



# Northeast Feed & Grain Outlook Presentation



FARM CREDIT EAST

Farm Credit East  
Spring 2020 Webinar Series

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### **Profile**

- Institutionally-trained securities analyst and investor
- Proven track record of return and strategic value creation
- Subject matter expert in food, agriculture, finance, technology

### **Career**

- Lead Economist & Strategist, CoBank ACB
- Sector Manager, Food & Ag Industry Advisors, Wells Fargo
- Executive Director, Food & Ag Research (FAR), Rabobank
- Senior Managing Partner, Carlan Advisors Group
- Senior Analyst, Smith Barney (Morgan Stanley), Moody's Investors Service, Keefe Bruyette & Woods, Lazard Asset Mgmt.

### **Education & Credentials**

- Graduate of University of Pennsylvania / Wharton Executive Education General Management Program (GMP)
- Bachelors of Science in Finance, University of South Florida
- Accredited Investment Fiduciary AIF®, Accredited Financial Analyst AFA®
- Chartered Financial Analyst (CFA) program Levels I and II



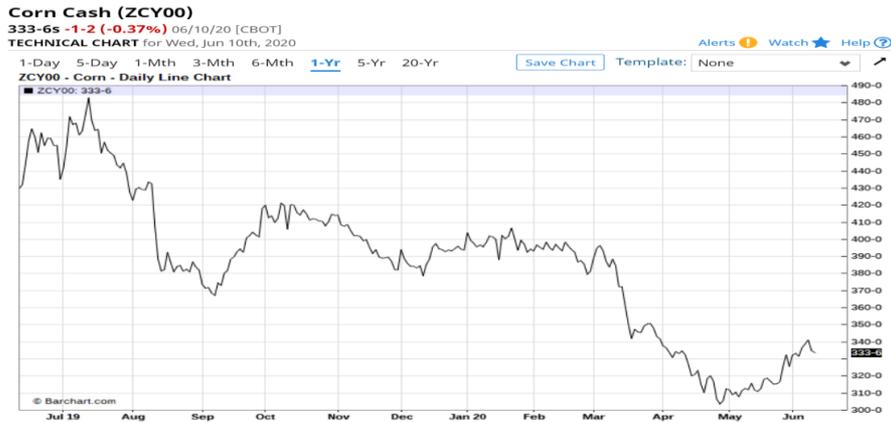
# Core Presentation

*Grain and Feed Sector Review*

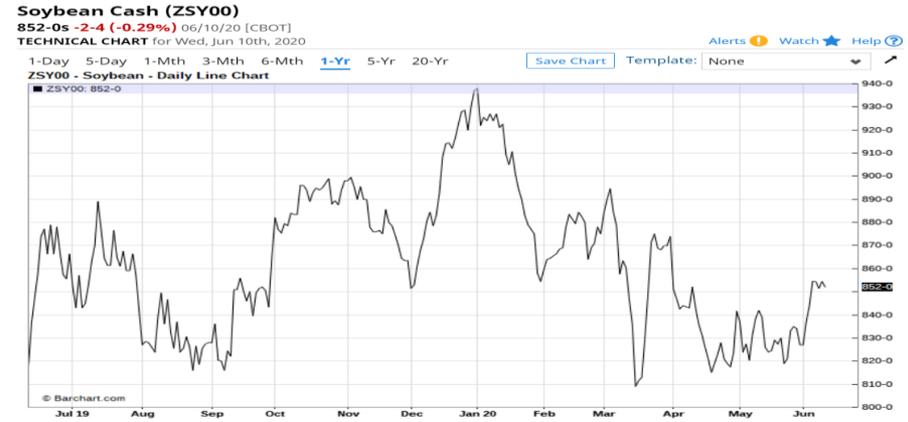
# Grain Prices: Corn, Soybean and Cotton Rising since April Lows, Wheat Decline Continues Since January



## CORN



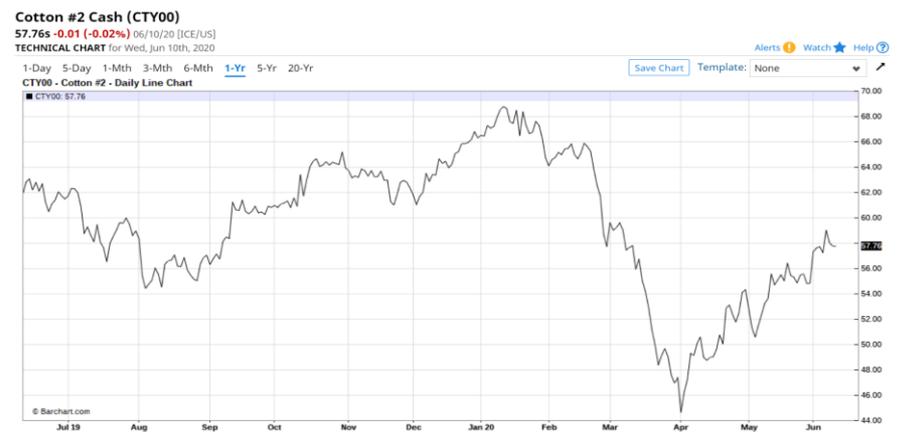
## SOYBEANS



## WHEAT



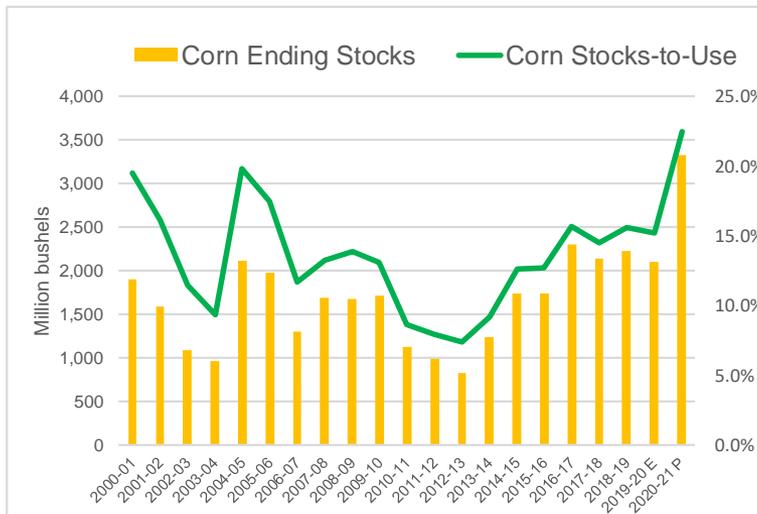
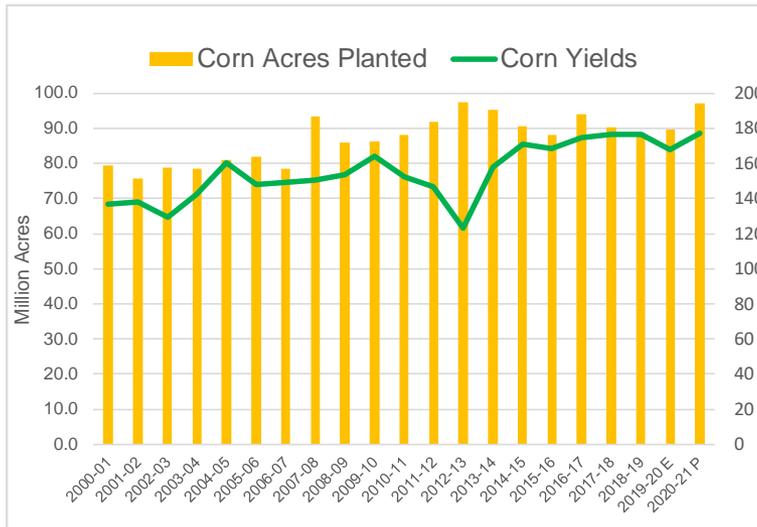
## Cotton



