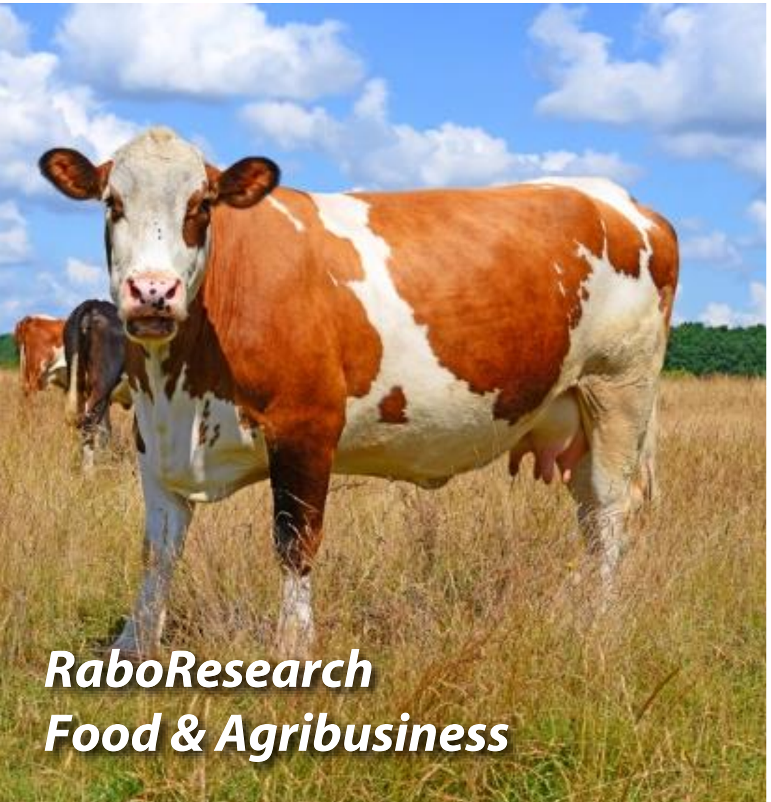




North American Agribusiness Review

Rabobank



RaboResearch
Food & Agribusiness






August 2022

Report Summary

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Economy

Recession on the horizon

US

- The US economy has had two consecutive quarters of negative GDP growth, which means a 'technical recession' in the first half of this year. After -1.6% growth in the first quarter, the advance estimate for the second quarter is -0.9%. While the contraction of GDP in Q1 was largely caused by net exports (more than 3 ppt contributed), inventories contributed more than 2 ppt to the GDP decline in Q2. However, while personal consumption and business investment grew at a decent pace in Q1, personal consumption slowed down considerably in Q2, business investment came to a standstill, and residential investment saw a steep decline. In other words, domestic demand showed a major slowdown in Q2. This suggests that underlying momentum in the economy is fading and it is only a matter of time before businesses slow down hiring. At the moment, they are still hiring at a high pace to keep up with excess demand for goods and services, but if this comes down, we are going to see a slowdown in employment growth as well. Eventually, when employment growth turns negative and the unemployment rate rises, the NBER will declare an official recession.

Mexico

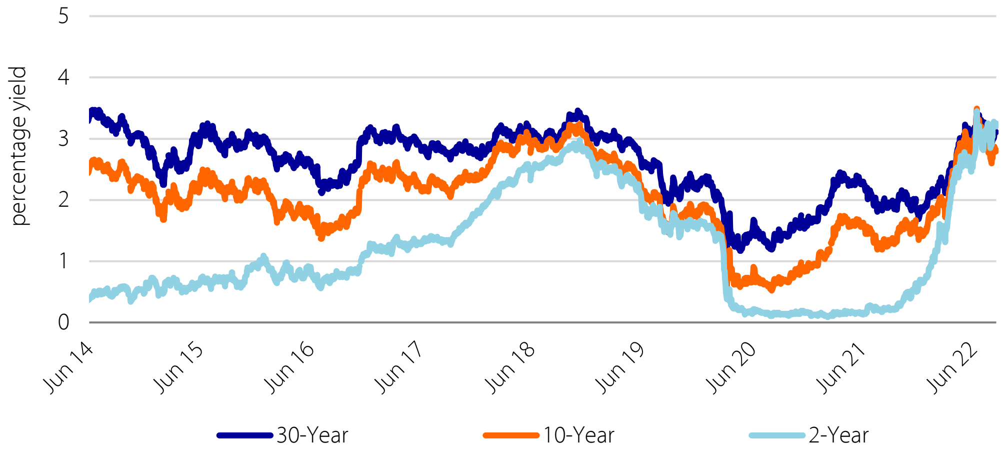
- The Q2 GDP growth figures were described as "very good news" by Banxico's governing board member Heath in a tweet he sent out in the aftermath of the release on July 29. It is hard to argue that a 1% QOQ, 2.1% YOY print in the current global environment isn't good news. However, the US growth outlook may well prove to be the main drag on Mexican growth in the coming quarters. While we have a seemingly unfriendly policy picture for foreign direct investment, the near/friendshoring dynamic observed in corporate America is proving supportive for Mexican industry. Despite the 'missed opportunity' of Mexico opening up its arms to US firms looking to move production away from Asia and closer to home, we have still seen this trend emerge to the benefit of Mexican industry.

Canada

- The deterioration in activity data can already be observed and we have been highlighting the squeeze on household balance sheets and inevitable slowdown in consumption. The Monetary Policy Report saw a downgrade to the growth forecasts and the BoC find themselves caught between a rock and a hard place as they face high (primarily cost push) inflation and a slowdown in consumption. We know they have chosen what they deem as the lesser of two evils: a near-term recession over the risk of inflation moving into double digits.

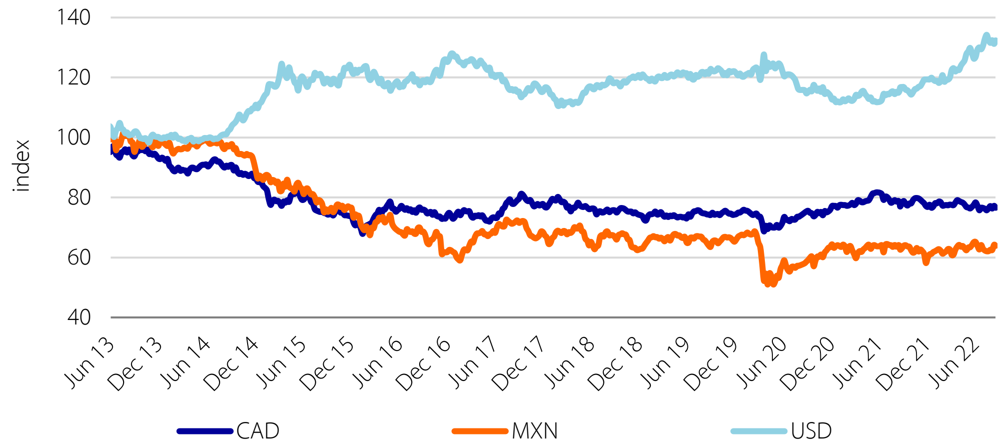
Source: USDA, Rabobank 2022

Interest rates, 2014-2022



Source: Federal Reserve of St. Louis 2022

Currency indices, 2013-2022



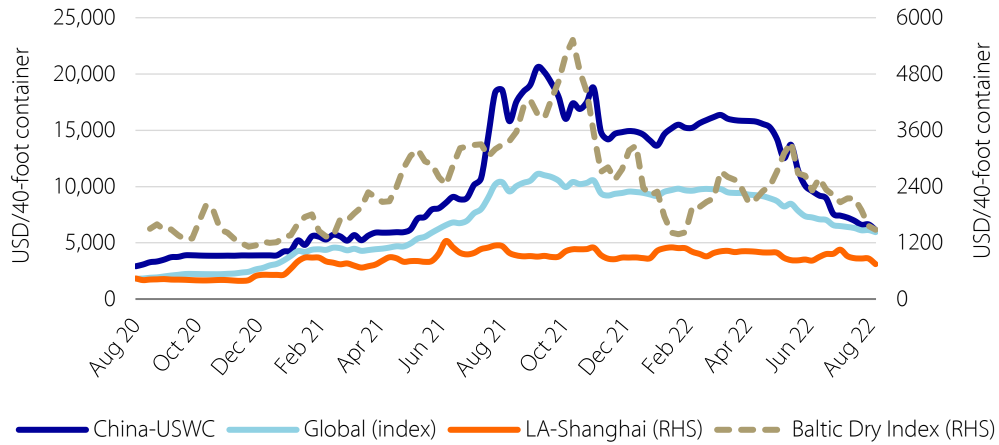
Source: Bloomberg 2022
Note: Rebased at 100 as of January 1, 2013

Logistics

Healthy demand through the holiday season, then downward pressure from a recessive environment

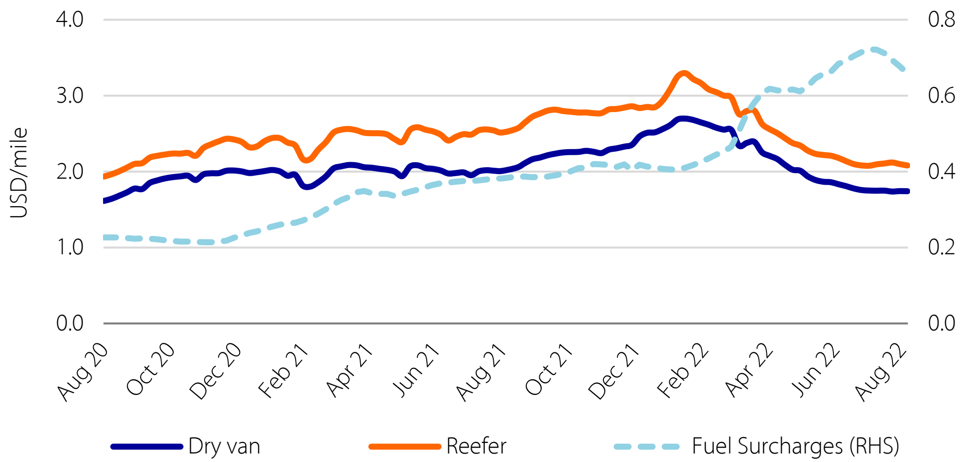
- ***Global ocean spot rates have passed the 2021 peak and are expected to normalize over the next 12 months.*** The global container rate index continues to fall at 8% MOM in August, although the rate of decline slowed. Spot rates have dropped below contract rates for many routes. The Europe-North America rate held up compared to rates of other lanes due to strong demand and port congestions on both sides. The normalized rates are expected to stay higher than the pre-pandemic levels for several reasons. Heightened inflation and all-time low consumer confidence exert negative pressure on ocean rates. On the other hand, upward pressure is created by imbalanced trade flows, which remove container capacity from the network, geo-political uncertainties, which increase risks, and by rising operational costs from fuel and sustainability regulations.
- ***In contrast to dry container rates, global reefer rates (spot and contract combined as assessed by Drewry) are expected to surge another 9% over the previous quarter in Q3 2022 before normalizing.*** As indicated previously, imbalanced reefer containers and port congestions continued to contribute to the upward trend, in addition to seasonality. We expect reefer rates to stabilize in Q4 2022 and even mildly contract during 2023 due to the easing of supply chain issues and a general recessive environment. Even with correction, reefer rates are likely to stay at a higher than pre-pandemic levels.
- ***The Baltic Panamax index (a proxy for grain bulk freight) continued a downward trend, declining another 22% MOM in July.*** As Russia and Ukraine signed an UN-backed deal to resume grain exports via the Black Sea, a significant amount of grain will become available for export from both nations in the coming months. We expect this to be a potential lift to the Panamax index once shipment begins.
- ***Trucking spot rates seem to be trending towards stability in recent weeks, at around 22.5% above the pre-pandemic 5-year average, or 35.5% below the peak in Jan 2022.*** The Producer Price Index for general trucking stabilized as well but remains elevated at 42.6% above pre-pandemic levels due to slow-adjusting contract rates. Fuel surcharges dropped in recent weeks, easing overall inflationary pressure on trucking. We expect trucking contract rates to continue to normalize, which may lead to capacity exiting the market.

Select ocean freight rates, June 2020-June 2022

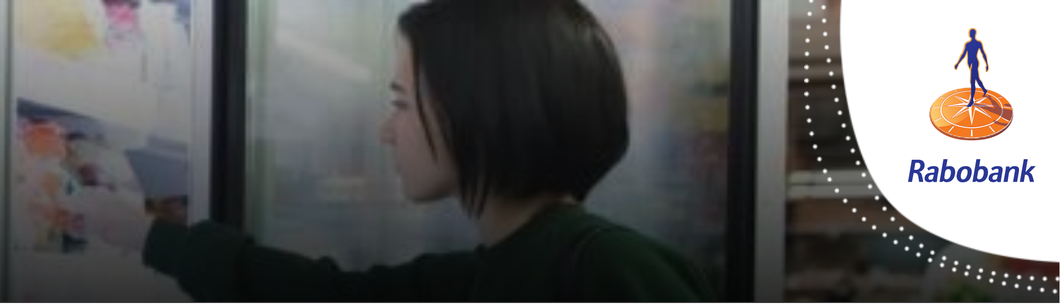


Source: Freightos, Baltic Exchange, Bloomberg 2022

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



Source: Truckstop.com, Bloomberg 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.

