



Food & Agribusiness Research and Advisory
North American Agribusiness Review

June 2014



Rabobank

Agribusiness Review June 2014

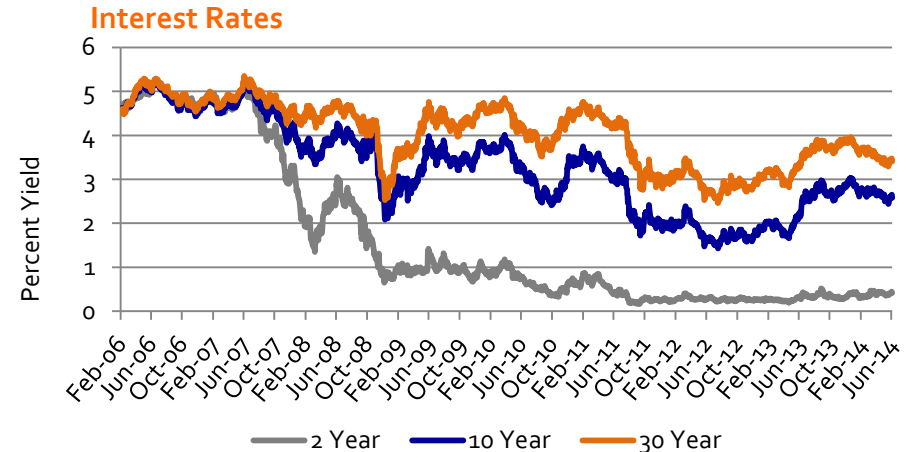
Report Summary



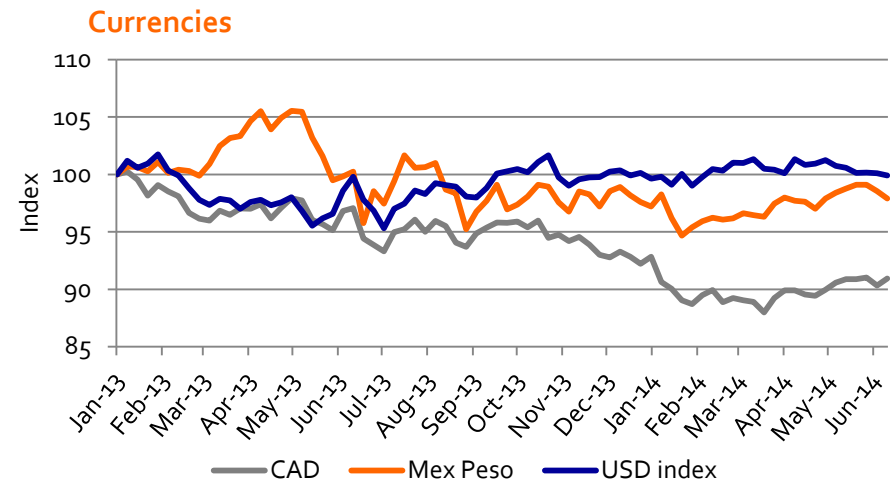
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Economy – back on track

- Now that the U.S. economy has come out of its' winter sleep (-1.0% GDP growth in Q1), the economic data supports the view that the recovery is on track. For example, employment growth has rebounded to 200K+ per month in February through May. What's more, the unemployment rate has dropped to 6.3%.
- At the same time, wage growth does not seem to be accelerating. This suggests that there is still a substantial amount of slack and little inflation pressure originating from the labor market. Moreover, wider measures of unemployment – which take into account discouraged workers and involuntary part-time workers – remain high while the employment-to-population ratio is still low.
- Although wage growth remains modest, inflation appears to be on the rebound. The CPI rose to 2.0% year-on-year in April, from 1.5%. Although this may partly reflect rising energy and food prices, the core CPI also increased, to 1.8% from 1.7%. As the recovery continues, we should see core inflation continue to move toward 2.0%.
- As long as core inflation does not move substantially above 2.0%, the Federal Reserve is likely to use the slack in the labor market as a rationale for the continuation of extremely loose monetary policy in the form of asset purchases (at the current pace of tapering until Q4 2014), and a very low Fed funds target rate.
- Given the uncertainty and disagreement about the exact size of the slack, the FOMC has decided not to give a precise description of the labor market conditions that would lead to the start of the hiking cycle. At present, Fed Chair Janet Yellen thinks there is still a lot of slack in the labor market. Rabobank does not think that labor market conditions will improve within the next 12 months to such an extent that the dovish majority will be comfortable starting the hiking cycle, unless they change their way of thinking about slack, or if – not completely unrelated – core inflation shoots up. So with these qualifications in mind, we stick to our forecast of a Q4 2015 start to the hiking cycle.



Source: Federal Reserve of St. Louis, 2014

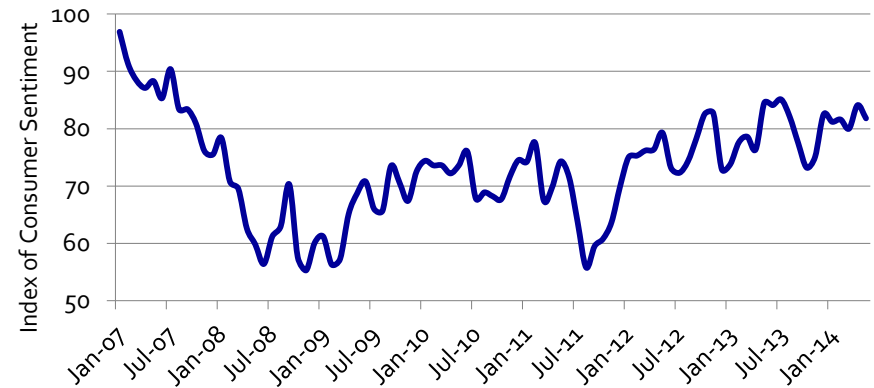


Source: Bloomberg, 2014

Consumer – strong restaurant growth continues

- Consumer confidence, as measured by the Index of Consumer Sentiment, fell to 81.9 in May compared to 84.1. Although a number of factors affect consumer confidence, the harshness of the winter and poor outlook for wage growth remained of concern to consumers.
- Over the last twelve months, the rate of inflation as measured by the Consumer Price Index (CPI), rose by a modest 2%. The food at home index (i.e. retail grocery) up 1.7% and food away from home index up 2.2% (i.e., restaurants).
- In April, the Food Manufacturing CPI rose by 4.8% driven in large by dramatically higher meat prices, with the largest jump in the price of pork seen in over 30 years. This is in response to short supply caused by the spread of the deadly Porcine Epidemic Diarrhea virus.

Index of Consumer Sentiment



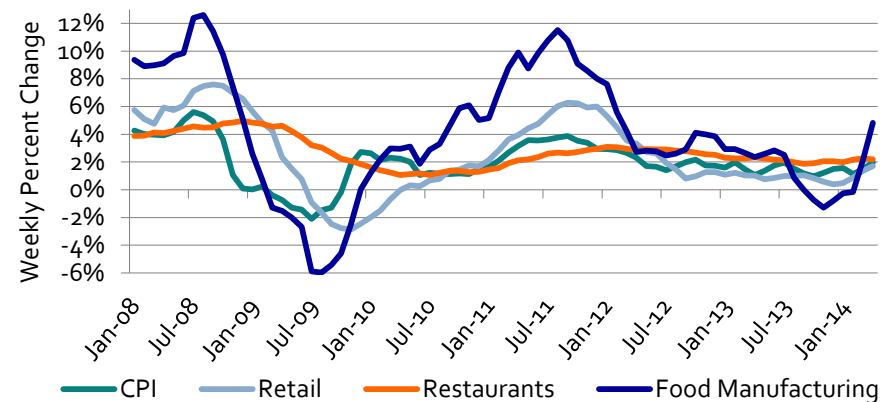
Source: University of Michigan Consumer Sentiment Index, 2014

Food Sales

Sales (Billion USD)	Annual				YTD Cumulative	
	2010	2011	2012	2013	Feb-14	Mar-14
Food at home	582	611	631	649	104	159
YOY change	2.2%	5.0%	3.4%	2.8%	3.0%	1.6%
Food away from home	466	495	525	540	85	134
YOY change	3.3%	6.1%	6.1%	2.8%	2.7%	3.1%
Total	1,048	1,106	1,156	1,189	189	293

Source: USDA, BLS

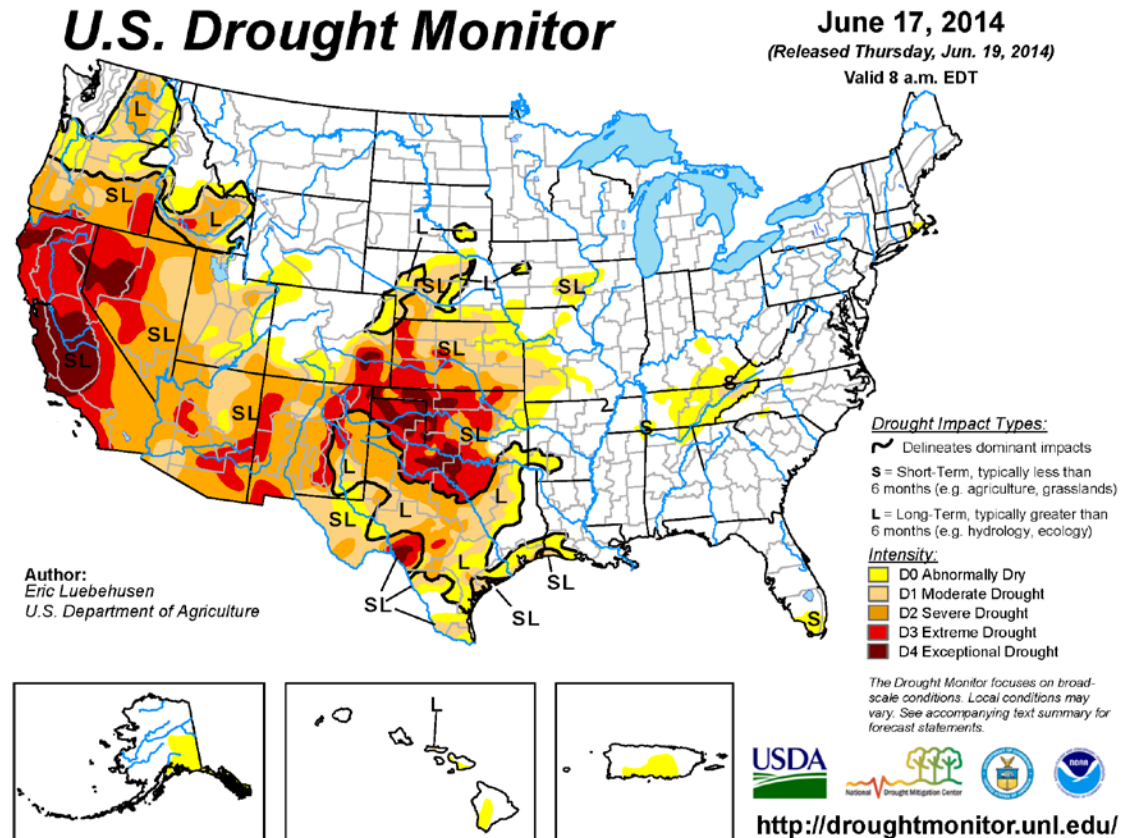
Food Price Inflation



Source: USDA, BLS, 2014

Climate – divergent conditions

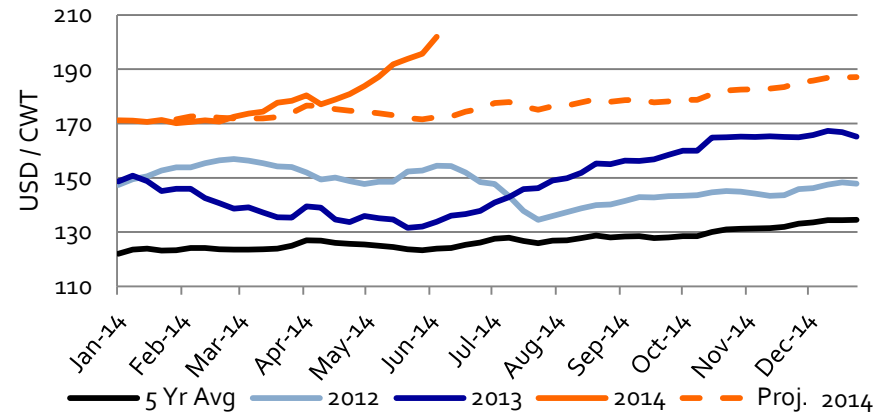
- Recent U.S. weather conditions have improved in some areas while continuing to deteriorate in others. While widespread rains across much of the central U.S. enhanced conditions throughout the Corn Belt and Central Plains, drought continues in the West and Southwest.
- Good moisture has left near-ideal growing conditions across most of the Corn Belt. Excess moisture and flooding has recently become an issue in North West Iowa and Southern Minnesota, though uncertainty lingers on water-related crop loss to date. At this point, a cool and wet July could result in record-breaking national corn and soybean yields during 2014.
- California and the Southwest continue to experience severe drought which is critically impacting beef, dairy and vegetable crops. Conditions continue to deteriorate as unseasonable warmth and dryness in California is resulting in rapid use of snowpack water reserves. Large quantities of intermountain and central U.S. feed grains and hay are expected to be shipped to California to support the dairy complex. Some short-term relief came to central Texas in recent weeks, though long-term issues of reservoir depletion and pasture damage remain.
- The likelihood of experiencing an El Nino cycle this year increases every day, which would prove very bearish to grain prices as this usually means cooler summers in the U.S. with greater precipitation. Though the outlook remains bearish for grain prices, a strong 2014 harvest is critical in light of the uncomfortably tight domestic corn and soybean supplies.



