

Agri Commodity Markets Research


Rabobank

Modest revisions in WASDE— Trade awaits plantings report

Rabobank's outlook based on USDA's 10 March WASDE report:

- **Corn – Bullish**
- **Soybeans – Neutral/bullish**
- **Wheat – Neutral**
- **Cotton – Bullish**

The USDA made few changes to their forecasts in the March WASDE report, which was seen as neutral to bearish. While most markets reacted to the report by moving lower, we maintain our expectations for higher prices leading into the North American growing season due to tight fundamentals and amidst rising energy prices. The March report was not expected to have any major revisions and the USDA did not make any. The main adjustments were a slightly bearish revision for the wheat markets and modestly bullish indications for soybean oil. It is notable that, despite current high prices and worries about inflation, the USDA has kept demand expectations mostly unchanged. Our bullish outlook is further supported by the improved economics of biofuels increasing corn demand. It is likely volatility will remain elevated as the market now awaits the very important prospective plantings and grain stocks reports 31 March. The planting report will be used for the USDA's first estimate for the 2011/12 crops in the May WASDE.

Table 1: USDA March 2011 WASDE Summary

Global Figures	USDA March	USDA Feb	USDA 09/10	YoY Chg	YoY % Chg	US Figures	USDA March	USDA Feb	USDA 09/10	Trade Estimates		
										Avg	Low	High
10/11 Production (Mn t)						10/11 Stocks (Mn bu)						
Wheat	647.6	645.8	682.6	-36.8	-5.4%	Corn	675	675	1,708	665	625	675
Australia	26.0	25.0	21.9	3.1	14.1%	Soybeans	140	140	151	142	121	181
Canada	23.2	23.2	26.9	-3.7	-13.7%	Wheat	843	818	976	810	751	859
Argentina	15.0	14.0	11.0	3.0	27.3%	Cotton (Mn bls)	1.90	1.90	2.95			
Corn	813.8	814.3	812.4	1.9	0.2%							
Soybeans	258.4	256.1	260.3	-4.2	-1.6%							
Brazil	70.0	68.5	69.0	-0.5	-0.7%							
Argentina	49.5	49.5	54.5	-5.0	-9.2%							
Cotton	115.0	115.5	101.3	14.1	13.9%							
10/11 Ending Stocks (Mn t)												
Wheat	181.9	177.8	197.3	-19.5	-9.9%							
Corn	123.1	122.5	144.5	-22.0	-15.2%							
Soybeans	58.3	58.2	59.0	-0.8	-1.3%							
Cotton	42.3	42.8	43.8	-1.0	-2.3%							

Source: USDA, Rabobank

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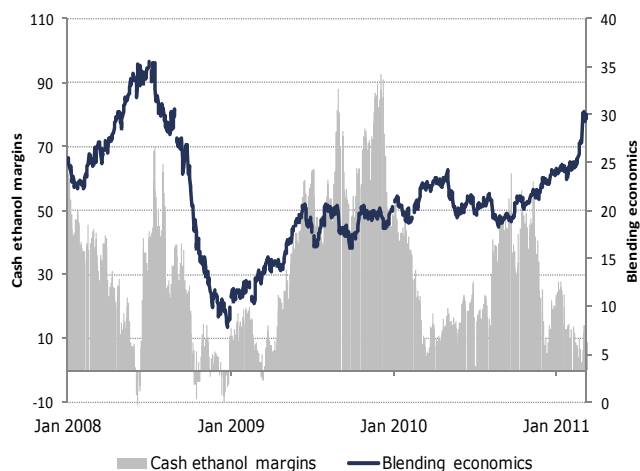
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Small changes to USDA's forecasts leave corn ending stocks at a 30-year low. The USDA lowered its forecast for world corn production 480 thousand tonnes to 813.8 million tonnes as a 2 million tonne loss in Mexico more than offset their higher forecasts for Brazil and India. The USDA raised their forecast for Brazil 2 million tonnes to 53 million tonnes, citing higher planted area and yields in the summer crop and expectations of increased winter plantings. However, parts of Brazil where the majority of the second (Safrinha) corn crop is grown have received 200% to 400% of normal precipitation. This has delayed the soybean harvest and caused the planting progress of the Safrinha crop to be at only half of normal. Because Brazil's Safrinha crop is normally 35-40% of Brazil's total corn production, their total production could actually drop below 50 million tonnes as opposed to USDA's current 53 million tonne forecast.