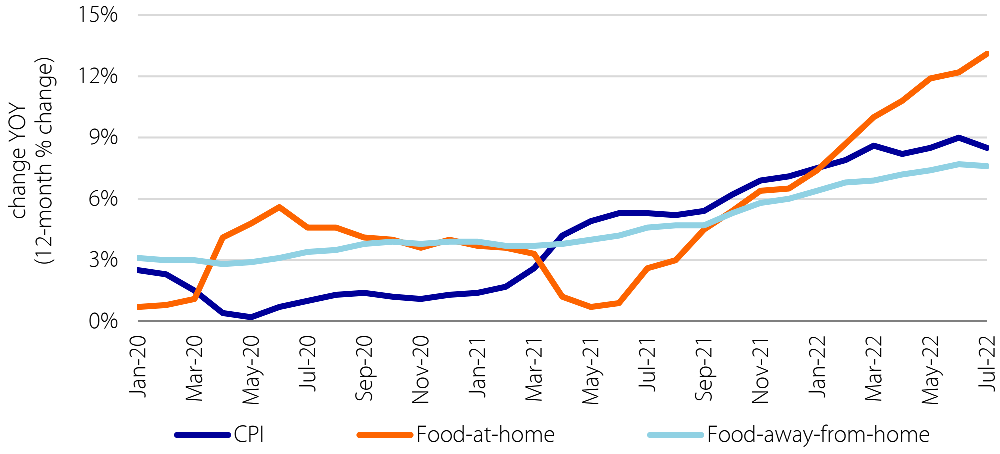
- ***First reports indicate the higher prices are already affecting consumers' purchasing decisions for food staples: switching to cheaper alternatives, such as lower-priced brands and private label, and deal and discount shopping.*** Discretionary income has also shrunk, as government payments have 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 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, 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.

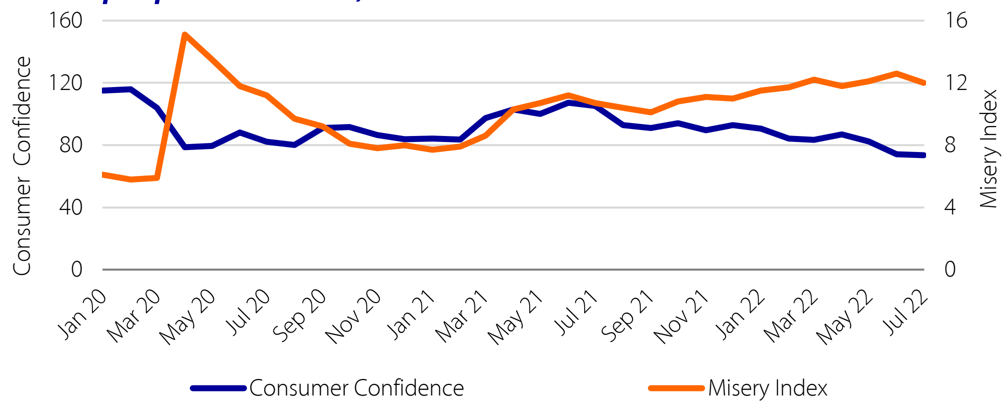
- ***Looking forward, on a nominal basis, revenues from retail and foodservice establishments are expected to grow through the year, but strong demand for premium products (which businesses have benefited from over the last two years) is anticipated to shift towards a more cost-conscious consumer.*** 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-Jul 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 to pre-pandemic levels, Jan 2019-Jul 2022



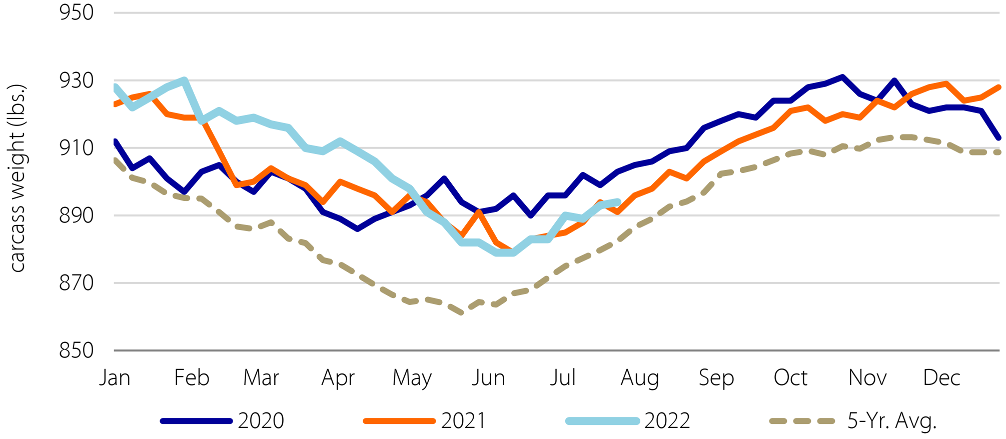
Source: US Bureau of Labor Statistics, Rabobank 2022

Cattle

Drought, high temperatures and high feed prices continue to disrupt the market

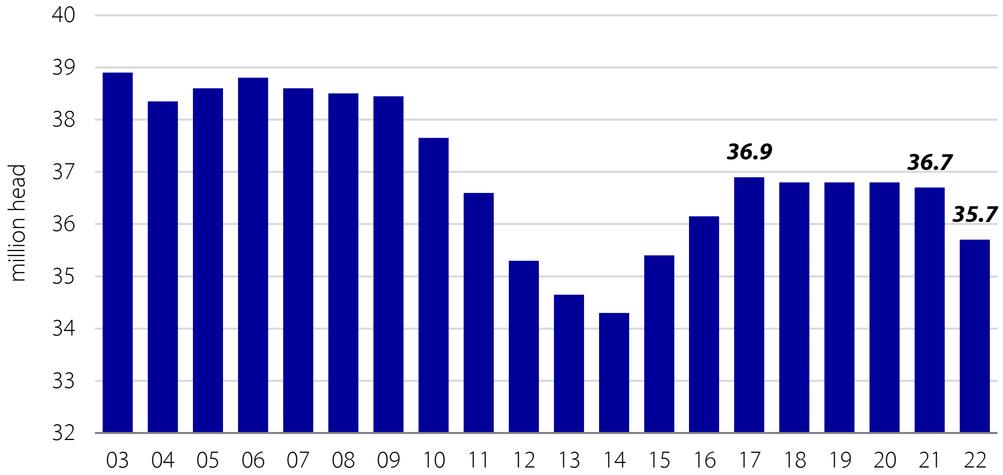
- ***Drought continues to alter supply flows for US cattle producers.*** In late July, 54% of the nation's beef cowherd was battling some level of drought. This was the third-highest July value in the last two years. Only the 2006 and 2012 drought covered a larger percentage of the cowherd.
- ***US beef cow slaughter is up 12% through July, and it could end the year 500,000 head larger than 2022.*** The beef cow culling rate is on pace to reach 13.5% this year. That will be the largest annual culling rate on record by a full percentage point – resulting in the US beef cowherd being down 800,000 to 1m head on January 1.
- ***Feeder cattle and calves have entered feedyards at a faster pace, as pasture conditions deteriorated.*** Despite a January 1, 2022, feeder cattle and calf supply outside of feedyards that was down 700,000 head compared to last year, placements in 1H 2022 have been nearly identical to year-ago levels. Yet, in-weights for those cattle over the last two months are down nearly 8 lbs. compared to year-ago levels. Drought has increased the pull rate for feeder cattle and calves.
- ***US cattle imports from Canada and Mexico are trending in different directions.*** Shipments of Canadian feeder cattle and calves to the US are up 65% compared to last year, while Mexico is down 43%. Southern US feedyards have an adequate supply of drought cattle, limiting demand for Mexican imports. Interest in Canadian slaughter cattle imports is also strong, with US processors needing more higher-quality cattle – increasing 19% year-to-date.
- ***"Light in, light out" should apply to fed cattle weights going into 2023.*** Lighter placement weights combined with higher feed costs will pressure carcass weights going forward. Year-to-date steer carcass weights are 5 lbs. above last year at 904 lbs., but a more current fed cattle supply has allowed weights to run 1 lb. below year-ago since May. Expect larger declines in carcass weight relative to last year starting this fall and winter.
- ***Premiums for higher quality beef remain historically strong as supplies tighten.*** Production of USDA Prime and upper 2/3rds Choice beef is down 4.3% year-on-year, even as total beef production from steer and heifer slaughter is up 1.8% year-to-date. Quality grade declines have strengthened the spread between USDA Prime and Choice cutouts. The year-to-date average is at USD 40/cwt., which USD 10 wider than last year.
- ***Cattle prices find support as the market anticipates smaller inventories.*** US fed cattle prices are up 20% year-to-date, while feeder cattle and calf prices are around 15% higher. Buyers recognize cattle supplies are tightening. The July 1 cattle-on-feed inventory was nearly identical to last year, but the feeder cattle and calf supply outside of feedyards was down 1m head, and the 2022 calf crop estimate was 500,000 head smaller. Summer and fall placement patterns still need to be understood better, but the possibility exists for a 1m head reduction in 2023 cattle slaughter.
- ***Competition from US export markets remains robust.*** US beef exports averaged 13.3% of production in the second quarter – a new high. Also, the total value of beef and veal exports has averaged more than USD 950m per month. The highest monthly value in 2022 was USD 938m.

Weekly steer carcass weights are back near year-ago levels



Source: USDA, Rabobank 2022

Feeder cattle and calf supplies are trending to 2014 lows



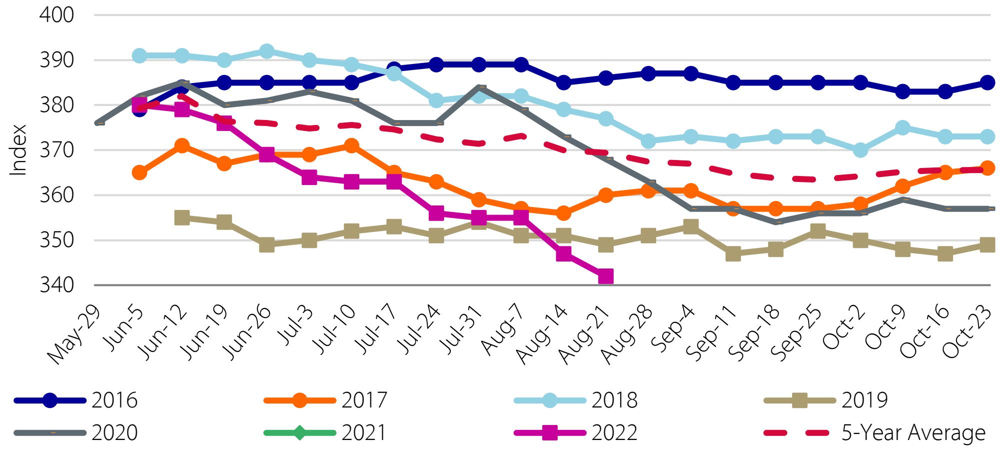
Source: USDA, Rabobank 2022

Corn

It all comes down to yield

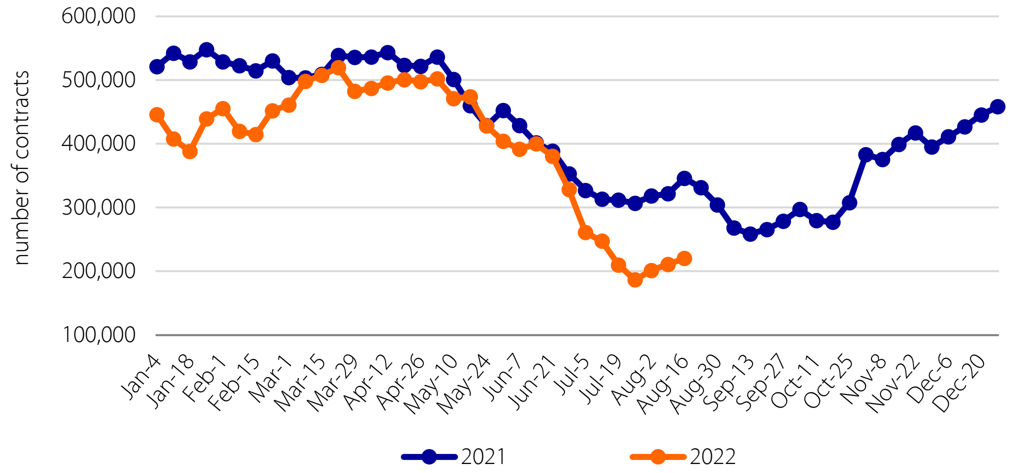
- ***The corn market now all comes down to yield.*** While there are other market factors like fund money, stocks, and the 'grain deal' between Russia and Ukraine, yield will ultimately determine the future price direction of the market.
- ***In the August Crop Production report, the USDA projected the US national average corn yield at 175.4 bushels per acre.*** This compares to the trendline yield of 177.0 bushels per acre and to last year's yield of 177.0 bushels. The August estimate is a subjective survey using crop conditions, vegetative index and summer weather conditions, while the September estimate will be an objective yield survey using actual ear samples to determine yield. Consequently, the September yield projection will be a more accurate measure of yield.
- ***US corn crop conditions continue to deteriorate and are at the lowest level since the drought year of 2012.*** Current crop conditions are even below crop conditions recorded during the wet spring year of 2019 (in 2019, the yield was 167.5 bushels per acre). Using a calculated crop condition index, the index projects the US national corn crop yield below 170.0 bushels per acre. If a 170 bushel per acre yield is applied to the current 2022/23 balance sheet, 2022/23 ending stocks will fall below 1.0bn bushels (second-lowest on record behind 2012/13) and a record-low stocks-to-use ratio below 7.0%. This projects the December corn futures (CZ) price in Q4 at above USD 6.00 which is approximately where CZ stocks are currently trading. One could conclude that trade has already factored a lower yield into their price expectations. However, the USDA's corn production estimate was in the middle of the trade's corn production expectation. That being the case, a lower yield estimate is likely to result in a corn market rally from current levels – stay tuned.
- ***The funds have pushed the markets lower than the fundamentals would suggest, but, at the same time, funds pushed prices higher than the fundamental supported at the start of the Russian invasion***. Interestingly, the net funds position this year compared to last year has followed the same trend. In 2021, the funds sold off their position into the summer and then increased their net-long position mid-harvest. This resulted in a pre-harvest low and price rally all through harvest. The funds have followed the same trend this year. It looks as if a pre-harvest low is in, and the market is set-up for another harvest rally in 2022.
- ***The negotiated 'grain agreement' between Ukraine, Russia, Turkey and the UN is good news on several fronts.*** As at the third week of August, thirty plus (30+) vessels have left Ukraine, carrying mostly corn. Ukraine is on pace to export 1.0+m metric tons per month, with plans to increase to 3m-4m metric tons. So far, the 'grain deal' is working, much to Ukraine's relief. Ukraine generates income, moves crops not stored in ideal conditions, opens up storage for new crop and increases its potential to ship in their traditional corn export window of November-May. However, there is a cautious optimism around the agreement as this is all happening at ports and shipping channels in a war zone, in an environment of high logistics costs (insurance & freight) and between countries who don't often trust each other. Ukrainian corn export expectations are increasing and will ease some of the upward pressure on prices, but any signs of a crumbling agreement and markets will rally.

