



# RaboResearch Food & Agribusiness

## *North American Agribusiness Review*

April 2018



**Rabobank**

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# Economy: Trade, Trade, Trade

## U.S.

- The Trump administration has chosen to play hard ball on trade with China and has announced USD 50bn and then USD 100bn worth of measures. China responded with tariffs up to 25% on 106 American goods, including soybeans, cotton, wheat, beef, and sorghum. Other retaliatory measures are to be expected after the U.S. specifies how the USD 100bn of tariffs will be implemented. Although China and the U.S. have repeatedly said that they want to avoid a trade war, it does not take a lot of imagination to see how such a scenario may unfold.
- The FOMC raised the target range for the fed funds rate to 1.50-1.75%, but the 'dot plot' remained unchanged at three hikes for 2018. There is, however, a strong feeling in the market that the FOMC is inclined to hike at every quarterly meeting. We would then see a risk that the FOMC will get ahead of itself as the yield curve flattens further or possibly even inverts. An inversion of the curve would certainly hurt the FOMC's – and the market's – confidence, which may force them to take a pause. We therefore expect two more rate hikes this year: in June and September.

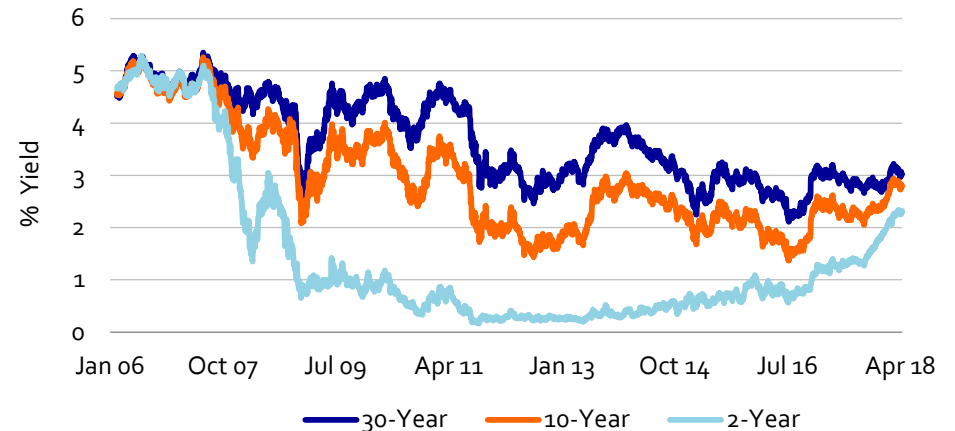
## Mexico

- Our base case scenario remains unchanged in that we expect NAFTA to be renegotiated rather than terminated. With trade policy now very much directed at China, the tone surrounding NAFTA is more constructive. MXN performed strongly recently and the hope is that a preliminary deal will be struck soon. The eighth round of negotiations will be held this month and although further progress has been made, such as the U.S. dropping its demand for a 50% U.S.-specific rules of origin, it seems somewhat unlikely we will see a fully renegotiated NAFTA in less than a month's time. If we don't see a resolution soon, however, it significantly increases the possibility of a push back until later in the year, after the Mexican presidential elections and the U.S. mid-terms.
- The presidential elections scheduled for 1 July will also be key in dictating both the performance and the volatility of Mexican assets. When campaigning picks up and the elections become front-page news in the global financial press, we expect investors to become increasingly concerned about the risk this event poses to USD/MXN.

## Canada

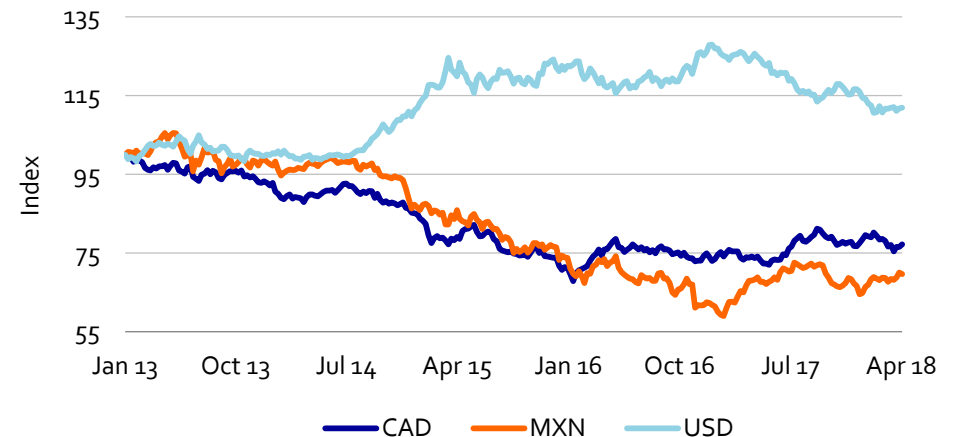
- Canadian domestic data is in the doldrums lately, primarily due to slowing consumption. We've long argued that rising rates lead to an increase in household debt servicing costs and result in a squeeze on spending. Even though various BoC policy makers argue that higher rates are likely over time, we think the BoC is in no rush to tighten.

## Interest Rates, 2006-2018



Source: Federal Reserve of St. Louis 2018

## Currencies, 2013-2018



Source: Bloomberg 2018; Note: Rebased at 100 as of 1 January 2013

# Consumer: Rising Annual Inflation

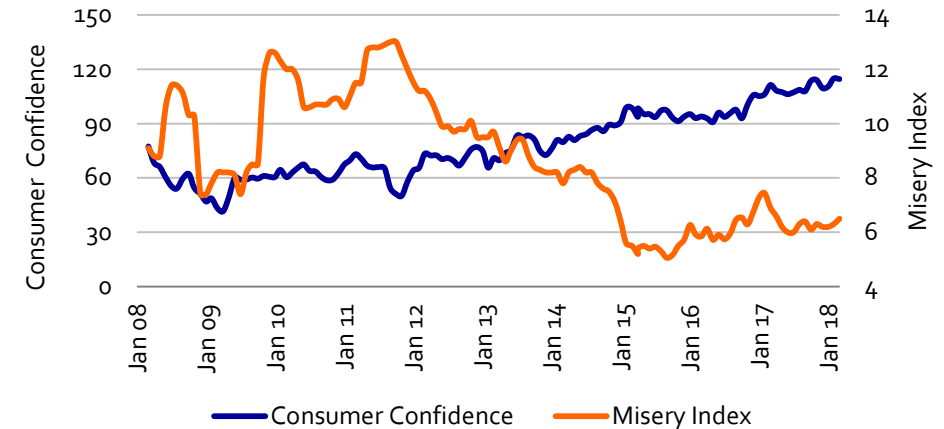
- Our two measures of consumer confidence (the average of the two leading indicators of consumer sentiment from the University of Michigan and Conference Board) remained close to historical highs but dipped slightly in March 2018 over uncertainties around the international trading environment.
- Over the last twelve months to March 2017, the Consumer Price Index (CPI) came in at 2.4%, which according to the Bureau of Labor Statistics is the largest 12-month increase since March 2017, and higher than the 1.6% average annual rate over the past decade. Over the same period, food prices rose by 1.3% as a result of a 0.4% increase in retail prices and a 2.5% increase in restaurant prices. In April, unemployment remained at 4.1%, which, together with changes in the CPI, led to the misery index rising slightly to 6.4%.
- In the U.S., about half of every dollar we spend on food is on food prepared away from home, mainly at restaurants and other food service establishments. In the first month of 2018, consumer expenditure on food away from home rose by 2.0%, while food at home expenditures rose by 4.9% over the last twelve months.

## Food Sales

Food Sales (USD billion)	Annual			YTD Cumulative		
	2014	2015	2016	Nov 17	Dec 17	Jan 18
Food at home	765	771	793	740.7	819.2	68
YOY change	3.0%	0.8%	2.9%	3.1%	3.2%	4.9%
Food away from home	697	741	801	750.0	822.5	64.8
YOY change	4.5%	6.2%	8.1%	2.6%	2.7%	2.0%
<b>Total</b>	<b>1,462</b>	<b>1,511</b>	<b>1,594</b>	<b>1,491</b>	<b>1642</b>	<b>133</b>

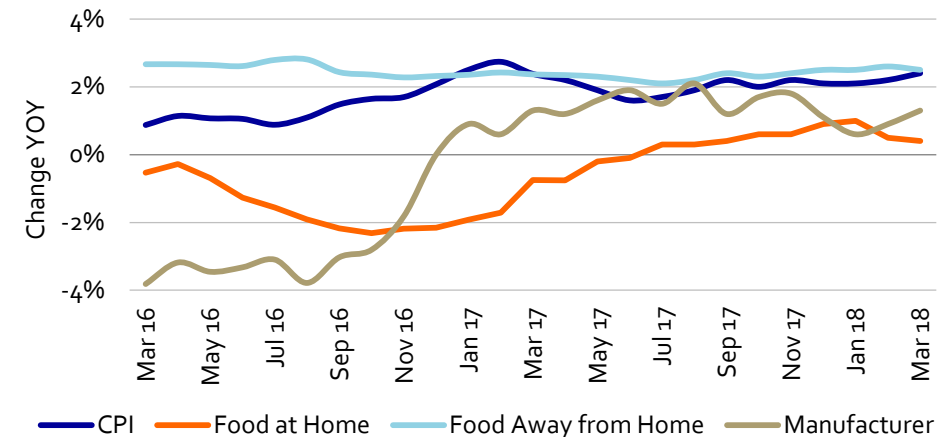
Source: USDA ERS, Rabobank 2018

## Consumer Confidence Index



Source: U.S. Bureau of Labor Statistics, Rabobank 2018

## Food Price Inflation



Source: U.S. Bureau of Labor Statistics, Rabobank 2018

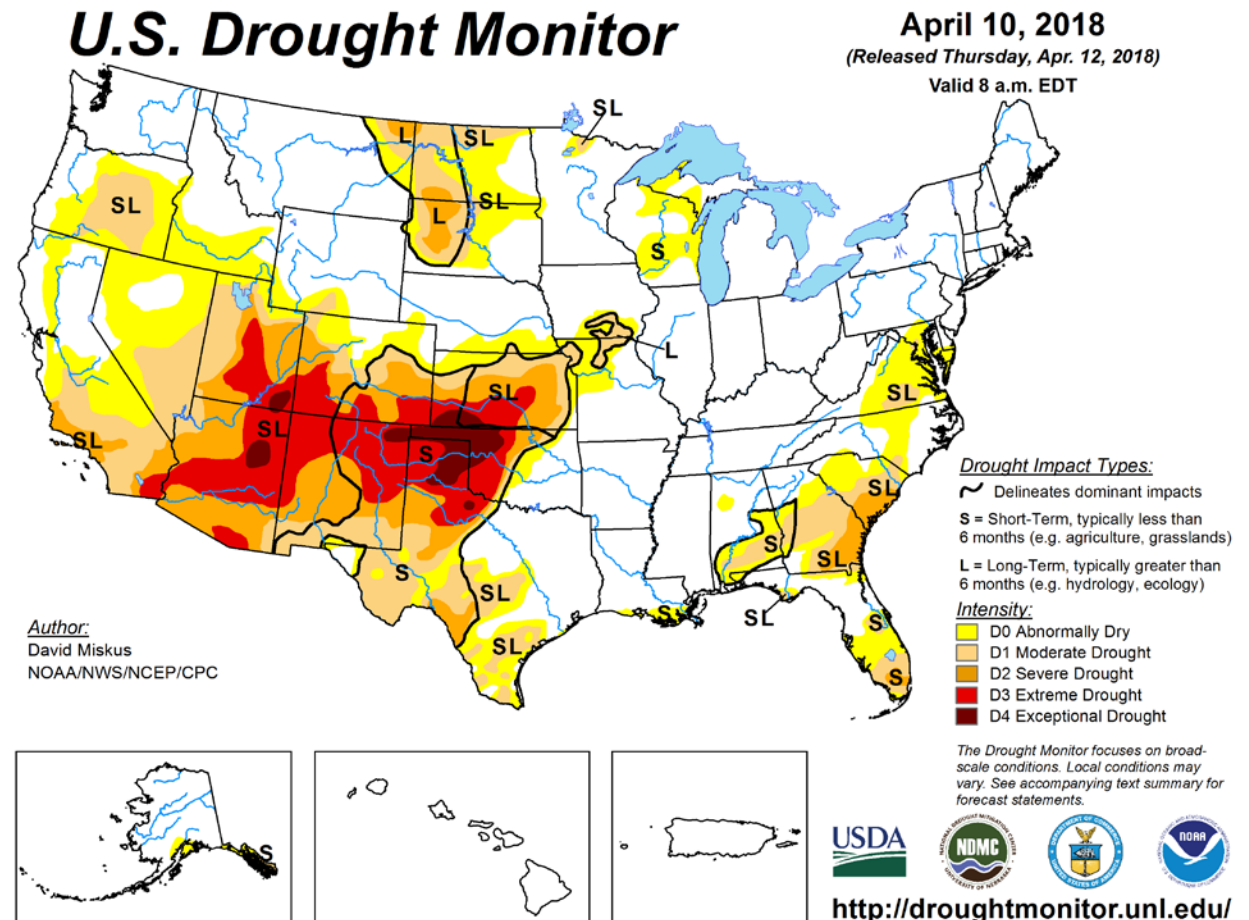


# Climate: Growing Great Plains Drought Concerns

- A series of storm systems with varying amounts of precipitation swept across most of the lower 48 States recently, including the Far West which was mostly dry during recent weeks.
- After a very dry February – normally one of the wettest months of the year in California – repeated storms have brought welcome precipitation to most of the state, gradually increasing Sierra snows closer to normal. Decent precipitation (2-6 inches, locally to 10 inches) also fell on western Oregon and Washington and in the Cascades.
- In the Southwest, however, storms have generally bypassed this region this winter, and after a disappointing 2017 summer, drought conditions expanded and worsened. To the east, light to moderate precipitation fell on the northern and central Rockies, north-central Plains, the western Corn Belt, and most locations in the eastern third of the nation.
- The greatest amounts (1.5-4 inches) fell on the lower Mississippi and eastern Ohio Valleys, eastern Carolinas, and north-central Florida. Subnormal temperatures prevailed across much of the contiguous U.S. east of the Rockies (except Florida), and averaged above-normal in the Southwest.

