



North American Agribusiness Review

Rabobank






RaboResearch
Food & Agribusiness

October 2021

Report Summary

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Economy

Supply-side constraints

US

- In addition to the spread of the Delta variant, the economic recovery from Covid-19 remains challenged by various supply-side constraints. When Covid-19 started to spread around the world, the global economy grinded to a halt, and the restart of the economy since then has been plagued by supply chain disruptions. Meanwhile, the business sector has been struggling with labor shortages. Finally, a shortage of natural gas is emerging, as US production has slowed and is likely to remain below pre-Covid levels. In case of a cold winter, global storage facilities would be practically empty. Natural gas shortages could have a broad impact on the economy, such as the production of ethanol, aluminum, fertilizer, plastics, and food packaging. Supply-side constraints are not only slowing down economic activity, they are also pushing up prices. This in turn will have a negative impact on consumption and investment going forward. On a macro level, this means higher inflation and lower GDP growth.

Mexico

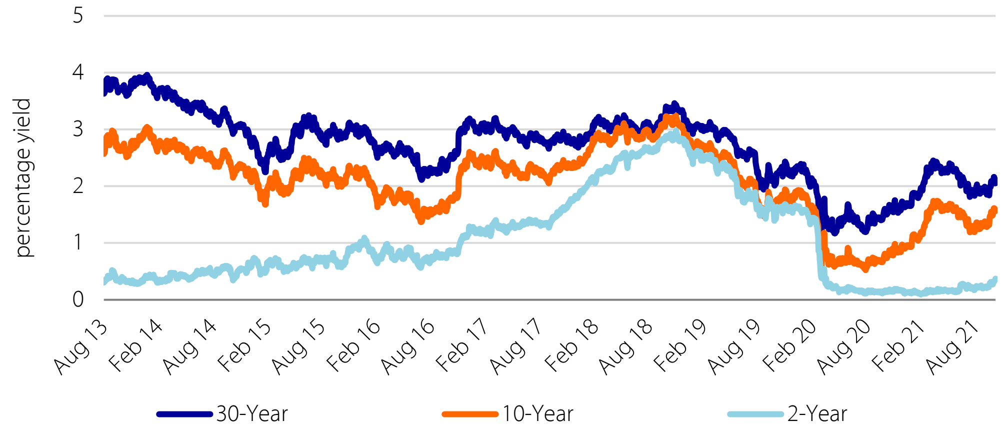
- Headline CPI inflation is falling from its highs earlier this year, but core inflation continues to rise. In fact, core CPI inflation rose by 4.78% YOY in August, which is the highest point recorded since December 2017. Global supply chain issues are proving more persistent than many expected, leading to continued cost-push price pressures, and we are unlikely to see much relief in the short term. Furthermore, the demand side is also adding to the inflation story as higher expectations are becoming entrenched. While core inflation rises, activity is slowing. We expect USD/MXN to rise to 21.5 at the 12-month horizon.

Canada

- At its October 27 meeting, the Bank of Canada will reveal a new Monetary Policy Report, including new economic projections, which will likely show a modest downward revision to expectations of GDP growth in 2021 and an upward revision to the CPI inflation forecast for the year. The overall tone is likely to echo the "cautiously optimistic" mantra emanating from Wellington Street over recent months. That said, we expect Governor Macklem to note the potential for supply chain-driven cost-push price pressures to persist longer than expected and for continued uncertainty over the true underlying health of the labor market. We expect USD/CAD to fall back to 1.26 at the 12-month horizon.

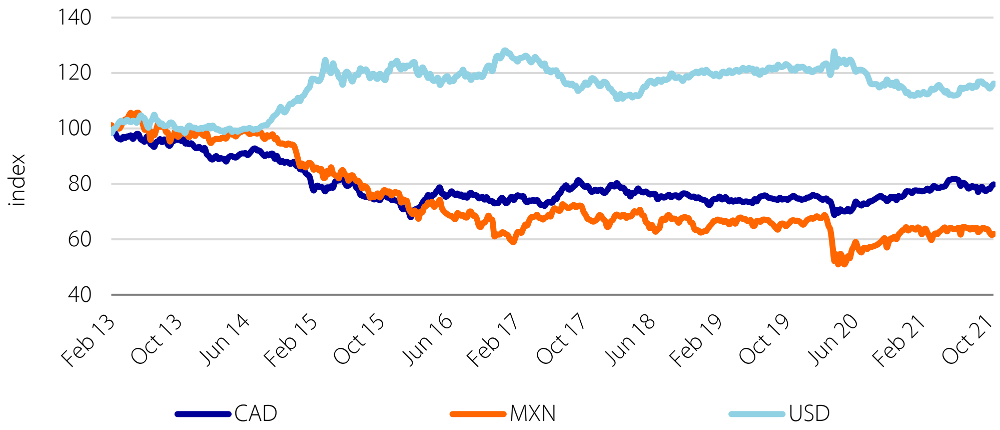
Source: USDA, Rabobank 2021

Interest rates, 2013-2021

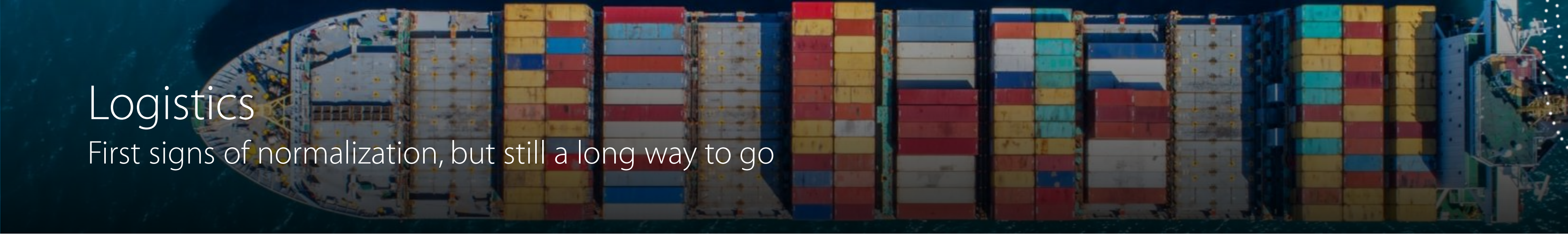


Source: Federal Reserve of St. Louis 2021

Currency indices, 2013-2021



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



Logistics

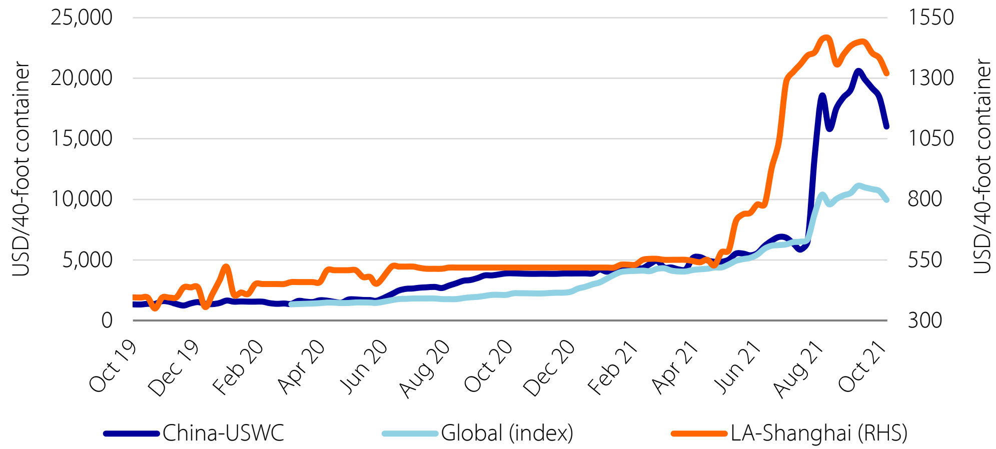
First signs of normalization, but still a long way to go

- ***The end of September saw the first major pullback in the container freight sector.*** Contacts reported that carriers were not able to fill several container ships until the last minute and with hefty discounts of 40% to 60% in container rates in the second half of September. Those are outbound ships from China to North America, routes with the largest rate climb. Shippers and forwarders refrained from booking containers due to the sharp increase in prices in the last several months, resulting in unfilled container spots. This is the rare occasion when fragmented shippers/forwarders were able to counteract the price increase imposed by carriers. It may also be a by-product of China's power crunch, which is significantly limiting the manufacturing capacity of exporters, who are major customers of container shippers. Regardless of the cause, we are seeing the first major pullback in container rates since the onset of the pandemic. Carriers are resisting the decline, however, by adding various surcharges of as much as USD 8,500 per 40-foot container. As significant as the decline was, it will likely take months before we are anywhere near pre-pandemic levels. Pricing is likely to be stabilized at a higher equilibrium toward mid to late next year.

- ***Extended hours at ports are difficult to implement.*** To alleviate congestion facing west coast ports, the Port of Los Angeles and the Port of Long Beach extended operating hours into late nights and early mornings. In the month-long trial, few truckers made use of the extended hours to pick up containers. In order for this to work, the entire supply chain (truckers and warehouses) will need to run on extended hours in order to move things along and reduce congestion. Labor is another issue challenging the sector, both on the trucking and the warehouse front, and we expect to see this challenge into 2022.

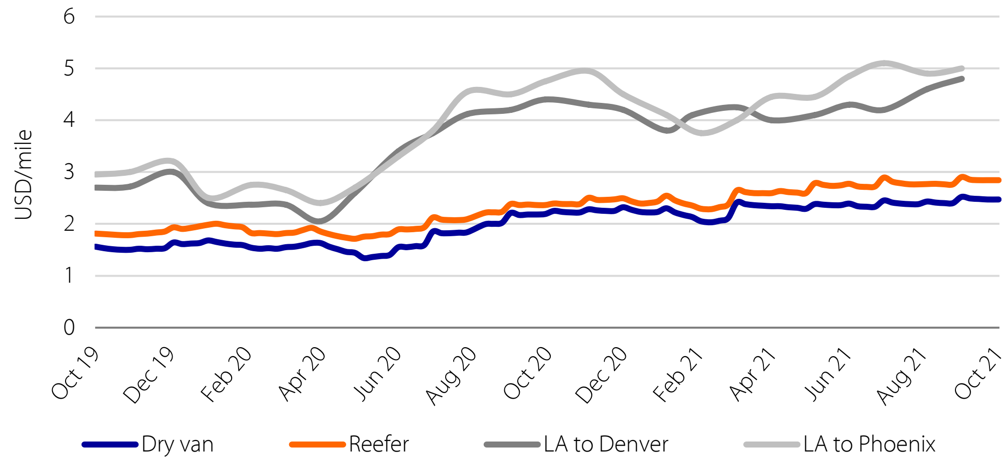
- ***Record US exports and imports in 2021.*** As much as we talk about port congestion, container imbalance, and labor shortage, the US has achieved new highs in terms of imports and exports. Shippers, carriers, and port operators are still able to move goods at record rates and in challenging supply chain situations. Total US imports climbed by 9.6% in the first eight months of 2021 compared to the same period in 2019 and up 23.1% compared to 2020. Exports grew 3.3% for the same period in 2021 compared to 2019 and up 23.9% against 2020 in US dollar values. It is hard to rationalize this, but this shows the resilience of our supply chains and strong consumer demand. Products are getting across the ocean despite the challenges. With early planning (booking) and the development of long-term relationships with forwarders, brokers, or carriers, it becomes easier to navigate.

Select ocean freight rates, Oct 2019-Oct 2021



Source: Freightos, WCI 2021

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



Source: DAT 2021

Consumer Retail & Foodservice

Foodservice returns from its "summer of freedom" vacation; food inflation soars

- With July 2021 sales data up 15% versus July 2019, foodservice and drinking places appear to have made a full recovery, surpassing pre-pandemic levels. Americans have saved more through the pandemic than any time in history, from a pre-pandemic average of 7% to an 18-month average of 16% since April 2020, hitting all-time highs of 33% in April 2020 and 26% in March 2021. Suffice it to say that the "summer of freedom" – as President Biden stated in early June – unleashed pent-up demand after months of restrictions on lifestyle, and ample cash was spent on dining-out occasions.

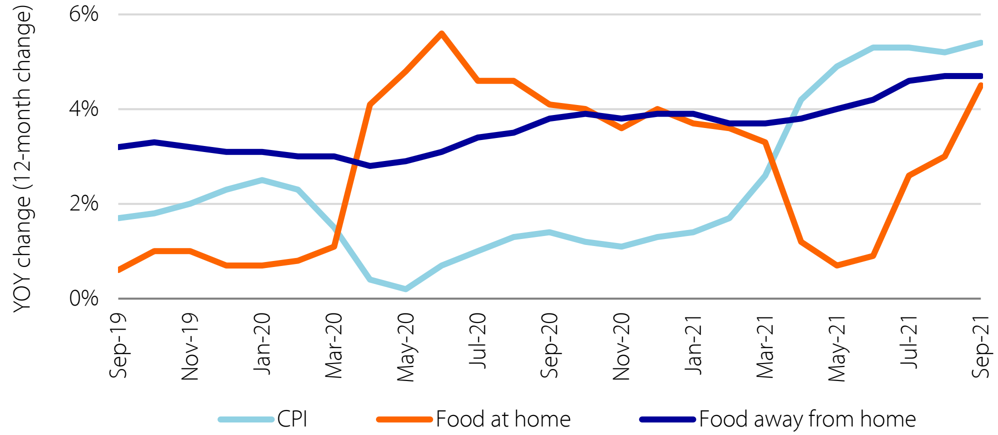
- However, both cash and pent-up demand are gone for now. August demand slipped 3% MOM and was down 8% on 2019. Reductions in government financial aid, a higher number of Covid cases, and new variants have put the brakes on demand growth, particularly for full-service restaurants. Consumer demand will likely remain subdued and off-trend from normal patterns. Notwithstanding, menu price increases remain in place.

