Rabobank

Agri Commodity Markets Research

February 2022: Demand Flies North & Prices with It

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Agricultural markets' bull run continued last month, buoyed by strong adverse weather, geopolitical risks, and input inflation. La Niña will deprive feed customers of serenity in 2022 by sharply reducing South America's soybean and corn production. CBOT Corn and the Soy complex are rallying as demand is driven north to the US, which is plainly incapable of accommodating it all. The Russian invasion of Ukraine represents a major concern for (vegetable) oil, wheat and corn. Funds are flocking to agri commodities amid inflation and geopolitical risks, with notional length approaching the highest on record. US 2022/23 G&O harvests will be critical in relieving scarcity, but incipient dryness, acreage constraints, and inflation will likely keep CBOT price risk skewed firmly to the upside.

WHEAT

High US physical values and large acreage marginally offset war and weather risk

- Premiums in US physical prices drive global import demand away from US ports.
- Price volatility set to persist on geopolitical export risk and northern hemisphere wheat emergence.

CORN

CBOT Corn's bull run extended by weather and war woes

- South America's La Niña pushes demand north and prevents material reflation of low US stockpiles.
- High input costs, yield declines, and acreage limitations squeeze corn farmer profitability.

SOY COMPLEX

CBOT Soybeans eyes records as South American yield losses exceed all expectations

- Demand rationing appears inevitable; China crush margins have fallen, foreshadowing lower imports.
- US crush margins are healthy and output has improved in a bid to make up for Argentine cuts.

SUGAR

ICE #11 keeps treading water

- Oil keeps rising, while the BRL has firmed significantly, local ethanol prices have declined, and Brasília discusses fuel taxes and pricing.
- Indian output is revised higher, while China is headed for a poor crop.

PALM OIL

Relatively low Malaysian palm oil inventories are supporting palm oil prices in Q1 2022

- Malaysian inventories remain low in February.
- The Indian government's revision of palm oil import duties will benefit Malaysian palm oil exports.

COFFEE

Widely different market views to result in volatility

- ICE Arabica certified stocks dropped to just 1m bags by February 18, and will likely fall further.
- Rainfall continued in Brazil's arabica areas, potentially increasing the size of the 2023/24 crop.

DAIRY

Global supply growth dipped into negative territory in Q3 2021, remaining low in 1H 2022

- New Zealand production was down 5% in December and is likely to continue negative YOY growth.
- Milk prices are rising with global dairy commodities, but limits on near-term production growth remain.

Wheat

High US physical wheat values and large acreage marginally offset weather and war risk

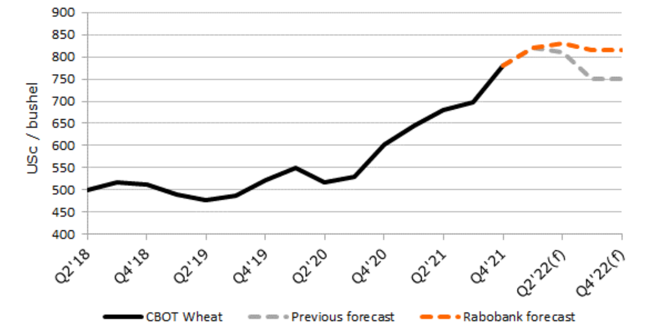
- Rabobank notes a considerable premium in US physical prices against global competitors – a factor driving global import demand away from US ports.
- Price volatility is set to persist through Q2 2022 as the peak northern hemisphere growing period collides with the growing risk of Russian invasion into Ukraine.

Rabobank holds a neutral to slightly bearish outlook on CBOT Wheat futures, albeit with significant supply risks. Underpinning CBOT wheat prices near 10-year highs are tightening 2021/22 world supplies, northern hemisphere weather risk, and South American drought. The largest price risk factor stems from Russia's invasion into Ukraine: which de minimis puts into question ~5m mt of Ukrainian wheat left to ship this season and potentially shifts demand to alternate suppliers in the EU/US. Still, Rabobank notes a considerable existing premium in US physical prices against global competitors – last seen over USD 30/mt against comparable EU origins. Such premiums are undoubtedly assisting the 36% YOY decline in outstanding US export sales, which, if it persists into export volumes (currently down 21% YOY), could drive higher-than-expected 2021/22 ending stocks above the USDA's 648m bu estimation. Rabobank has a short-term outlook on CBOT Wheat of USc USc 830/lb through Q2 2022.

The February WASDE put longer-term bullish fundamentals back in focus. Canadian feed use increased by 1.7m mt MOM, or 60%, which assisted an equivalent decline in 2021/22 world stocks. This came despite a 3.2% MOM rise in US stocks driven by lower 2021/22 exports. At 278m mt, 2021/22 world stocks are forecast to touch five-year lows alongside a 1% to 2% YOY global consumption rise. From this falling world stock figure, it is clear that prices need to either drive additional acres or cool off world consumption. With drought ravaging prospects for South American feed grains,

CBOT prices are reflecting the present risks

	unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f
CBOT	USc/bu	646	680	698	779	820	830	815	815
Matif	EUR/mt	227	219	234	284	280	280	265	265



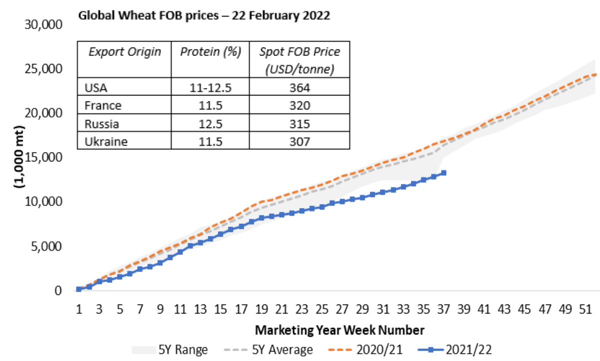
Source: Bloomberg Finance L.P., Rabobank 2022

the latter appears less likely. Fundamentals are supportive of medium-term global wheat prices – driving Rabobank's Q3/Q4 2022 forecast of USc 815/lb. While this outlook remains near the highest in a decade, it is bearish against the forward curve.