Beef – record prices continue

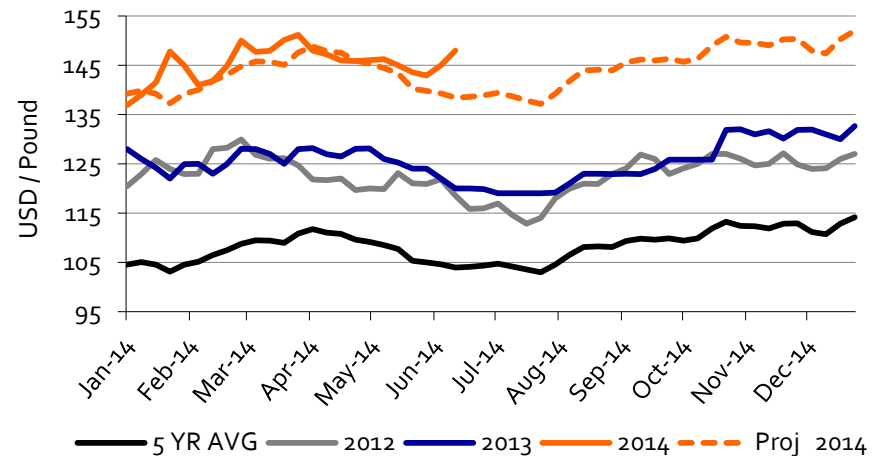
- Fed cattle prices have made an unexpected and sharp price recovery during the first half of June. This has enabled prices to recover to the upper USD 140 to USD 150 per cwt price level. This range is strikingly close to the record high prices that were established in February and March.
- Based upon the aggressive cattle placement rates into feed yards in much of the fourth quarter of 2013, and especially in January and February of 2014, there are still expectations for a sizable increase in fed cattle offerings in July and August of this year. The combined affect of increased cattle supplies and the seasonal slowdown in domestic beef consumption means that beef prices are soon expected to peak, and fed cattle prices are expected to post a measurable decline. To see summer lows in a range of upper USD 130 to low USD 140 is not outside the range of possibilities.
- North America has collectively been using the available supplies of cattle outside feed yards at an exceptionally aggressive pace. As a result, placements are expected to show a sizable decline during the second half of 2014 that will leave an expected price pattern very similar to the fourth quarter of 2013 and the first quarter of 2014, when price recovery was steep and drove to all-time record prices.
- Feeder cattle prices have seen an unprecedented rally. Current spot feeder cattle prices are in a range of USD 200 to USD 210 per cwt, trading in excess of USD 65 over year-ago levels, and USD 75 over the five-year average.
- The run in feeder cattle has been driven by tight available supplies, steadily declining feed prices and cattle feeding profitability. The market is overextended in the short term and vulnerable to a short-term price correction. For the longer-term seasonal consideration, feeder cattle has a very reliable seasonal price pattern from spring lows to late summer/early fall highs. That same price pattern is expected this year.
- It is still widely variable by area, but desperately needed rains have fallen over much of the cow/calf and summer grazing areas. The improved conditions have escalated replacement cow prices and stimulated aggressive retention of heifers for breeding herd expansion.

Weekly CME Feeder Index



Sources CBOT, Rabobank, 2014

Western Kansas Steers

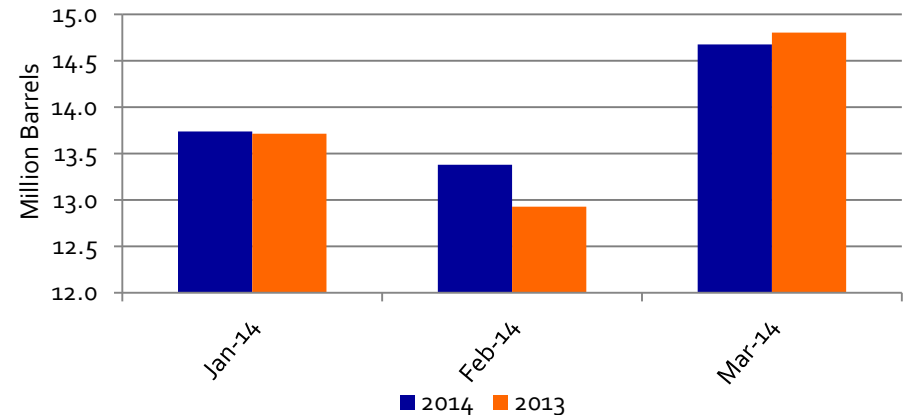


Sources CBOT, Rabobank, 2014

Beer – craft continues to influence market

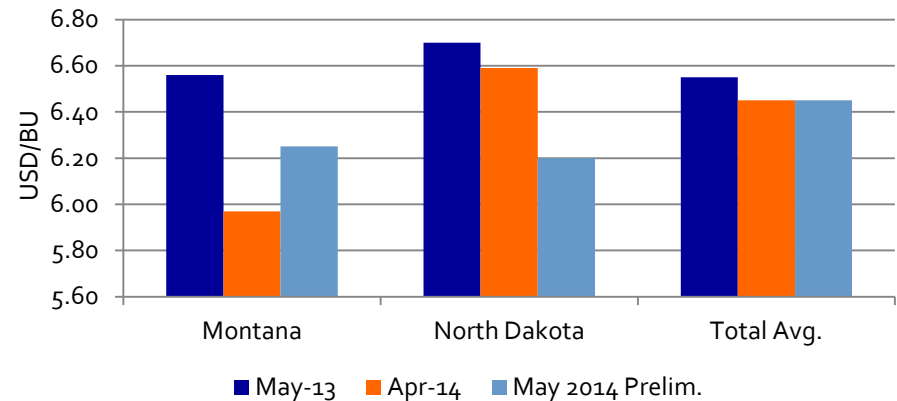
- Beer lost market share last year as higher volumes of spirits and wine took their place in the stomachs of consumers. However, the first quarter of 2014 tells a slightly different story. Alcohol and Tobacco Tax and Trade Bureau depletion data shows that beer depletion volumes rose 1.2% as beer crawls back from its previous slide. In reality, this growth percentage may be more impressive than it seems due to Easter falling early on the calendar last year which led to high consumption in the first quarter of 2013.
- A strong trend in the market is a rapid growth of alcoholic ciders, which often find themselves in competition with traditional beers. In 2013, while many breweries' product portfolios gave struggling performances, ciders put forth a 74.8% growth rate in unit sales, according to the IRI data analytics company. Ciders find appeal among women and members of the millennial generation who prefer the sweet taste.
- The 2,768 craft breweries (a 15.3% increase from 2012) continue to play a major role in shaping the hop and malt barley industry in the United States. The Brewers Association believes that craft breweries only produce 7.8% of domestic beer, but use 40-50% of domestic hop production.
- Craft breweries consumed an estimated 23% of U.S. malting barley in 2013 according to the Idaho Barley Commission. The proportional use of malting barley is often higher in craft brews than mainstream beers; this could have an important impact on barley markets as the craft segment continues to grow.
- March 2014 U.S. hop stocks are up 5% when compared to March of 2013. Looking closer, a larger proportion of the hop stocks remains in the hands of dealers and growers than in years previous. Both of these statistics can be seen as a result of increased domestic production of hops, and in an increase in craft beer production, which draws domestic stocks.
- The increased demand for craft beers in drinking establishments in the last three years has led to a 15% increase in tap handles being dedicated to this niche. Meanwhile, Technomic data shows mainstream domestic beers continue to lose space at the local bar.

Estimated Beer Sales by Month



Source: TTB, 2014

U.S. Malting Barley Prices

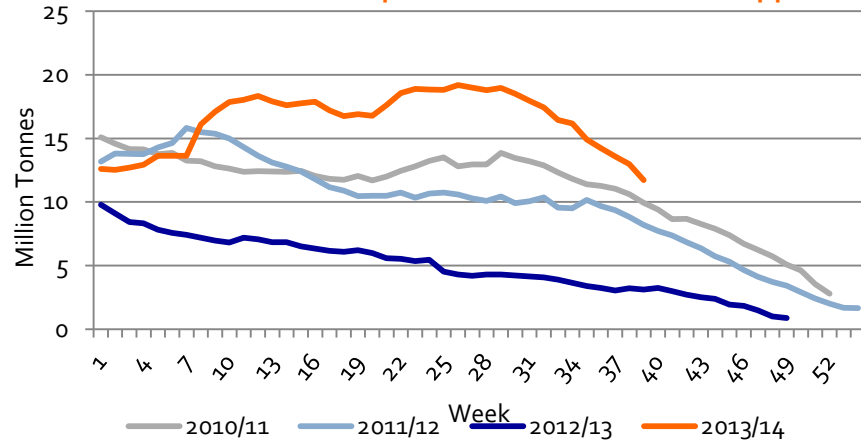


Source: USDA, 2014

Corn – good growing conditions drive prices lower

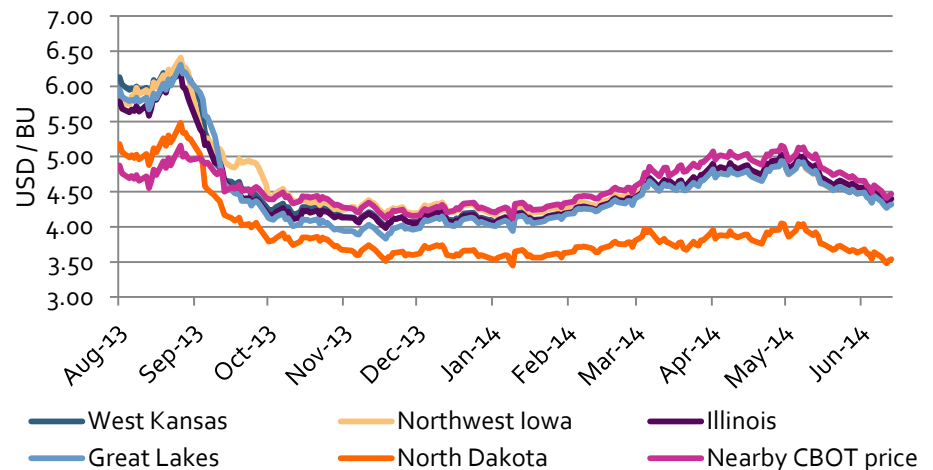
- Growing conditions have improved as the 2014 crop year is progressing. Planting wrapped up on a normal pace relative to the past five years, and emergence has progressed at a slightly more rapid pace than the past five years.
- Moisture conditions have improved across many of the corn producing states. With good rains and cool temperatures through most of June, the crop is getting a boost heading into the critical pollination weeks in July. Although the USDA is projecting a 50% growth in ending stocks of 580 million bushels, most of the increase is reliant on an assumed record national yield of 165.3 bushels per acre in 2014. This assumed yield would be 10% higher than the 5-year average and 0.6 bushels per acre over the record yields of 2009.
- With only two years over 160 bushels per acre, 2004 at 160.3 and 2009 at 164.6, the market remains skeptical of such high yield expectations before the crop has pollenated. We maintain a less optimistic outlook with an expectation of 162-163 bushels per acre. At the USDA-estimated 84.3 million acres harvested, 2014 production is currently expected to build ending stocks by 300 to 500 million bushels.
- On June 30, the USDA will release stocks and acreage reports. The stocks report is expected to be neutral while acreage is unclear. Late season rains and continued low cash bids for corn in the North Dakota/Minnesota area are signals to plant less corn in those states. A planting number less than 91 million will likely support prices through early July until crop conditions are better known.
- Cash markets associated with exports continue to be the top bidder for old crop corn. The U.S. has an unusual 430 million bushels of outstanding corn sales in week 39 (65% higher than the three-year average). While ethanol producers are seeing good margins, production has remained in line with the USDA usage estimate of 5 billion bushels. As a result, cash prices are expected to remain better in the exports draw areas around the Mississippi, Illinois and Ohio rivers.

