



North American Agribusiness Review

Rabobank






RaboResearch
Food & Agribusiness

August 2020

Report Summary

Report Summary

Economy

Covid-19 calls the shots

Rabobank

US

- The Bureau of Economic Analysis published its advance estimate for GDP growth in Q2, which was -32.9% at an annualized rate. Consumption, business investment, and residential investment all declined at similar orders of magnitude as GDP. By contrast, federal government spending rose by 17.4%. After -5.0% in Q1, GDP growth in Q2 was going to be the worst, with the economy in lockdown in April. Since then, the economy has reopened. However, the resurgence of Covid-19 is likely to dampen the economic recovery in Q3. What's more, this is still the first wave of the virus outbreak. Health experts are concerned about a possible second wave of Covid-19 that could come in the fall and winter and would coincide with the influenza season. While social distancing and using personal protective equipment may reduce both the transmission of the coronavirus and the flu – as we are currently seeing in various countries in the southern hemisphere – the failure to contain the first wave of the coronavirus in the US has raised concerns about the second wave.
- A second wave of Covid-19, contested elections, civil unrest, and escalating tensions with China could provide a toxic cocktail for the final quarter of the year. **This supports our view of another economic contraction – or at least a substantial slowdown – in Q4. This could force the Fed beyond forward guidance. If they don't want to cut policy rates below zero, yield curve control is the next logical step.**

Mexico

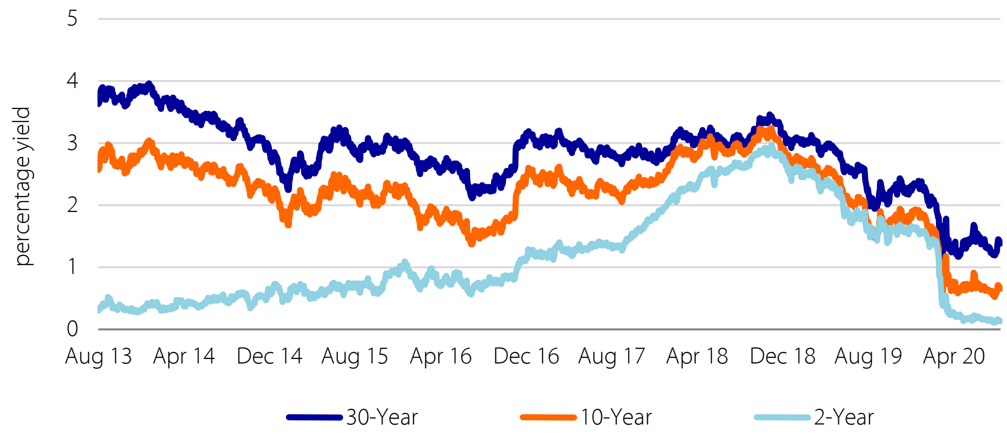
- Mexico has been in recession since early 2019, and this year is likely to see the largest yearly decline in Mexican GDP in history. The weak footing of Mexico's economy has exacerbated the downturn dramatically, and it is possible that the economy may decline by double digits this year. The central bank has continued to cut rates. Yet, Banxico still has more room for extra easing than most, and we expect the Bank to cut its policy rate a further 150bp this year, to a low of 3.50%. Therefore, we expect USD/MXN to increase to 25.0 at the 12-month horizon.

Canada

- The domestic backdrop in Canada is, of course, under significant pressure. The Bank of Canada is in full support mode, with rates at the effective lower bound and corporate, provisional, and government bond purchases in effect, with a step-up in purchases to fund the increased issuance likely. We expect USD/CAD to rise to 1.42 at the 12-month horizon.

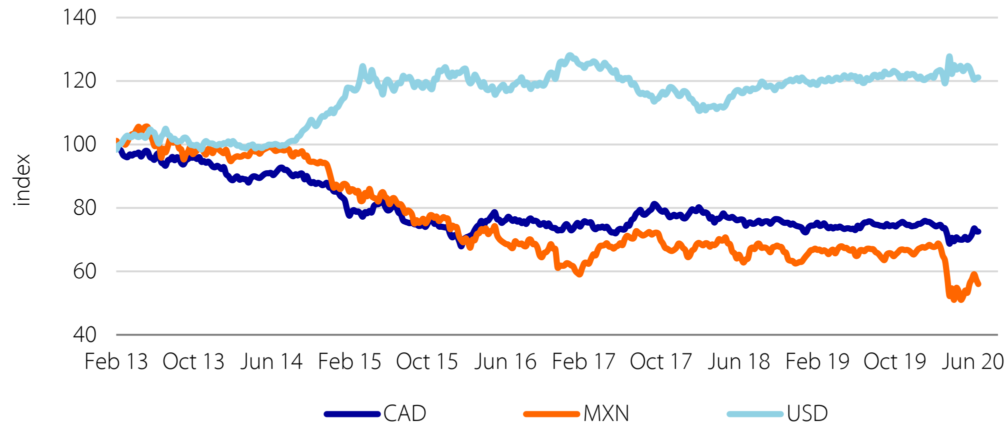
Source: USDA, Rabobank 2020

Interest rates, 2006-2020



Source: Federal Reserve of St. Louis 2020

Currency Indices, 2013-2020

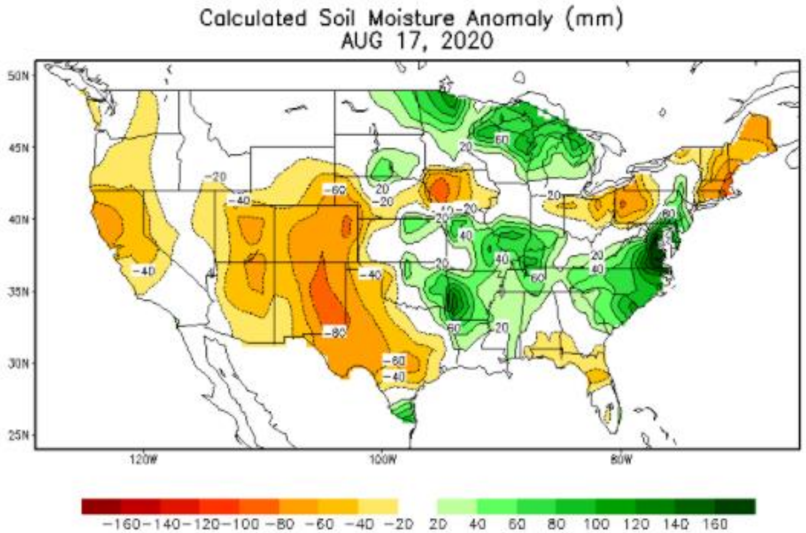


Source: Bloomberg 2020
Note: Rebased at 100 as of January 1, 2013

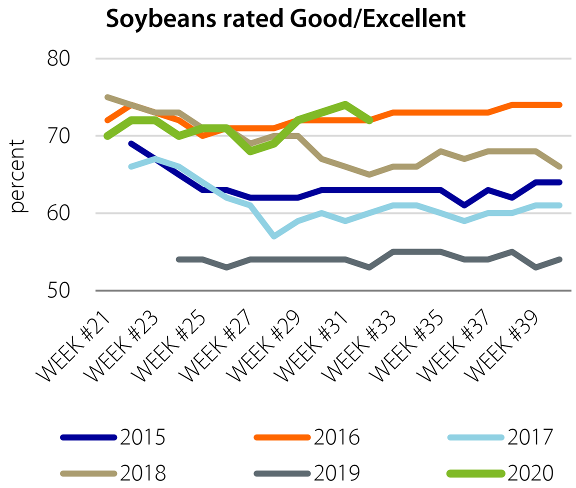
Climate

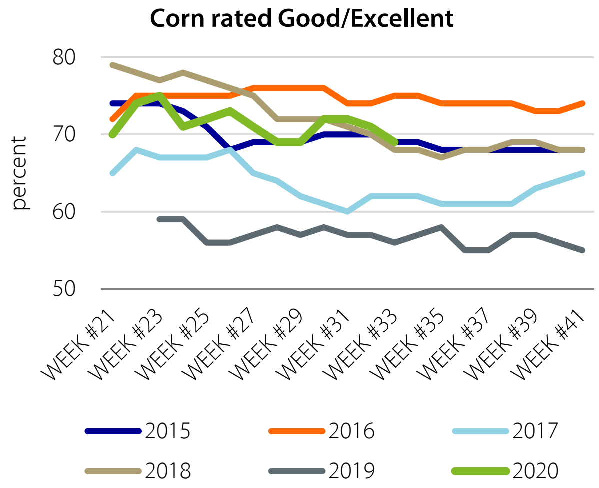
Generally favorable, some areas of dryness

- **A drier weather pattern has emerged in recent months, along with unreliable weather forecasts.** Soil moisture in the Southwest, West Coast, Iowa, and Ohio have declined over the past two months to lower-than-normal levels. However, in most of the key row crop-growing areas, the weather has been generally favorable. Precipitation was above-average during July, accompanied by slightly higher-than-normal temperatures. This combination was good for crop development.
- **Iowa and north Illinois have faced challenges, due to dryness in the western part of the states, along with a severe derecho storm.** This storm occurred on August 10 and brought winds in excess of 100 mph. The strong winds destroyed grain bins and flattened crops. Corn was more impacted than beans, and the quantity of crops destroyed is uncertain. Dryness also continues to expand. Both corn and soybeans need more rainfall in Iowa, or yield downgrades will occur.
- **The one- to three-month outlook forecasts higher-than-normal temperatures with below-normal precipitation in the Southwest, but normal precipitation everywhere else.** This should help crops finish and create a normal harvest window. After last year's wet and delayed crops, this will be a welcome harvest year. The exception will be in Iowa, where many corn crops are laying on the ground due to the derecho. As crops finish and move to harvest, the market will increasingly focus on export logistics. There are strong export sales on the books for this fall. Weather will need to cooperate.



Crop conditions are rated above-average and much higher than last year





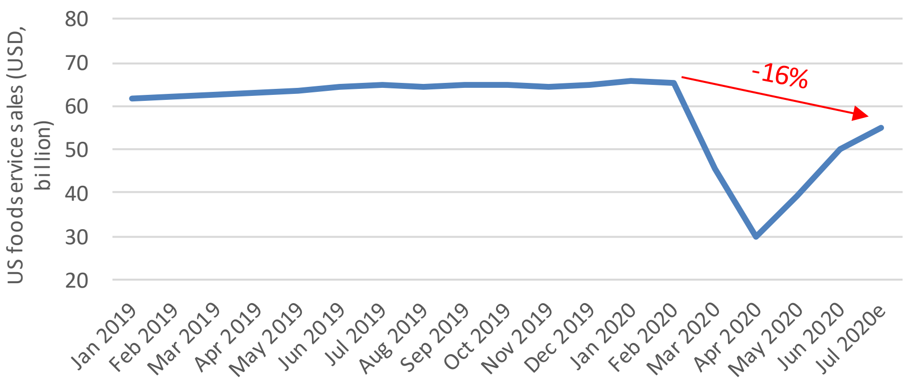
Source: NOAA, USDA, Rabobank 2020

Consumer Retail & Foodservice

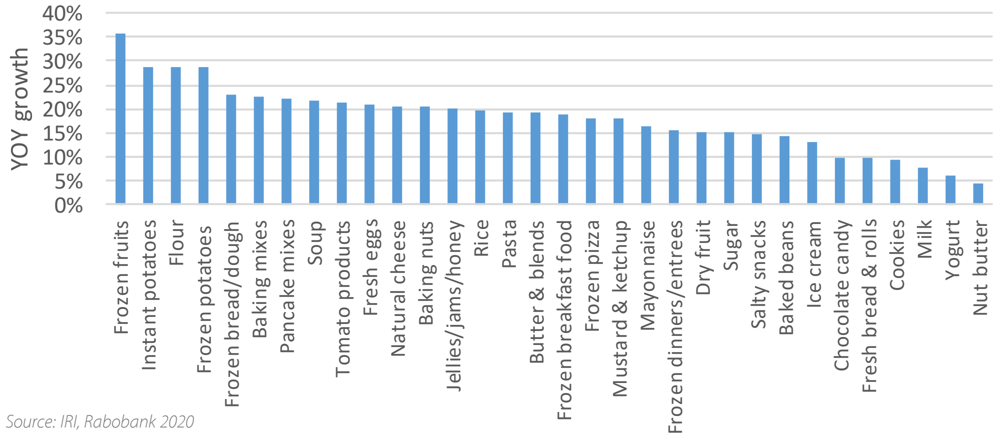
Retail sales trends remain strong, foodservice showing faster-than-expected recovery

- Consumer food retail sales remain elevated, given the ongoing boost from Covid-19. Though retail growth has moderated from peak levels in March/April, it was up 12.8% in July – the fifth consecutive month of double-digit growth – as it continues to benefit from much higher levels of consumers working/eating at home, a favorable spending shift from discretionary activities (e.g. travel, lodging), and expanded unemployment/stimulus payments.
- Food-at-home inflation remains elevated, as it exceeded 4% for the fourth consecutive month in July – the most sustained inflation since mid-2011. While protein, eggs, and dairy prices have increased the most since March, inflation appears to be broad-based, with higher prices for many non-perishable categories (e.g. snacks, bakery) as well, likely indicating it's driven much more by lower promotions/discounts by retailers, as opposed to commodities inflation.
- US foodservice sales are making a faster-than-expected recovery, as July sales were down only 17.5%, a substantial rebound from -52.5% in April. Unsurprisingly, the recovery is led by limited-service/QSR operators, as many large QSR operators are now reporting sales at or above year-ago levels. More interestingly, recent trends show that even full-service and independent fine-dining operators are posting solid recoveries, with sales declines in the 20s compared to down more than 70% in April, supported by the reopening of dine-in (even with capacity restrictions) as well as continued expansion of off-premise sales (delivery, curb-side pick-up, drive-thru).
- The nascent recovery appears to be supported, at least in part, by the direct stimulus payment and higher weekly unemployment benefits, as indicated by several large retailers and foodservice operators. Given that, there is a heightened risk that this recovery may stall, as Covid-19-related extended government benefits expired on July 31, and the size/scope of the new round of stimulus/unemployment benefits appears uncertain, given the political disagreements.

