



North American agribusiness review

Rabobank







RaboResearch
Food & Agribusiness

June 2024

Report Summary

Report Summary

Rabobank

Economy

Slow progress on inflation

US

- The CPI report for May was encouraging, with headline inflation declining to 3.3% and core inflation down to 3.4%. However, after several months of higher-than-expected inflation, the Fed's confidence that inflation is making progress toward the 2% target has been dented. This was reflected in new rate projections showing only one rate cut this year, down from three. However, if inflation data remains encouraging, the first rate cut could get closer. We still expect one rate cut in September and another in December. However, we are not particularly optimistic about inflation. Instead, we expect the slowdown in the real economy to force the Fed's hand and start the cutting cycle.

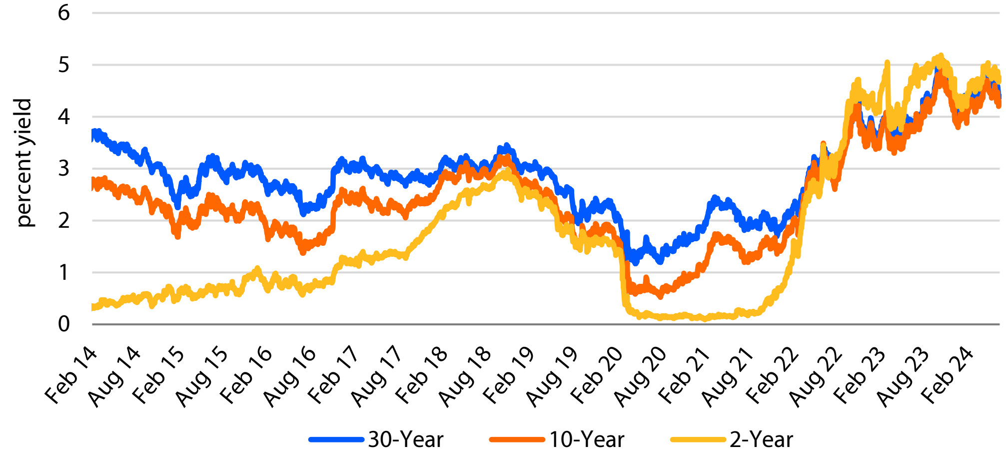
Mexico

- Banxico drastically revised the inflation forecast to the upside for the remainder of 2024 and beginning of 2025 in both the headline and core measures, though they did adjust the forecast downward from 3.1% to 3.0% for 2026. The upward revisions, according to the Quarterly Inflation Report, can be mostly attributed to anticipated volatility in energy and food prices, which are expected to subside in the second half of 2025.
- While Sheinbaum's victory brings with it some changes (the first female president of Mexico, as well as the landslide in Congress), politically it may be more of the same. It's still unsure whether Sheinbaum will continue her predecessor (and mentor) AMLO's policies, or push her own political agenda, but Mexican politics are likely to remain in the liberal lane, at least for the next six years. We expect MXN demand to stay strong as MXN continues to be an attractive carry currency, and to see a retracement in USD/MXN in the near future as volatility settles. We expect USD/MXN at 17.9 at year-end.

Canada

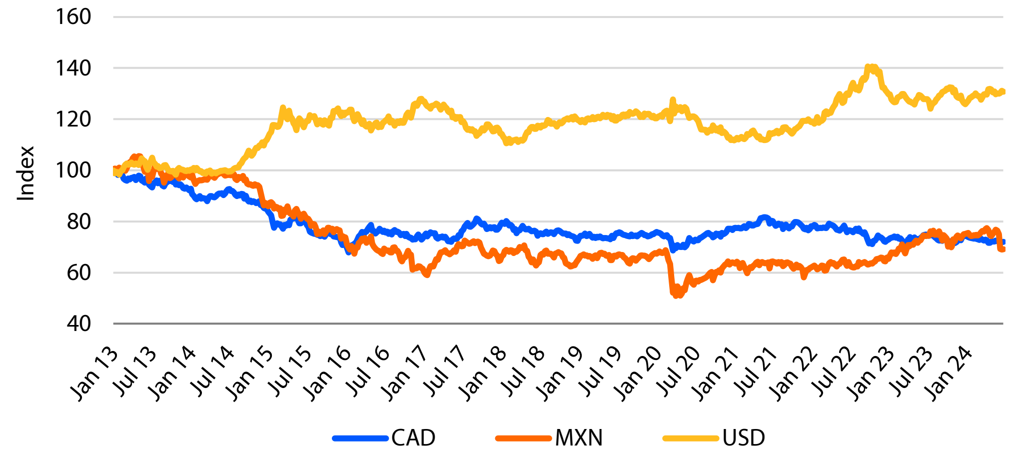
- Several factors contribute to the elevated USD/CAD level. USD/CAD has the lowest implied volatility of all G10 currencies since October 2022. This has been coupled with sustained USD strength as a safe-haven currency in the face of rising geopolitical tension. Additionally, the expectation of the divergence in rate paths, is currently supporting USD/CAD elevation. As high-for-longer US rates bolster USD strength over the summer, and with other central banks starting to cut, the easing in Canada's monetary policy could further weaken CAD. The materialization of this divergence over the next few months could sustain this elevation, and we expect USD/CAD to trade around 1.37-1.38 for the remainder of 2024.

Interest rates, 2014-2024



Source: *Federal Reserve of St. Louis 2024*

Currency indices, 2013-2024



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

Climate

Global weather market

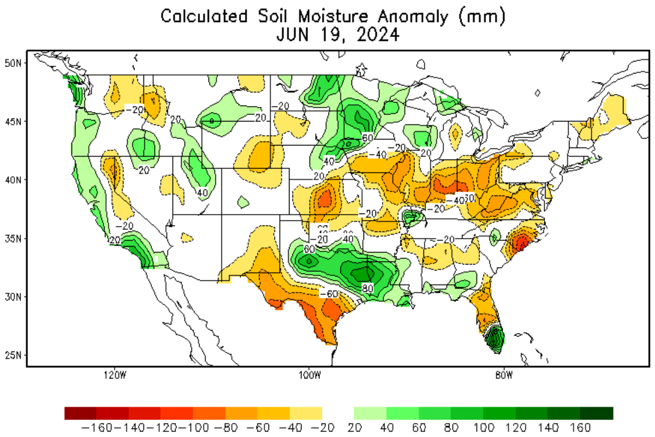
- **Although the 2024 season so far portrays a favorable overall picture, the challenges continue to mount**. Early season momentum came from improved YOY soil moisture and a brisk pace of planting. Then came late spring rains delaying some planting, and the recent baking Midwest heatwave is drying out the available moisture as stored topsoil levels rapidly deteriorated during June across key growing areas. Summer crops are entering the critical time when yield is most impacted; if precipitation does not appear soon, the plants will be forced to sink roots deeper for adequate moisture instead of putting that energy into the fruit. Corn also needs cool nights during July for optimal pollination, so temperatures need to moderate from current levels for trendline yield to be achieved.

- **USDA summer crop condition scores are nearly all at the high end of historical quality ranges despite the growing challenges**. Most industry analysts are still assuming strong final yields and G&O cash basis is generally weak, which points toward an ample crop. All the prerequisite conditions for a strong production year have been met, though we need timely rains in July and moderation in temperatures for that to come to fruition. The long-term NOAA outlook anticipates equal chances for 'normal' weather in their latest summer forecast, which should mean adequate moisture without any more surprises from nature.

- **The US winter wheat crop quality being harvested looks strong overall**, which bodes well for summer crops. Refreshing recent moisture in Canada is aiding key spring wheat production areas, especially Alberta where drought persists.

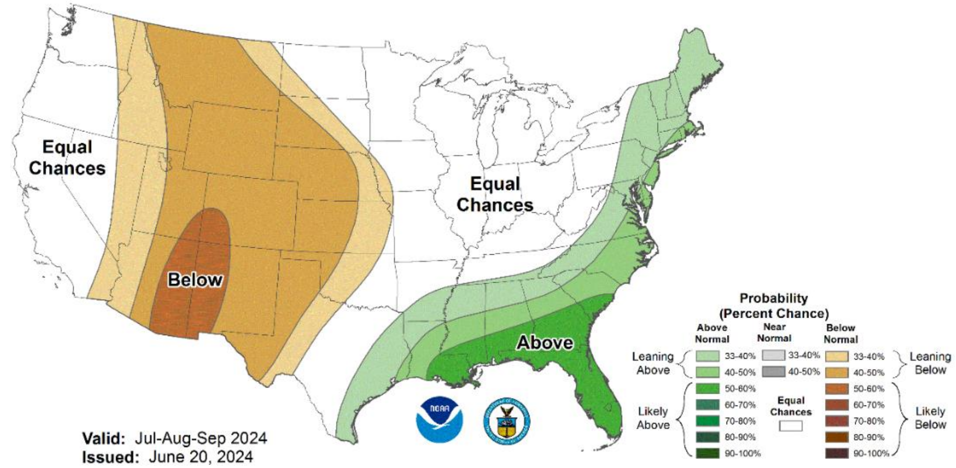
- Global events are overshadowing North America; **sluggish US planting is yet another factor contributing to this global weather market**, along with recent flooding in Brazil plus disagreement on the safrinha crop size, heat harming wheat in Europe, while Russia and Ukraine have suffered from a mix of frost and drought. **These otherwise minor challenges individually are occurring simultaneously, leading to greater fear in markets than may otherwise be the case given the relatively heavy domestic and global stocks.**

Dryness persists across the majority of the Corn Belt



Source: NOAA, 2024

Summer NOAA forecast anticipating neutral chances of Corn Belt precipitation



Source: NOAA, 2024

Logistics

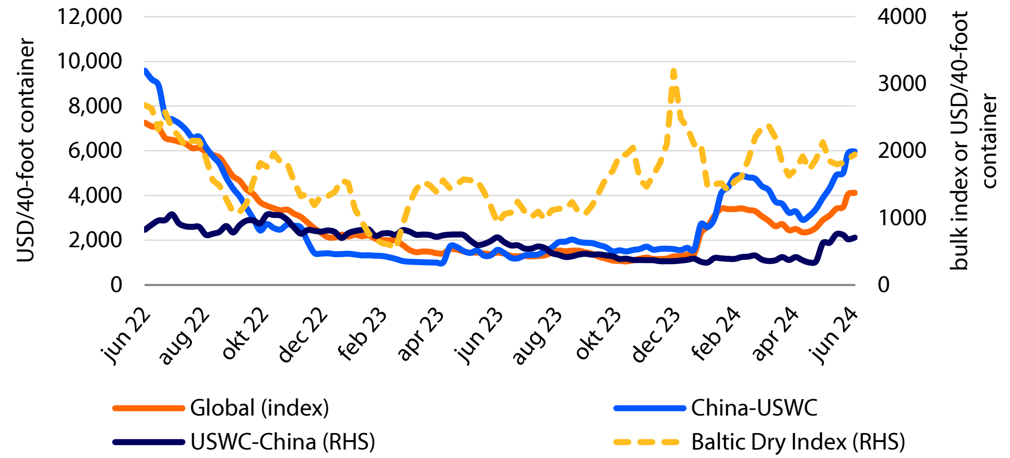
Port congestion adding fuel to the stressed supply chain

- **As global and regional trade demand recovers, congestion of up to 7 days is seen at key ports in Asia.** This drives up global freight rates, by 36% MOM as of June 2024 or 152% YOY, as vessels get tied up due to congestion and carriers add surcharges to key east-west routes. Global freight rates normalized earlier this year after the initial shock from the Red Sea situation but are now reaching a tipping point again. Vessels are forced into blank sailing at congested ports, further shrinking the available vessel capacity that is already tight from re-routing the Red Sea. North American ag exporters are impacted as well, now facing doubling rates into Asia. While there is fear that another pandemic-like event could be brewing, where rates shot up 1000%, we think it's more likely that congestion will slowly be resolved and vessel capacity will expand as new vessels come online throughout the year. However, the current tight capacity hardly leaves any room for future disruptions, so watch out for volatility.

- **Congestion is leading to equipment shortages in key ports, with the issue more pronounced for reefer containers.** Shippers relying on the cold chain now have to book further in advance to secure cargo space. Reefer cargo and perishable goods are more sensitive to schedule delays, though the impact has been limited so far. There is a risk that the situation may deteriorate as demand continues to grow.

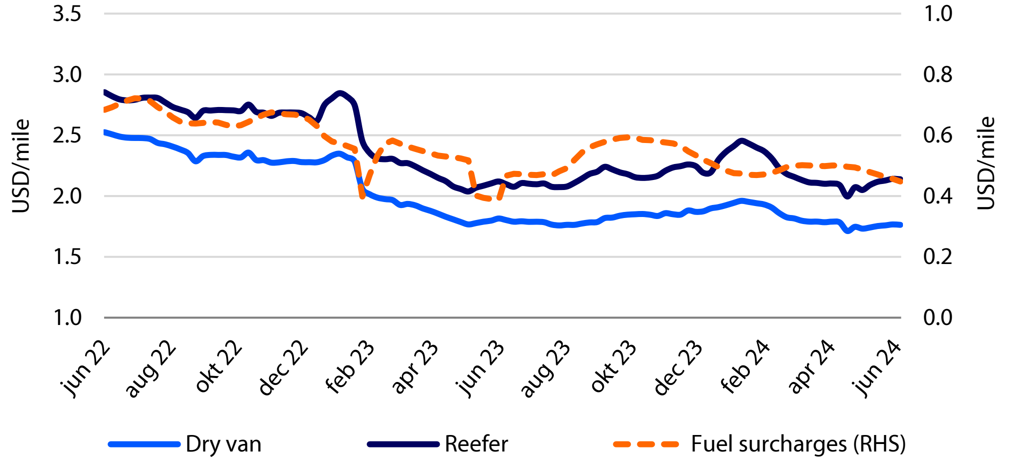
- **US trucking demand remained soft** through the beginning of the summer produce season, on the back of weaker domestic and transborder produce shipments. Truck tonnage for hire recovered somewhat in May but data was still skewed towards the lower end of the past five years. There are plenty of trucks around. US average trucking spot rates have largely stayed on the low side when compared to rates from the past decade, and the general trucking Producer Price Index (PPI) continues to decline back to 2021 levels, erasing the gains from much of the pandemic period. Demand for less-than-truckload (LTL) remains the strongest segment for surface transportation. PPI for LTL registered 6% growth in May 2024, while other routes registered declines of 6%-11% across the board. Fuel surcharges have stayed off the peak on the back of manageable energy prices.

