



Riding the Wave of Grain & Pulse Markets

Over-The-Counter Price Risk Management

March 2016



Rabobank

Disclaimer

This document is issued by a Rabobank Group member. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. The information is for information purposes only and is not professional advice and has not been prepared to be used as the basis for, and should not be used as the basis for, any financial or strategic decisions. This document and is not, and should not be construed as, an offer or a commitment by any Rabobank Group member to enter into a transaction. This information is general in nature only and does not take into account an individual's personal circumstances. Any advice provided is non-personalised advice prepared without taking into account your objectives, financial situation or needs and may not be appropriate for you. Professional advice is recommended for all financial and strategic decisions. Please consider the appropriateness of this information with regard to your objectives, financial situation and needs before acting on it. If any information relates to the acquisition or possible acquisition in Australia of Rabobank risk management products, you should consider (i) the relevant Product Disclosure Statement (if we are required to provide one to you); and (ii) the product terms and conditions, before making a decision to acquire the product. No representation is made that any forecast or projected information is correct or will eventuate. All opinions expressed in this document are subject to change without notice. No Rabobank Group member involved in the preparation and distribution of this information accepts any liability whatsoever for any direct, indirect, consequential or other loss or damage howsoever arising from any use of this document or reliance on its information or otherwise arising in connection therewith. This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of a Rabobank Group member. By accepting this document you agree to be bound by the foregoing restrictions. All copyright is reserved ©

Table of contents

Sections

I	Introducing Agribusiness Risk & Treasury Management (ARTM)
II	Financial Markets update – Interest Rates and Currency
III	Commodity update
IV	Commodity Over-The-Counter Risk Management

Appendices

A	Contact details
---	-----------------

I

Introducing Agribusiness Risk & Treasury Management (ARTM)



Rabobank

Introducing Agribusiness Risk & Treasury Management (ARTM)

Who we are

- ❑ ARTM is a division of Markets, the investment banking business of Rabobank and undertakes sales and trading activities to support the wider Rabobank Group and its clients
- ❑ Markets, headquartered in Utrecht, has 14 dealing rooms around the world – including Sydney, Utrecht, London New York and Hong Kong
- ❑ The purpose of Markets is to help the bank to become the pre-eminent F&A bank globally.

What ARTM does

- ❑ ARTM aims to provide Country Banking clients with instruments to hedge FX, IR and commodity exposures on both asset- and liability side of clients' balance sheet
- ❑ Products:
 - ❑ FX hedges – electronic platform and phone in. Spot, forwards, options
 - ❑ IR hedges – swaps and options
 - ❑ Commodity hedges – swaps and options
 - ❑ Money Market products – foreign currency accounts

