



North American Agribusiness Review

Rabobank

RaboResearch
Food & Agribusiness






October 2023

Report Summary

Rabobank

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Economy

Challenges

US

- While CPI inflation stood at 3.7% in September, down from 6.4% in January, it will still be a challenge for the Fed to get inflation back to 2.0%. In the remainder of the year, base effects are likely to keep inflation around current levels. Meanwhile, nominal wage growth is keeping core inflation persistent. On top of this, there are considerable upside risks to the inflation outlook from geopolitical developments.
- Although personal consumer spending has been resilient, it remains to be seen how long this is going to last now that the pandemic excess savings are close to depleted. Meanwhile, rising real interest rates are adding to the burden of consumers and businesses. Therefore, we have our doubts about a soft landing, and we still expect the Fed's attempts to fight inflation to end in a recession in the final quarter of this year and the first quarter of next year.

Mexico

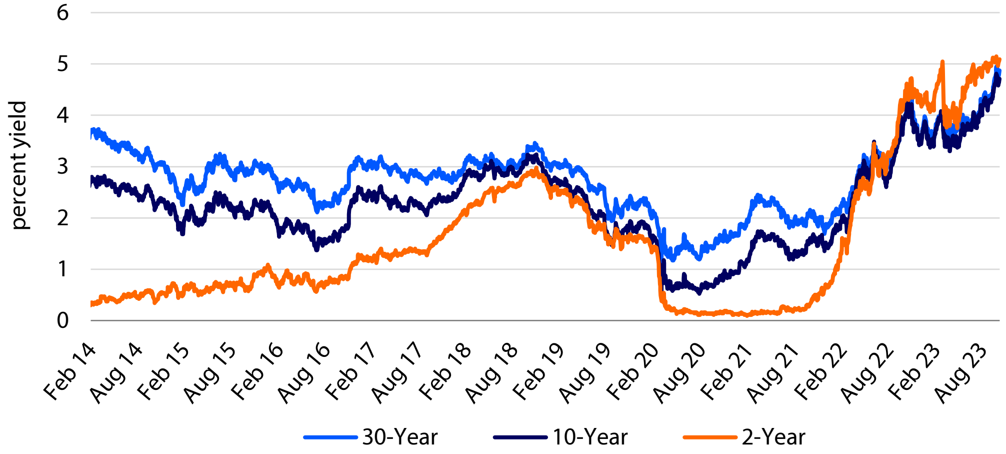
- Headline CPI and core CPI inflation have been slowing this year, with the most recent prints revealing lows not seen since 2021 of 4.44% YOY and 5.78% YOY, respectively. It is too early to celebrate; the inflation dragon is yet to be slayed. This was clear in Banxico's new projections, given the upward revisions to headline and core inflation forecasts for every quarter through Q1 2025. Banxico is still projecting that both headline and core CPI inflation will converge to the 3% target in Q4 2024. Still, we would argue that the risk is firmly skewed to the upside. We expect USD/MXN at 18.50 at the 12-month horizon.

Canada

- When it comes to headline CPI inflation , we expect to see more upside this year. In fact, if we see month-on-month prints for the remainder of the year at the average 0.5% MOM pace observed from January through August, then headline inflation will end the year significantly higher than the most recent 4.0% YOY print. Base effects are now working in the opposite direction, and with the recent round of oil price appreciation still yet to filter fully through to the consumer, those thinking that the days of CPI inflation printing at double the 2% target are over, will likely be in for a rude awakening. We expect USD/CAD at 1.36 at the 12-month horizon.

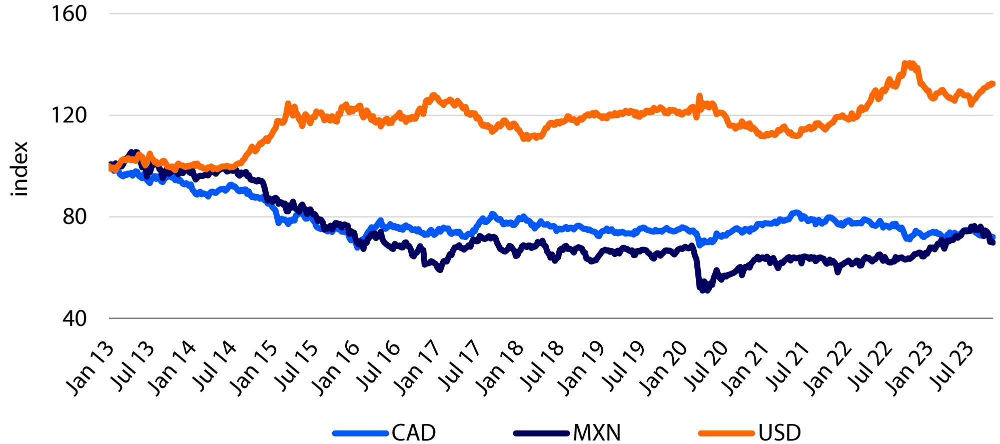
Source: *USDA, Rabobank 2023*

Interest rates, 2014-2023



Source: *Federal Reserve of St. Louis 2023*

Currency indices, 2013-2023



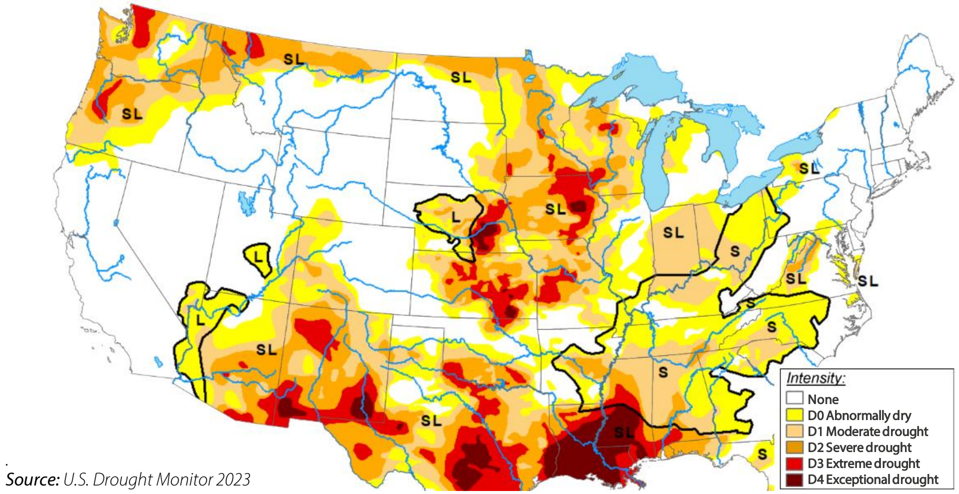
Source: *Reuters 2023*
Note: *Rebased at 100 as of January 1, 2013*

Climate

Crop looks secure despite dryness, while El Niño persists into 2024

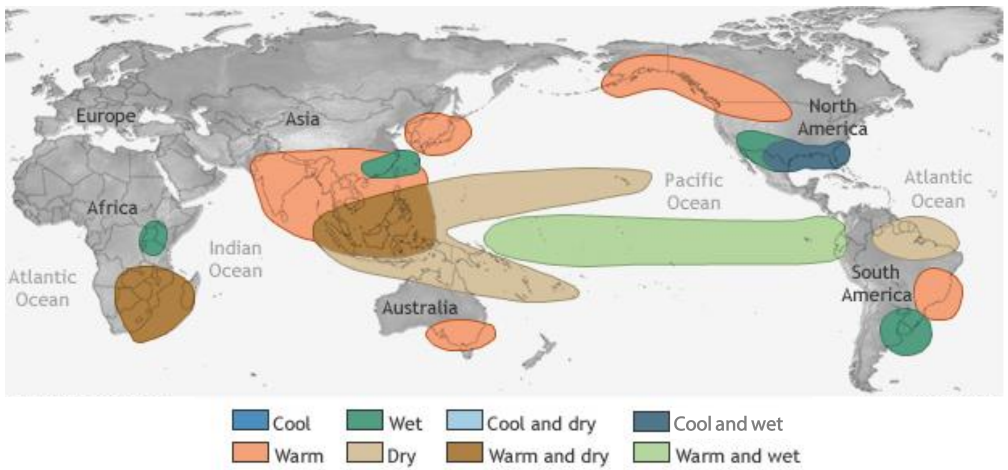
- This past summer showcased a litany of planting issues, extreme heat, dryness, and Canadian wildfires prompting the market to anticipate weaker yields this year. **The high quality of this crop so far has defied such dim expectations.** With temperatures expected to remain warm and conditions dry for another month throughout the Corn Belt and Canadian Prairies, the **pace of harvest will likely remain brisk and uninterrupted** in the weeks ahead, thanks to placid weather conditions.
- Winter wheat planting also continues this month, yet **anticipated cooler and wetter weather in the southern Midwest and further south could dampen the planting pace.** However, most of these regions remain in dire need of moisture, so this could prove net neutral, if not positive. We are watching to see if fall fieldwork is significantly impacted as it could diminish quality next spring. Regenerating subsoil moistures over the winter/spring is badly needed and will be key for next year yields across most North American growing areas.
- The protracted Midwest drought has persisted to the extent that **southbound grain barge traffic is limited at certain points of the Mississippi River** due to low water levels. With ~60% of US G&O exports leaving through the Gulf, alternative pathways are insufficient and will keep the interior basis lower than it would otherwise be until exports flow normally again.
- Driving some of this is **El Niño, which is anticipated to continue through the spring with a 75% to 85% chance of becoming a "strong" event** according to NOAA. That means it is even more likely to affect global temperatures and precipitation patterns in the expected ways. As a result of the El Niño event warmer sea surface temperatures across the central and eastern Pacific Ocean cause unusual patterns around the globe, with northern US/Canada being warmer and drier, while the southern US tends to be wetter and cooler. The NOAA winter outlook anticipates these conditions for North America.
- **Even if it proves to not be a "strong" event, El Niño patterns will persist for at least a few more months,** based on what the ocean surface and atmospheric conditions data is telling us. We are continuing to monitor the event through the winter for implications to the 2024 planting season.

Most of the Corn Belt is still suffering moisture deficit (Oct. 10 2023)



Source: *U.S. Drought Monitor 2023*

El Niño Winter Impact (Dec-Feb)



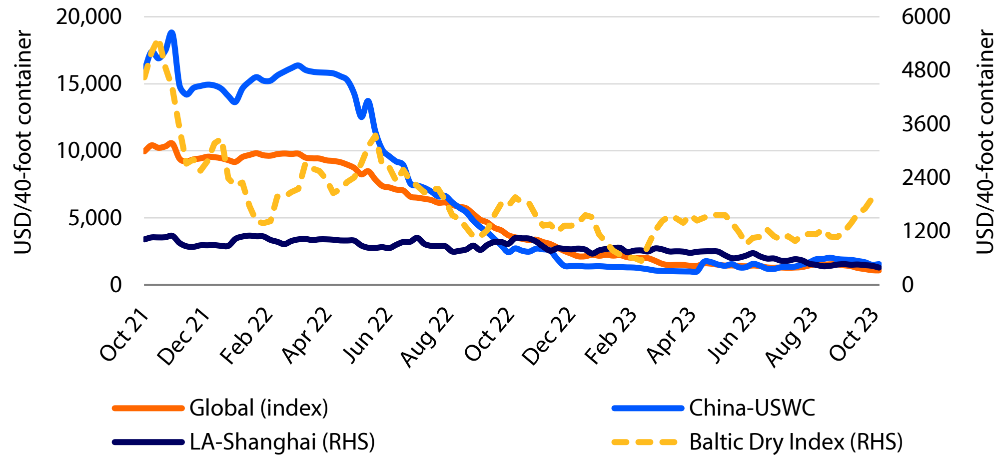
Source: *Climate.gov 2023*

Logistics

Low demand, schedule reliability, emissions surcharges, and rising fuel costs

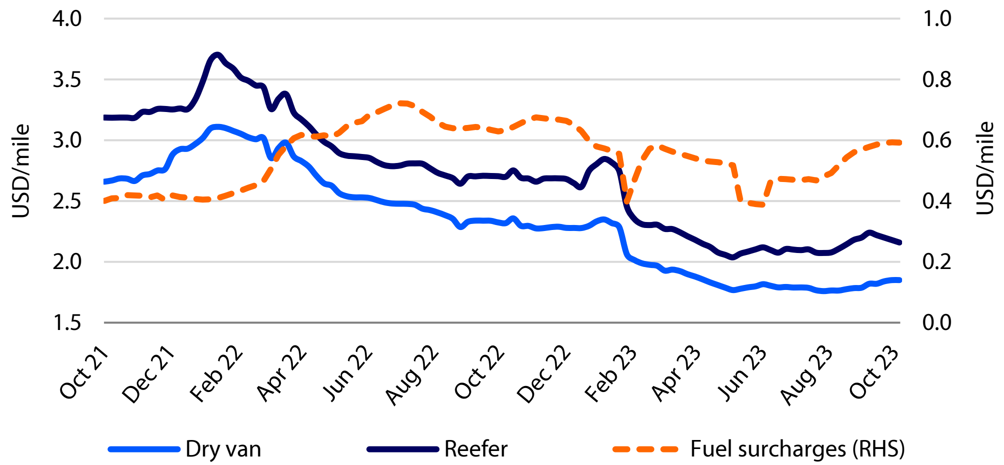
- **Amid low demand and excess inventory, the global shipping schedule reliability index has improved significantly compared to 2022 but is still well below pre-pandemic levels.** Global schedule reliability recovered from the low 30% in 2022 to 63.2% in August 2023, but still steps away from 80% before the pandemic. This is due to weather events, one-off incidents, and the supply chain gradually being sorted out. As labor agreements have finally been achieved across US and Canadian west coast ports, reliable operations are expected for the near future for transpacific shipments. Forecasts for retail imports have been downgraded due to excess inventory through January 2024, suggesting continued improvements in carrier availability and schedule reliability.
- **The Baltic Panamax Index (a proxy for grain bulk freight) continues to fluctuate** around the lower end of the spectrum as the global economy enters turbulent waters. Seasonal rate hikes started to take off, yet we do not expect further significant increases.
- **Estimated emissions surcharges were announced last month by major ocean carriers.** Emissions surcharges will be applied from January 1, 2024 to vessels traveling between EU ports, or from/to an EU port. Ocean carriers will need to purchase emissions allowances on the EU carbon market to pay for their emissions (currently around EUR 80 per metric ton of CO_2). This represents an additional cost for shippers. In 2024 the surcharges will still be relatively small. However, the surcharges will significantly increase in line with the amount of emissions that ocean carriers must pay for: 40% in 2024, 70% in 2025, and 100% from 2026 onward. Furthermore, emissions surcharges also depend on the development of prices in the EU carbon market and the uptake of low-emission fuels at ocean carriers.
- **Trucking spot rates seem to have hit the bottom, led by less-than-truckload. Fuel surcharges remain elevated.** Rabobank holds a bullish view of the energy market in the short term due to a tight physical market. In the medium term, we expect energy prices to continue to climb due to limited new refineries, Russia's stock removed from the system, weather events, and climate change.