## U.S. Drought Monitor

April 10, 2018



Source: National Weather Service, Climate Prediction Center, U.S. Drought Monitor 2018

# Beer: Malting Barley and Sales To Wholesalers Slip

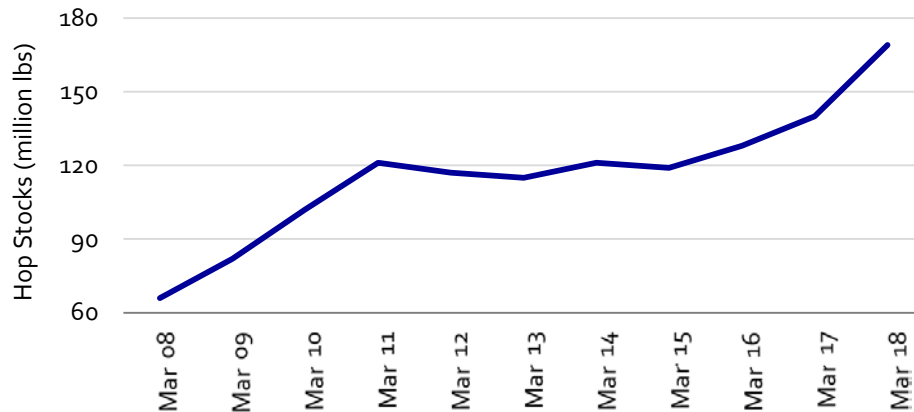
- According to IRI, beer sales of domestic beer grew by 0.5% in 2017, while imports grew by 5.8%. Mexican imports, which are largely produced with barley from the U.S, represent the largest source of imports. In craft beer, large, regional brewers struggle to gain market share while small breweries and brewpubs maintain growth in the double digits.
- With roaring growth in the hop-happy craft beer sector, hops producers built out their production capacity to meet future demand. With craft beer growth falling to the mid-single digits in 2017, demand is falling behind supply and as hop stocks pile up, prices are falling sharply.
- Malting barley prices continue to remain low relative to the post-2012 average. Prices saw a slight uptick in February 2018, to USD 4.77 per bu., but were significantly lower than the USD 5.20 per bu. seen from February 2017.
- With respect to NAFTA, Dwight Little, President of the National Barley Growers Association told Agri-Pulse that "Mexico has been our biggest importer of malt barley by far" accounting for ~75% of US malting barley exports.

Historic U.S. Malting Barley Prices, Jan. 2011 – Feb. 2018



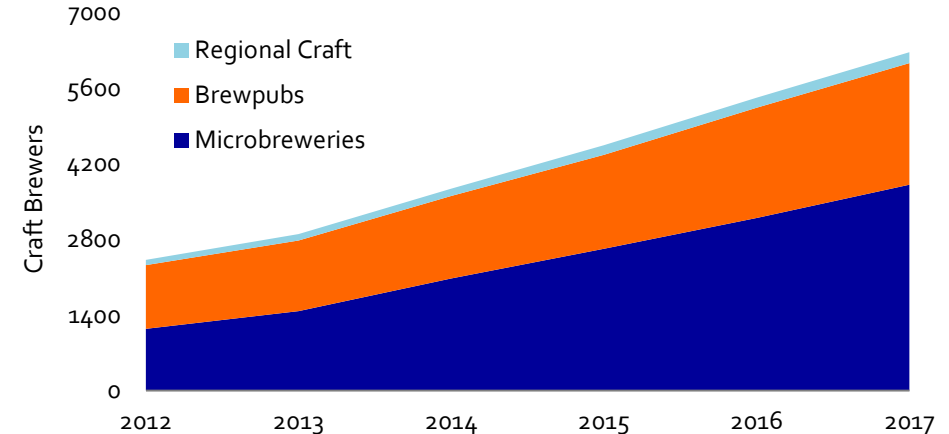
Source: USDA, 2018

Hop Stocks, March '08 - March '18



Source: USDA, 2018

Number of US Craft Brewers, 2012-2017

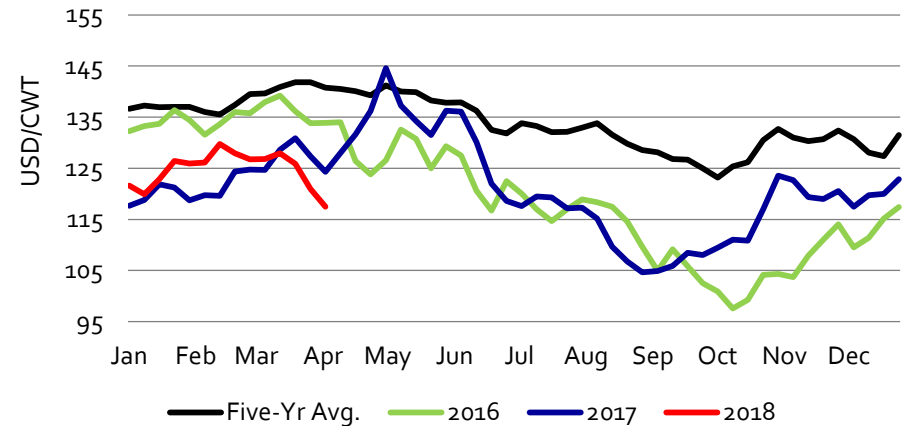


Source: Brewers Assoc., 2018

# Cattle: Price Action Has Been A Major Disappointment

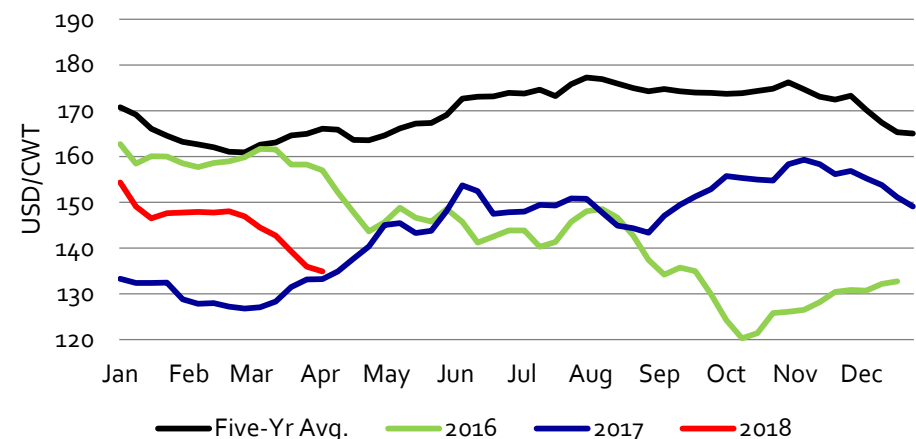
- Cash fed cattle prices peaked in mid-February at USD 130 and have been under pressure since. June live cattle futures peaked in early November at USD 121.25 and posted a low of USD 97.07 on April 4, before posting a moderate rally in the USD 103 to 104 area. Market pressure has been focused in the futures market and the exceptionally wide basis has been encouraging cattle feeders to market cattle as aggressively as possible.
- Fed cattle basis levels were exceptionally strong a year ago and expectations at the beginning of the year were that basis levels would be within the historical norm. Futures prices have been under pressure on concerns of large numbers of cattle on feed, record total protein supplies and from discomfort from uncertainty with multiple international trade agreements.
- The percentage decrease in futures prices is well in excess of a normal seasonal decline. Conversely, the decline in cash prices are quickly approaching the expected percentage decline. In short, the market appears to be grossly over sold with the potential for a sizable corrective rally. Keep in mind, the full spring grilling season still lies ahead of the market.
- Feeder Cattle prices have remained under pressure since early March. Price pressure has been driven by the excessive pressure in the deferred live cattle futures as well as the moderate price rally in corn prices. Because so many calves were placed on Feed from October through February there are concerns the available supply of feeder cattle outside feed yards will be tight during the second half of the year. The seasonal pattern of feeder cattle prices improving from a spring low to summer high is expected.
- Beef cow slaughter is up 10% over a year ago, dairy cow slaughter is up 5% and expected to increase. As a result, cull cow prices are expected to remain under pressure. Currently 71% of the U.S. cow herd resides in an area under some degree of drought stress that could force cow liquidation before the grazing season is over. Currently US 90% CL Lean Trimmings are trading just under USD 218 per cwt. The US delivered price for Australian and New Zealand Trimmings are USD 211 because of drought stress in Australia. If that price spread persist it will eventually bring down the price of US 90% CL Trimmings.

Fed Steer Prices (Five-Market Average), 2016-2018



Source: USDA, Rabobank 2018

CME Feeder Index

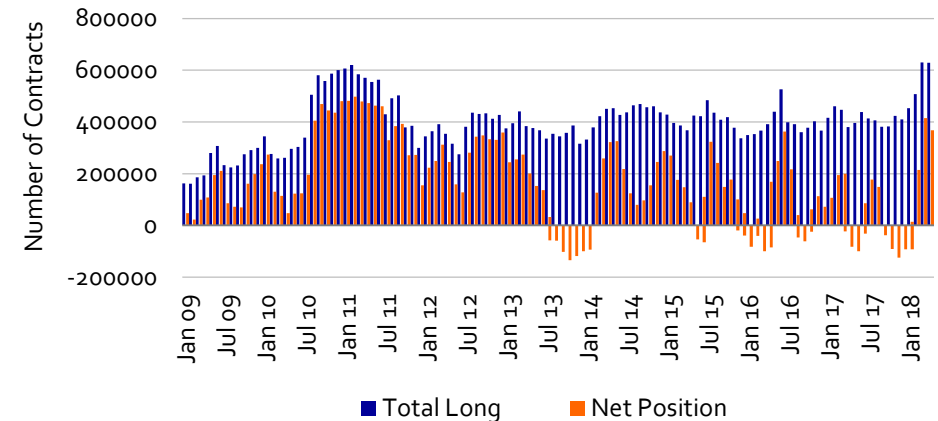


Sources CME, Rabobank, 2018

# Corn: Are You Ready for Volatility?

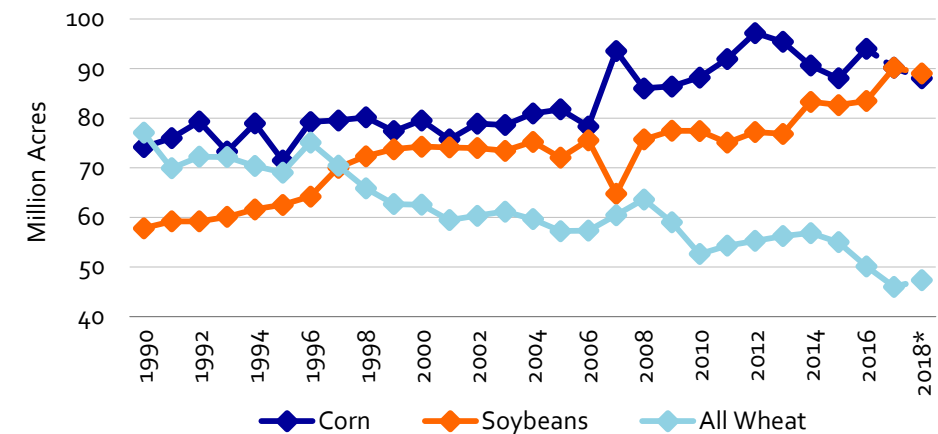
- Despite a cold and soggy start to spring, the growing season kicked off with the March Planting Prospective report which showed 88.0m planted acres in 2018. This is 2.1m acres lower than last year and the lowest since 2015. Not only are corn plantings below last year but they were at the bottom of the trade's expectations, hence the big move up in the corn futures following the report.
- Lower corn acreage and trend yields are going to cut into large U.S. corn stocks. The top-five corn producing states (IL, IN, IA, MN, NE) are projected to have 1.25m fewer corn acres in 2018. Looking at just these five states, applying a three-year average yield, the decrease in corn acres translates into over 200m bushels less corn production, which potentially moves U.S. corn ending stock below 2.0bn bu.
- Lower corn planted acres lessen the cushion should there be planting issues or weather issues which will drive price volatility. However, the large stocks overhanging the market will mute any upside price response. Market moves in response to planting delays or growing season developments are potential marketing opportunities for producers.
- The recent granting of waivers from complying with the RFS to a profitable refiner has caused ripples through the biofuels industry. Approval of a waiver releases a refinery from its obligations under the RFS and gives them the opportunity to sell any RINs in their possession. The courts will likely review changes to the RFS by the administration through the granting of wholesale waivers. While YTD ethanol production is up nearly 2%, the ongoing challenges to the RFS and the current environment don't bode well for future growth for corn demand and for ethanol production.
- Fortunately, corn trade between the U.S. and China is nil. However, the tariff back and forth over U.S. China soybean trade has added market volatility which has also impacted corn futures; look for both buying and selling opportunities due to market volatility.
- On a related note, China has set a goal expanding E10 to the entire country by 2020. China will need to imports 2.0bn bushels to achieve this goal and maintain a corn stocks goal of 1.39bn bushels by 2020/21. The U.S. may very well be the beneficiary of an increase in corn or ethanol exports to China – stay tuned.

