

Agri Commodity Markets Research

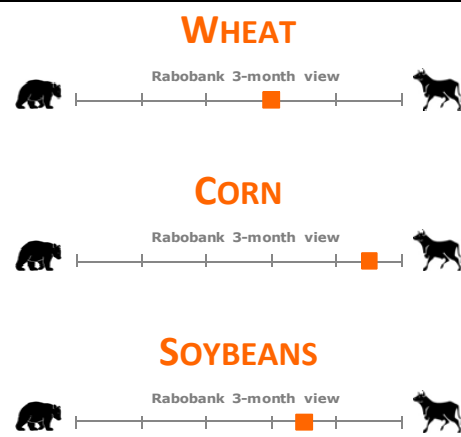


Rabobank

Agri View — Grain Prices Selloff to Unsustainable Levels

Grain prices have fallen to unsustainable levels and need to recover in order to slow demand and encourage increased production.

The global grains and oilseeds markets are in the midst of a dramatic sell off. In the past 7 trading sessions, corn, soybeans, and wheat futures have fallen anywhere between 1% and 13%. Geopolitical issues and speculative selling have been the primary drivers behind the sharp correction in prices and an increase in volatility. While there remains risk of further downside in the short term, we maintain our bullish view on the market in the medium term. Grains and oilseed prices are likely to find support from consumers who have shown an increase in buying activity amidst this pullback in prices. We expect volatility will continue to increase in coming months as prices consolidate near current levels before continuing their rise into the Northern hemisphere’s spring planting season.



Grains and oilseeds are in the midst of a severe “February Break”. The recent selloff in the grains and oilseeds complex is largely the result of geopolitical unrest, investor selling and technical follow-through which has trumped market fundamentals. The downward trend began last week as wheat and soybean futures dropped below their 30-day moving averages. Bearish USDA baseline acreage numbers and a contraction in investor risk appetite were also key drivers in this sudden fall in prices.

Table 1: Grains and oilseeds sell off dramatically over the past 7 trading sessions

Commodity Price (USD/bu)	14 Feb	23 Feb	Change
CBOT Corn	695.8	691.5	-0.6%
CBOT Soybeans	1402.8	1320.0	-6.3%
CBOT Bean Oil (lb.)	57.7	55.0	-4.9%
CBOT Bean Meal (USD/T)	375.5	351.8	-6.7%
CBOT Wheat	872.0	763.0	-14.3%
Minni Wheat	1013.0	906.8	-11.7%
KC Wheat	977.0	878.8	-11.2%
Matif Wheat (€/Mt)	274.8	246.5	-11.5%

Source: Bloomberg, Rabobank

With the US markets returning from a long weekend, selling increased this week prompting large losses on 22 February. Nearby CBOT March wheat fell USD 0.60/bu lower on 22 February to USD 7.62/bu- the largest daily loss since March 2008. At the same time nearby CBOT March soybeans fell USD 0.70/bu to USD 12.98/bu — the biggest one-day loss since September 2009. Even CBOT corn, with the strongest underlying fundamentals, saw the largest daily decline in three months as nearby futures fell USD 0.30/bu to USD 6.80/bu on 22 February. Downward pressure has continued as wheat and soybeans trade close to their 100-day moving averages. CBOT corn, on the other hand, has found support above its 30-day moving average.

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Figure 1: CBOT wheat has led the selloff as prices fell 14% between 14 February and 23 February.

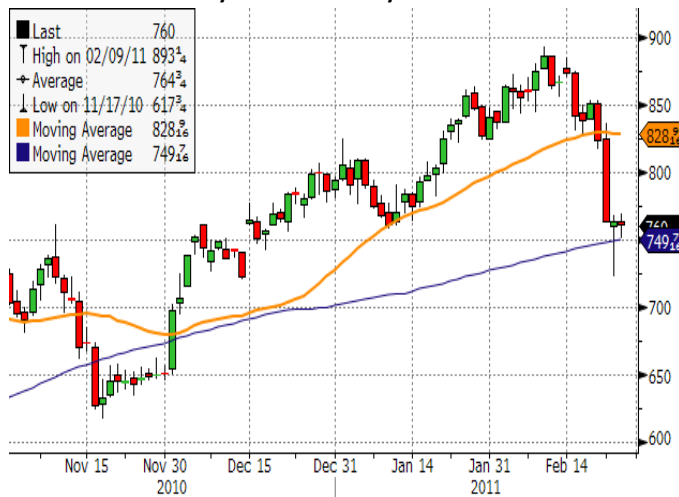


Figure 2: Matif Wheat has fallen 11.5% between 14 February and 23 February.

