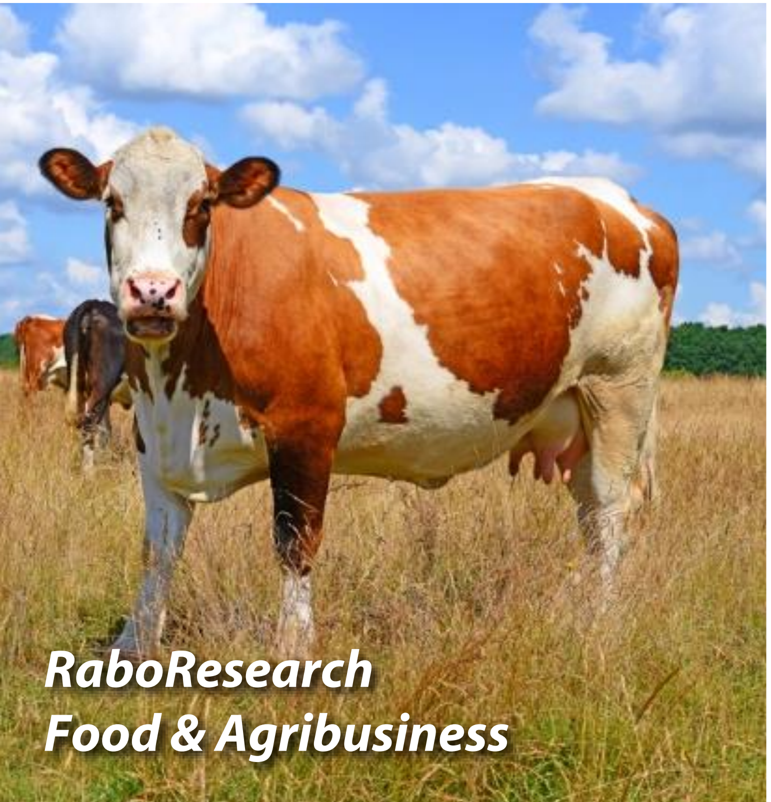
North American Agribusiness Review

Rabobank



RaboResearch
Food & Agribusiness

April 2022

Report Summary

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US

- Consumer price inflation rose to 8.5% in March (CPI year-on-year) and continues to spread across categories of goods and services. The core measure of inflation, which excludes food and energy, has reached 6.5%. This means that inflation has become more persistent. The Fed is aware it is far behind the curve and made its first rate hike in March. Because of the uncertainty shortly after the Russian invasion of Ukraine, the first hike was only 25 bps. However, expectations are that we are going to see 50 bps at the two upcoming meetings of the FOMC, in May and June. Meanwhile, other data suggest that a wage-price spiral has started. Even people who stay in their jobs are seeing accelerated wage growth. This means that the Fed may be forced to hike beyond the neutral level and cause a recession next year to terminate the wage-price spiral.

Mexico

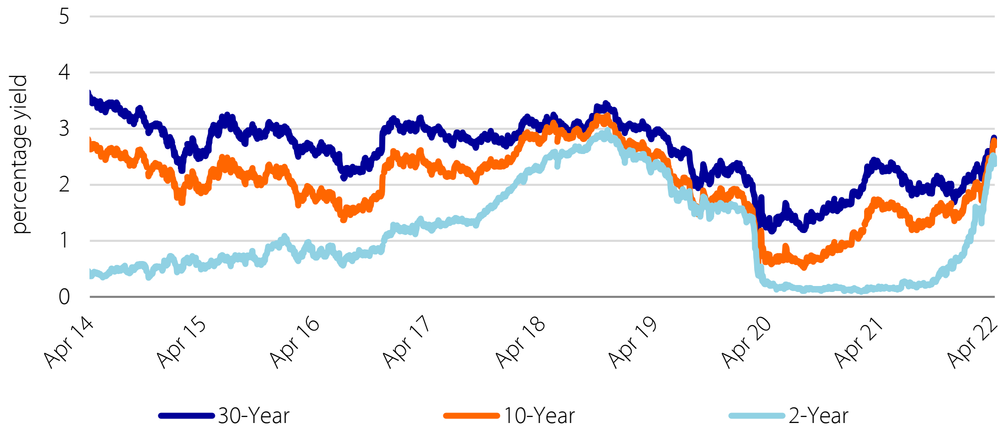
- The Mexican peso has been the main underperformer within the LatAm region since the beginning of this year. One reason for this is MXN's role as a risk proxy for EM and LatAm in general. What's more, Mexico's hiking cycle has been relatively shallow compared to most of the region, where we have seen triple-digit increases at individual meetings. By contrast, the largest clip we have seen in Mexico was 50 bps. In short, the factors that usually see MXN outperform the rest of the LatAm region, as it did in 2018, 2019, and 2020, are the same differentiators that led to it underperform this year. Banxico governors have highlighted the need to maintain the spread to US rates and we saw a hawkish shift at the most recent Banxico meeting when Esquivel no longer dissented in favor of a slower pace. It is now clear that Banxico will be forced to tighten more aggressively.

Canada

- The Bank of Canada delivered its first rate hike since October 2018. A 25 bps hike, to 0.50%, was announced in line with both consensus and market pricing. Raising interest rates may help cool the housing market, but it is highly unlikely to halt the rise in commodity prices, pushing energy and food higher. The fact that the CPI categories exhibiting the largest price increases are non-discretionary essentials means that households' purchasing power is likely to decline, and in turn, aggregate demand will suffer. While we wouldn't be so bold as to forecast a recession in Canada at this stage, the peak of growth is behind us and activity may look very different towards the back end of this year.

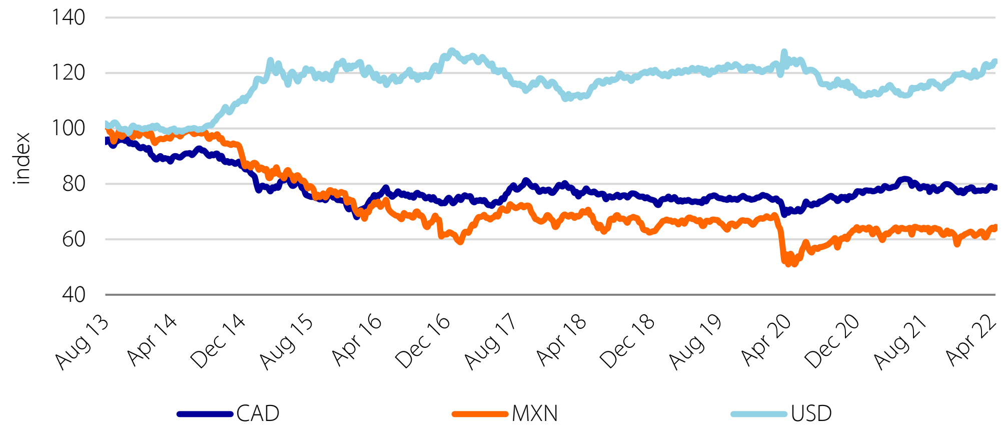
Source: USDA, Rabobank 2021

Interest rates, 2013-2022



Source: Federal Reserve of St. Louis 2022

Currency indices, 2013-2022



Source: Bloomberg 2022

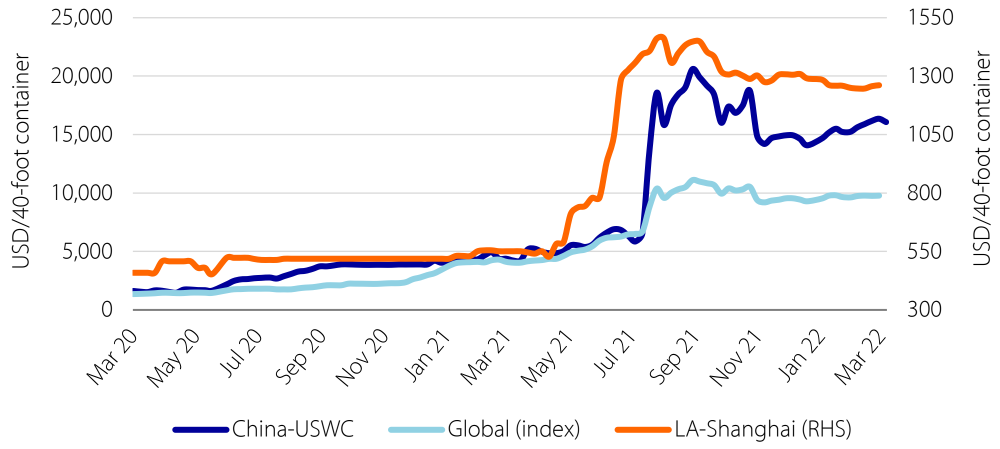
Note: Rebased at 100 as of January 1, 2013

Logistics

Labor presents the biggest uncertainty for freight cost

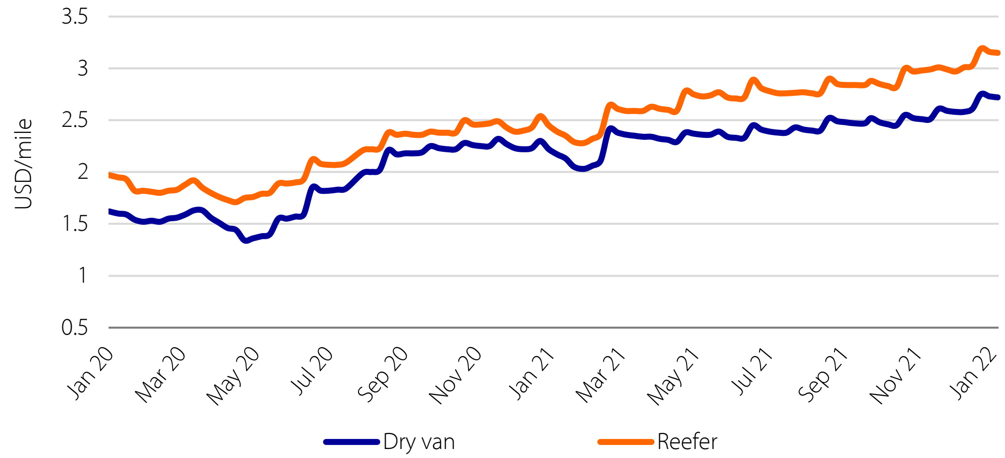
- ***The immediate impact of the Russia-Ukraine war on global ocean freight is limited, with risks differing widely for different segments of ocean cargos.*** Regarding container shipping, the global share of port calls to and from these two countries is less than 1.5%, thus the impact on global container capacity is not catastrophic. Yet shippers can expect further costs such as fuel surcharges and soaring insurance. Similarly, the war's impact on dry bulk and breakbulk shipping is currently small. However, because Russia and Ukraine account for large parts of global port calls in bulk (4%) and breakbulk (8.5%), high volatility in dry bulk and breakbulk shipping rates is expected in Q3 2022 – after the summer harvesting season in Ukraine and Russia. A sharp increase or decrease? It depends on how grain trades are played out among Europe, North America, Oceania and other regions.
- ***Oil accounts for one-third of trucking costs generally.*** If oil hits USD 135 per barrel, a 45% increase from the pre-war level, trucking costs may increase dramatically as well, on top of the 67% pricing increase from the past two years. We expect significant inflationary pressure on trucking cost in 2022.
- ***As port congestions ease along the west coast, labor union negotiations present uncertainties in the near future.*** Over 22,000 unionized workers at 29 ports along the west coast will begin contract negotiations on May 12. The contract negotiation happens every six years and caused severe disruptions and delays in shipping during the last cycle. This year, amid a tight labor market, congested ports, and historical consumer demand, a lot is at stake. With the current contract set to expire on July 1, the clock is ticking and the situation intensifies as we approach summer. A normal flow of west coast ports is especially crucial to agri commodity exporters. The risks of disruption this summer, and higher port surcharges, may present as a result of the negotiations.
- ***While Covid restrictions gradually loosen around the world, it still is a key factor in China's economy***. China is one of the most important trading partners for North American agri commodities. Its current widespread lockdowns, including two of the largest four cities, along with numerous others, will last for weeks. Essential businesses (such as transportation and ports) have been allowed to continue operating but disruption to the supply chain and overall economic conditions are apparent. The zero-Covid approach and the repeated lockdowns will negatively impact China's domestic consumption and manufacturing output. As of April 1, the cost of China's outgoing containers have declined by 12%-24%, led by growing capacity and softening demand.

