



North American Agribusiness Review

Rabobank

RaboResearch
Food & Agribusiness






April 2021

Report Summary

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US

- Expansive fiscal policy by the Biden administration is giving the economy an additional boost, especially in 2021. Meanwhile, vaccination is progressing at a faster pace than in many other industrialized countries. The improved economic outlook has also pushed up longer-term US interest rates. However, short-term rates have been pinned down by the Federal Reserve. Fed Chair Powell has repeated that a transitory rise of inflation above 2% was likely this year, but he did not see a sustained rise in inflation. He also said that the supply side is very dynamic and will catch up with pent-up demand after the reopening of the economy, so that inflationary effects will be transient. What's more, under the Fed's new strategy of flexible average inflation targeting, there is no role for preemptive hikes. The median rate projection of FOMC participants still shows no rate hikes through 2023.

Mexico

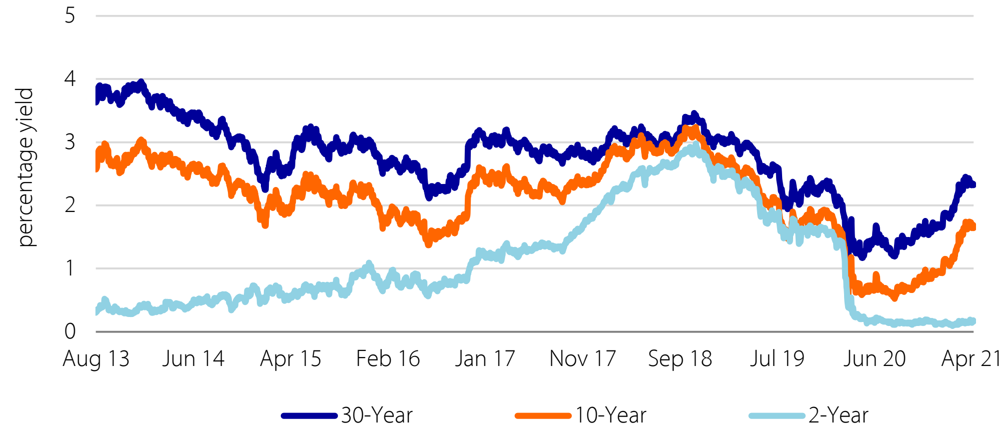
- We think that Banxico has now reached the end of its easing cycle after 425bp of cuts that began when Mexico entered recession in 2019. We maintain the forecast that USD/MXN is likely to primarily trade in the 20 to 21 range this year. That marks a slightly higher range to the 19.50 to 20.30 range that dominated at the end of last year and into the start of 2021. That said, volatility is likely to remain elevated relative to the pre-Covid period, and we expect that heightened uncertainty will continue to result in wider ranges for currency pairs and EM FX in particular. From that perspective, there is potential for USD/MXN to trade below 20 and above 21, but beyond that range there are key levels likely to contain price action.

Canada

- The Bank of Canada has made its sequencing clear and will not begin raising rates until tapering is completed. Forward guidance has kept the front-end anchored, and we do not expect to see a policy rate hike until well into 2023. Despite the recent rally in USD/CAD, CAD remains the best-performing currency in the world year-to-date, posting a spot return of a little over 1% against USD. Although rate differentials have moved slightly in CAD's favor, the primary story this year was the 40% rally in oil prices, and it is no coincident that the recent pullback in CAD was accompanied by oil prices retracing from the early March highs. At this juncture, the likely spot direction is harder to ascertain than the direction of volatility, and we expect ranges to continue increasing, with realized volatility edging higher.

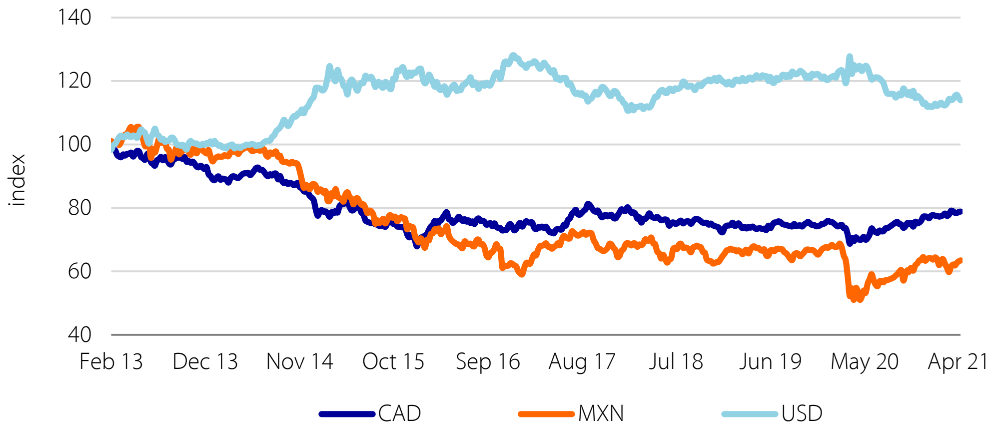
Source: USDA, Rabobank 2021

Interest rates, 2013-2021



Source: Federal Reserve of St. Louis 2021

Currency indices, 2013-2021



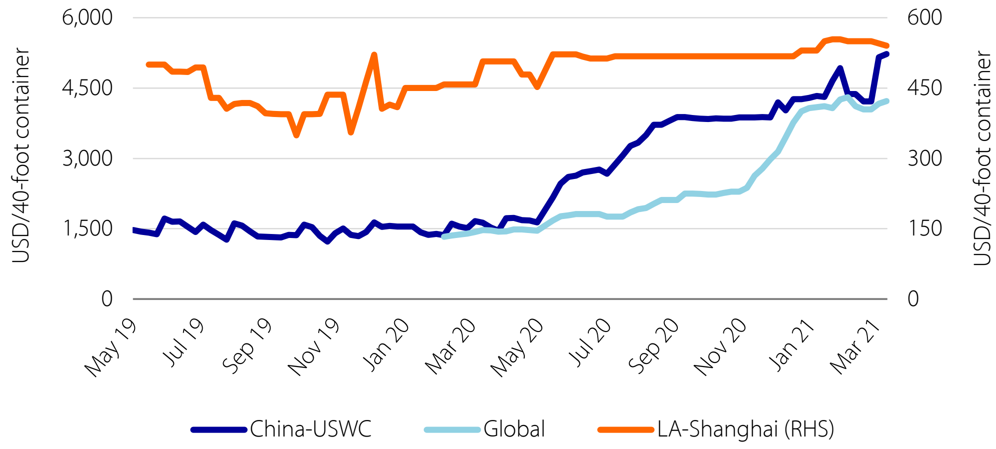
Source: Bloomberg 2021
Note: Rebased at 100 as of January 1, 2013

Freight

Sustained price increases before recovery in the second half of the year

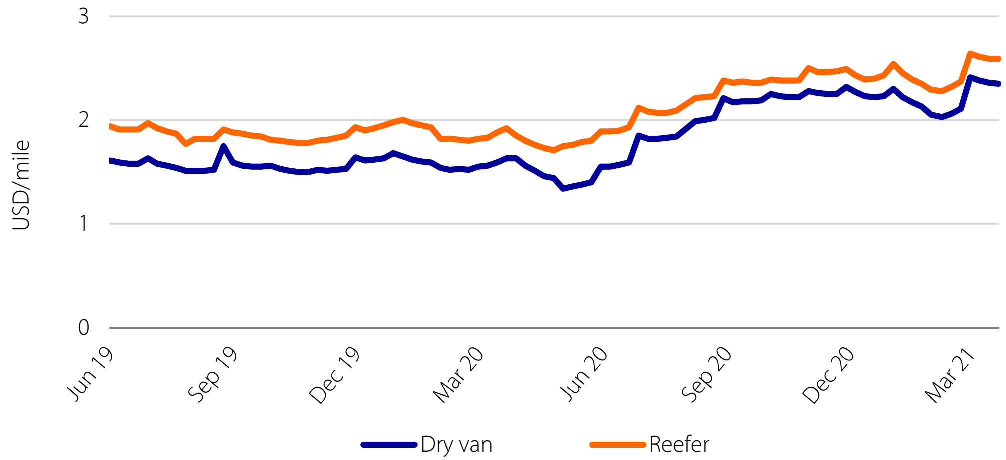
- ***The transpacific trade route – a major trade route for North America – has experienced exponential rate hikes in the past 12 months.*** Since the prevalent lockdown in Q2 2020, container carriers effectively took capacity offline, causing a global imbalance of container distribution. In addition to the container imbalance, prices skyrocketed as demand picked up during the third quarter of 2020. We are also seeing a widening price gap for westbound and eastbound containers. Shanghai-to-LA prices have almost tripled from USD 1,500/container to above USD 4,000, while prices for containers bound for Asia are still fluctuating at around USD 500. Consequently, some carriers are shipping empty containers back to save time.
- ***Imports from Asia are causing delays and congestion at ports, especially west coast ports*** where most Asian imports are handled. Since the end of December, the number of ships waiting at sea has surpassed those already docked. This kind of congestion and pile-up of containers is reducing port productivity. Truck wait times at ports increased 50% from the lows of last June. Congestion is resulting in extra and inefficient container movements and is causing productivity problems up and down the chain.
- ***The Suez Canal is one of the world's most important waterways between Asia and Europe but also the east coast of the Americas.*** It accounts for about 12% to 15% of global trade and roughly 30% of the world's shipping container volume. The week-long incident held back over 400 ships, including bulk carriers for agri commodities, container ships, and oil and natural gas tankers. Wheat and barley exports from Europe were affected, as well as the robusta coffee supply chain from Vietnam. Overall, this event will put more pressure on the container market that was already operating at maximum capacity. The lack of empty containers to serve Chinese exports will be more pronounced. We expect another round of congestion and delays when all those ships arrive at ports within days of each other. Overall, we expect to see a short-term rate hike before recovery in the second half of 2021.
- ***Domestically, the trucking industry is also experiencing some delays and a driver shortage.*** Since the beginning of quarantine, the number of available drivers has been greatly reduced because of quarantine complications, health concerns, and the availability of government support. This created some challenges and delays for shippers attempting to move goods domestically or from ports to inland warehouses, as many goods and containers can get stuck at ports. In trucking, the balance of goods flowing in both directions was optimized. However, industrial closures have also disrupted this established balance. Consequently, the empty miles drove up rates. This was especially obvious at the beginning of the pandemic, but it continues to persist.

Select ocean freight rates, May 2019-Mar 2021



Source: Freightos, WCI 2021

US dry van and reefer truckload prices, Jun 2019-Feb 2021



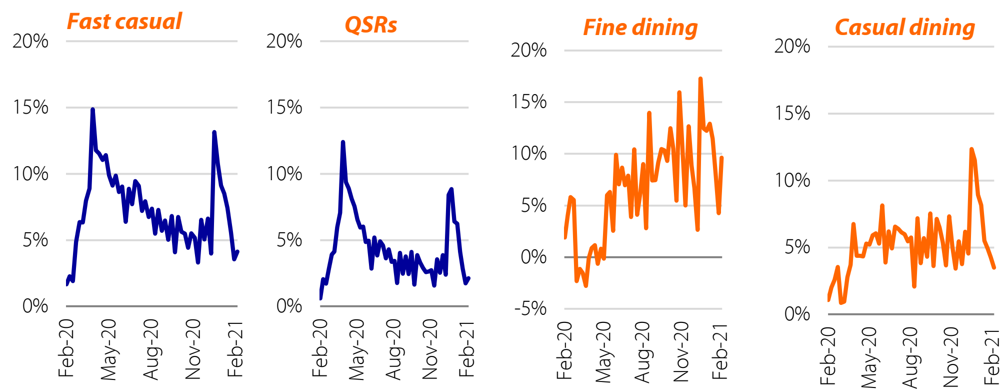
Source: DAT 2021

Consumer Retail & Foodservice

Expect an even bigger sales lift for restaurant sales from the third stimulus

- Checks from the USD 1.9 trillion American Rescue Plan, the third and largest stimulus package, began rolling out mid-March. The US government expects nearly 85% of all US residents – adults, children, seniors – to receive direct payments of up to USD 1,400 based on household income. The ongoing stimulus is substantially higher than the last two in April and December 2020, which included direct payments of USD 1,200 (plus USD 500 per child) and USD 600 (plus USD 600 per child), respectively.
- Stimulus recipients spent 10% to 15% more in restaurants in the four-week period following the first two rounds, according to credit/debit card spending data.
  - ✓ Delivery aggregators' outperformance became even more stark around stimulus payments, as delivery sales growth for stimulus recipients exceeded overall delivery growth by 20 to 50 percentage points in both rounds.
  - ✓ QSRs and fast-casual restaurants, which are more adept at delivery/takeout/drive-thru and have lower average menu prices, also saw a significant boost from stimulus payments, scoring a high single-digit to low double-digit sales lift in the two stimulus rounds.
  - ✓ In contrast, fine- and casual-dining restaurants showed no perceptible lift from the first stimulus, likely due to closures, fewer off-premise options, and different income audience. While both received a bit more lift from the second stimulus as dining rooms reopened, it wasn't as prominent as it was for most limited-service restaurants.
- We expect an even bigger and more uniform impact from the third stimulus, given:
  - ✓ Much larger direct payments to a broader set of residents, including higher per capita payments to children and senior citizens – the federal government estimates nearly USD 411bn in direct payments, roughly equal to the previous two stimulus programs combined. Moreover, the current stimulus also includes larger indirect benefits, such as expanded unemployment benefits, wider eviction protection, increased SNAP benefits, and greater assistance to small businesses (including USD 29bn for restaurants).
  - ✓ An improved economic scenario, with 12m jobs added since last April and record-high discretionary income. The US consumer is likely in better financial shape and more keen to spend their checks on non-durable discretionary items, including restaurants.
  - ✓ Wider availability of restaurants, particularly dine-in options, compared to last year, as most states continue to scale down Covid-driven restrictions with a steady decline in Covid cases and accelerating vaccine rollout.
  - ✓ Greater eating-out and traveling opportunities as spring flourishes and weather warms up (as opposed to the second stimulus, which was followed by harsh winter storms in large parts of the country).

