



North American Agribusiness Review

Rabobank

RaboResearch
Food & Agribusiness






June 2023

Report Summary

Rabobank

Report Summary

Economy

The Fed is not done

US

- The Fed is trying to slow down the economy to below-trend growth and increase slack in the labor market in an attempt to bring inflation down to 2.0%. However, despite a steep hiking cycle, the policy rate is hardly restrictive in real terms. What's more, there has been little credit tightening in response to the banking turmoil. As a result, we have seen a reacceleration of GDP growth and employment growth in recent months. Therefore, the labor market remains tight, supporting an elevated level of core inflation, especially in services. We expect that additional monetary tightening is needed to slow down the economy and reduce inflation. It will be difficult for the Fed to engineer a soft landing, so we think a mild recession is likely to start in the second half of the year. However, the Fed will have to keep rates high until inflation is under control, which we do not expect to occur before 2024.

Mexico

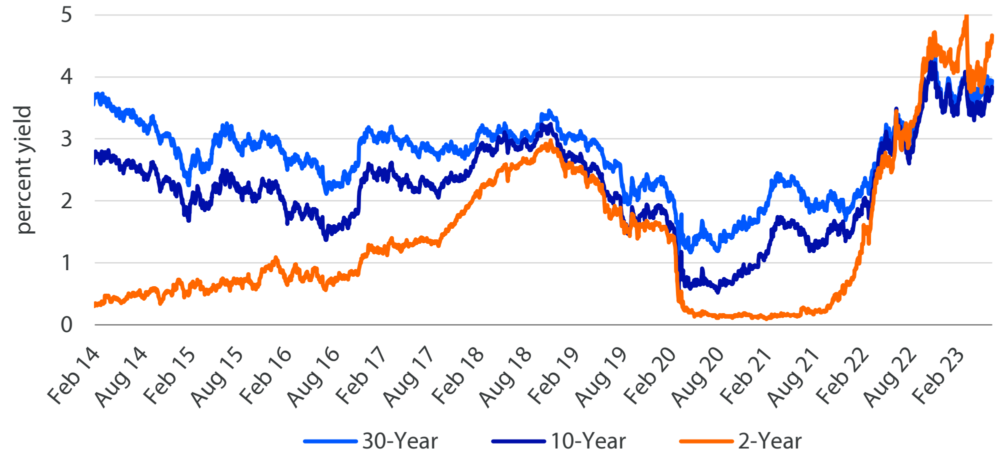
- Although the end of the tightening cycle nears in Mexico, we do not anticipate any rate cuts in North America this year. Indeed, the Fed is likely to keep the door open to further tightening should it be required. And in terms of our base case for North American central banks, we expect them to push back on any potential move to an easing cycle this year. Banxico's Galia Borja noted: “Several policymakers agree that the monetary policy will have to remain restrictive for some time to come, given the still high levels of inflation."

Canada

- Despite expectations of much weaker consumption this year, household consumption has surged. Notably, Q1 2023 was the second strongest quarter since Q3 2020. Although we continue to believe that household activity will slow this year, we still expect Canada to avoid a recession in 2023. In summary, we expect inflation to remain sticky, unemployment to stay low, and growth to slow this year, and the data continues to support our view that rate cuts are unlikely in Canada over the course of the next year. We forecast USD/CAD to rise to 1.37 at the 12-month horizon.

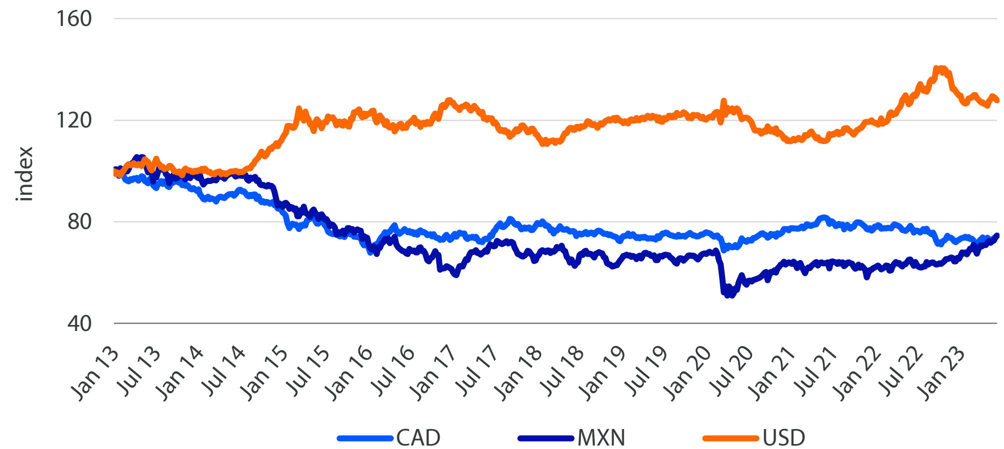
Source: *USDA, Rabobank 2023*

Interest rates, 2014-2023



Source: *Federal Reserve of St. Louis 2023*

Currency indices, 2013-2023



Source: *Reuters 2023*
Note: *Rebased at 100 as of January 1, 2013*

Logistics

Labor disruptions remain front and center as the global supply chain recovers

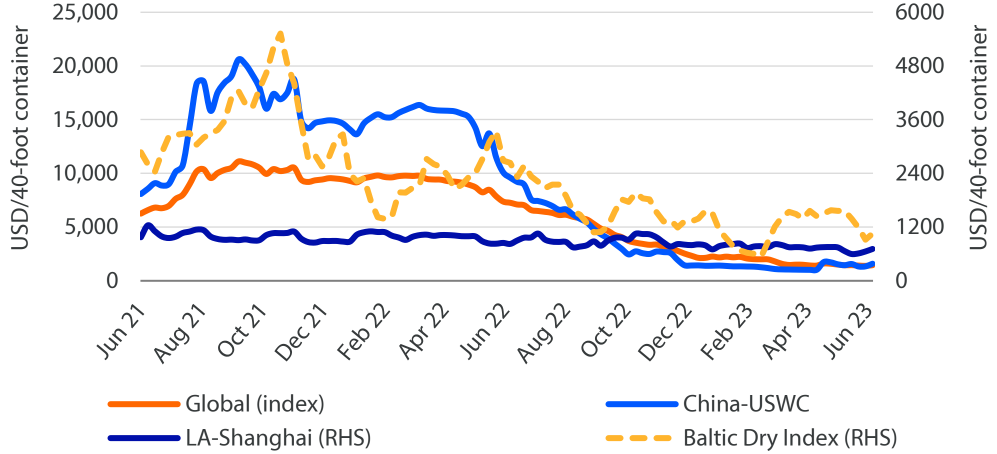
- **West Coast port labor negotiations and the resulting disruptions made headlines in recent weeks.** Workers' strikes have once again disrupted normal operations at major West Coast ports and caused congestion and delays for several days. Though port operations have temporarily resumed, labor agreements have not been reached, and further disruptions are possible. Due to the uncertainties present at West Coast ports, East Coast ports are becoming increasingly appealing to Asian imports, though they are currently not a viable alternative for westbound agriculture exports.

- **The global container shipping market is on track to return to pre-pandemic conditions.** Drewry's May 2023 report on effective ship capacity indicates green signals for major routes, including transpacific, Asia to northern Europe and the Mediterranean, and transatlantic westbound routes. Effective ship capacity for these routes is expected to increase further in Q3. The number of vessels waiting and the waiting times for a berthing window have fallen back to pre-pandemic levels for most ports, though a few high-volume ports in North America such as Los Angeles and Long Beach are still moderately congested. Global schedule reliability as indicated by the percentage of on-time arrivals of container ships continued to rise, from 52.6% in January to 64.2% in April 2023. Weaker demand for goods in Europe and the US and newly delivered ships contributed to these improvements. As a result, dry container spot rates are expected to stay depressed while contract rates continue to decline. However, current low freight rates are set to rebound in the future due to rising operating costs on ocean carriers.

- **The Baltic Panamax Index (a proxy for grain bulk freight) has tanked due to ample inventory at ports.** The recent decline was driven primarily by capsize vessels, though it has impacts across the board. We continue to believe that the Panamax Index will fluctuate around the lower end of the spectrum as the global economy enters turbulent waters.

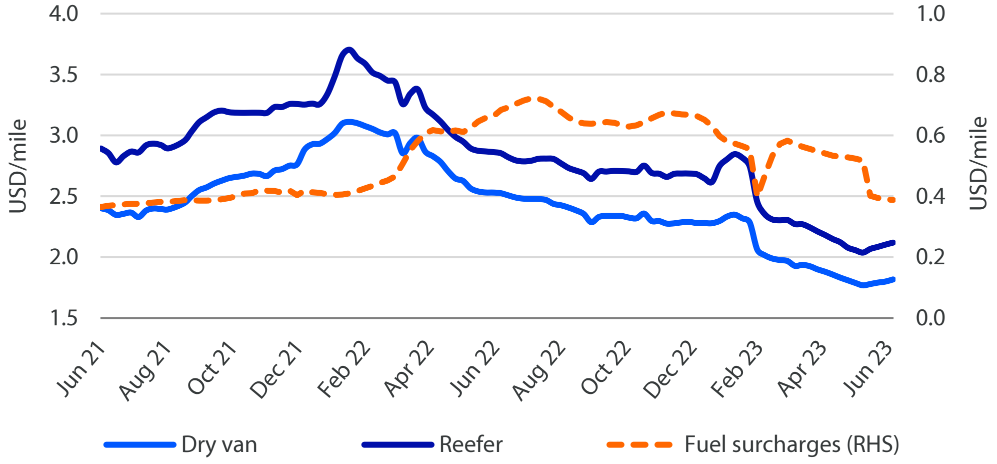
- **Truck load demand finally started seeing weakness as we finish the first half of 2023.** Trucking employment also trended downward to match demand. The Producer Price Index for General Freight Trucking continues its gradual downward trend, yet remains 25% above pre-pandemic levels. Labor and energy costs are sticky, so there is limited downward potential for trucking costs.

Select ocean freight rates, Jun 2021-Jun 2023



Source: *Freightos, Baltic Exchange, Bloomberg 2023*

US dry van and reefer truckload prices, Jun 2021-Jun 2023



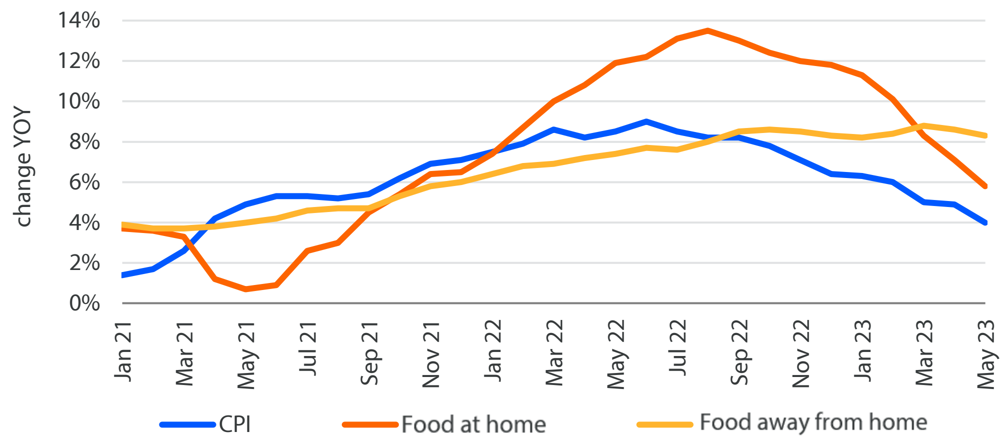
Source: *Truckstop.com, Bloomberg 2023*

Consumer Retail & Foodservice

Slowing inflation unless you eat out

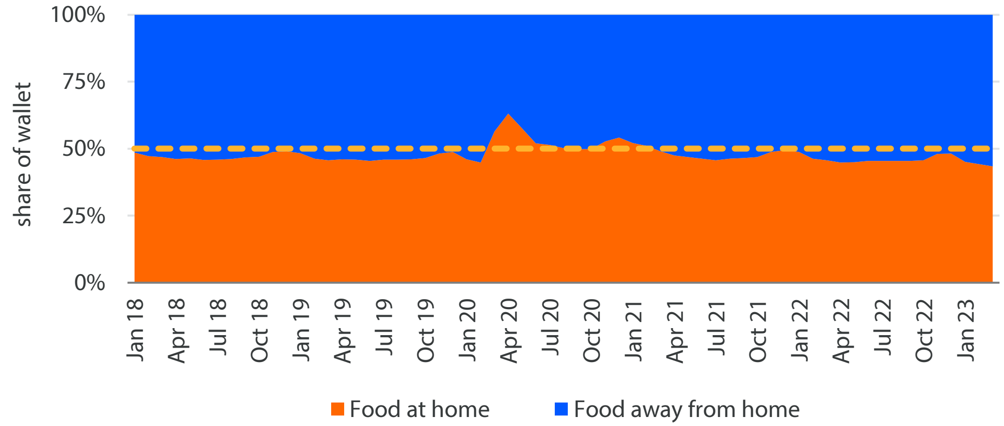
- **Food prices ticked up in May 2023** (0.2% vs. April), ending a two-month period of stable prices. The food complex is 6.7% higher YOY and ahead of overall CPI (4.0%). The FAO Food Price Index eased from its highs and now sits 22% below the 2022 peak. The effects of commodity price inflation were not immediately transferred to consumers. Prices have gradually trickled down as retailers and restaurants carefully manage price increases so as not to shock demand.
- **Food at home rose marginally** (0.1%). Although the category benefited from a sharp drop in egg prices (-13.8%), it remains 5.8% higher YOY, mostly due to cereals and baked good (+10.7%), sugar (+10.2%), and edible vegetable oils. **Food away from home is less volatile and remains on an upward trend,** rising 0.5% MOM and now at 8.3% YOY. The nature of the restaurant business and higher fixed costs (such as labor and rent) prevent major fluctuations in menu prices.
- Despite higher menu prices and downtrading, **food away from home gained wallet share** in the first three months of the year (the latest available data), reaching historical highs of 57% of all food expenditures, or roughly USD 112.4bn.
- **Downtrading is evident in packaged foods.** Private label continues to outperform branded products across many packaged food categories, with the main retail chains claiming higher revenues from their brands.
- **Higher interest rates and margin pressure** are impacting business strategies. A reduction in investment in riskier disruptive technologies marks one such shift. Annualized food innovation investments are down 22% (in terms of deal numbers) as companies pull back on "disruptive" food innovations such as plant-based meat alternatives, precision fermentation, and other would-be disruptive innovations. Instead, companies are turning their innovation strategies toward incremental innovations, as seen in McDonald's and Chobani's recent announcements. As a result, we expect a much broader shift toward smaller, incremental innovations that are less risky. Look out for new flavors, packaging formats, and brand partnerships as companies try to keep their costs down and their brands relevant in this challenging environment.