US corn crop conditions rating worst since 2012 drought



Source: USDA-NASS Rabobank 2022

Funds net long position following last year's trend



Source: DTN ProphetX, Rabobank 2022

Dairy

High prices are testing demand

- ***July milk production posted its first year-on-year increase since October 2021.*** The slight 0.2% gain, was driven by a 0.9% YOY improvement in milk per cow as the herd remains 67,000 head below last year. The dairy herd peaked in June 2021 at 9.501m head and declined steadily through January 2022. Since then, cow numbers have increased, with 49,000 cows added since January. Rabobank forecasts 2H 2022 US milk production to expand by 1% YOY against weak comparables.

- ***Exceptional milk and dairy product prices during the first half of 2022 have contributed to July's nearly 15% YOY increase in the Consumer Price Index for dairy products, which is weighing on demand.*** Domestic commercial disappearance of total milk solids fell by 1.6% YOY in June. Fortunately, US exports on a total milk solids basis were up 8.8% YOY in June, pushing total disappearance for the month into positive territory, at +0.3%.

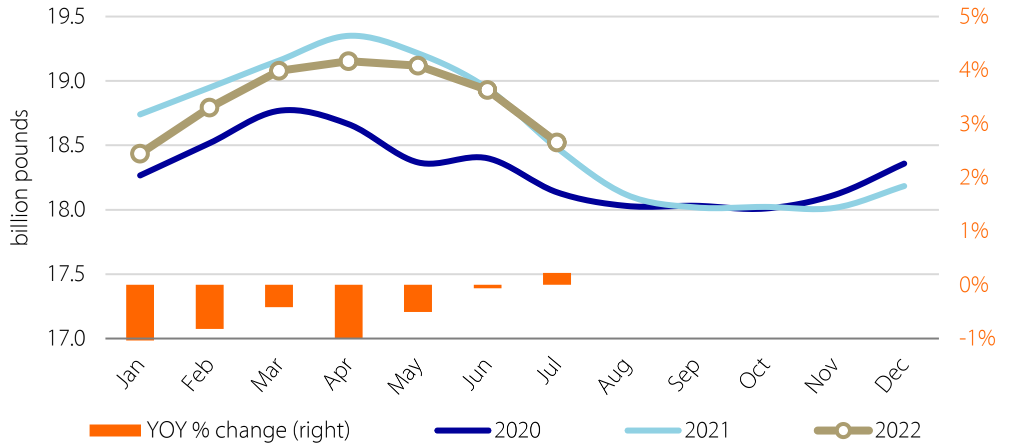
- ***US dairy exports were at a record high in June, outpacing May's volume on a daily average basis.*** Cheese exports set a new high, while foreign sales of butter and whey-related products also topped year-ago levels, offsetting lower YOY milk powder exports. Robust exports, particularly in Q2 2022, are keeping dairy product stocks from reaching burdensome levels.

- ***Expanded cheese capacity continues to draw milk into the cheese vats.*** June total cheese production increased 2.7% YOY, spurred by a 5.7% YOY increase in Mozzarella output. In contrast, Cheddar cheese production increased by just 1.1% YOY. Rising production has contributed to greater stocks, with July American cheese stocks up 5.2% YOY, and keeping CME spot cheese prices below USD 2/lb.

- ***June butter production increased 2.3% YOY, marking just the second time in the past 12 months that output bested year-ago levels.*** Month-ending July butter stocks were 5% below the prior month and 20.7% less than last year's level, pushing CME spot butter prices above USD 3/lb.

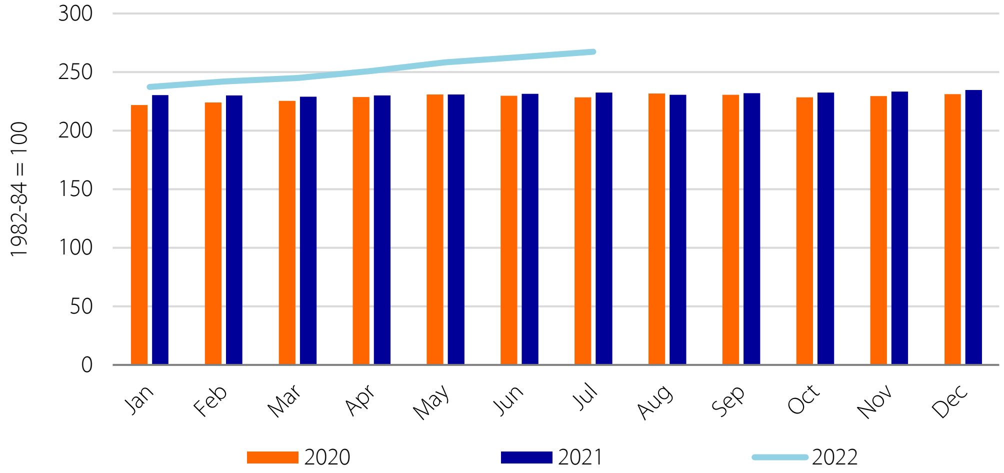
- ***US milk prices peaked in Q2 2022 and are forecast lower through the rest of the year and into 2023.*** The weakness in the dry whey price, from nearly 80-cents in March to 50-cents in August, accounts for USD 1.80/cwt decrease in the Class III price. RaboResearch forecasts 2H 2022 average Class III and Class IV prices of USD 20.90/cwt and USD 23.00/cwt, respectively.

US milk production (30-day months)



Source: USDA NASS, Rabobank 2022

Consumer Price Index: Dairy and Related Products 2020 - current



Source: Bureau of Labor Statistics

De-coupled inputs outlook for 2023: growers hope for moderated P & K pricing

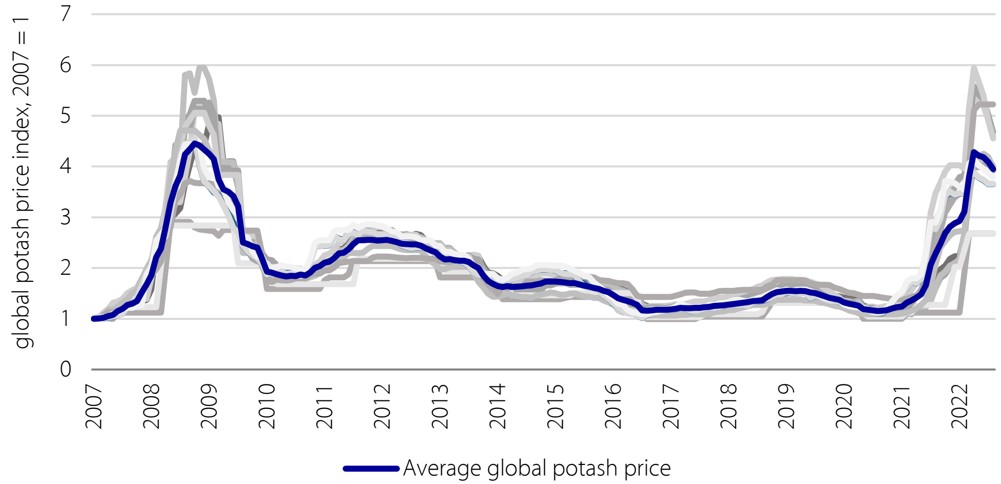
Ahead of fall, not all fertilizer prices may move in the same direction

- What difference a year makes. Or, more accurately, quite a lot can happen in a year. YOY potash prices are an indicative 30% higher at the wholesale level today, while phosphates are 20%-25% up over the same time period. And yet there are positives that can be taken from this situation, as we look in to fall and 2023 season.
- The static view of the YOY comparison does not capture the volatility in pricing that we have seen – and the worst-case scenario to date. At the height of the volatility and price surges – post commencement of the war in Ukraine – phosphate prices were ~60% over August 2021 prices, while potash wholesale prices got to 80% above.
- However, market price mechanisms worked at attracting volumes to key geographies, despite supply chain issues. Ostensibly, for the vast majority of products in the Americas 2022 season – if you were willing to pay – the product was available.
- Pricing levels fostered a level of demand destruction and change in farming practice, as despite healthy soft commodity prices, affordability indices for growers were tested.
- As we look into the key growing markets of the Americas – Brazil and the US in particular – we see a healthier supply of fertilizers than last year.

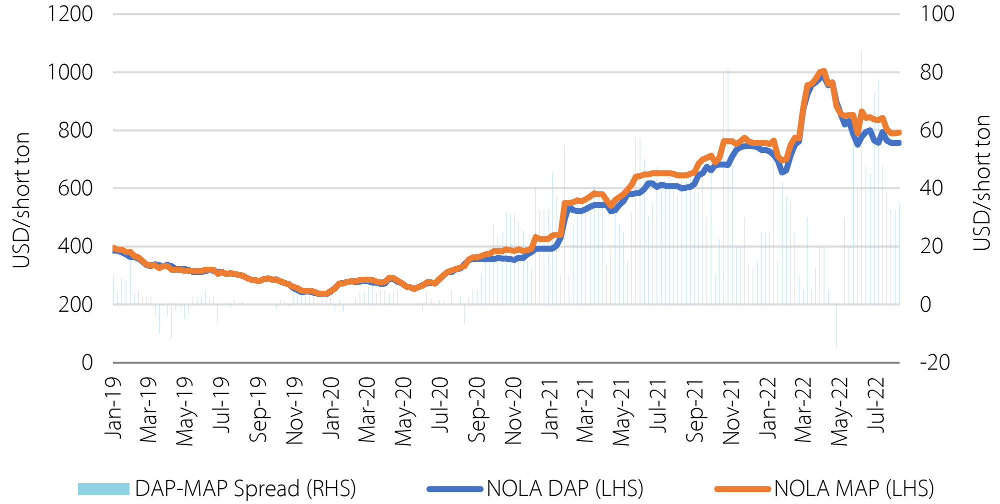
Fall outlook

- We are hopeful that growers could see some further downward price pressure on phosphates and potash.
- Markets and supply chains appear to have adjusted well to the conflict, with inventory in key importing countries looking healthy. Russian potash and phosphate products appear to be flowing out more fluidly. Domestic intermediaries – retailers and distributors – feel comfortable enough on supply of products to sit back at present and hope for lower prices at the wholesale level.
- Fear of falling prices often leave supply chain intermediaries reluctant to carry too much inventory – staying closer to a hand-to-mouth supply. This opens the door for volatility if deflationary trends persist into 2023.

Global potash price indices; prices inflect lower



Phosphate prices reflect greater abundance, though MAP premium persists



Source:, CRU. Rabobank 2022

Farm Inputs

De-coupled inputs outlook for 2023: growers should fear seed and nitrogen pricing

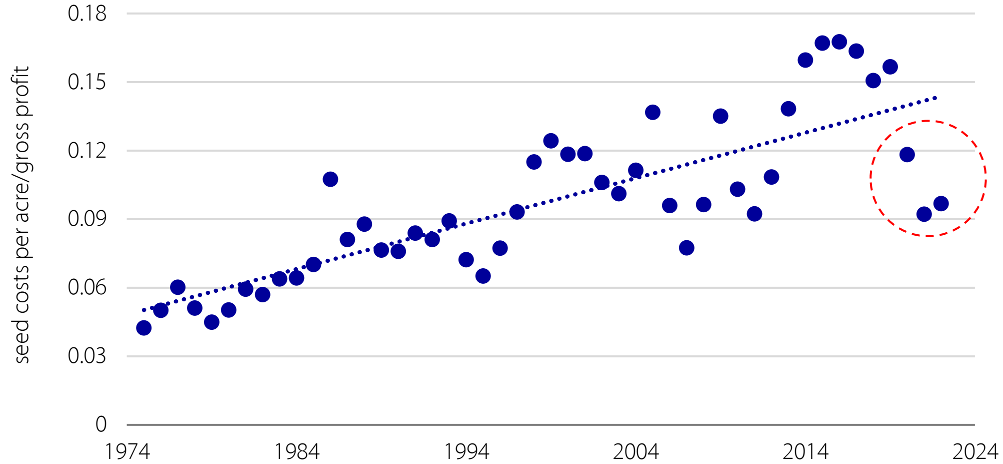
Nitrogen a different case?

- Nitrogen may be a different kettle of fish from the other macro nutrients, with base case forecasts penciling in a 20%-30% price increase at the wholesale level between now and the end of the year.
- But this belies the potential price risk to the upside, if we see any deterioration in the corn yields or a worsening dynamic in the natural gas markets in Europe. We continue to see European ammonia production coming under cost pressure as natural gas prices in Europe are driven higher by the war in Ukraine.
- European nitrogen fertilizer producers are forced to arbitrage between the cost of producing ammonia or importing for upgrade. Currently, the opportunity cost greatly favors importing ammonia, causing displacement globally and running the risk of tighter ammonia supply bleeding into other upgraded nitrogen products.
- Pricing risk to the upside and volatility have a greater chance of appearing in the nitrogen complex ahead of 2023 planting.