Select ocean freight rates, Jun 2022-Jun 2024

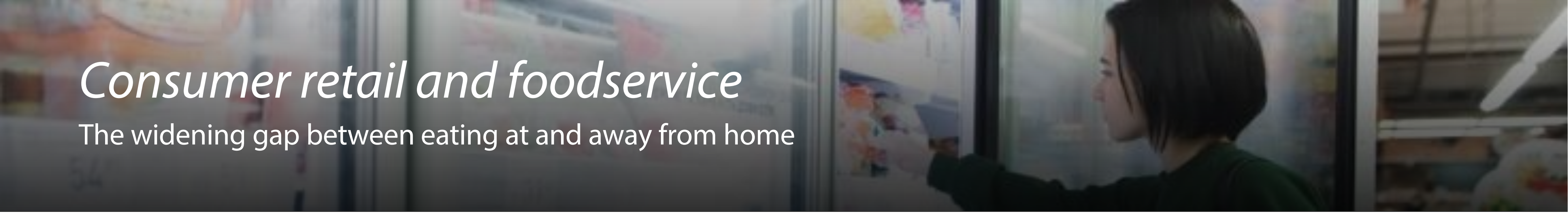


Source: *Freightos, Baltic Exchange*

US dry van and reefer truckload prices, Jun 2022-Jun 2024



Source: *Truckstop.com, Bloomberg*

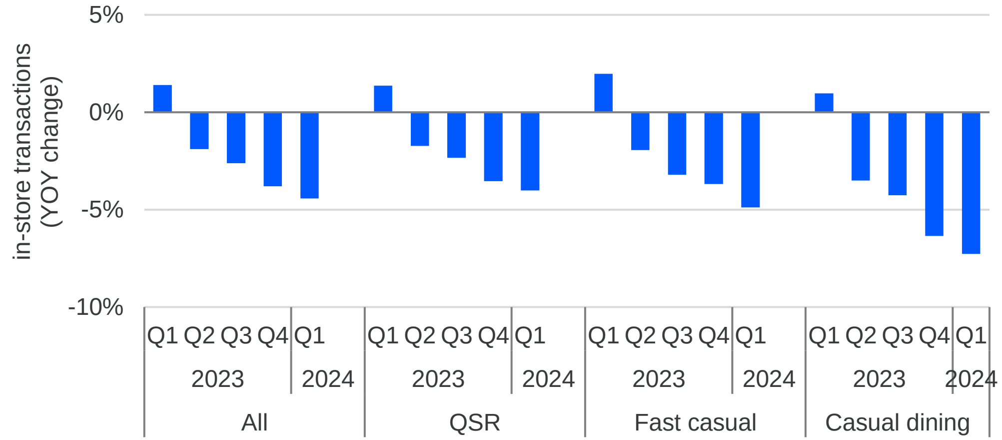


Consumer retail and foodservice

The widening gap between eating at and away from home

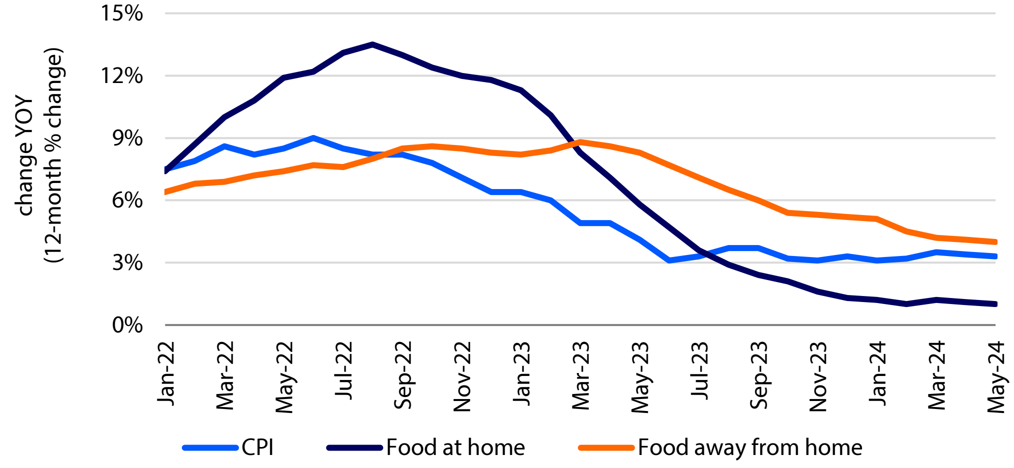
- **Inflation is over (if you eat at home):** CPI data for food in the first five months of 2024, indicate different realities depending on whether you dine out or at home. Grocery items have remained flat or slightly decreased in the past four months, bringing the year-over-year (YOY) inflation down to 1.0% in May (from 1.2% in January and 5.8% in May the previous year). This is great news for consumers who finally see stability in grocery prices, despite overall hot inflation for other non-food items such as transportation (+10.5%), electricity (+5.9%), and shelter (+5.4%). This is also good news for food manufacturers, that have engaged on regaining volume.
- **Menu prices keep ticking higher:** Restaurant inflation increased 0.4% in May versus April, in line with previous months, but still divergent with inflation for food at home prices. Food away from home inflation was again up 4.0% YOY for May, above general CPI. Higher menu prices amid easing food prices can be explained by persisting rent and labor pressures, that represent roughly two thirds of restaurant costs. Furthermore, restaurants have adjusted their pricing more gradually through the inflationary market – good at the start when grocery price inflation outpaced foodservice, but now worse as grocery inflation eases and foodservice inflation continues to play "gradual" catch-up – evident in the menu price chart on the right.
- **The widening gap in inflation doesn't help the traffic problem for restaurants:** The increasing premium for eating out of the house is expected to extend the decline in restaurant visits seen in the past year. Exclusive data from Earnest Analytics reveal that lower-income groups have reduced their restaurant visits and spending the most. We expect that this trend will persist, with consumers increasingly favoring food at home.
- **Higher checks are not enough to offset lower traffic:** Consumers have eaten out less frequently, and when they do choose to dine out, they tend to prioritize more affordable options and remain cautious about what they order. Checks have grown in absolute terms but this growth is underperforming inflation.
- **Restoring traffic remains key:** Foodservice spending has been driven primarily by inflation rather than by the number of plates and drinks served. For restaurants, this poses a challenge, as they need to find ways to attract more traffic to maintain profitability. Restaurants must find ways to entice consumers (particularly those in lower tax brackets) to return to eating out more frequently. Numerous quick service restaurants have launched meal deals; McDonald's released a USD 5 meal deal, Burger King has recently followed suit, and Wendy's have also launched their own USD 3 breakfast meal deals.
- Looking forward, it will take time for consumers to get back on their feet. Real wages increased by 1% YOY in Q1, but it will likely take several more quarters for consumers to regain a financial position that allows them to afford the premium of dining out more often.

Restaurant transactions have consistently decreased across all surveyed categories



Source: *Earnest Analytics, Rabobank 2024*

Menu prices have grown despite stable food prices



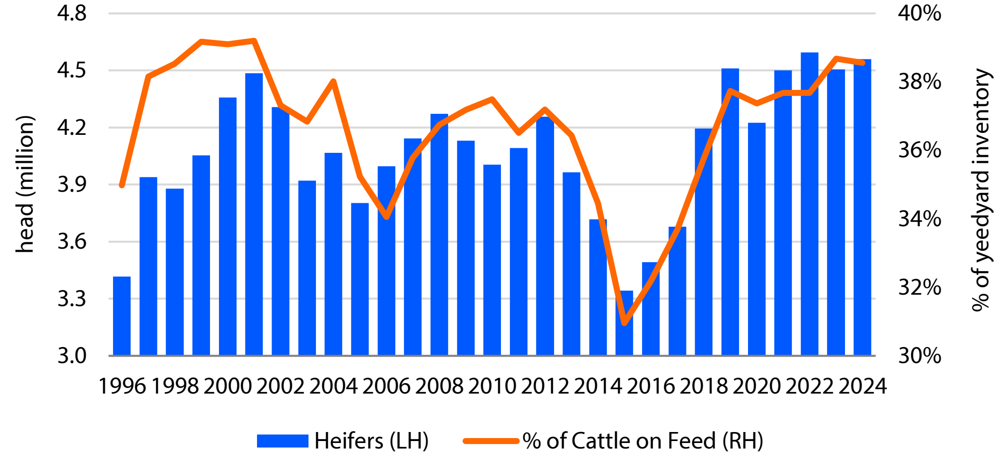
Source: *US BLS, Rabobank 2024*

Cattle

US beef cow herd stabilization is possible this year, and US beef supplies remain ample due to robust imports

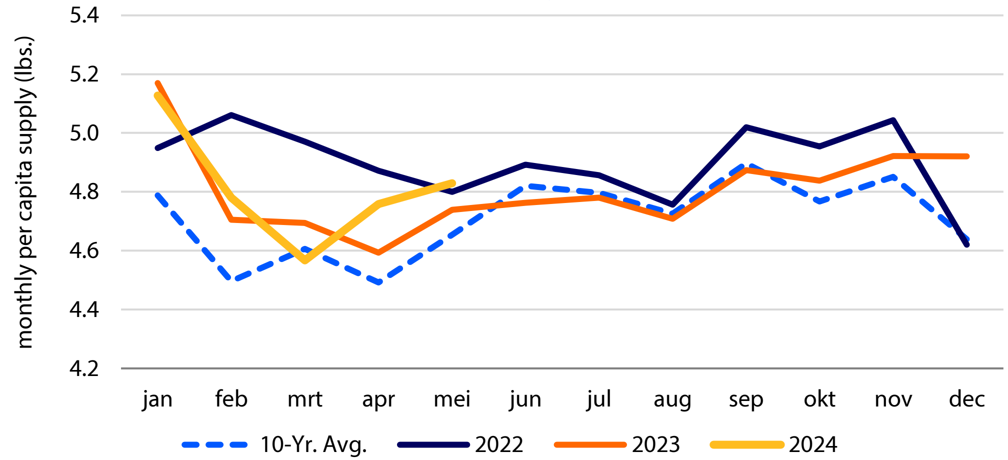
- **US beef cow herd stabilization is possible in 2024.** January to May beef cow slaughter is down 15% compared to last year, and the implied culling rate is at 10% over that time. That will facilitate herd stabilization, but rebuilding remains difficult without more heifer retention. Heifers represent 43% of USDA-reported weekly feeder cattle and calf sales receipts from January to May, which is a 20-year high. Furthermore, the April 1 heifer inventory on feed was up 1% compared to last year at 4.56m head, while January to May heifer slaughter is steady with last year. The fall calf run will dictate 2025 herd expansion.
- **Stronger imports and heavier weights support early 2024 US beef supplies.** Per capita beef supplies have not declined as expected to start the year. Lower US cattle slaughter is being offset by stronger imports and weights. January to May cattle slaughter is down 3% compared to last year. Cow and bull slaughter is leading the decline with a 14% deficit compared to last year, while steer and heifer slaughter is steady. January to April, beef imports are up 18%, and net beef imports are up 159%. Also, cattle carcass weights have been unseasonably stronger after extreme winter weather led to brief declines to start the year. January to May steer carcass weights are 2% higher than last year. As a result, per capita beef supplies from January to April are steady with year-ago levels.
- **Drought pressures Canada cattle inventories lower.** The January 1, 2024, total supply of cattle and calves was reported at 11.1m head – declining by 240,000 head compared to the previous year. Declines were prevalent across nearly all classes of cattle. Beef cow inventories declined 84,000 head to 3.5m. The national beef cow herd is now the smallest since 1989. Five consecutive years of herd liquidation reduced feeder cattle and calf supplies outside of feedyards by an additional 123,000 head to 4.4m head. Expect these reductions to reduce feedyard inventories and cattle slaughter over the next several years.
- **Export-quality feeder cattle prices are currently MXN 66.65/kg.** Feeder cattle and calf exports to the US are 3.4% higher YTD through March 2024. Even with falling beef sales, total carcass-weight-equivalent exports are 19.7% above 2023 levels at 161,500 metric tons through March. Expect stronger US beef and cattle demand to support prices as buyers supplement declining domestic production with supplies from Mexico. Ample domestic cattle numbers are allowing beef production gains, even with stronger cattle exports. Expect production to grow throughout 2024. However, cattle exports and weather-related influences will influence the level of growth. Key cattle-producing regions in Mexico remain in drought, pressuring cow-calf producers with limited forage availability.

