Agri Commodity Markets Research

April 2021: Ready, Set, Grow!

RaboResearch
Food & Agribusiness

far.rabobank.com

Carlos Mera
Head of ACMR
+44 20 7664 9512

Michael Magdovitz
Senior Commodities Analyst
+44 20 7664 9969

Andrew Rawlings
Commodities Analyst
+44 20 7664 9756

Agri commodity prices climbed 15% since the end March to reach price levels not seen since 2011-2013, a period which followed two consecutive severe La Niña events that affected crops across the globe. Ongoing concerns about the tightening G&O situation from adverse weather in Brazil and North America at a time of very good global demand are exacerbated further by rampant speculative interest and a weakening US dollar. Going forward, the weather will be in the driving seat for virtually all commodities and heightened volatility is to be expected. Fasten your seatbelt. Ready, Set, Grow!

WHEAT

The CBOT Wheat forecast is increased, supported by feed demand from high corn prices

- With the meteoric rise of corn prices, wheat sees increased feed demand.
- Weather in the US Northern Plains and Canada continues to be a concern.

CORN

Despite a dizzying ascent, CBOT Corn remains a coiled spring as consumers walk a tightrope to summer

- Brazil's safrinha corn dryness, heat, and delays are damaging pollination and yield potential.
- Chinese corn prices have led a shift to wheat and rice feeding, but strong corn imports will likely continue.

SOY COMPLEX

CBOT Soy acreage competition and weather woes may induce rationing through 2022

- South American production stabilized, and exports have flown out to China and others.
- CBOT Soy is vying desperately for land in the US; meanwhile, it has strong tailwinds from the weather.

PALM OIL

A supportive soy oil price environment continues to boost palm oil prices.

- Malaysian palm oil production shows signs of seasonal improvement.
- India's palm oil import demand could be limited in the short term.
- Indonesian biodiesel consumption is still behind.

SUGAR

We adopt a bearish view ahead

- ICE #11 prices surged 13% so far in April on concerns about the Brazil sugarcane crop and rising Brazil ethanol prices.
- French beet potential has been limited by frost, leading to some support for the white premium ahead.

COFFEE

The coffee price forecast is bearish from the current USc 144/lb

- Speculators came back in force in April to coffee and agricultural commodities in general.
- Rainfall in Brazil's arabica areas was lower than normal in March and so far in April in the South of Minas.

COCOA

The cocoa forecast is raised on increasing upside supply and demand risks

- Cocoa demand continues to show a good recovery from Covid-19 levels.
- Production risks for next season appear underpriced as the market tries to clear the current surplus.

COTTON

Nearby ICE #2 Cotton heads back above USc 85/lb, with new crop prices not far behind

- A supportive forecast follows a combination of supportive macros and greater certainty over US acres.
- Attention now turns to US plantings and the extent to which 12m acres can be realized.

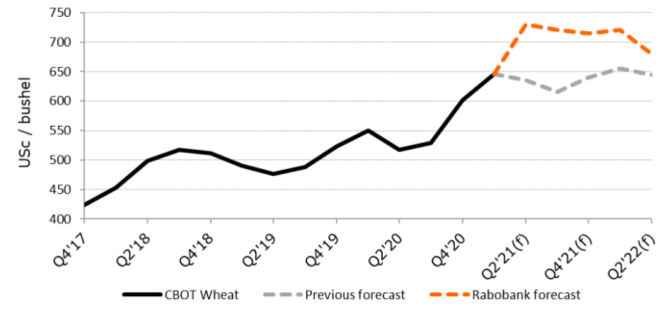
Wheat

The CBOT Wheat forecast is increased, supported by feed demand from high corn prices.

- With the meteoric rise of corn prices, wheat sees increased feed demand.
- Weather in the US Northern Plains and Canada continues to be a concern.
- Good conditions ahead of planting could mean a good 2021/22 crop for Australia and Argentina.

Wheat price forecast raised on feed demand spillover

	unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
CBOT	USc/bu	529	602	646	730	720	710	720	680
Matif	EUR/mt	186	208	227	245	237	235	230	220



Source: Bloomberg Finance L.P., Rabobank 2021

Wheat prices rose this month by 20% month to date, driven by a tighter G&O balance sheet and growing concerns for this season's corn and soybean crops, as well as US spring wheat crops, all exacerbated by a bout of speculative activity. Speculation aside, the pressure is on wheat to fill the feed grain supply gap. We believe this pressure will be more supportive of Kansas, the cheapest US wheat, rather than CBOT. However, CBOT is usually more susceptible to speculative activity, and it may climb more than Kansas for short periods of time. Meanwhile, MGE Wheat has the potential to grow further, in case the dryness in the US Northern Plains persists.

Weather is in the driving seat. US winter wheat Good-Excellent ratings fell by 4%, to 49%, and development continues to be slow, with 17% of the crop headed compared to the five-year average of 24%. Meanwhile, despite good planting progress in spring wheat – now 28% compared to last year's 19% – 78% of the crop area is estimated to be affected by drought, and there is little relief in the forecast. Canadian wheat areas are unfortunately in a similar position, with large areas of producing provinces experiencing severe drought.

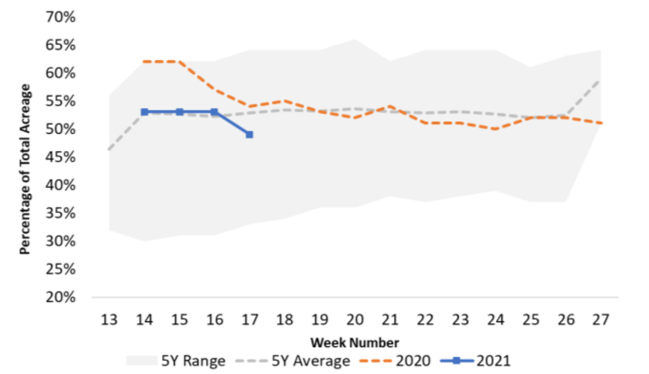
In Europe, cold and dry weather likely also slowed winter wheat development. Over the last month, large areas of France, Spain, Germany, and the UK experienced cold and dry weather. Above-average rain is in the forecast, but it will need to continue for production to replenish stocks, which are at multi-decade lows.

Russian wheat exports have slowed to a trickle, with reports of few to no farmer sales. The lead of this year's exports over last year's has also shortened, with exports now estimate at 35.9mmt, up only 15% YOY compared to the 32% lead seen in March. With the prospect of new Russian export taxes only five weeks away, it's unclear how local prices and exports will perform in the new season. Certainly, forward selling has been affected, and it may have shifted demand to other producers.

The southern hemisphere might provide some relief for global wheat needs in 2021/22. The USDA FAS estimates Argentine production to be 20.5mmt in 2021/22. Despite different opinions on area, good soil moisture levels should help boost yields. Similarly, good moisture levels in Australia could help support good production levels.

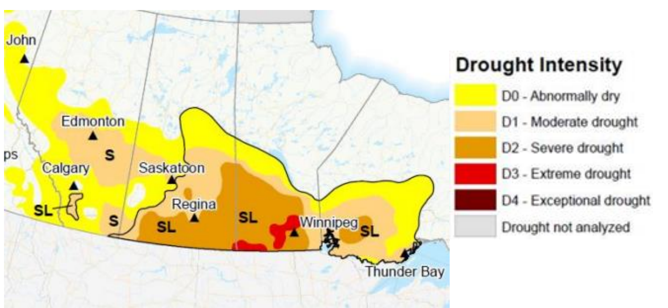
North African weather is also a concern. Persistent dry weather, which is forecast to continue, may cause an unexpected drop in production and increase the region's reliance on imports. The USDA is due to release its initial supply and demand estimates for 2021/22 next month, and this region will be in focus as an arbiter of global import demand.

US winter wheat Good-Excellent ratings are beginning to decline as dryness expands into the Central Plains



Source: USDA, Rabobank 2021 as of 25 April 2021

Canadian wheat areas are suffering drought, Saskatchewan is badly affected and makes up around 45% of production



Source: AAFC, Rabobank 2021 as of 31 March 2021

Corn

Despite a dizzying ascent, CBOT Corn remains a coiled spring as consumers walk a tightrope to summer.