Record Amount Of Old Crop Corn Still Needs To Be Shipped



Source: USDA, 2014

Better Growing Conditions Drive Prices Lower

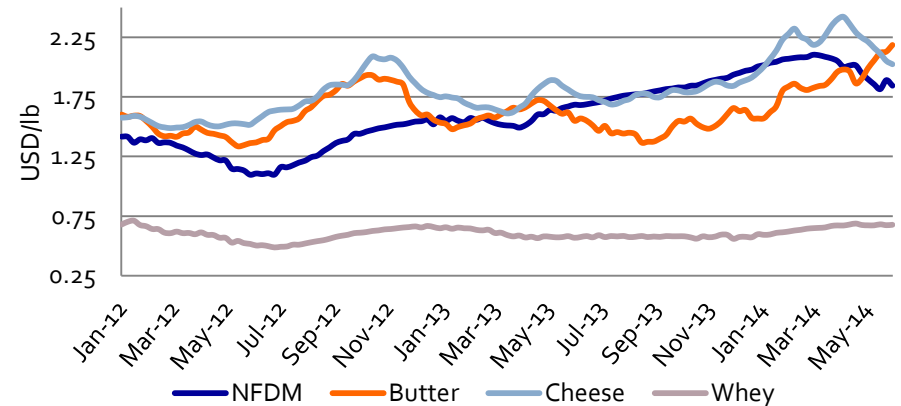


Source: DTN, Rabobank 2014

Dairy – margins remain decent through 2014

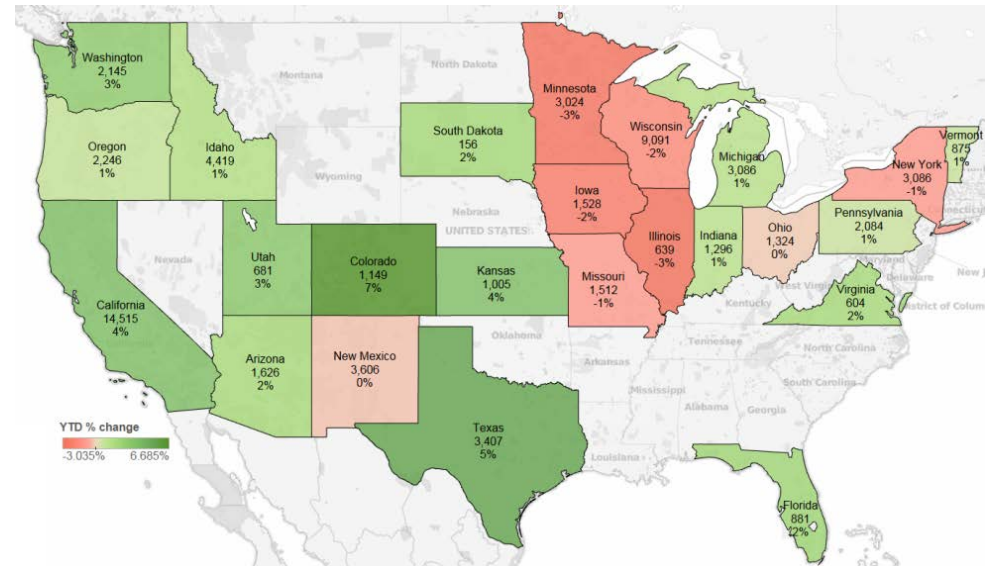
- With YTD growth through April up just 1% YOY, it is safe to say U.S. milk production has continued to underperform when compared to other parts of the world. This comes despite the absence of a polar vortex which hindered production in the first quarter.
- As the Midwest has thawed, farmers there have remained focused on paying down debt, buying feed forward, and upgrading farming equipment rather than ramping up output.
- Meanwhile, Californian farmers have been capitalizing on high prices, with the state up almost 5% YOY in Q1. The drought gripping the state is largely having an impact through water shortages rather than excessive heat. While this has reduced local production of hay, and driven up its cost, farmers still have sufficient water for livestock. Moreover, the milk price is so high and corn and soy prices so low that margins remain extremely attractive. However, growth has slowed to just 1.4% in April, and there should be more of the same as prior year comparables have become more typical.
- While U.S. milk production has shown only modest expansion, it has still managed to outstrip local consumption growth in recent months. This has enabled U.S. exporters to increase outgoing shipments by 20% YOY for the first four months of the year on an LME basis.
- Rabobank expects milk production growth to gain some traction during the second half of 2014, up 3% YOY. While milk prices are now softening, and are likely to continue to do so in coming months, this process is lagging the price fall seen in other regions due to the weaker local supply growth we have seen to date.
- Margins are expected to remain attractive well into 2H, and start to attract more investment than has been the case so far this year, as producers respond to the prolonged nature of improved returns. In 2015, U.S. milk supply will continue to grow at a decent clip, as the expected investments of 2H 2014 continue to flow through. While U.S. demand will also likely pick up by then, we expect the U.S. industry to resume its trend of building an even larger export footprint at that time.

US cheese and NFDM prices have eased



Source: USDA, Rabobank, 2014

US milk production for 24 selected states was up 1.1% in April YOY



Source: USDA, Rabobank, 2014

Feed – DDG prices plummet as China blocks imports

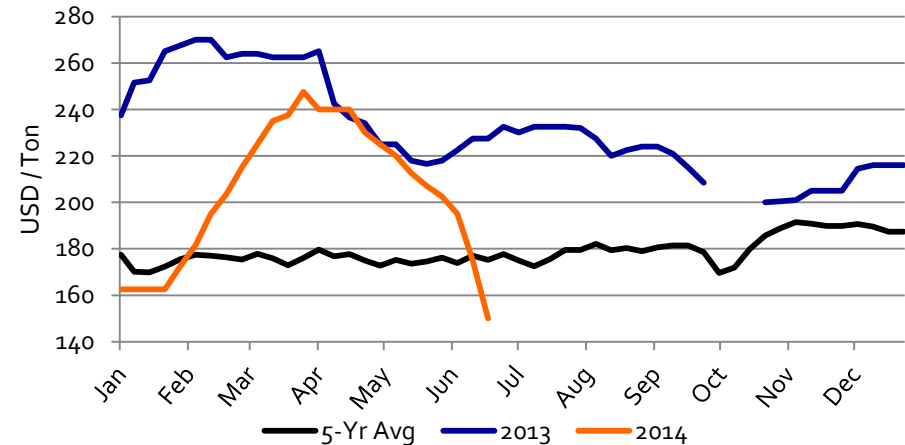
DDGs

- Curtailed access to the Chinese market caused Dried Distillers Grain (DDG) prices to plummet during Q2, after a harsh winter and high soymeal prices caused a spike in price during the first quarter of 2014. Recent action by the Chinese government to block the importation of corn products containing the gene MIR162, ubiquitous in most U.S. corn, is driving DDG prices lower.
- Lower DDG prices are acting as an underlying support for feeder cattle prices; this is expected to continue at least through the summer as the Chinese government is showing no signs of lifting current restrictions.
- Expectations of ample supplies of South American soybeans moving to the international market and strong U.S. soybean crop conditions have recently pressured soymeal prices down. However, Rabobank expects record low U.S. soybean ending stocks this year because of both high exports and domestic use. This should provide some support for DDG prices at least until new crop supplies become available this fall.

Hay

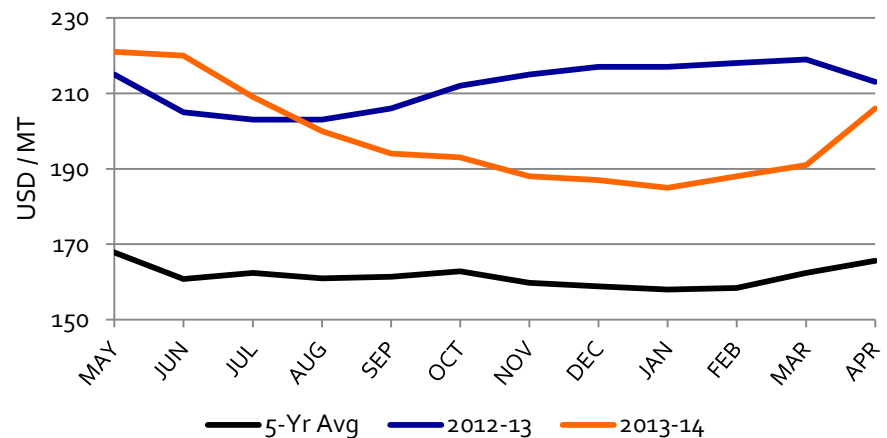
- Strong storms across much of the Great Plains have delayed bailing of the first hay crop. While some degree of moisture damage will result, the added soil moisture will prove supportive for successive cuttings this summer.
- Hay prices will experience great regional variation this year as drought continues in some areas and not others. Stocks are currently tight in Western states, and yield concerns and uncertainty over export demand will play a key role in the regions hay price over the remainder of the year.
- After several years of drought in the Great Plains, increased probability of an El Nino cycle and the greater associated moisture would aid in rebuilding stocks.

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

Pork – PEDv driving record profit outlook

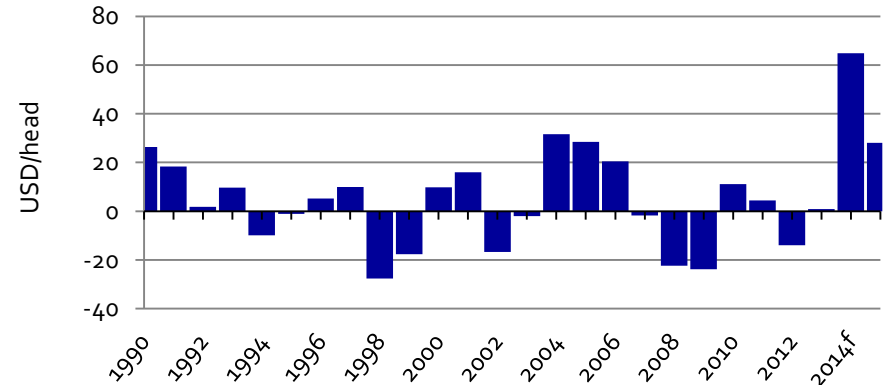
U.S.

- Profit margins for U.S. hog producers remained at very high levels in May and June as the threat of PEDv has pushed hog prices to historic highs, aided by more favorable feed prices. We estimate industry margins averaged USD 65 per head in May and USD 73 per head in June; this is significantly higher than the margins seen during that time last year, which came in slightly above break-even. Hog prices fell from the highs in April as the impact of the PEDv outbreak is now expected to be seen in late summer and early fall, rather than early summer. We expect 2014 margins to average USD 60 per head.
- New cases of PEDv have declined to 138 per week from over 300 per week back in February. As temperatures have risen this spring, producers have been able to manage the spread of the virus more easily than in freezing temperatures. Through the end of May, we estimate the virus has impacted two-thirds of the U.S. breeding herd and has reduced U.S. hog production by 10 million hogs, or 9% of annual production.
- Pork packing margins struggled in April and May as hog prices raced ahead of cutouts during the peak of the PEDv fear. Since then, hog prices have stabilized and packing margins have improved. While margins of USD 15/head are not as high as the intra-year peak of USD 21/head in March, they are well above the levels seen the last 24 months.