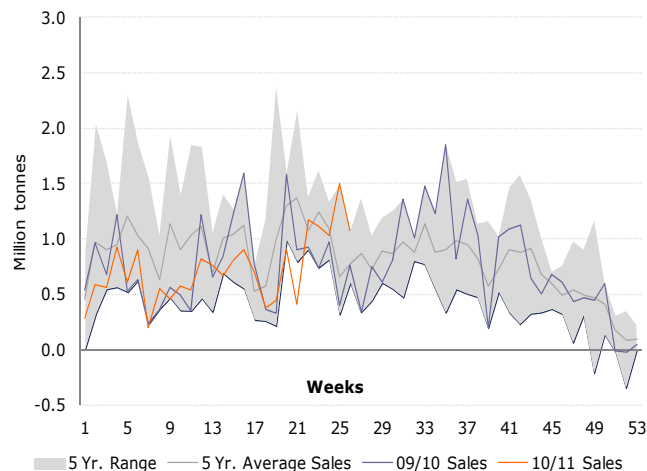
USDA leaves US ending stocks unchanged despite continued strong demand. Weekly US ethanol production remains on pace to reach 5.05 billion bushels versus USDA's 4.95 billion bushel forecast. After 5 consecutive weeks of declining production, the most recent weekly data showed US ethanol production increased from 882 thousand barrels per day to 883 thousand barrels per day. The economics of blending ethanol have increased significantly as ethanol prices have risen more than 5% YTD and RBOB gasoline has increased more than 20% YTD. In our view, this gives further incentive for ethanol production to persist above USDA's forecast. As gasoline prices approach USD 3/gal, we estimate corn must trade at USD 8/bu in order to reduce corn demand for ethanol.

Figure 1: Rising energy prices have renewed ethanol blending economics



Source: Bloomberg, Rabobank

Figure 2: US corn export sales have exceeded 1 million tonnes for the past 5 weeks

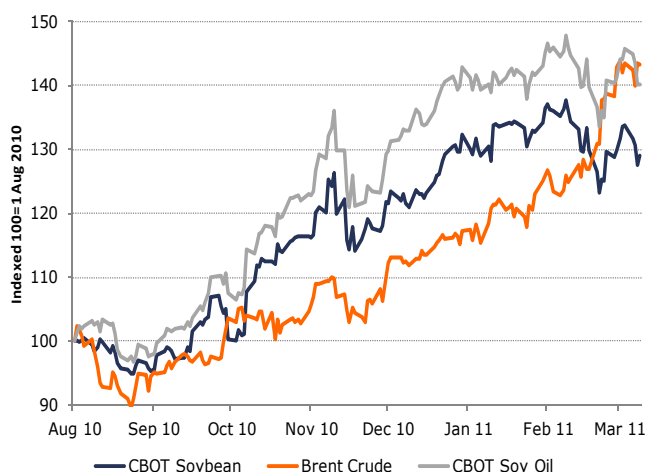


Source: USDA, Rabobank

Forecast global soybean stocks-to-use was lowered slightly by USDA despite an increase in forecasted production. Higher expected production in Brazil and China was not enough to offset USDA's forecast increase in demand and lower beginning stocks. The USDA raised their forecast for Brazil's soybean crop to a record 70 million tonnes — in line with what the market has been expecting for weeks. However, given the delayed harvest, we expect this will continue to support demand for US exports in coming weeks. Given the likelihood that US corn acres will expand, we expect soybean prices will continue to see upside in order to prevent a significant reduction in planting acreage and further drop in ending stocks.

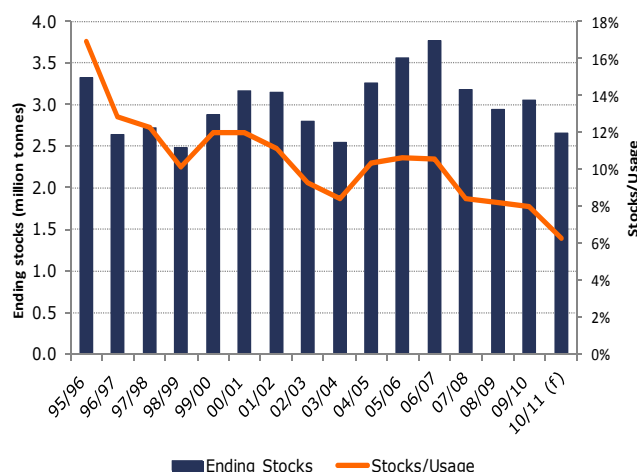
Soy oil continues to lead the complex, driven by low global ending stocks of vegetable oils and rising energy costs. The USDA lowered world soy oil ending stocks from 2.75 million tonnes to 2.65 million tonnes despite a 0.26 million tonne increase in production. Global demand for soy oil remains robust as a result of low ending stocks across all vegetable oils. Similarly, USDA lowered US ending stocks to 2.4 billion pounds from 2.6 billion pounds—the lowest level in 6 years. US soy oil exports have remained robust, causing the USDA to raise their export forecast 200 million pounds to 3.0 billion pounds. We expect this trend will continue and maintain our view that soy oil will outperform in the soybean complex.

