



North American Agribusiness Review

Rabobank







RaboResearch
Food & Agribusiness

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Report Summary

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Economy

Soft landing or recession?

US

- The improvement in inflation data without a perceived decline in economic activity has raised hopes that a soft landing can be achieved, i.e., that inflation can be brought back to 2% while avoiding a recession. However, we think it is premature to declare a soft landing. In the first place, monetary policy works with long and variable lags, so past rate hikes could still do a lot of damage in the coming months. Secondly, policy rates have only recently become positive in real terms, so the restrictions from monetary policy have not been in place for very long. Finally, the economic data shows some cracks. In particular, the manufacturing PMIs are sounding early warning signals that a downturn could be around the corner. All in all, we still see the US economy deteriorate and slip into recession in the second half of the year.

Mexico

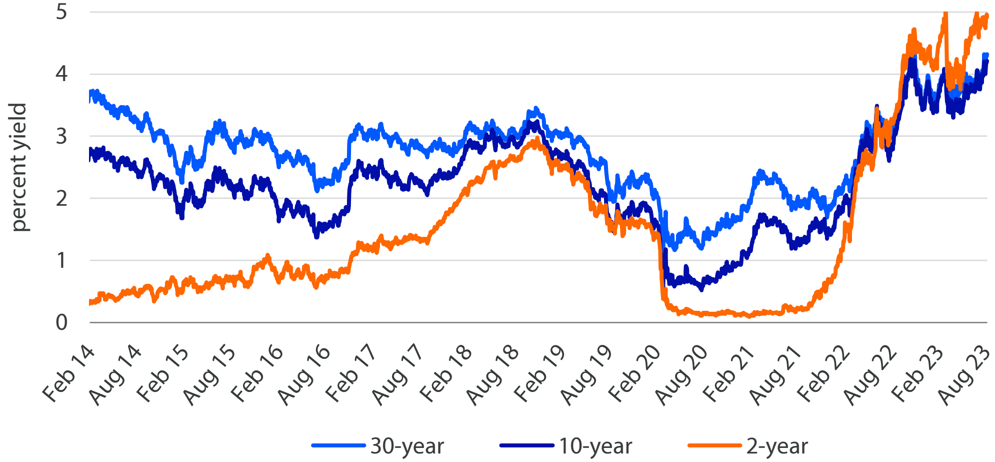
- Mexico is currently characterized by easing but sticky core inflation, low unemployment with a tight labor market, and robust but slowing activity. To our mind, this means Banxico will hold longer than other Latam central banks and we believe Banxico is unlikely to begin cutting rates until at least late Q1, although Q2 is still our base case. We are leaving our forecasts for USD/MXN unchanged. 16.80 by the end of Q3 and 17.60 by the end of Q4. Finally, it is worth noting that, this year, Mexico overtook China as the US' largest trading partner and we expect both exports and FDI to continue rising over the course of this year.

Canada

- The Bank of Canada announced its decision to raise rates by 25bp to 5.00% on July 12. This move was widely expected by analysts and traders alike, including ourselves. This marks the second 25bp hike since the BoC 'restarted' its hiking cycle. The big question now is of course whether it was also the last. Our base case remains that it was, but we acknowledge that the risk of another hike is significant. Indeed, the market is pricing in around a 75% chance of another 25bp move before the end of the year. We expect USD/CAD at 1.35 at the 12-month horizon.

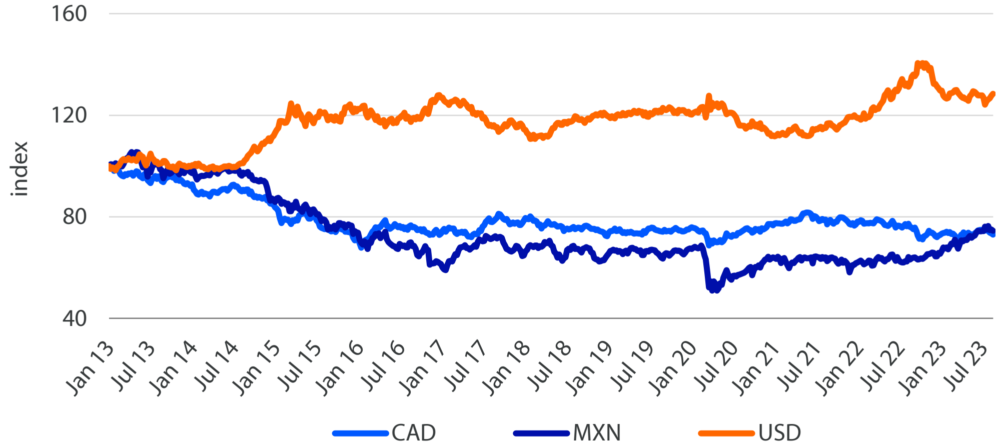
Source: *USDA, Rabobank 2023*

Interest rates, 2014-2023



Source: *Federal Reserve of St. Louis 2023*

Currency indices, 2013-2023



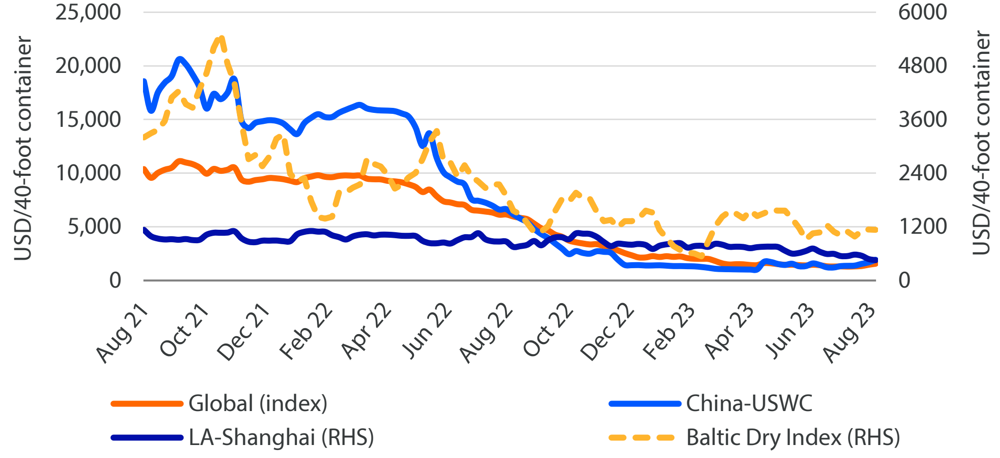
Source: *Reuters 2023*
Note: *Rebased at 100 as of January 1, 2013*

Logistics

Panama Canal congestion, trucking bankruptcy, and El Niño impact global logistics

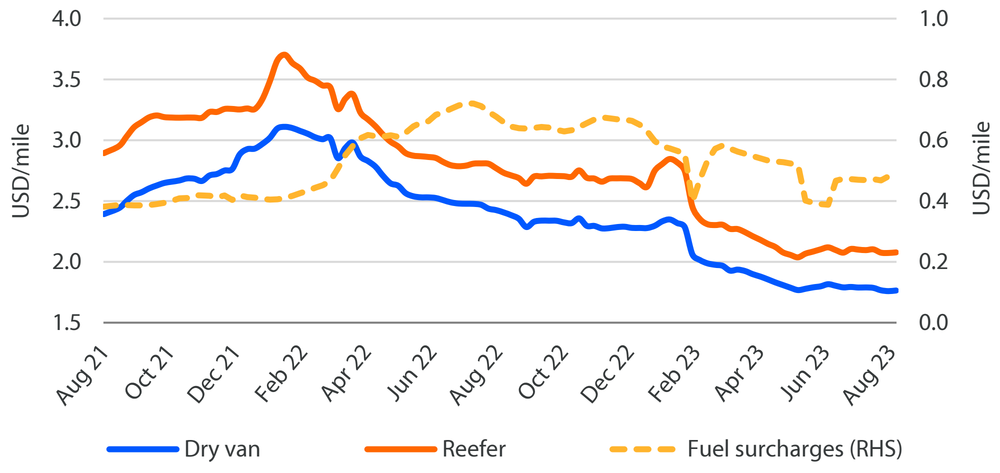
- **Just as global container shipping normalizes, drought in the Panama Canal started causing delays.** The delays could have a serious regional impact, on both South and North America, but maybe impact is limited on a global scale. 40% of North American shipments go through the Panama Canal, especially connecting North America's East Coast with South America's West Coast and with Asia. Detouring around Cape Horn in the southern tip of the continent would take another two weeks (about the same time as the current wait at the canal) but with significantly more energy and cost. The water level at Gatun Lake (which feeds into the canal) is about 6% below the previous five-year level. Even though it's expected to improve as the rainy season continues until the end of the year, it may stay well-below the average as El Niño gathers strength and a significant drought in Northern South America and Central America is excepted for the remainder of 2023 and early 2024. Whether or when the restriction would be lifted will depend on the local authority, and we will see if 2024 is worse as the dry season comes. Climate impact is an increasing risk factor to disrupt global shipping – wildfires, flooding, water level changes, drought, etc will bring more schedule irregularities and cost increases throughout the supply chain.
- **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.
- **The International Maritime Organization (IMO) has adopted the 2023 IMO strategy on the reduction of greenhouse gas emissions in ocean shipping.** The ambitious goal of this revised strategy is to reach net-zero emissions from ships by or around 2050, compared to 50% GHG emission reduction in the 2018 IMO GHG strategy. Indicative set points are set at a 20% (striving for 30%) reduction by 2030 and a 70% (striving for 80%) reduction by 2040 compared to 2008 levels. Factors to enable these targets, such as technological changes (e.g., new fuels and ship engines) and global/regional emission pricing schemes (e.g., EU ETS II) will increase operating costs at carriers that would likely be passed on to shippers.
- **As the trucking spot rate tumbled and labor costs stayed high, bankruptcy started to increase.** The most notable is the USD 5.2bn less-than-truckload (LTL) provider Yellow, one of the largest US trucking companies. It has around 12,000 trucks, and 30,000 were impacted. The restructuring removed 8% to 10% of capacity from the market, pushed up LTL rates, and left shippers scrambling for LTL providers.

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

Foodservice didn't get the memo

- Overall inflation has eased, but restaurants have not received the memo: While food at home has followed the broad easing in inflation rates seen in the past months, reaching +3.6% YOY in August from double-digit levels early in the year, food away from home (i.e., restaurants) has been more reluctant to slow, currently at 7.1%. Although it represents the lowest annual inflation since March 2022, it widens the gap with more volatile grocery prices. Restaurants take longer to pass price increases on to consumers and are also impacted by other costs that haven't shown any relief, including rent and labor.

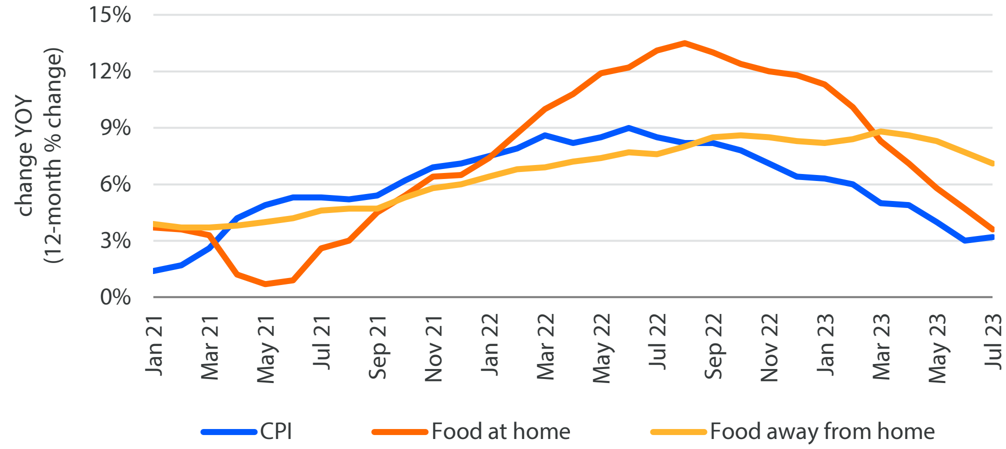
- Food at home rose 0.3% in July (vs. June), contrasting with the previous four months of deflation or flattish prices. Beef was the main product to drive inflation up in August (+2.4% MOM), followed by some dairy and processed fruit items. Eggs remained in a downward trend (-2.2% MOM), which along with margarine (-2.4%) helped to subdue the food at home inflation index in July.

- More on foodservice: wage levels are expected to remain sticky, which has been offset by higher menu prices passed through the system in 2022 and moderating food costs. The National Restaurant Association reported a -6.1% decline in food costs for operators through July. That being said, food prices have likely seen their lows for now as pricing pressure mounts again with weather events and energy prices putting a floor in many food commodity markets such as wheat, dairy, and beef.

- Despite significant economic headwinds, US foodservice sales have remained resilient, and performance has improved through the first half of 2023. Food away from home remained strong with a record-high wallet share (56.1% in May, the latest available data). We expect it to lose some ground during the summer as the pricing gap with food at home widens.

