



# North American Agribusiness Review

Rabobank


RaboResearch
Food & Agribusiness






October 2020

# Report Summary

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# Economy
## Turbulence ahead

Rabobank

### US

- While the US economy is in a mechanical rebound from the lockdown, several headwinds are converging to pose a threat to the recovery in Q4. The pace of the recovery is already slowing as households and businesses are struggling with the impact of the lockdown and the virus. Although it seems that the first wave of the coronavirus in the US has peaked, the level of infections remains elevated. This has raised the risk of a second wave in Q4. The extension of the fiscal stimulus has yet to arrive, is late, and is likely to be modest. The US elections are likely to lead to increased tensions with China, as opinions about China have become negative among both Republicans and Democrats. The US election results are expected to come in slowly in November and are likely to be contested. This will only amplify the ongoing civil unrest. Although some headwinds may turn out less severe than others, US recovery is up for a serious test in Q4, which could cause a temporary setback. The headwinds are likely to cause considerable market turbulence in Q4.

### Mexico

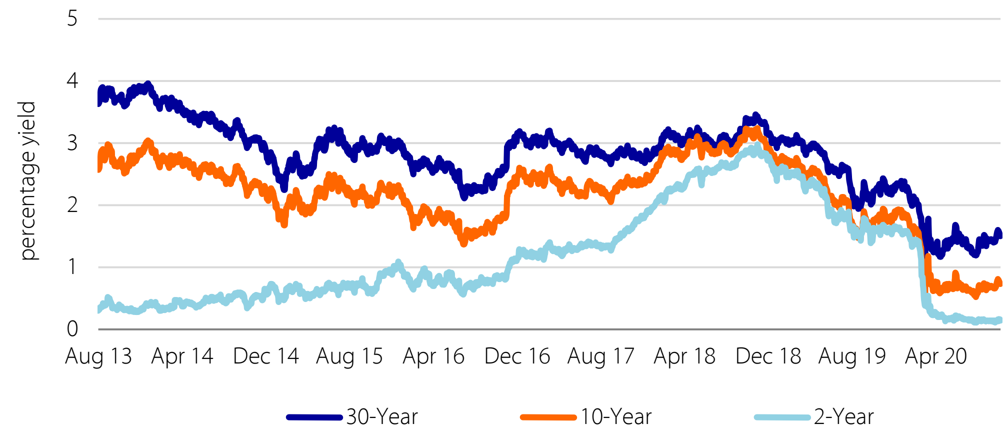
- Banxico cut the policy rate by 25bp to 4.25% at the September 24 meeting. We think CPI inflation is likely to be topping out and see the balance of risks as skewed to the downside heading into 2021. The output gap is key here and our estimates have it wider than the Bank is currently stating. Plus, we see significant risk that a slower demand rebound will only serve to exacerbate the output gap further, thereby alleviating pressure on prices in Q4 and into Q1. As such, we maintain the view that the policy rate will be cut below 4% in Q1 of next year and our expected terminal rate remains unchanged at 3.50%. Therefore we expect USD/MXN to increase to 24.50 at the 12-month horizon.

### Canada

- The Bank of Canada left its policy rate on hold at 0.25% on September 9. The Bank also left the current minimum pace of bond purchases at CAD 5bn per week. A look at CPI inflation and the likely path going forward support our view that, if anything, we may see the BoC ease further. But given our strong view that the Bank will not dip into negative policy rates, further easing would most likely emerge through increased asset purchases. Looking ahead, we expect USD to find support heading into the US presidential election and the weeks following, which means we expect USD/CAD to primarily trade with a 1.34 in Q4, with a move towards 1.35 as we head into year end.

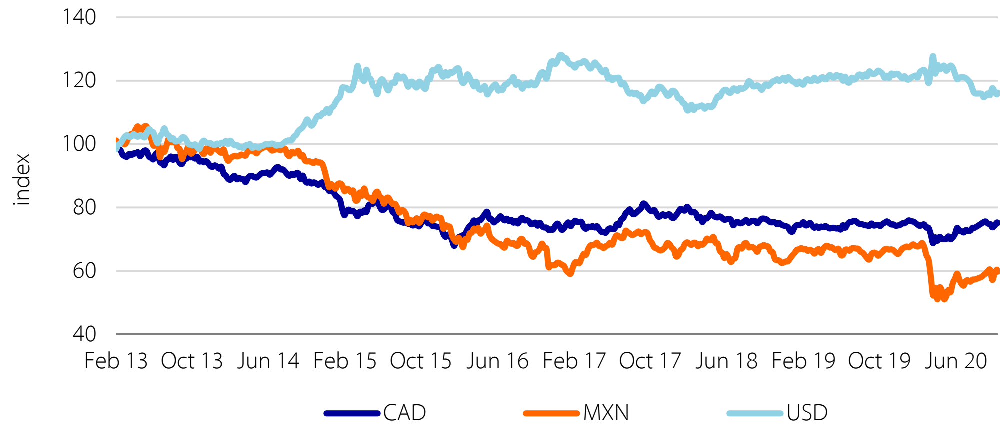
*Source: USDA, Rabobank 2020*

**Interest rates, 2013-2020**




*Source: Federal Reserve of St. Louis 2020*

**Currency indices, 2013-2020**

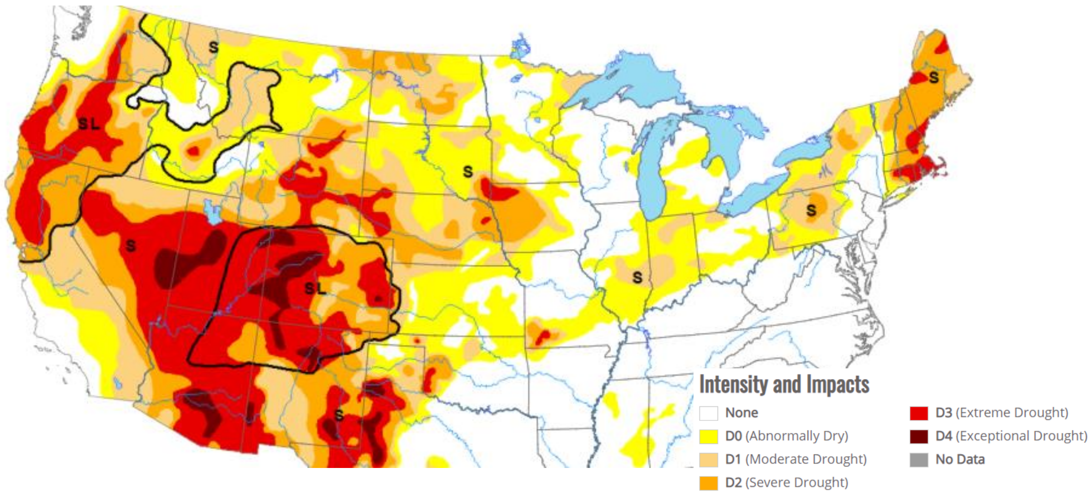



*Source: Bloomberg 2020*
*Note: Rebased at 100 as of January 1, 2013*

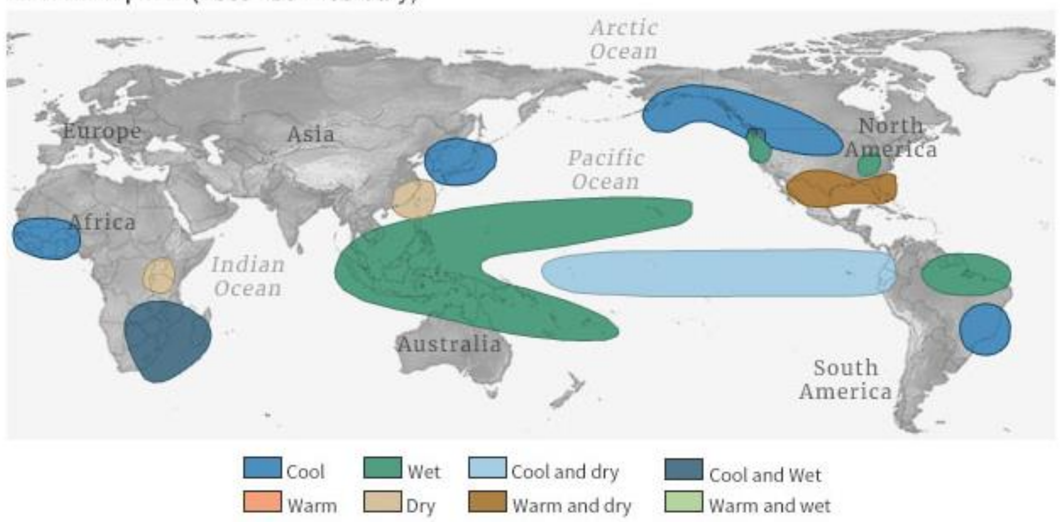
# Climate

## Continued dryness has caused drought conditions to intensify in the West and spread to the Midwest

- **The dry weather pattern persisted through August and into October**. This allowed crops to dry and farmers to harvest quickly. However, the lack of rainfall has caused drought conditions to expand, created field fires during harvest, is threatening winter wheat crop conditions and is lowering the Mississippi River water levels.
- La Niña conditions began in August, impacting US weather patterns through the Asia-North Pacific jet stream as it moves in northward of its average position. This causes the southern tier of the US to be warmer and drier, while the north tends to be cooler.
- Already many of the key US crop producing regions saw higher than normal temperatures in August and September, which were accompanied by lower-than-average precipitation. Fires raged up and down the West Coast causing smoke clouds, which traveled across the country and traveled as far as the East Coast.
- La Niña also reduces wind shear, which causes an extremely active hurricane season. There have already been 25 named storms this year, making it the second-most active hurricane season on record, behind 2005. Hurricane season ends at the end of November, which could continue to pose problems for exports out of the Gulf in the short term.
- The drier and warmer than normal weather outlook should allow for ample fall fieldwork and mitigate winter wheat freezing. If the trend persists it will also allow for another year of early spring plantings in 2021. However, given the expanding drought conditions, there will need to be substantial soil moisture replenishment before new crop development.




La Niña impacts (December-February)




Typical winter (December–February) temperature and precipitation impacts from La Niña. Map by climate.gov.

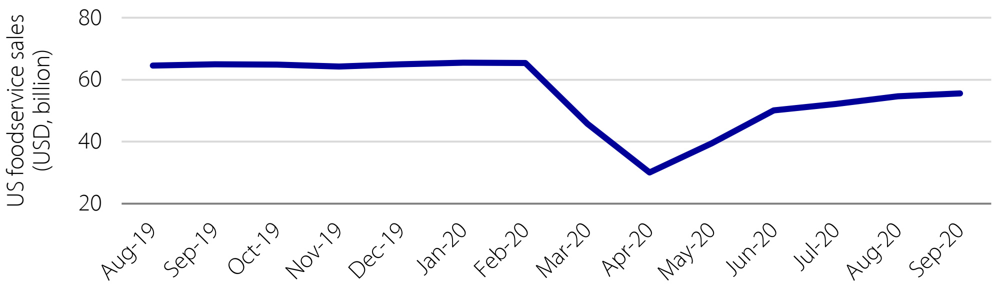
*Source: The National Drought Mitigation Center, NOAA, USDA, Rabobank 2020*

# Consumer Retail & Foodservice

## Frozen, easy-to-prepare foods remain strong; Foodservice recovery decelerates

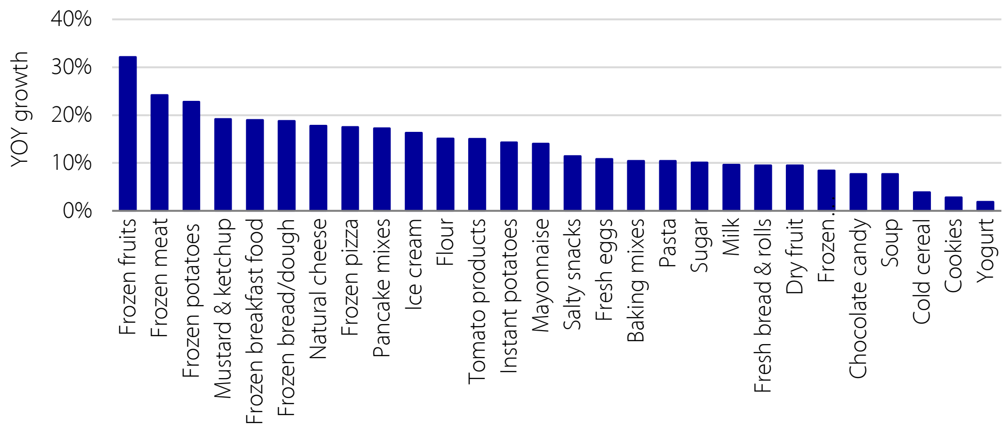
- Consumer food retail sales remain elevated in late summer, as mobility restrictions and work-from-home remained the rule. Notably, food-at-home inflation dropped below 4% in September after five consecutive months above that level.
- Following a rapid recovery in the second quarter, the pace of recovery in food-away-from-home sales has decelerated, particularly for fine dining and institutional foodservice, in parts due to expiration of the first stimulus package, persistently high unemployment, and reduced capacity (permanent closures, dine-in capacity restrictions). At the same time, food-away-from-home inflation continues to tick up, albeit modestly relative to food retail, partly due to additional operating costs and inefficiencies.
- What to expect:
  - The prospects of an immediate or timely adoption of the next round of stimulus measures, which could provide a lift to foodservice sales, remain relatively dim as the Presidential election approaches and White House and Capitol Hill remain in disagreement on the potential size and scope of the next stimulus.
  - Though the recent increase in Covid-19 cases in many regions in the US as well as in Europe is worrisome, foodservice sales are unlikely to fall back to summer levels as hospitalization and mortality rates remain relatively low and both operators and consumers are better prepared to deal with a widespread outbreak.
  - Corporate real estate giant Cushman & Wakefield forecasts the share of people permanently working from home in the US and Europe could double from ~5%-6% pre-Covid-19 to ~10%-11% in five years. If it materializes, it could structurally alter the growth outlook for both food retail and foodservice for the next several years.