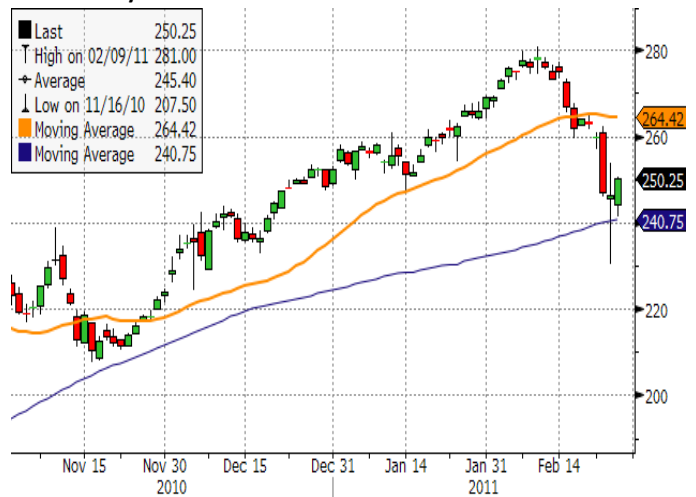


Figure 3: CBOT soybeans dropped below USD 13.00/bu for the first time since 17 December 2010.

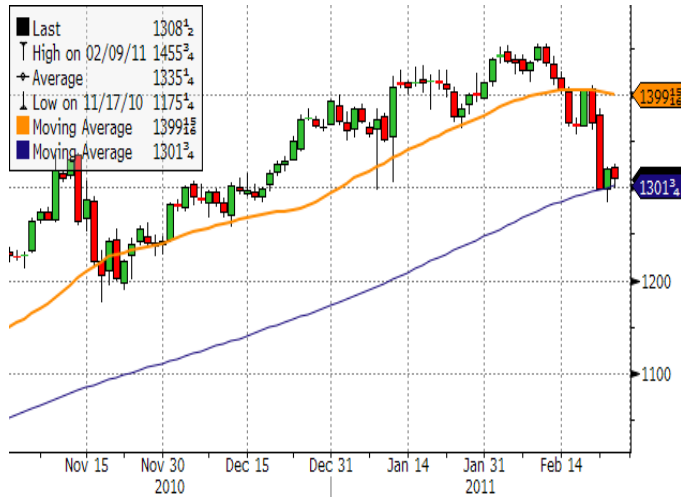


Figure 4: Low global stock levels have kept CBOT corn prices supported above their 30-day moving average.

