



North American Agribusiness Review

Rabobank






RaboResearch
Food & Agribusiness

June 2020

Report Summary

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Economy

Fragile recovery

US

- The economic data in May generally shows a rebound from the sharp contraction in March and April. Nevertheless, GDP growth is still likely to have contracted by more than 30% in Q2 (measured at an annualized rate). However, we expect the recovery to be reflected in 14% GDP growth in Q3. More structurally, the damage to the demand and supply side is likely to remain a drag on the economy. Businesses and households have lost income, increased debt and, in the second half of the year, many fiscal stimulus measures will expire. Also, some business models may not be viable anymore in the new normal. Finally, the deterioration of the weather toward the end of the year could reignite concerns about Covid-19. All things considered, we expect the economy to fall back again in Q4 (-1% GDP growth). For 2020 as a whole, we expect GDP to fall by 6%.
- The Fed's policy measures have stabilized financial markets. In fact, stock markets have shown a rapid rebound. Stress in commercial paper markets – which froze up in March – have eased. Nevertheless, the Fed remains cautious about the recovery, especially because of a possible resurgence of Covid-19. Since the Fed is averse to negative policy rates, we are more likely to see some form of yield curve control if additional across-the-board monetary stimulus is needed.

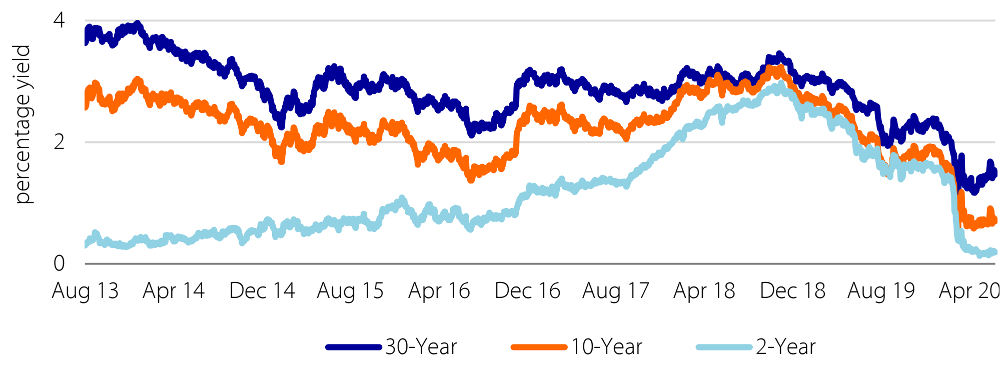
Mexico

- May was the month that the economy began opening up again, May 18 to be precise. In line with the rest of North America, this is a gradual process that is regional and sector specific. The economic impact of the economic lockdowns has been severe and GDP for the year as a whole is likely to contract at least 7%. We maintain a three month forecast for USD/MXN of 24.5.

Canada

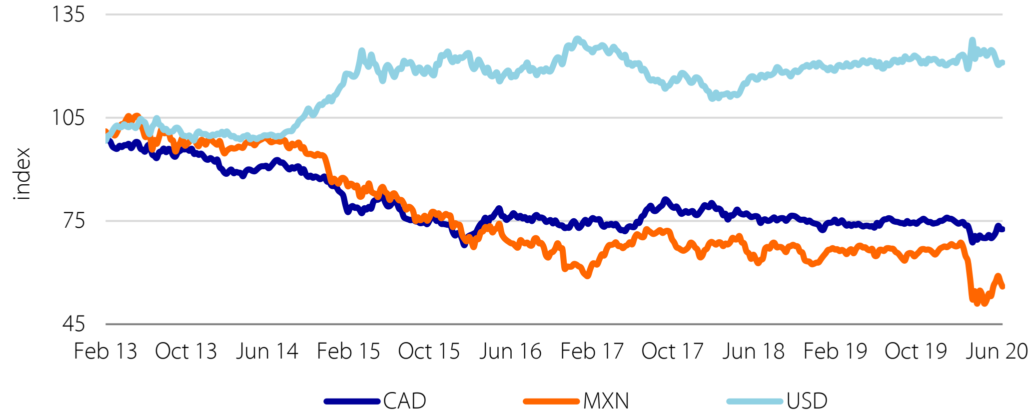
- We still expect USD to remain well-supported this year. We would argue that the most important thing for USD/CAD in the coming weeks is the performance of equities. If the S&P 500 continues to march back towards the pre-Covid-19 record highs then USD/CAD may remain under pressure, but should we see the pace of equity buying begin to slow then the pullback in USD/CAD to 1.42 may come sooner than expected.

Interest rates, 2006-2020



Source: Federal Reserve of St. Louis 2019

Currencies, 2013-2020



Source: Bloomberg, 2020

Note: Rebased at 100 as of January 1, 2013

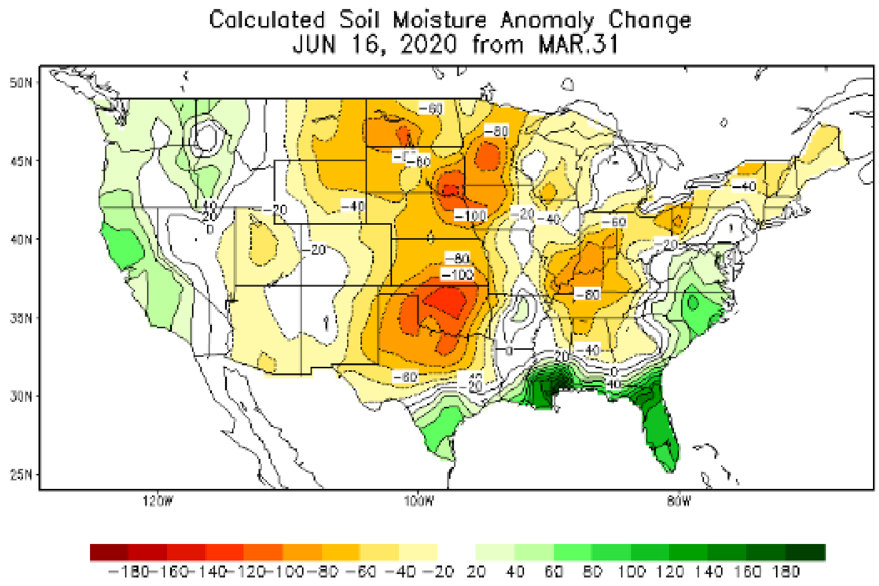
Source: USDA, Rabobank 2019

Climate

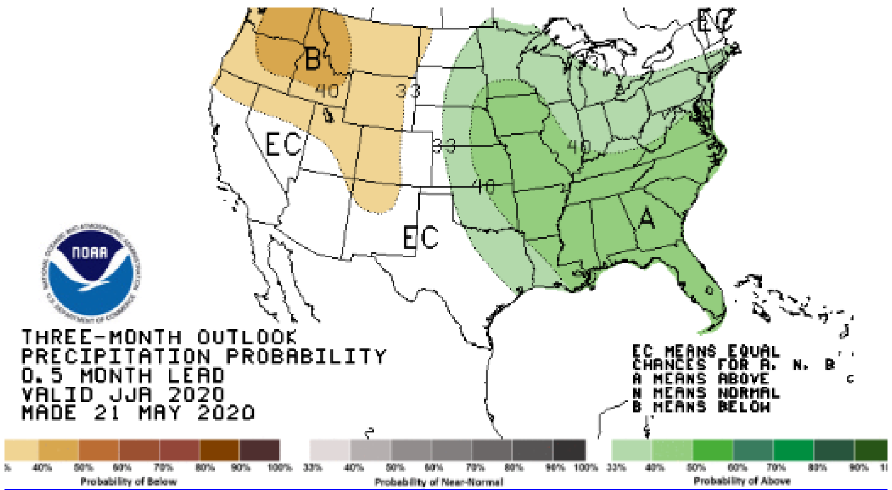
Weather favorable for crop development

- After a wet 2019, the recent dry weather pattern has been generally welcomed. Soil moisture levels have been lowered from the saturated levels seen earlier this year. Drier fields, along with lower than normal rainfall, allowed for an early and fast spring planting season. Corn and soybean crop progress is well-ahead of last year and above the five-year average.
- Early plantings tend to be favorable for crop development, particularly corn. It is ideal for the crops to be past their key yield-determining pollination phase before the hottest months of summer arrive and to have a longer growing season.
- A cooler than normal May and early June slowed crop development somewhat. But this helped prevent soil moisture levels from declining. Going forward, the forecast has a wetter than normal pattern, which will benefit the key corn and soybean growing regions. However, dryness is projected across the West and Northwest. These regions are already experiencing drought and this forecast will continue to create challenges.
- Some spots continue to be problematic, with North Dakota's problems continuing from last year. Corn harvesting of the 2019 crop was only recently completed after farmers could not get into the fields to harvest on time last fall. This has pushed plantings that are typically complete by now, to be later in the season. There will likely be a reduction in total acres planted in the Northern Plains in the USDA's June Acreage report as a result of this.

A drier weather pattern has continued, which allowed for an early spring planting but has started to lower soil moisture levels



The wetter than normal forecast across the Corn Belt will be favorable for crops



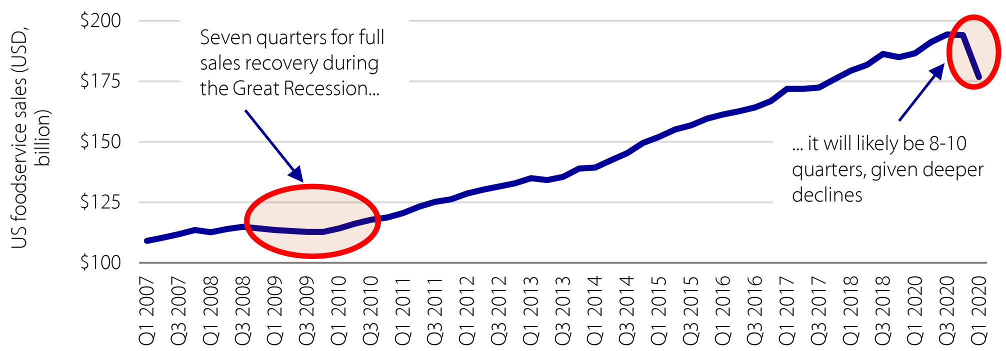
Source: NOAA, USDA, Rabobank 2019

Consumer Retail & Foodservice

Nascent foodservice retaking highlight resiliency but full recovery unlikely until mid/late 2022

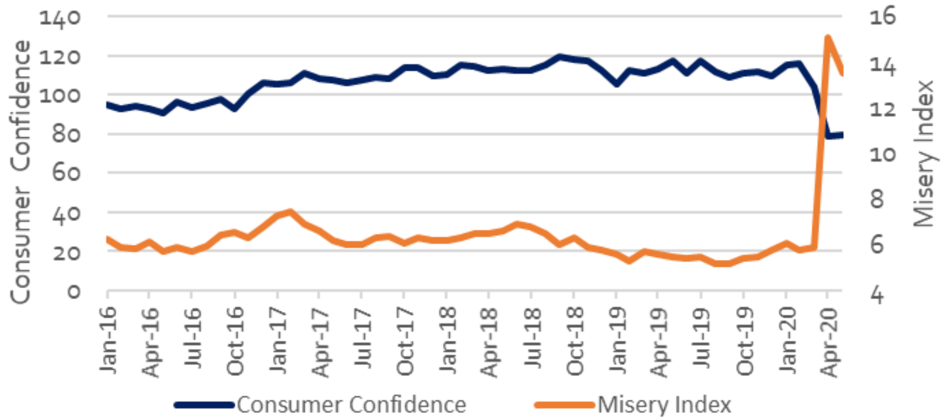
- The rapid deterioration of consumer confidence leveled off in May **after the plunge started in March with the Covid-19 pandemic.** Unemployment marginally declined in May to 13.3% from record-high 14.7% in April as economy – especially restaurants – started reopening. **It is still much above the 4.4% reported in our previous review.**
- The Consumer Price Index (CPI) for the twelve months ending May has dropped to near zero, driven by lower energy prices. On the other hand, food-a-home inflation surged above 4% YOY in April and May **on the back of higher demand during stay-at-home orders and supply chain issues. Food inflation villains in May were: beef and veal (+18.2% YOY), eggs (13.5%), poultry (8.8%), tomatoes (8.8%), potatoes (8.7%), pork (7.3%), frozen fruits (6.3%), and dairy (5.7%).**
- Foodservice sales in the US have started to improve off trough levels, posting six consecutive weeks of sequential growth, after falling by 25% in March and more than 50% in April. Assuming no major Covid-19 relapse in the fall, we expect foodservice sales to decline by 12%-14% over the next twelve months, including low-single digits declines for the limited-serve/QSRs, and high-teens declines for full-service/fine-dining restaurants.
- A full sales recovery from Covid-19 disruptions may take 8-10 quarters, longer than the seven quarters it took for foodservice sales to return to pre-recession levels during the Great Recession. Expect sales to return to 2019 levels by mid/late 2022.
- Expect large changes to the US foodservice landscape post-pandemic: More pronounced bifurcation of growth across sub-segments; slower pace of new store openings; greater M&A opportunities as industry consolidates; increasing investments behind digital capabilities; and deeper focus on innovation.

