



North American Agribusiness Review

Rabobank






RaboResearch
Food & Agribusiness

August 2021

Report Summary

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Economy

High inflation, but it should be transitory

US

- Inflation reached 5.4% YOY in June and July. While a bump in inflation was expected, as the year-on-year comparison took place against last year's low price levels, the inflation figures turned out much higher than expected. The shutdown and reopening of the economy have led to a range of supply bottlenecks, pushing up prices. Concurrent with these supply constraints, consumer spending has been stimulated by expansive fiscal policy, further increasing the discrepancies between supply and demand. Meanwhile, a reorganization of global supply chains is taking place to reduce dependencies on geopolitical adversaries. The expectation is that these inflationary pressures will subside. The base effects will fade in the coming months, and supply bottlenecks are likely to ease. However, some bottlenecks may take time to ease, which means that inflationary pressures could remain longer than expected. Meanwhile, additional fiscal policy aimed at the demand side of the economy could add to new inflationary pressures.

Mexico

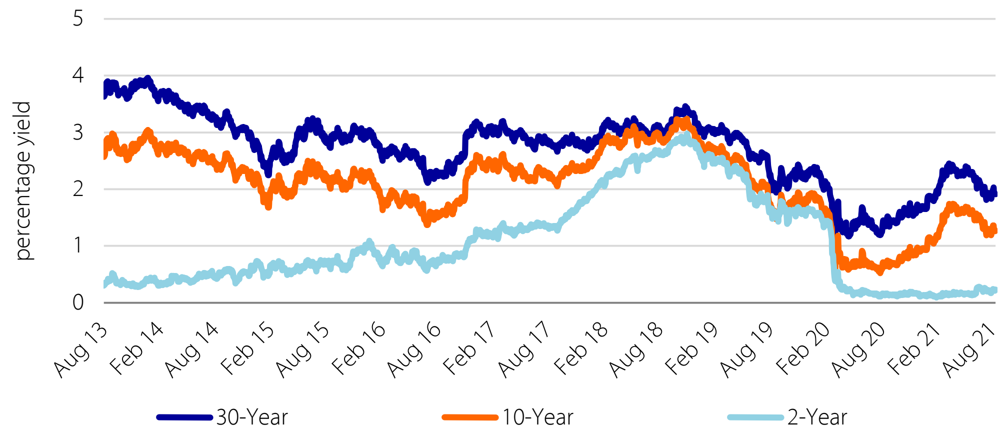
- Like the Fed, Banxico expects that inflationary pressures will prove transitory. Cost-push inflation is likely to continue in the coming months, as supply chain disruptions and rising commodity prices persist, but that is not likely to push Banxico into rate hikes. Instead, this would require wage pressures and demand-pull inflation, as higher rates would slow down the demand side of the economy. We are of the view that USD/MXN is likely to remain in the 19.80 to 20.20 range in the coming months.

Canada

- The Bank of Canada also expects inflation to fall back again after peaking this year. The Canadian recovery continues, following the Ontario lockdown-induced dip. There are, of course, base effects at play here given those recent lockdowns, but there is also another story – vaccinations. Canada may have been a laggard in the vaccine rollout at first, but that has changed significantly, and it now has one of the highest vaccination rates as a percentage of population anywhere in the world, recently surpassing the UK. While the US vaccination rollout has been slowing notably over recent months, as parts of the population remain reluctant, trust in the healthcare system north of the border is higher, and demand for the vaccine remains strong. There is, of course, the tail risk of renewed lockdowns as the Delta variant spreads, but current data implies relatively mild symptoms if vaccinated, and hospitalizations and deaths remain low. We expect USD/CAD to average in the 1.25 to 1.26 region in Q3.

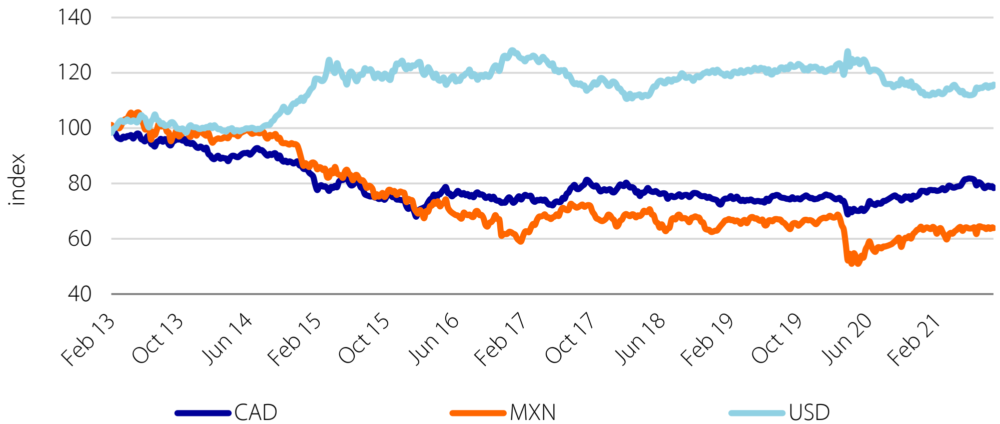
Source: USDA, Rabobank 2021

Interest rates, 2013-2021



Source: Federal Reserve of St. Louis 2021

Currency indices, 2013-2021



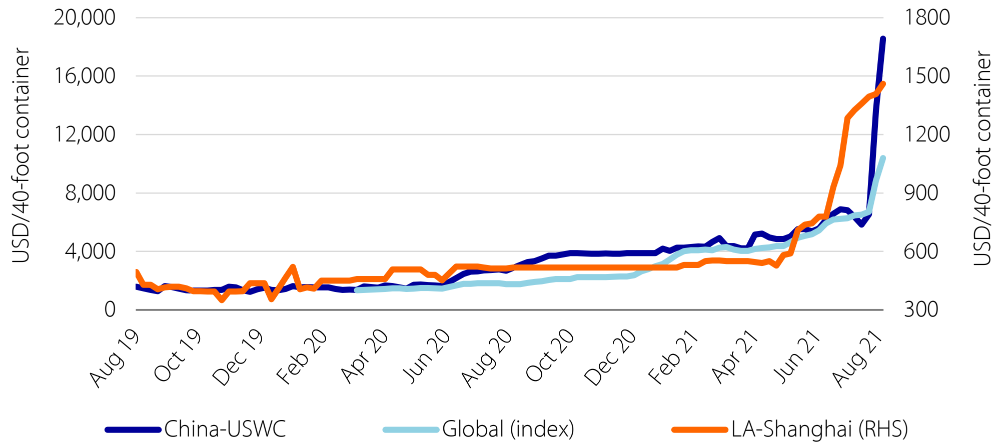
Source: Bloomberg 2021
Note: Rebased at 100 as of January 1, 2013

Logistics

Weather and the Delta variant caused another round of container shortages and rate spikes

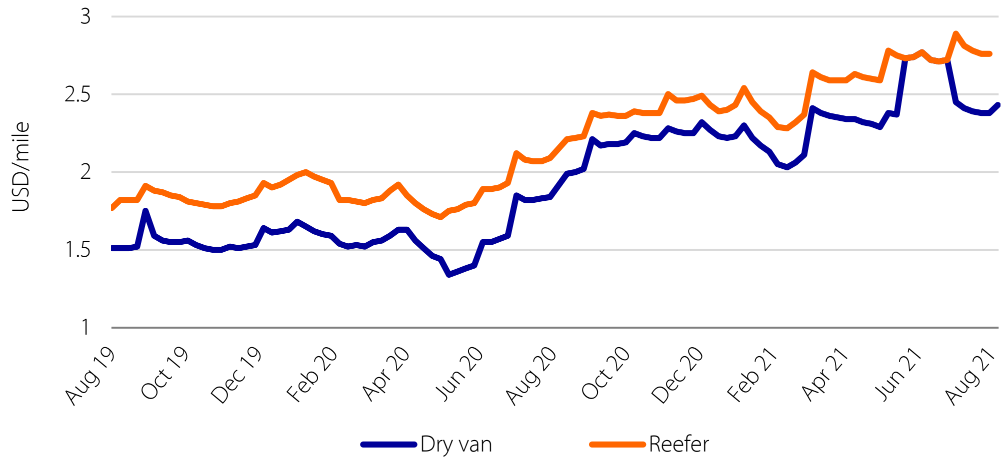
- ***Just when you think the global freight market cannot get worse, container rates soar globally.*** In the latest development of the global ocean freight sector, container shortages and imbalance were yet again exacerbated by weather events on the east coast of China and Europe and by the impacts of recent Delta variant-related Covid outbreaks in multiple cities globally and China's largest ports. Since our last update in June, LA-to-Shanghai container prices doubled again, from ~USD 780 to USD 1,460 per 40-foot-container, which was already 50% higher compared to previous months this year. This price increase will significantly harm margins for US ag exporters or will halt buying if buyers were to take on the shipping cost increase. In addition, we continue to observe empty containers being shipped back to Asia for a faster turnaround, resulting in a shortage of containers available for US ag exporters. It's difficult to predict a crazy market, but general trends suggest sustained high rates through the peak holiday season into 2022.
- ***Record volumes of imports from Asia continue to cause congestion and delays at ports, especially west coast ports,*** where most Asian imports are handled. Port of Los Angeles and Port of Long Beach were most significantly impacted, with volumes up 22.5% in the first six months of 2021 compared to the 2019 average. While North American port operations are already challenged by Covid-related labor shortages, demand has grown to an unsustainable level. Congestion also spread to ports in the Pacific Northwest, such as Seattle and Vancouver, as well as the east coast.
- ***Investments are needed across the chain to alleviate the chaotic shipping situation.*** Container manufacturers are taking advantage of the heated market to pump more containers on line, while carriers are adding routes. Yet this will take time to make a material impact. Operators are also cautious about the extra investment, due to the transitory nature of this situation, and want to avoid future overcapacity. The present situation also exposed efficiency improvements that are long overdue at ports. Expansion is also underway for multiple US ports.
- ***Trucking spot rates are being sustained by rising US imports.*** While the chart on the right shows national average trucking spot rates, rates differ depending on the region and routes. Eastbound routes out of the west coast are experiencing even sharper rate hikes. For example, Los Angeles-to-Dallas shipper rates averaged USD 3.55 per mile in June, 30% higher than the national average. Other notable routes include Los Angeles to Denver and Los Angeles to Phoenix. Besides the high volume out of west coast ports, e-commerce fulfilment routes also contributed to the rate hike.

Select ocean freight rates, Aug 2019-Aug 2021



Source: Freightos, WCI 2021

US dry van and reefer truckload prices, Aug 2019-Aug 2021



Source: DAT 2021

Consumer Retail & Foodservice

Return to normality is postponed by the Delta variant; food inflation ticks up

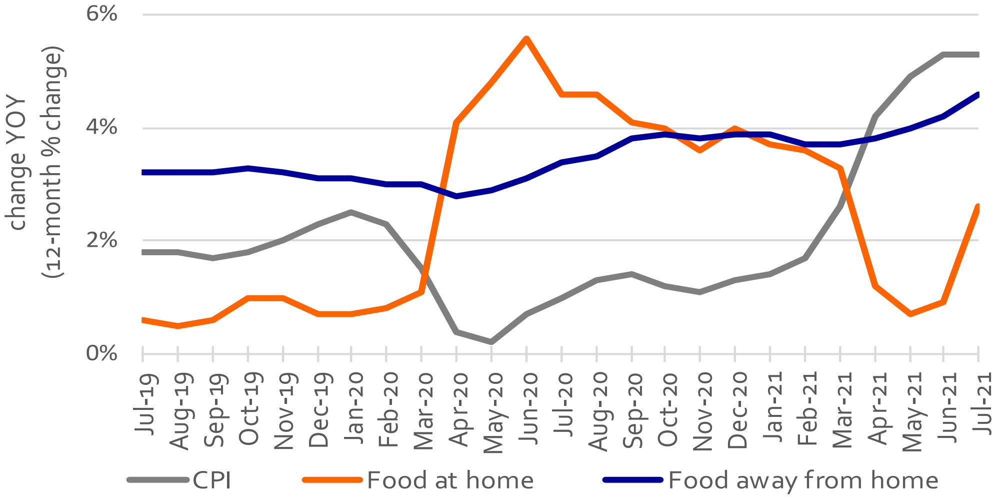
- Inflation continues to make headlines. In our last report, we highlighted the fact that inflation was not new for food products, as surging demand for food-at-home and spot disruptions in some food manufacturing segments early in the pandemic caused a spike in food-at-home prices and the continued rise in foodservice prices. Menu prices increased throughout the pandemic despite (or because of) restaurant closures and operating challenges.

- Recent data indicates both food retail and menu prices spiked again in July. The peak of summer brought an increased willingness to dine out, resulting in the record-high foodservice spending registered in June (US Census). A resurgence of Covid-19 amid Delta variant outbreaks also occurred in the summer. The current surge in cases has already resulted in the cancellation or postponement of many events and conferences as well as plans to reopen offices. The return to normality no longer seems likely to happen in 2021, which should support the continuation of home-office work and travel restrictions for at least the remainder of the year.

- It is still unclear how consumers will react to the new Covid-19 wave 18 months into the pandemic or whether there will be a reversion to stay-at-home orders that would shift eating occasions back to the household. This time governments have hesitated to reinstate restrictions on restaurant operations, focusing instead on less damaging mask mandates and vaccination incentives.

- CPG companies' Q2 2021 earnings indicate that consumers continue to favor traditional brands and premium products at the expense of value brands and private labels. This represents a continuation of the trade-up seen during the pandemic. CPG companies have also revised prices up in response to inflationary pressures on ingredients and labor.