Faster-than-expected foodservice recovery

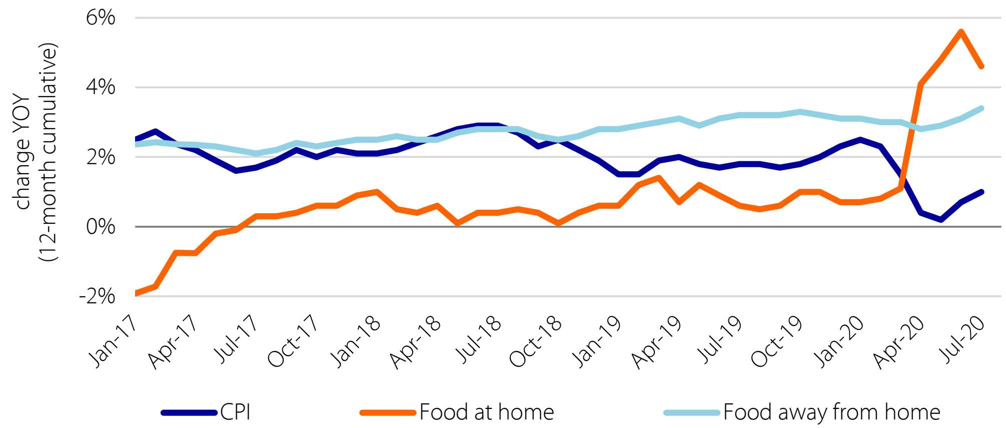


Retail food sales remain elevated (four weeks ending July 26, selected categories)



Source: IRI, Rabobank 2020

Food price inflation



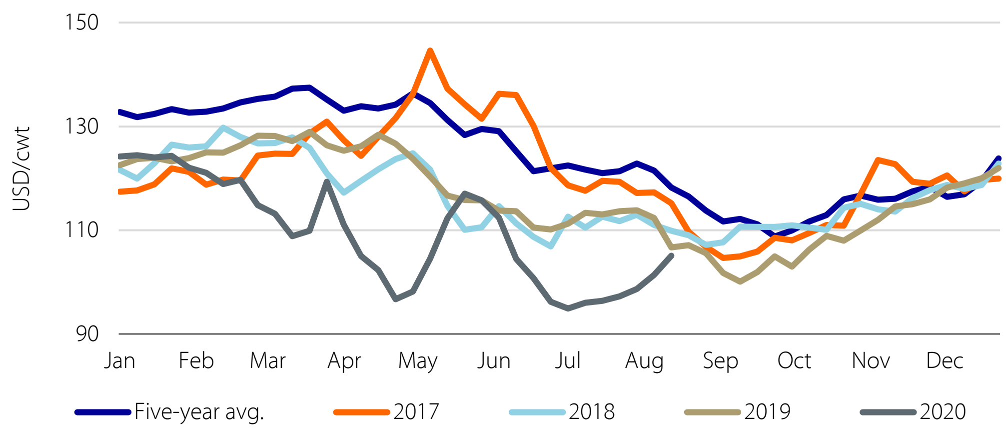
Source: US Bureau of Labor Statistics, Rabobank 2020

Cattle

Climbing out

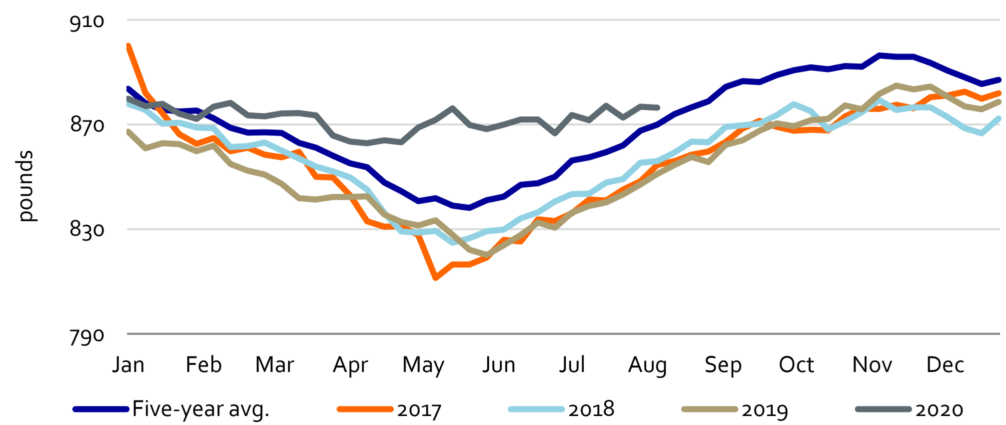
- Incredible recovery in fed cattle slaughter. Weekly fed slaughter capacity has recovered to 97% to 98% of year-ago levels. The major reduction in March and April placements means backlogged fed cattle will represent a large portion of slaughter from August through October. Thus, the fed cattle supply is expected to be current by early Q4.
- Fed cattle dressed weights are still seasonally high. Due to the backlog of fed cattle and additional days on feed, carcass weights are still roughly 25lb above a year ago, elevating weekly beef production, which has been running 2% to 3% above a year ago. Carcass weights should be near 2019 levels by October. Year-to-date production is still off 2%, after the sharp reduction in April and May. With heavy carcass weights and slaughter normalization, combined with drought and cash-flow-induced fall cow culling, 2020 total beef production is expected to be up 1% to 1.5% YOY.
- Cutout prices should remain in a seasonal pattern. Thus far, federal stimulus has tempered recessionary pressures, although risk remains, considering the congressional stalemate regarding future fiscal policy. Permanent closures in the dine-in and independent restaurant space also cause concern. With annual lows typically in September and October, expect comprehensive cutout to fall back to USD 200 to USD 205/cwt following a pre-Labor Day bump.
- Fed cattle price pressure relieved by diminishing backlog. Fed cattle prices have posted a tremendous rally, following an early July low below USD 95/cwt to current trade above USD 105/cwt. Although more current fed supplies and a weaker, export-supporting US dollar should prevent a major correction, the discussed economic risks to cutout will trickle down to fed cattle. Therefore, fed cattle prices should level off in September, with opportunity to trade between USD 110 and USD 115/cwt in Q4.
- Stronger feeder cattle may begin to stall. Tracking deferred live cattle futures, the CME Feeder Index has been consistently priced at projected breakeven. Slow, spring feeder placements still suggest potential bunk-space challenges this fall, but prices will continue to track deferred live cattle futures. Feeder cattle prices will likely remain bound in the mid-140s for the remainder of the year.
- Calf prices to revert to seasonal trend. Despite industry optimism for spring 2021 fueling recent calf prices above USD 160/cwt, limited fall bunk space and an expanding drought that threatens winter grazing will likely force October 550lb calf prices back to a mid- to low 150s range. Again, maintaining positive support hinges upon continued federal stimulus and economic recovery.

Fed steer price (five-market average), 2017-2020



Source: USDA, Rabobank 2020

Fed steer and heifer dressed weight, 2017-2020



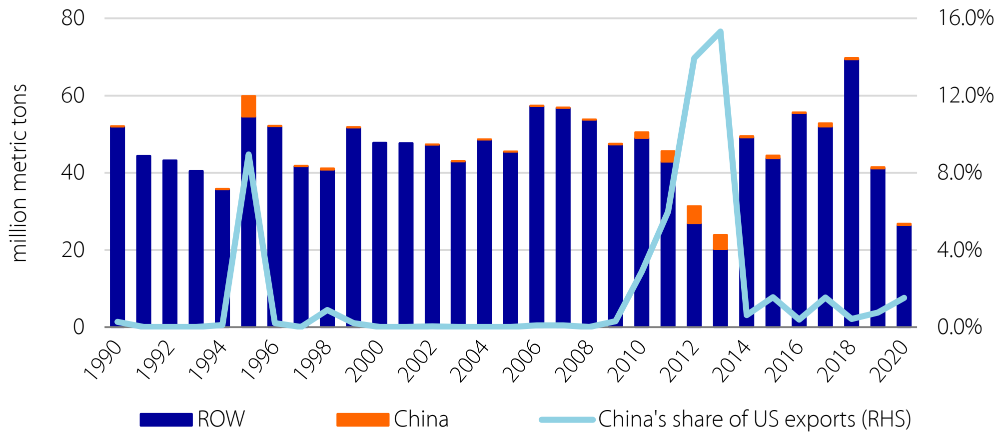
Source: USDA, Rabobank 2020

Corn

The corn roller coaster continues…

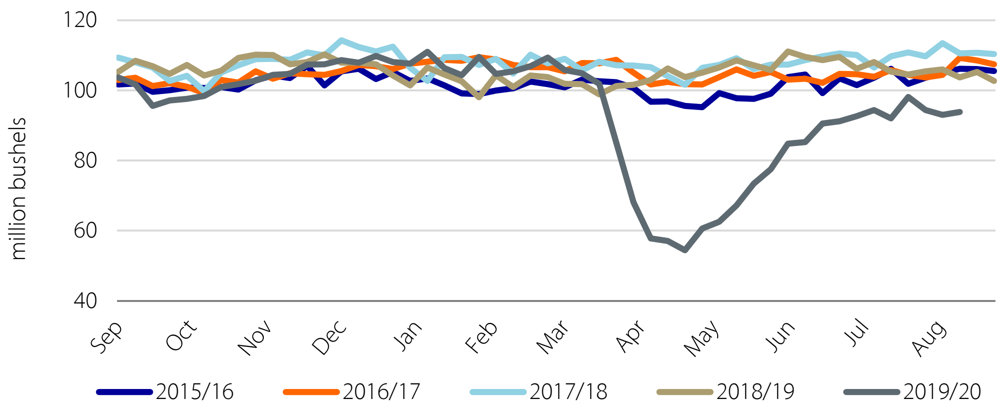
- **It is has been a roller coaster year for the corn market.** The market has had to digest a drought in west central Iowa, dryness in Indiana and Ohio, a decline of 5m planted acres, a devastating derecho storm crossing the heart of the Corn Belt, a record-breaking crop in Corn Belt border states, and continued corn sales to China. The market is trying to put all this in perspective. Expect continued market volatility until harvest, when production is known.
- **There has been much hype around Chinese buying of US corn, but the market has been slow to react.** Chinese buying needs to be put in perspective. According to official census data through June, the US has shipped 404,760 metric tons of corn to China, which represents 1.5% of total corn exports. However, through August 13, the more up-to-date export sales report shows China shipped 1.64m metric tons of US corn, or 4.0% of total US exports. In addition, China represents 47.9% (5.72m metric tons) of total 2020/21 outstanding sales, a good start. China's import quota for corn is only 7.2m metric tons, so there are some limits on how much they will import. China is in a constant corn-supply deficit and will use a number of tools to fulfill its needs: imports of other coarse grains (sorghum), substitution of wheat and rice from their large stocks, or restrictions on corn wet milling. Prices have been slow to react. The market's focus was the August Crop Production report, and only now is it beginning to digest the magnitude of China's buying. The last time China made significant purchases of US corn was during 1995, 2012, and 2013, when US corn stocks were at or below 1.0bn bushels. That is not the case now, as +2.5bn bushel corn stocks are going to temper any Chinese buying rally.
- **Like its reaction to Chinese corn purchases, the market's reaction to the derecho storm has also been delayed.** The derecho was particularly damaging to the Iowa corn crop, and the market is trying to decipher how much corn was lost, both in storage and in the field. There have been a lot of numbers thrown around, but no definite answers. Our preliminary work around the 25 counties in Iowa that were declared disaster areas has been done. Using 2019 county harvested acres and yield, assuming a 50% yield reduction and extrapolating that to this year's estimated harvested acres and projected yield, it is estimated Iowa could lose between 325m to 375m bushels of corn production. The state's average yield could potentially drop from 202 bushels/acre to somewhere around 175 bushels. On a national basis, the national yield would decrease 2 to 4 bushels/acre, therefore dialing back ending stocks to around 2.5bn bushels, rather than closer to 2.8bn. Five states – SD, MN, MI, KY, and TN – are all projected to have record corn yields in 2020. While their production may not fully offset the losses in Iowa, they cushion the blow. There is a much more tempered price response at +2.5bn carryout than at 1.0bn.
- **With loss of production and grain storage in Iowa, basis values could become volatile across the Corn Belt.** This fall, corn basis could widen out without storage and no place for corn to go, particularly in Iowa. However, by spring, basis values could tighten up significantly with corn supply dislocation (i.e. Iowa needs to import to meet its needs for the livestock and processing sectors). If possible, storing corn and waiting for basis appreciation may be the best strategy this year.

