



North American Agribusiness Review

Rabobank







RaboResearch
Food & Agribusiness

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Report Summary

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Economy

Credit tightening

US

- The recent banking turmoil has complicated monetary policy for the Fed. Instead of accelerating the rate hikes to 50bp at the March meeting, the FOMC backed down and stuck to a pace of 25bp. What's more, the peak of the hiking cycle in the Summary of Economic Projections did not get the upward revision that Powell suggested shortly before the collapse of SVB and Signature Bank. Instead, Powell said that credit tightening could substitute for rate hikes. To stamp out inflation, the Fed wants to increase slack in the labor market to reduce wage and price pressures. The Fed thinks it can engineer a soft landing for the economy, i.e. increase slack without causing a recession. Even before the banking turmoil, we thought this was very unlikely, but now that the Fed has outsourced the final leg of the hiking cycle to credit tightening by banks, the probability of a soft landing has decreased. After a final 25bp hike in May, we expect the Fed to remain on hold for the remainder of the year.

Mexico

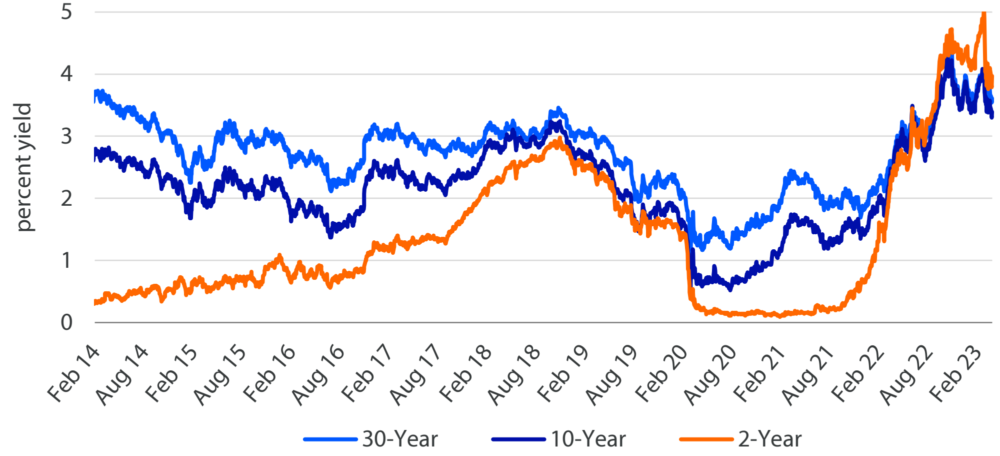
- Banxico announced a widely expected unanimous decision to raise the policy rate by 25bp to 11.25% at the March 30 meeting. We believe Banxico has entered a follow-the-Fed mode, despite leading the US throughout most of the hiking cycle. Given that we recently shifted down our forecast for a US terminal rate from 5.50% to 5.25%, we have now shifted our expectation of the peak in Mexico's hiking cycle from 11.75% to 11.50%. This will maintain a spread of 625bp, and as with the Fed, we do not expect rate cuts in Mexico this year. The March meeting was supportive of our view. We expect USD/MXN to rise to 19.50 at the 12-month horizon.

Canada

- Our view is that the 25bp hike to 4.50% from the Bank of Canada on January 25, marked the end of the rate hike cycle, and the terminal rate will stay at 4.50% throughout 2023. Market pricing around the likely path of Canadian policy rates has been incredibly volatile. This reflects financial stress south of the border as US banks came firmly into focus and the rates market repriced aggressively. We don't expect the Bank to raise rates again this cycle, but we do not expect imminent cuts either. We expect the Bank to remain firmly in data watch mode, which we think will leave them on hold until mid-2024. We expect USD/CAD to rise to 1.37 at the 12-month horizon.

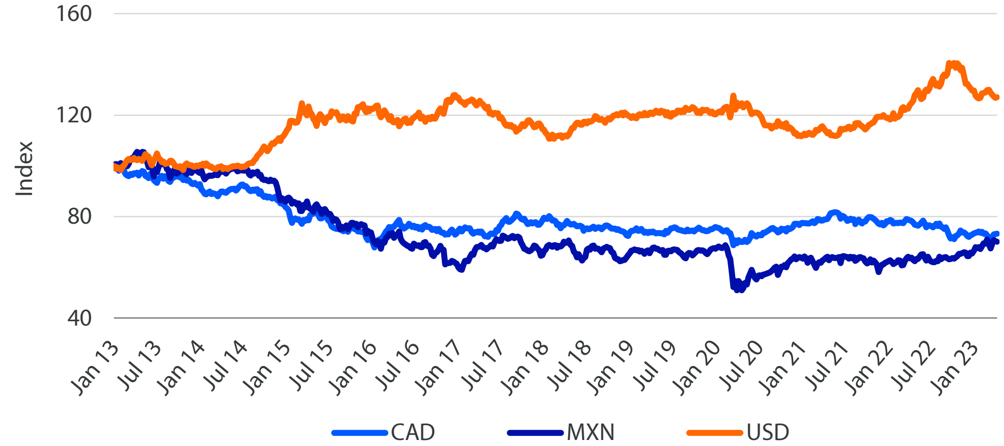
Source: *USDA, Rabobank 2023*

Interest rates, 2014-2023



Source: *Federal Reserve of St. Louis 2023*

Currency indices, 2013-2023



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

Logistics

Reefer rates strong while dry container rates tumble

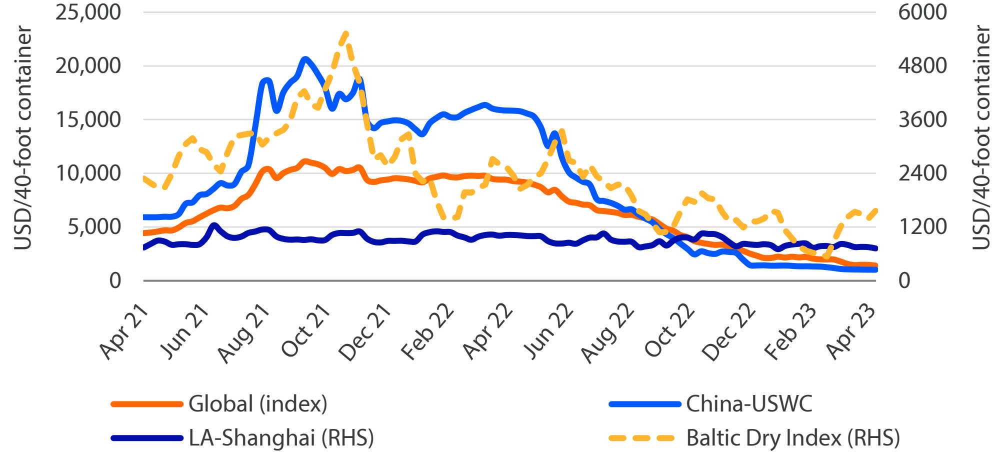
- **Dry container shipping contract rates will continue to follow the downward trend of the spot market, although it lags by as much as 1 year.** A weaker-than-expected outlook for imports drove down the global index, while rates for the westbound transpacific lane, one of the most relevant routes for US exporters, are much more resilient. Blanked inbound sailings and irregular port activities significantly reduced available capacity and schedule reliability for shippers. US exports will continue to be impacted by both short-term and long-term (structural) labor issues and related disruptions.

- **While reefer container freight rates of most trade lanes started to head south, rates for North American outbound lanes are staying strong.** Drewry reports a global average decrease of -11% QOQ in Q1 2023, which is still 4.6% above the same period last year. The North America to Asia route jumped 9% compared to the previous quarter, or 66.2% YOY. Rate changes vary widely across trade lanes and reflect on reefer container supply and demand. Reefer container equipment imbalance in North America continues to worsen in this export season and we expect a delayed relief later in the year.

- **The Baltic Panamax index (a proxy for grain bulk freight) has seen a strong rebound in the last four weeks, to Q4 2022 levels.** The rebound was supported by recovering Chinese demand and positive news from Ukraine's Black Sea Grain Initiative. The Black Sea deal was extended for at least 60 days, until mid-May. As the global economy enters turbulent waters, we expect the Panamax index to fluctuate around the lower end of the spectrum.

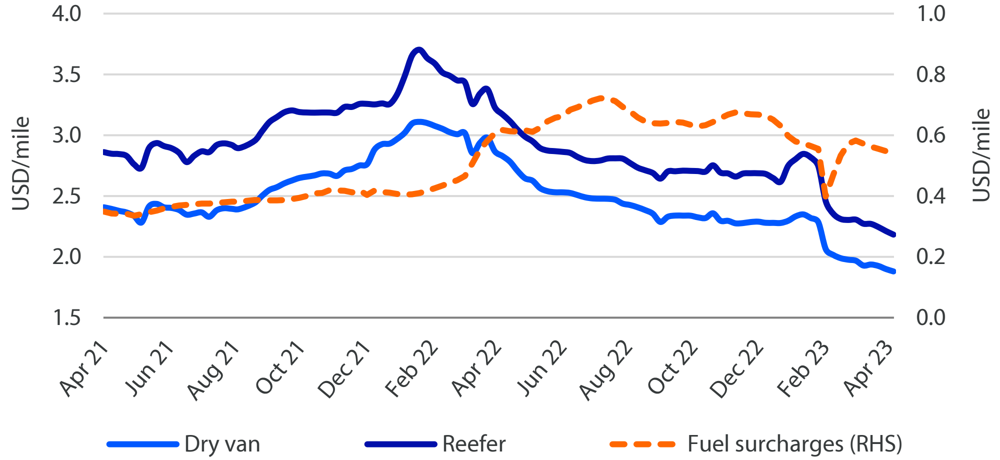
- **Trucking contract rates continue to normalize as small freight operators exit the market, but the number entering is almost as many as the number leaving.** This keeps the capacity strong and spot pricing depressed. While the February Producer Price Index for General Freight Trucking continues its gradual downward trend, we still have a long way to go toward the pre-pandemic pricing levels. Energy costs and structural labor issues are expected to overshadow the logistics industry.

Select ocean freight rates, Feb 2021-Feb 2023



Source: *Freightos, Baltic Exchange, Bloomberg 2023*

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



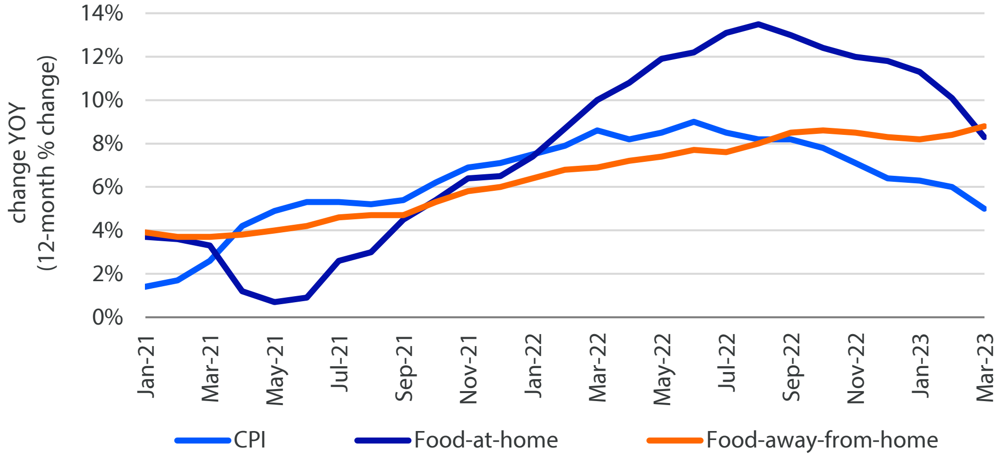
Source: *Truckstop.com, Bloomberg 2023*

Consumer Retail & Foodservice

Slowing inflation but persisting pressure on consumers' pockets

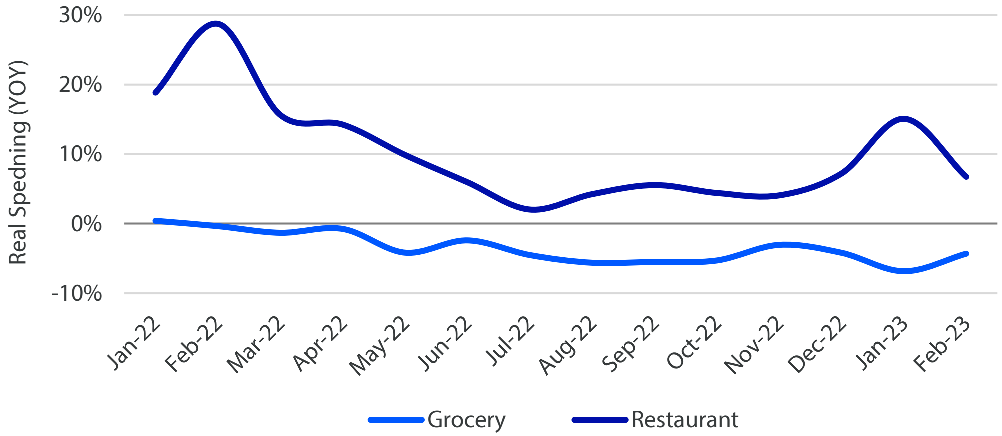
- **Food prices stayed flat in March 2023 in comparison to the previous month**, following a gra.dual deceleration trend in place since July 2022. Food prices are still 8.5% higher YOY, well above total CPI (5.0%). The month-on-month story is more telling of the trend.
- **On a MOM basis, consumers paid (slightly) less for groceries in March:** food-at-home dropped for the first time since September 2020: -0.3%, versus 0.3% in February. This was the most significant drop since July 2020. On a 12-month comparison, grocery prices are still 8.4% higher, which has continued to influence consumer behavior towards buying based on value rather than values. If we adjust for inflation, grocery sales actually fell by ~6% in the first two months of the year.
- **Low-cost grocery store sales are benefiting from the cost-conscious consumer**. Private label brands have seen strong growth in sales, with Kroger reporting a 10.1% increase in their store brand sales in Q4 2022 earnings (released in March). Similarly, TreeHouse Foods' most recent earnings show a strong trade-down toward private label products and a positive outlook for unit growth in 2023 compared to competitors.
- **On the other hand, restaurant menu prices continue to increase:** +0.6% throughout the first three months of the year. When it comes to inflation, restaurants have historically taken a 'steady as she goes' approach to raising prices. Volatility in menu pricing can be disastrous to costs and the value proposition of restaurant brands. Restaurants have taken this approach since 2021 when inflation picked up. This has benefited restaurants where their prices (compared with grocery stores) seemed to increase at a lower rate, making it somewhat attractive in consumers' eyes. Following this rationale, restaurant demand can be affected if 'more volatile' grocery prices continue to head lower in the months ahead. Additionally, there is still water to pass under the bridge for restaurants, where many costs up the supply chain – including wages – are still persistently high and yet to be passed on to consumers.
- **Meanwhile, foodservice sales are holding up.** After an expected recovering 2022, restaurant sales increased by an impressive ~11% in real terms during January and February compared with same period last year. This is a reflection of slower price increases vis-à-vis groceries, but also strong trends in foodservice driven by convenience and consumers seeking a more social experience eating away from home – perhaps a remanence of the lockdowns during Covid.

