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Agri Commodity Markets Research

August 2021: Acres and Pains

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Agricultural commodity prices have risen by 2% so far in August, led by softs and wheat. In comparison, Brent Crude prices dropped by 5% in the same period. Going forward, the return of wet weather – after a year of dryness – in main producer Brazil will be key, as September should see the flowering appearing on Brazilian arabica trees, as well as soybean plantings toward the middle of the month. A possibility of La Niña towards Q4 could result in dryness further ahead, but for now, we see some incipient rains over the south of Brazil. Meanwhile, in the US, investors are eagerly waiting on the harvest results for soy and corn.

WHEAT

CBOT Wheat forecast lifted, on poor EU harvest results

- Winter wheat harvest is now more or less complete in the US and EU, with quality disappointing in the EU.
- Lower global supply of milling wheat will likely mean lower exports than previously thought.

SUGAR

ICE #11 Sugar prices were well supported, passing our bullish forecast

- ICE #11 prices were supported by worsening expectations for the Brazilian crop and increasing ethanol prices.
- Sugar prices in India have also been increasing ahead of the next harvest.

CORN

CBOT Corn steady, as nascent exporter harvests can't prevent demand rationing

- Poor US crop conditions have revised USDA's yield expectations down by 4.9bpa.
- Brazil's safrinha harvest failure eliminates a key export pressure outlet for the overburdened US program.

COFFEE

A storm in a teacup

- The market has been trading in a rather narrow channel recently, but Brazilian weather in September will be key.
- Shipping disruptions continue globally, but they now affect Brazil more and more.

SOY COMPLEX

CBOT Soy outlook unchanged as weak China imports and US crush offset by poor US yields

- Crop conditions remain woefully inadequate, especially in the Dakotas and Minnesota.
- US soy's weak harvest may offset demand weakness – amid competition and slower Chinese procurement.

COCOA

As the focus moves to 2021/22 production, supply issues emerge while demand remains strong

- Cocoa demand is expected to remain strong, boosted by reopening.
- Production in Ghana and Côte d'Ivoire is unlikely to maintain 2020/21 levels in 2021/22.

PALM OIL

Low Malaysian palm oil inventories will provide support to palm oil prices for the rest of 2021

- Persistent labor shortage issue continues to limit Malaysian palm oil production.
- Indonesian palm oil inventories recovered to reach five-month high in June 2021.

COTTON

ICE #2 Dec 21 Cotton has risen 5% so far in August, finding support above USc 93/lb

- Prices continue to see support – even at this high level – as demand steams higher and weather risks remain.
- US cotton good-excellent ratings at a -record high, but can they be maintained?

Wheat

CBOT Wheat forecast lifted, on poor harvest results

- Winter wheat harvest is now more or less complete in the US and EU, with quality disappointing in the EU.
- Lower global supply of milling wheat will likely mean lower exports than previously thought.
- Restocking from southern hemisphere crops may be more limited than expected, with the return of La Niña.

Wheat prices remained bullish despite volatility this month. Contracts rose to new multi-year highs before coming off, with CBOT up 2.4% MTD. Meanwhile, Matif Wheat held onto most of its gains, up 9.3% MTD. The largest price move came in the wake of this month's WASDE report, which showed a tightening global balance sheet for a second year. The biggest surprise was the size of the reduction of the Russian crop, which the USDA now sees at 72.5mmt, a reduction of 7.5mmt MOM. This seems overly pessimistic; however, the USDA's reduced Russian export number of 35mmt does not – and may even have the capacity to fall further, to around 32mmt, as forward sales and exports out of Russia remain slow under the current tax system and high domestic prices. Exports for the current season are down -21% from last year.

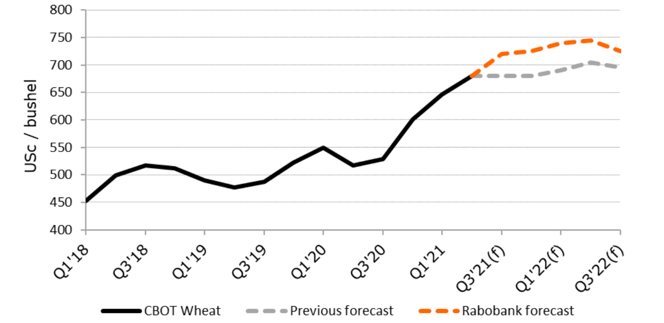
Global spring wheat crops continue to suffer, despite recent improvement in Russia, with lower total US, Canada, and Kazakhstan production by 1.3mmt, 6.5mmt, and 0.5mmt, respectively. The drought seen in these regions this season has likely caused yields to be around 50% of normal in North America. US good-excellent crop ratings remain near record-low at 11%, while lurches ahead at 77% complete, compared to last year's 46%, made easier by lower yields. US spring wheat production is likely down around 40%, with ending stocks cut in half year-on-year.

EU harvest rainfall means quality issues, and may result in a deficit of soft wheat amid a deluge of feed wheat. Prolonged rainfall during the harvest period has lowered the protein content of EU wheat, making less of it fit for milling and use for human consumption – and this may mean lower-than-expected exports. The USDA current estimate for EU+UK exports is 35.7mmt, which may prove difficult if exportable quality wheat is hard to find amid strong domestic demand. Meanwhile, the situation in the Ukraine has continued to improve, and it will likely benefit from lower exportable stocks in Russia and the EU. Exports are currently 10% ahead of last year and will likely keep moving higher. Production is expected to be a record 33mmt by the USDA. We estimate production at a more conservative (but still record) 32mmt, with exports likely to also be a record in 2021/22.

Restocking from southern hemisphere crops may be more limited than expected with La Niña. Although Australia is expected to have another very good year, concerns are rising for Brazil and Argentina, where a potential La Niña could exacerbate drought conditions. The USDA raised expectations for Brazilian production last month, to a record 7.5mmt, while leaving the forecast for Argentina unchanged, at 20.5mmt. We see scope for these figures to fall if dryness continues. Risks seem skewed to the upside for wheat prices, with potential for global production and export estimates to fall further, amid strong demand that could continue to shrink ending stocks.

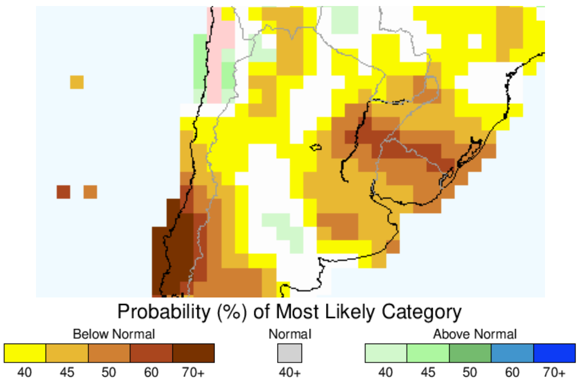
Wheat price forecast raised, on low quality and La Niña risk

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
CBOT	USc/bu	602	646	680	720	725	740	745	725
Matif	EUR/mt	208	227	219	245	250	255	250	225



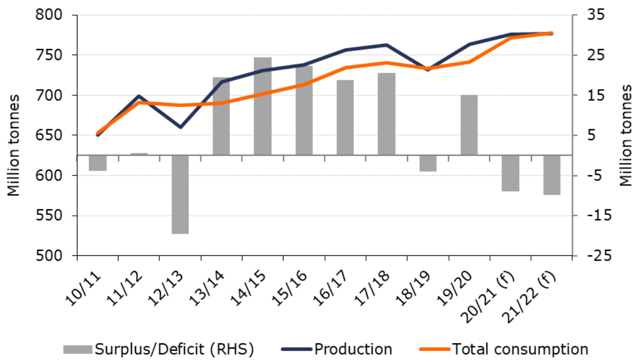
Source: Bloomberg Finance L.P., Rabobank 2021

A likely return of La Niña from October may mean prolonged dryness for developing South American wheat



Source: IRI, Rabobank 2021 Issued August 2021

The USDA now estimates another year of global wheat deficit, which may worsen as yields are confirmed



Source: USDA, Rabobank 2021

Corn

CBOT Corn is seen steady, as nascent exporter harvests are insufficient to prevent demand rationing

- Poor US crop conditions have revised USDA's yield expectations down by 4.9bpa.
- Brazil's safrinha harvest failure eliminates a key export pressure outlet for the overburdened US program.
- USDA increasingly shares ACMR's expectations of corn rationing and US 2021/22 ending stocks near 1bn bu.

