Macquarie Research

Commodities

MACQUARIE

Grains and Oilseed Outlook – Short-term weakness, Long-term Strength

July 2014

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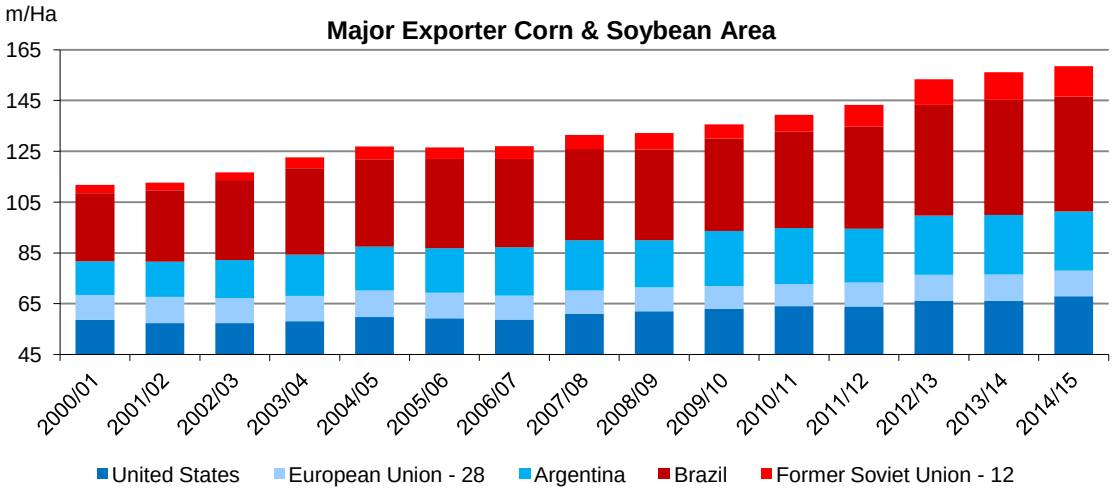
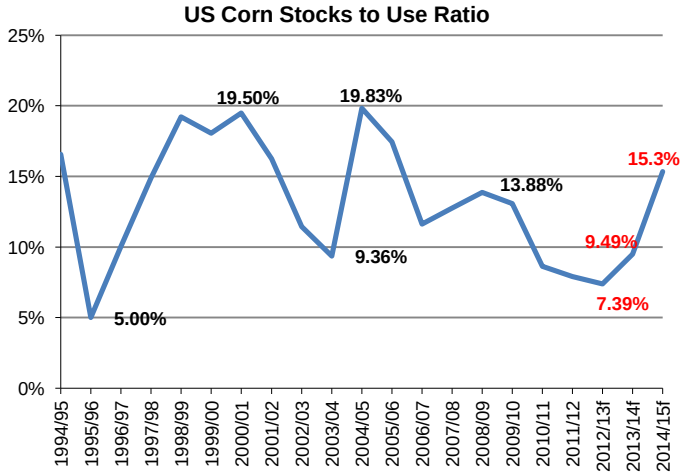
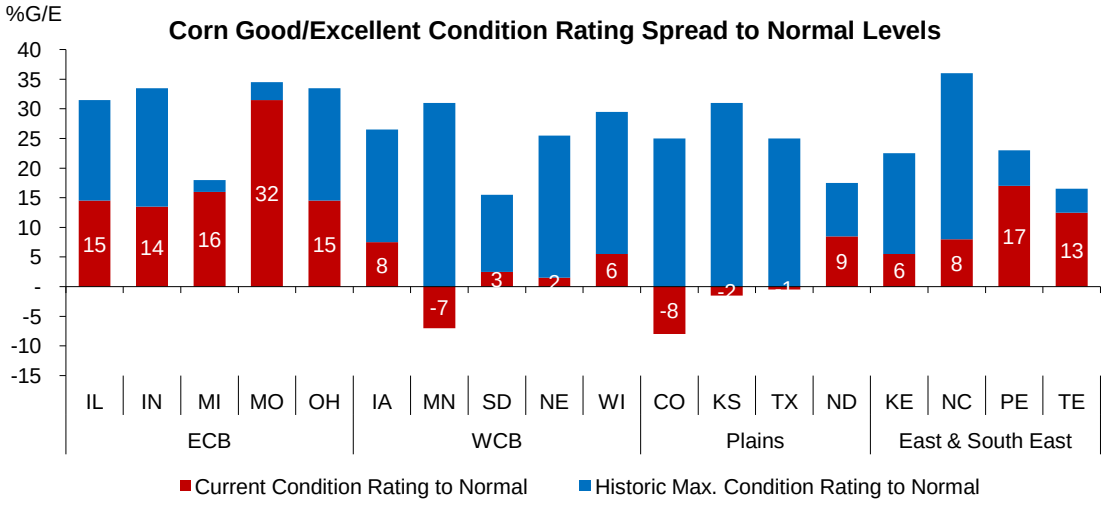
Farmers have responded to recent high prices

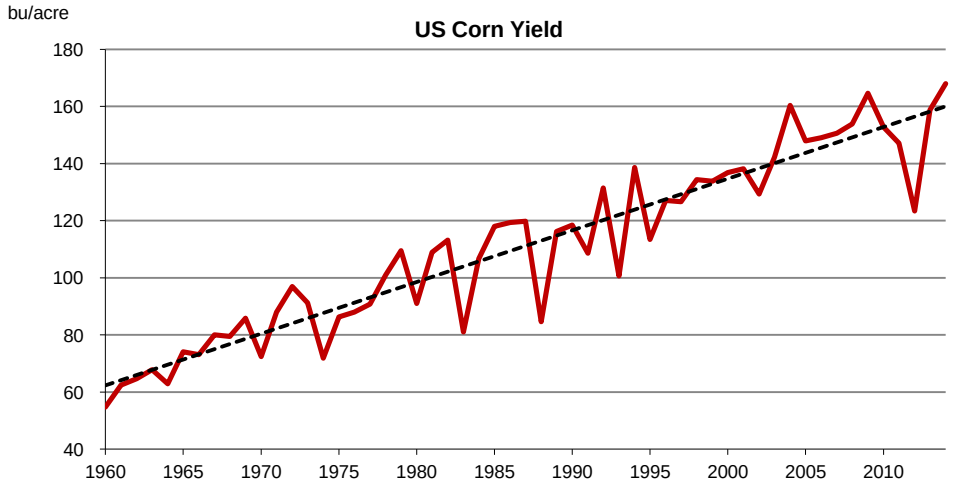




Source: USDA, Macquarie Research, July 2014

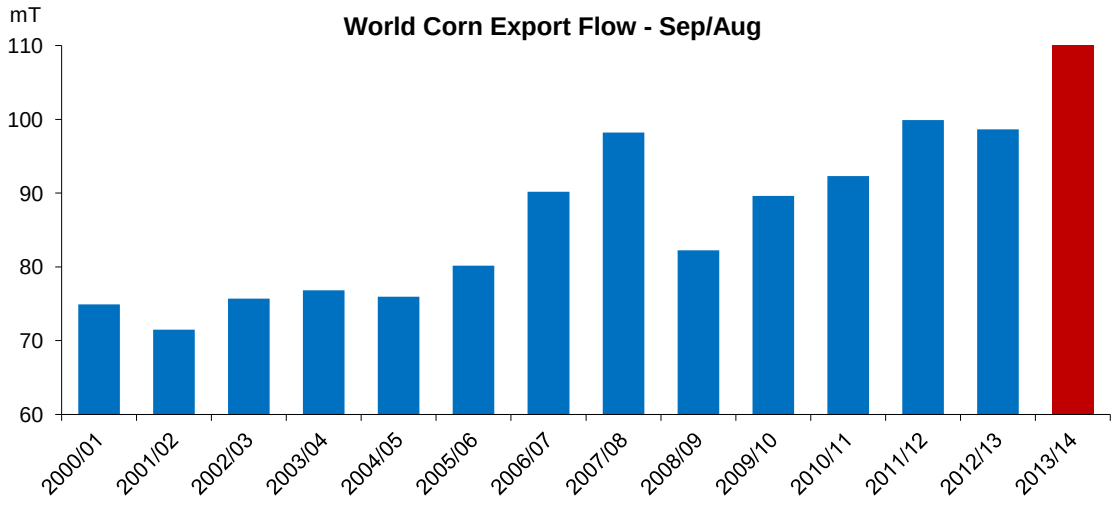
Is the US crop as good as people say, YES