Restaurant menu price increases have been passed on more gradually than groceries'…



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

… which leads to the question: what will happen to restaurant sales if groceries prices keep going down?



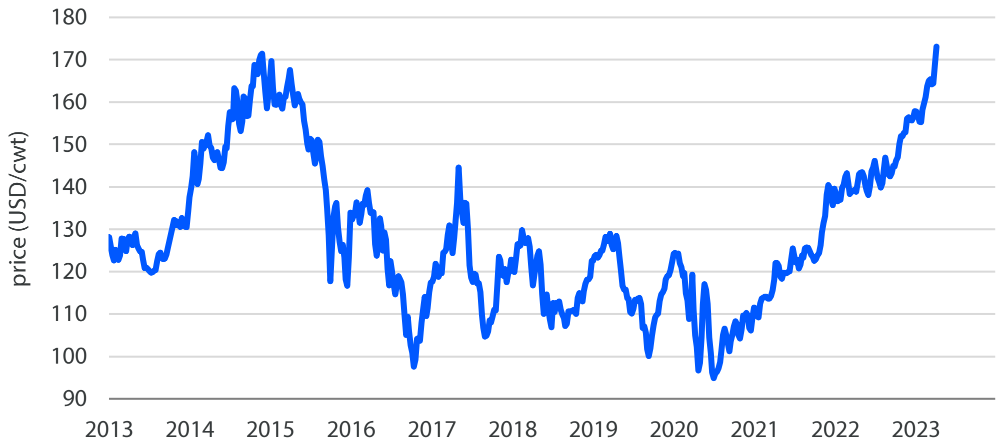
Source: *Rabobank 2023, based on U.S. Census Bureau and US Bureau of Labor Statistics (BLS)*

Cattle

Market prices make new highs in the US and Canada on tighter cattle supplies and adequate demand

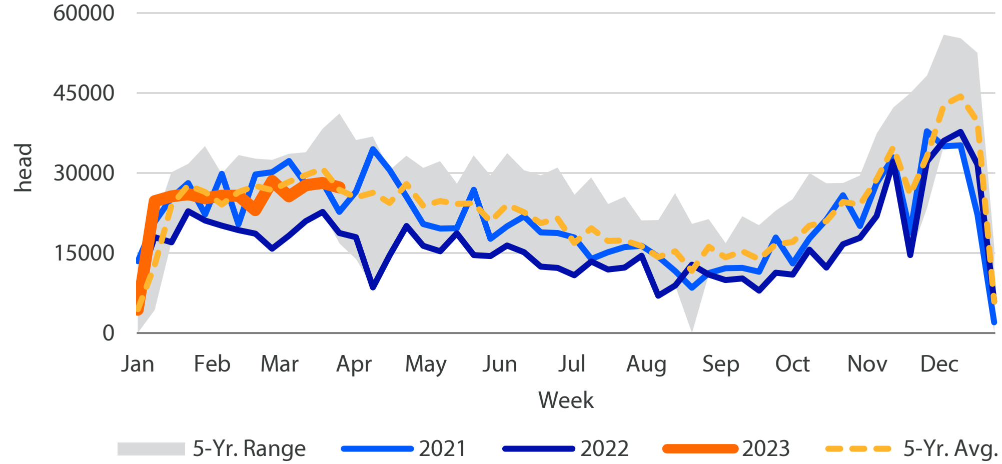
- **Prices for all classes of US cattle remain stronger to start early 2023.** The US cattle market was expected to start the year in an uptrend based on tighter supplies, but demand concerns created uncertainty regarding upside potential. Market fundamentals have remained mostly friendly for sellers, and all classes of cattle remain in an uptrend from the late 2022 lows. Seasonally, fed cattle and calf prices should come under pressure in the coming weeks. US-average 500-lb steer prices are averaging USD 227/cwt in year-to-date 2023, while the 800-lb feeder steer price average is USD 179. The year-to-date average USDA five-area fed steer price is USD 161/cwt. All these prices are 16% higher than last year. Cull cow prices are 19% higher to start the year – averaging USD 77/cwt.
- **Better demand is the reason for higher US market potential.** The USDA comprehensive boxed beef cutout is averaging USD 278/cwt in year-to-date 2023. After accounting for inflation, that is down 4% in real dollars compared to last year. Considering US per capita beef supplies were also down 0.5 lb (3%) in the first quarter, wholesale beef demand is down 8% compared to last year. That seems like bad news. However, that is still the second-highest first quarter beef demand in the last 20 years. Beef is continuing to move through the system – offering support to the cattle market.
- **USDA Quality Grade improves from year-ago levels and premiums remain wide.** The percentage of steers and heifers grading USDA Prime and Choice quality grade peaked in early March at 85%, near the 2021 and 2022 annual highs. Quality grade is now into its seasonal decline, and the spreads between Prime, Choice and Select cutouts remain stout. The Prime-Choice spread was USD 40/cwt in March – its highest level in that period since 2012. The Choice-Select spread averaged USD 12, which is the highest March average on record. As quality grade declines seasonally into the summer – and consumer demand for grilling improves – the cutout spreads could become impulsively wider.
- **Canada cattle supplies decline and prices push to record highs.** Statistics Canada released its January 1, 2023, cattle inventory numbers since the last *Agribusiness Review*, and the data was largely as expected. The beef cow herd experienced its largest year-over-year reduction (-2.5%) since 2015. And the feeder cattle and calf supply declined 2% – resulting in the smallest inventory since 1994. Feedyard inventories are more supportive to the market too. The March 1 cattle on feed is down 5%, and Alberta fed steer prices have made new all-time highs for five consecutive weeks, most recently reaching CAD 218/cwt. Feeder steer prices are within CAD 12/cwt of 2015 all-time highs and calf values were within CAD 1 of those highs.
- **The Mexican cattle market shows a mixed picture as production remains ample.** The lone source of expansion in the North American beef cow herd remains Mexico, but domestic beef demand remains relatively subdued. Feeder cattle and calf sellers are receiving prices near year-ago levels due to stronger US export business. Year-to-date shipments are averaging nearly 25,000 head/week, which is up 31% compared to the same period last year. However, January and February beef exports to the US have declined 17%, while beef production is up 1% in that time. As a result, the wholesale beef market has been softer, and fed cattle prices have declined 10% compared to last year.

US fed cattle prices push to new record-highs to start 2023



Source: USDA, Rabobank 2023

Mexico feeder cattle exports to the US are starting 2023 at a five-year average pace



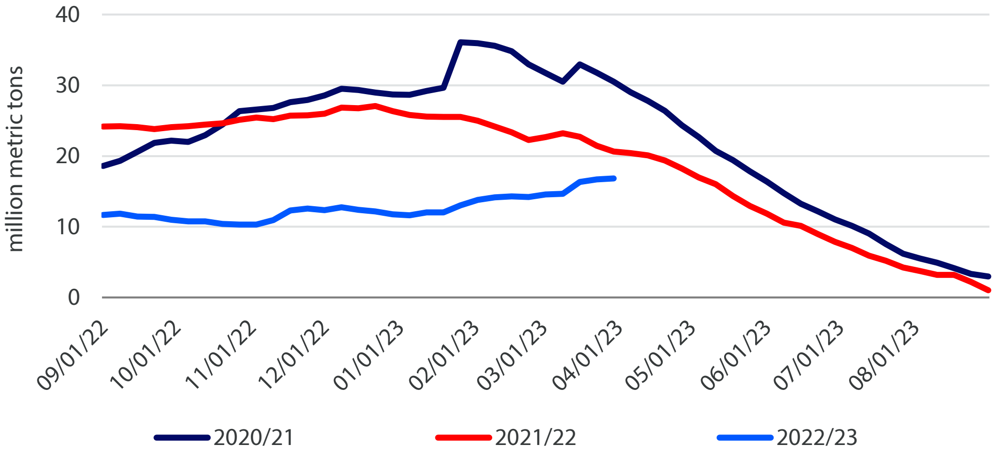
Source: USDA, Rabobank 2023

Corn

Planted area expected to increase 4% but all eyes on weather

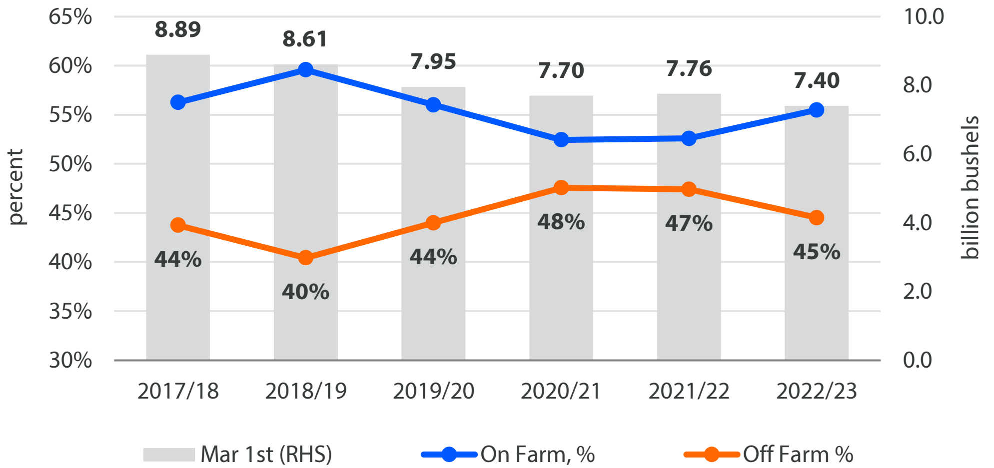
- **Planting intentions report:** Initial estimates on corn planting intentions are expected to be 4% higher than last year. As the planting season is already underway in parts of the south (US), initial estimates put total corn acreage for 2023/24 marketing year at 92m acres. However, being mindful that the planting season can take a lot of turns due to weather changes, this number might be adjusted. Weather patterns can become extremely volatile as we enter a transition from La Niña to El Niño.
- **Yield: are we looking at the trend?** Yield estimates have been all over the place this year – some estimates go back to the trend yield assuming normal weather. Corn yield has been on a rough trend with a cap on ~176 bushels per acre since 2017/18 and has not been able to go past 177 bushels per acre. This year in particular, weather will be a major driver for corn prices moving forward. Yield this year will determine if US markets will be able to replenish inventories and increase supply and bring down prices or continue a dry spell which will continue to pressure corn markets.
- **Stock report, what it means for markets in the second half of the marketing year:** Corn stocks came in lower by 4.6% compared to same period last year. Corn stocks for Q2 came in lower than anticipated, signaling to the market that demand remains robust despite lower exports. The amount of corn held off farms represents 45% of total stocks, signaling that farmers are holding corn looking for better opportunities at the back end of the marketing year. More importantly, commercials are holding less in stock compared to same period in the last two years, which could lead to commercials increasing their demand for spring and summer, causing basis to strengthen in the process.
- **Unusual movement on outstanding sales:** Corn Inspection for export is lagging 35% compared to last year. Corn exports have come down drastically compared to last year. However, it is important to keep in mind that the last two marketing years have been record exports for the US. Export demand this year Is tracking more in line with pre-Covid years. Outstanding sales, however, are showing that interest in US corn is increasing as challenges in Brazil are expected to see delays on corn exports. More importantly, when comparing different year outstanding sales, it has begun to show a counter-seasonal movement with outstanding sales growing in the last couple of weeks.

