North American Agribusiness Review

Rabobank

RaboResearch
Food & Agribusiness

February 2021

Report Summary

Report Summary

US

- The two Democratic victories in the Senate run-off elections in Georgia on January 5 have opened the door to expansive fiscal policy in the next two years. In the near term, this means a substantial additional Covid relief package. But it also means an expansive fiscal policy in the next two years, aimed at stimulating economic growth. Biden wants to invest more in education, R&D, and infrastructure. The Democrats want to pay for this partly through higher taxes. On balance, the budget deficit is likely to increase further. But our calculations show that Biden's plans could provide a substantial impulse to economic growth, also in the long run. For now, we expect the US economy to grow by 4.5% in 2021. However, the question is how many of Biden's plans are going to be realized. After all, the Democratic majority in the Senate is minimal. In case of gridlock we would have to revise our forecasts downward again. Meanwhile, the Fed is likely to keep monetary policy unchanged as long as fiscal policy is sufficient to sustain the recovery.

Mexico

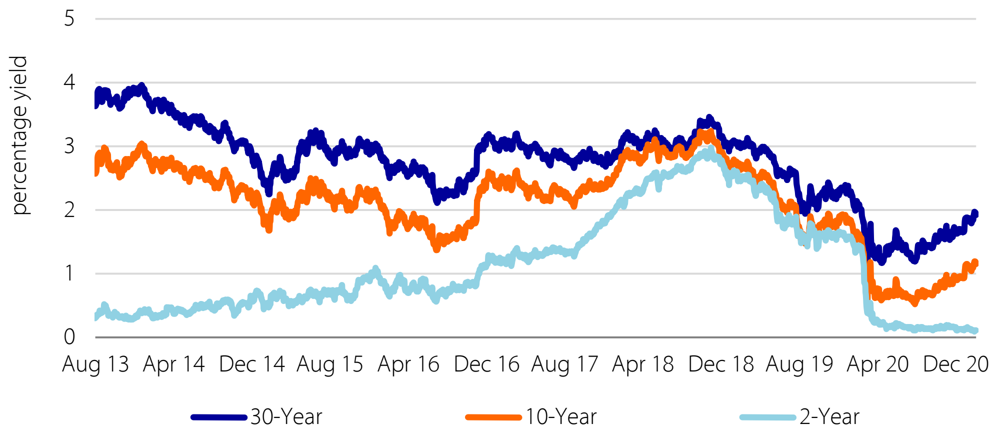
- As long as risk remains bid, the outlook for MXN remains constructive and we see USD/MXN primarily trading within a 19-20 range over the next one to three months. As we head into the second half of the year, there is the potential for the current 'risk-on, risk-off' dynamic to shift towards greater differentiation between currencies as fundamentals come to the forefront, and once we have a clearer idea of each individual country's recovery path. In this respect, MXN could come under pressure heading into 2022. The economy will have contracted close to double digits in 2020 and yet we see 2021 growth of just 4%, with the risk firmly skewed to the downside. We don't expect Mexico to recoup lost GDP until late 2023 pushing into 2024. We expect USD/MXN to increase to ***21.00*** at the 12-month horizon.

Canada

- The Bank of Canada maintains a very loose monetary policy stance and we don't expect any changes in the short term. On the fiscal side, Canada had more room to loosen than most and Finance Minister Chrystia Freeland reiterated this at the CAD 51.7bn mini-budget presented on November 30 where she made clear her view that spending too little is worse than spending too much. One thing remains clear, this is not the end of Canada's loose fiscal stance. In terms of USD/CAD, we expect the pair to trade a 1.285 to 1.315 range in the first quarter of 2021. We expect USD/CAD around 1.29 at the 12-month horizon.

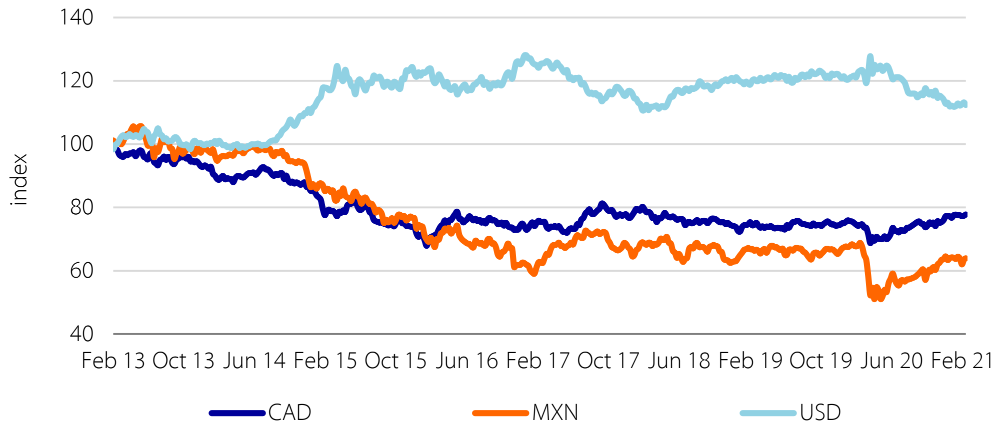
Source: USDA, Rabobank 2021

Interest rates, 2013-2021



Source: Federal Reserve of St. Louis 2021

Currency indices, 2013-2021



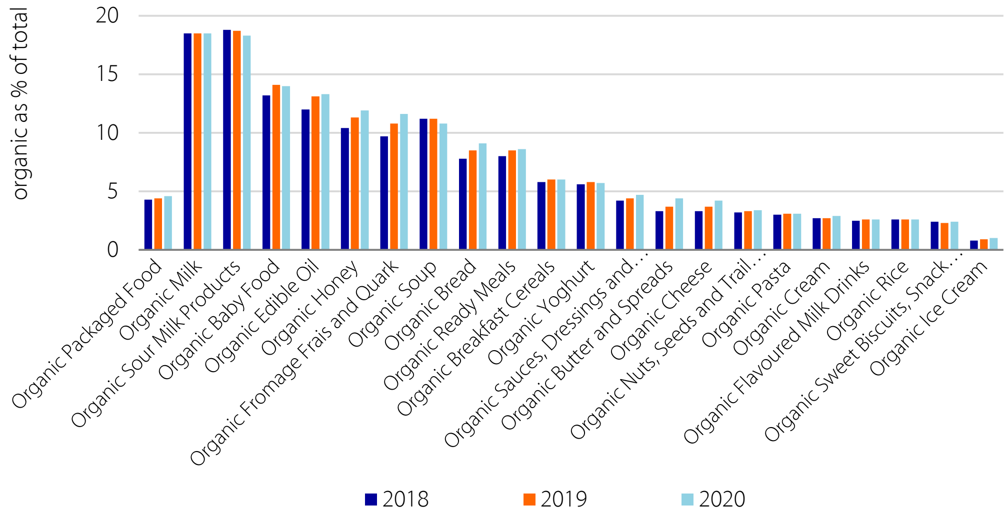
Source: Bloomberg 2021
Note: Rebased at 100 as of January 1, 2013

Consumer Retail & Foodservice

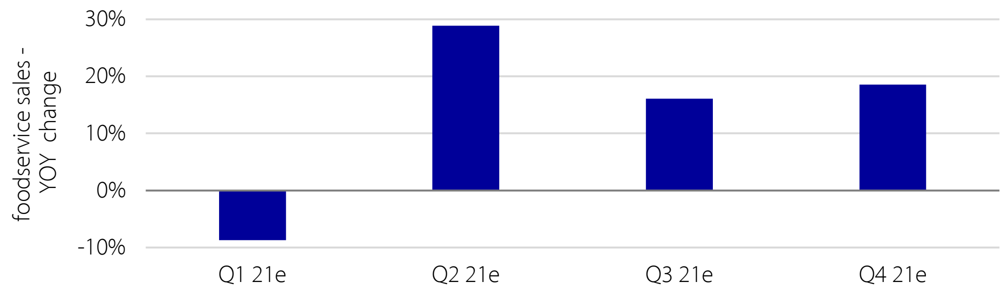
Food retail trends poised to stay elevated even as foodservice sales rebound

- Food consumed at home sales increased by 11.7% in 2020, the strongest growth in over 40 years and over 2x relative to average growth over the last five and ten years. In fact, food-at-home's share of total food expenditure rose to 58.1% in 2020 – more than 10 percentage points above pre-pandemic levels and the highest since 1985 – as Covid-19 led to significant changes in consumer behavior and food buying patterns. More importantly, we expect this food retail momentum to continue with above-average growth even in 2021, likely raising additional capacity-related questions for not just the food manufacturer (e.g., raise capex or lean more on contract manufacturers) but also for their upstream suppliers.
- In the near-term, food retail will benefit from:
  - ✓ Renewed restrictions on non-essential activities, particularly dine-in in restaurants, with the recent re-surge in Covid-19 cases and the initial hiccups in vaccine rollout.
  - ✓ Pantry re-loading – both at consumer and retailer levels – as recent comments by several food manufacturers and retailers suggest that retailer inventories are still at relatively low levels in many categories.
  - ✓ A relatively muted promotional environment as price-cuts/deals/discounts are still not as deep as pre-pandemic levels even as frequency of deals has returned to historical levels.
  - ✓ Likely consumer shift to more eating at home in response to weaker macro environment.
- In the longer-term,
  - ✓ Food/beverage products with functional and health benefits will attract greater attention as focus on health/wellbeing will remain high even after the current pandemic subsides. For instance, despite a severe economic slowdown, organic's share of most food categories increased/remained steady in 2020, as a growing cohort of consumers increasingly see their food choices as a key driver of personal and environmental wellbeing.
  - ✓ Working-from-home is likely to stay elevated and become more pervasive, even as current restrictions are completely lifted, which, coupled with higher ability/willingness to cook at home, may structurally lift the growth outlook for certain categories (e.g. lunch).
  - ✓ Accelerated e-commerce penetration as brick-and-mortar retailers continue to refine their 'online' business model and product assortment. While the 'incrementality' of this shift remains largely uncertain for now, we believe that the expansion of the 'limitless shelf' will have a significant impact on intra-category competitive dynamics, potentially to the detriment of current share leaders.
- Despite hitting an air-pocket due to Covid-19's second wave, we still expect US foodservice sales to post double digit growth in 2021, with strongest YOY growth in Q2 2021, given easiest year-ago comparisons (-37%), pent-up consumer demand (as evidenced by strong off-premise sales, higher capacity utilization), easing government mandated restrictions with the vaccine roll-out, and a spending boost from the second, and, potentially, a third round of stimulus checks.
- That said, even with the expected recovery, US food-away-from-home sales will likely be 5%-10% below 2019 levels. Moreover, recovery is likely to be asymmetric as various segments of the US foodservice industry will recover at different levels, and at different speed, given the likely prolonged period of economic recovery and pandemic-driven changes in consumer spending patterns long after health risks fade away.

Organic share in packaged food has grown to 4.6% in 2020 (+0.2 pp)



Foodservice growth expected to be strongest in the second quarter



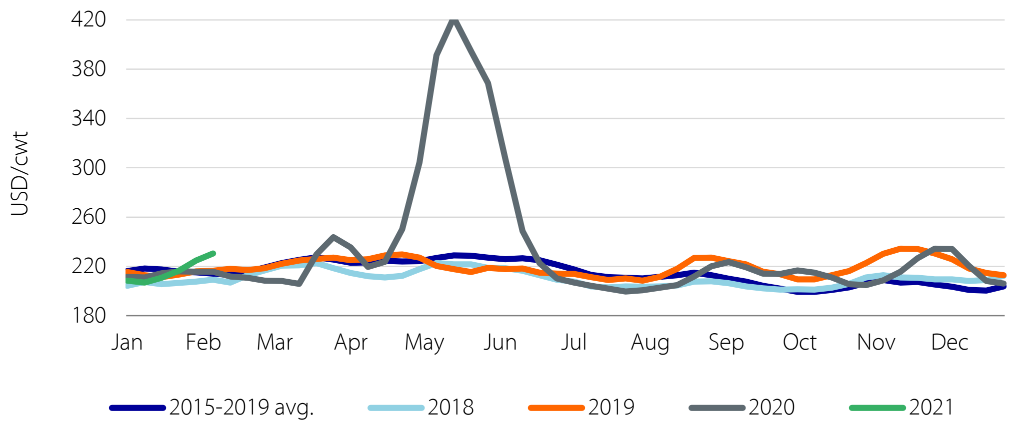
Source: Euromonitor; US Bureau of Labor Statistics, Rabobank Estimates 2021

Cattle

It's complicated

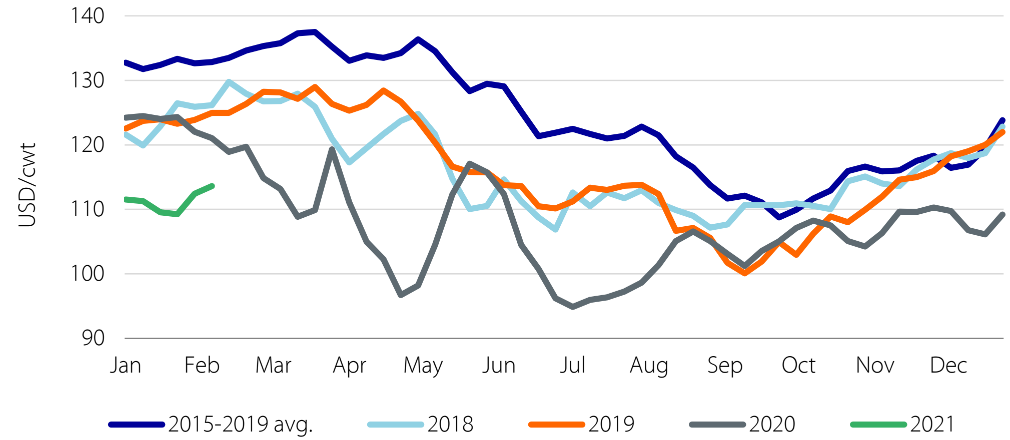
- ***The large supply of Q3 2020 placements hit the market with the new year and will continue to provide large fed supplies through Q1 and early Q2.*** Through January, slaughter has consistently been +2%-3% YOY. Weekday slaughter is near capacity and packers are meeting weekly requirements by extending Saturday slaughter schedules. The glut of fed cattle and subsequent marketing delays have driven fed cattle carcass weights +20-25 pounds above year-ago. Through January, beef production is +3.5% YTD vs 2020. Large beef supplies will continue through Q1.
- ***Comprehensive cutout has posted an incredible contra-seasonal January rally to gain over USD 20/cwt since the start of the year.*** Despite full-service dining challenges, several factors have combined to generate record beef demand throughout the pandemic. Federal fiscal stimulus direct to consumers has been a major contributor. As winter turns to spring grilling season, the cutout should remain strong. April Comprehensive cutout will likely trade from USD 240 to USD 245/cwt. If the distribution of a new stimulus package coincides with grilling season, USD 250/cwt is certainly possible.
- ***Fed cattle prices will depend on leverage and currentness.*** Through the first week of February, 2021 fed steer prices have averaged roughly 49% of Comprehensive cutout plus drop credit. For cattle feeders to gain a larger share of wholesale prices, slaughter numbers and carcass weights will have to subside substantially. That may not occur until mid-Q2. Thus, April fed steers should trade between USD 118 and USD 123/cwt live .
- ***Feeder cattle market pressured by cost of gain.*** The CME Feeder Cattle Index has been trading in a steady seasonal pattern in the mid- USD 130s/cwt, although about -7% YOY. On the other hand, feeder cattle futures have been playing pinball between concerns regarding high corn prices and deferred live cattle optimism. Feeder cattle on small grains pasture was +7% YOY in the recent cattle inventory report, suggesting ample supplies of feeder cattle to be marketed in March through May. Combined with COG, this supply will likely cap the CME Feeder Cattle Index near USD 140/cwt through March and April.
- ***Calf prices to stay on seasonal trend.*** With recent trade in the upper- USD 160s/cwt, a 2020 calf-crop down 456,000 head YOY, and optimism for late-year Covid recovery, will continue to add support. April 550-pound calf prices could land above USD 175/cwt.
- ***Cow slaughter is running on par with year-ago levels, with January breaking/boning prices in the upper- USD 50s/cwt to low- USD 60s/cwt.*** The seasonal trend suggests room to add USD 5 to USD 10/cwt over the next couple months, although drought concerns may add a few more culls to the mix.