Post-Covid-19 foodservice recovery could take longer than the Great Recession



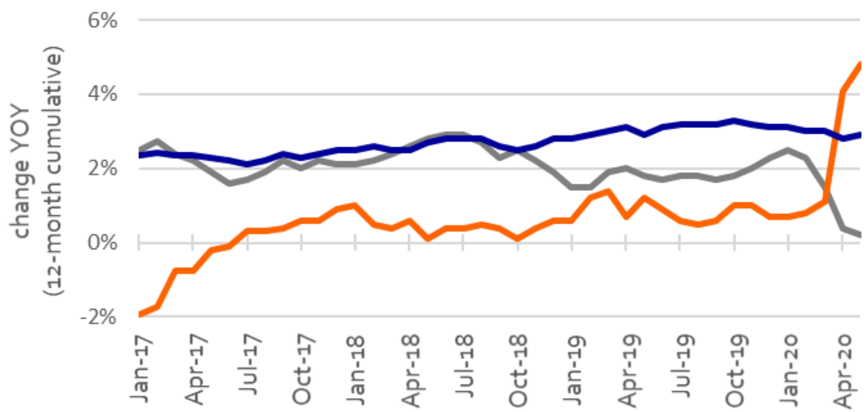
Source: US Census Bureau, Euromonitor, Rabobank 2020

Consumer Confidence Index



Source: US Bureau of Labor Statistics, Rabobank 2020. Consumer confidence calculated as the average of the two leading indicators of consumer sentiment from the University of Michigan and The Conference Board

Food price inflation



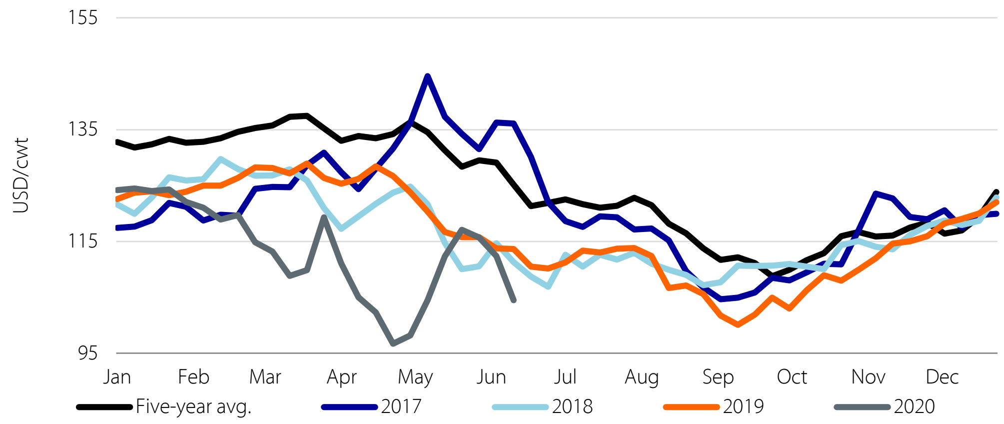
Source: US Bureau of Labor Statistics, Rabobank 2020

Cattle

A long road ahead

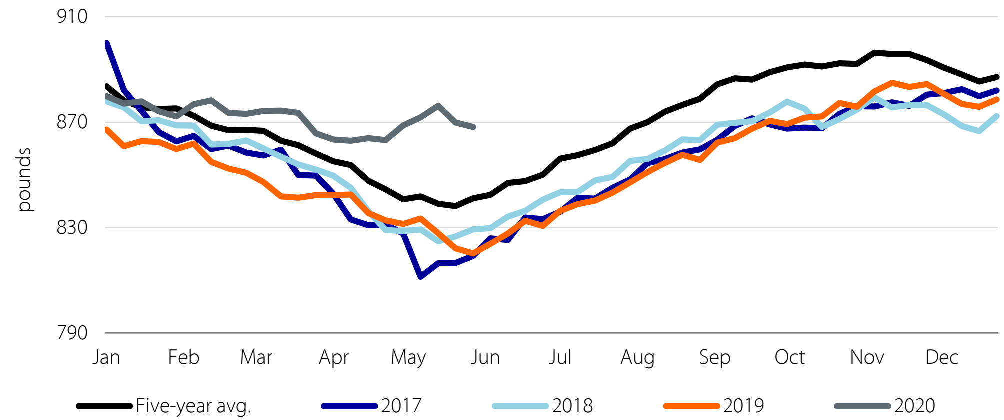
- **Following the severe packing plant disruptions in April and May, June slaughter rates have rebounded to near normal levels.** For the week ending June 13, slaughter was -1.7 percent for the same week a year ago. A total backlog near 1m head of slaughter-ready cattle remains. With safety protocols in place and some immunity likely established, perhaps the packing sector may be more resilient if faced with a second Covid-19 wave. Despite Covid-19-related challenges and costs, gross margins and enormous fed supply should incentivize packers to meet or exceed normal slaughter rates in the months to come. It's possible that the fed cattle supply could be current by early Q4.
- **With the extreme delay in marketings, fed cattle dressed weights are setting seasonal records.** Thus, for the week ending June 13, beef production was +2.1 percent vs same week a year ago. YTD, beef production is only down three percent. Expect weekly YOY increases in beef production to continue until the backlog is eliminated. Covid-19 processing challenges considered, positive YOY beef production growth is still possible.
- **With the normalization of beef production, cutout prices should return to a seasonal pattern, weighed down by recession.** As a high-value protein, beef is sensitive to macroeconomics and consumer confidence. Because beef is a perishable product and cold storage is limited, beef consumption will track production. The question is at what price? With summer holidays ahead and a slow foodservice recovery, the cutout should find support near USD 190 to USD 195/cwt through Labor Day.
- **Fed cattle prices will decline into seasonal summer lows.** Seasonality, combined with a massive backlog and recessionary pressures, suggests late summer fed cattle prices could dip as low as USD 90/cwt. With the gap in March and April placements aligned with hopes of steady slaughter rates and respectable exports, expect substantial price recovery near USD 110/cwt in Q4.
- **The dependable, seasonal feeder cattle price increase will still occur from now through Q3, but prices will be lower YOY.** Expect the CME Feeder Index to trade in the mid-130s in August and September. Slow spring feeder placements suggest potential bunk space challenges in the fall. USD 140/cwt could prove a difficult hurdle.
- **Calf prices will start to trend toward their fall lows.** Expect 550 pound calves to find support in the mid-150s through the summer. Seasonal supply and the primary backlog shifting from fed cattle to calves and feeders could force fall prices near USD 145/cwt. Potential support could come from stronger deferred futures, pending a more favorable 2021 outlook for both the economy and the beef supply chain.

Fed steer price (five-market average), 2017-2020



Source: USDA, Rabobank 2020

Fed steer and heifer dressed weight, 2017-2020



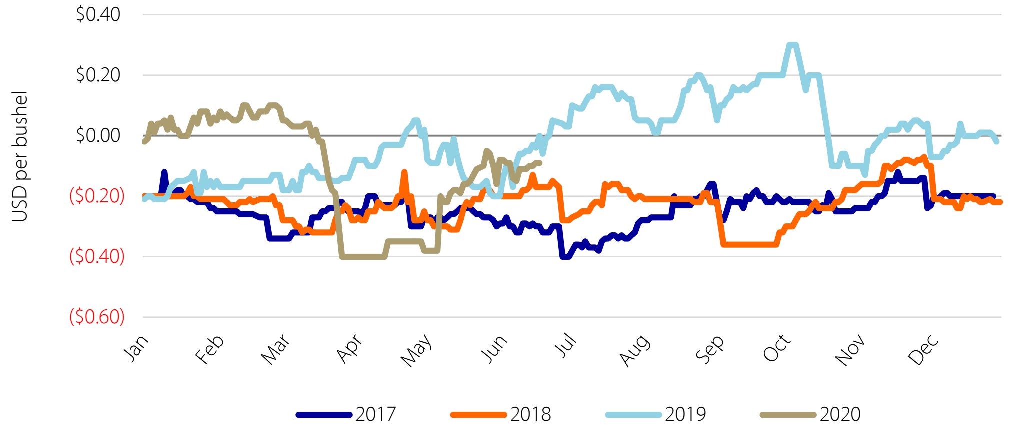
Source: USDA, Rabobank 2020

Corn

Window for higher prices is closing as large crop looms

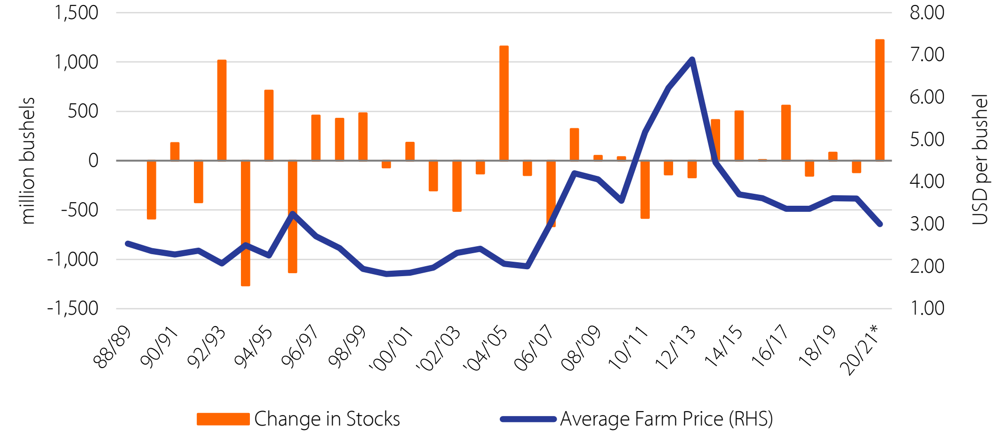
- **Timely spring planting and good weather portend for a large US corn crop.** This corn crop was seemingly planted in record time as compared to last year, but in reality it was right on schedule. Good planting weather and favorable growing conditions all point to producers putting in much of the 97.0m acres the USDA projected in March. We estimate that upwards of 96.0m corn acres were actually planted. Timely planting also puts pollination earlier in July, which gives the crop a higher yield potential.
- **The 4th of July weekend is traditionally when the market turns.** The trade is in the window of evaluating this year's crop. What is the crop's condition? Is the weather forecast favorable or not for pollination? The final piece to evaluate comes June 30 when the USDA releases its acreage report. How many acres did US corn producers actually plant? Thinking about the answers to those questions this year doesn't bode **well for corn prices after the July 4th weekend.**
- **Ethanol plants opening back up is good news for the corn market.** The travails of ethanol market the past few months has been well-documented. To reach the USDA's current projection of 4.9bn bushels in 2019/20, average weekly corn usage for the remainder of the crop year would need to be 93.6m bushels per week. This appears possible with last week's grind at 85.3m bushels and gasoline supplied to the US continuing to increase. However, this not to discount the long-term challenges to the ethanol sector –decreasing or no increasing gasoline use, increasing use of electric cars, increasing CAFE standards and policy uncertainty.
- **Basis values have rebounded** with reopening of ethanol plants, which may present the best marketing opportunity. For example, basis values at Fort Dodge, IA collapsed USD 0.45 per bushel in March. Basis levels there have rebounded nearly USD 0.30 a bushel and are standing at USD 0.09 under the board, which is just a nickel under values of a year ago. Basis values around the Corn Belt have rebounded as buyers try to coax corn out of the country. As planting and spraying wrap up, attention will be turning to selling the remainder of old corn stocks before harvest. Basis values won't hold up against a pick-up in selling, so the opportunity to lock favorable basis values is limited.
- **Poor corn crop conditions in Brazil are not likely to translate into increased US corn exports.** Brazilian corn exports were only 3m mt (Jan-May), 62%, down year-on-year as Brazilian corn was priced out of the export market. The safrinha crop conditions are rated below average and yield is expected to be negatively impacted. However, total production is estimated at 99m mt comparable to last year's 101m mt crop. This is due to an increase in planted area (+0.9m hectares). Brazilian corn exports are forecast to rebound in the second half of the year (28m-30m mt) after the safrinha crop is harvested in the Aug/Sept time frame. Potential total Brazilian corn exports are 35m mt this year compared to 40m mt last year. With total global corn exports down nearly 12m mt, there is little opportunity for the US to capture additional corn exports.

