


North American agribusiness review

Rabobank

RaboResearch
Food & Agribusiness






February 2024

Report summary

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Economy

Sticky inflation

US

- Core CPI inflation remained unchanged at 3.9% in January. The unexpected resilience in core inflation can largely be attributed to services less rent of shelter which rose 3.6% YOY from 3.4% a month before. This means a rebound in the segment of inflation that the Fed watches most closely, because it is assumed to largely reflect wage growth. For the Fed, this is confirmation that patience is required before the first rate cut. We still expect the first cut in June. However, the stickiness of inflation, caused by nominal wage growth and geopolitical developments, is likely to restrict the pace of the cutting cycle.

Mexico

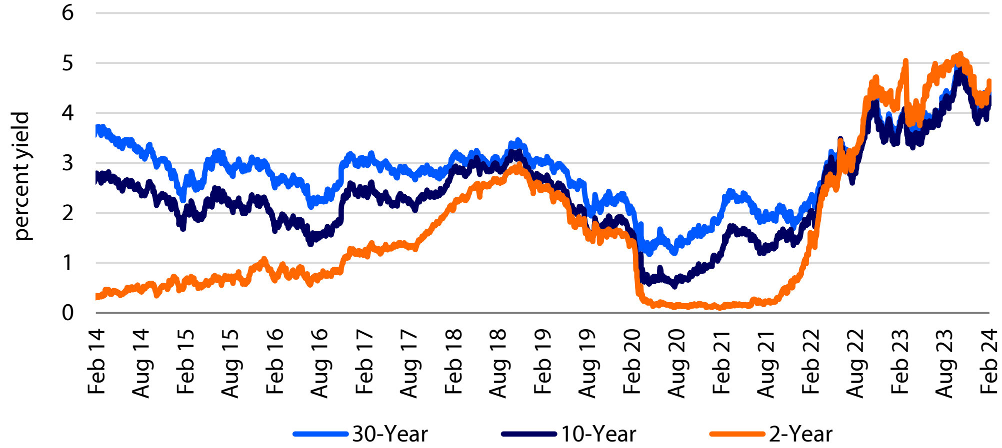
- Banxico decided to leave rates on hold at 11.25% in February. Banxico's headline inflation forecasts for 2024 have been revised upward, while core inflation forecasts have been revised slightly downward. Banxico still sees the balance of risks to inflation as skewed to the upside and added two new upside risks: climate-related impacts and the intensification of geopolitical conflicts. Although we see some potential weakness against the US dollar later in the year as Banxico's rate cuts get underway, we expect the Mexican peso to outperform most of its emerging market peers. We expect USD/MXN at 18.20 at the 12-month horizon.

Canada

- The battle against inflation is not yet over. Much of the success in driving headline inflation lower has been driven by the energy complex. However, relying on lower energy prices to slow price pressures is prayer more than policy. Indeed, core inflation has shown little progress on the downside over the past six months, with many underlying pressures still sticky and inconsistent with the 2% target. We expect core CPI inflation to remain north of 3% throughout most of 2024. In terms of the headline, energy prices will be crucial, and we see upside for oil prices increasing as the year progresses. We still expect USD/CAD at 1.36 at the 12-month horizon.

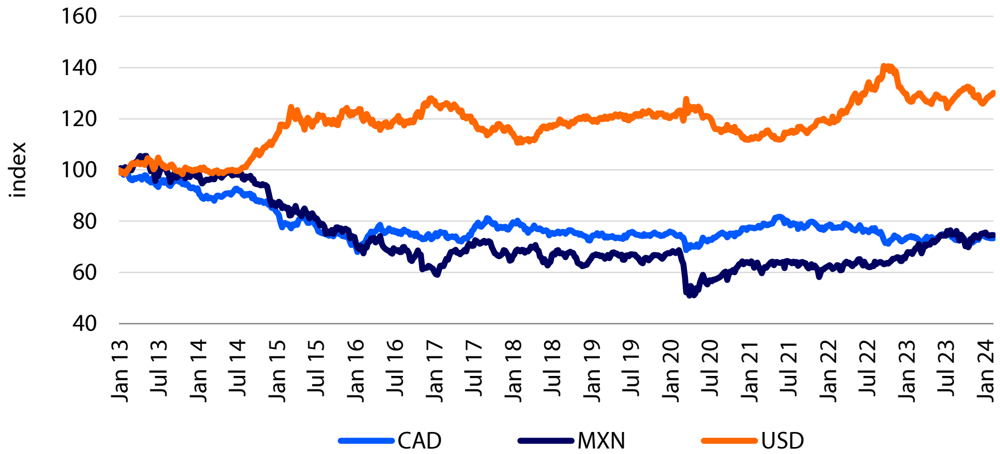
Source: *USDA, Rabobank 2024*

Interest rates, 2014-2024



Source: *Federal Reserve of St. Louis 2024*

Currency indices, 2013-2024



Source: *Reuters 2024*
Note: *Rebased at 100 as of January 1, 2013*

Climate

Uncertainty driven by transition from El Niño in 2024

- **We are emerging from a mild winter having experienced the warmest December on record,** interrupted by a ~10 day arctic blast in mid-January being the main exception. The Central Plains and parts of the Midwest were most impacted during back-to-back storms with blizzard conditions. Overall moisture levels improved significantly during the winter months, buoyed by beneficial snowfall that replenished soils, yet dry areas remain.

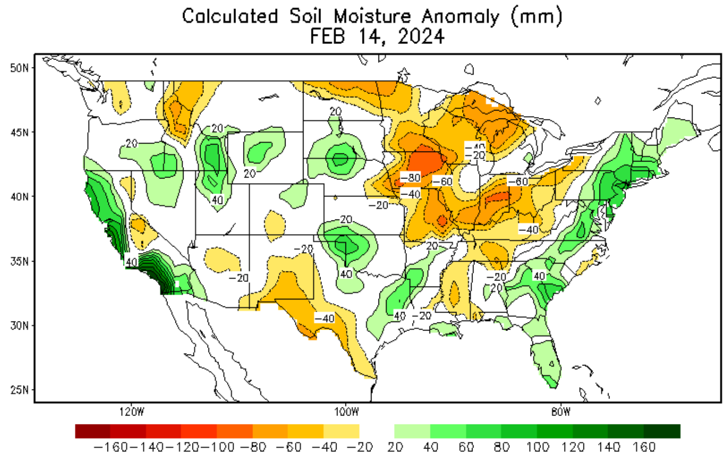
- **Winter wheat growth in the Central Plains benefited most from the January storms,** with wheat conditions better than last year, although far from ideal. At this point, we anticipate a better year for wheat production versus a year ago. Wheat will be the crop to watch in the months ahead, especially the amount of snow cover and where extreme cold occurs.

- **Despite the improvements, some regions remain mired in drought** after ending 2023 with large areas still experiencing significant moisture deficits. Much of the Midwest, notably Iowa, continues experiencing drought, while most of the Eastern Corn Belt remains a concern. While the dry and mild weather should have helped field work over the winter, significant spring rains are still needed at this point.

- **A weak El Niño is anticipated from now to April.** NOAA forecasts a 79% chance of a transition from El Niño to an ENSO-neutral state between April and June 2024. Thereafter, NOAA anticipates a 55% probability of La Niña conditions developing from June to August 2024. **This transition and its pacing will prove critical this summer for US agriculture and underpins the uncertainty we are facing in 2024.** El Niño typically portends milder conditions in the northern United States and wetter conditions in the south. As we shift toward La Niña, the opposite effects often emerge, potentially leading to cooler, wetter conditions in the north and drier conditions in the south.

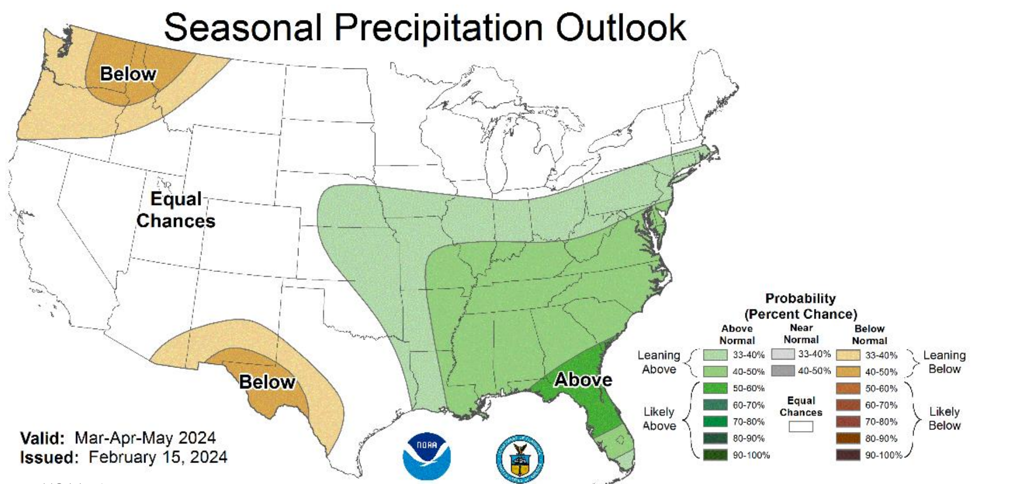
- **North America is poised for a wet spring, accompanied by warmer temperatures across Canada and the northeast United States,** while the western US may encounter isolated pockets of cooler weather. This climate pattern, if realized, should significantly benefit wheat and other spring crops, setting a promising stage for the 2024 season. However, it's important to anticipate the possibility of unexpected cold fronts targeting the hard red winter wheat growing areas in the US Central Plains during early spring.

Dryness persists in most of the Corn Belt; above average moisture in California



Source: NOAA 2024

The three-month forecast shows above-normal precipitation across much of the Corn Belt



Sources: NOAA 2024

Logistics

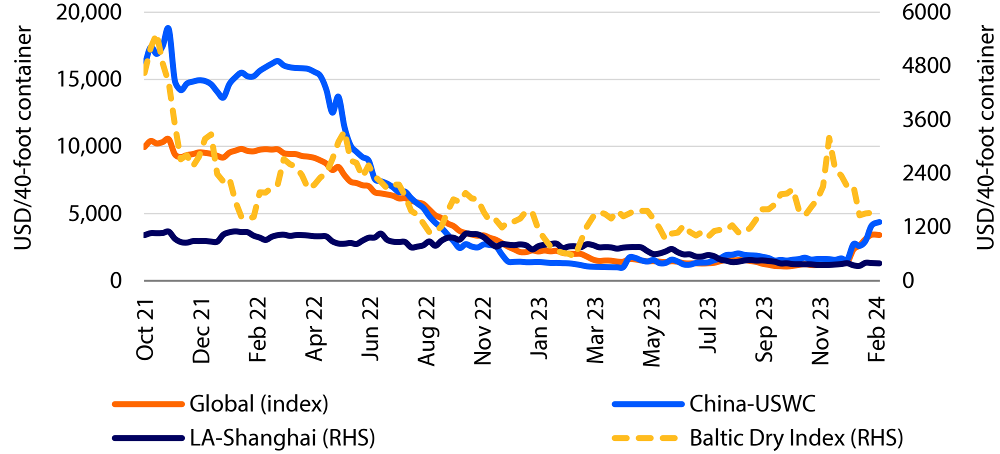
Red Sea conflict sends prices up, continued volatility in 2024

- **The escalation of military activity around the Red Sea is causing shipping prices on affected routes to skyrocket and global shipping capacity to tighten.** Several commercial ships have been targeted while passing through the Suez Canal, and as a result, the majority of the carriers have started avoiding the region and adding emergency risk surcharges in addition to hiking rates. Rerouting around the Cape of Good Hope takes an additional 10 to 14 days and costs carriers an additional USD 2,600 per forty-foot equivalent unit, while the actual price increases could be higher for shippers. Routes between China and Europe and China and the Mediterranean are most impacted, with spot prices up three to four times from the end of 2023. Routes between North America and China were affected by the capacity reduction, in addition to the temporary increase in demand ahead of the Chinese New Year rush. Prices on some other routes have also increased slightly as a result of capacity reductions. The situation in the Red Sea also ties up the global shipping capacity, reducing the global effective capacity by 4% to 9% according to Drewry. We do not expect major carriers to resume Suez Canal transit until the risk of attack is eliminated, possibly toward the end of 2024. The Baltic Panamax index (a proxy for grain bulk freight) was less impacted by the Red Sea situation and continued to fluctuate around the lower end of the spectrum due to soft demand.

- **We expect 2024 to be another year marked by volatility,** driven by global events, uncertainties from the US election, and potential labor-related disruptions such as the East Coast port labor contract negotiations in September. The West Coast Port labor union negotiations took over a year to complete and caused schedule uncertainties, considerable stress and disruptions to port operations along the West Coast.

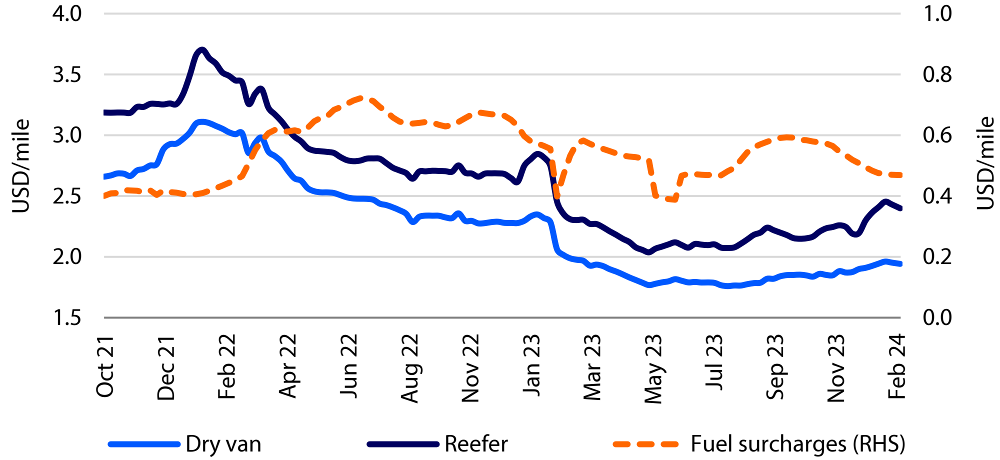
- **US trucking prices continued to stay low while demand remained soft.** The slight surge in prices at the beginning of 2024 was likely weather-related rather than driven by fundamental demand growth or significant capacity reduction. We expect the current price increases to be short-lived, and a long-term price recovery to occur later in the year. Our expectation is that the less-than-truckload market will continue to show strength over truckload in 2024.