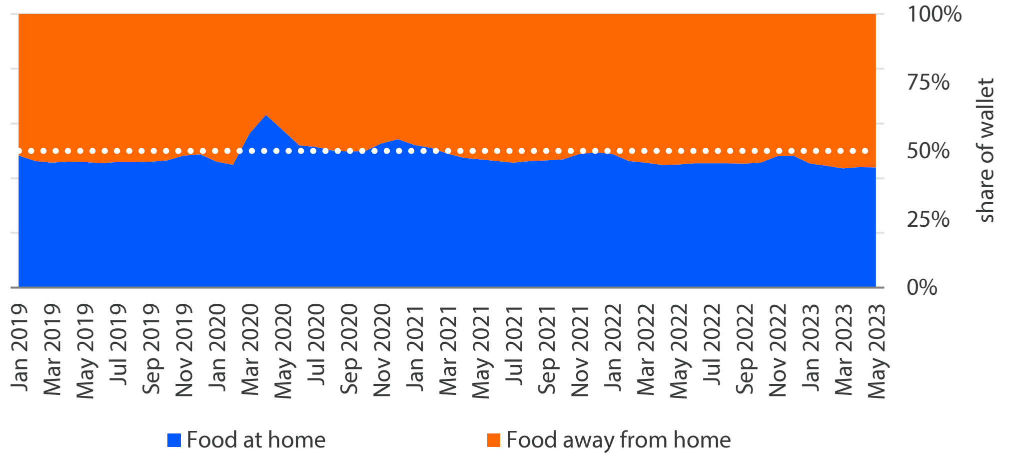
- The headwinds remain in 2023 in the form of pricing volatility, wage pressure and higher interest rates, but overall conditions for foodservice have outperformed previous expectations as consumers continued to splurge on eating at restaurants. We expect this trend to persist through the second half of 2023.

Restaurant menu prices have increased more gradually than grocery prices



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

Spending at restaurants remains at historical highs despite (or because of) menu prices



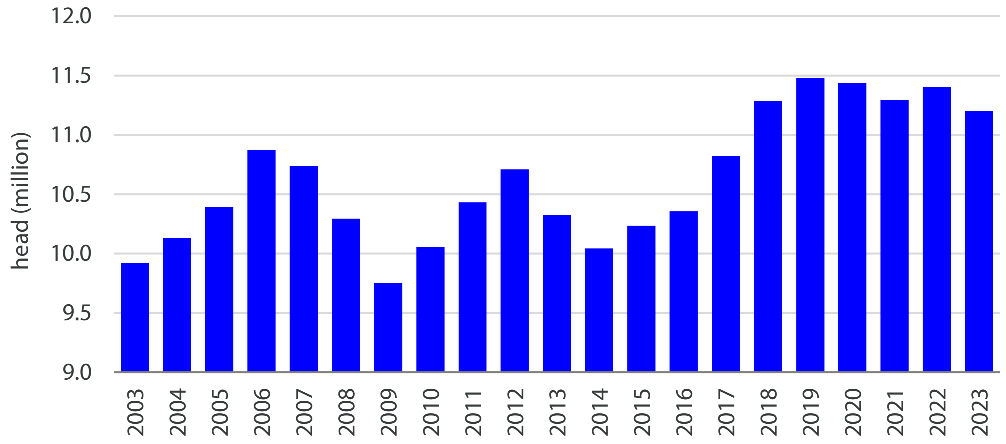
Source: *Rabobank 2023, based on the USDA's Economic Research Service (ERS)*

Cattle

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

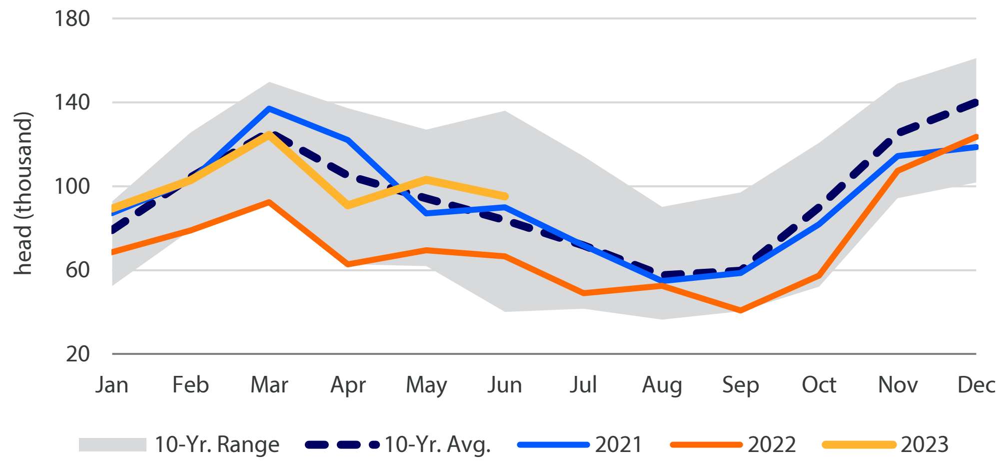
- **Drought remains a concern across North America.** Cow herd liquidation has been prevalent across Canada and the US, with pasture conditions remaining suspect due to warmer, drier weather across major producing regions. Cow and bull slaughter is 6% higher than last year in Canada during 1H 2023, while US beef cow slaughter is down 11.6% over that same time. The implied culling rate remains the second largest in the last 20 years at 11.4%. Additional breeding herd declines in these countries are a near certainty going into 2024. Mexico is seeing better weather for cattle producers in the North and east coast states, but the biggest cattle-producing areas along the Pacific coast and middle of the country remain in drought. Despite these challenges, Mexico cattle inventories are trending higher, and beef production is expected to remain stronger through at least 2024.
- **US feedyard supplies remain ample for now.** The USDA reported 11.1m cattle were placed on feed in 1H 2023. That is down 152,000 head (1.4%) compared to last year, and second-quarter placements were up 64,000 head. Drought remains a factor in earlier cattle movement, but warmer, drier conditions were also a factor in 2022. Furthermore, January to June steer and heifer slaughter has declined 2.4% compared to last year – averaging 495,100 head per week. That has slowed the decline in feedyard inventories. On July 1, there were 11.2m head on feed, which is 200,000 head (1.8%) below year-ago levels and the five-year average. The market-ready fed cattle supply should remain adequate through year end.
- **Feeder cattle and calf supplies in the US continue to shrink.** The July 1 feeder cattle and calf supply outside of feedyards was down 1.3m head (3.6%) compared to 2022. That is the smallest since 2014 – implying steeper declines for cattle slaughter are likely going into 2024. US supply declines have supported Mexico feeder cattle and calf imports. Volumes in 1H 2023 totaled 606,200 head, which is 38% higher compared to last year. Mexico supplies remain ample, and prices remain a relative value compared to the record-high US market. Imported Mexico steer prices reported by the USDA through ports are currently averaging USD 200/CWT for 500lb steers. This is 80/CWT cheaper than US average prices for the same weight class. Last year, the premium in the US market was around USD 20/CWT.
- **Record-high beef prices reach US consumers.** The July USDA all-fresh beef retail price reached USD 7.79/lb. The 6% year-over-year increase marks the second-consecutive month for new all-time highs. All major US beef and cattle markets have reached new highs in 2023. Canada cattle prices have also reached new records, and Mexico values are trending higher. Limited US supplies are a factor, but historically-strong demand exists too. Consumer beef demand in 1H 2023 remains the fifth-highest in the last 30 years but demand should be tested by higher prices throughout 2023. In recent months, the US beef trade balance has shifted and is worth monitoring going forward. Higher US prices and tighter supplies are creating year-over-year declines in beef exports and stronger imports in recent months.

July 1 feedyard inventories are down 200,000 head compared to last year



Source: USDA, Rabobank 2023

US feeder cattle and calf imports from Mexico are up 38% in 1H 2023



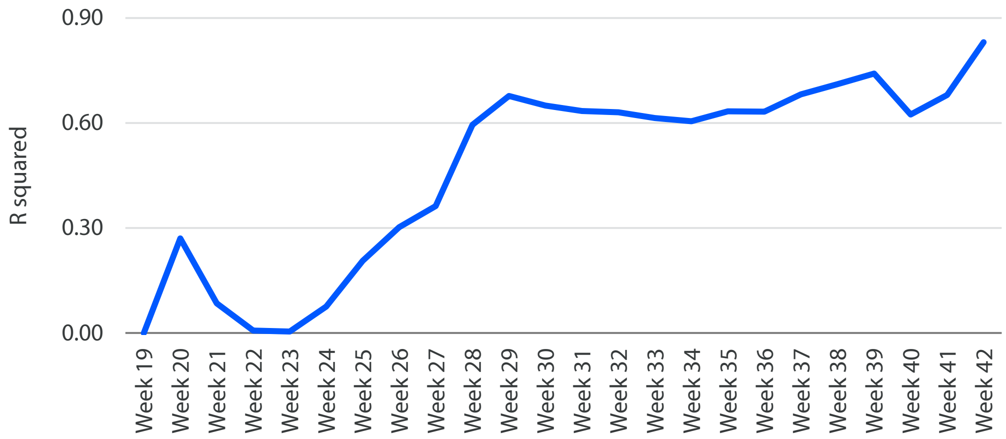
Source: CanFax, Rabobank 2023

Corn

Topsoil moisture remains low in parts of the Corn Belt

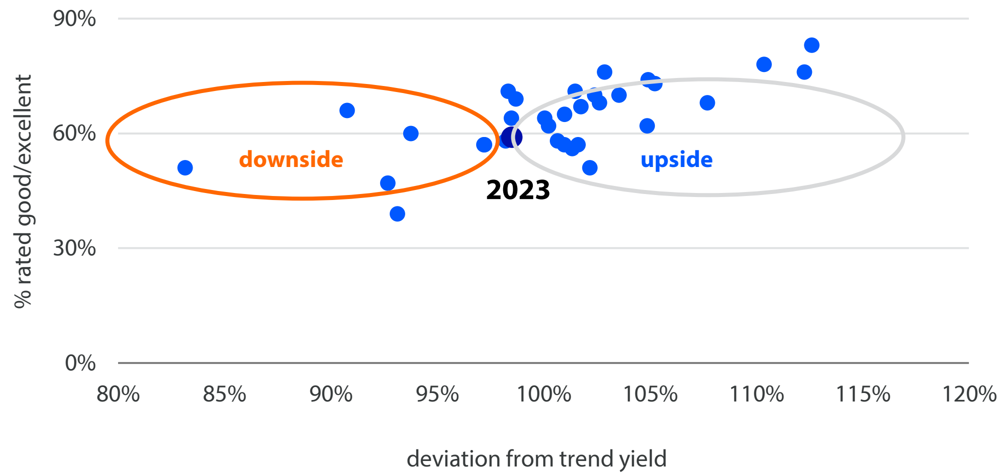
- **With the critical silking period having come and gone, early August becomes a good time to take a more informed view on yield for this year's corn harvest,** which has already begun in Texas. Throughout the Corn Belt, and particularly toward the west, the crop's vegetative growth was held back somewhat by drought earlier in the summer. That said, rains during pollination were ample, which has helped lift the condition of the crop in recent weeks.
- **Historically a good predictor of yield, August 13th (week 32) crop conditions are now suggesting yields that are 98.5% of trend, equivalent to 177.5 bushels per acre.** An examination of this relationship since 1990, however, along with forecasts for above-average Corn Belt precipitation in the month of August, suggest some room to the upside.
- **Improved prospects for the US crop will now run head on into upward revisions in Brazil's old (2023) crop estimates and the prospect of further increases in South American production for the 2023/24 crop,** which will be planted in September (and again in January). For their part, 2022/23 Brazilian numbers have been revised upwards from 133m metric tons to 139m metric tons in just the past month on the strength of safrinha production. For the year ahead, superior bean margins are expected to reduce first crop corn by 200,000 hectares but an anticipated 400,000 hectare increase in safrinha area will more than make up for it and propel 2023/24 production towards 140m metric tons. Early estimates from Argentina's Ministry of Agriculture, meanwhile, point to a production of 54m metric tons, up from last year's drought-stricken output of 34m metric tons, which, if realized, would be a record.
- **While increased corn production paves the way for lower prices, early indicators cast doubt on whether additional demand will be there to meet it.** New crop export sales through mid-August, for example, are at their lowest levels since the height of the trade war in 2019, and their fourth-lowest levels since 2013. Brazil's export commitments, for 2023/24, meanwhile, are up 9% from last year thanks to exceptionally low prices.
- Domestically, double digit decreases in cattle on feed and smaller decreases in the size of the hog herd are likely to depress feed demand beyond what is being projected by USDA. With only tepid increases in ethanol volumes conferred under the RFS, meanwhile, corn grind for ethanol is expected to be flat year-over-year.