II

Financial Markets update – Interest Rates and Currency



Rabobank

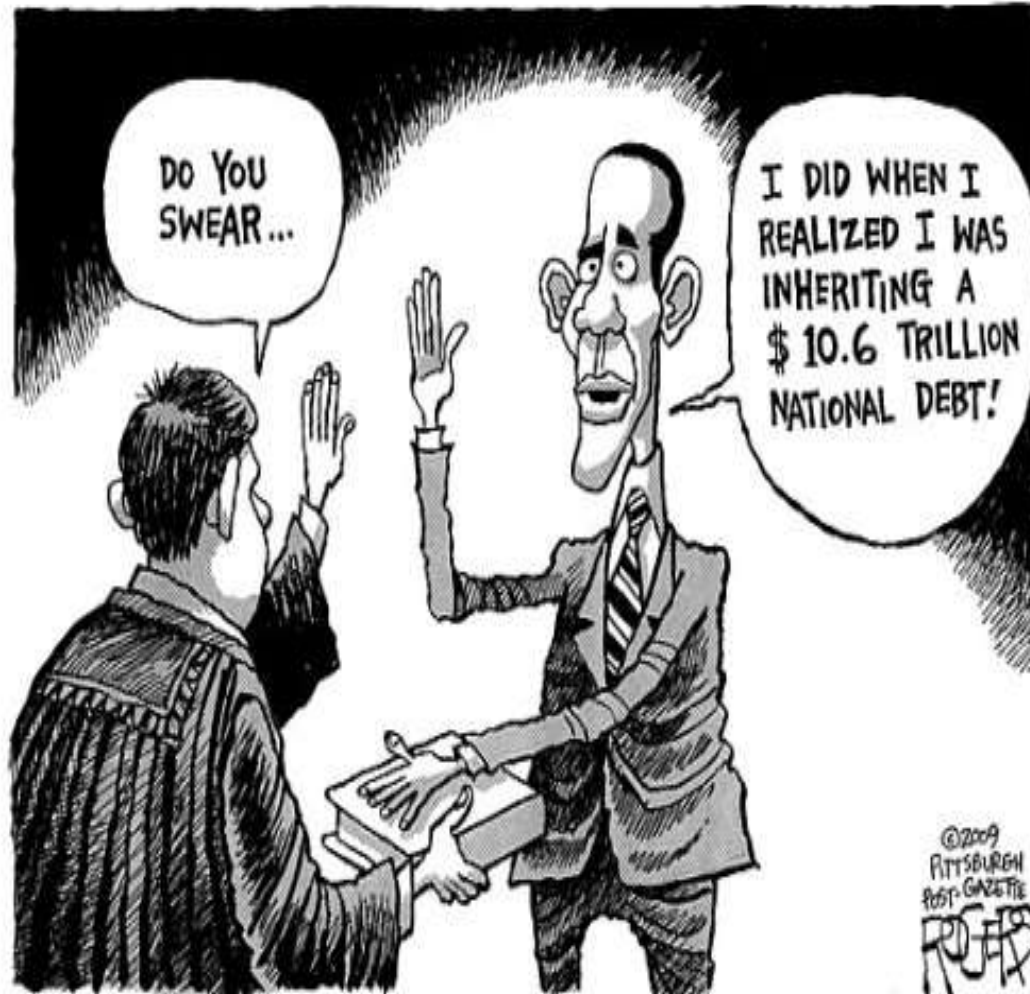
Global backdrop deteriorating



Global backdrop deteriorating

- ❑ **China's PMI numbers** came in negative (contracting) for the 7th month in a row
- ❑ Meanwhile more nations, for example Japan, drift into **negative rate territory**
- ❑ Whilst the **US woes** continue and rate increases seem to be slipping through their fingers for this year
- ❑ **Slow transition away from mining** as the RBA stated *"leading indicators of investment intentions had continued to suggest that there was little prospect for a pick up in non-mining business investment in the near term"*

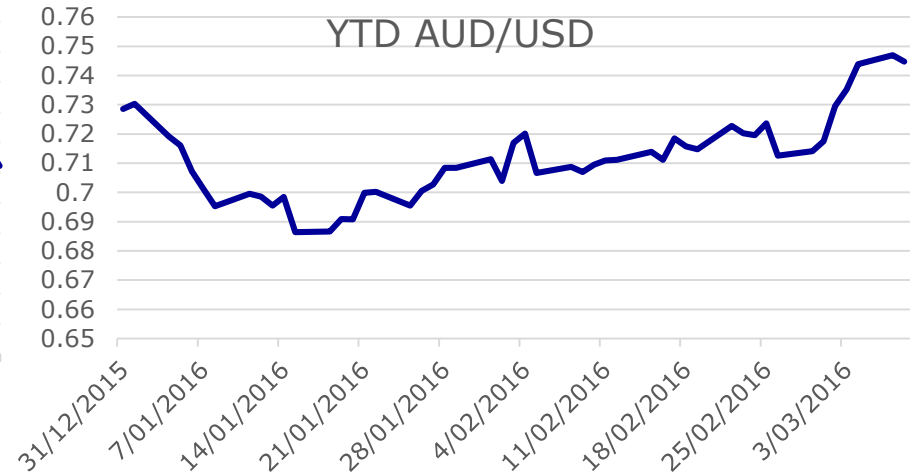
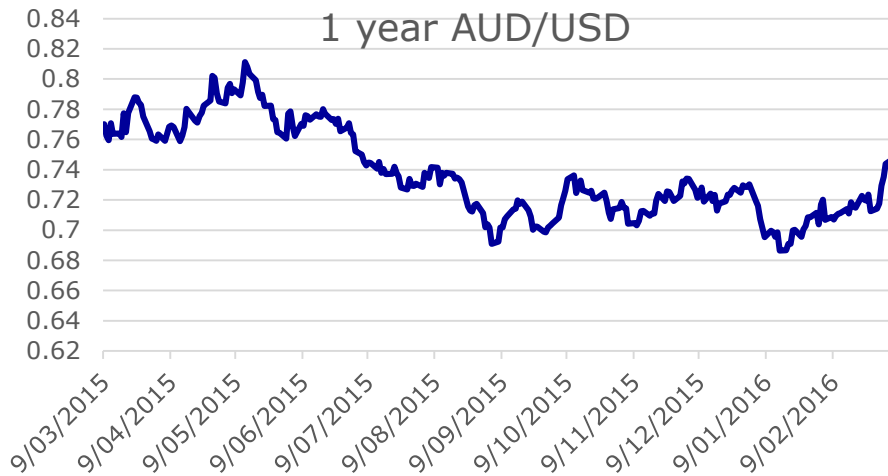
So where are local rates heading?