Restaurant menu prices have increased more gradually than grocery prices



Source: *US Bureau of Labor Statistics (BLS), Rabobank 2023*

Spending at restaurants reached historical highs despite (or because) menu prices outpaced grocery prices



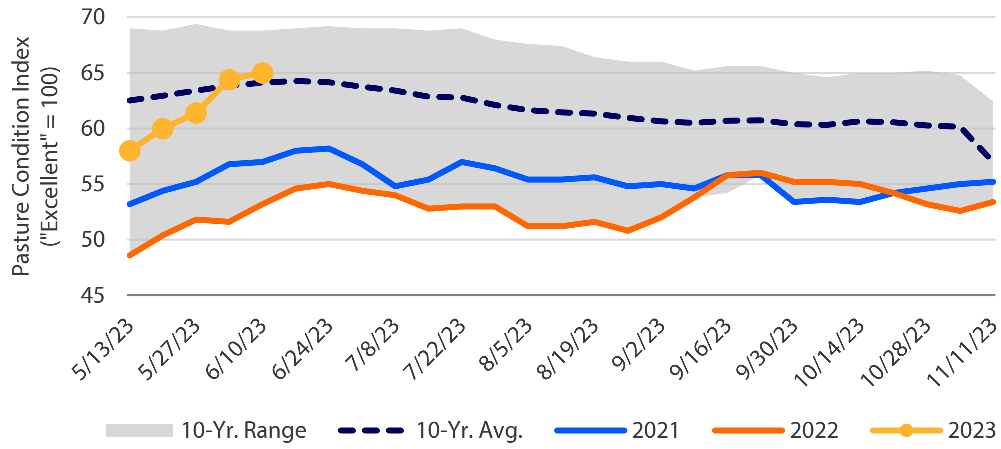
Source: *Rabobank 2023, based on the USDA's Economic Research Service (ERS)*

Cattle

Beef and cattle prices move to new highs as supplies tighten and demand stays historically strong

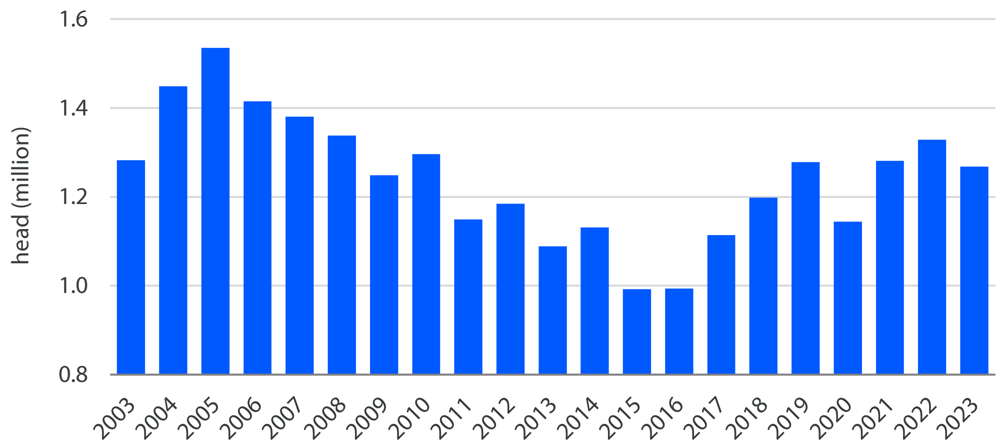
- **Retail beef prices climbed sharply.** The USDA all-fresh beef retail price for May was USD 7.50/lb, a new annual high and the third-highest price on record. (The all-time high of USD 7.55 was in October 2021.) US retailers and restauranteurs will have to increase consumer beef prices throughout 2023 to account for rising wholesale costs. Both tighter supplies and robust demand contributed to higher prices. January to May consumer beef demand was the third highest for that period of the last 30 years, surpassed only by 2021 and 2022.
- **US wholesale beef and cattle prices reach new highs.** The daily USDA composite boxed beef cutout hit new annual highs above USD 330/cwt in June, the highest wholesale beef price since the pandemic-led rallies of 2020 and 2021. Likewise, fed cattle prices reached new highs, nearing USD 190/cwt on a US-average basis. The CME Feeder Cattle Index is at USD 228/cwt and within USD 15 of December 2014 highs; 550lb steer calf prices are the highest since Q2 2015, at USD 270/cwt. Values are rapidly adjusting higher, as consumer demand remains historically strong, and cattle and beef supplies are beginning to tighten after five years of herd reductions.
- **Drought affects continue to dissipate for US cattle producers.** Timely precipitation and cooler temperatures have been prevalent throughout the US over the last several months, and US cattle producers have benefited. Pasture conditions have improved 12% since the start of the grazing season, according to weekly USDA reports, and average pasture ratings for early June are par with the 10-year average. While heifer retention should be a viable option for cow-calf producers this fall, May and June beef cow slaughter implies an average culling rate near 11.7%, which is close to 2021 levels and indicative of cow herd liquidation.
- **Tighter supplies of available cattle are influencing Canada's slaughter and beef production trends.** The shrinking supply of available feeder cattle and calf outlined in our April 2023 edition is showing up relatively quickly in Canada's supply data. January to April feedyard placements were down 16% compared to last year (94,000 head). The most aggressive declines came in April and May, down 19% and 29%, respectively. May 1 feedyard inventories are now 114,000 head smaller (-10%) than last year. Cattle slaughter also shows relatively consistent year-on-year declines, with January to May cattle slaughter down 61,000 head (-4.5%). The declines in Canada and the US support record-high prices in nearly all cattle market classes.
- **Strengthening peso complicates Mexico's beef export outlook.** The US market represents 84% of Mexico's beef exports by volume and 87% by value. That heightens the emphasis on the MXN/USD exchange rate, especially with Mexican beef production up 1.5% from January to April. Currently, the peso is 16% stronger than the dollar compared to last year, increasing the cost of Mexican beef exports to the US. Beef shipments into the US fell 7.5% YOY in the last 10 months. The stronger peso is likely to slow beef exports, as the price spread between the two markets remains historically narrow, comparable to 2022 when US boxed beef cutout averaged 17% higher than Mexican values.

Weekly US pasture conditions have improved, nearing the 10-year average in June



Source: USDA, Rabobank 2023

Canada's January to May cattle slaughter is down 4.5% compared to last year



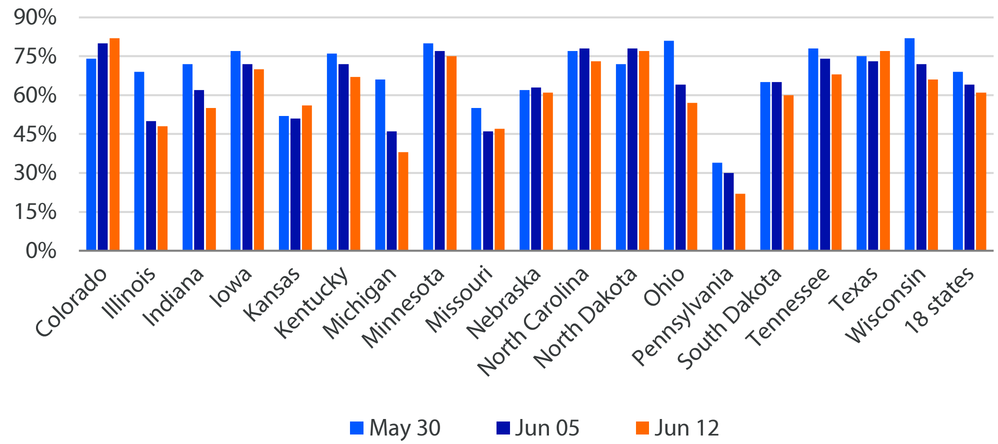
Source: CanFax, Rabobank 2023

Corn

Topsoil moisture remains low in parts of the Corn Belt

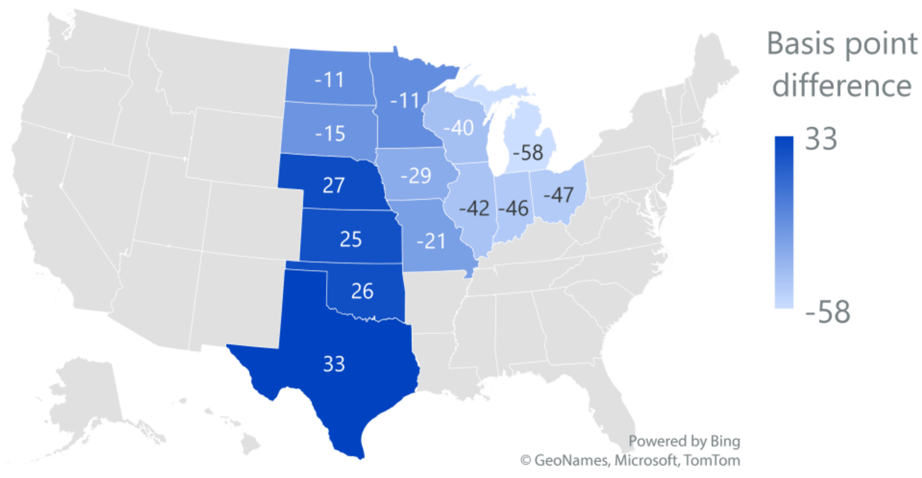
- **Corn planting progress has caught up with last year,** except for a few states (Kansas, Nebraska, and Texas) that remain marginally behind. When compared to the five-year average benchmark, all states are at or above the benchmark except for Texas, which is 3% below the five-year average.
- **Dry weather conditions persist in central and eastern parts of the Corn Belt**. Topsoil moisture in these regions has seen a decline in "adequate" ratings. States like Illinois, Indiana, Michigan, and Ohio have seen adequate topsoil moisture levels range from 74% to 12% in the span of six weeks. Weather could turn the tables for corn this year, especially if trend yield is not achieved. Stay tune for a wild summer!
- **Parts of the eastern Corn Belt saw a dry start to the growing season** due to current weather conditions. Although dry conditions do not necessarily mean that yields will not reach their full potential, the extended dry period since the start of June might negatively impact corn. The potential for a national average yield of 182 bushels per acre may be in question, with yields losing potentially 1 to 2 bushels per acre given how much of the corn crop is under dry or drought condition.
- **US corn exports were downgraded in last month's WASDE report**, revised from an initial estimate of 2.4bn bushels for the 2022/23 season back in May 2022 to a total of 1.8bn bushels estimated in May 2023. The decline in corn exports continues, as US prices remain less competitive relative to Brazil.
- **US ending stocks are forecast to continue increasing**, driven by lower total use, according to the latest WASDE. The USDA continues to increase US ending stocks, as demand for US exports remains weak. Brazil's record crop and lower export prices continue to weigh on US export competitiveness. Stocks surprised back in March, sitting at lower levels than anticipated despite lower export volumes, as feed demand and utilization of residual stocks exceeded initial estimates. However, exports continue to trend lower, begging the question of whether demand has been able to offset the decline in exports.