### *Foodservice recovery continues, but at slower rates*



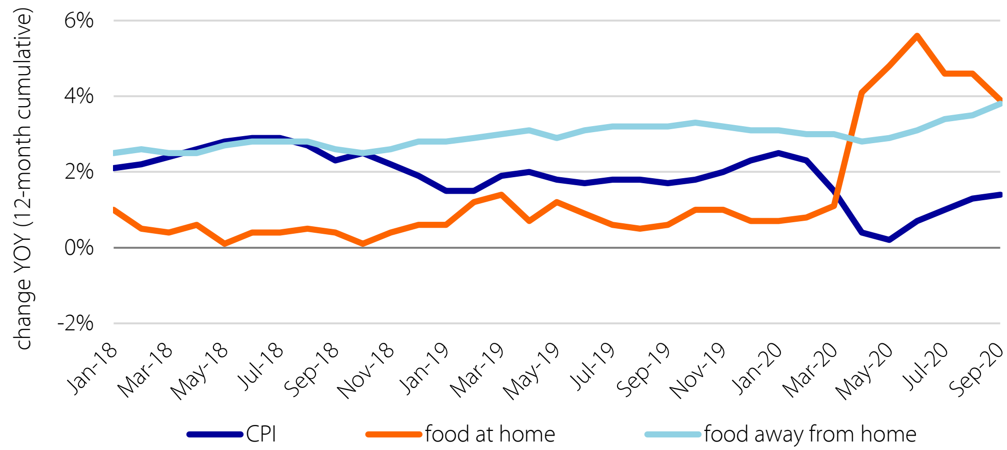

*Source: US Census Bureau, Rabobank 2020*

### *Sales of convenient and comfort foods remain supported (four weeks ending Sep 20, selected categories)*




*Source: IRI, Rabobank 2020*

### *Food price inflation*



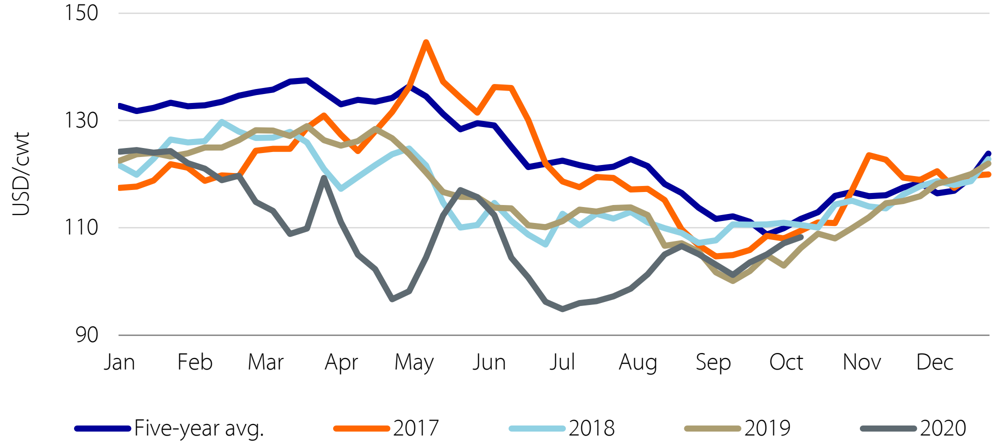

*Source: US Bureau of Labor Statistics, Rabobank 2020*

# Cattle

## The big bounce is behind us

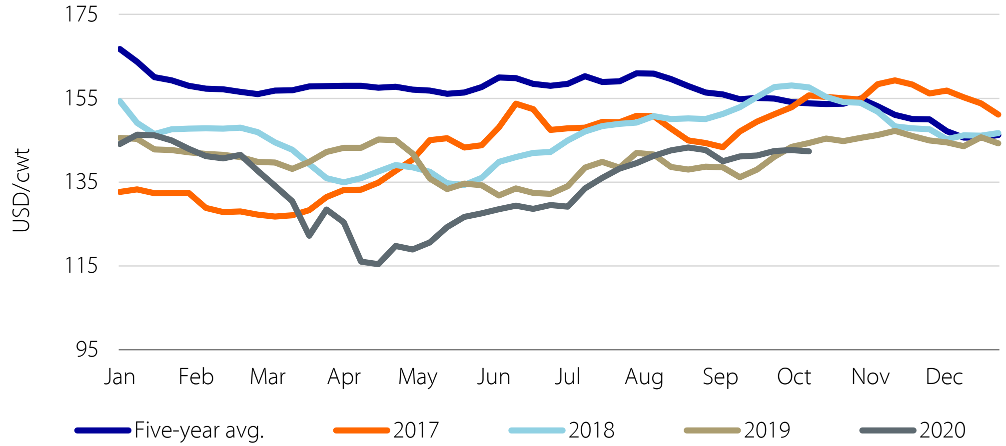
- **With recent fed cattle slaughter running at, or slightly above, year-ago levels and the drop in March and April placements, the fed cattle backlog has effectively cleared.** However, fed cattle carcass weights are still 20-plus pounds above year-ago. Through early October, beef production is -1% YTD vs year-ago and we expect total 2020 beef production to close roughly 0.5% above 2019.
- **While the Comprehensive cutout has regained a roughly seasonal pattern, the typical holiday season rally could be muted.** Re-surging Covid-19 cases and election uncertainties have many on edge. With fewer in-person conferences and holiday parties, business demand will be weak. Furthermore, the outdoor patio dining that supported dine-in restaurants throughout the summer will be much less appealing in colder weather. As the country waits for a federal stimulus package, consumers may become more cautious with their spending and restaurants will be more vulnerable to permanent closure. Expect Comprehensive cutout to peak between USD 220/cwt and USD 225/cwt sometime in November.
- **Demand uncertainty to temper fed cattle rally.** With the backlog cleared, fed cattle prices have continued a tremendous rally to a current trade above USD 108/cwt. Expect the consumer demand uncertainties described above to filter down to fed cattle prices. Although Nov-Dec trade between USD 110 and USD 112/cwt is likely, USD 115/cwt may be a stretch.
- **Feeder cattle market to stagnate, then weaken.** Tracking deferred live cattle futures, the CME Feeder Cattle Index has retreated with spring live cattle futures. While projected cost-of-gains are still reasonable, the recent corn rally has added caution to the market. July and August placements at +11% and +9% YOY, respectively, means yards have refilled and there will be large fed cattle supplies in 1H 2021. All that said, the Feeder Cattle Index should find support just below USD 140/cwt for the remainder of the year.
- **Calf prices to stay on seasonal trend.** With recent trade in the mid- to low- USD 150s, limited bunk space and drought threats to winter grazing will prevent a major late year rally in the calf market. However, the prospects of reduced fed cattle supplies by mid-2021 will likely push late-year 550-pound calf prices back above USD 160/cwt.
- **Despite beef cow slaughter at +2.7% through September, the combination of dairy cow slaughter at -5%, and heavier fed cattle producing ample 50% trimmings have kept cull cow prices in the mid-USD 60s/cwt vs USD 60/cwt a year ago.** As fall cow culling continues, there's certainly risk below USD 60/cwt for breaking and boning cows.

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




*Source: USDA, Rabobank 2020*

### *CME Feeder Cattle Index, 2017-2020*



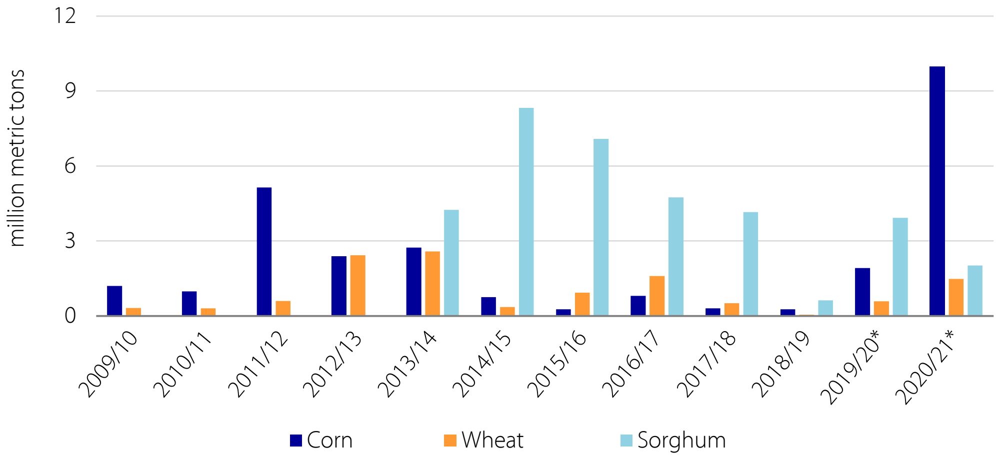

*Source: CME Group, Rabobank 2020*

# Corn

## The market seemingly changed overnight

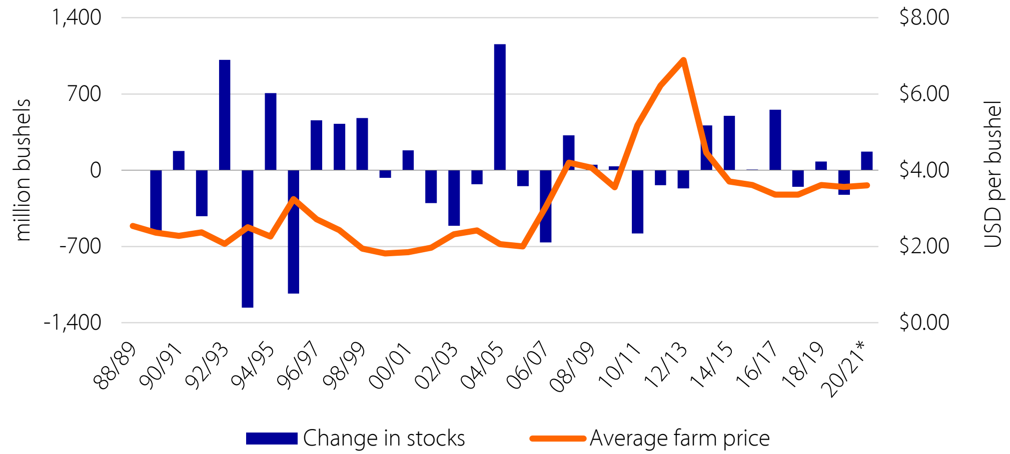
- **In just a couple of months, the whole narrative around the US corn market changed, except for the burdensome stocks situation.** The discussion has revolved around planted acres, harvested acres, yields, drought, derecho, exports and more. Not just one factor has changed the market complexion. In just two short months, new crop futures (CZ20) have rallied nearly USD 0.80 per bushel to levels not seen since the beginning of the year and which at the beginning of the growing season were not expected to be seen for quite some time.
- **The corn market needs to be put into context, so lets first look at the fundamentals.** From the August to the October Crop Production report, corn planted acres have decreased 1.0m acres, harvested acres decreased 1.5m (835,000 of those acres were in Iowa), yield has fallen by 3.4 bushels, but the US will still produce the second-largest crop on record. On the demand of the balance sheet, both feed/residual and ethanol demand has been dialed back with each subsequent supply/demand revision. Exports have been the bright spot, with the highest projected exports since 2017/18 crop year. However, despite all the market friendly news, 2020/21 crop year projected ending stocks are still above 2.0bn bushels, and the stocks-to-use (STU) ratio is nearly 15%.
- **Large ending stocks and hefty STU ratio provide price guidance.** Our analysis of the relationship between Q4 December corn futures and a 15% STU, indicates futures should be trading in the USD 3.60-USD 3.70 per bushel range. Futures are trading at USD 0.20-USD 0.30 per bushel premium. Therefore, upside potential for corn prices appears limited from current levels and, conversely, futures have some downside potential. From a marketing perspective, sellers need to evaluate their positions and determine if selling at current levels will lock in profitable margins. Likewise, buyers will need to access their coverage needs and be patient until the price adjusts to the shifting fundamentals.
- **While changes in the supply side have provided market support, the big news is the potentially large Chinese export program.** As of the October 1 Export Sales Report, potential 2020/21 US corn exports to China were 9.98m metric tons, based on actual exports and outstanding sales. If realized, this would be an all-time record. This is all being driven by China's needs for feed grains, as China is a corn deficit country. This is becoming more acute as they rebuild their hog herd post African Swine Fever. In addition, the increase in corn imports is also being driven by Phase I Trade Agreement commitments, stock building from a food security perspective and concerns about supply disruptions from future coronavirus outbreaks. China's needs, and their demand for US corn, are not a "flash in the pan" and will continue over the next several years.
- **The market is watching the weather in the Black Sea region.** The USDA conservatively reduced Ukraine's 2020/21 corn crop by 2.0m mt to 36.50m mt and their exports were reduced by a corresponding amount. There is potential for additional cuts in Ukraine's corn crop and, by extension, their export program, providing an opportunity for further increases in US 2020/21 corn exports.

