

Commodity Spotlight Agricultural

25 September 2013

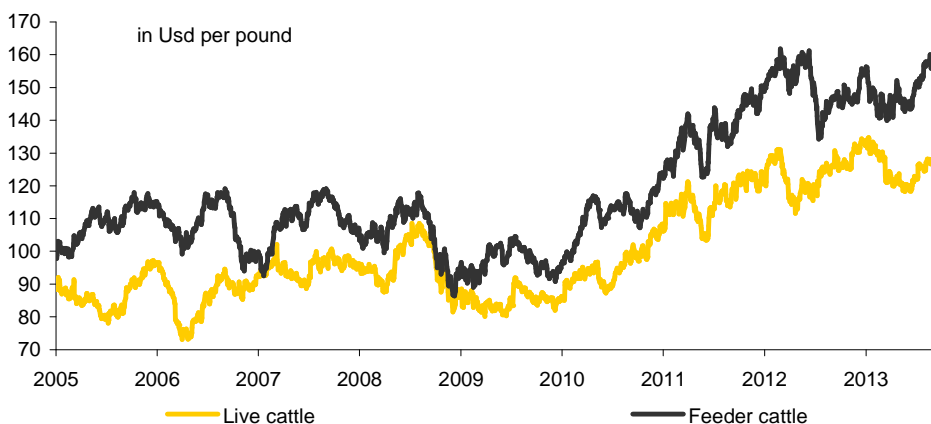
Declining cattle numbers push US cattle prices to a record high

As compared with its mid-June level, the price of live cattle in Chicago is up 10% at 130 US cents per pound. Feeder cattle prices are now even higher than the record levels they achieved in the first half of 2012. Although prices are all reacting in the short term to the processing figures from the abattoirs and to the upcoming public holidays, the bigger picture is determined by cattle numbers: The number of animals added to the feedlots has been declining for months. This will further reduce the supply of cattle ready for slaughtering and thus of beef in the medium term, which ought to continue ensuring high price levels.

According to the latest report from the US Department of Agriculture, August saw the lowest ever number of young cattle being taken to feedlots in the US to be fattened up to slaughter weight in any August since records began in their current form in 1996; not least because fewer young cattle are available. Year-on-year, the total number of cattle in the feedlots was reported as being 7.2% down in August. July had already seen the lowest number of young cattle being taken to feedlots to be fattened up to slaughter weight in any July in the past five years, and also in May and June the number had been decreasing year-on-year (chart 3). This will continue to weigh on the number of fed cattle in the mid-term and therefore on the supply of beef, which has already been declining for years and is leading to record-high retail prices for beef in the US (charts 4 and 5). Higher cow slaughter rates in the first half of 2013 also make it likely that there will be fewer young animals available for further breeding in 2014, which makes the outlook for the US beef supply even gloomier. The USDA, for example, expects US beef production to decline by over 5% in 2014, after dropping slightly year-on-year in 2013, primarily on the back of a weak fourth quarter.

Last year, the worst drought in a century had led to increased slaughter rates (chart 6) and thus to a higher level of beef production than if there had been no drought; this is because pasture dried up and feed prices – with corn prices being the most important – skyrocketed, making it even less attractive than before to breed and fatten up cattle (charts 7 and 8). The situation is much more comfortable in 2013 because only roughly 7% of the country is currently affected by severe drought; at the same time last year, the figure was 21%, and in July 2012 as much as 24% of the country was affected. Unlike in 2012, no significant numbers of animals are thus being slaughtered because of drought at present. In fact, August saw the second-lowest number of cattle ever being transported to abattoirs for slaughter. This reflects not only the fact that animals are not being put down because of drought, but also the further declining number of animals available.

CHART 1: US cattle prices rising: feeder cattle prices at new record high



Source: Bloomberg, Commerzbank Corporates & Markets

Commerzbank Forecasts 2013/14

	Q3	Q4	Q1
Grains/Oilseeds/Cotton			
Wheat* (CBOT)	650	680	700
Wheat* (Liffe Paris)	190	195	200
Corn* (CBOT)	500	490	500
Corn* (Liffe Paris)	190	175	175
Soybean* (CBOT)	1400	1400	1350
Rapeseed* (Paris)	375	390	390
Cotton **	86	83	83
Softs			
Coffee (Arabica)**	120	120	125
(Robusta)***	1850	1800	1800
Cocoa*(Liffe London)	1600	1700	1750
Sugar** #11	17	17.0	17.0
Livestock			
Live cattle**	125	130	130
Feeder cattle**	155	155	155
Lean hogs**	87	83	83

