

MARKET SNAPSHOT

Crop Inputs

January 24, 2024

Executive summary

Crude oil prices fell in Q4 2023 due to slowing global economies and rising U.S. production. Container rates increased by 50% due to escalating tensions in the Middle East, with attacks on commercial shipping vessels in the Red Sea disrupting trade flows. Fertilizer prices remained flat due to balanced supply and demand conditions. Labor costs continue to rise.

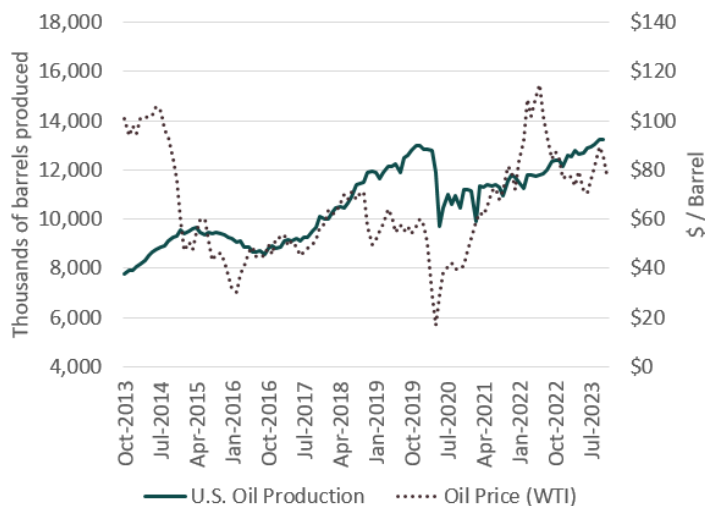
Drivers

Energy prices down due to slowing economies

West Texas Intermediate (WTI) crude oil prices fell in Q4 2023 as a slowing global economy and increasing production in the U.S. offset the impact of escalating tensions in the Middle East.

- Many expect the global economic growth to slow in 2024 largely due to tighter monetary policy. Lower consumer spending, weakening property markets and falling manufacturing output are also headwinds across many countries, including the U.S., China and Europe.
- Rising production in the U.S. could continue to soften prices. Crude oil production in the U.S. has increased 20% over the last decade (see chart below), nearly all of which has gone to export markets. The U.S. is now the largest oil producer, and third largest exporter (estimated at 4 million barrels/day in 2023) behind Saudi Arabia (6.7 million barrels/day) and Russia (4.8 million barrels/day).
- The war between Israel and Hamas has significantly destabilized the Middle East region, which includes large oil exporters. An expansion of this war could threaten energy exports and increase price pressures.

U.S. Crude Oil Production and West Texas Intermediate Prices



Rising oil production in the U.S. may help to soften prices.

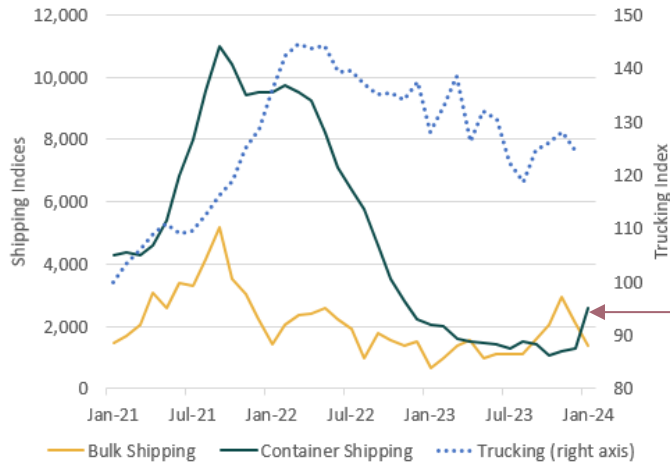
Source: Energy Information Agency. WTI: West Texas Intermediate Crude Oil. Data as of January 16, 2024.

