 8%, while undelivered sales are 66% higher than the 2013/14 pace. The pace of soybean exports has been strong, which may be limiting shipping capacity for meal. At the same time crush margins have been strong globally, so off-shore crushers are buying soybeans to crush and selling meal into local markets curtailing the need to import meal.

U.S. Acres Swing to Soybeans



Sources CBOT, Rabobank, 2014

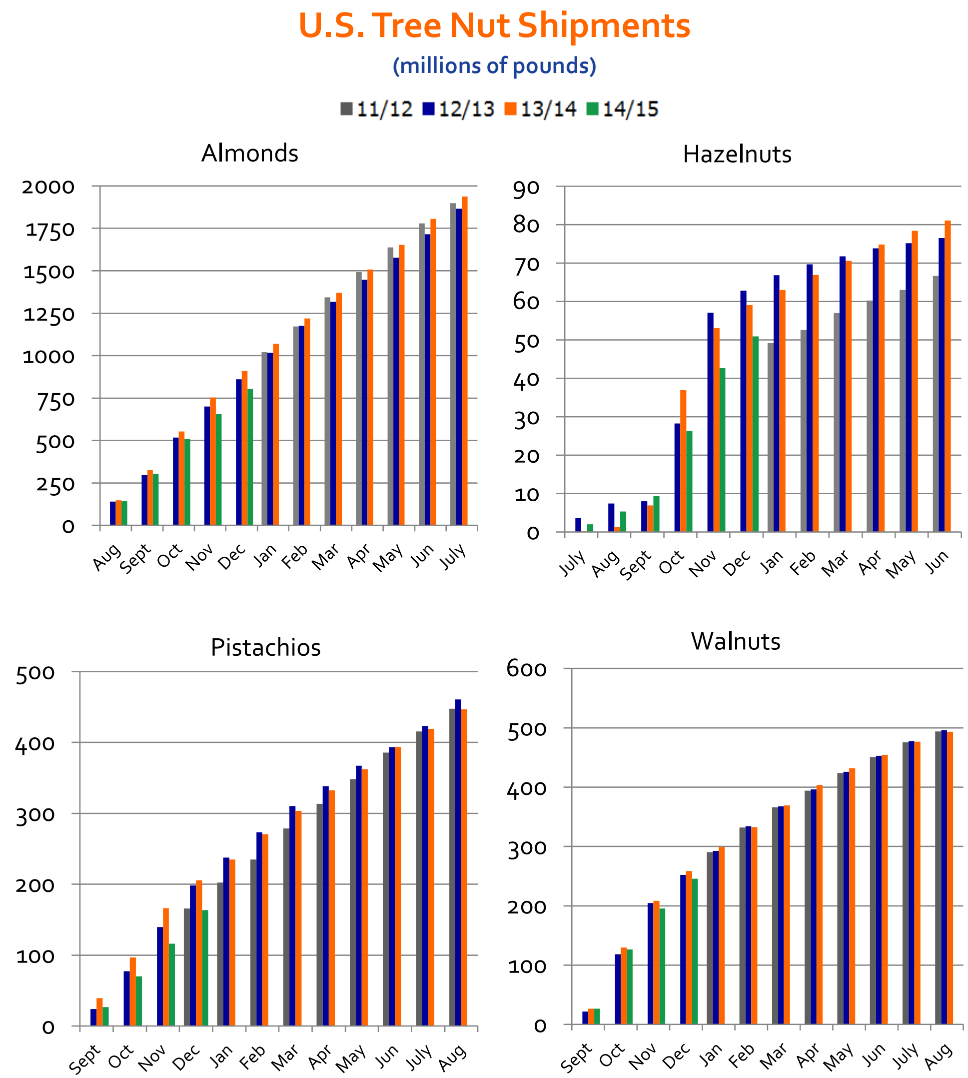
U.S. Soybean Meal Accumulated Shipments Lagging 8%

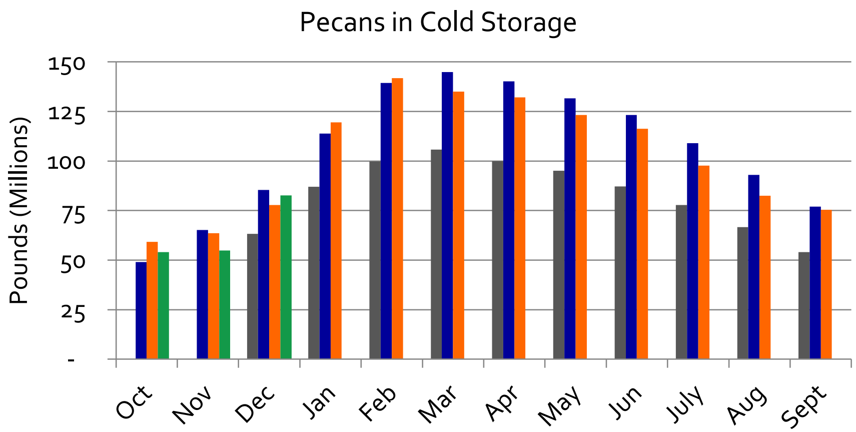


Sources CBOT, Rabobank, 2014

Tree Nuts: U.S. Exports to China Down, Prices Still High

- Pistachio shipments abroad and to U.S. markets are down slightly. So market bonuses paid to growers are lower than their highs last Fall. New trees continue to be planted.
- Almond harvest came in at 1.85 billion pounds, down about 15% from the 2013 crop. Hence, the supply is being rationed with exports off more than domestic shipments. More than half the crop has been sold at nearly USD 4 per pound, a record price to growers.
- Walnut harvest was roughly 10% larger than 2013, but quality has not been as good. China has reduced their imports, because their crop was larger and a stronger USD made Walnuts from other exporters more competitive. Wholesale prices are still high, though not as high as last Fall.
- Hazelnut crops in Oregon were smaller and Turkey's crop freeze sustained high prices and increased the portion shipped to domestic markets as kernels.
- Pecan harvest in the U.S. did not increase as expected, because of disease problems in Georgia. China reduced their imports from the U.S. in favor of more imports from Mexico. Again, the higher value USD makes Mexican Pecans more price competitive.