### Potential record US corn exports to China – largest since 1995/96




*2019/20 and 2020/21 are preliminary estimates
Source: USDA-GATS, various Export Sales Reports, Rabobank 2020

### Four years of modest changes in US ending stocks equal to stable prices



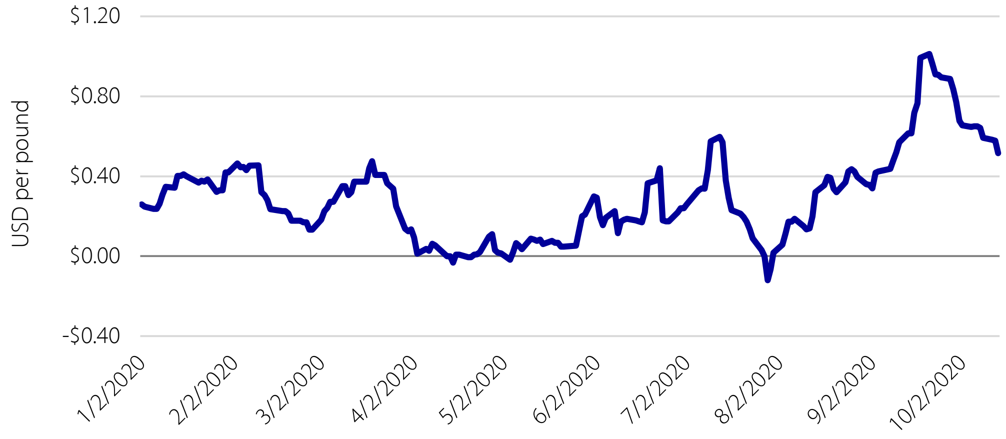

*2019/20 and 2020/21 are preliminary estimates
Source: USDA, Rabobank 2020

# Dairy

## Less aid could lead to too much milk to start 2021

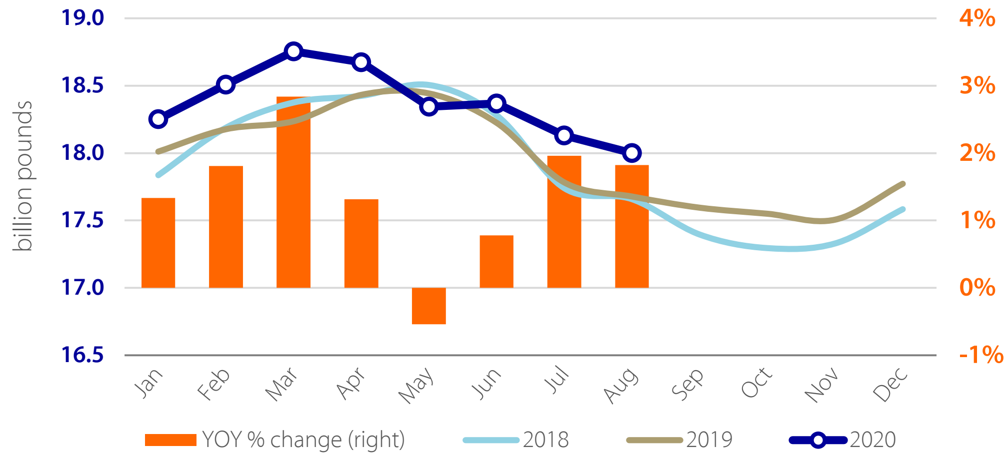
- Elevated levels of milk production could lead to a surplus if government aid disappears suddenly. The dairy industry has benefitted from two rounds of direct payments to producers through the Coronavirus Food Assistance Program that has added as much as USD 2 to USD 3 per hundredweight to milk checks when averaged over the entire year. There have also been three rounds of food box purchases through the Farmers to Families Food Box Program estimated to approach USD 1bn worth of dairy purchases.
- These aid programs have helped maintain farm profitability at levels that are pushing milk production growth above the historical year-over-year rate of 1.5%. July production was up by just under 2% YOY, and August was over 1.8%. If these growth rates continue and the government aid comes to an end, dairy markets could rapidly move to a surplus situation.
- Butter and powder production have ramped up. Butter production was up 7.8% YOY, and combined nonfat dry milk (NDM) and skim milk powder (SMP) production was up 5.4%. Nearly 372m pounds of butter in cold storage at the end of August represents a 22% increase over the same time last year. The fate of butter inventories will depend on demand during what is likely to be a less than typical holiday season with fewer and smaller gatherings.
- NDM and SMP inventories have fallen from their April highs to normal levels, in line with last year. US exports of NDM and SMP have climbed nearly 40% YOY since April. While sales have slowed to Mexico over that period, exports to the Philippines, Indonesia, and China have surged. China has also accelerated purchases of whey as the country rebuilds its pig herd following the African Swine Fever.
- Cheese production slowed in August, driven mostly by a 4.4% drop in Mozzarella production and relatively steady Cheddar production. The market for block Cheddar cheese is reportedly tight, reflected in the climbing block price, while barrels remain available and priced at a lower level.
- The price spread between blocks and barrels hit a record just over USD 1 at the CME in September, a far cry from the traditional 3-cent spread. Meanwhile, the gap between Class III and Class IV milk prices set records earlier this year and remains wide. The breaks from industry norms in these markets highlight the markets' precarious nature and point to ongoing volatility ahead.

**CME daily spot block – barrel cheese price spread**




*Source: CME, Rabobank 2020*

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




*Source: USDA NASS, Rabobank 2020*

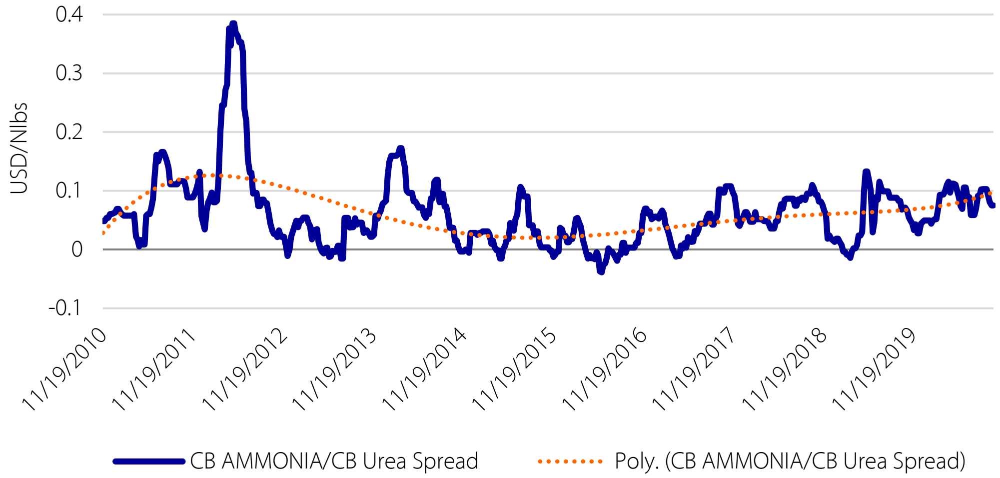
# Farm Inputs

## (Some) fertilizers falling into place

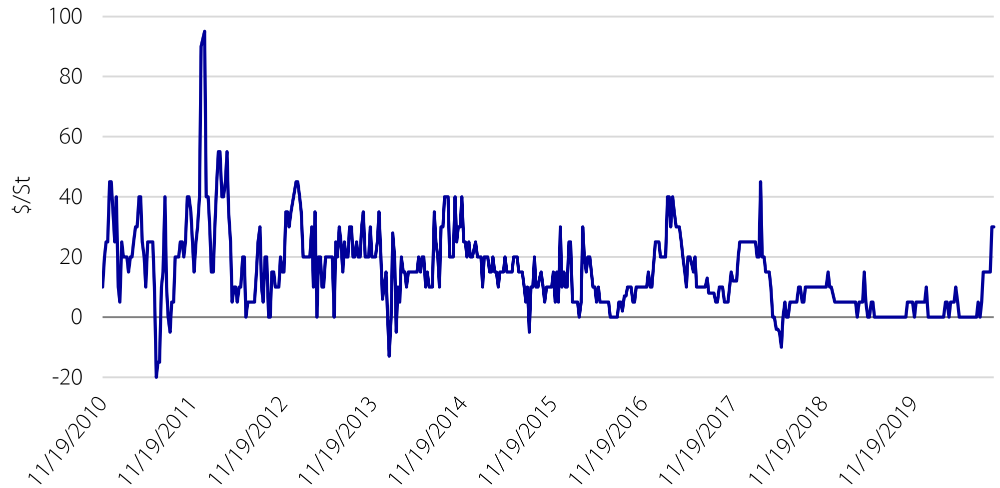
### Nitrogen – Early harvest could offer strong fall ammonia benefits

- Despite the recent slowdown in inland urea prices and the seasonal moves higher in ammonia markets, ammonia remains at a steep discount to urea on a USD/Nlbs basis. Running at a current discount of ~USc 8/Nlbs, ammonia/urea spreads are ~ USc 2/Nlbs wider than a seasonally adjusted five-year average.
- The run up in urea prices was driven by strength in international demand, which has abated somewhat at the same time that stocks in China have continued to grow. However, Brazil and India are likely to be in the market for urea through the remainder of the year.
- Tender surprises to the upside or indeed logistical snafus driven by Covid-19 could yet cause volatility in the urea market between now and spring, while any further pull back in Trinidad ammonia production could impact Tampa ammonia prices.
- Given the current spreads, potential for early harvest, risk of further price volatility and potential for good field work days ahead, current dynamics could favor strong fall ammonia applications.

### Ammonia/Urea USD/nutrient pounds spread above five-year average




### MAP/DAP spread inches up, partially attributable to CVD risk




### Phosphate risks and potash calm

- The rise in phosphate prices since the late June countervailing duties petition slowed through September, however, inland markets could remain tight through to Q1/Q2 2021.
- Even with a (farmer) favorable ruling on the duties, supply would likely only see prices lower too late for inland 2021 season.
- MAP import volumes are down ~40% YOY, on the back of more normalized demand this past spring, driving the MAP/DAP spread to its highest level since spring 2018.
- For next season, inland price risks remain to the upside if high duties, and strong fall demand send a signal to the market.
- Potash remains the least 'dynamic' of the macronutrients headed into fall season. Any further rally in commodity (corn/soybeans) prices could provide opportunities or rationale for farmers to apply aggressively in the fall to replenish soils.

*Source: Bloomberg, CRU, Rabobank 2020*

# Feed

## Exports to China remain strong, increasing domestic feed prices

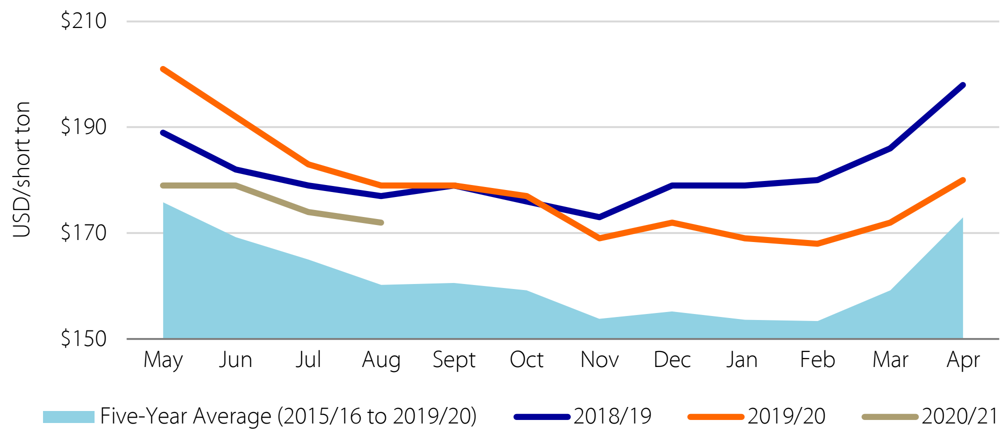
### *Hay*

- **US alfalfa hay prices have continued their seasonal decline, but remain well-above the five-year average.** The US alfalfa price was down 1% month-over-month (MOM) in August to USD 172/short ton. The price was down 4% from last August, but still 7% higher than the previous 5-year August average. The August average price for Supreme and Premium alfalfa, in the five leading dairy states, was USD 192/short ton, which is down about 8% YOY. Other hay prices held steady MOM at USD 137/short ton, up 6% YOY in August, and 13% higher than the previous five-year August average.
- **Through August 2020, total US alfalfa hay exports remained 11% higher YOY.** August exports were not nearly as robust as they were earlier in the season, and were 1% lower than the previous five-year August average. China continues to be a bright spot, with US alfalfa exports to that market up 33% YOY in August, and up 72% for the year through August. US alfalfa exports to South Korea and Taiwan are also stronger YOY in 2020. US alfalfa exports to Japan, Saudi Arabia, and the UAE are lagging last year's pace, so far this year.
- **Other hay exports have weakened, but prices indicate adequate overall demand, given available supply.** After a strong YOY surge during April and May, US other hay exports were considerably weaker over the summer. However, prices for other hay have remained relatively strong, as discussed above. The strong price suggests that domestic and export demand combined, continues to be robust enough, under current supply-side conditions.

### *DDGS*

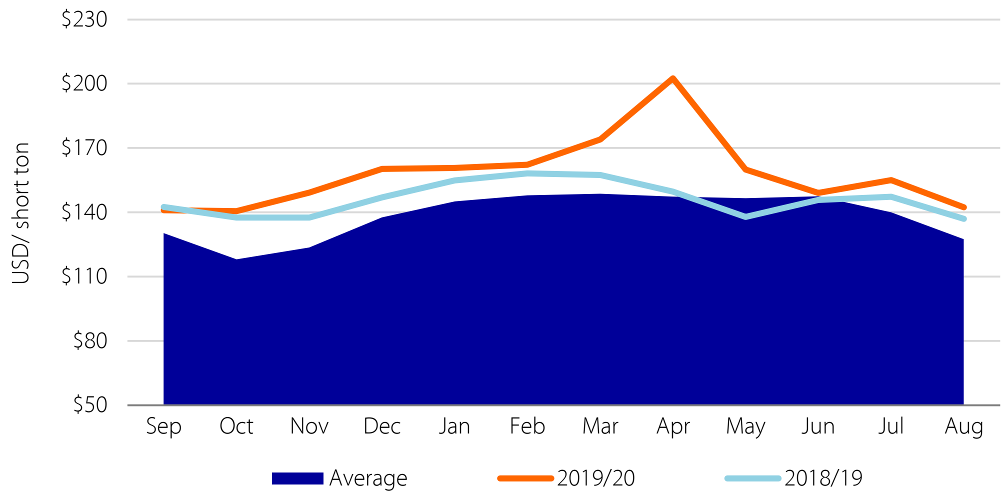
- **By-product prices higher year-to-date.** As ethanol plants slowly resume production, DDGS availability continues to increase. DDGS prices have come down from their high levels back in April, however, on average, this marketing year, prices ended higher by ~8.7% compared to last year's marketing year. Wheat middlings are 5.5% higher January to August compared to the same period in 2019.
- **Recent price increases in corn and soybean meal could bring DDGS back to rations.** Weather and strong exports continue to play a factor in higher corn and soybean meal prices. While DDGS prices continue to be slightly higher than last year, the recent rally on soybean meal and corn prices is encouraging feed mills to add DDGS back to feed ration as the cost per unit of protein has increased for soybean meal.