Predictiveness of crop condition on corn yield over the year

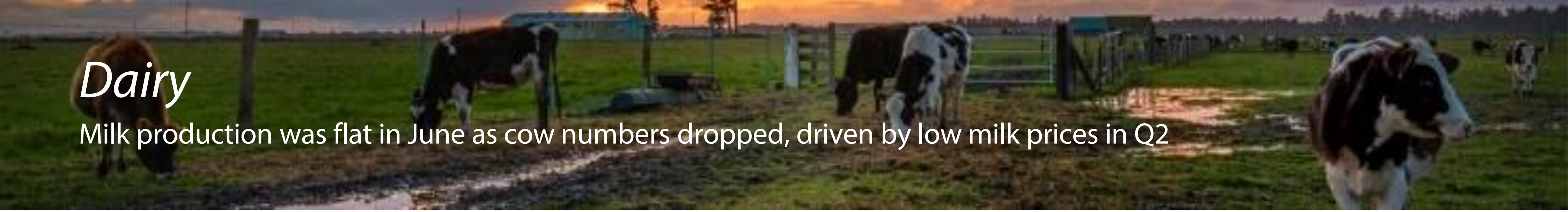


Source: *USDA Rabobank 2023*

Crop condition / Yield relationship – week 32



Source: *USDA, Rabobank 2023*

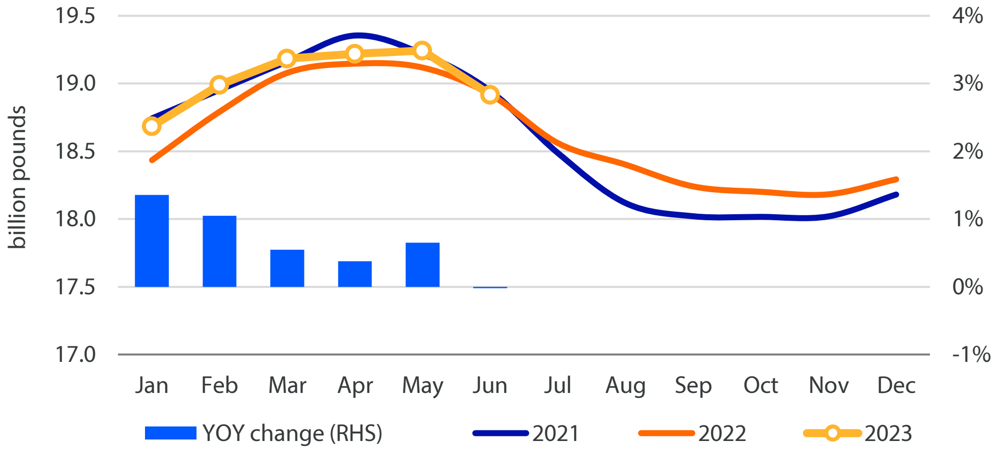


Dairy

Milk production was flat in June as cow numbers dropped, driven by low milk prices in Q2

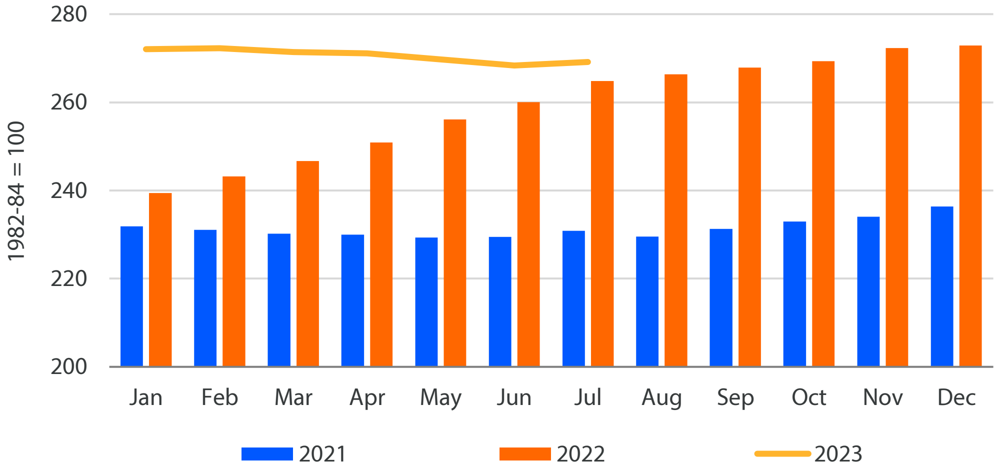
- **June milk production was unchanged versus the prior year,** bringing an end to an 11-month year-over-year growth streak and reflective of negative profitability that began to impact dairy farms in Q2.
- **Cow numbers declined 16,000 head in June, driven by higher slaughter rates in recent weeks as farmers cull less productive cows to reduce production costs.** June marked the third consecutive month of weakening cow numbers, with the herd size down 36,000 head versus the March peak. It is likely that the herd size will continue shrinking in the coming months, limiting milk production's growth potential over the near term. Dairy cow slaughter rates have hit multi-year highs in recent weeks, helped by firm cull cow values that are helping farmers drive revenue opposite milk prices that are lower than production costs.
- **Total June cheese production eked out a year-over-year gain following two consecutive months of declines,** climbing 0.4% versus the prior year. The trend in June was similar versus what was noted throughout Q2: cheese output has been driven by American-style production, up 2.7% in the month, while Italian-style cheese has been weaker and was down 1.3% in June.
- June butter production was higher yet again and showed strength throughout each month in the first half of the year. However, regardless of the gain, **butter stocks peaked in May and showed a 20.4m pound decline into June**. The May zenith was not unusual but has caused prices to rally in recent weeks as supply concerns persist. Combined non-fat dry milk/skim milk powder fell 1.5% YOY in June, as manufacturers produced less exportable skim milk powder.
- While certain shipments to Mexico have shown strength so far this year, **total dairy exports have struggled in recent months as weaker demand from China and Southeast Asia negatively impact overall volume.** On a year-to-date basis, exports of most products are lower versus the prior year, including non-fat dry milk, cheese, and dry whey, with weakness expected to persist in the coming months. The 11% June gain in cheese and the 21% growth in non-fat dry milk volume to Mexico were bright spots in the month.
- **The year-on-year dairy consumer price index gains continue to moderate,** falling each month so far this year. July's 1.3% increase was the smallest of any month since September 2021. Potential deflation is likely in dairy prices into the second half of this year.
- Dairy product price trends diverged among commodities into late summer. **Cheese and butter saw prices climb** as milk and product availability tightens. However, **non-fat dry milk and whey prices continue to struggle,** negatively impacted by poor export expectations in the coming months.

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



Source: *USDA NASS, Rabobank 2023*

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



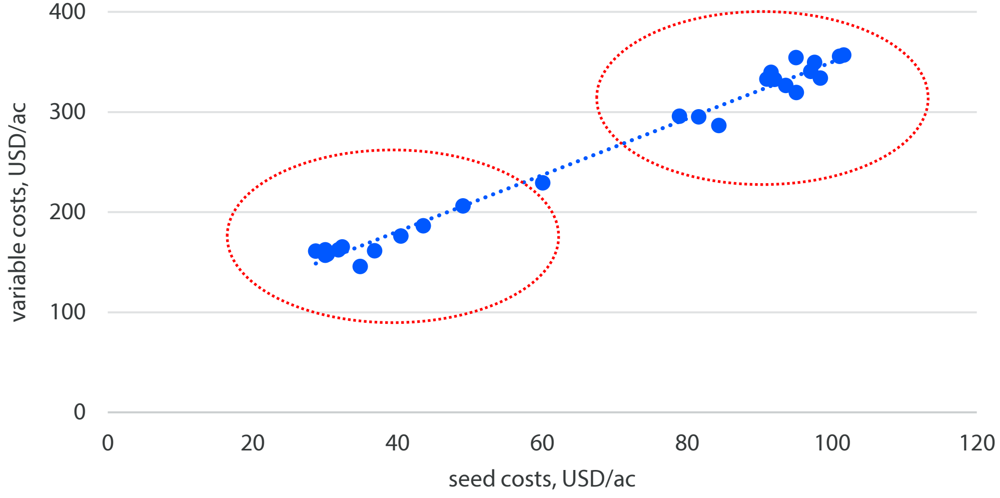
Source: *Bureau of Labor Statistics 2023*

Farm Inputs

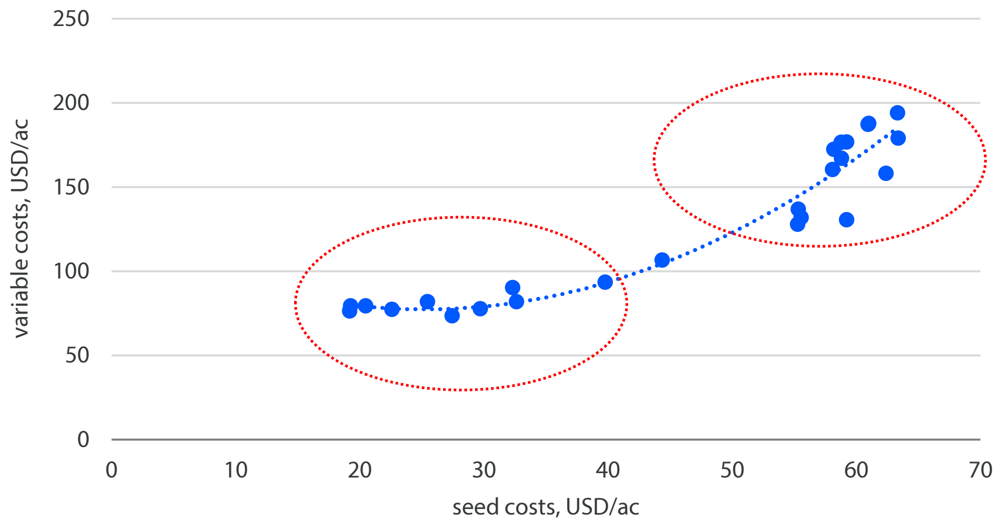
First blush expectations of 2024 seed pricing

- **August/September offer the first blush into next year's cost structure as seed price transparency emerges.** This provides a convenient excuse for us to explore the econometric relationship between cost and return of seeds, as well as make an assessment on what the cost structure is likely to look like in 2024.
- **The most clear and logical factors in the price of seed are the cost of producing the seed and the value that the seed produces.** This is hardly revolutionary in thought, and can be broadly extrapolated into most everyday products. However, depending on which data source you use, we believe that the best proxy for seed pricing is a lagged cost of production function. That is to say, the previous year's cost of growing the seed is the clearest single indicator of next year's pricing.
- **The relationships are quite strong here.** As the charts on the right suggest, there is a clear correlation between last year's cost of production and seed pricing. The R2 for corn is >0.95, while for soybeans it is closer to 0.84. There are also two clear distinct timeframes; pre and post-2008. Pre and post-2008 timeframes also show a difference in the relative value created by seed and the percentage share of operating cost assumed.
- **Beyond the relationship between seed price and cost/return, market fundamentals do have an ability to weaken the strength of the relationship.** Graphically, this is illustrated by the spread from the trendline. This spread is most clearly visible in the soybean seed chart on the bottom side of page 10, particularly in the right hand circle, or post-2008 cluster. This is certainly congruent with a number of things that we have seen in the market over the previous years, as market share shifts have forced some additionally aggressive pricing by seed companies to fend off market pressures.
- **We believe that these competitive market dynamics may play their part in the pricing of soybeans in the 2024 season. Competition between traits could see soybean seed pricing for 2024 move low-single-digit percentages up or down, either side of zero. We expect corn seed pricing for the 2024 season to come in with a low-to-middle single-digit percentage price increase.**

Corn: Relationship between seed pricing and t -1 cost of production



Soybean: Relationship between seed pricing and t -1 cost of production



Source: Agribenchmark, USDA, Bloomberg, Rabobank 2023

Feed

Corn is getting more affordable in animal feed rations

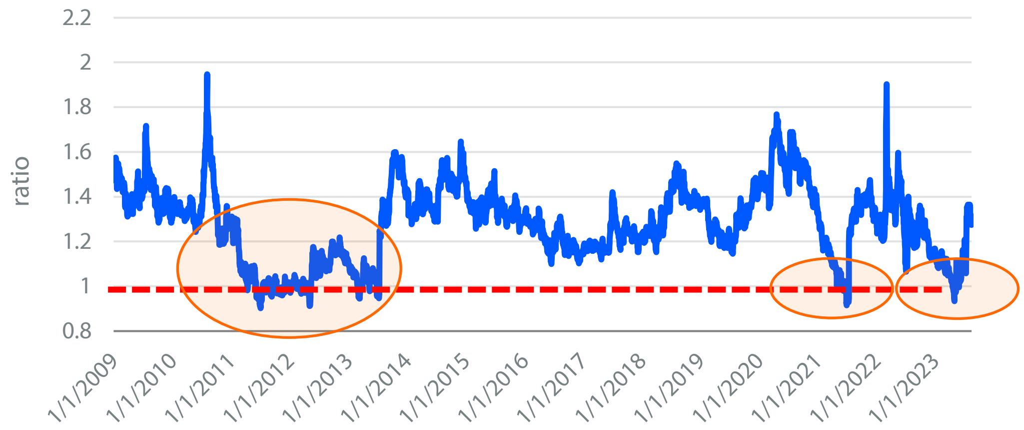
Corn

- **Production:** the WASDE report finally put an end to a summer full of uncertainty. Drama in the markets was an understatement this summer, not only because of weather, but uncertainty on acreage. The first production estimates for corn show that planted area is still at 94m acres and despite a lower yield, which was expected by trade, the impact did little to bring estimated corn product to a level where buyers should be worried.
- **Prices:** Markets are anticipating a good crop this year, and this has been noticed by looking at the forward curves. Markets are pricing in that inventories will be plentiful, and the forward curves have moved in place to make sure cost of carry is well covered. Nearby corn future has broken the support at USD 4.70/bu, while the December future broke the USD 4.80/bu on recent production updates and corn conditions improving. Despite recent declines on wheat prices, the new price level set for corn is showing a better pricing environment for animal feed as seen in the price ratio of soft red wheat and corn.
- **Demand:** Feed demand for corn is the big uncertainty moving forward. Animal protein has seen challenges in terms of high feed cost over the last couple of years due to high corn and other feed grain prices. In addition to high feed cost prices, feed yard inventories and closures of hog and poultry plants put in question if feed demand for corn will be higher than last year.

