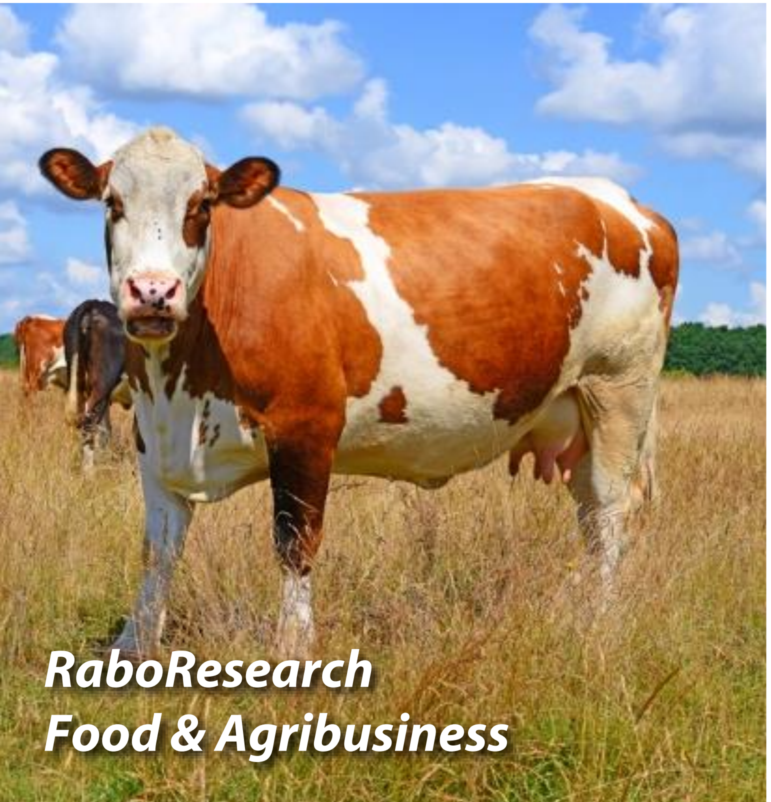




North American Agribusiness Review

Rabobank



RaboResearch
Food & Agribusiness






February 2022

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US

- US Consumer Price Index (CPI) rose 7.5% in YOY terms in January. In November, Fed Chair Powell realized that 'transitory' was not the right diagnosis after CPI inflation had risen to 6.2% in October. The January data showed that inflation has spread across the basket of goods and services that consumers purchase. Core inflation – which excludes food and energy – has risen to 6.0%. The Fed now intends to start its hiking cycle in March and market speculation about the number and size of hikes is mounting. This has also pushed up longer term interest rates. Meanwhile, we could see the Fed start to reduce its balance sheet as early as in May. The Fed's tightening path will be difficult. If they tighten too slowly, inflation could get out of control. This may force the Fed to accelerate its hiking cycle too much and cause a recession. On the other hand, if they tighten too fast from the start, we could see a recession even sooner. This is going to be a difficult balancing act for the Fed, with ample opportunity for policy mistakes.

Mexico

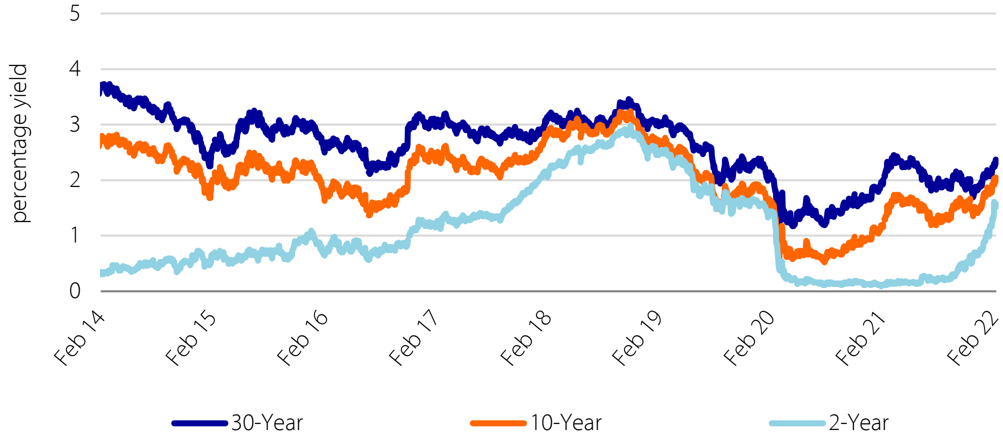
- Banxico will find itself stuck between a rock and a hard place in 2022 as stagflation dominates the domestic backdrop. That term may strike fear into the heart of central bankers globally, and understandably so. But of course, this isn't an environment Banxico is unfamiliar with. In fact, one could argue that most Latin American countries exist in a constant state of stagflation, just to various degrees. That said, 2022 in Mexico is likely to be a textbook case of stagflation, with very low growth, and high single-digit inflation. Banxico is in a bind. What's making matters worse for the Bank is that the bulk of price pressures Mexico is currently facing stems from the cost-push side as supply chain issues show no mercy across the globe. We expect USD/MXN to primarily trade in the 20.5-21.5 region, before breaking above 22 by year-end.

Canada

- In Canada, consumption should remain relatively robust. Household balance sheets are beginning the year in a solid position with a savings rate of nearly 15% of GDP, and we expect rotation from goods into services as Covid-19 restrictions ease further. Housing investment had a blockbuster 2021, arguably too blockbuster, and 2022 is unlikely to offer a repeat. Still, we do expect slower housing investment to be offset by rising business investment, particularly in the energy space. In terms of USD/CAD, we expect CAD to outperform many of its G10 peers, but our broad-based bullish outlook for USD may cap downside in USD/CAD. We expect the pair to trade in a 1.24-1.28 range throughout the year.

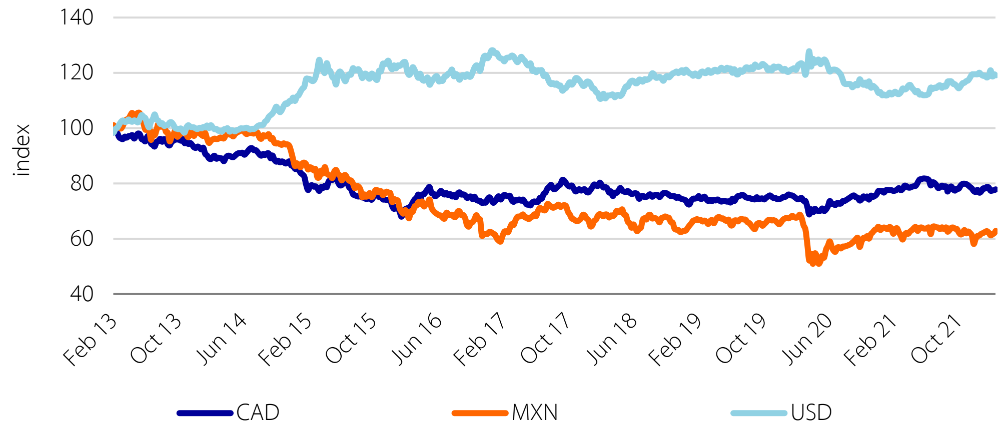
Source: USDA, Rabobank 2021

Interest rates, 2013-2022



Source: Federal Reserve of St. Louis 2022

Currency indices, 2013-2022



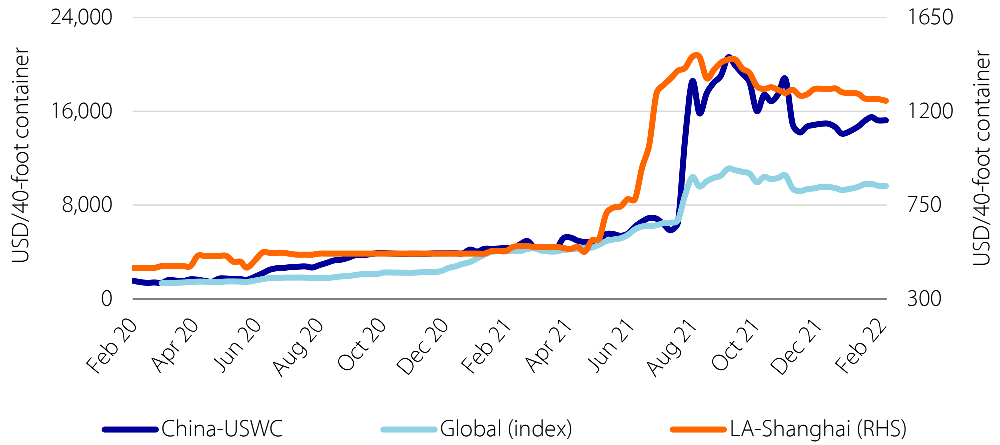
Source: Bloomberg 2022
Note: Rebased at 100 as of January 1, 2013

Logistics

Labor presents the biggest uncertainty for freight cost

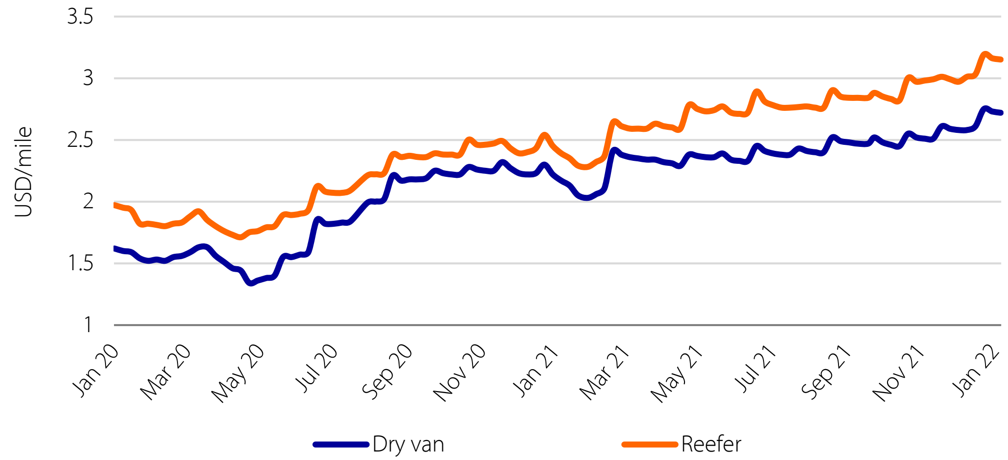
- ***Container spot rates gradually came down as expected, while contract rates went up.*** Carriers pushed for earlier negotiations of contracts towards end of last year, at the peak of rates, compared to Q1 negotiation times in a normal year. Longer contracts are negotiated as well to maximize carrier profit while also providing a degree of certainty for shippers in this market. According to Drewry, global rates based on spot and contract have increased by 105% in 2021 and is expected to grow by 16% in 2022 to USD 2500 per TEU, driven by higher contract rates.
- ***Labor presents the largest uncertainties for trucking in 2022.*** While the container congestion slowly recovers, domestic trucking issues persists. This is primarily due to labor shortage and lack of chasis domestically. Both reefer and dry van trucking rates continued to climb into 2022, jumping another 4% to 5% in the first month of 2022. Trucking companies have been reported to increase their driver wage by 15% to 20% in order to secure labor, all of which will be passed on to producers down the road. We expect high trucking rates are here to stay throughout 2022.
- ***Recent Canadian trucker protests are causing temporary supply chain problems*** and should subside gradually. Canadian border requirements for truckers to be fully vaccinated (previously they were exempt from this requirement) are causing issues with 10% to15% of the work force, leading to temporary stock issues for food and ag products. Reefer rates have been most significantly impacted. The overall intra-Canadian spot market may not be as volatile as that in the US, but more fuel surcharges will cause rates to go up.
- ***Intermodal suffered in the beginning of the pandemic*** due to industrial shutdowns, ***but has since rebounded gradually*** as economies open up and trucking issues persist. The intermodal mileage spot rate increased 5% in December 2021 YOY and 85% compared to the same period in 2019. We expect intermodal rates to stay elevated through the truck labor challenges in the next six months, while gradually returning to a normal level. Although not as flexible as trucking, intermodal/rail is viewed as a more cost-efficient mode of transportation going forward. Network investments are needed to improve coverage and efficiency and improve utilization, especially given the truck driver shortage and other supply chain issues.

