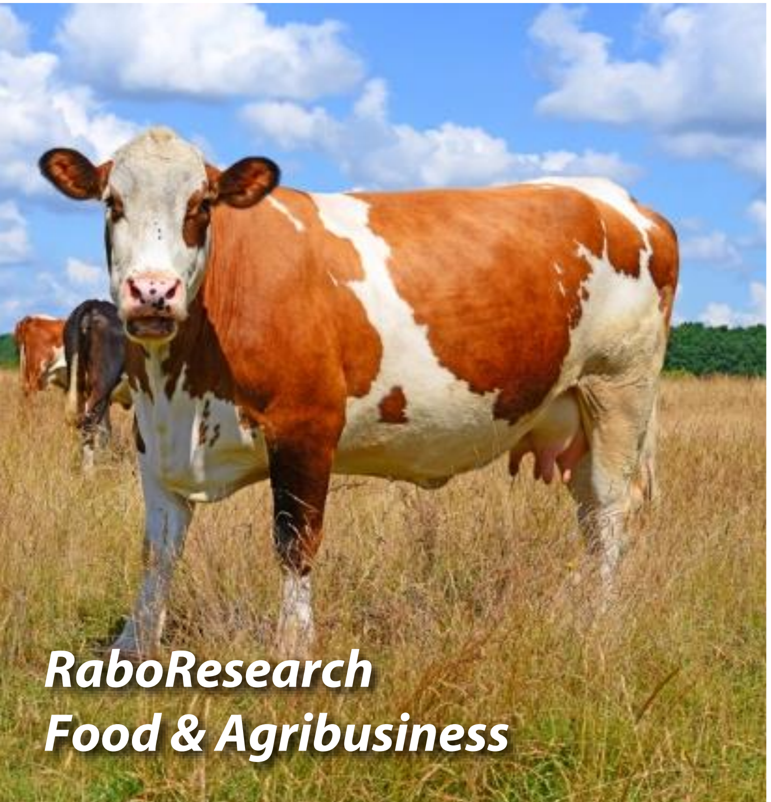



North American Agribusiness Review

Rabobank





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US

- Consumer price inflation rose to 8.6% in May (CPI year-on-year), crushing the Fed's hope that inflation had peaked at 8.5% in March. In response, the Fed decided to hike by 75 bps in June. The Fed now expects to raise the federal funds rate to 3.4% by the end of the year. However, the Fed still does not recognize that a wage-price spiral has already started in the US, so we are likely to see a target range of 3.75%-4.00% by December. Negative supply shocks and inflation are hammering the US economy and after a 1.5% contraction in GDP in Q1, the Atlanta Fed now forecasts 0.0% growth in Q2 (as of June 15). However, the labor market remains strong, so the NBER is not likely to call this a recession. However, we think that the wage-price spiral can only be terminated by higher unemployment. Therefore, we expect the Fed to continue hiking in 1H 2023 until a recession pushes up unemployment in 2H 2023.

Mexico

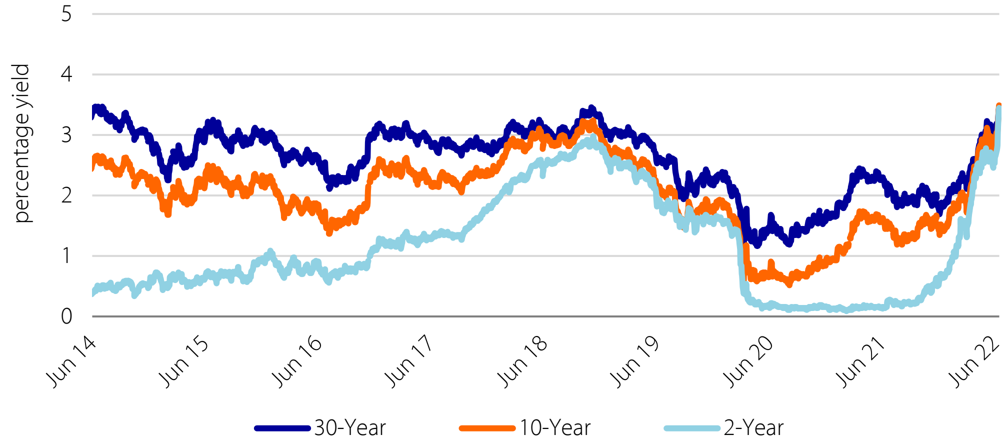
- Banxico might find itself stuck between a rock (high inflation) and a hard place (slow growth) but the board is clearly focused on its mandate. In short, Banxico remains firmly focused on inflationary pressures and these show little sign of abating in the near term. The external outlook remains one of elevated cost-push price pressures, and domestically, supply-side risks still remain with droughts and bird flu impacting the food and agriculture sector. We expect USD/MXN to trade back above the 20 handle before the end of June but the current technical picture does suggest that might come after a test of 19. That said, we do expect the move higher in USD/MXN to happen quickly when it does occur.

Canada

- The composition of inflationary pressures remains worrisome for the Bank of Canada given it remains primarily supply-side driven and focused in non-discretionary items. This is of course a familiar theme across countries but unlike its neighbor south of the border, Canadian wage growth remains more muted. While one can argue the risk of an uncontrollable wage growth spiral is lower in Canada than in the US, we are also likely to see demand come under more pressure, amplified by the greater sensitivity of households to shorter-term interest rates. Activity has held up better than anticipated at the beginning of the year, but there is little room for complacency with all signs pointing to a more marked slowdown in the months ahead.

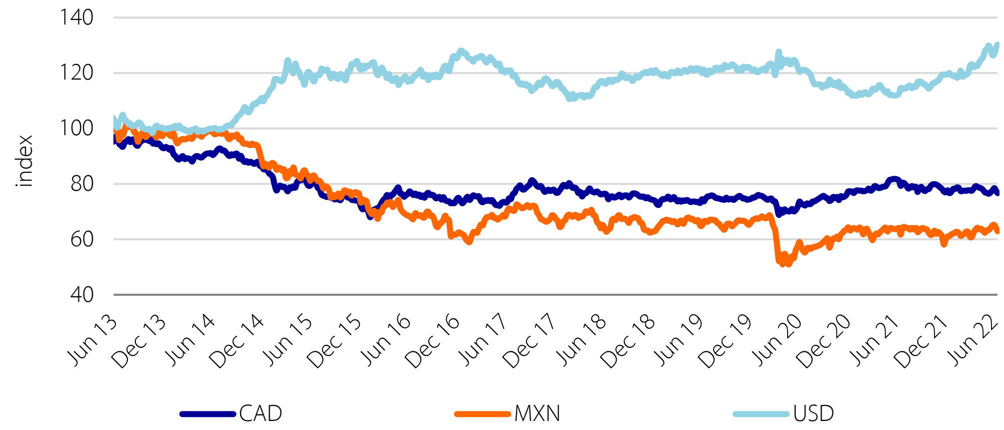
Source: USDA, Rabobank 2021

Interest rates, 2014-2022



Source: Federal Reserve of St. Louis 2022

Currency indices, 2013-2022



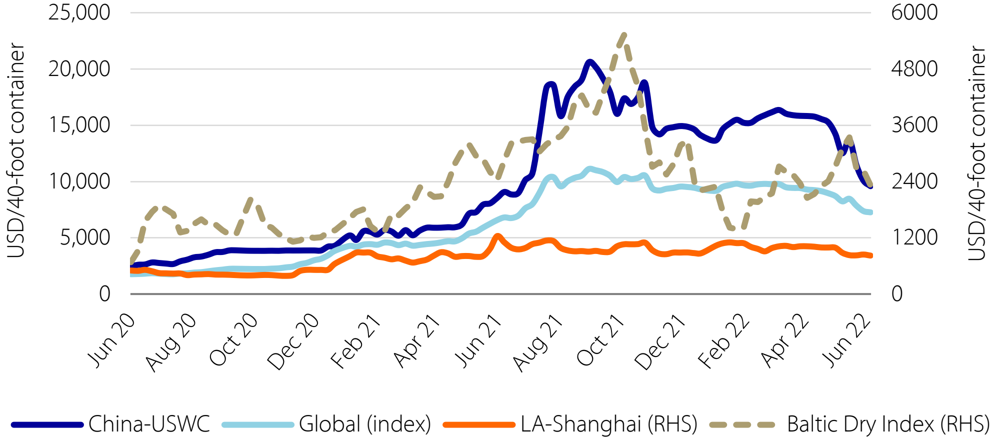
Source: Bloomberg 2022
Note: Rebased at 100 as of January 1, 2013

Logistics

Dropping spot rates while contract market remains strong

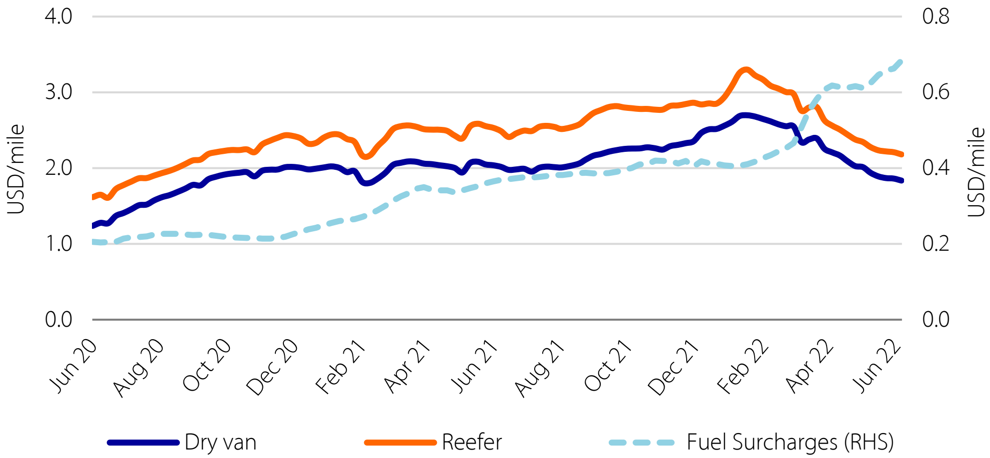
- ***Global container rates saw downward pressure as the war in Ukraine and China's Covid-19 lockdowns led to temporary lower demand.*** Carriers canceled 468 sailings in the first five months of 2022, 167% and 60% higher than the same period in 2021 and 2020 respectively. The number of canceled sailings is expected to decline in June to around 70 as China is easing lockdown restrictions and Shanghai is expected to return to unrestricted living by the end of June. As a result, June and July will likely see upward container rates. High congestion also contributes to canceled sailings. Global on-time arrival of ships fell from 76% pre-pandemic to a low 30% in the past 12 months and continued to decline lately. As China emerges from lockdowns, a surge in exports will slow down the declining streak of container rates in recent weeks.
- ***In contrast to dry container rates, global reefer rates are expected to continue increasing throughout 2022.*** This upward trend is mainly due to the imbalance of reefer equipment: they are not positioned where needed. Among the total of 3.5m reefer TEUs (twenty-foot equivalent units) worldwide, nearly a third are currently stuck in Asia, mainly in China. Whereas Europe is holding a small surplus (+70k TEUs), huge deficits are experienced in major exporting regions including North America (-30k TEUs), South America (-600k TEUs), Southern Africa (-100k TEUs), and Oceania (-200k TEUs). China's strict rules on food import inspection and the ongoing Covid-19 lockdowns will certainly increase this imbalance. The ripple effects from the lockdowns will worsen the congestions at major ports, which will further disrupt the reefer container cycle.
- ***The Baltic Panamax index (a proxy for grain bulk freight) is heading back to a high level from March 2022,*** amid strong demand from state buyers. China's Covid lockdowns also tied up bulk carrier capacity in the past month, although it's expected to ease gradually after China's reopening.
- ***Trucking spot rates have corrected significantly in the first half of 2022 mainly due to moving volume from spot to the contract market,*** as the Producer Price Index for general trucking remains elevated and truck for-hire tonnage only started to show softness in April. At the same time, fuel surcharges have gone up dramatically. As it is highly correlated to crude oil prices, the recent high energy costs will add to the elevated trucking costs through fuel surcharges. We expect continued inflationary pressure on trucking costs in 2022.