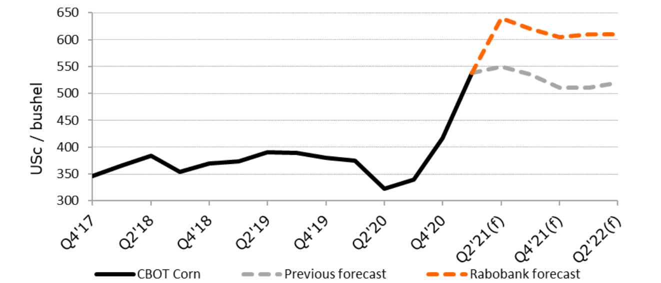
- Brazil's safrinha corn dryness, heat, and delays are damaging pollination and yield potential.
- Chinese corn prices have led a shift to wheat and rice feeding, but strong corn imports will likely continue.
- US farmers face long odds on acreage and yield to solve corn scarcity, leaving stocks low and price floor elevated.

CBOT Corn active contract broke eight-year highs of USD 6.50/bu last month, as an unprecedented grain squeeze from China (41mmt imports, up 235% YOY) and lackluster US prospective plantings (91.2m acres, up 0.4% YOY) boost prices to encourage acreage growth and rationing. Corn prices have doubled in nine months, and we are now entering the high-risk northern hemisphere weather market. ACMR sees steep challenges in raising US acreage or yields sufficiently to match demand growth. More likely, the existing tightness in the market will endure beyond 2022; the only question will be the severity of the rationing. ACMR has been strongly bullish along the curve in every report since November; we raise our price outlook well above the curve amid evidence of acreage inelasticity (in the US), yield declines (in Brazil), and no major weather improvements in the forecast.

US acreage desperation has made Dakota corn farmers the new 'Kings in the North,' and with all respect to Game of Thrones, winter is here. North and South Dakota represent about 10% of US corn area and high potential for marginal acreage expansion; they have also been dry (80% of North Dakota and 62% of South Dakota have topsoil moisture deficits) and cold. If dryness / delays persists in the Dakotas (and parts of the Midwest), ACMR's national corn expectations of 92.5m acres and 178 bu/acre will be revised downward.

Extreme feed scarcity raises and flattens CBOT Corn's curve

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Corn	USc/bu	337	417	536	640	620	605	610	610

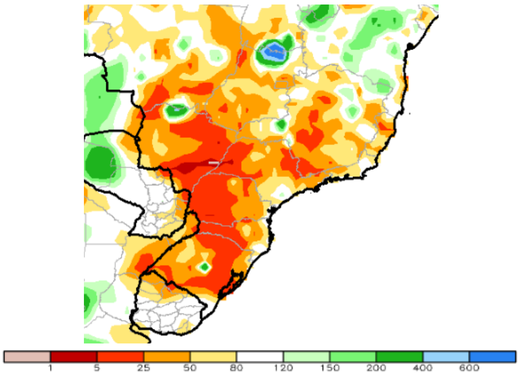


Source: Bloomberg Finance L.P., Rabobank 2021

US corn supplies are on a precipice in the wake of China's 25mmt import bonanza to bridge its structural deficit. Despite a clear feed ration shift to wheat and rice, African swine fever issues, and gradual incentives to restore corn acreage, China will very likely continue to buy US corn in unseasonable, large volumes, squeezing out typical post-harvest pressure/slots for ex.-China world demand. The USDA's China attaché expects 15mmt of corn imports next year, and there are reports China has already bought 1mmt of new harvest US corn. Over the coming months, US exports and ethanol use will rise further, and stocks-to-use will end the 2020/21 season near 7%, in line with 2012/13 (when prices briefly reached USD 7/bu) and enough for three to four weeks of demand. The coming US corn harvest must be perfect and timely to avoid imports, rationing, or switching (to competitively priced wheat). There is no imminent salvation apparent for US supplies this year or next; thus, sellers are scarce, commercials provide strong support at USD 5.50 and funds are comfortable extending their near-record length.

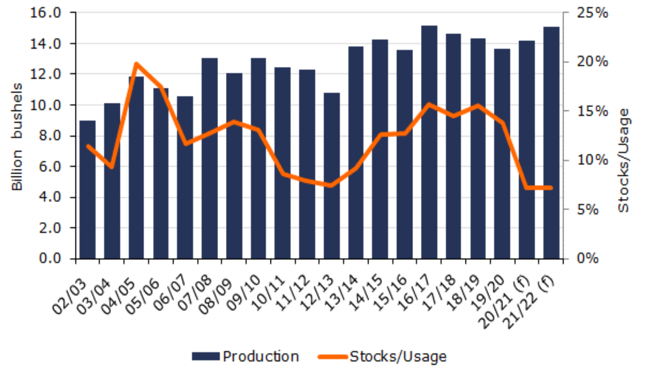
Rainfall pushed almost half of Brazil's safrinha corn outside the ideal planting window, and now dryness over 60% of area is pressuring conditions, pollination and yields. If heat and dryness continue, Brazil's corn production could be cut >10mmt, further raising pressure on US supply and driving upside risk in prices along the curve by USc 85-100/bu. A crop failure in Brazil or the US runs a real risk of sparking an enduring chain reaction in G&O markets.

30-day % normal rainfall shows Brazil's safrinha crop cooking during pollination, threatening yields



Source: NOAA, Rabobank 2021 — 28 Mar to 26 Apr 2021

US corn production needs to rise or demand needs to fall to keep stocks-to-use in line with 2012/13 lows



Source: USDA, Rabobank 2021

Soybeans

CBOT Soy acreage competition and weather woes may induce rationing through 2022.

- South American production stabilized, and exports have flown out to China and others.
- CBOT Soy is vying desperately for land in the US; meanwhile, it has strong tailwinds from a weather market.
- US soy stockpiles are desperately low, and poor yields or crop delays could cause historic rationing or imports. Consumers aren't likely to find satisfaction in 2022.

After months of La Niña supply risk and price upside, CBOT Soybeans drove higher in April (+6% MOM to eight-year highs of 15.40/bu), denying exhausted commercial buyers any respite from the Brazilian harvest (136mmt, +6% YOY). It is rare to see a hike in post-harvest prices from the world's largest soy producer, but the lateness of Brazil's crop and the subsequent speed of its exports in March and April (nearly 30mmt, or 35% of its full-year expectations) point to pent-up demand. Despite concerns about ASF in China curtailing near-term hog feeding, dimming expectations for US acreage expansion will create a tight supply chain through next year. Outsized pre-harvest sales, rapidly declining stockpiles, and US output uncertainty leave soybean farmers reluctant sellers and in a position of strength relative to consumers as CBOT Soybeans move into the high-risk US growing season.

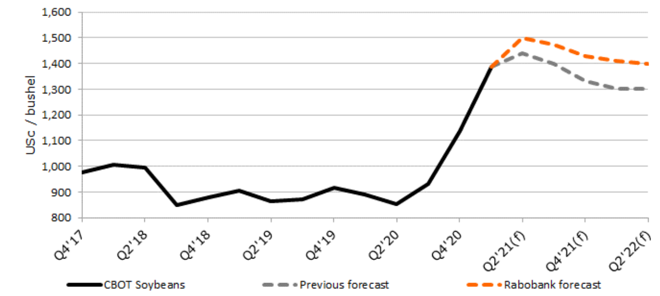
A comprehensive deficit in global grains and oilseeds has led to a chain reaction in the feed chain. Intense competition and limited acreage (in the US especially) makes a satisfactory resupply implausible in 2022. Weather is the pre-eminent determinant for good supply, and it has not been especially permissive this year. First, La Niña caused major delays and curtailed yield potential in South American soybeans and corn. Now, the US faces dryness and cold for its spring plantings. Amid the poor weather, it was actually the US acreage inelasticity that drove the early April rally. Combined soy and corn acreage intentions were raised a meager 2.7% (179m acres), well below the consensus 183m acres, nearly entirely in favor of soybeans (87.6m acres, up 4.5m YOY). The subsequent rally led by CBOT Corn was an inducement for farmers to plant more acres and to relieve an excessive reliance on yield performance. If nearly doubling of prices wasn't enough to print record acreage, last month's increase likely won't be either. CBOT Soy's sails are filled by the firm tailwind of a weather market.

The US Northern Plains in particular – areas of potential expansion – are beset by drought and cold. Current delays in corn planting will favor later-planted soybeans, but if the situation isn't rectified by May, neither crop will be planted successfully. With US production potential unlikely to be maximized, demand may need to be rationed. Rabobank raises prices along the curve USc 75-110/bu to reflect lack of sufficient resupply before Q2 2022. FOMO funds could support this call by re-entering their liquidated soy length.