Select ocean freight rates, Oct 2021-Oct 2023



Source: *Freightos, Baltic Exchange, Bloomberg 2023*

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



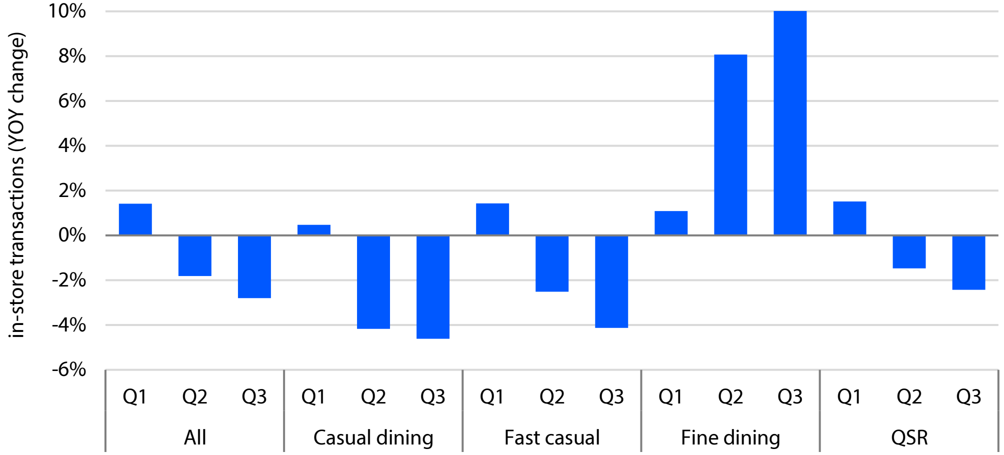
Source: *Truckstop.com, Bloomberg 2023*

Consumer Retail & Foodservice

Downtrading and continued search for value

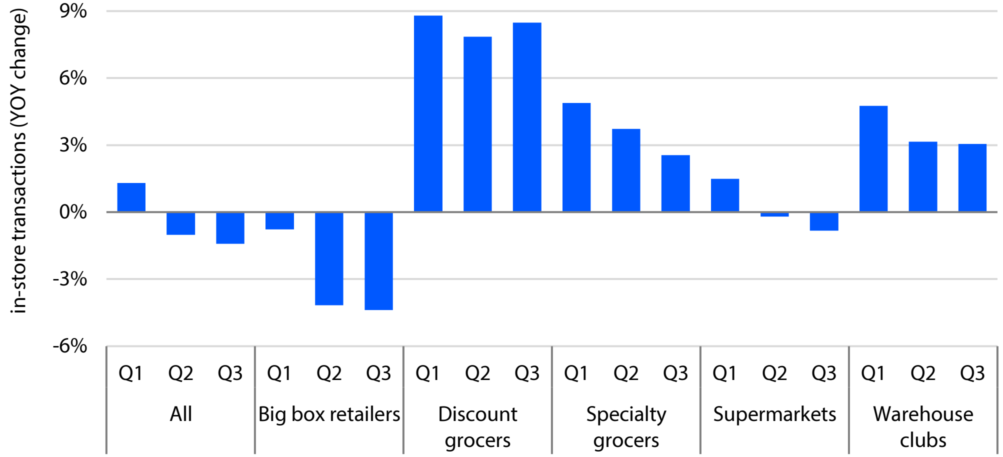
- Exclusive credit and debit card transaction data from Earnest Analytics indicates a cautious approach from consumers with food expenditures at home and away from home.
- Restaurant transactions have fallen 3% YOY in Q3. This decline can be attributed to increased menu prices and dwindling discretionary income. Remarkably, fine dining transactions surged 10% YOY, reflecting growing disparity in spending habits between affluent and lower-income consumers. A strong holiday season and resumed business travel also supported fine dining (the number of air passengers passing through TSA's airport security has finally returned to pre-pandemic levels).
- However, consumers remained cautious even when seated at white-cloth restaurants: average check sizes at fine-dining restaurants dropped 2% this summer, despite full-service restaurant inflation of 5.9%. Meanwhile, all other restaurant categories experienced an increase in the number of checks. This discrepancy means that, despite higher visits, consumers were more cautious when placing their orders, skipping non-essential courses (such as appetizers or desserts), reducing drinking, downtrading to lower-priced dishes, or even tipping less. Consequently, average checks at fine-dining restaurants decreased by USD 8.55 in Q3 2023 from the previous quarter, to USD 152.25.
- On the retail side, slowing grocery transactions and below-inflation growth in average baskets also suggest that consumers are being more careful with food spending at home. However, spending carefully doesn't necessarily mean only spending less on the same, but adapting routines and preferences to spend smarter and capture the maximum bang for their buck. Consumers have explored new retailers, which has benefited discounters and warehouse clubs and hit big box stores.
- The "new normal" seems to have finally arrived. It mixes elements from the pandemic (increased work from home, online shopping, and periodic splurging) with those of today's inflationary times. Consumers no longer fear boarding planes, eating on premises, hot buffets, and visiting large-format retailers; these were pandemic-only restrictions. Yet consumers have learned and developed a hybrid lifestyle, leveraging the best of their positive experiences and applying them to the current inflationary environment.

Foodservice: Restaurant transactions have decreased along 2023, except for fine dining



Source: *Earnest Analytics, Rabobank 2023*

Food retail: Inflation has benefitted bulk, smart, and local shopping



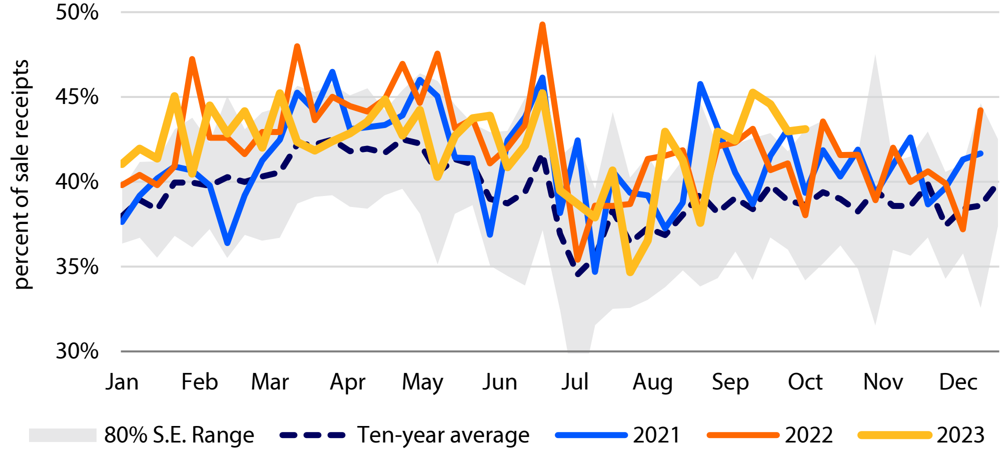
Source: *Earnest Analytics, Rabobank 2023*

Cattle

Cattle supplies tighten as drought remains a concern across relatively wide swaths of North America

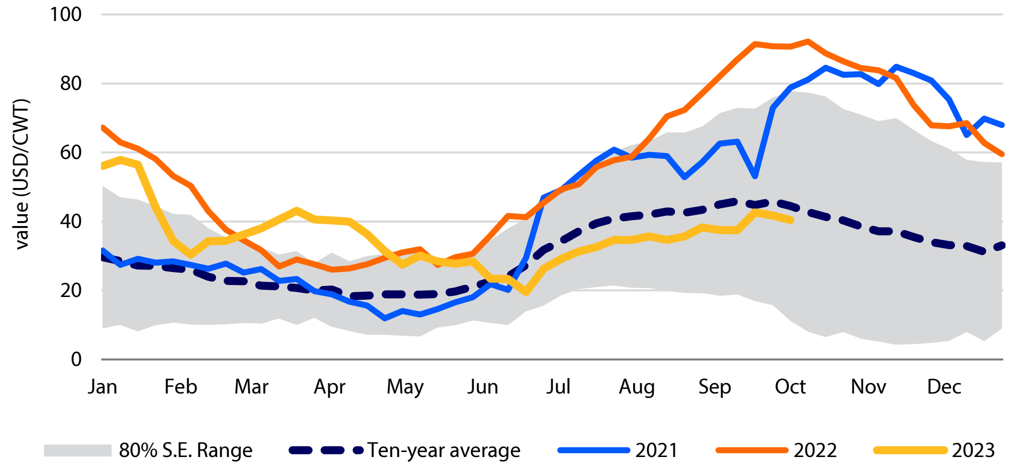
- **Beef cow slaughter and heifer sales remain prevalent in the fall run.** Calf sales volumes are increasing during the seasonal fall run and values remain nearly 50% higher than last year at USD 290/CWT for 500lb steers on a US average basis. Yet, stronger calf prices are doing little to encourage heifer retention or discourage cow liquidation on a nationwide basis as drought conditions remain. Heifers have accounted for 44% of USDA-reported feeder and calf sales volumes in the last four weeks. That compares to a 41% average in the last two years during that same period. Beef cow slaughter is only 4,700 head/week below year-ago levels (-7%) in the last four weeks and is steady with 2021 during the same period. That implies a 12% culling rate, which is only 0.5 percentage points lower than the prior two-year average. Rates above 10% still signal herd liquidation.
- **Carcass weights are approaching seasonal highs.** The estimated cost of gain for most US feedyards has been between USD 0.85/lb to USD 0.90/lb. over the last 12 months. It is the highest level since 2011/12. However, elevated feeding costs did little to discourage weight gain. USDA-reported steer carcass weights are averaging 919lb over the last four weeks. That is 2.5lb higher than last year and only 1lb lower than the record pace set in 2020. Expect weekly US carcass weights to challenge the all-time highs in November. Similarly, Canada steer carcass weights are increasing seasonally but remain 5lb to 10lb below year-ago levels in recent weeks.
- **Middle meat markets are a focus entering the holiday season.** When it comes to beef demand, the focus from now through late November will be on ribeye and tenderloin markets as year-end and holiday dinners become more prevalent. USDA Choice boneless ribeye values are around USD 11/lb, while Choice tenderloin values are at USD 13/lb. Those values are 20% to 25% higher than last year – rivaling the 2021 highs at this time. Conversely, these same cuts are 20% to 25% cheaper for USDA Prime quality. The Prime-Choice spread at USD 40/CWT reflects this reduction in higher quality demand erosion. The current premium is 52% smaller than the past two years.
- **Trade balance tilts toward more beef imports.** July and August US beef exports were down 21%, which is the largest year-on-year shortfall since the pandemic slowed trade flows. Canada experienced an 8% decline in export volumes over the same two-month period. The trend is similar in Mexico, where beef export volumes are 34% smaller in July and down 14% YTD. US beef imports are trending in the opposite direction with the most recent two months of data showing a 21% increase. Canada has seen a 30% increase in imports over the same period, while Mexico volumes were up 21% in July and 13% YTD. Declining US and Canada beef production will continue to support these trends and a stronger peso is allowing Mexican buyers to gain purchasing power.

Heifers' share of US feeder cattle and calf sales remains high



Source: *USDA, Rabobank 2023*

The USDA Prime-Choice boxed beef cutout spread has narrowed into Q4



Source: *USDA, Rabobank 2023*

Corn

Will additional demand materialize to accommodate "better-than-expected" yields?

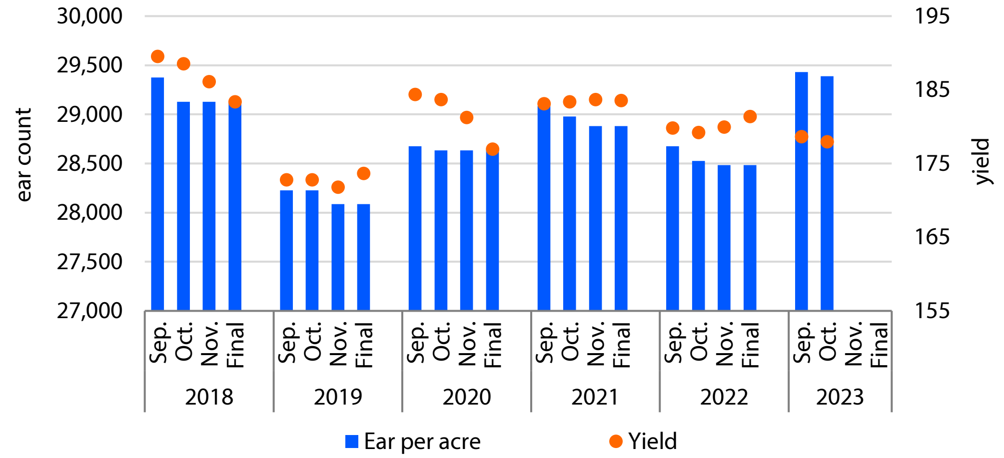
The USDA spent most of the summer with yields exceeding industry estimates. However, flipped the script with the release of its October WASDE, pencilling in further yield declines just as other stakeholders began expressing more optimism over the crop's outlook. The USDA's estimate of 173m bushels was 0.8 bushels less than both its September estimate and the median industry estimate. Interestingly, the decline came in against the backdrop of media reports indicating that crops coming off the field were better than expected. Below trend in the western plains but hitting or exceeding trend yields as one moved to the east.