April 1 heifers on feed remain historically elevated, limiting herd expansion



Source: *USDA, Rabobank 2024*

Q2 per capita beef supplies are trending above year-ago levels



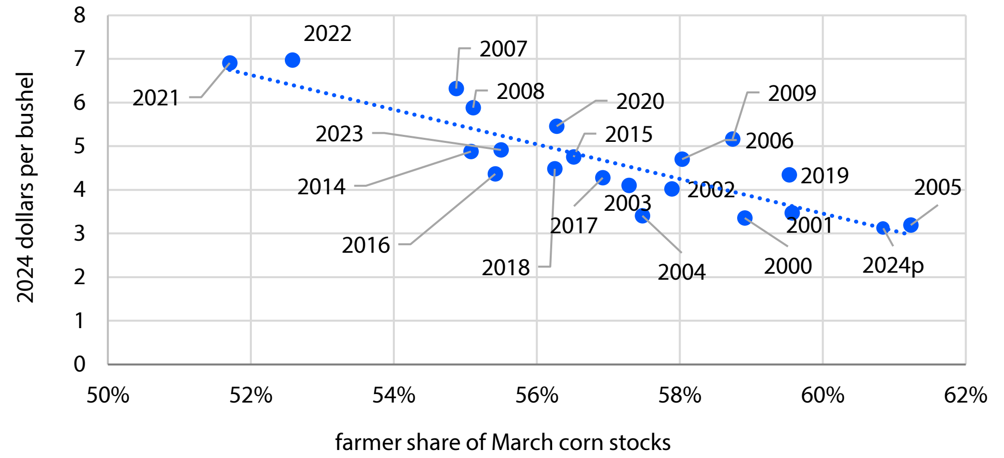
Source: *USDA, Census Bureau, Rabobank 2024*

Corn

Growers and buyers at an impasse

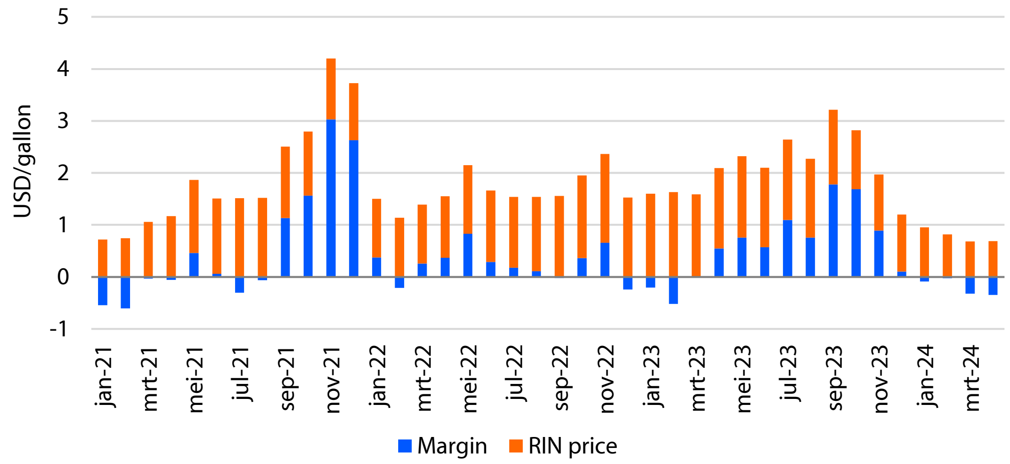
- Corn futures continue to trade on the weather, with market participants attempting to navigate competing storylines surrounding perceived delays in US planting (progress remains in line with five-year averages) and the size of safrinha production in Brazil (recently revised upward by CONAB).
- Increasingly, participants seem to be moving to the sidelines, with growers holding onto old crop grain, in hopes of better prices and buyers hoping current stocks can get them through to the 2024 harvest, which for now, has all the makings of a good crop.
- The impasse can be visualized by looking at the share of corn stocks held by growers. As of March, this stood at 61%, the highest level since 2005. Troublingly for those long corn, a higher share of stocks in the hands of growers has historically been associated with lower prices – evocative of the notion of catching a falling knife.
- Surveying the landscape, it is difficult to build a bullish narrative surrounding corn. New marketing year export sales remain weak, on par with last year but woefully behind the five-year average. Ethanol margins, meanwhile, pulled down by low gas prices and last year's RIN hangover, are at their lowest levels since Covid.
- Nevertheless, the impasse is unlikely to be resolved until we reach corn pollination, at which point the crop is well on its way to being "made" and weather becomes less important. At that point, prices could adjust quickly. Until then, it is worth taking note, especially if you have grain in the bin, that Iowa has pulled out of drought for the first time since 2020, and the country's corn rating is the best it has been in years.

Inflation-adjusted farmgate corn price and March share of corn stocks held by growers



Source: *USDA Rabobank 2024*

Corn ethanol margin, inclusive of RIN



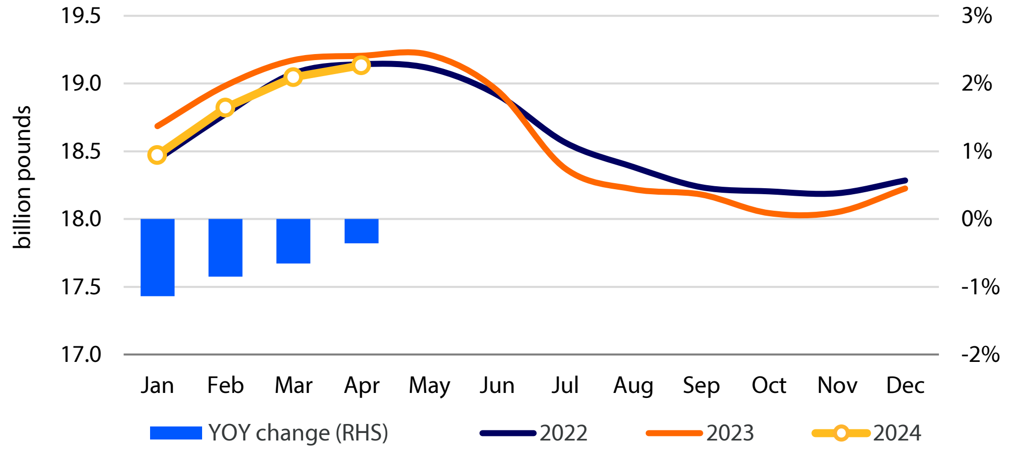
Source: *Iowa State University, EPA*

Dairy

Milk production marks tenth consecutive decline in April; higher cheese prices point to improved farmer margins

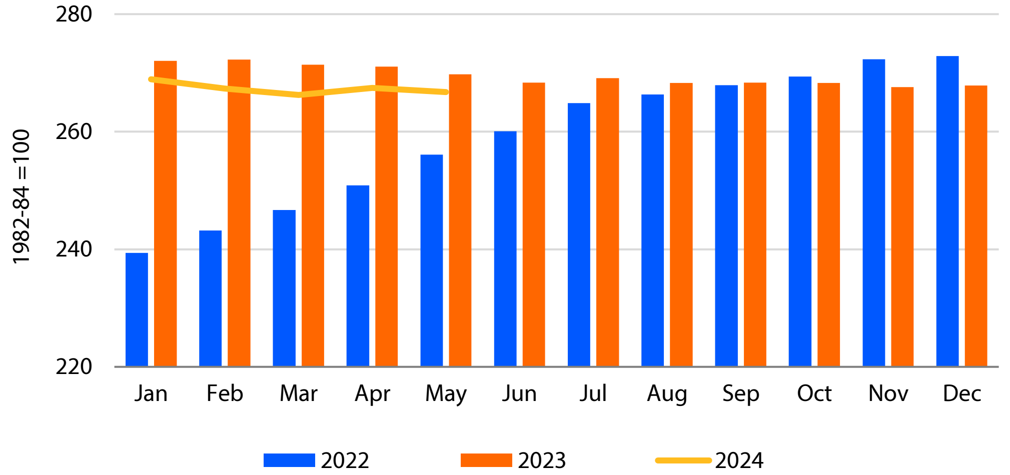
- **April milk production fell 0.4% versus the prior year, marking the tenth-consecutive month of weaker year-over-year output.** March volume, initially reported as down 1%, was revised higher to show a 0.7% decline. Aligned with the recent trend, fewer cows versus the prior year again drove the weakness regardless of greater yield. Rabobank expects milk production to remain lower YOY in the near-term months because of the smaller herd.
- The USDA revised its March dairy herd estimate higher by 13,000 head but pegged **the April herd at 8,000 head lower at 9.34m, down 74,000 head (0.8%) compared to the prior year.**
- Milk per cow increased by 0.4% YOY in April to mark the second successive increase. It is **the first time since May-June 2023 that milk per cow has posted two consecutive YOY gains**, with yield struggling throughout the second half of 2023 and into the first quarter of 2024.
- Total April cheese production grew by 1.8% YOY, **climbing after three consecutive monthly declines.** Aligned with recent trends, Italian-style cheese drove the growth, up 6.2% YOY, mainly supported by a 6.1% increase in Mozzarella production. American-style cheese production fell 4.7% YOY, marking the fourth successive monthly decline. Cheddar volume was down 8.6%, contributing to recent gains in spot cheese prices.
- **Butter production has been on a steady rise,** increasing by 5.3% for the fifth consecutive month into April. On a year-to-date basis, butter output is up 4.1% YOY, adjusted for Leap Day. Regardless of heavier output, strong demand has kept the price firmly supported so far this year.
- April combined nonfat dry milk/skim milk powder production fell 14.2% YOY, marking the 11th month of lower output. Stocks grew sharply, up 47.5m pounds in April to total 280.6m pounds but **remain down 17m pounds YOY.**
- Total dairy exports were higher again in April, following slight weakness in March. **Impressive cheese shipments persisted** – up 27% YOY to mark the second-highest monthly volume ever, following March's record high. Product to Mexico set a record high in April, up 53% YOY. Whey, WPC80+, and even butterfat volumes were also up YOY while nonfat dry milk encountered slight weakness.
- **Highly pathogenic avian influenza continues to spread,** totaling 102 cases in 12 states as of June 18. The USDA has authorized nearly USD 1bn in funding for testing, monitoring, and responding to the virus. Pasteurized dairy products remain safe for consumption.
- The year-on-year dairy consumer price index signified the **ninth straight decline** in May as dairy product price deflation persists.

US milk production (30-day months), Jan 2022-Apr 2024

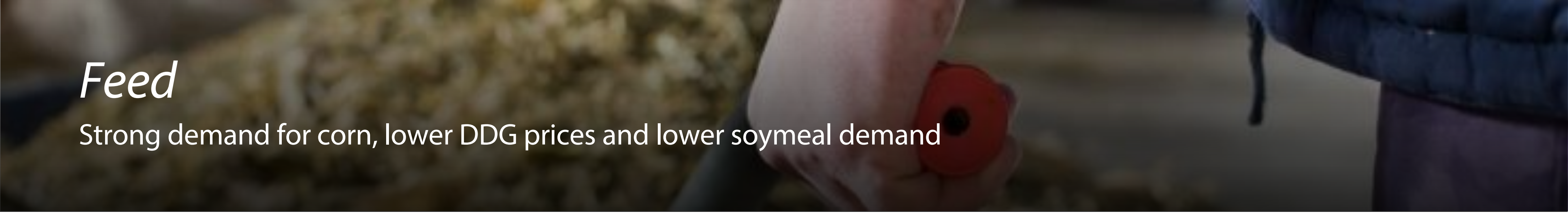


Source: *USDA NASS, Rabobank 2024*

Consumer price index: dairy and related products, 2022-current



Source: *Bureau of Labor Statistics 2024*



Feed

Strong demand for corn, lower DDG prices and lower soymeal demand

Corn

Domestic demand for corn is projected slightly higher than 2023/24 by ~1%. Increased demand for feed, driven by higher weights in beef, pork and poultry, will drive most of the growth in demand. The marketing year 2024/25 corn price will offer some relief relative to marketing year 2023/24 – farmgate prices are expected to decline ~5%.

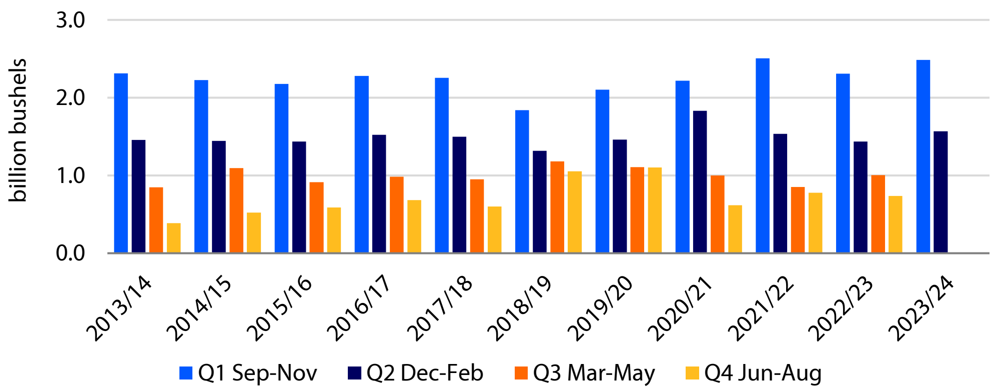
DDGS

April production of DDGS fell by 9%, driven by lower corn used for fuel alcohol which dropped 11.7% MOM but remained higher than April last year by 0.7%. Despite a decline in DDGS production, prices continue to decline, with April prices of DDGS at USD 178.85/metric ton compared to USD 198.88/metric ton last month and USD 260.81/metric ton April last year.