Soybean meal

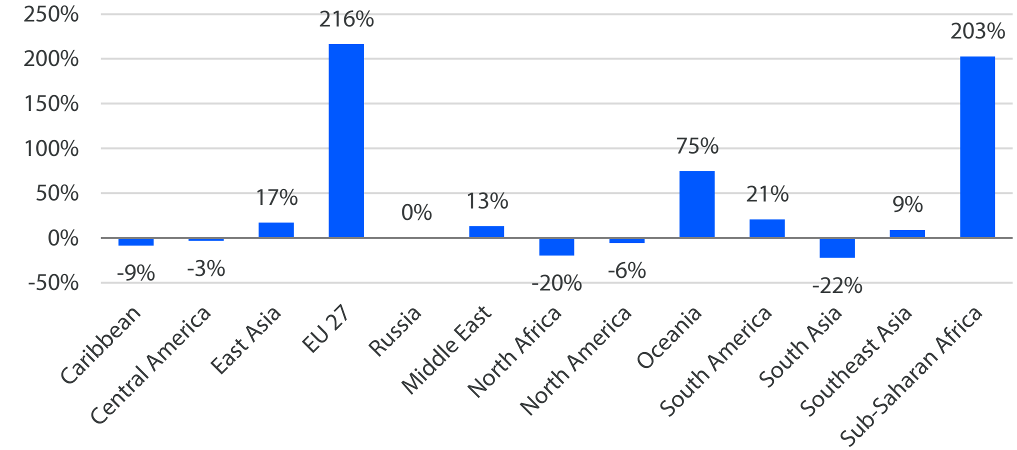
- **Production:** Despite concerns on soybean supply due to lower acreage reported, soybean meal production is expected to grow by ~3% YOY. The soybean complex is expected to remain relatively the same driven by continued strong crush margins and more supply being crushed than exported. Crushed margins have moved up in the recent months, based on futures, the crush margin stands ~USD 2.5/bu.
- **Exports:** Soymeal exports have grown by ~5% compared to last marketing year. The impressive volume coming out of the US is greatly attributable to Argentina's soybean crop and the relatively lower than usual volume of soymeal. Argentina's challenges this year have helped the US push soymeal exports. Soymeal exports have seen significant increases in the EU and Sub-Saharan Africa.
- **Prices:** Prices have come down in the last couple of months and looking ahead, forward curves are showing a rapid decline to more long-term average of USD 360/short ton.

Soft red winter wheat and corn price ratio signaling opportunities for wheat in feed



Source: USDA, Rabobank 2023

Soybean meal exports from the US to other regions (Jan-June), year-over-year



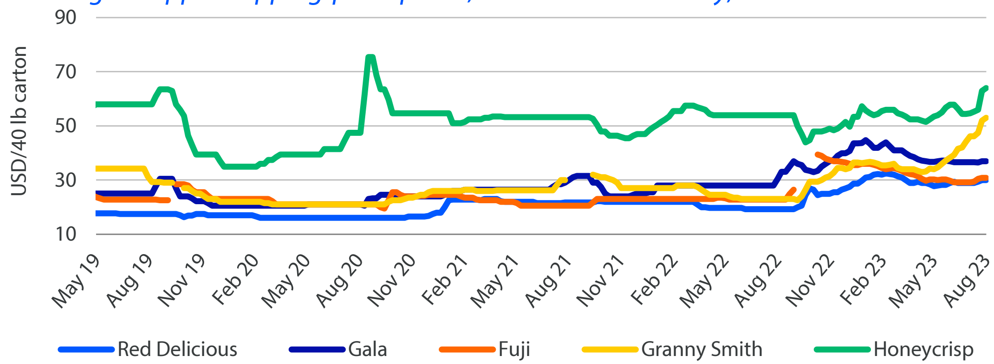
Source: USDA, Rabobank 2023

Fruits

Reduced “Flor Loca” crop pushes avocado prices near historic highs

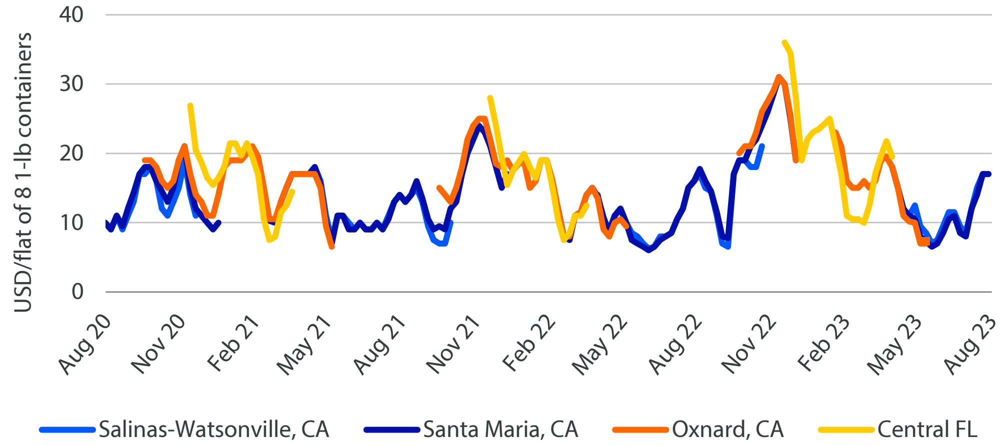
- **Strawberry** shipping-point prices recovered to about USD 17 per flat for non-organic product (+6% YOY) during the first half of August. Shipments have been down YOY in July and August, amid summer heat in California. **Blueberry** shipping-point average prices are just shy of USD 2 per pound, down 18% YOY by mid-August as production in the Pacific Northwest improved YOY. Shipments from Peru, the largest global blueberry exporter, are expected to decline YOY for the first time ever as a warm winter impacted yields and delayed the season.
- **Lemon** shipping-point prices -140s- were at USD 36 per carton, up 31% YOY but still below the five-year average. USDA estimates for US lemon production were adjusted downward to 21.4m boxes, a decline of 19% YOY. **Valencia orange** prices -88s- were around USD 22 per carton, up 5% from the five-year-average for mid-August. Production also was revised down.
- After a delayed start, California **table grape** shipments are back on track with supplies close to a historical average for this time of the year. Prices are expected to remain steady during the California season, but price volatility is likely afterwards as weather irregularities in Peru associated with El Niño will potentially disrupt harvest schedules, shipments, and quality.
- California **avocado** shipping-point prices have more than doubled in the past two months (see chart), supported by a slow start of the marketing season in Mexico due to lower availability of the ‘Flor Loca’ fruit. As the California season is delayed due to a mild spring, remaining shipments will enjoy elevated prices in the next few weeks. Prices in the US may ease as Mexico transitions from ‘Flor Loca’ to the next harvest stage.
- By mid-August, shipping-point prices of non-organic Granny Smith, Red Delicious, Fuji, Gala, and Honeycrisp **apples** were up 130%, 56%, 35%, 21%, and 19% YOY, respectively. After reaching multi-year highs recently, apple prices are likely to decline as crop rebounds in 2023.

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



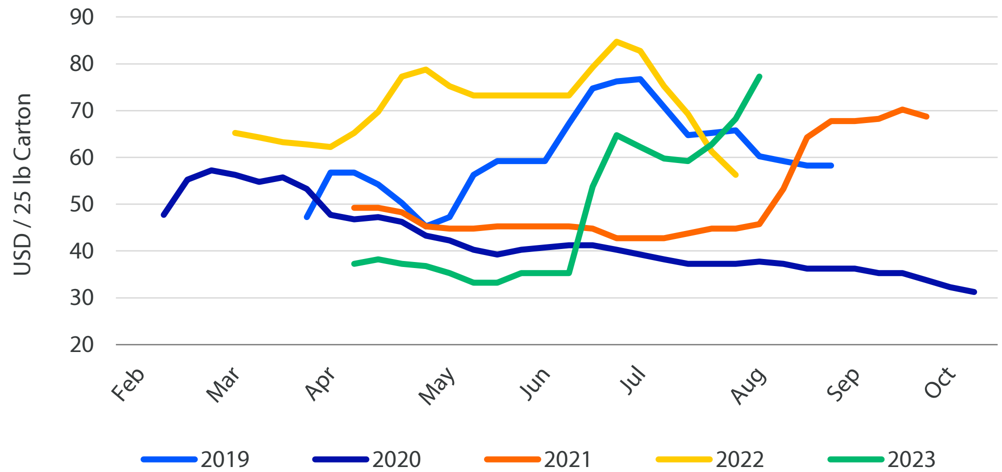
Composite of fine appearance and standard appearance prices
Source: *USDA AMS, Rabobank 2023*

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



Source: *USDA AMS, Rabobank 2023*

California Hass avocado shipping-point prices, 48s, 2019-2023



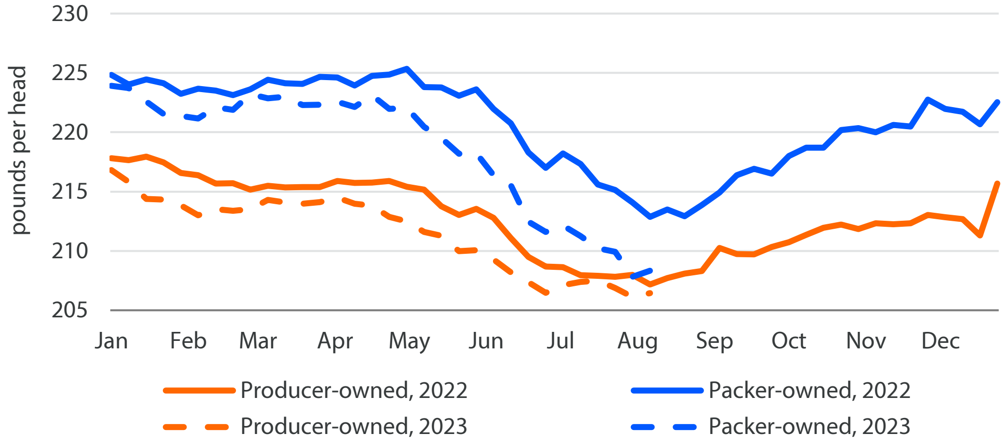
Source: *USDA AMS, Rabobank 2023*

Pork

Larger seasonal production to weigh on returns

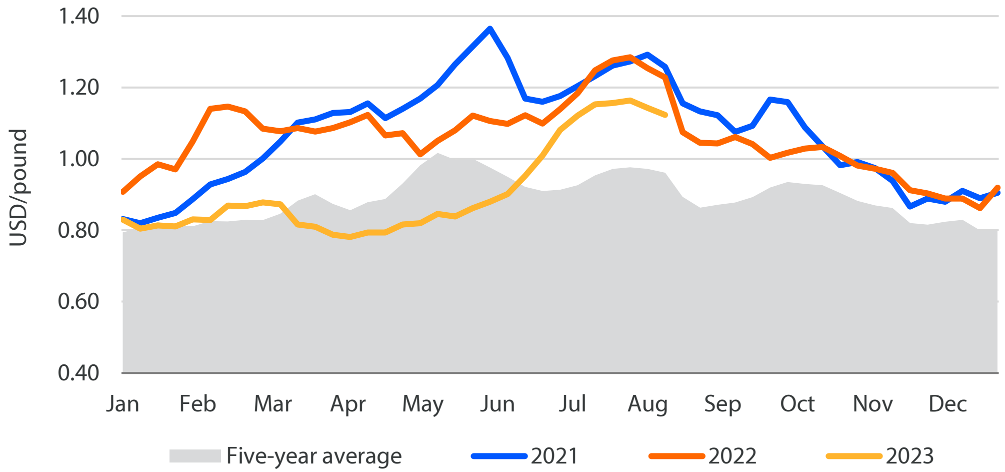
- **Hog prices moved 20% higher since early June on strong packer demand and lower production in recent weeks.** While higher, hog prices continue to trail the record levels of the prior two years and are limiting producer returns. Rabobank expects prices to move lower seasonally, as larger hog supplies weigh on the market. Many producers should see some feed cost relief moving forward (given current projected corn and soybean yields), although most will continue to face challenging financial conditions. Rabobank expects some growth in production in coming weeks as hog weights move higher seasonally and 2023 pork production falls 0.3% YOY. Based on our current outlook, US pork production will drop 1% in 2024.
- **Pork prices rose +29% since June on strong seasonal demand.** Higher belly prices (+174% since June) drove much of the rebound, with strong processor demand and short supplies. Ham and loin prices were also above expectations, a reflection of some inventory building in our view. Carcass values are still 9% below year-ago levels at USD 111 per hundredweight, peaking in recent week. Pork prices will move lower through fall and may pressure packer returns, although smaller competing beef supplies should provide good retail support. Lower hog prices should also help packers maintain margins. Further disruption from the implementation of Proposition 12 in California may also pressure the cutout, with the greatest impact not expected before January.
- **June pork exports were up 12% YOY in volume, to 245,964 metric tons, and up 6% YOY in value.** Shipments to Mexico and Canada remain strong, up 16% and 22% YOY, respectively. Sales to China/Hong Kong also moved higher (+8% YOY) despite low prices in the domestic markets. Only South Korea (-11% YOY) and Columbia (-21% YOY) were notably lower. Pork imports from all destinations dropped (-23% in volume), given depressed local markets and high-cost imports. 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 moving lower (-20% YOY) and are in-line with the five-year average as industry production continues to improve.** Better productivity and heavier weights have added 3.6% YOY more pork to the market in July, weighing on prices and industry returns. We expect continued herd reduction to slow production growth in 2H 2023 and 2024. Pork prices are slightly ahead of year-ago levels but remain under pressure, with lower ham prices weighing on carcass values. Steady pork imports (+4% YOY through June) and lower pork exports (-16% YOY through June) continue to weigh on domestic pork markets, particularly hams.