Select ocean freight rates, Mar 2021-Mar 2022

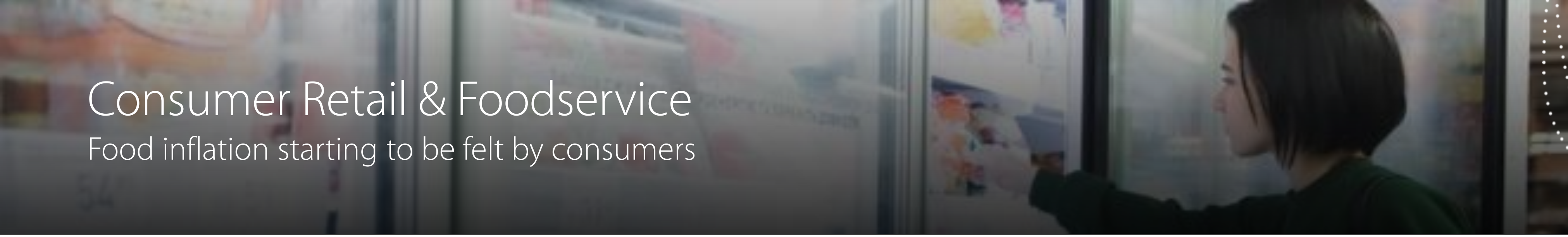


Source: Freightos, WCI 2022

US dry van and reefer truckload prices, Jan 2020-Jan 2022



Source: DAT 2022

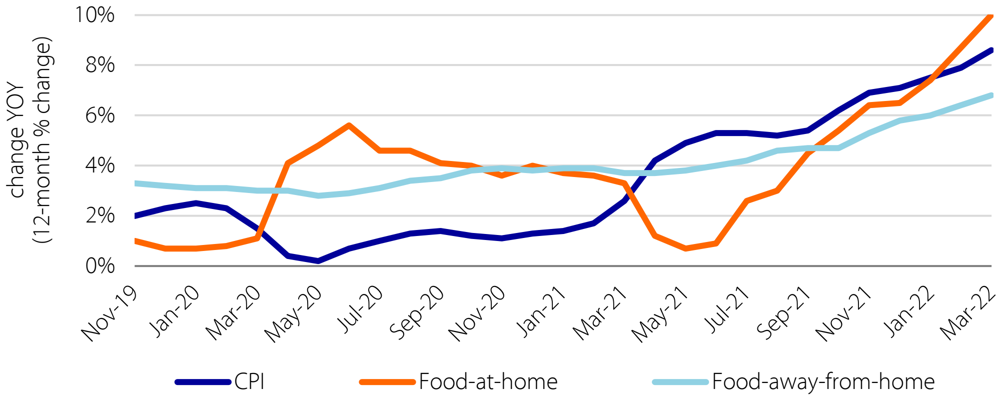


Consumer Retail & Foodservice

Food inflation starting to be felt by consumers

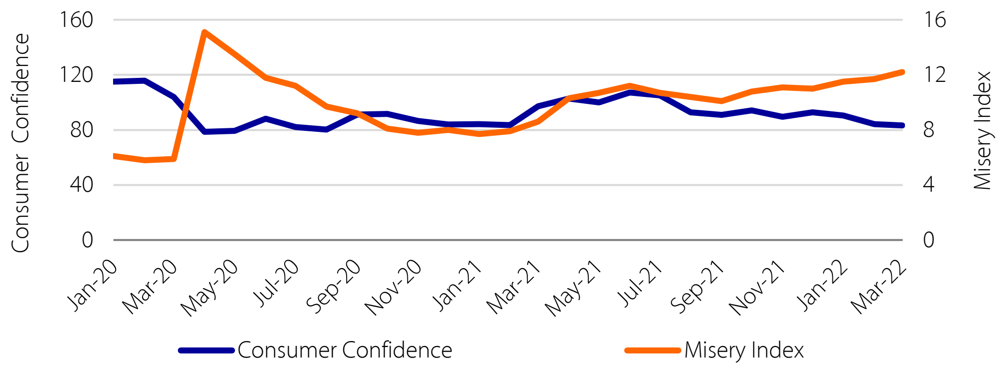
- Inflation from food-at-home reached 10% in March, well-ahead of the general CPI index (8.6%) and food-away-from-home (6.9%). This high level of inflation is the result of months of rising costs for consumer goods companies, which have gradually passed rising costs to retailers.
- First reports indicate that the higher prices are already affecting consumers' purchasing decisions for food staples: switching to cheaper alternatives, such as lower-priced brands and private label, and deal and discount shopping. Discretionary income has also shrunk as government payments have largely stopped. From gas to rents and food, consumers are seeing their disposable income evaporate; however unemployment rates remain low, dropping to pre-pandemic levels (3.6%). Meanwhile, the participation rate remains well off from pre-pandemic levels.
- Discount grocers are benefiting from rising price sensitivity, at the expense of premium and natural stores, with discounter food traffic up 10%-15% in 2022. Besides inflation, the rapid expansions of discounter store openings have contributed to increasing sales.
- The real demand outlook for retail and foodservice is softening. Wage levels for most workers are not maintaining pace with rising costs, and combined with rising interest rates, consumers' disposable income levels will suffer.
- Looking forward, on a nominal basis, revenues from retail and foodservice establishments are expected to grow through the year, but strong demand for premium products (which businesses have benefited from over the last two years) is anticipated to shift towards a more cost-conscious consumer. Eventually, the pent-up demand for eating out will also wane. Restaurant revenue growth will slow, remaining positive, but a higher number of consumers will choose to eat an affordable meal at home instead of splurging at restaurants or ordering delivery.

Further uptick in food inflation: food-at-home reached 10%, Nov 2019-Mar 2022



Source: US Bureau of Labor Statistics, Rabobank 2022

Consumer Confidence reached new lows on the back of persistent inflation and the war in Ukraine, adding pressure to the Misery Index, despite unemployment back at pre-pandemic levels, Jan 2019-Mar 2022



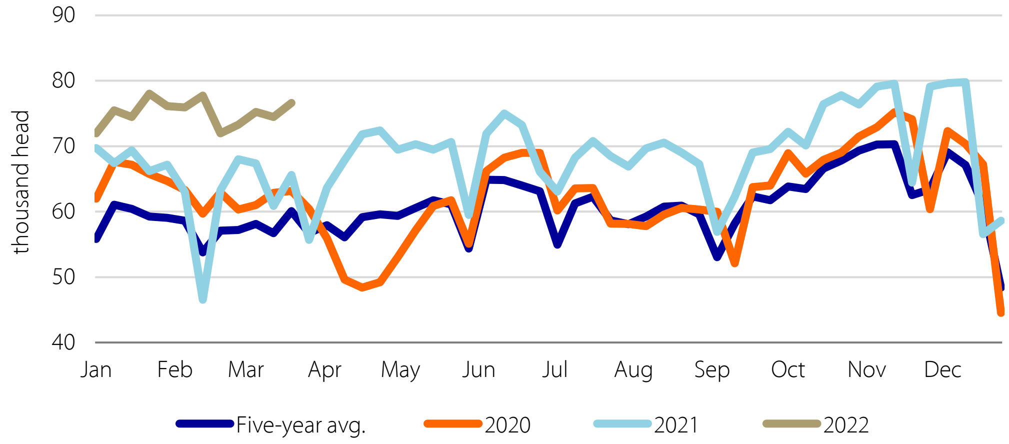
Source: US Bureau of Labor Statistics, Rabobank 2022

Cattle

The market continues to be frustrating

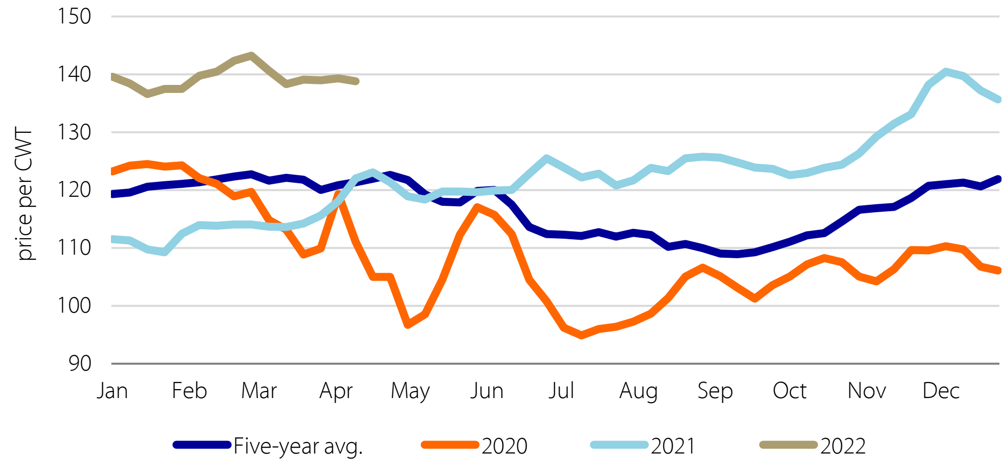
- ***Fed cattle market can't get a break.*** Fed cattle started the year with the momentum of Q4 2021, and through January and February the market was gaining momentum with price trading up to USD 142 to USD 144. Then the combination of large front-end supplies and market instability from the war in Ukraine turned markets if not upside down sideways. Fed cattle prices have been stuck in a range of USD 138.00 to USD 140.00 for the past five weeks. After working through 2020 and the first half of 2021 to work through excess front-end supplies, the market looked as if cattle supplies, slaughter capacity and product demand had finally reached equilibrium to see better returns to cattle feeders. Starting in September 2021, and lasting through February, monthly placements have exceeded expectations and that has once again created a huge front-end load of available cattle supplies. The unexpectedly large placements have been drought-driven. With no winter grazing capabilities, cattle have been forced into feed yards because there was nowhere else to go. Fed cattle returns through the fourth quarter and 2022 year-to-date have provided profitability to cattle feeders. Those profitable returns are expected to be tested as the market approaches cattle that had higher first costs and cost of gain has been radically higher than projected. Indications are for prices to trade sideways to lower for the summer, with summer low prices of around USD 130.00 expected. Because of the expectations of a sharp reduction in placements from March forward, we are still anticipating fed cattle prices by Q4 to the in the upper USD 140s to USD 150.00.
- ***Feeder cattle markets showing incredible resilience.*** Despite forced movement of cattle from winter grazing programs and large numbers of cattle on feed, feeder cattle prices have been strong. Prices have been supported by strength in the deferred live cattle futures, concerns that offerings of replacement cattle are going to decline sharply, plus the idea that feed grain prices will peak. Given the seasonal strength of feeder cattle prices through the summer, and expectations of contracting offerings, we are expecting feeder cattle prices to honor the seasonal pattern of higher prices through the summer. The direction of feed grain prices will be a major component to summer strength.
- ***Beef cow liquidation is massive.*** Year-to-date weekly beef cow slaughter has averaged 22% of Federally Inspected Slaughter (FI). Through the last drought cycle of 2010 to 2013 on an annualized basis, cow slaughter as a percentage of FI slaughter never exceeded 20%. In 2008 through 2010, cow liquidation reached equilibrium. Then the drought of 2011 and 2012 forced the continuation of liquidation, forcing cow liquidation well-beyond the target. The very same situation is developing this year, only this time the market liquidation has been on steroids. Adding to the liquidation of cows is the large number of heifers on feed, suggesting that little to no activity has started to suggest producers are attempting to retain heifers. The large number of heifers in feed yards implies it will be 2024 before there will be the opportunity to start seeing herd rebuilding. Despite the liquidation cull, cow prices and 90% lean trimmings are holding strong suggesting solid demand.

Weekly beef cow slaughter, Jan 2020-Apr 2022



Source: USDA/AMS, Rabobank 2022

Five market steer price, Jan 2020-Apr 2022



Source: USDA, Rabobank 2022

Corn

If it is not one thing it is another

The corn market had found plenty of the support before the war in Ukraine. Prior to the war, corn futures were moving higher on weather concerns, worries over acres, solid export demand and renewed demand from the ethanol sector. On February 24, the Russian invasion of Ukraine propelled the market to USD 8.00/bushel, as the world seemingly lost nearly 12% of its exports overnight (exports from Ukraine).

It is an understatement to say the commodity world was turned upside down on February 24, but corn is squarely in the middle of the bullish commodity reaction. In 2020/21, Ukraine and Russia combined accounted for 15.3% of global corn exports or 28m metric tons (mmt) of exports, with Ukraine providing the majority of the volume. Total global corn exports were 182 mmt. For reference, the US shipped 70 mmt. The good news is the major corn exporters, minus Russia and Ukraine stocks, have over 30.0 mmt of corn stocks which could cover the export shortfall. However, global corn inventories would be drawn down significantly. Ukrainian ports are closed and rail shipments to the EU are minimal at best. The market is grappling with how much Ukraine will plant this spring. While no one really knows, estimates of how much will be unplanted range from 30%-50%. And there is much uncertainty around those estimates; farm fields are battlegrounds, fields are mined, and labor is limited as many have gone to fight. By the end of May, there will some idea of how much was planted and the concern will turn to how much will be harvested.