US Corn Outstanding sales trending up on a counter-seasonal move



Source: *USDA AMS Rabobank 2023*

Corn March 1 stocks 4.6% lower compared to last year



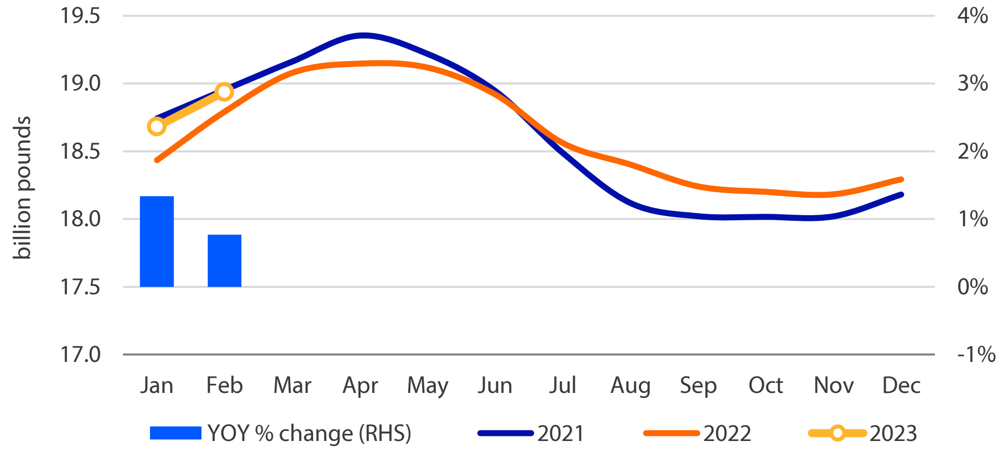
Source: *AMS-USDA, Rabobank 2023*

Dairy

Lower prices persist as Northern Hemisphere output reaches seasonal peak

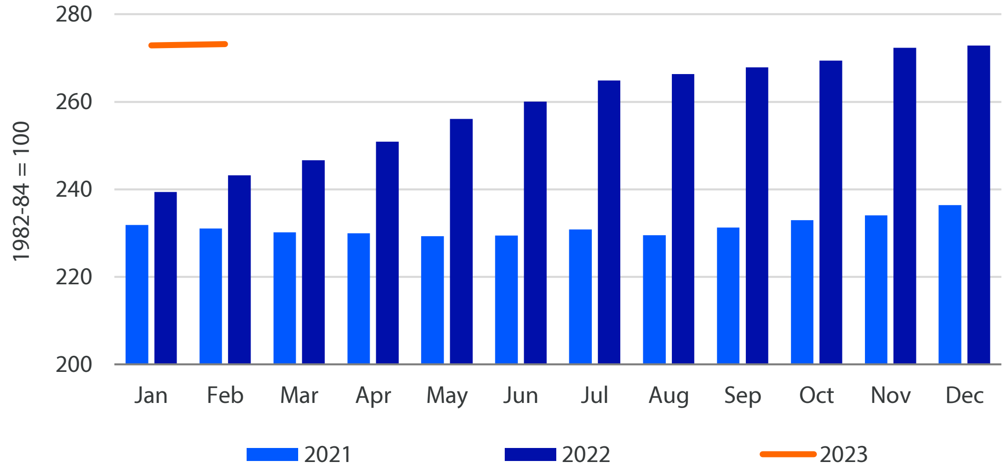
- **Milk production remained higher in the first two months of the year,** although February's 0.8% gain was weaker versus the 1.3% strength noted in January. USDA reported that the dairy herd grew by 9,000 head in January and increased by 12,000 cows in February. Coupled with the additional cows, milk per cow gains persist as well, helping to support the overall production growth. Weekly dairy cow slaughter rates have trended higher this year, likely limiting the potential of a significant herd expansion. Unchanged from recent forecasts, Rabobank still expects US milk production to grow 1.1% in 2023.
- **Consistent with the trend throughout 2022, the dairy products CPI remains well-above prior-year levels.** In February, the CPI was up 12.3%, still high but slightly weaker than last year's second half as strong prior year comparable data moderates the gain. The CPI will continue to trend higher throughout the next several months, with consumers paying up for dairy products. In January (the most recent data available) domestic total solids disappearance was down 0.9%, partially driven by the higher CPI, influencing consumer buying decisions.
- **Following the record dairy export year in 2022, as measured on a volume or value basis, total shipments again impressed in January but moderated versus last year's record-high volumes in February.** Headwinds were noted in the nonfat dry milk trade to Southeast Asia. In February, key categories of cheese and nonfat dry milk were mainly steady versus the prior year, with cheese exports down slightly (-0.2%) and nonfat dry milk shipments falling 0.5% YOY. Record-high US butter prices in Q4 2022 and an early Easter contributed to February butter exports falling by 32% YOY. However, February sales to the US's largest dairy export destination, Mexico, remained impressive: cheese volume was up 11% YOY, while nonfat dry milk to Mexico climbed 43%.
- **Dairy product prices have been mixed recently.** Global dairy product prices continue to trend generally lower as ample product has met lethargic demand. Domestically, the NDPSR nonfat dry milk price fell more than seven cents in a single week in early April, sinking to the lowest value in almost exactly two years. In a balanced market, the NDPSR butter price has remained relatively steady in the low USD 2.40s for the past eight weeks. Dry whey has found subtle strength through mid-April, but recent weakness at the CME spot market likely implies declines are imminent in the NDPSR price. Finally, in cheese, both blocks and barrels settled in the USD 1.90s per pound range in early April, stronger versus the seasonal average, regardless of abundant milk availability throughout the Midwest. The block/barrel spread narrowed to its smallest gap since November into April after averaging an exceptionally wide USc 29 throughout Q1.

US milk production (30-day months)



Source: USDA NASS, Rabobank 2023

Consumer Price Index: Dairy and Related Products 2021 - current



Source: Bureau of Labor Statistics 2023

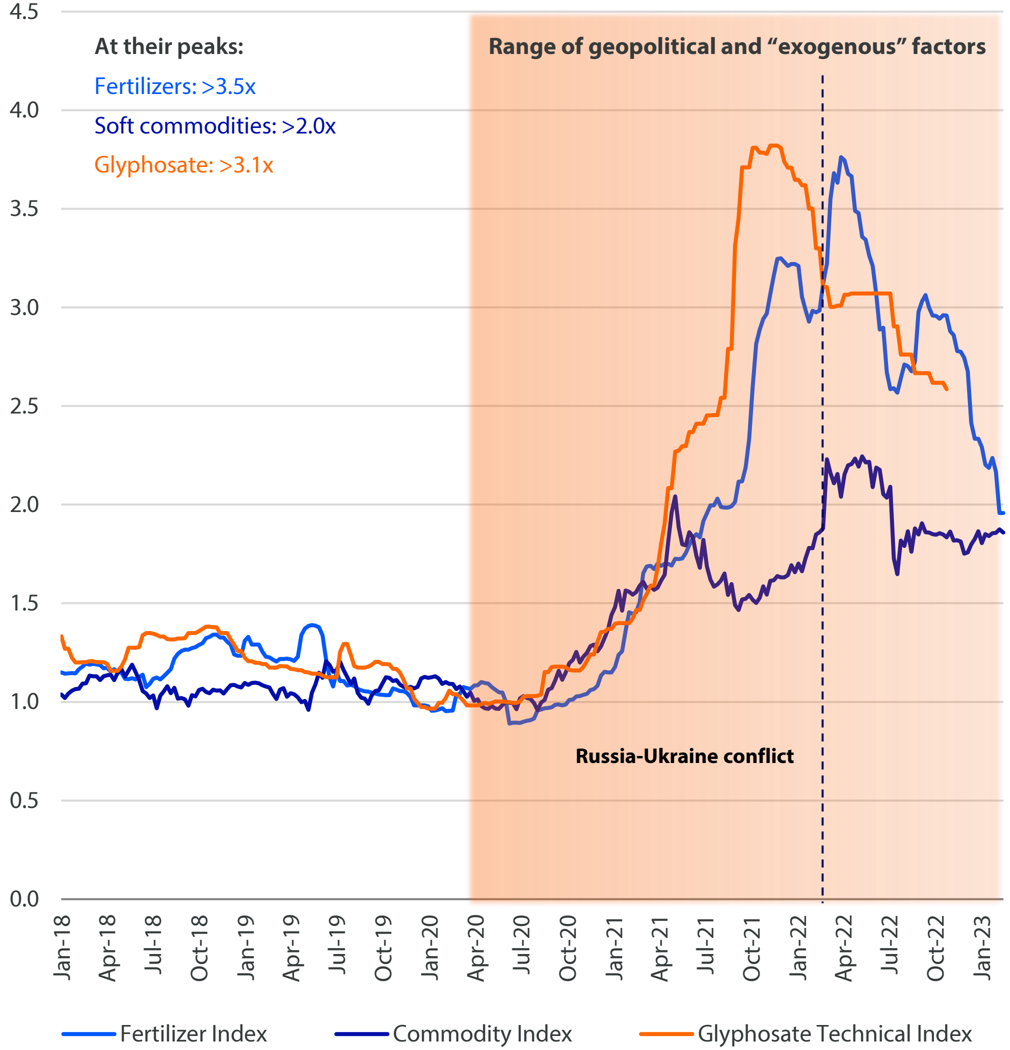
Farm Inputs

Accelerated changes in farming practices?

With many decisions made for 2023, what will be the lasting impact of the previous 24 months?

- We are closing in on three years since the start of a price and cost escalation that pulled the farm inputs sector from a near seven-year floor. In that time, some key input costs spiked by as much as 3.5x, necessitating growers to evaluate both product and process choices. These adaptations accelerated many of the secular changes that we anticipated, rushing the growth and adoption of new products and piquing the interest of large input companies. These are some of the lasting impacts that we believe growers will see over the coming years:
- **More biological offerings** – growth in the use of biological products was meaningfully accelerated by the changing cost structure for growers. At the same time, many of the large multinational farm inputs companies made investments in the biological space. Some of the strongest brands in seeds and chemical spaces have been the most acquisitive, partnering to increase the strength of their brands, agronomic expertise and new products.
- **More decisions and adaptability needed –** in contrast to volatile input costs, the growing pressures of sustainability, accountability and regulation force further product innovation. An additional vector of change will come in the bundling of new SKUs and practices, driven by the abovementioned concerns. Cover crops, new traits, orphan crops, biologicals, earnings buckets, automation, new discovery and technology will increase the need for grower adaptability and ingenuity.
- **Seed pricing higher-for-longer –** the dynamism of fertilizer markets allowed prices to adjust through the year on the back of the Russia-Ukraine conflict. Seed pricing is more rigid. And, while we saw strong seed price increases for the 2023 season, seed pricing is slower to regress lower on a commodity price fall. The acquisition of nutritionals, along with new breeding technologies, is likely going to see seed companies well-placed to continue to arbitrage away an increased share of operating costs of growers, keeping prices higher for longer.
- **Increased 'tolling' opportunities for growers –** people down the value chain will increasingly care about how you grow, potentially paying a premium to secure certainty.

Crop nutrition and agchem price indices



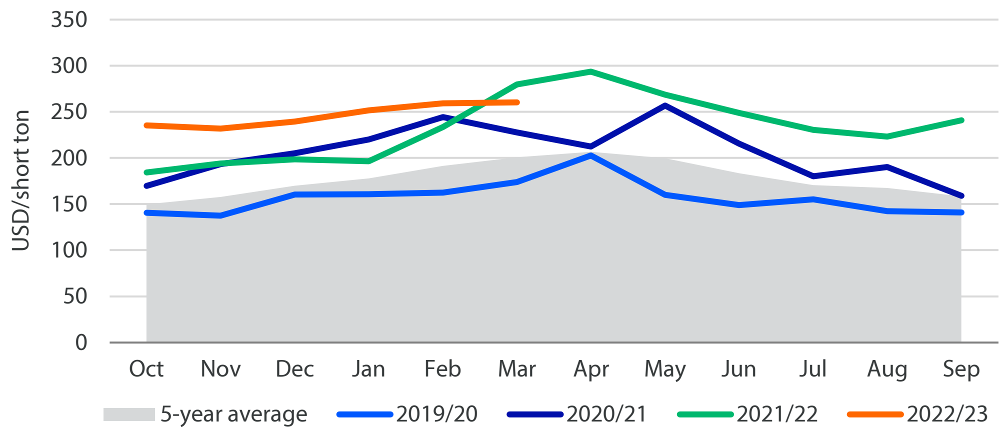
Sources; CME, BAIINFO, CRU, Bloomberg, Rabobank 2023
June 2020 = 1 on indices
Indices weighted

Feed

Soybean meal prices remain strong

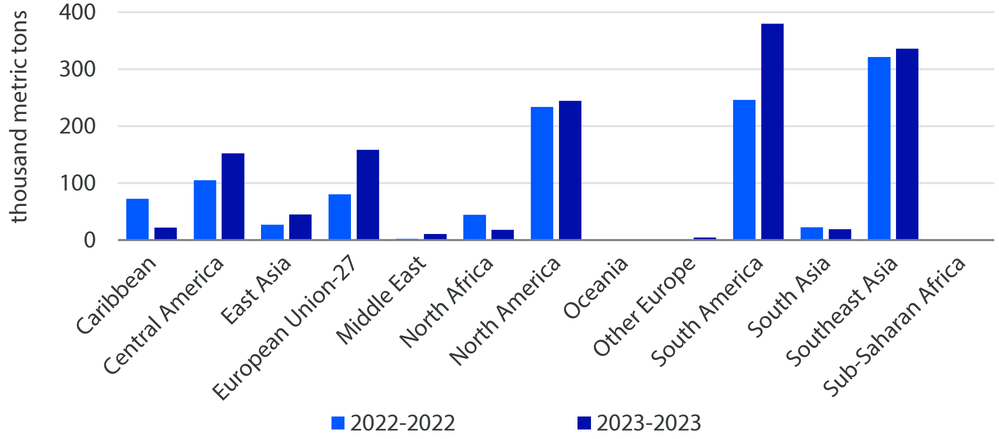
- **Are feed cost coming down?** Corn prices have held strong despite recent sell-off in the futures market. Looking at a regional basis, despite future sell-off, local bids remain elevated. From an energy component in animal diets, this does not bode well given that feed grain substitutes are running thin. Soybean inventories as of March 31st report are at the lowest level with respect to end-of-year estimate. Low supplies domestically will continue to keep pressure on feed costs until new crop replenish inventories.
- **Is soybean meal coming down?** Soybean meal markets are being driven by two components, low soybean stocks in the US and a poor season in Argentina. The low stock environment in the US has brought concern that the availability of soybean will be less as summer is around the corner. At the same time, crushers will have to balance crush volumes due to margins reaching more historical norms and reaching more normal levels. Moreover, international markets are short on soymeal due to Argentina exporting less meal as drought severely impacted soybean production. The low soybean production estimate from Argentina has spurred international markets to buy more soybean meal from the US than usual. January soybean meal export numbers MOM grew by 17%, while YOY soymeal exports increased by 20%. The EU, South America and Central America were the largest buyers of soybean meal.