Price volatility is set to persist through Q2 2022 as the peak northern hemisphere growing period collides with the risk of conflict escalation in Ukraine. The risk from war is significant –bringing with it Black Sea export disruptions. For our macro take on a potential invasion, please read out latest Global Economics and Markets report. European origins, particularly France, would be the obvious beneficiaries of demand shifting from the Black Sea, with spot prices very competitive globally at USD 320/mt.

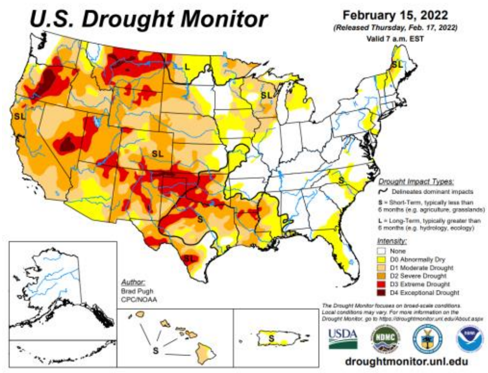
On the weather-side, prospects for the northern hemisphere are mixed, as La Niña persists. Drought is intensifying across the US Southern Plains – ranging from moderate to extreme – with NOAA's three-month outlook bringing little relief. Similarly, in Canada, dryness haunts parts of the Canadian Prairies. Across the pond, European and Black Sea conditions are much more favorable. These conditions will be essential in stabilizing world production and preventing further stock erosion and will be very closely watched by markets through March and April.

Weekly US exports in 2021/22 are well behind previous seasons, the result of better priced alternate export origins



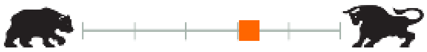
Source: USDA, Fryers, Rabobank 2022

Drought has emerged and persists across the US Southern Plains, as the US Drought Monitor as of February 15



Source: NOAA, CPC 2022

Corn



CBOT Corn's bull run extended by weather and war woes

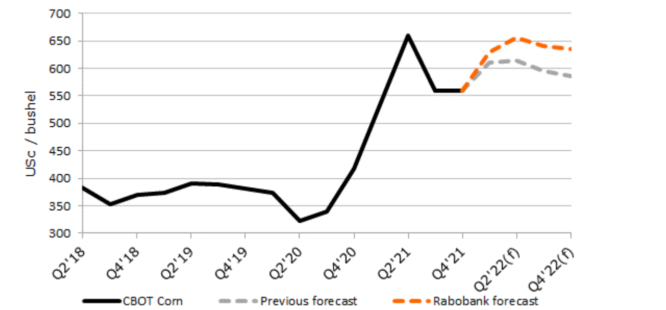
- South America's second year of La Niña pushes demand north and prevents material reflation of low US stockpiles.
- High input costs, yield declines, and acreage limitations squeeze global corn farmer profits and selling interest.
- A conflict in Ukraine would impact ports and deprive the world of a crucial corn supplier.

Feed consumer confidence has withered alongside South American row crops, and CBOT Corn price risk is rising in turn. Near-term supply strife has raised CBOT Corn's active May 2022 contract 8.5% in the last month, to contract highs above USD 6.60/bu, and the December contract followed close behind to slightly exceed our quite bullish Q4 forecast from the November Outlook of USD 5.85/bu. La Niña dryness, Black Sea conflict, and inclement dryness in North America paint a decidedly bleak canvas for global corn supplies in the years ahead. CBOT Corn is rising to deter global feed demand just as much as it is to incentivize selling by reluctant farmers who will struggle to deliver supplies for a second consecutive year.

La Niña dryness is decimating crop production estimates across southern Brazil/Argentina, mainly for soybeans but increasingly for corn. With a mere 19% of the corn crop rated good-to-excellent, Argentina will likely register a sub-50m mt crop, vs. the USDA's 54m mt projection. Last month, the USDA also skimmed its 118m mt Brazilian corn projections, which were relied upon to relieve stressed US supplies (despite their arrival at the tail end of the season). Our longstanding skepticism of South American salvation was the key driver of our bullish forecast last year; however, the situation is worse than we feared. CONAB estimates 112m mt for Brazil, following deterioration of the domestic crop; however, the probable extension of La Niña into May implies downside to the safrinha crop as well. History suggests further southern Brazil La Niña dryness could cut production another 10m mt. Amid steady production cuts, high input costs, and soaring domestic prices

We expect CBOT Corn will rise to ration demand

	Unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Corn	USc/bu	536	659	560	559	630	655	640	635



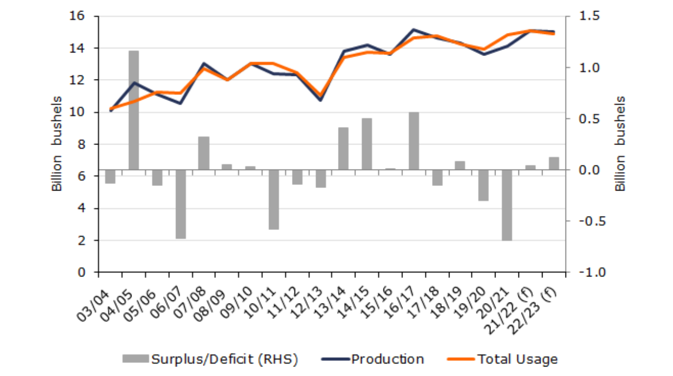
Source: Bloomberg Finance L.P., Rabobank 2022

(above USD 8/bu), farmers have proven loathed to sell safrinha. South American 2021/22 corn export estimates are cut 6m mt, or 7%, with likely downside ahead. The balance will be sought from the US and Ukraine, which each carry significant risks.

Ukraine already delivered a record 2021/22 corn harvest of 42m mt; however, Rabobank believes the export risk for Ukrainian corn, should Russia invade and occupy its Black Sea ports, is underestimated. As much as 15m mt of Ukrainian corn (7% of world trade) is still left to be exported this season, more than double the amount of wheat. War will disrupt Ukraine's supply chains in the short term and could complicate plantings in the spring; a terrible outcome for feed consumers.