Low feed availability and high prices have incentivized shifts toward typical food products in feed rations – in particular for China, which has used colossal quantities of wheat, rice, and soy oil for feed. Switching and rationing initiatives like China's (as well as Europe's and Asia's) would have some effect in cooling demand and price increases in corn and soymeal, especially when joined with the resurgence of ASF cases. However, these initiatives 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.

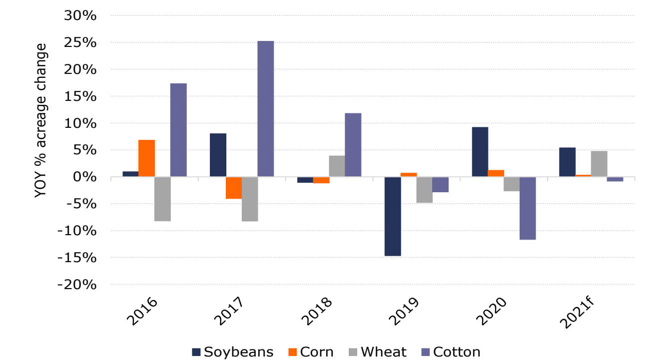
CBOT Soy prices have risen on comprehensive G&O scarcity

	Unit	Q3'20	Q4'20f	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Soybeans	USc/bu	925	1135	1384	1500	1475	1430	1410	1400



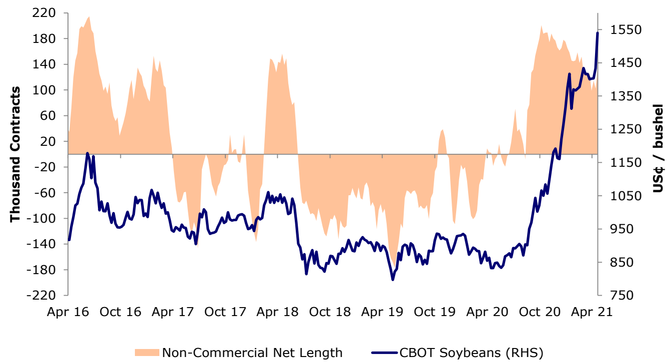
Source: Bloomberg Finance L.P., Rabobank 2021

US farmers prioritize Soybeans acreage expansion, though intentions are 2m acres too low on both to reflate supplies



Source: USDA, Rabobank 2021

Non-commercials sold half their length in the wake of Brazil harvest and missed the recent commercial-driven rally



Source: CFTC, Bloomberg Finance L.P., Rabobank 2021 as of 20 April 2021

Soymeal and Soy Oil

CBOT Soy Meal has recovered its balance on bare US soy supplies and improved demand but remains outshone by incandescent CBOT Soy Oil.

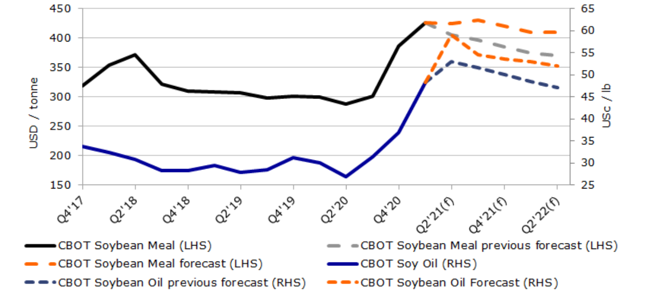
- US by-products have a strong base of support amid low US soybean supplies and global row crop acreage competition this year that will limit farmer sales.
- Demand for soymeal could strengthen on strong domestic US animal protein prices, China feed recovery in 2H 2021, and lower export availability out of Brazil.

Soy Oil's golden sheen reflects its F&A peer-beating price performance: +112% YOY and +16% MOM to USc 59/lb. New uses have superheated soy oil, none more than its inclusion as a feed substitute (partly for scarce corn) in China, which accounted for over half of the 5% global growth in soy oil use this year. Rampant feed use is combining with food and biodiesel growth to pressure US 2020/21 ending stocks-to-use near 2012/13 lows around 6%, implying three weeks of supplies and raising concerns for a timely US soy harvest. The vegetable oil trade generally faces mounting availability issues due to high demand, falling stockpiles, lack of farmer selling, and uncertain resupply. Typical alternatives like rapeseed, sunflower, and palm oil are experiencing strong demand and are unable to relieve the scarcity pressure in soy oil.

Brazil's improved soybean harvest (+6% YOY) and reduced biodiesel mandate plans offered temporary relief to the world vegetable oil market, which was concerned about lack of export availability. As restaurants reopen in the US, used cooking oil will modestly relieve soy oil from the outsize market share. However, insufficient soy acreage expansion and adverse conditions in the US are driving speculators, who had sold off roughly half their soymeal and oil length, back into the complex. Soybean farmers in Brazil, Argentina, and the US will also be reserved sellers into this bull market. As a result, we have seen CBOT Soy Oil prices bid up briefly near record highs

CBOT soy oil remains in the driver seat but meal improved

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Soymeal	USD/ton	297	386	434	425	430	420	410	410
Soy Oil	USc/lb	31.3	36.8	45.9	59.0	54.5	53.5	53.0	52.0

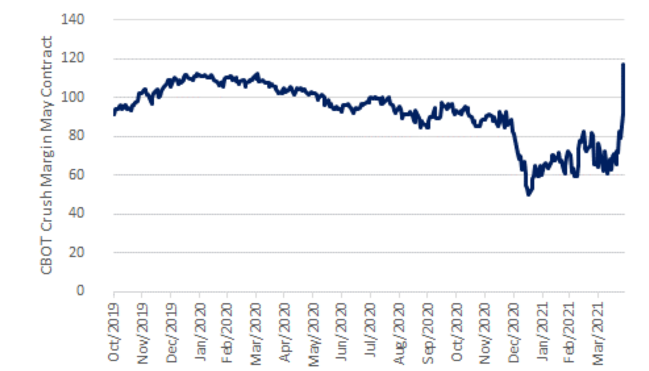


Source: Bloomberg Finance L.P., Rabobank 2021

of USc 70/lb. Unless it is curtailed, soy oil's growing use in feed and biodiesel across major exporters, combined with limited production expansion in soy, palm, and rapeseed acreage, will reduce availability for food consumption and see strength endure in CBOT Soy Oil prices above USc 52/lb in 2022.

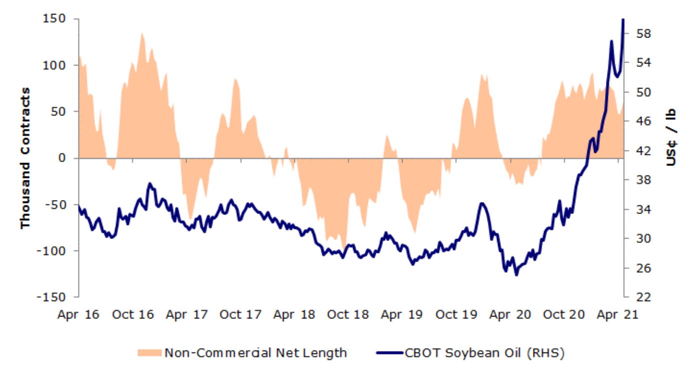
The soy by-product landscape continues to see the soymeal price (+0.5% MOM) outlook lag behind, amid disparate demand fortunes. In particular, China's soymeal inclusion rate and overall demand have fallen in Q2 2021 amid ASF resurgence, declining hog margins, and broader efforts to employ alternative feed grain products like wheat and rice. Still, there are reasons for price optimism: US lean hog prices are hovering near seven-year highs amid record Chinese pork imports, which are driving strong domestic demand for feed. The same Brazilian biodiesel pause modestly boosted the CBOT Soymeal market by removing excess supply from Brazil's export market. There is growing consensus that soybean resupply from the US won't be adequate for rising global demand and that some rationing should be expected. In a familiar ring to 2020, China's meal demand is now expected to rebound in 2H 2021, as hog feeding resumes in earnest from an ASF-led pause. March NOPA crush rebounded 15% from near two-year lows in February, and improving CBOT Soymeal prospects are helping US crush margins (+56% MOM) get their groove back. The potential for soymeal to climb should not be understated. We see CBOT Soymeal on solid footing above USD 410/mt over the coming year.