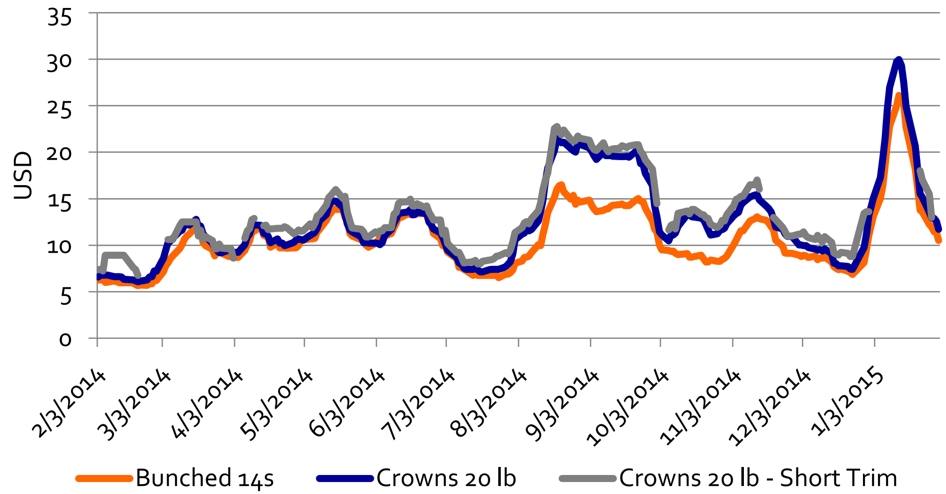
USDA Census Bureau, 2014

Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, 2014

Vegetables: Out of the Frying Pan & Into the Freezer

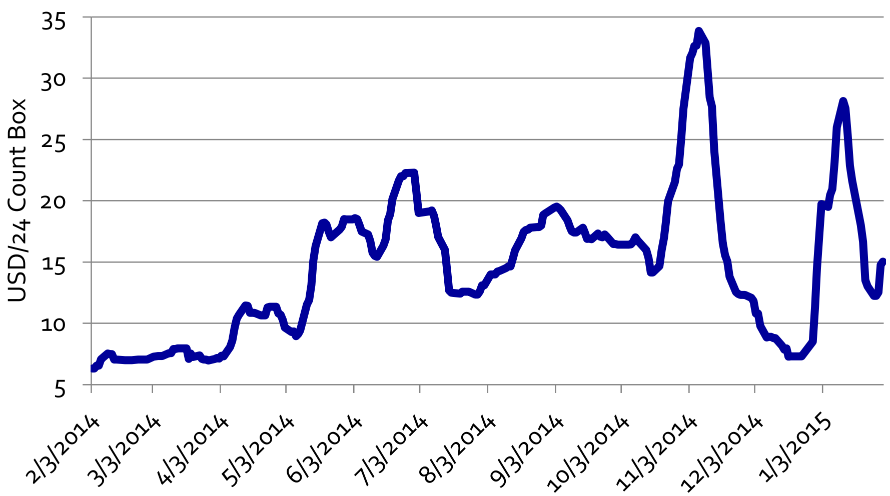
- Warm weather in the Southern California and Arizona vegetable growing regions had crops ahead of schedule in the second half of November and most of December. The abundant supply pushed prices lower, as crops were 2 to 3 weeks ahead of schedule. Late December and early January brought freezing temperatures to the regions, which caused harvest delays and crop losses. Prices spiked rapidly, but eased off later in January as blizzards in the Northeast tempered demand, and growing conditions normalized.
- Iceberg lettuce prices, which reached USD 28 per box in January, ended the month around USD 15 per box; still well-above last year's spot price during the same period. Romaine lettuce, which sustained more crop loss during the freeze, had yet to come off its season high prices as of January, and continued to sell at USD 30 per box. Broccoli prices have come down substantially, but were still above USD 10 at the end of January. Prices are likely to remain volatile and at profitable levels through the end of the desert deal, as the supply gap persists and is likely to be more severe at the end of the season.