DDGS prices continue to be higher but are showing signs of easing year-over-year



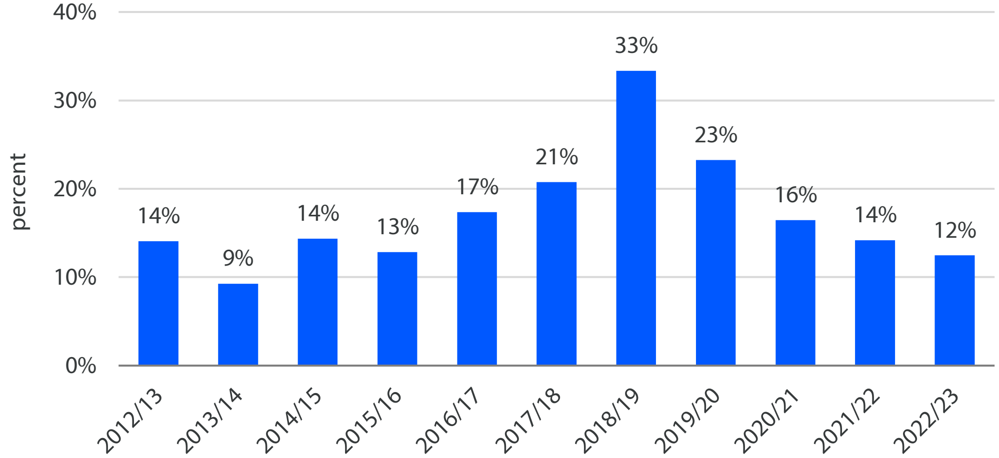
Source: *USDA , Rabobank 2023*

Soymeal demand outpacing last year despite higher prices



Source: *USDA, GATS, Rabobank 2023*

Soybean stocks relative to end of 2022/23 estimate



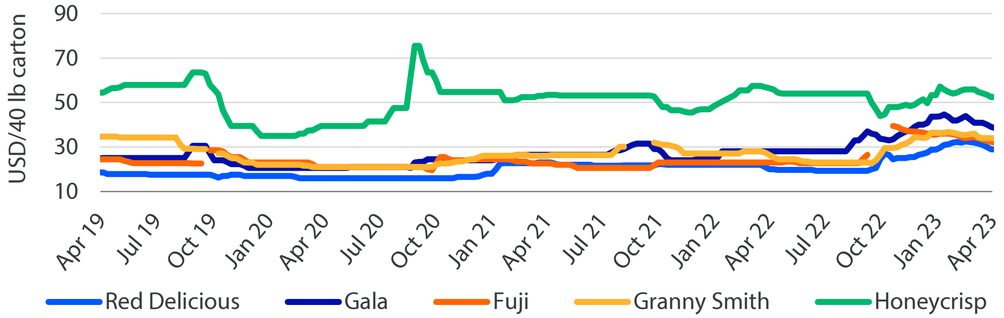
Source: *USDA ,Rabobank 2023*

Fruits

Elevated strawberry prices

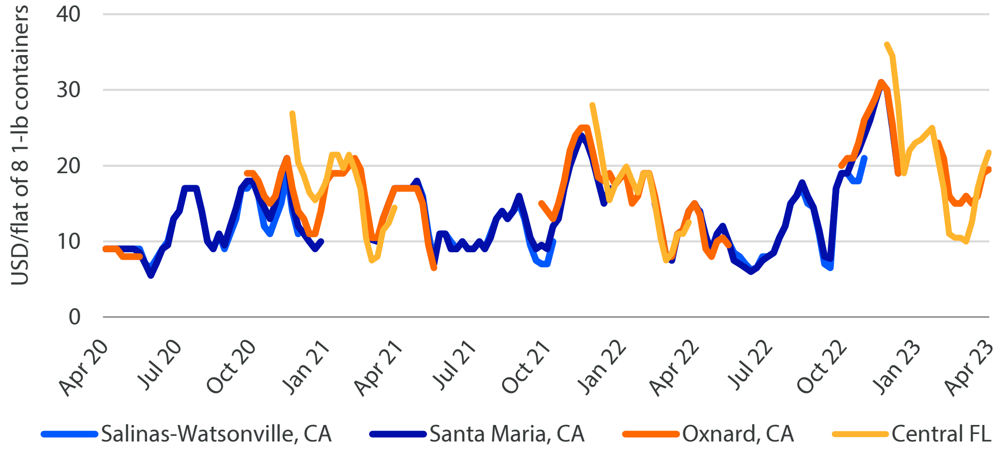
- **Strawberry** prices are around USD 20 per flat for non-organic product by mid-April, up about 50% YOY as an average across regions. Availability in the US has been down about 25% YOY since mid-March due to delays and impact from rain and flooding in key areas in California. **Blueberry** prices are slightly higher YOY as production in the Southeastern US ramps up. Demand for berries is steady.
- **Navel orange** prices were roughly at USD 20 per carton for 88s by mid-April, down 9% from multi-year highs for this time of the season last year. Navel production in California is projected to end the 2022/23 season at 37m boxes, up about 17% YOY. **Valencia orange** production is expected to decline 40% in the US, with production in Florida down 56% YOY and crop in California up 7% YOY.
- Shipping-point prices for mid-sized **lemons** were close to USD 30 per carton, up13% YOY and up (4%) with respect to the five-year average for the first time in the 2022/23 marketing season. California lemon production is expected to be down 9% YOY to 23m boxes. The 2022/23 **easy-peel citrus** production in California is expected to close at 21m boxes, up 20% YOY.
- Average **table grape** shipping-point prices were up about 18% YOY by mid-April, as the Chilean season is ending early due to weather shocks. Table grape production from Mexico will be up 1% YOY to 21.7m boxes in 2023. The California table grape industry is expecting to increase exports in 2023 amid relieved logistics.
- **Avocado** shipping-point prices (48s) have fluctuated around USD 30 for the past few weeks, down about 45% from the elevated prices the year before. High volumes from Mexico are expected for the next two months, while arrivals from California and Peru will maintain good availability of avocados in the US during the summer. Prices are likely to remain at promotable levels.
- By mid-April, shipping-point prices of non-organic Red Delicious, Fuji, Gala, and Granny Smith **apples** were up 45%, 39%, 37%, and 33%, respectively, while Honeycrisp shipping-point prices were down 6% YOY. Prices for most cultivars will remain higher YOY for the next few months, as availability is lower than a year ago due to a shorter WA crop in 2022.

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



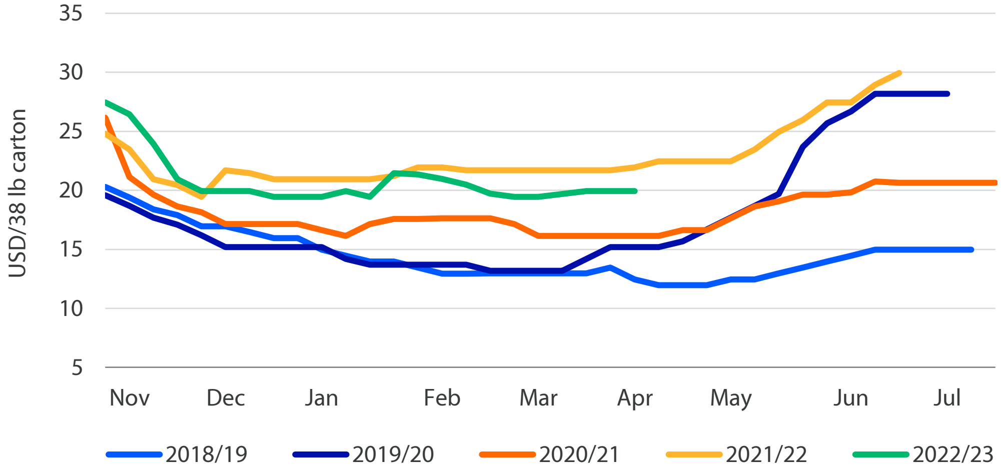
Composite of fine appearance and standard appearance prices
Source: *USDA AMS, Rabobank 2023*

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



Source: *USDA AMS, Rabobank 2023*

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



Source: *USDA AMS, Rabobank 2023*

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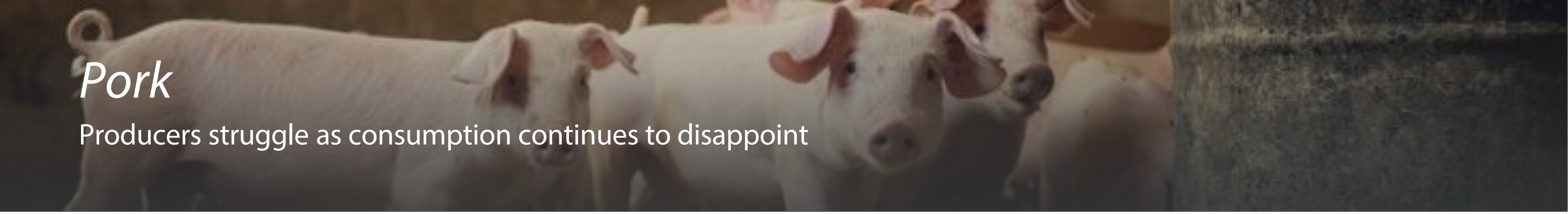
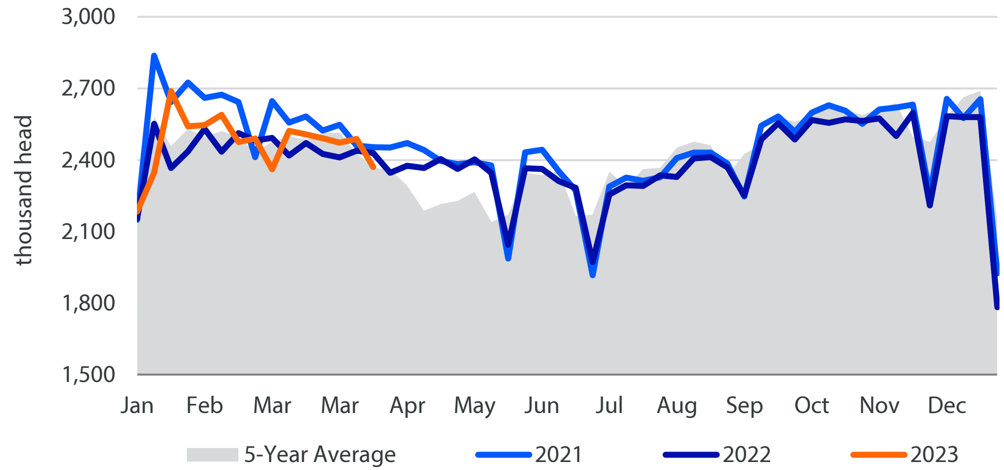


Pork

Producers struggle as consumption continues to disappoint

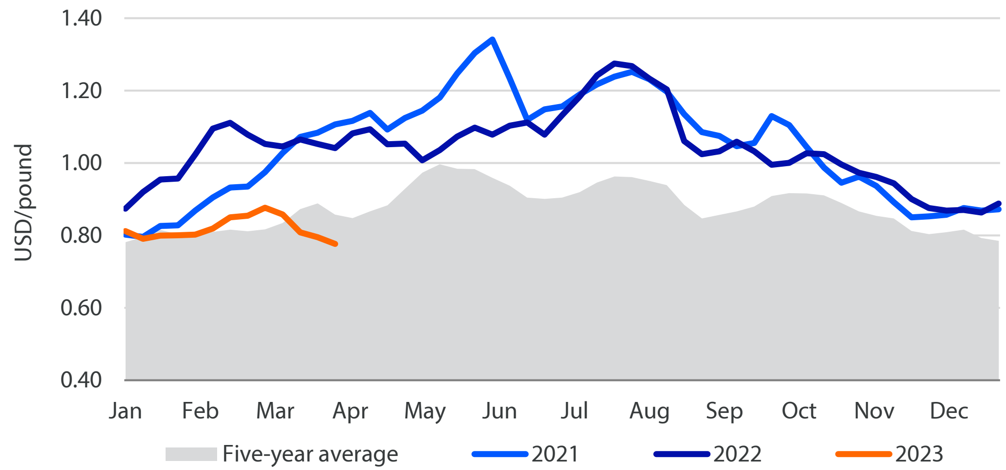
- **Hog prices remain under pressure as packer interest has waned on growing pork inventories tied to ample production and relatively soft pork consumption trends.** Prices are down 20% from elevated prior-year levels and remain under pressure in the near term, with average weekly slaughter running above 2.4m through March and YTD slaughter +1.4% YOY. As the industry moves through the near-term bulge in heavy weight hog supplies indicated in the latest Hogs and Pigs report, we expect Q2 2023 slaughter levels to drop below year-ago, and prices to firm. Despite some moderation in feed costs, open market hogs are losing an unsustainable USD 28 per head, which may drive further industry contraction. Based on the current outlook, producers will return to profitability in Q2 and Q3 2023, before returning to losses late in the year. Assuming producers respond to weaker returns by reducing farrowings as indicated in the latest inventory report, we could see tighter hog supplies beginning late in Q4 2023 and early 2024.
- **Pork prices continue to fade on weaker consumption trends and larger-than-expected supplies of competing protein.** YTD pork cutout is 25% below year-ago levels as sharply lower belly prices (-55% YOY) continue to weigh on carcass values. Weaker loins (-19% YOY) and ribs (-38% YOY) failed to offer support, while disappointing holiday ham sales also failed to inspire a rally. Large increases in Q1 2023 chicken availability and a relatively small drop in beef supplies have also limited gains. This softness has driven a 9% YOY increase in cold storage inventories, with a notable 42% YOY increase in bellies. We expect the gradual pass through of lower pork prices to help stabilize pork consumption over the grilling season.
- **February pork and pork variety meat export volumes were up 11% YOY to 219,729 metric tons, and export values were +10% YOY.** Pork volumes were higher to China/Hong Kong (+24% YOY), Canada (+16% YOY), and Mexico (+3% YOY), while sales to Japan and South Korea slipped (down 2% YOY and 10% YOY, respectively). Pork imports dropped from all destinations (-18% in volume), given depressed local markets. We are currently forecasting 2023 export growth of 3% YOY given the low relative cost of US pork on global markets.
- **Mexican hog prices have dropped sharply following the Easter holidays, down 30% YTD and 10% in the past week.** Prices are now 15% below year-ago levels reflecting ample supply and weak packer demand on building inventory and weak consumption trends. Steady imports of low-cost pork are also pressuring the market. Producers have seen some moderation in feed costs, but at current levels most producers (dependent on state) are operating at a loss. We expect production growth to slow given the current supply imbalance, acknowledging that higher chicken prices due to persistent domestic shortfalls may help stabilize prices.