North/Central Iowa basis values have rebounded and potentially moving up



Source: Dow Jones, DTN-ProphetX, Rabobank 2020

Change in US Corn Stocks projects farm price to USD 3.00 per bushel



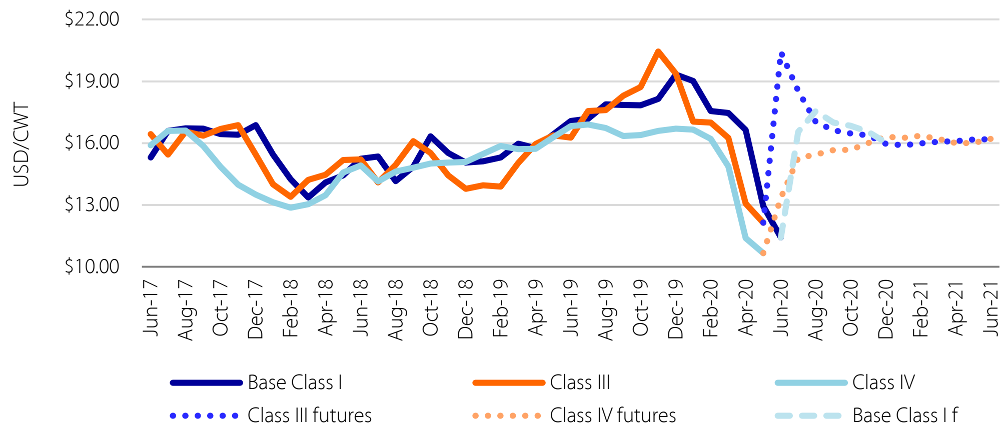
Source: USDA-NASS, Rabobank, 2020

Dairy

"V" is for volatility

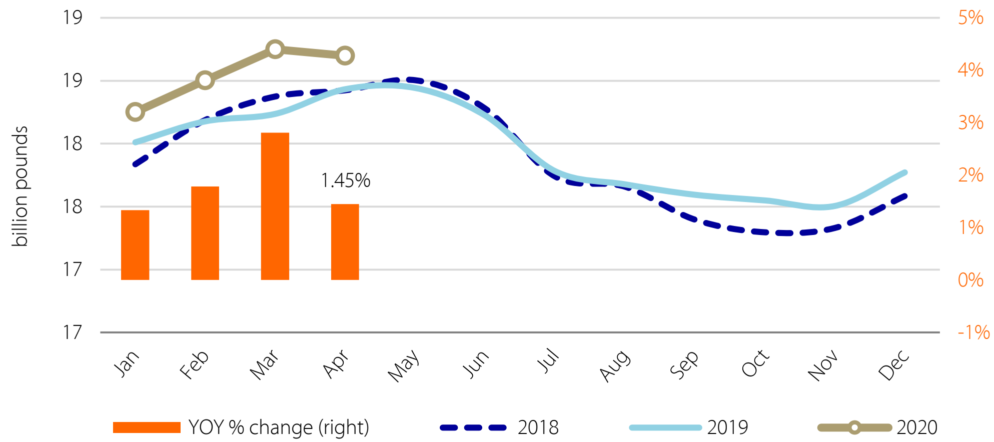
- **After a sharp drop to historical lows in response to Covid-19 lockdowns, cheese prices skyrocketed to record highs in early June.** This rebound has been driven by sustained strong demand at retail, a re-filling of foodservice pipelines, and substantial government purchases.
- **Once government purchases and initial foodservice restocking slow down, fundamentals look more bearish.** Government aid could be more substantial and last longer this year than we might have otherwise expected because it is an election year. However, inventories are building and demand will be slower through the rest of the year as imbalances between foodservice and retail move back toward normal.
- **High class III and low class I milk prices will lead to a negative Producer Price Differential (PPD) on many milk checks.** When class III values are much higher than Class I (due to pricing lags between the two), negative PPDs show up on milk checks to adjust the value of producers' milk from the class III values to the weighted average value of all four classes of milk. Current futures imply about a USD 9 gap between Class III and Class I milk in June.
- **Milk production was up 1.4% in April, but most of that increase was likely disposed of before making it to a processing plant.** Lockdowns, and urgent calls from cooperatives to reduce milk shipments led to widespread milk disposal on farms. While the dumping has since stopped, it likely represented at least 1% of milk produced in April.
- **Inventories grew dramatically for butter and nonfat dry milk in April.** Nonfat Dry Milk inventories were up 41% YOY at the end of April. Butter production set a record in April of 215m pounds, up 25% from last year. Cold storage inventories of butter increased nearly 60m pounds. These products have a longer shelf life and often serve a balancing role when there is excess milk, but these inventory levels will take time to work through and will weigh on prices through the rest of the year.
- **Trade will face headwinds from a combination of slower demand and weaker currencies against the dollar among importing regions.** China's import demand is expected to be down 15% across 2020.
- **The price outlook has improved, but heightened volatility is ahead** due to the uncertainties about the degree of government aid, the risk of a second wave of Covid-19 infections and the degree of economic recession impacting consumers. xxx

US milk prices and futures



Source: CME, Rabobank 2020

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



Source: USDA NASS, Rabobank 2020

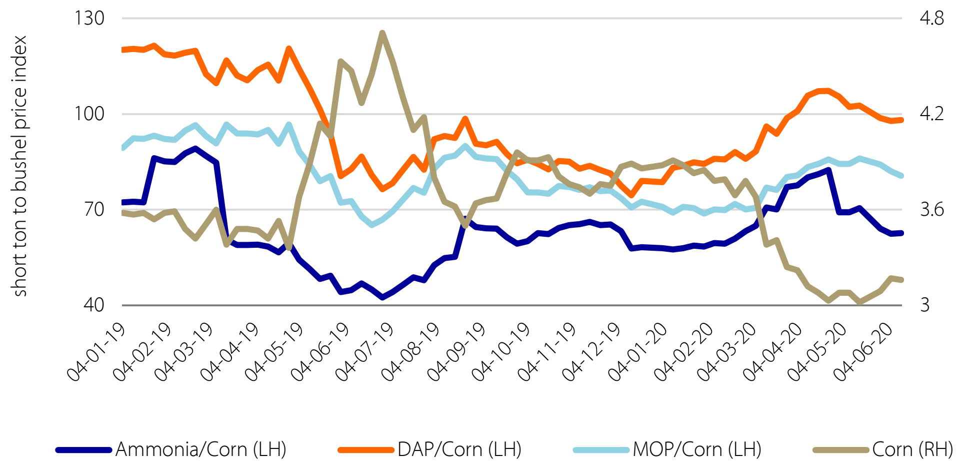
Farm Inputs

Bottom of a Cycle?

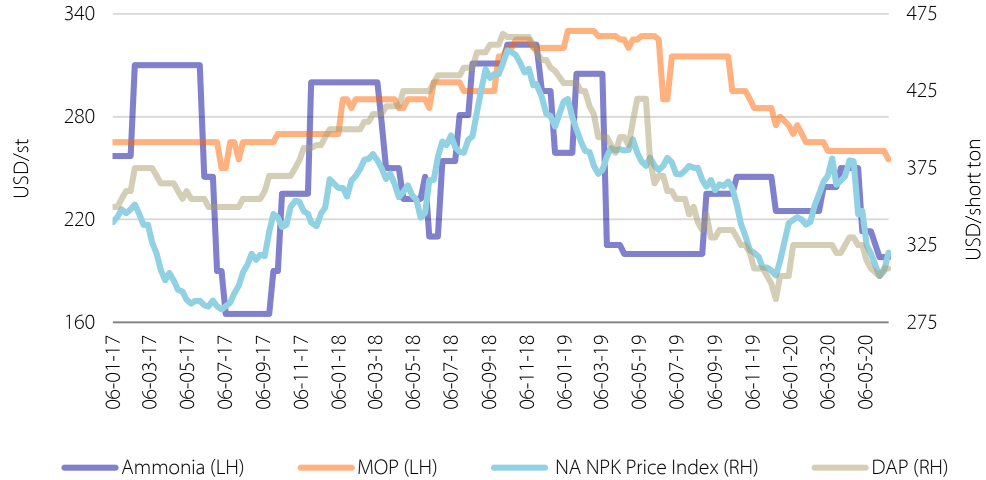
Fertilizers

- The relative cost of fertilizers (nutrient-to-corn ratio) increased sharply as Covid-19 took hold, driven by the deteriorating corn price through March. The North American Fertilizer Price Index was slower to respond, partially driven by a surge in nitrogen prices post prospective planting. However, since its post Covid peak, the benchmark has fallen almost 20%.
- For a large part, the fall in the index has been driven by NOLA ammonia prices collapsing ~20%. Given ammonia's exposure the broader economic backdrop, and seasonality, we would expect ammonia prices to be slow to recover globally, but take an upward trajectory.
- The UAN and urea price fall has been interpreted by some as fewer actual corn acres being planted, with a number of the larger inputs companies lowering their corn planted acres forecasts. We take the view that a large number of the corn acres made it to ground. However, a weakening ammonia price, lower 2021 corn acres and strong urea production coming out of China is putting a dampener of the nitrogen complex. Irrespective, we have seen a convergence in price between urea and UAN on the back of wider seasonal average spreads in March.
- Price risks are to the upside for DAP as we head through the summer months. NOLA DAP prices have increased almost 5% through the start of the month, with indications that international producers have been slow to meet US demand.

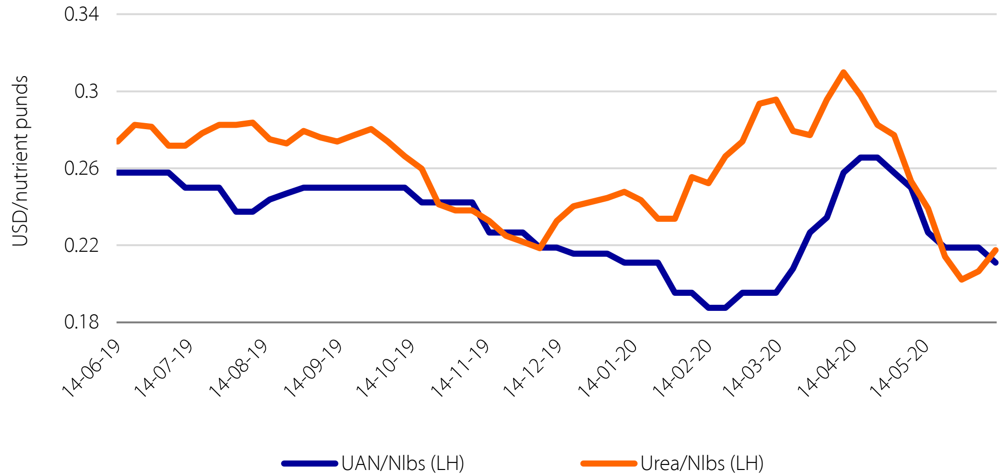
Nutrient-to-Corn value



North American NPK Price Index



Nitrogen price comparisons



Sources: Bloomberg, Green Markets, Rabobank 2020

Feed

Covid-19 spurs strong US hay shipments to Asia

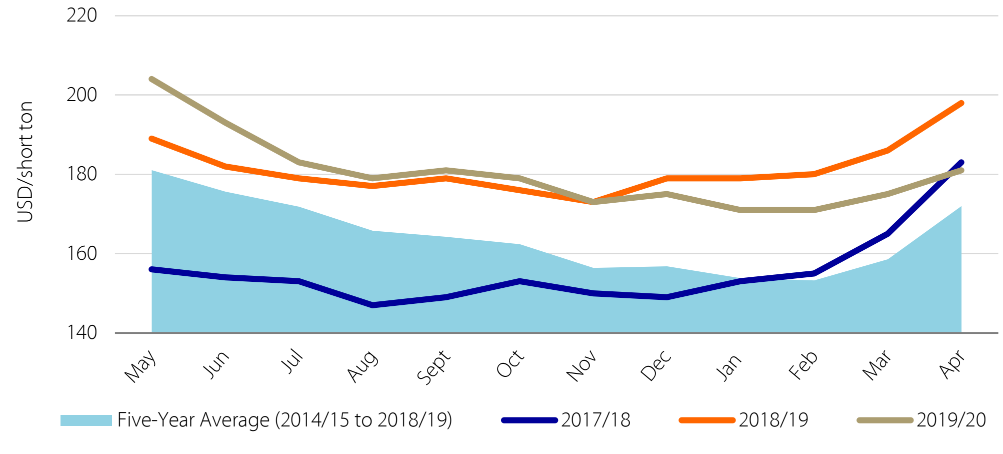
Hay

- **US alfalfa hay prices finished the 2019/20 marketing season at strong levels.** April 2020 prices were USD 181 per ton, up 3% from March. April prices were 9% lower YOY, but still 5% higher than the previous five-year April average. Late spring rains in the west have negatively impacted the availability of high-test, new crop hay. This quality disruption, coupled with a rapid recovery in dairy markets, has helped to support May and June prices for high-test hay, but cheap corn continues to limit upside price potential overall.
- **Through April 2020, total US alfalfa hay exports were up 16% YOY, with April exports 35% higher than the previous five-year average, and they set a new record monthly high.** April exports to China more than doubled YOY, and 2020 exports to China were 85% higher than the first four months of 2019. Through April, 2020 alfalfa exports to South Korea are up 21% YOY, while exports to the UAE are down 54%. Covid-19 lockdowns and port disruptions have made international buyers nervous about being able to get the hay they need, which has bolstered recent purchases.
- **Other hay exports were up 3% YOY through April, on a significant increase in Chinese buying.** Exports to Japan were also up, while other hay exports to Saudi Arabia, South Korea, and the UAE were off, YOY, through April.

Corn, Soybean Meal and By-products

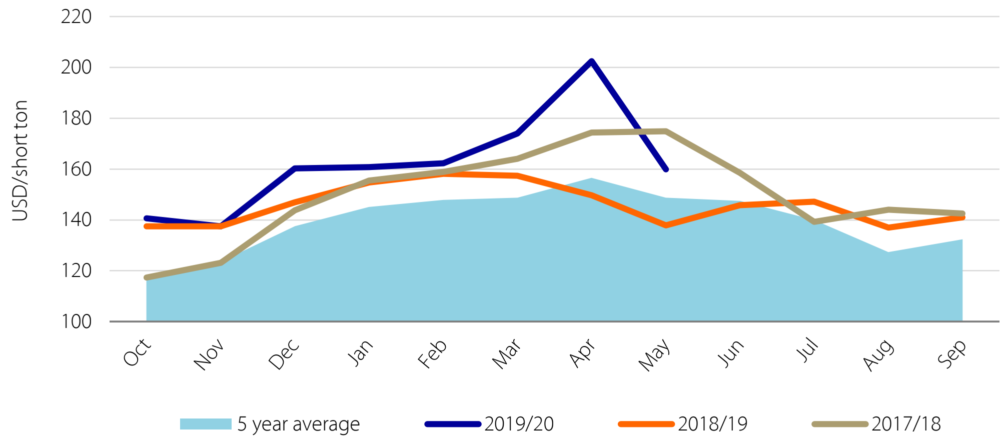
- **Expected higher corn production is likely to help offset some of the pressure felt in feeding operations during the second quarter of the year.** While some feeding operations had to retain animals longer than expected due to plant closures or lower processing rates, increased availability of corn and soybean meal helped offset some of the incurred cost of keeping animals longer. Ample corn and soybean meal supplies will help keep feed cost lower in the coming months. However, feed demand is likely to decline as euthanizing measures have been taken in the poultry and hog industry.
- **By-product ingredients are slowly coming down from a recent spike in prices, according to new data.** After the disruption to processing plants, and panic shopping, by-products saw an increase in prices. As plants are running almost at full capacity and the panic shopping effect begins to tame, DDGS and wheat middlings are beginning to show a decline, with DDGS declining 21% from April to May and Wheat middlings declining 26% in the same months. However, compared to May 2019, DDGS and Wheat middlings continue to be higher by 16% and 20%, respectively.