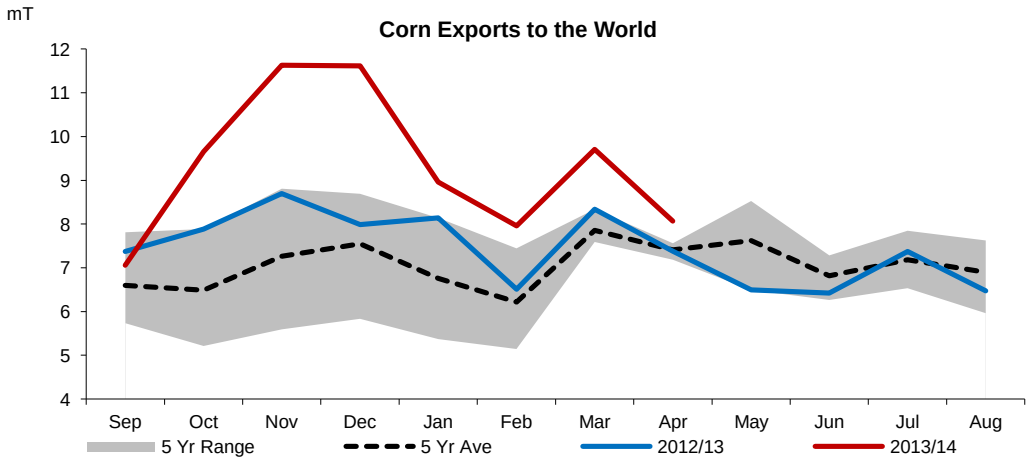




Source: USDA, Macquarie Research, July 2014

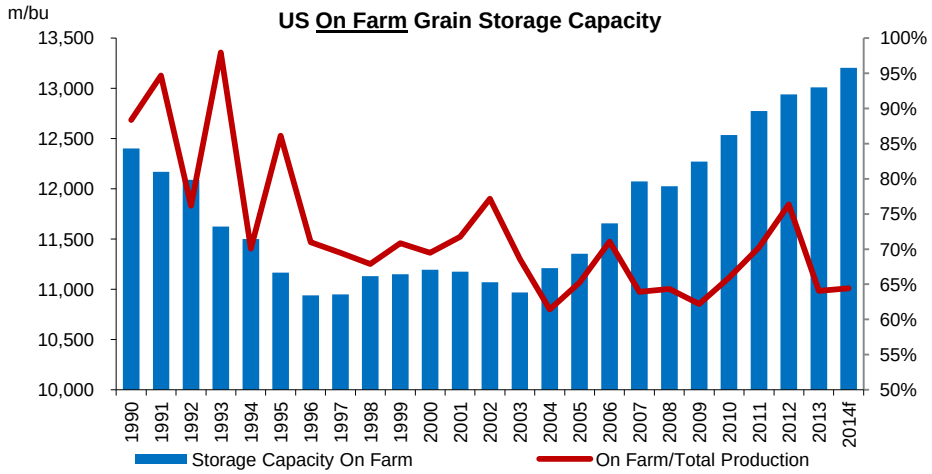
Consumers respond to low price carry markets

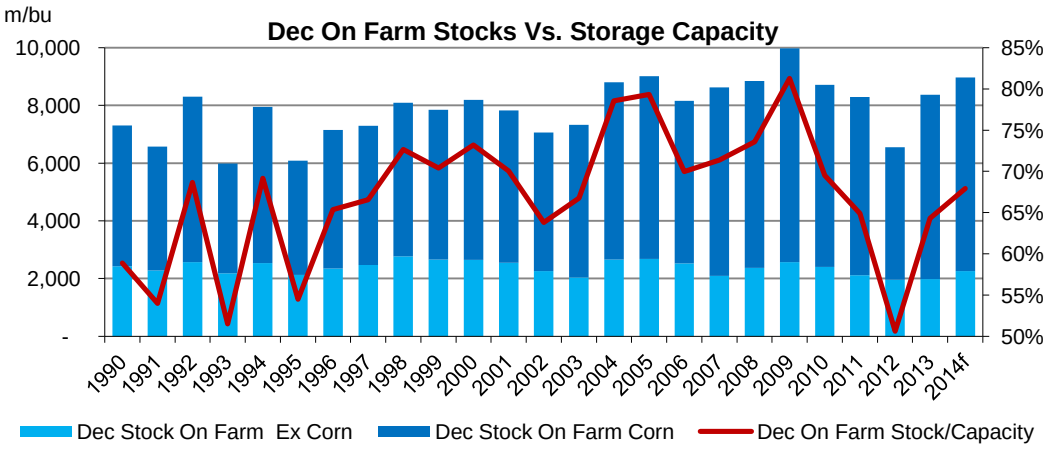




Source: Customs Data, Macquarie Research, July 2014

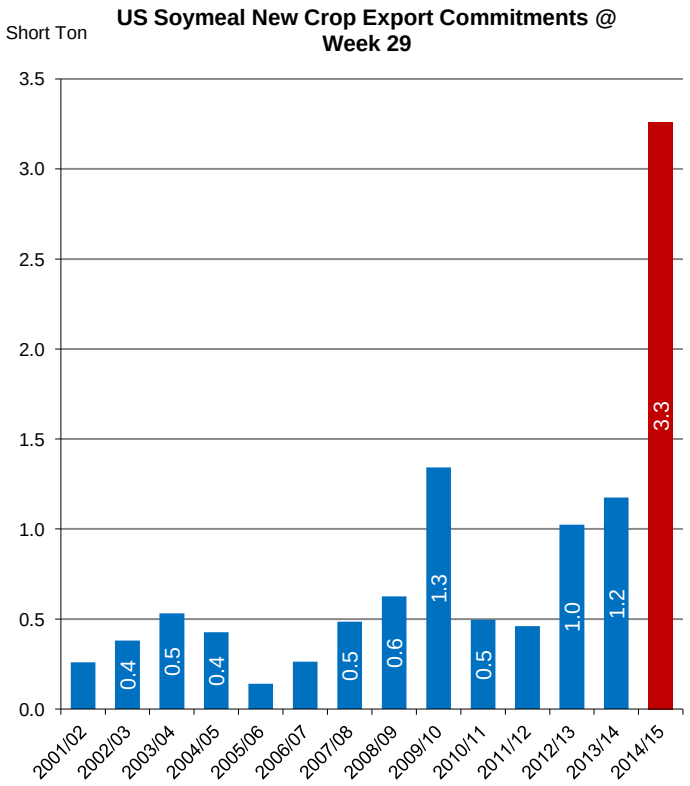
Invisible demand, the impact of on-farm storage