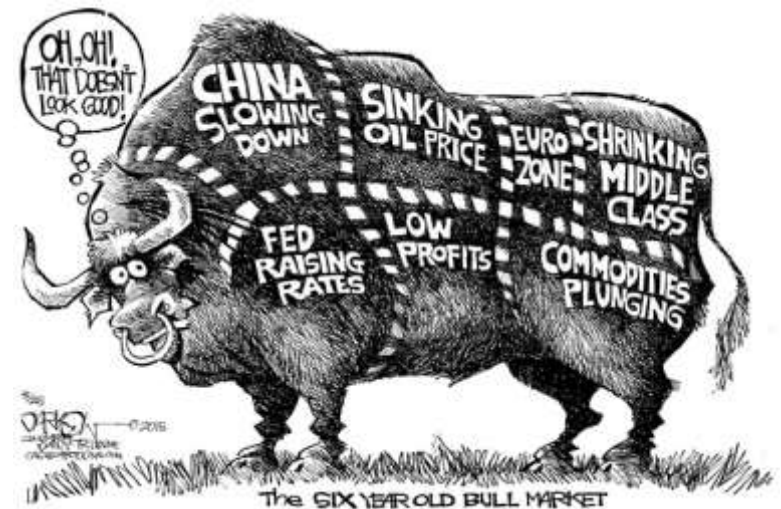
So where are local rates heading?

- ❑ One eye on **underlying inflation**
- ❑ RBA “*continued low inflation would provide scope for easier policy, should that be appropriate to lend support to demand*”
- ❑ Q4 GDP, the **economy rose by 0.6%** q/q (ever so slightly above expectations, markets loved it) which will encourage the RBA that it is right to resist calls for cuts... at this point
- ❑ Q4 **Wage Price Index (WPI) at 0.5% q-o-q** and 2.2% y-o-y, lowest since records began in 1998 = no wage pressure in economy
- ❑ Q4 saw wages rise a meagre 0.7% y-o-y whilst houses are rising at 10.7%... Mum can you spot me the 10.0%

Rabobank house view



	Mar 01	3M	6M	12M
Majors				
EUR/USD	1.09	1.09	1.07	1.05
GBP/USD	1.39	1.37	1.45	1.50
USD/JPY	113.1	114.0	115.0	116.0
USD/CAD	1.35	1.40	1.43	1.40
AUD/USD	0.72	0.68	0.67	0.65
NZD/USD	0.66	0.64	0.63	0.61
EUR/CHF	1.09	1.09	1.09	1.09
EUR/NOK	9.39	9.60	9.60	9.45
EUR/SEK	9.34	9.40	9.40	9.35
EUR/DKK	7.46	7.45	7.45	7.45



Source: Bloomberg, Rabobank 2016, <http://www.xeolye.com/2016/01/a-comical-summary-of-2015-financial.html>

So, why are long-term fixed rates volatile?



Markets are forward looking – futures market factors in rate movements



The only interest rate the RBA controls is the official cash rate



BBSW rates and all fixed (swap) rates beyond the cash rate are determined by the Banks



By the time you've read the cash rate is going higher, **the horse has already bolted!**

Volatility – why now?



Source: http://www.xeolye.com/2016_01_01_archive.html

Volatility – why now?

- ❑ **Large speculative positions** causing price over-runs
(especially Ag Commodities)
- ❑ **Technology**, trading platforms and event news
- ❑ The Global Economy is at a new cross road – “The New Normal”
- ❑ The **currency (FX) wars** have returned – every country wants a weaker currency but who will win?

Is volatility good or bad?



Source: <http://www.rebelpepper.com>

Is volatility good or bad?

Volatility can provide a risk manager with opportunity if.....

- ❑ **Active risk management program**
- ❑ **Protecting budgeted costs and income** – not about picking highs and lows in markets
- ❑ You have a **disciplined execution strategy** in place
- ❑ You're hedge provider **understands your needs, objectives and risk appetite**, and
- ❑ Your hedge **provider** can offer you a range **of solutions** to cater for differing market environments

III

Commodity update



Rabobank



Wheat

Current fundamentals

- ❑ Egypt's GASC current hard line ergot stance
- ❑ Global S&D has the silo overflowing
- ❑ WASDE March report