*Corn conditions rated as good to excellent, by state**



Note: Ratings as of June 12, 2023.
Source: USDA AMS Rabobank 2023

Topsoil moisture rated as adequate has changed, April 30-June 12



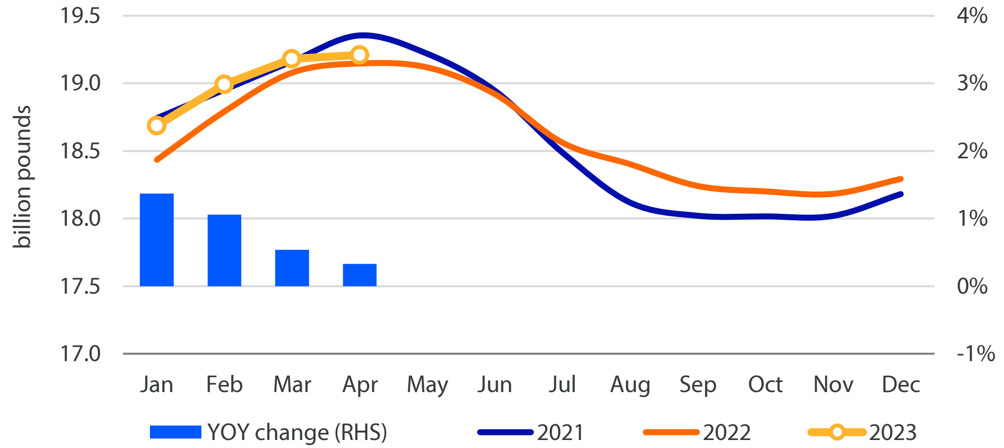
Source: AMS-USDA, Rabobank 2023

Dairy

Milk production remains higher versus prior year, with further price weakness materializing in Q2

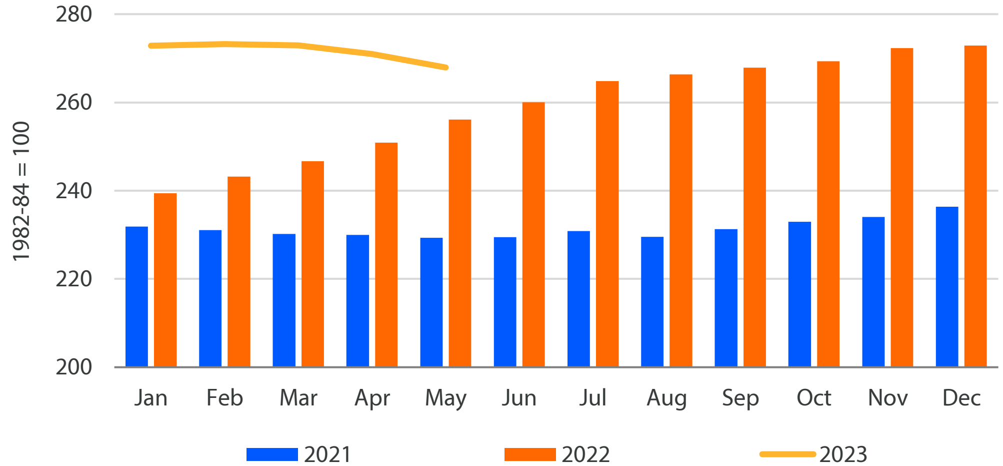
- **US milk production remains higher versus the prior year, but the gains are narrowing as 2023 progresses.** The 0.3% YOY increase in April was the weakest of the year, due to negligibly higher milk per cow compared to last year. Importantly, milk output remains lower versus two years ago, with 2023's gains unable to overcome the declines noted throughout 1H 2022. Herd growth was larger than expected in Q1 2023, expanding by 50,000 cows. In April, that trend ceased, with the herd dropping by 16,000 head. Rabobank expects further contraction in the near-term months as margins pressure farmers to cull unprofitable cows. Milk production in 2023 is estimated to be 0.7% higher versus 2022.
- Total cheese production was up by 1% YOY in Q1, but volume dropped into April, down 0.2% as mozzarella output waned. **Regardless, there was plenty of milk and processing capacity available for cheddar vats,** pushing monthly output higher by 5.8% YOY. Combined nonfat dry milk and skim milk powder production was lower versus the prior year in April, falling 2.6% after a 1.3% YOY gain in Q1. Human-grade dry whey production was lower for three consecutive months into April and down 1.9% for the month, but butter output impressed to the upside, with an additional 7.6% produced.
- **Dairy exports held their own against robust prior year volumes in Q1, but total shipments sank into April** against the record volume exported one year ago as headwinds emerged**.** Mexico's demand stayed firm with record cheese (+7.8% YOY) and nonfat dry milk (+31% YOY) shipments in April. But demand from other countries, mostly in Asia, was lackluster and caused total US dairy exports to fall to the lowest level for the month since 2020. Exports will struggle throughout summer to eclipse prior-year levels.
- **While still high, the year-on-year dairy consumer price index gains are moderating.** In May, the dairy products CPI was up 4.6% to mark the smallest year-on-year gain since January 2022. Additional moderation is expected in the near term as lower milk prices trickle through to consumers. On a monthly basis, the dairy products CPI has shown three consecutive months of weakness, falling by 1.1% in May versus April.
- **Dairy product prices showed further declines into Q2,** but it is likely a near-term bottom has been reached. The National Dairy Products Sales Report block cheddar price fell in early June to the lowest level since July 2021, driven by ample cheddar supply and abundant milk in the Upper Midwest. Dry whey has experienced slight weakness, dropping to the low USD 0.30 per pound range, but butter and nonfat dry milk have shown more stability versus the Class III products.

US milk production (30-day months), Jan 2021-Apr 2023



Source: USDA NASS, Rabobank 2023

Consumer price index: dairy and related products, 2021-current



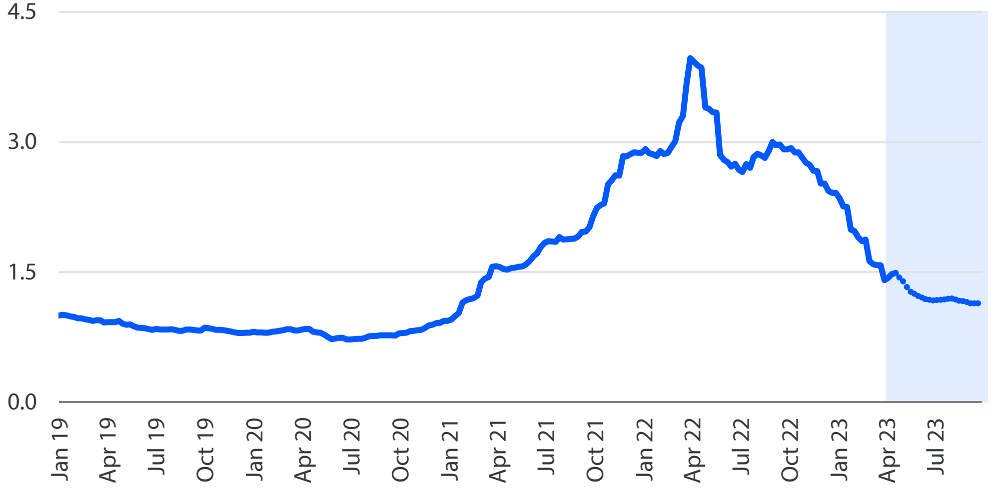
Source: Bureau of Labor Statistics 2023

Farm Inputs

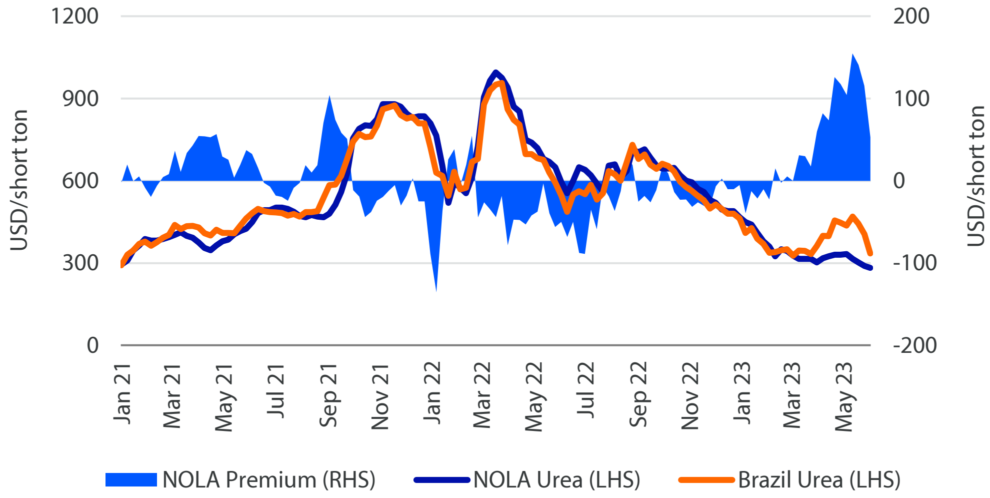
Are growers eyeing cheaper fall fertilizer as prices continue to trickle lower?

- **A bearish sentiment in the global markets continues to drive fertilizer prices lower**. This is more pronounced internationally, where some of the price adjustments have been a surprise to many market participants, given the scale of the corrections. The recent contract price agreed between Canadian producer Canpotex and China serves as an example of this. The agreed price came USD 115/short ton below the agreed price of an Indian contract in recent weeks. Interpretations of this price were split between surprise at the rate of decline and pragmatic appreciation for Canpotex achieving a price it may not be offered two or three months from now. The long and short of it is that prices for potash could be significantly lower for growers this coming fall on a year-on-year comparison.
- **The North American market has thus far been more stable than many international markets**, with prices supported by successful planting seasons and the perception of lower comparable inventories. This has caused an array of price premiums in the US versus global benchmarks. Urea, for example, is currently trading at a ~USD 60/short ton premium to Brazil on an adjusted basis. However, this premium could be more seasonal than rational, as support may be coming from in-season demand.
- **More recently, though, prices for summer fill ammonia (used in the fall application window) have taken a material step down**. These price declines are significant on a week-on-week basis, reflecting drops of 12% to 25%. But the decreases are even more pronounced on a year-on-year basis, where we could see some inland wholesale prices down over 70%.
- **Despite the recent price movement, we could yet see further wholesale price downside** in some fertilizer product groups. Even with these declines addressing some of the premium over recent days, US fertilizers are still expensive on a global comparison. Across the index of fertilizers, we believe that prices could continue to track down further over the coming weeks.

The North American fertilizer index is tracking lower



North American premium to force a price convergence?



Sources: CRU, CBOT, Bloomberg, Rabobank 2023

Feed

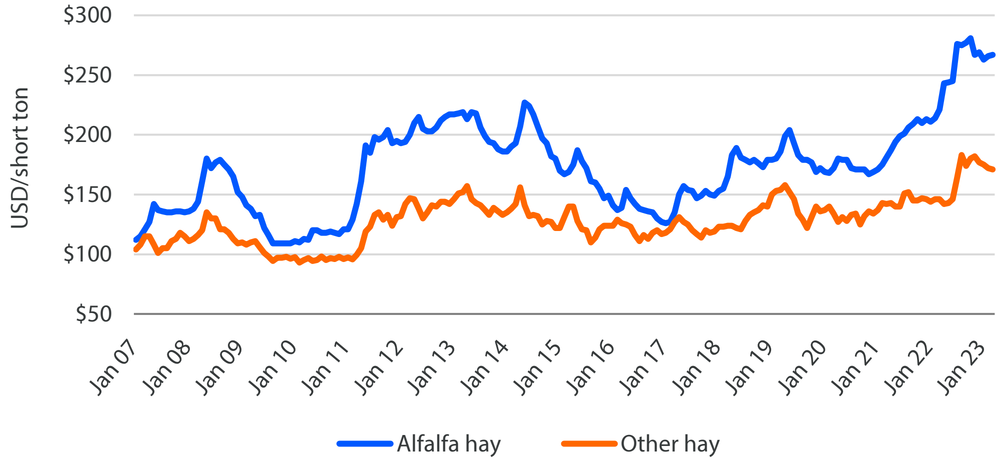
Feed prices are easing but remain high relative to the last five years

- **DDG prices have come down from their 2022 peaks,** declining from their highs of almost USD 300/short ton in April 2022 to settle more closely to USD 231/short ton in May 2023. However, compared to the last five years, price levels remain higher on average. Lower ethanol production this year has taken a toll on DDG availability and kept prices elevated, leaving the feed industry with even fewer alternatives to reduce feed costs.
- **Soymeal exports have shown resilience,** but even on a strong export campaign, prices are coming down relative to 2021 levels. More importantly, soymeal futures have broken the support level of USD 400/short ton, indicating that good planting progress for soybeans will translate into favorable pricing for soymeal moving into the 2023/24 marketing year. Soymeal exports out of the US are ~3.5% higher compared to last year.
- **Pasture conditions are quickly improving,** potentially setting a cap on all hay prices, but stocks will take some time to recover, which will likely keep prices supported. Weather conditions have improved in the west, which has helped some of the regions that were hit by the drought last year. This could push production higher this year. However, on-farm hay stocks in the US showed a decline of 13% compared to last year, falling to the second lowest level recorded since 1950. Prices are likely to remain relatively high as the US works on rebuilding all hay stocks.

