

## Industry Update

## Food and Agribusiness

Reminder: Keep the blank space. Convert to PDF then upload pic.

## Key Demand Developments

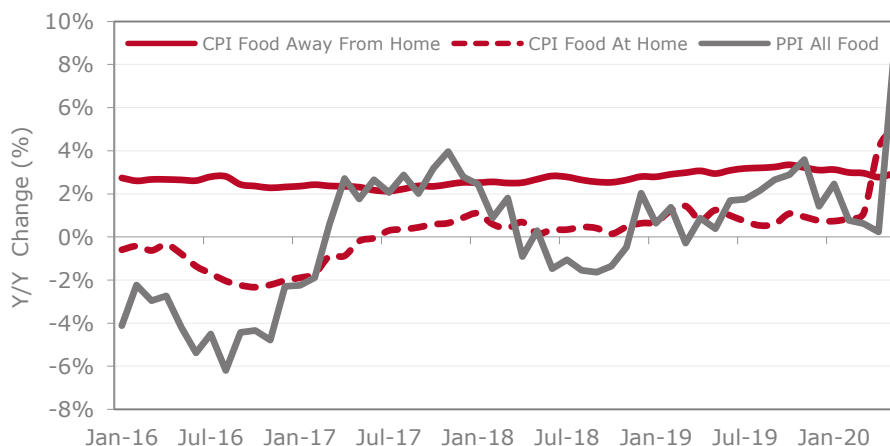
- Wells Fargo economists are expecting a V-shaped recovery to be challenged by resurgence of the virus related restrictions. While phased re-opening in previously restricted industries demonstrated pent-up demand, health concerns will challenge officials to once again weigh additional economic damage in social restrictions meant to limit the contagion.
- Even with a slow and at-times bumpy re-opening of the U.S. economy, the second half of 2020 is projected to post sharply higher economic activity predicated on evading another shut down of Q2 proportion. Still, by the end of this year, the U.S. economy will be about 5% smaller than it was at the end of 2019, and even by the end of 2021 the level of real GDP will still be about 2.5% shy of the pre-recession peak.
- From a global perspective, the 2020 outlook appears to be stabilizing. Wells Fargo economists expect the global economy to contract 3.7% in 2020, the first time since February the growth outlook has not been revised downward.
- The stabilization of growth has been assisted, at least in part, by an aggressive response regarding monetary policy from global policymakers. Wells Fargo sees the longer term path forward for the global economy as an extension of the public health outlook, any significant setbacks in H2-2020 will threaten current projections.
- Look for monthly updates on Wells Fargo Economics: <https://www.wellsfargo.com/com/insights/economics/monthly-outlook>

## Food Retail Sales

- According to Nielsen, quarterly U.S. Food Retail sales growth in dollar volume soared to 14.6% Y/Y from 2.0% Y/Y Q4 2019. Unit growth posted a 15.4% Y/Y jump as shoppers stocked pantries due to sheltering-in. Prices actually slipped 0.7% Y/Y vs 4.0% Y/Y gain in Q4 2019.
- According to Supermarket News, online grocery sales reflect pantry stocking. For March 2020, packaged foods posted 377% Y/Y, snack foods were up 141% Y/Y, and breads & bakery posted 114% Y/Y vs. March 2019.
- Next quarterly data will be reported for the July 2020 edition of Farm to Fork.

Source: Nielsen

## Consumer and Producer Price Indices



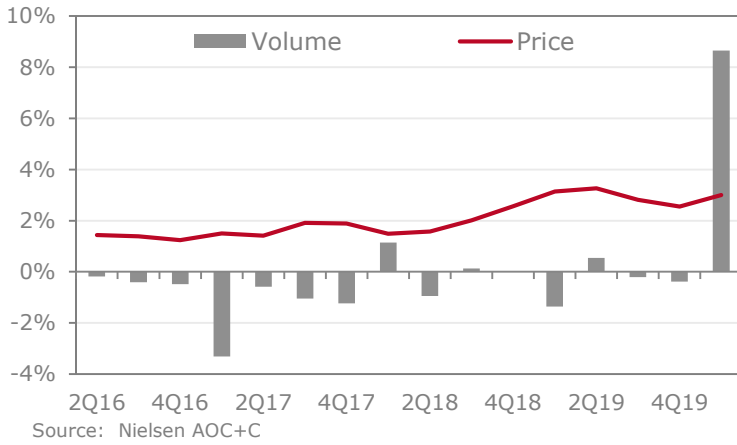
Source: U.S. Bureau of Labor Statistics

## Price and Food Inflation Developments

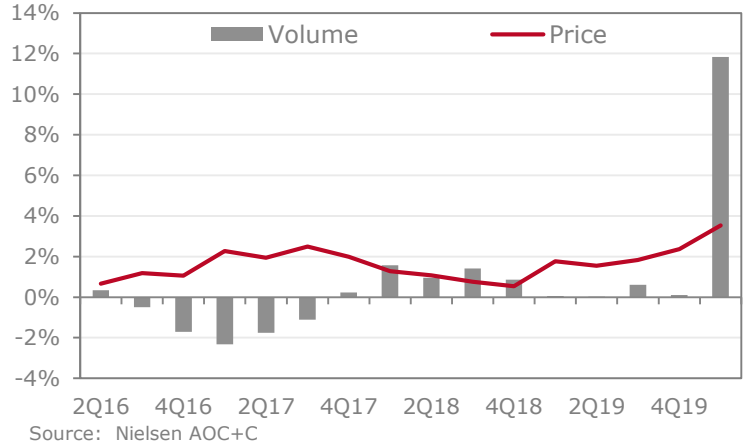
April and May data show the sharp annual inclines of the overall consumer price index for food and beverage in the U.S. April and May 2020 posted 3.4% and 3.9% Y/Y increases reflecting the national preparation for sheltering in and the closures of food-away-from home options. At home food carried these price highs, with 5.1% Y/Y increase, the highest since headier economic conditions in early 2012. That said, Food Away from home posted only slight decrease from trends, at 2.9% Y/Y for the CPI FAFH for May 2020.

**Grocery Department Trends:** Q2-2020 data will always carry the asterisk of virus related impact on consumer demand and behavior. While volume remains up across the grocery departments, fresh produce and bakery prices are declining. Re-opening may create a return to previous trends.

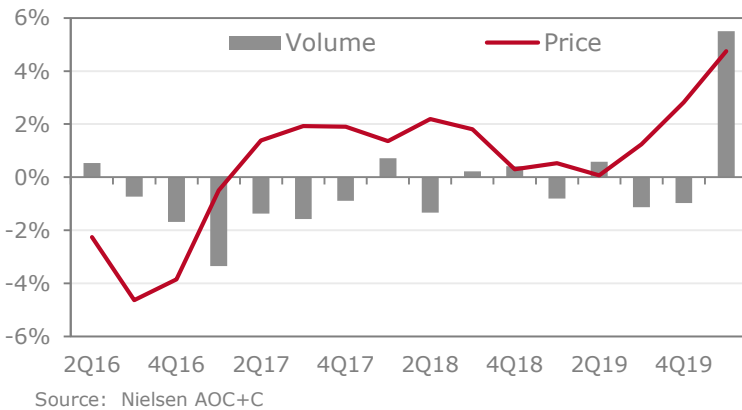
**Dry Grocery**



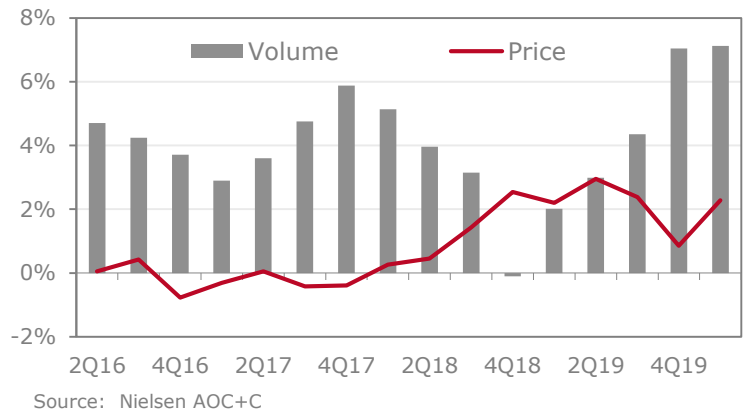
**Frozen Foods**



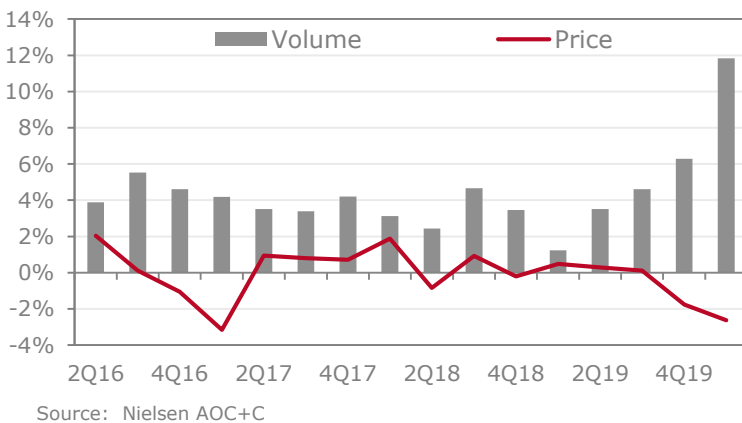
**Dairy**



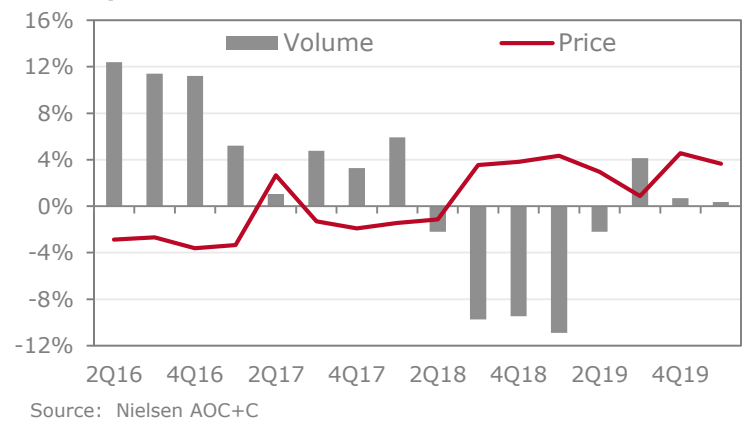
**Deli**



**Fresh Produce**



**Bakery**



- According to Nielsen data, all grocery departments continue to post Y/Y volume growth related to in-home meals and pantry stocking driven by restaurant closures and uncertainty.
- Dairy, dry grocery, and frozen foods gained significantly from previous trends showing negative to static growth. Dairy volume is up 5.5% Y/Y Q120 vs. 1.0% Y/Y in previous quarter.
- Dry grocery volume gains posted 8.7% Y/Y Q120 gains vs. 0.4% Y/Y in Q419. Frozen foods purchases gained 11.8% Y/Y Q120 vs. 0.1% Y/Y Q419. Fresh produce, the longer term trend leader, posted 11.8% Y/Y Q120 gains vs. 6.3% Y/Y in Q419.
- Bakery department gains were moderate at 0.4% Y/Y Q120 vs. 0.7% Q419.
- Prices were up across all departments except for fresh produce, which posted 2.6% Y.Y Q120 decline vs. 1.8% Y/Y Q419. Bakery department gains were also moderate at 3.6% Y/Y Q120 vs. 4.5% Y/T Q419.