Figure 3: Soy oil continues to outperform soybean complex as energy prices rise



Source: Bloomberg, Rabobank

Figure 4: World soy oil ending stocks drop to a 30 year low

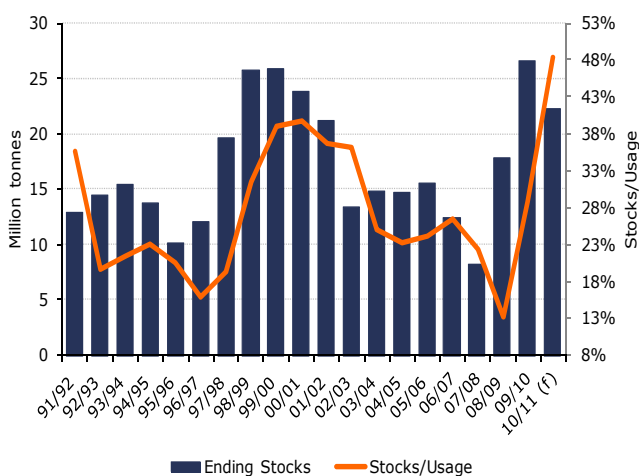


Source: USDA, Rabobank

The US wheat balance sheet was mostly unchanged while global fundamentals eased in the March WASDE report. While US production and domestic use for 2010/11 (Jun/May) was unchanged at 60.10 million tonnes and 32.01 million, respectively, the US export forecast was reduced as international demand expectations were lowered. The USDA said reduced need for imports in Russia was the reason behind the reduction in US exports. This increased US ending stocks for the season slightly to 22.26 million tonnes from 22.94 million in the previous report; ending stocks were 26.55 million in 2009/10. Trade had generally expected lower US ending stocks, and the Chicago contract slipped, falling 2.6% in trading after the report's release.

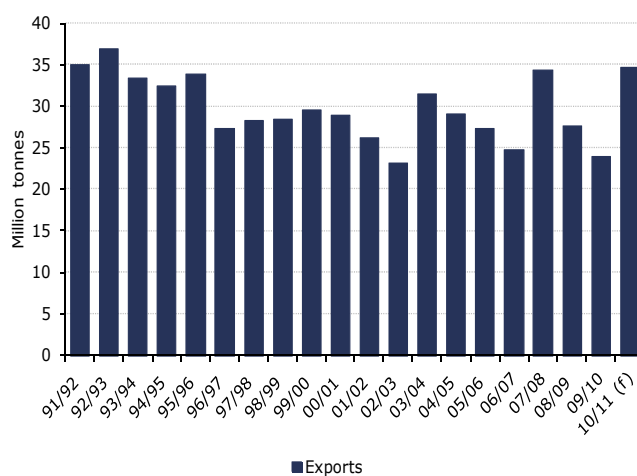
For the 2010/11 global balance sheet, the USDA increased production to 647.60 million tonnes from 645.41 million tonnes and decreased use to 663.02 million from 665.23 million. Global ending stocks are now estimated at 181.90 million tonnes, up from 177.77 million in the February report and compared with 197.32 million last season. The larger wheat supplies are a result of revised production estimates in Argentina and Australia. Both are 1.0 million tonnes larger than the previous report. While the report was moderately bearish and resulted in some fund liquidation, the underlying dynamics in wheat remain supportive, with exports out of the Black Sea in question for the coming season, much of the US and Chinese crop area suffering from moisture deficiency, and increased demand expected in 2011/12.