Uptick in food inflation: summer dining-out and retail food price increases



Source: BLS, Rabobank 2021

Retail sales data continues to indicate growth in spending on everything away from home, including foodservice

Estimated Change in Monthly Sales	Jun '21 vs.		Apr-Jun '21 vs.	
	May '21	Jun '20	Jan-Mar '21	Apr-Jun '20
Grocery stores	0.4%	2.5%	2.0%	0.9%
Foodservice & drinking places	2.3%	40.2%	17.7%	71.8%

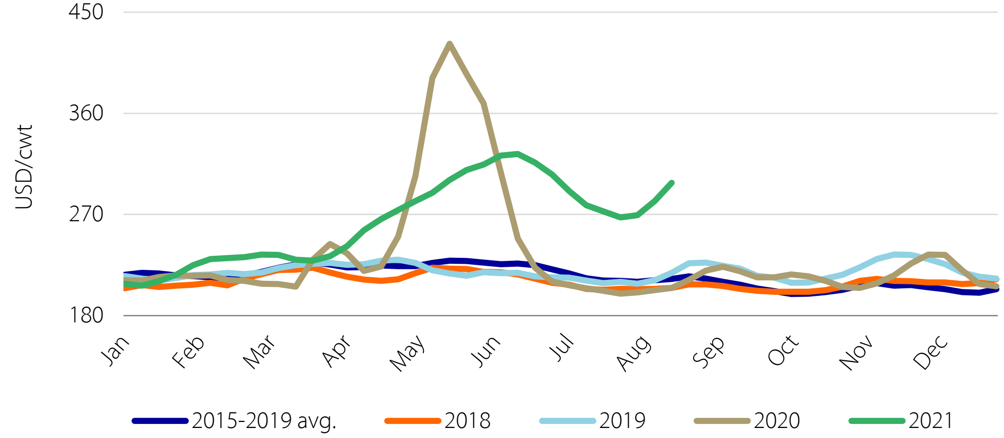
Source: US Census, Rabobank 2021

Cattle

Starting the transition

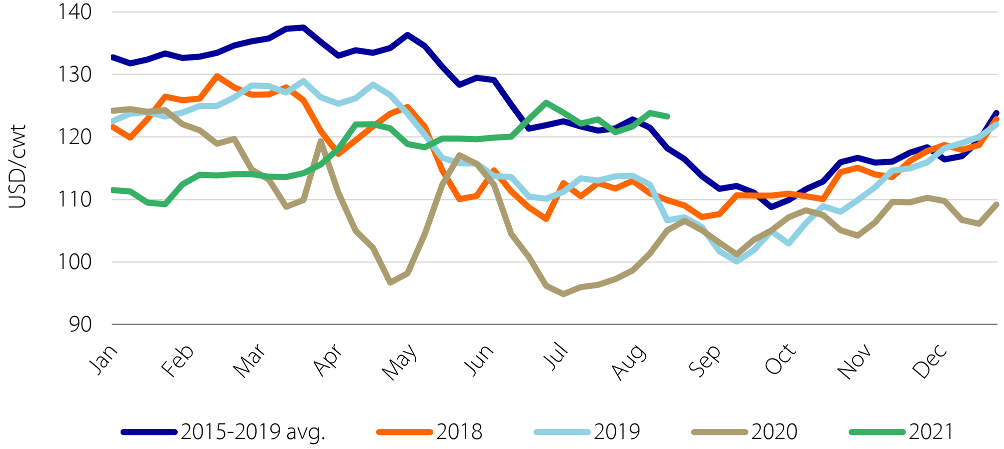
- ***A new trading range for beef.*** After falling below USD 270/cwt in late July, mid-August Comprehensive cutout was back above USD 300/cwt. While a pre-Labor Day price rally is typical, many analysts and market participants, including Rabobank, expected a deeper July decline before the seasonal price appreciation. With daily Choice cutout approaching USD 340/cwt at the time of publication, the rally's magnitude is impressive. A number of factors are at play. Through mid-August, Q3 beef production was down 1.8% YOY. Continued shipping, labor, and other supply chain challenges, combined with fears regarding the Delta variant's potential impact, have also put a premium on product in-hand ahead of summer's last major beef-consumption holiday. With July all-fresh retail beef prices at USD 710/cwt, US consumers continue to demonstrate a strong willingness to pay. Although government fiscal stimulus programs are expiring, consumer real disposable income since the start of the pandemic has averaged 8% to 10% above pre-pandemic levels, while the average savings rate doubled. There is money to be spent. Export demand could moderate in 2H 2021, but it should still be historically strong. Cutout values should fall post-Labor Day, followed by retail prices a few weeks later. That said, declining beef production (projected at -1.3% and -3.2% YOY for Q3 and Q4, respectively), strong domestic and export demand, and general economic inflation have combined to put cutout prices in a new trading range. Comprehensive cutout could find a fall low around USD 240/cwt.
- ***Strong cutout and tightening cattle supplies support fed cattle prices.*** At low to mid-USD 120s/cwt, August fed cattle prices are their highest since 2015. Yet, ample market-ready cattle supplies and continued beef processing constraints have kept the spread between cattle price and cutout price historically large. May and June net feeder cattle placements were both down 7% YOY, with July expected to be down similarly. Looking ahead, leverage will improve for the cattle feeder later this year and beyond, as reduced fed cattle supplies move closer to balance with operational packing capacity. This will take time. However, Q4 live fed steer prices could trade at or above USD 130/cwt.
- ***Feeder cattle prices still balancing fed cattle futures optimism and feed cost pressures.*** Feeder cattle have traded near USD 155/cwt for several weeks. With breakevens at the time of purchase hard to find throughout 2021, cattle feeders have displayed a willingness to bet on increasing fed cattle prices and manageable feed costs. Considering the strength in deferred live cattle futures, October feeder cattle prices could reach the mid-USD 160s/cwt if corn futures stay below USD 6/bushel. Accordingly, fall calf prices should find support in the upper USD 160s to low USD 170s/cwt. The downside risk comes from cow-calf producers facing drought and high feed costs deciding not to background and sending a glut of calves to the marketplace all at once.
- ***Cull cow prices remain strong.*** Through mid-August, year-to-date beef cow slaughter remains up 10% YOY, with total cow slaughter up 5% YOY. Yet, cull cow prices have been up 10% YOY. Reduced lean imports from Australia (-42% YOY through 1H 2021) continue to provide price support. Look for fall cull cow prices to decline seasonally but find support in the mid-USD 60s/cwt.

Comprehensive cutout, Jan 2018-Aug 2021



Source: USDA, Rabobank 2021

Fed steer price (five-market average), Jan 2018-Aug 2021



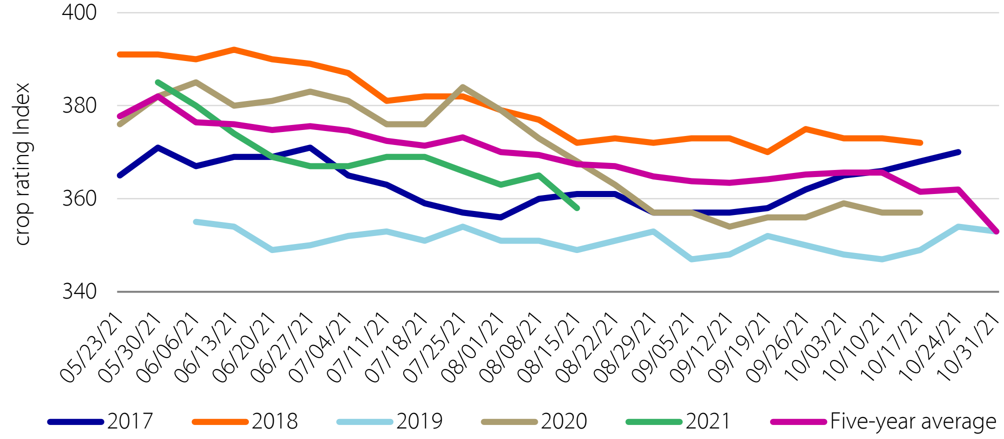
Source: USDA, Rabobank 2021

Corn

More yield cuts coming, potentially

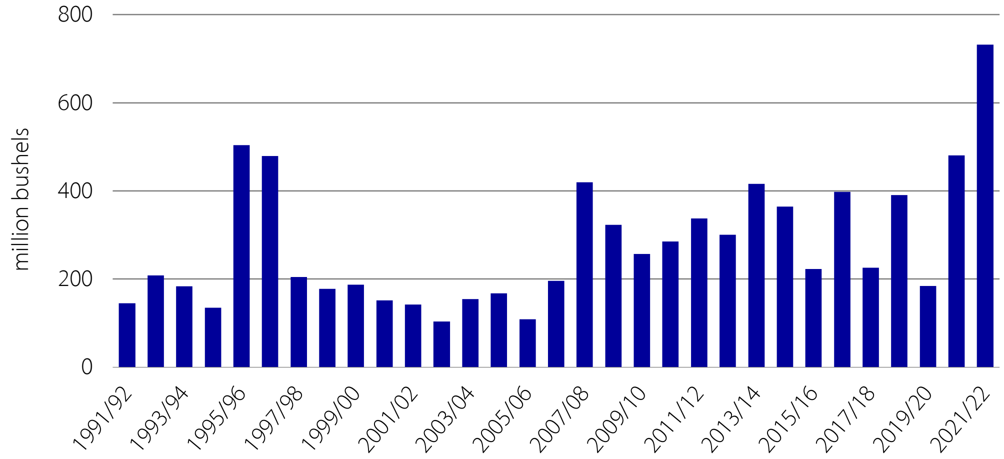
- ***In their August crop production report, the USDA was ahead of the market.*** While a few market participants were expecting the USDA to come out with a mid-170s yield estimate right out of the gate, the majority of the market was not and reacted accordingly. The August crop production report sets the foundation for the market's expectations going forward. The market is readjusting its expectations and realizing that the drought in the western Corn Belt is having a significant negative impact on this year's production.
- ***Corn yield history indicates the August yield could be the highwater mark.*** In recent years, and on average, the final corn yield has been below the August yield estimate. For example, the average three-year, five-year and ten-year change in the USDA's projected corn yield from August to final is -4.60 bu/acre, -1.44, and -0.68, respectively. If you look at only weather-challenged years (1983, 1988, 1993, 2002, and 2012), the average decline from August to final was -4.8 bu/acre. For those wondering about the rainy spring year of 2019, the corn yield declined 2.0 bu from August to final.
- ***The new crop balance tightened up significantly and is poised to tighten further.*** To make the 2021/22 balance sheet work in light of a 465m bu decline in production, the USDA cut feed and residual and exports by 100m bu each. However, outstanding new crop export sales already stand at 732.2m bu, compared to 480.4m bu at the same time last year. With this volume of sales already on the books, it is hard to see how new crop US corn exports will be 375m bu below last year. Consequently, it is likely the 2021/22 US corn balance sheet will get tighter yet and corn prices (futures and basis) will be well supported into the new crop year.
- ***Adding to the upside pressure on US corn exports is the global corn production situation.*** Since discussing Brazil's production issues in a previous edition, the situation there has continued to deteriorate. The USDA is pegging Brazilian corn production at 87m metric tons (mmt), vs. 102mmt last year, and exports at 23.0 mmt, down 12.2mmt from last year. Rabobank's analyst in Brazil is expecting a slightly smaller crop and exports below 20mmt. The shortfall will have to made up by the US, Ukraine, and Russia. Ukraine's and Russia's production increases have largely been overshadowed by the production shortfalls in the western hemisphere. Ukraine is seeing better-than-expected yields, while Russia's corn production increases come from increased area.
- ***Ethanol demand remains a concern for the corn market, and that concern is well placed.*** As has been well publicized, the ethanol industry has had several court rulings go against it in 2021. In addition, administrative policies and automakers are pushing adoption of electric vehicles seemingly faster every day. Current trends are not positive. Corn grind for ethanol in 2020/21 is projected to be the third year to fall below the peak usage of 5.734bn bu in 2017/18. In addition, year-to-date corn grind is running nearly 8% below 2018/19 (the last non-Covid year) and 5.1% below the five-year average. There will always be a demand and need for ethanol as a fuel oxygenate and octane enhancer, but the days of rapid growth are likely over.

Corn crop condition ratings support USDA yield estimates



Source: USDA-NASS, Rabobank 2021

Highest outstanding new crop corn export sales on record



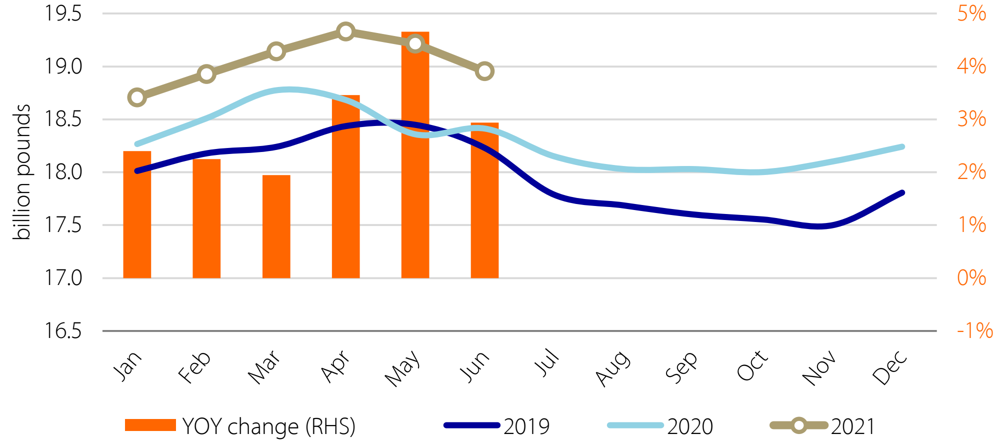
Source: USDA Export Sales Report, Rabobank, 2021