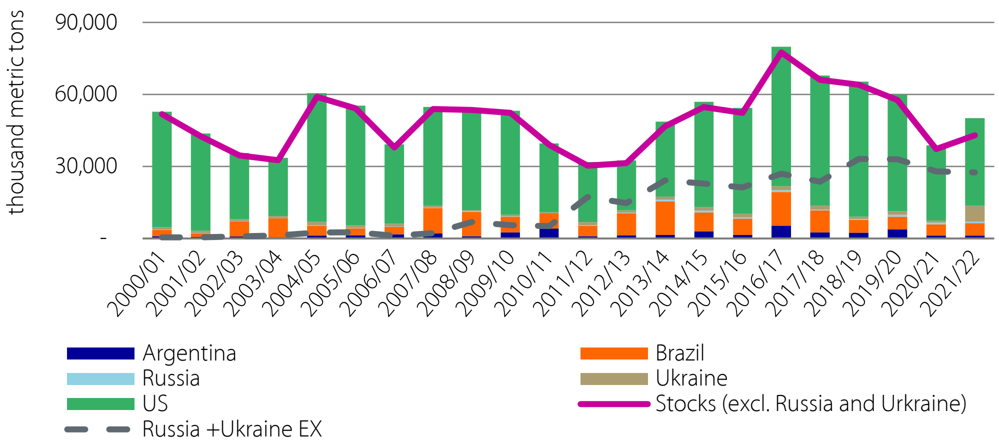
The world now turns to Brazil and the US for corn, and prices will rise. Producers and grain companies are unfortunately going to benefit from the war in Ukraine. In the recently-released US 10-year baseline outlook, one of the scenarios tested was a 200m bushel increase in US corn exports in the 2022/23 crop year. This one-time increase in exports resulted in a 13% increase in the national average producer received price.

Government will need to take actions to increase supplies. There are calls coming from many quarters to reduce biofuel mandates, relax restrictions on the importation of GMO crops and acreage set asides in order to increase production. So far, there have been no indications that countries are willing to make these policy changes. The stocks situation will have to get tighter and prices will have to go higher, before countries make such a change.

At a time when the world needs more corn the US will be planting less. In the March Prospective Planting report, the USDA said the US would plant just 89.5m acres, down 4.2m or 4.4% from 2021. If the lower planted acreage figure is applied to the 2022/23 US corn balance sheet using a trend yield, the 2022/23 ending stocks drops to a snug 1.0bn-1.1bnn bushels and an ~7.0% stocks-to-use ratio. Any hiccups in production in 2022, will tighten up the balance sheet further and move prices much higher.

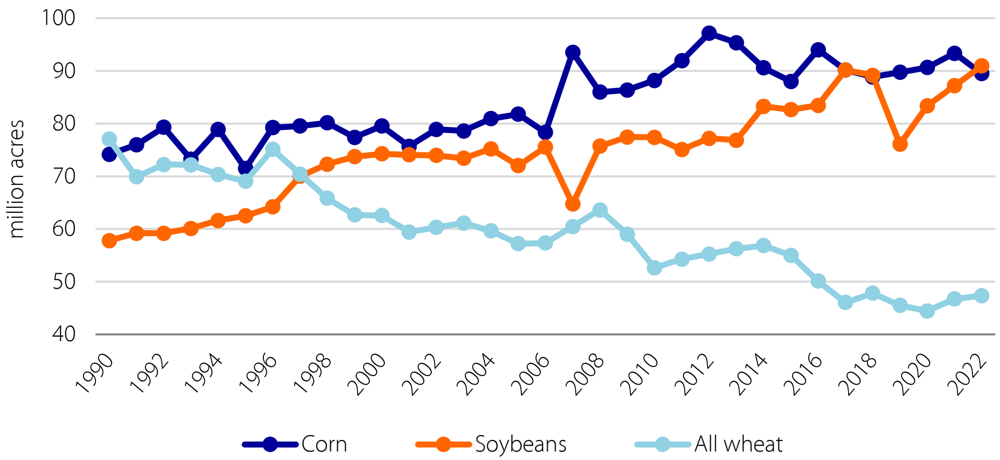
US and global corn prices are already trading at historically high levels, but there is more upside potential than downside from here. Historically, when the US corn balance sheet reaches a billion-bushel carryover and a 7%-8% stocks-to-use ratio, the average producer price received prices is in the USD 6.00-USD 7.00 range. Currently, prices are above that level. Looking at the global corn balance sheet, nearby futures are currently trading at a USD 1.00-USD 1.50 per bushel premium to historical relationships. The market is trading at a premium because of Ukraine, and smaller US acres, but has yet to trade a weather premium – stay tuned as there is more upside price potential.

Major corn exporters have adequate stocks to cover supply shortfall



Source: USDA-PSD Rabobank 2022

US soybean acres exceed corn acres for first time since 2018



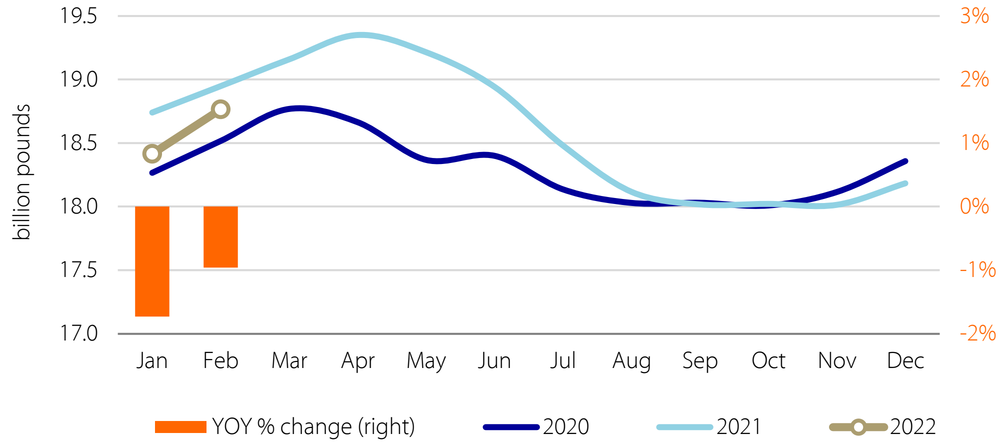
Source: USDA-NASS, Rabobank 2022

Dairy

Higher costs offset by strong milk prices

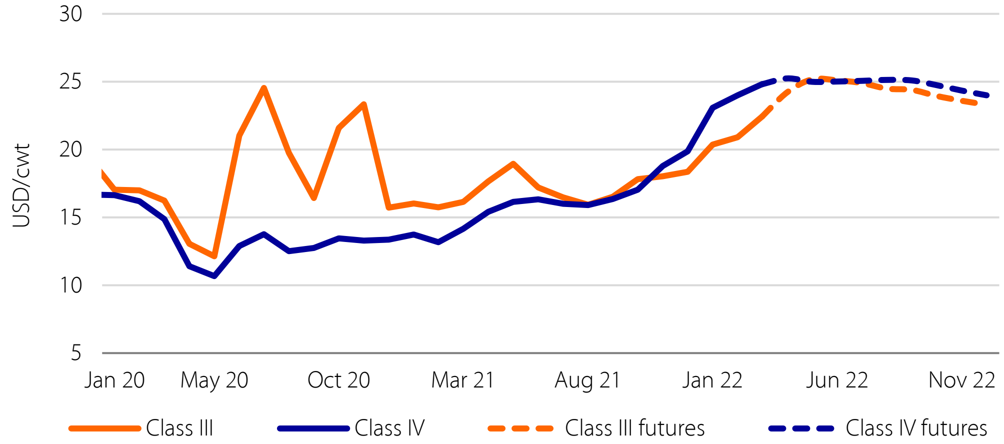
- The US dairy herd increased by a modest 3,000 head in February, the first gain since May 2021. Still, milk production was down 1% YOY in February and will likely remain in negative territory for the next few months until cow numbers can catch up to prior-year levels. In February, milk-per-cow yield was on par with 2021 levels, but the herd was lower by 96,000 head YOY.
- Feed costs remain elevated with limited relief in sight. Current milk prices are high enough to offset the higher costs for most producers, but the pressure is felt much more on farms that rely more heavily on purchased feed. Among those farms that purchase most of their feed, there is variability based on the timing of those purchases. Strategically managing risk on feed purchases and milk prices will be critical at these levels.
- Dairy commodity prices have recently climbed to record or near-record highs, but some mixed signals are beginning to emerge. More volatility and a wider range of prices are expected over the year.
- Whey prices are currently showing the most weakness relative to recent peaks. Most of this can be attributed to slowing import demand from China. US whey exports to China through February are down 16% YTD. The CME spot price sits near USD 0.60 currently, down from a peak above USD 0.85 in early February. The NDPSR dry whey, which is part of the class III price formula, remains in the upper USc 70 range and is weakening.
- Cheese exports started the year strong, up 13% in volume through February. Port congestion remains a challenge, but US cheese is still at an advantageous discount to global competitors. Domestic demand for cheese has been strong as well, up 4.8% YOY through February.
- Nonfat dry milk prices continue to surge higher, above USD 1.80/lb, despite exports being down 9% YOY in January and February. Butter has paused near the USD 2.80/lb price level after climbing rapidly since October. Demand has been picking up, and inventories have been drawn down, but February commercial disappearance was down nearly 16% YOY.
- CME class III milk futures are averaging just below USD 25/cwt across Q2 2022, and the class IV milk futures are slightly above USD 25. The expectation of high prices has led to low enrolment in the Dairy Margin Coverage program due to no projected insurance payouts for the year. Still, the Dairy Revenue Protection program provides opportunities to set a relatively high floor on milk prices going forward.

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



Source: USDA NASS, Rabobank 2022

Class III and Class IV milk price history and futures Jan 2020-Dec 2022



Source: CME futures close prices Apr 13, 2022, USDA – AMS, Rabobank 2022

Farm Inputs

Fog of war a fertile ground for volatile inputs markets

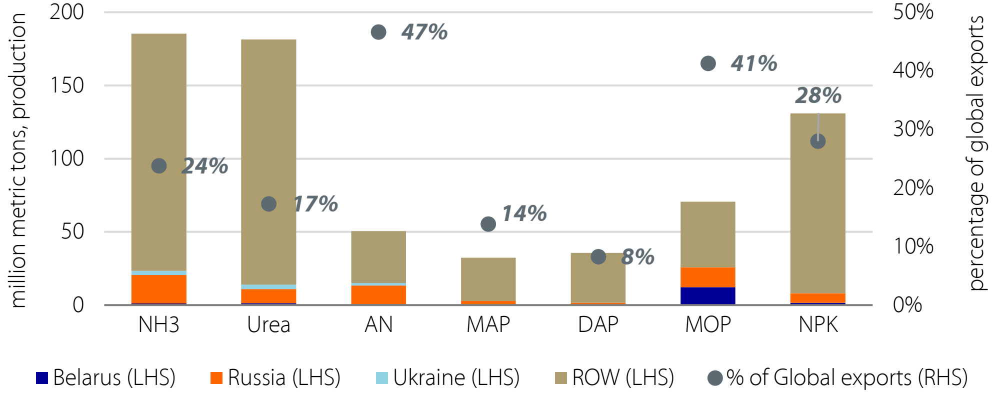
Framing the global situation for North American growers

- The start of the wat in Ukraine on 24 February has thrown a web of noise and uncertainty around the global fertilizer markets. Russia, Belarus and Ukraine's position as producers and exporters of global fertilizers (top chart, right) has drawn outside eyes into the global supply chains of fertilizers.
- At the same time, energy markets (and in particular natural gas) have borne the brunt of geopolitical scrutiny, adding a second pillar of uncertainty in global fertilizer markets.
- This has resulted in price dislocations and illiquid markets (exacerbated by seasonality) causing fertilizer prices to reach nominal and real-time records in some markets since the conflict began.
- This uncertainty is likely to persist over the coming months.

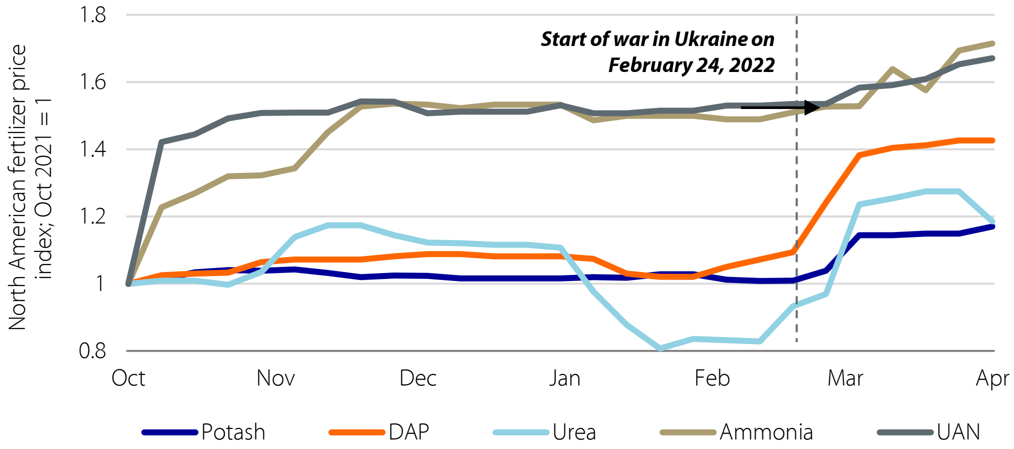
What does this mean for North American growers?