*US-Cents per bushel

**US-Cents per pound

***USD per ton

^EUR per ton

°GBP per ton

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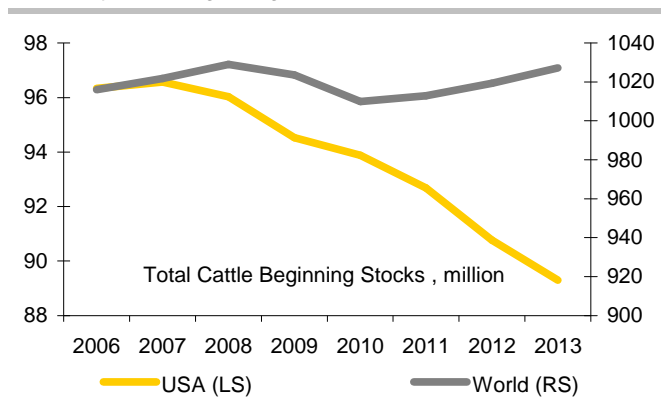
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Bloomberg: CBIR

At the same time, beef exports in the past four weeks have been 26% up on the average figure for the same period last year. That said, these data should not be viewed out of context: in the period from January to July 2013, exports were up a mere 3% year-on-year – what is more, given that the USDA expects exports to fall sharply in the fourth quarter, both quarter-on-quarter and year-on-year, total 2013 exports ultimately look set to end up 2% below the 2012 export figure. Less beef is likely to be exported to Russia and South Korea in particular. Exports are also expected to decline further in 2014 on the back of even lower US beef production.

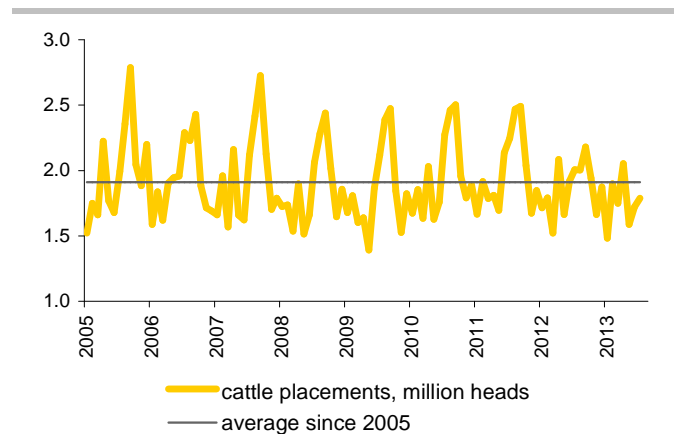
Although US beef must compete at the butcher's counter with pork and poultry, the production of which is on the increase in the US, the reduced supply of beef should ensure that US retail prices for beef remain high. Live cattle prices are thus also likely to continue trading at correspondingly high levels. In case the US corn and soybean crops should be smaller than anticipated, however, rising corn prices could weigh on prices for feeder cattle, since higher feed costs make it less attractive to increase feeder cattle herd sizes. Different views on this issue are also reflected in the heterogeneous investor positioning in feeder cattle, while a clear majority sees further upside potential for live cattle prices (charts 10 and 11).

CHART 2: Total US cattle numbers have been falling for years, beginning stocks, in million



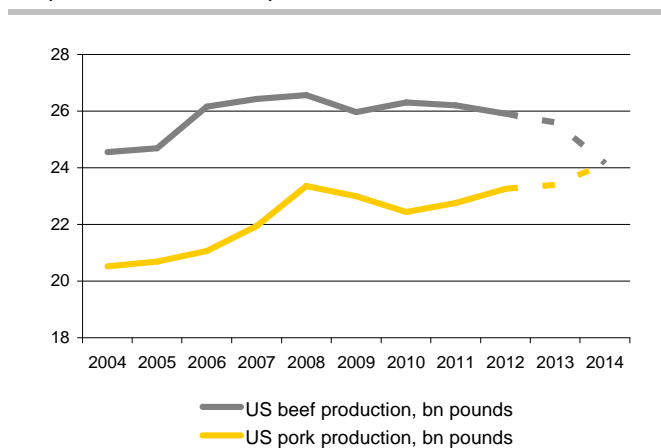
Source: USDA, Commerzbank Corporates & Markets