Select ocean freight rates, June 2020-Jun 2022



Source: Freightos, Baltic Exchange, Bloomberg 2022

US dry van and reefer truckload prices, Jun 2020-Jun 2022



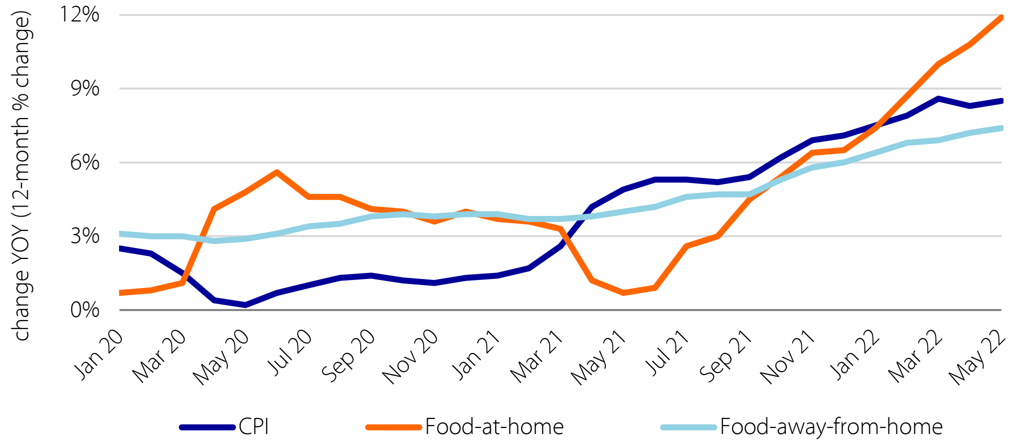
Source: Truckstop.com, Bloomberg, 2022

Consumer Retail & Foodservice

Despite persistent inflation, consumers have enjoyed the weather and spent more out-of-home

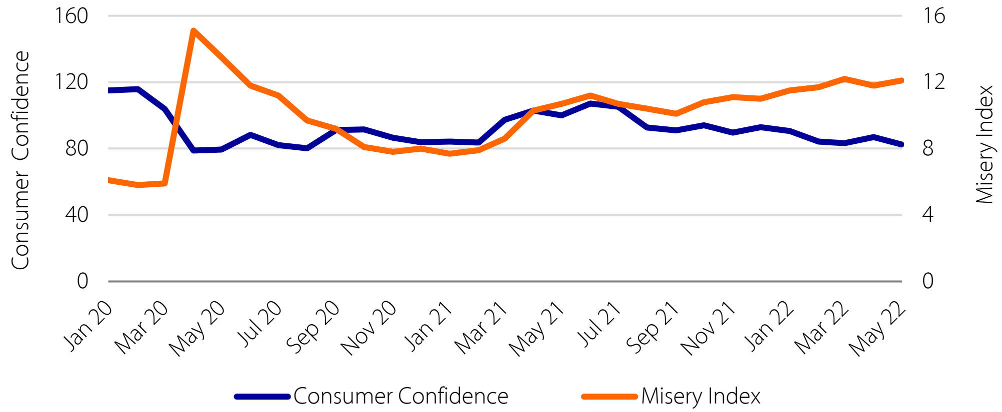
- The general CPI index reverted the small drop from April and resumed its upward trend, reaching 8.5% in May. Grocery items expanded even further to 11.9% as higher prices continued to be passed from food manufacturers to retailers and final consumers.
- Meanwhile, consumer sentiment dropped back to pandemic lows in May, with preliminary numbers for June reaching the lowest records in history (index started being recorded in the 1940s). For food products and other basic goods, consumer confidence doesn't play a determinant role as it does for higher priced items, but can be indicative of consumers' willingness to spend and save.
- Unemployment, on the other hand, remains at the historically minimum levels of 3.6% for the three months in a row, and should provide support for families' spending. Despite this positive indicator, discretionary income remains deterred by higher spending on essential categories, such as food, gas, and rent, prompting many people to cut back on non-essential purchases.
- Americans spent 0.3% less in May, driven by higher inflation and lower discretionary income. Vehicle sales declined sharply following higher interest rates, lower consumer confidence, and gas prices 43% higher in the year. Excluding vehicles, sales rose 0.5%, driven by department stores, apparel, and out-of-home spending. Sales at eating and drinking places increased by 0.7%, another indicator consumers are enjoying summer outdoors despite inflationary pressures.

Further uptick in food inflation: food-at-home reached 11.9% in May



Source: US Bureau of Labor Statistics, Rabobank 2022

Consumer Confidence at historic lows on the back of persistent inflation, despite unemployment stable at minimum levels



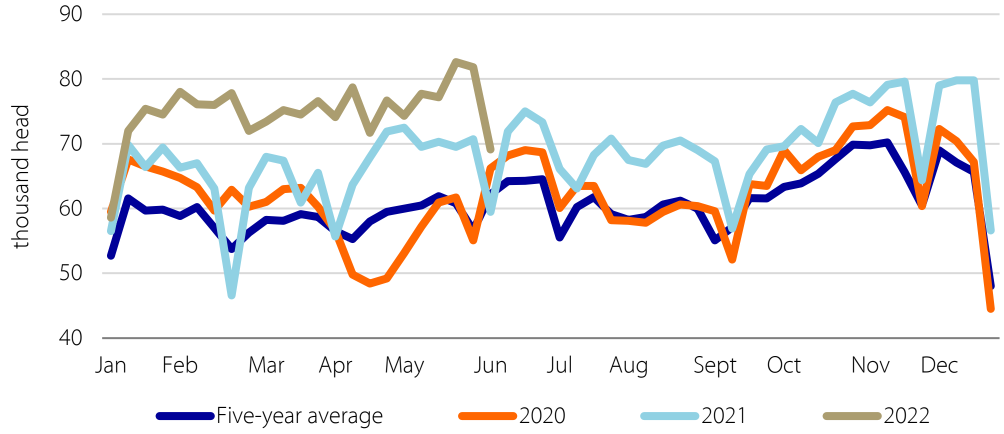
Source: US Bureau of Labor Statistics, Rabobank 2022

Cattle

Drought, high temperatures, and high feed prices continue to disrupt the market

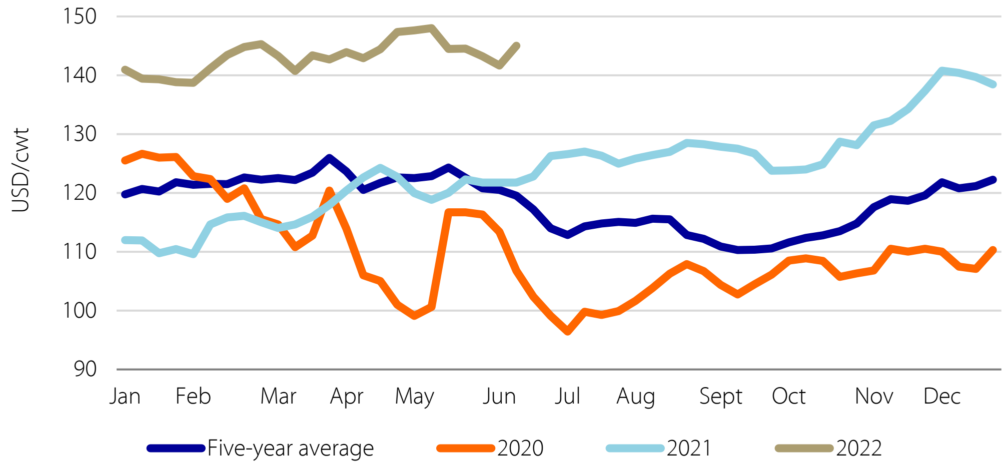
- ***As of June, approximately 47% of US cattle remain located in drought-stricken areas.*** While we have seen improvements in some regions, like Oklahoma, poor pasture conditions persist in key states such as Texas, Kansas, and Nebraska. In addition, extreme high temperatures combined with high humidity (e.g. in Kansas), are stressing cattle conditions and performance in both pastures and feedlots.
- ***As of May, feedlot inventories had increased more than 1% over a year ago***. However, placement levels remained robust, setting a historical record high for May. Given ongoing poor pasture conditions, there is simply no other place for cattle to go.
- ***Through the first week of June, beef cattle slaughter is 15% higher than a year ago.*** Heifer slaughter is up 3.3% versus the previous year and total cow slaughter is up 6.5%. Through this year, weekly beef cow slaughter has averaged around 20% of Federally Inspected Slaughter (FI), which is higher than the slaughter ratio seen a decade ago. Greater cow liquidation and lower heifer retention continue to add downside pressure to the US cattle herd and will result in cattle supply challenges as we continue to roll through the cycle.
- ***Beef cold storage inventories have remained at high levels through the year.*** From January to April, average volume is around 8% higher than a year ago. In addition, levels remain flat, which is uncommon as inventories usually decline during the first part of the year.
- ***Beef prices have found some stability in recent weeks, but levels remain below 2021.*** In June, cutout value is 18% lower than a year ago. However, since the start of the official summer grilling season we have seen some cuts finding a marginal price recovery. Global demand for US beef has remained robust. However, as we move forward, prices could struggle to maintain traction as consumers continue to adjust to a significant, general inflationary environment and a potential economic slowdown.
- ***Fed steer prices will remain strong through the year.*** Despite prices easing off a bit during May, prices in mid-June are 19% higher YOY. Given the heavy front-end load in cattle supplies, which will ultimately result in tighter back-end supplies, we expect prices to remain relatively high. While fed cattle prices are strong, extremely high feed costs, coupled with heat-induced gain and mortality challenges, continue to put financial pressure on cattle feeders.
- ***Exports remain strong and will be key to supporting beef prices as domestic prospects seem sluggish***. In 2022, US beef exports are slightly higher than a year ago, mostly driven by South Korea and China. Exports to Mexico have declined as the economic activity in that market has weakened and inflation continues to hammer consumers.
- ***Cattle imports from Mexico have declined significantly,*** down almost 10% as a result of pasture conditions in the US, high feed costs, and current market conditions. The Mexican industry continues to be robust, with beef production continuing at a steady pace as it has found strong momentum in exports, including its shipments to the US.

Weekly beef cow slaughter, Jan 2020-Jun 2022



Source: USDA AMS, Rabobank 2022

Five market steer price, Jan 2020-June 2022



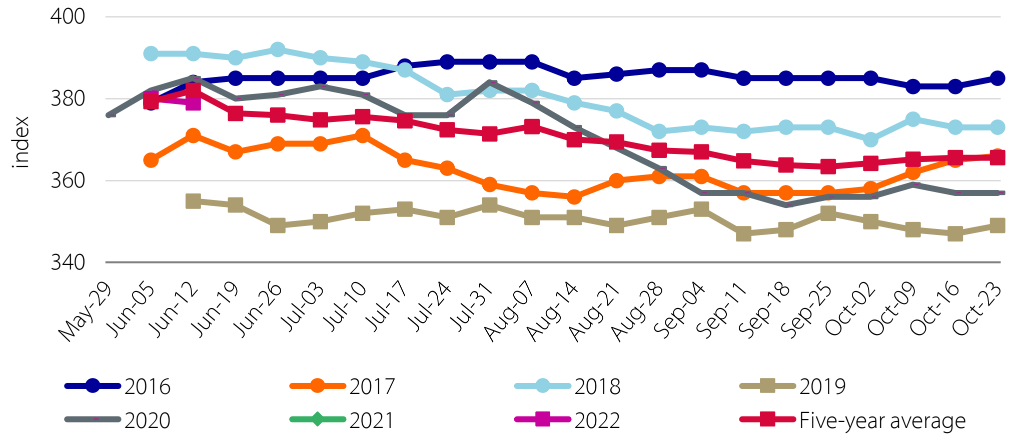
Source: USDA, Rabobank 2022

Corn

Strong fundamentals continue to support prices

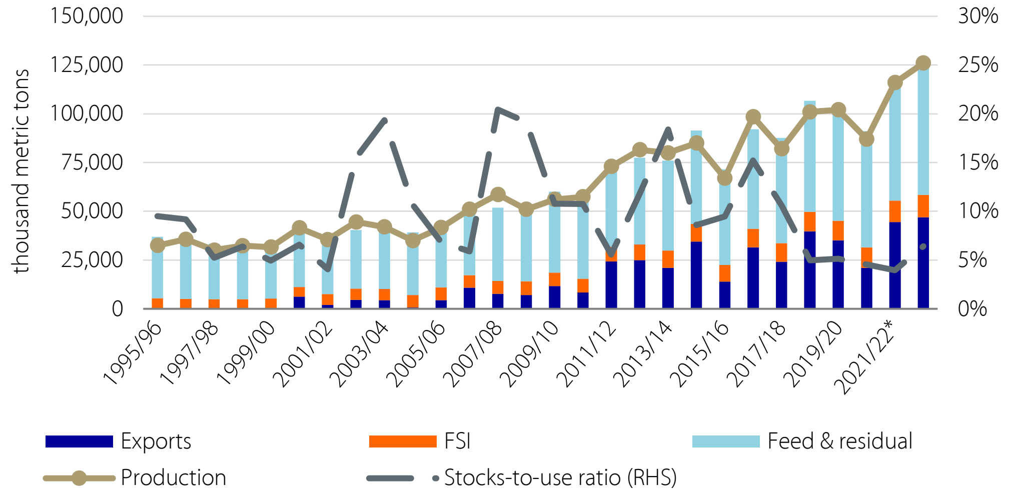
- ***Corn futures remain at levels not seen since the mid-2000s or after the 2012 drought.*** Many factors are contributing to a strong corn market: less-than-ideal weather, a smaller-than-expected Brazilian corn crop, strong demand, and the ongoing war in Ukraine. All this will continue to support corn prices and significant volatility for the foreseeable future.
- ***Corn basis values remain at elevated levels and are expected to stay there***. High basis values mean three things: Demand is strong, stocks are tighter than reported, and/or farmers are reluctant sellers. All three are likely true. Despite exports (-6.9%) and feed/residual (-1.5%) running behind last year's pace, overall corn demand for the first half of the crop year is up 2.0% versus the previous crop year. This is primarily the result of demand from the ethanol sector running, to date, 7.9% above last year's pace. Despite exports running behind last year, they are projected to be the second highest on record. Year-to-date export inspections support that conclusion. Finally, it appears farmers are reluctant sellers. Basis bids have been rising with futures rather than declining, as is tradition. And as the growing season progresses and stocks get tighter, basis will continue to be firm.
- ***Despite anxiety about the growing season's weather, early season crop condition ratings are strong***. The calculated national average corn crop condition index is right at the five-year average. However, in the last three years the corn crop condition ratings index started in a similar place and yields didn't reach early season expectations. While moisture has come to much of the Corn Belt east of the Missouri River and eased drought conditions, the late start to the growing season, recent heat, and less than 90m planted acres, there is no cushion for weather issues this season. Add in tight stocks, and the market will respond quickly to a weather hiccup.
- ***The Russian invasion of Ukraine continues to make headlines.*** With respect to corn, reports indicate that Ukrainian farmers have planted ~4.6m hectares of corn this season. USDA has raised their projected 1m hectares to 4.5m hectares with their May projection. Normally, Ukraine plants 5.5m hectares of corn. In addition, weather conditions in the Black Sea region are getting hotter and drier. USDA is currently projecting a 25m metric ton (mmt) crop in 2022/23, compared to 30.3 mmt and 42.1 mmt in 2020/21 and 2021/22, respectively. While the war has been the biggest disruptor of crop projection in the region, Mother Nature may take over – stay tuned.
- ***Projections for Brazil's corn crop are all over the board.*** Our analyst in Brazil is looking for a 112 mmt to 113 mmt crop versus CONAB at 115.2 mmt and USDA at 116 mmt. The safrinha crop has been disappointing with lower-than-expected yields across central Brazil due to dry weather. And in Parana, the crop has had to deal with a leafhopper infestation and spotty frosts. In addition, CONAB is adding to the confusion by 'finding' acres. This is the second consecutive year of a smaller Brazilian crop than expected due to La Niña. However, Brazil is expected to export over 40 mmt of corn, which will begin here in June and continue until the US harvest. Brazil remains a major competitor of US corn exports.
- ***Both US and Brazilian stocks-to-use ratios are near their all-time lows***. US stocks have been at or below 10% since the 2020/21 crop year – similar to levels a decade ago. At the same time, the Brazilian stocks-to-use ratio has been 6% or below for the past six years, the lowest on record – not a recipe for lower prices anytime soon.