Soybean meal

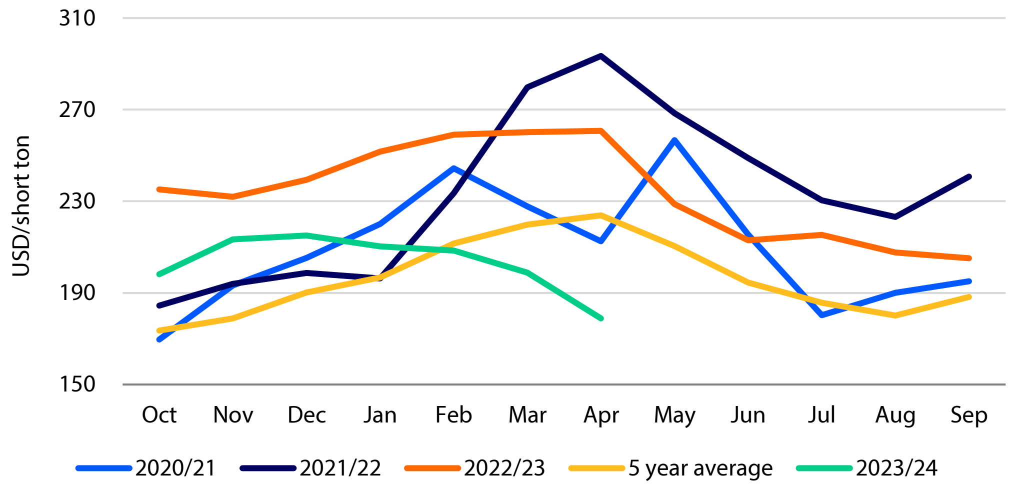
Prices have come down from their USD 400/short ton levels to settle around the USD 360/short ton camp. As Argentina is back with good production, soybean meal exports are picking up in South America while the domestic utilization has dropped in the US, pushing for more exports. Recent WASDE June estimates are reducing domestic utilization for 2024/25 by 200,000 short tons, to a total of 40.1m short tons. Exports for 2024/25 are expected to increase due to lower domestic demand, from 17.3m short tons to 17.5m short tons.

Corn feed use and residual remains strong in Q2, second highest in ten years

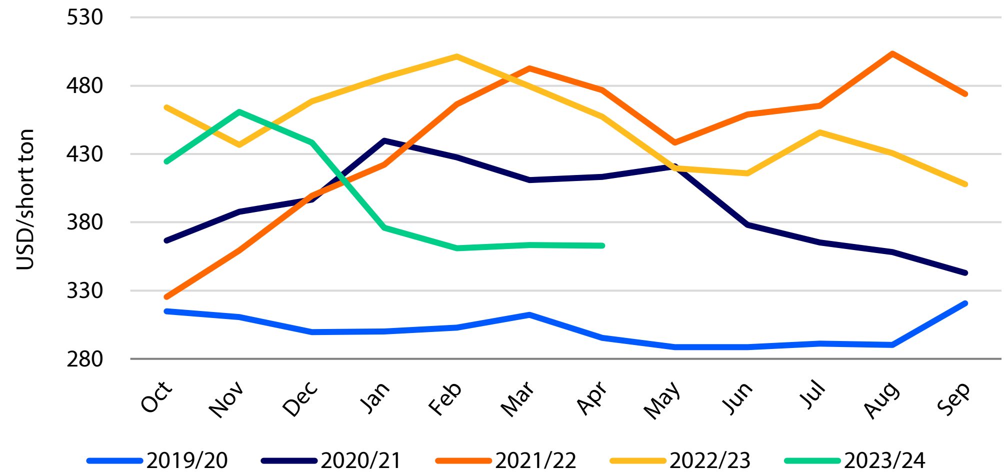


Source: *USDA , Rabobank 2024*

DDGS prices staying below the five-year average despite lower production in April



US soybean meal prices finding support at 360 USD/short ton



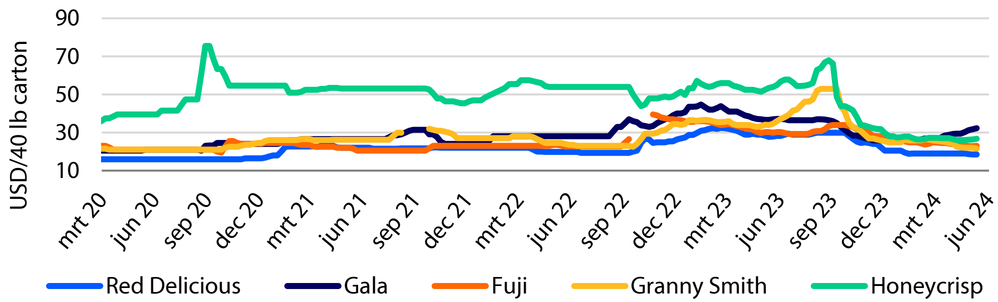
Source: *USDA, Rabobank 2024*

Fruits

Prices for lemons and oranges at a healthier level than in the previous season

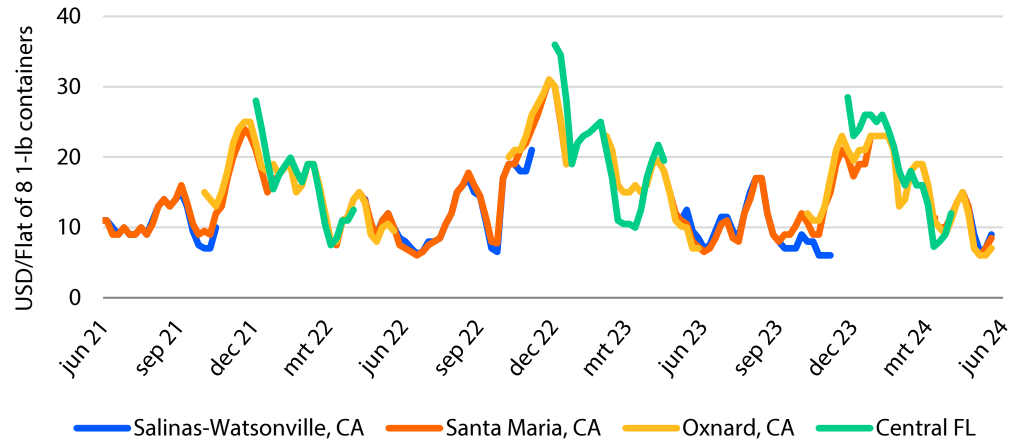
- **Strawberry** shipping-point prices were around USD 8 per flat for non-organic fruit, at a similar level to the year before for product from California, by mid-May (latest prices reported by AMS-USDA). Shipments are at similar levels to the previous year during early June, as the strawberry season in California passes its peak.
- **Lemon** shipping-point prices -140s- were USD 36 per carton, up 20% YOY, surpassing the five-year average for mid-May by 23%. The California lemon crop will decline to 22m boxes in 2023/24, down 15% YOY, per USDA estimates. The import season is ramping up. **Navel orange** production in California is estimated to close soon at 38m boxes, up 5% YOY in 2023/24. Navel orange shipping-point prices -88s- were around USD 26 per carton, up 32% YOY, by mid-May. California **Valencia orange** production in 2024 is forecast to reach 8m boxes, down 7% YOY, and prices at the start of the season were just over USD 25 per carton, up 25% YOY by mid-May. Prices are expected to remain firm during the summer.
- California **avocado** shipping-point prices for 48s were around USD 50 per carton, up 48% YOY, and right at the five-year average by mid-May 2024 (see figure). The California mid-season crop estimate is 20% higher than the pre-season estimate at over 250m pounds, while shipments from Peru are expected to decline YOY. At the time of writing, the USDA announced a pause of avocado inspections from the state of Michoacán (Mexico) to the US, which will temporarily reduce avocado availability in the US. Exports from Jalisco (second-largest producing state in Mexico) and fruit in transit will not be affected by this temporary measure.
- Downward pressure on **apple** prices continue (see charts) after the bumper crop in 2023 boosted inventories. As apples are an alternate-bearing crop, some are expecting a lighter crop in 2024 that would bring a more balanced supply-demand situation.

Washington apple shipping-point prices, 88s – WA Extra Fancy, 2020-24



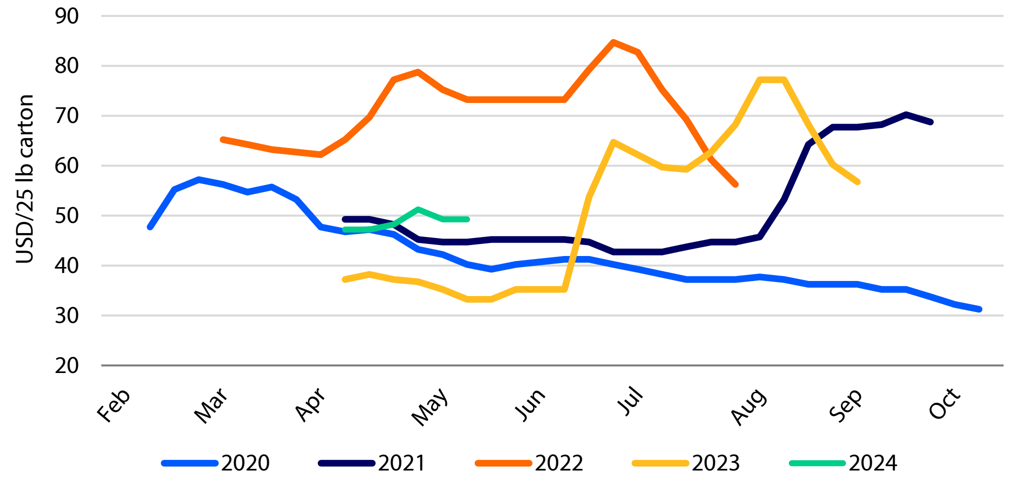
Composite of fine appearance and standard appearance prices
Source: *USDA AMS, Rabobank 2024*