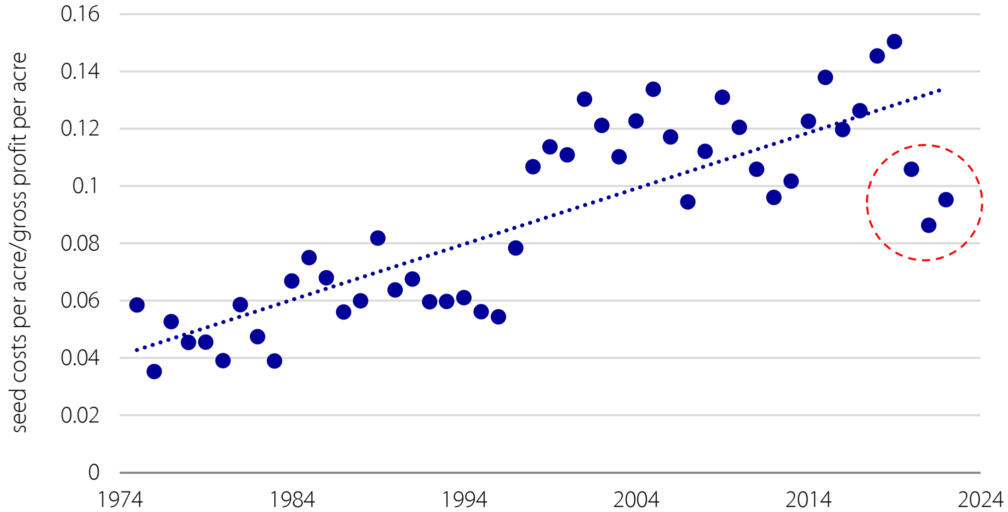
Seed pricing likely meaningfully higher in 2023

- We would expect a potentially double-digit percentage increase in seed pricing headed into the 2023 season.
- Historically, seed pricing has loosely been predicated upon the value created (genetic potential x price of underlying commodity). Over the last few years, seed pricing has departed this trend somewhat, as market competition and the 'battle for the farmer wallet' dipped the ratio below norms.
- We do not expect this kind of benevolence from seed companies when they release pricing at the end of this month.
- In 2023, we anticipate that seed costs will face less competition from core agrochemicals (such as glyphosate). Similarly, the potential for abating potash and phosphate pricing and a relatively strong agri-commodity price environment are likely to provide an opportunity for seed companies to buck the trend of previous years and be more aggressive in raising seed pricing ahead of the 2023 season.

Corn seed costs as function of value created



Soybean seed costs as function of value created



Source:, ERS, NASS, USDA. Rabobank 2022

Feed

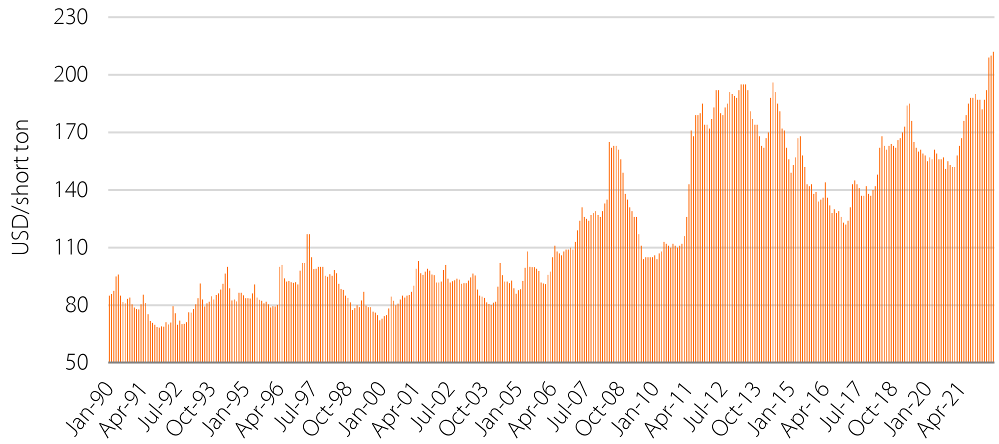
Feed formulations more complex than ever

- ***All hay continues to make big story lines as prices continue to go up considering drought conditions.*** Recently, on a monthly basis, prices reached historical high prices reaching a national average of USD 212 per short ton for the first time . The degree of price increase changes from state to state, with states in the southwest seeing the worst of this price increase. Alfalfa hay is also becoming difficult to find, and supreme and premium alfalfa are being sold at USD 300 per short ton in parts of the US. No relief from drought conditions are expected as 46% of hay production is experiencing some sort of drought condition.

- ***DDGS have recently come down from their second-highest price level since 2011.*** After some relief after Covid, which drove ethanol production lower, reducing DDGS availability in the market, prices began declining on the back-end months of 2021. However, drought conditions across the US pushed cattle on feed numbers to increase and demand for DDGS soared in a moment where all feed alternatives are in high demand due to high feed prices. In April 2022, DDGS prices were USD 293/short ton, while in July prices reached USD 230/short ton – a decline of 22% in three months. However, prices remain elevated, where USD 200/short ton seem to be a new bottom for DDGS.

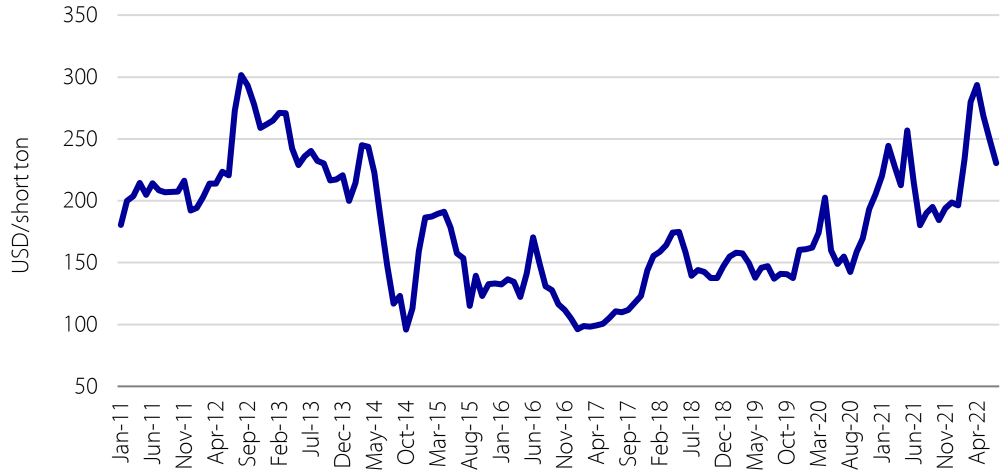
- ***Fats and oils remain a top concern despite the recent decline in prices, especially on the vegetable oil market.*** The recent rally on vegetable oil prices has contributed to one more feed ingredient to see a price increase from palm oil to rapeseed oil to soybean oil – all main oils have seen an increase in price, making feed cost yet more expensive. While prices of different vegetable oils have come down, volatility will remain given uncertainty in Ukraine and the set of government policies in Indonesia.

US monthly All Hay prices reaching record levels as drought continues



Source: USDA NASS, Rabobank 2022

DDGS coming down from recent rally but higher than previous years



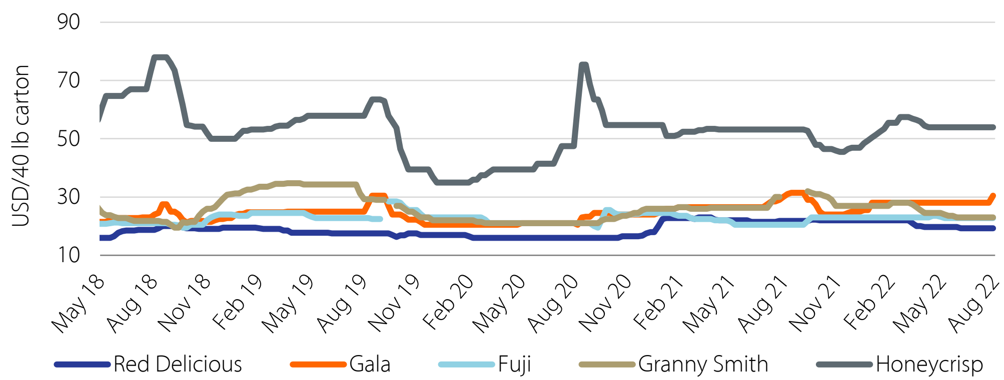
Source: USDA ERS, Rabobank 2022

Fruits

Less apples and more avocados ahead

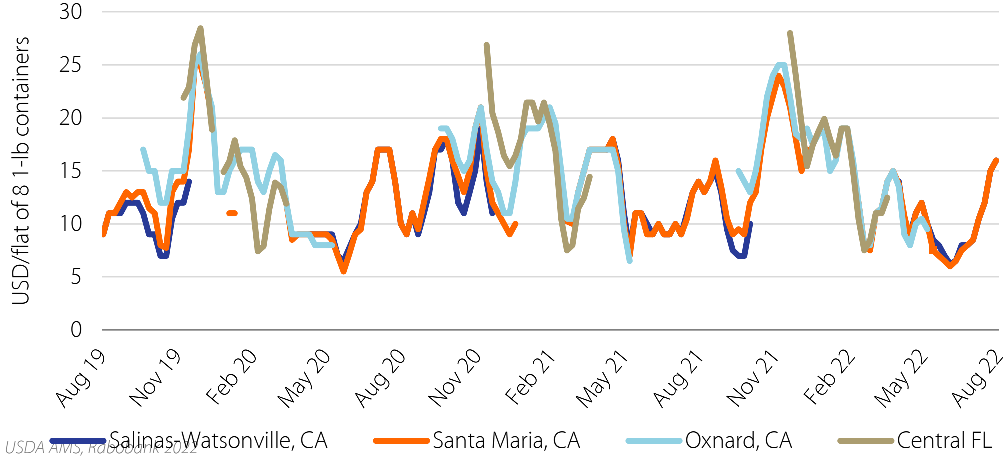
- ***Strawberry*** prices reached USD 16 per flat for non-organic product by mid-August, up 14% YOY. Year-to-date in 2022, the US market has absorbed 9% more strawberries than in the comparable period in 2021. As the peak of the California season is behind us, strawberry availability will decline, providing price support. After an unusual dip in ***blueberry*** availability in the US during the summer, which caused shipping point prices for non-organic fruit to be around USD 3 per pound (up over 30% YOY), shipments have recovered with prices back to historical levels for this time of the year. In the next weeks, prices will likely increase as the fall shoulder of the season approaches. Stronger shipments from Peru are expected after the US season wraps up.
- The California ***table grape*** season is in full swing. For 2022, the industry expects a crop of around 95m boxes, a similar crop size as the previous season. Overall, the prospects for California fruit quality are favorable. Average (blended) shipping point prices show no significant YOY variation. The organic table grape price is, on average, 33% higher than the non-organic counterpart.
- ***Avocado*** prices are trending down after several consecutive months of elevated shipping point prices. Availability has improved as the 2022/23 harvest in Mexico has started strong, while shipments from Peru have passed their peak but still represent a significant proportion of the fruit available in the US, and the California season is in the final stage. Abundant supplies from Mexico, potentially at a record level, will reduce the possibility of a price spike in the next few months.
- During the first half of August, prices of non-organic Fuji, Gala, and Honeycrisp were up 11%, 2%, and 1% YOY, respectively. Prices for Granny Smith and Red Delicious were down 23% and 11% YOY. As yield prospects for the 2022 crop were impacted by cold weather during pollination, Washington fresh ***apple*** crop is expected to be around 109m boxes, down 11% YOY, according to industry sources.

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



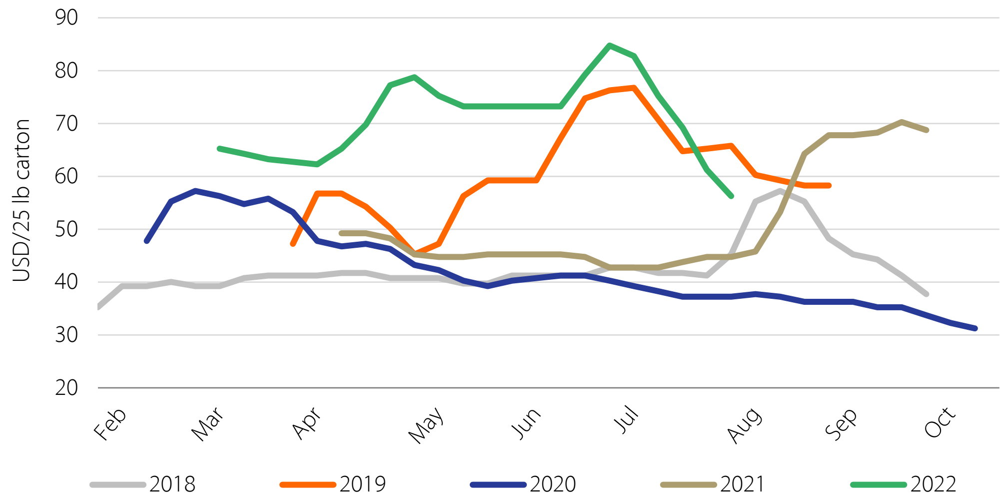
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2022