Historic Chinese share of US corn exports ranges between 0.5% and 2.0%



Source: USDA-FAS, GATs, Rabobank 2020

Corn grid for ethanol production has rebounded, but not to old norm – down 10.8% for year



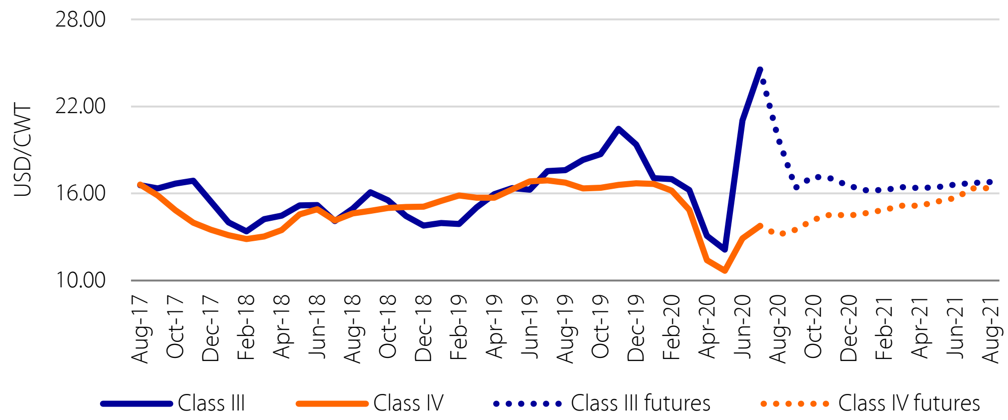
Source: EIA, Rabobank 2020

Dairy

Milk production back to trend, milk prices back to earth

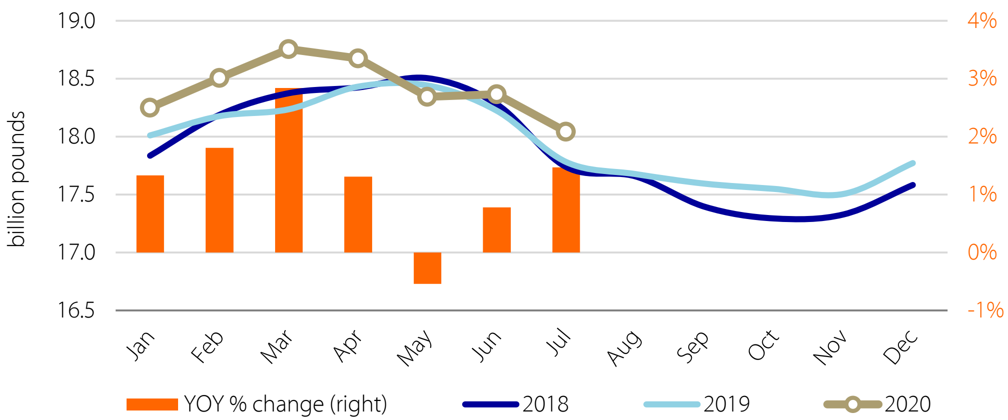
- After a record-setting rebound, class III milk prices are coming back down to earth. Class III milk prices surged in June and July, thanks to a pullback in Q2 milk production, strong exports, and government purchases. Now, with government purchases tapering off, more bearish underlying fundamentals are emerging, but volatility is likely here to stay.
- Milk production fell into negative territory in May, before rebounding slightly in June and returning to the historical trend of 1.5% YOY in July. Strong class III prices over the summer months will encourage milk production growth to stay positive for the remainder of the year, but regional surplus in some areas may cause some production growth restrictions from cooperatives and processors to return.
- Dairy producers are getting a crash course in milk pricing, as extreme negative producer price differentials (PPDs) are converting high class III milk prices into substantially lower farmgate milk prices. The recent volatility and unprecedented spreads between class III and class IV milk are highlighting a number of federal order provisions with some unintended consequences that will trigger renewed debate over federal order reform.
- Demand for dairy products at retail remains elevated. In the four weeks ending July 26, IRI data indicates that year-on-year natural cheese sales were up 16% on a volume basis, and butter sales were 27% higher. Fluid milk sales, meanwhile, are closer to even with last year's levels, with whole milk up 3.7% and lowfat and skim down 2%. The foodservice sector is gradually improving, particularly fast-food outlets, which are reporting sales nearly on par with last year's levels, and pizza, which is still experiencing strong YOY growth.
- Butter stocks in cold storage at the end of June were still elevated, but most other products are returning to more normal levels. Inventories will likely remain at higher levels and could increase in the coming months as production ramps back up and government purchases ease off beginning in September.
- Very strong exports in June helped to draw down some of the growing inventories. Combined year-on-year June nonfat dry milk and skim milk powder exports were up 77%, and cheese exports were 28% higher. Much of this strength is likely due to importers seeking food security during the pandemic and locking-in orders when prices hit low points in early May.

US milk prices and futures



Source: CME, Rabobank 2020

US milk production (30-day months), 2018-2020



Source: USDA NASS, Rabobank 2020

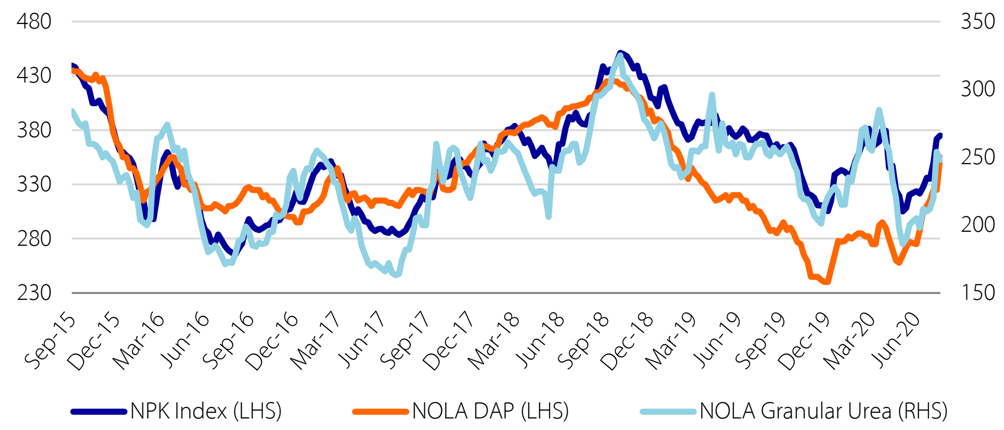
Fertilizers

- In our June edition of the Agribusiness Review, we questioned whether we were at the bottom of a seasonal and structural cycle of fertilizer pricing. Since our last publication, the North American Bloomberg NPK index has risen over 17%, driven principally by phosphate and urea price movements.
- NOLA DAP prices have risen the most in this time, surging 30%. The date of the rally in prices coincides with industry requests for countervailing duties to be placed on Russian and Moroccan imports, pushing US finished product prices to the highest globally. Prices remain significantly below 2018 peaks. However, if duties were imposed, this would price a lot of international product out of the North American market. Given that we are entering the 2021 season on lower retail inventories YOY, we could see further upside to Corn Belt DAP prices between now and potential fall applications.
- While supply has been the predominant factor in the DAP rally, urea price dynamics have been driven principally by the strength of international demand, namely from India and Brazil. Recent Indian tenders and strong farm economics in Brazil have captured the market. We would expect the further volumes of urea needed in Brazil through the second-half of the year to support yet more upward price movement on urea in the North American market through the coming months.

Covid's seasonal and secular impacts on farm inputs

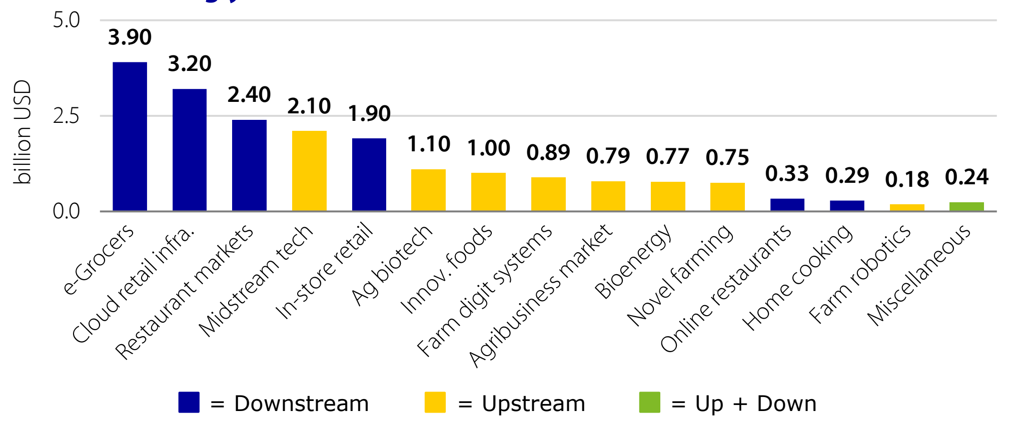
- We come into the second-half of the year with farm inputs in a very different position from last season. While, undoubtedly, very few of us had ever heard of Covid-19, we also were coming off record prevent plant acres and plentiful inventory in the channel. A successful planting has helped pull down the inventory levels, meaning any second-wave impact from Covid-19 could have materially different outcomes than at the start of the year. Phosphate prices have indicated the price risk to supply disruptions, while nitrogen prices, in and of themselves, are not impervious to future volatility from supply issues.
- How Covid has changed agriculture in the long run is not entirely clear yet. However, one space where we have seen a global shift is in the process of buying inputs. It is estimated that the percentage of inputs that are bought through e-commerce platforms in North America is in the low single-digit percentage range. However, some platforms have quoted growth in YOY sales for farm inputs from 100% to 900%. Seasonally, you could put this down to social distancing, but structurally, the increase has been driven by the growth in e-commerce offerings.
- Ag tech funding continues to favor downstream opportunities, but with the growth in e-commerce platforms, digitization systems, and mid-stream marketing, are you brave enough to shift your purchases online for the next season?

NPK index – Price increase driven by phosphates and urea



Sources: Bloomberg, Green Markets, Rabobank 2020

Ag tech funding continues to favor downstream, but farm inputs buying could increasingly shift online



Source: AgFunder 2020

Feed

China continues to be a hay-buying rock star for the US

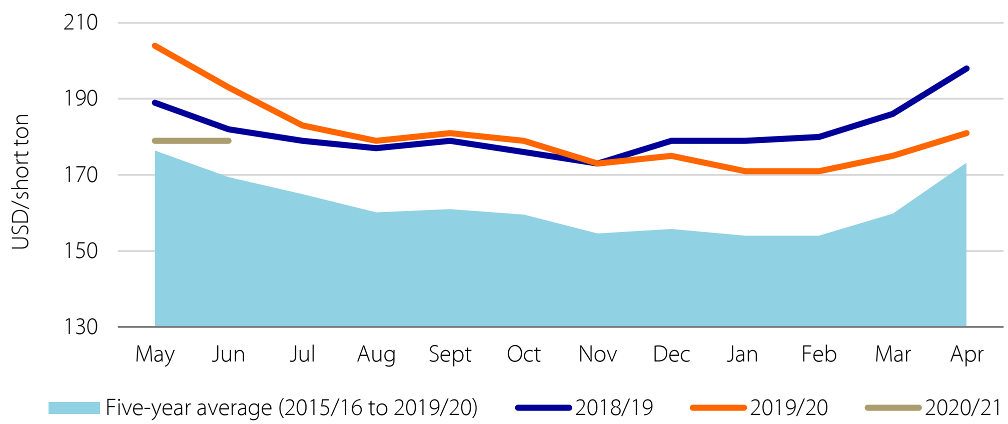
Hay

- **US alfalfa hay prices stayed higher in June.** Typically, prices fall rapidly in June, after peaking in April or May, but this year they held at USD 179/ton. The June price was 12% lower YOY, but still 6% higher than the previous five-year June average. Strong exports and a partial recovery in dairy markets have helped support prices, especially for high-quality hay. Other hay prices dropped slightly from May to June, to USD 128/ton, 12% lower YOY, but 2% above the five-year June average.
- **Through June 2020, total US alfalfa hay exports remained 16% higher YOY.** May and June alfalfa exports remained robust, up 28% and 12%, respectively, vs. their five-year averages. Alfalfa exports to China were up over 70% YOY in both May and June, and total 2020 US alfalfa exports to China through June were up 81%. 2020 US alfalfa exports to South Korea and Taiwan through June were up 24% and 62%, respectively. US alfalfa exports to Japan, Saudi Arabia, and the United Arab Emirates (UAE) all remain lower YOY, with the most drastic drop-off in shipments to the UAE.
- **Other hay exports were up 5% YOY through June.** Other US hay exports to China through June were up over 400% YOY. Exports to Japan and South Korea were up by 10% and 6% YOY, respectively, through June, while exports to other major markets have been weaker.

Animal feed impacted by prices and final weights for all species

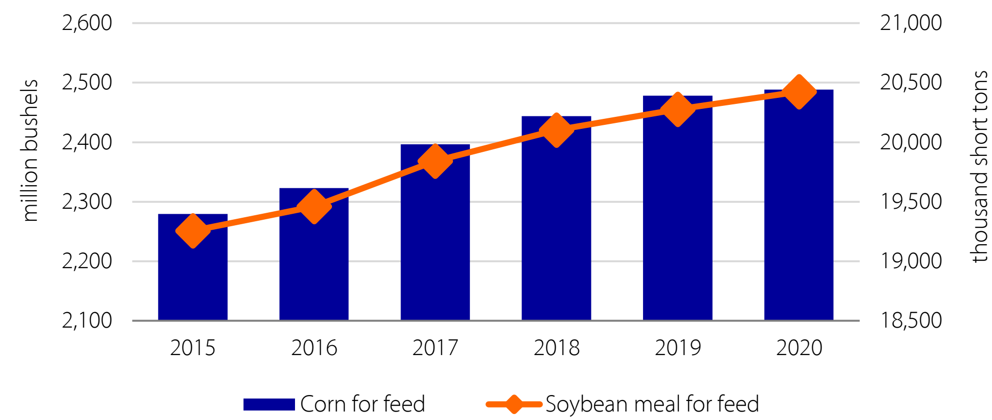
- **Live weight shows the impact of backlogged processing rates across species.** During the month of May, all species experienced higher live weights as a result of backlogs at processing plants. Perhaps the most evident was the increase in live weight for hogs from April to May, which rose by approximately 1.7% MOM (up 2.4% YOY). Beef and poultry live weights from April to May 2020 changed 1% each, while live weights increased from May 2019 to May 2020 by 4% for beef and 2% for broilers.
- **Demand for feed increased during the months of lower processing rates.** Alongside the lower processing rates, animal feed demand from January to June increased for both corn and soybean meal, when compared to other years. Corn increased by 0.4% in the first half of 2020, while soybean meal increased by 0.7%, when compared to the same period in 2019.
- **Feed cost continues to drop, aiding animal feed operations.** The latest USDA numbers suggest that corn prices are likely to remain low for the next marketing year at USD 3.10/bu, with corn for the feed industry at 5.9bn bushels. Soybean meal prices are expected to be at USD 290/short ton on average for the next marketing year.