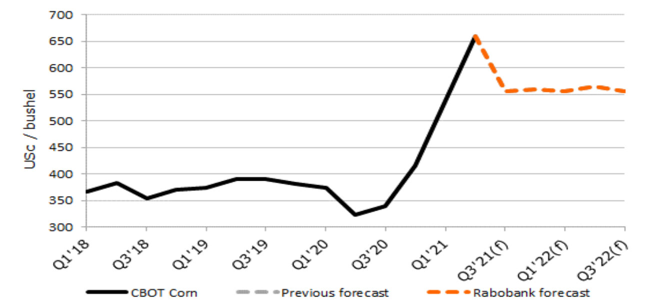
CBOT Corn's trajectory was steady last month, at a lofty USD 5.45/bu. Declining harvest prospects are being offset by demand destruction. We covered the bleak outlook for US corn consumers in our recent special, *'Lend Me Your Ears.'* The long-heralded summer corn resupply will come in woefully short of expectations, as US drought has expanded to 37% of corn acreage and pushed crop conditions to 60% G-E (5% below the five-year average). Enduring erosion in crop conditions – as well as feedback from farmer surveys – finally compelled the USDA to cut its record 2021/22 US yield estimates by nearly 5bu (~3%), to 174.6bpa. The widely watched Pro Farmer crop tour recently pegged national yields higher, at 177bpa; ACMR leans toward 175bpa. The difference ultimately boils down to the drought-stricken north-western states that Pro Farmer did not fully survey: the key expansion areas of North Dakota, South Dakota, and Minnesota. Those three states added 3.2m ac in 2021, far more than the net acreage gain for the entire country (1.9m ac). The fact that prime land in Iowa and Nebraska was shifted to soybeans and national corn acreage redistributed to peripheral, lower yielding areas cements our view that US yield will disappoint for a third consecutive year.

Brazil's recent safrinha crop failure will block a key pressure outlet for global exports. Brazil's safrinha crop typically provides for 20% or more of global corn trade. 2020/21 Brazil corn production and export estimates have dropped by roughly 20mmt each since February. The absence of Brazilian corn exports cannot be covered by an improved Ukraine (+8.5mmt exports YOY). If US 2021/22 corn exports fall dramatically as expected (USDA has them down 9.5mmt YOY), it will be due to high prices and demand rationing, not because of origin-switching. Major exporter stocks-to-use will remain stuck at 7% in 2020/21, 5% below the 2013–2020 average level that kept CBOT Corn largely wedged between USD 3/bu and USD 4/bu. Supplies will stay uncomfortably low until summer 2023 at the earliest – as such, CBOT Corn is justified in its new range between USD 5/bu and USD 6/bu.

Amid the growing likelihood of extended scarcity, non-commercials have accelerated a re-entry into CBOT Corn. Last week saw the largest net purchase since 2018: 25,386 net lots, to a net length just shy of 200,000 lots. Nascent harvests and slowing demand will restrain momentum among CBOT Corn bulls, but it is worth noting that 2021/22 US sales commitments are one-third of the USDA's full-year projections a week before the season even starts, vs. 17% normally. That is because China has extended its aggressive global feed procurement for a second year. The US corn program bore the brunt of demand: 21mmt in 2020/21, and 11mmt to 12mmt so far in 2021/22. Uncovered corn consumers should be wary of a repeat from last summer, when China booked up US Q4 2020/Q1 2021 export capacity.

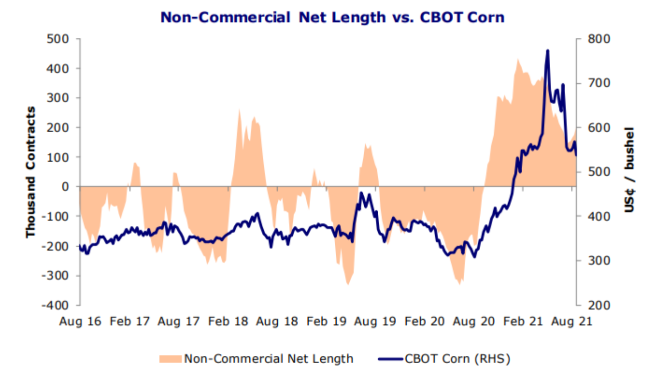
CBOT Corn's high price outlook maintained

	Unit	Q4'20f	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Corn	USc/bu	417	536	659	555	550	555	560	555



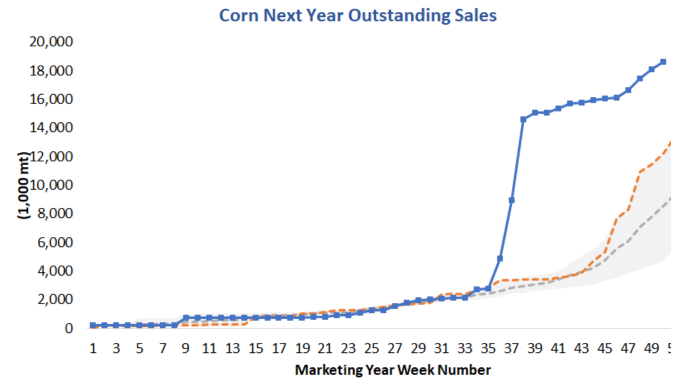
Source: Bloomberg Finance L.P., Rabobank 2021

Non-Commercials have sharply recovered CBOT Corn length in recent weeks as US harvest has question marks



Source: CFTC, Bloomberg Finance L.P., Rabobank 2021

2021/22 corn sales pace is almost 1/3 of USDA's full-year export projections a week before the new crop year



Source: USDA, Rabobank 2021

Soybeans

CBOT Soy outlook unchanged as weak China imports and US crush offset by poor US yields

- Crop conditions remain woefully inadequate, especially in the Dakotas and Minnesota, threatening US soy yields.
- US soy's demand weakness – amid competition and slower Chinese procurement – offsets a weaker harvest.
- China's stockpiles of soybeans are shrinking after slower purchases in July and August – with a resupply eyed soon.

CBOT Soy softened 3% last month, as concerns for dry US weather were tempered by weak demand for exports and crush. The impending US soy harvest and slowing Chinese demand appear to have settled CBOT Soybeans in a range of USD 13/bu and USD 14/bu, with the prospect of US stocks-to-use at 4% through 2021/22 undoubtedly supportive for prices. Although that is the lowest US stocks-to-use since 2013/14, and US 2021/22 harvest output is still uncertain, the market is not adopting a skin-of-its teeth price risk approach to low US supplies. Rather, buyers seem content to carefully monitor US demand (domestic and for export) and confirm a year-on-year decline/shift to South American origin.

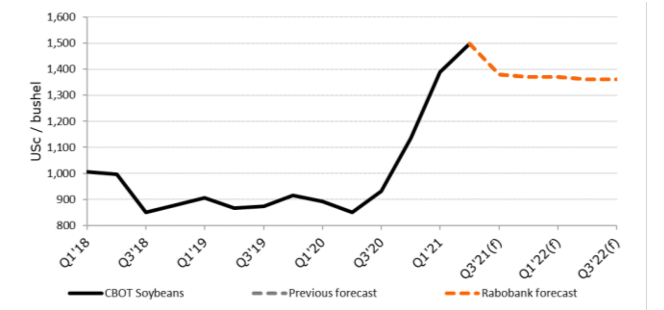
US supply risks shouldn't be ignored. The USDA this month cut US soy yield to 50bpa (-0.8bpa MOM), in line with ACMR's projections, as drought conditions in the Northern Plains and Minnesota (nearly 25% of total US acreage) cut national conditions down to a miserable 56% G-E (down -13 points YOY). A staggering one-sixth of the crop is in poor or very poor condition. The market is pinning its hopes on higher acreage (+4.5m YOY) – especially in the fertile soils of Nebraska, Iowa, and Illinois (+1.1m soy acres YOY) – to offset that northern variability, but at this stage, sub-50bpa yields are a real possibility.

The true saving grace for consumers restraining CBOT Soybean volatility is South America 2020/21 soy's survival from La Niña (production 183mmt, +3% YOY), which limits bullishness from US-specific challenges. Farmers in Argentina and Brazil have relieved export pressure in the US, both for byproducts and raw soybeans. For the former, Argentine farmers have been reacting to high bids from crushers by releasing stockpiles: output is over 7% higher this year, despite a smaller crop. Meanwhile in soybeans, Brazil front-loaded its 83mmt soy export program to China, and farmers now appear to be sitting back to watch the US harvest development (or lack thereof). A further key price support into the fall will be La Niña's probable return to already dry Argentina and Brazil.