DDG prices are coming down from last year's peak but remain relatively high

Source: *USDA,, Rabobank 2023*

Alfalfa and other hay prices potentially reaching a cap as conditions improve



Source: *USDA , Rabobank 2023*

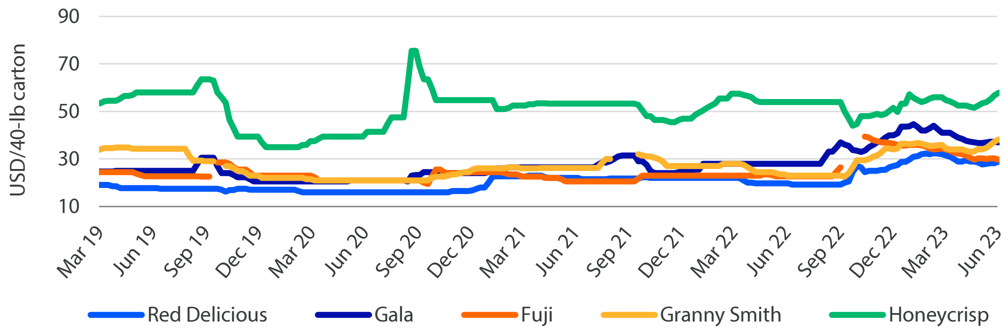
Source: *USDA ,Rabobank 2023*

Fruits

Strong California strawberry shipments

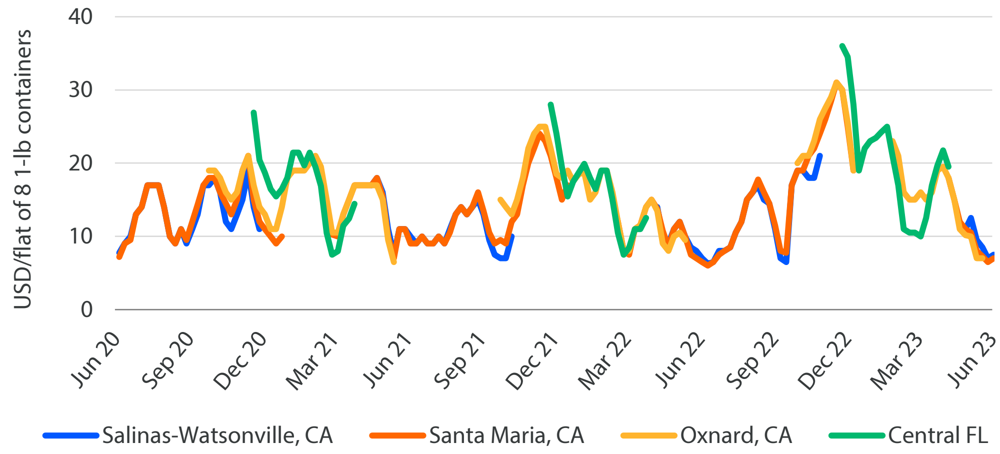
- **Strawberries** have been on a bumpy road. After wet winter conditions in California made US prices unusually high, shipping-point prices declined to about USD 7 per flat for non-organic product (+ 7% YOY) during the first half of June. Availability has improved, showing year-on-year increases in May and June. Supplies are likely to remain steady during summer. **Blueberry** shipping-point average prices are just shy of USD 3 per pound, up 7% YOY as of mid-June. Organic price premiums have hovered around 40% during spring 2023.
- **Navel orange** shipping-point prices for 88s jumped to USD 24 per carton by mid-June. As the season concludes, navel production in California will end the 2022/23 season at 37m boxes, up about 17% YOY. At the beginning of the California season, **Valencia orange** prices were USD 22 per carton, down 15% YOY and near the five-year average. Valencia production is expected to decline 40% in the US, with the Florida crop down 58% YOY and the California crop up 7% YOY.
- Average **table grape** shipping-point prices in the US during the first half of June were 104% higher YOY, as supply gaps occurred due to delays in the Sonoran season. Prices will decline as availability of grapes from Mexico improves and the California season starts.
- Shipping-point prices for Californian and Mexican **avocados** (48s) are near USD 35 and USD 33 per carton, respectively, down over 50% from last year's highs, as supplies have been consistent the past few months. Prices will likely remain at promotable levels over the summer.
- By mid-June, shipping-point prices of non-organic Granny Smith, Red Delicious, Gala, Fuji, and Honeycrisp **apples** were up 66%, 47%, 32%, 31%, and 7% YOY, respectively. During the past two months, shipments from Washington have been down about 16% YOY following a lighter crop in 2022. Production is expected to rebound in 2023.

Washington apple shipping-point prices, 88s – WA Extra Fancy, 2019-23



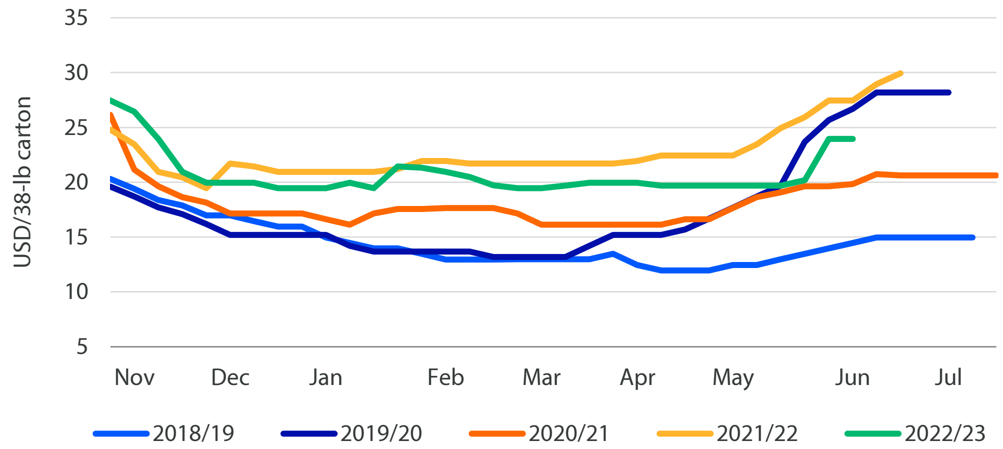
Composite of fine appearance and standard appearance prices
Source: *USDA AMS, Rabobank 2023*

Strawberry shipping-point prices – primary US districts, 2020-2023

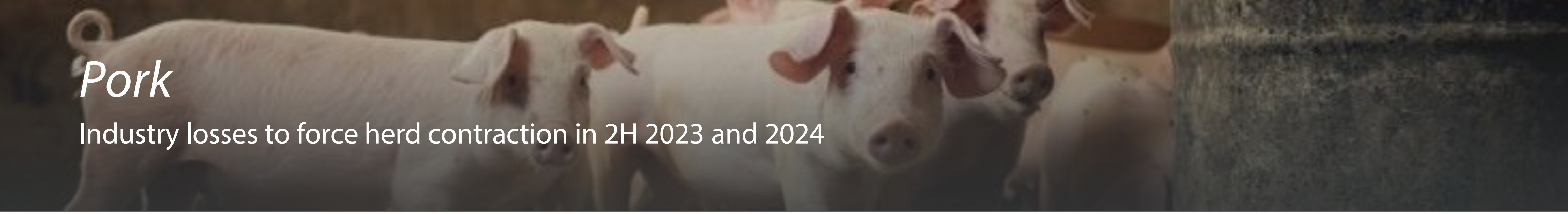


Source: *USDA AMS, Rabobank 2023*

Navel orange shipping-point prices, 88s – shippers first grade, 2018/19-2022/23



Source: *USDA AMS, Rabobank 2023*

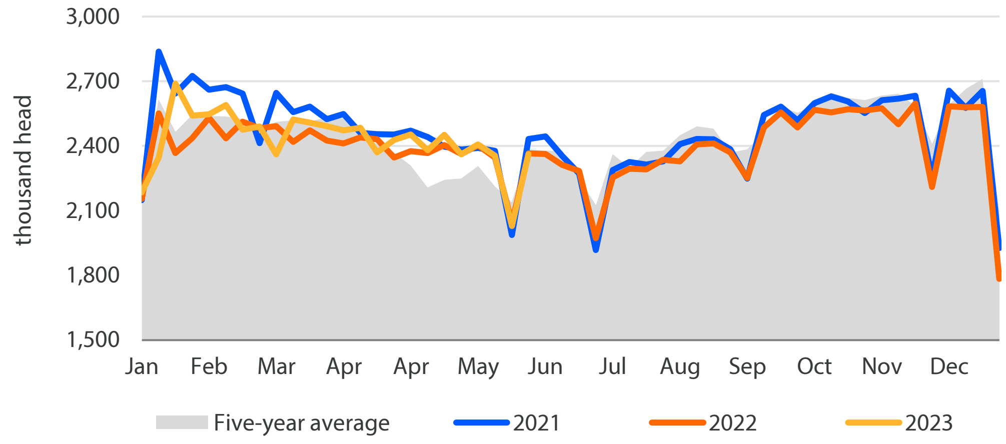


Pork

Industry losses to force herd contraction in 2H 2023 and 2024

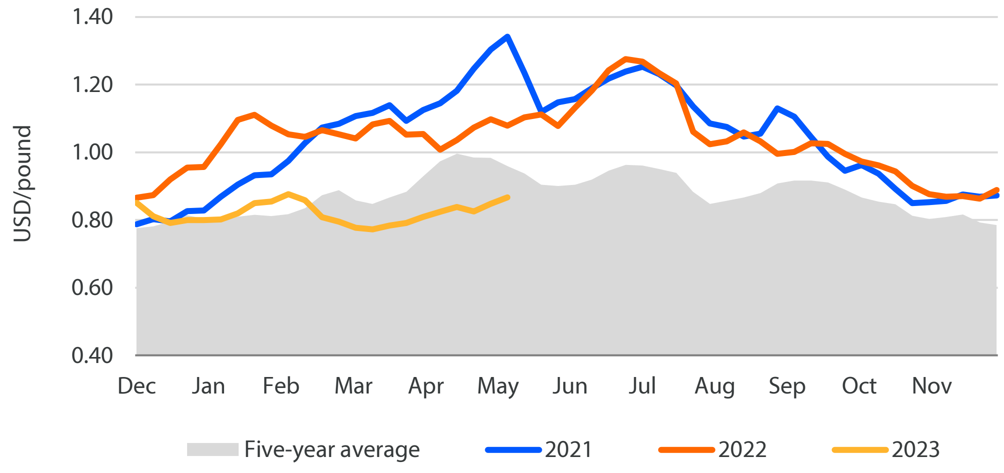
- **Hog prices moved higher in recent weeks on seasonally tighter supplies and improved visibility around the integration of Proposition 12 in California.** Lower weekly slaughter (-1% YOY) and lighter weights (-1.6% YOY) have reduced production since late May, helping to stabilize prices. While producers continue to struggle during what is traditionally a season of stronger margins, a rebound in prices and a gradual decline in feed costs have improved the near-term outlook. While current sow slaughter remains low, we expect contraction in the sow herd to begin in 2H 2023. Depressed returns also support our outlook for lower farrowing intentions in the upcoming Hogs and Pigs inventory report. Based on our current outlook, we expect at least a 7% decline in the US sow herd over the next 12 to 18 months will be needed in order to restore herd profitability.
- **Pork prices remain weak on a slow start to the grilling season.** The pork cutout is 20% below year-ago levels, as sharply lower belly prices (-46% YOY) continue to weigh on carcass values. Weaker loins (-17% YOY) and ribs (-36% YOY) failed to offer support, though there has been a modest improvement in ham values from depressed levels earlier this spring. A lack of retail promotions and the resulting high pork prices have slowed consumption this spring. Pork remains a good value for retailers (versus beef), and with improved visibility on the enforcement of Proposition 12, we expect an increase in pork feature activity to drive sales over the summer. Heavy inventories of pork in cold storage in April (+6% YOY) are expected to decline over the summer but could remain a challenge for bellies. Pork prices should continue to see some improvement in 2H 2023 given expectations for lower production and improved consumption and exports.
- **April pork and pork variety meat exports were up 10% YOY in volume, to 196,099 metric tons, and up 7% YOY in value.** Pork volumes to China/Hong Kong (+26% YOY), South Korea (+43% YOY), and Mexico (+5% YOY) grew, while sales to Japan (-2% YOY) and Colombia (-41% YOY) slipped. Pork imports from all destinations dropped (-33% in volume), given depressed local markets. We are currently forecasting 2023 export growth of 8% YOY given the low relative cost of US pork in global markets.
- **Mexican hog prices are gradually moving higher after bottoming in late May.** Despite the improvement, hog prices are down 20% YOY and 8% below the five-year average on weak packer demand. Despite some improvement in margins on lower feed costs, the industry is moving to reduce the sow herd to better align production and demand. Pork prices continue to move lower, down 16% versus the Q1 2023 average and 6% below year-ago levels. Weaker domestic and export demand and steady imports (+1.4% YOY) continue to overwhelm the domestic market, pressuring prices. We expect production growth to slow to 2.1% in 2023.

