



North American agribusiness review

Rabobank







RaboResearch
Food & Agribusiness

August 2024

Report Summary

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Economy

Cutting rates

US

- The Fed appears to be gaining confidence that inflation is moving sustainably toward 2%. The CPI report for July was encouraging, with headline inflation declining to 2.9% and core inflation down to 3.2%. In the meantime, labor market data has deteriorated and the Sahm-rule for recession – which is based on the pace at which the unemployment rate rises – has been triggered. Therefore, a rate cut in September is highly likely. Markets have priced in an aggressive cutting cycle, but if Trump wins the presidential election and imposes a universal tariff, we could see inflation rebound in 2025, which would likely stop the cutting cycle in its tracks.

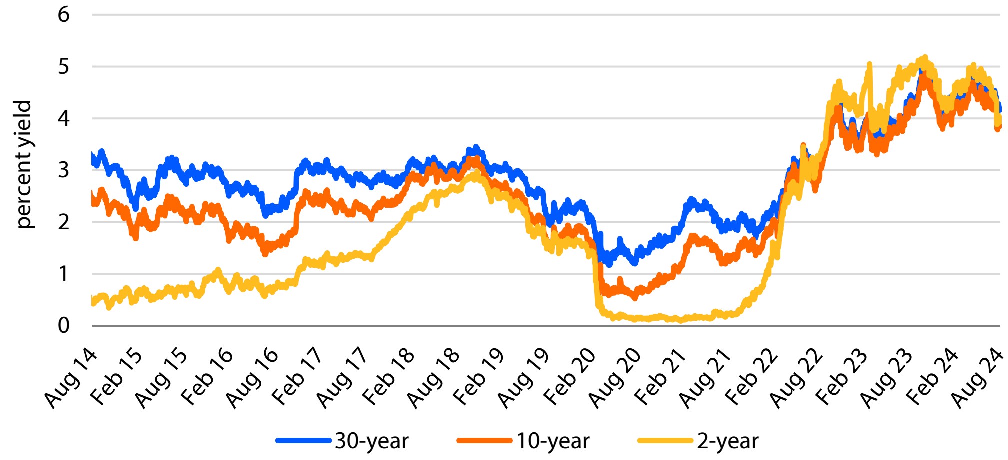
Mexico

- Banxico decided to cut the overnight policy rate by 25bp from 11.00% to 10.75% in August. The Monetary Policy Statement highlighted that despite rising headline CPI inflation, core CPI inflation has accumulated eighteen consecutive month of reductions. External factors have been driving up the headline inflation measure, namely environmental factors pushing up prices of fruits and vegetables. However, Banxico considers the nature of the shocks that have affected the non-core component and anticipates that their effects on headline inflation will dissipate over the next quarters. Banxico revised its short-term headline CPI inflation outlook upwards, notably increasing estimates in Q3 and Q4 2024 up to 5.2% (prior 4.5%) and 4.4% (prior 4.0%), respectively. Looking ahead, Banxico foresees that the inflationary environment may allow for discussing reference rate adjustments. We expect USD/MXN to head back above 19.

Canada

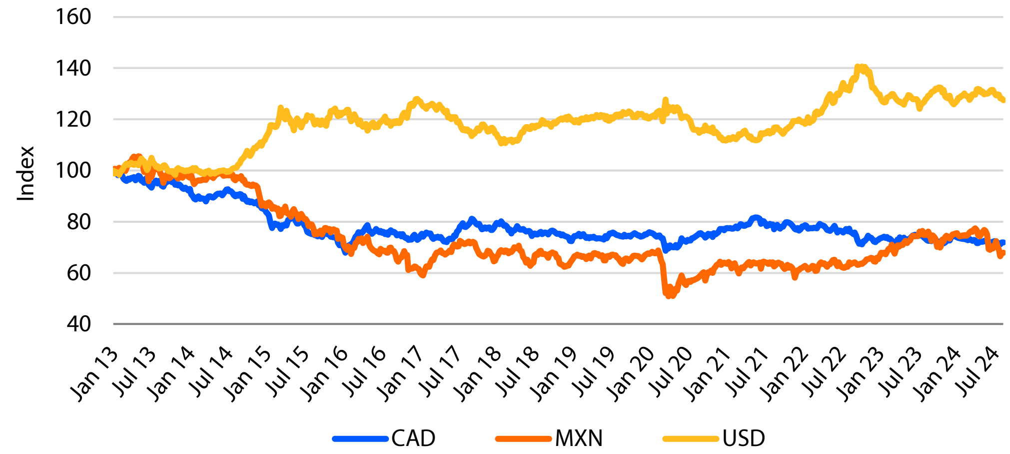
- The Bank of Canada decided to cut the policy rate 25bp from 4.75% to 4.50% in July. The Bank was keen to highlight that decisions will be made meeting by meeting and that data dependence is key, while noting two main opposing forces likely to impact the path of policy going forward: On the upside, shelter inflation and some services components. On the downside, excess supply in the economy and slack in the labor market. We expect two more 25bp rate cuts this year, pulling the policy rate down to 4.00% by year-end. Turning to 2025, we expect four 25bp cuts next, taking the policy rate down to its terminal low of 3.00%. We maintain the view that USD/CAD will trade above 1.40 this year.

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

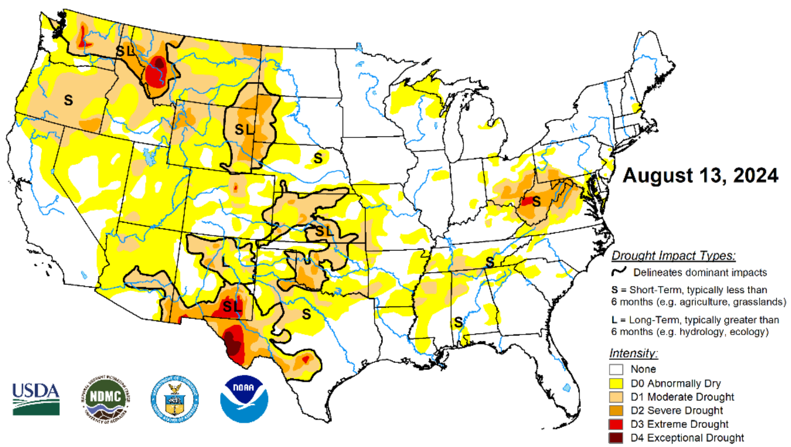
Record yields in sight

- **The 2024 North American growing season has taken a remarkable turn since June, transforming from a potentially challenging year to one of record-breaking yields.** Early summer concerns about excessive heat and dryness have given way to excellent growing conditions across much of the continent, especially in the Midwest. The result is a crop outlook continually surpassing expectations, with the USDA forecasting record-high yields for corn at 183.1 bu/ac and soybeans at 53.2 bu/ac. This dramatic improvement reflects in crop condition scores, which are notably high across most major crops. Even spring wheat, despite a slightly delayed harvest, is showing robust health and is much improved from last year.

- While yield estimates this late in the season typically provide accurate predictions of final outcomes, the six weeks remaining until harvest still leave room for uncertainty. **Current forecasts of record yields hinge on favorable weather conditions persisting through the season's end.** However, the short-term outlook presents some challenges: warming temperatures are expected by late August, accompanied by only scattered precipitation across the Midwest. For corn, any extreme heat in the coming weeks could negatively impact final kernel weight. Soybeans face a different concern, requiring additional rainfall to ensure adequate moisture during the critical pod-filling stage. Ultimately, record yields remain a promising prospect, but they're not a certainty until crops are safely harvested. **The unpredictable nature of weather means the potential for last-minute surprises still exists**, underscoring the importance of these final weeks in determining the season's true outcome.

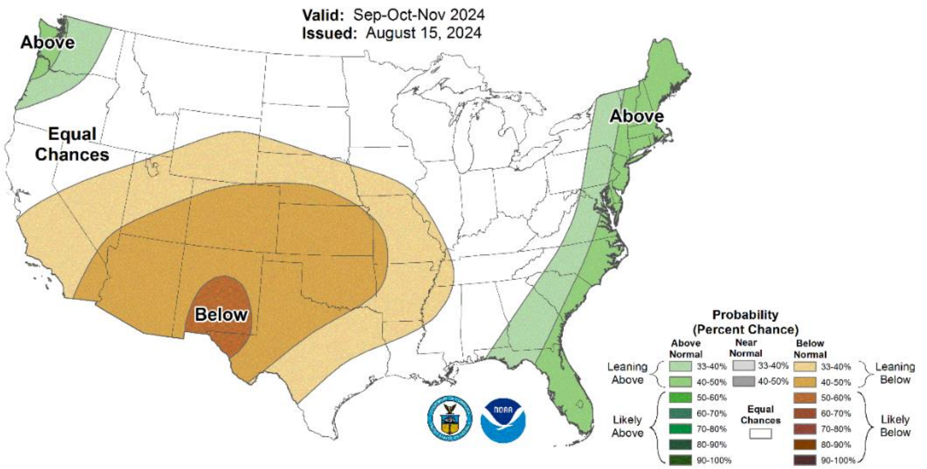
- **The outlook for September presents a mixed but generally positive picture for harvest operations across North America.** Current long-range forecasts suggest a trend towards slightly warmer than normal conditions for much of the continent, which could accelerate crop dry-down and potentially allow for an earlier start to harvest in some areas. Moderate rainfall is expected to accompany this warmth, particularly in the Corn Belt and northern parts of the Great Plains. This precipitation, while beneficial for late-maturing crops if realized, may introduce some challenges for harvest timing and could impact grain moisture levels. However, the possibility remains for late-season weather variability which can impact final yields and harvest conditions.

US Drought Monitor showing minimal Midwest impact going into harvest



Source: *NOAA, 2024 National Drought Mitigation Center*

Three-month NOAA forecast anticipating neutral chances of Corn Belt precipitation



Source: *National Drought Mitigation Center, NOAA, 2024*

Logistics

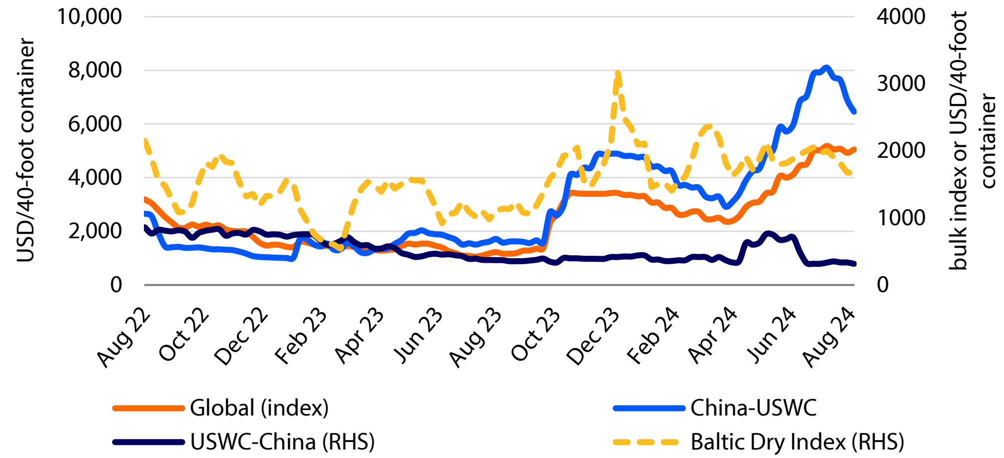
Port congestion easing, eyes on the US East and Gulf Coast labor union negations

- **Port congestions in Asia continue to impact container availability and pricing, though the worst may be soon behind us.** Even though spot freight rates for the China to US West Coast route have already come down by 20% from the peak in July, it is still over 300% higher than a year ago. The total capacity of ocean containers has grown by 10.4% in the past 12 months, according to Kuehne + Nagel, yet much capacity was absorbed by re-routing from the Red Sea and Asia port congestion in the recent month. The industry expects impacts from the Red Sea conflict to last until 2024, and port congestion to start easing in August, suggesting continued tight, but slowly relieving, market conditions for the remainder of the year. Global volume is recovering, driven by sustained household consumption and inventory rebuild. However, carrier profitability suffered due to the volatile costs. The Baltic Panamax index (a proxy for grain bulk freight) seems to have stabilized in the recent month around sub-2000 levels, as the market lacks near-term momentum.

- **Ports along the US East Coast are rapidly expanding, adding more docks and rail connections at scale, preparing for demand growth.** The Port of Virginia expanded its on-dock rail capacity by a third; the Port of New York and New Jersey is restoring a berth previously closed in 2001, allowing for more large containership operations; and shippers increasingly view US East Coast ports as a good alternative to West Coast ports, especially after congestion and labor issues. However, all eyes are on the dockworker labor union negotiations for the US East and Gulf coasts. Agreements are reached, with the current contract set to expire on Sept 30.