Figure 5: US ending stocks were increased for 2010/11, but remain below the previous season



Source: USDA, Rabobank

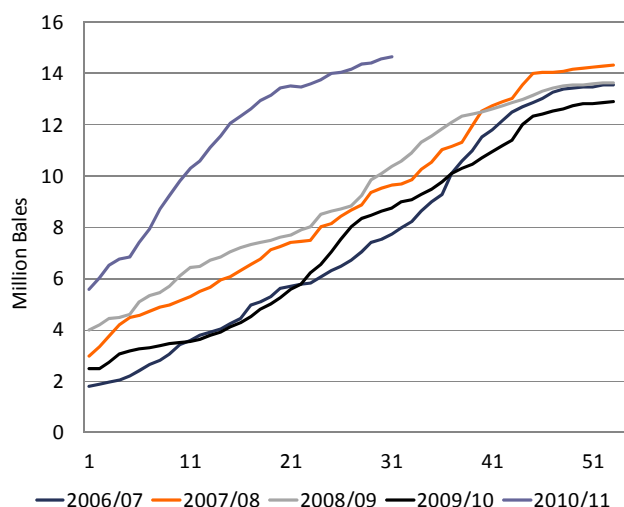
Figure 6: US exports for 2010/11 were reduced, but remain historically high



Source: USDA, Rabobank

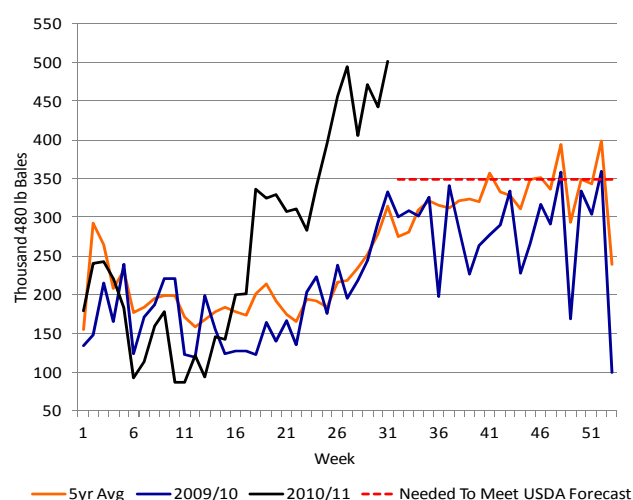
The US Cotton balance sheet was unchanged by the USDA, despite the strong pace of exports and export sales. US cotton production for 2010/11 (Aug/Jul) was kept at 18.32 million 480 lb bales, compared with 12.19 million the previous season. Domestic consumption for 2010/11 is pegged at 3.60 million, unchanged from the February WASDE. Exports for the US were also unchanged at 15.75 million bales, despite the fast pace of export sales and physical shipments. Export sales of US cotton reached 15.18 million bales by 3 March meaning the nation has 96.4% of the expected exports already on the books with 22 weeks left in the season. At the same time last season, only 67.8% of total exports had been sold. Many in the market had expected the USDA to revise the export forecast upwards. The US ending stocks were kept at the record-low 1.9 million bales. Cotton prices received by producers were revised to USD 0.80/lb to USD 0.83/lb, narrowed by 1 cent on both ends. If export sales continue anywhere near the pace of the previous weeks, the USDA might have to increase the export forecast, decreasing the already razor-thin ending stocks.

Figure 7: US cotton export sales have surged ahead and are already near the USDA forecast for the entire season



Source: USDA, Rabobank

Figure 8: US cotton exports remain at record levels despite high prices



Source: USDA, Rabobank

The USDA lowered the global cotton production forecast to 114.95 million bales for 2010/11, down from the 115.46 million bales in the February report, and up from 101.34 million bales the previous season. Harvests were revised lower for China, from 30.0 million bales to 29.5 million bales, and India, from 26.0 million bales to 25.0 million bales. This was offset somewhat by better expectations for Australia, from 4.0 million bales to 4.5 million bales, and Brazil, from 8.2 million bales to 8.8 million bales. Global consumption was increased modestly in March to 116.61 million bales, from 116.55 million bales in the last report, while trade was increased to 38.59 million bales from 38.10 million bales. Global ending stocks are now estimated at 42.33 million bales, down from the 42.81 million bales forecast in February, and down from 43.84 million bales in 2009/10.