US corn crop conditions rating show a corn crop in good shape



Source: USDA NASS, Rabobank 2022

Record-low Brazilian corn stocks-to-use portends strong corn prices



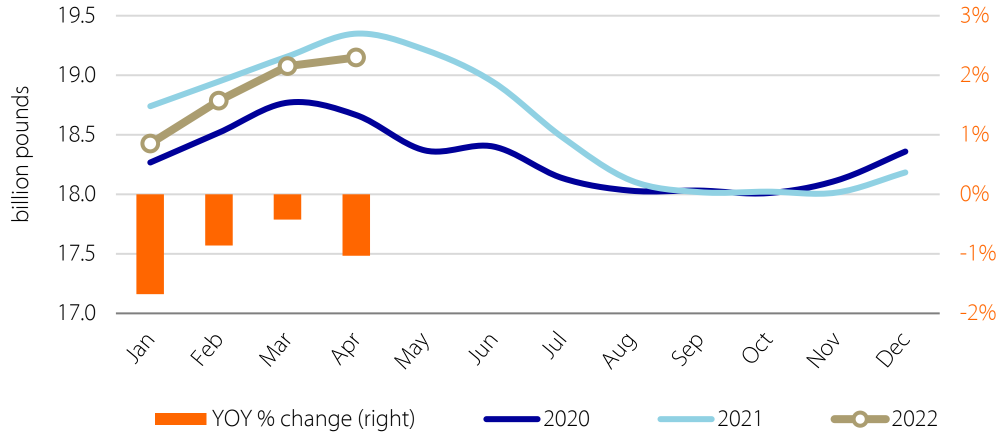
Source: USDA-PSD, Rabobank 2022

Dairy

High prices are testing demand

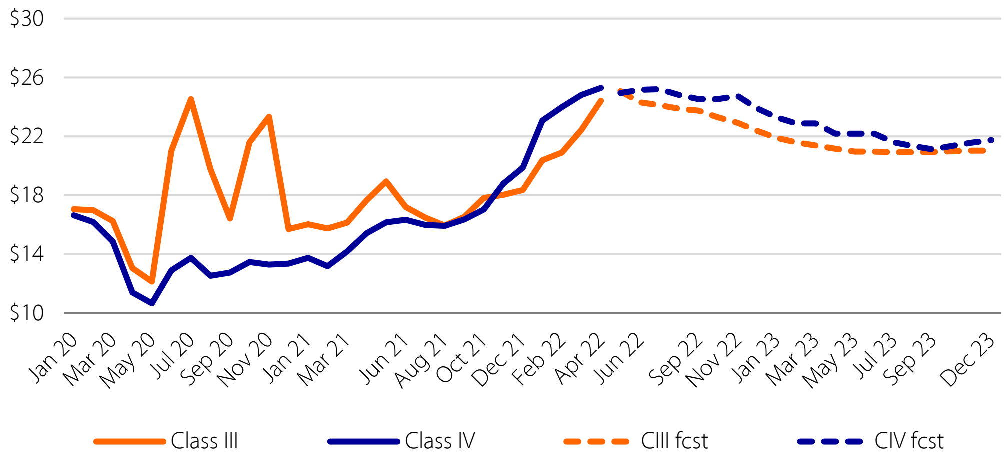
- Milk production had been gradually climbing closer to year-ago levels since January, until April, when it took a step back to a decline of 1%YOY making it the sixth month of negative YOY production. The milk cow herd held steady from March to April at 9.402m head, down 98,000 head from May. By August, prior-year cow numbers will be easier to beat, and production should move back into positive growth.
- With tighter supplies and milk prices setting records, demand is beginning to push back. Domestic commercial disappearance of total milk solids was down 1.35% YOY in March. In May, retail butter was 20% more expensive than last year and sales were down 4%. Retail cheese prices were up 6% YOY, with sales down 1.4%.
- US dairy exports were up 2% YOY in April in product volume and are up 1% YTD. So far this year, cheese exports have been particularly strong, up 10% YOY with notable gains in Mexico and Japan.
- Cheese production has been above trend, mostly thanks to strong mozzarella output. American cheese output has been down, most recently by 2.7% YOY in April. Cheddar, specifically, was down even more dramatically by 5% YOY. Although cheese inventories remain elevated, the combination of lower output and strong export demand has been supportive of cheese and class III milk prices.
- Butter production was down 1% in April and prices briefly touched the USD 3 level on the CME spot market in response. With less cream available, butter was coming out of freezers rather than the churn to meet demand, but we should be able to see stocks build again, especially if demand for other products slows.
- We expect prices to have peaked in Q2 2022 and will begin to retreat through the rest of the year and into 2023. However, the decline in prices will be modest. RaboResearch forecasts a class III average of USD 23.4/cwt. and a class IV average of USD 24.63/cwt. for 2H 2022.

US milk production (30-day months), Jan 2020-Apr 2022



Source: USDA NASS, Rabobank 2022

Class III and Class IV milk price history and forecast Jan 2020-Dec 2023



Source: CME futures close prices Apr 13, 2022, USDA – AMS, Rabobank 2022

Farm Inputs

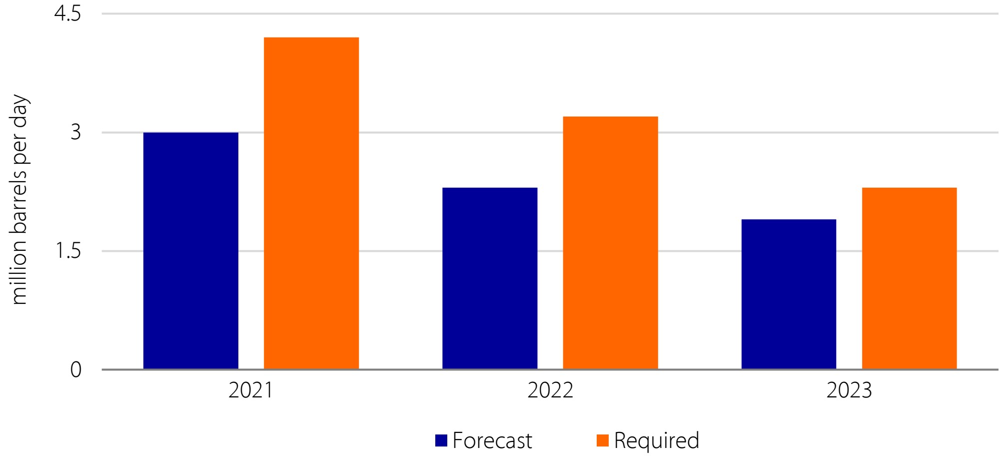
Running on diesel fumes

Diesel prices reach nominal highs on tight inventory

- The interconnected relationship between grower margins and the energy market continues to be hammered home, as diesel prices domestically (and globally) spike to record levels.
- This is often a page where we highlight the constraints placed on growers by high natural gas prices driving nitrogen prices higher – a topic we will likely revisit in Q3/Q4. But for now, our pessimism falls on the price of diesel.
- Against various metrics, diesel prices are incredibly high. Up ~140% from the Covid lows, ~60% since the start of the year or ~75% YOY, diesel prices are a headache for growers, and this is likely to persist.
- Since the start of the year, domestic inventory of low sulfur diesel has fallen ~20%, and >30% from this time last year.
- And it is a confluence of reasons that has driven this, combining demand factors, the near-term impacts of the war in Ukraine and the limitations of refinery capacity.
- These last two factors really give the most pause for thought. And, along with the associated random outcomes as we head towards hurricane season, pricing risk remains to the upside.
- This is a global constraint, with price action shifting product flows for refiners and causing exaggerated spreads across PADDs (the East Coast refiners struggling to attract volumes).
- But higher than average diesel prices could be here for a protracted period, as forecast changes in middle distillate refining capacity look likely to lag the required change in middle distillate demand.
- It never rains but it pours on growers when the energy markets go parabolic. And when it is pouring the relative return seen by growers on efficiency investments is all the greater. Trying, as we may, to find a positive angle.

US diesel prices up 75% YOY, reaching decade highs

Forecast change in refined middle distillates vs. required change suggests structural tightness for some time



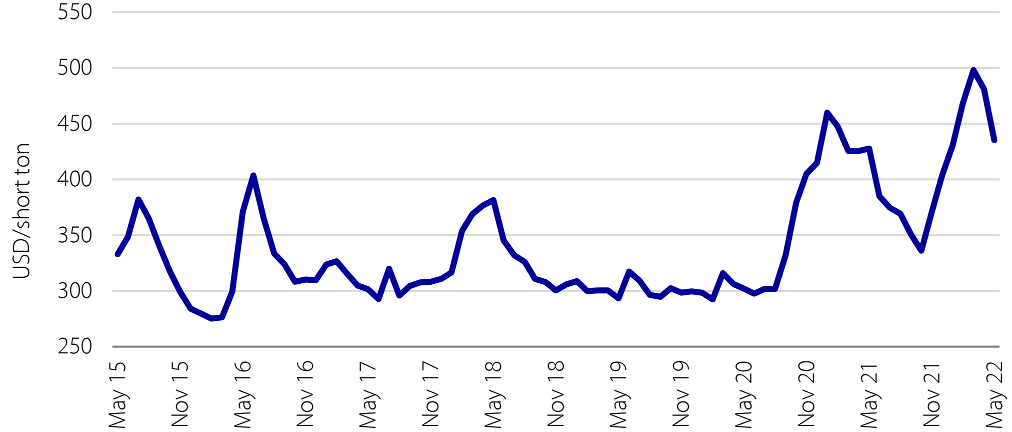
Source:, IEA. Rabobank 2022

Feed

Double-digit cost increase on main feedstuffs

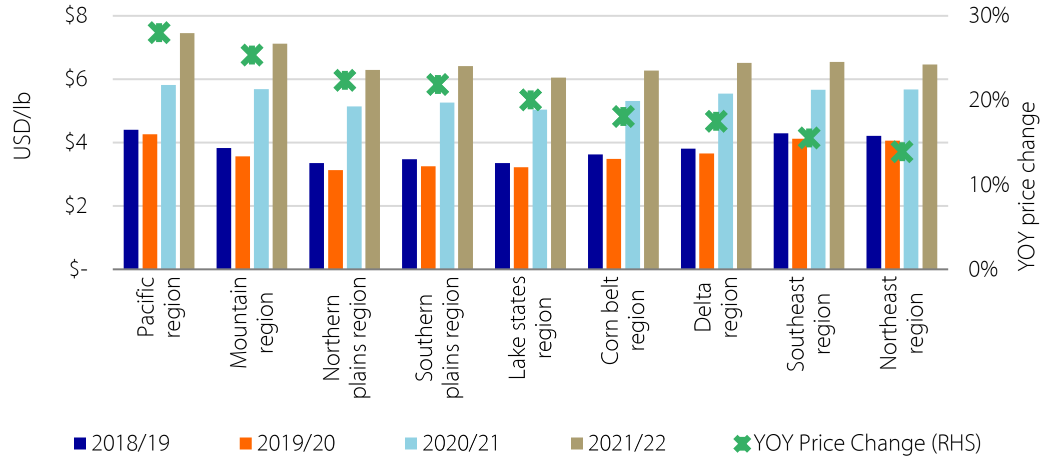
- Feedstuff continues to be a challenging factor for much of the western US, with most feedstuff price increases growing by double digits. Alfalfa has seen a 40% increase in prices compared to last year in the Northern plain region. Alfalfa hay prices have gone up from USD 116/short ton to USD 167/short ton.
- Corn prices have increased in all regions, but the degree has been most noticeable in the west and declining toward the east. Not only has the price of corn increased, but the challenges around logistics and the cost of moving corn has contributed to negative margins for many producers out in the west region of the country. Truck and rail availability, as well as delivery charges and surcharges, are limiting the amount of corn in the region.
- Soybean meal prices are showing a slow but steady decline in prices after a rally that ran from October 2021 until March 2022. Part of the decline has been driven by expected larger acreage in the US. Weather will continue to be a wild card.
- Soybean meal prices have increased by ~35% compared to the last marketing year as lower South American production added pressure to soybean markets globally. Expected lower animal protein production in the second half of the year could help prices come down from almost USD 500/short ton, as seen back in March of this year.