- Softening demand is only the start of the challenges many full-service restaurants are facing; costs are rising fast. Indicative wage levels are up 15% compared with the same time last year. Ingredient costs are up across the board, whether its beef, pork, canola, or wheat – up 17%, 59%, 97%, and 48% respectively versus last year.

- Food inflation shot up on the back of an elevated general CPI index (peaking 5.4% above a year earlier in September), mostly driven by energy prices, labor, and supply chain constraints. We are beginning to see costs being passed on from manufacturers to retailers and ultimately to consumers.

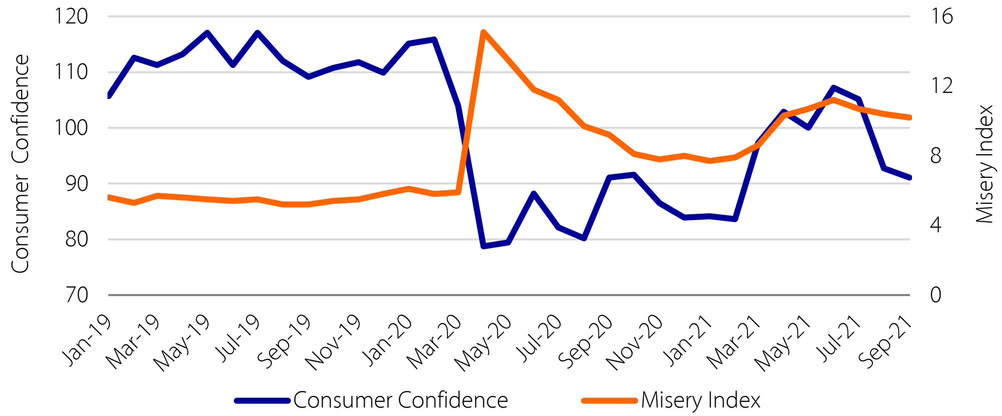
- The Delta variant and surging Covid cases have eroded Consumer Confidence, which had spiked over the summer, dashing hopes that Covid was coming to an end. The Misery Index – a sum of inflation and unemployment – has retroceded marginally from its peak of the year in June, but it remains lofty at mid-2020 levels, driven by inflation, which has more than offset the gradual reduction in unemployment (currently at 4.8%, down from 6.3% in January).

Uptick in food inflation: summer dining-out and retail food prices soar



Source: US Bureau of Labor Statistics, Rabobank 2021

Consumer Confidence eroded on the back of Delta; Misery Index remains pressured by inflation despite dropping unemployment rates



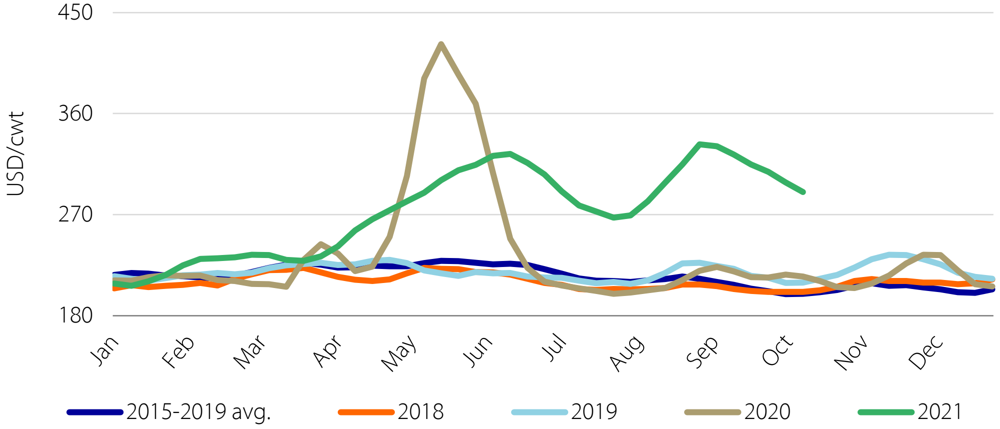
Source: US Bureau of Labor Statistics, Rabobank 2021

Cattle

It's a long tunnel, but the light is not a train

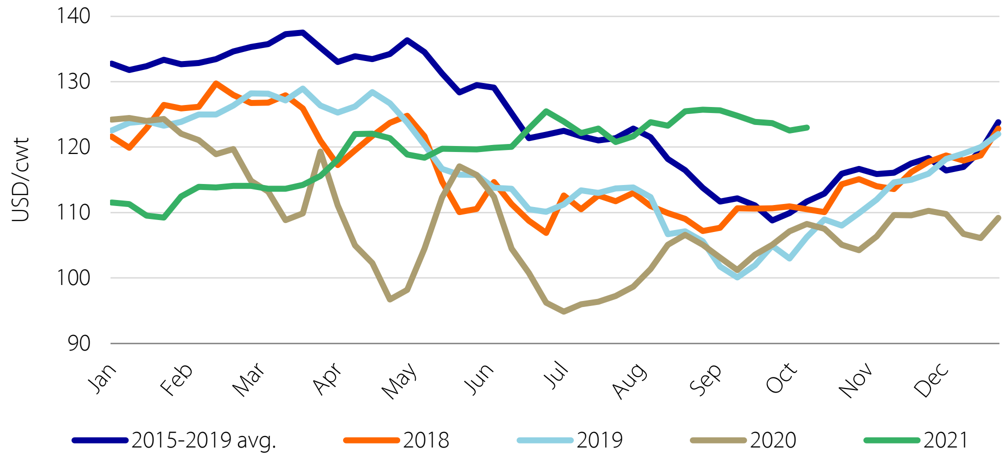
- ***Strong cutout values to continue.*** After peaking above USD 330/cwt in the build-up to Labor Day, comprehensive cutout has retreated to USD 290/cwt as of early October. While there is still a downside risk of USD 10 to USD 15 through mid-October, the holiday season rally is near. A Q4 peak back above USD 315/cwt is reasonable. Record-setting export and domestic demand, combined with general economic inflation, supply chain challenges, and tightening beef production, have all contributed to creating a new trading range for beef. In Q3, beef production was down 2% YOY. A combination of continued operational challenges at plants, lighter year-on-year carcass weights, and slowly tightening fed cattle supplies will yield similar or greater year-on-year declines in Q4 2021 and Q1 2022. After the holiday run-up, early 2022 cutout could find support near USD 270/cwt. Average all-fresh retail beef has been priced above USD 7/lb since June. The average retail price will likely fall back below USD 7/lb, but if cutout finds some stability below USD 300/cwt, upper USD 6/lb could be the new baseline.
- ***Cutout and slowly tightening cattle supplies support fed cattle prices.*** Although market-ready fed cattle supplies are still historically high relative to operational packing capacity, second only to 2020, exceptional beef prices have supported a counter-seasonal fed cattle market through the traditionally weak late summer market. Even considering April 2020's extreme placement stoppage, total net placements from April to July 2021 were 13,000 head fewer than the same period in 2020. This presents an opportunity for cattle feeders to gain some leverage in Q4. On the other hand, drought conditions may ultimately push combined August and September placements higher year-on-year, slowing some potential leverage gain in early 2022. Ultimately, fed cattle prices could reach USD 130 to USD 132/cwt by year-end, with a modest improvement into the mid USD 130s in early 2022. If drought conditions pulled placements ahead into Q3 rather than Q4 2021, then Q2 2022 could be the fed cattle market's real breakout opportunity.
- ***Feeder cattle prices still balancing uncertainty in fed cattle futures and feed cost pressures.*** Facing large placement numbers, feed and forage pressures, and corrective fed cattle futures, the price for feeder cattle has stalled in the mid USD 150s/cwt in recent weeks, after peaking near USD 160/cwt in late August. If deferred fed cattle futures can build positive momentum, in combination with more corn production certainty, feeder cattle could return to160/cwt through Q4. If fed cattle leverage does improve meaningfully by early 2022, the early year seasonal price decline in feeder cattle may be muted to non-existent. Five-weight steer calves are averaging in the upper USD 160s/cwt. Drought conditions still offer a few weeks of downside risk if demand for backgrounding and grazing outside feedyards is limited. However, the seasonal trend suggests the lows are near, if not in already, particularly if corn futures remain in the low USD 5/bu. Calf prices could climb back to the mid to upper USD 170s/cwt by year-end.
- ***Increased cow slaughter continues amid drought conditions.*** Through early October, year-to-date beef cow slaughter remains up 10% YOY, with total cow slaughter up 6% YOY. Yet, cull cow prices remain up 10% YOY. Reduced lean imports from Australia (-45% YOY through August) continue to provide price support, with US 90s prices up 33% YOY. Currently averaging in the low USD 70s/cwt, fall cull cow prices still have seasonal downside risk to the mid USD 60s/cwt.

Comprehensive cutout, Jan 2018-Oct 2021



Source: USDA, Rabobank 2021

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



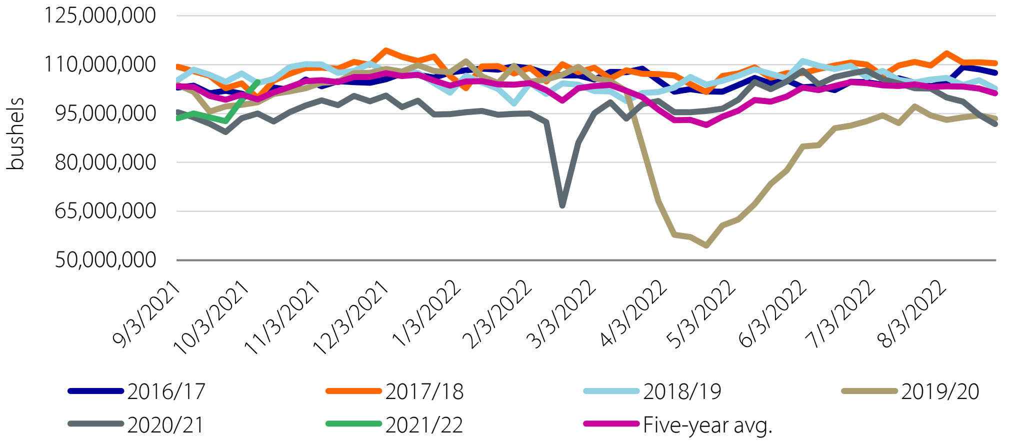
Source: USDA, Rabobank 2021

Corn

Despite larger production, demand is supportive to prices

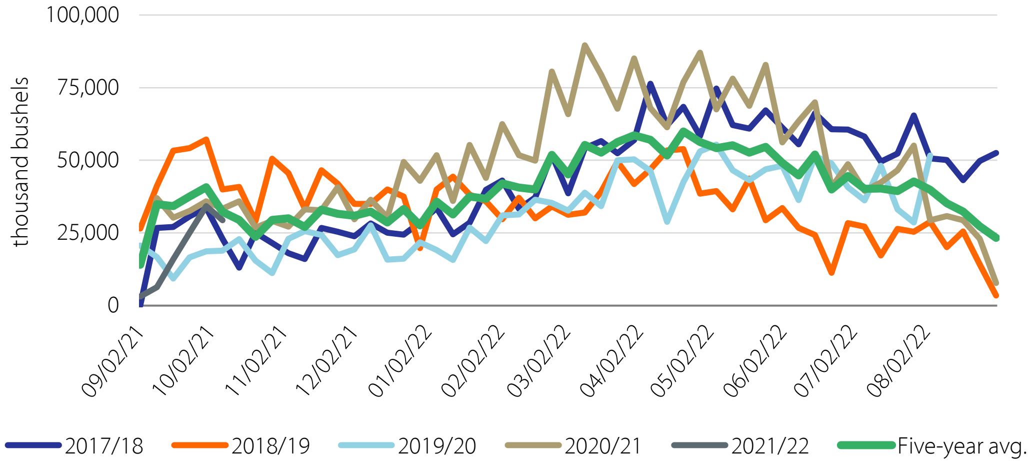
- ***Despite less-than-stellar crop conditions, projected 2021 corn yields continue to improve.*** As a result, the corn market remains in a bit of funk, as production and stocks continue to increase. However, it is important to keep prices in perspective; corn futures still have a USD 5 in front of them.
- ***Comments from the country are being proven in USDA projections.*** Producers continue to say their crop is better than expected. In October, the USDA projected the 2021 US corn crop at 15.02bn bu and a yield of 176.5 bu per acre, up 0.2 bu from September. The objective yield data shows the second-highest ears per acre since 2018: nearly 29,000 ears per acre compared to 2018's 29,000+ ears. What is puzzling is that crop condition ratings are the lowest since 2012 (except for the wet year of 2019), yet the yield projection, if realized, would be the second highest on record. Stay tuned.
- ***All signs are positive for next year's safrinha corn crop.*** Brazil's soybean crop is getting planted in a timelier manner than last year's crop, which means that the safrinha corn crop will also be planted in a timely manner. Mato Grosso has already planted 20% of this year's soybean crop, compared to 3% last year. Likewise, Paraná has planted 19% in 2021 versus 8% a year ago. This lines up well with the ideal corn planting window in mid-February, which is crucial to the safrinha crop achieving optimal yield potential.
- ***IMEA is forecasting corn acreage to increase 6.4%, to 6.2m hectares (15.3m acres), in Mato Grosso – Brazil's primary corn state.*** The increase is being driven by tight corn supplies, strong domestic corn prices, and timely soybean plantings. However, several factors could take the bloom off Brazil's rosy corn outlook. First, the lack of fertilizer is the number one factor that farmers are worried about. Second, cotton is looking for more acres in 2022 after losing to corn last year due to delayed soybean plantings. This is unlikely to occur next year, so the increase in Brazilian corn area could be dampened.
- ***Ethanol continues to lag on many fronts and remains a concern for the corn market long term***. Though corn grind for ethanol returned to its five-year average the week of October 8, grind for the 2021/22 crop year remains behind the five-year average by -4.5%. By comparison, gasoline supplied to the US market is +0.5% ahead of the five-year average. In addition, the average blend rate so far this crop year is 10.1%, while the average of the entire previous year was 11.2%. At current corn price levels, it is difficult to be concerned about demand, but in the not-too-distant future, the corn market will begin to price in decreasing demand from the ethanol sector.
- ***From a May peak of USD 7.75/bu, corn futures have declined nearly USD 2.50/bu to current nearby prices around USD 5.25.*** The corn market has had a bearish bias since May, but since July, nearby futures have been trading sideways and have carved out a broad trading range roughly between USD 5.00 and USD 5.75. Downside is likely to be limited unless the US crop gets significantly larger and the bottom falls out of demand. At the same time, upside is limited due to a 1.5bn bu carryout. To put it into perspective, the futures market is showing USD 5.00+ prices and is still providing profitable margins for this year and next. Buyers need to look at market setbacks as opportunities to extend their coverage.