While declining yield estimates in both the September and October WASDE would statistically suggest further yield reductions for November, much about the 2022/23 crop year has been atypical. Indeed, the USDA's own field surveys point to record-high ear counts, while farmer surveys were mostly submitted before their "surprisingly good" harvests began in earnest. Both of which open the door to a late-season upward adjustment in yield, not unlike what we saw last year (+1.5 bushels).

While this year's yields will not be record-setting for the country at large, they are far better than many anticipated earlier in the season, meaning a top-two or top-three crop is still in the cards. The latest WASDE indicates that increases across all demand categories will help mitigate stock buildup, but early indicators suggest these projections may be overly optimistic.

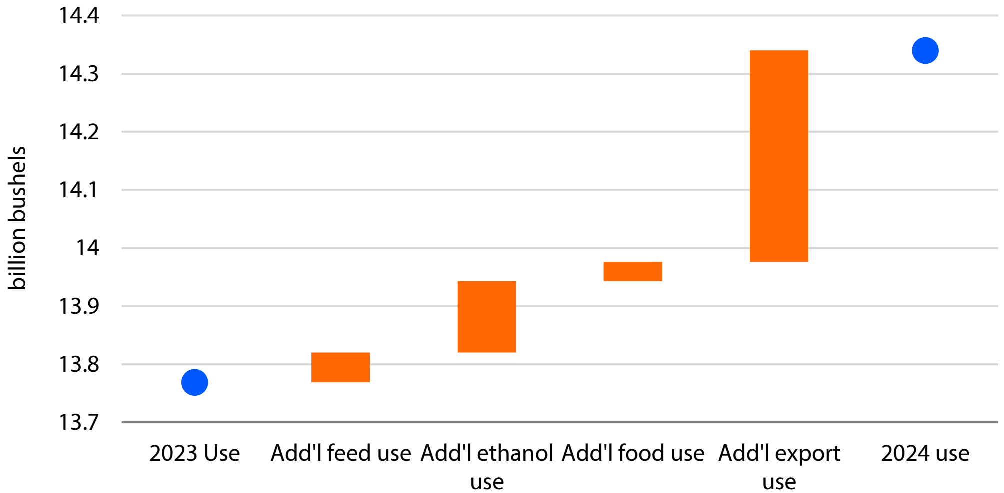
- The USDA is currently projecting a 22% increase in US corn exports for 2023/24, equivalent to 364m bushels or 10m metric ton. In contrast, sales for the 2023/24 crop are up just 8% through early October. Mexico will need to import more corn in the year ahead to bridge the effects of drought – although this will be just 2m metric ton to 3m metric ton. China will also need to increase corn imports to account for less feed wheat coming from Australia. Although much of this will surely be filled by Brazil, which currently enjoys a USc 50/bu freight advantage, and/or Argentina, which is projecting record 2023/24 corn production.
- The USDA is also projecting a 3.3m metric ton increase in corn used for ethanol production (+2.5%), despite the US DOE projecting a 2% decrease in US ethanol output for 2024.
- Finally, even the modest 1.4m metric ton increase in feed demand (+ 1%) may prove difficult to attain. Given 2024 projections for flat poultry production, modest declines in US hog and dairy cow numbers, and the latest placements of beef cattle on feed showing a 5% decline year-on-year.

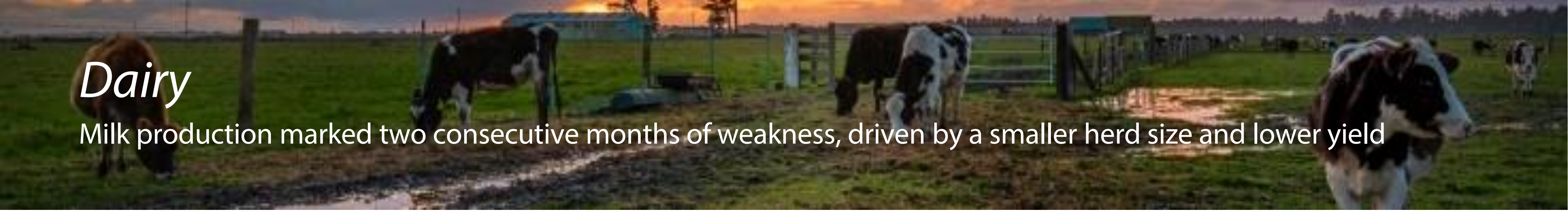
Ear count and projected yield for USDA's ten-state area



Source: *USDA Rabobank 2023*

USDA projected additional use for 2024 crop year



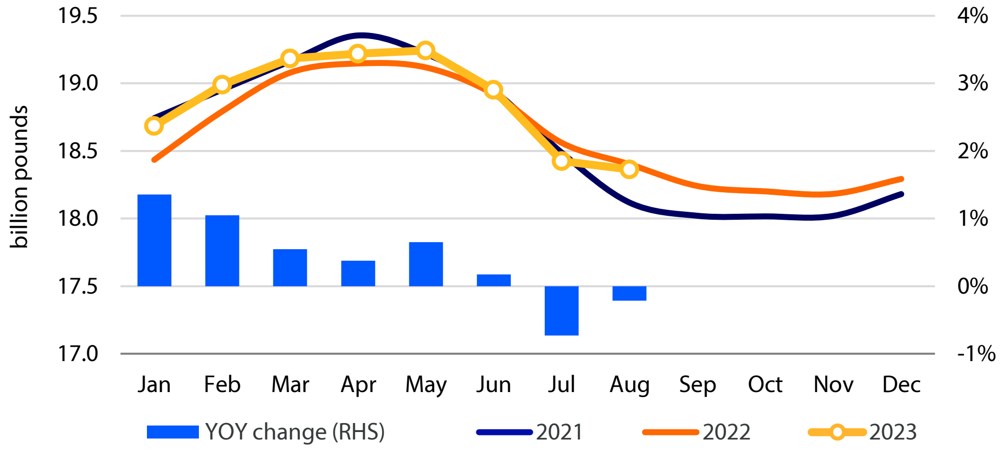


Dairy

Milk production marked two consecutive months of weakness, driven by a smaller herd size and lower yield

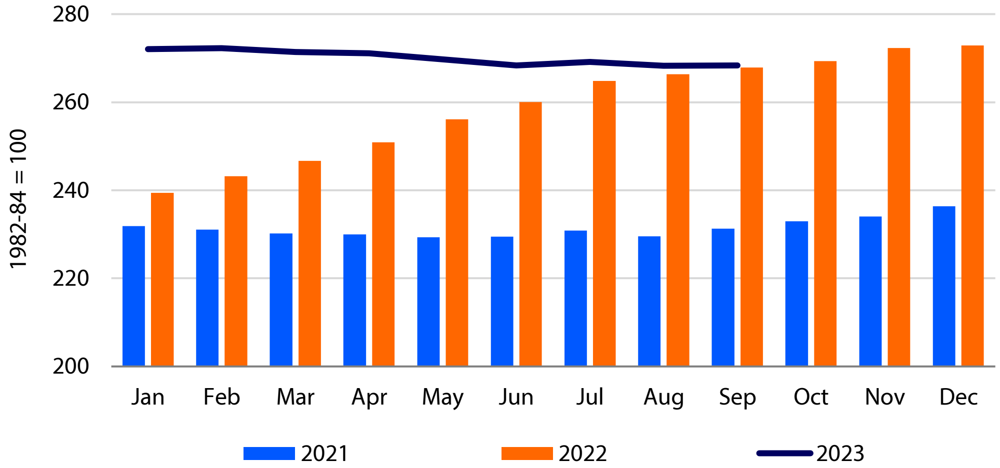
- **August milk production fell 0.2% versus the prior year, marking the second consecutive month of weaker output.** July production, initially reported as down 0.5% in the initial data, was revised lower to a 0.7% YOY decline. The August weakness was anticipated given weaker farmer margins in recent months, a declining herd size, and lower milk per cow. Less volume from California and Texas has been persistent, impacting national milk output recently. Looking ahead, Rabobank expects milk production to be flat to lower throughout the end of this year.
- **The herd size was steady from July to August at 9.39m head.** However, the July preliminary estimate was revised lower by 10,000 head. During August, the dairy herds in California and Kansas declined, while those in Idaho, Iowa, and Michigan expanded. The US dairy herd is down 54,000 head versus the March peak. However, with slaughter rates slowing in recent weeks versus summer, the herd size reduction trend will likely cease in the coming months.
- **Milk per cow was negligibly lower versus the prior year** but improved versus the 0.5% decline noted in July. Reduced input spending, feed quality issues, weather, and other factors have contributed to weaker yields in some months this year.
- **Lower milk output has subsequently reduced production among many dairy products** into Q3. Total August cheese production was lower versus the prior year for the second consecutive month, again negatively impacted by less Italian-style output opposite stronger American-style production. Output has been lower year-on-year during four of the past five months but remains up 0.2% on a year-to-date basis.
- Butter production dropped 2.1% YOY in August to break a ten-month streak of stronger output. **Cream availability likely tightened as milk production declined**, causing less product to flow to churns. Combined non-fat dry milk/skim milk powder fell 14.4%, for the third consecutive decline, while non-fat dry milk stocks marked their sixth consecutive decline and were the lowest since December 2022. Inventories have dropped 49m pounds since peaking in February.
- **US dairy exports have struggled to achieve YOY gains against a record 2022** on both a volume and value basis. Total shipments fell 10% in August and recorded a similar performance in July. However, Mexico remains a bright spot for US shipments, as the country continues to purchase strong volumes of cheese and non-fat dry milk, offsetting weaker demand in some other key areas, including a steep decline in South Korean cheese demand. Non-fat dry milk exports have been supported by demand from Mexico, but Southeast Asia sales improved for the first time in several months.
- **The year-on-year dairy consumer price index slipped into negative territory in September**, marking the first drop since August 2021. Dairy price deflation was expected in 2H 2023, as recent milk prices remain well below levels noted throughout 2022.

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



Source: *USDA NASS, Rabobank 2023*

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



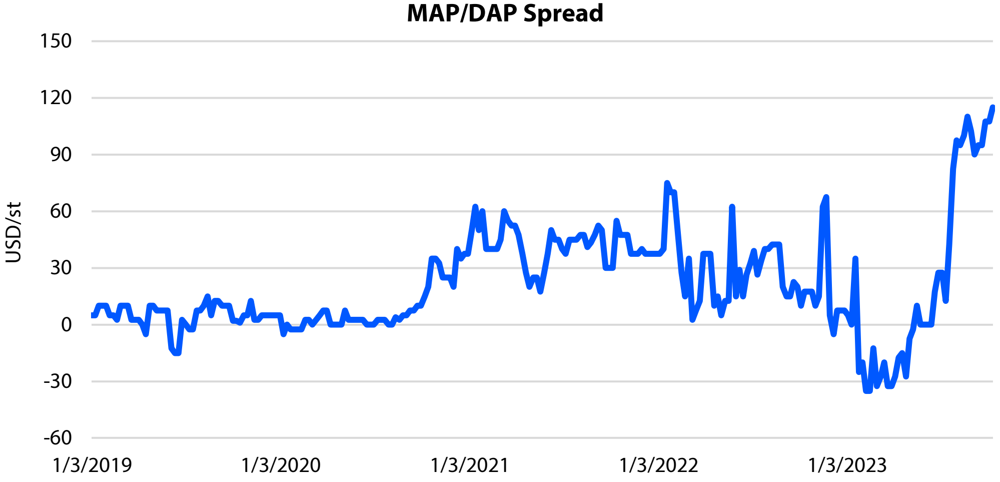
Source: *Bureau of Labor Statistics 2023*

Farm Inputs

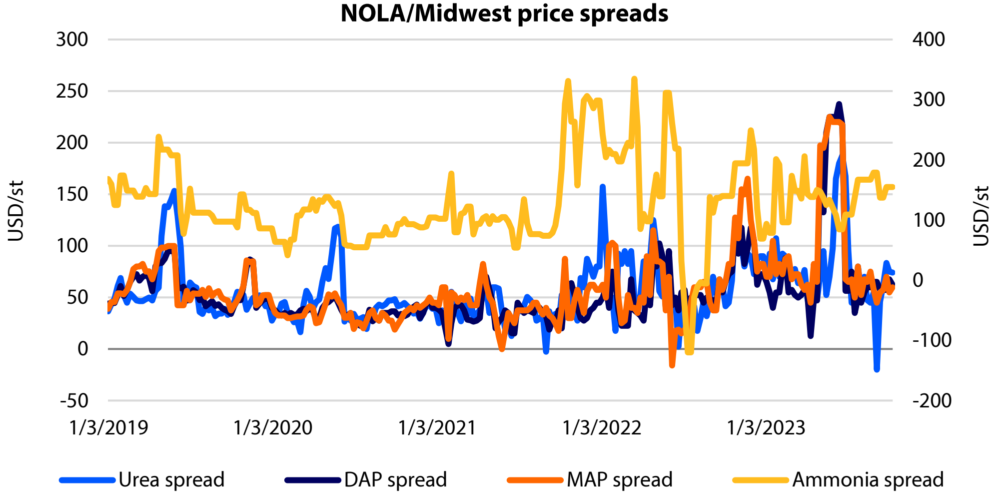
Soybean farmers beware

- Fall fertilizer demand is likely to be inching closer to front of mind as we roll through harvest, with some interesting trends emerging. One of the key trends forming is the growing spread between MAP and DAP prices.
- Persistent rumors of tightness in the market appear to be bearing fruit for those long MAP, with the price differential to DAP getting closer to USD 120/st. This kind of premium is unprecedented in the previous five years.
- While the market spreads saw a re-basing post-trade tariffing, necessitating a diversification of supply sources, these spreads normalized in the ~USD 40/st in the mid-2020-2022 timeframe.
- The price differential is also in anticipation of increased soybean planting in the 2024 season, stimulating greater demand for MAP (and TSP).
- A catalyst for further price abnormalities could be the current state of river logistics. Current water levels on the Mississippi – a key arterial route for fertilizer logistics – are hovering at record lows.
- When we look at the price spread between the coast and in-market, we do not necessarily see significant abnormalities on the key macro nutrients exposed – urea, DAP, MAP and ammonia. Price spreads seem to be at the higher bounds of average over a five-year period, but below the highs that we saw in the more recent past.
- However, there are some fledgling indicators of spreads widening, with urea Nola/Midwest spreads getting closer to USD 80/st, high but not unprecedented. Potentially least exposed to this vulnerability is potash, where we see the least risk and ample domestic supply to support a less volatile price trajectory through the coming months.