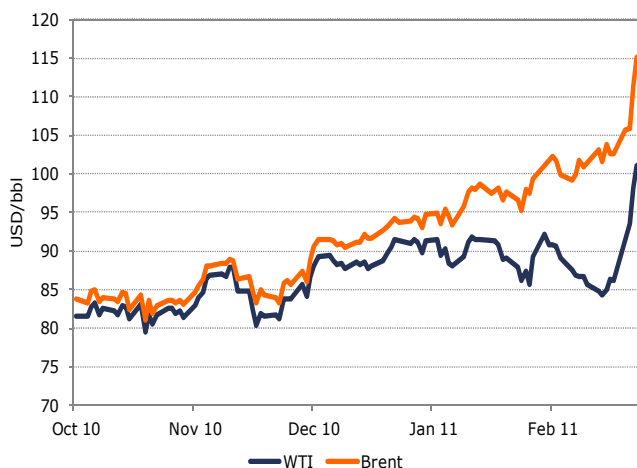


Source: Bloomberg, Rabobank

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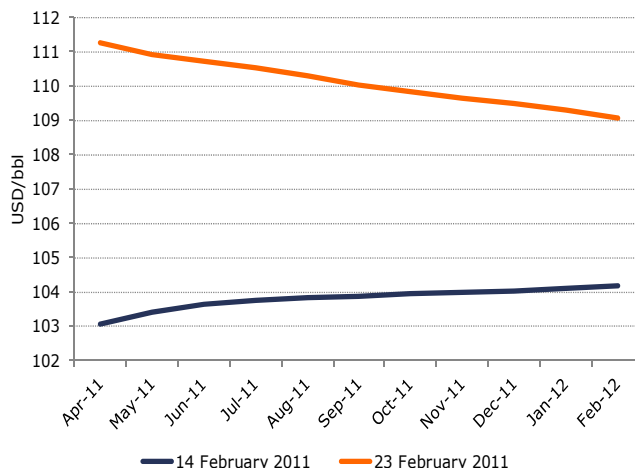
The selloff in grains and oilseeds has been driven by outside factors as investors reduce their risk exposure amidst rising energy prices. Political unrest and soaring oil prices have prompted a reduced appetite for risky assets and investor liquidation of futures positions in grains and oilseeds. Nearby Brent crude oil futures have increased 8% from 14 February to 23 February. Nearby WTI crude oil has risen nearly 16% over the same time period. The situation in Middle Eastern and North African (MENA) countries continues to dominate headlines, providing uncertainty around oil and gas supplies and pushing Brent crude oil into backwardation. In the short term this has weighed on grains and oilseeds prices, but with higher energy prices demand for biofuel production will increase demand for grains and oilseeds, primarily corn.

Figure 5: Oil prices rise significantly due to political unrest in MENA countries.



Source: Bloomberg, Rabobank

Figure 6: The Brent crude oil futures curve quickly shifted from contango to backwardation.

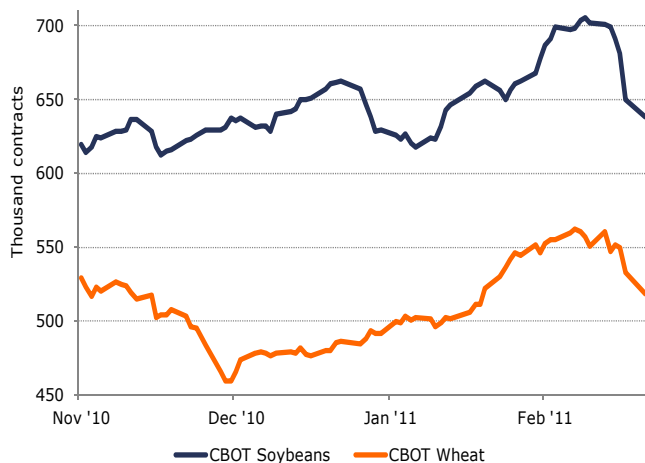


Source: Bloomberg, Rabobank

Falling prices have coincided with a dramatic decline in open interest, particularly in CBOT soybeans. From 14 February to 22 February aggregate CBOT soybean futures open interest fell nearly 63,000 contracts (or 9%) to 638,000 contracts—the largest 5 day decline since 1998. Similarly, aggregate open interest in CBOT wheat futures fell 44,000 contracts (more than 7%) to 518,000 contracts over the same time period. However, open interest in CBOT corn futures has fallen less than 1% over this time period which is not surprising given corn prices have seen less downward pressure.

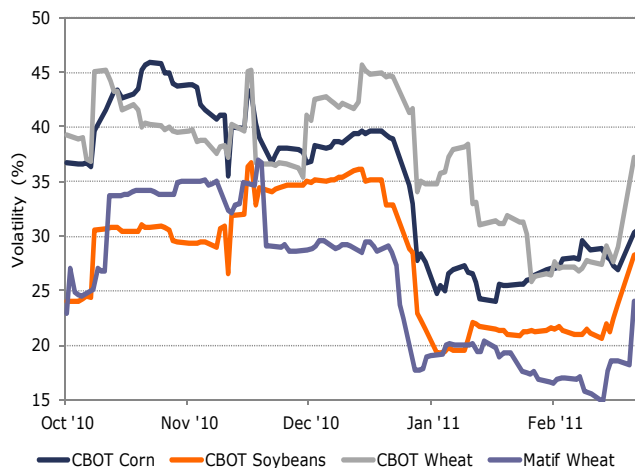
This rapid selloff in the grains and oilseeds market has increased volatility. Matif wheat has seen the largest increase in 30-day historical volatility, rising from less than 15% on 14 February to 24% by 24 February. However, CBOT wheat has registered the highest level of 30-day historical volatility after increasing 10 percentage points since 14 February to 37% on 24 February. CBOT soybean 30-day volatility is up more than 5 percentage points to 25%. This likely marks a tipping point from the relatively subdued volatilities of January to an environment of elevated volatility in coming months.

