



# RaboResearch Food & Agribusiness

## *North American Agribusiness Review*

August 2019



**Rabobank**

# Report Summary



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# Economy: Trade War Escalation

## US

- In light of the recent escalation of the US-China trade conflict, we now expect the Fed to make two additional interest rate cuts of 25 bps each before the end of the year.
- By taking a risk management approach to trade policy uncertainty, the Fed is amplifying the effect of trade policy on monetary policy. There is now a strong feedback loop between trade policy and monetary policy that will force the FOMC to make more interest rate cuts in the coming months, probably as early as September and October.
- We still think that the interest rate cuts won't be enough to avert a recession in the second half of 2020. According to our recession radar, the probability of a recession climbs above 50% in June 2020 and peaks at 81% in December 2020. Therefore, we expect the Fed to start a full-blown cutting cycle in 2020 that will bring the federal funds rate back to zero-bound before the end of 2020.

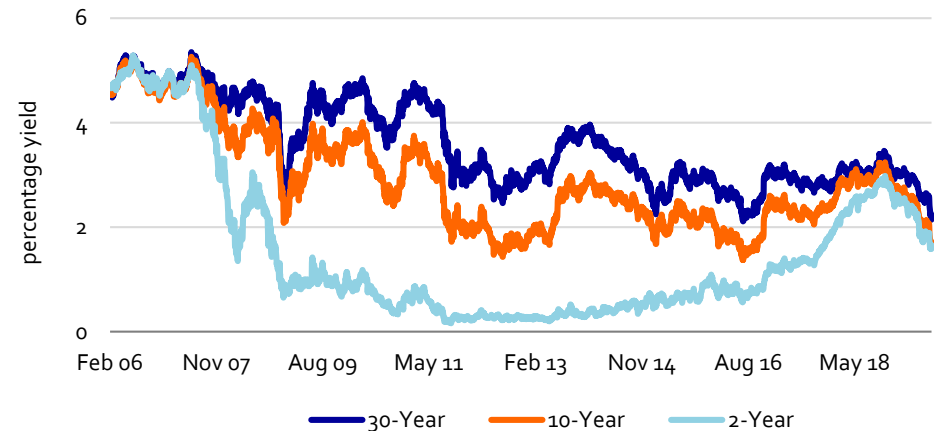
## Mexico

- Even with rising volatility and Banxico's recent rate cut, MXN is likely to remain the most attractive carry currency globally – when adjusting for volatility and liquidity – so we expect the currency to continue outperforming most others in the emerging market space.
- In terms of our USD/MXN forecast, the recent move in spot has pushed the pair above our 19.30 forecast from a month ago, and close to our 19.80 target for the end of Q3. Our forecast is for the pair to trade with a 20-handle heading into year-end, but, of course, we could get there much sooner.

## Canada

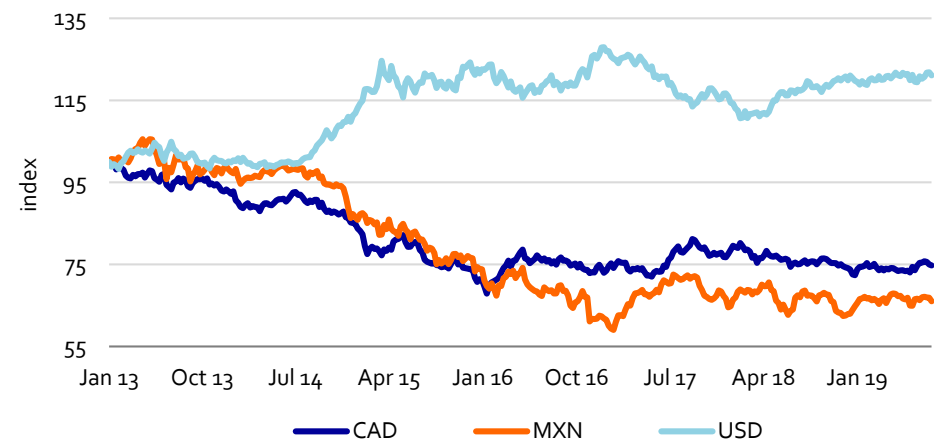
- In terms of the Bank of Canada, the decision to leave rates on hold at 1.75% on July 10 was expected by most, and, although the Bank showed increasing confidence following the dovish shift made earlier in the year, the Bank is clearly in data-watch mode at the moment. While we expect aggressive rate cuts from the Fed in 2020, we think the market has front-loaded rate cuts excessively. Therefore, we expect USD/CAD to rise to 1.36 at the 12-month horizon.

## Interest rates, 2006-2019



Source: Federal Reserve of St. Louis 2019

## Currencies, 2013-2019



Source: Bloomberg, 2019

Note: Rebased at 100 as of January 1, 2013

# Climate: From Too Wet to Too Dry

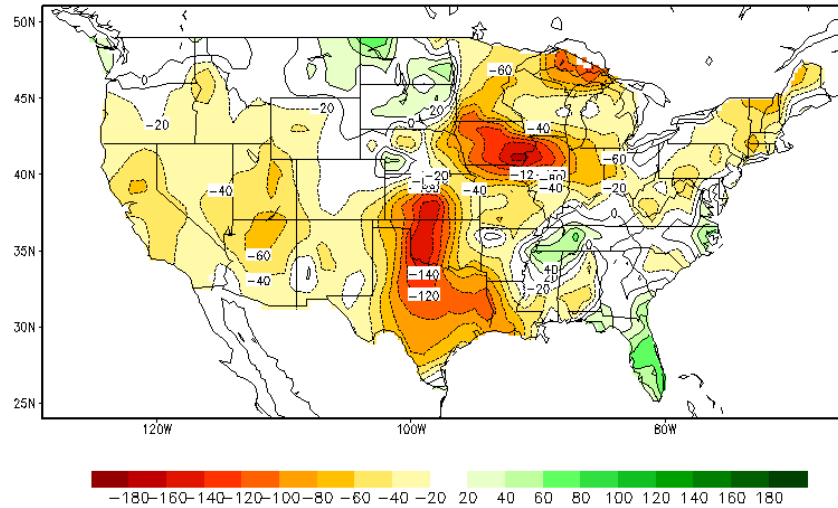
## US

- The weather pattern has made a big shift from too wet in some places to too dry now. Soil moisture across most of the Corn Belt and into the Southern Plains has seen a large decline. In many places, this has been welcomed and allowed flooding to recede. However, in some areas, it has started to become too dry. The ECB, where the weather began the season the wettest and is now starting to show some of the driest pockets, has been particularly hard hit.
- As the weather pattern warmed up in July and early August, it enabled Growing Degree Days (GDDs) to increase. GDDs are a measure of heat units needed for crops to develop. This current weather pattern is forecast to continue, which would be good to add GDDs and aid crop development, particularly given how delayed the corn and soybean crops are. Should the forecast change to a colder-than-normal pattern, the market will likely start to get excited. The crops in many of the states where plantings were delayed risk a frost before reaching maturity.

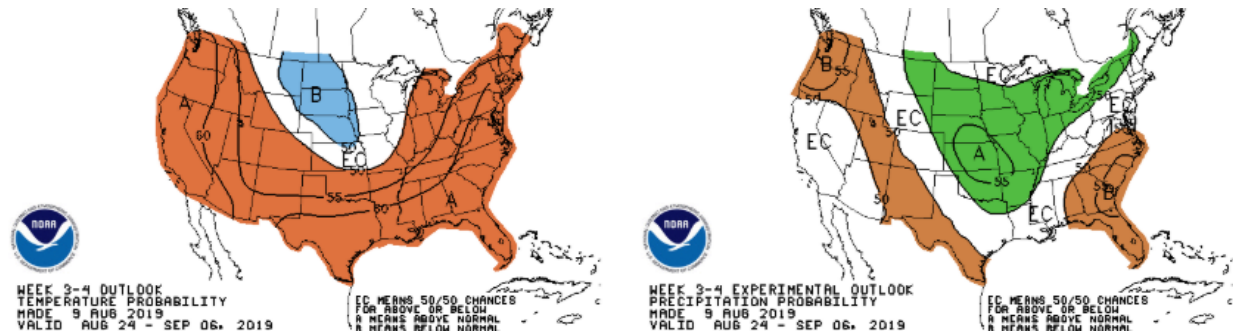
## Soil moisture in the US has steadily declined from the wet spring we saw (May'19-Aug'19)

Aug 13, 2019

Calculated Soil Moisture Anomaly Change  
AUG 13, 2019 from MAY 31



## The 3 to 4 week weather outlook is favorable for crop development: warm with above-normal precipitation



Source: National Weather Service, Reuters,  
NOAA National Centers for Environmental information,  
Agriculture and Agri-Food Canada, Rabobank 2019

# Agriculture Policy: Back on the Menu... For Now

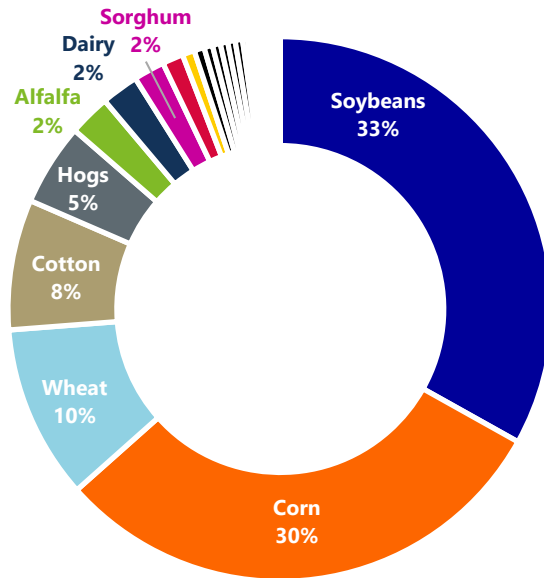
## Sector assessment

- The current environment of low crop prices and trade tensions with key US agri commodity trading partners is raising the importance of US ag policy.
- The second year of Market Facilitation Program (MFP) payments is broadly distributed to reach the majority of row-crop producers, with some benefit also provided to the dairy and hog sectors.

- The first disbursement of 2019/20 MFP payments is pushing US grain farm incomes in a positive direction, yielding a lower likelihood of negative farm income for many row crop-producing farms. If the full MFP payment would be made, it would push income into a much healthier range, but will not make up for producers' entire losses compared to a scenario without any trade issues.
- The prospect of a quick resolution to the US-China trade war is unlikely. It remains unknown if all three tranches of this second MFP will be paid and if there will be another MFP in 2020 (the Trump Administration has indicated it) – farming decisions and planning for 2020 need to be made as if there will be no MFP in the future.

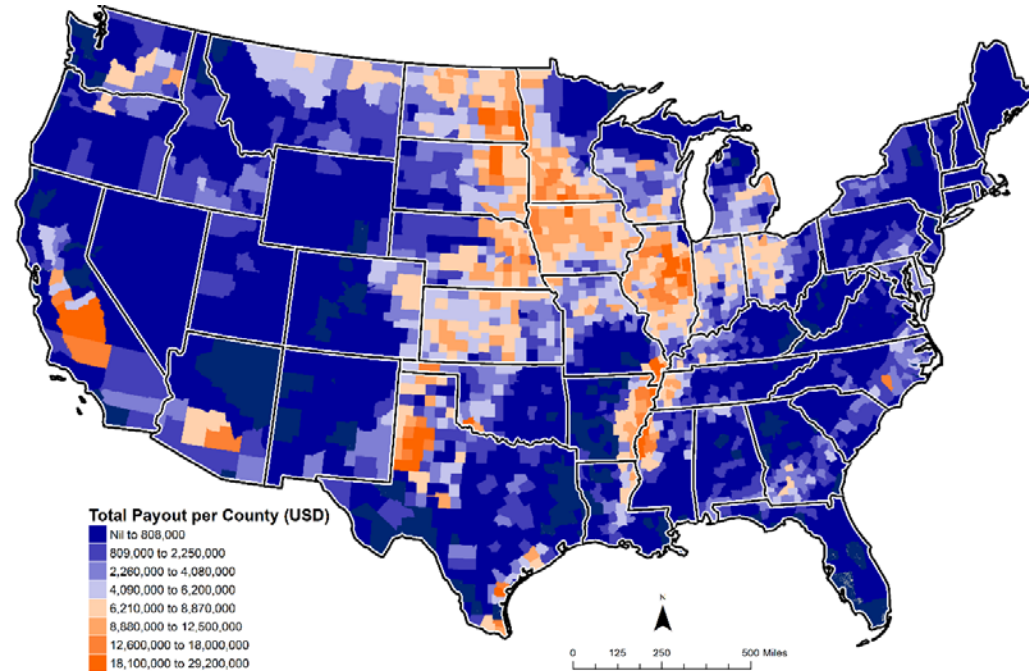
The full MFP Report [is available here](#)

