COMMERZBANK

Commodity Spotlight Agriculturals

04 December 2013

Outlook 2014: Many surpluses – for now at least!

Currently there is little sign of a supply shortage for wheat in 2014, nor for oilseed, cotton or corn. Negative price performance could reduce the corn-growing area, particularly in the USA, but this should provide only moderate price uplift if the large surplus expected in the current season materialises. For coffee prices, given the prospect of a bumper harvest in Brazil, we expect at best a recovery, but no trend reversal. It is a similar story for sugar, but we see further upside potential for cocoa prices in view of market deficits.

Wheat:

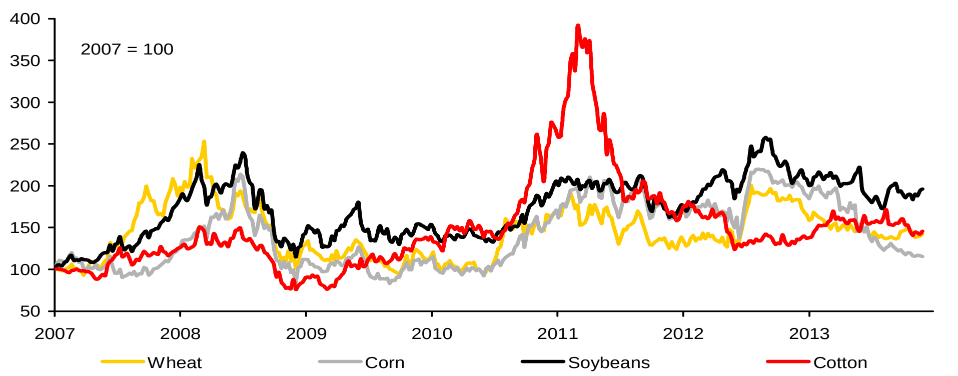
The global wheat harvest in 2013/14 will probably reach a record high of potentially more than 700 million tons with very good harvests also in the EU and Canada. Having said that, while the Black Sea region enjoyed a better harvest than in the drought-stricken previous year, Russia in particular had a disappointing result. In Argentina too, the rainfall arrived too late to avoid damage to the wheat plants. However, demand also increased more strongly than anticipated. The EU in particular can look forward to high international demand for its wheat. The feared slowdown in EU export activity due to strong exports from the Black Sea region did not materialise, in view of weaker-than-expected harvests in the latter region combined with the need to increase their own stockpiles, as well as quality problems. EU wheat benefits from this, which accounts for the more buoyant performance of wheat prices on this side of the Atlantic in the last few weeks (chart 2, p. 2). Reports are now coming in from Australia that rain and frost have impacted the quality and quantity of the recent harvest, resulting in a smaller-than-expected increase in supply compared with the previous year. This will boost the exports of other suppliers – including the USA, whose wheat is now significantly cheaper compared with EU wheat.

Although not all harvests have been brought in yet, so that uncertainties still remain, the wheat market is likely to be adequately supplied in the 2013/14 season. A moderate surplus is entirely possible. The market is therefore being driven by the prospects for the 2014 harvest.

Contrary to the USDA's prediction made in February 2013 in its long-term forecasts up to 2022/23, the USA has probably sown a larger area with wheat for the 2014 harvest compared with the previous year. Sowing is already finished and the sprouting seed is rated as significantly better than last year's. Informa Economics estimates an increase of 3% and significantly higher production growth of 10%.

Within the EU, only France experienced certain problems with its winter wheat sowing, which the MARS forecasting unit of the European Commission considers to have been overcome. The consultancy firm Agritel estimates a 2-3% increase in winter wheat acreage

CHART 1: **Prices on US exchanges**



Source: Bloomberg, Commerzbank Corporates & Markets

Commerzbank Forecasts 2014

	Q1	Q2	Q3
Grains/Oilseeds/Cotton			
Wheat* (CBOT)	680	690	670
Wheat^ (Liffe Paris)	205	200	190
Corn* (CBOT)	430	460	480
Corn^ (Liffe Paris)	175	175	175
Soybean* (CBOT)	1275	1250	1200
Rapeseed^ (Paris)	370	360	360
Cotton **	78	75	72
Softs			
Coffee (Arabica)**	105	100	105
(Robusta)***	1550	1500	1550
Cocoa°(Liffe London)	1775	1800	1800
Sugar** #11	17.5	18.5	19.0
Livestock			
Live cattle**	130	128	130
Feeder cattle**	160	155	150
Lean hogs**	85	93	88

*US-Cents per bushel
**US-Cents per pound
***USD per ton
^EUR per ton
°GBP per ton

Analyst
Eugen Weinberg
+49 69 136 43417
eugen.weinberg@commerzbank.com

Analyst
Carsten Fritsch
+49 69 136 21006
carsten.fritsch@commerzbank.com

Analyst
Barbara Lambrecht
+49 69 136 22295
barbara.lambrecht@commerzbank.com

Analyst
Michaela Kuhl
+49 69 136 29363
michaela.kuhl@commerzbank.com

Analyst
Daniel Briesemann
+49 69 136 29158
daniel.briesemann@commerzbank.com

Seeding has been satisfactory overall in the EU…

in France. In Germany the wheat acreage is likely to remain at roughly the previous year's level. In the UK, where in the last year extremely wet weather made sowing much more difficult and many areas could not be put down to winter wheat, the situation is expected to return to normal, which would mean an increase of over 20%. For the EU as a whole, the analytical service Stratégie Grains expects the acreage to increase by 4%. So all in all, EU wheat production may well increase next year, provided the weather plays along.

… and better than feared in the Black Sea region

In Russia, the outlook for the 2014 winter wheat harvest is better than was initially feared. Wet weather had caused problems with sowing. Whereas in early October the Russian agriculture minister expected that only 13m hectares could be cultivated instead of the planned 16m hectares, he has since raised his forecast to at least 14.5m hectares. In Ukraine too, the situation does not appear nearly as problematic as was feared for a time; the agriculture minister does not expect any significant decrease in the winter wheat acreage. Initial estimates indicate that persistent dry weather will reduce China's wheat harvest in 2014. It will be interesting to see whether India can establish itself as an exporter, or whether the 2012/13 and 2013/14 seasons will remain an exception.

China will have to moderate its aim to become self-sufficient

Only a few observers dare to predict the global supply of wheat in 2014/15. They include analysts at Informa Economics with an estimate of 702.5m tons, which would represent a drop of less than 1% compared with their current estimate for 2013/14. The International Grains Council IGC expects global acreage to expand by 1.4%. Despite continuing uncertainty, a plentiful international supply could again meet with robust demand in 2014/15. China in particular will play a role here, especially if a disappointing harvest further increases import demand. It would then become increasingly doubtful whether China can fulfil its desire for near-total self-sufficiency in the future. Already in 2013/14, China's imports are expected to nearly treble to over 8m tons (chart 3).

Price movements are currently diverging in Chicago and Paris

It was mainly reports from Russia and Ukraine that caused wheat prices to rise in September and October, while corn, soybeans and recently also cotton fell back. The wheat price in Paris is currently able to maintain its high level, despite a partial all-clear from the Black Sea region due to high EU export activity. The US wheat price, on the other hand, cannot stay immune to the negative price trend for US corn. The US price might receive a boost if the negative reports from Australia and Argentina come true and American exports benefit from this.

Expectation of high 2014 harvest affects price developments

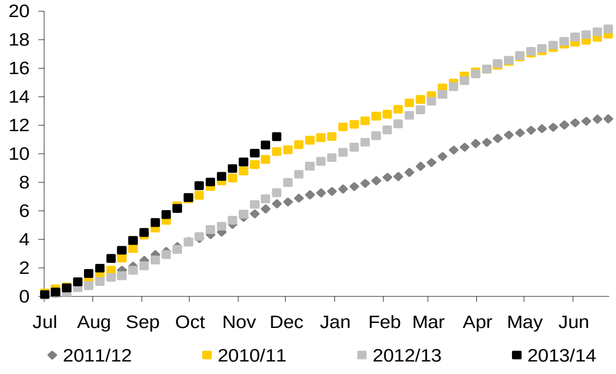
Uncertainty about the prospects for 2014 and buoyant export activity should support wheat prices in the near future. However, we are optimistic regarding the supply in 2014, which should be reflected in falling prices, particularly in the second half of 2014. For the fourth quarter of 2014 we expect a wheat price of 650 US cents per bushel in Chicago and 185 EUR per ton in Paris.