## Large Non-Commercial Long and Net Position Warn of Market Volatility



Source: USDA, Rabobank 2018

## Second Consecutive Year of Lower Planted Corn Acres



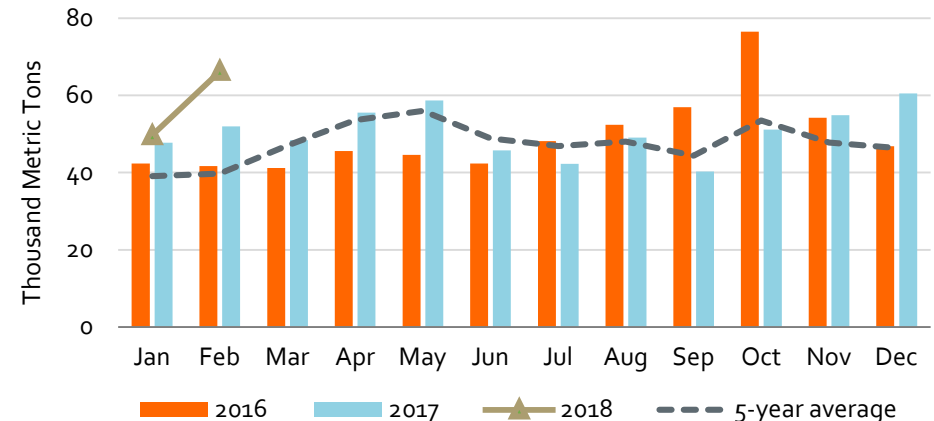
Source: Rabobank 2018



# Dairy: U.S. Still Growing Despite Lower Prices

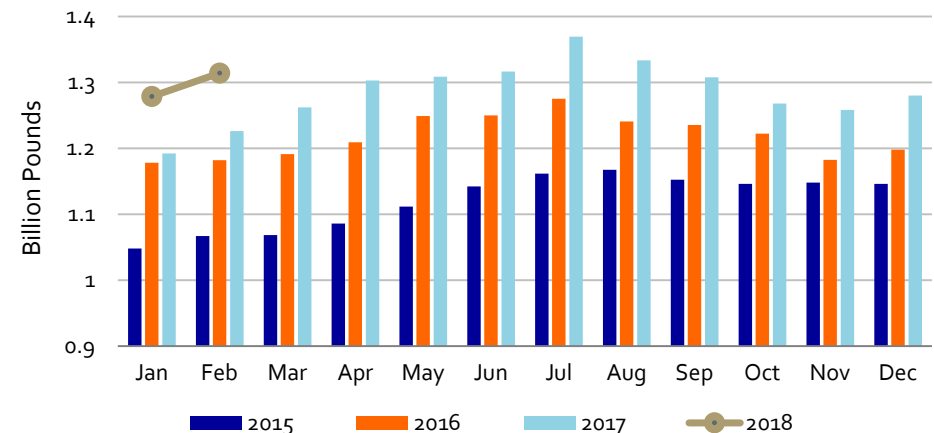
- February U.S. milk production was up 1.8% year-on-year according to USDA-NASS, the same as January, and ahead of last year's trend. Rabobank estimates the Q1 2018 year-on-year growth in U.S. milk production at 1.6%. Herd inventory continued to grow despite higher cow slaughter, with 1,000 more head added in February (over January 2018) to the U.S. dairy herd, now totaling 9.41m head, 45,000 more than February 2017. Major growth drivers for milk production across the country are California + 3.5%, Colorado + 7.7%, Idaho + 4.8%, Kansas + 4.8% and Texas + 5.5%. These five states added 249m pounds of milk in February compared to last year, with their total combined February production at 5.96bn pounds.
- Dairy commodity stocks remain high as we enter spring flush. Cheese stocks at the end of February were at 1.31bn pounds, 7% higher than in February 2017. U.S. butter stocks are at 276.9m pounds, 7.1m above February 2017. NDM February stocks were 24% higher than last year, up 16m pounds since January. Whey stocks are down 1.7m pounds since January, but 26% higher compared to February last year. The EU stocks, continue to weigh heavily on the NDM and whey markets. Since 2016, the EU commission has sold only a little over 10,000 MT of SMP intervention stocks, an equivalent of about 2% of their total SMP stocks. At the same time, the commission has not accepted any new product since the intervention closed last year on 30 September.
- U.S. dairy demand continues on the positive, yet it slowed down at the beginning of the year. The USDA's domestic commercial disappearance data for American cheese showed a 6% increase in February 2018 compared to a year ago, but a 7% decline compared to January (normalised to 30 days). Other cheese, which includes Italian and Hispanic cheese categories was 3% higher in February compared to last year. February commercial disappearance of butter went up 4% year-on-year.
- Total U.S. exports set off to a good start at the beginning of the year. Total year-to-date volume is up 15% compared to last year according to February data. NDM exports increased in February by 14,000 MT, 27% higher than last year. Year-to-date whey exports are also up 13% year-on-year. Even with continually depressed commodity prices for main U.S. exports the year-to-date value of U.S. exports increased by 3%, despite more of the Mexican market going to EU suppliers.
- Farmgate prices remained depressed through March, with the Class III price at USD 14.22/cwt, USD 1.39 below the three-year average. At the same time, Class III futures for the second half of the year are around USD 15.90-16.00/cwt. Cold weather across the Midwest and expected soybeans production out of South America will drive feed costs higher and will further erode margins even with the potential slight upturn in milk prices. Current CME butter price averaged USD 2.32/lb., right at last year's average. The Cheddar block cheese price is USD 1.64/lb., 4 cents above three-year average. NDM price closed at USD 0.73/lb., 16 cents behind the three-year average.

## U.S. Exports of NDM Exports Set Off to a Good Start



Source: USDA-FAS, Rabobank 2018

## U.S. Cheese Stocks Continue to Grow



Source: USDA, Rabobank 2018

# Farm Inputs: Developments Disturbing the Recovery

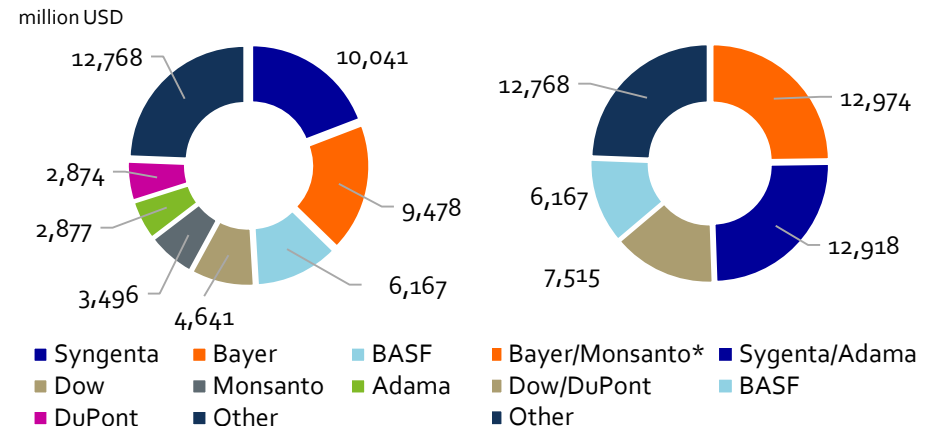
## Sector Assessment

- The turbulence caused by the import tariffs on Chinese steel and aluminum and retaliatory measures that followed thereafter from both the Chinese and U.S. side are causing uncertainty among crop and livestock farmers about their income and cash flows in 2018 and beyond. Typically, spending on agricultural machinery should erode first as it remains the most controllable component of production expenses for farmers. This could mean another blow to a still fragile farm machinery market, which enjoyed a recovery in 2017 after several years of decline.
- The consolidation in the seeds and agchem industries is reaching its final stage, though the Bayer / Monsanto merger is still an outstanding open transaction. Newly merged companies are accelerating their digitalization efforts in crop farming, illustrated by recent acquisitions, such as FarmShots by Syngenta and Granular by Dupont. As these precision and smart farming technologies mature, the product functionalities become more comprehensive, combining and exchanging data becomes easier, improving the ease-of-use. Uptake among farmers should increase in time as a result. With farmer incomes still low, this technology may finally be able to add value by reducing costs or increasing the yields of mainstream farmers.

## Fertilizer

- Global nitrogen fertiliser prices have been fairly stable after the hike in Q3 2017 and subsequent drop in Q4 2017. The market remains in ample supply due to increased capacity during past years. However, the drop in Chinese urea output due to energy and environmental policy has seriously cut back exports during past two years, continuing further in Q1 2018, adding some bullish sentiment in a bear-dominated market.
- Key reference in the market is the added capacity of Nutrien's Borger (Texas), Koch's Enid (Oklahoma) and IFCo's Wever (Iowa), all of which are currently running, albeit allegedly below capacity. The increased domestics supply has led to a change in the US fertiliser trade balance, with increased exports (also in the form of UAN) and lower imports of urea.
- Ammonia prices saw the strongest increase in Q1 2018, leading to a higher premium of ammonia to urea (+40%). A higher ammonia premium leads to a more attractive urea and UAN price, which may lead to farmers shifting their nutrient choice.

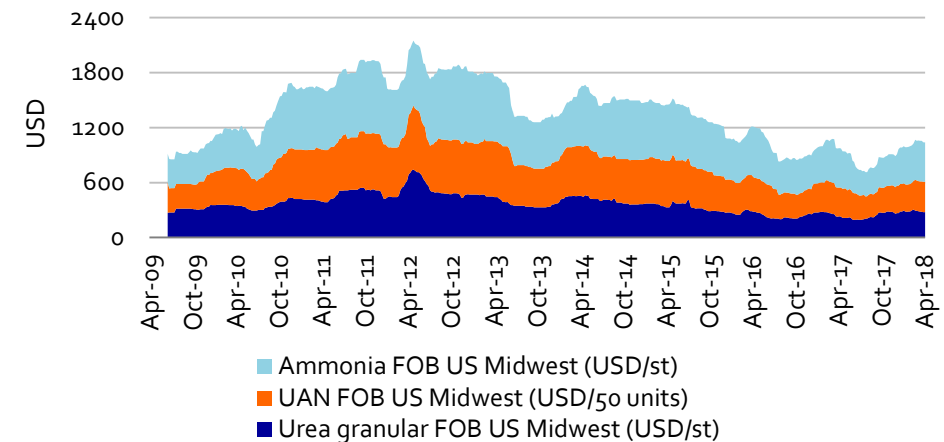
## Market for Crop Protection Chemicals, Pre and Post-Mergers



Source: Philips McDougall, Rabobank 2018

Note: \* denotes Bayer/Monsanto are in the process of merging

## U.S. Fertiliser Prices in Perspective: Ammonia up Stronger than UAN, Urea



Source: Bloomberg, Rabobank 2018

# Feed: Hay Prices Strengthening

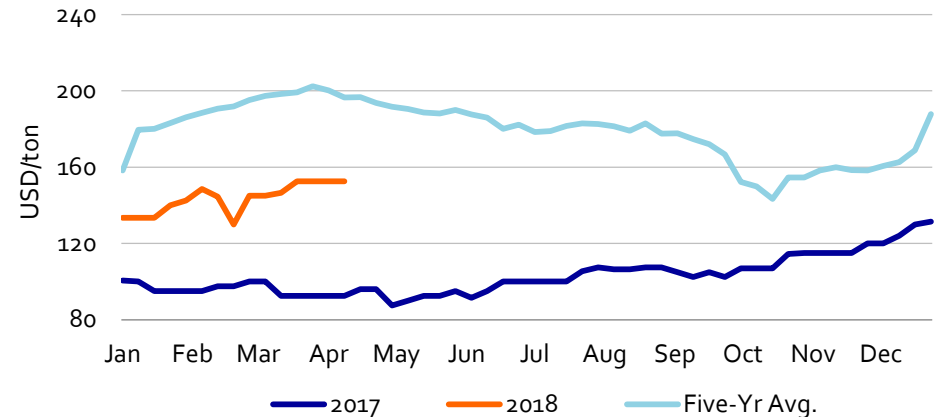
## DDGs

- Prices for DDGs firmed-up during the last months of 2017 and continues to strengthen during Q1 2018, although they continue to be well-below soymeal prices, presenting an attractive feed alternative.
- U.S. DDGs exports finished the calendar year at 11.1m tons, a 2% decrease with respect to the previous year
- In addition to its favorable comparison vis-a-vis soymeal, the price firmness seen in recent weeks is partly due to lower ethanol production, which translates into tighter DDG supplies at plants.

