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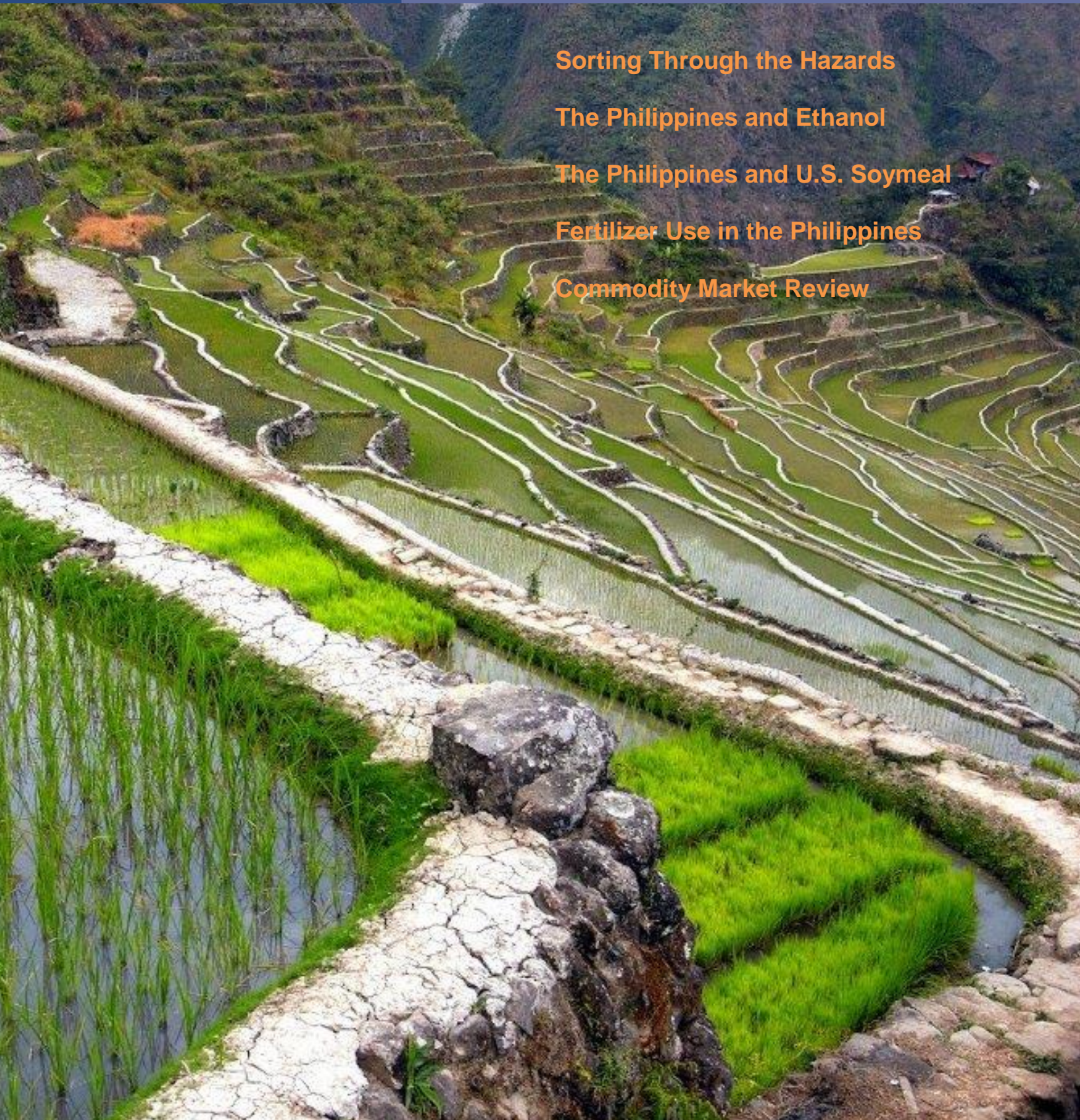
Sorting Through the Hazards

The Philippines and Ethanol

The Philippines and U.S. Soymeal

Fertilizer Use in the Philippines

Commodity Market Review



WORLD PERSPECTIVES: AG REVIEW

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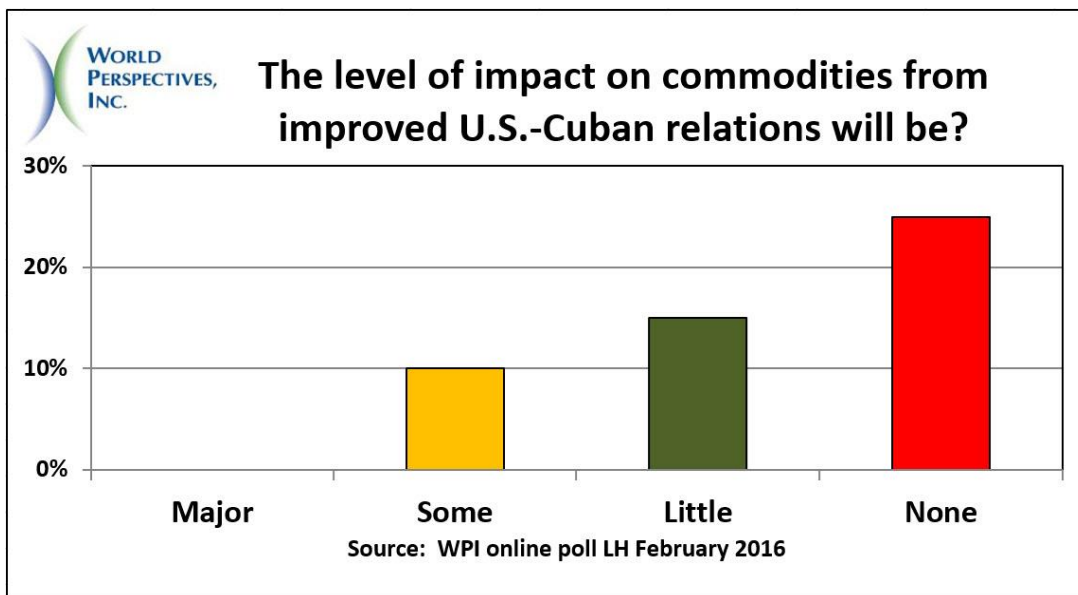
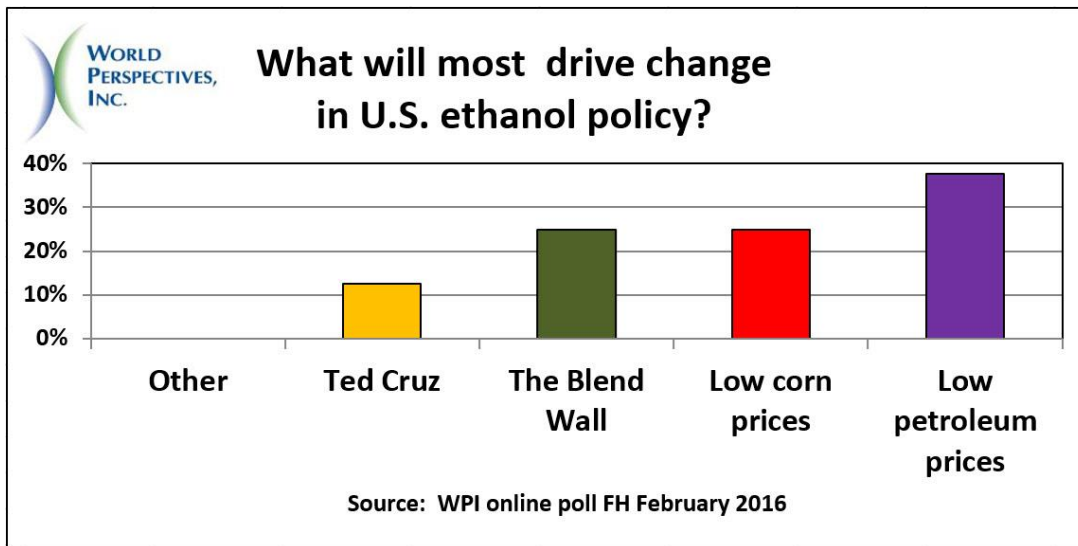
“Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time.”