Figure 7: CBOT futures open interest in wheat and soybeans tumble 9% and 7%, respectively



Source: Bloomberg, Rabobank

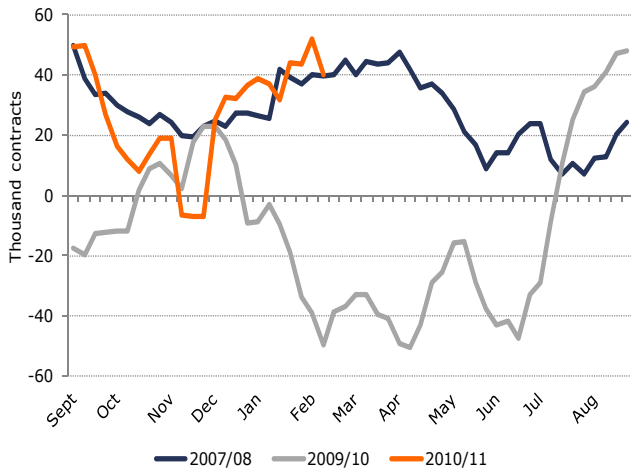
Figure 8: 30-day historical volatility is likely to remain above the subdued levels which occurred at the beginning of 2011



Source: Bloomberg, Rabobank

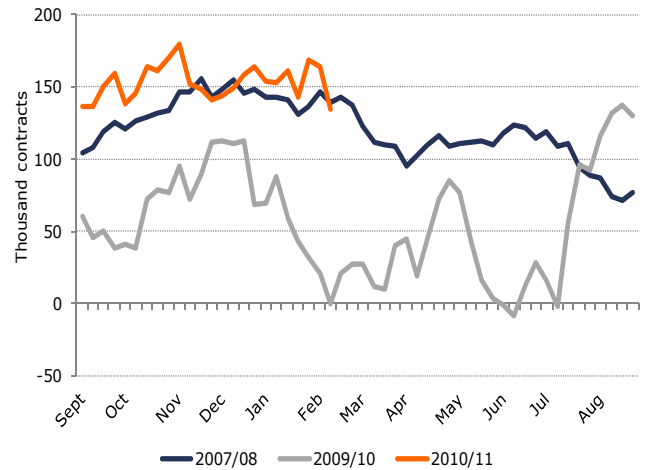
Further selling from speculators in agri commodities is likely to continue to impact prices and volatilities in coming weeks. For example, managed money’s net long position in CBOT soybeans leading into the recent market correction was more than 60,000 contracts larger than the 2007/08 rally.

Figure 9: Managed money’s net long position in CBOT wheat futures and options remains higher than the 2007/08 peak.



Source: Bloomberg, Rabobank

Figure 10: Managed money’s net long position in CBOT soybean futures and options fell to the lowest level since August 2010.



Source: Bloomberg, Rabobank

This pullback in prices has spurred increased demand from consumers as the underlying fundamentals in grain and oilseeds remain bullish. Lower corn prices have improved ethanol and protein market margins, soybean crush margins, and spurred wheat import tenders particularly in the MENA countries such as Tunisia, Saudi Arabia, Egypt. In our view, this recent downward trend in prices is not sustainable, given the multi-year low level of stocks across most grains and oilseeds as higher prices are needed to further ration demand. In particular, we see corn prices needing further upside to limit ethanol demand and ensure corn ‘buys’ more acres in the US for the 2011/12 crop year. World corn ending stocks are 7% lower than they were in 07/08 and 33% lower excluding China’s stocks. Similarly, world soybean ending stocks excluding China are 15% lower than in 07/08.