Corn:

Record-high corn harvest in the US

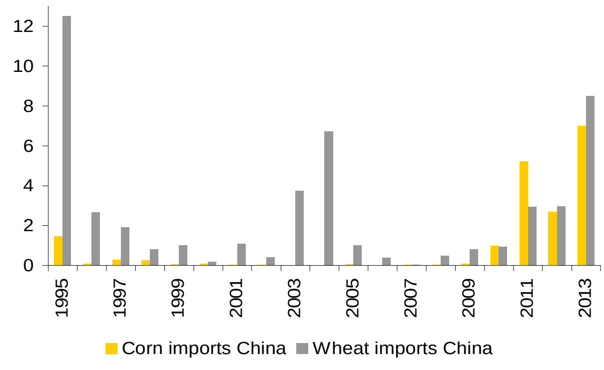
In the corn market, although predictions of a record US harvest have experienced a few "ups and downs" in recent months, a surplus of almost 30m tons is now firmly expected for the current season. This has caused prices to tumble by 40% since the spring. The fact that prices did not fall beyond a 3½-year low is probably thanks to the USDA, whose November forecasts

CHART **2**: **Wheat: EU exports remain very dynamic**
Accumulated EU wheat exports, in million tons



Source: Reuters, Commerzbank Corporates & Markets

CHART **3**: **China increases imports of wheat and corn**
Chinese imports, in million tons



Source: USDA, Commerzbank Corporates & Markets anticipated a US harvest approaching, but not exceeding, 14bn bushels. The fact that Brazil's production will probably be significantly reduced due to lower prices, while Argentina's production will stagnate at best, does not alter the fact of a record high supply of 950m tons or more in 2013/14.

Negative price movements will likely cause a reduction of acreage

The negative price performance of corn since the beginning of the year has been far more pronounced than for wheat or soybeans, in view of an expected harvest increase of 30% in the USA and a jump in US corn stocks from a 16-year low to an 8-year high. This is likely to reduce the incentive to sow fields with corn in early 2014. In contrast to wheat, the decline in US corn acreage predicted in the USDA's long-term forecast appears realistic from a current perspective (chart 4). A drop of around 5% is widely expected. However, yields could rise in line with the long-term trend to over 160 bushels per acre, which has already been achieved in the current season according to the latest USDA forecasts. While the USDA is not expected to comment on the 2014/15 season until its outlook conference in February, Informa Economics has already ventured a forecast that both the US and global supply of corn will be at least 2% lower compared with 2013/14. This might still result in another, albeit smaller supply surplus.

Tightening of the price spread to wheat is expected

Therefore, assuming normal weather conditions, the relative availability of corn will probably decline again compared with wheat in 2014/15, leading to a narrowing of the price difference between corn and wheat. We also expect corn to recover in absolute terms, even if the high prices of 2011 and 2012 are likely to remain a long way off. For Q4 2014 we expect a corn price of 480 US cents per bushel in Chicago.

Uncertainty about US ethanol policy

It remains unclear what will be the impact of the US Environmental Protection Agency's (EPA) proposal to cut back on the mandatory addition of ethanol to gasoline, because of auto industry fears of damage to engines. The EPA is still waiting for government approval. Even if the proposal is approved, in which case it is estimated that 200-250m fewer bushels of corn will be needed to produce ethanol, the matter will initially become the subject of legal disputes.

Effects of rising US corn prices and falling EU wheat prices on the EU corn price cancel each other out

The Paris corn price plummeted to a similar extent to the Chicago price, but has held up better since September, now that many observers have lowered their forecasts for the European harvest since the summer. We expect prices in Paris to remain at their current level of 175 EUR per ton. We assume that the effects of a medium-term rise in US corn prices and negative-tending EU wheat prices will more or less cancel each other out. We therefore expect EU and US prices, which have diverged since September, to re-converge in due course (see chart 5).

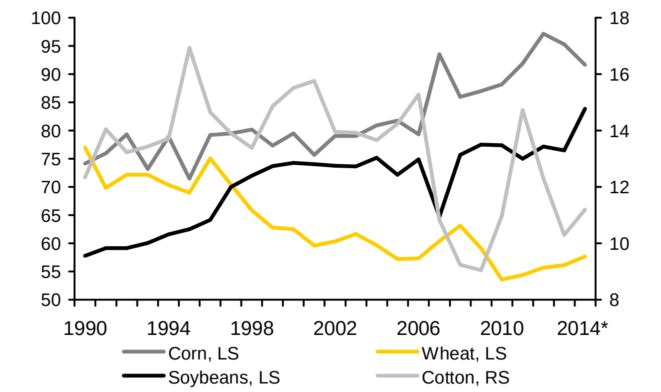
Soybeans:

Global record harvest of soybeans in 2013/14…

The better than expected US soybean harvest together with the prospect of very good harvests in South America is likely to put pressure on oilseed prices in the medium term. In its November forecasts, based on reports of the incoming harvest, the USDA announced a higher production figure of nearly 89m tons – the third highest of all time. Brazil could find itself more or less level-pegging with the USA if it equals the previous year's record of 88m tons, in the absence of adverse weather conditions over the next few weeks. In Argentina too, rainfall has improved conditions for the current soybean sowing. More soybeans are expected to be harvested in

CHART **4**: **Corn is becoming less attractive**

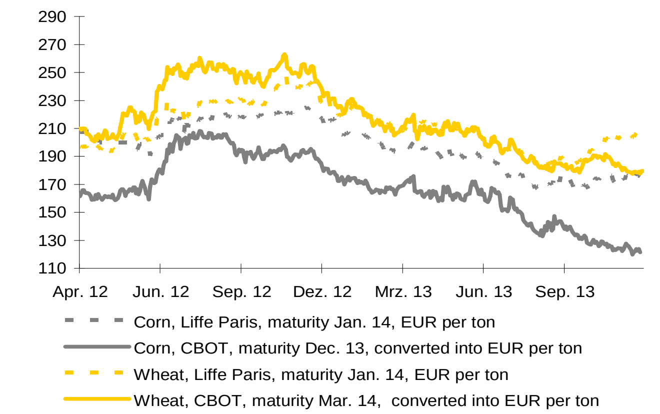
US acreage, in million acres



Source: USDA, Informa Economics, Commerzbank Corporates & Markets

CHART **5**: **Corn, wheat: prices have recently diverged**

Corn and wheat prices in Paris and Chicago



Source: Bloomberg, Commerzbank Corporates & Markets

2013/14 than ever before.

… but also robust demand

Yet the supply will meet with robust international demand. This is likely to prevent America's very low stockpiles from being substantially increased, despite a good harvest in the USA. Not only US exports are increasing; so are those of Brazil, which is in a good position to defend its recently attained position as the world's largest exporter (chart 6). The expected increase in global trade volumes is almost entirely due to a 9m ton increase in imports by China to 69m tons, having risen only slightly in the previous season.

Expansion of the soybean acreage is likely in 2014

Since the beginning of the year, the soybean price with a 5% decrease has performed a great deal better than the corn price (chart 7). Although the performance of both has been equally negative in the last two months, the soybean price has improved relative to corn compared with the previous season, and this is likely to be reflected in planting decisions for 2014. While this will not become relevant for the USA until the spring, in South America sowing has already finished. In Argentina, the soybean acreage is expected to increase by 2.5% to a new record level whilst at the same time the corn acreage is decreasing. In view of the relative price performance, the decline in US soybean acreage mentioned in the USDA's long-term forecast is unlikely to materialise in 2014/15. Indeed, a larger acreage can be expected. Informa Economics expects an increase of 8%, with US soybean production rising by as much as 13% due to higher yields.

Ample supply weighs on price developments

Against the backdrop of expectations of a global surplus in 2013/14 and a positive outlook for the 2014 US harvest, a feeling of scarcity is unlikely to become established on the soybean market in the foreseeable future, even with the global stocks/consumption ratio remaining low. For Q4 2014 we expect a price of 11.5 USD per bushel.

Rapeseed:

Global record harvest also in rapeseed

The EU's good rapeseed harvest of about 21m tons contributed to record-high world production in 2013/14, as did the increases in Canada and Russia. This, combined with sunflower production, which was also a record, and especially prospects for a second surplus in succession in the soybean market, depressed rapeseed prices in Paris (chart 8, p. 5). Stratégie Grains currently expects the EU's rapeseed planting acreage to decrease for the 2014 harvest, given that rapeseed's relative profitability has decreased yoy.

EU rapeseed acreage may decline slightly for the 2014 harvest

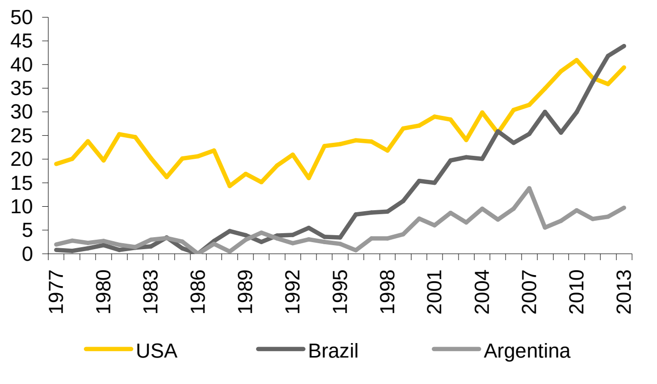
But since weather conditions were good at planting, the harvest should to be just 1% lower yoy. Oil World forecasts a 3% decrease in European acreage, led especially by Germany and France. Supporting this forecast, the interest group UFOP estimates on the basis of a survey of farmers that rapeseed planting acreage for the 2014 harvest was decreased by 4%. As for potential winter damage, it is the nature of the beast that at present it is still too early even to speculate about that.