Corn grind for ethanol is running 4.5% behind the five-year average



Source: USDA-EIA, Rabobank 2021

Despite large sales, export inspections are off to a slow start



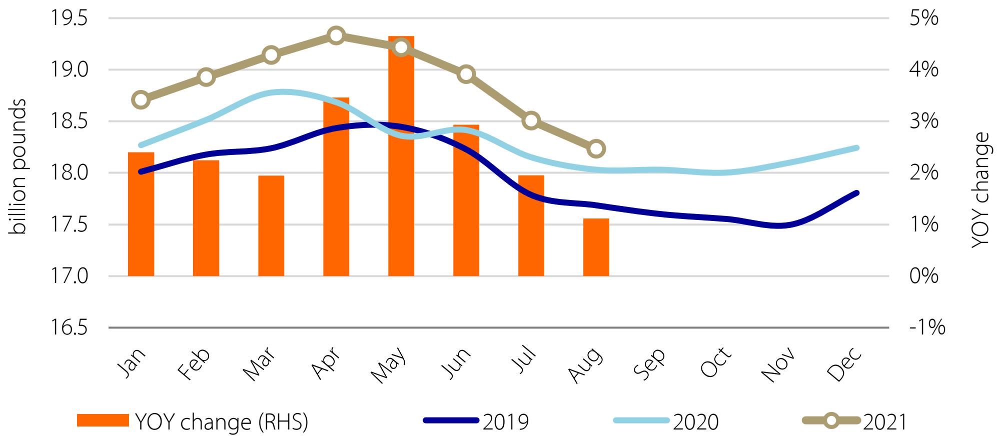
Source: USDA Export Sales Report, Rabobank, 2021

Dairy

Declining cow numbers will limit milk production growth

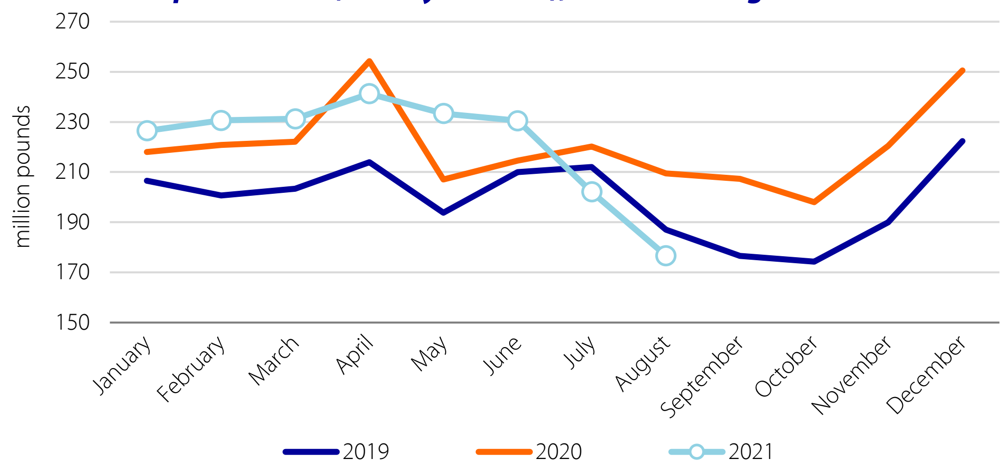
- Milk production in August was up a modest 1.1% YOY, the lowest year-on-year gain in more than a year. From November through December 2021, milk production will remain positive, with more muted increases against strong comparisons.
- The US dairy herd declined by 29,000 head between May and August and should continue on this trajectory. Nearly all farm costs, not just feed, are climbing and squeezing margins. Producers are looking to cull, but a lack of slaughter capacity is a limiting factor. The impact of declining cow numbers on milk production will be offset by efficiency gains in milk yield per cow, but even these will be tempered by rising feed costs. As a result, year-on-year milk production increases will be below-trend (less than 1.5%) for several months.
- Cheese supply and demand signals are mixed. Total cheese production is seasonally declining and no longer boosted by ample supplies of discounted milk. Yet, inventories have been building over a period when we typically see a seasonal decrease. Exports, meanwhile, have been strong, growing by 18% YOY, and are helping to relieve pressure and providing some lift to prices.
- Plans for cheese processing capacity are on the way in Kansas, Texas, Wisconsin, and New York. This additional capacity will open the potential to grow milk production in these regions. But the skyrocketing costs of stainless steel and other construction materials could delay plans to get shovels in the ground.
- Nonfat dry inventories have fallen dramatically and have helped elevate prices to levels not seen since 2014. Exports of skim milk powder and nonfat dry milk have been strong, up 12% YOY in volume terms through August. Mexican demand has improved from last year. The Philippines and Indonesia have seen a slight decrease year-to-date through August, but increased exports to China and Vietnam have helped offset this. A potential slowdown in demand for milk powder from China is a factor to watch. Though it would initially impact Oceania, it could eventually have ripple effects across global markets and add some downside risk to the US nonfat dry milk outlook.
- Logistical challenges continue to frustrate supply chains. While shipping rates have retreated slightly, they remain incredibly high. For now, product continues to move overseas, but much of that was committed earlier in the year. As we enter the holiday season, agricultural commodities will compete against consumer goods for container space, potentially limiting exports temporarily.

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



Source: USDA NASS, Rabobank 2021

SMP & NDM production (30-day months), Jan 2019-Aug 2021



Source: USDA, Rabobank 2021

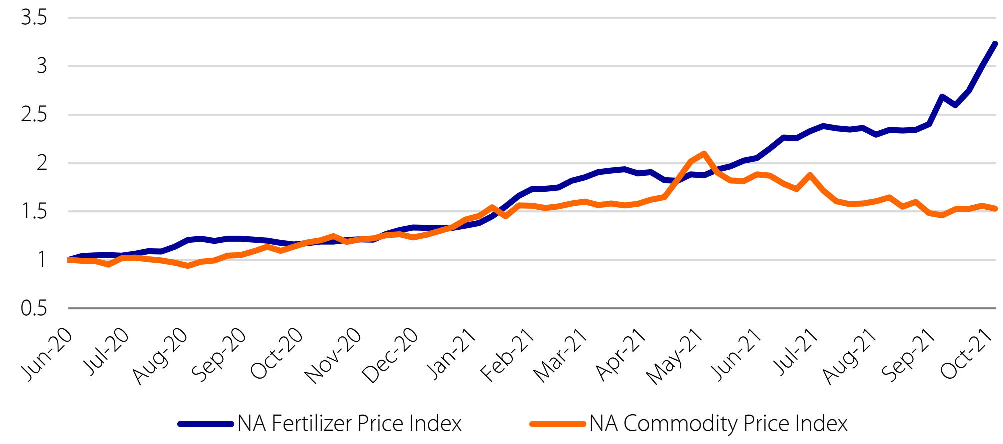
Farm Inputs

Supply-driven constraints create uncertainty and risk

Demand-driven momentum gives way to supply-driven momentum

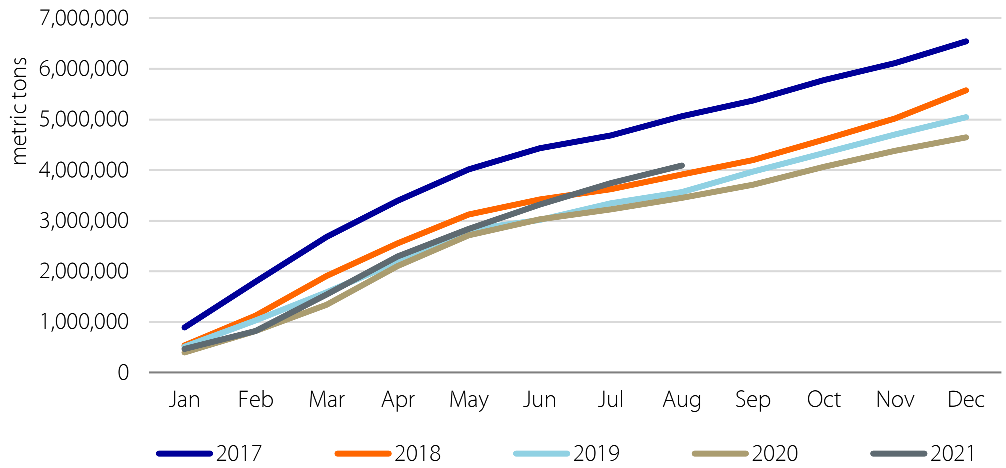
- Public policy has had a profound impact on global input pricing over the last few months. Sanctions, geopolitics, export limitations, and weather have collided with elevated commodity prices to create an almost unprecedented environment for growers.
- From May onward, the correlation between fertilizer prices and underlying commodities showed a diverging trend, driven at that time by potash prices. Concerns about Belarus's participation in international trade rallied MOP prices, building off the back of already elevated nitrogen and phosphate prices.
- More recently, the global nitrogen and phosphate markets have been impacted by both sentimental and fundamental variables to add further fire to the market: European natural gas prices and Chinese export limitations.
- The fundamentals of Europe are more instantly quantifiable. High natural gas prices have put ~17m metric tons of ammonia capacity at risk (~60% of European capacity). Shuttered and under-maintenance NH_3 capacity in Europe is estimated at ~5.5m metric tons.
- China's export limitations on urea (and phosphates), while not clearly implemented at present, serve to further tighten the global fertilizer balance sheet. China accounts for ~10% of global urea trade. While not a huge exporter to the US, China's absence from global markets in 1H 2022 will coincide with a high import demand season for the US. January, February, March, and April usually account for >50% of US annual urea imports. Net imports of nitrogen nutrient in metric tons (year-to-date) are tracking in line with recent year trends, suggesting that further volumes will be needed in the spring of 2022.
- While affordability has not hit the lows of 2008 (yet), we do see continued upward price risk for fertilizers over the coming months for key macro-nutrients. Given the exogenous factors driving the value divergence of cost versus return, 2022 will be a key year to align a robust marketing strategy to key input-purchasing decisions.
- Fertilizer pricing cannot be taken in isolation of other input costs. Higher seed pricing and pesticide pricing (glyphosate up ~170% YOY), as well as land and machinery pricing, will likely put pressure on farmers' wallets. Further price increases of fertilizers cannot be ruled out between now and spring 2022.

North American fertilizer price relationship to commodity prices



Source: Bloomberg, CBOT, IFA, Rabobank 2021

Net imports of nitrogen nutrient tons into US



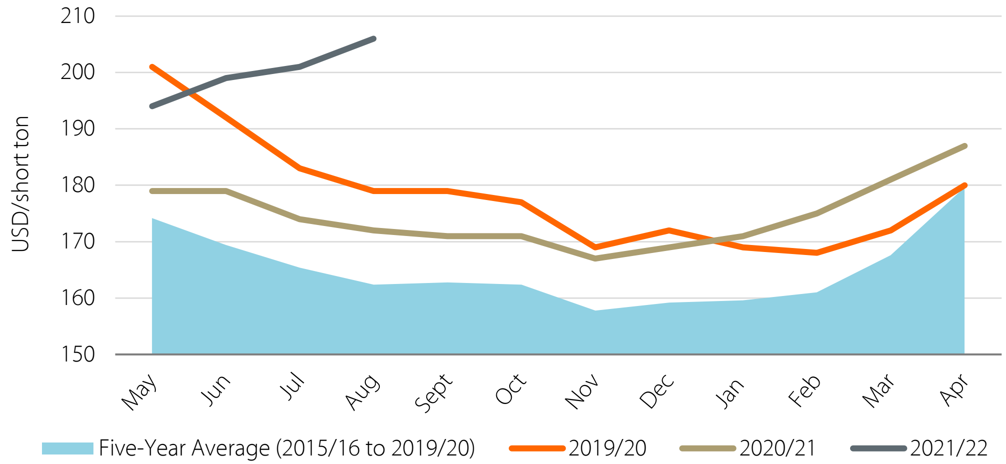
Source: Bloomberg, CRU, IFA, Rabobank 2021

Feed

Feed costs to remain elevated for the remainder of the year

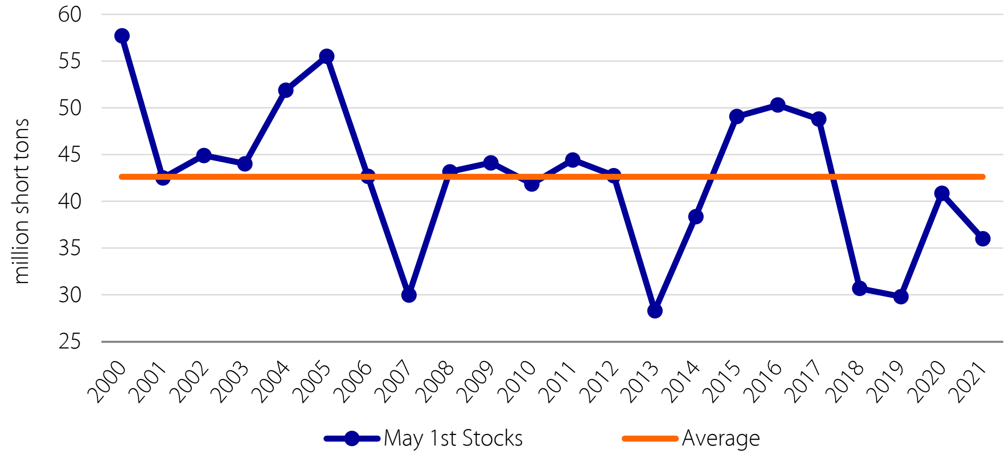
- ***The USDA announced plans on September 8 to cover part of the cost of transporting feed for livestock that rely on grazing***. This is an addition to the Emergency Assistance for Livestock, Honeybees, and Farm-raised Fish Program (ELAP), which already covers the cost of hauling water during drought and will now expand to cover the cost of feed transportation in places where grazing and hay resources have been affected.
- ***Governors in the states of Wyoming, Montana, and South and North Dakota have issued executive orders allowing truckers to extend drive time by four extra hours to deliver hay during the drought***. Due to restriction on the time that drivers are allowed to operate, transportation cost was already increasing, and timing was a crucial factor. This is expected to help relieve the cost of transportation, especially from hay supplies coming from Nebraska and other regions.
- ***Hay stocks declined on May 1, 2021, as production continues to decline compared to the previous year***. The latest data from USDA production estimates pegged alfalfa production at 48.16m short tons and total hay production at 72.32m short tons. Overall, total hay production is expected to decline ~2% from last year. This is likely to put added pressure to prices as on-farm stock might be lower on December 1.
- ***Alfalfa exports are relatively flat this year with year-to-date exports up 2% compared to the same time last year***. Exports have been maintained by strong Chinese purchases of alfalfa and other hays. Year-to-date exports of alfalfa and other hays to China are up 27.5% and 51.4%, respectively, when compared to same time last year.
- ***Hay prices continue to feel the pressure as drought-stricken regions increasingly rely on purchases from regions with adequate supplies***. Transportation has added another layer of complexity, given the shortage of drivers and trucks. Alfalfa hay prices have increased by 2.5% MOM and increased 13.6% from May to August of this year when compared to last year. With lower production expected and lower stocks at the beginning of the marketing year, prices will continue to see pressure to the upside in the coming months.