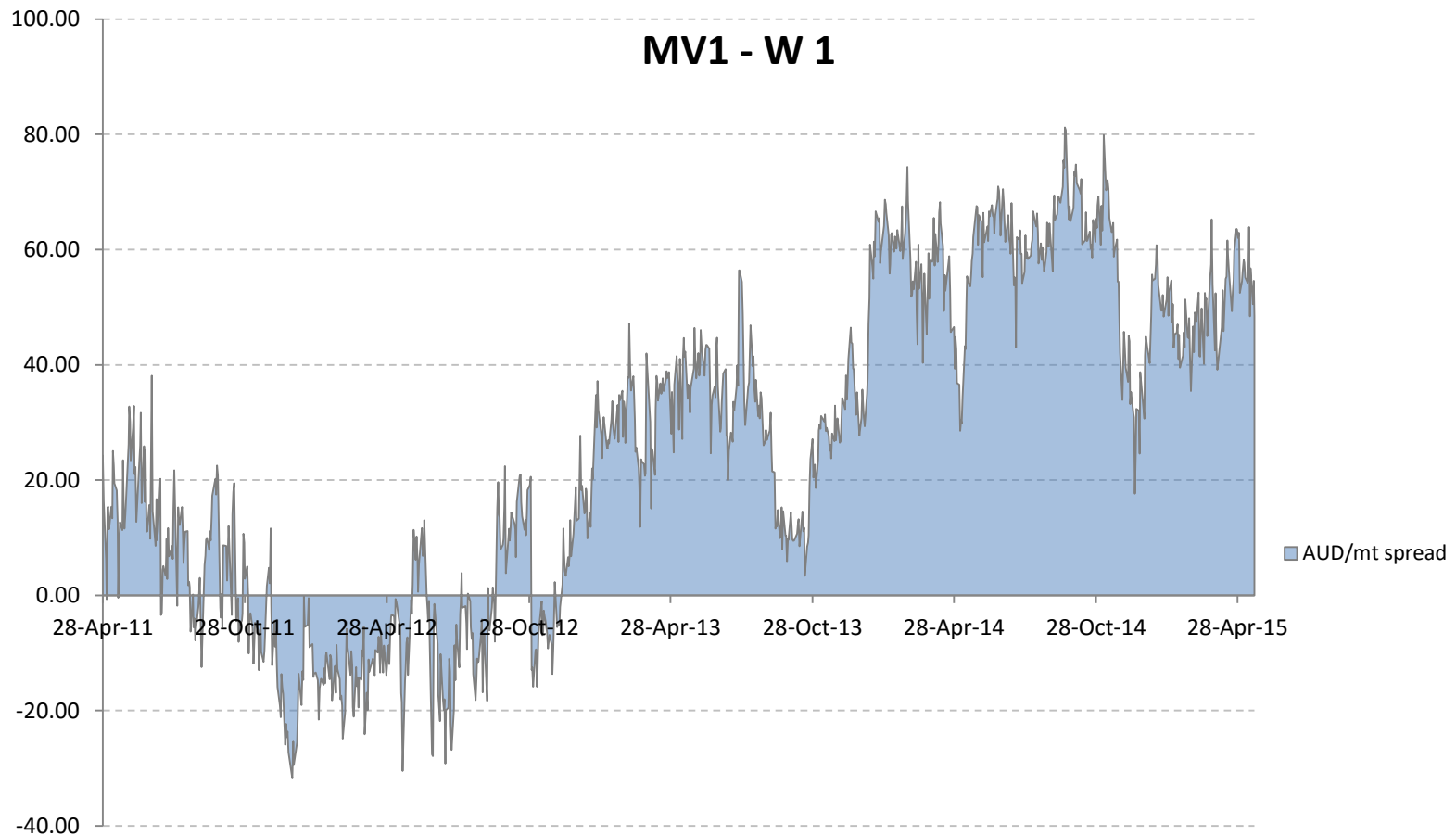
For the Bulls out there

- ❑ Dryness across the central plains, threaten crops?
- ❑ Non-commercials holding record short – further short covering is a real possibility
- ❑ A further depreciation in the greenback