US hog slaughter weights, 2022-2023



Source: *USDA 2023*

US pork cutout, 2021-2023



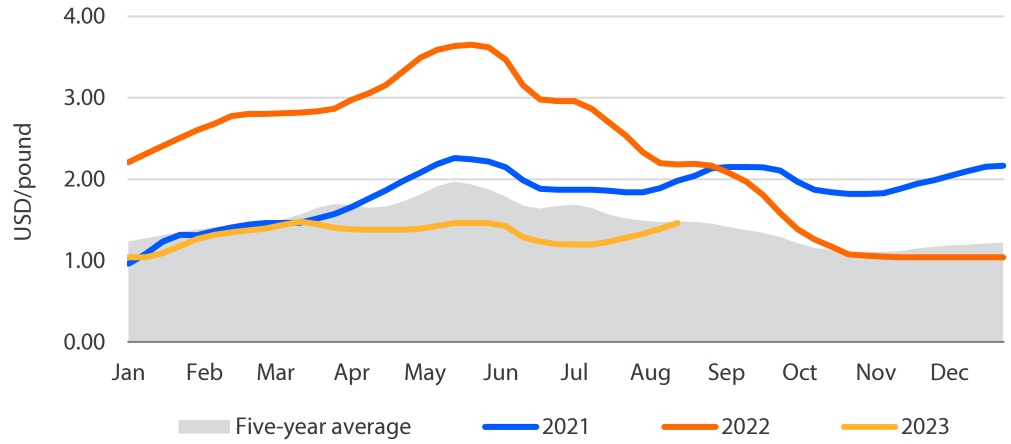
Source: *USDA, Rabobank 2023*

Poultry

Chicken markets reach a supply inflection, improved profits to follow

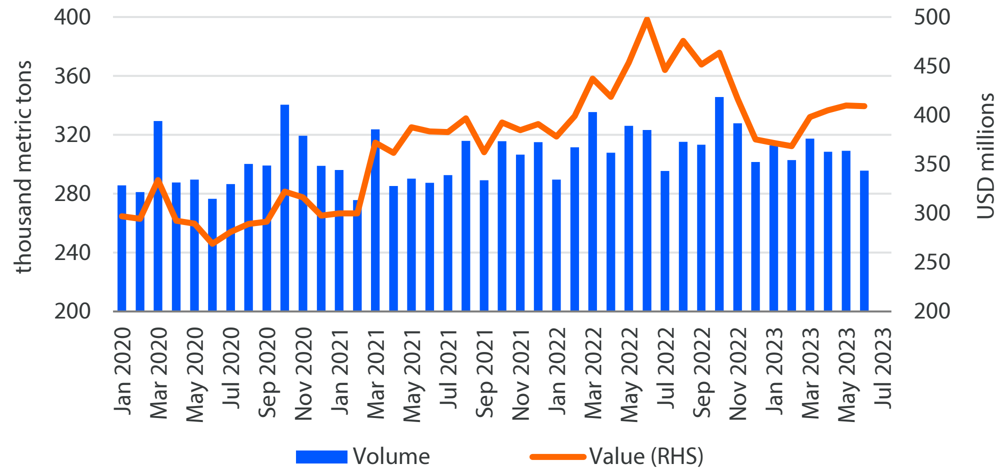
- **Chicken prices remain under pressure versus year-ago, with only modest seasonal improvement in the value of breast meat and wings.** Weak wholesale boneless breast prices remain a drag on composite values, down 49% YOY. The decline in retail chicken breast prices has lagged the drop in wholesale values (-10% YOY), weighing on domestic consumption. Summer leg quarter values are weak (-28% YOY), while wing prices are beginning to show a modest recovery (still -15% YOY). Lower chicken production and smaller supplies of competing proteins will be supportive to composite chicken values and improved industry returns in 2H 2023.
- **Ready-to-cook (RTC) chicken production appears to be reaching an inflection and should move below year-ago levels in 2H 2023**. Production trailed strong year-ago production in recent weeks and should continue in coming months. Year-to-date production through early August, of 24.8bn pounds, is less than 1% ahead of year-ago levels. A decline in birds harvested is expected to drive the drop in 2H 2023 RTC pounds produced, with bird weights moving higher as temperatures rise and new crop feed costs drop. Rabobank estimates 2023 RTC production at 46.6bn pounds, a 0.08% increase.
- **June chicken exports were -8.3% YOY in volume, at 295,688 metric tons and -18% YOY in total value.** Lower volumes to China drove much of the weakness (down 39% YOY) as 37 states remain banned from exporting due to earlier cases of highly pathogenic avian influenza (HPAI). These restrictions are not in line with accepted regionalization protocols and may be removed in coming months. Strong shipments to Mexico and Cuba boosted volumes, up 16% and 19%, respectively. Ongoing geopolitical tensions and protectionist measures will continue to pressure broiler exports, although we expect a gradual improvement in trade volumes through year-end.
- **Mexican chicken prices weakened seasonally, but remain 8% ahead of year-ago levels in August, at MXN 48 per kilogram.** Steady increases in production in July (+4% YOY) reflect some improvement in productivity, despite a few regional cases of HPAI. Lower feed costs should boost producer profitability in 2H 2023, helped by the strength in the peso. Demand continues to trend in-line with seasonal patterns, despite widespread food inflation. Chicken import volumes through June remain robust (+14% YOY) given the strength in the Mexican peso, with increases from the US and Brazil.

Boneless skinless breast meat prices, 2021-2023



Source: *USDA, Rabobank 2023*

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



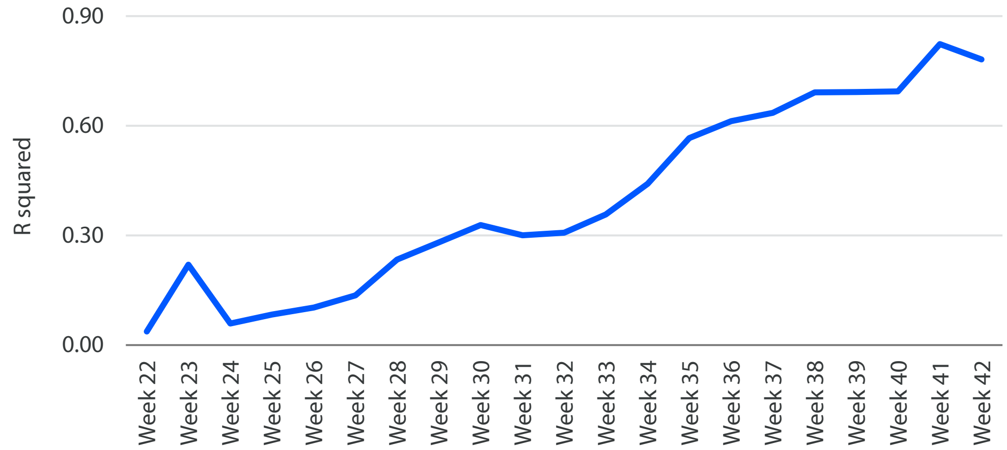
Source: *USDA 2023*

Soybeans

Price spread draws Brazilian beans to the US

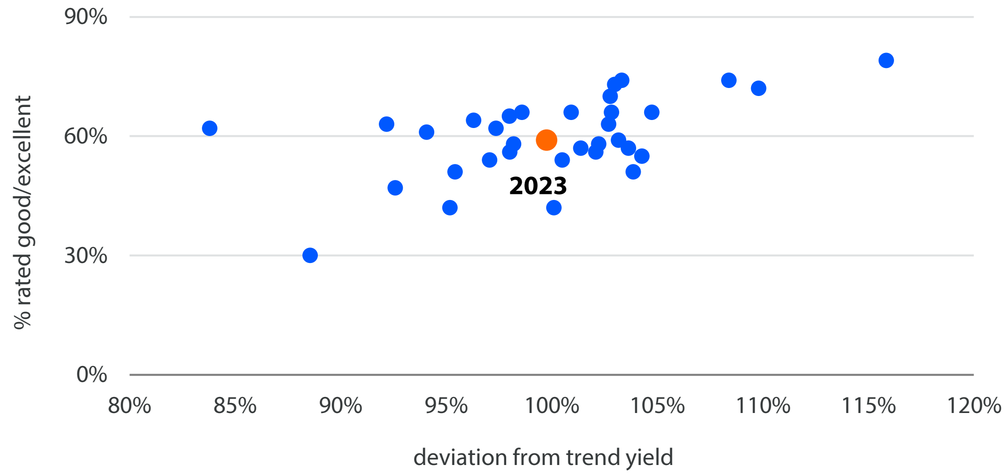
- Unlike corn, for which vegetative and reproductive growth stages are clearly demarcated, the majority of soybeans grown in the US are indeterminate in nature. From a practical standpoint, this means that there is a 50% overlap between soybean's vegetative and reproductive growth, making the crop much more resilient to stressors and opening the door to higher yields relative to the determinate soybean varieties grown in the south.
- The indeterminate nature of soybean growth means that, relative to corn, wherein so much rests on a narrow window for pollination, beans generally cannot be made or broken early in the year. Instead, **the ability to take an informed view on soybean yields requires patience, waiting things out until August when the pods begin to fill.**
- **Through mid-August, the condition of the crop would point to 2022/23 yields in line with trend of 51 bushels per acre.** Like corn though, the crop is poised to benefit from above-average precipitation through the remainder of August which could help growers find an additional bushel per acre in the combine.
- While soybeans aren't immune to the bearish influences that have been plaguing corn, prices have remained more resilient thanks to the surprise USDA acreage survey figures released in June. **Despite March intentions suggesting growers would hold bean acreage flat relative to 2022, in the end they elected to reduce acreage by 4.5%.** Roughly half of the 4m acres dropped by soybean growers in early spring went to corn. **Because corn/soy price ratios held steady during the window from intentions survey to planting it would appear that steady declines in fertilizer prices, plus a general bias toward corn as an engine of profitability, helped drive the last-minute switch.**
- With soybean harvest upon us**, new crop sales have picked up markedly in recent weeks but at 9m metric tons still represent the lowest pace of export sales since 2019.** All of the year-on-year decline can be attributed to weaker demand from China, a reflection of that country's aggressive buying from Brazil as well as its government directive to reduce reliance on soybeans used in animal feed.
- China's pullback in soybeans for feed has dinged the soymeal side of the ledger but robust biomass-based diesel production through the spring has help lift soybean oil and crush margins. **At time of publication board crush margins stood at USD 3 per bushel, compared to the recent low of USD 1.60 set in May.**

Predictiveness of crop condition on soybean yield over the year



Source: *DCE, Rabobank 2023*

Crop condition/yield relationship – week 32



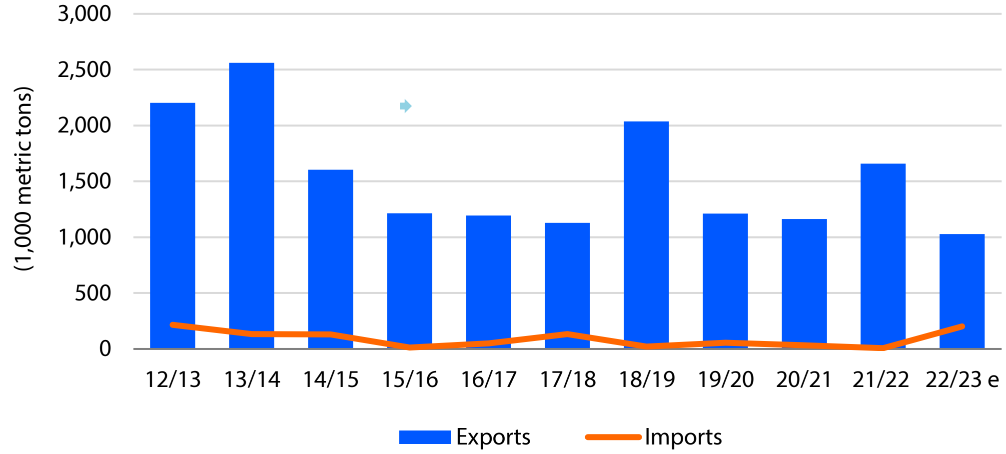
Source: *USDA, Rabobank 2023*

Sweeteners

Mexico’s balance sheet remains really tight

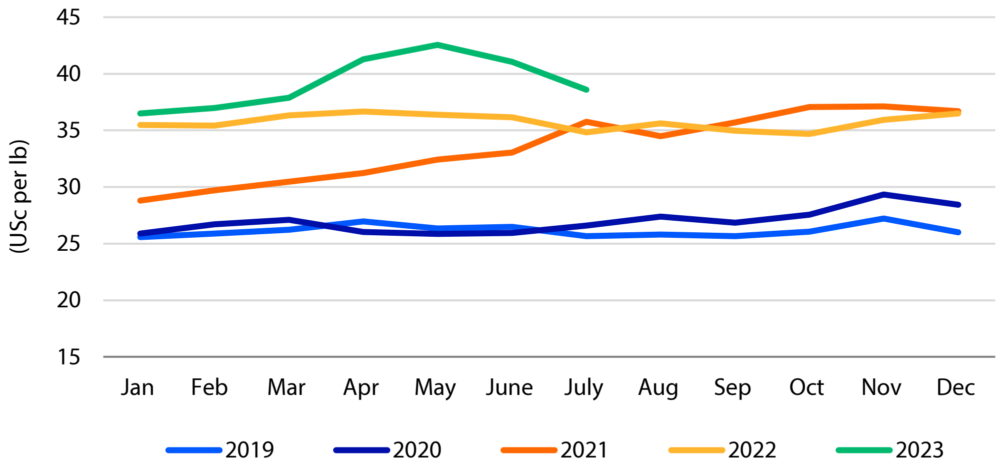
- **Mexico just finished a disappointing 2022/23 sugar campaign.** The combination between a drought and lack of fertilization slammed field yields. Sugar production came in at 5.2 metric tons below the 6.1 metric tons from a year ago.
- During 2022/23, **Mexican sugar exports will be the lowest since 2011.** In addition, the USDA signals that Mexico’s sugar imports could be around 200,000 metric tons to alleviate some tightness in the market.
- During 2023, Mexican sugar prices rallied and reached record highs. Prices have taken a pause but fundamentals remain extremely tight.
- For 2023/24, the USDA is expecting Mexican sugar production to recover and increase to 5.9 metric tons. If this is realized, Mexico’s exports could increase to around 1.3 metric tons.
- **The rally in US sugar prices (contract #16) failed to hold above USc 40 lb.** No 16 raw sugar prices weakened in recent weeks as demand seems to be slowing down and global prices showed some setbacks.