US crush margins have improved amid better demand for meal and growing scarcity of soybeans in the United States



Source: Bloomberg Finance L.P., Rabobank 2021

Non-commercials sold into the recent CBOT Soy Oil rally and will have room to extend their length



Source: CFTC, Bloomberg Finance L.P., Rabobank 2021 as of 20 April 2021

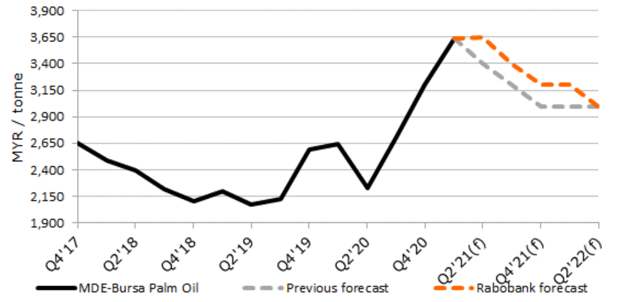
Palm Oil

A supportive soy oil price environment continues to boost palm oil prices.

- Malaysian palm oil production shows signs of seasonal improvement.
- India's palm oil import demand could be limited in the short term.
- Indonesian domestic biodiesel consumption is still behind the required pace to achieve the 2021 mandate.

We revise our forecast due to recent palm oil price increase

	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	3,650	3,400	3,200	3,200	3,000



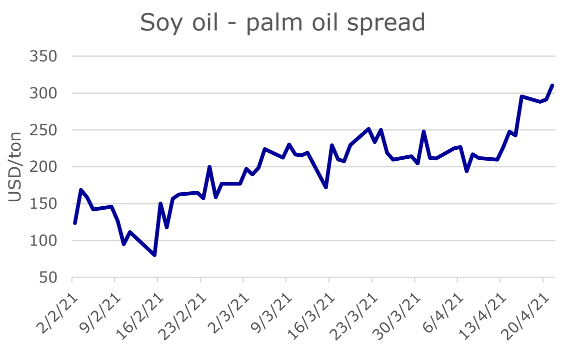
Source: Bloomberg Finance L.P., Rabobank 2021

India's palm oil import demand could be limited in the short term. The resurgence of Covid-19 cases in India worsened in April as daily cases in the country rocketed in several states. As a result, lockdown measures have been implemented in several states in India, which will negatively affect domestic foodservice activity. This, combined with high palm oil prices, a relatively weak USD/INR FX rate, and relatively high domestic edible oil inventories, could limit Indian palm oil import demand in the short term. These domestic lockdown measures, however, are expected to support demand for soft oils, due to stable household demand for consumer packs. According to SEA India, Indian March 2021 palm oil and soft oils imports increased by 31% and 7% MOM, to 509,000 and 431,000 metric tons, respectively. Meanwhile, Indian edible oils inventories, as of late March 2021, were flat month-on-month, at 1.7mmt, but higher by 37% YOY.

Malaysian palm oil production shows sign of seasonal improvement. According to the MPOB, Malaysian March 2021 palm oil production and exports increased by 28% and 5% MOM, to 1.4mmt and 896,000mt, respectively. Malaysian March 2021 palm oil inventories also increased by 11% MOM, to 1.4mmt. Meanwhile, according to GAPKI, Indonesian February 2021 palm oil production (including lauric oils) decreased by 10% MOM to reach 3.4mmt on the back of the seasonal production down cycle. As a result, Indonesian palm oil inventories (including lauric oils) for the same month decreased by 5% MOM to reach 4mmt. Meanwhile, FFB harvesting in Indonesia and Malaysia in the second half April and first half of May 2021 is expected to be slower than normal, due to Ramadan. However, overall, we expect seasonal palm oil production increases to result in higher quarter-on-quarter palm oil production and inventories in Malaysia and Indonesia in Q2 2021.

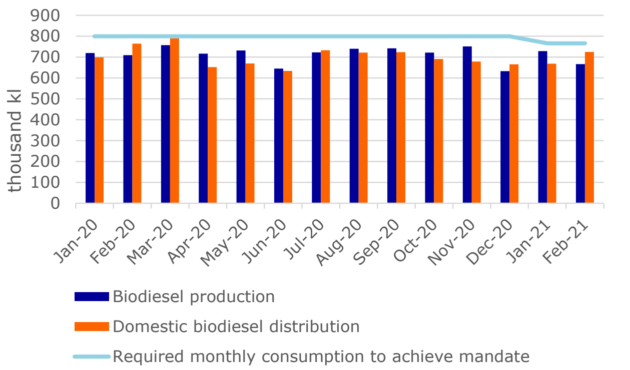
Indonesian domestic biodiesel consumption is still behind the required pace to achieve the 2021 mandate. For the second consecutive year, the Indonesian government has prohibited the annual Eid al-Fitr tradition of mass homebound migration (mudik) in 2021 in an attempt to minimize the spread of Covid-19. Similar to last year, we expect this prohibition will limit the Indonesian transportation sector's biodiesel consumption during the Eid al-Fitr period. Meanwhile, according to APROBI, total domestic biodiesel consumption in Indonesia in January and February 2021 was lower by 4.7% YOY. At 1.39m kiloliters, total Indonesian domestic biodiesel consumption for the first two months of 2021 only represents 15.1% of the 9.2m kiloliter biodiesel mandate for 2021. At this rate, the annual Indonesian full-year biodiesel consumption will only reach around 8.4m kiloliters in 2021.

Wide spread between soy oil – palm oil will provide support to palm oil prices in the short term



Source: Bloomberg Finance L.P., Rabobank 2021

Total Indonesian domestic biodiesel consumption in January and February 2021 was 4.7% lower year-on-year



Source: APROBI, Rabobank 2021

Sugar

We adopt a bearish view ahead.

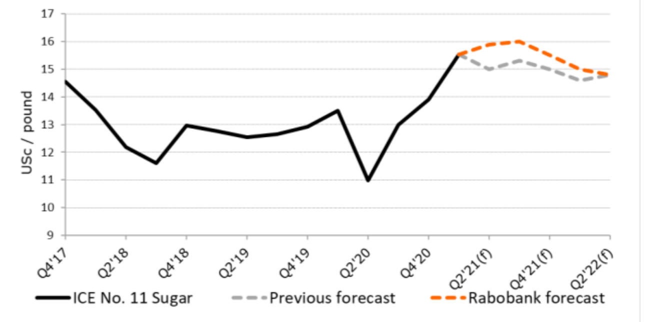
- ICE #11 prices surged 13% so far in April on concerns about the Brazil sugarcane crop and rising Brazil ethanol prices.
- French beet potential has been limited by frost, leading to some support for the white premium ahead.
- Speculators are likely to remain very active through 2021.

ICE #11 Raw Sugar rose 13% so far in April, with tailwinds from the Brazilian real (up 5.5% in the period), speculation (with Non-Commercials and Index funds buying 52,135 net lots in the last available week of the CFTC report), the ethanol market (with the ethanol parity trading at USc 14.8/lb), and concerns about the effect of the drier-than-normal weather in Brazil for most of the past year. In our view, it is always difficult to assess the real size of the crop from the beginning of the harvest. The weather forecast shows rainfall will continue to be lower than normal in the coming week, but with the harvest started, that is probably a good thing for immediate sugar availability. The peak of the harvest should be a more reliable indicator on how yields have performed. Certainly, occasional rainfall will be welcome to prevent a sudden death to the harvest toward Q4 2021.

Speculation is very much active. Some negative surprises in the Brazilian harvest could result in a lower surplus in 2021/22, but the fact still remains that global sugar stocks are bulky from previous surpluses over the last ten years, and Brazil will likely maximize sugar again in the current season, with much of the sugar output already sold. This leads us to assume that much of the upside relates to speculation. The pattern of speculators coincides to a great extent with the US dollar. The DXY index (the US dollar measured in other developed market currencies, with the euro representing 57% of the basket) had a large depreciation since the end of May 2020 that seemed to

ICE #11 Sugar price forecast increased but bearish view ahead

	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	15.9	16.0	15.5	15.0	14.8

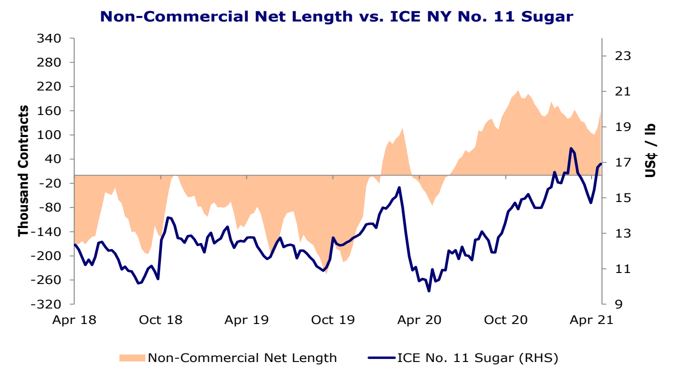


Source: Bloomberg Finance L.P., Rabobank 2021

be reverting in March 2021, only to continue weakening in April. This same pattern is seen in the spec position across agri commodities (but inversely, of course), with strong selling in March but buying in April. With this outlook and the US dollar expected to be soft for the rest of 2021, more speculation is possible, but speculators may not need to be long all the time (though new money has a tendency for long-only positions), and the recovery in production in countries other than Brazil may more than offset the losses there. We take a bearish view from current market prices.