In market MAP/DAP price spreads imply some relative product tightness



River logistic yet to impact fertilizer pricing?



Sources: CRU, USDA, Bloomberg, Rabobank 2023

Feed

Pasture and range conditions are better, but remain below average

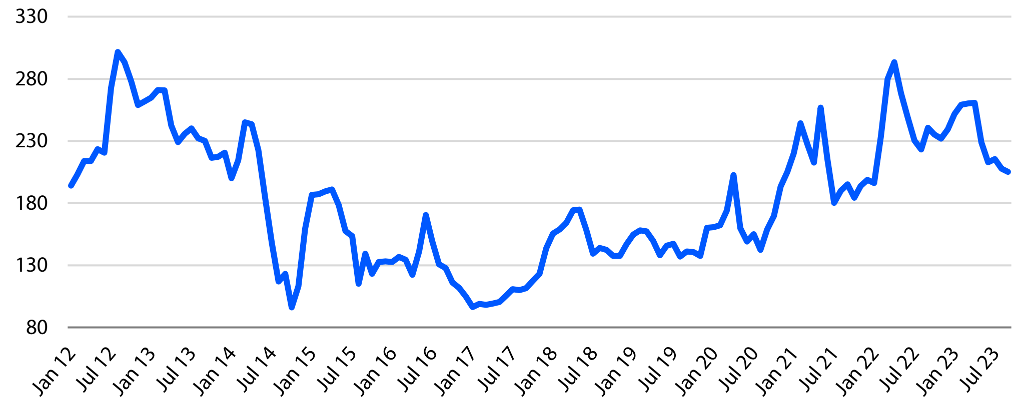
DDGS:

- **DDGS are coming down from highs, but remain too high:** Distiller's dried grains with solubles (DDGS) have been coming down from their highs in April 2022, when prices were near the USD 300/metric ton. Fast forward to September 2023 and prices are moving closer to USD 200/metric ton. The decline in prices is a welcome news for the feed industry, but prices remain relatively higher than in previous years when production was normal. Corn production is expected to make a prompt recovery despite lower yields, but with acreage this large, supplies should be plenty. Ethanol production is projected to pick up for 2023/24, which should help increase DDGS production. However, keep in mind that the volume of corn used for ethanol remains below 2018 volumes, which was the last time we had prices at USD 150 USD/st.

Pasture and Range Conditions

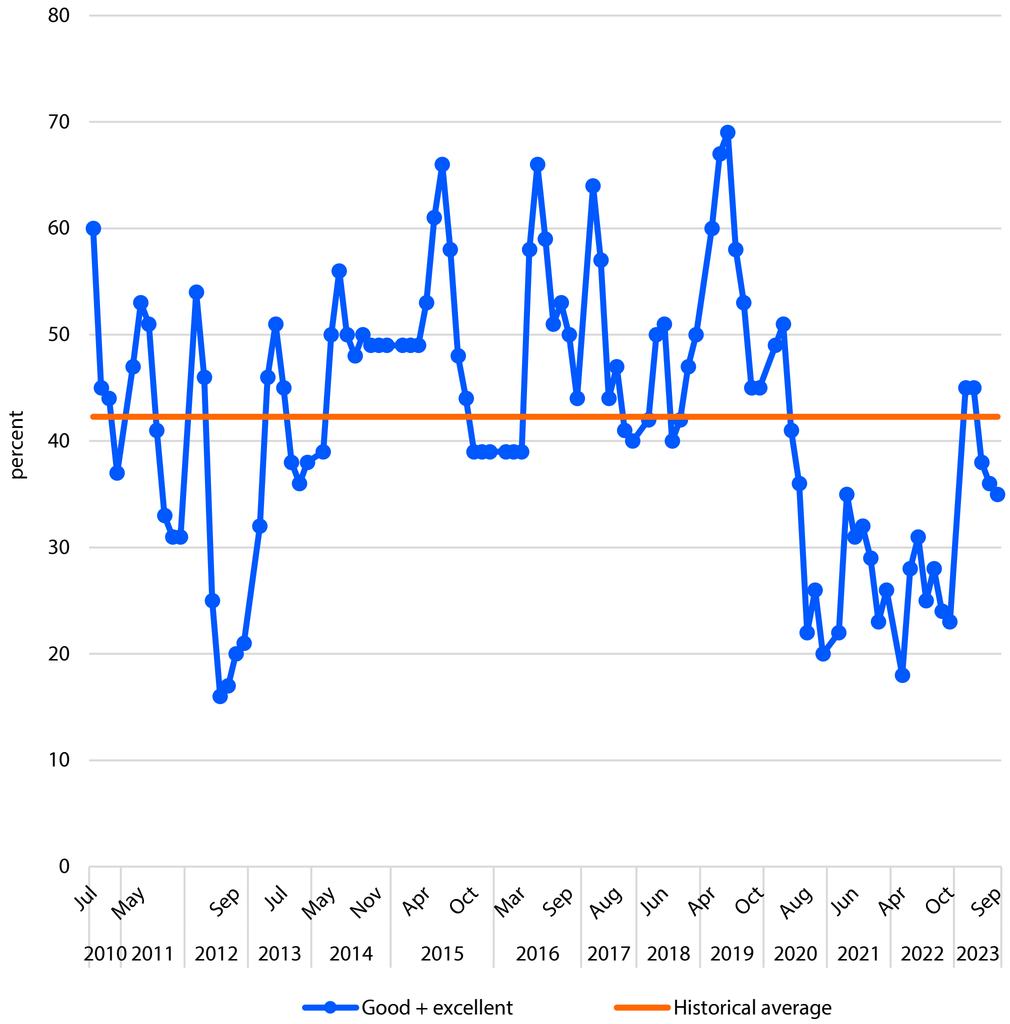
- **Pasture and range conditions have improved relative to the last three years, but remain below average:** In 2020, the US experienced a decline in pasture and range conditions similar to 2012, the only difference being that by 2013, good to excellent conditions were back to more historical ranges. However, this has not been the case of the last three years, when good to excellent conditions have lingered around the 2012 levels. Even though 2023 has seen conditions improve, in recent months conditions have been declining. This continues to be an ongoing challenge for cattle producers, especially as winter is around the corner and moisture levels have not improved much in the US.

DDGS prices (in USD/short ton) from January 2012 to September 2023



Source: *USDA , Rabobank 2023*

Pasture and range conditions good to excellent for 48 US states



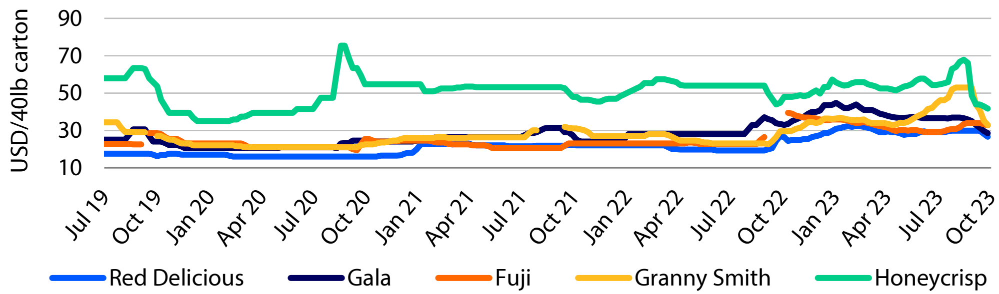
Source: *USDA,, Rabobank 2023*

Fruits

Blueberry, table grape, and stone fruit prices are higher as weather irregularities impact availability

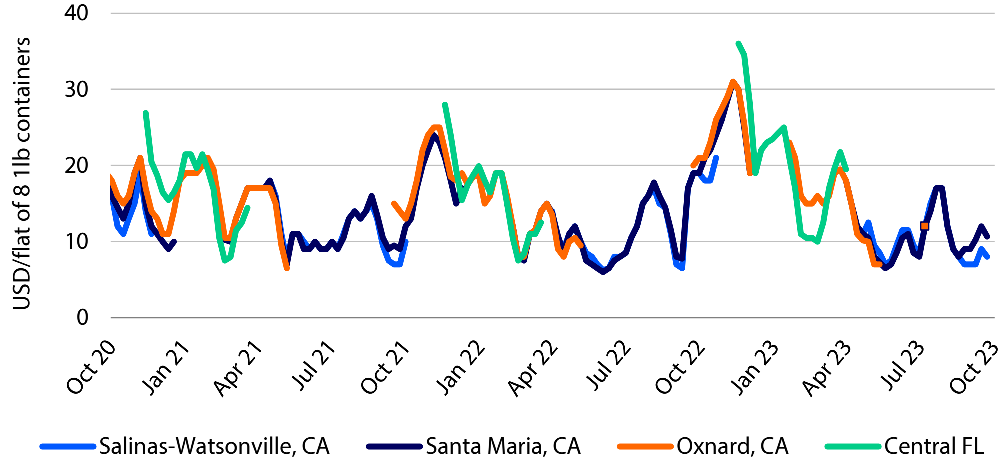
- **Strawberry** shipping-point prices are around USD 10 per flat for non-organic product (-47% YOY) during the first half of October, as shipments from California continue steady.
- **Blueberry** production and exports out of Peru have declined as an unusually warm winter impacted yields. Due to this, fresh blueberry availability in the US is down about 60% YOY, while wholesale prices in the US average over USD 5/lb for non-organic fruit, up about 120% YOY by mid-October, showing that year-round demand has considerably expanded.
- After a delayed start, California **table grapes** were affected by atypical rain. Fruit quality and availability declined while harvesting costs increased considerably. By mid-October, blended prices were about USD 32 per box, up 50% YOY. Similarly, **stone fruit** crop was impacted by Hurricane Hilary, with some operators are ending the season early. Prices for **peaches** and **nectarines** are up about 30% YOY. Prices will remain elevated the rest of the season.
- **Lemon** shipping-point prices -140s- were just over USD 43 per carton, up 32% YOY, surpassing the five-year average for mid-October by 18%. The USDA estimates that US lemon crop will decline in 2023/24 by 12% YOY. **Valencia orange** prices -88s- were around USD 25 per carton, up 1% with respect to the five-year-average for mid-October. Valencia orange production for 2023/24 is expected to increase 35% and 12% YOY in Florida and California, respectively. **Navel orange** production in California is estimated to reach 37m boxes, up 1% YOY in 2023/24.
- **Avocado** availability in the US has improved as harvest in Mexico ramps up. Shipping-point prices for 48s have come down to USD 35 per carton from over USD 70 in some weeks during the summer but remain up 29% YOY. In the next months, the US market will be well supplied.
- As **apple** harvest rebounded and availability improved, prices have rapidly adjusted. By mid-October, shipping-point prices of non-organic Granny Smith are up 12% YOY, while prices for Fuji, Gala, Honeycrisp, and Red Delicious declined 17%, 15%, 7%, and 1% YOY, respectively.