## Estimated first 2019/20 MFP payments mostly going to corn and soybean farmers



Source: USDA, Rabobank 2019

## Estimated first 2019/20 MFP payment per county covers most major producing regions



Source: USDA, Rabobank 2019

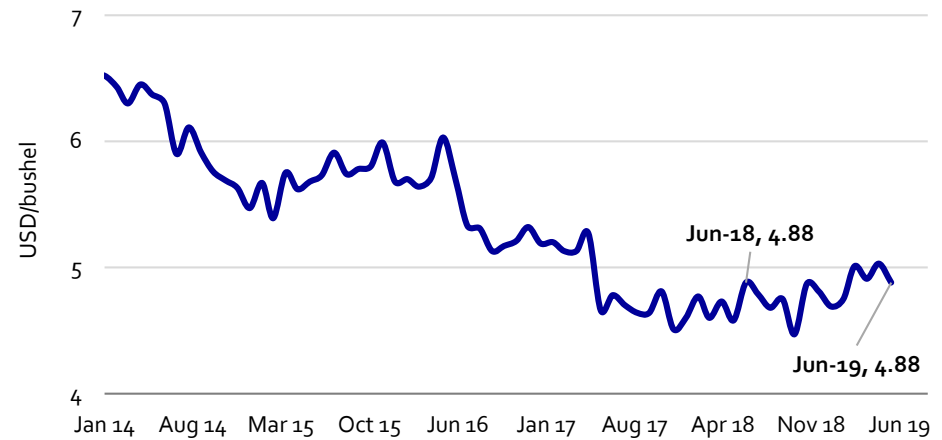
# Beer: The Fastest-Growing Malt Beverage Has No Malt



- The continued growth and explosive popularity of hard seltzer has been a revelation. In the first six months of 2019, data from IRI shows that Boston Beer sold more hard seltzer than they sold beer. The market leader in the category, White Claw, saw sales jump to USD 125m over the same period. The fizzy, inoffensive booze is definitely satisfying some pent-up consumer demand. Hard seltzer, unlike previous iterations of products in the flavored malt beverage category, isn't actually made from malt. It is made from sugar, which has less flavor, and it is gluten-free.
- The latest malting barley prices published by the USDA showed US farmers received, on average, USD 4.88/bu in June, exactly the same price they received in June of 2018.
- The Brewers Association released their mid-year craft volume update in early August. Despite fears of a slowdown, the volumes for independent brewers grew by 4%, the same growth rate of 2018. Independent brewers did lose one member from their ranks. AB InBev acquired Platform Beer in August - their first US craft acquisition since 2017. If you were wondering, yes, Platform Beer does have a hard seltzer brand.
- Virtually every year since 1992, Gallup has asked US consumers whether they prefer beer, wine, or spirits. And since 1992, beer has consistently been the top choice for a plurality of American drinkers. In the 2019 survey, 38% of respondents named beer as their favorite alcoholic drink, while 30% named wine. Liquor's popularity reached an all-time high, topping out at 29%.
- ZX Ventures, the growth and innovation group for AB InBev, sold Northern Brewer to Black Street Capital Holdings. ZX bought the homebrew supply retailer back in 2016. On our podcast, [Liquid Assets](#), we actually sat down with some guests from ZX Ventures to discuss the future of beer, hard seltzer, and their investment strategy, among other things. *Be sure to tune in on [iTunes](#), [Spotify](#) or just listen on [your desktop](#).*

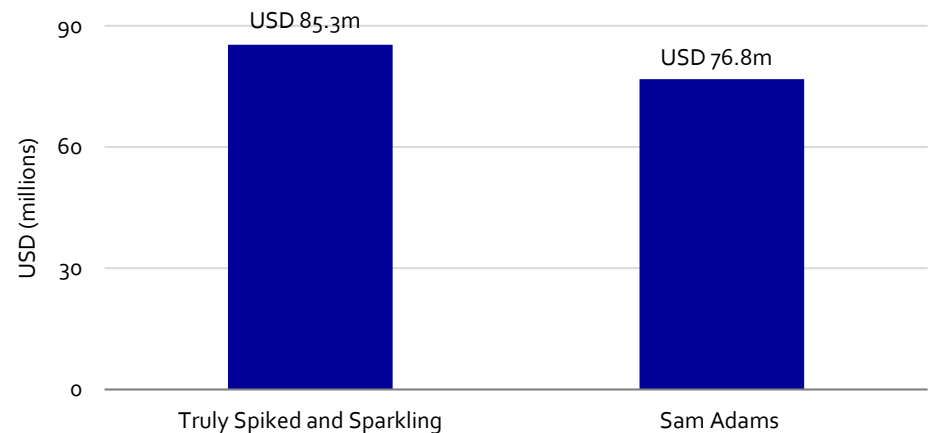
Source: IRI, WSJ, USDA, Gallup Brewer's Association Rabobank 2019

Historic US malting barley prices, Jan 2014–June 2019



Source: USDA, Rabobank 2019

Boston Beer sales: hard seltzer vs. beer, Jan 2019–June 2019

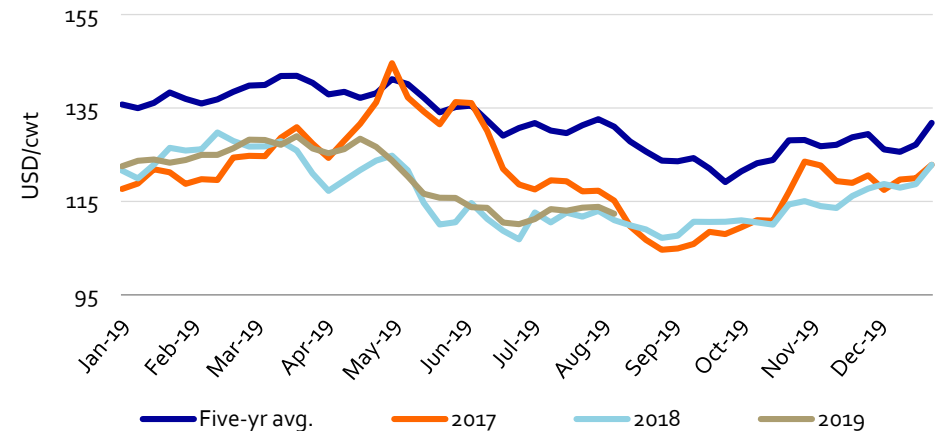


Source: IRI, Rabobank 2019

# Cattle: Tyson Fire Causes Market Meltdown

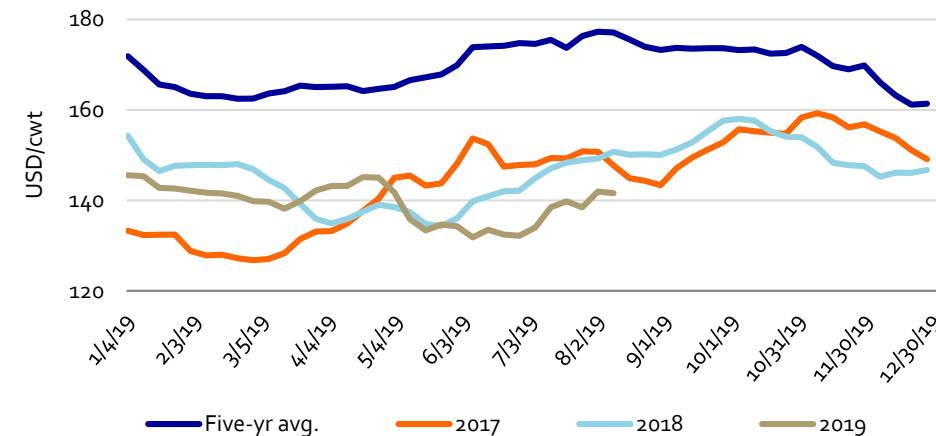
- Sometimes deadlines are a real inconvenience. As of this writing, the US beef complex is in complete disarray. On the evening of August 9, the Tyson beef plant in Finney County, KS burned. Daily capacity at the plant runs from 5,500 head/day to just over 6,000 head/day, accounting for 6% of US fed cattle slaughter. While no timeline for reconstruction has been announced, the most popular view is it will take from 90 to 120 days. Our view is that, before the fire, fed cattle slaughter capacity was running 94% to 96% of capacity. The unanswered question is: can Tyson and the other packers ramp-up Saturday slaughter capacity to compensate for the lost production and avoid a backlog of cattle over the next several months? Last week's cash trade was in a range of USD 110 to USD 113.
- We estimate that the price elasticity of demand for fed cattle, with respect to the reduced slaughter capacity, can expect a USD 10 price decline over the coming weeks. After two days of limit declines, the futures market has already factored in a USD 10 decline. For the week of Aug 12, early cash sales have been in a range of USD 105 to USD 107. Aside from the turmoil in the cash market, domestic beef demand has been exceptional. Exports have been slightly behind last year's pace, hampered by tariff disputes and the strength of the US dollar. While the short-term market is so full of uncertainty, it is not yet possible to make a meaningful call on price direction. The medium- and long-term markets look solid.
- Based on the aforementioned calculations of fed cattle prices, and assuming a direct pass through to the feeder cattle market, the value of big feeder steers could decline by as much as USD 16/cwt, and calf prices could decline as much as USD 20/cwt. That is holding price spreads between weight classes of cattle relatively stable. That assumption could be too severe on the price expectations for calves, because the reconstruction of the plant should be well-completed before the lighter weight cattle would be market ready. Given the expectation of lower prices, and the assessment that pasture and range conditions have been exceptional for the summer, calf sellers could be inclined to defer marketing. On August 12, the USDA NASS released the August crop report, which showed planted acres and early yield estimates were well-above trade expectations. Consequently, the deeper-than-expected decline in corn prices could stimulate buying interest in light-weight calves.

Fed steer prices (five-market average), 2017-2019



Source: USDA, Rabobank 2019

CME feeder index, 2017-2019

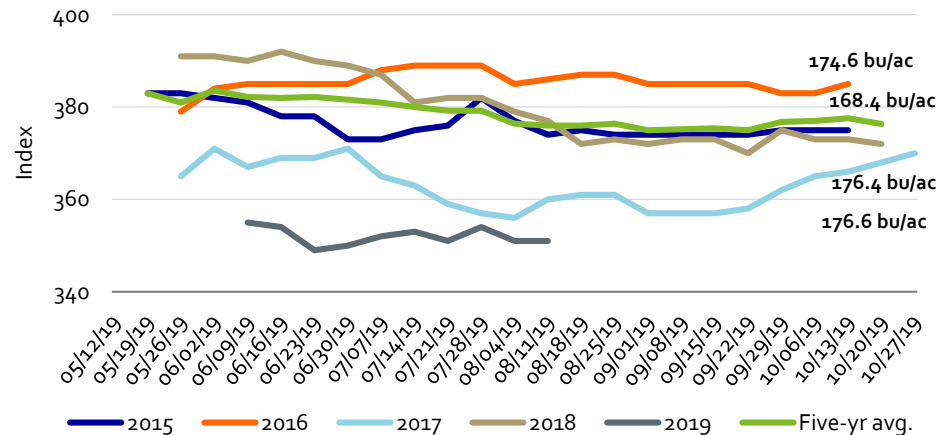


Source: CME, Rabobank 2019

# Corn: More Questions Than Answers

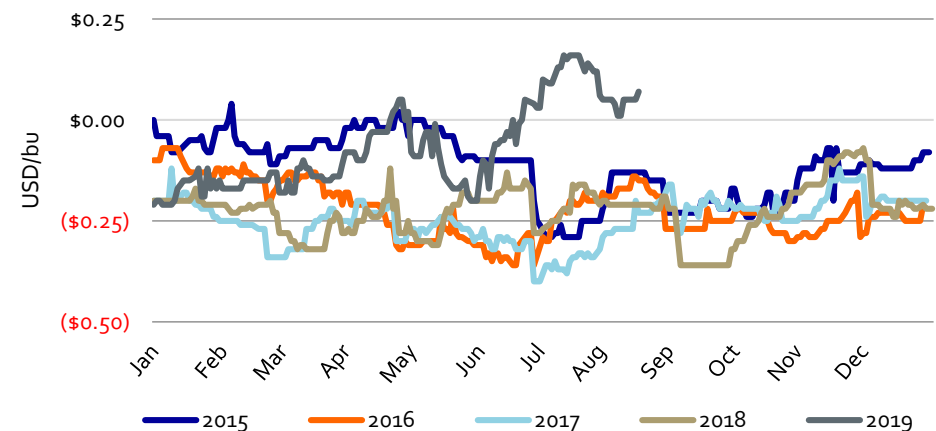
- It would be an understatement to say the past two USDA reports have created a few ripples in the market and raised more questions than answers. However, after the August 12 release of planted, harvested, and prevent-plant acres and a yield projection, the 2019/20 US corn ending stocks and national prices changed very little. The debate over planted, harvested, and yields is not going to be settled until the combines roll and the final numbers are reported in January.
- Corn planted acres of 90.0m appears too large when you have a record prevent-plant acres of 11.2m. And if mother nature had cooperated this spring, it does not mean that US farmers would have planted 101.2m acres. First, planted acres and prevent-plant acres come from two different agencies with different methodologies. Second, there is going to be some overlap between planted acres and claimed prevent-plant acres, as producers planted past the prevent-plant date. Third, there will be prevent-plant corn acres claimed that were never intended to be planted to corn this year, but the producer had the opportunity to claim them as corn prevent-plant acres. Finally, the USDA left the door open to revise planted acreage as more data becomes available.
- The USDA used a slightly reduced ratio of planted/harvested of 91.1%, compared to the five-year average of 91.8%. This ratio is likely to decrease, as many corn acres will not make it to black layer (physiological maturity) for grain harvest and will be harvested for silage.
- The variability in this year's crop makes it nearly impossible to estimate yield until harvest and until objective yield numbers are reported. The USDA did not use objective yields in the August report – only crop-condition rating and vegetative index data. In discussion with producers and seed corn producers, this summer, yield estimates range from 10% to 20% below last year's yields.
- Prices are expected to remain volatile. In 1993, December (CZ93) peaked in early July, nearly put in a new low in early September, and rallied to expiration – a not dissimilar pattern to this year. Basis values should be closely watched. Widening basis will be an indication that the crop is there. Conversely, narrowing basis will be a strong indicator that new crop corn supplies are lower than expected.