Brazilian farmers have become reluctant sellers of soybeans, but the flipside is that Chinese crushers also slowed purchases considerably in recent months – in response to lower, or even negative, crush margins. China's large stockpiles are falling, and there are signs of improving margins and interest from US soy (~2.5mmt in recent weeks); still, it's unclear whether that procurement will continue to accelerate in the key US export period of October–December. The USDA recently lowered China's 2020/21 soybean imports by 1mmt, to 97mmt (a -1.5mmt decline YOY). Additionally, China's 2021/22 soybean import number was reduced from 103mmt to 101mmt, reflecting slowed demand growth. Concerns for US exports are joined with repeated poor crush reports from NOPA: the last six reports have come in a cumulative 45m bu, or 4.5% below expectations. Volatility and major rationing risk should recede somewhat as slowing global soymeal demand, with its focal point in China, offsets a middling US harvest.

CBOT Soybeans are seen range-bound

	Unit	Q4'20f	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Soy	USc/bu	1138	1388	1497	**1380**	**1370**	**1370**	**1360**	**1360**



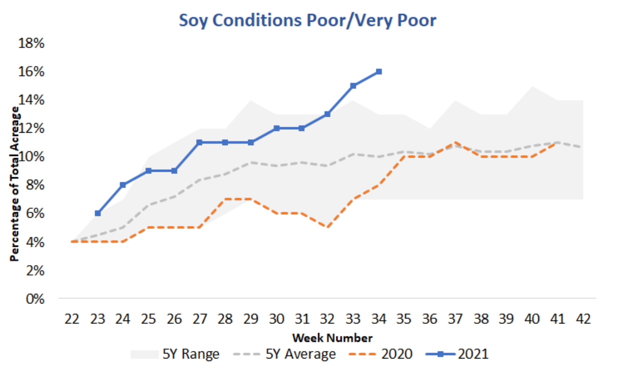
Source: Bloomberg Finance L.P., Rabobank 2021

US Soy 2021/22 potential yield scenarios keep ending stockpiles below 200m bu, raising supply and rationing risks

US Soy S&D	USDA August			2020/21 yield scenarios		
(Mn Acres/Mn bu.)	19/20	20/21	21/22 (f)	low	base	high
Beginning Stocks	909	525	160	160	160	160
Area Planted	76.1	83.1	87.6	87.6	87.6	87.6
Area Harvested	74.9	82.3	86.7	86.7	86.7	86.7
Yield	47.4	50.2	50.0	49.5	50.0	50.5
Production	3,552	4,135	4,338	4,292	4,335	4,378
MY Imports	15.0	20.0	35.0	35	35	35
Total Supply	**4,482**	**4,680**	**4,533**	**4,487**	**4,530**	**4,573**
MY Exports	1,682	2,260	2,205	2,170	2,185	2,200
Crush	2,165	2,155	2,055	2,040	2,055	2,070
Seed/Residual	105	105	118	118	118	118
Dom. Consumption	2,270	2,260	2,173	2,158	2,173	2,188
Total Usage	**3,952**	**4,520**	**4,378**	**4,328**	**4,358**	**4,388**
Ending Stocks	525	160	155	159	172	185
YOY stock change	-384	-365	-5	-1	12	25
Stocks/Usage	13%	4%	4%	4%	4%	4%

Source: USDA, Rabobank 2021

US 21/22 poor/very poor soy conditions are the worst in five years, and potential for sub 50bpa yield appears high



Source: USDA, Rabobank 2021

Soymeal and Soy Oil

CBOT Soy Oil price maintained, while Soymeal price reduced by protracted US demand weakness

- Slowing Chinese soy imports hurts CBOT Soymeal.
- International oilseed output sees weather-related cuts.
- CBOT Soymeal and Oil face headwinds from growing South American byproduct export competition and curtailing of price-restrictive biodiesel.

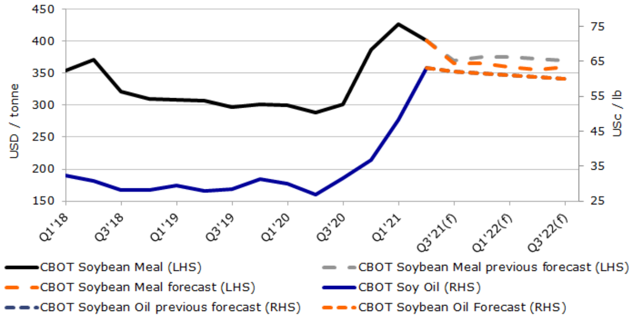
CBOT Soy Oil retreated nearly 5% in August, getting in line behind our bearish forecast between USc 60/lb and USc 62/lb, as special non-food demand catalysts weakened on the combination of restrictive prices and growing alternatives. Alternative uses of soy oil – for feed and biodiesel – have taken the baton from traditional food demand to drive 2021/22 vegetable oil supplies to their lowest in more than a decade. There are signs, however, that feed's growth is behind us, as China (~30% of global soy oil demand growth in 2020/21) completes its hog restocking, feeder margins remain compressed, and new harvests of corn ease feed substitution.

On the other hand, pauses in the short-term biodiesel frenzy are already visible: Argentina and Brazil recently lowered biodiesel mandates, and Indonesia's fulfillment remains in doubt. Most importantly, the USDA this month rolled back its herculean expectations for US 2021/22 biodiesel growth, by 500m lb – though it still expects a 26% increase YOY. Between Brent Crude's retracement (-4% MOM) and falling oilseed harvest expectations in the US (soybeans), Canada (canola), and Russia (sunflower), the international market is growing increasingly concerned with the high cost of biodiesel production and fulfilling critical food demand. Improved 2021/22 Argentina soy crushings (+7% YOY) and soy oil exports (14% YOY) have provided a critical alternative to US exports, along with limited rationing. Notwithstanding this, CBOT Soy Oil buyers are still expected to continue facing prices above USc 60/lb. Rabobank maintains its CBOT Soy Oil price forecast along the curve, as global demand in 2021/22 remains resilient (3.7%, down from 4.8%) to strain suppliers.

CBOT Soymeal treaded water last month, down 1%, to USD 355/mt, as a half-year of disappointing NOPA output (4.5% and 45m bu below expectations) left US 2020/21 feed use down marginally year-on-year and raised expectations of sufficient domestic soy availability in 2021/22. Argentina's largest crush program in four years is a clear sign that farmer reluctance has waned, and presents a direct challenge for US export competitiveness and growth over the coming years. Meanwhile, China's falling hog prices and diminished crush margins have led to lower soybean import projections (USDA cumulatively reduced imports 3mmt between 2020/21 and 2021/22). There is also belief that China is lowering inclusion of soymeal in feed rations, which raises questions about the strength of its anticipated demand rebound. Weaker demand has provided CBOT Soymeal with a glidepath to USD 350/mt, though we expect improved crush margins in China and in the US to potentially revitalize feed demand and keep CBOT Soymeal from backsliding any further. Most importantly, US soy 2021/22 output is highly uncertain: a mediocre US soy crop, together with La Niña's likely re-emergence in dry South America this autumn, should deliver enduring support for CBOT Soymeal prices near or above current levels of USD 355 USD/mt over the coming year.

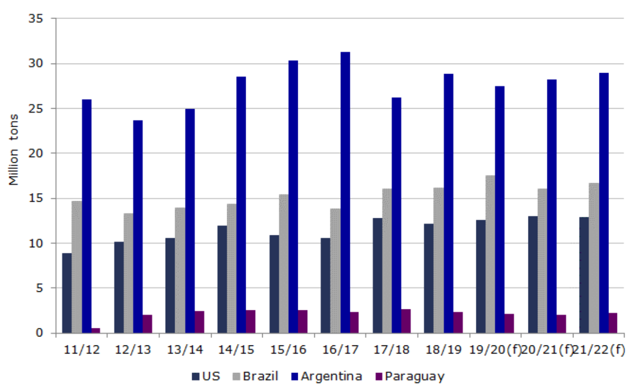
CBOT Soy Oil outlook unchanged, Soymeal reduced slightly

	Unit	Q4'20f	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Soymeal	USD/ton	386	434	404	365	365	360	355	360
Soy Oil	USc/lb	36.8	45.9	63.2	62.0	61.5	61.0	60.5	60.0



