Rabobank

Agri Commodity Markets Research

September 2020: China's Great Food Wall – Made in USA

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With an end to summer and amid a second Covid-19 wave in Europe, ag commodity prices took a breather, after ferocious interest from speculators, a weak US dollar and a torrent of Chinese G&O buying. This month, Chinese buying prompted CBOT G&O prices to reach some of the highest levels in more than two years, despite the incoming US corn and soybean harvests. Weather has been mixed across the globe, as La Niña may cause South American dryness, negatively impacting G&O crops in the region heading into next year. It might also cause wetter-than-normal weather in Australia, aiding the wheat crop recovery. Meanwhile, ICE Arabica has dropped 15% so far in September, as prices correct down to more fundamental levels and realize a record crop in Brazil, while cocoa markets are still digesting the election risk in Côte d'Ivoire.

WHEAT

CBOT Wheat forecast raised but long term upside limited

- Slower EU exports reflect more limited supply, as opposed to weaker demand.
- Black Sea Region dryness poses risks for plantings.

CORN

CBOT Corn broke into its USD 3.50–4.00/bu-range comfort zone, amid supply concerns

- August weather caused some harvest losses in the northern hemisphere amid record Chinese buying.
- For CBOT to maintain traction, the US must perform longer than the typical Oct-Dec sales window; South American farmers will want word about that.

SOY COMPLEX

CBOT Soybeans broke USD 10.00/bu, but easterly trade winds and prices may soon move south

- China holds the reins for this CBOT Soy bull market, amid record US pre-harvest procurement.
- Brazilian plantings could bring further volatility to the market, while La Niña dryness must be watched.

PALM OIL

Volatility in global soybean complex prices will provide support to palm oil prices in the short term

- Weather in Malaysia and Indonesia will get wetter in Q4 2020 and Q1 2021.
- High palm oil prices and improving edible oil inventories will limit Indian palm oil imports.

SUGAR

Bearish short-term outlook for ICE #11 Raw Sugar, but bullish in later maturities

- ICE #11 Raw Sugar followed Brent through Sep, but correlation shouldn't hold.
- Speculative activity will likely continue to play a part.

COFFEE

Coffee price forecast maintained – neutral arabicas, bullish robustas

- Full warehouses in Brazil should keep pressure on arabica prices.
- Central American crops remain uncertain.
- Robusta prices to be supported, even if arabica prices go south.

COCOA

Election risk looms for cocoa, as potential civil unrest poses supply-chain disruption risk

- The situation in Côte d'Ivoire before and after the presidential elections should be closely monitored.
- 2020 Q3 grindings for NA, EU, and Asia expected to be nearer the higher end of our estimates, -4.5% YOY.

COTTON

Bearish view on ICE #2 Cotton maintained, amid record global stock-building in 2020/21

- A rangebound ICE #2 market holds at the mid-USc 60/lb mark as the US picking season kicks off.
- Chinese imports are forecast at 9m bales in 2020/21 – up 26% YOY, in order to prevent stock erosion.

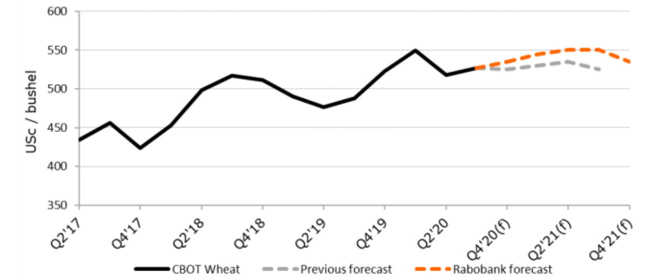
Wheat

CBOT Wheat forecast raised due to strong Chinese demand in G&O and nascent weather risks – but long-term upside will be limited on incoming G&O crop.

- Slower EU exports reflect more limited supply, as opposed to weaker demand.
- Black Sea Region dryness poses risks for plantings.
- Southern hemisphere crops will be affected by La Niña – positively for Australia, but negatively for Argentina.

Wheat price forecast raised, but upside limited in long term, with higher acreage expected and incoming G&O crop

	unit	Q1'20	Q2'20	Q3'20f	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f
CBOT	USc/bu	550	518	527	535	545	550	550	535
Matif	EUR/mt	191	190	185	190	192	192	184	186



Source: Bloomberg Finance L.P., Rabobank 2020

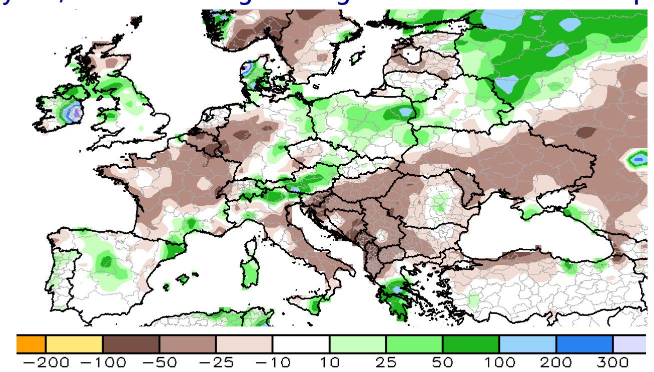
Wheat markets have had quite the stellar run this month – buoyed by exuberant Chinese buying of corn and soybeans, causing price increases across G&O markets. With the northern hemisphere harvest virtually complete, farmer and elevator selling will likely accelerate, while prices remain high. However, local demand may limit export ability, as some countries are likely to be quick to impose export restrictions in case local food prices go up.

EU exports will run behind last year. Rabobank estimates they will be down 34% YOY for 2020/21, mainly due to a smaller harvested crop of around 137mmt, compared to 155mmt last year. Export pace is likely to be quite variable, as export commitments are low (the low plantings were known a long time ago). As of Sep 20, EU wheat exports were running 38% behind last season. Weather in the EU appears favorable for aiding wheat planting, with mild temperatures and slight rainfall forecast for the coming week. However, Eastern Europe and the Black Sea Region appear more questionable, with dry weather and warmer temperatures limiting field work. Winter wheat sowing has reportedly not yet begun in Ukraine. With current wheat prices, farmers will be highly motivated to increase planted acres where possible. We expect to see higher acreage in Western Europe, but this may be offset by declines in Eastern Europe if the weather there doesn't improve.

US winter wheat plantings are making good progress, in line with the five-year average, at 20%. Higher average prices this year, increased export demand from China, importers substituting US wheat for the European shortfall, and the second-lowest winter wheat acreage on record last year combine to make a strong argument for an increase in US winter wheat acreage this year. Weather conditions in winter wheat areas are generally good – tropical storm Beta should not significantly affect field work, while the two-week forecast is much milder.

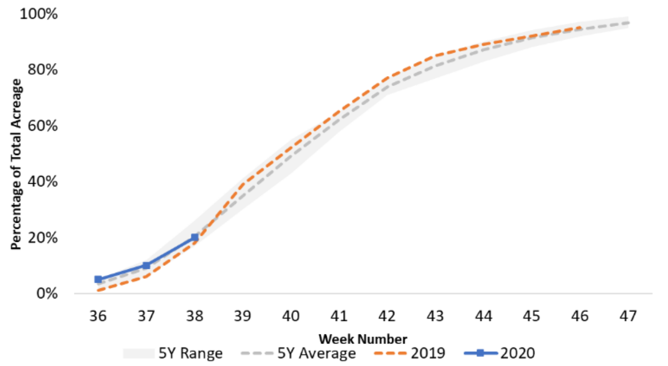
Southern hemisphere weather will need to be closely monitored in the coming month, with expectations for the Argentine and Australian crop estimates becoming clearer. An active La Niña in the Central Pacific will impact Australian and Argentine crops in contrasting ways in the coming months. The Australian crop estimates by ABARES (at 28.9mmt) and the USDA (at 28.7mmt) could be realistic, with good rainfall. However, continued dryness in Western Australia will be a limiting factor. In Argentina, dryness in recent months may limit yields, especially with rainfall forecast patchy at best. Argentina will need a period of good rainfall to help guarantee the crop, but the current La Niña may cause continued dryness in South America. Given the current climate forecast, Rabobank estimates that the Argentine wheat crop could move to even lower levels than the USDA's 19.5mmt.

With little rain in the forecast and the driest fall in nine years, Ukraine is facing challenges for its winter wheat crop



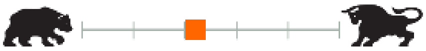
Source: NOAA, Rabobank 2020 30-Day historic rainfall anomaly (mm)

US planting pace may be a little slow now, but planted area is still expected to be higher YOY



Source: USDA, Rabobank 2020

Corn



CBOT Corn broke into its USD 3.50–4.00/bu-range comfort zone, amid supply concerns that will, at best, offset weak ethanol demand to keep stocks flat.