Comprehensive cutout, 2018-2021



Source: USDA, Rabobank 2021

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



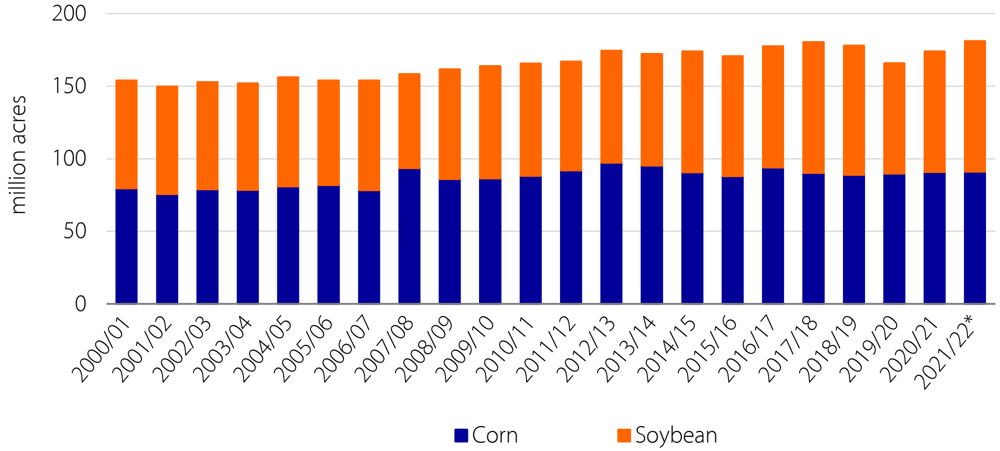
Source: USDA, Rabobank 2021

Corn

The market continues to evolve

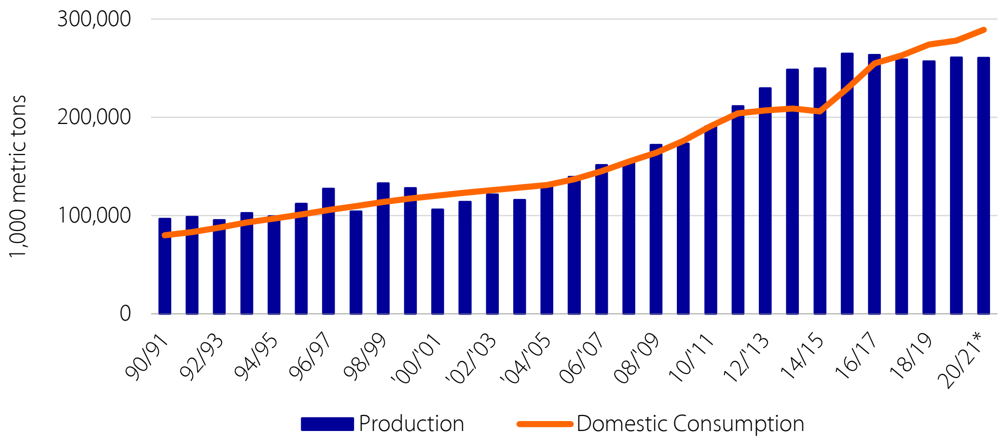
- ***The story around the corn market continues to evolve.*** This has been a supply- and a demand-led rally, a powerful combination. While Chinese imports of US corn are record, the big change has been the downward revision in 2020 production, the impact on the balance sheet, and the resulting upward price pressure on futures. Corn futures' upward march has also been aided by the soybean market's rally. Corn has to keep up or lose acres to soybeans. All these factors and more are providing a supportive environment for corn prices over the next two to three years.
- ***The biggest change in the corn market has been the downward revisions in 2020 corn production,*** which has resulted in a decline in 2020/21 projected ending stocks to 1.502bn bushels and a stocks-to-use ratio of 10.3%. While 1.502bn bushels is sufficient stocks, the market has had to deal with new realities versus expectations. First, 2020/21 ending stocks hit a projected high water mark of 2.756bn bushels in August of last year. At 1.502m bushels, projected 2020/21 ending stocks have declined 1.254bn bushels, or 45%, in six short months. Second, the stocks-to-use ratio was 18.7% in August and it now stands at 10.3%. This rally is not only a result of shrinking stocks, but a huge demand base that needs to be fulfilled. Price and stocks-to-use ratio are negatively correlated. As the stocks-to-use ratio declines, prices increase. Last August's ratio was on the far right end of the curve where prices are low. Current projected stocks-to-use ratio is in the middle of the upward moving price curve and moving higher. The rally will accelerate at the stocks-to-use ratio approaches 8% – stay tuned.
- ***The corn market is fighting for acres*** not just against soybeans, but against many crops that are also hitting multi-year highs. Rabobank's recently updated baseline outlook puts 2021 planted corn acres at 91.0m acres as compared to 90.8m last year. Based on the ten-year baseline forecast, corn acres remain stable between 89.0m-91.0m.
- ***Brazil's 2021 corn production*** is projected at 109m metric tons (mmt) versus 101-102 mmt the last couple of years. However, Brazilian production may not reach that production. Drought is likely to limit yield of the first corn crop. In addition, delays in soybean planting and harvesting will delay planting and harvesting and limit yield potential of Brazil's safrinha crop. In addition to a potentially smaller crop, a delayed harvest opens the door for a longer window for the US to export corn into the world market
- ***China continues to be the headline market factor.*** For the crop year through February 4, 2021, accumulated corn exports to China are 6.5mmt (256.0m bushels). Add 11.2mmt (441.2m bushels) outstanding sales, and US corn shipments to China will be by far a record. China's corn demand is not expected to go away anytime soon. The 'why' is coming more into focus; (1) more western-style hog production demands a more western-style feed ration containing corn and soybean meal, (2) garbage feeding to hogs is banned, (3) a desire to rebuild inventories, (4) lack of quality domestic substitutes as both wheat and rice stocks are in poor condition, and (5) an inability for domestic production to meet domestic demand. Our analyst in China is saying China is not likely to be self-sufficient until 2030. Therefore, China will continue to be a good demander of corn for the foreseeable future.

US corn and soybean acres are likely to be record in 2021



Source: USDA-NASS, Rabobank 2021

China's corn deficit continues to grow and won't change anytime soon



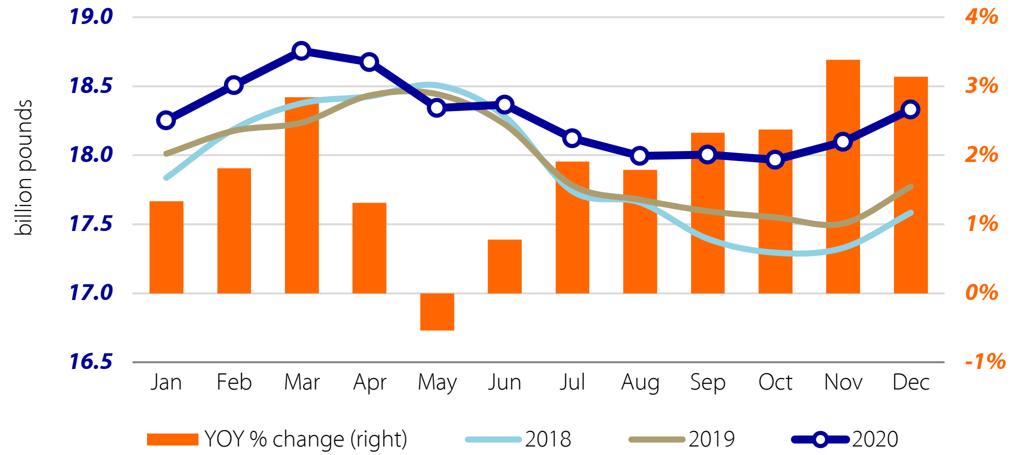
Source: USDA-PSD, Rabobank, 2021

Dairy

Milk production builds momentum from climbing cow numbers

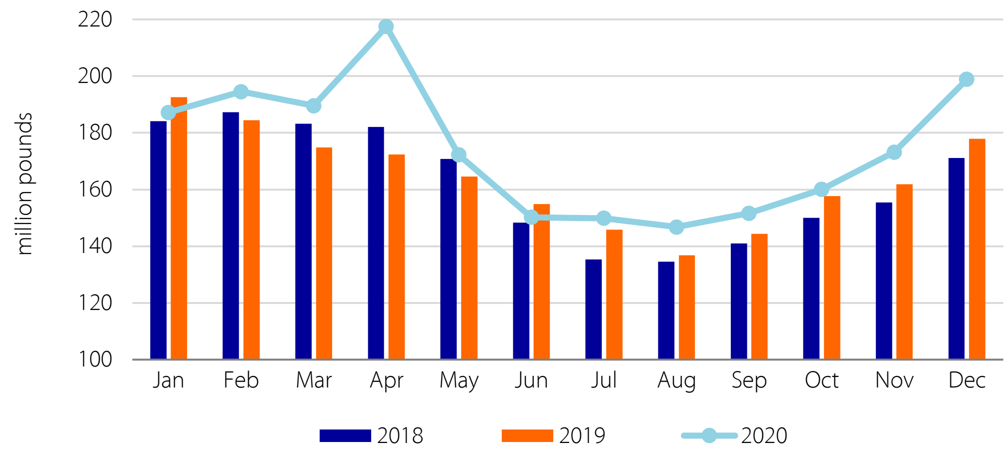
- Milk production numbers continue to show substantial gains. December marks six straight months of above-trend growth. Production gains accelerated heading into November and December, with rates increasing over 3% YOY. The production increases are a function of more milk per cow, as well herd expansion. The January Cattle report from the USDA indicated the US milk cow herd stood at 9.44m head, the largest level since the 1990s.
- In response to the strong growth and slower winter demand, milk buyers are reportedly re-implementing base programs that penalize (often steeply) production increases. These programs contributed to the sharp slowdown in milk production experienced in May 2020. The response this time around won't be as dramatic, but it may help pull production gains back to a more normal range. Still, expect strong YOY percentage gains to appear in Q2 since the comparable period in 2020 was the most dramatically impacted by Covid disruptions.
- Domestic consumption is still skewed toward retail over foodservice, particularly entering the winter months with rising Covid case numbers and cold temperatures limiting outdoor dining options in northern cities. In the four weeks ending January 10, natural cheese sales at retail were up 10.8% (in volume terms) compared to the same period a year earlier. Butter was up 17.1% for the same period.
- But strong retail sales alone aren't enough to clear butter markets. Butter production was up 12% YOY in December, but inventories are now 44% above last year and growing as of the end of December. Cheese production shifted slightly from Mozzarella in December, down 10.5m pounds YOY, and into Cheddar (up 3.7m pounds), which processors can put into aging programs.
- A new cheese plant in Michigan helps to absorb some of the milk in the region, but it is contributing to the inventory build as it ramps up production when foodservice is still sluggish. The plant, a joint venture between Glanbia Nutritionals, DFA, and Select Milk, is expected to process about 8m pounds of milk per day when fully commissioned.
- Powder markets continue to support good prices for both whey and non-fat dry milk, but product export volumes fell below year earlier levels by -2% YOY in November and December, and there are increasing reports of challenges with container availability at ports.
- Food box purchases continue at muted levels compared to last year, having limited impact on markets. Additional aid packages are in the works, but details are unknown at this time.

