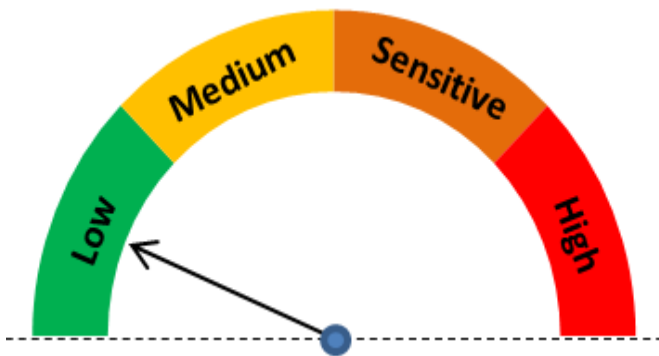




Sector Risk Rating



What to Watch?

- Agricultural commodities to plateau at best in 2016 after a strong decline of -15% in 2015
- Ongoing fierce price competition challenging firms' profitability with operating profit increasing by only +1.5% in 2015
- Series of deregulation policies to support trade: Production quotas lifted by EU; export tax eliminated in Argentina; Brazil and Canada meat exporters gained access to markets.

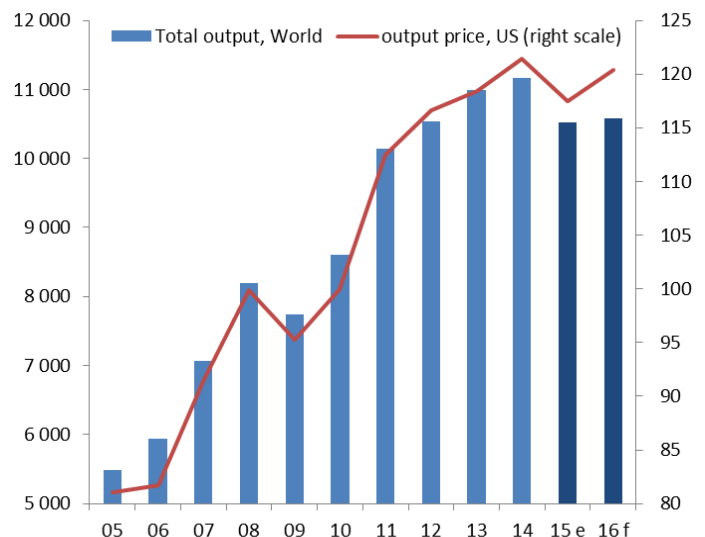
Low commodity prices hurt agriculture while food industry's profits barely increase

A slump in agrifood economies (Russia, Brazil) combined with favorable crop conditions for most products resulted in significant overcapacities, leading to a collapse in global commodities price. The FAO price index was down -18% on average in 2015. While all commodities reported a double-digit drop, dairy (-29%) and sugar (-21%) took the hardest hits. Dairy production was spurred by the lifting of EU quotas while consumption suffered from a Russian ban on EU imports and the Chinese slowdown. As for sugar, prices picked up by year end as markets anticipated supply and demand to equalize in 2016, after several years of surplus.

Globally, agrifood output increased by +3% in volume in 2015 and is forecast to perform similarly in 2016. In value, output declined by -6% in 2015 – the first time in a decade – and should report a mere +0.6% increase in 2016. Lower raw materials' prices are supposedly good news for food producers – they contribute to lower operating costs. Profits rose by only +1.5% in 2015 as weak demand led to a decline in producer prices: -3% in the United States, -2% in China and -1.5% in the European Union.

As demand is expected to remain sluggish, margins should level out in 2016.

World agrifood output and US output price index (USDbn)



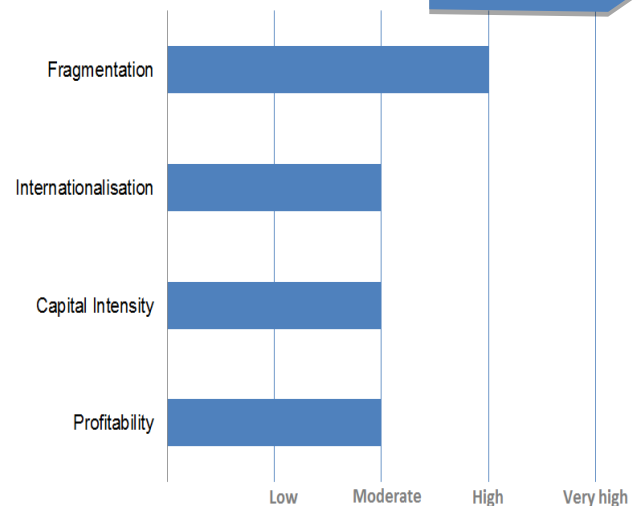
Sources: Oxford Economics, Euler Hermes

Sector Value:
3,837bn
USD

Key Players

Country	Role	Sector Risk
United States	#1 exporter #1 importer #2 producer	●
Germany	#2 importer #3 exporter	●
China	#1 producer #3 importer	●

ID Card



Strengths

- Strong long-term prospects thanks to relentless population growth and burgeoning middle-class
- Sound financial structure with little indebtedness, high solvability and correct earnings

Weaknesses

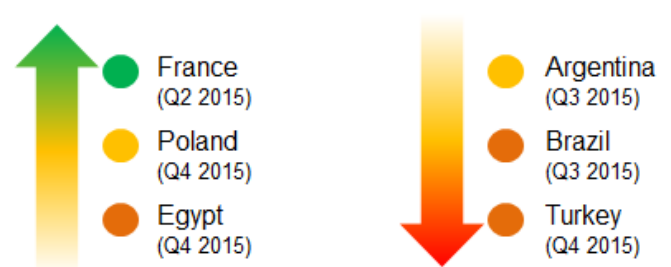
- Sector performance reliant on exogenous factors: climate (e.g. *El Niño*) and health hazards such as restrictive sanitary measures
- High dependency on agricultural commodities' prices, which in turn hinge on climate and financial conditions

Subsectors Insights

Agriculture: Farming activities are the hardest hit by plummeting agricultural prices which hamper the yield of harvesting surfaces and entail revenue decline.

Food Industry: Global activity is steadily growing, underpinned by the demographic growth momentum. The important feature is the dietary shift towards 'finer food' by the growing middle-class (40% of world population by 2020 vs. 25% currently), at the cost of basic food producers.

Recent Sector Risk Changes



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