Dairy

Plentiful production is limiting upward price potential

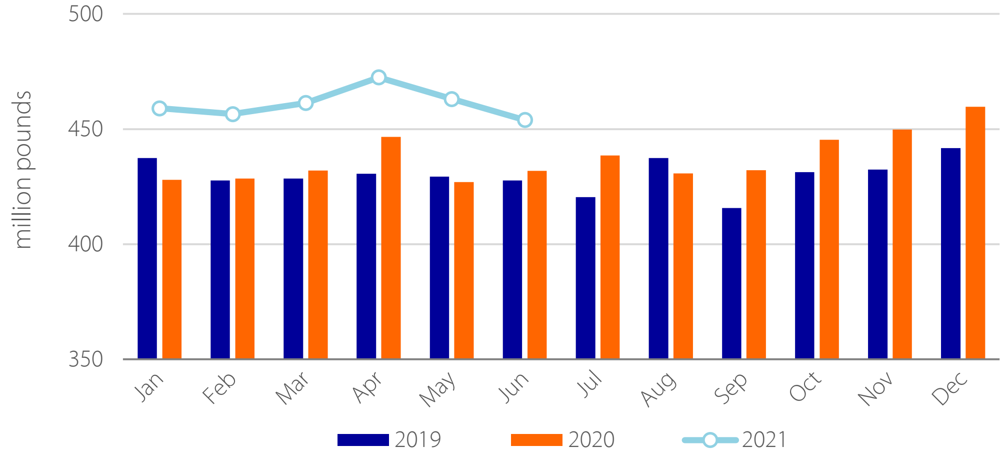
- Milk production was up 2.9% YOY in June. Much of that is thanks to the additional 153,000 milk cows in the US this year compared to last June. However, the streak of 12 consecutive months of increasing milk cow numbers has ended, albeit by a decrease of only 1,000 cows from May.
- This slight pause in herd expansion could be the first hint of a plateau or even a turnaround in cow numbers in response to persistent margin pressure. Even if cow numbers remain constant, a slowdown in milk production growth rates will likely emerge over the next couple months due to the drought in the west and the extreme heat across much of the country.
- Milk has been plentiful for cheese manufacturers in the Midwest, but there are signs that the market is tightening up. School milk programs are beginning to pull on milk supplies. Spot milk loads have moved from trading in the range of USD 6 to USD 8 under class prices to USD 2 to USD 3 under class prices.
- Still, there is plenty of cheese available, thanks to new and expanded cheese manufacturing lines. Through the first half of the year, an additional 160m lb of American-style cheese has been produced. Greater availability of barrel cheddar is widening the block/barrel spread once again, which adds some instability in the cheese market.
- Exports have been strong, but they converged closer to last year's levels in June. Port delays and logistical challenges have been causing headaches and are showing signs of potentially worsening with China halting activity at major ports in response to individual cases of Covid. Still, strong exports have managed to persist despite the disruptions so far. In some cases, concerns about container availability may even be boosting export demand if buyers are stocking up on purchases while they are able.
- Butter and powder stocks remain elevated but manageable. Inventories of butter in June were up 14.4% YOY and up 27% from 2019 levels. A major upward move in prices is unlikely at these levels, but seasonal demand increases in Q4 could still provide a lift from current levels.

US milk production (30-day months), Jan 2019-June 2021



Source: USDA NASS, Rabobank 2021

American cheese production (30-day months), Jan 2019-June 2021



Source: USDA, Rabobank 2021

Farm Inputs

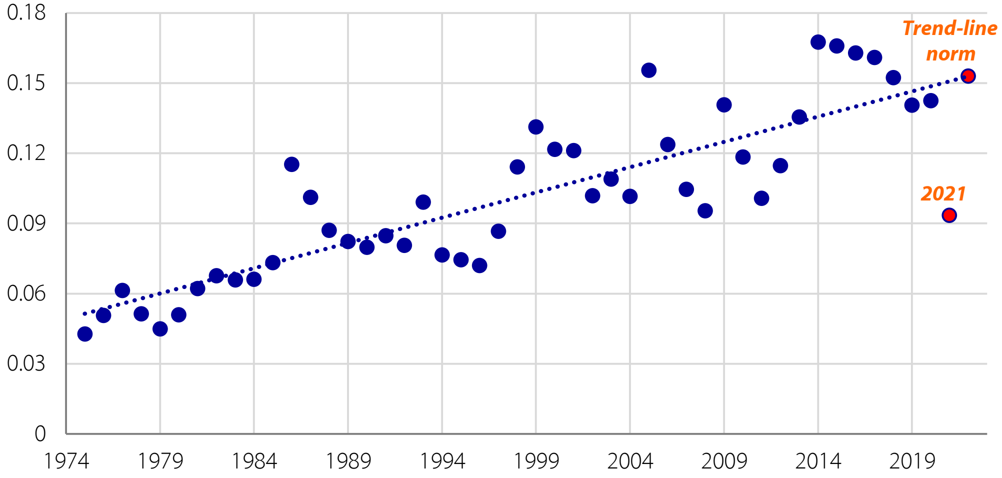
Inputs battle for share of 2022 direct costs

Rabobank

Seed price increases likely for 2022

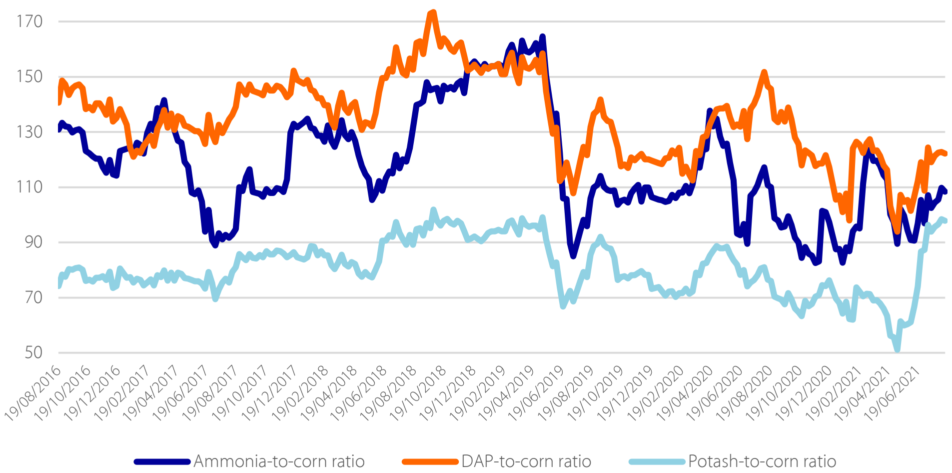
- The year 2021 was anomalous for many things, not least for corn and soybean seed pricing. Given all the tumult of the past year, farmers may, in retrospect, be thankful for the price of corn and soybeans this season – not a feeling that was common in the last several years.
- Seed pricing is likely to take a sharp tack upward in the 2022 season, as inputs companies look to benefit from high corn and soybean prices in 2022 more than they were able to in 2021.
- In 2021, seed costs/acre were substantially below the trend line. This was largely a function of seed pricing calendars and the rapid escalation in commodity pricing in Q4 2020.
- If we are to see a reversion to trend-line norms, this could manifest in an aggressive price movement upward for 2022 seed pricing, potentially as much as 8% to 14%. (This is not without precedent. We saw 2009 seed cost/acre jump as much as 30% over 2008).
- We would anticipate corn seed pricing to see the most significant increase in 2022, coming in at the high end of that range.
- We would also anticipate the increase in soybean pricing to be partially mitigated by the underlying competition for market share between new and older trait platforms.

Historic relationship between corn seed cost/acre to value created



Source: USDA, NASS, Rabobank 2021

Fertilizer affordability: Corn Belt fertilizer-to-corn price ratio



Source: Bloomberg, CRU, USDA, NASS, Rabobank 2021

How many corn bushels are needed to buy my nutrients…

- In-market fertilizer prices have continued to rise since our last publication two months ago. At the same time, in-market corn and soybean prices have regressed from their mid-June levels.
- This has tilted the relative affordability of fertilizer prices in a less favorable direction. Corn Belt potash prices are currently at their 'least affordable position' since 2019 and well above the five-year average. While phosphate and nitrogen affordability trend negatively, they remain within the five-year range.
- Global trade is still the exogenous factor that could push fertilizer prices higher. Though, excluding this risk, we could see P prices stabilize and abate, along with urea, over the coming months.
- Geopolitics and Covid are causing issues for more than just fertilizers. Agrochemicals are likely to be an equally choppy ride ***in 2022, as high freight rates (up tenfold since early Covid lows), high raw material and energy costs, and increased global demand could yet see the coming season with elevated prices or scarce products.***

Feed

Feed costs to remain elevated for the remainder of the year

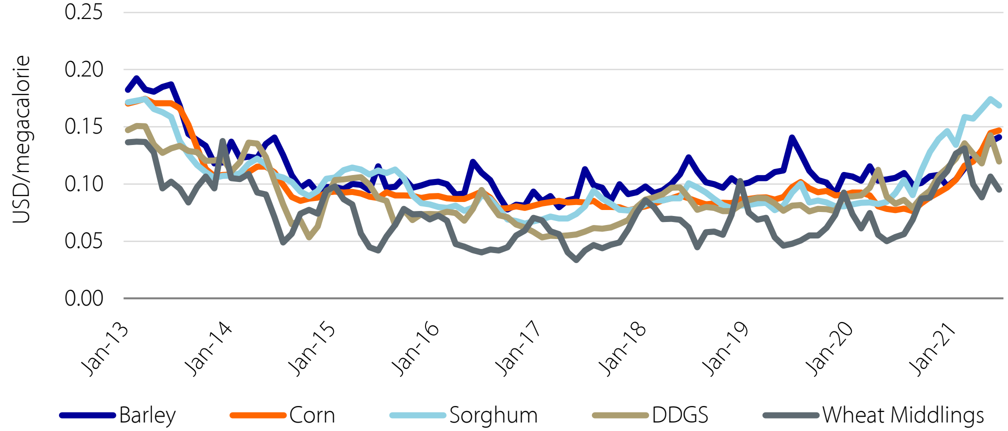
- ***Drought continues to pressure feed crops, as the USDA adjusts yields for the main feed grains.*** In its latest report, the USDA adjusted corn, soybean, and wheat yields as a result of continued drought conditions in the US. Prices are increasing as a result of expectations of smaller crops for all three grains, with continued pressure on animal feed costs. As corn prices are likely to remain elevated for the next six months, wheat demand for animal feed is likely to increase, especially for cattle.

- ***Year-to-date alfalfa hay export demand is lower, but other hay exports are higher.*** Alfalfa hay exports have declined 4% due to drought conditions and the resulting higher prices (China, however, increased exports by 19% for the first half of the year compared to the same period a year ago). Other hay exports increased 5% as a result of higher alfalfa hay prices, with Japan seeing the largest growth at 12.3%. Demand for alfalfa hay exports is expected to remain low for the coming months, as lower domestic stocks and higher prices in western states are likely to reduce incentives globally.

- ***Energy and protein costs are reaching 2013 levels, as demand for substitutes intensifies***. Traditional feed grains continue to experience drought conditions, with corn and soybean production areas experiencing 35% and 30% drought, respectively. Corn and soybean meal prices have increased over 20% or more compared to their last three marketing year averages. As a result, the average cost of energy in the first half of the year increased to USD 0.13/megacalorie from USD .09/megacalorie for the same period last year. On average, crude protein prices have increased from USD 6.50/lb in the first half of 2020 to USD 9.30/lb for the same period this year.

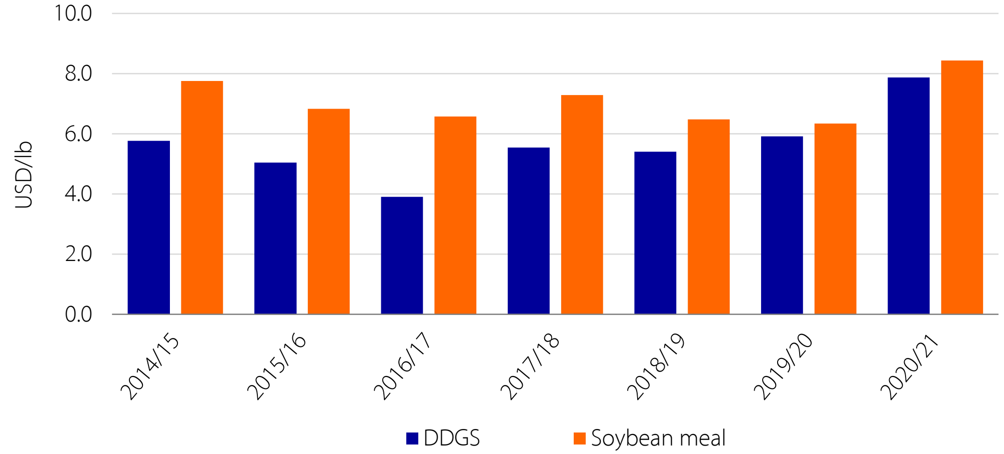
- ***DDGS continues to lose its competitive edge, as prices remain high relative to energy grains and protein meals.*** Since the beginning of the pandemic, ethanol plants have limited their production capacity, and while the industry is slowly recovering, DDGS prices remain 32% higher year-on-year. From an energy standpoint, DDGS surpassed the cost of corn on a USD/megacalorie basis by 3% in 2019/20 and 5% in 2020/21. However, while the cost of DDGS compared to soybean meal remains lower, it Is quickly reducing the spread with DDGS crude protein, traditionally priced USD 2.0/lb of crude protein lower than soybean meal. This year, the cost of DDGS is USD 0.50/lb of crude protein lower than soybean meal.