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



Source: USDA AMS, Rabobank 2022

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



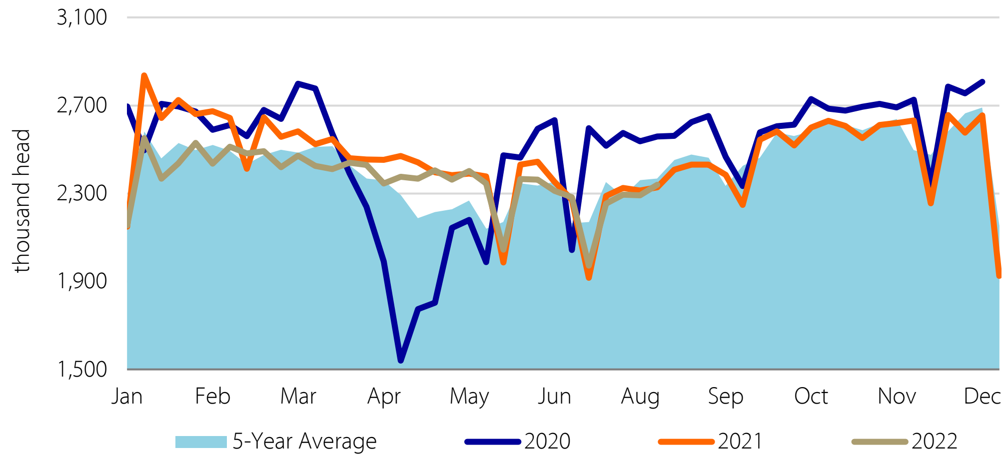
Source: USDA AMS, Rabobank 2022

Pork

Short hog supplies drive late summer rally, pressuring packer returns

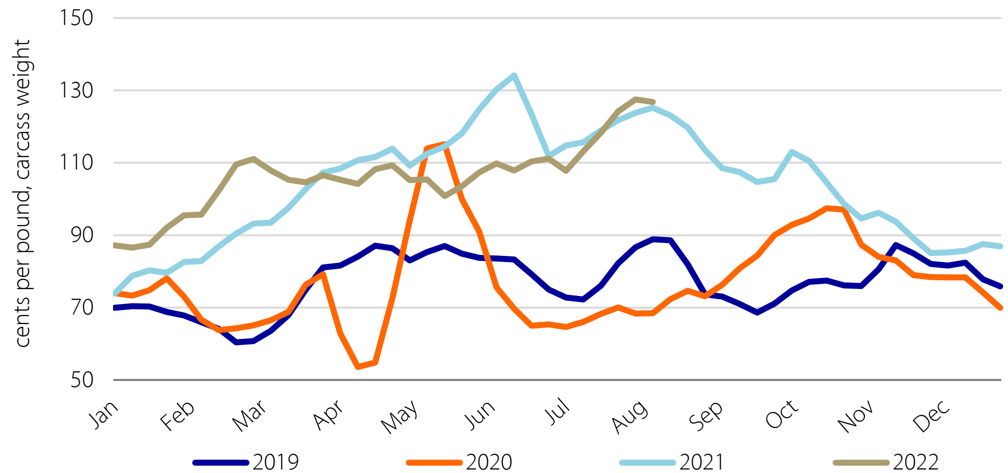
- ***Hog markets hit record August highs (+24% YOY), reflecting tighter than expected hog supplies and good packer demand.*** Hog slaughter is currently averaging 1.4% below year-ago levels as summer heat and earlier productivity challenges have taken a toll. Weights are below expectations as packers chase hogs to keep plant labor and to satisfy market needs. We expect hog availability to improve seasonally, but to remain below year-ago levels given current inventory (-1% YOY). Producer margins should remain above the five-year average through 2H 2022 and 2023 given our current outlook, although recent downward revisions in the US corn harvest pose a risk of higher feed costs. The outlook for strong producer profitability will incentivize expansion in 2023, although recent rate hikes, along with greater consumer and regulatory uncertainty (SCOTUS hearing on Proposition 12/Question 3) have delayed some plans.
- ***Packer returns have weakened as pork cutout values have failed to keep pace with hog market gains***. Pork cutout values, however, remain 41% above the five-year average and 1% ahead of year-ago on continued strength in domestic demand and overall tightness in supply. Strong processor demand for hams and bellies has been supportive, but retail demand has kept the cutout relatively stout in recent weeks. Pork prices are expected to fall on larger pork supplies after Labor Day but should remain historically strong on continued domestic strength and gradual improvement in export demand.
- ***June pork export volumes fell 8% YOY to 211,000 metric tons and export values were down 6.5% YOY.*** Continued weakness in shipments to China (-31% YOY) and Canada (-14% YOY) and lower sales to Japan (-6% YOY) drove the decline in June export volumes, while sales to Mexico (+3% YOY), and South Korea (+10% YOY) remain strong. We remain optimistic on 2H 2022 export demand given tight global pork supplies but expect gains to be tempered by a high US pork prices and US dollar strength. Chinese import activity has picked up in recent weeks and could further tighten global supplies, although current geopolitical tensions make large direct purchases from the US less likely. Rabobank continues to expect an 8.4% YOY decline in pork export volumes in 2022.
- ***Mexican hog prices remain 15% ahead of year-ago levels and well above historical averages on tight domestic availability.*** Supplies should improve gradually through 2H 2022, yet below earlier expectations. High hog costs are expected to continue to pressure packer margins but should gradually improve as pork prices have moved higher and are now 6% above year-ago levels. Pork imports remained strong through June (+15% YOY) and are expected to slow in coming months as domestic supply stabilizes. Mexican exports are likely to remain steady to higher.

US weekly hog slaughter, 2020-2022



Source: USDA 2022

US pork cutout, 2019-2022



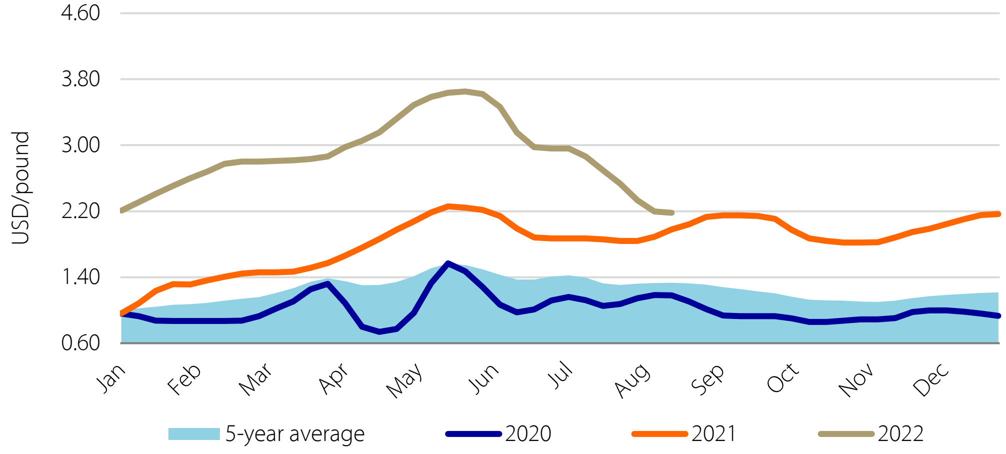
Source: USDA, Rabobank 2022

Poultry

Chicken prices fall from their summer peak, buoyed by ongoing export demand

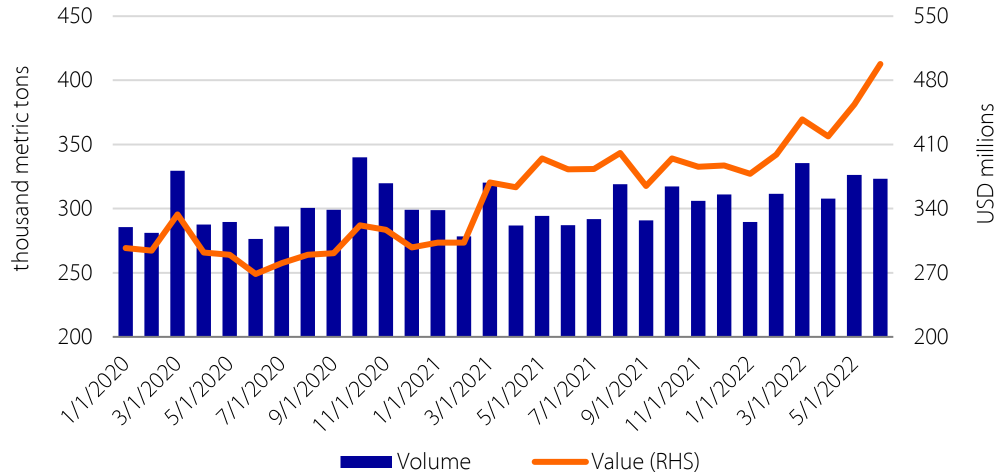
- ***Despite recent weakness, composite chicken prices remain +36% over year-ago levels and well ahead of the five-year average.*** Boneless breast meat prices have seen the sharpest drop off (-40% from their early summer peak) yet remain 10% ahead of year-ago levels and 64% above the five-year average. We expect retail and foodservice demand for boneless breast meat to stabilize and gain support through year-end given the market correction but do not expect markets to return to earlier highs. Wing prices remain depressed (-58% YOY) on limited foodservice interest but could see renewed interest at current levels as the football season begins. Dark meat prices remain robust, with leg quarter values averaging above USc 60 per pound for the summer (up 38% YOY) on continued strength in domestic and export demand.
- ***Ready-to-cook (RTC) chicken production YTD is up 1.4% YOY but has averaged 3.8% ahead of year-ago levels in the last few weeks.*** Production is expected to continue to average above year-ago levels in coming weeks, with slightly higher slaughter levels offset by modest declines in average bird weights. Productivity remains challenged, with current hatchability still trailing historic averages by more than 2.5%, while mortality levels also remain elevated. We continue to forecast +1.7% YOY growth in2022 RTC production given limited improvement in productivity and see few signs of a return to higher weekly averages through year-end given elevated production costs.
- ***June chicken exports were very strong (+11.7% YOY in volume, +29% YOY in value).*** For the year, exports were record large at 1.9m metric tons in 1H 2022 (+6.7% YOY in volume and 21% YOY in value). China remains strong (+72% YOY) on the ongoing strength of paw demand, while sales to Mexico were down 10% YOY on local market weakness. High US chicken prices and the continued strength of the US dollar are likely to limit further gains in 2H 2022, as will ongoing chicken market weakness in Mexico.
- ***After very strong 1H 2022 prices tied to HPAI bird losses, Mexican markets are down sharply (-36% since early June) as supply has stabilized. Prices are now 4% below year-ago levels.*** Consumer demand appears weaker tied to higher overall inflation and higher food costs. Retail and foodservice sales slowed in late summer, and there has been a shift toward more whole (commodity) chicken consumption. Higher raising costs (primarily feed) continue to pressure producer margins and are likely to limit industry production in 2H 2022. Weaker industry returns are likely to limit near-term expansion and could depress 2H 2022 import demand.

Boneless skinless breast meat prices, 2020-2022



Source: USDA, Rabobank 2022

US chicken exports, by volume and value, 2020-2022



Source: USDA 2022

Soybeans

Not in the headlines, but…

- ***Not a record planted area after all***. Final soybean acreage numbers have been released by the USDA in their August report, which indicates that the initial estimates of 91m acres did not materialize and the final acreage ended 3m acres lower. More importantly, the USDA showed a decline from previous month's estimate by 0.3m acres. Despite lower planted and harvested area, production is estimated to increase by 26m acres.

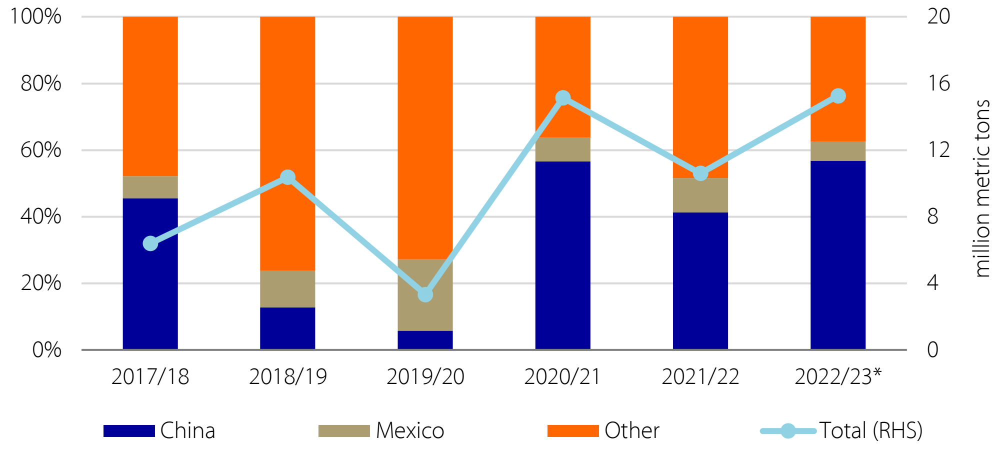
- ***Concerns on soybean yield might not reflect current USDA estimates.*** While the recent report increased soybean yield to 51.9 from 51.5, market concerns are that nationally this might have to change given the slow, wet and cold spring and the dry conditions seen in many parts of the US over the summer. Weather will continue to be a crucial part for most of August until next report where more accurate yields are given. However, looking at the weekly reports, crop condition is not improving much, which might see lead to lower production than currently estimated.

- ***Demand remains robust with no changes to the crushing side and a slight increase in exports driven by strong demand from China.*** China continues to be the major buyer of US soybeans for this upcoming season granted no mayor cancelations have taken place. As of the week of August 4, China represents 57% of outstanding soybean sales. Mexico has now replaced the EU as the second-largest buyer of US soybeans. This year, however, challenges on higher soybean prices might reduce imports.

- ***Crushers gross margins showing a slight decline but remain higher than last five years***. Crush margins have declined in May from their high in April, going from USD 4.40/ bu to USD 3.67/bu. Despite a ~16.6% decline in margin on a month-on-month basis, crush margins remain at historical levels. Gross margins derived from soy oil and soymeal continue to surprise, with soy oil share continuing to surpass soymeal share after a correction seen at the beginning of 2022. Soy oil prices continue to be well-supported, despite higher soybean meal prices in the market.