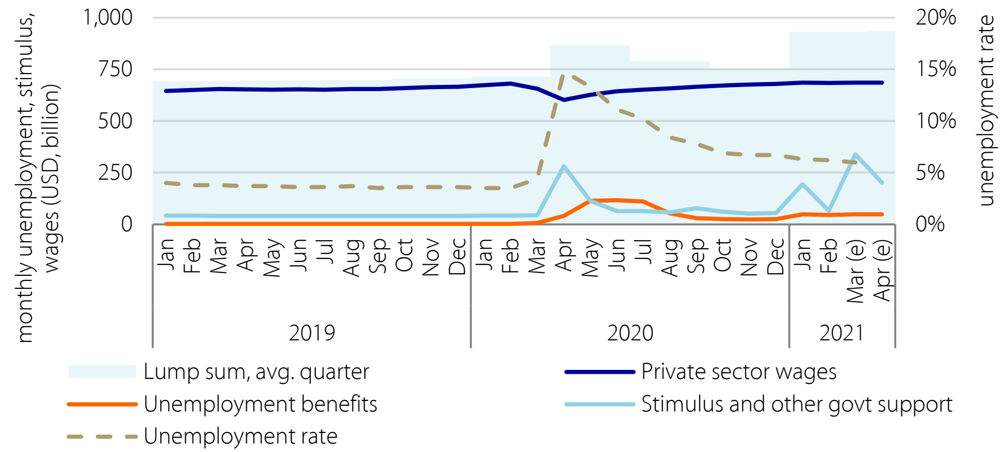
Limited-service restaurants received the most sales lift relative to family and dine-in restaurants



Source: Earnest Research, Rabobank 2021

Note: Vertical axis shows likely stimulus impact, calculated as the difference between year-on-year restaurant spending growth for the full category and those who did not receive any stimulus payment.

Government transfers more than made up for modestly lower private sector wages



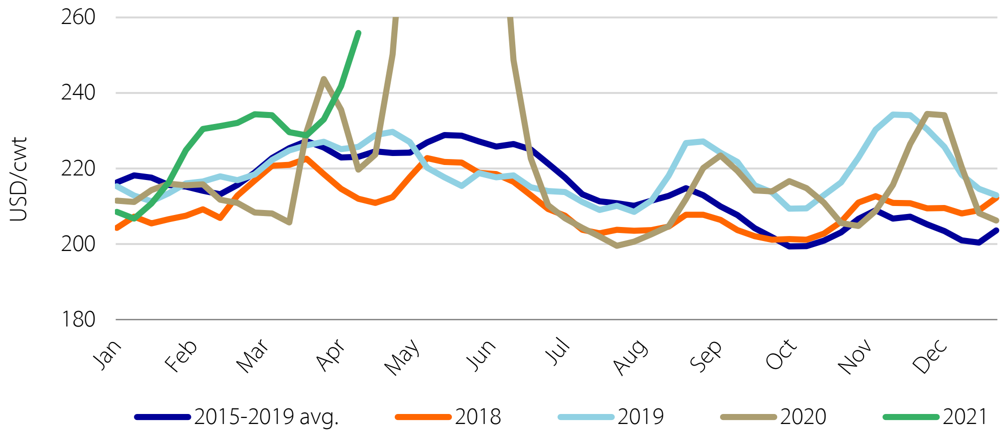
Source: BEA, BLS, Rabobank 2021

Cattle

Demand-driven rally

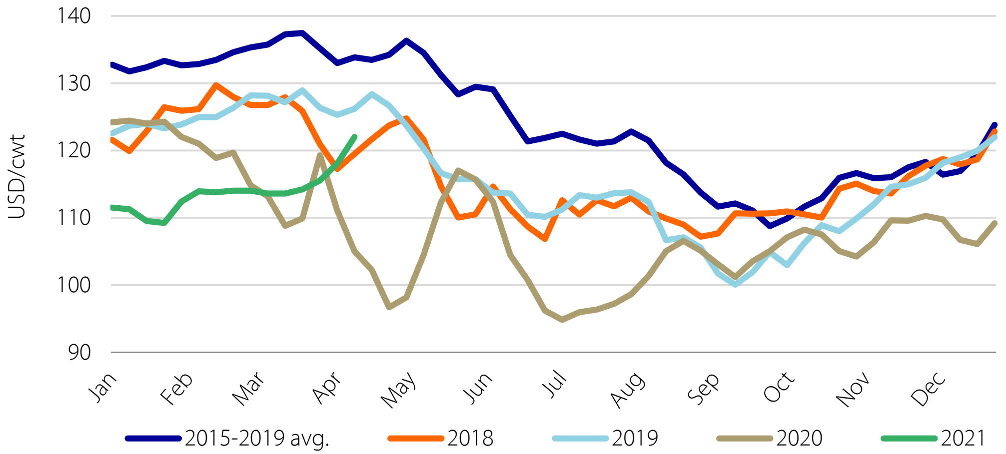
- ***Cutout values are the driver.*** The combined effects of the arrival of the third stimulus and the timing of the spring grilling season have continued to drive retail beef prices. The average price for all beef in March was USD 6.385, up 1.3% over February and up 7.1% YOY. Increased disposable income continues to support consumer retail buying. Meanwhile, increased buying from restaurants adds further fuel as Covid restrictions ease and the hotel, restaurant, institutional (HRI) sector rebuilds their inventory pipeline, as the increased demand for meals away from home at retail is expected to flatten or ease.
- ***Packer leverage continues to weigh on fed cattle prices.*** After trading sideways at USD 115 for over eight weeks, fed cattle prices have finally started to respond to the expected spring rally. During the first week of March, prices traded in a range of USD 120 to USD 125. Packers continue to hold excessive leverage over cattle feeders, as supplies of market-ready cattle are pressing slaughter rates against capacity. Based on placement patterns, fed cattle supplies are expected to ease during the second half of the year. Just when that rollover in supplies begins to take place is the focal point of debate between market observers. Even as supplies begin to tighten during the summer, prices are expected to hold a tight price band, with price improvement expected during the third and fourth quarters. Year-end prices are expected to peak in the USD 125 to USD 130 range.
- ***Feeder cattle prices are wedged between a brighter outlook for fed cattle and uncertainty over feed grain prices.*** Since posting a seasonal low at USD 134 in early March, the CME Feeder Index has posted an impressive rally and is currently trading over USD 140 – just under the five-year average. Prices are expected to trade within a normal seasonal range, with prices topping in the late August to September time frame. While tighter supplies of replacement cattle are expected to be price supportive, uncertainties about the risk of expanding drought conditions could force early seasonal movement, and the big uncertainty is the risk of continued strength in feed grain prices. Feeder cattle are trading at prices that are pressing deferred live cattle futures for break-even opportunities. For customers that are looking at summer placements, we would certainly recommend securing feed cost, at least for the summer growing season.
- ***Cull cow prices remain firm in spite of weather worries.*** While these prices have been choppy due to winter weather disruptions, cow slaughter rates have been running incredibly close to year-ago levels. Year-to-date cow slaughter is up 1% over a year ago. Pasture availability and the risk of higher feed prices will be a big influence on cow slaughter for late summer and fall. The last big expansion was 2014. Those cows are now seven- and eight-year olds. Attrition rates will be increasing, and increased heifer retention will be required to offset the loss of aging cows.

Comprehensive cutout, Jan 2018-Apr 2021



Source: USDA, Rabobank 2021

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



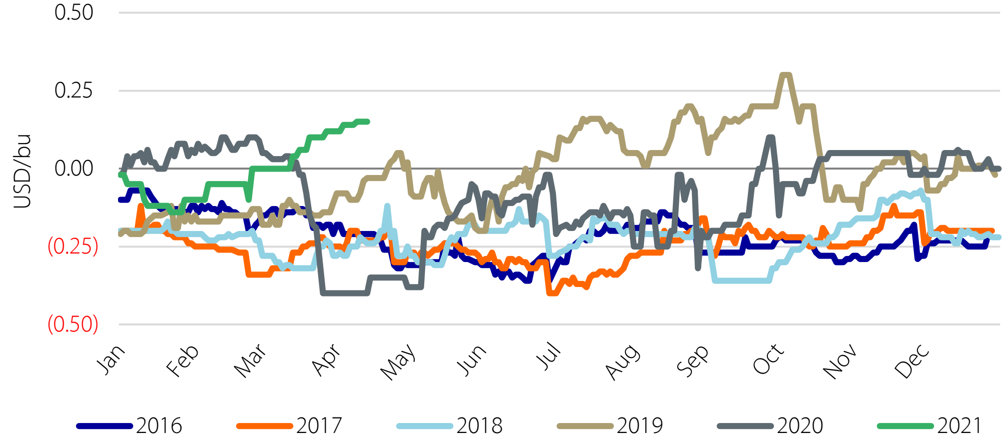
Source: USDA, Rabobank 2021

Corn

Much uncertainty helps maintain strong markets

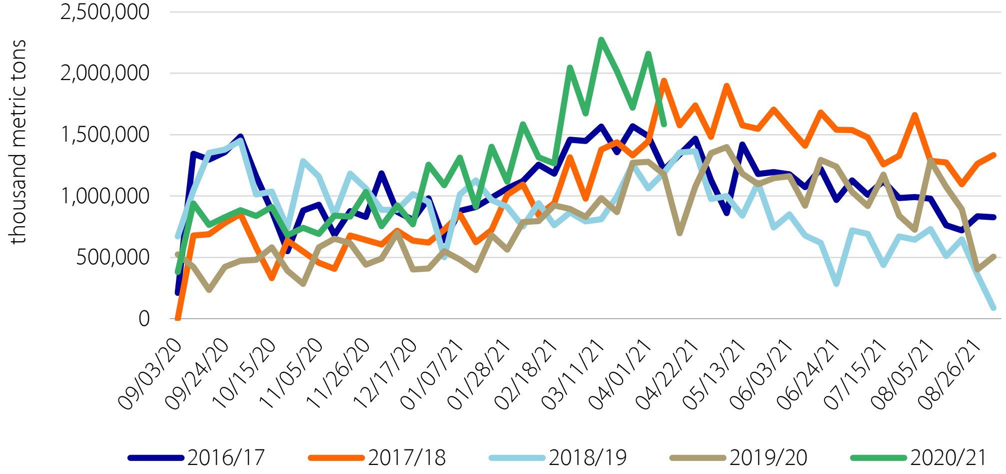
- ***Corn has retained its commodity market lead position.*** Strong US exports, lower-than-expected 2021 corn planted acres, ongoing weather issues surrounding Brazil's safrinha crop, ongoing dry conditions in the western Corn Belt, and tightening US corn stocks have left the market with plenty to worry over. As a result, corn futures have been well supported.
- ***The USDA's Prospective Planting report showed US corn plantings in 2021 nearly unchanged at 91.1m acres, an increase of only 325,000 acres from 2020.*** This low planting number was below pre-report expectations. With strong exports and shrinking stocks, the corn market has little cushion for production issues this summer. In addition, with acres down in the heart of the Corn Belt states (IL, IN, IA, and NE), the market is more dependent upon production from fringe states, where weather can be more uncertain. Given the uncertainty and tightening corn market fundamentals, the market is keeping prices firm and hoping to buy more acres to add some cushion to the balance sheet.
- ***US corn exports remain on a torrid pace by any measure***. Using weekly grain export inspection data, US corn exports are running 82.3% ahead of the last year's pace. This is all due to China's seemingly bottomless appetite for corn resulting from stock rebuilding and increasing hog herds to close the gap between domestic production and demand. Year-to-date through February, US corn exports to China, at 280.0m bushels, had already surpassed the record set in 2011/12 (202.6m). Expectations are China will remain strong corn importers over two to three years. At the same time, new outbreaks of African swine fever (ASF) may dampen near-term imports and create some market volatility.
- ***In Brazil, weather continues to be problematic for this year's safrinha crop.*** Due to rain-delayed soybean harvests, safrinha corn crop planting was deferred, thereby lessening yield potential and delaying its harvest. If that wasn't enough, lack of rainfall and drier conditions in south-central Brazil are endangering current estimates. CONAB and the USDA estimate the Brazilian corn crop at 109m metric tons. However, Rabobank's analyst in Brazil is less optimistic and believes the crop could be as low as 103m metric tons. The delay in harvest and the potential for a smaller-than-expected safrinha crop portend the continuation of a strong US corn export program deep into the summer and next crop year.
- ***Corn basis values are at levels not usually seen this time of the year, providing an opportunity.*** While much of this year's basis value is derived from a strong export program, there is another factor at work. Basis is a function of both supply and demand. With values at such elevated levels, one has to consider the supply side of the corn market. Potentially, some regions may be running short, particularly the western Corn Belt, which was hit with drought and the derecho last summer. As the old crop corn supplies decline, basis values will be well supported, and in some areas, we would expect basis values to go even higher as the crop year comes to a close. In addition, new crop basis bids may also provide some better pricing opportunities than normal. End users are eager to lay in some new crop supply. For sellers, these are good pricing opportunities.