Global & US Corn Balance

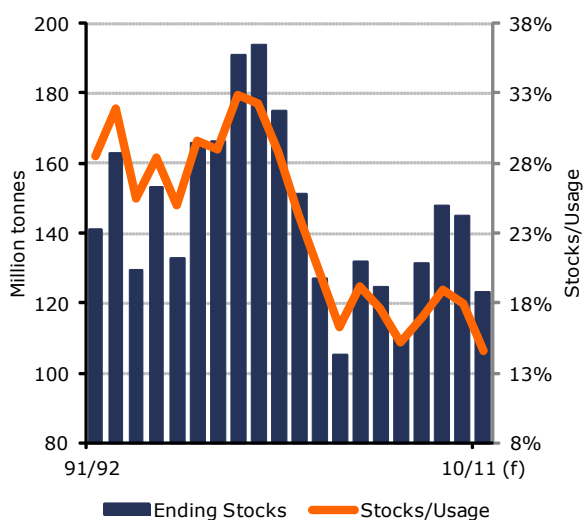
Global Corn Supply & Demand
(1000 Ha/1000 Mt)

	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)
Beginning Stocks	131,360	147,820	145,160	144,540	145,156
Production	798,410	812,380	814,260	813,780	820,963
MY Imports	82,560	89,790	89,450	90,900	91,153
Total Supply	1,012,330	1,049,990	1,048,870	1,049,220	1,057,272
MY Exports	84,480	96,890	90,340	90,130	92,692
Feed Consumption	479,140	482,700	492,370	493,020	492,926
FSI Consumption	302,810	332,960	344,530	342,160	348,592
Total Consumption	781,950	815,660	836,900	835,180	841,518
Total Usage	866,430	912,550	927,240	925,310	934,210
Surplus Deficit	14,540	-10,380	-23,530	-20,630	-20,555
Ending Stocks	147,820	144,540	122,510	123,140	123,062
Stocks/Usage	18.9%	17.7%	14.6%	14.7%	14.6%

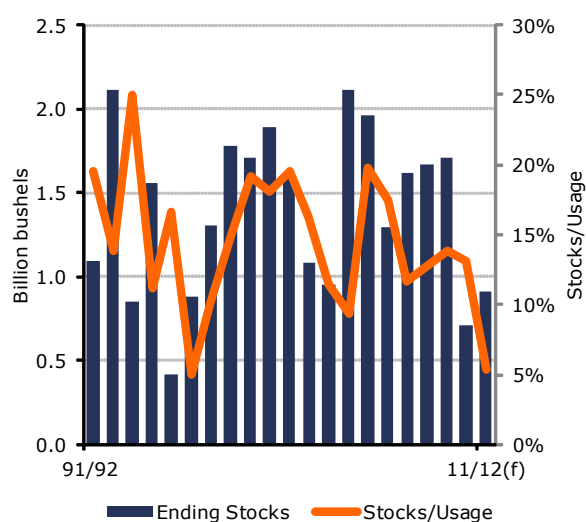
US Corn Supply & Demand
(Mln Acres/Mln Bu)

	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)	Rabobank 11/12(f)
Beginning Stocks	1,624	1,673	1,708	1,708	1,708	716
Area Planted	86.0	86.4	88.2	88.2	88.2	92.0
Area Harvested	78.6	79.5	81.4	81.4	81.4	84.6
Yield	153.9	164.7	152.8	152.8	152.8	160.0
Production	12,092	13,092	12,447	12,447	12,438	13,536
MY Imports	14	8	20	20	20	15
Total Supply	13,729	14,774	14,175	14,175	14,166	14,267
MY Exports	1,849	1,987	1,950	1,950	1,950	1,950
Feed Consumption	5,182	5,140	5,200	5,200	5,100	5,050
FSI Consumption	5,025	5,939	6,350	6,350	6,400	6,350
Ethanol Usage	3,709	4,568	4,950	4,950	5,000	4,950
Total Consumption	10,207	11,079	11,550	11,550	11,500	11,400
Total Usage	12,056	13,066	13,500	13,500	13,450	13,350
Surplus Deficit	50	34	-1,033	-1,033	-992	201
Ending Stocks	1,673	1,708	675	675	716	917
Stocks/Usage	13.9%	13.1%	5.0%	5.0%	5.3%	6.9%