— *Thomas A. Edison*

<i>HARVESTED DATA</i>	
Showtime	
Seeing is Believing	54 percent of those polled said farm shows are somewhat important to farmers' equipment/technology buying decisions, while 25 percent considered them to be very important. ZimmPoll
Food Labels	
What's Inside?	Close to 44 percent of respondents indicated GMO food labeling should be voluntary. However, 40 percent indicated there should be none, and 17 percent said it should be mandatory. AgWeb.com
Communication	
Ag Networking	Facebook and Twitter tied at 44 percent each in a recent poll that asked respondents to name their favorite social media for agriculture. ZimmPoll
Unplugged	45 percent of those surveyed said that they try to disconnect or unplug from technology at least once a week, and 60 percent wish their family members would do so more often. Harris Poll

WPI POLLING

Below are the results of two recent WPI polls. Visit www.worldperspectives.com to cast your vote in our current survey.



SORTING THROUGH THE HAZARDS

By Gary Blumenthal

Located in the Pacific's "Ring of Fire" and close to the equator, the Philippines is at once disaster prone (earthquakes, typhoons, volcanoes, drought, flooding) and immensely diverse in natural resources. Disasters combined with political instability made it historically susceptible to foreign intrusions (Spain, Japan, U.S.), which also has turned it into East meets West. Indeed, the two main languages in urban areas, Tagalog (Austronesian, Polynesian) and English, betray this unique melting pot.

Leadership Hurdles

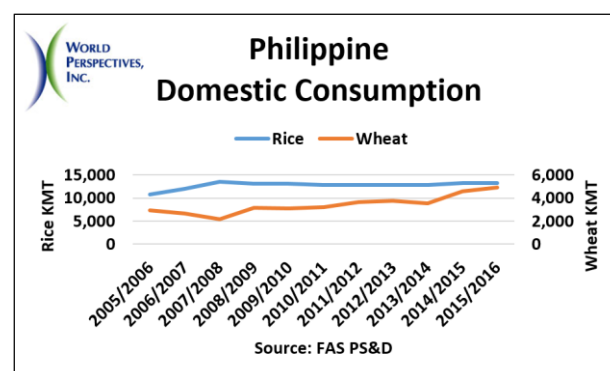
The country has become both more resilient and more stable through the years and is now, in its own right, a middle-income Asian tiger. Indeed, the Philippines continued to grow through the great global recession, just at a slower rate. Of course, the economy was aided by the fact that remittances, largely from nationals living and working abroad, account for 10 percent of national gross domestic product (GDP) and are a key driver of domestic consumption. Strikingly, remittances to the Philippines actually rose for part of the great recession.

The country has shown leadership amongst its peers, becoming the first in the region to adopt a biofuel mandate - 20 percent blend by 2020 – though it does necessitate imports of ethanol to meet the gradually increasing requirement. The Philippines was also the first in Southeast Asia to cultivate biotech crops. In fact, more than a quarter of its corn production is GM. However, the latter fact attracted the attention of opponents to the technology.

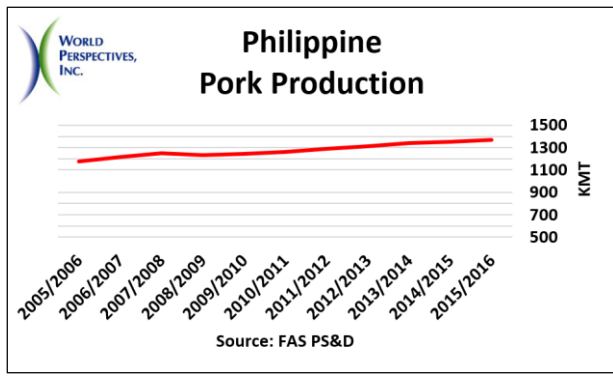
Despite having a rulemaking process largely recognized as science-based and conforming to international bodies such as the Cartagena Protocol on Biosafety and Codex Alimentarius, activists achieved a successful 2012 court challenge of the biotech regulatory process. The case forced the government to rewrite its regulatory process, lest both domestic production and imports of soymeal as well as other biotech feed ingredients be shut down.

Open and Maturing

The Philippines is a relatively open market, from a trade policy standpoint, with several free trade agreements in operation (ASEAN, Japan, China and Korea) and aspirations to join the Trans-Pacific Partnership agreement. It is already a large importer of grains, both for feed and food, with wheat slowly capturing market share from the traditional consumption of rice (see graph below).



And while pork production is mainly via small backyard operations, large farms with economies of scale are growing fast and increasing the nation's total output (see following graph).



Analysis by the International Monetary Fund (IMF) points to an ongoing need for structural policy reforms and investment in infrastructure. These efforts are hindered by resistance from the nation’s affluent elite and leaves too many Filipinos mired in poverty. Still, the advantage of having an English-speaking population has enabled the Philippines to grab part of the global telecom services business, and it is increasingly a retiree destination for East Asians and Filipino-Americans.

The Philippines views itself as a “regional staging area” for foreign food manufacturers looking to supply the Asian market, including through its Philippine Economic Zone Authority, which benefits imported inputs. Its Jollibee fast food chain is even expanding rapidly into the broader Asia Pacific with ambitions of taking on the large U.S. fast food market.

THE PHILIPPINES: HELPING TEAR DOWN THE BLENDWALL LIMIT FOR ETHANOL

By Dave Juday

The Senate Environment and Public Works Committee held an oversight hearing in late February on the Renewable Fuel Standard (RFS). Among the other obvious topics, there was considerable focus on how to overcome the blendwall. While most of the discussion centered on issues such as forcing higher blends of ethanol into the fuel supply, targeting higher compression engines or reclassifying some qualifying portion of corn ethanol as an advanced biofuel under the RFS, one witness touched upon the current strategy employed by the industry: exports.