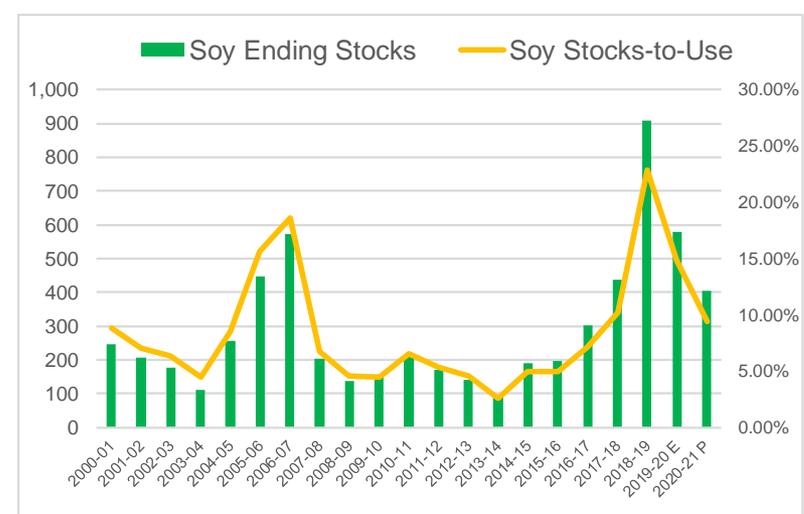
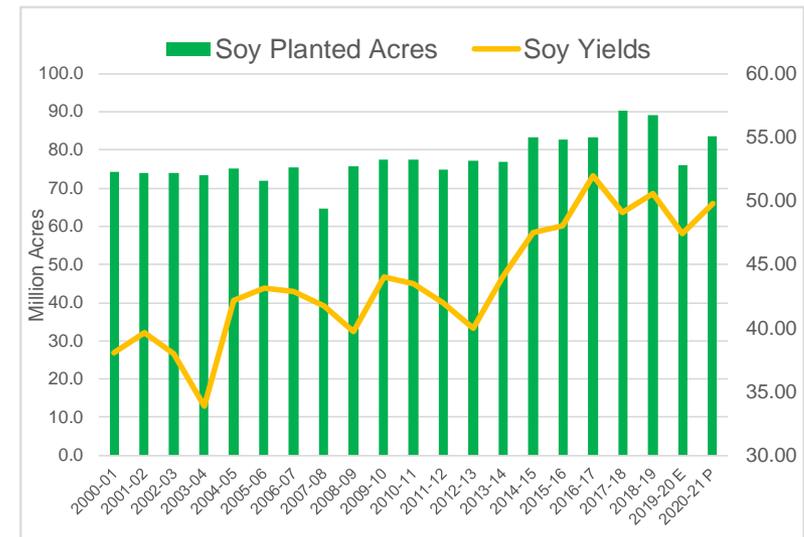
# Corn and Soybean Fundamentals (new WASDE report out today!)



## Corn



## Soybeans



# U.S. Crop Progress Is Going Extremely Well



## Corn Planted

Week Ended	% Planted
<b>June 7, 2020</b>	<b>97%</b>
<i>June 7, 2019</i>	<i>78%</i>
<i>5 Year Average</i>	<i>94%</i>

## Soybeans Planted

Week Ended	% Planted
<b>June 7, 2020</b>	<b>86%</b>
<i>June 7, 2019</i>	<i>54%</i>
<i>5 Year Average</i>	<i>79%</i>

## Corn Emerged

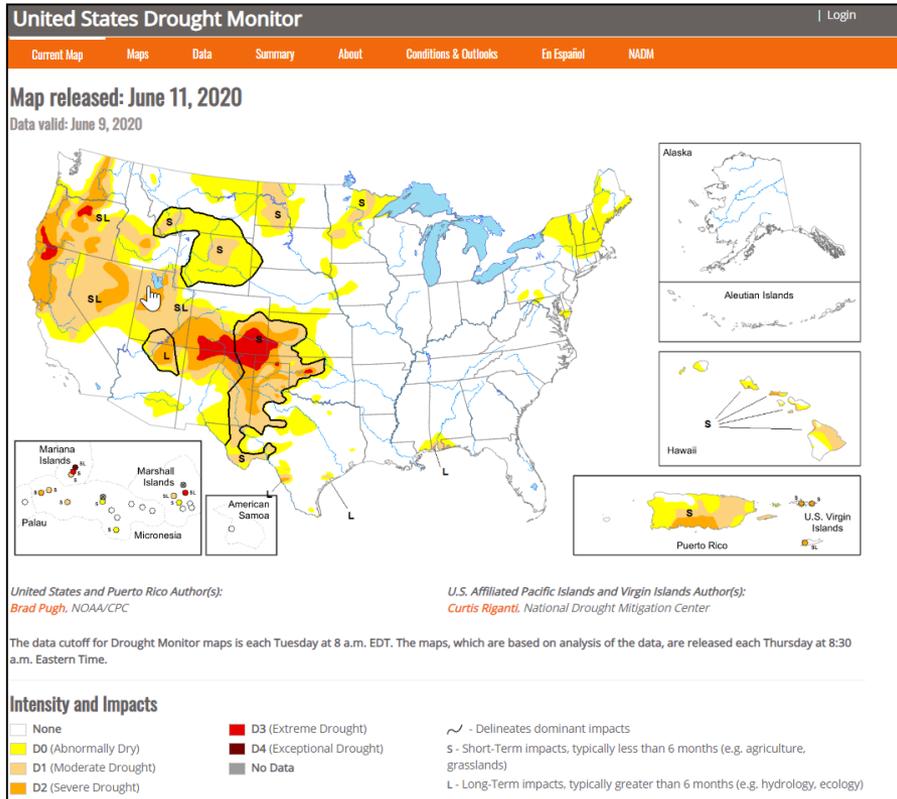
Week Ended	% Planted
<b>June 7, 2020</b>	<b>89%</b>
<i>June 7, 2019</i>	<i>57%</i>
<i>5 Year Average</i>	<i>84%</i>