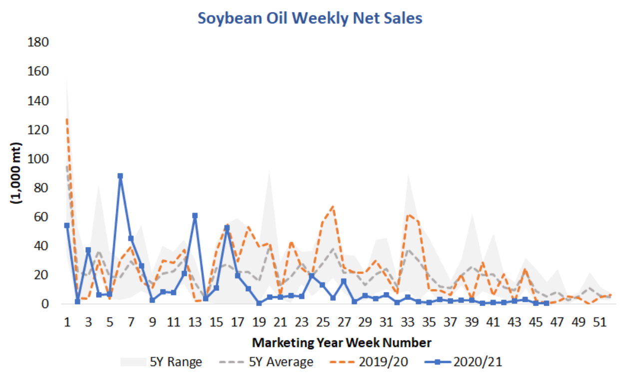
Source: Bloomberg Finance LP, Rabobank 2021

Argentina and Brazil are returning to soy meal export market dominance, at the expense of the US



Source: USDA, Rabobank 2021

US soy oil export sales have languished amid low availability, high prices and growing competition



Source: USDA, Rabobank 2021

Palm Oil

Low Malaysian palm oil inventories will provide support to palm oil prices for the rest of 2021

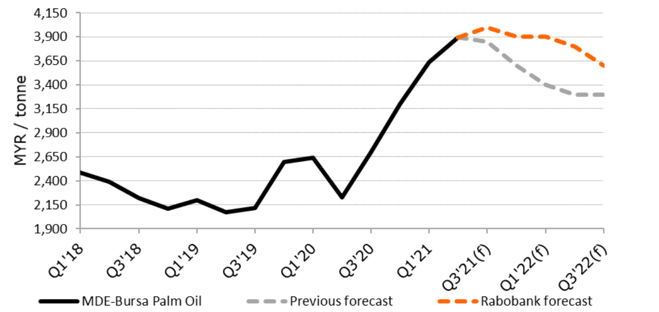
- Persistent labor shortage issue continues to limit Malaysian palm oil production.
- Indonesian palm oil inventories recovered to reach five-month high in June 2021.
- 2021/22 global soft oil availabilities will still be determined by 2H 2021 weather conditions.

Persistent labor shortages continue to limit Malaysian palm oil production. The MDE-Bursa Palm Oil active contract reached above MYR 4,500/mt this month, as Malaysian July palm oil production was much lower than expected. Malaysian monthly palm oil production has been consistently lower year-on-year so far in 2021, and we expect this trend to continue until labor shortages are alleviated. According to MPOB, Malaysian July palm oil production decreased by 5.2% MOM and 15.7% YOY, to 1.52mmt. Meanwhile, Malaysian July palm oil exports and inventories also decreased by -0.75% and -7.3% MOM, to 1.41mmt and 1.49mmt, respectively. Meanwhile, we expect Malaysian palm oil inventories to improve month-on-month in August, due to the seasonal palm oil production increase and lower month-on-month palm oil export demand on the back of the high palm oil price environment. Despite this improvement, we expect palm oil prices to remain supported in Q3 2021, on the back of tightening Malaysian palm oil inventories.

Indonesian palm oil inventories recovered to reach a five-month high in June – due to a palm oil production recovery, weak export activities, and weak domestic consumption. According to GAPKI, Indonesian June 2021 palm oil (incl. lauric oil) production and inventories increased by 12.7% and 45% MOM, to 4.91mmt and 4.15mmt, respectively. We expect palm oil inventories in Indonesia to remain above 3mmt throughout 2H 2021, due to higher Indonesian palm oil production in 2H 2021 vs. 1H 2021.

We revise our price forecast higher

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Palm Oil	MYR/ton	3,204	3,634	3,892	4,000	3,900	3,900	3,800	3,600

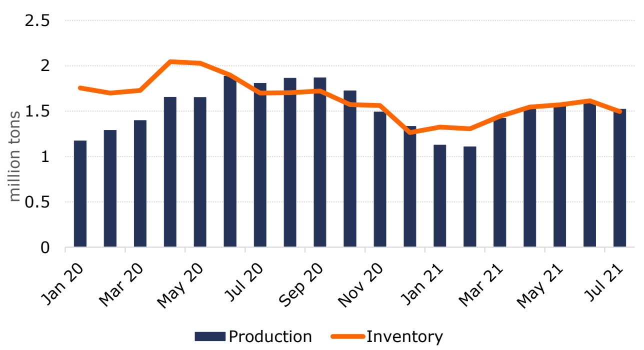


Source: Bloomberg Finance L.P., Rabobank 2021

2021/22 global soft oil availabilities will still be determined by 2H 2021 weather conditions in major oilseed-producing countries. While 2021/22 canola production in Canada has been affected negatively by hot and dry weather conditions in July, soybean production in the US and sunflowerseed production in the Black Sea Region could still be negatively affected if dry weather continues in August. Meanwhile, in its August 2021 report, NOAA expects La Niña could return during Q4 2021 to Q1 2022. While the intensity and duration of this La Niña is still unclear, this weather phenomenon typically creates hot and dry weather which could affect soybean production in South America negatively. This could exacerbate the relatively tight global soft oil fundamentals, providing more support to global soft oil and palm oil prices.

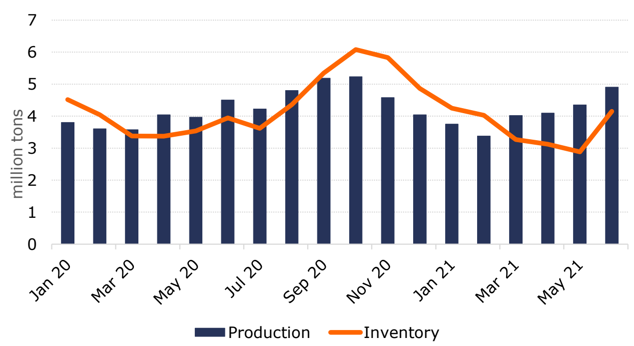
The sowing of Indian 2021 Kharif crops still lags behind last year, which could mean further support for palm. As of August 13, Indian soybean sowing area only reached 11.6m ha. This soybean sowing area was lower by -2% than soybean sowing area for the same week in 2020, but 4.6% higher than the average total soybean sowing area in the last five years.

Malaysian palm oil inventories will likely remain below 2mmt in 2H 2021



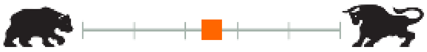
Source: MPOB, Rabobank 2021

Indonesian palm oil (incl. lauric oil) inventories will likely remain above 3mmt in 2H 2021



Source: GAPKI, Rabobank 2021

Sugar

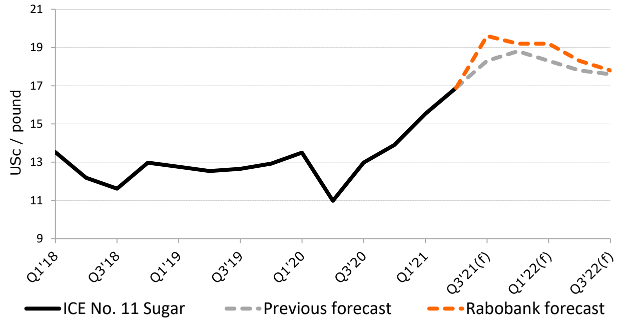


ICE #11 Sugar prices were well supported, passing our bullish forecast

- ICE #11 prices were supported by worsening expectations for the Brazilian crop and increasing ethanol prices.
- Sugar prices in India have also been increasing ahead of the next harvest.

ICE #11 Sugar price forecast increased slightly

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2,22f	Q3,22f
Sugar	USc/lb	13.9	15.5	16.9	**19.6**	**19.2**	**19.2**	**18.3**	**17.8**



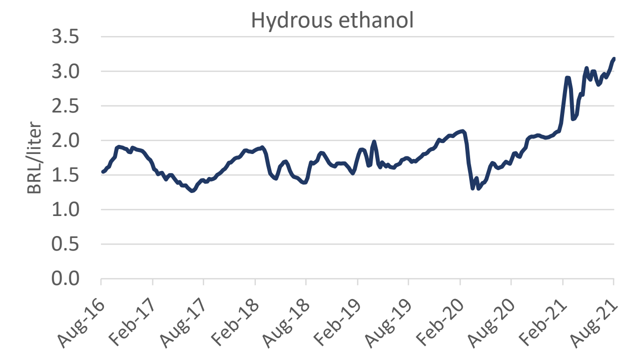
Source: Bloomberg Finance LP, Rabobank 2021

ICE #11 March 22 sugar has climbed 10% so far in August, on the back of adverse harvest results in Brazil (with yields affected by the July frosts) and a strong ethanol market. Strangely, Brent prices actually declined by 6%, and the Brazilian real dropped by 3.8% in the period. This clearly indicates that the strength in sugar prices was not macro-, but rather sugar/ethanol-specific. On the production side, the 2H July Unica report showed the detrimental impact of the frosts on the Brazil CS sugarcane harvest. Virtually all indicators were worse, with sugar production 11.8% lower YOY. 1H August harvest results were not much better, with harvested cane 4.3% lower YOY and sugar production 7.5% lower YOY. Some more adverse reports are to be expected, as well as a speedy closure of mills in Q4. Much of that is already priced in, so we may not necessarily see the market reacting further. Meanwhile, the Brazilian ethanol market continues to be very resilient, with the ethanol parity at USc 17.5/lb. The economic reopening, together with the increased use of cars as a means to avoid public transport, gives ethanol demand a component of unpredictability going forward, but prices at the peak of the cane harvests are usually at a low level. Ethanol sales in the domestic market in April–June are at the same level of last year, but still 12% below those seen in the same period of 2019. The further reopening of the economy will likely result in higher ethanol demand, and Brazil is currently seeing the lowest levels of Covid-19 infections so far in 2021. The increase in vaccinations is also resulting in lower mortality, so the economy is expected to reopen further.