US alfalfa hay prices, 2018/19-2020/21



Source: USDA/NASS, Rabobank 2020

Corn and soybean meal utilization (January to June), 2015-2020



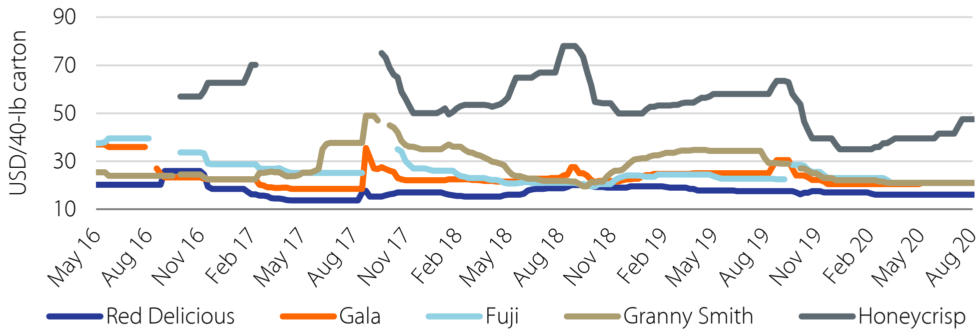
Source: USDA/ERS, Rabobank 2020

Fruits

Flat Washington apple production, flat prices

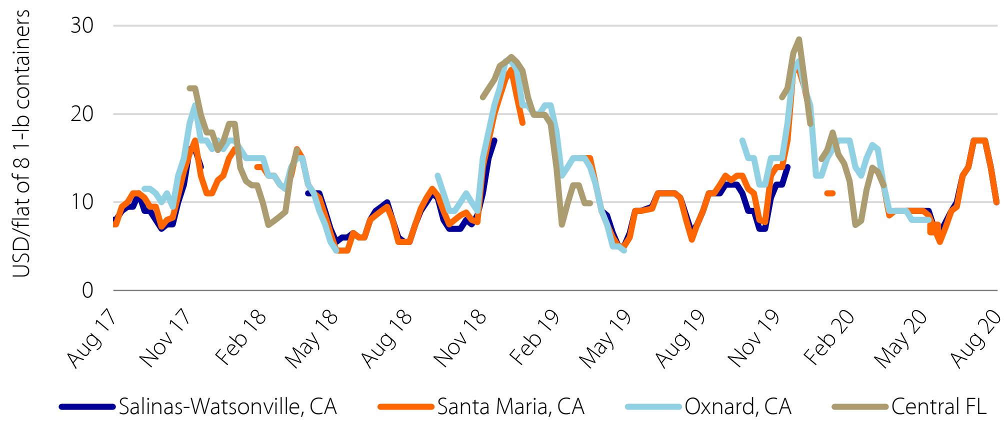
- **Strawberry prices were unseasonably high during July, due to lower shipments from CA.** By mid-August, prices were still up 11% YOY, to USD 10/flat. Prices are returning to more 'normal' levels for this time of the year, due to temporarily improved volumes, but the current heatwave may impact yields and quality. CA production will gradually decline over the next two months.
- **The industry lowered the 2020 CA table grape crop estimate to about 105m boxes, similar to last year's crop size.** Prices for some Central CA table grape varieties have remained up about 20% YOY, reflecting vigorous domestic demand. The industry is heavily promoting healthy snacking in the domestic market and abroad. The price outlook is likely to stay favorable this season.
- **Orange prices have remained higher YOY.** During the second week of August, prices for CA Valencia 88s were up 58% YOY, while prices for imported Navel 56s were up 44% YOY. Larger-sized lemons were priced over 20% higher YOY. Strong citrus demand is expected to continue during the next few months, as consumers look for high-vitamin C fruits.
- **Avocado prices in the US market have been steady over recent weeks.** Mid-sized CA avocado prices were down roughly 40% from multi-year highs a year ago. Prices remain close to USD 40/carton for Hass 48s. Total Hass avocado shipments to the US market increased about 30% YOY during the first two weeks of August, while YTD CA shipments are up over 60% YOY this season. Availability of smaller-sized avocados will increase as the new harvest in Mexico ramps up.
- **Apple production in WA will be at 134m cartons in 2020, nearly the same as last year's crop.** Organic production will be roughly 16% of the WA apple crop, up from about 11% in 2019, according to industry estimates. Prices have remained flat for several varieties since May. During the first half of August, prices of non-organic Granny Smith, Honeycrisp, Gala, Red Delicious, and Fuji were down 28%, 18%, 16%, 9%, and 8% YOY, respectively. Export growth in key markets will be crucial to boost prices.

Washington apple shipping point prices (88s), WA Extra Fancy, 2016-2020



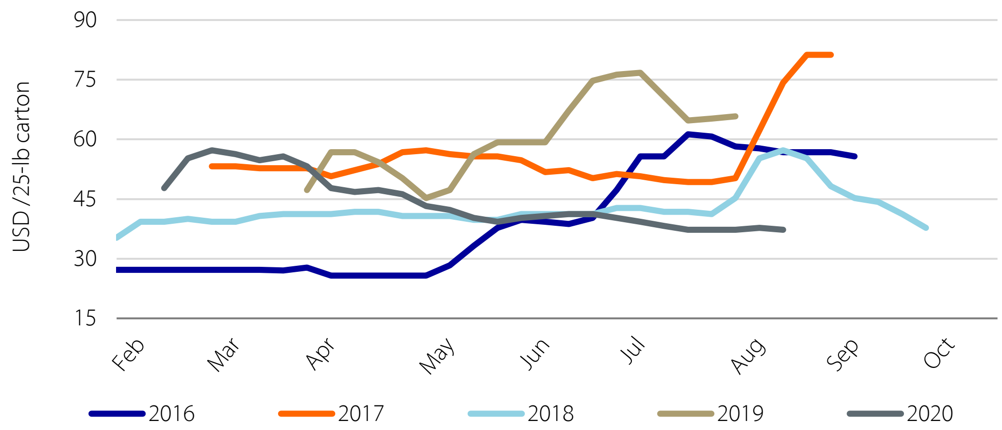
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2020

Strawberry shipping point prices – primary US districts, 2017-2020



Source: USDA AMS, Rabobank 2020

California Hass avocado shipping point prices (48s), 2016-2020



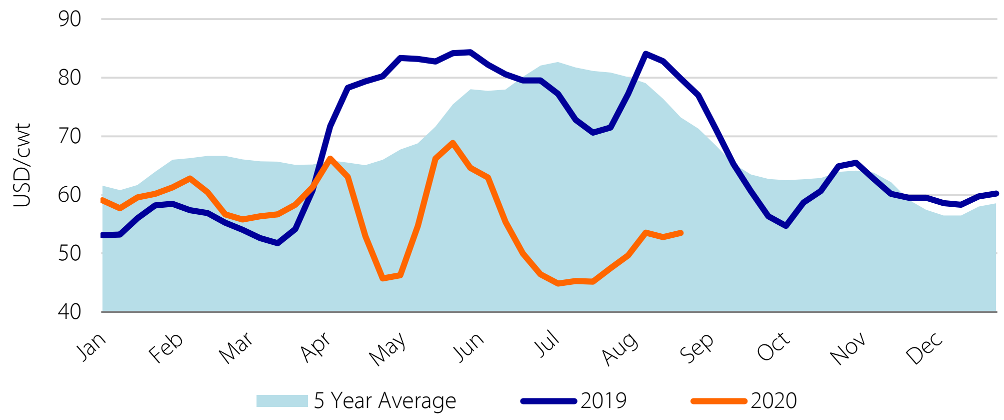
Source: USDA AMS, Rabobank 2020

Pork

Excess supplies continue to weigh on hog markets

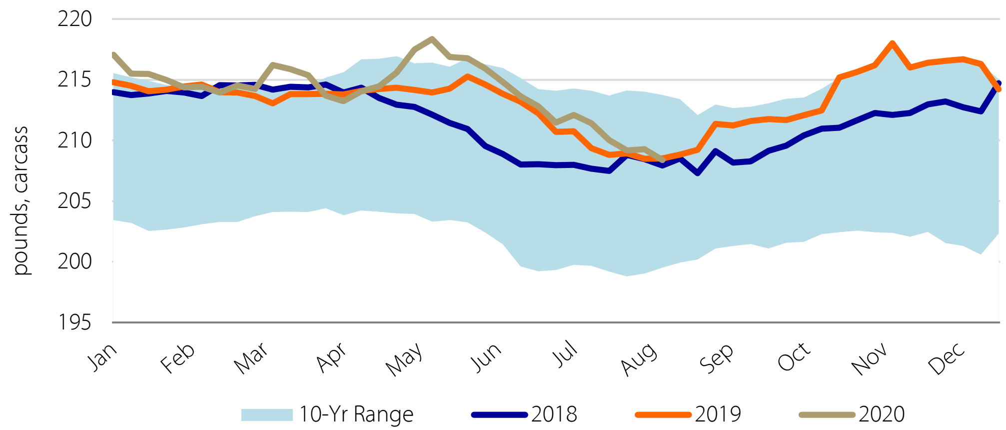
- **Weaker demand and ample hog supplies continue to limit the upside in lean hog values.** While harvest levels have normalized at or above year-ago levels, labor constraints continue to limit packers' ability to fully optimize carcass values. Efforts to euthanize pigs and find alternative plants to process market-ready pigs have helped reduce the backlog of hogs in recent months and will help offset larger hog supplies this fall. Market weights have normalized (flat with year-ago levels) and suggest supplies are relatively current, as do rising market hog prices. Although we remain concerned that shackle space will be a constraint this fall and could pressure prices, early efforts to liquidate both heavy- and light-weight hogs should help limit the price impact. While high-cost producers that sell into the negotiated market will face sizable losses, operators with a more active risk management strategy and/or formula pricing should be able to navigate through the coming months with modest profits.
- **Pork carcass values have recovered from their early July lows, but remain 18% below year-ago averages.** Belly and ham prices remain depressed, as labor remains a challenge for many further-processing operations. Disruptions in foodservice and in the leisure and catering industries specifically are also weighing on the demand for processed items. Early interest in holiday hams appears strong and is helping boost boneless values, while an excess supply of bone-in product and somewhat softer export markets are weighing on boneless ham values. Pork regained some retail support in front of the Labor Day holiday, which should help support loin and rib values and help clear stocks. As supplies increase this fall, however, we continue to expect ongoing pressure on the cutout. Any additional weakness in export demand or additional foodservice disruption would naturally exacerbate this oversupply and result in price pressure.
- **US pork exports have softened in recent weeks and are likely to signal weaker 2H 2020 demand.** Tight supplies in June (due to Covid-related disruptions) and limited availability drove disappointing June exports. Even so, exports for the month were 3% ahead of year-ago levels, at 233 metric tons. This was a sharp drop (down 33%) from May, with disappointing sales to four of the top ten export markets, including China. Exports to Japan were also down 11%. For the year, exports remain 27% ahead of a year ago, reflecting exceptional growth earlier in the year. We do expect a weaker dollar and improved pork availability to favor exports, but with weaker GDP growth expected in most key markets and improved domestic availability in China, we are less optimistic about exports over the balance of the year and now project only 10% growth vs. 2019.
- **Mexican hog prices have rebounded from early summer lows, but remain 22% below year-ago levels.** Some smaller producers are beginning to shutter operations, as challenging market conditions continue to limit returns**.** Given expectations for weaker economic growth to limit pork consumption in the coming months, we expect additional herd contraction in the coming weeks. Like hog prices, pork values recovered in July, but have moved lower again in August. The counter-seasonal weakness in pork reflects not only ongoing demand pressures in foodservice, but also an increase in pork imports from the US.

US lean hog prices, 2019-2020



Source: USDA, 2020

Weekly average carcass weights, 2018-2020



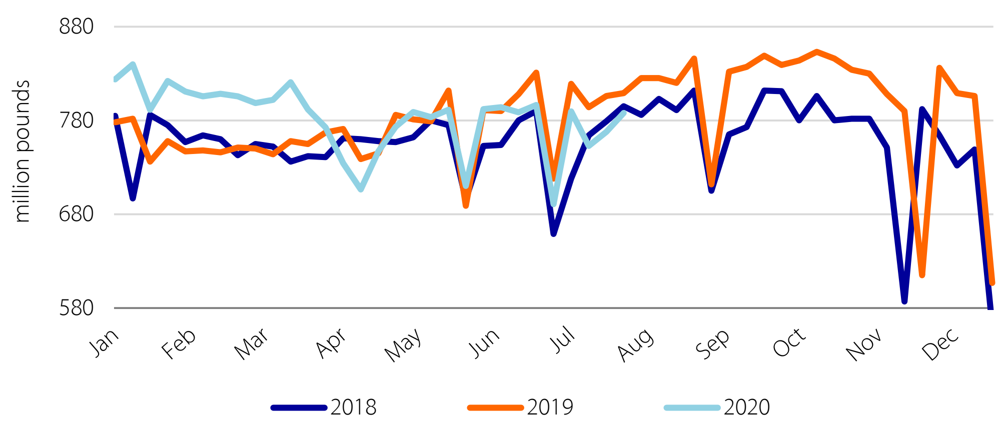
Source: USDA, Rabobank 2020

Poultry

Summer production cutbacks help stabilize prices, but dark meat remains weak

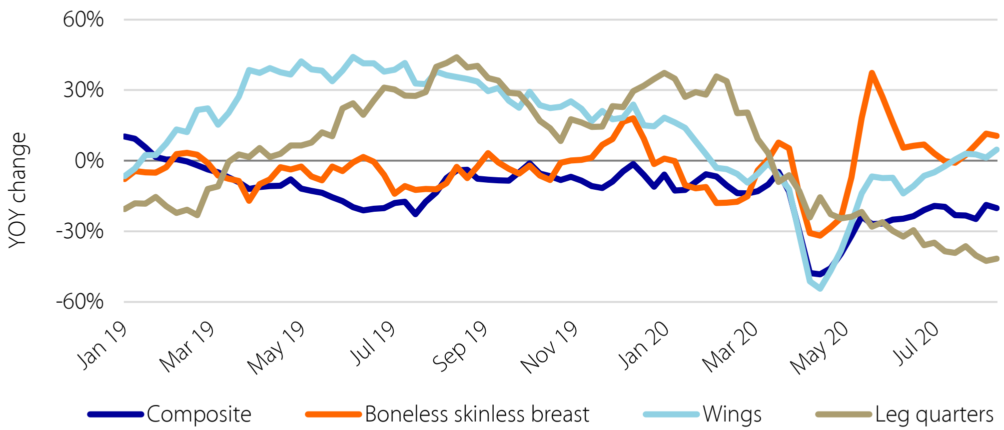
- **Industry cutbacks taken earlier this summer are finally showing up in lower weekly production.** Ready-to-cook chicken production is averaging 4% below year-ago levels and helping to restore industry balance. Total slaughter is averaging 4% below last year, with substantial declines at the extremes (light weights down 11% vs. 2019, and heavy weights down 3%). Tray pack production remains relatively steady, driven by strong retail demand for chicken. In total, average live weights are flat with year-ago levels, at 6.3lb/bird. After a slight uptick in chicks placed in late June and early July, average chick placements declined 2% in the past four weeks. Cuts in egg sets have moderated in recent weeks, however, suggesting integrators may be growing more positive on the outlook beginning in late September. We remain less optimistic, given expected supplies of competing proteins, rising cases of Covid-19 limiting further improvements in foodservice, and expected disruption in the school lunch program.
- **Chicken prices have stabilized in recent weeks, with strong prices for wings (up 5% vs. a year ago) and boneless breast meat (up 10% vs. 2019), offset by substantially lower values for leg quarters (down 42% vs. a year ago) and some deboned products.** Wing prices continue to make gains on the strength of successful sales at wing chains. Foodservice operators have successfully transitioned to the takeout model, driving solid demand for wings. While the fall sports season remains questionable, current trends remain supportive of fall wing prices. Breast meat has also held up better than expected, with production cuts helping to stabilize prices. While expected increases in production and large competing protein supplies are expected to limit further gains, retail support for chicken has been good, and stocks remain at relatively low levels.
- **Leg quarter prices are down sharply, due to weak export interest in many key markets.** Exports in June were down slightly (1%), with sharp losses in Angola and Cuba (down 62% and 69%, respectively). Sales to Mexico were up vs. May, but still down 6% vs. 2019 levels. Sales have reportedly improved in July and August, but remain below year-ago levels. With leg quarters at rendering values, we expect integrators to avoid building inventory. We expect a weaker US dollar and gradual improvement in secondary markets to help stabilize markets, but do not expect a quick rebound in dark meat values.
- **Mexican chicken prices have recovered more quickly (up 35% vs. a year ago), as sharp production cuts taken earlier this summer have reduced availability.** Additional pricing gains are unlikely in the near term, given plentiful supplies of low-cost US chicken imports, but for now, Mexican producers are operating at a profit. While chicken demand in Mexico remains soft, the low cost of chicken relative to competing proteins continues to support retail demand. We expect chicken to outperform other, more expensive proteins during the downturn.