US milk production (30-day months), 2018-2020



Source: USDA NASS, Rabobank 2021

US butter production (30-day months), 2018-2020



Source: USDA, Rabobank 2021

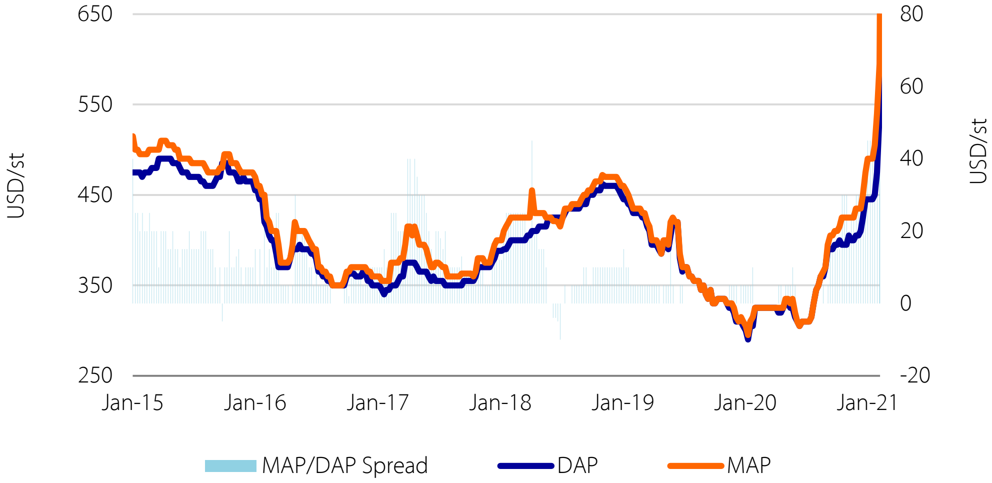
Farm Inputs

Phosphates take the early lead

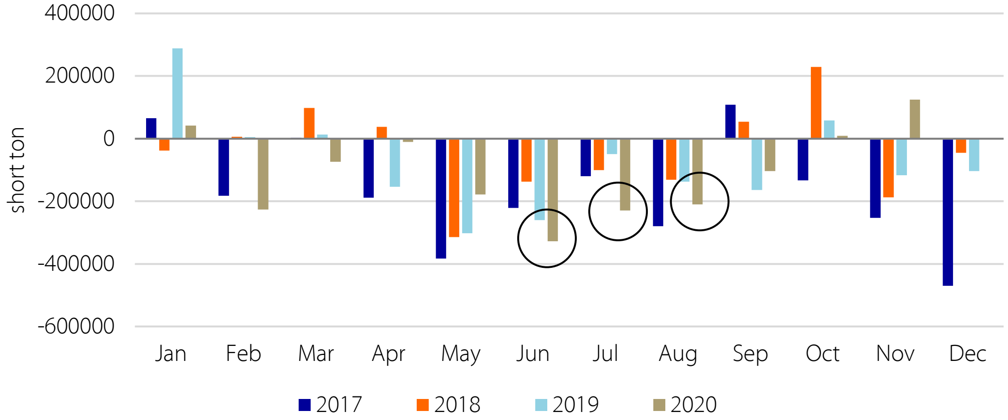
Phosphates – Prices hitting the highest point since 2012

- In our October ABR we highlighted the risk that phosphate prices may be elevated through the Q1/Q2 2021 time period as accelerating commodity prices and slow imports may weigh on market availability.
- We encouraged producers to look to fall applications, as shortages may prevail in the spring window, and highlighted the spread between MAP and DAP as a growing concern ahead of our anticipation of increased soybean planting in the 2021 season.
- Our fears and concerns were met with parabolic price rises that surpassed industry expectations. P prices have risen almost 50% in that time period and the spread between MAP and DAP prices has risen by USD 50/st.
- With P prices now at the highest levels in NA since 2012, we wanted to take a little extra space to explain the context of these events and to offer views over the coming months.

Parabolic price movement of P reflects demand, scarcity and desperation in the short run.



Net phosphate import levels drained the US market ahead of improved commodity prices



Phosphates – What goes up…should come down.

- The starting gun for phosphate prices was fired in the June time period. The CVD petition was met with net imports (imports – exports) of P being significantly below year-ago levels through the June, July and August timeframe. From the August timeframe onward, corn/soybean prices began to rise, reframing the domestic input demand dynamics.
- Strong international demand compounded the issue, while lower global phosphate utilization rates tightened the markets further. This left a rush on product to meet Northern Hemisphere spring demand and 'structurally irrational' price movements.
- The seasonal component gives precedent to suggest that prices will likely remain at an elevated level over the coming weeks and months. However global utilization rates are likely to increase over the coming Q2/Q3 time period and we could see prices level off and potentially lower in that time frame.
- Elevated corn and soybean prices, along with the recent CVD ruling, are likely to provide a price floor to North American P prices. However, with product producers booked out through at least April, we will have to look to the prices lowering in the second half of the year.

Source: Bloomberg, CRU, Rabobank 2021

Farm Inputs

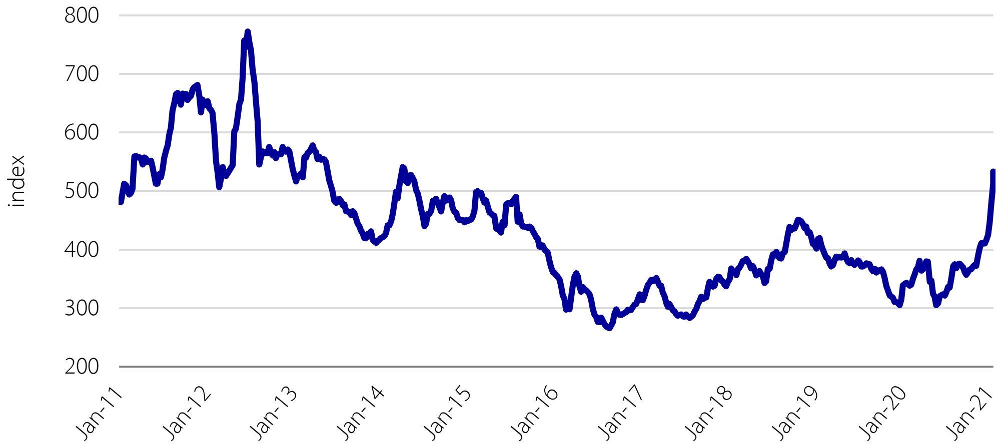
Nitrogen plays catch-up

Rabobank

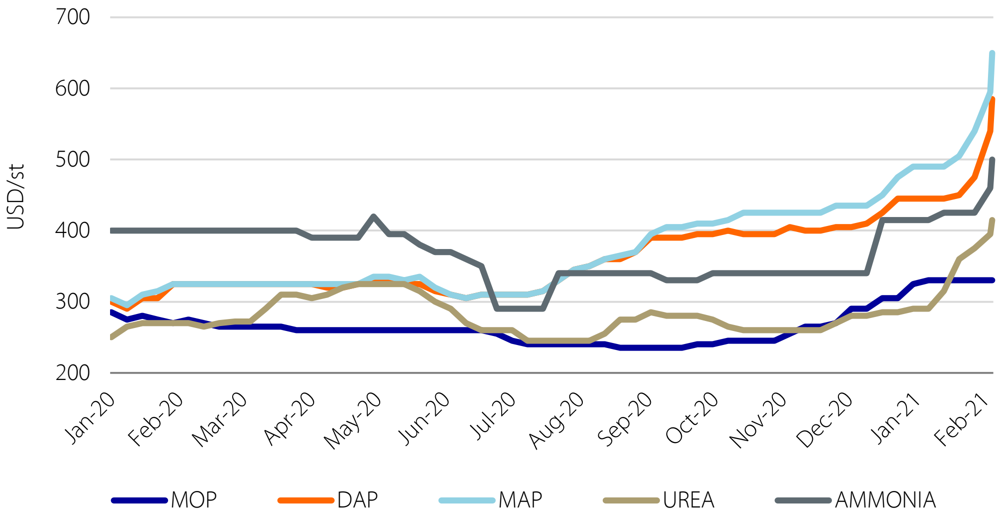
Fertilizers – Index prices hit the highest level since 2014

- Phosphates took the early lead in pushing the index, but the other macronutrients soon followed suit. There remains upside risk to pricing in the near term as improved farm economics are likely to see ample demand for spring applications.
- Urea in particular is likely to see further price movement as higher corn prices improve appetite for demand, assuming we get a regular planting season. Improved downstream demand in China, as well as improved domestic demand and higher input costs, could see Chinese exports lower or delayed through 1H, putting further upward pressure on US prices.
- The timing of price rises and subsequent re-sets is a moving target through the second half of the year as new capacity slated to come on line (globally) could created some pricing weakness in Q4. This is unlikely to impact spring prices, but there may be no need to get ahead of purchasing in urea when thinking beyond spring applications.

NPK Index driven by improved farm economics and tighter supplies



Not just phosphates making the moves



Options open to farmers, one eye on 2022

- Potash has been the least dynamic of the inputs. Nonetheless, prices have risen ~30% since the August timeframe, again, on improved farmer margins and demand. With domestic producers of potash booked out through April, there are concerns that prices could rise further into the summer fill and fall application window.
- While we anticipate that farmers will be firmly eyeing consideration for the upcoming planting season, possible potash price rises into the second half of the year offer pause for thought on locking in fall potash needs.
- Looking further ahead, some buying opportunities may emerge as we look into the 2022 season for other inputs as well. The potential risk for seed price increases headed into the 2022 planting season should be considered.

Source: Bloomberg, CRU, Rabobank 2021

Feed

Exports to China remain strong, increasing domestic feed prices

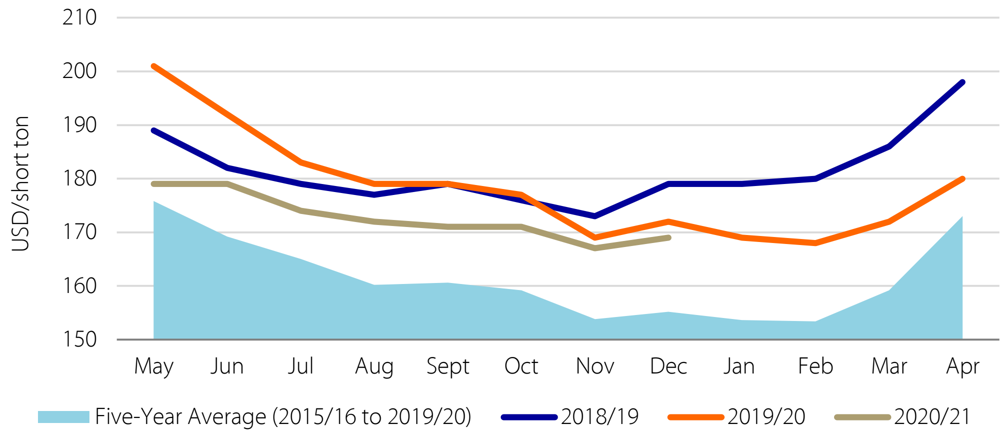
Hay

- ***Alfalfa hay prices continue below 2019/20 trend but are above the five-year average.*** Alfalfa hay prices declined 4.8% from May to December of 2020, compared to the same period in 2019. Fundamentals to keep prices well supported remain mixed, as dairy cows expand but beef cows stay relatively flat. However, the latest report on hay stocks kept stocks relatively flat, which should support hay prices for this marketing year.
- ***China continues to be the highlight of exports, with all hay exports up 40%.*** Alfalfa hay exports to China grew by 40% while other hay exports increased by 33% through this marketing year. Exports to other regions declined with Saudi Arabia seeing the largest decline on alfalfa, by 28%, and other hay exports declining by 98%. Overall, alfalfa hay exports are positive with total growth of 1.1%, while other hay exports declined by 4%.
- ***Opportunities for upside prices exist as feed ingredients prices continue to rally.*** There are opportunities for alfalfa hay demand to increase and add upward pressure to prices. Between lower stocks and corn and soybean meal prices increasing, demand for alfalfa and hay in general should increase. Prices for both energy and protein for animal feed are getting more expensive, making hay a good alternative for keeping feed cattle costs lower than using more of the traditional feed grains.

By-products: DDGS and soybean meal

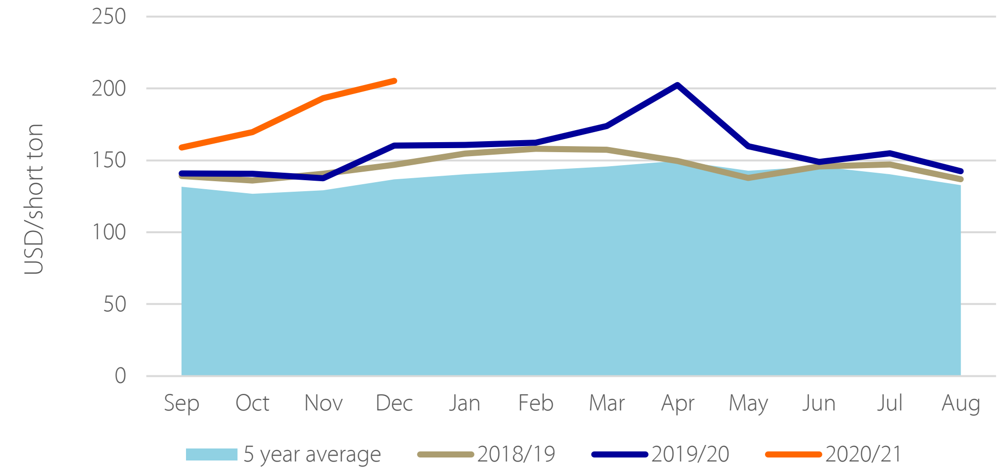
- ***DDGS prices continue to see an increase compared to last year, even higher than the peak reached in March of 2020.*** Average prices of DDGS from September to December for marketing year 2020/21 increased by 25% compared to previous marketing year, reaching their highest level since 2014. A combination of high corn prices and low ethanol margins is likely to keep DDGS at high prices as availability remains constrained.
- ***Soybean meal is continuing its rally with higher prices.*** The start of the marketing year 2021/20 started with prices up by 25% compared to same period last year. While soybean crush has been performing well, amid favorable margins, soybean prices continue to be driven by exports to China, potentially reducing crushing margins in the US. If prices continue their upward trend as reported by the latest WASDE, demand for other meal will increase as prices begin rationing demand.