- Adverse August weather caused some harvest losses in the northern hemisphere and record Chinese buying of US corn, helping to offset weak US ethanol/feed demand.
- For CBOT to maintain traction, the US must perform longer than the typical Oct-Dec sales window; South American farmers will want a word about that.

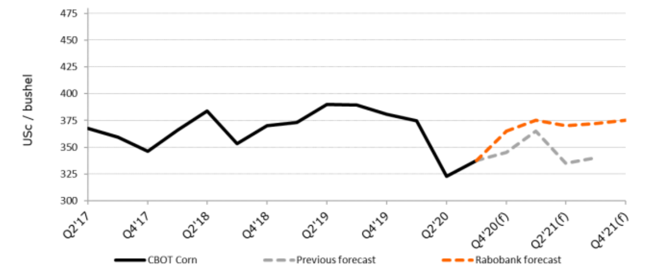
The world's two largest corn harvests – China and the US – were afflicted by declining crop conditions and strong winds in August that prevented a golden finish. With the extent of lodging, quality, and yield reductions still uncertain, production expectations in both countries may have dropped by 3-4% in August. These revisions appear modest, but their timing and location have positive ramifications for CBOT Corn, up 8% MOM, to USc 3.70/bu. CBOT Corn had been languishing below USc 3.50/bu amid expectations of a bumper crop and third consecutive year of demand declines. Those fears receded, first amid declines in US acreage and then as China replaced US ethanol as the corn demand growth driver. Rabobank sees CBOT Corn's strength increasingly tested by upcoming US harvest pressure and growing acreage expectations for 2021 that will limit gains above USD 3.75/bu.

The US derecho and Chinese typhoons have precipitated a more gentle easterly trade wind that is driving US export sales to 3-year highs and helping China build a corn wall – 'Made in USA.' China's corn prices have cooled from five-year highs, thanks to ~10mmt of US corn purchases, and total procurement could reach as high as 20mmt, which would add about 8% to global corn imports. The risks to CBOT Corn will come over the next few weeks, as global farmers harvest (northern hemisphere) and plant (southern hemisphere) their fields, futures sales may increase into the close of typical US corn export sales dominance in Oct/Nov. Any loss in export demand expectations threatens to uncover US ethanol's ugly truth – 2020/21 demand might not recover completely from last season's virus-fuelled 8% decline. The US corn export market share (relative to majors) may rise from 31% closer to 40% but South American farmers will want a word. Argentine plantings may be driven higher by weather risk and tax uncertainty. Brazilian farmers, meanwhile, have seen record nominal corn prices and will increase acreage to recover from this year's disappointing export season (exports -38% 2020 YTD). One advantage for US corn exports may be Aug dryness in the EU and Ukraine (the USDA cut production -2.5mmt MOM). EU wheat sales and prices remain strong, and typical domestic feed wheat rations may need to be supplanted by strong corn imports. If Ukrainian supplies soften further and EU/global feed demand strengthens, the combined impact will benefit US exporters, especially given the weaker USD.

Chinese feed grain importers hold the reins to the CBOT Corn rally, but foundational improvements made on the supply side should support prices above USc 3.50/bu. US 2020/21 corn ending stocks expectations have fallen over 0.8bbu since May, to 2.5bbu, largely thanks to disciplined US farmer planting, late-season dryness, and winds. Still, August quality declines won't prevent record yields thanks to lower, more prime planted acreage. An 8% increase in both 2020/21 US yields and ending stocks may incentivize farmers to sell any rallies and keep prices below last year's USD 4.00/bu. Weather risks in South America (from La Niña or existing drought) will need to be substantial to offset increased acreage expectations and drive an enduring rally above USD 4.00/bu.

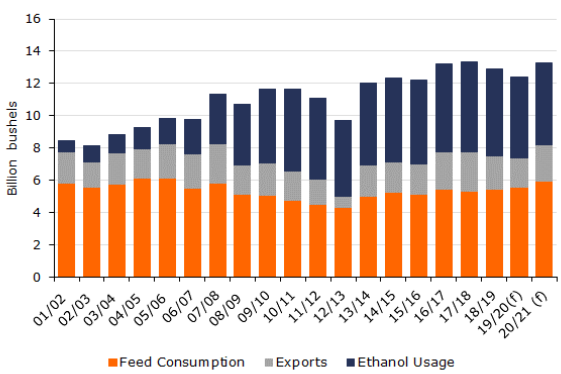
CBOT Corn forecast revised higher

	unit	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Corn	USc/bu	375	323	337	365	375	370	372	375



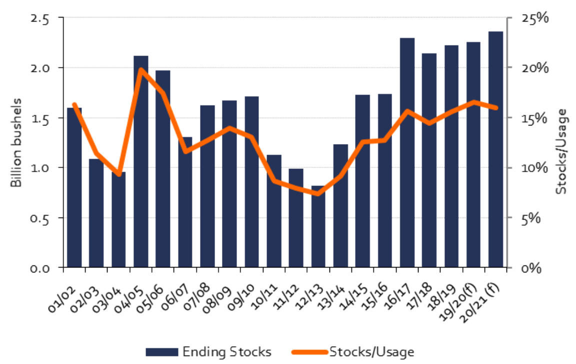
Source: Bloomberg Finance L.P., Rabobank 2020

Strong US exports, feed help offset ethanol weakness



Source: USDA, Rabobank 2020

US 2020/21 Corn ending stocks expectations have fallen by 800mbu+ but will still rise to multi-decade highs



Source: USDA, Rabobank 2020

Soybeans

CBOT Soybeans broke USD 10.00/bu, but easterly trade winds and prices may soon move south.

- China holds the reins for this CBOT Soy bull market, amid record US pre-harvest procurement.
- Rising Brazilian plantings could bring further volatility to the market, while La Niña dryness must be watched.
- Funds, including commodity indices, are enthusiastic about a shrinking US balance sheet, but are at risk if farmer sales accelerate or political risks increase.

Just like the famous magic beanstalk, CBOT Soybeans enjoyed a rapid rise of 10% last month, but there are giants threatening to topple it. The torrent of Chinese purchases of US soy (but also pork and corn) have carried CBOT Soy above USD 10/bu and drawn enthusiastic funds, like Jack, to extend their length near four-year highs to peer into that rarefied air. Rabobank sees both the beanstalk and Jack at risk of a fall. Held up by a temperamental China/US trade relationship, the crowded CBOT Soy trade will be mightily tested by US harvest pressure and the closing US export window.

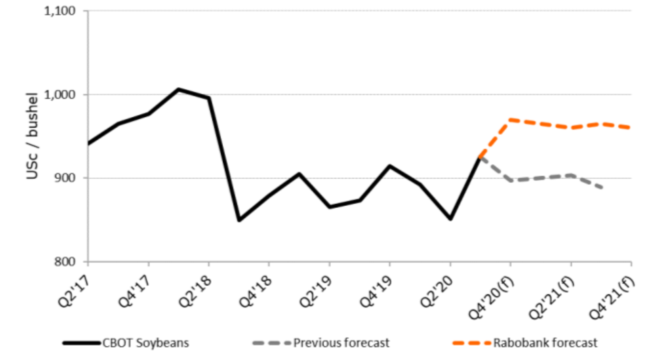
China's intense procurement efforts from the US – whether to comply with the trade deal, for strategic stockpiling, or to cool its double-digit food inflation – lead Rabobank to raise its forecast by near USD 9.70/bu. That is still USc 50/bu below current CBOT levels and reflects a US carry-out at pre-trade war, but still manageable, levels of 350m bu. US soy sales to China are estimated at around 25mmt, with another 8mmt expected in the coming weeks. US crush has extended its record pace (+3mmt increase over old and new crop in five months) to meet higher pork export demand, though Aug NOPA showed signs of cooling (165mbu, -7mbu MOM), amid falling crush margins. Further buoying demand for US summer crops, China bought a record 10mmt US corn in recent weeks.