Fort Dodge, IA corn basis – nearly an all-time record-high value



Source: DTN, Dow Jones, Rabobank 2021

US corn export inspections exceeding last year's pace by 82.3%



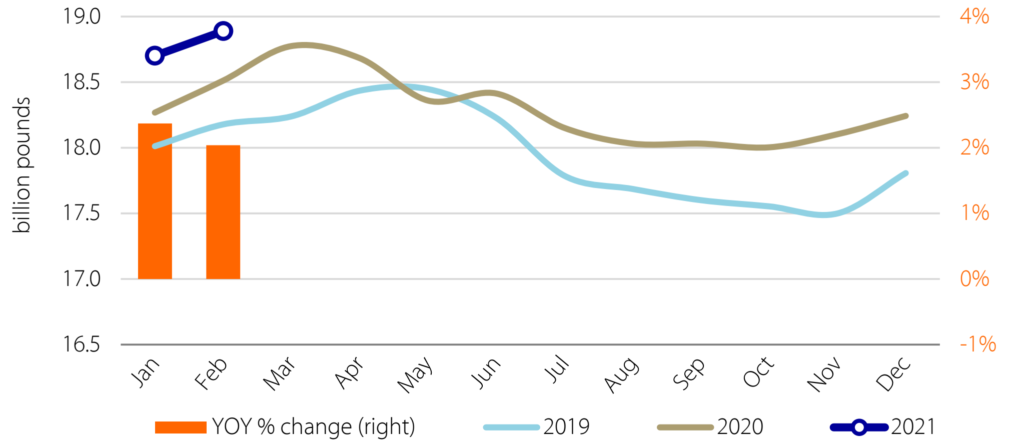
Source: USDA-AMS, Rabobank 2021

Dairy

Strong milk prices are met with higher feed costs and fading aid

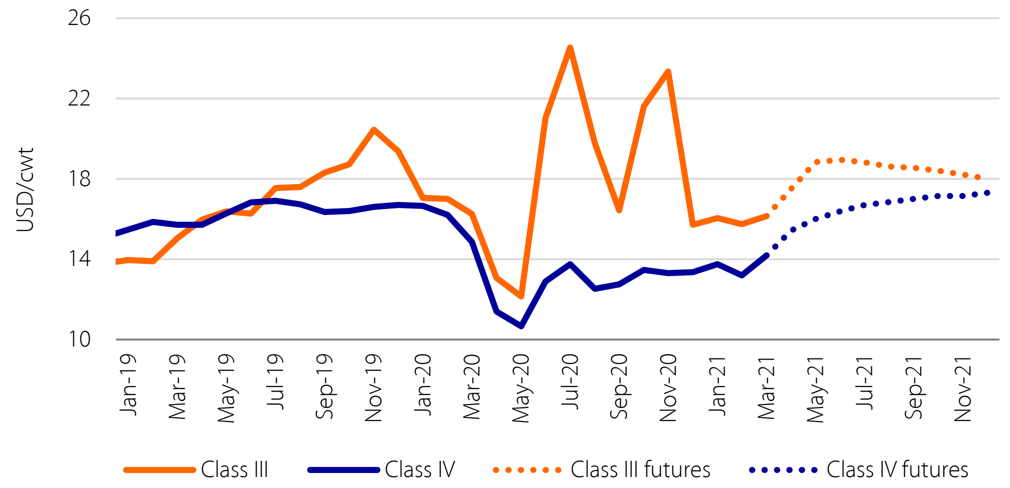
- Dairy commodity prices are climbing, and milk prices are following suit. Class III futures for the early summer months reached the USD 20/cwt range in mid-April. As a growing share of the population is vaccinated and as restrictions get lifted, foodservice channels anticipate a demand jump. Foodservice pipelines are gearing up for elevated activity and reopenings, leading to the current strong product pull. Looking ahead, once we settle into post-vaccine demand patterns, prices might cool somewhat from this initial restocking phase.
- Milk production remains robust, with January and February output up 2.4% and 2%, respectively (adjusted for leap year). Higher feed costs are pressuring margins for those purchasing feed and should give pause to some expansion plans this year, but as milk prices climb, some of the margin pressure is relieved.
- Exports were strong in February. Trade to Mexico was up 13% YOY, due to increased nonfat dry milk and skim milk powder exports. Butter exports climbed as demand from the Middle East improved. China's whey imports continue to impress, up more than double the previous year and underpinning domestic dry whey prices.
- Cheese production is running ahead of last year, largely due to additional capacity. American-type cheese production rose by 8.4% in January and 5.3% in February. In January, mozzarella output dipped into negative territory, down -1.8% in January but up 1.9% in February.
- Butter production in February was up only 2% YOY, which supported the draw down in the still elevated inventories to 353m pounds at the end of February, 17% above the prior year. Butter inventories weighing on markets will find some relief as more cream moves seasonally into ice-cream production and as more sit-down restaurant dining returns.
- Markets are gaining some additional clarity on the shape of government aid for dairy. Final details of the USDA USD 400m Dairy Donation Program are yet to be published, but AMS has indicated that the reimbursement rate will be designed to encourage cooperatives and processors to donate eligible products in a way that minimizes volatility and federal order pricing disruptions. Also, Secretary Vilsack announced the discontinuation of the Farmers to Families Food Box program in favor of more efficient use of existing channels, like food banks and other food assistance programs.

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



Source: USDA NASS, Rabobank 2021

Class III and IV milk prices and futures, 2019-2021



Source: USDA, CME, Rabobank 2021

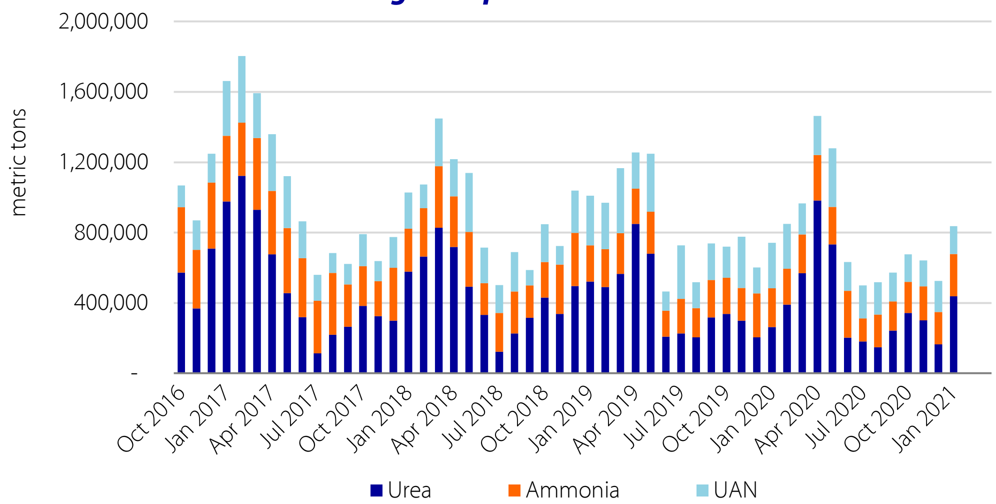
Farm Inputs

Agrochemical price inflation expected

Fertilizers: Index prices hit the highest level since 2012

- Through February and March, fertilizer prices continued to rally in the North American market, as potash prices built on the back of sequential strength in the phosphate and then nitrogen markets. Often at this time of year, pricing rotations take effect as exporters and traders look to other markets.
- For the coming season, inland pricing risks to the upside persist for urea and UAN as we continue through the corn-planting season. This issue could potentially be compounded by some expected shifts in application from ammonia to UAN/urea and by the lighter N import schedule from late 2020 to the start of 2021.
- Notably, recent actions in the international potash market foretell higher costs for K in late 2021 (a topic we have raised before as a risk/opportunity for farmers).
- However, on a more optimistic note, some of the pricing signals for fertilizers across N and P look more favorable at year-end, as seasonal risks give way to the non-seasonal dynamics of the industry.

A slow start to 2021 for nitrogen imports



Source: Bloomberg, CRU, Rabobank 2021

NPK Index reaches highest point in almost ten years

Source: Bloomberg, Rabobank 2021

Agrochemicals: Some price risks in the 2021 season

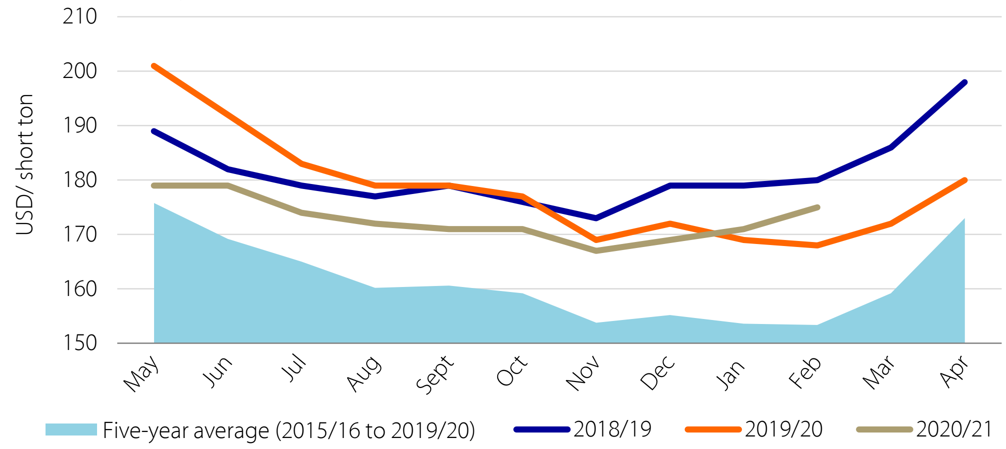
- From late 2018 to mid-2020, the Chinese active ingredient index (a wholesale pricing benchmark) headed directionally lower, with some individual active ingredients showing choppier pricing paths. During this period, the blended agrochemical index dropped ~20%.
- This drop came off the back of an escalation in pricing between late 2016 and late 2018 as a result of environmental crackdowns in industrial production systems in China.
- Through the 2020 season, farmers saw the inventory/pricing benefits of record prevent plant acres in 2019. However, agrochemical production shutdowns during Covid helped push some international active ingredient pricing higher from mid-2020 onward. Compounded by strong commodity prices and higher logistics costs, agrochemical prices could increase sharply year-on-year.
- While some active ingredients have shown price escalation on wholesale benchmarks (glufosinate ~50%, glyphosate ~50%, and atrazine ~40%), others have shown some year-on-year softness (clethodim ~15% and mesotrione ~25%).

Feed

High feed costs to continue over the next quarter

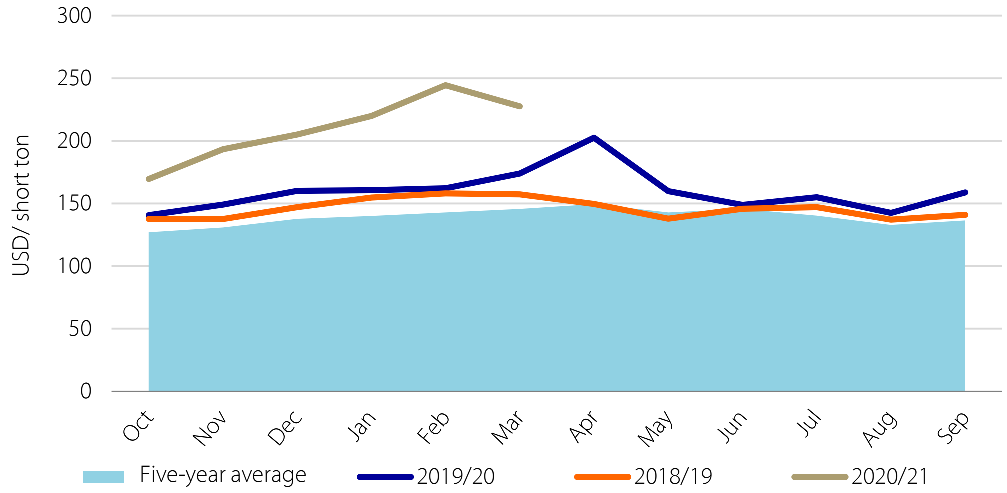
- ***In February, alfalfa hay prices increased 4% YOY and 2.3% MOM***. Alfalfa hay prices will likely continue to trend upward as pressure increases on western states due to drought concerns and lower stocks, especially after a cold winter when demand for hay was high.
- ***Alfalfa hay will likely see its share in dairy rations increase as lower soybean acreage and ending stocks push soybean prices higher***. Alfalfa hay demand will increase in dairy rations as current prices for soybeans and corn are too high to keep feed costs low. As the dairy cow herd increases and spring flush pushes prices lower, dairy farms will find alfalfa a good substitute for crude protein.
- ***All hay exports started the year at a slower pace, with the first two months of 2021 showing a 2.3% decline***. However, China continues to buy high-quality alfalfa as their dairy industry continues to expand. Last year, exports to China set a new record from their high in 2017. This year is already outpacing last year, with January and February exports to China 30% higher when compared to the same period in 2020.
- ***The cost of different by-products continues its upward trend, mainly due to lower expected supplies of corn and soybeans***. The USDA's Prospective Planting report came in lower than the market expected, with corn acreage at 91m acres and soybeans at 87.6m acres. The continuation of lower acreage and lower ending stocks into the next marketing year has increased the cost of feed, led by higher corn and soybean prices. DDGS and wheat midds are good substitutes for hog and cattle feed rations.
- ***DDGS production in 2020/21 is forecasted to increase by 2% to 34.4m metric tons, compared to 33.6m metric tons in 2019/20.*** The increased production will be welcome, but it remains far below pre-pandemic levels of 37.2m metric tons in 2018/19. From October to March, DDGS prices increased by 33% when compared to the same period last year. Demand remains strong where DDGS can be obtained, but corn and oil prices remain a concern, keeping margins low in the ethanol industry.
- ***Wheat midds continue to be an option for cattle, especially in the Kansas City area***. However, strong demand for this by product is already being priced in the market, with prices not following their traditional seasonality. Strong demand over the winter for cattle rations and high corn prices pushed wheat midds prices up 52% from October to February 2020/21 versus 2019/20.