US weekly hog slaughter, 2021-2023



Source: USDA 2023

US pork cutout, 2021-2023



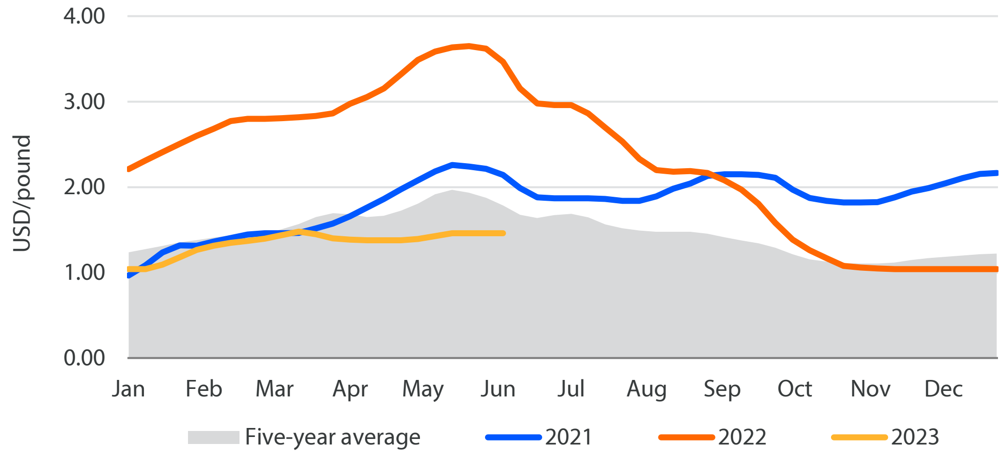
Source: USDA, Rabobank 2023

Poultry

Chicken markets trail expectations on increased supply

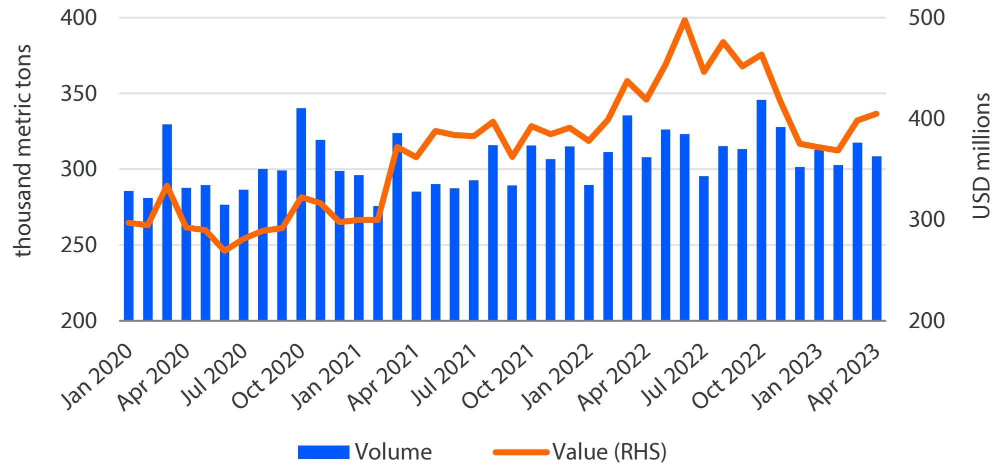
- **Chicken prices are down sharply from last year's record levels.** Boneless breast meat prices continue to trail the record prices of a year ago, down 61% YOY. Breast prices are also 18% behind the five-year average, as increased supply continues to overwhelm retail and foodservice markets. Dark meat prices are also lower, with thigh prices down 28% YOY. Consumers are beginning to trade down to less expensive retail alternatives, which is helping stabilize wholesale prices. Tighter 2H 2023 and 2024 supplies of beef and a gradual decline in chicken production are expected to help stabilize chicken prices by late summer.
- **At 17.6bn pounds through early June and 1.5% ahead of year-ago levels, ready-to-cook (RTC) chicken production continues to run ahead of expectations.** The growth reflects both an increase in slaughter volumes (+1.2% YOY) and a more modest increase in average weights. We still expect some moderation in slaughter volumes in 2H 2023 based on the decline in the supply flock in recent months and ongoing productivity challenges, which limit further increases. Rabobank currently forecasts a 1.8% YOY increase in RTC production in 2023, with planned reductions expected to boost average chicken prices.
- **April chicken exports were up 4.1% YOY in volume, at 322,710 metric tons, but flat versus a year ago in total value.** Exports to Mexico rebounded, rising 7% YOY in the month but declining 3% in value. The value of exports to China and Canada were also lower, down 20% and 13% YOY, respectively. Flatness in year-to-date export volumes is tied to earlier weakness in shipments to China and Cuba, while the value of year-to-date exports continues to trail year-ago levels by 6% YOY. Given the strength in the US dollar, ongoing geopolitical tensions, and trade disruption tied to HPAI, we expect ongoing volatility in export values and slower growth in export volumes (+3% YOY) as sluggish production growth limits export availability.
- **Mexican chicken markets weakened in May but rebounded seasonally in June, at MXN 53 per kilogram.** Demand continues to trend in-line with seasonal patterns, while chicken production growth has slowed. Year-to-date production is up 6.6% YOY but slowed in April, as weaker prices and earlier disruption from avian influenza are limiting supply. Chicken import volumes remain robust (+15% YOY) given the strength in the Mexican peso, although the value of exports was down 16% YOY through March.

Boneless skinless breast meat prices, 2021-2023



Source: USDA, Rabobank 2023

US chicken exports, by volume and value, 2020-2023



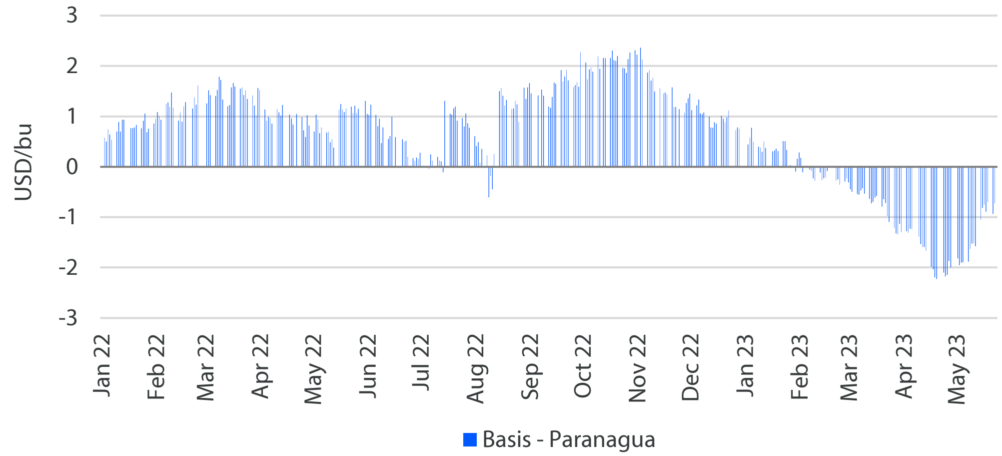
Source: USDA 2023

Soybeans

Price spread draws Brazilian beans to the US

- **Unhappy with prevailing prices, Brazilian farmers have been squirreling away the spoils of a record-setting 2023 soybean crop** for months to make room for a safrinha corn crop that will set records of its own. Brazilian farmers have not only been prioritizing soybeans (the higher-value product) with bin and warehouse space, they've also made increasing use of the plastic silo bags typically associated with Argentine production but previously uncommon in Brazil. Despite growers' best efforts, however, the river of grain coming out of the interior has been too much to accommodate, and prices have suffered as a result. With that, basis Paranaguá, which is typically positive due to freight advantages to leading import markets, turned negative in early February and fell below negative USD 2 in early April.
- **After years of grappling with strong soybean prices, US livestock producers and crushers seized upon the price spread**. Since March, the spigot of soybean shipments from Brazil to the US has been wide open, with volumes through early June reaching 350,000mt. While shipments made progress toward equilibrating US and Brazilian prices, basis Paranaguá has since stalled at around negative USD 1 – sufficiently wide to encourage more shipments to the US. With that, it is safe to say that US imports from Brazil will reach their highest levels since 2014.
- **With markets having come to terms with Brazil's massive 2023 grain crops, attention has now turned to weather in the Northern Hemisphere.** A common challenge during planting is excessive moisture from melting snow, which can limit field work. This year, however, drier conditions have allowed for some of the best planting conditions in recent memory with the pace of planting ahead of both last year and the five-year average.
- **Soybeans have now entered into a weather market, with the same dry weather that facilitated planting now becoming a cause for concern.** As of early June, 40% of the US soybean crop is in a drought, with NOAA forecasts suggesting these conditions could persist through the rest of the month. That said, the Midwest has continued to receive scattered showers, and with good stands on an early-planted crop, all ingredients remain in place for yields at or even slightly above trend. Looking ahead, there is cause for optimism as NOAA's three-month forecasts continue to point toward increased rather than decreased soil moisture for the remainder of the growing season.

Basis Paranagua



Source: DCE, Rabobank 2023

Year-to-date shipments from Brazil to the US, 2023

Load port	Departure date	Vessel	Discharge port	Volume (mt)
Santarém	Mar 24, 2023	BRIGITTE	New Orleans	23,101
Itacoatiara	Apr 25, 2023	MEGHNA DREAM	Bunge	46,150
Santarém	Apr 27, 2023	CS SATIRA	The Andersons	33,000
Santarém	Apr 29, 2023	CYGNUS	Viterra	38,000
Itacoatiara	May 21, 2023	POCHARD S	Perdue	30,000
Itacoatiara	May 25, 2023	MYKONOS	Perdue	28,800
Santarém	Jun 7, 2023	FLORIANA	Perdue	32,000
Vila do Conde	May 20, 2023	CLIPPER CLYDE	Viterra	29,751
Vila do Conde	Jun 4, 2023	DRAFTDODGER	ADM	58,000
Vila do Conde	Jun 6, 2023	VEGA FALKTIND	Perdue	30,233
				349,035

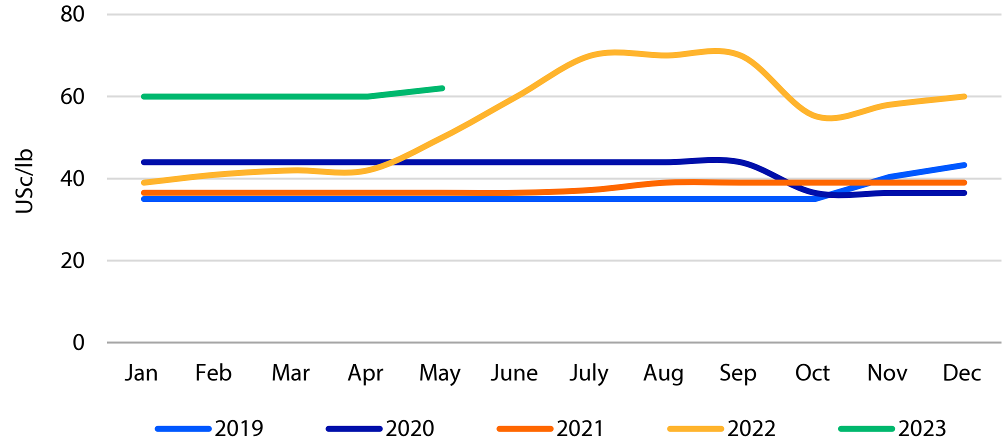
Source: USDA, Rabobank 2023

Sweeteners

Balance sheet and sugar prices are not on the same page

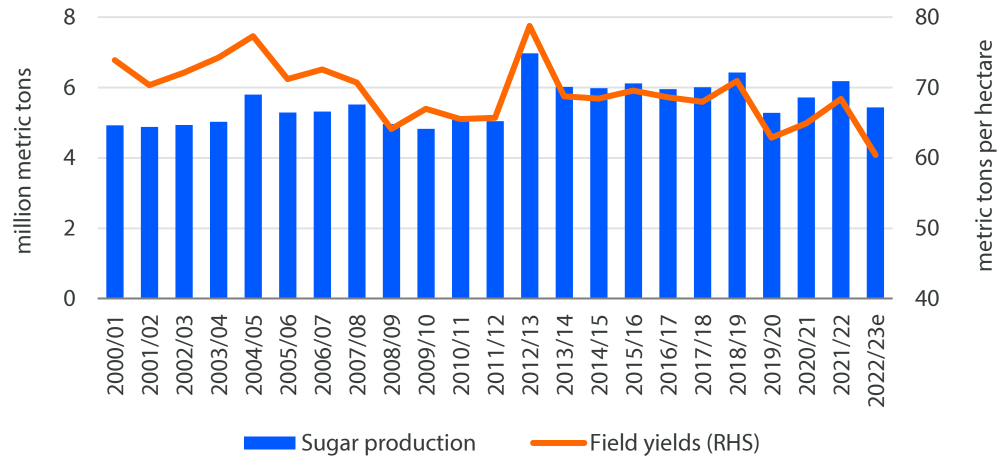
- **Beet plantings are mostly in the ground.** This year, area shows a decline of ~4% versus a year ago despite some states like Minnesota and North Dakota planting an additional 20,000 acres as a precaution to offset potential losses during the growing season.
- **Louisiana's cane crop is expected to outperform Florida for the second consecutive year.** Florida continues to struggle to bring its acreage above its 10-year average of 412,000 acres.
- **At this point, securing sugar supplies, particularly beet, seems to be complex.** Most of the 2023/24 sugar beet crop is already sold out. Some users of refined sugar have already contracted sugar supplies of both refined beet and cane for 2024. For the remainder of 2023, refiners' and processors' participation in the spot market will continue to be low to scarce, with most holding some of the supplies for the last quarter of the marketing year.
- **Prices are likely to remain elevated for all sweeteners for the remainder of 2023 until the new harvest.** Even after the harvest for 2024, prices will stay elevated, as forward contracts are already in place for most buyers.
- **Import volumes of sugar from Mexico are to be expected lower, as production estimates continue to decline** . This is likely to keep US prices for refined sugar higher and to support high fructose corn syrup (HFCS), as Mexico is likely to import more HFCS from the US in order to offset some of the higher cost of sugar in the industry.
- **Mexico's production for 2022/23 is expected to decline by 12% compared to last year.** The drought and lack of fertilization sent cane yields to their lowest level in decades.