Select ocean freight rates, Feb 2020-Feb 2022

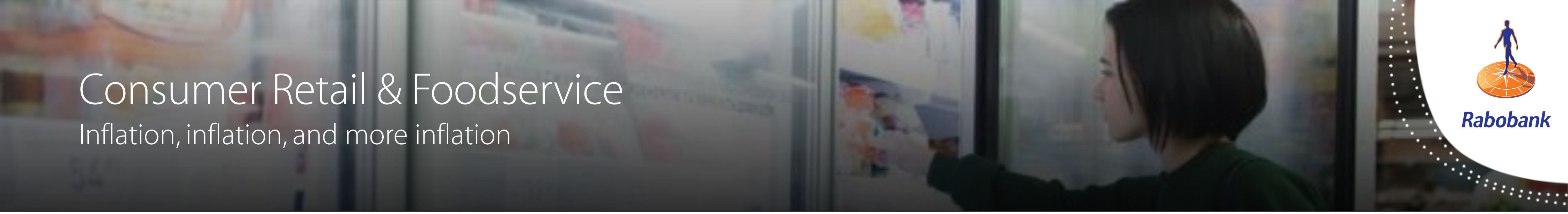


Source: Freightos, WCI 2022

US dry van and reefer truckload prices, Jan 2020-Jan 2022



Source: DAT 2022

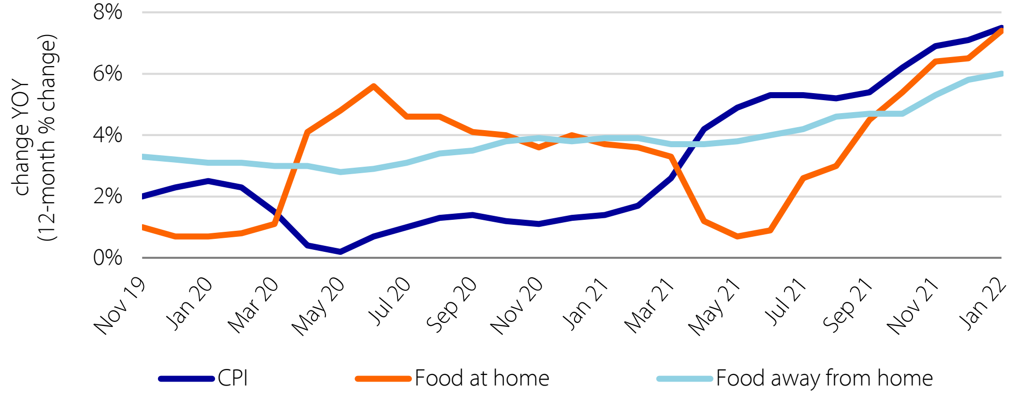


Consumer Retail & Foodservice

Inflation, inflation, and more inflation

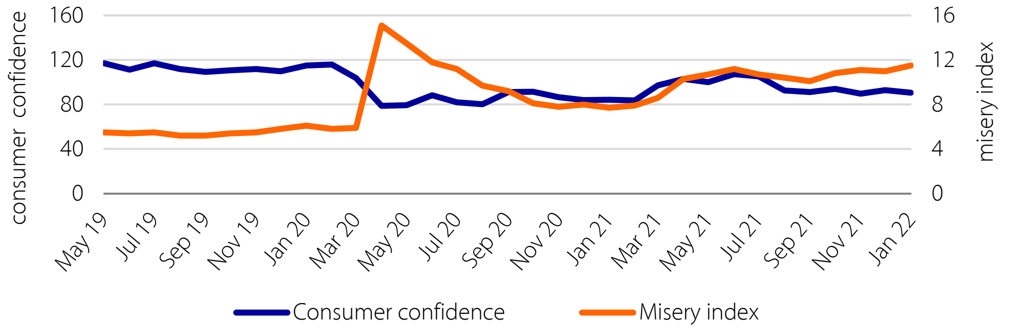
- A strong demand-driven economy with a backdrop of heightened political tensions perched on a precarious global supply chain is driving sourcing options closer to home ('nearshoring'). Rising energy prices, labor costs, supply chain bottlenecks have all created their own butterfly effects on the economy. The end result has been rapidly rising costs from farm-to-fork and a struggling global supply chain that has been finely optimized to Just-in-Time models, which have demonstrated their vulnerabilities over the last two years. Global ocean freight spot rates were up 850% for a brief period in late 2021. These shipping costs have thrown the supply chain additional curveballs with items from packaging to fruits and flavors all experiencing inflation upwards of 40% late in 2021.
- Labor shortages are rampant and adding challenges from farm (to forklift) to fork, in some cases not even higher wages levels have helped draw in workers as 4.8m Americans have left the workforce since early 2020. But as the world moves into an endemic phase, we anticipate labor challenges to ease for many sectors, helping to smooth production and logistics.
- As a result of all the above challenges, consumers are seeing significant inflation. The CPI reached 7.5% in January, the highest increase since February 1982 and the fifth increase in a row. The Fed has recognized inflation is not transitory and tightened monetary policy aiming to slow inflation throughout the year. Food inflation - both at home and restaurants – has followed the surge trajectory. Consumer goods companies have passed high single-digit increases to retailers throughout Q4, and thus far consumer demand has remained strong despite a rising 'misery' index and falling confidence.
- The demand outlook for retail and foodservice remains uncertain. Geopolitical tensions remain heightened, Covid-19 lingers, Russian forces have entered Ukraine, interest rates look to begin their climb, and disposable incomes are flattening. For now demand remains impressively robust with retail sales growing by 3.8% in January.
- Looking forward, inflation will remain a challenge, likely low double-digit inflation is expected for food manufacturing and distribution through 2022. This will continue to trickle down to consumers and with disposable income reducing affordability, demand is likely to shift to more affordable alternatives, hard discounters, store brands, and cheaper foodservice with reduced delivery expense.

Further uptick in food inflation: retail food and menu prices soar, Nov 2019-Jan 2022



Source: US Bureau of Labor Statistics, Rabobank 2022

Consumer Confidence eroded on the back of Omicron; Misery Index remains pressured by inflation despite dropping unemployment rates, May 2019-Jan 2022



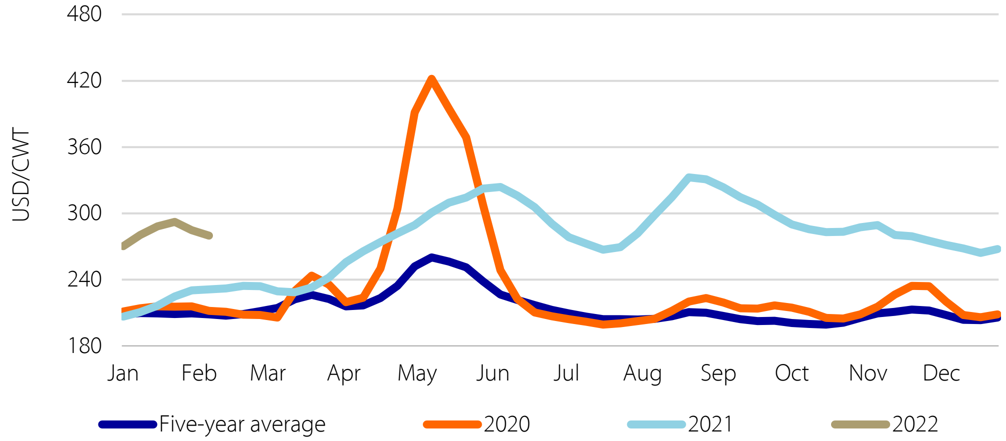
Source: US Bureau of Labor Statistics, Rabobank 2022

Cattle

Positive market undertone continues to build

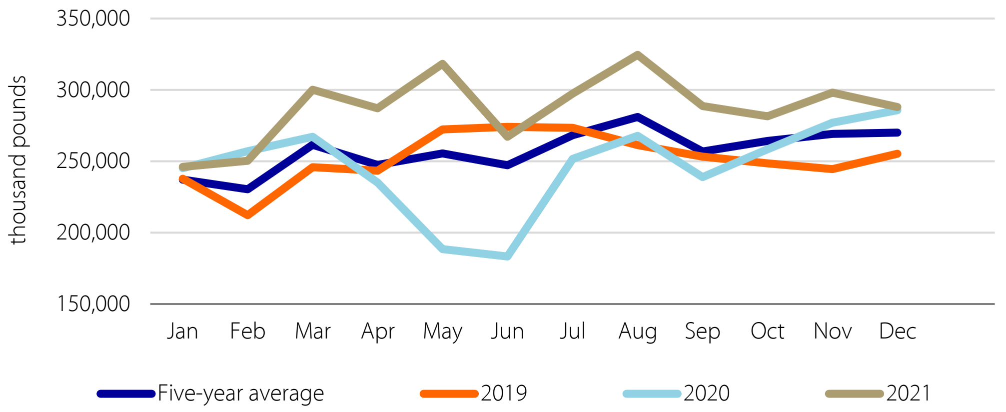
- ***The January 1, the Cattle Inventory report was bullish.*** All cattle and calves at 92.8m heads was off 2%, all cows and heifers that have calved at 39.5m head was down 2%. Beef cows at 30.1m heads was down 2% and milk cows were 9.38m down 1%. All heifers were 19.8m head down 2%, beef replacement heifers at 5.61m head were down 3, and dairy replacement heifers 4.45m head, down 3%, and other heifers at 9.71m head, were down 1%. Steers over 500 pounds 16.6m down 1% and calves under 500 pounds, at 13.9%, down 3%. There were upward revisions to the Jan 1, 2021. estimates that made the percentage declines more severe than expected. The combination of drought over a large share of the country, challenging economic conditions for cow/calf producers and limited and high feed and hay costs drove the aggressive liquidation, given the continued drought conditions, additional herd liquidation is anticipated for 2022. Cattle on feed at 14.7 head, was up fractionally. After three years of liquidation and to have a cattle on feed inventory unchanged to slightly larger gives a clear explanation of the heavy front-end load of the market. Cattle supplies outside feed yards was 677,000 head smaller than a year ago and suggest monthly placements and available fed cattle supplies will post a sizable decline for the second half of the year.
- ***FI slaughter rates off to a slow start, largely because of the Omicron variant.*** Federally Inspected Slaughter has suffered from a slow start for the year driven by labor shortages and disruptions caused the Omicron variant. Daily slaughter rates have been recovering in recent weeks and are expected to show additional improvement in the weeks to come. While slow, packers are making comments about improvement in daily attendance rates as well as reporting an uptick in new hires. In the four weeks of actual data, there is still a marked difference between fed slaughter and non fed slaughter plants. YTD fed steer and heifer slaughter is off 5%, while cow slaughter is up 3%. The faster recovery in non-fed plants makes total slaughter a bit deceptive, we still need more increase in fed beef slaughter.
- ***Beef exports set a new record.*** Beef Exports shattered previous records with beef shipments up 16.6% and dollar values on top of USD 10.5bn. That is a contribution of over USD 400 per head. Shipments to China were up 354% with the country becoming the third largest customer by volume. South Korea continued to post solid growth up 17%. Shipments to traditional customers Japan, Mexico and Canada were off slightly. We are still looking for increased exports in 2022.
- ***Beef demand continues to be robust.*** Both domestic and export demand continues to be exceptional. The Comprehensive Cutout Value has corrected over the past couple of weeks but continues to hold a USD 45 premium over a year ago. Exports did slow late in 2021 as the combination of high cutout values and the strength of the US dollar increased prices. Domestic demand continues to be exceptional. Once the holiday season domestic demand appears to have leveled off as consumers adjust to the impacts of inflation. These typical slow downs are due to winter weather and paying down holiday credit card bills. It may be seasonal, but it does appear consumers have backed away from middle meats and shopping for more thick meats and ground beef.

Comprehensive cutout, Jan 2020-Feb 2022



Source: USDA/AMS, Rabobank 2022

Monthly Beef Exports, Jan 2019-Dec 2021



Source: USDA, Rabobank 2022

Corn

Demand, weather and needed acres all supportive

Multiple factors have contributed to the nearly USD 1.50 per bushel rally in corn futures since the 'harvest low' the first week of September. Seemingly, the corn market is hitting on all cylinders – robust demand from ethanol, solid exports of late, concerns over Brazil's safrinha corn crop and the need to keep acres.

The market's attention is focused on 2022 US planted acres and the competition between corn and soybeans. In preparation for the release of the RaboResearch ten-year baseline outlook in March, 2022 US corn acres are still expected to be between 91.0-92.0m. A less than 2.0% decline from 2021. The analysis is supported by a poll taken by Rabo AgriFinance at the 2022 Top Producer Summit in February. The producers in attendance were asked "What are your Planting Intentions for 2022?", 69.2% answered no change in rotation, 9% said more corn, 16.7% said more soybeans and nearly 4% answered more wheat. And to another question, 73.3% answered high input costs did not change their planting attentions. While there will be some acreage shifts in 2022, there is not an expectation of a wholesale shift to soybeans from corn.

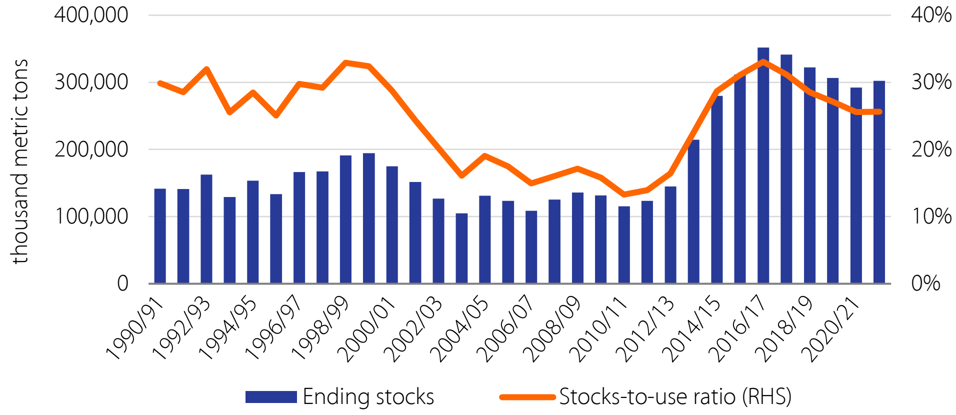
The weather challenges in Brazil and the expanding drought in the US are supportive. Like soybeans, Brazilian corn production estimates are beginning to be scaled back. While planting progress for the safrinha is running ahead of schedule despite heavy rains in Mato Grosso, the latest projections are putting the total Brazilian corn crop below 113m metric tons. While this will be larger than last year's drought-reduced crop, it is below earlier expectations. Current forecasts are calling for hot dry conditions to persist in southern Brazil and are predicting these hot/dry conditions will expand northward. If the forecast is correct, this could have a major impact on the safrinha crop. In the US, the western drought is moving eastward into the Western Corn Belt and 71% of the US is in some stage of drought. While it is too early to forecast a US drought for this growing season, the market is going to remain on edge until some weather certainty appears.