US weekly hog slaughter, 2021-2023



Source: USDA 2023

US pork cutout, 2021-2023



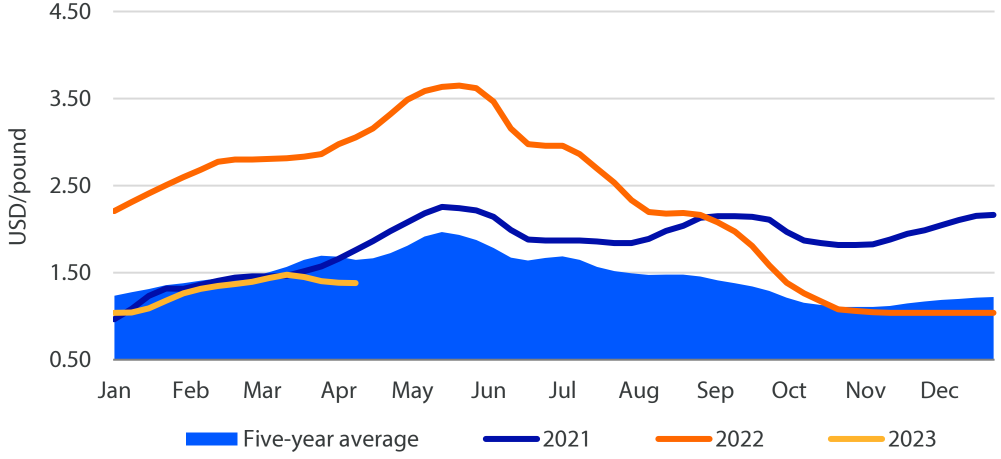
Source: USDA, Rabobank 2023

Poultry

Chicken markets remain sluggish on depressed white meat sales

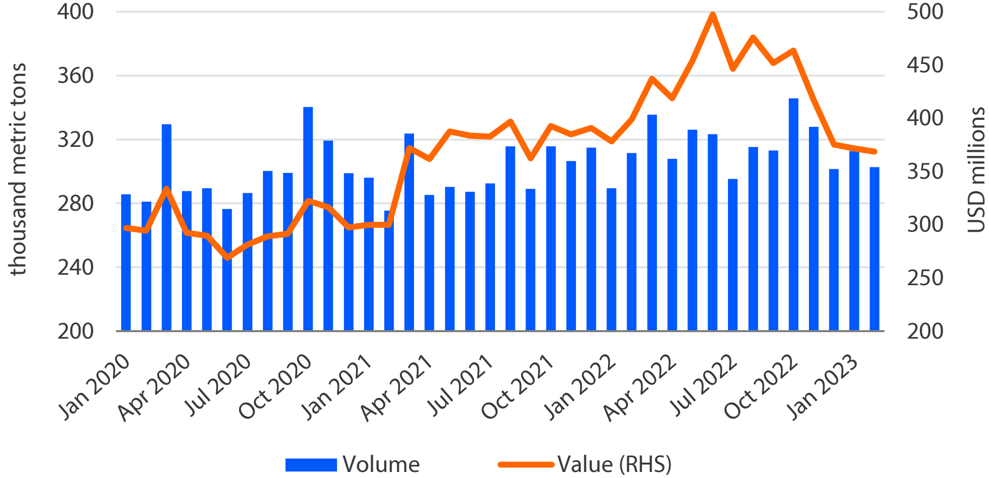
- **Boneless breast meat prices remain under pressure and continue to weigh on the commodity chicken markets.** USDA-reported prices are down 54% from record prices in the year-ago period and are now 16% below the five-year average. Wings also continue to disappoint (-51% YOY), despite a modest improvement in sales during the recent NCAA tournament. Prices for the back half of the bird continue to outperform, as export demand remains stable (see below), and consumers continue to trade down to value cuts. Feature activity has improved, yet prices remain under pressure as ample supply in higher inventory (+8% YOY) continues to limit gains. Foodservice support for tenders has improved, which should lend some support to the market during the summer months. We expect improved retail and foodservice support at current depressed prices, with stronger planned promotion in 2H 2023.
- **RTC chicken production has moved lower since early March, with recent weekly slaughter down 2% YOY and some moderation in weights.** YTD slaughter is currently 2.3% below year-ago levels and is expected to moderate further in coming weeks given no material increase in egg sets nor chick placements. The drop in 2H 2022 pullet placements and further reduction in the broiler supply flock in 2023 should also help moderate supply growth in the coming months, despite the ongoing shift toward larger bird weights at some integrators. Rabobank anticipates RTC production to remain above year-ago levels in 2023 (+1.8% YOY).
- **February chicken exports of 302,773 metric tons were down in both volume (-2.8% YOY), and value (-7.6% YOY).** Exports to Mexico remain sharply higher (+20% YOY), as lower US chicken prices attracted stronger buyer interest given smaller domestic supplies. Exports to China fell 25% YOY, however, as HPAI-related trade disruption impacted shipments. Weaker exports to Cuba (-27% YOY) and Taiwan (-6.2% YOY), were more than made up with sizeable shipments to multiple smaller markets like Vietnam, Congo and the UAE. YTD exports remain 3.3% above year-ago levels, while the value of shipments was down 55% YOY. We expect ongoing volatility in exports by market in 2023 given rising geopolitical tensions and trade disruption tied to HPAI, with overall trade volumes expected to rise +3% YOY.
- **Mexican chicken markets strengthened in April, with prices in-line with year-ago levels at MXN 41.91 per kilogram.** Chicken supplies remain tight on continued industry disruption and historically high production costs, while consumption trends are beginning to stabilize. Wholesale prices remain elevated, with breast meat prices +12% YOY and thigh meat +9% versus year-ago levels. Only whole birds are stable, as production has likely shifted toward lower cost products to maintain margins. YTD chicken imports are +26% YOY, with 16% YOY growth in US shipments and sharply higher imports from Brazil and Chile.

Boneless skinless breast meat prices, 2020-2023



Source: USDA, Rabobank 2023

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



Source: USDA 2023

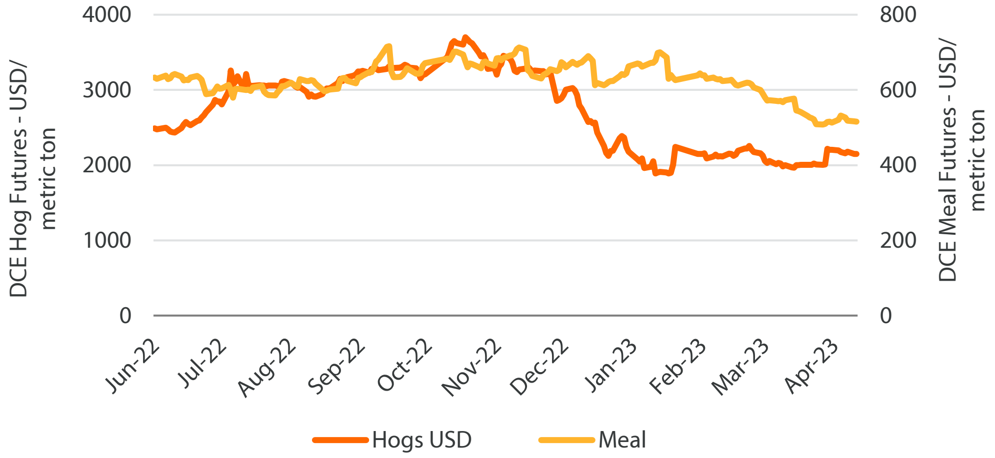
Rabobank

Soybeans

Strong prices, high interest rates and uncertain demand prompt hand-to-mouth buying

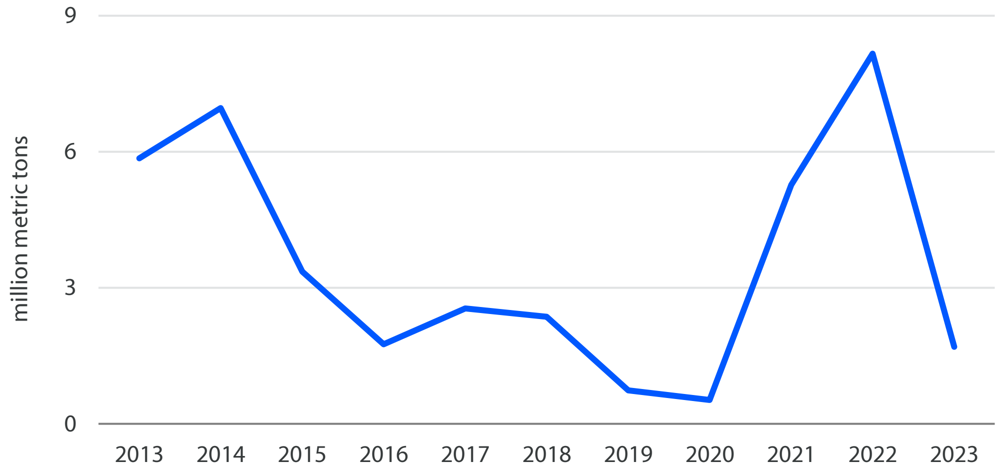
- **One in ten soybeans grown globally is fed to Chinese hogs, making the sector an important bellwether for soybean demand and prices.** This relationship, with its effects exaggerated by Chinese policy, has been fundamental to US soybean markets in recent years, with US soybean prices plummeting along with a Chinese hog herd decimated by ASF in 2017-18. This, in turn, freed up demand so that soybeans could be singled out as a retaliatory measure in the trade war with the US (2018-20), paving the way for a sharp recovery in US prices once the Chinese, in the process of rebuilding their herd, fully depleted Brazilian stocks (2021).
- **Fast-forward to today, the Chinese hog industry has now surpassed goals laid out under the three-year Covid recovery plan with the herd standing at 453m head, the highest levels seen since 2013.** In response to replenished stocks and stubbornly high prices, the Chinese government mandated increased hog sales beginning in October under the banner of 'social responsibility'. Unfortunately for the Chinese hog sector, the additional supply was met with diminished demand as the country grappled with a resurgence of the coronavirus and the associated effects of the government's zero-Covid policy, resulting in a 48% decline in live hog prices between October and January.
- **The sharp decline in hog prices has now pushed the hog breeding margin into negative territory for the second time in less than a year.** Given that pregnant and lactating sows require more feed, the lack of financial incentive to breed is translating into reduced demand for feed. Prices for soymeal, which account for 10-20% of the ration in China, held firm through the new year but have shed 25% of their value since then. **With that, DCE board crush margins also turned negative beginning in April.**
- This ripple effect through the Chinese hog value chain may soon be felt at home. **While old crop supplies remain very tight, the pace of new marketing year export sales of US soybeans are at their lowest levels in a decade excluding the two years at the height of the trade war.** Domestically, meanwhile, the EPA has done soybean processing margins no favors by proposing RFS biomass-based diesel volumes that fall well short of announced investments in that space.

Dalian hog and soymeal futures, first position



Source: *DCE, Rabobank 2023*

New marketing year US soybean export sales through March



Source: *USDA, Rabobank 2023*

Sweeteners

Balance sheet and sugar prices are not on the same page

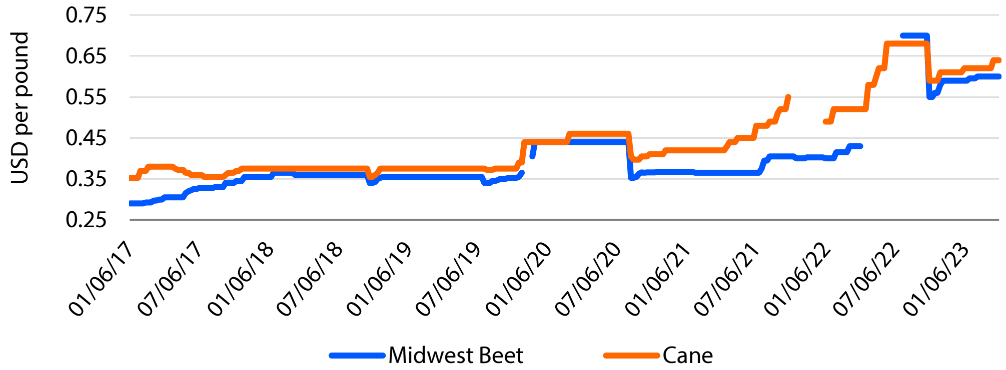
US sugar balance sheets are showing an increase in ending stocks and stock-to-use ratio, but you would not know by prices. On top of that, concerns about the timeliness of beet planting this spring are increasing.

Beet prices remain strong as processors are either sold out or out of the market. Consequently, this is forcing cane prices higher as well. 2023/24 sales are strong, with beet sales already at 80% of expected production and beet processors are limiting sales going forward until they have a better handle on 2023 production. Cane refiners are indicating they have 50%-60% of capacity booked for 2024. Both old crop and new crop sugar prices remain strong despite the highest ending stock and stock-to-use since 2017/18, when prices were nearly half current prices.

Concerns are growing about getting the Red River Valley beet crop in on time. Late season snow storms, significant snow cover, soil temperature in the mid-20s are all pointing to late planting. The goal is to plant 50% of the crop by the first week of May. While the crop can be planted quickly and there is still time, the market will quickly turn its attention to the impact of late planting on early harvest, sugar content and growing season weather.