## Hay

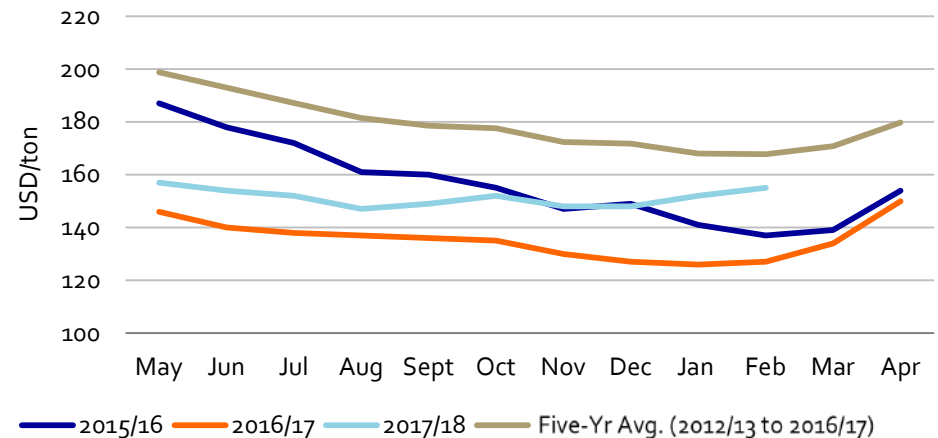
- March and April rains in California caused some delays in cutting and reduced the quality of some early new crop alfalfa. However, the late-season rains are a welcome occurrence for West Coast hay producers, and growers in general.
- Uncooperative weather in the Midwest region last year has hampered hay supplies, while a cold winter has increased demand. A recipe that has led to stronger prices in Midwestern markets. Winter weather in many Midwest locations has been cold and snowy, which has forced livestock producers to feed more hay.
- Alfalfa exports in January and February were off 11% YOY. Stronger exports to Saudi Arabia and South Korea did not make up for weaker sales to China, Japan, and the UAE. However, month-over-month exports gained some strength in February, with total exports 16% higher than January, on notable increases of 23% and 102% to China and Saudi Arabia, respectively.
- While February alfalfa prices were 22% higher YOY, they were still 8% lower than the five-year February average. Prices for the season, through February (ten months), are 13% higher than the same period in 2016/17.
- The hay market is still not getting much support from the domestic dairy industry, as any meaningful recovery in dairy markets is not expected until the second half of 2018.
- Given the expectations of ongoing growth in global demand and tightening global supply-side constraints – primarily water-related – we continue to be bullish on hay markets.

## Iowa DDG Price, 2017- April 2018



Source: USDA-AMS, LMIC 2018; Note: 10% Moisture, 28% to 30% Protein

## U.S. Alfalfa Hay Prices, 2015/16-Feb. 2018

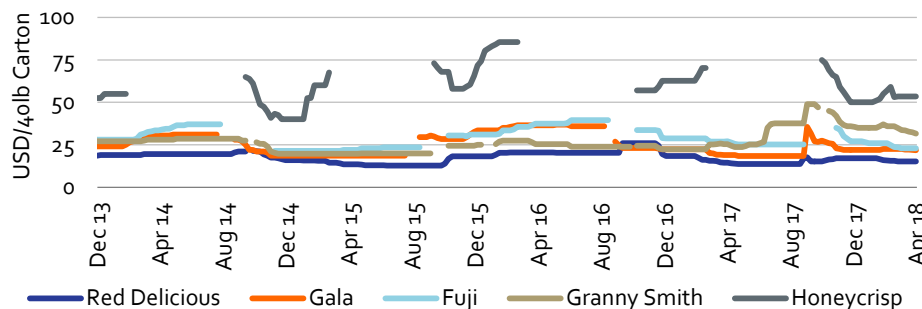


Source: USDA/NASS 2018

# Fruits: Weighing the China Factor in Some Products

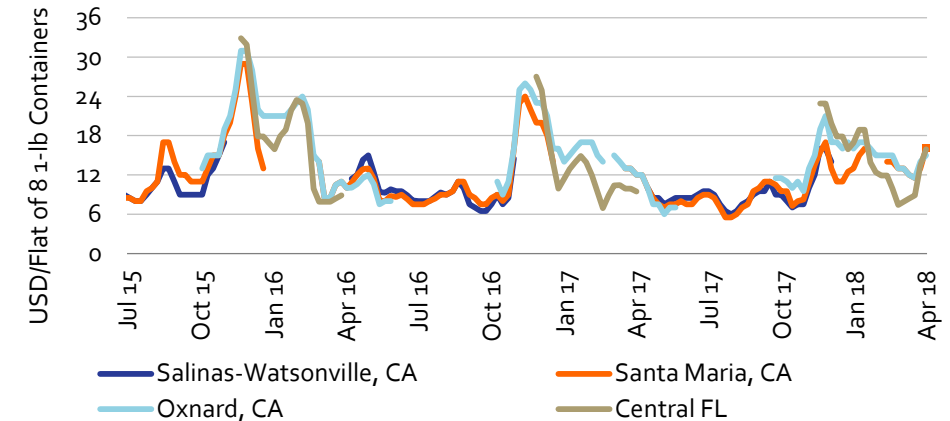
- The fresh strawberry harvest in California was off to a faster start than last year. Production in CA peaks in late-spring and early-summer, while production in Central Florida is about to end. Due to cold, rainy weather in California, prices in Oxnard at the beginning of April were 25% higher YOY, and Florida prices were up 68% YOY. As weather improves in CA, increased strawberry production and stronger quality are coming quickly.
- With strong quality avocados in promising volumes from California and Mexico, avocado prices are below the 2017 average, with 48s down 22% YOY in early April. Stronger demand is expected in some regions for Cinco de Mayo celebrations.
- Navel orange prices continue to be well-above traditional levels, especially on small sizes. Fruit quality has been high and export value was up 24% YOY in February. The potential of high volumes of Argentine lemon imports this summer concerns the citrus industry.
- Through February, 2018 U.S. apple exports were up 23% in value and 22% in volume YOY, with significant growth in exports to Mexico and India. Exports to China account for about 2% of U.S. apple exports, and grew 36% YOY in February.
- The cherry season is about to start in the U.S., and China is an important export market. Good quality cherries would help to reduce the impact of a 15% tariff on top of an existing 10% in China. Market diversification for U.S. cherries this season could be critical.

## Washington Apple Shipping Point Prices—88s—WA Extra Fancy, 2013-18



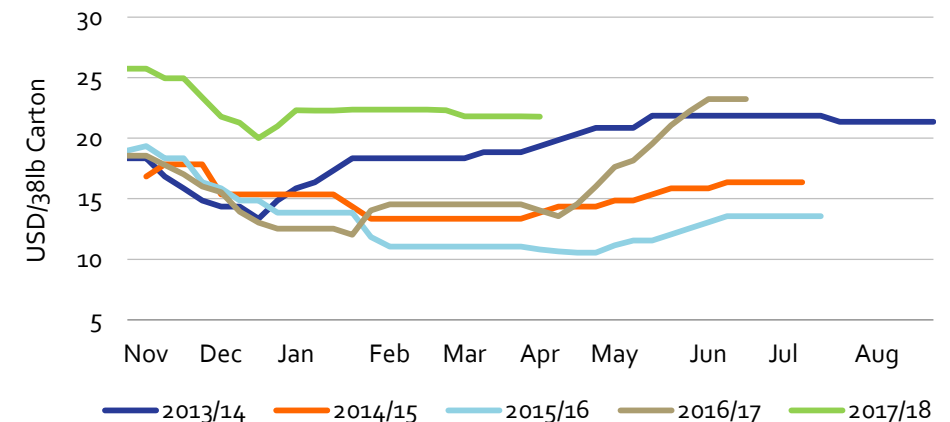
Composite of fine appearance & standard appearance prices  
Source: USDA/AMS, Rabobank 2018

## Strawberry Shipping Point Prices—Primary U.S. Districts, 2015-2018



Source: USDA/AMS, Rabobank 2018

## Navel Orange Shipping Point Prices—88s—Shippers 1<sup>st</sup> Grade, 2013-2018



Source: USDA/AMS, Rabobank 2018

# Pork: Record Production Amplifies Trade Risk

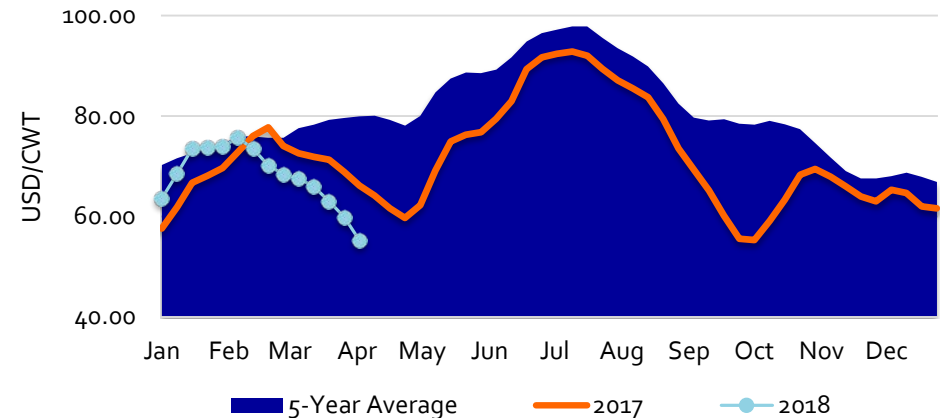
## U.S.

- Record hog inventories (+3.1%) reflect industry expansion to meet the needs of recently-added packer capacity and favorable costs of production. Productivity gains outstripped our expectations despite continued rumors of continued PEDv and PRRS outbreaks in many parts of the U.S. We continue to expect ample hog supplies through the spring and summer. Our second half profit outlook is less favorable as trade uncertainty and higher feed costs are likely to weigh on industry profitability.
- Recently imposed tariffs on U.S. exports of pork and variety meats to China of 25% are expected to depress 2018 pork values. China accounted for an estimated 12% of all pork and variety meat exports from the U.S. in 2017. The magnitude of the impact will depend largely on whether China chooses to enforce these rules on product shipped from Hong Kong in the 'grey market'. Nearly a quarter of all variety meat exports are shipped through Hong Kong and another quarter to China. With few alternative markets for this product, we believe there could be a loss of USD 2-USD 3/head in variety meat exports alone. On a combined basis, the loss of the Chinese market could cost U.S. producers at least USD 6-USD 8/head.
- Strong exports of pork in January (+5% YOY) to all destinations, with the exception of Canada, drove relatively strong ham values to start the year. Even so, there has been a slowdown in exports in the weeks since, and given current trade uncertainty (see above), we believe there could be yet further downside. On a positive note, the U.S. successfully concluded trade discussions with South Korea (KORUS) with favorable trade terms for pork. Korea remains the third-largest export destination for pork and is critical to pork values. Conversely, we have seen limited progress on NAFTA terms, although we remain cautiously optimistic on the outlook for exports to Canada and Mexico. We anticipate growth in pork exports to all markets with the exception of China in 2018, based on lower than expected pork values and plentiful domestic supplies.

## Mexico

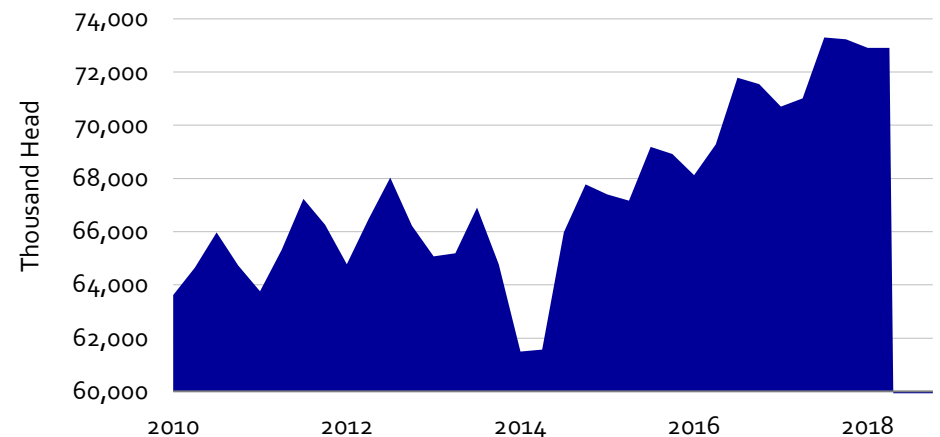
- Pork imports from the U.S. are down by 1% compared to the year-ago period. However, shipments could accelerate in the coming months if trade tensions continue. Lower cost U.S. pork imports will be more attractive and could displace imports from competing trade partners. Lower prices will likely depress local returns.

## U.S. Lean Hog Prices, 2017-2018



Source: USDA, Bloomberg 2018

## Quarterly Hog Inventories, 2010-2018



Source: USDA 2018



# Poultry: Seasonal Strength Boosts Returns

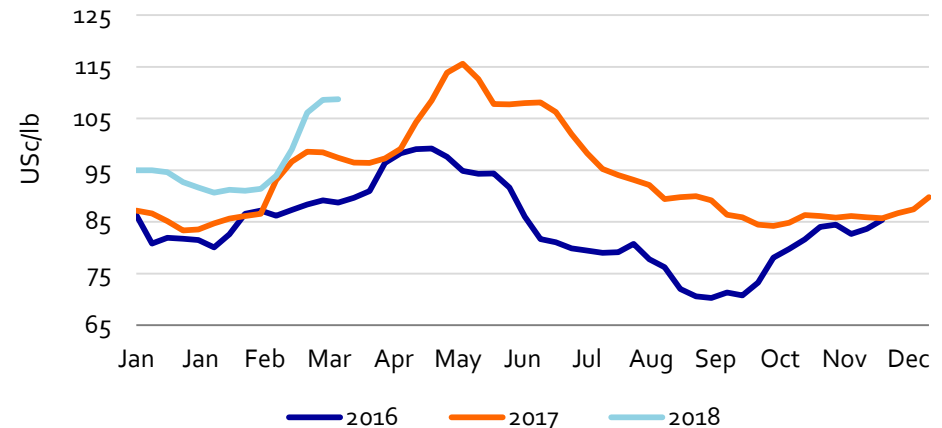
## U.S.

