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Agri Commodity Markets Research

May 2021: Whether to Buy or Weather to Sell?

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Agri commodity prices have taken a tumble so far in May, dropping by 6% on average, with grains leading losses. US weather has improved permitting quick plantings and that, together with expanding corn acreage expectations, has led to heavy fund profit-taking. Still, with a weak US dollar, persistent inflation concerns, Brazil's burnt safrinha and a lengthy northern hemisphere weather market ahead, funds could revisit their decision to sell so soon. In the meantime, commercial buyers have been content to pick up major coverage on the recent price break. On the fundamental side, we have low supplies in G&O exporters and a lot of weather risk still to go before good yields materialize.

WHEAT

High expectations for US Central Plains and an improving outlook in NA may temper prices

- Wheat prices whipsawed in May, led principally by the parabolic moves in nearby corn prices.
- Weather in the US Northern Plains and Canada is improving following very successful US plantings.

CORN

US corn acreage shaped up, and CBOT Corn shook out; supply risks and strong demand provide support

- US farmers have planted corn far and wide but face long odds in achieving the USDA's expectations.
- Brazil's safrinha crop losses will cut its export potential by ~10mmt straining US export capacity.

SOY COMPLEX

Limited US soy reflation will keep stocks low, CBOT soy prices likely supported into 2022

- US soy appears to have lost the upper hand for land, and heavy swings in CBOT Soy-Corn imply stockpiles will remain extremely low for another year.
- US and China are driving a paradigm shift in demand.

PALM OIL

Palm oil prices will continue to be supported by the wide soy oil-palm oil price spread

- Palm oil prices remain competitive.
- A seasonal production upcycle will result in higher Malaysian palm oil inventories in Q2 2021.
- High domestic edible oil inventories will limit Indian palm oil import demand in the short term.

SUGAR

The sugar price forecast has been slightly increased, based on ethanol strength

- This bullish ethanol pressure is starting to ease, but it may be back toward the end of the harvest.
- Speculators are likely to remain very active through 2021.

COFFEE

The coffee price forecast is bearish from the current USc 150/lb

- Speculators held their net long position despite widespread selling in other commodities.
- Brazil's weather to become the focus of the market over the southern winter and underpin volatility.

COCOA

Cocoa forecast lowered slightly on good near-term availability but bullish long-term.

- Recent rainfall has been below average in West Africa, while the long-range forecast has improved.
- Production risks for next season remain, with possible retail price inflation underpriced

COTTON

A calmer ICE #2 Cotton was seen in May, as both productive and technical risks subsided

- USDA's May WASDE brought early forecasts for the 2021/22 season, providing a supportive outlook.
- Attention now turns to US plantings and the extent to which 12m acres could be realized, as well as abandonment.

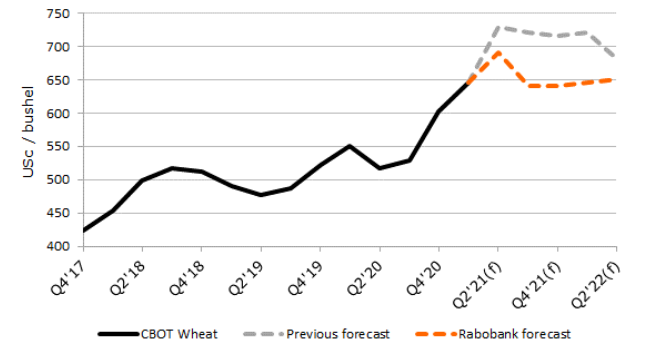
Wheat

High expectations for the US Central Plains and an improving outlook in North America may temper prices.

- Wheat prices whipsawed in May, led principally by the parabolic moves in nearby corn prices.
- Weather in the US Northern Plains and Canada is improving following very successful US plantings.
- Russian export taxes may mean a flood of spot availability following northern hemisphere harvest.

Wheat price forecast lowered on improving NA outlook

	unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
CBOT	USc/bu	529	602	646	690	640	640	645	650
Matif	EUR/mt	186	208	227	213	215	220	220	215



Source: Bloomberg Finance L.P., Rabobank 2021

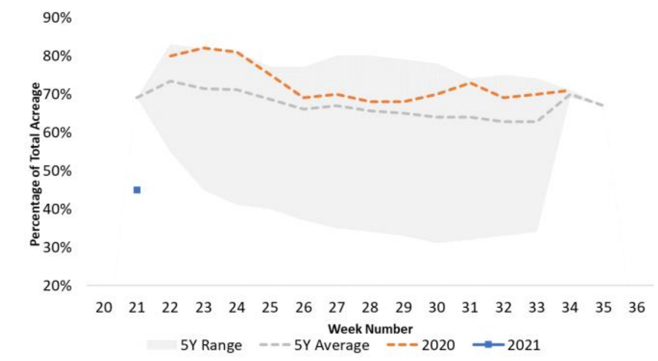
Wheat prices had a volatile month, peaking at around USc 770/bu before retracing back down to USc 660/bu. CBOT Corn prices and weather have been the main driving forces, but it appears that both are easing pressure on wheat. While corn is trading at parity with Kansas Wheat in the July21 contracts, the futures curve returns to a more normal spread from September, allowing potentially lower wheat prices ahead. This, together with the improving weather outlook for wheat, leads us to see prices edging lower, with a peak in harvest pressure in Q3-Q4 2021, and some price stability in 2022, with expectations of slightly dry to normal weather.

Continued good rainfall in the Central Plains and some relief for the Dakotas and Canada should help firm up North American crop expectations, despite low US good-excellent crop ratings. Temperatures are beginning to rise in the US, and rainfall is forecast to continue in good volumes in the coming weeks, which should help development of both North American winter and spring wheat. US winter wheat crop ratings crept down in May to 47%, below the five-year average of 53% but well within the five-year range. Meanwhile, US spring wheat good-excellent ratings were the lowest in at least five years this week at 45% compared to the five-year average of 69%, with an estimated 83% of crop area experiencing drought. Long-range forecasts suggest rainfall will improve but remain below average, which leads us to believe the situation should show some improvement at least. If it does, given the speedy plantings there should be good crop potential and this may move prices down in Q3 2021.

May was also all about the USDA, with its 2021/22 wheat WASDE estimates broadly in line with expectations for some major producers, like the US and the EU. However, we see stronger feed demand and likely a lower Russian crop. With respect to Russia, the USDA WASDE sees Russia producing 85mmt, a figure in sharp contrast to the latest USDA FAS figure of 77.5mmt. We believe a number a little north of 80mmt is more plausible. But clearly, it is still early days to be certain about the development of spring wheat. Furthermore, the new export taxes at 70% of prices above USD 200/mt are making it difficult to agree forward sales, which could cause a flood of spot availability around harvest and at a good physical discount. This could further pressure prices in Q4 2021 and possibly Q1 2022 and lead to lower prices but a steeper curve afterward.

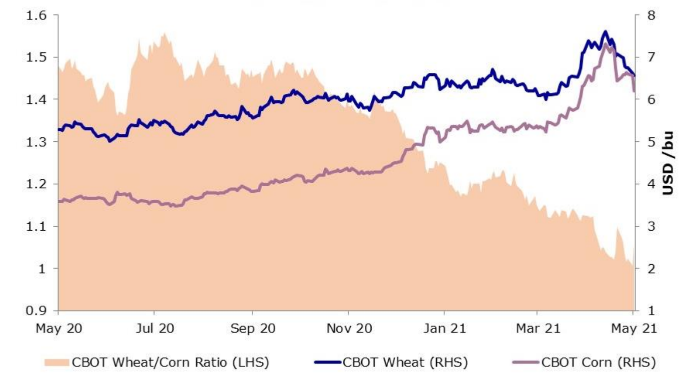
Wheat feed demand has the potential to move higher than USDA expectations of 158.7mmt (an increase of less than 1% YOY). With high animal protein demand in the US and Europe and doubt over corn availability, this may provide a floor to prices above USc 600/bu into 2022.

US spring wheat good-excellent ratings begin the season at their lowest level in at least five years



Source: USDA, Rabobank 2021 as of 23 May

The CBOT Wheat/Corn ratio traded to parity in May (active contract) but is seen normalizing along the curve



Source: Bloomberg Finance L.P., Rabobank 2021

Corn

US corn acreage shaped up, and CBOT Corn shook out; supply risks and strong demand provide support.