- For North American growers, some of the impacts on the 2022 season have been mitigated by seasonality and timing. However, this has not meant fertilizers have not increased in price. In-market prices of urea rallied as much as 30% off the back of the invasion before falling off more recently, while other nitrogen products continued their upward trend.
- Similarly, DAP and MAP prices have moved as much as 30% and 40%, respectively, with TSP rallying as much as 50%, reflecting the tightness leading up to the war as well as the global exposure to Russia for MAP supply.
- As we look ahead, growers are likely to see tight markets, with the risk that uncertainty in the global sphere bleeds further into the US. Given the potential long-term risks associated with the war, we may see regions move early to secure supplies for upcoming seasons.
- Two further specters hover above the market; grower demand destruction and when/how exactly the Chinese re-enter the global export market of nitrogen and phosphates.
- Over the coming months there remains the risk of further price upside on a North American fertilizer complex. Given Russia and Belarus's outsized position in the potash market, it seems likely that there is most steam in the MOP market. However, we cannot discount the potential for further volatility and disruption in all macronutrients.

Russia, Belarus and Ukraine's position within global fertilizer production and trade will impact North American growers



Since fall, fertilizer prices have continued to rise, with the war in Ukraine conflict only adding fuel to the fire



Source:, IFA, CRU, Rabobank 2022. Production and export volume estimates based of 2020 figures.

Feed

Continued high price and lower corn planted area

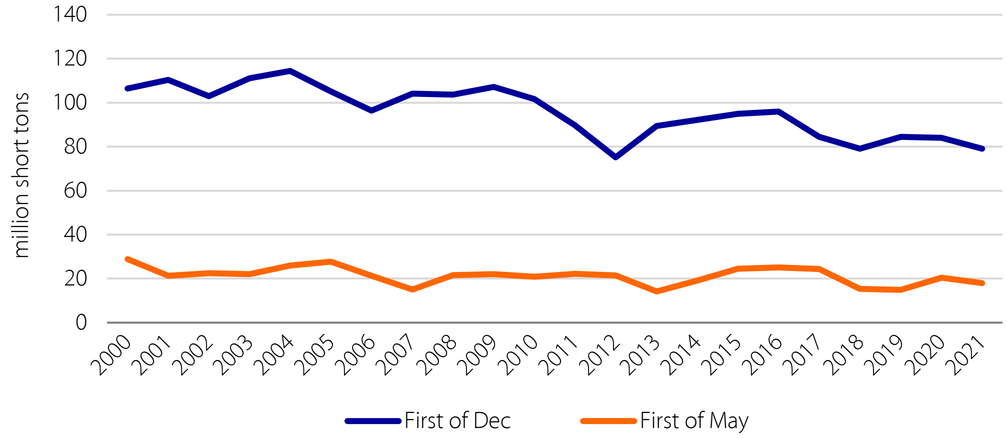
- ***Drought continues.*** In much of the Great Plains drought conditions persist, with southern plains looking at severe or extreme drought. Summer weather will be a rollercoaster if drought conditions continue, as it will pressure an already tight feed grain and hay market. Winter wheat condition saw a slight improvement to 32% of the crop under Good to Excellent, compared to 30% Good to Excellent last week. However, this remains one of the lowest ratings recorded in history.

- ***Corn is painting a difficult picture for 2022/23***. The USDA released its planting intentions survey two weeks ago, painting an even more difficult situation for corn. The survey showed a declined of 4m acres compared to last season. This means that is highly probable that marketing year 2022/23 will see an even tighter balance sheet for corn. As corn represents ~90% of feed grain acreage, this leaves animal feed operations with little option to substitute corn in feed rations.

- ***To make matters worse, hay is showing lower stocks***. USDA hay ending stocks as of December 1 showed a decline close to 2018 at 79m metric tons. This comes as no surprise as lower production was already expected. However, the decline in production and how low ending stocks are is a concern moving forward, with all hay production under 48% in some sort of drought condition. If the hay yield is affected, we could potentially reach 2013 ending stock levels which would mean historical lows.

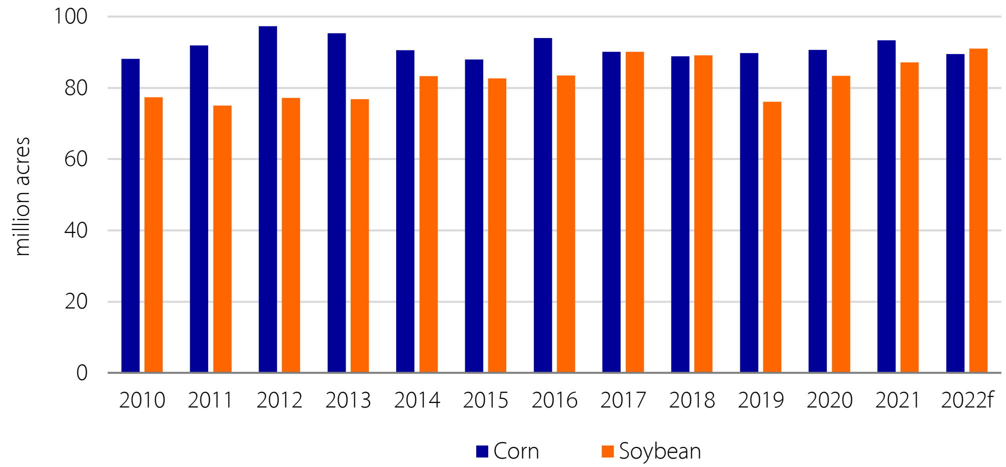
- ***Feed prices not coming down anytime soon.*** Due to current global pressures from high input prices, a slow down in exports from the black sea region, and lower corn planted area expected according to the latest report from the USDA on prospective planting, feed prices are likely to remain high with potential for higher prices and volatility to persist in the summer months. The June report on final planted acres and crop development will become key in price discovery and setting the stage for marketing year 2022/23.

US hay-on-farm stocks at May 1 and December 1 volumes, 2000-2021



Source: USDA/NASS, Rabobank 2022

US corn and soybean planted area from 2010 to 2022



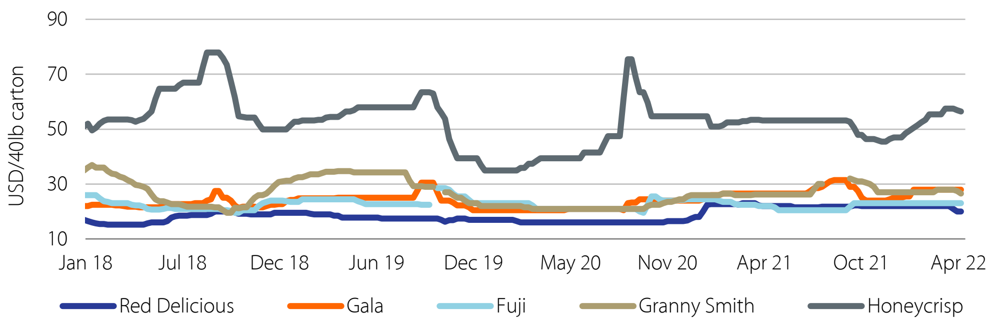
Source: USDA/ERS, Rabobank 2022

Fruits

Inflation kicking in at retail

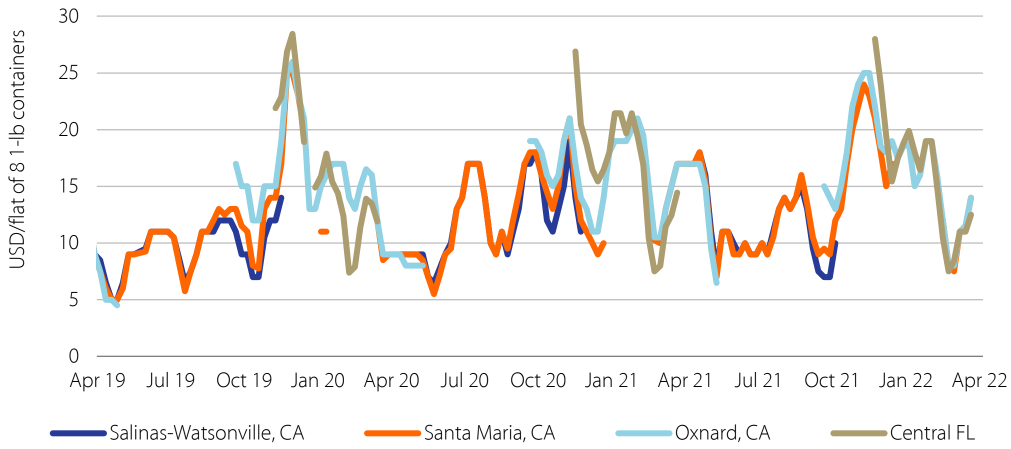
- An indicator that the ***fruit*** industry has been closely watching over the last 24 months is the year-on-year ***retail dollar sales*** growth. Research from IRI shows that every quarter since Q2 2020, the year-on-year variations of fresh fruit dollar sales at retail channels have been not only in positive territory but have reached double-digit growth rates in several quarters in the past couple of years. However, since the second half of 2021, dollar produce sales have continued to be higher compared to the previous year and higher than pre-pandemic levels. Nevertheless, the volume growth has recently been in negative territory year-on-year. During February 2022, fruit dollar retail sales increased by almost 12% on an annual basis, while volume sales declined 4% year-on-year. Examples of fruits in this situation are apples, table grapes, avocados, oranges, and pineapples.
- Retail dollar sales and volume sales in the ***berry category*** (including the four major berries) increased about 20% in February 2022 compared to retail sales of the category 12 months before. With this, berries not only account for the largest value share in the fresh fruit segment, but also the largest retail sales increases both in volume and value. As pointed out in our recent strawberry report, strong consumer demand has incentivized multi-year high acreage in California. As a result, strawberry availability is expected to improve in 2022. ***Strawberry*** prices were at USD 14 per flat for non-organic product at the beginning of April, down 18% from very strong prices a year ago.
- Despite increased production in California, ***avocado*** shipping-point prices in the US are at multi-year highs for this time of the year. Lower YOY shipments from Mexico, supply-side inflationary pressures, along with a steady US demand, will continue supporting prices. Shipping-point ***Navel orange*** prices are up 20% YOY to about USD 26 per carton for mid-sizes, as production in California is down 4% YOY. The California ***Valencia orange*** crop is expected to be down almost 10% YOY. ***Lemon*** prices are lower than a year ago given a 10% increase YOY on US production.
- ***Table grape*** production in Mexico will start early in May and is expected to increase 20% YOY to over 25m boxes, but less overlap with California season is likely. For ***apple*** prices see chart below.