Global Agri Commodity Balance Sheets

Global Corn Supply & Demand							USDA	Rabobank
(1000 Ha/1000 Mt)	04/05	05/06	06/07	07/08	08/09	09/10	10/11(f)	10/11(f)
Beginning Stocks	105,207	131,706	124,594	110,069	131,353	147,786	147,110	147,113
Area Harvested	145,297	145,535	149,577	160,534	158,156	156,669	160,589	160,589
Yield	4.9	4.8	4.8	4.9	5.0	5.2	5.1	5.1
Production	715,545	699,405	713,451	793,615	798,269	812,141	816,010	812,184
MY Imports	75,822	80,517	90,417	98,489	82,392	89,844	89,330	96,428
Total Supply	896,574	911,628	928,462	1,002,173	1,012,014	1,049,771	1,052,450	1,055,725
MY Exports	77,710	81,071	94,041	98,614	84,482	94,076	91,440	89,792
Feed Consumption	475,001	477,608	477,364	496,838	478,895	482,346	492,310	495,133
FSI Consumption	212,157	228,355	246,988	275,404	300,851	326,236	343,810	349,671
Total Consumption	687,158	705,963	724,352	772,242	779,746	808,582	836,120	844,804
Total Usage	764,868	787,034	818,393	870,856	864,228	902,658	927,560	934,596
Surplus Deficit	28,387	-6,558	-10,901	21,373	18,523	3,559	-20,110	-32,620
Ending Stocks	131,706	124,594	110,069	131,317	147,786	147,113	127,000	121,129
Stocks/Usage	17.2%	15.8%	13.4%	15.1%	17.1%	16.3%	13.5%	13.0%

Global Soybean Supply & Demand							USDA	Rabobank
(1000 Ha/1000 Mt)	04/05	05/06	06/07	07/08	08/09	09/10	10/11(f)	10/11(f)
Beginning Stocks	37,885	47,473	53,237	62,990	52,912	44,071	60,230	60,226
Area Harvested	93,176	92,916	94,256	90,674	96,398	101,950	103,065	103,065
Yield	2.3	2.4	2.5	2.4	2.2	2.6	2.5	2.4
Production	215,777	220,670	237,126	221,006	211,964	260,090	255,530	252,200
MY Imports	63,473	64,129	69,066	78,118	77,175	87,395	96,010	92,400
Total Supply	317,135	332,272	359,429	362,114	342,051	391,556	411,770	404,826
MY Exports	1,275	1,276	1,277	1,278	1,279	1,280	1,282	1,283
Crush	175,856	185,188	195,610	201,819	192,911	209,512	225,210	223,018
Seed/Feed/Residual	124	125	126	127	128	129	131	132
Total Consumption	204,910	215,231	225,118	229,619	221,129	238,547	255,490	253,559
Total Usage	269,662	279,035	296,439	309,208	297,980	331,330	353,487	347,645
Surplus/Deficit	9,588	5,764	9,753	-10,084	-8,841	16,155	-1,947	-3,045
Ending Stocks	47,473	53,237	62,990	52,906	44,071	60,226	58,283	57,181
Stocks/Usage	17.6%	19.1%	21.2%	17.1%	14.8%	18.2%	16.5%	16.4%

Global Wheat Supply & Demand							USDA	Rabobank
(1000 Ha/1000 Mt)	04/05	05/06	06/07	07/08	08/09	09/10	10/11(f)	10/11(f)
Beginning Stocks	134,225	153,274	150,313	130,646	124,417	166,330	197,430	197,171
Area Harvested	217,605	219,687	213,261	217,908	225,361	226,607	222,220	222,220
Yield	2.9	2.8	2.8	2.8	3.0	3.0	2.9	2.9
Production	626,693	619,224	596,106	611,231	683,667	682,602	645,820	643,335
MY Imports	109,969	111,101	114,589	113,666	136,933	133,684	122,950	123,450
Total Supply	870,887	883,599	861,008	855,543	945,017	982,616	966,200	963,956
MY Exports	111,826	116,835	111,598	117,416	143,660	135,746	125,640	122,927
Feed Consumption	106,580	112,585	107,902	98,117	117,935	116,627	123,730	122,587
FSI Consumption	499,207	503,866	510,862	515,593	517,092	533,072	541,530	547,230
Total Consumption	605,787	616,451	618,764	613,710	635,027	649,699	665,260	669,817
Total Usage	717,613	733,286	730,362	731,126	778,687	785,445	790,900	792,744
Surplus Deficit	20,906	2,773	-22,658	-2,479	48,640	32,903	-19,440	-26,482
Ending Stocks	153,274	150,313	130,646	124,417	166,330	197,171	177,990	171,212
Stocks/Usage	21.4%	20.5%	17.9%	17.0%	21.4%	25.1%	22.2%	21.6%