US alfalfa hay prices, 2018/19-2020/21



Source: USDA/NASS, Rabobank 2021

DDGS prices in Central IL, 2018/19-2020/21



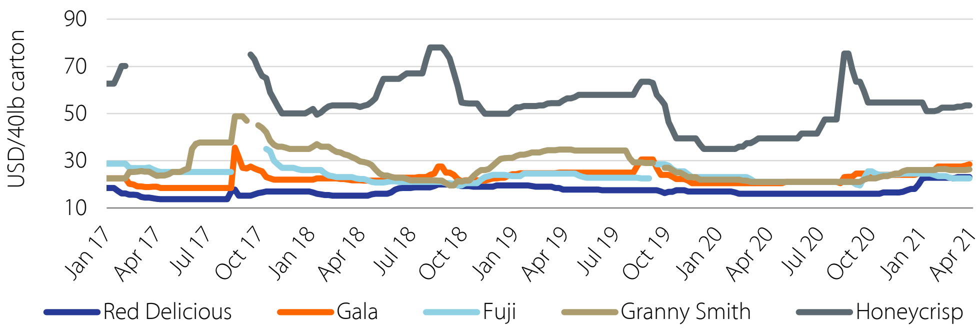
Source: USDA/ERS, Rabobank 2021

Fruits

Prices at healthy levels overall

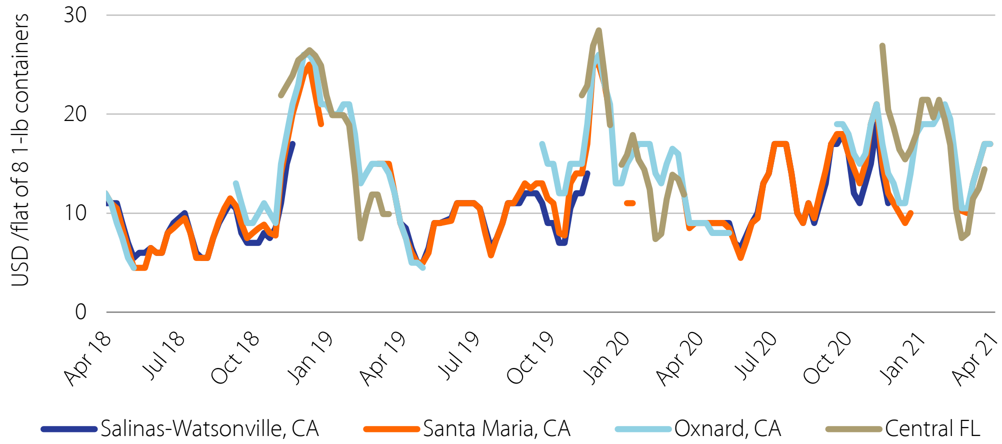
- ***Strawberry prices remain strong*** following the Easter demand pull. In the second week of April, non-organic prices were around USD 17/flat, an almost 90% increase YOY for strawberries out of California. By mid-April, ***blueberry*** prices were up about 115% YOY, recording their highest price for this time of the year since 2017. ***Blackberry*** prices are also at multi-year highs. ***Raspberry*** prices have stayed over USD 20/flat for more than two months straight. Prices suggest a ***healthy demand for berries,*** partly driven by the US economic recovery and retail sales.
- In the first two weeks of April, ***prices for CA Navel orange 88s were above USD 16/carton, up 6% YOY***. Navel production in CA will finish at about 42m boxes, down 3% YOY, while the CA Valencia crop is projected at 10m boxes, down 7% YOY. ***Mid-sized lemons (140s) were about USD 32/carton, the highest price since 2017 for this time of the year and up 30% YOY***. CA lemon production estimates were revised down 13% YOY, to 22m boxes. Prices for citrus will likely continue to be higher YOY, supported by lower availability and consumer demand for these fruits.
- Total avocado shipments to the US market were up 20% YOY during the first 15 weeks of 2021. California production is expected to be down about 10% YOY for the 2021 season, which is expected to span from April to August**.** After low prices throughout the winter, shipping point ***prices in the first half of April were close to USD 50/carton for Hass 48s, the highest price in more than a year and up about 6% YOY***. Prices may continue strengthening.
- ***The blended price for table grapes in the US was roughly USD 20/box in the first half of April,*** not a significant YOY variation. Mexico's production is expected to start late this year and will likely cause a supply gap in May. The Mexican crop will be down about 2% YOY, at roughly 21.5m boxes.
- ***Apple prices continue to improve.*** During the first half of April, prices of non-organic Red Delicious, Gala, Honeycrisp, Granny Smith, and Fuji were up 44%, 39%, 35%, 25%, and 7% YOY, respectively. Higher YOY prices are likely to continue for the rest of the marketing season.

Washington apple shipping point prices, 88s – WA Extra Fancy, 2017-21



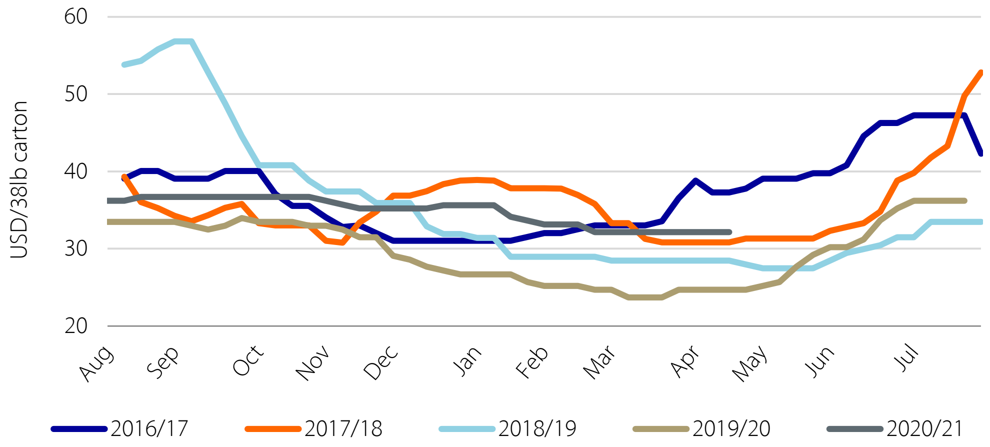
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2021

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



Source: USDA AMS, Rabobank 2021

California lemon shipping point prices, 140s – shipper's 1st grade 2016/17-2020/21



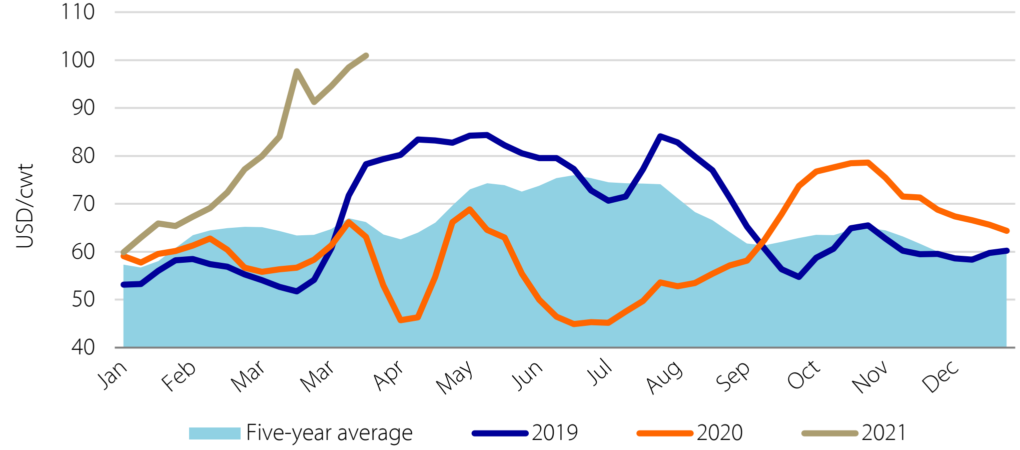
Source: USDA AMS, Rabobank 2021

Pork

Lower inventory and labor constraints boost US pork markets, Mexican markets heading higher

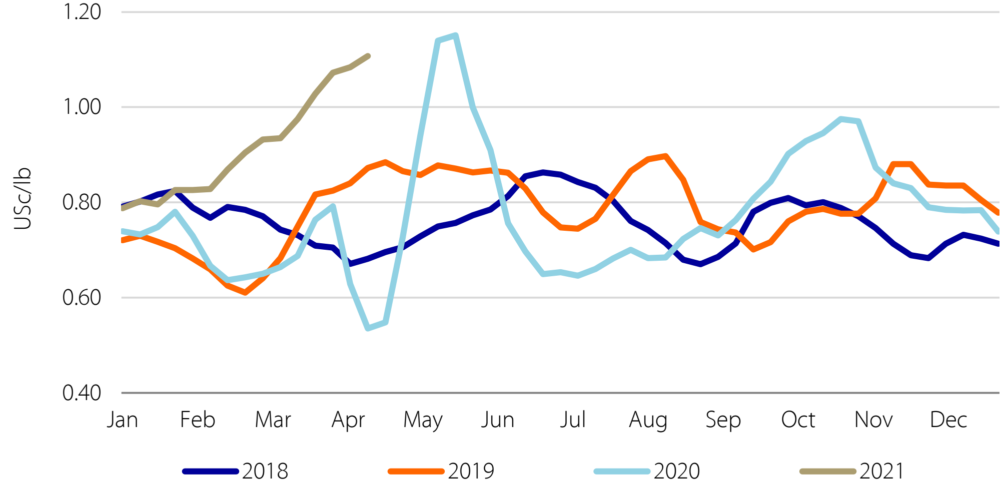
- ***Pork production continues to fall, reflecting lower swine inventories and labor constraints limiting product yield.*** Based on the latest USDA inventory report, we expect hog slaughter to fall from the current weekly harvest of 2.5m head to 2.2m to 2.3m head over the summer. The weekly production decline will be supportive to hog and pork prices through the summer. Based on current indications, however, we expect improved hog availability by fall and some price moderation. Record-high hog prices are likely to incentivize faster growth, yet with feed cost uncertainty and impending Proposition 12 housing regulations potentially limiting expansion, we could see a slower recovery in production. We expect US pork production to fall less than 1% in 2021.
- ***Pork carcass values are now double year-ago levels, with cutout topping USD 1.10/lb, as lower production and tight availability is creating some panic buying.*** Strong retail support for pork has been bullish across the board, but especially for bellies. Competition is particularly brisk, especially for product expected to see strong summer pull. Demand for trim is higher in front of the seasonal run in hot dogs and sausages, with labor constraints contributing to tight supplies. Stimulus dollars and increased spending power are supportive to higher overall protein prices, especially for pork, given tight inventories and lower slaughter rates. Higher prices could limit export demand, but tight global inventories should remain supportive overall.
- ***US pork exports in fell 10.1% in February, led by weaker shipments to several key markets, including Mexico (-7.6% YOY), Japan (-9.8%), and China (-28% YOY).*** Ample stocks and high US pork prices have slowed shipments, even as demand continues to gradually recovery. Labor constraints are likely to further limit export product availability in the near term, although conditions should gradually improve through late spring and summer. Exports should benefit from a weaker US dollar in the coming months, despite an unfavorable comparison versus the Brazilian real. Exports should strengthen through mid-year as container availability improves, labor becomes less restrictive, and demand recovers in global markets. We continue to look for a modest decline in 2021 US export volumes, which is still the second largest export year on record.
- ***Mexican hog prices are higher in response to stronger US hog markets, lower imports, strong exports, and reduced hog availability due to disease.*** Despite the rebound in prices, we expect rising feed costs to limit production growth in 2H 2021. Domestic demand is trailing US pork demand as ongoing Covid lockdowns and a slow recovery in tourism have limited sales. Record February export sales continue to support pork prices, with total shipments up 46% YOY in February. While still small, triple-digit growth in exports to China, the US, and Canada are helping support carcass values. Exports to Japan, Mexico's largest market, were also up 8% YOY. Sharply higher exports and an 8% drop in imports have reduced domestic availability and compounded the shortfall in domestic supplies. Pork prices are expected to remain high through 2H 2021.

US lean hog prices, 2019-2021



Source: USDA 2021

Pork cutout values, 2019-2021



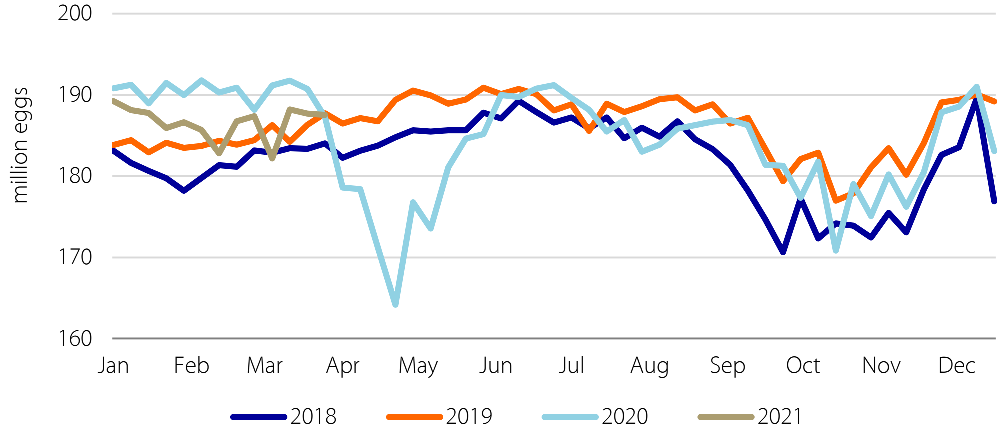
Source: USDA, Rabobank 2021

Poultry

Chicken prices higher on strong demand and restrained production, Mexico boosts margins