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



Source: *USDA AMS, Rabobank 2024*

California Hass avocado shipping-point prices, non-organic -48s-, 2020-2024



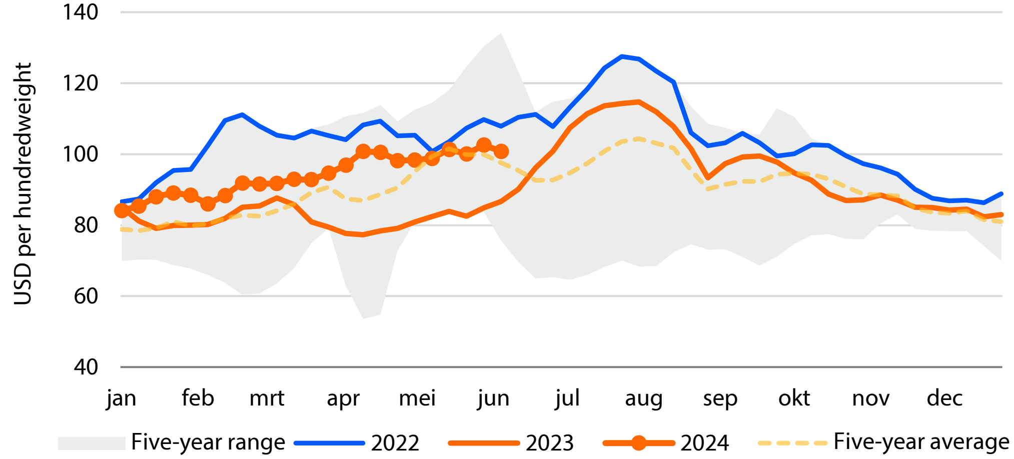
Source: *USDA AMS, Rabobank 2024*

Pork

Near-term oversupply on optimal growing conditions; demand steady

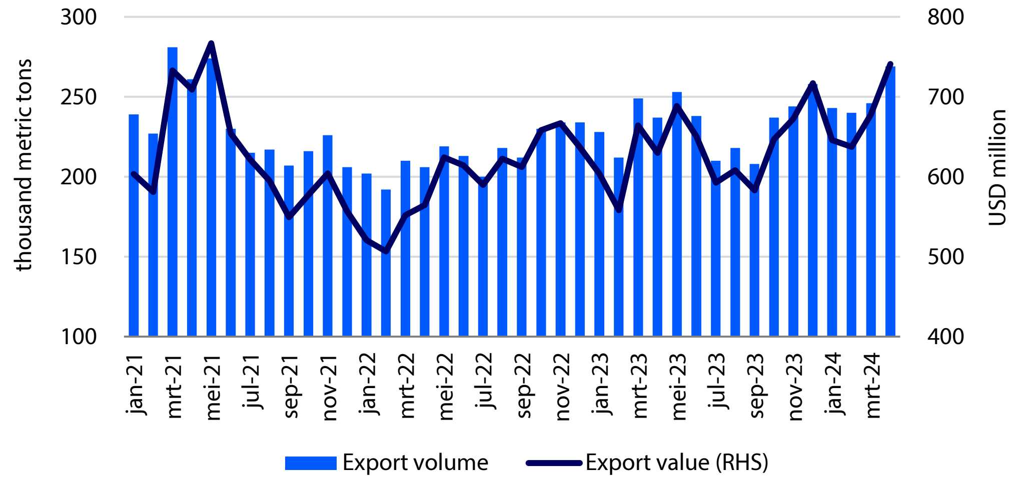
- **Ideal growing weather, lower feed costs and good overall herd health combined to boost pork supplies and lower hog prices in recent weeks**. Hog slaughter is up 2.9% YOY in the latest data, on improved hog availability and higher sow slaughter. Hog supplies are likely to remain high in coming weeks given the 2% YOY increase in the Dec/Feb pig crop. Weights also remain steady (+1% YOY) and are not showing any signs of a seasonal decline on warmer weather. Conditions have combined to keep pork production above expectations, weighing on packer demand for hogs. Negotiated hog prices remain seasonally soft (USD 88 per hundredweight) but are flat with year-ago levels. Producers are profitable at current prices, but concerns regarding Q4 2024 supply remain an overhang.
- **Pork prices are rangebound to start the summer, as the current pork supply continues to outpace near-term demand.** At USD 101 per hundredweight, the pork cutout is 16% above year-ago levels and is slightly ahead of the five-year average but it has failed to show much upside momentum in recent weeks. Most items remain well ahead of year-ago levels, with bellies (+50% YOY) and ribs (+34% YOY) showing leadership. Hams, butts, and picnics are all higher, but are showing more modest gains. We are encouraged by low cold storage inventories and expect stronger markets as supplies normalize over the summer.
- **April pork export volumes were the fifth-highest on record, +14% YOY in volume, at 269,000 metric tons, and +18% YOY in value.** Record shipments of 103,919 metric tons to Mexico (+33% YOY) drove much of the outperformance, as sales remained strong following the Easter holiday. Exports to South Korea (+24% YOY), Central America (+50% YOY), and Colombia (+23% YOY), more than offset lower sales to China (-13% YOY). Pork imports were also up sharply in April, +10% YOY to 40,306 metric tons. Imports from Brazil nearly doubled, while shipments from Mexico and Denmark were also up double-digits.
- **Mexican hog prices are currently 12.3% above year-ago levels as the industry has a better supply-demand balance.** Pork production growth remains constrained, while demand remains steady. Imports through March 2024 are on par with the year-ago period at 369,000 metric tons but may moderate in the coming months given recent weakness in the Mexican peso. Since the June 3 election, the peso has weakened by 8.4%, impacting trade of pork and raising the cost of feed. Feed costs are up 11.2% since the election due to ongoing drought and recent weakness in the peso. To date, there has been limited movement in pork prices, with ham prices remaining flat versus year-ago on relatively steady demand and ongoing strength in imports.

Pork cutout remains range-bound, still 16% ahead of year-ago level



Source: *USDA 2024*

US pork exports reach multi-year highs in April 2024



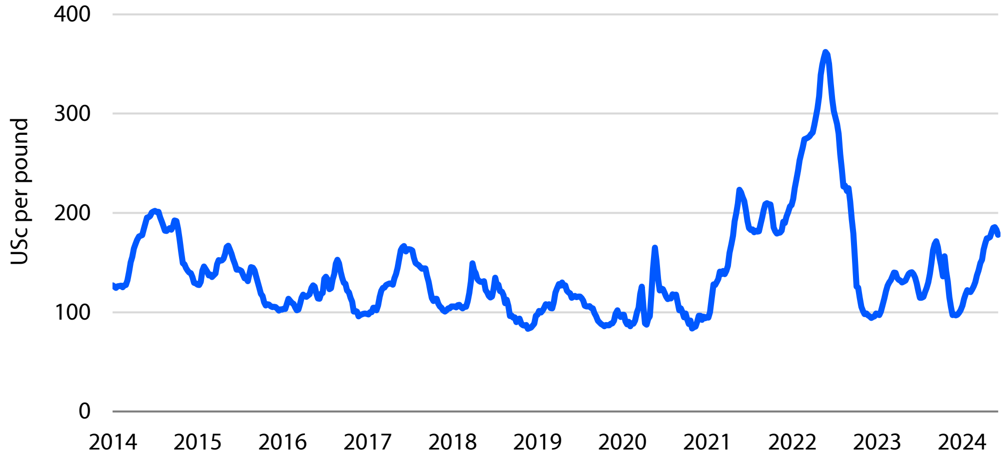
Source: *USDA, Rabobank 2024*

Poultry

Solid chicken demand as retailers and foodservice hunt for value

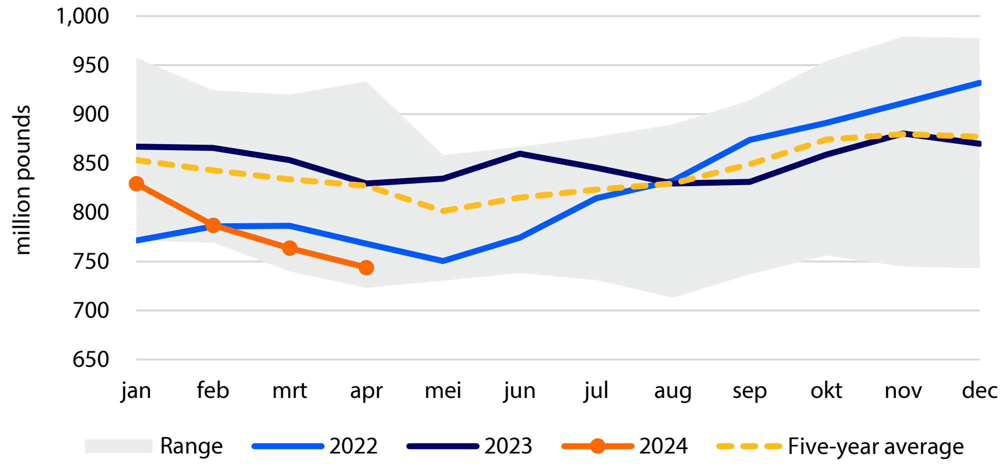
- **Chicken production is flat with year-ago levels as ongoing productivity issues continue to limit bird availability (YTD slaughter -2.4% YOY).** Industry growth remains capped by ongoing hatchability and disease challenges, while weights have moved up 2% YOY as a partial offset. Despite these constraints, lower feed costs are helping offset the higher inefficiency costs and fueling integrator decisions to add weight. While productivity is expected to gradually improve in 2H 2024, we are not expecting a quick return to earlier production levels. Rabobank is currently projecting a +0.8% YOY increase in production in 2024, with the added benefit of two additional processing days in the second half.
- **Prices of most items remain well above year-ago levels and the five-year average, as supply growth is limited and demand in retail and foodservice channels is good.** Improved feature activity in recent weeks helped boost retail velocities, helping support across the board market strength. Prices for thighs and wings are particularly strong, up 62% YOY and 176% YOY, respectively. Both items offer foodservice operators good value menu options, while retail also remains supportive. Boneless breast meat is also seasonally higher (+29% YOY) but is slightly disappointing relative to expectations. We remain optimistic on the 2H 2024 price outlook as chicken inventories remain historically low (-11% YOY), retail support remains strong and overall supply growth should be modest.
- **April chicken export volumes were weak (-15% YOY at 263,000 metric tons), as stronger domestic demand for value cuts kept more product in the US.** YTD exports are down 11% in volume and 3% in value. Sharply lower exports to China and Taiwan (down 56% and 68% YOY, respectively) more than offset stronger shipments to Mexico (+39% YOY) and Canada (+14% YOY). Ongoing HPAI-related trade disruptions to China remain a challenge and are unlikely to improve in the short run. Rabobank is currently projecting a 3.5% YOY drop in 2024 exports, recognizing 1H 2024 exports will remain soft.
- **Mexican chicken prices have strengthened due to ongoing production challenges.** Carcass prices are currently MXN 64.1 per kg, a new all-time high and 25.2% above year-ago levels. Some producers have reported as much as 15% reduction in bird numbers due to larger-than-average bird losses in recent months. Producers are pulling forward production and marketing birds lighter, resulting in lower-than-expected availability. Chicken import volumes through February 2024 are down 11% YOY, with shipments from Brazil down 61.4% YOY.

Boneless skinless breast meat price, 2014-2024



Source: *USDA, Rabobank 2024*

Chicken in cold storage, 2022-2024



Source: *USDA 2024*

Soybeans

Is USDA or CONAB closer to reality?

The USDA's primacy as purveyor of agricultural data rose alongside the US' emergence as the world's lone agricultural superpower in the wake of World War II. In the last twenty years, however, as agricultural production has grown increasingly multipolar, market participants have grown accustomed to receiving data from numerous agencies around the world that is timelier, richer and in some cases, more accurate than that of the USDA.

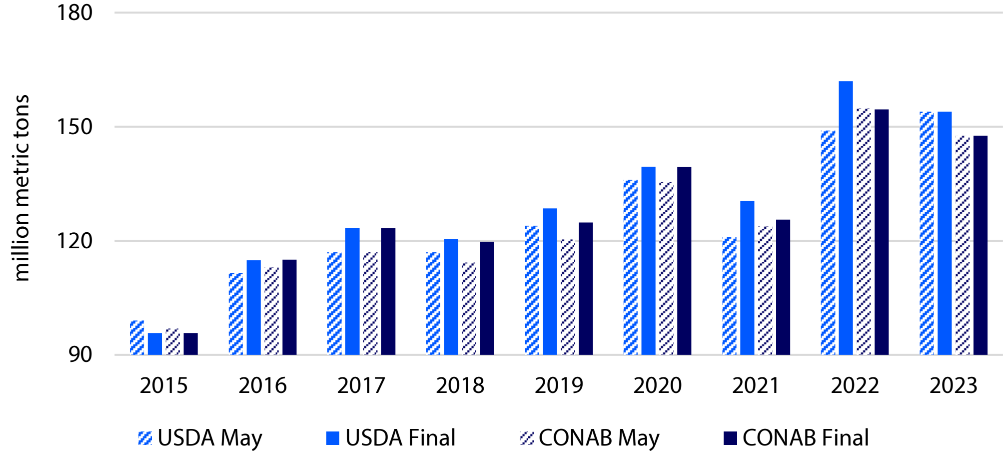
With Brazilian agriculture now eclipsing the US on a number of fronts, markets put more weight on the data released by that country's own Companhia Nacional de Abastecimento (CONAB). While CONAB, like USDA, is respected for the quality and consistency of its data, over the last three years, the agencies have increasingly drifted apart in their soybean estimates. The disparity raises the obvious question of *which set of numbers is closer to reality* but also more searching questions like *how and when will the market react once the "correct" number is known*?

In the case of Brazil, the country's ability to carry large stocks of grain is limited by infrastructure and by the growth of safrinha production, which requires storage to be vacated in times for the country's second harvest. This characteristic of Brazilian agriculture means that the country finishes the crop year with "pipeline" stocks, effectively the bare minimum to account for soybeans that are en-route either to be processed or exported. The USDA has estimated pipeline stocks since 2017 and has used this figure, along with use data, to estimate Brazilian production. In the case of CONAB, assumptions about pipeline stocks have been much more recent, made possible on the balance sheet by successive years of lower production estimates.

The fact that CONAB has trended toward the assumption of pipeline stocks should provide a degree of validation to the USDA number. Regardless of which side has been "correct" historically, a convergence in ending stocks-to-use estimates for 2023/24 should make it increasingly difficult for pronounced production disparities going forward.

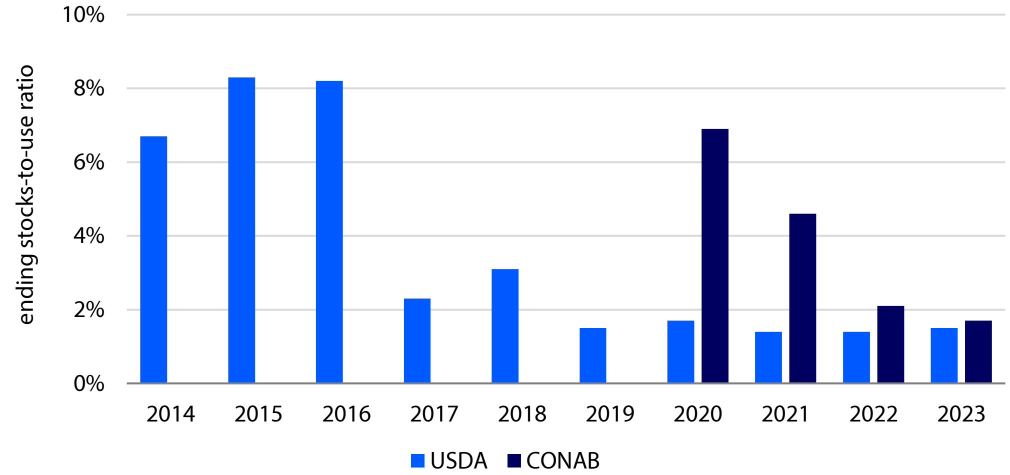
The sharp drop in Brazilian basis at the beginning of the year, was as good of an indication as any that, locally, the old (2022) crop was larger than expected and needed to be discounted to get wheels under it and make way for the new crop. If the USDA number is correct, and the 2024 Brazilian crop is indeed larger than expected, a similar dynamic could play out later this year as safrinha corn is being marketed.