US alfalfa hay prices, 2019/20-2021/22



Source: USDA/NASS, Rabobank 2021

May 1 US all hay stocks, 2000-2021



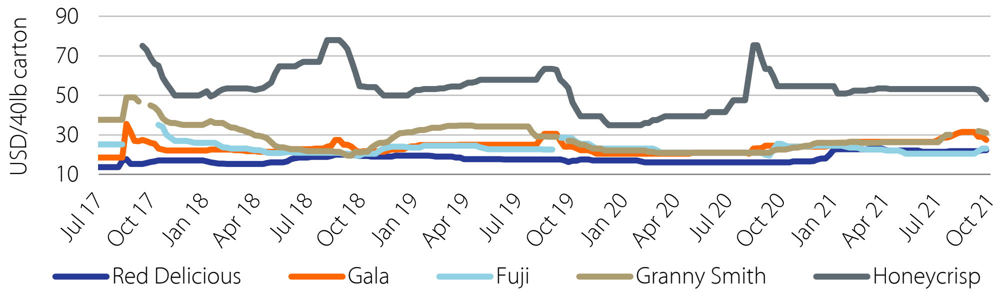
Source: USDA/ERS, Rabobank 2021

Fruits

Lower US citrus production expected in 2021/22

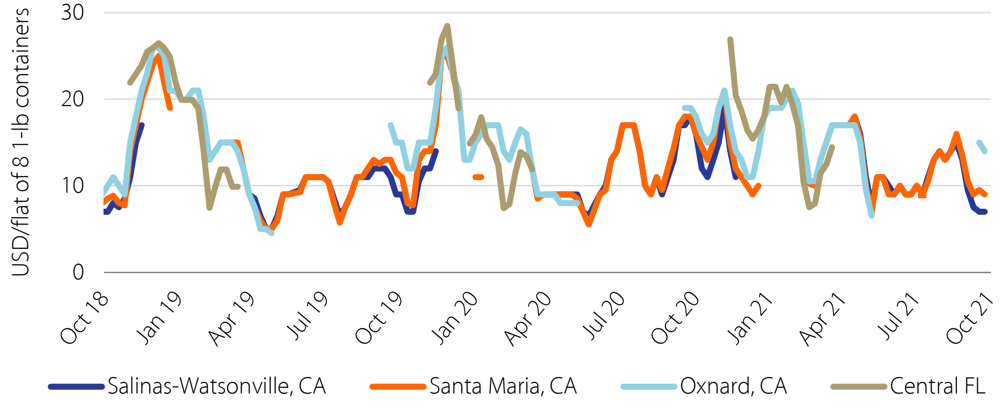
- ***Strawberry*** prices varied from USD 7 to USD 14 per flat during the second week of October, depending on the growing region, with the Oxnard season starting at high prices. Shipments remained strong during September but are now temporarily declining. However, availability from California will soon improve. After nine consecutive weeks with higher year-on-year prices (an early fall shoulder of the season), prices for non-organic ***blueberries*** fell about 7% YOY, to ~USD 3.60/lb by mid-October. Despite container delays at ports, blueberry availability in the US will increase in the next few weeks as more fruit from Peru arrives. Healthy consumer demand continues.
- ***Lemon*** prices have remained steady, at multi-year highs for this time of the year. Mid-sized lemons (140s) were close to USD 41 per carton during the second week in October, up 11% YOY. For the 2021/22 season, California lemon production will be 21m boxes, down about 1% YOY, according to a recent USDA estimate. ***Valencia orange*** prices are set to finish the season at around USD 21 per carton for 88s, close to the five-year average. The ***non-Valencia orange*** crop in 2021/22 is expected to be down 14% YOY in California and down 16% YOY in Florida. Overall US orange production will hit a multi-year low of 91m boxes in 2021/22 , according to the USDA forecast. ***The grapefruit*** crop will partially rebound in Texas after a tough year but will decline year-on-year in Florida.
- ***Avocado*** prices in the US are declining after almost two months of unusually high prices. At the end of September, California avocados were priced around USD 70 per carton for 48s, about a 100% YOY increase. As the new harvest ramps up in Mexico, avocado prices will likely be around USD 40 per carton for the rest of the year. The California ***table grape*** harvest is in full swing, with prices marginally higher year-on-year and increasing costs. Labor continues to be the primary challenge.
- US ***apple*** price trends are mixed, with Granny Smith reaching the highest price in more than two years. During the first half of October, prices of non-organic Red Delicious, Granny Smith, and Gala apples were up 39%, 38%, and 12% YOY, respectively, while Fuji and Honeycrisp prices were down 10% and 12% YOY. The Washington industry expects an average-sized crop in 2021/22, up about 2% YOY, but final impacts from the heatwave on quality and storability remain to be seen.

Washington apple shipping-point prices, 88s – WA Extra Fancy, Jul 2017-Oct 2021



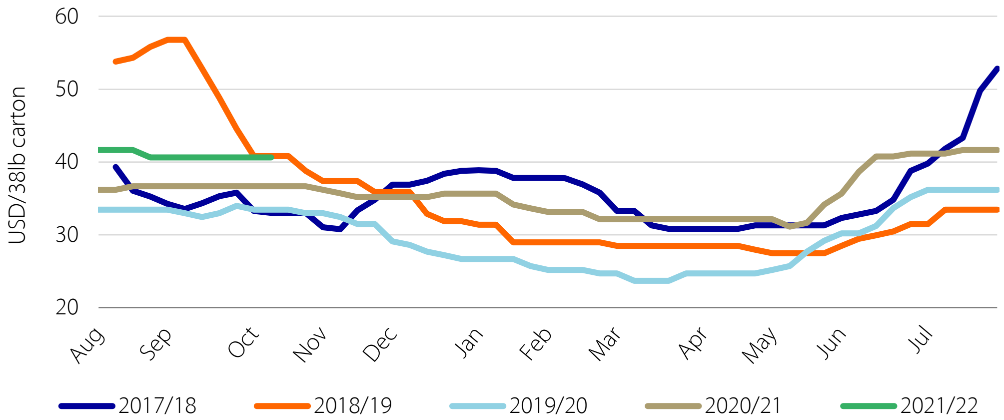
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2021

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

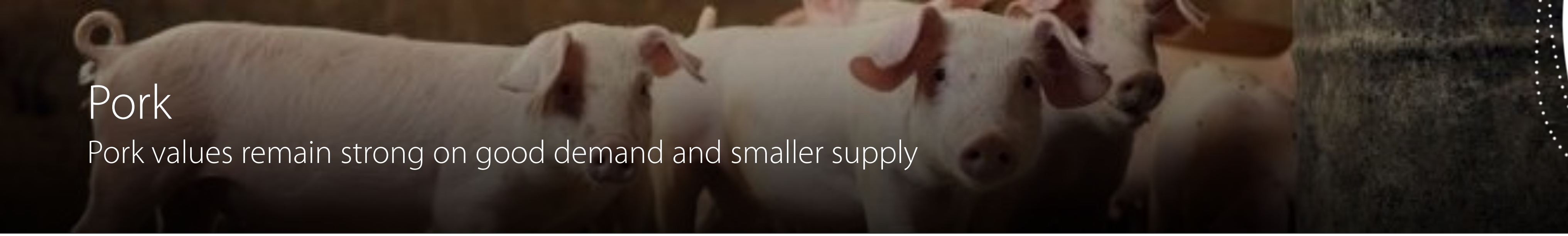


Source: USDA AMS, Rabobank 2021

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



Source: USDA AMS, Rabobank 2021

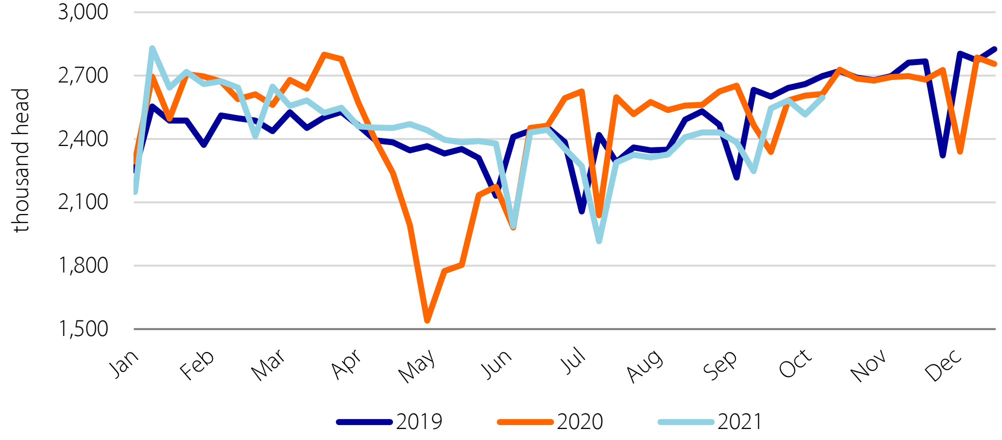


Pork

Pork values remain strong on good demand and smaller supply

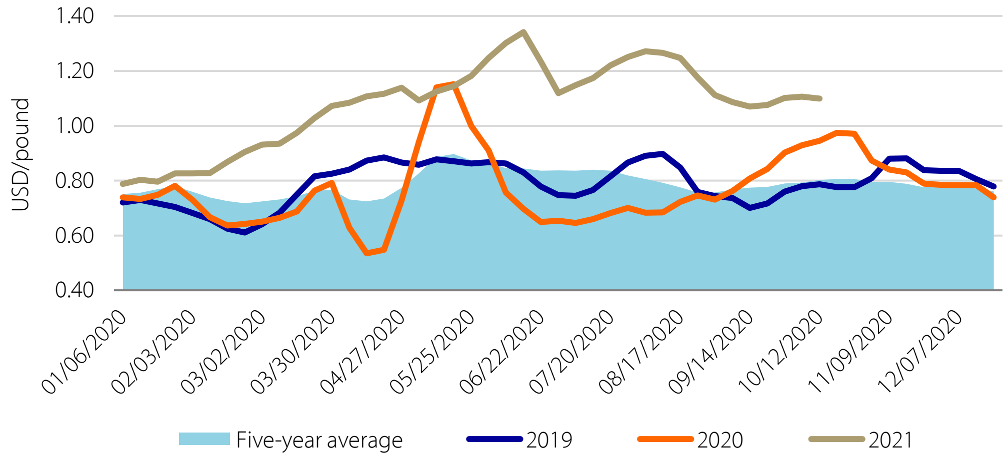
- ***September pork production on an adjusted basis was down 3.6% YOY, to 2.34m lb, as packers reported a 4.4% YOY drop in adjusted slaughter during the month.*** Limited labor availability and some plant disruption due to operational issues contributed to the decline. At the current pace and given projected holiday slaughter, Rabobank expects a slightly larger 2% YOY drop in 2021 pork production. The recent USDA Hogs and Pigs inventory report suggests hog supplies are likely to remain constrained through Q1 2022 and gradually improve through the year. Limited growth in the breeding herd is expected to be partially offset by performance gains.
- ***Pork carcass values have declined from the previous season but remain 17% ahead of year-ago levels, at USD 1.08/lb, as strong belly and ham values remain supportive.*** Strong foodservice demand for bacon and very low inventories of pork in cold storage have driven belly prices up 28% YOY, despite seasonally weaker demand. Strong export demand and labor constraints for deboning are supportive to ham values (up 12% YOY), although growing inventories are likely to limit further increases. Even with the seasonal decline, strong retail demand for pork during the October Pork Month and smaller supplies of competing proteins are likely to limit downward pressure.
- ***US pork exports were down slightly in August (0.2% YOY), at 526m lb, versus record shipments in the year-ago period. Year-to-date shipments also declined slightly (0.2% YOY).*** Sharply higher August exports to Mexico (+50.3% YOY) reflected peak shortfalls in their herd, which should dissipate over the balance of the year. Exports to Japan (+8.8% YOY), Colombia (up 89% YOY), and the Caribbean (+63% YOY) more than offset weaker shipments to China (-49% YOY). We expect negligible improvement in exports to China through year-end, given the sharp decline in pork prices witnessed in recent weeks and strong competition from Brazil and Spain. But we should see steady shipments to most other top markets. Sharply higher pork imports in August (up 37% YOY) are putting additional pressure on the domestic market, but they remain a relatively small share (3.8%) of total supply.
- ***Pork prices are up 17% YOY but are well below peak summer levels, as a 16% YOY increase in imports more than offset smaller domestic supplies.*** Overall demand remains disappointing due to weaker economic conditions, but it is beginning to stabilize. We expect further improvement in pork demand as prices normalize, thanks to a better balance between supply and demand. Hog prices have also come off their highs but are still up 38% YOY. We expect hog prices to continue to normalize through year-end as pork production rebounds following earlier herd health challenges.