Canada

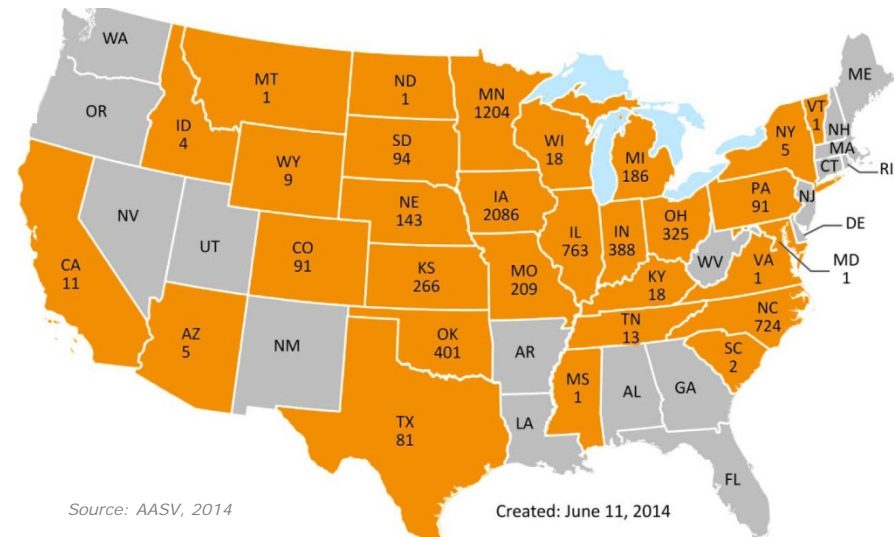
- Hog production margins in Canada have been very favorable as well, averaging USD 40-45 per head over the last three months. While this is much better than the significant losses the industry experienced this time last year, it is far below the levels seen in the U.S., as referenced above.
- Meal prices have been very high across North America, but prices in Canada have been markedly more inflationary than in the U.S. On a year-to-date basis, meal prices are up 11% in Canada but up only 4% in the U.S., driving a more challenging feed cost environment for Canadian hog producers.

U.S. Hog Production Margins



Source: Bloomberg, Rabobank Estimates, IA State, 2014

Cases of PEDv in the U.S.



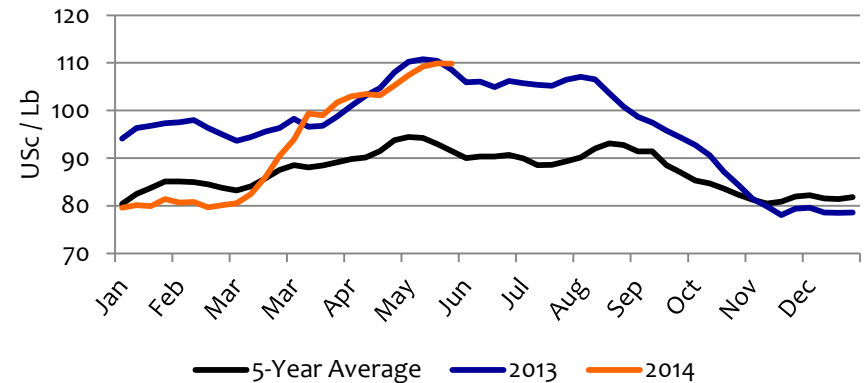
Source: AASV, 2014

Created: June 11, 2014

Poultry – prices up on beef and pork shortages

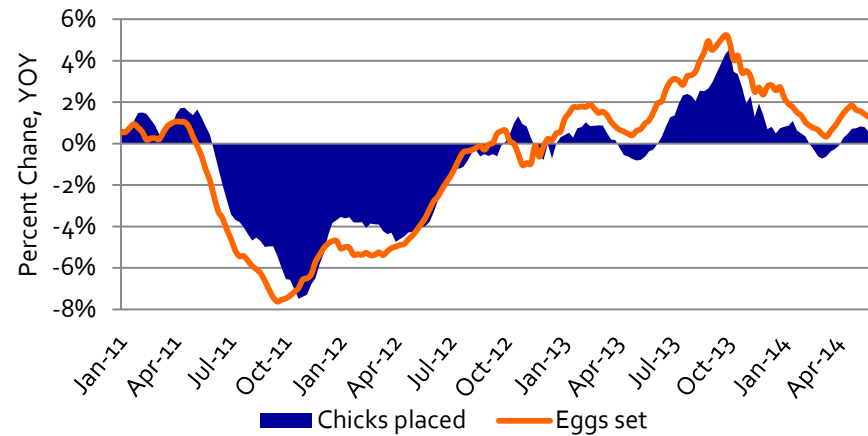
- The U.S. chicken industry had a very strong start to 2014 with the public producers averaging EBIT margins of 10% in Q1, up from 4.5% in Q1 of 2013. Given the continued climb in chicken prices in May and June, margins are expected to remain very high over the remainder of the summer.
- Chicken prices are up 40% on an indexed basis but the movement in prices has not been uniform across all parts. The major driver of higher prices is in white meat, where breast meat and tenders are up 55-60% so far this year. This is a reflection of the strong retail demand for chicken given the tight supplies and high prices of red meat. Alternatively, dark meat prices have risen but not nearly to the degree of white meat. Prices of wings and leg quarters are up 20% and 15%, respectively, as export markets have been more stable so far this year.
- The export trend this year is mostly a continuation of what the industry has felt the last five years. Exports to Russia are on the decline, while shipments to Mexico are on the rise. Through April, U.S. chicken exports are up just over 1% versus last year, while shipments to Mexico are up 7% - offset by lower volume to Russia. Mexico is rumored to be continuing to address an outbreak of Avian Influenza, which has kept its demand for U.S. leg quarters quite strong. While in Russia, the political environment has hurt demand for U.S. chicken.
- As we look to the remainder of 2014, we expect U.S. chicken supplies to remain relatively stable given the lower breeder flock in the U.S. There will be some production growth driven by higher chicken weights, but we would expect total chicken supplies to increase only 2% in 2014.

Indexed Chicken Prices



Source: USDA, Rabobank Estimates, 2014

Chicks Placed and Eggs Sets

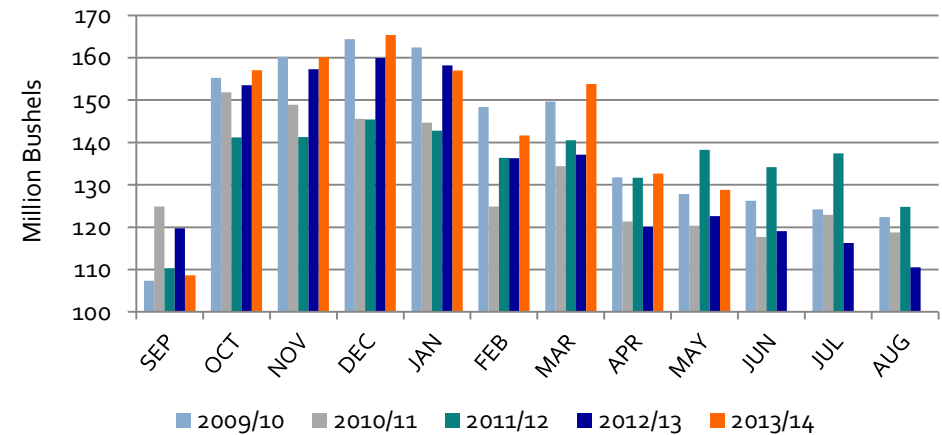


Source: USDA, 2014

Soy complex – tight U.S. stocks but global abundance

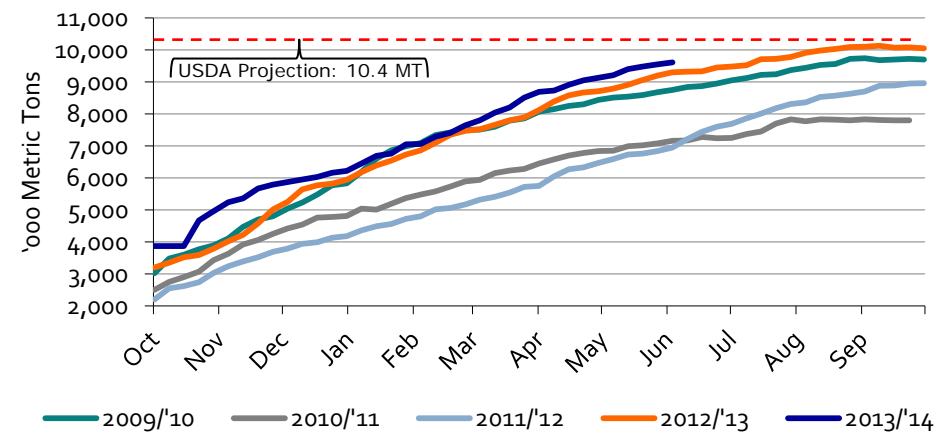
- The tightness in old crop U.S. soybeans continues to be the story for commodity markets. In what is shaping up to be one of the tightest stocks year on record, U.S. soybean exports are at record high levels and year-to-date NOPA crush is running at the third highest pace on record.
- The current record pace of exports and near-record crush is pointing to the lowest stocks and stocks-to-use ratio on record. Since March 1, U.S. soybean stocks were pegged at 992 million bushels; however, the U.S. has crushed 415 million, exported 216 million and a remaining export commitment of the 73 million, leaving just 287 million remaining for the final three months of the crop year. The remaining 287 million bushels will not be enough to satisfy crush requirements, let alone a diminished export pace. Record cuts in exports and crush will be needed. Not since October 1994 has monthly crush been below 100 million bushels.
- The USDA's import forecast of 90 million bushels of U.S. soybeans-imports is going to be difficult to reach. Through April, the U.S. has only imported 30.5 million bushels of soybeans. To reach USDA's projection, the U.S. will need to import, on average, 14.9 million bushels per month for the remaining four months of the crop year. That level of imports would be 3.0 million more than the one-time record set in July 2013.
- The market is waiting for important month-end USDA reports; Acreage and Grains Stocks. The market is anticipating an increase in 2014 planted soybean acres, but good planting weather has historically favored more corn acres than soybean. The trade is looking for the June 1 Grain Stocks report to "find" more soybeans, but we think a bearish surprise is unlikely given the bushels needed to bring U.S. soybean supplies to a more comfortable level.
- U.S. soybean meal exports are also running at a record pace. The strong pace of the crush is being driven by strong domestic and export demand for U.S. soybean meal. In the June WASDE report, the USDA increased 2013/14 U.S. soybean meal exports from 400,000 short tons to 11.5 million - a record.