Select ocean freight rates, Oct 2021-Feb 2024



Source: *Freightos, Baltic Exchange, Bloomberg 2024*

US dry van and reefer truckload prices, Oct 2021-Feb 2024



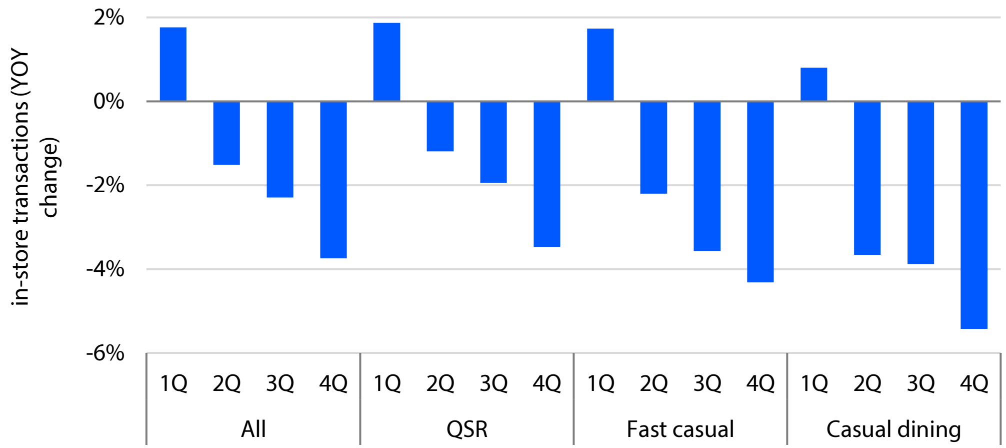
Source: *Truckstop.com, Bloomberg 2024*

Consumer retail and foodservice

US shoppers have adjusted to financial pressures

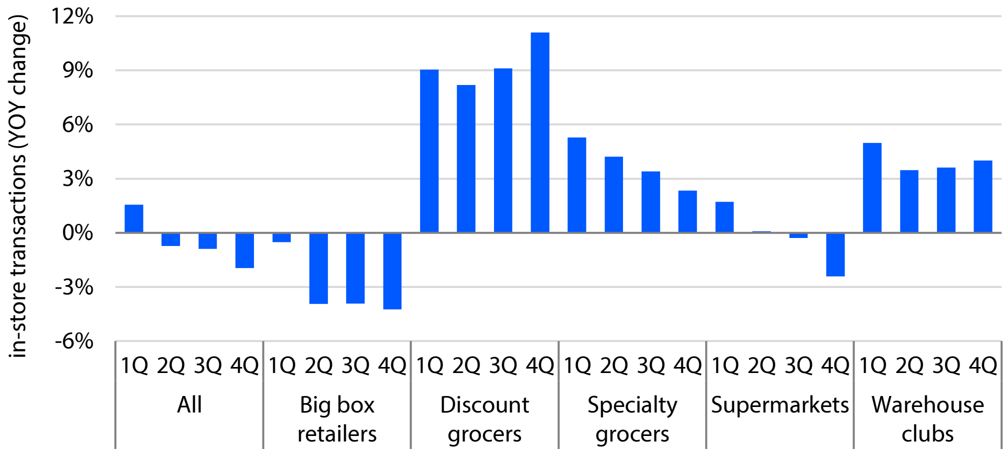
- Our analysis of exclusive credit and debit card transaction data from Earnest Analytics reveals that consumers adjusted their food spending to adapt to the challenging financial situation they found themselves in throughout 2023. These challenges included a higher cost of living and credit card debt reaching a record level of just over USD 1 trillion. We anticipate these challenges will remain front and center in 2024, particularly with interest rates remaining elevated – even if there are several rate cuts.
- Restaurant transactions fell 4% YOY in Q4 of 2023, maintaining the trend of falling demand we have seen since spring 2023 (see figure). Online orders remain strong and well above pre-Covid levels, despite weak economic sentiment and the end of Covid-19 restrictions, which were a significant driver of online ordering. These numbers suggest that consumers see great value in food delivery, and are partially offsetting less frequent eating out with ordering in.
- On the retail side, discounters have seen strong growth through the year, accelerating to nearly 12% YOY in Q4. This is reflective of the value-seeking behavior that consumers have shifted to in some areas. Discounter growth was the fastest in the quarter, followed by warehouse clubs, where consumers also look for value in bulk orders. Similarly, specialty grocers (not known for low prices) also added visits, although growth slowed quarter-on-quarter in 2023. This uptick can be interpreted as more affluent shoppers retaining their spending power. However, it may also reflect consumers saving on non-food items, eating out less often, and using those savings to cook a fancy meal at home, splurging, and treating themselves with superior at-home items as part of a saving strategy (anything at home will be cheaper than the equivalent away from home).
- If the impact of tighter budgets was finally felt in 2023, we might ask ourselves what to expect in 2024 and beyond. As consumers remain committed to prioritizing experiences over things, foodservice demand, which has been weak, may also rebound quickly as economic conditions improve for households – primarily via higher per capita income (rising wages and lower inflation). We are cautiously optimistic about foodservice demand in 2024.
- For food retail, the longer this environment remains, the more likely these changes will become permanent. Consumers have adopted new shopping habits, favoring different store formats, adjusting visit frequency, and buying different brands – including private labels, which are historically a sticky category (once consumers trade down, they sometimes don't trade back up). Meanwhile, discounters such as ALDI and Dollar General continue to open stores across the US, increasing consumer exposure to the format. As inflation eases, we will better understand the permanence of these new patterns in the coming quarters.

Foodservice: Restaurant transactions consistently decreased in 2023



Source: *Earnest Analytics, Rabobank 2024*

Food retail: Inflation continued to support demand for bulk and value through the holiday season



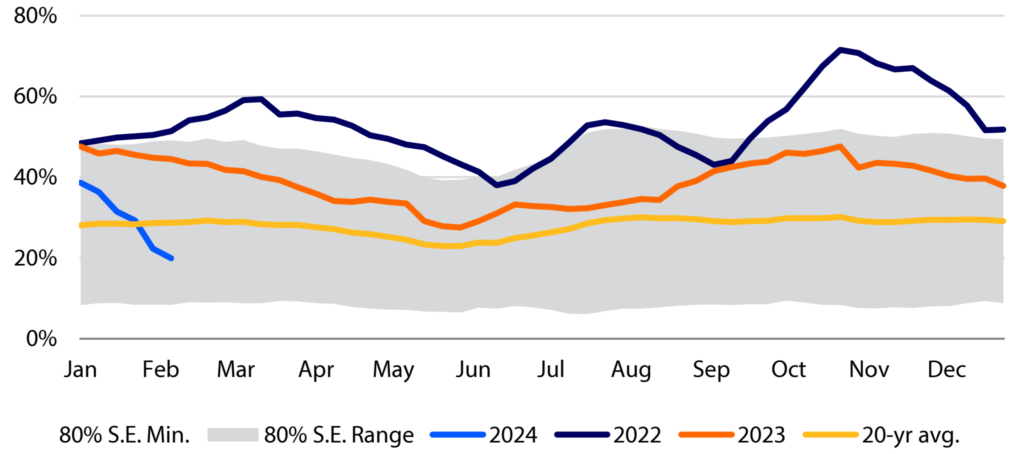
Source: *Earnest Analytics, Rabobank 2024*

Cattle

Drought conditions improve across the US, leading to possible herd stabilization

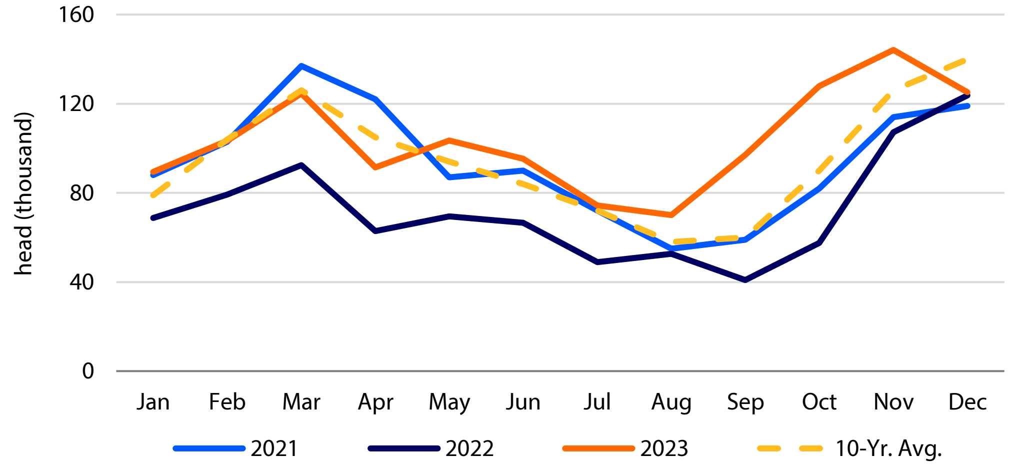
- **US cattle inventories are trending lower but appear to be bottoming out.** The cow herd starts the year smaller, but herd stabilization is possible. The beef cow inventory came in at 28.2m head, down 716,000 head (-2.5%) compared to year-ago levels. This is the smallest beef cow herd since 1961 in the US. Weekly USDA beef cow slaughter is down 12% YOY over the first six weeks of 2024.
- **Forage availability and drought conditions to improve for the US into 2024.** In October 2023, nearly 48% of US beef cows were in moderate or worse drought. Winter weather events coupled with rainfall reached key cattle-producing regions during the winter months. While this has benefited drought conditions for the cow-calf segment, the feedlot segment has seen pen conditions that could decrease cattle performance, reduce carcass weights, and diminish quality grade throughout the first half of 2024. Weekly steer carcass weights reported by the USDA reached a record-high 942lb in December 2023. The most recent data is 30lb lighter than that. The 3.2% decline during that time is the most aggressive percentage decline on record.
- **Mexico produced record levels of beef in 2023.** Cattle supplies in Mexico continue to make strong gains each year. The domestic beef cow herd grew 2% - reaching 8.2m head to begin 2024. With ample cattle supplies, beef production in 2023 ended at a new record high of 2.215m metric tons and is expected to grow throughout 2024, depending on the strength of feeder cattle exports to the US.
- **Mexican cattle exports for 2023 finished 42.6 % above year-ago numbers**. After record-high beef export volumes to the US in 2022, volumes in 2023 were down 14% from January to November. As exports transition from cut beef to cattle, total exports in carcass weight equivalent remain relatively unchanged from year-ago levels. Feeder cattle in Mexico are currently priced at MXN 63/kg, which is 7.7% above year-ago levels and 16% above the five-year average. For 2024, the US market will continue to support this price as beef buyers supplement declining domestic production with Mexican supplies.
- **Canadian market-ready supplies remain ample and cattle weights are supporting beef production.** Even with declining beef cow numbers, on-feed inventory is at 1.1m head, nearly identical to last year. As drought continues across major cattle-producing areas, heifer placements were constant throughout the second and third quarter. Placement weights are averaging 11lb more than last year and fed cattle marketings are down 4%, resulting in carcass weights trending higher. A new high of 990lb was recorded in late January 2024, 17lb higher than the previous record set in October 2022. These large weights are supporting beef production.