For the Bears

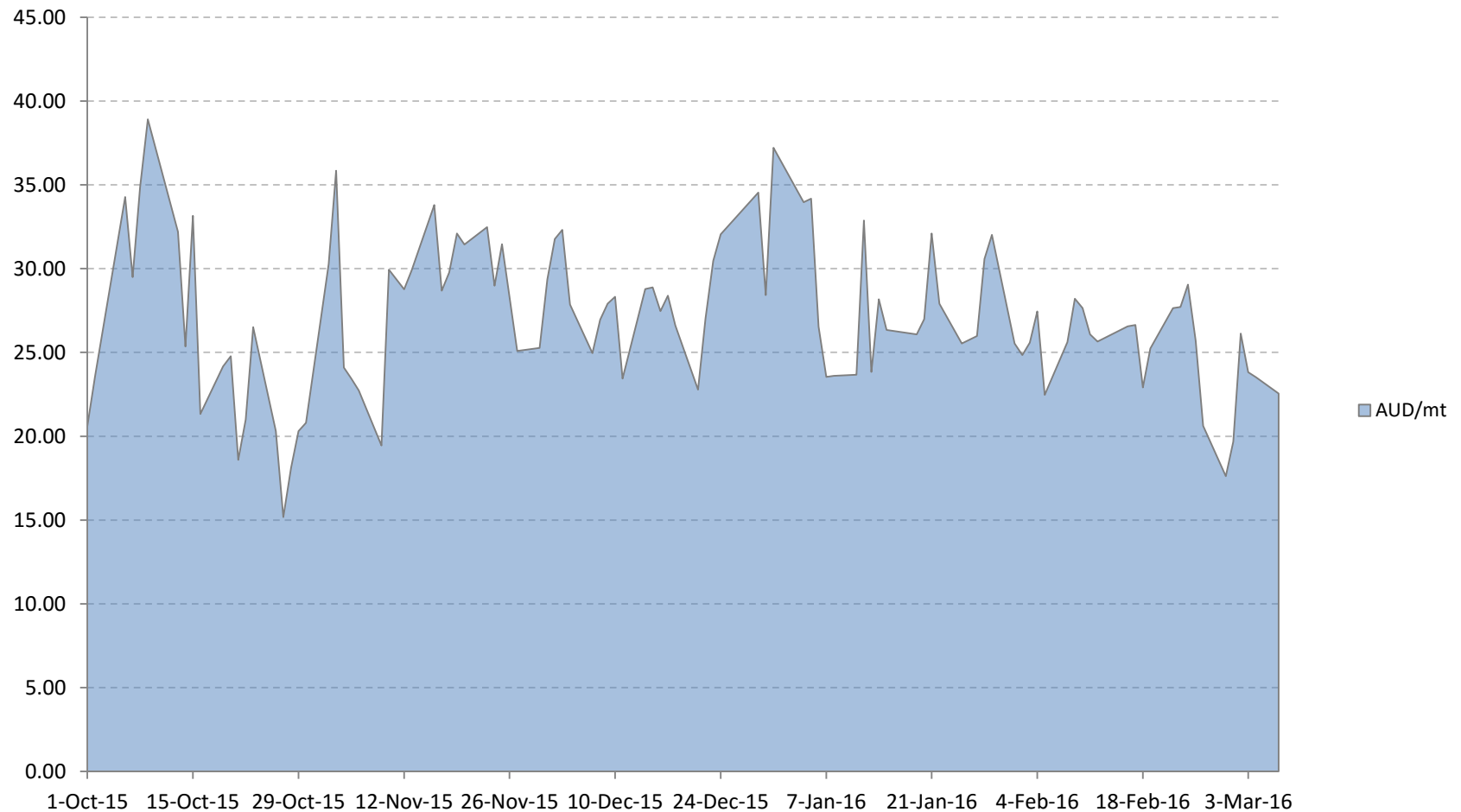
- ❑ Supply is plentiful, demand is lacklustre
- ❑ Widening US FOB spreads vs. EU/Black Sea origins limits upside
- ❑ Winter wheat crop conditions are excellent