## Corn Condition Index pointing to a lower or higher yield?



Source: USDA-NASS, Rabobank 2019

## Corn Basis Values (Fort Dodge, IA) narrowed on supply concerns

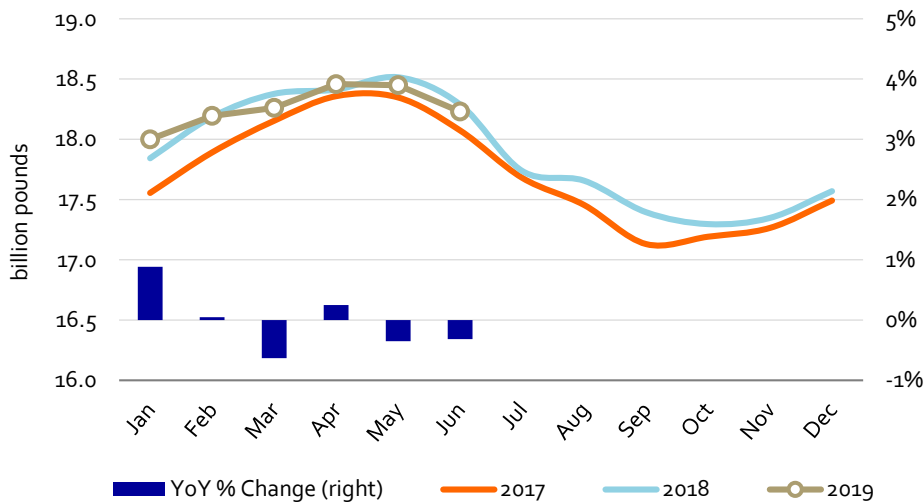


Source: DTN, Dow Jones, Rabobank 2019

# Dairy: Limited Capacity Restraining Expansion... For Now

- Milk production has flat-lined across the first half of 2019. Cow numbers are still lingering just above 9.3m, down 91,000 from a year earlier, as of the end of June. There is no sign of a rebound yet, and the limited production growth will continue to support higher milk prices.
- Meanwhile, the recent price strength has some producers looking to expand. However, finding processors or cooperatives willing to receive additional milk has proven challenging, resulting in limited opportunities for herd expansions, which will restrain milk production growth in the months ahead.

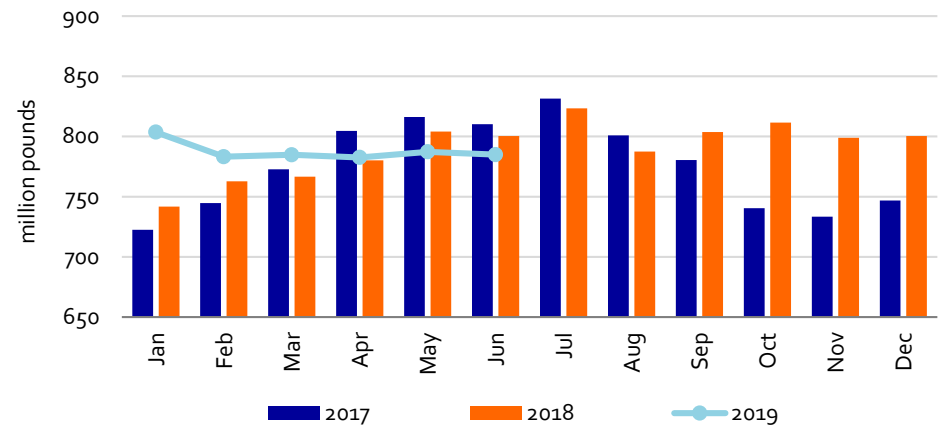
## US milk production (30-day months), 2017-2019



Source: USDA NASS, Rabobank 2019

- The latest round of MFP payments, as assistance for the damages to agriculture from trade disputes, includes a \$0.20/cwt payment to dairy producers. Rabobank estimates the MFP dairy payment to be between USD 370m and USD 380m, representing about 2.5% of the total agricultural package.

## American cheese stocks in all warehouses, 2017-2019



Source: USDA, Rabobank 2019

- June butter production fell by 14.5m lb, compared to the prior month, but stocks increased by 14m lb during the same period. At 327m lb, June month-ending butter stocks were still 2.6% less than last year; however, the atypical inventory build occurred when stocks normally decline or plateau, driving butter and class IV futures lower.
- At 785m lb, June 2019 month-ending American cheese stocks were nearly 2% lower than the prior year, and the lowest June stock level since 2016, which has supported the cash cheese market.
- Exports have increased in value, but decreased in volume by 14%, over the first half of 2019. Substantial volume decreases in whey products to China, as a result of both tariffs and African swine fever, and a slowdown in nonfat-powder exports have been offset by stronger exports in higher-value products, including cheese to South Korea and Southeast Asia. The US will continue to face heightened competition from other major exporting regions.

# Farm Inputs: Prices Flexing From Weather and Trade



## Sector assessment

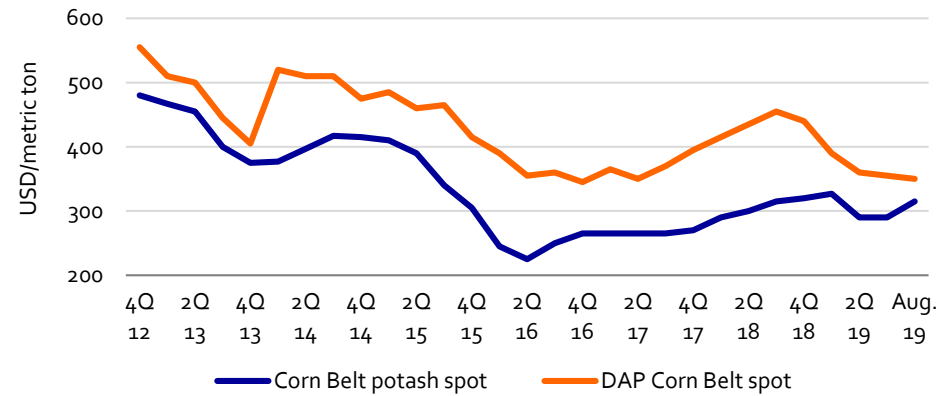
- A slew of farm input providers and agribusinesses released earnings over the recent days and weeks across a quarter that experienced a 'once in a generation' weather event in North America. With potentially historic levels of prevent plant seen across the Midwest, fertilizer providers saw their weak fall application window confounded by wet weather hampering spring volumes. Looking ahead, many companies have suggested corn acres are likely to rebound next year, as current corn stock-to-use ratios and heavy global supplies of soybeans continue to favor planting corn over soybeans. This portends well for nitrogen producers, who have seen ammonia prices roll down as low as USD 215 CFR Tampa spot, of late. Should farmers be looking for potential buying opportunities for fall and spring already? Input providers may be buoyed by the latest round of MFP payments, announced at the end of July, against a backdrop of poor farmer economics impacted by trade wars, weather, and overproduction.

## Fertilizers

- Domestic nutrient prices have trended downwards over the quarter, as weak demand and inventories gum up the works.
  - **Phosphates:** We believe that the US has struggled to absorb the import volumes from last year, and inventory levels in the channel remain inflated. There could be further downside to MAP/DAP prices through the course of 2019, as Chinese CNY devaluation could help Chinese input-producer profitability and support further production.
  - **Potash:** The market remains stable, in spite of anticipation of high fall demand, as farmers look to make up for the fall season bust last year. Irrespective of this, we believe that prices are likely to remain docile through the coming months.
  - **Urea:** Prices seem range bound for the foreseeable future, with the caveat that currency devaluation could have increased downward pressure on prices in a protracted timeline.

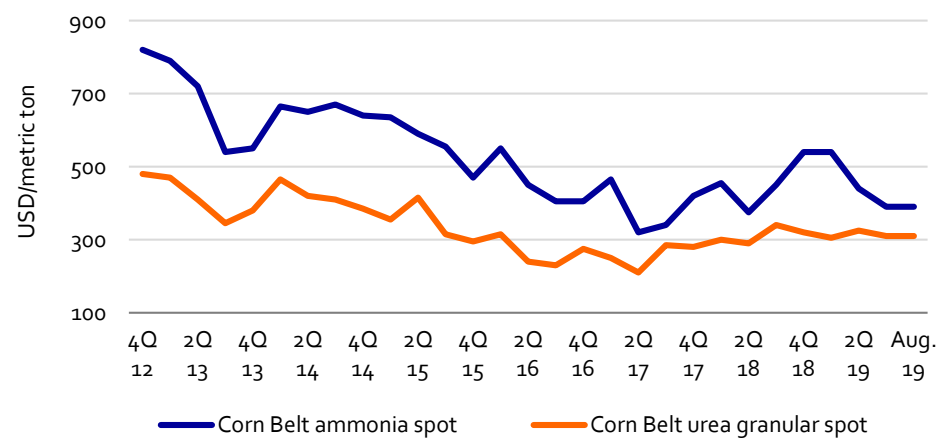
## Nutrient price highlights, 2012-2019

Corn Belt P and K spot prices, 2012-2019



Source: Bloomberg Green Markets 2019

## Corn Belt ammonia and urea prices, 2012-2019



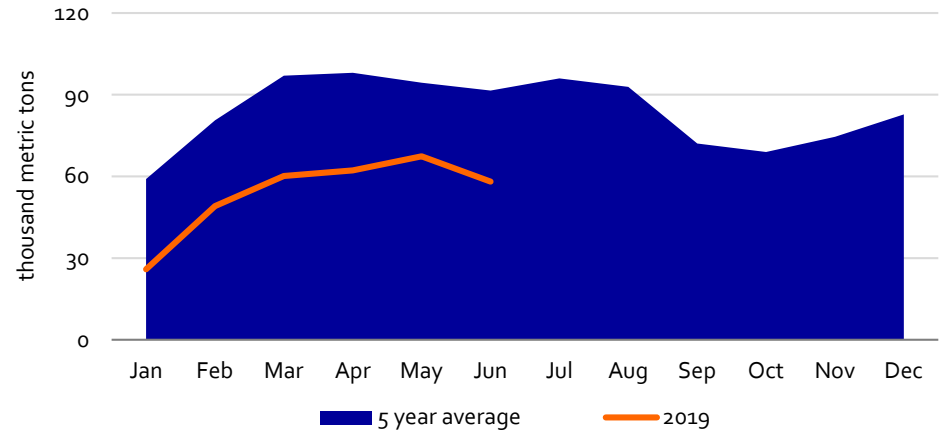
Source: Bloomberg Green Markets 2019

# Feed: Other Hay Buyers Picking up the Chinese Slack

## Hay

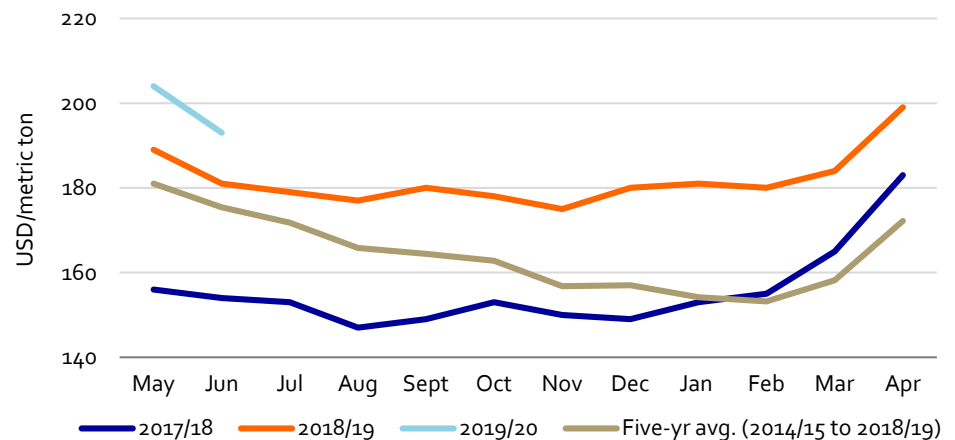
- As expected, US hay prices began to come down seasonally in June, as we got into the new crop season. Alfalfa prices peaked in May, which is not unusual, reaching the highest levels since August 2014, before drifting 5% lower in June. Alfalfa prices were still 7% higher in June YOY, and 10% above the five-year June average. Other hay prices came down 4% in June, but remained at historically elevated levels. Hoyt reported that prices for alfalfa delivered to California dairies in early August 2019 were in a slightly lower range than a year ago, but prices for alfalfa exported out of Washington and Oregon were significantly higher YOY.
- Through June 2019, US alfalfa hay exports were flat YOY, but 11% higher than the five-year average. Alfalfa exports to China were down 14% in June vs. May, down 36% vs. June 2018, and annual exports to China through June are down 39% YOY. The drop in alfalfa exports to China are offset by strong export growth to Japan and the UAE, with exports up 25% and 170%, respectively, through June. Exports to Saudi Arabia and South Korea are up slightly YOY.
- Other hay exports were up 3% through June, as increases to Japan and the UAE have offset declines in shipments to China and South Korea.
- Reports indicate that China is pulling more hay from other exporting countries, as the ongoing trade situation with the US has not improved. This creates a 'musical chairs' effect, which means that other exporters are short on product for markets other than China (e.g. the UAE market), which allows the US to fill that market gap.