National average energy feed cost by feed grain , Jan 2013-Jun 2021



Source: USDA/NASS, Rabobank 2021

Crude protein price per pound of DDGS and soybean meal, 2014/15-2020/21



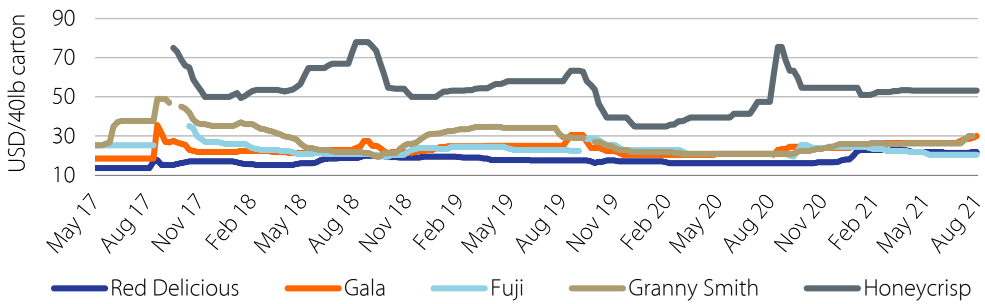
Source: USDA/ERS, Rabobank 2021

Fruits

Healthy demand continues

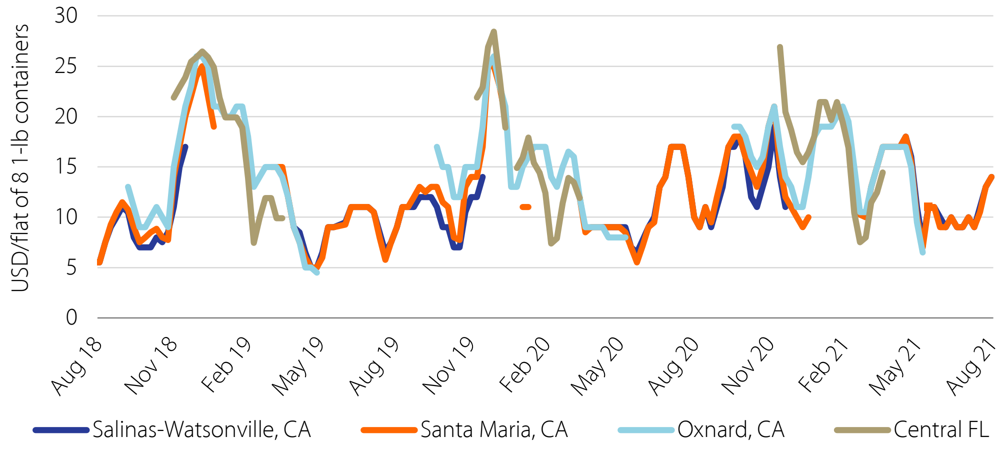
- ***Strawberry*** prices were around USD 14 per flat during the second week in August, up about 40% YOY. Steady shipments have continued, even after the peak in the California season. By mid-August, ***blueberry*** prices were up about 19% YOY, signaling an early start of the fall shoulder of the season. ***Raspberry*** prices have remained firm, around USD 20 per flat during most of the season so far. Consumer demand for berries will likely remain strong going into the fall.
- Mid-sized ***lemons*** (140s) were over USD 41 per carton during the second week in August, up 13% YOY and the highest price for this time of year since 2018. California lemon production ended the 2020/21 season with 21.5m boxes, down 15% YOY, according to the USDA. ***Valencia orange*** prices were just above USD 20 per carton for 88s, down about 10% YOY but up marginally compared to the 2016-2020 five-year average price for this time of year. The USDA revised down 2021 California Valencia production from 10m to 9.5m boxes, amid severe drought conditions.
- As for ***avocados***, output from California has been lighter than previously expected, down about 30% YOY through mid-August, according to USDA figures. Mid-sized avocados from California were priced above USD 53 per carton, the highest price since March 2020 and up more than 40% YOY by mid-August. Prices are expected to remain firm until the new harvest ramps up in Mexico this fall.
- ***Table grape*** season is in full swing in Central California, with shipments up 5% YOY through mid-August, per government sources, despite labor and drought challenges. During the first half of August, the blended price for table grapes in the US was up about 2% YOY and 26% higher than in 2019. The industry expects messaging about the fruit's health attributes will boost demand domestically and abroad.
- During the first half of August, prices of non-organic Gala, Granny Smith, Red Delicious, and Honeycrisp apples were up 43%, 43%, 36%, and 12% YOY, respectively, while Fuji prices were down 2% YOY. Industry sources report tight availability of some varieties. Availability will improve soon, as year-on-year ***apple*** production is expected to be up by a singe digit. WA industry is expecting a bigger crop, despite heatwaves in the Pacific Northwest.

Washington apple shipping point prices, 88s – WA Extra Fancy, 2017-21



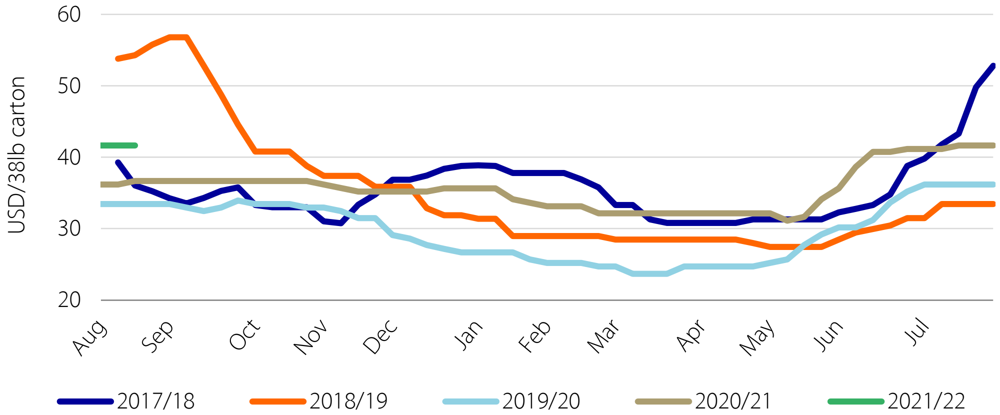
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2021

Strawberry shipping point prices – primary US districts, 2018-2021



Source: USDA AMS, Rabobank 2021

California lemon shipping point prices, 140s – shipper's 1st grade, 2017/18-2021/22



Source: USDA AMS, Rabobank 2021

Pork

Pork prices begin seasonal slide; tight supplies and strong demand remain supportive

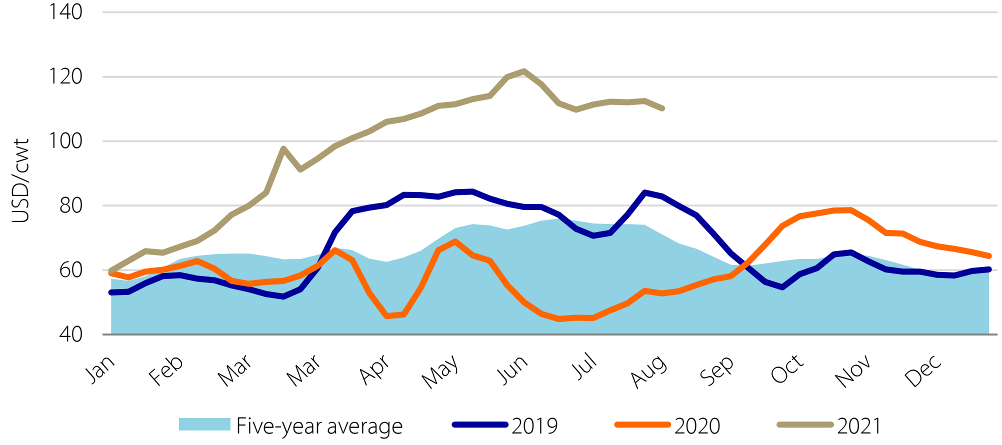
- ***June pork production was down 6% YOY, to 2.244m lb.*** Lower slaughter levels, reflecting last year's virus-related culling and slightly lower weights, contributed to the decline. Rabobank expects a 3% YOY drop in 2H 2021 pork production, driven by an expected drop in slaughter. We note that PRRS-related losses in recent months could further constrain production. We expect production to gradually increase in 2022 but note that higher feed costs and mandated Proposition 12 housing regulations are likely to limit herd growth.

- ***Pork carcass values are down from their mid-June record high but remain 80% above year-ago levels, at USD 1.23/lb, as strong belly and ham values have supported the cutout.*** Strong foodservice demand for bacon and tight availability have pushed belly prices up 149% YOY but should slow seasonally in the coming weeks. Strong export demand and labor constraints for deboning were supportive to ham values (up 47% YOY) in recent weeks, although values have softened seasonally. We expect a normal seasonal drop in carcass values in 2H 2021, although smaller pork supplies and tight frozen pork inventories should moderate price declines. The recent discovery of African swine fever in the Dominican Republic will not have an immediate impact but would pressure prices if found domestically.

- ***US pork exports were up 9.4% YOY in June, at 564m lb, and hitting a new monthly record. Year-to-date shipments are up 1% YOY, to 1.7m metric tons.*** Sharply higher June exports to Mexico (+53% YOY), Japan (+37% YOY), and South Korea (+31% YOY) more than offset weaker shipments to China (-48% YOY). Exports to Mexico are likely to slow as local pork supplies improve, while exports to Asia are likely to gradually improve as US pork prices weaken, economies reopen post-pandemic, and seasonal demand outstrips local availability. Container availability, trade restrictions, and new pandemic restrictions are risks to our outlook. Given the anticipated strength in exports to Mexico, we are forecasting record 2021 exports of 3.8m metric tons, up 4% YOY.

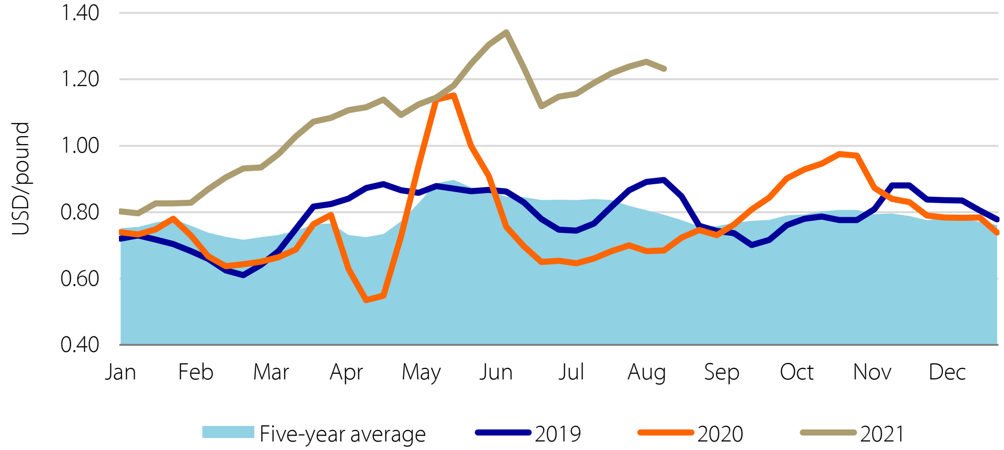
- ***Mexican pork prices are down 8% from June highs but remain 24% above year-ago levels.*** A slow recovery in demand, made worse by recent coronavirus travel restrictions and the pass-through of higher costs at retail, are pressuring pork prices. Larger pork supplies are expected this fall as the herd recovers, and large imports (up 19% YOY) from the US and Canada will continue to limit prices. Hog prices are also off their highs but are up 40% YOY. Prices are likely to remain ahead of historical averages, as significantly higher production costs (primarily feed) are pressuring margins and will likely limit herd recovery.

US lean hog prices, 2019-2021



Source: USDA 2021

Pork cutout values, 2019-2021



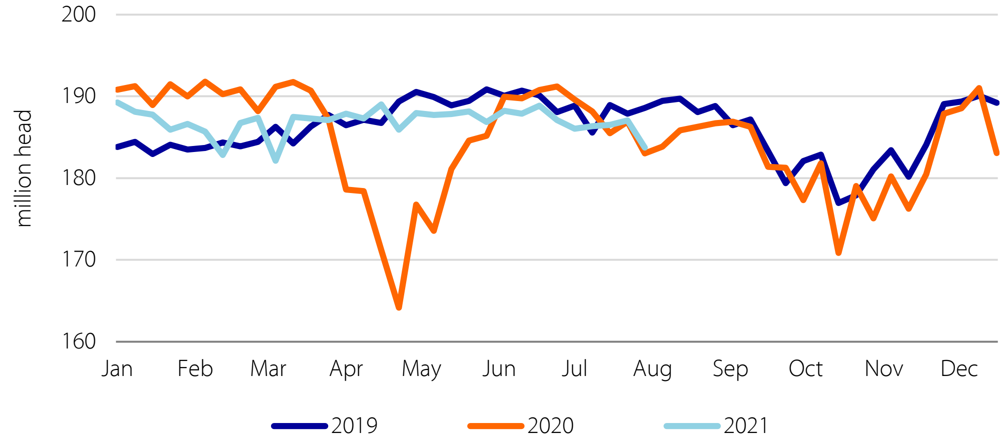
Source: USDA Rabobank 2021

Poultry

Prices remain well ahead of seasonal averages on supply restraint and strong demand

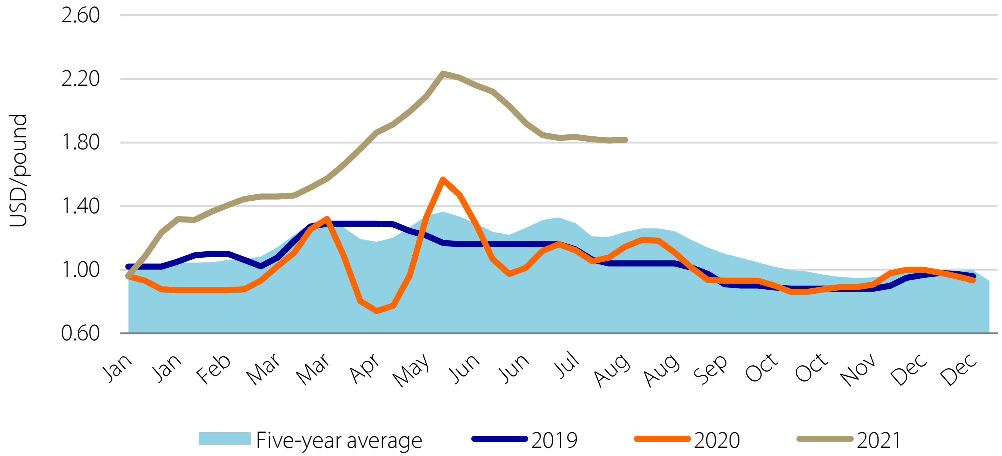
- ***Chicken prices remain well above historic averages, tied to ongoing strength in boneless breast meat (+54% YOY), wings, (+66% YOY), and strong exports of dark meat.*** Tender prices are also higher (+78% YOY), benefiting as foodservice channels broaden their menus and introduce new items. Demand remains strong heading into the fall, as chicken remains a good value option in foodservice and as schools begin to reopen. Low inventories of chicken (-14% YOY) are also expected to remain supportive to prices, as is limited supply growth.
- ***Weekly chicken production is currently in-line with 2019 volumes, helped by slightly heavier weights.*** The industry is lapping the shift toward heavier-weight birds made during the pandemic, which should limit the impact on volumes in 2H 2021. June disruptions resulting from cyberattacks were quickly recouped and are not expected to have any lasting impact. We continue to look for modest (+0.6% YOY) growth in RTC production in 2021, based on our current outlook.
- ***Chick placements were 0.4% ahead of year-ago levels, suggesting production will stabilize in the coming weeks.*** Weekly chick placements continue to trail egg sets, as hatchability remains near record lows (-3% YOY). Productivity issues are expected to remain a constraint on chick availability through mid-2022.
- ***Chicken exports were up 17.8% YOY in June but down from a record May.*** .Sharply higher exports to Mexico (+83% YOY), Canada (33% YOY), and Cuba (+292% YOY) more than offset the weakness in shipments to China/Hong Kong (-63% YOY). Tight competing protein supplies in some countries and the gradual reopening post-Covid are helping fuel the rebound, although container availability and the resurgence of the pandemic remain challenging. We expect US broiler exports to remain supportive to dark meat prices through year-end.
- ***Mexican chicken prices are up 21% YOY and are up sharply from their early June lows, as producers moved quickly to stabilize the market and maintain profitability.*** Prices were under pressure early in the summer as demand weakened, tied to ongoing pandemic restrictions, high retail prices, and larger import volumes from Brazil (after Mexico granted a quota). Industry production growth has slowed to 1.5% YOY, with slaughter levels normalizing only slightly ahead of year-ago levels. Lower production should help the industry maintain profitability despite a surge in feed costs (up 44% YOY).