USDA and CONAB, May and final estimates of Brazilian production



Source: *USDA, CONAB*

USDA and CONAB estimates of Brazil year-end stocks-to-use ratio



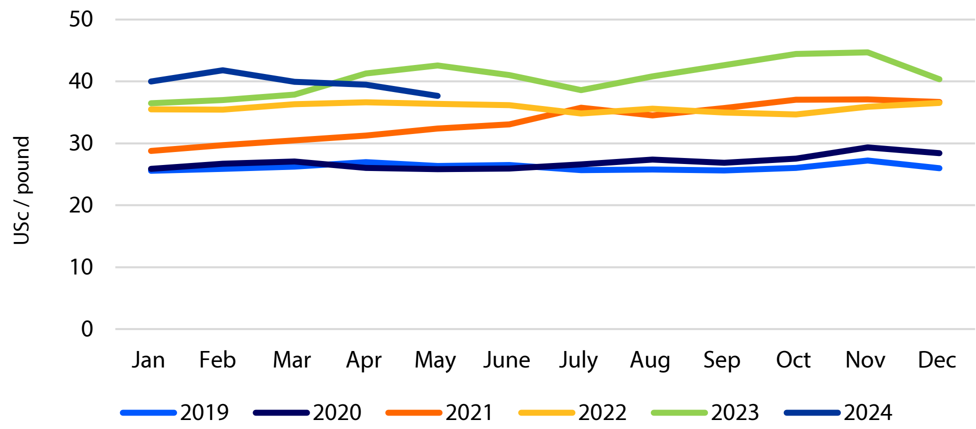
Source: *USDA, CONAB*

Sweeteners

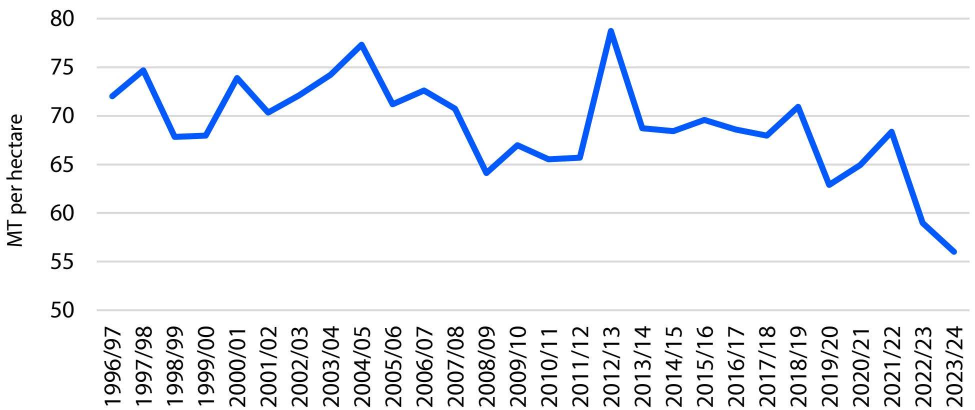
Mexico's drought continues to shock the sugar market

- In Mexico, the drought continues to hit many crops, including sugar cane. As of June 15, around 74 percent of the territory is exposed to a drought and around 15 percent of the nation is facing an exceptional drought. In addition, many dams for agricultural irrigation face an important water deficit. However, if rains don't start in the next few weeks, the 2024/25 Mexico sugar campaign could result in another poor campaign driven by poor cane field yields. In 2023/24 Mexico's cane yields hit the lowest in decades.
- For 2024/25, Mexico's production will depend heavily on how much rain can alleviate the current drought and whether temperatures can decline. There is a possibility, if it does not rain, to see another cycle below 5m metric tons.
- US sugar production is facing some regional challenges. In the latest USDA-WASDE report, the sugar production expectation was cut, mostly due to a drop of production in Florida.
- In the US, raw sugar prices have started to soften. A similar pattern can be observed in Mexico, with a primary reason being the increase in imports into the region.

US raw sugar prices ease

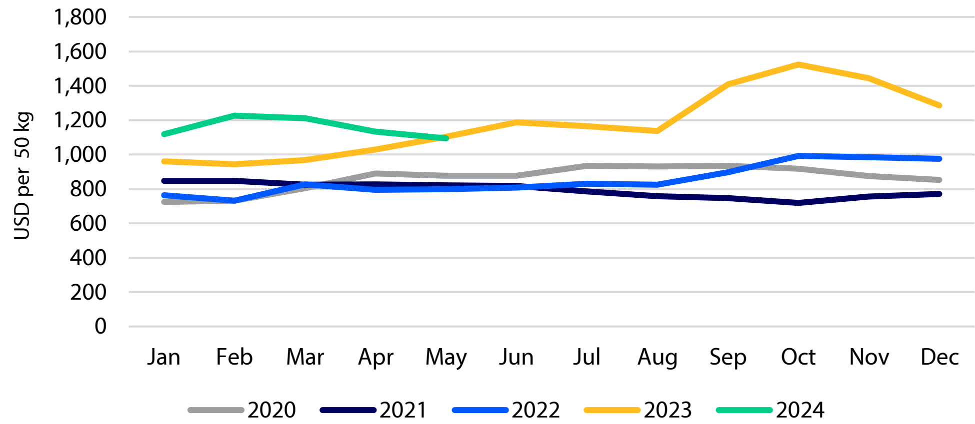


Mexico's cane yields hit the lowest levels in many decades



Source: *CONADESUCA, USDA, Rabobank 2024*

Mexico's estandar sugar prices softened in the past few months



Source: *CONADESUCA, USDA, Rabobank 2024*

Tree nuts

Manageable carry-out across the board and a mixed bag in terms of 2024 crop prospects

Almonds: Shipments in the 2023/24 marketing season through May are up 5% YOY, with domestic shipments up 2% YOY and exports increasing 6% YOY. Computed inventory at the end of May was at roughly 885m pounds, down 24% YOY. With two months left in the marketing year, inventories are likely to be below 500m pounds. Prices have reached the highest level since December 2021, according to Stratamarkets assessments. Demand is reported as steady, and supplies continue to tighten. As favorable growing conditions continue, a bumper 2024 crop is looming.

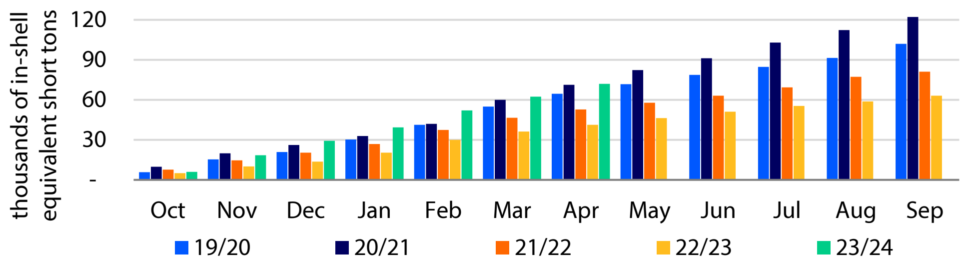
Hazelnuts: Shipments in 2023/24 through January were up 30% YOY, with kernel exports increasing 64% YOY. Sales in the current marketing year continue to track better than in previous years. Industry players expect a favorable 2024 in terms of yields, quality, and prices.

Walnuts: Shipments rose 24% YOY, with exports up 27% YOY and domestic shipments up 18% YOY in the 2023/24 marketing year through April, per industry figures. About 79% of total supplies have been sold, pacing ahead of previous seasons, despite a record crop in 2023, showing that the industry has the physical capacity of moving larger volumes. Prices continue under pressure, but fundamentals are improving. Carry-out this year is expected to be lower than previous season and the 2024 crop is likely to be below 750,000 metric tons (down from 824,000 metric tons in 2023).

Pistachios*:* After the 2023 record crop of 1.5bn pounds, up 69% YOY, shipments continue strong. Shipments in 2023/24 through April are up 50% YOY, with domestic shipments up 4% YOY, and exports (accounting for 81% of shipments) up 68% YOY. Carry-out is set to be low this season. While 2024 was already expected to be an "off-year", heterogeneity in crop development, particularly in the dominant variety, will cause the 2024 crop to be smaller than previously expected. Some sources consider a crop below 1bn pounds likely. Prices are expected to remain firm.

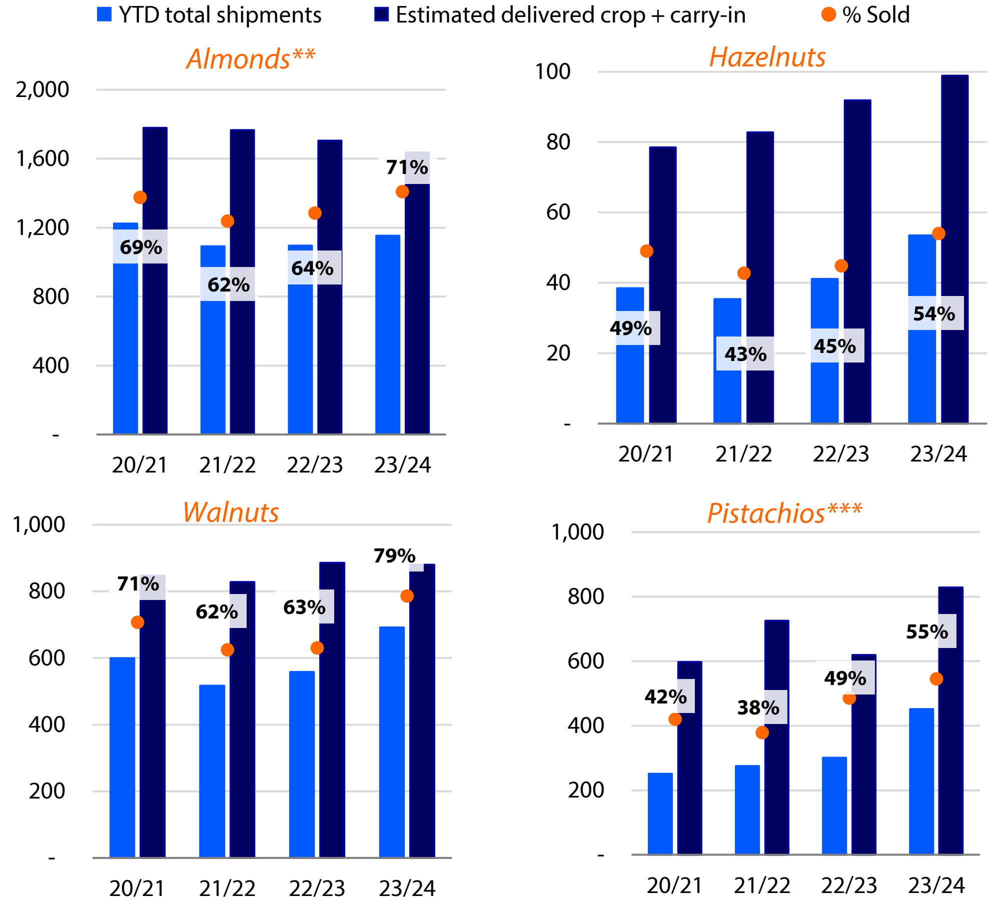
Pecans: US pecan export volumes in the 2023/24 marketing season through April were up 75% YOY, reaching the highest YTD exports since April 2017, according to USDA figures. This, combined with lighter crop in the US and lower imports from Mexico, per industry sources, will drive inventories down.

Cumulative US pecan exports by marketing year



Source: *USDA FAS, Rabobank 2024*

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



Source: *Almond Board of California, Oregon Hazelnut Industry, California Walnut Board, Administrative Committee for Pistachios, INC, Rabobank 2024.* Through May 2024, 2023/24 marketing season for almonds; April 2024 for walnuts and pistachios; January 2024 for hazelnuts (industry information is delayed); **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

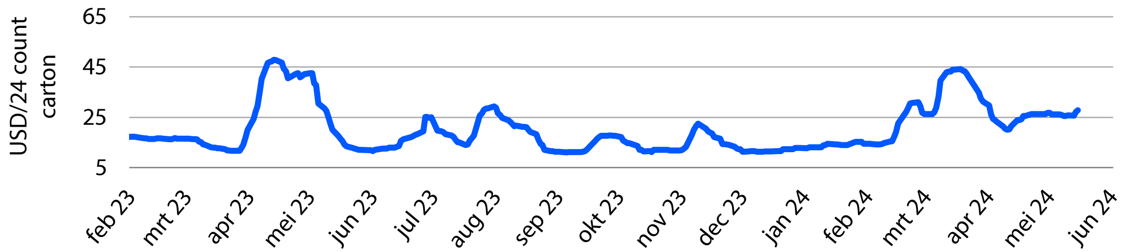
Steady demand for leafy greens reported, while supplies show weather-related variations

Fresh fruit and vegetable retail sales showed gains in April, despite the shift in Easter sales, according to IFPA. Easter in 2023 was on April 9, while in 2024 this was on March 31. This impacted retail fresh produce sales, with a decline YOY during the first week in April 2024. For the rest of the month, sales continue to report gains YOY. The strength in produce sales is driven by more trips and more dollars spent per trip. This has resulted in an increase in the annual dollars per buyer as well as the total "in basket" dollars when fresh produce is purchased, per IFPA. As summer is here, fresh produce is well-positioned this year to be a great alternative in terms of healthfulness and budget for consumers. Tomatoes, potatoes, lettuce, and salad kits are at the top of the retail dollar sales list in the fresh vegetable segment, followed by onions, peppers, cucumbers, carrots, and broccoli. Most categories show a positive YOY change in terms of volume sales and dollar sales.

Potatoes: US potato acreage for 2024 is forecast to be down roughly 5% YOY to 922,000 acres, per NAPMN. While frozen processing contracts account for most of the acreage reduction, Russet table potato acreage is expected to be flat and chip potato contract volume mostly unchanged from last year. Prices for some categories are below breakeven, per industry sources. In some regions, crop development is ahead of schedule. Yields in 2024 are likely to be above average, which could lead to continued over-supplied markets, per NAPMN. In Canada, potato stocks were up roughly 30% YOY, on June 1, according to NAPMN, while processing potato stocks were up 42% YOY.