Strong demand across US summer crops, however short-lived, is combining with a smaller-than-normal 2020/21 US acreage to cut stocks and drive risk premiums higher. CBOT Soy is in a rare backwardation, with Nov 20 contract USc 60/bu. higher than Nov 21. The curve raises questions about immediate tightness in the market, as well as ballooning production expectations next year. In the coming weeks, US farmers will accelerate forward sales of their golden goose (CBOT prices up 8% YOY and next year's soy-corn ratio of ~2.5 favors the former), even as easterly trade winds begin blowing south. Brazilian farmers, meanwhile, see soy prices at nominal records and are preparing to seed almost 4% more – if it gets planted, expect sales pressure to rise. A potential extension of the dry season, exacerbated by La Niña, could pose planting challenges, especially for Argentina, but yield risks could be offset by higher acreage. In Argentina, good soy prices and higher taxes on byproducts may also pry beans from inflation-fearing farmers, helping to absorb excess global demand.

Any sign of faltering Chinese purchases is likely to precipitate a sharp sell-off from funds, which are positioned just shy of their four-year peak, at 153,000 lots net long, in the face of the US harvest. Momentum has already slowed, especially given the maturity and decent state (G-E at five-year average) of the US crop and few concerns for planting in South America. Despite minor concerns about Nov export logistics in the US, which will see a record program, the more immediate consideration is whether China will continue to buy US beans outside the typical window, and when the arbitrage has shrunk or reversed vis-à-vis its southern neighbors. Ongoing purchases, or growing weather risk in South America, seem the most likely candidates to keep this beanstalk growing.

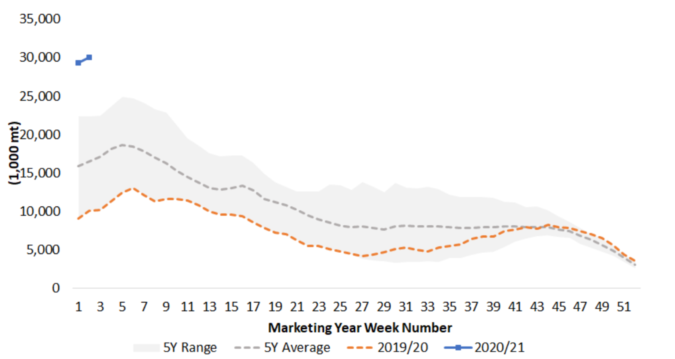
CBOT Soybeans forecast raised

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Soybeans	USc/bu	892	851	925	970	965	960	965	960



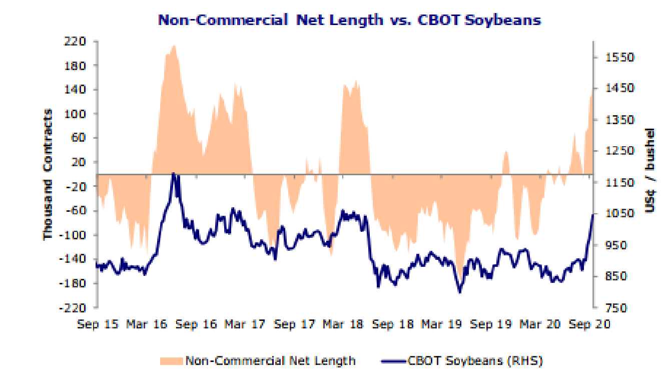
Source: Bloomberg Finance L.P., Rabobank 2020

US farmers are harvesting a front-loaded program to China, though the demand tether may slacken in Oct



Source: USDA, Rabobank 2020

Non-Commercials (and index funds) have crowded into a multi-year long despite no extreme supply tightness



Source: CFTC, Bloomberg Finance L.P., Rabobank 2020

Soymeal and Soy Oil

CBOT Soymeal led soy complex gains last month after fundamentals improved. CBOT Soy Oil rose too, but is showing signs of overheating.

- Asian vegetable oil imports and US domestic biodiesel demand must continue despite the odds for CBOT Soy Oil to extend its gains – though thanks to relative competitiveness to palm, canola may draw price support.
- Argentina presents a meal and oil price risk to US crush if La Niña causes drought, tax rules are rolled back, or a strengthening dollar makes its lower supplies competitive.
- Falling US crush margins are cutting output, which could actually support a byproduct rally.

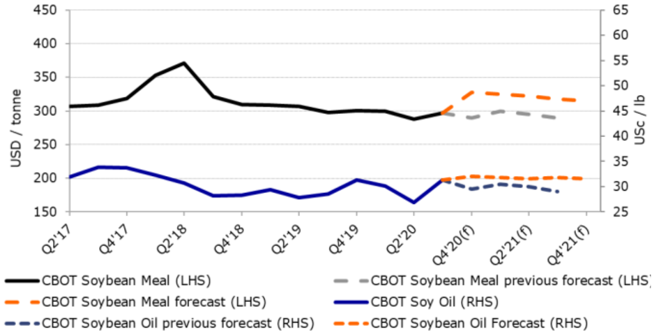
CBOT Soymeal flew on soy's coattails for much of the summer, but last month's 16% rally, to two-year highs of USD 345/mt, showed it can stand on its own. The USDA has raised US crush expectations by 3mmt since May, and domestic demand has been above that level in every month except one. The expectation of record protein exports to replace China's ASF-hit herd and cool double-digit inflation is the primary catalyst. So, too, has been the resilient demand for meal exports. The strong demand pull, softer crush margins, and relative tightness in other origins all help make USD 360/mt an achievable short-term level for CBOT Soymeal. Looking ahead to 2021, the curve suggests those halcyon levels aren't likely to endure, and even near-term risks appear skewed mildly to the downside. Absent a dryness issue or an unexpected extension of Chinese buying, Rabobank sees USD 315/mt getting pushed to the fore, amid demand risks to beans and growing competitiveness from South America.

US soymeal and oil prices are highly dependent on developments in Argentina, typically the number-one exporter of both. The country has seen meal production fall 10% YTD, or 3mmt, due to a mixture of higher taxes on byproducts, strong soy prices, and farmer stockpiling as a hedge against inflation. Market participants will be watching Argentina's developments closely, as any changes in policy could shift away from raw soybean exports, and toward higher crush and competitiveness with the US. Even with the taxes and lower crush, the free-falling peso (ARS 76/USD, -27% MOM) is doing its share; Argentina's soymeal and oil basis levels are now slightly cheaper than the US, a factor that, absent a la Niña weather issue, may curtail the latter's export prospects.

CBOT Soy Oil's rapid gains near 2020 highs are underpinned by strong export sales, resilient biodiesel demand, and localized tightness in the vegetable oil complex. In the US, soy oil's crush share has been running at an abnormally high 34%, despite concerns that record crush would raise output and carry-out. It has not: The USDA cut carry-out expectations by 215m lb last week, to 1,860m lb (+1% YOY). In the weeks ahead, those bullish fundamentals may get wobbly – similarly to how they did in the Jan run-up in prices that fizzled out. The broader vegetable oil appreciation has been driven by MDE Palm Oil, whose production issues appear to have been resolved. Meanwhile, higher biodiesel targets are proving hard to implement, and Indian and Chinese restocking appear to be nearing completion. MDE Palm Oil's relatively low discount to CBOT Soy Oil will see the latter's demand endure, but the overall tightness in the market is unwinding, setting the scene for a sharper correction. Rabobank sees prices declining to USc 31.5/lb and remaining range-bound through 2021.

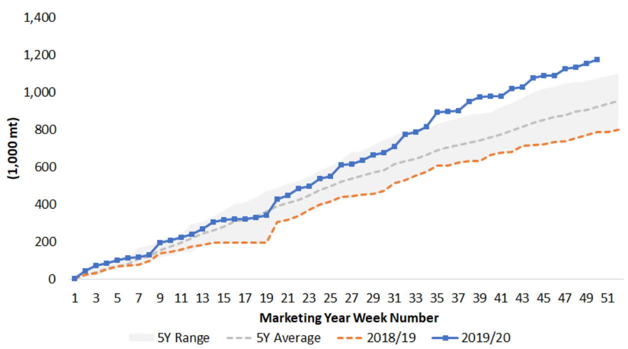
CBOT Soymeal and Soy Oil threatened by South America

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Soymeal	USD/tonne	300	288	297	328	325	322	318	315
Soy Oil	USc/lb	30.1	26.9	31.3	32.0	31.8	31.5	31.8	31.5



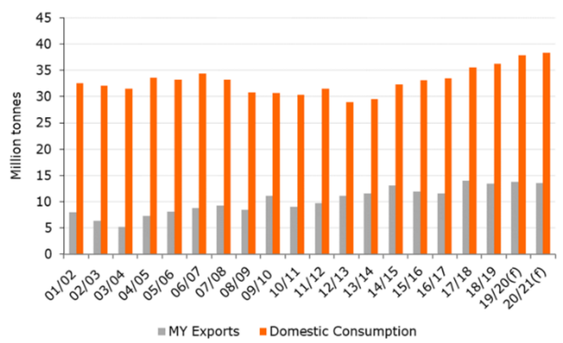
Source: Bloomberg Finance L.P., Rabobank 2020

US Soy Oil exports are strong but rising global stockpiles and USD threaten strength and competitiveness in weeks ahead



Source: USDA, Rabobank 2020

US meal exports and domestic demand are at or near highs due to Argentina's lower crush, China pork purchases



Source: USDA, Rabobank 2020

Palm Oil

Volatility in global soybean complex prices will provide support to palm oil prices in the short term.