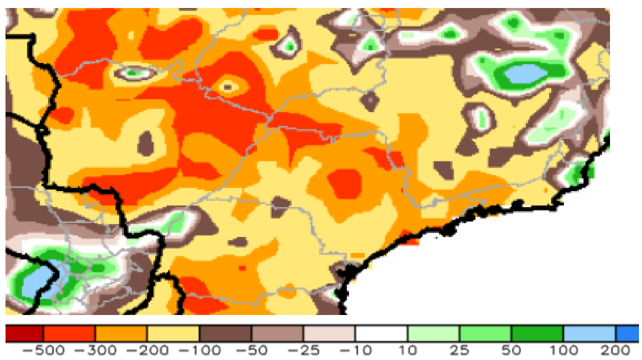
White premium may not drop as much as previously expected following the frost in France. In our previous report, we mentioned the possibility of the white premium dropping below USD 70/metric ton by March 2022 – currently the March22/March22 white premium is trading at USD 80/metric ton. Our view was founded on the recovery expectations of many white sugar producers, including Thailand, the EU, Russia, and Pakistan. However, a frost event in France has put the recovery of EU sugar output in doubt and dependent on an uncertain reseeding effort. Therefore, we are no longer so convinced about the Mar/Mar white premium going below USD 70/metric ton, but we believe it is likely to trade below USD 80/metric ton.

After a brief respite in March, funds are buying across agri commodities, and they have a sweet tooth.



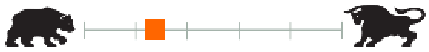
Source: Bloomberg Finance L.P., Rabobank 2021

Dry weather in Brazil over the last three months resulted in worrying 1H April harvest results. 90-day anomaly in mm



Source: NOAA, Rabobank 2021

Coffee



The coffee price forecast is bearish from the current USc 144/lb.

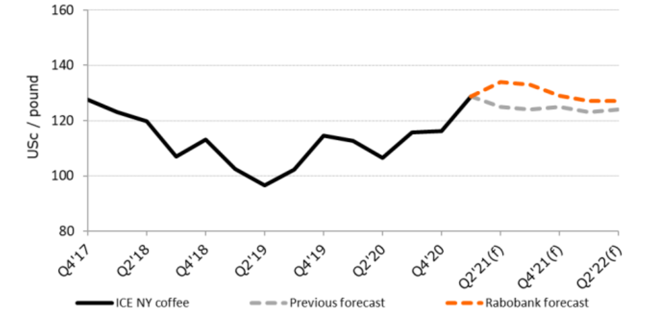
- Speculators came back in force in April to coffee and agricultural commodities in general.
- Rainfall in Brazil's arabica areas was lower than normal in March and so far in April in the South of Minas.
- More demand for Brazilian conillons ahead.

Coffee prices climbed 15% so far in April, and they broke above the 140 mark, with July 2021 trading at USc 142/lb. Non-Commercials seem to have returned to commodity markets in April, and coffee was one easy target as its price does not look as astronomical as other commodities (when one looks at it in US dollars, in Brazilian reais it's a different story). A 6% appreciation of the Brazilian real, combined with a depreciation of the US dollar vs. other developed market currencies, also helped the price upside. Despite all the action in April, the increase in arabica prices still lags the increase of other agricultural commodities like grains and oilseeds.

On the fundamental side, rainfall was drier than normal in Brazil in March and so far in April, increasing the likelihood that branches may not grow to their potential for the 2022/23 crop. In our view, the main determinant will still be the flowering in/around September, but lower branch growth lowers the likelihood of a record harvest in 2022. However, in principle, we would still expect at least a very good upcycle in 2022/23 given a natural rebound in production, the amount of pruning, and the large amount of young trees reaching productive age. Normal weather in September could result in a significant drop in the market, assuming no major surprises from the mild sector. On that front, Honduras sales so far this season have recovered quite quickly at only 6% below last year, while exports remain at 14% below YOY.

Coffee price forecasts increased but bearish from spot prices

	unit	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
ICE Arabica	USc/lb	116	116	129	134	133	129	127	127
ICE Robusta	USD/mt	1348	1350	1370	1440	1460	1470	1480	1480

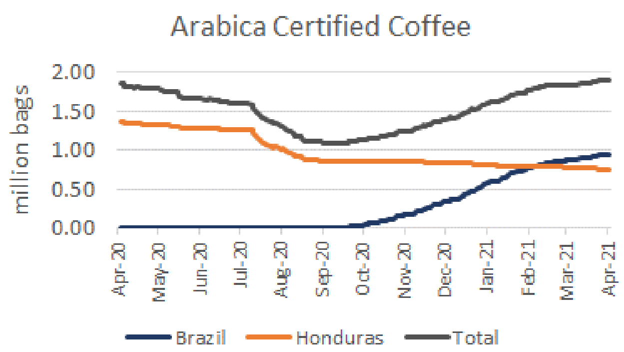


Source: Bloomberg Finance L.P., Rabobank 2021

There is uncertainty about the demand situation of certified stocks. Arabica certified stocks climbed to 1.9m bags, after Brazil graded almost 1m bags from the last harvest. We do not expect to see Brazil grading any significant arabica volumes from the coming three harvests. Yet, it is the demand situation that is uncertain. Usually, semi-washed is exported and consumed quickly. How much the industry will be willing to take old semi-washed coffee after it sat at the exchange for months is largely uncertain.

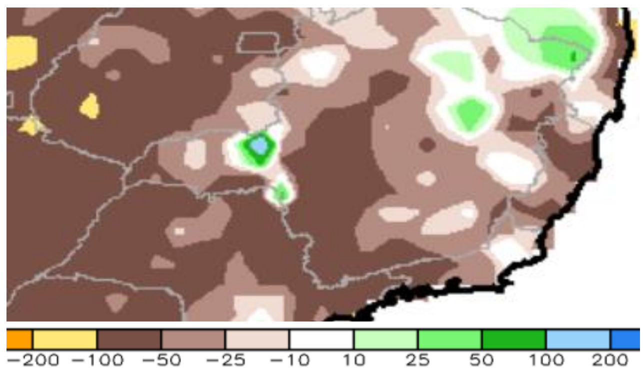
Flexible be the blessed. When it comes to coffee, not all of us are prepared to compromise, but the market certainly provides incentives to be flexible. This has always been evident for arabica, where differentials can go wild, but of late, it is the logistics in robustas that are providing record incentives to be flexible. While differentials are high in certain origins, it is container shipping costs and availability that limit the supply of Asian robusta, in favor of that of Uganda and Brazil. Uganda has seen some record export levels recently, and it has a lot of future potential given its high-quality robusta and its proximity to Europe. We expect Brazilian conillons to be more and more accepted by mainstream industry, particularly outside of Europe. But even in Europe, we would expect roasters to start working closely with farmers and cooperatives to guarantee a future supply that meets their standards, not unlike what is already a well-trodden path in arabica procurement.

Certified arabica volumes are relatively high, and the offtake is uncertain, given the majority of it is Brazil semi-washed



Source: ICE, Rabobank 2021

Rainfall in Brazil was drier than normal over April and March, 30-day anomaly to April 26, in mm:



Source: NOAA, Rabobank 2021

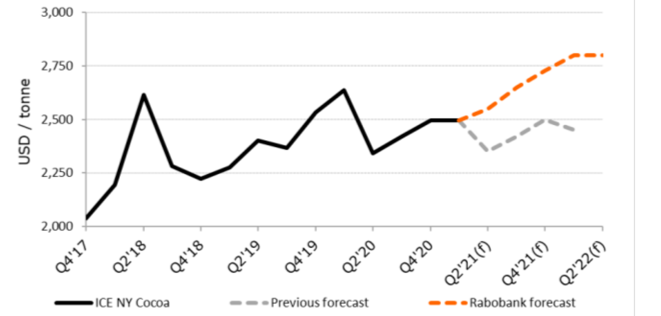
Cocoa

The cocoa forecast is raised on increasing upside supply and demand risks.

