

Agri Commodity Markets Research

Drought Overshadows USDA Reports


Rabobank

Rabobank's outlook based on USDA's 29 June 2012 Acreage and Grain Stocks reports:

- Corn – Neutral
- Soybeans – Neutral
- Wheat – Neutral
- Cotton – Neutral

The USDA Acreage and Grain Stocks report were both relatively neutral, which will leave markets continuing to trade on drought conditions in the US. Acreage estimates were raised for grains and oilseeds from the March Prospective Plantings report, but the market is far more focused on weather conditions and the potential impact to final yields. Grain stocks were roughly in-line with trade estimates showing no surprise to current season demand expectations. We continue to see further upside price risk as the US drought persists and there were no strong bearish indications offered by the USDA Acreage and Grain Stocks reports.

USDA 29 June 2012 Acreage and Grain Stocks Reports Summary

Acreage	USDA	USDA	2011	Trade Estimates			Quarterly	USDA	Jun 1	Trade Estimates		
	Jun 29	Mar 31		Avg	Low	High	Stocks	Jun 1	2011	Avg	Low	High
12/13 Acreage (Mn Acres)							Jun 1 Stocks (Mn Bushels)					
Corn	96.41	95.86	91.9	95.9	93.9	96.7	Corn	3,149	3,670	3,168	2,982	3,500
Soybeans	76.08	73.90	75.0	75.4	73.1	76.5	Soybeans	667	619	635	500	697
Wheat	56.02	55.91	54.4	56.3	54.8	57.6	All Wheat	743	862	732	700	840
Winter Wheat	41.82	41.71	40.6									
Spring Wheat	12.00	11.98	12.4	12.4	11.3	13.3						
Cotton	12.64	13.16	14.7	12.7	12.2	14.7						

Source: USDA, Bloomberg, Rabobank

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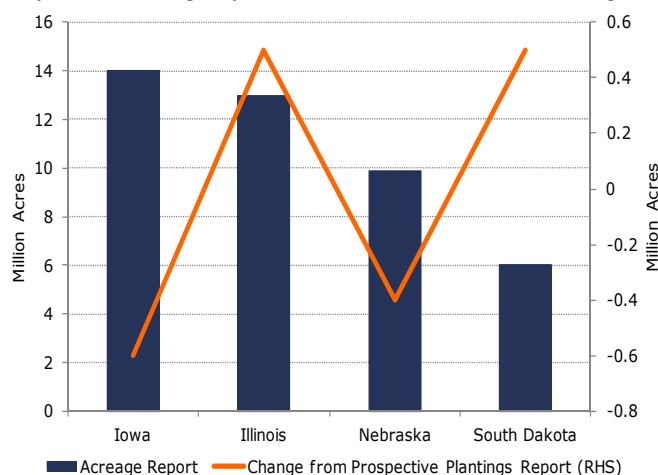
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The June Acreage and Grain stocks report was neutral for CBOT Corn prices, despite better-than-expected increases in 2012/13 acreage. Rabobank expects the market to look through 96.4 million reported planted acres, 0.5 million acres above expectations, and to continue to trade on bullish weather expectations. Total estimated corn acreage increased 4.9% YOY and 0.6% from the March Prospective Plantings report. Expected area harvested was 88.9 million acres, a 0.2 million acre contraction from the previous USDA estimate. Harvested area, at 92% of planted acreage, is likely still too high given the current drought and will likely fall below the ten-year average of 91% in future reports.

Key acreage gains versus the March Prospective Plantings report accrued to states that are most affected by drought (Illinois, +0.5 million acres) and those with lower expected yields (South Dakota, +0.5 million acres). Crop conditions in Illinois (37% good/excellent) are likely to mean that much of the bearish impact of this report is eroded by the expectation of high abandonment rates. Losses in acreage were most acute in Iowa (-0.6 million acres) and Nebraska (-0.4 million acres) which have seen improved conditions in recent weeks. Acreage losses in Iowa and Nebraska will be acutely felt as crop conditions remain strong with good/excellent conditions of 68% and 50% respectively.

