



January WASDE – Flat Report Dampens Bullish Expectations

Rabobank's assessment of the USDA's January 2012 WASDE:

- **Corn – Bearish**
- **Soybeans – Neutral/Bearish**
- **Wheat – Bearish**
- **Cotton – Neutral/Bearish**

The USDA January WASDE was bearish for the grains and oilseed complex with pre-report expectations of tightening in the corn balance sheet not borne out. Market expectations of a cut to the US corn balance sheet on lower yields went unrealised as the USDA raised yields. Soybean and corn readings in the quarterly grain stocks report were also above market expectations.

Cuts to soybean and corn production in South America were predictably conservative, with a 5.5 million tonne reduction for 2011/12 and no reduction in Brazilian corn. Rabobank expects significant further reductions in production in the region with likely drought impacts double those currently realised by the USDA. Following this report we see prices coming under pressure from current levels and further deterioration in coming days. Rabobank expects the market to stabilise somewhat following this selloff with higher than average prices still needed to encourage US plantings in the spring and with consumer demand supported by lower input costs.

USDA 2012 January WASDE Summary

| U.S. Figures | USDA | USDA | USDA | Trade Estimates | | | Global Figures | USDA | USDA | USDA |
|---------------------------------|---------------|---------------|--------|-----------------|--------|--------|-----------------------------------|--------------|--------------|--------------|
| | Jan | Dec | 10/11 | Avg | Low | High | | Jan | Dec | 10/11 |
| 11/12 Production (Mn bu) | | | | | | | 11/12 Production (Mn t) | | | |
| Corn | 12,358 | 12,310 | 12,447 | 12,262 | 12,100 | 12,375 | Corn | 868.1 | 867.5 | 824.0 |
| Yield (bu/acre) | 147.2 | 146.7 | 152.8 | 146.2 | 144.2 | 147.5 | Soybeans | 257.0 | 259.2 | 264.1 |
| Soybeans | 3,056 | 3,046 | 3,329 | 3,043 | 3,000 | 3,079 | Brazil | 74.0 | 75.0 | 74.5 |
| Yield (bu/acre) | 41.50 | 41.30 | 43.50 | | | | Argentina | 50.5 | 52.0 | 49.5 |
| All Wheat | 1,999 | 1,999 | 2,208 | | | | Wheat | 691.5 | 689.0 | 648.2 |
| Cotton (Mn bls) | 15.67 | 15.83 | 18.10 | 15.76 | 15.36 | 16.50 | Cotton | 122.8 | 123.4 | 114.6 |
| 11/12 Stocks (Mn bu) | | | | | | | 11/12 Ending Stocks (Mn t) | | | |
| Corn | 846 | 848 | 1,128 | 756 | 582 | 1,020 | Corn | 128.1 | 127.2 | 128.3 |
| Soybeans | 275 | 230 | 215 | 232 | 176 | 285 | Soybeans | 63.43 | 64.54 | 68.43 |
| Wheat | 870 | 878 | 862 | 841 | 753 | 885 | Wheat | 210.0 | 208.5 | 199.8 |
| Cotton (Mn bls) | 3.70 | 3.50 | 2.60 | 3.58 | 2.90 | 3.90 | Cotton | 58.4 | 57.7 | 45.5 |