US monthly bid soybean meal prices from May 2015 to May 2022



Source: USDA NASS, Rabobank 2022

US marketing year corn bid prices increasing the most in the west region



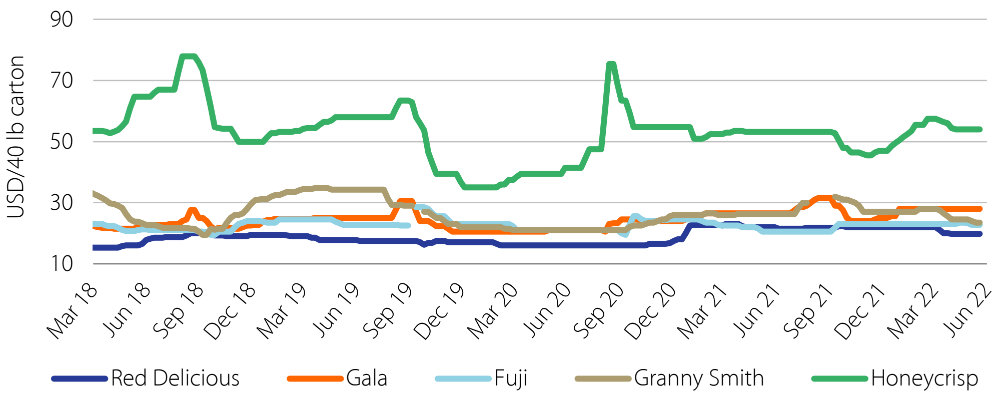
Source: USDA ERS, Rabobank 2022

Fruits

Strong avocado prices linger

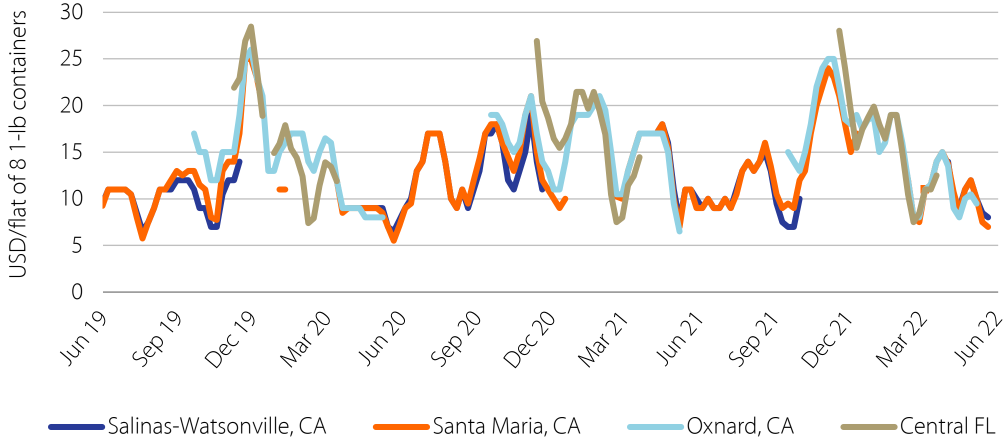
- ***Strawberry*** prices were around USD 8 per flat for non-organic product at the beginning of June, down from USD 11 per flat for the comparable period in 2021. Availability of strawberries during the first half of 2022 has been higher YOY, and prices have been slightly lower YOY. As the California season passes its peak, availability will decline, and prices will improve from current season lows. Availability of ***blackberries*** has significantly improved this year and prices will remain weaker than the multi-year highs observed in the spring of 2021.
- Unlike previous occasions when price spikes were short-lived, in 2022, ***avocado*** prices have remained elevated for a couple of months so far. Mid-sized California Hass avocados were above USD 73 the first week of June, up 62% YOY. Shipments from California and Peru will capture increasing market shares in the US during this summer. Late in the summer, shipments from Mexico will improve as the new marketing season ramps up. Demand is steady.
- During the first half of June, ***Navel orange*** shipping-point prices were up 38% YOY to about USD 27 per carton for mid-sizes. The California ***Valencia orange*** crop is expected to be up about 4% YOY, according to the most recent USDA estimate. ***Lemon*** prices were at multi-year lows at the beginning of June given a 17% increase YOY in US production in season 2021/22.
- During the first half of June, prices of non-organic Fuji, Gala, and Honeycrisp were up 11%, 6%, and 1% YOY, respectively. Prices for Granny Smith and Red Delicious were down 10% YOY. US ***apple*** exports are down 7% in volume this marketing year, according to USDA figures. Industry sources report that inventories are up about 8% YOY, a factor that will continue pressuring prices downward.

Washington apple shipping point prices, 88s – WA Extra Fancy, 2018-22



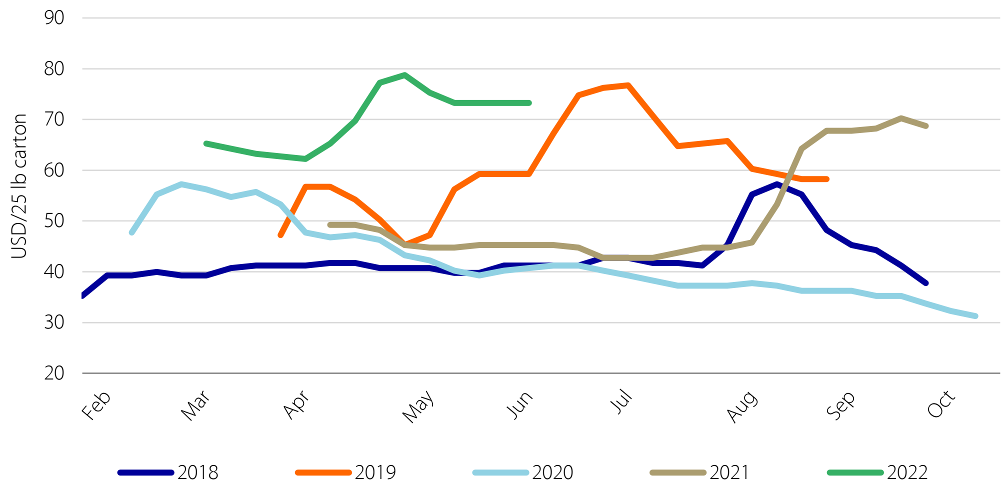
Composite of fine appearance and standard appearance prices
Source: USDA AMS, Rabobank 2022

Strawberry shipping point prices – primary US districts, 2019-2022



Source: USDA AMS, Rabobank 2022

California Hass avocado shipping point prices, 48s, 2018-2022



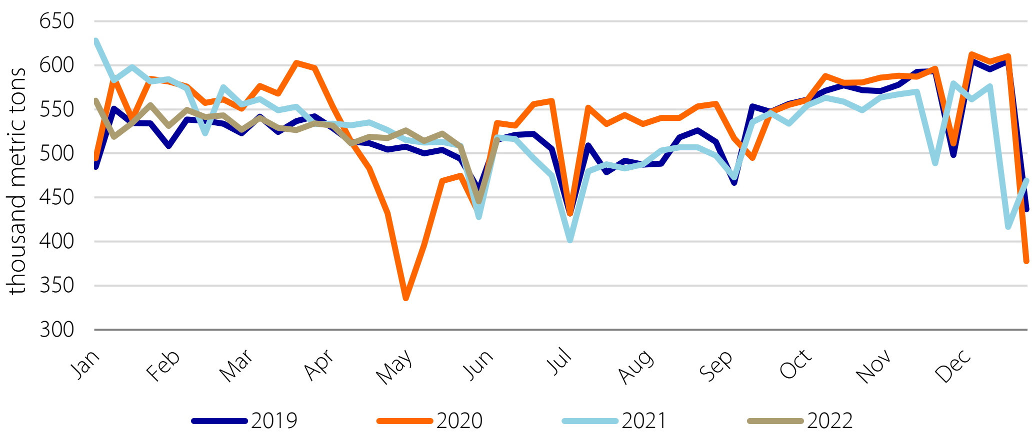
Source: USDA AMS, Rabobank 2022

Pork

Hog markets steady despite signs of consumer cautiousness

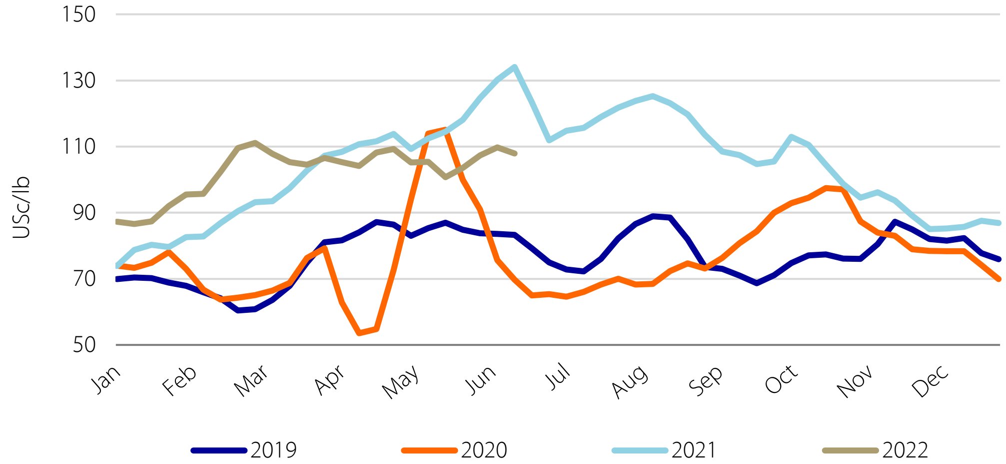
- ***Hog prices remain above historical averages and above USD 100 per hundredweight, but are 6% below year-ago.*** Most producers are profitable at current prices and despite an outlook for a sustained period of higher costs, there appears to be a move toward expansion. Pork production has normalized (down 1% YOY) after a slow start to the year. We expect flat production in Q2 2022, with a 1% YOY increase by Q4 2022. Lower near-term availability should remain supportive to the market, but hog prices are likely to weaken in 2H 2022 as production increases and demand begins to slow.
- ***Pork cutout values strengthened seasonally over the past month, but remain 20% below year-ago averages on steady supply and signs of early demand destruction.*** While below last year's peak levels, pork values remain historically high and well above the five-year average. While belly values continue to struggle (-22% YOY), hams have been steady (-3% YOY) helping to support the cutout. While pork demand is likely to struggle given broader macroeconomic trends, current retail prices remain attractive relative to other proteins. Only retail bacon prices have surged (+16% YOY), while loins (+7% YOY) and hams (+8% YOY) remain affordable options. Packers may slow the harvest in coming weeks to recoup some margin, especially as prices move lower seasonally.
- ***Pork export volumes fell 20% in April to 224,000 metric tons and were down 20% in value.*** Continued weakness in shipments to China (-73% YOY) and Canada (-19% YOY) drove a majority of the weakness, as export volumes to Mexico were strong (+16% YOY), and sales to Japan and much of Latin America remained steady. We continue to expect strong exports to Mexico over the summer, but anticipate a slowdown in 2H 2022 given higher cost pork supplies and weaker economic conditions. Recent weakness in the JPY and SKW could also depress sales into these high-value Asian markets later this year. While there are some indications that the Chinese market might have bottomed with hog prices recently moving higher, we believe that ongoing Covid lockdowns and geopolitical uncertainty make it difficult to forecast much improvement. Rabobank continues to expect an 8.4% YOY decline in pork export volumes in 2022.
- ***Mexican hog prices remain above historical averages, but have moved below last year's peak levels.*** Supply constraints will remain supportive to prices into Q3 2022, but we do not anticipate any significant growth in 2H 2022 given ongoing health challenges and high production costs (feed up 21% YOY). Pork prices are lower (-13% YOY) but remain historically high, although they could weaken in 2H 2022 as consumers respond to inflationary pressures. Strong imports may also be contributing to a weaker near-term pricing outlook, although low supplies of chicken remain supportive.