- Continued productivity challenges remain supportive to broiler values. The number of chicks placed per hen has now reached eight-year lows, resulting in limited industry growth. Likewise, average weights (+0.6% YOY) also remain supportive as the industry remains focused on meat quality and as one large processor shifted a portion of its production to smaller weight birds in the quarter. Weekly slaughter has averaged 158m birds per week year-to-date, down 1% YOY. We continue to forecast a 1.8% production growth in 2018, driven by modest increases in slaughter and limited growth in weights.
- U.S. chicken exports started the year slightly weaker (-1% YOY), but have since strengthened. Shipments to Mexico, the largest export market (20% of total), were up 2.5% in January, while China and Cuba recorded an exceptional month, up 48% and 61% YOY respectively. The big disappointments were Canada (-16% YOY) and Hong Kong (-14% YOY). Anecdotally, we hear exports have been exceptionally good despite recently announced tariffs on pork exports to China. Leg quarter values are at five-year highs for this time of year (+11% YOY) and should remain strong in the intermediate. One factor has been the absence of any significant Avian Influenza outbreaks this season on the U.S.. This compares with Asia, Africa, and Europe, which all saw more extensive outbreaks, and may be modestly disadvantaged.
- Breast meat values rebounded in recent weeks and are finally above year-ago levels. Good retail demand has been supportive to the overall composite (+10% YOY), which should remain strong given seasonal demand and overall availability. At current prices, integrators are operating at a modest profit, although rising feed costs due to a disappointing South American crop have raised breakeven levels. We continue to expect chicken to be well-positioned as a lower cost protein alternative, despite increasing supplies of competing meats. We are cautiously optimistic given our expectation for growing domestic availability of pork following China's recent trade action.

## Mexico

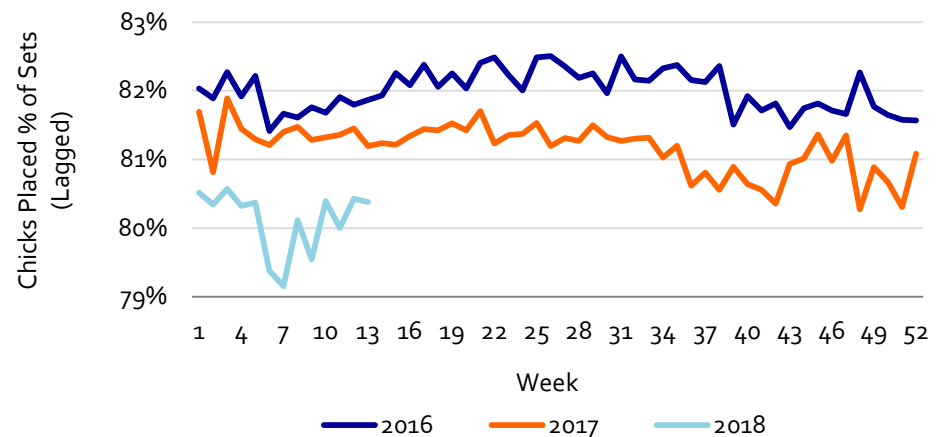
- Poultry imports from the U.S. started off the year much stronger (+2.5% in January), but slowed in February (-2.5% YOY) and are flat year-to-date. The slowdown in imports of leg-quarters (50% of total imports) reflect good local supplies and trade uncertainty. We expect a strong year of imports from the U.S., but recognize inexpensive pork will be a strong competitor.

## Chicken Composite Prices, 2016-2018



Source: USDA, Rabobank 2018

## U.S. Boneless Breast Meat Prices, 2016-2018

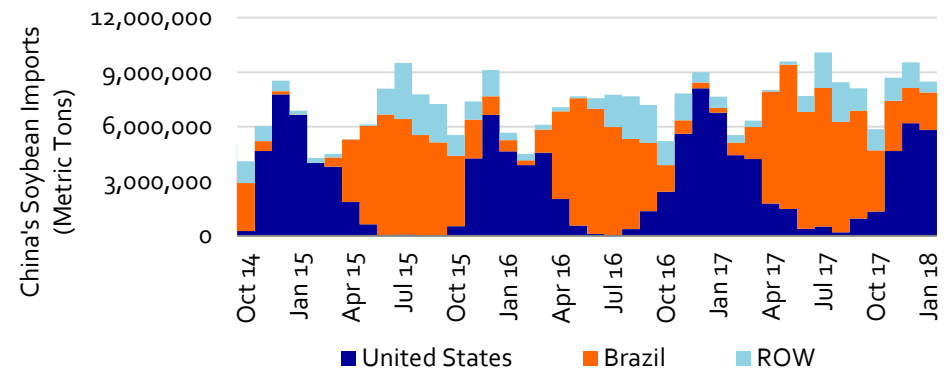


Source: USDA 2018

# Soybean: China Speculation and Global Implications

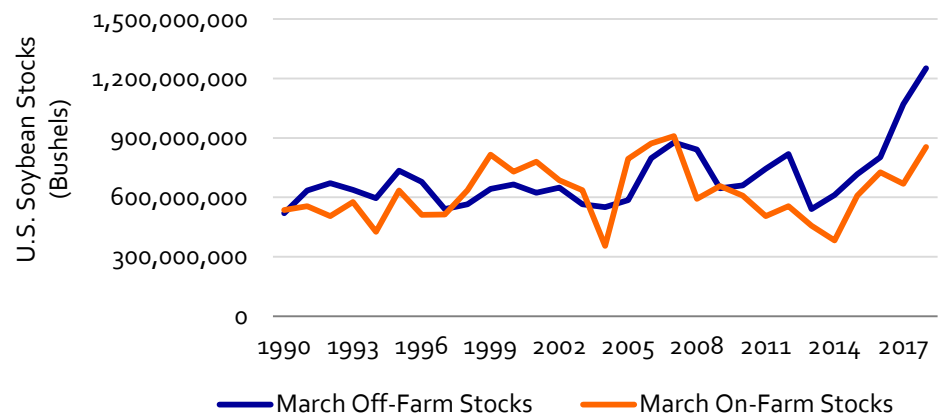
- Major impacts are being seen from numerous factors in the global soybean trade. The U.S.-China soybean, and other product, trade disputes, with tariffs at various stages of proposal and implementation, are raising concerns. Add in a continued deterioration of Argentine soybean production, fears from the consumption side, and some trade is turning expectations upside down.
- The U.S. and South America – primarily Brazil and Argentina – provide year-round supplies of soybeans that meet global importer needs. Continuity of supplies results in a demand for the geographic distribution of soybeans, where those with large production harvests are tapped for their new crop supplies. The primary source for soybean exports from April to October is South America – this year specifically from the expected record Brazilian soybean crop. Expect strong negotiations going forward before the U.S. primary soybean export season begins again in fall 2018.
- Argentina is importing U.S. soybeans. Normally a net-exporter of soybeans, the shortfall in the 2018 Argentine soybean harvest is finding that country importing soybeans to crush. As China searches for whole soybeans to import and crush domestically, the additional 25% tariff on U.S. soybeans into China could make the price of U.S. soybeans into China so high that the Argentine differential export tax, promoting exports of soybean meal and oil rather than whole soybeans, is ineffective.
- Argentina's soybean crushing capital investment and desire to generate additional returns through the soybean crush and maintain soybean oil and meal market strength will be the drivers to offset any soybeans exported. Shoring-up shortened Argentine domestic soybean supplies following lower production and exports of whole soybeans – assuming China outbids the Argentine crush markets – will be the driver for U.S. soybean exports to Argentina.
- U.S. soybean markets are relatively strong with higher-than-expected prices when considered against the large stocks and high stocks-to-use projected for the 2017/18 crop year. With planted acres expected to be a near-record for the 2018 U.S. soybean crop, delayed corn planting due to a cold and wet spring could lead to more soybean supply building.

## China Monthly Soybean Imports from U.S. and Brazil are Generally Dominant in Early Months of Each Nation's new Crop Soybean Season (October 2014 – January 2018)



Source: Global Trade Information Services, Inc.; Rabobank 2018

## U.S. Soybean Stocks On-Farm and Off-Farm are at Historically High Levels



Source: USDA-NASS Quick Stats, Rabobank 2018

# Tree Nuts: Going Nuts about China?

**Almonds:** While total shipments were up 12% through February YOY, export unit prices were about the same as those reported a year before. The record 2017 crop, combined with 2017/18 marketing year carry-in is estimated to be 55% sold. Two main forces are currently shaping almond prices in opposite directions: 1) the freeze in California during bloom has pushed prices up in March/April; and, 2) a 15% retaliatory tariff imposed by China may slow export growth going forward. About 2% of U.S. almond exports go directly to China. Potential changes to product flows through Hong Kong are the wild-card.

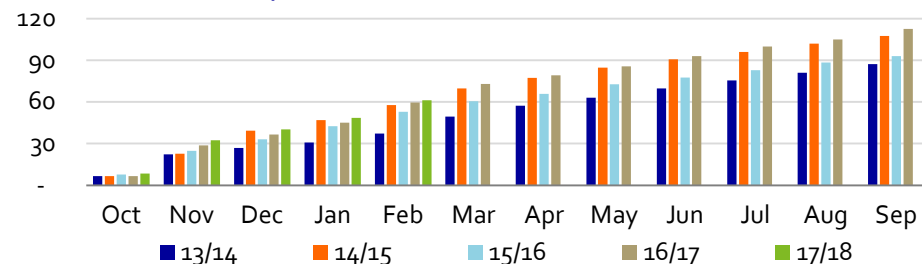
**Hazelnuts:** Through February, cumulative U.S. hazelnut shipments were down 0.2% YOY for the season. Higher carry-in partially offset a lighter crop for a total supply that was down 8.7% YOY in 2017/18. An estimated 72% of available inventory has been sold. During January and February, hazelnut exports were down YOY and export unit prices were considerably higher. China's share of U.S. exports is about 2% and the existing tariff was already up to 25%.

**Walnuts:** Walnut shipments through February were off 14% YOY, but are still tracking well to have minimal carry-in, due to last year's lighter crop. Export unit prices were up about 30% YOY during January and February. About 2% of U.S. walnut production ships to China.

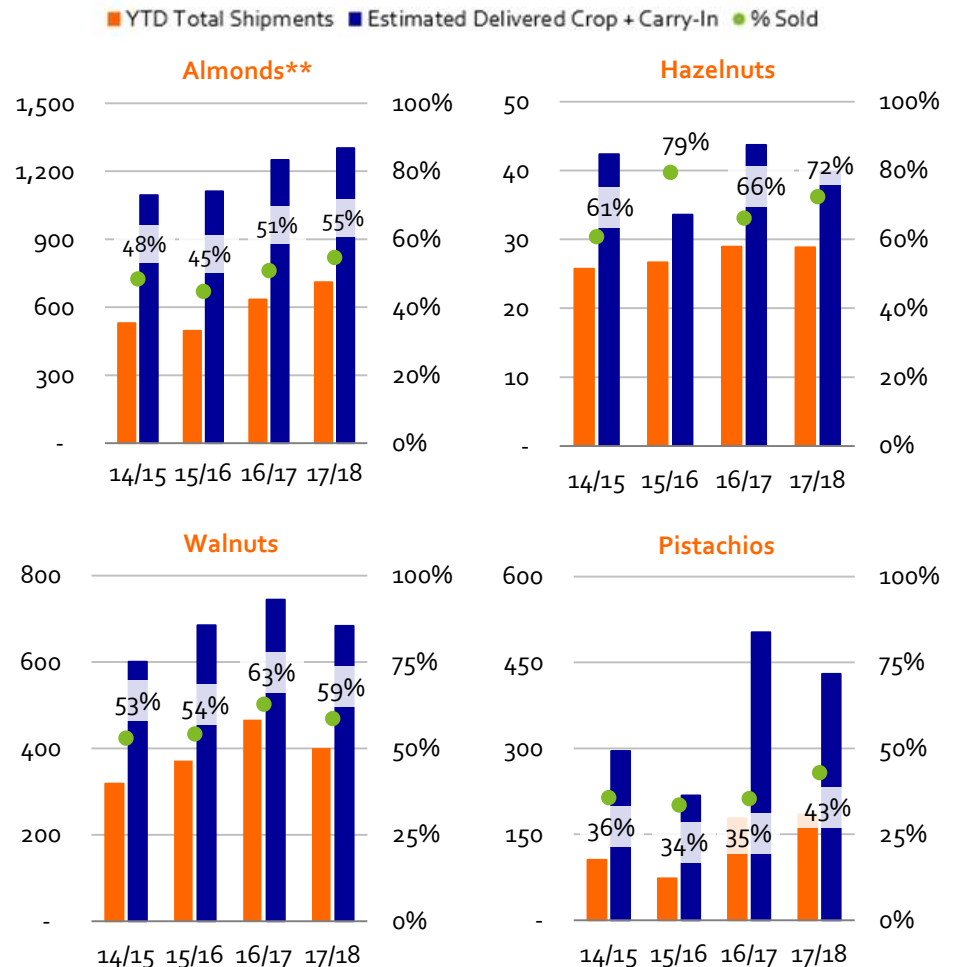
**Pistachios:** Pistachio shipments through February were up 4% YOY, with 43% of estimated inventory sold. Export unit prices were up YOY during the first two months of the year. Even with the additional 15% placed by China, pistachios still enjoy one of the lowest tariff rates going into China. About 3% of U.S. pistachio exports go directly to China.

**Pecans:** U.S. exports continue to be robust, accumulating 191,000 tons through February, up 8% YOY. Export prices oscillate around those of last year. Exports to China account for about 3% of U.S. pecan exports in value. China's share of U.S. tree nuts is small so far, but it is a relevant growing market.