Washington apple shipping point prices, 88s – WA Extra Fancy, 2018-22



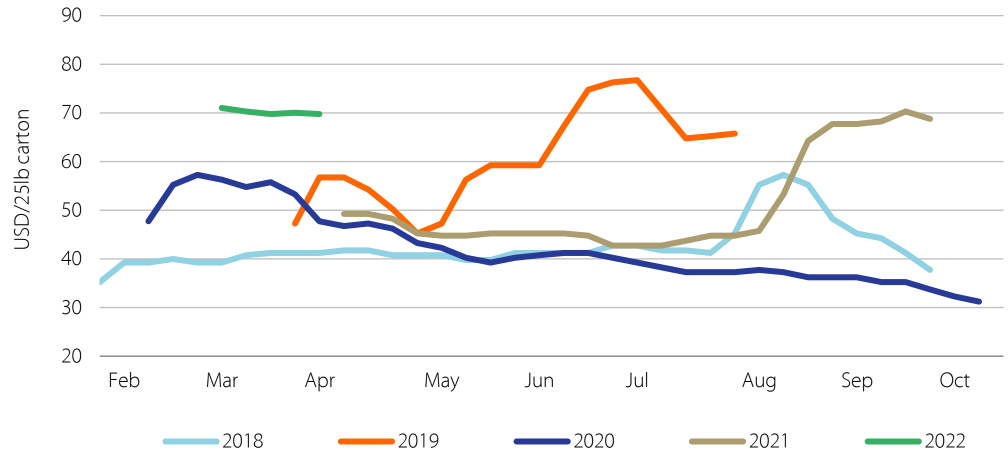
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2022

Strawberry shipping point prices – primary US districts, 2019-2022



Source: USDA AMS, Rabobank 2022

California Hass avocado shipping point prices, 48s, 2018-2022



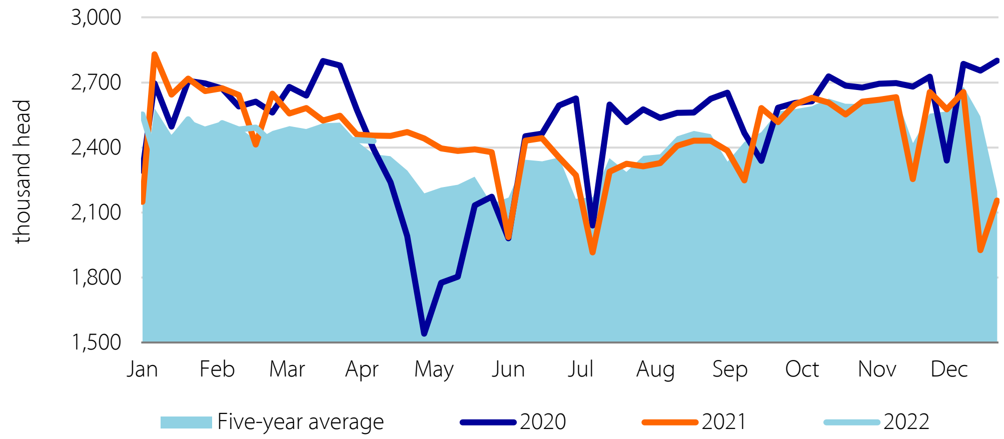
Source: USDA AMS, Rabobank 2022

Pork

Tight supplies support bullish near-term outlook despite potential demand downturn

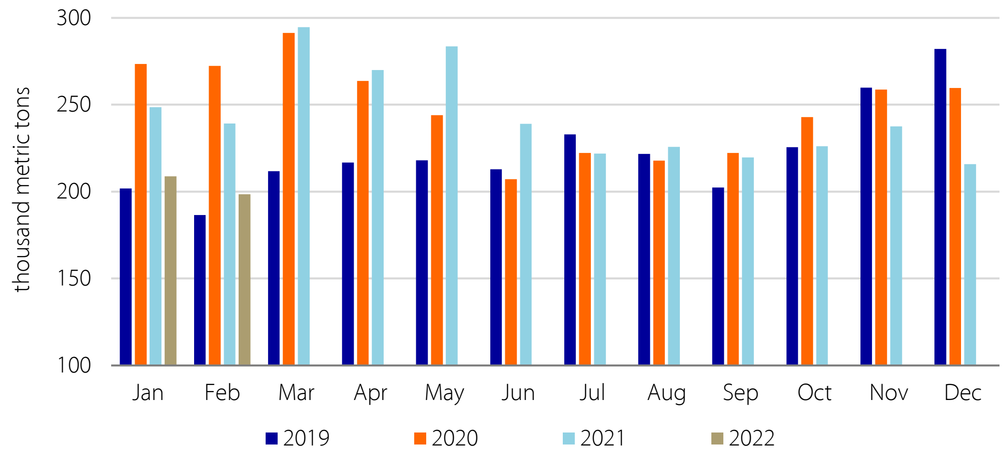
- ***Hog production will trail year-ago levels following continued herd contraction and higher-than-expected mortality levels.*** The USDA reported a 1.9% YOY drop in the Q1 2022 breeding herd and a 1% smaller Dec-Feb pig crop in the March report, which will continue to limit slaughter through the early summer. US hog slaughter is down 6.2% YTD through April, but will more closely mirror 2021 volumes as availability narrows over the balance of the year. Hog prices remain volatile, but are essentially flat with peak 2021 levels. Lower near-term availability should remain supportive, but prices will hinge on post-holiday pork demand. Producers remain cautious on herd growth given rising feed costs, regulatory constraints and demand uncertainty. We forecast 2022 US hog slaughter will decline 2.4% YOY, with volumes to normalize in 2H 2022.
- ***Pork values are down slightly from peak year-ago averages, but remain 30% above the five-year average.*** The seasonal slowdown is not unusual just in front of the holidays and should improve as demand strengthens into the summer grilling season. Reduced pork volumes and lower supplies of competing proteins should remain supportive to carcass values over the balance of the year, although unlikely to repeat 2021 record levels. Consumer interest remains strong, but could weaken into the summer months as prices rise at retail. Packers will continue to optimize product mix to maintain margin – important given higher labor and hog costs.
- ***Pork exports continue to trail peak levels of the past two years, with volumes down 17% YOY in February, and the value of pork traded down 14% YOY.*** Mexico remains the standout market, with import volumes up 35% YOY and now roughly 40% of total exports. Export volumes to other leading markets like China (-56% YOY), Japan (-8% YOY) and Canada (-10% YOY) remain weak, as ongoing pandemic restrictions weigh on demand and stronger export competition. Trade should strengthen as dining restrictions are removed and US poultry exports are curtailed on HPAI, but global markets are expected to remain competitive.
- ***Mexican hog prices moved higher in recent weeks, as supplies have tightened slightly on higher production costs (feed) and ongoing productivity issues.*** Demand is stable and packer needs remain high. Pork prices are up 8% YOY from year-ago and are showing no signs of weakness, despite rising concerns of weaker GDP growth. Pork import volumes are up in high double-digits from the US and Canada, helping satisfy local demand.

US federally-inspected weekly hog slaughter, Jan 2020-Apr 2022



Source: USDA 2022

US pork and pork product exports, 2019-2022



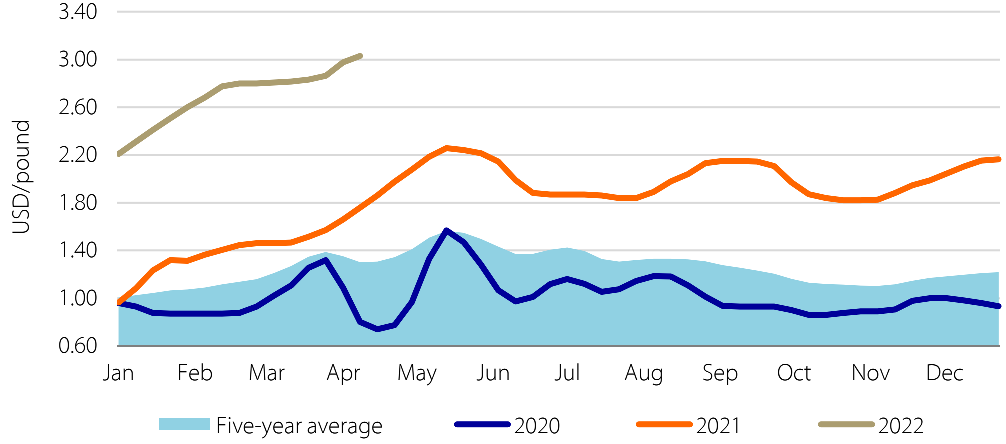
Source: USDA, US Census Bureau, Rabobank 2022

Poultry

Broiler markets move higher on strong demand and HPAI risk

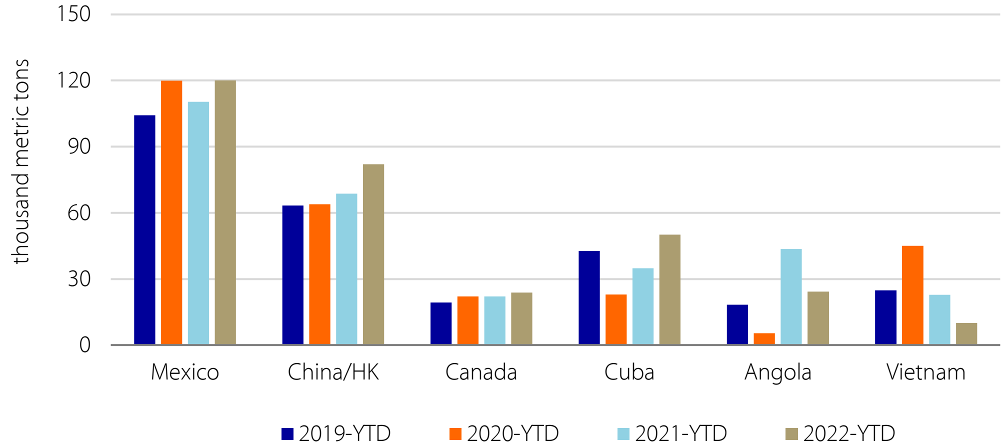
- ***Composite chicken prices are +66% over year-ago levels, driven by ongoing strength in breast meat values (+72% YOY) and high cost of competing proteins.*** Stronger buyer interest not only reflects good retail and foodservice demand, but may also reflect the risk of reduced supply following reported cases of highly pathogenic avian influenza (HPAI). There has been almost no material commercial loss in broilers as of mid-April, although the risk of an outbreak will likely continue into early June. However, the threat of losing export market access in the event HPAI is confirmed in a key production state, remains a significant risk.
- ***Ready-to-cook (RTC) chicken production through Q1 2022 is up 1.6% YOY as the industry caught up on slaughter following February's weather disruption.*** Weekly chick placements remain flat versus year-ago, with no material improvement in hatchability reported. We continue to expect the 2H 2021 increase in the hatchery supply flock to boost broiler production by mid-year, although higher raising costs (feed costs +USD 0.04 per RTC pound) and HPAI could limit gains.
- ***Chicken exports continue at a record pace, with February volumes up 18% YOY and total value +32% YOY.*** YTD exports are +7.3% YOY at 619,000 metric tons, while the value of shipments is +28% YOY. US export volumes to Mexico have faced increasing competition from Brazil, but gained 12% YOY through February. China continues to surprise (+41% YOY), while Cuba (+18% YOY) and Taiwan (+37% YOY) also remain stout. Increased sales likely reflect accelerated purchases after HPAI was discovered. Chicken exports and value remain at risk of disruption, as new cases of HPAI threaten key exporting regions.
- ***Mexican chicken prices up 20% YTD and 17% in April, as demand continues to outpace supplies.*** Retail demand remains strong despite the pass through of higher wholesale costs to the consumer, as poultry remains competitive with other proteins. Based on trade data from the US and Brazil, exports were up strongly to start the year and are helping to meet strong demand. Higher feed costs will make more rapid expansion in Mexico difficult, although higher prices are helping bolster near-term returns.