Lucian Pugliaresi, president of the Energy Policy Research Foundation, described the RFS as effectively two programs: blendstock produced from corn ethanol, which is well integrated into the fuel supply, and everything else. According to Pugliaresi, beyond corn ethanol, “Many technologies in the biofuel industry are uneconomic either because they are too costly to produce or are technically constrained by blending volumes above 10 percent.” Furthermore, that 10 percent has already been fulfilled by corn ethanol given that nearly 95 percent of retail fuel sold is E10.

Pugliaresi continued, “Corn ethanol is a mature and competitive industry. In 2015 the U.S. ethanol industry was sufficiently competitive to export over 800 million gallons to international markets, and even in a regulatory environment free of mandates, it would still provide roughly the same volume of blendstock consumed by the petroleum industry as has prevailed in recent years. Ethanol producers would unlikely see any substantial reduction in sales volume below 10 percent of U.S. gasoline demand even in a full

repeal scenario” regarding the RFS. When questioned by Committee Chairman Jim Inhofe (R-Oklahoma), he said corn ethanol could be a “force” in international markets and cited the forecast from the Renewable Fuels Association that ethanol exports could hit 2 billion gallons by 2022.

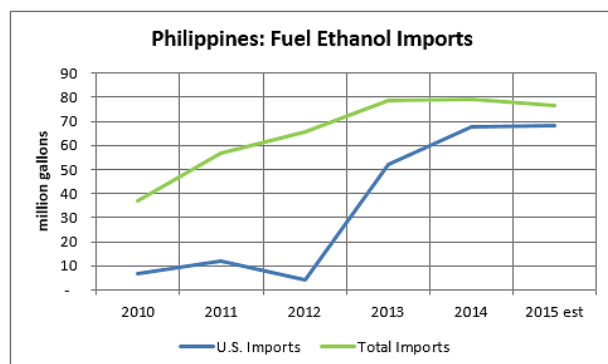
Indeed, ethanol exports have grown in recent years. While Canada is the top market, further potential there is limited. The Philippines is the second-largest and fastest-growing market for ethanol exports. Moreover, according to the U.S. Grains Council, which is the USDA co-operator group that promotes ethanol exports, the Philippines represents one of the few markets in the world that is truly short on ethanol.

The Philippines Biofuels Policy

In 2006, the Philippines was the first country in Southeast Asia to enact biofuels legislation. Blend rates have been gradually increased since 2007, ending with a 10 percent ethanol requirement in August 2011. However, meeting this target with domestically-produced ethanol has been a challenge due to the inadequate capacity of existing sugarcane distilleries, low productivity and high production costs. Moreover, the Philippines has commitments to liberalize trade under the ASEAN Economic Community. Those commitments put the costlier and less efficient domestically-produced biofuels under even greater competitive pressure.

The shortfall in biofuels was initially supplied by Thailand until that country expanded its own biofuel mandate to 20 percent and shorted the export market for the sake of domestic demand.

These factors helped drive the growth in imports from the U.S. According to the International Trade Administration, “Imported ethanol is expected to satisfy at least half of the domestic demand in the Philippines for the next several years while domestic production capacity catches up.”



Source: Energy Information Administration, Foreign Agriculture Service, WPI

Domestic Production and Demand

The Philippines is a major producer of coconut and sugar, the primary feedstocks for biodiesel and ethanol, respectively. The sector is plagued by high production costs, low productivity and a lack of ethanol mills. The Philippines had four ethanol plants in 2013 with three more opening since that year. Nameplate production capacity is 55 million gallons, but estimated capacity use last year was about 84 percent as sugar production is still recovering from Typhoon Haiyan in 2013. Additionally, the Philippines has one of the lowest sugarcane yields in Southeast Asia at about 33 MT/acre. While it maintains a general 10 percent tariff on ethanol and an additional 1 percent excise tax on any that goes into the national fuel program, this factor has not been a major obstacle for U.S. corn ethanol exports.

Demand for motor fuel in the Philippines has been growing with domestic economic expansion. Motor vehicle sales have increased steadily over the past few years, and according to the Philippine Land Transportation Office, vehicle registrations increased by more than 9

percent per year from 2011 to 2014, with the growth trend still strong last year and likely to continue through 2016. In rank order, motorcycles led the increase in registrations followed by utility vehicles and then cars.

There is a distinct consumer and political preference for domestic biofuels. Nonetheless, the Philippine government has pursued an aggressive biofuel mandate and also has strategically laid out a future agenda to that effect. The current 10 percent blend rate is scheduled to rise to 20 percent by 2020, two years before the RFS in the U.S. reaches its maximum volume levels.

Philippine Motor Fuel and Ethanol Use Projections			
	Motor Fuel Use (million gallon)	Ethanol Blend (Pct)	Implied Ethanol (million gallon)
2014	1,007.82	10%	101
2015	1,002.53	10%	100
2016	995.93	10%	100
2017	1,004.12	10%	100
2018	1,030.53	10%	103
2019	1,058.54	10%	106
2020	1,136.47	20%	227

Source: Philippine Department of Energy, WPI

The Philippine Department of Energy projects total motor fuel usage in 2020 will be 1.180 billion gallons. It is also forecasting 15 additional new ethanol plants – more than twice the current total - all at a nameplate capacity of 30 million liters (8 million gallons) by that year, which is likely an aspirational projection. Even if accurate, however, this would still leave a net deficit of about 52 million gallons of ethanol in 2020 or about three-quarters the total currently being imported from the U.S. According to the U.S. International Trade Administration, “If the Government of the Philippines follows through on its plan to increase the blend rate, it will have to accept the reality of imports – and the U.S. ethanol producers should position themselves to provide a steady, affordable supply.”

THE PHILIPPINES: A KEY MARKET FOR U.S. SOYMEAL

By John Baize

The U.S. soybean processing sector has faced many challenges in recent years. It saw U.S. soymeal consumption drop 15.6 percent from 31.17 MMT in 2006/07 to only 26.31 MMT in 2012/13. This was primarily a result of increased competition in the feed market from rapeseed meal and DDGS produced by the ethanol industry. The decline initially caused the closure of a few soybean processing plants. However, it also motivated that sector to be more aggressive in seeking foreign markets for U.S. soymeal.

One country where the U.S. has long had enormous success in supplying soymeal is the Philippines. Its share of that market is over 50 percent with exports growing 64.3 percent between 2011/12 and 2014/15. In no country other than neighboring ones in the Western Hemisphere is the U.S. share of soymeal imports as high as it is in the Philippines. The only other foreign market for U.S. soymeal that was larger in 2014/15 was Mexico.