Despite some early challenges to domestic corn demand, both exports and ethanol demand have turned around. On the export front, both YTD exports as reported by the Department of Commerce and accumulated exports as reported in weekly export sales, are running less than 1% behind last year's pace. YTD weekly grain inspections are showing a 12.4% deficit. However, the weekly grain inspections report does not catch all exports. Exports for government food programs, for example., are not included. Likewise, corn demand from the ethanol sector YTD is up 9.2% versus a year ago. While USDA is capturing strong demand ethanol, their export projection is nearly 12% below last year's exports. USDA is expected to make some revisions and tighten up the 2021/22 balance sheet.

It is widely expected that over the next decade demand for ethanol will decline for use in automobiles. However, a recent venture between ADM and Gevo may create a second act for ethanol beyond gasoline. Gevo has technology to produce sustainable aviation fuel (SAF) using ethanol. The use of SAF is in its infancy, but may very well be the new demand the corn market is looking for.

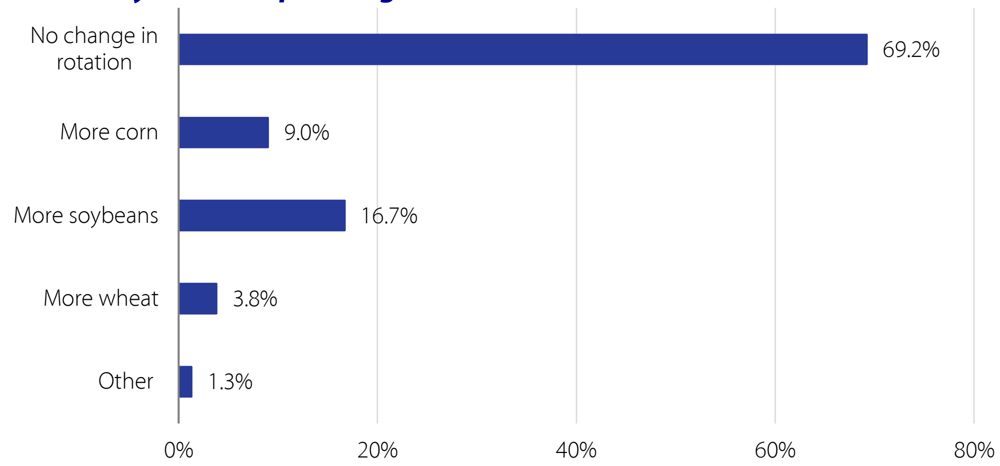
Corn prices are expected to remain strong this year, but expect increased price volatility. However, after the March Prospective Plantings report expect the market to relax and take a breather from this rally. Soon after, the market will turn its attention to the weather and the growing season, be prepared for more price volatility.

Despite higher global corn production global corn stocks and stocks-to-use are seeing little change



Source: USDA-PSD Rabobank 2022

What are your 2022 planting intentions?



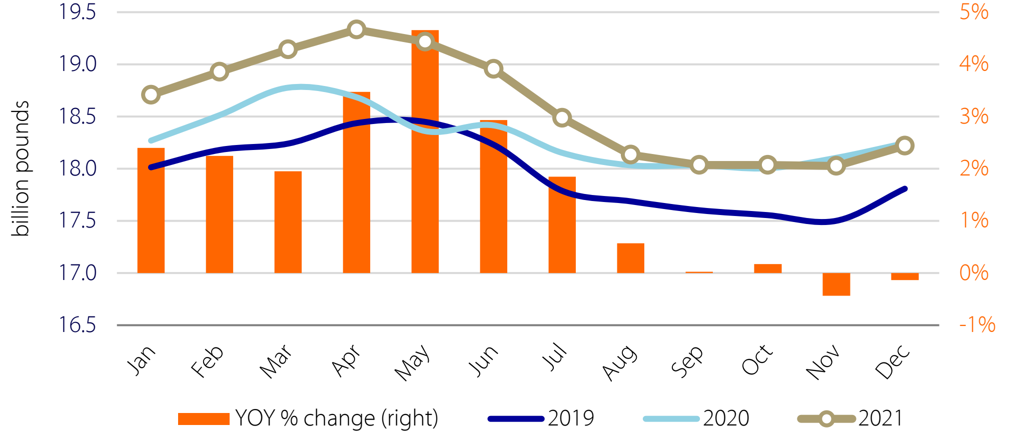
Source: RaboResearch Survey at 2022 Top Producer Summit, Rabobank 2022

Dairy

Are higher milk prices enough to trigger expansion?

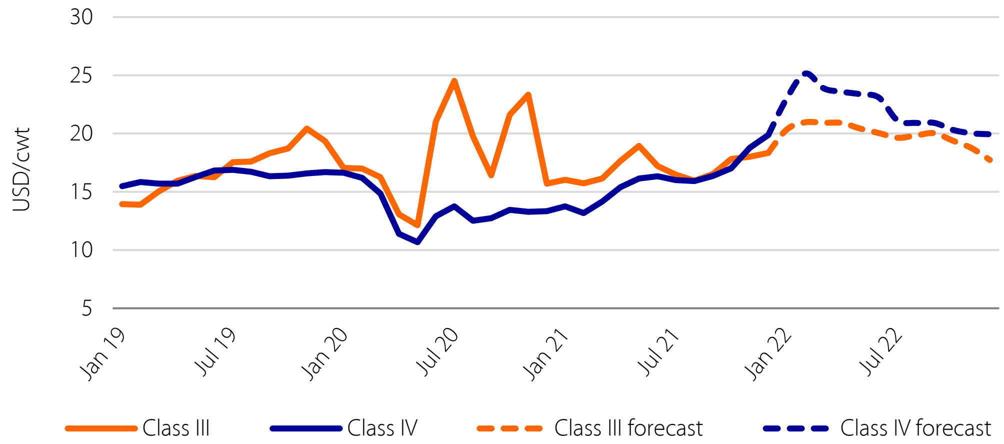
- Facing the prospect of climbing farmgate milk prices, the US milk cow herd has likely stopped its decline for the time being. On January 1, 2022, the milk cow herd was at 9.375m head, down 1% from a year earlier, and down 132,000 head from the peak in May. Milk production declined YOY in November and December by -0.4% and -0.1%, respectively, and is expected to remain in negative-to-flat territory through much of the first half of 2022 due to the lower cow numbers.
- According to the USDA Cattle report, on January 1, milk cow replacement heifers expected to calve this year stood at 2.84m, nearly 80,000 fewer than last year, suggesting that a rebound in cow numbers for the US milk cow herd could be tepid.
- Higher milk prices are creating a more optimistic outlook for dairy producer margins, despite expectations of persistently higher feed costs. The calculated margin for the Dairy Margin Coverage program is projected to be in the USD 11 to USD 13 range across 2022. However, not captured in the calculated margin are other inflationary cost pressures felt on the farm beyond simply the feed cost and milk revenue.
- Dairy commodity prices are on the rise, but the strength in butter and nonfat dry milk prices is lifting class IV milk prices above class III, a reversal from recent years and a pattern we expect to stick through 2022. Whether the higher class IV values will stimulate additional production of these products will be limited by a tight labor market, which has led to staffing shortages at some plants. The combination of reduced production and strengthening demand is leading to a drawdown in stock levels.
- Cheese prices have shown strength as well, but with ample stocks of American cheese limiting additional upside potential for cheese prices, whey prices have stepped up to provide a boost to the class III milk price. The USD 0.71/lb. whey price in January '22 was USD 0.25 above the January '21 price. That increase in whey value is responsible for approximately USD 1.50 of the increase in the class III milk price YOY in January.
- US exports finished 2021 up 11% YOY on product volume across the full year, largely from increased demand from both China (up 31%) and Mexico (up 15%). December, however, dipped slightly negative with export volumes down -3% YOY. The decrease in December was likely a result of peak congestion at ports, which has since improved and should allow backed-up product to begin flowing once again.

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



Source: USDA NASS, Rabobank 2022

Class III and Class IV milk price history and forecast Jan 2019-Dec 2022



Source: USDA AMS, Rabobank 2022

Farm Inputs

May the force – but not the force majeure – be with you. But sadly, it is.

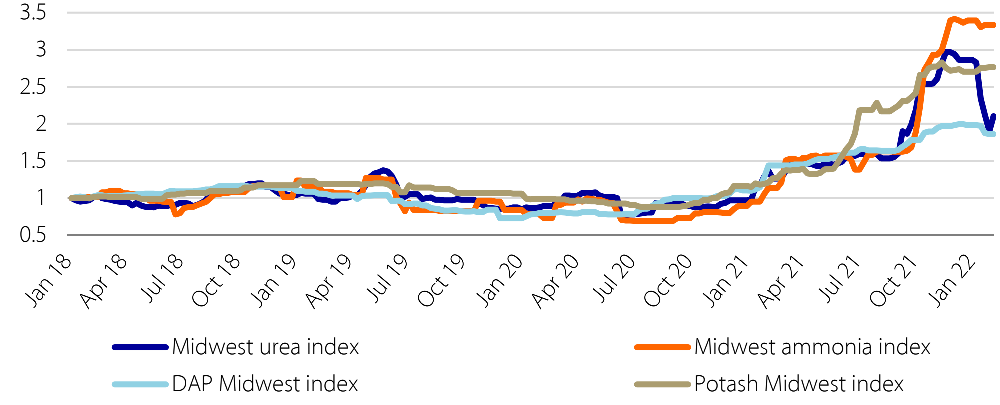
Shaping up to be another volatile year

- The fertilizer markets have aged us all through the last 12 months, and 2022 has not waited for us to catch our breath. High input costs, geopolitics, tariffs and most recently a force majeure (Belarusian potash) have fermented supply concerns.
- The torrent of uncertainty likely breeds volatility, while high input costs and strong underlying commodity prices will maintain a price floor for growers in the medium term.
- However, the two key outliers that could yet impact the markets the most are related to the uncertainty around the Russian/Belarusian/Ukrainian nexus and just when the Chinese enter the global trading market again.
- Unfortunately, high fertilizer costs are likely baked in for the 2022 season, and at this point it seems too optimistic to have confidence on what fertilizer prices are likely to do this fall. Given time, normalizations should materialize, such as ammonia not trading at such a premium to urea.
- Still, this year more than others, it will be key for growers to have an attuned cost-marketing strategy to mitigate the high fertilizer costs.

Agrochemical supply a noticeable topic for growers

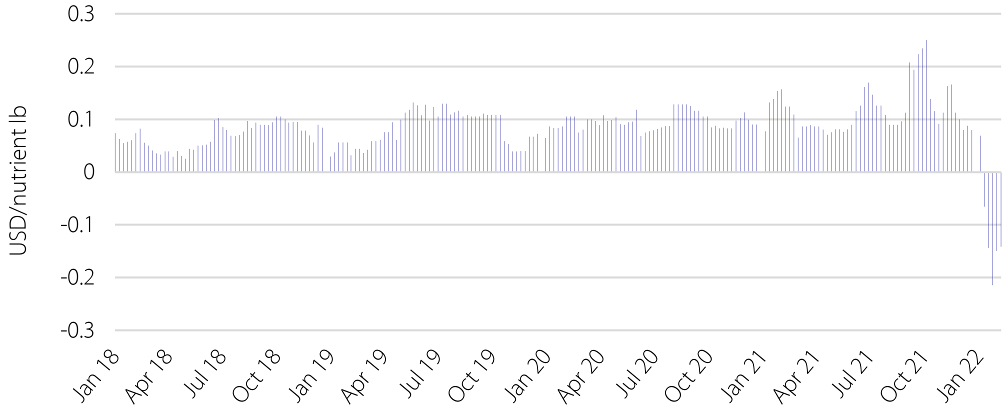
- Many growers have likely seen multiple fold increases in some key active ingredients ahead of spring field work. Production curtailments in China, supply chain woes, and more recently hurricane impact in North America, served to limit supplies in market.
- Recent survey work by Purdue University suggests as many as 30% of respondents had had issues sourcing pesticides.
- This is a reality that is only likely to be compounded further by a key glyphosate producer issuing a force majeure this past week. Unable to fulfill supply contracts as a result of raw material shortages, we are likely to continue to see pressure on supply of key active ingredients and agrochemicals this coming season.
- Growers are going to have to lean on agronomic versatility this coming season, potentially looking to alternative modes of action in the pre-plant to preserve key chemistry for in season. Shortages are unlikely to resolve themselves ahead of spring planting.