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



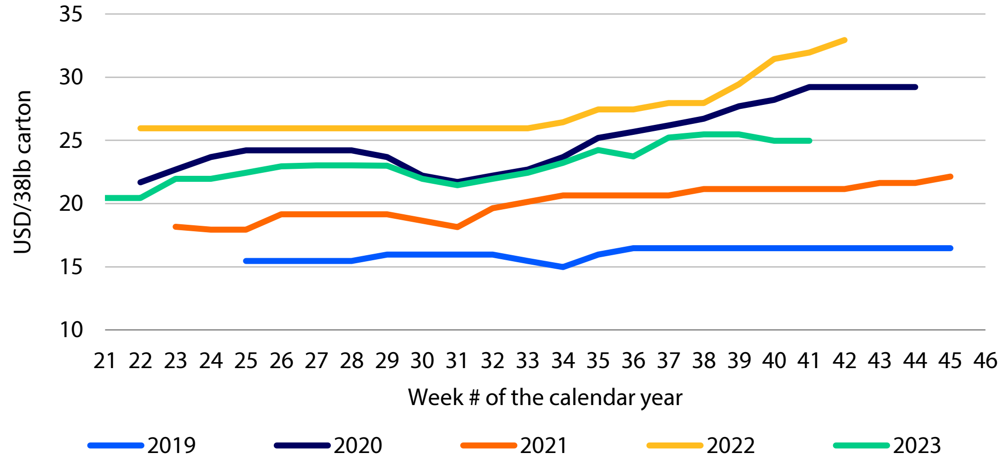
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2023

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



Source: USDA AMS, Rabobank 2023

Valencia orange shipping-point prices, 48s – shipper's first grade, 2019-2023



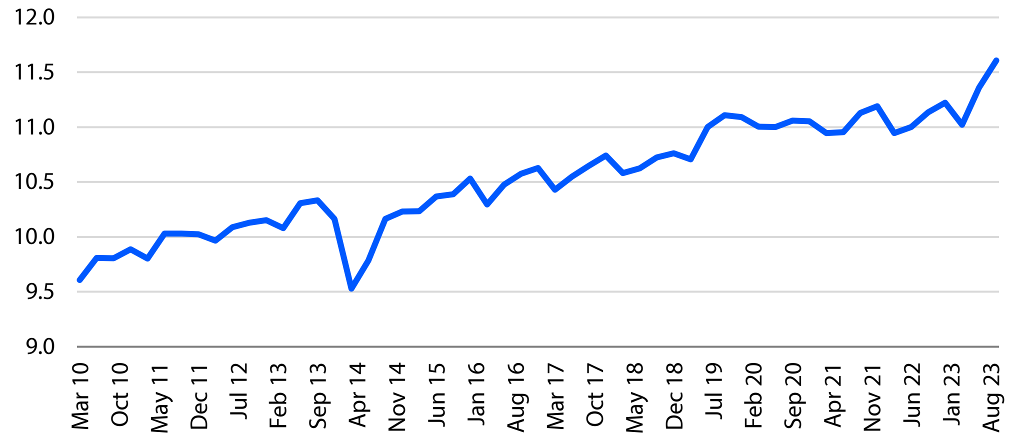
Source: USDA AMS, Rabobank 2023

Pork

Improved productivity and slow herd reductions will pressure market

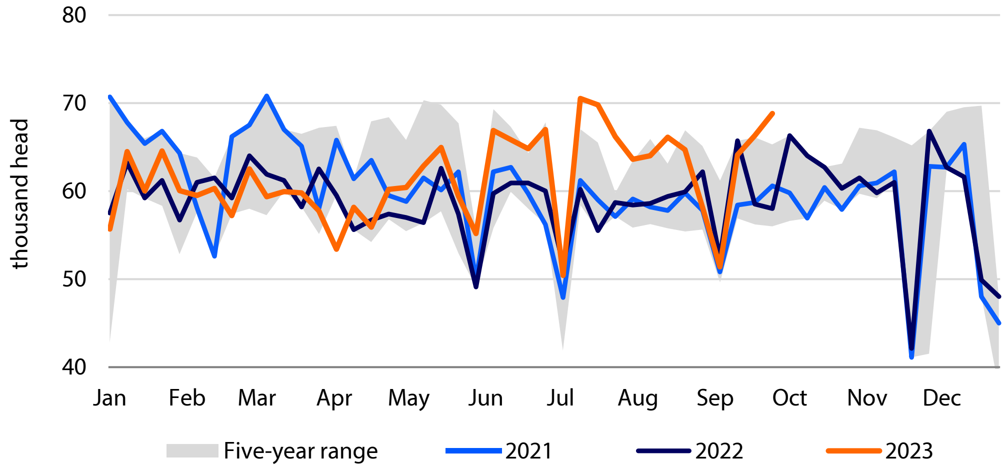
- **Hog availability remains high, weighing on prices and margins.** Slaughter continues to trend above year-ago levels (+2.1% YOY), while weights are moving higher seasonally (although still below year-ago levels). YTD hog production is currently in line with 2022, above earlier expectations and weighing on the market.
- **The latest USDA Hogs and Pigs report suggested that near-term supplies will remain large due to improved productivity (4.2% YOY) and limited reductions in the sow herd.** Although recent sow slaughter is trending higher, at current levels the industry will face margin pressure into early 2024. Lower feed costs will help offset hog market weakness but will also slow industry herd reductions. Based on the current outlook, Rabobank expects Q4 2023 pork production to be flat, with full-year production +0.8% YOY. We expect production to drop -0.6% YOY in 2024 to 12.1m metric tons.
- **Pork prices rose fell 10% YOY in October due to ample supplies and soft demand.** Increased slaughter and weaker processor demand for hams (-25% YOY) and bellies (-18% YOY) drove the weakness. We believe excess frozen inventory and buyer cautiousness in the face of more rigid enforcement of Proposition 12 in California are also weighing on product values. Pork prices are likely to remain under pressure given our current outlook, which should weigh on market hog values through Q4 2023.
- **August pork exports were flat in volume, at 226,519 metric tons, and down 1.5% YOY in value.** YTD shipments are up 11% YOY at 1.1m metric tons, while value is +9% YOY. Shipments to Mexico and Canada remain strong, up 7% and 11% YOY, respectively. Sales to Japan also moved higher, up 11% YOY, while shipments to China are down sharply. Pork imports from all destinations dropped 17% in volume due to depressed local markets and high global pork prices. We are currently forecasting 2023 export growth of 8% YOY given lower global pork supplies and the low relative cost of US pork on global markets.
- **Mexican hog prices are 20% below year-ago levels and are in line with the five-year average.** Better productivity and heavier weights have added 2.2% YOY more pork to the market in September, weighing on prices and industry returns. We expect better herd health and improved productivity to continue to pressure the market in the near term. Production growth is likely to moderate in Q4 2023 given sizable increases in the year-ago period, with further reductions in 2024. Pork prices have also moved lower in recent weeks (-17.8% YOY) on increased production and weaker demand.

US average pigs per litter, Mar 2010- Aug 2023



Source: *USDA 2023*

US sow slaughter, 2021-2023



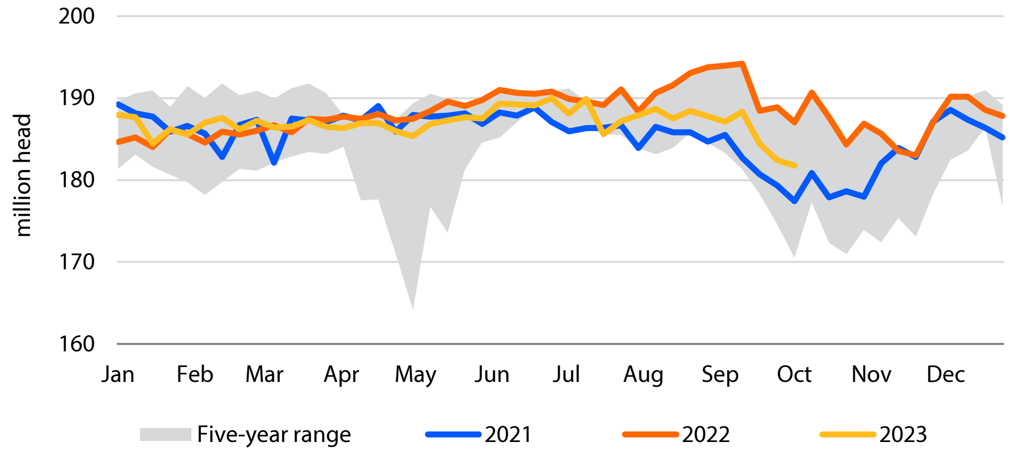
Source: *USDA, Rabobank 2023*

Poultry

Chicken production moves lower; prices slow to respond

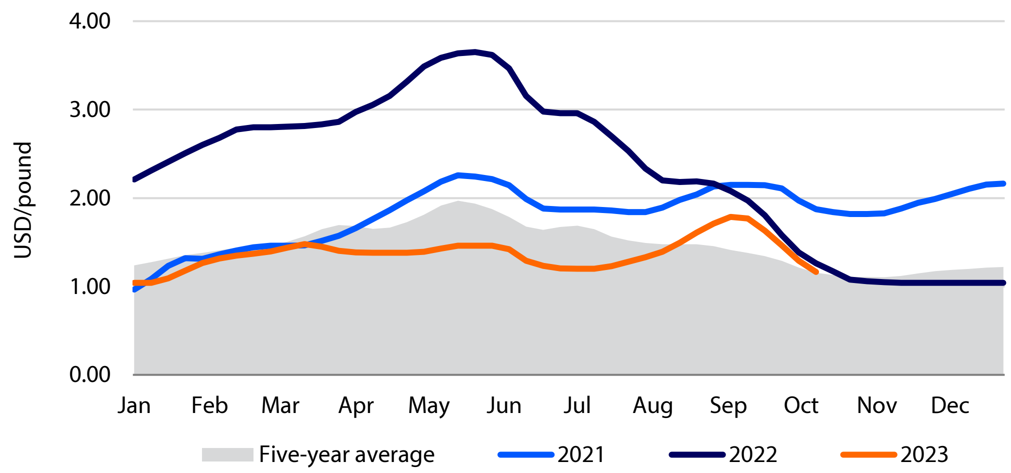
- **Chicken production is moving lower seasonally and is expected to remain well below year-ago levels into Q1 2024.** Ready-to-cook (RTC) production is down 3.4% YOY, well below the record production levels seen last fall. Despite some improvement in hatchability, recent chick placements are down 2.8% YOY, supporting our outlook for lower production through year end. Live weights are also lower, and are averaging 1.1% below year-ago levels, helping to reduce total pounds available. Rabobank estimates Q4 2023 RTC chicken production will be down 2% YOY, with full year 2023 RTC chicken production of 21.1m metric tons, +0.6 YOY.
- **Chicken prices have stabilized on lower production volumes.** There is still some variability within the category, with boneless breast prices (BSB) now flat versus year-ago and five-year averages and wings up sharply (+52% YOY). Reduced production and lower supplies of competing meats should remain supportive to chicken prices, especially in foodservice channels, into early 2024. Chicken leg/thigh values also remain stout on steady demand from retail and export markets, with leg quarters +7% YOY. We expect overall prices to trend higher in the coming weeks on smaller supplies, with BSB prices improving seasonally in Q1 2024. Higher composite values, together with a drop in feed costs, will help stabilize margins in early 2024.
- **August chicken exports were down 1.4% YOY in volume to 308,259 metric tons and down15% YOY in value.** Constrained shipments to China (down 52% YOY) continue to weigh on export values as several states remain banned from exporting due to earlier cases of highly pathogenic avian influenza (HPAI). Newly discovered HPAI in US turkey operations could limit near-term normalization. Exports were also lower to Canada, down 14% YOY. Shipments to Mexico remain steady and rebounded sharply to Cuba (+68% YOY). Growing geopolitical tensions in the Middle East and new cases of HPAI could weigh on trade in the near term.
- **Mexican chicken prices continued to weaken on excess supply.** Production has improved seasonally and was +3.2% YOY at 329,000 metric tons in September. While production should slow in Q4 2023 on weaker margins, improved productivity is likely to offset this. Feed costs are lower on a strong harvest and ongoing strength in the Mexican peso , yet the industry continues to struggle on disappointing market demand. Chicken import volumes in July were +10% YOY on the strength of the Mexican peso and could soften trade in Q4 2024 as local supplies remain ample.

US chick placements, 19 states, 2021-2023



Source: *USDA, Rabobank 2023*

Boneless skinless breast prices, 2021-2023



Source: *USDA 2023*

Rabobank

Soybeans

Renewable diesel production gets ahead of itself

The 115% expansion in nameplate renewable diesel production capacity set to take place between 2022 and 2024 carried with it positive implications for US oilseed and oilseed crush capacity demand. Coupled with the capacity of a slowly shrinking fatty acid methyl ester (FAME) biodiesel infrastructure, the country would have been equipped with the capability to produce over 7bn gallons of biomass-based diesel (BBD) annually by 2024, compared with 3.1bn gallons of actual production in 2022.

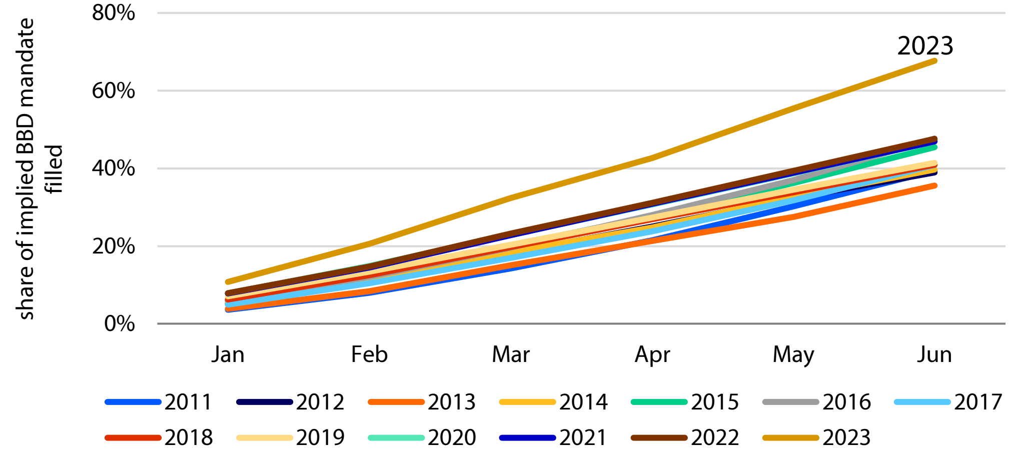
Indeed, 2023 production numbers showcased this newfound capability with January, March, May, and June all breaking new records in terms of domestic BBD production. Unfortunately for the BBD value chain, however, the Environmental Protection Agency finalized the renewable volume obligations mandates in late June at levels well below capacity expansion. This resulted in a front-loaded fulfilment of the BBD mandate, BBD oversupply and, beginning in September, a crash in the market for advanced biomass-based diesel (D4 RIN).

These dynamics have been central to soy oil futures shedding a dime (-15%) from nearby contracts over the past two months – a decline that would undoubtedly have been less severe had the Saudis and Russians not announced their intentions to extend petroleum output cuts through the end of December. Weak demand and the prospect of an increased rig count in the US suggested there could be further room to fall for crude and vegetable oils – though this picture is now clouded considerably by conflict in the Middle East.

Meal prices, meanwhile, have found more support. Outstanding sales through the first week of October have proceeded at their fastest pace in five years and are 50% above the pace from a year ago. This is driven by sizeable increases in purchases from Southeast Asian buyers, but also noteworthy increases from Canada and Ecuador in the Americas. The release of the October WASDE also provided a shot in the arm for the soybean complex in general. Like corn, yields were revised down 1% due to dry august weather. However, unlike corn, there is very little room for yields to surprise to the upside this late in the season.