Refined beet sugar prices remain at historically high levels



Source: USDA FSA, Rabobank 2023

Mexico's sugar cane yields and sugar production, 2000/01-2022/23e



Source: CONADESUCA, Rabobank 2023

Tree Nuts

Mixed market signals and uneven export figures

Almonds: After strong shipments January through March, exports declined 23% and 27% YOY in April and May, respectively. Total shipments in the 2022/23 marketing season are up 0.2% YOY through May, with domestic shipments down 7% YOY and exports up 3% YOY. Prices significantly recovered during the January-April period. However, slower export shipments and a USDA subjective estimate of 2.5bn pounds (higher than some expected) have put downward pressure on prices over the past few weeks. Yields will be quite varied this season after a challenging pollination season. Weather conditions have since been favorable. Orchards with lighter yields will develop larger-sized almonds. Water cost is down considerably this season, supporting the profitability outlook for efficient orchards.

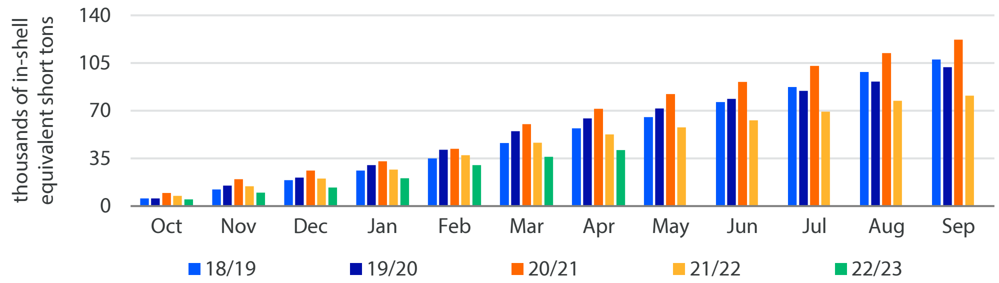
Hazelnuts: The 2022/23 US crop is estimated to be up 5% YOY, according to INC, surpassing expectations. Bearing acreage in the US increased 7,000 acres, to 68,000 acres, from last year, per USDA figures. Shipments in 2022/23 through February were up ~15% YOY, with domestic kernel shipments and kernel exports increasing 22% and 20% YOY, respectively.

Walnuts: US shipments rose 1% YOY, with exports down 7% YOY and domestic shipments up 17% YOY in 2022/23. Exports in March and April fell 38% and 25% YOY, respectively, while domestic shipments saw five consecutive months of double-digit growth, supported by institutional purchases. Prices in the US remain under downward pressure due to quality issues.

Pistachios: Shipments for the 2022/23 marketing season were up 9% YOY through April, with domestic shipments down 7% YOY and exports (accounting for 73% of shipments) up 18% YOY. In-shell exports in March and April were strong, increasing 60% and 53% YOY, respectively. As for the 2023/24 outlook, a US crop of around 1.2bn pounds is likely. Prices are reported as stable.

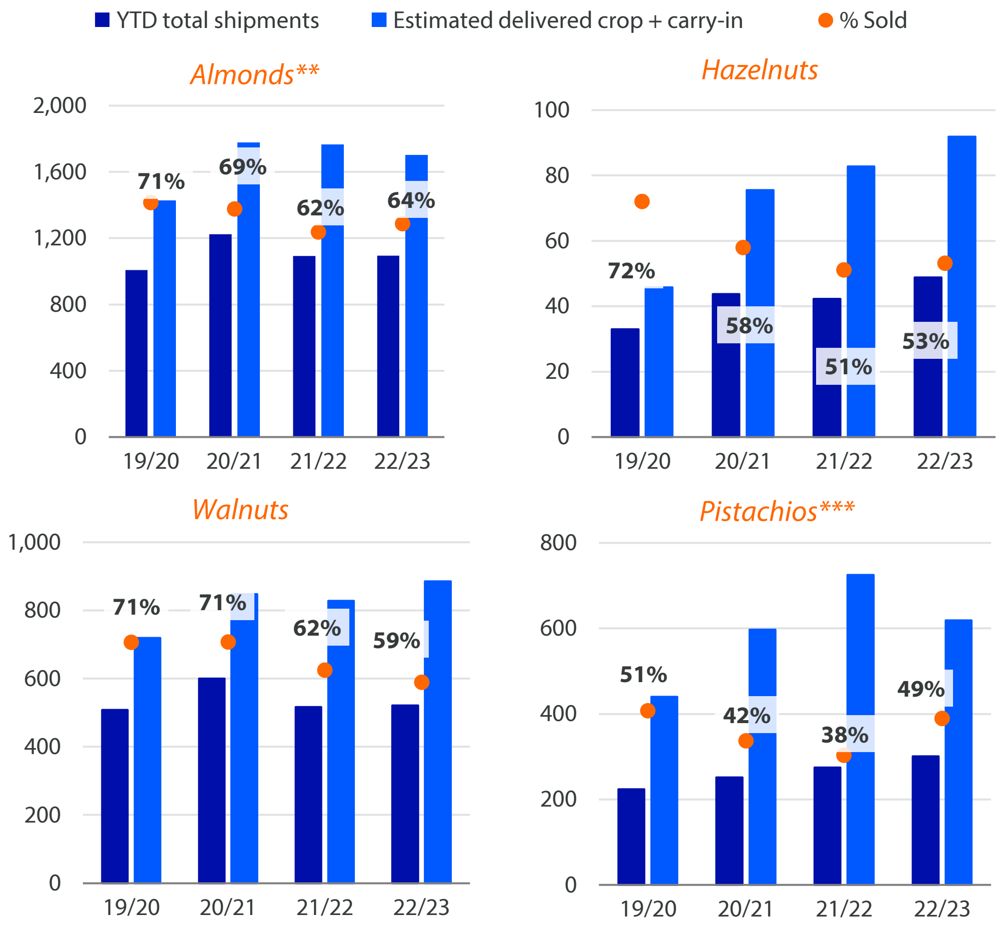
Pecans: US pecan export volumes in the 2022/23 marketing season through April were down 22%, according to USDA figures. Innovations in the industry include efforts to increase production volume and quality by improving tree nutrition programs. Growers report steady demand and expect to increase marketing efforts.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2023

*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, INC, Rabobank 2023. Through May 2023, 2022/23 marketing season for almonds; April 2023 for pistachios and walnuts, and February for hazelnuts; **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

After a short period of counter-seasonal movements, prices returned to historical averages

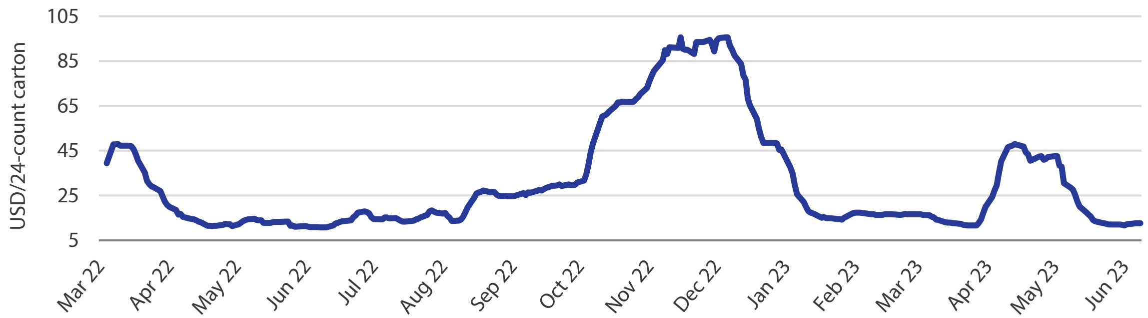
By the end of April, retail dollar sales of fresh vegetables had grown 1.5% YOY, reaching USD 2.9bn, while volume had declined 1.1% YOY, according to the IFPA. Consumers continue to prioritize value over other attributes and focus their purchases on the most essential vegetables, as seen in the continued robust performance of onions, potatoes, and cucumbers and stronger sales of lettuce versus salad kits.

Potatoes: US potato growers are expected to increase planting given the high price environment. Expectations range anywhere between 20,000 and 40,000 acres. Under normal weather conditions and average yields, the 2023 crop would be the highest in five years, which means the average annual grower price could drop by 7% to 15% YOY. Demand, particularly for processing potatoes, will continue to support prices in open markets given the strong domestic and global demand for frozen french fries.

Leafy greens and brassica: The shipping-point price seasonal pattern was disturbed earlier this year due to heavy rains and flooding in the valley, which caused delays in field preparation and planting and resulted in a slight shift in the usual spring price uptick. Production, however, recovered fast. Growers were able to catch up and resume harvest, which is now in full swing and considered to be in good standing with a supportive weather outlook and no incidents of diseases. At USD 10.40 and USD 14.00, romaine 24s and hearts (12x3) are down 7% and 12% YOY, respectively. In the absence of disease and weather concerns, shipping-point prices will remain close to historical averages. At USD 12.24, the price for iceberg wrapped 24s is up 12% YOY. At USD 15.3 per 20-pound carton, the broccoli crown price is up 28% YOY.

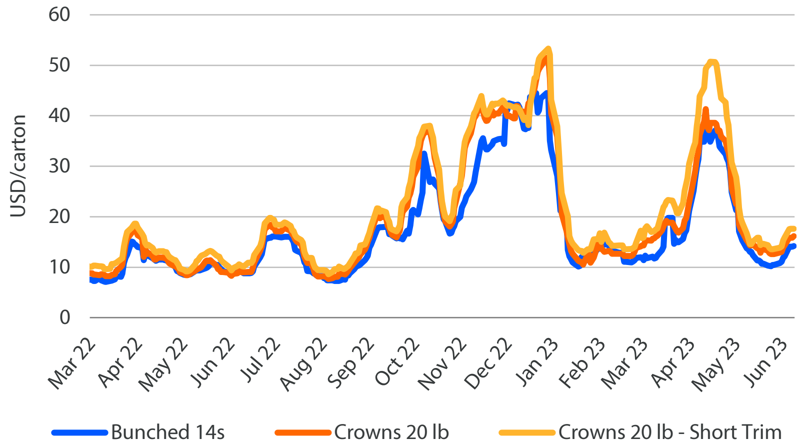
Tomatoes for processing: Due to unprecedented rainfall, fields were wet and muddy well into spring, preventing farmers from planting on schedule. Cooler temperatures are expected to delay maturity, raising yield concerns. However, the availability of water and another increase in price agreements have encouraged producers to contract the highest number of planted acres since 2016. California's tomato processors reported that, as of May 15, they have or will have contracts for 12.7m short tons of processing tomatoes for 2023. It is expected that prices will drop for the 2023/24 marketing year to around USD 120/short ton.

Wrapped iceberg lettuce – US daily shipping-point price, 2022-2023



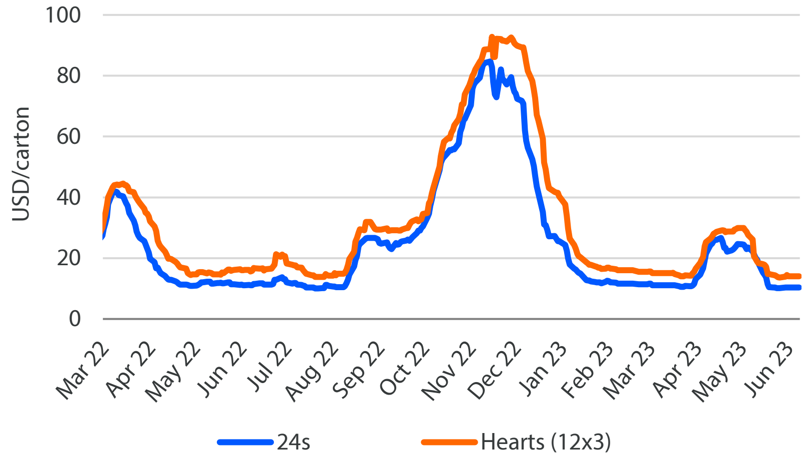
Source: *USDA AMS, Rabobank 2023*

Broccoli – US daily shipping-point price, 2022-2023



Source: *USDA AMS, Rabobank 2023*

Romaine lettuce – US daily shipping-point price, 2022-2023



Source: *USDA AMS, Rabobank 2023*

Wheat

A tale of two worlds

While the wheat market has followed the broader commodity market's downward trend, wheat futures have remained well above long-term averages and within a broad trading range. Currently, wheat futures, particularly Chicago, are trading at the bottom end of that range, as winter wheat conditions have improved on increased precipitation and a nascent winter wheat harvest. Projections of a global wheat production rebound in the 2023/24 season also weigh on prices.

US winter wheat production increased in June primarily due to some much-needed rainfall in the southern Plains. Hard red winter (HRW) production was pegged at 525m bushels, up 2.0% from the May forecast, and soft red winter (SRW) was up 1%, to 402m bushels. The largest wheat state, Kansas, saw production unchanged, at 191.4m bushels, based on an unchanged yield of 29.0 bu/acre. The late-season rain has slowed both maturation of this year's wheat crop and early harvest progress.