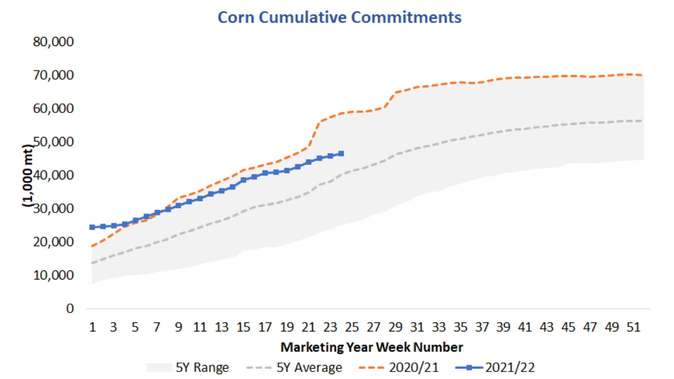
The US, the prime beneficiary of broad geopolitical and weather-based corn supply uncertainty, is experiencing strong demand outside of the typical export sales window. Export commitments are at 76%, 5% above the five-year average. CBOT Corn's bullish price risk is intensifying as consumers and speculators bid up US supplies. Global demand is flocking to the US, raising 2021/22 exports and cutting stocks towards last year's 1.24bn bu. A shift in the bullish dynamic can only occur through improved supply prospects, namely for safrinha or the US, which is seeing dryness across the plains and portions of the Midwest. The other option is if global demand growth, seen at 5% YOY, falters. Rabobank raises its forecast to USD 6.35/bu across the curve to reflect the likelihood of further supply risks and demand rationing.

US corn stocks will see virtually no recovery until 2023 amid strong demand and limited acreage



Source: USDA, Rabobank 2022

US sales commitments will rise further following production cuts in Argentina, Brazil and Ukraine execution doubts



Source: USDA, Rabobank 2022

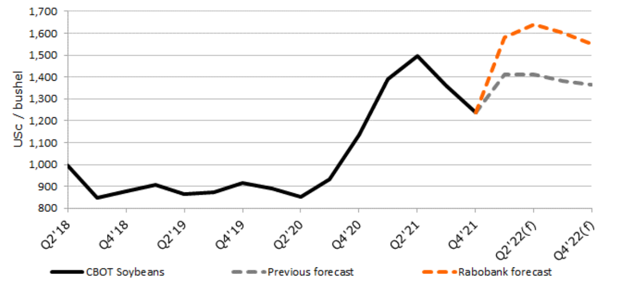
Soybeans

CBOT Soybeans eyes records as South American yield losses exceed all expectations

- Brazilian and Argentine farmers, in addition to inflationary pressures, now face La Niña-caused crop failure.
- US supplies are being called upon but are clearly insufficient to fill the capacity shortfall.
- Demand rationing appears inevitable; China crush margins have fallen, foreshadowing lower imports.

La Niña drought dashes hopes for soybean resupply

	Unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Soy	USc/bu	1388	1497	1361	1238	**1580**	**1640**	**1600**	**1550**



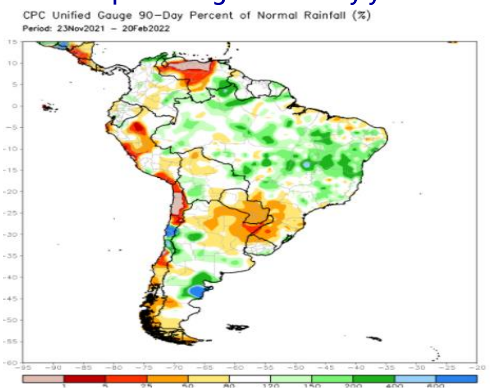
Source: Bloomberg Finance L.P., Rabobank 2022

La Niña, like Goldilocks, has overstayed her welcome in South America and is starving CBOT Soybean bears. A growing realization that South American soy production estimates have fallen by 30m mt in 2021/22, equivalent to one-third of global ending stocks, is sending shivers of fear down the spines of consumers and excitement down those of investors. The current forecast of rain for southern Brazil, Argentina, and Paraguay comes far too late to provide respite for the advancing harvests. Consumers and traders had long waited for lagging Brazilian soy sales to pick up; a 123m mt crop has crushed their hopes. Brazilian 2021/22 soy exports are seen closer to 76m mt, down 6m mt YOY. Argentina's c. 40m mt production, meanwhile, would imply a meager 35m mt crush (-13% YOY) for the world's largest exporter of soy by-products. Unusual Paraguayan soybean imports flow shows no South American producer has been spared by La Niña.

With 2022 South American soy expectations dashed, global demand is flying north and CBOT complex prices with it. The window for US export sales has reopened after a slow start. An unprecedented ~3m mt of soy sold just last week, much of it to China. US export commitments remain below last year's record, but 86% are now 4% ahead of the five-year average, likely requiring the USDA to raise its export target in the coming weeks. Low Chinese soy stocks and the unseasonable dearth of Brazilian soybeans have sparked upside for US supplies, but its capacity is limited: US 2021/22 carry-out is only pegged at ~8m mt, hardly enough to cover South America's shortfall. Strong US exports, crush margins, and output, reflected in the latest WASDE, will continue as Argentina's crush gap brings renewed interest for US soymeal and oil exports. Over the coming months, the US will mop up some of the excess global soy demand, with stocks-to-use likely finishing at the lowest level in 8 years.

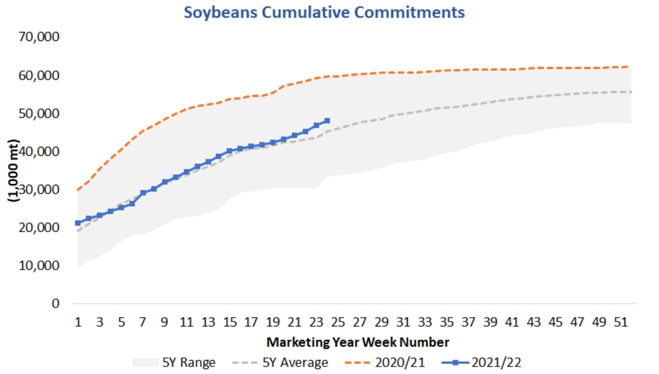
The takeaway message is that soy importers cannot find sufficient supplies and are rationing by necessity. Most notably, China's soy story has rapidly turned bearish, as low Brazilian supplies depress local animal protein producer margins and soy imports – the latter is now seen at 95.5m mt (-4.5m mt YOY, vs. the USDA's -3m mt expectation). Soaring feed prices carry significant potential for both herd and soymeal demand contraction. Rampant speculative appetite for CBOT Soybeans – a 208k lots net long position is the largest in about a year– further helped fuel CBOT Soy to contract highs of USD 16.50/bu last week (+16.3% MOM). The fund frenzy may moderate at these high levels as harvest accelerates and consumers balk at near-record prices. We do not expect prices to ebb significantly, as broad scarcity will take at least a year to address. There are also significant supply risks in the interim that could extend soy's woes: the US is experiencing drought in the High Plains (>25% of planted acreage, and shares a border with Canada's canola crop). Repressed soy consumers may recognize an enduring seller's market and see modest price breaks as buying opportunities; we raise our CBOT Soy forecast to USD 15.50/bu in Q4 2022.