Ready-to-cook chicken production, 2018-2020



Source: USDA, Rabobank 2020

US chicken prices, 2019-2020



Source: USDA 2020

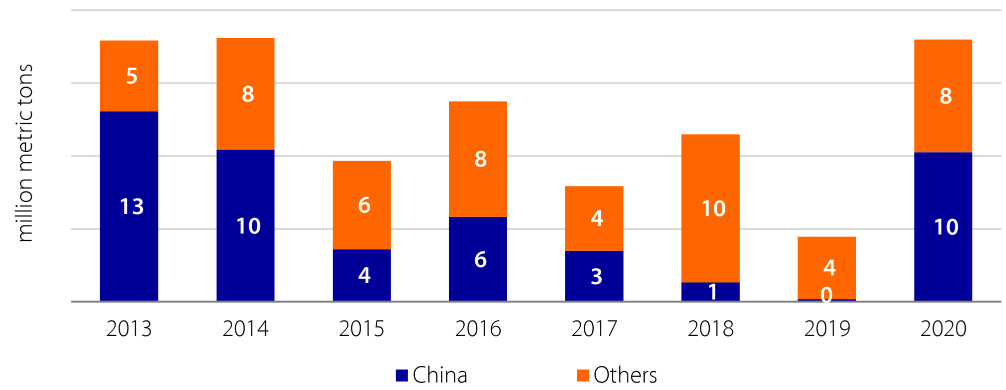
Soybeans

Record high yields and moving a big crop

- **Finishing the crop and moving it to export will be the market's key focus in the coming months.** A record-high yielding crop, combined with a recovery in demand, will test logistics. It will require favorable weather to get the beans into bins, decent farmer selling to fill pipelines, and cooperative logistics to move product to end users.
- **Crop development is on track to reach a record-high yield and potentially a bumper crop.** Soybean crop conditions continue to be rated much higher than a year ago and well above average. The most recent crop conditions rating was at 72% good/excellent, which is equal to 2016 ratings – a year of record yields. There has been some dryness in Ohio and Iowa, which has lowered crop ratings, but overall, the crop is in very good condition. Soybeans can withstand dryness better than corn.
- **In the August Crop Production report, the USDA surprised the market with a soybean yield forecast above even the highest market estimate.** They forecast the national soybean yield at 53.3 bushels/acre, which would be 3% above the previous record-high yield of 51.9 bushels/acre achieved in 2016. The total crop size is unlikely to be a record high, however, as a result of lower acreage. The USDA forecasts the crop at 4,425m bushels, compared to the previous high of 4,428m bushels in 2018. This year's crop is on 4.6m acres less than 2018, however.
- **The trade war with China will continue to impact the soybean market and could escalate ahead of the November presidential election.** China's crush margins have recovered somewhat, but remain at a three-year low. China imported a record 11.2m metric tons of soybeans in June. Their soybean imports in July were also strong at 10.1m metric tons. China's recent strong imports have largely gone to stockpiles, as their port stocks have significantly increased. So their future buying may slow, particularly if there is a price move to the upside.
- **The US crop needs another drink of water to finish, and then the big crop needs to move to port.** Already, some of the challenges are being priced into basis levels. There will likely be more volatility ahead of us. But sizeable price moves to the upside will be capped by the reminder of the big yields, and current prices are incentivizing increased South American production.

US soybean export demand for new crop is at a six-year high

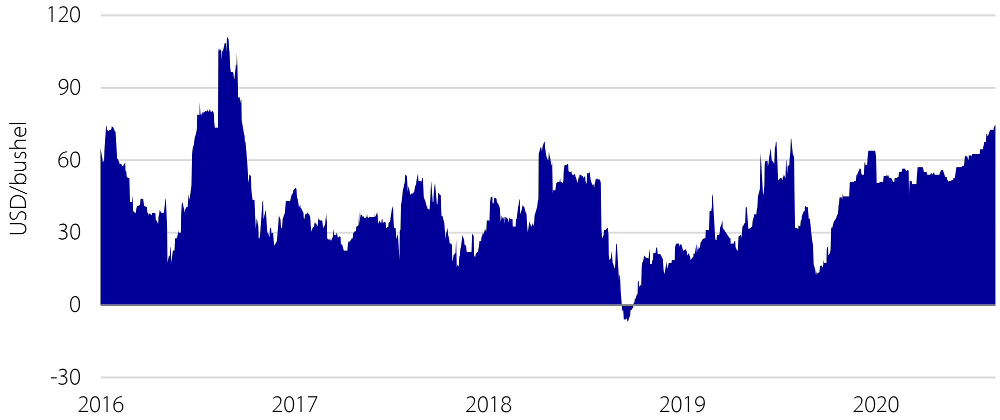
New marketing year soybean sales, 2013-2020



Source: Bloomberg, USDA, Rabobank 2020

Strong export demand is pushing Gulf basis levels to the highest levels since 2016

Soybean spot basis Gulf, 2016-2020



Source: USDA, Bloomberg, Rabobank 2020

Tree Nuts

Too many almonds, too soon

Almonds: US shipments during the 2019/20 marketing year ended with a 5% YOY increase. Exports, accounting for 67% of US shipments, were up about 5% YOY as well, while domestic shipments were up 4% YOY. Carryout is calculated to be 446m lb, up about 40% YOY, whereas the ongoing 2020/21 crop is projected to be up about 18% YOY, to 3bn lb – a milestone that was expected to be reached by 2022 or 2023. Exceptional growing conditions will allow California production to reach 3bn lb this year, bringing prices to historical lows. Industry information shows that almond prices may have put in a bottom, but, given the rate of growth in new bearing acreage in CA and existing market conditions, prices are likely to remain under pressure during the next few crop cycles.

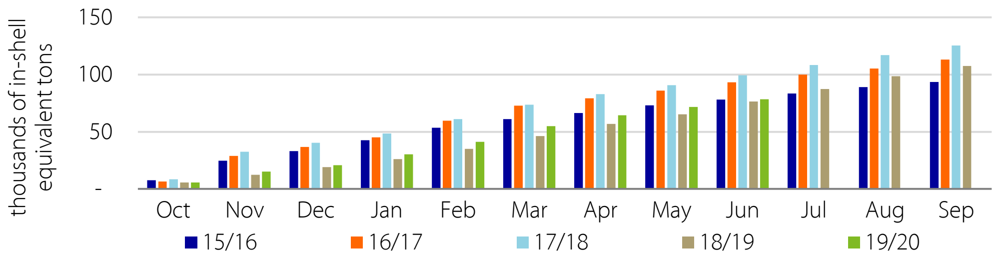
Hazelnuts: By the end of the 2019/20 marketing year, shipments were up 9% YOY, with total in-shell exports increasing 15% YOY. About 97% of the marketable supply was sold. The US hazelnut industry expects a record-setting crop, with expanding demand during the 2020/21 marketing year.

Walnuts: Total shipments in the 2019/20 season through July were down about 5% YOY, with 85% of marketable supplies sold, lagging behind last year's pace. Exports declined by 8% YOY, and domestic shipments were down 3% YOY. Exports accounted for 64% of US shipments. The 2020 US crop is expected to be plentiful and likely a record high.

Pistachios: US pistachio shipments during the 2019/20 marketing year continue to track well. As ending inventories are expected to be low, buyers' interest in early shipments of the new crop are increasing, according to industry sources. Demand for pistachios, both domestic and international, is expected to remain healthy, but US pistachios will face increased competition in international markets from supplies out of Iran and Turkey. Prices are reported to be relatively steady, while US production for the 2020/21 marketing year is likely to set a new record.

Pecans: US pecan export volumes in the 2019/20 marketing season through June were up 3% YOY, according to USDA figures, while domestic demand continues to be a relevant driver for industry growth. Industry sources report that, while the pecan industry has fared well through the pandemic, in-shell pecan inventories in cold storage are rising, signaling a slowdown in demand.

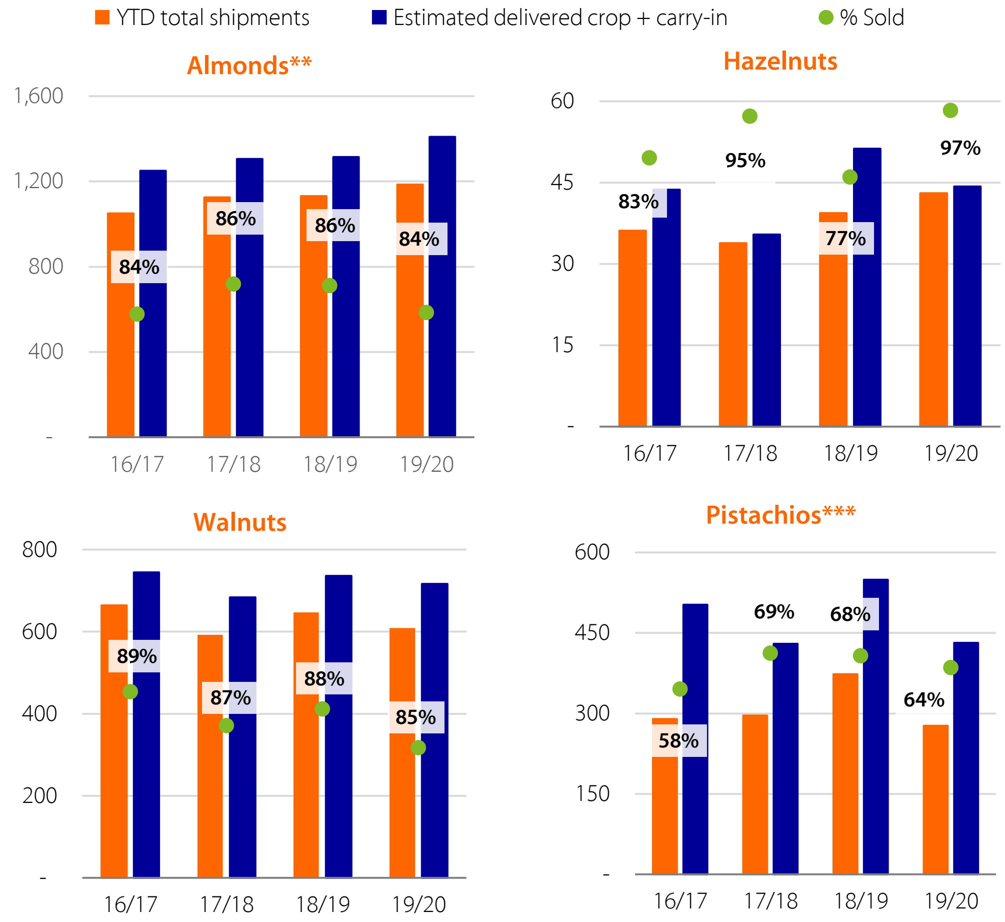
Cumulative US pecan exports



Source: USDA FAS, Rabobank 2020

*Cumulative US tree nut shipments**

(thousands of in-shell equivalent tons)



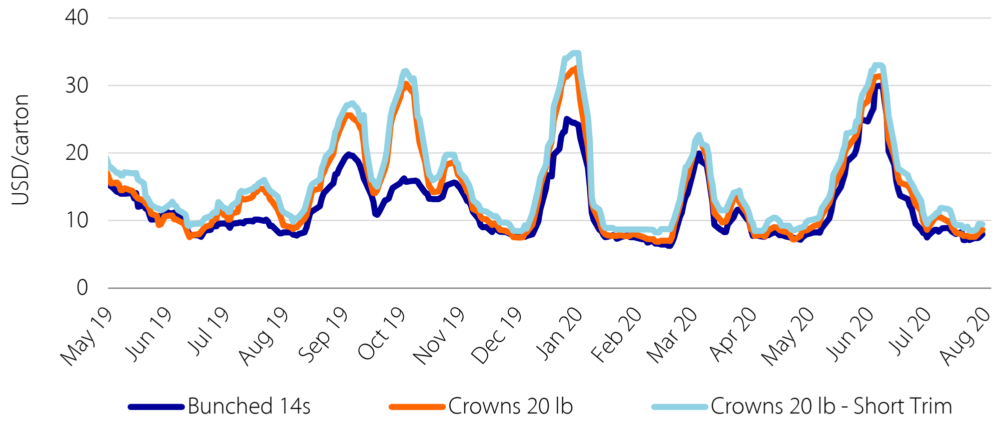
*Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2020. *Marketing year through July 2020 for almonds, walnuts, and pistachios; June 2020 for hazelnuts **Meat pound equivalent. ***Not considering inventory adjustment/loss*