Source: Nielsen

Food company margin heat map Y/Y				
Price vs. volume	Grain	Protein	Energy	Labor
Mixed	Mixed	Constructive	Constructive	Inflationary

- **Grains:** Changes to USDA's U.S. balance sheets were minor in June with its *Grain Stocks* and *Acreage* reports coming up at month's end. Corn, wheat and soybean futures saw small declines in May. Tensions with China brought concern about exports, but reported sales of U.S. soybeans and corn to China tempered price declines.
- **Red Meat and Poultry:** Harvest plant closures and capacity reductions in late April / early May related to COVID caused beef, pork and broiler supply shortages, which temporary caused significant price spikes. As plants reopened and supply conditions have improved, prices have retreated lower in June. Despite plant re-openings, a backlog of animals that were unable to be processed when plants were idle, especially in hogs and cattle, remains a problem for the industry.
- **Seafood:** Through April, US seafood imports are flat Y/Y on a dollar value basis. Over the past 5 years, U.S. seafood imports have increased 4.3% annually. Seafood import value in 2019 totaled \$22.1Bn. If import values remain flat through the balance of 2020 due to COVID-19 related foodservice closures, the economic impact of nearly a billion dollars in lost seafood imports will be significant.
- **Dairy:** U.S. milk production forecast to increase 1.9% based on increase in herd numbers. USDA's June 2020 all milk price increased 15% M/M to \$16.65/cwt. Increase was driven by sharp increase in cheese and butter prices in May and early June. Pull from restaurant re-opening and USDA purchase programs helped boost prices. U.S. dairy export volume will need to remain at or near Q1 level, or prices could retreat once initial foodservice demand is filled and government purchase programs end in September.
- **Specialty and Non-Grain Crops:** Consumer behavior has been significantly impacted by uncertainty around the COVID-19 and the short term self-imposed restrictions on travel exacerbated by shift to work-from-home, and school and dining closures. Price declines for fresh fruit and vegetables may be signaling the need to compete for marketbasket share.
- **Nuts:** Tree nut shipments overall remain strong as global demand for California almonds, pistachios and walnuts is supporting the market. COVID related port closures and transportation difficulties of key trading partners has impacted sales. Almond crop development is being reported as above average in California; this prompted a large forecast by the USDA of 3 billion pounds. The almond price is expected to be volatile until the industry understands fully what the 2020/21 crop will bring to market.
- **Wine:** Off-premise sales (non-restaurant) and direct to consumer wine sales via e-commerce continue to be a bright spot for the industry. Restaurant on-trade sales have been closed for some time, and are just now starting to reopen at partial capacity, so consumers have been purchasing wine through grocery and e-commerce from the brands they know and trust.

Key commodity heat map			
Commodity	Price*	Y/Y	M/M
Corn	\$3.19	-15.9%	-1.2%
HRW wheat	\$4.67	+12.1%	-2.7%
Soybeans	\$8.42	+1.6%	-0.4%
Broilers	\$0.54	-45.2%	-32.6%
Cattle	\$0.95	-14.4%	+5.4%
Hogs	\$0.62	-28.4%	+35.7%
Class III milk	\$12.14	-25.9%	-7.1%
Shrimp	\$3.69	-7.4%	-0.4%
Salmon	\$4.31	-24.5%	-11.5%
Natural gas	\$7.06	-6.9%	-2.8%
Electricity	\$10.36	-1.5%	+0.8%
Heating oil	\$2.41	-21.1%	-14.5%
Supermarket labor	\$14.54	+4.8%	+1.9%
Restaurant labor	\$14.43	-0.0%	-1.4%
Food labor	\$19.24	+6.1%	+1.3%

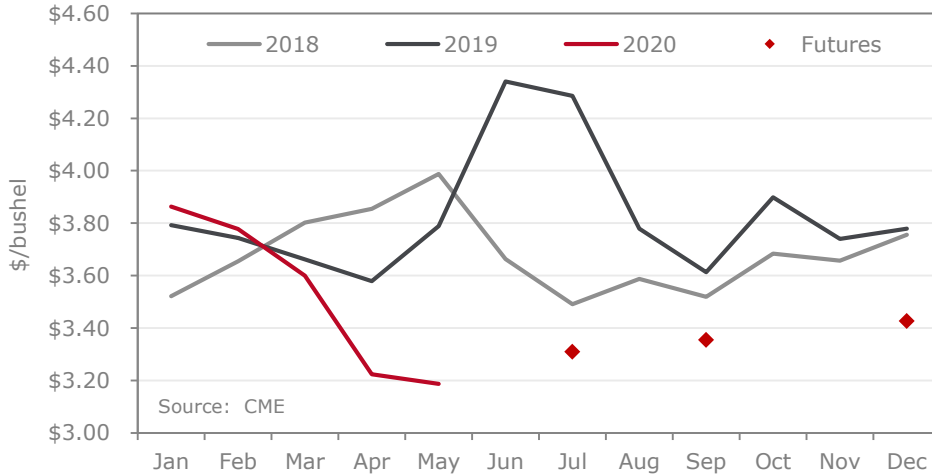
\*All prices for May except natural gas (February), electricity (February), heating oil (March), and supermarket labor (April)

Monthly avg. corn, wheat, soybeans in \$/bu; broilers, shrimp in \$/lb; cattle, hogs, milk in \$/cwt; salmon in \$/kg; gas in \$/Mct; oil in \$/gal; electricity in \$/kWh; labor in \$/h

- **Fruit Crops:** Supply chain challenges from COVID-19 have mostly subsided. Grocery stores and markets have plenty of fresh produce available for consumers; imports of Mangoes, Avocados, and berries seem to have steady and uninterrupted movement. Citrus imports are expected to be much stronger this year with steady consumer demand. Reports indicate mandarins from Peru and Uruguay are sizing well. Limes from Mexico and Honduras are expected for most of the summer.
- **Vegetable Crops:** U.S. potatoes were in high demand in the first few months of 2020 with talks of a french fry shortage. Fast-forward two months, COVID-19 has potato farmers apprehensive about planting. Canadian growers are being asked by french fry processors to reduce their planting anywhere from 15 to 35% for next year. This has created a surplus of 80MM pounds of seed potatoes that some farmers can only dispose of as cattle feed.
- **Forest Products:** Lumber and panel prices were up solidly in May as demand at home improvement stores beat expectations and output was below pre-COVID levels. May housing starts were up 4% M/M, but down 23% Y/Y.
- **Crop Inputs:** Nitrogen and DAP prices were lower M/M in May due to large supplies and a seasonal decline in demand. Potash prices were flat, with supply and demand relatively balanced. Fuel prices remain well below recent years on reduced driving amid COVID-19.

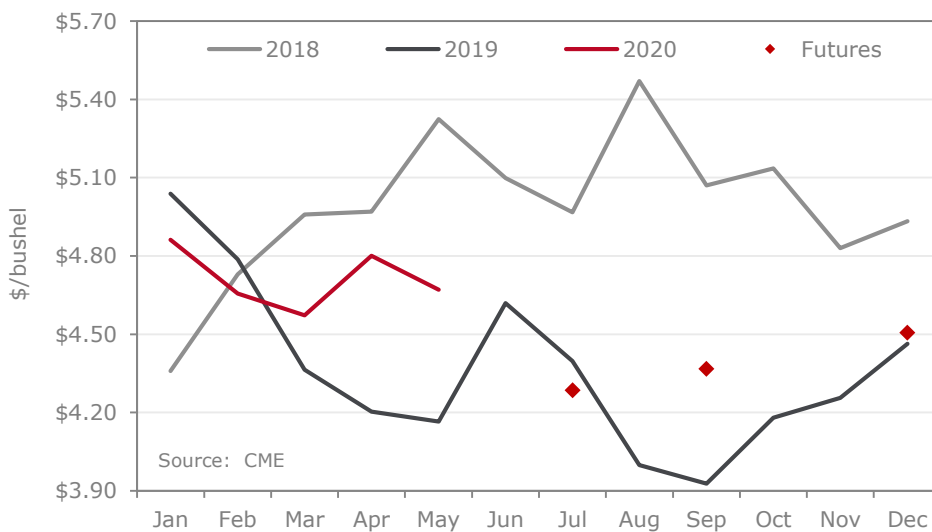
**Grain Prices:** Corn, wheat and soybean futures saw small declines in May. Tensions with China brought concern about exports, but reported sales of U.S. soybeans and corn to China tempered price declines.

**Corn**



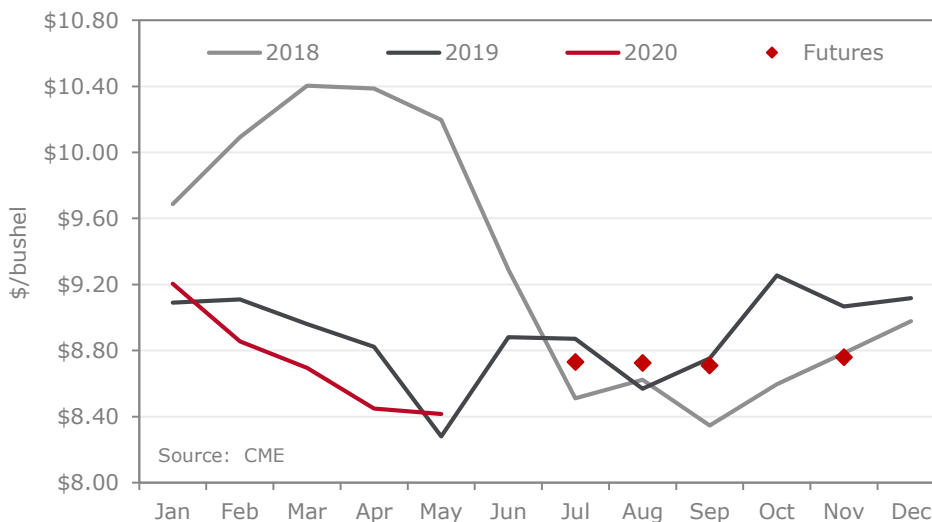
- Nearby corn futures averaged \$3.19 per bushel during May. This was down 4 cents from April, down 60 cents Y/Y, and the lowest since Oct. 2006.
- Prices saw mild pressure with the U.S. crop being planted faster than normal, but losses were limited by improving ethanol production, export sales to China, and USDA’s 2020/21 outlook that was less bearish than expected.
- USDA projects world corn production up 7% to a record level in 2020/21, mainly due to an increase for the U.S. World stocks are forecast to rise 8%, with stocks outside of China seen up 32% after falling three straight years.

**Wheat**



- Nearby KC wheat futures averaged \$4.67 per bushel in May, down 13 cents M/M but up 51 cents Y/Y.
- U.S.-China trade tensions and beneficial rains in the EU and Black Sea region weighed on prices in the first half of May, but concern about dry weather in the U.S. and Russia helped the market rebound in the second half of the month.
- USDA projects the world wheat crop to increase 1% to a record level in 2020/21 with increases for Australia and Russia more than offsetting a decline for the EU. Global stocks are forecast up 7% at a record level, with non-China stocks projected up 6%.

**Soybeans**



- Nearby soybean futures averaged \$8.42 per bushel in May, down 3 cents M/M and the lowest since May 2019.
- The market experienced two-sided trading throughout the month, as renewed U.S.-China tensions brought declines on some days and news of soybean export sales to China boosted prices on other days.
- USDA projects world soybean production to increase 8% to a record level in 2020/21 on increases of 16% for the U.S. and 6% for Brazil. However, world stocks are forecast down 3% with non-China stocks forecast down 6% to a five-year low.

Sources: CME, USDA

**Grain Fundamentals:** Changes to USDA's U.S. balance sheets were relatively minor in June with its *Grain Stocks* and *Acres* reports coming up at month's end. Old-crop corn usage in ethanol was cut 50 million bushels and soybean exports were reduced 25 million. 2020 wheat production was increased slightly on a higher yield.