Midwest fertilizer indices reflect the volatility and inflation, Jan 2018-Jan 2022



Source: CRU, Rabobank 2022

Urea's discount to ammonia: urea-ammonia spread per nutrient lb, Jan 2018-Jan 2022



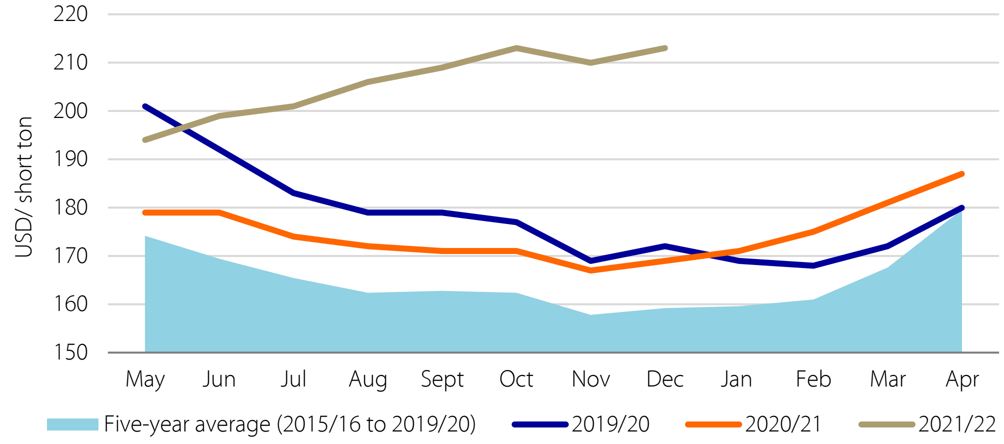
Source:, CRU, Rabobank 2022

Feed

Drought concerns and high feed grain prices

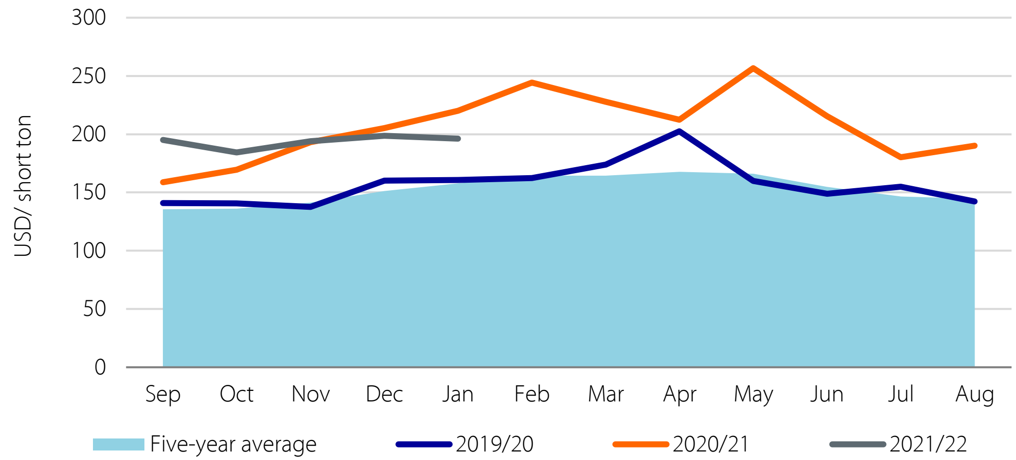
- ***Feed cost outlook to remain high.*** The feed grain outlook for the coming months is to remain higher as indicated by futures markets. The US balance sheet for feed grains remains tight – albeit with higher ending stocks than the previous year – carry over remains well below previous years. Lower crop production in South America is impacting soybean meal prices driven by lower crushing volumes, signaling more demand for US soybean meal and tight supplies of crystalized amino acids.
- ***Drought concerns moving into planting season***. Drought concerns continue to be part of this marketing year with a drier than normal winter in some parts in the Great Plains and Midwest. While this is not expected to affect the planting season, it might start weighing in crop conditions, ultimately having an impact on yields.
- ***On the plus side, DDGS are showing sign of steady to lower prices as ethanol production normalizes***. DDGS prices started the 2021/22 marketing year higher on average with 2% increase from September to January compared to same period in 2020/21. However, December to January prices have moved below last year's trend and below the 200 USD/metric ton.
- ***Hay prices remain bullish as drought pressures in the Great Plains continue.*** Alfalfa hay prices are approaching the 2013/14 record as drought impacts quality and availability. Current season average prices are ~19% higher than last season (May-December) and just below the record of USD 207/metric ton with current season average at USD 206/metric ton. Ending stocks started this marketing year lower than last year and with increased demand over winter, ending stocks could pressure higher prices.

US Alfalfa Hay Prices, 2019/20-2021/22



Source: USDA/NASS, Rabobank 2021

US DDG Central IL Prices, 2019/20-2021/22



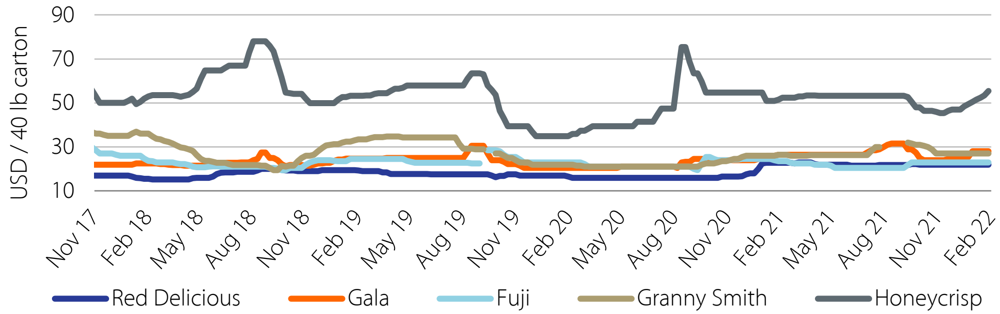
Source: USDA/ERS, Rabobank 2021

Fruits

Mixed trends in the fruit basket, including an import ban

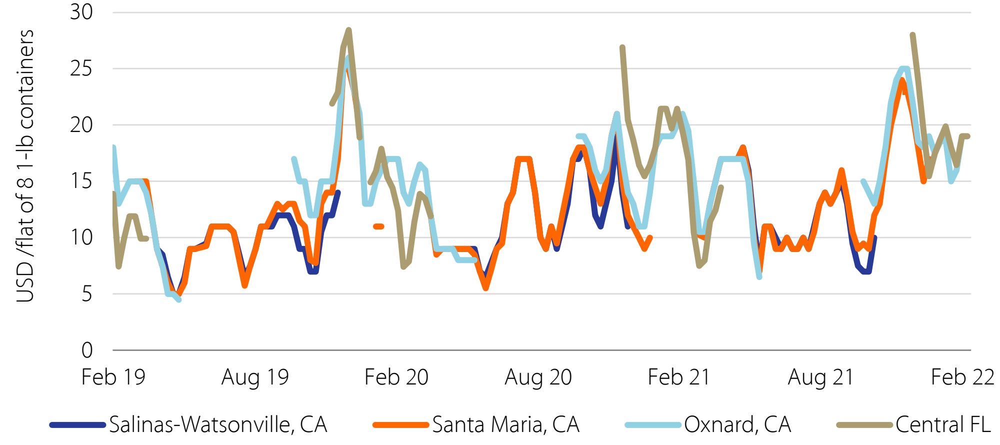
- ***Strawberry*** prices were at USD 19 per flat for non-organic product during the second week of February, slightly lower compared to market prices 52 weeks before. Fall planted acreage for winter, spring, and summer production in California is up 6% YOY, indicating improved availability in 2022.
- ***Navel orange*** prices are up 23% YOY, reaching the highest level since the 2017/18 marketing season. Orange production in the US is forecast to decline by double-digits YOY, which will continue supporting prices in 2022. ***Lemon*** prices were down 15% YOY during the second week of February, amid improved supplies. The US lemon production is expected to be up about 10% YOY in the 2021/22 marketing year, due to yields that will improve after hitting multi-year low yields, impacted by heat waves, the previous season.
- ***Avocado*** shipping-point prices in the US were up around 100% YOY during weeks leading up to the Superbowl due to strong demand. Avocado production in California is expected to increase 15% YOY. USDA imposed a temporary ban on avocado imports from Michoacán, the only state in Mexico authorized to export avocados to the US. Imports from Michoacán have accounted for about 80% of supplies to the US market in recent years. The ban is likely to last for about two weeks. As availability declines, prices in the US will temporarily increase. If the import ban lasts longer, the impacts could potentially extend beyond the US market.
- Prices for imported ***table grapes*** in the US have been up over 20% to 40% YOY, due in part to higher transportation costs from South America, boosting the CPI for fruits.
- Relatively stable ***apple*** price movements, with Honeycrisp, Gala, and Granny Smith increasing 8%, 6%, and 2% YOY, respectively, during the first half of February. Prices of non-organic Red Delicious, and Fuji were down 3% and 2% YOY, respectively. US apple exports during the 2021 calendar year declined by 7% YOY. While exports to Mexico, that accounted for 40% of US exports, increased by 20% YOY, exports to Vietnam, Indonesia, India, Honk Kong, and Thailand declined by double digits, amid supply chain issues. Transpacific exports will continue to be a challenge ahead.

Washington apple shipping point prices, 88s – WA Extra Fancy, 2017-2022



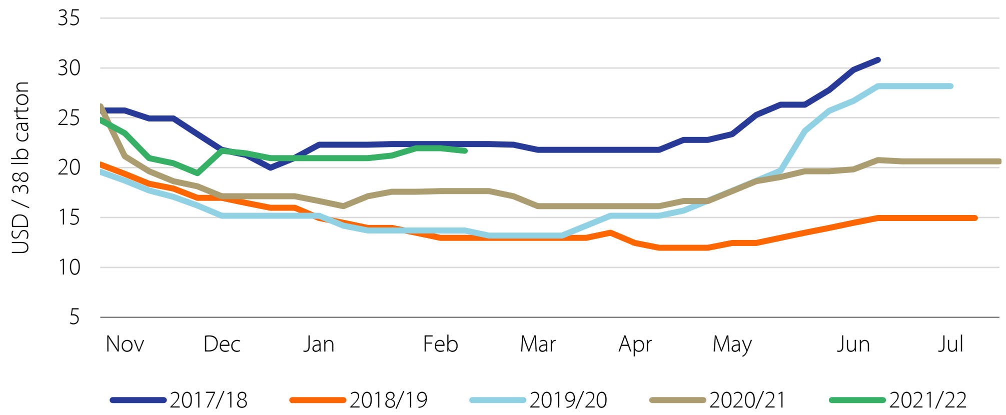
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2022

Strawberry shipping point prices – primary US districts, Feb 2019-Feb2022



Source: USDA AMS, Rabobank 2022

California Navel orange shipping point prices, 88s – shipper's 1st grade, 2017/18-2021/22



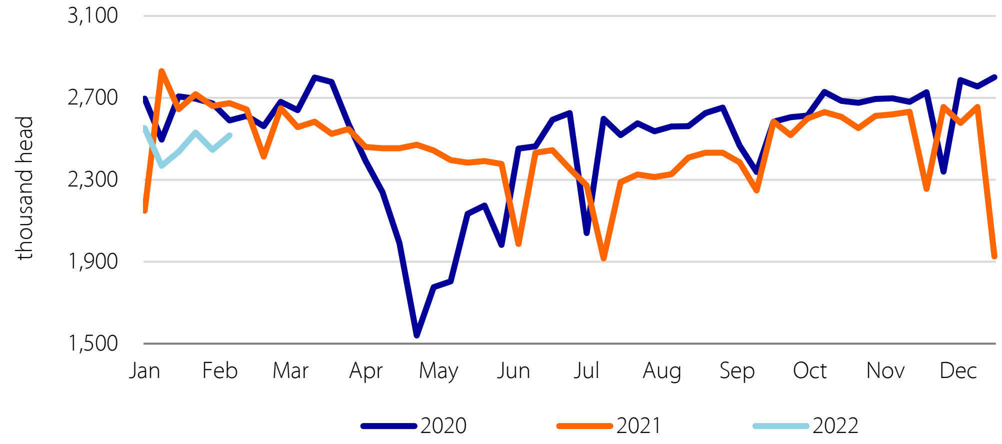
Source: USDA AMS, Rabobank 2022

Pork

Pork markets surge on tight supplies and strong demand

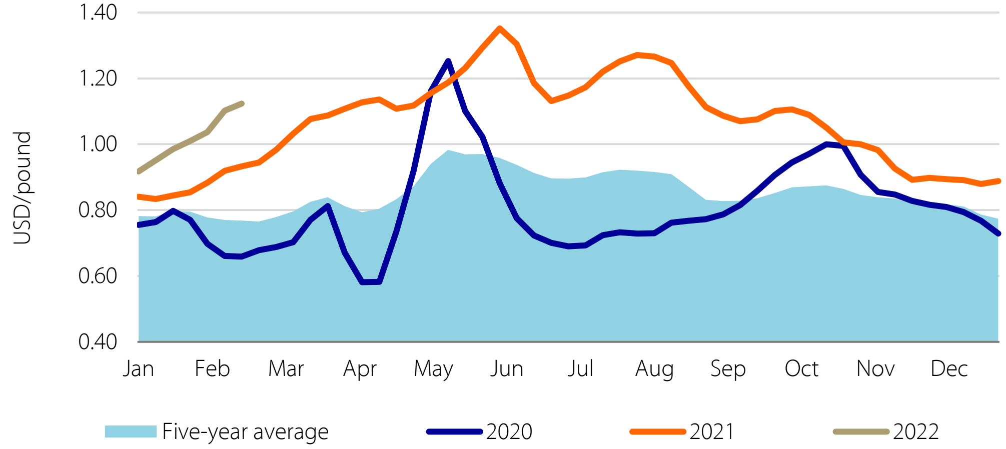
- ***2022 pork production YTD is down 10.2% versus year-ago levels, to 3.2bn lbs, on reduced slaughter due to coronavirus labor challenges and frequent weather disruptions.*** Slaughter has started to normalize, but remains below earlier expectations as finished hog supplies are strained due to higher disease loss and slower weight gain. Increased competition for finished hogs has pushed hog prices up 19% YTD and summer markets to a record USD 113 per cwt. Although supplies should normalize through spring (March-April), herd health issues are expected to remain supportive to price through summer. Strong markets will help producers manage rising feed and energy costs, with producer profitability for the year estimated at USD 18/head.
- ***Reduced production and strong demand are also driving a sharp increase in pork values, up 24% YTD and 17% above year-ago levels.*** Big increases in loins (+31%), butts (+49%), and bellies (+26%) may curb demand in coming weeks, although reduced supplies of beef and chicken may limit declines. Ham prices continue to trail year-ago (down 6% YOY), as labor availability remains a challenge, resulting in larger sales of lower-value, bone-in product. Retail demand for pork continues to exceed expectations, but could slow as retailers pass higher costs through to consumers.
- ***US pork and variety meat export volumes were the second largest on record at 2.9m metric tons, down 2% YOY, while export values were a record USD 8.1bn up 5% YOY.*** Stronger exports to Mexico (+27% YOY) offset much of the 29% YOY decline in shipments to China, while gains in South and Central America (+16% YOY and 41% YOY, respectively) also helped boost volumes. Exports were weaker at year-end (down 17% YOY) as freight disruption and Covid-related demand weakness weighed on holiday sales. Weekly export sales continue to disappoint (down 20% YOY) through early February on lower production and weather-related disruption and are expected to remain soft through Q1 2022. US pork exports remain relatively expensive versus the EU and Brazilian competition, and there is limited demand from China given ongoing price weakness. Exports should improve by 2H 2022, but will continue to face competitive headwinds.
- ***Mexican hog prices have struggled, down roughly 6% YTD and at or slightly below breakeven for many producers.*** Ongoing disease challenges and high feed costs have pressured margins in many regions, despite relatively strong domestic demand. Pork prices are up modestly from year-ago, reflecting higher wholesale costs and inflationary trends. Pork imports through November were +23% to 1.2m metric tons and +53% YOY in value.