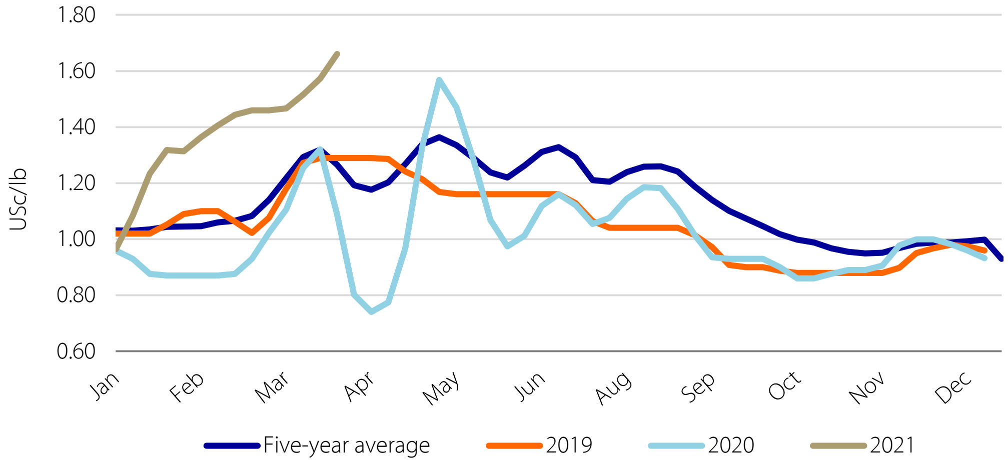
- ***Weekly production remains over 3% below year-ago levels despite strong incentives to expand.*** Slaughter levels are down modestly from a year ago, but average weights continue to trend above 2020 levels. Strong production in the same period a year ago accounts for a portion of the decline, but ongoing hatchery issues have also played a role. Current chick availability would support limited growth in slaughter through early summer. We expect a modest uptick in weights as growth in larger bird sizes outpaces small bird production. We continue to look for modest growth in RTC production in 2021, based on this outlook and the opening of one additional plant.
- ***The hatchery supply flock on March 1 was up 4.2% YOY, largely reflecting the need to offset ongoing productivity challenges in the industry.*** Hatch continues to run 200 to 300 bps behind historic levels, requiring higher placements to maintain the breeder flock. Even with the reported increase, pullet availability is reportedly constrained and limiting further gains. Placements for the new plant are included in these totals and are expected to increase gradually in the coming months. Even with the increase in the breeder flock, we continue to see limited growth in weekly production, given ongoing labor constraints and rising feed costs.
- ***Chicken prices continue to trend higher on stronger demand and constrained production.*** Breast meat recently topped USD 1.60/lb (up 80% YOY), driven by a rebound in foodservice and low inventories. Wing prices are more than double year-ago levels and remain high following the NCAA tournament on stronger foodservice demand and low inventories. Leg quarters are up 34% YOY on export strength and a recovery in ethnic dining. We expect seasonal moderation, although strong processor demand and limited inventories remain supportive. Labor constraints are limiting volumes and the ability of processors to fully convert product.
- ***Exports of chicken in February were up 0.3% YOY, to 279,000 metric tons, while the value of broiler exports was up 4.7%, to USD 305m***. Continued strength in exports to China (+164% YOY) and Cuba (+211%), along with improved shipments to Angola and the Philippines, were more than able to offset a 13% drop in exports to Mexico. Several export markets remain challenging, due to a slower recovery from Covid or trade restrictions. We expect exports to trend higher through the year on lower supplies of competing protein, but acknowledge high prices could limit the upside.
- ***Mexican chicken prices remain 30% above year-ago levels, given the continued moderation in industry production.*** While demand remains below historic levels, given ongoing Covid restrictions, tight global supplies and relatively limited imports have kept broiler prices high. We expect continued industry restraint, given the slow rebound in consumer demand and significantly higher feed costs. Mexico has reduced broiler imports from the US, due to local market weakness and higher US prices, but has increased imports from Brazil despite the 75% duty on imported product.

Weekly chick placements, Jan 2018-Apr 2021



Source: USDA, Rabobank 2021

US boneless breast meat prices, Jan 2019-Mar 2021



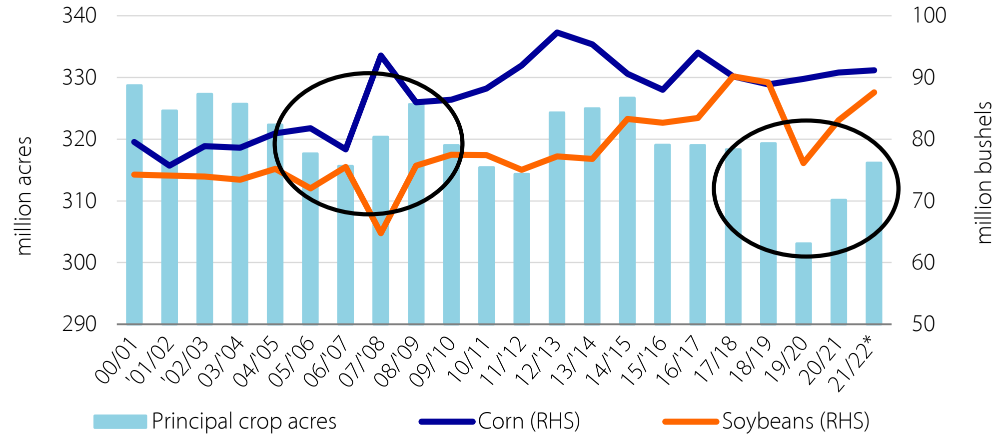
Source: USDA 2021

Soybeans

The soybean market doesn't appear to be worried about acres

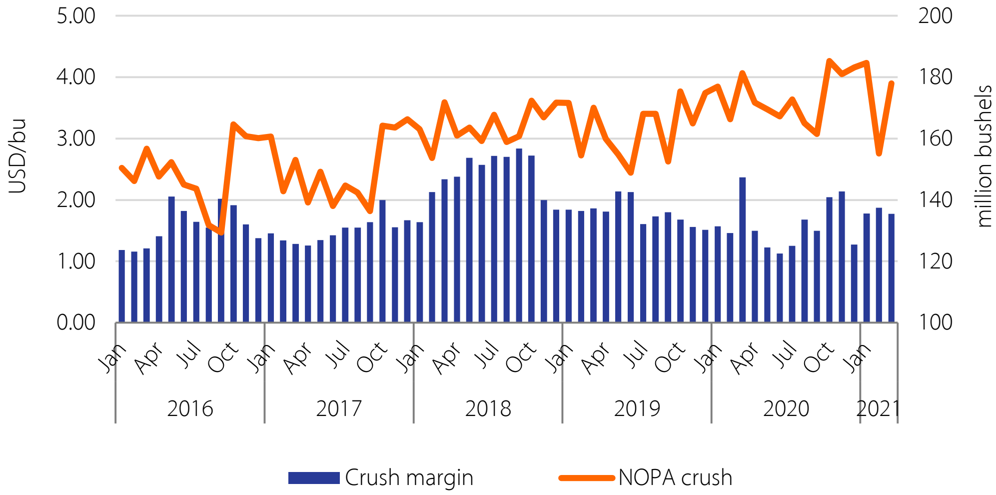
- ***Nearly overnight, the leadership in commodities has seemingly switched from soybeans to corn.*** After a bullish Prospective Plantings report, the soybean market lost its upward momentum. Old crop US soybean fundamentals remain tight, which will likely be the case in 2021/22 as well, particularly if 2021 planted soybean acres (87.6m acres) are realized. The soybean market needs to buy more acres, but current price relationships and price action are not going to get that accomplished. Like corn, there is no cushion for any production issues this growing season. Consequently, soybean prices are likely to remain well supported.
- ***The March Planting Prospective report was a surprise to say the least***. Not only were planted soybean acres below expectations, but principal crop acres only increased 6.05m acres. Upon reflection, producers told us all winter they weren't going to make major changes in their plantings, and they didn't. Plus, it's difficult to turn agricultural production on a dime; it's not like making widgets where you just run the line faster or add another shift. In the commodity boom of the mid-2000s, it took a couple of years to add an additional 10m acres. It appears the same pattern is unfolding this time around. The June acreage report will be important as always, and if Mother Nature cooperates, we could very well see several million acres in additional planting, which would ease the tight fundamentals of both corn and soybeans.
- ***The lower planted soybean acres result in record-low ending stocks for the 2021/22 crop year.*** Plugging 87.6m acres into both the USDA's preliminary 2021/22 balance sheet and the Rabobank baseline outlook soybean balance sheet results in a sub-50m bu carryout. For perspective, the lowest carryout on record was in the 2013/14 crop year at 92m bu. For now, that is considered pipeline inventory, and anything lower could potentially result in halting exports and potentially shutting crushing plants temporarily. In order to bring stocks up to pipeline levels, planted soybean acres need to increase 1.5m to 2.0m acres. Even with an increase in acres, like corn, there is no cushion for a production issue. In the end, it all comes down to yield and Mother Nature.
- ***Despite bad weather and quality issues, production estimates for this year's Brazilian soybean crop are increasing.*** With harvest finally nearing an end, CONAB, the USDA, and private estimates are all showing upward bias from the previous estimate of 133m metric tons. Both CONAD and the USDA are at or near a 136m metric ton crop. This is potentially why soybean futures have been so lackluster and show no sense of urgency to attract more acres since the March 31 Prospective Planting report.
- ***Headlines on renewable diesel are fueling the vegetable oil market***. Renewable diesel is different than biodiesel as it is a 'drop-in' fuel. Renewable diesel is the result of states passing low-carbon fuel standards (LCFS). Each vegetable oil feedstock has a carbon-intensity (CI) rating, with canola, distillers corn oil, and used cooking oil having the lowest CI. With the rapid development of renewable diesel-refining capacity, it is clear there is not sufficient feedstock available, hence high soybean oil futures and vegetable oil prices – stay tuned.

Principal crop acres take a couple of years to respond to high prices



Source: USDA-NASS, Rabobank 2021

Higher soybean prices have not dampened crush margins



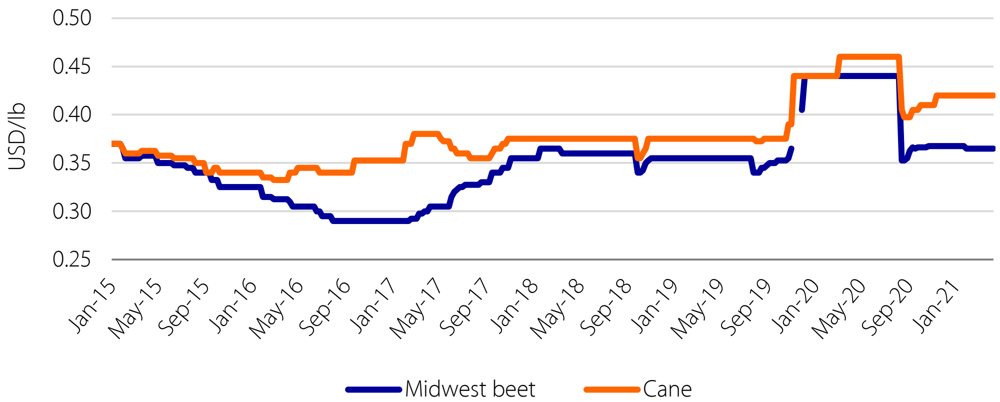
Source: NOPA, USDA-AMS, Rabobank 2021

Sweeteners

Downward price pressure coming

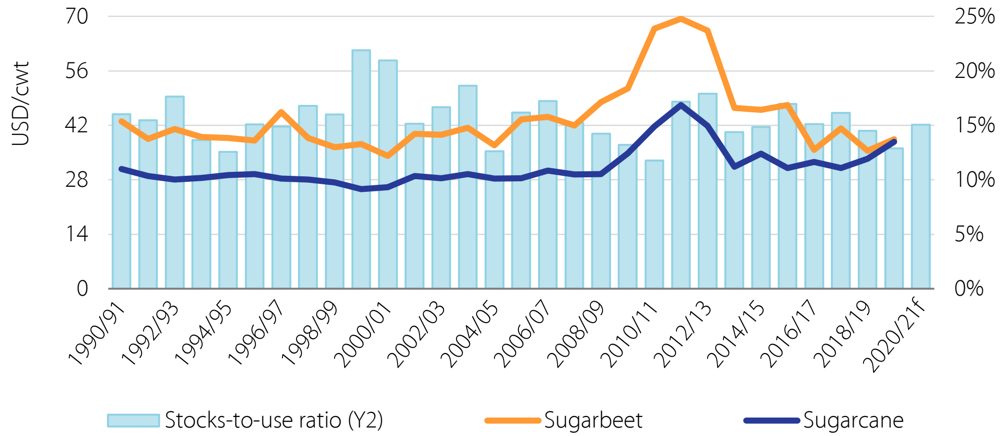
- ***The US sugar market is digesting the biggest sugar deal since Imperial Sugar was sold to Louis Dreyfus in 2012.*** US sugar stocks are growing, and while prices have not yet reflected this reality, it is only a matter of time before prices will be pressured lower.
- US Sugar Corp's purchase of Imperial Sugar from Louis Dreyfus is further consolidating the sugar industry. If approved, the purchase would increase United Sugars' market share from its current 25% to approximately 33%. This provides United Sugars the ability to weatherproof their portfolio with access to domestic cane, beet, and world markets through the port at the Imperial refinery in Savannah, GA. There are now two companies with approximately one-third each of market share, raising the question as to whether this creates too much market power and gives too much pricing leverage to two players. The pricing issue could be detrimental to both producers and sugar buyers. There will need to be DOJ approval of the purchase.
- ***If increasing stocks and stocks-to-use were not enough to put downward pressure on prices, deliveries are down***. Year-to-date through February, beet and cane deliveries are down 1.6%. This is the largest decline for this period since the 2008/09 crop year. Buyers are pretty well booked for this year, but are looking ahead to next year. They are anticipating lower prices and waiting for the market to come to them.
- ***Sugarbeet plantings are off to a fast start***. As of April 11, both Idaho and Michigan had nearly half the crop planted, well ahead of last year's pace and the five-year average. Minnesota and North Dakota are just getting started. Drought conditions are a concern there, but early planting is crucial for a good crop.