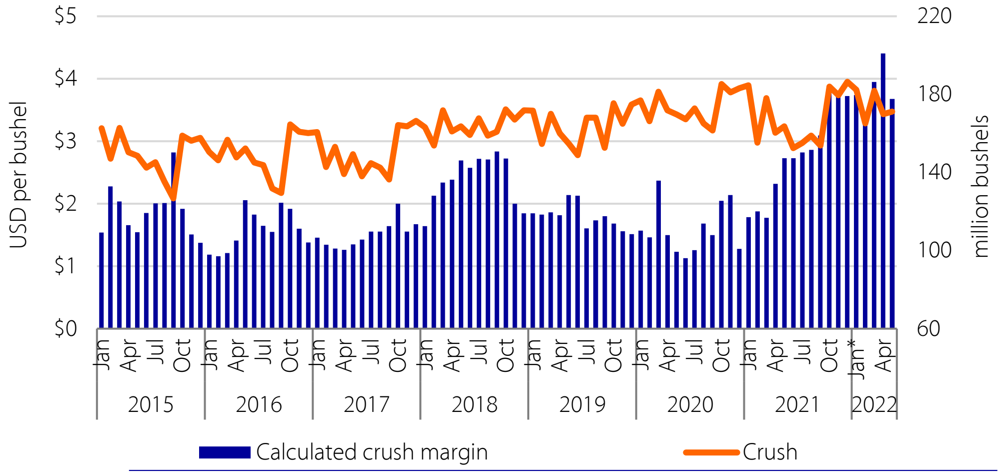
- ***Price expectations will remain volatile until further information***. Despite the sell-off from last month, and more clarity on planted area, prices are not likely to settle until more information is obtained on yield and drought conditions over the US. Brazil will remain a key factor moving forward as recent announcements of record soybean production could potentially be curtailed by the potential of another La Niña event.

Record 2022/23 outstanding US soybean export sales – big exports coming



Source: USDA, Rabobank 2021

Increasing feedstock demand for biofuels supporting vegetable oil prices



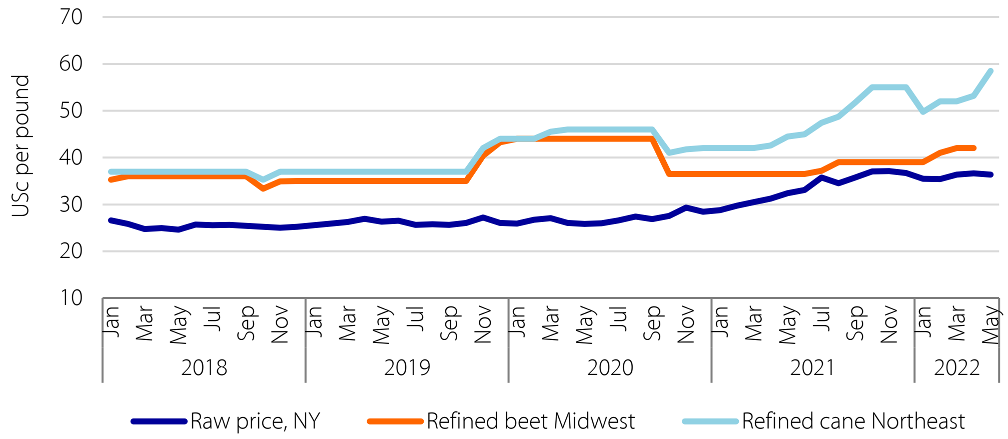
Source: USDA, Rabobank 2021

Sweeteners

It may take time for the market to soften

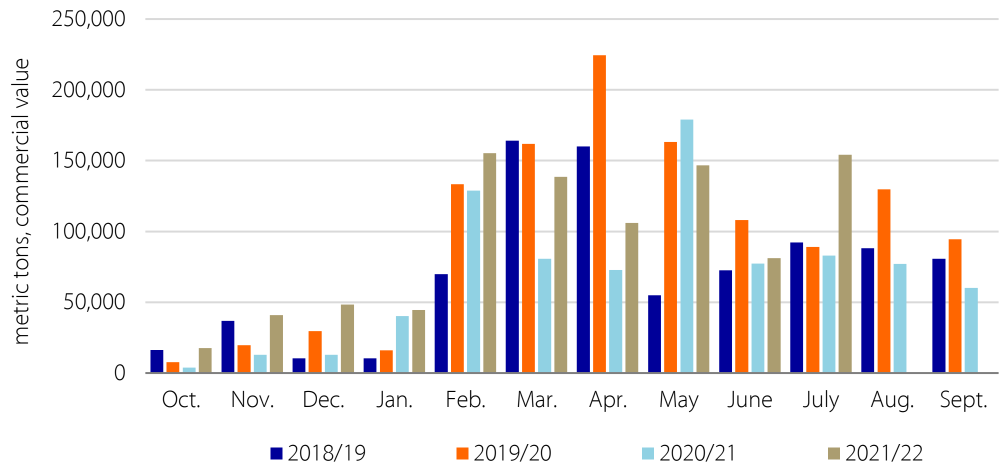
- ***Total US sugar supplies for 2022/23 have been raised by the USDA.*** The August 2022 WASDE increased total supplies by almost 250,000 short tons, raw value (STRV). This revision was driven primarily by higher beginning stocks and higher beet yield prospects. Cane sugar production expectation was unchanged at 4m STRV.
- ***US sugar beet production outlook surprisingly raised to the upside by the USDA.*** The August 2022 WASDE adjusted its sugar beet projection for the 2022/23 cycle to 5.1 STRV up from 4.9 STRV from the previous estimation. This adjustment comes from the first survey-based national yield forecast of 29.2 tons per acre reported by the USDA-NASS. However, given the weather-related planting delays earlier this year (up to four weeks in some regions), we believe this yield expectation has a high probability of being adjusted to the downside in the months to come.
- ***The US market continues to be tight despite potentially higher supplies.*** The beet planting delays are creating a hole in the market that is likely to last until mid October when sugar beet production should start coming into the market. Currently, most beet processors are not taking any orders, and this can justify the increase in high-tier refined imports.
- ***A significant bump in US sugar beet prices.*** The USDA reported a nominal quote for US beet prices at USc 70 per pound up from USc 42 when it was last reported back in April. During the months of May and June, prices were not published due to the lack of supplies. US wholesale refined cane sugar was quoted at around USc 68 per pound back in July.
- ***US sugar deliveries are slowing down***. Deliveries at the beginning of this year accelerated, as end-users were building up inventories to cover and anticipated the current delays in beet production. In addition, High Fructose Corn Syrup supplies faced many logistical challenges. However, as end-users built up additional inventories and beet processors are taking a pause or are out of the market, current deliveries have softened.
- ***US sugar prices could ease towards the end of the year.*** The current pressure in the US sugar market is expected to moderate as a result of three factors: beet sugar entering the market, supply chains improving, and global prices topping domestic prices via high-tier imports.
- ***Mexico's 2021/22 sugar production has ended.*** Mexico's current production has finished at 6.18m metric tons, actual weight up from 5.71m mt over a year ago. We believe this volume will allow Mexico to cover US sugar import requirements established in the suspension agreement of around 1.1m mt. The production expectation for the 2022/23 is at around 6m mt.

US sugar prices could ease towards the end of the year



Source: USDA, Rabobank 2022

Mexican sugar exports to US are at a record pace



Source: USDA, Rabobank 2022

Tree Nuts

Elevated inventories persist despite strong exports at the final stretch of the marketing year

Almonds: After strong exports in May and June, total shipments ended the 2021/22 marketing year down 9% YOY, with domestic shipments down 5% from the previous season and exports down 11% YOY. Computed inventory ended at roughly 848m pounds, up 40% YOY. The objective estimate for the 2022/23 season is 2.6bn pounds, which is below previous expectations. The price outlook will depend on the actual crop size, that will likely surpass the estimate, and the strength of shipments.

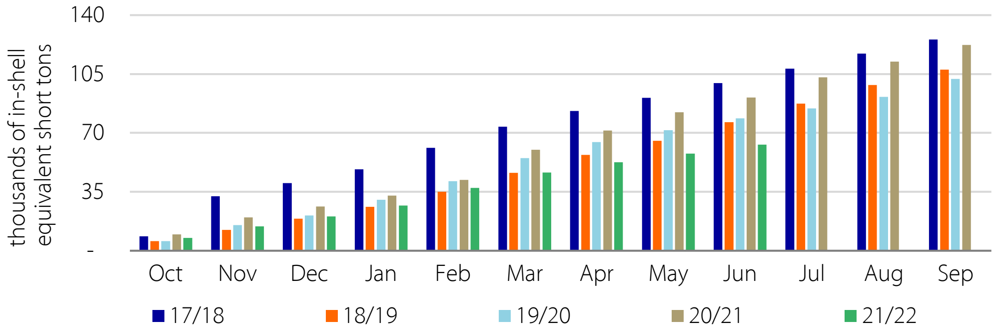
Hazelnuts: Shipments in 2021/22 through May are up about 21% YOY, with kernel exports declining 9% YOY. The Oregon Hazelnut Industry recently updated the 2021 crop figure to a record, with volume received by packers at roughly 77,000 metric tons, up 22% YOY. Given the large crop, shipments as a proportion of marketable crop will close the season at a lower level than in the previous two years.

Walnuts: Total US shipments were down 9% YOY, with exports declining 9% YOY, and domestic shipments down 8% YOY in 2021/22 through July. About 79% of marketable supplies were sold, down from 85% during the comparable period a year ago. As reported by industry sources, prices have shown no significant movements as of recent, as the market awaits the objective report and the start of the US harvest. Prices at the start of the 2022/23 season are likely to be lower than those a year before.

Pistachios: In the 2020/21 marketing season, shipments were up about 16% YOY, with domestic shipments up 8% YOY, and exports increased about 21% YOY through July. Exports have accounted for 68% of US pistachio shipments. Ending inventories will likely be high but still at a manageable level. Industry players expect that the US crop for 2022/23 will be around 1bn pounds, down from the record harvest the previous season. Export demand and prices are expected to remain steady.

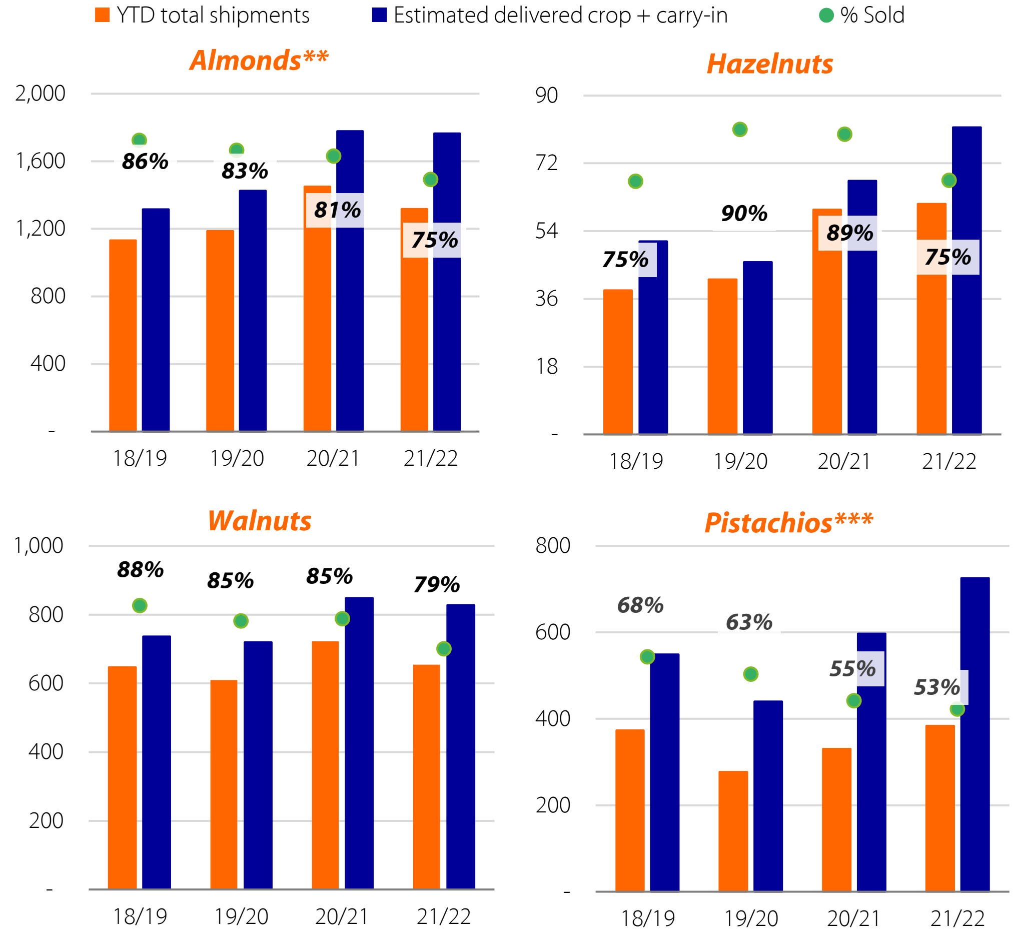
Pecans: US pecan export volumes in the 2021/22 marketing season through June were down 31% YOY as inshell exports considerably slowed down in May and June, according to USDA figures. Industry sources report that current supplies are not enough to face growing demand for pecans. Unlike other tree nuts, pecan inventories are reported to be at multi-year lows. Farm prices are expected to start the new season relatively strong.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2022

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



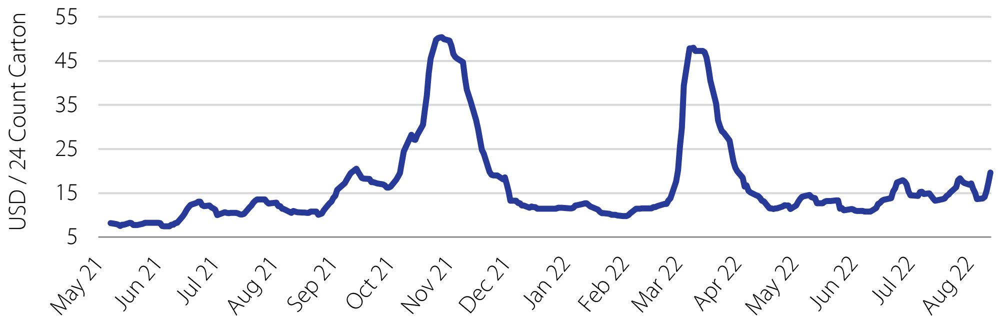
Source: Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, Rabobank 2022. *Through July 2022, 2021/22 marketing season for almonds walnuts, and pistachios; May 2022 for hazelnuts; **Meat pound equivalent. ***Not considering inventory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

Vegetables

Finishing summer on a high price note, mostly.