Rapeseed prices will likely follow the movements of soybean prices to a smaller extent

There is still nothing to indicate that we should not assume another strong supply of rapeseed next season as well. Since a small surplus is already expected for 2013/14, leading to an increase in the stocks-to-use ratio (chart 9, p. 5) – in contrast to previous years – there is little hope that rapeseed will be able to decouple from the expected downtrend in soybeans. Having

CHART **6**: **Soybeans: Brazil is now the no. 1 in exports**

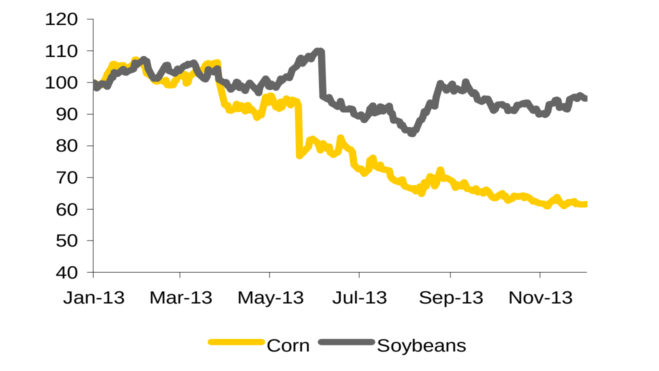
US and Brazil soybean exports, in million tons



Source: USDA, Commerzbank Corporates & Markets

CHART **7**: **Price relation argues for soybeans**

Prices of soybeans and corn, Jan 2, 2013 = 100



Source: Bloomberg, Commerzbank Corporates & Markets said that, the downward pull from soybeans could be tempered by the fact that heavy customs duties were imposed on biodiesel imports from the key supplier countries Argentina and Indonesia, thereby increasing the need for feedstock from EU biodiesel production, which is strengthened by these duties. Rapeseed should benefit from that. For Q4 2014 we expect a rapeseed price in Paris of 350 EUR per ton.

Coffee:

"Low-yield year" cannot stop the downtrend in prices

No scarcity in view

Arabica's years-long downtrend has meanwhile led the price of this coffee to its lowest level since 2006 (chart 10, p. 6). For a brief time it was even feared that the price would fall below the USD1 per pound mark. Moreover, the price looks like it will remain muted going forward as well: if Brazil's current low-yield year for Arabica couldn't boost prices and the roya (coffee rust) epidemic affecting a large part of Central America was only able to lift them briefly, we see little hope for a trend reversal in 2014. Not only is production in Columbia likely to increase further in 2014, but above all Brazil is slated for a high-yield year. In fact, the term "low-yield year" has lost much of its edge due to the flattening of the 2-year cycle. This year Brazil posted a record high for production in such a low-yield year and in all probability will post a record-high for production in a high-yield year in 2014. In terms of aggregate coffee volume this could translate to an increase of 10m bags to 57m bags, and some estimates even go as high as 60m bags or more. That is anything but a signal of scarcity (chart 11, p. 6). Such estimates are supported not only by the good weather conditions so far, but also by the overall improvement in the state of plantation. The good state of plantations, however, is due not least to investments made following the high prices of 2011. The longer the low-price phase persists, the more the investment "dividend" will shrink. As a minimum, the current low price phase will lead to lower yields in the medium term due to scrimping on fertilizer and crop protection. So far the plantations have continued to persevere despite prices that have often fallen below production cost – but they won't be able to hold on indefinitely. The marked increase in production costs of an estimated 12% yoy combined with low prices is likely to lower the profitability of coffee farming further. Thus, for the longer run, the ICO views the assumption of a higher coffee supply as questionable. But for now, prices are not budging, not even after the auctions of the Brazilian government, in which options were arranged for planters to deliver 3 million bags to state stockpiles in March 2014. According to the ICO, this non-reaction indicates that the market is underestimating the impact of Brazil's policy, which it believes is likely to lead to a "precarious" balance.

But low prices are weighing on supply on a medium-term perspective

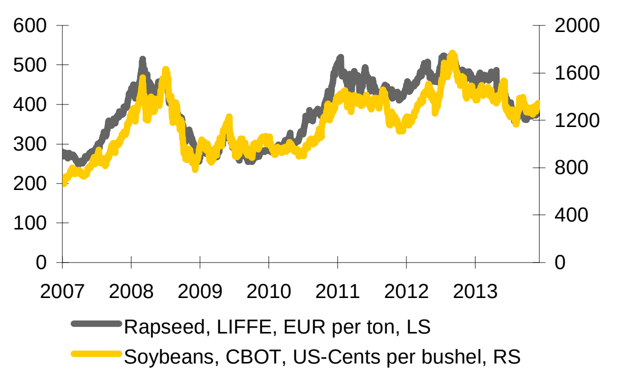
Still surpluses on the coffee market for now…

…but a critical outlook for 2015/16

But that is still a long way off: Following a number of deficit years, 2012/13 has already ended with surplus of about 3m bags as estimated by the ICO. It is still not clear how global production volume will turn out in 2013/14, as increases in Vietnam and Columbia – the latter finally having emerged from its roya Odyssey of several years, which necessitated new plantings of more robust strains – will be offset by decreases in Brazil and currently roya-plagued Central America. At present it seems there could also be surpluses in 2013/14 and 2014/15. The more diminished outlook for the years thereafter should, however, allow prices to rise slowly, so that after an intermittent low during the Brazilian harvest in 2014 we expect the price of coffee to recover to

CHART **8**: **Rapeseed price is closely linked to soybeans**

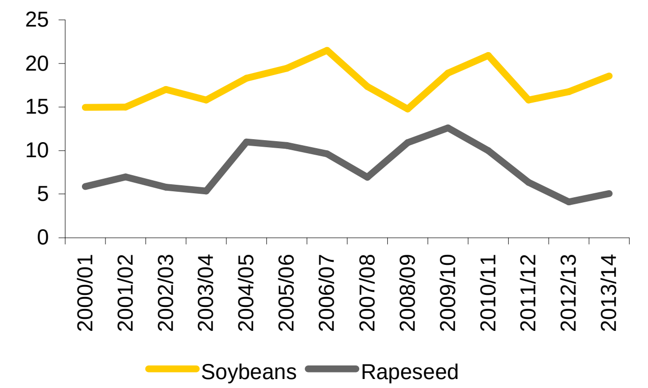
Soybean and rapeseed prices



Source: Bloomberg, Commerzbank Corporates & Markets

CHART **9**: **Now there is also a surplus of rapeseed**

Stocks-to-use ratio, in %, 2013/14 forecast



Source: USDA, Commerzbank Corporates & Markets

110 US cents per pound in Q4 2014 and continue to rise thereafter.

Vietnam's export reluctance is probably temporary in nature

Since summer, Robusta prices have moved in a similarly negative fashion as Arabica prices after far outperforming them for a very long period. Nonetheless, Arabica prices remain low relative to Robusta prices when compared to their history. This should lead to a substitution of Arabica for Robusta in coffee consumption. The ICO believes this trend is already recognisable. The recent recovery of Robusta prices was largely due to the fact that Vietnam's latest export numbers came in low despite what seems to have been a record-high harvest. The policy of holding back is apparently paying off, at least in the short run. We doubt Robusta prices will be able to escape the pressure of a plenteous coffee supply in 2014 and don't expect its price to recover until the second half of the year – to a level of USD1,600 per ton.

Cocoa:

Cocoa prices have climbed to a 2-year high

In contrast to the prices of many other agricultural products, cocoa prices have risen sharply in 2013 and meanwhile reached two-year highs in both New York and London (chart 12, p. 7). This is attributable to the growing conviction that both in 2012/13 and the current year 2013/14 there will be an undersupply in the cocoa market. The price rise has probably also been supported by short-horizon financial market participants accumulating record-high net-long positions in New York and London.