At the same time that there is a strong floor to ethanol prices, the ceiling has evaporated. The Indian export parity had been seen as a strong ceiling until recently. The expectations for India to introduce export subsidies are now less likely with the current international prices. On the contrary, the rise in international prices, together with the expectation of a rise in the minimum selling price, and a recent hike in sugarcane prices, led to an increase in domestic prices in India, making it less likely generous subsidies will be approved. But in the end, it is all a political decision that has its own rationale, and it is likely going to result in surprises and volatility.

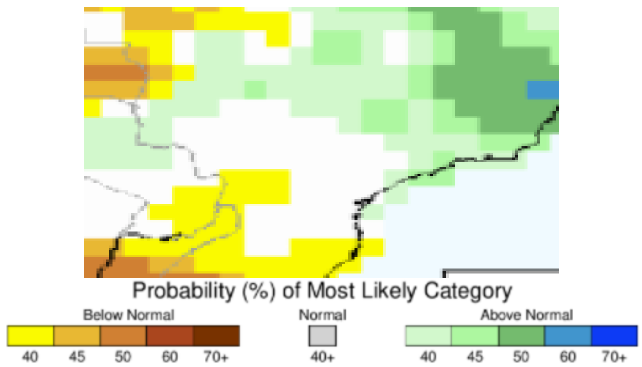
The wet season will be key in top producer Brazil. Rainfall through the wet season is always a key factor for the Brazil CS cane crop, but this year, it will be even more important, as the cane needs to recover from a year of drought conditions, and as the soil moisture needs to be replenished. The one-week forecast for Brazil CS shows only some scattered rains, but the forecast for the second week shows some decent precipitation. IRI's extended weather forecast shows normal-to-wetter weather in the Brazilian sugar belt.

Ethanol prices in BRL look solid even at the peak of the harvest



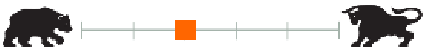
Source: Cepea, Bloomberg Finance L.P., Rabobank 2021

IRI three-month weather forecast looks normal-to-wetter



Source: IRI, Rabobank 2021 Issued August 2021

Coffee



A storm in a teacup

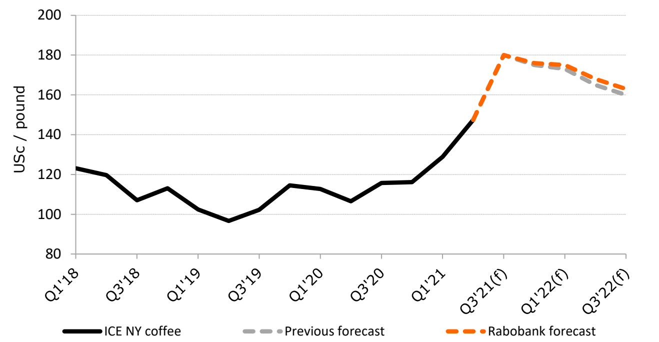
- The market has been trading in a rather narrow channel recently, but Brazilian weather in September will be key.
- Shipping disruptions continue globally, but they now affect Brazil more and more.

ICE Arabica prices seem to have found a very narrow channel in the last week, after massive volatility seen in late July following the frost events. The market came off 15% since the July 26 peak, after the late July frost proved not to be as serious as that on July 20 – the second month traded between USc 175/lb and USc 190/lb in August. We do expect the market to regain a clear direction in September. The return of the rainfall in Brazil arabica areas, typically by mid-September, triggers the flowering, which is a most fragile period for next year's crop. Ideally, the return of the wet weather is consistent, and there is enough rain to support those flowers. At the moment, some volumes of rain are seen in the forecast for the 1-week and 2-week, but they seem to be between 5mm and 20mm in each week, and only in part of the belt. The bulk of the rain is expected to remain south and east of the coffee belt (NOAA and COLA). It is likely not going to be enough to develop widespread flowering. An ideal scenario would be for increasing amounts of rainfall through September. However, if the rains are more intense than expected in the coming fortnight, they could trigger flowering – and then, if we have three weeks of dry weather, there is a risk of that flowering falling, resulting in loss of production. In this scenario the market will adopt a distinctive bullish direction.

Shipping disruptions continue to worsen, increasingly affecting Brazil and other producers. The WCI container index increased by 'only' 3% in the first three weeks of August, having climbed by 16% in July and 340% YOY. While prices seem to be stabilizing a little globally, the disruptions are reaching new producing countries, and Brazil in particular.

Arabica forecast largely maintained

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
ICE Arabica	USc/lb	116	129	147	180	176	175	168	163
ICE Robusta	USD/mt	1350	1372	1512	1890	1890	1860	1780	1730

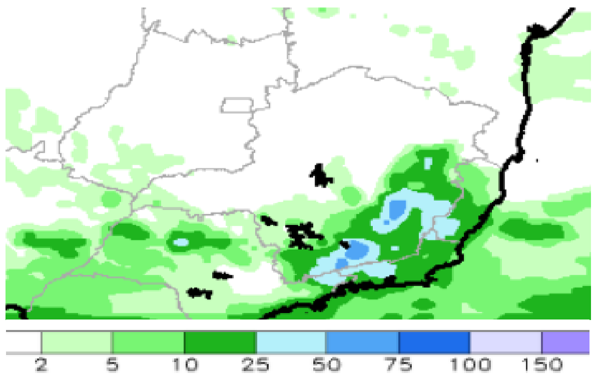


Source: Bloomberg Finance LP, Rabobank 2021

Sometimes exporters need to delay shipments by a couple of months, given the limited availability of containers. The size of the current crop means that the volumes of coffee exported are relatively small, but, of course, current prices also offer a good incentive to export inventories.

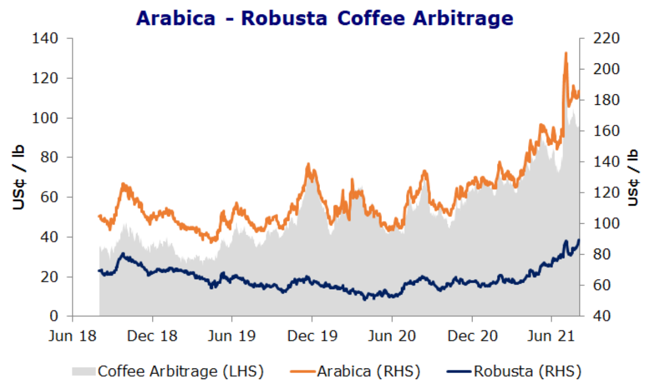
As discussed in our Coffee Outlook report, demand has been recovering, with Q2 2021 net imports into non-producing countries – adjusted by stocks –, increasing by 0.8% YOY, but still 4% below Q2 2019. The growth is due to strong figures in the US and Japan, while the EU is still in the red – unsurprising, given the length of the lockdowns. We do expect to see improving numbers in Q3 and Q4, as the out-of-home sector reopens more, and there is more foot traffic in city centers and offices. As current prices are 50% above the five-year average, some cost pass-through is likely. This is especially so when it comes to large packets of coffee on supermarket shelves, where the price of the beans could represent up to 50% of the final price. An increase in price could discourage some consumption, but overall, the effect is unlikely to stop strong growth in other categories, where margins are larger, and cost pass-through less likely and less significant. The first reaction of roasters may be to lift any existing discounts and try to introduce a larger share of robustas in their blends, wherever possible.