## Soybeans Emerged

Week Ended	% Planted
<b>June 7, 2020</b>	<b>67%</b>
<i>June 7, 2019</i>	<i>30%</i>
<i>5 Year Average</i>	<i>61%</i>

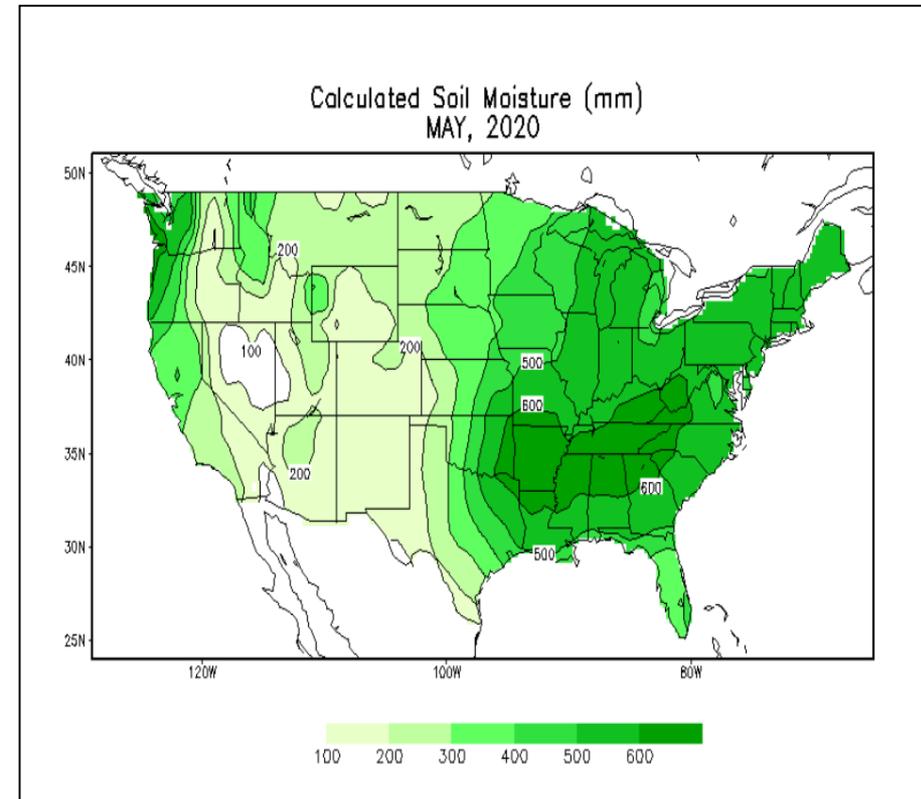
# And in Contrast to 2019, This Year's Growing Season Has Benefitted From Favorable Conditions

## Drought Monitor



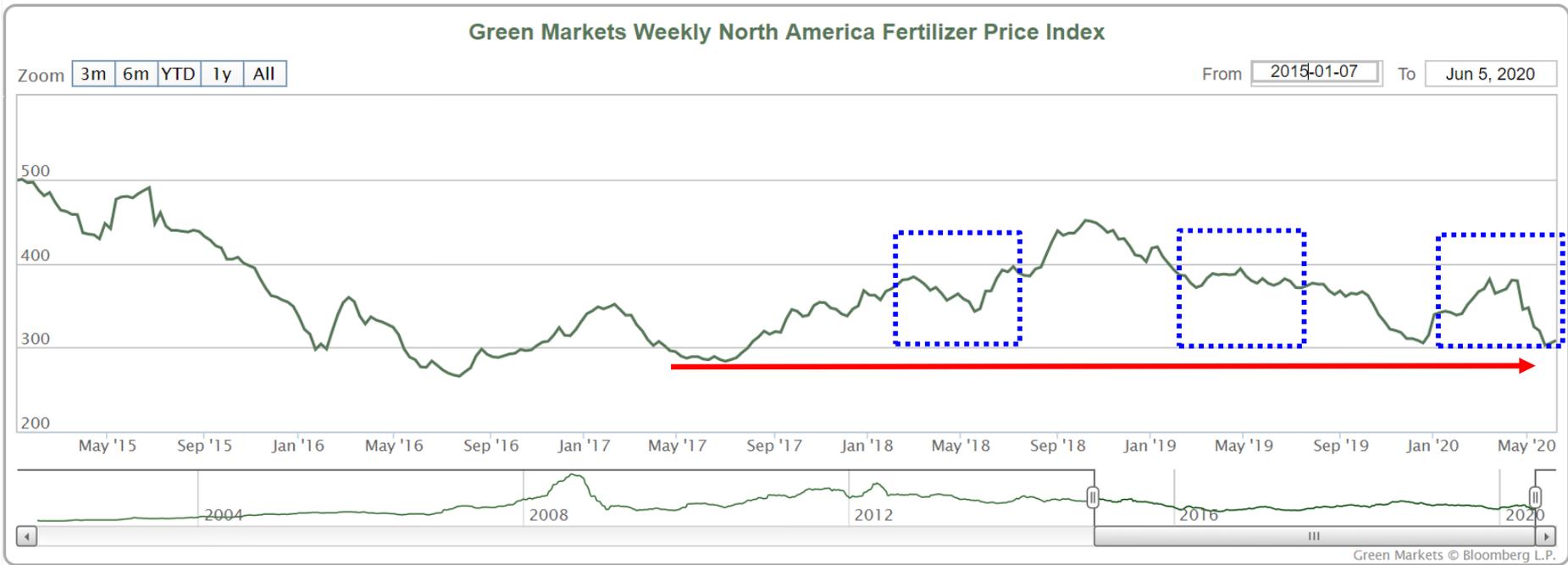
Source: NOAA National Weather Service Climate Prediction Center <https://droughtmonitor.unl.edu/>

## Soil Moisture



Source: NOAA National Weather Service Climate Prediction Center [https://www.cpc.ncep.noaa.gov/products/Soilmst\\_Monitoring/US/Soilmst/Soilmst.shtml#](https://www.cpc.ncep.noaa.gov/products/Soilmst_Monitoring/US/Soilmst/Soilmst.shtml#)

# Fertilizer Prices Have Begun Their Seasonal Decline, But Are Now Nearing 2017 Price Levels



Recent weakness in the US Dollar has made U.S. soybean and wheat exports considerably more competitive with Brazil and the Black Seas regions, respectively