US federally inspected weekly hog slaughter, Jan 2020-Feb 2022



Source: USDA 2022

Pork cutout values, 2020-2022



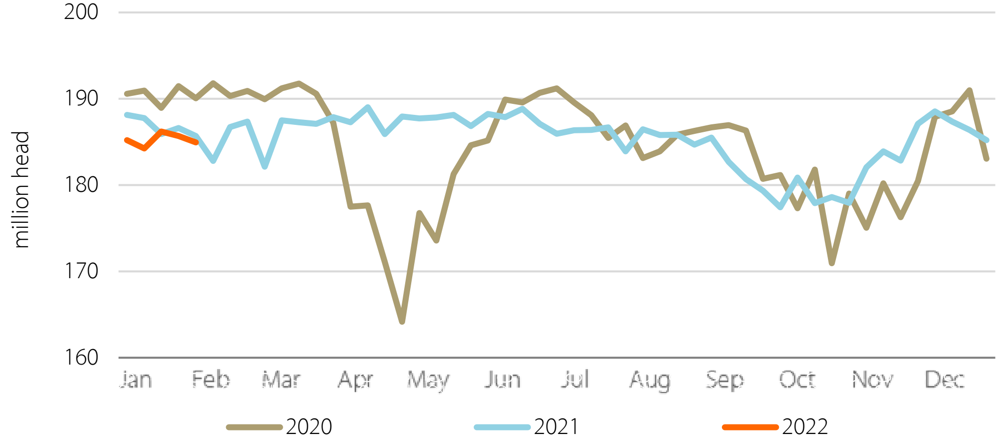
Source: USDA Rabobank 2022

Poultry

Prices sharply higher as chicken supplies remain tight

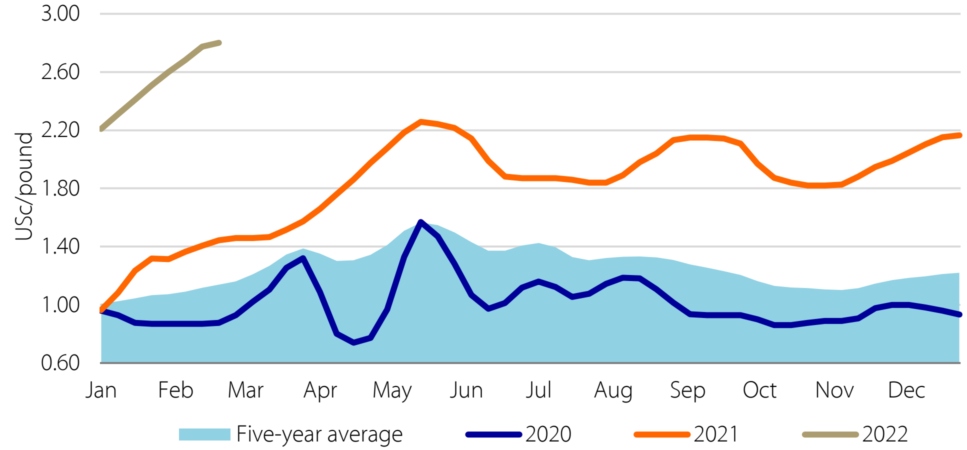
- ***Chicken prices remain very strong (+55% YOY) as strong retail and foodservice demand continues to outpace supply growth.*** Tight supplies of competing proteins and limited labor availability are contributing to ongoing strength in deboned products, both breast meat (+104% YOY) and thigh meat (108% YOY). Tenders also remain sharply higher (+48% YOY) on strong foodservice demand. After nearly 18 months of exceptional strength, wing prices moved below year-ago levels as some chains have secured alternative menu options for 2022. With limited supply growth expected in 2022, we expect pricing to remain strong through the remainder of the year.
- ***Ready-to-cook (RTC) chicken production through February is down 2% due in part to Covid-related labor challenges in January and more recent weather slowdowns.*** Given current placement levels, we expect to see relatively flat RTC production in 1Q 2022 of 10.8m pounds and a 1.2% YOY increase for the full year.
- ***Chick placements continue to trail year-ago levels (down 1.3% YTD), but the industry has narrowed the gap in recent weeks.*** Hatchability continues to trail historic averages by 3%, yet is improving (+0.8% YTD) from prior levels. The industry continues to increase the hatchery supply flock, with 7% YOY growth in supplies in Q4 2021 to offset lower industry productivity. We expect a gradual increase in supplies by mid-year.
- ***Chicken exports were up 1.1% YOY in volume in 2021 and up 25% in value to a record USD 4.4bn YOY.*** Chicken leg quarters still account for nearly half of all export volumes, but continued growth in exports of chicken paws (+25% YOY) drove nearly all of the increase in export values. Sharply higher exports to Cuba (+81% YOY) and the Philippines (+98% YOY), helped offset weaker shipments to Mexico (-2%) and China (-12%). Recent cases of avian influenza in IN and KY are not expected to significantly impact trade given their low concentration of broilers, but the risk of new cases in more densely populated poultry growing states remains a serious risk for 2022 exports.
- ***Mexican chicken prices up 14% YTD and 4% ahead of year-ago levels as producer cutbacks and recent disease challenges continue to limit supply***. Imports through November were +11% YOY to 997,000 metric tons and were +55% YOY in value at USD 1.5bn. Newly-granted quotas or "cupos" of 30,000 metric tons should help Brazil access the market, although the US remains the primary supplier.

Weekly chick placements, 2020-2022



Source: USDA, Rabobank 2021

US boneless breast meat prices, 2020-2022



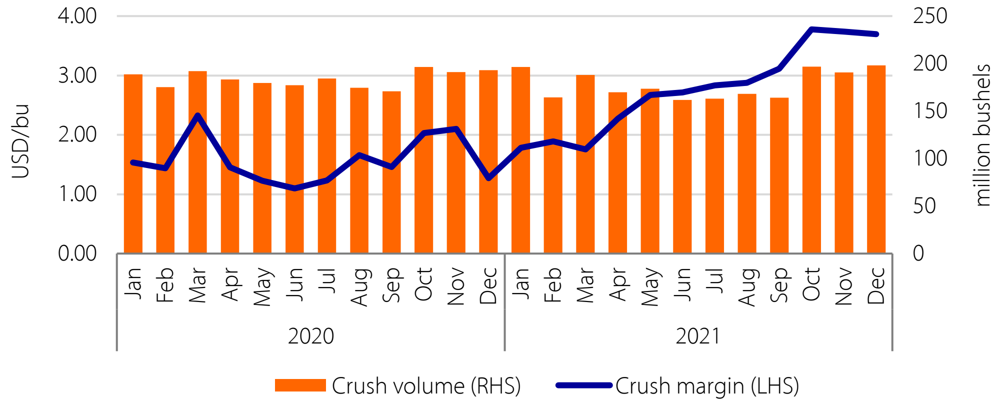
Source: USDA 2022

Soybeans

Prices to remain supported by tight balance sheet

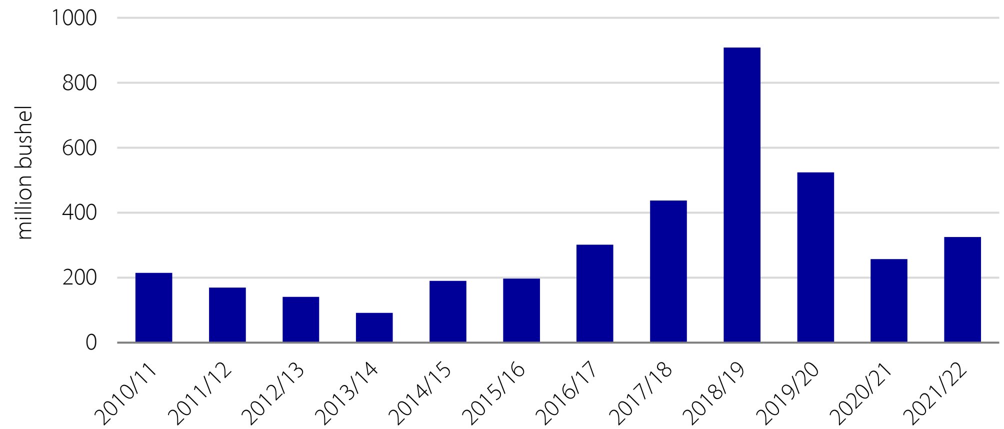
- ***Crush domestic demand increased by good margins***. Soybean demand has been updated in the latest WASDE report, driven partly by good margins. As Argentina and Brazil continue to see a decline in their production estimates due to weather related issues, demand for US soybean meal is increasing driving US soybean crush margins to USD 3.74/bu the first quarter of the marketing year, compared to the USD 1.80/bu seen in the same period back in 2020/21 marketing year.
- ***Ending stocks showed a decline as increased demand for domestic crush increased***. Ending stocks continue to rebuild after last marketing year decline, however, with domestic crush demand increasing, the USDA reduced end of year stocks for 2021/22. If South America continues to see a decline in production, demand for US soybean or soymeal could potentially push ending stock further down. Ending stocks are now expected to decline 7% from previous month estimate reaching 325m bushels.
- ***Potential for more exports based on Brazilian and Argentinean Outlook***. As recent estimates from Brazil and Argentina show a decline in soybean production this is likely to affect world exports. The US might have to increase soybean exports to cover some of the loss in Brazil and Argentina, which will put further pressure on soybean prices.
- ***Prices will continue to be supported through this marketing year as the world balance sheet remains tight***. For the US, this continues to benefit farmers and creates an advantage for planting season. As US stocks remain lower and there is a possibility of more exports or increased demand for crush, prices will remain supported. Prices received by farmers increased by 3% to USD 13/bu. Given where ending stocks are and how tight the balance sheet is, prices will remain supported for 2021/22.
- ***Our take in expected acreage***. Rabobank's baseline is calling for higher acreage this March. Driven by good prices, lower input costs relative to other commodities, and supported demand with crushing facilities coming online will incentivize more acreage. Stay tuned for our 10-year baseline on G&O.