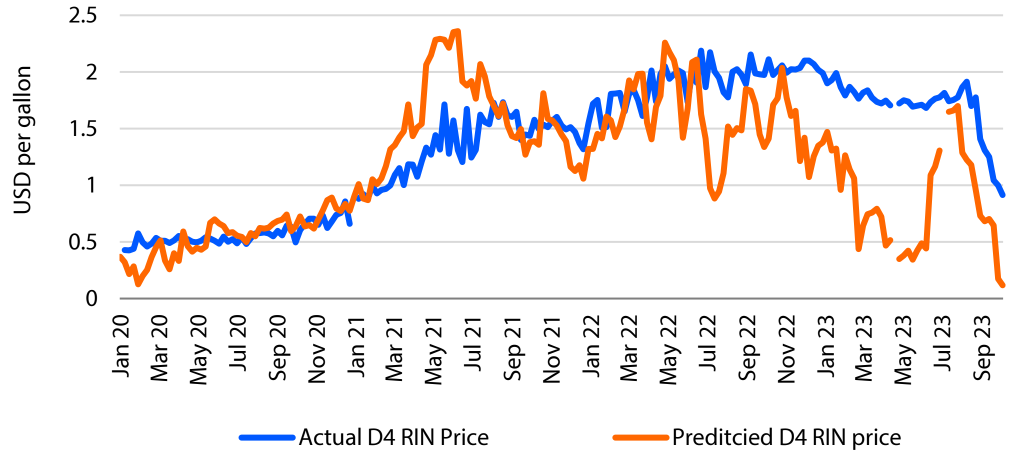
Looking south, Brazil once again looms large in the year ahead. Conab is projecting a one million hectare increase in the area planted to soy for 2023/24, peeling off 300,000 hectares from the first corn crop to help get the job done. Planting restrictions this year were lifted September 1 for Mato Gross and October 1 countrywide. The pace of planting thus far remains slow, delayed by inadequate soil moisture throughout much of Mato Grosso and Matopiba and heavy rains in the south. Nevertheless, Conab is anticipating record yields and record production. The drought in the Amazon basin is restricting traffic along the river's western tributaries, including barge loads along the important Madeira river. If not resolved before harvest these bottlenecks would inevitably reverberate across the country as Brazilian grain infrastructure struggles to keep pace with production.

Pace of fulfilment of BBD mandate, by year



Source: *DOE, Rabobank 2023*

Predicted and actual D4 RIN value – 2020 to present



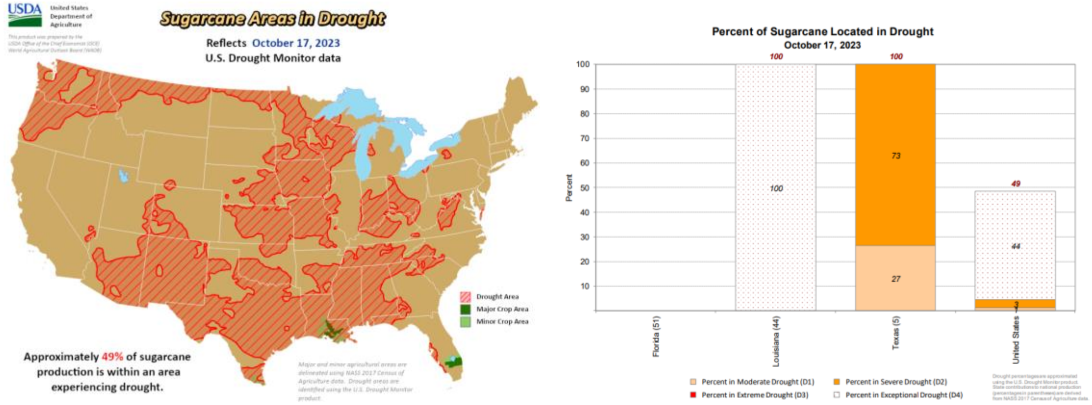
Source: *DOE, Rabobank*
Note: *Predicted D4 RIN price equal to the energy adjusted spread between biodiesel and diesel divided by D4 energy equivalency (1.5)*

Sweeteners

Drought continues to add pressure in the region

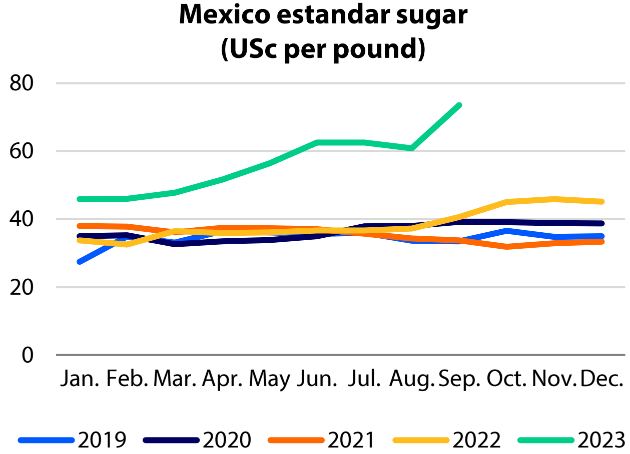
- Despite a huge increase in Brazilian sugar production, the global sugar market is expected to move from a surplus to a deficit during the 2023/24 cycle. Many important producing countries, such as Thailand and India, continue to be impacted by drought.
- In North America, the US and Mexican sugar sectors continue to face severe drought conditions, particularly in cane growing areas. In the US, 100% of Louisiana's cane acreage is exposed to exceptional drought conditions. In Mexico, many cane states such as Jalisco and Morelos are experiencing drought.
- For Mexico, we believe sugar production is likely to remain below 5.5m metric tons in 2023/24. Given expected domestic consumption, Mexico's exports could remain below 1 metric ton. Mexico is likely to increase its imports to alleviate some pressure on the domestic market.
- In 2023, Mexican sugar prices have reached record highs. In the US, sugar prices (contract #16) reached a record high in September. US beet prices have eased but remain firm, while wholesale cane prices remain at record levels.

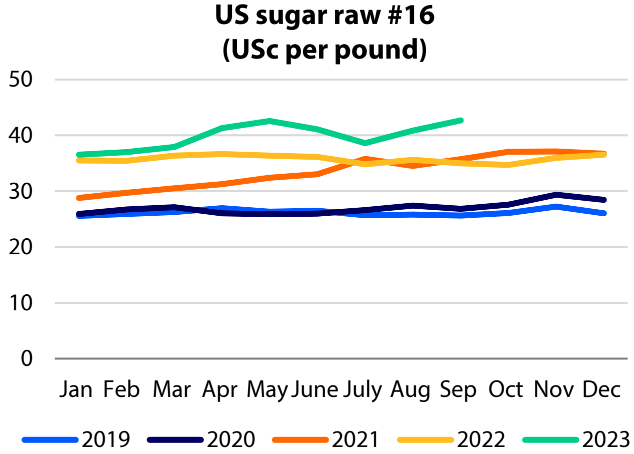
US sugar cane areas struggling with drought



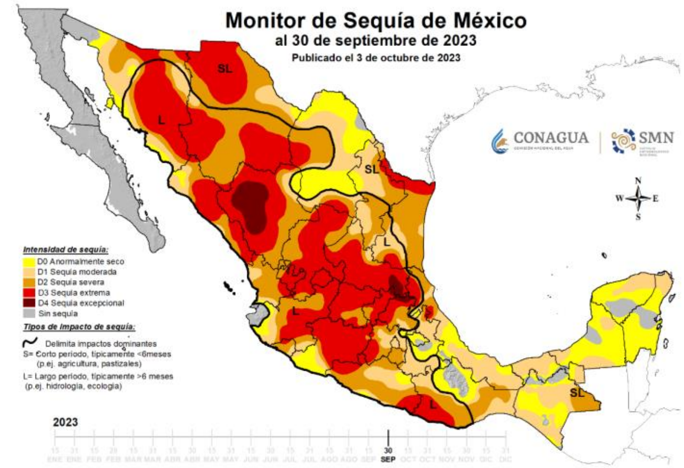
Source: *CONADESUCA, USDA, Rabobank 2023*

US sugar prices #16 have reached a record peak





Mexico's drought has worsened this year



Source: *CONADESUCA, Rabobank 2023*

Tree nuts

Harvest time featuring a record pistachio crop in California

Almonds: Shipments during September were up 16% YOY, with a 52% increase in US exports to India. Total shipments in the 2023/24 marketing season through September are up 3% YOY, with domestic shipments up 6% YOY, and exports up 2% YOY. Total shipments as a percentage of marketable supplies (estimated crop + carry-in) are already ahead of last year. Some believe that the 2023 crop could be around 250m pounds shorter than the 2.6bn pounds in the objective report. If that is the case, current shipment levels can be considered bullish.

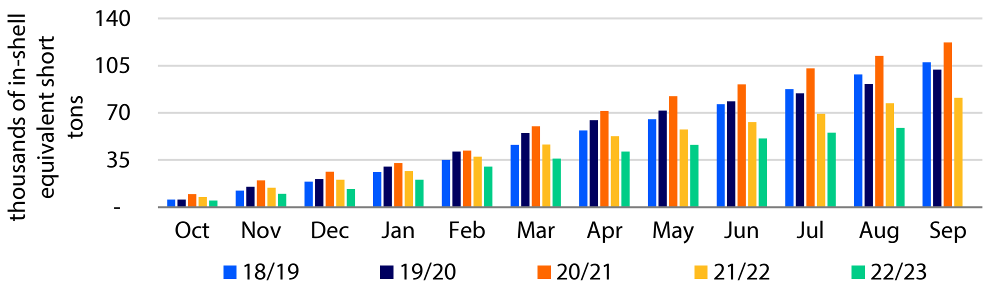
Hazelnuts: US shipments in 2022/23 through May were up ~25% YOY, according to industry statistics, with domestic kernel shipments and kernel exports increasing 39% and 33% YOY, respectively. Official figures for the end of the 2022/23 marketing season have not been released by the industry.

Walnuts: Shipments rose 14% YOY, with exports down 1% YOY and domestic shipments up 44% YOY at the end of the 2022/23 marketing year. Domestic shipments increased 95%, 72%, 58%, and 81% YOY during May, June, July, and August, respectively, helped by USDA purchases. USDA revised its objective estimate for the 2023 crop downward to 760,000 short tons, up 1% YOY. As harvest continues, quality is being reported as exceptional. US prices are set to improve as walnut quality is high and carry-in was low.

Pistachios*:* Shipments set a record and showed YOY increases for the third season in a row. In 2022/23, shipments were up 8% YOY, with domestic shipments down 5% YOY and exports (accounting for 72% of shipments) up 14% YOY. As the industry is harvesting a record crop, opening prices were announced at lower levels than many anticipated. Crop quality is reported as very good. The 2023 crop is likely to be around 1.4bn pounds, or roughly a 58% increase YOY, according to some estimates.

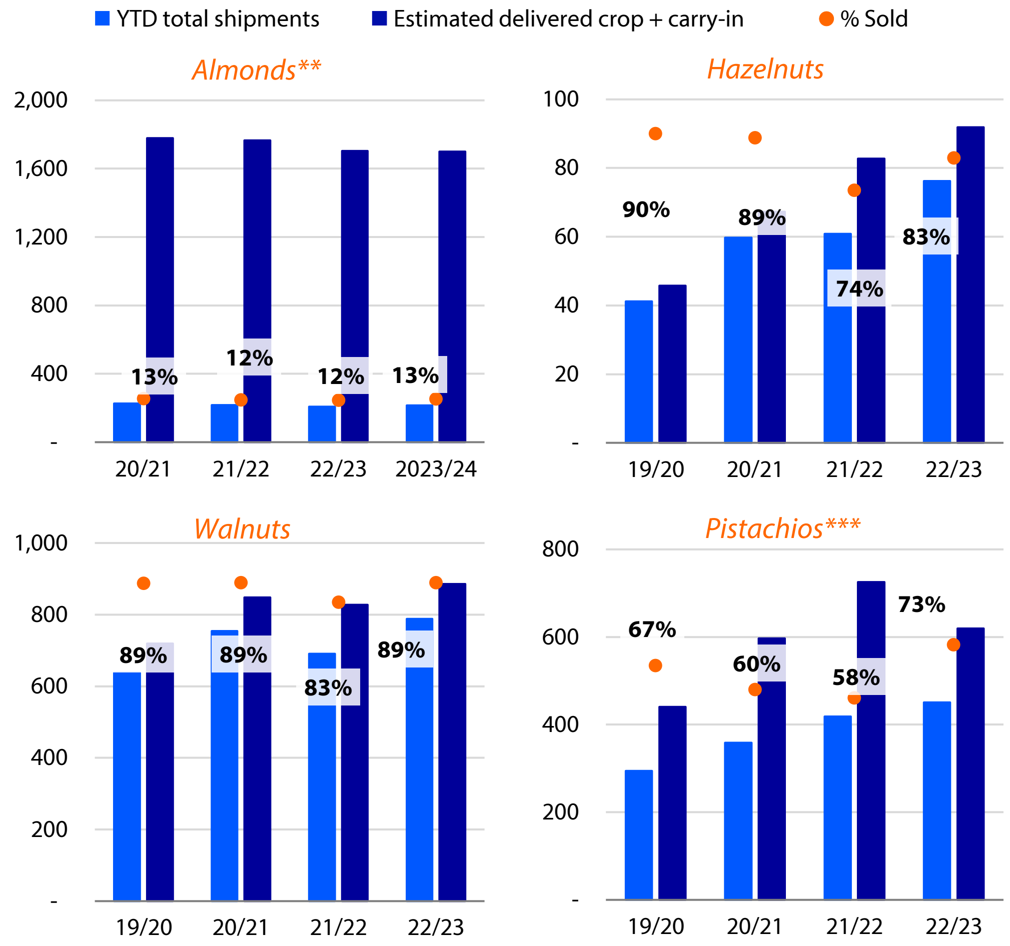
Pecans: US pecan export volumes in the 2022/23 marketing season through August were down 24%, according to USDA figures. The 2023 pecan crop in the US is expected to decline 10% YOY, while in Georgia the USDA estimate shows a 20% decline YOY.