In 2022/23, Mexico’s sugar exports declined while imports increased

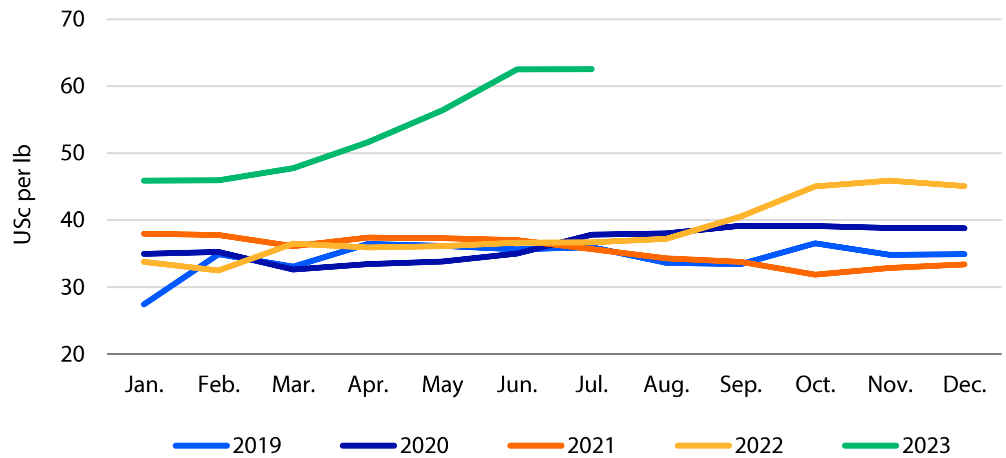


Source: CONADESUCA, USDA, Rabobank 2023

US sugar prices #16 have softened after a sharp rally



Mexico’s estandar sugar prices have reached record highs



Source: CONADESUCA, Rabobank 2023

Tree Nuts

Elimination of retaliatory tariffs by India to foster US exports

Almonds: Computed inventories at the end of the marketing year were down YOY for the first time in four seasons. At roughly 792m pounds, carry-out in 2022/23 ended about 5% lower than the record-high a year ago. Domestic shipments were down 6% YOY, while exports declined roughly 1% YOY. Total shipments in 2022/23 were down almost 3% YOY, as exports slowed during the last few months of the marketing season, putting downward pressure on prices. Using the USDA's objective estimate, total supplies (carry-in plus marketable crop) in 2023/24 are expected to be just shy of 3.4bn pounds or 0.5% down YOY. A smaller-than-expected crop, and the elimination of retaliatory tariffs by India are two factors that can provide price support in the next few months.

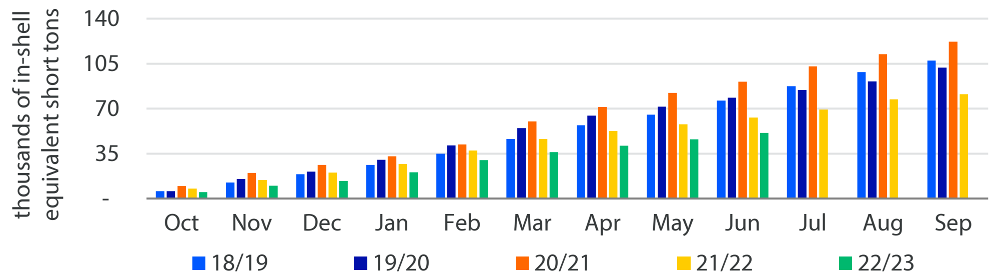
Hazelnuts: US shipments in 2022/23 through April were up ~20% YOY, per industry statistics, with domestic kernel shipments and kernel exports increasing 43% and 23% YOY, respectively. Economic prospects in key European markets are not ideal, which will likely impact demand.

Walnuts: Shipments rose 12% YOY, with exports down 1% YOY and domestic shipments up 40% YOY in 2022/23 through July. Domestic shipments increased 95%, 72%, and 26% YOY during May, June, and July, respectively, helped by USDA purchases. Crop for the 2023/24 marketing year has developed well. Barring impacts from late heat waves, quality is expected to be high. Exports will benefit as India eliminates a 20% retaliatory tariff on US walnuts.

Pistachios: Shipments for the 2022/23 marketing season were up 8% YOY through July, with domestic shipments down 7% YOY and exports (accounting for 73% of shipments) up 16% YOY. Inventories during the last stretch of the marketing year are reported as low, which has supported prices. As for the 2023/24 marketing year, a crop of around 1.3bn pounds, up 47% YOY, is likely as overall favorable weather conditions and water availability predominated during pollination and development stages. Prospects for size and high-quality pistachios this season are promising.

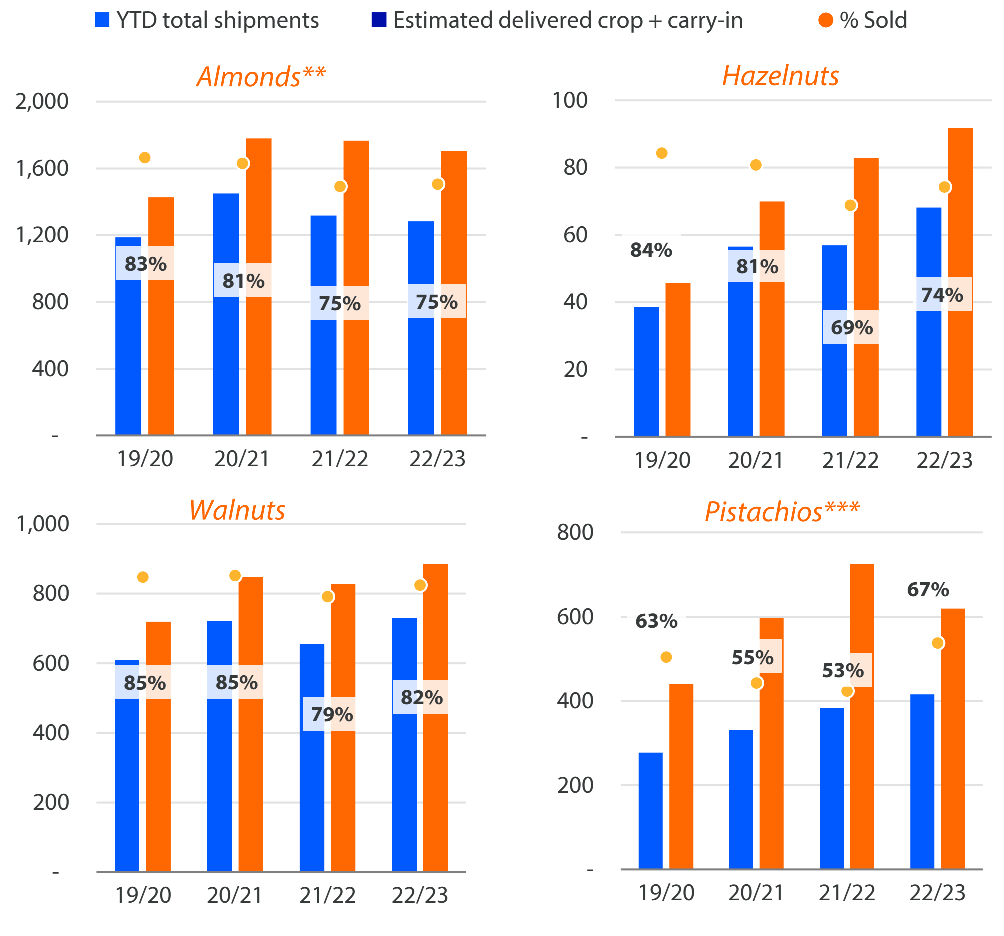
Pecans: US pecan export volumes in the 2022/23 marketing season through August were down 29%, according to USDA figures. There are ambiguous signals about the outlook for the 2023/24 crop size in Georgia, the largest producer, as estimates differ, according to industry sources. Crop size in Mexico is likely to be up YOY, but quality may be a concern due to hot weather.

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

Vegetables

Aside from short-term seasonality, higher production and lower prices are expected for marketing year 2023/24

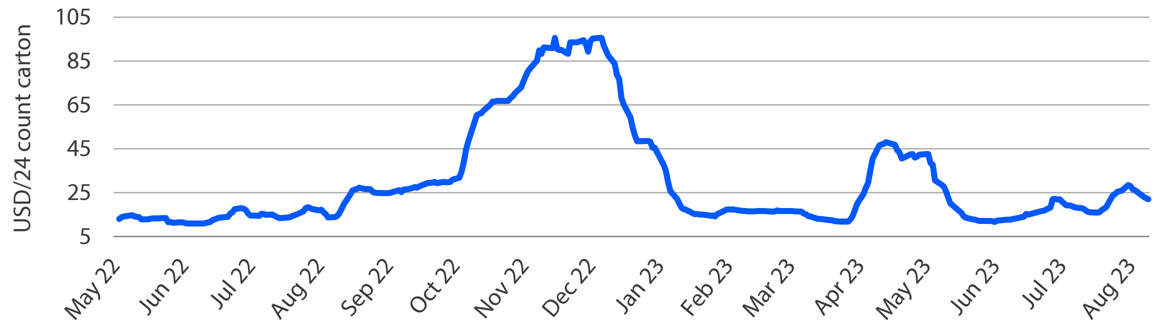
By the end of June, retail dollar sales of fresh vegetables had grown 1.9% YOY, reaching USD 3.6bn, while volume had declined 0.7% YOY, according to the IFPA. While the rate of inflation moderated recently, consumers still perceive prices to be high. They continue to prioritize value over other attributes 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: Due to high prices, the improved input cost outlook, strong financials, and, most importantly, more optimism about weather and water availability, potato growers planted more area for the 2023/24 season. According to many industry sources and the USDA, planted acreage is expected to increase by about 5% or around 45,000 acres, most of which in the state of Idaho. If average yield materializes, we would probably see the start of a steep downward price trend - up to 15%. But, it is going to come down to weather, the usual wild card.

Leafy greens and brassica: After a shot delay in planting, growers were able to catch up and resume harvest, which is now in full swing. Supply is considered relatively good overall, but there have been some shortages in broccoli and iceberg lettuce due to localized weather. Excessive heat in some fields contributed to lower shipments and lower quality, bidding the price up for good quality crops. Still, the outlook calls for no incidents of disease, which means romaine lettuce is in ample supply. At USD 10.34 and USD 14.11, romaine 24s and hearts (12x3) are almost level YOY, respectively. In the absence of disease and weather concerns, shipping-point prices will remain close to historical averages. At USD 25.23, the price for iceberg wrapped 24s is up 66% YOY. At USD 17.4 per 20-pound carton, the broccoli crown price is up 57% YOY.

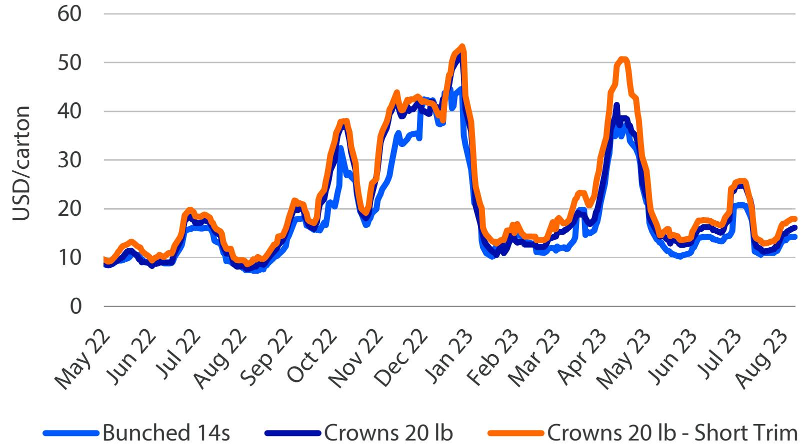
Sweet potatoes: Planted acreage for 2023/24 marketing year is projected to increase YOY. Strong domestic prices attracted growers who are not necessarily focused on export markets and stronger domestic prices gave enough motivation/signal to switch acreage from other crops or even farm marginal lands that otherwise would be set aside or fallowed. This will likely lead to higher production and lower prices for next year, causing financial strains to farmers. The situation is exacerbated by the fact that export markets are increasingly becoming more competitive.