Southern Brazil/Argentina have seen 50-80% of normal rainfall and are experiencing massive soy yield declines



Source: NOAA, Rabobank 2022

US Soy export commitments soar amid an unseasonable global demand shift from South to North America.



Source: USDA, Rabobank 2022

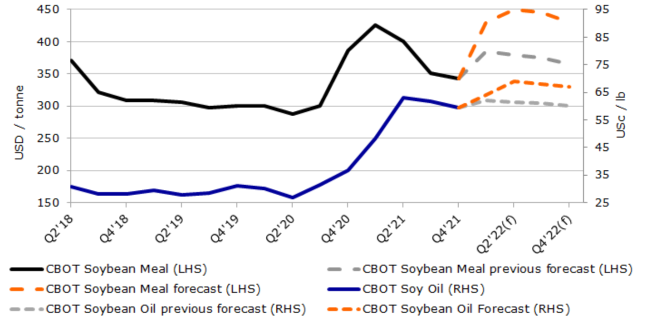
Soymeal and Soy Oil

CBOT Soy Oil and Soymeal are prime beneficiaries of the soy capacity hole in Argentina and Brazil.

- US crush margins are healthy, and output has improved.
- Argentina's potential harvest failure far outweighs China's lower soymeal demand outlook.
- CBOT Soy Oil is experiencing strong domestic and export demand amid the broader vegetable oil shortfall, but strong energy markets underpin its support.

High CBOT Soymeal and Oil prices could rise further

	Unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Soymeal	USD/ton	434	404	352	342	430	450	445	430
Soy Oil	USc/lb	45.9	63.2	61.8	59.5	64.0	69.0	68.0	67.0



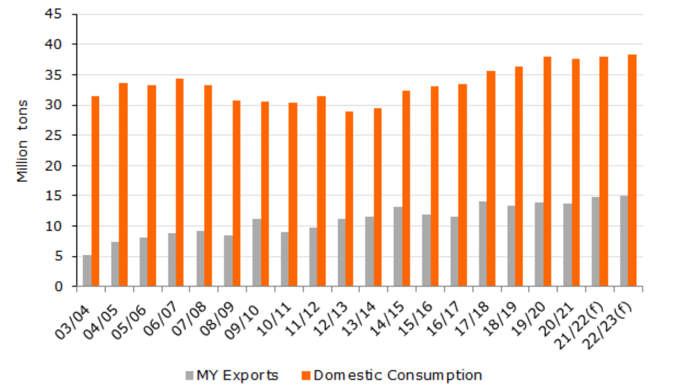
Source: Bloomberg Finance LP, Rabobank 2022

CBOT Soymeal bulls are the only ones being fed, as South America's woeful soy harvest raised the prospect of feed rationing in 2022 and beyond. Prices on the active contract rose 16% MOM, with global demand flying north in search of US soy satisfaction. CBOT Soy Oil similarly gained on the supply deterioration, which far outweighed constraints on US biofuels mandates. Argentina's incredible shrinking soy harvest (40m mt or less) has diminished its crush prospects by 13% YOY. The reverberations of its losses (Argentina is responsible for roughly 40% of global soymeal trade and 50% of soy oil trade) are made more acute by the inability of its principle competitor, Brazil, to rise up and relieve global demand. That is because of Brazil's own soy harvest woes (123m mt, -15m mt YOY). Strong crush margins may allow Brazil to hold domestic crush steady year on year (raw soy exports will struggle), but the US is already being called upon to plug the supply gap.

The strain on US capacity is apparent from CBOT price action, even before the extent of Argentina's crop losses are known. US crush margins and output are, like Brazil's, quite healthy. The USDA has in turn increased US 2021/22 crush projections to a new record of 2215m bu (+25m bu MOM and +3.5% YOY), and there's significant further upside to that figure. US 2021/22 soy oil sales commitments are 21% ahead of the five-year average. We have long called for a modest cut in US biofuels use, due to the lower EPA 2022 increase of 13.5% vs. the USDA's 24% increase in 2021/22 soy oil-based biofuels demand. Such a reduction would also follow similar moves in many other vegetable oil-producing countries who have introduced measures to avoid hurting consumers and cannibalizing food demand. However, the difference will most likely just shift demand to US exports rather than raising stockpiles. It will also only delay, not deny, the enduring shift to green energy and biofuels. Low supplies, alternative demand drivers, and strong Brent crude prices lead us to raise CBOT Soy Oil to USc 67/lb by Q4 2022.

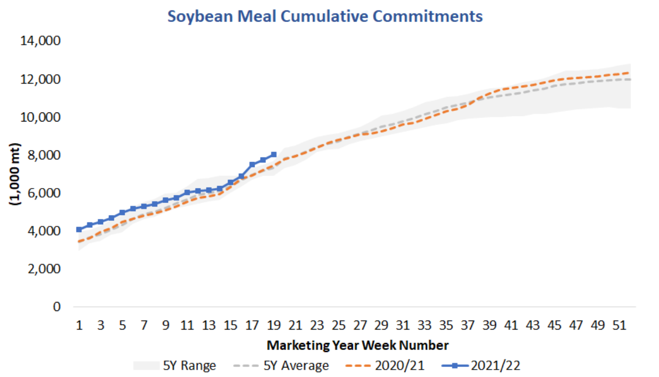
As La Niña rages, US 2021/22 soymeal export (+4.6% YOY) have gained strength. US Soymeal competitiveness recently led USDA to raise export projections by 400k tons. Export commitments are rising, and so is speculative interest – 106k lots net long, the largest in a year. Low US stockpiles of soy and feed grains underpin CBOT Soymeal above USD 425/mt over 2022. Our modest bullish outlook for CBOT Soymeal comes from our expectation that some rationing is already occurring and priced into the market. China's soymeal demand growth, once pegged at 4% in 2021/22, is rapidly eroding given the low Brazilian soy supplies and high resulting domestic prices that have squeezed animal protein producer margins. Indeed, although China is buying large quantities of US soy, we still expect its soy imports to decline by 4.5m mt YOY. There are no good alternatives for feed consumers, who face high feed grain prices; the opportunity for switching that we highlighted in the 2022 outlook appears to have passed.