US pork production, 2019-2022



Source: USDA 2022

US pork cutout value, 2019-2022



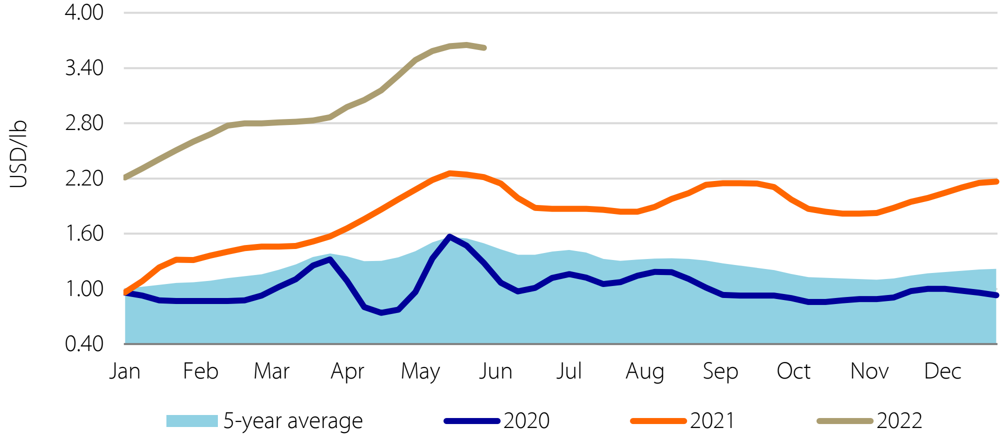
Source: USDA, Rabobank 2022

Poultry

Consumer interest remains steady despite higher-cost chicken

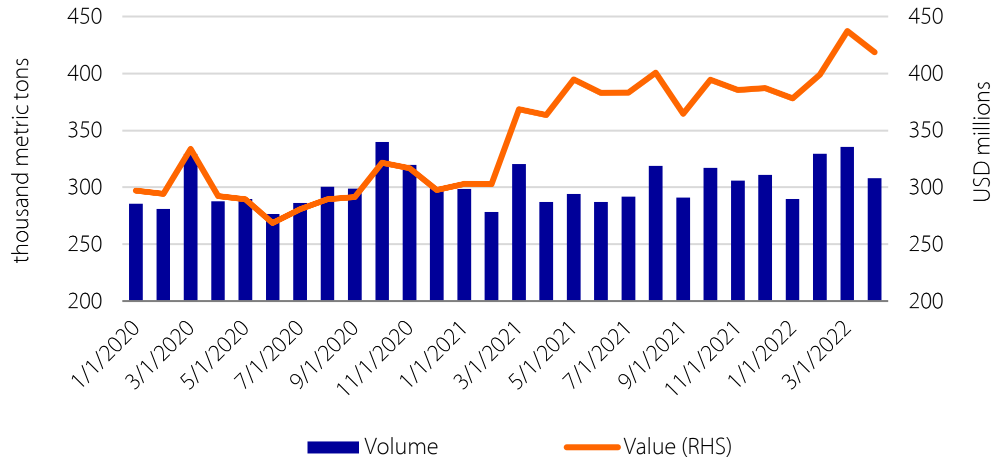
- ***Composite chicken prices are +56% over year-ago levels, driven by record boneless breast meat values (+65% YOY), strong dark meat values and high cost competing proteins.*** While we expect some erosion in sales at foodservice and some seasonal moderation in prices given current consumer pressure, chicken (and egg) demand is relatively inelastic and should fare well at both QSR and retail. We also expect the trade down from competing proteins and to lower-value dark meat to remain supportive to broiler values. Through early June, the US impact of HPAI losses has primarily been limited to layers (eggs) and turkeys. While not immune to the virus, broiler industry losses in the US are limited thus far.
- ***Ready-to-cook (RTC) chicken production YTD is up 1.6% YOY, with gradual improvement in chick placements and a modest increase in weights.*** While placements are higher, hatchability and mortality levels remain challenging and producers have adjusted production to meet demand needs. We are currently forecasting +2.6% YOY growth in RTC production in 1H 2022. We continue to forecast slower 2H growth and reiterate expectations of 2022 RTC production growth of 1.7% YOY given limited improvement in productivity and higher raising costs, acknowledging current prices could accelerate production trends.
- ***Chicken exports slowed in April as the impact of HPAI disrupted trade into some markets.*** Despite slower sales to key markets in Mexico (-15% YOY), export volumes were still up 7% YOY and export values continue at near-record levels +15% YOY. YTD exports are +6.6% YOY at 1.3m tons, while the value of shipments is +22% YOY. Strong growth in shipments to China (+42% YOY), Taiwan (+34% YOY) and Canada +12% YOY, more than offset disappointing sales to Mexico. High US chicken prices and the continued strength of the US dollar have worked against stronger growth and we expect ongoing pressure through 2H 2022, especially as Mexico drops tariffs on imports from Brazil.
- ***Mexican chicken prices reached a new high of MXN 59/kg in early June, up 44% YOY and 55% above the five-year average, supported by tighter supplies and steady domestic demand.*** Local supplies remain impacted by outbreaks of HPAI in norther Mexico, which will limit production in coming months. Consumer demand has kept pace, but is expected to see some slowdown as inflationary pressures limit sales. Imports from the US slowed in April on higher costs and the strong dollar, while imports from Brazil remain sharply higher versus year-ago. Higher feed costs will make more rapid expansion in Mexico difficult, although higher prices are helping bolster near-term returns.

Boneless skinless breast meat prices, 2020-2022



Source: USDA, Rabobank 2022

US chicken exports, by volume and value, 2020-2022



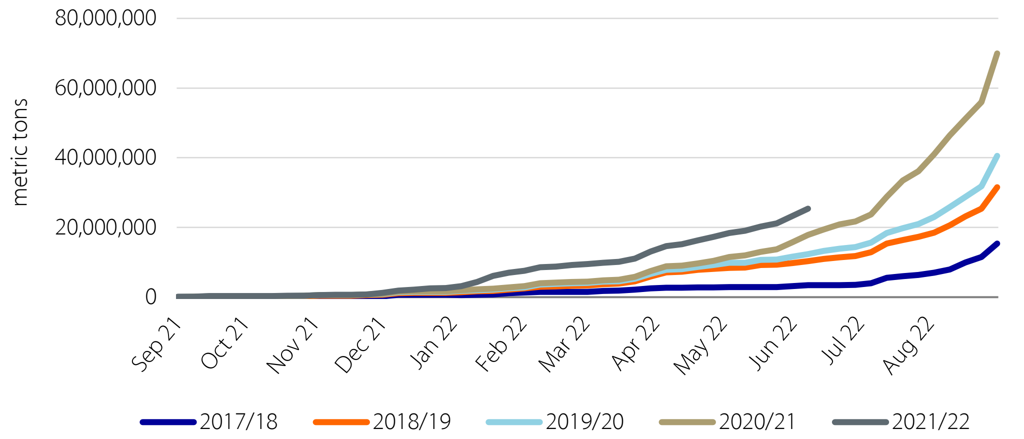
Source: USDA 2022

Soybeans

Not in the headlines, but…

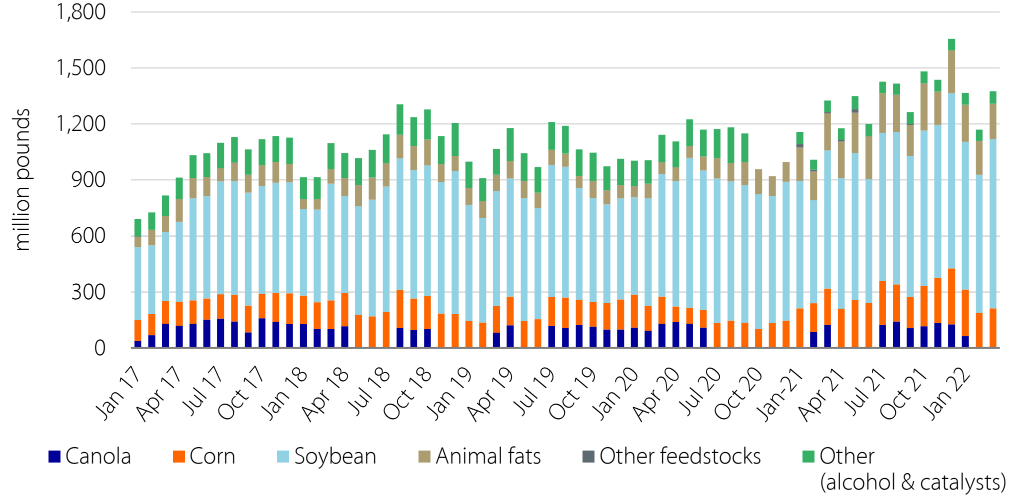
- ***While the grain markets are capturing all the headlines, the soybean market is seemingly the calm within the storm***. However, strong crush margins, smaller-than-expected Brazilian production, and insatiable demand for vegetable oil is all supportive to soybean complex prices at or near record highs. There is little expectation that prices have much downside risk.
- ***To add to the bullishness of the soybean market, 2022/23 US outstanding export sales are record high***. As of June 9, the next marketing year's outstanding soybean export sales are 13.1 mmt, 73% above the same time last year, which was itself a record. As expected, the most sales have been made to China, which represents 59% of 2022/23 outstanding sales. The sales volume is more than double what China has contracted each of the past two years. While China may likely cancel some of these sales should new crop soybean prices fall, the fact remains that sales are high and 2022/23 exports are going to be strong.
- ***There have been concerns for the upcoming Brazilian soybean planting season***. Potash is critical to Brazil and its ability to raise a crop. With the Russian invasion of Ukraine, potash became a scarce commodity and Brazil worried about whether it would be able to procure its needs. As of writing, it appears Brazil has been able to acquire its needs and be ready for spring planting. As a result, expectations are that Brazil will increase soybean planting area 4%. With sufficient fertilizer in hand, high soybean prices, and a depreciating BRL, there is a great incentive for Brazilian farmers to increase production for the 2023 harvest.
- ***US crushers continue to announce expansion of existing and new soybean crushing facilities***. Since January 1, five new crushing facilities have been announced. This brings projected investment to over USD 4.5bn and an additional 650m bushels of US soybean crushing capacity. Comparing this to trend crush, this will be a ~30% increase by 2026. Monthly crush has been increasing. Particularly in the past two years, we have seen a jump in monthly crush to a new higher level – a clear sign that some of these plants have come online and domestic demand for soybeans will be strong.
- ***Demand for products remains strong, particularly soybean oil.*** Despite the loss of sunflower oil exports from Russia and Ukraine, US soybean oil exports are trailing last year's pace by 1.3% through April. However, domestic demand is strong. Through April, domestic demand is up 4.1% versus the same period last year. Both food use and biofuels are up over 4.0% versus a year ago. In the past 12 months, growth in demand for vegetable oil has been rising as renewable diesel facilities come online. Biodiesel production is declining, while renewable diesel is picking up significantly. The renewable diesel sector is one of the major factors supporting futures and basis values.
- ***Price expectations for soybeans remain volatile and high***. While production is expected to increase this year, the demand side of the balance sheet is strong. While futures have not eclipsed the September 2012 high, which may act as a ceiling, futures and basis will remain high as stock rebuilding will prove to be difficult.

Record 2022/23 outstanding US soybean export sales – big exports coming



Source: USDA, Rabobank 2021

Increasing feedstock demand for biofuels supporting vegetable oil prices



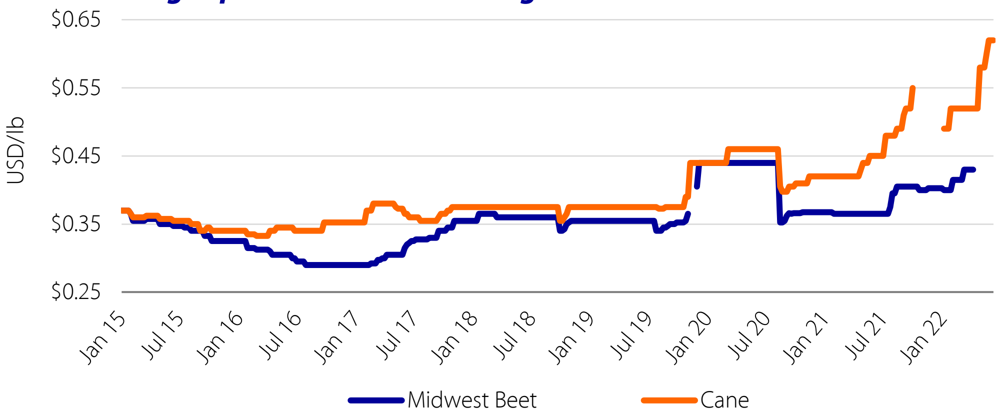
Source: EIA, Rabobank, 2021

Sweeteners

All eyes on beet

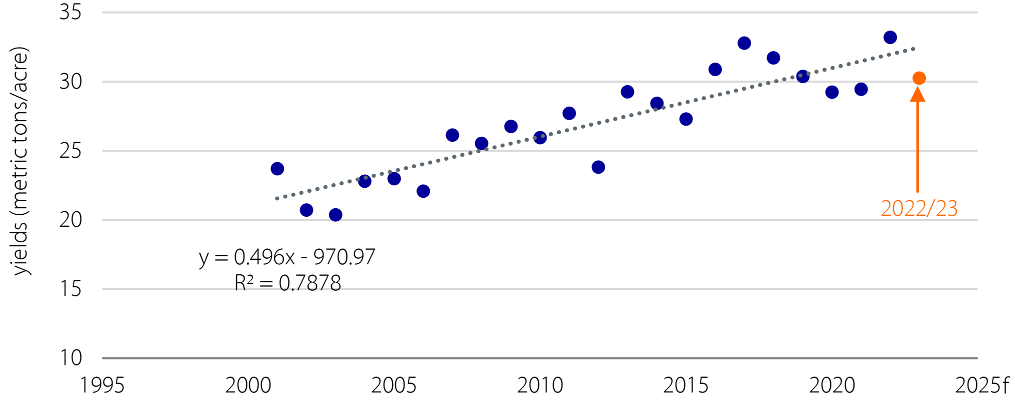
- ***US sugar users and producers will continue to face tremendous challenges through the upcoming season.*** The market is experiencing difficulties on the production side (specifically beets), and consumption will continue to operate under a tight market environment, including complex logistics and high transportation costs.
- ***Beets are finally in the ground but…*** After several weeks of sowing delays due to wet fields and cold weather, beet farmers have completed their plantings. As we move forward, the weather needs to be almost perfect to achieve relatively 'normal' yields. At this point in time, it is almost impossible to forecast yields accurately, but we believe they are likely to be below the historical trend. In addition, this delay will push back sugar beet production towards the end of the year, creating a production hole around September-October when beet sugar production begins.
- ***US cane sugar consumption to remain strong… or the only alternative?*** US sugar use, particularly sugar cane is expected to remain robust as sugar beet production is uncertain and off from its normal production cycle due to late plantings. In addition, High Fructose Corn Syrup is getting more expensive due to high corn prices and logistics continue to be very challenging.
- ***US sugar prices to remain high*** but the probability for prices to go higher is low given the expectation of global sugar prices that are likely to be between USc 18.5 to USc 21/lb though the rest of the year.
- ***Mexico has finished its 2021/22 production campaign at 6.1 mt.*** This volume is around 400,000 metric tons higher than a year ago. We believe Mexico will be able to fulfill its US export commitments in 2021/22 and during the 2022/23 cycle.