## Cumulative Pecan Exports (Thousands of in-Shell Equivalent Tons)



## Cumulative U.S. Tree Nut Shipments\* (Thousands of in-Shell Equivalent Tons)



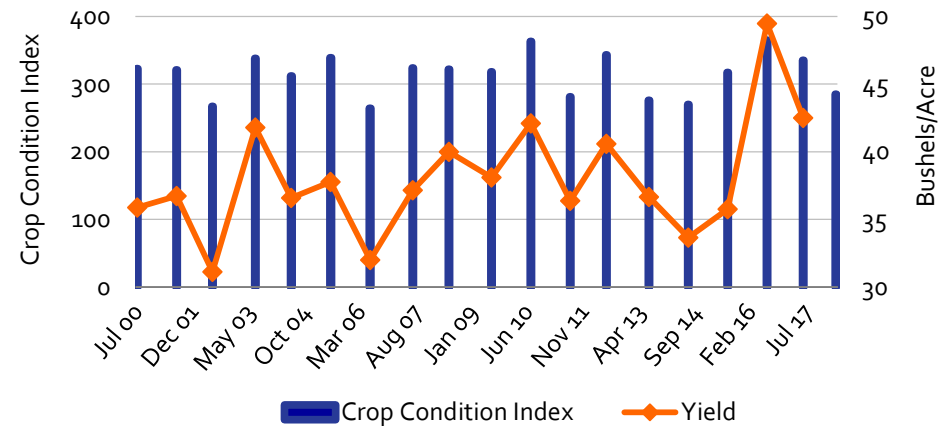
Source: Administrative Commission for Pistachios, Almond Board of California, California Walnut Board, Hazelnut Marketing Board, INC, FAS 2018

\*Through February 2018 \*\*Meat pound equivalent

# Wheat: Is All About Mother Nature

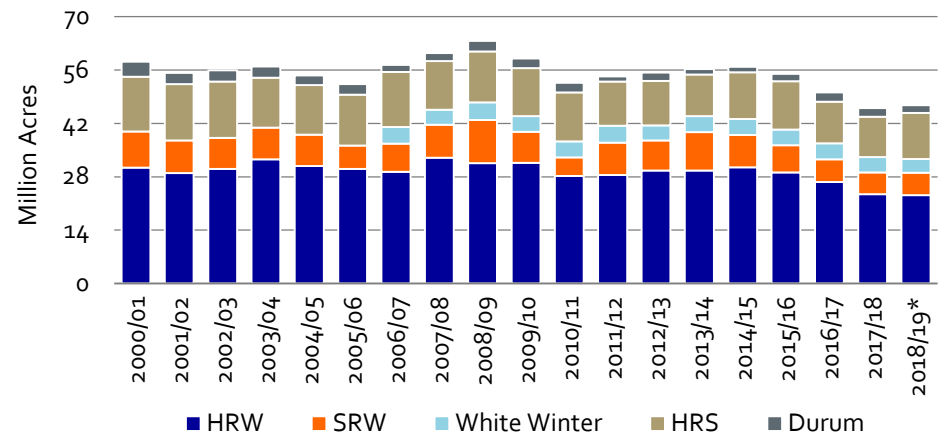
- It is all about the weather in HRW growing regions. There has been good news and bad news. Since mid-March, parts of Kansas received rains, which really boosted the optimism for the prospects of this year's crop. However, recent cold weather across parts of the Southern Plains has resulted in winter-kill. Crop conditions continue to decline along with 2018 crop prospects.
- While crop condition ratings are far from perfect, they are an indication of crop condition and potential. This is the lowest crop condition index for this time of year since 2002. Looking back at past condition indexes, national average HRW yields are likely to be in the mid-30 bushels per acre or potentially lower.
- The combination of the lowest HRW planted acres on record, drought conditions in the southern plains, and potential sub-40 bushel yields sets up a very tight supply/demand situation. The Rabobank model – using a higher planted acres than USDA at 26.3 mln acres and a 40 bu/acre yield – results in a sub-300 mln bushel carryout for 2018/19 and a farm price of just over USD 6.75 per bushel. If you plug in the USDA's small planted acreage of 23.2, a 35 bu/acre yield, and make no adjustments to demand, 2018/19 ending stocks could potentially be the lowest on record, sub-150 mln bushels. There is significant upside potential for HRW prices.
- In the Prospective Planting, HRS plantings were projected to be 12.2m acres, their highest since 2010/11. Even with high HRS plantings and simply using five-year average yields and demand numbers, the 2018/19 ending stocks tighten to their lowest levels since the 2007/08 crop year. Add continuing snow cover, cold temperatures in the northern Plains, and potentially delayed or prevented plantings, the HRS stocks situation could get tighter with a high probability of upside price potential
- With the drought in Argentina, the potential is there for a reduction in the supply of exportable wheat. Projections have Argentine wheat production declining some 1.5m metric tons or nearly 10%. The last time this happened during the 2015/16 crop year, the U.S. benefited by increased exports to Brazil. The increase in U.S. exports could be as much as 1m-2m metric tons. In an already potentially tight year for U.S. wheat, increased exports will add to upside price potential.

## Current Winter Wheat Crop Conditions Point to Potential Mid-30s Yield



Source: USDA, Rabobank 2018

## HRS Acres Respond to Demand for Protein

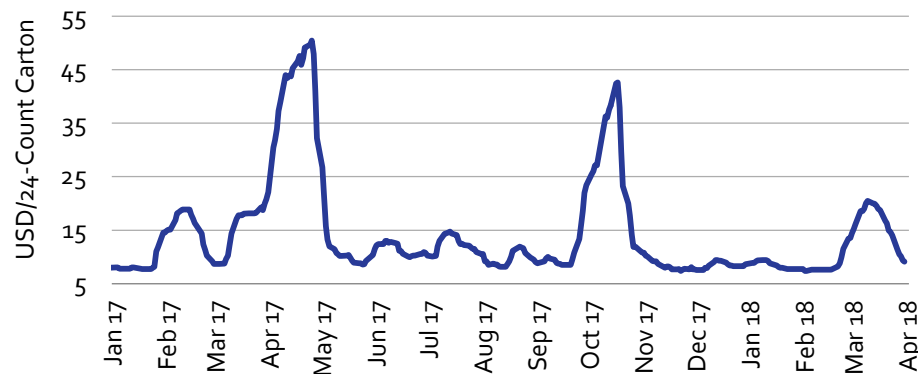


Source: USDA, Rabobank 2018

# Vegetables: Waiting for Spring Demand to Ramp Up

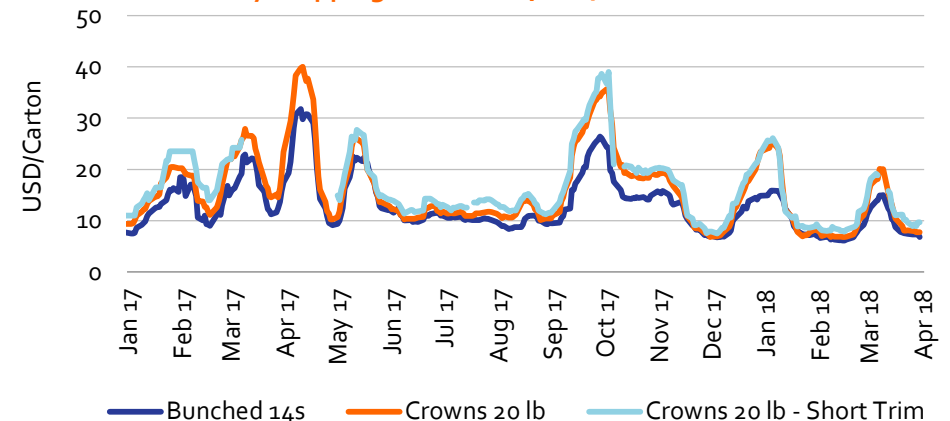
- Cold weather and rain during March caused some quality problems and harvest delays in California. As spring progresses, supplies will continue to strengthen, but first, more rain and cooler weather is still expected in Florida, Central Mexico, and California in mid-April. However, supply impacts are expected to be moderate at worst.
- Vegetable demand has been hampered by a long winter, but will expand throughout the country as weather continues to improve.
- The transition of Western growing regions from Arizona back to the Coast, along with colder weather, produced a supply shortage of broccoli. Supplies improved by the end of March, pushing prices down by 54% from the early-March peak.
- Cauliflower prices were at USD 11.43 per carton of wrapped 12s in early April, down 64% YOY, but 93% above the multi-year low registered in early February 2018.
- After a spike in price during March, Romaine and iceberg lettuce returned to lower levels in early April, both off roughly 60% from the multi-year high in April 2017.
- Sweet potato prices continued to be under more pressure. In early April, U.S. No. 1 grade sweet potato prices in North Carolina were down 10% YOY and 15% below the five-year average for this time of the year.

## Wrapped Iceberg Lettuce—U.S. Daily Shipping Point Price, 2017-2018



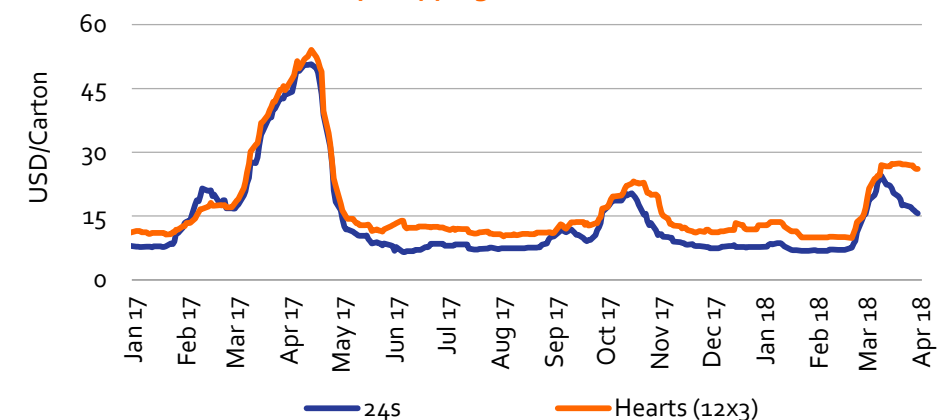
Source: USDA/AMS, Rabobank 2018

## Broccoli—U.S. Daily Shipping Point Price, 2017-2018



Source: USDA/AMS, Rabobank 2018

## Romaine Lettuce—U.S. Daily Shipping Point Price, 2017-2018



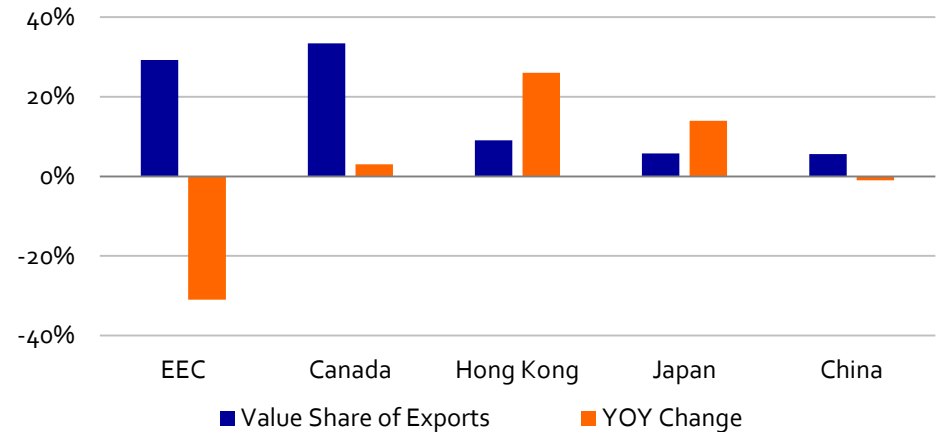
Source: USDA/AMS, Rabobank 2018



# Wine: Trade Wars, Imports and Exports

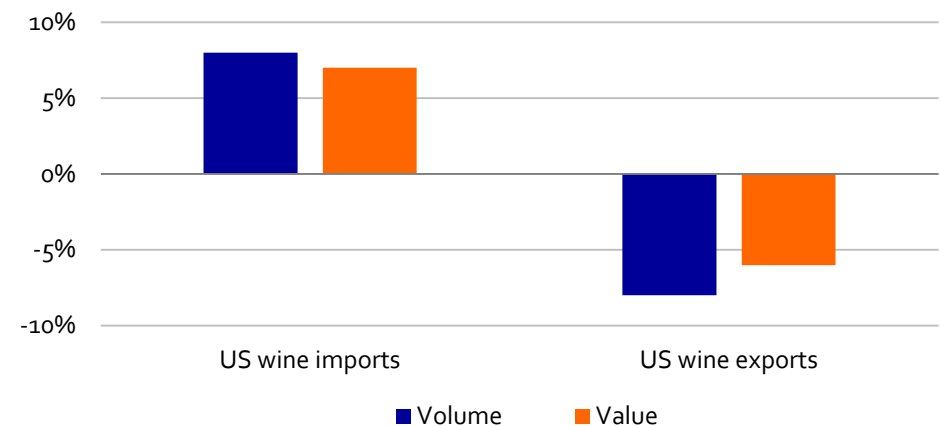
- The big news in the media over the past few weeks – at least for the California wine industry – has been the growing threat of a trade war between the U.S. and China. After the U.S. government announced a package of trade sanctions on Chinese imports of around USD 60bn, China announced it would retaliate by targeting several U.S. agricultural products, including wine. If implemented, an additional 15% tariffs would be added to imports of U.S. wine, on top of current import duties.
- In recent days, in the wake of some intense saber-rattling from both sides, it seems there are signs that momentum towards a trade war may be stalling. Chinese president Xi Jinping recently made public comments about further opening up the Chinese economy to foreign companies – a key goal of the Trump administration – which has eased concerns to some degree, but the issue remains far from resolved.
- To be clear, if a trade war were to erupt, and additional tariffs were applied to wine, U.S. exports to that market would certainly be affected, but the impact on the California wine market would likely be minimal. Exports represent less than 7% of California wine shipments, and China's share of overall exports is relatively small – less than 6%. In short, shipments to China represent less than 1% of California's total wine production. Europe is a much bigger market for US wines, and the decline in the value of shipments to the EEC in 2017 was worth twice as much as total shipments to China, and, in that sense, is perhaps an even greater concern.
- While the Californian wine industry would easily survive a potential trade war with China, it would still create an enormous strategic challenge. As the fastest-growing import market, it is critical for California wineries to establish a strong presence in the Chinese market in order to ensure long-term success. Furthermore, the threat of additional potential hurdles in the Chinese market comes at a time when exports are already under pressure, while wine imports are surging. Exports fell 8% in volume and 6% in value in 2017, while wine imports rose by 8% and 7% in volume and value respectively in that same period.