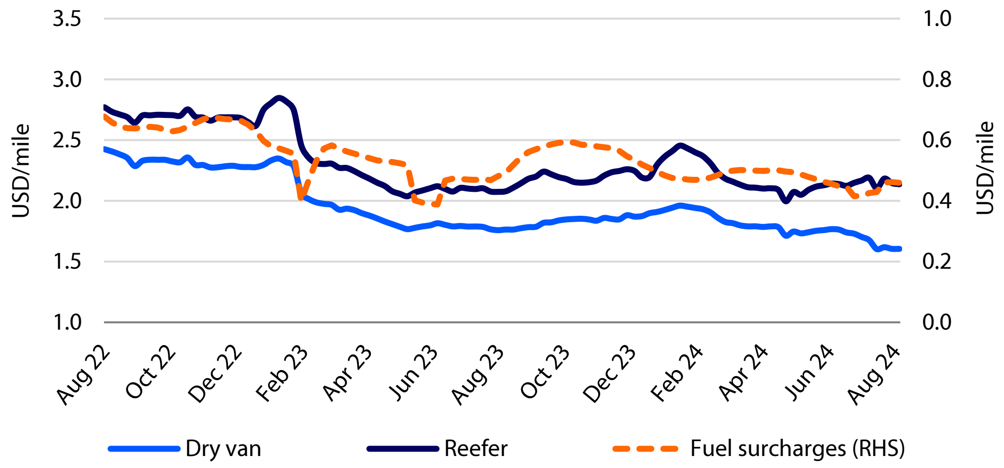
- **US trucking demand remained soft amid softer-than-expected general economic conditions.** Major spot rate recovery for truckload is less likely until mid-2025, while the LTL market stays resilient. The JOC truckload capacity index fell to 76.9% in Q3 2024 compared to 92.8% a year ago, indicating overcapacity to stay in the market for the near future.

Select ocean freight rates, Aug 2022-Aug 2024



Source: *Freightos, Baltic Exchange 2024*

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



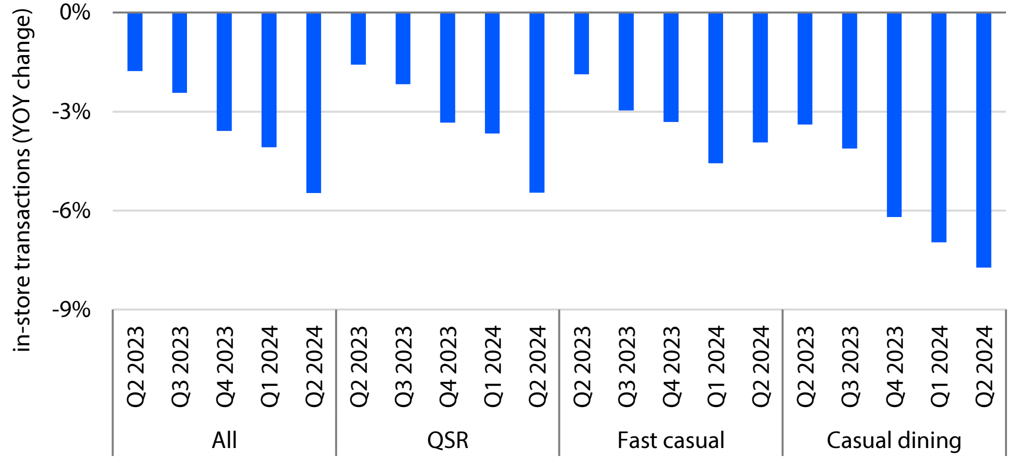
Source: *Truckstop.com, Bloomberg 2024*

Consumer retail and foodservice

Precipitous declines in restaurant demand continue as consumers cut their food budgets

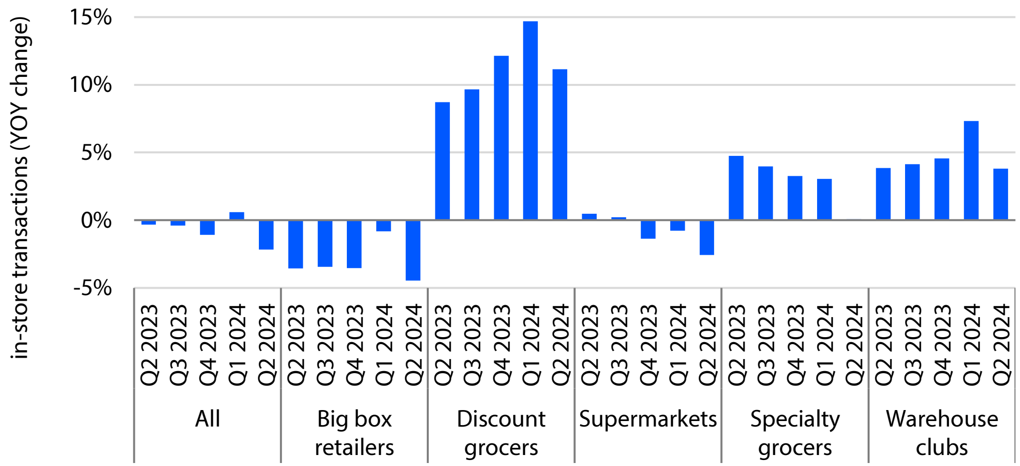
- **Inflation continues to ease:** CPI data took another step lower in July to 2.9% YOY (from 3% in June). Food inflation has remained steady at 2.2%, which is back to long-term historical averages. However, the battle between grocery and foodservice remains. Grocery inflation has remained low and steady for much of 2024, with July year-over-year (YOY) inflation at 1.0% (the high for the year was 1.2% in January). Great news for struggling consumers' food bills.
- **Foodservice inflation remains hot:** Restaurant disinflation has flattened out, but remains hot, increasing 4% in July, in line with previous months, but still out of whack with grocery inflation. The higher foodservice prices can be explained by persistent high rent and labor pressures. Rent and labor represent roughly two-thirds of restaurant costs. Furthermore, restaurants have adjusted their pricing more gradually through the inflationary market – they took price increases slowly and steadily at the start of the inflationary period (2021) when grocery price inflation outpaced foodservice, but now, as grocery inflation has eased more rapidly, foodservice inflation continues to play "gradual" catch-up – evident in the menu price chart on the right.
- **Consumers are trading down, but grocery isn't benefiting as much as we would expect:** Data from Earnest Analytics shows price sensitivity increasing in terms of restaurants and food retailer performance amid consumers cutting back on spending. Restaurants, in general, have felt the sting of higher menu prices and consumer financial distress. Even quick-service restaurants (QSR), the more affordable foodservice option, are seeing significant challenges with precipitous declines in transaction data worsening to -5.5% YOY in Q2, from -4% in Q1. Restaurants have a challenge ahead as the current conditions have no easy fix and require creative ways and investment to provide the affordability consumers expect. Meanwhile, food retail is yet to see the positive impact of consumers trading foodservice for grocery. Discounters and wholesale clubs remain better positioned to provide value, increasingly gaining consumer's hearts and share of wallet while they invest in nationwide expansion – therefore we expect that is where consumer demand growth will continue to shift, but to date it hasn't been enough to account for weak demand for other retailer formats as total grocery transactions were down 2% in Q2.
- **Value conscious consumers through 2H 2024**: The shift in demand from foodservice to grocery will be slow to arrive due to the level of financial strain consumers face. We expect some recovery in volume and overall spending in food retail during the second half of the year as consumers trade down from foodservice to grocery. However, this demand conversation won't be straight forward, will be slow, and is expected to support a broader shift in the US retail landscape. Hard discounters such as Aldi and to a lesser extent wholesale clubs such as Costco are the retailers that will continue to benefit from cash-strapped consumers who are looking for value. The timing of Aldi's expansion plans across the country has been perfect as they offer the value and convenience consumers are going to be shopping for as we head into 2025.

Declining restaurant sales continue to worsen by -6% in Q2



Source: *Earnest Analytics, RaboResearch 2024*

Grocery reflects a consumer who is spending less, by -2% overall in Q2



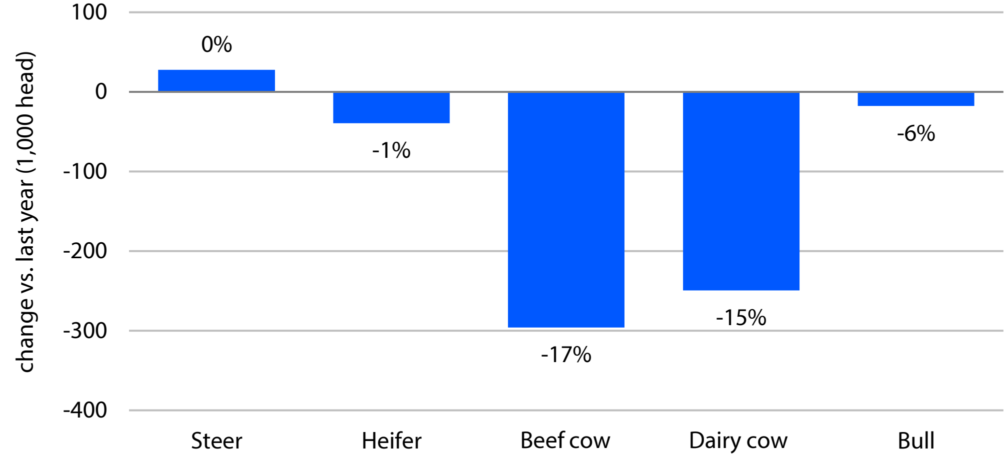
Source: *Earnest Analytics, RaboResearch 2024*

Cattle

US beef cow herd has stabilized, supply declines expected as rebuild progresses

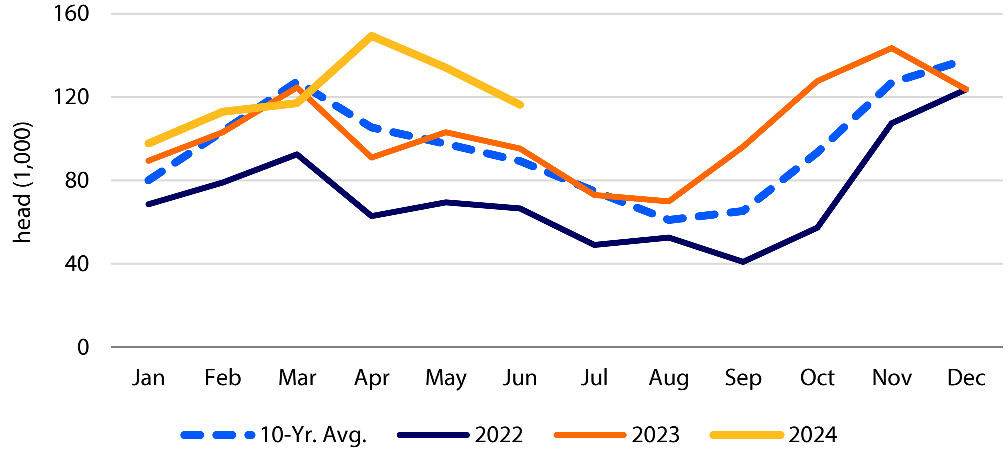
- **US beef cow herd has entered a stabilization phase.** January to July cattle slaughter is down 575,100 head (3%) compared to last year, and a 296,000 head (17%) decline in beef cow slaughter is leading the year-over-year shortfall. July data showed 13% of the nation's beef cow herd in some degree of drought, which is a considerable improvement over year ago. Watch heifer calf retention during the fall weaning season to see if the cow-calf segment leans into the herd rebuild.
- **Cattle markets in the US exhibit some bearish sentiment.** US equity markets took a hit from mid-July to early August. Similarly, both futures and the physical cattle market took a downturn. Nearby CME live cattle futures declined 4% from July highs, while feeder cattle declined 8%. The cattle market price trend may remain sideways to soften over the next 45 days until seasonally tight supplies offer some support.
- **US beef demand could come under pressure in the back half of 2024.** The USDA all-fresh beef retail price reached a new record of USD 8.15/lb in July. Consumer demand has remains strong and is near multidecade highs. The only time in the past 30 years demand was stronger was in 2022. Wholesale beef demand has not been as strong as restaurant traffic slows and consumers cut back spending. The National Restaurant Association has reported year-over-year declines in same-store sales for six consecutive months. Falling consumer sentiment is a risk to beef demand in the coming months.
- **Canada's cow slaughter declines, even with the remaining drought.** Year-to-date cow slaughter is down 14%. Cattle on feed inventories are also getting smaller. July 1 supplies were 871,100 heard. Placements continue to dwindle. January to June volumes declined 29,000 head (4%) compared to last year. Heifer placements alone were down 20,000 head. Beef production through June was nearly identical to year ago but expect declines in slaughter to create significant shortfalls in production compared to year ago in Q4.
- **Prolonged drought conditions stall herd growth in Mexico.** The beef cow herd has been growing for the last decade, adding over a million head – reaching an inventory of 8m today. Further expansion into 2025 is not likely. Drought is affecting 74% of Mexico today, and that area has been greater than 60% since fall 2022. The ongoing drought will limit carrying capacity and halt expansion. Feeder cattle exports to the US remain strong. 1H 2024 shipments to the US totaled 727,000 head, up 20% compared to last year. This demand from US feeders trying to fill their feedlots continues to support prices. The amount of feeder cattle going to the US made Mexico start importing more beef. Beef imports through 1H 2024 were 125,000 mt, up 36.2% over the same time last year.