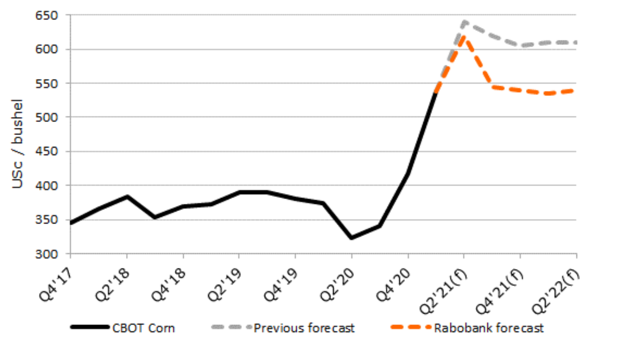
- US farmers have planted corn far and wide but face long odds in achieving the USDA's reflation expectations.
- Brazil's safrinha crop losses will cut its export potential by ~10mmt, further straining US export capacity.
- Fund and farmer sales have been met by opportunistic commercial buying, led by China (11mmt over 2 weeks).

CBOT Corn's curve steepened dramatically last month (down as much as 18% MOM) even as the front month contract held up relatively well, -7% near USD 6.10/bu. Market participants are extending their gaze beyond CBOT Corn's current scarcity to the 2021/22 US crop – pegged by the USDA as a benign reflation of 15bn bu (+5.7% YOY) combined with smaller exports of 2.45bn bu (-12% YOY) – and lowering their price trajectory in the process. The recent fund-led sell-off (-~100k to a still substantive 259k lots net length) presented the first major pull-back in a nearly year-long rally for sidelined commercial buyers, and plenty of (China-led) coverage has taken place since then.

A month of rapid US plantings (90% vs. the five-year average of 80%) and improved rainfall has faded painful memories of lackluster US acreage intentions (91.1m acres, +<1% YOY) and replaced them with larger-than-life analyst expectations as high as 94m acres. The upside of prospective to final corn acreage has rarely been 3m acres – 2007/8 was an exception. However, the message is clear: plantings need to rise to avoid inordinate pressure on yields. There are signs the message has been received by farmers who may have overcompensated for their previous lean toward soybeans: selling pressure on new crop corn and a pendulum-like soy-corn ratio that swung from 2.6 (favoring soy) to 2.2 (favoring corn) and back again. That desperate competition among G&O products to increase delicate supplies limits corn's acreage advantage to 93m acres (+2m YOY); it also underpins commercial support for CBOT Corn between USD 5.20/bu-5.60/bu over the coming year. Rabobank continues to see price risk to the upside, with a long US weather season ahead and dryness still an issue across the critical Northern Plains. US corn stocks-to-use will finish this season near eight-year lows of 7%, or two to three weeks of supplies, and there are historic growing issues in Brazil, the US's primary export competitor.

CBOT Corn technical liquidation encourages sidelined buyers

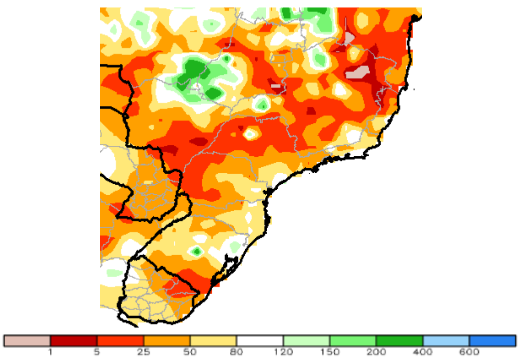
	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Corn	USc/bu	337	417	536	620	545	540	535	540



Source: Bloomberg Finance L.P., Rabobank 2021

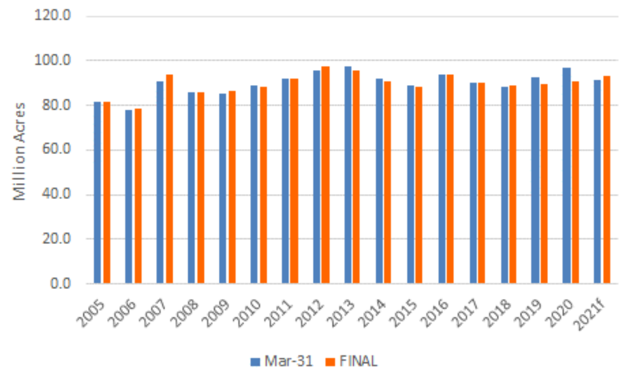
Brazil's safrinha crop has been effectively charbroiled, depriving the world of a critical resupply source and putting doubts on the USDA's principle argument for 1.5bn bu US ending stocks in 2021/22 – namely a 325m bu cut in US exports due to greater competition from Brazil. Brazil's 2020/21 production and export estimates have been slashed to 93mmt and 26mmt, respectively, both 9mmt below the USDA's (9mmt downsized) figure. If the US were on the hook for the entire difference, it would raise US exports in 2021/22 by 350m bu. The USDA has further ordained its dubious salvation, Brazil, with a 2021/22 corn crop (which won't come until 2H 2022, the tail end of the US season) of 116mmt, 25% higher YOY. Consumer guidance is helpful here. Over the last two weeks, China extended its record US-focused grain procurement (41mmt imports, +235% YOY) into 2021/22, buying 11mmt of corn. CBOT's break should yield strong demand. Funds have shaken out much of their length, farmers have sold on increased acreage, but we expect tightness in the market to endure into 2022 and further selling to be limited.

30-day % normal rainfall shows Brazil's safrinha crop cooked during key yield-determining pollination



Source: NOAA, Rabobank 2021 as of 25 May

A 2m corn acre increase from prospective to final plantings is plausible but would still be the largest in 14 years



Source: USDA, Rabobank 2021

Soybeans

Limited US soy reflation will keep stocks low, and CBOT Soy prices will likely enjoy support into 2022.

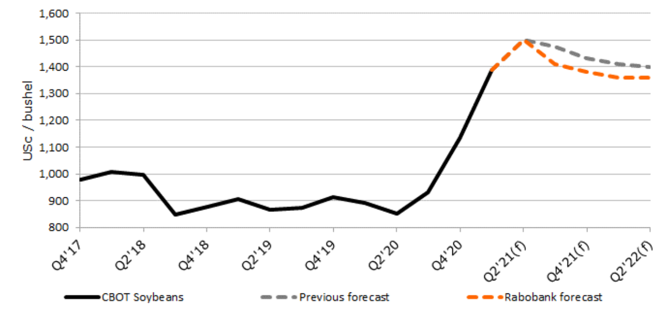
- US soy appears to have lost the upper hand for land, and heavy swings in CBOT Soy-Corn imply stockpiles will remain extremely low for another year.
- Poor yields or crop delays could cause historic rationing. Consumers aren't likely to find satisfaction in 2022.
- South American exports have flown out to China, whose demand is expected to grow further next year; widespread selling/harvest pressure may be limited by low US acres.

La Niña's withdrawal, strong US plantings and a large CBOT Corn break weren't enough to fell soybeans' 'stalk,' which remained steady near USD 15.00/bu. Commercial buyers were disappointed by the limited relief from Brazil's successful harvest (136mmt, +6% YOY). The lack of post-harvest price pressure is largely due to Brazil's considerable front-loaded export program: around 45mmt of soybeans (~50% of full-year exports) have left short since February, much of those to China. Feed demand is growing stronger, and farmers are reluctant sellers of their remaining wares.

On the subject of US summer plantings, meanwhile, there is a growing consensus from market participants that the month-long nosedive in new crop soy-corn ratio may have increased corn acreage at the expense of soy. Soybeans were expressly favored by US farmers in the March prospective plantings report (87.6m acres, +4.5m YOY), with corn effectively flat. Acute feed grain concerns, fueled by an unfolding safrinha harvest disaster, drove a CBOT Corn rally and new crop soy-corn ratio from 2.6 to 2.2 at the heart of US corn plantings. It remains to be seen if corn prices overcompensated and cost soy valuable acres, but the impression is that they may have. Over the past month, CBOT Dec21 Corn has fallen heavily, CBOT Soy has stayed flat, and the soy-corn ratio has rallied back to 2.6 to favor the former.