Vegetables

Vegetable prices set to increase due to a heatwave

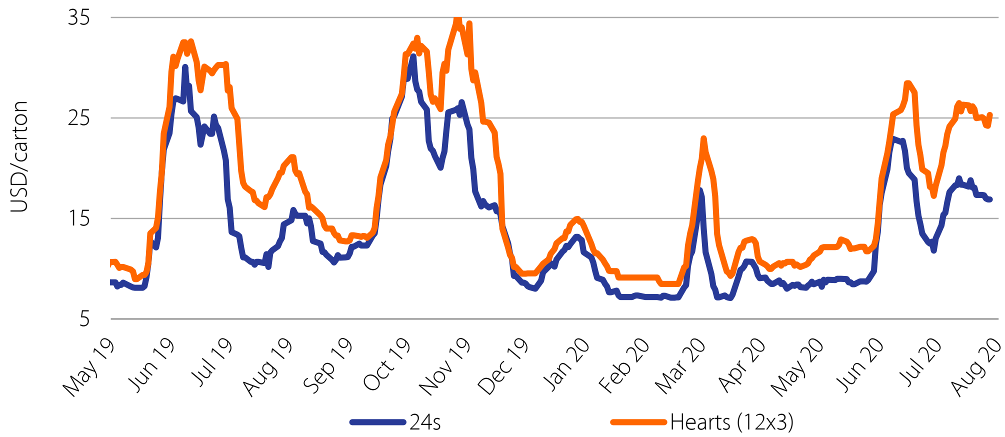
- **US retail fresh vegetable dollar sales have grown by double digits YOY every single week since late April.** Retail demand is holding, with peppers, potatoes, cucumbers, tomatoes, and corn on the list of higher YOY increases in dollar retail sales during the first half of August, according to IRI data.
- **By mid-August, broccoli crown prices were down by double digits YOY,** depending on the specific product, and bunched 14s were priced down 2% YOY. Two weeks of very hot temperatures in growing regions during mid-August will impact yields and product quality. Expected tight supplies ahead will quickly be reflected in higher pricing.
- **Cauliflower prices are down about 7% YOY in August, at around USD 7/carton for wrapped 12s.** Cauliflower will go back to double-digit prices as soon as the extreme heat affects yields.
- **Romaine lettuce prices have remained relatively strong since June.** During the second week of August, prices were up about 30% YOY for 24s and romaine hearts (12x3). Availability of romaine hearts was reported to be light during the first half of August. Prices are expected to remain high, as weather may limit availability for a few weeks.
- **Iceberg lettuce prices were up 2% YOY during the second week in August**, just below USD 11/carton for wrapped 24s. During the first half of August, availability was good and demand was reported as low. Availability and quality are likely to be down, due to adverse weather conditions in growing regions.
- **Sweet potato prices in North Carolina went below USD 16.00/carton during the second week in August 2020,** down about 30% from the multi-year high prices 52 weeks before. Total shipments to the US market were up 17% YOY during the first two weeks of August.

Broccoli – US daily shipping point price, 2019-2020



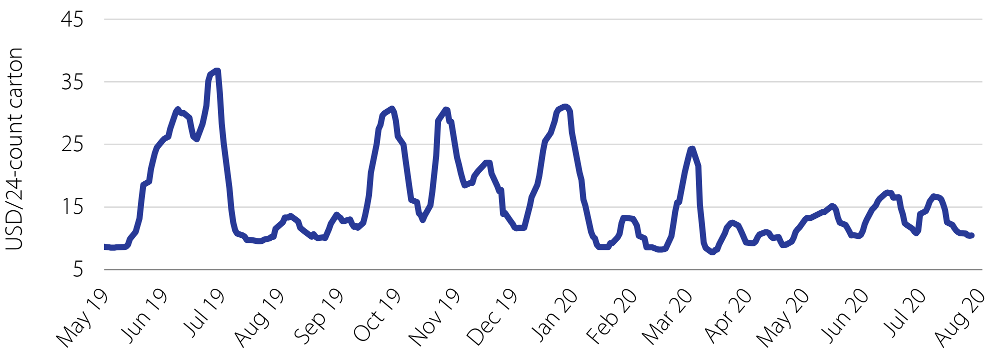
Source: USDA AMS, Rabobank 2020

Romaine lettuce – US daily shipping point price, 2019-2020



Source: USDA AMS, Rabobank 2020

Wrapped iceberg lettuce – US daily shipping point price, 2019-2020



Source: USDA AMS, Rabobank 2020

Wheat

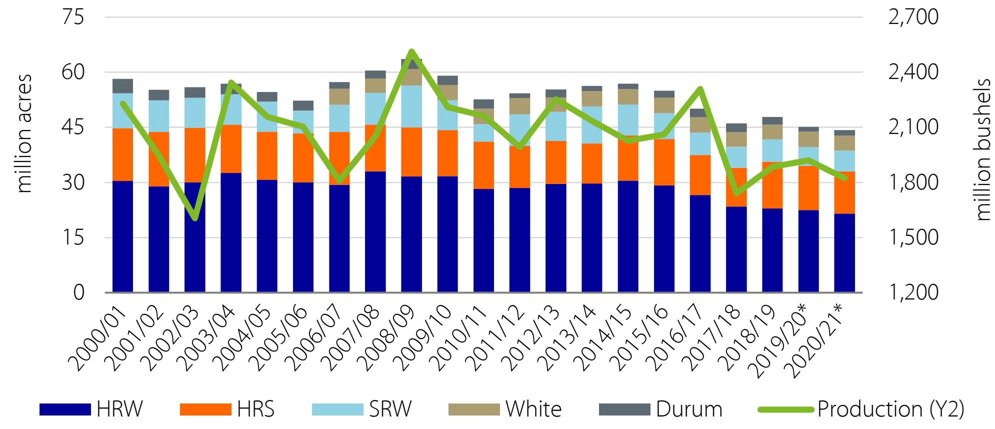
Volatility will continue to be the name of the game

- **Record-low planted wheat acres are beginning to have an impact.** The downward trend in US wheat acres has rarely been an issue. Despite reduction in US wheat acres, increasing yields have offset the loss of acres and kept production around that 2.0bn bushel mark. However, in the last several years, this trend has changed as production has begun to drop off as well. This has happened even though yields have increased. For example, the five-year average all wheat yield is nearly 50 bushels/acre, while the 20-year average is nearer to 45 bushels. Also, it is observed that harvested acres as a percent of planted acres has declined. However, the five-year average percent harvested to planted acre is 83.4% vs. the 20-year average of 84%, so not a significant difference. Despite the decline in acres and production, stocks remain in the 900m to 1.0bn bushel range, as demand has remained steady at best. If this trend continues, US end users (flour millers) may have increasing difficulty procuring the variety and quality of wheat required. This may result in increased imports and costs for everyone in the supply chain.

- **US wheat export inspections are running nearly 2.0% ahead of last year's pace.** In addition, the USDA increased US wheat exports for the 2020/21 crop year to 975m bushels, up 25m from the previous projection. This is due to lower production in the EU (down 4.0m metric tons), Kazakhstan, and Turkey (down 1.0m metric tons each). Currently, US wheat export prices are competitive with other major exporters, primarily due to winter wheat harvest and pressure from the corn market. However, bumper crops in Canada, a projected second-largest crop on record in Russia, and expectations of a larger crop in Australia all point to another year of keen export competition among the world's wheat exporters.

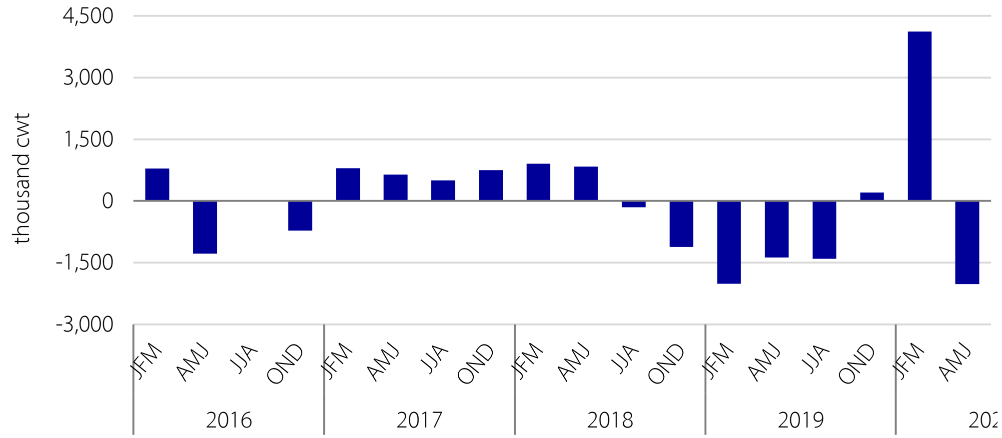
- **'Stay at home' has translated into more home baking and strong flour demand.** Flour, like other food products, has seen surges and setbacks. In the first quarter of 2020, flour production surged 4.1m cwt, or +4.0% YOY. However, in the second quarter, flour production could not keep up the momentum. In the April-May-June quarter, flour production dropped 2.0m cwt, or 1.9%. While the pandemic has created some welcome opportunities and demand for wheat, it also created volatility for flour millers and on the demand side of the balance sheet – stay tuned to see if home baking and flour demand is just a fad or an enduring trend.

Higher wheat yields are no longer offsetting declining US wheat acres



Source: USDA-NASS, Rabobank 2020

Year-over-year wheat flour production has been on a roller coaster

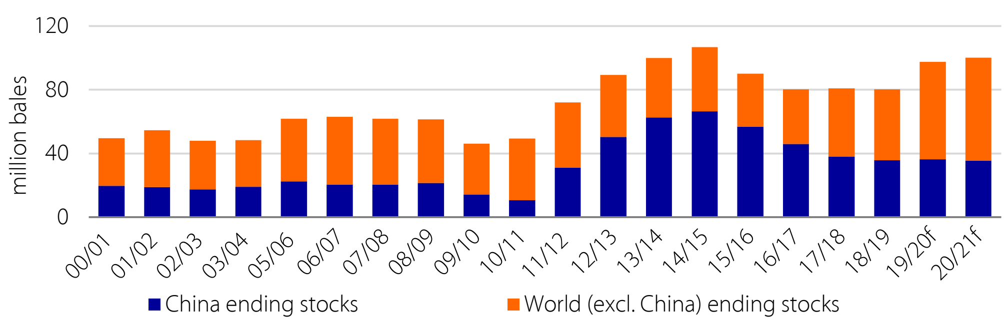


Source: USDA-NASS, Rabobank, 2020

Cotton

- **The ICE #2 Cotton market remains above USc 60/lb on the December 2020, holding up against a number of bearish factors.** US dollar weakness, domestic weather risk (including the US hurricane season), and ongoing export sales to China keep the ICE #2 supported. Domestic abandonment – pegged at 24.5% by the USDA – sits well above the ten-year average of 17.4%, with Texas being particularly hard hit amid drought. Still, Rabobank highlights that the market remains vulnerable amid US-China tensions and strong 2020/21 US yield potential.
- **Apparel and clothing sales show early signs of recovery,** with the US and UK seeing June clothing store sales reach 77% and 66%, respectively, of pre-Covid February 2020 levels. This compares to 14% and 34% in April 2020 at the peak of the pandemic. In China, clothing and textile sales have almost recovered to pre-Covid levels. These figures are encouraging, but, in our view, are likely old-season stocks and post-lockdown sales – not fresh cotton demand. Moreover, a 6% MOM fall in polyester fiber prices does little to stimulate cotton use. Rabobank forecasts a 9% YOY global demand recovery in 2020/21. That said, we do not expect a full pre-Covid-19 demand recovery for cotton until 2021/22 – after which, we forecast 0.8% YOY demand growth towards 2029/30.
- **Fundamentals highlight downside price risk in the short term,** as the USDA forecasts the loss of nearly 18m bales in 2019/20 global demand and a subsequent +20% rise in world stocks. This means a rise in 2019/20 stocks to five-year highs, with further stock expansion forecast in 2020/21. In order to keep world stocks manageable, 2020/21 global production will need to fall – a factor requiring lower prices to reduce cotton planting incentives. Rabobank forecasts the ICE#2 at USc 55/lb by Q4 2020. Looking ahead, we continue to monitor a record Brazilian harvest and subsequent logistics, as well as the incoming US hurricane season and pick.

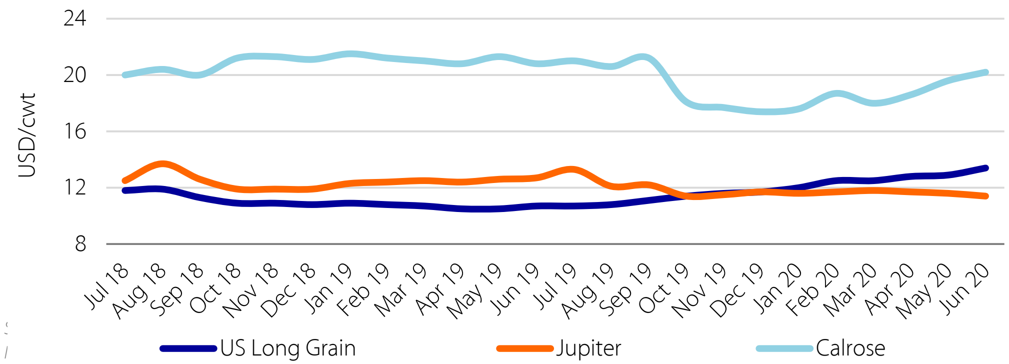
Falls in global cotton demand will drive world cotton stocks to expand over 20% YOY in 2019/20, with further expansion likely in 2020/21



Rice

- **In August, the USDA lowered its 2020/21 US rice production estimate by 2.6m cwt, to 218.1m cwt, due to a reduction in the yield forecast.** The revised production estimate is still 18% larger YOY, driven by increases in both acreage and yield vs. 2019/20. The long grain-production estimate would be a 27% YOY increase, while the combined medium and short grain estimate is for production to be in line with the 2019/20 crop. The large YOY increase in long grain is primarily due to improved weather conditions in the south vs. last season and rising long grain prices.
- **Total 2020/21 US rice supplies are projected to be up 7% YOY, as the larger crop will more than offset a substantially lower carry-in.** Long grain carry-in is estimated to be down 56% YOY, to its lowest level since 2004/05. However, combined medium and short grain carry-in is expected to be up by 42% YOY. 2020/21 long grain imporosts are expected to be about 2% lower than the revised 2019/20 record. Combined medium and short grain imports are forecast down about 3% from their revised 2019/20 record.
- **Total use of US rice in 2020/21 is estimated to be up 2% YOY, primarily driven by the expected increase in long grain exports.** Total domestic and residual use is estimated to be up only slightly, while total exports are forecast up by 5% YOY. The expected increase in long grain exports is driven by larger US supplies and lower projected prices. US medium and short grain exports are expected to be up 2% YOY in 2020/21.
- **The 2020/21 season average farm price (SAFP) estimate for US long grain is USD 11.60/cwt, while the California medium and short grain SAFP estimate stands at USD 18.30/cwt.** The 2020/21 southern medium and short grain price is projected to be USD 11.50/cwt, thus continuing the current trend of being priced lower than US long grain rice.