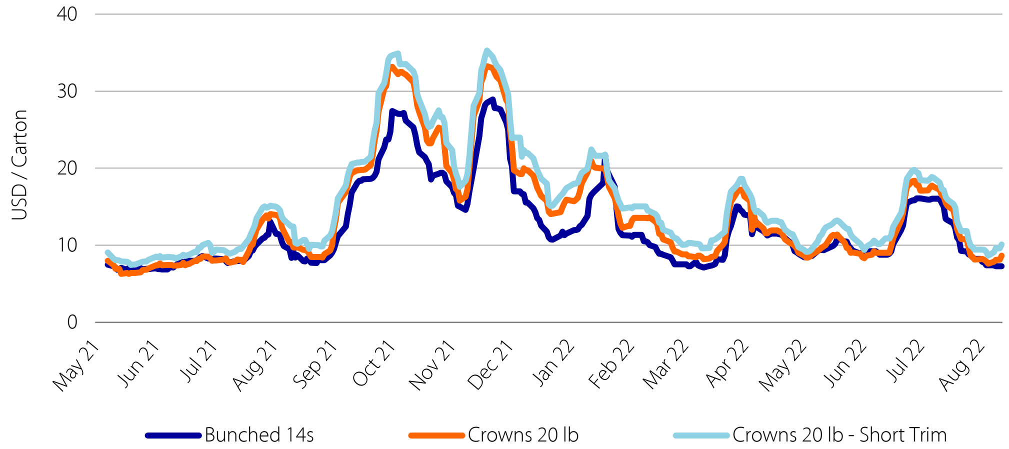
- ***The average retail price per unit of fresh vegetables was 8.2% higher YOY at the end of June 2022, whereas retail volume was down 4.4% YOY.*** Unlike the beginning of the year where fresh produce inflation was mostly driven by fruit, it was vegetables that drove the category's inflation in June. Potatoes and onions led in terms of relative price increase. They also were the only vegetables whose volume increased YoY despite the higher prices. The two vegetables are staple food, and their retail sales usually increase when consumers' real disposable income decreases. On the opposite side of the spectrum, retail dollar sales of packaged salad and sweet corn dropped YOY driven predominantly by 8.3% and 19.4% YOY decrease in volume, respectively.
- ***Broccoli and cauliflower shipments continue to be on track with last year's which was a record high. Despite a current seasonal dip, shipping-point prices had also been well above last year's.*** Crown price in the first week of August is 20% lower YOY at USD 8.1 per 20-pound carton. Cauliflower price for one carton film wrapped 12s is 22% lower YOY. Prices usually pick up in the fall following seasonality.
- ***Romaine and iceberg lettuce shipping-point prices are still holding up at levels higher than last year, but the gap has narrowed in recent weeks .*** By early August, romaine prices were up only 1% and 28% YOY for 24s and hearts (12x3), respectively. Wrapped iceberg price was also up by 35% YOY. YTD iceberg lettuce shipments from Salinas Valley and Santa Maria are at their lowest level, supporting price throughout the summer. Prices will pick up even more in the late fall and early winter as the production transitions to Arizona.
- ***Harvest of new potato crop is underway. Harvested area is projected to drop by 33.500 acres , an astounding 4% drop YOY.*** Assuming average yield, the new crop will be slightly higher than last year's which was a decade's low. Fresh supplies will ease market's need in the short run, but the tight supply and strong demand long-term outlook is supportive of higher prices throughout the marketing year.
- ***YTD shipments of carrots, sweet corn, sweet potatoes, and celery are 45%, 20%, 13%, and 11% lower YOY, respectively, whereas those of kale, grape tomatoes, cabbage, spinach, and melons are 48%, 17%, 13%, 11%, and 11% higher YOY, respectively.*** The change is indicative of strong demand for kale, spinach, cabbage and melons, weak demand for sweet corn and short supply for the rest.

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



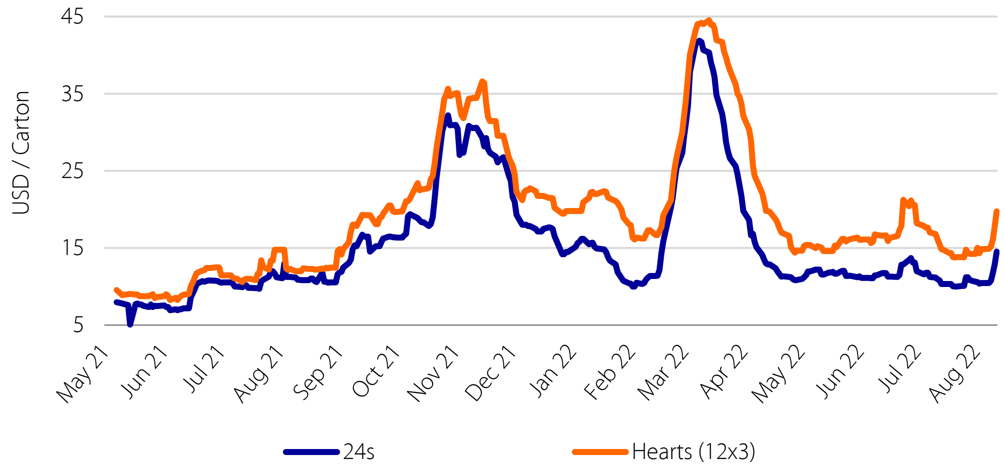
Source: USDA AMS, Rabobank 2022

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

War and weather encapsulate the wheat market

The wheat market remains focused on the war in Ukraine and the weather, and specifically La Niña. Futures prices moved lower into winter wheat harvest, but, since the first part of July, futures prices have traded in a narrow trading range. Chicago wheat has traded between USD 7.50-USD 8.50 per bushel, while Kansas City traded in the USD 8.00-USD 9.00 range, with Minneapolis traded between USD 8.50-USD 9.50. The wheat markets appear very comfortable in these price ranges with a number of factors pushing and pulling the market.

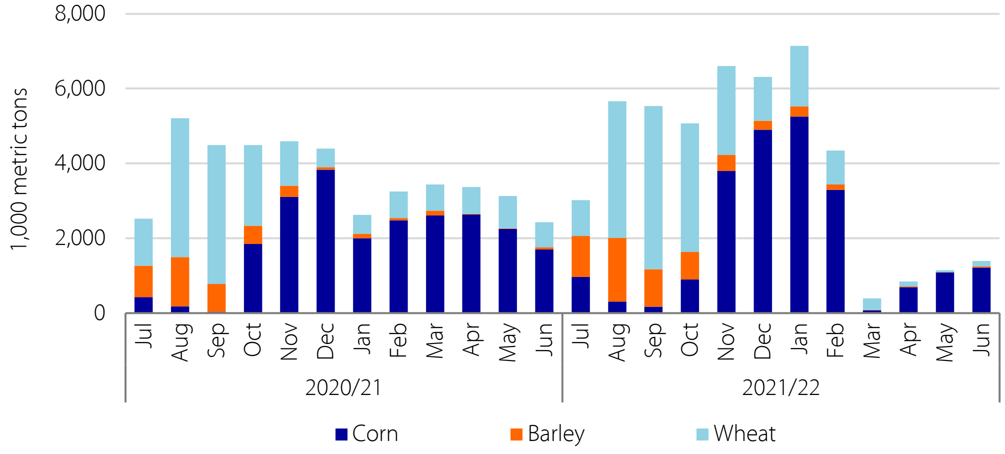
The war in Ukraine continues to hold an oversized influence on the world's wheat market and there is no end in sight. For example, when presidents Erdogan (Turkey) and Zelensky (Ukraine) met last week because it was rumored Erdogan had a negotiation proposal from Putin, the wheat market lost 7% in two days. Zelensky's reply was "No negotiations until Russian troops leave the country", and wheat rose 5% from the lows. This shows that the wheat market is going to remain extremely volatile until there is a resolution, but don't expect that anytime soon.

As discussed on the corn page, most of the Ukrainian exports under the grain agreement have been corn, but wheat from Russia and Ukraine continue to play a market role. Russian wheat exports have remained flat, primarily because Russian wheat prices have remained too high vs MATIF prices to attract buyers. In addition, GASC (Egypt), the largest wheat buyer in the world, has been absent the market. However, Russian wheat production is projected to be record 88.0m metric tons and record exports of 42.0m metric tons. The export figure may be hard to reach during a war. However, a record Russian wheat crop will begin to pressure prices both in Russia and globally as harvest begins.

La Niña is a continuing theme across many geographies, and wheat crops have been some of the most impacted. The winter wheat crops in the US, EU, Argentina. Canada and now China have all been reduced due to less than favorable growing conditions. Australia has been the one exception as they are forecast to harvest their third consecutive record crop. While the Australian wheat supply is plentiful and relatively cheap in the global market, Australia port capacity is built for an 'average' crop, so logistics are preventing them from shipping the volumes demanded. The weather phenomena of La Niña is still with us, and current forecasts are calling for 60% probability that La Niña will last into the fall/winter in the Northern Hemisphere. For the US Great Plains, La Niña means above normal temperatures and below normal precipitation through March 2023. Without significant rainfall in the next 30 days, the 2023 US hard red winter wheat crop will be planted in dust. A recipe for another tough crop production year and a strong support for prices.

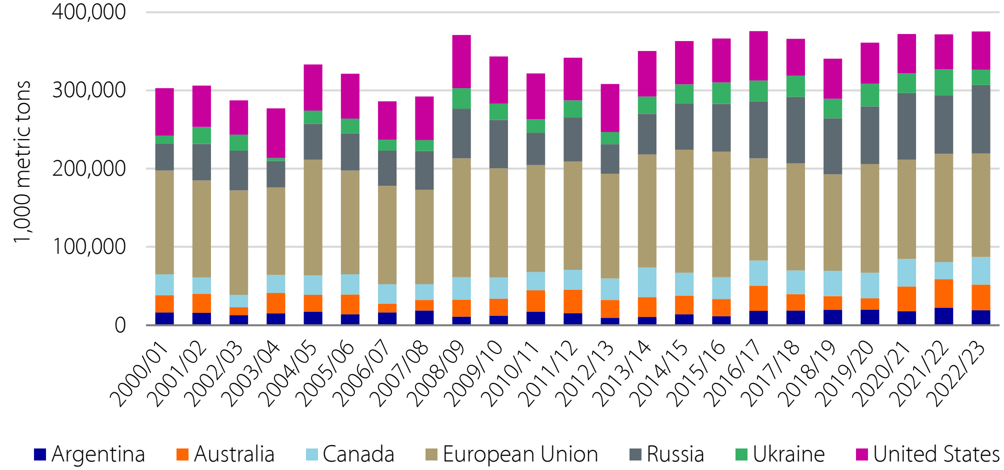
Despite the current weather, the market expectation is that world wheat supplies will be more plentiful in the 2022/23 crop year, particularly among the major exporters. However, the higher production is resulting in higher consumption, increased trade and lower stocks. This is will be the fourth consecutive year of declining stocks and the lower stocks levels in six years. As a result, prices will be well-supported, plus the tightening of stocks will result in prices reacting to small changes in production and consumption.

The war has clearly hurt Ukrainian exports



Source: UkrAgroConsult, Rabobank 2022

A slight increase in major global wheat exporters production in 2022/23

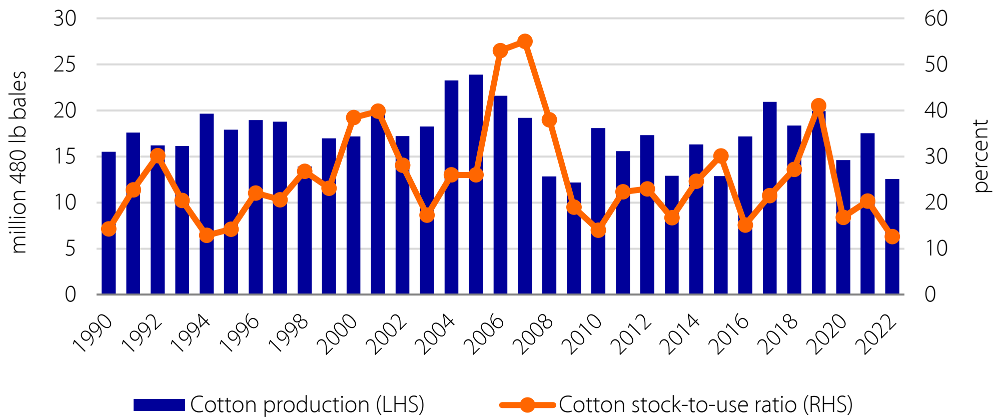


Source: USDA-NASS, Rabobank, 2022

Cotton

- Jaw dropping numbers came out of the WASDE this August, showing the resilience of the drought in the southwest, dropping US production to the lowest since 2009. Current estimates for US production are expected at 12.6m bales, a decline of 19% from initial estimates. Not only will lower production affect domestic demand at higher prices but ending stocks will be severely lower starting next marketing year.
- The stock-to-use ratio has reached its lowest level since 1924/25 at 12.6%, the lowest in almost 100 years. This is likely to start the marketing year on a strong note, with price relief likely not to come anytime soon as stocks need to be rebuilt and with global domestic demand showing resilience despite higher prices and inflation.
- Global trade has seen a slowdown from last month estimates sitting at 2m bales lower at a total of 44.6m bales. Despite a global slowdown in global trade compared to last month estimates, global demand continues to be higher than last years by 3%, signaling that demand continues to be robust.
- Prices received to farmers are also reaching a historical milestone, with domestic prices reaching close to USD 1/lb. Recent estimates from the USDA put cotton prices at USc 97 per lb. However, if yields turn out even worse than shown in the August report, prices could increase to USD 1/lb.