CHART 3: Feedlot placements are declining in million heads



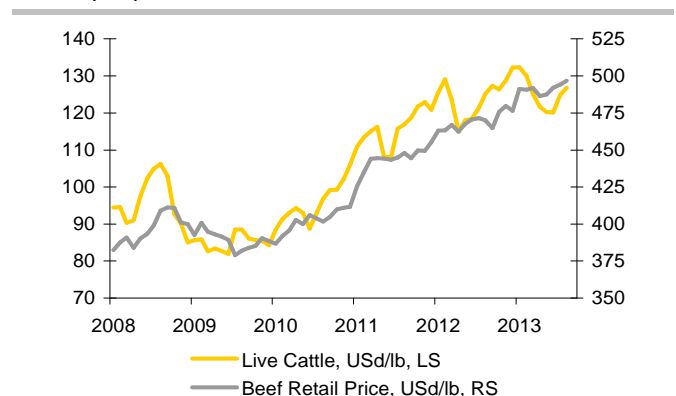
Source: USDA, Commerzbank Corporates & Markets

CHART 4: US beef supply to continue falling
US production, in billion pounds, 2013 and 2014 forecasts



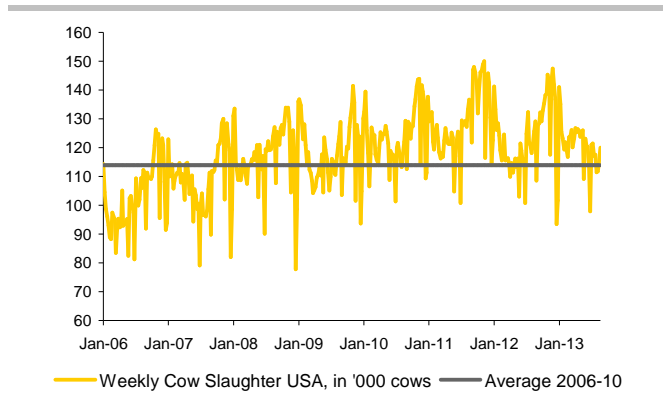
Source: USDA, Commerzbank Corporates & Markets

CHART 5: Cattle prices and beef prices in lockstep
in USd per pound



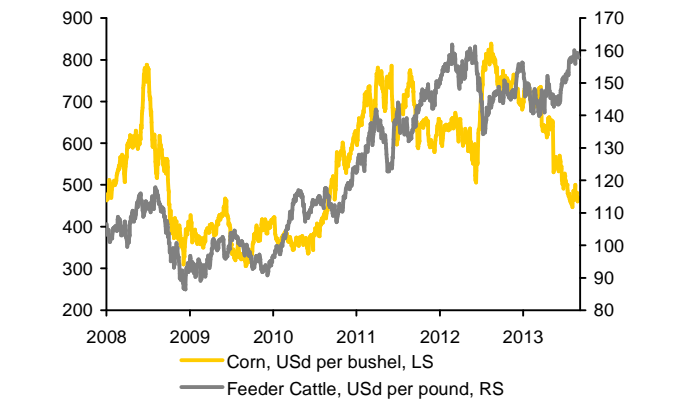
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 6: Slaughtering has declined on the previous year
Weekly data, in '000 cows



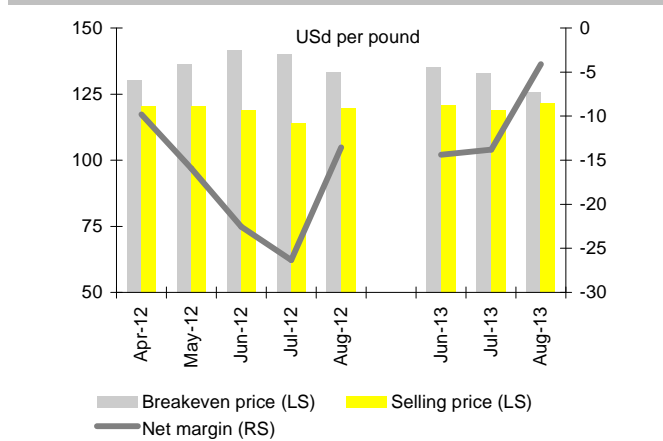
Source: USDA, Commerzbank Corporates & Markets