CBOT Soy prices strong and steady amid limited acres, sales

	Unit	Q3'20	Q4'20f	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Soybeans	USc/bu	925	1135	1384	**1500**	**1410**	**1380**	**1360**	**1360**

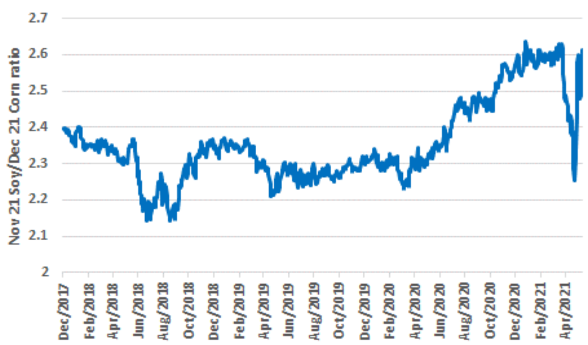


Source: Bloomberg Finance L.P., Rabobank 2021

Consumers are willing an increase in combined soy + corn acres from 179m to a more desirable 183m, but such an increase is implausible considering historical revisions to prospective plantings. We consider a middle-ground near 181m acres plausible, with corn adding 2m acres (93m acres) and soy flat and overly dependent on strong yields. Following that vein, the USDA's low US 2021/22 soy carry-out of 120m bu (+20m bu) could be seen as a ceiling, not a floor. US planting pace has been stellar at 75%, vs. 54% last year, but Rabobank maintains high prices along the curve to reflect a lack of substantial resupply before 2022 and the need to remain competitive with corn through next year's US plantings.

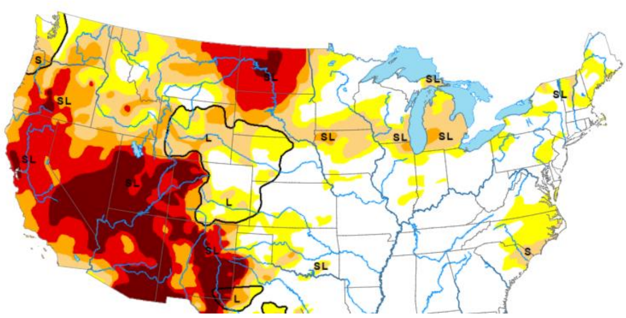
From a demand perspective, the USDA cut US exports in 2021/22, though buying interest should strengthen from China and as high prices across animal protein drive increased feeding for herd replenishment. Certainly CBOT Lean Hog, Cattle, and poultry producer prices are all elevated. Meanwhile, non-commercials have sold off substantially following the Brazilian harvest (-100k lots) and have considerable scope for re-entry in case of weather risk upside. Low soy availability has kept physical prices of meal and oil elevated and incentivized shifts in feed ratios and overall usage. Regional initiatives helped cool price increases, but they are likely transitory rather than reflective of a broader transition. Rabobank sees a strong chance for China's hog feed growth to resume in 2H 2021. In the meantime, its strong animal protein import demand will drive feeding in the US and South America.

The whipsawed CBOT Soy-Corn ratio implies an overcompensation of corn acres since March



Source: Bloomberg Finance L.P., Rabobank 2021

US moisture profile has shown steady improvement but uphill battle remains in the critical, dry North-Western US



Source: UNL NDMC, NOAA, USDA, Rabobank 2021 as of 18 May

Soymeal and Soy Oil

Overheated CBOT Soy Oil sees respite from lowered biodiesel output in Brazil, while trailing CBOT Soymeal may find support at USD 380/mt.

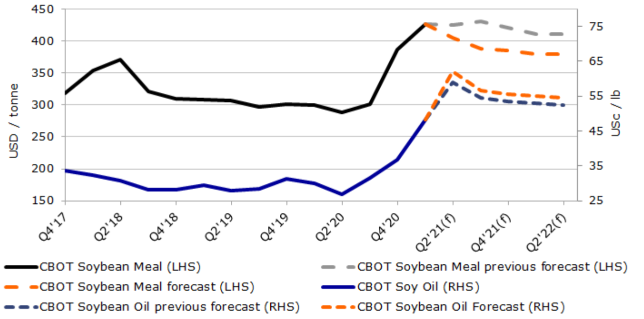
- US and China are driving a paradigm shift in soy oil demand amid surging biodiesel and feed growth.
- Low US soy ending stocks are expected this year and next.
- CBOT Soymeal could find support on strong domestic US animal protein prices, China feed recovery in 2H 2021, and Brazil's decision to lower its biodiesel mandate.

CBOT Soy Oil's achievement of the rare treble in demand trophies has placed it firmly above its agri commodity peers in price performance: +143% YOY and -3% MOM to USc 67/lb. Soy oil use is expanding with ever greater inclusion of this high-quality food ingredient in feed and biodiesel. Global oilseed supplies are ill-prepared for a demand paradigm shift. The USDA is pegging global vegetable oil stocks down 3% in 2021/22, to their lowest in 11 years, and US soy oil stocks-to-use around 5.6%, tied for second lowest on record. With US supplies scarce, CBOT Soy Oil is turning inward and pricing itself out of the export market. US FOB premiums are USc 12/lb above Brazil and Argentina; the USDA sees exports falling 18% in 2020/21 and a further 38% in 2021/22.

The new demand components for soy oil have staying power, though their explosive growth will taper over time. China's feed-driven demand drove half the world's growth (4%) in soy oil demand last year. In 2021/22, the US will take on the growth-driver mantle, with its 2.5bn lb rise in biodiesel demand (26% YOY), accounting for over half the world's soy oil growth! US industrial use of soy oil was close to 20% of demand ten years ago; next year the USDA sees it at a staggering 45%, nearly matching food use and sharply curtailing export potential. While the risk premium is concentrated in soy oil, the biodiesel/feed dynamic is creating mounting availability issues across the vegetable oil space due to high demand, falling stockpiles, lack of farmer selling, and uncertain resupply. Typical alternatives like palm oil are unable to either avoid or relieve the scarcity pressure in soy oil.

CBOT Soy Oil remains in the driver seat but Meal supported

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Soymeal	USD/ton	297	386	434	405	388	385	380	380
Soy Oil	USc/lb	31.3	36.8	45.9	62.0	56.5	55.5	55.0	54.5

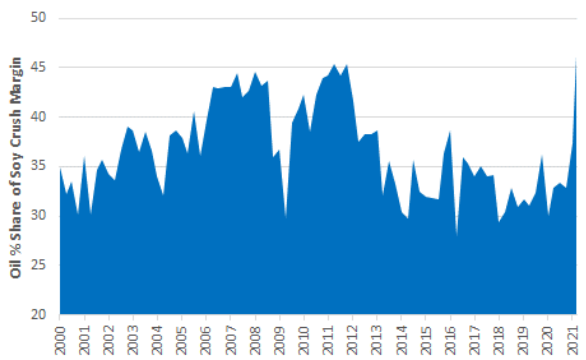


Source: Bloomberg Finance L.P., Rabobank 2021

South America's recent soybean harvest and, in particular, Brazil's reduced biodiesel mandate plans (B10 vs. B15) offer temporary relief to the export market and may help restrain CBOT Soy Oil further. Incomplete biodiesel mandates in places like Indonesia, and a revival of cooking oil inclusion in the US may modestly relieve soy oil. Still, soybean farmers will be reserved sellers to this bull market, and soy oil's growing use, combined with limited acreage across oilseeds, will reduce availability for food consumption and see CBOT Soy Oil prices maintained above USc 54/lb into 2022.

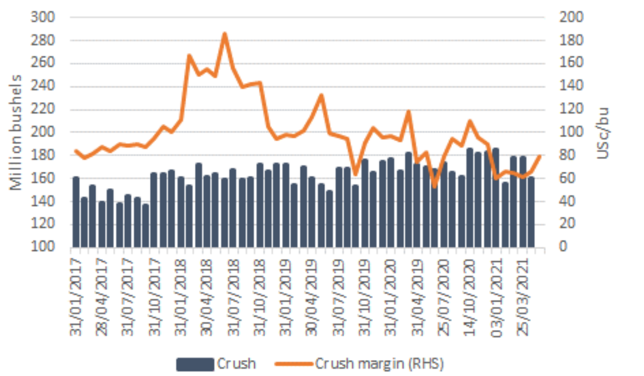
The soy by-product landscape continues to see CBOT Soymeal (-9% MOM) lag behind its golden sibling. There may be stronger support ahead if China's domestic soymeal price rebound is a sign that inclusion rates and overall demand will rise in 2H 2021 amid renewed hog restocking efforts. Meanwhile in the US, NOPA's soy crush miss (160m bu, vs. 170m bu expected) point to the difficulty of soy oil (20% of crush output) carrying half of the value of the crush, with processing expansion plans risking a glut in meal. Soy supplies are low and US animal protein prices are strong, which should drive stronger annual domestic demand growth for feed. Brazil's biodiesel pause could boost CBOT Soymeal by removing excess supply from Brazil's export market and driving higher US exports in 2021/22. We see CBOT Soymeal gaining more solid footing above USD 380/mt over the coming year.