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




*Source: USDA/NASS, Rabobank 2020*

### *DDGS prices in Central IL, Sept-Aug 2018-2020*



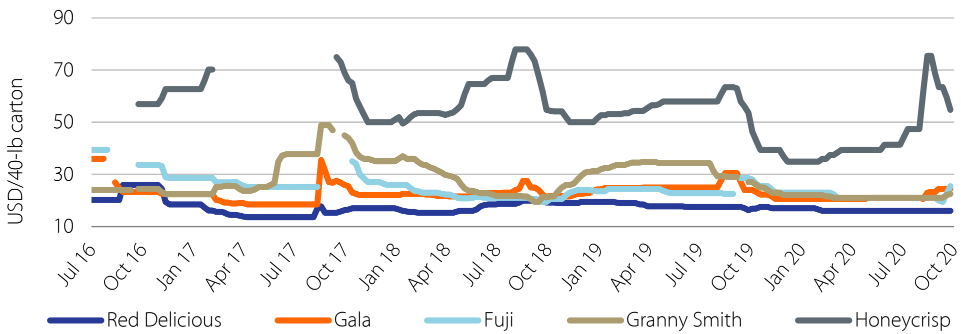

*Source: USDA/ERS, Rabobank 2020*

# Fruits

## Oranges are a consumer favorite during pandemic

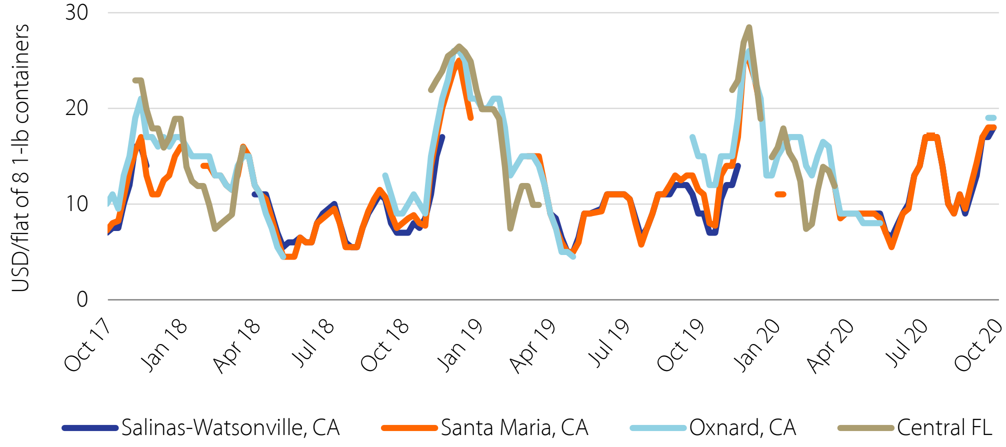
- **Strawberry prices continue to be unseasonably high** as heat waves impacted growing regions in CA late in the summer and early in the fall. By mid-October, prices were around USD 18 versus around USD 10 per flat a year before. Fall production in Oxnard has started, demand and prices may remain healthy going into the Florida and Mexico seasons.
- **Blueberry prices at the beginning of October were up 3% YOY**, but down more than 30% compared to the prices two seasons ago, during what used to be a season of very high prices.
- **Table grape inventories are down YOY and prices have remained up YOY.** During the first half of October, blend prices for California table grapes were up about 7% YOY, and up over 20% compared to the average prices observed in October 2018. Price and demand outlook is likely to stay favorable for the rest of the CA season and into the South American season.
- **Demand for oranges has been strong during the Covid-19 pandemic, and prices have remained at multi-year highs.** During the second week of October, prices for CA Valencia 88s were up 77% YOY, while prices for imported Navel 56s were up 48% YOY. Mid-sized lemons were up 10% YOY, smaller-sized lemons were priced around 20% higher YOY. Strong citrus demand and pricing is expected to continue during the next few months amid the Covid-19 pandemic, favoring the 2020/21 California Navel season that is about to start.
- **Avocado prices have shown a slight downward trend in the US market.** Prices remain steady, close to USD 30 per carton for Hass 48s, down from low USD 30s 12 months before. The price outlook for 2021 will depend heavily on CA crop prospects, where an 'off-year' harvest is expected.
- **After a recent downward adjustment to the industry's crop estimate, apple production in WA will be down around 10% YOY**, as lighter yields are observed during the ongoing harvest. During the first half of October, prices of non-organic Granny Smith, Fuji, and Red Delicious were down 17%, 11%, and 2% YOY, respectively. Gala and Honeycrisp prices were up 2% YOY.

### *Washington apple shipping point prices, 88s – WA Extra Fancy, 2016-20*



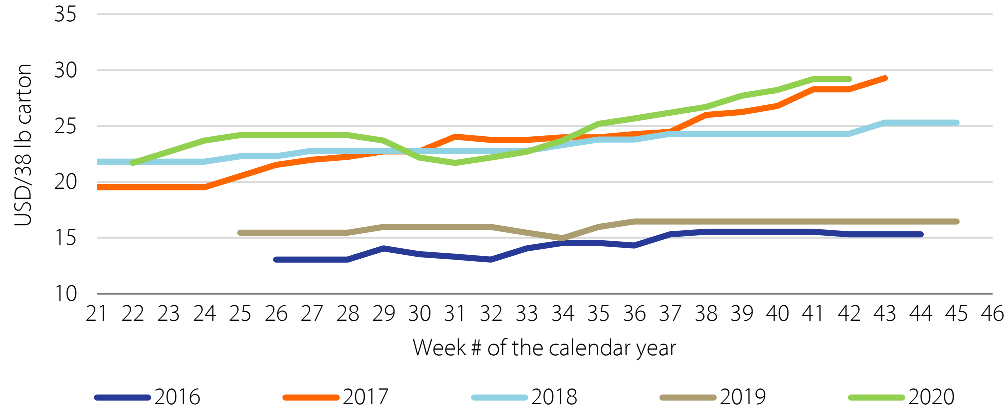

*Composite of fine appearance and standard appearance prices*
*Source: USDA AMS, Rabobank 2020*

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




*Source: USDA AMS, Rabobank 2020*

### *California Valencia orange shipping point prices, 88s – shipper's 1st grade 2016-2020*



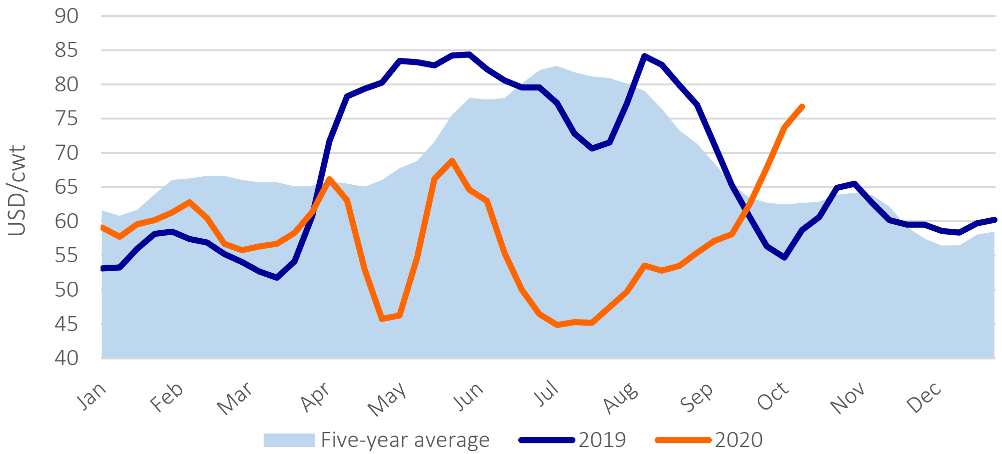

*Source: USDA AMS, Rabobank 2020*

# Pork

## Unexpected rally on stronger Asian demand, Mexican markets still depressed

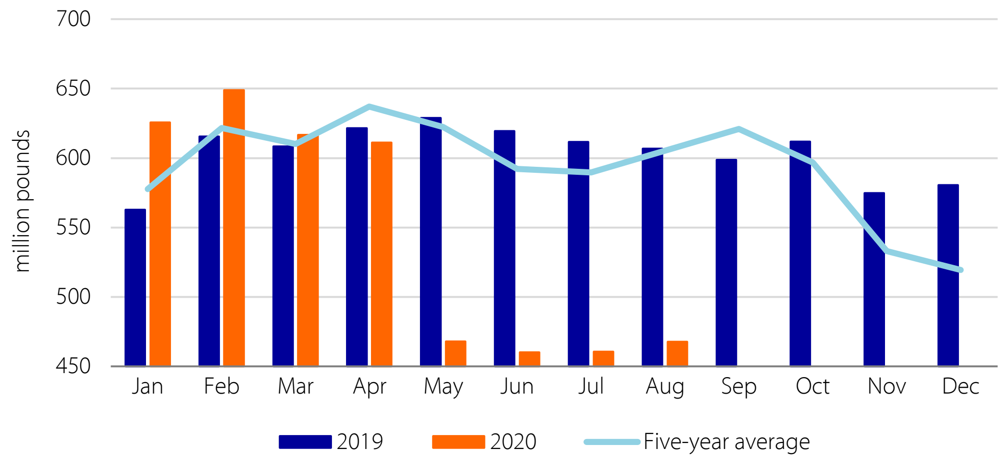
- **Pork production in recent days has surpassed year-ago levels, but continues to fluctuate based on labor availability.** Harvest levels are back to 95% of year-ago levels, with slaughter topping 2.7m hogs last week for the first time since March. With Covid-19-related disruption still an issue, it will be difficult to top 2019 slaughter in coming months. Food packer demand and smaller-than-expected hog supplies have contributed to a 31% YOY improvement in the lean hog index in recent weeks. Markets continue to contradict USDA inventory reports, which projected a sizable overhang in market-ready pig supplies in coming weeks. While weights have moved higher on cooler weather and new crop corn, we have seen little evidence of burdensome hog supplies near-term. With limited confidence in the September report, we expect a good balance of hog supplies with packer capacity in coming weeks. Any disruption at the plants, however, could drive a sharp correction in market prices. Markets have given producers an opportunity to limit their risk into 2021, which is likely to limit further herd contraction.
- **Pork carcass values are up 46% from their June lows and are up 17% in the past month on strength in export demand.** Early fall strength in bellies has held (up 22% in past month), whereas ham values have fluctuated in recent days. Fresh pork prices moved higher for nearly all cuts, with strength in loins, butts, picnics and ribs. Exceptional export demand has helped strengthen the entire carcass, as have expectations for smaller-than-expected pork supplies. We expect belly prices to moderate in coming weeks, while ham and loin values should remain seasonally strong. Low pork inventories in cold storage (down 23% YOY) also remain supportive to continued pork price strength. Packers should see strong pricing opportunities through year-end and into 2021.
- **US pork exports were down 5% YOY in August as slower sales into Mexico (down 9%) and South Korea (down 34%) more than offset increases to China (up 21%) and Japan (up 6%).** Exports have strengthened in recent weeks, however, after several key markets banned pork imports from Germany following the discovery of African Swine Fever (ASF) in several wild pigs. This latest development has materially strengthened the outlook for pork exports prior to the Chinese New Year, but does not change our outlook for gradually lower exports to China beginning in 2021. Higher pork prices may limit interest in price sensitive markets, but product movement remains very strong through early October.
- **Mexican hog prices have started to improve in response to stronger global markets, but remain 3% below year-ago levels.** Stronger exports (up 18% YOY in July) are helping offset lackluster domestic demand. A fivefold increase in exports to China and strong increases in several smaller markets like Guatemala and Vietnam are helping offset weaker sales to South Korea and Japan. We expect slightly stronger prices through year-end on improved seasonal demand.

### US lean hog prices, 2019-2020




Source: USDA, 2020

### Frozen pork inventories in cold storage, 2019-2020



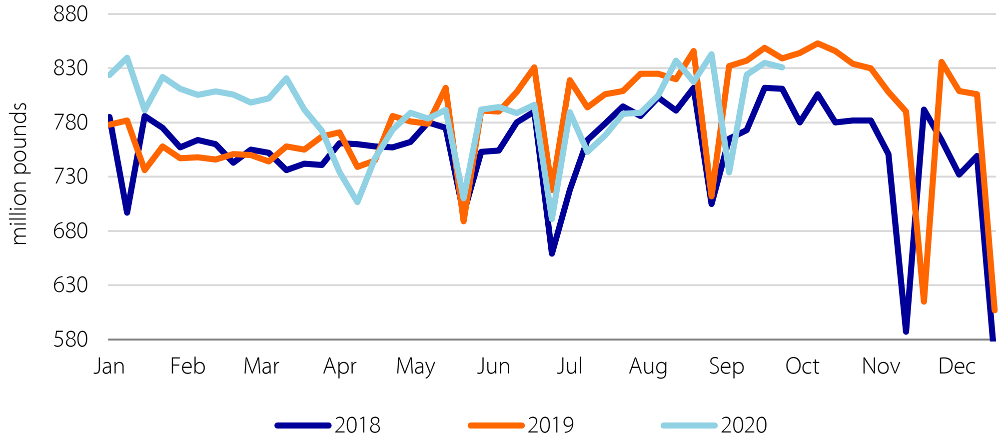

Source: USDA, Rabobank 2020

# Poultry

## Limited price improvement on large US supplies, Mexican poultry markets remain stable

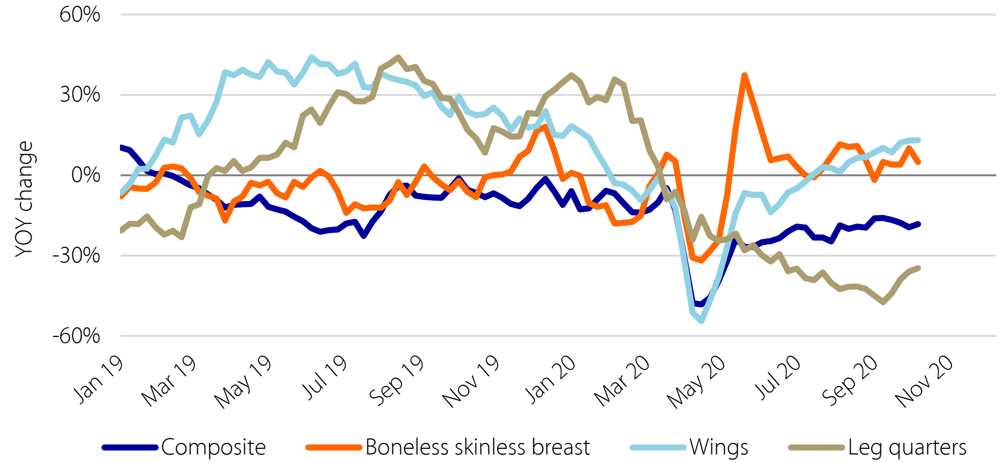
- **Placement data in recent weeks is in line with year-ago levels, suggesting limited growth in head slaughtered is likely through year-end, while average bird weights remain 1% to 1.5% above year-ago.** Current RTC chicken production is down 1.4% YOY to 831mn pounds, with a 3% decline in head slaughtered partially offset by modest increases in weight. Mid-weight bird production is up rather sharply, whereas big bird production continues to move lower on weaker breast meat returns. Q4 2020 production is expected to be in line with year-ago, which translates into a 1.2% increase for the full year (down 0.3% from earlier expectations).
- **The hatchery supply flock on September 1 was up 4% YOY, suggesting that integrators may be either retiring a larger number of hens and/or are anticipating stronger broiler markets in the coming months**. We are currently anticipating a modest decline in Q1 2021 production, to be followed by a gradual YOY increase. Rabobank expects a 0.8% YOY increase in 2021 RTC production. Current production trends are likely to limit a rebound in profitability.
- **Chicken prices remain depressed as excess protein supplies continue to weigh on global and domestic markets.** The only exception is wings, which remain exceptionally strong on good foodservice demand and relatively limited inventories. Jumbo wing prices are currently up 13% YOY, but are expected to move lower seasonally through year-end. Conversely, boneless breast meat prices are down 2% to USc 86 per pound and are expected to remain weak through year-end. High retail prices of many chicken products continue to limit consumer interest, with scarce retail ad support, large supplies of competing proteins, and growing supplies of chicken, we see limited improvement in prices in the near term.
- **Leg quarter prices remain depressed due to weak export interest from many key markets.** August exports were down 2.2% to 589m pounds, with double-digit declines in three of the top four leading markets. Stronger exports to Canada (up 35% YOY) and sizable gains in shipments to China were unable to fully offset declines in Mexico, Angola and Cuba. Gains in several smaller markets were notable, however, suggesting the industry has again done a good job diversifying its export base. Despite the stabilization in markets, weak economic growth is likely to limit a rebound in export in Q4. We expect a gradual recovery in 2021, but for sales to remain below historic levels.
- **Mexican chicken prices have recovered more quickly (up 33% vs. a year ago), as earlier production cuts limited production growth, while demand has stabilized.** The current market outlook remains favorable, even as production begins to increase. Imports of US chicken were lower in August, but low-cost imported product remains an industry headwind. Rising feed costs are likely to work against larger industry production.