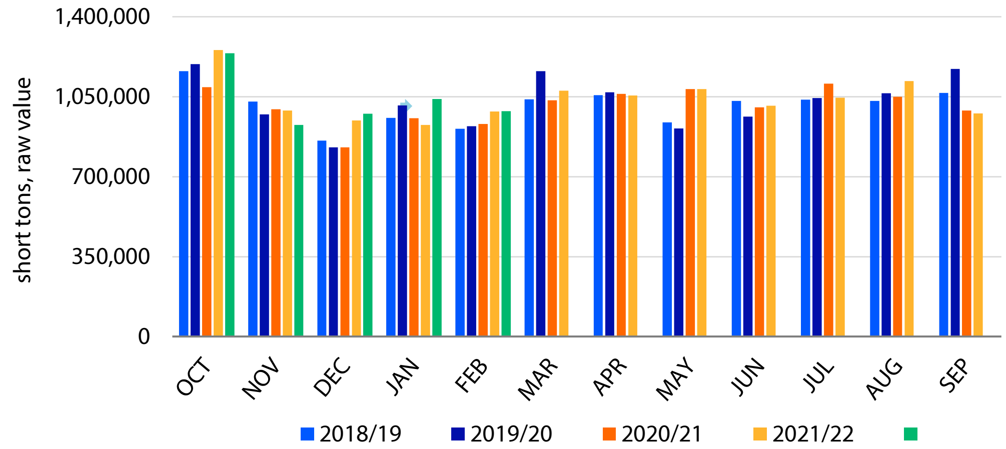
The USDA increased 2022/23 overall sugar marketing allotments (OAQ), increasing beet and cane sugar allotments, revising company allocations to processors and more importantly reassigning beet and cane sugar marketing allocations to raw cane sugar imports already anticipated. The USDA reallocated 250,000metric tons of beet suage and 500,000 metric tons of raw cane sugar deficit to raw cane sugar imports. The expectation is that these reassignments will help ease tight domestic supplies and provide some price relief.

Domestic wholesale sugar prices have remained stout



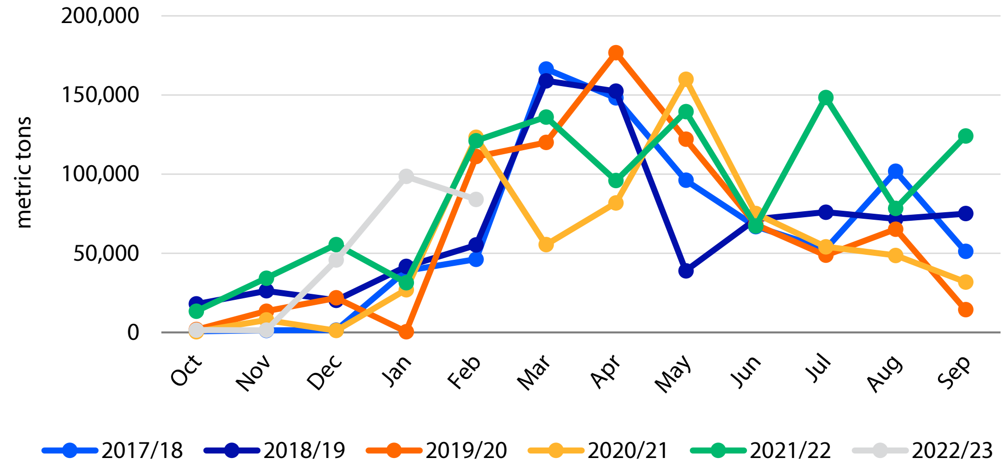
Source: Milling & Baking News, Food Business News, Rabobank 2023

Total deliveries have slowed, down 1.8% though February of 2022/23



Source: USDA FSA, Rabobank 2023

Mexican sugar exports to US down 9.6% on production decline of 10.1%



Source: USDA-RAS/GATS, Rabobank 2023

Tree Nuts

Almond prices improved, then stabilized as the industry awaits the estimate for the 2023 crop

Almonds: While the 2022/23 crop will be around 2.55bn pounds, down roughly 12% YOY, unofficial guestimates for the 2023/24 crop size are sparse and divergent, ranging from 2.0bn to 2.8bn pounds. As the pollination season was particularly challenging this season amid wet and cold weather, the industry is looking forward to the May USDA subjective estimate to set expectations. Shipments in the 2022/23 marketing season are up 7% YOY through March, with domestic shipments down 6% YOY and exports up 12% YOY. US exports show four consecutive months with YOY increases surpassing 20%. Prices moved upwards during several consecutive weeks starting in January, then wavered at a relatively higher level. Reports scheduled to be published in mid-May (shipments and 2023 crop estimate) will be key.

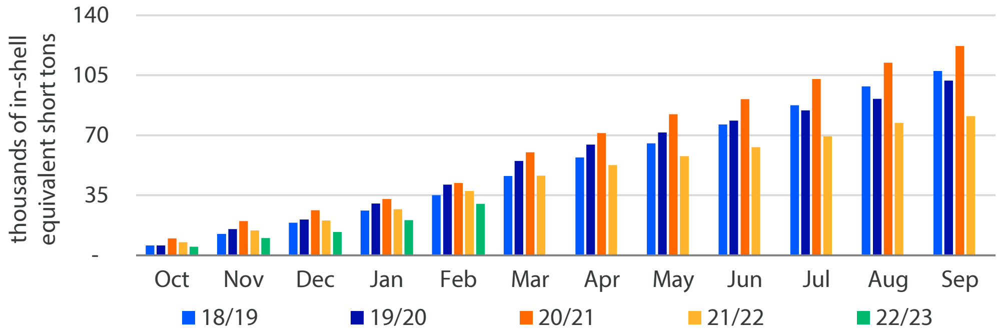
Hazelnuts: Shipments in 2022/23 through February were up about 15% YOY, with domestic kernel shipments and kernel exports increasing 22% and 20% YOY, respectively. The 2022/23 US crop surpassed previous expectations and is estimated to be up 5% YOY, according to INC. Bearing acreage in the US increased 7,000 acres to 68,000 acres in 2022 from last year, per USDA figures. Reference kernel prices have improved over the past few weeks in some markets, as the global production estimate was revised downward, particularly in Italy and Spain.

Walnuts: The California Walnut Board announced the final 2022/23 crop receipts at 747,870 short tons, up 3% YOY and up 4% with respect to the 2022 objective estimate. Total US shipments were up 3% YOY, with exports declining 2% YOY, and domestic shipments increasing 14% YOY in 2022/23 through February. Prices in the US have improved slightly as the USDA is set to buy roughly 10% of the California crop. Availability of higher-quality product is tightening, according to industry sources.

Pistachios: Shipments for the 2022/23 marketing season were up 3% YOY through February, with domestic shipments down 5% YOY, while exports, that accounted for 71% of shipments, were up 7% YOY. As for the 2023/24 outlook, industry sources have reported frost damage in Iran and some impact from flooding in California. Although it is early in the season, a US crop of around 1.2bn pounds is likely. Prices are stable.

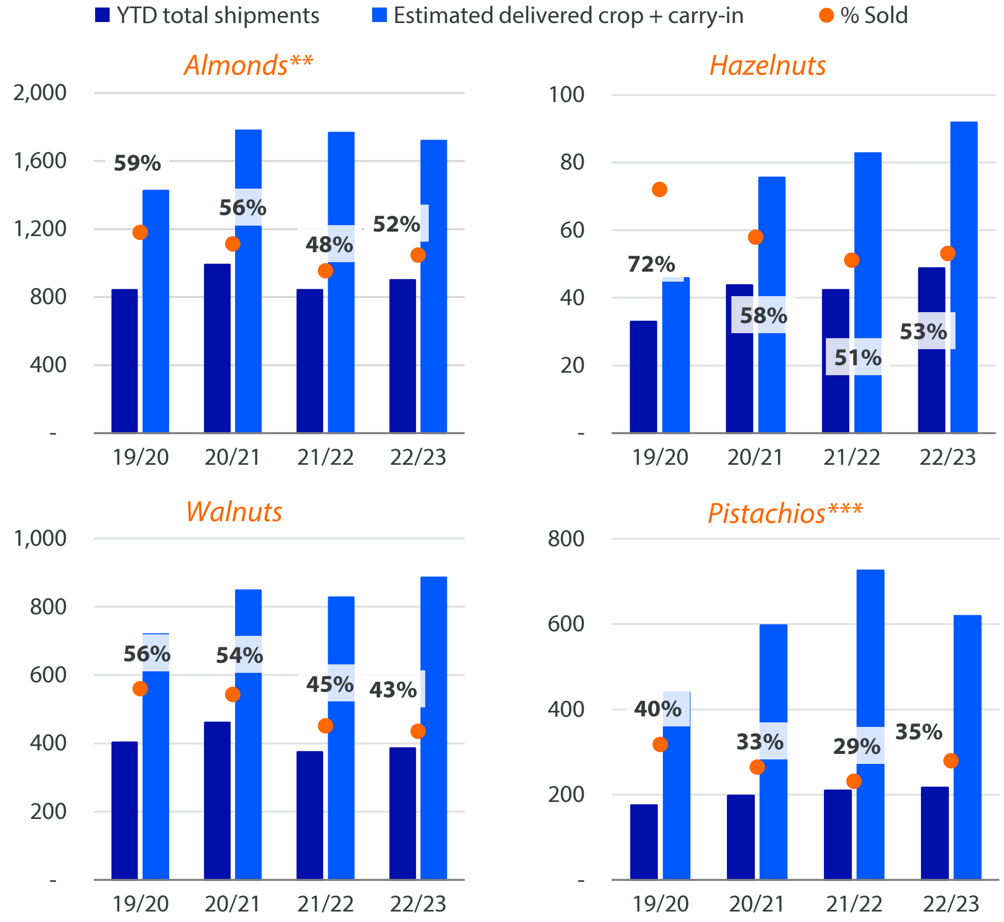
Pecans: US pecan export volumes in the 2022/23 marketing season through February were down 20%. In-shell exports improved in January and February, increasing 35% and 47% YOY, respectively, according to USDA figures. Industry sources report total shipments up YOY, declining inventories, and firming prices as demand remains steady.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2023

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



Source: Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, INC, Rabobank 2023.* Through March 2023, 2022/23 marketing season for almonds; February 2023 for pistachios, walnuts, and hazelnuts; **Meat pound equivalent. ***Not considering inventory adjustment/loss.

Vegetables

Inclement California weather causes disruption upstream and moves prices, counter-seasonally, higher

By the end of February, retail dollar sales of fresh vegetables reached USD 2.9 bn, a 4.2% increase YOY, whereas volume declined by 2.6% YOY, according to the IFPA. Consumers continue to seek value over other attributes such as convenience and to focus their purchases on the most essential vegetables. This can be gleaned from stronger lettuce sales compared to salad kits, for example, and continued strong performance of onions, potatoes, and cucumbers.

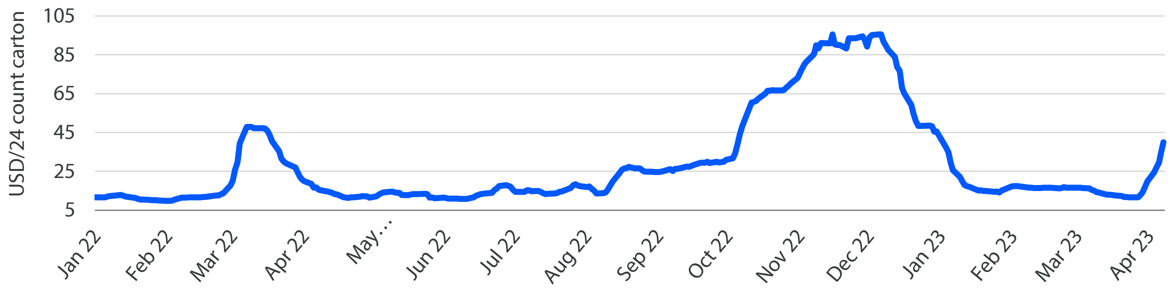
Potatoes: US production has declined for four years in a row. Raw inventories for fresh and processing consumption are at historic lows. Prices have consequently broken historic records. The shortage in supply is driven predominantly by a sharp decline in Idaho's area, which was caused by water scarcity and competition over arable acres from field crops. Fryers, faced with strong demand, will have to manage with increasingly limited inventories and would seek out any available supplies in the open market, bidding price upward. Prices for the remainder of the marketing year are going to remain historically high until the new crop in August. It is also reported that processors increased their contract prices this year to incentivize more production under contract. Pending normal weather and average yields, production is expected to increase as area increases, bringing some calm to the market. Burbank and Russet 50 Count shipping-point prices are around USD 65 and USD 57, an astounding 120% and 75% increase YOY.

Leafy Greens and Brassica: Excessive rains in Orange County, CA and the Salinas Valley have disrupted the seasonal transition of production from Yuma, AZ. Some fields are considered unsuitable for planting. Most importantly, fields are too wet for field preparation activities. Growers are contending with counter-seasonal gaps in production and have been stretching desert production beyond its traditional window thanks to relatively good weather. Shipping-point prices are expected to increase counter-seasonally for the next month or two. Signs of counter-seasonality are already evident in iceberg and broccoli shipping-point prices. The magnitude of price increases will depend on the extent of the disruption and its impact on shipments. Broccoli shipping-point prices are already more than twice their levels this time last year. The spread of diseases in such weather is also a very high risk that could add more upward pressure on prices. Incidents of viral diseases last fall have caused lettuce shipping-point prices to reach record highs.

At USD 15.40 and USD 19.3, romaine 24s and hearts (12x3) are lower by 20% and 35% YOY, respectively. As mentioned above, this is due to extending desert production. Prices will move higher in the coming weeks. At USD 26.00, the iceberg wrapped 24s price is up 56% YOY. At USD 31.40 per 20-pound carton, the broccoli crown price is up 165% YOY.