- Cocoa demand continues to show a good recovery from Covid-19 levels.
- Production risks for next season appear underpriced as the market tries to clear the current surplus.
- South American production is likely to continue to show strong growth, but it may not be enough to meet demand in 2021/22.

ICE NY and London Cocoa forecast raised

	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	**2,550**	**2,650**	**2,725**	**2,800**	**2,800**
ICE London	GBP/t	1,690	1,696	1,695	**1,660**	**1,730**	**1,770**	**1,810**	**1,810**



Source: Bloomberg Finance L.P., Rabobank 2021

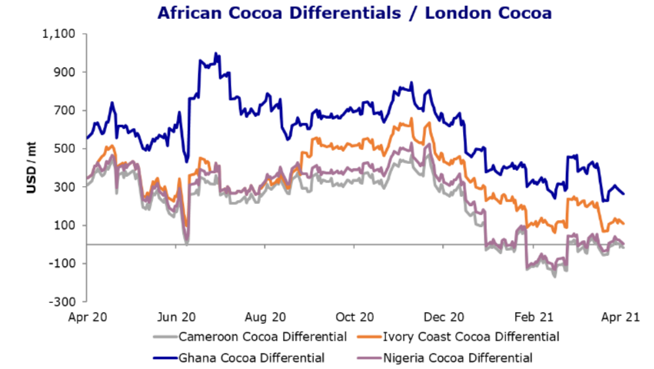
Cocoa prices showed a modest improvement over April as reported grinding figures for Asia, Europe, and North America reaffirmed the recovery in demand from Covid-19 lows. Recently published grinding figures suggest aggregate demand for the three main consuming regions fell -0.3% YOY. Although slightly lower year-on-year, the figure is a significant improvement (+9.8%) from Covid-19 lows in Q2 2020. We expect demand to continue to recover throughout the coming quarter and forecast a return to near pre-pandemic levels. More details on our forward-looking view can be found in our recently published cocoa outlook.

ICE cocoa warehouse stocks have risen substantially over April, increasing by almost 300,000 bags to 4.77m bags. Good supplies out of West Africa and the steeply negative arbitrage – more than 100% lower than March levels – favor the US market and may continue to drive stock accumulation in the region, which is now higher than the peak of the last two seasons and still rising. Moreover, the recent -25% reduction in the Côte d'Ivore farm gate price, coupled with declining differentials, suggests a buildup of stocks at origin as well as destination. However even though the current supply situation is bearish, markets may be getting complacent about the production risks for next season's crop and forward prices may begin to rise as consumers increase cover with the expectation of growing demand and less certain supply.

Current high availability, the shift in the futures curve, and lower volatility may be lulling markets into a false sense of security, as forward sales for 2021/22 are reported to be lagging substantially from previous years and use of cocoa derivatives declining. Although the LID may be partly the cause for the overall decline in cocoa futures and options open interest, the recent decline in differentials should help offset some of that risk and allow cocoa derivatives to function more smoothly as a risk management tool. Furthermore, supply and demand risks for the 2021/22 season may be underpriced. Long-range forecasts predict drier-than-normal weather to persist in West Africa in the months ahead, and demand growth will likely reach or exceed pre-pandemic levels by the beginning of the 2021/22 season. We may begin to see open interest creep up, along with prices, as participation increases and developing risks force consumers to take greater coverage. As such, we revise our forecast higher and expect average prices to steadily increase through to next year.

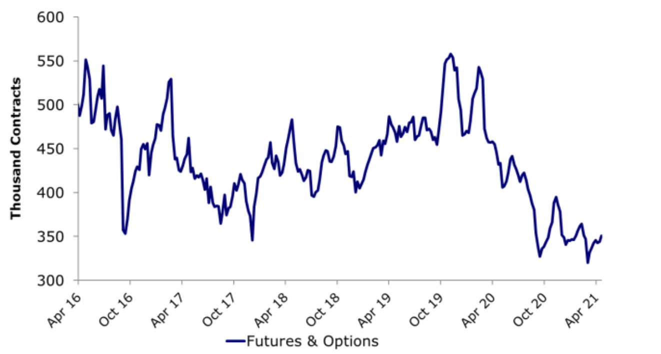
Growing production in South America is unlikely to be enough to counter growing demand. South American production has likely been very good this season, and we expect to see continued production growth through next season as a more neutral ENSO outlook increases the chances of good rainfall providing the region a boost to production. However, growing demand will likely outpace supply, resulting in a small deficit next season of around -8,000mt.

African Cocoa differentials declined substantially since the start of 2021 but are showing an improvement from lows



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

Combined open interest in both NY and London Cocoa recently reach the lowest levels since 2013



Source: CFTC, Rabobank 2021 as of 20 April 2021

Cotton

Nearby ICE #2 Cotton heads back above USc 85/lb, with new crop prices not far behind.

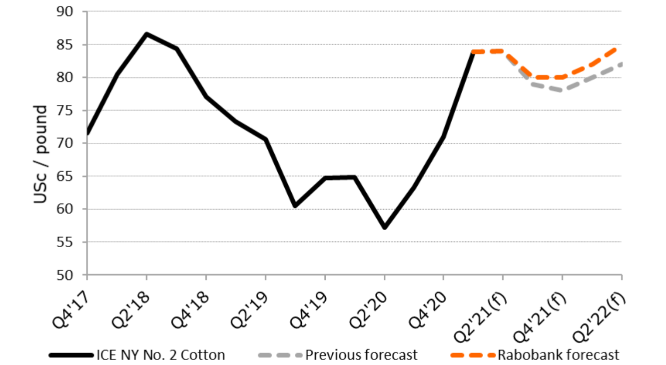
- A supportive forecast follows a combination of supportive macros and greater certainty over US acres.
- Attention now turns to US plantings and the extent to which 12m acres can be realized.
- Covid-19 infections emerging in parts of Asia have the scope to derail short-term demand. However, Rabobank still forecasts a full demand recovery by 2021/22.

April volatility takes ICE #2 Cotton futures back above USc 85/lb, following a combination of supportive macros and greater certainty over US acres. We believe this second factor creates conditions for a relatively flat forward curve, with December 2021 trading just over USc 2/lb behind May.

The USDA's March estimate of 12m acres for 2021 US cotton came in line with Rabobank projections. Adopting this figure along with long-term assumptions for abandonment and yield – 18% and 840 lb/acre, respectively – Rabobank models a 0.7m bale YOY decline in US 2021/22 stocks, taking domestic stocks to five-year lows. While Rabobank notes that speculation and macros will continue to support old crop cotton, the longer-term fundamentals are emerging as supportive as well. Add the ongoing risks of Texas dryness – where 57% of the US crop is set to be planted – and the usual hurricane season, and Rabobank sees a recipe for a particularly volatile second half of 2021. With this in mind, Rabobank maintains a supportive outlook for prices – Q4 2021 is forecast at USc 80/lb, with prices beginning to climb again in early 2022.

ICE #2 Cotton forecast adjusted higher in later contracts

	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**

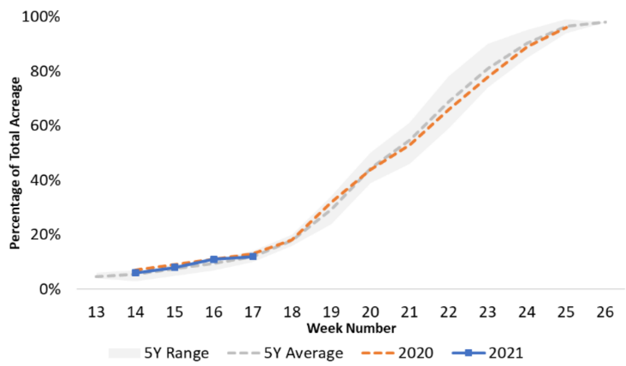


Source: Bloomberg Finance L.P., Rabobank 2021

Attention now turns to US plantings and the extent to which 12m acres can be realized. As of April 25, the US had planted 12% of cotton, in line with the five-year average of 12% but slightly behind last year's 13%. Leading the charge were Arizona and California – at 57% and 29% planted, respectively – but all eyes remain on the 18% figure in Texas, above the 14% state average. Drought in West Texas currently ranges widely from zero to exceptional, according to NOAA, with chances of below-average rainfall in the 14-day period. Even with the drought, Rabobank believes these acres will continue to be planted, and it will be abandonment that will creep up if dryness persists.

