Rabobank

Agri Commodity Markets Research

February 2020: Contagion Wakes Bears From Hibernation

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The coronavirus is weighing on agri commodity and energy prices. Our 2020 demand expectations are revised lower due to the measures being taken to limit its spread. US agricultural procurement expectations for China are maintained but now expected to be fulfilled later. We anticipate volatility to remain high and prices to continue to be under pressure, as the spread of the virus worsens and international trade/consumption patterns are further impacted. However, when the virus panic has waned, we expect to see a demand recovery. Meanwhile, excellent rainfall in Brazil's coffee- and sugar-producing areas is edging production estimates upward.

WHEAT

CBOT Wheat bullish on continued export demand and lower year-on-year stocks

- Lower US and European acreage year-on-year will likely be offset by increases in Russia and Ukraine.
- Export demand remains strong for EU and Ukrainian wheat, despite the seasonal slowdown.

SUGAR

Bearish outlook for ICE #11 Sugar as Brazil is expected to increase production.

- Thailand is front-and-center of the rally, as crushing rates ease across the country.
- Indian and Brazilian exports will play a larger part in meeting demand in the coming year.

CORN

Growing US acreage and coronavirus-weakened global demand have dimmed our CBOT Corn price of USD 4.00/bu.

- Concerns about US exports and large expected 2020/21 plantings test CBOT Corn bulls patience
- Rabobank remains optimistic about trade deal demand upside.

COFFEE

Arabica found its bottom in early February, but BRL weakness is keeping a lid on recovery.

- Pressure from a weak BRL, coronavirus, and improving prospects for the Brazil 2020/21.
- The effect of coronavirus on demand is likely temporary and negligible.
- Concern on washed coffee availability.

SOYBEANS

CBOT Soybeans face short-term demand pain from coronavirus and restocked Brazil.

- Brazil's record soy harvest and record-weak currency make it a potent competitor to the US in exports.
- Coronavirus threatens feed demand in Q1 2020.

SOYMEAL & OIL

Coronavirus and strong output in the Americas keeps Soy products under pressure.

- CBOT Soymeal is under pressure from a strong US dollar, lackluster demand, record Managed Money selling, and strong production in the Americas.
- CBOT Soy Oil should recover from slower US crush.

PALM OIL

Coronavirus will impact Chinese palm oil import demand negatively in the short term.

- India's new policy will limit the country's palm oil import demand in 2020.
- Indonesian palm oil inventories reached 4.6mmt at the end of 2019.

COTTON

Bullish ICE #2 forecast on short-term demand expectations, despite coronavirus disruption

- Coronavirus is a negative influence on global cotton demand while it remains uncontained.
- Heavier global production is forecast for the 2020/21 season

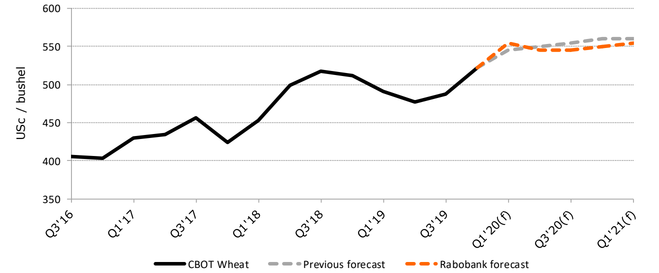
Wheat

CBOT Wheat bullish on continued export demand and lower year-on-year stocks

- Lower US and European acreage year-on-year will likely be offset by increases in Russia and Ukraine.
- Lower US stocks should provide support for CBOT.
- Export demand remains strong for EU and Ukrainian wheat, despite the seasonal slowdown.

CBOT Wheat outlook raised short term, lowered long term

	unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
CBOT	USc/bu	477	488	523	555	545	545	550	555
Matif	EUR/mt	182	171	181	192	190	185	185	187



Source: Bloomberg, Rabobank 2020

Lower US and European acreage year-on-year will likely be offset by increases in Russia and Ukraine. As winter wheat begins to emerge from dormancy in the northern hemisphere, expectations for acreage are being reassessed. The USDA estimated total 2020 US all-wheat acreage at 45m ac, only marginally down from 45.2m ac last year, with EU+UK 0.65m ha lower YOY after rainfall delayed plantings.

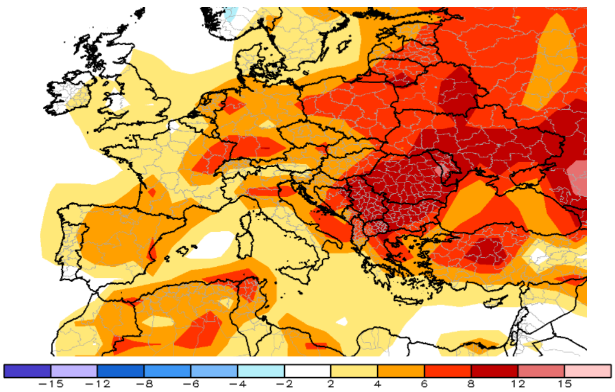
Lower US stocks should provide support for CBOT. 2019/20 US Wheat stocks are estimated at a five-year low of 940m bu after consecutive year-on-year declines. Global stocks (excl, China) have also not recover from last year's five-year low, estimated at 139.8mmt. With a mixed global production outlook, we expect US and World (excl. China) stocks to continue decline in 2020/21, keeping wheat prices supported.

This winter has been one of the warmest on record for Europe, the US, and Russia, with mean temperatures consistently above the historical average in Europe. As we move into the spring, there is little freeze risk; however, good rainfall will need to continue through the spring for Russia, Ukraine, and eastern Europe to ensure the crop has enough moisture. Reports from Ukraine also suggest winter crop losses are close to zero, with favorable production expectations. Rainfall has been excessive in parts of the US (SRW areas) and UK, where flooded fields may result in poorer yields. US crop ratings actually improved marginally in February for Kansas and Oklahoma, but remain sizably lower year-on-year. French ratings remained stable, at 65% good or very good (as of mid-Feb). Looking ahead, the weather in Europe and Russia is likely to remain warmer than normal, with good rainfall in the two-week forecast. The US should also see above-average rain/snowfall in the coming weeks.

Drought-stripped Australian supplies will drive Southeast Asian buyers to other origins as we move through the traditional Australian export window. ABARES released a revised production estimate of 15.17mmt for 2019/20 – down 0.6mmt from their previous estimate (Dec 2019) and a 12-year low. With an expected 28mmt of import demand, Southeast Asia is looking to other horizons to procure wheat. The US, Ukraine, and Argentina are likely to benefit before the new Russian crop comes in.

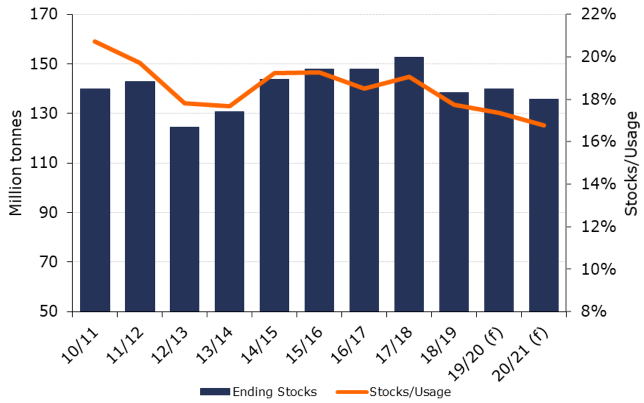
Export demand remains strong for EU and Ukrainian wheat, despite the seasonal slowdown, with export figures well ahead of last year. The USDA raised its export estimate for the EU up 1mmt, to 32mmt, Kazakhstan by 0.8mmt, and the US by 0.7mmt. Additionally, the USDA raised its import estimate for China by 0.8mmt, following the phase one trade deal agreement. However, any export upside from China will likely be delayed until after 2H 2020 due to the coronavirus outbreak slowing the pace of imports.