## US hay exports to China and Hong Kong



Source: USDA FAS, Rabobank 2019

## US alfalfa hay prices, 2017/18-June 2019



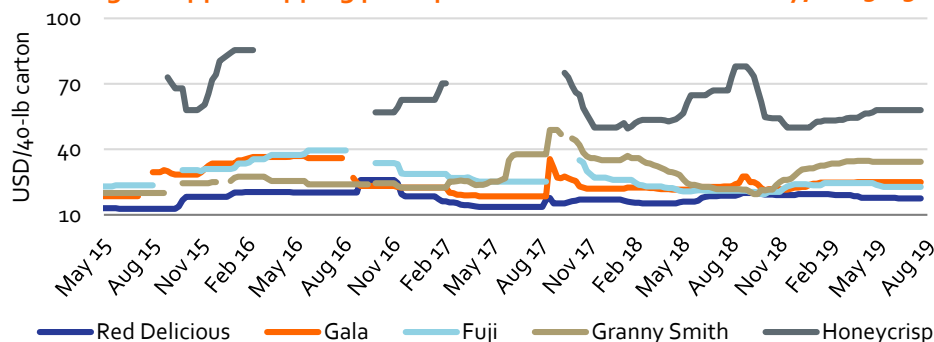
Source: USDA NASS 2019



# Fruits: Some Prices Are Cooling Off

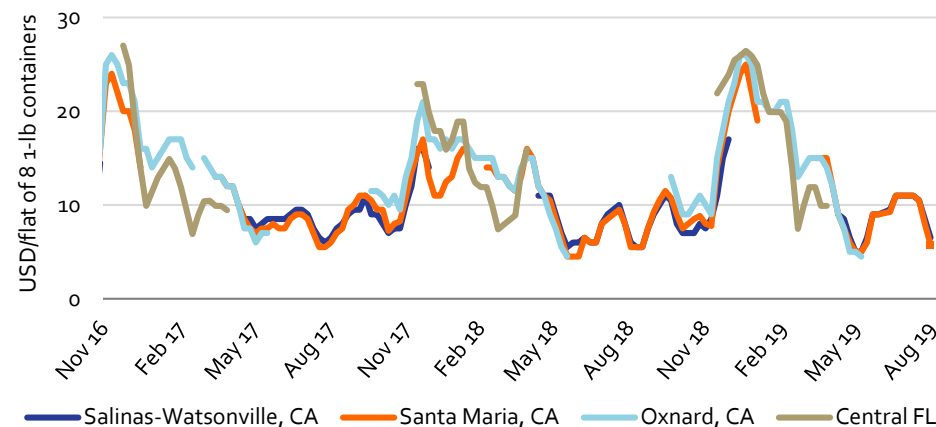
- Strawberry shipments YTD out of Salinas/Watsonville are off about 25% YOY. During June and July 2019, average prices were up 32% YOY. During the first week in August, prices were at the lowest level since the beginning of May. Shipments out of Santa Maria continue to be up YOY, and above industry expectations. Prices should strengthen in the coming weeks, as CA harvest will be declining.
- A good pear harvest is starting in the Northwest, expected to be right above the five-year average in volume. Table grape harvest is ramping up in Central CA, and is expected to reach 112.4m boxes, down 3% from last year's bumper crop.
- Mid-sized CA avocado prices came down from USD 76/carton, during the first week in July, a multi-year high price for that time of year, but still up 45% YOY in the first week of August. As the new season ramps up, shipments out of Mexico have recovered from their July lows. Year-to-date shipments out of CA are down 45%. Harvest reached its peak in late July and will gradually decline from now on. As the US avocado market will seasonally rely on shipments from Michoacán in Q4, any potential supply disruption in Mexico (mainly weather related) will impact US prices.
- CA lemon prices started the 2018/19 season at multi-year highs and ended at multi-year lows. Early in August, prices for mid-sized lemons were down 37% YOY and 26% compared to the five-year average. CA production recovered from last year, and imports increased over 100% YOY during 1H 2019. More imports are expected during the rest of the summer to offset seasonally-low domestic supplies.
- In a trade-stressed environment, the WA apple industry expects an abundant 2019 crop, up about 18% YOY, with a good mix of varieties for today's market, including the first commercial volumes of Cosmic Crisp apples.

## Washington apple shipping point prices – 88s – WA Extra Fancy, 2015-19



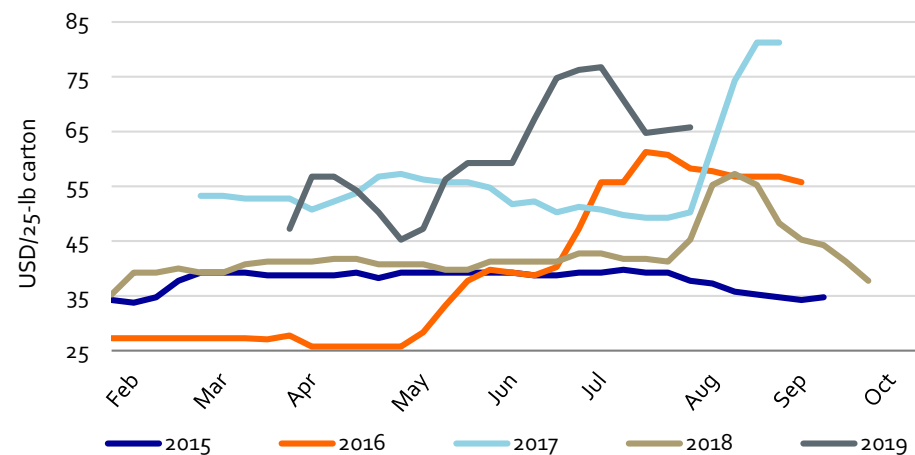
Composite of fine appearance and standard appearance prices  
Source: USDA AMS, Rabobank 2019

## Strawberry shipping point prices – primary US districts, 2016-2019



Source: USDA AMS, Rabobank 2019

## California Hass avocado shipping point prices – 48s – 2015-2019

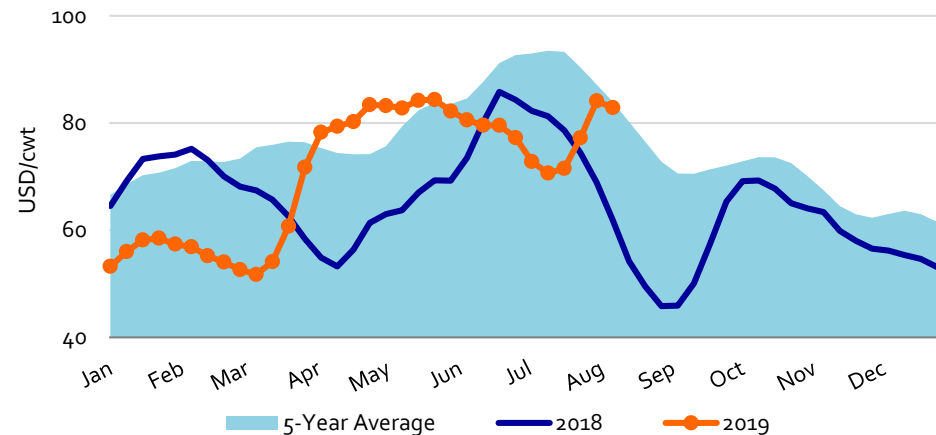


Source: USDA AMS, Rabobank 2019

# Pork: Export Uncertainty Weighs on Markets

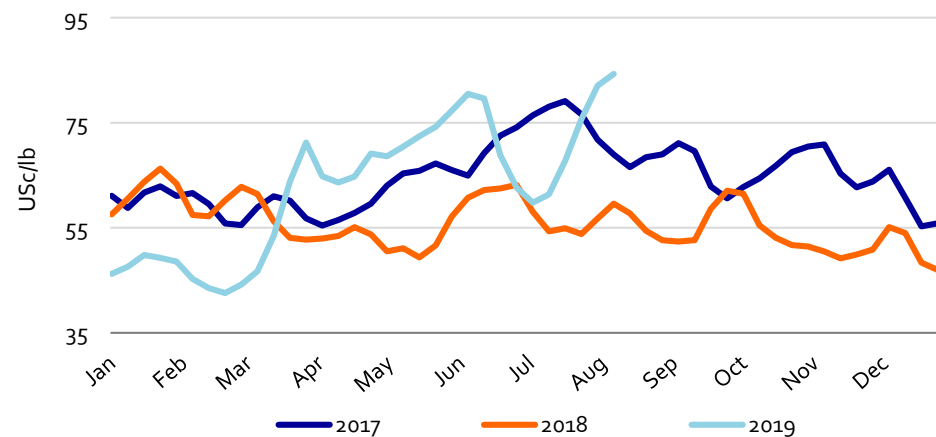
- Lean hog prices have been volatile, reacting to the on-again, off-again trade war with China. Currently in-line with the five-year average, and 34% above a year-ago, lean hog prices remain well supported. Strong pork prices and expectations of improved export demand later this year have sustained packer interest and driven better-than-expected lean hog values in recent weeks. We expect seasonally lower hog values through October, but acknowledge that recent disruption in cattle slaughter (due to the Finney County plant fire) and stronger export demand will keep packer interest high. Rising herd losses in China and Southeast Asia and new outbreaks in Eastern Europe are expected to drive significantly better exports through the second half, despite limited progress on a formal trade deal. Rabobank continues to forecast export-led strength in lean hog values, despite record-high hog slaughter in late Q3/early Q4.
- Producers reined-in plans to expand their herds, after a challenging planting season heightened feed cost uncertainty. Producers tightened their focus on feed conversion and reducing mortality, to address rising production costs, even as the USDA's August 12 crop report drove corn prices lower. We continue to see facility upgrades (particularly where there are potential biosecurity concerns), but do not anticipate widespread expansion. We forecast 1.8% growth in the sow herd in 2H 2019.
- Pork prices have strengthened, as good demand and improving exports tightened availability. The lifting of the tariffs on pork exports to Mexico substantially strengthened ham values in recent weeks. Stronger ham values will help boost packer returns through 2H 2019.
- Mexican exports of pork are 23% higher, January to May of 2019, compared to 2018. While traditional export markets, like Japan and South Korea, are increasing their demand for Mexican pork, exports to China are 215% higher from a year ago. So far in 2019, exports to China are 5% of total Mexican exports of pork.