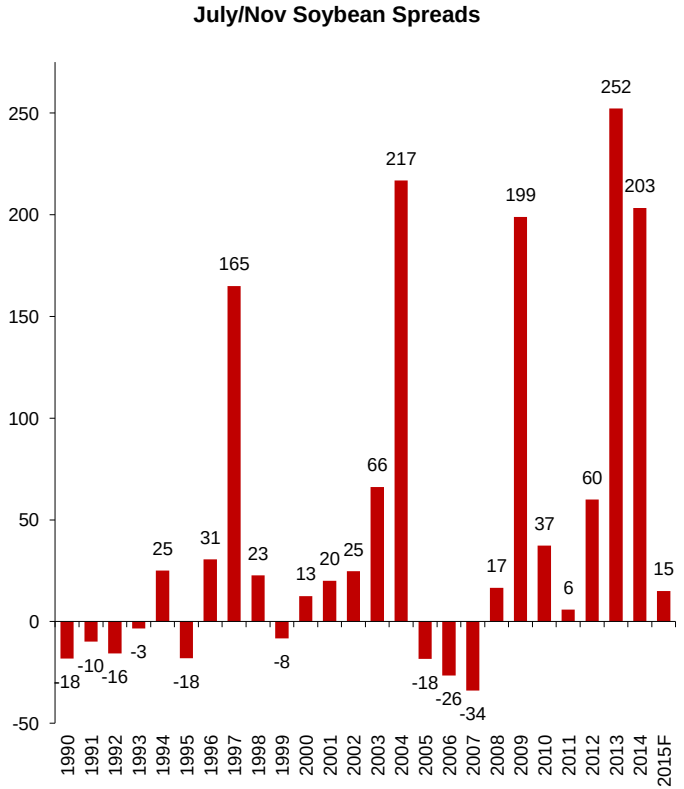




Source: USDA, Macquarie Research, July 2014

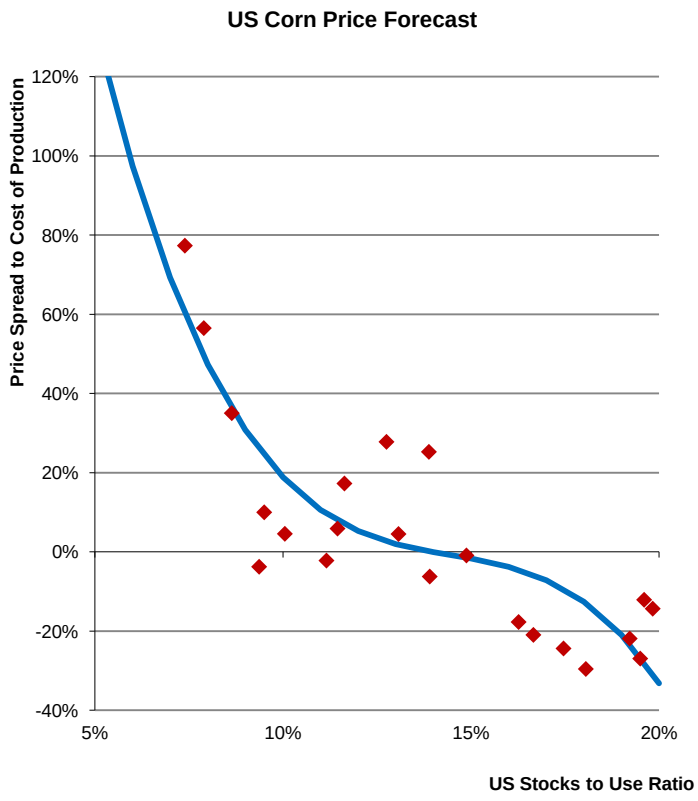
Soybeans could be a little more interesting

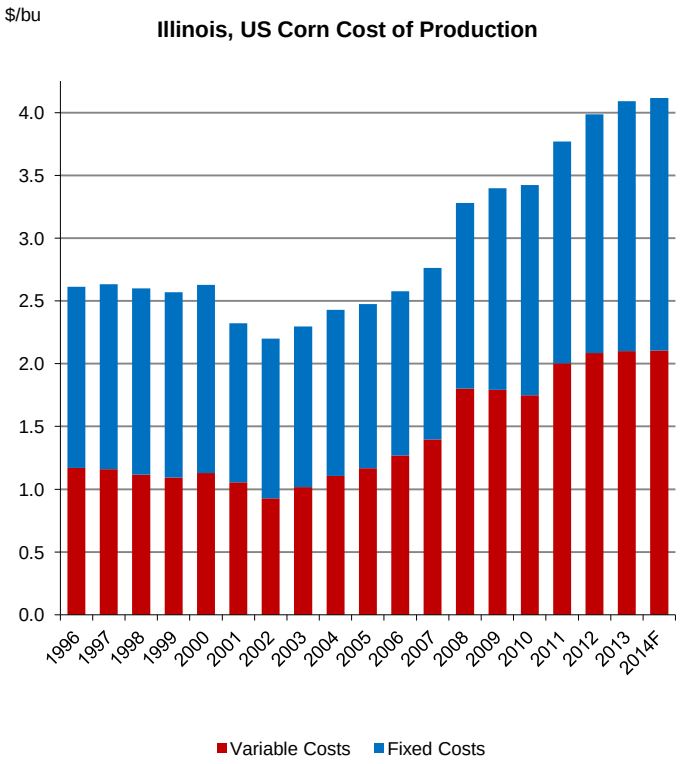




Source: USDA, Reuters, Macquarie Research, July 2014

What does this all mean for prices?

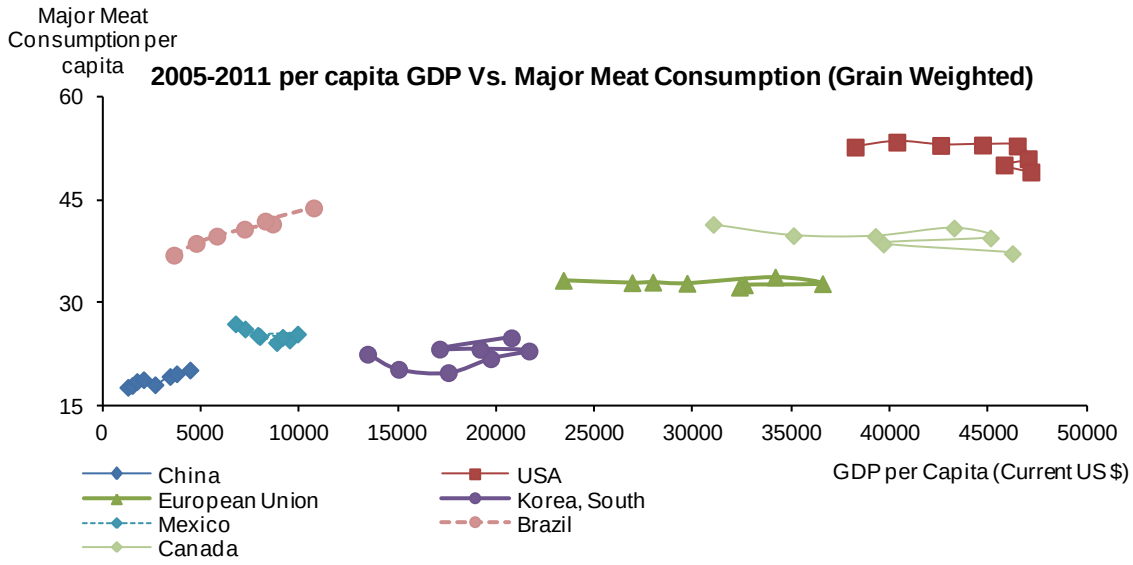




Source: USDA, Reuters, Macquarie Research, July 2014

Consumption Trends – the stablity of demand growth

Strong correlation between incomes and diet

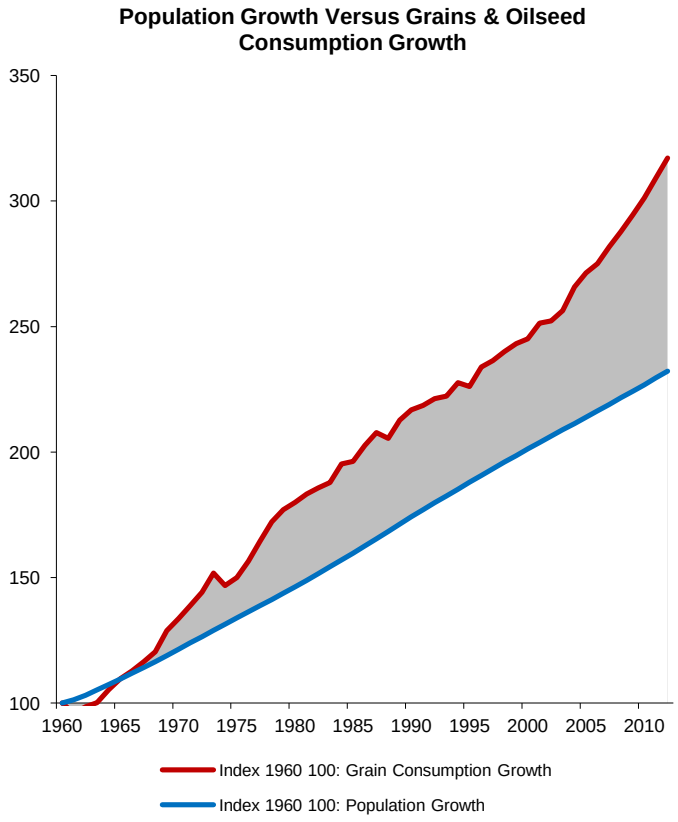


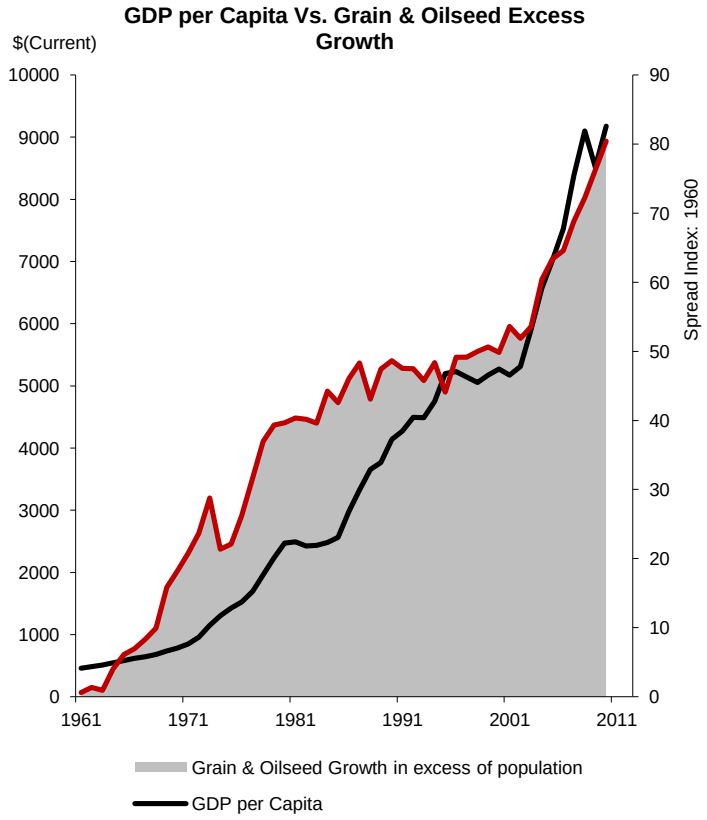
Source: USDA, Worldbank, Macquarie Research, July 2014