US beef cow herd in drought down in 2024



Source: *USDA, Rabobank 2024*

Stronger 2H 2023 feeder cattle exports from Mexico to the US



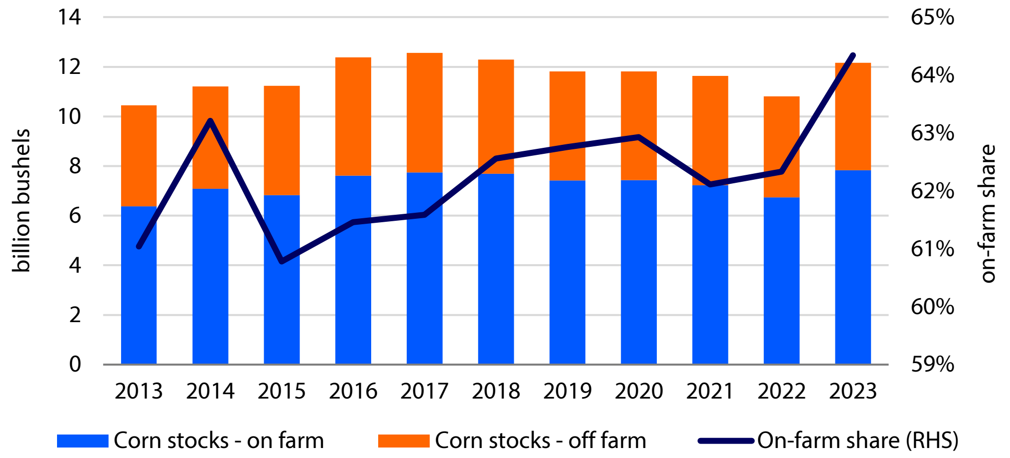
Source: *USDA, Rabobank 2024*

Corn

South America poised to deliver a bumper crop of its own

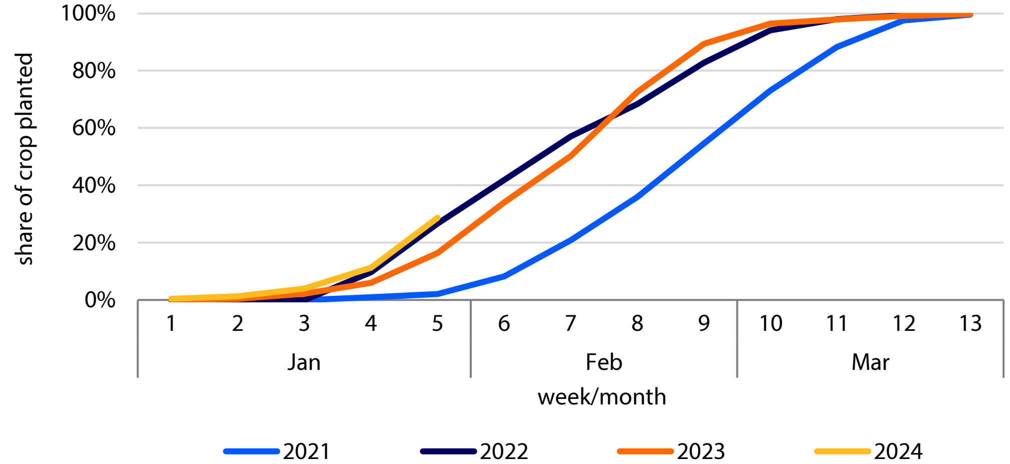
- The die was cast for the 2023/24 corn market when US farmers responded to lower input prices and enduring strength in corn prices by planting the third-largest acreage on record. Reports of inadequate rain ultimately proved to be little more than a distraction as the yield was ultimately in line with Rabobank's August 2023 view of 177 bushels per acre, enough to deliver a record crop.
- While a stock buildup is a foregone conclusion, the USDA has reduced the burden on paper by splitting 800m bushels of additional demand roughly evenly between domestic and export markets in the most recent WASDE, though work remains to be done on both fronts. Through January, export sales are up only 5% YOY, compared to the 30% increase penciled into the February WASDE. Corn use for ethanol, meanwhile, is only slightly behind the pace needed to meet the WASDE projection, but a collapse in RIN values over the past several months will likely slow the pace of that production for the remainder of the year.
- As of December 1, growers were holding the largest share of total corn stocks in recent history, pushing basis levels far below those of soybeans where growers successfully shed stock relative to last year.
- Historically, the best predictor of the coming year's corn acreage has been the price received the previous year. Based on this indicator, one would expect to see corn area fall by roughly 3m acres in 2024.
- Despite a modest decline in US acreage, it may not have much impact on prices given the expected record corn production in South America. In Brazil, first-crop corn is down relative to last year, but planting progress for safrinha corn in Mato Grosso is well ahead of last year's pace, despite a mere 1% drop in projected acreage and early concerns about La Niña-related planting delays, signaling upside potential. Meanwhile, in Argentina, the Rosario Board of Trade recently revised their 2024 production figure upward to 59m metric tons, 4m metric tons more than current USDA estimates.

US corn stocks as of December 1st



Source: *USDA Rabobank 2024*

Mato Grosso corn planting progress



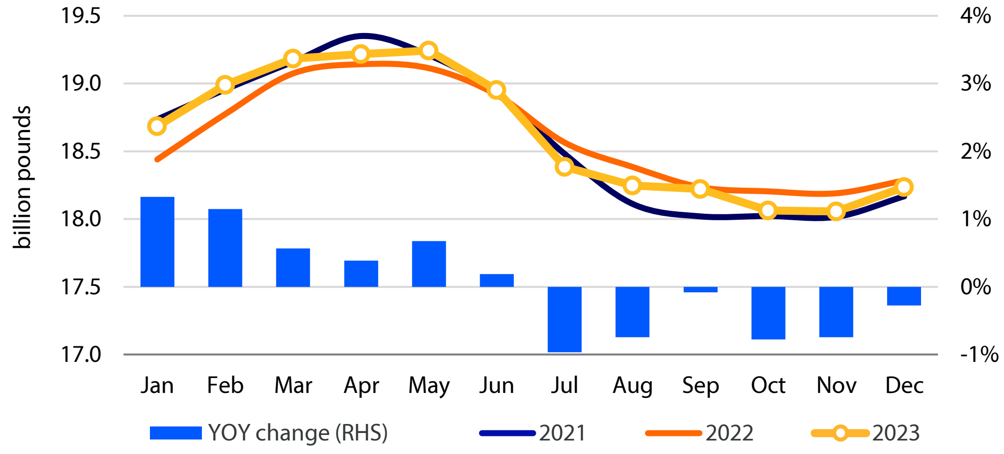
Source: *IMEA, Rabobank 2024*

Dairy

Milk production was lower than the previous year throughout 2H 2023, but farmer margins remain weak

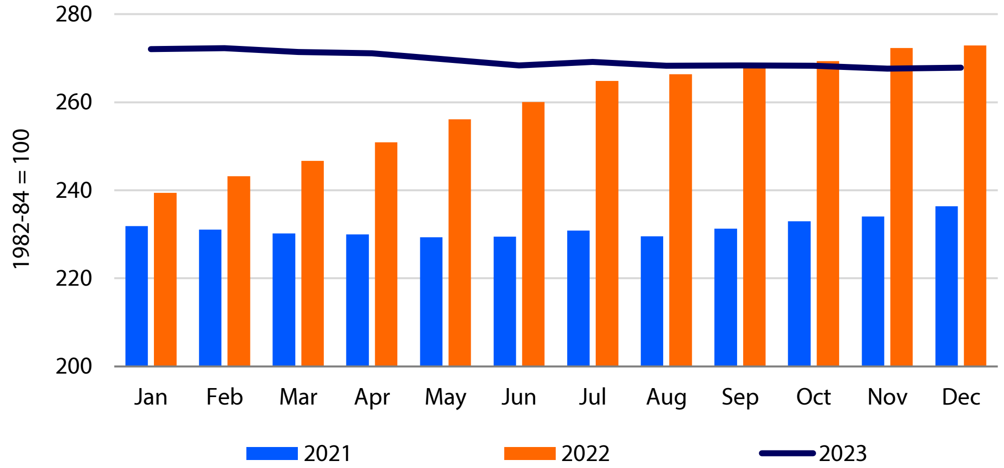
- **December milk production fell 0.3%, marking the sixth consecutive month of weaker year-over-year output.** Fewer cows and a minor 0.1% yield increase contributed to the decline, in line with recent trends. Less milk was expected in recent months as on-farm margins remained weak until the year's end. Total 2023 production was up negligibly versus the prior year and unchanged on a percentage basis.
- **Herd size contraction continues, with cow numbers down by 1,000 head in the month.** However, November was revised down by 2,000 head, resulting in a report-to-report drop of 3,000 cows. At 9.357m head, it fell to the lowest level since December 2019. The herd is 39,000 head smaller versus one year ago, and down 87,000 head versus the recent peak in March.
- **Milk per cow grew a slight 0.1%, climbing in December following two consecutive months of weakness.** Yield was up just 0.1% annually, well below the long-term average 1% growth rate.
- **Total cheese production grew 0.9% in December, marking the third consecutive year-on-year** and the largest year-on-year gain since January 2023. Output in 2023 was up 0.3% versus 2022. While the final three months of the year showed strength, cheese production was lower in five different months throughout last year. Total cheese stocks grew slightly in December, climbing 6m pounds, or 0.4% versus November to mark the first monthly increase since August.
- **December butter production jumped 4.4%, the strongest gain since July** and a reversal after November's 3.3% downturn. Output is climbing seasonally as milk production and cream availability increase into the spring flush. All regions increased year-on-year, but the gain was especially notable in the west, up 7.7%. However, December butter stocks fell by 13.1m pounds, or 6.2%, dropping to the lowest level since December 2021. It was the steepest December inventory drop in 20 years, another bullish datapoint that could keep the butter price supported throughout this year as availability remains tight.
- Combined nonfat dry milk/skim milk powder production fell 15.9% YOY in December, the seventh successive month of lower output. **Stocks sank for the tenth consecutive month.** At 203.3m pounds, inventories were at the lowest level since November 2015.
- **Total exports finished 2023 in a similar fashion to the trend set throughout most of last year, with volumes below the record levels of 2022.** Total dairy exports were down 5% YOY in December, with exports for the calendar year 2023 down 7%. Only WPC80 and lactose shipments rose in 2023, with all other dairy products losing steam compared to 2022. Cheese exports finished the year on a positive note, up 4% in November and 1% in December, but the gains were driven largely by continued robust exports to Mexico.
- **The year-on-year dairy consumer price index fell for the fourth consecutive month in December,** with dairy product price deflation emerging following lower milk prices throughout 2023.

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



Source: USDA NASS, Rabobank 2024

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



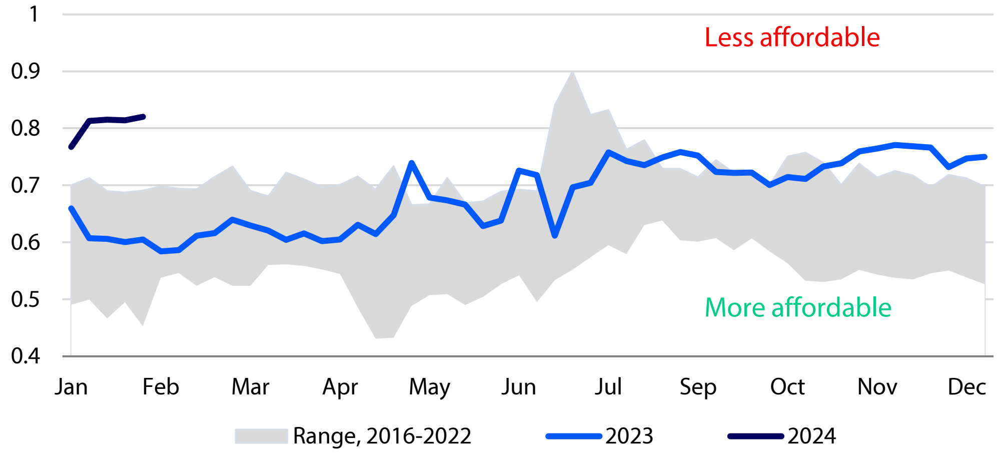
Source: Bureau of Labor Statistics 2024

Farm inputs

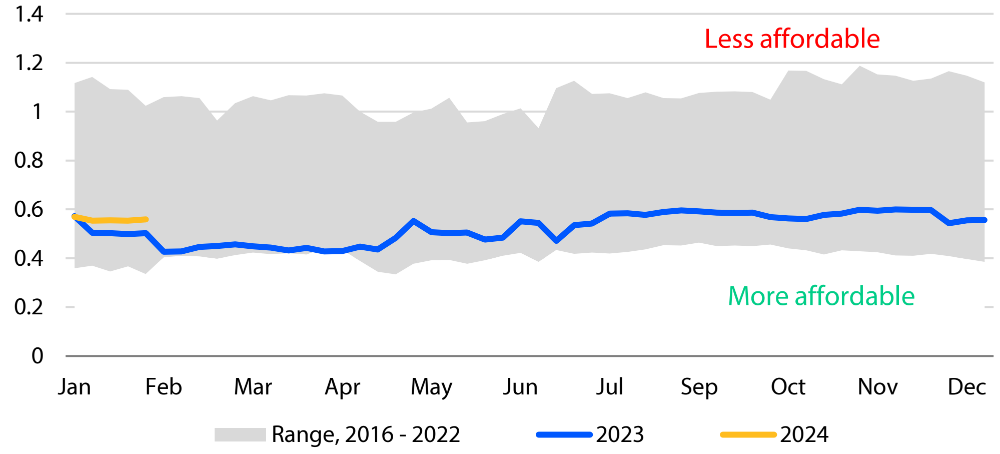
Costs have to come down, and hopefully they will

- In Q4, we released a global report suggesting – broadly – that corn and soybean production margins were going to be significantly weaker in 2024 versus 2023. A recently released USDA report with a wider mandate put US net farm income down at ~25% YOY in 2024.
- This creates the need for some adjustment in input prices over the coming 6 to 12 months.
- In our previous North American agribusiness review, we highlighted the tightness in the phosphate (P) markets, illuminating the spread between DAP and MAP prices. While this spread has narrowed quite considerably, the relative affordability of P is at particularly pernicious levels.
- Judged by the relative value created by P (ratio of price of commodity to price of fertilizer), phosphates are in territory outside even the 2022 highs. Phosphates in the North American market are, for all extents and purposes, too expensive. This is a reflection of tight supply and global factors. With no end in sight here for growers, it is likely that farmers will have to assess their farming practices to try and offset some of this impact on margins.
- Nitrogen is at the better end of the value proposition scale, with corn-to-urea price relativity trading in the more affordable range. The strength of fall fieldwork means that a decent volume of 2024 demand has already been 'banked'. However, short-term seasonal support could see some upside price movement over the coming weeks/month(s), before adjusting lower on cost curve, commodity price and a supply basis.
- There are similar dynamics at play with potash. Potash availability has continued to improve over the last 12 months, with key growing regions like Brazil largely sated and prices still moving lower. These price benchmarks are often indicative of domestic price trajectory, suggesting that further price declines may be in store in the coming weeks/months.
- All in all, the increasingly weak outlook for grower margins should pull input prices lower. However, some of this may be timed out of the 2024 planting season, given seasonality and the runway of geopolitics and trade.