Wheat - basis long term generic contracts CBOT vs. ASX Milling



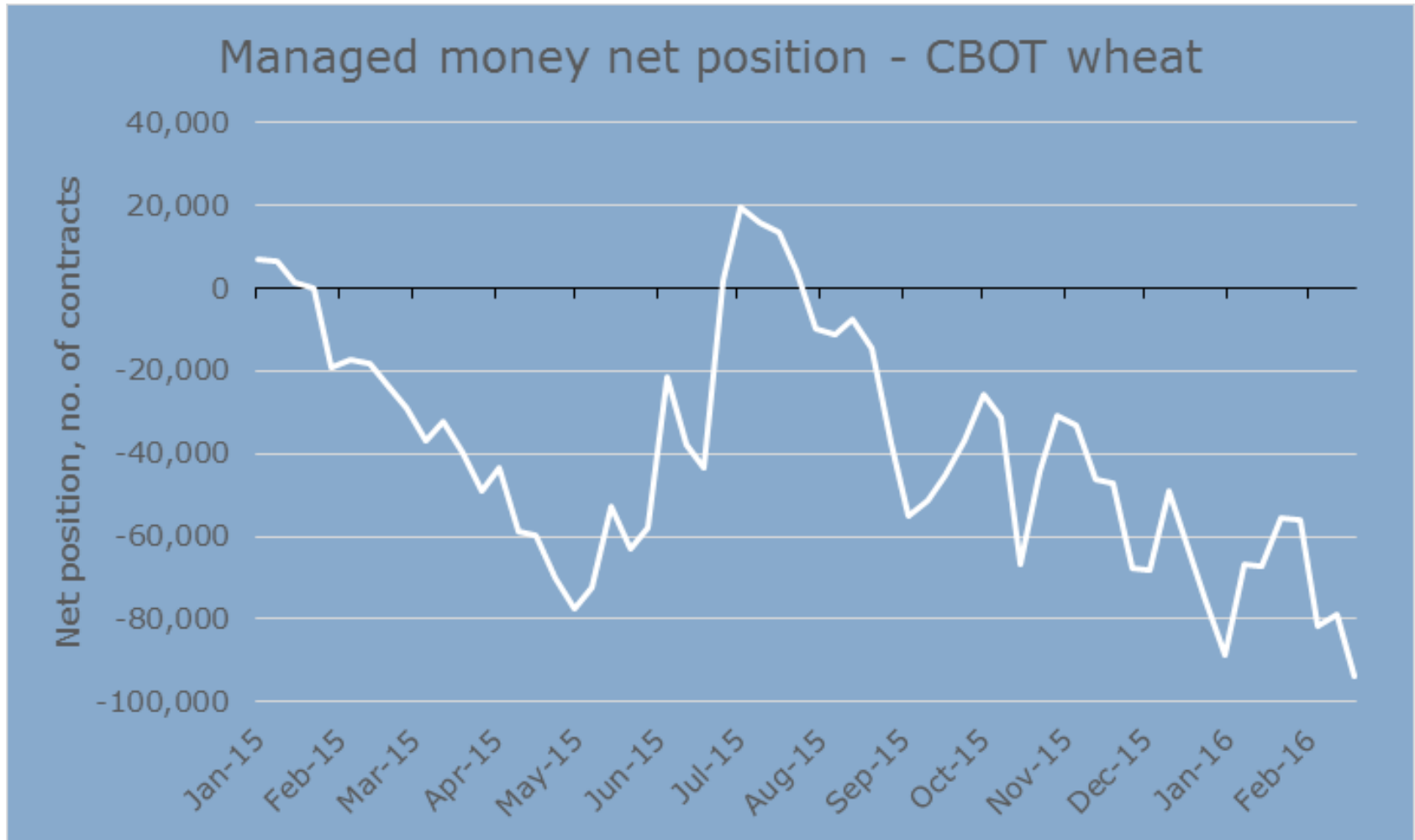
Wheat - basis short term CBOT Dec16 vs. ASX Milling Jan17