Source: USDA, Bloomberg, Rabobank

Luke Chandler
Global Head

+44 20 7664 9676
Luke.Chandler@rabobank.com

Keith Flury
Senior Commodity Analyst

+44 20 7664 9676
Keith.Flury@rabobank.com

Erin FitzPatrick
Commodity Analyst

+44 20 7664 9540
Erin.FitzPatrick@rabobank.com

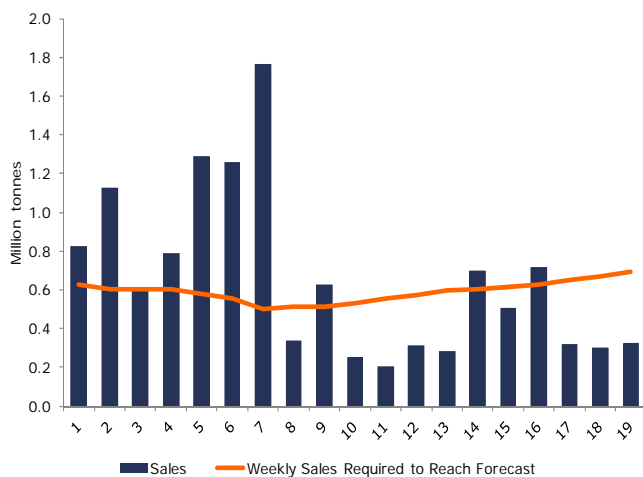
Nick Higgins
Commodity Analyst

+44 20 7664 9543
Nick.Higgins@rabobank.com

The January WASDE was bearish for corn with US corn ending stocks relatively unchanged at 848 million bushels, bearish compared to trade estimates of an 87 million bushel cut to 756 million bushels. Trade expectations of a yield cut to 146.2 bushels per acre for the 2011/12 marketing year were disappointed as the USDA raised yields from 146.7 bushels per acre to 147.2 bushels per acre. Exports were raised by 50 million bushels, offsetting the rise in yields. Looking ahead, low SRW acreage in many states supports forecasts of record acreage in 2012/13 as farmers forgo SRW or double cropping with soybeans in favour of corn in the 2012/13 season. Rabobank forecasts 93.5 million acres of corn to be planted in 2012/13, a 1.6 million acre increase on 2011/12.

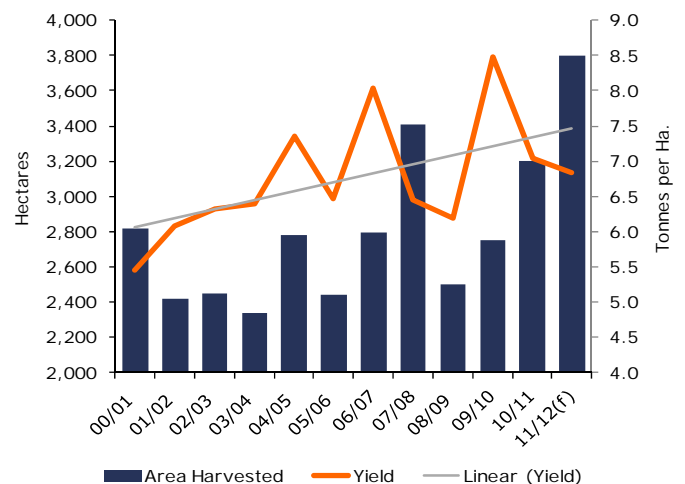
The global corn picture was also bearish. World ending stocks for 2011/12 were revised upward from 127.2 million tonnes to 128.1 million tonnes. The USDA cut Argentinean corn production for 2011/12 by 3 million tonnes to 26 million tonnes, recognising the damaging effects of the recent drought. This is higher than Rabobank's final crop expectations of 24 million tonnes and we expect the generally conservative USDA forecast to be further reduced once more data becomes available. As a consequence of the production cut, exports from Argentina were cut 1.5 million tonnes to 18.5 million tonnes. The USDA left Brazilian corn production unchanged at 61 million tonnes. Cuts to soybean production in Brazil and soybean and corn production in Argentina indicate that the USDA recognises the damage to Central Argentinean and Southern Brazilian row crops but thinks it possible for second crop corn to compensate for Brazil's earlier losses. The 2011/12 Ukrainian corn crop was raised 1.5 million tonnes to 22.5 million tonnes, although this increase is expected to be kept in inventory with exports unchanged at 12 million tonnes. The USDA increased Chinese corn imports to 4 million tonnes from 3 million tonnes, which is in line with Rabobank expectations.

US corn export forecast for 2011/12 marketing year was increased despite recent export sales figures below the required pace