### Corn

	2018/19	2019/20F	2020/21F	2020/21F	M/M Change	M/M Change
		June	May	June 19/20	Forecast 20/21	Forecast
Acres Planted (mm)	88.9	89.7	97.0	97.0	0.0	0.0
Acres Harvested	81.3	81.3	89.6	89.6	-0.1	0.0
Yield per Harvested Acre (bu)	176.4	167.4	178.5	178.5	-0.4	0.0
Beginning Stocks (mm bu)	2,140	2,221	2,098	2,103	0	5
Production	14,340	13,617	15,995	15,995	-46	0
Imports	28	45	25	25	0	0
Total Supply	16,509	15,883	18,118	18,123	-45	5
Feed and Residual	5,430	5,700	6,050	6,050	0	0
Food, Seed & Industrial	6,793	6,305	6,600	6,600	-50	0
Ethanol	5,378	4,900	5,200	5,200	-50	0
Total Domestic	12,223	12,005	12,650	12,650	0	0
Exports	2,065	1,775	2,150	2,150	0	0
Total Use	14,288	13,780	14,800	14,800	-50	0
Ending Stocks	2,221	2,103	3,318	3,323	5	5
Stocks to Use (%)	15.5%	15.3%	22.4%	22.5%	0.1%	0.0%
Average Farm Price (\$/bu)	\$3.61	\$3.60	\$3.20	\$3.20	\$0.00	\$0.00

Source: USDA WASDE

### Wheat

	2018/19	2019/20E	2020/21F	2020/21F	M/M Change	M/M Change
		June	May	June 19/20	Estimate 20/21	Forecast
Acres Planted (mm)	47.8	45.2	44.7	44.7	0.0	0.0
Acres Harvested	39.6	37.2	37.7	37.7	0.0	0.0
Yield per Harvested Acre (bu)	47.6	51.7	49.5	49.8	0.0	0.3
Beginning Stocks (mm bu)	1,099	1,080	978	983	0	5
Production	1,885	1,920	1,866	1,877	0	11
Imports	135	105	140	140	0	0
Total Supply	3,119	3,105	2,984	3,000	0	16
Food	955	962	964	964	0	0
Seed	59	60	61	61	0	0
Feed and Residual	90	135	100	100	0	0
Total Domestic	1,103	1,157	1,125	1,125	0	0
Exports	936	965	950	950	-5	0
Total Use	2,039	2,122	2,075	2,075	-5	0
Ending Stocks	1,080	983	909	925	5	16
Stocks to Use (%)	53.0%	46.3%	43.8%	44.6%	0.3%	0.8%
Average Farm Price (\$/bu)	\$5.16	\$4.60	\$4.60	\$4.60	\$0.00	\$0.00

Source: USDA WASDE

### Soybeans

	2018/19	2019/20F	2020/21F	2020/21F	M/M Change	M/M Change
		June	May	June 19/20	Forecast 20/21	Forecast
Acres Planted (mm)	89.2	76.1	83.5	83.5	0.0	0.0
Acres Harvested	87.6	75.0	82.8	82.8	0.0	0.0
Yield per Harvested Acre (bu)	50.6	47.4	49.8	49.8	0.0	0.0
Beginning Stocks (mm bu)	438	909	580	585	0	5
Production	4,428	3,552	4,125	4,125	-5	0
Imports	14	15	15	15	0	0
Total Supply	4,880	4,476	4,720	4,725	-5	5
Crushings	2,092	2,140	2,130	2,145	15	15
Exports	1,748	1,650	2,050	2,050	-25	0
Seed	88	97	100	100	0	0
Residual	43	4	35	35	0	0
Total Use	3,971	3,891	4,315	4,330	-10	15
Ending Stocks	909	585	405	395	5	-10
Stocks to Use (%)	22.9%	15.0%	9.4%	9.1%	0.2%	-0.3%
Average Farm Price (\$/bu)	\$8.48	\$8.50	\$8.20	\$8.20	\$0.00	\$0.00

Source: USDA WASDE

- USDA reduced its 2019 U.S. corn crop estimate down 46 million bushels in June based on a follow-up survey in North Dakota, where much of the crop was harvested this spring because of adverse weather during fall and winter.
- Projected 2019/20 ending stocks were raised 5 million bushels with the smaller crop more than offset by a 50-million-bushel cut to usage in ethanol.
- Ending stocks for 2020/21 also were raised a modest 5 million bushels, on slightly larger beginning stocks and an unchanged demand outlook.

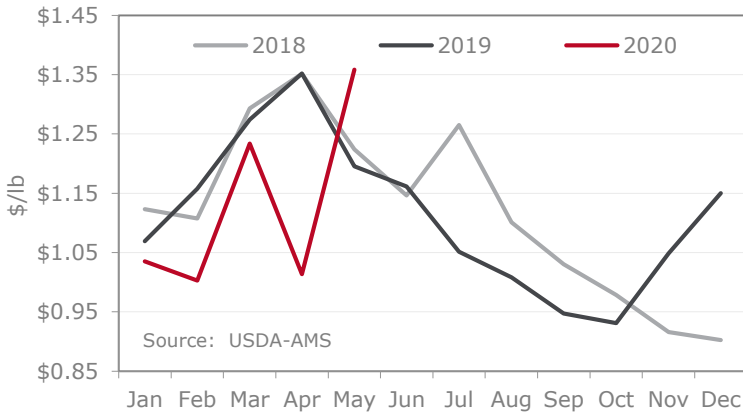
- USDA raised its 2019/20 U.S. wheat ending stocks estimate 5 million bushels to 909 million in June on smaller exports.
- USDA raised its 2020 U.S. production forecast 11 million bushels to 1.88 billion bushels, mainly due to a higher yield for hard red winter wheat.
- Projected 2020/21 ending stocks were raised 16 million bushels to 925 million. This reflects a stocks-to-use ratio of 45% that would be smaller than the previous four years, but still is more than adequate.

- USDA trimmed its 2019 U.S. soybean crop estimate 5 million bushels based on its follow-up survey in North Dakota.
- On the demand side, an increase of 15 million bushels in the crush was more than offset by a 25-million-bushel cut in exports. Ending stocks were raised 5 million bushels to 585 million.
- USDA's crush projection for 2020/21 also was raised 15 million bushels, which more than offset the increase in beginning stocks. Ending stocks were reduced 10 million bushels to 395 million, which reflects the smallest stocks-to-use ratio in four years.

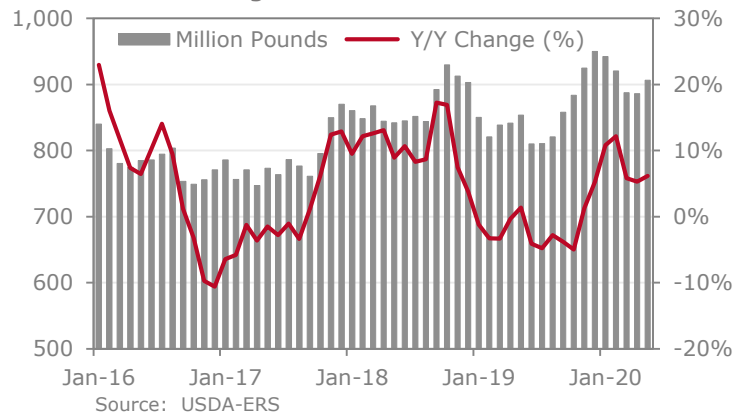
Source: USDA

**Chicken:** Harvest plant closures and capacity reductions in late April / early May due to COVID caused broiler supply shortages, which temporary caused significant price spikes. As plants re-opened and supply conditions have improved, prices have retreated lower.

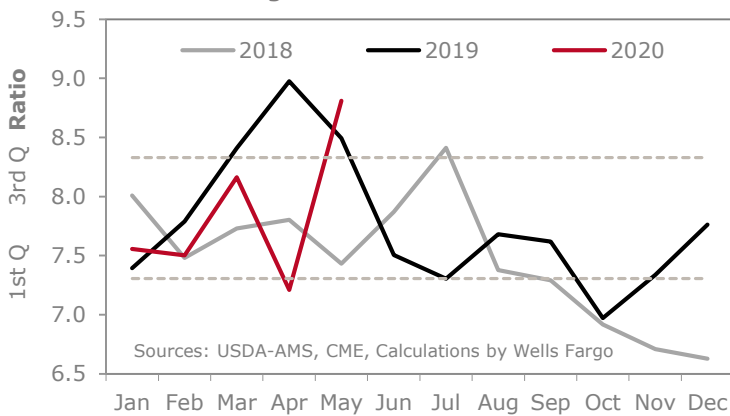
**Boneless Skinless Breast Prices**



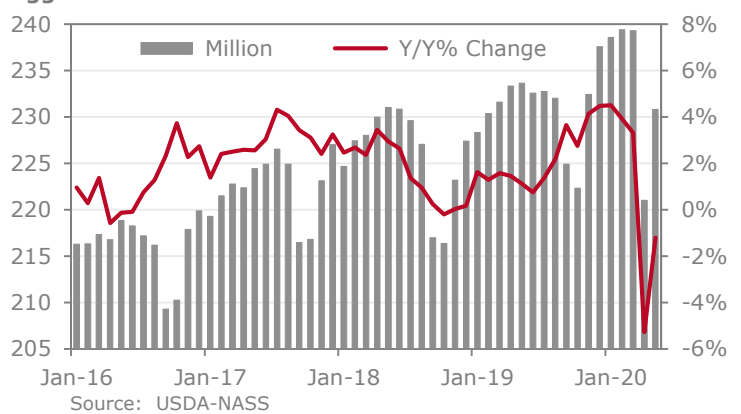
**Chicken Cold Storage Inventories**



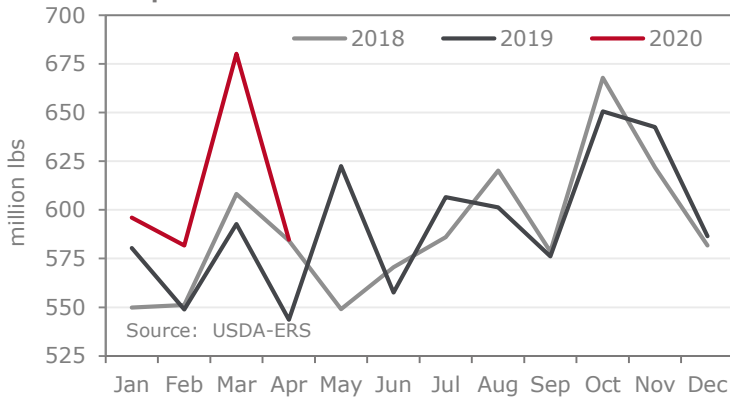
**Chicken Packer Margins**



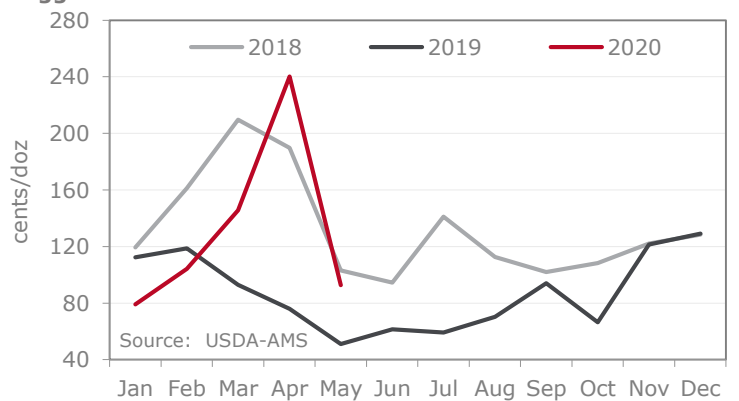
**Egg Sets**



**Broiler Exports**



**Egg Prices**



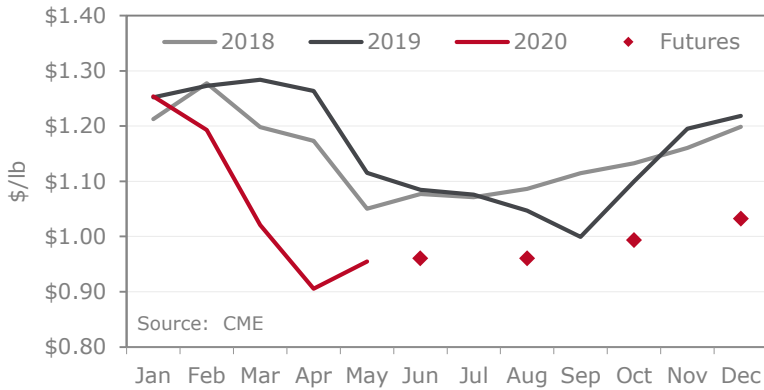
- Breast prices averaged \$1.36/lb. during May, up 34% from April and up 14% from the previous year.
- A combination of higher chicken part prices and lower feed costs supported packer margins in May, up 22% M/M and up 4% Y/Y. Lower ethanol demand and ample supplies of corn have kept feeds costs low.
- Broiler export volume in April, down 14% from March and 8% higher Y/Y. Higher prices and meat shortages likely slowed export volume in April, but shipments remained above previous year levels.