Weekly chick placements, 2019-2021



Source: USDA, Rabobank 2021

US boneless breast meat prices, 2019-2021



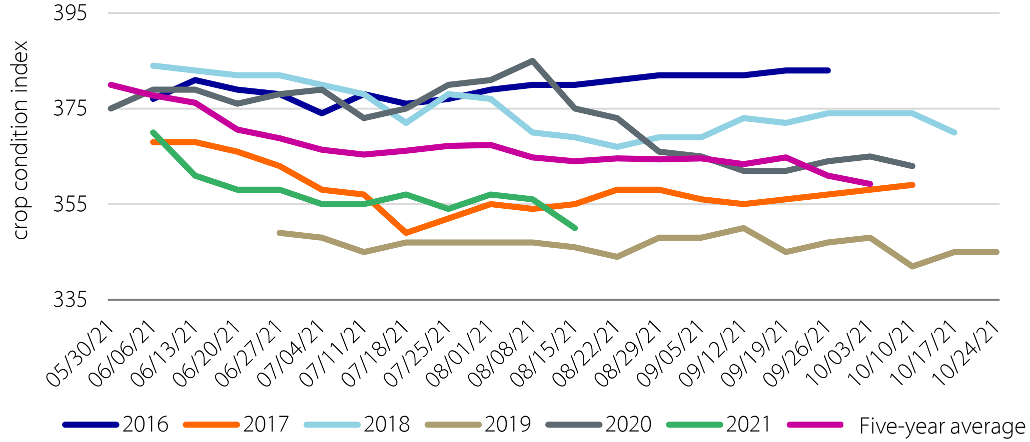
Source: USDA 2021

Soybeans

Supplies still tight – soybean complex prices will be well supported

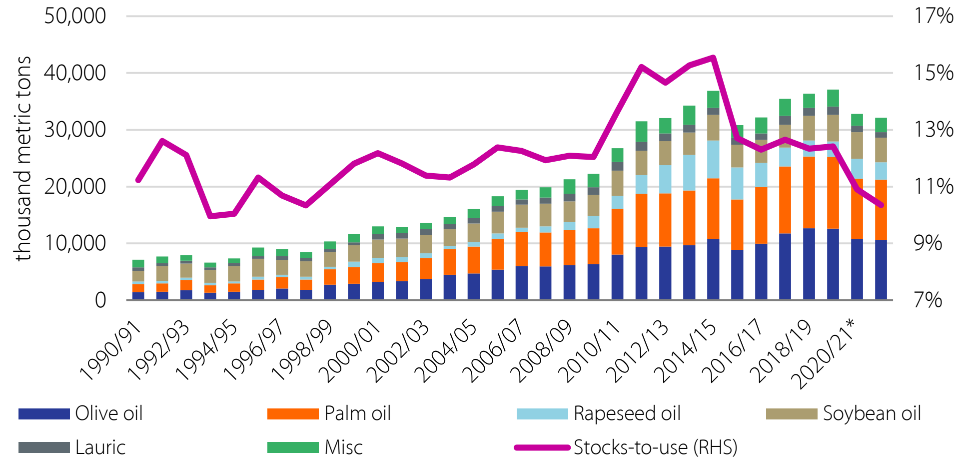
- ***Like corn and wheat, the US soybean crop has been negatively impacted by dry hot conditions at a time when global demand for oilseeds and oilseed products is growing.*** Prices in the soybean complex will remain volatile as the market worries over Chinese demand and weather for the remainder of the growing season. While supply and production will be the main drivers of the market in the short term, ongoing robust demand and tight stocks will eventually be supportive to the market.
- ***The USDA was below average trade expectations for yield and production, at 50.0 bu/acre.*** At the time of the August crop production survey, soybean crop condition ratings were clearly pointing to a sub-50 bu/acre yield. The five-year average yield is 49.9 bu/acre, and the five-year average crop condition rating is much above the August 1, 2021 ratings. Further, 2021 soybean crop condition ratings are similar to 2017 and 2019 ratings, when the final yield was 49.3 bu/acre and 47.4 bu/acre, respectively. The next several weeks will be crucial as to whether the USDA's yield projection is realized – watch the weather.
- ***Unlike corn, estimated soybean yields from the August estimate to the final yield are more variable.*** The three-year, five-year and ten-year average change in yield estimate from August to final is -1.73 bu/acre, -0.46, and +0.68, respectively. The same analysis for the weather-challenged years of 1983, 1988, 1993, 2002, and 2012 shows that yields barely changed (+0.3 bu/acre).
- ***Global vegetable oil supplies are already tight and getting tighter.*** The record-high temperatures and lack of rain in the Prairie Provinces of Canada are not going to help the situation. Canada's canola crop is currently forecast at 16m metric tons (mmt), down 16% from last year's 19.0mmt crop. It is highly probable the crop will be smaller when harvest is complete. Stats Canada will come out with their production estimate on August 30. While canola crush is forecast to be down by nearly 9.0% in the 2021/22 crop year, the strong demand for oil and meal will limit the decline. However, canola exports will be severely cut and are currently projected to decrease nearly 35%. Canada represents more than 60% of global canola seed exports. Importing countries like China and the EU will face challenges in procuring canola in the upcoming crop year and will depend heavily on Australia and Ukraine. However, projected exports from Australia and Ukraine combined only equal total Canadian diminished exports this year. The global canola balance sheet is more than tight, and prices are likely to increase further to ration supplies and demand.
- ***Global oilseed and vegetable oil supplies are getting tighter, just as biodiesel and renewable diesel production is increasing and demand for vegetable oil is increasing.*** From January through May, US biodiesel production capacity went up 1.4 % and renewable diesel capacity rose 22.8%, and more is on the way. Due to the high prices of vegetable oils and the difficulty in procuring supply, some countries are rolling back biodiesel blend mandates, and some renewable diesel projects are pushing back their start dates (e.g. CVR Energy). There are more joint ventures being announced between crushers and renewable diesel producers in order to lock up feedstock supplies. A rationalization of feedstock supplies and production capacity is starting to occur, but vegetable oil prices are likely to go higher before supply and demand come back into balance.

Soybean crop condition ratings project a sub-50 bu/acre yield



Source: USDA-NASS, Rabobank 2021

Global vegetable oil stocks-to-use ratio lowest since 1994/95 crop year



Source: USDA/FAS-PSD, Rabobank 2021

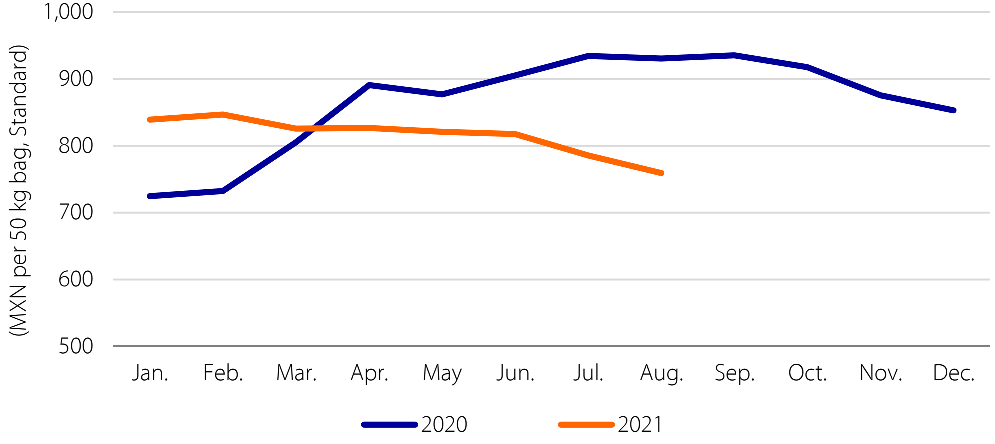
Sweeteners

The US sugar market is likely to remain well balanced, but Mexico may face challenges

- ***Higher beginning stocks are expected for the US and Mexican sugar markets in 2021/22.*** Total sugar supplies in the US are anticipated to remain stable, as sugar production and imports are forecasted to diminish. However, the prospects for Mexico are more challenging, as demand (consumption and exports) continues to be lackluster.
- ***US sugar production is expected at 9m short tons raw value (strv) in 2021/22, around 2% below the last cycle.*** This reduction is driven primarily by a drop in sugar cane production. Area harvested in Florida is expected to decline, while cane in Louisiana is facing some quality issues due to weather. Sugar beet production is anticipated to remain flat at around 5m strv despite the drought.
- ***The outlook for Mexico is challenging.*** Beginning stocks and production are expected to be marginally higher than the previous cycle; however, consumption and exports continue to lose steam, which clearly could weaken domestic prices.
- ***Mexican exports to the US are likely to decline, again.*** In recent days, the government of Mexico announced the opening of a quota for sugar exports to the US for up to 657,000 metric tons. This volume is around 22% lower than the previous cycle. As a result, we anticipate Mexico's exports will be forced to go to other international markets in order to balance its market. However, the good news is that global sugar prices remain firm as Brazil is facing several production challenges.
- ***Sugar consumption in the US and Mexico remain lackluster due to consumer behavior, habits, and preferences.*** US sugar deliveries are expected to remain flat at 12.1m strv, while Mexico consumption may stagnate at around 4m metric tons. These volumes indicate that per capita consumption continues to weaken in both countries.
- ***Mexico's sugar prices have lost some ground.*** Standard and refined sugar prices declined during the past couple of weeks and during the off-season, reflecting the current status of stocks.
- ***High fructose corn syrup (HFCS) use in Mexico is likely to decline marginally.*** Our current baseline expectation is for corn prices to remain well supported, evaporating some of HFCS's competitive price advantage over sugar. We anticipate HFCS use to be around 1.30m metric tons, down from 1.38m metric tons in 2021. In addition, this projection is below the 1.52m metric ton ten-year average reported by the USDA.

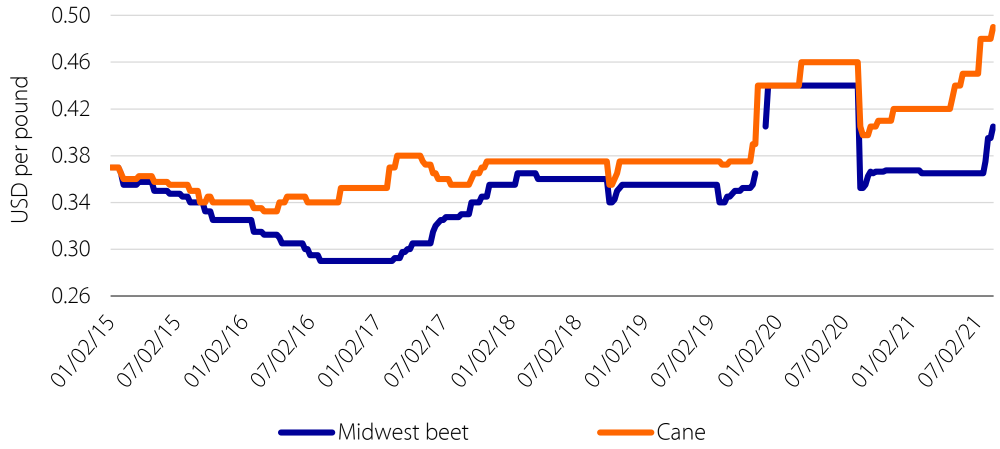
Source: Milling & Baking News, Food Business News, Rabobank 2021

Mexican sugar prices continue to weaken



*Source: SNIIM, Rabobank 2021; *Mexico City, Central de Abastos*

US sugar prices finding support from weather issues



Source: USDA-FSA, Rabobank 2021

Tree Nuts

Closing the marketing year with strong shipments

Almonds: Prices are set to improve after record shipment levels in 2020/21, a carryout at the low range of expectations, and a bullish objective report for the 2021/22 season. Total US shipments in 2020/21 were up roughly 22% YOY. Exports, accounting for 72% of US shipments, were up 31% YOY, while domestic shipments were up 4% YOY. Carryout was below 600m lb, below most expectations. Harvest is underway, with an objective estimate of 2.8bn lb, down roughly 11% from the record crop last year. Due to the drought, some acreage in water-challenged areas will come out after harvest.