Uncertainty about the amount of the deficit in 2012/13

Having said that, the situation was similar in 2012, when the International Cocoa Organization (ICCO) forecast a deficit for 2011/12, which ultimately turned out to be a surplus. There's no guarantee that it won't turn out the same way this time, too, and this would certainly depend on the price trend: the recent resurgence of demand for cocoa could be dampened by strongly rising prices. We, however, consider a more moderate scenario likely, in which rising supply will again prove unable to keep pace with rising demand, although the shortfall could turn out to be somewhat smaller than in 2013/13. The International Cocoa Organisation ICCO, which had previously estimated a deficit of 52,000 tons for 2012/13, has sided with market expectations of a much higher deficit in its recently published quarterly report and now estimates the deficit at 160,000 tons (chart 13, p. 7). For 2013/14 as well, most forecasts envisage a deficit of more than 100,000 tons. Reports received so far about higher yoy deliveries in Côte d'Ivoire and Ghana since the beginning of the season in October could be distorted upward by deliveries of residual amounts from the mid-crop harvest. According to a government spokesman, Côte d'Ivoire's harvest for 2013/14 should be around 1.4m tons vs. 1.49m and 1.48m tons respectively in the two preceding years. Ghana could also see a slight decrease in its 2013/14 harvest, to 830,000 tons, after 880,000 and 840,000 in the previous two years, according to the Ghana Cocoa Board.

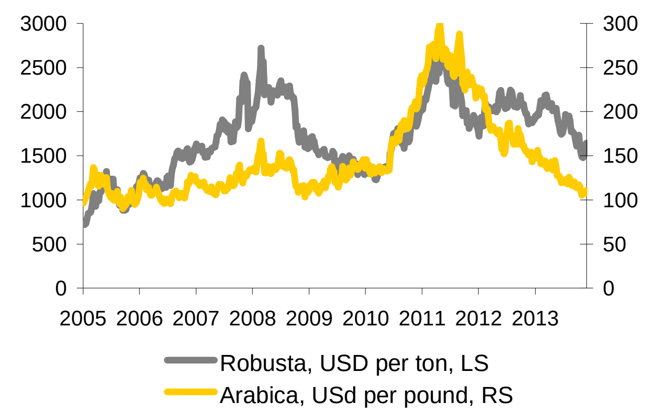
Deficit is expected also for 2013/14

Prospects of structural deficits in the next few years…

The ICCO had already warned in the early part of this year of structurally driven deficits in the coming years, which helped to lift prices. According to the trading house Olam, the cocoa price would have to rise again strongly, despite the increases of recent months, in order to sustainably attract investment to the cocoa sectors of the key cocoa-producing countries. As a result of Côte d'Ivoire's new policy, under which a large part of the crop is already sold before the harvest

CHART **10**: **Coffee: downtrend in Arabica prices**

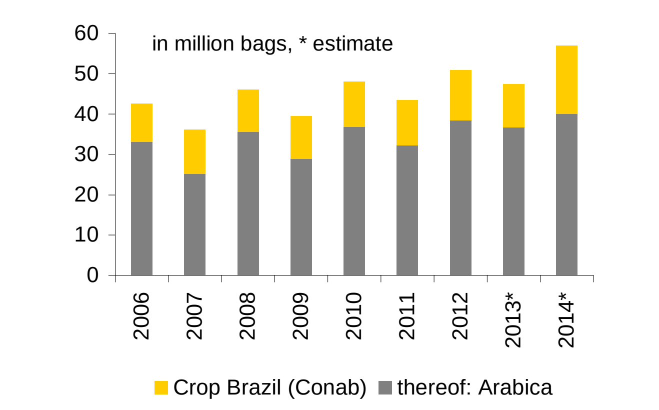
Coffee prices



Source: Bloomberg, Commerzbank Corporates & Markets

CHART **11**: **Record coffee crop in Brazil expected for 2014**

Coffee production in Brazil, in million bags



Source: Conab, Bloomberg, Commerzbank Corporates & Markets begins, price changes only show up in the calculations of the planters after a long time lag. The situation is similar in Ghana.

…will likely cause cocoa prices to continue rising

Given market deficits and the need to invest in the cocoa sector to keep pace with rising demand in the mid-term, we believe cocoa prices will continue to rise. For Q4 2014 we expect a price of GBP 1.850 per ton in London.

Sugar:

Sugar prices have seen only a marginal recovery

The continuous fall in raw sugar prices did not stop until the end of August (chart 14, p. 8). The subsequent weeks-long rise to 19.5 US cents per pound was driven by fears of wet weather hampering the end of Brazil's sugar cane harvest. Additionally, major sugar warehouses were destroyed by fire in a Brazilian port. When the situation normalised, the price fell back to 17.5 US cents per pound.

Fourth consecutive supply surplus…

According to the International Sugar Organization (ISO), the current sugar season (2013/14) will produce a fourth consecutive surplus in the global sugar market (chart 15, p. 8). Underscoring this assessment, the ISO just recently raised its surplus forecast by 5% to 4.7m tons mainly on the back of a production increase in India, where the harvest, after 25m tons last year and a good monsoon season, is expected to total all of 26.5m tons – provided the current problems between planters and mills can be resolved. Then India could increase its exports tenfold to 3m tons, it is estimated. What is not clear is whether the Indian Sugar Mill Association was serious about its assessment that this year's sugar production could decrease, or whether it made that statement just to step up the pressure on policy makers to intervene in the quarrel. Thailand is also expected to produce a record amount of sugar (11m tons) and also export a record amount. In Brazil, where the 2013/14 sugar cane harvest began in April and is now drawing to a close, the harvest in the main planting Center-South region is so far 12% higher yoy. However, since the increment has gone almost entirely into ethanol production, and since the sugar content is lower, actual sugar production has not even increased by a full percentage point yoy while ethanol production has risen 20%, supported the requirement to increase the ethanol content in the gasoline mix by 5 percentage points to 25% as of May 2013. And since Center-South accounts for roughly 90% of total Brazilian production, sugar production in Brazil as a whole will probably only rise insignificantly. As for global sugar production, the ISO, after last year's production record, is even forecasting a yoy decrease of 1% to 181.5m tons given yoy production decreases in the EU and the US. Demand, on the other hand, is expected to increase by 2.2% yoy to 176.8m tons.

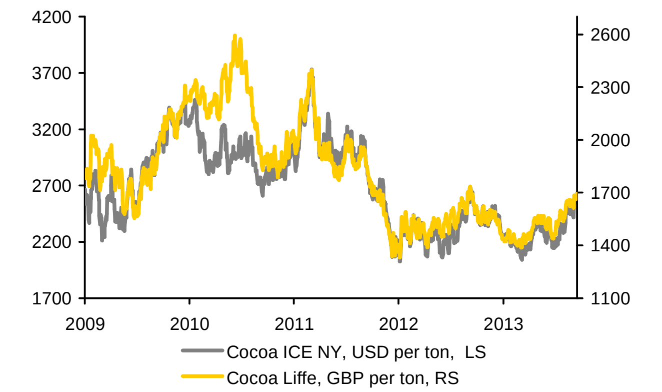
… but only a small increase in Brazilian sugar production

Prospects of a further global supply reduction should support prices

Although the 2013/14 production surplus will probably be only half the size of the previous year, the sugar market will remain very well supplied for the time being. Given the outlook for a further reduction of supply in 2014/15, there could be a moderate rise in prices in the course of 2014, as sugar prices in many producing countries are currently quoting below production cost. In view of this situation, the ISO forecasts less acreage will be planted in 2014/15 in Brazil, India and China, where China had already planted less acreage in 2013/14, albeit at higher yields, while Thailand and Australia can be expected to *continue* or rather *resume* expanding their production after the flooding of 2013. After four years of surplus, the best that might emerge is a balance of

CHART **12**: **Cocoa: scarcity causes cocoa prices to rise**

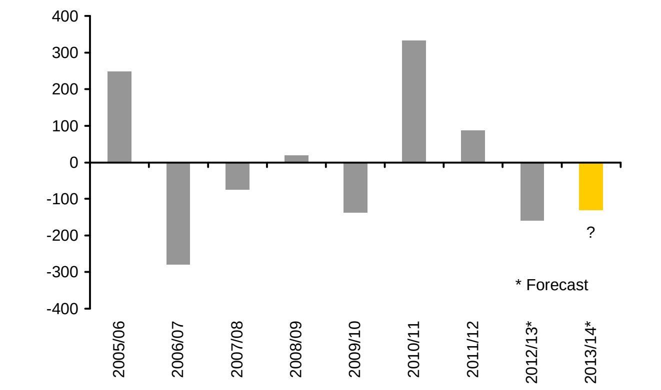
Cocoa prices



Source: Bloomberg, Commerzbank Corporates & Markets

CHART **13**: **Second deficit year in cocoa**

Surplus (+)/deficit (-), cocoa, in million tons



Source: ICCO, Bloomberg, Commerzbank Corporates & Markets supply and demand, but that prospect, given in particular the sharp increase in stockpiles to a record level over the last years, is not about to scare anyone. Nonetheless, it is an outlook that should lead to a slight increase in sugar prices in the course of 2014. For Q4 2014 we expect a sugar price of 19.5 US cents per pound. If supplies continue to tighten, the positive price trend could continue in 2015.