## U.S. Dollar/Brazilian Real (^USDBRL)

4.97453 +0.00422 (+0.08%) 06:46 CT [FOREX]

4.97274 4.97978

TECHNICAL CHART for Thu, Jun 11th, 2020

Alerts Watch Help

1-Day 5-Day 1-Mth 3-Mth 6-Mth 1-Yr 5-Yr 20-Yr

Save Chart

Template: None

^USDBRL - U.S. Dollar/Brazilian Real - Daily Candlestick Chart



## U.S. Dollar/Russian Ruble (^USDRUB)

69.073 +0.636 (+0.93%) 06:49 CT [FOREX]

69.079 69.109

TECHNICAL CHART for Thu, Jun 11th, 2020

Alerts Watch Help

1-Day 5-Day 1-Mth 3-Mth 6-Mth 1-Yr 5-Yr 20-Yr

Save Chart

Template: None

^USDRUB - U.S. Dollar/Russian Ruble - Daily Candlestick Chart



# Accumulated Exports Point to Weakness in Corn, Offset by Growth in Soy and Wheat



Accumulated Exports by Marketing Year	Corn	Soybeans	Soy Meal
<u>Total Volume Change (1,000 Metric Tons):</u>			
Current Period (as of 6/4/2020)	30,252	36,219	8,280
Year Ago Period	41,259	35,653	8,431
<b>Percentage Change</b>	<b>-27%</b>	<b>+2%</b>	<b>-2%</b>

# Recent Developments in U.S. Animal Protein

*(Will Sawyer of CoBank)*



Retail food and meat sales growth has slowed and restaurant sales are showing signs of improvement, albeit still significantly below year ago levels

Instances of COVID-19 in the mostly rural communities around meat plants have surpassed the U.S. national average

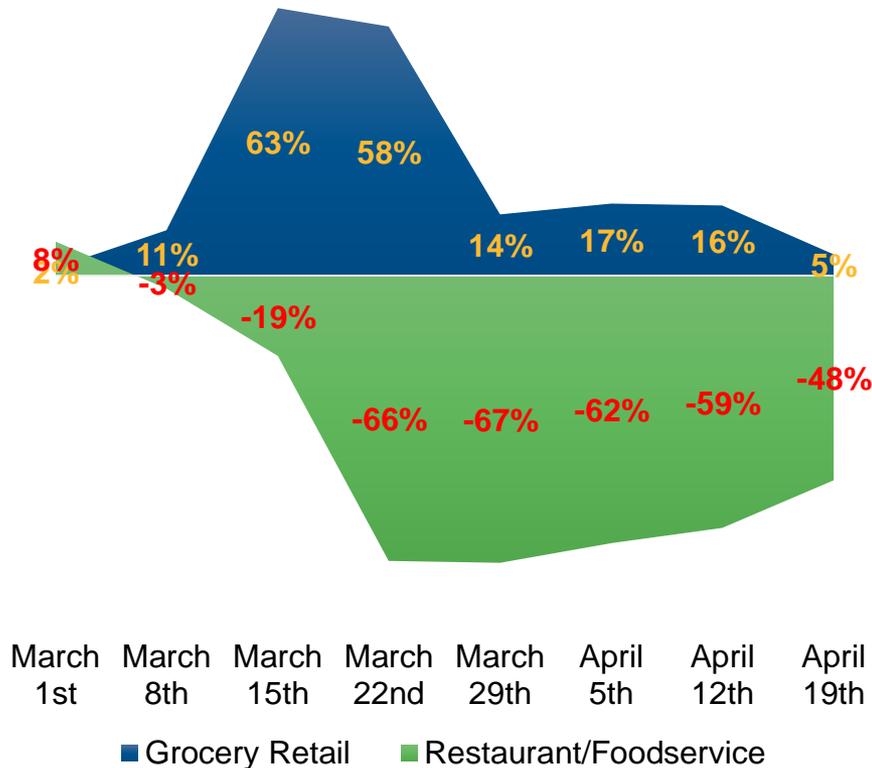
Meat and poultry production continues to contract with pork and beef capacity utilization contracting to multi-decade lows

Livestock producer margins remain significantly unprofitable and in most cases have declined in the last two weeks

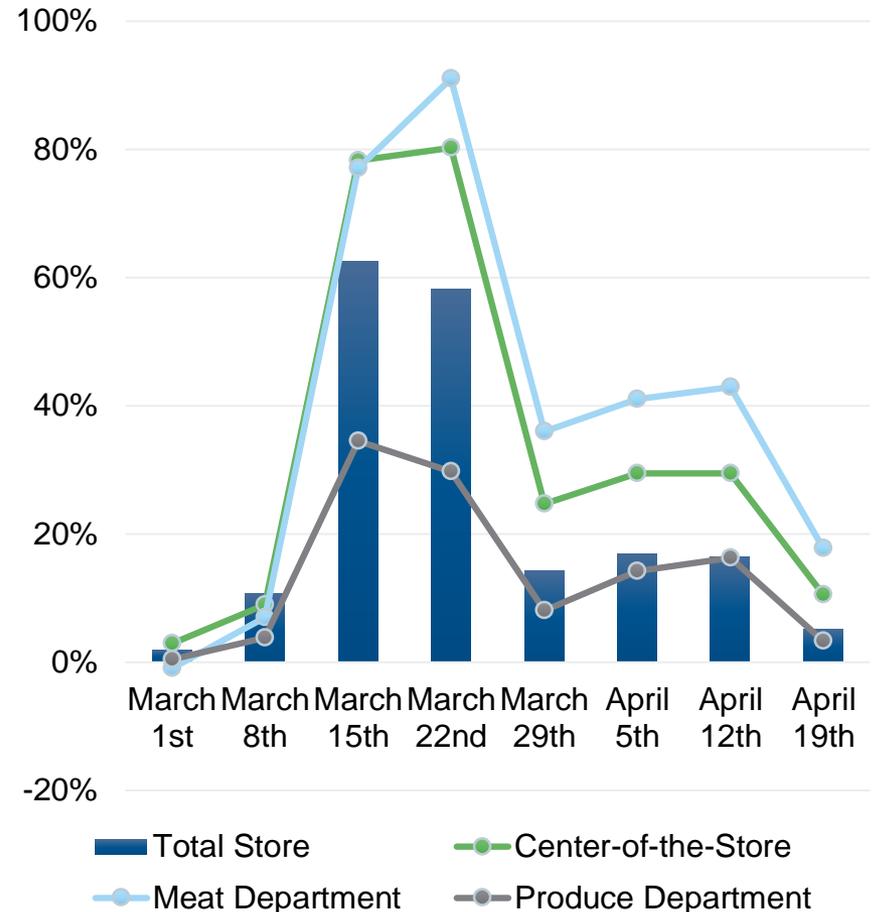
President Trump has signed an Executive Order keeping meat and poultry plants open