Broccoli - Daily Shipping Point Price



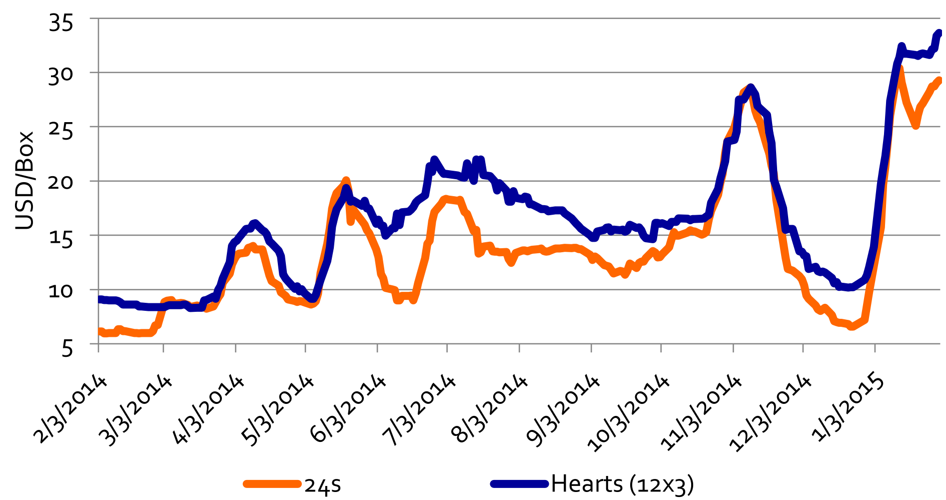
Source: USDA/AMS, Rabobank, 2015

Wrapped Iceberg Lettuce – Daily Shipping Point Price



Source: USDA/AMS, Rabobank, 2015

Romaine Lettuce – Daily Shipping Point Price

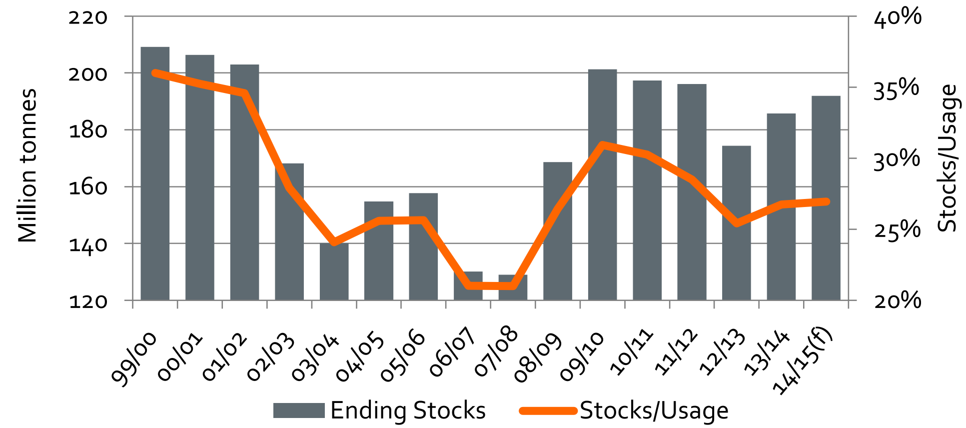


Source: USDA/AMS, Rabobank, 2015

Wheat: Ample Old Crop, Uncertain New Crop

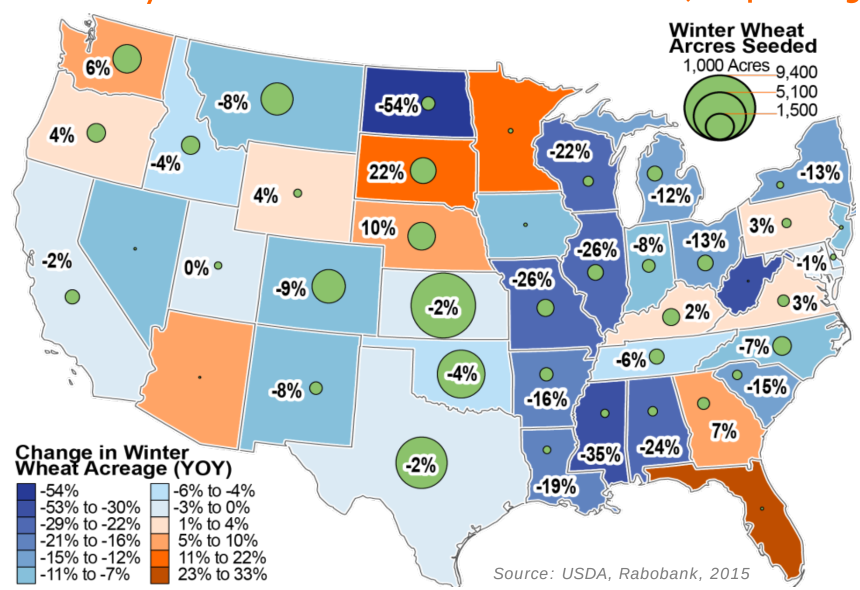
- The record-breaking global 2014/15 production is weighing heavily on wheat price as the March CBOT contract declined about 13% in January. The concurrent global bumper corn and soybean production has left the wheat complex with weak fundamental support to build old crop prices. Abundant substitutes has kept wheat tethered to corn with the wheat to corn price ratio maintaining a range mostly between 1.34 to 1.4 thus far in 2015.
- Lower prices are prompting stronger global demand, though ample old crop and building global stocks will moderate rallies through the coming months. Wheat prices are expected to form a more neutral pattern for the remainder of Q1 with northern hemisphere new crop concerns invoking bullish pressure to build a modest weather premium into the market during Q2. With our global 2015/16 production forecast falling short of the previous year's output, CBOT wheat price should strengthen to the USD 5.70/BU to USD 5.80/BU range during H2 of 2015.
- The strong dollar is curtailing U.S. wheat exports to mainly traditional buyers with accumulated exports down almost 30% YOY to date. The high dollar value has coincided with historically low euro and ruble values leaving U.S. wheat exports at a significant competitive disadvantage on the global market. Some bullish hope for CBOT wheat arose when the USDA revised down Russian 2014/15 wheat exports by 2 million tons from previous estimates because of the export duty (active Feb.-June 2015), yet the EU is capturing most of the dislocated demand and will likely continue doing so through Q2. With fundamentals limiting room for lower movement, CBOT wheat will form a price floor and gradually lift global FOB prices up to US levels as old crop supplies are depleted.
- New crop concerns deriving from northern hemisphere weather risks persist and should provide upward price support during H2. The USDA lowered winter wheat planted area by 1.95 million acres YOY in the January WASDE. Rather than being bullish, the lower plantings were more of a surprise because normal yields could still result in superior production from last year. Crop condition ratings remain above the five year average in the Great Plains. However, the region has been dry/warm with little snow cover exposing the winter wheat crop to potential late season frost damage. Finally, smoldering Black Sea tensions continue to concern the market as the region represents about 25% of global wheat trade.

Building Global Stocks Are Pressuring Prices



Source: USDA, Rabobank, 2015

Year-over-year decline in U.S. winter wheat acres (2014 vs 2015)



Source: USDA, Rabobank, 2015

Wine: Large 2014 Crop Weighs on Pricing, Imports

- The most recent estimates from Allied Grape Growers suggest that the 2014 wine grape crop in California was likely 4.0 million tons- slightly larger than the original estimates of 3.9 million tons. This would represent a 5% decline relative to the 2013 bumper crop of 4.23 million tons, but still a very large crop.
- The large 2014 crop represents the third large crop in as many years and this has dramatically changed the supply situation in California. As recently as 2012, there were discussions supply shortages, but these concerns have been essentially laid to rest as inventories of wine in California have roughly quadrupled in that past two years; According to estimates from the Ciatti Company, California had roughly 6 millions gallons of wine in inventory as of September 2012. By September 2014, that figure had increased to 25 million gallons.
- Part of the increase in California wine grape production was due to favorable yields, but recent increases in vineyard acreage have also played an important role. In recent years, there has been an increase of more than 50,000 bearing acres of wine grapes in California.
- With the increasing supply base and rising inventory levels, many growers in the San Joaquin Valley that produce for entry level wines are finding extremely soft demand for un-contracted fruit. Growers in this region whose contracts are expiring are increasingly pulling out grape vines in order to put in almond orchards, which have been much more lucrative in recent years.
- The increase in wine inventories in California is weighing on demand for imported bulk wine, as brand owners have easier access to inexpensive domestic supply . Bulk wine imports in 2014 were down approximately 5% from 2013, and down almost 28% from their peak in 2012.