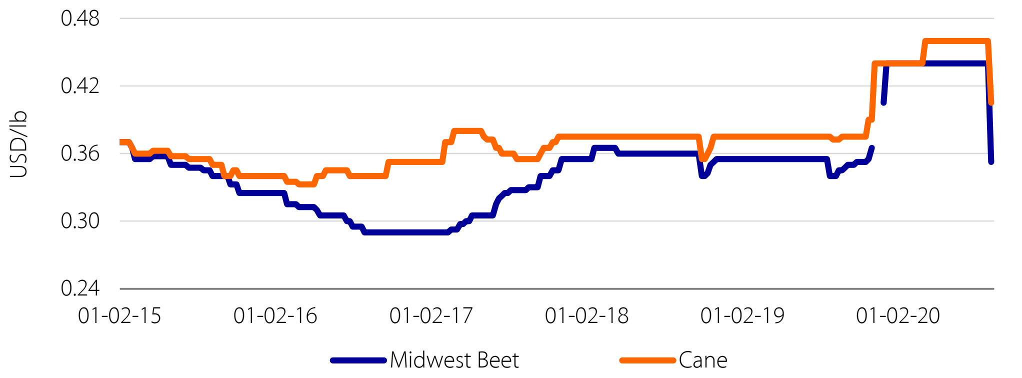
24-month US rice prices, July 2018-June 2020



Source: USDA, Rabobank 2020

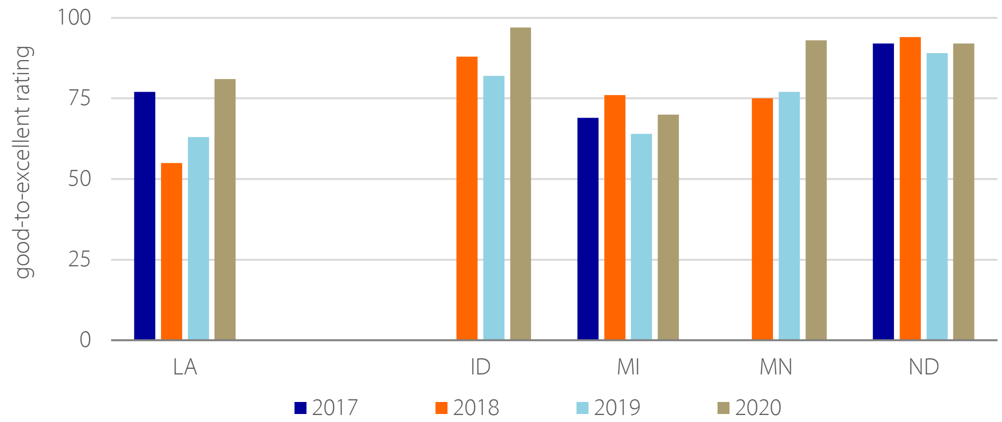
- **The US sugar market is showing signs of returning to normal.** While spot sugar prices remain at their highest levels since 2012, fundamentals point to a larger supply in 2021 – a less than 1% increase in demand – and higher stocks, all of which point to downward pressure on prices in the new crop year.
- **The good-to-excellent ratings for the major cane- and beet-producing states are at their highest levels in four years, with the exception of Michigan.** Michigan has been beset by weather issues this year. Michigan sugar has reportedly withdrawn from the market to assess their position in light of this year's crop and strong sales. Even though crop condition ratings are high, the USDA is not forecasting a record beet or cane crop However, the projected beet crop is the second highest on record.
- **Projected stocks and the stock-to-use ratio are within the USDA's target. With decreased consumption in 2019/20 and increased supplies in 2020/21, both stocks and the stocks-to-ratio have increased to much more comfortable levels.** While spot prices remain firm, processors are again able to offer spot loads as needed. In addition, new crops sales have been strong, as prices are below current spot prices. However, for the first time since last fall, prices are showing signs of weakness, as processors are willing to negotiate with buyers on price. While prices are not expected to collapse, they will begin a decline back into the mid-USD 0.30 area, assuming favorable growing conditions until harvest.
- **Corn sweetener negotiations for 2021 have begun**. For the first time in several years, 2020 corn sweetener prices are steady to slightly lower, due to decreased demand resulting from Covid-19.

New crop sugar bids showing USD 0.05/lb to USD 0.08/lb discount to old crop



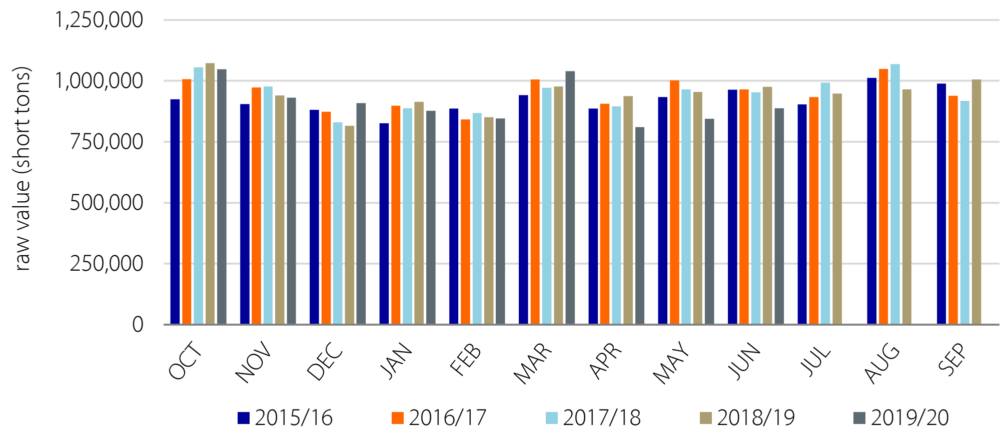
Source: Milling & Baking News, Food Business News, Rabobank 2020

Improvement in US beet and cane crop conditions from a year ago



Source: USDA-NASS, Rabobank 2020

US beet and cane sugar deliveries down 11.4% YOY

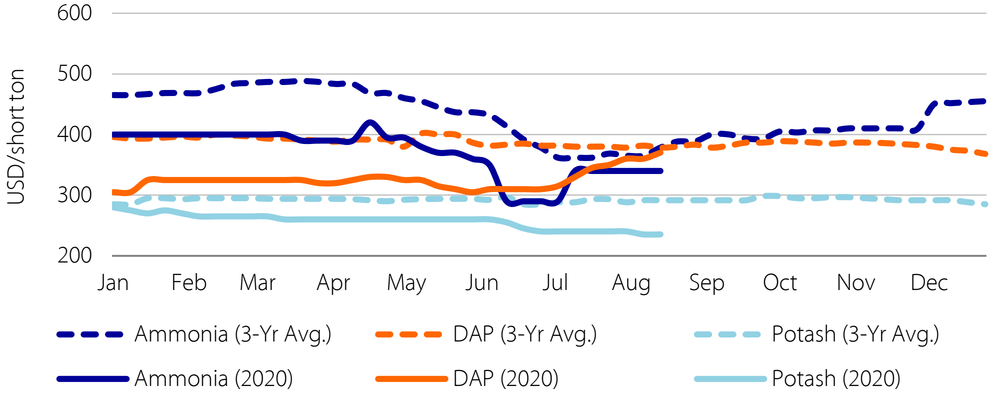


Source: USDA-FAS, Rabobank 2020

Input Costs

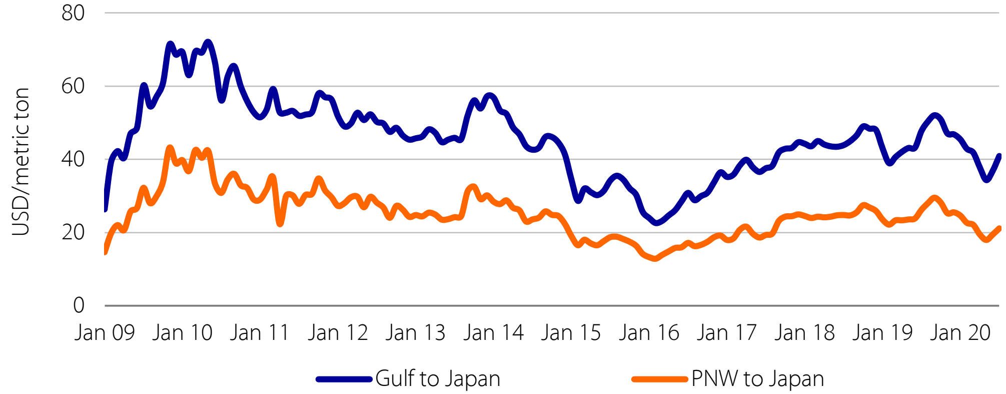
As of August 21, 2020

*Corn Belt input prices**



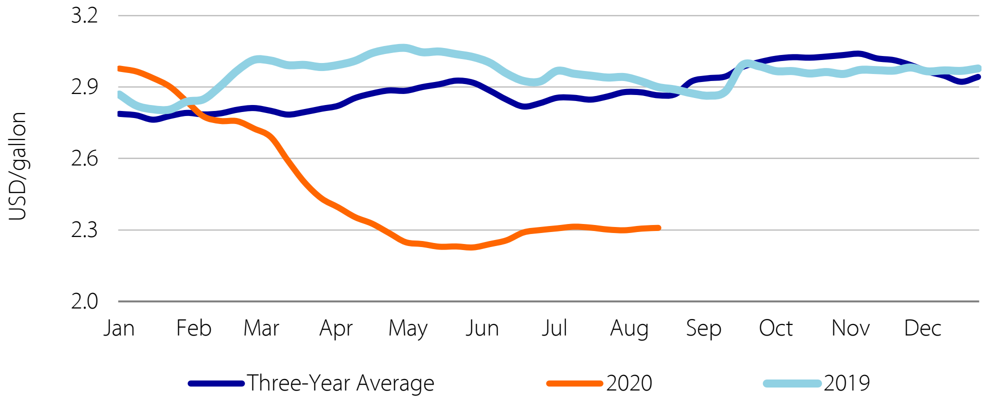
** Note: granular potash*
Source: Bloomberg, Rabobank 2020

Ocean freight



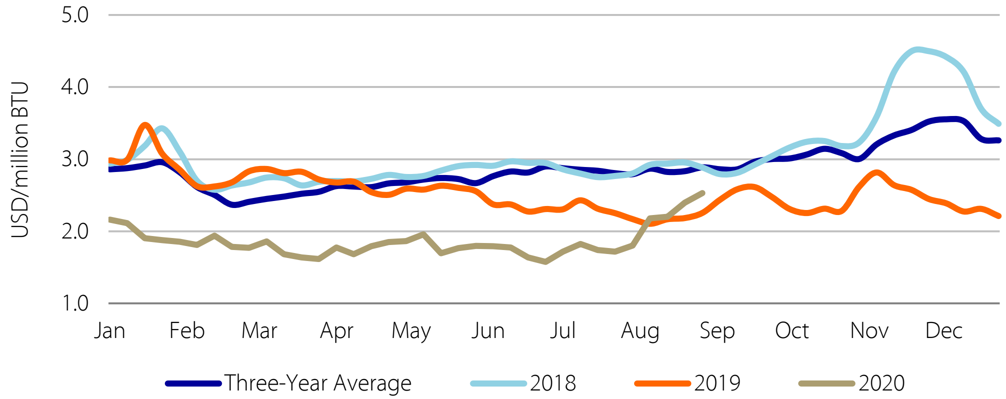
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2020