Chinese Agriculture in pictures

Source:Macquarie Research, July 2014

Basis of global grains and oilseed demand

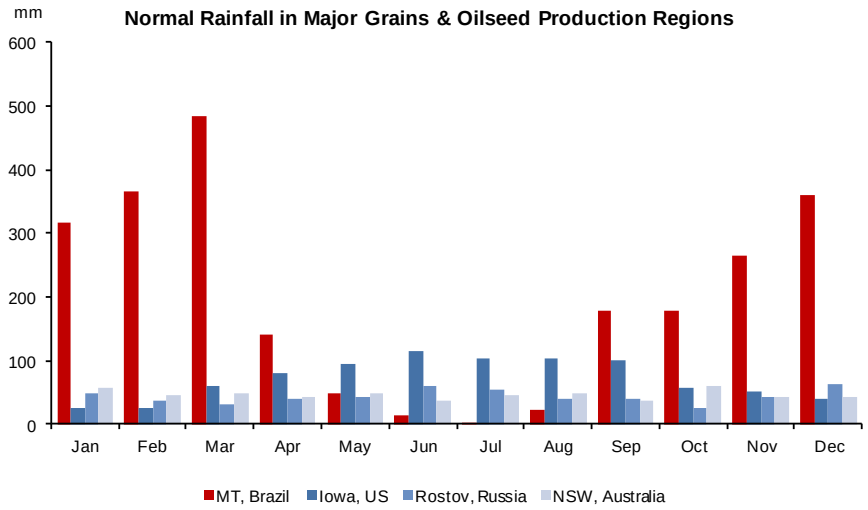


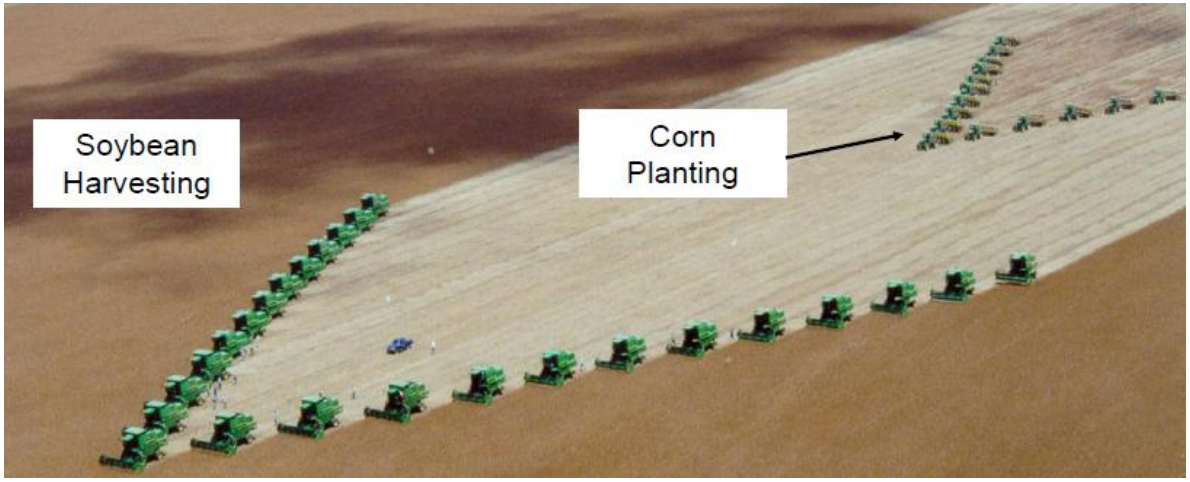


Source: World Bank, USDA, Macquarie Research, July 2014

Supply Growth – Greater Plantings

Mato Grosso is nearly the perfect place for growing crops



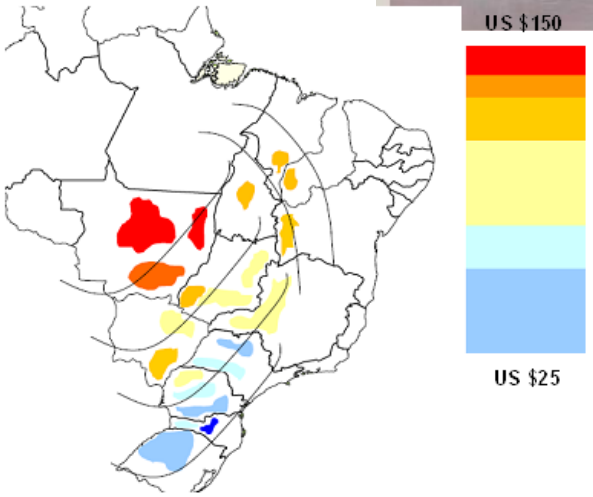


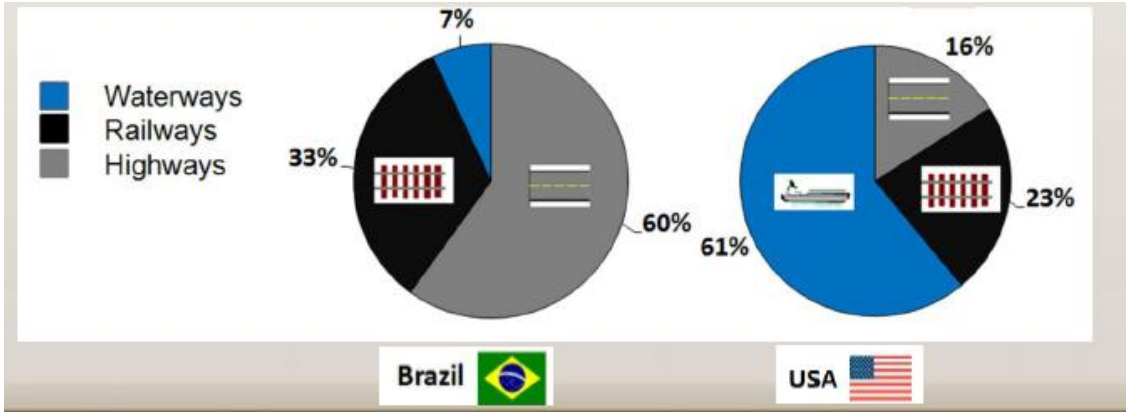
Source: Aprosoja, NOAA, Macquarie Research, July 2014

