MARKET SNAPSHOT

CROP INPUTS

June 30, 2022

Executive Summary

Drivers for the crop inputs include limited supplies, high demand for energy and fertilizer products, and reduced shipping and trucking volumes.

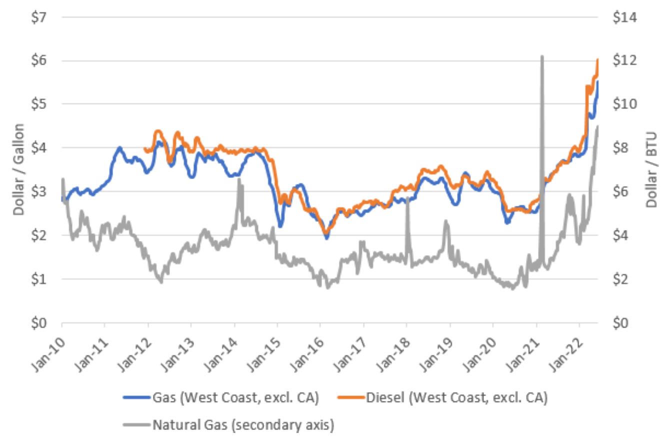
Energy

Retail Gas and Diesel – Tight market conditions for gasoline and diesel will likely continue through 2022. Inventories for crude and its intermediary to final products are significantly below their five-year averages. Domestic production collapsed after the pandemic and, while slowly recovering, remains 9% below 2019 levels. Limited capacity investment is likely given environmental regulations and economic uncertainty (if there is a recession, demand will fall). The Organization of the Petroleum Exporting Countries Plus (OPEC+) has not demonstrated a strong willingness, or capacity, to significantly increase production. The fallout from Russia's invasion of Ukraine evolves daily, but global supply disruptions have been partially dampened by its increased exports to India and China. Further, coronavirus-related lockdowns in China have reduced overall global demand.

Gas price rose to a national average of $5.01 for a gallon in Mid-June, $1.98 higher than a year ago. As harvest nears, the U.S. Energy Information Administration (EIA) predicts that farmers may have some relief from record fuel prices forecasting that diesel will decrease to $4.78 per gallon by the fall. Even with this anticipated decline, fuel prices will still be more than twice what producers paid during the 2021 harvest. High fuel prices combined with rising inflation will keep operating costs elevated, squeezing grower's profit margins.

Natural Gas – While production hit a new peak in 2021, supplies are tight (record winter demand pulled heavily from storage), demand from summer heat in the South and Southeast is coming online and disruptions from the conflict in Ukraine continue to ripple globally. Coal inventories are at a multidecade low, meaning power plants cannot reliably substitute natural gas when prices rise.