Corn/DAP affordability; tight DAP markets render P outside affordable norms



Corn/urea affordability; scope for deterioration in urea affordability



Sources: CRU, USDA, Bloomberg, Rabobank 2024

Feed

Downward pressure on feed prices as corn prices decline

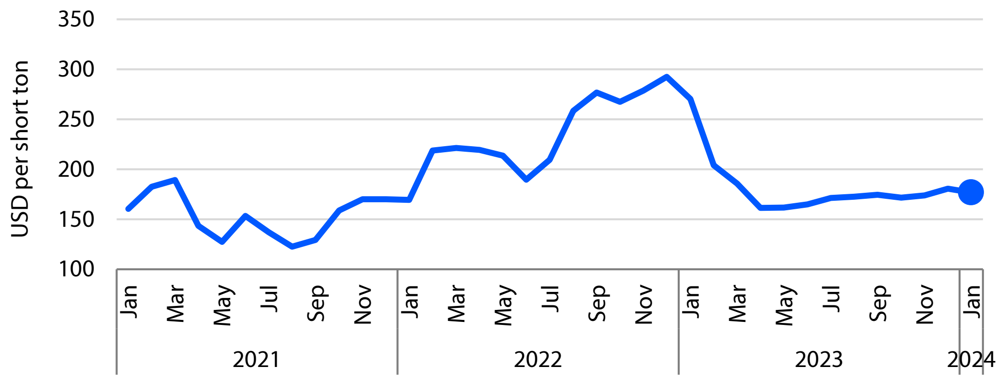
Feed by-product:

Wheat mill feed demand has been slow, putting more pressure on wheat middlings. Orders have been slow driven by stronger competition from other grains, particularly, with the decline in corn prices, which has taken some share in feed rations. In addition, warmer weather, lower herd size and increased wheat grinding in Q1 of 2024 could add more pressure in the coming months. For the month of January 2024, wheat middlings saw a decline of 2% MOM and 35% decline compared to same month last year. Pressure over the coming months is expected to continue with prices ranging close to 2021/22 levels or around USD 150 per ton.

Meal demand and prices

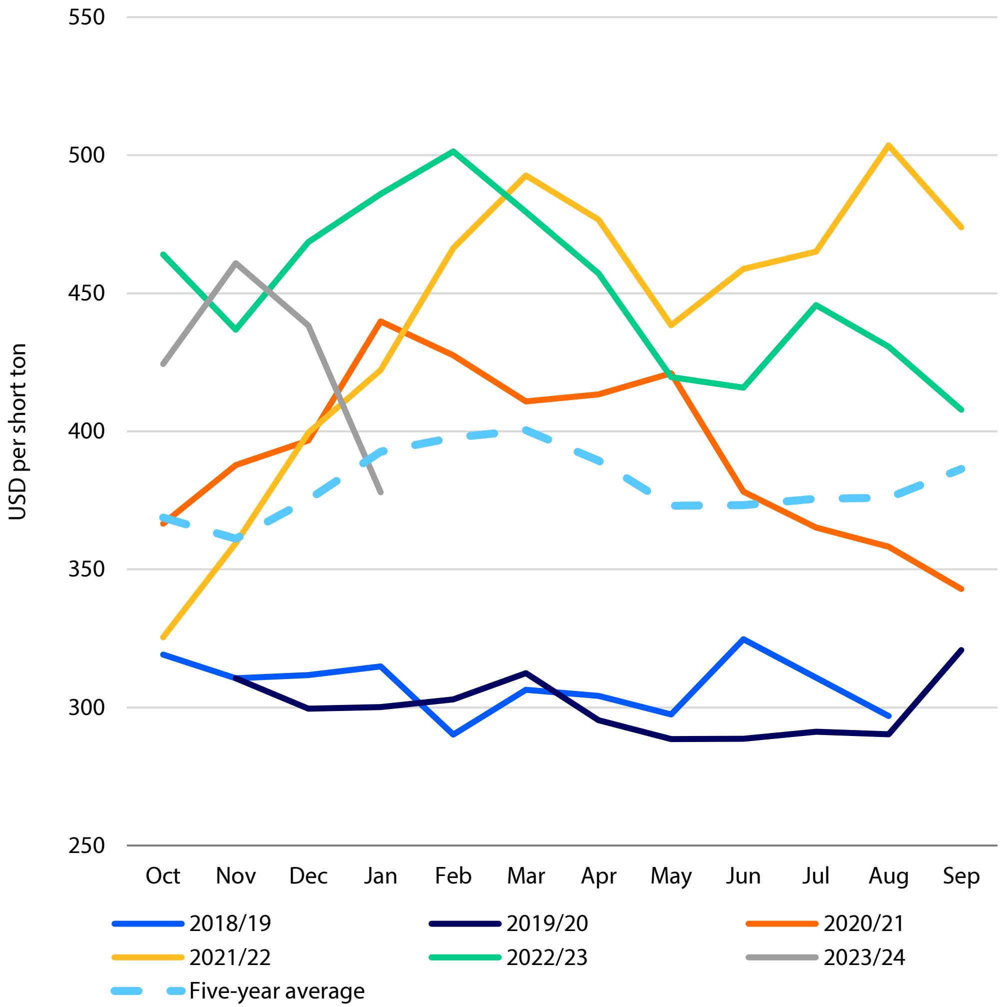
Soybean meal prices have finally broken through the USD 400 per short ton mark after spending most of last marketing year above the USD 400 per short ton. While record exports have helped keep prices elevated due to Argentina's low participation in world markets, domestic demand also grew ~2.7% year over year. This comes at a time when prices were near record levels, showing some strong demand domestically. As Argentina starts harvesting soybeans, soybean meal prices are likely to come under pressure as more volume will be entering the world markets and US soybean meal exports are likely to normalize with increased competition from Argentina.

Wheat middlings prices in Kansas City from Jan – 2021 to Jan-2024 in USD per short ton



Source: *USDA , Rabobank 2024*

Soybean meal prices in Central IL relative to previous marketing years



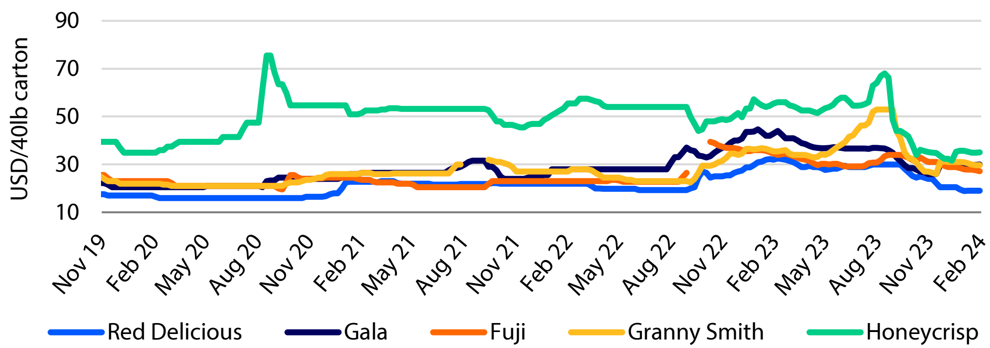
Source: *USDA,, Rabobank 2024*

Fruits

California strawberry acreage at multiyear highs

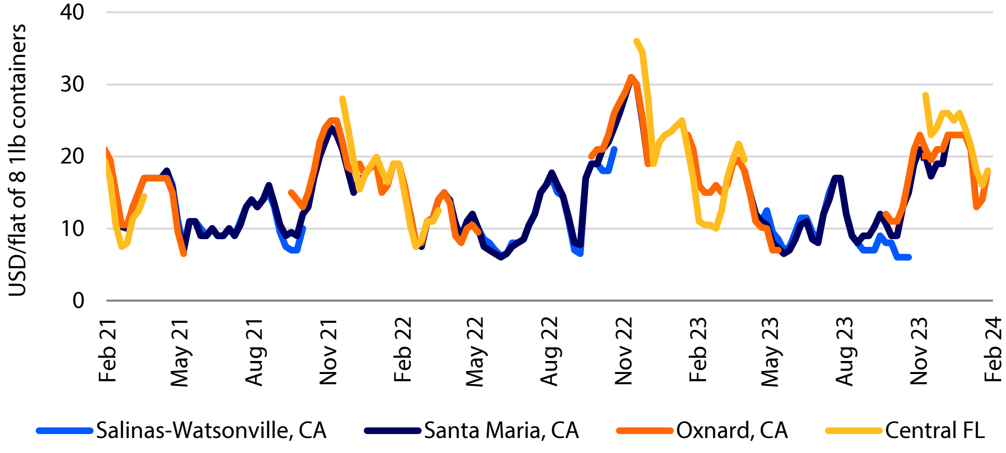
- **Strawberry** shipping-point prices are around USD 18 per flat for non-organic product (up 6% YOY for product from Central Florida) by mid-February. Shipments are ahead of last year's. Strong availability is expected in the spring as planted acreage in California is at its highest since 2015. Fall planted area in Santa Maria, California is at a record high of over 11,500 acres, up 9% YOY. After a significant YOY decline in US **blueberry** availability during Q4 2023, February arrivals have rebounded to similar levels as last year. Prices are up about 10% YOY.
- **Lemon** shipping-point prices for140s were just over USD 29 per carton, up 16% YOY, and 4% above the five-year average for mid-February. The USDA estimates that the US lemon crop will decline by 25% YOY in 2023/24. **Navel orange** prices for 88s were around USD 26 per carton, up 23% YOY by mid-October. California navel orange production is estimated to reach 38m boxes, up 4% YOY in 2023/24.
- **Avocado** availability in the US has been steady overall. Shipping-point prices for 48s are around USD 38 per carton, up 55% YOY. Price differentials across sizes suggest that larger-sized avocados are in shorter supply, while smaller sizes barely show year-on-year price increases.
- There is downward pressure on **apple** prices across the board as availability significantly improved following the 2023 harvest. By mid-February, shipping-point prices for non-organic Granny Smith, Fuji, Gala, Red Delicious, and Honeycrisp were down 13%, 25%, 25%, 30%, and 32% YOY, respectively. US fresh apple holdings on February 1, 2024 totaled 98m bushels, up 36% YOY and 24% above the February five-year average, according to industry data. In particular, fresh Honeycrisp inventories are up 98% YOY and 71% above the five-year average. Despite an increase in US apple exports, price pressure is likely to continue for months ahead.

Washington apple shipping-point prices, 88s – WA Extra Fancy, 2019-2024



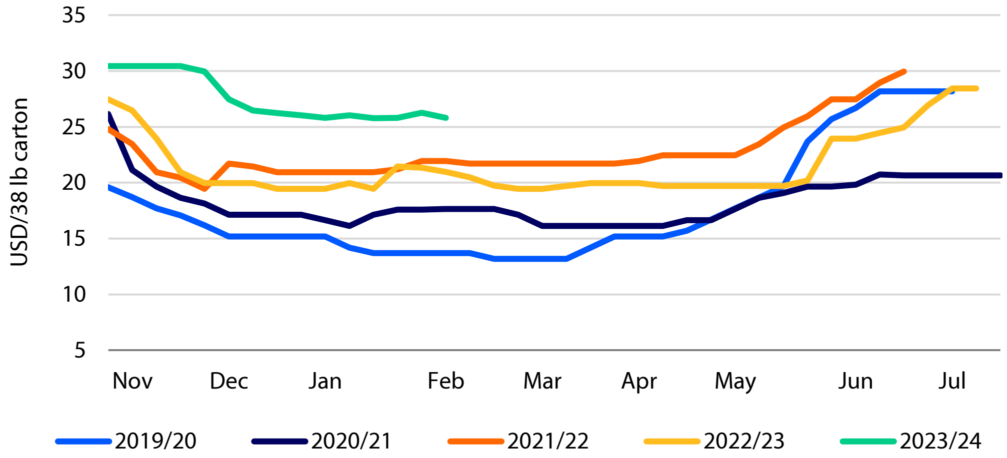
Composite of fine appearance and standard appearance prices
***Source:** USDA AMS, Rabobank 2024*