Poor infrastructure makes Brazil very expensive

Rodovia Lucas-Tapurah (96km) em 2002

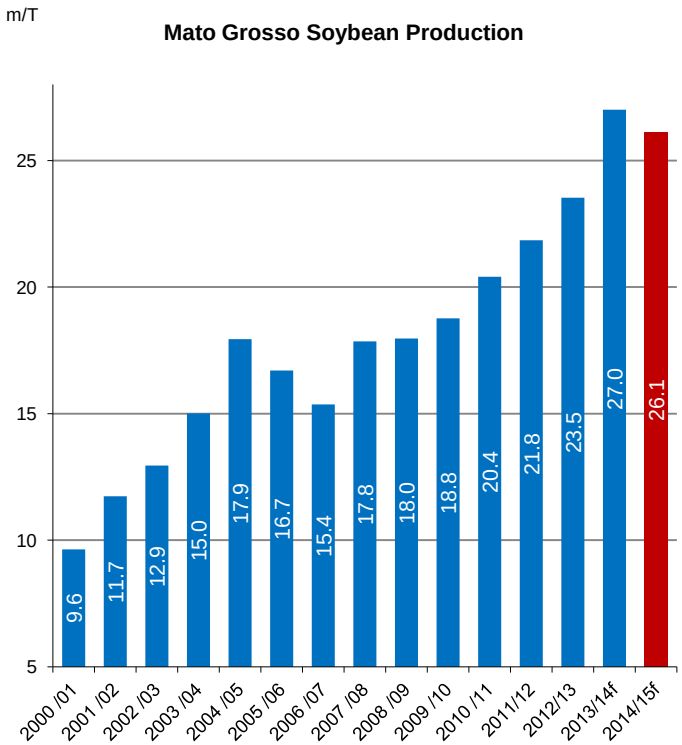
Rodovia Lucas-Tapurah (96km) atualmente

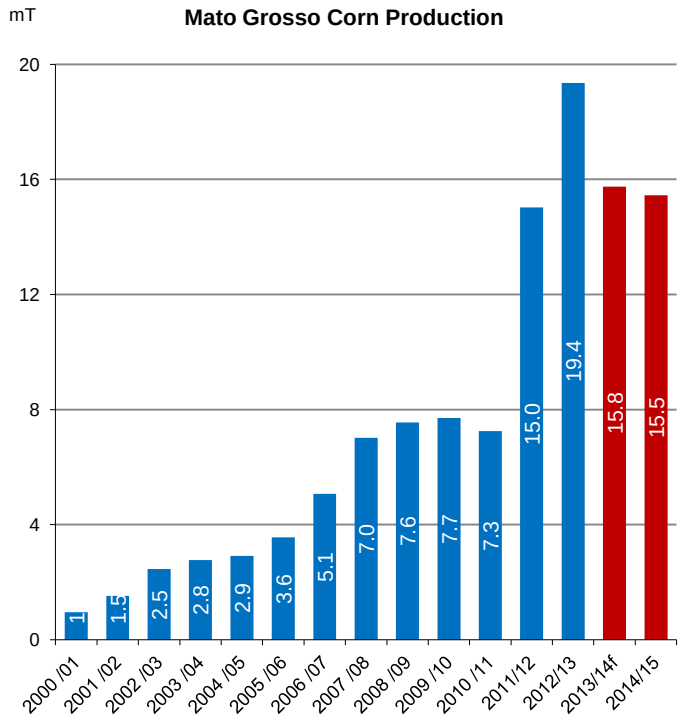




Source: APROSOJA, Macquarie Research, July 2014

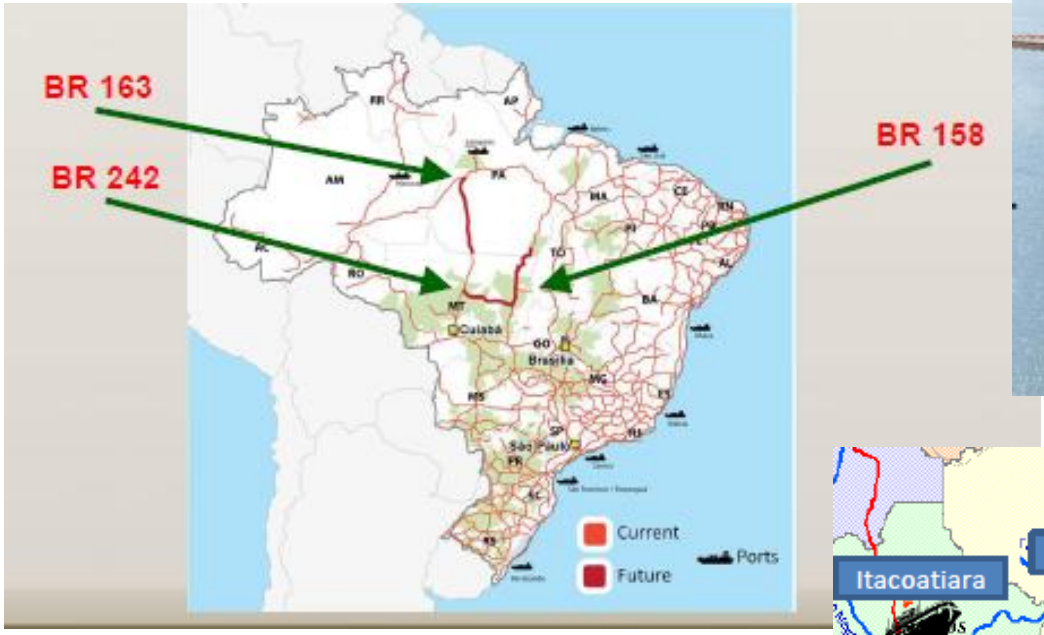
World prices rallied and Brazil responded in a big way





Source: Conab, Macquarie Research, July 2014

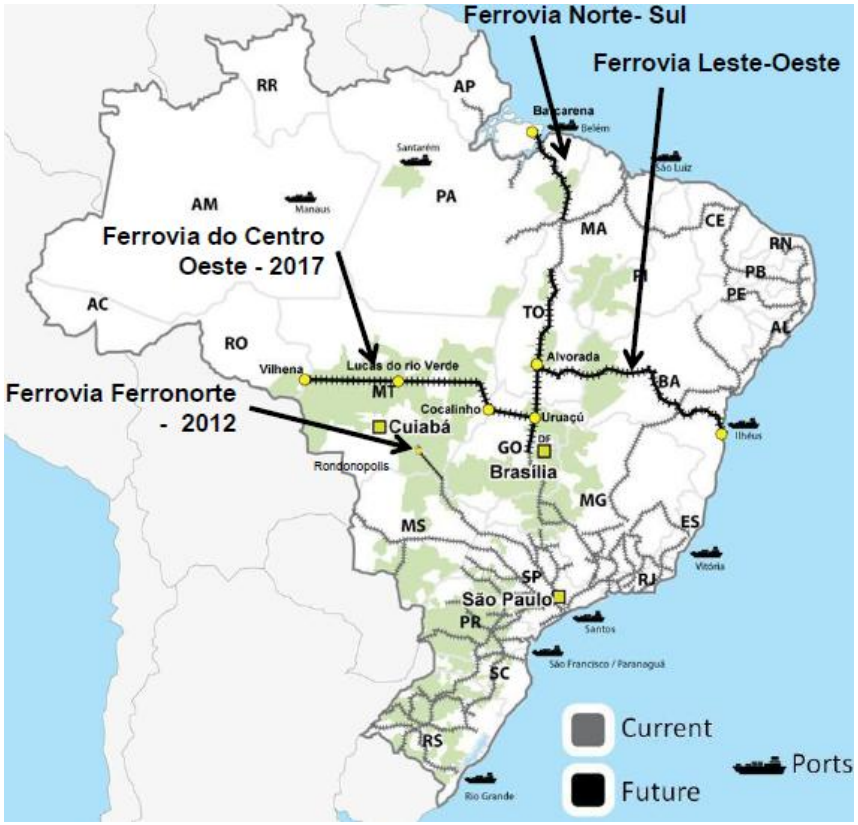
New roads will aid near-term growth, it's not enough though

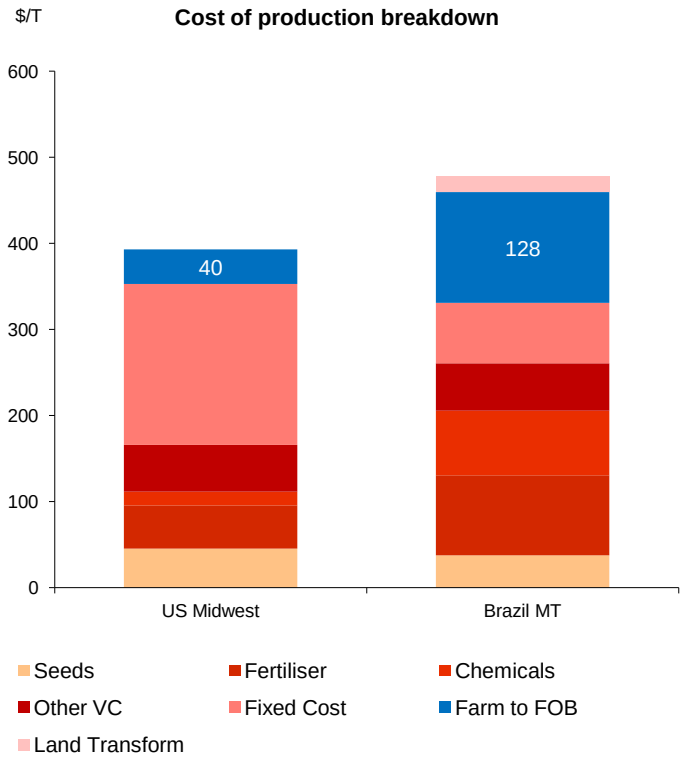


	Origin	Destination	Distance	Transport Cost ($R)	Cost Difference
1.	Lucas do Rio Verde	Santos	1,938 Km	300	0%
2.	Lucas do Rio Verde	Santarem	1,407 Km	217	-28%
3.	Cuiaba	Santos	1,607 Km	250	0%
4.	Cuiaba	Santarem	1,739 Km	270	8%