Domestic sugar prices to remain strong



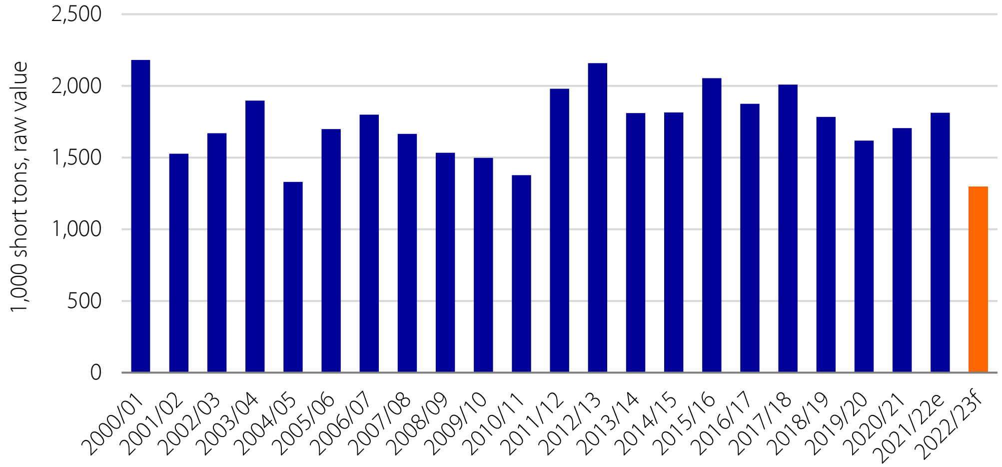
Source: USDA, Rabobank 2022
*No quote available due to lack of spot supplies

Beet yields are likely to stay below the historical trend



Source: USDA, Rabobank 2022

US sugar final stocks could be the lowest in recent years



Source: USDA, Rabobank 2022

Tree Nuts

Almond exports improving, pistachio exports remain steady

Almonds: Shipments in 2021/22 were down 13% YOY through April, with domestic shipments down 4% from the previous season and exports down 17% YOY. Exports in April were up 2% YOY, showing signs of recovery. According to the subjective estimate, crop in 2022/23 is expected to be smaller than in the previous season. However, in the short run, prices are expected to continue under pressure, given the high likelihood of a large carryover.

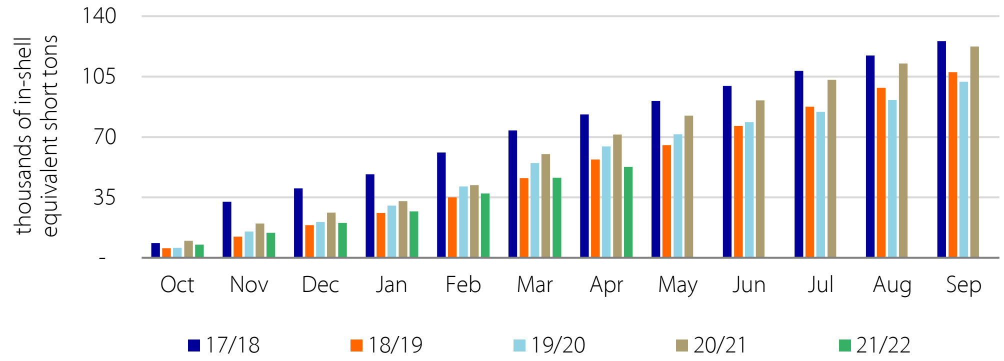
Hazelnuts: Shipments in 2021/22 through April are up about 1% YOY, with kernel exports declining 9% YOY. The US 2021 crop was a record with volume received by packers at roughly 77,000 metric tons, up 22% YOY, according to industry statistics. Given the large crop this season, shipments as a proportion of marketable crop are lagging compared to previous marketing years.

Walnuts: Shipments were down 13% YOY, with exports declining 15% YOY and domestic shipments down 8% YOY in 2021/22 through April. About 63% of marketable supplies were sold, down from 71% during the comparable period a year ago. Prices are reported to be soft given the larger-than-expected US crop, logistics challenges that have impacted exports, and increasing international competition.

Pistachios: In the 2020/21 marketing season, shipments were up about 9% YOY, with domestic shipments up 9% YOY, and exports increased about 10% YOY through April. Demand and prices have remained steady and prices for larger sizes are reported to be improving. Despite water challenges, it is likely that the 2022/23 California crop will set a record for the third consecutive season.

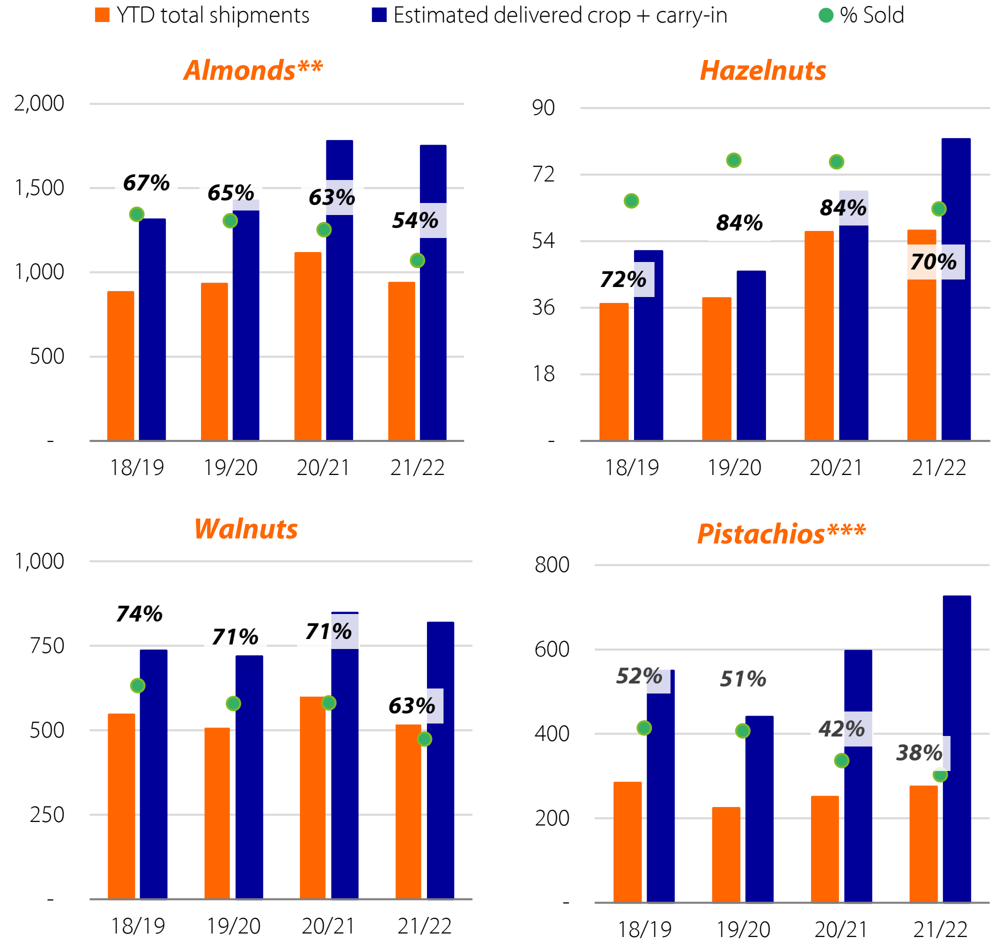
Pecans: US pecan export volumes in the 2021/22 marketing season through April were down 26% YOY. Export pace slowed down in March and April, according to USDA figures. Industry sources report that YTD deliveries from growers are down YOY and prices have been steadier than last season. The newly created American Pecan Promotion Board will support the industry by increasing the marketing and research budgets for pecans in the domestic and global marketplace, per industry sources.

Cumulative US pecan exports



Source: USDA FAS, Rabobank 2022

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



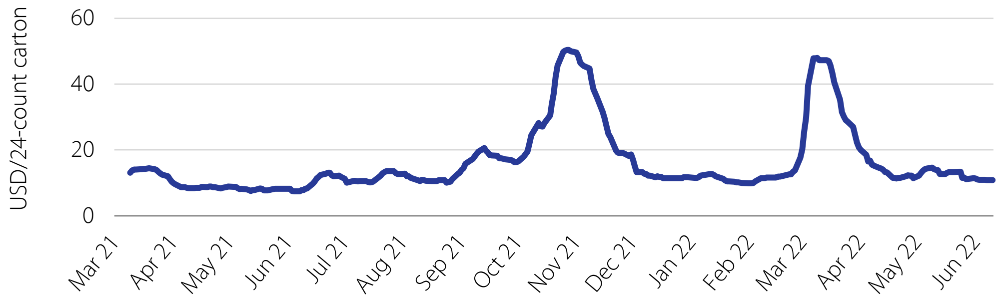
Source: Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, Rabobank 2022. *Through April 2022, 2021/22 marketing season; **Meat pound equivalent. ***Not considering inventory adjustment/loss.

Vegetables

Price increase is the common denominator

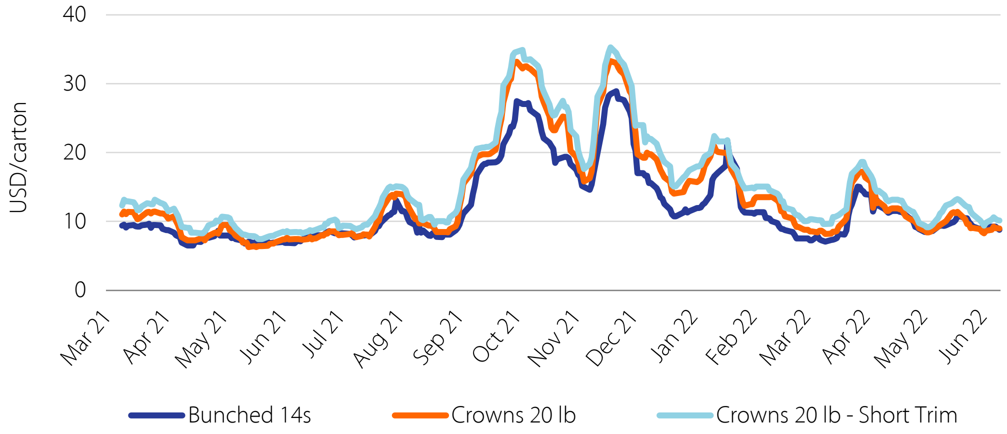
- ***The average retail price per unit of fresh vegetables was 8.5% higher YOY at the end of May 2022, whereas retail volume was down 5.8% YOY.*** Consumption of fresh vegetables is expected to be pressured downward as consumers take money-saving measures to deal with rising costs of living.
- ***Broccoli crown and cauliflower supplies are ample this time of the year and close to last year's levels. Shipping-point prices are also strong and higher YOY.*** Crown prices dropped since April but remain 14% higher YOY at USD 8.8 per 20-pound carton. Cauliflower prices for one carton film-wrapped 12s is 18.8% higher YOY. Prices usually remain relatively flat until late summer and early fall.
- ***Romaine and iceberg lettuce shipping-point prices are holding up at levels higher than last year as a result of strong demand and short supply, respectively.*** By early June, romaine prices were up 58% and 88% YOY for 24s and hearts (12x3), respectively. Romaine shipments, though like last year's, are above their historical average. Wrapped iceberg prices are also up by 41% YOY. Supplies from Salinas Valley and Santa Maria are short, supporting prices throughout the summer. As summer progresses, shipments will slow down cyclically. Once harvest transitions to Arizona later in the year, prices usually pick up.
- ***Potato markets are awash with bullish news.*** Low inventories, the recent opening of Mexican markets to US fresh potatoes, and raised concerns about yield after a delayed planting are all factors contributing to strong prices. The Burbank Baled 10# non-A price is USD 16.50. Russet 5/10# Size A prices range between USD 22.00 and USD 40.00, depending on the region and size.
- ***By the end of May, total shipments of carrots, celery, artichokes, and sweet potatoes, were lower YOY, whereas those of cabbage, cucumber, spinach, bell pepper and some types of tomatoes were higher YOY.*** In the former group, carrots are experiencing a supply shortage whereas the other vegetables are experiencing lower demand. In the latter group, continued strong demand is behind the increase in shipments.