### Ready-to-cook chicken production, 2018-2020




Source: USDA, Rabobank 2020

### US chicken prices, 2019-2020




Source: USDA 2020

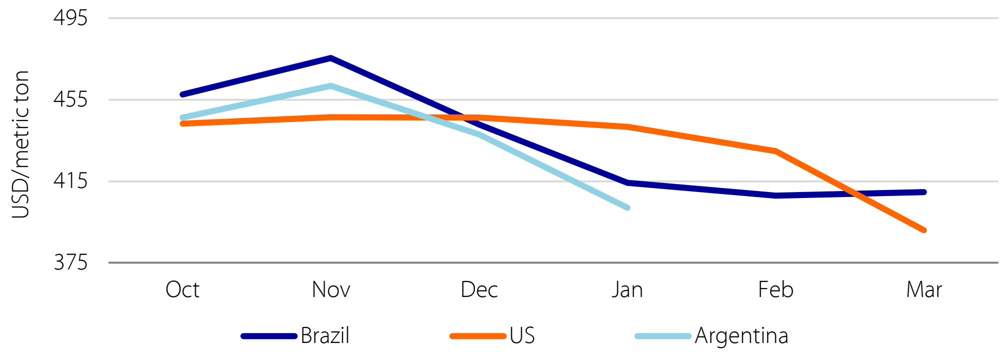
# Soybeans

## Record high yields and moving a big crop

- **The tail end of the US harvest is being met by continued strong demand and will be key to fulfilling world demand ahead of South America's next harvest**. This will likely continue to add to market volatility as a massive US export program needs to be executed and strong domestic demand fuels crush margins. This is all happening during an uncertain global economy which has caused investors to pile into commodity markets.
- **Expanding dryness in the US caused the market to lower their expectations for this season's soybean crop production**. In the October Crop Production report, the USDA maintained their forecast for a record high yield of 51.9 bpa and instead lowered their acreage estimate. This reduced their crop production estimate by 111 mbu. The smaller crop combined with strong demand caused the USDA to reduce their forecast for US 20/21 stocks to 290 mbu which was 73 mbu lower than the market was expecting and would be a five-year low.
- By mid October, the soybean crop was 61% harvested which is well-ahead of normal and the quickest harvest pace since 2012's drought. Farmers have generally reported better-than-expected yields. **The big crop and early harvest has been met by strong demand as the US is the only major exporting country with ample supplies**. China has been a strong buyer of soybeans as they seek to rebuild supplies. South America's old crop supplies have dwindled, and their new crop soybeans will not replenish the market until Q1 2021. This leaves the US as the only shop in town and prices have responded accordingly by moving higher and creating an inverted market. US FOB soybean prices are the cheapest for the remainder of 2020 until new crop South American harvest will become available.
- Strong demand for US soybeans are expanding export elevation margins and increasing crush margins. Nearby soybean prices are up nearly 20% since the beginning of August. Meal prices are up more, however, gaining 27% over the same time period. This has driven crush margins higher as the domestic feed market battles the export market. Soy oil prices have followed but remain the laggard of the complex with only a 9% price gain. Soybean Gulf spot basis has rallied to USD 0.73/bu which is the highest level since 2015. Elevation margins have also expanded due to the strong demand and amidst some of the weather disruptions due to the active hurricane season and low river levels. Going forward, weather, and Chinese demand, will be a key driver of export logistics and export prices. This will also drive interior prices as strong domestic feed demand continues to compete with global users for US beans.

***Brazil prices have pulled global soybean values higher and inverted the market***

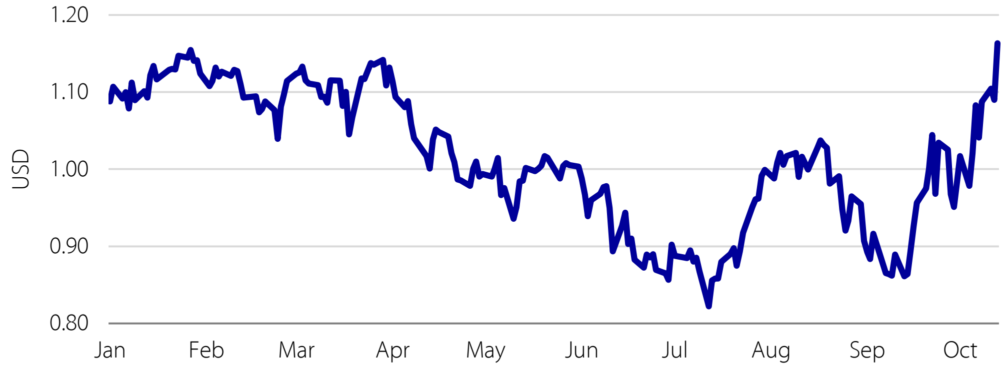
***Soybean FOB prices, Oct 2020-Mar 2021***




Source: Bloomberg, Rabobank 2020

***Soy crush margins have increased despite high soybean prices, due to strong meal demand***

***December 2020 CBOT Soybean crush margins***




Source: Bloomberg, Rabobank 2020

# Tree Nuts

## Strong almond shipments, but at lower prices

**Almonds:** US almond supplies during the 2020/21 marketing year are estimated to be up about 20% YOY. Total US shipments in 2020/21 were up 32% YOY through September. Exports, accounting for 71% of US shipments, were up 43% YOY, while domestic shipments were up 11% YOY. Shipments to India, that have accounted for almost one-third of US exports so far, are up about 143% YOY, mostly NKW in-shell almonds. There is a growing divergence in price between small nut sizes and large nut sizes. Prices have started to strengthen over the past 30 days. However, unless there is some type of yield disruption next year, prices may remain depressed for one or two more seasons.

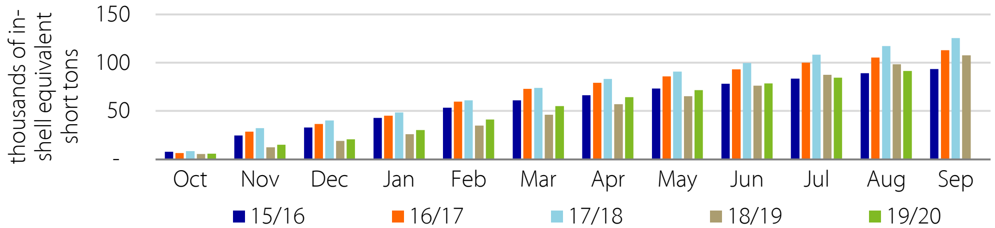
**Hazelnuts:** By the end of the 2019/20 marketing year, shipments were up 9% YOY, with total in-shell exports increasing 15% YOY. About 97% of the marketable supply was sold. In 2020/21, an 'on-year', a record crop is expected. US hazelnut production is set to continue to expand as plantings of newer varieties are starting to produce. On the demand side, hazelnuts are used in more products, providing a favorable outlook.

**Walnuts:** The California crop is expected to set a new record in the 2020/21 marketing year at 780,000 short tons, up 19% YOY, according to the USDA. Shipments were down about 5% YOY according to the preliminary August report for the end of the 2019/20 marketing season. About 89% of marketable supplies were sold, a lower proportion compared to previous years. Exports declined by 6% YOY, and domestic shipments were down 3% YOY. Exports accounted for 63% of US shipments in 2019/20. During the fist month of the 2020/21 season, US walnut shipments are up 8% YOY, but the industry will have the challenge of marketing a large crop.

**Pistachios:** US pistachio shipments at the end of the 2019/20 marketing year were down about 27% YOY. Estimated marketable carry out at the end of the 2019/20 season was up 9% YOY, according to industry statistics. While the incoming 2020 US crop size is still being evaluated, it will likely be at a record-breaking levels, and good quality is being reported as the availability of shelling stock and closed shell is very limited this year. International wholesale prices have remained steady and prices to US growers are expected to be discovered soon.

**Pecans:** US pecan export volume in the 2019/20 marketing season through August was down 7% YOY, according to USDA figures. Preliminary industry numbers show that while the pandemic has had an effect on export shipments, the growth in domestic shipments has been strong, bringing total shipments up almost 7% YOY. Quality may be an issue in some regions during 2020/21, including imports from Mexico. Hurricanes have impacted the crop in some US growing regions.

### Cumulative US pecan exports




Source: USDA FAS, Rabobank 2020

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

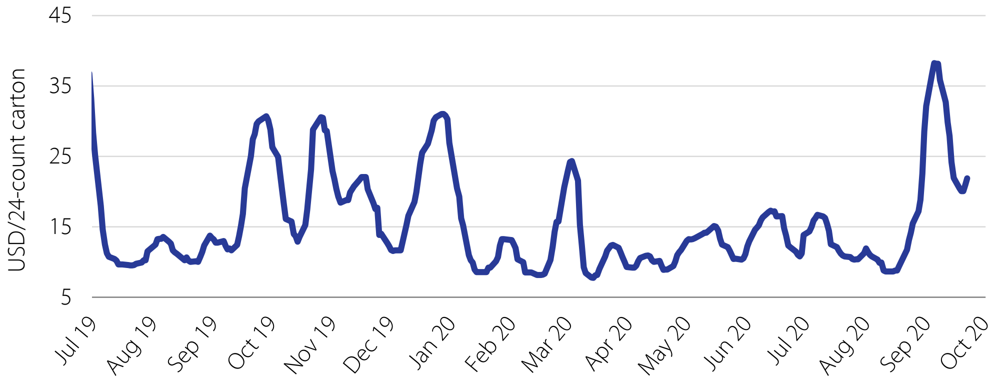

*Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2020. *End of 2019/20 marketing year through June for hazelnuts; August 2020 for walnuts and pistachios. Through September 2020 for almonds (2020/21 marketing season) **Meat pound equivalent. ***Not considering inventory adjustment/loss*

# Vegetables

## Very high romaine lettuce prices to remain a little longer

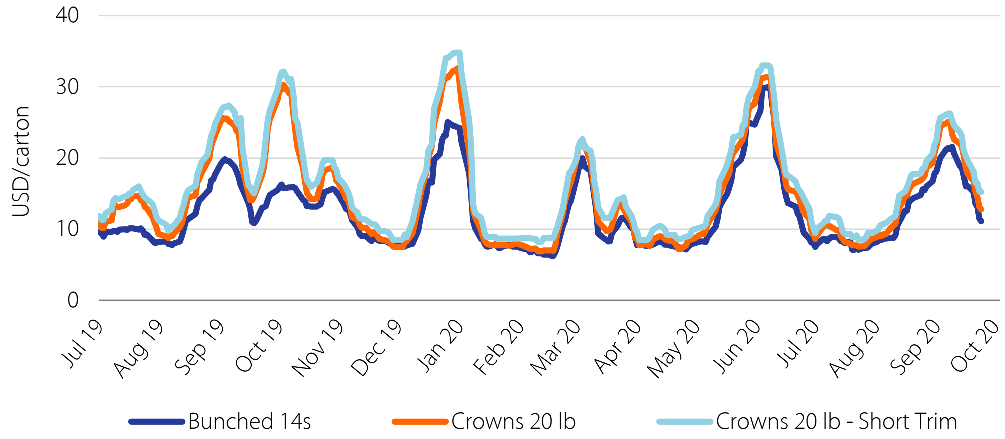
- **The tail-end of the California Central Coast season has been impacted by adverse growing conditions.** Heat waves have taken a toll on yields and quality, per industry reports.
- **Romaine lettuce prices have kept a general upward trends since June.** During the second week of October, prices were up about 70% YOY for 24s and romaine hearts (12x3) to roughly USD 40/carton, which is a multi-year high price level. Availability of romaine lettuce is expected to remain limited for the next few weeks. Product quality may continue to be an issue for the rest of the Salinas season. Production in Yuma is expected to start during the first half of November.
- **Iceberg lettuce prices were down about 22% YOY off the high prices a year ago.** Prices remain slightly over USD 20/carton for wrapped 24s. Demand is currently reported to outstrip supplies. Prices are expected to increase through the rest of the Salinas season. Quality issues, due to adverse weather conditions, may continue through the end of the Coastal season.
- By mid-October, broccoli crown prices were down by double digits YOY, depending on the specific product, and bunched 14s were priced down 16% YOY. Industry sources report steady supplies out of the Salinas Valley and Santa Maria as broccoli has fared heat waves a bit better.
- **Cauliflower prices have been gradually increasing over the last month to over USD 13/carton for wrapped 12s,** but still down almost 50% YOY. Prices are increasing due to lower yields caused by heat waves and may remain at relatively high levels going into transition season.
- **Sweet potato prices in North Carolina were below USD 16.00/carton during the second week in October 2020**, down about 23% from the relatively high prices 52 weeks before. High demand season is ahead. A backdrop of increased retail produce sales and home cooking may provide some price support.