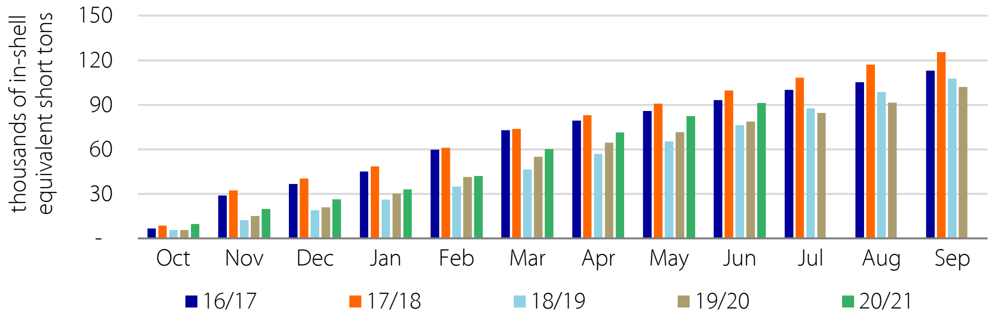
Hazelnuts: Shipments in 2020/21 were up 45% YOY through May. About 83% of marketable supplies from a record-setting crop have been sold. This industry will continue to expand in the US, as more acres with higher-density plantings are coming into production. Although the USDA will not provide a crop forecast this year, industry sources estimate that a new record crop may be coming in 2021/22. However, the net impact of heat damage on yields and quality remains to be seen.

Walnuts: Shipments were up 18% YOY, with exports increasing 24% YOY through July. About 86% of marketable supplies were sold and are heading toward manageable inventories at the end of the 2020/21 marketing year. After extraordinary yields in 2020, the walnut crop in 2021 may be smaller. The industry expects a volume drop of about10% YOY, which will lead to a significant improvement in pricing. The 2021 California walnut objective measurement report, which will come out in late August, will shed more light on what to expect before harvest starts.

Pistachios: We estimate a US crop of about 904m lb, with a 50% chance of it being between 841m lb and 949m lb in 2021/22. Shipments in 2020/21 were up 19% YOY through July. Pistachio prices have remained steady this season and are expected to improve, as the US will start an off-year. Also, reduced competition in international markets – provided Iran's crop is confirmed to be significantly down this year – will support prices for US pistachios in the months to come.

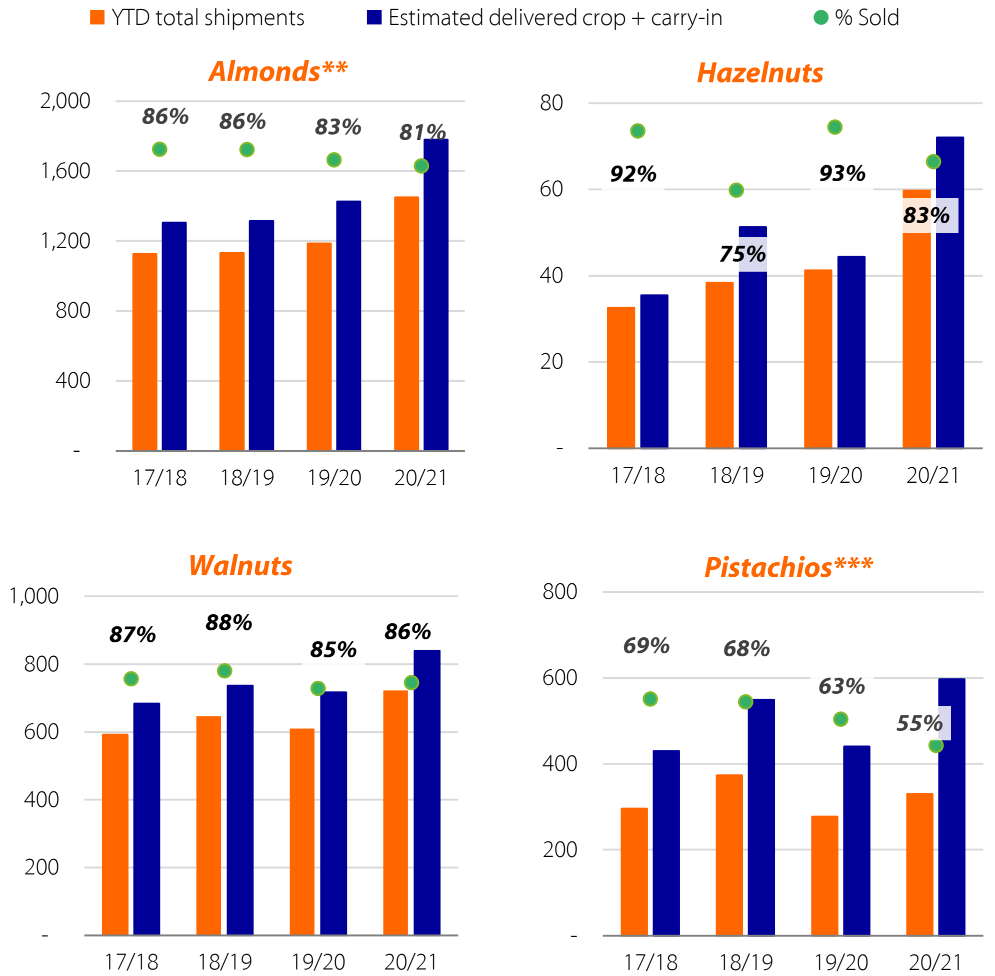
Pecans: US pecan export volumes in the 2020/21 marketing season through June were up 16% YOY, according to USDA figures. Industry figures show an increase of about 18% YOY in total pecan shipments through June. While the domestic market continues to absorb higher volumes, exports to China and other Asian markets, such as South Korea, are also up year-on-year. Although exports to China are still below the pre-trade war levels, the renewed demand from that market will continue supporting prices in the US.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2021

Cumulative US tree nut shipments* (thousands of in-shell equivalent short tons)



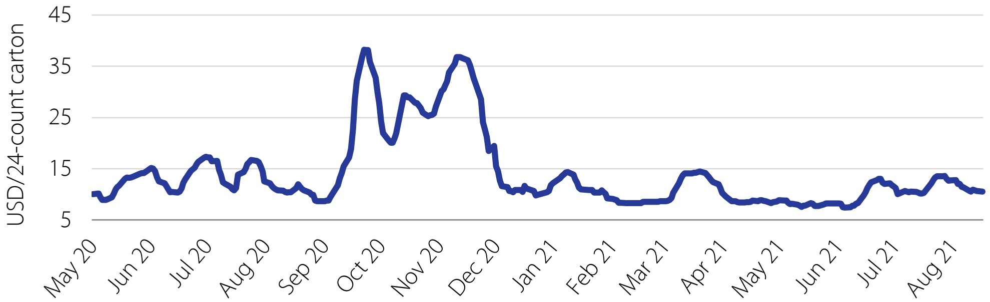
Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2021. *Through July 2021, 2020/21 marketing season for almond, walnuts, and pistachios; May 2021 for hazelnuts. **Meat pound equivalent. ***Not considering inventory adjustment/loss.

Vegetables

Back to normal, for now: slowing retail demand, varying supply, and mixed prices

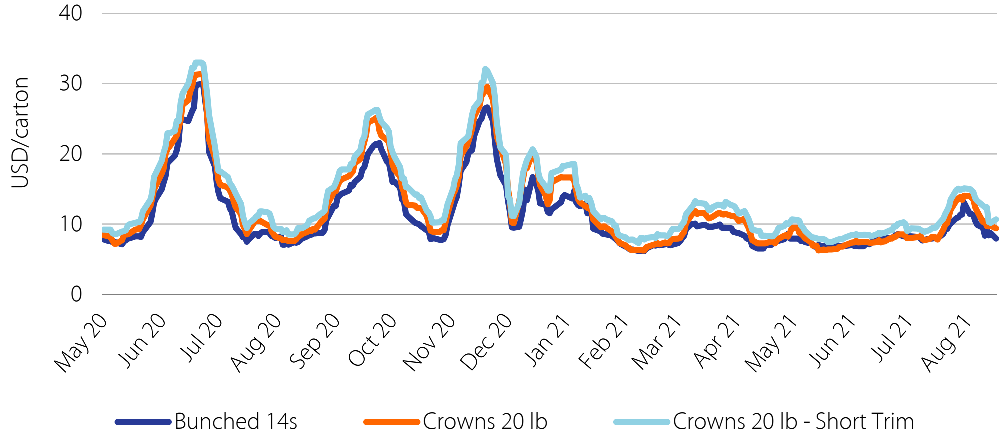
- ***Consumer retail demand for conventionally grown fresh produce began showing signs of returning to traditional pre-pandemic trends.*** In the second quarter, sales declined 3.3% YOY, driven by an 8.6% YOY drop in volumes, according to the OPN. The reopening of foodservice, vaccinations, and the beginning of summer all chipped away retail demand. For the remainder of this year, demand will likely continue to grow slower than last year but above pre-pandemic rates. The Delta variant will remain a wild card in the upcoming months.
- ***Year-to-date shipments vary by products, with some going off the charts and others not so much.*** Shipments of cauliflower, broccoli, carrots, peppers, cucumber, and squash are at their highest levels, even compared to last year's high records. Those of sweet corn, iceberg & green leaf lettuce, and melons are at their lowest levels, even lower than last year. Shipments of spinach, romaine, celery, cabbage, kale, eggplant, artichoke, and sweet potatoes are about average and close to last year's levels.
- ***With some exceptions, prices of most vegetables continue to hover around their historic averages, and for many, they are still trading above last year's levels.*** Sweet corn, cucumber, cantaloupe, and pepper (other) prices are at record highs, whereas those of squash and green leaf lettuce are at record lows. Vegetables that are still enjoying year-on-year higher prices include celery, carrots, cabbage, cantaloupe, kale, artichoke, and sweet corn. These trends will likely continue in the upcoming months.
- ***Broccoli crown and lettuce prices have improved considerably since June, but the recovery seems short-lived.*** At USD 9.40 per 20-pound carton, crowns are priced 5% higher YOY. In contrast, at USD 11.04, USD 12.28, and USD 10.56, romaine's 24s, hearts (12x3), and iceberg's wrapped heads are still 40%, 52%, and 6% lower YOY, respectively. With an ample and good-quality harvest, prices will likely stay pressured in the upcoming months.
- ***Russet table potato prices remain strong, as more growing areas begin to ship new crop.*** Demand is rebounding around the globe, with sales jumping 40.5% YOY, according to NAPM. Though prices are still lower year-on-year, generally, they will likely benefit from demand recovery in the upcoming months.