US federally inspected weekly hog slaughter, Jan 2019-Oct 2021



Source: USDA 2021

Pork cutout values, 2019-2021



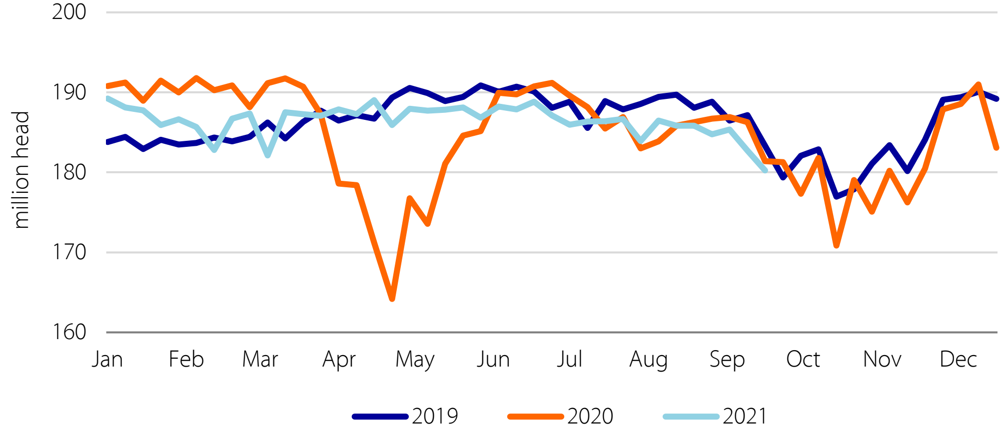
Source: USDA Rabobank 2021

Poultry

Tight supplies and strong demand expected to continue through year-end

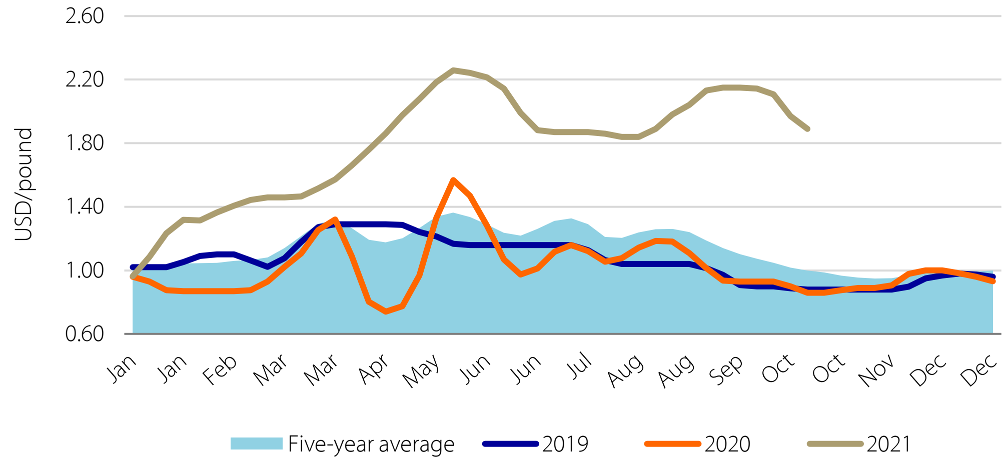
- ***Chicken markets are strong, as demand continues to outpace supply – an outlook that should continue through year-end.*** Strong retail and foodservice demand have supported higher prices of boneless breast meat (+102% YOY), wings (+222% YOY), and tenders (69% YOY). Good export demand also remains supportive to dark meat values (leg quarters +46%). Lower supplies of competing proteins and limited chicken availability due to reduced frozen inventory (down 20% YOY) should remain supportive to prices over the balance of the year and into early 2022. Retail support for chicken remains strong despite the normal seasonal shift to other proteins.
- ***Ready-to-cook (RTC) chicken production in September was down 5.5% YOY on an adjusted basis, driven by a drop in slaughter.*** Slaughter remains below year-ago levels but is expected to stabilize for the remainder of the year. Birds' weights are slightly ahead of year-ago levels and should increase seasonally due to cooler weather and new crop. We are currently forecasting modest growth (+0.6% YOY) in RTC chicken production in 2021, with slightly higher bird weights offsetting a slight drop in full-year adjusted slaughter.
- ***Chick placements continue to trail year-ago levels by 1% on average, due to ongoing productivity issues.*** Hatchability remains historically low (78% on a lagged basis), suggesting ongoing performance remains challenging. We expect a gradual improvement in productivity beginning in Q1 but do not expect production to fully stabilize for many months.
- ***Chicken exports were up 5.5% YOY in August, at 650m lb, and increased year-to-date 5.4% YOY.*** Strong gains in shipments to Mexico (+22% YOY), Cuba (80% YOY), and the Philippines (+27% YOY)) drove the increase, while exports to China, Canada, and Vietnam continue to lag year-ago levels. Volumes are up 5.3% YTD, at 2.3m metric tons through August. Freight challenges continue to impact shipments to a few markets, but overall shipments remain strong.
- ***Mexican chicken prices are flat versus year-ago levels and are down 15% from their mid-summer highs, as demand has not kept pace with supply.*** Production was up 3.2% YOY in August and up 2% YOY in September but is expected to slow through year-end as costs continue to increase. Lower supplies of competing proteins helped boost prices in August, yet larger chicken imports and a slow rebound from the pandemic have limited further gains. Imports rose sharply over the summer (+24.7% YOY in July) due to a modest increase in imports from the US and significantly larger imports from Brazil.

Weekly chick placements, 2019-2021



Source: USDA, Rabobank 2021

US boneless breast meat prices, 2019-2021



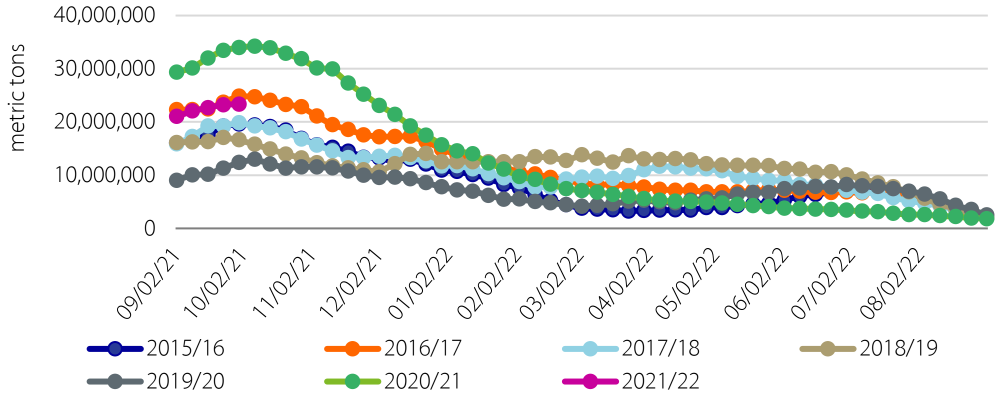
Source: USDA 2021

Soybeans

Demand for soybeans to remain strong

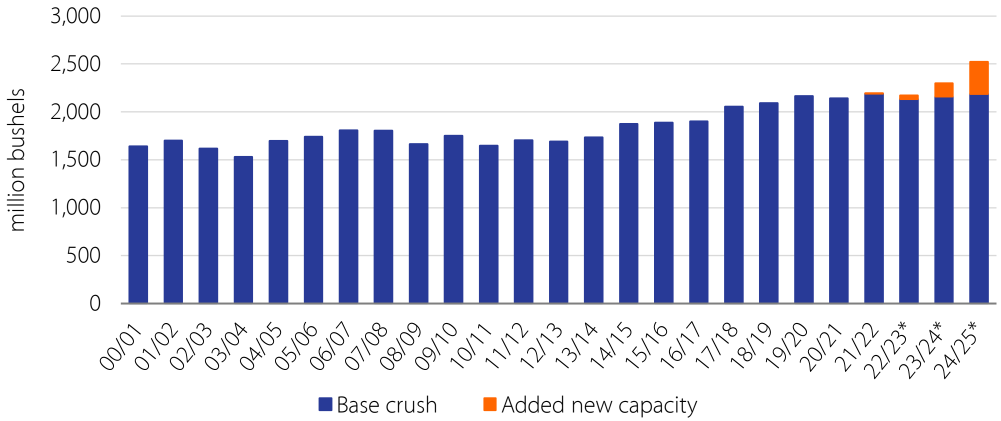
- ***As with corn, the USDA has increased US 2021 soybean production, yield, and stocks – all pointing to more plentiful supplies***. In addition, projections of another record crop in Brazil will add downward pressure to the soybean market. However, the demand side of the balance sheet continues to be strong on a global basis and even in the US, despite USDA projections.
- ***USDA October crop production, WASDE, and September 1 Grains Stocks reports were all about increasing supplies.*** The USDA increased yield to 51.5 bu per acre, up 0.9 bu from September. The average trade estimate was 51.1 bu. As a result, soybean production for 2021 rose to a record 4.448bn bu from September's estimate of 4.374bn. In the end, stocks for 2021/22 increased by 135m bu to 320m bu and the fourth highest stocks-to-use ratio of the last decade at 7.3%.
- ***Despite the USDA showing a reduction in overall demand in 2021/22 from 2020/21, new crop demand, if realized, would be the second highest on record.*** Crush reached a record level last year, and 2021/22 projections show the second highest level. The market has been concerned about soybean exports since last summer. According to outstanding export sales as of September 30, 2021, sales for 2021/22 are tracking closely with those of the 2016/17 crop, which were the highest US soybean exports until last year. Demand is always a concern, but there is certainly upside potential.
- ***US soybean crush capacity continues to grow.*** To date, nearly USD 2.9bn in investments in US soybean crushing capacity have been announced, which is estimated to add a total 275m to 325m bu to crush by 2024. From current crush estimates, this represents a 12% to 14% increase in crush demand. The bulk of this demand will not come online until 2023 and 2024. This is new domestic demand, but it also means less exportable supply since US soybean production is not increasing as fast as demand, which is supportive to prices.
- ***Brazil is on track to produce another record soybean crop in 2021/22.*** Estimates of planted area range from 39.0m to 40.5m hectares (98.5m to 100m acres), up 2.5% to 5.0%. Projected production ranges from 141m to 144m metric tons, which compares to last year's 137m metric ton crop. The 2021/22 growing season is off to a good start, with planting running ahead of schedule. In addition, short- and long-term weather forecasts are all showing favorable growing conditions for this year's crop. Brazilian farmers are concerned about a delay or cancellation of crop inputs deliveries (herbicides and fertilizer) for this growing season. Availability of Roundup is a particular concern since 90% of Brazil's soybeans are Roundup Ready varieties. The further concern is not having the right products at the right time, which will negatively impact yield potential.
- ***As with corn, the soybean market hit a high this spring (May) and has been in a bear market ever since.*** This week's USDA production projections added to the bearish mood. The better-than-expected yields and the opportunity to still lock in profitable margins for this year and potentially next year is what is important. Market participants remain in a selling mode, but there is an opportunity to lock in profitable margins and take some risk off the table.

US soybean outstanding export sales nearly match 2016/17 – the previous record export year until 2020/21



Source: USDA-FAS, Rabobank 2021

Over the next three years, there will be a 15% increase US soybean crush capacity