Cotton:

Record-high global stocks are weighing on prices

In October cotton prices were forced sharply down amid increased speculation that China would soon start to sell its reserves and thereby diminish imports, which to date have been performing better than feared. The outlook for a higher-than-expected cotton harvest in the US and even higher global stockpiles at season's end (end of July 2014) certainly did not help, either, and was promptly supported by the USDA's November forecasts. In the meantime, short-horizon market participants have sharply reduced their net long positions built up at the beginning of the year, which probably supported the price fall as well. For weeks now the price of the most heavily traded contract, expiring in March 2014, has been hovering around 78 US cents per pound.

China's cotton policy is of key importance

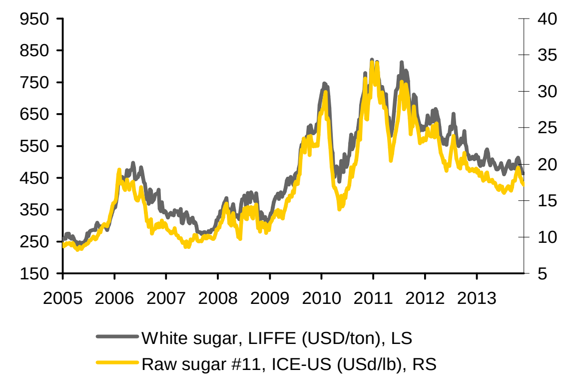
The big question fo 2014 is indeed how Chinese policymakers will support their cotton producers in the future. So far, their policy has been to purchase their cotton at minimum prices, which have been well above international levels, and put the cotton into state stockpiles. This practice has caused those stockpiles to rise sharply, and in the meantime China holds more than half the world's cotton reserves. Due to the high domestic prices, many Chinese cotton manufacturers had turned increasingly to imports, thereby keeping imports high. If China should now pursue a policy of direct subsidisation instead of maintaining artificially high cotton prices, Chinese cotton manufacturers are likely to continue to cut back on their imports, which over the last year have already fallen markedly yoy in every month but one (chart 16, p. 9). Sales of cotton from state warehouses could exacerbate this effect again and again. The point is, though, that one of the key pillars of international cotton prices is now being seriously undermined. The downward trend should be mitigated, however, if recent reports coming out of China prove true, namely that the harvest was damaged by an early frost so that the yoy decrease is likely to be significantly sharper than hitherto expected. Moreover, China's most recent cotton textile trade numbers are encouraging.

Third consecutive surplus on the cotton market

All of the above is happening at a time when there is clearly no shortage in the international cotton market: For the third season in a row, cotton supply has exceeded demand, although this year's surplus is only half as big as last year's since production is already lower, especially in the US, the world's most important cotton exporter. And while production is expected to continue to fall, the International Cotton Advisory Committee forecasts another global surplus in 2014/15 (chart 17, p. 9), although the gap between supply and demand should continue to narrow from both sides. On the other hand, US cotton production is poised to pick up again after this season's decrease given that the trend in cotton prices looks downright ebullient compared to the negative yoy trends in corn and, to a lesser degree, soybeans. Most recently, however, cotton prices have fallen and are now only close to their level at the start of the year.

CHART **14**: **Low sugar prices will lead to a supply reduction**

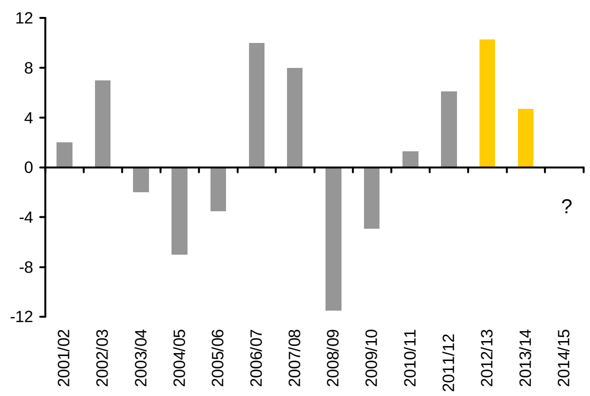
Sugar prices



Source: Bloomberg, Commerzbank Corporates & Markets

CHART **15**: **Sugar: Is an end to the surpluses in view?**

Surplus (+)/deficit (-), sugar, in million tons



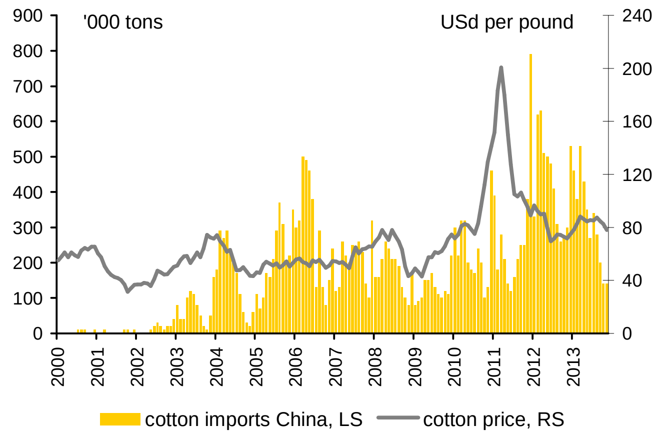
Source: ISO, Commerzbank Corporates & Markets

Excess supply weighs on prices

Given the likelihood that China will reorient its cotton policy, a higher US supply in 2014 and given that the international market remains well supplied, we expect cotton prices to fall in the course of 2014. For Q4 2014 we see the cotton price at 70 US cents per pound.

CHART **16**: **China's cotton imports are falling**

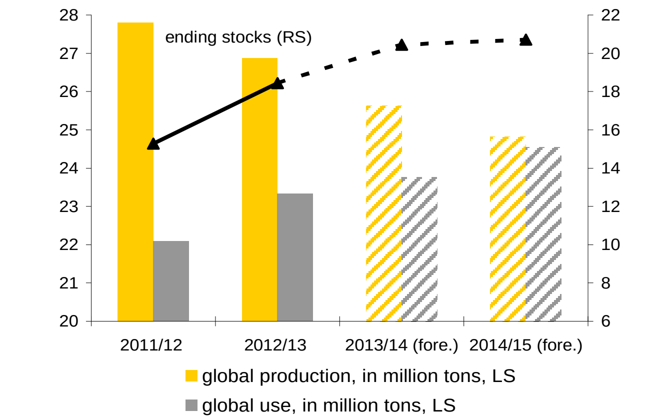
Monthly data



Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART **17**: **Another surplus on the cotton market**

Surplus (+)/deficit (-), cotton, in million tons



Source: ICAC, Commerzbank Corporates & Markets

At a glance

TABLE 1: **Our forecasts**

	Actual	Forecast								Yearly average		
	2-Dec-13	Q114	Q214	Q314	Q414	Q115	Q215	Q315	Q415	2013	2014	2015
Grains/Oil seeds/Cotton												
Wheat* (CBOT)	662	680	690	670	650	650	640	630	620	690	670	640
Wheat^ (Liffe Paris)	208	205	200	190	185	185	180	180	175	210	195	180
Corn* (CBOT)	425	430	460	480	480	490	500	510	520	570	460	510
Corn^(Liffe Paris)	179	175	175	175	175	175	180	180	180	205	175	180
Soybeans*	1321	1275	1250	1200	1150	1150	1150	1200	1200	1400	1220	1180
Rapeseed^(Paris)	378	370	360	360	350	350	360	360	370	415	360	360
Cotton**	79	78	75	72	70	72	74	76	78	84	74	75
Softs												
Coffee (arabica)**	110	105	100	105	110	110	115	115	120	125	105	115
Coffee(robusta)***	1658	1550	1500	1550	1600	1600	1650	1700	1750	1850	1550	1700
Cocoa° (London)	1759	1775	1800	1800	1850	1900	1950	1950	2000	1600	1800	1950
Sugar #11**	17.0	17.5	18.5	19.0	19.5	19.5	20.0	20.5	21.0	17.5	19.0	20.5
Livestock												
Live cattle**	134	130	128	130	132	128	126	128	130	128	130	128
Feeder cattle**	165	160	155	150	155	158	153	148	153	153	155	153
Lean hogs**	90	85	93	88	83	83	91	86	81	89	87	85

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 month	1 year	1 year	5-year Ø
Chinese imports, 000 tons, monthly						
Soybeans	31/10/2013	4190	-510	160	4.0	31.5
Cotton	31/10/2013	140	-60	-130	-48.2	0.8
US inventories in mln bushel, quarterly, first day of the reporting month						
Corn	30/09/2013	823.6	-	-165.4	-16.7	-32.6
Wheat (total)	30/09/2013	1854.8	-	-249.9	-11.9	-11.0
Soybeans	30/09/2013	140.6	-	-28.8	-17.0	-14.7