Strawberry shipping-point prices – primary US districts, 2021-2024



***Source:** USDA AMS, Rabobank 2024*

Navel orange shipping-point prices, 88s – shipper's first grade, 2019/20-2023/24



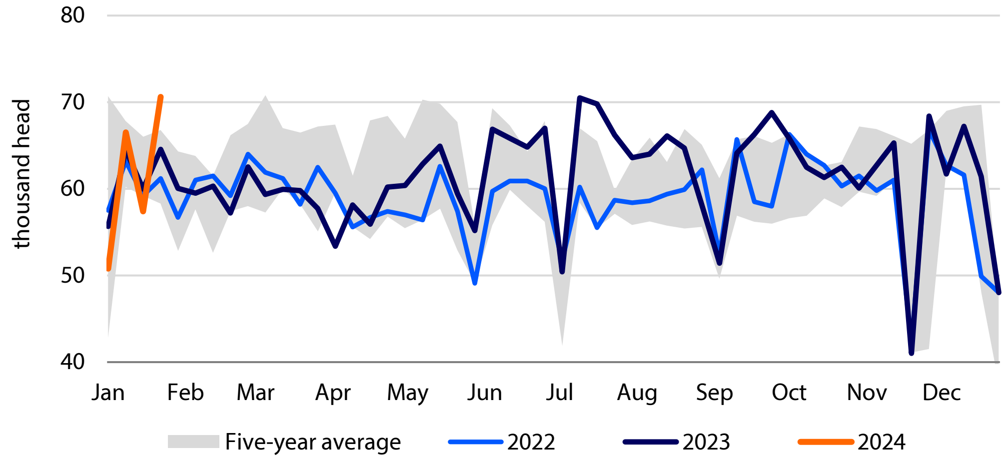
***Source:** USDA AMS, Rabobank 2024*

Pork

Sow slaughter accelerates as margins slow to improve

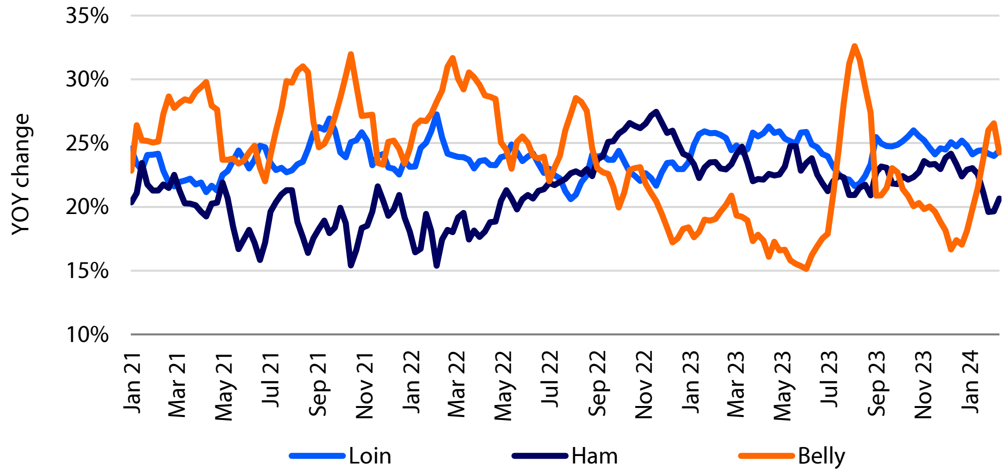
- **Ample hog supplies will dampen the Q1 recovery in hog prices.** After some weather-related disruption in January, QTD hog slaughter is on par with year-ago levels. Strong packer margins have kept supplies current, with weekly kills above 6.2m head and only a modest drop in dressed weights (-0.9% YOY). We maintain our outlook for a 0.8% YOY increase in production (on two additional slaughter days), recognizing that gains are likely to be moderate.
- **The December USDA Hogs and Pigs report suggested that near-term supplies remain elevated due to improved productivity (3.9% YOY), despite a reduction in the sow herd (-3.3% YOY).** Recognition of larger-than-expected supply (and a possible upside revision to the pig crop in March), together with poor producer returns will, in our view, force a further reduction in the sow herd. Sow slaughter has increased in recent weeks (see figure) and will accelerate through spring. Lower feed costs will improve producer margins by summer, yet the industry will continue to report losses through spring.
- **Pork prices firmed in January on strong belly prices, despite ongoing soft ham prices and limited improvement in loins.** Strong processor demand for bellies drove a 54% YOY increase in prices in early February before high prices slowed demand. Low volumes, an 11% YOY decline in inventories, and lower retail prices kept the market strong. In contrast, ham prices have slipped in Q1 (-8% YOY) as inventories remain steady and holiday interest remains slow. Retail demand for pork has been steady to start the year.
- **December pork exports were +10% in volume, at 258,000 metric tons and up 12.8% YOY in value.** For the year, exports were up 8% YOY at 2.9m metric tons, while value was a record +6% YOY. Shipments to Mexico and Canada remain strong, up 17% and 21% YOY, but it was the 65% YOY increase to South Korea that drove Q4 gains. Pork import volumes from all destinations dropped 1% YOY due to depressed local markets, with a sharp decline in imports from Canada (-14% YOY).
- **Mexican hog prices are 14% below year-ago levels and are in line with the five-year average.** Even with herd liquidation, improved productivity and heavier weights have added 2.6% YOY more pork to the market in 2023, weighing on prices and industry returns. Production growth moderated in Q4 2023, with further reductions expected in 2024. Lackluster export demand and strong competition from US imports could limit additional upside and force further herd reductions. Pork prices have moved moderately higher in recent months, adding 7% during Q4 2023, but remain 17.7% below year-ago levels.

US sow slaughter, 2022-2024



Source: *USDA 2024*

US pork cutout contribution, Jan 2021- Feb 2024



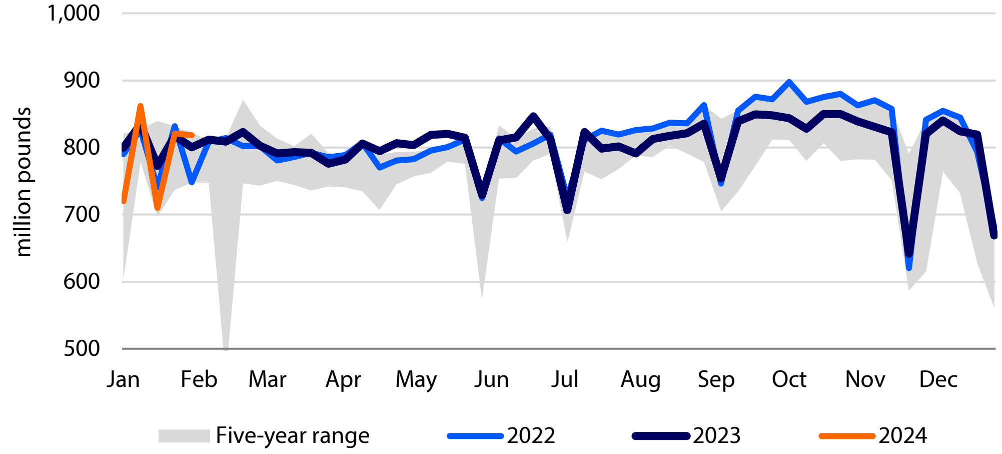
Source: *USDA, Rabobank 2024*

Poultry

Consumers seek out value options, poultry remains well positioned

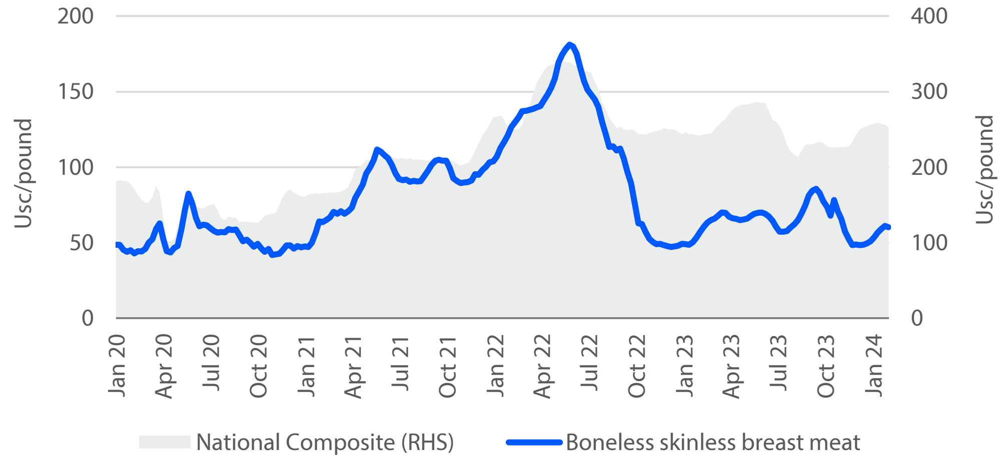
- **Chicken production has strengthened in recent weeks after some early Q1 disruptions, with ready-to-cook production flat QTD**. Given expected chick availability, production is expected to remain in line with year-ago levels, despite a modest increase in bird weights. Ongoing productivity (hatchability) issues are largely being offset by an increase in the hatchery supply flock. YTD chick placements remain flat with year-ago levels and are expected to keep slaughter volumes steady through spring. We continue to believe that lower feed costs and good chicken demand will support modest (+0.9% YOY) production growth in 2024.
- **Chicken prices remain firmly above year-ago levels on strong demand and a good supply-demand balance.** There is still some variability within the category, with boneless breast prices flat versus year-ago levels and below the five-year average, but strength in wings (+71% YOY) and leg quarters (+23% YOY). All chicken inventories remain historically low (-6% YOY) and are expected to remain supportive to prices in the coming months. Good demand from foodservice channels, with several chicken promotions planned, should help strengthen boneless breast prices, although high retail prices remain a challenge. Consumers are also seeking out lower-cost, value options and private label chicken, which is likely to support dark meat values in the coming months. We expect constrained supply growth and lower supplies of competing protein to continue to support prices over the balance of 2024.
- **December chicken exports rebounded modestly (+3.4% YOY) on a surge in exports to Taiwan (+75% YOY) and the Phillippines (+58% YOY).** Full-year exports were down 4.1% YOY in volume to 3.6m metric tons and down 9.4% YOY in value. Constrained shipments to China (down 34% YOY) due to ongoing trade restrictions as a result of highly pathogenic avian influenza (HPAI) remain a constraint.
- **Mexican chicken prices continued to weaken due to excess supply and are 45% lower than year-ago levels.** While production slowed for most of Q4 2023, December recorded a record level of 365,000 metric tons (+7.1% YOY). Feed costs are lower due to a strong harvest and ongoing strength in the Mexican peso, yet the industry continues to struggle on disappointing market demand. Chicken import volumes in November were +12% YOY on the strength of the Mexican peso. Chicken carcass price is down 17% YOY on increased domestic production and strong imports.

Ready-to-cook chicken production, 2022-2024

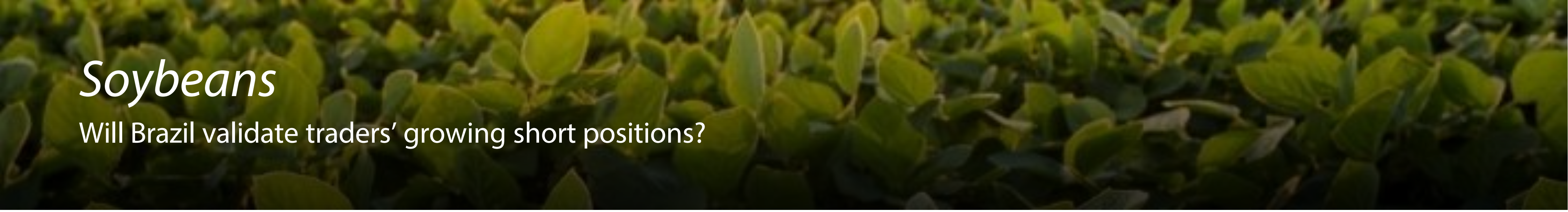


Source: *USDA, Rabobank 2024*

Wholesale chicken prices, 2020-2024



Source: *USDA 2024*



Soybeans

Will Brazil validate traders' growing short positions?

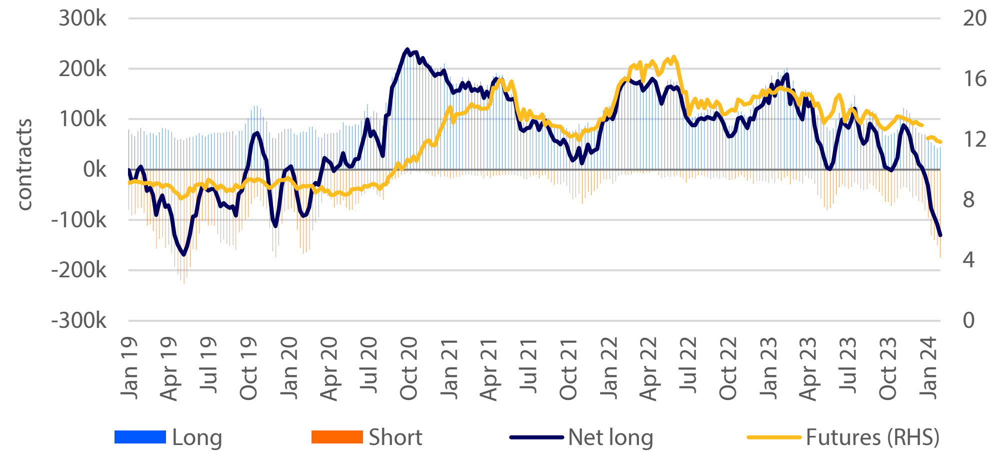
- Between high interest rates and record-high stock indices, the world has recently been awash in yield. Meanwhile, grain and oilseed markets have faced challenges due to macroeconomic headwinds and deteriorating fundamentals. As a result, many investors have taken short positions in this sector. While funds had maintained bullish views on soy since 2020, the tide turned in January of this year when net positions reached their lowest levels since May of 2019.

- Some traders suggest that the stage has been set for a short-covering rally, but low soybean basis at home and abroad allows for a different interpretation. Because of advantages in ocean freight and, to a lesser extent, crude protein content, soybeans at Brazil's southern ports typically enjoy a premium relative to CBOT. Now, for just the second time in a decade, basis Paranagua has moved solidly into negative territory – a reflection of weak Chinese demand and a market reckoning that regardless of the gravity of La Niña impacts, Brazil will be producing its second-largest crop on record and South America its largest crop ever.

- Historically, the current net short position among traders would have corresponded with a sharper downward correction in CBOT prices. The present situation in Brazil suggests a further slide in CBOT is forthcoming. The USDA currently projects Brazilian production at 156m metric tons, at the high end of industry estimates. Realized production at this level could very swiftly push CBOT prices below USD 11/bu, particularly if USDA planting projections confirm a swing away from corn to soybean for the 2024/25 crop as many anticipate.

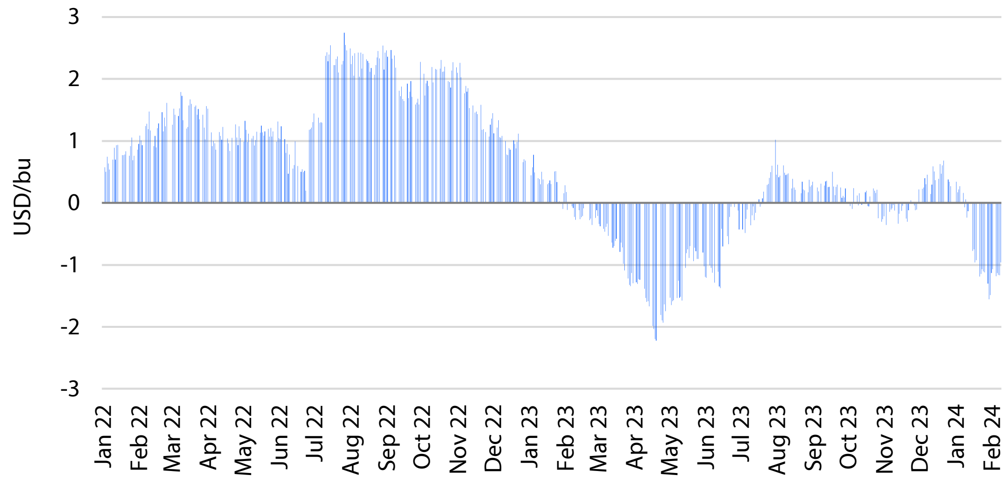
- Focusing on Chinese demand, the country continues to make progress toward its stated goal of reduced reliance on imported beans. While not explicitly stated, the country also appears intent on reducing the US share of those imports. After strong buying in December, China's January imports registered a 15% YOY decline in January, with the US accounting for just 44% of the total compared to 81% a year ago. Trade flows suggest that Chinese import demands will soften further in February and March, resulting in a nearly 25% drop in that country's Q1 imports. This shift is due to reduced use of meal in hog rations, growing domestic production, and the increasing ease with which China can source soybeans from multiple suppliers worldwide.