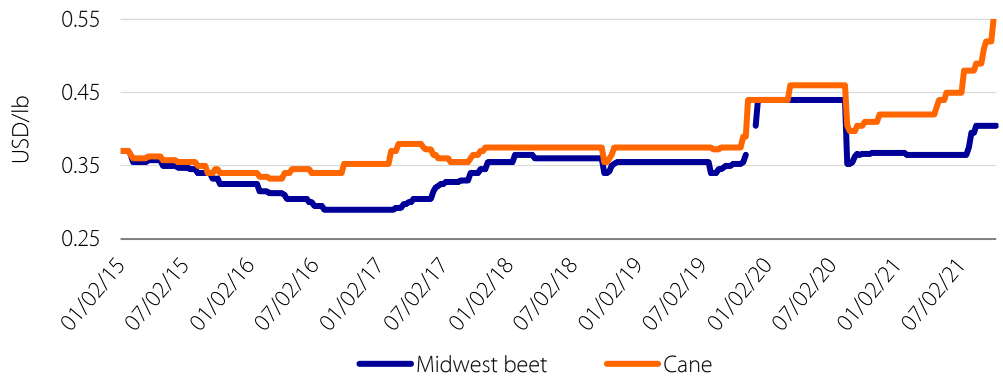
Source: USDA-WASS, Rabobank, 2021

Sweeteners

Supply chains deteriorating and prices appreciating

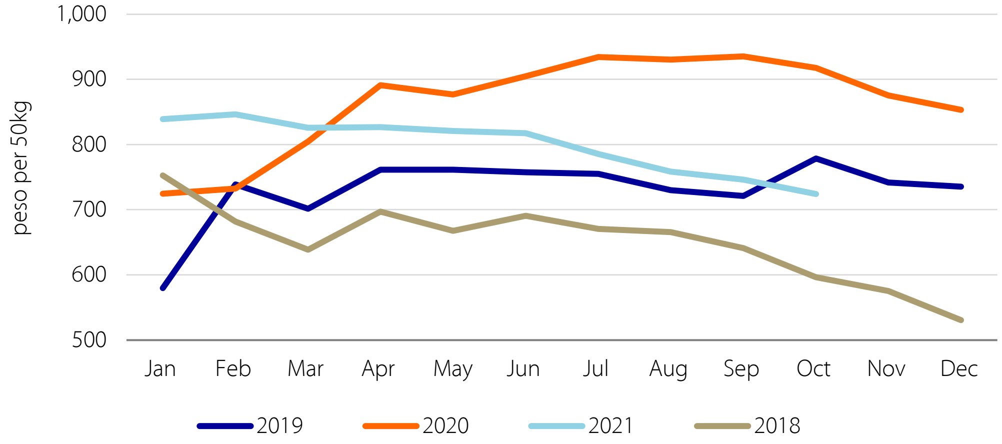
- ***Drought in the Red River Valley, hurricanes in Louisiana, and supply chain challenges have all added up to price appreciation.*** With the sugar beet harvest underway and cane harvest not far behind, some of the upward pressure on prices should ease. However, that won't solve logistics issues, and the resulting pull from end users will keep prices firm.
- ***Ongoing strong sugar deliveries are a symptom of supply chain challenges, not new demand***. Buyers are looking for sugar to replace shipments canceled due to Hurricane Ida, plus pulling ahead on their contracts to ensure adequate supplies amid a challenging freight situation. The increase in deliveries is not a sign of increased demand. Beet sugar is showing an 11.4% increase through August, while cane is showing a decline of 4.6% due to Hurricane Ida. This situation is not expected to turn around anytime soon and will keep upward pressure on prices.
- ***The rapid appreciation of the US sugar price may prompt increased imports***. While US sugar imports are tightly controlled by the tariff-rate quota (TRQ), the current high prices may make high-tier imports 'work' for some buyers. In other words, domestic prices are high enough for importers to bring in world sugar outside of the TRQ, pay the higher duty, and still have cheaper sugar than they can buy in the US market
- ***There is uncertainty around this year's crop***. The Red River Valley suffered under drought for most of the growing season, but early harvest (14% to 15% complete) indications point to better-than-expected production. Early reports from LSU stated that up to 25% of Louisiana's cane crop was damaged, but the damage was less than earlier forecasts, even though good-to-excellent ratings have declined from 70% on August 29 to 52% on October 3. The USDA estimated beet tonnage was up 6.1% YOY and cane down 5%. Stay tuned.

Cane sugar prices at a ten-year high



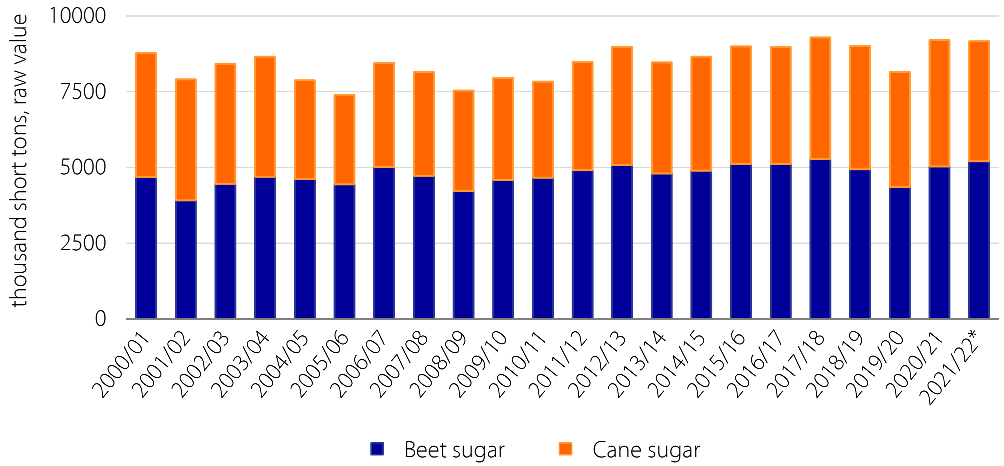
Source: Milling & Baking News, Food Business News, Rabobank 2021

Mexican sugar is heading to lower, more attractive prices for US buyers



Source: USDA-ERS, Rabobank 2021

Near-record US sugar production despite weather challenges in 2021



Source: USDA-WASDE, Rabobank 2021

Tree Nuts

Larger-than-expected pistachio crop

Almonds: Beginning inventory in the 2021/22 season was 608m lb, up 35% YOY, and the crop is expected to be down about 10% from the 2020/21 record. Marketable supplies (carry-in plus current marketable crop) will be down about 4% YOY in the season that just started. Shipments in 2021/22 through September were down 4% YOY, with domestic shipments up 1% YOY and exports down 6% YOY. With a higher proportion of smaller sizes, the price spreads across sizes are widening.

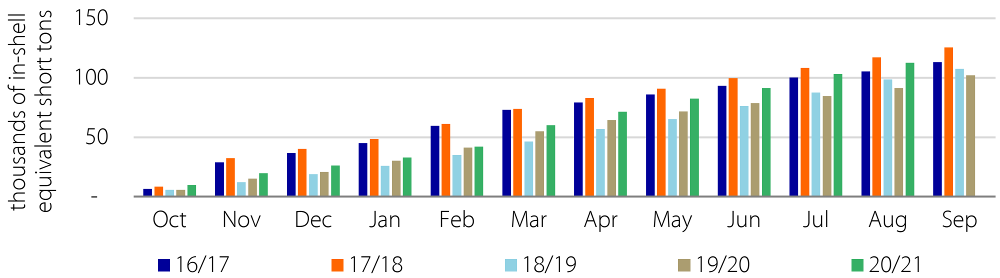
Hazelnuts: After a record crop and shipments in 2020/21, hazelnuts made it to the top-ten agricultural products in Oregon in terms of value of production. According to industry sources, hazelnut acreage has gone from 30,000 to 80,000 acres in the past ten years. Also, the industry is shifting from in-shell shipments to kernel shipments. In 2020/21, domestic kernel shipments increased 46% YOY, while kernel exports increased 119% YOY. Industry sources estimate another record crop for 2021/22.

Walnuts: Shipments were up 14% YOY, with exports increasing 21% YOY in 2020/21. About 89% of marketable supplies were sold, leaving manageable inventories at the end of the 2020/21 marketing year. As discussed in previous reports, the walnut crop in 2021/22 was expected to be down with respect to the record crop in the prior season. The USDA's objective report puts the California crop at 670,000 short tons, down 15% YOY. During September 2021, the first month of the new marketing season, shipments were up 16% YOY, with exports up 43% YOY and domestic shipments increasing 5% YOY. Pricing will be better this season.

Pistachios: By the end of the 2020/21 marketing season, shipments were up about 22% YOY but were shy of the record shipments in 2018/19. This, combined with record supplies in 2020/21, led to a carry-out of about 284m lb, a 36% YOY increase. As the 2021/22 California harvest approaches the final stage, industry sources report good quality, low closed shell numbers, and a higher proportion of smaller sizes. Also, yields are reported to be surpassing expectations, and some think that the new crop may be around 1bn lb. Prices will be pressured due to increased availability in the US, but a shorter crop in the Middle East will provide some price support.

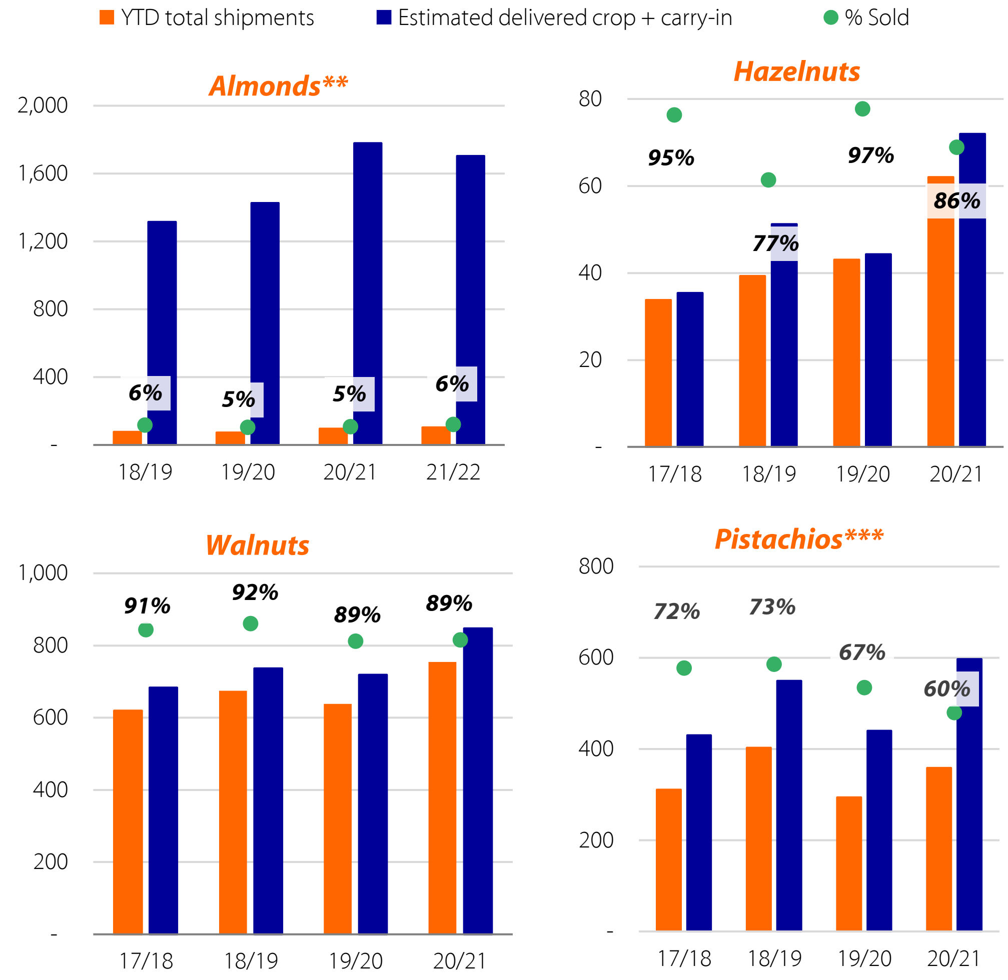
Pecans: US pecan export volumes in the 2020/21 marketing season through August were up 23% YOY, according to USDA figures, reaching the highest export volume since the 2017/18 season. The industry expects the 2021 crop to be slightly higher year-on-year. With a low carry-in and healthy demand, the price outlook is favorable for the 2021/22 marketing cycle.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2021

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



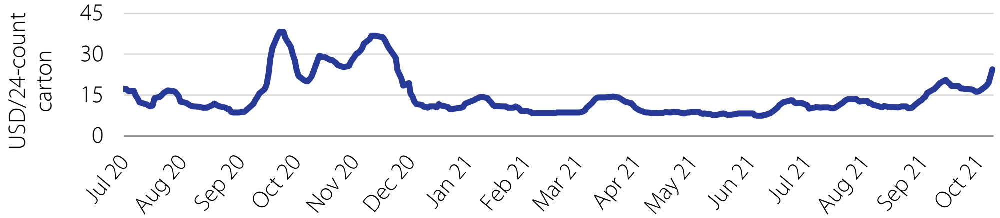
Source: Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, Rabobank 2021. *Through August 2021, 2021/22 marketing season for almonds; , August 2021, 2020/21 marketing season for walnuts and pistachios; July 2021, 2020/21 marketing season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

Vegetables

As demand normalizes, short-term tight supplies drive prices upward

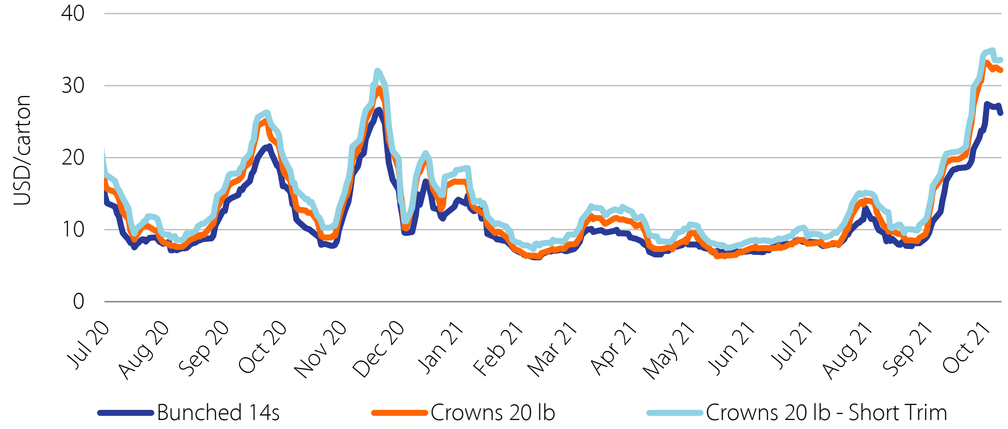
- ***Consumer retail demand for fresh vegetables continues to grow slower year-on-year.*** Sales of fresh and frozen vegetables in Q2 and Q3 2021 declined 8% and 4% YOY, respectively, according to USDA weekly retail food sales. This continued downward trend in sales signals a return to normal demand after last year's boom.
- ***Supplies of some crops tighten in the short term as harvests move to warmer regions.*** Except for squash and iceberg lettuce, no major heat waves impacting yields or quality have been reported this season. However, tight to very tight supplies of broccoli, iceberg lettuce, red leaf lettuce, salads, melons, large-size cucumbers, and sweet corn are currently driving up prices. Harvests will soon begin transitioning into the desert region, Arizona, Georgia, and North Carolina. Prices will soften accordingly.
- ***Broccoli crown and lettuce prices ascend following seasonality and on the heels of very limited supplies.*** At USD 32.16 per 20-pound carton and USD 24.50, broccoli crown and iceberg wrapped 24s prices are up 152% YOY and 17% YOY. In contrast, at USD 19.40 and USD 21.43, romaine 24s and hearts (12x3) are lower by 52% YOY and 46% YOY, respectively. Prices will likely remain elevated for the rest of the year. Fresh supplies from warmer regions will weigh on prices during winter months before demand picks up again in the spring.
- ***A drop in yields for Idaho and the Columbia Basin reduces potato production estimates by 2.6% YOY, according to NAPMN.*** Excessive rain and warm weather delayed harvest in some eastern growing areas. Russet table potato supplies could be tight during the 2021/22 marketing year. Storage red potato supplies could decline this year due to lower production, whereas yellow potato supplies are expected to be high as a result of increased acreage. Russet 5/10# Size A prices range between USD 11.50 and USD 16.50, depending on the region. The Red and Yellow 10/5# Size A prices are at USD 27.00 and USD 29.00, respectively. For the remainder of the year, prices will improve as global demand continues to grow while production drops.
- ***For many fresh vegetables, 2021 prices and shipments have so far remained high, reflecting strong demand.*** The shipments and the volume-weighted average shipping-point prices of sweet potatoes, grape tomatoes, cucumbers, bell peppers, carrots, cabbages, kale greens, artichokes, and cauliflower have so far hovered at or well above their five-year maximum value. These prices are expected to remain high for the rest of the year.