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



Source: USDA/NASS, Rabobank 2020

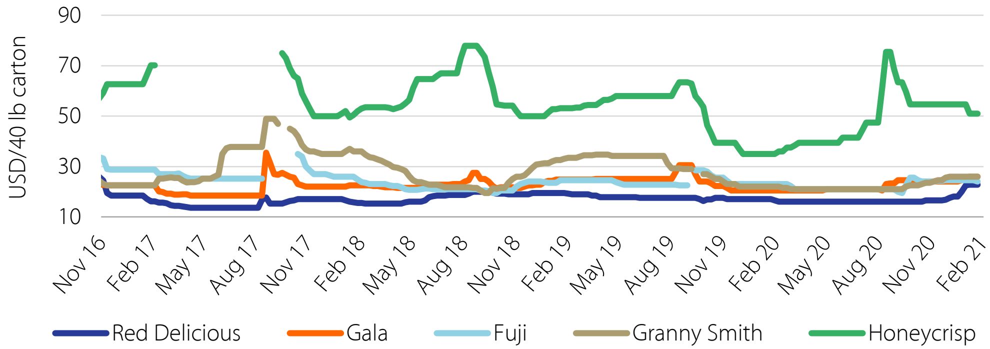
DDGS prices in Central IL, Sep-Aug, 2018/19-2020/21



Source: USDA/ERS, Rabobank 2020

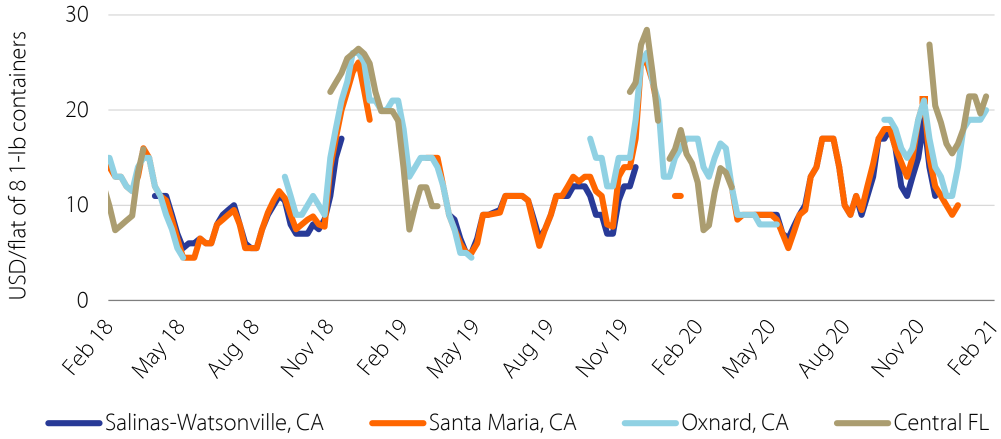
- ***Strawberry prices have recovered to healthy winter levels*** after some days of soft prices at the end of 2020. During the first week in February, prices were around USD 21 per flat, almost a 50% increase YOY for strawberries out of Florida. Data from 2020 suggests a demand growth for strawberries, including organics, amid the Covid-19 pandemic. Organic production is set to continue to expand, particularly in the Santa Maria growing region in California.
- ***Blueberry prices are strengthening unusually early this season*** as weather events have disrupted some shipments from South America, and US demand seems to continue to grow. At the beginning of February, prices were up about 32% YOY, and 57% higher than those observed two years back. Strong prices may continue until the US production ramps up in the spring.
- ***During the first week of February, prices for CA Navel orange 88s were up 29% YOY.*** Navel production in CA will likely be down about 5% YOY. Quality of fruit is reported as great. A healthy domestic demand and a lighter orange crop this season will continue supporting prices for the next few months. Mid-sized lemons -140s- were about USD 33 per carton, up 32% YOY, smaller-sized lemons were priced around 26% higher than the multi-year lows in February 2020.
- ***Avocado availability was plentiful to face the first US demand pull of the year.*** During the first week in February, shipping-point prices were around USD 25 per carton for Hass 48s, down from mid USD 30s 12 months before. Hass shipments from Mexico reached record-high levels during the first few weeks of 2021, up about 20% YOY. According to the pre-season crop estimate, the 'off-year' California production would be down about 15% YOY in 2021. Prices may strengthen ahead.
- ***A lighter apple crop in WA during 2020 is now being reflected in stronger market prices.*** During the first half of February, prices of non-organic Honeycrisp, Red Delicious, Gala, Granny Smith, and Fuji were up 46%, 34%, 27%, 18%, and 4% YOY, respectively. Red Delicious trades at the highest price since 2016. Higher YOY prices are likely to continue for the rest of the marketing season.

Washington apple shipping point prices, 88s – WA Extra Fancy, 2016-21



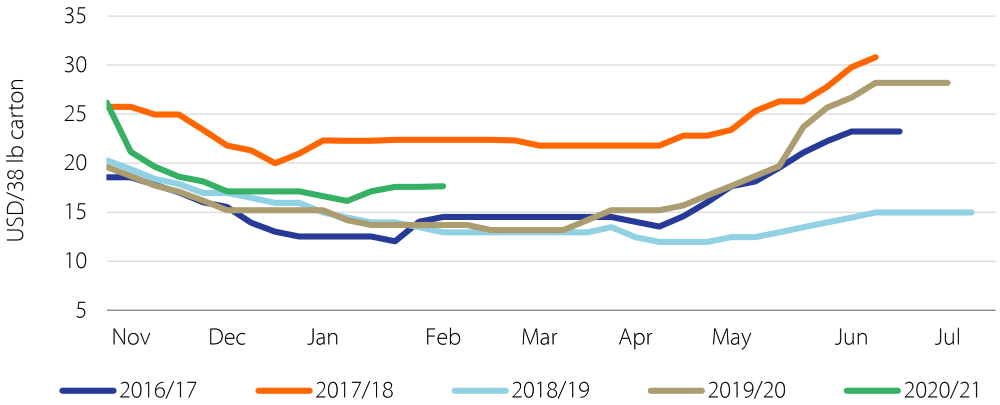
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2021

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



Source: USDA AMS, Rabobank 2021

California Navel orange shipping point prices, 88s – shipper's 1st grade 2016/17-2020/21



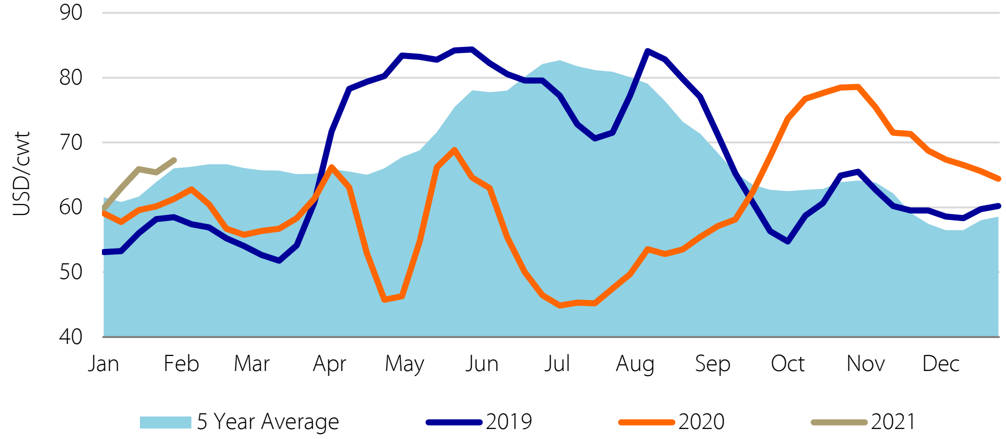
Source: USDA AMS, Rabobank 2021

Pork

Strong summer markets on smaller supply, demand recovery

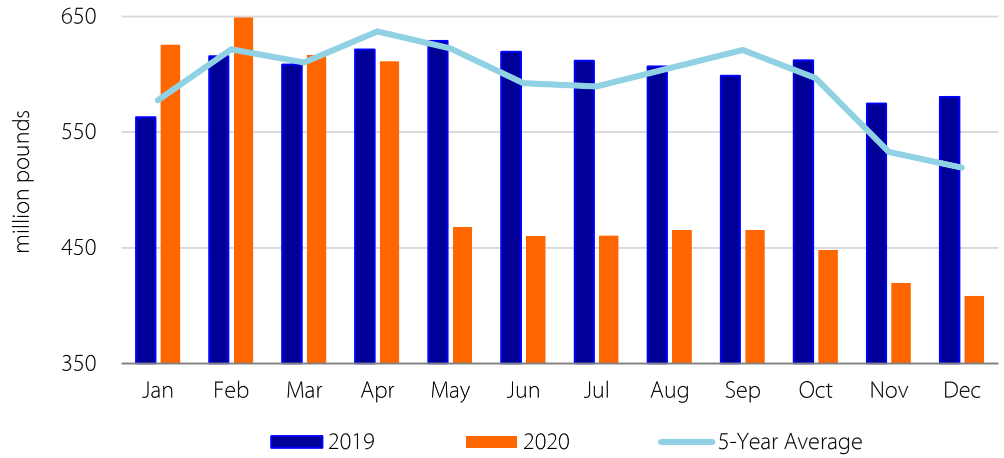
- ***Pork production is expected to decline in the coming weeks as the effects of herd contraction and higher disease loss this winter should shrink availability.*** The decline also reflects the USDA inventory report, which reported a 3% drop in the breeding herd and lower farrowing intentions. Slaughter is modestly below year-ago at present, while average weights remain slightly above prior year. Despite adequate availability, hog prices have moved higher in recent weeks, anticipating tighter supplies. Packers are actively searching for pigs, given a supply imbalance in some regions. Higher cost feed has pushed raising costs above USD 70 per hundredweight for most producers and may also be playing a role in the price strength as producers are likely to curb expansion plans and limit weight gain. We expect markets to remain firm through Q1 2021, especially as packer demand remains good. Labor continues to be a challenge in some plants which could affect carcass optimization, but packer demand remains strong. We expect the weekly kill to average 2.6m hogs, which should keep a floor under hog values.
- ***Pork carcass values are up sharply to start the year (up 13% YOY), as stronger demand from the retail channel and early signs of recovery in foodservice are boosting meat values.*** Good export demand is also supportive. Higher cost competing proteins and expectations for declining availability are driving increased interest from retail, especially given historically low inventories in cold storage. Lower overall stocks will keep markets volatile in coming weeks, especially as the foodservice channel begins to rebuild inventory in front of expanded reopening plans. Higher prices could begin to curb demand, but with stimulus money flowing to consumers we expect a relatively stout market in the intermediate term. Based on current demand, packers should continue to see healthy margins in coming months.
- ***US pork exports were up 15% in 2020, with shipments strengthening into year-end.*** A recovery in Q4 2020 shipments to key markets in Mexico (+15% YOY) and Japan (+11% YOY) drove much of the recovery, while at the same time growth in sales to China slowed (up 4% YOY). Rabobank expects ongoing strength in exports to Mexico, as demand is beginning to rebound and availability remains constrained. Exports should also remain steady to Japan, given favorable trade terms and a weaker USD. China will remain an important market, but we expect shipments to slow as the country continues to rebuild its local hog supplies. Other smaller markets that rely heavily on tourism and/or oil revenues may rebound more slowly.
- ***Mexican hog prices are stronger in response to reduced supply and modestly stronger demand.*** Production is lower on disease losses and proactive herd reductions. We expect a slow recovery in production given the escalation in raising costs. Demand in retail outlets remains steady and the industry is beginning to see a modest recovery in foodservice. For Mexican pork packers, exports remain the key demand driver. Shipments through November were up 53% YOY, with strong gains in sales to China and Vietnam. As a new market for Mexico it is unclear whether this pace is sustainable, but it is driving much stronger pork values in the interim.

US lean hog prices, 2019-2021



Source: USDA, 2021

Frozen pork inventories in cold storage, 2019-2020



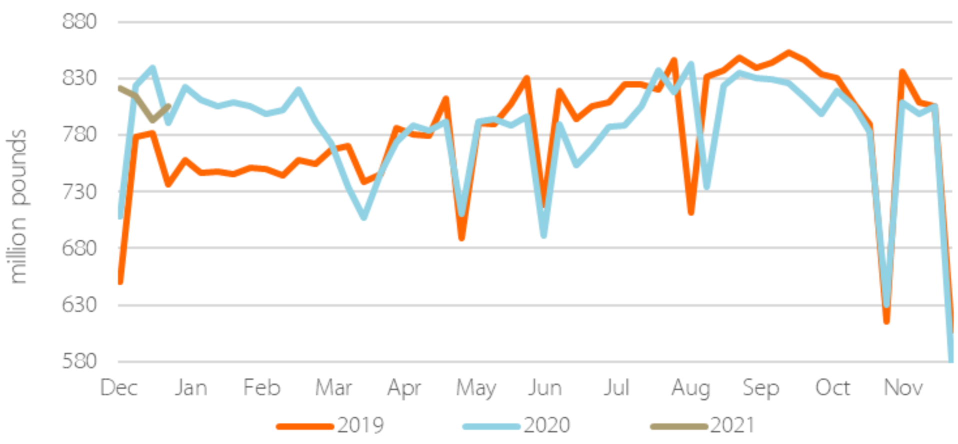
Source: USDA, Rabobank 2020

Poultry

Steady price improvement helps offset rising feed costs, supply constraint in Mexico boosts margins

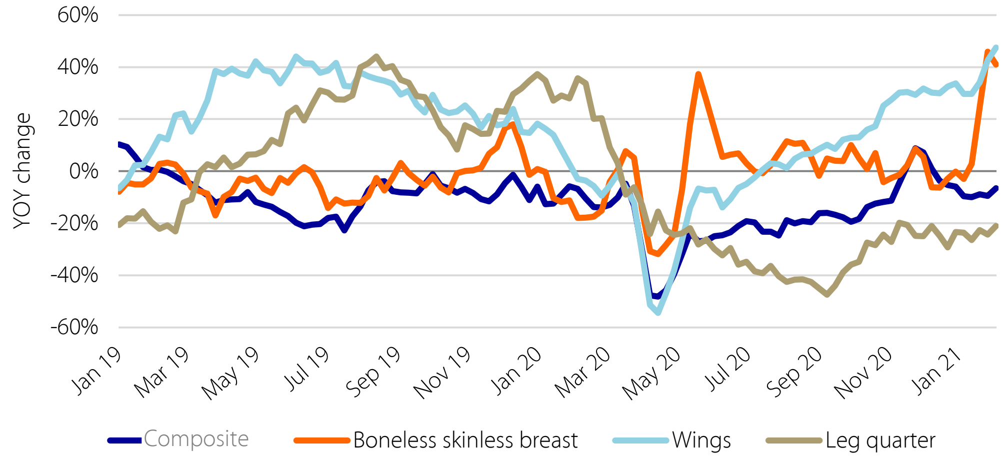
- ***Weekly chick placements are trending lower and are expected to remain 2% below year ago, suggesting integrators will continue to limit production growth.*** Broiler slaughter is down 3.1% YTD, averaging 167m head per week. Slaughter should remain 2%-3% below year-ago in coming weeks given current chick placements, but production declines could slow given the recent improvement in chicken prices. RTC production is up modestly as weights are up 1% YTD. We expect weights to fall slightly as integrators shift to smaller bird sizes and as higher feed costs begin to work against the larger sizes. We continue to look for modest growth in RTC production in 2021.
- ***The hatchery supply flock on January 1 was up 3.8% YOY, suggesting that integrators may be slightly more optimistic on the outlook for demand.*** Integrators have managed weekly placements and could begin to slow growth given the recent spike in feed costs, but have not yet made any reductions at the breeder level. The ability to scale production quickly remains a risk factor for the industry.
- ***Chicken prices rebounded sharply in January in response to reduced slaughter and stronger demand.*** Wings remain at historic highs (+48% YOY), as strong demand from foodservice remains supportive. Boneless breast meat also saw a sharp increase in January, up 41% YOY as demand in retail and foodservice channels was strong. Foodservice interest is building ahead of several new chicken sandwiches set to launch this quarter. Higher prices of competing proteins in coming months should also be supportive of front half chicken values.
- ***Leg quarter values remain depressed (down 21% YOY), but started to move higher in early 2021.*** Exports of chicken were up 6.9% in December and up 5.6% in 2020. Strong gains in shipments to Mexico (+10%) and China drove a majority of the increase, while sales to key markets in Angola, Iraq (due to a trade dispute) and Vietnam moved lower. We expect global outbreaks of avian influenza in several markets to limit exports from other nations, which should benefit US exports in coming months. A weaker dollar and the gradual recovery in tourism should boost exports later this year.
- ***Production cuts taken by the Mexican chicken industry in 2020 and ongoing flock health issues in some areas have driven record-high prices for chicken.*** With no measurable increase in production in early 2021 and a gradual return in demand, prices remain high. Producers are beginning to face higher raising costs, as most feed is imported from the US. Higher costs will keep production low, despite strong profit potential. The price differential between the US and Mexico remains favorable to imports.