Global Corn Ending Stocks & Stocks-to-use



US Corn Ending Stocks & Stocks-to-use



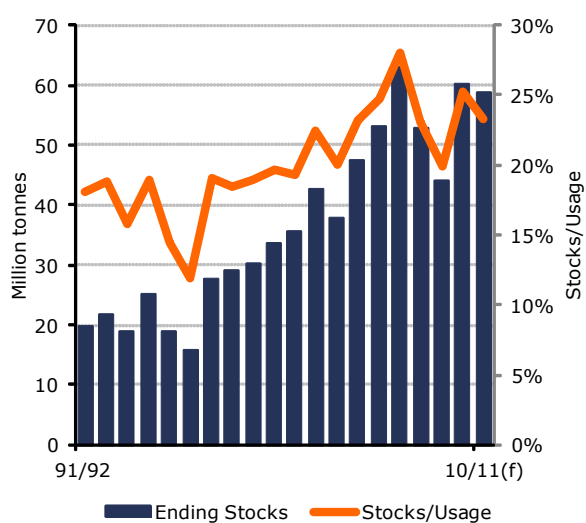
Source: USDA, Rabobank

Global & US Soybean Balance

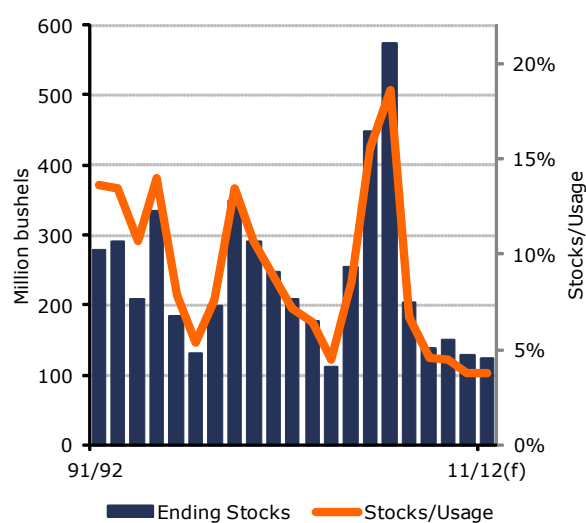
Global Soybean Supply & Demand (1000 Ha/1000 Mt)	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)
Beginning Stocks	51,420	42,580	60,170	59,000	60,170
Production	211,960	260,270	256,100	258,400	256,114
MY Imports	77,180	87,440	95,870	95,790	89,899
Total Supply	340,560	390,290	412,140	413,190	406,183
MY Exports	76,850	92,740	98,650	98,260	93,882
Crush	192,910	209,510	225,160	226,480	222,969
Seed/Feed/Residual	28,220	29,040	30,130	30,130	30,384
Total Consumption	221,130	238,550	255,290	256,610	253,353
Total Usage	297,980	331,290	353,940	354,870	347,235
Surplus/Deficit	-8,840	16,420	-1,970	-680	-1,222
Ending Stocks	42,580	59,000	58,210	58,330	58,948
Stocks/Usage	19.3%	24.7%	22.8%	22.7%	23.3%

US Soybean Supply & Demand (Mln Acres/Mln Bu)	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)	Rabobank 11/12(f)
Beginning Stocks	205	138	151	151	151	128
Area Harvested	74.7	76.4	76.6	76.6	76.6	76.1
Yield	39.7	44.0	43.5	43.5	43.5	43.0
Production	2,967	3,359	3,329	3,329	3,329	3,269
MY Imports	13	15	15	15	15	15
Total Supply	3,185	3,512	3,495	3,495	3,495	3,412
MY Exports	1,279	1,501	1,590	1,590	1,580	1,550
Crush	1,662	1,752	1,655	1,655	1,670	1,620
Seed/Residual	106	108	110	110	117	117
Total Consumption	1,768	1,860	1,765	1,765	1,787	1,737
Total Usage	3,047	3,361	3,355	3,355	3,367	3,287
Net Trade	1,266	1,486	1,575	1,575	1,565	1,535
Surplus/Deficit	-67	13	-11	-11	-23	-3
Ending Stocks	138	151	140	140	128	125
Stocks/Usage	4.5%	4.5%	4.2%	4.2%	3.8%	3.8%