US alfalfa hay prices, 2017/18-2019/20



Source: USDA/NASS, Rabobank 2020

US DDGS prices, 2017/18-May 2020



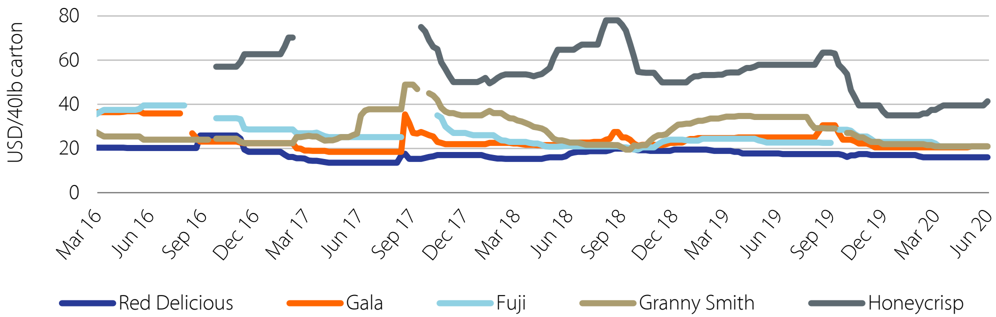
Source: USDA/ERS, Rabobank 2020

Fruits

Relatively favorable outlook for summer fruits

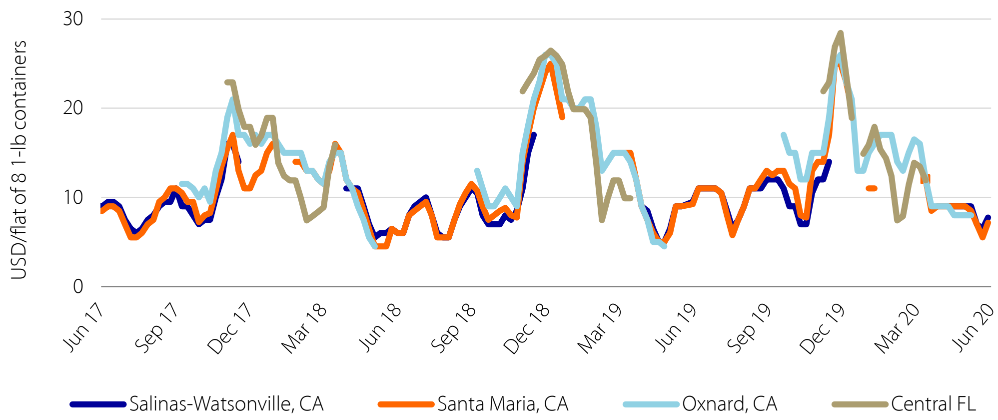
- **Strawberry shipments out of the central coast in CA have been up YOY during most of the season.** By mid-June, prices were down about 10% YOY to below USD 8 per flat. Prices will start to pick up as Santa Maria peak production is behind us and summer demand is expected to improve.
- **Initial estimates put CA table grape crop at 106.5m boxes in 2020, up about 1% YOY.** Prices in June are up YOY as the Mexican season started earlier this year with shipments down 16% YOY. The industry anticipates a strong demand for US table grapes and will promote healthy snacking. **Stone fruit production in CA and in the SE is expected to be good, with steady prices.**
- **The northwest cherry season is ramping up, with production expected to be down about 20% YOY.** Cherry shipments out of CA were significantly higher due to favorable weather. Domestic retail demand is strong. Exports to China may benefit from reduced tariffs this year.
- **Navel orange prices have maintained an upward trend since March.** During June 2020, prices have been over 80% higher compared to the multi-year lows in 2019 for Navel 88s. Valencia orange production will be slightly down YOY and prices are up 50% YOY at the start of the CA season. Larger-sized lemons were priced 30% higher than the multi-year lows 52 weeks before. Strong citrus demand is expected to continue during the rest of the summer amid the Covid-19 pandemic.
- **After the second week in June, mid-sized CA avocado prices were down more than 30% from multi-year highs a year ago.** Prices remain above USD 40 per carton for Hass 48s. The California season should extend longer towards end of summer. Retail avocado sales increased by two digits YOY since social distancing measures were implemented. Demand and prices are expected to remain steady going forward. Expect increased summer supplies from CA and Peru.
- **Apple inventories reached record high levels in June.** During the first half of June, prices of Granny Smith, Honeycrisp, Gala, Red Delicious, and Fuji were down 39%, 28%, 16%, 10, and 8% YOY, respectively. Apple retail sales in the US have improved marginally YOY during Covid-19 times.

Washington apple shipping point prices – 88s – WA Extra Fancy, 2016-20



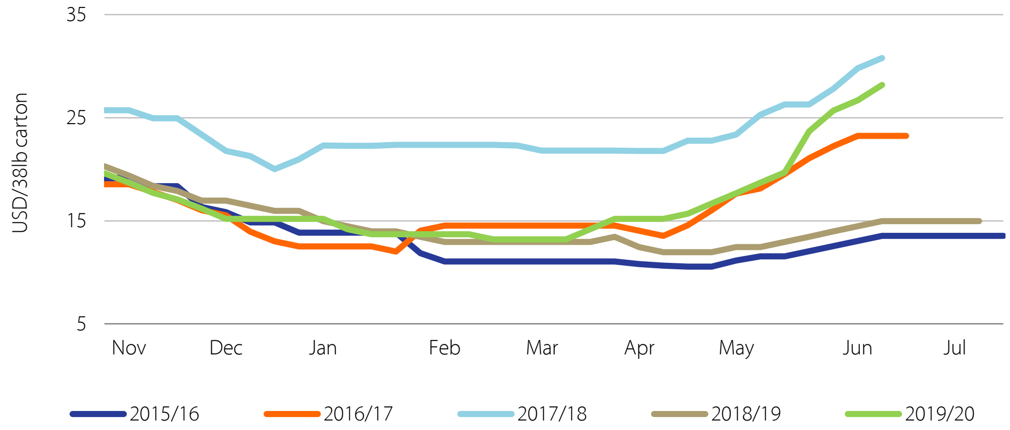
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2020

Strawberry shipping point prices – primary US districts, 2017-2020



Source: USDA AMS, Rabobank 2020

Navel orange shipping point prices – shipper's 1st grade 88s – 2015-2020



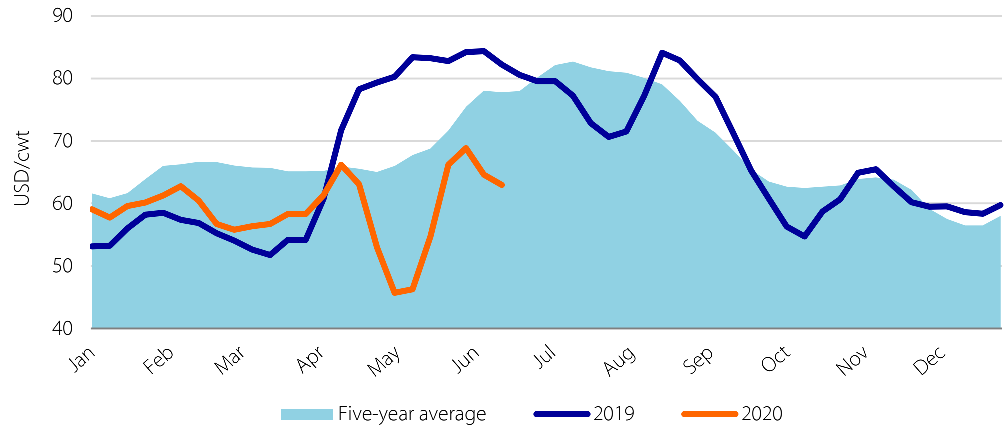
Source: USDA AMS, Rabobank 2020

Pork

Massive disruption leads to supply overhang and weaker demand

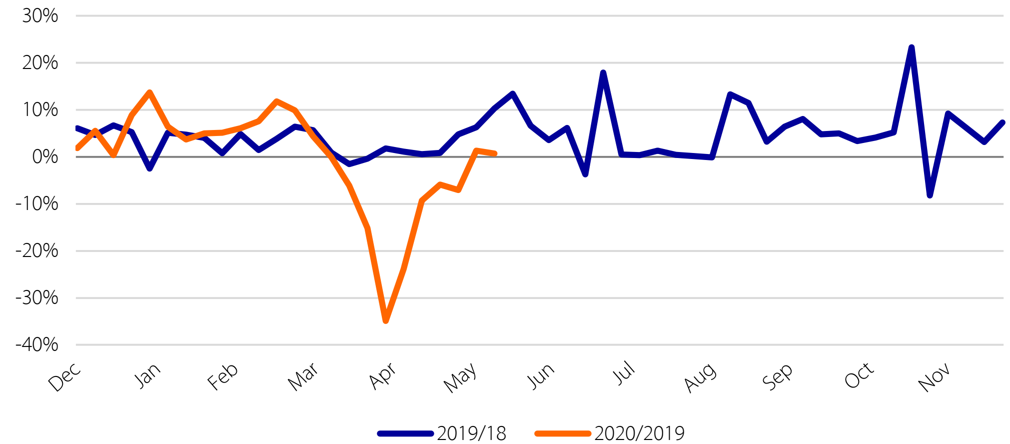
- **After significant disruption in April and May, the pork packing sector is nearly back to prior year operating rates.** Even with a return to 'normal' harvest levels, extended plant closures have created a backlog of nearly 3m market-ready pigs that continues to weigh on the hog market. We are encouraged by the decline in slaughter weights (up 1% YOY in June versus up 3% in May), suggesting that producers may be more current in their marketings and that maintenance feeding programs were successful. However, we remain cautious. Producers were able to liquidate heavy pigs that were unable to find shackle space early in the quarter, although we believe these numbers are much smaller than consensus estimates. The USDA's June Hogs and Pigs report will provide greater clarity around the number of market hogs euthanized, but we caution that, given the timing of the survey, it may not capture actions taken in June. With production losses expected throughout the balance of the year, we expect sizable contraction in the herd in coming months.
- **Pork prices peaked in May on limited availability following several temporary plant closures, but have since moved sharply lower.** Increased production, along with large supplies of competing meats and weaker demand (especially in foodservice), have pressured pork values in recent weeks. Ongoing labor constraints are limiting packers' ability to debone and trim product, further weighing on realized prices. There has been some stabilization in ribs and bellies in recent days, yet the remainder of the carcass is under considerable pressure, and we expect limited improvement in the near term. Hams continued to struggle on a lack of deboning capacity, and loins are facing increased competition from other grilling items. There has been steady export interest throughout the spring, and our expectation is that current prices will attract stronger interest in coming months. This should help put a floor under pork values and help stabilize returns.
- **US exports remain robust, with April exports rising 22%, to 291m metric tons.** Shipments to China remain a key driver (up 365% YOY) and, despite early disruption due to Covid-19, are up nearly five-fold from 2019 levels through April. Exports to Japan are also higher (up 30% YOY in April), as interest continues to rebound following the implementation of the free trade agreement. Exports to many other destinations were weaker in April and May, due to Covid-19-related disruption but have since rebounded. We expect strong exports into most major markets throughout the balance of 2020, as depressed pork prices are likely to attract more consistent interest.
- **After Mexican hog prices collapsed in May, markets have stabilized in recent weeks.** Led higher by improved pork values and steady demand as the market reopened, hog prices are now 8% above May but still well below historic levels. Pork prices may struggle going forward, however, as plentiful US pork imports and economic weakness dampen demand. Challenging pork demand is likely to limit further improvement in hog prices, leading to further declines in 2020 production.