Soybeans – net position of managed money, futures and options



Source: *CFTC, Rabobank 2024*

Basis Paranagua



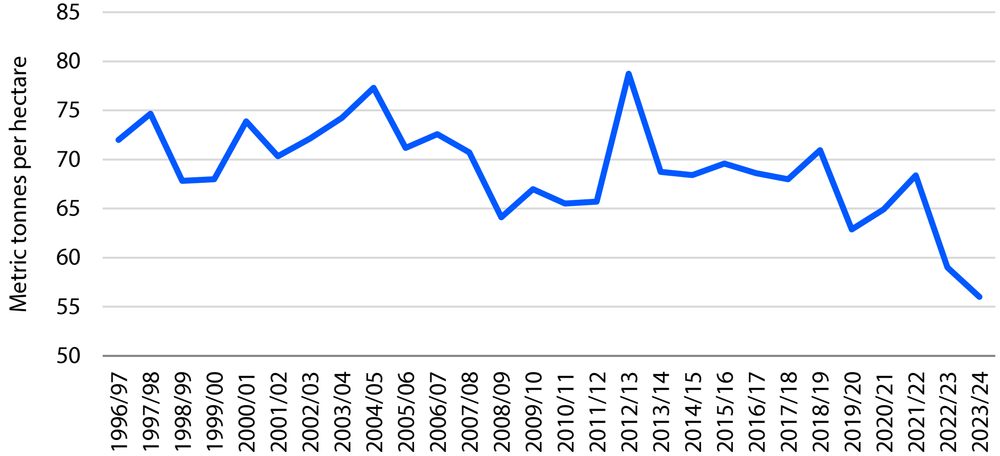
Source: *CEPEA, Rabobank 2024*

Sweeteners

Mexico's sugar production continues to struggle

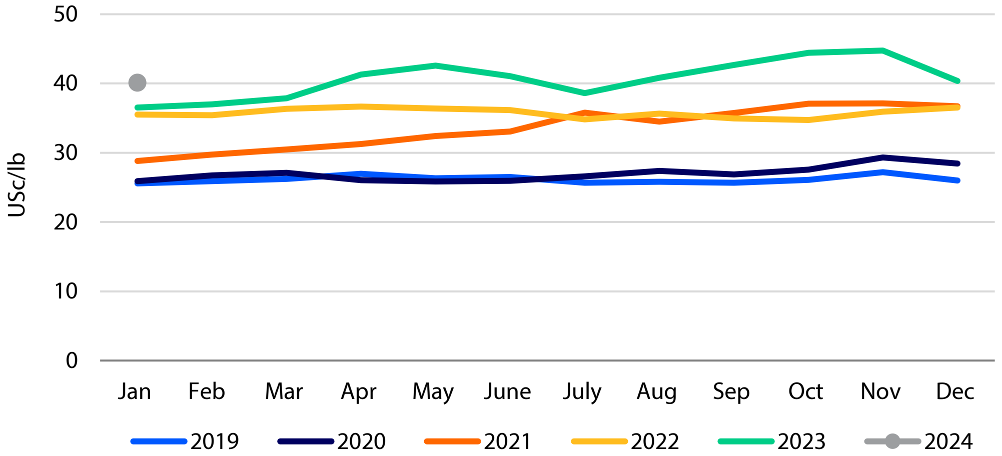
- Mexican mills (at least some of them) may finish the 2023/24 sugar campaign much earlier than usual. In many regions, cane has been impacted by a very prolonged drought. As a result, cane availability has been limited both by quantity and quality. This year, Mexico's cane sugar field yields might be the lowest in the past few decades. Factory yields are also expected to be low.
- As of February, the Mexican consensus is that sugar production for the 2023/24 cycle could reach around 4.8m metric tons. However, we believe there are risks that sugar production could be even lower. In any case, this will be the lowest production since the year 2010. Average sugar production in Mexico has been around 5.5m metric tons during the past 20 years.
- Mexico's domestic prices reached record highs at the end of last year as a result of very tight supplies in the domestic market. However, increased imports have alleviated some of the price pressures. Nonetheless, fundamentally we anticipate prices to remain well supported through the rest of the season.
- Mexican supplies have been so tight that even imports have been seen from the US. The US has shipped both beet and cane sugar to Mexico. The USDA is expecting to export around 140,000 metric tons to Mexico this cycle.
- The USDA is expecting the US sugar supplies to be lower this cycle than last. This is the result of a lower-than-expected beet sugar production and lower imports from Mexico.

Mexico's sugar cane yields may register the lowest levels in recent history



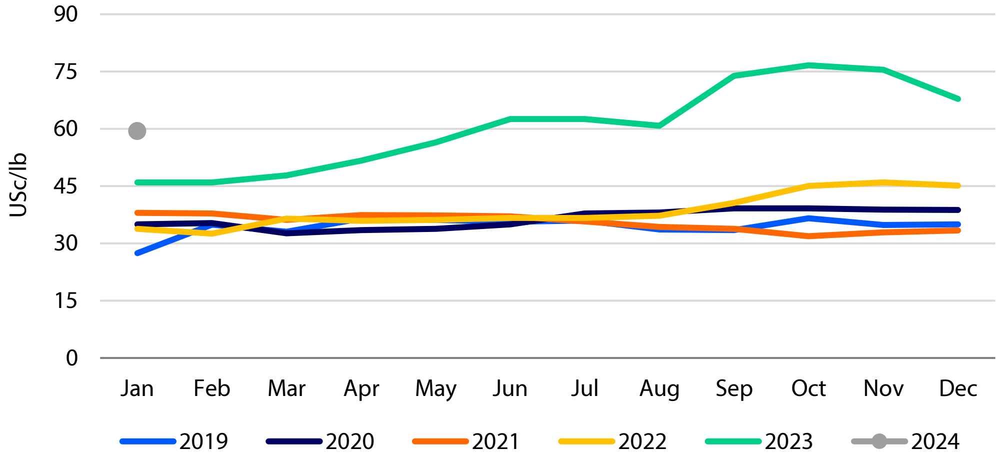
Source: *CONADESUCA, Rabobank 2024*

US sugar prices #16 have remained strong



Source: *CONADESUCA, USDA, Rabobank 2024*

Mexico's estandar sugar prices



Source: *CONADESUCA, USDA, Rabobank 2024*

Tree nuts

Strong pace in exports is the common denominator

Almonds: Total US shipments in the 2023/24 marketing season through January are up 9% YOY, with domestic shipments down 1% YOY and exports increasing 12% YOY. Total shipments as a percentage of marketable supplies (estimated crop + carry-in) are at 42%, pacing ahead of the previous two seasons. The 2023 crop could end below 2.5bn pounds. Should shipments continue at the current pace, carry-out will be at manageable levels. Prices have strengthened considerably over the past few months. Weather conditions during the pollination season are expected to be favorable.

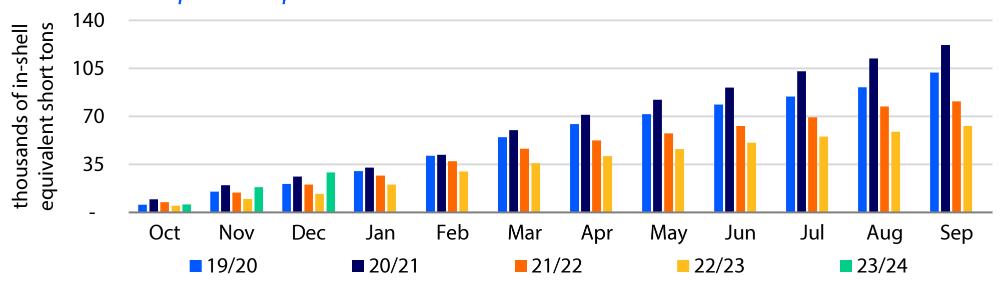
Hazelnuts: Prices have strengthened during the 2023/24 marketing season as expectations for a short global crop have increased. Growers in Oregon are likely to obtain substantial bonuses, according to industry sources. Pest pressure and damage from a recent ice storm will impact Oregon yields in 2024.

Walnuts: Shipments for the 2023/24 marketing year through December rose 25% YOY, with exports up 19% YOY and domestic shipments up 36% YOY, per industry figures. Although the USDA revised its objective estimate for the 2023 crop downward to 760,000 short tons, up 1% YOY, given a lower acreage estimate, industry sources show a record crop close to 800,000 short tons. Above-average quality this season has been driving demand. Shipments need to continue their strong pace to improve returns to growers.

Pistachios*:* At around 1.5bn pounds, the 2023 US crop is setting a record, up 69% YOY, while carry-in was roughly 164m pounds, down 54%. These changes in crop size and inventories brought supplies up 34% YOY to a historical high. Shipments in 2023/24 through December have been outstanding, up 73% YOY, with domestic shipments flat YOY and exports (accounting for 84% of shipments) up 102% YOY. Exports to China have exceeded 200m pounds, up from 79m pounds at this time last year, while exports to Europe have also increased considerably. Prices have improved since the start of the season due to the strong shipment pace, according to some sources.

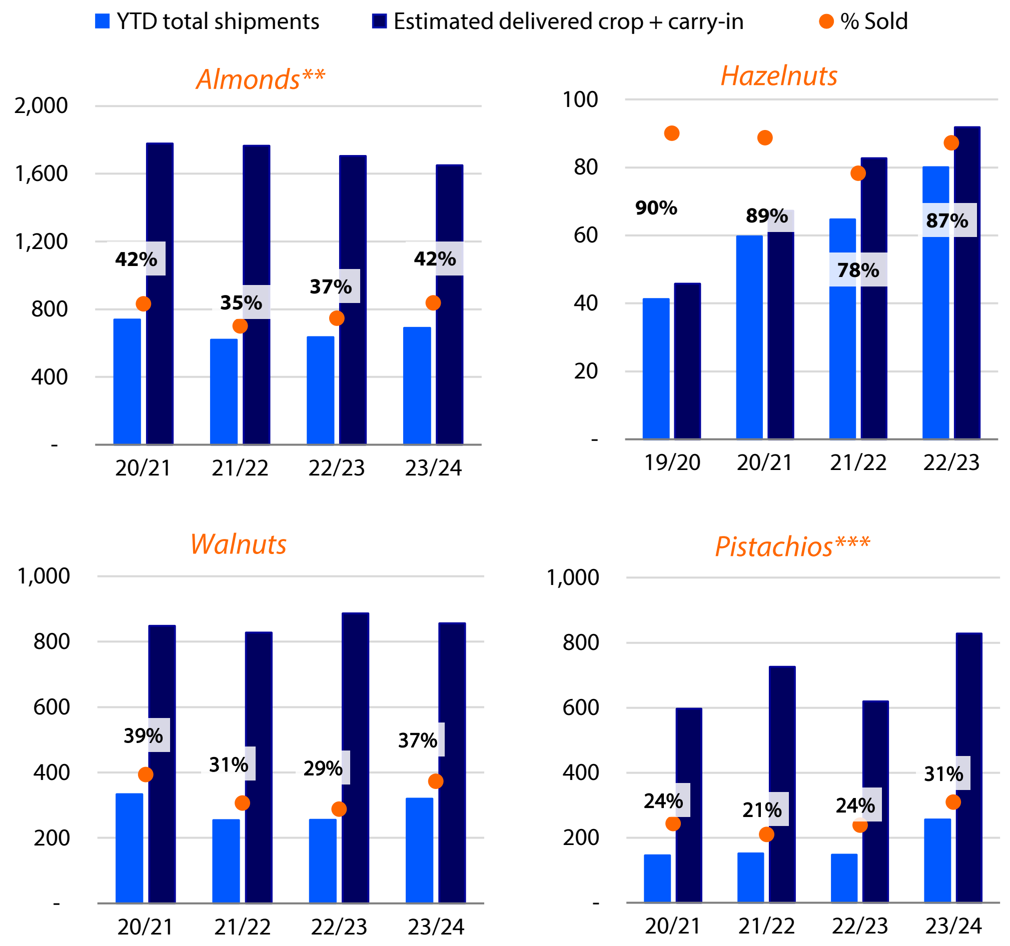
Pecans: US pecan export volumes in the 2023/24 marketing season through December were up 115% YOY to a multi-year high, as in-shell exports to China increased substantially, according to USDA figures. A relatively short US crop and a strong export pace are expected to support prices.

Cumulative US pecan exports



Source: *USDA FAS, Rabobank 2024*

*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 2024.* Through January 2024, 2023/24 marketing season for almonds; through December 2023, 2023/24 marketing year for walnuts and pistachios; June 2023 for hazelnuts (latest data available); **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

Leafy greens show reduced price volatility given steady supplies

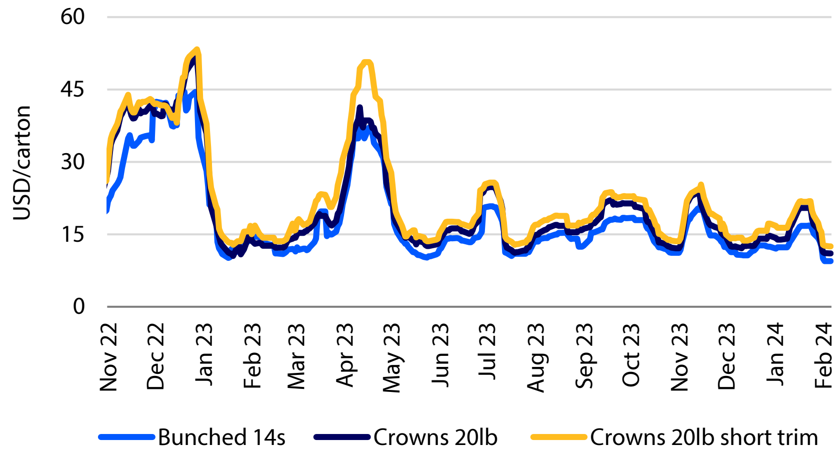
Fresh fruits and vegetables experienced a strong 2023 at retail despite many headwinds, according to the IFPA. As inflation cedes, consumers are starting to feel more optimistic. The IFPA stated that the fresh produce department has emerged as the strongest perimeter department. With Easter coming early this year, demand during Q1 2024 is expected to be strong.