US Soybean Crush Margins and Crushing Volumes from Jan-2020 to December-2021



Source: USDA, Rabobank 2021

US Soybean Ending Stocks from Marketing year 2010/11 to 2021/22



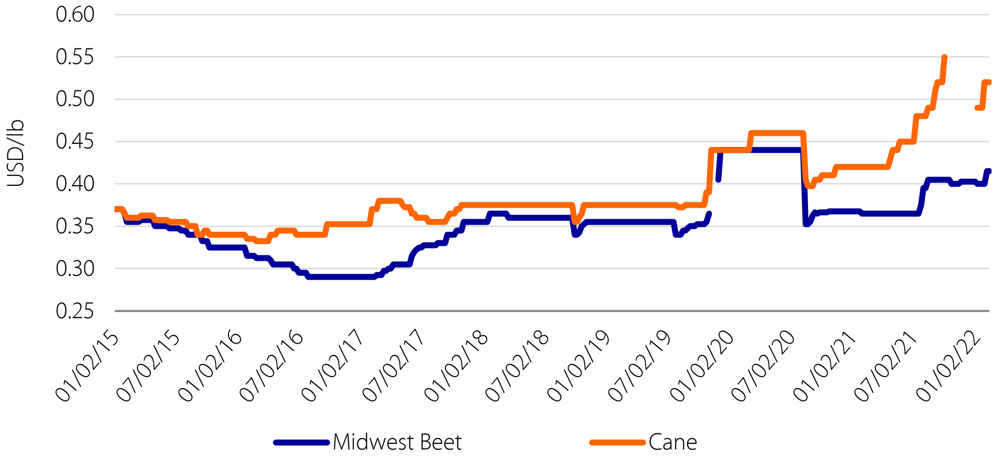
Source: USDA-WASS, Rabobank, 2021

Sweeteners

Robust demand supportive to sugar prices

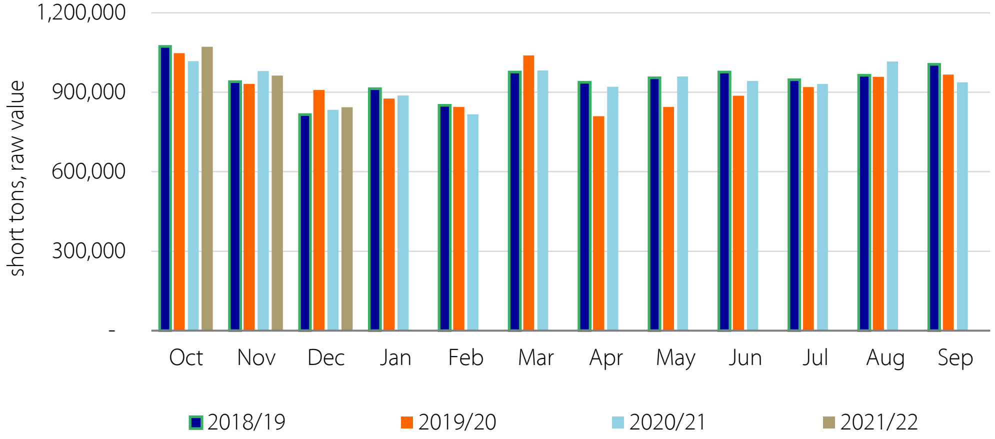
- ***Nearby sugar supplies remain tight, which has been supportive for prices.*** This is despite USDA loosening up the balance due to higher Louisiana cane sugar production from a longer harvest season and strong sucrose content. Offtake in the new crop year has been strong adding to strong prices.
- ***In the first quarter of the 2021/22 crop year, total deliveries of beet, cane and non-reporters are up 9.6% versus Q4 2020.*** Breaking out the beet and cane, deliveries are +6.2% and -1.9%, respectively. Expectation is that robust offtake is in the offing for Q1 of 2022. In addition, the trade is reporting there are buyers still looking for sugar for 2022. This is also helping support prices.
- ***Mexico has been maintaining a strong export pace to the US to fulfill an additional 150,000 metric ton import allocation issued by the US in late November to relieve tight raw sugar supplies.*** For Q4 2021, US sugar imports from Mexico are up 346.0% from the previous year at 153,3485 short tons, raw value. In order to fulfill, Mexican sugar exports are expected to remain strong Q1 2022, hopefully this will ease some of the upward price pressure. This additional sugar importation must be completed by March 1.
- ***The sale of Imperial's sugar refinery at Savannah, GA, by Louis Dreyfus Company is at a stalemate.*** The US Department of Justice sued to prevent US Sugar from buying the facility, citing the creation of a duopoly in the southeastern US. US Sugar, United Sugars and Imperial have all filed a counter suit. It is expected to go to trial in April.

Domestic sugar prices are moving higher



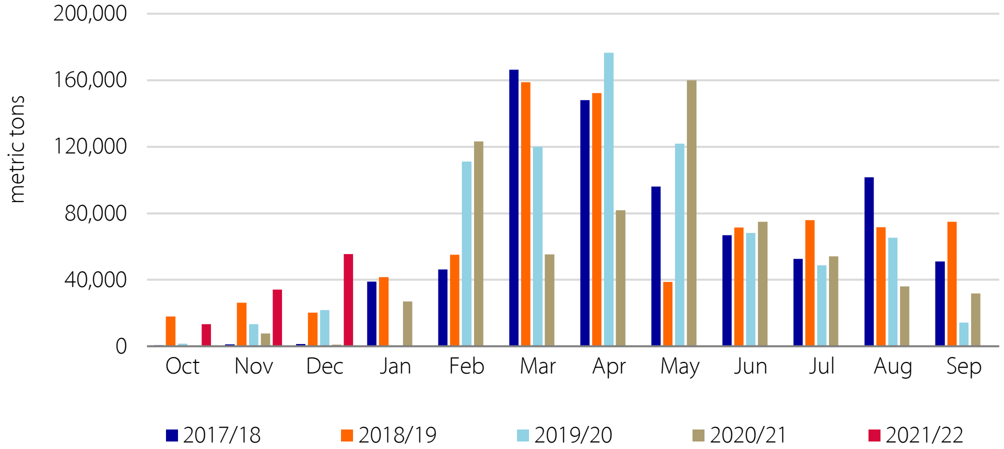
Source: Milling & Baking News, Food Business News, Rabobank 2021

Beet and cane human deliveries are up 1.6% for Q1 of 2021/22 crop year



Source: USDA-FSA, Rabobank 2022

Mexican sugar exports to the US are at a record pace



Source: USDA-FAS/GATS, Rabobank 2022

Tree Nuts

Almond and walnut exports lagging from record levels past season

Almonds: Marketable supplies (carry-in plus current marketable crop) in 2021/22 will be down about 6% YOY. Shipments in 2021/22 through January were down 16% YOY, with domestic shipments showing no significant change from the previous season. On the other hand, exports were down 22% YOY, impacted by logistics bottlenecks. The possibility of a larger-than-average carry-out has pressured prices. Bloom season is starting in California with dry weather. After a wet December, and a very dry January, the water outlook remains a question mark at this point.

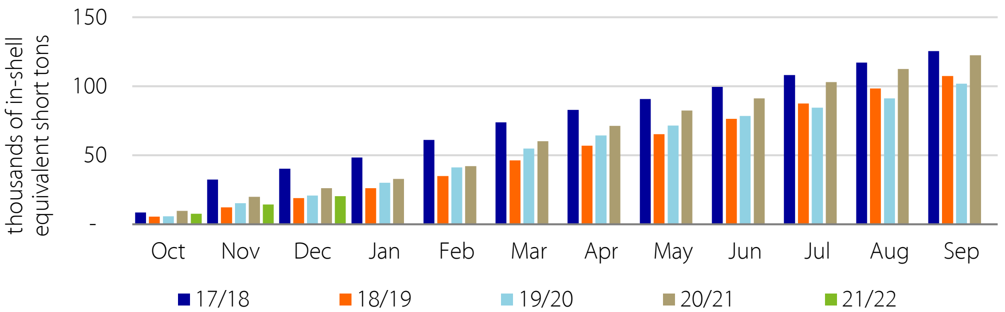
Hazelnuts: Carry-in into the 2021/22 was almost 15% of the 2020/21 record hazelnut crop, according to industry statistics. Shipments in 2021/22 through December are down about 7%, with kernel exports declining 18% YOY. Canada and Germany will remain the largest export markets for kernel. Industry sources reported that China imposed an increased tariff on US hazelnuts in 2022.

Walnuts: Estimated marketable crop is down about 8% YOY in 2021/22, but the crop surpassed the USDA's objective estimate. Shipments were down 21% YOY, with exports declining 27% YOY in 2021/22 through January. About 38% of marketable supplies were sold, lagging from previous seasons at this time of the year. Increasing international competition from Chile and China will continue in 2022, with Chile shipping to similar export markets as the US, particularly in the EU. Prices in California started strong this season; however, shipping delays and some lackluster buying has weighed down pricing.

Pistachios: The 2021 crop receipts surpassed 1.1bn pounds, up about 11% YOY, for back-to-back record crops. In the 2020/21 marketing season, shipments were up about 4% YOY, with domestic shipments up 8% YOY and exports increased about 3% YOY through December. Despite shipments keeping pace, prices will be pressured due to increased availability in the US. As for international competition, a shorter crop in the Middle East (Iran and Turkey) will provide some price support.

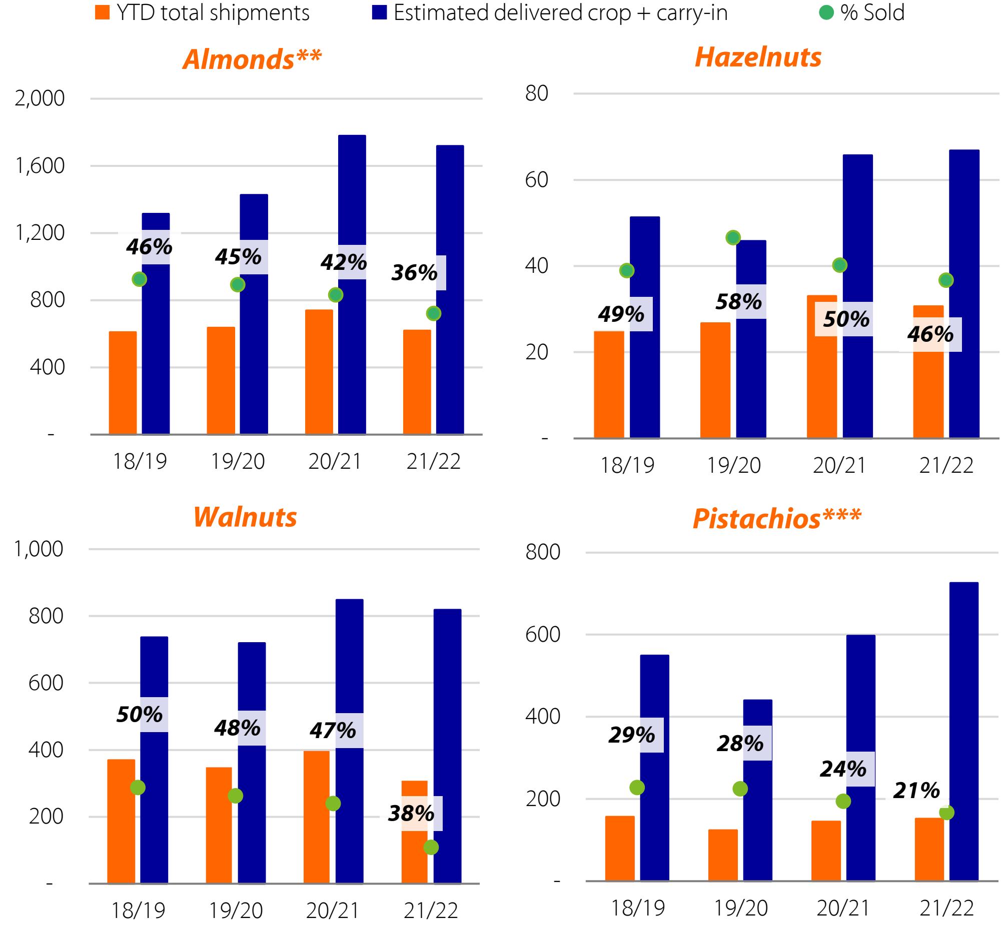
Pecans: US pecan export volumes in the 2021/22 marketing season through December were down 23% YOY, according to USDA figures, the lowest YTD export volume since the 2018/19 season. Industry sources show that the increase in domestic consumption has offset the reduction in exports. The 2021/22 crop is reportedly shorter than expected. Prices may improve ahead given a likely low carry-out.

Cumulative US pecan exports, 2017/18-2021/22



Source: USDA FAS, Rabobank 2022

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



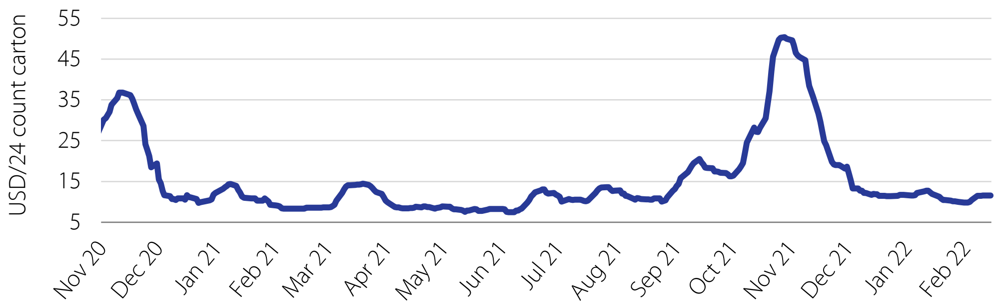
*Source: Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, Rabobank 2022. *Through January 2022, 2021/22 marketing season for almonds; and walnuts; December 2021, 2020/21 marketing season for hazelnuts and pistachios; **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