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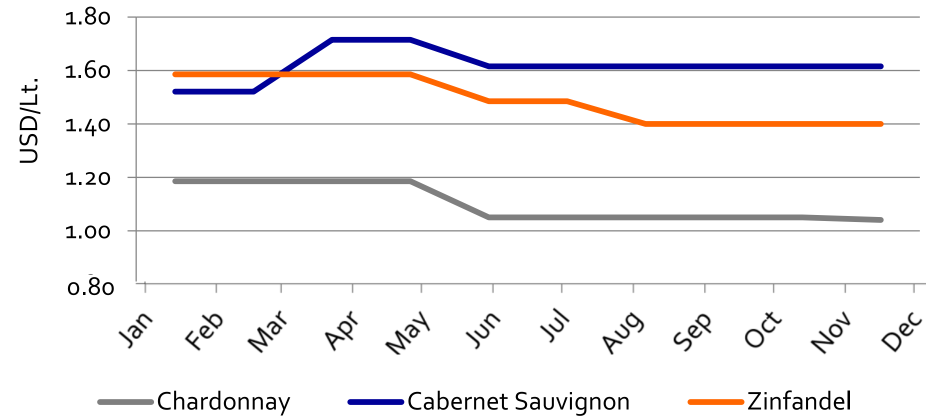
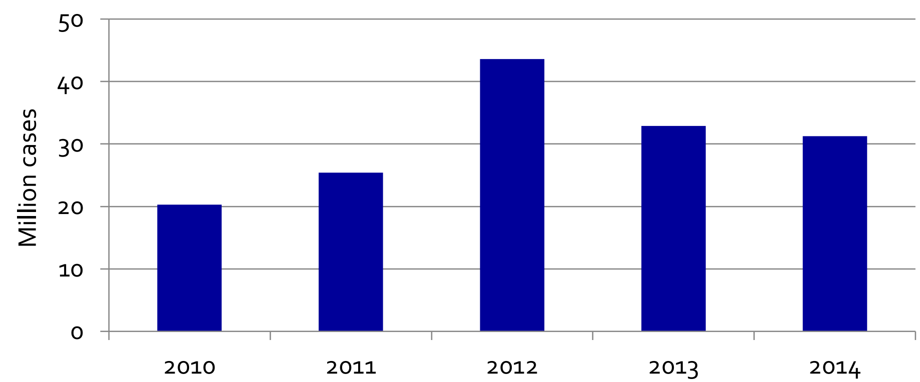
Pricing of California Bulk Wine Varietals, Dec. '13- Nov. '14



Source: Ciatti, 2014

U.S. Bulk Wine Imports



Source: Gomberg Fredrikson, 2015

Fertilizers

- On a global basis, fertilizer supply still outweighs demand although nutrient prices have generally bounded from the low levels seen in 2014. Notwithstanding relatively full supply chains at present, normal spring demand is providing a floor on domestic fertilizer pricing.
- By way of background, the fourth quarter of each year is typically a period of significant fall application of fertilizer after harvest time, with application of all nutrients representing approximately one-third of total. Last year, adverse weather delayed the harvest and made field work in advance of the forward planting season difficult, thus pushing forward fertilizer demand to spring.
- Despite an excess of global fertilizer supply, North America has several region-specific price differences which can result in different prices in various states. For instance, prices would inflate during Spring application at the retailers level, when Spring demand more aggressive than estimated and a retailer does not have the volumes readily available.
- 2015 will be the year in which the first nitrogen fertilizer projects start producing fertilizers in the US. This will reduce the U.S.' dependency in imports, and would improve domestic availability. First plant will be OCI's new facility in Iowa. Many other projects are also in the works by existing players to leverage the structural advantages of U.S. natural gas production.

Excluding UREA, Fertilizer Prices Have Trended Higher

US Fertilizer Dashboard *Price = USD / ton*	**February 2015**	**June 2014**	**January 2014**
DAP U.S. Gulf Nola	447	440	370
Potash Corn Belt Granular	417	397	375
Urea Granular	332	395	342

Source: Green Markets and Bloomberg, L.P.

Forestry

Rabobank

- The fourth quarter brings its challenges to the lumber industry, as winter weather is an increasing factor on the minds of many mills. The year started late, but prices have been at record levels throughout the summer months, when prices generally drag.
- Lumber exports, primarily to China, have remained strong throughout the year, driving demand and prices up. It is reported that exports will start to dwindle as the year comes to a close and overseas inventories are stocked.
- Throughout the year, trucking has been a supply-side bottleneck. The industry is struggling with new laws and regulations placed on trucks and drivers. Costs to haul lumber have increased, thus driving up the cost of lumber. As the season begins to slow down and there is less pressure, trucking should be adequate moving into 2015.
- Overall, the industry is seasonally trending as expected, Random Length Composite prices are softening and Southern Pine remains firm.

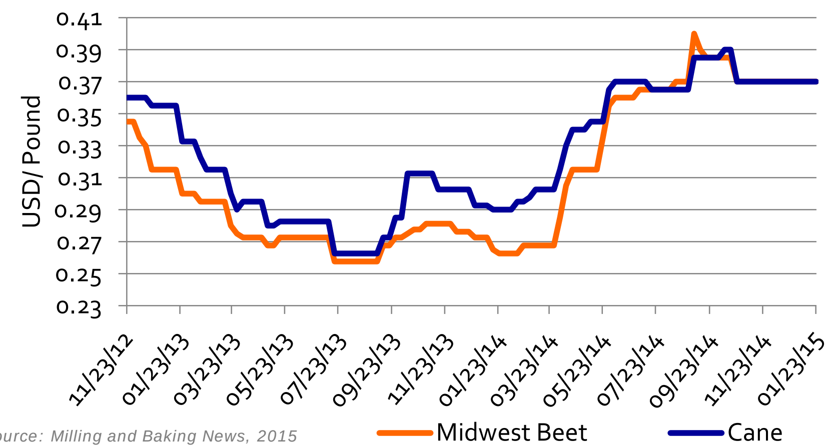
Price Highlights (USD)	September/ most recent	Last month	Last year
Random Lengths Framing Lumber Composite Price, MBF	384	382	404
Random Lengths Structural Panel Composite Price, MBF	379	394	360
Douglas Fir #2 Saw Log NW Oregon, MBF	687	N/A	620
Southern Pine Sawtimber Average Price, short ton	27.99	27.70	27.07
Southern Pine Pulpwood Average Price, short ton	10.68	10.47	10.09