US lean hog prices, 2019-2020



Source: USDA, Bloomberg 2019

Weekly hog slaughter, YOY change



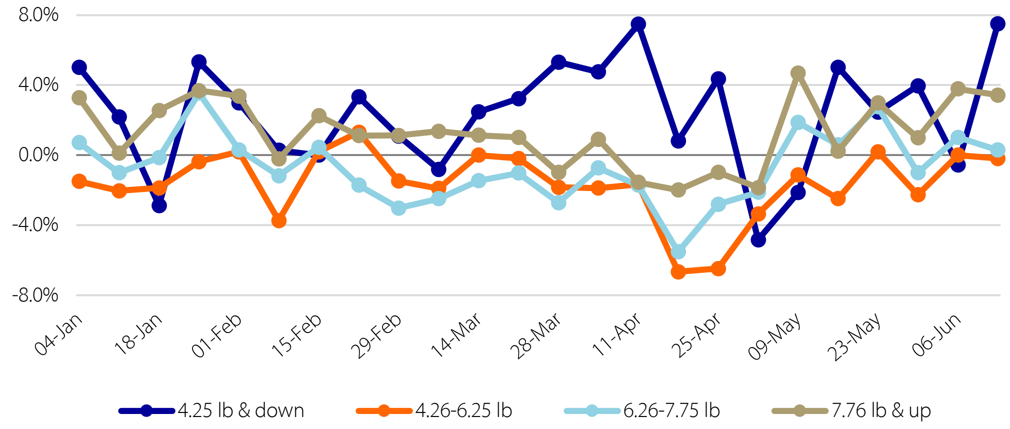
Source: USDA, Rabobank 2020

Poultry

Prices remain weak on excess supply and soft demand

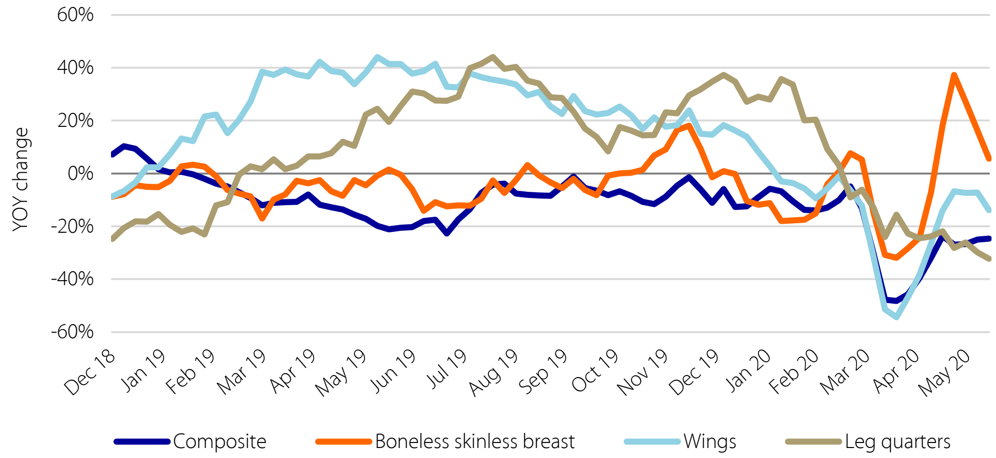
- **RTC chicken production is averaging 1% ahead of year-ago levels, despite a nearly 4% drop in birds slaughtered.** This shift toward heavier average bird weights reflects sharp declines in the production of small birds with simultaneous increases in the larger sizes and will likely moderate in the summer months. The increase in tray pack and some big bird production reflects better demand at retail and fast food. Anticipating a further recovery in demand, egg sets began to move higher in the last two weeks versus year-ago levels and suggest slaughter rates may move even higher by fall. Despite improved trends in foodservice as markets reopen and consumer traffic recovers, we remain relatively bearish on the outlook for chicken demand, given a sizable overhang in competing protein supplies.
- **Chicken prices remain volatile, with prices for many small bird items moving higher and reflecting production cutbacks.** Prices are beginning to stabilize on other items, as the demand for chicken at foodservice continues to improve and pipelines are filled. High-cost beef prices (for burgers) is providing added support for chicken at foodservice, although the recent drop in beef prices will likely curb interest over the coming weeks. Prices for boneless, skinless breast meat appears to have bottomed at just below USD 1.00/pound, whereas wing prices continue to find good support on fewer head slaughtered and steady foodservice interest. The outlook for wing demand is muddied by the lack of visibility around fall sports, yet prices remain firm.
- **Leg quarter prices remain soft on mixed export interest and steady industry supplies. Bulk leg quarters are now averaging nearly 40% below year-ago levels but should see improved demand at these historically low levels.** Exports in April were up 2%, but with several key markets facing challenging Covid-19 disruption and liquidity issues, interest weakened in May and early June. Low-cost competition from leading exporters and weakness in competing proteins also worked against exports. Shipments to Canada, Cuba, and Angola improved in April but likely weakened as restrictions were implemented in May. We see the most export pressure developing in markets that are dependent on tourism and/or oil revenues.
- **Mexican chicken prices are also weak, with whole chicken and breast prices down over 20% YOY in May before recovering slightly in recent weeks.** Demand remains sluggish, with stay-at-home orders still in place in some geographies and foodservice demand soft. Production averaged 4.4% above year-ago levels in May despite disappointing returns. We believe higher feed costs and a likely increase in low-cost imported product could force some contraction in the industry, although there is little evidence to date. Large imports of chicken to start the year (up 10% in volume) also contributed to the oversupply.x

2020 chicken slaughter weights, YOY change



Source: USDA, Rabobank 2020

US chicken prices, 2019-2020



Source: USDA 2020

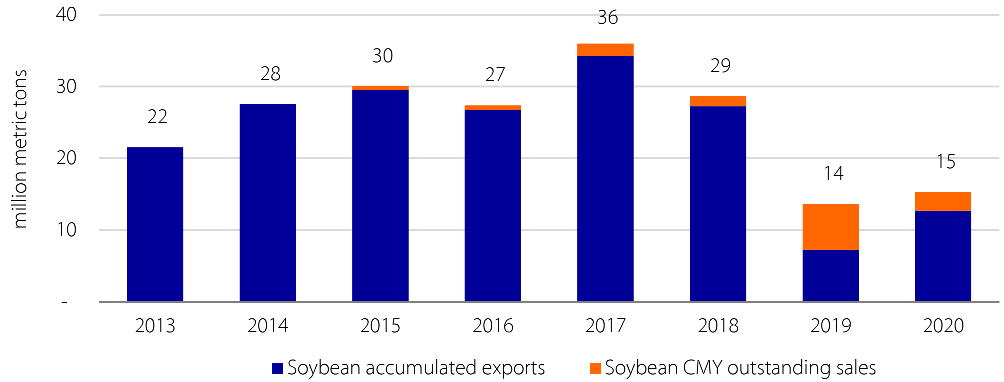
Soybeans

Large supplies amid demand uncertainty

- In the coming months, the soybean market will be focused on how big the US crop could become and how much of it will be purchased by China. Soybean prices have gained slightly on recent Chinese buying but remain below the USD 9.00/bu mark where we began the year. Without a major weather event it will likely be difficult to achieve those higher levels again this season.
- Progress of the soybean crop is well ahead of last year due to favorable weather. Most major producing states are reporting crop development ahead of normal except for North Dakota and Arkansas. The share of the crop rated as good/excellent is at 72% which is equal to average. Overall, the spring planting window and early crop development weather has been generally favorable for soybeans. A switch away from corn acres into soybean is also expected, but perhaps not as much as previously forecast due to the good planting pace. Both the good weather and higher soybean acres will produce a big US soybean crop.
- China's demand for US soybeans should pick up in coming months as they seasonally shift away from South America. Brazil's post-harvest soybean push is coming to an end. Price competitiveness is reflective of that as US soybeans are now more competitively priced. This has started to increase Chinese buying of US soybeans which is a theme expected to continue in the coming months. Commitments of the 19/20 crop remain well-below historical levels, albeit higher than a year ago. Sales of the new crop to China have reached more than 2m mt, which is the highest for this time of the season since 2015.
- Trade rhetoric is likely to remain heightened in the coming months and could impact short-term soybean price moves. China has a lot of buying to do if they are going to meet the phase-1 trade deal and the market will be hyper-focused on this in a US election year.
- Domestic demand for soybean products has been mixed as soybean meal prices have declined but oil prices have moved higher. Ethanol production is slowly recovering from its April bottom, which is increasing DDGs production and pushing meal prices back to pre-pandemic levels. Soy oil values have moved higher in recent weeks as energy markets recover. However, the soy oil price move has not been enough to offset slightly higher bean and lower meal values. This has pushed board crush values down. Going forward, feed demand should remain stable in the short term due to a high number of animals on feed. However, in the longer term there is more uncertainty as liquidation of herds occurs.

US soybean demand from China remains historically low

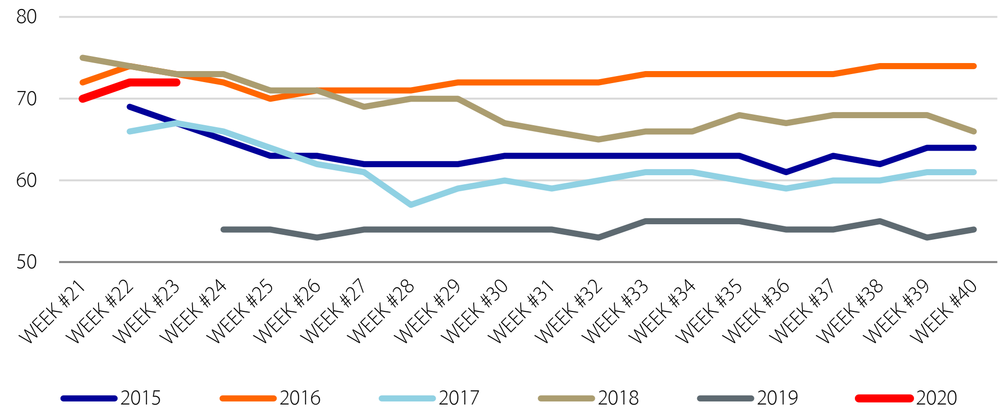
US soybean export commitments to China



Source: Bloomberg, USDA, Rabobank 2020

Ratings of the soybean crop are high

Percentage of the US soybean crop in good/excellent condition



Source: USDA, Rabobank, 2020

Tree Nuts

Bumper crops loom

Almonds: Through May 2020, shipments were up about 4% YOY, and 72% of the total marketable supplies of the 2019/20 record setting crop were sold. Exports, accounting for 68% of US shipments, were up 3% YOY, while domestic shipments were up 4% YOY through May. Prices have weakened further during the last two months to multi-year lows as the 2020 harvest is set to reach 3bn pounds for the first time, an 18% increase over the previous record crop. Strategic marketing efforts will be increasingly relevant.

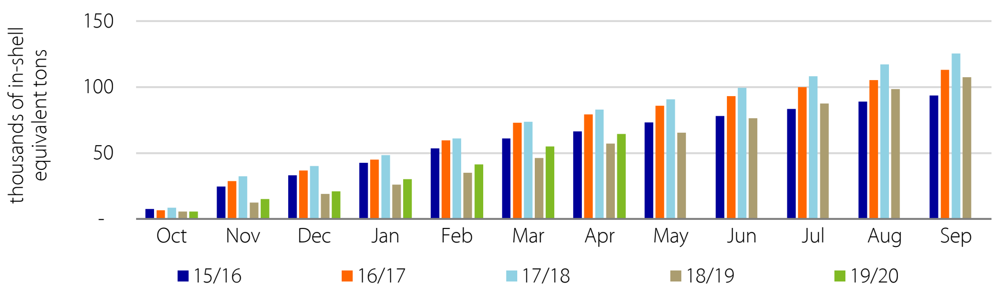
Hazelnuts: Shipments through April 2020 for the 2019/20 marketing season were up 4% YOY, with total in-shell exports increasing 15% YOY. About 87% of the crop was already sold. Early industry estimates put the crop in 2020, an 'on-year', as record-breaking.

Walnuts: Total shipments during the 2019/20 season through April were down about 7% YOY, with 71% of 2019/20 supplies sold, lagging behind last year's pace despite the lighter crop. Exports declined by 10% YOY, and domestic shipments were down 2% YOY. Exports accounted for 67% of US shipments. Logistic bottlenecks related to the Covid-19 pandemic, tariffs entering China, combined with increased competition from China and Chile in international markets, have negatively impacted US walnut shipments. Nevertheless, ending stocks should end the 2019/20 marketing year at a manageable level. The 2020 US crop is expected to be plentiful and likely a record high.

Pistachios: US pistachio shipments during the 2019/20 marketing year continue tracking well, despite some supply chain disruptions, with 52% of the supplies sold through April, the same proportion as in the previous season. Prices are reported to be steady and US inventories are expected to end 2019/20 at multi-year low levels. Industry sources reported issues during the pollination stage in CA, which may be reflected in lower-than-expected yields during the 2020/21 'on-year'. A crop over 1.1bn pounds is now less likely, but still a possibility.

Pecans: US pecan export volume in the 2019/20 marketing season through April is up 13% YOY, according to USDA figures. Industry sources report a renewed growth in domestic shipments, due to increasing demand for pecans in the US amid the Covid-19 pandemic. Pecans, and other tree nuts, are well-positioned as a source of healthy plant-based protein, with a demand that is set to continue to grow.