Soy Oil share of crush has spiked near 50% amid vegetable oil scarcity, reaching the highest level in decades



Source: Bloomberg Finance L.P., Rabobank 2021

US crush margins have shown improvement but output could lag if soy oil continues to carry an excessive burden



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

Palm Oil

Palm oil prices will continue to be supported by the wide soy oil-palm oil price spread.

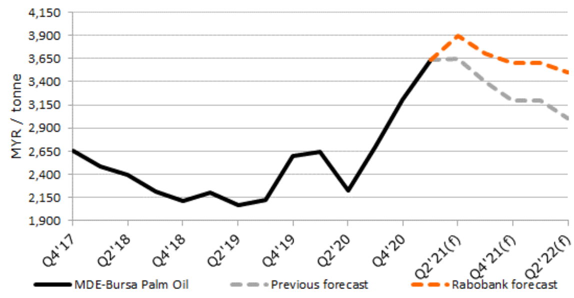
- Palm oil prices remain competitive compared to soft oils prices.
- A seasonal production upcycle will result in higher Malaysian palm oil inventories quarter-on-quarter in Q2 2021.
- High domestic edible oil inventories will limit Indian palm oil import demand in the short term.

Palm oil prices remain competitive compared to soft oils prices. The MDE-Bursa Palm Oil active contract price continued its run to reach above MYR 4,400/mt in May 2021. Even though Malaysian April 2021 palm oil production and inventories improved on a month-on-month basis, the spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices remained wide at above USD 300/mt in May 2021. This means that even at current high prices, palm oil prices remain more attractive compared to soy oil prices. We expect palm oil production in Indonesia and Malaysia will continue to improve for the remainder of 2021, which fundamentally should pressure palm oil prices. However, we are of the opinion that pressure on palm oil prices will continue to be limited as long as the spread between soy oil and palm oil prices remains wide. We expect this trend to continue at least until Q3 2021, when there will be more clarity on the outlook for 2021/2022 soybean production in India and the US. Considering the above factors, we have revised up our Q3 2021 and Q4 2021 palm oil price forecast to an average of MYR 3,700/mt and MYR 3,600/mt, respectively.

Seasonal production upcycle will result in higher Malaysian palm oil inventories quarter-on-quarter in Q2 2021. According to the MPOB, Malaysian April 2021 palm oil production and exports increased by 7% and 13% MOM, to 1.5mmt and 1.3mmt, respectively. Malaysian March 2021 palm oil inventories also increased by 7% MOM, to 1.5mmt. While

We revise our forecast due to recent palm oil price increases

	Unit	Q3'20	Q4'20	Q1'21	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)	Q2'22(f)
Palm Oil	MYR/ton	2,703	3,204	3,647	3,900	3,700	3,600	3,600	3,500

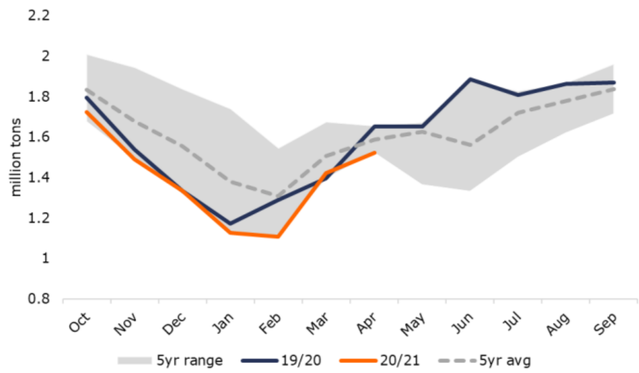


Source: Bloomberg Finance L.P., Rabobank 2021

Malaysian May 2021 palm oil production might have been limited by lower FFB harvesting activity in the first half of the month on the back of Ramadan and Eid al-Fitr, we still expect seasonal palm oil production increases to result in higher palm oil inventories quarter-on-quarter in Malaysia in Q2 2021.

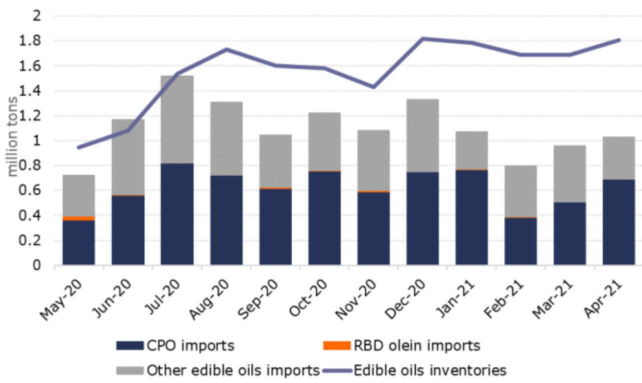
High domestic edible oils inventories will limit Indian palm oil import demand in the short term. The resurgence of the coronavirus appears to have negatively affected domestic edible oils consumption in India. This can be inferred by comparing the month-on-month increase in Indian domestic edible oils inventory volumes in April 2021, which was higher than the month-on-month increase in edible oils import volumes in April 2021. According to SEA India, Indian April 2021 edible oils inventories increased by 7% MOM, to 1.8mmt. Imports of edible oils to the country in April 2021 also increased by 7.5% MOM, to 1mmt. At the same time, the ratio of palm oil imports to soft oils imports increased from 55% in March 2021 to 68% in April 2021, as edible oils buyers imported more palm oil at the expense of more expensive sunflower oil. In the short term, we expect Indian edible oils import demand will be negatively affected by muted domestic edible oils consumption, on the back of targeted lockdown measures, high levels of domestic edible oils inventories, and high edible oils prices.

Malaysian palm oil production shows sign of seasonal improvement



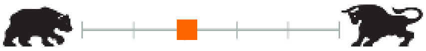
Source: MPOB, Rabobank 2021

In the short term, Indian palm oil imports will be limited by relatively high domestic edible oil inventories



Source: SEA India, Rabobank 2021

Sugar

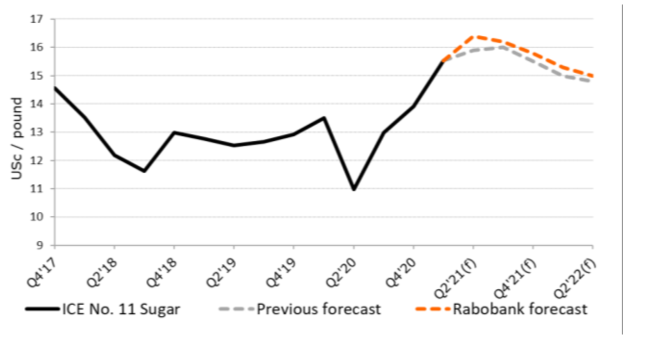


The sugar price forecast has been slightly increased, based on ethanol strength, but is still slightly bearish ahead.

- ICE #11 prices lost 2%, despite the strength in Brazilian ethanol. This bullish ethanol pressure is starting to ease, but it may be back toward the end of the harvest.
- Speculators are likely to remain very active through 2021.

ICE #11 Sugar price forecast increased but still bearish

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2,22f
Sugar	USc/lb	13.0	13.9	16.0	**16.4**	**16.2**	**15.8**	**15.3**	**15.0**



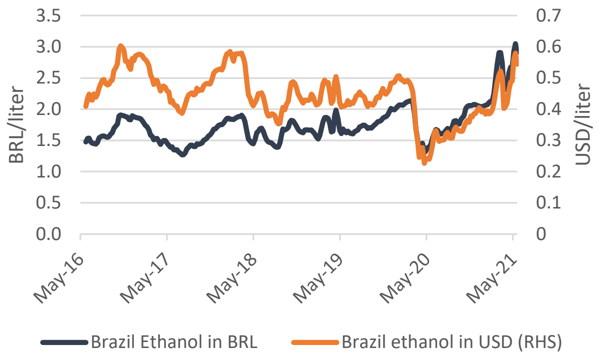
Source: Bloomberg Finance L.P., Rabobank 2021

ICE #11 July21 Raw Sugar touched USc 18/lb, to come back to just under USc 17/lb, following the movements of the larger agri commodity complex. Clearly, the strength in the ethanol market was setting a floor to sugar prices, but ethanol prices have started to give way as harvested volumes increase. The weather forecast is for quite a bit of rainfall in the coming week, so it might take a little longer than anticipated for Brazil to ramp up cane harvest volumes.