Source: Random Lengths, Forest2Market, 2014

Sweeteners

- The trade dispute between the U.S. and Mexico continues to cast a shadow over the sugar market and be supportive to prices. On December 19, 2014 the U.S. Department of Commerce and Mexico signed a agreement to suspend the antidumping and countervailing duty investigation of imports of sugar from Mexico. The agreement has provisions on how to prevent an oversupply of sugar in the US market by setting limits on Mexican sugar imports.
- U.S. sugar prices have come off their Fall 2014 highs. However, prices are expected to remain at current elevated levels (highest in 2 years) at least until the resolution of the suspension agreement.
- Annual U.S. corn sweetener negotiations resulted in end users seeing an USD 1.50 to USD 2.50 per CWT increase over 2014 prices. The increase is mainly due to tight supplies of both liquid and dry products (particularly dextrose) primarily as a result of Cargill's closing of its Memphis plant.
- Despite an agreement of suspension was signed by all parties, two US refiners filed a petition requesting Commerce to review the suspension agreement. As a result, Mexican exports to the U.S. remain at their lowest levels. We expect Mexican exports to resume in (April-March). In fact, we anticipate a sharp increase in volumes that we start being concerned with logistics and a possible bottle neck. We anticipate Mexico will export to the US 1.4 million tonnes at the end of this cycle and average prices at MX$420 / 50 kg at Central de abastos. If that holds, Mexican final stocks should end at around 700k, the lowest level since 2010/11 and below the "optimal" level of stocks 900k to cover 2.5 months of domestic consumption

U.S. Cash Cane & Beet Sugar Prices



Source: Milling and Baking News, 2015

Juice

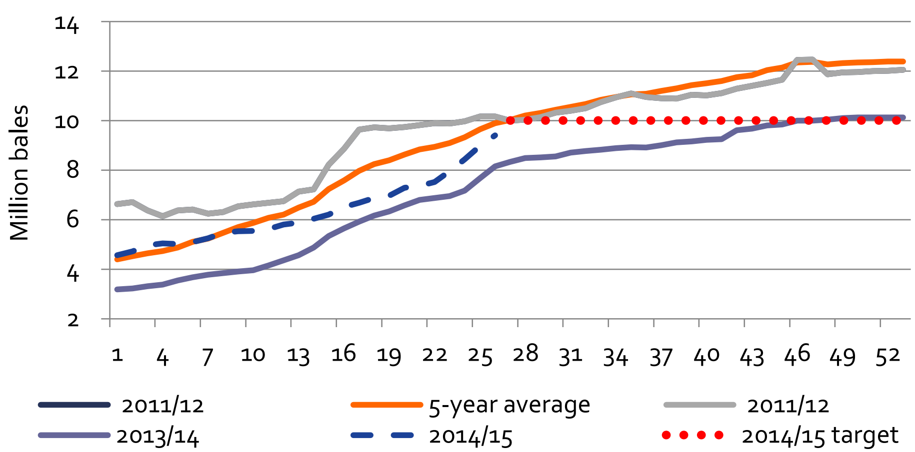
Florida Orange Juice

- In mid January the USDA lowered its forecast of the 2014-2015 Florida orange crop by 5 million boxes to 103 million boxes. This represents a decrease of nearly 5% from the 108 million boxes forecasted in December. The outlook for 2014-2015 reflects a total decrease of 1.5% in Florida's annual production compared to the 2013-2014 crop year.
- The forecast was reduced predominantly in the non-Valencia portion (early, midseason, Navel and Temple varieties), which saw 4 million boxes wiped from the total (52.0 million boxes down to 48.0 million boxes). The non-Valencia harvest has reached almost 4 million boxes per week and estimated utilization at the start of the year was 15.8 million boxes.
- According to USDA estimates, fruit size is the lowest since the 1960/61 season, and the drop rate is close to the maximum record set last season. The Navel forecast, included in the non-Valencia forecast, is unchanged at 1.5 million boxes and now represents 3% of the non-Valencia total. Current fruit size is at the minimum and is projected to be below the minimum at harvest.
- Juicemarket reports that during the previous eight seasons, the January forecast has deviated from final production by an average of 3%, with five seasons above and three below. The projection for frozen concentrated orange juice (FCOJ) yield has been lowered to 1.59 gallons per box (42 brix). Last season's final yield for all oranges was 1.57 gallons per box.
- Growing conditions in Florida have been favorable following a warm December in which some early blooming took place. Current conditions appear dry with expectations of a cold snap approaching in mid-February.
- On the consumer demand side, the latest 4-channel retail data from IRI reflects total sales of refrigerated Orange Juice for the past 52 weeks at -4% below prior year, with the latest 4 week period also down -4% vs. prior year. Overall total refrigerated juice sales have performed better, with annual sales off -1.5% during the same 52 week period.

Cotton

- Import demand for U.S. cotton surged in January, as the crop began to flow at the most competitive price level since 2009. ICE #2 futures found support and reversed their downward trend, edging back above 60 USc/lb, as growers considered their 2015/16 acreage.
- ICE #2 cotton futures are expected to edge above current levels through Q1, to an average of 62.5 USc/lb. This will be driven by a sharp pullback in northern hemisphere plantings, led by the U.S., China and India, combined with smaller southern hemisphere harvests , and persistent import demand above USDA expectations. China is expected to import 8.5 million bales in the 2014/15 season.
- U.S. export sales surged by some 1.8 million bales in January, the largest increase for the month in over a decade. While cancellations may flow through later in the year, total export commitments for 2014/15 stand at 9.4 million bales, or 94% of the USDA's 10 million bale target. Sales have doubled to Vietnam and Pakistan and increased by 60% to Indonesia relative to this time last year. China's U.S. cotton import commitments finished January up 78% YOY but are expected to slow past March as quotas dry up.
- Harvested cotton acres in the U.S. are expected to decline by the most in two seasons, down some 7% in 2015/16 to an estimated 9 million acres, driving a 4% decline in production to 15.4 million bales. According to the National Cotton Council's early season survey U.S. plantings may be down some 15% YOY to 9.4 million acres.