- Weather in Malaysia and Indonesia will get wetter in Q4 2020 and Q1 2021.
- High palm oil prices and improving edible oil inventories will limit Indian palm oil imports.
- The widening of the POGO spread increases incentives needed to implement the B30 mandate in Indonesia in 2020.

Volatility in global soybean complex prices will provide support to palm oil prices in the short term. MDE-Bursa Palm Oil prices continued their bullish trend in Sep 2020, on the back of Chinese soybean procurement and uncertainties around US soybean production in 2020/21. We believe these factors will provide support for soy oil and palm oil prices in the short term. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices, however, remains narrow, at around USD 55/mt in late September 2020. This could limit palm oil demand, as the soy oil price remains more attractive compared to the palm oil price.

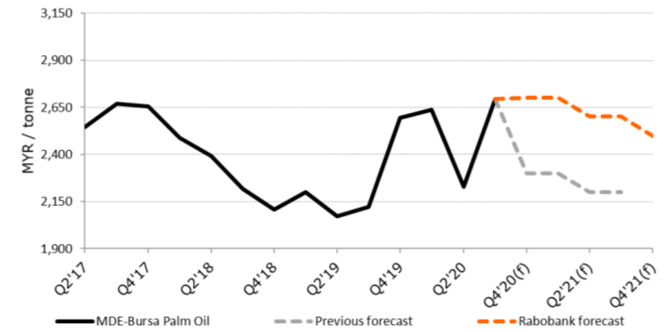
Weather in Malaysia and Indonesia will get wetter in Q4 2020 and Q1 2021, spurred on by La Niña. According to the MPOB, Malaysian Aug 2020 palm oil production increased by 3.1% MOM, to 1.86mmt. Malaysian palm oil inventories for the same month were flat month-on-month, at 1.69mmt, while Malaysian Aug 2020 palm oil exports decreased by 11.3% MOM, to 1.58mmt. Meanwhile, in its Sep 2020 report, the NOAA expected a La Niña weather phenomenon to form and continue, with 70% chance from Aug 2020 to Jan 2021, and with 50% chance of continuing through Feb-Apr 2021. While the intensity of this La Niña is still unclear, this weather phenomenon typically increases precipitation in Southeast Asia, which is beneficial for palm oil FFB production. A combination of La Niña and a seasonal palm oil FFB yield uptrend cycle in Q4 2020 could amplify a quarter-on-quarter palm oil production increase in Malaysia and Indonesia during this period.

High palm oil prices and improving edible oil inventories will limit Indian palm oil imports in Sep 2020. As expected in our report last month, Indian edible oil imports decreased by 13.7% MOM in Aug 2020, to 1.3mmt, on the back of improving domestic inventories. According to SEA India, Indian Aug 2020 palm oil and soft oil imports decreased by 10.8% and 17.1% MOM, to 734,351mt and 574,054mt, respectively. Meanwhile, Indian edible oil inventories as of the end of Aug 2020 increased by 12.7% MOM, to 1.73mmt. We expect Indian palm oil imports to remain stable in Sep 2020, as the country restocks for festive-season demand before tapering down in Q4 2020.

The widening of the POGO spread increases incentives needed to implement the B30 mandate in Indonesia in 2020. The spread between MDE-Bursa Palm Oil and ICE Gas Oil #1 contract prices widened to more than USD 400/mt in late Sep 2020. This will result in a larger amount of incentives needed to support the implementation of the B30 mandate in Indonesia. The Indonesian government is expected to revise the structure of palm oil levy collections to allow for higher collection as the palm oil price increases.

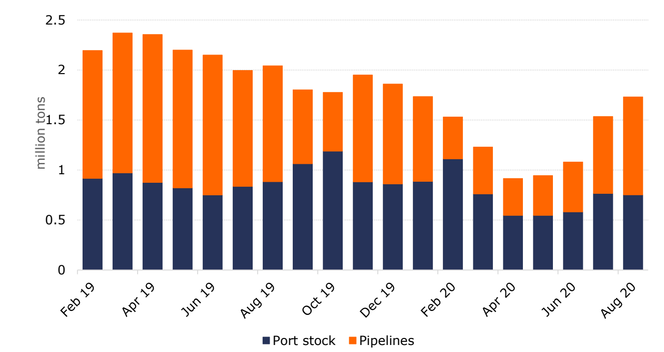
We have revised our palm oil prices outlook upward

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Palm Oil	MYR/ton	2639	2229	2694	2,700	2,700	2,600	2,600	2,500



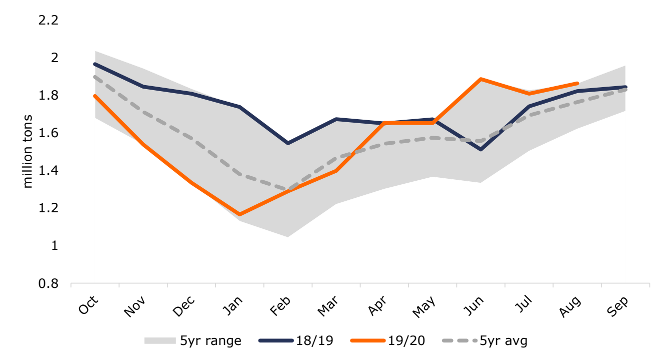
Source: Bloomberg Finance L.P., Rabobank 2020

Indian edible oil inventories continued to improve in Aug 2020



Source: SEA India, Rabobank 2020

Malaysian monthly palm oil production has been improving since Apr 2020



Source: MPOB, Rabobank 2020

Sugar

Bearish short-term outlook for ICE #11 Raw Sugar, but bullish in later maturities.

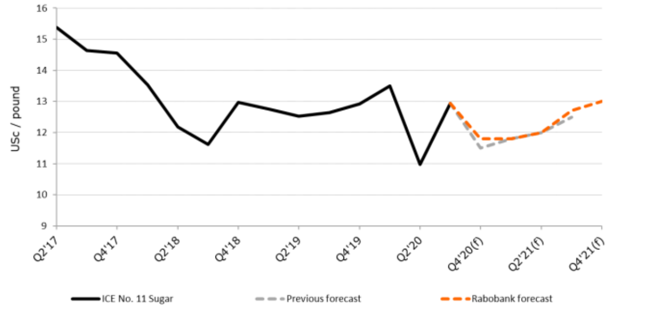
- ICE #11 Raw Sugar followed Brent through Sep, but correlation shouldn't hold.
- Speculative activity will likely continue to play a part.
- The far end of the curve has been depressed by commercial forward-selling, but there is a lot of upside risk.

ICE #11 Raw Sugar regained some volatility over Sep, as prices dropped in the first week of the month and then recovered in the third week. The move largely mirrored the price changes in Brent crude oil, and it was supported by the slight appreciation in the Brazilian real. The co-movement with Brent last week was rather surprising. Given that the Brazil ethanol parity is at around USc 10.5/lb – over two cents below sugar prices – a small rise in Brent should mean nothing for the availability of sugar in the short term. We would normally see any market anomaly as a trading opportunity, and indeed we expect prices to drop in the short term. However, even though large stocks should correlate to low volatility and bearish price pressure, funds are likely to continue to drive volatility.