CHART 7: Corn prices are an important determinant of profitability
in USd per bushel (corn) and USd per pound (cattle)



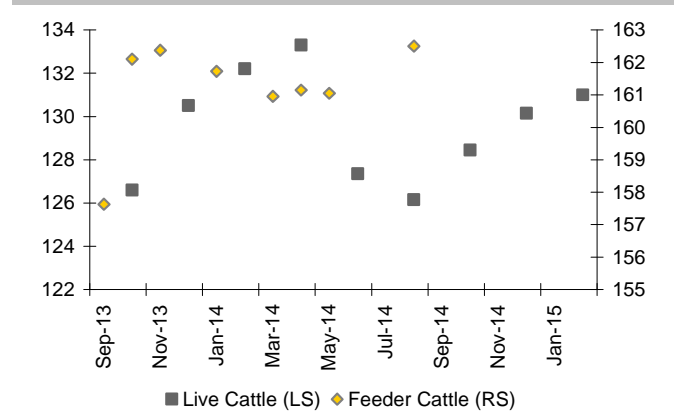
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 8: Profitability of feedlots has recently improved
in USd per pound, average slaughter weight 1,300 US pounds



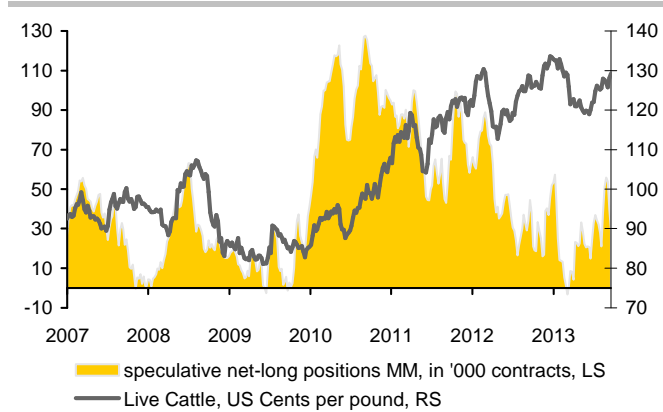
Source: USDA, Commerzbank Corporates & Markets

CHART 9: Forward curves show expectations of high prices
Price in US cents per pound at maturity, Sep 23, 2013



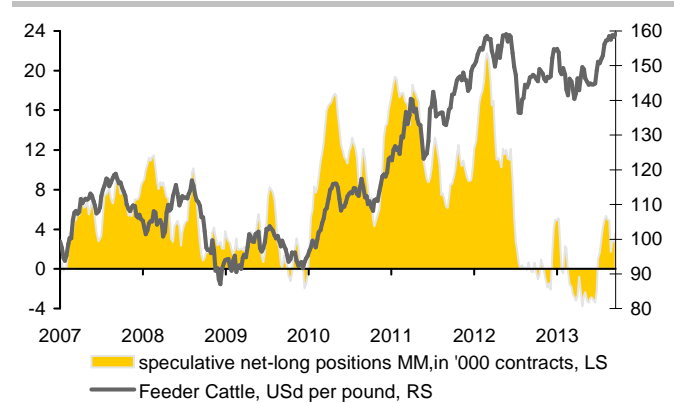
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 10: Investors betting on high prices for live cattle
Net-long positions, Money Managers, price



Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 11: No clear direction with investors in feeder cattle
Net-long positions, Money Managers, price



Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

At a glance

TABLE 1: Our forecasts

	Actual	Forecast								Yearly average		
	24-Sep-13	Q113	Q213	Q313	Q413	Q114	Q214	Q314	Q414	2012	2013	2014
Grains/Oil seeds/Cotton												
Wheat* (CBOT)	658	742	698	650	680	700	690	680	670	753	690	690
Wheat^ (Liffe Paris)	187	243	212	190	195	200	200	195	190	231	210	195
Corn* (CBOT)	449	711	648	500	490	500	520	540	550	691	590	530
Corn^ (Liffe Paris)	167	231	220	190	175	175	180	180	185	229	200	180
Soybeans*	1313	1437	1442	1400	1400	1350	1300	1250	1200	1449	1420	1280
Rapeseed^ (Liffe Paris)	362	467	439	375	390	390	380	380	370	480	420	380
Cotton**	84	83	86	86	83	83	82	82	80	80	85	82
Softs												
Coffee (arabica)**	117	144	134	120	120	125	120	120	120	176	130	120
Coffee(robusta)***	1688	2051	1950	1850	1800	1800	1850	1900	1900	2026	1900	1850
Cocoa° (Liffe London)	1679	1433	1517	1600	1700	1750	1800	1800	1850	1539	1550	1800
Sugar #11**	17.9	18.4	17.2	16.5	17.0	17.0	17.5	17.5	18.0	21.6	17.5	17.5
Livestock												
Live cattle**	131	129	120	125	130	130	128	130	132	124	126	130
Feeder cattle**	165	146	145	155	155	155	150	145	150	151	150	150
Lean hogs**	88	86	93	87	83	83	93	88	83	85	87	87