MVF7 - W Z6



Source: Bloomberg, Rabobank, 2016



Wheat - speculators at work

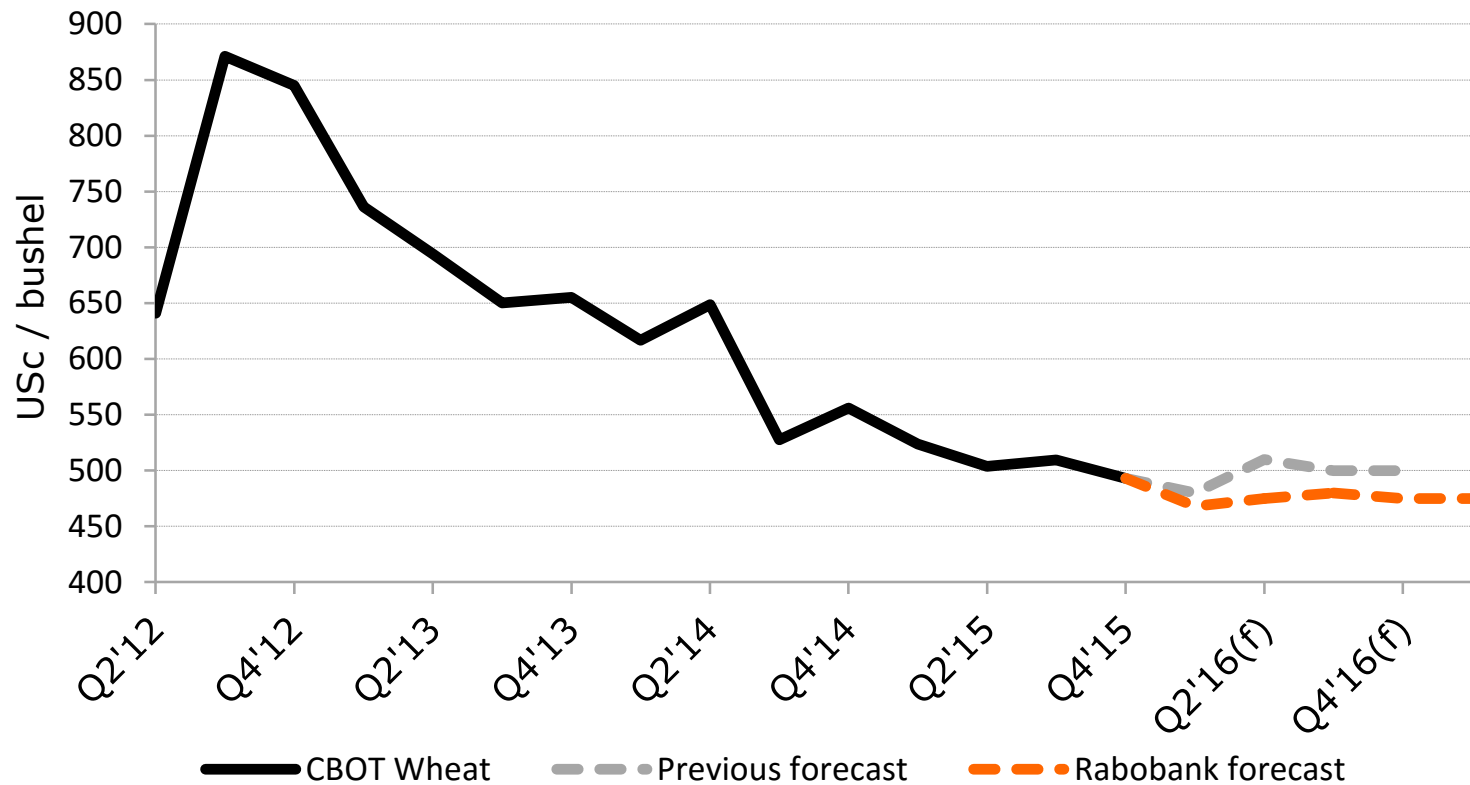


Source: Bloomberg, Rabobank, 2016

Wheat - price forecast

Price forecast lowered due to continued slow US and EU exports, and massive stock building in these countries.

		unit	Q2'15	Q3'15	Q4'15	Q1'16(f)	Q2'16(f)	Q3'16(f)	Q4'16(f)	Q1'17(f)
	CBOT	USc/bu	504	510	493	468	475	480	475	475
	Matif	EUR/t	181	176	177	160	165	165	170	175



Daily commodity report as at 10th March

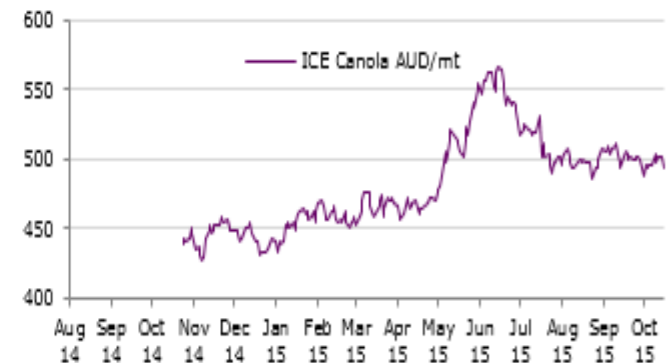
CBOT Wheat

	USD/mt			AUD/mt		
	Client Sells	Client Buys	+/-	Client Sells	Client Buys	+/-
May-16	169.00	173.00	1.07	227.25	232.25	0.40
Dec-16	178.75	183.75	0.83	243.00	249.00	-0.02
Mar-17	183.00	188.50	0.83	249.75	256.25	-0.10
Jul-17	187.00	194.00	1.01	256.00	264.50	0.06
Dec-17	194.75	203.25	0.92	268.75	279.00	-0.12
Mar-18	196.75	POA	0.92	272.25	POA	-0.09
Jul-18	188.00	POA	0.92	262.00	POA	-0.15
Dec-18	189.75	POA	0.92	266.25	POA	-0.15



ICE Canola

	CAD/mt			AUD/mt		
	Client Sells	Client Buys	+/-	Client Sells	Client Buys	+/-
Nov-16	456.70	467.20	-4.80	465.55	476.90	-2.21
Jan-17	459.00	473.00	-4.80	468.65	484.15	-2.25
Mar-17	459.50	476.50	-4.80	470.35	489.00	-2.34
Nov-17	441.90	POA	-4.80	456.25	POA	-2.76
Jan-18	441.40	POA	-4.80	456.90	POA	-2.75



Pulses – fundamentals to set the scene

Welcome to the United Nations declared International Year of the Pulses



Pulses – fundamentals to set the scene

Welcome to the United Nations declared International Year of the Pulses

- ❑ **Currency** lower Rupee means less buying power for Indian importers
- ❑ **Mercy of international market** S&D BUT a high quality surplus for Asian, North Africa, Middle East and of course, the India Sub
- ❑ There is a perceived **higher risk to growing pulses** due to the spot nature of deals, nor is there a true global futures market for risk mitigation
- ❑ **The Indian Sub, largest consumers and producers**, however normally 3-4mmt short of needs.
- ❑ **Game of two seasons** – Rabi (winter) pre monsoon and Kharif (summer) post monsoon.