Funds are likely to continue to be active in sugar. In the last two CFTC reports, Non-Commercials sold 27,982 net lots, but remain with a significant net long position of 0.11m lots. Across ag commodities, the CFTC reports show the combined Non-Commercial and Index fund complex buying in each of the last 12 weeks. Even though sugar saw a respite in the last few weeks, the influence of funds is likely to continue across ags, as more money is looking for new horizons. Usually, new money tends to go long more often than not, but given the strength of bearish fundamentals, we maintain a bearish view for the rest of 2020 and early 2021. Brazil has been producing outstanding amounts of sugar (with both excellent cane yields and sugar content), so the market will have to incentivize

ICE #11 Sugar price forecast only slightly increased

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Sugar	USc/lb	13.5	11.0	12.9	11.8	11.8	12.0	12.7	13.0

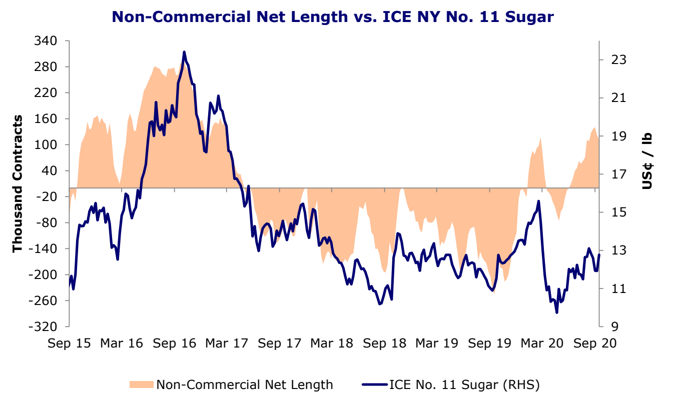


Source: Bloomberg Finance L.P., Rabobank 2020

deeper contango between Oct and Mar to incentivize the carry. Meanwhile, there is no news regarding the Indian sugar subsidies, but the country is likely to approve subsidies for at least 6mmt.

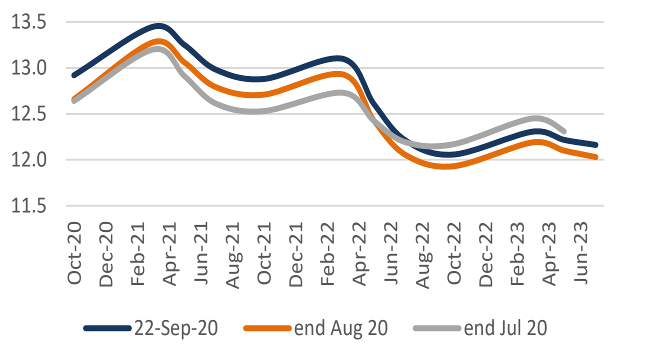
Value at the back. While we remain bearish at the front end of the forward curve, the current structure of the forward curve has lower prices for 2022, with the Oct 22 contract currently trading just above USc 12/lb. This low level was achieved thanks to Brazilian mills selling the curve when the Brazilian real combined with relatively high sugar prices in mid-Aug. In our view, this level has only little downside – the lowest the Oct 2022 contract ever traded was USc 11.0/lb in mid-May, and we consider USc 11/lb a solid lower barrier. However, there is a lot of potential upside by Oct 2022. While energy prices are likely to be weak for the rest of 2020, there is no guarantee Brazil will continue to maximize sugar into 2022. If the global and Brazilian economies continue to recover, we could see a tightening ethanol market. While the ethanol parity remains at around USc 10.6/lb, ethanol prices in Brazilian reais are near record levels for this time of the year. Also, La Niña can create a lot of weather risk – not only affecting cane in Brazil, but potentially corn ethanol in the US too, if it were to last until next northern summer.

Non-Commercials still hold a large long position in sugar, and there is a risk



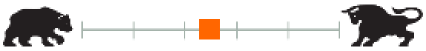
Source: CFTC, Bloomberg Finance L.P., Rabobank 2020

We see USc 11/lb as a solid barrier for the Oct 2022 contract



Source: Bloomberg Finance L.P., Rabobank 2020

Coffee

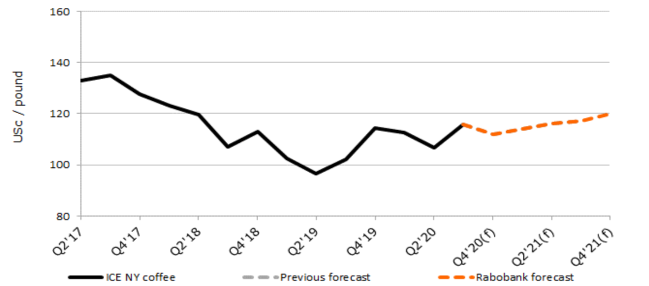


Coffee price forecast maintained – neutral arabicas, bullish robustas.

- Good weather in Brazil (though not excellent) and full warehouses will keep pressure on arabica prices.
- Central American crops remain uncertain.
- Robusta prices to be supported, even if arabica prices go south.

ICE Arabica forecast rather neutral, but bullish robustas

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
ICE Arabica	USc/lb	113	107	116	112	114	116	117	120
ICE Robusta	USD/mt	1296	1195	1348	1380	1420	1420	1420	1450



Source: Bloomberg Finance L.P., Rabobank 2020

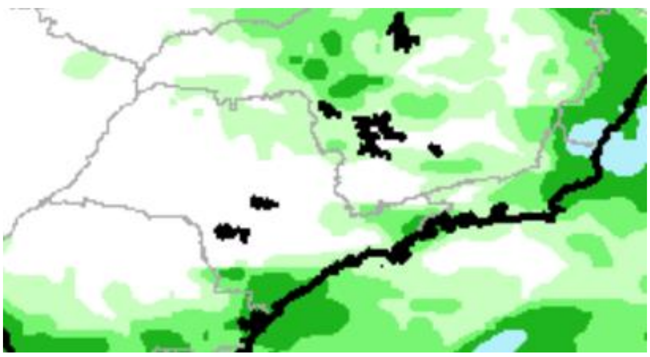
Coffee markets retreated closer to fundamental levels this month, lettting go of the previous six weeks' gains. Brazilian warehouses are at maximum capacity following a record harvest, while export pace remains limited. If only 10% of Brazil semi-washed production were to turn up at the exchange, and 50% of that were to pass the grading process, that would push ICE-certified arabica stocks about 0.35m to 0.4m bags higher, to 1.5m bags. In that case, we could see prices drifting lower. We side with this bearish fundamental view, but caution fund activity has been surprising across ags, and distortions could be expected. The last CFTC, for example, shows that funds continued to buy, even though prices dropped by almost 8% in the week. Furthermore, index funds have been very active. Therefore, we believe that a further price fall to USD 1/lb is unlikely.

The 2020/21 Central American crops continue to be questionable, despite good weather. With the current season nearing an end, total export shipments from Honduras show a -19% YOY decline. The situation is similar in other Central American countries, with El Salvador showing an equal year-on-year decline. However, the recent good rainfall and higher prices may mean a better harvest in 2020/21. Still, it will not be without challenges: Covid-19 disruptions and labor shortages could well limit the recovery in some countries. The uncertainty will add volatility to arabica markets in the coming months. Differentials are unlikely to weaken significantly ahead of the harvests, given this uncertainty. However, given the prospects for a good main crop in Colombia and the continuous flow of very good-quality Brazilian coffee, our base assumption is for lower differentials across washed qualities once there is more clarity on the harvest progress (usually around Nov/Dec) and exporters feel more confident selling the crop.

The tempered recovery in out-of-home consumption will meet fresh headwinds, amid fears of increased infection levels. Although most countries are avoiding a return to national lockdowns, the increase in virus cases in the EU (among other regions) deincentivizes out-of-home recovery. This, coupled with colder/wetter weather for the northern hemisphere in fall and winter, may limit any further rebound in restaurants and cafés.

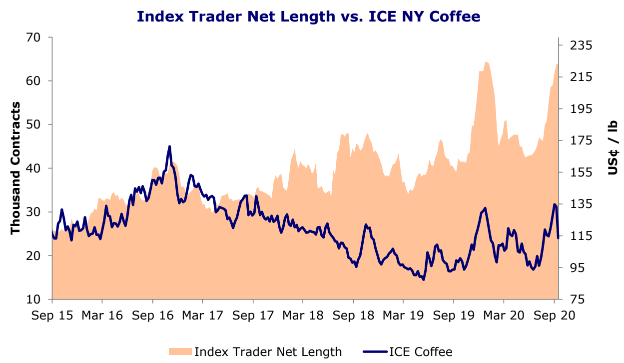
Robusta downside is likely to be much more limited than arabica, as we see a tightening robusta market. The combined drop in 2020/21 output in Brazil (already harvested) and Vietnam (to be harvested from Nov) will lower availability while robusta demand grows, by clawing share away from arabica. The ICE Arabica-Robusta spread has returned to much more average levels, at USc 52/lb, after peaking at USc 69/lb in early Sep, and we believe it can continue to fall further, maybe because arabica prices suffer from an influx of Brazil semi washed gradings and/or simply because robusta scarcity becomes more obvious.