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



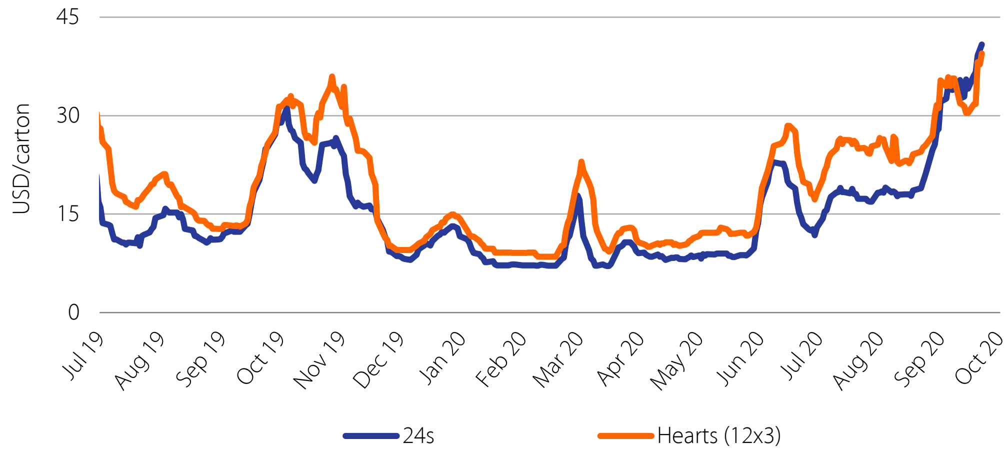

*Source: USDA AMS, Rabobank 2020*

### *Broccoli – US daily shipping point price, 2019-2020*




*Source: USDA AMS, Rabobank 2020*

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



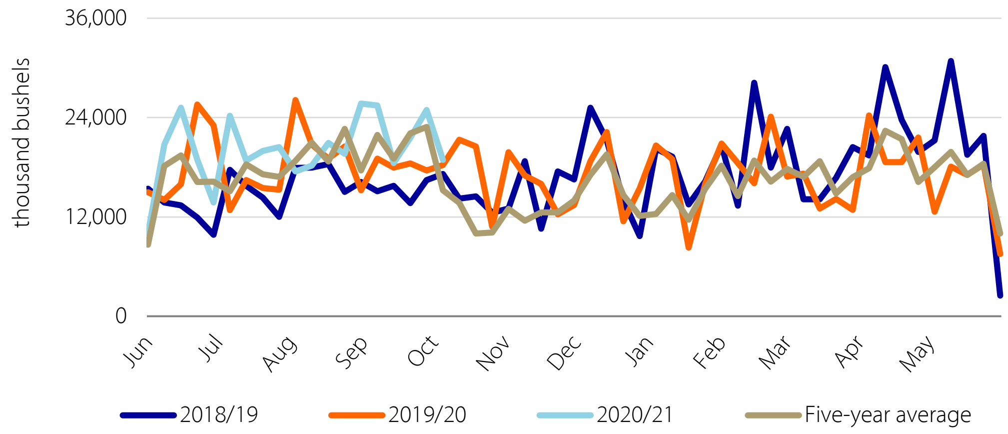

*Source: USDA AMS, Rabobank 2020*

# Wheat

## Price rally will be checked by record world production and stocks

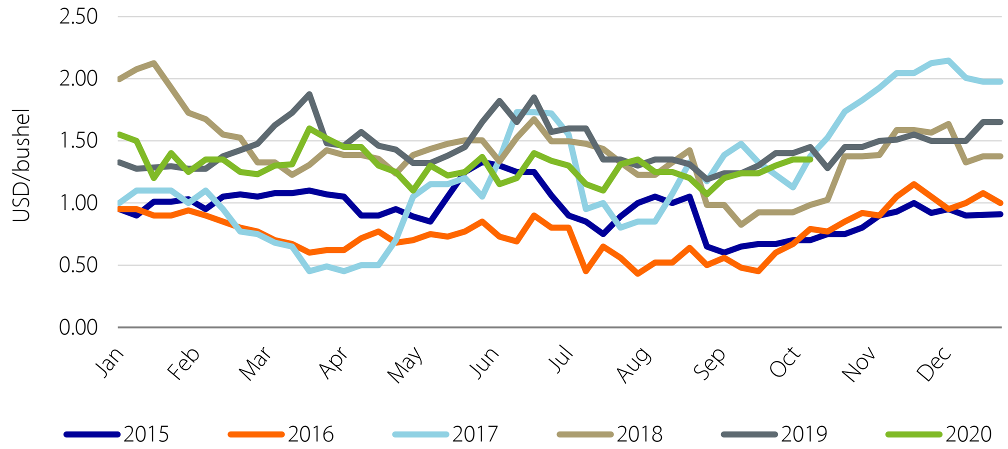
- **US wheat futures have been hitting multi-year highs**. At this writing, both Chicago and Kansas City wheat futures were hitting multi-year highs, five-year and two-year highs, respectively. Minneapolis futures were steady with higher prices earlier in this year. Wheat futures have been following corn higher, but a tighter US supply/demand picture and weather is playing a big part in the wheat rally.
- **Many of the major wheat-growing areas of the world are experiencing dry soil conditions and in many case drought conditions** – France, Germany, Ukraine, Australia and the US Southern Plains. In addition, an official La Niña has been declared, which means dry conditions from the southern plains to the southeast US and PNW from October through April and from August to December in eastern Argentina. There have been reports of delayed planting in the Black Sea region. With all the weather uncertainties around the world, wheat prices are likely to be well-supported into next spring.
- **Despite all the weather concerns this past growing season (northern Europe and Ukraine), the world is not without adequate wheat supplies.** The Russian crop more than made up for production reductions in Ukraine, Canada, Argentina and the US, resulting in record production and record stocks.
- **The good news is that, despite a global recession, global wheat trade is only down less than 1% versus a year ago.** The US is seeing strong exports, year-to-date export inspections are up 9.9%. China is one of the destinations which has seen the largest increase – year-to-date export inspections are 1.1m metric tons, nearly double total exports for the 2019/20 crop year. It is questionable how long China will continue to import US wheat as their wheat stocks are 126% of domestic consumption – stay tuned.
- **US winter wheat planting is ahead of schedule in the major winter wheat-growing states.** Even though soil conditions are dry, particularly across the southern Plains, the HRW crop is going in ahead of schedule. The quick planting pace is likely pointing to more acres than last year, and certainly prices are encouraging more acres. However, crop health and production uncertainty will not be resolved until spring when the crop comes out of dormancy. Like in other parts of the world, dry weather has been and will continue to be supportive to the wheat market.
- **Multi-year highs in Chicago and Kansas City wheat futures need to be respected**. Current prices provide producers with opportunities to lock in profitable margins. With record global production and stocks, plus potentially more US acres, current price levels will not be here forever.

***US wheat export inspections running nearly 10% ahead of last year***




*Source: USDA-NASS, Rabobank 2020*

***2020 Kansas City 12% protein premiums following seasonal trend higher***

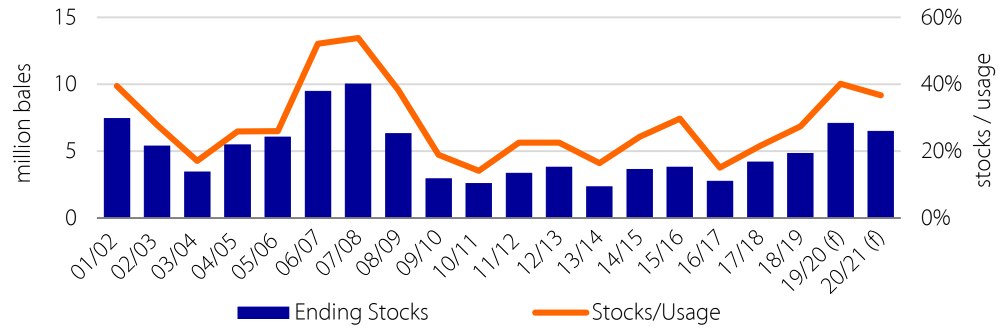



*Source: Sosland Publishing, Rabobank 2020*

# Cotton

- **Cotton prices rallied towards USc 70/lb in early October, returning closer to pre-pandemic price levels.** Weather risk, ongoing export sale strength and speculative buying continue to support the ICE #2 – cotton speculators are now the most bullish since 2018, with buying noted across several other agri commodities. On the demand side, Rabobank notes ongoing textile demand recoveries around the globe – US apparel sales finished up 7% MOM, but remain 24% lower than August 2019. However, more cautious government approaches to virus-led lockdowns lead us to believe that the low point of falling textile demand is behind us.
- **The approach of Hurricanes Laura, Sally and Delta raised serious concerns for US cotton growers.** Laura made landfall in LA, bringing heavy rainfall and strong winds but lacked the strength forecast – closed bolls protected the fibre. Sally was more troublesome, bringing drenching rainfall across the southeast with bolls 47% open nationally. Finally, Delta arrived in the Gulf, with harvest 60% and 30% complete in LA and AR respectively, and bolls mostly open. While assessments continue to be made, Rabobank believes the damage wrought by Sally and Delta could lower the 2020 crop to sub-17m bales – this means some marginal US stock-erosion in the coming season. The heavy and late rainfall brought by these hurricanes will also threaten quality for affected crops – a factor which we'll monitor closely in coming weeks.
- **September saw the US restrict imports from Xinjiang companies,** for operations in cotton and textiles, on human rights grounds. Government rhetoric suggested broader restrictions may be actioned in future. While China is yet to retaliate directly, Rabobank cautions that this – along with wider US-China tensions – risks disruptive trade policies in future which would play heavily on the cotton market. Trade aside, these fresh restrictions – along with higher consumer awareness of Xinjiang cotton – should benefit exporters with transparent, traceable supply chains.

### *An anticipated sub-17m bale 2020/21 US cotton crop would drive a small erosion in domestic stocks, albeit from 10-year inventory highs*

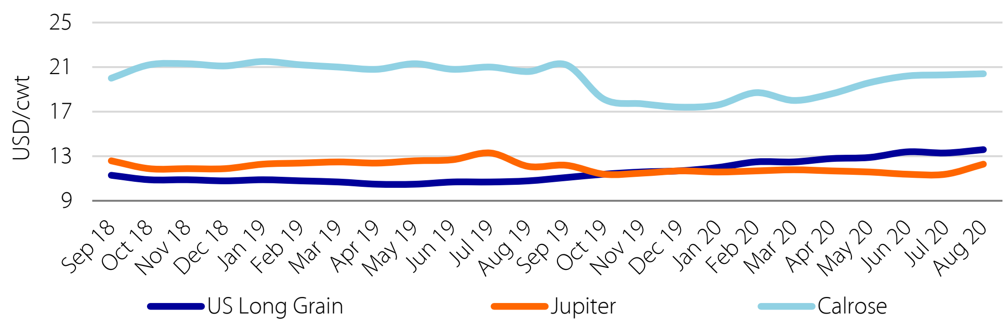



*Source: USDA, Rabobank 2020*

# Rice

- **In October, the USDA raised its 2020/21 US rice production estimate by 1.3m cwt, to 226.3m cwt, based on a higher yield forecast.** The revised production estimate is almost 23% larger YOY, driven by increases in both acreage and yield vs. 2019/20. The long grain-production estimate would be a 35% YOY increase, while the combined medium and short grain estimate is for production to be about 5% lower than last season. 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 about 10% YOY, as the larger crop will more than offset a substantially lower carry-in.** Long grain carry-in is estimated to be down 48% YOY, to its lowest level since 2004/05. Combined medium and short grain carry-in is expected to be up by 5% YOY, much more manageable than previously expected. 2020/21 long grain imports are expected to be about 1% lower than the revised 2019/20 record. Combined medium and short grain imports are forecast up about 3%, beating the 2019/20 record.
- **Total use of US rice in 2020/21 is estimated to be up roughly 3% YOY, driven by expected increases in both domestic use and exports of long grain.** Total domestic and residual use is estimated to be up only slightly, and total exports are forecast up by 5% YOY. The expected increase in long grain exports is driven by larger US supplies and more competitive prices with South American exporters. US medium and short grain exports are expected to be down 5% YOY.
- **The 2020/21 season average farm price (SAFP) estimate for US long grain is USD 11.50/cwt, while the California medium and short grain SAFP estimate stands at USD 18.80/cwt.** The 2020/21 southern medium and short grain price is projected to be USD 11.60/cwt, thus continuing the current trend of being priced lower than US long grain rice.

### *24-month US rice prices, September 2018-August 2020*

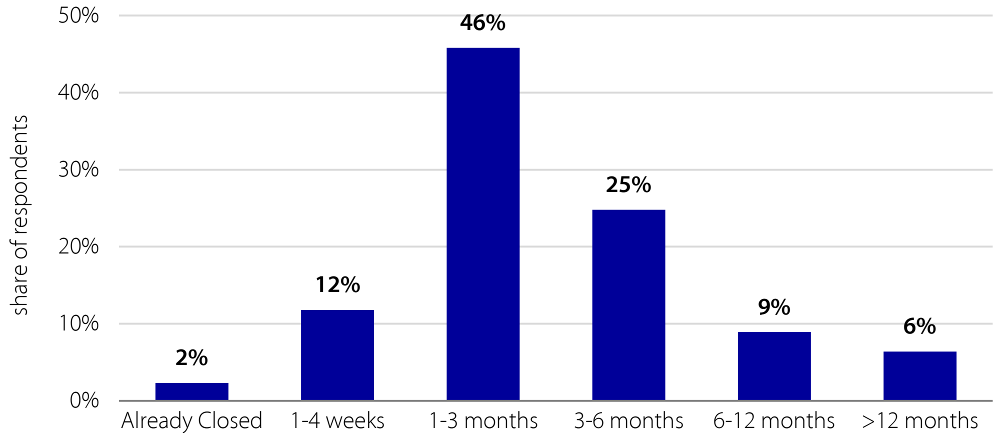



*Source: USDA NASS, USDA ERS, Rabobank 2020*
*Note: Average rough rice basis*

# Beer

- The story for beer during the pandemic is truly a tale of two cities. Beer sales in retail have soared as consumers drink more at home, growing by more than 15% YTD through September according to IRI. This does not mean Americans are drinking more. In fact, the volumes lost because consumers are unable to drink at bars and restaurants are likely larger than the gains seen in the off-premise. Just how bad is it? According to a recent presentation by Lester Jones, Chief Economist for the NBWA, distributor's sales of beer to on-premise establishment is still well over 40% lower than would be expected in a normal year. There is some good news, though. Many feared that the pandemic would bring a mass extinction to the craft beer industry. Early estimates suggested that more than half the brewers would be out of business by now – instead, the number of active breweries in the US has somehow grown.
- US malting barley prices remain very, very steady during the pandemic. In fact, the variance for malting barley prices over the last three years is lower than in any three-year period since 1980, according to the USDA. No surprise, therefore, that according to the Small Grains 2020 Summary released by the USDA on September 30, that US barley production this year is also quite stable, falling by about 4% compared to 2019.