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Container rates rise

Attacks on commercial shipping vessels in the Red Sea, a major shipping route between Asia and Europe, led to a 50% rise in container shipping prices in December. The Houthi movement, a rebel group located in Yemen, is conducting the attacks to dissuade Israel from continuing its military operations in Gaza (disrupting trade flows can influence international policy). The U.S. and United Kingdom have responded with airstrikes on Houthi targets. The situation remains volatile and tensions could potentially escalate, which may further disrupt trade flows.

Freight Rate Indices



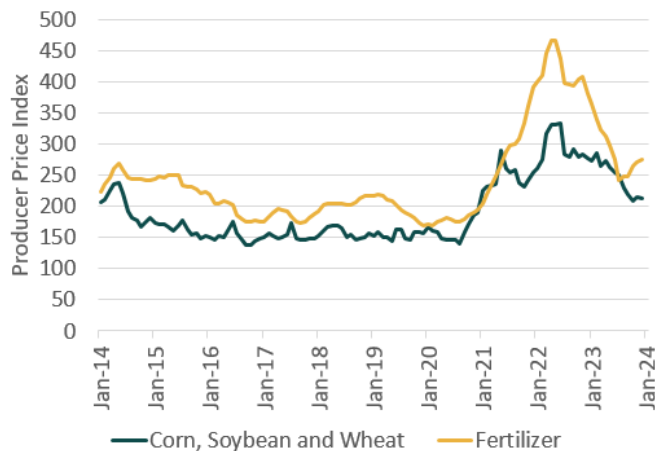
Container shipping costs are sensitive to geopolitical conflict.

Source: Freightos Baltic Index, Baltic Dry Index and Producer Price Index. Data as of January 16, 2024.

Fertilizer prices flat

Supply and demand for fertilizers in the U.S. is relatively balanced and prices are likely to remain flat over the next several months. Producers finished fall applications and have sufficient inventories heading into 2024. International conditions consist of generally low demand and strong supplies. Prices for natural gas, a key input for nitrogen production, remain subdued in both the U.S. and Europe. Upward pressure could come if farmers increase the share of corn to soybean plantings (corn uses more nitrogen) and low water levels on the Mississippi River disrupt logistics.

Nitrogen Fertilizer and Grain Prices

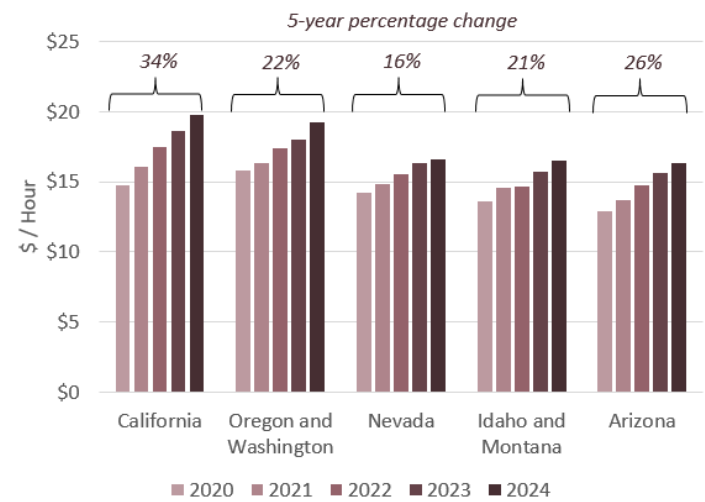


Source: Producer Price Index. Data as of January 16, 2024.

Labor costs rise

The Adverse Effective Wage Rates (AEWR) under the H-2A visa program, which enables foreign agriculture labor to temporarily work in the U.S., are rising across the West (see chart below). The AEWR generally set the baseline rate for what agriculture employers can pay for H-2A labor and is also reflective of wages for domestic labor. In 2023, the H-2A program supplied an estimated 25% of total agriculture labor in West Coast states.

Adverse Effective Wage Rates for H2A Labor



The Department of Labor adjusts the AEWL using the Employment Cost Index, which measures the change in hourly labor costs by state.

Source: Department of Labor.

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