1-week rainfall forecast shows some rains, but more is needed.



Source: NOAA., Rabobank 2020

Index funds show appetite for coffee (and so do Non-Commercials). This will likely prevent a drop to USD 1/lb.



Source: Bloomberg Finance L.P., CFTC, Rabobank 2020

Cocoa

Election risk looms for cocoa, as potential civil unrest poses supply-chain disruption risk.

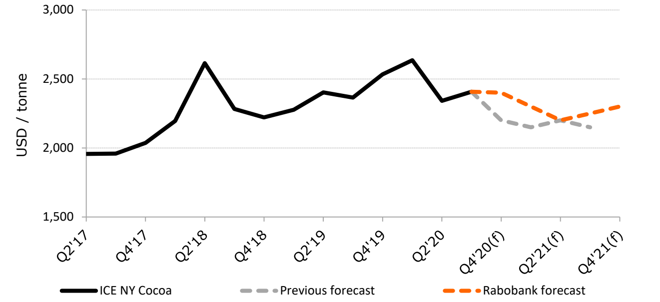
- The situation in Côte d'Ivoire before and after the presidential elections should be closely monitored.
- 2020 Q3 grindings for NA, EU, and Asia expected to be nearer the higher end of our estimates, -4.5% YOY.
- Long-term demand growth dependent on pace of economic recovery in many developed countries.

As we near the presidential elections in Côte d'Ivoire on Oct 30, the situation on the ground remains heated, with the potential for disruption. Cocoa prices will likely hold on to their current price level until the election risks ebb and we enter into the new season beginning in Oct. The memory of the disruptions following the 2010 elections is still vivid, leading to a political risk premium in cocoa prices that will likely vanish after a peaceful electoral process. Given the elections, we would not be surprised to see a decent increase in internal prices paid to farmers, usually announced at the end of Sep/end Oct.

Demand continues to improve, but the pace is likely to remain slow until 2H 2021. Industrial demand appears to be improving ahead of the Christmas period in Europe, with buyers increasing forward-purchasing. However, with a base case of higher year-on-year unemployment and lower GDP for many developed economies, Rabobank expects seasonal consumption to be notably lower in countries with limited income support and increasing levels of unemployment. Q3 grinding figures, to be released next month, will provide further clarity as to the pace of the recovery for Q3. We currently estimate grindings for North America, Europe, and Asia to increase around 7.5% collectively, compared to Q2, but to remain below 2019 levels, at the higher end of our previous estimate: around -4.5% lower YOY.

ICE NY and London Cocoa

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
ICE NY	USD/t	2,636	2,341	2,407	2,400	2,300	2,200	2,250	2,300
ICE London	GBP/t	1,919	1,813	1,679	1,800	1,750	1,600	1,650	1,650

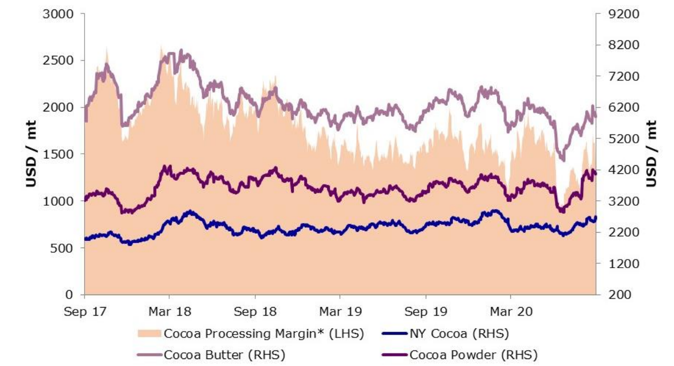


Source: Bloomberg Finance L.P., Rabobank 2020

Supply prospects ahead of the 2020/21 West African main crop appear mixed, with diverging conditions in Côte d'Ivoire and Ghana. Côte d'Ivoire has experienced relatively normal weather, with good rainfall across cocoa regions. However, Ghana has not been quite as blessed, with rainfall lacking in many key regions. A recovery in rainfall is beginning to be seen, and the crop has the potential to be higher year-on-year, but will likely remain below 2018/19. The current La Niña in the Central Pacific is not a major concern for West Africa, as the anomaly is only at weak levels and is only forecast to strengthen for a brief period in Q4 2020 – it may even be beneficial for rainfall ahead of the midcrop.

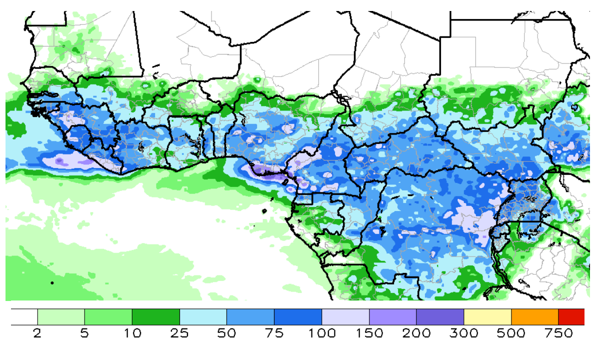
Rabobank's long-term supply-and-demand outlook remains similar to that forecast in July, with a reduction in our expectation of the Ghanaian and Cameroonian crop, due to weather and after official estimates, balanced by an improving outlook in Indonesia. We continue to expect a tempered recovery in demand until Covid-19 restrictions are lifted. Prices should become more stable once election risks ebb and as the market gains greater clarity of future demand expectations. Furthermore, farmer-selling will increase substantially with the arrival of the main.

Recovering European cocoa processing margins suggest demand for processed products is improving



Source: Bloomberg Finance L.P., Rabobank 2020

Recent rainfall has been mixed in West Africa, but is improving ahead of the main crop in October



Source: NOAA, Rabobank 2020 7-day rainfall forecast to Sep 29 (mm)

Cotton

Bearish view on ICE #2 Cotton maintained, amid record global stock-building in 2020/21.

- A rangebound ICE #2 Cotton market holds at the mid-USc 60/lb mark as the US picking season kicks off.
- Chinese imports are forecast at 9m bales in 2020/21 – up 26% YOY, in order to prevent stock erosion.
- Hurricanes Laura and Sally raised trader eyebrows this month, with both making landfall in the southern US. We note isolated damage and potential quality issues.

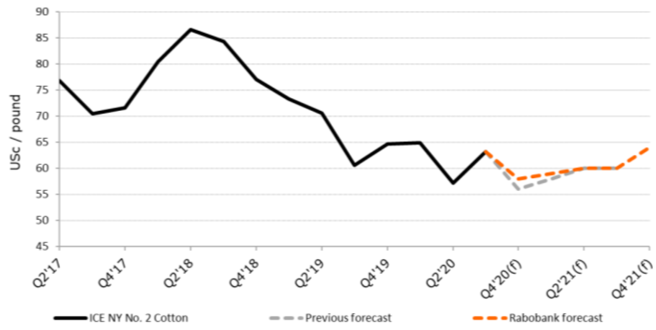
A rangebound ICE #2 Cotton market holds at the mid-USc 60/lb mark as the US picking season kicks off – currently at just 6% complete. Trading in a tight USc 2.5/lb range through Sep, the ICE #2 maintains a bullish tone, amid US crop downgrades, speculative buying, export sale strength, and hurricane risk. Furthermore, Rabobank notes an emerging recovery in clothing and apparel retail sales worldwide (in value terms) – Jul Chinese sales returned close to 2019 levels, while Australian monthly sales were up 3.5% YOY. US and UK Aug clothing sales remain 25-30% behind 2019 Aug figures. This trend supports our view for a 9% YOY recovery in 2020/21 global demand, following a sharp -13% YOY fall in 2019/20. Still, we emphasize that a 40% YOY rise in world ex. China 2019/20 stocks – mostly held at exporter origins – will weigh on future prices, especially as US exports compete with Brazil. Rabobank forecasts the ICE #2 at USc 58/lb in Q4 2020, rising marginally to USc 64/lb by Q4 2021, as demand recovers. Future Chinese trade, demand, and policy remain key risks to our forecast.

Chinese imports are forecast at 9m bales in 2020/21, up 26% YOY, in order to prevent stock erosion. This appetite is noted in US export sales, with Chinese commitments starting the marketing year at 2.4m bales – the largest in recent history – and currently making up 40% of overall US sales. On the one hand, we note the bullish sentiment of these sales – especially for the ICE #2. However, as with previous analysis, this exposure makes the US market notably vulnerable to geopolitics. Sep saw the US restrict imports from Chinese companies in Xinjiang with operations in cotton & textiles, on human rights grounds. Broader restrictions may be actioned by the US in future. Rabobank cautions that this, along with wider US-China tensions, could bring about disruptive trade policies on cotton (as seen in 2019) – a factor likely to drive the ICE #2 dramatically lower. China needs imports, but these don't need to be sourced from the US. Trade aside, these fresh restrictions – along with higher consumer awareness of Xinjiang cotton – should benefit exporters with transparent, traceable supply chains.