# Food Stockpiling by Consumers in March, Consumption “Normalizing” in April

## Food Sales Growth At-Home vs Away-from-Home

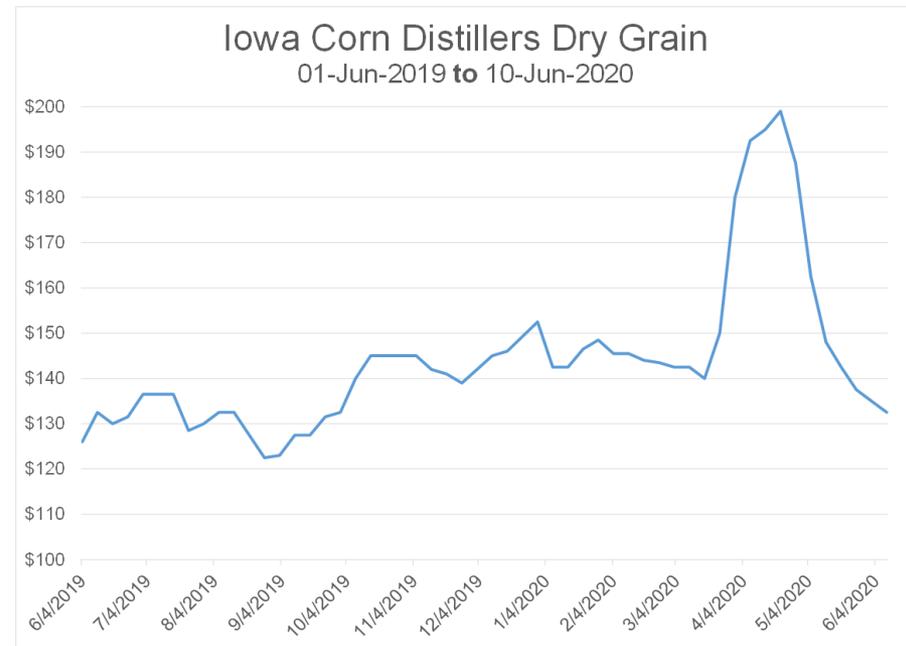
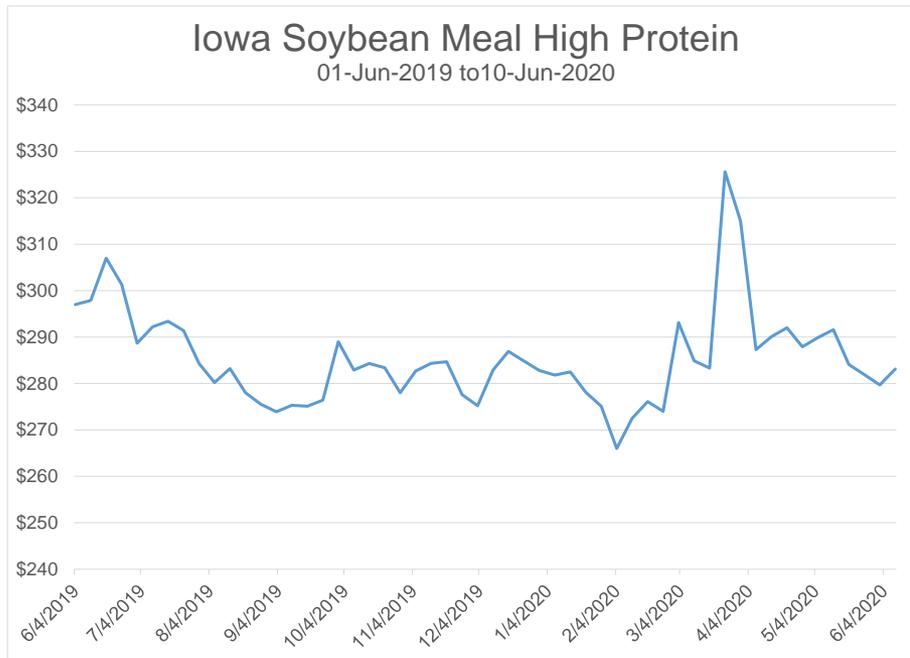