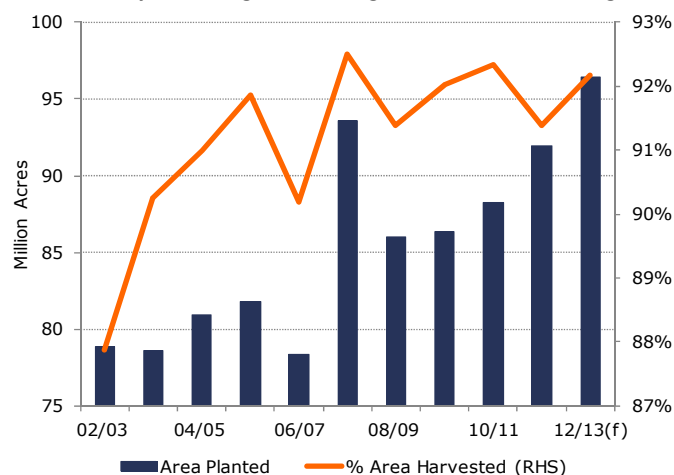
Corn stocks as at 1 June 2012 were 3,149 million bushels – slightly tighter than trade expectations of 3,168 million bushels and should have a neutral effect on CBOT prices. On-farm stocks rose to 47.1%, up 1.3 points YOY and off-farm stocks at 52.9% of total stocks. Declines of 176 million bushels YOY in Illinois to 472 million bushels and 121 million bushels YOY in Minnesota were the most notable figures, with declines elsewhere more tempered.

Illinois and South Dakota saw increases in corn acreage from the Prospective Plantings report with Iowa and Nebraska declining



Source: USDA, Rabobank

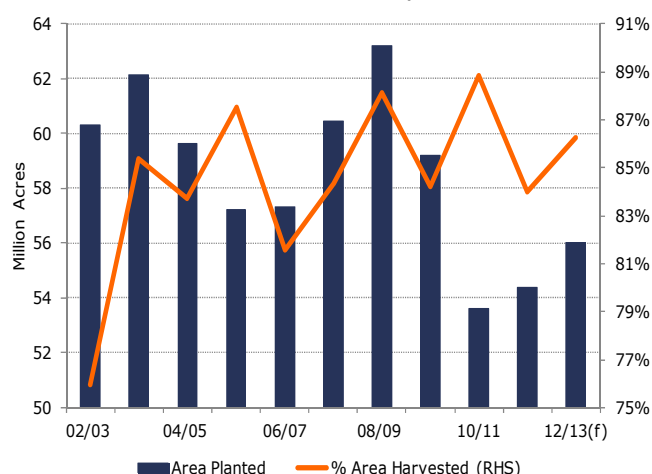
USDA expectations of corn area harvested are 92% of plantings, above the 10 year average with drought conditions increasing



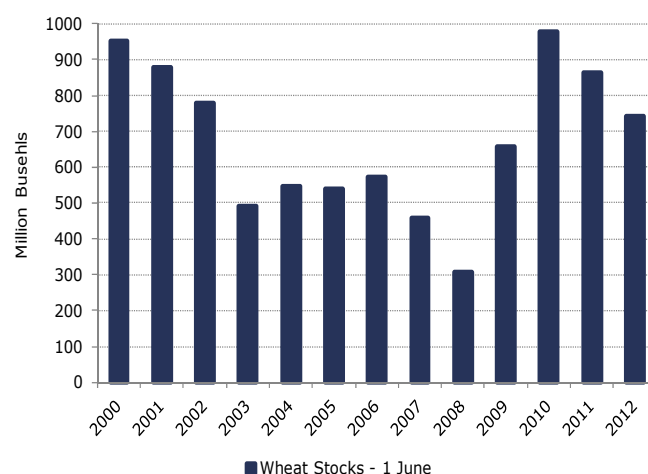
Source: USDA, Rabobank

Conflicting old crop stocks and acreage reports provided a neutral signal to wheat markets with the surprises on either side small enough to let traders keep their focus on the US and Russian droughts. Wheat stocks of 743 million bushels as at 1 June were 11 million bushels above trade expectations and bearish for old crop prices. This represents a decline of 120 million bushels YOY.