Source: USDA, Rabobank

US Agri Commodity Balance Sheets

US Corn Supply & Demand							USDA	Rabobank
(1000 Ha/1000 Mt)	04/05	05/06	06/07	07/08	08/09	09/10	10/11(f)	10/11(f)
Beginning Stocks	24,337	53,697	49,968	33,114	41,255	42,504	43,380	43,380
Area Harvested	29,798	30,399	28,586	35,014	31,796	32,169	32,941	32,941
Yield	10.1	9.3	9.4	9.5	9.7	10.3	9.6	9.6
Production	299,876	282,263	267,503	331,177	307,142	332,549	316,170	315,942
MY Imports	275	224	304	509	344	212	508	508
Total Supply	324,488	336,184	317,775	364,800	348,741	375,265	360,059	359,830
MY Exports	46,181	54,201	53,987	61,913	46,965	50,462	49,533	49,533
Feed Consumption	155,838	155,330	140,726	148,793	131,625	130,574	132,087	129,547
FSI Consumption	68,772	76,685	89,948	112,839	127,647	150,849	159,520	162,061
Total Consumption	224,610	232,015	230,674	261,632	259,272	281,423	291,607	291,607
Total Usage	270,791	286,216	284,661	323,545	306,237	331,885	341,140	341,140
Surplus Deficit	29,360	-3,729	-16,854	8,141	1,249	876	-24,461	-24,690
Ending Stocks	53,697	49,968	33,114	41,255	42,504	43,380	18,919	18,690
Stocks/Usage	19.8%	17.5%	11.6%	12.8%	13.9%	13.1%	5.5%	5.5%

US Soybean Supply & Demand							USDA	Rabobank
(1000 Ha/1000 Mt)	04/05	05/06	06/07	07/08	08/09	09/10	10/11(f)	10/11(f)
Beginning Stocks	3,059	6,960	12,229	15,617	5,580	3,761	4,106	4,106
Area Harvested	29,930	28,834	30,190	25,959	30,222	30,907	31,023	31,104
Yield	2.8	2.9	2.9	2.8	2.7	3.0	1182.8	2.9
Production	85,019	83,507	87,001	72,859	80,749	91,417	90,600	90,600
MY Imports	152	92	246	269	361	397	408	272
Total Supply	88,230	90,559	99,476	88,745	86,690	95,575	95,114	94,978
MY Exports	1,275	1,276	1,277	1,278	1,279	1,280	1,282	1,283
Crush	46,160	47,324	49,198	49,081	45,230	47,669	45,041	45,450
Seed/Feed/Residual	124	125	126	127	128	129	131	132
Total Consumption	51,410	52,751	53,473	51,627	48,112	50,617	48,035	48,634
Total Usage	81,270	78,330	83,859	83,165	82,929	91,469	91,307	92,042
Surplus/Deficit	3,901	5,269	3,388	-10,037	-1,819	345	-299	-1,170
Ending Stocks	6,960	12,229	15,617	5,580	3,761	4,106	3,807	2,936
Stocks/Usage	8.6%	15.6%	18.6%	6.7%	4.5%	4.5%	4.2%	3.2%

US Wheat Supply & Demand							USDA	Rabobank
(1000 Ha/1000 Mt)	04/05	05/06	06/07	07/08	08/09	09/10	10/11(f)	10/11(f)
Beginning Stocks	14,872	14,699	15,545	12,414	8,323	17,867	26,562	26,562
Area Harvested	20,222	20,276	18,939	20,639	22,541	20,191	1,295	19,263
Yield	2.9	2.8	2.6	2.7	3.0	3.0	46.4	3.1
Production	58,698	57,243	49,217	55,821	68,016	60,366	60,091	60,091
MY Imports	1,921	2,214	3,317	3,065	3,456	3,228	2,994	2,994
Total Supply	75,491	74,156	68,079	71,300	79,795	81,461	89,646	89,646
MY Exports	29,009	27,291	24,725	34,363	27,635	23,977	35,380	35,380
Feed Consumption	4,916	4,263	3,186	434	6,946	4,072	4,627	4,899
FSI Consumption	26,867	27,057	27,754	28,180	27,347	26,860	27,379	27,379
Total Consumption	31,783	31,320	30,940	28,614	34,293	30,932	32,005	32,277
Total Usage	60,792	58,611	55,665	62,977	61,928	54,909	67,385	67,657
Surplus Deficit	-173	846	-3,131	-4,091	9,544	8,685	-4,301	-4,573
Ending Stocks	14,699	15,545	12,414	8,323	17,867	26,552	22,261	21,989
Stocks/Usage	24.2%	26.5%	22.3%	13.2%	28.9%	48.4%	33.0%	32.5%

Source: USDA, Rabobank

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