Retail demand signals retreat, but prices of many vegetables remain strong

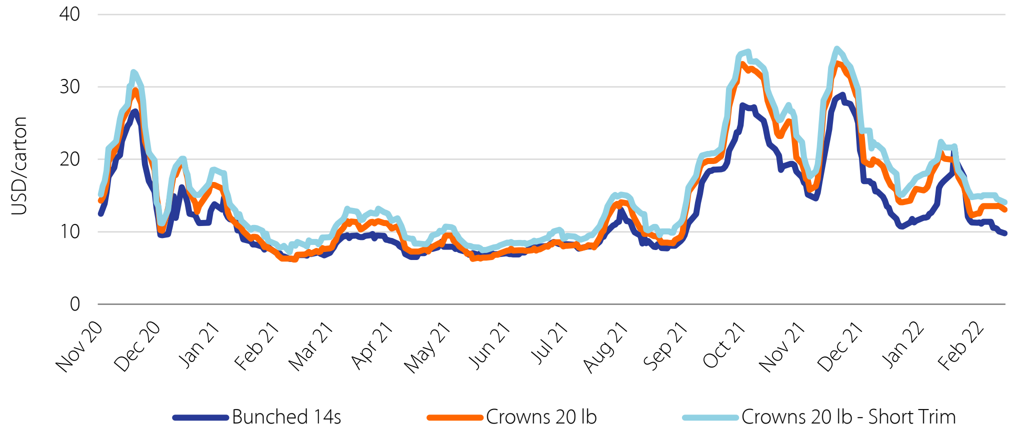
- ***Consumer retail demand for fresh vegetables continues to grow slower year-on-year.*** Dollar and volume sales of fresh vegetables continued their descent through January 2022, dropping 0.5% and 5.2% YOY, respectively, according to the IFPA. The drop is partly explained by a return to normal demand after last year's boom. But high inflation is also increasingly adding more pressure on volume.
- ***The weather in California and Arizona has been very good in general. Shortage of farm labor and truck drivers are major headwinds. Shipment and price levels are a mixed bag.*** For leafy greens, shipments are close to their historical lows for iceberg and leafy lettuces and to their averages for romaine, spinach and kale. Prices of romaine, iceberg lettuce and spinach are noticeably strong, whereas those of leafy lettuces and kale are around average and close to last year's levels this time of the year. At USD 10.66 and USD 16.74, romaine 24s and hearts (12x3) are higher by 46% YOY and 67% YOY, respectively, whereas at USD 10.91 iceberg wrapped 24s price is up 24% YOY. For broccoli, cauliflower and cabbage, both shipments and prices are at their historic highs for this time of the year and above last year's. At USD 14.80 per 20-pound carton, broccoli crown price is up 78% YOY. Prices usually drop by early spring, remain relatively flat until late summer and early fall.
- ***The East Coast, in general, suffered from sporadic cold spells, offering crops a short-term price relief .*** Prices of Florida's main vegetables, such as tomatoes, cucumbers, bell peppers and squash will be elevated, though remain generally weak and lower YOY as shipments are historically high and higher YOY. The price of these crops usually drops beginning of the second quarter and remains flat for the rest of the year
- ***Last season's drought resulted in the smallest potato crop in almost a decade. Prices in 2022/23 season are expected to be even stronger than their current levels .*** Idaho Burbank Baled 10# non-A price is USD 17.50. Russet 5/10# Size A prices range between USD 16.00 and USD 23.0, depending on the region. The Red 10/5# Size A price are at USD 33.00. High input costs and competitive prices of rotation crops, such as spring wheat and barely, will likely reduce planted potato acreage. This, together with strong demand both domestically and globally, will likely result in even higher prices in 2022/23. Prices of processing potatoes are also pressured upward given the high fresh potato prices, lower-than-usual processing potatoes' carry-over stocks and recovered foodservice demand.

Wrapped iceberg lettuce – US daily shipping-point price, 2020-2022



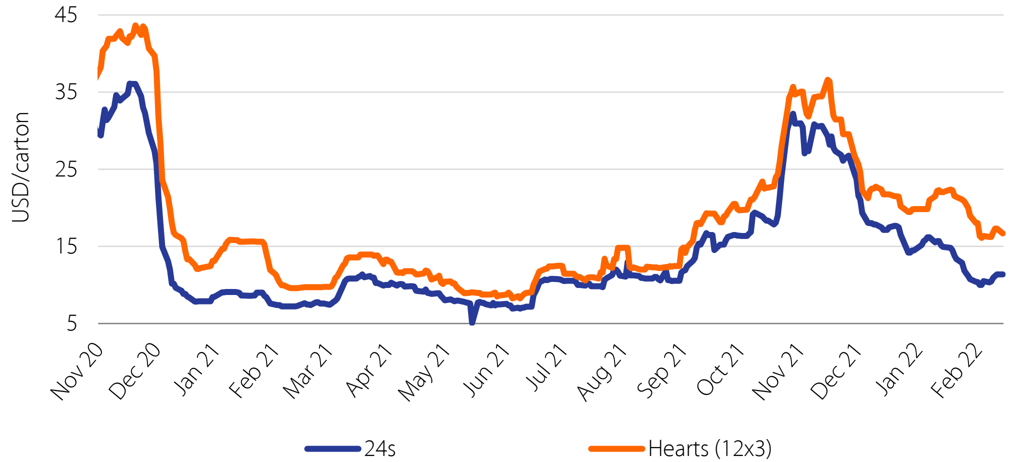
Source: USDA AMS, Rabobank 2022

Broccoli – US daily shipping-point price, Nov 2020-Feb 2022



Source: USDA AMS, Rabobank 2022

Romaine lettuce – US daily shipping-point price, Nov 2020-Feb 2022



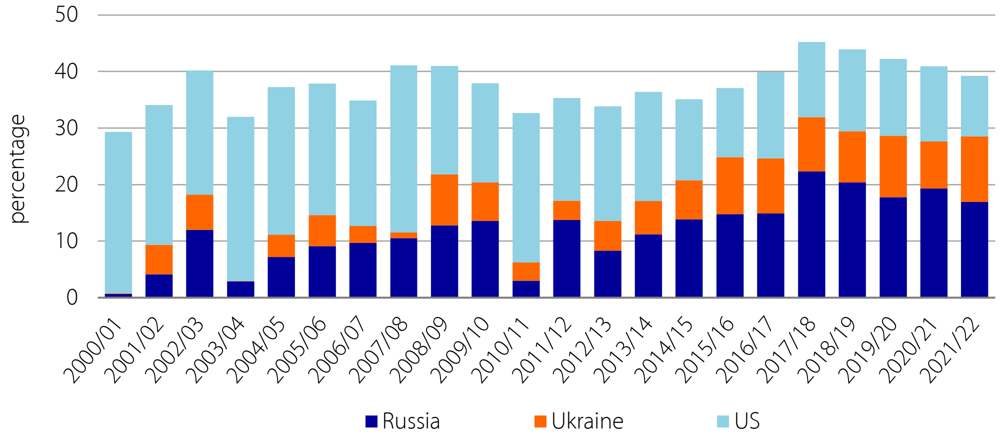
Source: USDA AMS, Rabobank 2022

Wheat

Wheat market is all about uncertainty

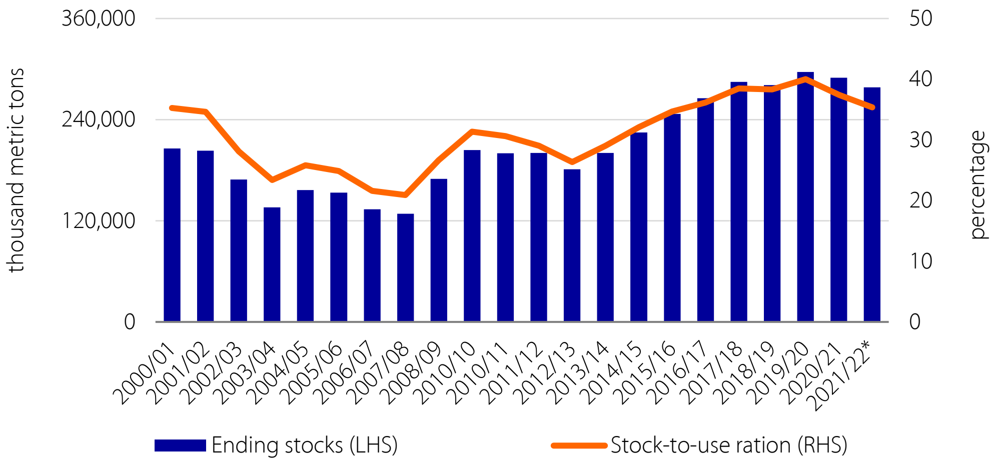
- ***Seemingly everything points to higher wheat prices.*** If the US-Ukraine-Russia standoff wasn't enough to be supportive to wheat markets, weather and tightening global supplies are all keeping wheat prices high.
- ***The standoff between the US and Russia over Ukraine continues to keep a fire under global wheat markets.*** At the time of writing, tensions appear to be escalating and markets remain on edge. The uncertainty of the political and economic stability of the region has the potential to hurt exports and production in the region for many years. Russia and Ukraine have been the number one and two global wheat exporters (except this year Australia will be number two) supplying the global market with plentiful supplies and cheap prices. Buyers will be more cautious of buying Russian and Ukraine wheat as they will be concerned about availability and reliability of shipment. Importers may look elsewhere for wheat, which could benefit US exports. Also, most of Ukraine's wheat is in the eastern half of the country, which is on the front line. As a result of all the uncertainty, prices have increased, adding to global food inflation. The geopolitical instability is having an impact that will not be reversed quickly.
- ***The unrest and uncertainty in the Black Sea region is happening at a time when global wheat stocks are projected to be at a five-year low.*** Despite an increase in forecasted production in 2021/22, higher consumption and increased trade all result in lower ending stocks. While the world is not likely to run out of wheat, the multi-year decrease in stocks is supportive to prices beyond this crop year unless both the Black Sea region sees tensions ease and the weather turns around in key growing regions.
- ***Prices do matter, at least in terms of attracting acres.*** US winter acres are projected to increase 2.2% in 2022 to 34.4m acres and this is on top of 10.5% increase in 2021. This is a glass-half-full and half-empty story. If you assume the glass is half empty, wheat has taken acres away from other crops. However, if the glass is half-full, prices are the incentive to expand acres. Assuming the latter, wheat may be pointing the way by saying that high prices will help US producers find a few more acres in 2022.
- ***As discussed in the corn section, the weather remains an important factor in supporting wheat prices.*** Producers in the Great Plains from the Mexican border into Canada continue to be concerned about dry conditions. The winter wheat crop condition may not be a good indicator of the crop to be harvested this summer (see 2021). Going into dormancy, the 2022 crop condition was below last year. The trade will have to wrestle with whether the winter wheat will be fine like last year, or whether a second year of dry conditions will result in a smaller crop than anticipated. As a result, wheat prices will be well supported for at least the first half of 2022 until the northern hemisphere winter wheat crop is harvested. With uncertain weather and geopolitical relations, assuming that all of this will turn around in the next six months may be a tall order.

Russia and Ukraine account for nearly 30% of world's wheat exports



Source: USDA-PSD, Rabobank 2021

Global wheat stocks are projected to be at a five-year low

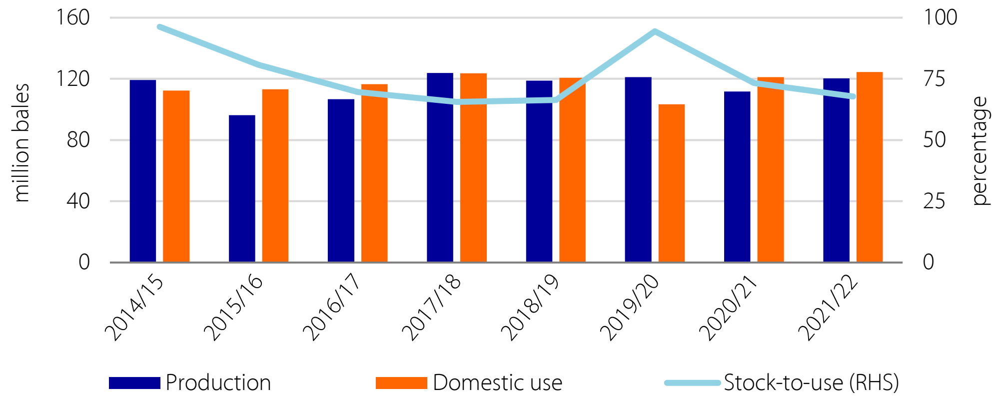


Source: USDA/FAS-PSD, Rabobank 2021

Cotton

- ***Cotton acres will see an increase, but it will be limited***. As we move to planting season, cotton acres will see a jump in line with higher prices. Cotton is likely to see 400,000 to 600,000 acres increase in the US driven by higher prices. Despite higher prices, input costs among other expenses are higher this year, which will prevent cotton to reach 13m acres.
- ***World cotton stocks continue to see a decline***. Global cotton production is forecast higher this marketing year at 122m bales a 9% increased compared to last season. However, despite a large increase in global production demand for mill use continues to outstrip production. Cotton ending stocks are projected to decline 3% in 2021/22 supporting global prices.
- ***Season average prices remain at USc 90/lb***. US exports have been lowered due to record import volumes in 2020/21 and despite record global levels in mill use. Prices are expected to be well supported with new crop future signaling above USc 90/lb, which could help alleviate some of the cost pressures and potential persistence of high input cost.