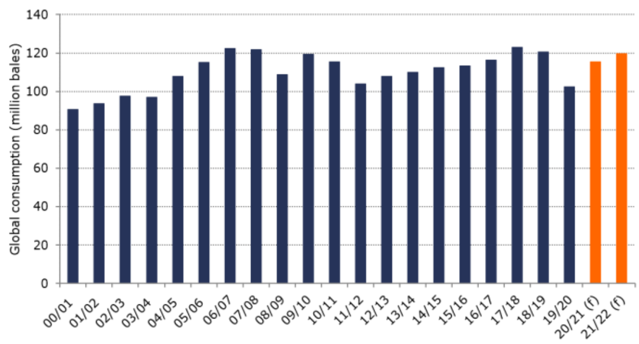
The ongoing Covid-19 infections emerging in parts of Asia have the scope to derail short-term demand. Rabobank continues to forecast a return to pre-pandemic demand levels by 2021/22, but the recent urgency in mill demand should be taken with caution. Most notable is the situation in India and Bangladesh, where lockdown measures are reportedly impacting domestic manufacturing. Still, as other nations – namely Europe and the US – ramp up vaccination programs, the return to retail will grow. At this stage, Rabobank believes slowdowns in manufacturing will be temporary, with the shortfall made up later in the season or by other importing nations.

US planting has reached 12% as of April 25, in line with the five-year average; success in Texas is key as dryness prevails



Source: USDA, Rabobank 2021

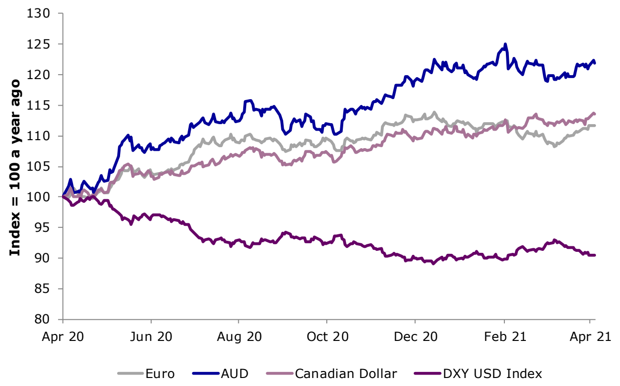
Rabobank continues to forecast a world demand recovery to pre-pandemic levels – at 120m bales – by 2021/22