EU temperatures continue to be above average with some wheat coming out of dormancy early (Max Temp Anomaly °C)



Source: NOAA, Rabobank 2020 Forecast Ending: 04 March 2020

Rabobank estimates Global (excl. China) wheat ending stocks to resume their decline in 2020/21



Source: USDA, Rabobank 2020

Corn

Growing US acreage expectations and coronavirus-weakened global demand have dimmed our US-China trade deal-inspired CBOT Corn price of USD 4.00/bu.

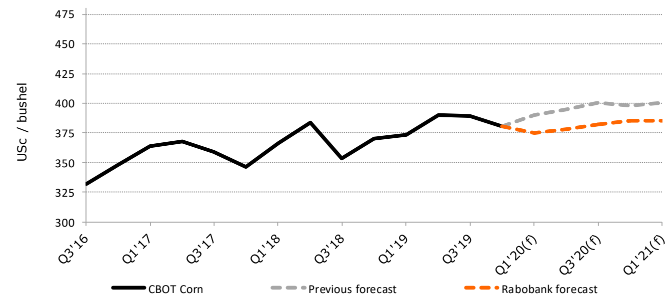
- Rabobank remains optimistic about trade deal demand upside being supportive for US Corn, DDGs, and ethanol.
- Concerns about nascent US export gains and large expected 2020/21 plantings test CBOT Corn bulls patience and will limit any significant traction above USD 4.00/bu.

Last month, the world witnessed coronavirus trigger a demand-driven retracement in CBOT G&O prices, to year-to-date lows. CBOT Corn was inured from the initial outbreak in China, which accounts for less than 5% of global corn imports, but subsequent coronavirus proliferation in Asia (40% of world import demand) has dropped the active contract near December 2019 lows of USc 370/bu.

Long-suffering US corn bulls impatient to see results from the US-China trade deal will need to wait until the late spring or early summer to see a ramp-up in imports. Rabobank now projects China's feed demand is expected to weaken in H1 before rebounding to modest growth in FY 2020. Meanwhile, the prospect of a marked slowdown in Japan and South Korea (33% of US corn exports in 2018/19) just as US sales are picking up will cap upside for export expectations. The USDA has already cut exports by 475m bu over six WASDEs this season, to a seven-year low of 1,725m bu, from record South American production and African swine fever-depressed world import demand (+2.5% YOY, the lowest growth in three years). Extended global demand weakness may increase scrutiny of the internal US corn market, where precarious growth in domestic demand (+1% YOY) is dwarfed by USDA expectations of 94.5m ac. In 2020/21 (+4.5m ac YOY and the largest since 2016/17), Rabobank's US planting projection calls for a relatively modest increase to 93m ac, on a weaker price

CBOT Corn forecast lower on impact of coronavirus

	Unit	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
CBOT	USc/bu	390	390	381	375	378	382	385	385



Source: Bloomberg, Rabobank 2020

outlook and widening CBOT Soy-Corn spread (2.39, +0.05 MOM) that will keep soy acreage north of 85m ac.

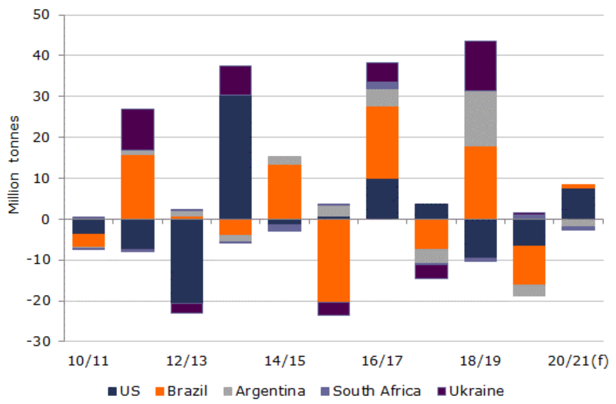
Our conservative US corn acreage – even if combined with trend yield and generous Chinese demand – wouldn't be low enough to keep carry-out 2020/21 from rising to 2016/17 levels of 2.3bn bu. Still, weather risk – for both North and South America – will protect CBOT Corn downside over the coming months. Weather is especially critical in Brazil, which has seen available export capacity run dry following a front-loaded sales program (January 2020 exports of 2.3mmt were the second-lowest since 2013) and ravenous domestic (ethanol and feed) demand. If planting disruptions extend to mid-March, 2019/20 production will decline below 100mmt (-1% YOY). Brazilian safrinha corn sales – already above 60% (near the top of the five-year range) due to high corn prices and the weak BRL – would fall off. Rabobank already expects Brazil's corn exports to decline by 23% YOY (USDA's FAS: -20%), mainly due to higher ethanol demand; further production cuts will drive some additional demand to the US. US corn export sales have improved in the last six weeks, but absent weather shocks, the market in 2H 2020 will principally supported by tenuous global demand and an untested trade deal. We are confident in China's eventual procurement of (US corn, DDGs and ethanol) and global feed growth recovery, but fresh demand headwinds and large expected US supplies lead us to lower CBOT Corn upside to USD 3.85/bu by Q4 2020.

US acreage of 93m ac in 2020/21 will balloon ending stocks to 2016/17 levels even with China trade deal demand upside

US Corn S&D	USDA Feb		2020/21 yield scenarios		
(Mn Acres/Mn bu.)	18/19	19/20(f)	low	base	high
Beginning Stocks	2,140	2,221	1,892	1,778	1,670
Area Planted	89.1	90.0	91.5	93.0	94.5
Area Harvested	81.3	81.5	84.2	85.6	86.9
Yield	176.4	168.0	177.5	177.5	177.5
Production	14,340	13,691	14,942	15,187	15,432
MY Imports	28.0	50.0	25	25	25
Total Supply	**16,509**	**15,962**	**16,859**	**16,990**	**17,127**
MY Exports	2,065	1,725		2,120	
Feed Consumption	5,432	5,525		5,650	
FSI Consumption	6,791	6,820		7,000	
Ethanol Usage	5,425	5,475		5,670	
Domestic Consumpti	12,223	12,345		12,650	
Total Usage	**14,288**	**14,070**	**14,770**	**14,770**	**14,770**
Ending Stocks	2,221	1,892	2,089	2,220	2,357
YOY stock change	80	-328	197	442	687
Stocks/Usage	16%	13%	14%	15%	16%

Source: USDA, Rabobank 2020

Global corn exports will contract in 2019/20 due to ASF and coronavirus. Brazil's domestic demand will exacerbate its cut



Source: USDA, Rabobank 2020

Soybeans

CBOT Soybeans face short-term demand pain from coronavirus and restocked Brazil. Prices should regain traction above USc 9.00/bu, with low US spring plantings and a summer soy pickup from China.

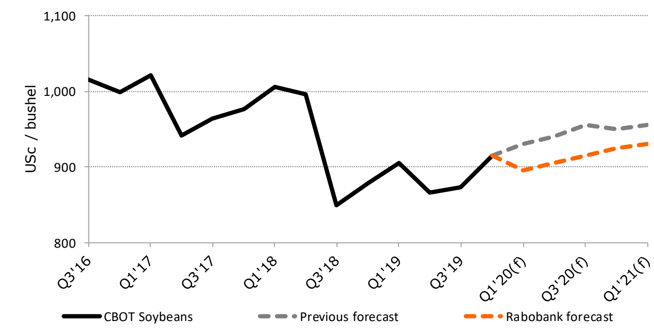
- Brazil's record soy harvest and record-weak currency make it a potent competitor to the US in exports.
- Coronavirus threatens feed demand/logistics in Q1 2020.
- Low CBOT price may limit US soy area recovery to 85.5m ac (+8.8m ac above 2018/19, -4.5m ac 2017/18), offering a springboard for low supplies and increased Chinese procurement to send prices higher in 2H 2020.