Wrapped iceberg lettuce – US daily shipping point price, 2020-2021



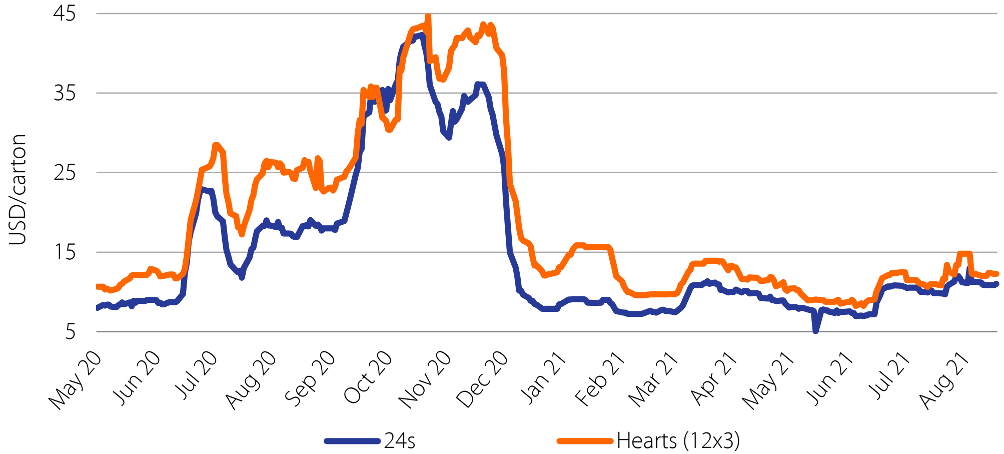
Source: USDA AMS, Rabobank 2021

Broccoli – US daily shipping point price, 2020-2021



Source: USDA AMS, Rabobank 2021

Romaine lettuce – US daily shipping point price, 2020-2021



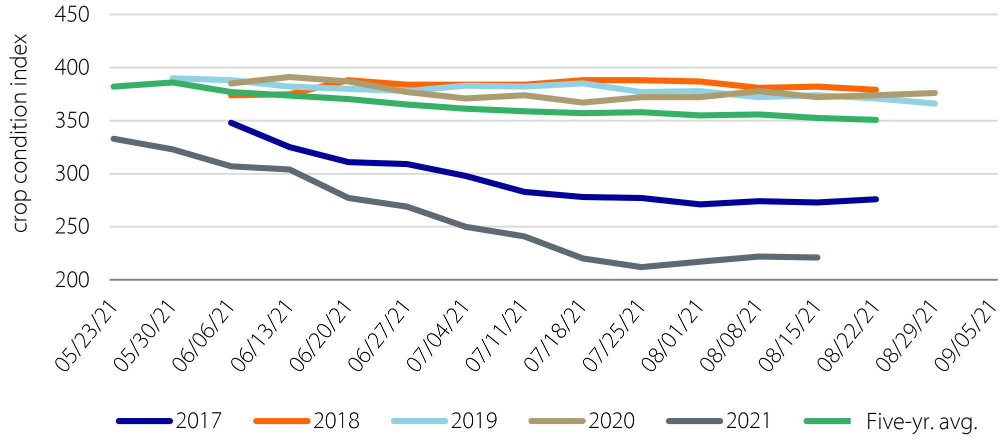
Source: USDA AMS, Rabobank 2021

Wheat

A turn of fortunes

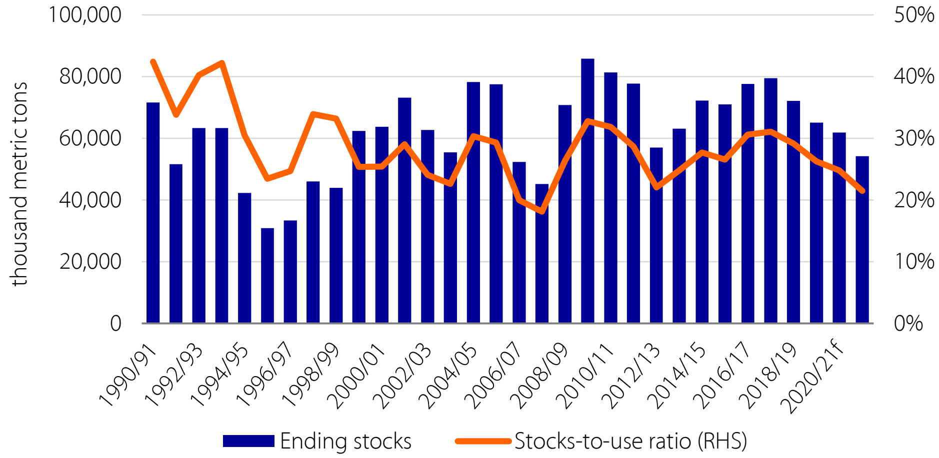
- ***The complexion of both the domestic and global wheat market seemingly changed overnight – lower production, reduced trade, and lower stocks.*** The world and the US are in no danger of running out of wheat. However, new crop ending stocks are at their lowest levels since 2016/17 and 2013/14 for the world and the US, respectively. However, with one year of good global wheat production, prices would take a significant setback. The current situation is likely to support wheat prices through the 2021/22 crop year.
- ***Changes in production estimates around the globe have rallied wheat prices to or near record highs this summer.*** First the good news, both Australia and Ukraine are helping to offset the smaller crops in many of the other major wheat-exporting countries. Our analysts in Australia are looking for the Australian crop to be above 30.0m metric tons (mmt), which would be the second consecutive year of a +30mmt crop there. Likewise, Ukraine's crop is projected to be +30mmt this year, a nearly 30% jump from last year. However, all the other major wheat-exporting countries are looking at weather-reduced crops. In the Prairie Provinces of Canada, the hot dry conditions have reduced the crop by nearly one-third from last year's crop, to 24mmt. In South America, the winter wheat crop in Argentina has suffered from dry weather, while wheat crops in Brazil and Paraguay have experienced potential damage from cold weather. In the wheat-producing regions of France and Germany, late-season rainfall has slowed harvest and created quality concerns. But the big story has been Russia. The USDA cut Russian wheat production from the previous estimate of 85.0mmt to 72.5mmt – a 15% decrease from last year's 85.35mmt crop. The cuts in production there are adding to higher export prices and – combined with Russian export tax structure – helping to support higher global wheat prices.
- ***Back home in the US, the USDA has been aggressive in cutting yields and production for all wheat crops.*** Not unexpectedly, the USDA has aggressively cut yields and production of US spring wheat and durum crops. Both the Dakotas and Montana have been hit hard by hot and dry growing conditions, and so has the Pacific Northwest. Compared to year-ago production, the spring wheat and durum crops are down 41.4% and 49.6%, respectively. Many in the spring wheat areas are already baling their wheat crop for straw since there is no grain in the head. In addition, the USDA has also downgraded the US winter wheat crop. The August yield estimate was 51.8 bu/acre, down 1.9 bu (or 3.5%) from the July 1 estimate, but still higher than the 2020 yield of 50.9 bu/acre.
- ***All this bad news has been supportive to current prices and prices well into 2022.*** The global supply situation could change quickly if weather turns around in any of the major wheat-growing areas. Current and deferred futures prices provide producers opportunities to take risk off the table and lock in profitable margins for the next couple of years.

Record-low spring wheat crop conditions portend lower yields



Source: USDA-NASS, Rabobank 2021

Major global wheat exporters' projected STU lowest since 2008/09

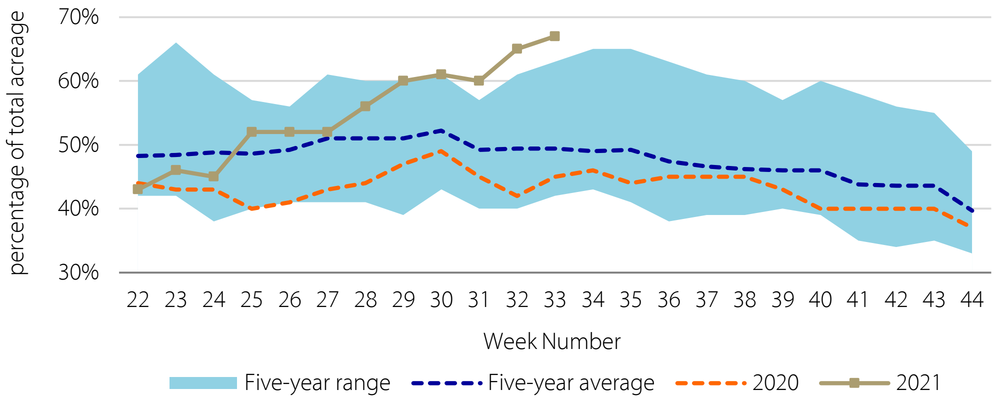


Source: USDA/FAS-PSD, Rabobank 2021

Cotton

- ***Rabobank remains optimistic on US yields, despite the USDA's latest downward revision.*** This month the USDA lowered its projection for 2021/22 US cotton production by 0.54m bales, to 17.3m bales. We see scope for this figure to creep up with national good-excellent ratings at 67%, near the record of 68% and at a record for this time of year (since 2010). The USDA's estimate of 800 lb/acre seems overly pessimistic, even with low abandonment. If weather remains conducive to production and prices supported, we see scope for higher yields and (possibly) lower abandonment than currently forecasted resulting in production between 17.5m and 18m bales.
- ***A return to La Niña could be beneficial for maturing US cotton crops.*** The expectation for a return to La Niña conditions by October could bring drier-than-normal weather that boosts final yields, lowers abandonment, and allows for a quicker harvest, assuming a mild hurricane season for crop areas. This may help the crop make up the development delays seen at present with boll setting lagging the five-year average of 84% at its current 75%.
- ***Demand continues to look favorable,*** as the USDA raised global consumption for 2021/22 for the third month. Global ending stocks seem more certain of tightening, as the USDA took notice of the delayed harvest in Brazil and lowered Brazilian 2021/22 production by 0.8m bales, to 12.5m bales. There may be support for prices beyond the arrival of the US harvest if there is little respite from Brazil's supply deficit and if the deficit between 2021/22 supply and demand continues to widen.
- ***Weather remains very much in focus, with volatility likely.*** The remaining harvest in Brazil should see good progress, as weather looks dry in the weeks ahead. The US should also benefit from favorable weather for the most part, but the risks to crops from hurricanes and storm surges remain. A return of La Niña could mean more intense storms during harvest that undo farmers' hard work.

US good-excellent crop ratings are near record at 67%, but will they be able to hold onto their trend through hurricane season?



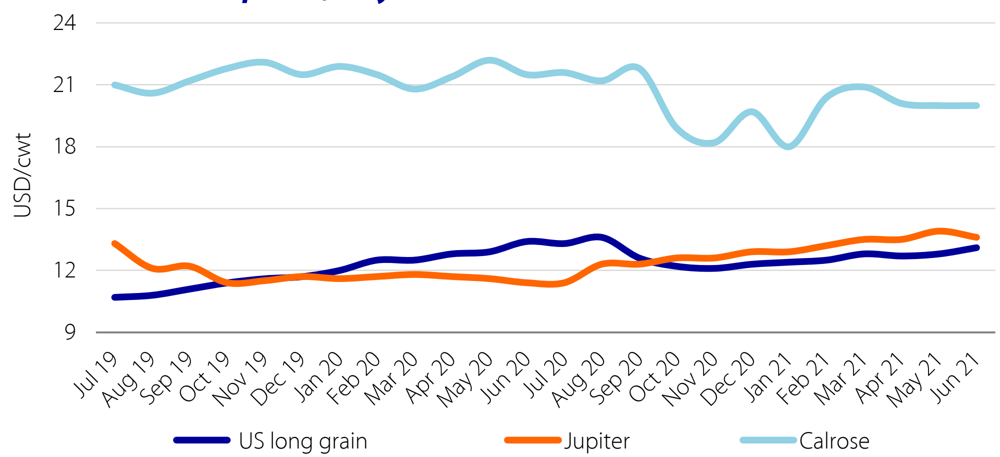
Source: USDA, Rabobank 2021

as of August 15, available data from 2010

Rice

- ***The US rice outlook for 2021/22 will see lower production as yield and acreage decline.*** The latest WASDE report reduced planted area to 2.6m acres, a decline of 13% compared to the last marketing year. In addition to lower planted area, the latest producers survey showed a decline in 2021/22 all rice yield by 1%.
- ***US rice exports for 2021/22 to remain flat for long-grain rice, while medium- and short-grain rice see a decline.*** Recent sales from Iraq at the end of July helped pushed long-grain rice exports higher, and they are likely to stay flat at 65m cwt for this marketing year. Overall, strong competition from an expected larger harvest in South America, as well as larger exports expected from India in 2021/22, are likely to limit US rice export competitiveness.
- ***Ending stocks are declining further from July estimates, as challenges with container and freight costs persist, limiting imports.*** Lower domestic production, lower beginning inventories, and lower imports are leaving the US with a lower ending stock for 2021/22 than initially estimated. Ending stocks for 2021/22 are expected at 37.3m cwt, a decline of 15% compared to the last marketing year and a decline of 4m cwt from July estimates.
- ***Season average farm prices (SAFP) for long-grain rice are expected to rise higher on lower supplies, while medium- and short-grain prices remain high.*** As California short- and medium-grain rice becomes more expensive, end users are likely to switch to southern short- and medium-grain rice, helping keep short-and medium-grain prices higher, from USD 13/cwt to USD 13.50/cwt, while long-grain prices are expected to increase from USD 12.60/cwt to USD 12.90/cwt.

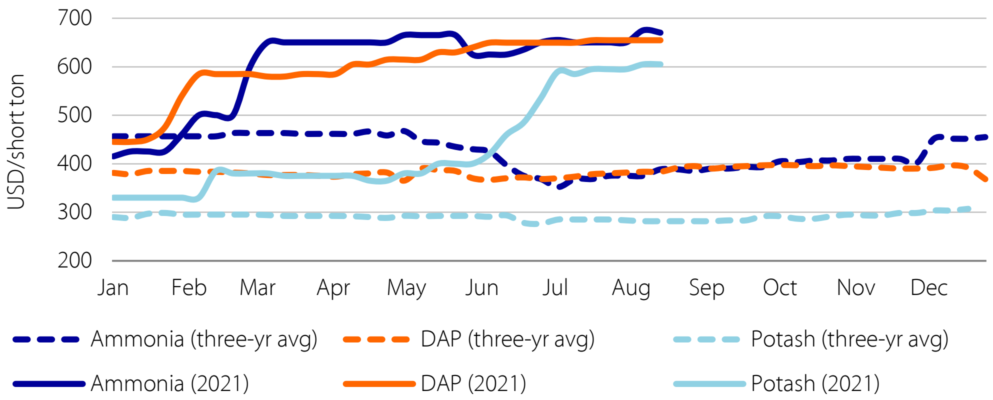
24-month US rice prices, July 2019-June 2021



Source: USDA NASS, USDA ERS, Rabobank 2021
Note: Average rough rice basis

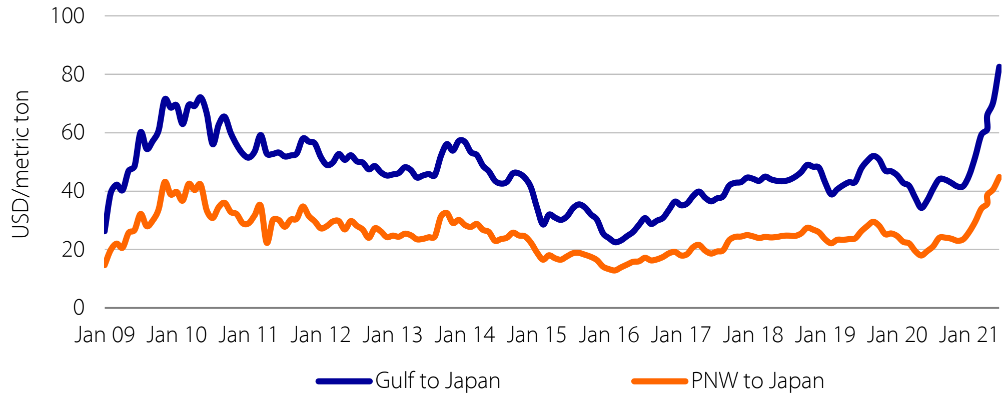
As of August 19, 2021

Corn Belt input prices*



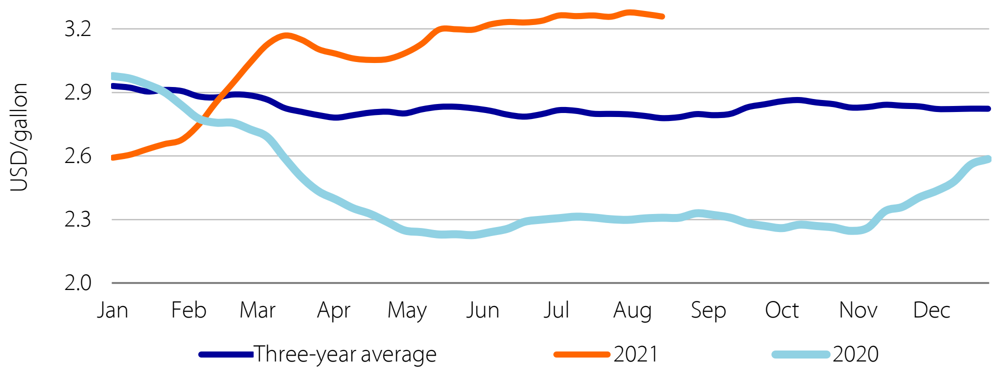
** Note: granular potash*
Source: Bloomberg, Rabobank 2021