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 September 2023, 2023/24 marketing season for almonds; through August 2023, 2022/23 marketing year for walnuts, and pistachios; May 2023 for hazelnuts; **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

US potato production rebounds

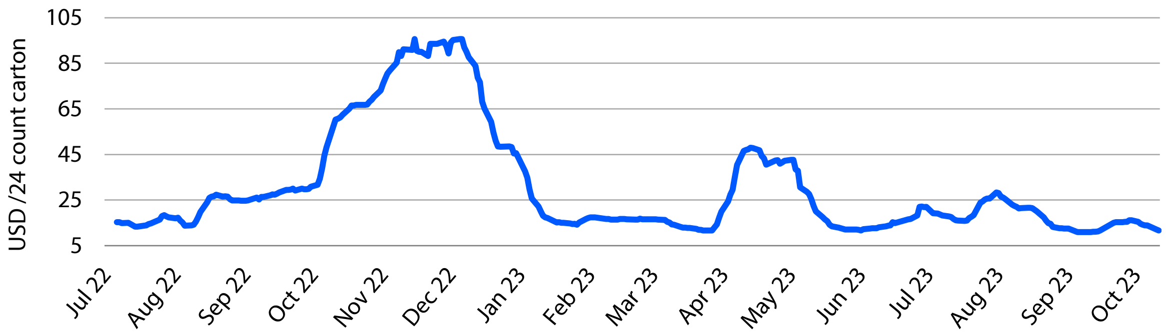
By the end of August, retail dollar sales of fresh vegetables were at level with respect to 12 months before, reaching USD 3.5bn, while volume had declined 0.6% YOY, according to the IFPA. Potatoes and tomatoes are the two top fresh vegetables in terms of retail sales, with USD 392m and 371m, respectively. Both commodities showed an increase in dollar sales, with 7.1% YOY and 1.2% YOY respectively, while volume sales also increased by 0.6% YOY and 1.1% YOY, respectively. "Potatoes remain a remarkable story in that pound sales increased despite the higher prices seen in this year", per IFPA. Average fresh vegetable prices at retail increased 0.5% YOY and 15.6% versus those in August 2020. Inflation in the fresh produce aisle approaches pre-pandemic levels, but consumers are concerned about the cumulative inflation effect, according to IFPA. As usual, seasonality plays a key factor in prices.

Potatoes: The 2023 potato harvest is wrapping up in the US. NAPMN reports that harvest conditions were mostly favorable in key growing regions. Most potato-producing states will get above-average yields. The US potato crop is forecast at 437m CWT, a 9.5% increase YOY. The largest increases came in Idaho and Washington. As discussed in this space before, we will probably see the beginning of a steep downward trend in prices of up to 15%.

Leafy greens and brassica: The weather events that impacted parts of south and central California during the summer spared the key producing regions in the central coast. Supplies of lettuce and broccoli have been steady, and prices have remained relatively flat. At about USD 11 and USD 13, romaine 24s and hearts (12x3) are down 78% and 74% YOY, respectively. At about USD 12, the price for iceberg wrapped 24s is down 80% compared to the unusually high prices a year before. At USD 18 per 20-pound carton, the broccoli crown price is down 21% YOY (see charts). Production transition to the desert is likely to happen without major delays.

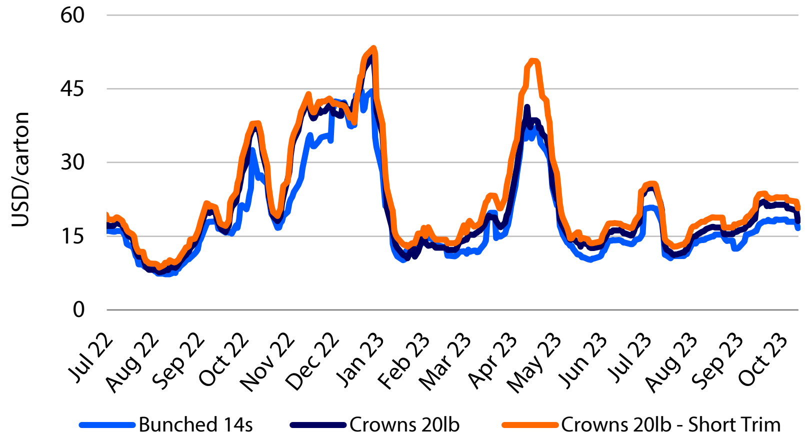
Sweet potatoes: As discussed in previous editions, planted acreage for the 2023/24 marketing year is projected to increase YOY. By mid October, shipping-point prices in North Carolina are still up around 8% YOY, while in California prices are about USD 34 per carton for orange types US No. 1 grade, at level with prices a year ago. Sweet potato shipments are down 30% YOY in the first half of October, according to the USDA.

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



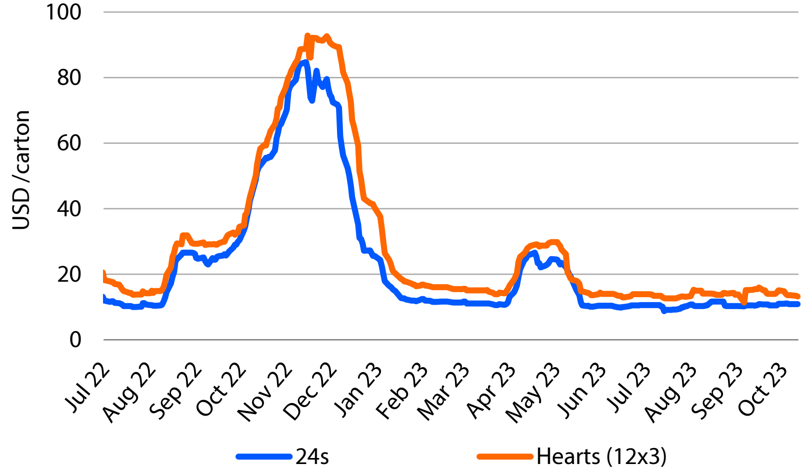
Source: *USDA AMS, Rabobank 2023*

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



Source: *USDA AMS, Rabobank 2023*

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



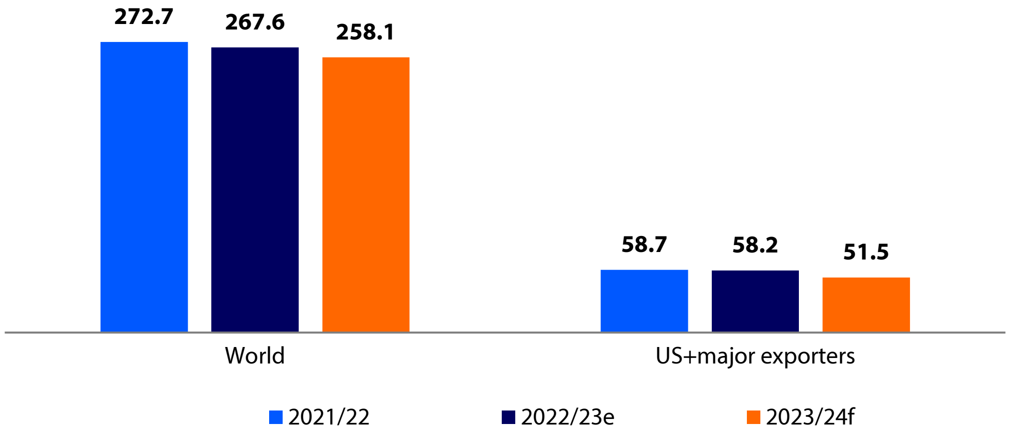
Source: *USDA AMS, Rabobank 2023*

Wheat

Global stocks remain tight on production woes

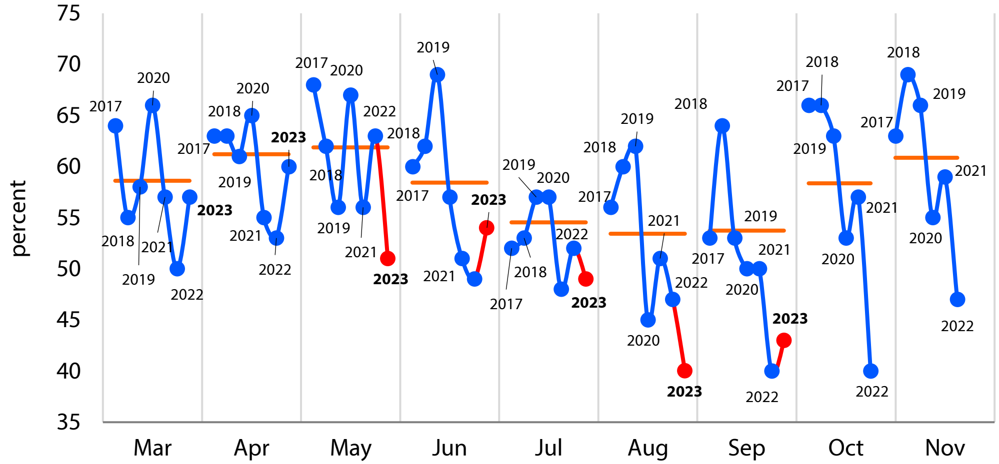
- **Production revised upward for most wheat classes:** Most classes of wheat have seen increases in production driven by better yields, although some showed a decline in area harvested. Hard red winter, hard red spring, soft red winter, and durum wheat production estimates were increased due to better yields than initially estimated, despite most classes showing a decline in area harvested. The exception was white wheat, which showed a decline in yields and area harvested, partly due to challenges during the spring planting season with dryness in the Pacific Northwest.
- **Despite higher production estimates, imports are running at a record pace:** The consecutive challenges seen in the US with wheat production, in particular, hard red winter production, have led the US to increase imports, which are projected to be the fourth largest import volume over the last 20 years. Expected imports for 2023/24 are expected to be ~7% of current production levels.
- **Feed and residual increases driven by lower quality:** The one major update to the wheat supply side from the WASDE report was an increase in feed for wheat, signaling ongoing challenges for certain wheat classes and their quality that have found their way into animal feed.
- **Planting progress in line with average, emergence falling behind:** as the planting season continues for winter wheat, current progress as of October 15 stands at 68% planted, in line with the five-year average. However, emergence is behind the five-year average by four percentage points but ahead of last year at 39% emerged. Soil moisture has improved but remains below the five-year average. Drought conditions continue to linger around major production areas like Kansas and Texas, which could once again affect winter wheat production.
- **Global stocks continue to trend lower, with particular attention to exporters stocks:** global stocks have been revised down as weather and production impacts around the world start weighing on global stocks. Ending stocks for 2023/24 season are currently projected to be 3.5% lower year-on-year. On top of lower global stocks, pressure is mounting on major exporters stocks with year-on-year change declining a whooping 11%. Stocks and availability might be crucial moving into next season. Stay tuned.

Global and major exporters of wheat stocks falling (in million metric tons)



Source: *USDA ERS, Rabobank 2023*

Topsoil moisture for 48 states percent adequate



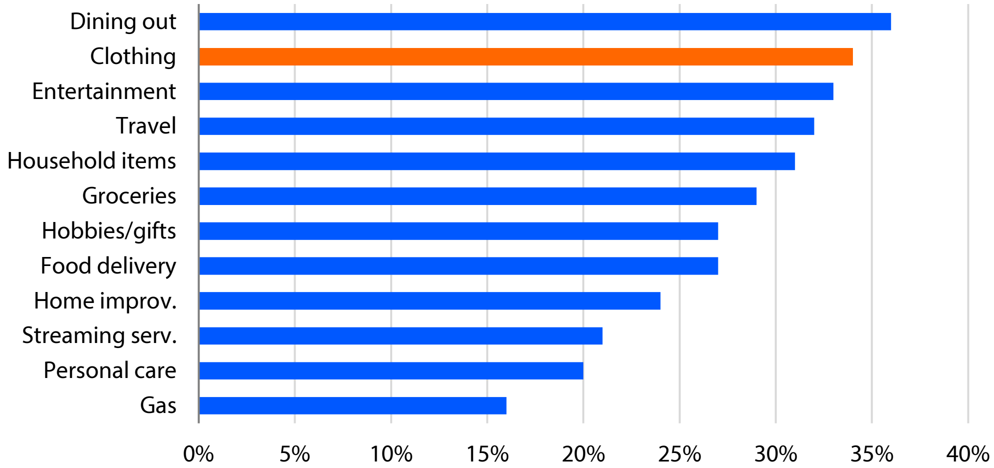
Source: *USDA ERS, Rabobank 2023*

Cotton

Whether the economy can stick to the soft landing, or slips into two successive quarters of decline, a clothing recession is already upon us. Advanced retail sales of clothing have trended downward since January (incidentally, a strong indicator of a broader recession in its own right), and inventories of unsold clothing remain well above trend. Although unemployment levels remain low, there are signs that consumers will find themselves under increased pressure in the coming months. These include a depletion of Covid-era personal savings, consumer debt servicing, which takes up the largest share of discretionary income in 15 years, and a resumption of student loan payments following the expiration of the CARES Act eviction moratorium in October. Clothing is among the most discretionary of all purchases and worryingly, for cotton, consumers have identified it as a cost category they will cut back on to balance spending.

With no clear path forward for demand, cotton has largely remained rangebound between USc 84/lb and USc 88/lb since July, even in the face of a second consecutive year of poor US production. Demand is simply not there today (export sales are down 30% from last year) and it appears that cotton markets could get worse before they get better - with the depth and duration of these doldrums largely being determined by monetary policy.