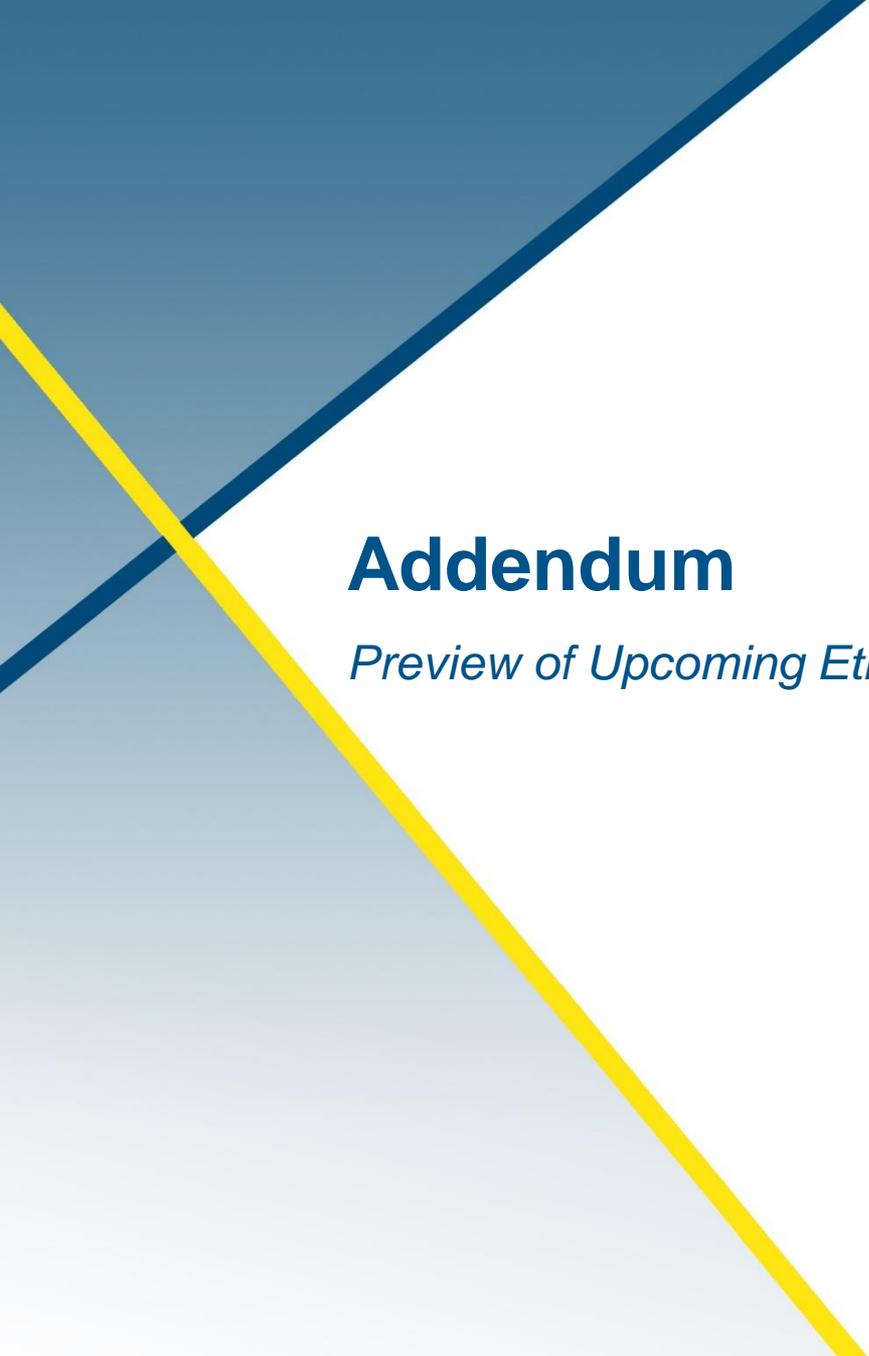
## Retail Grocery Sales Growth



# What's the Deal with Feed Costs?

Soybean meal and DDG prices have declined following the initial COVID spike





# Addendum

*Preview of Upcoming Ethanol Industry Outlook Report*

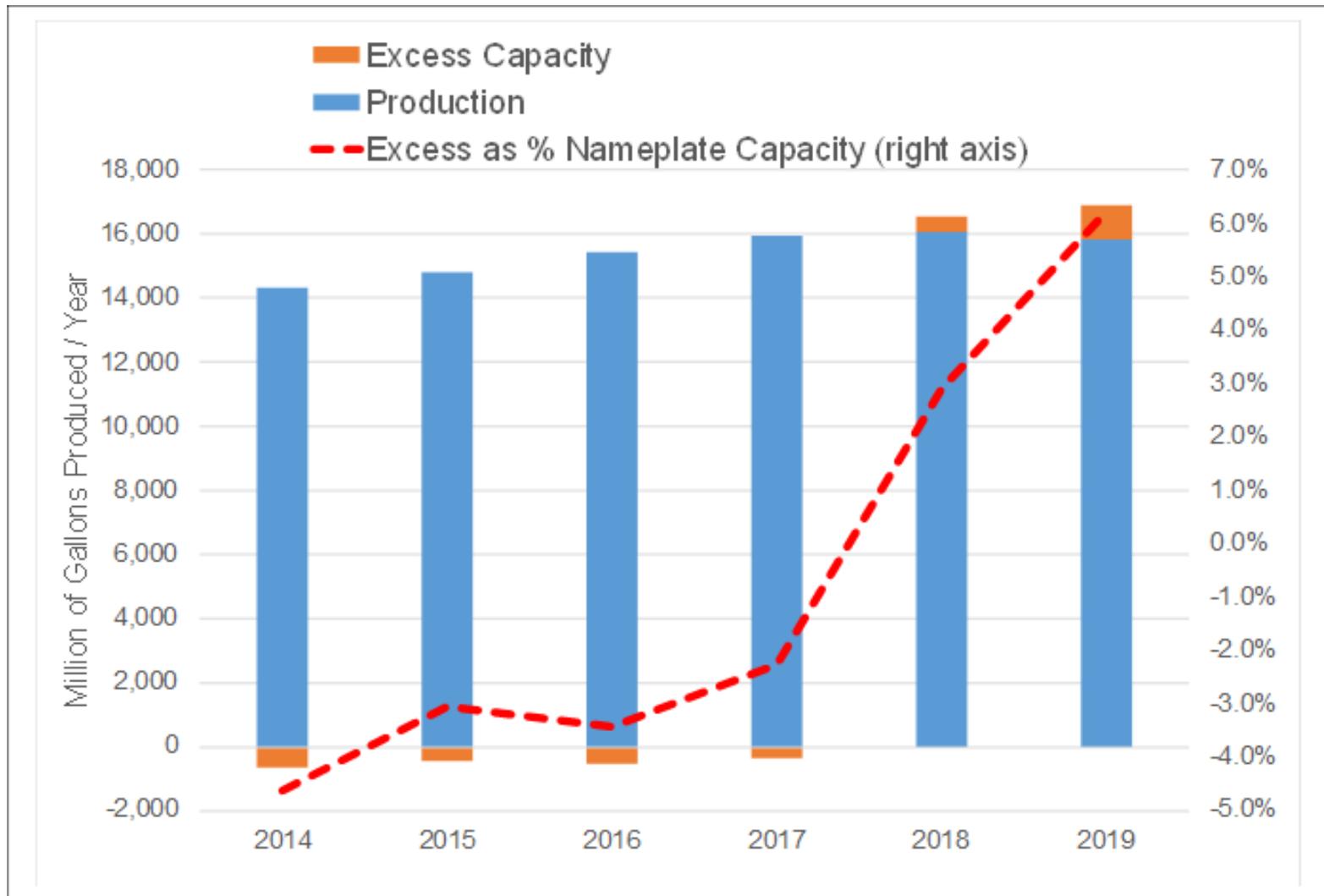
## Ethanol Industry Outlook: “*Readjustment Today, Rationalization Tomorrow*”

“WHAT”	<ul style="list-style-type: none"><li>❑ New Chart-book report on the U.S. ethanol sector</li><li>❑ Expected release in mid-June 2020</li><li>❑ Scope = current state of affairs and implications</li></ul>
“SO WHAT”	<ul style="list-style-type: none"><li>❑ The global economic shutdown since March was very disruptive to ethanol and corn markets</li><li>❑ Our research focus was to determine:<ul style="list-style-type: none"><li>• <i>To what extent would demand fully recover?</i></li><li>• <i>The likely level of excess productive capacity? and</i></li><li>• <i>Whether strategic options exist for value creation?</i></li></ul></li></ul>
“NOW WHAT”	<ul style="list-style-type: none"><li>❑ By 2025, we expect the U.S. ethanol complex to transform in 3 stages</li><li>❑ The end result will be fewer better capitalized players with revenue diversity beyond fuel ethanol</li></ul>