U.S. Soymeal Exports to the Philippines 2011/12-2014/15 (MT)				
2010/11	2011/12	2012/13	2013/14	2014/15
863,032	1,159,490	1,085,221	1,258,254	1,418,138

Source: U.S. Census Bureau

There are many reasons why the U.S. market for soymeal in the Philippines is so large. First, the two countries have had a long relationship dating back to the U.S. takeover of the island nation at the end of the Spanish-American War in 1898. From that point until it was granted independence in 1946, the Philippines was a U.S. colony even though that country did not originally colonize it. Because of this connection, which continued long after independence with a large U.S. military

presence there, the Philippine population saw the U.S. almost as the place where they would most like to relocate or visit. As a result, there is almost an inherent tendency for the Philippines to favor the U.S. as a supplier.

Secondly, the U.S. soy industry has worked hard to develop the soymeal market in this nation. Beginning in the 1980s, the Philippine government sought to source stocks from the U.S. under the P.L. 480 Food for Peace program. The U.S. soybean industry was initially reluctant to endorse the request because the Philippines already was a small market for its low protein soymeal. However, agreement was reached to allow the importation of high protein, dehulled soymeal since the U.S. was more competitive in supplying that product. The Philippine feed industry was then amazed at how much more productive animals were using the U.S. soymeal and almost immediately shifted to sourcing more of it.

The U.S. soy industry has also long had an aggressive marketing program in the Philippines. The American Soybean Association and the U.S. Soybean Export Council have maintained an office in Manila since the 1980s, and their staff and consultants have worked closely with the Philippine feed and animal production sector to help improve their productivity and profitability through improved animal nutrition, disease prevention and control, risk management, and purchasing. Today the key animal production companies in the Philippines are some of the world's most sophisticated, partially because of the assistance they have been provided by the U.S. soy sector. Because Philippine animal feeders have seen the superior nutritional value of U.S. soymeal, they typically will pay a premium for it versus other origins.

U.S. soybean crushers have aggressively courted Philippine importers as well. Ag Processing, Inc., the Omaha-based agricultural cooperative, built its ship loading facility in Grays Harbor, Washington to supply soymeal to Asia with a special focus on the Philippine market. This has paid off handsomely as it is now the largest supplier of U.S. soymeal to that country. Bunge, Perdue, and Cargill also are significant suppliers to that market.

The soymeal importers in the Philippines have made it easier to source U.S. soymeal by forming purchasing groups. This allows some of the smaller companies to band together in order to import large shiploads of soymeal. A few large companies are able to purchase their own sizeable cargoes, but most buy through the purchasing groups, which are very loyal to the U.S.

There is every reason to believe the Philippine soymeal market will continue to grow in the future as the country's population is increasing and its economy is expanding. Most believe the

Philippines will opt to join the Trans-Pacific Partnership (TPP) if it is ratified by the signatory countries. The main impediment to its joining is its laws banning foreigners from owning land. If that law is changed and the Philippines joins the TPP, it will likely see a boost to its economy. Higher incomes will raise the country's per capita consumption of poultry meat and pork, and that should translate into greater domestic demand for animal feeds to produce that meat.

If the U.S. wants to continue to maintain its large share of Philippine imports, it will need to continue servicing the market as it has in the past as competition, particularly from Argentina, is intense. U.S. exporters need to maintain close contact with Philippine importers and ensure they supply the market with high quality meal. The industry also needs to continue its efforts to help the Philippine feed industry become ever more efficient. Otherwise, the U.S. advantage will be lost.

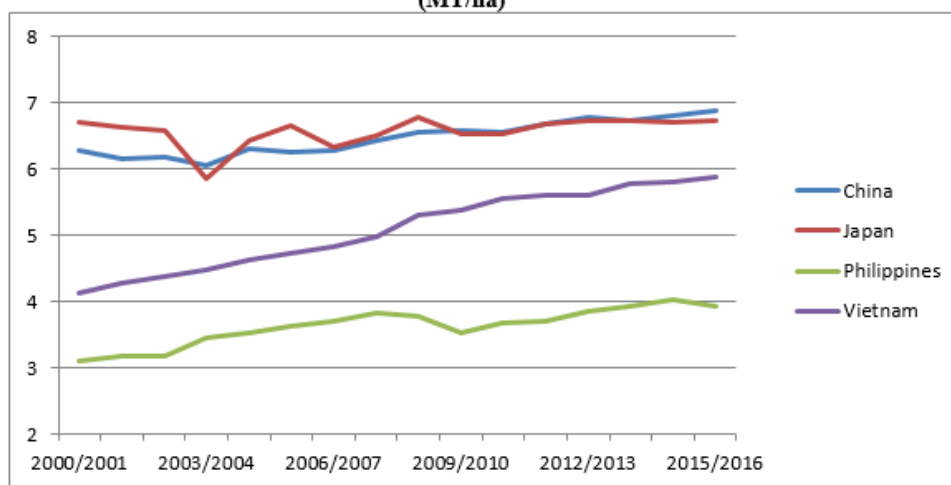
FERTILIZER USE IN THE PHILIPPINES

By Joost Hazelhoff

A few months from now, the Philippines will elect a new president on 19 May as current President Benigno Aquino is term-limited. While election races there are often described as colorful, they sooner or later shift from personality to substance. Part of all presidential candidates' campaigns will be their economic program. Since Aquino took office in 2010, the economy has performed relatively well, growing 6.3 percent year-on-year in the last quarter. Consequently, a major shift away from the current economic reform agenda by new candidates seems unlikely.

However, that doesn't mean there are no areas where improvement is sought. In the Philippines, agriculture contributes only 10 percent to gross domestic product (GDP) while employing about 30 percent of the workforce. Improving productivity is seen by many as a key to poverty alleviation in rural areas. As the following graph shows, rice yields (for example) are significantly below those in other Asian countries. Although not the only reason, a big part of the yield problem is underutilization of fertilizers.

Rice Yields in Select Asian Countries
(MT/ha)

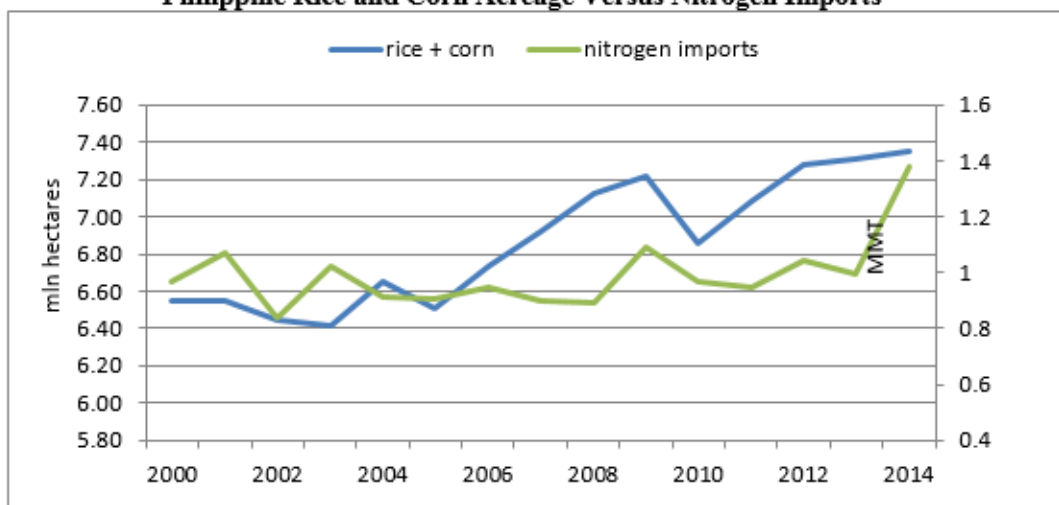


Source: USDA, WPI

In the Philippines, about 60 percent of nitrogenous fertilizers are utilized by rice (40 percent) and corn (20 percent). Fruits like pineapples, bananas and mangoes account for another 20 percent, while other crops such as coconut and sugarcane make up for the balance. In phosphates, rice by itself takes up 30 percent with corn at 12 percent and the balance going to fruits and other crops.