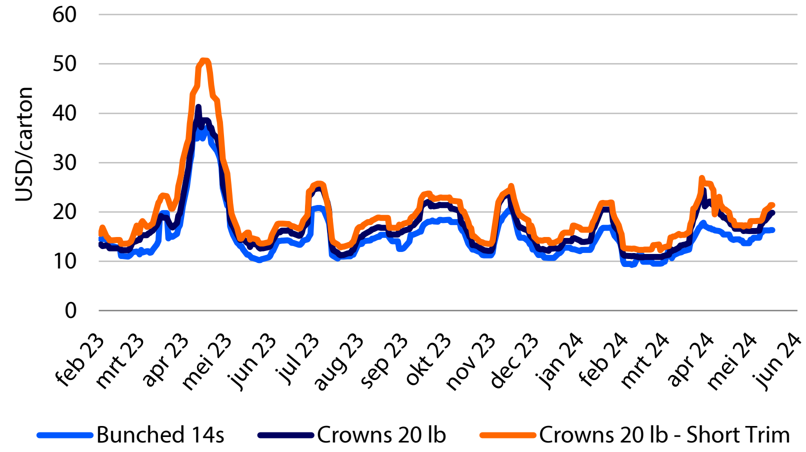
Leafy greens and brassica: At about USD 33 and USD 34, romaine 24s and hearts (12x3) were up 121% and 89% YOY, respectively, by mid-May (latest data reported by USDA-AMS). At about USD 28, the price for iceberg wrapped 24s was up 98% by mid-May 2024 with respect to the price the year before. At about USD 20 per 20-pound carton, the broccoli crown price was up 44% YOY during by mid-May (see charts). A combination of good demand and supplies below expectations have supported prices. Availability during some parts of the spring have been affected by late rains and relatively cool weather in some growing regions. Mild supply disruptions continue to be likely, bringing potential price volatility during the summer.

Wrapped iceberg lettuce – US daily shipping-point price, 2023-2024



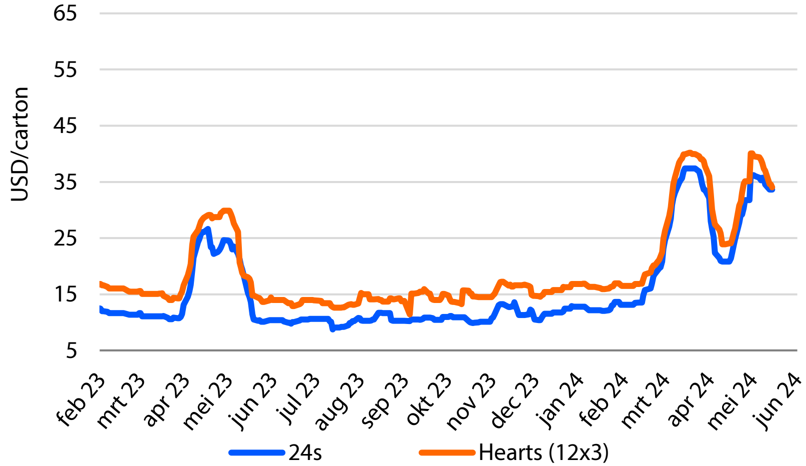
Source: USDA AMS, Rabobank 2024

Broccoli – US daily shipping-point price, 2023-2024



Source: USDA AMS, Rabobank 2024

Romaine lettuce – US daily shipping-point price, 2023-2024



Source: USDA AMS, Rabobank 2024

Wheat

Global challenges turn US positive for exports

- **Planting progress**: Spring wheat planting progress is technically done, with 98% planted as of June 9. Good weather allowed faster planting progress than the five-year average and last year's progress. US spring wheat conditions are way better than last year's conditions with a Good + Excellent rate this year at 72% as of June 9, up compared to 60% last year during the same time. Canada spring wheat progress is nearly done with Alberta, Saskatchewan and Manitoba showing 99%, 96% and 98%, respectively.

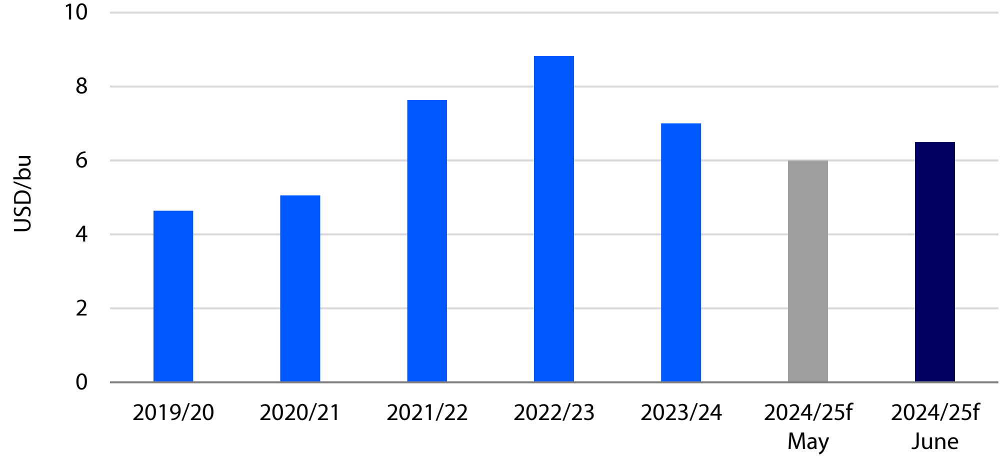
- **Harvest**: Winter wheat harvest is moving along in the US with 12% of the crop already harvested compared to 7% at the same time last year and well-above the five-year average. Winter wheat yields and protein could potentially be better than earlier estimates.

- **Exports**: International developments continue to put pressure on markets at both ends of the price action. Russia and Ukraine have suffered from a mix of frost and drought that significantly reduced production in the area. At the same time, Turkey's announcement to reduce imports to protect domestic producers has put a negative tone to global demand. Lower Turkish imports of wheat will likely push black sea region wheat to other areas, increasing competition.

- **Weather**: North American weather is in better shape than last year. Soil moisture around the US is improving and replenishing and this is shown in crop conditions. However, too much rain could impact winter wheat harvest and quality but for spring wheat conditions are much better than last year. The same can be said for Canada, where soil moisture in key producing spring wheat areas are replenishing, with some areas in Alberta having abnormally dry areas.

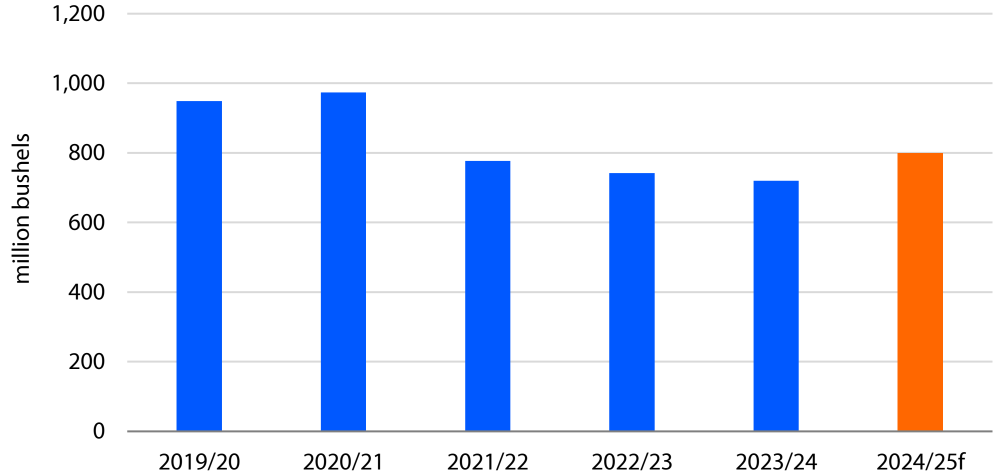
- **Prices**: Market dynamics continue to be a key factor in wheat prices. Russia and Ukraine woes in production spurred a rally across wheat markets but faster-than-expected harvest in the US and better than expected yields in addition to turkey banning imports of wheat have weighed market prices downward. While the rally was short-lived, prices should find some support on lower production coming out of the black sea region.

Wheat prices higher for 2024/25, as US export demand expected to increase



Source: *USDA ERS, Rabobank 2024*

Exports expected to reverse for 2024/25 as black sea region sees lower production



Source: *USDA ERS, Rabobank 2024*

Cotton

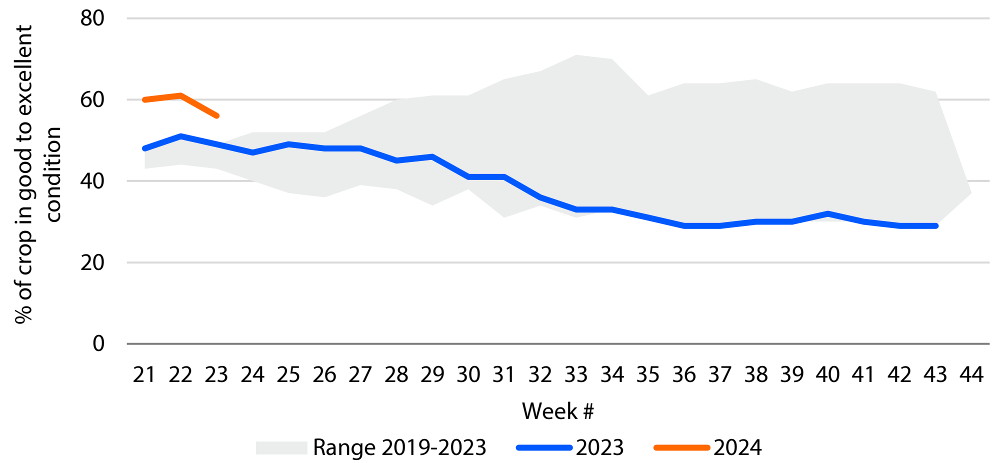
Excellent start to 2024 growing season

After two successive years of poor crops, US yields are set for a rebound. Along the mid-Atlantic and into the Southeast, drier, warmer weather in April allowed many growers an opportunity to get their crop in the ground in early. Planting progress in the Delta was also well ahead of last year and the five-year average. Throughout the cotton belt, and in the Southern Plains in particular, rainfall has been both adequate and well-timed, pushing the share of acres in good or excellent condition well above the dismal conditions of last year as well as the five-year average.

Improved yields will be complimented by a roughly 4% bump in cotton acreage over last year, itself a reflection of cotton pricing having more staying power, particularly relative to corn, when planting decisions were being finalized early in the year.

2024 US cotton production is anticipated to increase by a third, but demand has not been there to meet it. Domestic use continues to languish in the face of mill closures and export sales are running 8% behind the pace of last year and 18% behind the five-year average. Throughout March and much of April, US premiums relative to Brazilian cotton hovered between USc 8-USc 12/lb which kept US product uncompetitive on the global stage. As of June, the premium had fallen back to parity, spurring opportunistic buying by China, Vietnam and Turkey. Unfortunately, a global stock buildup for the year means these same buyers could quickly exit the market if US prices once again break through the mid-70s.

Share of US cotton crop in good or excellent condition



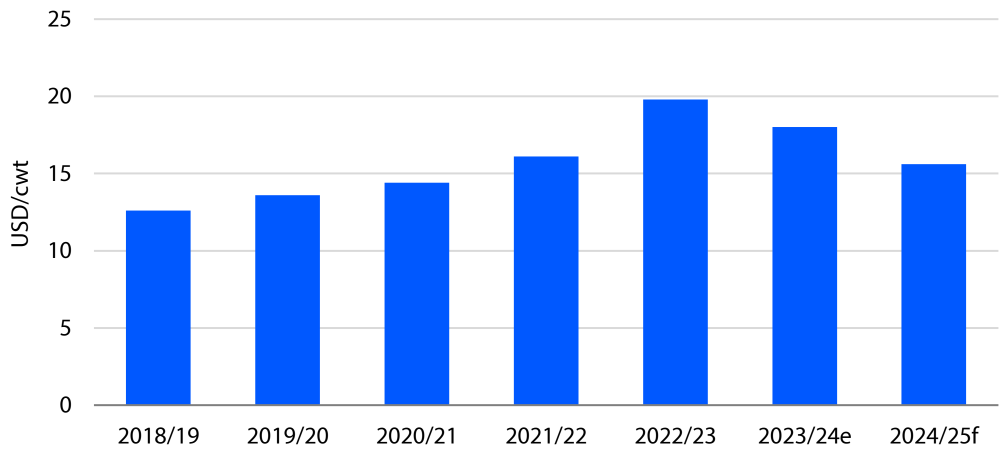
Source: *USDA 2024*

Rice

Strong recovery for US exports

- **Supply:** Projections for US rice production for 2024/25 from the recent June WASDE update put production ~1% higher than last year driven by higher acreage. However, 2024/25 is set to start with lower beginning stocks as 2023/24 marketing year exports are better than expected. Overall, a slight decline of total supply in the US, driven by lower beginning stocks than previously anticipated.
- **Exports:** Strong recovery for US exports as more production and lower prices are expected to increase demand in traditional markets where the US has experienced strong competition from South America. Due to competitive pricing, exports to Mexico and Central America will continue to be top markets for US long grain rough rice. Export volume is projected to increase by 5% in 2024/25 compared to 2023/24.
- **Prices:** Prices are returning to a more normal level, driven by larger acreage despite expected lower yields. Season average farm prices (SAFP) are projected to decline by ~13% from USD 18/cwt to USD 15.60/cwt.