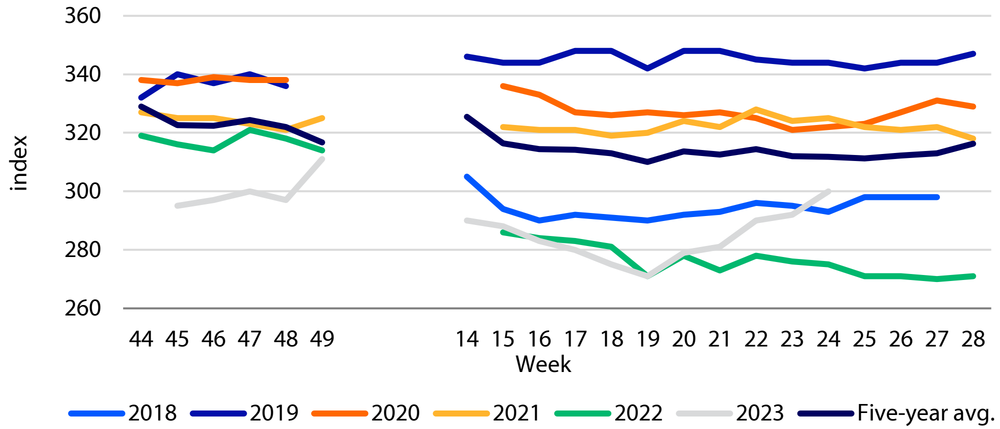
While the US winter wheat crop has been challenged all year, the global wheat picture looks brighter, with some caveats. Higher production is expected in Russia, India, the EU, and Ukraine – all as a result of favorable growing weather. However, El Niño has been officially declared. China has seen heavy rains in the Henan province, which has resulted in sprouting and will drive more wheat to the feed market. Australia is forecast to have a much more average wheat crop due hot and drier conditions. The USDA is currently forecasting a 29.0m mt crop, while some in Australia put the crop closer to 26.0m mt. The return to a more normal crop in Australia will open more export opportunities to the Pacific Rim for Canada and the US in the coming crop year.

India is also expected to produce a larger crop based on a 96% probability of a "normal" monsoon for the June-September period, as forecast by the India Meteorological Department. However, it is predicting a below-normal monsoon in northwest India. Private forecaster Skymet Weather has predicted a "below-normal" southwest monsoon and a 60% probability of drought. The monsoon season started a little later this year, which led to below-average rainfall in June, so July rainfall will be crucial. Historically, El Niño leads to below-average rainfall in India, a major producer of wheat, rice, cotton, and soybeans.

While the current forecast is mostly positive for wheat production across the globe, there are several weather situations that bear monitoring. Canada, a major wheat grower and exporter, is experiencing widespread drought conditions currently, particularly in Alberta and Saskatchewan. In addition, it has turned hot in the EU. The crop isn't made yet.

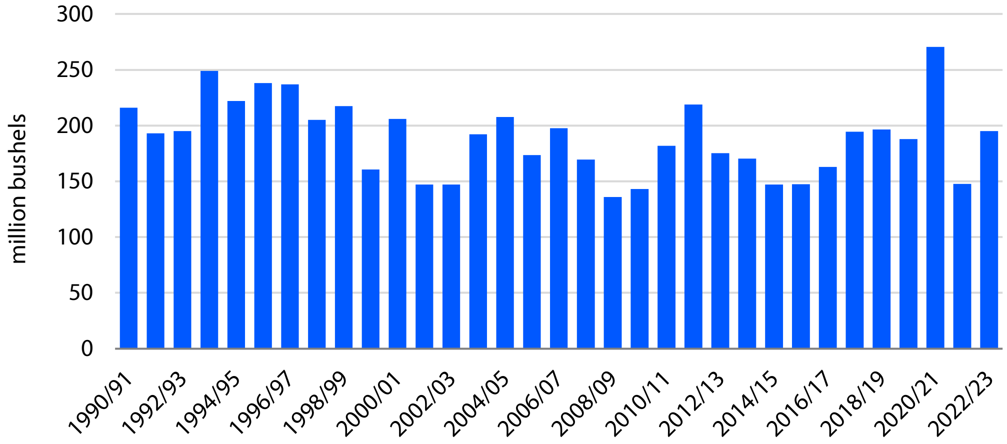
The Black Sea Grain Initiative was renewed for another 60 days to July. An extension after that remains uncertain, although the drama over whether Russia will remain in the deal or not only serves Russia, giving them leverage, influence, and the ability to slow grain movement out of the Black Sea as desired. However, many countries, including China, want the grain corridor to remain open due to ongoing concerns about global food security. There will continue to be international pressure to keep the corridor open, but we expect wheat to remain volatile and prices supported around the time that extensions to the initiative are negotiated.

Ratings of winter wheat conditions have improved, as have yield projections



Source: USDA NASS, Rabobank 2023

US white wheat exports buck the trend of US wheat exports, rising 35%

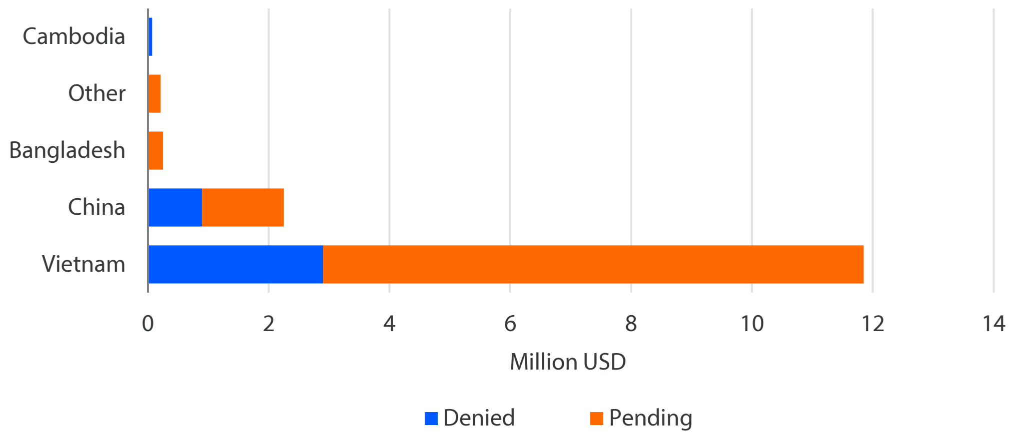


Source: USDA ERS, Rabobank 2023

Cotton

- President Biden signed the Uyghur Forced Labor Prevention Act in December 2021 with the goal of ensuring that American businesses are not complicit in funding the forced labor of minority populations in China's Xinjiang province. **As recently as 2020, it was estimated that one out of five garments globally was produced using cotton from Xinjiang, meaning the UFLPA has had significant implications for the apparel industry globally.**
- US Customs and Border Protection data reveals that **the apparel industry most impacted by the US ban has been Vietnam, which has seen nearly USD 12m worth of apparel shipments held up or denied.** Historically reliant on Chinese cotton, Vietnam had to rethink its cotton supply chain. A deterioration of Sino-Australian relations, coupled with a record crop, opened the door for Australia, which now counts Vietnam as its top customer.
- Tight supplies at home, freight disadvantages, and relatively higher costs mean that US producers have yet to benefit from the UFLPA. That said, the arrival of El Niño has reversed the fortune of US producers, replenishing moisture, reducing the likelihood of abandonment, and boosting projected production 15% from the dismal 2021/22 crop. Meanwhile, **for Australia, El Niño will depress production from recent record highs, which could present Vietnam as a market opportunity for the US in the upcoming marketing year**.

UFLPA-denied /pending shipments of apparel to the US, 2022-23YTD

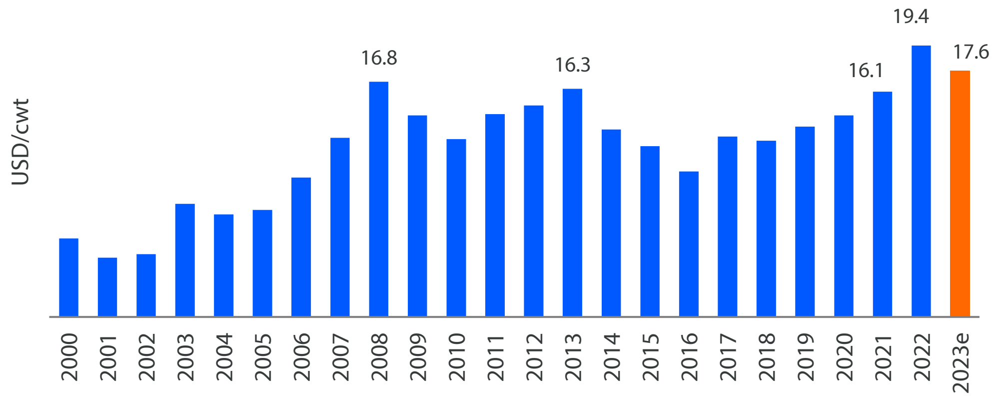


Source US CBP 2023

Rice

- **Rice planting has concluded in the South and California.** Acreage levels have returned to those of previous years, especially in California after two years of drought conditions. Production in the US is expected to recover to 2021/22 levels, due to the acreage expansion in California and the South and projections of good yields following on-time planting.
- As domestic production recovers, **US imports of rice are likely to stay flat or marginally decline.** Nevertheless, they are currently estimated to be the second highest volume imported in history. Imports from Asia, especially aromatics, continue to show resilience due to interest from consumers. Aside from increased demand for aromatic varietals, price-competitive regions like South America will continue to export to the US, albeit at lower volumes compared to last year.
- **The all-rice season-average farm price (SAFP) is expected to see a decline from last year**. The USDA is estimating a decline of 12% compared to last year, as production is returning to 2021/22 levels. However, even with a 12% decline in all-rice SAFP, the 2023/24 estimate remains the second-highest price level in history.

All-rice SAFP is lower than last year

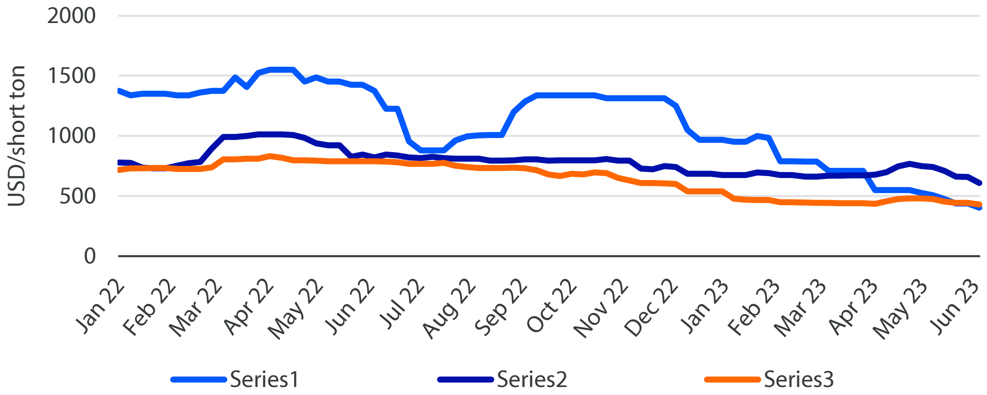


***Source:** USDA NASS, USDA ERS, Rabobank 2023*

Input Costs

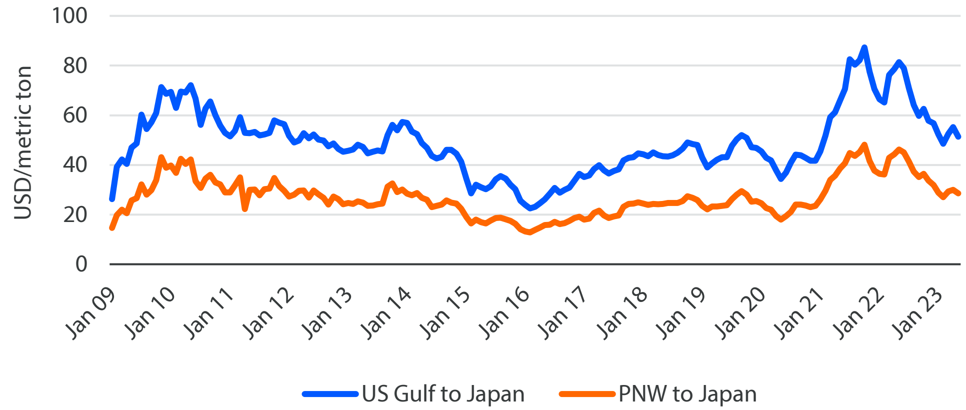
As of June 15, 2023

Corn Belt input prices*



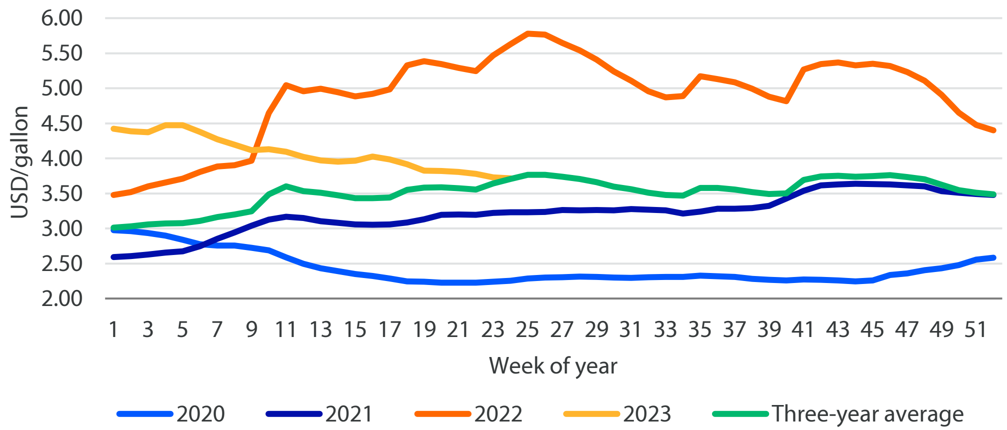
* *Note:* *granular potash*
Source: *Bloomberg, Rabobank 2023*