A higher flow of money will be met with a higher flow of sugar. The latest CFTC had a bit of selling, but the net long position is holding better in softs than in other commodities. The DXY index (the US dollar measured in other developed market currencies) has dropped a further 1.8% so far in May, and it is now at about the lowest point of January, when funds reached a record net long across agri commodities. Our view is that funds are likely to expand their position across agri commodities, and the inflow of funds into trackable commodity ETFs has been astonishing (USD 9.7bn in the last year and USD 1.9bn in the last week). The sugar curve, being mainly in backwardation, is particularly attractive for funds going long. The relatively neutral May WASDE report caused selling across G&O and took sugar with it, but we believe the steady flow of speculative money will result in commodities being well supported. This is in contrast with our more bearish fundamentals view that Brazil will max sugar for a second year in a row, or at least it will do so during most of the current crop. Going a little bit further ahead, we expect some recovery in Thailand, Pakistan, and Russia too. And as vaccination programs advance, supply chains may normalize, with a resulting dip in demand for storage 'just in case.' This leads us to a slightly bullish outlook ahead, but we expect quite a bit of volatility in the process.

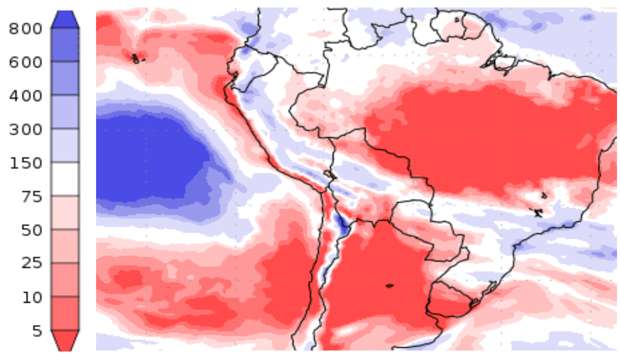
Better weather lies ahead. It is still early days, but the monsoon started to arrive to the Andaman sea right on time. Also, Brazil is expecting some rainfall in the coming week, which should alleviate concerns about the health of the crop to be harvested later. Meanwhile, in the EU and Russia, recent rainfall has been plentiful. With a neutral ENSO, we can only expect more normal weather in Brazil in the current harvest season, but it is well worth noting that at least 20% of the models run by the Australian Bureau of Meteorology show a return of La Niña conditions by October. A weak La Niña may not necessarily be a problem, as it usually only makes the very southern part of Brazil dry. But we believe that, even in the case of a weak La Niña, the agri commodity complex will rally, as stocks of a number of commodities are running low. This is not our base-case scenario, but with a flow of money into commodities, the threat of another La Niña is something to keep an eye on. In our base case, normal weather in Brazil, India, and Europe is to be expected, reinforcing our relatively bearish view.

Ethanol prices reached record levels in BRL despite the (timid) start of the harvest, but have now come off the peak



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

Wetter-than-normal rainfall expected over Brazil CS (in % of normal):



Source: NOAA, Rabobank 2021

Coffee

The coffee price forecast is bearish from the current USc 150/lb.

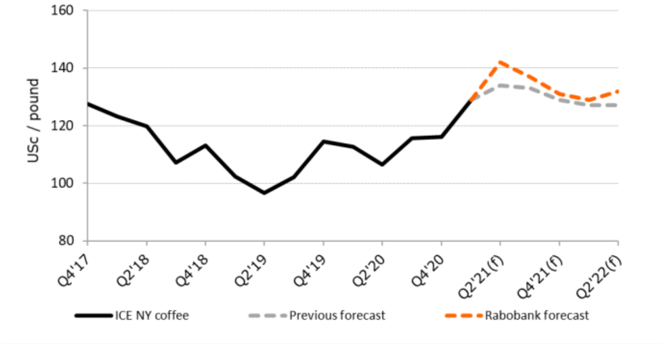
- Speculators held their net long position despite widespread selling in other commodities.
- Brazil's weather to become the focus of the market over the southern winter and underpin volatility ahead.
- More demand for Brazilian conillons ahead.

Coffee prices climbed USc 10/lb so far in May, with funds staying firm in their net long position despite widespread selling in other commodities. The decisiveness of funds to remain well long in the coffee market is based on widespread expectations for a large coffee deficit in the 2021/22 crop year. With this in mind, funds are unlikely to close their position ahead of the Brazilian winter and possibly not until a recovery in 2022/23 is in sight with the return of the wet season. With stocks expected to be run down during the 2021/22 season, there will likely be upside volatility, even if prices, in our opinion, are more likely to go down than up.

Brazil's weather is likely to result in high volatility. Even though stocks from previous crops are plentiful, the deficit expected in Brazil's crop in the coming 2021/22 season (officially starting in July in Brazil) is a major concern in the market. This should result in increased volatility ahead. At the moment, temperatures in Brazil's coffee-growing regions are fairly normal, but any cold weather event is likely going to be exacerbated by the market. Volatility may arise from other sources. For example, the release of the US port stocks for April showed a disappointing 0.08m bag MOM increase in stocks, which pales in comparison to the growth seen in April in the previous four years, despite strong exports out of Brazil and Honduras. The market was quick to react to this. A more thorough reading of demand will follow in our upcoming Coffee Outlook.

Arabica price forecast increased, but still bearish

	unit	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
ICE Arabica	USc/lb	116	116	129	142	137	131	129	132
ICE Robusta	USD/mt	1348	1350	1370	1460	1480	1500	1480	1480

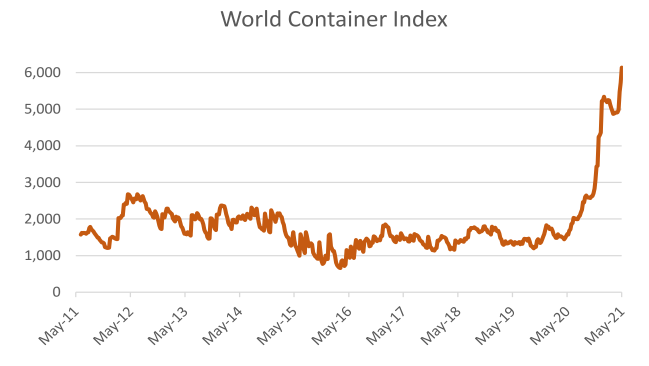


Source: Bloomberg Finance L.P., Rabobank 2021

Certified arabica coffee stocks continued to climb to 2.05m bags. The offtake of semi-washed coffee remains a central point in our relatively bearish price view. Even though there is a market for fresh semi-washed from Brazil, which may not be fully satiated this year, it remains to be seen how quickly roasters will accept aged semi-washed. The July delivery will be closely monitored.

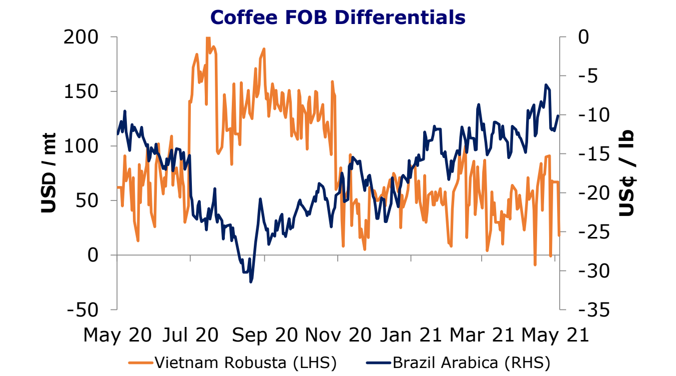
Logistical challenges have increased even further. The WCI container price composite jumped a further 20% since the end of April. Even for companies that have locked in prices ahead of the price spike, there are lengthy delays from Asian origins. The differentials for Brazilian conillon have been increasing to USD 100/mt FOB, while robusta in the interior of Vietnam is trading at a USD 50/mt discount. On the arabica side, the shipping situation is not as concerning (though still worrying of course), given that Asia provides a relatively small proportion of arabica. But of late, the protests in Colombia have resulted in roadblocks that have added to the disruptions in the arabica supply chain. The FNC estimates the protests have already prevented 0.5m bags of exports as of May 19, 2021, and it is calling for an end to roadblocks and looting in Buenaventura, the main port for coffee. Disruptions are bullish for both arabica and robusta, as the contracts have delivery in Europe/US, but we believe that the speed of vaccination programs will lead to more normal times ahead.