Source: Aprosoja, Macquarie Research, July 2014

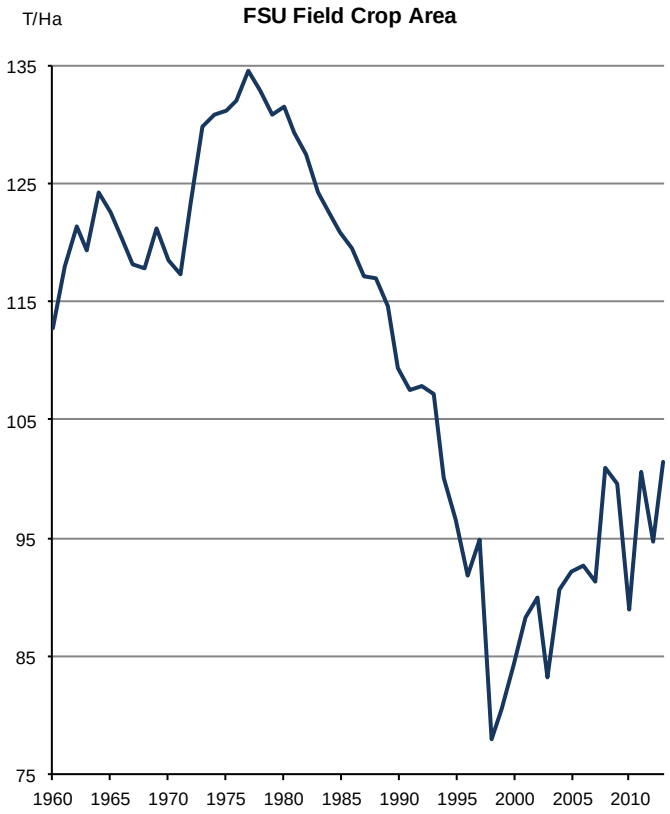
Rail is the solution, but it's a long way off

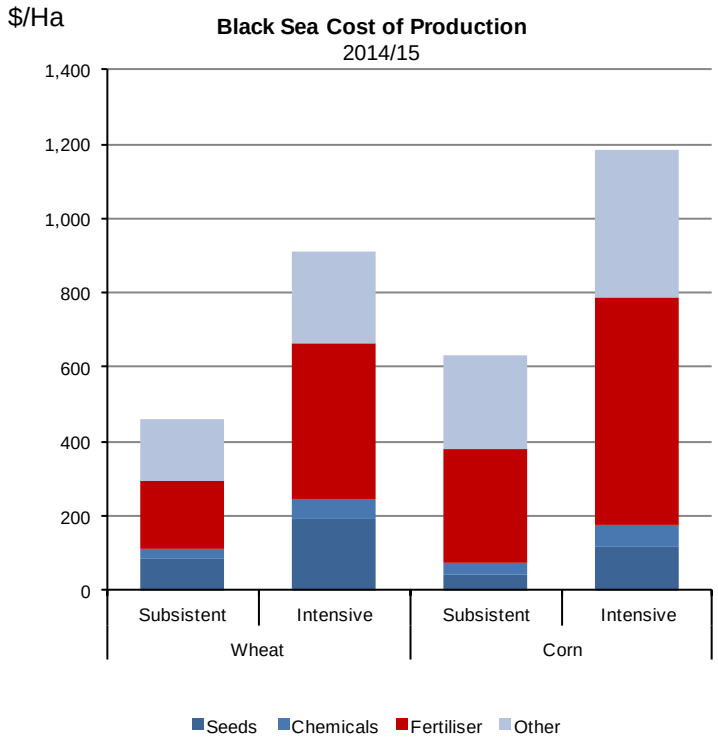




Source: Aprosoja, Macquarie Research, July 2014

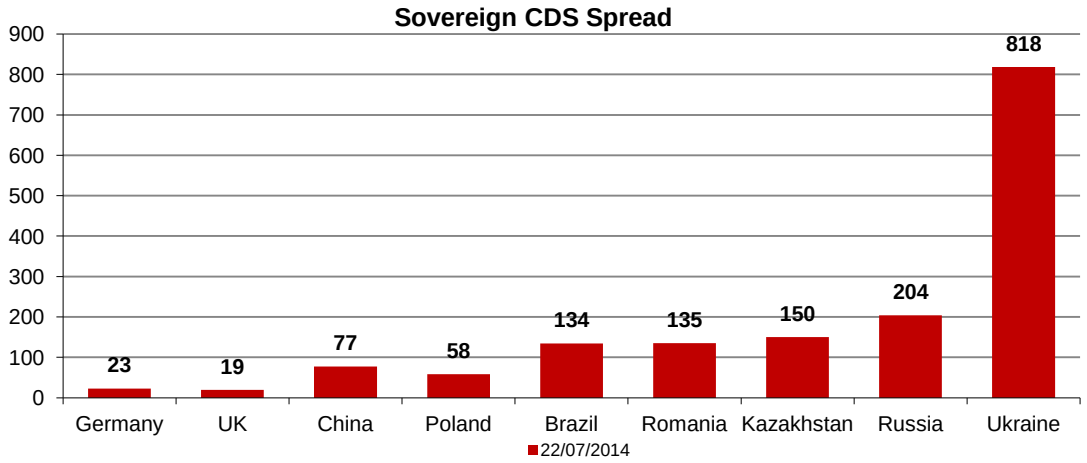
There is area and yield potential, but infrastructure & capital impede