Boneless skinless breast meat prices, 2020-2022



Source: USDA, Rabobank 2022

US chicken exports, by volume, 2019-2022



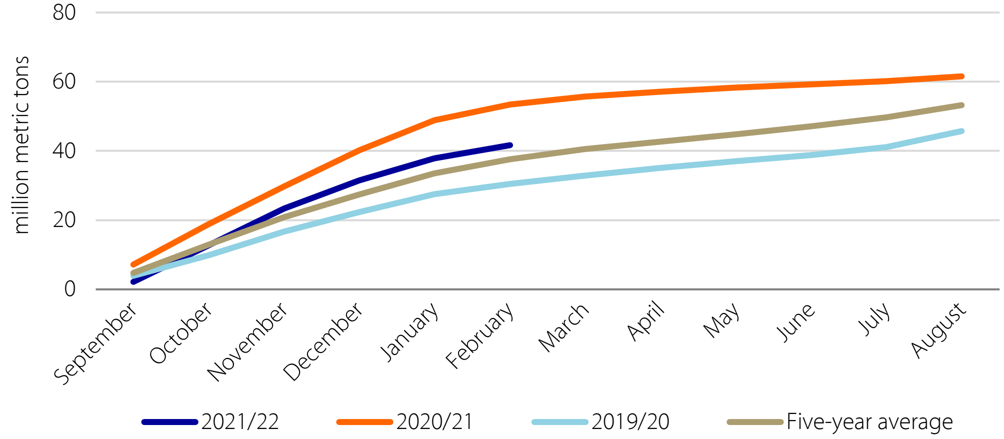
Source: USDA 2022

Soybeans

Increased exports lowering ending stocks

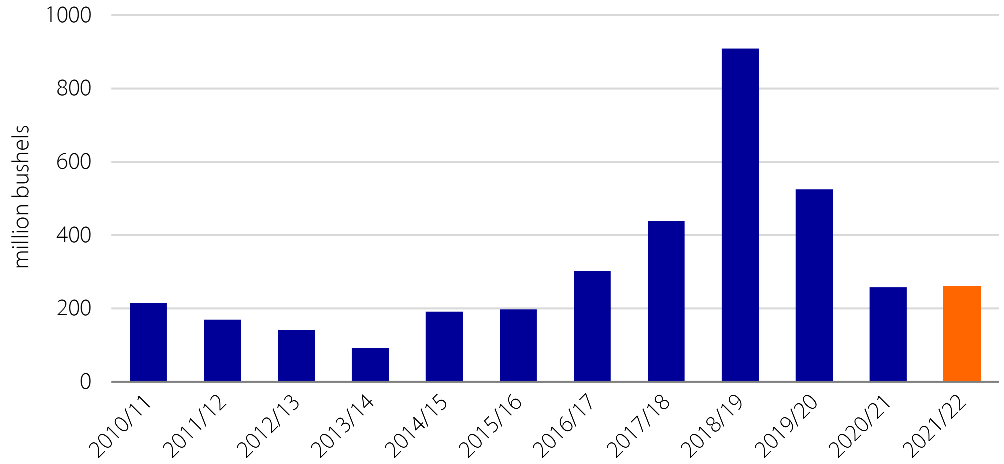
- ***Exports increased as South American crop lower.*** Recent estimates continue to downgrade South American soybean production, with the latest WASDE report setting South American soybean crop at 173 mmt compared to an initial estimate in December 2021 of 204 mmt. Lower soybean production in South America is pushing more demand towards US soybean exports. A recent update from the WASDE is adding 25m bushels into US exports as a result of lower South American crop. New export estimates are putting soybean export as the second-best year since 2017.
- ***In line with expectations, soybean stocks to remain flat.*** As demand for domestic crush remains robust, and expected lower production in South America is increasing US soybean exports, soybean ending stocks are looking to be at similar levels as last marketing year. Soybean ending stocks' recent update downgraded ending stocks to 260m from an estimated 285m bushels, a decline of 9% MOM, adding more pressure to an already tight market. The stocks-to-use ratio is quickly showing soybean that stocks are finding some difficulty rebuilding with the planting season around the corner – a 4% increase in planted area should help stocks rebuild somewhat.
- ***Soybeans to become the dominant crop.*** As announced on the prospective plantings, and confirming our view on planted acres, soybean is becoming the dominant crop. Soybean planted area is expected to grow by 4%, setting a record in acreage of 91m acres. As many factors played in the decision of producers to increase soybean planted area, in the near- and medium-term soybean will maintain its relevance supported by strong demand from exports and domestically. However, soybean crush expansion will be the main driver that will keep soybeans as the dominant crop in terms of planted area for the US.
- ***Prices to remain supported.*** The war in Ukraine continues to flood the market with news, and expectations on sunflower oil exports coming out of the black sea region continue to pressure the vegetable oil markets, especially soybean oil, which directly affects soybean prices. On top of lower world vegetable oil supplies, lower soybean production globally is continuing to support soybean markets. Weather concerns could be a potential recipe for more volatile markets. The USDA has left farm prices untouched for soybeans, however, given current conditions, the season average farm price could see a potential increase of USD 0.20/bu given the upside risk on lower stocks and continuing robust demand.

US soybean monthly accumulated export volumes 2019/20 to 2021/22



Source: USDA, Rabobank 2022

US soybean ending stocks from marketing year 2010/11 to 2021/22



Source: USDA-WASS, Rabobank 2022

Tree Nuts

Lagging almond and walnut exports continue

Almonds: Shipments by handlers in 2021/22 through February were down 16% YOY, with domestic shipments down 3% from the previous season and exports down roughly 21% YOY, impacted by logistics bottlenecks. The increasing likelihood of a larger-than-average carry-out has pressured prices, with the potential yield impact from the freeze partially offsetting the inventory pressure on prices.

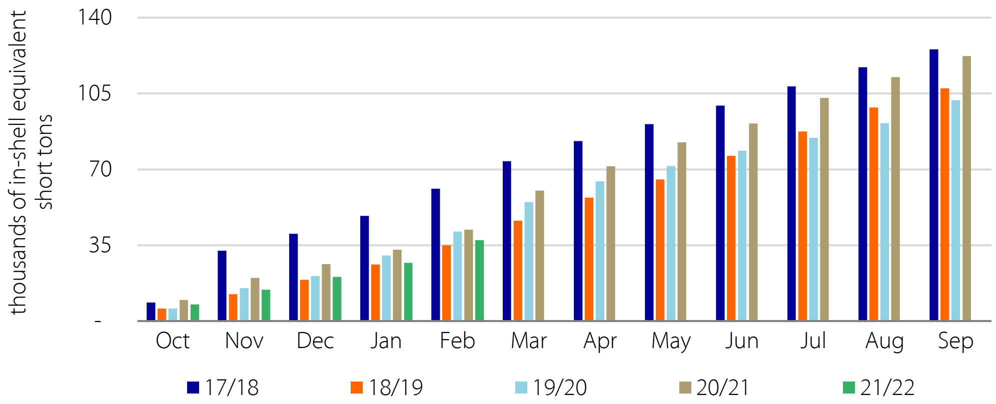
Hazelnuts: Shipments in 2021/22 through January are down about 7%, with kernel exports declining 18% YOY. INC figures show that global production set a record in 2021/22, with the US ranking as the second-largest supplier (after Turkey). Quality of the US hazelnut production in the current marketing year is reported as high.

Walnuts: Shipments were down 18% YOY, with exports declining 24% YOY and domestic shipments down 4% YOY in 2021/22 through February. About 43% of marketable supplies were sold, lagging from previous seasons at this time of the year. Prices in California started strong this season, but shipping delays pressured down pricing. Industry sources report increasing export interest given current prices. USDA purchases will help to reduce inventories and support prices.

Pistachios: In the 2020/21 marketing season, shipments were up about 6% YOY, with domestic shipments up 10% YOY, and exports increased about 5% YOY through February. Demand remains steady and prices for larger sizes are reported to be improving. Despite water challenges, it is likely that the 2022/23 California crop will set a record for the third consecutive season.

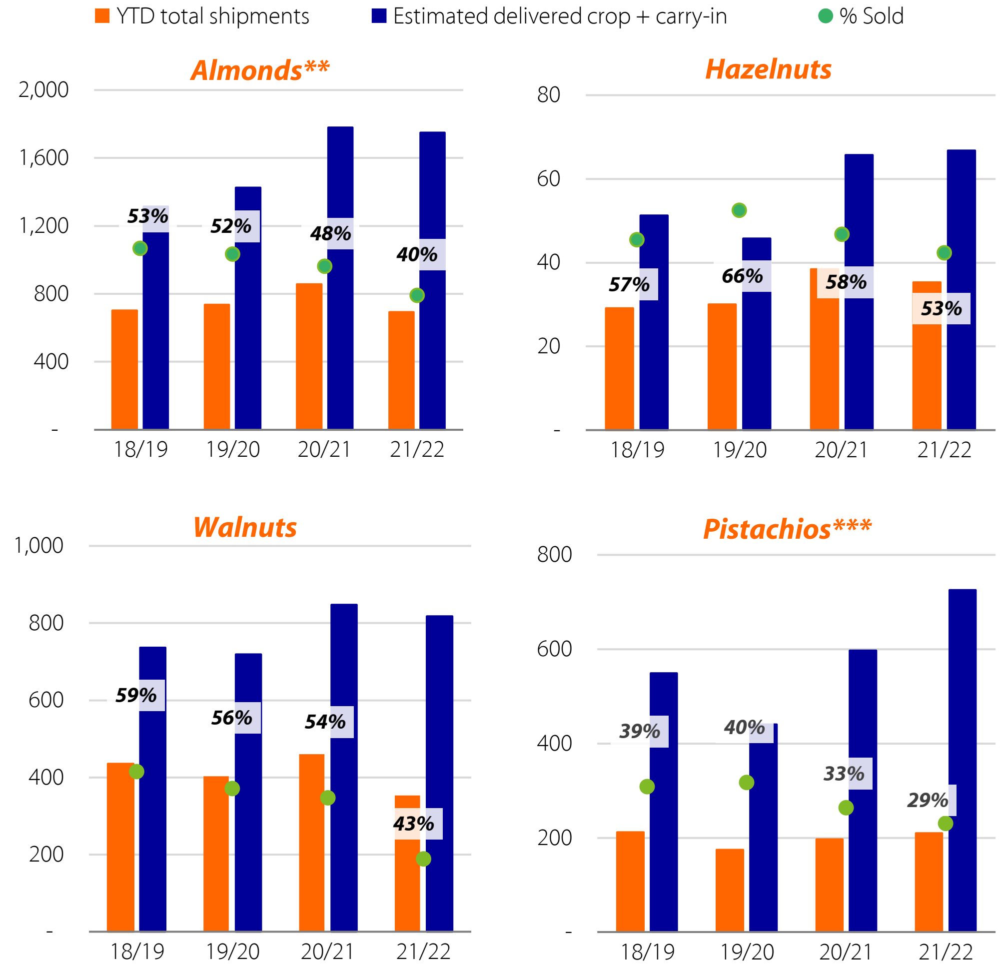
Pecans: US pecan export volumes in the 2021/22 marketing season through February were down 11% YOY. Export pace has improved over the last few months, according to USDA figures. Industry sources report that handler inventory has been declining, as the crop in the US and Mexico was down YOY. This, and a steady demand, are factors that are supporting prices this season.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2022

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



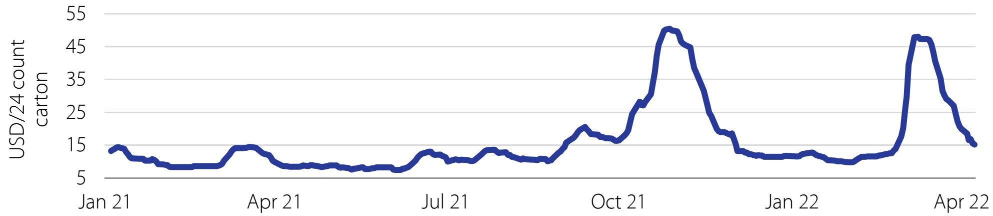
*Source: Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, Rabobank 2022. *Through February 2022, 2021/22 marketing season for almonds, walnuts, and pistachios; January 2022, 2020/21 marketing season for hazelnuts; **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

As inflation hurts consumption, short supplies and season transition add upward pressure on prices

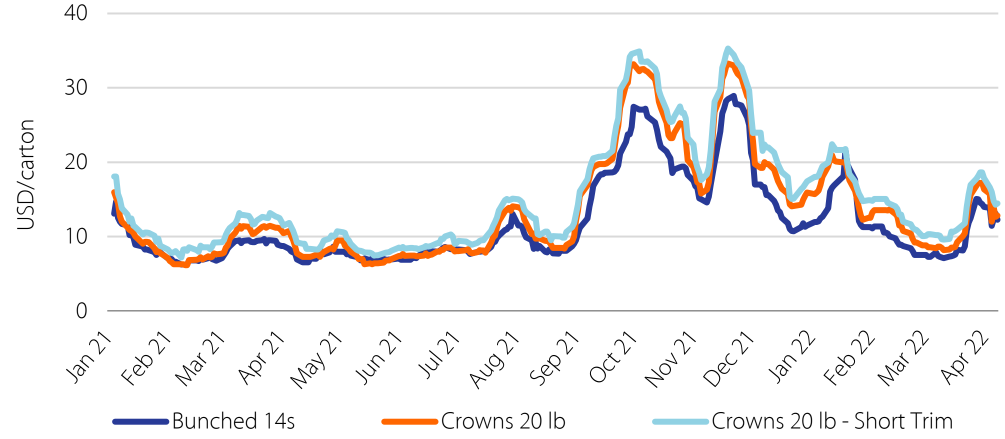
- ***The US consumer price index increased 7.9% for the 12 months ending February 2022, the largest increase since July 1981. Vegetable inflation is at 6.2% .*** Reduction in retail basket size and pull back on restaurant visits are signs of consumers trying to save and reacting to inflation. Dollar and volume sales of fresh vegetables continued their descent thru February 2022, dropping 1.8% and 7.6% YOY, respectively, according to the IFPA. Volumes for the top-10 fresh vegetables all dropped YOY. The drop was highest for peppers (9.1%) and potatoes (7.9%) and lowest for onions (2.7%) and cucumbers (2.0%).
- ***The production season is ending in Yuma, AZ and starting in the Salinas Valley, CA. Shorter than usual supplies, season transition, and episodes of warm weather in the Valley pushed prices higher.*** According to industry sources, broccoli and cauliflower supplies continue to be limited and cooler weather slowed down growth in Yuma area. At USD 13.90 per 20-pound carton, broccoli crown prices are up 65% YOY. Prices usually drop by early spring, remain relatively flat until late summer and early Fall. Lettuce production is transitioning to the Valley. Supplies are considered adequate. The currently very strong prices have been declining and are expected to soften as fresh supplies hit the market. At USD 17.15 and USD 27.57, romaine 24s and hearts (12x3) are higher by 70% YOY and 128% YOY, respectively, whereas at USD 17.07 the iceberg wrapped 24s price is up 90% YOY.
- ***Short supplies and/or strong demand contribute to strong prices of many vegetables, whereas abundant supplies put pressure on prices of others.*** Shipping point prices of spinach, cabbage, kale, sweet potatoes and melons are strong, trending toward their highest level despite average and high shipments, indicating a strong demand. Shipping point prices of carrots are also strong. This, however, seems to be driven by short supplies. The shipping price of tomatoes, cucumbers, bell peppers are about average and below last year's, mostly due to high availability. Vegetable prices will likely remain where they are during Spring but soften with the arrival of summer.
- ***Low inventory and a little appetite to increase planting give support to processing and fresh potato prices. Projections of stronger prices in the 2022/23 season remain very likely.*** Idaho Burbank Baled 10# non-A price is USD 16.00. Russet 5/10# Size A prices range between USD 15.00 and USD 36.0, depending on the region and size. High input costs and competitive prices of rotation crops, such as Spring wheat and barely, will likely discourage YOY increase of planting. Opening the Mexican market to US table potatoes, expected in mid May, will push prices even higher. Processors have negotiated higher contract prices to entice growers to commit acreage.