Sugar prices have stabilized for the time being



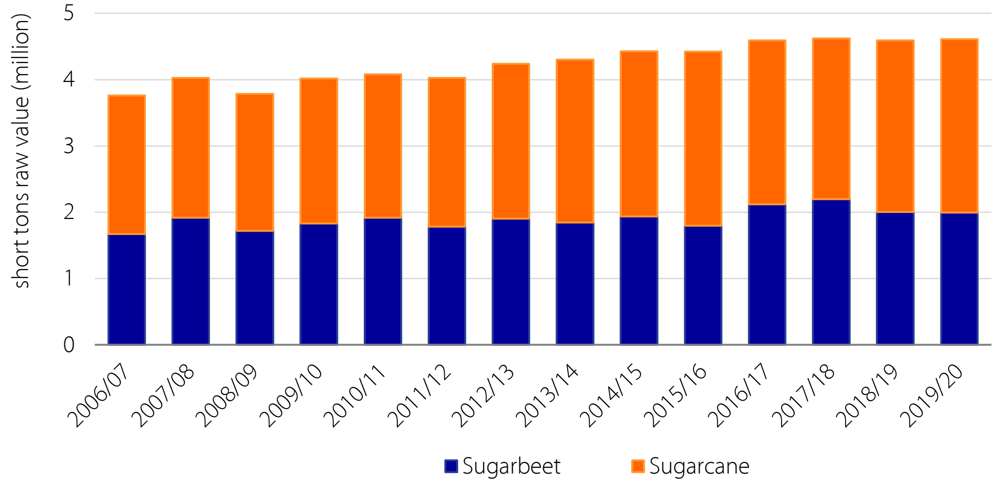
Source: Milling & Baking News, Food Business News, Rabobank 2021

Sugar price vs. stocks-to-use ratio: lower prices on the horizon?



Source: WASDE, Rabobank 2021

US beet and cane sugar deliveries through February were down 1.6%



Source: USDA-FSA, Rabobank 2021

Tree Nuts

Record monthly shipments reported as logistics improve

Almonds: Updated industry figures show that almond supplies – crop receipts to date plus carry-in – during the 2020/21 marketing year are up about 24% YOY. Total US shipments in 2020/21 were up roughly 18% YOY through March. Exports, accounting for 73% of US shipments, were up 24% YOY, as monthly shipments continued at record levels. January was the exception. Domestic shipments were up 4% YOY through March. As logistics have been improving, exports may hit new monthly records. Weather conditions during pollination were favorable, but the crop should be smaller YOY.

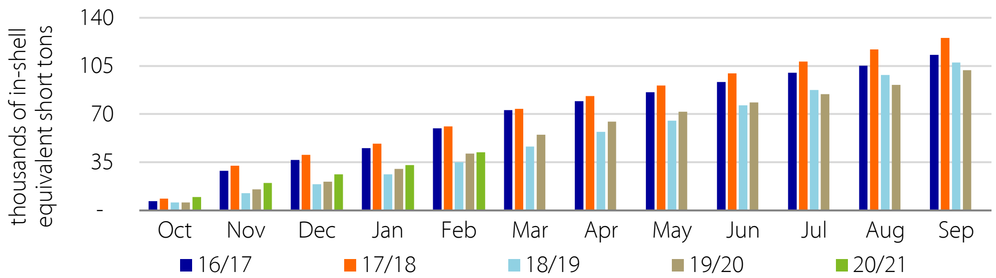
Hazelnuts: Shipments in 2020/21 were up 33% YOY through February, with kernel exports growing 96% YOY. About 61% of marketable supplies have been sold, lagging behind the pace of previous years on a much larger crop.

Walnuts: Total US supplies, current crop plus carry-in, for the current marketing season were up about 17% YOY. Shipments were up 16% YOY, with exports increasing 23% YOY through March. About 64% of marketable supplies were sold, a similar proportion compared to previous years on a larger crop. After extraordinary yields in 2020, the crop in 2021 may not be as large, which should help prices. Generally, prices have been softer YOY, reflecting not only higher availability in the US but also increased competition from Chile and China in export markets. Propelling domestic demand will be increasingly relevant for this industry.

Pistachios: US pistachio production surpassed the 1bn lb mark for the first time as California harvested an 'on-year' crop in 2020. Shipments in 2020/21 were up 13% YOY through February. Export shipments are up about 16% YOY. In-shell US exports were up 31% YOY during the first half of the current marketing year. Pistachio prices have remained steady, despite record supplies, according to industry sources. Some predict that in 2021 we will likely see an exceptional crop for an 'off-year.'

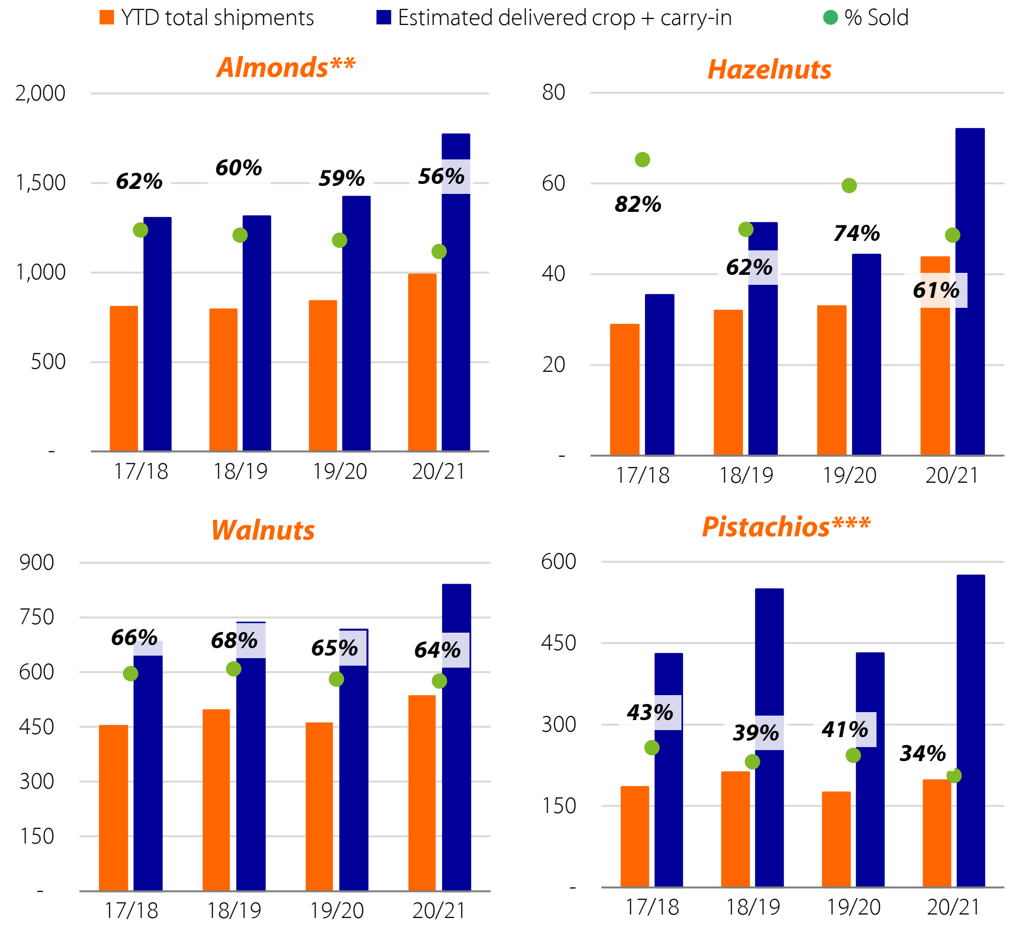
Pecans: US pecan export volumes in the 2020/21 marketing season through February were up 2% YOY, despite unusually low in-shell shipments in January, according to USDA figures. Industry figures show that in-shell YTD shipments to China have almost doubled through February, benefiting from the 'phase one' deal. Overall, despite disruptions in some ports, US pecan shipments are keeping pace, tracking well during the first half of the marketing season. Marketing efforts and healthy snacking trends are having a positive impact on demand for pecans, according to industry sources.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2021

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



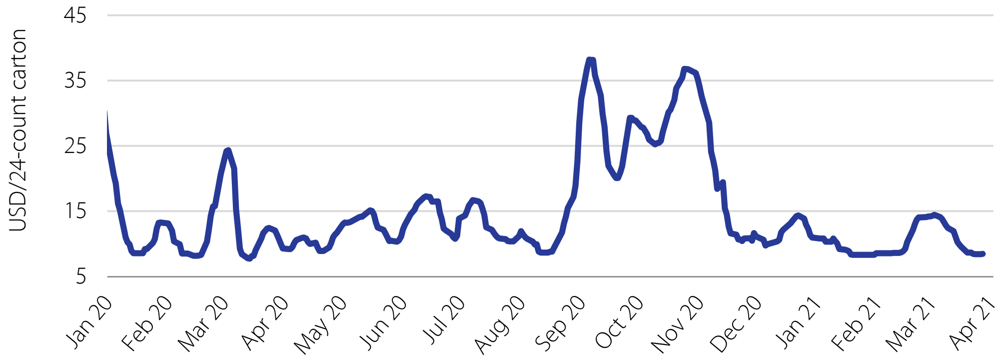
*Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2021. *Through March 2021, 2020/21 marketing season for almonds and walnuts; February 2021 for hazelnuts and pistachios. **Meat pound equivalent. ***Not considering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

Vegetables

Competitive/promotable prices remain

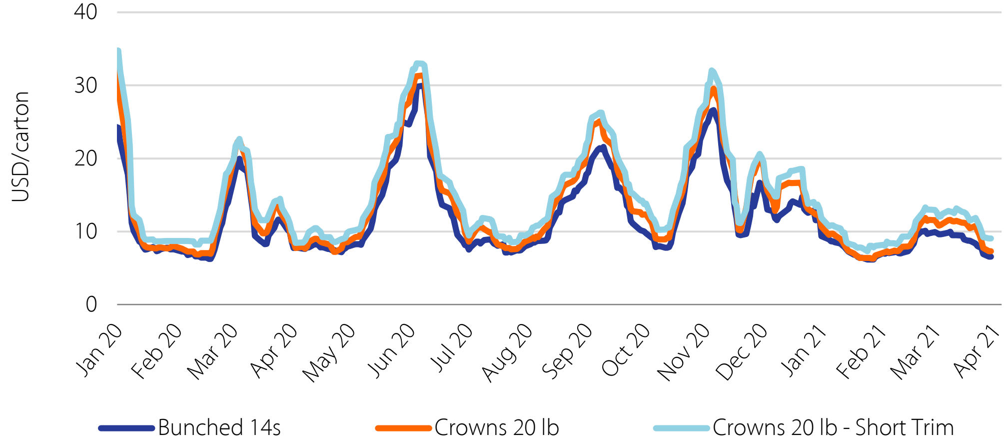
- ***Steady leafy green supplies from the desert to the California coast throughout the transition of the growing seasons have maintained prices at competitive levels***. Increased tomato supplies in the US have also maintained unusually low and flat prices.
- Prices during the second week of April were down about 9% YOY for romaine hearts (12x3), to roughly USD 12/carton. Availability of romaine lettuce is expected to remain plentiful for the next few weeks. Demand is reported as steady, and quality is good.
- By mid-April, iceberg lettuce prices were down about 26% YOY. Current prices were below USD 9/carton for wrapped 24s. Mostly favorable weather conditions in Yuma maintained strong supplies of good-quality product during most of the Arizona season. As production transitions to the coast, steady supplies from Salinas and Santa Maria are expected to continue. Quality is reported as good.
- In the second week of April, broccoli crown prices were down by double digits YOY, depending on the specific product, and short-trimmed crowns were priced at about USD 9/carton, down 24% YOY. Industry sources report steady supplies and excellent quality.
- Cauliflower prices have gradually declined over the last month to about USD 11/carton for wrapped 12s, down about 13% YOY during the first week in April. Industry reports signal ample supplies from the California coast may continue for the foreseeable future. Quality is good.
- Tomato prices have remained at very competitive prices during the last three months, as availability of some varieties in the US market continues to be higher YOY. Prices may improve in the summer.
- Sweet potato prices in North Carolina were at USD 17/carton during the second week of April 2021, reaching a multi-year high for this time of the season and up about 5% YOY. Seasonally, prices tend to increase during May and June.