- Chicken inventories in cold storage were reported at 906 million pounds in May, up 2% M/M and up 6% Y/Y.
- Egg sets averaged 230 million per week in May, down 1% Y/Y. Chicks placed averaged 176 million per week in May, down 7% Y/Y.
- The USDA large, regional shell egg price averaged \$0.93 cents/dozen in May, down 61% M/M and up 81% Y/Y. As supply and demand conditions stabilized from COVID shocks, shell egg prices swiftly dropped back to pre-COVID levels.

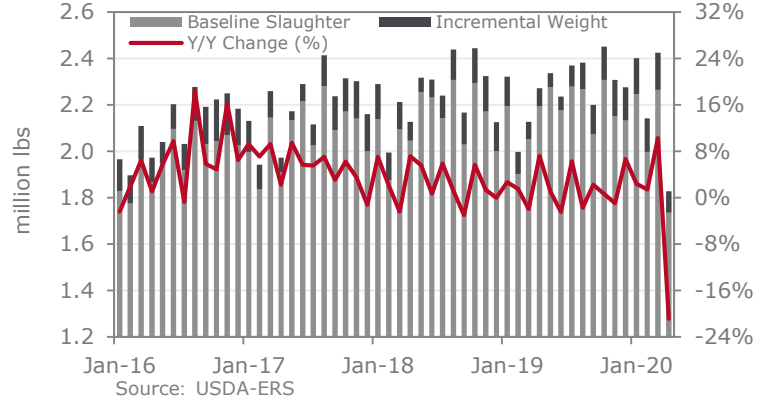
Sources: USDA, CME, Calculations by Wells Fargo

**Beef:** Harvest plant capacity is recovering in June, but still slightly below pre-COVID levels. As plants re-opened and supply conditions have improved, cutout prices have retreated lower in June.

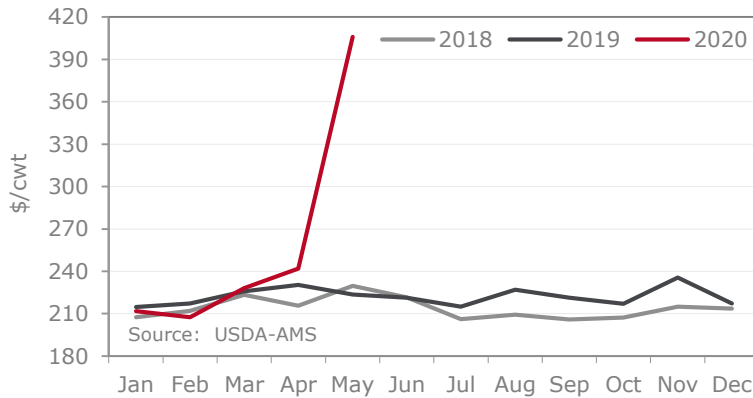
**Live Cattle Prices**



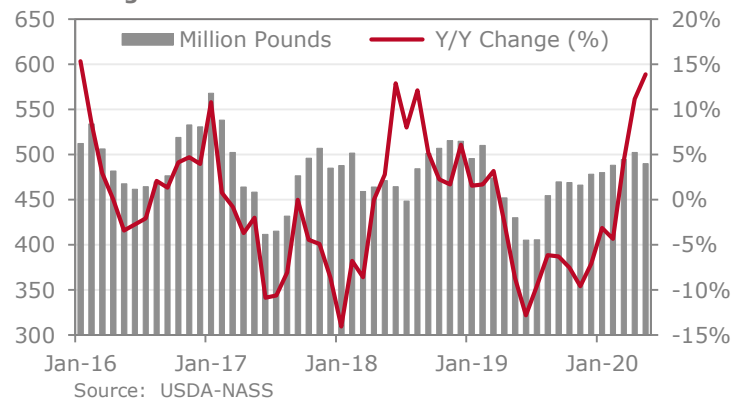
**Monthly Cattle Processing**



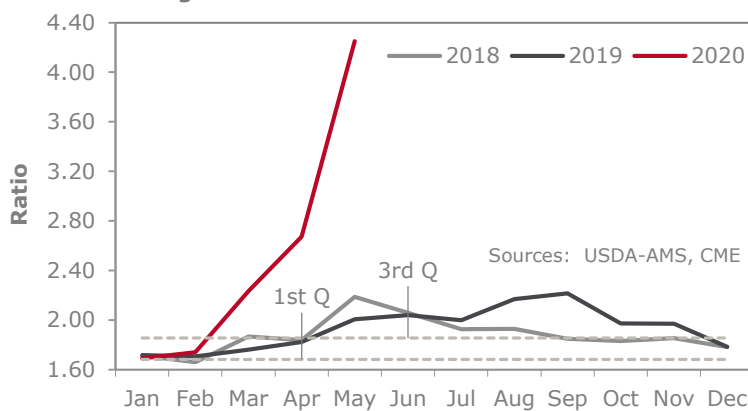
**Cut Out Values**



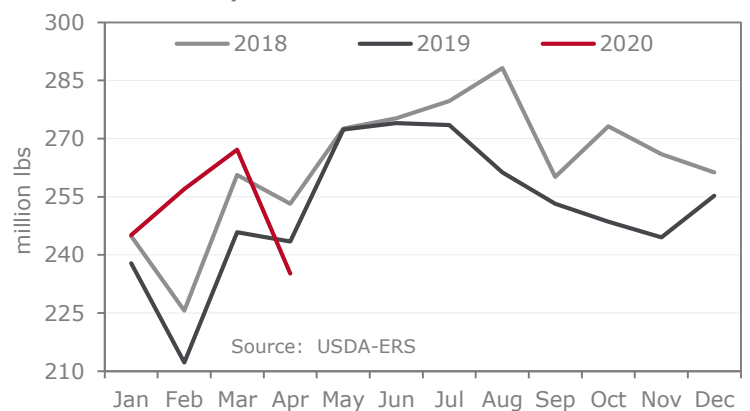
**Cold Storage Inventories**



**Packer Margins**



**Beef and Veal Exports**



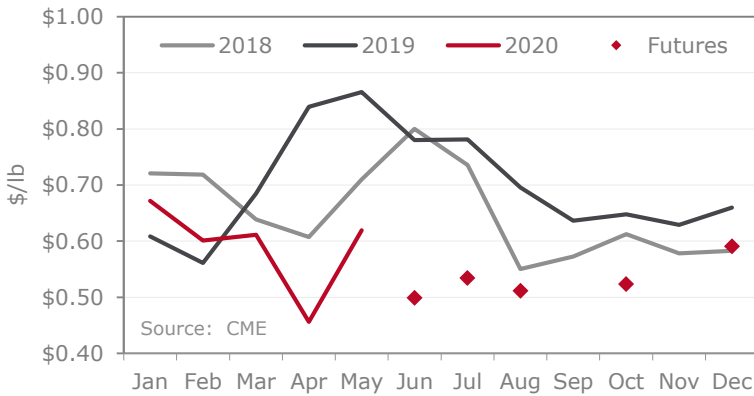
- Nearby live cattle futures averaged \$0.95 /lb. in May, up 5% M/M and down 14% Y/Y. Despite plant capacity recovering, the backlog of cattle created from the lack of processing capacity in April/May remains a problem for the industry. Placements on feed continue to be lower due to market uncertainty.
- The beef cutout value averaged \$406/cwt. in May, up 68% M/M and up 84% Y/Y. Prices jumped significantly on COVID related plant closures and beef shortages. Loss of demand from higher prices is a concern for the industry.

- Packer margins in May were up 59% M/M and up over 100% Y/Y. A stronger cutout boosted margins towards record levels for beef packers in May. The Defense Production Act, slowing national cases of COVID and increased safety measures appear to have helped packers increase plant capacity quicker than expected.
- Beef cold storage inventories of 490 million pounds in May, down 2% M/M and up 14% Y/Y.
- Beef and veal export volume in April, down 12% M/M and down 3% Y/Y. Higher beef prices slowed beef purchases in April.

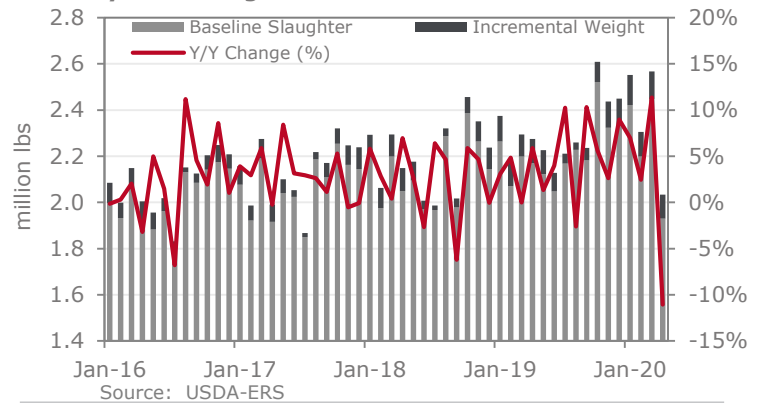
Sources: CME, USDA

**Pork:** Harvest plant closures and capacity reductions in late April / early May related to COVID caused beef, pork and broiler supply shortages, which temporary caused significant price spikes. As plants reopened and supply conditions have improved, prices have retreated lower in June.