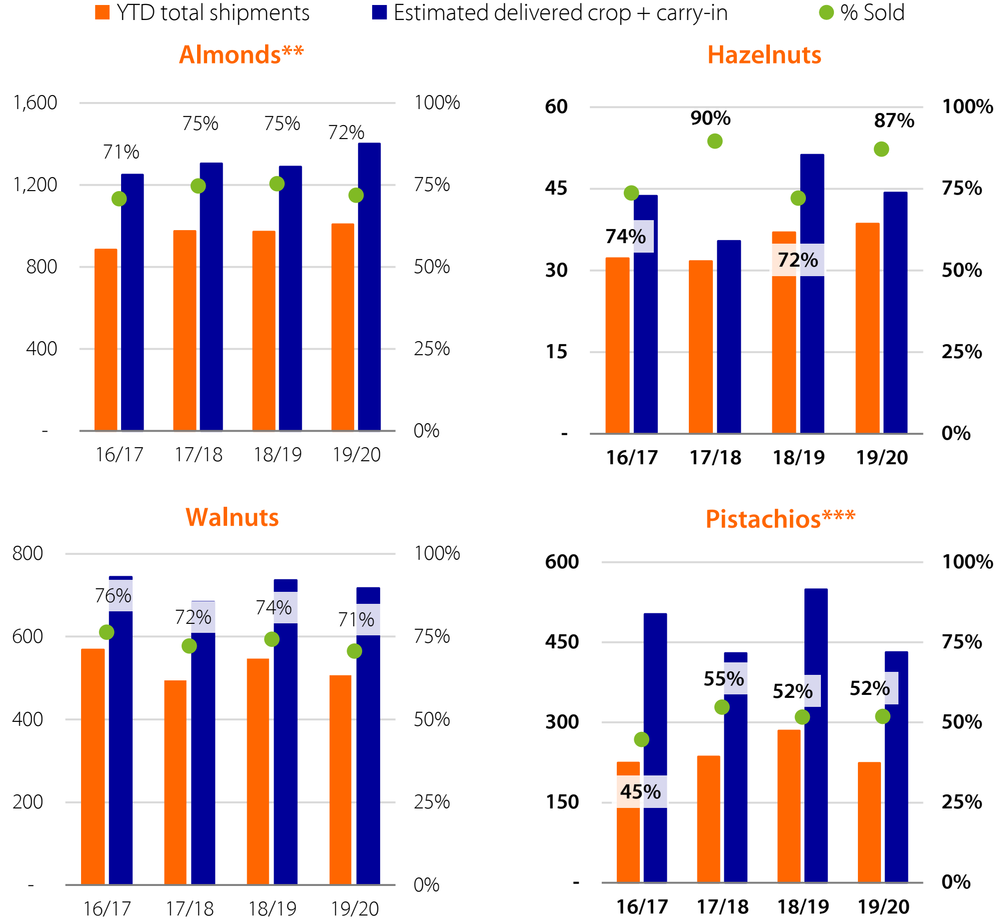
Cumulative US pecan exports



Source: USDA FAS, Rabobank 2020

*Cumulative US tree nut shipments**

(thousands of in-shell equivalent tons)



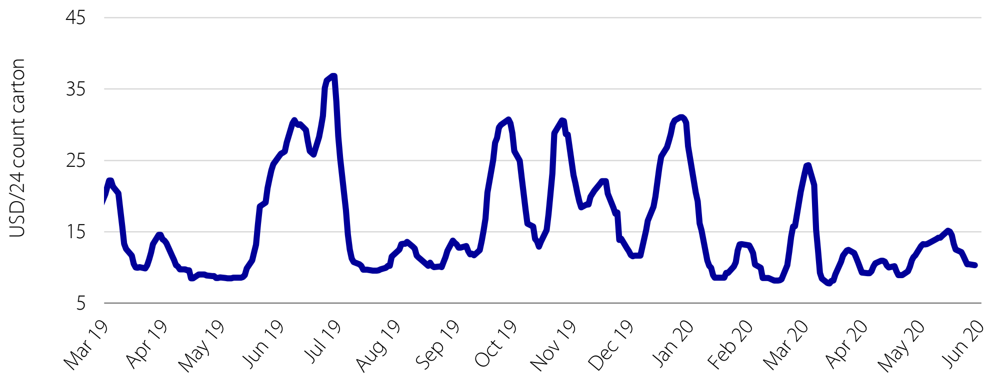
*Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2020. *Marketing year through May 2020 for almonds; April 2020 for pistachios, walnuts, and hazelnuts **Meat pound equivalent. ***Not considering inventory adjustment/loss*

Vegetables

Strong retail sales have continued, but…

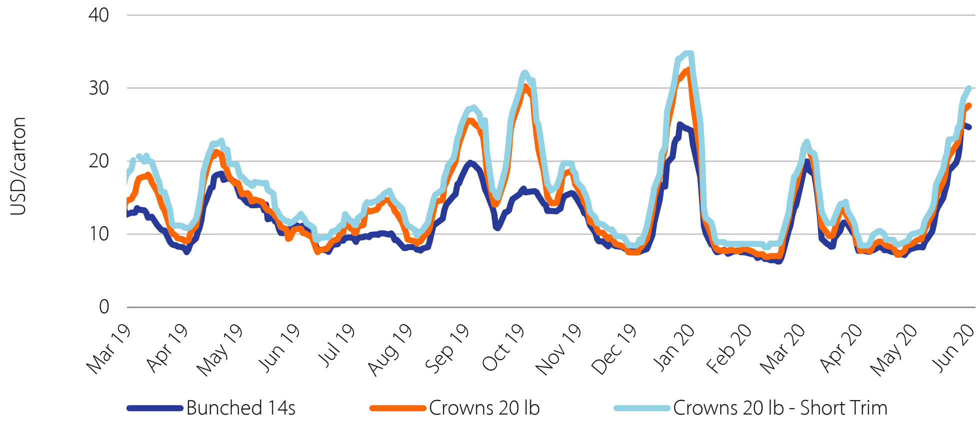
- **Retail fresh vegetable sales have grown by double-digits YOY for 12 of the fist 13 weeks of the Covid-19 pandemic.** The favorable performance at retail has helped to partially compensate for the loss in foodservice sales, but net impacts vary significantly by commodity in the fresh vegetable space.
- By mid-June, broccoli crown prices were up over 100% YOY, depending on the specific product, and bunched 14s priced 116% higher YOY. Shipments out of CA temporarily declined over the last few weeks due to weather shocks. Retail broccoli sales have remained strong since mid-March, usually outpacing the growth in retail leafy greens sales.
- **Cauliflower prices are strong, at over USD 21/carton for wrapped 12s, up 107% YOY in mid-June.** Supplies from CA declined by two digits during the previous two weeks due to heat spikes and late-season showers in growing regions.
- Romaine lettuce prices have remained relatively flat since April. During the second week of June, prices were down 55% and 48% YOY for 24s and romaine hearts (12x3), respectively. Prices may increase through the summer as foodservice demand gradually recovers from lockdowns.
- Iceberg lettuce prices were down 58% YOY during the second week in June, to about USD 10/carton for wrapped 24s. Overall quality is reported as good and supplies have been plentiful, but shipments may begin to tighten soon as summer weather impacts crop development.
- Sweet potato prices in North Carolina remained at USD 16.25/carton during the second week in June 2020, down 4% YOY and close to the five-year average price. Prices may increase over the summer as we approach the usual season of lowest stocks.

Wrapped iceberg lettuce – US daily shipping point price, 2019-2020



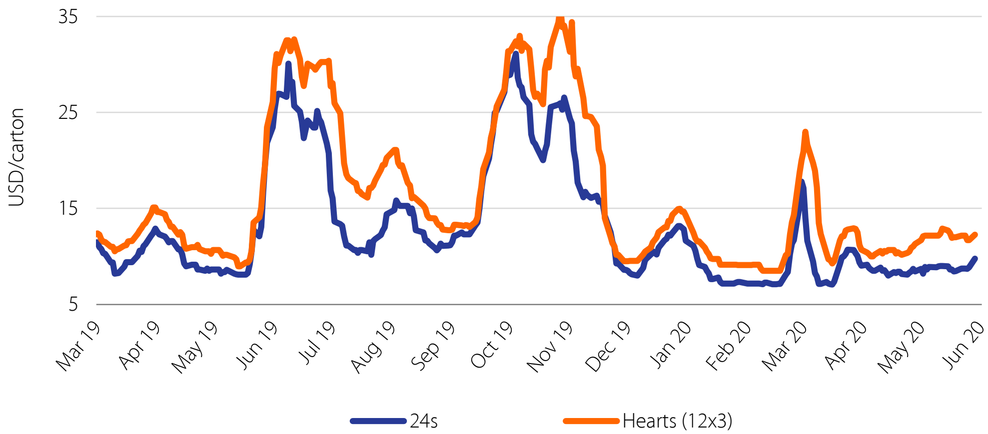
Source: USDA AMS, Rabobank 2020

Broccoli – US daily shipping point price, 2019-2020



Source: USDA AMS, Rabobank 2020

Romaine lettuce – US daily shipping point price, 2019-2020



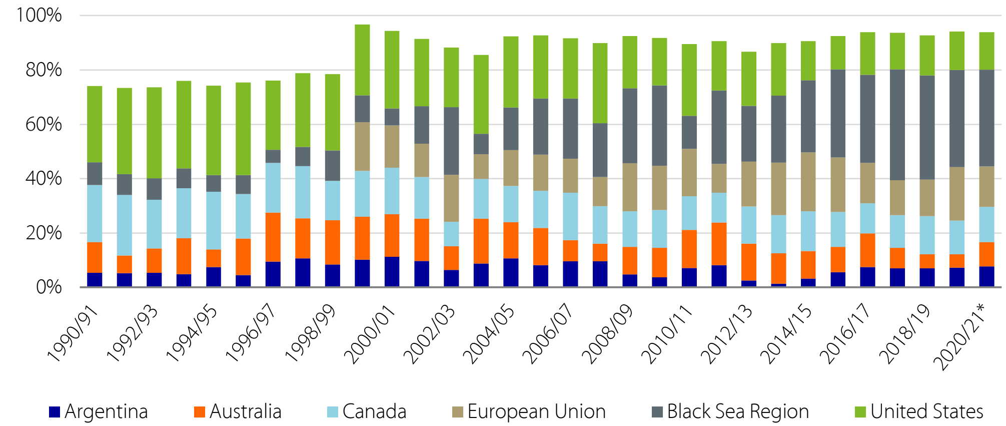
Source: USDA AMS, Rabobank 2020

Wheat

A double whammy

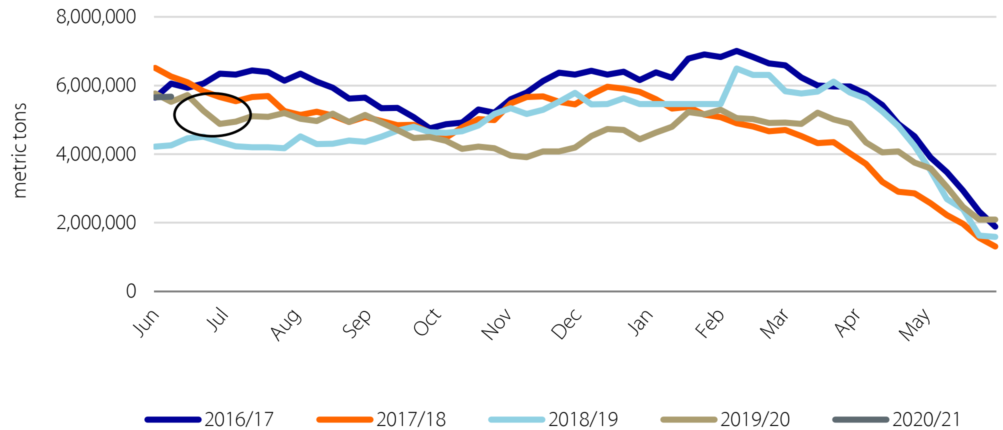
- **Increased US wheat production and reduced US wheat exports have led wheat prices back to their lows**. US wheat was hit with a double whammy. Seemingly, the prospects for higher wheat prices from decreased US acreage, and higher export prospects due to lower global production and protectionist actions, have faded away seemingly overnight.
- **2020 US winter production currently forecast down 2.9% from last year's crop**, but the market doesn't appear to care. The most recent USDA forecast saw a 1% increase in US winter wheat production from previous estimates. Reports from the field indicate this year's crop will only get bigger. In addition, early indications are that protein content will be similar to last year's HRW 11.4% protein content with some expecting protein to be lower than the 2019 crop. Again the protein market appears not to care – Kansas City 12% protein premiums are at some of their lowest levels since October of 2018.
- **Global wheat production is forecast to be a record** 773m mt in 2020/21 crop year despite weather challenges in northern Europe and the Black Sea region. Recent rains across northern Europe and Ukraine have helped this year's wheat crop, but the regions remain below normal precipitation for the season. Early season dryness is reflected in lower production forecasts in 2020. EU production is projected at 141m mt versus almost 155m mt last year and Ukraine at 26.5m mt versus 29.2m mt in 2019. However, record production in India and larger crops in China, Turkey and Australia are offsetting the production losses in the EU and Ukraine.
- **Record global production leads to record exports,** which unfortunately the US is not going to participate in. Despite smaller crop in from exporters EU and Ukraine, Australia and Russia production increases and resulting export increases will be more than enough to make up for lower exports from the former two countries. US wheat FOB prices are currently competitive with Russia and the EU. However, as soon as the EU and Black Sea crops are harvested they will be the lowest-priced wheat in the world making it difficult for the US to compete. Both the USDA and Rabobank's model show US wheat exports between 925m-950m bushels for the 2020/21 crop year. Beyond 2020/21, Rabobank's baseline model shows little growth in US wheat exports, ranging between 930m-970m over the 10-year baseline outlook.
- **Not optimistic China will come to US for wheat**. In talking to our colleague in China, he is not optimistic that China will be buying much, if any, US wheat in the future. As he explains, China is self-sufficient in wheat. Their wheat crop is forecast at 2.5m mt larger in 2020/21 crop year. Through April, the US has exported no wheat to China. In the past, China has primarily taken white and durum wheat from the US – stay tuned.