US beef cattle slaughter down significantly through 1H 2024



Source: USDA, RaboResearch 2024

Mexico feeder cattle exports to the US are trending above year-ago levels



Source: USDA, RaboResearch 2024

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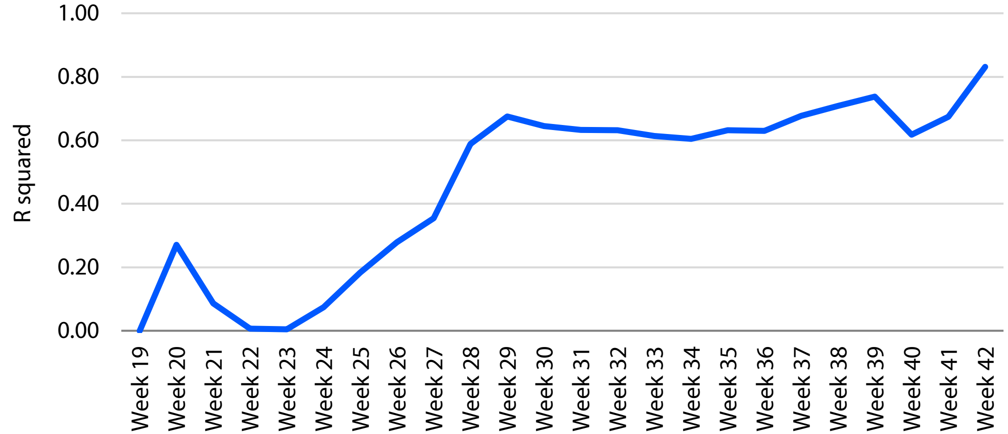
Corn

Massive new crop set to collide with corn in the bin

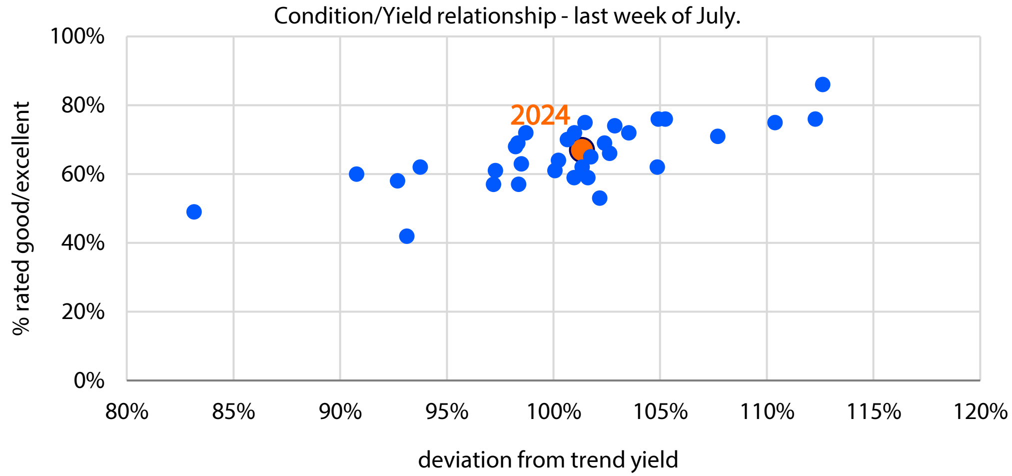
- **Reflective of sharply falling prices, the 2024 harvest season is set to be very difficult for growers from a price perspective.** Previous issues of this publication have covered the very large share of stocks in the hands of growers, which at 61% as of July, is the largest in at least 25 years. While high total stocks are commonly associated with lower prices, a higher share in the hands of growers has a compounding effect on this bearish tendency.
- **Full bins are set to collide with the second-largest corn crop on record**, an assertion that can be made with far greater certainty now that the crop has made its way through the critical pollination window. Last year, Rabobank's condition-based model projected the final corn crop yield of 177 within half a bushel when the projection was performed in August. This year, superior growing conditions will likely drive the yield between 182 and 183 bushels per acre. While Rabobank was in the minority opinion, projecting yields above the USDA's summer estimates last year, this year the Department along with most of the trade, have coalesced around the 182-183 bushel range. As a minor consolation, the August WASDE took some of the sting out of record yield projections by acknowledging the 1 million corn acres lost to early spring flooding in the Midwest.
- **News on the 2023/24 crop in South America is mixed,** with USDA and local estimates finally converging. Beginning with Brazil, the disparity between USDA and CONAB estimates had been 20m mt as recently as April. By August, that gap had narrowed to 7m mt, with CONAB revising its estimate upwards to 115m mt against USDA's 122m mt. In the case of Argentina, both the USDA and the Rosario grain exchange, have been chasing estimates downward in response to damage incurred by spiroplasma, with the disparity in production estimates narrowing along the way.
- While a loss of 10m mt of South American production has contributed to improved fundamentals globally, **corn prices have found pressure from other angles, namely a strengthening dollar and declining petroleum prices.**
- **2024 Midwest corn prices in the mid-USD 3s will usher in the second straight year of negative margins for the commodity**. As a proxy for farm profitability, the negative margins also foretell a sharp rebound in agricultural borrowing. To that effect, volumes for operational lines of credit are up 14% year-on-year, according to the latest quarterly data.

Predictiveness of condition-based model on corn yield, by week (2000-present)



Source: USDA RaboResearch 2024

Relationship between crop condition at week 29 and corn yield (2000-present)



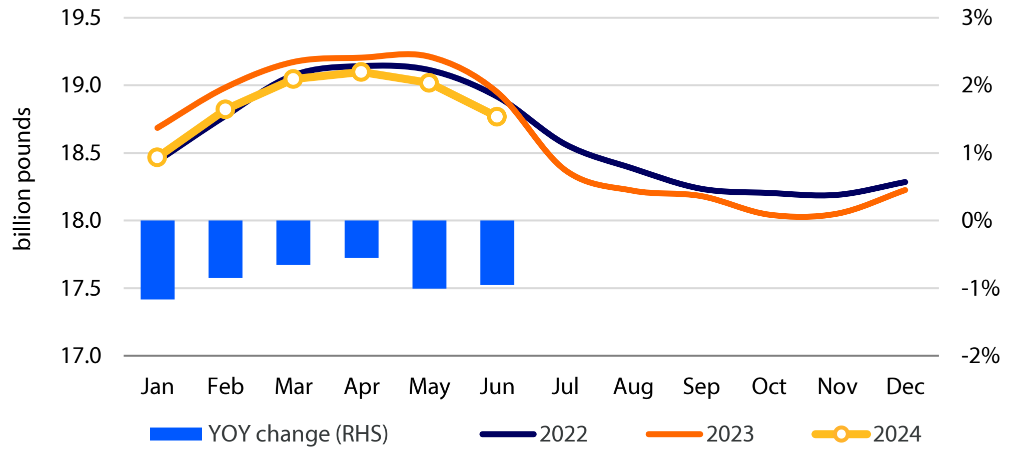
Source: USDA, RaboResearch 2024

Dairy

Milk production marks twelfth-consecutive decline in June; Farmer margin outlook has improved sharply

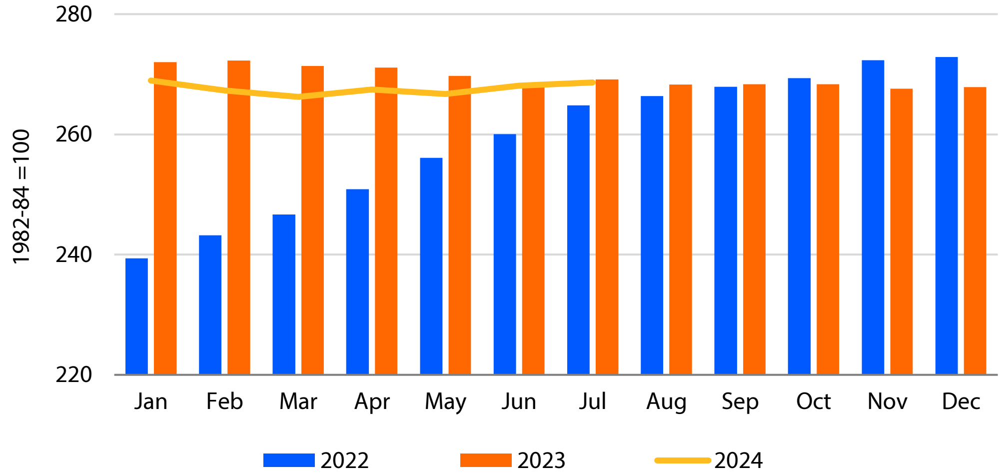
- **June milk production fell 1% versus the prior year to mark the twelfth-consecutive month of weaker year-over-year output.** Milk production could move closer to flat in the coming months, with significant gains still unexpected. Rabobank estimates total 2024 milk production will be down 0.4% versus 2023.
- The May herd, originally reported at 9.35m head, was revised 17,000 cows lower, with June showing a 2,000-head gain. **Total animals are down 62,000 versus one year ago.** Milk per cow fell 0.3% YOY in June to mark the second-successive decline.
- Looking ahead, replacement cow values have hit record highs, and farmers are unlikely to pay up for expensive replacements. **This could keep cow numbers lower for longer** and limit any resurgence in milk output that would typically accompany higher milk prices.
- Highly pathogenic avian influenza (HPAI) continues to spread. 190 cases have been identified in 13 different states since the start of the outbreak in Q1. Rabobank has not seen evidence of significant market reaction, with both milk supply and dairy product demand not substantially impacted from HPAI, although repeated USDA revisions on milk per cow data make the effects more difficult to quantify.
- The H1 Class III price averaged USD 16.92 per hundredweight, with Class IV sharply higher at USD 20.17 per hundredweight. **Sentiment has improved recently, with the June Class III price of USD 19.87 per hundredweight, the highest since December 2022.** Looking ahead, Rabobank expects elevated milk prices into H2. Coupled with feed costs at multi-year lows, the margin outlook is sharply improved.
- H1 total cheese production was down 0.4% versus the prior year, **negatively impacted by 8.4% less Cheddar.** Combined nonfat dry milk/skim milk powder output was down 16.2% in 1H as less surplus milk flowed to balancing plants. However, butter volume has been stronger due to higher prices and concerns about supply, up 3.9% from January to June.
- Cheese exports have been notable so far this year, **with H1 cheese shipments setting a new record high, up 24% YOY.** Rabobank does not expect that pace to continue into the second half of the year. Nonfat dry milk exports are down 12% YTD.
- **Q2 domestic disappearance was up 1.1% YOY, following the weak 0.1% gain in Q1.** Export disappearance has posted five consecutive quarters of weakness from Q2 2023 through Q2 2024, with shipments still struggling to match 2022's record pace.
- The year-on-year dairy consumer price index signified **the eleventh straight decline** in July as dairy product price deflation persists.

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



Source: *USDA NASS, RaboResearch 2024*

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



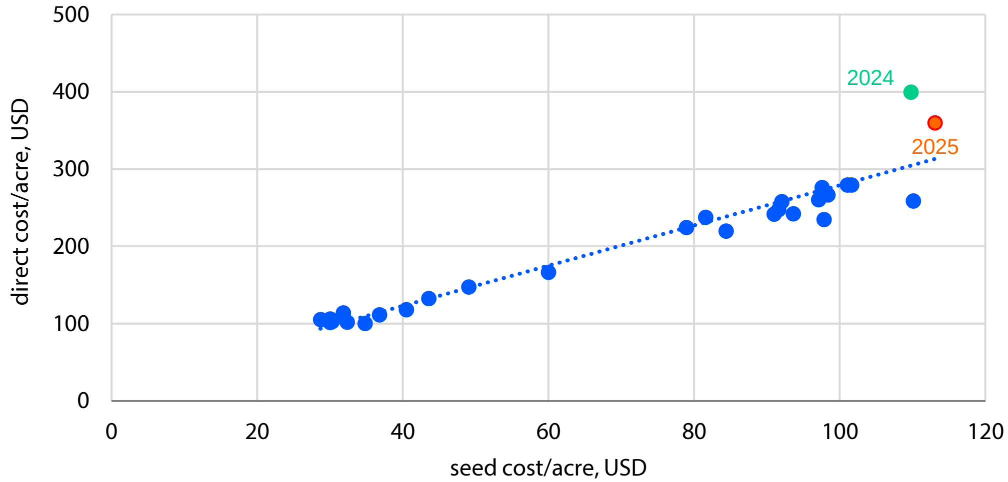
Source: *Bureau of Labor Statistics 2024*

Farm inputs

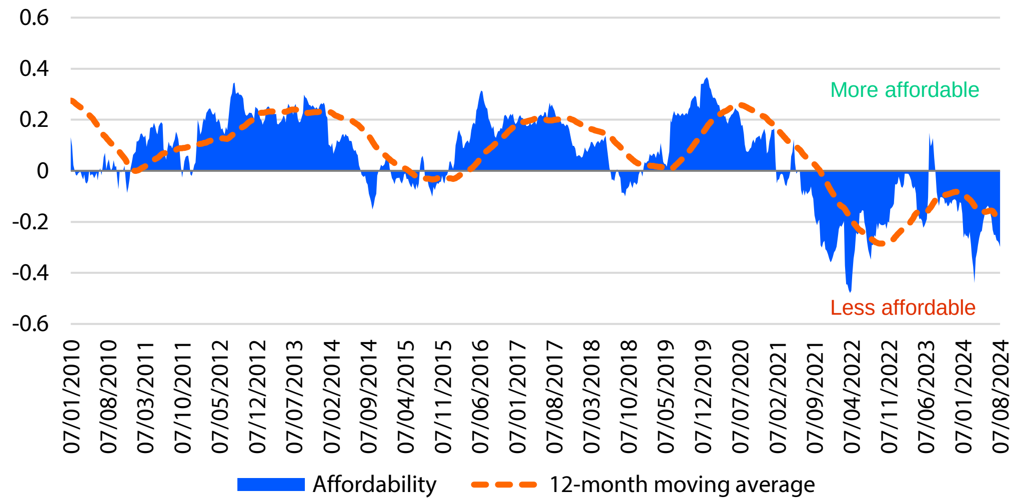
Something's gotta give

- **As is likely painfully obvious to growers, corn margins for 2025 look likely to be pressured.** This is an ominous statement made before the combines are even rolling to pull off the 2024 crops, but costs remain stubbornly high heading into fall decision making.
- **First blush assessment of seed pricing suggests dealers may yet look to take pricing in 2025.** We are by no means at the concluding stages of understanding what seed prices will look like on a per acre basis across all options, but initial indications seem to suggest that corn seed pricing may be up low single digits in 2025.
- This, like 2024, could be construed as an anomaly to trend, with historic precedence suggesting the price of seed could have been higher. However, the practicalities of this seem unlikely, given the margin environment. All said, it would appear as if corn seed prices are unlikely to show significant decreases year-over-year in 2025, despite a deteriorating margin environment.
- This is not a deep-throated margin assessment, **however, as seed prices may not be the only inputs remaining stubbornly high headed into fall.** Phosphate prices at the wholesale level remain above year-ago levels, with a tight supply in the North American market persisting for longer. Recalcitrant Chinese exports are principally to blame for tighter global markets, with pricing seemingly decoupling from cost of production.
- Nitrogen (to a lesser extent) is impacted by Chinese export policies. **However, a confounding set of circumstances, including gas shortages in Trinidad and Tobago as well as Egypt,** along with delayed production from new plants and terminals has moderated the expectation for price declines and wholesale prices in the Midwest, up ~5% year over year in August.
- **Potash does seem more in abundance** relative to the other N or P, with the buffer that global supplies suggest no imminent threat to this situation.
- The deterioration in cash prices for corn over the last couple of months has far exceeded any moderation in input prices. Unfortunately, there may be some tough decisions for growers when the cost/return of corn is penciled out in preliminary budgets for 2025 crop.