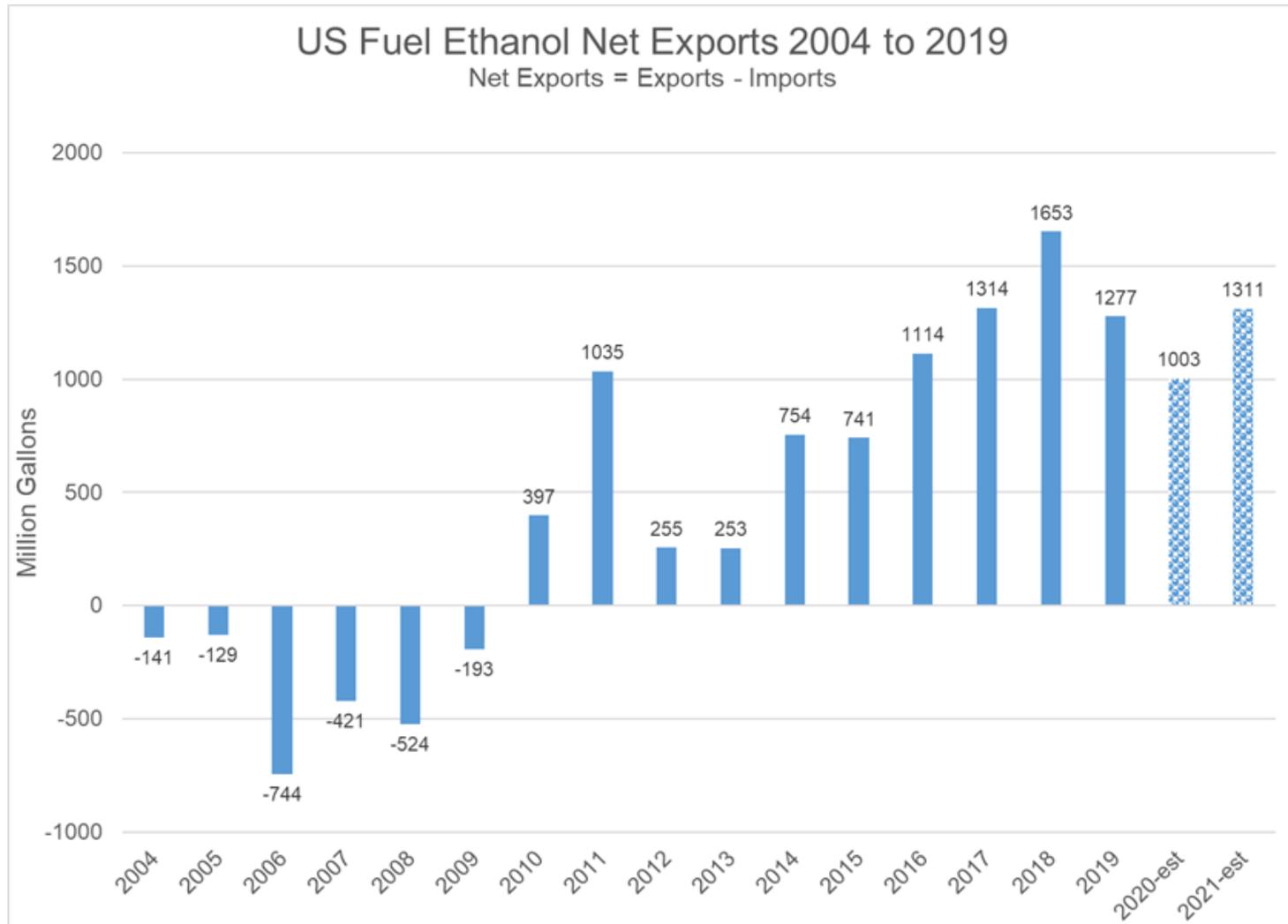
# Five Observations



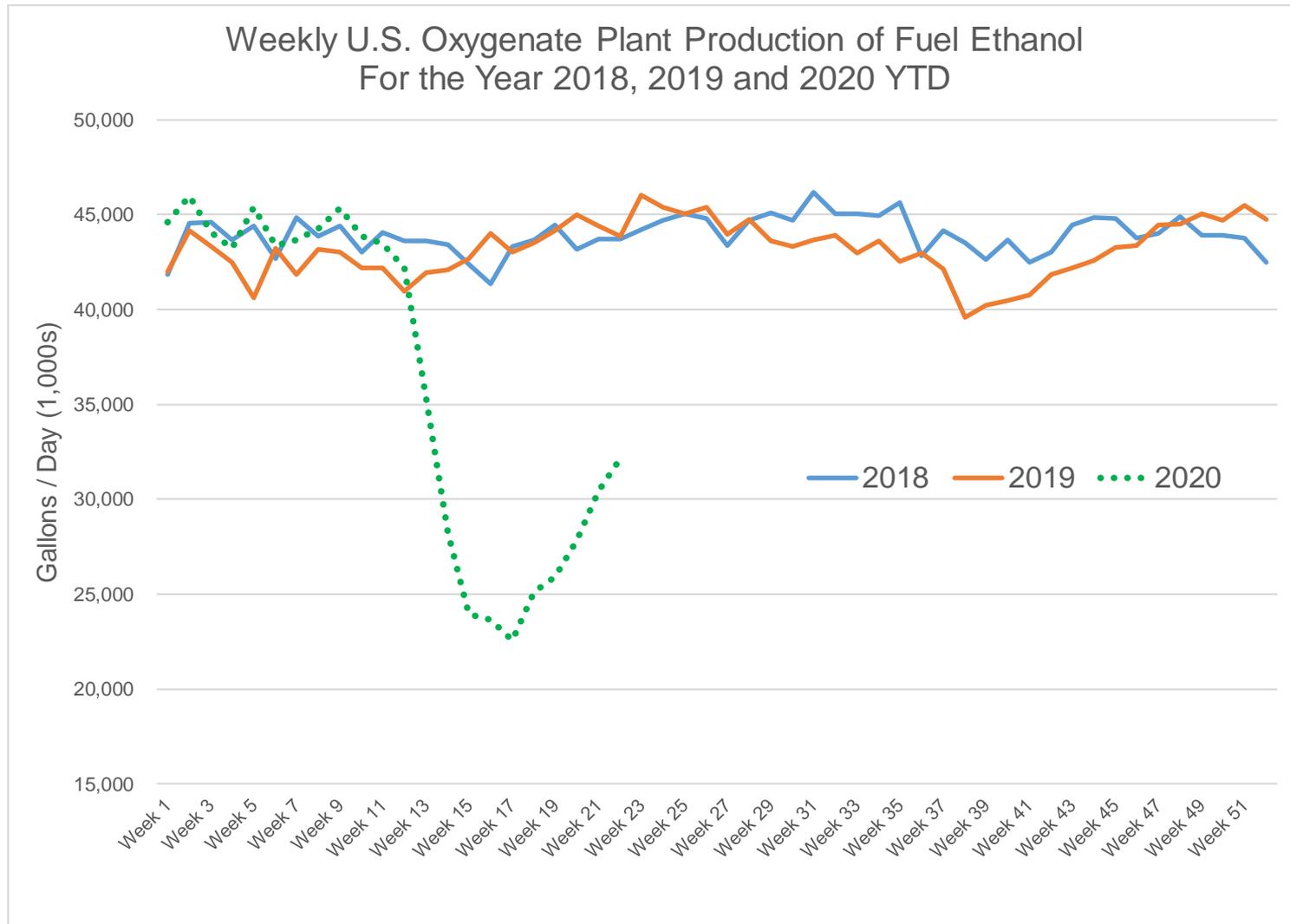
# Observation #1 - U.S. Ethanol Began 2020 with 1 Billion Gallons of Excess Capacity