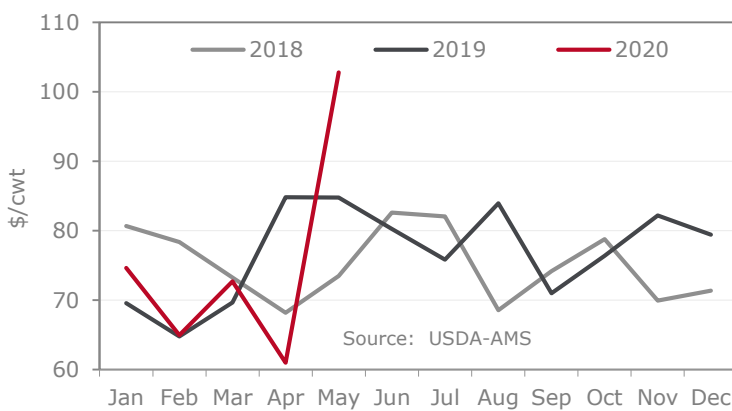
**Lean Hog Prices**



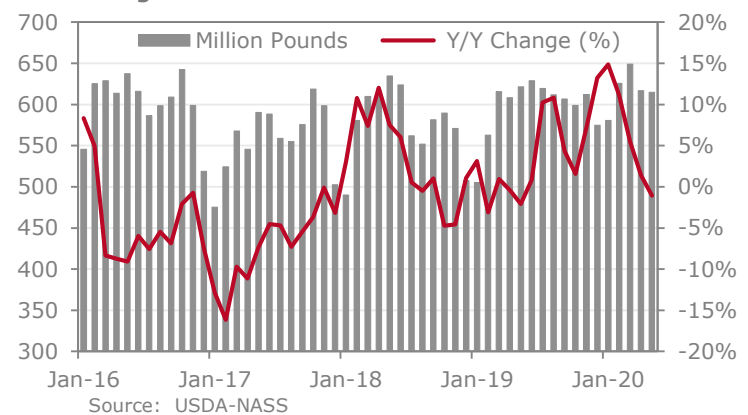
**Monthly Processing**



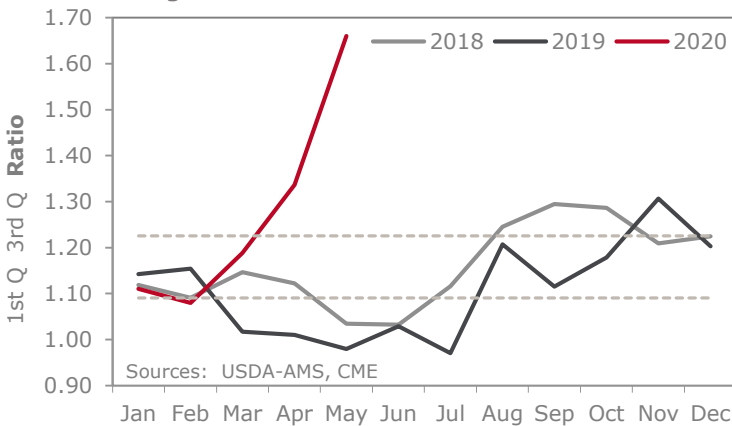
**Cut Out Values**



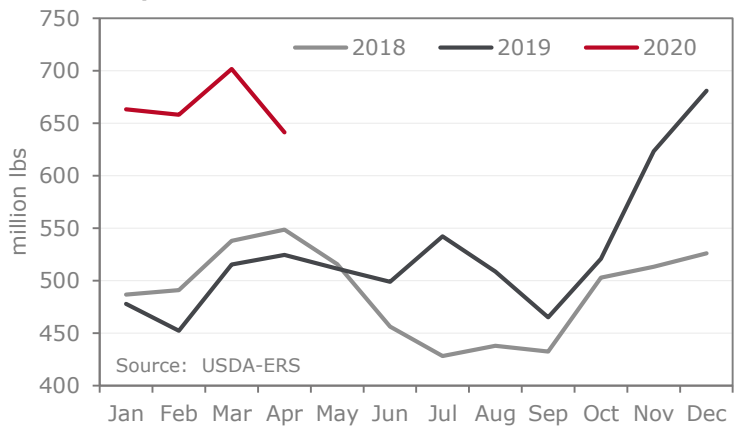
**Cold Storage Inventories**



**Packer Margins**



**Pork Exports**



- Lean hog futures averaged \$0.62/lb. in May, up 36% M/M and 28% lower Y/Y. Despite plant capacity recovering, the backlog of hogs created from the lack of processing capacity in April/May remains a problem for the industry. Oversupply of hogs expected to weigh on prices in coming months.
- The pork cutout value in May averaged \$103/cwt., up 69% M/M and up 21% Y/Y. COVID related plant closures caused pork supply shortages, which resulted in significant price spikes.

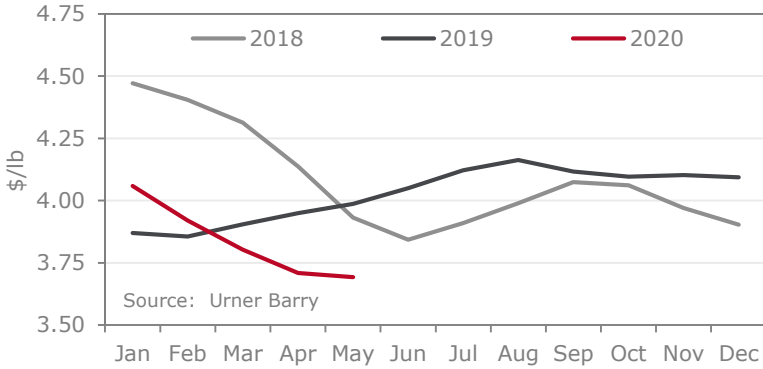
- Pork inventories in cold storage were reported at 615 million pounds in May, near previous month levels and down 1% Y/Y.
- U.S. pork exports in April, down 9% M/M and up 22% Y/Y. Higher pork prices slowed pork purchases in April, but exports remain stronger than previous year levels. China (+350%) continued to lead exports in April.
- May packer margins increased 24% from April and up 69% Y/Y. A stronger cutout boosted margins pork packers in May. The Defense Production Act, slowing national cases of COVID and increased safety measures appear to have helped packers increase plant capacity quicker than expected.

Sources: CME, USDA

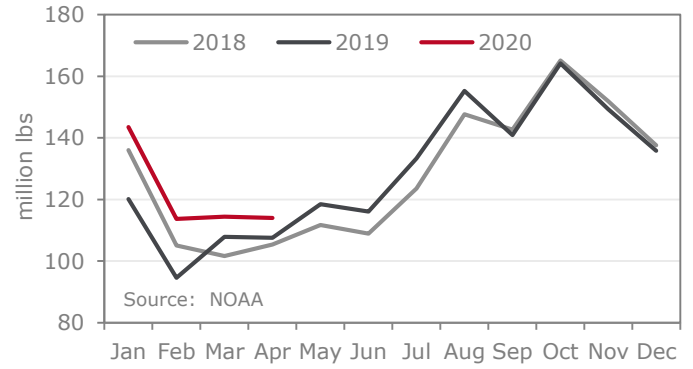


**Seafood:** Through April, U.S. seafood imports are flat Y/Y on a dollar value basis. Over the past 5 years, U.S. seafood imports have increased 4.3% annually. If import values remain flat through the balance of 2020 due to COVID-19 related closures, the economic impact of nearly a billion dollars in lost seafood imports will be significant.

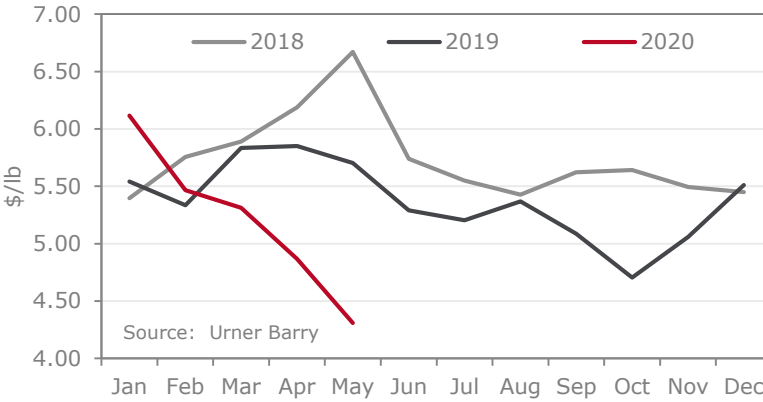
**Urner Barry Farm-Raised White Shrimp Index**



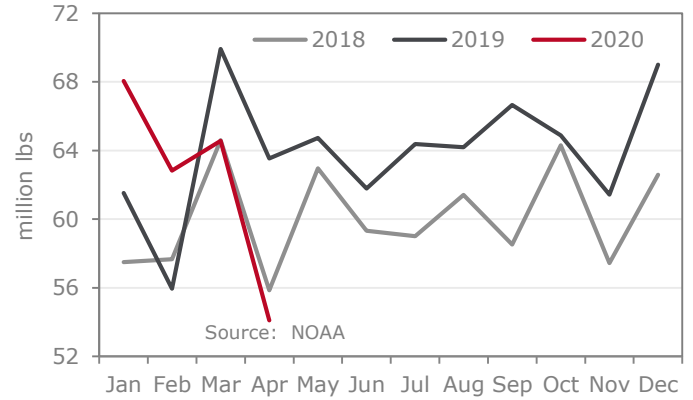
**Shrimp Imports**



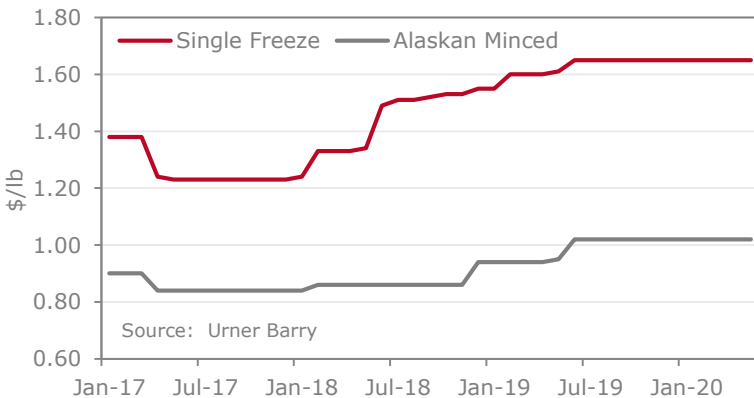
**Urner Barry Fresh Farmed Salmon Index**



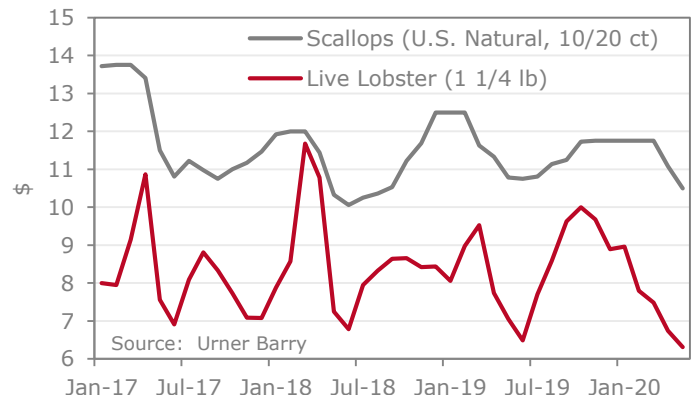
**Atlantic Salmon Imports**



**Alaskan Pollock Prices**



**Scallop and Lobster Prices**



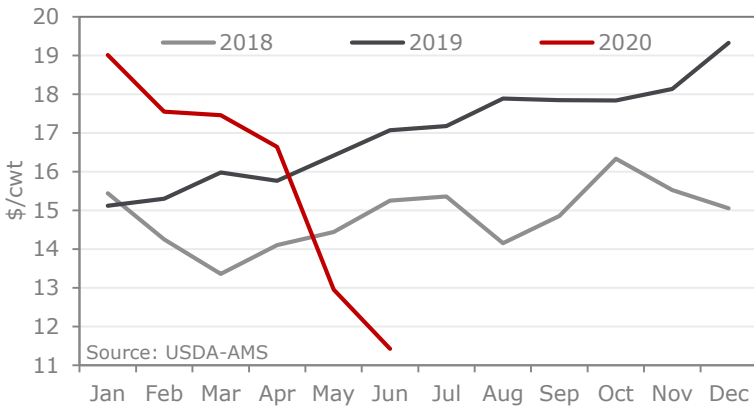
- The UB farm-raised white shrimp index in May averaged \$3.69/lb., near previous month levels and 7% lower Y/Y. If prices remain low, global production will decline as shrimp farmers cut back production and wait until prices increase.
- The UB fresh-farmed salmon index averaged in May at \$4.31/lb., down 12% M/M and 24% lower Y/Y. Restaurant re-openings in May and June haven't helped farmed salmon prices recover from low levels.
- Alaskan Minced Pollock prices in May stayed flat at \$1.02/lb., up 7% Y/Y. Single Freeze Alaskan Pollock prices also remained flat at \$1.65/lb. in May, up 2% Y/Y.

- Shrimp imports in April totaled 114MM lbs., unchanged from previous month and 6% higher Y/Y. YTD imports of 486MM lbs. are up 13% Y/Y. Importers shifted sales to retail outlets where possible. Restaurant re-opening success in key global markets (U.S., Japan and EU) is needed before prices will begin to increase much beyond current levels.
- Salmon imports in April totaled 54MM lbs., down 16% M/M and down 15% Y/Y. YTD imports of 250MM lbs. are down 1% Y/Y. COVID-related foodservice closures is key reason for reduced salmon imports.

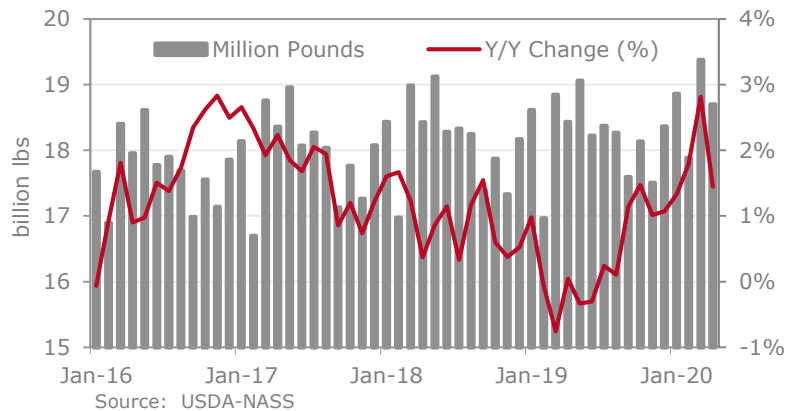
Sources: Urner Barry, NOAA

**Dairy:** U.S. milk production forecast to increase 1.9% based on increase in herd numbers. USDA's June 2020 all milk price increased 15% M/M to \$16.65/cwt. Increase was driven by sharp increase in cheese and butter prices in May and early June. Pull from restaurant re-opening and USDA purchase programs helped boost prices.