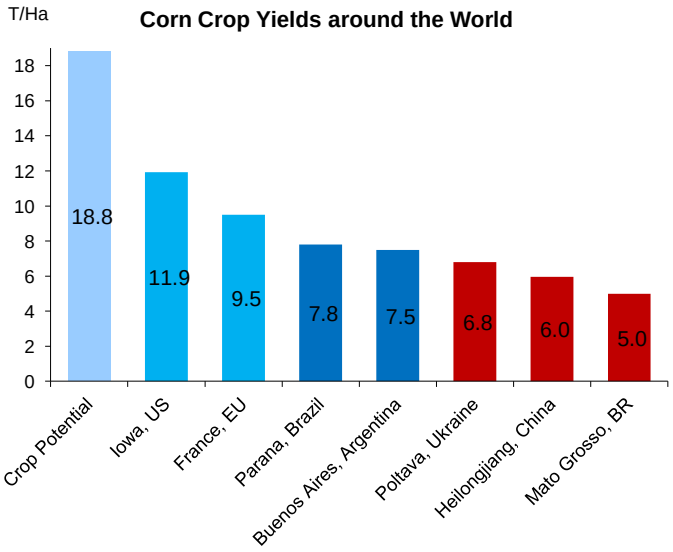




Source: USDA, UKRAC, Macquarie Research, July 2014

There is area and yield potential, but infrastructure & capital impede

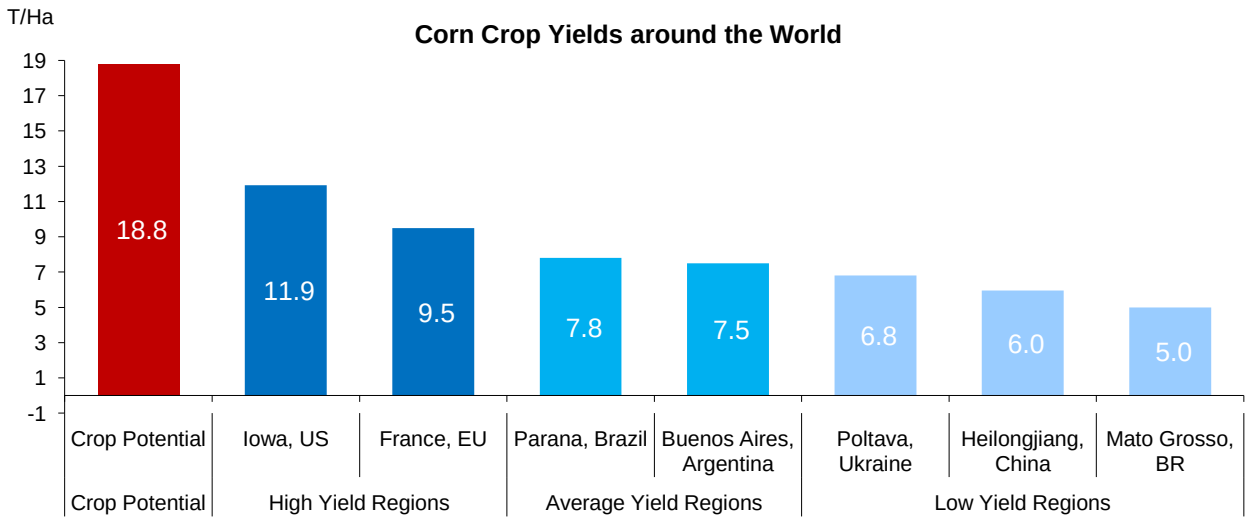




Source: USDA, Bloomberg, Macquarie Research, July 2014

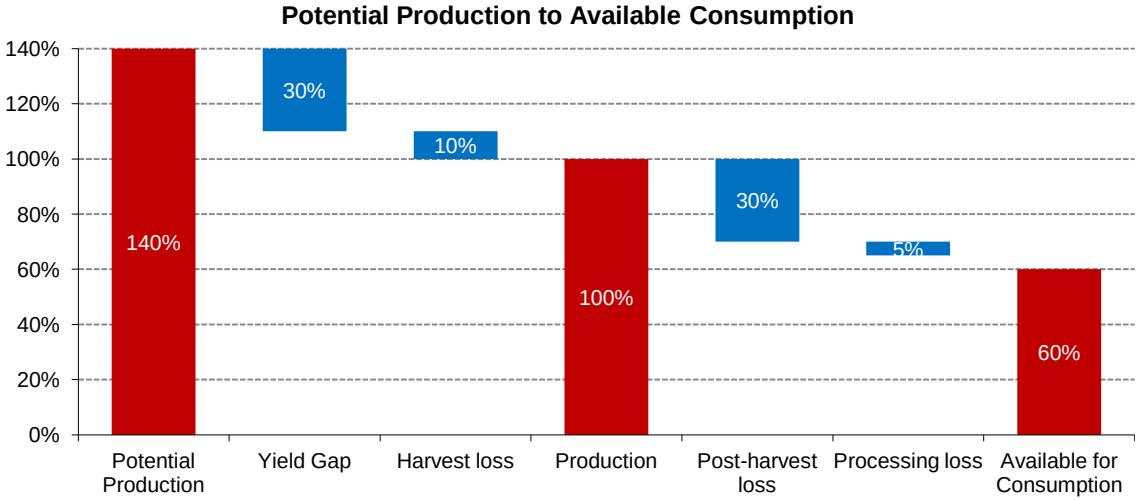
Supply Growth – Efficiency improvement

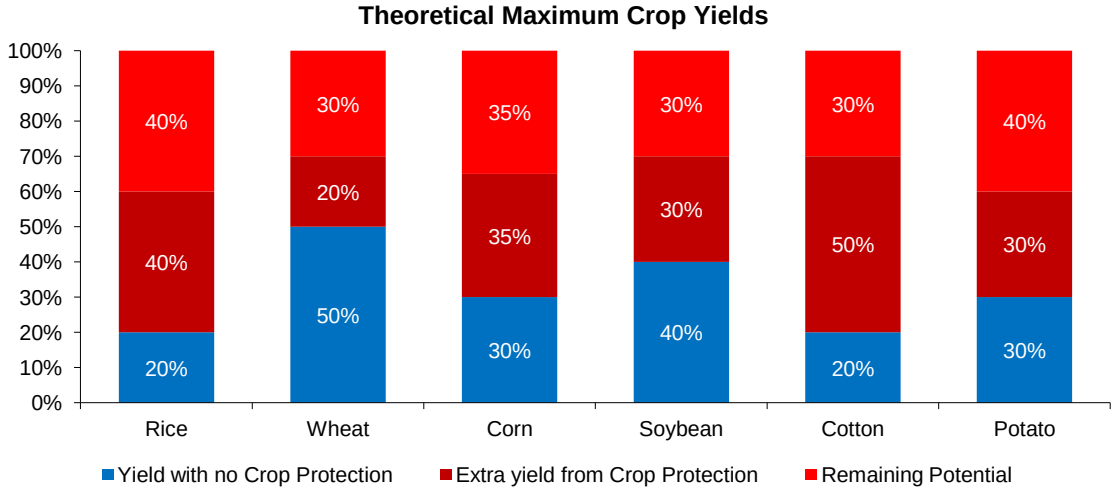
Lots of room for improvement in yields around the world



Source: USDA, Nature of Biotechnology, Customs Data, Macquarie Research, Ju1 14

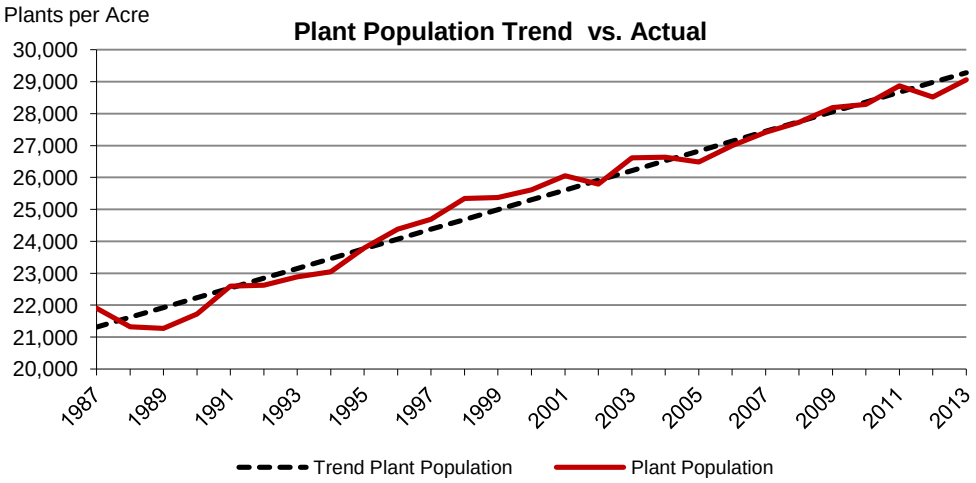
What do we need to do to increase yields?