Although total acreage planted for rice and corn increased sharply over the past 10 years, nitrogen imports to meet that development didn't quite catch up to corresponding levels until 2014. There is some fertilizer manufacturing capacity in the Philippines, especially in phosphates, but all of it is based on imported raw material, including phosphate rock, sulfuric acid and anhydrous ammonia.

Philippine Rice and Corn Acreage Versus Nitrogen Imports

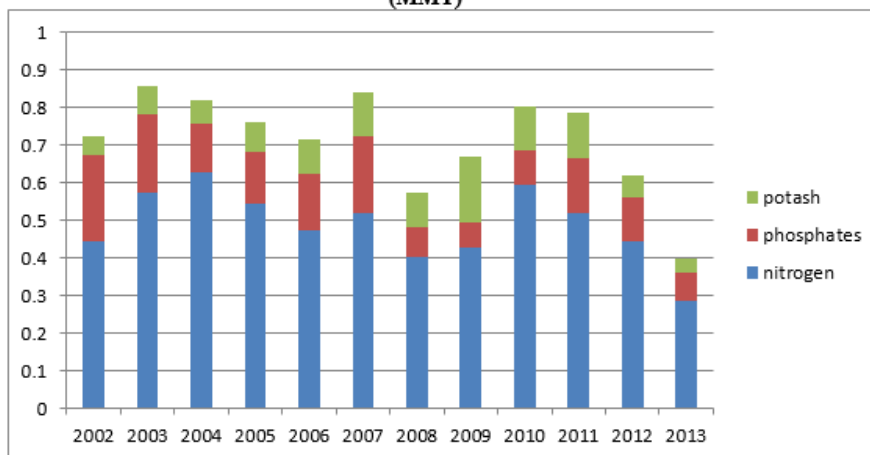


Source: Comtrade, FAO, WPI

The reason for slow nitrogen imports may be that the domestic and international prices during those 10 years have increased to the extent that it drove lower application rates by farmers and a general underutilization of fertilizers. Data on overall fertilizer consumption in the Philippines suggests

price-driven utilization rates as well. Similar to nitrogen imports, overall fertilizer consumption dropped significantly in 2008, 2009 and again in 2013 when domestic and international fertilizers were especially expensive.

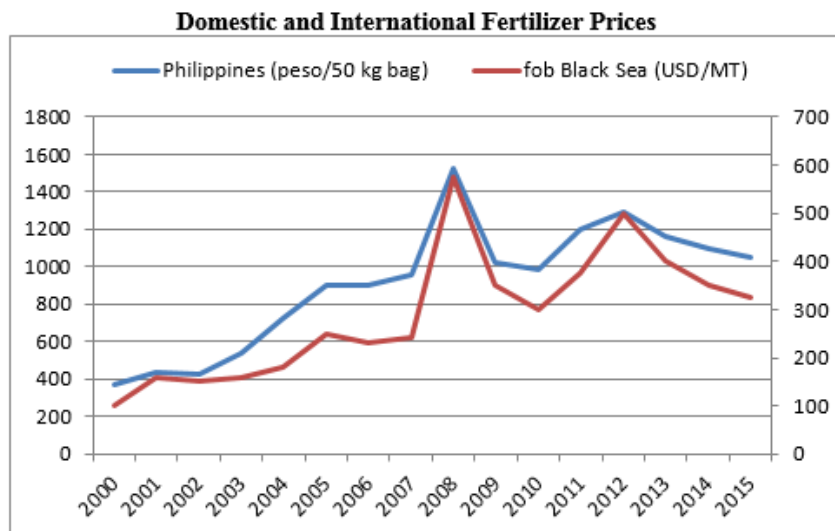
Overall Fertilizer Consumption in the Philippines by Nutrient (MMT)



Source: FAO, WPI

For some time now, fertilizer policy in the Philippines has been relatively unregulated. That is, imports of fertilizer are met with few if any tariffs. Over time, the government abandoned most price policies and subsidies, and domestic fertilizer prices have been mostly tracking international benchmarks as a result. That is probably a sensible approach given the various

examples (e.g., India) of costly subsidy regimes, including artificially low prices for urea. Apart from the disproportionate strain it puts on national budgets, it also invariably leads to distorted (i.e., over application) use of nitrogen. It does mean, however, that fertilizer use gets reduced in high-price environments.



Source: Countrystat Philippines, Industry reports, WPI

While acreage planted to both corn and rice remained relatively stable compared to 2013, international fertilizer prices have dropped considerably. Urea prices, for instance, have come down 40-50 percent in the past three years.

Some of that price decrease has been offset by a weakening peso, which has depreciated by roughly 20 percent in the same period. Although conclusive data for 2014 and 2015 on aggregate fertilizer consumption in the Philippines is not available yet, we suspect that utilization has recovered during those years, and that trend will likely stabilize for 2016.

COMMODITY MARKET REVIEW

By Robert W. Kohlmeyer

There are a number of commodity price indexes established by various banks, brokerages and market data firms. The commodities are usually assigned different weights within each, depending vaguely on their relative economic importance as determined by the creators of that particular index. These indexes gained prominence as commodities that were historically considered vehicles for gambling came to be seen as investments worthy of inclusion in an investor's portfolio during the first years of the 21st century. Derivative contracts and exchange-traded funds (ETFs) were created based on specific commodity price indexes that allowed traders to bet on the general direction that those prices might take in the future. Some professionally-managed funds of pooled money solicited from investors were set up to follow the prices of a basket of commodities in a specific index by buying the volume of futures contracts for each of its commodities in precise proportion to the weight within the index. These funds soon came to be known as index funds, and they hold only long positions in commodity futures. Since 2005, index funds have passively held a significant percentage of the long side of open interest in many major commodity futures markets, which caused some to unfairly and inaccurately blame index funds for the huge run-up of commodity prices in 2007 and 2008 along with the subsequent rise of consumer food prices.