Ready-to-cook chicken production, 2018-2021



Source: USDA, Rabobank 2021

US chicken prices, 2019-2021



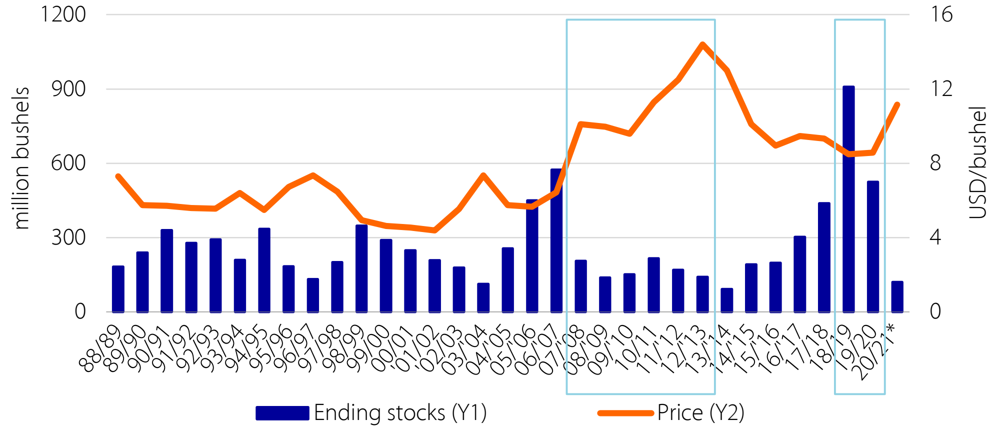
Source: USDA 2021

Soybeans

Near record-low stocks equal high prices

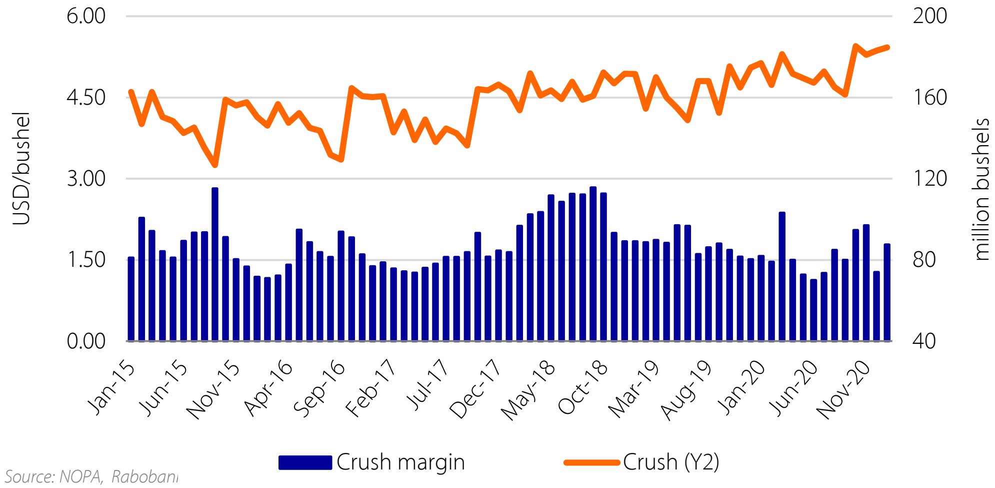
- ***While the outlook for the corn market looks positive, the soybean market outlook looks brighter and all because of the China.*** Like corn, soybean prices have been supported from a smaller 2020 crop than expected, an enormous rebound in Chinese imports, and a tight stocks situation that may very well get tighter. Looking ahead, US soybean planted acres are expected to see a big increase in 2021, a potentially record Brazilian soybean crop, and US crush demand could be under pressure as crushing margins get squeezed from high-priced soybeans.
- ***US soybean ending stocks continue to contract.*** As expected, the USDA, in it latest supply/demand estimates, reduced 2020/21 ending stocks to 120m bushels. This would be the lowest ending stocks since the 2013/14 crop year when stocks dipped below 100m bushels and the national average farmer received price was USD 13.00 per bushel. There is a high probability that ending stocks will contract even further before the end of the crop year. Looking at exports alone, the USDA's projection is likely too low at 2.250bn bushels. Based on what has already been shipped, the US only needs to ship 16.1m bushels per week for rest of the year to fulfill that projection. Through the week ending Feb 4, the weekly shipment pace has been 77.4m bushels per week and the five-year average for the final 29 weeks of the crop year is 23.6m bushels. Both the current pace of crush and exports are above the USDA's projections, so prices are going to need move higher in order to ration the remaining dwindling supply of US soybeans.
- ***The rebound in Chinese imports of US soybeans*** has been well documented. As of February 4, 2021, accumulated US soybean exports to China are 33.5m metric ton (mmt) or 1.23bn bushels plus outstanding sales of 2.31mmt (85.0m bushels). Chinese demand is expected to remain strong for the foreseeable future as the hog herd is rebuilt and, like corn, a more western-style feed ration is adopted containing more soybean meal. The US has also benefited from Brazil being out of soybeans for export. However, when we look ahead to the coming year Brazil is set to produce a record crop so look for more competition from Brazil in 2021.
- ***Speaking of Brazil's 2021 soybean crop,*** it has been a less perfect year with crop growing areas struggling to receive rain since mid-September. However, precipitation was received during the critical pod-filling stage. Rabobank's analyst in Brazil is expecting a production above 130mmt, which would be a record. The southern region is still dry and not expecting much rain in the near future, so crops there may be less than in past years. As mentioned above, Brazil will be back in the global market competing in the very near future.
- ***US soybean crush margins*** have come under some pressure due to high-priced soybeans. The good news is that product prices have held up very well, helping to offset high soybean prices. However, if margins remain under pressure, crushers would begin to dial back crushing rates in order to prop up margins.
- ***According to our 10-year baseline model,*** higher soybean prices and good margins for 2021 are going to push US planted soybean acres to increase 90.0m acres in 2021, versus 83.1m last year.

US soybean ending stocks at lowest levels since 2013/14 crop year



Source: USDA, Rabobank 2021

Higher soybean prices may start to squeeze US crushing margins



Source: NOPA, Rabobank

Tree Nuts

Marketing record-setting crops

Almonds: US almond supplies during the 2020/21 marketing year are up about 20% YOY. Total US shipments in 2020/21 were up 22% YOY through December. Exports, accounting for 74% of US shipments, were up 26% YOY, while domestic shipments were up 11% YOY. Shipments as a proportion of marketable supplies is keeping pace to likely finish the marketing year with manageable inventories. Prices had been slowly recovering, but now seem to be in check as bloom approaches.

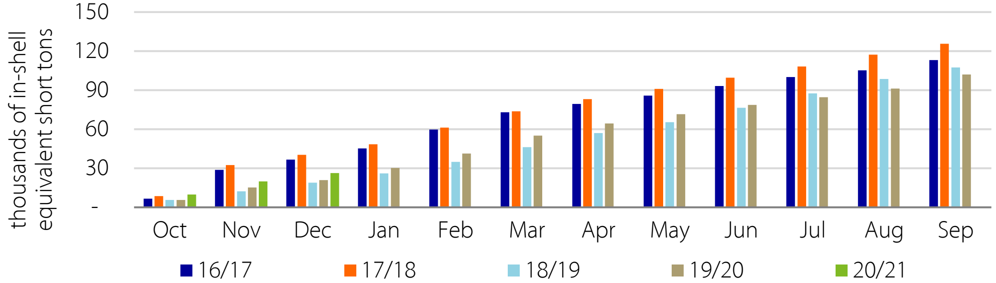
Hazelnuts: The USDA estimated the US crop for the 2020/21 marketing year to be about 71,000 short tons, a 61% increase YOY, and 39% higher than the previous record crop in 2018. Industry estimates were predicting a record-setting crop, but not this big! Shipments in 2020/21 were up 24% YOY through December, with kernel exports growing 130% YOY. About 46% of marketable supplies have been sold, lagging behind the pace of previous years on a much larger crop.

Walnuts: The California crop set a new record in the 2020/21 marketing year at about 783,000 short tons, according to industry reports. Total supplies, current crop plus carry-in, were up about 16% YOY. Shipments were up 15% YOY, with exports increasing 19% YOY through December. About 40% of marketable supplies were sold, a similar proportion compared to previous years on a larger crop. In general, prices have been softer YOY, reflecting increased availability and international competition. Our price estimates for the next few crop cycles show levels that may maintain profitability for most growers, particularly for higher value varieties.

Pistachios: US pistachio production surpassed the 1bn-pound mark for the first time as California harvested an 'on-year' crop. Shipments in 2020/21 were up 17% YOY through December. Export demand is reported to be strong. In-shell US exports were up 43% YOY during the first third of the current marketing year. Pistachio prices have remained steady, despite record supplies, according to industry sources.

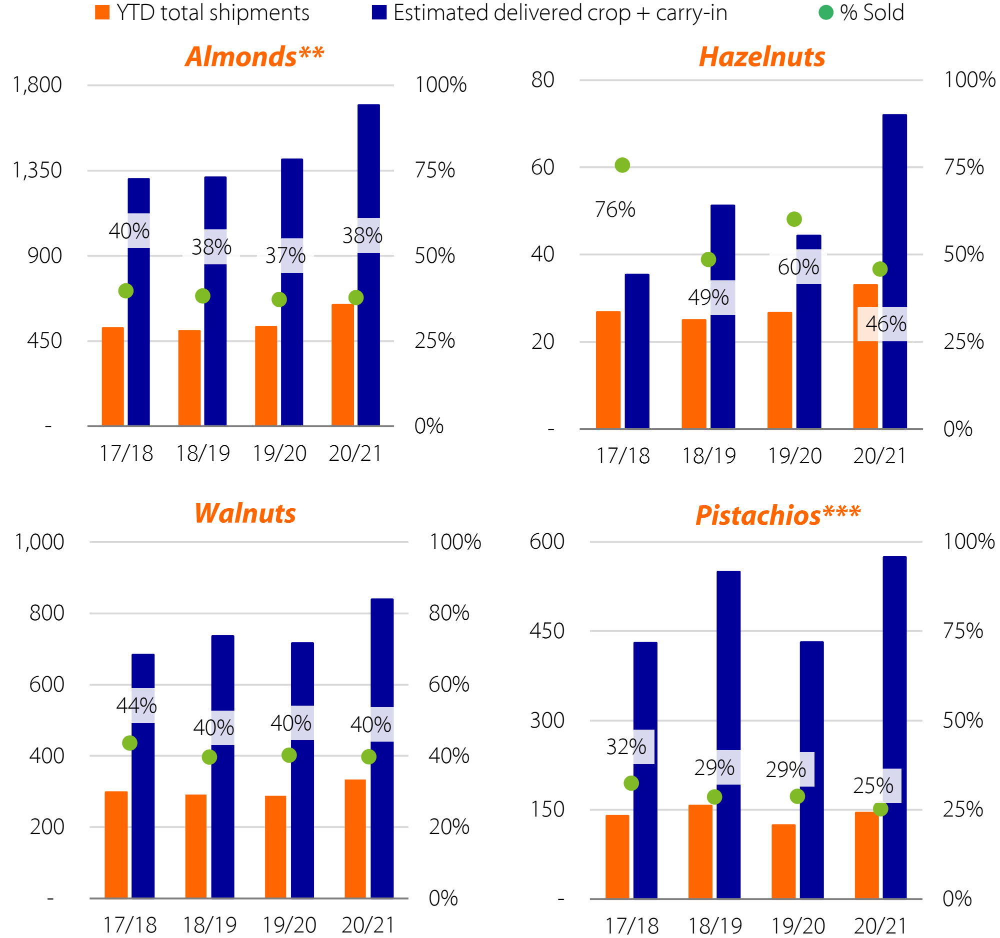
Pecans: US pecan export volume in the 2020/21 marketing season through December was up 26% YOY, recovering from a multi-year low level two seasons ago, according to USDA figures. Industry news sources report that domestic pecan shipments continue to be strong even after the traditional holiday demand pull. Domestic shipments show that US consumers are eating more pecans during the rest of the year. The pecan industry is expected to continue benefiting from the healthy snacking trend.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2021

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



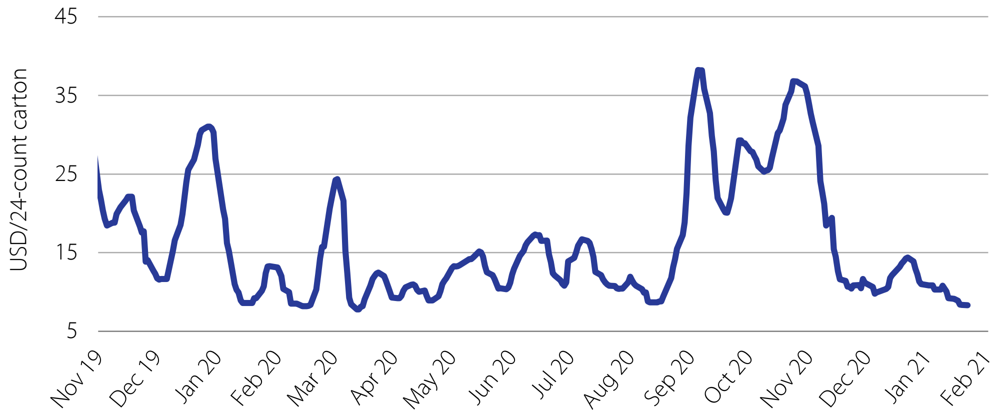
*Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2021. *Through December 2020, 2020/21 marketing season. **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

Steady leafy green supplies

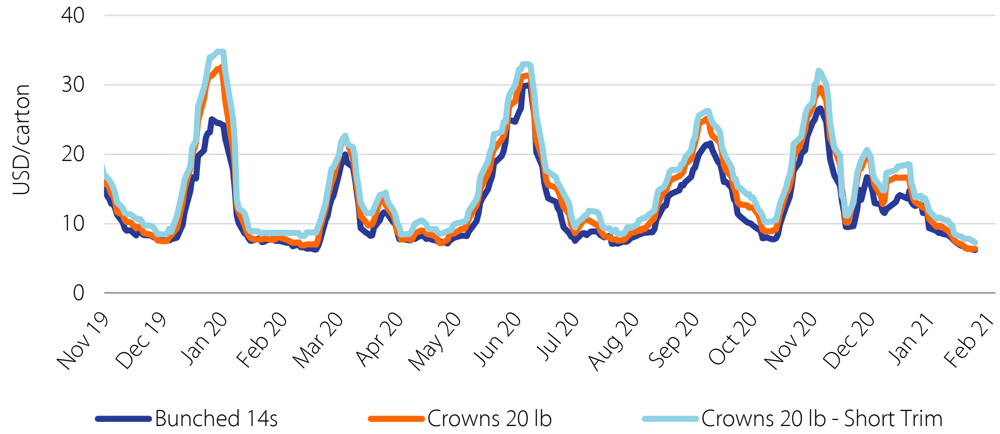
- ***Mostly favorable weather conditions amid growing season in Western Arizona and in the California Desert have brought abundant supplies of good quality leafy greens,*** bringing prices to very competitive levels, per industry reports.
- ***Romaine lettuce prices during the first week of February were up about 5% YOY for romaine hearts*** (12x3) to roughly USD 10/carton. Availability of romaine lettuce is expected to remain plentiful for the next few weeks. Prices may remain very competitive unless a weather event limits supplies.
- ***Iceberg lettuce prices were down about 10% YOY.*** Current prices are below USD 8/carton for wrapped 24s. Mostly favorable weather conditions in growing regions have maintained strong supplies of good quality product. Steady supplies are likely to continue.
- By early-February, broccoli crown prices were down by double digits YOY, depending on the specific product, and bunched 14s were priced down 18% YOY. Industry sources report steady supplies out of Santa Maria and Yuma.
- ***Cauliflower prices have gradually increased over the last month to over USD 12/carton for wrapped 12s,*** down about 9% YOY. Industry reports signal that prices may continue the upward trend as excessive yellowing is being observed in the fields.
- ***Sweet potato prices in North Carolina were about USD 15.50/carton during the first week in February 2021,*** up about 3%, sitting slightly higher than the five-year average price for this time of the season.