Source: USDA, Bloomberg, Commerzbank Corporates & Markets

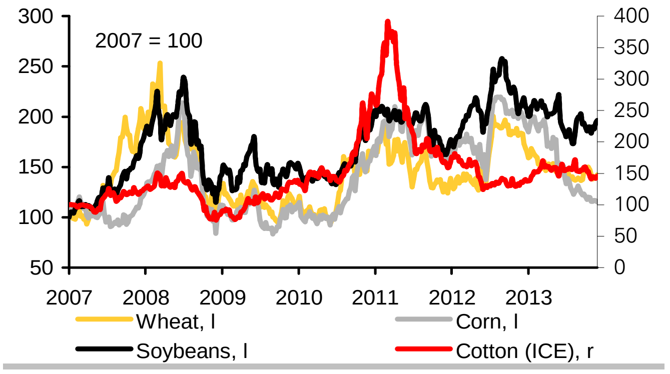
TABLE 3: **History**

	Actual	% change				Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413
		1 week	1 month	ytd	y-o-y								
Grains/Oil seeds/Cotton													
Wheat* (CBOT)	662	0.5	-0.8	-14.8	-23.0	644	647	883	853	742	698	651	660
Wheat^ (Liffe Paris)	208	0.8	1.5	-16.5	-22.8	196	207	259	264	243	212	189	200
Corn* (CBOT)	425	-1.9	-0.9	-39.4	-43.9	640	599	775	739	711	648	495	420
Corn^(Liffe Paris)	179	2.1	10.0	-24.5	-29.0	207	213	250	247	231	220	189	175
Soybeans*	1321	-1.1	5.0	-6.8	-9.6	1273	1404	1638	1482	1437	1442	1416	1300
Rapeseed^ (Liffe Paris)	378	-0.3	0.3	-17.3	-20.7	458	479	509	473	467	439	375	375
Cotton**	79	-0.8	2.5	4.5	6.1	93	80	73	73	83	86	86	80
Softs													
Coffee (arabica)**	110	0.8	3.9	-23.7	-27.2	206	171	173	155	144	134	120	110
Coffee(robusta)***	1658	3.9	11.9	-13.4	-12.6	1948	2084	2109	1965	2051	1950	1825	1600
Cocoa° (Liffe London)	1759	0.2	3.1	22.2	10.2	1489	1499	1619	1545	1433	1517	1621	1750
Sugar #11**	17.0	-2.5	-7.6	-13.6	-14.6	24.3	20.9	21.1	19.7	18.4	17.2	16.7	18.0
Livestock													
Live cattle**	134	1.9	1.8	1.6	2.8	126	117	125	129	129	120	127	135
Feeder cattle**	165	1.6	1.2	7.2	13.6	155	155	143	148	146	145	156	165
Lean hogs**	90	0.7	2.4	5.5	5.6	89	89	77	82	86	93	87	90

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

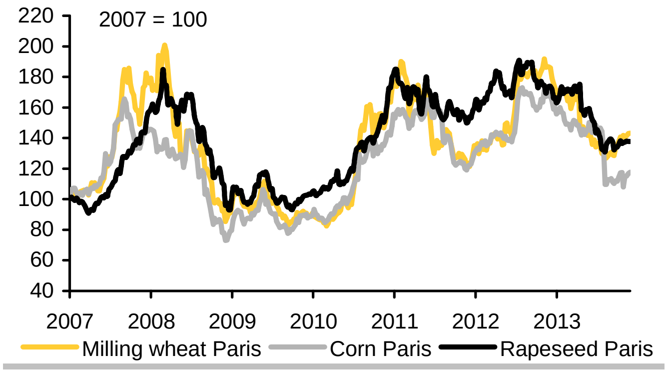
The actual price refers to the most active forward contract, which can differ in terms of maturity.

CHART 18: Price performance CBOT since 2007



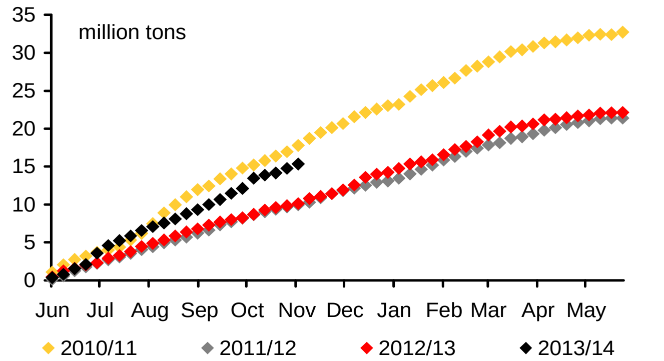
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 19: Price performance LIFFE since 2007



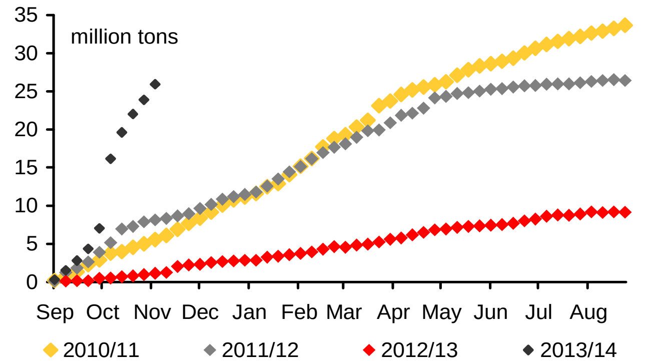
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 20: US wheat exports, weekly data cumulated



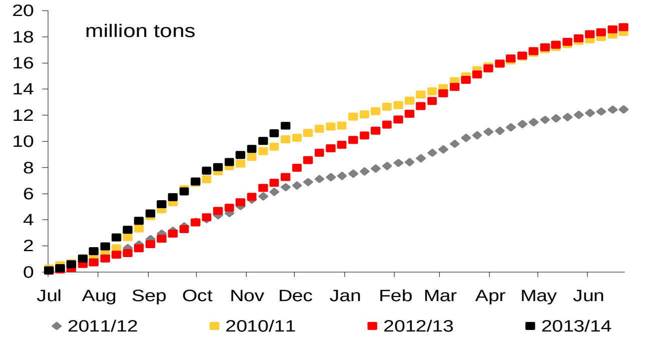
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 21: US corn exports, weekly data cumulated



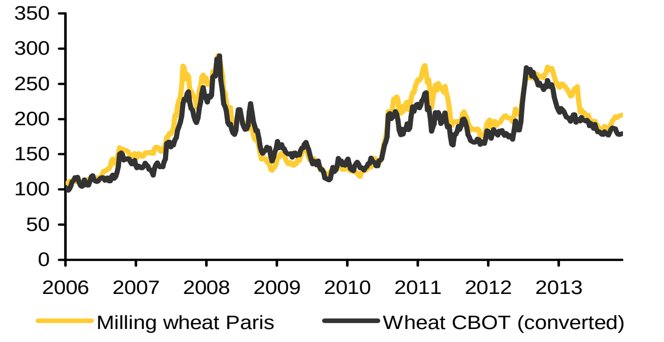
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 22: EU wheat exports, weekly data cumulated



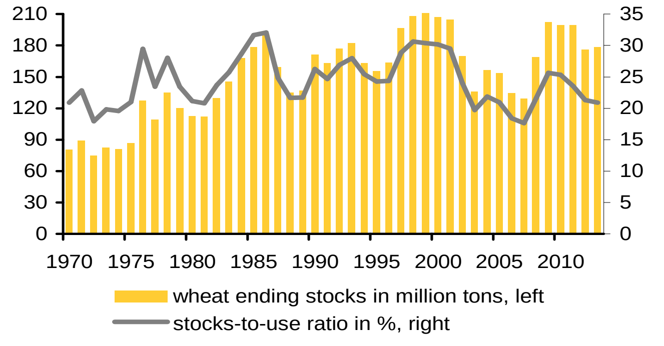
Source: EU, Reuters, Commerzbank Corporates & Markets

CHART 23: Wheat prices in comparison (in EUR per ton)



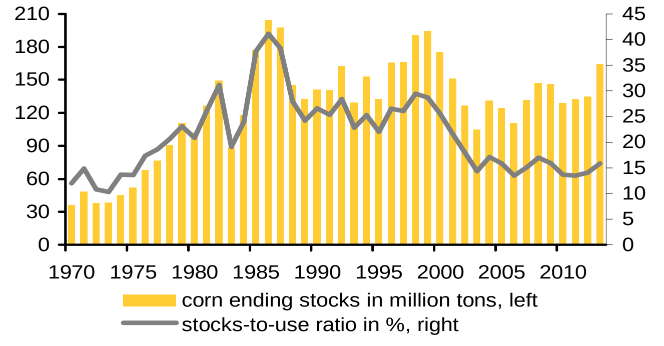
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 24: Global wheat stocks