U.S. Soy Crush Still Strong



Sources: CBOT, Rabobank, 2014

U.S. Soy Meal Exports Total Export Commitments Setting Record



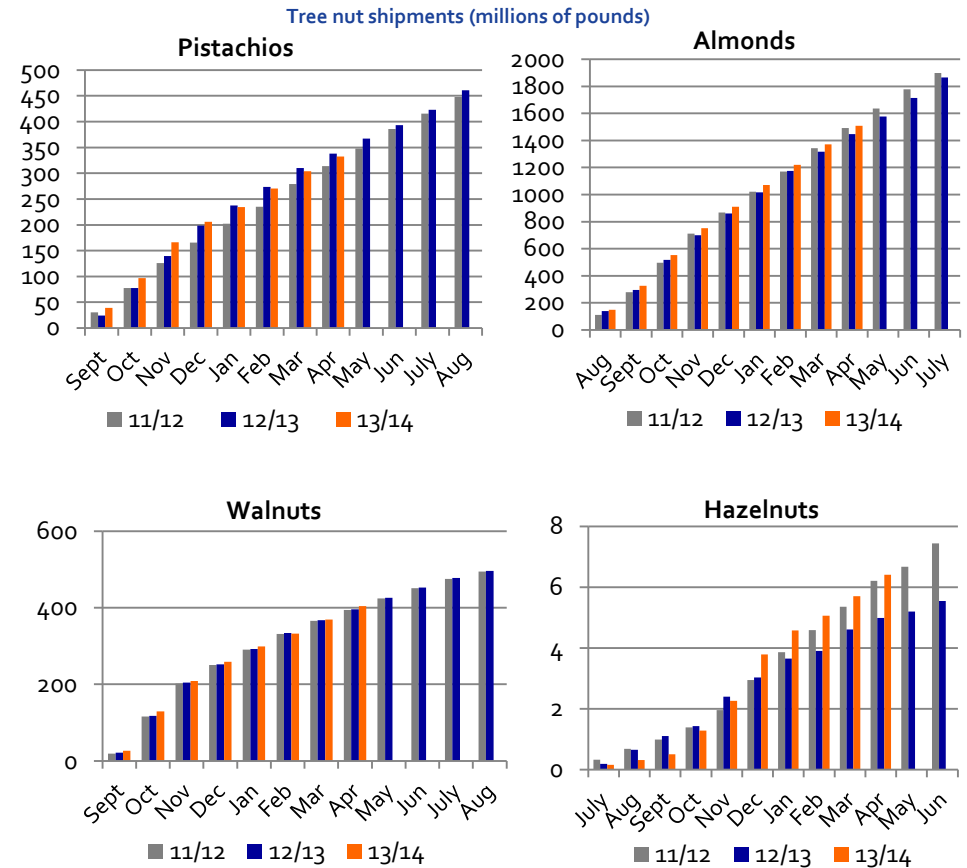
Sources: CBOT, Rabobank, 2014

Tree nuts – good demand, shorter crop, better prices

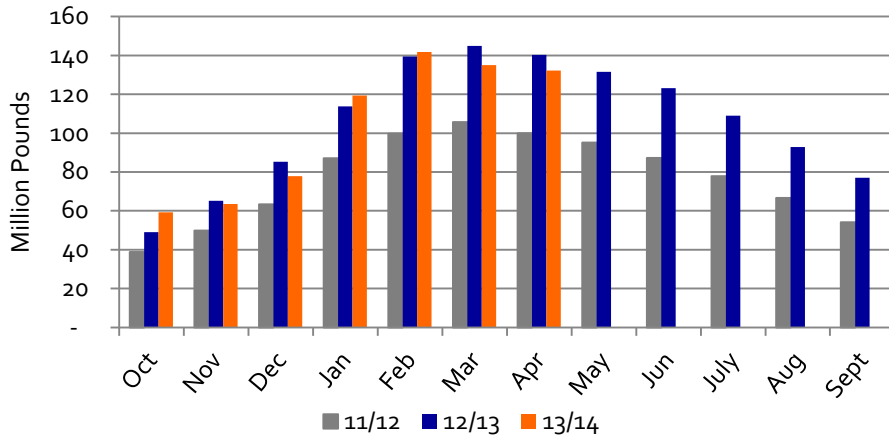


- Global demand continues to benefit U.S. nut producers, and weather difficulties here and abroad have also strengthened nut prices. The hazelnut crop in Oregon looks good, and the freeze this year in Turkey may make U.S. hazelnuts more attractive to foreign buyers.
- Rain in Georgia again made it difficult for pecan producers to control for scab, and the April freeze in the Southwest may have reduced the pecan crop by 10-15 percent this year. The strength of the price for walnuts is encouraging some buyers to substitute pecans.
- The USDA's subjective estimate of the California almond crop was down 2.5 percent, and some thought the walnut crop would be shorter than last year. Chilling hours in California were minimal this year, and there were some problems with pollination. The pistachio crop looks good so far, leading many to think the crop will be larger than last year's.
- The impact of the drought and short water supplies in California will not be known until late July, when growers can determine kernel size and count. California nuts presently look good, but reduced irrigation and the application of saltier well water may significantly reduce yields. This would strengthen prices even more.

U.S. Tree Nut Shipments



Pecans in Cold Storage



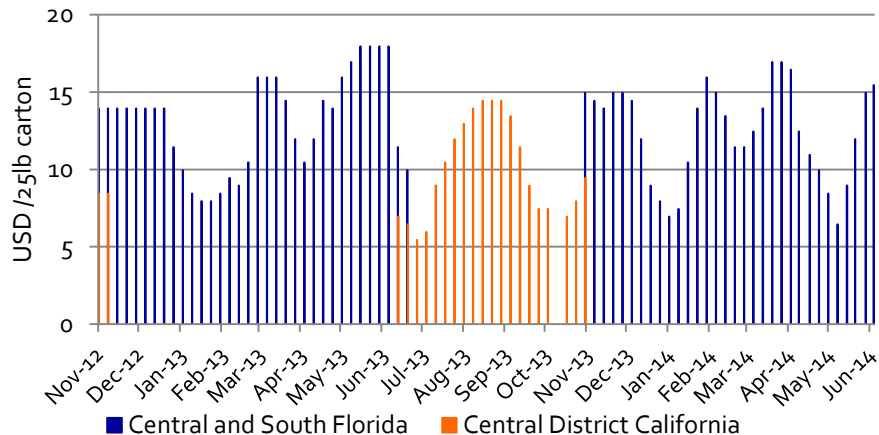
Source: Administrative Commission for Pistachios, Almond Board, California Walnut Board, Hazelnut Marketing Board, 2014

Source: USDA Census Bureau, 2014

Vegetables – dog days for some, great for others

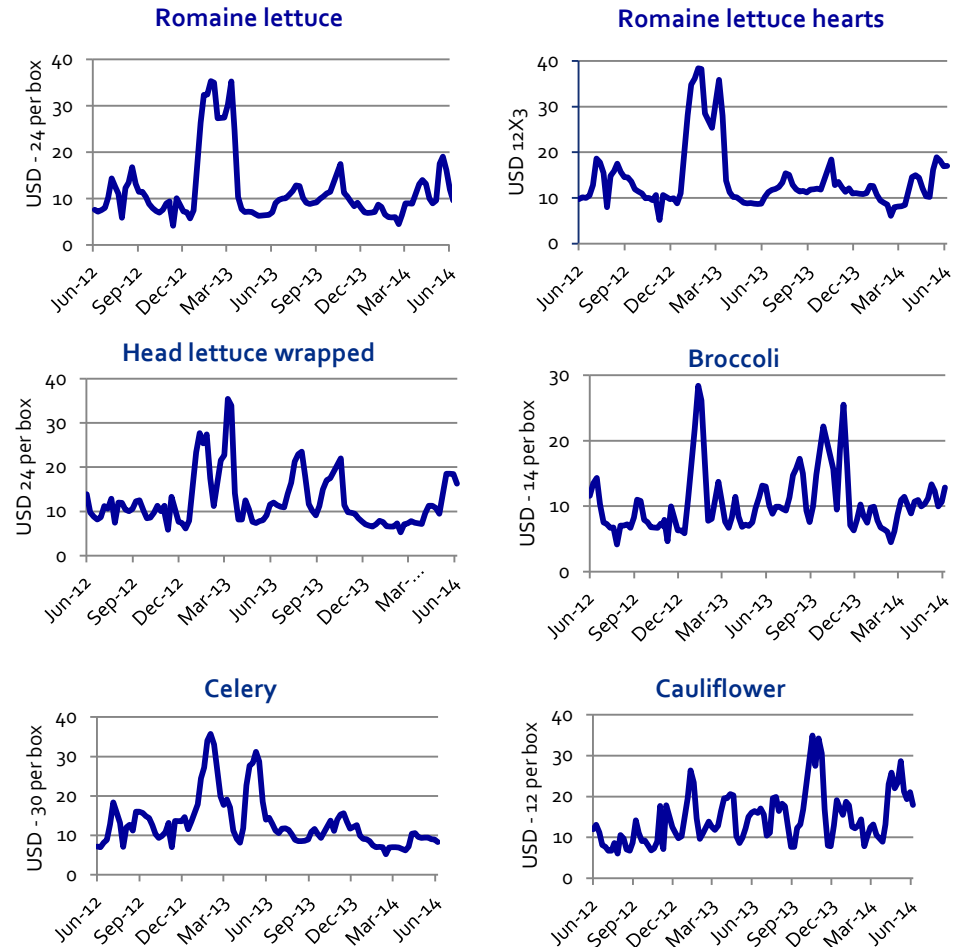
- Vegetable growers finished production in the Arizona and California deserts in April, with some losses caused by favorable weather and excess production. Planting began on schedule in May for the Salinas Valley. This year, fortunately, there was not an oversupply, since growers had diversified crops, and did not over plant. Prices were generally profitable through May, and large vegetable growers also reported healthy demand across the complex.
- Prices have dipped in June, with regional vegetable producers coming online. Reports are that New York, New Jersey, and Montreal have come online with products the second week of June, satisfying some East Coast demand. They came online two weeks late, due to a late start and cold weather through April in the East.
- As usual, prices are expected to soften now through September as production increases in local regions closer to their markets. Market prices will increase in October/November when markets depend more upon Salinas Valley, weather permitting, as regional growers are well wound-down by then. California producers will need to expand their production outside of the San Joaquin Valley in central California because of water shortages there.

Tomato Prices – Mature Greens



Source: USDA/AMS, Rabobank, 2014

Vegetable Prices

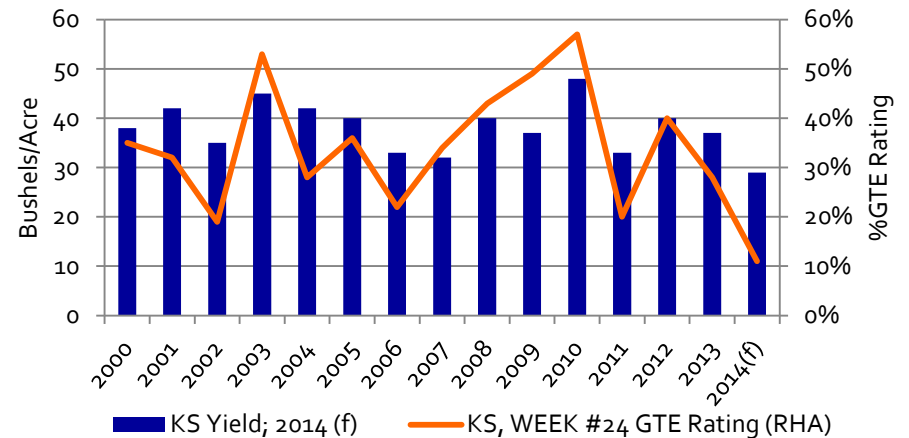


Source: USDA/AMS, Rabobank, 2014

Wheat – tight old crop but bigger crops coming

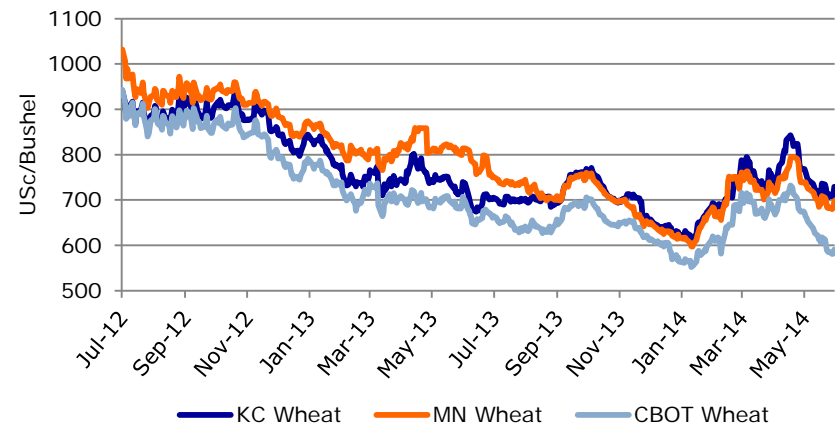
- The winter wheat harvest is under way with 16% harvest as of June 15. Many questions regarding production volume remain as late season rains have helped much of the winter crop. The rains likely came too late to encourage new growth but contributed to fill.
- Of particular concern, the Hard Red Winter (HRW) crop in Kansas and Oklahoma struggled all season with poor growing conditions. Years with crops rating less than 25% “good to excellent” condition by week 24 (June 15) have averaged 33 bushels per acre compared to an average of 40 bushels per acre in other years since 2000. In 2014, the Kansas crop rating since week 21 has been only 11 percent good to excellent.
- Combined with the 3% cutback in HRW planted acres in Kansas and Oklahoma, and a 42% decline in beginning stocks, we expect a decline of over 100 million bushels (13%) of HRW production in 2014/15. When the 42% reduction in beginning stocks is also factored in, total 2014/15 US HRW supply - less imports - is expected to be 850-900 million bushels (20-23% fewer YOY).
- Unless yields for HRW improve over the next two months, we expect the KC BOT (HRW) to continue leading the wheat price complex on the upside as approximately 50-100 million bushels of usage will need to be rationed into ending stocks just to maintain current tight conditions. Until more is known about the crop, USc 700 per bushel for KC HRW will likely be a tough level to break below. For the second year the U.S. will likely be looking for increased imports to supplement the tight HRW conditions.
- An improving global balance sheet is driving all wheat prices lower. A 3-4% expansion of European production and increased export level expected out of Argentina and the Black Sea Region, the global balance sheet is becoming much looser. Higher quality over the past two years of Chinese wheat will also reduce the amount of imports expected from China by 3-4 mmt (50-60%), with most imports moving from a protein focus (hard reds) to high gluten (softs and whites).