Wheat acreage provided a bullish surprise with 56.0 million acres reported planted, below the 56.3 million acres expected by trade. Total acreage was up 0.1 million acres versus the March Prospective Plantings report and 1.6 million acres YOY. Harvested acreage is expected to be 87% of plantings at 48.8 million acres – a 3.1 million acre gain YOY. Conditions for spring wheat, 77% good/excellent, and 19 point YOY improvements in winter wheat conditions to 54% should ensure that area harvested reaches 86% of plantings – above the 10 year average of 84%. Key acreage gains from the March Prospective Plantings report were reported in Montana (+0.3 million acres) and Kansas (+0.1 million acres). Durum acreage was unchanged from the Prospective Plantings report at 2.2 million acres, predominantly in North Dakota (1.4 million acres).

Wheat planted area has increased for the third consecutive year – harvested area should rebound from 2011/12 levels


Source: USDA, Rabobank

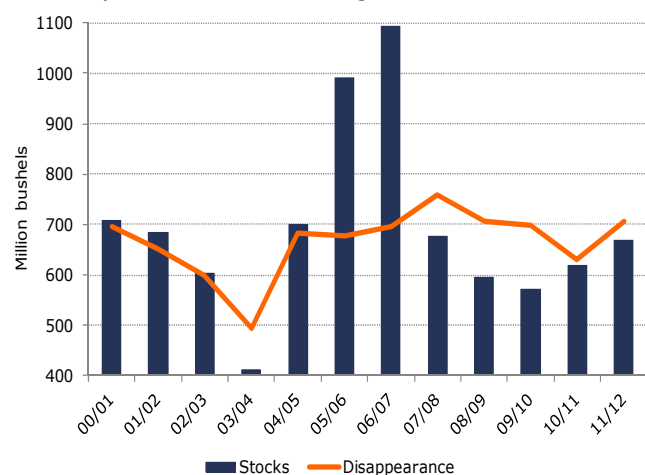
Wheat stocks have decreased YOY but remain above levels in 2003 to 2009


Source: USDA, Rabobank

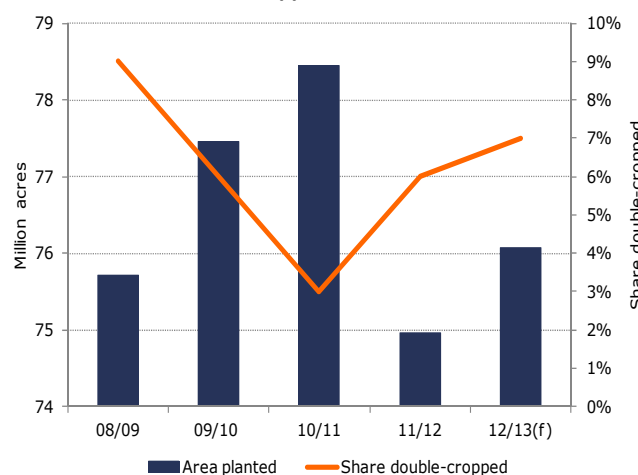
The USDA data was slightly bearish for soybeans but is likely to be overshadowed by the US drought conditions.

Quarterly stocks were reported at 667 million bushels—5% higher than average trade estimates and 48 million bushels above year-ago levels. While this marks the fifth consecutive quarterly increase in US soybean stocks, it showed consumption during the quarter 12% higher than year-ago levels at 707 million bushels. This was the largest 3Q quarterly disappearance since 2008 and the trend is likely to continue in Q4. Although the stocks data was slightly bearish, we expect the drought conditions threatening production to remain key in keeping prices supported.