Hurricanes Laura and Sally raised trader eyebrows this month, with both making landfall in the southern US. In short, damage – from a national perspective – appears limited so far. Laura made landfall in Louisiana, bringing heavy rainfall and strong winds, but lacking strength. Fortunately, a large quantity of bolls were closed – protecting the southern US fiber. Sally was more troublesome, causing heavy rains across the southeast while bolls were 47% open nationally. Damage was wrought in southern Alabama, while heavy rainfall doused crops in central Alabama and across Georgia. Rabobank believes Sally may bring the 2020 crop to sub-17m bales – this means little to no US stock-building this season. The heavy and late rainfall will also threaten quality issues for affected crops – only time will tell.

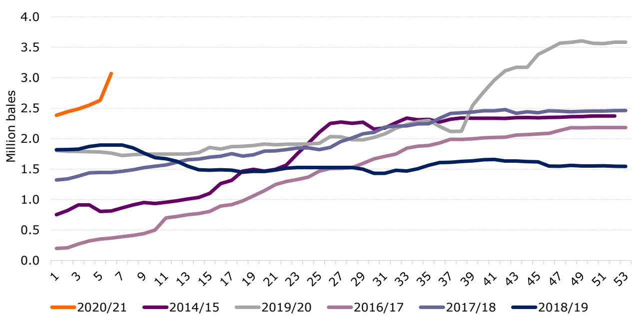
ICE #2 Cotton forecast adjusted, with Q4 2021 added

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Cotton	USc/lb	65	65	57	58	59	60	60	64



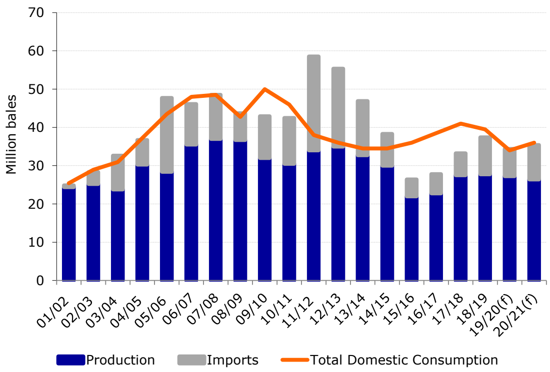
Source: Bloomberg, Rabobank 2020

US 2020/21 export sales begin the season with 2.4m bales of Chinese commitments – some 40% of new season sales



Source: USDA, Rabobank 2020

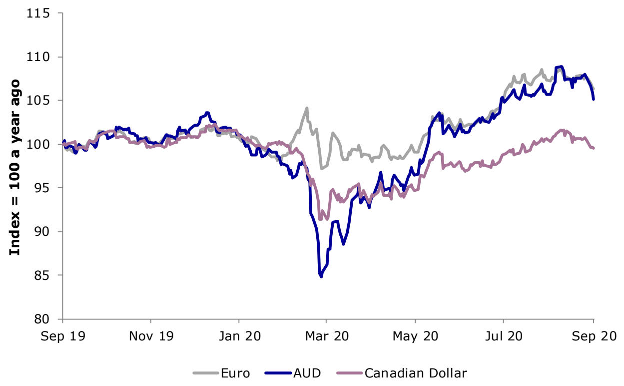
Chinese imports are forecast to reach 9m bales in 2020/21, in order to meet a YOY recovery in domestic use