Global Soybean Ending Stocks & Stocks-to-use



US Soybean Ending Stocks & Stocks-to-use



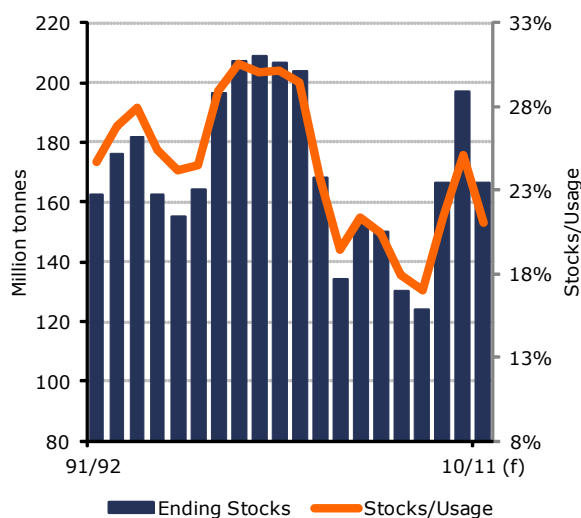
Source: USDA, Rabobank

Global & US Wheat Balance

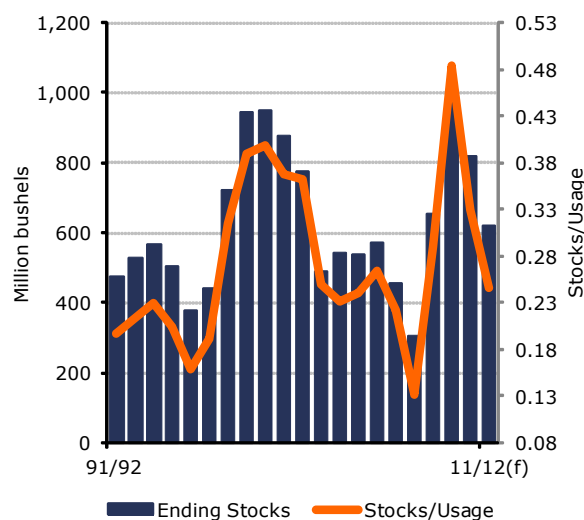
Global Wheat Supply & Demand (1000 Ha/1000 Mt)	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)
Beginning Stocks	124,780	167,230	197,600	197,320	197,171
Production	684,160	682,590	645,410	647,600	638,861
MY Imports	136,930	133,470	122,780	121,670	123,280
Total Supply	945,870	983,290	965,790	966,590	959,312
MY Exports	143,660	135,800	125,340	123,060	120,254
Feed Consumption	117,940	116,630	123,100	122,500	126,112
FSI Consumption	523,760	535,870	542,130	540,520	546,330
Total Consumption	641,700	652,500	665,230	663,020	672,442
Total Usage	785,360	788,300	790,570	786,080	792,696
Surplus Deficit	35,730	27,760	-22,380	-16,810	-33,581
Ending Stocks	167,230	197,320	177,770	181,900	166,616
Stocks/Usage	26.1%	30.2%	26.7%	27.4%	21.0%

US Wheat Supply & Demand (Mln Acres/Mln Bu)	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)	Rabobank 11/12(f)
Beginning Stocks	306	657	976	976	976	818
Planted Area	63.2	59.2	53.6	53.6	53.6	56.6
Area Harvested	55.7	49.9	47.6	47.6	47.6	50.2
Yield	44.9	44.5	46.4	46.4	46.4	44.0
Production	2,499	2,218	2,208	2,208	2,208	2,207
MY Imports	127	119	110	110	110	110
Prod. & Imports	2,626	2,337	2,318	2,318	2,318	2,317
Total Supply	2,932	2,993	3,294	3,294	3,294	3,135
MY Exports	1,015	881	1,300	1,275	1,300	1,300
Food	927	917	930	930	930	950
Seed	78	69	76	76	76	76
Feed/Residual	255	150	170	170	170	190
Total Consumption	1,260	1,137	1,176	1,176	1,176	1,216
Total Usage	2,275	2,018	2,476	2,451	2,476	2,516
Surplus/Deficit	351	319	-158	-133	-158	-199
Ending Stocks	657	976	818	843	818	619
Stocks/Usage	28.9%	48.4%	33.0%	34.4%	33.0%	24.6%