Some showers coming to the coffee belt. Seven-day weather forecast (mm):



Source: NOAA, Rabobank 2021 as of August 24

The high arbitrage will incentivize robusta use going forward



Source: Bloomberg Finance L.P., Rabobank 2021

Cocoa

As the focus moves to 2021/22 production, supply issues emerge while demand remains strong

- Cocoa demand is expected to remain strong, boosted by reopening.
- Production in Ghana and Côte d'Ivoire is unlikely to maintain 2020/21 levels in 2021/22.
- US stock levels have begun to show a convincing decline that will likely continue for the remainder of 2021.

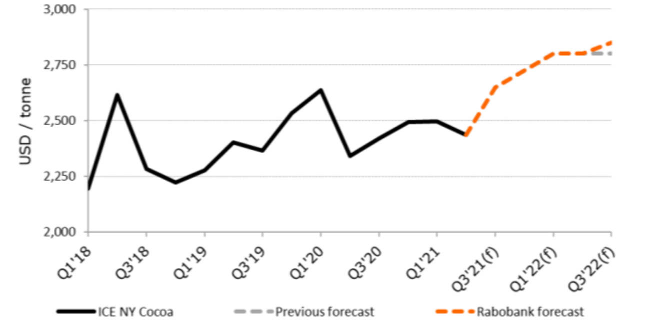
Cocoa prices pushed higher in August as production risks emerged for the 2021/22 crop, as NY rose 8.8% and London 6.3% MTD. Rainfall now appears in line with average for Ghana and the Côte d'Ivoire, with long-range forecasts expecting it to continue in line with normal levels in the weeks and months ahead. However, the rocky start to rainfall in the region this season, especially in Ghana, will likely still have an impact on production volumes, and we maintain our previous production estimates. Given the current forecast and the chance of La Niña in Q4 2021, we do expect moisture levels to be sufficient ahead of the dry season; however, at present, it remains unclear if the dry season will be severe. Another uncertainty is how Ghanaian production will fair in 2021/22 from influences outside of the weather. It seems that there may be fewer provisions for extension services to farmers, which will likely mean production is lower year-on-year and given that 2020/21 production likely saw a boost from beans smuggled over the border from Côte d'Ivoire, production in the country could drop by 150,000mt YOY.

Forward sales on the 2021/22 crop appear to be picking up, and we expect them to continue to rise, with ongoing demand growth and further reopening of economies. We continue to expect global demand to grow 3% in 2021/22, although if the recent uptick in sales is maintained, final demand may surprise to the upside. Prices for products also saw increases in the last month, with processing margins in Europe recovering from lows. Some economies have gone back into lockdown or increased travel restrictions due to the Covid-19 Delta variant. However, we do not see it posing a significant risk to cocoa consumption at present, with supply and retail chains sufficiently adapted.

Merchant Stock levels in the US have begun to decline, and sales of the 2020/21 crop have slowed, expect for a small portion of the Ghanaian crop. We expect stock levels in the US to continue to decline in the months ahead, which should help keep futures prices supported. Speculators are showing some increased interest in cocoa having recently switched to net long positions in both London and NY. If the chance of a larger deficit emerges from a weather issue or disappointing pod counts in Ghana – which could very well be the case for 2021/22 – there is plenty of room for speculators to add to their net long position. We continue to believe that price risks for cocoa remain to the upside – even with the recent rise in prices – as continued strong demand erodes stocks built up over the last season, amid a more average year for production. That said, volatility may remain high until a clearer image of the 2021/22 crop emerges.

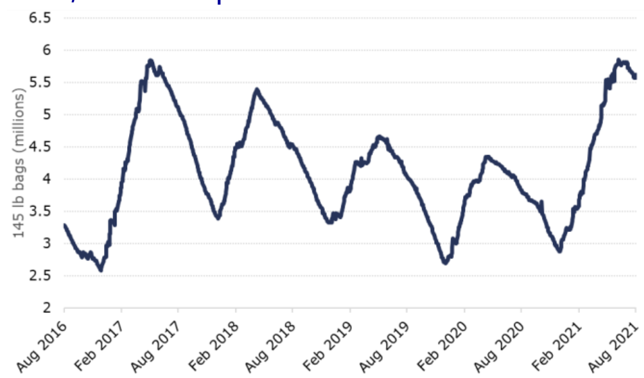
ICE NY and London Cocoa mostly unchanged

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
ICE NY	USD/t	2,495	2,496	2436	2,650	2,725	2,800	2,800	2,850
ICE London	GBP/t	1,696	1,695	1640	1,730	1,770	1,810	1,810	1,830



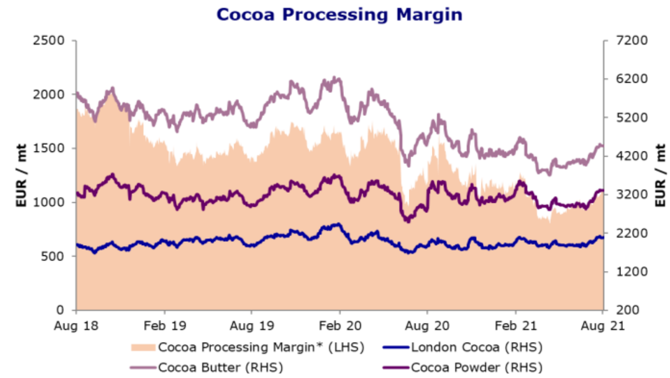
Source: Bloomberg Finance L.P., Rabobank 2021

US merchant cocoa stocks have begun to show signs of decline, which we expect to continue until 2022



Source: Bloomberg Finance L.P., Rabobank 2021

European processing margins are recovering from lows, with increases in powder and butter prices



Source: Bloomberg Finance L.P., Rabobank 2021

Cotton

ICE #2 Dec 21 Cotton has risen 5% so far in August, finding support above USc 93/lb

- Prices continue to see support – even at this high level – as demand steams higher and weather risks remain.
- US cotton good-excellent ratings at a -record high, but can they be maintained?
- Good exportable stock should become available in Q4 2021 but prices may see volatility from high shipping costs.

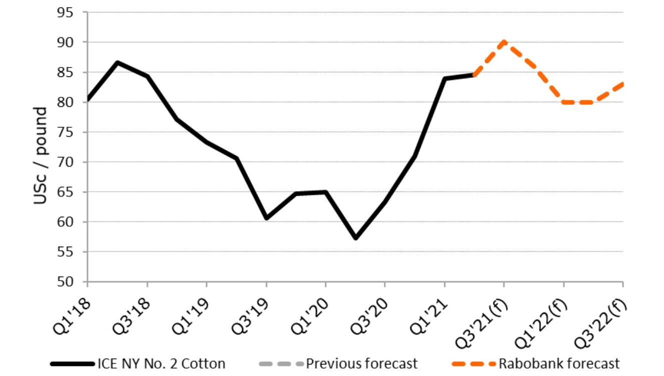
Cotton prices continued to march higher in August, as the USDA paints a picture of rising demand against a backdrop of tightening supplies. Despite declining from recent highs, cotton held onto its gains, while its competitors for acreage fell. Strong global demand and pressure on US supplies to fill export needs seem to be keeping prices elevated, but split opinion within the USDA and a lackluster sales pace may call for US ending stocks to increase in the future. With US good-excellent crop ratings at a record 71% (data since 2010) and weather appearing relatively favorable in long-range forecasts – while assuming any impact from hurricanes is mild – Rabobank sees scope for the USDA to raise its US production number from the current 17.3m bales back to closer to 18m bales. The USDA did revise exports lower, taking into account the lackluster pace of export sales, but only by 0.2m bales. With commitments trailing last year's pace by 22.5%, something will have to change. Once the current crop becomes available for export, there may be pressure for prices to fall, especially if the crop turns out to be larger than expected and if sales are needed.

Speculators appear firmly net long cotton, at around 85,000 lots, the largest net long position since 2018. There is still scope for them to add to this position, with the previous record net long position at 115,000 net lots. However, commercials appear well sold, given the current production estimates, with a net short position of -184,500 lots. Non-Commercial long positioning may struggle to get above 100,000 net lots, but there is little reason to expect a pull back until production risks ebb. The coming month may see more volatility in Non-Commercial positioning, with a break to the previous six weeks of consecutive net buying (as of August 17) and more volatility in prices.