Source: USDA, Rabobank

Argentinean corn yields were reduced again, on track for a second sub-trend year



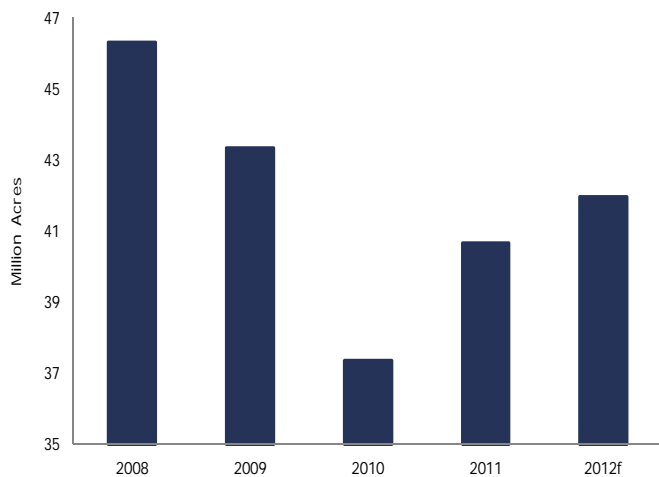
Source: USDA, Rabobank

The January WASDE was bearish for wheat, with the USDA tweaking the US balance sheet and increasing global supply forecasts. US wheat exports were increased 25 million bushels to 950 million bushels for the 2011/12 marketing year, while total US domestic usage was decreased 16 million bushels. This left projected ending stocks 8 million bushels lower at 870 million bushels.

Seeding of US winter wheat was up 3% on the same period in 2011; the USDA is reporting planted wheat acreage at 41.947 million acres. This is the second straight rise following the 2010/11 season's record low of 37.335 million acres. HRW sowing increased 6% to 30.1 million acres. SRW plantings were down 2% to 8.37 million acres as farmers look to capitalise on improved corn genetics and pricing. Of particular note was the drop in Ohio wheat plantings to 580 thousand acres from 880 thousand acres as the soil in parts of the state remained too wet for successful sowing.

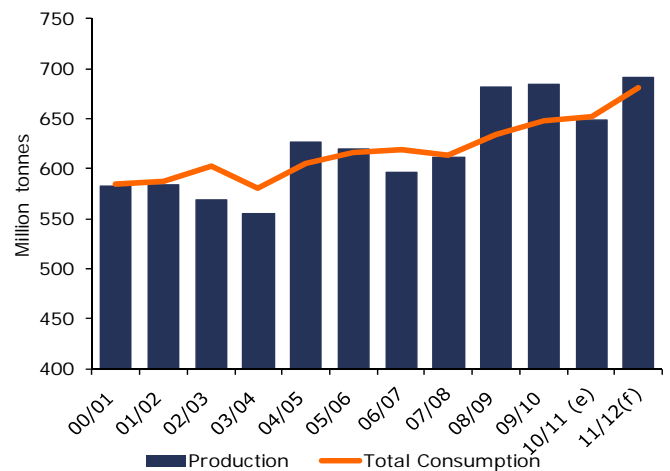
The global wheat balance sheet surplus estimates were increased again as the USDA increased its forecasts for 2011/12 ending stocks 1.5 million tonnes to 210 million tonnes. Improvements in spring wheat in the FSU supported the increase in production as estimates of Kazakhstan's production were increased 1.5 million tonnes to 22.5 million tonnes. Australian wheat exports were decreased 0.5 million tonnes to 21 million tonnes with 2011/12 ending stocks now estimated at 9.1 million tonnes, which would be the second highest on record—just below the 9.4 million tonne carryout of 2005/06.

US Winter wheat acreage rose 3% as drought conditions in the Southern Plains stymied farmers less than expected



Source: USDA, Rabobank

The 11/12 wheat crop is now forecast at 691.5 million tonnes, the largest in history, and returning to surplus.