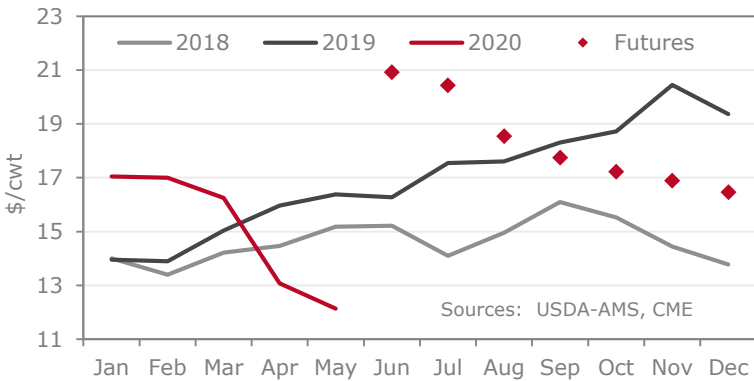
**Class I Milk**



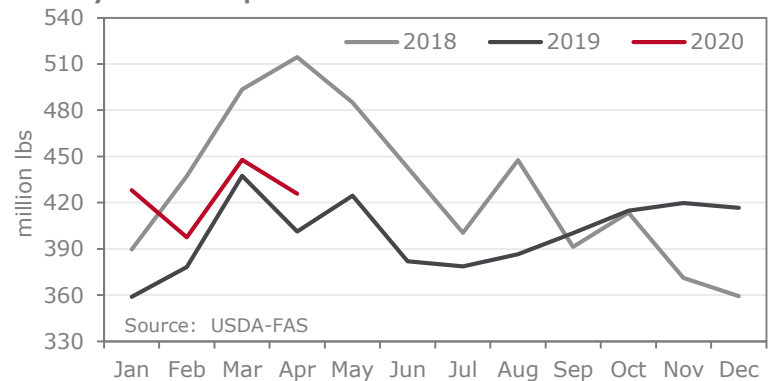
**Milk Production**



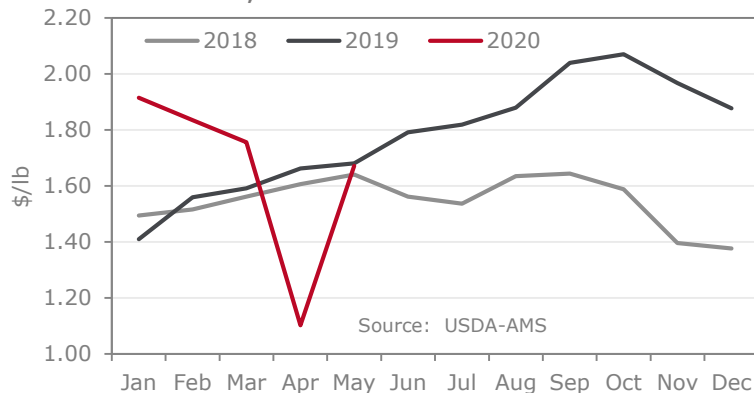
**Class III Milk**



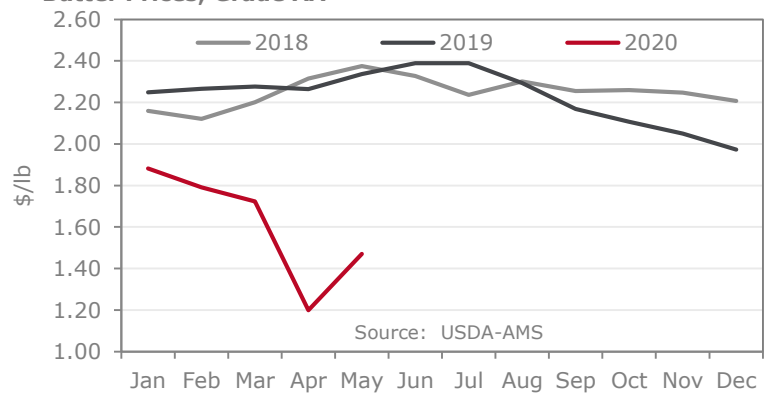
**Dairy Product Exports**



**Cheddar Cheese, 40-lb. block**



**Butter Prices, Grade AA**



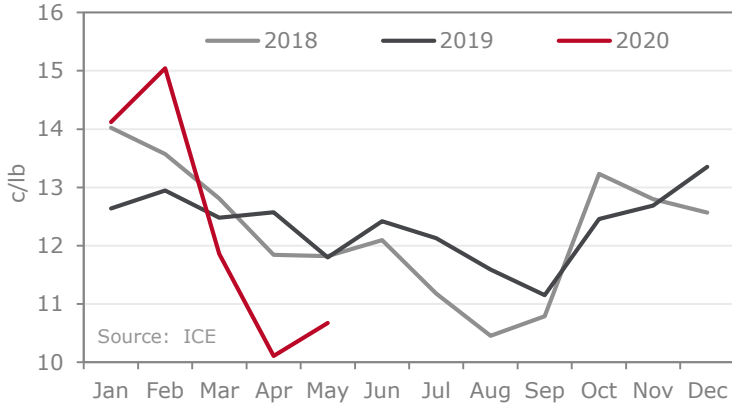
- The USDA Class I milk averaged \$11.42/cwt. for June, down 12% M/M and down 33% Y/Y. At home fluid milk consumption is on the rise, but isn't sufficient to replace losses in other market areas.
- The Class III milk price averaged \$12.14/cwt. during May, down 7% M/M and down 26% Y/Y.
- Cheddar cheese block prices averaged \$1.67/lb. in May, up 52% M/M and down 1% Y/Y. Restaurant re-openings and USDA purchases for feeding programs helped boost cheese prices. April cheese inventory was up 6% Y/Y and 8% M/M, although high percentage of this cheese is in aging programs and not available for immediate sale.

- The dairy herd in April was up 0.5% Y/Y and milk per cow increased 0.9% Y/Y. U.S. milk production in April was 18.7 billion lbs., up 1.4% Y/Y. USDA forecast 2020 U.S. milk production to increase 1.9% Y/Y on higher herd numbers.
- U.S. dairy product exports by volume in April continued growth, up 8% Y/Y. Exports will need to continue this pace to utilize increased milk production.
- Grade AA butter prices averaged \$1.47/lb. in May, up 23% M/M and 37% lower Y/Y. Loss of foodservice demand from COVID-19 restrictions weighed on demand and U.S. butter inventories through April increased 19% M/M and 27% Y/Y.

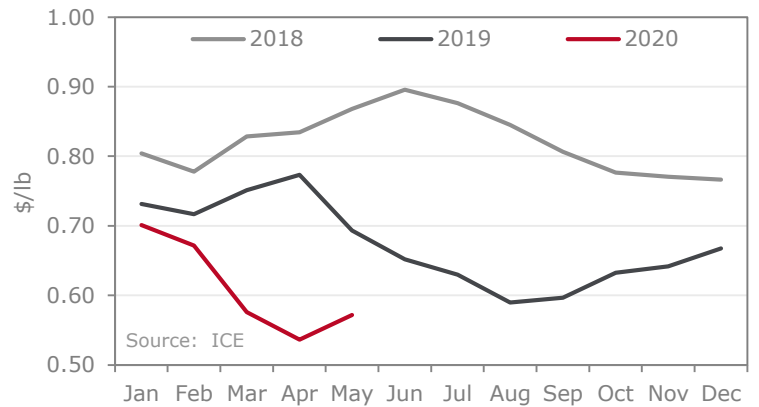
Sources: USDA, CME

**Specialty and Non-Grain Crops:** Interruptions in global supply chains, raw materials targeted for food service or consumer activities outside the home, are slowly recovering. Prices amongst this subset of specialties are showing some recovery from initial shock of the pandemic, but it will take additional Q2 data to understand re-balancing.

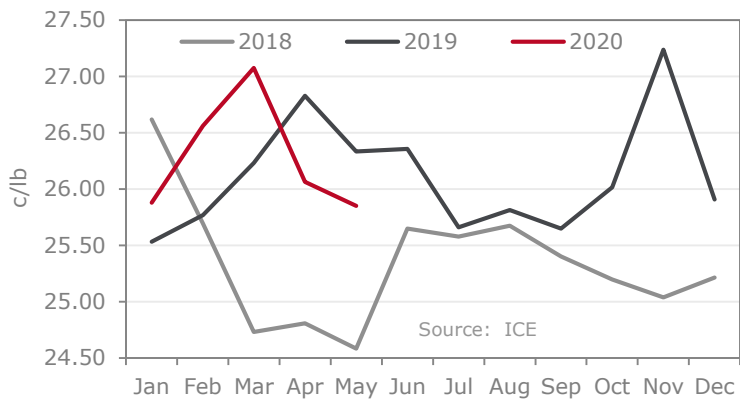
**Sugar, #11 (World)**



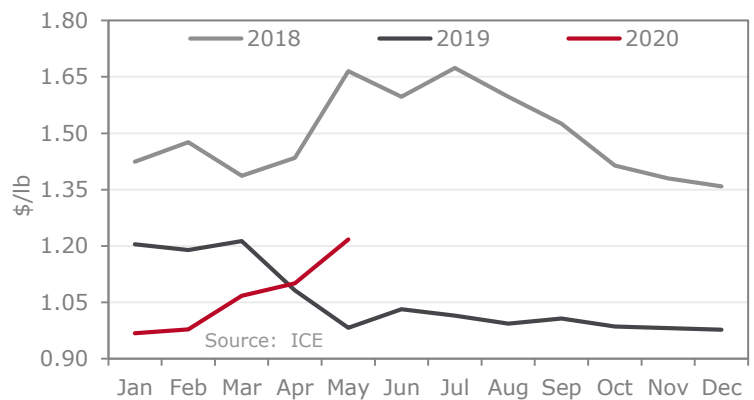
**Cotton**



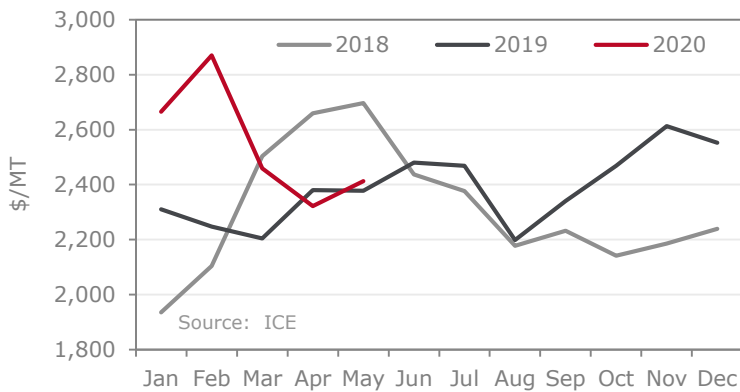
**Sugar, #16 (U.S.)**



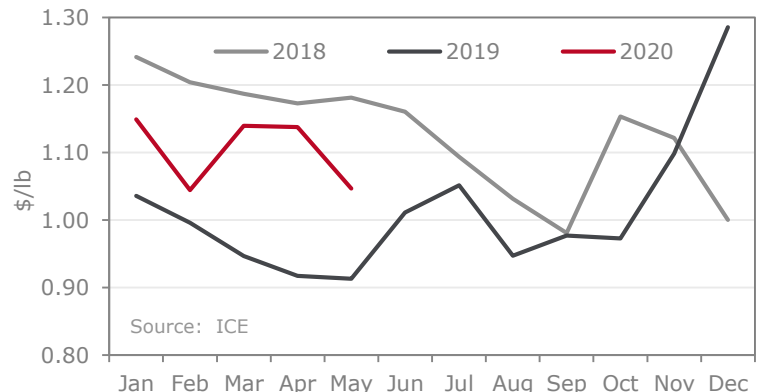
**Orange Juice**



**Cocoa**



**Coffee**



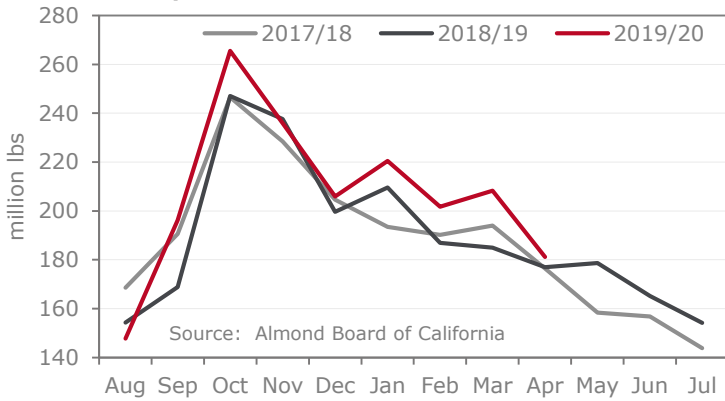
- FCOJ futures experienced upward pressure as consumers purchased fresh citrus and orange juice in the pandemic as a source of Vitamin C. FCOJ futures price are at a 12-month high at the end of May at \$1.29 per pound solid equivalent, well off multi-year lows of under \$1.00 early in 2020.
- Cocoa futures have been volatile in 2020 with overproduction in West Africa reported; coronavirus disrupted supply chains. The ICCO has reduced their cocoa deficit number to 85M mt. Cocoa prices are hovering around \$1.10 per pound.