US corn seed prices relative to t-1 direct cost of production



US phosphate affordability indices



Sources: *CRU, USDA, Bloomberg, DTN, RaboResearch 2024*

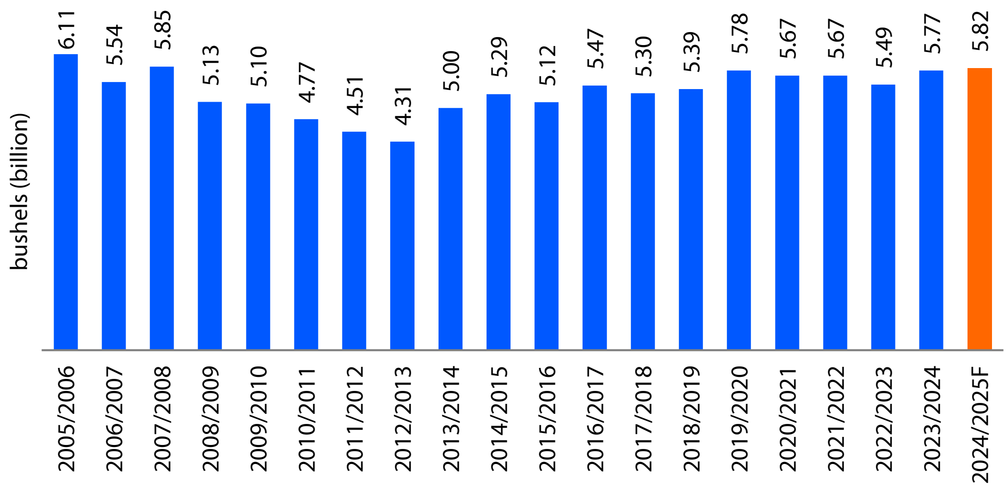
Feed

Resilient US feed base demand and declining by-product prices

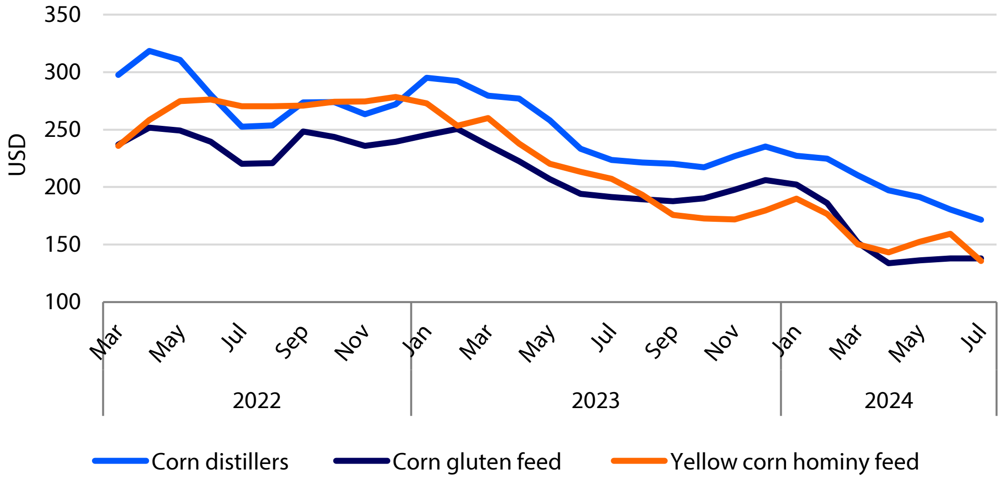
- **Feed supply:** new adjustments to planted area were published in the latest WASDE report that highlighted some of the challenges that farmers faced during spring. In summary, the US is expecting slightly higher production of corn than initially anticipated, greatly due to better-than-expected yields. At the same time, soybean planted area increased by a full 1m acre and yields are in better shape than initially anticipated. Feed supply availability will be more than plentiful this year.

- **Prices:** corn and soymeal prices are expected to be lower over 2024/25 as ample supplies and growing inventories bring corn and soymeal prices lower from their highs over the last three years. The continued decline is adding pressure to by-products that over the period of Covid and droughts, made by-products expensive and hard to haul. However, looking at corn-derived by-products, prices begin to show a steady decline. Animal protein margins should feel a welcome reduction in margin pressure from feed cost.

Corn feed domestic use (in billion bushels) expected to grow in 2024/25

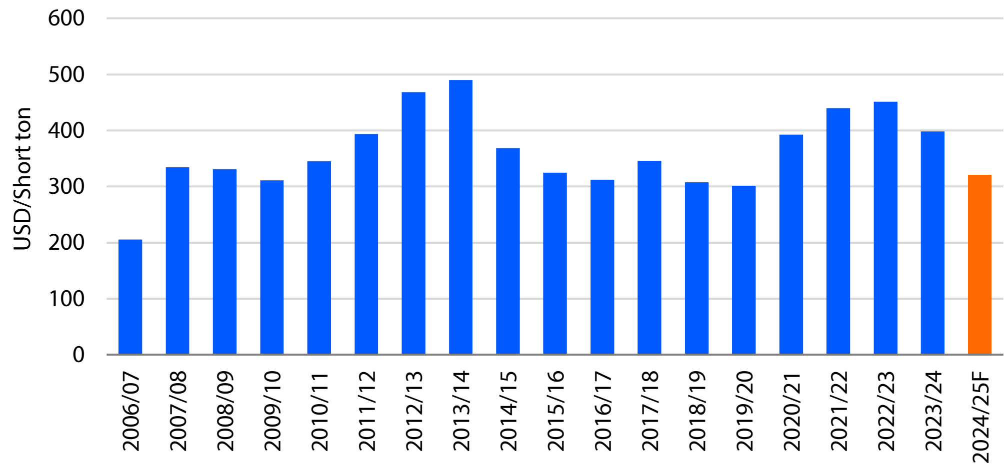


Corn by-products are showing a steady decline driven by ample corn supplies



Sources: USDA, RaboResearch 2024

Annual soybean meal price projection for 2024/25 showing back to pre-Covid levels



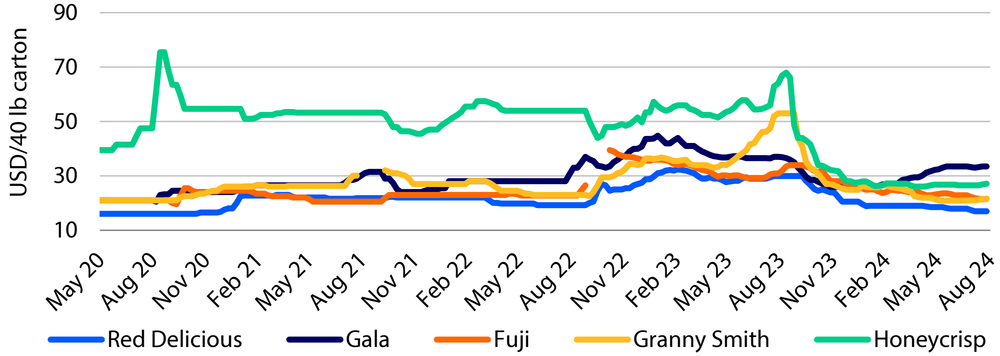
Source: *USDA, RaboResearch 2024*

Fruits

Apple crop in WA estimated to return to 'normal' levels in 2024 after bumper crop in 2023

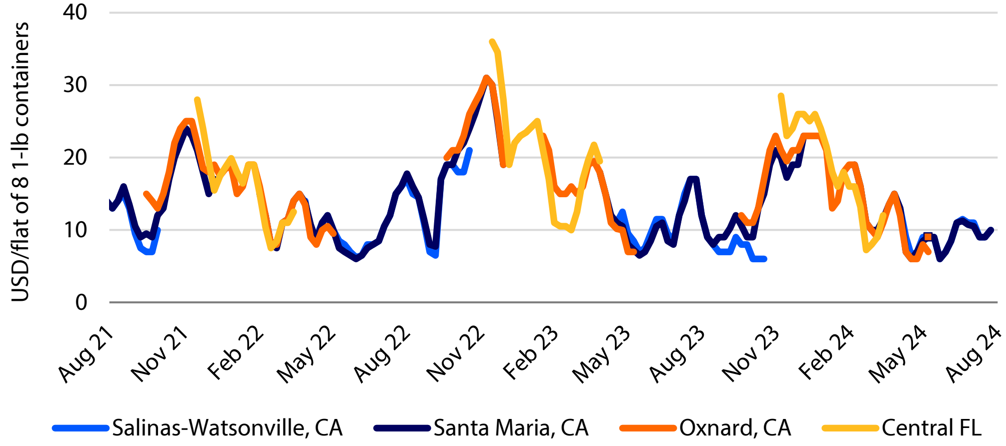
- **Strawberry** shipping-point prices were around USD 10 per flat for non-organic fruit, down about 40% YOY for product from California, by mid-August. Shipments over the past four weeks have been up 10% YOY. Strawberry availability in the US will show the typical seasonal decline in the next few months. After mostly steady supplies in the US growing season, **blueberries** will transition to the import season. Peruvian shipments will partially recover from El Niño-impacted crop last season. Shipments are expected to be more evenly distributed, avoiding high peaks.
- **Lemon** shipping-point prices -140s- started the 2024/25 marketing season at around USD 35 per carton, down 2% YOY, and surpassing the five-year average for mid-August by 3%.
- California **avocado** shipping-point prices for 48s were over USD 75 per carton, at a similar price than a year ago, but up 39% compared to the five-year average by mid-August 2024. Avocado shipments from California were up more than 20% YOY during the past two months, whereas avocado arrivals from Mexico are down about 20% YOY for the same period. Drought conditions in 2023 and throughout the first half of 2024 impacted fruit development in Mexico. Avocado availability is likely to improve as the new marketing season in Mexico ramps up in the fall.
- Fresh **apple** prices still show lower price levels than a year ago for most varieties after the bumper crop in 2023. Varieties with the sharpest YOY declines in recent shipping-point prices include Granny Smith, Honeycrisp, and Red Delicious. The WSTFA estimates the 2024 crop to be at 124m boxes, which represents a return to historical average production, after a smaller crop (104m boxes) in 2022 impacted by cold and wet weather and a strong rebound in 2023 (136m boxes). Lower volumes, along with expected excellent quality, will support prices in 2024/25.