Container prices are still going up, creating challenges to transport robusta out of Asia



Source: ICE, Rabobank 2021

Brazil's Arabica differentials have been getting stronger, while Vietnam's are on the ropes



Source: Bloomberg Finance L.P., Rabobank 2021

Cocoa

The cocoa forecast has been lowered slightly on good near-term availability but is bullishness maintained.

- Recent rainfall has been below average in West Africa, while the long-range forecast has improved for Ghana.
- Production risks for next season remain, with possible retail price inflation underpriced.
- Funds are coming back into cocoa, with new net long positons in both London and New York.

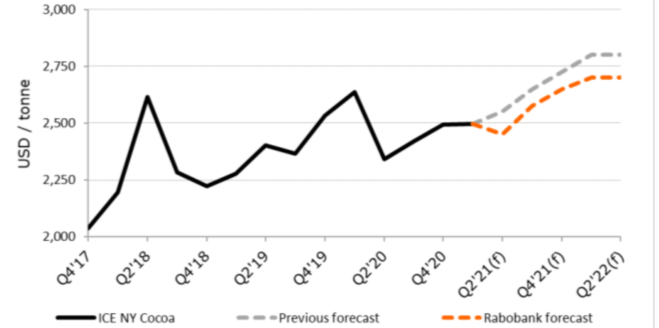
Cocoa prices improved in May but have recently been tempered on good near-term availability and an improving long-term weather outlook, though rainfall continues to be below average in West Africa at present. Stockpiles in the US have continued to rise in May with little sign of slowing, as arrivals in Côte d'Ivoire continue to be ahead of last year. US cocoa inventory surpassed the 2018 peak to finish at 5.42m bags at present, the highest level in almost four years, but this may begin to fall in line with seasonal reductions from June. With the partial success in vaccine rollouts in many western economies, we continue to expect a good recovery and maintain our views on 2021/22 demand growth.

Weather in West Africa has been drier than normal this month, with the ITF maintaining a similarly lower-than-average position – as observed in April – throughout May. This has been keeping the normal band of heavy rains at lower latitudes and out of reach of crops. If this weather pattern continues, we could see lower-than-expected rainfall for West Africa ahead of the main crop. The near-term forecast is for below-average rainfall in the next two weeks, and although long-term forecasts have improved for Ghana, Côte d'Ivoire and Nigeria continue to look drier than normal in the months ahead, with higher potential, in our opinion, for the forecast to worsen than improve, skewing risks to the upside.

Local grindings for Q2 2021 in Côte d'Ivoire will likely show a reduction, due to recent power blackouts.

ICE NY and London cocoa forecast still bullish long term

	unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
ICE NY	USD/t	2,420	2,495	2,496	2,450	2,550	2,650	2,700	2,700
ICE London	GBP/t	1,690	1,696	1,695	1,650	1,710	1,770	1,810	1,810

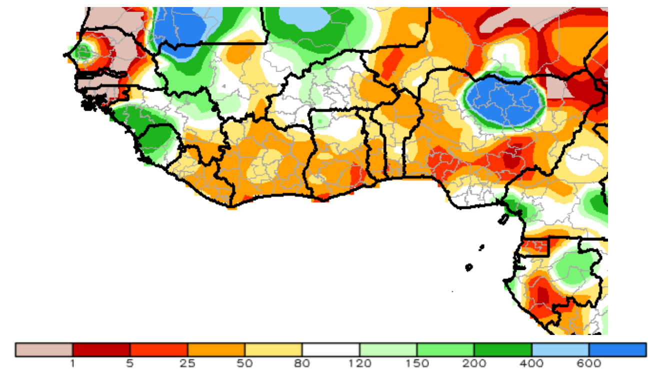


Source: Bloomberg Finance L.P., Rabobank 2021

Meanwhile, we continue to expect a recovery in grindings in the main destination regions. Monthly chocolate retail sales in the US (as reported by IRI) continue to show consistent year-on-year growth of 7.9% YOY on average for the last three months, backed up by an average of 3.4% YOY growth in volumes. From this data, we may be seeing some price inflation of about 4% YOY while futures prices remain little changed year-on-year. Differentials have also been rising slowly but consistently, likely on improving demand. This, coupled with possible further inflation of futures prices to be more in line with retail, may lift prices into 2022.

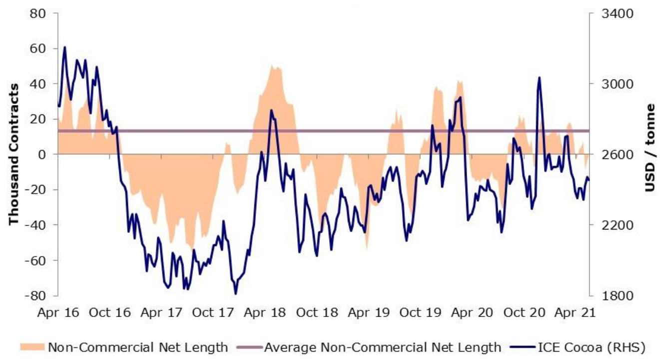
Funds have been rekindling their interest in cocoa in recent weeks, most likely due to its relatively small upward price movement compared to other commodities that may seem overpriced by comparison. Managed Money returned to a small net long position in London Cocoa of 6,395 lots as of May 18, but remain still well below the average 29,500 lots. Similarly, Non-Commercials also switched back to a net long of 344 lots below the average of 13,500 lots. Rabobank believes there is still space for Funds to return to more average positioning in cocoa as the demand fundamentals improve and supply risks remain for the 2021/22 crops with ongoing weather risk. However, this may largely be influenced by the successful reopening of economies, which at present continues to be slow.

West African weather has been drier than normal over the last month and will increasingly pose risks if it continues



Source: NOAA, Rabobank 2021 — % of normal rainfall as of 24 May

Funds may continue to return toward a more average net long position in the months ahead if fundamentals worsen



Source: CFTC, Rabobank 2021 — as of 18 May

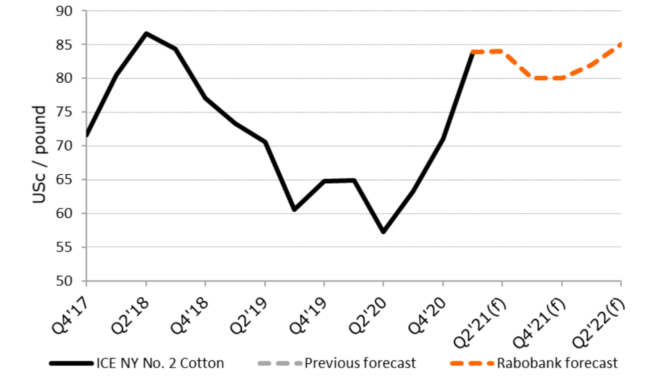
Cotton

A calmer ICE #2 Cotton was observed throughout May, as both productive and technical risks subsided.

- The USDA's May WASDE brought early fundamental forecasts for the new 2021/22 season, providing a largely supportive outlook.
- Attention now turns to US plantings and the extent to which 12m acres could be realized, as well as abandonment.
- Rabobank maintains a long-term supportive view on ICE #2 Cotton, given 2021/22 fundamentals.

ICE #2 Cotton forecast maintained

	Unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Cotton	USc/lb	57.2	63.4	83.9	84	80	80	82	85



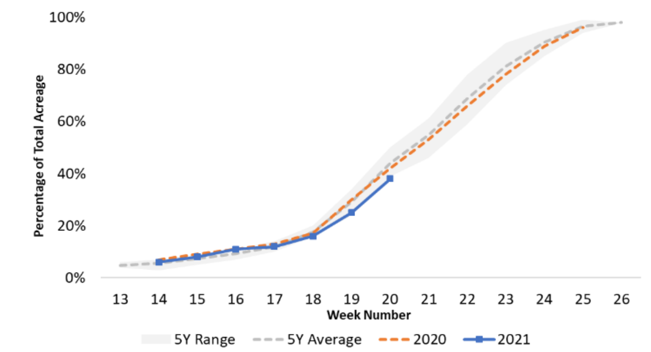
Source: Bloomberg Finance L.P., Rabobank 2021

A calmer ICE #2 Cotton market was observed throughout May, with the July contract trading lower toward the low USc 80/lb region. Easing dryness in West Texas, coupled with a slowdown in Non-Commercial buying across most agri markets, weighed on the nearby contracts. As of May 18, the speculative net length fell to multi-week lows at 49,279 lots net long. Rabobank believes this is partly macro driven and partly the result of a subsiding unfixed call sales position – currently 21,148 net lots on the July 2021 contract. The fall means fewer mills having to fix long on July, and hence less opportunity for a price push higher. Still, several factors – fundamentals, seasonal risk and demand – remain supportive of prices above USc 80/lb.