Last month, CBOT Soybeans put on their best impression of the 'Little Engine That Could,' the children's tale of a diminutive train engine that uses willpower to tow a heavy load through the mountains. CBOT Soy's burden came in the form of three formidable demand challenges: export competition from South America, coronavirus, and African swine fever. It was to have some success in fending off these price headwinds, rejecting the speculative selloff to pre-trade deal December lows of USc 870/bu and climbing above USD 9.00/bu on expectations that Chinese demand will largely recover in the spring and the government will honor its trade-deal obligations. Since then, coronavirus has spread in countries representing >70% of world soy imports, igniting a fresh sell-off in CBOT, on fears of a far-reaching pandemic.

South America has plans to compete for any global soy demand recovery, particularly imports from China (86mmt to 87mmt in 2019/20, up 3mmt to 4mmt from ASF/trade war-hit 2018/19)**.** In Brazil, heavy rains have improved yields on the late-planted crop, which is shaping up to be the largest on record, at 125mmt (+5mmt YOY). Brazilian harvest quickened last week on dryer weather, to 40% complete, in line with the five-year average and two weeks behind last year. A sea of Brazilian supplies joins a record-low BRL (~4.4/USD) and coronavirus-stalled global demand to pressure CBOT Soybean prices. Brazilian farmers are 70% sold

CBOT Soy's bullish momentum checked by coronavirus but should resume following low US plantings of 85.5m acres

	Unit	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Soybeans	USc/bu	866	873	915	895	910	920	925	930



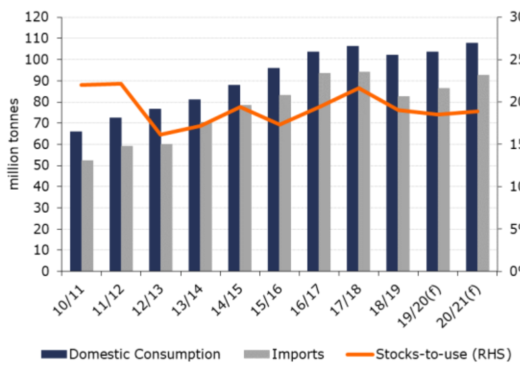
Source: Bloomberg, Rabobank 2020

on the new crop, and internal demand is robust, which could mute post-harvest selling pressure into the world market. Recent record crush in the US has masked export sales struggles, but with crush margins collapsing to October lows, these domestic demand boosts will be short-lived.

There are myriad impediments to China's trade deal procurement – from coronavirus to competitive suppliers – but the bilateral trading relationship has improved since the agreement. Since the trade deal, China has lowered tariffs on a range of US agricultural goods, including soybeans (-2.5%), and as of next week, approved Chinese crushers will be able to import high tariff-exempt US soy. Chinese importers are already taking advantage of positive margins to inquire, and buy, US product. China has imported 12mmt of US soybeans, (+220% YOY) and could take another 10mmt to 15mmt – from private or government procurement – in the 2019/20 crop year, driving US ending stocks to three-year lows of 400m bu.

Rabobank anticipates eventual Chinese procurement to combine with coronavirus-depressed plantings to support a CBOT rebound in Q2/Q3 2020. At current prices, US 2020/21 soy plantings could reach 85.5m ac (+8.8m ac YOY, off a low base), raising supply risks for a second straight year, and limiting farmer and fund net selling (currently -97,000 lots). In 2H 2020, a potential global demand rebound, led by higher Chinese purchases of US soybeans, could drive momentum in CBOT Soy prices to USD 9.30/bu by Q1 2021.

Coronavirus is expected to slow China's feed consumption recovery from ASF-depressed 2018/19



Source: USDA, Rabobank 2020

US soy acreage recovery will remain incomplete, at 85.5m ac, due to lower prices and relative attractiveness of corn

US Soy S&D (Mn Acres/Mn bu.)	USDA Feb 18/19	USDA Feb 19/20(f)	2020/21 yield scenarios low	2020/21 yield scenarios base	2020/21 yield scenarios high
Beginning Stocks	438	909	425	396	360
Area Planted	89.2	76.7	84.0	85.5	87.0
Area Harvested	87.6	75.0	83.2	84.6	86.1
Yield	50.6	47.4	51.5	51.5	51.5
Production	4,428	3,558	4,283	4,359	4,436
MY Imports	14.1	15.0	20	20	20
Total Supply	**4,880**	**4,482**	**4,728**	**4,777**	**4,816**
MY Exports	1,748	1,825		2,100	
Crush	2,092	2,105		2,150	
Seed/Residual	132	128		130	
Domestic Consumption	2,224	2,233		2,280	
Total Usage	**3,971**	**4,058**	**4,380**	**4,380**	**4,380**
Ending Stocks	909	425	348	397	436
YOY stock change	471	-485	-77	-27	11
Stocks/Usage	23%	10%	8%	9%	10%

Source: USDA, Rabobank 2020

Soymeal and Soy Oil

CBOT Soy byproducts in the throes of global coronavirus were dealt further blows from strong output in South America and the US. Rabobank sees CBOT Soy Oil and Soymeal under pressure until supply and demand rebalance in H2 2020.

- CBOT Soymeal is under pressure from a strong US dollar, lackluster demand, record Managed Money selling, and strong production in the Americas.
- CBOT Soy Oil should recover from slower US crush.

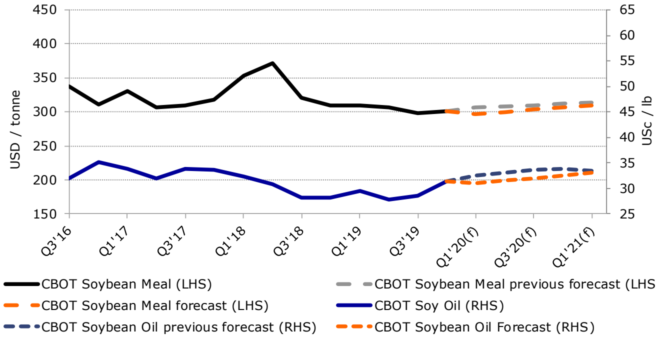
CBOT Soy byproducts are struggling from a trifecta of challenges. The first, coronavirus, now threatens to become a global pandemic. China's feed production and logistical constraints have negatively impacted animal protein production – especially poultry, which had grown at strong rates recently to offset ASF-related pork reductions. China's feed demand is expected to weaken in 1H, before rebounding to modest growth in FY 2020. Other big feed markets like South Korea and Japan may also be stifled in the short term. We expect global soymeal demand growth to be a tepid 2%, from a weak ASF base. CBOT Soymeal will struggle to move above USD 300/mt in H1 2020 from the lingering coronavirus, ASF, and distorted feed logistics. CBOT Soy Oil will be less directly impacted from coronavirus – China's hard-hit foodservice industry typically utilizes palm oil– though weak Brent prices are expected to reduce US biodiesel demand.

A second, longer-term bearish factor facing the CBOT Soy complex is the record soy production in South American exporters (187mmt, up 3% YOY) and record weak BRL and ARS. Crush-friendly policy proposals in Argentina (3% preferential taxation for byproducts) and Brazil (15% biodiesel inclusion by 2023) threaten to drive a glut in the fragile soymeal export market. Brazil's jump from B10 to B12 over the last six months will generate an added 2.5mmt of soymeal YOY, equivalent to 4% of world imports. The consequences of Brazil's biodiesel policies are enduringly bearish for CBOT Soymeal. Conversely, the prospects for CBOT Soy Oil from Brazil's growing domestic use of soy oil are actually bright – volumes out of the number-two exporter may drop to 1mmt, -50% since 2017/18, driving world demand first to Argentina and then the US. Already, US export sales are running above the five-year average, offsetting weak biodiesel demand from coronavirus.