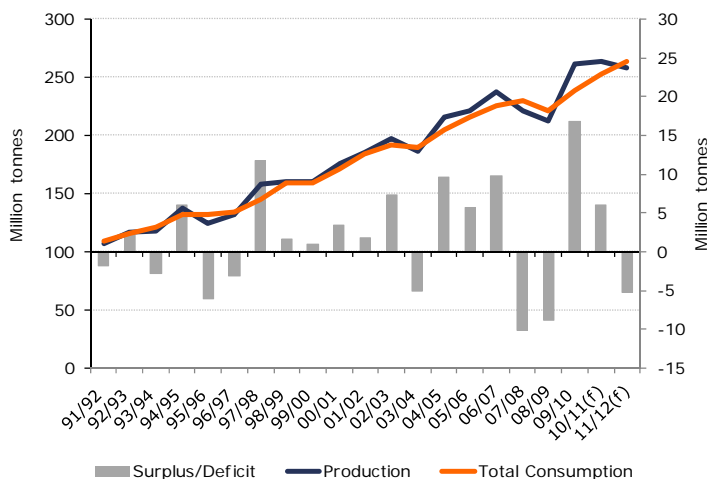


Source: USDA, Rabobank

Despite a relatively neutral January WASDE report for soybeans, prices are likely to decline as sentiment spills over from the bearish report delivered to the corn market. The USDA raised their 2011/12 forecast for ending stocks in the US but lowered it globally. Crush margins have been under pressure in the US, which unsurprisingly resulted in a 20 million bushel reduction in their forecast for crush to 1,615 million bushels. The USDA also lowered their expectations for soybean exports from the US by 25 million bushels to 1,275 million bushels. As the pace of exports MYTD is on track to reach only 1,226 million bushels, subsequent downward revisions are likely in coming months. The net result in the USDA's revision was an increase in the US soybean stocks-to-use ratio from 7.6% to 9.1%. Based on our expectations for lower US exports, we believe the stocks-to-use ratio of will likely rise above 10% in 2011/12.

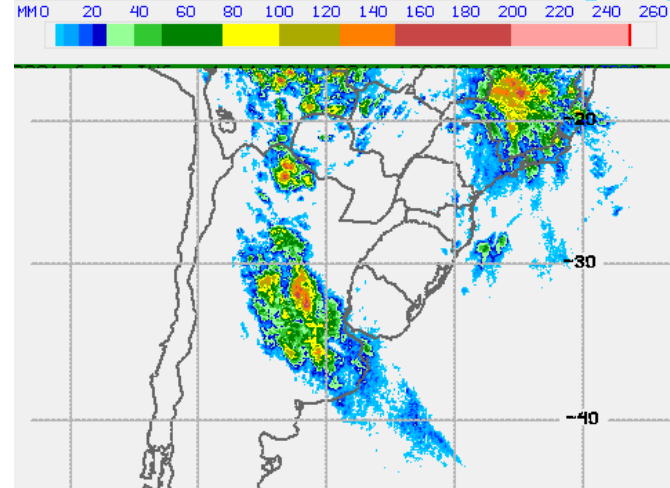
Globally, the USDA showed a tightening of the soybean balance sheet as their implied stocks-to-use ratio forecasts were reduced from 24.8% to 24.5%. The USDA reduced their forecast for global demand and lowered their expectations for global production by more than 2 million tonnes to 257 million tonnes. Brazil and Argentina's combined production was lowered by 2.5 million tonnes, which was offset by an increase in US production. The USDA now expects Argentina to produce 50.5 million tonnes of soybeans and Brazil to produce 74 million tonnes—clearly reflecting the drought conditions in this region. Demand expectations were lowered for the US, EU-27, and Japan. In isolation, the updated forecasts would be neutral for soybeans. However, we expect the bearish corn price reaction will spill over to the broader grains and oilseeds complex, bringing soybean prices lower as well.

2011/12 global soybean production is not expected to meet demand forecast resulting in the first deficit since 2008/09



Source: USDA, Rabobank

Recent rainfall in Argentina is expected to help alleviate dry soybean areas but the production estimate was lowered

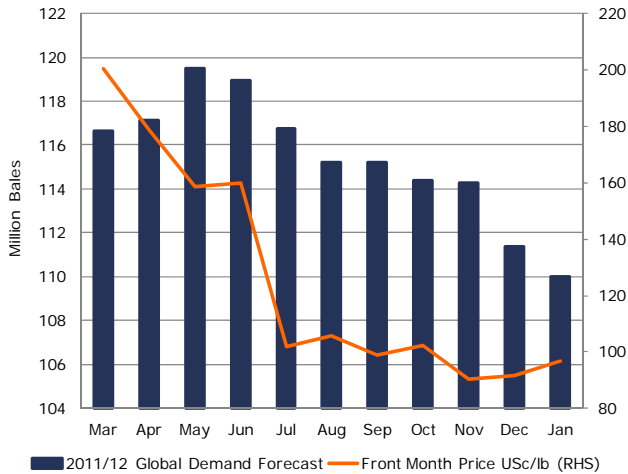


Source: NOAA, Rabobank

For cotton, the WASDE report was modestly bearish; global 2011/12 demand expectations were reduced for the fifth straight month. Global cotton use is now forecast to reach 109.99 million bales in 2011/12, down 1.34 million bales from the December estimate and the second lowest since 2003/04. Global production for 2011/12 was lowered 580,000 bales to 122.84 million bales, still the largest crop on record. The US crop was reduced 160,000 bales to 15.67 million bales, which was slightly above initial trade estimates, but was more than offset by lower exports. The US ending stocks estimate was increased from 3.5 million bales to 3.7 million bales, which is higher than the average trade estimate. The US 2011/12 crop projection was again reduced due to the drought conditions in Texas, the number one cotton state. The continued drought remains a major concern for planting in the new season.