# Observation #2 - Ethanol Exports Peaked in 2018 (at least for now)



# Observation #3 – Following April's Sharp Decline, Production Has Begun the Recovery Process



# Observation #4 – However, Industry Excess Capacity May Rise to Over 2.0 Billion Gallons in 2021



## US Fuel Ethanol Supply, Demand and Production Dynamics

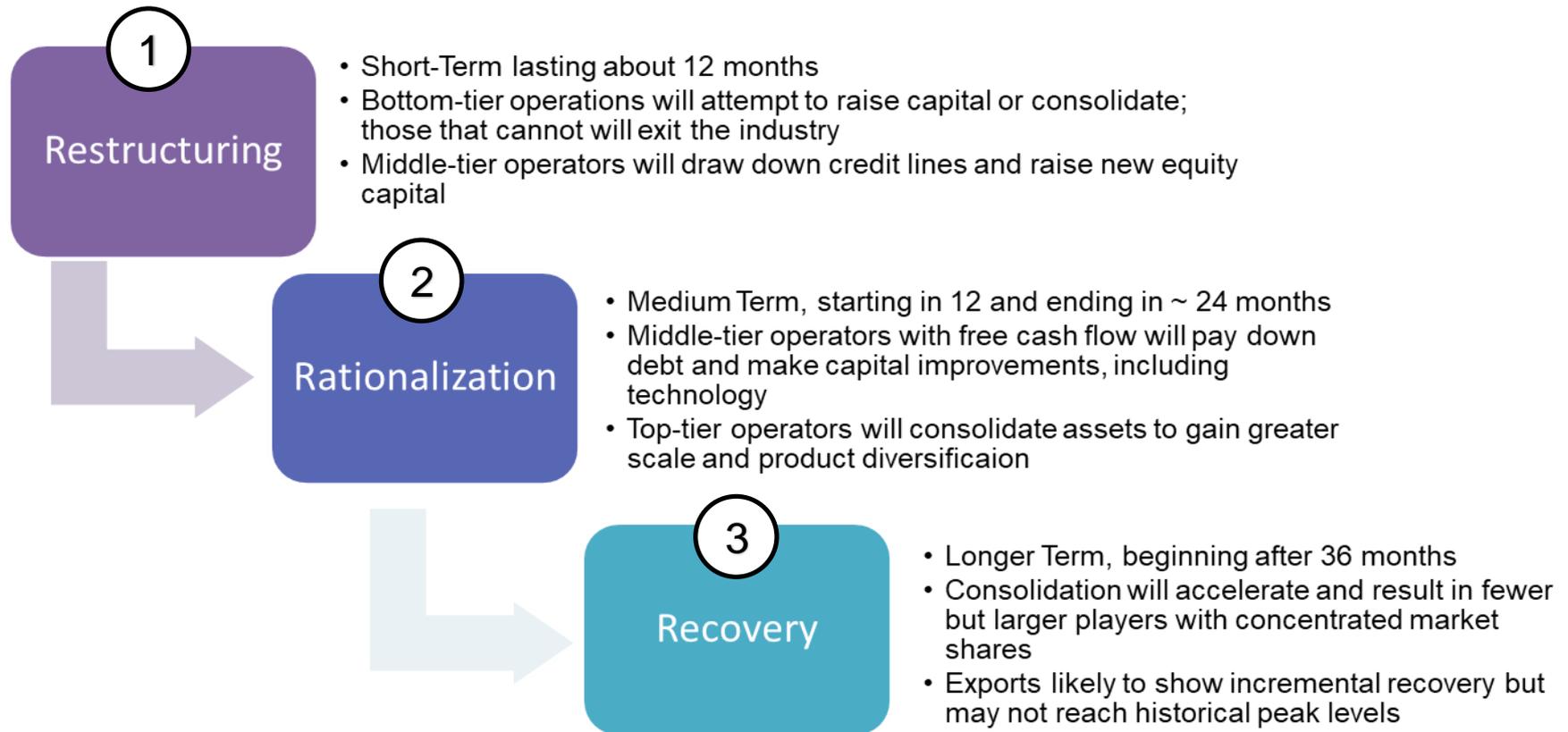
	Nameplate Capacity	Production	Excess Capacity	Excess Capacity as % Nameplate	Domestic Consumption	Net Exports	Total Consumption
2014	13,681	14,313	-632	-5%	13,444	730	14,174
2015	14,369	14,807	-438	-3%	13,947	775	14,722
2016	14,903	15,413	-510	-3%	14,356	1,074	15,430
2017	15,584	15,936	-352	-2%	14,485	1,248	15,733
2018	16,542	16,061	481	3%	14,420	1,505	15,925
2019	16,868	15,819	1,049	6%	14,579	1,187	15,766
2020-est	17,020 <sup>(a)</sup>	13,128 <sup>(b)</sup>	3,892	23%	12,366	1,059	13,425
2021-est	17,025 <sup>(a)</sup>	14,667 <sup>(b)</sup>	2,358	14%	13,491	1,187	14,678

(a) Nameplate Capacity estimates by PRX

(b) Production estimates from EIA STEO Report dated June 9, 2020

# Observation #5 – Export Competition plus Excess Capacity Will Drive Business Model Transformation

## The Industry's Evolution Will Happen in Three (3) Stages





Ethanol experienced a demand shock in late March / April in response to COVID-19 restrictions / reduced gasoline consumption



Motor gasoline and ethanol consumption and production have rebounded over the past 7 weeks as economies reopen



We do NOT see a 100% recovery, near-term, due to structurally high unemployment, reduced public gatherings, and WFH



Our analysis points to 2 billion gallons or more of excess capacity in 2021 or ~12% of nameplate capacity



We expect the a rationalization of some of the excess capacity and business model transformation / expansion of ethanol co-products



# Questions

## Presentations by:

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