Crop Quality Still a Concern in Kansas and Oklahoma



Source: USDA, Rabobank, 2014

The Kansas City Exchange Price Leading the Complex

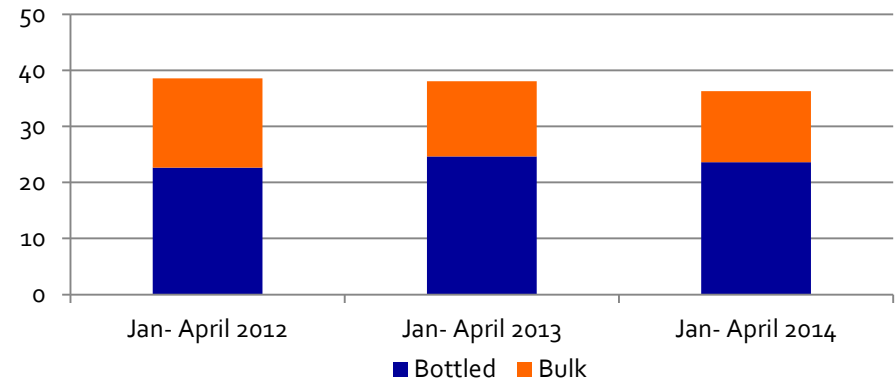


Source: CBOT, KBOT, 2014

Wine – California water issues remain in focus

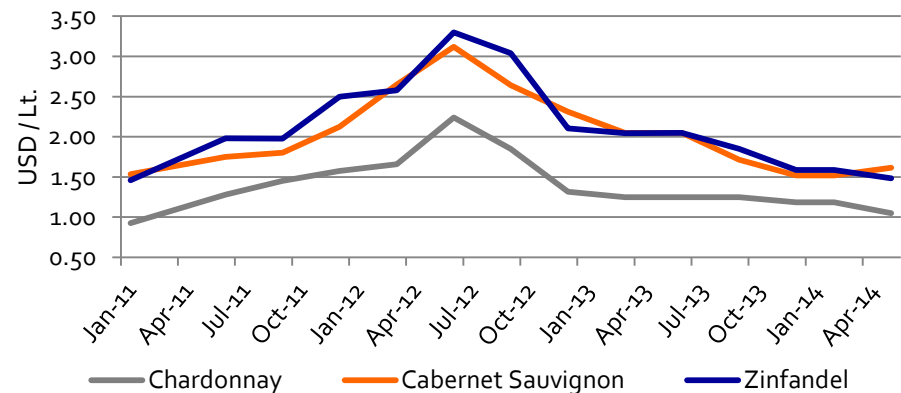
- Concerns regarding the potential impact of the drought on this year's harvest dominated discussions earlier in the season, but late rains helped to alleviate some of those concerns. Most indicators suggest that California is on track for another large harvest in 2014, barring any additional unforeseen weather events. Growers continue to take measures to secure water for their crops, but those measures are becoming increasingly expensive.
- The prospect of a third large wine grape crop in a row is beginning to impact California bulk wine prices, as well as demand for imports. Reports suggest that there is broad availability of bulk wine for sale in the Central Valley, and prices remain well below the highs seen in 2012.
- Healthy inventories of basic California bulk wine and the prospect for additional supply is dampening demand for imported bulk, which declined 5.4% in the first four months of 2014. Chile and Australia were most impacted by the declining demand for bulk, with both seeing declines of roughly 1 million cases. Argentina bucked the trend, supported by a weakening peso, and saw bulk imports into the U.S. rise by nearly one million cases.
- In spite of the growth in production, demand for available supplies of North Coast wines remains robust. Strong consumer demand for North Coast wines is playing an important role, but the drive to secure supply appears to have deeper roots. There has been a steady spate of North Coast vineyard acquisitions by wineries over the past 18 months, leaving many wineries worried that there will be less un-contracted fruit available on the market in the future.
- In spite of the prospect of a healthy grape crop in 2014, California is far from resolving its water woes. Another year of low precipitation would likely have a disastrous impact on the wine grape crop, and on agriculture in general. Over time, the growing concern over water may favor expansion of grapes, given that they are less demanding of water than other alternatives.

Imports of Bulk and Bottled Wines in Millions of Cases



Source: The Gomberg-Fredrikson Report, 2014

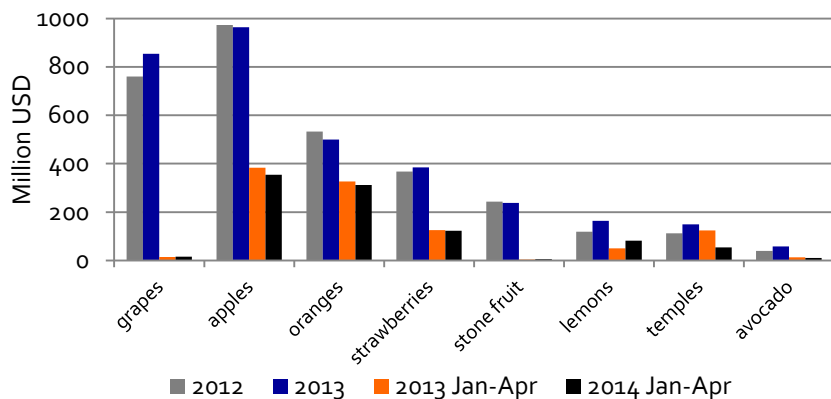
Pricing for California Bulk Wine Varietals



Source: Ciatti Company, 2014

- Production conditions in the Pacific Northwest have been excellent this year so far, and market prices have been good for fruit stored over from 2013. The apple harvest this year promises to be a record breaker, which will stretch storage and labor capacities, as well as lower market prices. The Pacific Northwest cherry and pear crops also look good and enjoy profitable prices. The blueberry crop has been larger than expected.
- California had minimal chilling hours and an extremely dry winter, which has reduced some yields. Most crops are early because of the mild winter. Stone fruit crops will be moderate in size, as acreage is reduced, possibly making it more profitable to market. Table and raisin grape crops will be smaller than last year. Weather has been favorable for California strawberry production, which sometimes has depressed market prices. Berry growers will probably not see stronger prices until September. Growers in southern California continue to enjoy strong lemon prices.
- California fruit growers are increasingly concerned about the availability of water. Many of them have paid high prices for deepening or new wells, as well as for purchased surface water deliveries. There is concern wells will not provide sufficient irrigation for the entire season.

U.S. Fresh Fruit Exports



Source: USDA/FAS, 2014

Florida Orange Juice

- Florida's orange juice production is expected to reach 110 million boxes in 2013/14, which constitutes a 17% decrease since last season. We expect Valencia production of 57 million and the early, midseason and Navel varieties to near 53 million boxes, a decrease of 14% since last year.
- FCOJ futures have slid over the last two months, finishing May with a market price of USD 1.56 per lb. This downward tick is not attributed with poor news, but rather a lack of news as well as a shortening of positions by speculators. Florida's crop nears harvest and has seen calm weather as we prepare to enter hurricane season; few updates have been given on the Brazilian crop.
- Per capita consumption of juice contracted in 2013/14, with latest retail trade data from Nielsen showing season-to-date volume down 5.3%, with a significant drop of 9.3% in volume consumed of reconstituted orange juice.

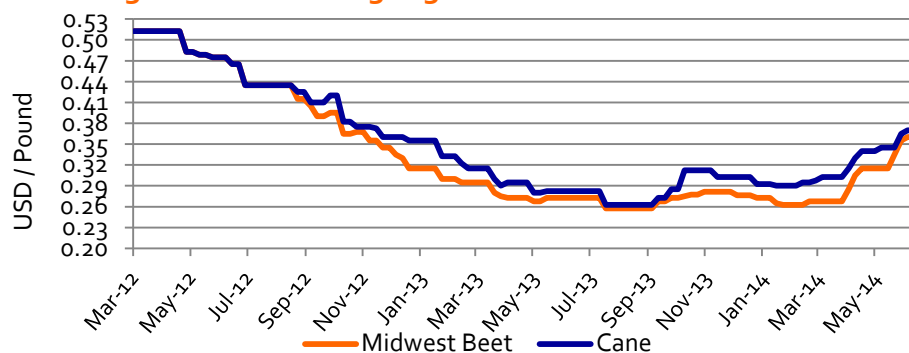
FCOJ Futures



Source: ICE, Rabobank, 2014

- U.S. domestic sugar prices have increased over USD 0.05 per CWT higher since the American Sugar Alliance (ASA) filed the anti-dumping suit against Mexico at the end of March.
- The significant jump in prices has been somewhat surprising, but we expect prices to remain at current levels with the potential to move higher depending upon development of the beet crop and final resolution of the anti-dumping suit.
- The U.S. Department of Commerce postponed the preliminary verdict from June 23 to August 25. This time frame could give the parties more time to reach a settlement on how to control or restrain Mexican exports to the U.S. Mexican sugar exports to the U.S. are to continue at a strong pace and we expect them to close at 1.7 million tonnes.
- Mexico is an important customer of U.S. agricultural products (e.g. HFCS) and the countries are currently involved in a number of trade negotiations. We expect the anti-dumping/counterevidence lawsuit to be resolved with parties reaching an agreement, which would allow Mexico to export 1.5 million metric tons of sugar to the U.S.
- Mexican 2013/14 cycle is coming to an end. Preliminary data indicates that production is closing at around 6 million tonnes below market expectations at 6.7 million tonnes. Despite domestic consumption remaining sluggish, Mexican exports to the U.S. and the rest of the world are anticipated to finish at 1.7 million tonnes and 800 thousand tonnes, respectively. As a result, final stocks should end at around 750 thousand tonnes, below the 970 thousand tonnes in 2012/13. Consequently, domestic prices increased sharply reaching the highest levels in the past two years and we expect them to remain strong, at least through the end of the cycle.

U.S. Sugar Prices Trending Higher



Source: Milling and Baking News, 2014

- Continued demand from China led to a strong presence in the marketplace for the United States timber industry in the first quarter of 2014. Total log exports jumped by 11% from the fourth quarter of 2013; log values also found themselves sitting 12% higher for the same time frame. Farther along in the processing chain, lumber remained steady in its volume of exports while its value increased by almost 6%.
- Increased demand is expected to continue throughout the summer months as the ailed housing market in the United States slowly renews its appetite for domestic lumber and enters the heart of home construction season. This, combined with China consuming nearly 35% of exported lumber and 41% of exported logs, leaves a mildly optimistic forecast on the demand side. Current increases in prices are a reflection of these factors.