The first commodity price index to be widely followed was the CRB Commodity Index, put together by the Commodity Research Bureau (CRB) in 1957. It tracked prices for a basket of commodities by using futures markets prices with each commodity weighted equally within the index. The CRB is no more, but the commodity price index it created lives on in the hands of Thompson Reuters, which acquired its rights. The CRB Index has been overshadowed by newer

indexes with a greater following, but Thompson Reuters has used its long history to create a unique index product called the Continuous Commodity Index (CCI), which tracks 17 equally weighted commodities back to 1957. Among them are grains, soybeans, live cattle and hogs as well as soft commodities such as coffee and sugar, precious metals, copper, crude oil, heating oil and natural gas. By category, soft commodities comprise 29.41 percent of the index with other agricultural crops and livestock also at 29.41 percent, metals at 23.53 percent and energy at 17.65 percent. Most other commodity indexes are made up to give greater weight to energy products and less to agricultural commodities.

A look at a weekly chart of the CCI for the past 12 months clearly shows how difficult a period it has been for commodities and commodity markets. The CCI is down nearly 20 percent during this period, and that is after it bounced slightly higher in recent days, mainly due to the 14 percent rally in crude oil and other energy prices in the last two weeks of February. Grains, soybeans, livestock and some soft commodities have also climbed slightly from recent lows, and this also supported the CCI during that period. Nevertheless, the fundamental outlook for many commodities is one of large supplies outstripping demand that is flat at best. Crude oil is the most widely-publicized example of this with its daily production approximately 2 million barrels higher than daily demand. The world glut of those supplies continues to grow, but OPEC and other oil producers have so far been unwilling to reduce their production to bring supply/demand into better balance. This drove spot U.S. crude oil futures down to near \$26.00 per barrel, which has severely pressured the economies of countries such as Russia and Venezuela that depend so heavily on oil revenues to keep their economies afloat. However, market chatter about continued negotiations among oil-producing countries

inside and outside of OPEC sponsored a late February price rally that pushed U.S. crude oil futures up about \$5.00 per barrel from the mid-month low.

Underlying much of the overall global weakness of commodity prices in the last year have been the generally weak economies of most developed and developing countries. China, the world's largest consumer of raw commodities, is the most prominent example. Years of impressive Chinese economic growth and the seemingly ever-expanding demand for raw commodities that it spurred were major factors behind the long-term bull market for commodities that began around 2005/06 and continued until the last half of 2013. However, the rate of China's economic growth has slowed by nearly 50 percent during the last two years, and this has limited or reduced domestic demand for many commodities, especially in the energy sector and for industrial use. This and widespread weak economic performance elsewhere resulted in what many believe will be a long-term bear market.

Agricultural Commodities

Although agricultural crops such as wheat, corn and soybeans are included in the general category of commodities as well as every commodity price index, their prices often move quite independently from those for copper, gold and crude oil. One distinction is that world supplies of wheat, corn and soybeans are replenished by new crop harvests in the Northern and Southern Hemispheres about every six months. Abundant crops affect the direction of their prices worldwide as do production problems that lower the amounts harvested. This means that weather conditions during each hemisphere's growing period are a large factor. In contrast, weather has very limited effect on prices of commodities that are mined from or pumped out of the ground, although it might affect demand in some circumstances.

February is a key month for Southern Hemisphere crop production. Wheat harvests are usually completed, but the soybean harvest in South America has just gotten well underway. The U.S. remains the largest producer of soybeans, but Brazilian production is closing in with a record crop of more than 100 MMT expected. The U.S. harvested about 107 MMT last fall. However, when production in Argentina, Paraguay and Uruguay are added, the total 2015/16 South American soybean crop will be nearly 65 percent larger than U.S. production.

The first new crop soybean vessels are just now starting to load at Brazilian ports, but there are enough anchored in the lineup that the estimated wait time has grown to 45-50 days. Ocean freight rates are currently so low that the cost for a Panamax bulk carrier is barely more than \$2,000 per day. Many owners decided to send their vessels to Brazilian ports well in advance of their charter lay days because it is cheaper to park them there than somewhere else. New crop Brazilian soybeans are priced well below U.S. offers, and the shift of world demand to those stocks is well underway. With improved port facilities, it is likely that Brazil will export record volumes of soybeans in March and April.

The U.S. Outlook for 2016/17

While the harvesting of South American crops actively hums along, February is usually a rather dead timeframe for U.S. grain and soy markets. Crops were harvested a few months ago, and U.S. supplies of grains and oilseeds are well counted. Demand trends for the current crop cycle are largely set by now, and, unfortunately, they point to less-than-desired demand for U.S. grains and soybeans from either domestic users or export buyers. This is because large crops from other origins in the Black Sea region, the EU and South America are offered at much lower prices, diminishing the U.S. market share. Moreover, the planting of new spring crops is still several weeks away. Without good export volumes to stimulate interest, U.S. grain and soy futures markets have been starved for fresh news and inputs that might trigger some market excitement.

The dearth of fresh market-moving inputs means that market participants look forward to USDA's annual Agriculture Outlook Forum that occurs late in February. It always attracts several hundred attendees from a wide variety of organizations, public and private, with some interest in agriculture.

This year's event had panels and presentations covering more than 30 topics, ranging from the current economics facing all kinds of crop and livestock production to ongoing consumer trends. Traditionally, USDA releases its analytical projections of the amount of land U.S. farmers will plant to each of the eight major field crops for the next year's crop cycle, which in this instance would be 2016/17. Winter wheat was of course seeded last fall, but corn, soybeans, spring wheat, minor feed grains, rice and cotton will be planted in the coming spring. USDA then projects what U.S. production of each might be under normal weather conditions and how the supply/demand balances for each crop might turn out.

It is important to note that these are projections from USDA analysts based on a number of assumptions or other forecasts. They do not carry nearly the same weight or credibility as USDA's survey-based estimates of planted acreages and crop production. The results from the first survey of farmers' planting intentions will be released 31 March followed by a final estimate in late June. The first production estimates based on actual surveys are issued in August. Because these Outlook Forum projections come out in late February when markets are often starved for something on which to trade, they probably command more attention than perhaps they deserve. Nevertheless, these are what grain and soybean traders are looking at until there is something more substantive, so they should not be ignored or dismissed.

USDA's 2016 Outlook Forum Acreage Projections (million acres)			
	2015/16	2016/17	Change (Pct)
Corn	88	90	+2.3%
Soybeans	82.7	82.5	-0.2%
Wheat	54.6	51	-6.7%
Cotton	8.6	9.4	+9.6%
Minor Feed Grains	15.1	13.4	-9.1%
Rice	2.6	2.8	+7.1%
Total	251.6	249.1	-1.0%

Source: USDA, WPI

USDA projects that 2016/17 corn plantings will be 2 million acres or 2.3 percent more than in 2015/16, while soybean acreage will marginally decline by 200,000 acres or 0.2 percent. These estimates seem to acknowledge that the current new crop soybean/corn price ratio favors corn. This and a desire to return to a more normal crop rotation will outweigh the lower input costs for planting soybeans. Farmers with cotton and/or rice as viable alternatives will favor expanding their acreage rather than planting additional soybeans.