Share of US Wine Exports (Value) by Market in 2017, and Change vs Prior Year



Source: Gomberg-Fredrikson Report, 2018

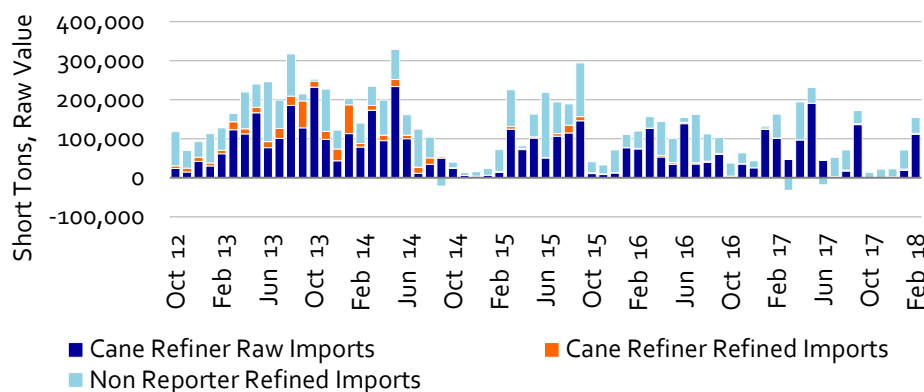
Change (%) in US Wine Imports and Exports by Volume and Value, 2017



Source: Gomberg-Fredrikson Report, 2018

- Despite better overall sugar prices and higher beet payments for the 2017/18 crop, sugar beet acres were projected to be down 1.35% from 2017, to 1.115 mln acres. This figure is a revision to the March 29 Planting Prospective report due to an error in reporting Colorado's acreage.
- Sugar beet acres may be down further due to ongoing cold and snowy conditions in the Red River Valley. A delay in planting could potentially limit early supplies of beet sugar this fall. In addition, this could potentially tighten up the 2017/18 supply/demand picture as new crop supplies usually show-up in old crop supplies. This all points to tighter supplies and further upside price potential.
- The USDA's early look at the 2018/19 U.S. sugar balance shows a even tighter stocks-to-use ratio of 12.6%, versus the current projection of 14.7% for 2017/18. This was projection made before Prospective Plantings, but analysis of the 2018/19 balance showed reduced U.S. sugar production was the major contributing factor to tighter stocks.
- The U.S. sugar balance sheet may tighten further due to the slow pace of Mexican exports to the U.S. Year-to date they are lagging by 35% and 2017/18 crop is shaping up to show the fourth consecutive year of declining imports from Mexico. Mexico says they are expecting to meet their obligations under the suspension agreement, but imported Mexican sugar may mean the difference between adequate U.S. sugar supplies and tight supplies and higher prices.

## Decreasing Total Mexican Sugar & Refined Sugar Imports



Source: USDA, Rabobank 2018

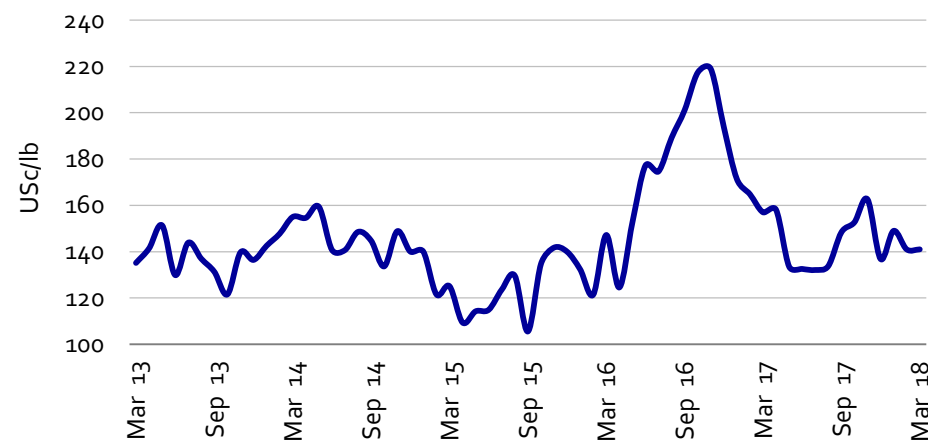
## Florida Orange Juice

- The current USDA forecast for the Florida orange crop for the 2017/2018 season is basically unchanged at 45.0m boxes, down 35% from the previous season. This would mark the lowest production in 75 years, and is less than one-quarter of the production during the 01/02 through 03/04 growing seasons. Already under pressure from citrus greening and other production issues, the impact of hurricane Irma in September 2017 caused a reported 30%-70% crop loss. Driven by lower Florida production, season-to-date imports of FCOJ have increased by 35%, led by imports from Brazil, Mexico, and Costa Rica

## Brazilian Orange Juice

- The historically weak U.S. crop will be offset by another strong crop from Brazil, though orange crop size in Brazil for the 2018/19 season is expected to be somewhat smaller than the 2017/18 harvest, which came in at 397m boxes.

## FCOJ Futures, 2013-Present

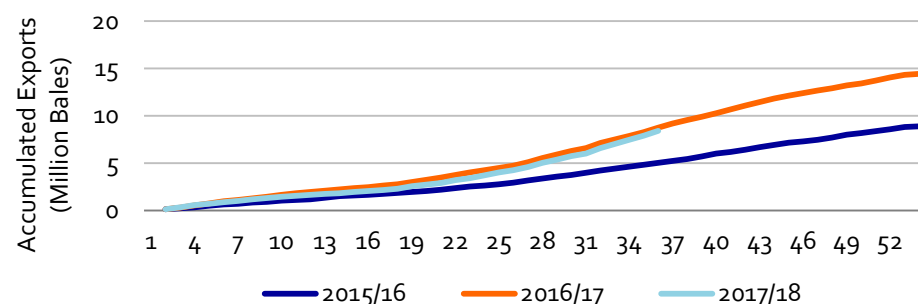


Source: Bloomberg-ICE 2018

# Cotton

- March proved a bumpy ride for the ICE #2, as speculation over 25% Chinese tariffs on U.S. imports rocked prices. This bold, surprising move threatens to undermine 2m-3m bales of annual U.S.-China cotton trade. If realized, the duties may require the U.S. to seek demand for 15% of its annual trade – likely found in growing South-East Asian markets – driving a potential short-term ICE #2 price fall. China would need to source 40%-50% of its imports elsewhere, namely from India, Brazil, West Africa, and Australia, driving export premiums higher – Australian basis was notably volatile following the announcement. Implementation will take at least 60 days, before which Rabobank expects U.S.-China negotiations to prevent these tariffs from fully materializing – anticipate price volatility.
- Chinese reserve auctions began in March, with clearance rates at an underwhelming 58% so far. The reason is straightforward – cotton on offer is old and of low quality. This only strengthens Chinese demand for high-quality fibre, and puts pressure on the Chinese government to hike imports. Any potential increase in Chinese imports, this season or next, would directly benefit exporters – including the U.S. – in an absence of trade barriers.
- U.S. shipments accelerated sharply after a slow seasonal start, and are now just 350,000 bales behind last year. At 14.9m bales, U.S. export sales are at a seven-year high and – with bales now flowing – the market is confident in a strong export year. How strong? Depends on who you talk to – the USDA forecasts a conservative 15m bales, but a continued +450k bale shipment pace could easily take 2017/18 exports to +16m bales. These bales will come directly off U.S. 2017/18 ending stocks, tightening inventories and supporting prices.

**U.S. shipments Accelerated Sharply After a Slow Seasonal Start, and are now Just 350,000 Bales Behind Last Year – Continued Pace Could see 2017/18 Exports Exceed 16m bales.**

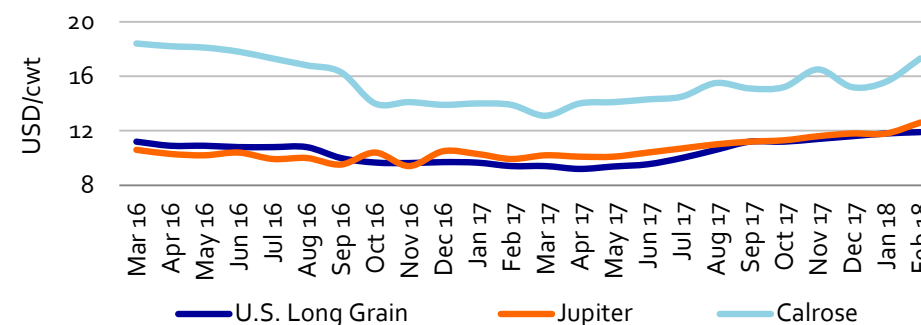


Source: USDA, Rabobank 2018

# Rice

- Total U.S. rice supplies are projected to be 15% lower YOY in 2017/18. Domestic use and exports are forecasted to be lower, due to smaller supplies and higher prices. Despite these decreases in sales, ending stocks are still expected to be 37% lower YOY. U.S. prices continue to strengthen as supplies get tighter, and the stocks-to-use ratio has fallen. The planted rice acreage is tracking higher so far this year.
- In March, the USDA's 2017/18 projected season-average farm price (SAFP) for long-grain rice stood at USD 11.40 – USD 12.00, well-above the USD 9.61 during 2016/17, but still 7% below the previous five-year average. Southern medium- and short-grain SAFP is projected to be USD 11.60 – USD 12.20. Considerably higher than the USD 10.10 of the previous season, but 10% below the previous five-year average. California medium- and short-grain SAFP for 2017/18 is still expected to range from USD 15.50 – USD 16.50. Above the USD 14.10 in 2016/17, but 14% below the previous five-year average. However, California medium- short-grain prices have risen sharply, up 14% since December. An upward revision to the projected California SAFP is likely forthcoming.
- The water situation in California has improved, as the state had a relatively wet March. Lake Oroville, a critical source of water for California rice producers, is being kept below its historical average levels due to repairs, but has improved from its 41% capacity in February to 62% of capacity in early April.
- After an initial deal was signed last year, paving the way for U.S. rice exports to China, current trade tensions between the two countries have stalled any progress.