Price Highlights

Price Highlights	May/ most recent	Last month	Last year
Random Lengths Framing Lumber Composite Price, MBF	\$380	\$362	\$374
Random Lengths Structural Panel Composite Price, MBF	\$389	\$359	\$460
Douglas Fir #2 Saw Log NW Oregon, MBF	\$649	\$677	\$644
Southern Pine Sawtimber Average Price, short ton	\$26.48	\$27.19	\$26.87
Southern Pine Pulpwood Average Price, short ton	\$10.11	\$9.75	\$8.67

Source: Random Lengths, Forest2Market, 2014

Cotton

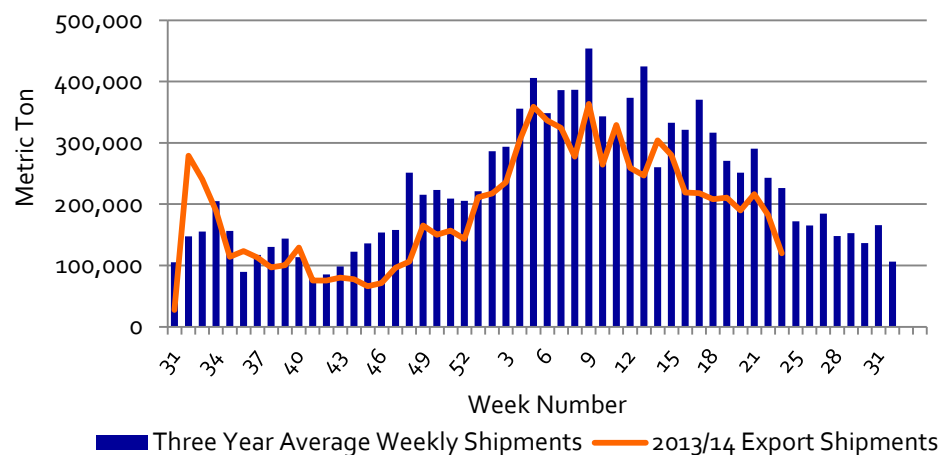
Rice



- New crop cotton futures continue to edge lower as new crop growing conditions improve and the supply side outlook remains burdensomely heavy. ICE #2 cotton futures for December '14 have lost 1.9% throughout June to date, currently trading at 76.6 US\$/lb. Rains across West Texas have brought some reprieve to the regional crop, which underlines our U.S. production forecast of 16 million bales. U.S. ending stocks are forecast to grow to 3.5 – 3.9 million bales, easing some of the recent tightness in the domestic market, with 11.5 million bales of exports anticipated.
- On the international front, global cotton ending stocks are expected to reach a record large 102 million bales in 2014/15, which is the equivalent of eight months of global cotton consumption. As China winds down its reserve policies and stockpiles, raw cotton imports are expected to decline to nine million bales, down 34% YOY, while the growth in China's imports of cotton yarn is expected to persist in 2014/15. Despite the recent month's sell off, we see further downside for new crop cotton futures' current levels and maintain a price forecast of 70 US\$/lb in Q4 2014.

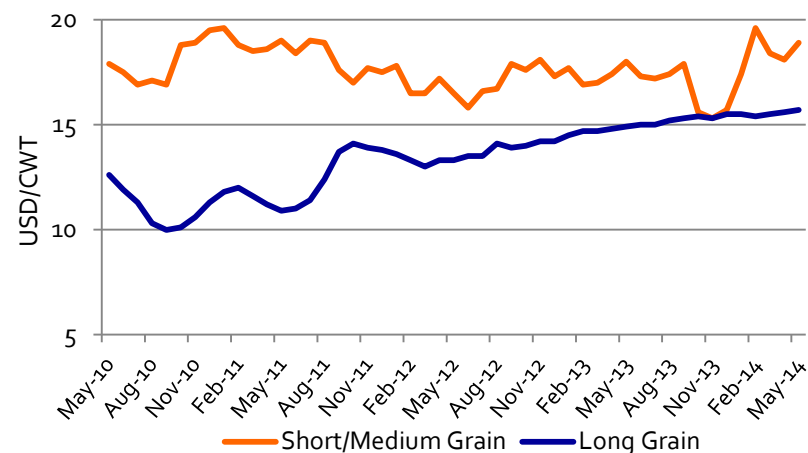
- USDA expects the U.S. long-grain rice season average farm price will be the lowest since 2011. The USD 13.50-14.50 per cwt price range is a result of a large harvest expected in the U.S., as well in large producing countries in South East Asia, resulting in slightly lower global prices. This, however, is not the case for combined medium and short grain, whose projected range is USD 18.50-19.50 per cwt which is higher than previous years. California's drought continues as the root cause with its low yields in these varieties creating a lower supply and higher prices.
- Despite weather conditions in California being suboptimal for the state's rice production, the United States stands to have one of the largest harvests since 2010. The USDA reports this is largely due to a national 16% increase in acres planted, mostly in increases in the Mississippi Delta and in other traditional rice producing states. The exceptions are California and Texas, which decreased their areas planted. USDA projects yield at 7,468 pounds per acre, a 3% decrease from the previous year. This decrease is heavily influenced by the western drought, as California had routinely posted the highest yields per acre on which the nation relies to increase its average.

U.S. Weekly Cotton Shipments



Source: CBOT, 2014

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

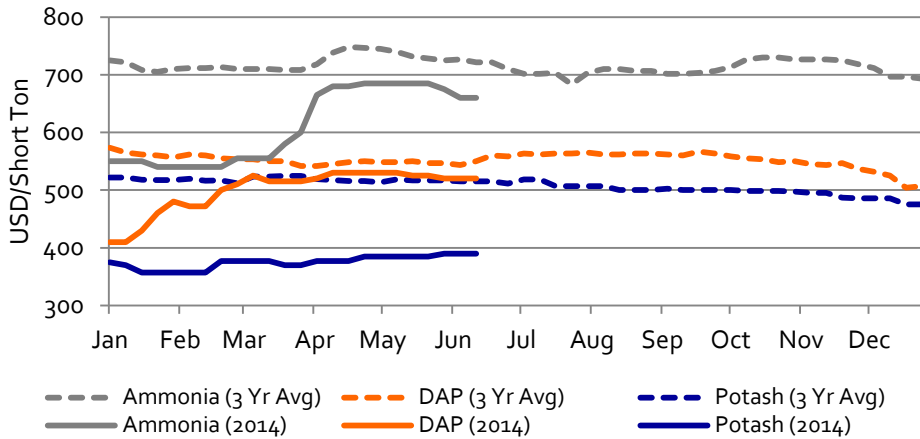


Source: USDA/NASS, 2014; Note: Average rough rice basis

Input Costs

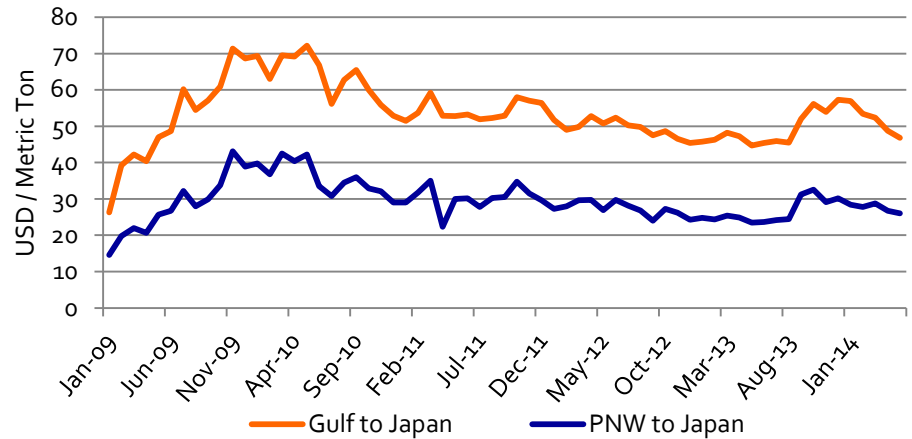
As of 6/19/2014

Corn Belt Input Prices



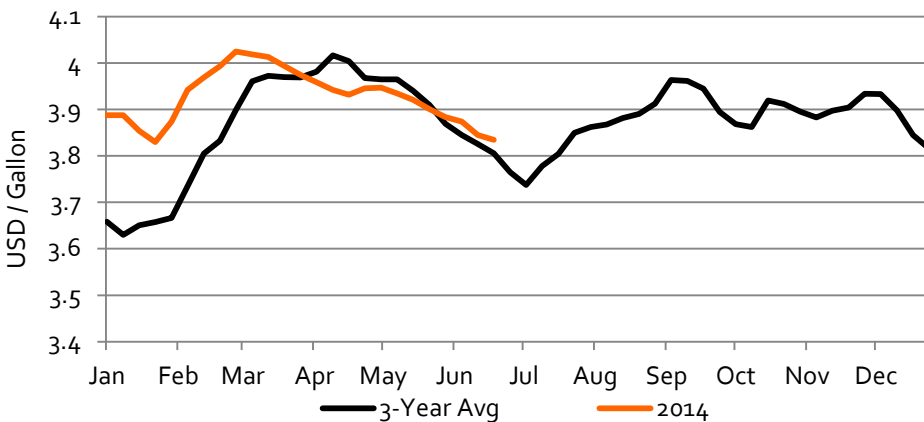
Source: Bloomberg, 2014 ; Note: Granular Potash

Ocean Freight



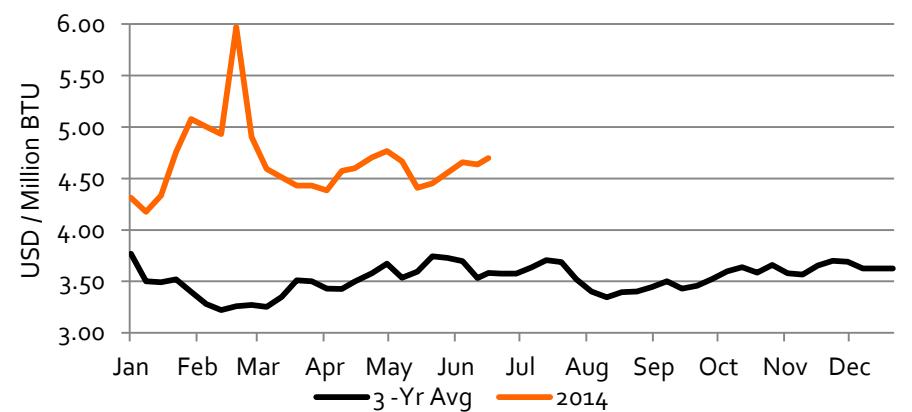
Source: O'Neil Commodity Consulting, AMS-USDA, 2014

