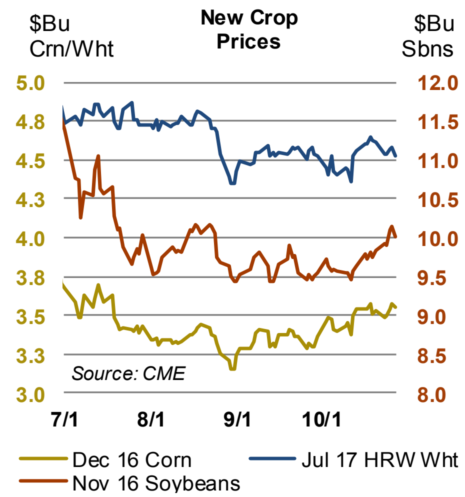
Weekly Market Update

October 28, 2016

Crop prices holding up despite record harvests



Even though the market sputtered on Friday, positive corn and soybean momentum continued this week in spite of massive crops coming off fields. Soybeans again led the way, and this week pushed above the psychological $10 mark on bullish export demand and with support from the soybean oil market (which is in turn being buoyed by a slower than expected recovery in palm oil production following last year's El Niño-induced drought). In fact, soybean exports even got a mention as a key driver of 2.9% U.S. GDP growth in the third quarter. Over the week, Nov '16 soybeans climbed 18 cents to $10.01/bu, while Dec '16 corn was up 2 cents at $3.55/bu. July '17 HRW wheat closed down almost a dime at $4.53/bu.

News and notes

- After 5+ days suitable for fieldwork, corn harvest progress stood at 61% as of Sunday, up from 46% a week earlier and a shade behind the norm for the date. Over three-quarters of soybeans are in bins, up from 62% a week ago and about even with the average pace. Winter wheat planting is also more than three-quarters complete versus 82% normally by this time. Almost two-thirds of the crop has emerged and is initially rated in very good condition due to generally adequate soil moisture. This week saw two days of rain pass through the Midwest, but farmers were likely able to stay on track for a normal harvest. Things are expected to heat up across the country as we enter November, with no major precipitation expected to hinder harvest activities.

- Solid export figures from the USDA helped bolster crop values this week, particularly in the soybean complex. Bean export sales matched expectations at +2 million tonnes and pushed marketing YTD sales 28% above last year. Physical exports were the main story, however, with the highest weekly total in two years leaving U.S. shores. Weekly wheat sales topped expectations, and while corn sales fell below projections, YTD export sales are still up almost 50% from average.

U.S. Export Sales

Tonnes	Outstanding Sales + Exports	% Sold of USDA Fcst	% of Yr Complete	Sales Rqd to Meet USDA Fcst
Corn	23,283,400	41%	13%	33,234,600
Soybeans	33,764,000	61%	13%	21,348,000
Wheat	16,068,400	61%	38%	10,466,700

Source: USDA
Corn / Soybeans marketing yr: Sep-Aug. Wheat: Jun-May.

- Soybean planting in Brazil took a broad step forward over the last two weeks with around 40% of the crop in the ground, just ahead of the average pace. Full-season corn planting is almost three-quarters complete, well above normal. Consultant Michael Cordonnier held his South American crop estimates flat this week but has an improved outlook following last week's rapid planting. Cordonnier calls for output of 101 million tonnes of soybeans (vs. 95.5mmt last year) and 83 million tonnes of corn (vs. 66mmt last year). He considers the crop to generally be in good condition despite dryness in the north and wetness in the south.