Potatoes: US fresh potato shipments reached almost 7.3m cwt in January 2024, a 16.2% YOY increase. The largest volume increases came from Idaho, Wisconsin, and Michigan, according to NAPMN. US fresh potato exports were up 6% YOY during Q4 2023, with exports to Mexico increasing 51% YOY, per USDA figures. Mexico is likely to surpass Canada as the largest destination for US fresh potatoes as early as 2024.

Leafy greens and brassica: No major weather events have been reported in the major producing regions. Supplies of lettuce and broccoli have been steady, and prices have remained relatively flat. At about USD 13 and USD 16, romaine 24s and hearts (12x3) are up 11% and 1% YOY, respectively. At about USD 14, the price for iceberg wrapped 24s is down 15% compared to the prices a year before. At USD 12 per 20-pound carton, the broccoli crown price is down 16% YOY during the first half of February (see figures). Production transition to the central coast in California is likely to happen without major disruptions.

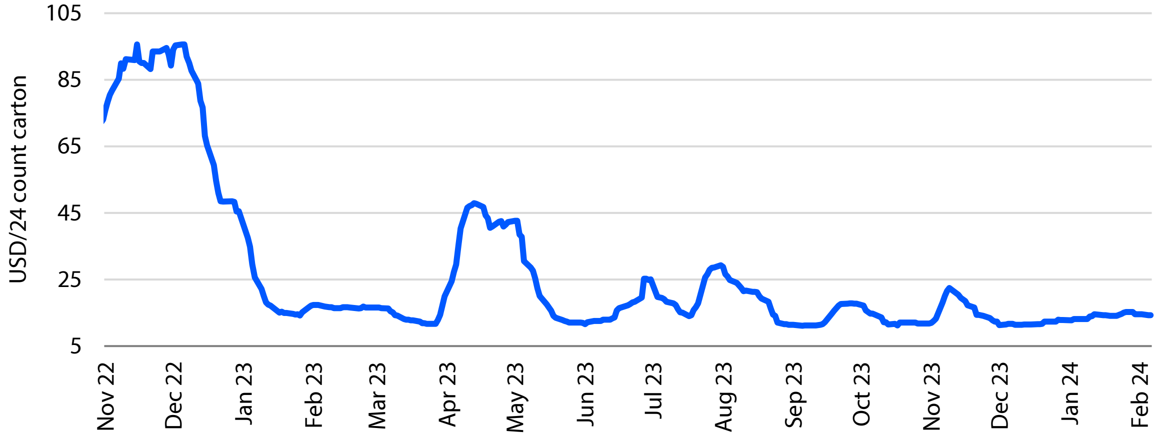
Sweet potatoes: Industry sources report that production in North Carolina was down more than 30% YOY. By mid-February, shipping point prices in North Carolina are up around 6% YOY, while in California prices are about USD 29 per carton for orange types US No 1 grade, which is at level with prices a year ago, according to the USDA.

Broccoli – US daily shipping-point price, 2022-2024



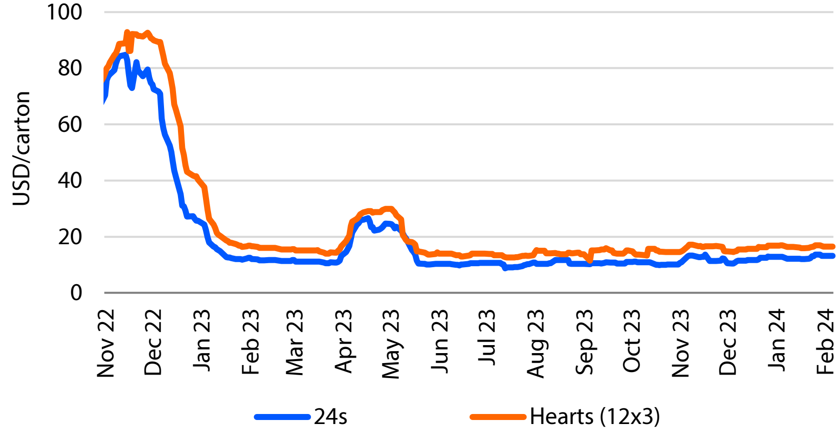
Source: USDA AMS, Rabobank 2024

Wrapped iceberg lettuce – US daily shipping-point price, 2022-2024



Source: USDA AMS, Rabobank 2024

Romaine lettuce – US daily shipping-point price, 2022-2024



Source: USDA AMS, Rabobank 2024

Wheat

Better crop conditions but lower domestic demand

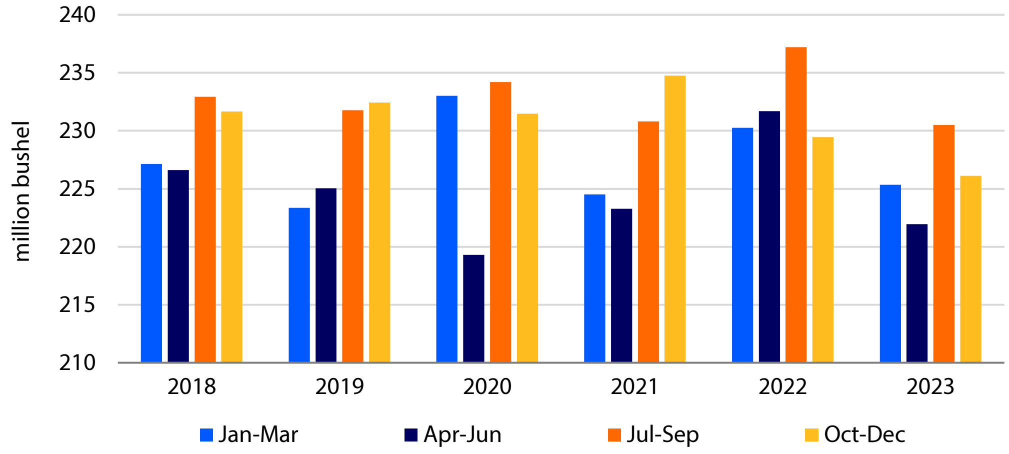
- **Production:** The January report on winter wheat seeded area came in ~2.3m acres lower compared to last year. The top ten producing states, that represent ~78% of total seeded area, saw a decline in seeded area of a total of 1.6m acres, or 70% of the total winter wheat area decline. In addition, all winter wheat classes were down from last year. Heading to spring, spring wheat planted area is expected to be relatively flat compared to last year.

- **Flour production:** Wheat milled for flour production ended 2023 down 3% compared to last year. Weak demand has prompted millers to reduce wheat milling, resulting in the lowest wheat milling in the last quarter of 2023 since records began in 2014. Slow demand due to manufacturer coverage through March of this year has slowed down business, but focus over the remainder of the year should increase demand and pick up wheat grinding in the coming quarters.

- **Exports:** All wheat exports have turned positive compared to last year and are likely to meet the USDA estimate of 725m bushels, despite what is considered one of the lowest pace of wheat exports over history. Although all wheat exports as of February 1 are 6% ahead of last year's volumes, pushed by China's flash purchases, new sales have slowed significantly, making it unlikely that the USDA estimate will increase from its current level. However, for the whole marketing year, exports are expected to be down ~4.5% from last year to a total of 725m bushels. Wheat exports by class show that hard red spring and soft red winter wheat have seen growth compared to last year. Drought impacts in northern Africa could potentially lead to renewed sales of wheat to Africa, however, US prices remain elevated compared to other world exporters.

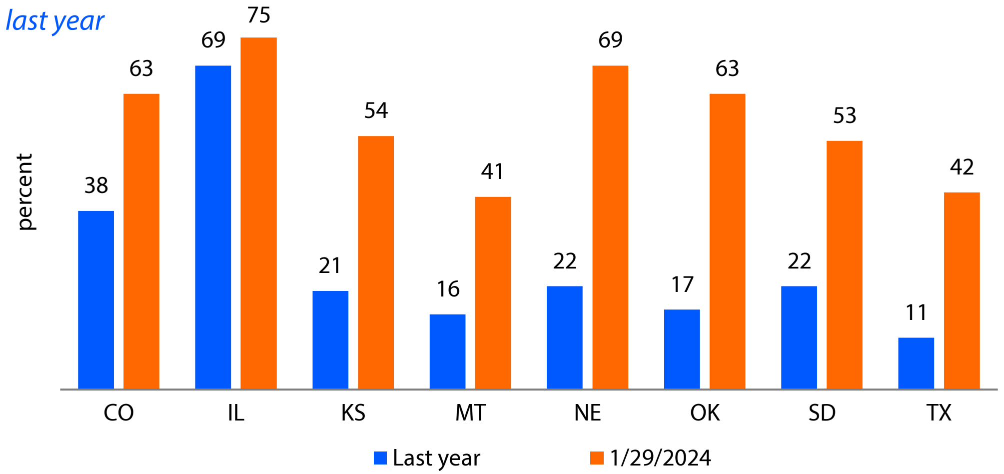
- **Prices:** Wheat export basis from the Gulf-Texas remains relatively below to last year's basis and well above the long-term average since 2007. Basis in the interior continue to weaken relative to February of last year as export volumes and domestic demand remain lower than last year. Despite a decline in winter wheat acres, prices continue to be pressured, especially driven by better crop ratings that should translate into better production as drought areas from last year improve.

Wheat milled used for flour production by quarter and year



Source: *USDA ERS, Rabobank 2024*

Good to excellent winter wheat crop ratings for selected states versus same time last year



Source: *USDA ERS, Rabobank 2024*

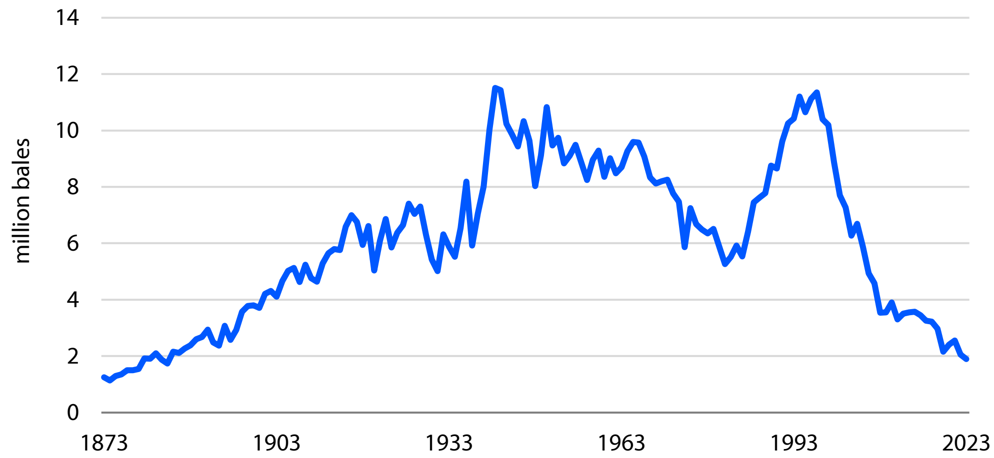
Cotton

Moribund domestic demand poses long-term challenges

US domestic mill use of cotton has been on the decline since the enactment of NAFTA in the mid-90s, a trend perpetuated by China's accession to the WTO in 2001. However, it has remained an important component of US cotton demand throughout that transition. Covid-19 brought about new headwinds, including the recognizable challenge of reduced demand for professional apparel. That said, it also exacerbated a more insidious challenge for the US textile value chain: Increased direct-to-consumer clothing purchases from overseas that can escape tariffs because of de minimis provisions. Reduced demand for US-made clothing leads to reduced demand for domestically spun cotton, which fell below 2m bales in 2023 for the first time since "The Panic" of 1884. Although the US cotton industry has adapted by turning to the export market, the demise of domestic milling leaves the sector more exposed as a competitive Brazilian sector emerges on the world stage.

With cotton having been under pressure for the past 18 months, only the most committed producers – those with large investments in harvesting equipment and/or ginning capacity – raised a crop in 2023, limiting downside for the year ahead. Early surveys point to acreage holding steady in 2024, although we could see further upside in the National Cotton Council survey if the recent rally in cotton futures holds.

US domestic cotton mill use

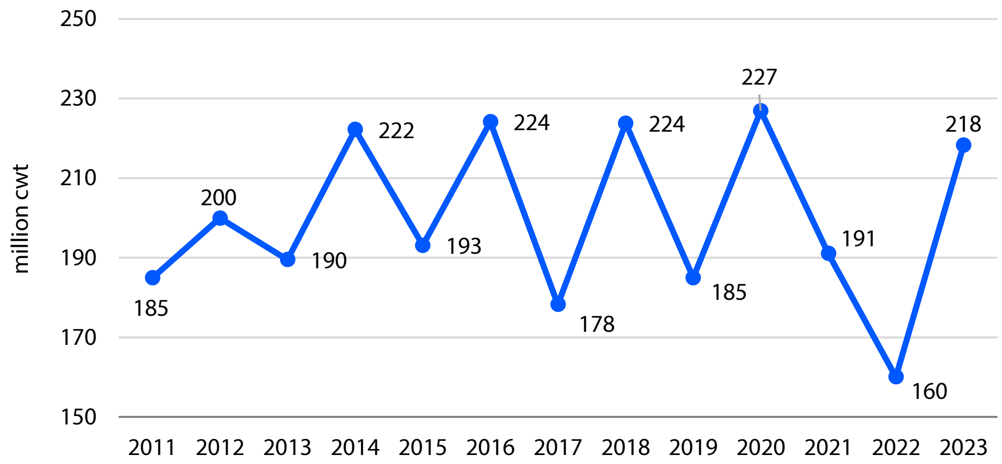


Source: *USDA 2024*

Rice

- **Production:** Rice production has recovered from last year's decline due to better acreage and stronger prices for producers. While last year's drought and lower acreage, lowered production, 2023/24 is expected to see a 36% rebound in production from last year and a 7% increase relative to the ten-year average. While not a record crop, this level of production returns production to the historical range of 190m cwt to 224m cwt. Whereas last year, production fell well below that range at160m cwt.
- **Import:** Despite a prompt supply-side recovery, import levels continue to reach record volumes as imports of aromatics continue to find their way to consumers. The concentration of imports from Thailand and India, along with the increased imports of aromatic rice, has been reflected in record import volumes. A trend that has strengthened since the onset of Covid-19 and is likely to persist.
- **The season average farm price (SAFP)** was unchanged compared to last month, but is USD 1.40 per cwt lower compared to last year, or down 7%. However, despite last year's record price, the 2023/24 marketing year would be the second highest price on record.