The Brazilian harvest continues to be delayed, showing no signs of improvement. This will likely continue to mean global exportable supplies will remain tight in the short term. Next-season production should see improvement, but the USDA appears cautious, reducing its 2021/22 estimate to 12.5m bales; cotton will likely face stiff competition for acreage from elevated corn and soybean prices for another year. Elsewhere, production appears in good shape, and there should be good exportable stock availability in Q4 2021 that continues into Q1 2022, tempering prices. The main issue will be around logistics. Container shipping rates moved higher in August and may stay elevated. This may add volatility and reduce the effect of harvest pressure on prices if there is no real increase in export availability. We take a bearish view on cotton in Q4 2021, but with caution, as volatility is likely to remain high, and prices may trade within a wide range.

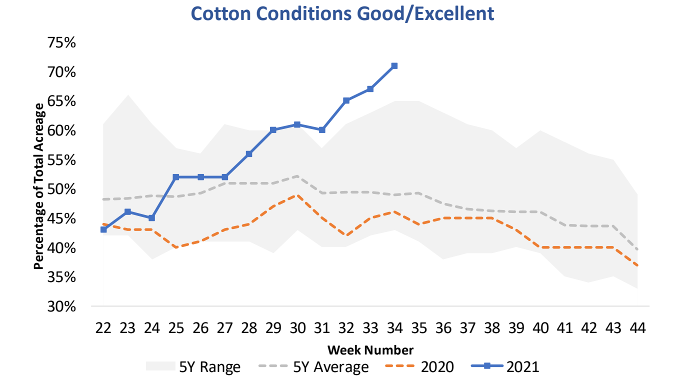
ICE #2 Cotton forecast unchanged

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Cotton	USc/lb	71.0	83.9	84.5	**90**	**86**	**80**	**80**	**83**



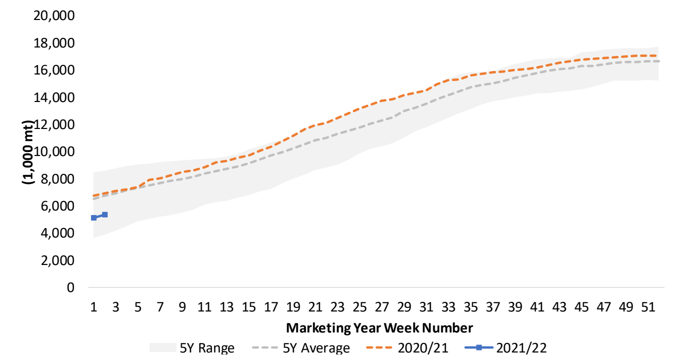
Source: Bloomberg Finance L.P., Rabobank 2021

US crop conditions reached a record 71% good-excellent, but this is in stark contrast to USDA yield expectations



Source: USDA, Rabobank 2021 as of August 22 (data since 2010)

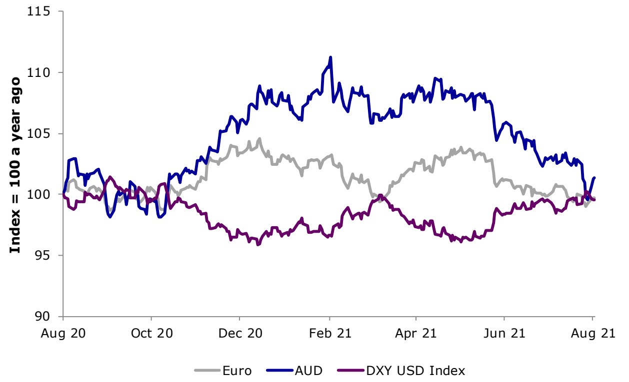
Cotton export sales begin the season slow, with commitments lagging last year and the five-year average