Ocean freight



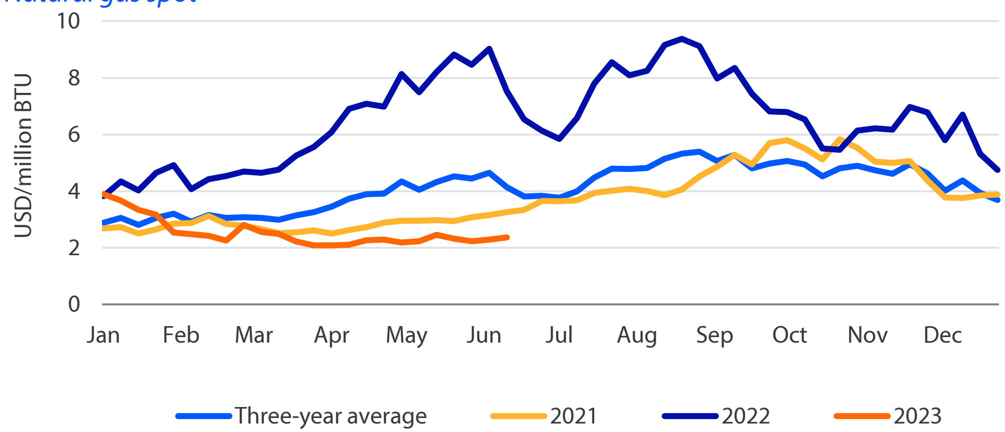
Source: *O'Neil Commodity Consulting, USDA AMS, Rabobank 2023*

Diesel – Midwest



Source: *EIA, Rabobank 2023*

Natural gas spot



Source: *NYMEX, Rabobank 2023*

Forward Price Curves

As of June 20, 2023

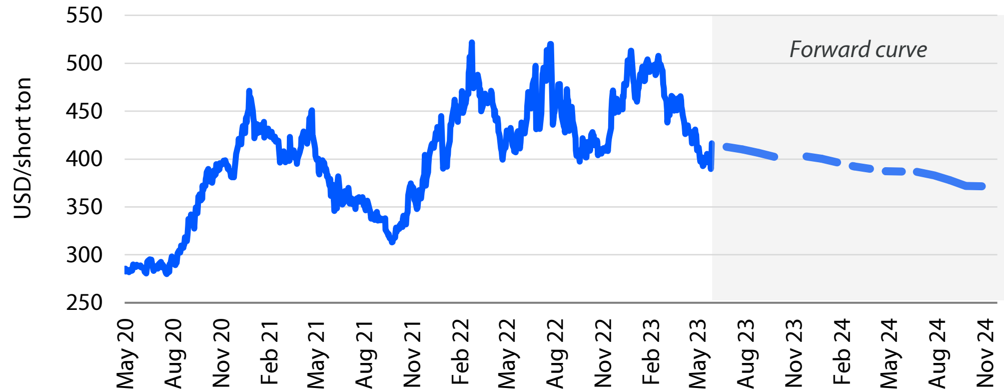
CBOT – Corn

Source: *CBOT, Rabobank 2023*

CBOT – Soybeans

Source: *CBOT, Rabobank 2023*

CBOT – Soymeal



Source: *CBOT, Rabobank 2023*

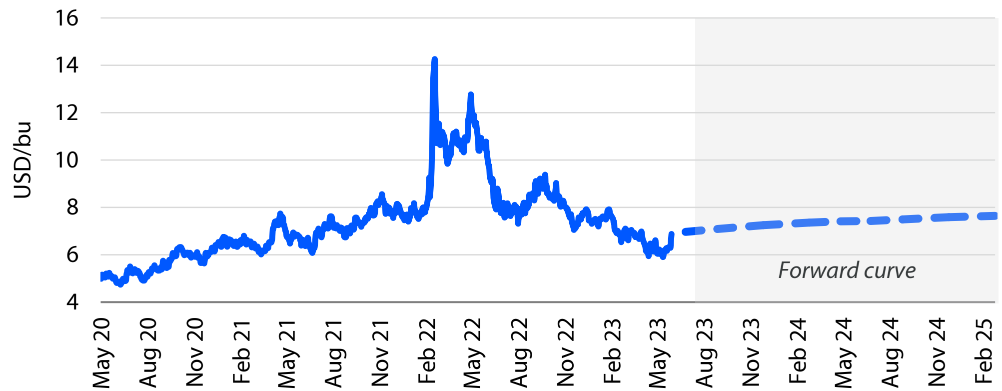
CBOT – Soy oil

Source: *CBOT, Rabobank 2023*

Forward Price Curves

As of June 20, 2023

CBOT – Wheat



Source: *CBOT, Rabobank 2023*

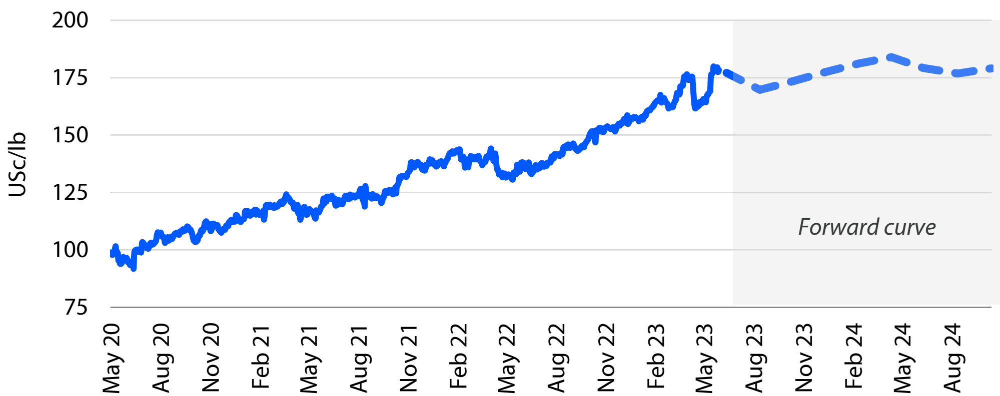
CBOT – Feeder cattle

Source: *CBOT, Rabobank 2023*

CBOT – Lean hogs

Source: *CBOT, Rabobank 2023*

CBOT – Live cattle



Source: *CBOT, Rabobank 2023*

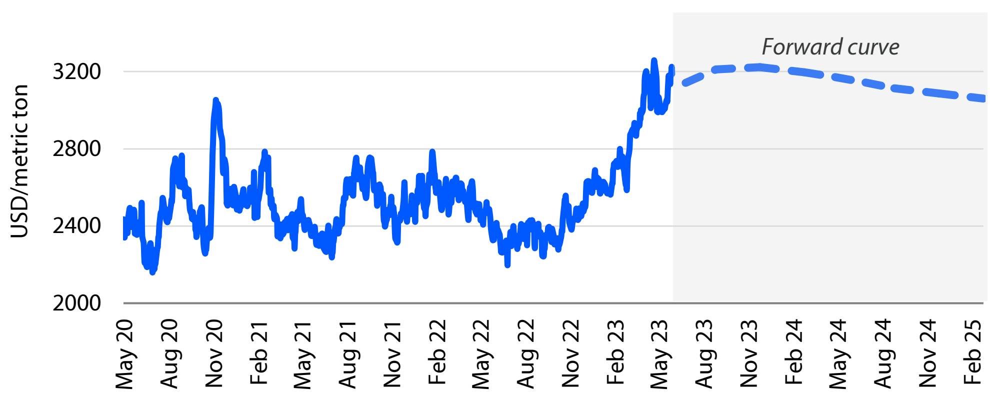
Forward Price Curves

As of June 20, 2023

ICE – #2 Cotton

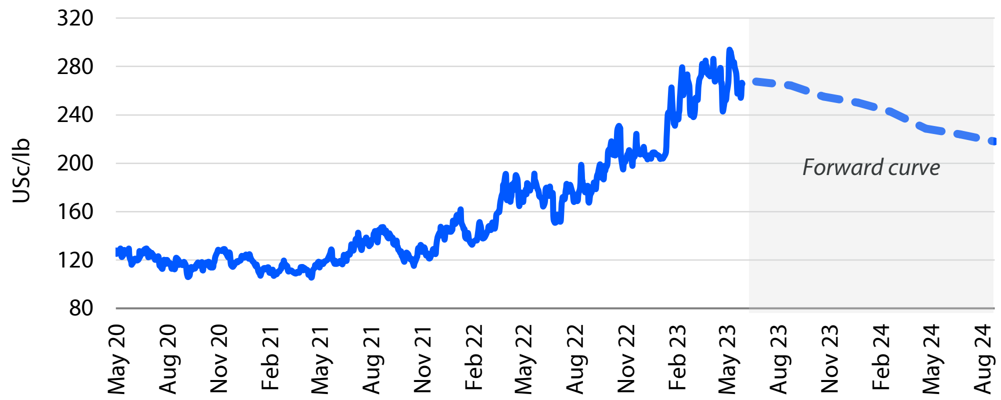
Source: ICE, Rabobank 2023

ICE – Cocoa



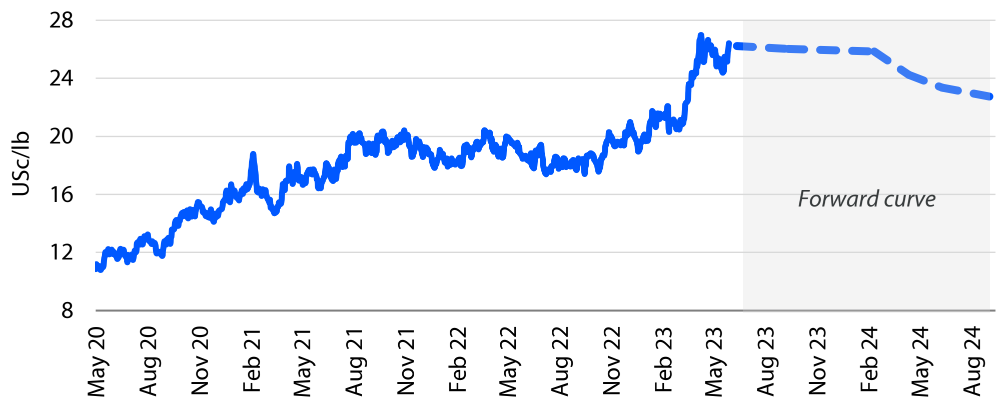
Source: ICE, Rabobank 2023

ICE – FCOJ



Source: ICE, Rabobank 2023

ICE – #11 Sugar



Source: ICE, Rabobank 2023

RaboResearch Food & Agribusiness

Al Griffin
F&A Data Analytics
Coordinator of the Agribusiness Review
E-mail Al.Griffin@rabobank.com

Roland Fumasi
North American Regional Head-RaboResearch Food & Agribusiness
E-mail Roland.Fumasi@rabobank.com

Christine McCracken
Senior Analyst — Animal Protein
E-mail Christine.McCracken@rabobank.com

Lance Zimmerman
Senior Analyst — Animal Protein
E-mail Lance.Zimmerman@rabobank.com

Tom Bailey
Senior Analyst – Consumer Foods
E-mail Thomas.Bailey@rabobank.com

JP Frossard
Analyst — Consumer Foods
E-mail JP.Frossard@rabobank.com

Andrick Payen
Analyst – G&O, Feed
E-mail Andrick.Payen@rabobank.com

Steve Nicholson
Global Strategist — G&O
E-mail Stephen.Nicholson@rabobank.com

David Magaña
Senior Analyst — Fresh Fruits, Vegetables, and Tree Nuts
E-mail David.Magana@rabobank.com

Mary Ledman
Global Strategist — Dairy
E-mail Mary.Ledman@rabobank.com

Xinnan Li
Analyst — F&A Supply Chains
E-mail Xinnan.Li@rabobank.com

Philip Marey
Senior Market Economist— Financial Markets Research
E-mail Philip.Marey@rabobank.com

Pablo Sherwell
F&A Data Analytics
E-mail Pablo.Sherwell@rabobank.com

Almuhanad Melhim
Analyst – Fruit & Vegetables
E-mail Almuhanad.Melhim@rabobank.com

Sam Taylor
Senior Analyst – Farm Inputs
E-mail Samuel.Taylor@rabobank.com

Owen Wagner
Senior Analyst – G&O
E-mail Owen.Wagner@rabobank.com

Lucas Fuess
Senior Analyst – Dairy
E-mail Lucas.Fuess@rabobank.com

Jim Owen
Senior Analyst – Packaging & Logistics
E-mail Jim.Owen@rabobank.com