Historical US all rice production since 2011

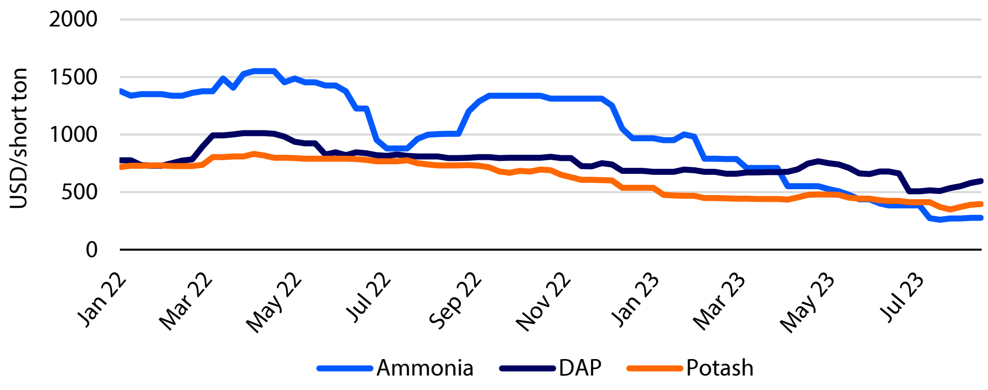


Source: *USDA NASS, USDA ERS, Rabobank 2024*

Input costs

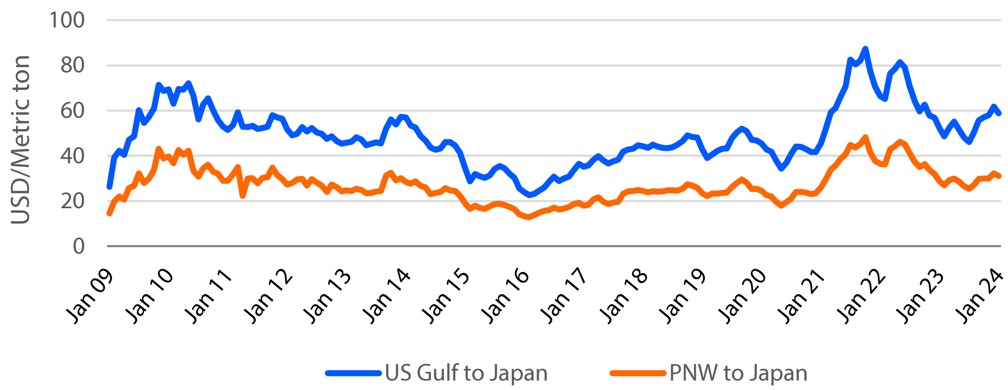
As of February 15, 2024

Corn Belt input prices*



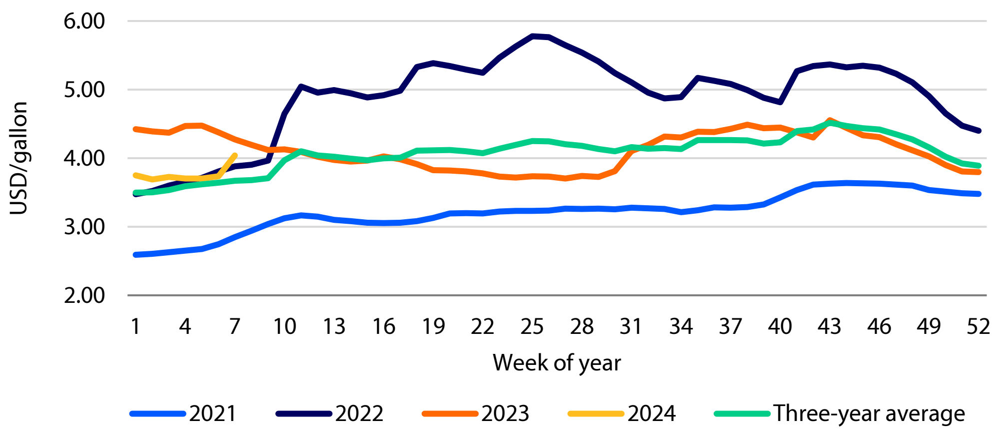
*** Note:** *granular potash*
Source: *Bloomberg, Rabobank 2024*

Ocean freight



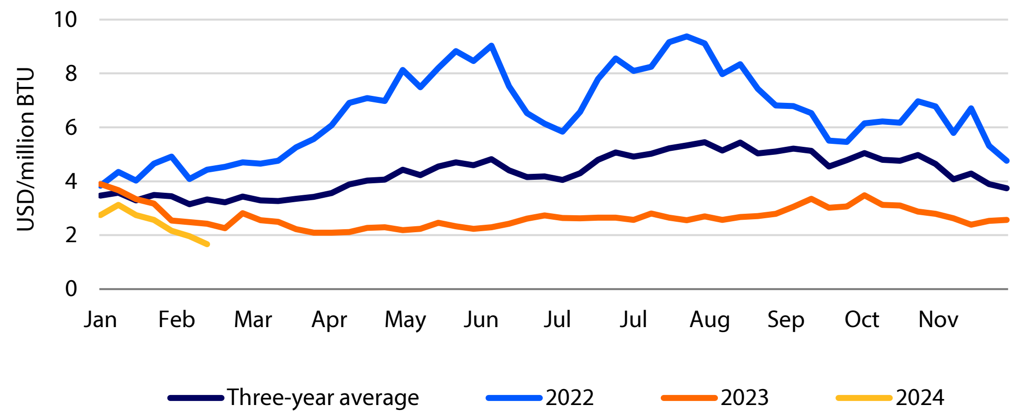
Source: *O'Neil Commodity Consulting, USDA AMS, Rabobank 2024*

Diesel – Midwest



Source: *EIA, Rabobank 2024*

Natural gas spot



Source: *NYMEX, Rabobank 2024*

Forward price curves

As of February 14, 2024

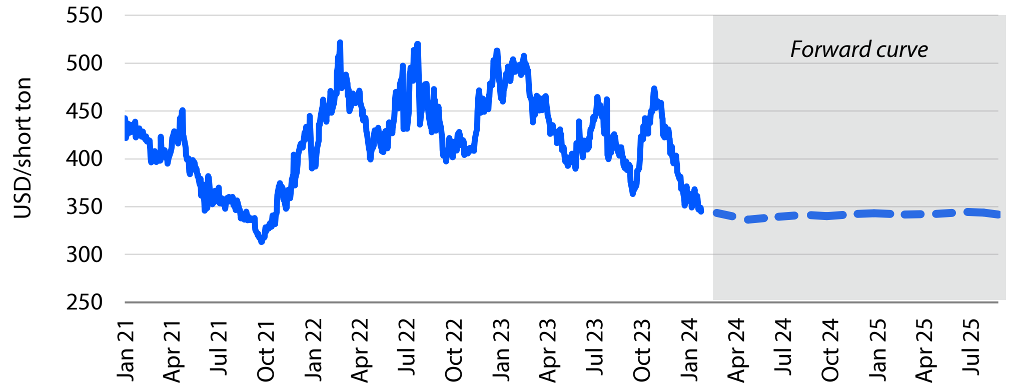
CBOT – Corn

Source: *CBOT, Rabobank 2024*

CBOT – Soybeans

Source: *CBOT, Rabobank 2024*

CBOT – Soymeal



Source: *CBOT, Rabobank 2024*

CBOT – Soy oil

Source: *CBOT, Rabobank 2024*

Forward price curves

As of February 14, 2024

CBOT – Wheat

Source: *CBOT, Rabobank 2024*

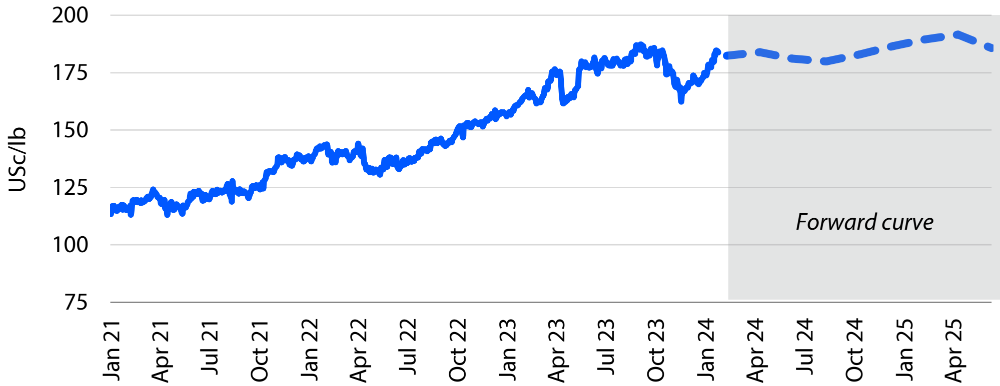
CBOT – Feeder cattle

Source: *CBOT, Rabobank 2024*

CBOT – Lean hogs

Source: *CBOT, Rabobank 2024*

CBOT – Live cattle

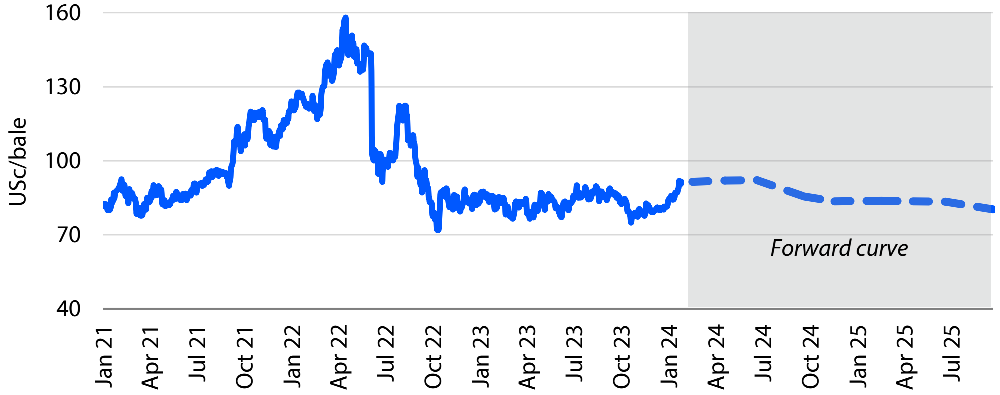


Source: *CBOT, Rabobank 2024*

Forward price curves

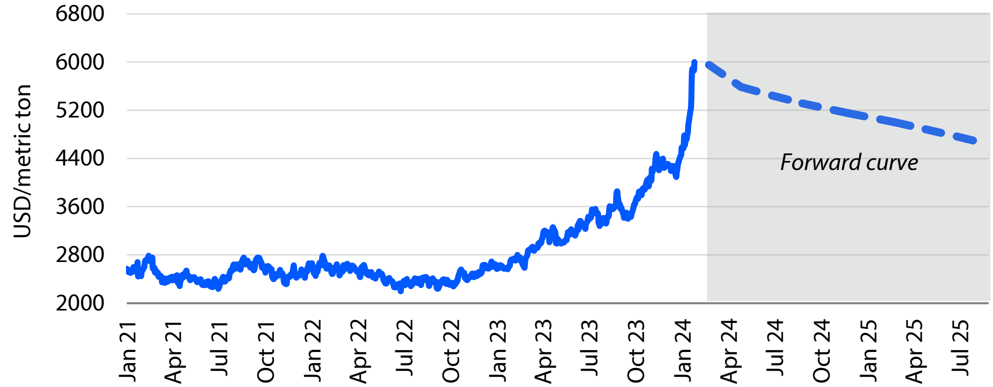
As of February 14, 2024

ICE – #2 Cotton



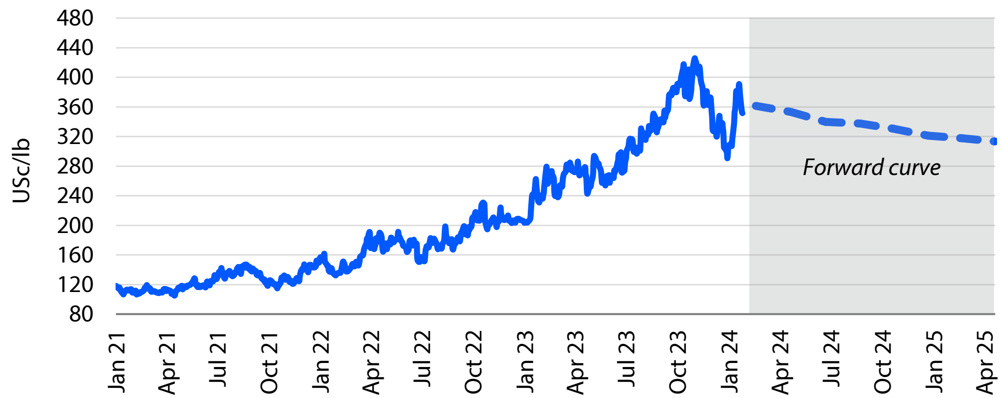
__Source:__ ICE, Rabobank 2024

ICE – Cocoa



__Source:__ ICE, Rabobank 2024

ICE – FCOJ



__Source:__ ICE, Rabobank 202r

ICE – #11 Sugar

__Source:__ ICE, Rabobank 2024

RaboResearch Food & Agribusiness

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