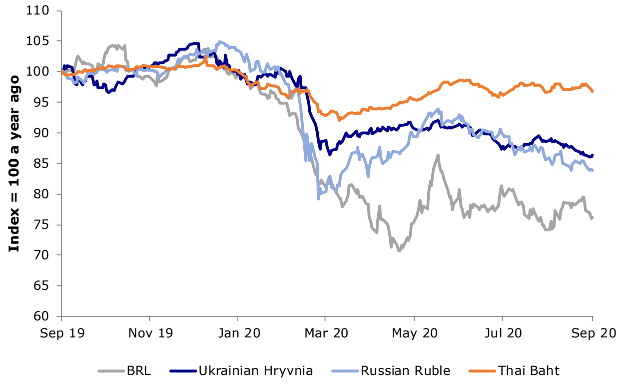


Source: USDA, Rabobank 2020

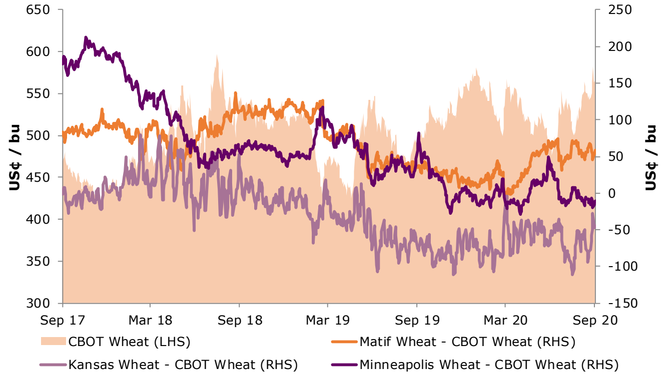
Agri Charts

Global Currencies USD Cross

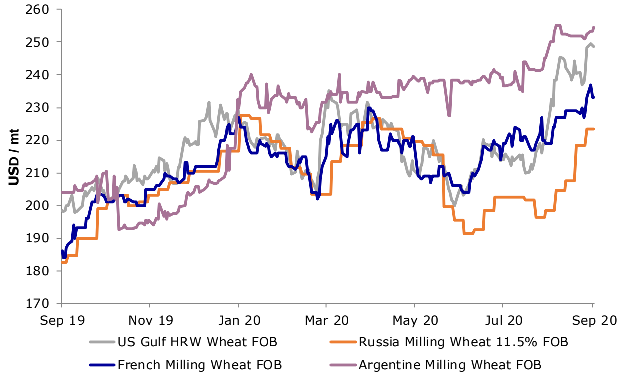




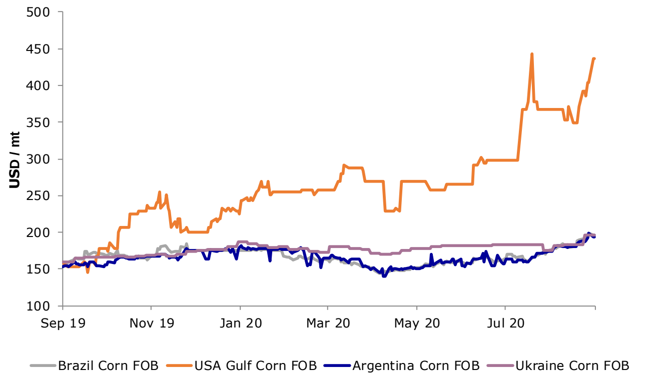
CBOT Wheat Spreads



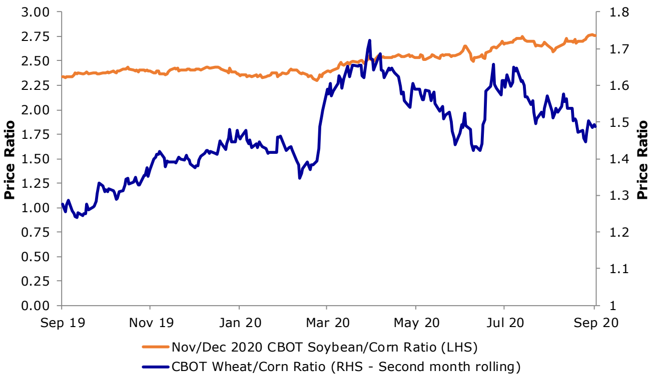
Wheat Protein FOB Prices



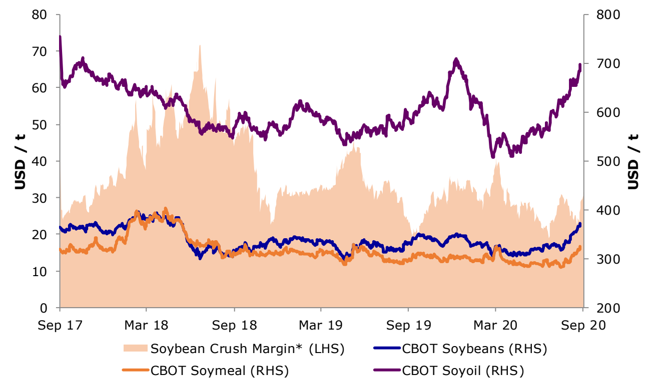
Corn FOB Prices



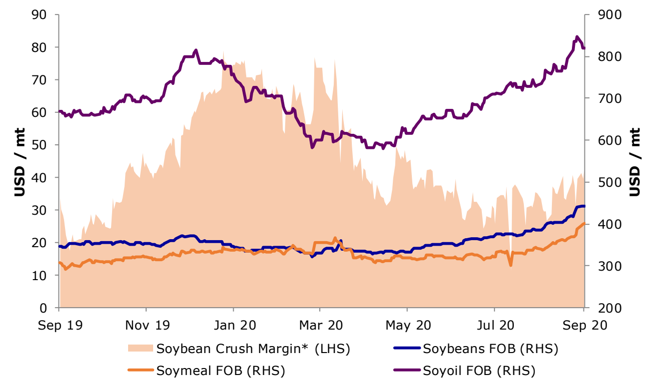
CBOT Ratios



CBOT Soybean Crush Margin



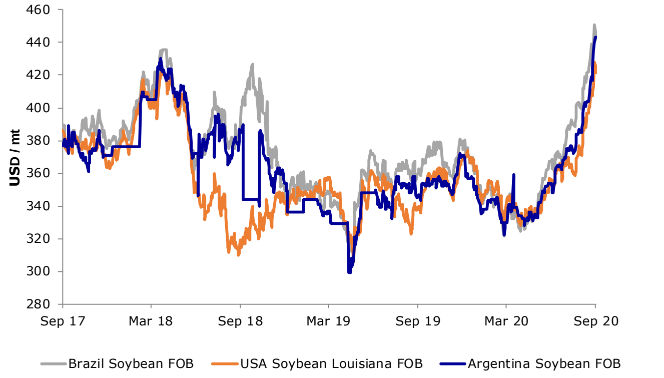
Argentina FOB Soybean Crush Margin



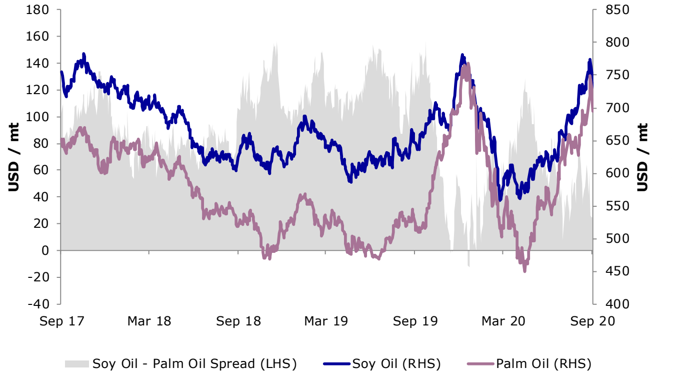
Source: Bloomberg Finance L.P., Rabobank 2020 *Calculated on a gross basis

Agri Charts

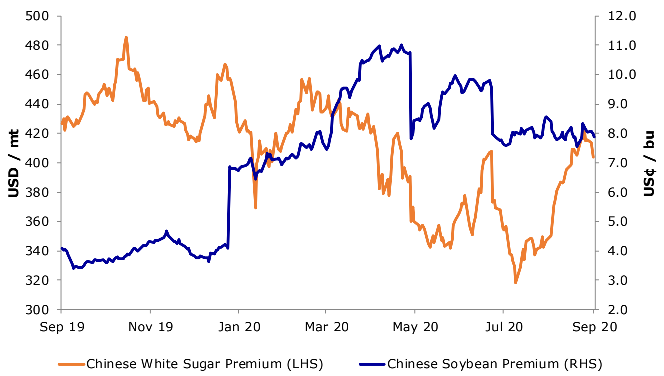
Soybean FOB Prices



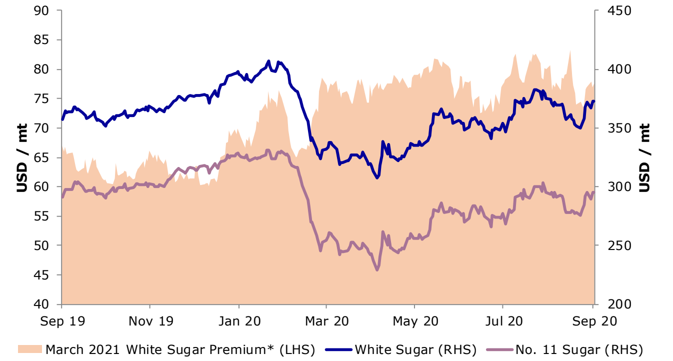
Palm Oil - Soy Oil Spread



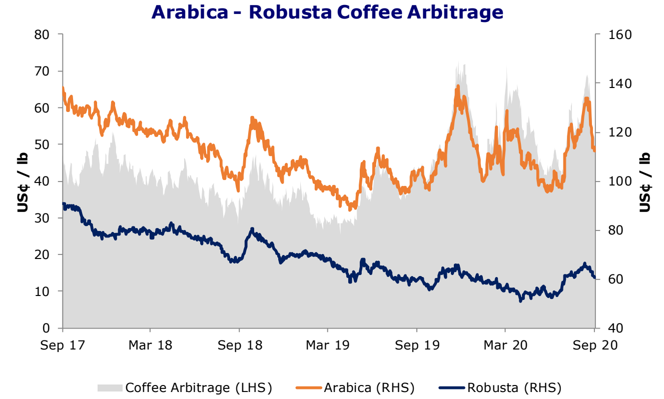
Chinese Futures Premiums



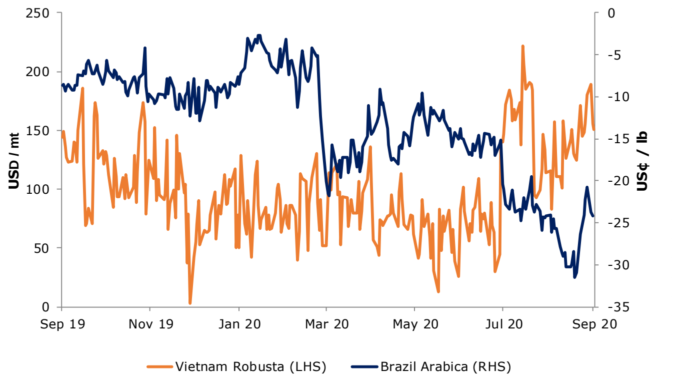
White Sugar Premium



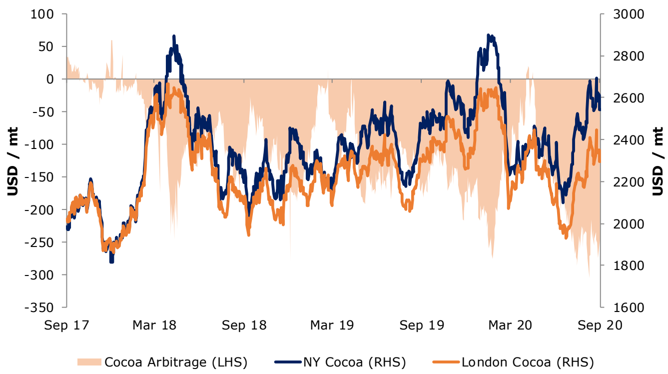
Arabica - Robusta Coffee Arbitrage



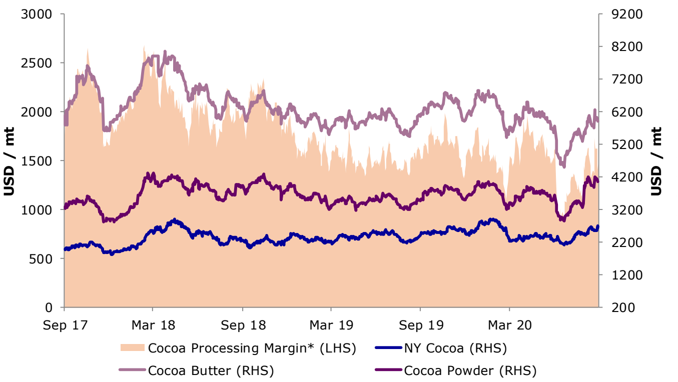
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 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