If U.S. farmers were to plant as much corn and soybeans as USDA projects and weather conditions are reasonably good, large crops would result. USDA acknowledges this with a projected 2016 corn crop of 13.8 billion bushels based on a national average yield of 168 bushels/acre, 0.4 bushels less than in 2015. Under this scenario and after increasing projected total corn demand for 2016/17 by about 1.8 billion bushels over estimated demand for 2015/16, USDA still projects that ending 2016/17 corn stocks will grow 140 million bushels to just under 2 billion bushels.

USDA's supply/demand projections for soybeans in 2016/17 foresee production falling 120 million bushels below the 2015/16 level based on a projected yield of 46.7 bushels/acre compared with 48 bushels/acre last year. Ever optimistic, USDA projects that total demand for U.S. soybeans in the coming crop year will grow by about 150 million bushels. However, because

there will be very large supplies carried in to begin the 2016/17 soybean year, it estimates stocks at the end of the year will fall only 10 million bushels to a still historically large 440 million bushels.

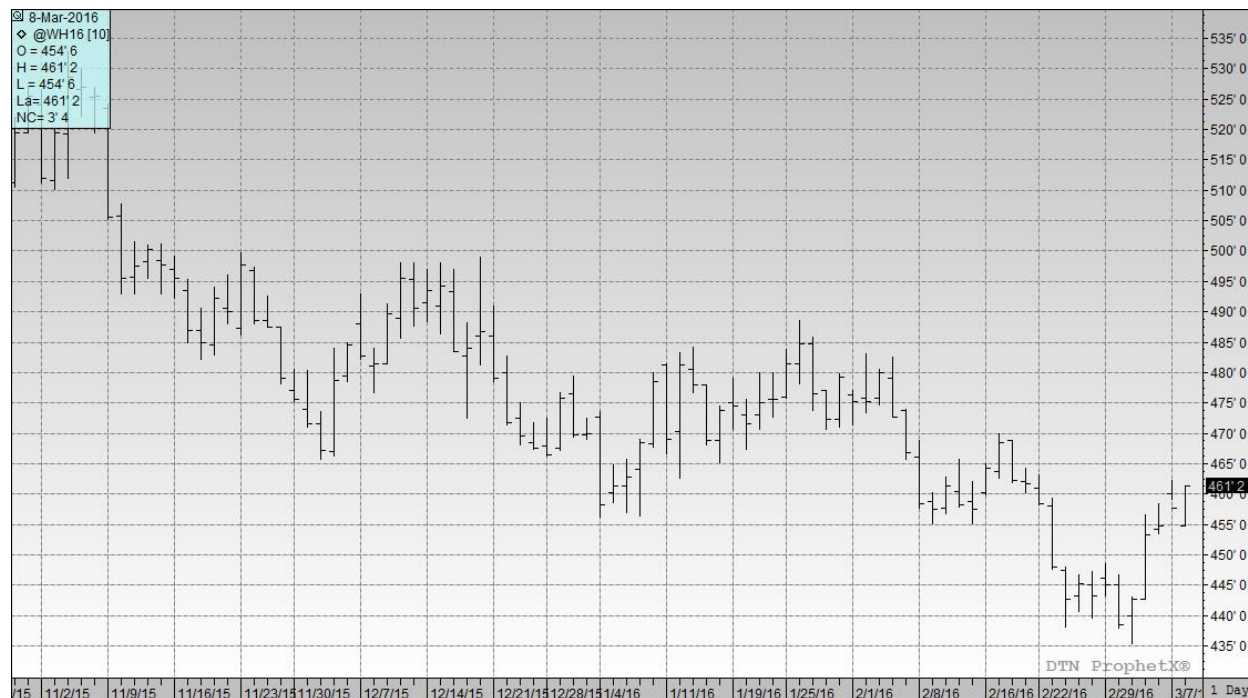
USDA projects that the total land area planted with wheat for 2016/17 will be just 51.0 million acres, down 3.4 million from this year and the smallest U.S. wheat acreage since 1970. Even assuming a better yield (up 2.3 bushels/acre from 2015/16), total U.S. wheat production for 2016/17 is projected at about 1.99 billion bushels, down more than 60 million bushels from the current year. However, total demand for U.S. wheat is not seen as being strong enough to avoid a further increase in ending wheat stocks to just under 1 billion bushels.

Some private analysts have described USDA's assumptions about crop yields and production for 2016/17 as being too optimistic, and perhaps this will prove to be the case. However, given the expectation that world production will again be quite large, we also consider that its assumed levels of demand for corn, wheat and soybeans

are no less optimistic. The strong U.S. dollar means that farmers in Russia, Ukraine, the EU, Brazil and Argentina will again be looking at very attractive prices in their local currencies. This will encourage them to maintain or expand current production levels. The U.S. will likely face competition for export markets in 2016/17 that will be as intense or even more so than in the previous year.

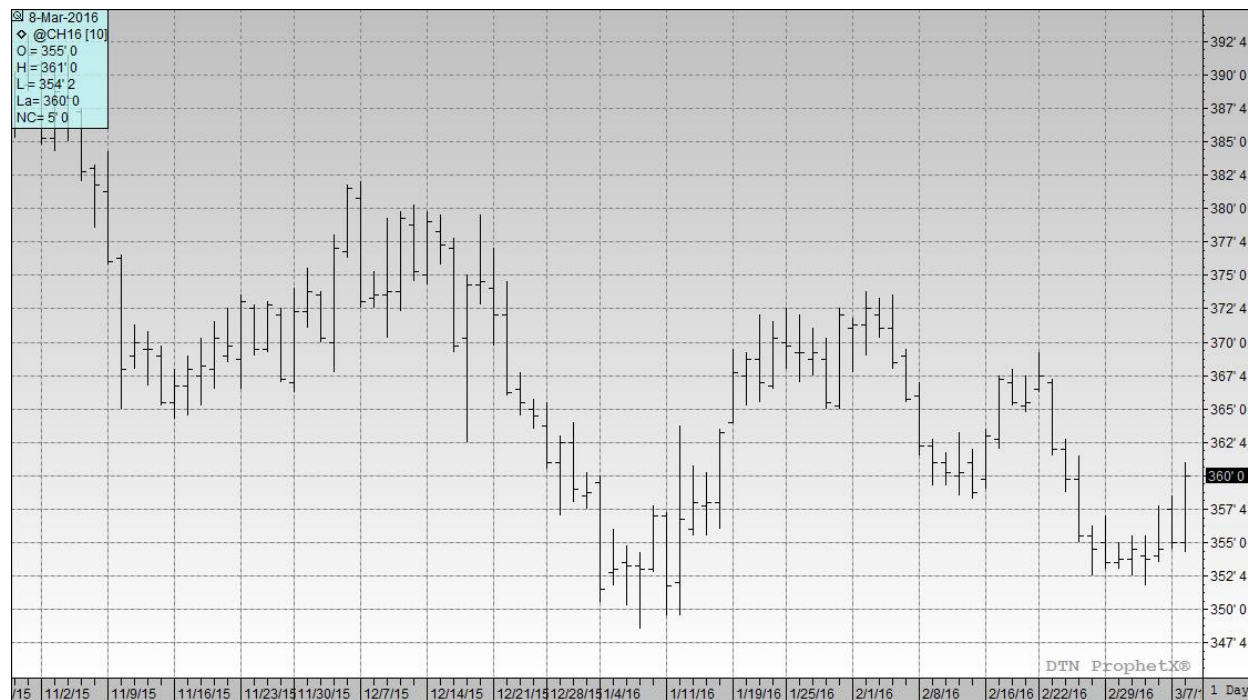
As always, USDA's projections about planted areas, crop yields, production, and supplies and demand, which are made before the first seed has been planted, should be taken for what they are – educated guesses. However, there is one conclusion that can be drawn. Unless there is a weather-related problem that substantially reduces crop production in some key area(s) of the world, chances are strong that 2016/17 will be another year of grain and oilseed stock building in the U.S. as well as globally.