***How long can breweries survive lockdown?***
***April survey of US craft breweries***

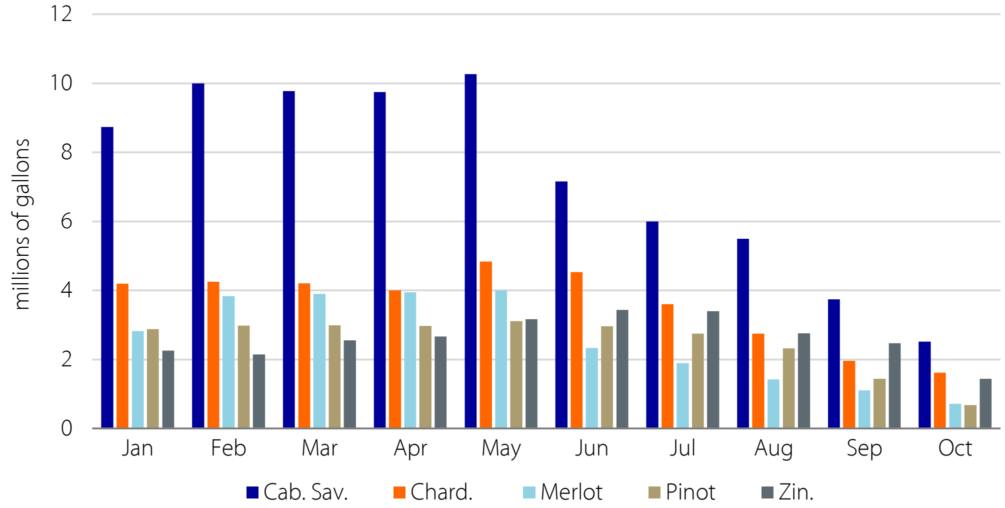



*Source: Brewers Association, Rabobank 2020*

# Wine

- Wildfires in California have cast a great deal of doubt on the quality of grapes available, due to smoke taint. Growers are reporting widespread rejections of deliveries, due to suspected smoke taint. Losses for growers will likely be measured in hundreds of millions of dollars.
- There is no doubt that some varietals and AVAs will be more affected than others. One grower told Rabobank that in Sonoma, as much as 90% of the pinot noir crop was rejected/not harvested due to smoke taint, while for other varietals (cabernet sauvignon, chardonnay, etc.), the losses were closer to 25%.
- Going in to the 2020 crop, the North Coast in California was facing an oversupply situation, due to an increase in planting in recent years, which was depressing grape prices. The devastation to the current 2020 crop has depleted inventories of 2019 bulk wines, and is driving up prices for available supply (bulk Napa Cab prices are up 50% or more). While growers have been badly damaged by the wildfires this year, the tight supply will likely allow for more favorable pricing for the 2021 crop.

***California bulk wine inventory, Jan to Oct 2020***



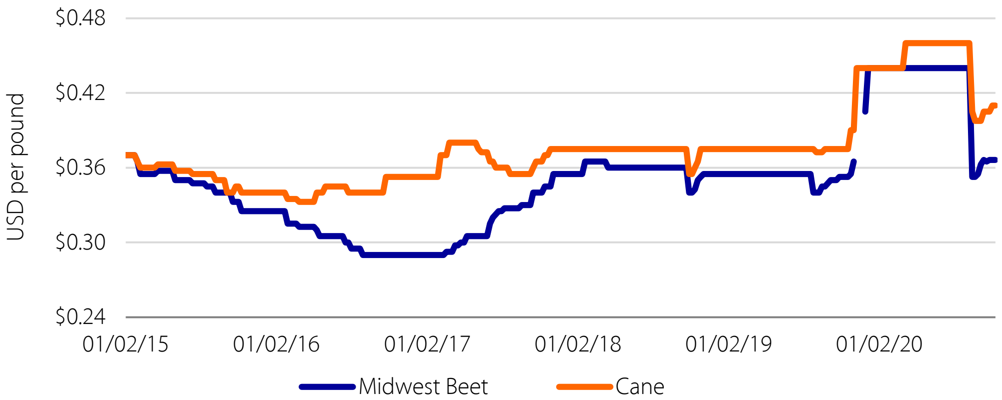

*Source: Ciatti, Rabobank 2020*

# Sweeteners

## Hurricanes raise questions about cane production

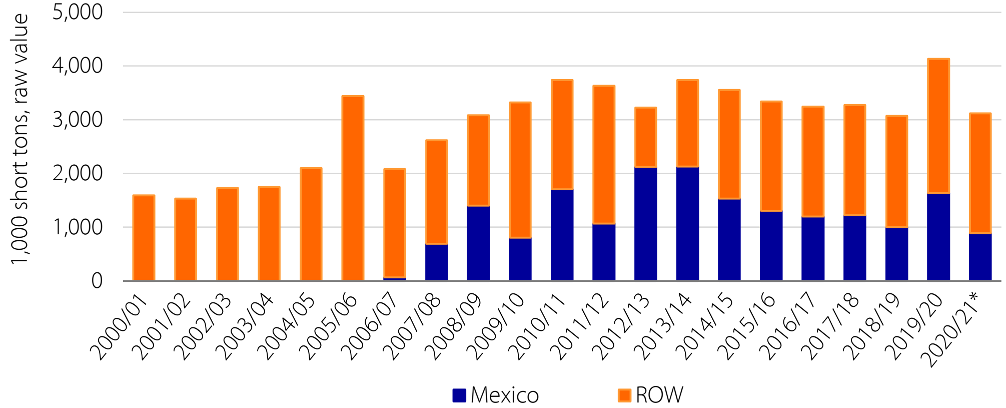
- **After the last two years of challenging sugarbeet crops and now two hurricanes, buyers and sellers alike remain cautiously optimistic about new crop sugar**. Prices are down from earlier in the year, but have begun to move back up. A refinery fire in Louisiana has created minor supply disruptions, but this should be short-lived. Beet harvest, particularly in the Red River Valley, is nearly complete. Beet size is below average, but sugar content is good. Beet processors have approximately 90% of 2020/21 crop already sold, so there is very little incentive to lower prices from current levels. The US sugar supply/demand situation is much more in balance this year than the past couple years, so prices should also be more stable.
- **Early reports after Hurricane Laura and Delta indicate the sugarcane crop in Louisiana has suffered some damage, but many questions remained unanswered.** It is difficult to access the cumulative effect of stress from two hurricanes on final production. However, there will be issues with newly planted cane, particularly stand loss after being flooded twice this season. Newly planted cane is just not as resilient as existing stands. In addition, there have been delays due to factory shutdowns due to the weather.
- **For five consecutive months, beet and cane deliveries have been below year-ago volumes.** This is even more significant when you realize total 2018/19 beet and cane deliveries were down 1.1%. In addition, year-to-date deliveries are down 2.7%. While some of this year's issues are coronavirus related, the long-term trend continues to be flat at best for sugar consumption. It will be several years until domestic sugar will feel this decline, but imports will have to contract, creating issues around WTO and Suspension agreements.