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



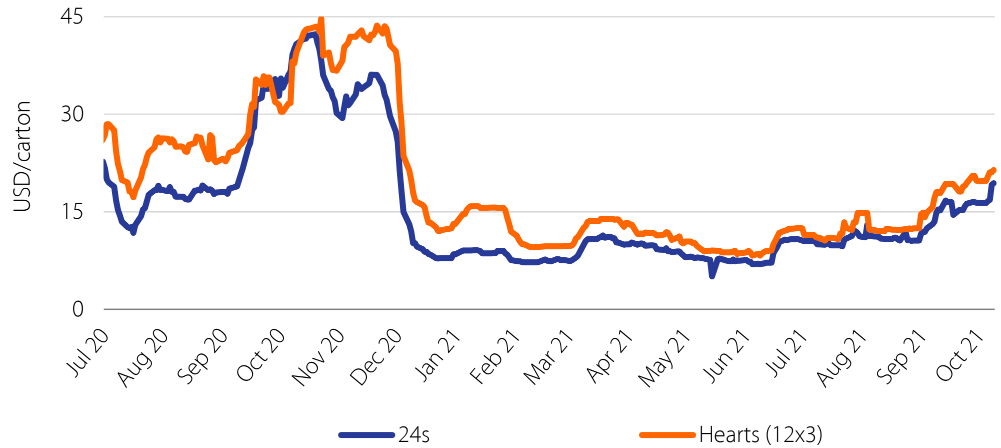
Source: USDA AMS, Rabobank 2021

Broccoli – US daily shipping-point price, 2020-2021



Source: USDA AMS, Rabobank 2021

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



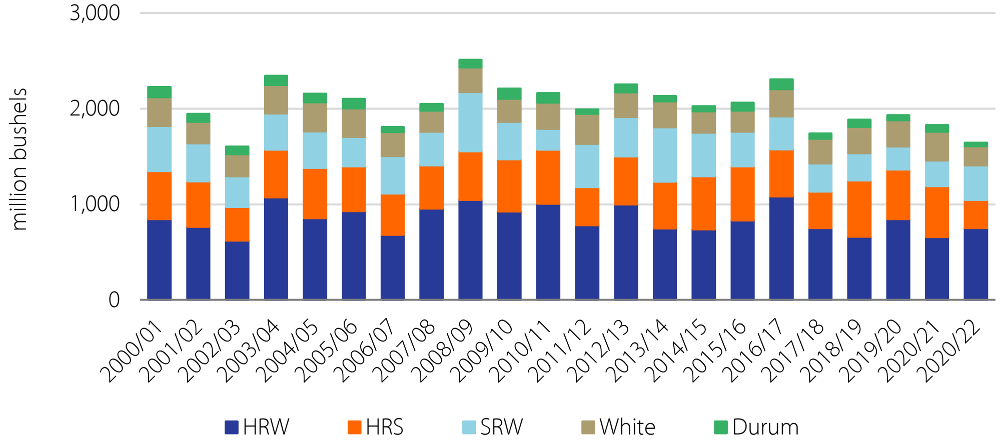
Source: USDA AMS, Rabobank 2021

Wheat

Tighter and tighter

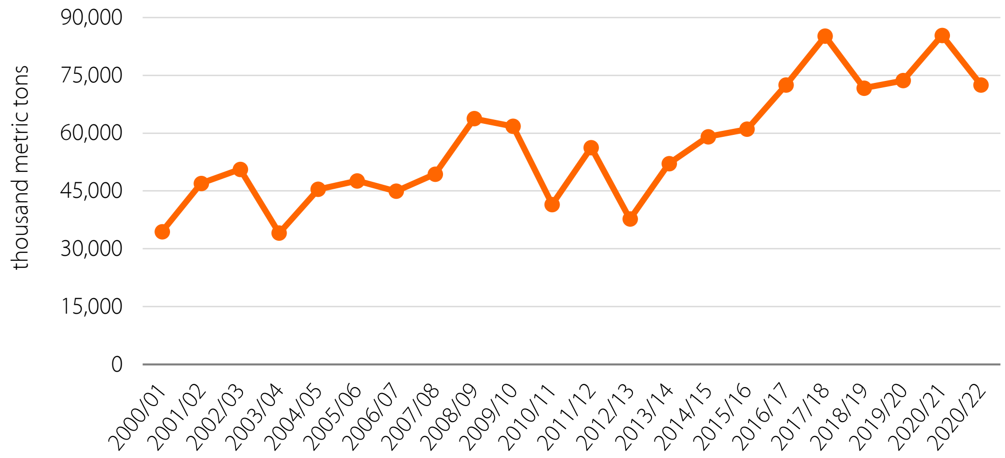
- ***The same adjectives can be used for the domestic wheat market as the global wheat market: reduced supplies, lower domestic use, unchanged exports (trade), and decreased ending stocks.*** Accordingly, prices have responded to the upside, but the bearish mood of the corn and soybean markets may weigh on wheat futures.
- ***US wheat fundamentals point to prices being well supported for another year.*** Across all classes of wheat, multi-year milestones are being established. Looking at production, stocks, and stocks-to-use ratio for the 2020/21 crop year, previous records were set in the mid-2010s or the late 1970s. A couple of highlights: (1) at 37m bu, durum production is at its lowest level since the 1961/62 crop of 21m bu; and (2) white wheat production is the lowest on record at 201m bu. When comparing prices to previous record years, average farm-received prices were in mid USD 6.00 to low USD 7.00 range, with the exception being durum in the upper USD 9.00 per bu area. In other words, wheat prices will be well supported into the next year.
- ***The global wheat situation is tightening as well.*** Overall production is just slightly higher than a year ago but has been continually cut as more harvest data is received. Significant declines in 2021/22 production occurred in Argentina, Canada, Russia, Kazakhstan, and the US. Much of the export slack will taken up by Australia and Ukraine. Despite higher prices, domestic feed and total domestic disappearance are projected to be higher in 2021/22. Exports will only be down 920,000 metric tons year-over-year. As a result, FOB export prices in all the major exporting countries are rising.
- ***Is Russia losing its place as the world's wheat superpower exporter?*** A number factors of late have conspired against Russia as the top low-cost wheat exporter in the world: limited supply due to drought, strong domestic prices, and a strong ruble. This situation has been slowly changing over the last few years as there has been more government intervention in exporting. Exporters have suffered through several years of temporary export restrictions, and then this year, Moscow implemented permanent export tariffs due to rising domestic grain prices. While the goal was to insulate the consumer from higher food prices, the export tariff is taking away the bulk of the upside potential that exporters could capture for themselves. In addition, it is estimated that farmers could lose 15% to 30% of their income because of the tax. As result, farmers will lose the incentive to plant due to lost income, in addition to rising production costs and potential lower yields. Private firms that follow Russia are already seeing a reduction of as much as 5% in winter wheat plantings this year due to unfavorable weather and a decrease in profitability. This would be the first drop in planted area in four years. In the future, other exporters, including the US, may have more of an opportunity to increase wheat exports. Stay tuned.

Lowest US wheat production since 2002/03 crop year



Source: USDA-ERS, Rabobank 2021

Has Russian wheat production hit its peak?

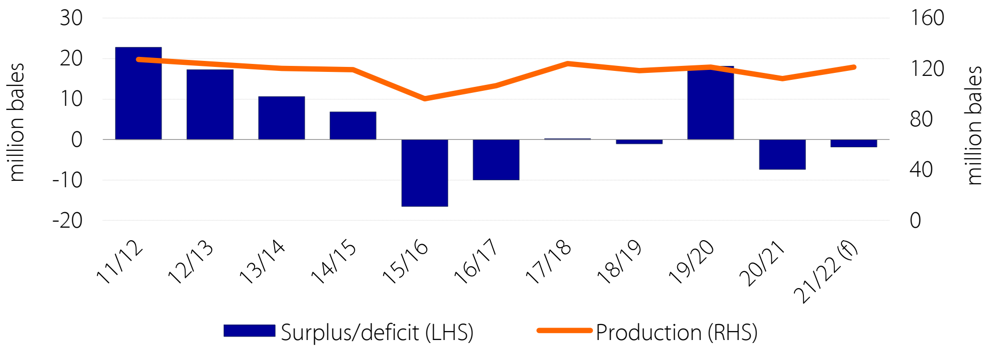


Source: USDA/FAS-PSD,, Rabobank, 2021

Cotton

- ***Harvest pressure from multiple northern hemisphere regions should help ease market tightness.*** Although, risks remain during final maturation and harvest for northern hemisphere cotton crops. Good harvest results should quell concerns over limited exportable supply in the weeks ahead. Harvest in the US is delayed at only 20% complete as of October 10, compared to the five-year average of 28%. Harvest should begin to make quicker progress going forward, and as it progresses, production risks will diminish. At around 17.9m bales, Rabobank sees a slightly lower crop, on marginally lower yields, than the USDA's current 18m bales. Abandonment should be low.
- ***Demand estimates appear to be stabilizing.*** The higher prices seen this month caused the USDA to revise its estimates of global demand lower in this month's WASDE report. The scope for further expansion in consumption appears limited, as global economic growth will begin to slow in Q4 2021 on higher energy and production costs. Our outlook remains stable on global consumption, with a possibility of a smaller deficit than the USDA's current estimate of -3.2m bales.
- ***Southern hemisphere plantings are getting going, and expectations are high.*** Price pressure may also come from exuberant southern hemisphere plantings that may beat current expectations. Australia is beginning plantings and may make further efforts to increase acreage, and Brazil will begin planting in December. With ICE #2 prices well supported across the curve, plantings may surprise to the upside, and global production could see a 1m bale boost.
- ***High shipping costs will help keep ICE #2 prices elevated into 2022 and possibly beyond.*** Shipping prices continued to rise steeply over the last four months (the WCI Container benchmark is up over 60% for the period), and despite leveling off in October, they will likely remain elevated on systematic issues throughout the industry. Until availability increases, higher shipping costs will help keep ICE #2 prices elevated along with other commodities.

A boost to global production from the southern hemisphere in 2021/22 could help stabilize changes in global ending stocks

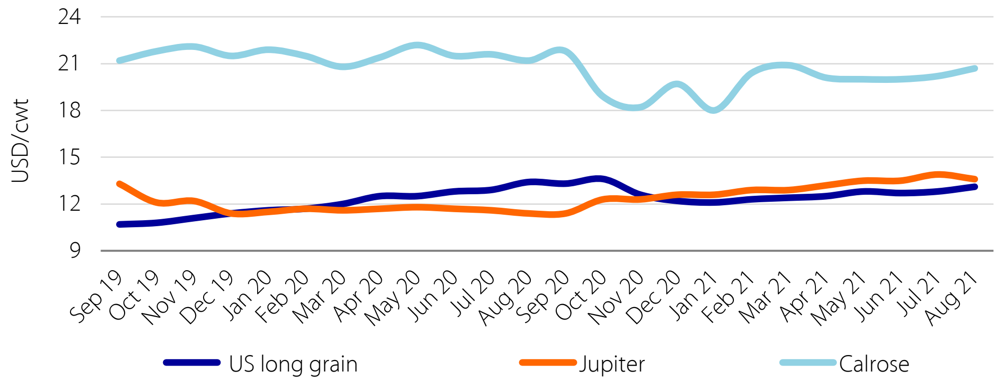


Source: USDA, Rabobank 2021

Rice

- ***The latest production estimates from the USDA peg rice production at 190.5m cwt. This represents a decline of 16% compared to last year***. While some regions have seen an improvement in their yields, others have seen declining or flat yields, according to the USDA's latest survey.
- ***The US rice crop was reported as 73% harvested, an increase of 4 percentage points over last year but still 3% behind the five-year average***. While harvest has varied by region, Arkansas's rice crop has seen better progress compared to last year (+ 4%) but remains 10% behind the five-year average.
- ***All rice imports were revised down 2m cwt, to a total of 36m cwt. Yet, imports remain 6% higher than last year.*** The revised imported volume was driven mainly by a drop in long-grain imports, which declined by 2m cwt due to a slowdown in monthly deliveries. High ocean freight costs and container shortages continue to be the main factors affecting commodity imports.
- ***Despite recent revisions to supply and demand, prices remain unchanged, but they will end up higher than last year***. Prices are projected to increase by the end of the marketing year as lower production and ending stocks decline, supporting the season-average farm price. The season-average farm price for this marketing year is expected at USD 14.80 per cwt – an increase of 8% compared to last year.