In the US, soy crushers have responded to the weak structural demand outlook by locking in crush margins. The decision to crush record volumes between Nov 2019 and Jan 2020 (516.6m bu, up 1.2% YOY) has generated excess supplies, exacerbating the near-term supply-demand imbalance. With US crush margins at the lowest since October – and expected to remain depressed as China is expected to increasingly buy US soybeans in 2H 2020 – there is potential for the supply glut of soymeal and soy oil to be unwound. Rabobank sees limited further selling pressure on CBOT Soymeal, with Managed Money at record short (-94,000 lots) and expectations for low 2019/20 US soy acreage (85.5m ac). Still, coronavirus has the potential to further pressure feed consumption and global trade. For US soy oil, eventual improvements in supply (US crush, soy acreage) and demand (biodiesel, exports) should underpin CBOT price recovery above USc 33/lb by Q1 2021.

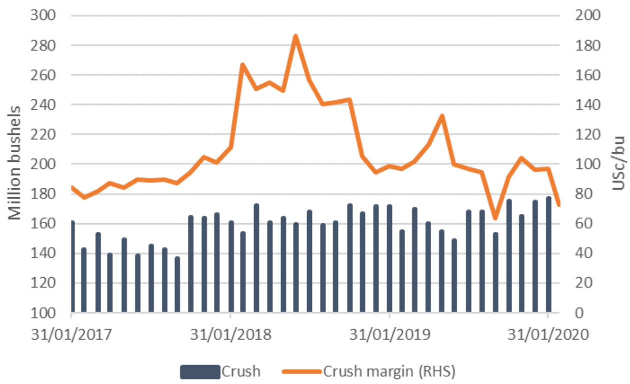
Soy oil and soymeal price upside lowered amid coronavirus and record US soy crush

	unit	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Soymeal	USD/mt	307	297	301	296	300	304	307	310
Soy Oil	USc/lb	27.8	28.5	31.3	31.0	31.5	32.0	32.5	33.0



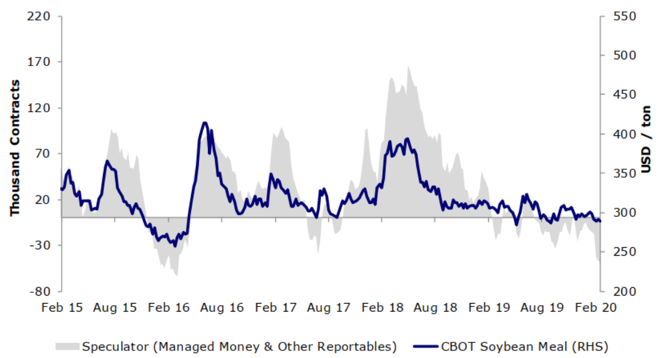
Source: Bloomberg, Rabobank 2020

US crushers have produced record volumes over the last quarter. Collapsing crush margin should cut further output.



Source: NOPA, Bloomberg, Rabobank 2020

COVID-19, B12 in Brazil and record US crush have led to record managed money net short in CBOT soymeal



Source: CFTC, Rabobank 2020

Palm Oil

Coronavirus outbreak will impact Chinese palm oil import demand negatively in the short term.

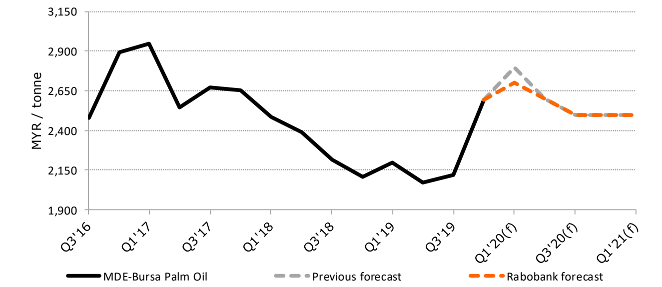
- India's new policy will limit the country's palm oil import demand in 2020.
- Sluggish Southeast Asian palm oil export demand outlook in Q1 2020.
- Indonesian palm oil inventories reached 4.6mmt at the end of 2019.

The coronavirus outbreak will impact Chinese palm oil import demand negatively in the short term. The MDE-Bursa Palm Oil active contract reached a price level of MYR 2,575/mt in late February 2020, due to concerns over the impacts of the coronavirus outbreak in China to its domestic palm oil consumption. The coronavirus outbreak has disrupted trade, production, and supply chains; depressed out-of-home consumption; and forced some foodservice outlets to close in China. While Chinese domestic demand for staples is still expected to be stable during the outbreak, due to less dining out, Chinese consumption of palm oil in the foodservice channel will be negatively affected. In China, palm oil is mainly used in foodservice, catering, and for industrial use. Also, as a result of the temporary shortage of workers in ports and at domestic edible oil refineries, as well as transportation bottlenecks, Chinese domestic palm oil distribution will be hampered in the short term.

India's new policy will limit the country's palm oil import demand in 2020. The combination of the high palm oil price environment and the Indian government's restriction on refined palm oil imports resulted in lower month-on-month palm oil imports in January 2020. According to SEA India, Indian January 2020 total palm oil imports decreased by 19.7% MOM, to 594,804mmt, while soft oil imports increased by 53.6% MOM, to 562,319mmt. Despite recent import license issuances for 1.1mmt of Indonesian refined palm oil, Indian total palm oil import volumes will likely be lower year-on-year in 2020 if this restriction remains in place for the whole year. Consequently, we expect to see higher Indian soft oil imports in 2020.

Q1 2020 palm oil price forecast largely maintained

	Unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Palm Oil	MYR/ton	2,073	2,121	2,593	2,700	2,600	2,500	2,500	2,500

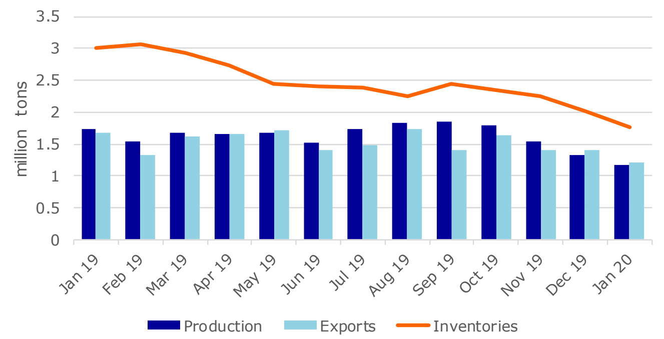


Source: Bloomberg, Rabobank 2020

Sluggish Southeast Asian palm oil export demand outlook in Q1 2020. According to MPOB, Malaysian January 2020 palm oil production decreased by 12.6% MOM, to 1.1mmt. Malaysian palm oil exports for the month, however, decreased by 13.2% MOM, to 1.2mmt. This was mainly due to reduced Malaysian palm oil exports to India, which decreased by 66% MOM, to 46,876mt. As a result, Malaysian January 2020 palm oil inventories decreased by 12.7% MOM, to reach 1.7mmt. Meanwhile, according to ITS, Indonesian January 2020 palm oil exports (including lauric oils) decreased by 25% MOM, to 1.97mmt. We expect palm oil exports from both countries to India and China to remain muted in February 2020.

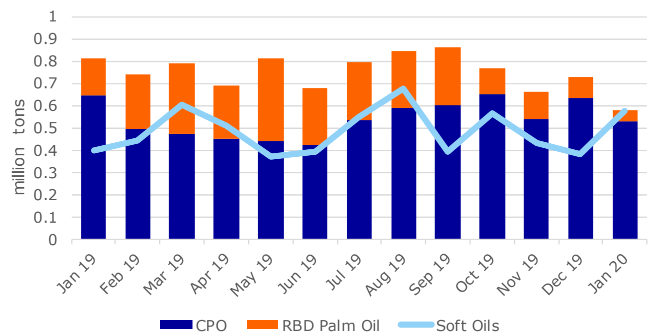
Indonesian palm oil inventories reached 4.6mmt at the end of 2019. According to GAPKI, Indonesian 2019 crude palm oil and palm kernel oil production increased by 9.5% and 6.9% YOY, to 47.1mmt and 4.6mmt, respectively. Meanwhile, consumption (including lauric oils) increased by 23.5% YOY, to 16.7mmt in 2019, on the back of the implementation of the B20 mandate. Indonesian 2019 palm oil exports (including lauric oils and biodiesel) also increased by 4.2% YOY, to 36.2mmt.