***Sugar prices firming as 2020/21 crop is well sold***



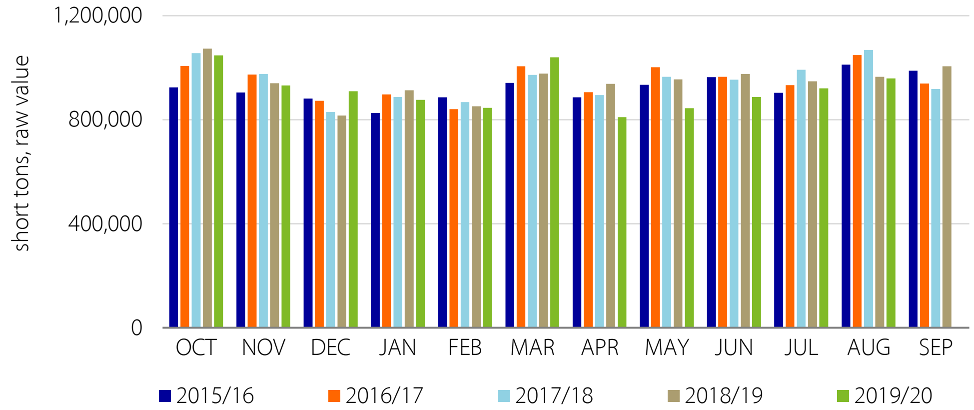

Source: Milling & Baking News, Food Business News, Rabobank 2020

***US sugar imports continue to decline on increasing production and flat disappearance***




Source: WASDE, Rabobank 2020

***US beet and cane sugar deliveries – down for fifth consecutive month***

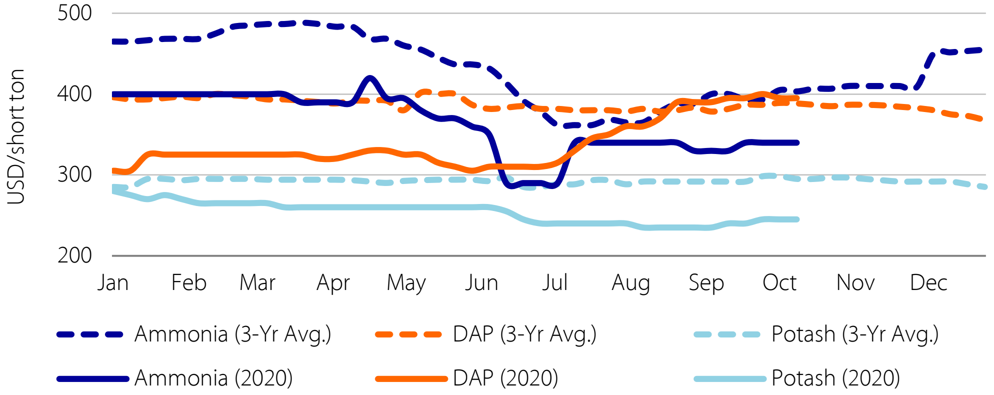



Source: USDA-FSA, Rabobank 2020

# Input Costs

**As of October 15, 2020**

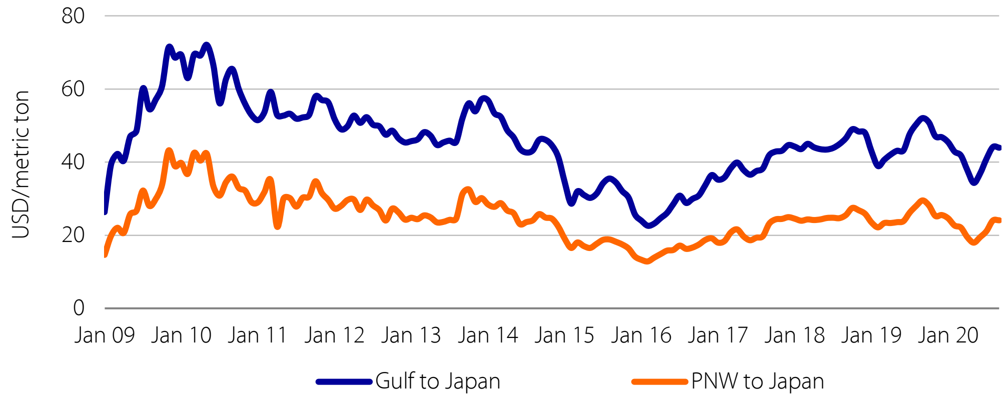
## *Corn Belt input prices**




** Note: granular potash*

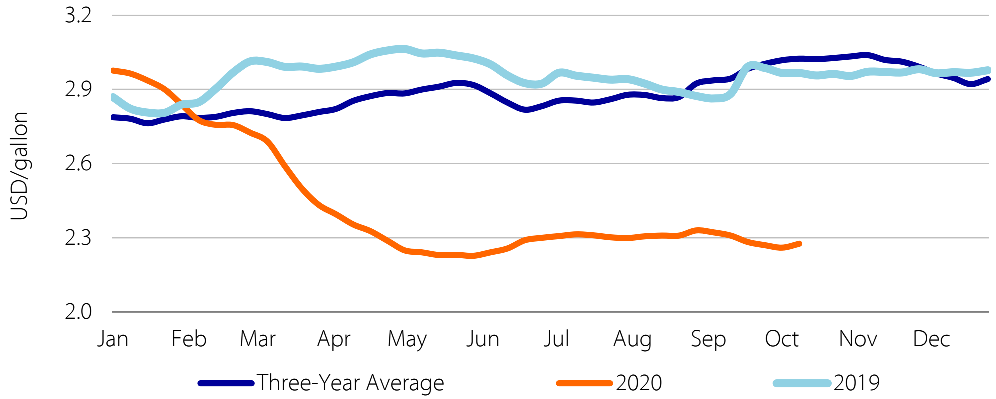
*Source: Bloomberg, Rabobank 2020*

## *Ocean freight*



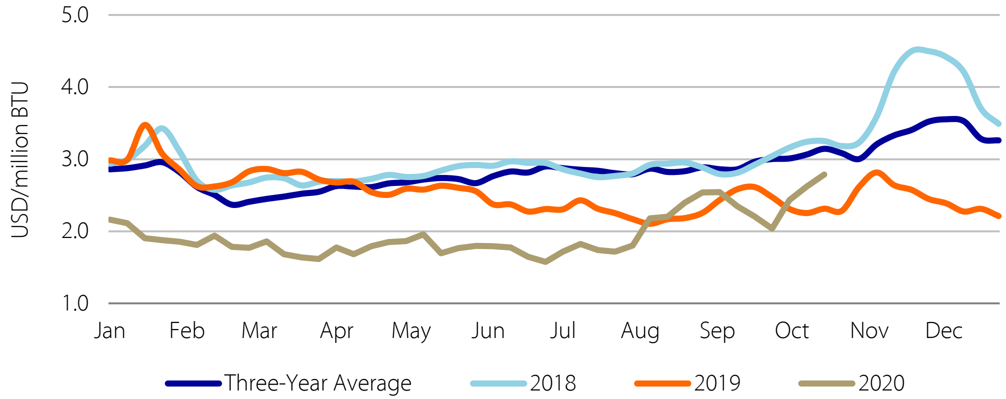

*Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2020*

## *Diesel – Midwest*




*Source: EIA, Rabobank 2020*

## *Natural gas spot*

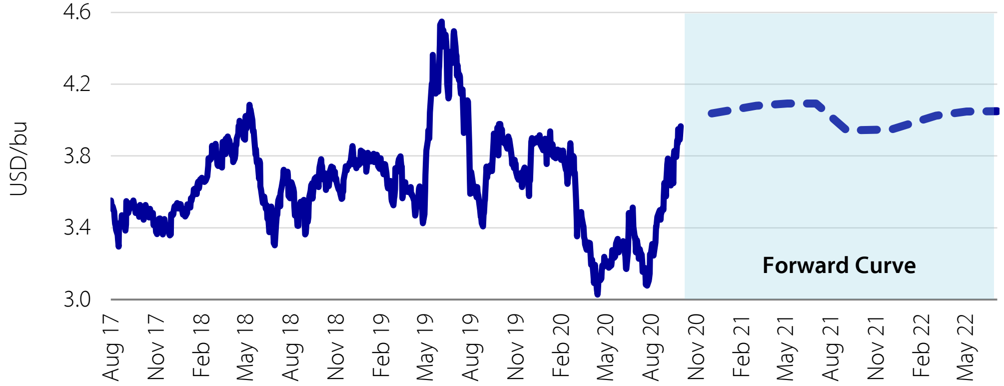



*Source: NYMEX, Rabobank 2020*

# Forward Price Curves

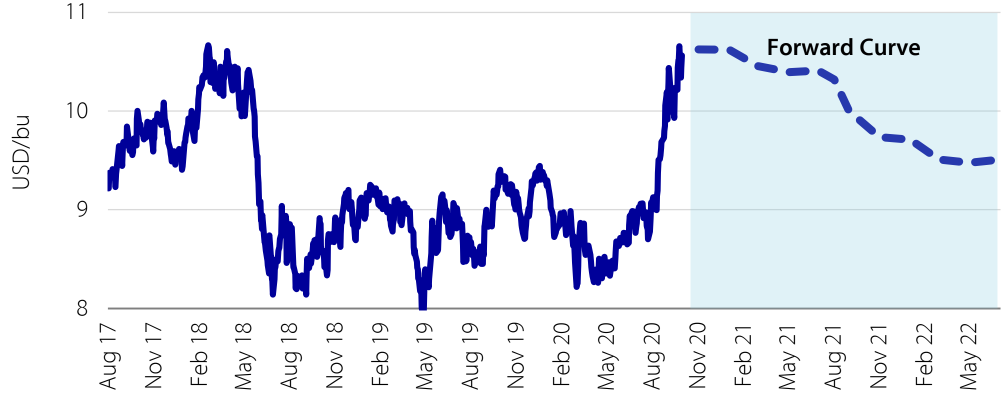
**As of October 15, 2020**

***CBOT – Corn***



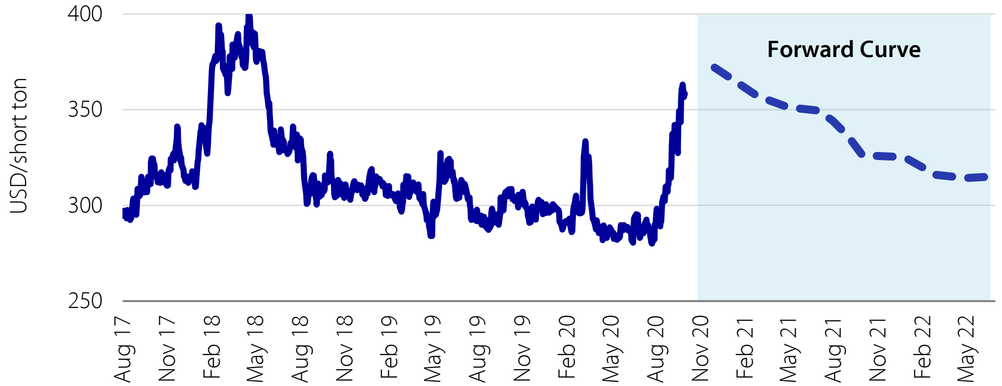

*Source: CBOT, Rabobank 2020*

***CBOT – Soybeans***




*Source: CBOT, Rabobank 2020*

***CBOT – Soymeal***




*Source: CBOT, Rabobank 2020*

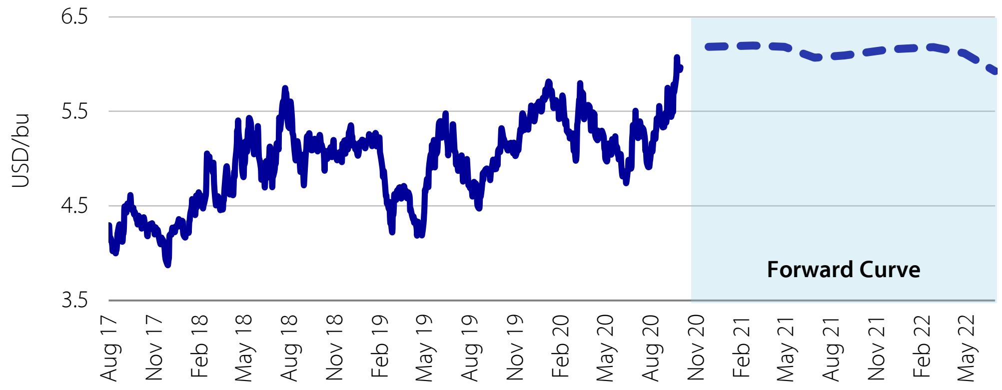
***CBOT – Soy oil***


*Source: CBOT, Rabobank 2020*

# Forward Price Curves

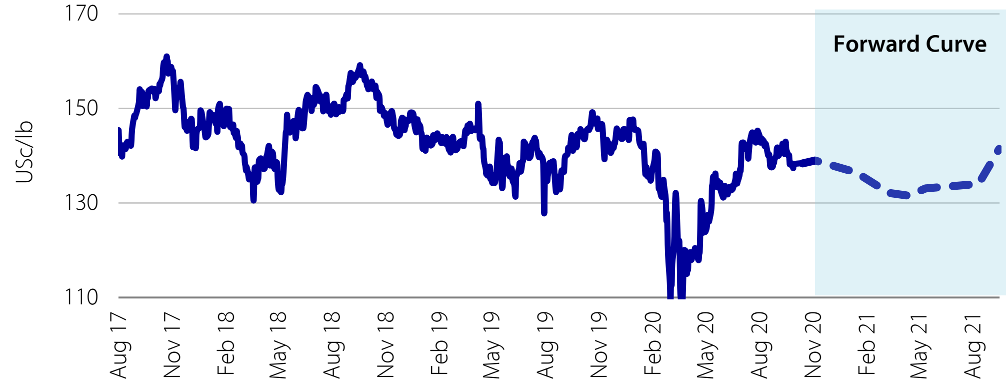
**As of October 15, 2020**

### *CBOT – Wheat*



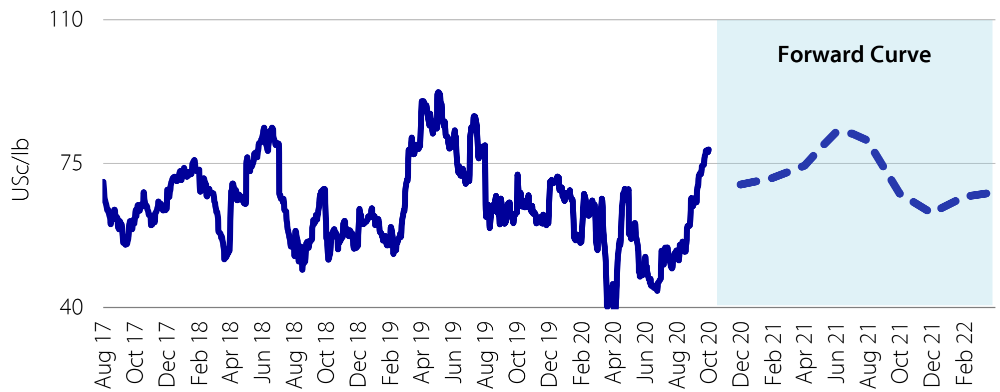

*Source: CBOT, Rabobank 2020*

### *CBOT – Feeder cattle*




*Source: CBOT, Rabobank 2020*

### *CBOT – Lean hogs*




*Source: CBOT, Rabobank 2020*

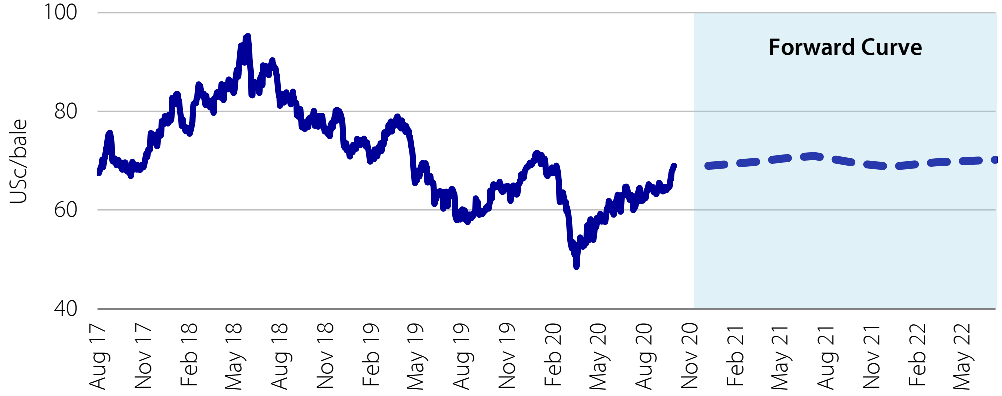
### *CBOT – Live cattle*


*Source: CBOT, Rabobank 2020*

# Forward Price Curves

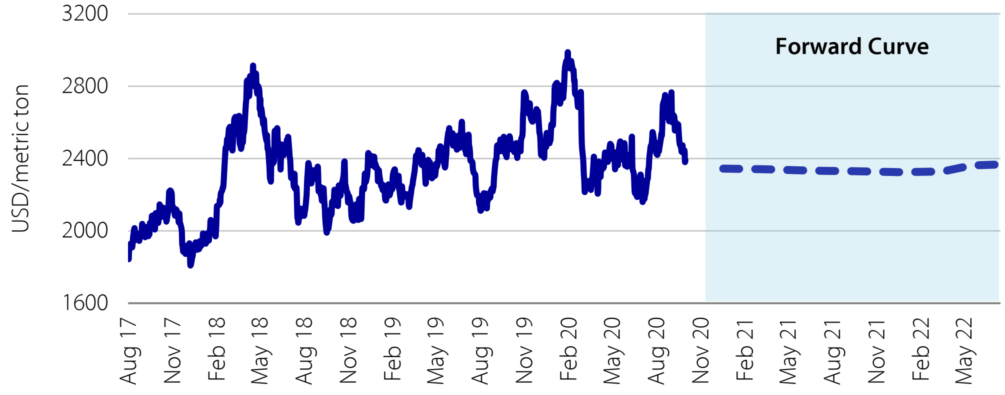
**As of October 15, 2020**

## ICE – #2 Cotton



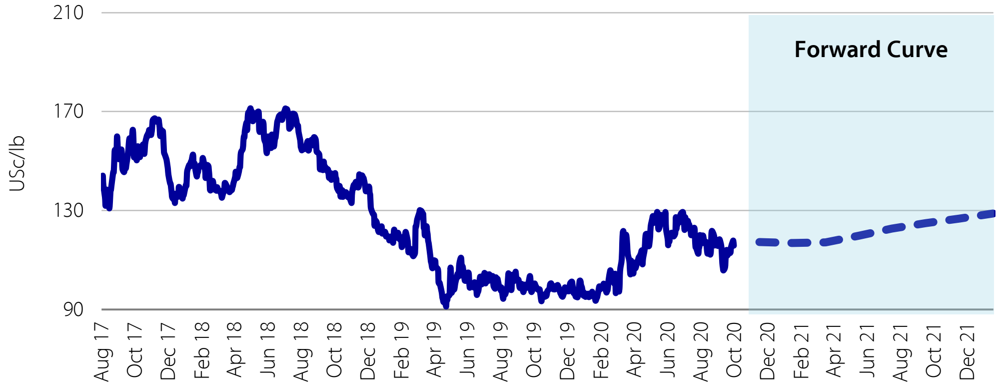

Source: ICE, Rabobank 2020

## ICE – Cocoa



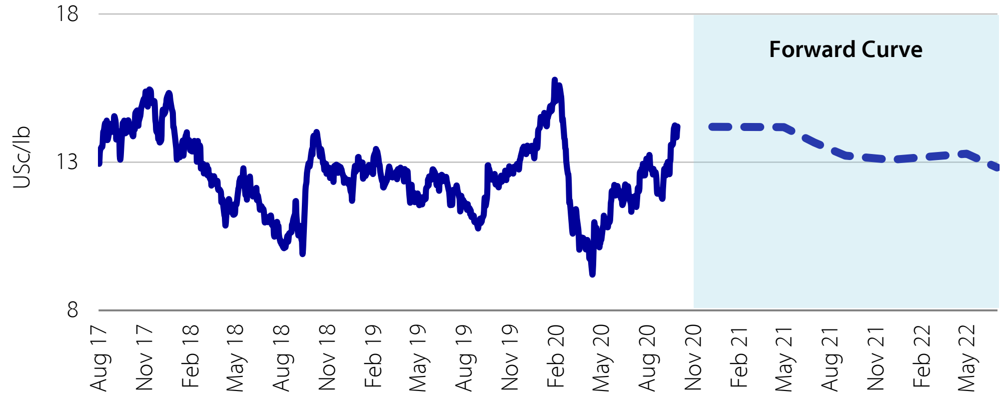

Source: ICE, Rabobank 2020

## ICE – FCOJ




Source: ICE, Rabobank 2020

## ICE – #11 Sugar




Source: ICE, Rabobank 2020

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