Diesel – Midwest



Source: EIA, Rabobank 2020

Natural gas spot

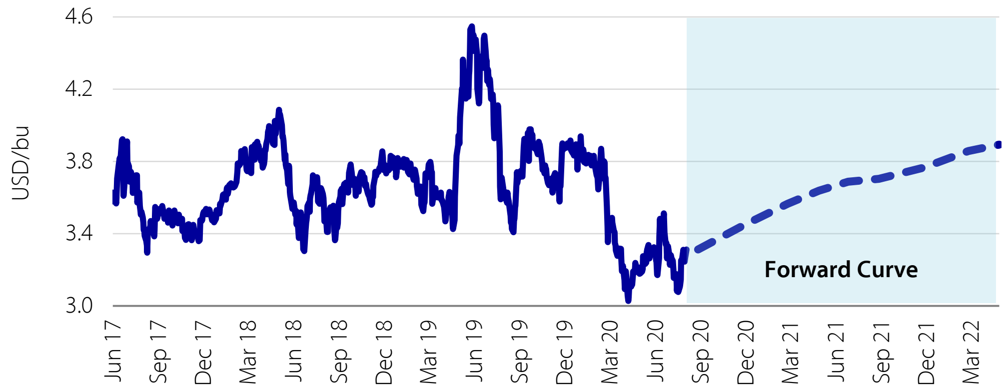


Source: NYMEX, Rabobank 2020

Forward Price Curves

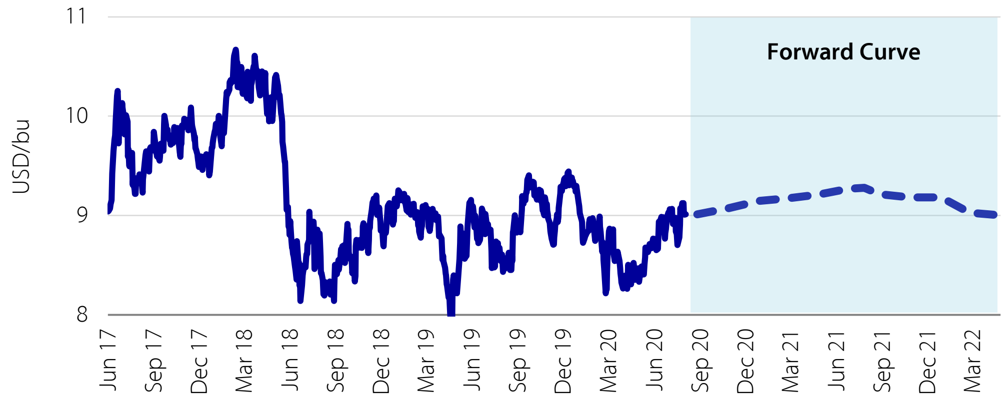
As of August 21, 2020

CBOT – Corn



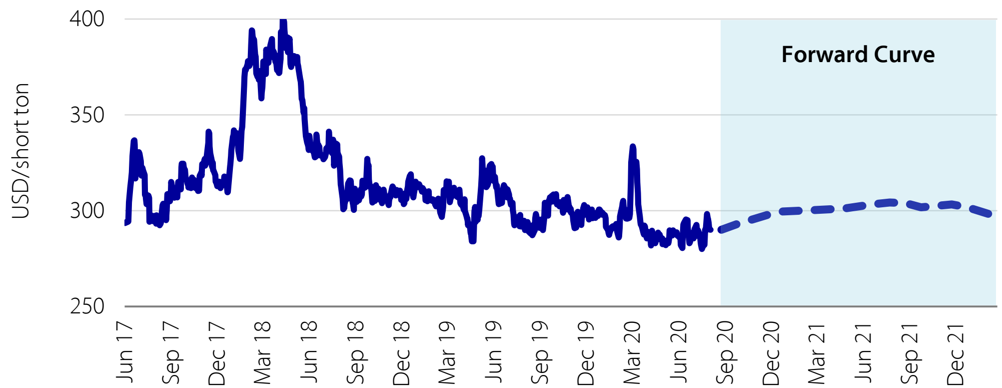
Source: CBOT, Rabobank 2020

CBOT – Soybeans



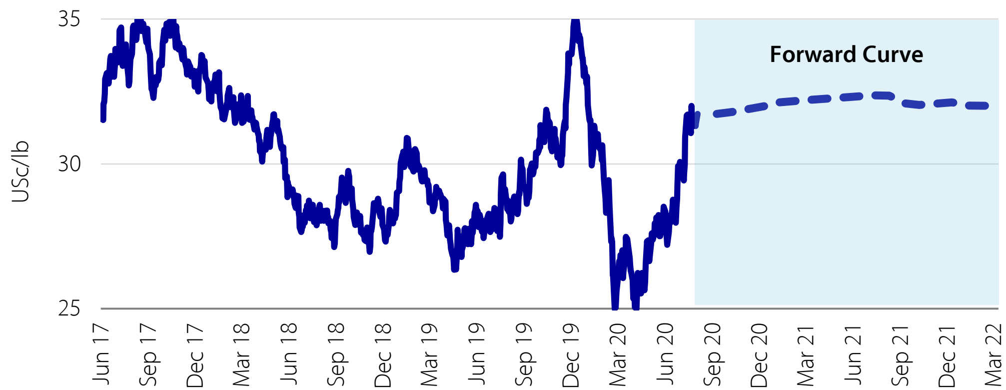
Source: CBOT, Rabobank 2020

CBOT – Soymeal



Source: CBOT, Rabobank 2020

CBOT – Soy oil

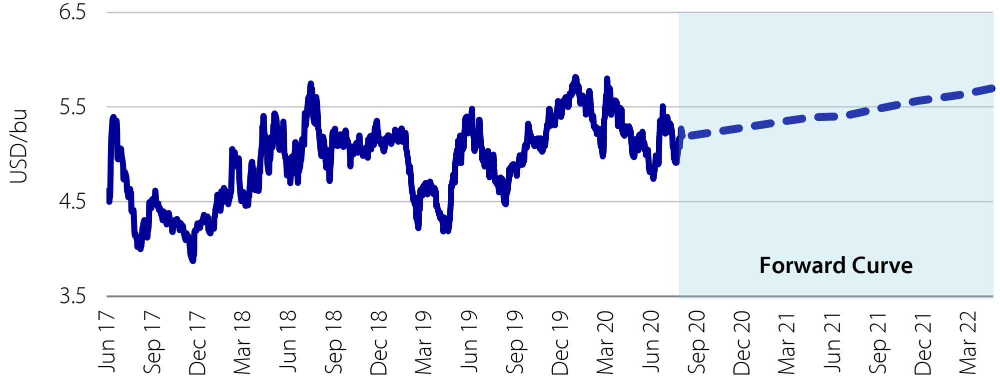


Source: CBOT, Rabobank 2020

Forward Price Curves

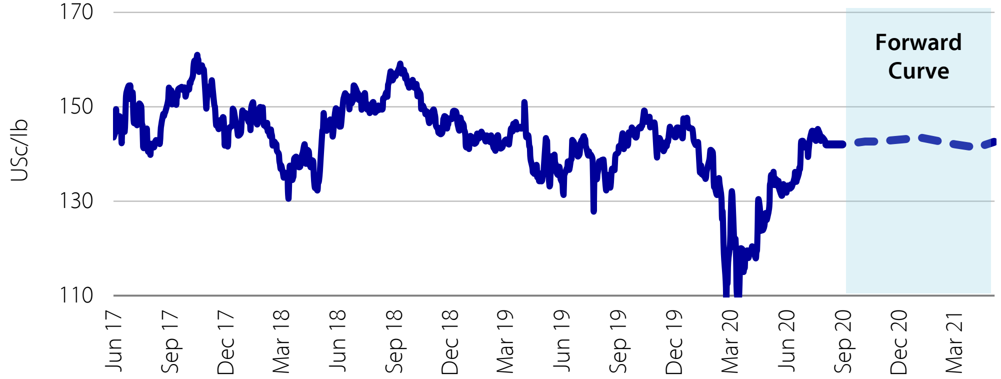
As of August 21, 2020

CBOT – Wheat



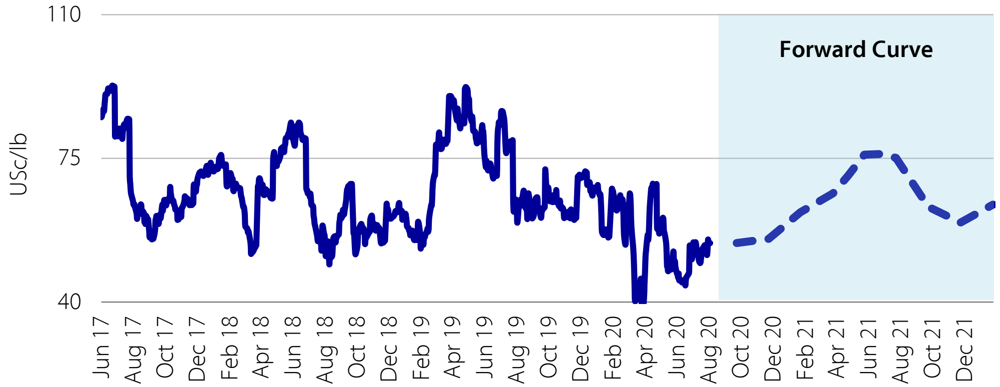
Source: CBOT, Rabobank 2020

CBOT – Feeder cattle



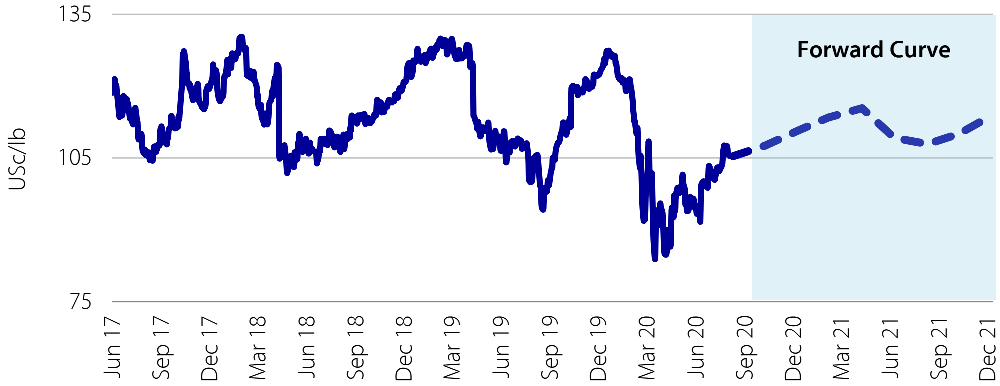
Source: CBOT, Rabobank 2020

CBOT – Lean hogs



Source: CBOT, Rabobank 2020

CBOT – Live cattle

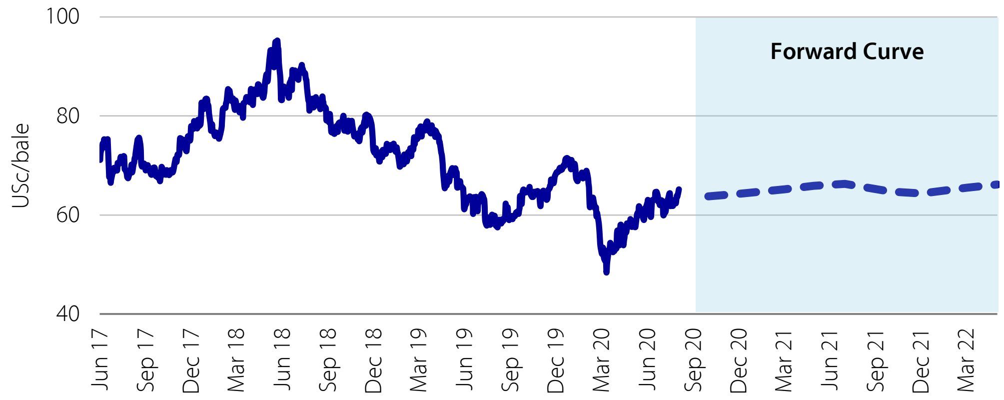


Source: CBOT, Rabobank 2020

Forward Price Curves

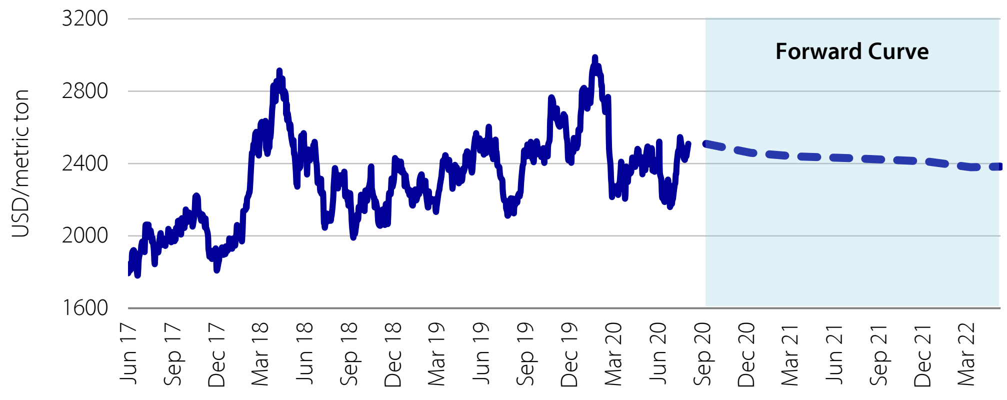
As of August 21, 2020

ICE – #2 Cotton



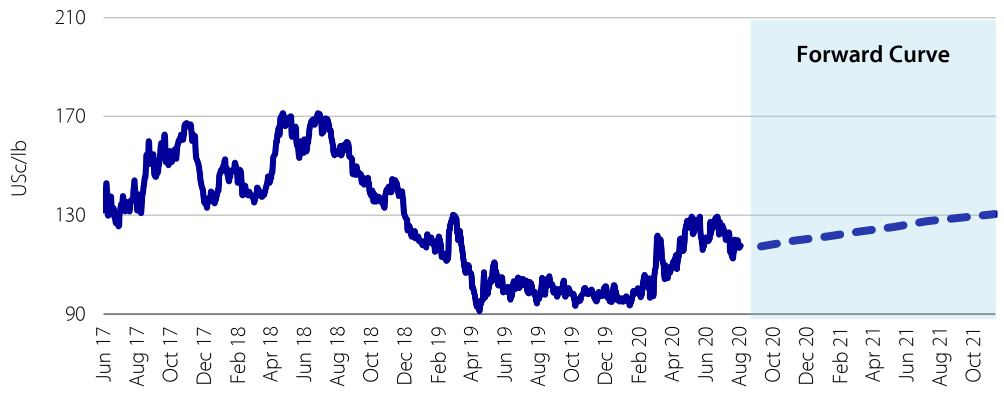
Source: ICE, Rabobank 2020

ICE – Cocoa



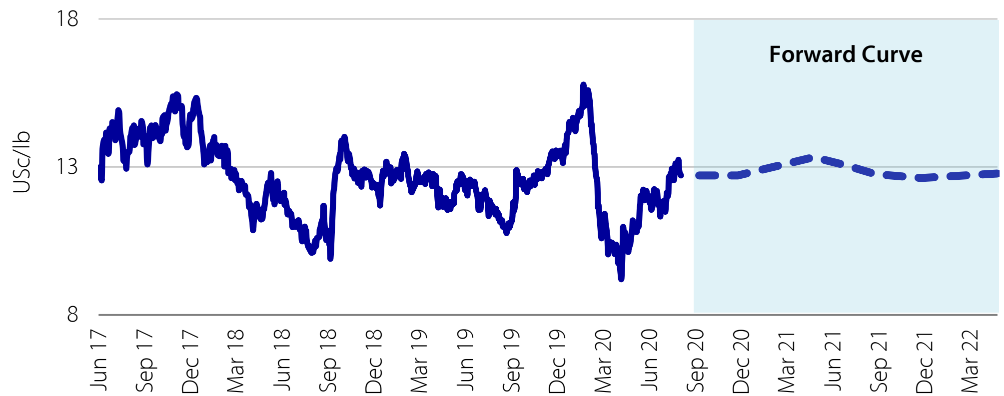
Source: ICE, Rabobank 2020

ICE – FCOJ



Source: ICE, Rabobank 2020

ICE – #11 Sugar



Source: ICE, Rabobank 2020

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