- Nearby cotton futures averaged \$0.57/lb. in May, up 7% M/M and down 17% Y/Y. Futures traders were more optimistic in May on positive economic indicators, but cotton fundamentals remain heavy with slow consumer demand for apparel and a growing balance sheet carryover.
- Coffee futures, the C price, have fallen to a two-year low at \$0.98/pound. Central America has wrapped up their harvest while South America harvest activities are in full swing. COVID did impact processing and supply chain delays were experienced; however, there is still an abundance of coffee being produced.

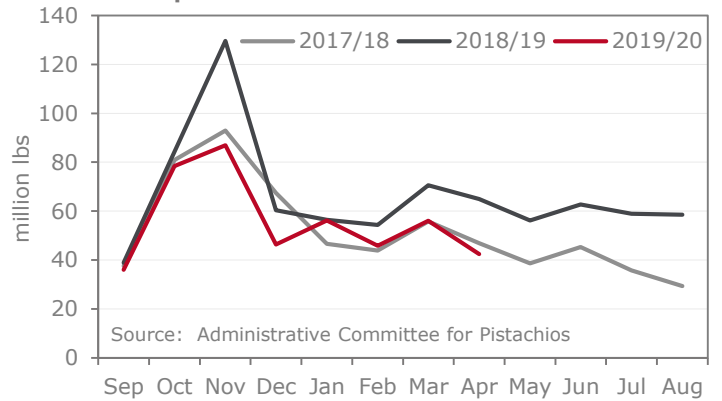
Source: ICE

**Tree Nuts and Wine:** Tree nut shipments have remained strong for almonds and pistachios. Almond pricing has downward pressure as the forecast for 2020/21 is in the 3B pound range. Walnuts and pecans have slowed down due to less domestic consumption and low exports.

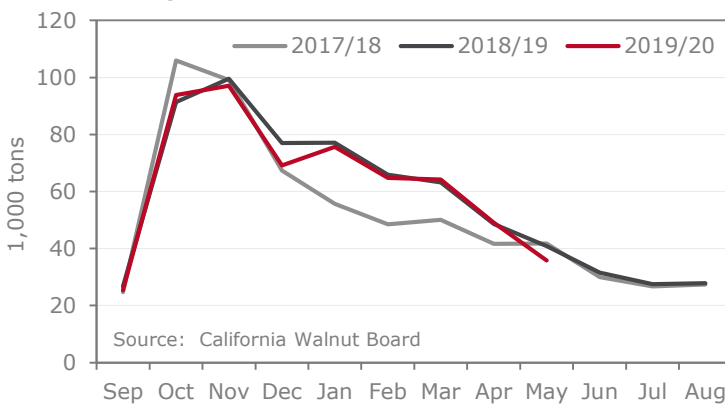
**Almond Shipments**



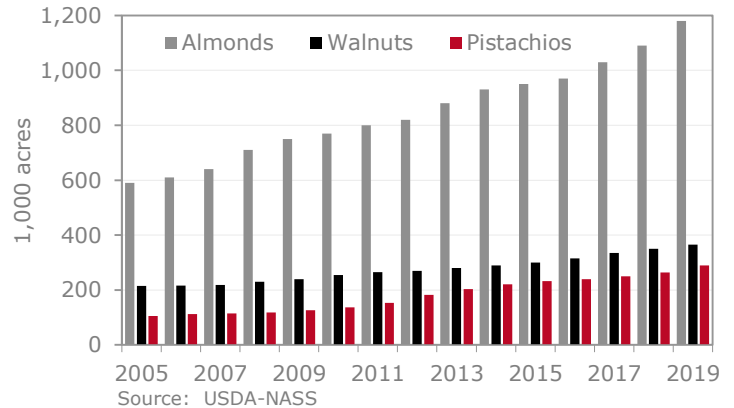
**Pistachio Shipments**



**Walnut Shipments**



**Bearing Acres**

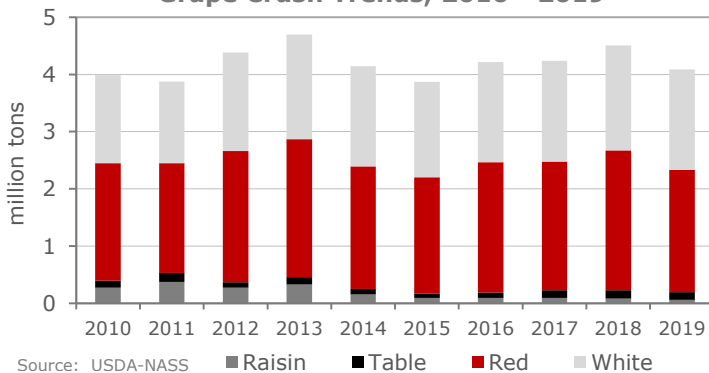


- May almond shipments were down after consecutive months of record-breaking shipments. May was down 13.9% with both domestic and export shipments losing ground.
- Walnut shipments experienced a 17.2% reduction for in-shell shipments and a 7.4% reduction for shelled product. Pricing is also experiencing downward pressure.
- Both Walnuts and Pecans are seeing a slow-down in domestic shipments as COVID has disrupted foodservice and industrial businesses serving bakery products.

- The 2019/20 pistachio crop experienced net shipments of -22.4%, Y/Y; however, gross inventory is down with the off-year crop and shipments are still moving fast.
- Pistachio exports remain strong given the off-year of the crop. Export shipments have slowed down in May from the COVID-19 lockdown.
- Downward pressure on almond pricing and slow-down in shipments can be attributed to the subjective USDA forecast of 3B pounds for the 20/21 crop year.

Sources: Almond Board of California, California Walnut Board, Administrative Committee for Pistachios

**Grape Crush Trends, 2010 - 2019**



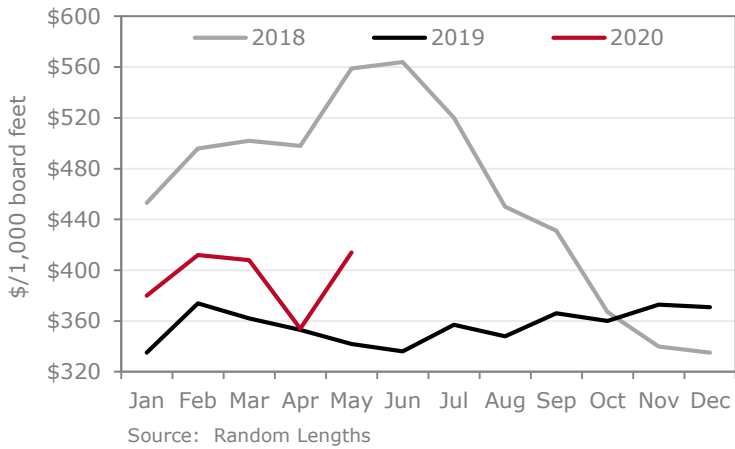
**2019 Grape Crush Results**

- Ecommerce and telesales continued to experience success for wineries that are sold through a direct-to-consumer model.
- Bulk wine buyers have come to market to replenish their sold out stocks; international buyers looking for California appellation have also been able to see favorable pricing
- As shelter-in-place orders continue to be lifted, the wine industry is looking forward to the restaurant channel and tasting rooms opening back up to further its sales recovery.

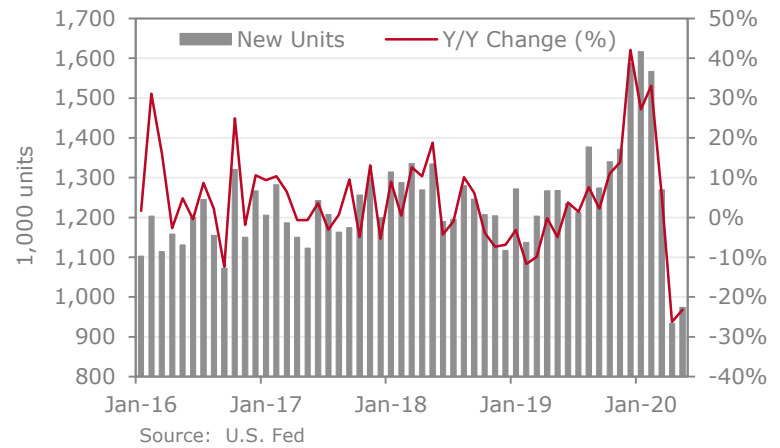
Sources: USDA, Nielsen

**Forest Products:** Lumber and panel prices were up solidly in May as demand at home improvement stores beat expectations and output was below pre-COVID levels. Housing starts rebounded slightly in May.