The USDA's acreage survey showed farmers increased their planting intentions 2.2 million acres from the March Prospective Plantings report to 76.1 million acres. The largest increase was in Iowa where acreage was raised 700,000 acres from the March report to 9.5 million acres. Sizeable increases were also reported for Nebraska, North Dakota and Mississippi. Whereas area was lowered in Illinois, Indiana and Kansas. Clearly farmers responded to the more than 12% price increase in CBOT soybeans since the beginning of March. The area harvested estimate was 75.3 million acres – 99% of planted area and the highest since 2007/08. However, the market is likely to discount the total area given the ongoing drought conditions. Given no forecast for a relief in the hot and dry conditions, it is unlikely that the area estimates in today's report will actually be harvested. This will be particularly true for the double-cropped soybeans which were reported at the highest level since 2008 at 7% of total. As South American export supplies dwindle and US production risks intensify we expect today's data will do little to ease concerns surrounding the declining supply situation.

US soybean stocks were reported at a four-year high as of 1 June, yet consumption rose 12% YOY during Q3


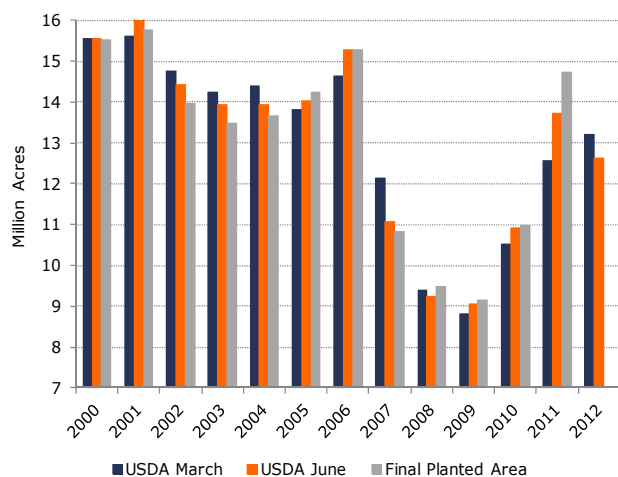
Source: USDA, Rabobank

US soybean acreage was reported at 76.1 million acres of which 7% is estimated to be double-cropped


Source: USDA, Rabobank

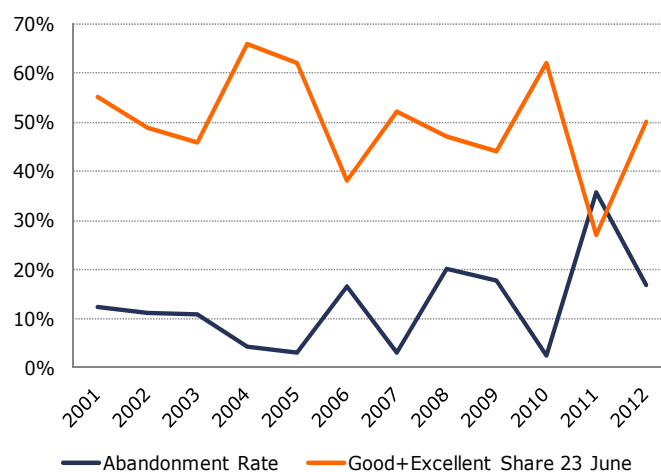
The USDA Acreage report was neutral for cotton as the lower expected planted area was within market expectations and is not forecast to alter the bearish fundamental outlook in the market. The USDA reported US cotton planted area at 12.635 million acres, down 4% from the March projection and 14% below the final planted area of 2011. Even with the lower planted area, US production is still forecast to increase in 2012 YOY to 17.0 million bales from 15.6 million bales as abandonment rates are likely to fall. The 2011 crop that was devastated by drought and abandonment reached 36%. With the new planted area estimate and an abandonment rate of 17%, the five-year average, we anticipate harvested area at 10.5 million acres, 11% above the 2011 harvested area. good/excellent conditions of cotton were 50% as of 23 June, up from 27% at the same point the previous season, and in line with the five year average. The 2012/13 crops are expected to build on the current record large global stocks, keeping the market under pressure, and we continue to expect new crop cotton to trade near the USc 70/lb level in NY, down from the USc 88.93/lb season-to-date average.

The June Acreage report forecast US cotton area 4% below the March projection and 14% below last season's harvested area



Source: USDA, Rabobank

US cotton abandonment is expected to fall in 2012 as excellent/good crop conditions are improved from the same point last season



Source: USDA, Rabobank

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