**24-Month U.S. Medium/Short and Long Grain Prices, March 2016-Feb 2018**

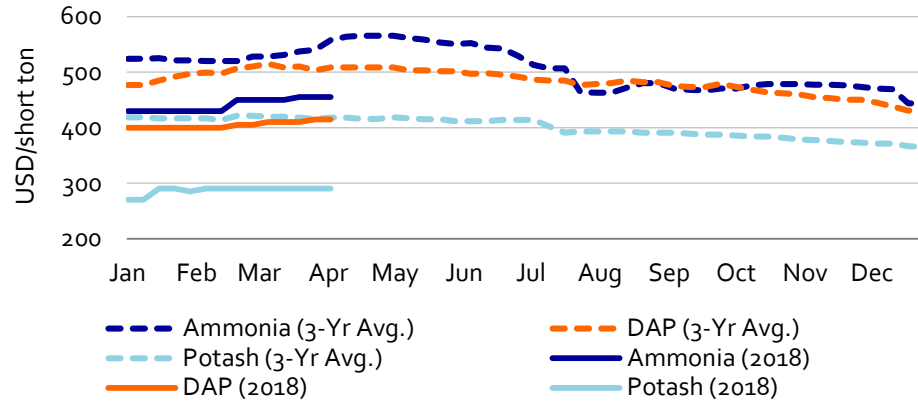


Source: USDA/NASS, USDA/ERS, Rabobank 2018  
Note: Average rough rice basis

# Input Costs

As of 12 April 2018

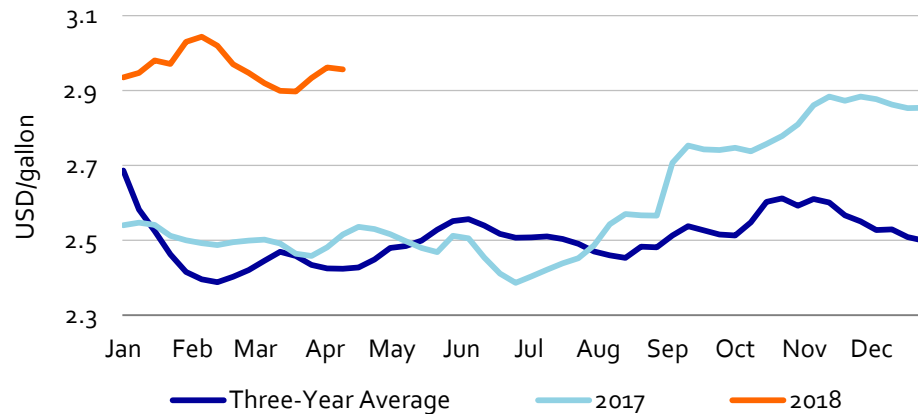
## Corn Belt Input Prices\*



Source: Bloomberg 2018

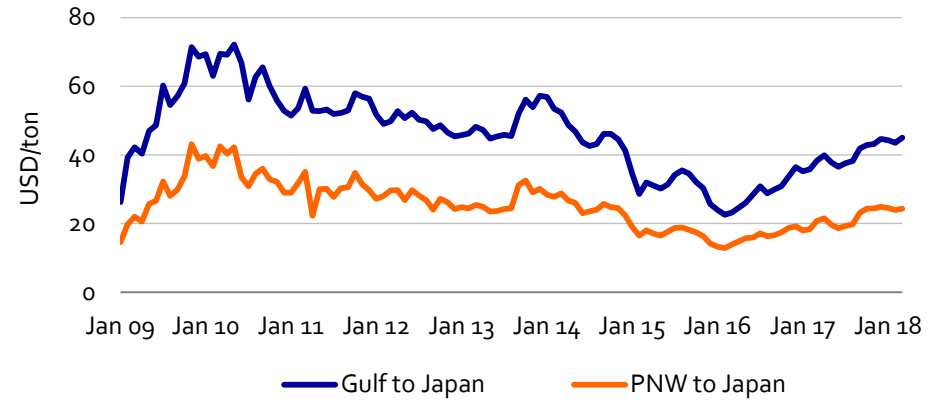
\* Note: granular potash

## Diesel — Midwest



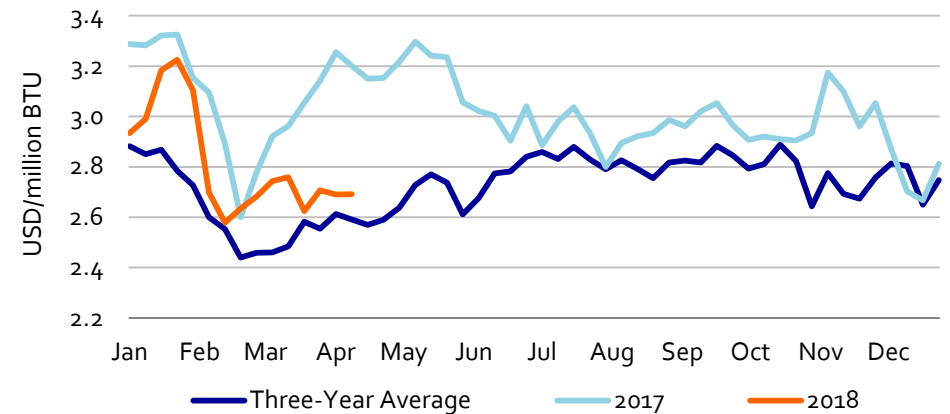
Source: EIA 2018

## Ocean Freight



Source: O'Neil Commodity Consulting, AMS-USDA 2018

## Natural Gas Spot

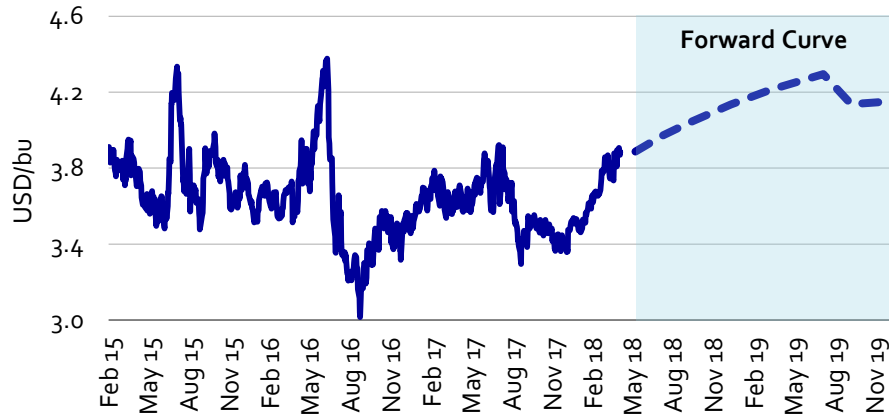


Source: NYMEX 2018

# Forward Price Curves

As of 12 April 2018

## CBOT – Corn



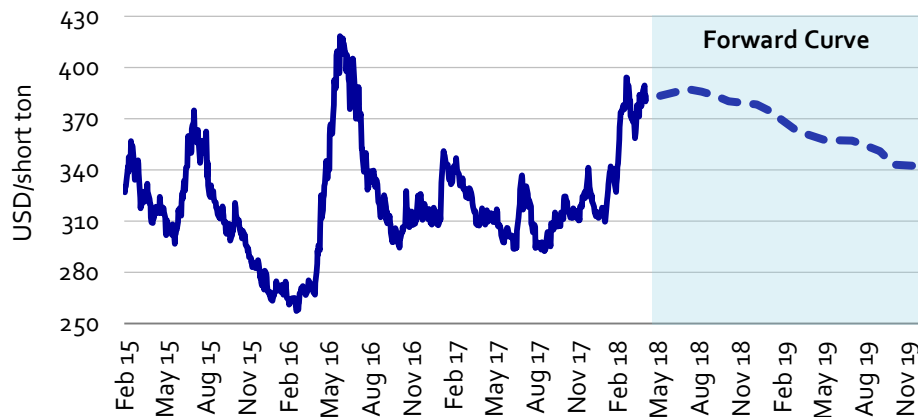
Source: CBOT, Rabobank 2018

## CBOT – Soybeans



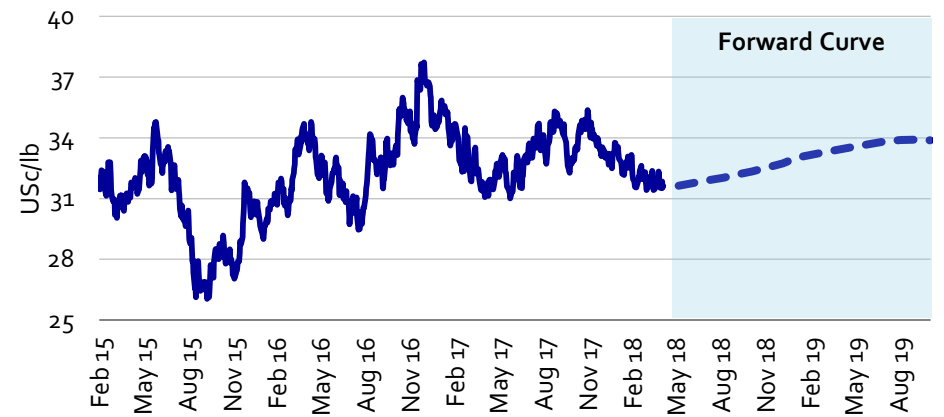
Source: CBOT, Rabobank 2018

## CBOT – Soymeal



Source: CBOT, Rabobank 2018

## CBOT – Soy Oil



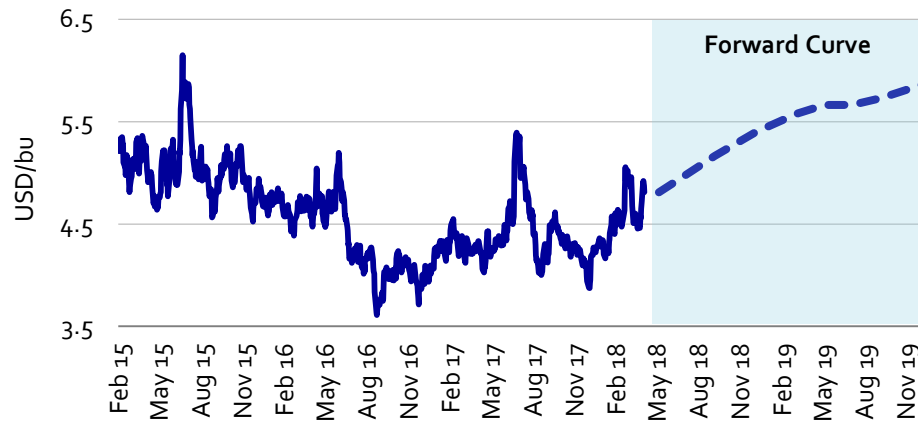
Source: CBOT, Rabobank 2018



# Forward Price Curves

As of 12 April 2018

## CBOT – Wheat



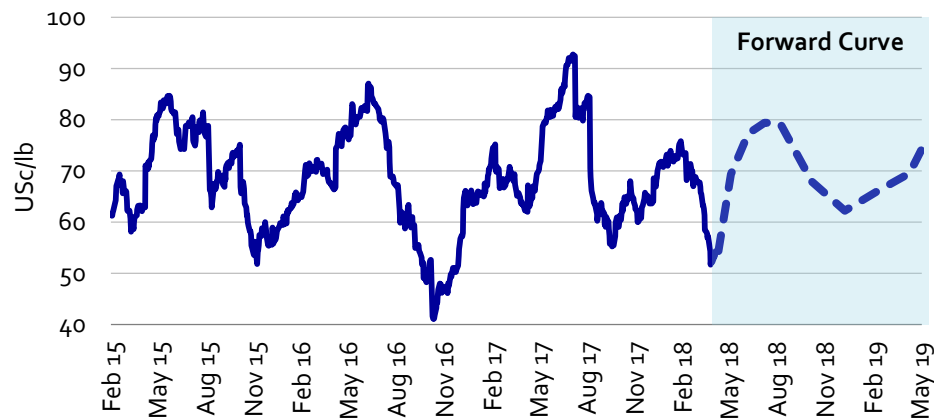
Source: CBOT, Rabobank 2018

## CBOT – Feeder Cattle



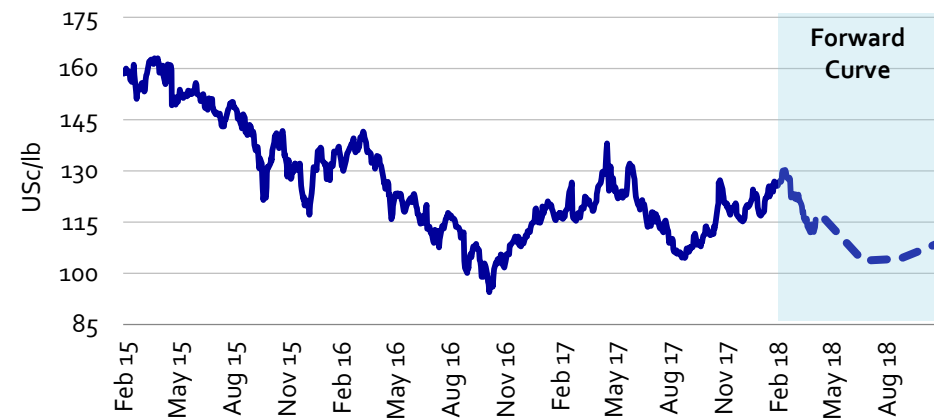
Source: CBOT, Rabobank 2018

## CBOT – Lean Hogs



Source: CBOT, Rabobank 2018

## CBOT – Live Cattle

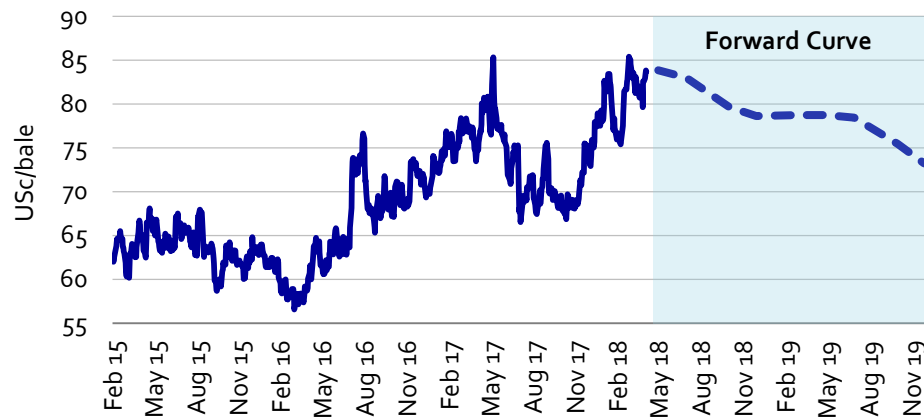


Source: CBOT, Rabobank 2018

# Forward Price Curves

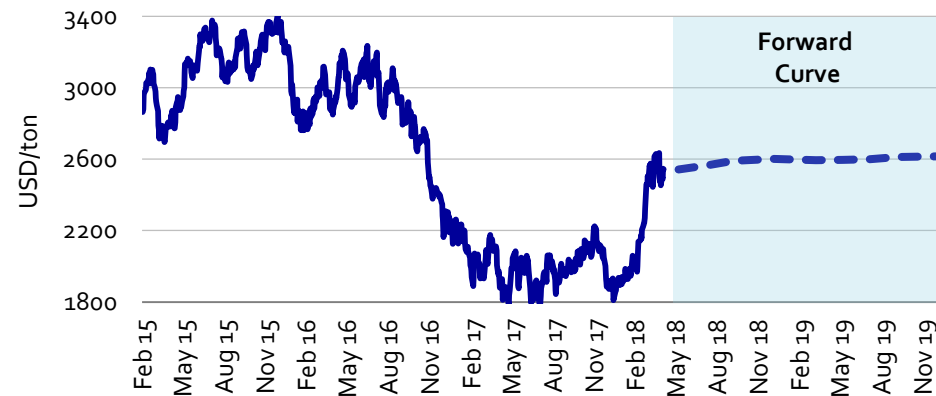
As of 12 April 2018

## ICE – #2 Cotton



Source: ICE, Rabobank 2018

## ICE – Cocoa



Source: ICE, Rabobank 2018

## ICE – FCOJ



Source: ICE, Rabobank 2018

## ICE – #11 Sugar



Source: ICE, Rabobank 2018

# RaboResearch Food & Agribusiness



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