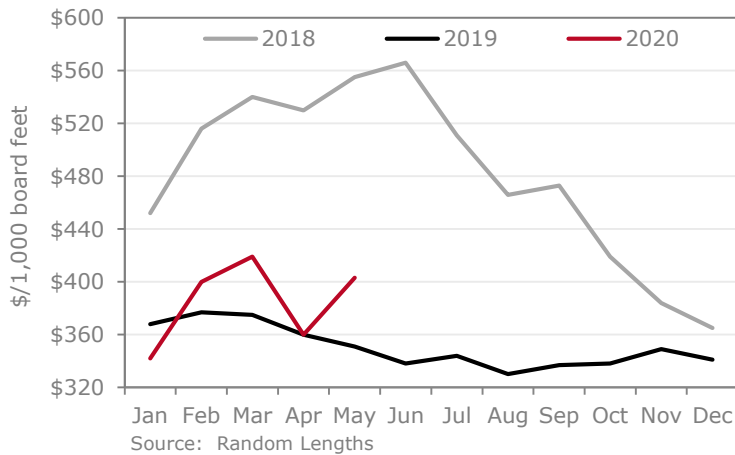
**Framing Lumber Index**



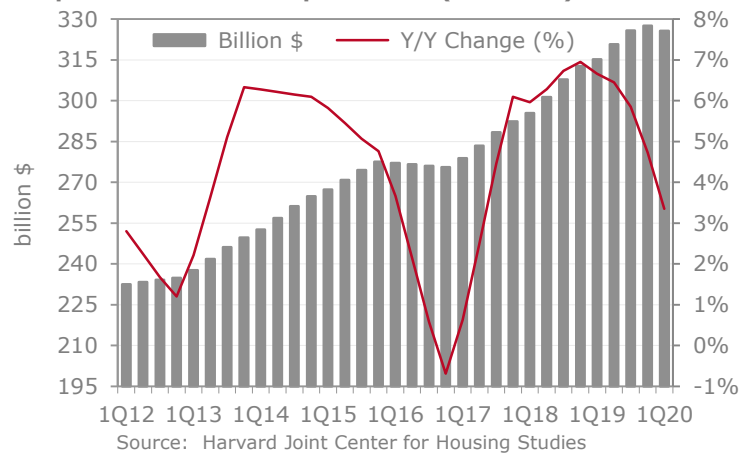
**U.S. Housing Starts**



**Structural Panel Index**



**Repair and Remodel Expenditures (LTM total)**

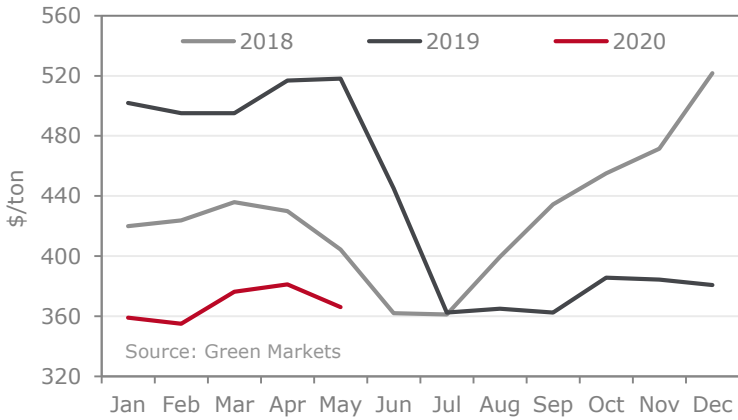


- The Framing Lumber Composite Index averaged \$414/thousand board feet in May. This was up 17% from April, up 21% Y/Y, and the highest since October 2018. Although the COVID-19 pandemic has slowed home-building activity, lumber prices moved higher throughout May amid reduced production and larger-than-expected sales at home improvement stores. Buyers were cautious about extending orders past mid-June because demand could ease as homeowners stay at home less.
- The Structural Panel Composite Index of \$403/thousand board feet in May was up 12% M/M and up 15% Y/Y. As was the case for lumber, strong demand at home improvement stores bolstered prices and made near-term supplies tight. Smaller imports also contributed to the tight supply situation, which wholesalers suspect could abate as homeowners venture out of their homes more.
- U.S. housing starts of 974,000 units in May were up 4% from April, but down 23% Y/Y and 40% below the recent peak in January. Single-family homes, which account for roughly two-thirds of total housing starts, were down 18% Y/Y while multi-family units were down 33%.
- The Joint Center for Housing Studies (JCHS) at Harvard University estimated LTM repair and remodel expenditures for 1Q'20 at \$326 billion, down 0.6% from the previous quarter but up 3% Y/Y. JCHS indicated that impacts of the economic shutdown due to COVID-19 point to spending declines this year with further worsening in 2021.

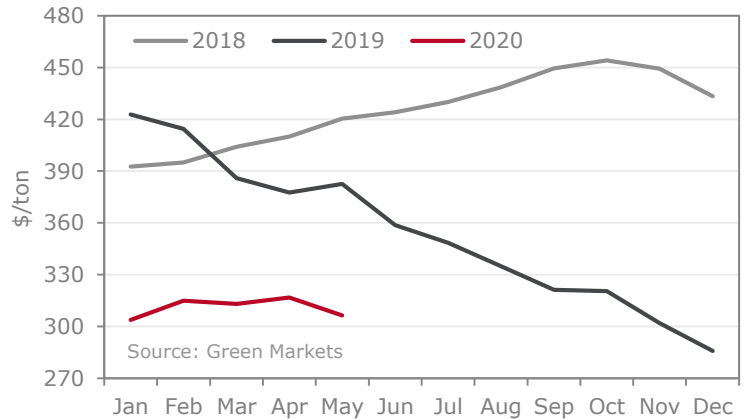
Sources: Random Lengths, U.S. Fed, Harvard JCHS

**Crop Inputs:** Nitrogen and DAP prices were lower M/M in May due to large supplies and a seasonal decline in demand. Potash prices were flat, with supply and demand relatively balanced. Fertilizer prices are down 20-30% Y/Y with supplies ample. Fuel prices remain well below recent years on reduced driving amid COVID-19.

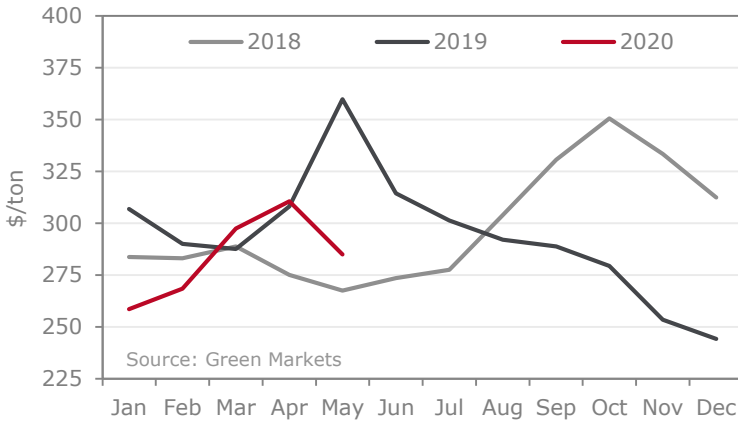
**Ammonia**



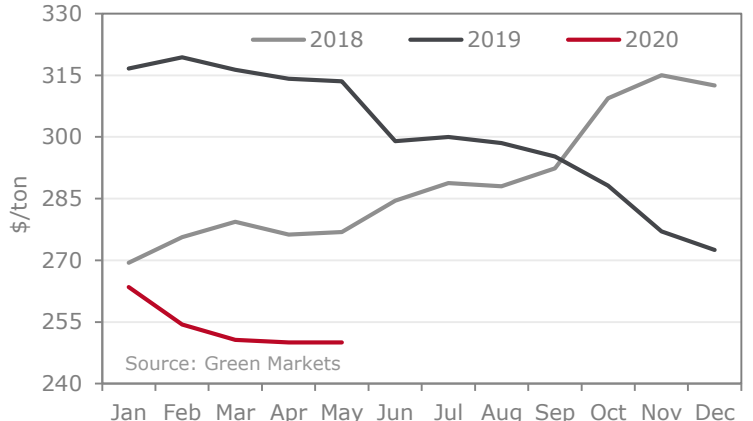
**DAP**



**Urea**



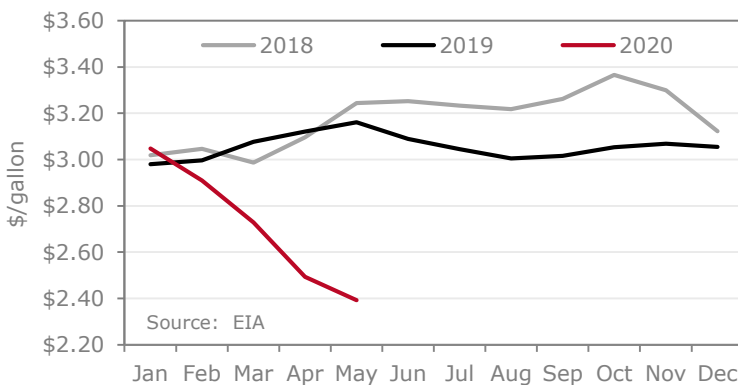
**Potash**



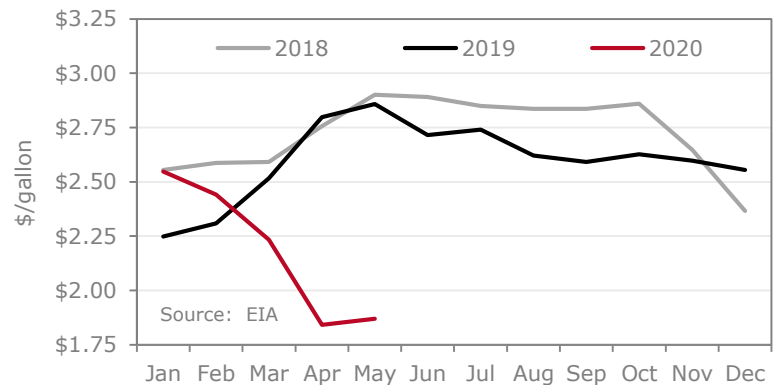
- Ammonia prices in the Corn Belt averaged \$366/ton in May, down 4% M/M with demand light between pre-plant and side-dress season, and down 29% Y/Y on surplus supplies.
  - Urea prices in the Corn Belt averaged \$285/ton in May, down 8% M/M. Prices declined each week of the month as a buildup in imported supplies pressured Gulf barge values.
- Source: Green Markets

- DAP prices in the Corn Belt averaged \$307/ton in May, down 3% M/M due to large imports and soft demand with spring application ending. Prices are down 20% Y/Y on big supplies.
- Potash prices in the Corn Belt averaged \$250/ton in May, unchanged M/M but down 20% Y/Y. Supply and demand are in balance as suppliers have cut output quickly on low prices.

**Diesel Fuel**



**Gasoline**



- U.S. on-highway diesel prices averaged \$2.39/gallon in May, down 10 cents (4%) M/M and the lowest since August 2016 on low crude oil prices and reduced travel due to COVID-19.
- Source: EIA

- Retail U.S. gasoline prices averaged \$1.87/gallon in May. This was up 3 cents (2%) M/M, but down 99 cents (35%) Y/Y and still among the lowest in a decade with demand low because of the COVID-19 pandemic.

## Food and Agribusiness Industry Advisors

Lee Ann Pearce  
FAIA Manager  
Sector Coverage: Tree Nuts, Vineyards, Wineries,  
Spices, Cocoa, Coffee  
[leeann.pearce@wellsfargo.com](mailto:leeann.pearce@wellsfargo.com)  
559-331-0327

Kevin Bergquist  
Sector Manager: Forest Products, Poultry, Eggs  
[bergquk@wellsfargo.com](mailto:bergquk@wellsfargo.com)  
503-314-6330

Matt Dusi  
Sector Manager: Fruits, Vegetables, Hay  
[matt.w.dusi@wellsfargo.com](mailto:matt.w.dusi@wellsfargo.com)  
559-203-2994

Scott Etzel  
Sector Manager: Dairy, Seafood, Sugar  
[etzel@wellsfargo.com](mailto:etzel@wellsfargo.com)  
503-318-9385

Tim Luginsland  
Sector Manager: Grains, Oilseeds, Cotton  
[luginstr@wellsfargo.com](mailto:luginstr@wellsfargo.com)  
913-234-2921

Lon Swanson  
Sector Manager: Crop Inputs/Feed, Beef, Pork  
[lon.k.swanson@wellsfargo.com](mailto:lon.k.swanson@wellsfargo.com)  
913-234-2922

Karol Aure-Flynn  
Sector Analyst Team Lead  
Sector Coverage: Packaged Foods, Ag Tech  
[karol.aure-flynn@wellsfargo.com](mailto:karol.aure-flynn@wellsfargo.com)  
559-622-3045

Chris Eggerman  
Sector Analyst: Grains, Crop Inputs, Forest Products  
[chris.eggerman@wellsfargo.com](mailto:chris.eggerman@wellsfargo.com)  
913-234-7702

Lakiesha McCain  
Project Manager  
[lakiesha.n.mccain@wellsfargo.com](mailto:lakiesha.n.mccain@wellsfargo.com)  
704-410-5846

Brad Rubin  
Sector Analyst: Specialty Crops  
[brad.rubin@wellsfargo.com](mailto:brad.rubin@wellsfargo.com)  
805-591-8316

Courtney Schmidt  
Sector Analyst: Protein, Dairy  
[courtney.b.schmidt@wellsfargo.com](mailto:courtney.b.schmidt@wellsfargo.com)  
361-574-5207

Michael Swanson, Ph.D.  
Chief Agriculture Economist  
[michael.j.swanson@wellsfargo.com](mailto:michael.j.swanson@wellsfargo.com)  
612-667-5136

### General disclosures

The views expressed are intended for Wells Fargo customers only. They present the opinions of the authors on prospective trends and related matters in food and agribusiness as of this date, and do not necessarily reflect the views of Wells Fargo & Co., its affiliates and subsidiaries. Opinions expressed are based on diverse sources that we believe to be reliable, though the information is not guaranteed and is subject to change without notice. This is not an offer to sell or the solicitation to buy or sell any security or foreign exchange product.