Global cotton domestic use continues to increase with two-year decline on stock-to-use in 2020/21 and 2021/22

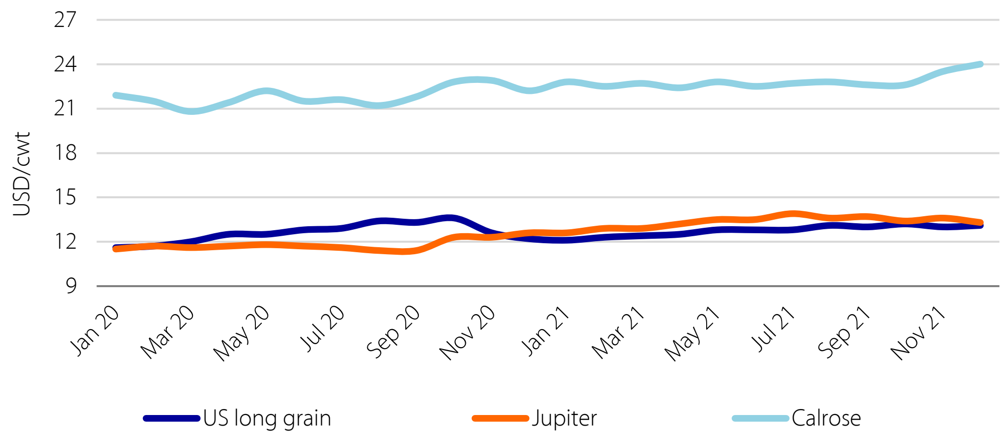


Source: USDA, Rabobank 2021

Rice

- ***Potential acreage to remain at the same level or even decline***. As competing crop prices reach near level records, rice acreage is likely to remain at the same level. Historical data show that little change on rice acreage has happened in the South with stable acreage in the Delta region. However, given high input costs and high prices in other commodities, we could see a small decline in rice area planted. This season, rice acreage registered 2.5m acres compared to 3m acres in 2020/21, a decline of ~17%.
- ***Exports might see challenges with Haiti and Iraq***. US rice exports are expected lower this marketing year as recent data suggest that only 87m cwt out of the initial estimate of 88m cwt will be exported. Recent developments in Haiti might slow down exports to that country, while competition for Iraq imports remains to be seen given higher prices in the US compared to world prices.
- ***US to see tariffs drop to zero in 2023.*** Since the free trade agreement signed between Haiti and Central America, the US has faced import tariffs from this region. However, starting 2023, tariffs are expected to drop to zero, which will benefit US exports and make the US more competitive in that region.
- ***Domestic demand continues to perform relatively well. Total domestic use is expected lower than last season, but higher than previous years***. Domestic demand is below ~5% YOY but higher ~1% compared 2019/20. Strong consumer demand from Covid lockdowns has increased demand for milled rice. As prices remain uncompetitive in international markets, US domestic market milled rice might find the demand domestically. This should help exporters reduce international markets uncertainty.

24-month US rice prices, Jan 2020-Dec 2021



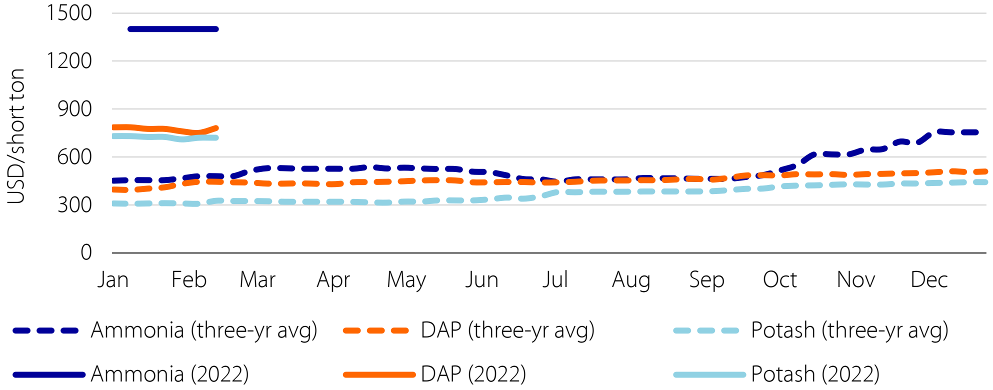
Source: USDA NASS, USDA ERS, Rabobank 2021
Note: Average rough rice basis

Input Costs

Rabobank

As of February 17, 2022

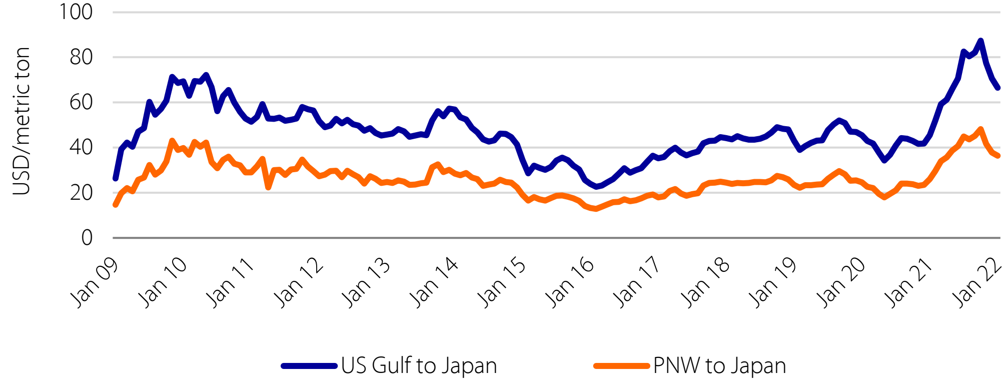
Corn Belt input prices*



*Note: granular potash

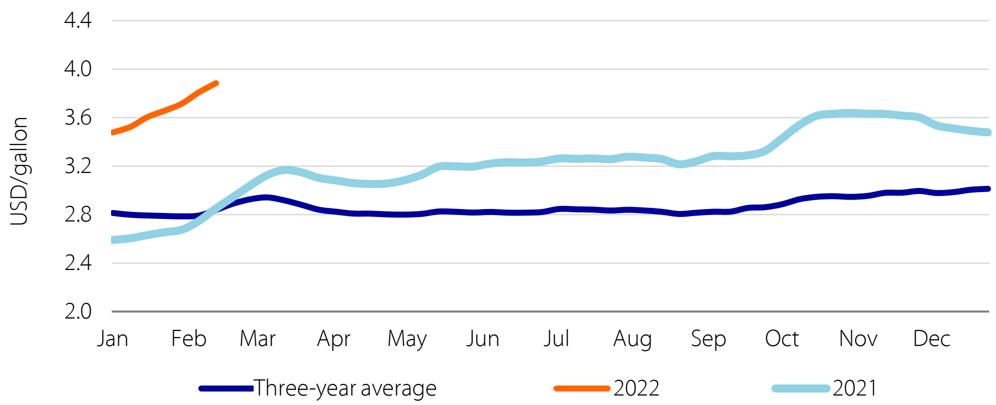
Source: Bloomberg, Rabobank 2022

Ocean freight



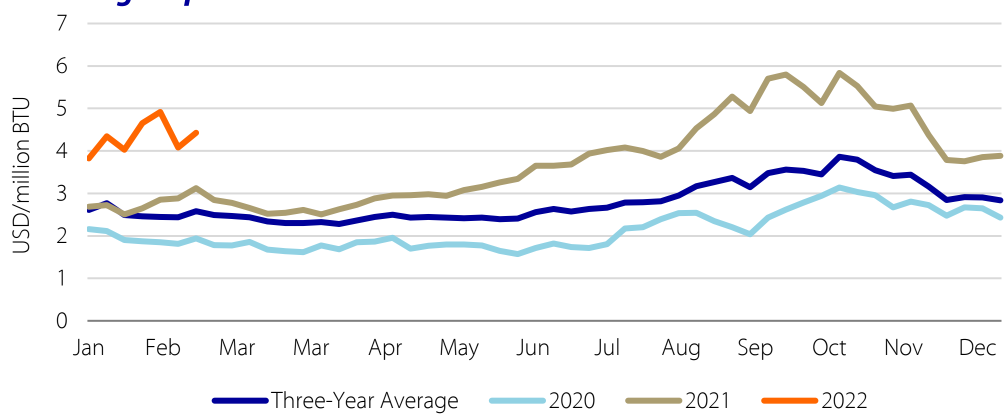
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2022

Diesel – Midwest



Source: EIA, Rabobank 2022

Natural gas spot



Source: NYMEX, Rabobank 2022

Forward Price Curves

As of February 17, 2022

CBOT – Corn

Source: CBOT, Rabobank 2021

CBOT – Soybeans

Source: CBOT, Rabobank 2021

CBOT – Soymeal

Source: CBOT, Rabobank 2021

CBOT – Soy oil

Source: CBOT, Rabobank 2021

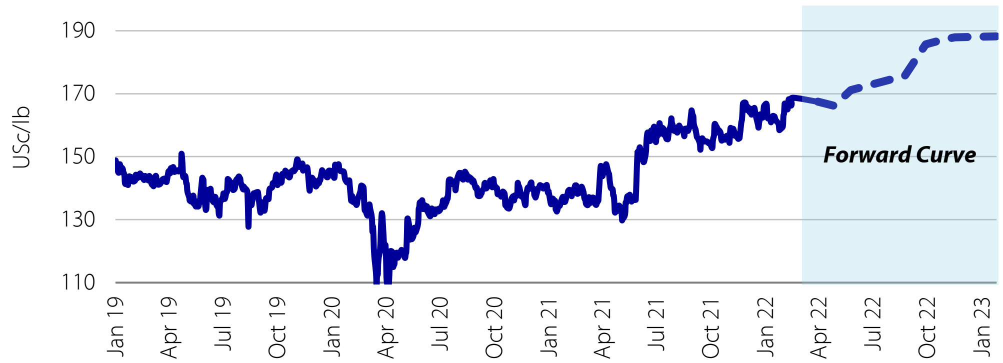
Forward Price Curves

As of February 17, 2022

CBOT – Wheat

Source: CBOT, Rabobank 2021

CBOT – Feeder cattle



Source: CBOT, Rabobank 2021

CBOT – Lean hogs

Source: CBOT, Rabobank 2021

CBOT – Live cattle

Source: CBOT, Rabobank 2021

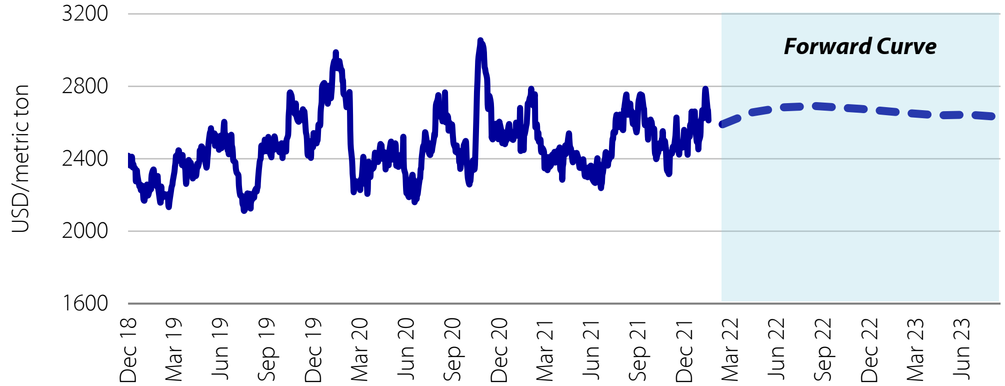
Forward Price Curves

As of February 17, 2022

ICE – #2 Cotton

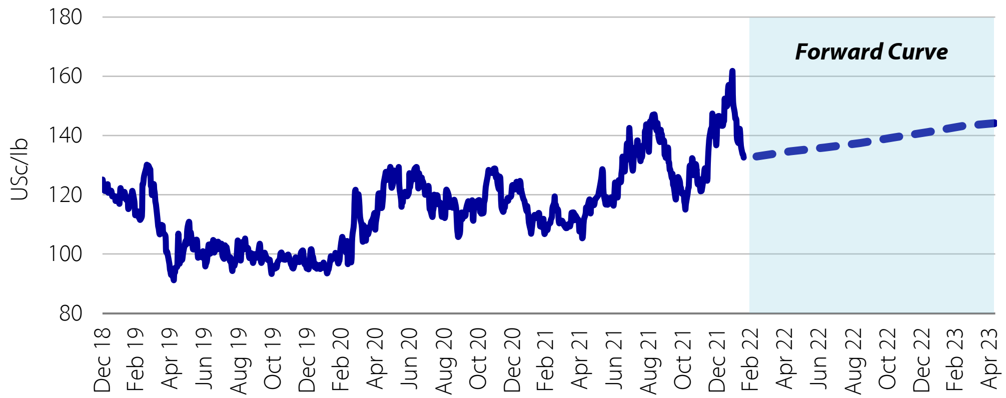
Source: ICE, Rabobank 2021

ICE – Cocoa



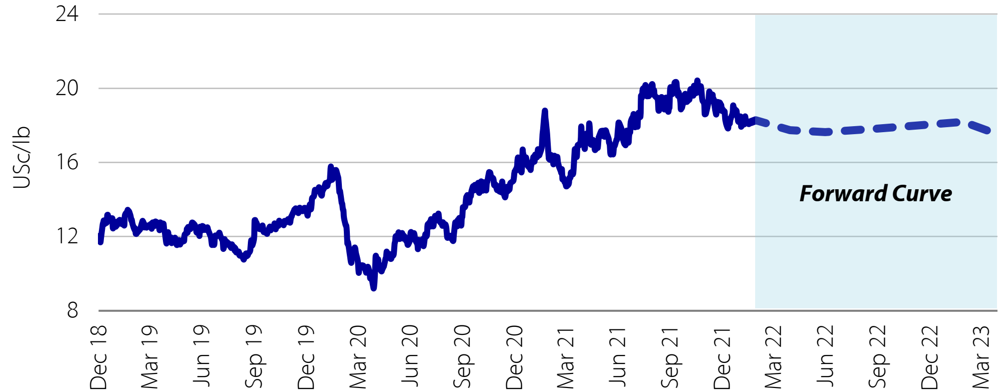
Source: ICE, Rabobank 2021

ICE – FCOJ



Source: ICE, Rabobank 2021

ICE – #11 Sugar



Source: ICE, Rabobank 2021

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