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



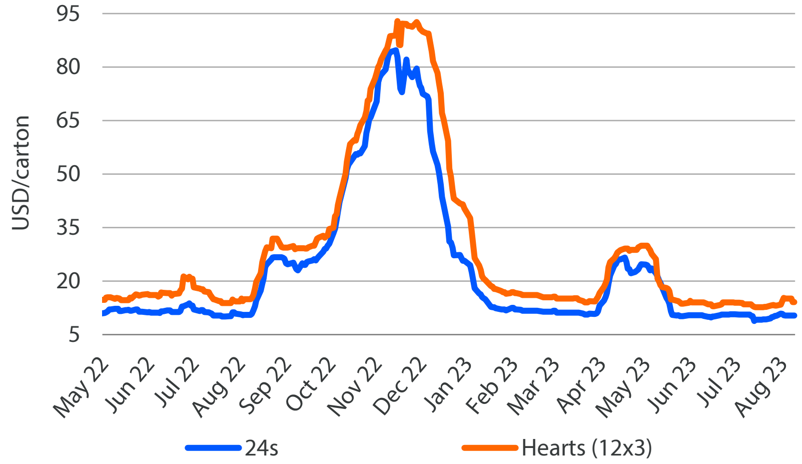
Source: *USDA AMS, Rabobank 2023*

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



Source: *USDA AMS, Rabobank 2023*

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



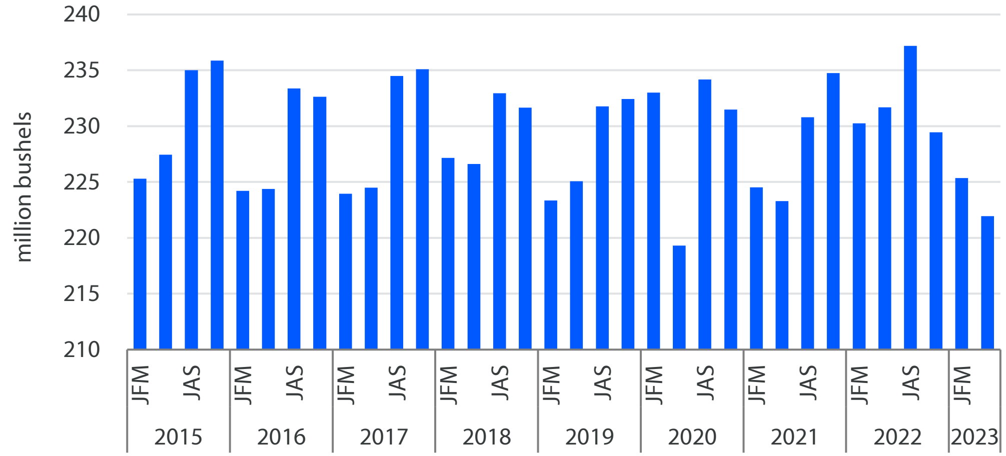
Source: *USDA AMS, Rabobank 2023*

Wheat

Global uncertainty to remain the wild card

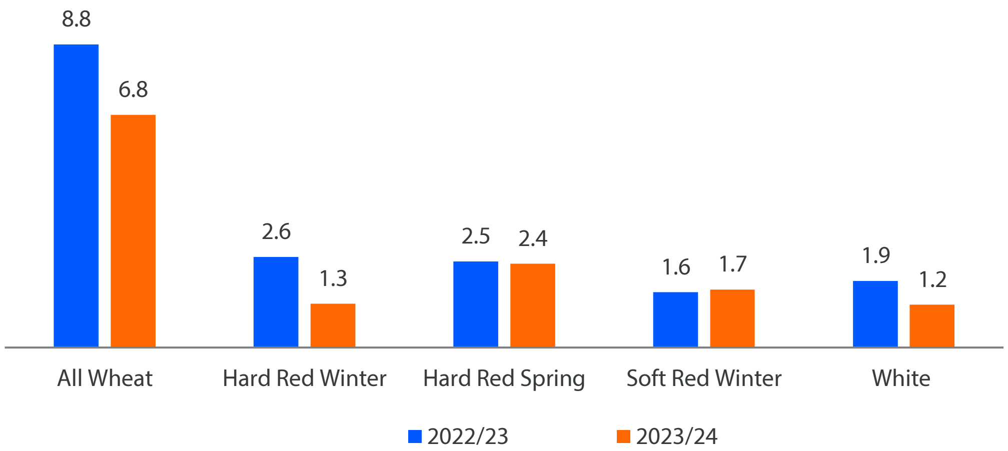
- **Crop progress:** HRW harvest is at 92% completed according to the August 13th report and Spring wheat is currently at 24% harvested and below the five-year average but ahead of last year. Despite challenges during harvest, hard red winter wheat is moving the finish line and caught up with the five-year average. Spring wheat is showing some slower pace in Idaho but all in all the pace of harvest is much better than last year but still behind the five-year average.
- **Demand:** Food use has been revised down driven by slow mill grinding. Over the last three quarters, wheat milling has seen a decline from the record level seen in the third quarter of 2022. The USDA has adjusted their estimates for 2022/23 to a total of 973m bushels, which remains a record despite three consecutive quarters of declining grind. However, the momentum seems to be moving to the start of this marketing year, revising the wheat milling to 974m bushels for 2023/24.
- **Demand:** Wheat class utilization to return to a normal level. While HRW production is not necessarily the best we have seen this year, it is an improvement from last year. The price spreads around the different classes of wheat incentivized the use of more hard red spring rather than, traditionally, more hard red winter. However, as the price differentials of the two return to a normal level, demand for HRW is expected to fall back to previous levels. SRW is likely to see higher demand driven by two factors: 1) the spread between SRW and HRW continues to be at historical levels; 2) relatively high protein of HRW will push higher SRW blending and see less HRW.
- **Exports:** US exports of all wheat is projected at a 52-year low. All wheat exports have been revised lower, reaching the lowest projected volume since 1971/72, currently projected at 700m bushels. From the start of this marketing year to date, wheat exports are down 26% compared to last year and 37% down compared to the 10-year average. Despite higher production, hard red winter wheat prices in the US remain less competitive compared to Russia and the EU.
- **Wheat prices across the board have moved downwards but the volatility is expected to stay.** Higher domestic and export demand for SRW is likely to keep prices at bay. However, global challenges in the black sea region, lower-than-expected production in the EU and drought conditions in Canada could revert the downward trend on wheat prices. However, farmgate prices for all wheat in 2023/24 are expected to see a decline of ~10% to USD 7.5/bu.

Quarterly wheat ground for flour, 2015-2023



Source: *USDA NASS, Rabobank 2023*

US wheat exports marketing year to date (in million metric tons)

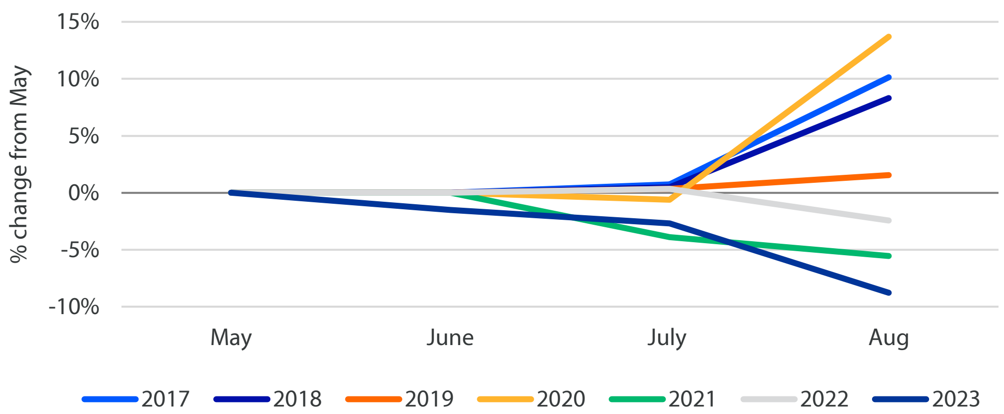


Source: *USDA ERS, Rabobank 2023*

Cotton

- They say that the market will kill the cotton crop two to three times over the course of the summer. If that's the case, historically it's been the USDA's job to bring it back to life. **In this past (August) WASDE, however, we saw a bit of a role reversal with the USDA taking the unusual step of substantially reducing projected cotton yields relatively early in the year.** The shift, from 830 to 780 bales per acre, was justified by the USDA on the basis of extreme heat in West Texas and reduces the Department's production estimate to 14m bales.
- **Average trade estimates of 15.8m bales represent a fairly wide departure from the USDA** figure and based on the price reaction (or lack thereof), it would appear that many market participants believe USDA estimates will eventually come to the rescue.
- Cotton prices this summer continue to limp within the range of USc 80-USc 90 per bale. While many commodities have a negative relationship with stocks, cotton is unique among major agricultural commodities in the consistently positive correlation with the S&P 500. **A late July bull rally in equities helped propel cotton to the high end of that range but with the release of July's stubbornly high inflation figures, the bearish influence of further rate hikes has once again taken hold.**

Change in cotton yield estimate from May WASDE figure

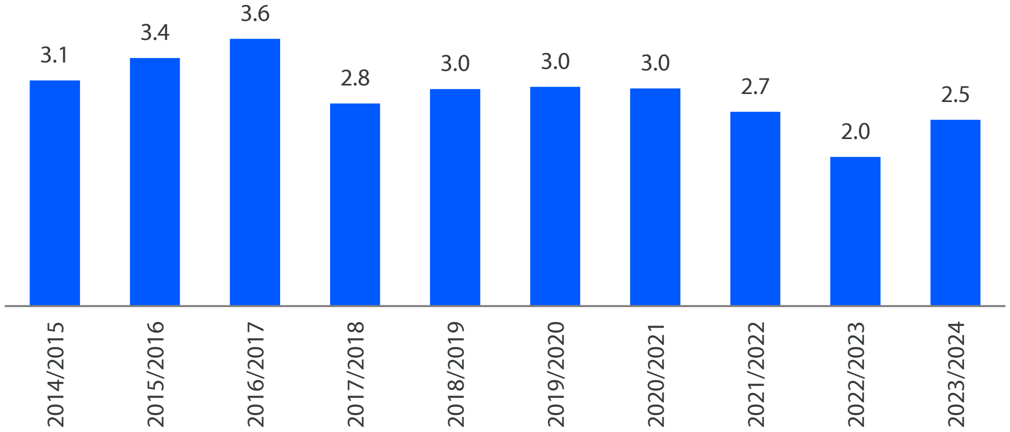


Source: *USDA, Rabobank*

Rice

- **Production:** Rice production estimates have been revised up, as a new survey on rice yields shows increases in August. Rice production is making a strong recovery albeit from a very low number set in 2022/23. This year production is projected to grow 21% YOY but remains below the high from 2020/21.
- **Exports:** last year, the US lost much of its market share in south America and Mexico, driven by high prices compared to competitors in the area. However, with production set to move back to more normal levels, and prices in the US to see a decline from last year, the US is likely to regain some of that market share.
- **Global prices are seeing an uptick since July 20th** announcement in India that exports of rice would be banned. As India accounts for most world exports, prices around the globe have begun to increase. Countries in sub-Saharan Africa and Asia are likely to be the most affected by India's ban on rice exports. This could present an opportunity for the US to push for exports in new areas.