Wrapped iceberg lettuce – US daily shipping-point price, 2021-2022



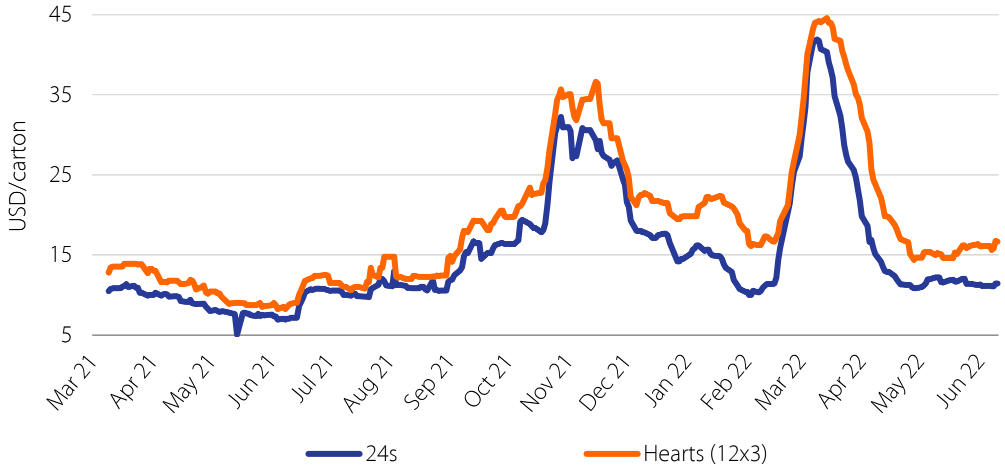
Source: USDA AMS, Rabobank 2022

Broccoli – US daily shipping-point price, 2021-2022



Source: USDA AMS, Rabobank 2022

Romaine lettuce – US daily shipping-point price, 2021-2022



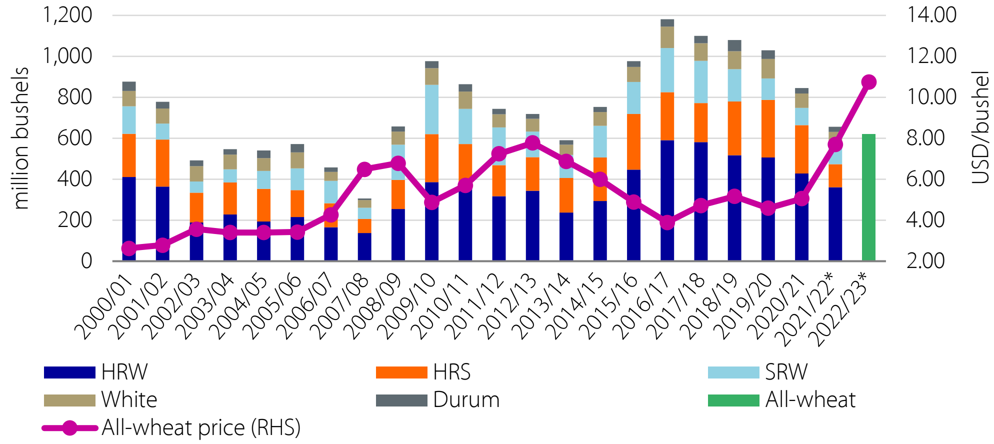
Source: USDA AMS, Rabobank 2022

Wheat

Challenges for wheat continue to grow

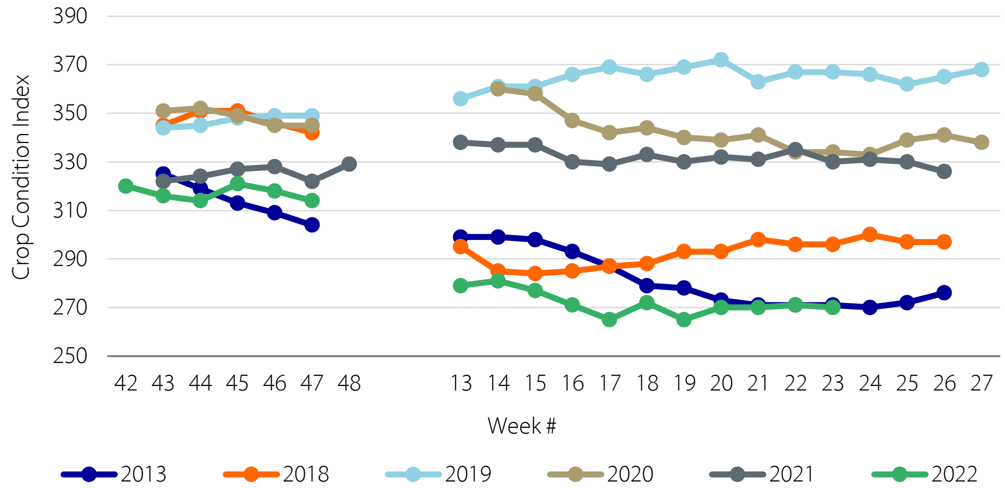
- ***The focus of the wheat market – and the world – remains squarely on Ukraine and Russia.*** At the same time, the weather situation in the US hard red winter wheat country is not improving. In addition, both India's and northern Europe's wheat crops have been hurt by hot, dry conditions. Add an export ban by India and you have the ingredients for wheat prices to revisit their mid-May highs.
- ***Current winter wheat condition have not improved and match 2013 conditions***. Similar crop condition ratings in 2013 produced a HRW wheat yield of 36.6 bushels per acre. Using that yield, a pro-forma 2022/23 HRW balance sheet produces the tightest stocks and lowest stock-to-use ratio since 2007/08 when Kansas City wheat futures hit their highest prices until this year. This all points to well supported wheat prices, more volatility, and the potential to revisit the mid-May highs. However, US wheat prices may be tempered by the lack of US exports due to high US prices versus the rest of the world – stay tuned.
- ***Wheat exports from Ukraine have nearly halted, but that is not the case for Russia.*** Wheat exports from Ukraine are just trickling out by rail or truck northward into Europe or west to Romania and out through the Danube. Current projections have Ukrainian wheat exports nearly cut in half for the 2022/23 crop year. Despite sanctions, Russian wheat exports are projected to set records in 2022/23 on a larger crop and little export competition. In the latter half of the 2021/22 crop year, Russian wheat exports have been limited by export quotas and an export tax which is now over USD 100/metric ton due to high prices. By July, Russian exports will resume without any export restrictions. Keep in mind that only the US, Canada, Greenland, Iceland, most of Europe, Japan, and Australia are observing the sanctions. Consequently, South America (except French Guiana), Africa, Mid-East, and Asia are open to do business with Russia. In the talks about opening Ukrainian Black Sea ports and for Russian grain to be delivered to international markets, the Russians are asking for direct and indirect sanctions to be lifted. The Russian are beginning to make the lifting of sanctions a prerequisite to ensuring an open flow of grain from both Russia and Ukraine. The market has not fully digested this potential development, but if it occurs it would be a gamechanger and propel markets higher.
- ***Adding fuel to the market is India's export ban on wheat exports.*** Like many countries, India is trying to preserve domestic stocks and tamp down domestic food inflation. The Indian government has allowed exports where a letter of credit had already been issued and has offered exemptions to send wheat to vulnerable countries in the South Asia region in order to support regional stability. India was expected to help fill the export gap left by Russia and Ukraine. However, it appears that door is closed with few prospects of opening any time soon.
- **If that wasn't enough, weather conditions in northern Europe, India and Canada are not helping.** It has been hot and dry in these geographies and crop projections are beginning are beginning to fade. USDA is showing a decline in EU production of ~2.0 mmt from 2021/22 to 2022/23 and showing an over 3.0 mmt decline in Indian production for the same period. The good news export projections have not dropped as much and Europe is expected to up its exports. Also, Canadian production is expected to rebound, as Manitoba moisture conditions have improved significantly. However, Saskatchewan and Alberta still have lingering drought conditions.. This year more than ever, the world's wheat crop is dependent on the grace of Mother Nature.

Sixth consecutive year of declining US wheat stocks



Source: USDA ERS, Rabobank 2022

Winter wheat crops conditions remain worst on record

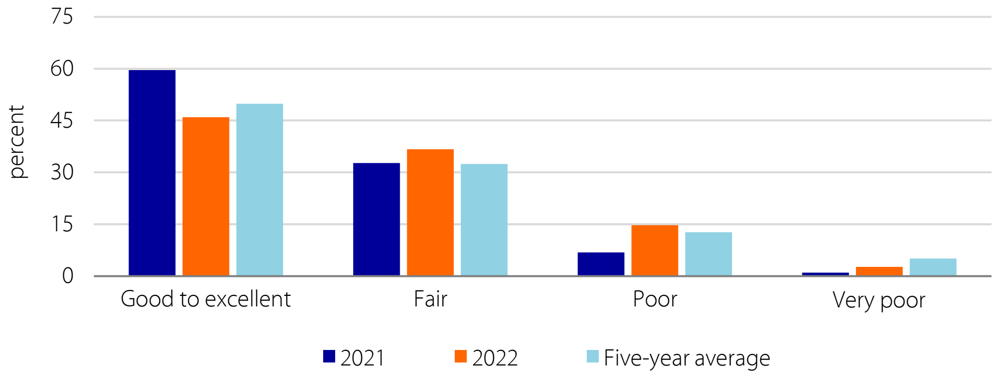


Source: USDA NASS,, Rabobank, 2022

Cotton

- Cotton production is expected to decline 6% compared to last year. As weather continues to be a challenge in most of the southwest area, cotton abandonment is expected to be relatively higher than last year, with 25% estimated for 2022/23 compared to 8.5% in 2021/22.
- We expect exports to decline the lowest in the last seven years. Lower domestic production as a result of bad weather and relatively flat global cotton mill use will keep US cotton exports lower and reduce the US's share of global exports. While the US continues to be the leading exporter of cotton in the world, Australia and Brazil will increase their global presence as a result of higher production in those countries. The US global cotton share is expected to decline to 30% – the third consecutive year of its global share declining.
- Demand will be a key variable to follow over 2022/23 as economic concerns over a recession with higher interest rates and high inflation start to weigh on consumers' budgets. Spinning operations might feel the impact and reduce operations, thereby reducing demand for cotton mill use. Cotton mill use is expected to see a slight decline of 2% compared to last year.
- Lower US production and relatively lower demand are adding pressure to domestic stocks, which are estimated to see a decline of nearly 15% compared to the last marketing year. While the USDA report in March recorded higher acreage, weather conditions greatly impacted production in the southwest. As a result of relatively higher demand and lower production with lower ending stocks, season average farm prices are updated to reflected current conditions pushing farm prices to USc 95/lb – an increase of 5% MOM and 3.3% YOY.

US cotton conditions rated Fair and Poor increased compared to five-year average

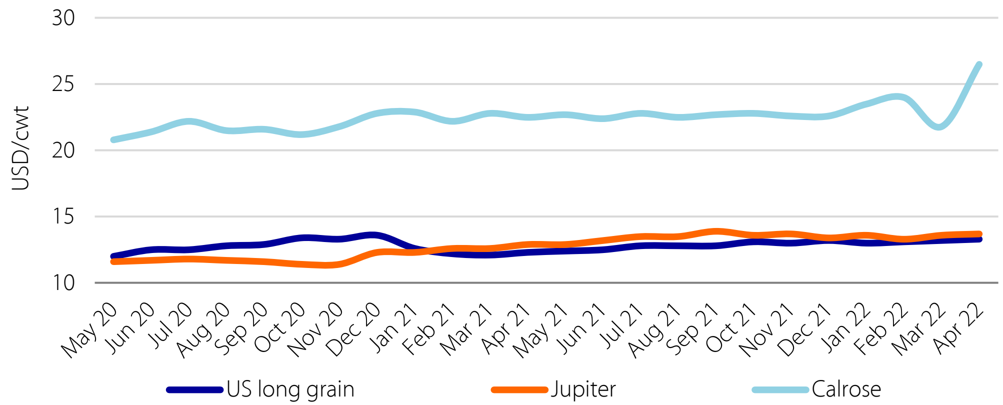


Source: USDA, Rabobank 2022

Rice

- Rice supply has increased by 1m cwt for 2022/23 according to the latest balance sheet update from the USDA. The increase comes from a larger-than-expected increase in beginning stocks. Despite higher beginning stocks, total supply remains 4% lower YOY.
- Record imports are not enough to offset lower domestic production. Due to lower estimated production – driven by lower acreage, mainly in California, and a lower yield – all US rice production is expected to decline by ~5%. US total imports are expected to partially cover some of the decline in production but won't be enough to close the gap. Imports are expected to reach 38m cwt, an increase of ~8.6%. USDA estimates that the share of domestic use coming from imports will likely reach ~26%, increasing the share of imports in domestic consumption.
- Exports are expected to decline 2% from last year as production limits supply. While global trade remains at record levels, increasing by almost 3% YOY, the US is seeing a decline in exports. Lower domestic production and higher US prices continue to limit US competitiveness in global trade.
- Season average farm prices are quickly responding to lower supply domestically. Ending stocks are expected to decline 11% despite higher imports and declining consumption. All in all, farm prices are well supported for this marketing year and likely for the start of the next marketing year. SAFP is expected to increase by 12% in 2022/23 to USD 17.80/cwt