Change in cotton yield estimate from May WASDE figure

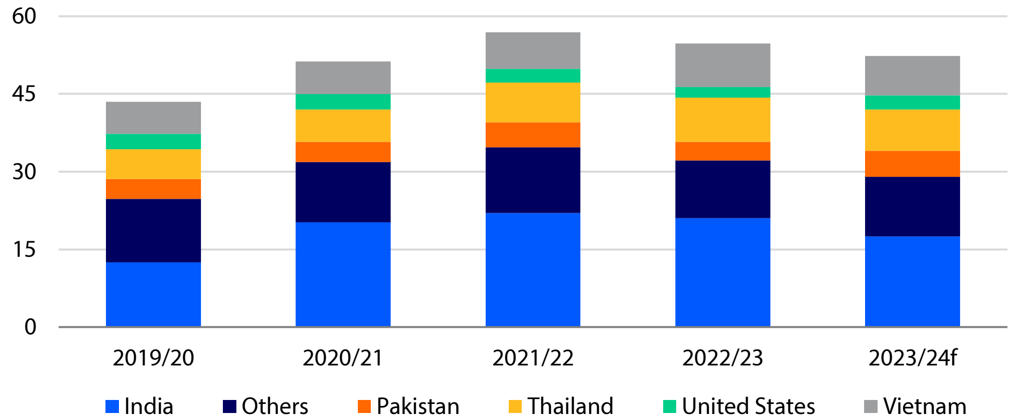


***Source:** Civic Science*

Rice

- **Global trade affected by declines from India:** Global trade has been once more affected by export controls imposed by major exporters to curb domestic inflation. India has restricted exports and as the major exporter of rice, this has led to a decline in global trade. However, US rice is recovering from last year's decline and is gaining share to traditional markets like Japan, South Korea, Mexico, and Central America.
- **Rice production back on track:** US rice production has recovered from a difficult year after being hit by widespread drought conditions. While harvest is still under way, recent projections suggest that with record yields, production should increase 37% from its low 160 million CWT. This is well above the five- and ten-year average.
- **Prices fall due to higher supplies:** The law of supply and demand are at work here, with increased production more in line with recent years and the replenishment of ending stocks putting pressure on domestic prices. The season average farm price is expected to come down by ~13% to 16.8 USD/CWT. However, with global stocks declining and India banning exports, this leaves options for the US to export and support prices.

Total exports of rice from major exporters to decline due to challenges in India (in million metric tons)

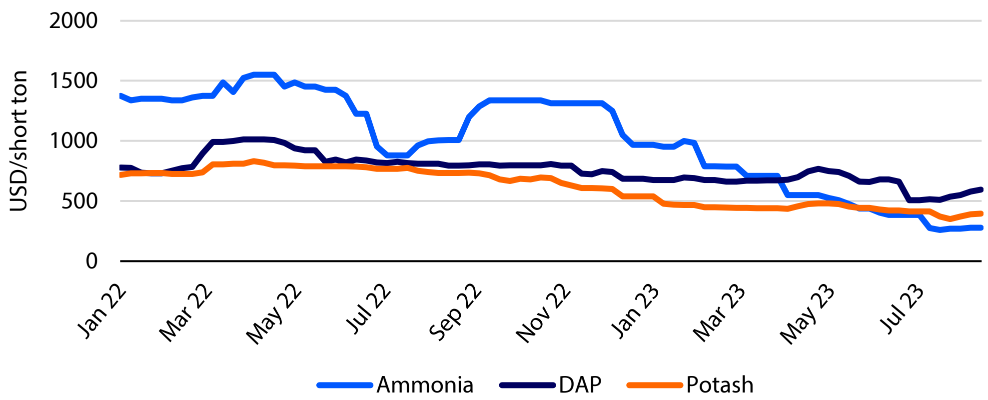


***Source:** USDA NASS, USDA ERS, Rabobank 2023*

Input Costs

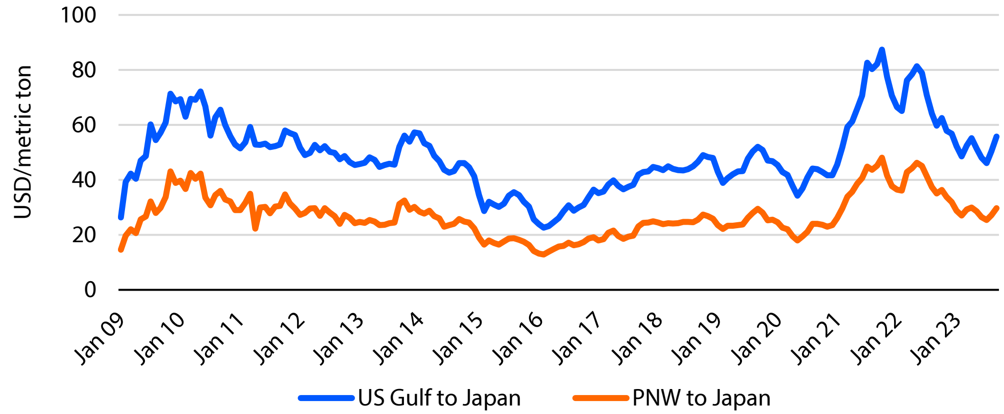
As of October 19, 2023

*Corn Belt input prices**



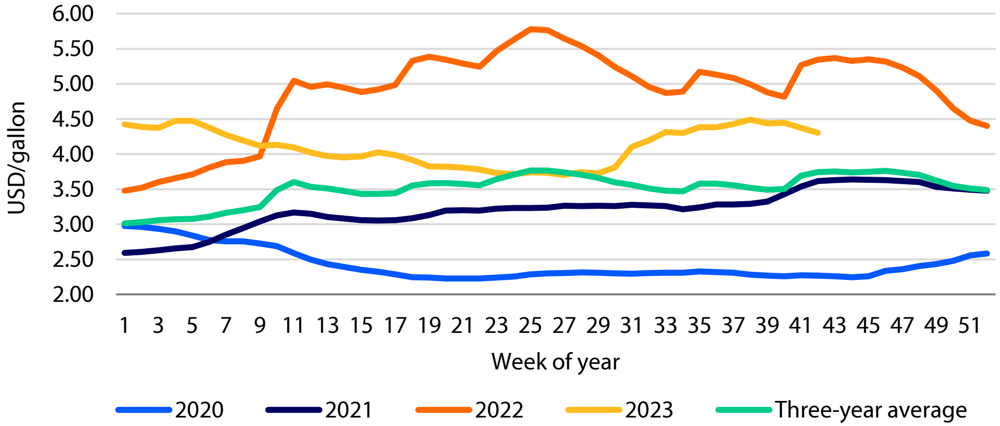
***Note:** *granular potash*
Source: *Bloomberg, Rabobank 2023*

Ocean freight



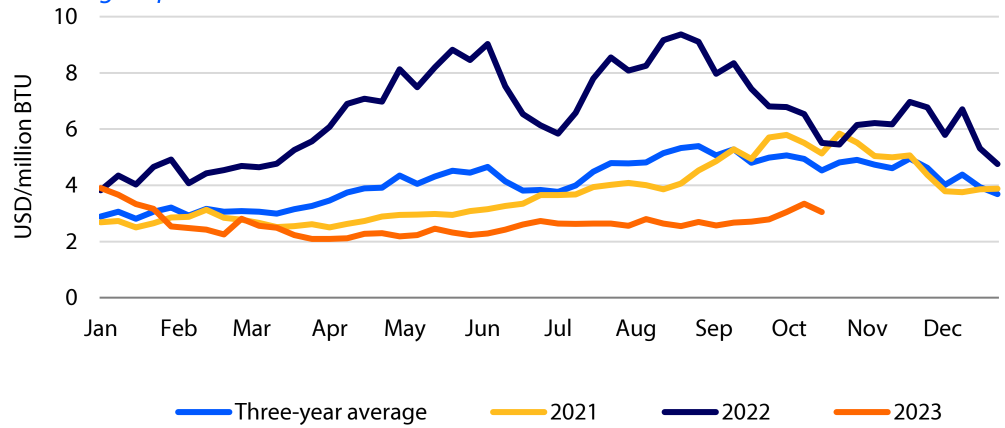
Source: *O'Neil Commodity Consulting, USDA AMS, Rabobank 2023*

Diesel – Midwest



Source: *EIA, Rabobank 2023*

Natural gas spot



Source: *NYMEX, Rabobank 2023*

Forward Price Curves

As of October 19, 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 October 19, 2023

CBOT – Wheat

Source: *CBOT, Rabobank 2023*

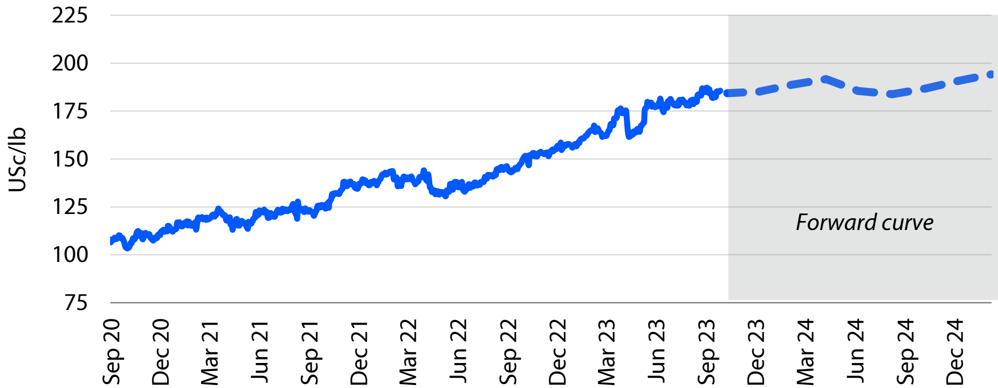
CBOT – Feeder cattle

Source: *CBOT, Rabobank 2023*

CBOT – Lean hogs

Source: *CBOT, Rabobank 2023*

CBOT – Live cattle

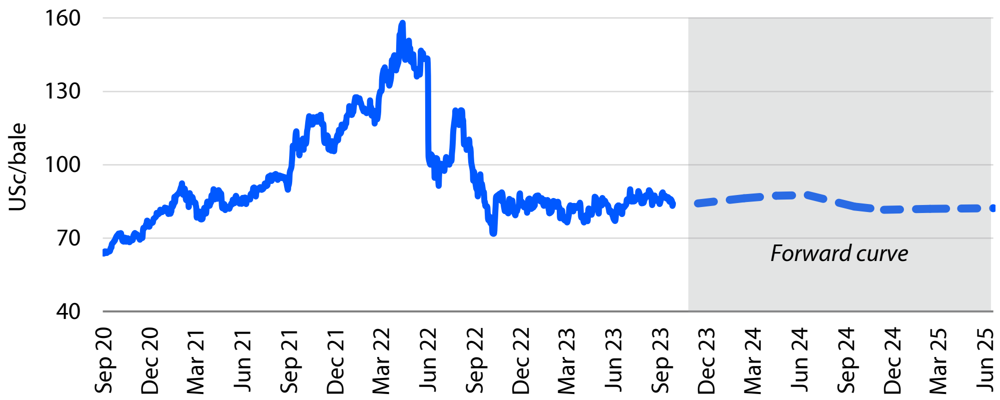


Source: *CBOT, Rabobank 2023*

Forward Price Curves

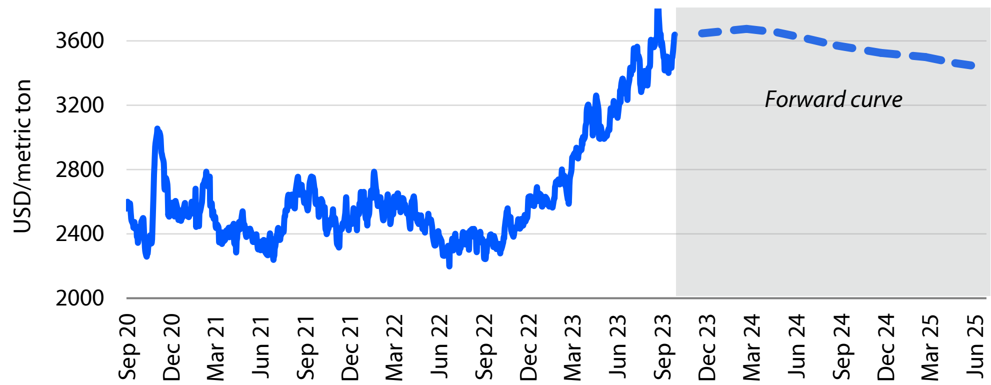
As of October 19, 2023

ICE – #2 Cotton



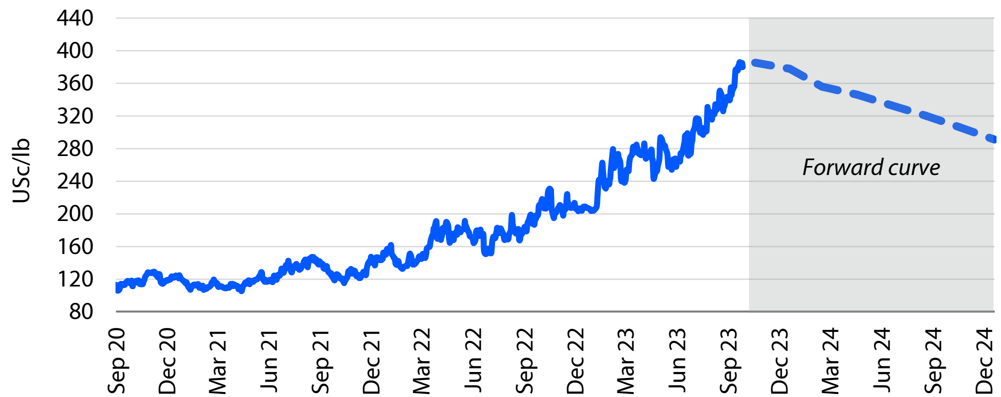
Source: *ICE, Rabobank 2023*

ICE – Cocoa



Source: *ICE, Rabobank 2023*

ICE – FCOJ



Source: *ICE, Rabobank 2023*

ICE – #11 Sugar

Source: *ICE, Rabobank 2023*

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