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



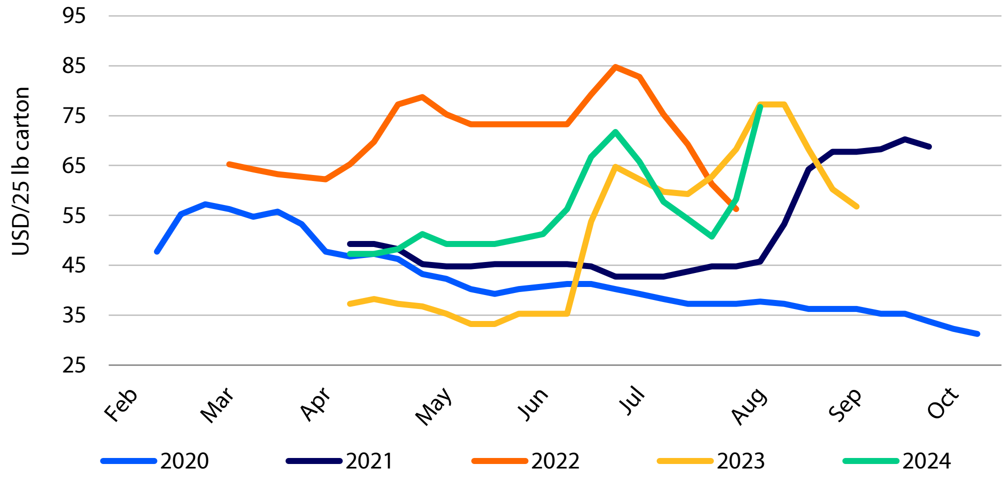
Composite of fine appearance and standard appearance prices
Source: USDA AMS, RaboResearch 2024

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



Source: USDA AMS, RaboResearch 2024

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



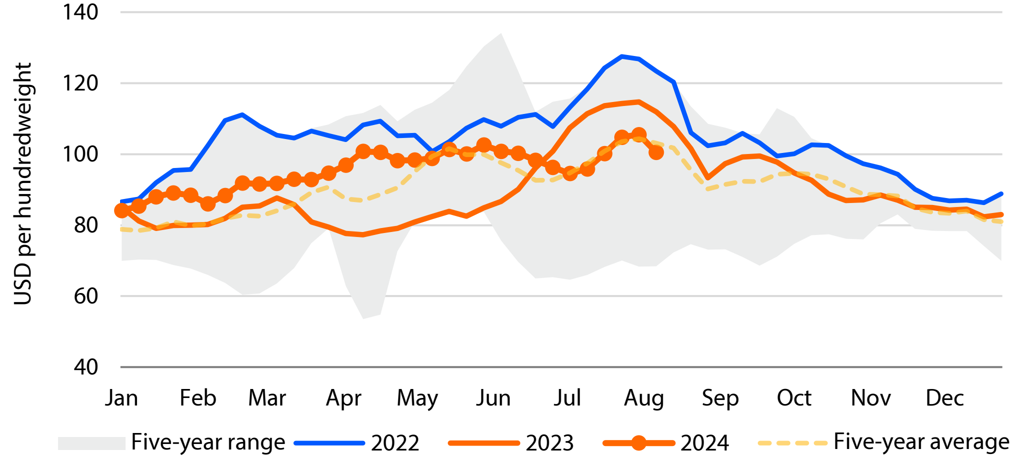
Source: USDA AMS, RaboResearch 2024

Pork

Larger pork supplies and weaker exports limit summer price rally; expected to normalize

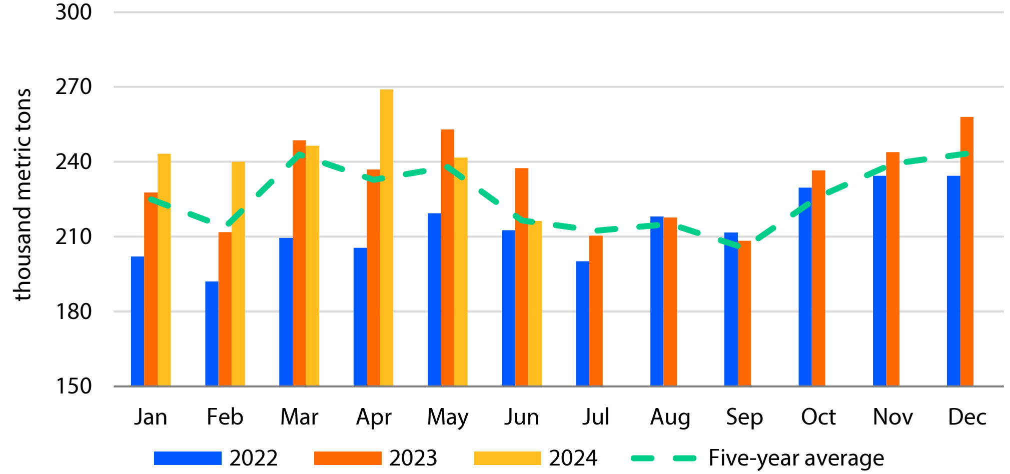
- **Hog prices remain under pressure as increases in both hog slaughter (+2.3% YOY) and dressed weights (+1.5% YOY) have kept the market amply supplied.** Slaughter continues to trend in line with the latest USDA Hogs and Pigs estimate and should remain ahead of year-ago levels based on current inventory. Heavier dressed weights remain a challenge as favorable weather, improved herd health, and significantly lower corn costs (-21% YOY) have yielded over a 3-pound gain versus year-ago. Weights are trending lower seasonally, especially for packer-owned hogs, but are unlikely to drop sharply as packers strive to maintain margins. We expect the market to remain relatively current, however, as the packing industry will face capacity constraints beginning in Q4 2024. Producers remain profitable at current levels, but many will again face seasonal losses again by October, likely prompting additional herd consolidation in coming months.
- **Pork cutout values peaked in early August at USD 105 per cwt (-8% YOY) and they will continue to trend lower as hog supplies increase this fall.** Disappointing belly values (-35% YOY) due to soft summer bacon demand at retail and foodservice drove much of the underperformance, with most other primals at or above year-ago levels. Overall pork demand remains good, despite the continued increase in domestic pork availability. Stronger domestic markets have helped keep frozen pork inventories relatively low, -3% YOY at 470m pounds, despite a recent slowdown in exports. We expect pork values to trend in-line with historical averages over the balance of 2024 with a gradual increase in wholesale demand expected to absorb seasonally stronger pork supplies.
- **June pork export volumes were 9% lower YOY, at 216,000 metric tons, and down 4% YOY in value.** Shipments to most destinations were lower, with only the top markets in South Korea (+20% YOY) and the Caribbean (+18% YOY) posting meaningful gains. Exports to Mexico dropped 4% in volume as ham prices rose and local demand softened, although dollar sales increased modestly. YTD export volumes remain 3% above year-ago levels, while export values are 5% higher. Pork imports were 4% higher YOY in June, at 40,000 metric tons, with strong sizable increases from Europe and Brazil, offset by lower Canadian imports.
- **Mexican hog prices are 26% above year-ago as the industry contends with supply-side disruptions.** This increase to MXN 45.79 per kg reflects a decline in domestic hog availability tied to productivity challenges. However, the high cost of pork and the improving domestic supply balance is resulting in some downward pressure on markets. Imports through May 2024 are +5.4% YOY, at 688,000 metric tons, although recent shipments have slowed. Recent weakness in the peso (-13.5% compared to the USD) is also a factor. Wholesale ham prices remain relatively high at MXN 79.50 per kg, up 20% compared to year ago and will likely remain strong through 2H 2024 as market conditions normalize.

Pork cutout hits seasonal peaks; in line with historical averages



Source: *USDA 2024*

US pork exports lower in early summer; remain 3% above year-ago



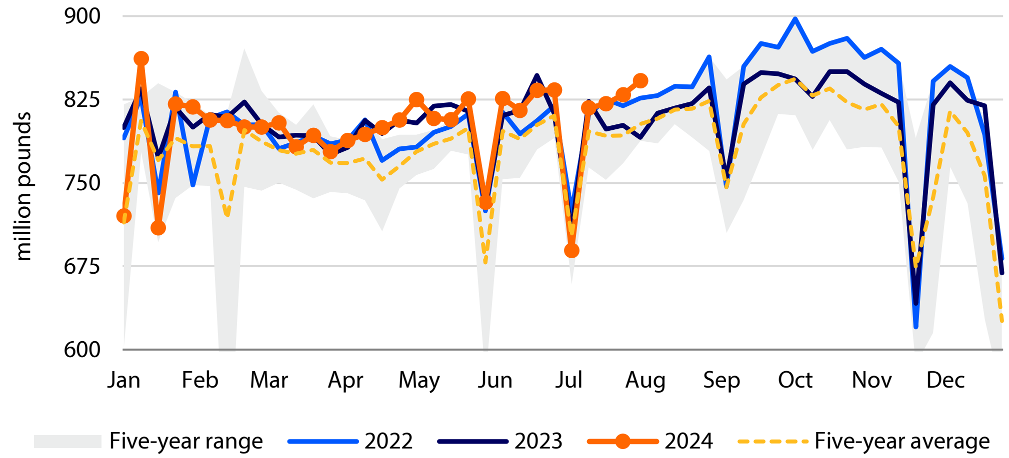
Source: *USDA, RaboResearch 2024*

Poultry

Chicken markets robust on strong domestic demand and limited supply growth

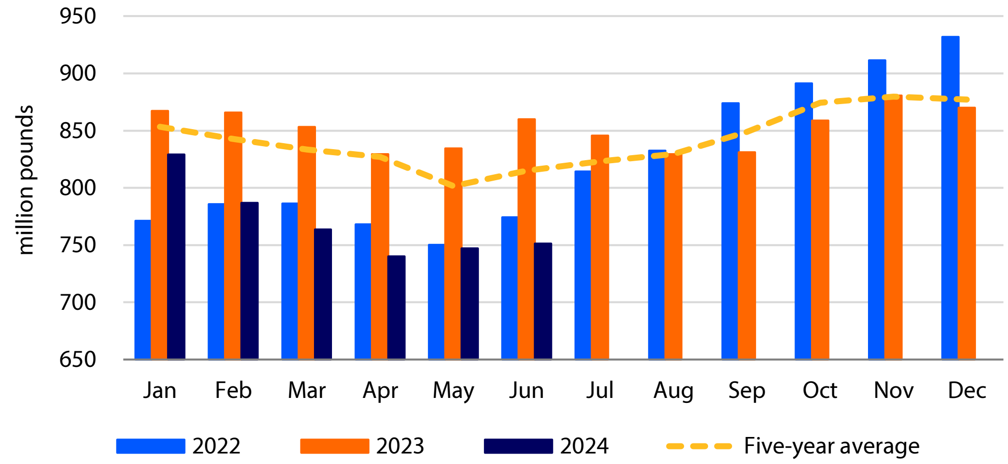
- **Chicken production rebounded in recent weeks (+2% YOY since late July), led by an ongoing shift toward heavier weight birds (+2% YOY) despite limited growth in chicken availability.** Despite a modest improvement in hatchability in the past few weeks (from record low levels), overall industry productivity remains low due to ongoing mortality and hatchability challenges. RaboResearch expects the industry to continue managing tighter bird availability by shifting toward heavier weights when able, especially as lower corn and soybean meal costs have dropped the cost of gain 21% YOY. We expect limited improvement in production before 2025 given supply flock constraints, although the rebound in industry profitability remains a strong growth motivator. Rabobank is currently projecting a +0.7% YOY increase in chicken production.
- **Poultry prices continue to trend well ahead of year-ago levels on strong demand and limited supply growth, despite softer export trends.** High-cost beef is helping to boost foodservice demand, especially for breast meat and tenders, while retail and institutional sales activity also remains stout. Sales for the back-to-school and football seasons are expected to drive further upside in breast meat and wing prices, while consumers' focus on value items will remain supportive of dark meat pricing trends. We remain optimistic on the 2H 2024 price outlook as chicken inventories remain historically low (-13% YOY) and production growth remains constrained.
- **June chicken export volumes were weak (-9% YOY at 268,000 metric tons), with total export value -6% YOY.** Weaker sales to Mexico (-15% YOY), Cuba (-25% YOY) and China (-60% YOY) drove the decline, far outweighing stronger shipments to Canada, Angola and Vietnam. YTD chicken exports are -11% YOY. HPAI-related disruption and ongoing trade tensions remain export limiting but are largely being offset by stronger domestic dark meat sales. Leg quarter inventories remain historically low (-17% YOY) and leg quarter values are +25% YOY. Rabobank is currently projecting a modest improvement in 2H 2024 exports, with full year 2024 shipments projected to fall 7% YOY.
- **Mexican chicken prices have weakened due to a rebound in productivity.** Live chicken prices are currently MXN 29.24 per kg, 7.2% below year-ago levels. After a reduction in bird numbers due to larger-than-average bird losses in recent months, production has started to stabilize. Better livability, together with better growing conditions and cheaper feed supplies are providing a boost to carcass weights, driving a 1.8% increase in production through June. Chicken import volumes through June 2024 are down 5.6% YOY, with shipments from Brazil down 31.4% YOY.