US cotton export commitments for MY2014/15

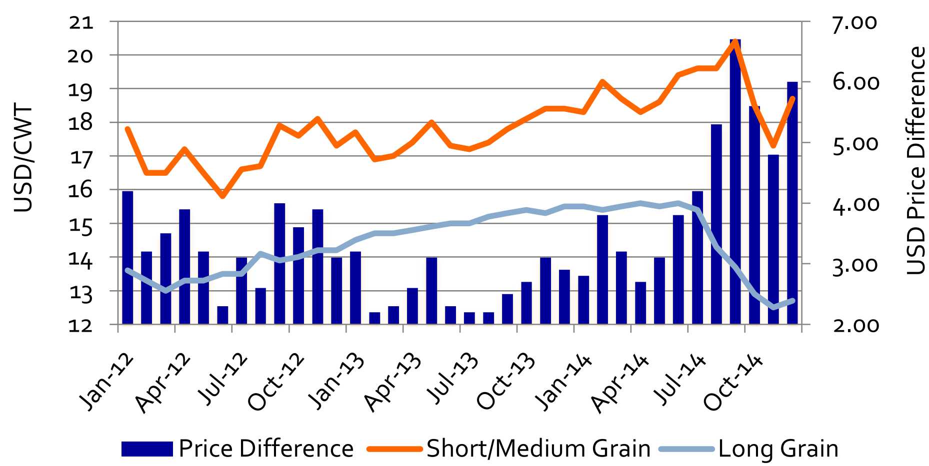


Source: USDA, 2015

Rice

- Prices softened in Q4, though they are expected to remain in the USD 12-13 per CWT and 18-19 per CWT rage for long grain and medium/short grains respectively.
- Most in California were able to get water for decomposition, those some did bail their straw. If the drought continues California rice acreage will be reduced again sustaining or increasing prices.
- Competing crops in the South have seen a substantial reduction in price, which will likely lead to increased plantings of rice. Low fuel costs are also enticing producers to plant more. Many Southern producers are considering a to move towards medium grains, as they tend to demand a higher price.
- Southern growers are optimistic about exports to Cuba. In 2004 there was a temporary lift on the embargo and Cuba imported 175,000mt of long grain rice. By value they are potentially the 4th largest market behind Japan, Canada, Haiti.
- Mexico is protecting its rice industry as a 20% tariff was implemented on all rice of Asian origin, which will protect the local industry also benefit the U.S producers.

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

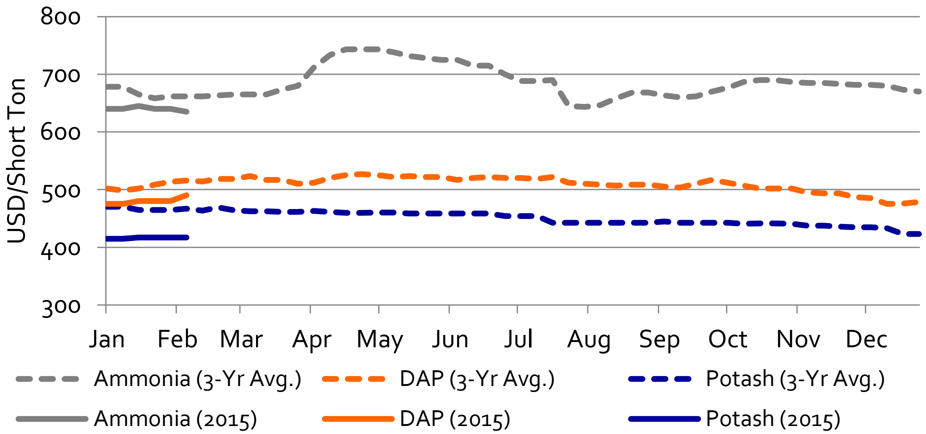


Source: USDA/NASS, 2014; Note: Average rough rice basis

Input Costs

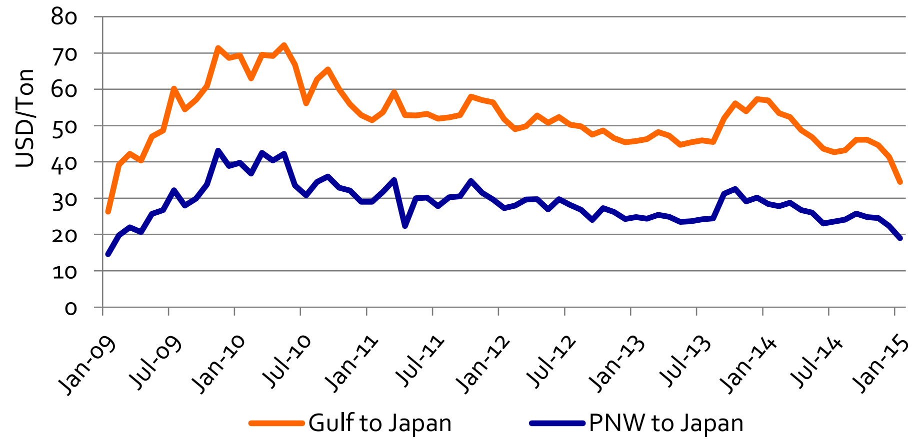
As of 2/6/2015

Corn Belt Input Prices



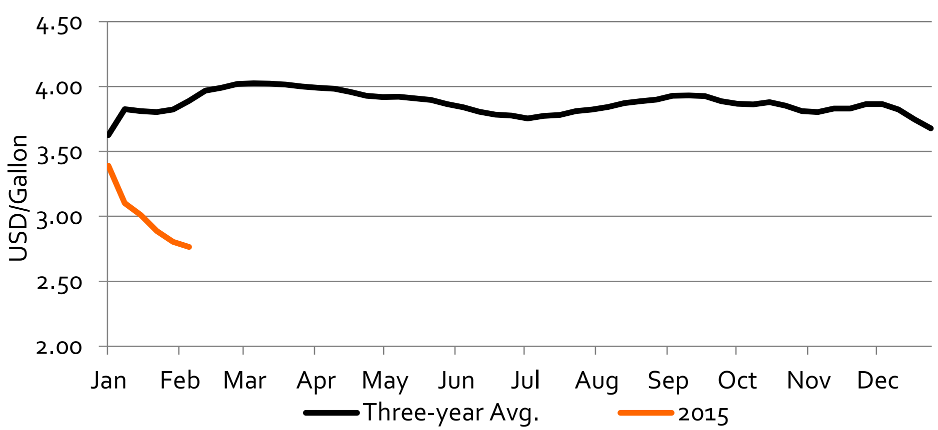
Source: Bloomberg, 2015; Note: Granular Potash