US market share of global wheat exports continues to shrink



Source: USDA-PSD, Rabobank 2020

2020/21 outstanding export sales portend US wheat exports flat to 2019/20

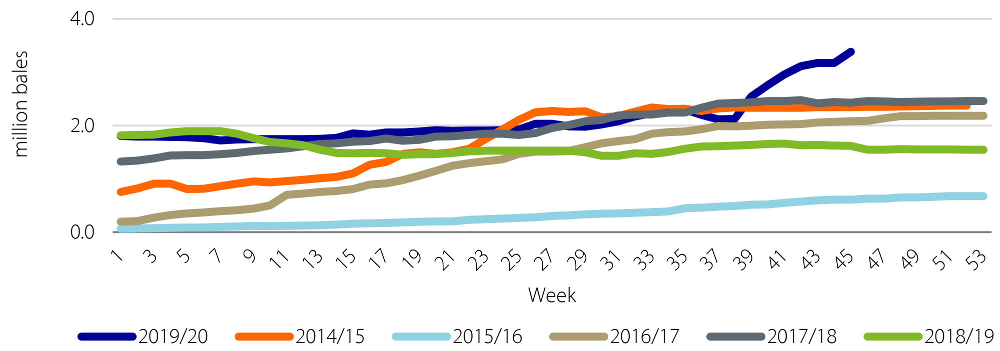


Source: USDA-Weekly Export Sales, Rabobank, 2020

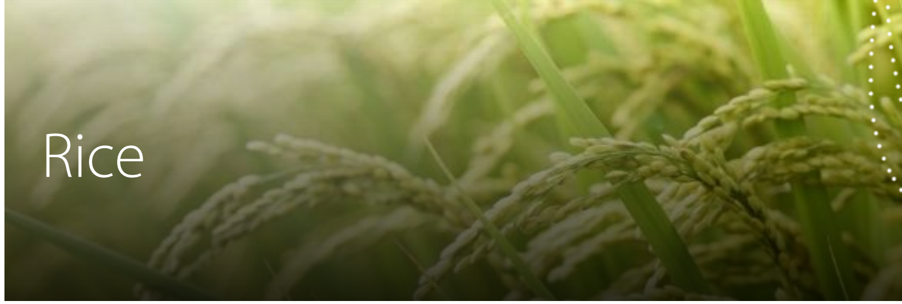
Cotton

- **ICE #2 Cotton prices continue to hold remarkably well, around the USc 60/lb mark, amid a particularly uncertain outlook.** Healthy Chinese import demand, along with firmer energy markets and West Texas dryness, keep price prospects stable. However, a very challenging demand outlook remains, with the USDA forecasting a 14% YOY fall in 2019/20 global consumption – the largest fall on record. Rabobank holds a bearish short-term view, forecasting the ICE #2 at USc 54/lb in Q3 2020, before rising gently towards USc 60/lb by early 2021.
- **US May 2020 clothing sales were 63% lower YOY, following April sales reported at 87% YOY.** Other regions have displayed similar trends, with the negative impact flowing down the supply chain. While weekly US export sales remain positive, net cancellations from key buyers are becoming commonplace. China has provided the bulk of recent sales, providing 71% of volumes in the past six weeks, likely destined for government reserves. Geopolitics aside, this reliance on Chinese buying highlights a vulnerability in US export demand. Rabobank forecasts Covid-19 restrictions to plague the textile industry, and cotton demand, for the duration of 2020 at least.
- **Two key upside risks lie ahead for cotton: #1) US plantings and abandonment, and #2) Potential logistical bottlenecks in Brazil.** With national plantings near complete, attention now turns to overall acres and conditions. A wet plant in the Delta and poor price incentives have led us to cut our US cotton acres forecast by 6% YOY, to 13m acres. Furthermore, West Texas dryness looks to persist in the short term, raising concerns of higher abandonment. Away from home, Brazil's record 2020 harvest is soon to be underway. However, Rabobank sees significant risk on the logistical side amid rising domestic Covid-19 cases and a high concentration (97%) of trade through one port – Santos. Delays, cancellations or bottlenecks in Brazil, as new crop flows emerge from September, could be a supportive force for global prices.

US export commitments to China have surged to reach 71% of total sales in the past six weeks, despite a flurry of cancellations by other importers



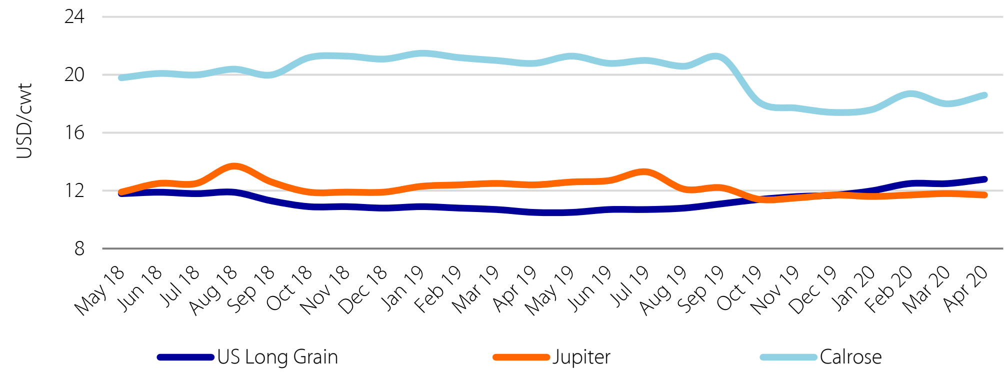
Source: USDA-RAS, Rabobank 2020



Rice

- **In June, the USDA raised its 2020/21 US rice carry-in estimate by 1.5m cwt, to 32.0m cwt, based on higher long-grain imports.** The overall carry-in will still be down about 29% YOY. Long-grain carry-in is estimated down 50% YOY at 16.2m cwt, while the combined medium- and short-grain carry-in is expected to be 13.7m cwt, up 35% YOY.
- **The 2020/21 US rice crop estimate remains at 216.2m cwt, up 31.5m cwt YOY, on an expected increase in both acreage and yields.** Long-grain rice production is forecast up 24% YOY, while combined medium- and short-grain production is expected to be up by 3% YOY and be the largest crop since 2011/12. Despite the persistent rainfall in parts of the Delta, crop condition was much improved in early June, versus a year earlier.
- **The 2020/21 US rice export estimate stands at 99.1m cwt, 3% larger YOY, while domestic and residual use is projected to be 139.5m cwt, up 3% YOY and the second-highest on record.** Rough-rice exports are expected to be up 2.0m cwt YOY, and milled-rice exports are estimated to be up 1.0m cwt. 2020/21 US all-rice imports are expected to hit a new record, but increase just 0.1m cwt YOY. Total 2020/21 US rice supply is expected to be 7% higher than 2019/20.
- **In June, the 2020/21 season average farm price (SAFP) estimate for US long-grain is USD 11.80 per cwt, while the California medium- and short-grain SAFP estimate stands at USD 18.00 per cwt.** 2020/21 southern medium- and short-grain price is projected to be USD 11.80 per cwt. Through April, 2020 the US long-grain price had outpaced the southern medium- and short-grain price, and the reported April price was the highest monthly US long-grain price since October 2014.

24-month US rice prices, May 2018-Apr 2020

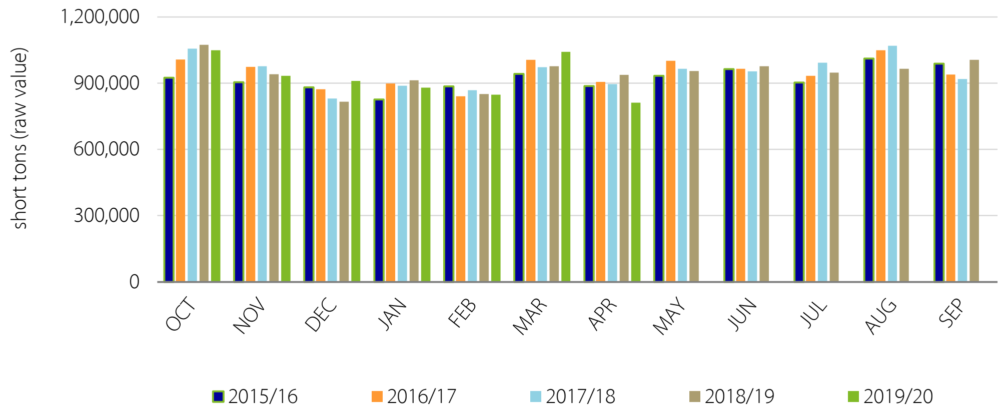


Source: USDA NASS, USDA ERS, Rabobank 2020
Note: Average rough rice basis

Sweeteners

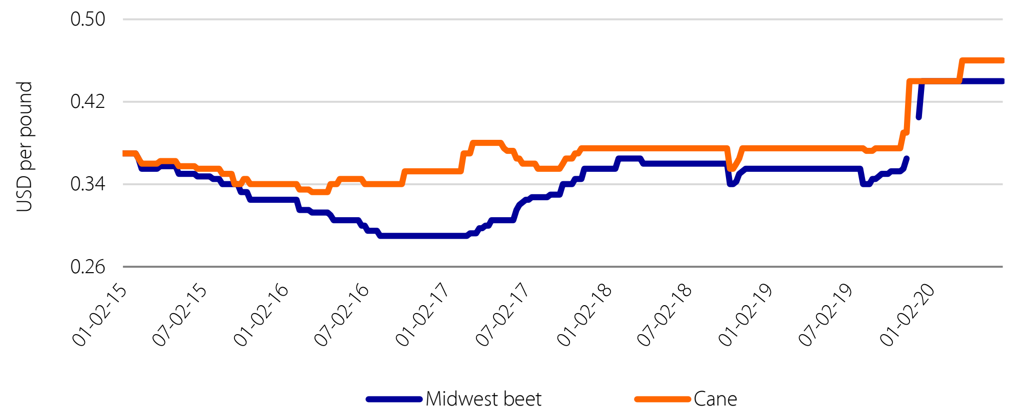
- **The US sugar market is still feeling the wild swings of the Covid-19 economy.** Foodservice demand all but vanished when stay-at-home orders were put in place. In late May/early June, beet processors, cane refiners, and distributors were seeing orders from foodservice pick up. However, they are nowhere close to pre-Covid-19 levels. Retail sugar sales are still strong but are off their March-April peak.
- **US human deliveries of beet and cane sugar collapsed in April,** down13.4% versus a year ago and down 22% from the previous month. April deliveries were the lowest since December 2013. For the crop year through April, total human deliveries are only down 0.5%. Both May and June deliveries are expected to be down as well but not as dramatically as April. The same is happening on the global front. For the first time in four decades, global sugar consumption is expected to decline over 1.0% year over year.
- **The decline in consumption will help ease the tightness of the US balance sheet.** In the USDA's June supply/demand projections, a 75,000 STRV reduction in deliveries and 136,000 increase in imports eased the tightness. Ending stocks for the 2019/20 crop year now stand at 1.632m STRV with a 13.4% stocks-to-use ratio. This compares to last month's very tight 1.434m STRV stocks level and very low stocks-to-use ratio of 11.7%. However, the current projected stock-to-use ratio still indicates a tight supply/demand situation. The USDA's target stocks-to-use ratio is 13.5% to 15.5%.
- **Mexico has picked up the export pace**. For the first four months of 2020, Mexico's sugar imports were on par with the previous year's pace. However, in April, Mexico shipped an all-time monthly record amount of 176,643 metric tons of sugar to the US. There is likely more sugar coming from Mexico in the coming months, as the US sugar supply/demand situation is still tight.
- **Old crop prices remain high, as will new crop prices**. Old crop sugar prices remain stubbornly high, but don't expect any decreases, even though deliveries have slowed. Remember, two beet processors still have force majeure in place. New crop offerings are below old crop prices but are still above prices before the run-up. New crop beet offerings FOB Midwest are around USD 0.3650/pound, while cane offerings are around USD 0.3850. Prices are not expected to ease, even though growing conditions for beet and cane are favorable. Next year's US sugar supply/demand situation is a snug stock level of 1.468m STRV and a stocks-to-use ratio of 12%.
- **New crop percentages in good or excellent condition are above last year's ratings.** The beet crop condition ratings in all the major beet-growing states, with the exception of Michigan, are above last year's at this time. In Louisiana, cane sugar is rated 76% good or excellent versus 61% a year ago. With the tight balance sheet, the US cannot afford to have any hiccups in this year's crop.

US beet and cane sugar deliveries in April fell 22% from March



Source: USDA-FSA, Rabobank 2020

US sugar prices are expected to remain high on tight supplies through next year

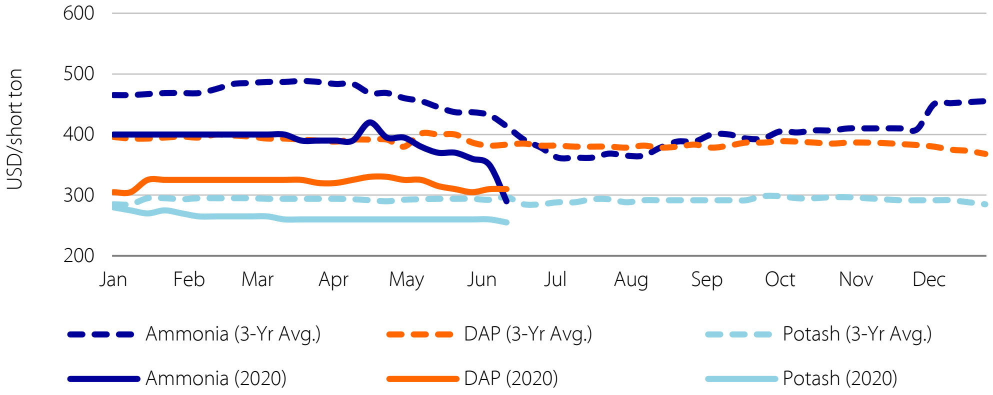


Source: Milling & Baking News, Food Business News, Rabobank 2020

Input Costs

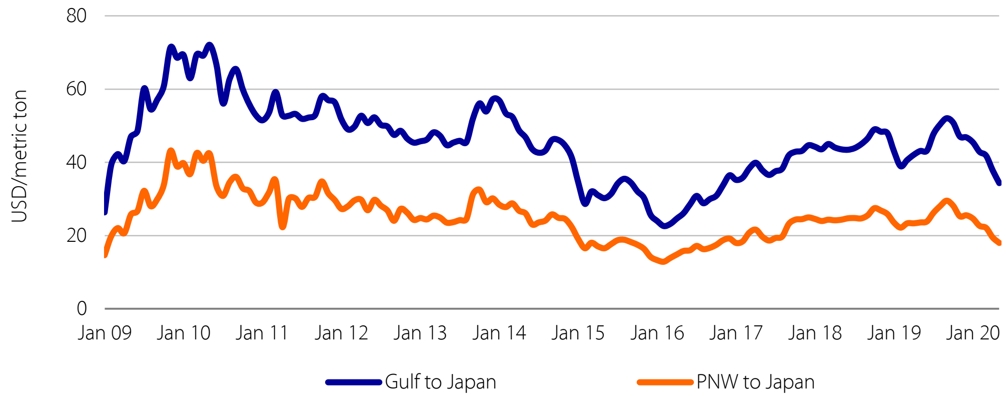
As of June 18, 2020

*Corn Belt input prices**



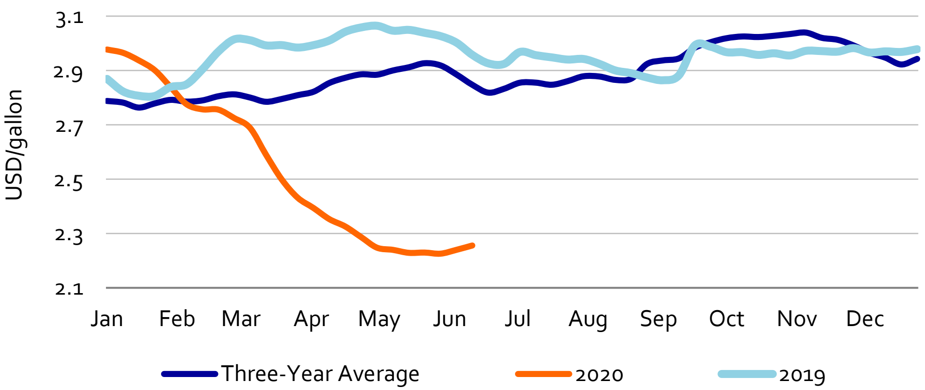
** Note: granular potash*
Source: Bloomberg, Rabobank 2020