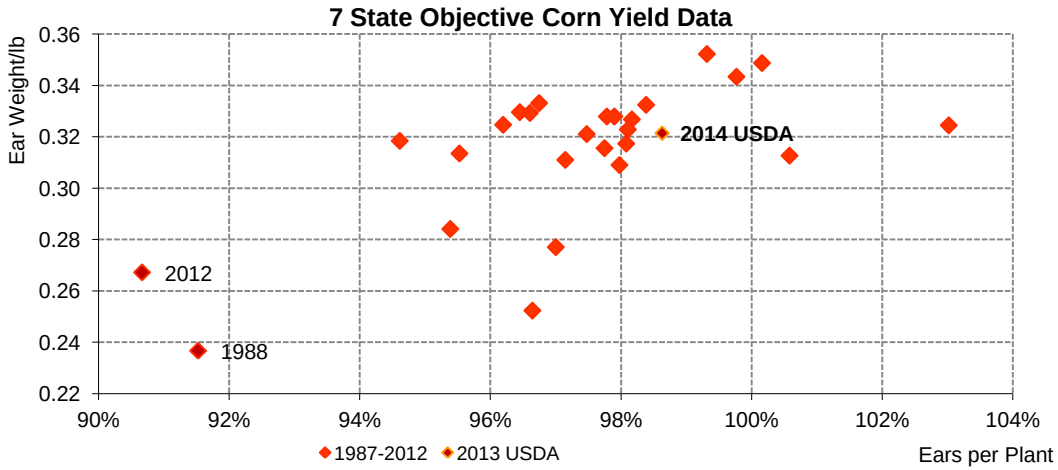




Source: Syngenta, Macquarie Research, Ju1 14

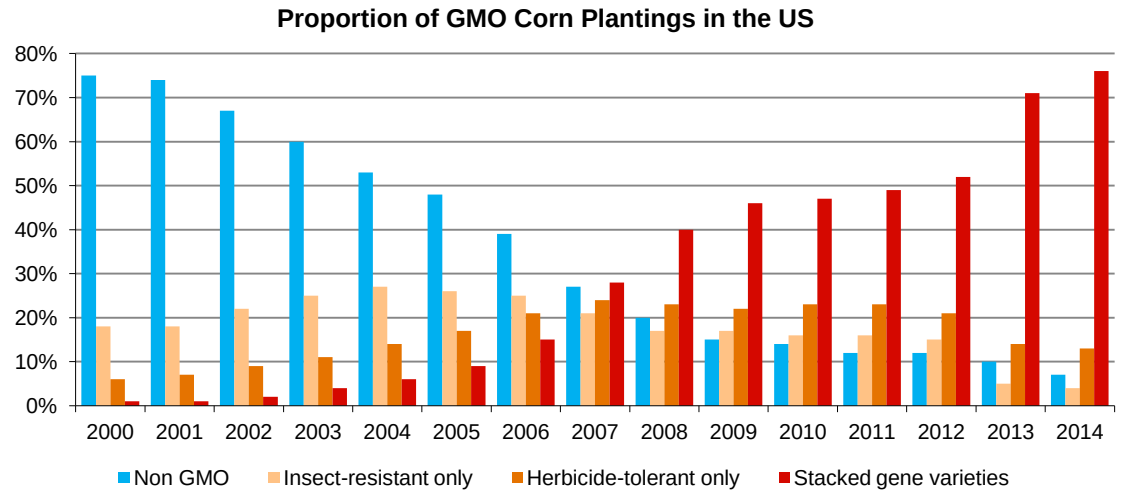
CORN – The make up of US corn yields

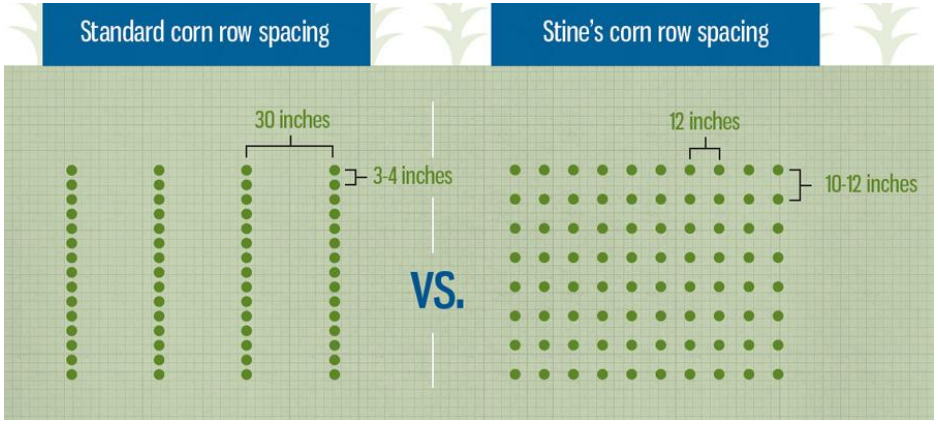




Source: USDA, Macquarie Research, Ju1y 2014

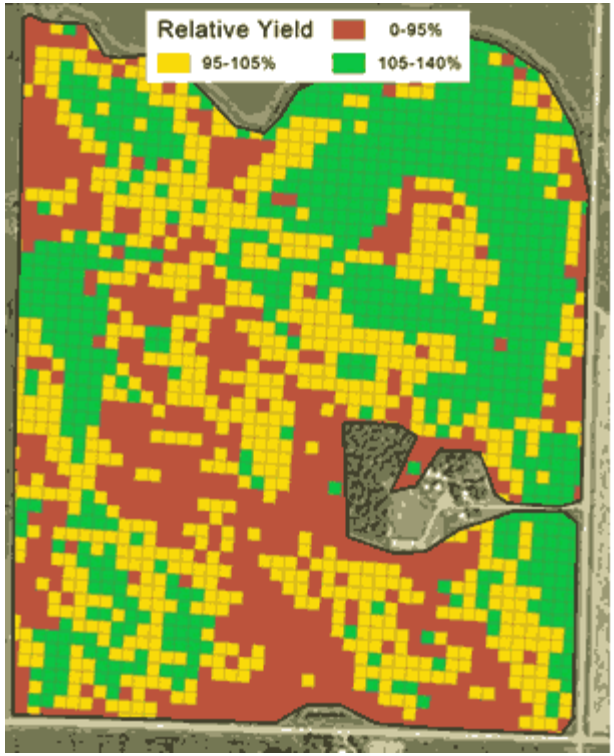
Are farmers taking full advantage of GMO seed varieties?





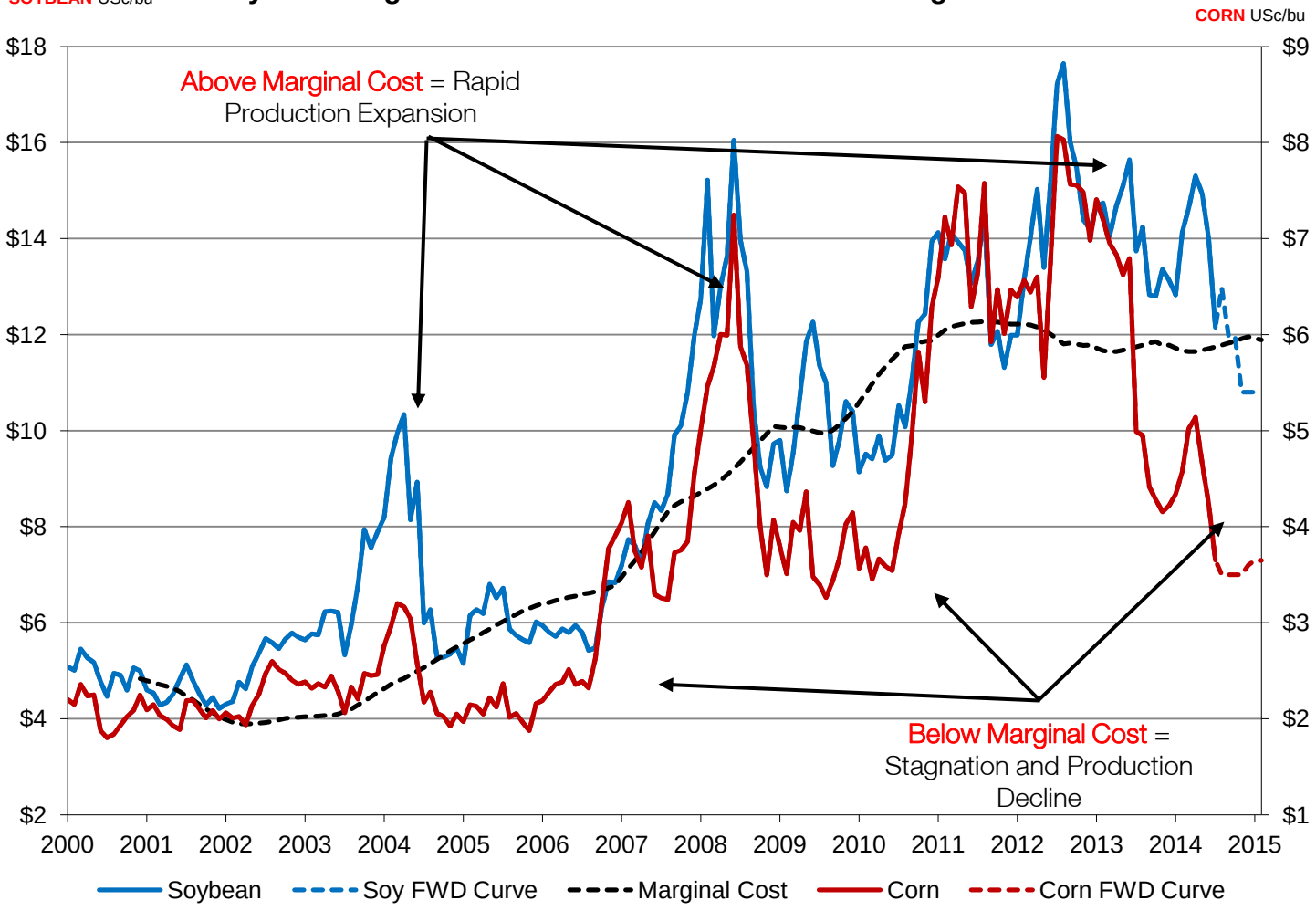
Source: USDA, Stein Seeds, Macquarie Research, July 14

Variable rate seeding technology can massively improve yields



Source: USDA, MDA, Kinze, Macquarie Research, July 14

Cycles of Agriculture: Historical Prices Versus Marginal Costs



Source: Reuters, Macquarie Research, July 14

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return > 3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return > 3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield.

Macquarie – Asia/Europe

Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected <-10%

Macquarie First South - South Africa

Outperform – return > 10% in excess of benchmark return
Neutral – return within 10% of benchmark return
Underperform – return > 10% below benchmark return

Macquarie - Canada

Outperform – return > 5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return > 5% below benchmark return

Macquarie - USA

Outperform – return > 5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return > 5% below benchmark return

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60-100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40-60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30-40% in a year.

Low–medium – stock should be expected to move up or down at least 25-30% in a year.

Low – stock should be expected to move up or down at least 15-25% in a year.

* Applicable to Australian/NZ stocks only

Recommendation – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit /efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.67%	60.69%	34.67%	42.33%	55.41%	44.84%	(for US coverage by MCUSA, 6.76% of stocks followed are investment banking clients)
Neutral	33.00%	23.93%	38.67%	50.92%	38.51%	35.87%	(for US coverage by MCUSA, 7.25% of stocks followed are investment banking clients)
Underperform	15.33%	15.38%	26.67%	6.75%	6.08%	19.28%	(for US coverage by MCUSA, 0.48% of stocks followed are investment banking clients)

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