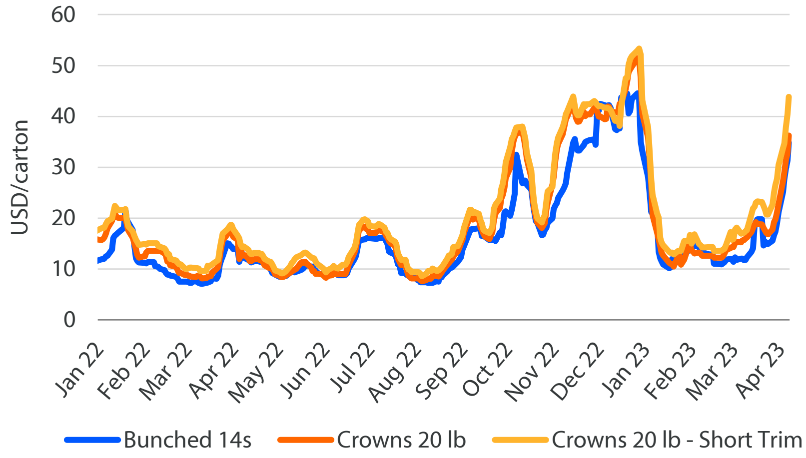
Tomatoes for processing: Prices are historically high, reacting to an unprecedented low level of stocks-on-hand of bulk paste. Processing tomato contract prices increased ~30% YOY to incentivize more contract acreage. The improved water situation in California is expected to raise yields and increase production, pressuring prices downward.

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



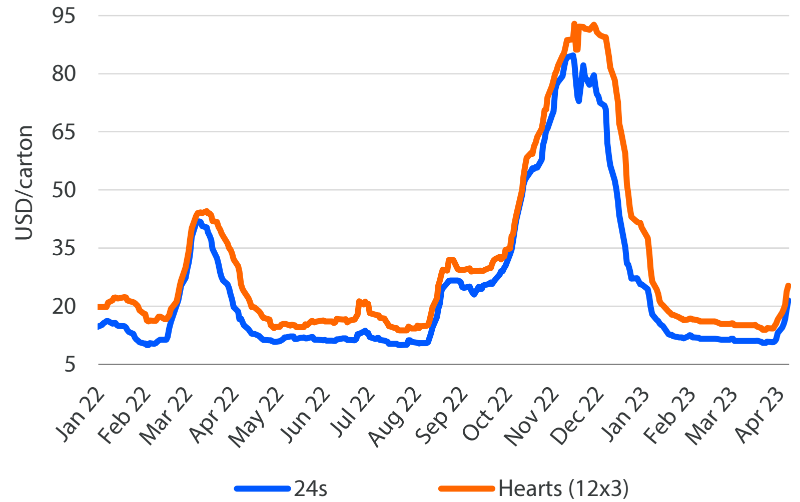
Source: USDA AMS, Rabobank 2023

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



Source: USDA AMS, Rabobank 2023

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



Source: USDA AMS, Rabobank 2023

Wheat

Keep your head on a swivel

New day and same old volatile wheat market. Yes, Kansas City and Minneapolis wheat futures continue to trade in the same sideways pattern it put in place last July, and Chicago trades in a down-sloping channel. However, there has been a tremendous amount of volatility in those trading ranges brought on weather, the Black Sea Grain Initiative, Russian wheat exports, Argentine wheat production, etc. There is nothing in the cards that says that is going to change anytime soon.

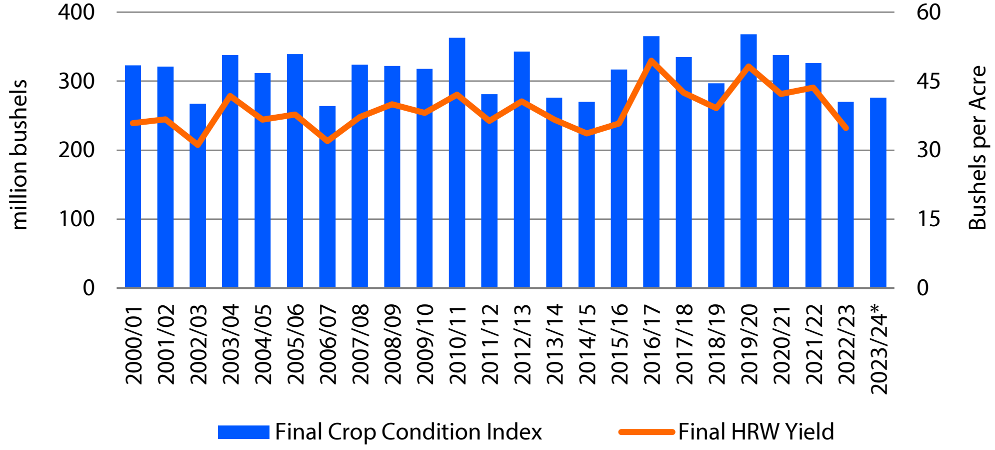
The Black Sea Grain Initiative was renewed but not without some controversy that is still unresolved. Upon renewal on March 19, Russia only agreed to a 60-day renewal, while Ukraine said it was extended for 120 days. While food and fertilizer exports are not sanctioned, Russia says restrictions on payments, logistics and insurance are a barrier to their shipments of grain and fertilizer. Western countries has said repeatedly they have carved-out food and fertilizer from the sanctions in order to facilitate their trade. Consequently, look for markets, particularly the wheat market, to experience price volatility around May 19 when the agreement expires according to Russia.

US winter wheat conditions are as bad or worse than last year. As of April 9, winter wheat crop condition ratings had only 27% of the crop in good or excellent condition. This compares to 32% last year. Using a final crop condition ratings index and final HRW yields, the calculated 2023 HRW yield is just above 35 bushels per acre which compares to last year's 34.8 yield. Even with higher HRW acreage, yield and production, the abandonment and demand, the 2023/24 balance sheet tightens further, primarily due to low carry-in from the 2022/23 crop year. 2023/24 ending stocks dip below 250m bushels and a stocks-to-use ratio in the mid-30% range would be the lowest since 2013/14 crop year. In that year, the average farm price was USD 7.03 per bushel and the expectation is for the 2023/24 price to be similar.

Stocks among the major global wheat exporters continue to decline, but that is only half of the story. The multi-year decline in stocks among the major global exporters continues to create a smaller pool of wheat for importers to purchase from. This comes at a time when total global wheat stocks are the sixth highest on record. Major exporters are controlling a smaller share of the world's stocks while the rest-of-the-world share of total stocks continues to increase. For example, currently, China is holding 52% of the world's wheat stocks and there is no chance that wheat will be made available to importers. Wheat importers will have to bid up prices to get their share of wheat from the world's declining available stocks or 'free stocks' of wheat.

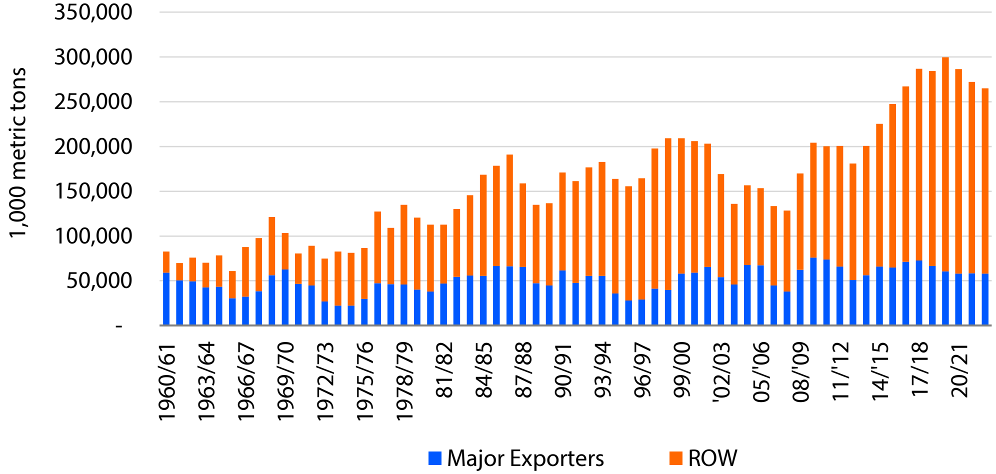
In the not too distant future, look for GMO or GE wheat in a field near you. Researchers in the UK have field tested a GE wheat variety which contains 45% less of the potential carcinogen acrylamide which occurs when the flour is baked. In addition, an Argentina-based crop technology company has developed a drought-tolerant variety of wheat, HB4. HB4 has been approved for imports to Argentina, Brazil, Columbia, Australia, New Zealand and Nigeria. However, only Argentina is authorized for production. The wheat and flour market has been resistant to GMO or GE wheat as it is deemed desirable to say they are GMO/GE free. However, multiple crop production shortfalls and the war in Ukraine have heightened the need to find solutions to improve wheat production under adverse conditions – stay tuned.

HRW yields head for second year of sub-par bushels per acre yield



Source: *USDA ERS, Rabobank 2023*

Less wheat stocks in the world translates to less volume for importers

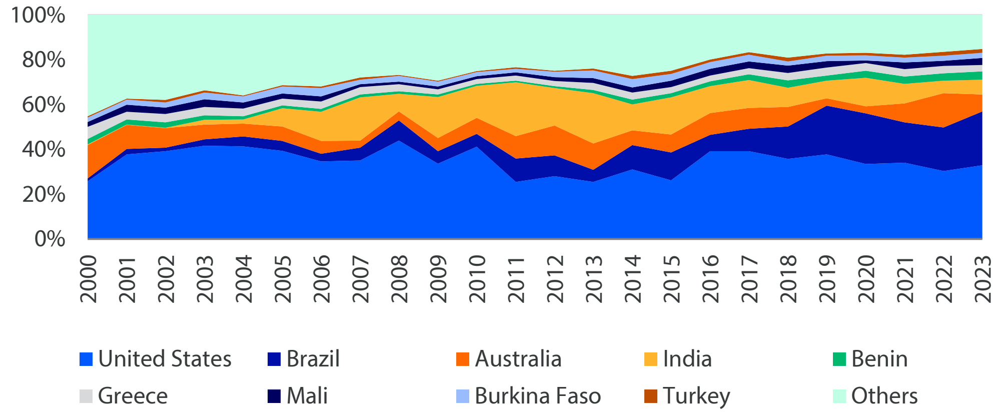


Source: *USDA FAS GATS, Rabobank 2023*

Cotton

- As anticipated, the USDA prospective plantings report, released on March, provided further affirmation that US cotton growers would be growing less of the fiber this year. If realized, the USDA's projection of 11.25m acres for all cotton, closely in-line with the National Cotton Council's earlier projection of 11.38m acres, would constitute an 18% drop in planted area relative to last year. On a regional basis, the Southern Plains and Delta are expected to see the biggest declines, with growers there hoping to shift more acres to grain.
- While soil moisture conditions have generally improved throughout the country relative to a year ago, Texas and Oklahoma growers are going into 2023/24 facing drought conditions that are as bad or worse. Early April typically marks the start of planting in the Southern Plains but conversations with growers this year suggest a reluctance to get into the field and disturb the soil, which given the aridity, is susceptible to being blown away. While markets are telling growers to plant grain this year, prolonged drought could ultimately help cotton hold onto to some area when it is all said and done.
- Because of the way crop insurance is designed, last year's deteriorating weather and prices incentivized a record level of cotton abandonment. This year, the price incentive is not there, and the US should see production recover helping reinvigorate exports into what is expected to be a recovering global textile industry. While there has been a lot of hand wringing about the US losing its spot as leading exporter to Brazil, which has mostly been claiming market share from Asian producers. there appears to be little risk of that happening this year.

Share of global cotton exports among leading exporters

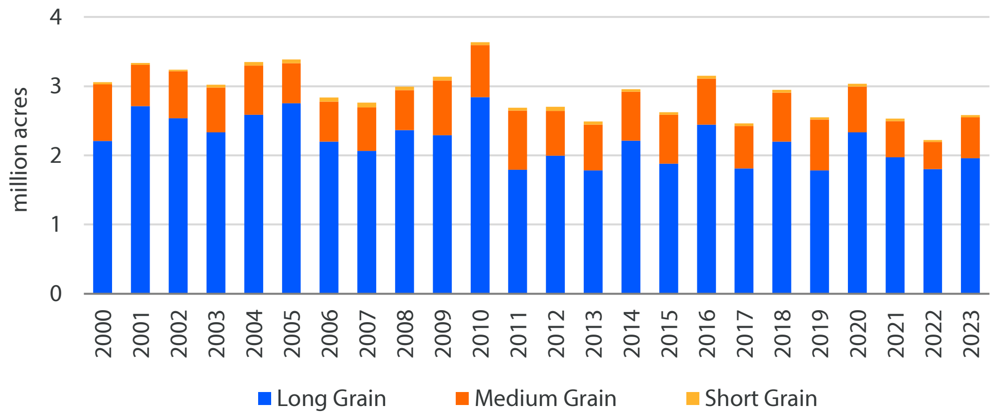


Source: USDA, Rabobank 2023

Rice

- **A return to normal?** Rice is making a comeback on acreage with planted area expected to increase by 16% YOY and 2% higher compared to 2021. California is bringing medium and short grain acreage back to 2021 levels. Drought impacted California production and caused rice acreage to decline by approximately 37%. Prices on the medium grain have incentivized an Arkansas planted area increase of 52%.
- **Adjustments in the balance sheet:** The USDA updated the trade numbers this April, reflecting updated information. Imports have been adjusted lower compared to last month's projection, driven by a lower pace of imports, going from 42m CWT to 40m CWT. However, on a year-on-year basis, imports remain at historic high levels increasing by ~6% compared to last year. On the export side, the US has made some important sales driven by a memorandum of understanding between US and Iraq despite prices being higher in the US compared to other international markets. Export volumes have been adjusted upward from 59m CWT to 61m CWT. However, exports have reached their lowest level since 1985/86.