Ocean freight



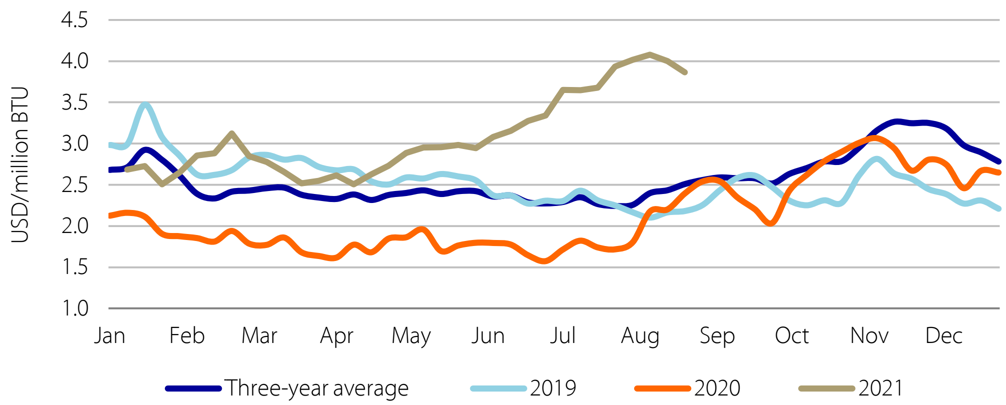
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2021

Diesel – Midwest



Source: EIA, Rabobank 2021

Natural gas spot



Source: NYMEX, Rabobank 2021

Forward Price Curves

As of August 19, 2021

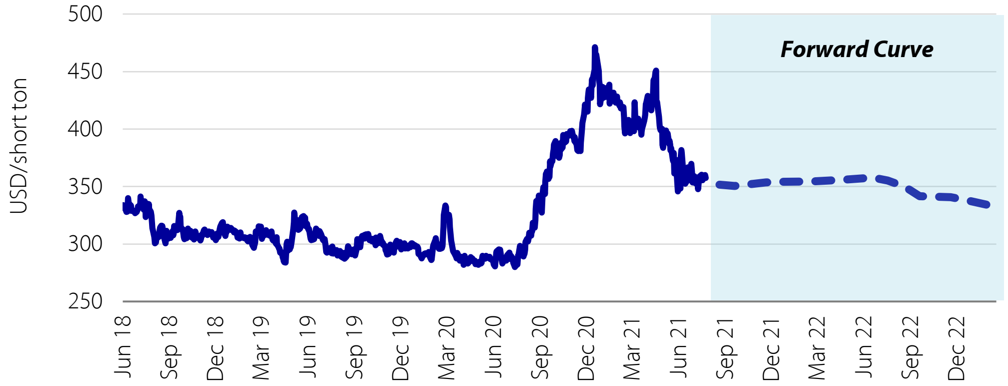
CBOT – Corn

Source: CBOT, Rabobank 2021

CBOT – Soybeans

Source: CBOT, Rabobank 2021

CBOT – Soymeal



Source: CBOT, Rabobank 2021

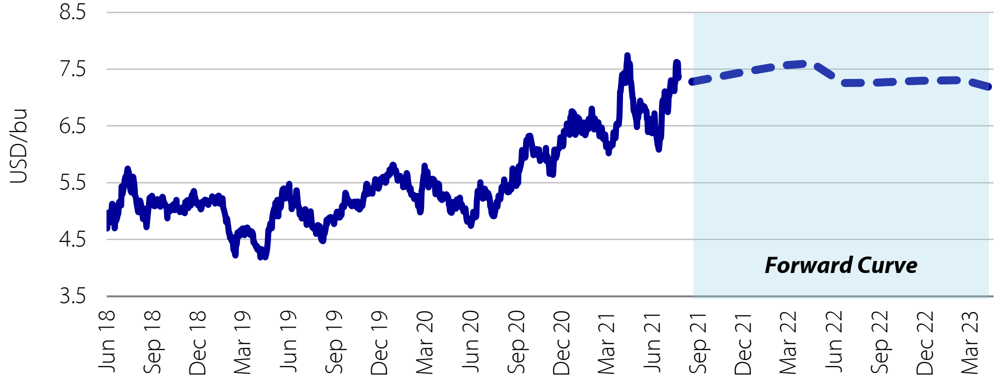
CBOT – Soy oil

Source: CBOT, Rabobank 2021

Forward Price Curves

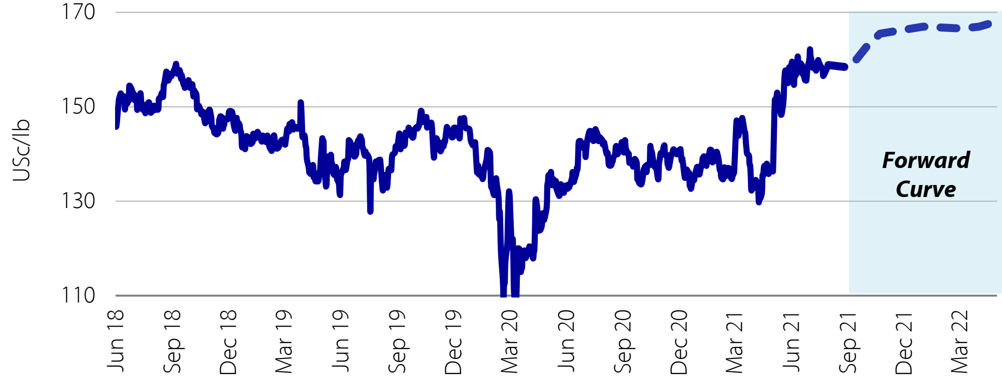
As of August 19, 2021

CBOT – Wheat



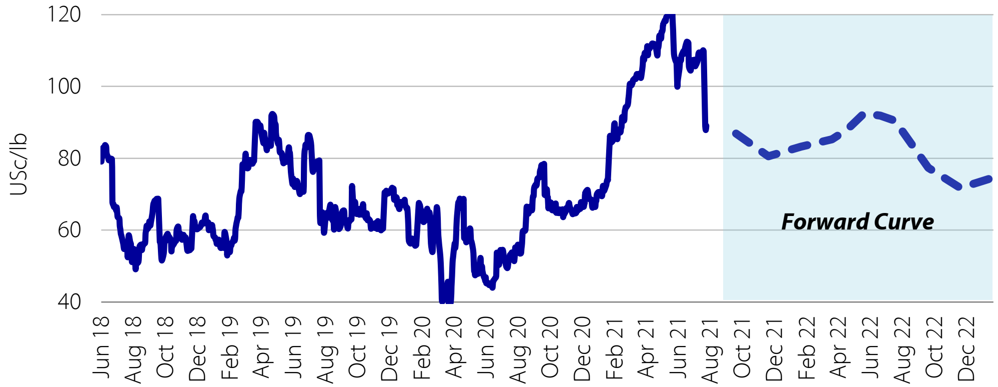
Source: CBOT, Rabobank 2021

CBOT – Feeder cattle



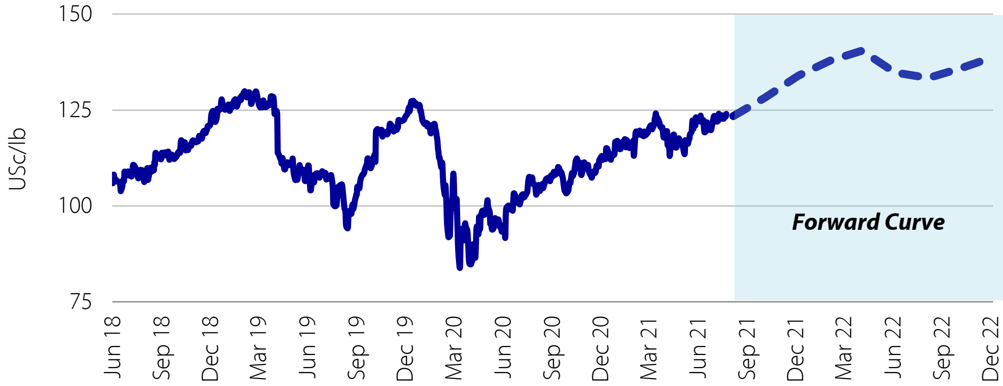
Source: CBOT, Rabobank 2021

CBOT – Lean hogs



Source: CBOT, Rabobank 2021

CBOT – Live cattle

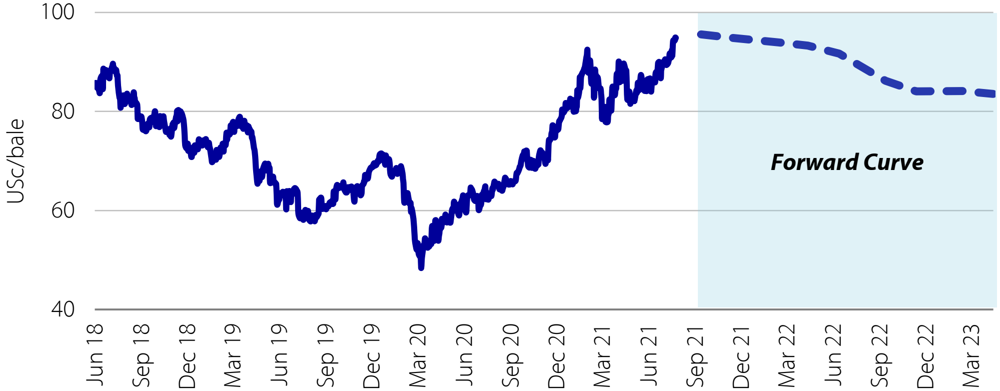


Source: CBOT, Rabobank 2021

Forward Price Curves

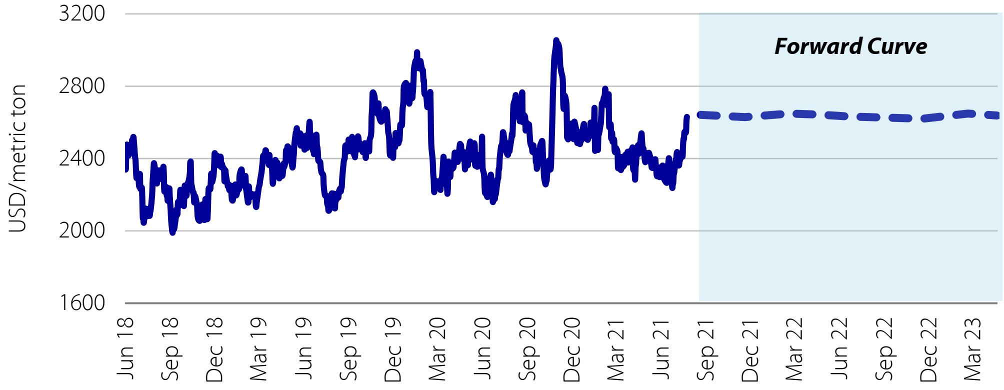
As of August 19, 2021

ICE – #2 Cotton



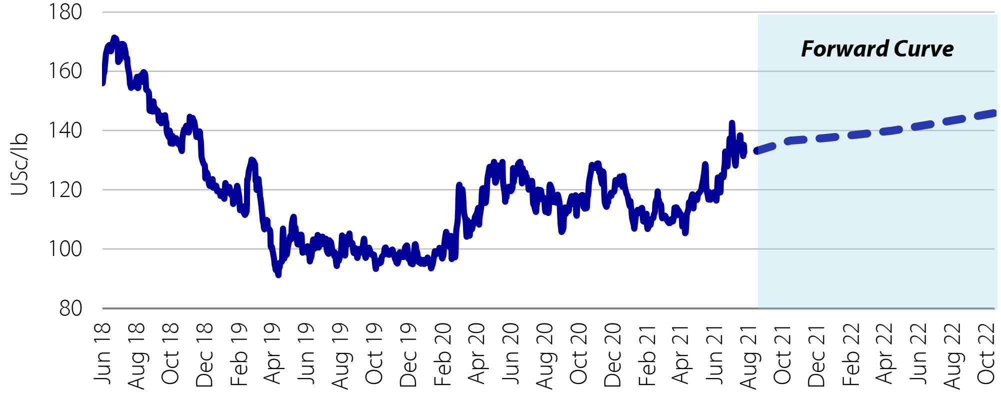
Source: ICE, Rabobank 2021

ICE – Cocoa



Source: ICE, Rabobank 2021

ICE – FCOJ



Source: ICE, Rabobank 2021

ICE – #11 Sugar

Source: ICE, Rabobank 2021

RaboResearch Food & Agribusiness

Al Griffin
Senior Data Analyst
Coordinator of the Agribusiness Review
E-mail Al.Griffin@raboag.com

Roland Fumasi
North American Regional Head-RaboResearch Food & Agribusiness
E-mail Roland.Fumasi@rabobank.com

Don Close
Senior Analyst — Beef
E-mail Don.Close@raboag.com

Ben Laine
Analyst — Dairy
E-mail Ben.Laine@raboag.com

Stephen Rannekleiv
Global Strategist – Beverages
E-mail Stephen.Rannekleiv@rabobank.com

Dustin Aherin
Analyst — Beef
E-mail Dustin.Aherin@raboag.com

Andrick Payen
Analyst – G&O, Feed
E-mail Andrick.Payen@rabobank.com

Steve Nicholson
Senior Analyst — G&O
E-mail Stephen.Nicholson@raboag.com

David Magaña
Senior Analyst — Fresh Fruits, Vegetables, and Tree Nuts
E-mail David.Magana@rabobank.com

Mary Ledman
Global Strategist — Dairy
E-mail Mary.Ledman@rabobank.com

Xinnan Li
Analyst — F&A Supply Chains
E-mail Xinnan.Li@rabobank.com

Philip Marey
Senior Market Economist— Financial Markets Research
E-mail Philip.Marey@rabobank.com

Richard Freundlich
Senior Analyst — F&A Supply Chains
E-mail Richard.Freundlich@rabobank.com

Almuhanad Melhim
Analyst – Fruit & Vegetables
E-mail Almuhanad.Melhim@raboag.com

Andrew Rawlings
Commodity Analyst
E-mail Andrew.Rawlings@rabobank.com

Sam Taylor
Senior Analyst – Farm Inputs
E-mail Samuel.Taylor@rabobank.com

Christine McCracken
Senior Analyst — Animal Protein
E-mail Christine.McCracken@rabobank.com

JP Frossard
Analyst — Consumer Foods
E-mail JP.Frossard@rabobank.com

Pablo Sherwell
F&A Data Analytics
E-mail Pablo.Sherwell@rabobank.com