US Soymeal use will see a sharp rise this year and next, thanks to recovered domestic demand and export interest.



Source: USDA, Rabobank 2022

US soymeal commitments are soaring high above the 5-year average thanks to Argentina's crop woes.



Source: USDA, Rabobank 2022

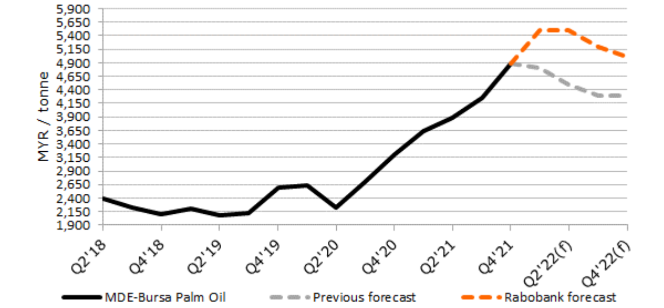
Palm Oil

Relatively low Malaysian palm oil inventories are supporting palm oil prices in Q1 2022

- Malaysia February 2022 palm oil inventories remain low.
- The Indian government's revision of palm oil import duties will benefit Malaysian palm oil exports.
- The La Niña will continue through Q2 2022.

We revise up our 2022 palm oil prices forecast

	Unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22(f)	Q2'22(f)	Q3'22(f)	Q4'22(f)
Palm Oil	MYR/tonne	3,634	3,892	4,246	4,807	5,500	5,500	5,200	5,000



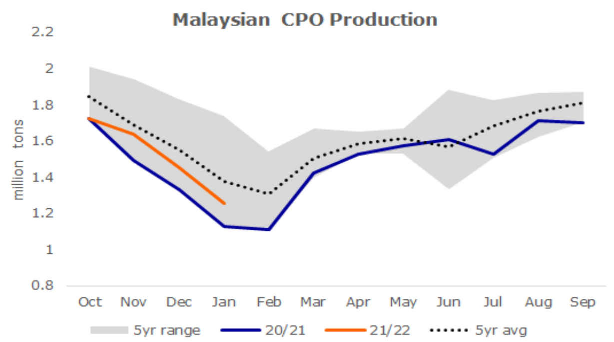
Source: Bloomberg Finance L.P., Rabobank 2022

Malaysian February 2022 palm oil inventories remain low. The MDE-Bursa Palm Oil active contract price continued its bullish run, to reach above MYR 5,900/mt in February 2022. The combination of Indonesian palm oil export restrictions, which were expanded to include all palm oil products, persistently low monthly Malaysian palm oil production, and volatility in the global vegetable oil complexes continues to support palm oil prices. According to the MPOB, Malaysian January 2022 palm oil production decreased by 13.5%, to 1.25m mt, as flooding hampered domestic harvests. Meanwhile, Malaysian January 2022 palm oil exports decreased by 18.7%, to 1.16m mt, as high palm oil prices continued to limit palm oil importers' purchasing power. As a result, Malaysian January 2022 palm oil inventories decreased by 3.9% MOM, to 1.55m mt. We expect Malaysian February 2022 palm oil production will improve month on month, but it will still remain low by historical standards. Meanwhile, Malaysian palm oil exports for the same month are expected to improve month on month. Importers increased their palm oil procurement from Malaysia in February 2022, after a slowdown in January 2022, due to uncertainties about when Indonesian palm oil exports will start to normalize. This will keep Malaysian palm oil inventories at a relatively low level in February 2022.

The Indian government's revision of palm oil import duties will benefit Malaysian palm oil exports. Indian vegetable oil importers had been buying more soft oils in recent months, as palm oil prices were less competitive. According to the Solvent Extractors' Association of India, during the November 2021-January 2022 period, Indian palm oil imports decreased from 2.17m mt (62% market share) in the November 2020-January 2021 period to 1.66m mt (46% market share of edible oil imports), while soft oil imports increased from 1.32m mt (38% market share) to 1.95m mt (54% market share). Meanwhile, due to persistently high vegetable oil prices, the Indian government reduced the import duty structure on CPO from 7.5% to 5% in February 2022. As a result, the import tax difference between CPO and refined palm oil increased to 8.25%, which will incentivize domestic edible oil refiners to import more CPO, especially from Malaysia. At the same time, the spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices widened to around USD 160/mt in late February 2022. This makes palm oil import prices relatively more attractive than soy oil import prices.

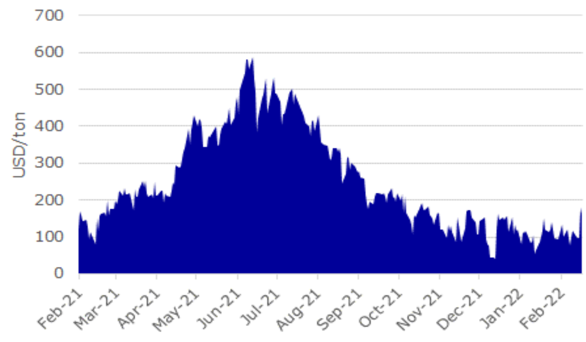
La Niña will continue through Q2 2022. In its February report, NOAA forecast that the La Niña weather phenomenon will continue through Q2 2022. This will translate into high precipitation in Southeast Asia in Q2 2022, which is beneficial during the seasonal palm oil production upcycle in Indonesia and Malaysia in Q2 2022.