Rice planted area making a comeback at least to 2021 levels

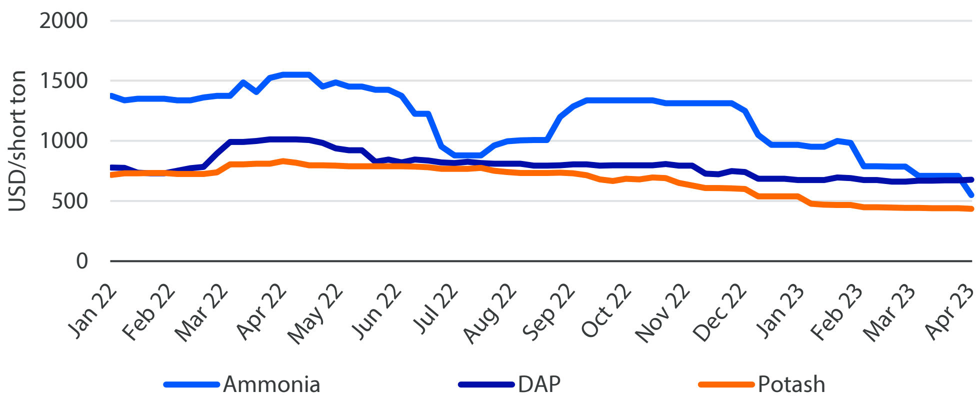


Source: USDA NASS, USDA ERS, Rabobank 2023

Input Costs

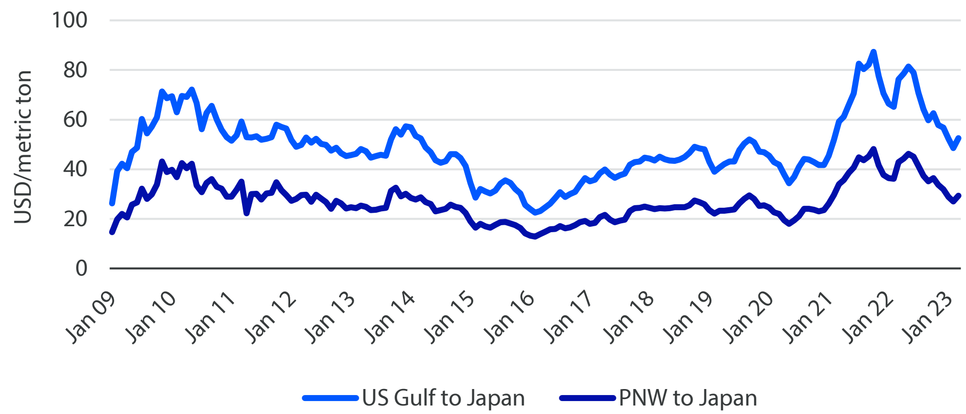
As of April 13, 2022

Corn Belt input prices*



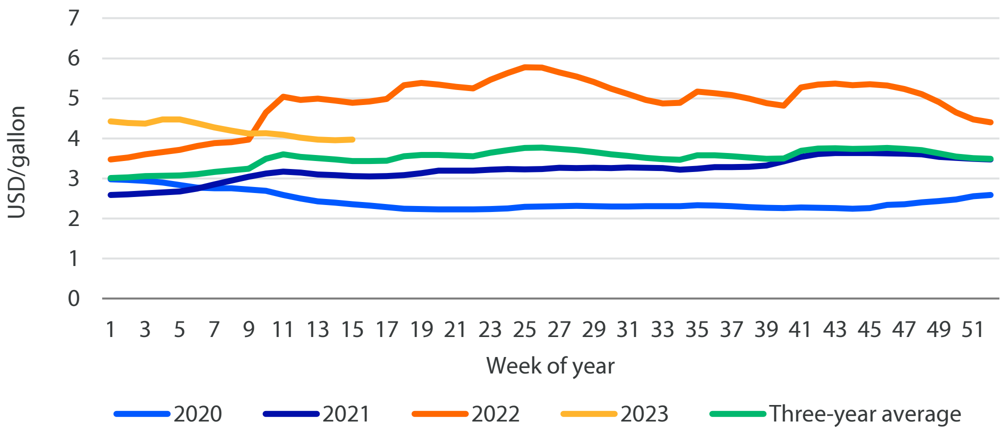
** Note: granular potash*
***Source:** Bloomberg, Rabobank 2023*

Ocean freight



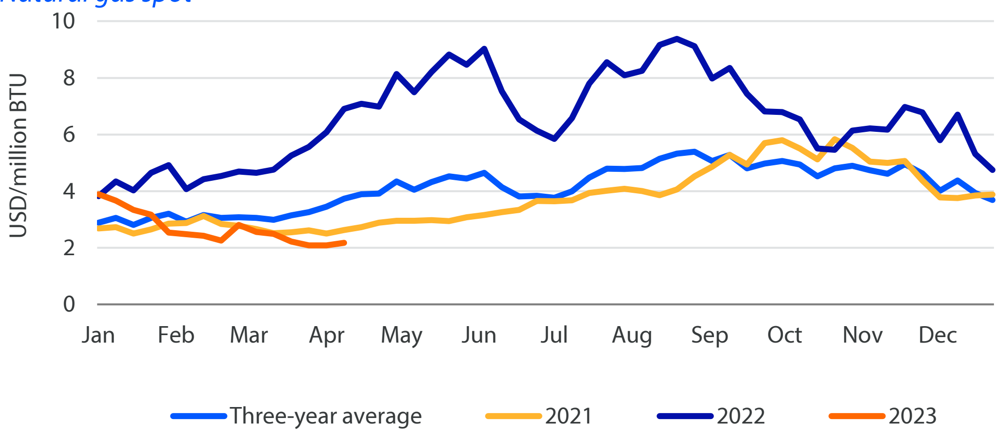
***Source:** O'Neil Commodity Consulting, USDA AMS, Rabobank 2023*

Diesel – Midwest



***Source:** EIA, Rabobank 2023*

Natural gas spot



***Source:** NYMEX, Rabobank 2023*

Forward Price Curves

As of April 13, 2022

CBOT – Corn

Source: *CBOT, Rabobank 2023*

CBOT – Soybeans

Source: *CBOT, Rabobank 2023*

CBOT – Soymeal

Source: *CBOT, Rabobank 2023*

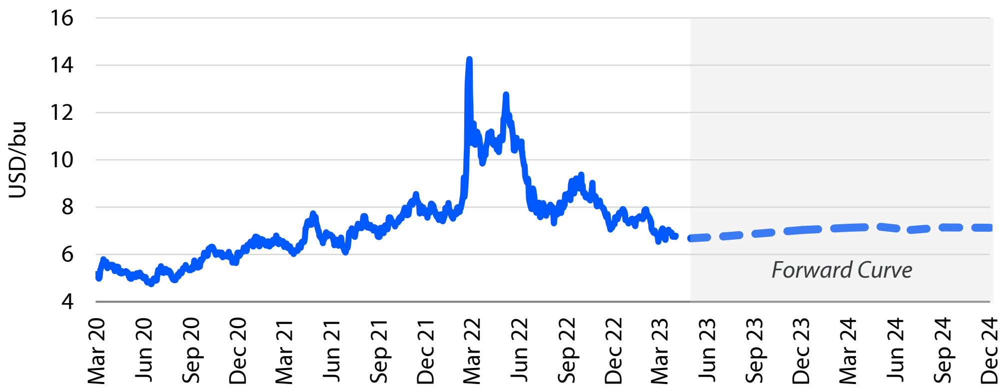
CBOT – Soy oil

Source: *CBOT, Rabobank 2023*

Forward Price Curves

As of April 13, 2022

CBOT – Wheat



Source: *CBOT, Rabobank 2023*

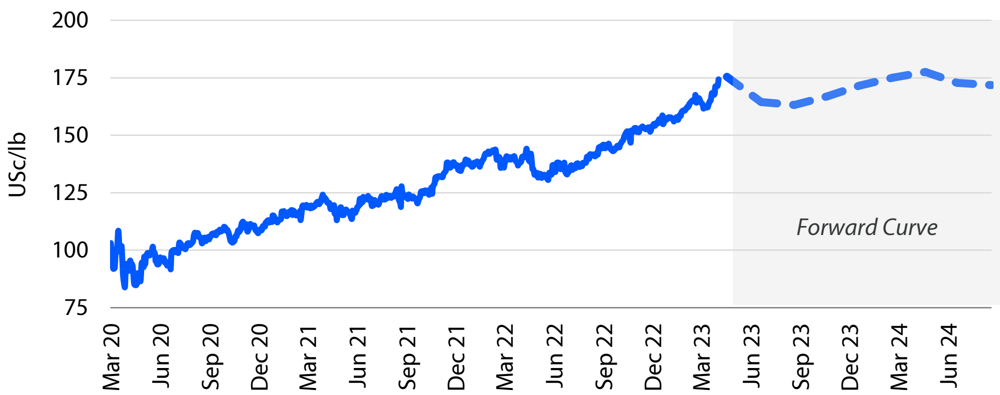
CBOT – Feeder cattle

Source: *CBOT, Rabobank 2023*

CBOT – Lean hogs

Source: *CBOT, Rabobank 2023*

CBOT – Live cattle

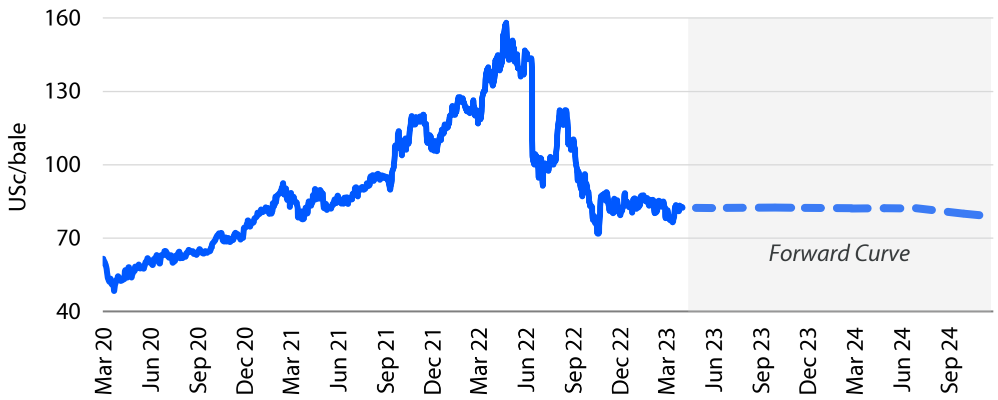


Source: *CBOT, Rabobank 2023*

Forward Price Curves

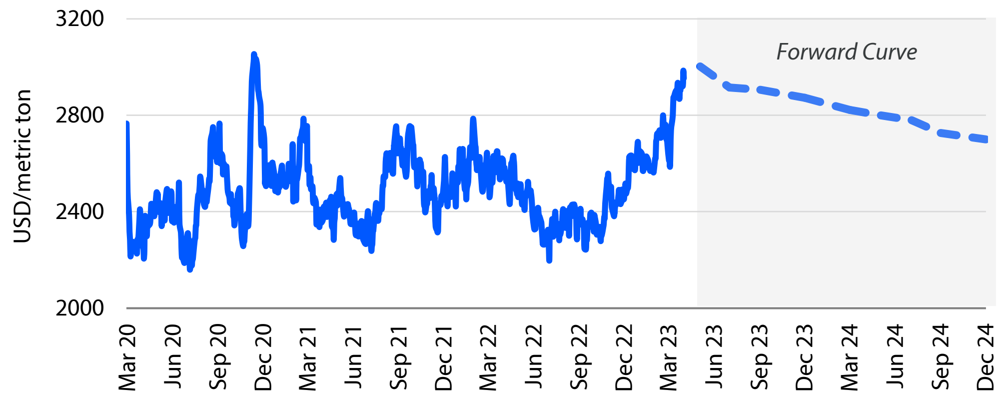
As of April 13, 2022

ICE – #2 Cotton



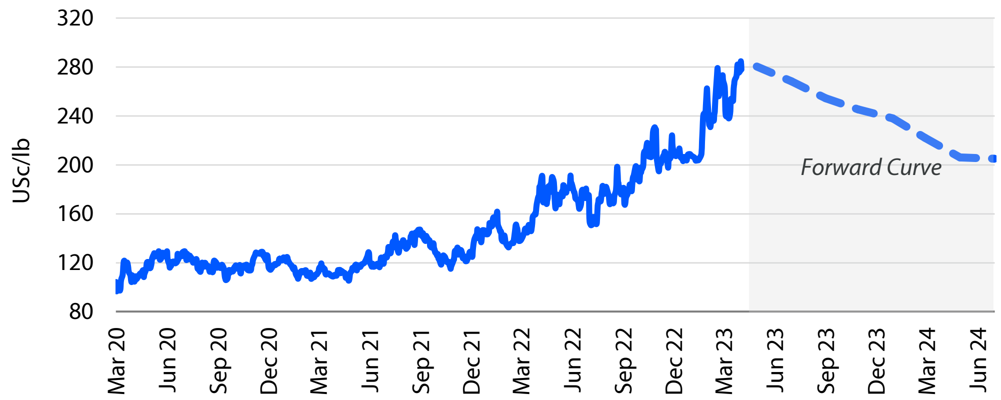
Source: *ICE, Rabobank 2023*

ICE – Cocoa



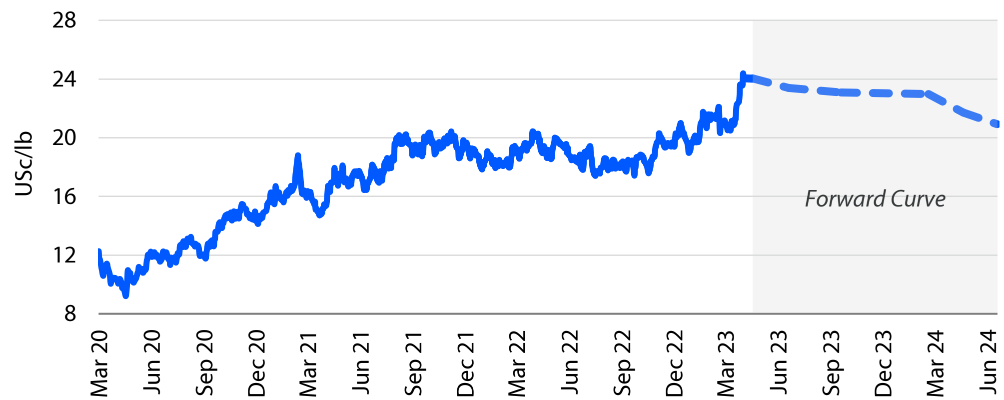
Source: *ICE, Rabobank 2023*

ICE – FCOJ



Source: *ICE, Rabobank 2023*

ICE – #11 Sugar



Source: *ICE, Rabobank 2023*

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