Quarterly / yearly averages* US Cents per bushel, ** US Cents per pound, *** US Dollar per ton, ^ EUR per ton, ° GBP per ton

The actual price refers to the most active forward contract, which can differ in terms of maturity.

TABLE 2: Import data and Inventories

Imports / Inventories	Last release		Net change			% change	
	Due date	Level	1 week	1 month	1 year	1 year	5-year Ø
Chinese imports, 000 tons, monthly							
Soybeans	31/08/2013	6370	-	-830	1950	44.1	48.1
Cotton	31/08/2013	280	-	-60	-30	-9.7	40.4
US inventories in mln bushel, quarterly, first day of the reporting month							
Corn	30/06/2013	2764.2	-	-	-384.0	-12.2	-23.2
Wheat (total)	30/06/2013	718.3	-	-	-24.3	-3.3	16.3
Soybeans	30/06/2013	434.5	-	-	-233.0	-34.9	-25.3

Source: USDA, Bloomberg, Commerzbank Corporates & Markets

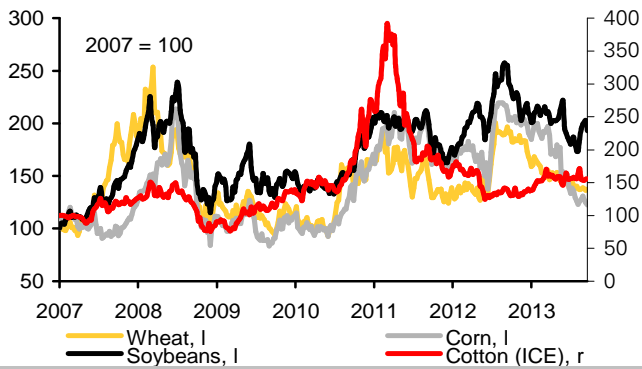
TABLE 3: History

	Actual	% change				Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412
		1 week	1 month	ytd	y-o-y								
Grains/Oil seeds/Cotton													
Wheat* (CBOT)	658	2.0	2.1	-15.2	-25.6	800	769	708	621	644	647	883	853
Wheat^ (Liffe Paris)	187	1.5	1.1	-24.6	-28.0	253	235	199	183	196	207	259	264
Corn* (CBOT)	449	-1.4	-4.3	-35.6	-39.5	673	724	693	623	640	599	775	739
Corn^ (Liffe Paris)	167	-1.0	-2.5	-30.2	-31.1	231	238	219	187	207	213	250	247
Soybeans*	1313	-2.3	-0.8	-6.6	-18.3	1385	1362	1358	1179	1273	1404	1638	1482
Rapeseed^ (Liffe Paris)	362	-1.8	-3.7	-20.5	-26.7	475	460	435	425	458	479	509	473
Cotton**	84	-0.9	0.9	12.9	17.2	179	152	105	95	93	80	73	73
Softs													
Coffee (arabica)**	117	2.5	0.7	-18.0	-31.6	256	273	257	230	206	171	173	155
Coffee(robusta)***	1688	1.1	-4.1	-11.7	-18.5	2286	2473	2207	1898	1948	2084	2109	1965
Cocoa° (Liffe London)	1679	-0.2	2.6	16.9	6.0	2153	1885	1887	1555	1489	1499	1619	1545
Sugar #11**	17.9	2.6	8.9	-8.1	-13.5	30.2	23.9	28.4	24.7	24.3	20.9	21.1	19.7
Livestock													
Live cattle**	131	1.8	3.7	-0.7	4.7	113	111	117	122	126	117	125	129
Feeder cattle**	165	4.1	3.7	6.8	12.4	130	132	137	146	155	155	143	148
Lean hogs**	88	0.3	3.6	2.9	18.1	92	95	88	88	89	89	77	82

US Cents per bushel, ** US Cents per pound, *** US Dollar per ton, ^ EUR per ton, ° GBP per ton.