Ready-to-cook chicken production moves higher in August



Source: *USDA, RaboResearch 2024*

Chicken cold storage inventories remains historically low



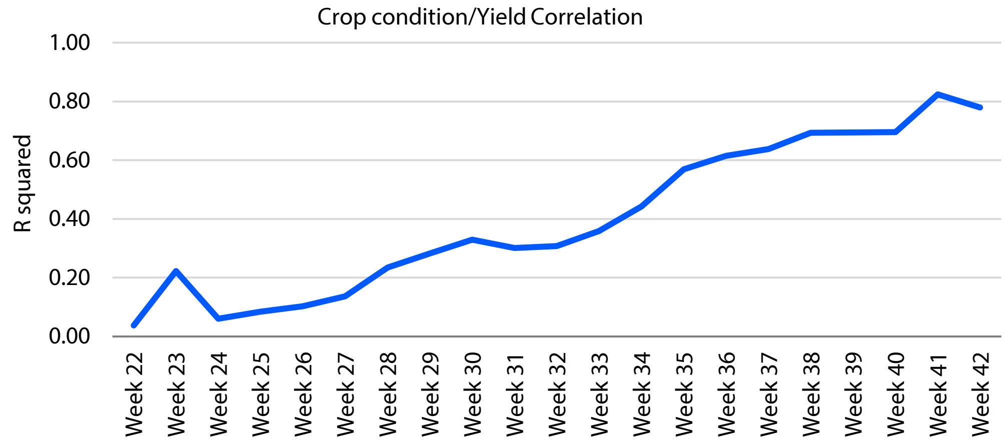
Source: *USDA 2024*

Soybeans

Inadequate demand in the face of record production

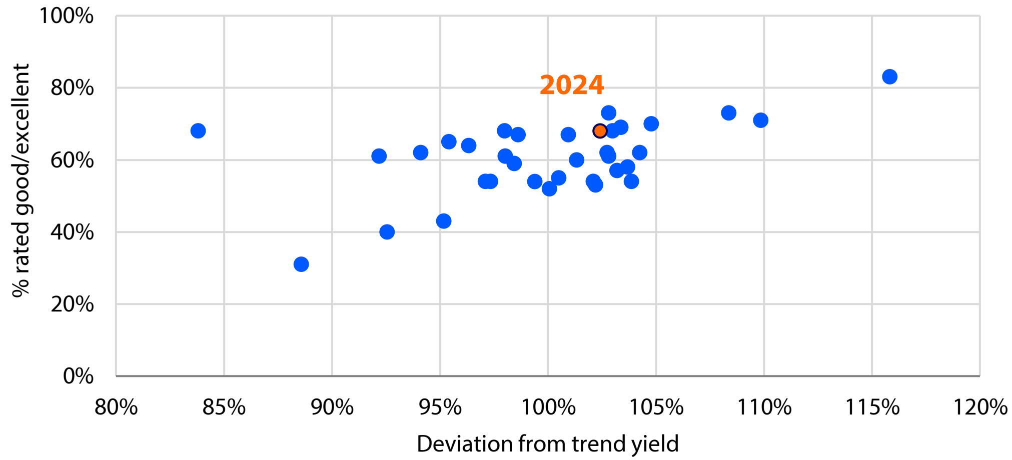
- Soybean markets haven't been burdened in the same way as corn from record-setting stocks on the farm. That said, **soybean markets are facing their own challenges by way of weak export demand and an oversupply of biomass-based diesel.** An August WASDE that pinned lost corn acres to soybeans only added to bearish headwinds.
- While much of the midwestern corn crop benefitted from getting planted before heavy rains in April and May, some soybean planting was delayed as a result. Despite this setback, **soybean yields this year, like corn, are on track to set new records.** RaboResearch's condition-based model implies yields 103% of trend – translating into yields between 52 and 53 bushels per acre. **When paired with 87m planted acres, these yields will translate to a record US production – exceeding 4.5bn bushels for the first time.**
- **Unfortunately for the soybean market, export sales are not on track to accommodate this record output.** Reflective of poor crush margins in China, and otherwise declining market share there, US soybean export sales for the current, 23/24, marketing year are at their lowest levels since 2013 through the first week of August. New marketing year sales are not much better – slightly besting the pace achieved in 2019, at the height of the trade war, but otherwise falling short of any year since 2006.
- **Soybeans continue to receive support from increased demand for domestically-produced biomass-based diesel but that market is showing signs of duress.** In recent weeks, biodiesel returns over variable costs have been negative and weak compliance (RFS, LCFS) credit values mean that only a minority of BBD producers are currently covering their full costs. The dynamic emerging bears strong resemblance to 2019, a year in which biodiesel capacity consolidated by 10%. Indeed, recent reports suggests a new wave of consolidation may already be underway with at least five biodiesel facilities and one renewable diesel facility idling operations in the last three months.
- In the wake of corn falling below USD 4/bu, **bean futures prices have now breached the psychologically important USD 10/bu support level.** While most of the negative news for the sector is baked in at these prices, any upward revision in 2023/24 Brazilian soybean production, historically the norm rather than the exception, could be the next shoe to drop.

Predictiveness of condition-based model on soybean yield, by week (2000-present)



Source: *USDA, RaboResearch 2024*

Relationship between crop condition at week 29 and soybean yield (2000-present)



Source: *USDA, CONAB 2024*

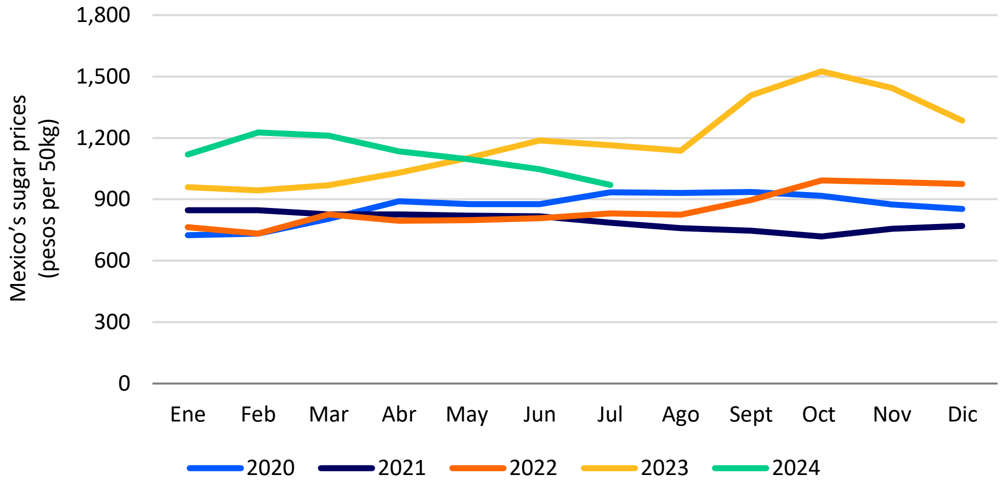
Sweeteners

After the drought, does Mexico now face an oversupply?

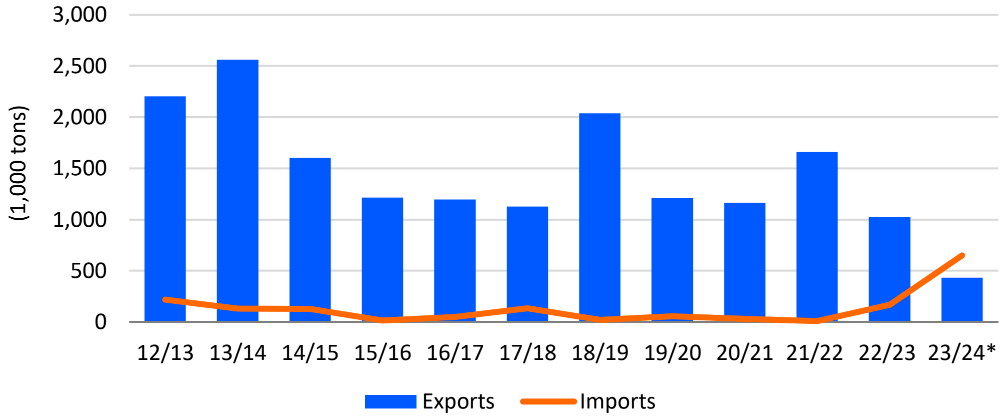
- Drought has hit Mexico in many ways. During the 2023/24 sugar campaign, all Mexican mills and players in the industry expected a very poor cane and sugar crop. Initial expectations were that sugar production for this current cycle will come down to 4.5m metric tons vs 5.2m metric tons in 2022-23.
- The drought situation and the poor expectation incentivized Mexico to import sugar from different markets. From October 2023 to July 2024, Mexico imported a record of 650,000 metric tons of sugar up from 169,000 metric tons over a year ago.
- Most of these Mexican imports had the objective to balance the domestic market. It was hard to buy sugar and prices were at record levels. However, cane harvest went longer than expected as rains came in late. Sugar production finished at 4.7m metric tons. Higher than the initial expectation of 4.5m metric tons.
- Mexico now has an oversupply of sugar due to high imports, a longer campaign than expected and a lack of export demand during this time of the year.
- Mexico sugar prices continue to the downside. After reaching record highs at the beginning of 2023/24, sugar standard prices reached record highs in October, breaking the 1500 pesos per 50kg bag. Currently, standard prices are at around 970 pesos per 50kg bags.
- Mexican sugar exports continue very sluggish. From October 2023 to June 2024, Mexican sugar exports to the US were at 430,000 metric tons, down from 925,000 metric tons over a year ago. During the same period, Mexican exports to the global market are at 0.
- The drought in Mexico has improved in recent weeks. Rains came in late for the cane but we have heard that it should benefit the 2024/25 cycle toward the second half of the cycle.

Source: CONADESUCA, USDA, RaboResearch 2024

Mexico's sugar prices dropped at a fast pace due to domestic oversupply.



So far this marketing year, Mexico's imports have been higher than its exports… something that is not very common



Source: CONADESUCA, USDA, RaboResearch 2024
**from Oct 2023 to June 2024*

Tree Nuts

Price recoveries expected in 2024/25

Almonds: Shipments ended the 2023/24 marketing season up 5% YOY, with domestic shipments up 2% YOY and exports increasing 6% YOY. Computed inventory at the end of the marketing year was 505m pounds, a multi-year low, down 36% YOY. After the objective report came at 2.8bn pounds (vs 3.0bn pounds in the earlier subjective report), prices reached the highest levels since 2021. As harvest ramps up, some growers report sizes and yields being below expectations due, in part, to unusually strong heatwaves that impacted orchards this summer. With a bullish carry-in in the books, prices will be influenced by crop receipts and shipment levels in the next few months.

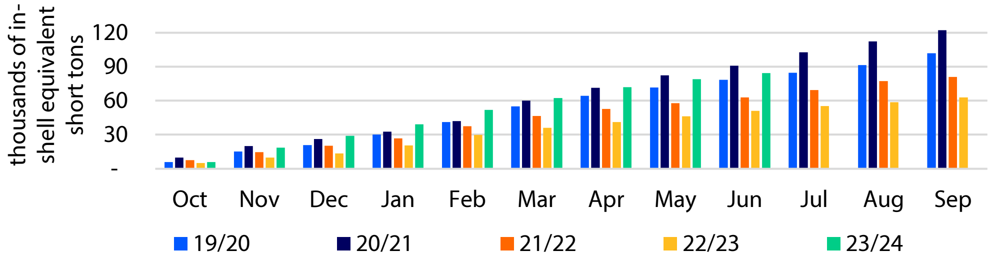
Hazelnuts: Shipments in 2023/24 through May were up 14% YOY, with kernel exports increasing 35% YOY. Industry players expect a favorable 2024 in terms of yields, quality, and prices.

Walnuts: Shipments rose 18% YOY, with exports up 25% YOY and domestic shipments up 6% YOY in the 2023/24 marketing year through July, per industry figures. Carry-out this year is expected to be lower than previous season and the 2024 crop is likely to be below 750,000 tons (down from a record 824,000 tons in 2023). Acreage in California will remain stable in 2024 as new acreage coming into production offsets the similar number of acres removed from production. Acreage is likely to decline in the next few years, favoring premium varieties. Prices will continue to recover from historically lows in 2022, as fundamentals improve. Production in competing regions (Chile and China) is also likely to be in check for the next few seasons, allowing the global industry to be in a more balanced supply-demand position.

Pistachios*:* Shipments slowed down in June, as the marketing year approached its end with a manageable inventory. Shipments in 2023/24 through June were up 35% YOY, with domestic shipments up 3% YOY, and exports (accounting for 80% of shipments) up 47% YOY. The 2024 "off-year" crop is expected to be below 1bn pounds (vs a record 1.5bn pounds in the previous cycle). Given lower supplies, prices are expected to improve with respect to the opening prices at the beginning of the 2023/24 marketing year.

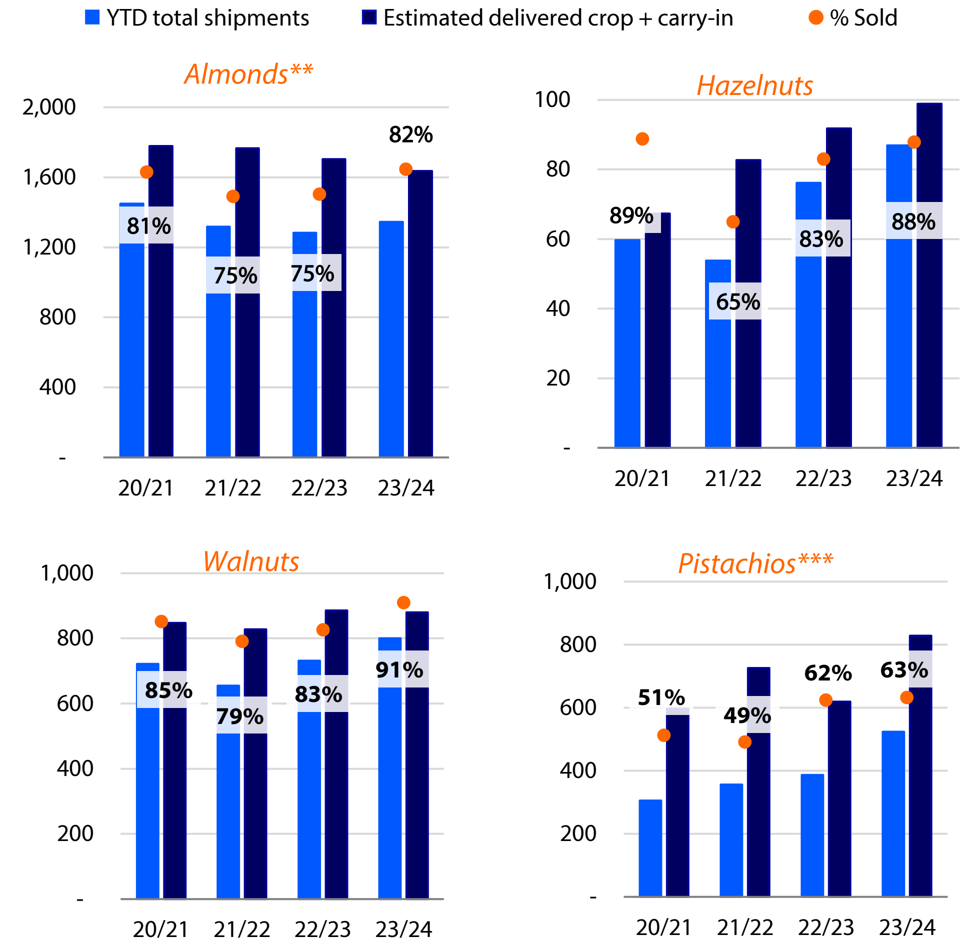
Pecans: US pecan export volumes in the 2023/24 marketing season through June were up 65% YOY, reaching the highest YTD exports since June 2021, according to USDA figures.