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



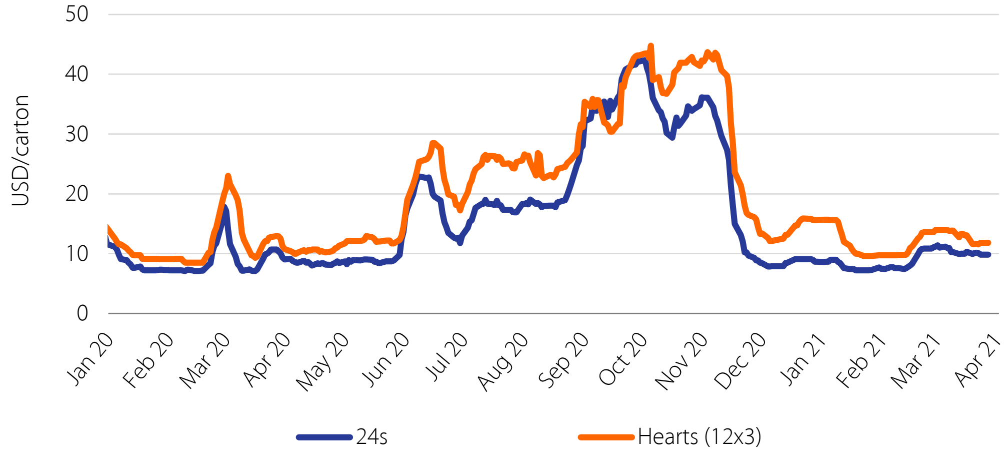
Source: USDA AMS, Rabobank 2021

Broccoli – US daily shipping point price, 2020-2021



Source: USDA AMS, Rabobank 2021

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



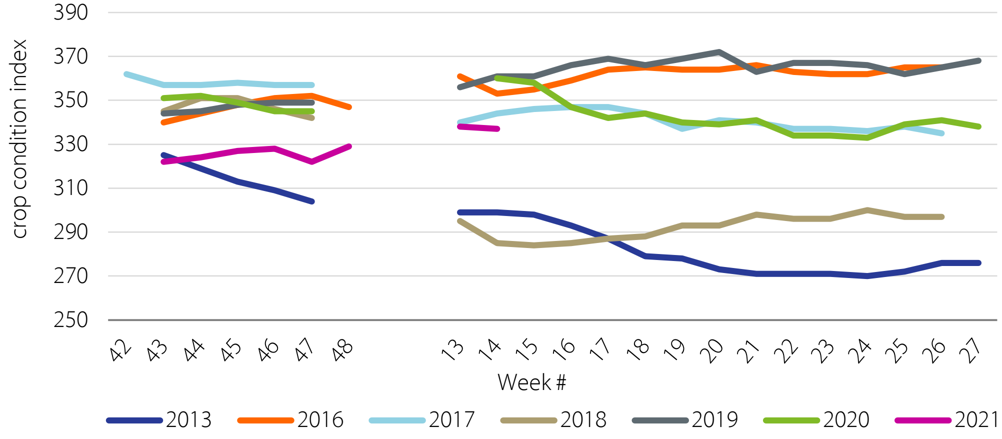
Source: USDA AMS, Rabobank 2021

Wheat

Russia holds the key to the global wheat market

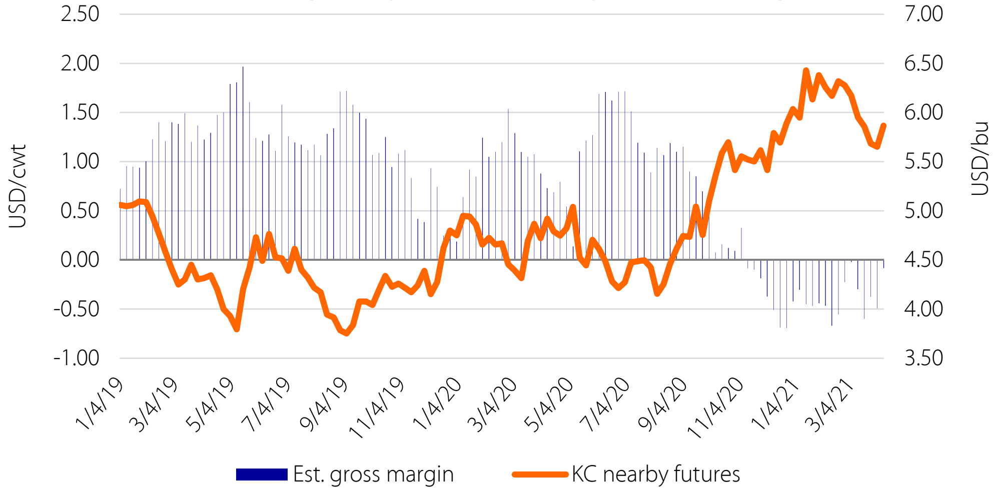
- ***The March 31 Prospective Planting report offered the wheat market some surprises***. The big surprise was in winter wheat acres, which increased 1.1m acres, compared to the January Winter Wheat and Canola Seedings report, to 33.1m acres. The big increases came in white wheat regions of the PNW and SRW regions of the Ohio River Valley. The increase in white wheat and SRW regions follows the higher prices for those two classes of wheat due to the tightest stocks since 2013/14 and 2007/08, respectively. The other surprise was the decline in spring wheat and durum acres. Both HRS and durum stocks are projected to decline again in 2020/21. Texas was the only HRW state that saw an increase from January. Like corn and soybeans, there is no room for production issues this year.
- ***US winter wheat crop conditions reflect the retreat of the drought.*** According to the weekly US Drought Monitor, the drought has retreated in Kansas and parts of the Texas Panhandle. Even though winter wheat crop condition ratings have shown improvement, HRW yields for the comparable years of 2017 and 2020 were 42.5 bu/acre and 42.2 bu/acre, respectively. Using the 2017 yield and putting together a 2021/22 HRW balance sheet, ending stocks at best will remain flat year-over-year or, more likely, decrease. While it may be difficult to maintain USD 6.00+ futures prices, basis Kansas City, it appear futures prices should stay in the USD 5.00 to USD 6.00 range versus the USD 4.00 to USD 5.00 range of the past two years.
- ***Russia continues to play havoc on the world wheat market, which has benefited the US***. Russia has imposed two flat export taxes: USD 25/metric ton in mid-February and an increase to USD 50/metric ton on March 1. On June 2, a floating duty will replace previous export taxes. The floating duty will be calculated at 70% of the difference between USD 200 and the benchmark index. The tax is unknown until the cargo is shipped and the benchmark index is applied. There are a number of positive implications for non-Russian wheat exporters. The fact the tax is not calculated until the day of shipment will make it risky to make forward sales, therefore making premiums higher for deferred shipments and potentially making Russian wheat uncompetitive. The duty is likely to squeeze producers' selling prices, as basis prices are pressured lower to accommodate the higher export duties. Russia may eventually decide to lift the duties when the domestic market stabilizes and food inflation declines. In the meantime, wheat exporters such as the EU, US, Canada, and Australia will benefit. US wheat exports for 2020/21 are projected at 985m bu, 20m higher than the last crop year.
- ***On a related note, it has been reported that several large exporters have left the Russian wheat market*** (Louis Dreyfus, Bunge, and Sierentz Global Merchants). In addition, Cargill and GrainCorp have reportedly quit buying Russian wheat. Also, the tension between Russia and Ukraine continues to build, which makes buyers wary of doing business with the two countries. Again, good news for other wheat and corn exporters – stay tuned.

US winter wheat crop conditions at lowest rating since 2013



Source: USDA-NASS, Rabobank 2021

Estimated flour milling margins remain negative with high wheat prices

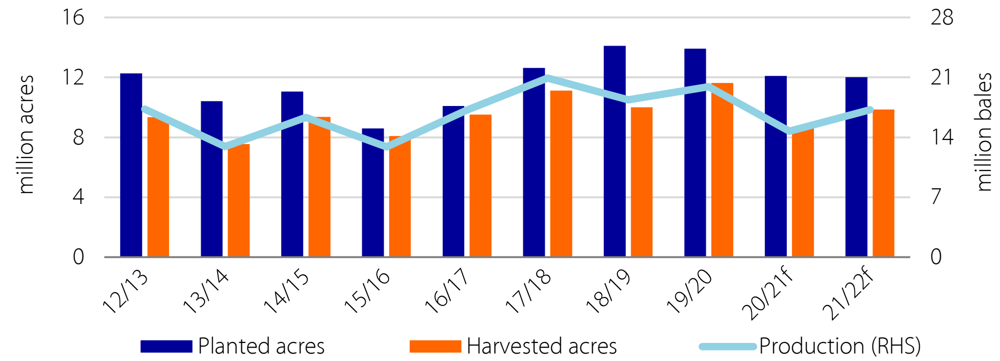


Source: Sosland Publishing, Rabobank 2021

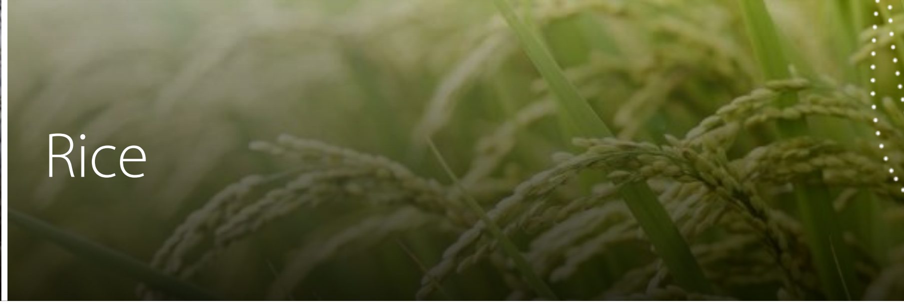
Cotton

- ***The USDA's 12m acre estimate for 2021 US cotton fell in line with Rabobank projections.*** Adopting this figure along with long-term assumptions for abandonment and yield – 18% and 840 lb/acre, respectively – Rabobank models a 0.5m bale YOY decline in US 2021/22 stocks, taking domestic stocks to five-year lows. Ongoing export demand strength and the potential impact of La Niña on abandonment could exacerbate this tightness. This provides a longer-term supportive factor for cotton, especially as global demand recovers to pre-pandemic levels in 2021/22.
- ***New crop ICE #2 Cotton contracts hold above USc 80/lb but are under pressure from February's price peak of USc +90/lb***. Rabobank sees the fall lower being technically-driven, assisted by a selloff in speculative positions – particularly on old crop contracts. Still, price strength is forecast to persist through Q2 2021, with both US weather and fundamentals being a significant influence. Elsewhere in the world, the late planting of Brazil's crop could make for a challenging pick, while Australia gets set to pick a smaller, drought-reduced crop this month. Rabobank now forecasts ICE #2 Q4 2021 prices marginally higher at USc 78/lb, up from USc 77/lb previously.
- ***The world's media is watching the Xinjiang cotton industry very closely,*** following ongoing allegations of human rights abuses. While countries including the US and EU step in to introduce legislation on Xinjiang cotton imports, brands and retailers are under pressure to uncover – and ultimately 'clean up' – their supply chains. Chinese imports are set to reach seven-year highs this year, at 11m bales, in order to meet their significant supply deficit. However, Rabobank notes that this figure has the potential to increase as western nations demand cotton with proven provenance. Exporters such as the US and Brazil appear likely to benefit most, followed by Australia and potentially West Africa.

A US cotton planted area of 12m acres is modeled to bring about 17m bales in potential 2021/22 production – cutting stocks by 0.5m bales YOY



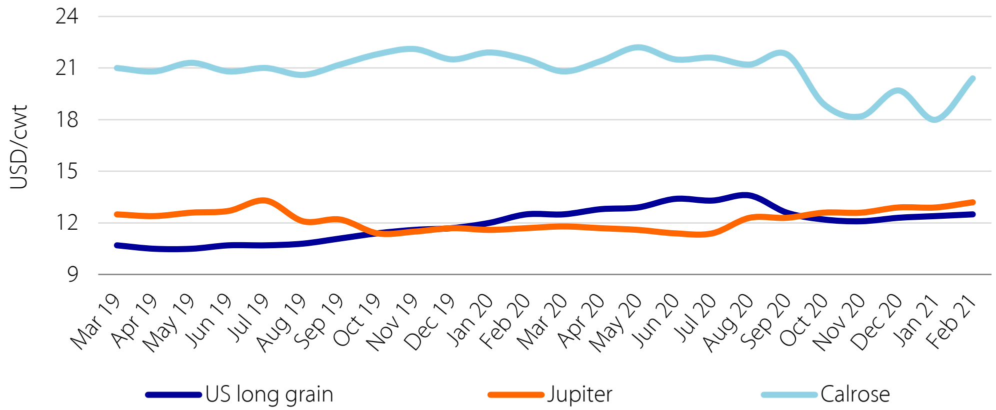
Source: USDA, Rabobank 2021



Rice

- ***Intended rice plantings from the March survey put initial estimates at 2.7m acres for 2021/22, representing a decline of 11% from the previous year***. While the actual plantings report will come in June and decisions can change due to weather and price developments, the Delta region is likely to see a decline driven by strong prices for corn and soybeans. Weather developments could also add uncertainty on plantings.
- ***Ending stocks are larger than previously estimated, at 42.9m hundredweight, 9% larger than projected in March***. Lower demand and exports last year increased the level of ending stocks and will continue to keep prices under pressure as ample supplies remain in the market. However, with a potential lower acreage for next season and with that lower production, supplies are likely to decline.
- ***Prices have been revised up compared to last month's projections, with the season average farm price (SAFP) for long-grain rice increasing to USD 12.50/cwt, an increase of USc 10 from the previous month's forecast and a USc 50 increase from the previous year***. For medium- and short-grain rice, California SAFP prices also increased from last month's projection to USD 19.30/cwt, compared to USD 19.00/cwt, but remain USD 2.30/cwt lower than last year. Long-grain rice prices reflect a better demand utilization compared to last year, but higher ending stocks and higher production are keeping prices in check. Medium- and short-grain rice have seen some support due to lower production, but lower demand and exports will continue to impact prices.