Ocean freight



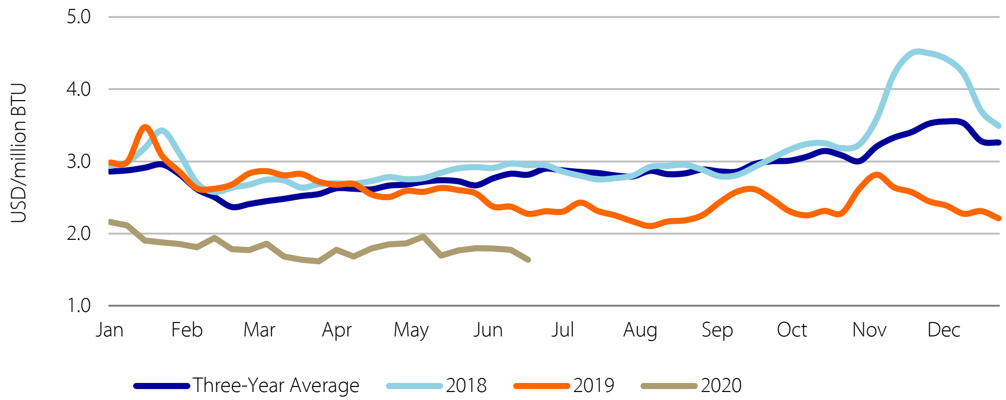
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2020

Diesel – Midwest



Source: EIA, Rabobank 2020

Natural gas spot



Source: NYMEX, Rabobank 2020

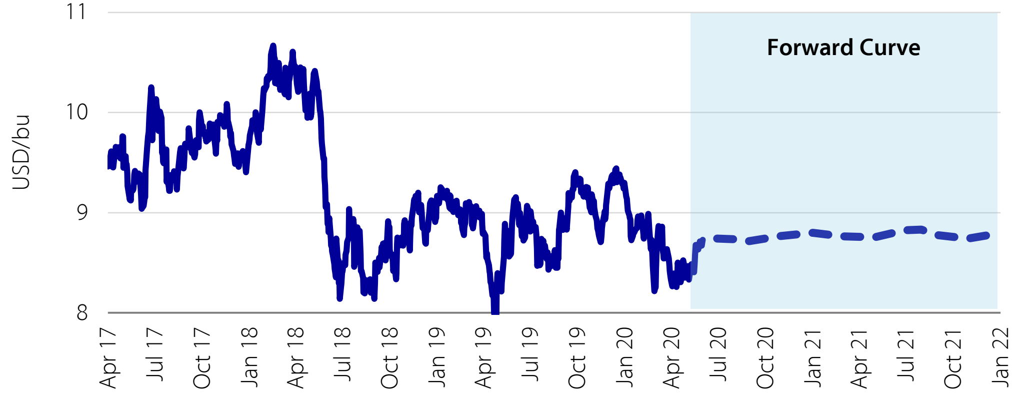
Forward Price Curves

As of June 18, 2020

CBOT – Corn

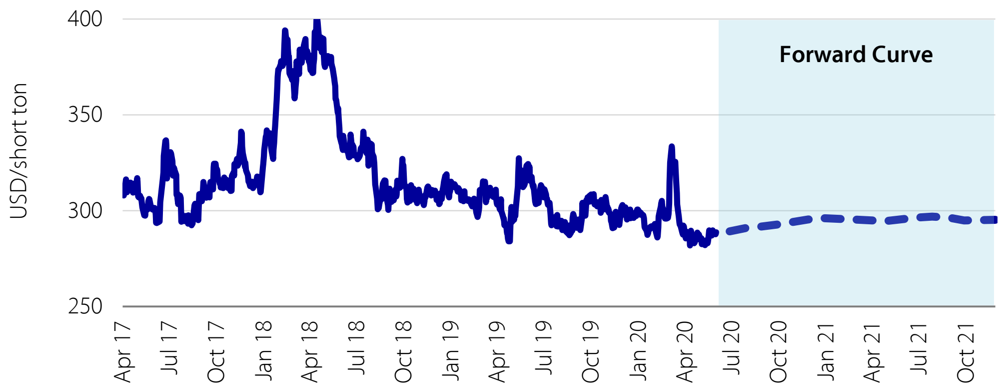
Source: CBOT, Rabobank 2020

CBOT – Soybeans



Source: CBOT, Rabobank 2020

CBOT – Soymeal



Source: CBOT, Rabobank 2020

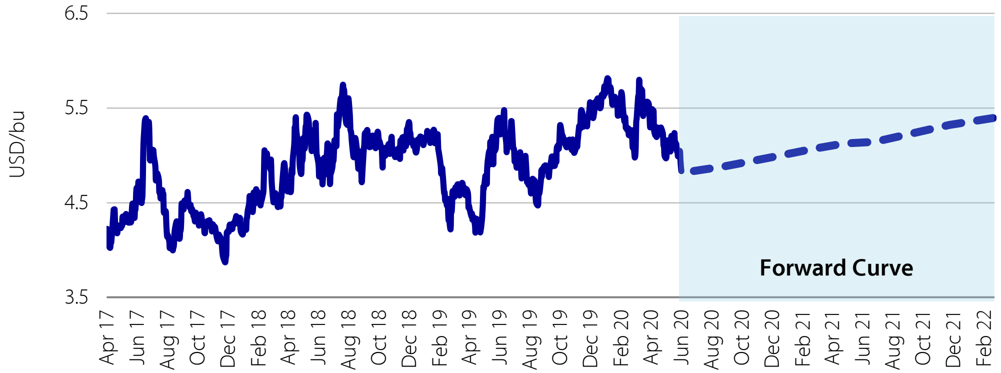
CBOT – Soy oil

Source: CBOT, Rabobank 2020

Forward Price Curves

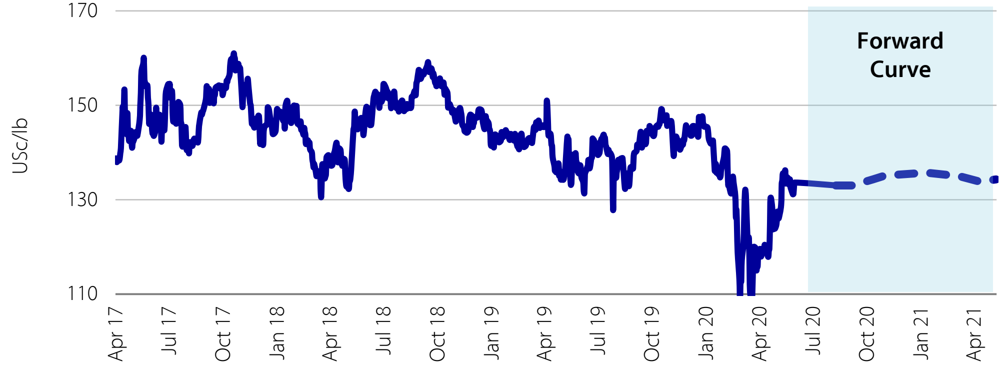
As of June 18, 2020

CBOT – Wheat



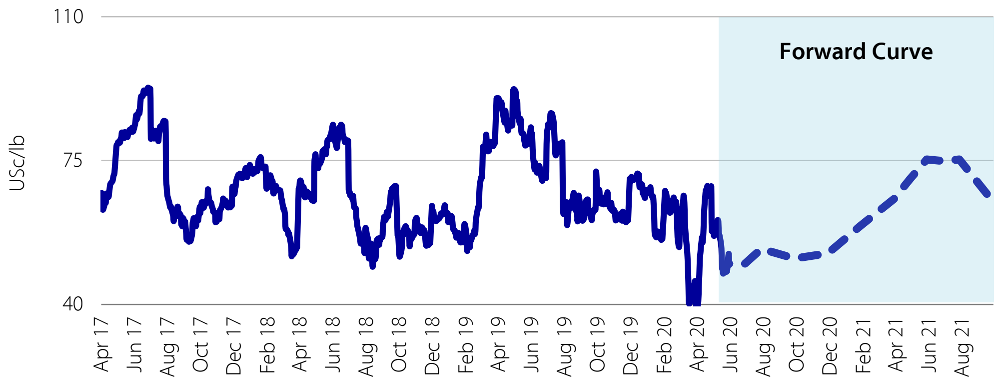
Source: CBOT, Rabobank 2020

CBOT – Feeder cattle



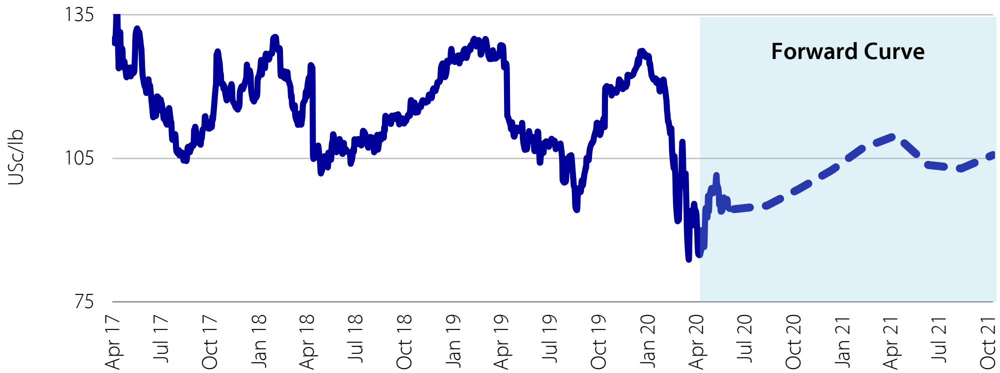
Source: CBOT, Rabobank 2020

CBOT – Lean hogs



Source: CBOT, Rabobank 2020

CBOT – Live cattle



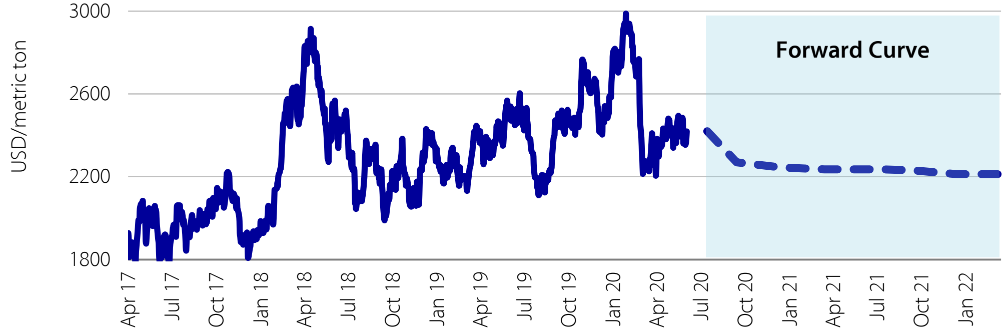
Source: CBOT, Rabobank 2020

As of June 18, 2020

ICE – #2 Cotton

Source: ICE, Rabobank 2020

ICE – Cocoa

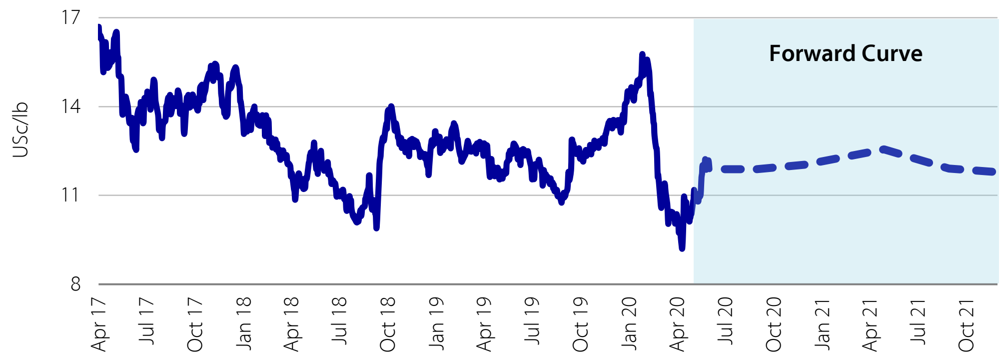


Source: ICE, Rabobank 2020

ICE – FCOJ

Source: ICE, Rabobank 2020

ICE – #11 Sugar



Source: ICE, Rabobank 2020

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