Malaysian monthly palm oil production is expected to recover in February 2022



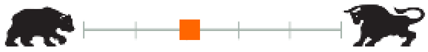
Source: MPOB, Rabobank 2022

The widening spread between soy oil and palm oil prices increases palm oil's attractiveness



Source: Bloomberg L.P., Rabobank 2022

Coffee



Widely different market views to result in volatility

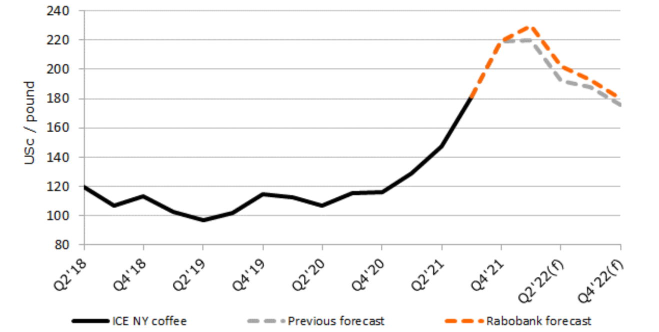
- ICE Arabica certified stocks dropped to just 1m bags by February 18, and will likely fall further. Non-certified stocks have not been falling as fast.
- Rainfall continued in Brazil's arabica areas, but the main impact is an increase in the potential for the 2023/24 crop.

ICE Arabica has traded in a wide range in February, reflecting widely different market views. On the one hand, focusing on the certified stocks would be very bullish, given how fast they have been dropping in the last three months. A lower level of certified stocks increases the likelihood of a price spike, and this has clearly attracted a lot of attention from funds going long on coffee futures. However, with an increasing number of shipments in bulk and Brazilian exports recovering quite a bit since December, logistical problems are probably not as acute anymore, and therefore the immediate market for certified stocks could be smaller than a quarter ago. The size of the exports could also lead to increases in the lowest end of 2021/22 production estimates out there, with a potential knock-on effect on 2022/23 numbers. Also, the heavy rains in Brazil are likely to increase the potential for 2023/24. Time will tell.

While the market structure continues to be in backwardation, a further depletion of certified stocks is likely, though the pace could slow down. In sharp contrast to this recent depletion of certified stocks, overall port inventories in the US dropped by less than 1% in January, to 5.8m bags. This is a very modest drop, and it does not take into account the increased flow of coffee on trucks inside the US and the likely consequent increase in working inventories.

Arabica forecast slightly increased but still bearish

	unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f
ICE Arabica	USc/lb	129	147	181	176	230	202	193	180
ICE Robusta	USD/mt	1372	1512	1911	2200	2140	1960	1940	1920

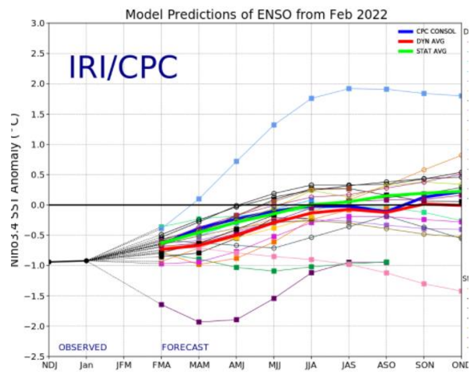


Source: Bloomberg Finance L.P., Rabobank 2022

Honduras up, Colombia down. So far this season, Honduras exports are still 10% higher YOY, while sales are running 27% higher YOY. Meanwhile, Colombia's January-registered production came in at only 0.87m bags, which is a 20% YOY drop. This leads us to estimate Colombian production at 12.8m bags for the 2021/22 season, but even that estimate assumes a good price-led recovery later in the season. Differentials remain firm, and there does not seem to be any coffee that could be hitting the terminal market any time soon, except maybe some regradings.

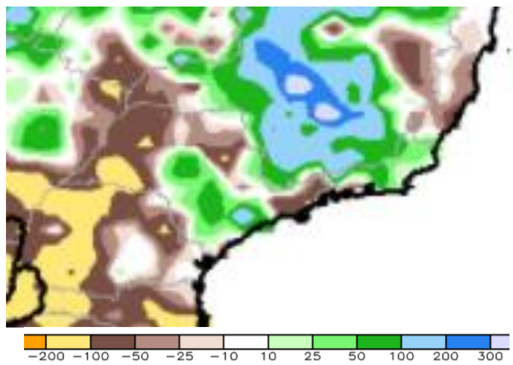
An art more than a science. Doing a robusta-only supply/demand is becoming increasingly difficult these days. Vietnamese FOB differentials have collapsed given the size of the crop and also possibly the difficulty in exporting what seems to be a record crop. Brazilian conillon differentials remain firm, but they will likely weaken given the crop is expected at record levels. Meanwhile, on the demand side, the shift in consumption towards robustas is still a big unknown. The shift at origin is clear, but in non-producing countries, we have yet to see the full extent of it. It will likely be a slow but steady process. And then there is the uncertainty as to what extent overall demand is being affected by high prices.

While La Niña is expected to go away in the northern spring, many models expect it to stay for the summer



Source: IRI, Rabobank 2022

South of Minas and parts of Cerrado continue to see heavy rains; 30-day rainfall anomaly (mm) to Feb 20:



Source: NOAA, Rabobank 2022

Sugar

ICE #11 Sugar prices treading water

- NY sugar futures are trading around USc 18/lb.
- Oil keeps rising, while the BRL has firmed significantly, local ethanol prices have declined, and Brasília discusses fuel taxes and pricing.
- Indian output is revised higher, while China is headed for a poor crop.
- Fund net long position continues to shrink.

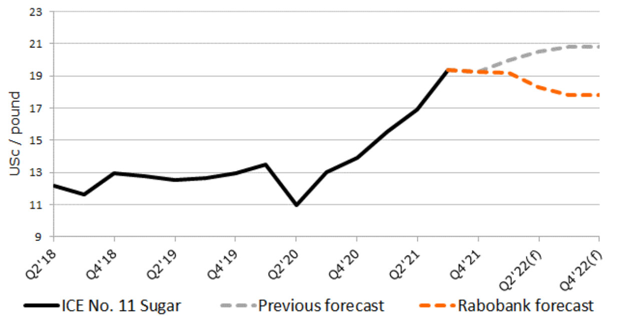
Treading water. NY futures have been trading sideways, around USc18/lb, in recent weeks. In the absence of major fundamental developments, attention continues to be focused on the weather in Center/South Brazil and its implications for the new harvest, and on the rising expectations for Indian sugar output – now in the 31m to 32m mt range – as the campaign progresses. Elsewhere, it appears that China may be headed for its lowest sugar output in the last five years; it is unclear whether any significant increase in imports will be required. Meanwhile, the funds continue to cut back their net long position.