Malaysian palm oil inventories could increase in February 2020, due to weak import demand from India and China



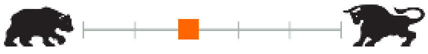
Source: MPOB, Rabobank 2020

Indian soft oil imports increased MOM in January 2020, at the expense of palm oil imports



Source: SEA India, Rabobank 2020

Sugar



Bearish outlook for ICE #11 Sugar as Brazil is expected to increase production.

- Thailand is front-and-center of the rally, as crushing rates ease across the North, Northeast, and Central regions.
- Rabobank anticipates that Indian and Brazilian exports will play a larger part in meeting demand in the coming year.
- Brazil's ethanol parity set for possible downward volatility from the coronavirus, as Brent Crude reacts sharply.

Strength continues in ICE #11 Raw Sugar through February, beating expectations to rise to the highest levels since May 2017 on the nearby. Thailand remains front-and-center of the rally, as crushing rates ease across the North, Northeast, and Central regions – as of February 24, cane crush was 21% lower YOY, with crushing now just above 300,000mt per day, vs. +1mmt per day last year. This sharp slowdown highlights the extent of seasonal drought damage, with cane production now estimated between 70mmt and 85mmt for 2019/20, down 35% to 45% YOY. This could translate into an 8mmt-10mmt crop, vs. 15mmt last year, tightening 2019/20 exports from Asia's premier supplier. The key question is now: Which origins will step in to replace this loss of Thai exports? Speculators were active on the news, with Managed Money adding a further 20,903 net longs through the month (as of Feb 18). Rabobank maintains a bearish nearby view on the market at current levels, as the Brazilian CS harvest steps up in April, with a stronger year-on-year sugar mix as ethanol prices seasonally decline, forecasting the ICE #11 at USc 14/lb by Q4 2020. However, Rabobank's 8.2mmt global deficit expectations for 2019/20 should keep prices from returning back to 2019 levels.

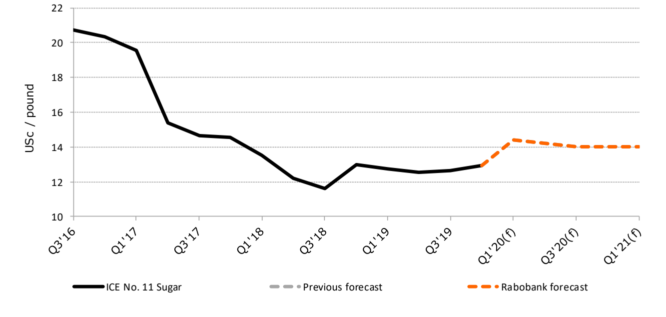
Nearby tightness in the whites market is emphasized in the white premium, having touched above USD 100/mt through February. The rally drives positive margins for most (if not all) global refineries, in turn opening up additional demand for trade of raws. The March white expiry had one of the largest deliveries against the contract, with Dubai delivering the lion's share of more than 300,000mt. Speculation has been ripe in white, with Managed Money holding a record net long position for five consecutive weeks (as of Feb 18).

Indian and Brazilian exports will play a larger role in meeting demand in the coming year, particularly given the competitiveness of Indian raws values vs. Thai premiums. Indonesia lowered the ICUMSA standards for raw imports, a factor set to benefit Indian raw exports in particular – ISMA raised its output estimate to 26.5mmt and forecasts 2019/20 Indian exports to reach 5mmt, with 3.2mmt contracted thus far, along with government miller export quota reallocations taking place (611,797mt as of Feb 24) to meet export demand quickly.

Brent Crude prices are trading at USD 53/bbl due to the impact of the continued spread of coronavirus – the weakened BRL (-3.4% MOM), and increasing cane supply should help sugar production in Brazil. With good rainfall thus far and similar conditions forecast, Brazil may have a bumper crop with record sugar output. Similarly, strong rainfall across Australia's far-north Queensland region is favorable for growth, pending no future storm events. Looking further ahead, a full recovery in Thai output in 2020/21 is unlikely, as the drought means ratoon crops start on the back-foot.

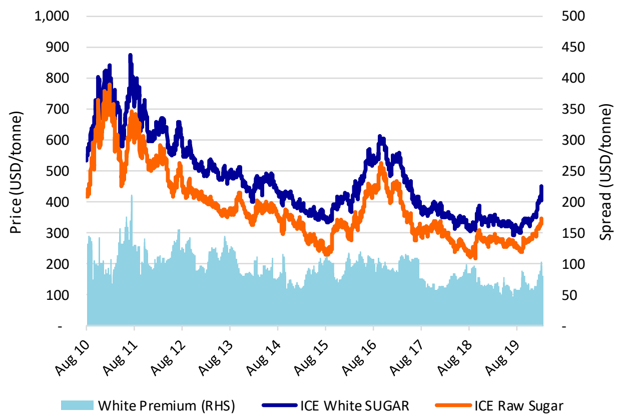
ICE #11 Sugar price forecast unchanged

	Unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Sugar	USc/lb	12.5	12.6	12.9	14.4	14.2	14.0	14.0	14.0



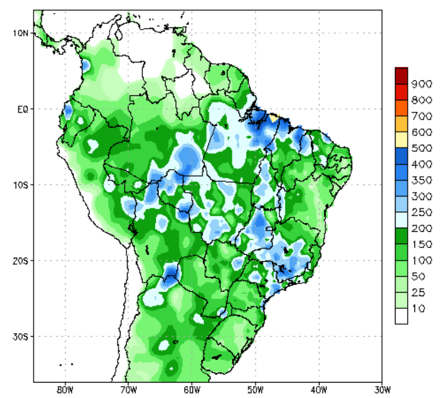
Source: Bloomberg, Rabobank 2020

The white premium touches above USD 100/mt through February; a strong incentive for global refineries



Source: Bloomberg, Rabobank 2020

Good rainfall across Brazil's CS region should assist cane growth; accumulated rainfall (mm)



Source: NOAA 2020

Jan. 25 – Feb. 23

Coffee

Arabica found its bottom in early February, but BRL weakness is keeping a lid on recovery.

- Arabica has been under continuous pressure from a weak BRL, coronavirus, and improving prospects for the Brazil 2020/21 arabica crop.
- The effect of coronavirus on demand is likely temporary and negligible.
- Concern on washed coffee availability.

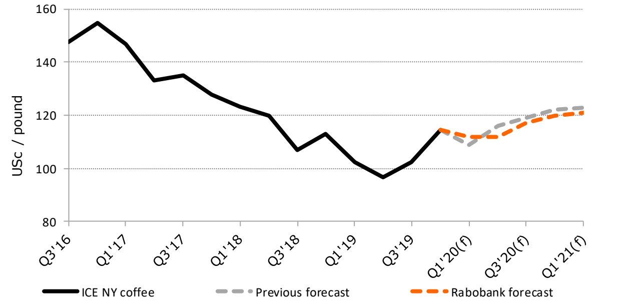
The front-month arabica contract dipped below USD 1/lb for about a week in early Feb, then quickly recovered. The recovery was capped by further coronavirus fears – especially when it hit Italy – and the steep depreciation of the Brazilian real. Preliminary results from our Brazil coffee survey point to a larger-than-expected arabica crop, leading to a strong BRL-arabica price correlation. Strong rainfall in the key arabica areas of Brazil in February was rather beneficial for the crop and should guarantee good development in the coming weeks. The physical availability of Brazilian arabica coffee, which is largely hedged against NY, could apply some pressure in the short term and during harvest. However, the market will have to recover enough by Q4 in order to guarantee a thorough harvest across Central America. As a result, and for a year now, we are in an arabica market that swings between reflecting the large availability of Brazils and the concern for the dwindling washed crops. The latter is particularly relevant toward the end of the year, as seen in 2019, as the market needs to reward farmers to do a thorough harvest in Central America.