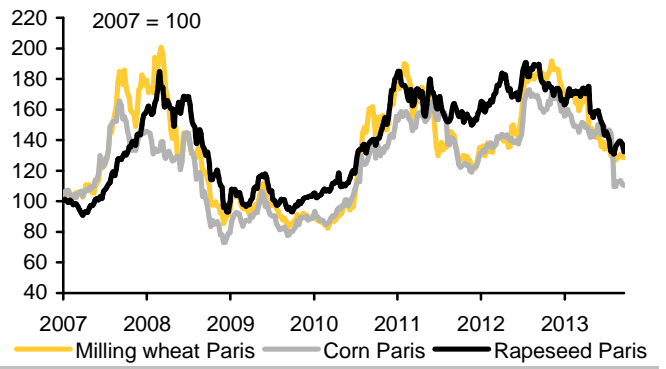
The actual price refers to the most active forward contract, which can differ in terms of maturity.

CHART 10: Price performance CBOT since 2007



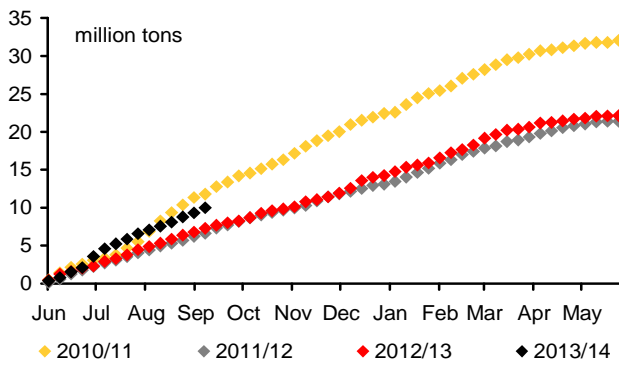
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 11: Price performance LIFFE since 2007



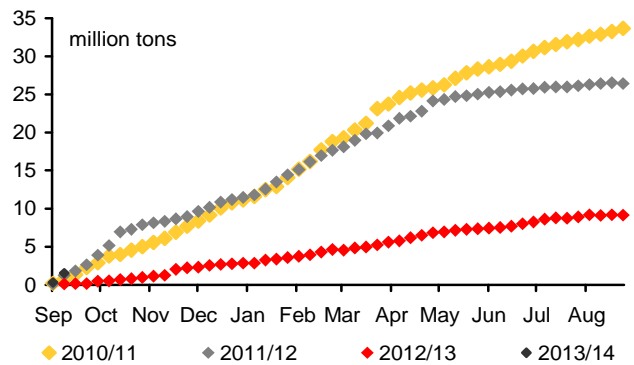
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 12: US wheat exports, weekly data cumulated



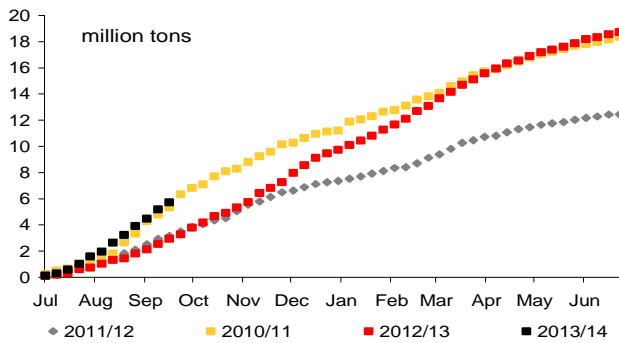
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 13: US corn exports, weekly data cumulated



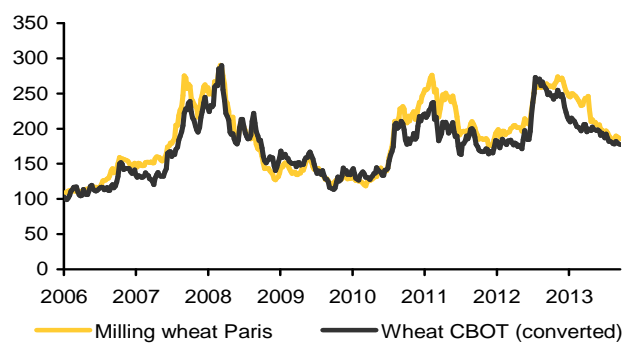
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 14: EU wheat exports, weekly data cumulated