Pulses – what to watch

- ❑ **Chickpeas** Indian winter (Feb – April) Rabi production estimate, Canadian planting intentions and carry over of yellow field peas, harvest in Canada, Syria and Turkey pre Aussie harvest and local production and quality
- ❑ **Lentils** Canadian green lentil production competes with our red market. Data comes on-line for this crop around April and availability of forward contracts here locally and again the harvest in Canada, Syria and Turkey pre Aussie harvest and local production and quality
- ❑ **Lupins** Carry over for stock production, competing protein feeds including pasture and world soybean meal S&D
- ❑ **Faba beans** Yellow pea in Canada, like our white field pea, Kaspas is preferred in Southern India and Sri Lanka. World prices aren't really influenced by little Aus in this space. Come into favour when chickpeas are deemed to high

Pulses – the year ahead, around the grounds

- ❑ **Saskatchewan Pulse Grows Association (SPGA)** predicting lentils to lead the charge again with 4.46 million acres. Some calling over 5.00 if prices remain high. Pea and chickpea acres look to top 4.00 million acres.
- ❑ **Agriculture Canada's** market analysis branch in Winnipeg released its second forecast for 2016/17 marketing year. Lentils at 2.85mmt from 1.8 million hectares compared to 2.37mmt from 1.597 million hectares last year. Exports are forecasted to reach 2.2mmt for 2016/17 vs. 2.4mmt current season.
- ❑ **India's total pulse outlook** 17.33mmt up from 17.15mmt last season vs. 5 year average of 18.00mmt. Min dietary need for 21.9mmt and an estimated 22.17mt for the coming year.

Pulses – the year ahead, any fundamentals changed?

- ❑ **Chickpeas and lentils** good run at A\$1000/mt, but what's the S&D look like for the niche chickpeas, lentils and field peas in 2016?

- ❑ **Supply side** Global chickpea production is around 12mmt, lentils 5mmt and field peas 11mmt. This year India will continue to dominate chickpeas with field peas still being Canada and Russia. And of course, lentils still Canada.

- ❑ **Demand side** Indian sub-continent still the biggest kid in the sand pit. Watch this space as weather and politics around food supply, affordability and security continue.

Pulses – the year that was and prices now

Estimated Pulse Production in Australia for 2015 (tonnes)

State	Chickpea		Beans		Field Pea	Lentil	Lupin		Total 2015 (t)	% of 2014 (t)
	Desi	Kabuli	Faba	Broad	Dun	Red & Green	Sweet Lupin	Albus Lupin		
New South Wales	406,000	32,500	129,300	-	72,500	2,200	35,800	40,600	718,900	143%
Victoria	4,900	2,500	99,200	4,500	28,800	58,600	25,300	500	224,300	90%
Queensland	555,000	-	1,900	-	-	-	-	-	556,900	270%
South Australia	3,000	8,000	109,000	21,000	81,100	196,600	60,800	600	480,100	97%
Western Australia	3,000	700	6,600	-	31,000	-	456,500	11,600	509,400	120%
Total	971,900	43,700	346,000	25,500	213,400	257,400	578,400	53,300	2,489,600	133%
% of 2014 (t)	204%	105%	138%	64%	78%	111%	110%	142%	133%	

South Australia 2015/16 Delivered Prices

08/03/16	This Wk	Last Wk	Change
ADELAIDE PACKER			
Nipper Lentils 2015	\$1,160	\$1,150	\$10
Field Peas 2015	\$550	\$550	\$0
Faba Beans 2015	\$490	\$525	-\$35

Appendix



Contacts



Rabobank

Contact details

Rabobank Australia &
New Zealand Group
Markets

Phone number
Toll Free: 0800 800 150

Address
Darling Park, Tower 3
Level 15
201 Sussex Street, Sydney
NSW 2000

Postal address
GPO Box 4577
Sydney NSW 2001

Agribusiness Risk & Treasury Markets

Bruce King

Head of Agribusiness Risk & Treasury Management

Telephone: 1300 300 479
Mobile: +61 427 648 818
E-mail: Bruce.King@rabobank.com

Adam Vanderstelt

Senior Manager, Agribusiness Risk & Treasury Management

Telephone: 1300 300 479
Mobile: +61 416 075 518
E-mail: Adam.Vanderstelt@rabobank.com

Ben Picton

Analyst, Agribusiness Risk & Treasury Management

Telephone: 1300 300 479
Mobile: +61 416 075 518
E-mail: Benjamin.Picton@rabobank.com

Campbell Keene

Manager, Agribusiness Risk & Treasury Management

Telephone: 1300 300 479
Mobile: +61 409 134 784
E-mail: Campbell.Keene@rabobank.com

Hamish Allerton

Manager, Agribusiness Risk & Treasury Management

Telephone: +61 427 225 679
Mobile: +61 427 225 679
E-mail: Hamish.Allerton@rabobank.com