US cotton to see the lowest level of production since 2009 and lowest stock-to-use ratio since 1924

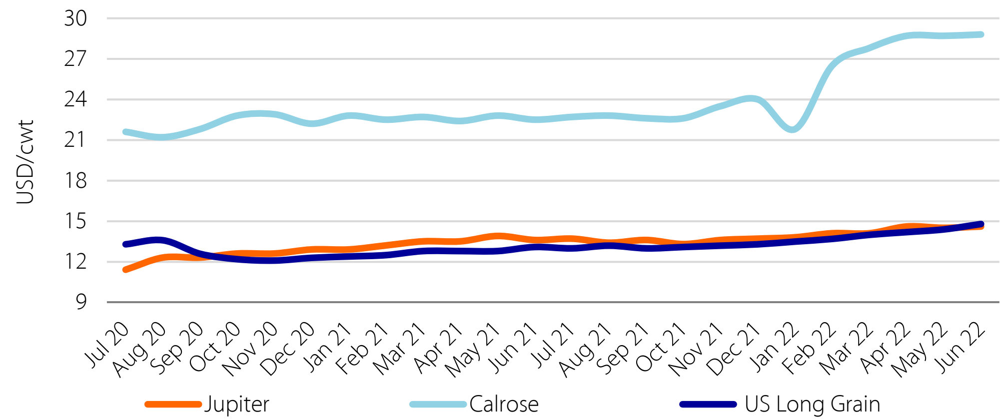


Source: USDA, Rabobank 2022

Rice

- The rice market is finding some relief with the welcome news of a higher-than-expected production domestically. However, the picture is not any better looking at year-on-year production. The recent survey on yield shows an improvement compared to last month, which prompted the USDA to increase production estimates for 2022/23 by ~1%.
- The export market is looking a bit more challenging from a competitive standpoint, where South America continues to increase its share in international markets, mainly at the expense of higher US prices. Recent US sales to Iraq for 2022/23 have offset the decline from lower rough rice due to South America exporting more rough rice. The challenges on US quality milled rice over other international exporters, in addition to higher prices, has pushed major importers to look for cheaper alternatives and qualities more closely aligned to their market.
- The import market slowed down in June for 2021/22 on weaker-than-expected Asian aromatic rice declining by 0.5m cwt. However, due to lower production this year, imports are expected to reach record levels for 2022/23, with Asian aromatics being the main source of imports. Consumer trends over Covid-lockdowns increased the awareness of Asian aromatic varieties and they continue to be in high demand. The share of imports for domestic use is expected to reach record level at near 30% for 2022/23, marking an all-time high.

24-month US rice prices, Jul 2020-Jun 2022



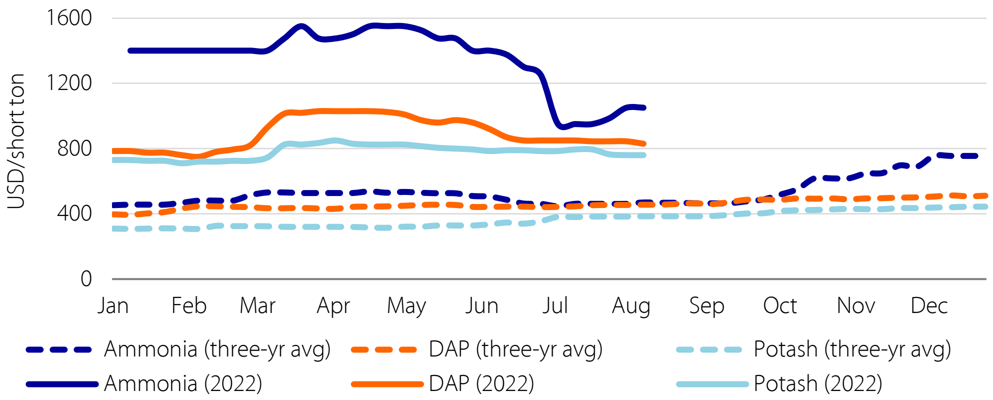
Source: USDA NASS, USDA ERS, Rabobank 2022
Note: Average rough rice basis

Input Costs

Rabobank

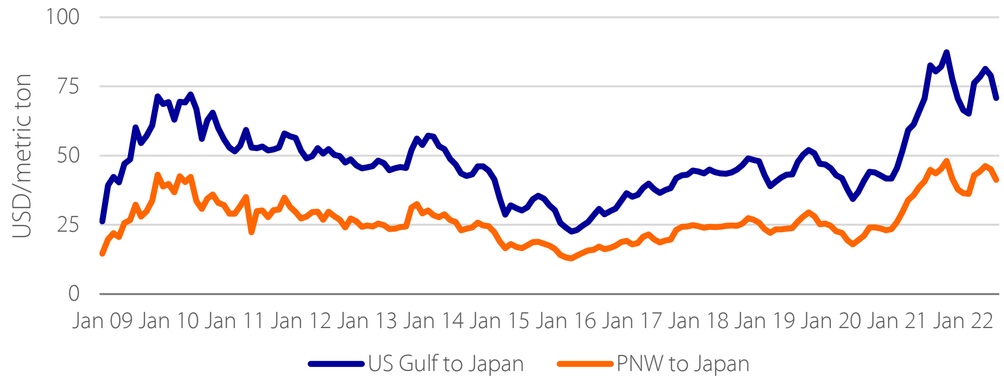
As of August 18, 2022

Corn Belt input prices*



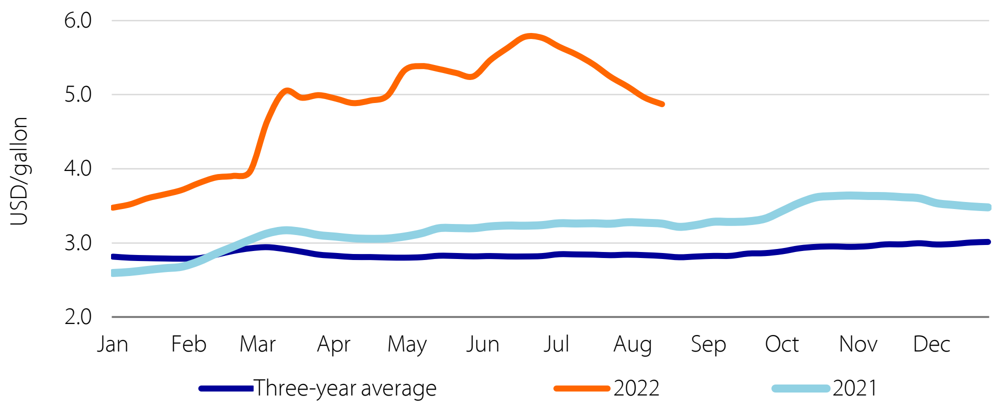
* Note: granular potash
Source: Bloomberg, Rabobank 2022

Ocean freight



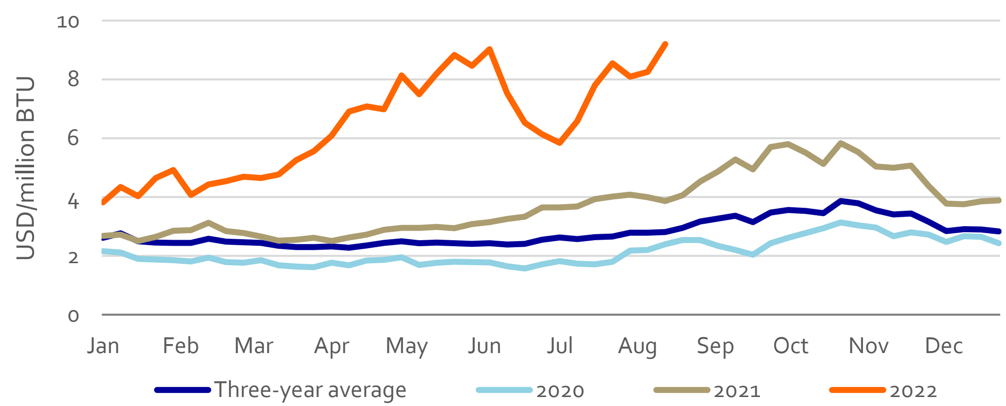
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2022

Diesel – Midwest



Source: EIA, Rabobank 2022

Natural gas spot



Source: NYMEX, Rabobank 2022

Forward Price Curves

As of August 23, 2022

CBOT – Corn

Source: CBOT, Rabobank 2022

CBOT – Soybeans

Source: CBOT, Rabobank 2022

CBOT – Soymeal

Source: CBOT, Rabobank 2022

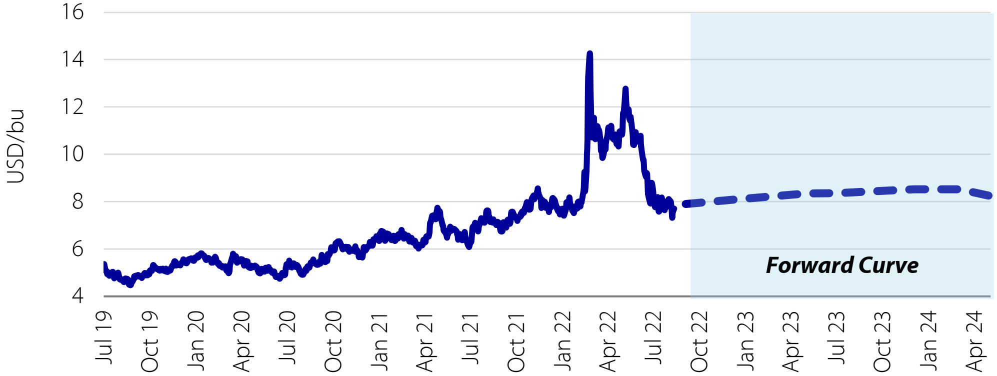
CBOT – Soy oil

Source: CBOT, Rabobank 2022

Forward Price Curves

As of August 23, 2022

CBOT – Wheat



Source: CBOT, Rabobank 2022

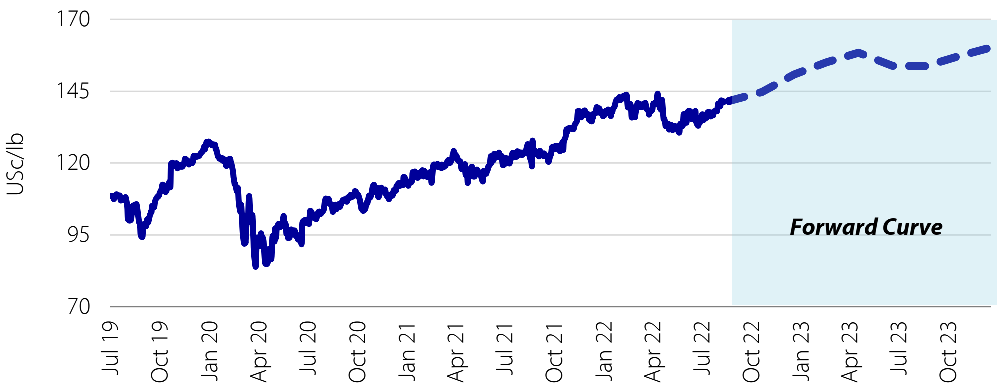
CBOT – Feeder cattle

Source: CBOT, Rabobank 2022

CBOT – Lean hogs

Source: CBOT, Rabobank 2022

CBOT – Live cattle



Source: CBOT, Rabobank 2022

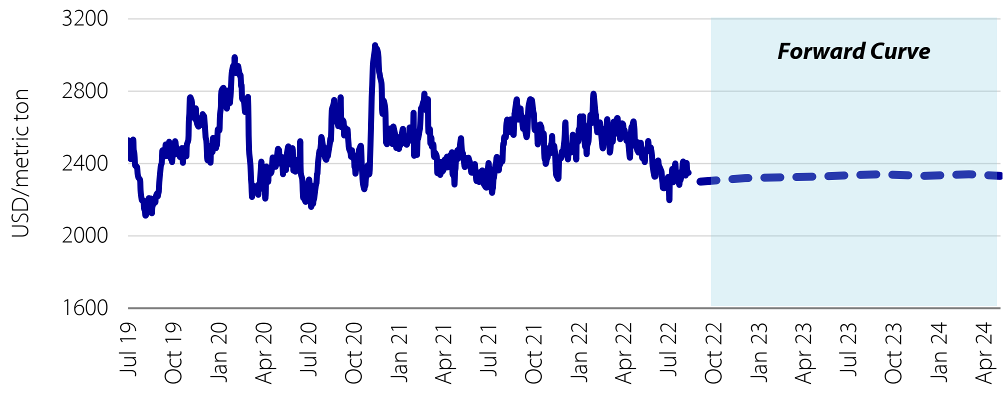
Forward Price Curves

As of August 23, 2022

ICE – #2 Cotton

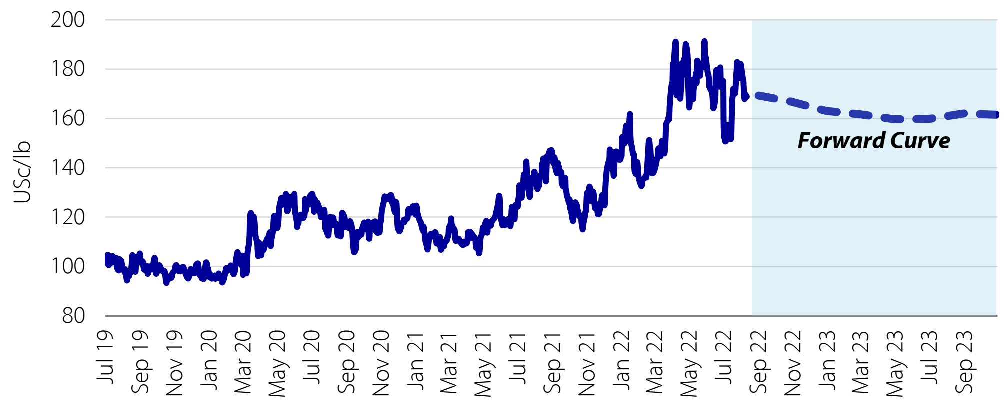
Source: ICE, Rabobank 2022

ICE – Cocoa



Source: ICE, Rabobank 2022

ICE – FCOJ



Source: ICE, Rabobank 2022

ICE – #11 Sugar

Source: ICE, Rabobank 2022

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