Brazil – precipitation and politics. Rain in the Center/South's main cane-producing regions has been good but not great, with significant regional variations. For the moment, the consensus appears to be that the cane crop should recover to 550m to 560m mt in the new season. Meanwhile, in Brasília, several plans to address the current high price of fuel are circulating, all involving some sort of tax reduction at the federal or state level. To date, there is little clarity on whether gasoline and ethanol will be included or excluded from whatever initiative finally emerges or on what the impact on ethanol's pricing and competitiveness might be. It's clear that major tax reductions would undermine already fragile public finances, but the BRL/USD exchange rate has actually boomed this month as a result of strong capital inflows. How long this lasts is open to question, but for now it has given Brazilian mills another reason (apart from uncertainty regarding output) to pause their sugar hedging for 2022. Finally, local ethanol prices have declined significantly in recent weeks after consumers switched to gasoline.

India revised higher. Expectations for Indian sugar output this season have moved upwards into the 31m to 32m mt range. With export subsidies discontinued, the issue for the world market is whether this automatically translates into an increase in Indian exports this year. If higher output creates downward pressure on local prices, then (all else being equal) it should act to lower the world price to or above that which Indian mills are prepared to export. This is significant, as India's perceived export threshold is widely seen as the upper limit of the likely price band for world sugar prices in 2022, with ethanol parity in Brazil (currently clouded by volatility in oil and the BRL and by local fuel price politics) representing the lower limit. With the latest developments, this price band looks to have slipped, at least temporarily, from USc 18 to USc 20/lb down to USc 17 to USc19/lb.

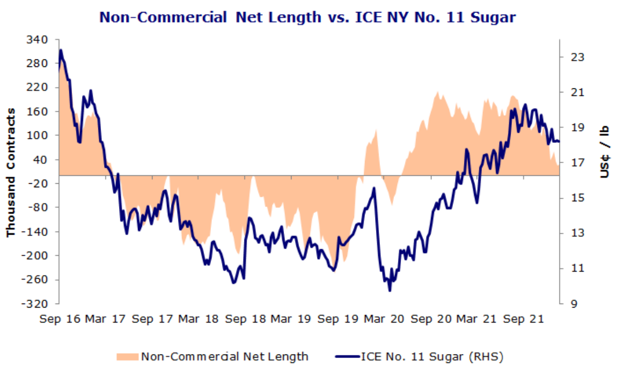
ICE #11 Sugar price forecast neutral to marginally bearish

	Unit	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22f	Q2,22f	Q3,22f	Q4,22f
Sugar	USc/lb	15.5	16.9	19.3	19.3z	19.2	18.3	17.8	17.8



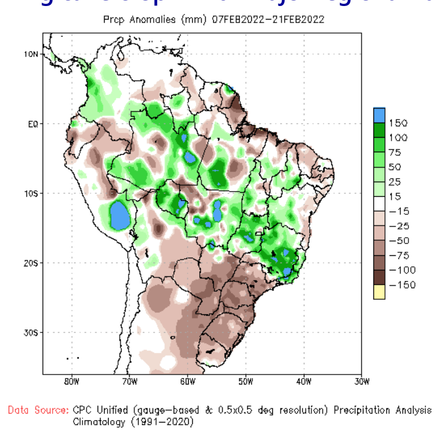
Source: Bloomberg Finance LP, Rabobank 2022

Non-Commercials cut back their net long position in ICE #11 Raw Sugar amid strong global crop prospects



Source: CFTC, Bloomberg Finance L.P., Rabobank 2022

Rains across Brazil's CS have been good, but not great, for the upcoming cane crop – with major regional variations



Source: NOAA, CPC 2022

Dairy

Global milk supply growth dipped into negative territory in Q3 2021 and will remain low in 1H 2022

- New Zealand milk production was down sharply by 5% in December and is likely to continue negative year-on-year growth through the remainder of the season.
- Milk prices are rising with global dairy commodities, but limits on near-term production growth remain.
- China's imports posted strong growth in 2021, but that growth rate slowed in 2H and will remain low in 2022.

Global milk supply growth turned negative in 2H 2021 among the major exporting regions, and markets will remain tight through mid-year, with the weather being a critical determinate for milk production growth. High global dairy commodity and milk prices, which generally trigger a supply response, will be muted by rising feed costs, and cost inflation deters expansion plans. At the same time, logistics and Covid-related staffing challenges at manufacturing plants limit processors' ability to take on additional milk.

New Zealand milk production dropped sharply by 5% YOY in December amid wet weather. January had exceptionally hot temperatures with minimal rain, and was followed by a wet February, improving pasture conditions. It still won't make up for lost production. Milk collections from March to May 2021 reflected strong year-on-year gains and will be challenging to match in 2022.

Global commodity prices are at the highest levels since 2014. The Global Dairy Trade index rose 4.2% as of the most recent event on February 22. Prices climbed for all products compared with the previous auction: SMP rose by 6%, butter was 5.1% higher, Cheddar was up 3.5%, and WMP increased by 4.2%.

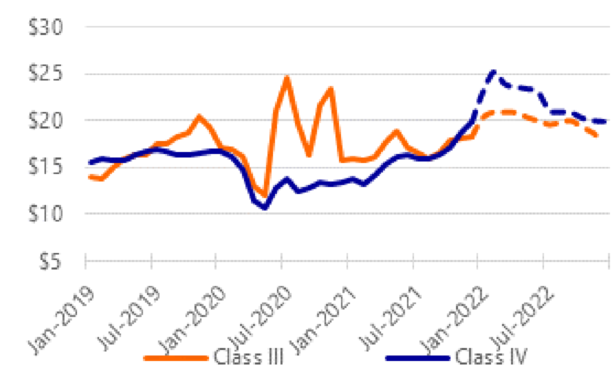
Chinese import demand showed strong growth in 2021, though that strength slowed in the second half of the year. Dairy exports to China were up by nearly 24% YOY in 2021. Since September, however, imports trailed the prior year by 3.3%. China's import growth rate could slow into 2022 if prices remain high and domestic stocks remain ample.