Wrapped iceberg lettuce – US daily shipping point price, 2019-2021



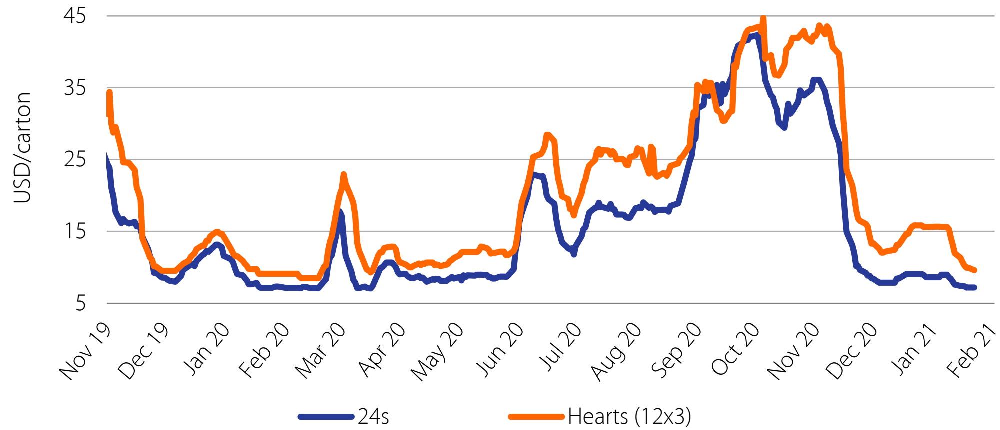
Source: USDA AMS, Rabobank 2021

Broccoli – US daily shipping point price, 2019-2021



Source: USDA AMS, Rabobank 2021

Romaine lettuce – US daily shipping point price, 2019-2021



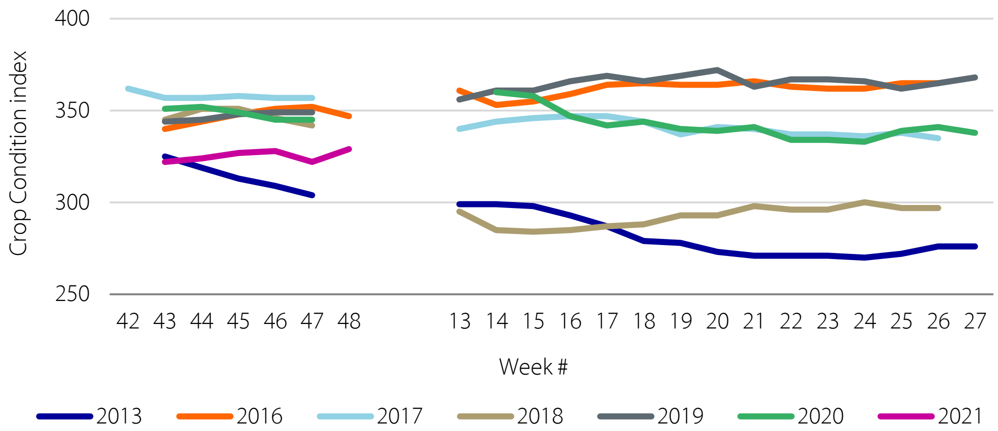
Source: USDA AMS, Rabobank 2021

Wheat

Even China is into the wheat

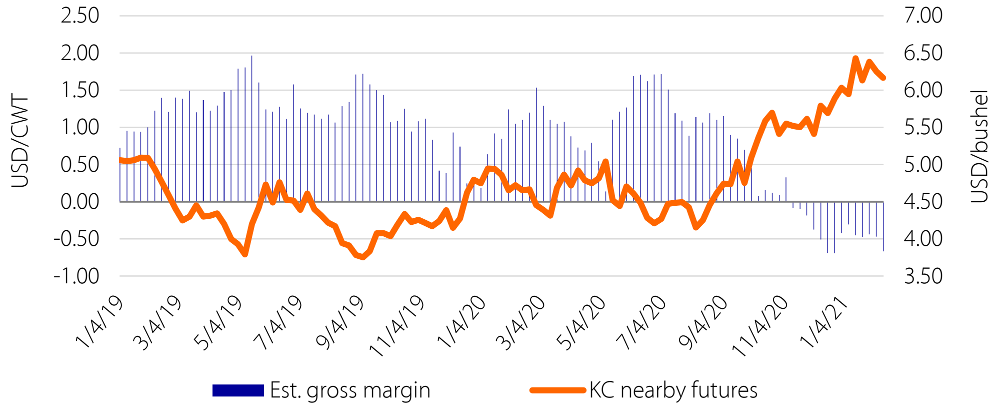
- ***US wheat futures have been above USD 6.00*** per bushel since early December, in the case of Chicago wheat, and since early January for both Kansas City and Minneapolis wheat. Wheat has been supported by strong corn and soybean prices, along with the fact that wheat needs to hold on to acres this year.
- ***This winter's Polar Vortex has inserted another uncertainty into the wheat market.*** It is bitterly cold everywhere, and many questions are being raised about the condition of this year's winter wheat crop and what damage has occurred. The bottom-line is any damage to the winter wheat crop really won't be known until the crop comes out of dormancy in the spring and the combines roll. At this writing, reports out of Kansas indicate most concern lies in the northwest part of the state where it has been particularly dry, cold, and windy. There was good moisture in the central and southern parts of Kansas going into dormancy. The most concern is over areas with no snow cover.
- ***Winter wheat crop condition ratings going into dormancy*** were at their lowest levels since 2013. In the past twenty years of the winter wheat ratings, only seven years saw crop conditions improve from the fall to the spring rating. The probabilities are not in favor of a great winter wheat crop this year – another factor supporting wheat prices this year.
- ***Poor crop conditions and high soybean prices are likely to attract acres away from winter wheat this spring.*** As the winter crop comes out of dormancy, producers will have to make a decision whether to keep their wheat crop or plow it under and make way for another crop. A loss of winter wheat acres on top of a potential short crop sets up a favorable price environment for producers – stay tuned.
- ***Russian wheat is getting cheaper.*** The second, higher Russian wheat export tax (USD 50 per metric ton) goes into effect March 1. It is being reflected in lower wheat price bids. Russian farmers are selling aggressively, fearing lower prices still, and exporters are shipping wheat ahead of the imposition of the tax even though the higher tax is reflected in prices. This aggressive selling partially explains the slow down in US wheat exports over the last several weeks. Currently, US wheat export inspection data shows exports now trailing last year's pace by 1.8%.
- ***As always, the world wheat situation is different from that of the US.*** The current 2020/21 global wheat outlook is for greater supply, increased consumption, higher exports, and reduced stocks from the previous forecast. Increased global consumption and exports are being driven by China, as domestic corn prices make it cheaper to feed wheat. Global stocks are at record levels. China and India are holding 51% and 9% of global stocks, respectively, which means exporters are not holding large stocks. With increased global consumption and trade, prices will be well supported if there are any production hiccups among exporters this year.

US winter wheat crop conditions rating lowest since 2013



Source: USDA-NASS, Rabobank 2021

Flour milling margins have turned negative as KC cash wheat price heads up

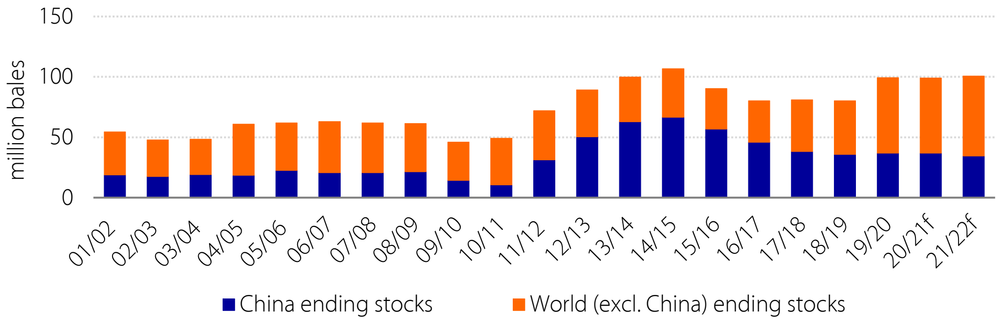


Source: Sosland Publishing, Rabobank 2021

Cotton

- ***A sensational rise in ICE #2 Cotton futures puts new crop values at USc 83/lb, with old crop nearing USc 90/lb.*** Triggered by bullish fundamentals – particularly cuts to 2020/21 US output and stocks – the rally has continued on superb export demand and speculation. Rabobank forecasts this price support to persist, at least until Q2 2021, despite adequate global supplies. Firstly, the volume of old crop unfixed call sales – along with a multi-year speculative long position – will reduce the size and duration of old crop price dips, since mills will actively be looking for opportunities to price lower. This, alongside ongoing Chinese import demand, is forecast to keep speculation active and ICE #2 prices in the USc 80/lb region.
- ***The world has cotton, but not all in the right places.*** Despite the strong price signals, Rabobank notes that world excluding China stocks are at record levels – at 64m bales in 2020/21, versus the 41m bales 10-year average. However, where these stocks are located matters heavily. India holds a third of these stocks, with Brazil, the US and Australia holding another third. With strong short-term demand for US and Brazilian cotton (as Australia-China tensions persist), Rabobank notes that stocks available for export are actually much tighter than the pure fundamentals suggest.
- ***2021 plantings are a major swing factor for global cotton.*** In the US, Rabobank expects cotton area to come under pressure from alternative crops – particularly soybeans – with lucrative growing margins. Furthermore, dryness through parts of Texas and the southern states raises new crop abandonment concerns. Rabobank notes the US balance sheets in recent La Niña years 2008/09 and 2010/11, when national US abandonment well-exceeded the 20-year average of 15.1%. Finally, Brazilian cotton plantings are underway behind a late-harvested soybean crop. This late timing may subject the fiber to August rainfall and humidity, potentially impacting quality.

Global cotton stocks have grown to almost 100m bales in 2019/20, but supplies available for exports are actually far more limited

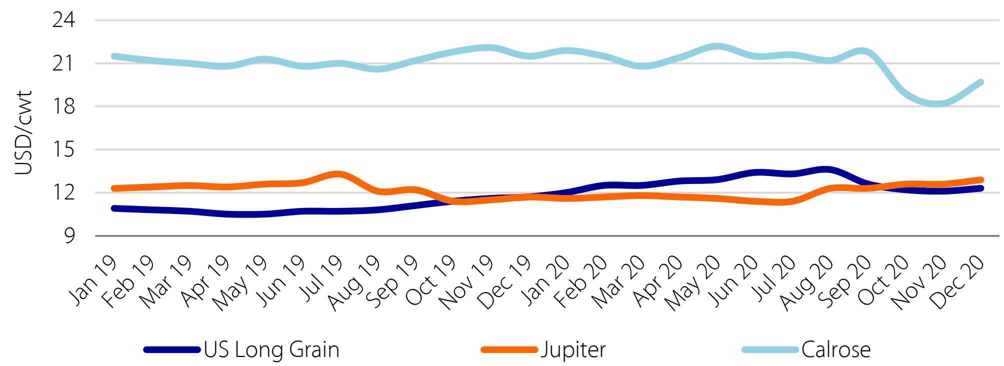


Source: USDA, Rabobank 2021

Rice

- ***New revisions to production in January Outlook for 2020/21.*** Production for 2020/21 is estimated higher by 1.5m cwt to a total of 227.6m. This increase represents a 23% increase YOY. The increase in production is driven mainly by better than initially estimated yields in Texas and marginally higher yields in Louisiana and Mississippi. Harvested area was lowered by 4,000 acres to a total of 2.99m acres. However, harvested area remains 21% above last year. A slight decline in harvested area in Texas, Mississippi and Missouri more than offset a 4,000 acre increase in California.
- ***Imports are expected to decline by 3% on a yearly basis, while exports decline 1m cwt.*** Estimated imports of medium and short grain rice have been reduced by 0.3m cwt to a total 36.2m, a decline of 3%. Most of the decline is due to lower pace imports from Thailand, whose imports through November are down 17% from a year ago. US rice exports are projected at 94m cwt down 1m cwt from the last forecast and marginally lower than last year. Long grain exports remain 2% higher than last year while medium and short grain rice exports are projected at 28m cwt or down 5% compared to last year.
- ***Season average farm price (SAFP) for US long grain was raised to USD 12.00/cwt while southern medium and short grain SAFP increased by USc 30 to USD 12.30/cwt.*** California medium and short grain SAFP for 2020/21 remains at USD 19.00/cwt, USD 1.60/cwt lower compared to 2019/21. Tighter-than-expected December 1st stocks and smaller projected ending stocks for long grain have pushed prices up from the December forecast.