Ocean Freight



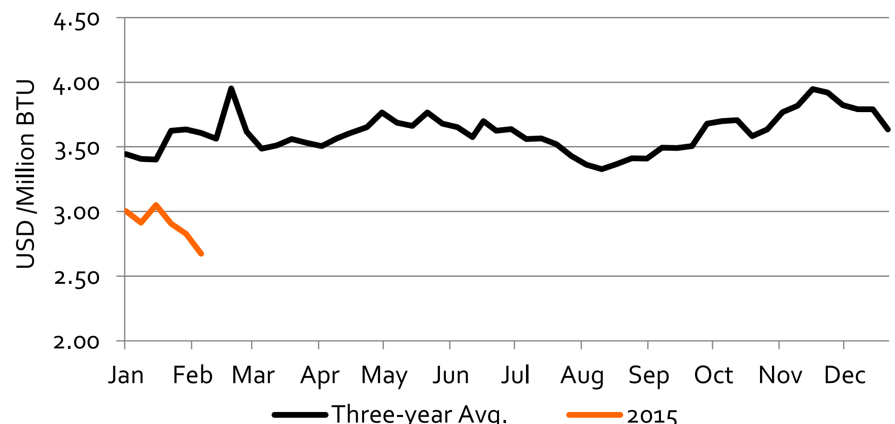
Source: O'Neil Commodity Consulting, AMS-USDA, 2015