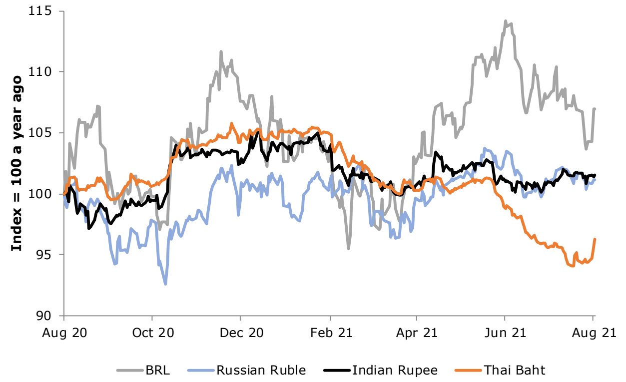


Source: USDA, Rabobank 2021 as of August 12

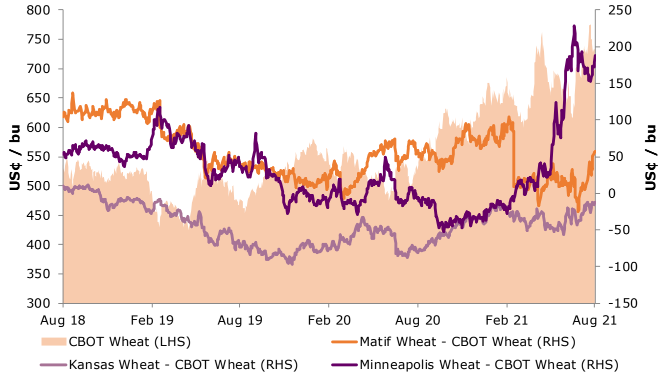
Agri Charts

Global Currencies USD Cross

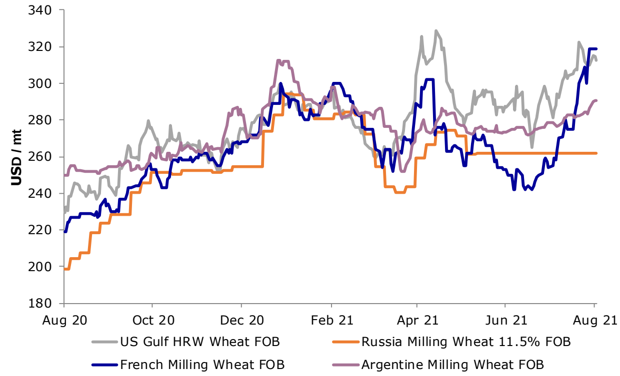




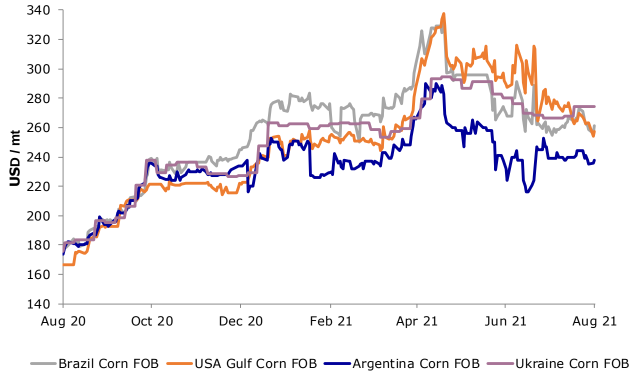
CBOT Wheat Spreads



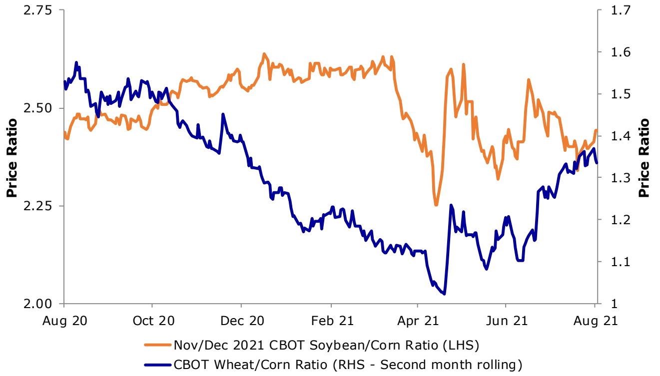
Wheat Protein FOB Prices



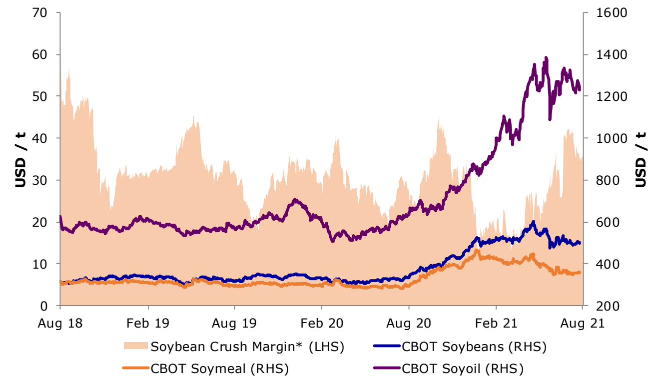
Corn FOB Prices



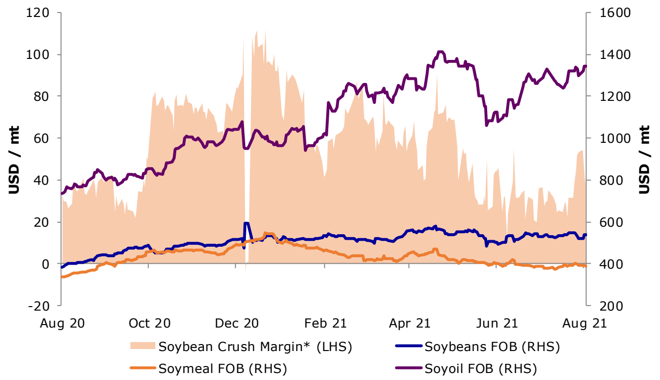
CBOT Ratios



CBOT Soybean Crush Margin

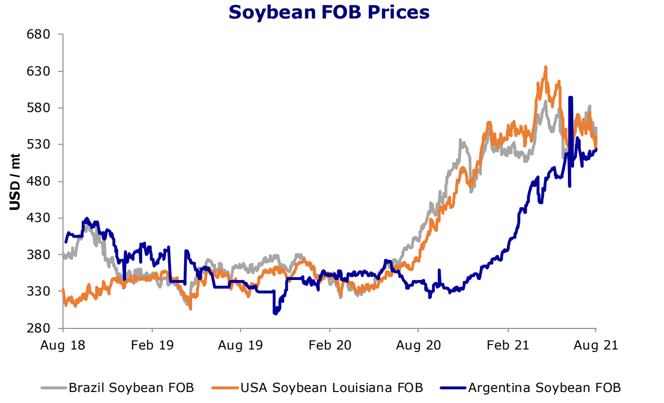


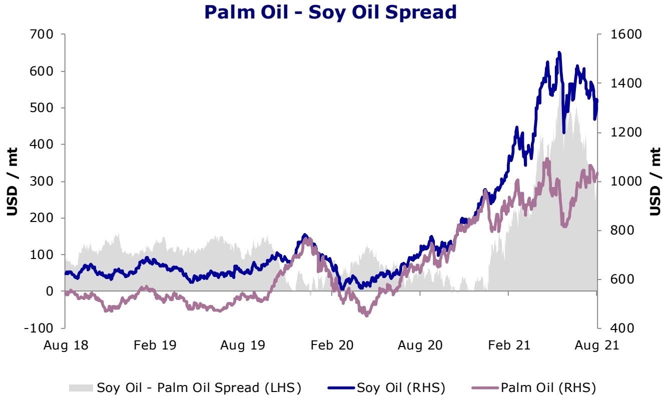
Argentina FOB Soybean Crush Margin

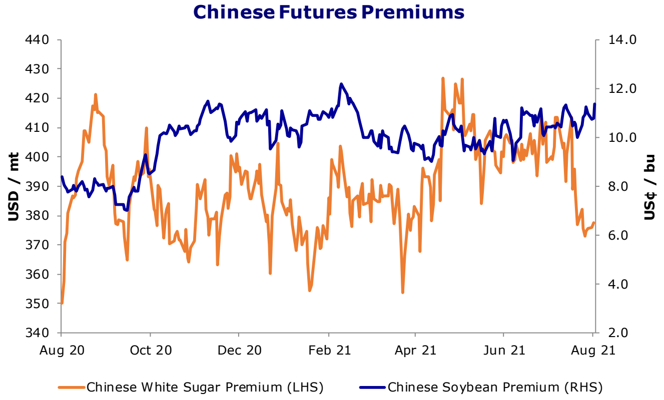


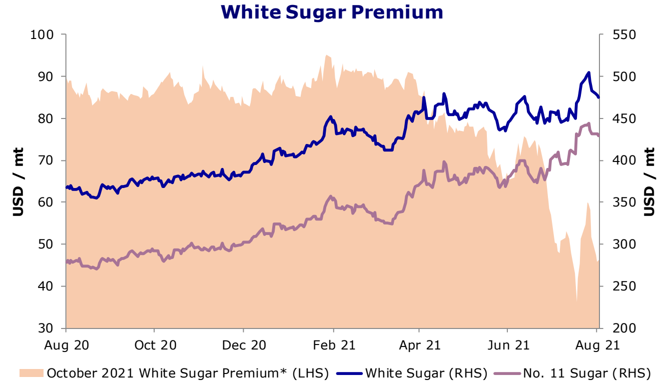
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

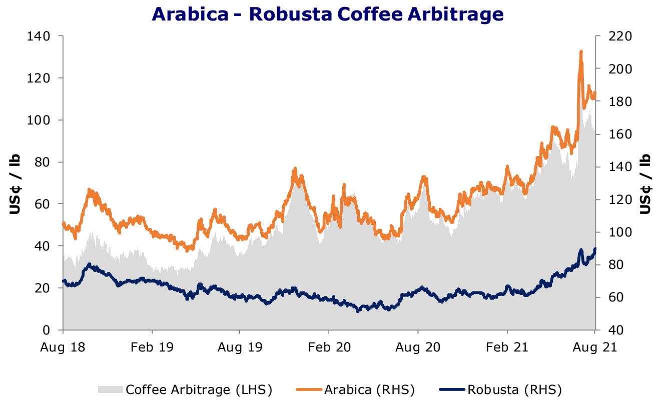
Agri Charts

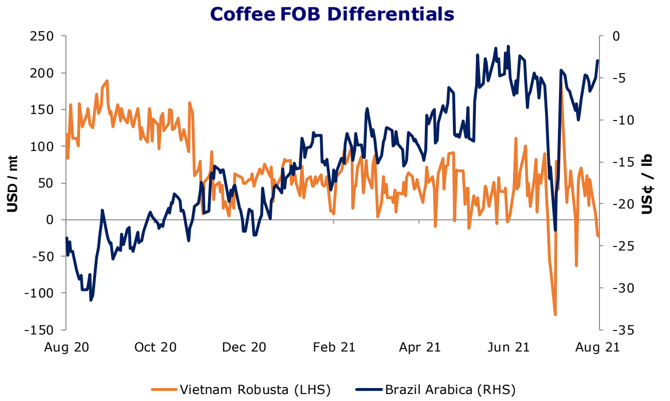


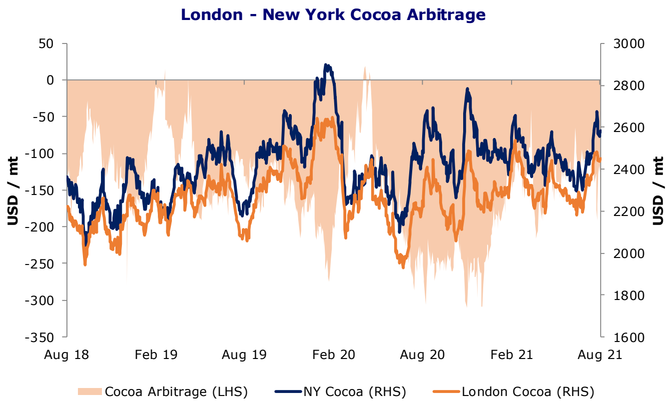


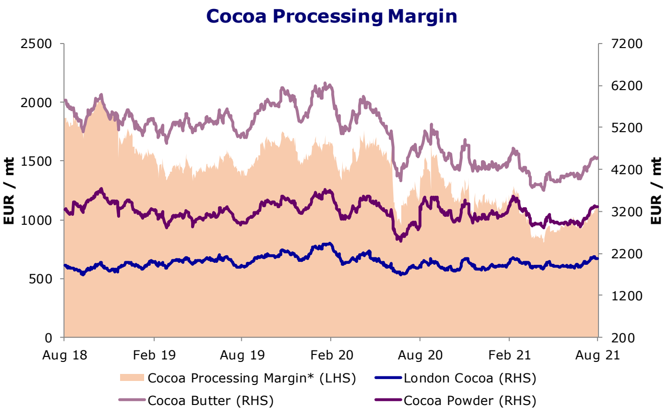












Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

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Methodology note: For ICE Sugar (raws and whites), ICE Arabica, ICE Robusta, and ICE Cocoa (NY and London), we aim to forecast the second rolling contracts, whereas for Palm Oil, we aim to forecast the third rolling contract. We have also used these contracts in the price diagrams. For all other contracts, we focus on the front month.

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A summary of the methodology can be found on our website