The washed arabica situation continues to be tight. After the extraordinarily high production figure in December, Colombia produced only 1.05m 60-kg bags in January, a 19% decline YOY and the lowest January level since January 2014. Sales out of Honduras are running about 8% higher YOY, but there has been a rapid deceleration since December, when they were running over 30% higher YOY. Certified stocks have been stable for most of February, at 2.1m to 2.2m bags. However, we expect to see large deliveries against the March contract (with the contract keeping 2,000 lots open interest into delivery as of late February, or 0.56m bags). We would expect to see at least half of that being decertified over the coming couple of months, as procuring washed coffees from origin at the current prices is increasingly difficult.

We expect the Brazilian real to recover significantly, to trade at 4.1 by the end of 2020. The Brazilian real is trading at BRL/USD 4.4, and this level may weaken further if coronavirus spreads in the country. The weakness in the arabica market seems to be anticipating much of the coronavirus-related risks. However, we expect more volatility around the corner. In principle, a large crop in Brazil and high stocks there should translate to a very high correlation with the Brazilian real. If the BRL appreciates to BRL/USD 4.1 later in 2020 to reflect a recovery in the Brazilian economy, then we would expect at least a 3% to 5% increase in arabica prices. The amount of forward-selling out of Brazil has steadily increased over the last few years, and that could result in farmers delivering existing commitments, but hoarding the unsold volumes in case BRL-denominated prices fall. We remain confidently bullish toward Q4, for the reasons stated above… but in the meantime, it may be a bumpy ride.

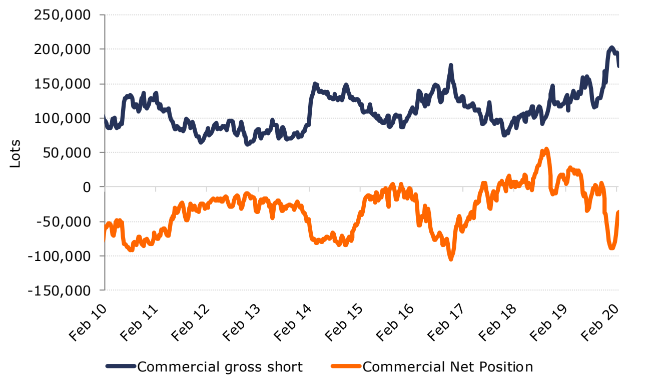
ICE Arabica forecast slightly lowered, but supportive

	unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
ICE Arabica	USc/lb	97	102	114	112	112	117	120	121
ICE Robusta	USD/mt	1,406	1,354	1,349	1,330	1,400	1,430	1,430	1,440



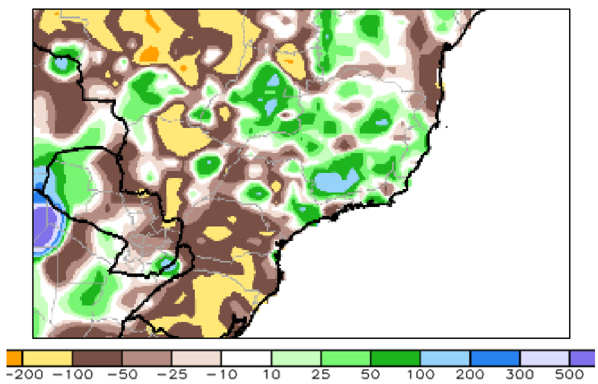
Source: Bloomberg, Rabobank 2020

Commercial players are well sold after significant selling from origin during the recent. price rally



Source: CFTC, Bloomberg, Rabobank 2020

Rainfall in Brazil's coffee areas has been excellent, increasing crop expectations; 30 day rainfall anomaly (mm)



Source: NOAA, Rabobank 2020 26 Jan. – Feb. 24

Cotton

Bullish ICE #2 forecast on short-term demand expectations, despite coronavirus disruption

- Coronavirus is a negative influence on global cotton demand while it remains uncontained.
- Rabobank expects strong US-China cotton flows in the future, following the striking of the January trade deal.
- Heavier global production is forecast for the 2020/21 season, up 3.4m bales YOY, to reach 124m bales – consumption is also set to grow in 2020/21.

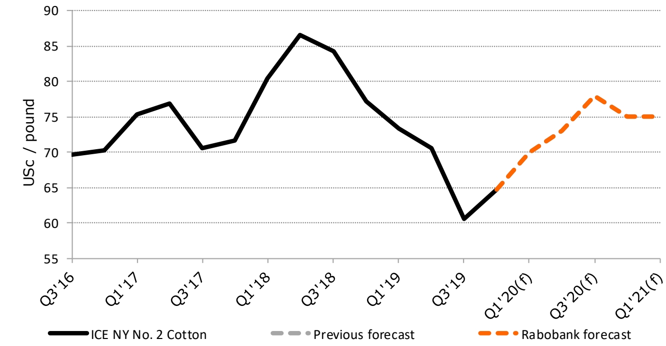
Rabobank maintains a bullish outlook on ICE #2 Cotton futures, despite a -1.5% MOM dip on the exchange. After rising in late 2019, the ICE #2 is suffering from the broader impact of coronavirus, which threatens Asian commodity demand – particularly for Brent Crude, down 14% YTD. That said, fundamentals still point toward 2019/20 demand growth – forecast at 1% YOY – coupled with a balanced global supply outlook and strong US export commitments. Rabobank expects strong US-China cotton flows in future, following the striking of a January trade deal. This future demand strength demand is reflected in on-call mill sales where, as of February 7, 33,433 net unfixed sales were reported on the May and July 2020 contracts – a supportive factor into late Q2 and Q3 2020. ICE #2 is forecast to rise toward USc 78/lb by Q3 2020, before softening to USc 75/lb by the end of the year.

Coronavirus is a negative influence on global cotton demand, and its impact will become more significant while the outbreak remains uncontained. Slowdowns at ports and factory closures have cut import enquiries from China – China cancelled a net 51,000 bales of US fiber in the fortnight ending February 6, despite January's trade deal. In tandem, February's WASDE cut China's 2019/20 consumption by 1m bales MOM. Chinese consumption should remain subdued in the short term, while virus lockdowns exist. As restrictions are lifted, import purchases should bounce back sharply, partially offsetting the present slowdown. Despite this, US export sales are at the highest pace since the 2010/11 season – 15.9m bales currently committed – amid healthy Southeast Asian demand. At the current pace, shipments could deliver over 16m bales through 2019/20. Rabobank expects Chinese demand to return in 2H 2020, once the initial coronavirus disruption has subdued.

Heavier global production is forecast for the 2020/21 season, up 3.4m bales YOY, to reach 124m bales, with exporters such as Brazil and India to see marginally higher output. The largest contributor to this rise will be Australia, where recent rainfall across the east coast has filled on-farm water storages and provided river inflows – allowing greater irrigated area in 2020/21. The USDA's Outlook conference delivered a 12.5m-acre 2020/21 estimate, vs. Rabobank's 12.8m-acre estimate – a 1.1m-acre decline YOY. This delivers a US crop between 19.4m and 20.2m bales, using a trend yield: well above the five-year average of 17.9m bales. Consumption is also set to grow in 2020/21, up 2% YOY, amid higher mill confidence as a result of the US-China trade deal. If realized, this provides a global deficit of 0.7m bales next season, and a world excl. China surplus of just over 1m bales.