Diesel - Midwest



Source: EIA, 2014

Natural Gas Spot

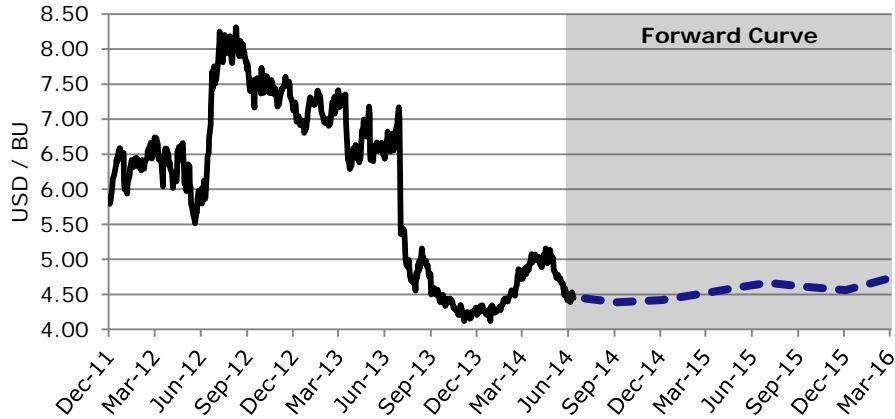


Source: NYMEX, 2014

Forward Price Curves

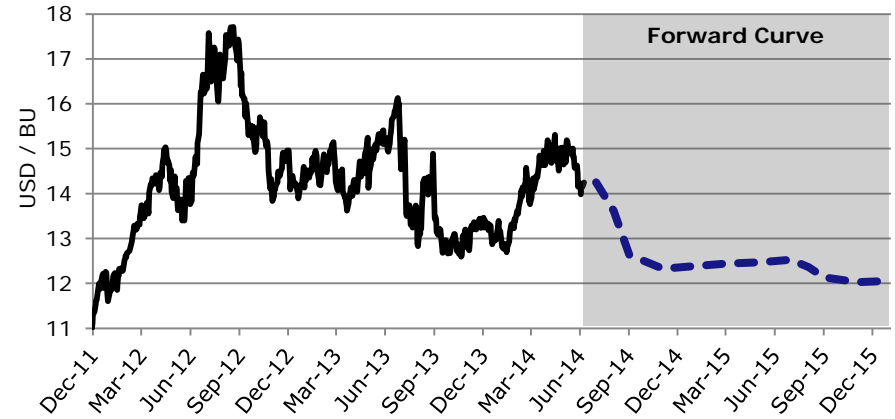
As of 6/23/2014

CBOT - Corn



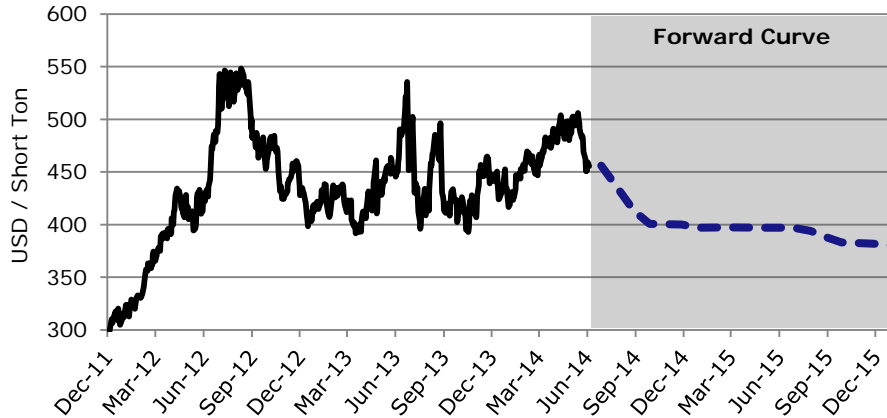
Sources: CBOT, Rabobank, 2014

CBOT - Soybeans



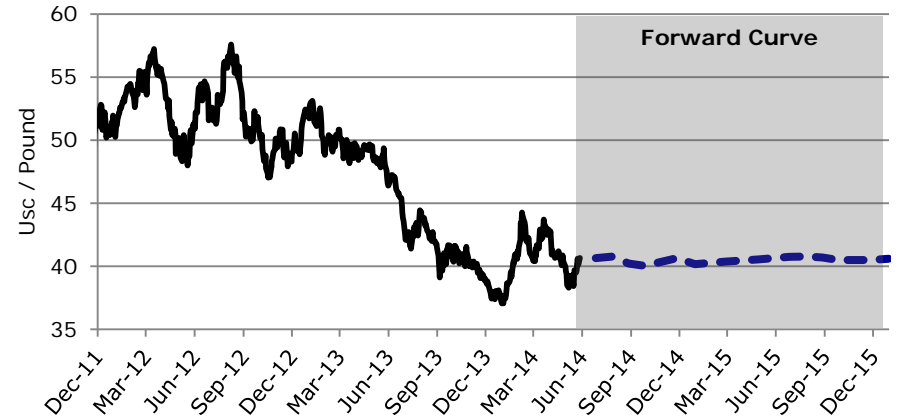
Source: CBOT, Rabobank, 2014

CBOT - Soy Meal



Source: CBOT, Rabobank, 2014

CBOT - Soy Oil



Source: CBOT, Rabobank, 2014

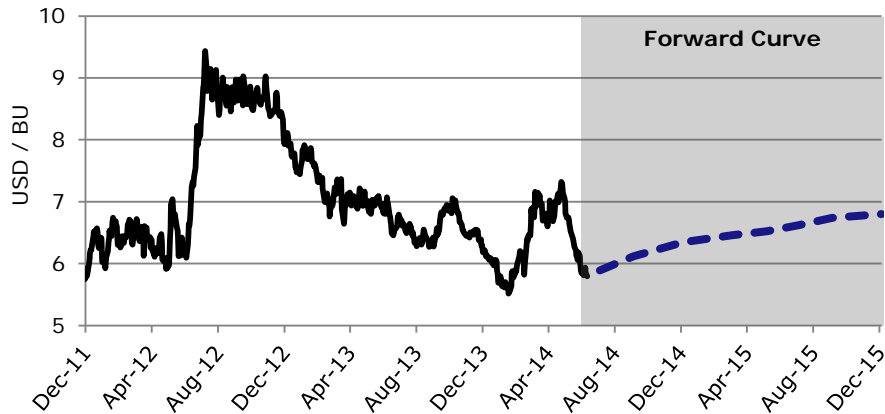
Forward Price Curves



Rabobank

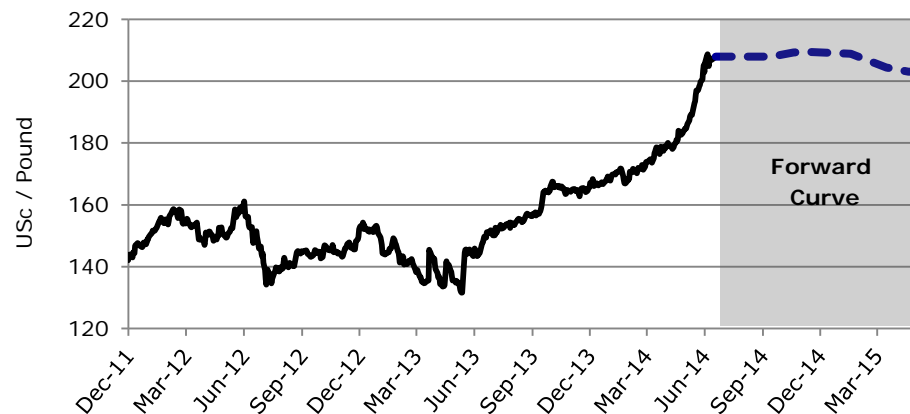
As of 6/23/2014

CBOT - Wheat



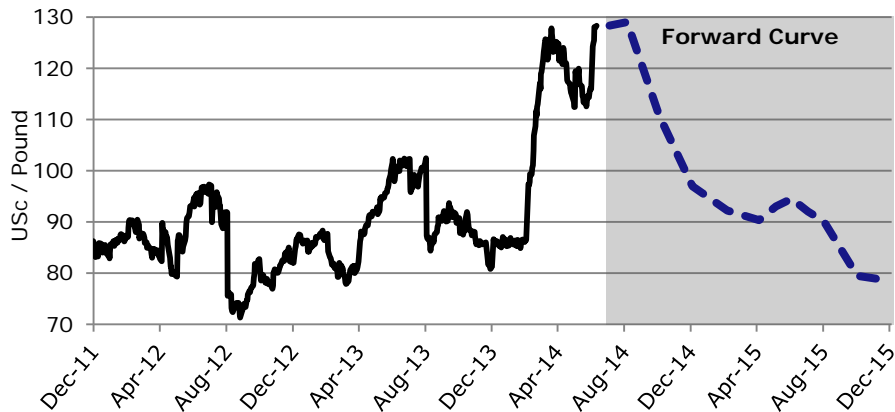
Source: CBOT, Rabobank, 2014

CBOT - Feeder Cattle



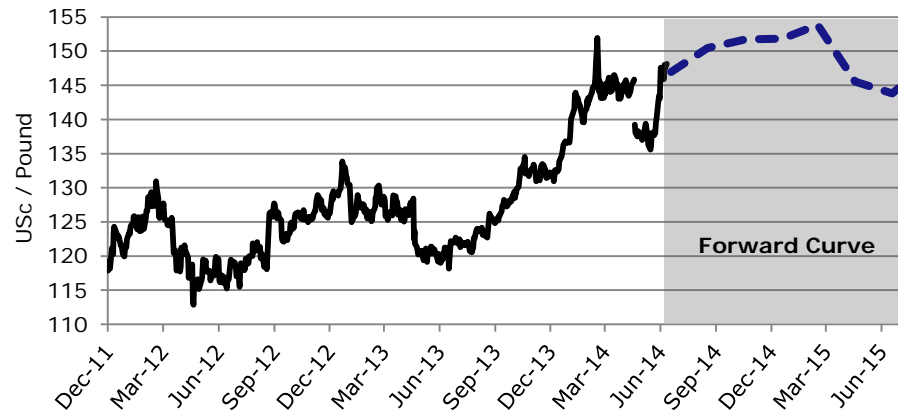
Source: CBOT, Rabobank, 2014

CBOT - Lean Hogs



Source: CBOT, Rabobank, 2014

CBOT - Live Cattle

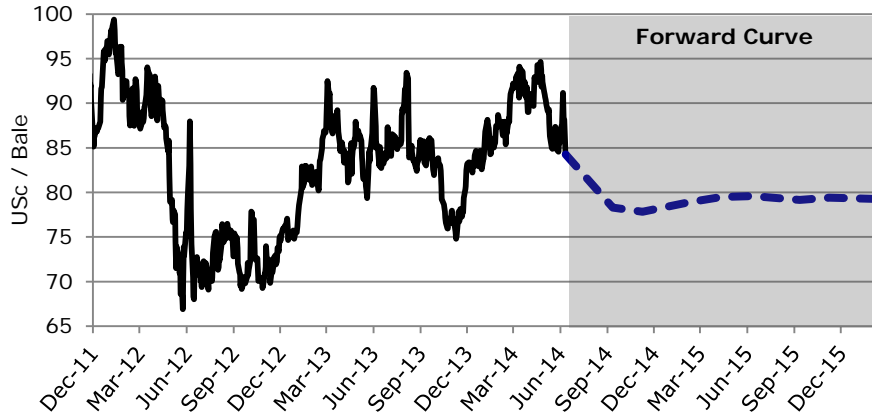


Source: CBOT, Rabobank, 2014

Forward Price Curves

As of 6/23/2014

ICE - #2 Cotton



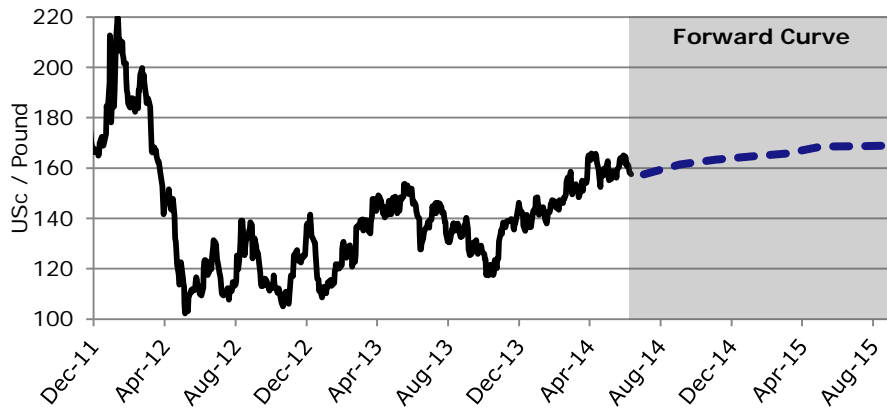
Source: ICE, Rabobank, 2014

ICE - Cocoa



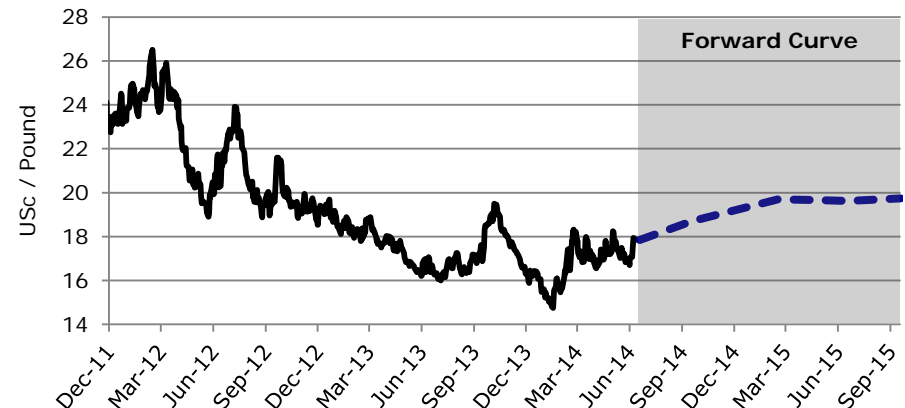
Source: ICE, Rabobank, 2014

ICE - FCOJ



Source: ICE, Rabobank, 2014

ICE - Sugar #11



Source: ICE, Rabobank, 2014


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