24-month US rice prices, January 2019-December 2020

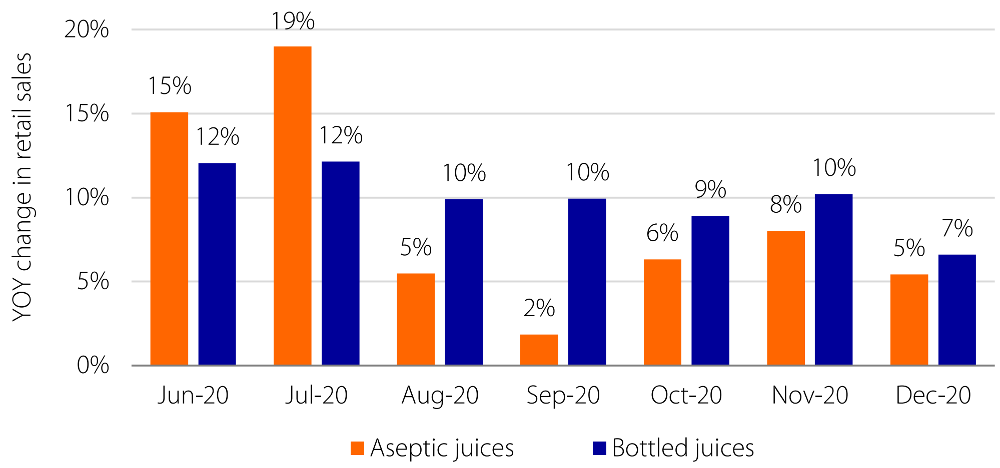


Source: USDA NASS, USDA ERS, Rabobank 2021
Note: Average rough rice basis

Orange Juice

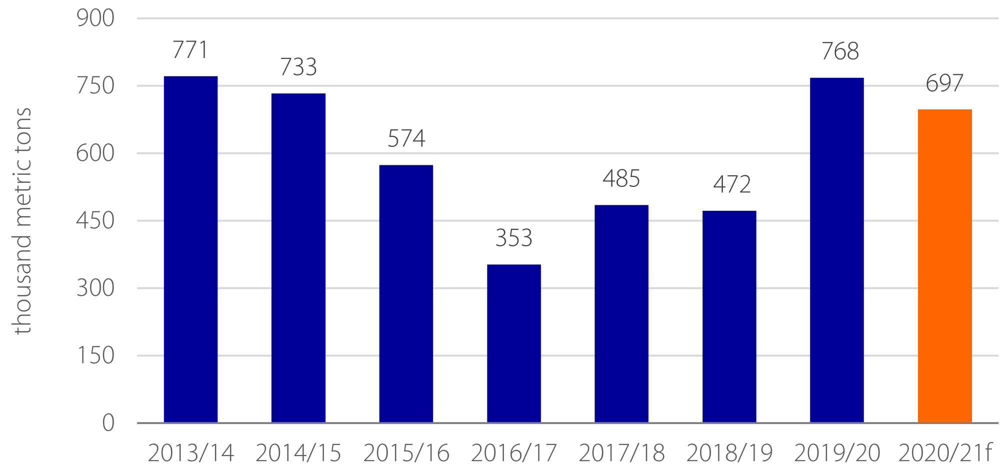
- The arrival of the global Covid-19 pandemic lifted orange juice retail sales in large consumer markets like the US and Europe after years of declines. Fear of the virus increased demand for orange juice as a source of vitamin C, and more at-home consumption under lockdowns increased the amount of breakfasts at home.
- IRI data shows that key juice categories like aseptic and bottled performed very well in the US market in 2020, registering significant growth. However, those growth rates have diminished in recent months. The retail sales behavior suggests that retail juice demand gained during the pandemic due to temporary factors like lockdowns and health concerns rather than more permanent, longer-term shifts that could revitalize orange juice sales.
- Rabobank believes that the long-term trend of decline in orange juice consumption in the US and other mature markets will gradually resume later on in 2021. The base-case scenario of 1% to 2% annual declines in global orange juice consumption has not changed. What underpins this is the fact that the category continues to be dependent on developed markets, which will continue to live through adverse demographic trends and strong competition from other beverages.
- The 2020/21 orange crop (ending February 2021) in São Paulo should end with total production at 270m 90lb boxes, a drop of around 30% compared to last year's final number. Meanwhile, the USDA has revised its estimates for the upcoming 2020/21 Florida crop down from 67m boxes to just 54m boxes. Mexico should be the bright spot on the supply side, with a rebound in 2020/21 output of 65m boxes.
- Looking ahead, Rabobank expects a moderate recovery in Brazilian orange production during 2021/22, with the new harvest likely to yield a crop in the range of 315m to 325m boxes. The arrival of ample rains, albeit late, in late 2020 and early 2021 have been key to a more positive outlook.
- FCOJ prices could see a moderate rise later in 2021, particularly in a scenario of a weaker US dollar and stronger economic growth once the vaccinations advance in the Northern Hemisphere as long as the rebound in the upcoming Brazilian crop is not very significant. However, the upside in prices will be limited due to high global inventories accumulated from previous crops and the potential for weakening demand later in 2021 with a return to the long-term structural trend of 1% to 2% annual contraction in key mature consumer markets.

US retail sales boomed during pandemic but lost momentum in 2H 2020



Source: IRI, Rabobank 2021

Global FCOJ inventories remain elevated despite small crop in Brazil

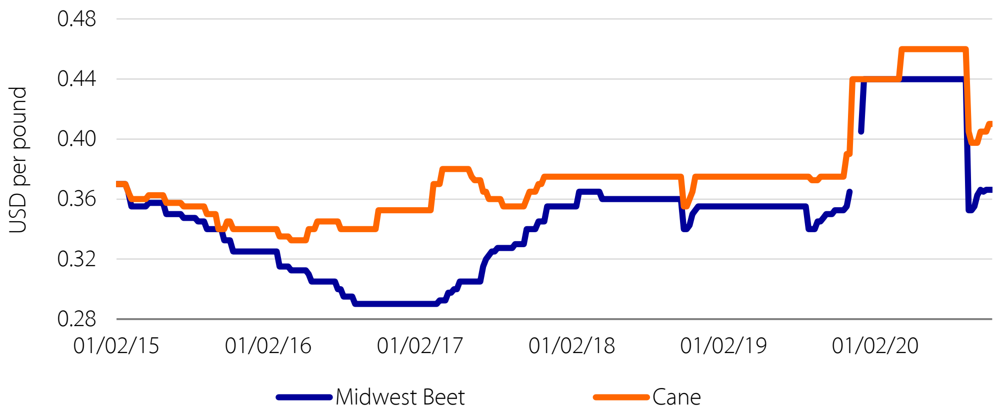


Source: USDA, Rabobank 2021

Hurricanes raise questions about cane production

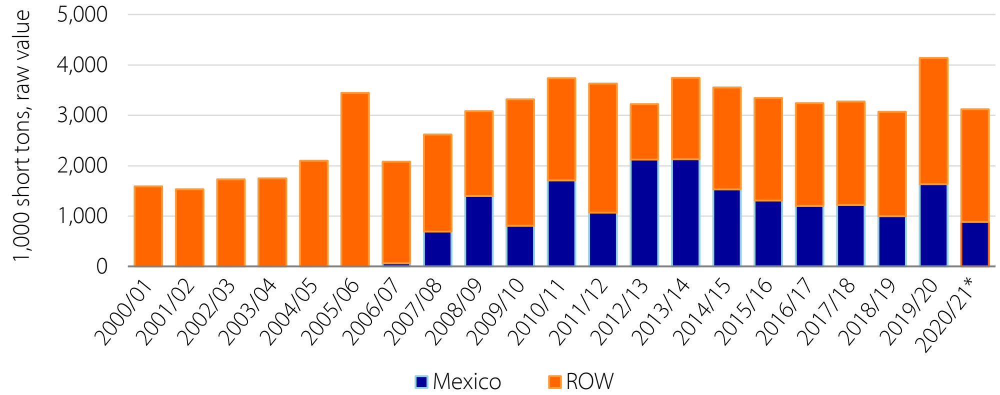
- ***After the last two years of challenging sugarbeet crops and now two hurricanes, buyers and sellers alike remain cautiously optimistic about new crop sugar***. Prices are down from earlier in the year, but have begun to move back-up. A refinery fire in Louisiana has created minor supply disruptions, but should be short-lived. Beet harvest, particularly in the Red River Valley, is nearly complete. Beet size is below average, but sugar content is good. Beet processors have approximately 90% of 2020/21 crop already sold, so there is very little incentive to lower prices from current levels. The US sugar supply/demand situation is much more in balance this year than the past couple years, so prices should also be more stable.
- ***Early reports after Hurricanes Laura and Delta indicate that the sugarcane crop in Louisiana has suffered some damage, but many questions remained unanswered.*** It is difficult to access the cumulative effect of stress from two hurricanes on final production. However, there will be issues with newly planted cane, particularly stand loss after being flooded twice this season. Newly planted cane is just not as resilient as existing stands. In addition, there have been delays due to factory shutdowns as a result of the weather.
- ***For five consecutive months, beet and cane deliveries have been below year-ago volumes.*** This is even more significant when you realize total 2018/19 beet and cane deliveries were down 1.1%. In addition, year-to-date deliveries are down 2.7%. While some of this year's issues are coronavirus related, the long-term trend continues to be flat at best for sugar consumption. It will be several years until domestic sugar will feel this decline, but imports will have to contract, creating issues around WTO and Suspension agreements.

Sugar prices firming as 2020/21 crop is well sold



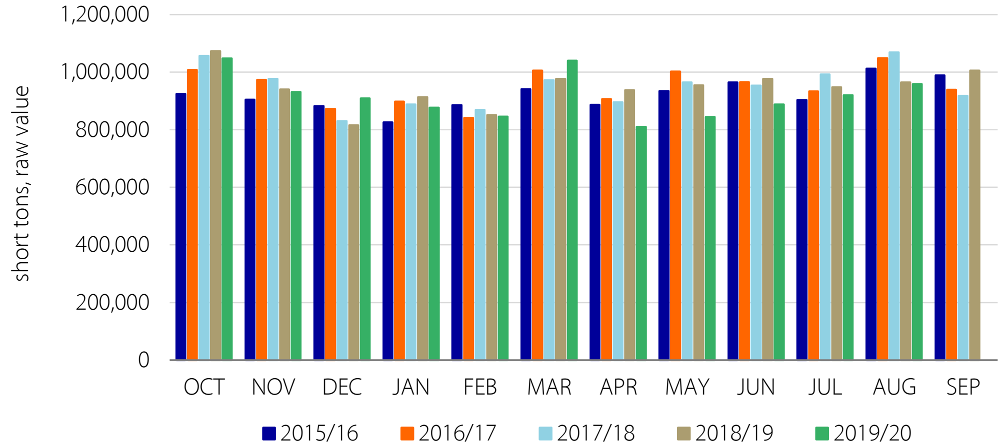
Source: Milling & Baking News, Food Business News, Rabobank 2020

US sugar imports continue to decline on increasing production and flat disappearance



Source: WASDE, Rabobank 2020

US beet and cane sugar deliveries – down for fifth consecutive month

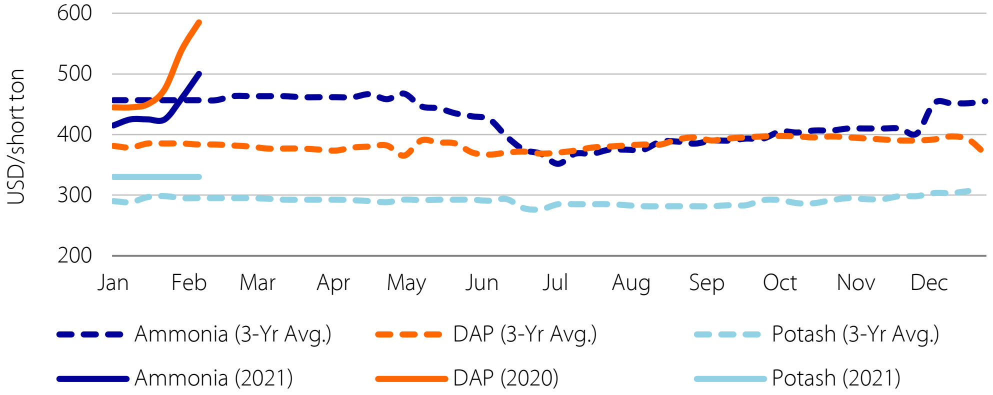


Source: USDA-FSA, Rabobank 2020

Input Costs

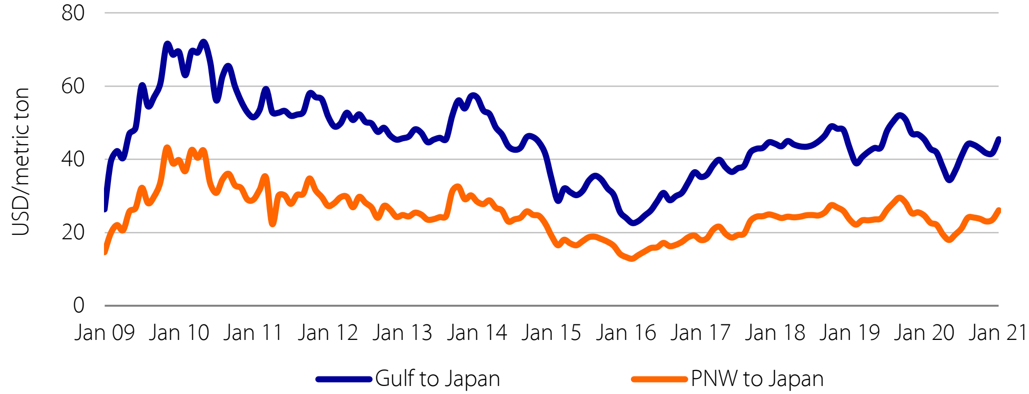
As of February 11, 2021

Corn Belt input prices*



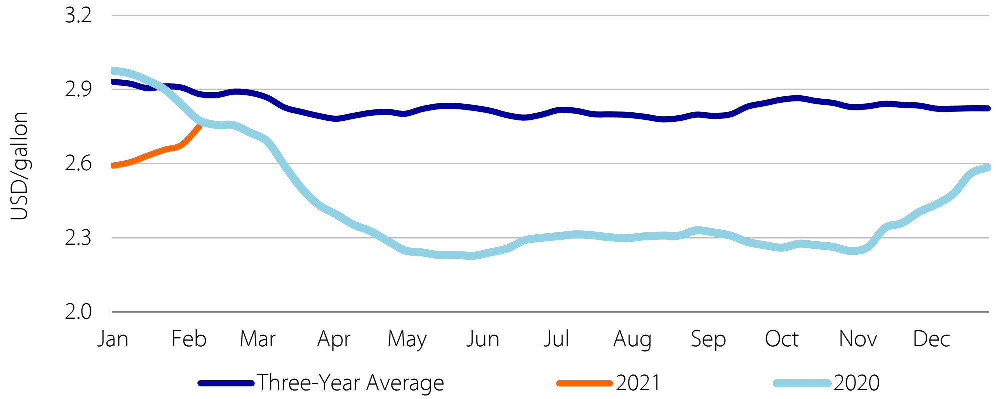
** Note: granular potash*
Source: Bloomberg, Rabobank 2021