Gasoline, Diesel and Natural Gas Prices

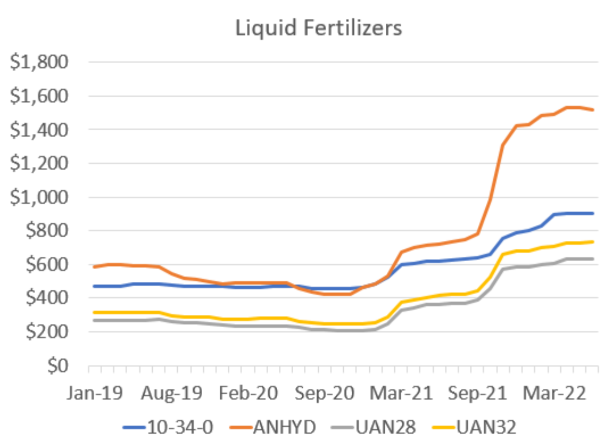


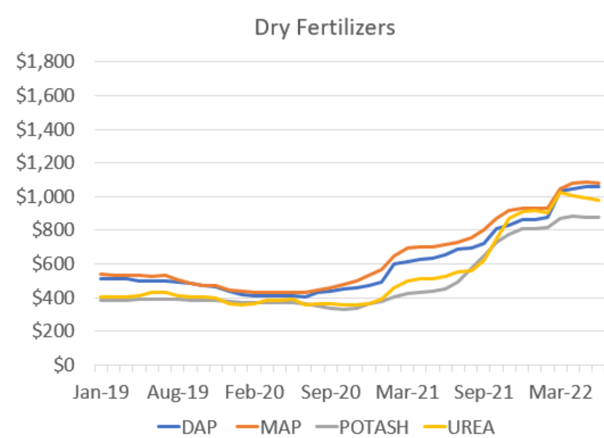
Source: U.S. Energy Information Administration.

Chemicals

Fertilizers – Market fundamentals have not changed on the supply side with restricted exports out of China and Russia and reduced European production. Rising energy costs will pressure fertilizer prices as natural gas is the primary feedstock for nitrogen products, and mining for both potash and phosphate is energy intensive. The Biden administration committed $500 million to increase domestic capacity; however, fertilizer plants can take upwards of $3-$4 billion and several years to build.

Retail Fertilizer Prices, $/ton





Source: DTN Retail Fertilizer Trends.

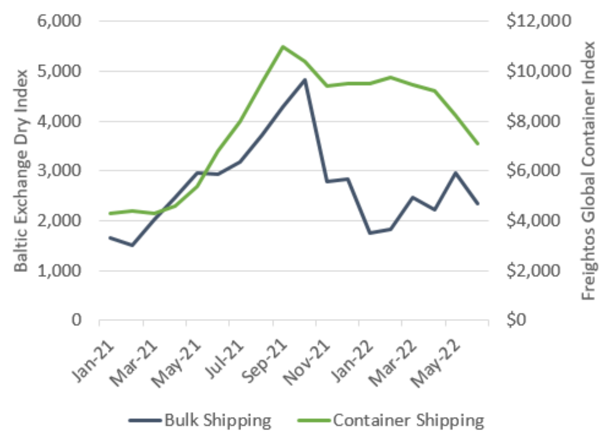
Pesticides – Supplies are likely to remain tight as manufacturers face challenges in sourcing truck capacity, inert ingredients and cardboard and plastic for packaging. Growers who did not have adequate supplies to start the season may see increased weed pressures.

Logistics

Container Shipping – Container shipping rates are trending down, but remain up 6% year over year. The ratio of eastbound (China/East Asia to West Coast U.S.) rates to westbound is high at 10:1, incentivizing shipping companies to push for faster turnaround times rather than load export products (including agriculture goods) at U.S. ports. The price outlook is uncertain. Higher consumer inflation, the prospect of a recession and sanctions on Russia (if effective) may reduce shipping demand; however, there's limited new shipping capacity coming online.

Dry Bulk Shipping – Dry bulk shipping (used for wheat, corn, industrial materials and coal) rates have been volatile, but remain 140% above their five-year average. Lower grain exports out of Ukraine and lockdowns in China have dampened demand, while Europe's renewed interest in coal provides support. As with container rates, the outlook is uncertain and will depend on agriculture yields (primarily wheat and corn), industrial production (coal and steel) and macroeconomic conditions.

Container and Dry Bulk Shipping Costs



Source: Freightos, Investing.com.

Seaports – Port congestion remains a challenge. The World Bank's 2021 Port Performance Index ranked Seattle 336 out of the 370 ports evaluated, followed by Tacoma at 345, Long Beach 369 and Los Angeles 370. Contract negotiations between the Pacific Maritime Association and International Longshore and Warehouse Union continue, with the deadline of July 1 approaching. A recent public statement said that negotiations are ongoing and both sides expect cargo to keep flowing.

Trucking – Freight rates declined 9.5% in May, but remain up 31% year over year. While still early, this may signal a top in the current rate cycle. Lower goods demand due to inflation and reduced supply from coronavirus-related lockdowns in China may reduce trucking volumes.

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