Wrapped iceberg lettuce – US daily shipping-point price, 2021-2022



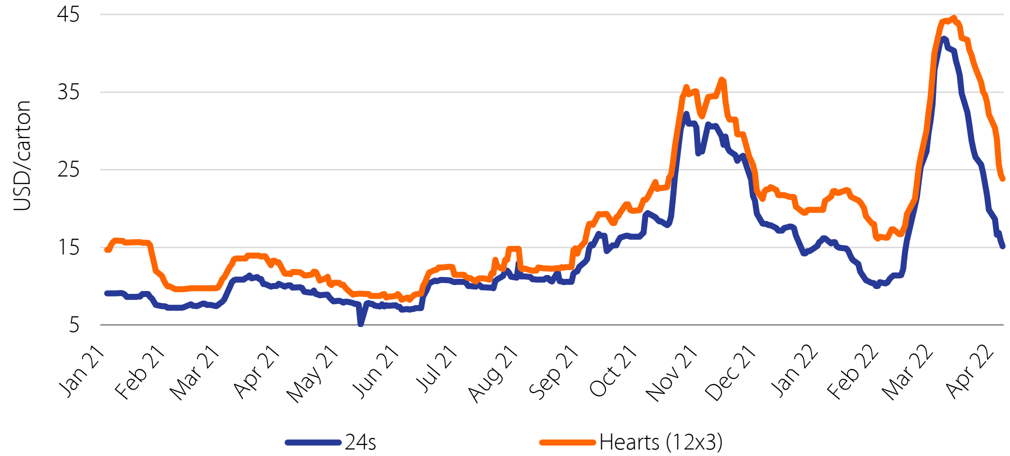
Source: USDA AMS, Rabobank 2022

Broccoli – US daily shipping-point price, 2021-2022



Source: USDA AMS, Rabobank 2022

Romaine lettuce – US daily shipping-point price, 2021-2022



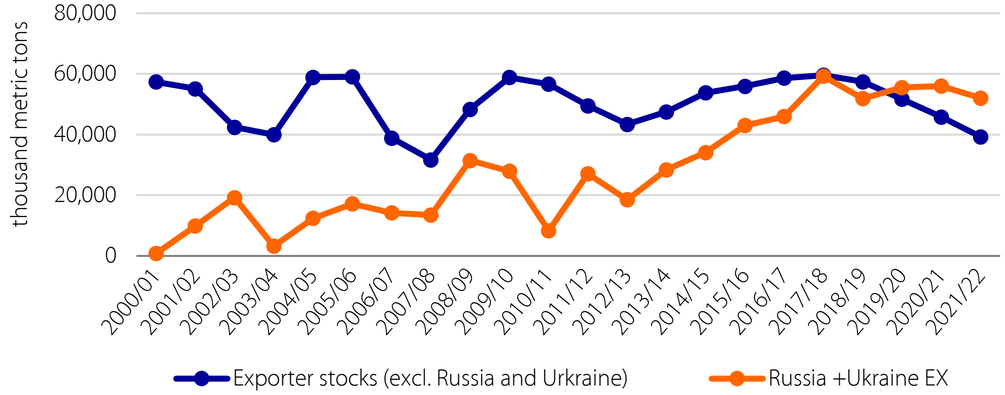
Source: USDA AMS, Rabobank 2022

Wheat

The wheat market is on fire

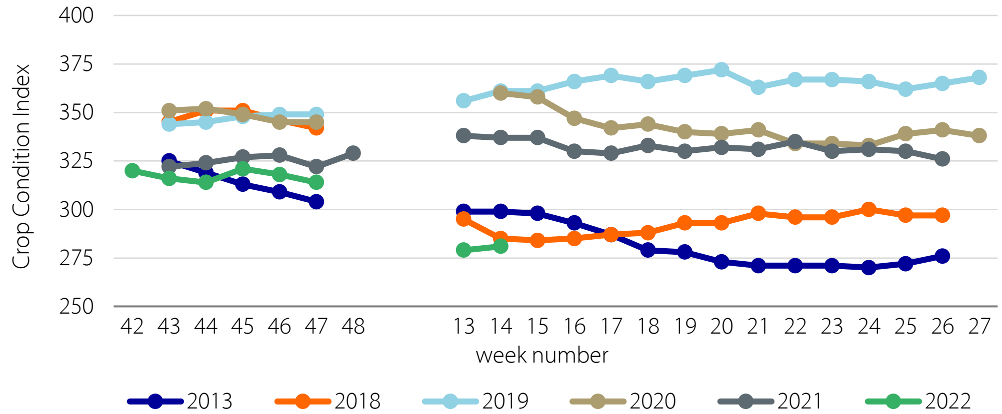
- ***The world's focus is on wheat and the lack of it.*** As discussed previously, Russia and Ukraine export nearly 30% of the world's wheat and their ability to ship is in jeopardy with the outbreak of war. In addition, US spring wheat acres are down and the drought in the Southern Plains continues to intensify.
- ***At this time, Ukrainian ports are not operating and rail movement to Europe is spotty at best.*** Some wheat has been shipped out of Russia, likely to northern Africa. It is questionable whether those shipments will continue considering the fact that insurers have given much of the Black Sea region a "war risk" designation. As a result, insurance rates have skyrocketed and some insurers will not even cover vessels in the area. The near stoppage of wheat shipments out of the Black Sea region are fueling growing concerns about food security, particularly in northern Africa, Middle East and sub-Saharan Africa due to declining shipments and fast increasing prices.
- ***Unlike the major corn exporters, the major wheat exporters do not have sufficient stocks to fill the gap left by Ukraine and Russia.*** While the majority of Russian and Ukrainian 2021/22 wheat has already been exported, the global wheat balance sheet is instructive to the potential coming wheat shortage. In 2021/22, Russia and Ukraine are projected to ship 52 mmt of wheat. At the same time, wheat stocks of major global wheat exporters minus Russia and Ukraine are under 37 mmt. Therefore, there is not enough wheat among the major exporters to fill the gap. In addition, assuming both Russia and Ukraine can harvest their winter wheat crop this summer, the crop will be "captured" stocks since it will not be able to ship out through the Black Sea ports. The current situation on the ground in Ukraine portends that this will not be a one-year issue. There will be a long tail to this conflict resulting in continuing tight global wheat stocks and high prices.
- ***US wheat exports are likely to increase as a result of the war.*** With the ten-year US baseline model, a scenario was tested where the US shipped an additional 200m bushels of wheat for the 2022/23 crop year. This would put US exports near 1.0bn bushels, which the US has shipped before. This resulted in a 50% increase in the national average wheat price to near USD 10.60 per bushel, an all-time record. As mentioned above, this conflict will have a long tail, so the US will be reaching 1.0bn bushels of wheat exports for more than just one crop year.
- ***Also, like corn, when the world needs all the wheat it can muster, the US hard red winter (HRW) wheat belt is suffering from a drought and extreme weather.*** Not only are winter wheat crop condition ratings reaching their all-time lows, but recent wind storms in the Southern Plains have blown the wheat out of the ground making the crop there a total loss. Current conditions are projecting US HRW wheat yields in the mid-30s, the lowest yields since 2015. There is potential for ending stocks to be cut in half, reaching levels not seen since 2006/07 and 2007/08, when national average prices reached above USD 6.00 per bushel. Current cash prices in mid-Kansas are in the USD 11.00-USD 11.25 per bushel range. There is a significant price premium in the market for both weather and war. However, the weather and war forecast doesn't show any signs that wheat prices will be coming down soon.

Global wheat exporters' stocks are inadequate to cover lost Russia and Ukraine exports



Source: USDA-PSD, Rabobank 2022

Rival winter wheat crop conditions of 2002, when HRW yield was 31.1 bu/acre

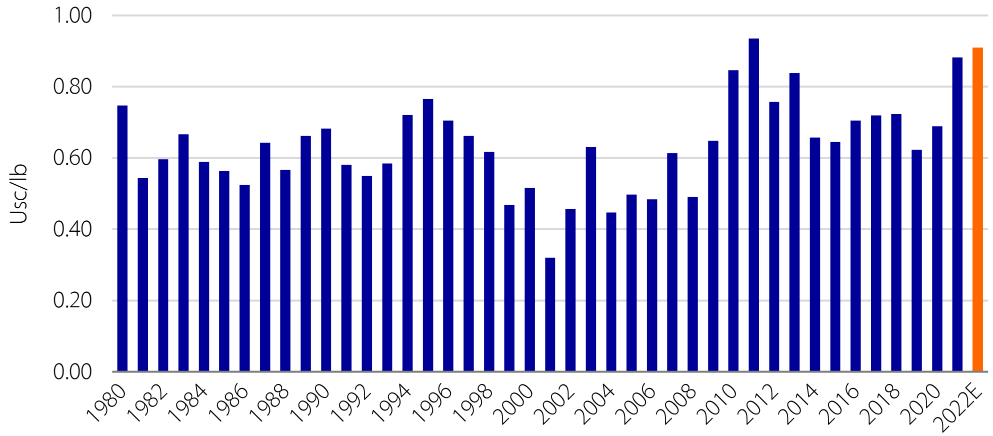


Source: USDA-NASS, Rabobank 2022

Cotton

- ***Cotton acres surprised the market with an increase of 9% YOY***. Cotton acres saw a large increase of over 9% YOY, as planted area increased by 1m acres according to the latest report from the USDA, setting total planted area of all cotton at 12.2m acres, up from 11.2m acres. All states showed an increase, with the exception Arizona. Concerns over Texas and Oklahoma drought conditions could significantly reduce cotton yields, having an impact on cotton production despite higher planted area.
- ***Lower economic growth means lower demand for cotton***. Accumulated and outstanding sales of cotton exports are finally catching up, showing signs that bottlenecks might be alleviating. The long-awaited number could finalize above WASDE estimates if no setbacks present from now to the end of the marketing year. Next year could be a bit more challenging in terms of exports, as global demand moves closely with global economic growth. As high inflation and increasing interest rates affect consumers and slows economic growth globally, next year's exports could fall well behind this year.
- ***Season average prices remain at USc 91/lb***. The USDA increased its cotton season average farm price by 1 cent in response to high prices. However, the higher acreage reported in the intentions report back on March 31 did little to ease market sentiment, with ICE #2 cotton December futures reaching a new record at 120 USc/lb.

US cotton farm prices for 2021/22 close to record level reached in 2011

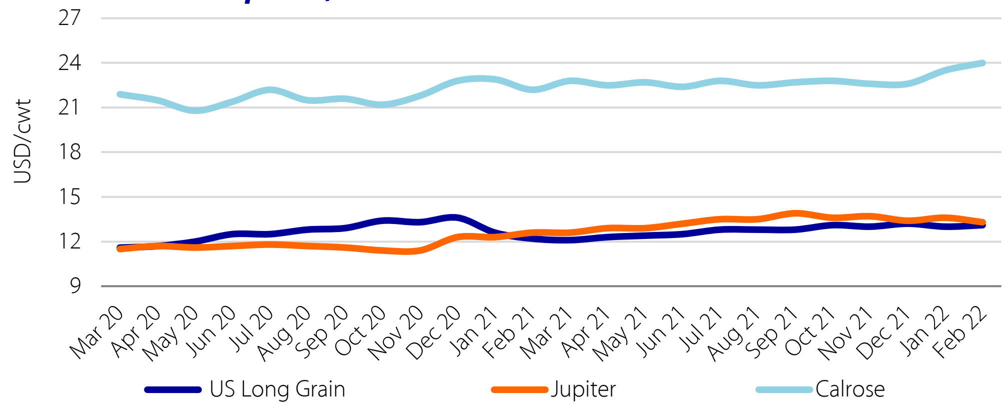


Source: USDA, Rabobank 2022

Rice

- ***Rice to see planted area reduction of 3% YOY.*** The USDA planting intentions report showed that farmers are reducing planted area by ~80,000 acres of all rice. The largest decline in planted area came from California, with medium and short grain declining 14% and 29%, respectively. Long grain saw a 1% decline compared to last year with Mississippi, Missouri and Texas planted area declining and partially offset by increasing area in California and Louisiana. The 2.45m acres estimate from the USDA puts rice at the lowest level since 1987.
- ***Exports to see challenges.*** Domestic supplies have declined due to lower production of long and medium-short grain. Despite a strong carry-in of all rice starting 2021/22 marketing year, production declined ~16% impacting domestic supplies. As the balance sheet turns tight for 2021/22, prices have surged and made US rice less competitive in international markets. Exports continue to be well-behind and lower than last year with YOY exports down 6%. Medium and short grain rice remain well behind exports, with 31% behind a year earlier and 24% down from last year. Imports from Japan and South Korea are the main reason for lower medium and short grain exports.
- ***Season average farm price***. Rice prices have shown a decline from the previous month's estimate from USD 15.90 to USD 15.70 per cwt. The USc 20 per cwt decline was driven by lower reported prices in the month of February and slower exports than initially anticipated. Future prices are showing a steady floor on rice at USD 16 per cwt, as production is not likely to improve on the 2021/22 production year. The lower supplies and lower ending stocks will put pressure on rice markets for 2022/23.