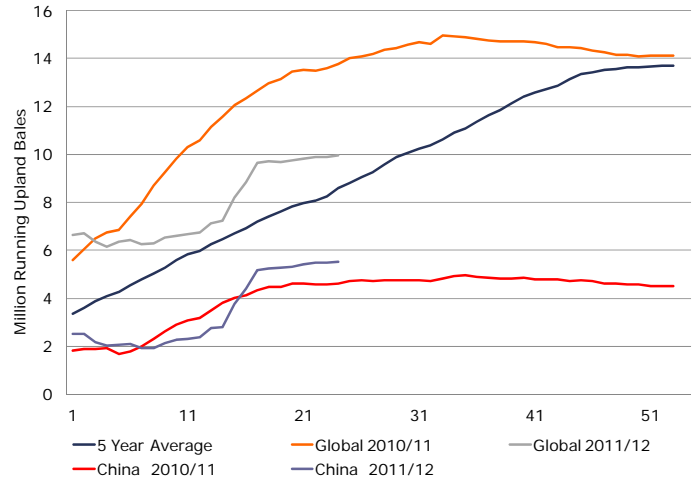
The USDA once again reaffirmed the deteriorating state of cotton market fundamentals with the global stocks to use ratio projection rising from 51.7% to 53.1% for 2011/12, above the 5- and 10-year averages The ratio is now the highest since 2008/09, when prices in New York averaged 51.15 USc/lb. Despite the expectations for heavier fundamentals, the NY ICE market remains buoyed by Chinese buying. The USDA reduced the 2011/12 Chinese consumption projection to 44 million bales from 45 million bales and noted that purchases by the Chinese national reserve are supporting Asian prices. Chinese buying, which has accounted for 55% of sales of the US crop, will likely moderate in 1H 2012 and in our view, the fundamentals suggest prices should ease from current levels.

The WASDE global cotton consumption forecast for 2011/12 has been continually revised lower since May



Source: USDA, Rabobank

China currently accounts for 56% of all US cotton sales for 2011/12, in 2010/11 at the same point in the season the share was 35%



Source: USDA, Rabobank

Agri Commodity Markets Research (ACMR)

Luke Chandler
Global Head
+44 20 7664 9676
Luke.Chandler@rabobank.com

Keith Flury
Senior Commodity Analyst
+44 20 7664 9676
Keith.Flury@rabobank.com

Erin FitzPatrick
Commodity Analyst
+44 20 7664 9540
Erin.FitzPatrick@rabobank.com

Nick Higgins
Commodity Analyst
+44 20 7664 9543
Nicholas.Higgins@rabobank.com

Rabobank Food & Agribusiness Research and Advisory

www.rabotransact.com

Global Financial Markets

Corporate sales contacts:

ASIA—Brandon Ma
+852 2103 2688
brandon.ma@rabobank.com

ASIA—David Teakle
+852 2103 2686
david.teakle@rabobank.com

AUSTRALIA—Terry Allom
+61 2 8115 3103
terry.allom@rabobank.com

EUROPE—Arjan Veerhoek
+31 30 216 9040
arjan.veerhoek@rabobank.com

EUROPE—David Kane
+44 20 7664 9744
david.kane@rabobank.com

BRAZIL—Sergio Nakashima
+55 11 5503 7150
Sergio.Nakashima@rabobank.com

US—Jeff Gibson
+1 212 808 6877
jeff.gibson@rabobank.com

US—Neil Williamson
+1 212 808 6966
Neil.Williamson@rabobank.com

MEXICO—Marco Garcia
+52 55 52610029
Marco.Garcia@rabobank.com

CHILE—Gaston Iroume
+56 2 4498536
Gaston.iroume@rabobank.com

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