Cumulative US pecan exports by marketing year



Source: *USDA FAS, RaboResearch 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, RaboResearch 2024.* Through July 2024, 2023/24 marketing season for almonds and walnuts; June 2024 for pistachios; May 2024 for hazelnuts (industry information is delayed); **Meat pound equivalent. ***Not considering inventory adjustment/loss.*

Vegetables

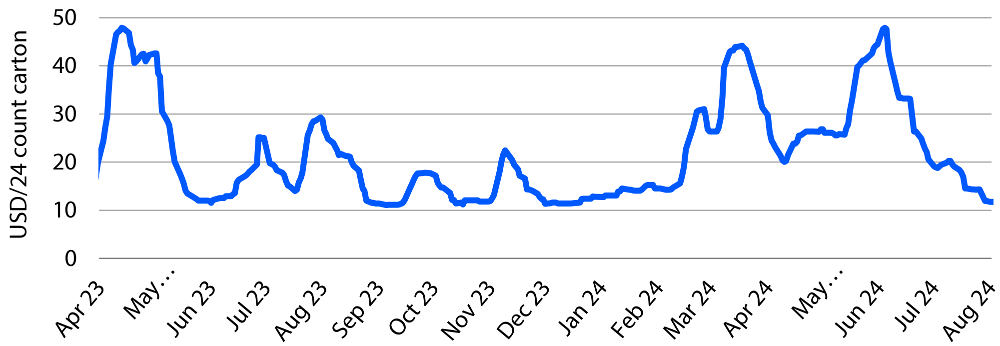
US potato production will be slightly lower in 2024

In recent months, the fresh produce consumer price index showed YOY declines, making fresh produce a healthy alternative for consumers' budgets. Fresh fruit and vegetable retail sales showed gains during the summer. June sales were above last year's levels and above the 2022 sales results, according to the IFPA. As consumer confidence declines, most retail categories continue to outperform their pre-pandemic normal since consumers are turning to retail again. Fresh produce shows strong everyday demand at retail. During June, retail fresh produce sales reached 7.6bn dollars, up 2.1% YOY, while fresh vegetables sales accounted for 3.4bn dollars during the period. Vegetable sales are higher YOY both in volume and value. Vegetables that showed positive YOY variation in volume sales during the summer include tomatoes, lettuce, potatoes, salad kits, onions, peppers, cucumbers, carrots, and broccoli, per IFPA.

Potatoes: US potato production for 2024 is expected to be down roughly 3% YOY to 427m cwt, per NAPMN. Growing conditions this summer have been mostly favorable in US growing regions, and yields are likely to surpass earlier estimates for the year but are still down YOY. Area to harvest is likely to reach 937,200 acres, down roughly 2% YOY. Fresh potatoes was one of the few items in the fresh vegetable segment that had lower YOY prices at retail this summer. Prices are expected to partially rebound later this year as production declines.

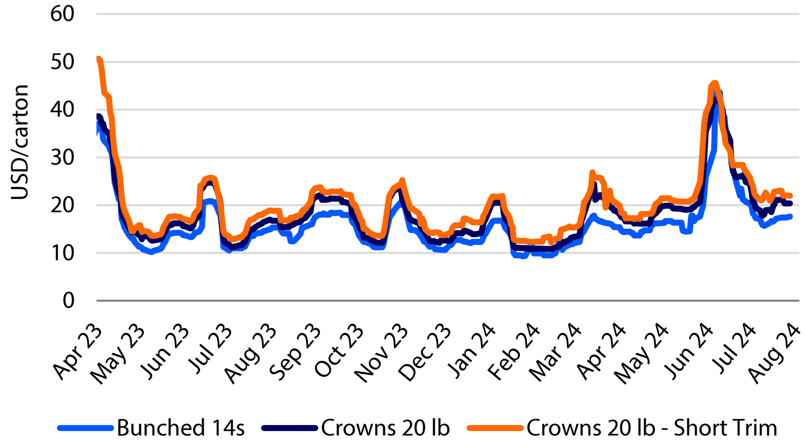
Leafy greens and brassica: At about USD 10 and USD 12, romaine 24s and hearts (12x3) were down 5% and 18% YOY, respectively, by mid-August. At about USD 13, the price for iceberg wrapped 24s was down 39% with respect to the price the year before by mid-August 2024. At about USD 20 per 20-pound carton, the broccoli crown price was up 23% YOY during by mid-August, while prices for short-trim crowns were at USD 22, up 22% YOY during the same period. Industry sources report strong production, excellent supplies, and steady quality – what the industry calls promotional volumes. Prices are expected to improve, driven by back-to-school businesses and potential supply gaps by the end of the summer.

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



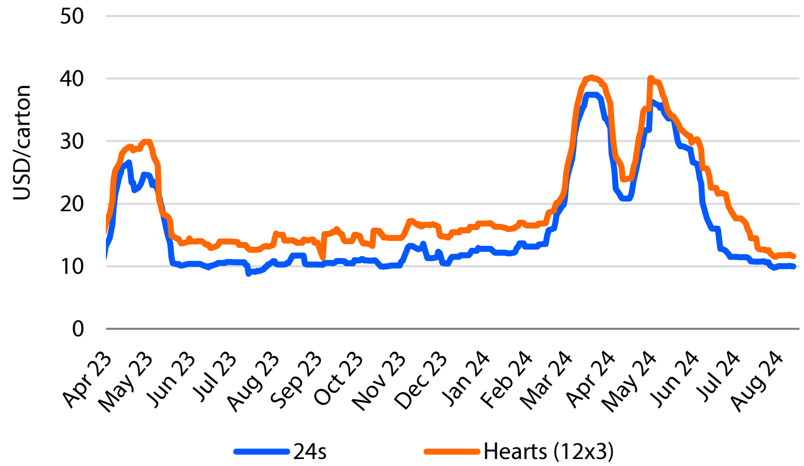
Source: *USDA AMS, RaboResearch 2024*

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



Source: *USDA AMS, RaboResearch 2024*

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



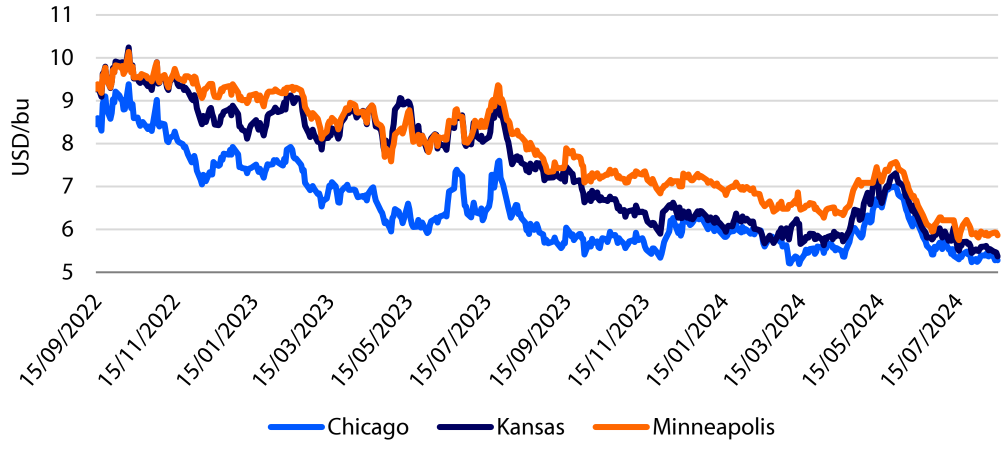
Source: *USDA AMS, RaboResearch 2024*

Wheat

Major exporting countries to see another year of ending stock decline

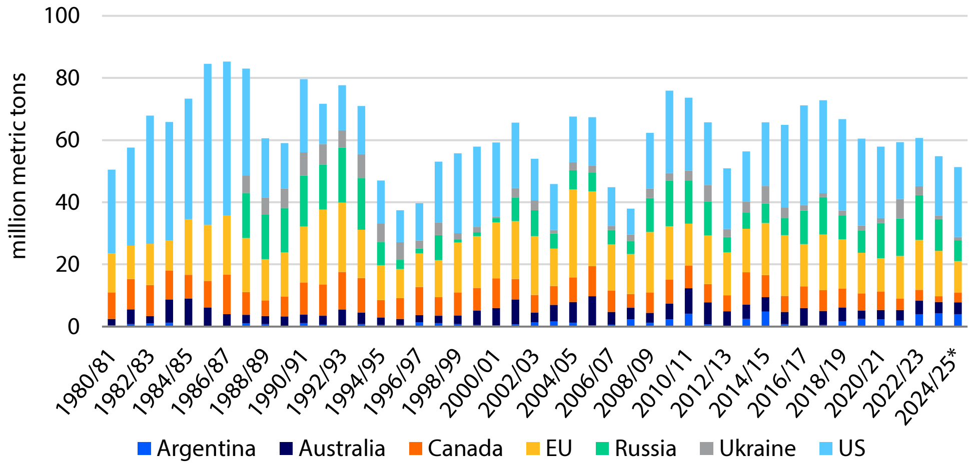
- **Harvest in the US:** Winter wheat as of August 11, stands at 93% harvested, compared to 91% last year and 91% over the five-year average. Few states continue to harvest and expected to reach completion soon. Spring wheat harvest is starting slower than last year and the five-year average, with 18% of the spring wheat crop harvested. Spring wheat condition remains stellar compared to last year, with 72% of the spring crop rated good to excellent compared to 42% good to excellent last year.
- **International production:** Adjustments to global production were seen in the latest WASDE report. Most notable was the reduction in EU production following lower French production due to wet conditions that deteriorated yield and diminished quality. On the other side, higher planted area in Ukraine helped revise production upwards. Eastern Argentina has seen more rains that have benefited crop conditions, but the western area remains dry.
- **Canada:** Crop conditions have declined in Canada as July temperatures turned hotter and there was not much rain. While conditions continue to be favorable, the damage during the last weeks of July affected the crop condition ratings in the provinces of Saskatchewan and Alberta. However, as the marketing year for 2024/25 starts, all wheat production is looking at a whopping 10% year-on-year increase. Exports of all wheat are expected to reach almost record levels.
- **Trade:** Global trade is up in 2024/25, by 2m mt on better production in Australia and Ukraine. Egypt's tender of 3.8m mt of wheat imports spread from October 2024 to April 2025, and Algeria buying wheat for October delivery, is helping markets stay supported. US total wheat commitments are 32% higher than last year.
- **Prices:** The global environment suggests that higher production and exports are plentiful and enough. However, major exporters' ending stocks are projected to decline yet again in 2024/25. At the same time, global ending stocks volumes for 2024/25 are estimated to be the lowest in nine years. Globally, and in the US, prices are expected to find support. As the US becomes more competitive and other regions struggle with lower production, US exports are expected to fare better than last year. The higher yield in the latest WASDE report was not enough to offset production decline due to lower acreage. As a result, domestic farm prices have stayed at USD 5.70/bu for the marketing year 2024/25. Futures markets for wheat in Chicago, Kansas and Minneapolis have closed the spread that for the last three years have widened.

Futures market in the US are closing the spread that widened over the last three years



Source: USDA ERS, RaboResearch 2024

Major exporters' ending stock volumes expected to decline in 2024/25



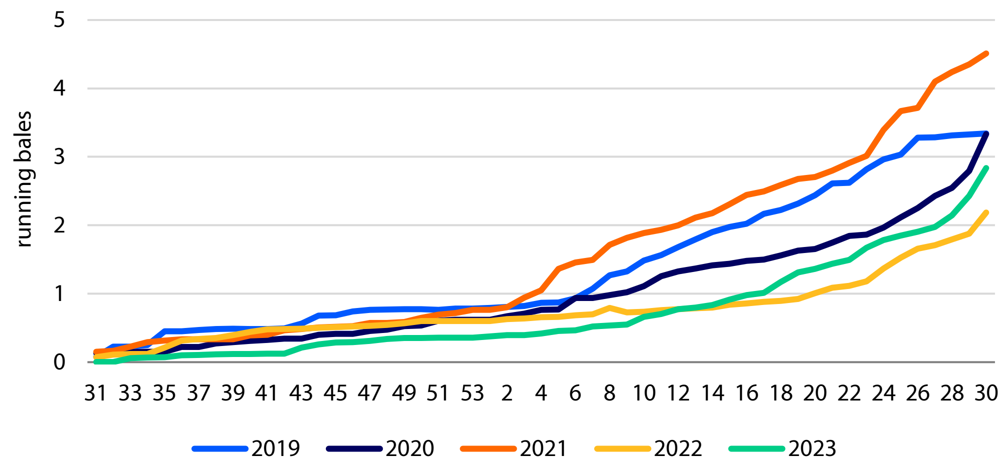
Source: USDA ERS, RaboResearch 2024

Cotton

2023/24 marketing year goes out with a whimper

- US cotton futures have demonstrated a volatility in 2024, far beyond that of other row crops – more akin to cacao than corn or soybeans. But after tight ending stocks allowed old crop cotton to temporarily transcend macroeconomic headwinds, the prospect of a larger US production has now dragged futures below USc 70/lb for the first time since the early days of Covid.
- While the Southern Plains' cotton crop got off to an excellent start, dry weather has since taken its toll. The share of the crop rated as either good or excellent has fallen by 15 percentage points over the summer months, reducing crop expectations by 2m bales. A 12% cut in production estimates would be a strong bullish signal in most markets but the cotton market, especially this year, is demand-driven and nearby prospects remain dim on that front. A million bales worth of cancelled sales in the first week of August (the last week of the 2023/24 marketing year) illustrate this point all too clearly.
- Fortunately, Europe has emerged from its recession and US policymakers are expected to take strong action to avoid one. Lower interest rates and an improved consumer outlook would do more for cotton than any other agricultural commodity and should allow cotton prices to rebound more quickly once consumers feel good about spending