US milled rice exports to recover from last year but remain below that of the last ten years (in million metric tons)

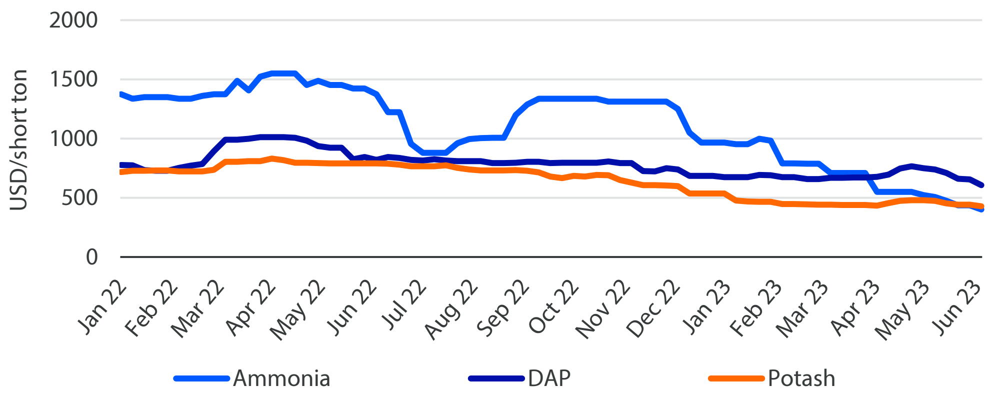


Source: *USDA NASS, USDA ERS, Rabobank 2023*

Input Costs

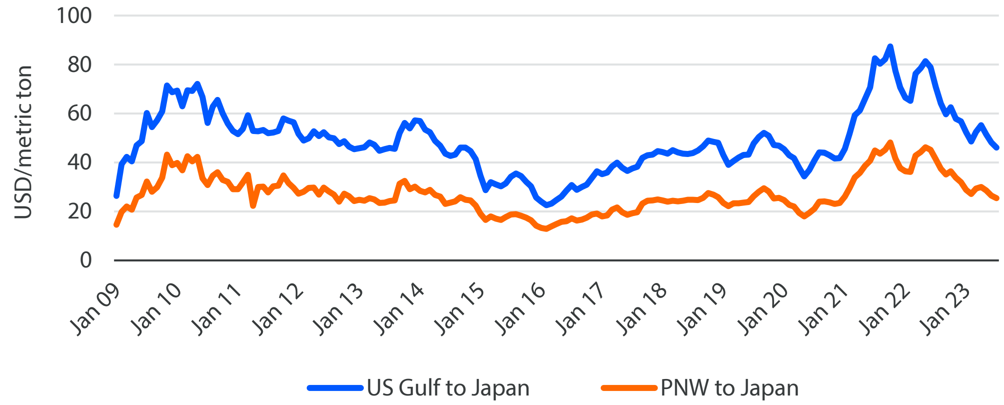
As of August 17, 2023

*Corn Belt input prices**



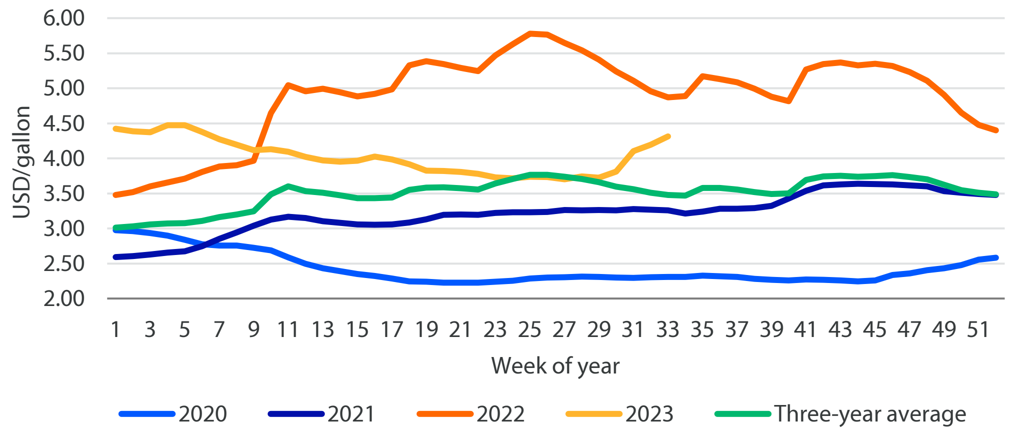
*** Note:** *granular potash*
Source: *Bloomberg, Rabobank 2023*

Ocean freight



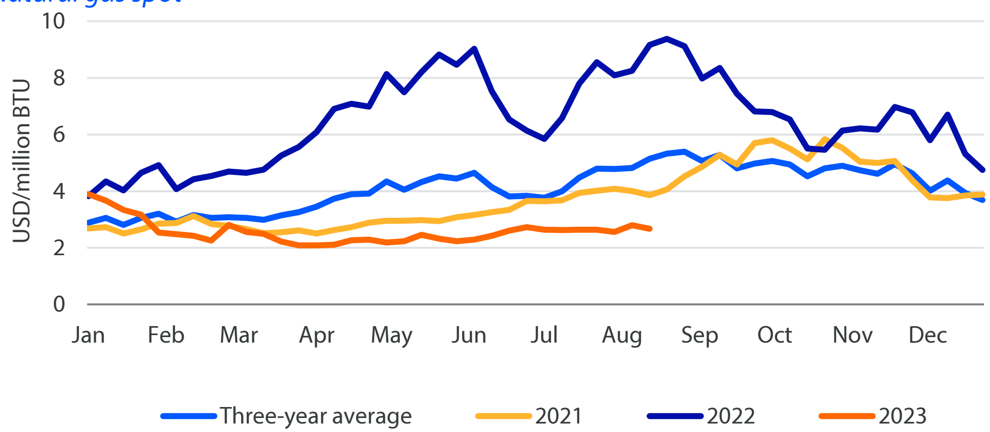
Source: *O'Neil Commodity Consulting, USDA AMS, Rabobank 2023*

Diesel – Midwest



Source: *EIA, Rabobank 2023*

Natural gas spot



Source: *NYMEX, Rabobank 2023*

Forward Price Curves

As of August 17, 2023

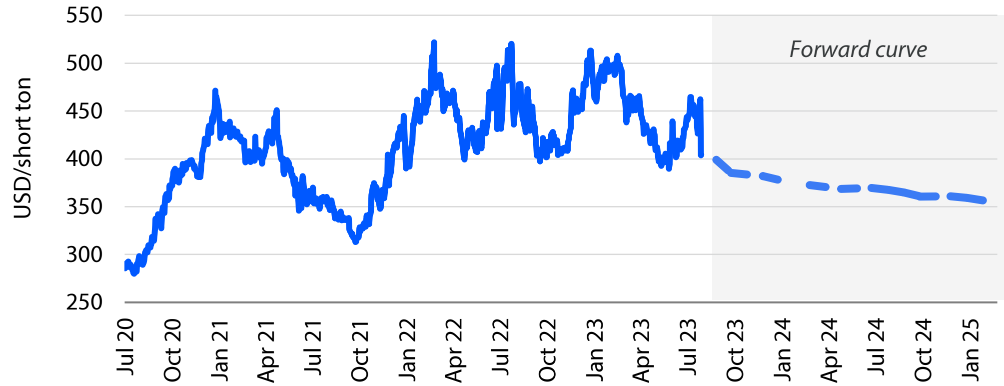
CBOT – Corn

Source: *CBOT, Rabobank 2023*

CBOT – Soybeans

Source: *CBOT, Rabobank 2023*

CBOT – Soymeal



Source: *CBOT, Rabobank 2023*

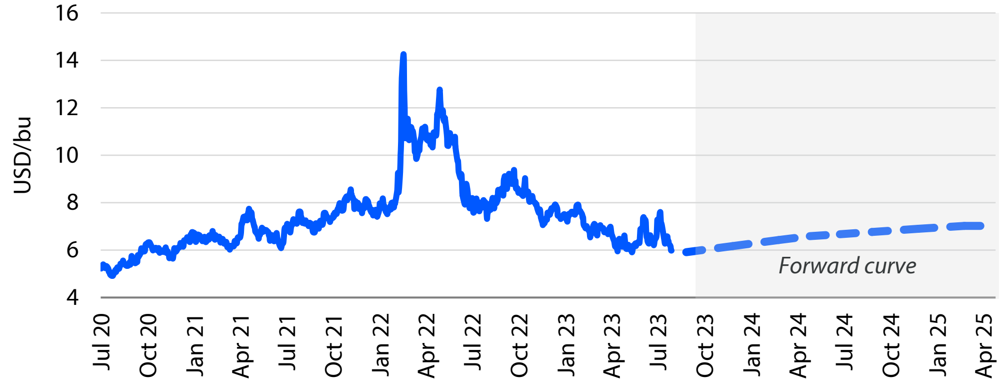
CBOT – Soy oil

Source: *CBOT, Rabobank 2023*

Forward Price Curves

As of August 17, 2023

CBOT – Wheat



Source: *CBOT, Rabobank 2023*

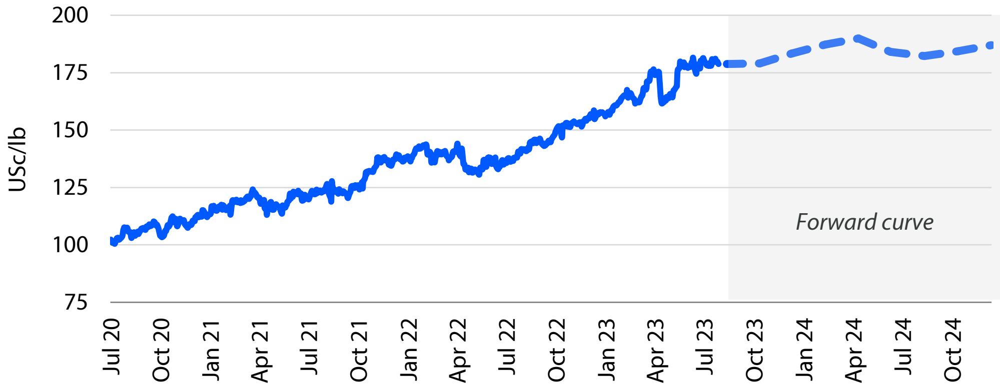
CBOT – Feeder cattle

Source: *CBOT, Rabobank 2023*

CBOT – Lean hogs

Source: *CBOT, Rabobank 2023*

CBOT – Live cattle

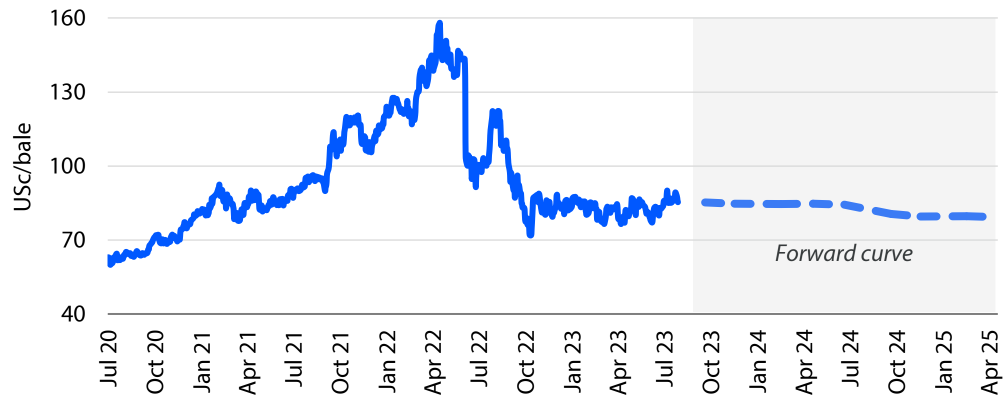


Source: *CBOT, Rabobank 2023*

Forward Price Curves

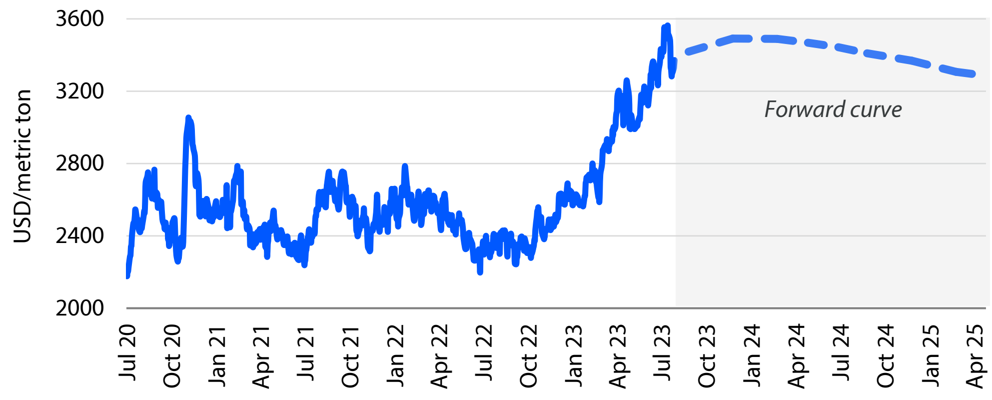
As of August 17, 2023

ICE – #2 Cotton



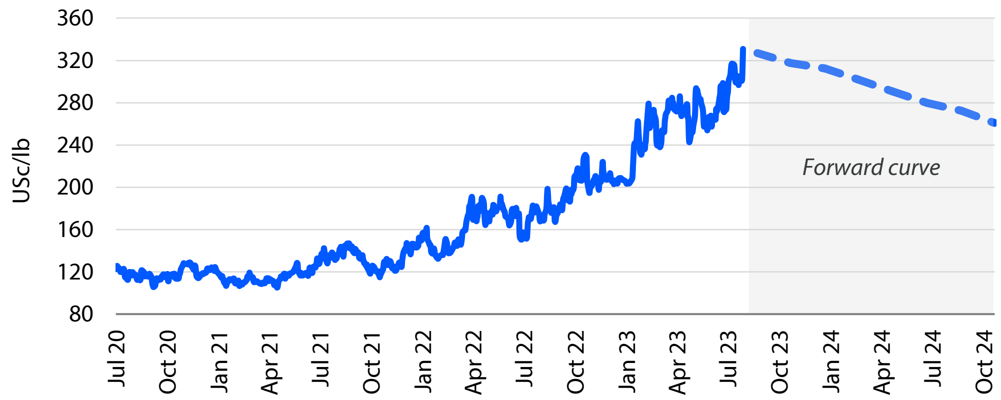
Source: *ICE, Rabobank 2023*

ICE – Cocoa



Source: *ICE, Rabobank 2023*

ICE – FCOJ



Source: *ICE, Rabobank 2023*

ICE – #11 Sugar

Source: *ICE, Rabobank 2023*

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