March Chicago Wheat Futures Prices



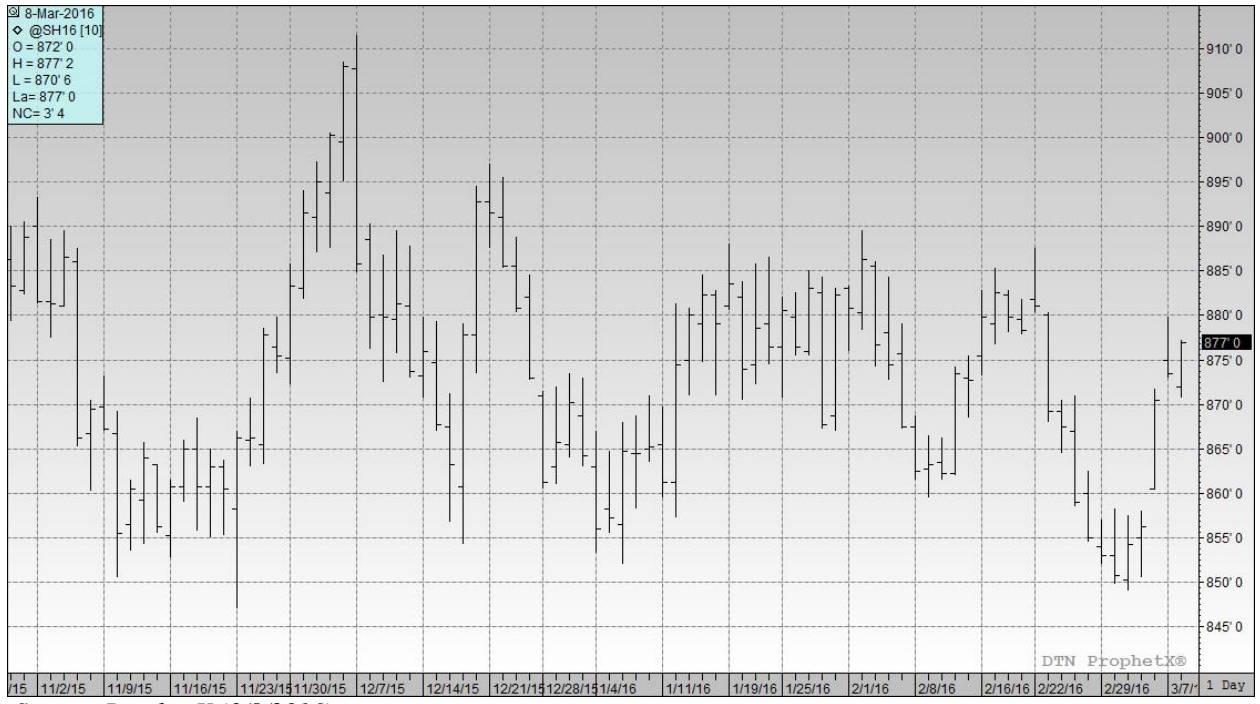
Source: Prophet X (3/8/2016)

March Corn Futures Prices



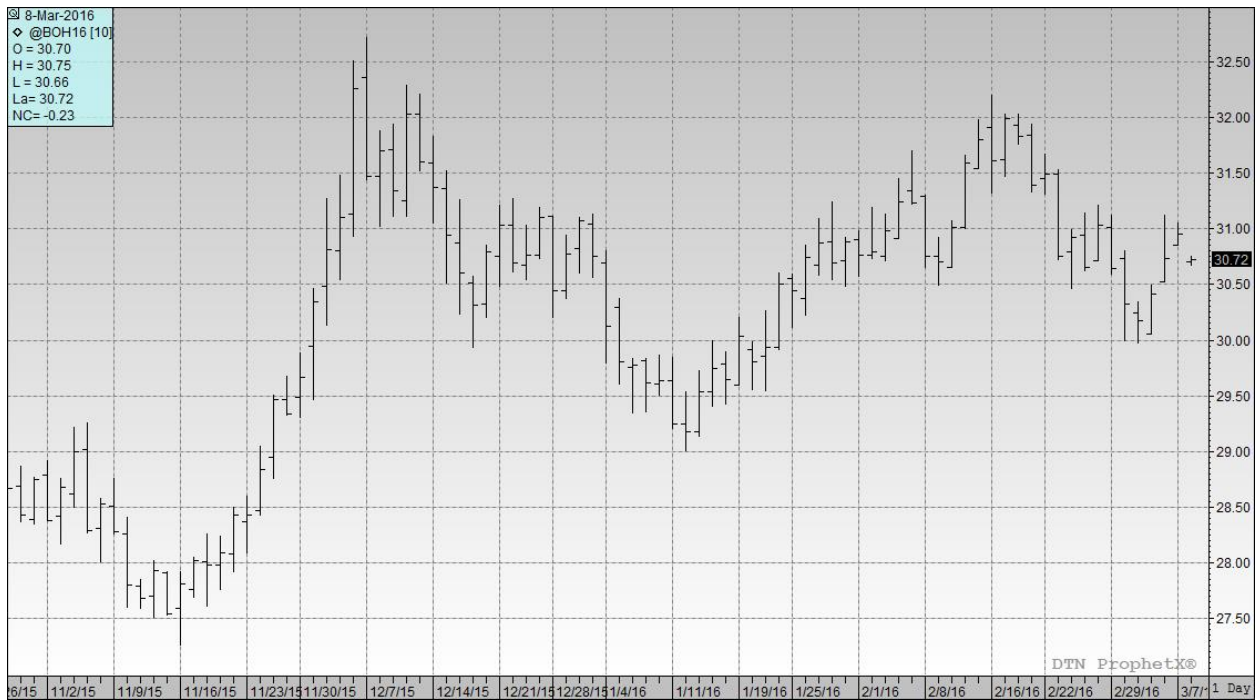
Source: Prophet X (3/8/2016)

March Soybean Futures Prices



Source: Prophet X (3/8/2016)

March Soyoil Futures Prices



Source: Prophet X (3/8/2016)

April Crude Oil Futures Prices



Source: Prophet X (3/8/2016)