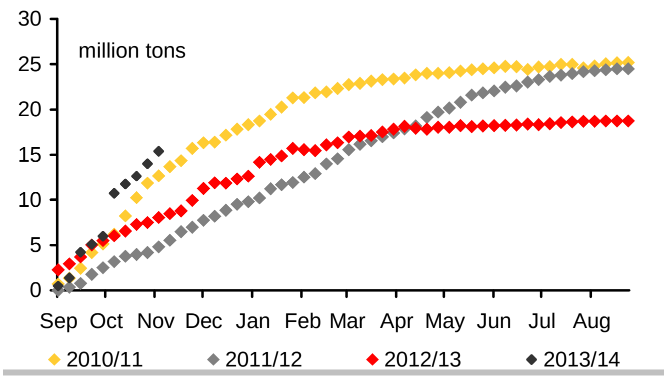
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART 25: Global corn stocks



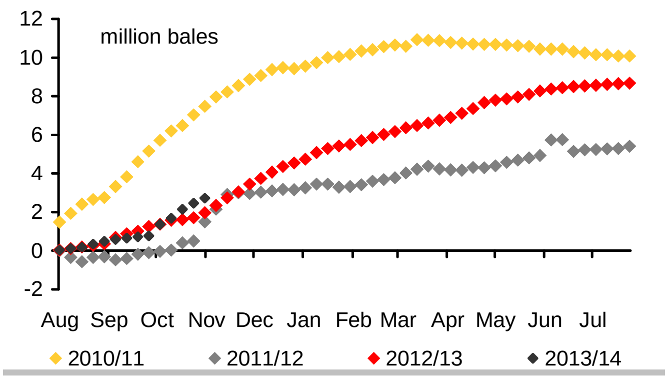
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART **26**: **US soybean exports, weekly data cumulated**



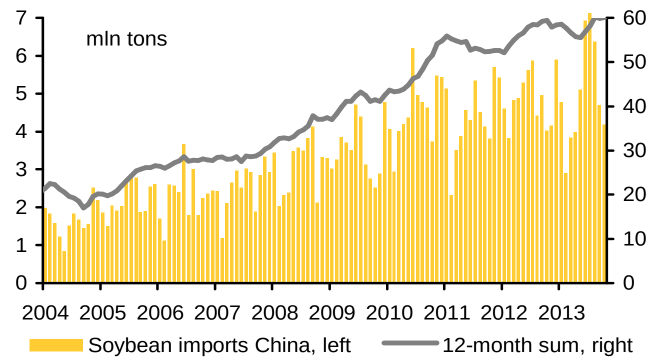
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART **27**: **US cotton exports, weekly data cumulated**



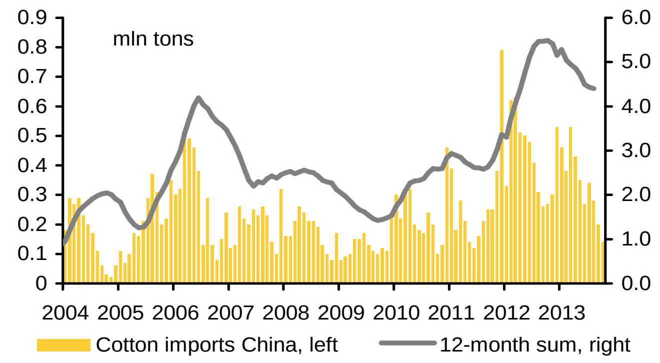
Source: USDA, Bloomberg, Commerzbank Corporates & Markets

CHART **28**: **Soybean imports China (monthly data)**



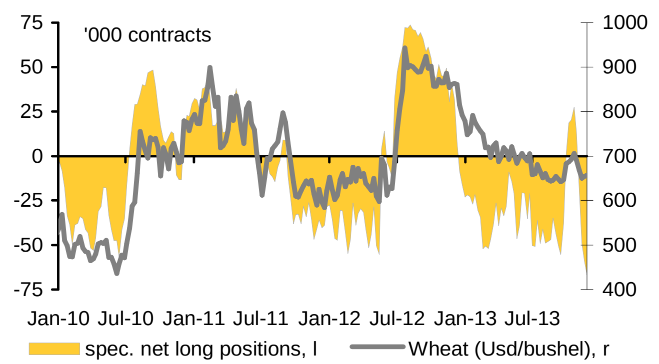
Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART **29**: **Cotton imports China (monthly data)**



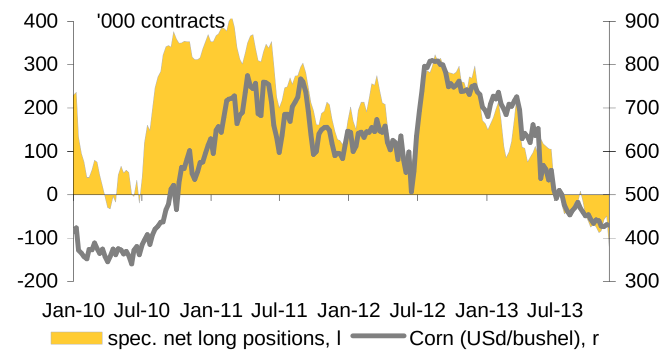
Source: Chinese Customs, Bloomberg, Commerzbank Corporates & Markets

CHART **30**: **Net long positions of money managers (wheat)**



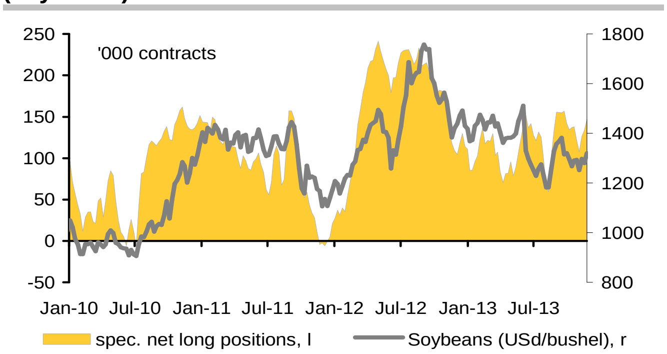
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART **31**: **Net long positions of money managers (corn)**



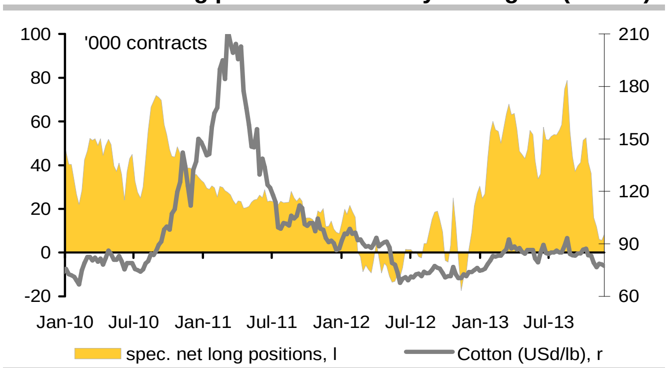
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART **32**: **Net long positions of money managers (soybeans)**



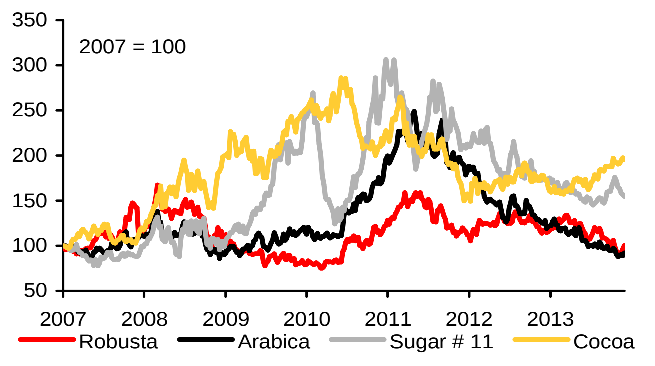
Source: CBOT, CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART **33**: **Net long positions of money managers (cotton)**



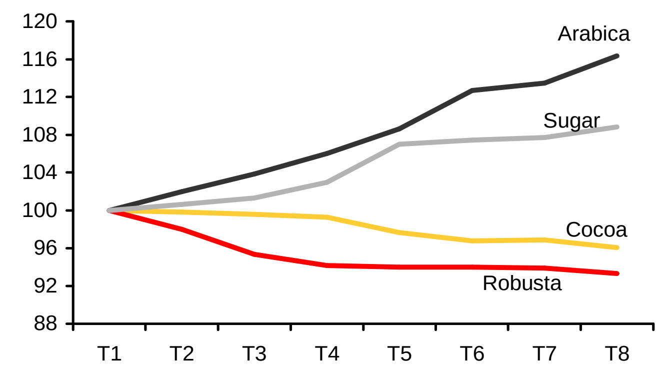
Source: ICE US, Bloomberg, Commerzbank Corporates & Markets