Diesel – Midwest



Source: EIA, 2015

Natural Gas Spot

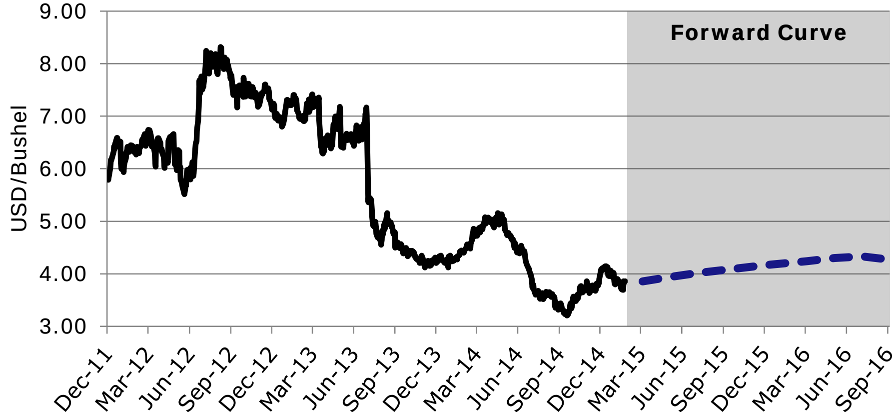


Source: NYMEX, 2015

Forward Price Curves

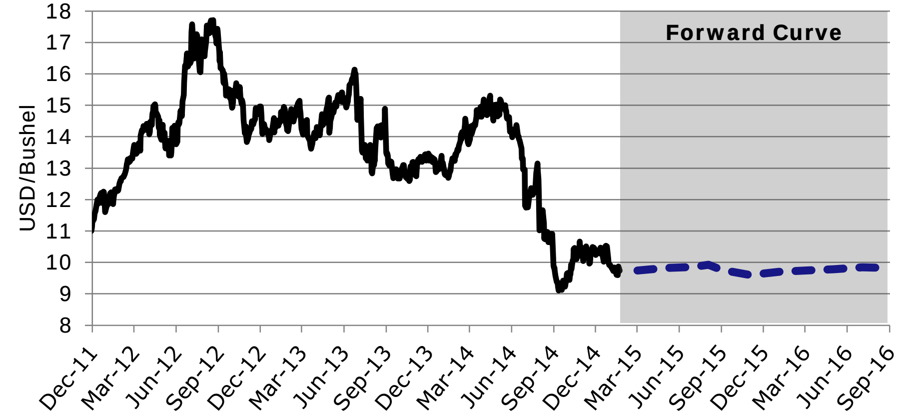
As of 2/6/2015

CBOT – Corn



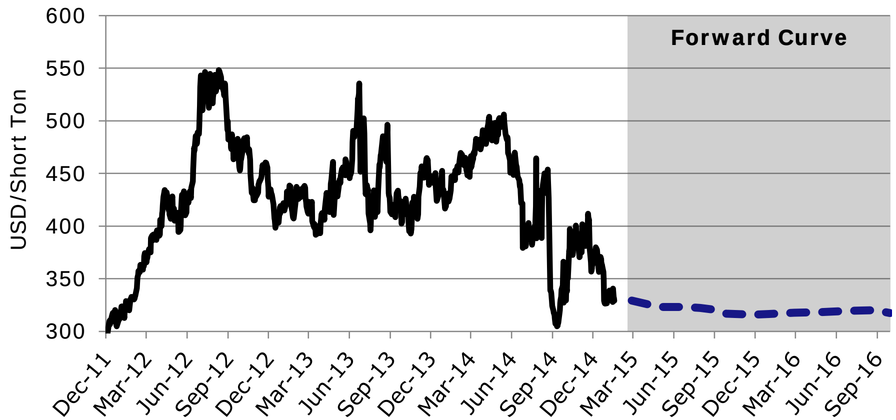
Source: CBOT, Rabobank, 2015

CBOT – Soybeans



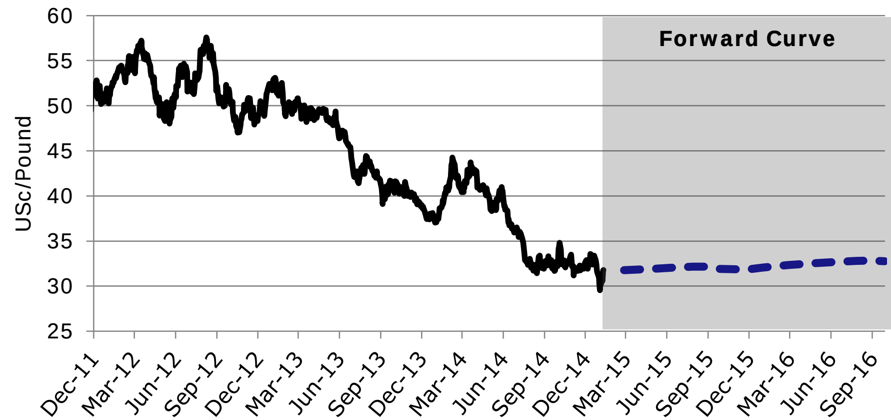
Source: CBOT, Rabobank, 2015

CBOT – Soymeal



Source: CBOT, Rabobank, 2015

CBOT – Soy Oil

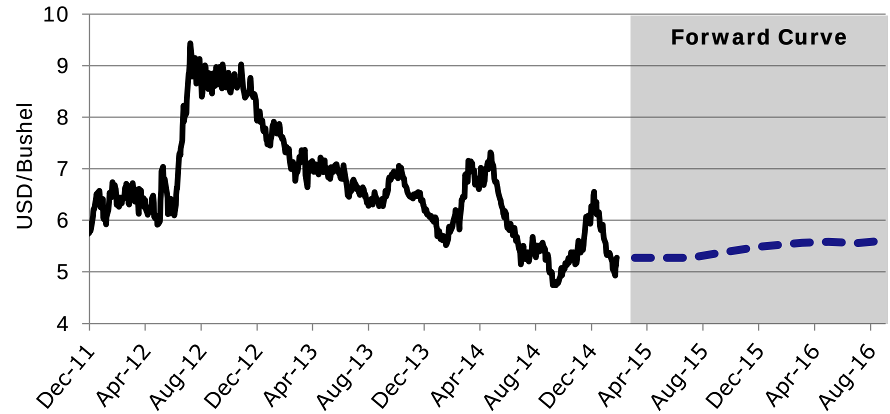


Source: CBOT, Rabobank, 2015

Forward Price Curves

As of 2/6/2015

CBOT – Wheat

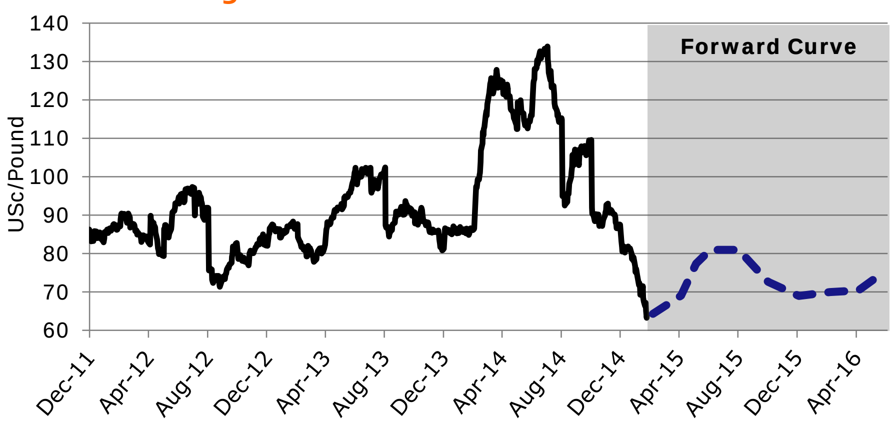


Source: CBOT, Rabobank, 2015

CBOT – Feeder Cattle

Source: CBOT, Rabobank, 2015

CBOT – Lean Hogs



Source: CBOT, Rabobank, 2015

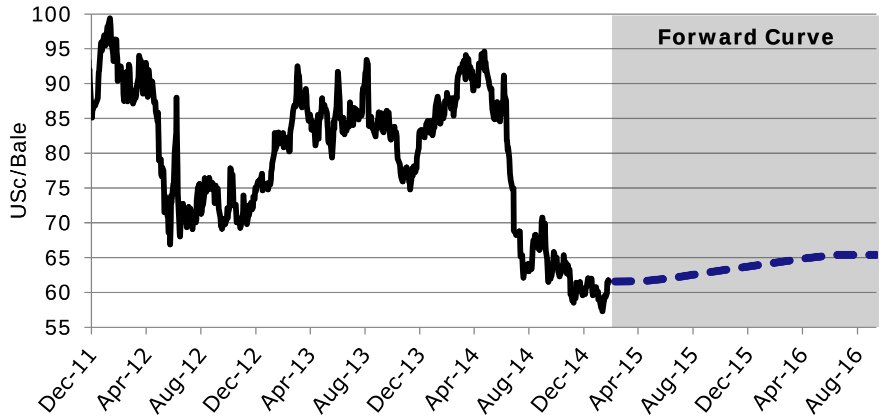
CBOT – Live Cattle

Source: CBOT, Rabobank, 2015

Forward Price Curves

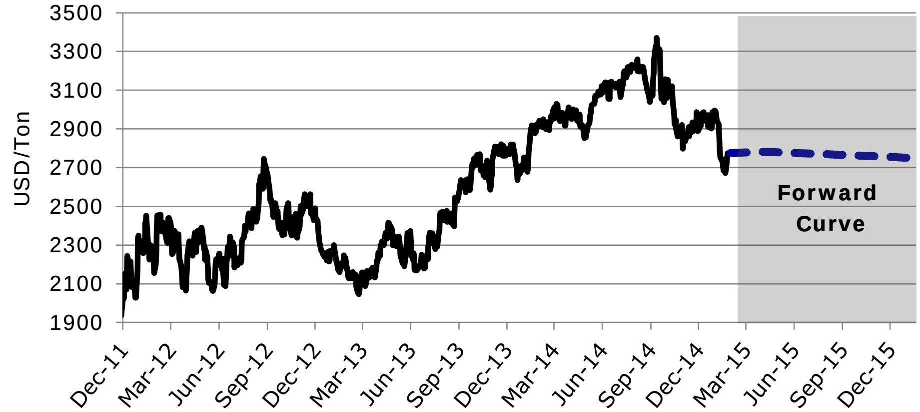
As of 2/6/2015

ICE – #2 Cotton



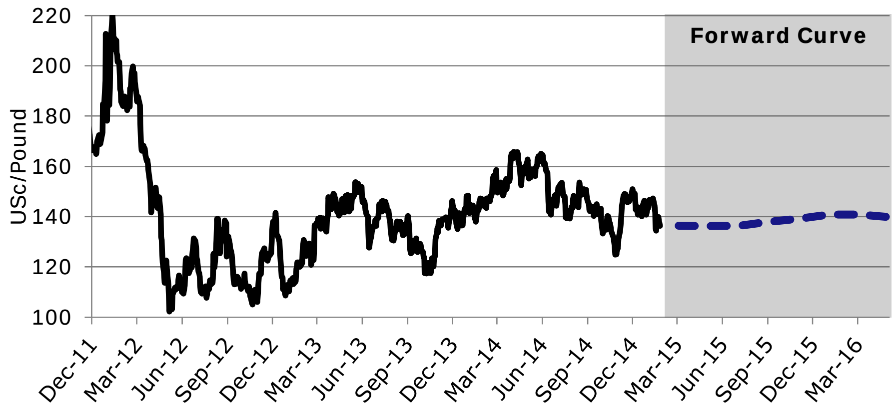
Source: ICE, Rabobank, 2015

ICE – Cocoa



Source: ICE, Rabobank, 2015

ICE – FCOJ



Source: ICE, Rabobank, 2015

ICE – Sugar #11

Source: ICE, Rabobank, 2015

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