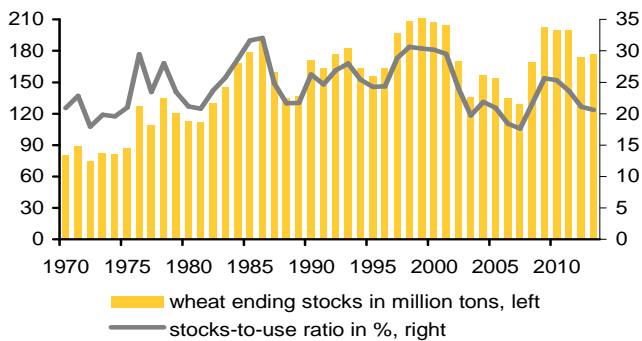
Source: EU, Reuters, Commerzbank Corporates & Markets

CHART 15: Wheat prices in comparison (in EUR per ton)



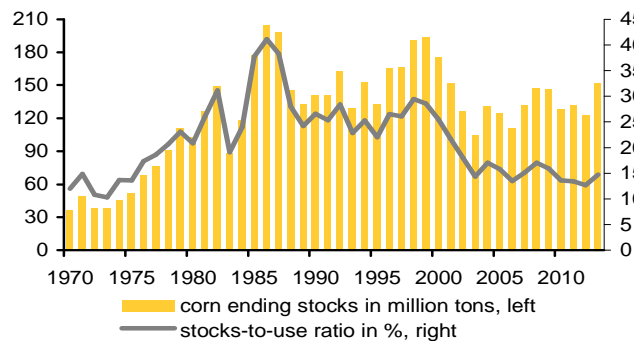
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 16: Global wheat stocks



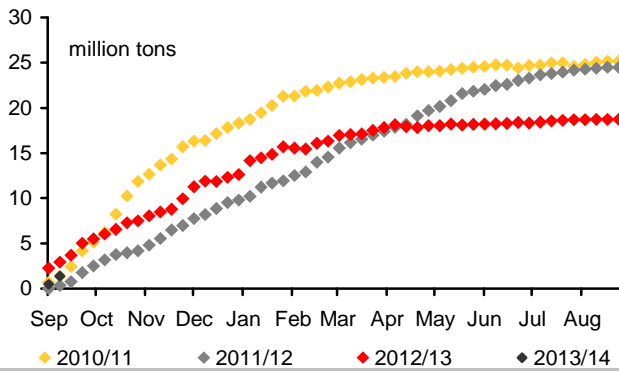
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 17: Global corn stocks



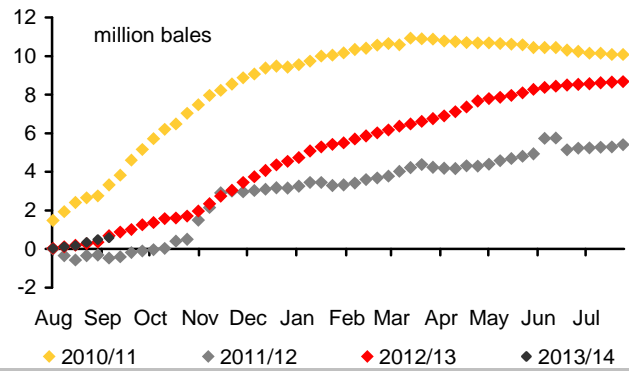
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 18: US soybean exports, weekly data cumulated



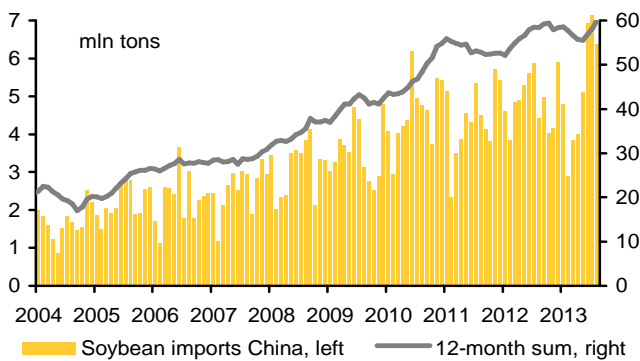
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 19: US cotton exports, weekly data cumulated