- The Chinese government has announced it will cease regular auctions of old-crop corn stockpiles until May 2017 to support new-crop corn prices. The move is not atypical of the Chinese government when a new crop is imminent. The old-crop auctions have faced some concerns over the quality of the corn; however, the country is estimated to have sold around 20 million tonnes of its state reserves at auction this year (stocks now approximate 200 million). China also just announced it would subsidize corn processors, such as ethanol companies, to encourage new-crop purchases. After a strong start to the year, Chinese ethanol imports dwindled this summer, with new reports indicating September imports dipped to the lowest level since April 2015. There is conversation that China may be cutting imports as it grows its domestic industry on the back of cheaper corn. With notable stores of corn not suitable for consumption, industrial players have been active at recent corn auctions. China represents a top-3 destination for U.S. ethanol, though sales to the country only started to pop in mid-2015. On a positive note, Brazilian mills are expected to process more of the country's cane into sugar this year (about half the crop), which is likely to boost Brazil's ethanol import needs. The U.S. is Brazil's top source of imported ethanol.

- And finally in honor of Halloween, if you have yet to buy your pumpkins, the national average retail price per decorative pumpkin last week was $3.95 (38 cents per pound). This is down from $4.41 last year at this time. Each American "utilizes" (for décor and consumption) between three and five pounds of pumpkin each year.