Global Wheat Ending Stocks & Stocks-to-use



US Wheat Ending Stocks & Stocks-to-use



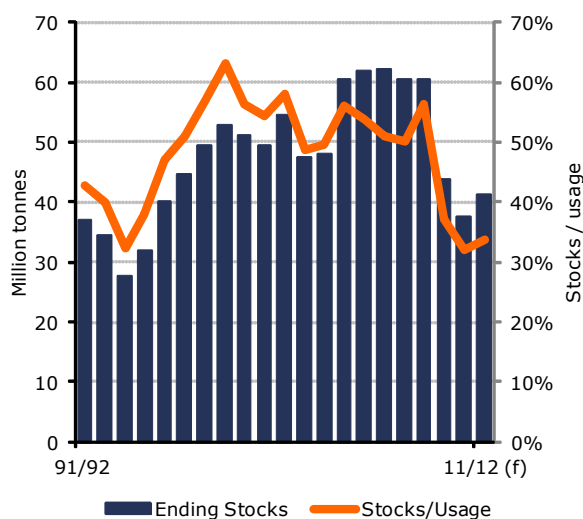
Source: USDA, Rabobank

Global & US Cotton Balance

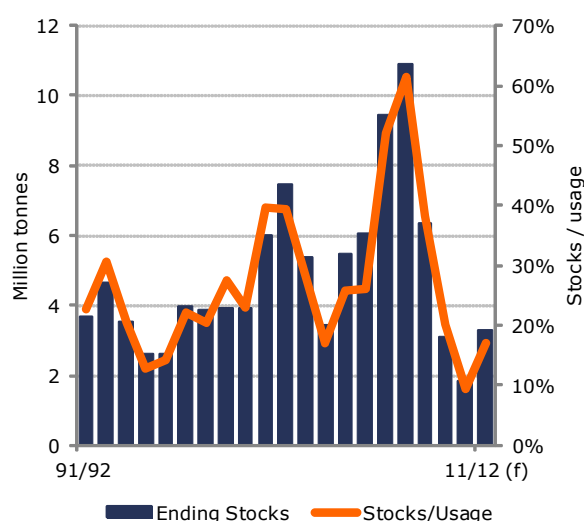
Global Cotton Supply & Demand (1000 Ha/1000 480 lb bales)	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)	Rabobank 11/12(f)
Beginning Stocks	60,730	60,520	43,990	43,840	43,845	37,641
Production	107,100	101,340	115,250	114,950	111,165	126,515
MY Imports	30,140	35,980	38,100	38,590	39,500	42,000
Total Supply	197,970	197,840	197,340	197,380	194,510	206,156
MY Exports	30,070	35,550	38,120	38,580	39,500	42,000
Loss	-2,680	-70	-140	-140	-136	-100
Use	110,070	118,520	116,550	116,610	117,505	122,816
Total Consumption	107,390	118,450	116,410	116,470	117,369	122,716
Total Usage	137,460	154,000	154,530	155,050	156,869	164,716
Surplus Deficit	-220	-16,680	-1,180	-1,510	-6,204	3,799
Ending Stocks	60,520	43,840	42,810	42,330	37,641	41,440
Stocks/Usage	56.4%	37.0%	36.8%	36.3%	32.1%	33.8%

US Cotton Supply & Demand (Mln Acres/Mln 480 lb bales)	08/09	09/10	USDA Feb 10/11(f)	USDA Mar 10/11(f)	Rabobank 10/11(f)	Rabobank 11/12(f)
Beginning Stocks	10.05	6.34	2.95	2.95	3.11	1.86
Area Harvested	7.57	7.53	10.71	10.71	10.77	13.10
Yield (lb/Acre)	813	777	821	821	816	770
Production	12.82	12.19	18.32	18.32	18.32	21.00
MY Imports	0.00	0.00	0.01	0.01	0.01	0.00
Total Supply	22.87	18.53	21.27	21.27	21.44	22.86
MY Exports	13.26	12.04	15.75	15.75	16.00	16.10
Loss	-0.32	0.08	0.02	0.02	-0.02	-0.06
Use	3.59	3.46	3.60	3.60	3.60	3.50
Total Consumption	3.27	3.54	3.62	3.62	3.58	3.44
Total Usage	16.85	15.50	19.35	19.35	19.58	19.54
Net Trade	13.26	12.04	15.74	15.74	15.99	16.10
Surplus/Deficit	-4.03	-3.31	-1.02	-1.02	-1.25	1.46
Ending Stocks	6.34	2.95	1.90	1.90	1.86	3.32
Stocks/Usage	37.6%	19.0%	9.8%	9.8%	9.5%	17.0%

Global Cotton Ending Stocks & Stocks-to-use



US Cotton Ending Stocks & Stocks-to-use



Source: USDA, Rabobank

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