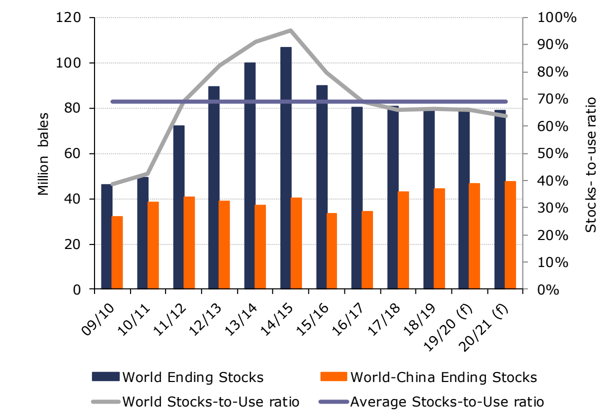
ICE #2 Cotton forecast maintained

	unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Cotton	USc/lb	71	61	65	70	73	78	75	75



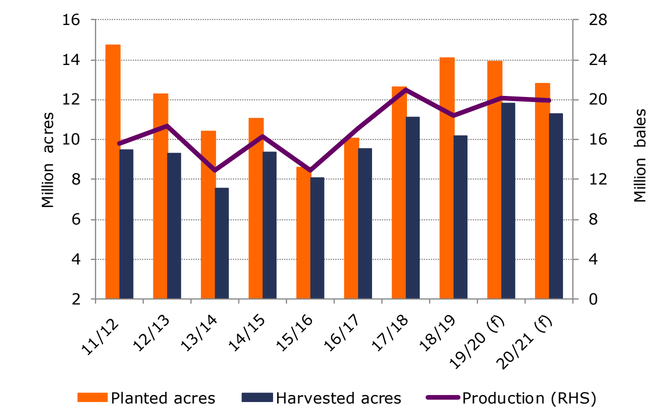
Source: Bloomberg, Rabobank 2020

Global inventories are forecast to remain stable in 2020/21, although a demand-led dip in stocks-to-use is forecast



Source: USDA, Rabobank 2020

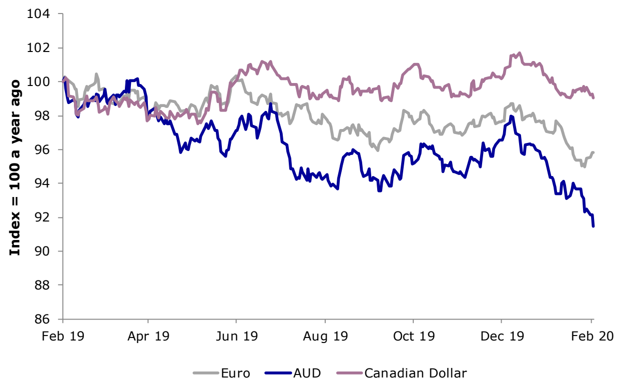
US 2020/21 cotton output is set to near 20m bales once again, as planted area reaches some 12.5m to 13m acres