CHART **34**: **Performance: Soft commodities since 2007**



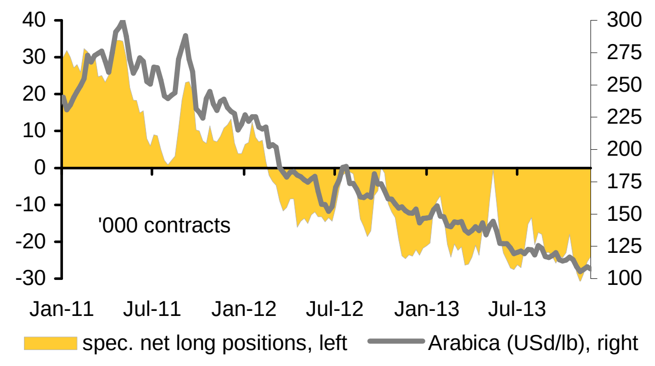
Source: Bloomberg, Commerzbank Corporates & Markets

CHART **35**: **Forward curve: Soft commodities**



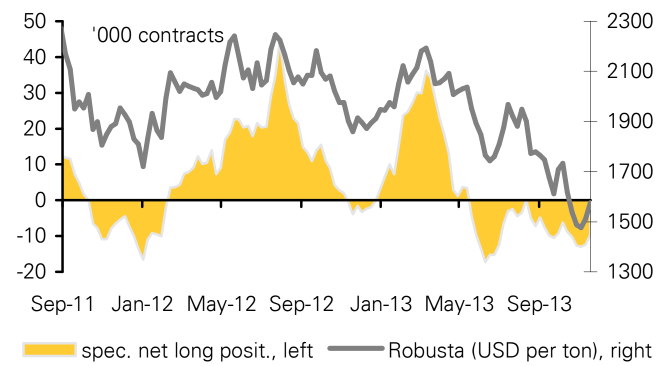
Source: Bloomberg, Commerzbank Corporates & Markets

CHART **36**: **Net long positions of money managers coffee Arabica**



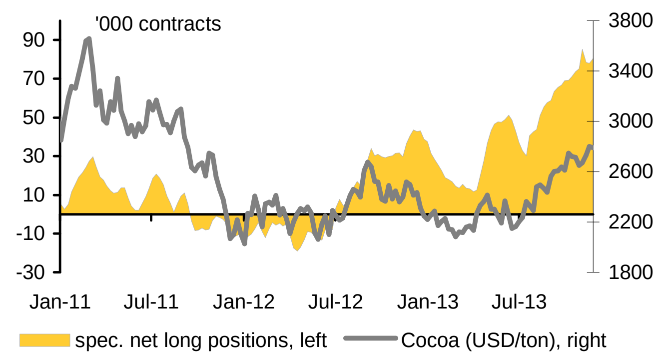
Source: CFTC, ICE, Bloomberg, Commerzbank Corporates & Markets

CHART **37**: **Net long positions of money managers coffee Robusta**



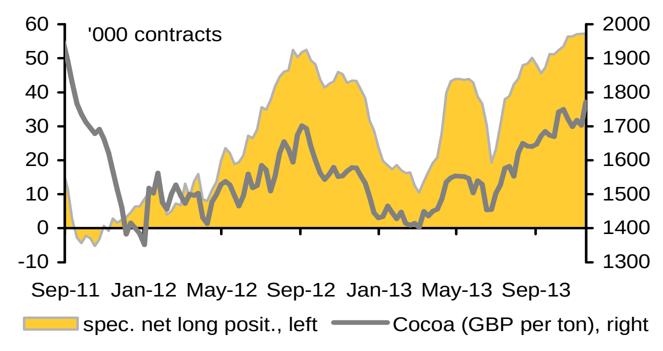
Source: LIFFE, Bloomberg, Commerzbank Corporates & Markets

CHART **38**: **Net long positions of money managers cocoa (ICE)**



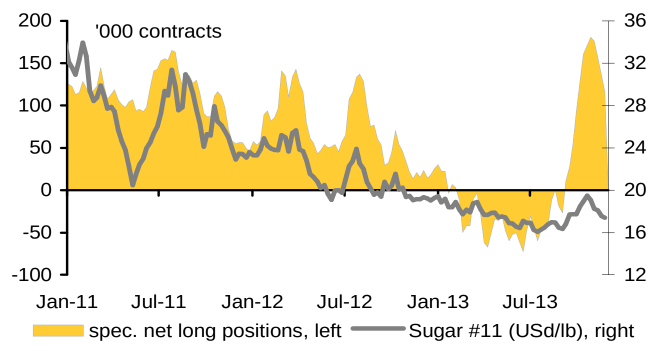
Source: CFTC, ICE, Bloomberg, Commerzbank Corporates & Markets

CHART **39**: **Net long positions of money managers cocoa (LIFFE)**



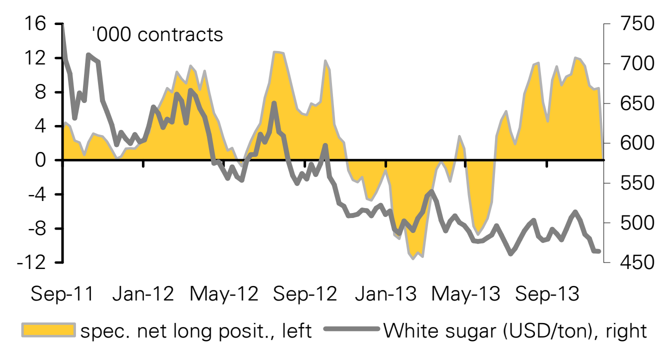
Source: LIFFE, Bloomberg, Commerzbank Corporates & Markets

CHART **40**: **Net long positions of money managers sugar (ICE)**



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

CHART **41**: **Net long positions of money managers sugar (LIFFE)**



Source: LIFFE, Bloomberg, Commerzbank Corporates & Markets

This document has been created and published by the Corporates & Markets division of Commerzbank AG, Frankfurt/Main or Commerzbank's branch offices mentioned in the document. Commerzbank Corporates & Markets is the investment banking division of Commerzbank, integrating research, debt, equities, interest rates and foreign exchange.

The author(s) of this report, certify that (a) the views expressed in this report accurately reflect their personal views; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document. The analyst(s) named on this report are not registered / qualified as research analysts with FINRA and are not subject to NASD Rule 2711.

Disclaimer
This document is for information purposes only and does not take account of the specific circumstances of any recipient. The information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever.

The information in this document is based on data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. The opinions and estimates contained herein reflect the current judgement of the author(s) on the data of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The past performance of financial instruments is not indicative of future results. No assurance can be given that any opinion described herein would yield favourable investment results. Any forecasts discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:
Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main, Germany.

United Kingdom: This document has been issued or approved for issue in the United Kingdom by Commerzbank AG London Branch. Commerzbank AG, London Branch is authorised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and subject to limited regulation by the Financial Services Authority. Details on the extent of our regulation by the Financial Services Authority are available from us on request. This document is directed exclusively to eligible counterparties and professional clients. It is not directed to retail clients. No persons other than an eligible counterparty or a professional client should read or rely on any information in this document. Commerzbank AG, London Branch does not deal for or advise or otherwise offer any investment services to retail clients.

United States: Commerz Markets LLC ("Commerz Markets "): This document has been approved for distribution in the US under applicable US law by Commerz Markets, a wholly owned subsidiary of Commerzbank and a US registered broker-dealer. Any securities transaction by US persons must be effected with Commerz Markets. Under applicable US law; information regarding clients of Commerz Markets may be distributed to other companies within the Commerzbank group. This research report is intended for distribution in the United States solely to "institutional investors" and "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Commerz Markets is a member of FINRA and SIPC.

Canada: The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerz Markets LLC deals pursuant to the international dealer exemption. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities may not be conducted through Commerz Markets LLC. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA.

Singapore: This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor as defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA") pursuant to section 274 of the SFA.

Hong Kong: This document is furnished in Hong Kong by Commerzbank AG, Hong Kong Branch, and may only be received in Hong Kong by 'professional investors' within the meaning of Schedule 1 of the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made there under.

Japan: Commerzbank AG, Tokyo Branch is responsible for the distribution of Research in Japan. Commerzbank AG, Tokyo Branch is regulated by the Japanese Financial Services Agency (FSA).

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

Commerzbank Corporates & Markets

Frankfurt	London	New York	Singapore Branch	Hong Kong Branch
Commerzbank AG	Commerzbank AG London Branch	Commerz Markets LLC	Commerzbank AG	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus Mainzer Landstraße 153 60327 Frankfurt	PO BOX 52715 30 Gresham Street London, EC2P 2XY	2 World Financial Center, 32nd floor New York, NY 10020-1050	71 Robinson Road, #12-01 Singapore 068895	29/F, Two IFC 8 Finance Street Central Hong Kong
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000	Tel: +852 3988 0988