US lean hog prices, 2018-2019



Source: USDA, Bloomberg 2019

Ham composite value, FOB plant, 2017-2019

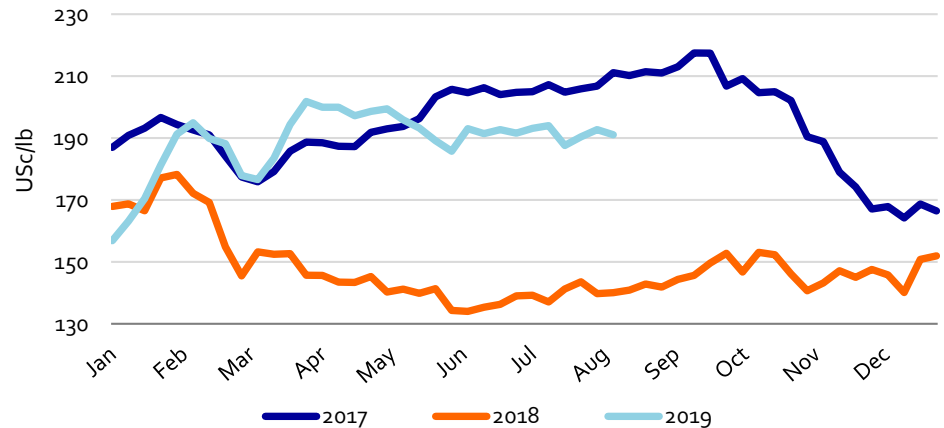


Source: USDA 2019

# Poultry: Exports Lift Returns, Breast Meat Struggles

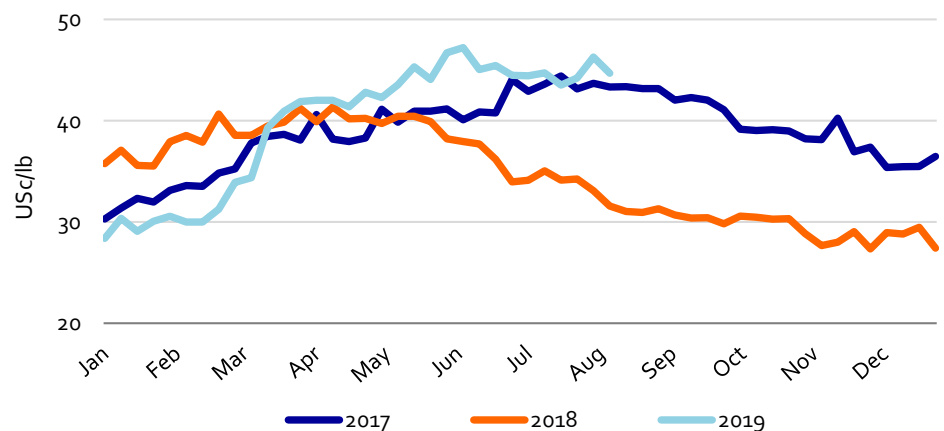
- Broiler meat prices were disappointing for much of the summer, as production ran well-ahead of expectations. A 3.1% YOY gain in average bird weights overwhelmed the domestic market, pressuring values of breast meat (-10% YOY) and tenders. Lackluster retail feature activity further compounded the price weakness. We expect weights to normalize in the coming weeks, with production projected to average 2% ahead of year-ago levels through 2H 2019. Even with projected weakness in breast meat pricing, integrators remain profitable, based on estimated feed costs of USc 24/lb.
- Wing prices continue to surprise on the upside (+36% YOY) and are expected to remain strong on projected foodservice demand. Likewise, leg quarter prices are better-than-expected and remain slightly ahead of year-ago levels. Good export demand (particularly from Mexico) remains supportive to composite chicken values, offsetting projected weakness in breast markets. We expect 2H 2019 leg quarter prices to remain above year-ago levels but to trend lower seasonally.
- Export volumes through 1H 2019 were up modestly (+1% YOY), driven by a gain in shipments to Mexico, Cuba, and Vietnam. June shipments were lower (-1% YOY), while total sales rose 4.2% YOY, driven by the strength in leg quarter prices. The USDA reported a notable improvement in June sales to Hong Kong and Vietnam, tied to ASF-fueled demand, although sales to Mexico fell (-1% YOY), as demand softened at the higher price. We do not expect China to reopen to US chicken in the near term, but acknowledge that the situation remains fluid.
- The USDA's favorable August 12 crop report provided temporary relief from the threat of skyrocketing feed costs, although disappointing corn yields (and higher corn prices) remain a likely concern.
- Whole chicken prices in Mexico continue to increase, as avian influenza left a gap in some regions, bringing national average whole chicken prices 20% higher than a year ago. Currently, whole chicken prices are at MXN 44/kg, while a year ago, prices were at MXN 36/kg, according to the latest report from the government.

US whole wing prices, 2017-2019



Source: USDA, Rabobank 2019

US leg quarter prices, 2017-2019

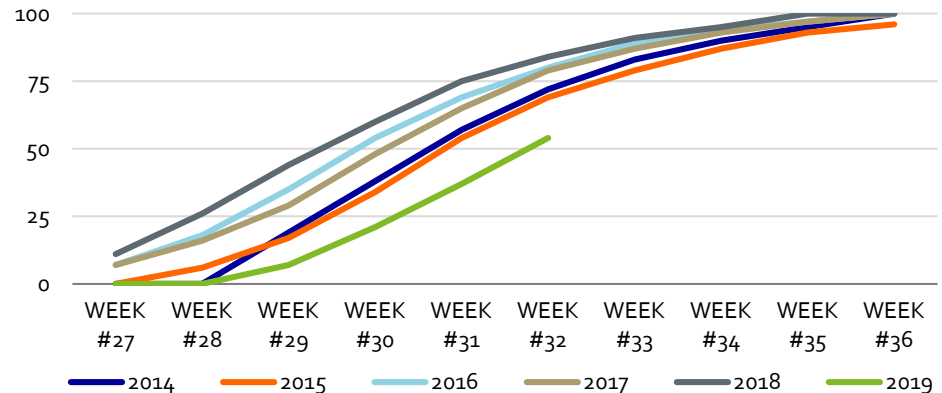


Source: USDA 2019

# Soybeans: September Is the New August

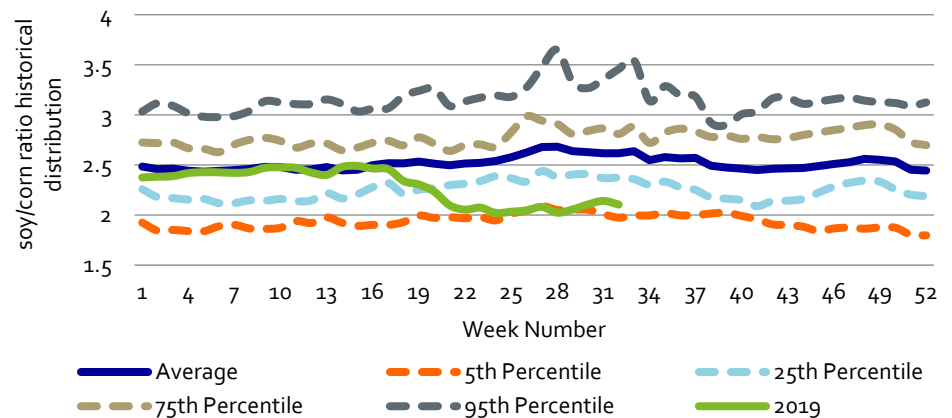
- Weather uncertainty will continue to be a short-term market driver for soybeans, but, in the longer term, bearish fundamentals will keep the lid on soybean prices.
- The US soybean crop is only 54% setting pods, which is the lowest for this time of year since 1996, and well-below the five-year average of 76%. The weather pattern has been relatively favorable in many of the western soybean-producing states, which is offsetting some of the expected losses in the ECB. For instance, crops in some states in the ECB are reported at less than 40% good/excellent which is dragging the national average down to 54% good/excellent, compared to a normal 66%.
- Because the crop is so delayed, the weather and how it impacts the crop will play a more important role than usual, as we end the month of August and move into September. The USDA's August Crop Production report gave a national soybean yield of 48.5 bu/acre, which was unchanged from the July WASDE but down 3.1 bu/acre YOY. Objective yield data, which is typically available in August, will not be published by the USDA until September.
- The trade dispute with China has escalated, as President Trump announced new tariffs after China failed to make 'big' purchases of US agricultural products. The US is offering the world's cheapest soybeans, but the world's biggest buyer is not taking them, due to their 25% tariff on US soybeans. A smaller crop from South America, due to higher corn plantings next season, could give some reprieve, but that is a long way out.
- The negative impact of African swine fever (ASF) is increasing, as expectations for China's hog herd declines grow, and expectations for China's soybean imports decline. This year (2018/19) is the first year, in more than 10 years, that global soybean import demand is expected to go down. Even though destinations other than China are continuing to increase their imports of soybeans, it is not enough to offset China's drop. Until there is some sort of trade resolution with China, this will remain negative for the US soybean market.
- Soybean prices will be driven by the corn market and weather this month. The soy-to-corn price ratio dropped below 2.0 as corn prices rallied. This reduced the financial incentive for farmers to plant soybeans. The soy-to-corn price ratio found support around the 2.0 level, and soybean prices began to move higher, despite bearish fundamentals. This relationship still remains low, which will keep soybean prices hinging on the corn market.

## The US soybean crop is progressing at the slowest rate since the 1990s Share of the soybean crop setting pods, 2014-2019



Source: USDA, Rabobank 2019

## The soy-to-corn price ratio fell to about 2, the bottom of the 20-year range



Note: Fan plot contains 20 years of weekly C/S Ratio  
Source: Rabobank 2019



# Tree Nuts: Going Nuts About the Trade War Yet?

**Almonds:** Shipments for the 2018/19 marketing season are up 0.1% YOY through June. Exports, accounting for 68% of US shipments, are down 0.1% YOY, while domestic shipments are up 0.5% YOY. US exports to China and Hong Kong are down 26% YOY. Through June, 82% of total US supply was sold, heading into tight inventories at season end. The 2019/20 harvest has started. The USDA objective estimate for the California crop is 2.2bn lb, down from a subjective forecast of 2.5bn lb and down 3.5% YOY. This should strengthen prices to about USD 2.90/lb, under normal conditions. But, the Chinese market for US almonds (9% of exports) remains uncertain at this point.

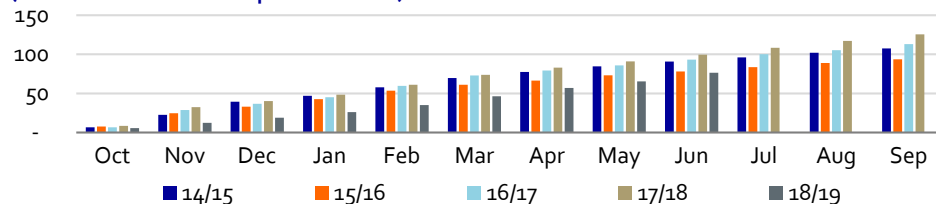
**Hazelnuts:** Season shipments through June 2019 were up 10% YOY. About 73% of the 2018/19 crop was sold. After a bumper crop in 2018/19, Oregon growers expect a record-breaking crop in 2019/20. As global inventories are currently at a manageable level, price outlook is better than last year's, despite tariffs, according to industry sources.

**Walnuts:** Total shipments for the season through June were up 10% YOY. About 84% of 2018/19 supplies were sold by June. Exports increased by 7% YOY, and domestic shipments grew 16% YOY. Exports accounted for 67% of US shipments. California walnut farmers, as well as other tree nut growers, will get minimal relief from the MFP.

**Pistachios:** Tariffs had not slowed shipments through June, which continued at a record pace, up 24% YOY. Domestic in-shell shipments have increased by 6% YOY through June, while exports have grown 30%. China and Hong Kong remain the primary market for US pistachios. Combined US exports to China, Honk Kong, and Vietnam account for 45% of US pistachio exports. As CA expects an exceptional 'off' year crop in 2019/20, the intensifying trade war with China may put unexpected pressure on our price outlook.

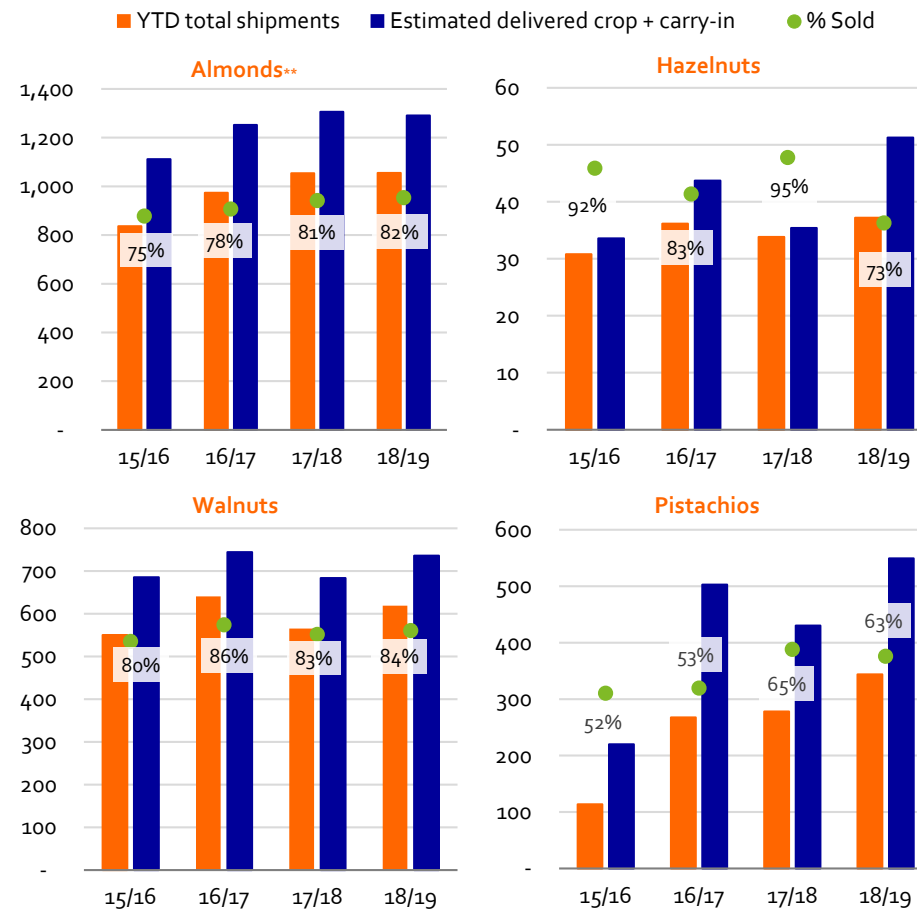
**Pecans:** US pecan exports through June are at a five-year low and down 23% YOY. Exports to China and Hong Kong have declined about 60% YOY during 1H 2019, while exports to Canada and the EU have remained strong. Exports account for 33% of US shipments. Pecan growers are also eligible to receive USD 146/acre from the USDA, due to trade wars.