24-month US rice prices, Mar 2020-Feb 2022

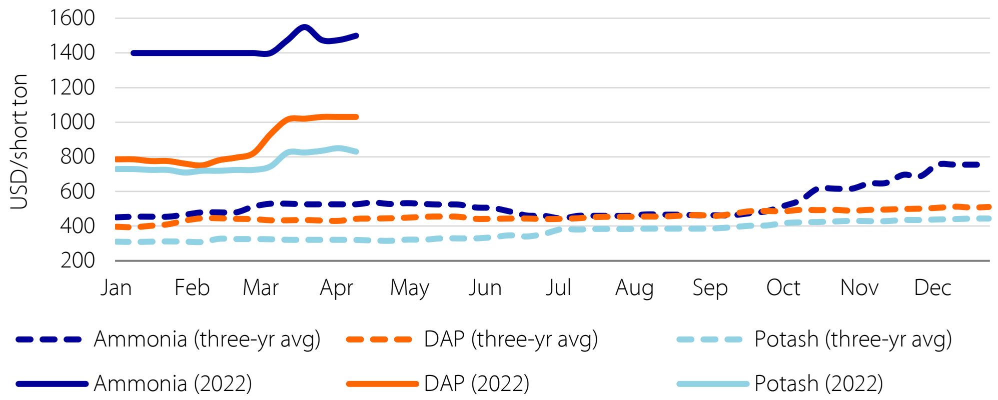


Source: USDA NASS, USDA ERS, Rabobank 2022
Note: Average rough rice basis

Input Costs

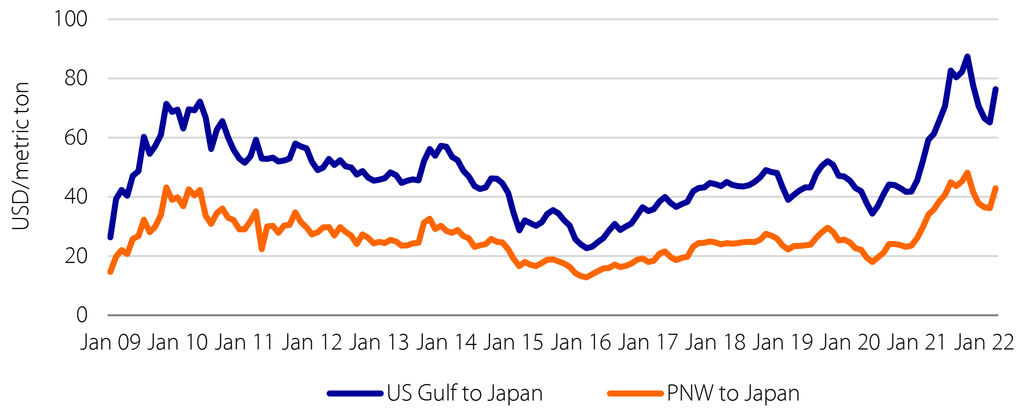
As of April 15, 2022

*Corn Belt input prices**



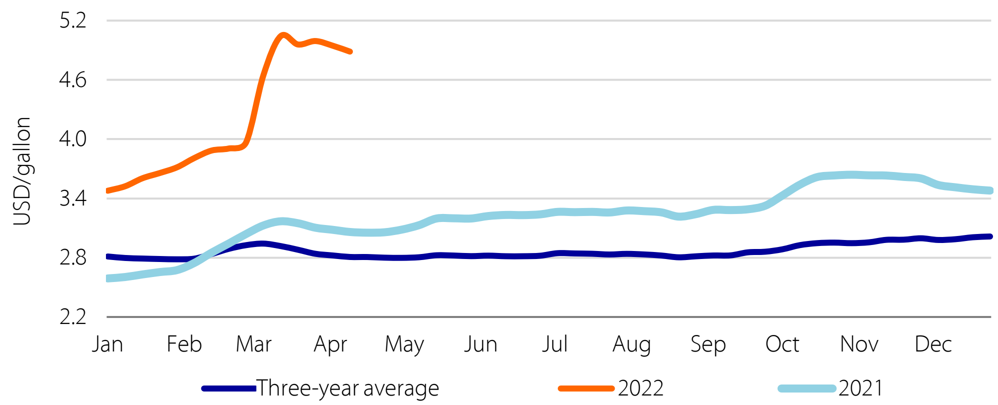
* Note: granular potash
Source: Bloomberg, Rabobank 2022

Ocean freight



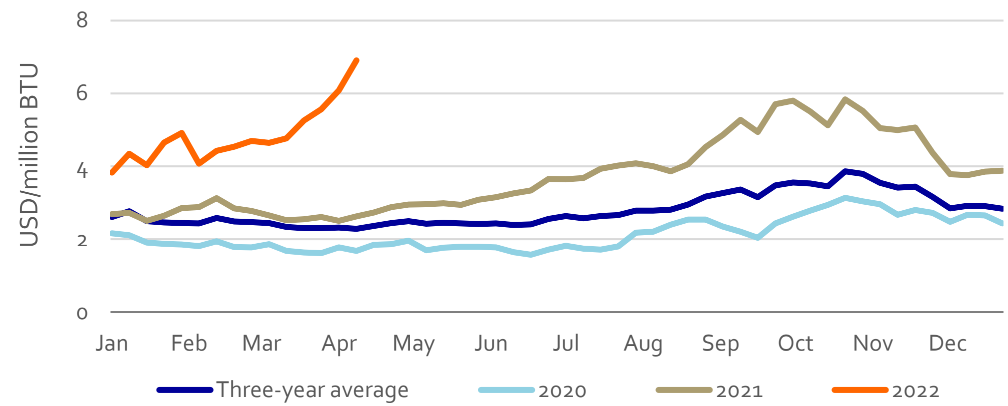
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2022

Diesel – Midwest



Source: EIA, Rabobank 2022

Natural gas spot



Source: NYMEX, Rabobank 2022

Rabobank

As of April 15, 2022

CBOT – Corn

Source: CBOT, Rabobank 2022

CBOT – Soybeans

Source: CBOT, Rabobank 2022

CBOT – Soymeal

Source: CBOT, Rabobank 2022

CBOT – Soy oil

Source: CBOT, Rabobank 2022

Forward Price Curves

As of April 15, 2022

CBOT – Wheat

Source: CBOT, Rabobank 2022

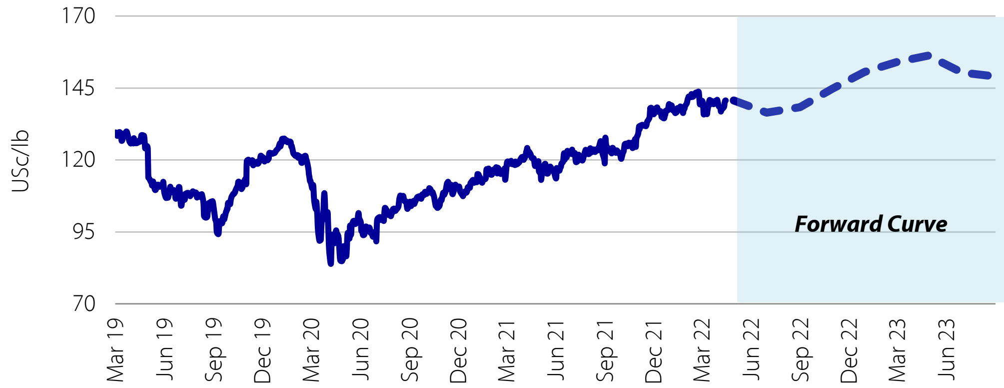
CBOT – Feeder cattle

Source: CBOT, Rabobank 2022

CBOT – Lean hogs

Source: CBOT, Rabobank 2022

CBOT – Live cattle

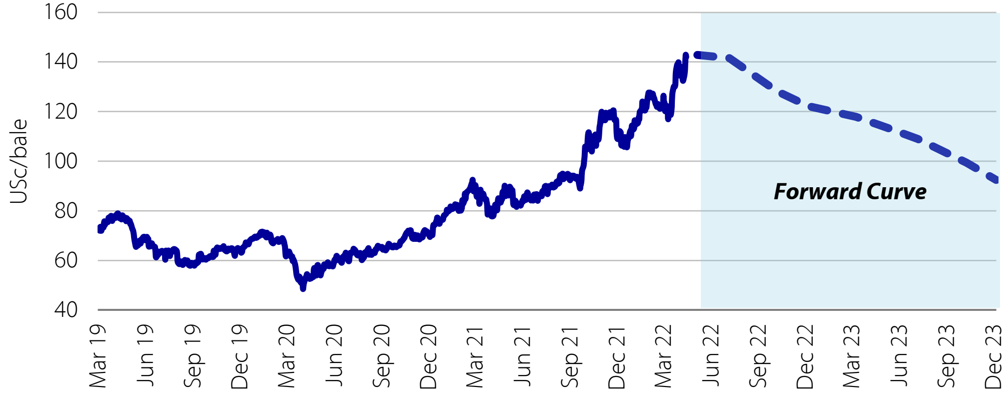


Source: CBOT, Rabobank 2022

Forward Price Curves

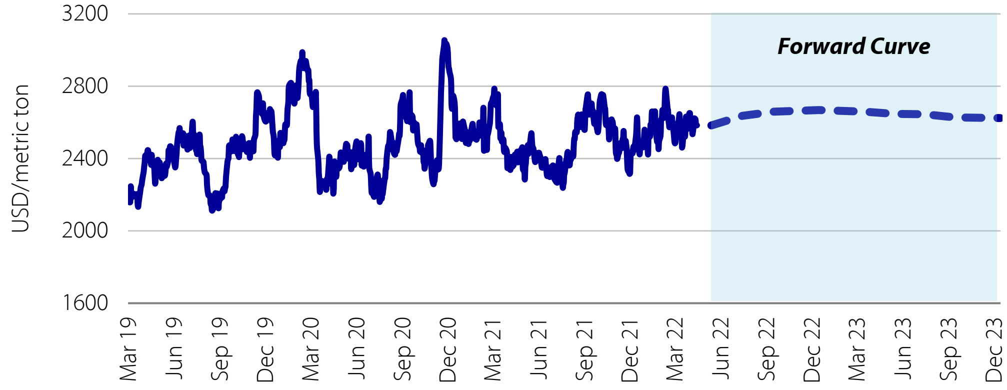
As of April 15, 2022

ICE – #2 Cotton



Source: ICE, Rabobank 2022

ICE – Cocoa

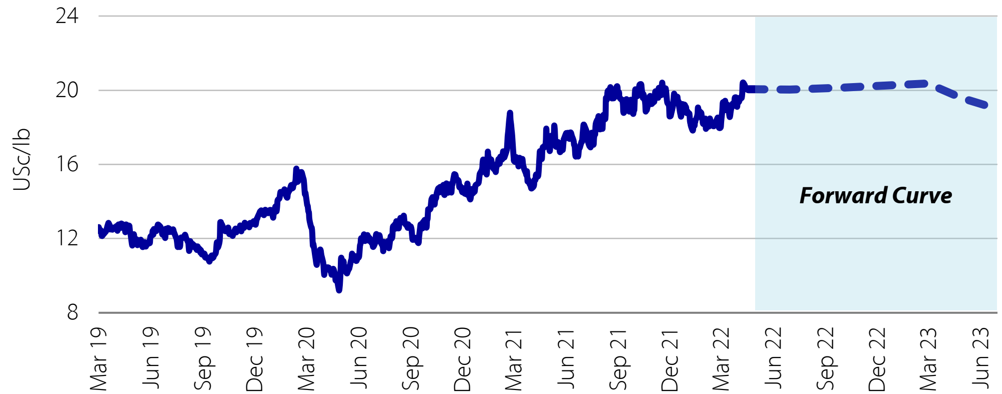


Source: ICE, Rabobank 2022

ICE – FCOJ

Source: ICE, Rabobank 2022

ICE – #11 Sugar



Source: ICE, Rabobank 2022

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