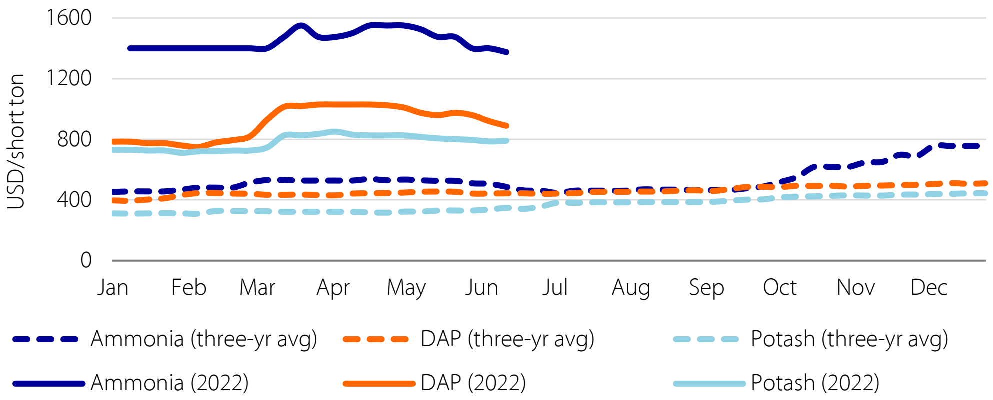
24-month US rice prices, Mar 2020-Feb 2022



Source: USDA NASS, USDA ERS, Rabobank 2022
Note: Average rough rice basis

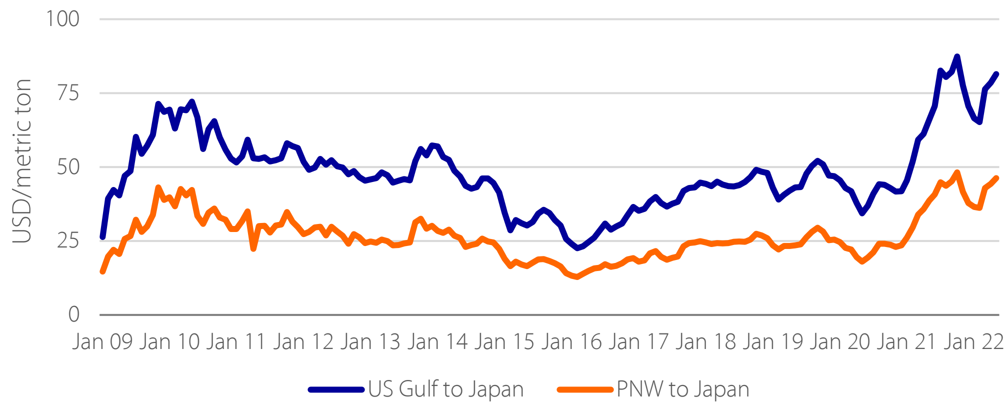
As of June 16, 2022

Corn Belt input prices*



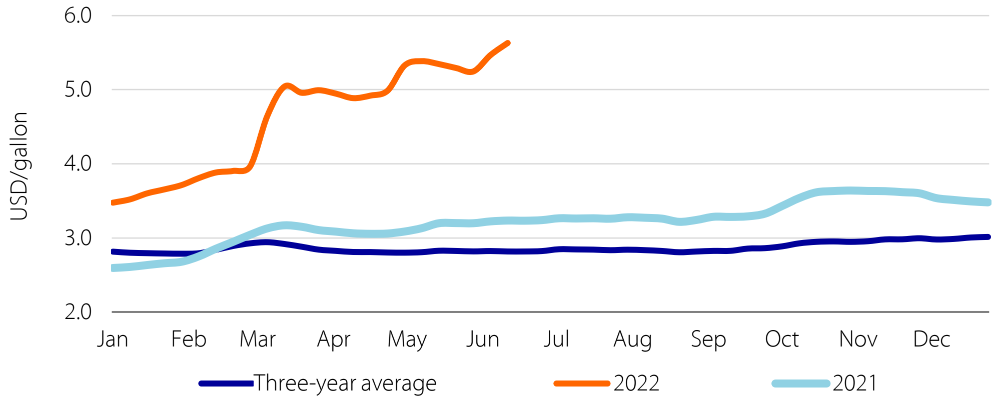
** Note: granular potash*
Source: Bloomberg, Rabobank 2022

Ocean freight



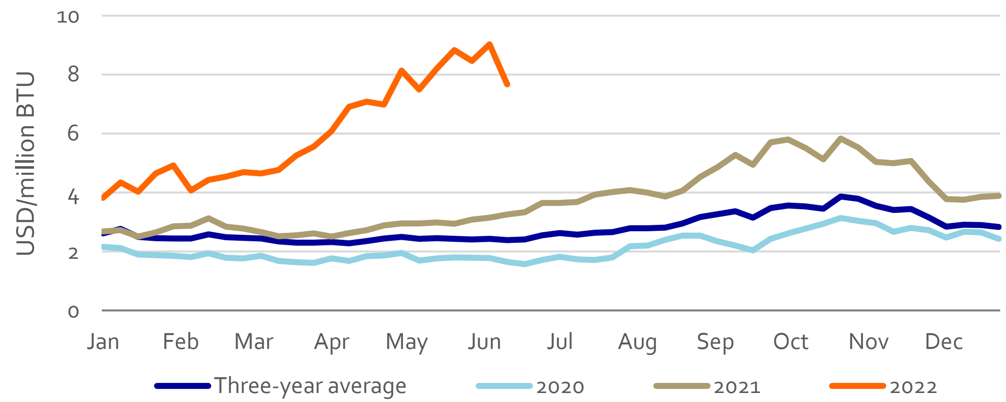
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2022

Diesel – Midwest



Source: EIA, Rabobank 2022

Natural gas spot



Source: NYMEX, Rabobank 2022

Forward Price Curves

As of June 16, 2022

CBOT – Corn

Source: CBOT, Rabobank 2022

CBOT – Soybeans

Source: CBOT, Rabobank 2022

CBOT – Soymeal

Source: CBOT, Rabobank 2022

CBOT – Soy oil

Source: CBOT, Rabobank 2022

Forward Price Curves

As of June 16, 2022

CBOT – Wheat

Source: CBOT, Rabobank 2022

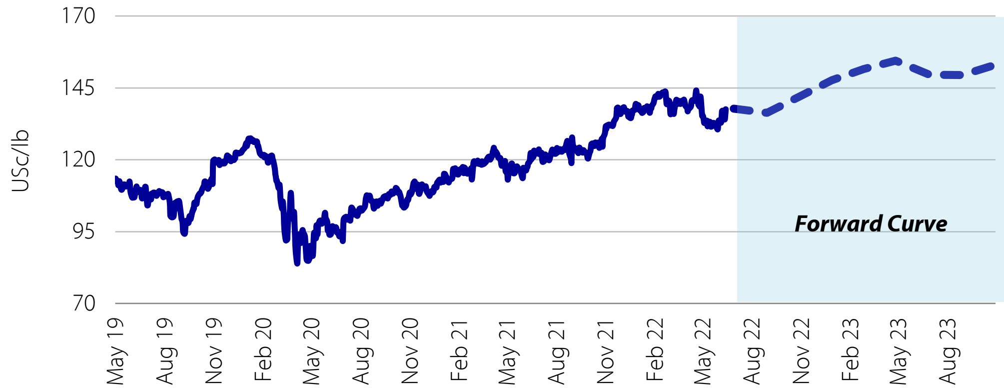
CBOT – Feeder cattle

Source: CBOT, Rabobank 2022

CBOT – Lean hogs

Source: CBOT, Rabobank 2022

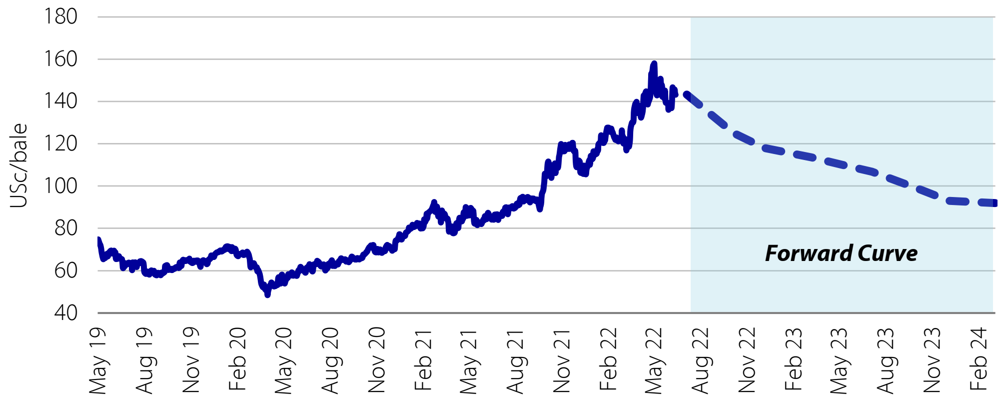
CBOT – Live cattle



Source: CBOT, Rabobank 2022

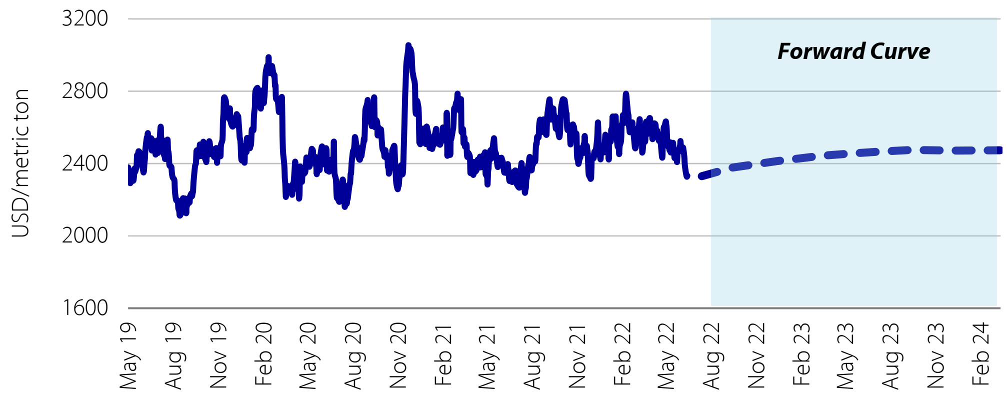
As of June 16, 2022

ICE – #2 Cotton



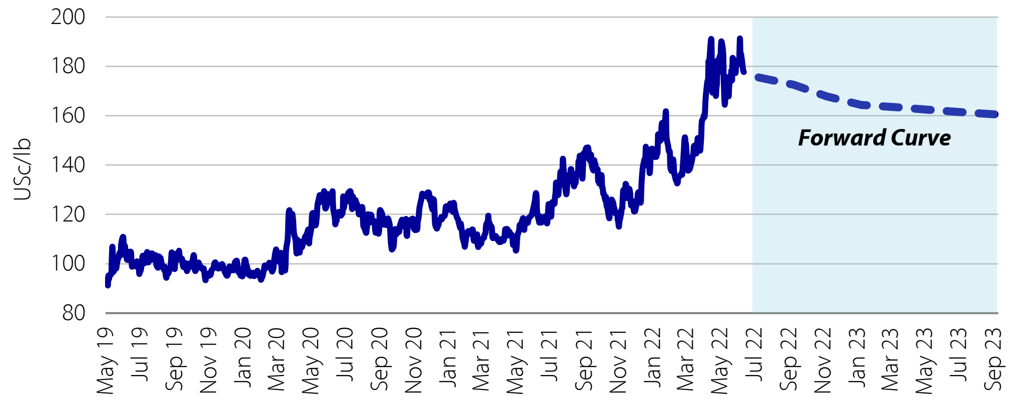
Source: ICE, Rabobank 2022

ICE – Cocoa



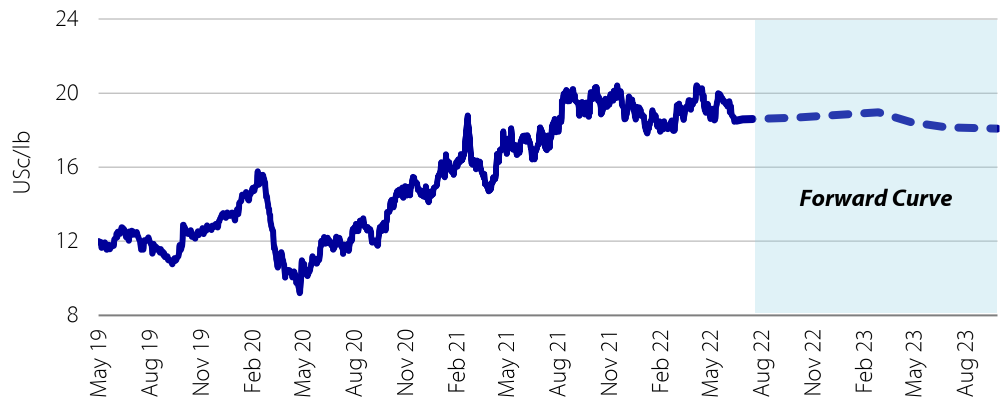
Source: ICE, Rabobank 2022

ICE – FCOJ



Source: ICE, Rabobank 2022

ICE – #11 Sugar



Source: ICE, Rabobank 2022

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