The USDA's May WASDE brought early fundamental forecasts for the new 2021/22 season, providing a largely supportive outlook. The USDA projects a 2% YOY fall in global stocks, versus our projections for a much smaller 0.3% YOY fall – the difference being marginal discrepancies in world production and consumption figures. World stocks, excluding China, were forecast by the USDA as stable in 2021/22. However, the supportive news lies with the US. Some 12m 2021/22 new crop acres are set to produce 17m bales – up 17% YOY, but marginally lower than Rabobank's 17.2m bale projection. This encapsulates a 20% abandonment rate and results in the lowest US stocks for five years. The 2021/22 balance sheet is undoubtedly bullish – while global stocks remain more or less stable, falling US inventories (the world's largest exporter) and a 3% YOY recovery in demand will maintain both support and volatility. Rabobank forecasts the ICE #2 to trade between USc 80 and USc 85/lb in the 12 month period.

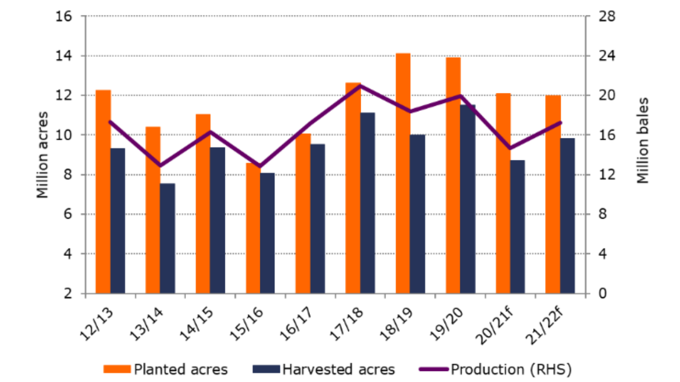
Rainfall across West Texas has calmed market nerves, at least for now. With 49% of cotton planted nationally and 40% in Texas, this additional rainfall is very welcome. However, the extent to which it can reverse +18% abandonment projections is limited. Another major US risk is the number of cotton acres planted – since the March 30 Prospective Plantings report, November CBOT Soybeans and December CBOT Corn have both climbed around 12%, with December ICE Cotton failing to keep up (up approximately 5%). Looking purely at economics, Rabobank notes the temptation for growers to make a late shift out of cotton. This is unlikely to be widespread, but the risk of a sub-12m acre cotton crop is very real. Both of the above factors – abandonment and acres – add risk to a rather balanced fundamental outlook.

US planting progress reached 49% as of May 23, with 40% planted in Texas amid recent rain relief



Source: USDA, Rabobank 2021 as of 23 May

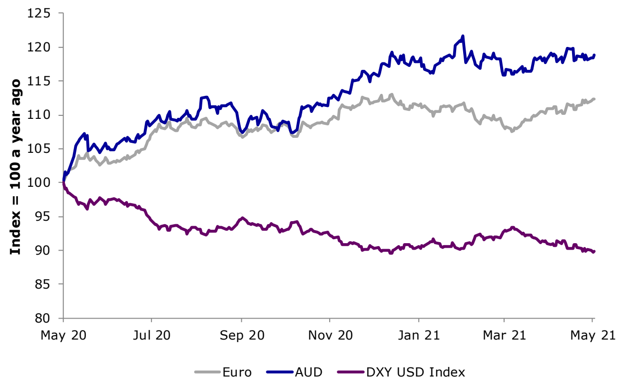
Both the USDA and Rabobank project recovering US 2021/22 production toward 17m bales, but eroding stocks