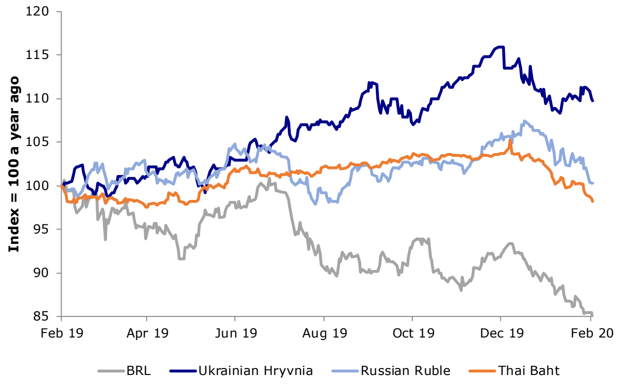


Source: USDA, Rabobank 2020

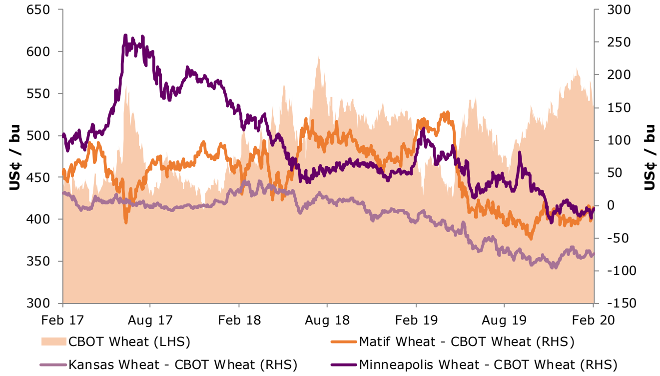
Agri Charts

Global Currencies USD Cross

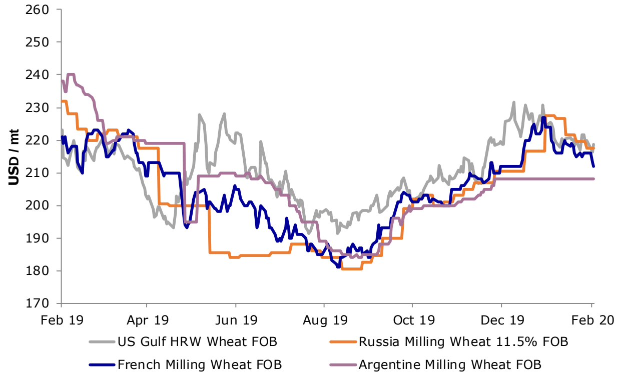




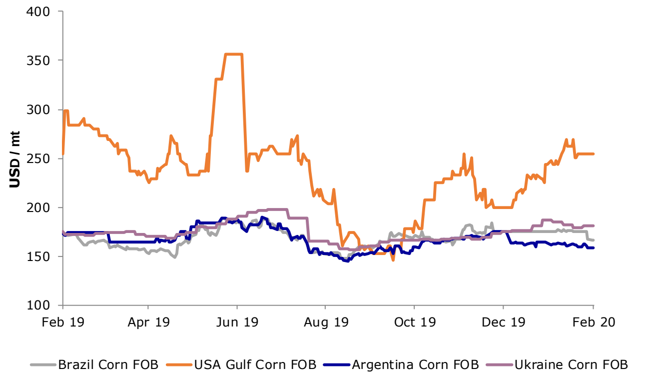
CBOT Wheat Spreads



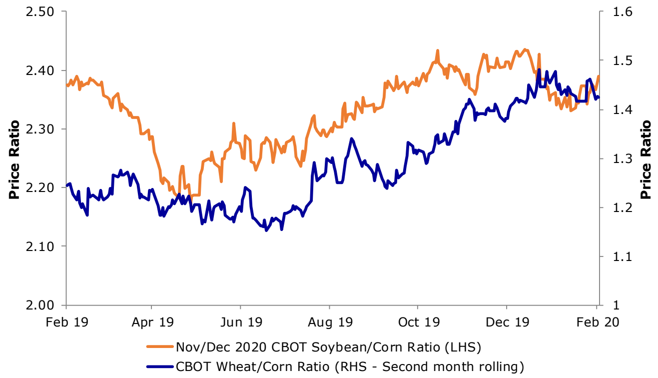
Wheat Protein FOB Prices



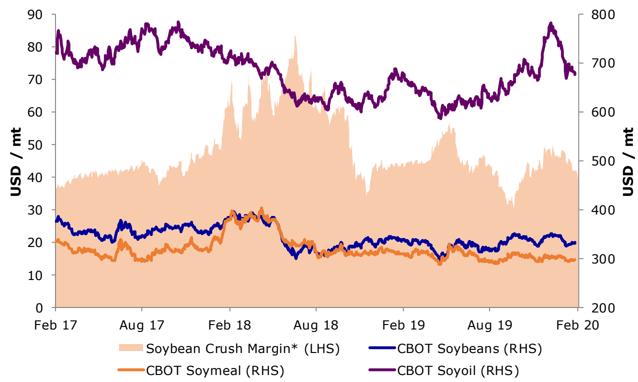
Corn FOB Prices



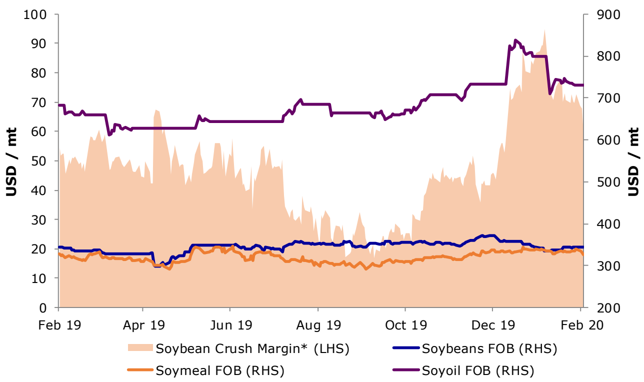
CBOT Ratios



CBOT Soybean Crush Margin



Argentina FOB Soybean Crush Margin



Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

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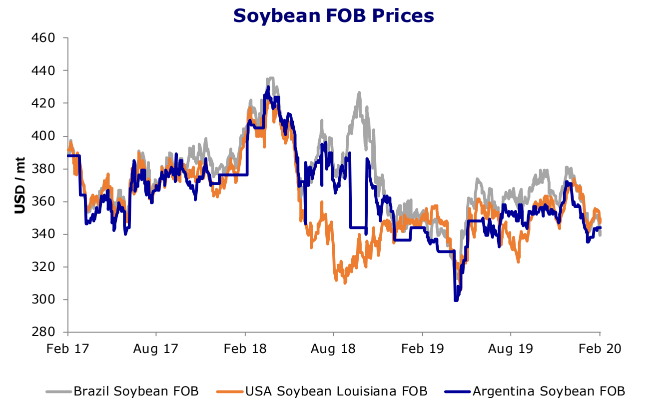

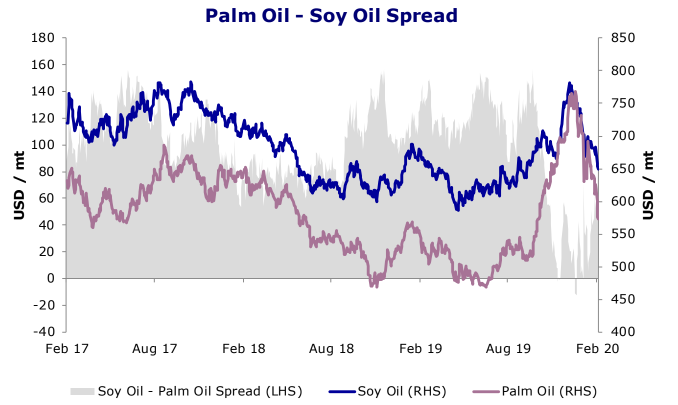

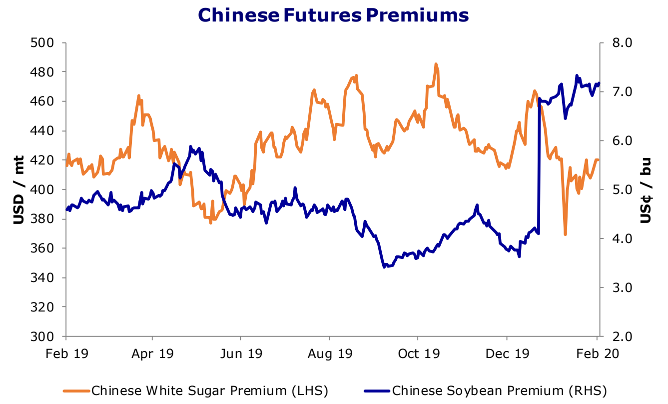

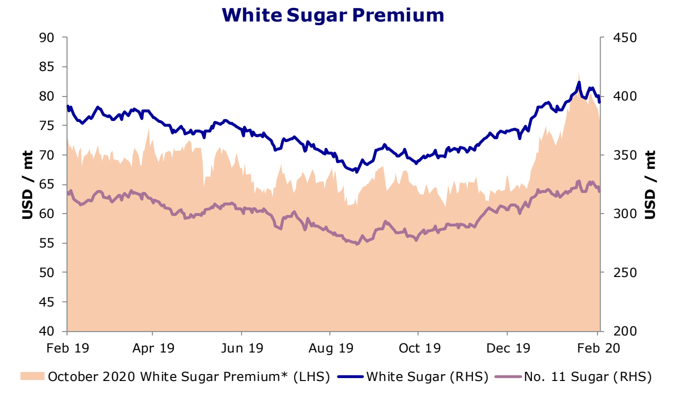

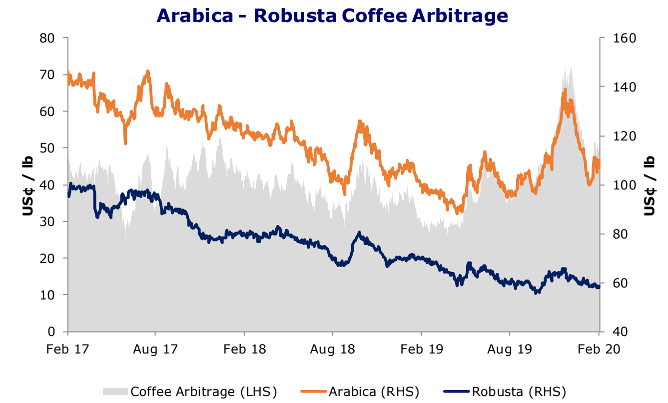

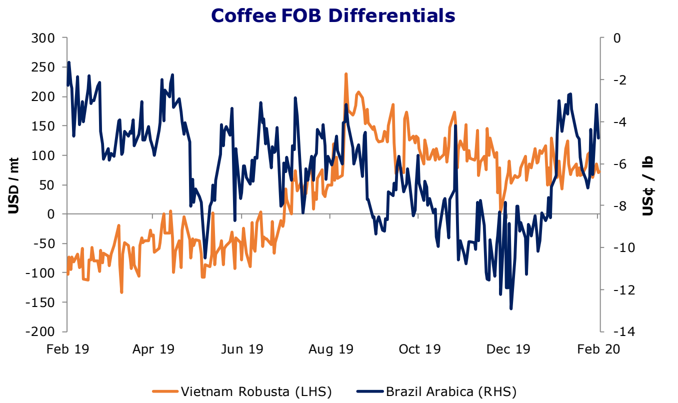

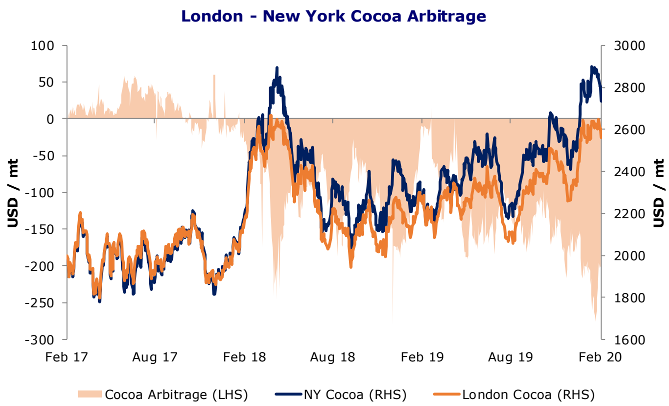

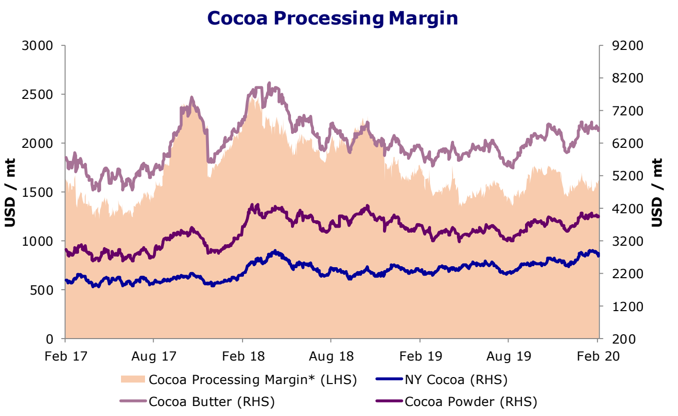

Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

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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 www.rabobank.com