## Cumulative US pecan exports (thousands of in-shell equivalent tons)



Source: USDA FAS, Rabobank 2019

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

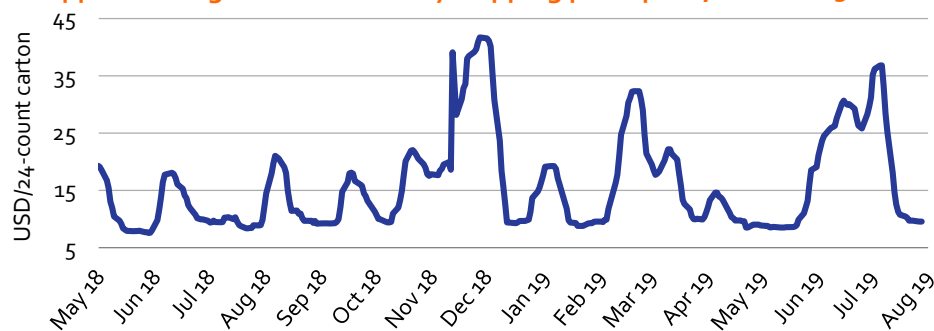


Source: Administrative Committee for Pistachios, Almond Board of California, California Walnut Board, Oregon Hazelnut Industry, Rabobank 2019  
\*Through June 2019 \*\*Meat pound equivalent. \*\*\*Not considering inventory adjustment/loss

# Vegetables: Summer Heat Brought Hot Prices

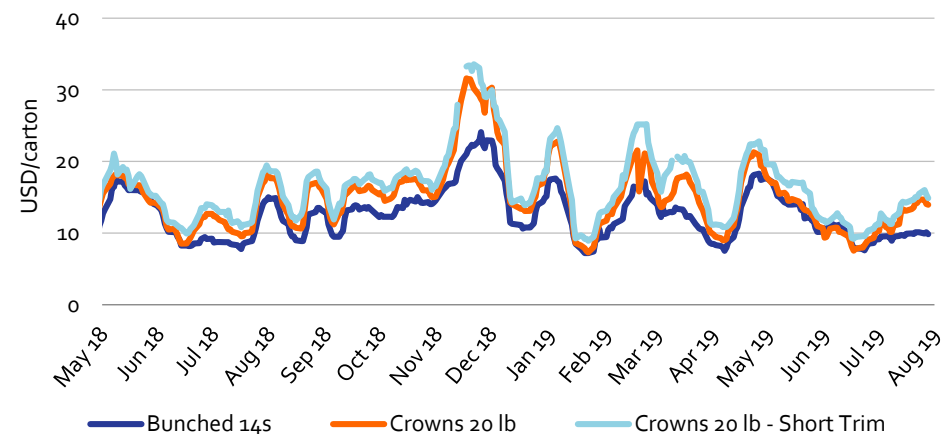
- Romaine lettuce prices tripled, as a heat wave impacted the main growing regions in CA during late June and early July. During the first week of August, prices have come down, as supplies and quality have improved, but are still up 42% and 106% YOY for 24s and romaine hearts (12x3), respectively. Supplies will continue to improve.
- Despite the recent downward trend, iceberg lettuce prices were up 7% YOY during the first week in August, to around USD 10/carton for wrapped 24s. After the heat wave, shipments out of the Central Coast in CA are back to normal levels in mid-season. We expect ample supplies in the market to face increased back-to-school demand.
- In early August, broccoli prices were down about 20% YOY, depending on the specific product, with bunched 14s priced 31% lower YOY. Shipments temporarily declined over the last few weeks. Quality is reported to be fair and expected to improve. Cauliflower prices remain strong, at about USD 17/carton, up over 100% YOY in early August. Sweet potato prices in North Carolina will end 2018/19 at multi-year highs. US No. 1 prices, at USD 21.25/carton, are up 57% YOY in early August.
- After several proposals, industry sources report that negotiations towards a new tomato suspension agreement between the US government and growers/exporters from Mexico are moving in 'the right direction'. US importers of Mexican tomatoes have paid a preliminary 17.56% duty since May 7th. From its dumping investigations, the DOC has calculated a 25.28% compensatory duty that may come into effect later this year, should no new suspension agreement be reached. The US government is expected to release the results of the dumping investigation in September.

## Wrapped iceberg lettuce – US daily shipping point price, 2018-2019



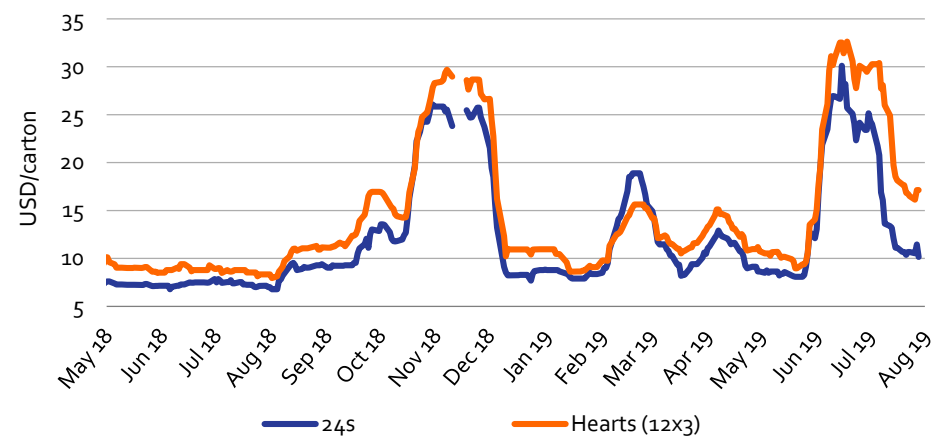
Source: USDA AMS, Rabobank 2019

## Broccoli – US daily shipping point price, 2018-2019



Source: USDA AMS, Rabobank 2019

## Romaine lettuce – US daily shipping point price, 2018-2019

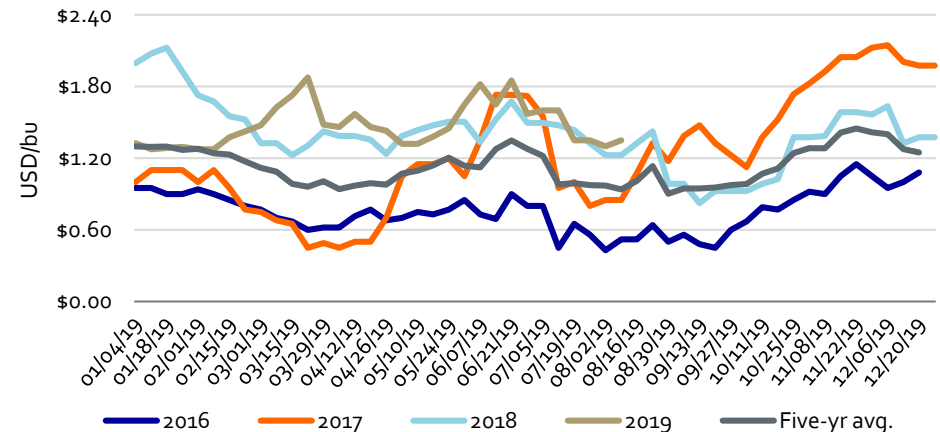


Source: USDA AMS, Rabobank 2019

# Wheat: Opportunities in Wheat – High Protein and Exports

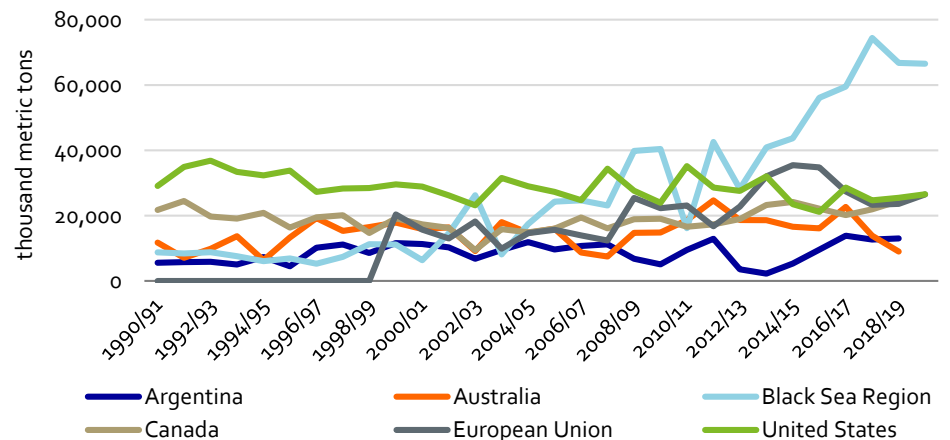
- Despite less favorable conditions for this year's US winter wheat crop – wet fall planting season, harsh winter, and extremely variable growing conditions this spring – US production was 1.326bn bu, +12.0% higher than 2018 production. In addition, US all-wheat ending stocks are expected to remain above 1.0bn bu, and this is a recipe for continued pressure on wheat futures prices.
- As discussed previously, while 2019 production is good, the quality (protein content) is suspect. There is no 'official' published data yet available on protein content of this year's crop, particularly HRW. Early reports peg this year's HRW crop below 11.5% protein content, similar to 2016 and 2017. Currently, 12% protein premiums in Kansas City are above 2016, 2017, and 2018. The Minneapolis/Kansas spread stands at USD 1.12, higher than all previous years except 2017. This spread is a good indicator of demand for protein, but may not reach 2017 levels due to more than adequate supplies of HRS. High protein wheat will be in demand this year and will keep protein premiums elevated vs. 2018.
- US wheat exports are the bright spot. According to weekly export inspections, for the week ending August 8, US wheat exports are running 21.7% ahead of the last crop year's pace. Seasonally, the first five months of the crop year (Jun-May) are usually the heaviest months for US wheat exports. However, this year may see an extension of the period for US exports.
- Global wheat supplies are forecast to be down 4.5mmt in 2018/19. This is the result of decreased production in several major wheat-exporting countries. Production is projected to be down in Turkey, the EU, Kazakhstan, and Russia – by 2.0mmt, 1.3mmt, 1.0mmt, and 1.2mmt, respectively. While current forecasts are projecting an increase in Australian production, the 31-month drought (Jan 2017-Jul 2019) has persisted over much of southeastern Australia, resulting in record-low rainfall deficiencies. A second year of decreased Australian production will potentially provide opportunities for US wheat into Southeast Asia.
- US wheat export prices remain in the middle of the pack vs. other wheat exporters. The EU and Black Sea are most competitive in the world, as a seasonal increase in supplies puts pressure on prices.

## Kansas City protein premiums



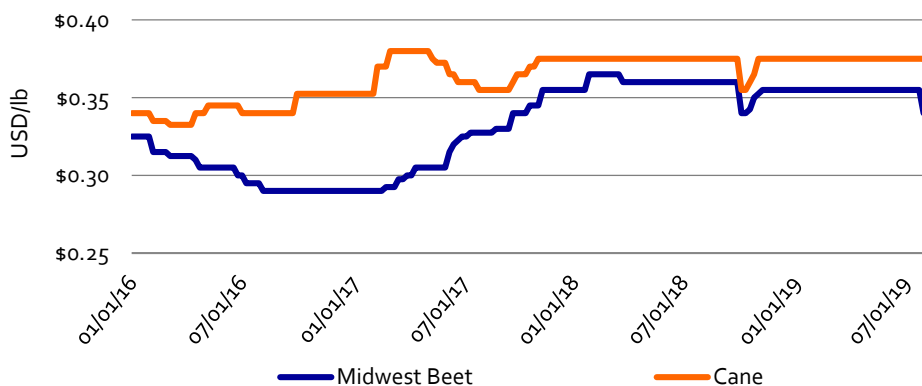
Source: Sosland Publishing, Rabobank 2019

## Shortfall in exporters' production provides opportunity for US



Source: USDA-FAS, Rabobank 2019

- The USDA's first season crop production estimates see increases in sugar beet production, but a decrease in sugarcane production. Sugar beet crop conditions vary widely from a year ago due to late planting and weather. Production concerns remain in southern Minnesota – due to late planting in wet conditions (for the second year) – and Michigan. Louisiana cane production is forecast to be down 2.7%, due to wet conditions and lingering damage from Tropical Storm Barry. As with other crops in the August Crop Production report, this may be the highest forecast as a result of crop production issues this year.
- Modest adjustments were made to the 2019/20 US sugar balance sheet. The bottom line is that ending stocks and the stocks-to-use ratio were increased slightly. However, a stocks-to-use ratio of 13.7% is still in the lower range of the USDA's target. Increases in supply came from increases in production forecast and the TRQ. On the demand side, food deliveries were increased 50,000 STRV.
- US sugar prices have dipped, and new crop supplies are coming into focus. However, those prices are likely to be short-lived. Bookings for 2020 have been good this summer, with beet sellers reporting to have 60% to 75% sold for next year – while cane sellers are reportedly comfortably sold as well. With strong bookings and a tight stocks-to-use ratio, offers prices will continue to strengthen.
- High bookings will translate to higher prices



Source: USDA, Rabobank 2019

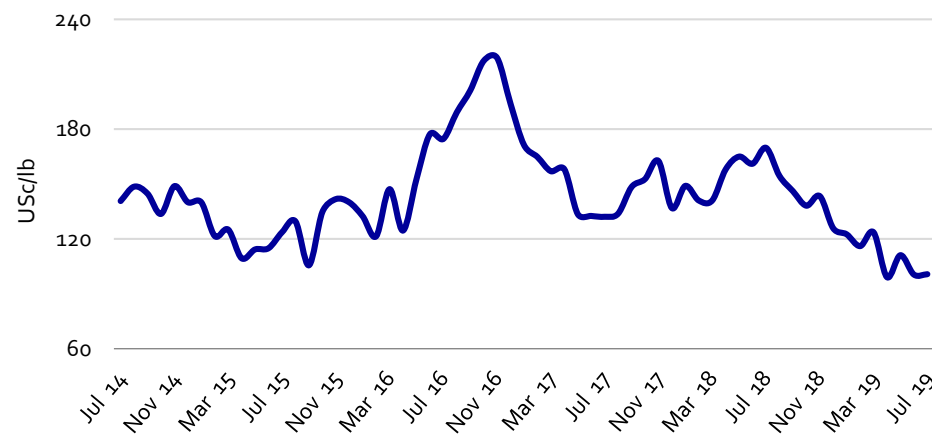
## Florida orange juice

- The USDA still predicts Florida to produce 71m boxes of citrus in the 2018/19 season – a huge increase over the 45m boxes produced in 2017/18, when Hurricane Irma ravaged Florida's citrus groves (though down slightly from the previous forecast of 77m).
- Expectations for the 2019/20 crop are for a slightly smaller harvest – though it is still early for a clear read on the crop

## Brazilian orange juice

- According to Fundecitrus, the Brazilian orange juice estimate for the São Paulo and Minas Gerais regions is 389m boxes for 2019/20, up significantly from the previous harvest of 286m boxes. This large crop is putting significant pressure on FCOJ prices.
- Exports for the 2019/20 crop are also expected to increase by 16% over the previous year, to 1.217m mt.