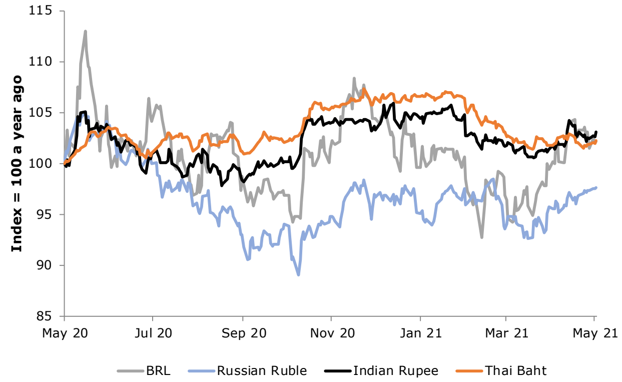


Source: USDA, Rabobank 2021

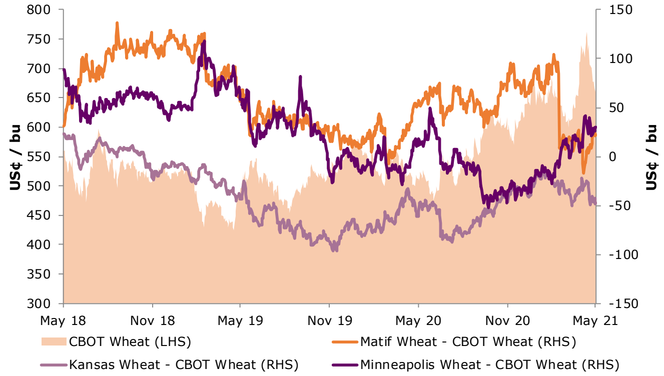
Agri Charts

Global Currencies USD Cross

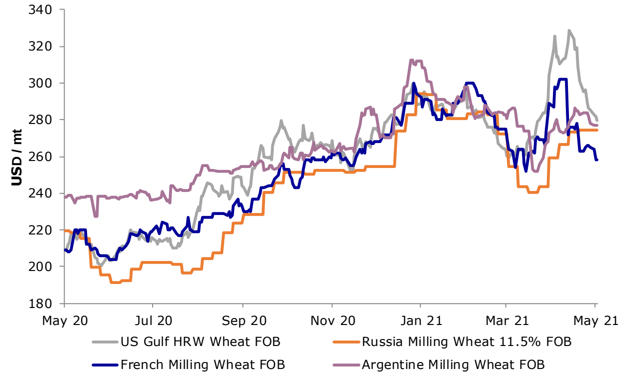




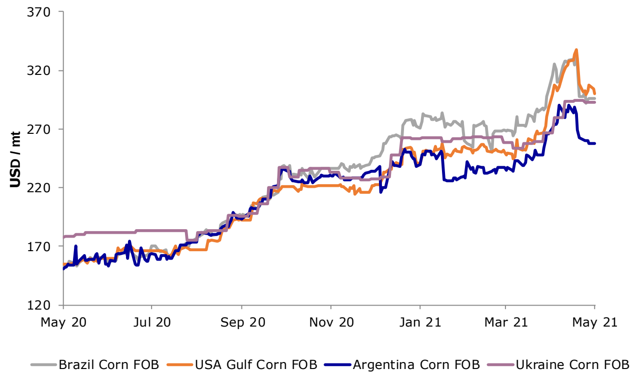
CBOT Wheat Spreads



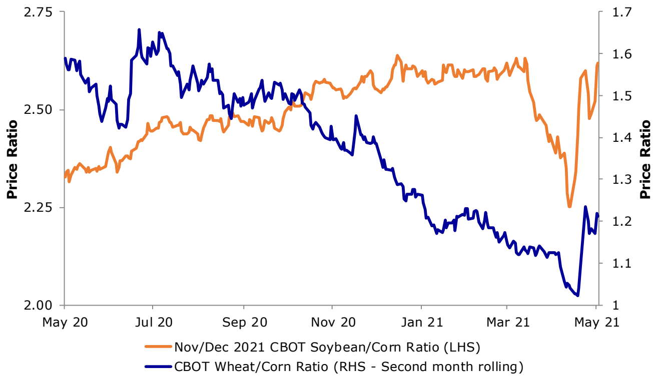
Wheat Protein FOB Prices



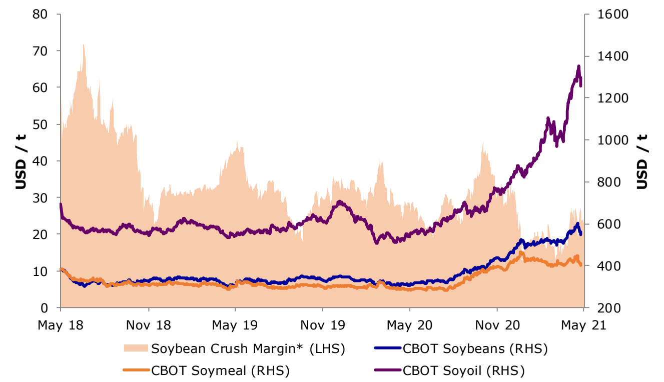
Corn FOB Prices



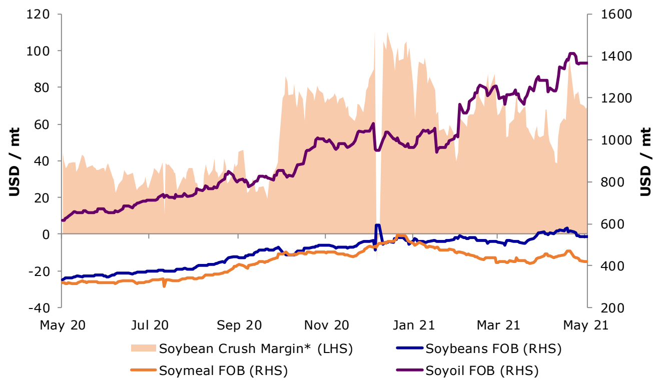
CBOT Ratios



CBOT Soybean Crush Margin



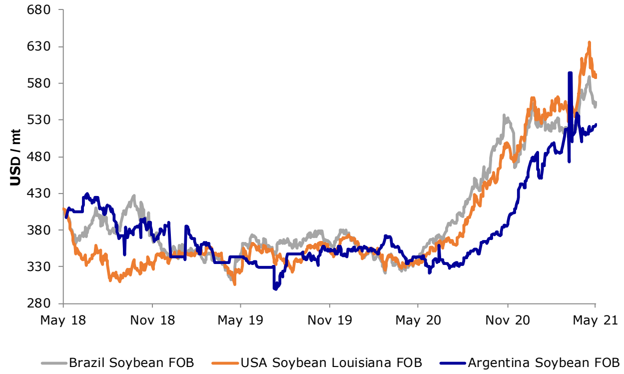
Argentina FOB Soybean Crush Margin



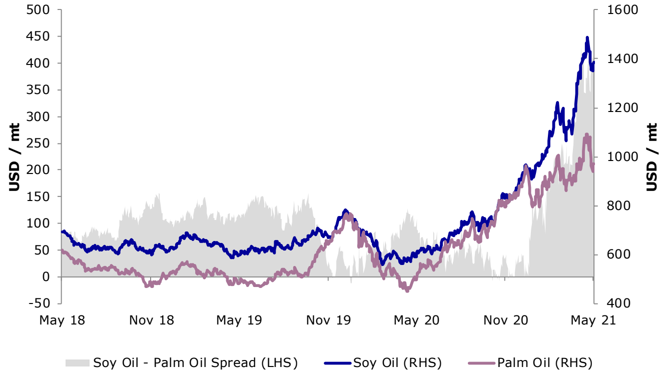
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

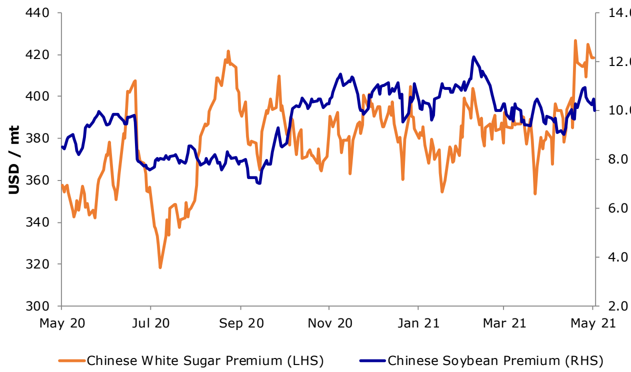
Soybean FOB Prices



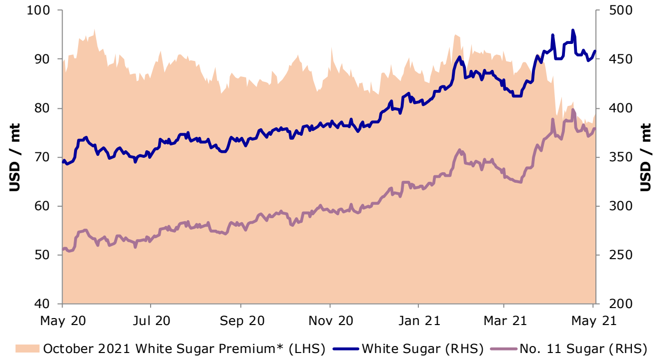
Palm Oil - Soy Oil Spread



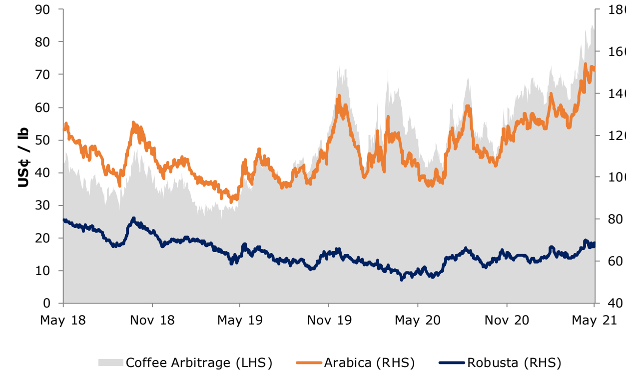
Chinese Futures Premiums



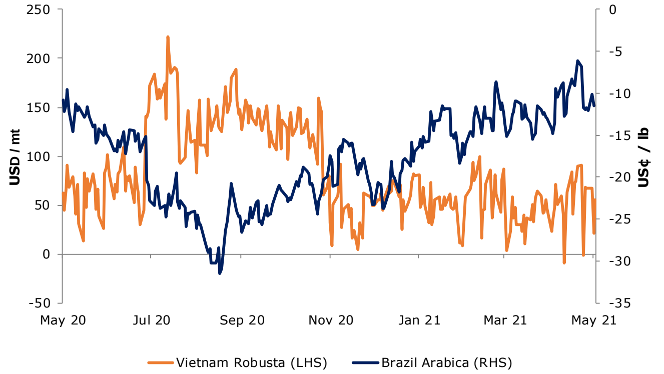
White Sugar Premium



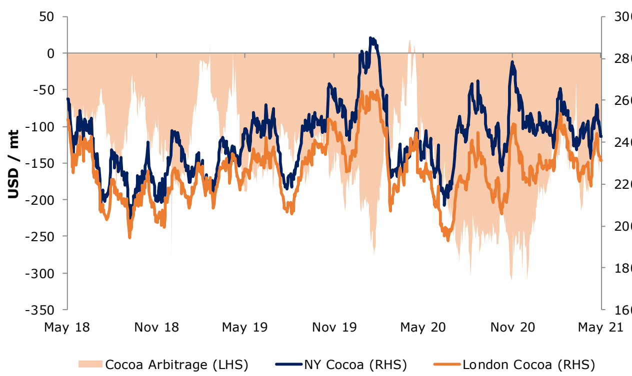
Arabica - Robusta Coffee Arbitrage



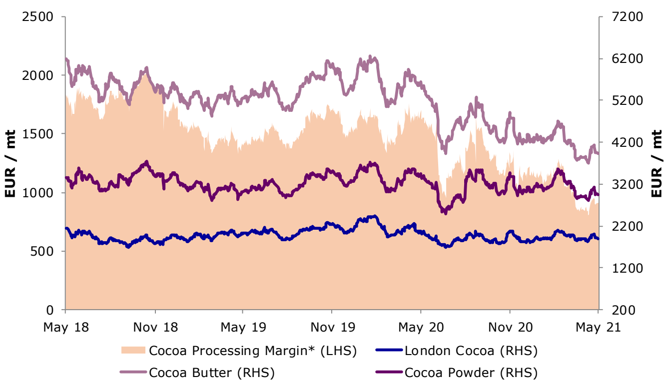
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

Imprint

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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