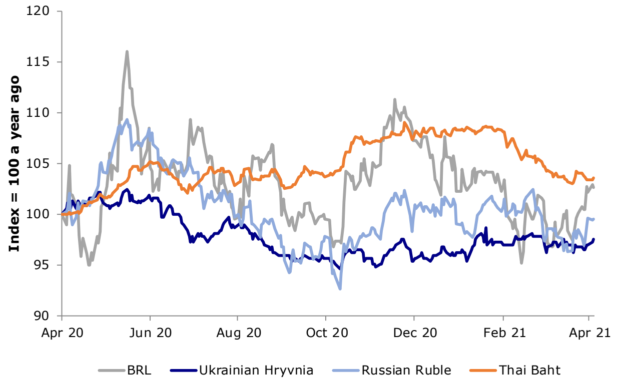


Source: USDA, Rabobank 2021

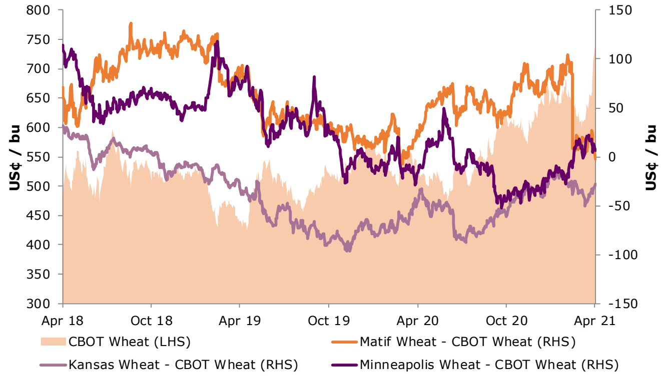
Agri Charts

Global Currencies USD Cross

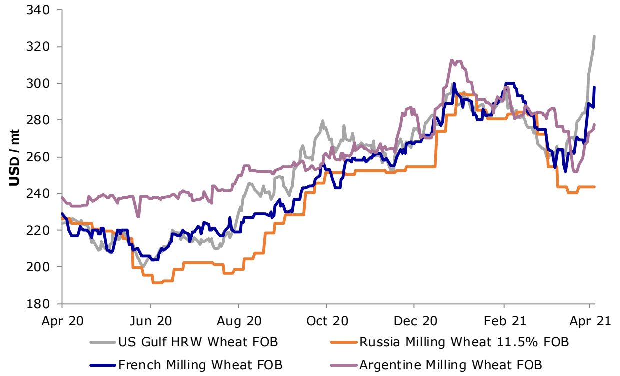




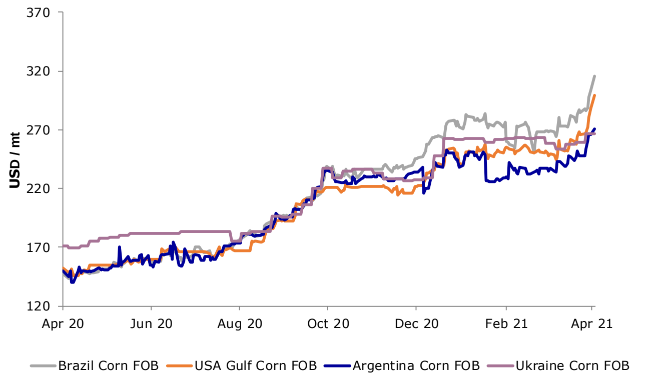
CBOT Wheat Spreads



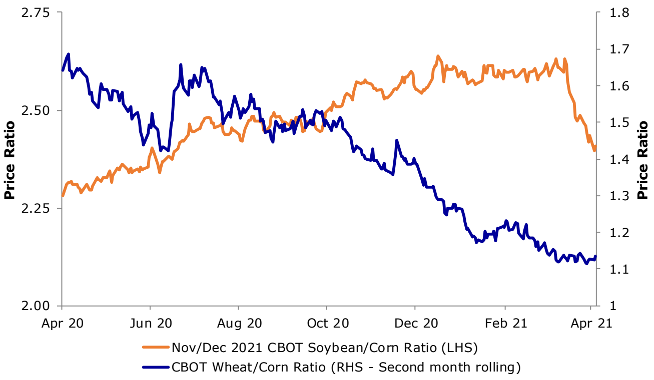
Wheat Protein FOB Prices



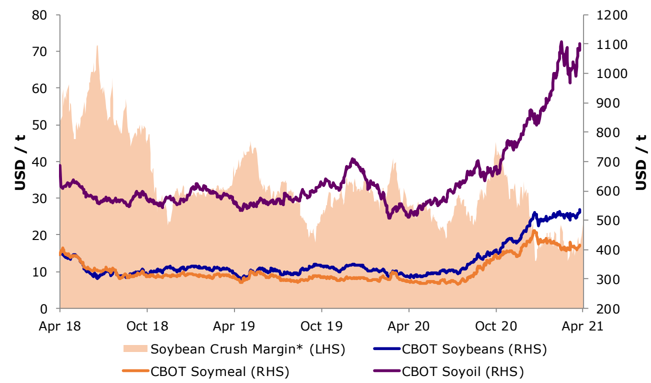
Corn FOB Prices



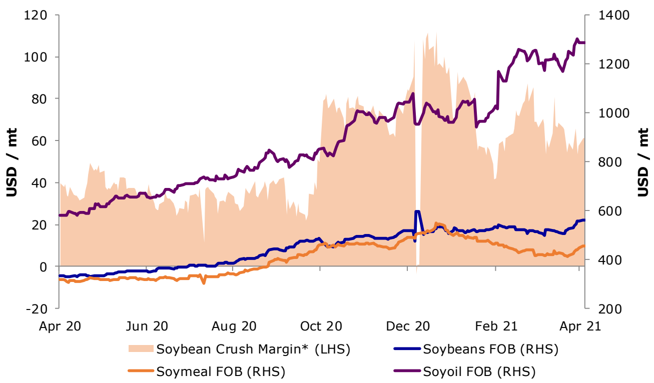
CBOT Ratios



CBOT Soybean Crush Margin



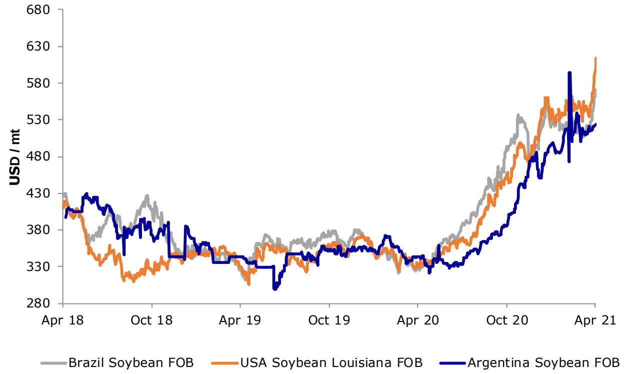
Argentina FOB Soybean Crush Margin



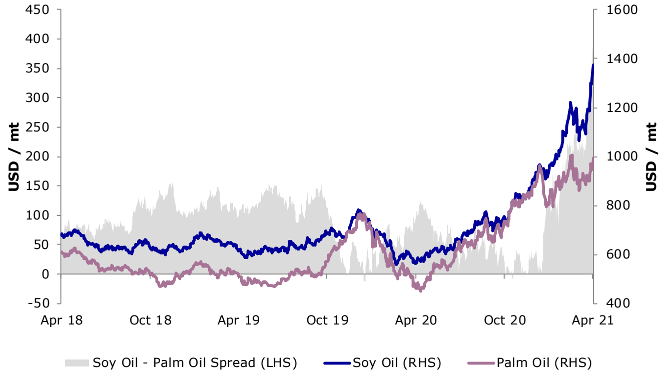
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

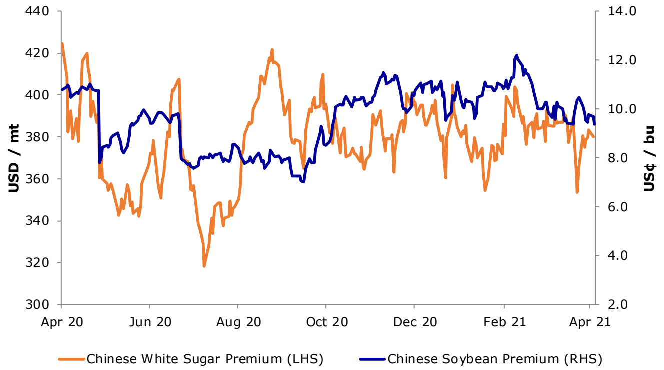
Soybean FOB Prices



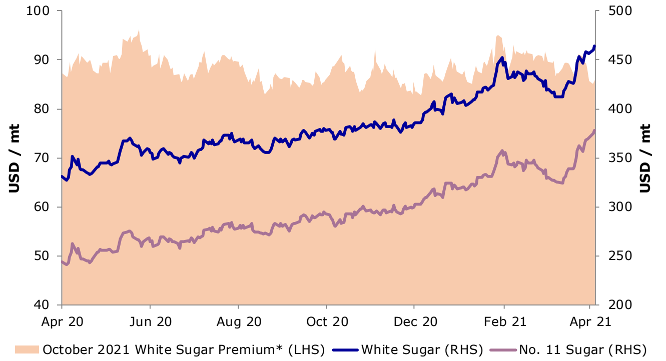
Palm Oil - Soy Oil Spread



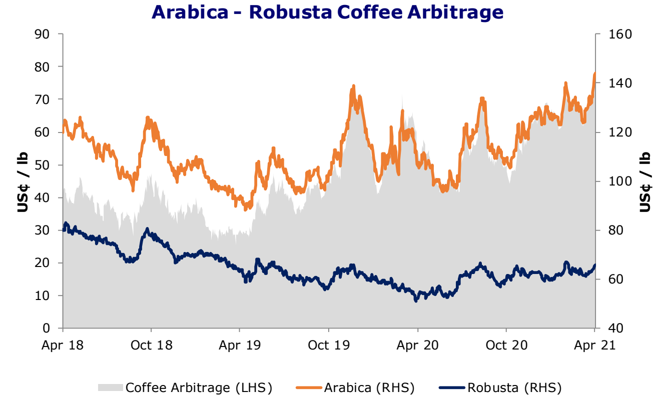
Chinese Futures Premiums



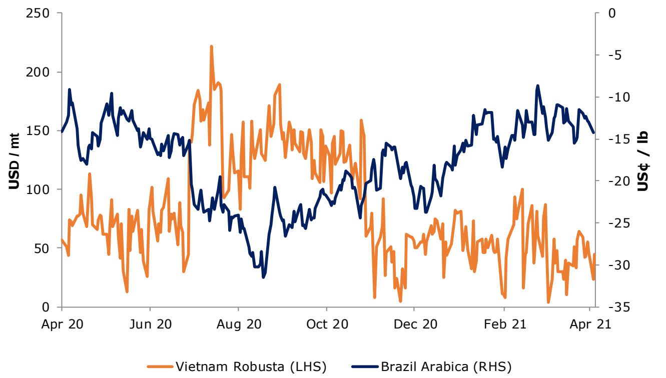
White Sugar Premium



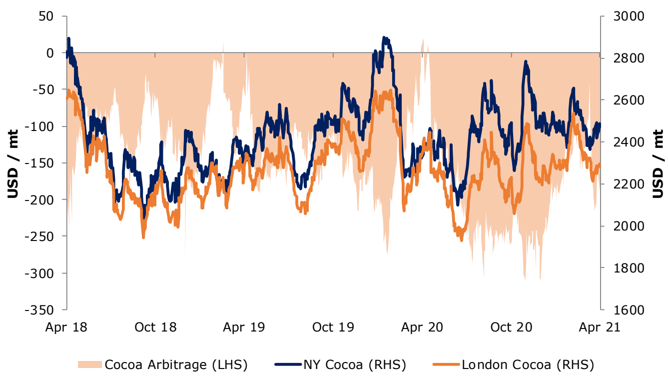
Arabica - Robusta Coffee Arbitrage



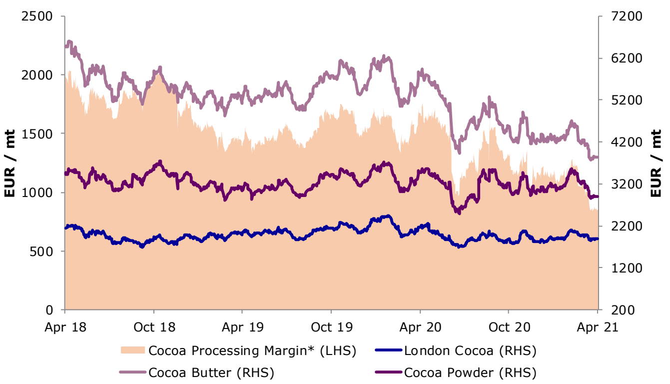
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

Imprint

RaboResearch
Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

Carlos Mera, Head of ACMR
carlos.mera@rabobank.com, +44 20 7664 9512

Michael Magdovitz, Senior Commodities Analyst
michael.magdovitz@rabobank.com, +44 20 7664 9969

Andrew Rawlings, Commodities Analyst
andrew.rawlings@rabobank.com, +44 20 7664 9756

Contributing analysts:

Andy Duff—São Paulo, Brazil
andy.duff@rabobank.com

Charles Clack—Sydney
charles.clack@rabobank.com

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

Rabobank Markets

Corporate Risk & Treasury Management Contacts

GLOBAL HEAD—Martijn Sorber
+31 30 21 69447
martijn.sorber@rabobank.com

ASIA—Ethan Sheng
+852 2103 2688
ethan.sheng@rabobank.com

AUSTRALIA—Adam Vanderstelt
+61 (2) 8115 3101
adam.vanderstelt@rabobank.com

NETHERLANDS—Arjan Veerhoek
+31 30 216 9040
arjan.veerhoek@rabobank.com

EUROPE—David Kane
+44 (20) 7664 9744
david.kane@rabobank.com

NORTH AMERICA—Neil Williamson
+1 (212) 8086966
neil.williamson@rabobank.com

SOUTH AMERICA—Ricardo Rosa
+55 11 5503-7150
ricardo.rosa@rabobank.com

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.

Disclaimer

Non Independent Research

This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as "Rabobank" ("Rabobank") a cooperative with excluded liability. The liability of its members is limited. Authorised by De Nederlandsche Bank in the Netherlands and regulated by the Authoriteit Financiële Markten. Rabobank London Branch (RL) is authorised by the Prudential Regulation Authority and with deemed variation of permission. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website. RL is registered in England and Wales under Company no. FC 11780 and under Branch No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that is should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions.

A summary of the methodology can be found on our website