US all rice season average farm prices retreating to more normal levels

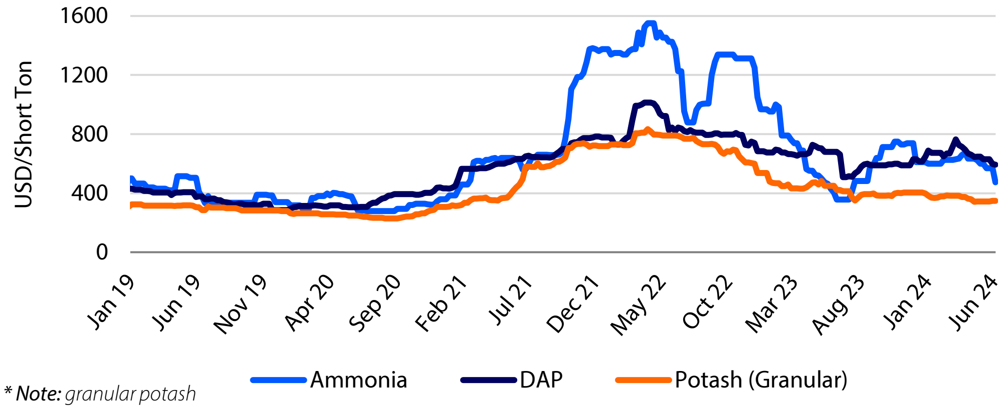


Source: *USDA, Rabobank 2024*

Input costs

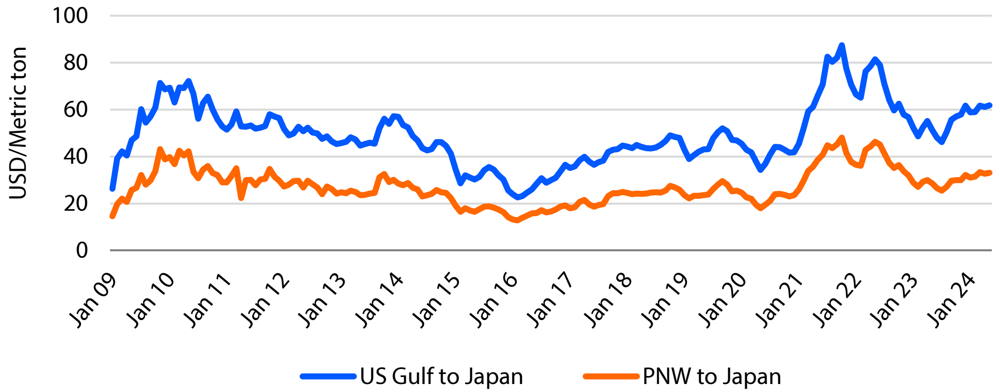
As of June 20, 2024

*Corn Belt input prices**



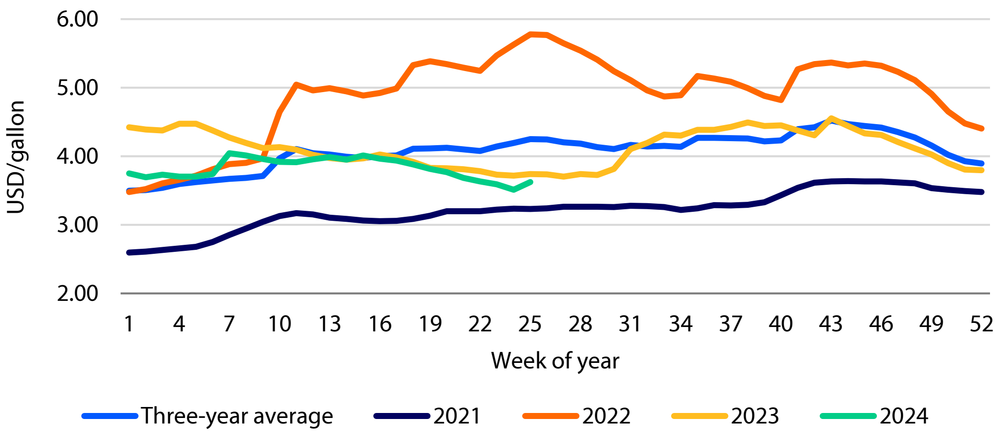
* ***Note:*** *granular potash*
Source: *CRU, Rabobank 2024*

Ocean freight



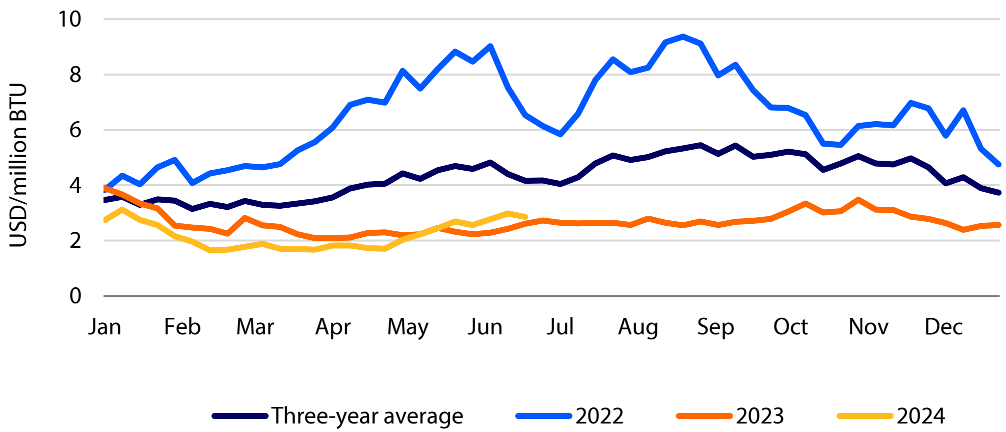
Source: *O'Neil Commodity Consulting, USDA AMS, Rabobank 2024*

Diesel – Midwest



Source: *EIA, Rabobank 2024*

Natural gas spot



Source: *NYMEX, Rabobank 2024*

Forward price curves

As of June 20, 2024

CBOT – Corn

Source: *CBOT, Rabobank 2024*

CBOT – Soybeans

Source: *CBOT, Rabobank 2024*

CBOT – Soymeal

Source: *CBOT, Rabobank 2024*

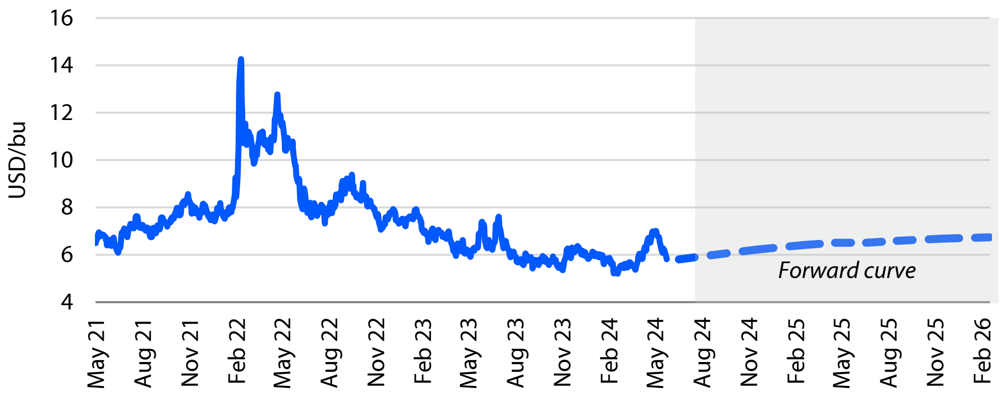
CBOT – Soy oil

Source: *CBOT, Rabobank 2024*

Forward price curves

As of June 20, 2024

CBOT – Wheat



Source: *CBOT, Rabobank 2024*

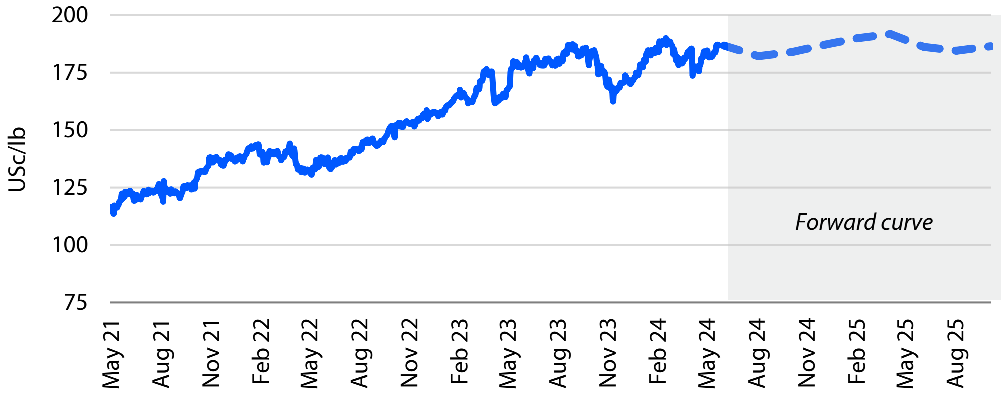
CBOT – Feeder cattle

Source: *CBOT, Rabobank 2024*

CBOT – Lean hogs

Source: *CBOT, Rabobank 2024*

CBOT – Live cattle



Source: *CBOT, Rabobank 2024*

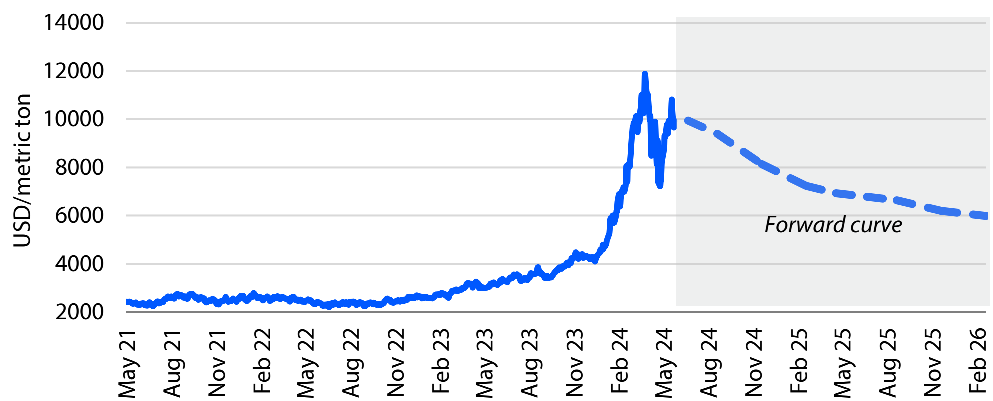
Forward price curves

As of June 20, 2024

ICE – #2 Cotton

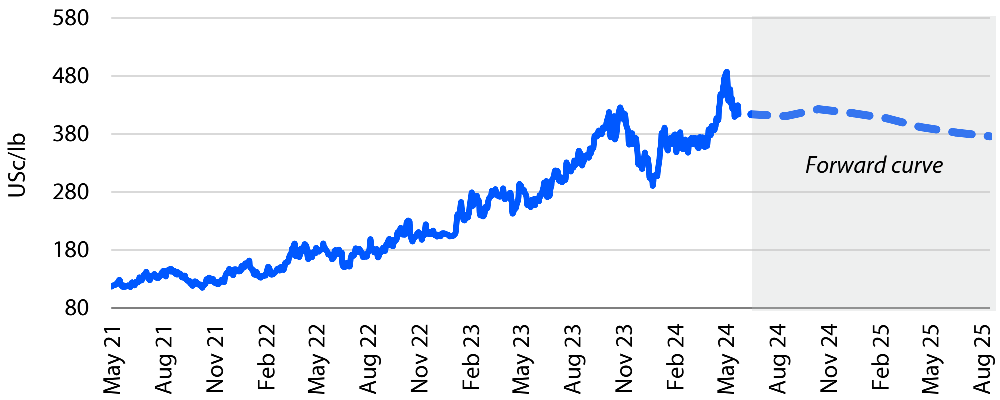
Source: ICE, Rabobank 2024

ICE – Cocoa



Source: ICE, Rabobank 2024

ICE – FCOJ



Source: ICE, Rabobank 2024

ICE – #11 Sugar

Source: ICE, Rabobank 2024

RaboResearch Food & Agribusiness

Al Griffin
F&A Data Analytics
Coordinator of the Agribusiness Review
E-mail Al.Griffin@rabobank.com

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

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

Lance Zimmerman
Senior Analyst — Animal Protein
E-mail Lance.Zimmerman@rabobank.com

Tom Bailey
Senior Analyst – Consumer Foods
E-mail Thomas.Bailey@rabobank.com

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

Andrick Payen
Analyst – G&O, Feed
E-mail Andrick.Payen@rabobank.com

Steve Nicholson
Global Strategist — G&O
E-mail Stephen.Nicholson@rabobank.com

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

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

Xinnan Li
Analyst — F&A Supply Chains
E-mail Xinnan.Li@rabobank.com

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

Pablo Sherwell
F&A Data Analytics
E-mail Pablo.Sherwell@rabobank.com

Jim Owen
Senior Analyst – Packaging & Logistics
E-mail Jim.Owen@rabobank.com

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

Owen Wagner
Senior Analyst – G&O
E-mail Owen.Wagner@rabobank.com

Lucas Fuess
Senior Analyst – Dairy
E-mail Lucas.Fuess@rabobank.com

Chase Beisly
Analyst – Animal Protein
E-mail Chase. Beisly@rabobank.com