Ocean freight



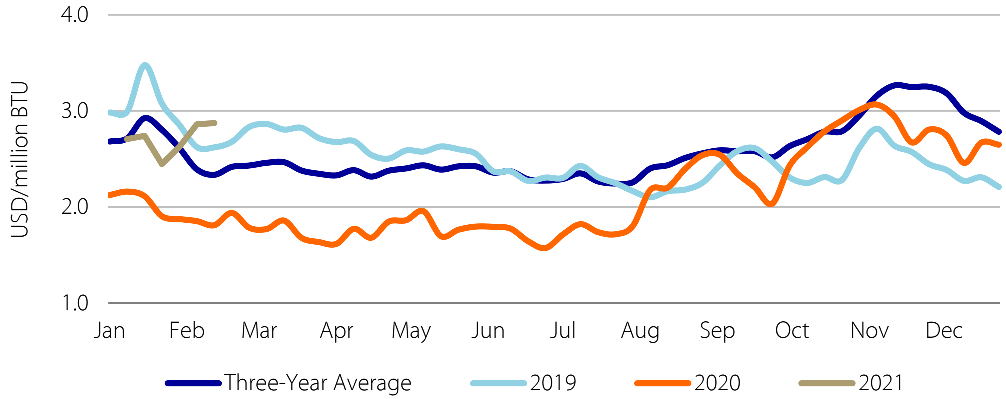
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2021

Diesel – Midwest



Source: EIA, Rabobank 2021

Natural gas spot



Source: NYMEX, Rabobank 2021

Forward Price Curves

As of February 11, 2021

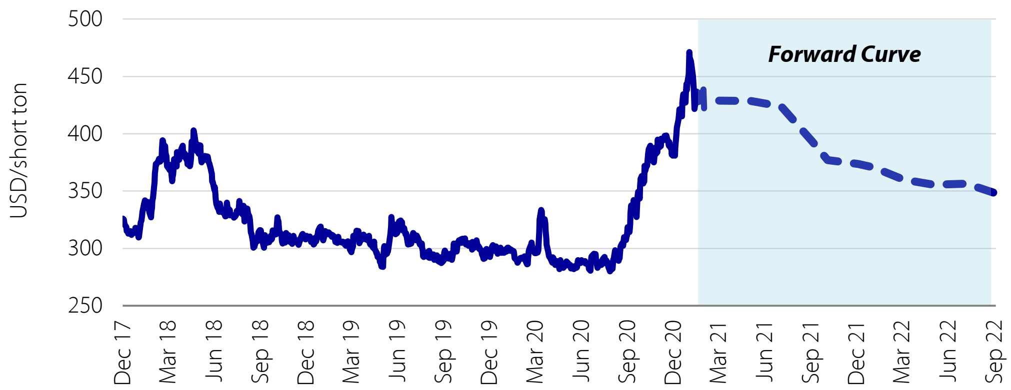
CBOT – Corn

Source: CBOT, Rabobank 2021

CBOT – Soybeans

Source: CBOT, Rabobank 2021

CBOT – Soymeal



Source: CBOT, Rabobank 2021

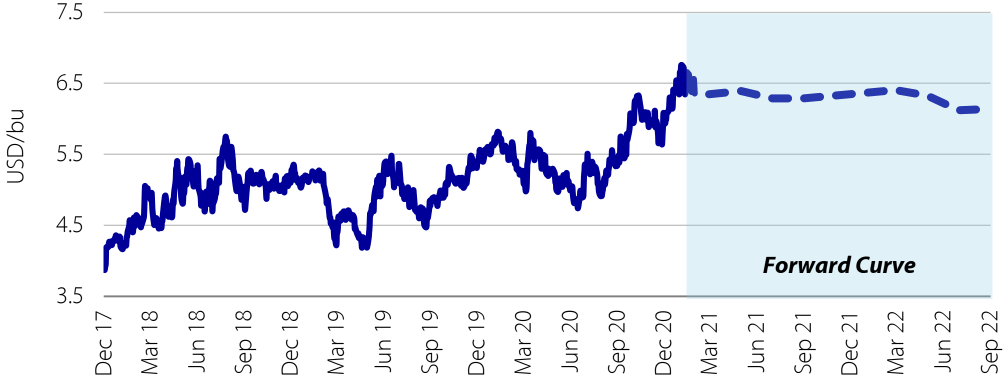
CBOT – Soy oil

Source: CBOT, Rabobank 2021

Forward Price Curves

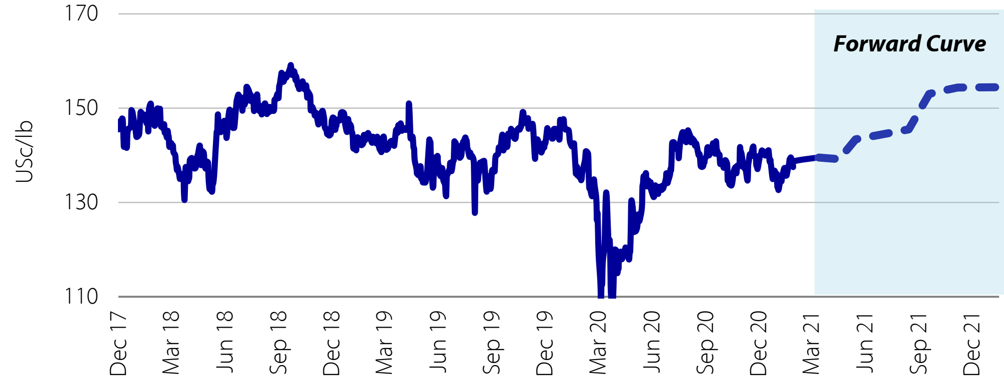
As of February 11, 2021

CBOT – Wheat



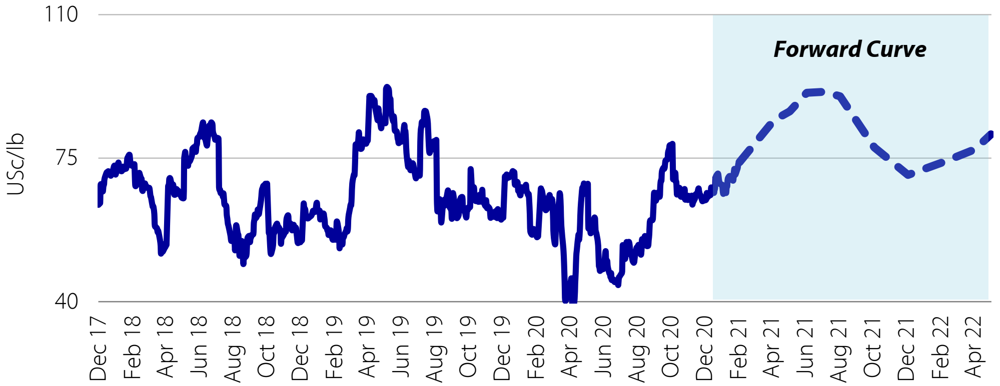
Source: CBOT, Rabobank 2021

CBOT – Feeder cattle



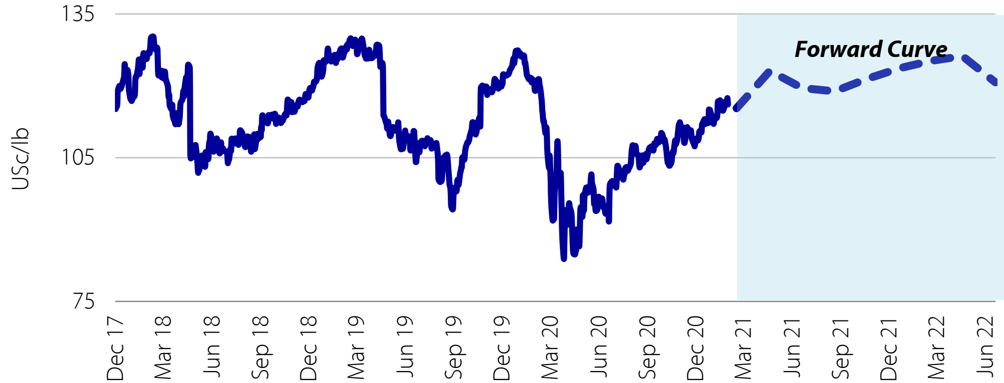
Source: CBOT, Rabobank 2021

CBOT – Lean hogs



Source: CBOT, Rabobank 2021

CBOT – Live cattle

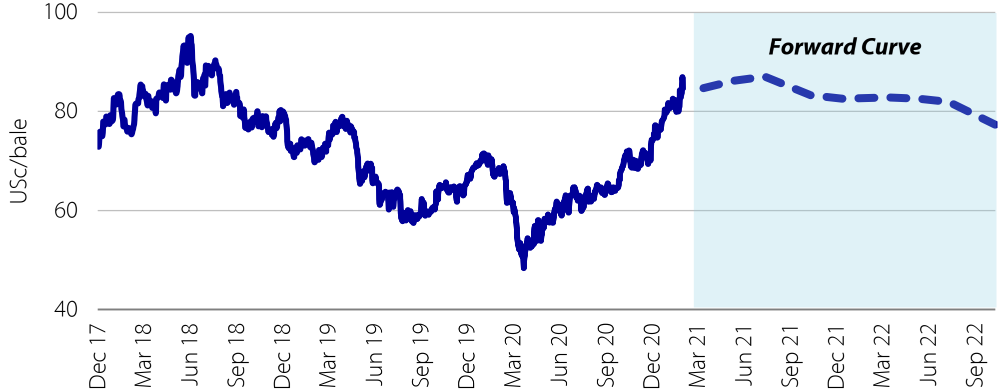


Source: CBOT, Rabobank 2021

Forward Price Curves

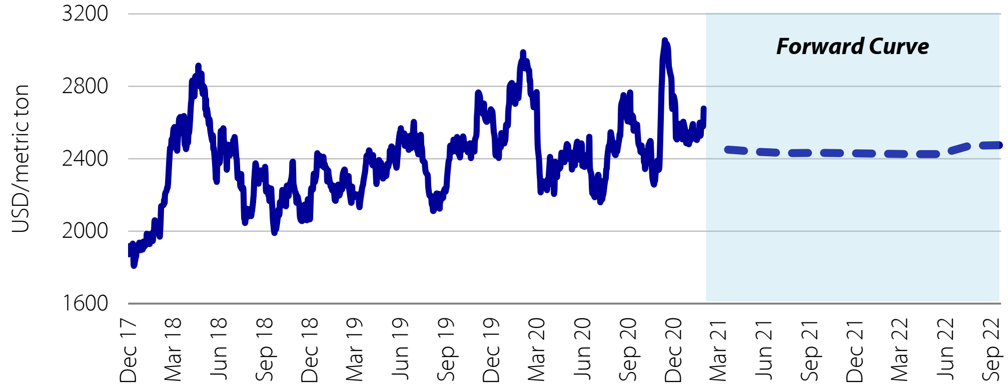
As of February 11, 2021

ICE – #2 Cotton



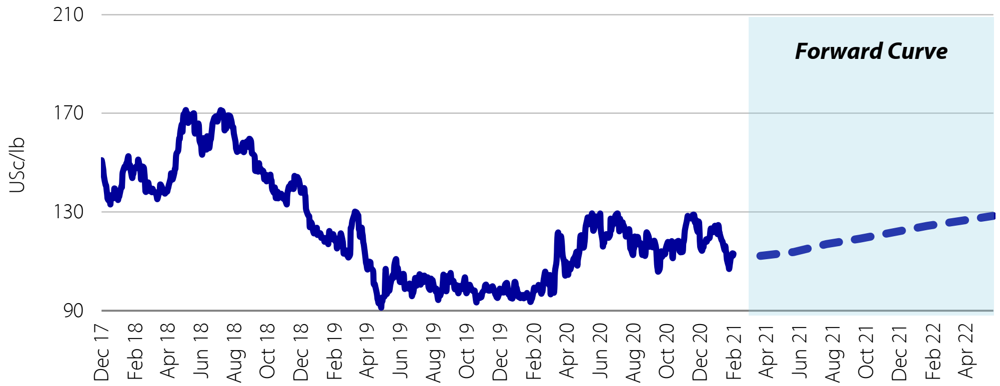
Source: ICE, Rabobank 2021

ICE – Cocoa



Source: ICE, Rabobank 2021

ICE – FCOJ



Source: ICE, Rabobank 2021

ICE – #11 Sugar

Source: ICE, Rabobank 2021

RaboResearch Food & Agribusiness

Al Griffin
Senior Data Analyst
Coordinator of the Agribusiness Review
E-mail Al.Griffin@raboag.com

Roland Fumasi
North American Regional Head- RaboResearch Food & Agribusiness
E-mail Roland.Fumasi@rabobank.com

Don Close
Senior Analyst — Beef
E-mail Don.Close@raboag.com

Ben Laine
Analyst — Dairy
E-mail Ben.Laine@raboag.com

Stephen Rannekleiv
Global Strategist – Beverages
E-mail Stephen.Rannekleiv@rabobank.com

Dustin Aherin
Analyst — Beef
E-mail Dustin.Aherin@raboag.com

Andrick Payen
Analyst - Feed
E-mail Andrick.Payen@rabobank.com

Steve Nicholson
Senior Analyst — G&O
E-mail Stephen.Nicholson@raboag.com

David Magaña
Senior Analyst — Fresh Fruits, Vegetables and Tree Nuts
E-mail David.Magana@rabobank.com

Mary Ledman
Global Strategist — Dairy
E-mail Mary.Ledman@rabobank.com

Bourcard Nesin
Analyst — Beverages
E-mail Bourcard.Nesin@rabobank.com

Philip Marey
Senior Market Economist— Financial Markets Research
E-mail Philip.Marey@rabobank.com

Jim Watson
Senior Analyst — Beverages
E-mail James.Watson@rabobank.com

Amit Sharma
Senior Analyst – Consumer Foods
E-mail Amit.Sharma01@rabobank.com

Andrés Padilla
Analyst — Beverages
E-mail Andres.Padilla@rabobank.com

Sam Taylor
Analyst – Farm Inputs
E-mail Samuel.Taylor@rabobank.com

Christine McCracken
Senior Analyst — Animal Protein
E-mail Christine.McCracken@rabobank.com

JP Frossard
Analyst — Consumer Foods
E-mail JP.Frossard@rabobank.com

Charlie Clack
Commodity Analyst
E-mail Charles.Clack01@rabobank.com