## FCOJ futures, 2014-2019

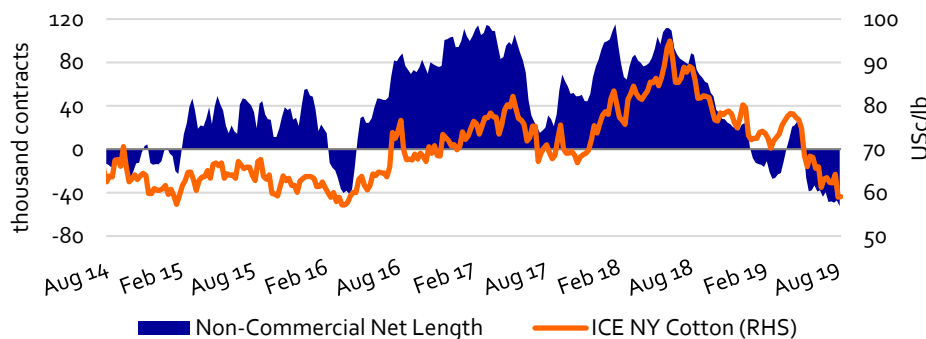


Source: Bloomberg-ICE, Rabobank 2019

# Cotton

- Negative trade rhetoric drives more pressure onto the ICE #2, with December 2019 prices sinking below the 60 USc/lb level. The reason is two-fold: 1) escalation in the US-China trade war has removed all remaining optimism that China could buy US cotton in the short term, and 2) improving cotton crop conditions emphasize huge incoming domestic stocks. Given the negative news, non-commercials have piled into the short side, with a record -52,461 lots reported net short, as of August 6. With so many speculators on the bearish side, Rabobank cautions against a sharp upward movement, in the event of a weather, trade, or demand shock.
- Declining demand prospects extend past Turkey and China and, worryingly, into Southeast Asia. The latest USDA estimates saw Chinese 2018/19 consumption drop deeper – now set to decline 3.7% YOY, driven by the ongoing US-China trade war – but so did Bangladeshi use, forecast 5% lower YOY in 2018/19. The latter is most worrying, as it raises questions over broader Southeast Asian demand, and marks the first yearly fall in Bangladeshi consumption since 2011/12.
- The USDA's 22.5m bale forecast for 2019/20 appears optimistic, following Rabobank's latest US cotton tour. Having traveled through the Mississippi delta and Texas panhandle, there is reason to suggest both US acreage and yield estimates could be overstated – the wet 2019 spring has both prevented acres and slowed development. Rabobank forecasts the new season crop 1m bales lower MOM, at 21.6m bales – but still the largest output since 2005/06. With 15m bales of anticipated exports in 2019/20 (vs. the USDA's record 17.2m bale forecast), the US is set to expand stocks to 7.9m bales! These hefty stocks are set to keep pressure on the ICE #2 in the medium term, maintaining prices in the USc 60/lb region.

**Non-commercials, as of 6 August, held a record -52,461 net short position across ICE #2 Cotton – this makes the market at risk to a sudden rise**



Source: CFTC, Bloomberg, Rabobank 2019

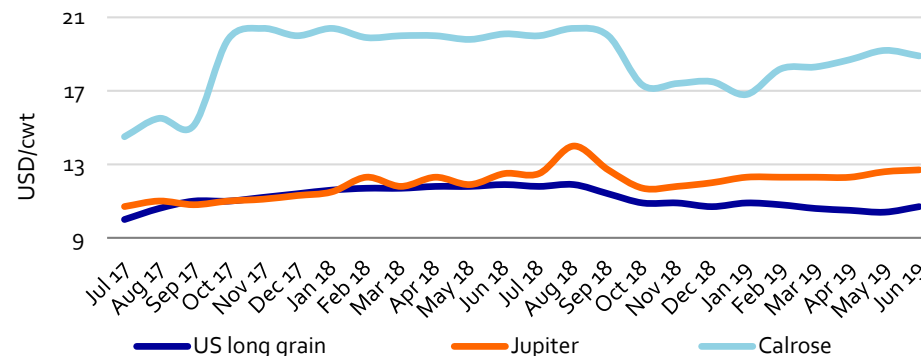
# Rice



Rabobank

- In July, the USDA raised its 2019/20 rice crop estimate by 5% vs. the June estimate, which puts the estimated crop at roughly 7% smaller than 2018/19. The upward revision is due to an increase in projected long-grain acreage. The combined medium- and short-grain crop estimate was actually revised lower in July, and is expected to be 6% smaller than a year earlier. Excessive rainfall this spring delayed and prevented rice plantings in some areas. In California, plantings are expected to be down by 3% YOY. In early July, crop progress continued to lag behind a typical year, especially in the delta, while the California crop was progressing very well.
- The 2019/20 carry-in estimate was lowered in July, but is still expected to be up by 65% and 117% YOY for long-grain and medium- and short-grain, respectively. Imports are projected to stay in-line with the previous year's levels. Total domestic and residual use estimates were raised, due primarily to the larger crop expectation. Long-grain exports are expected to be up 9% YOY, while combined medium- and short-grain exports are forecasted to be up 12% YOY. Ongoing escalation of the US-China trade war, will likely lead to revisions of US trade estimates in the coming months.
- In July, the 2019/20 price for the California medium- and short-grain SAFR was raised by USD 1.00, to USD 18.00/cwt. The 2019/20 California price estimate began at USD 16.50 in May, but has been revised upward to reflect better-than-expected price strength in recent months. The 2019/20 Southern medium- and short-grain SAFR estimate remains at USD 11.00/cwt, and US long-grain SAFR is still projected to be USD 10.50/cwt; both higher than May price estimates.

**24-Month US medium-, short- and long-grain prices, July 2017-June 2019**

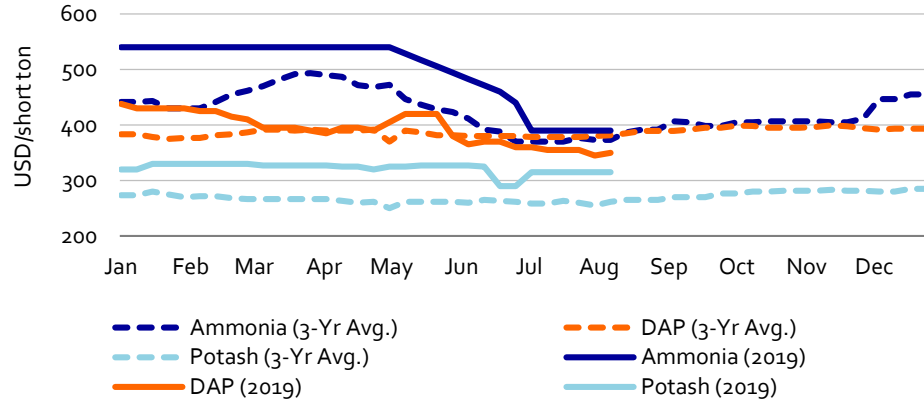


Source: USDA NASS, USDA ERS, Rabobank 2019  
Note: Average rough rice basis

# Input Costs

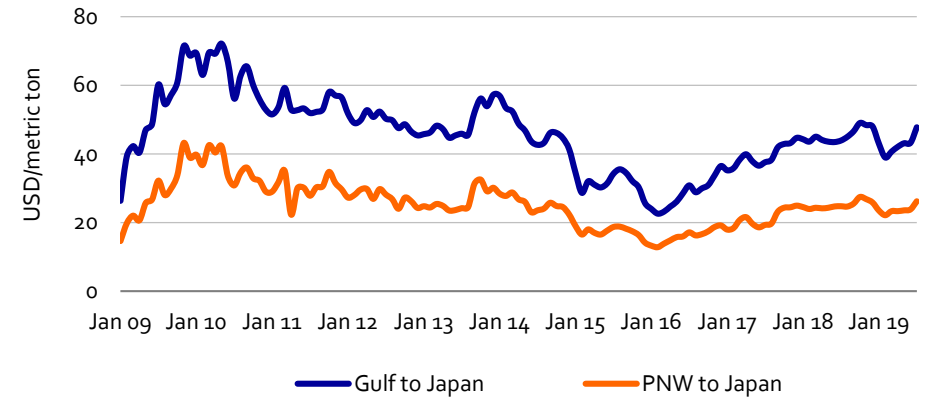
As of August 14, 2019

## Corn Belt input prices\*



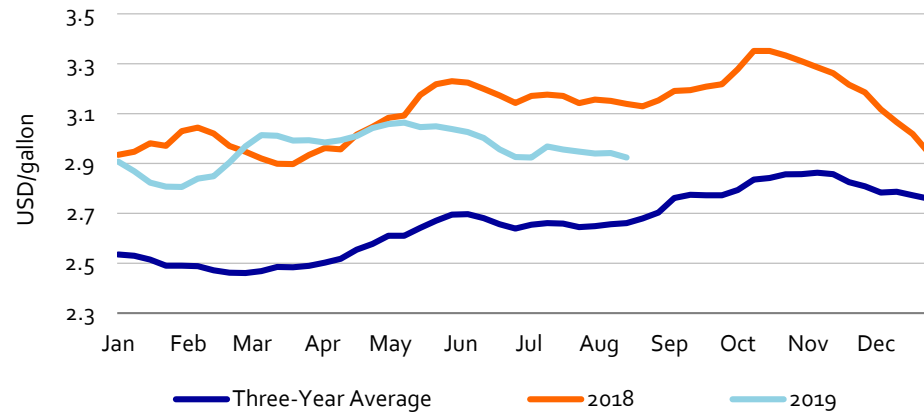
\* Note: granular potash  
Source: Bloomberg, Rabobank 2019

## Ocean freight



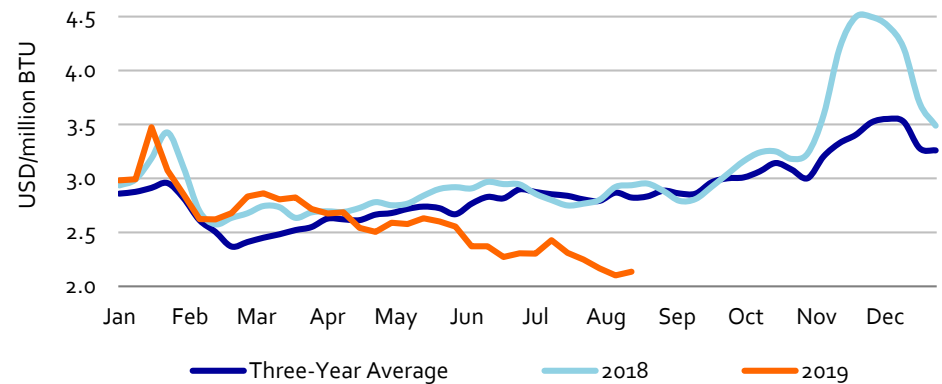
Source: O'Neil Commodity Consulting, USDA AMS, Rabobank 2019