24-month US rice prices, Sep 2019-Aug 2021

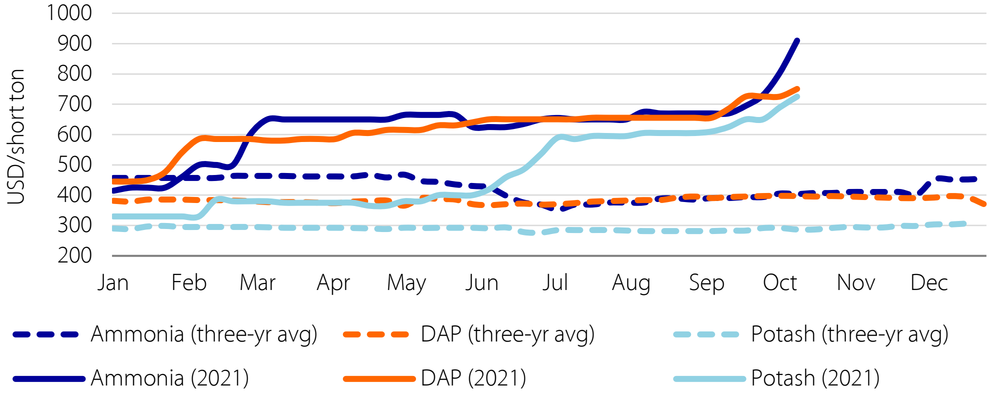


Source: USDA NASS, USDA ERS, Rabobank 2021
Note: Average rough rice basis

Input Costs

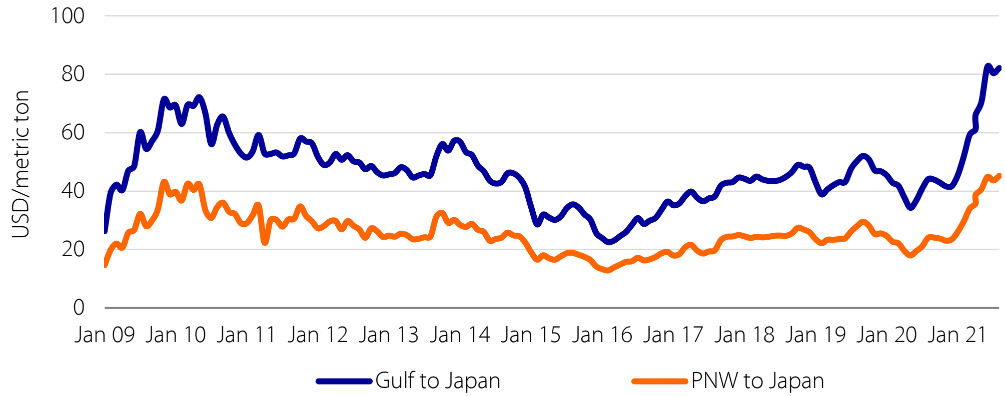
As of October 14, 2021

Corn Belt input prices*



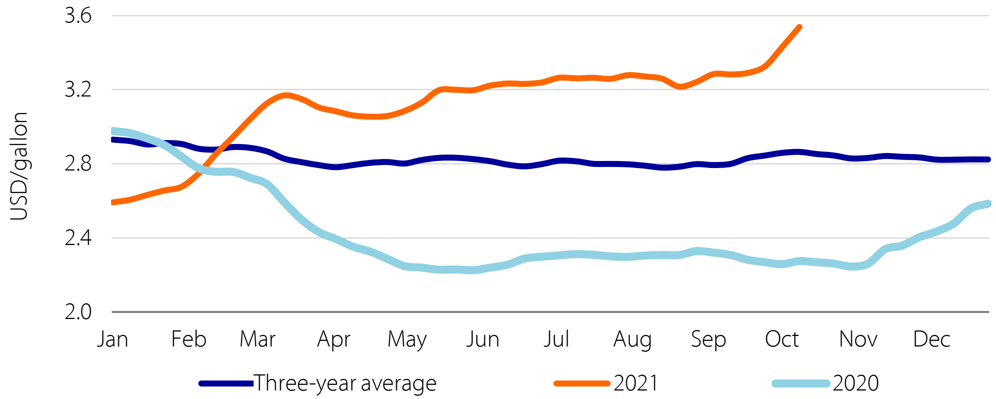
** Note: granular potash*
Source: Bloomberg, Rabobank 2021

Ocean freight



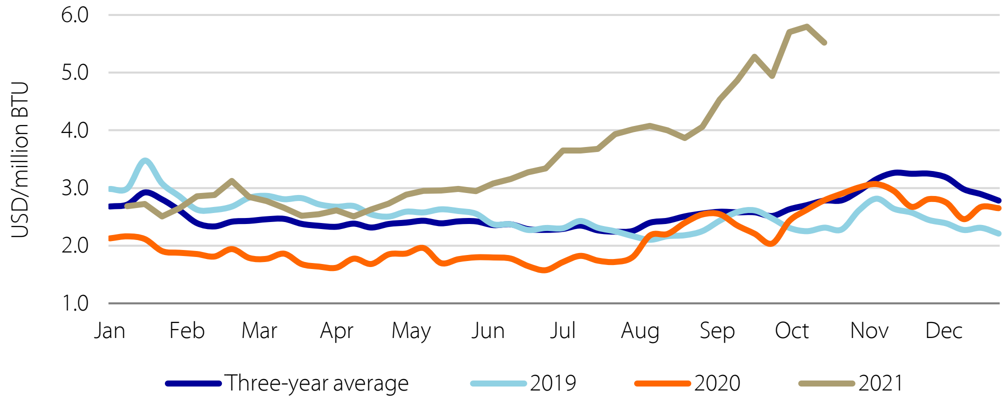
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2021

Diesel – Midwest



Source: EIA, Rabobank 2021

Natural gas spot



Source: NYMEX, Rabobank 2021

Forward Price Curves

Rabobank

As of October 14, 2021

CBOT – Corn

Source: CBOT, Rabobank 2021

CBOT – Soybeans

Source: CBOT, Rabobank 2021

CBOT – Soymeal

Source: CBOT, Rabobank 2021

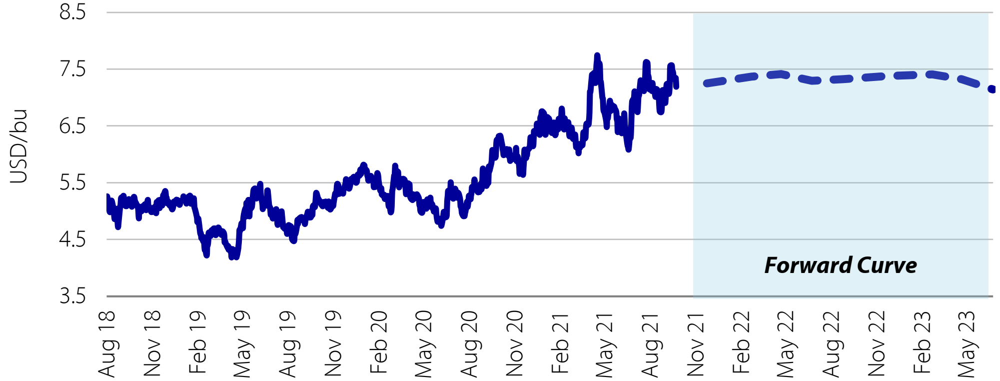
CBOT – Soy oil

Source: CBOT, Rabobank 2021

Forward Price Curves

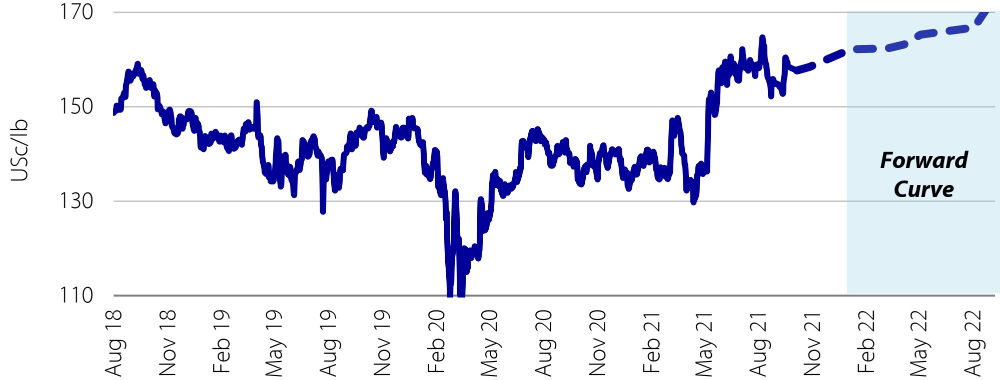
As of October 14, 2021

CBOT – Wheat



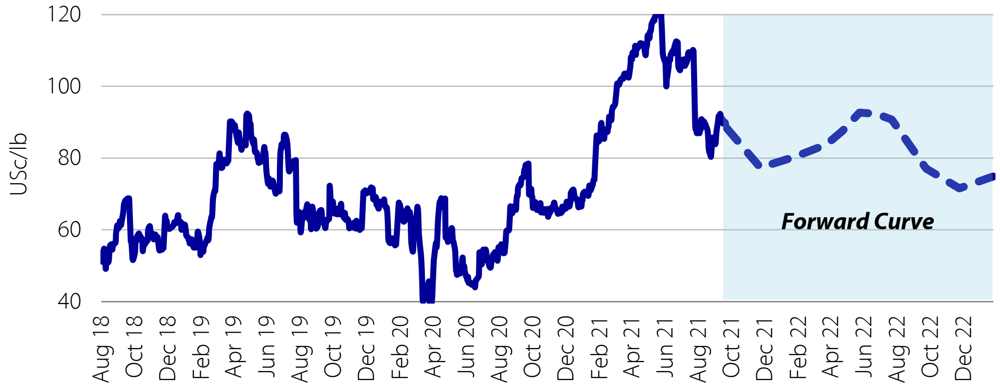
Source: CBOT, Rabobank 2021

CBOT – Feeder cattle



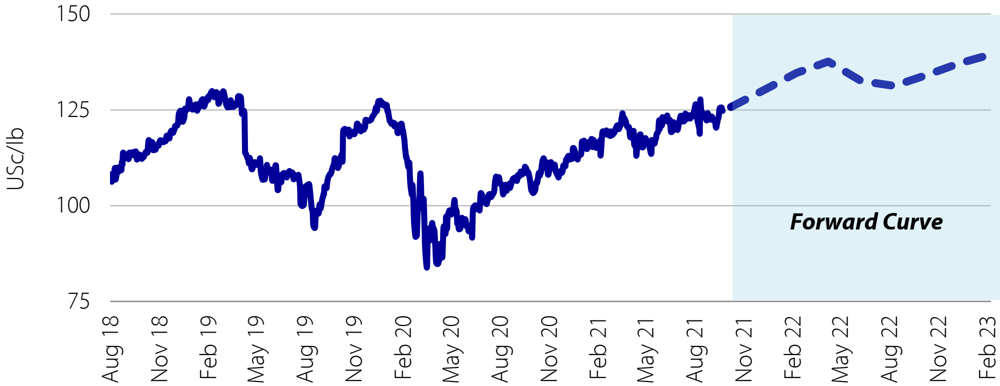
Source: CBOT, Rabobank 2021

CBOT – Lean hogs



Source: CBOT, Rabobank 2021

CBOT – Live cattle



Source: CBOT, Rabobank 2021

Forward Price Curves

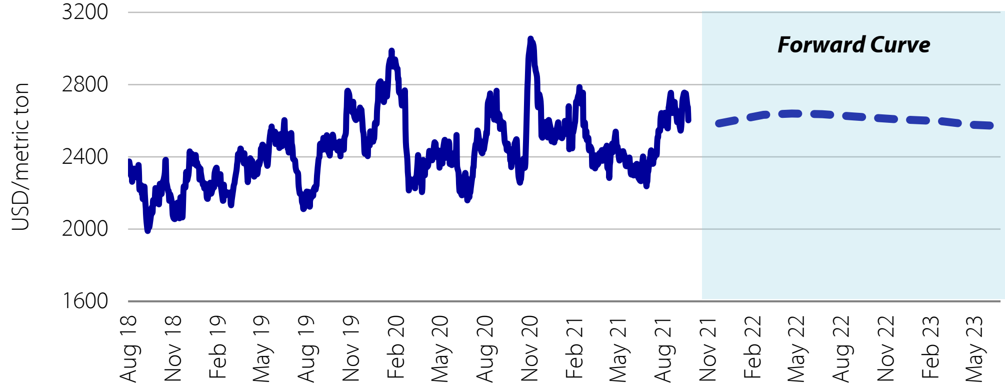
Rabobank

As of October 14, 2021

ICE – #2 Cotton

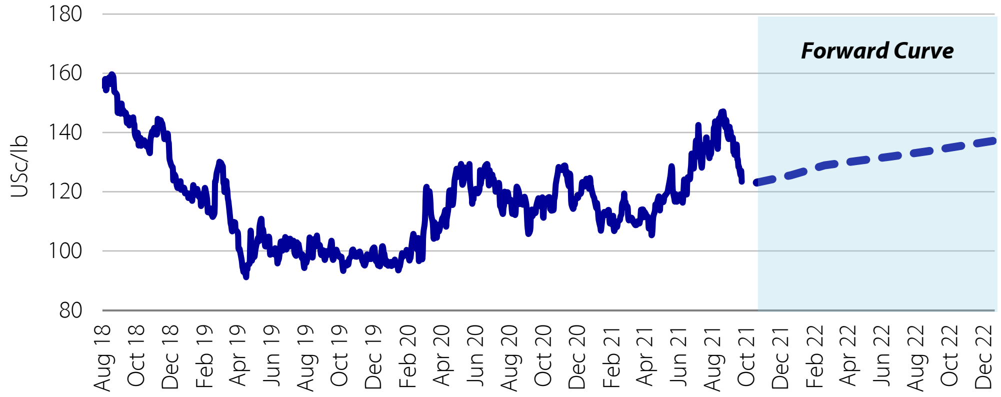
Source: ICE, Rabobank 2021

ICE – Cocoa



Source: ICE, Rabobank 2021

ICE – FCOJ



Source: ICE, Rabobank 2021

ICE – #11 Sugar

Source: ICE, Rabobank 2021

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