New marketing year export sales



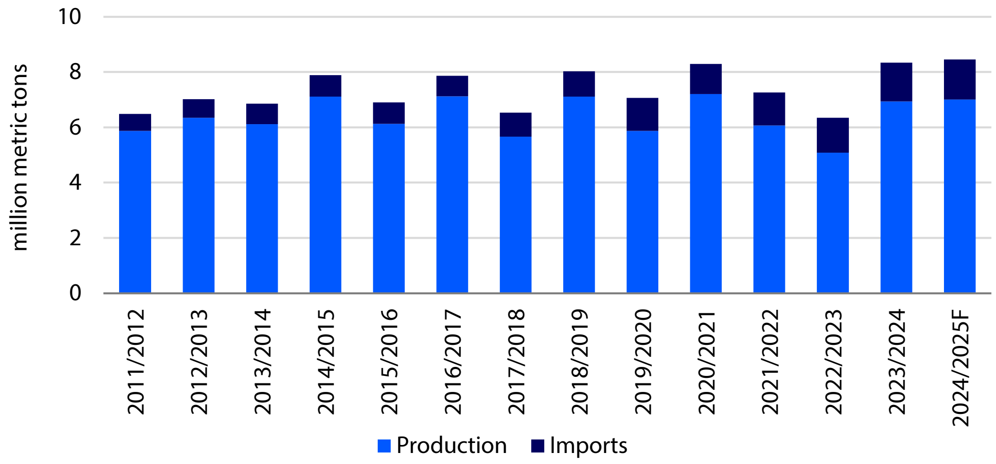
Source: *USDA 2024*

Rice

Record imports

- Supply: US rice production to normalize with 2024/25 estimates at 221m cwt. This is not a record production but an improvement over the last three years and almost reaching the high level of output seen in ~10 years. While production has caught up with previous years, import volumes are not slowing down. While more domestic availability has leveled the share of imports used in domestic consumption, in volume terms, imports continue to grow and reach record levels. Import volumes for the US in 2024/25 are expected to reach 45.5m cwt – an increase of ~3% compared to last year.
- Exports: US exports are expected to pick up as production and harvest begins in the next couple of weeks. Brazilian prices remain uncompetitive, which has given the edge to the US to recoup some of the market share lost to Brazil over the last couple of years. The US is expected to increase exports by 4% year-over-year and this would be the highest export volume since 2016/17.
- Season average farm prices (SAFP) are expected to decline in 2024/25 due to record-level supplies (production plus imports). Almost record-level production plus record-level imports is adding to domestic supplies and therefore pressuring prices to the downside. All rice SAFP for 2024/25 is estimated at USD 15.60 per cwt, a decline of ~12% year-over-year.

US milled rice total supplies reaching record levels

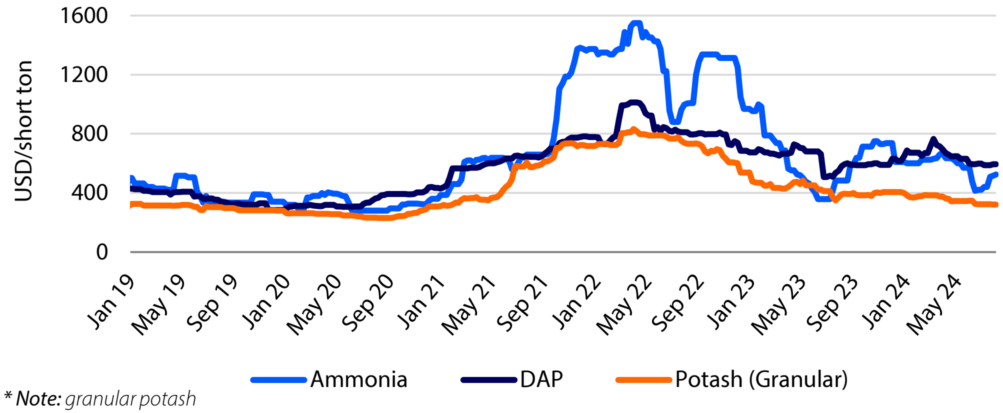


Source: *USDA, RaboResearch 2024*

Input costs

As of August 15, 2024

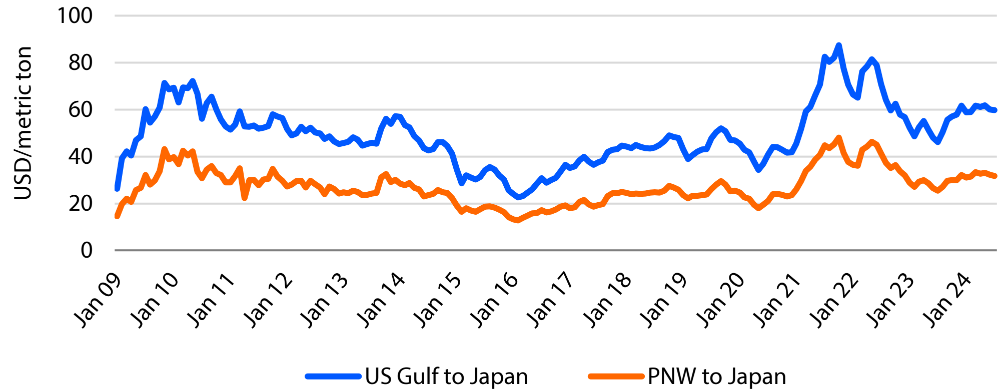
Corn Belt input prices*



** Note:* granular potash

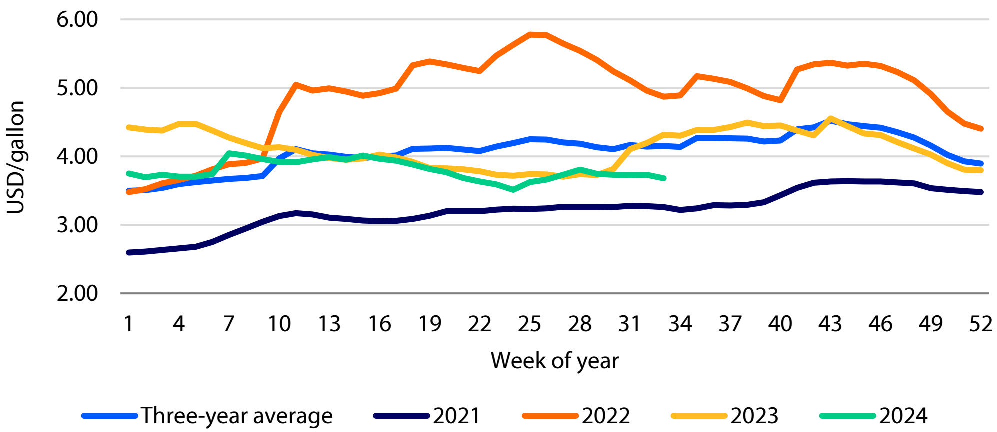
Source: CRU, RaboResearch 2024

Ocean freight



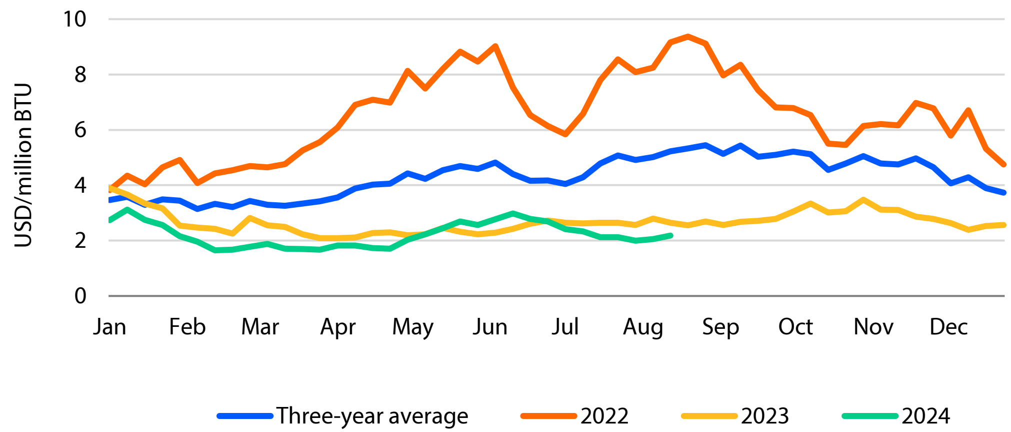
Source: O'Neil Commodity Consulting, USDA AMS, RaboResearch 2024

Diesel – Midwest



Source: EIA, RaboResearch 2024

Natural gas spot



Source: NYMEX, RaboResearch 2024

Forward price curves

As of August 15, 2024

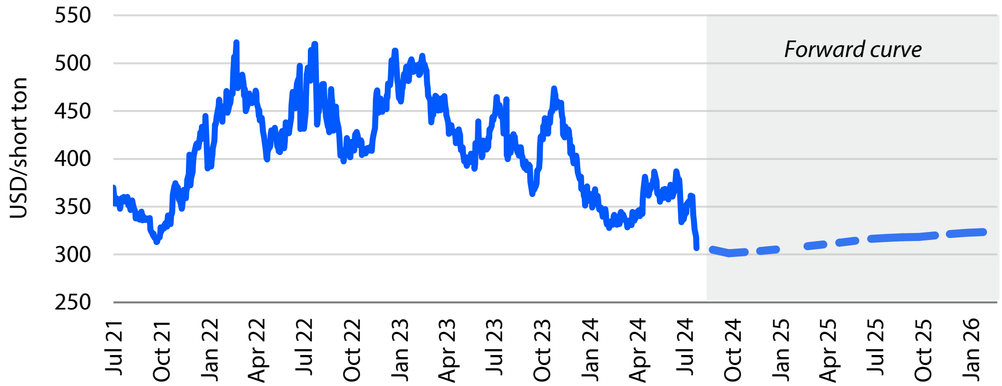
CBOT – Corn

Source: *CBOT, RaboResearch 2024*

CBOT – Soybeans

Source: *CBOT, RaboResearch 2024*

CBOT – Soymeal



Source: *CBOT, RaboResearch 2024*

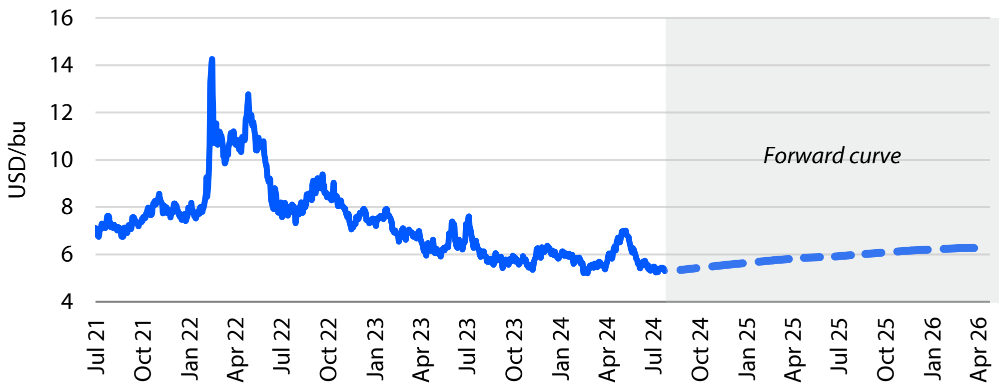
CBOT – Soy oil

Source: *CBOT, RaboResearch 2024*

Forward price curves

As of August 15, 2024

CBOT – Wheat



Source: *CBOT, RaboResearch 2024*

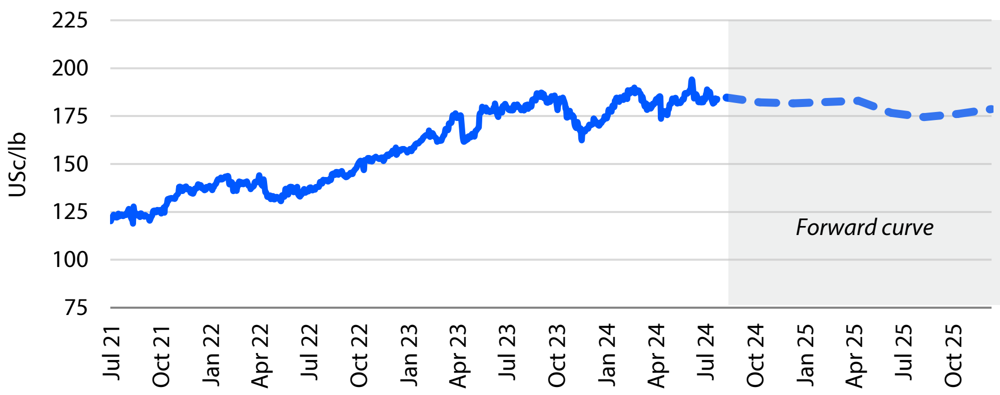
CBOT – Feeder cattle

Source: *CBOT, RaboResearch 2024*

CBOT – Lean hogs

Source: *CBOT, RaboResearch 2024*

CBOT – Live cattle



Source: *CBOT, RaboResearch 2024*

Forward price curves

As of August 15, 2024

ICE – #2 Cotton

Source: *ICE, RaboResearch 2024*

ICE – Cocoa

Source: *ICE, RaboResearch 2024*

ICE – FCOJ

Source: *ICE, RaboResearch 2024*

ICE – #11 Sugar

Source: *ICE, RaboResearch 2024*

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