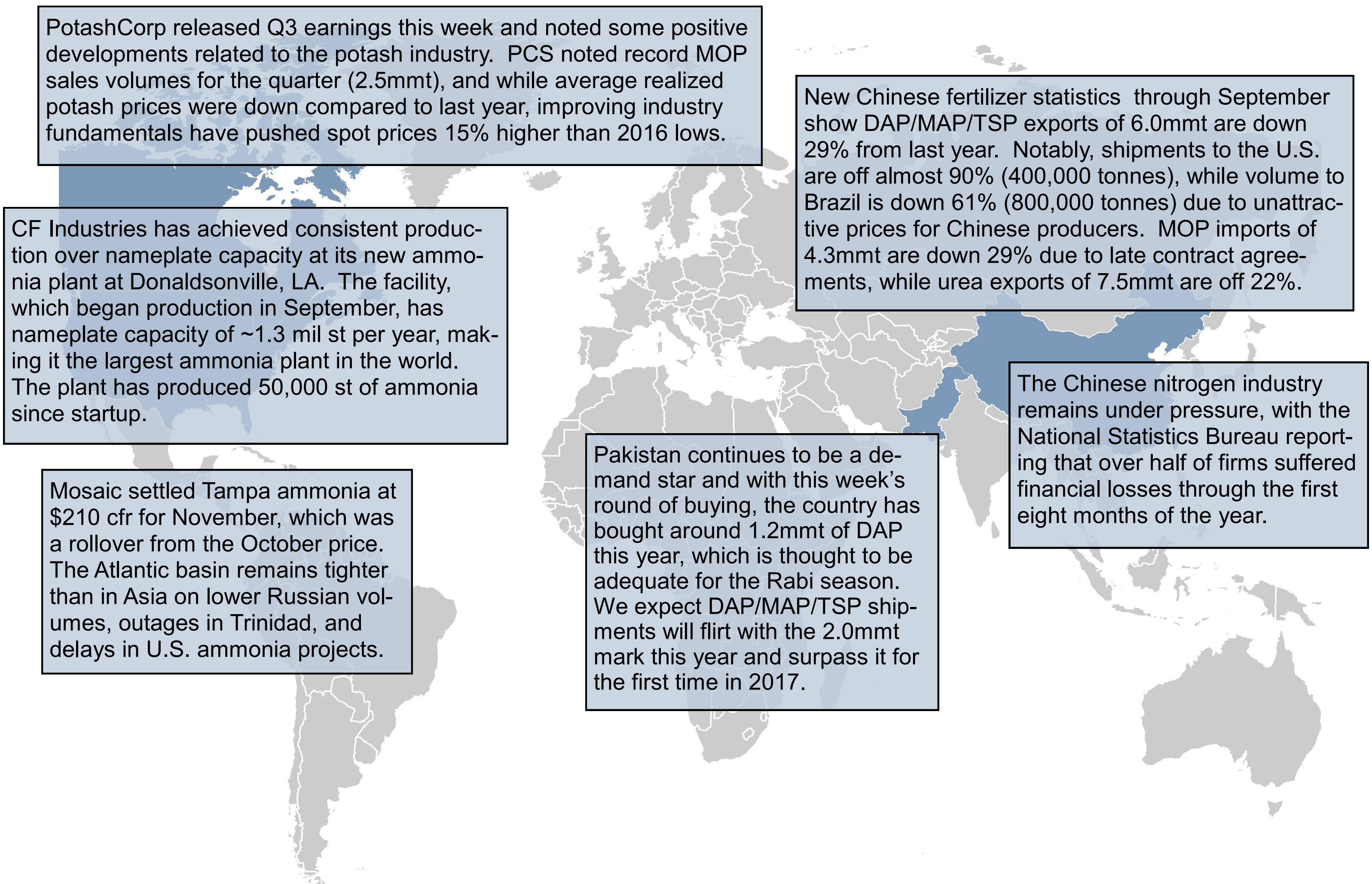
Weekly Fertilizer Update

<u>Urea pushes broadly higher; phosphates weaker; potash mixed but prices not moving far</u>

N The urea complex had another positive week, and the upward trend looks to continue for the near future on solid demand prospects around the globe. Markets were up across the board, with prices rising $5-10 in the Middle East, North Africa, Brazil, and even China (where price upticks are less expected). NOLA prices were either up or down a couple dollars depending on the publication to around the $200/st mark for November and up to $10 higher for Dec/Jan delivery. The next major industry announcement likely relates to another Indian tender expected in a week or so. Ammonia prices were broadly stable, with rollover pricing for Tampa in November and flat European pricing.

P Phosphate markets were generally weaker, with little activity outside of Pakistan (again). India was absent from the market on adequate inventories for the Rabi season, and the import window is rapidly closing. China DAP ticked down slightly, holding just below $300/mt fob. The U.S. market also slid this week with published NOLA DAP prices falling a few dollars and narrowing in on $305/st fob, though farmer demand is building as harvest grinds toward completion. The Brazilian MAP bid/offer range fell about $5 at the midpoint to ~$340/mt cfr on limited activity.

K Potash markets were mixed this week, though price moves were quite modest. Focus is on the standard MOP markets, and Malaysia in particular, where the major tenders have yet to begin (but are expected shortly). Standard MOP prices in Europe are also heard on the upswing for the first time in a year and a half. NOLA barge prices fell a couple dollars to a reported $205-215/st range but held in the Corn Belt. The reported price range widened a bit in Brazil to $230-240/mt cfr, though there is apparently limited activity at the low end, and price offers are firmer for late November.



PotashCorp released Q3 earnings this week and noted some positive developments related to the potash industry. PCS noted record MOP sales volumes for the quarter (2.5mmt), and while average realized potash prices were down compared to last year, improving industry fundamentals have pushed spot prices 15% higher than 2016 lows.

New Chinese fertilizer statistics through September show DAP/MAP/TSP exports of 6.0mmt are down 29% from last year. Notably, shipments to the U.S. are off almost 90% (400,000 tonnes), while volume to Brazil is down 61% (800,000 tonnes) due to unattractive prices for Chinese producers. MOP imports of 4.3mmt are down 29% due to late contract agreements, while urea exports of 7.5mmt are off 22%.

CF Industries has achieved consistent production over nameplate capacity at its new ammonia plant at Donaldsonville, LA. The facility, which began production in September, has nameplate capacity of ~1.3 mil st per year, making it the largest ammonia plant in the world. The plant has produced 50,000 st of ammonia since startup.

The Chinese nitrogen industry remains under pressure, with the National Statistics Bureau reporting that over half of firms suffered financial losses through the first eight months of the year.

Mosaic settled Tampa ammonia at $210 cfr for November, which was a rollover from the October price. The Atlantic basin remains tighter than in Asia on lower Russian volumes, outages in Trinidad, and delays in U.S. ammonia projects.

Pakistan continues to be a demand star and with this week's round of buying, the country has bought around 1.2mmt of DAP this year, which is thought to be adequate for the Rabi season. We expect DAP/MAP/TSP shipments will flirt with the 2.0mmt mark this year and surpass it for the first time in 2017.