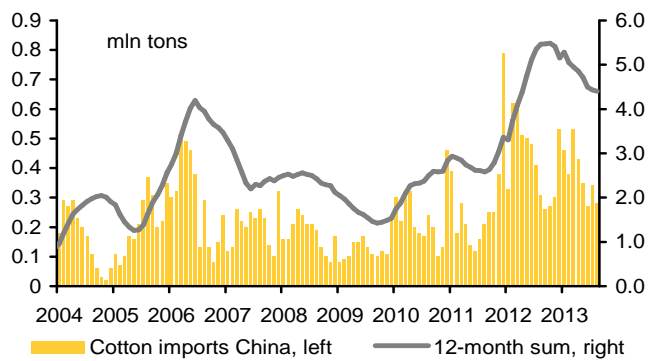
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 20: Soybean imports China (monthly data)



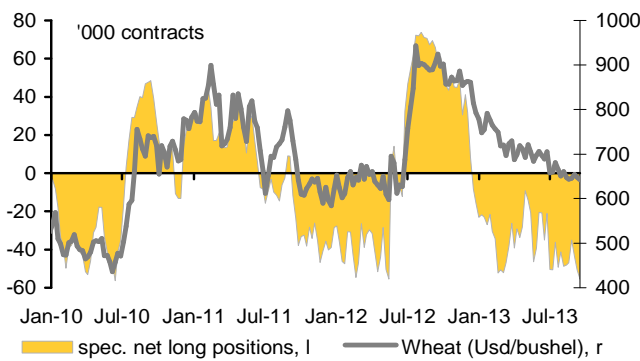
Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART 21: Cotton imports China (monthly data)



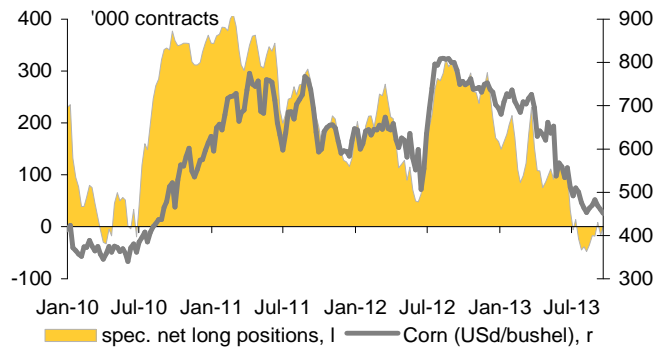
Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART 22: Net long positions of money managers (wheat)



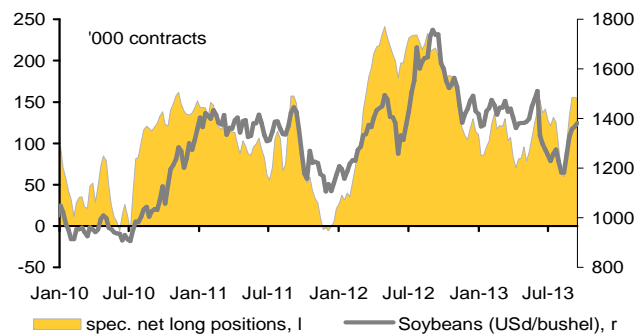
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 23: Net long positions of money managers (corn)



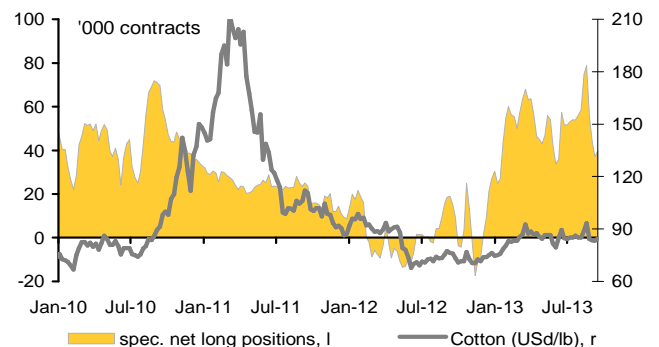
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 24: Net long positions of money managers (soybeans)



Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 25: Net long positions of money managers (cotton)



Source: ICE US, Bloomberg, Commerzbank Corporates & Markets

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