24-month US rice prices, March 2019-February 2021

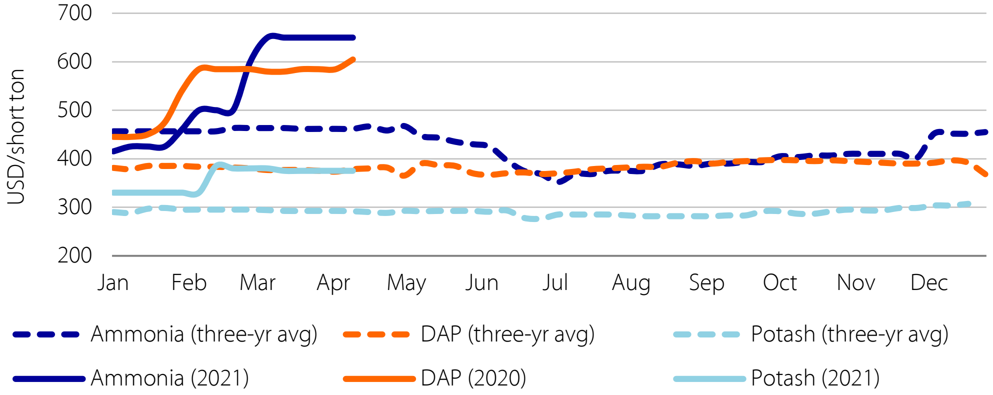


Source: USDA NASS, USDA ERS, Rabobank 2021
Note: Average rough rice basis

Input Costs

As of April 15, 2021

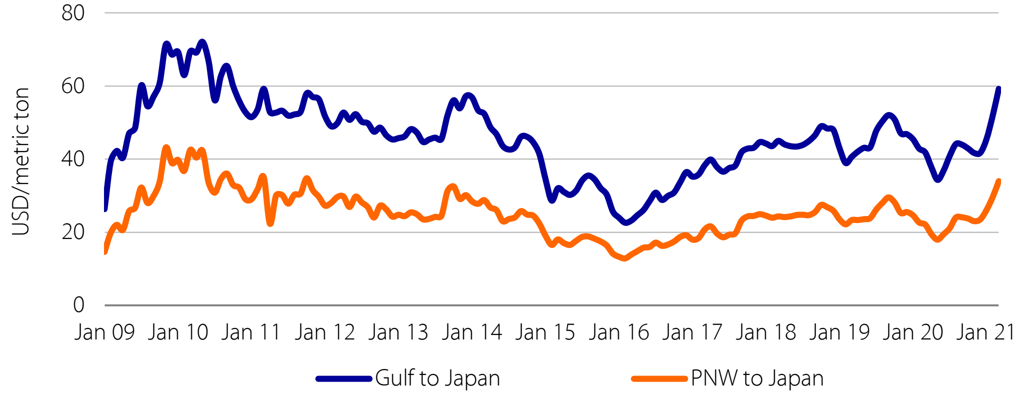
Corn Belt input prices*



** Note: granular potash*

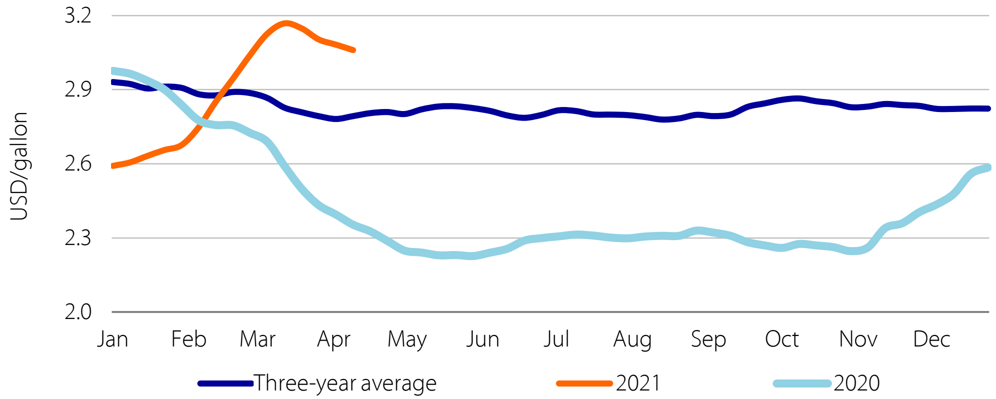
Source: Bloomberg, Rabobank 2021

Ocean freight



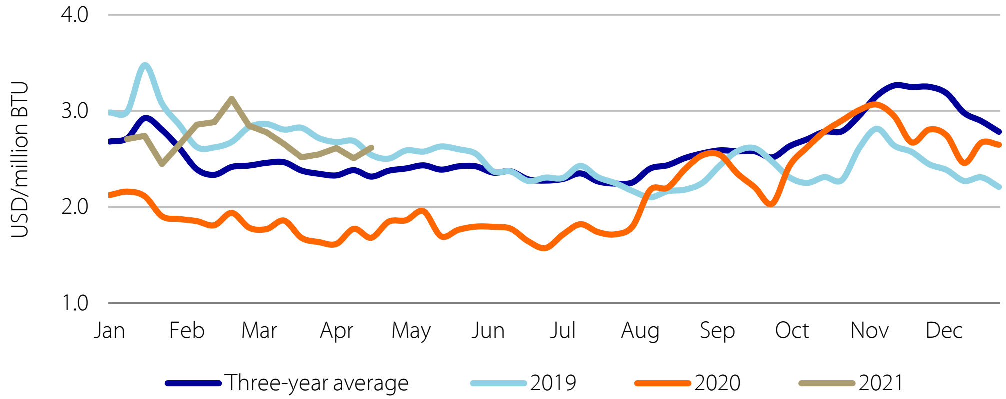
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2021

Diesel – Midwest



Source: EIA, Rabobank 2021

Natural gas spot



Source: NYMEX, Rabobank 2021

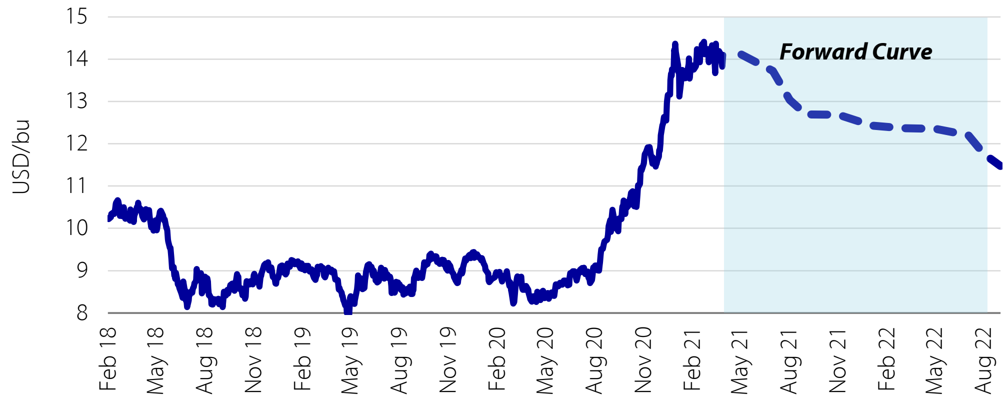
Forward Price Curves

As of April 15, 2021

CBOT – Corn

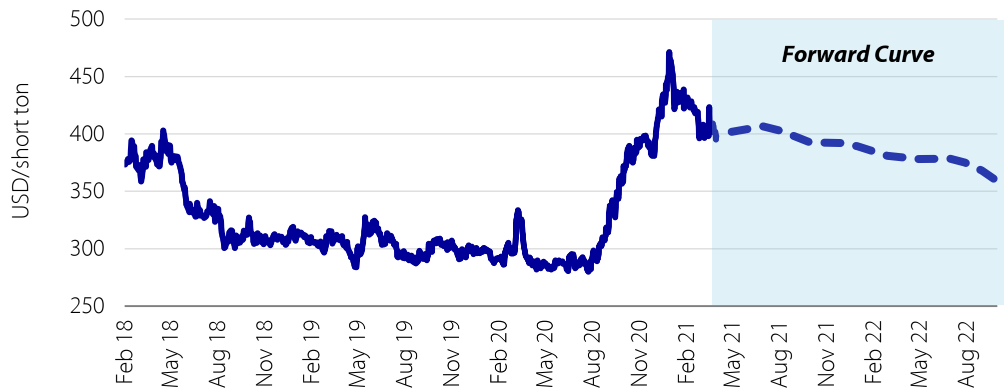
Source: CBOT, Rabobank 2021

CBOT – Soybeans



Source: CBOT, Rabobank 2021

CBOT – Soymeal



Source: CBOT, Rabobank 2021

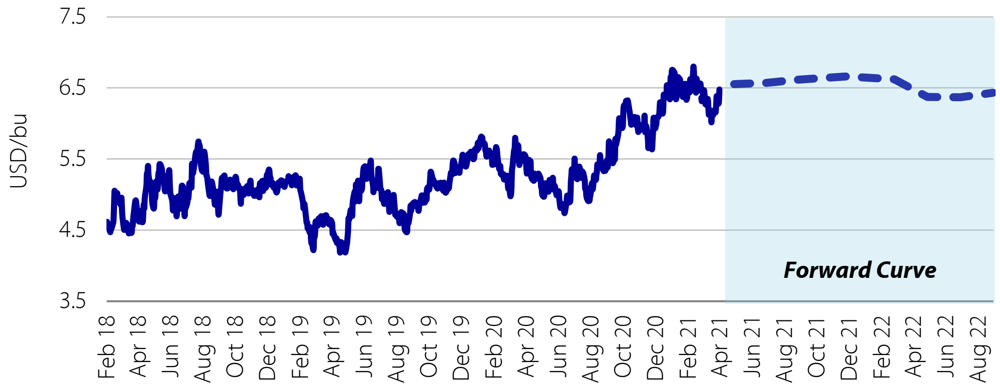
CBOT – Soy oil

Source: CBOT, Rabobank 2021

Forward Price Curves

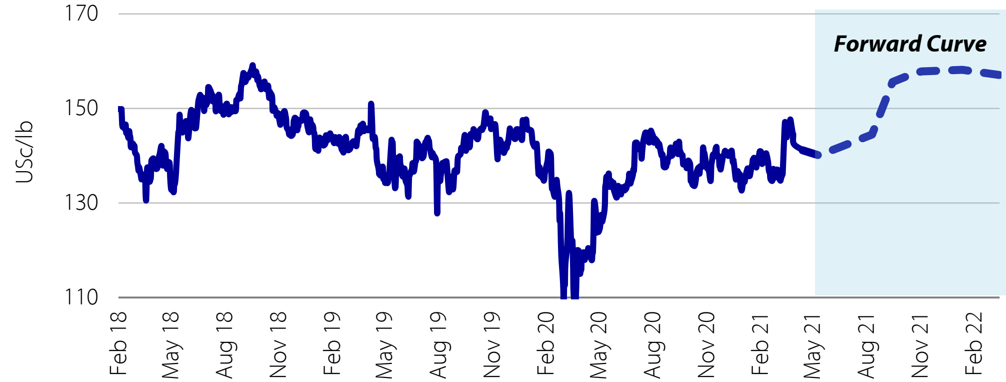
As of April 15, 2021

CBOT – Wheat



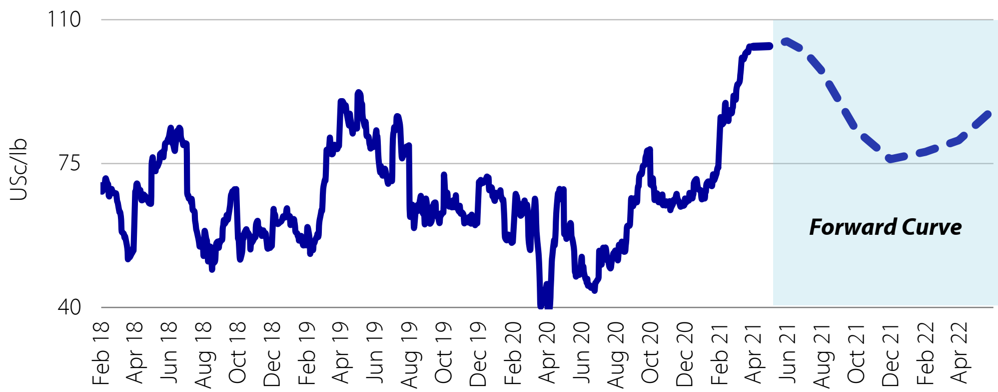
Source: CBOT, Rabobank 2021

CBOT – Feeder cattle



Source: CBOT, Rabobank 2021

CBOT – Lean hogs



Source: CBOT, Rabobank 2021

CBOT – Live cattle

Source: CBOT, Rabobank 2021

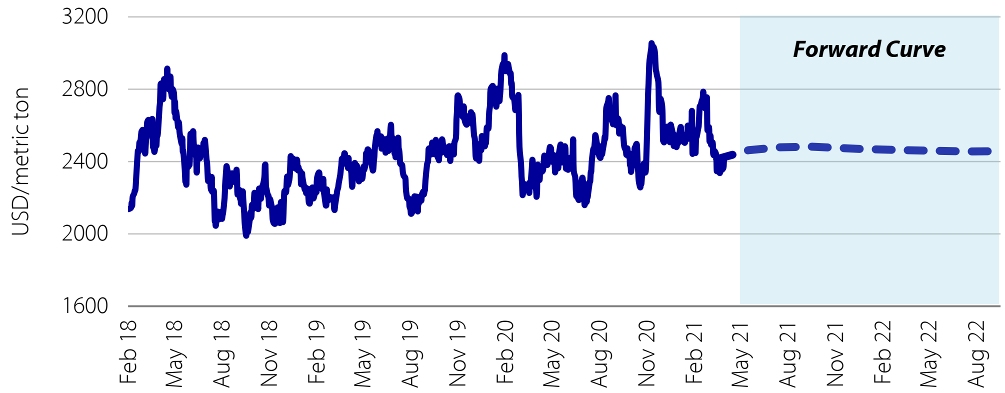
Forward Price Curves

As of April 15, 2021

ICE – #2 Cotton

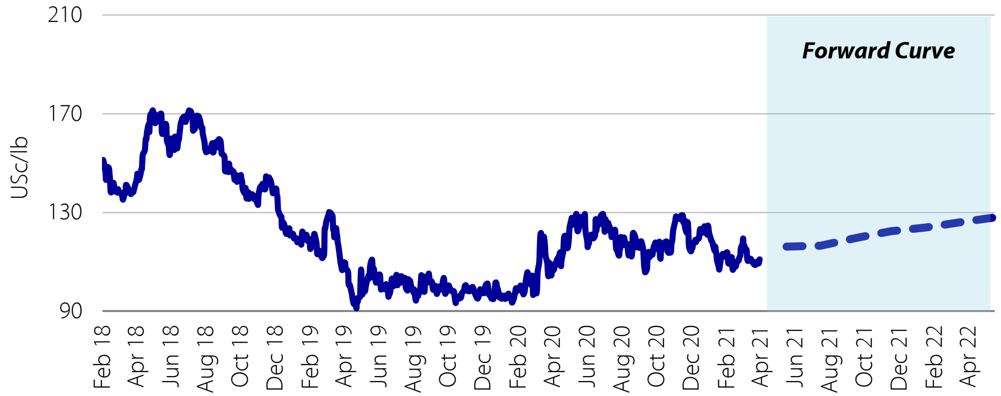
Source: ICE, Rabobank 2021

ICE – Cocoa



Source: ICE, Rabobank 2021

ICE – FCOJ



Source: ICE, Rabobank 2021

ICE – #11 Sugar

Source: ICE, Rabobank 2021

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