## Diesel – Midwest



Source: EIA, Rabobank 2019

## Natural gas spot

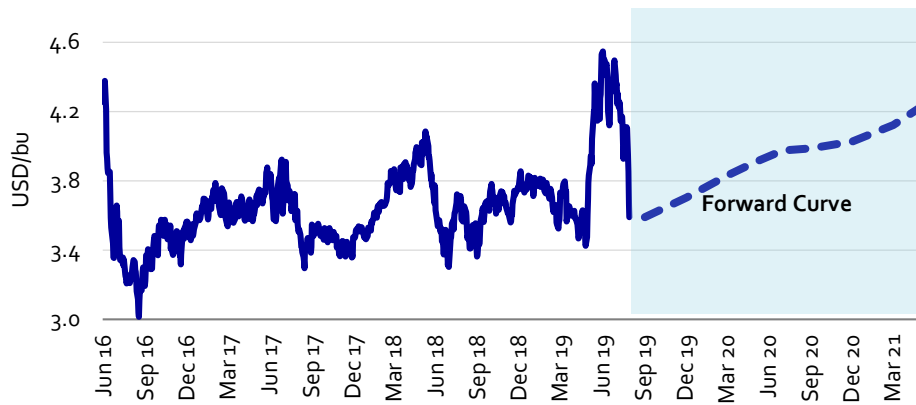


Source: NYMEX, Rabobank 2019

# Forward Price Curves

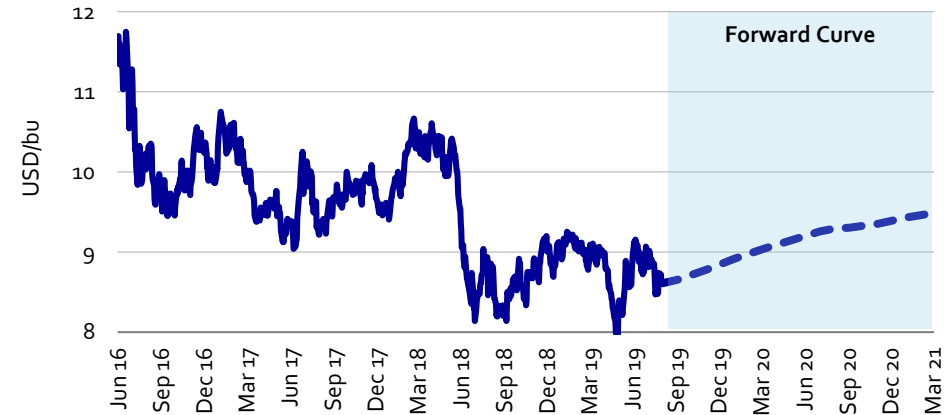
As of August 14, 2019

## CBOT – Corn



Source: CBOT, Rabobank 2019

## CBOT – Soybeans



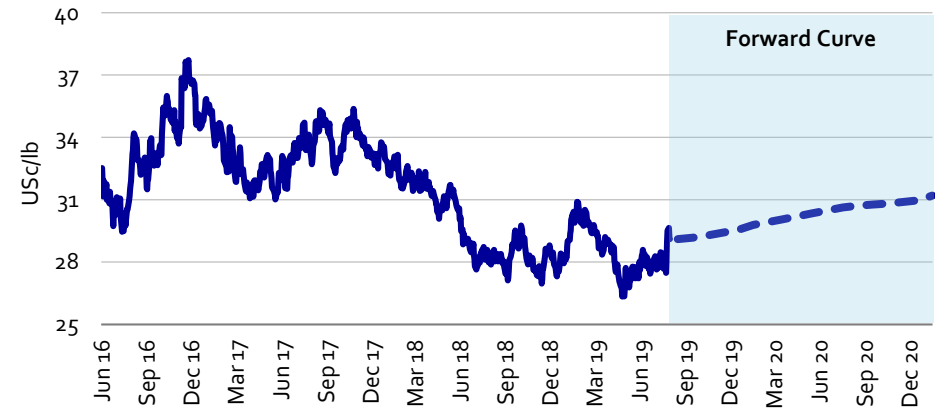
Source: CBOT, Rabobank 2019

## CBOT – Soymeal



Source: CBOT, Rabobank 2019

## CBOT – Soy oil

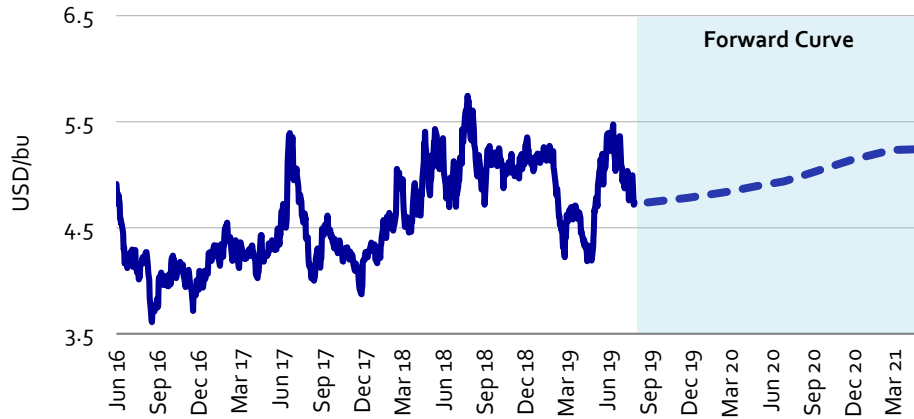


Source: CBOT, Rabobank 2019

# Forward Price Curves

As of August 14, 2019

## CBOT – Wheat



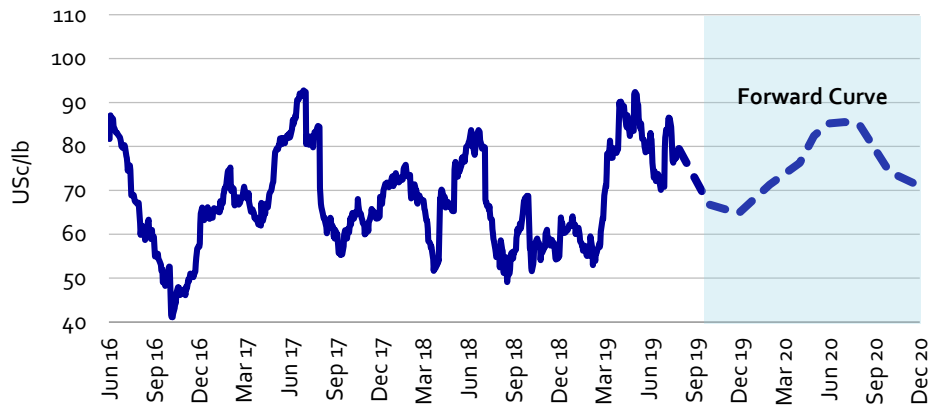
Source: CBOT, Rabobank 2019

## CBOT – Feeder cattle



Source: CBOT, Rabobank 2019

## CBOT – Lean hogs



Source: CBOT, Rabobank 2019

## CBOT – Live cattle



Source: CBOT, Rabobank 2019

# Forward Price Curves

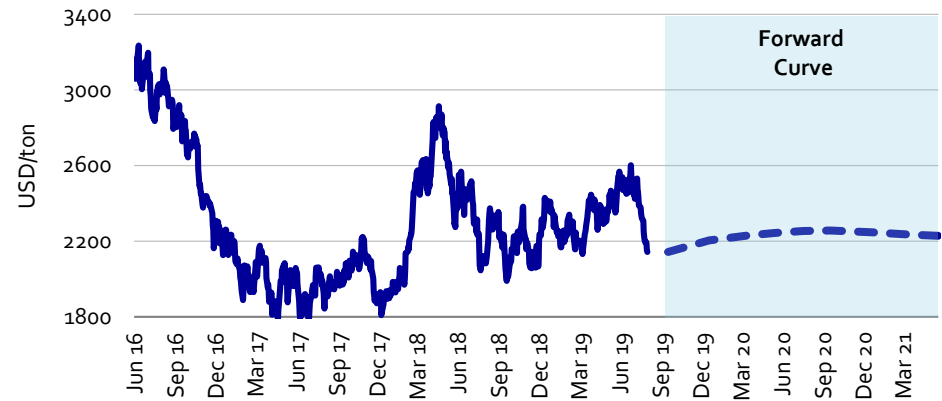
As of August 14, 2019

## ICE – #2 Cotton



Source: ICE, Rabobank 2019

## ICE – Cocoa



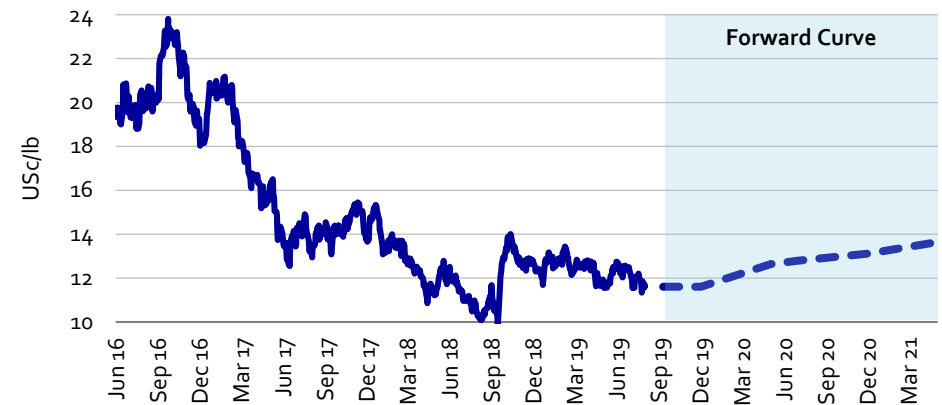
Source: ICE, Rabobank 2019

## ICE – FCOJ



Source: ICE, Rabobank 2019

## ICE – #11 Sugar



Source: ICE, Rabobank 2019

# RaboResearch Food & Agribusiness



**Pablo Sherwell**

Head of RaboResearch Food & Agribusiness, North America

E-mail [Pablo.Sherwell@rabobank.com](mailto:Pablo.Sherwell@rabobank.com)



Rabo AgriFinance

**Don Close**

Senior Analyst — Beef

E-mail [Don.Close@raboag.com](mailto:Don.Close@raboag.com)



Rabobank

**Roland Fumasi**

Senior Analyst — Fresh Fruits, Vegetables and Tree Nuts

E-mail [Roland.Fumasi@rabobank.com](mailto:Roland.Fumasi@rabobank.com)



Rabo AgriFinance

**Al Griffin**

Senior Data Analyst

Coordinator of the Agribusiness Review

E-mail [Al.Griffin@raboag.com](mailto:Al.Griffin@raboag.com)



Rabobank

**Stephen Rannekleiv**

Global Strategist — Beverages

E-mail [Stephen.Rannekleiv@rabobank.com](mailto:Stephen.Rannekleiv@rabobank.com)



Rabobank

**Nick Fereday**

Senior Analyst — Consumer Foods

E-mail [Nick.Fereday@rabobank.com](mailto:Nick.Fereday@rabobank.com)



Rabobank

**Andrick Payen**

Analyst

E-mail [Andrick.Payen@rabobank.com](mailto:Andrick.Payen@rabobank.com)



Rabo AgriFinance

**Ben Laine**

Analyst — Dairy

E-mail [Ben.Laine@raboag.com](mailto:Ben.Laine@raboag.com)



Rabobank

**David Magaña**

Senior Analyst — Fresh Fruits, Vegetables and Tree Nuts

E-mail [David.Magana@rabobank.com](mailto:David.Magana@rabobank.com)



Rabobank

**Mary Ledman**

Global Strategist — Dairy

E-mail [Mary.Ledman@rabobank.com](mailto:Mary.Ledman@rabobank.com)



Rabobank

**Bourcard Nesin**

Analyst — Beverages

E-mail [Bourcard.Nesin@rabobank.com](mailto:Bourcard.Nesin@rabobank.com)



Rabo AgriFinance

**Steve Nicholson**

Senior Analyst — G&O

E-mail [Stephen.Nicholson@raboag.com](mailto:Stephen.Nicholson@raboag.com)



Rabobank

**Jim Watson**

Senior Analyst — Beverages

E-mail [James.Watson@rabobank.com](mailto:James.Watson@rabobank.com)



Rabobank

**Tom Bailey**

Senior Analyst - Dairy

E-mail [Tom.Bailey@rabobank.com](mailto:Tom.Bailey@rabobank.com)



Rabo AgriFinance

**Erin Fitzpatrick**

Senior Analyst — G&O

E-mail [Erin.Fitzpatrick@raboag.com](mailto:Erin.Fitzpatrick@raboag.com)



Rabobank

**Philip Marey**

Senior Market Economist— Financial Markets Research

E-mail [Philip.Marey@rabobank.com](mailto:Philip.Marey@rabobank.com)



Rabobank

**Christine McCracken**

Senior Analyst — Animal Protein

E-mail [Christine.McCracken@rabobank.com](mailto:Christine.McCracken@rabobank.com)



Rabo AgriFinance

**Dustin Aherin**

Intern — Animal Protein

E-mail [Dustin.Aherin@raboag.com](mailto:Dustin.Aherin@raboag.com)



Rabobank

**Charlie Clack**

Commodity Analyst

E-mail [Charles.Clack01@rabobank.com](mailto:Charles.Clack01@rabobank.com)



Rabobank

**Sam Taylor**

Analyst — Farm Inputs

E-mail [Samuel.Taylor@rabobank.com](mailto:Samuel.Taylor@rabobank.com)

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