In the US, year-on-year milk production growth turned negative in November and December, down 0.4% and 0.1%, respectively. Rising milk prices are stimulating milk production per cow, but the US milk cow herd will remain below year-ago levels until the second half of 2022. The US milk cow herd stood at 9.375m head as of January 1, 2022, down 67,400 from January 1, 2021, and 132,000 head less than 2021's peak of 9.507m head in May. As a result, milk production growth will rely on milk yield improvement in the near term. Inflationary cost pressures and expansion restrictions will likely keep any major expansions muted for now.

Strength in the butter and powder markets should keep the Class IV (butter/powder) milk price above the Class III (cheese/whey) milk price across 2022 in the US. Butter and nonfat dry milk prices have soared higher, driven by strong export demand in 2021 and declining year-on-year production and stocks. Cream availability has improved, and butter churning is seasonally active. Higher output is expected to be met with improved foodservice demand in the wake of Omicron.

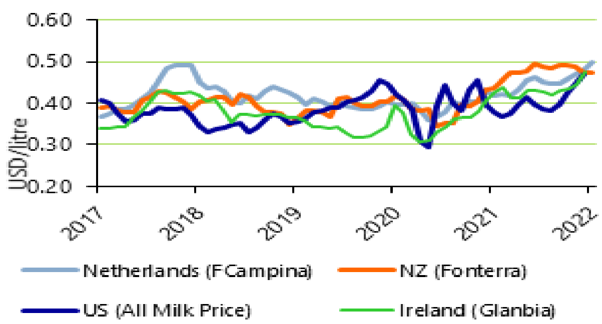
End users should prepare for ongoing elevated prices compared to recent norms. Sustained periods of lower prices in recent years (2015-2019) were influenced by the removal of the EU milk quotas and heavy inventories overhanging markets. However, today, low inventories and milk supply growth limitations will direct marginal milk supplies to the highest-valued dairy product.

Non Class III and Class IV milk prices, historical and forecast.



Source: Bloomberg Finance L.P., Rabobank 2022

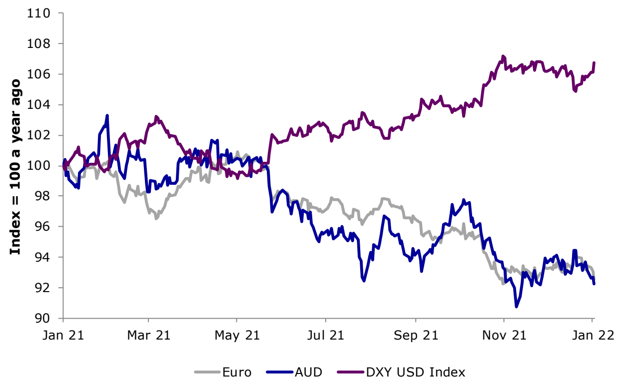
Farmgate Milk Prices

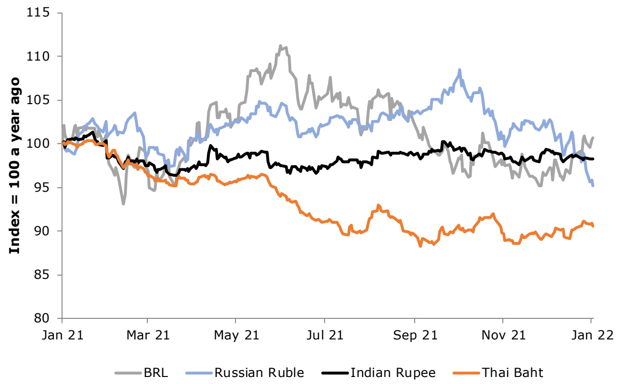


Source: Bloomberg Finance L.P., Rabobank 2022

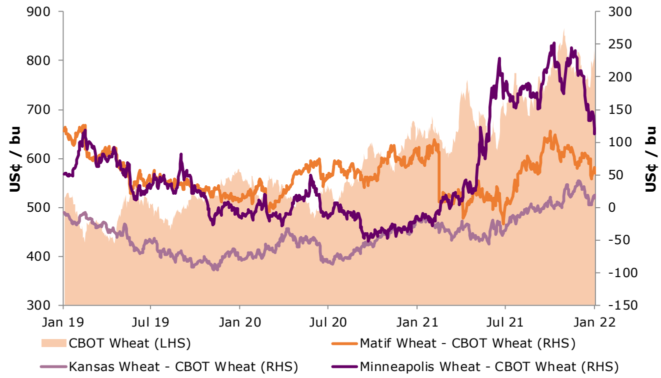
Agri Charts

Global Currencies USD Cross

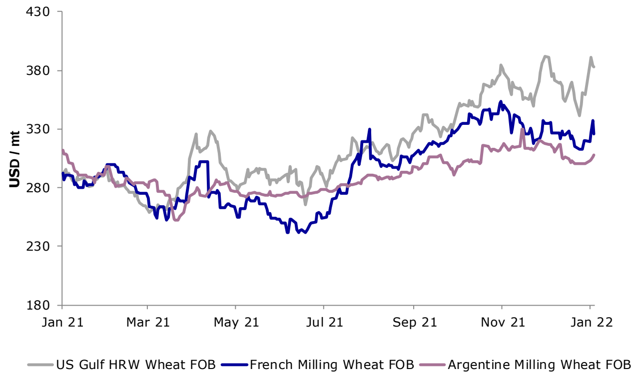




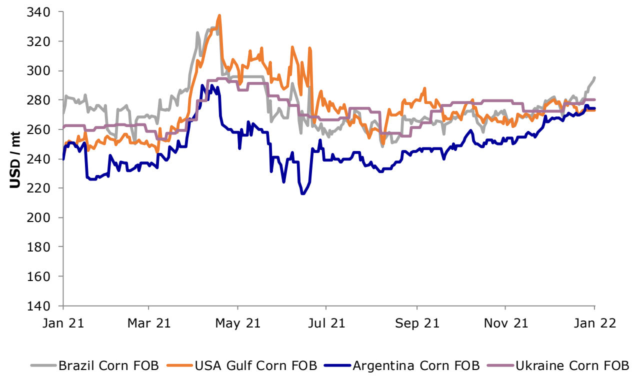
CBOT Wheat Spreads



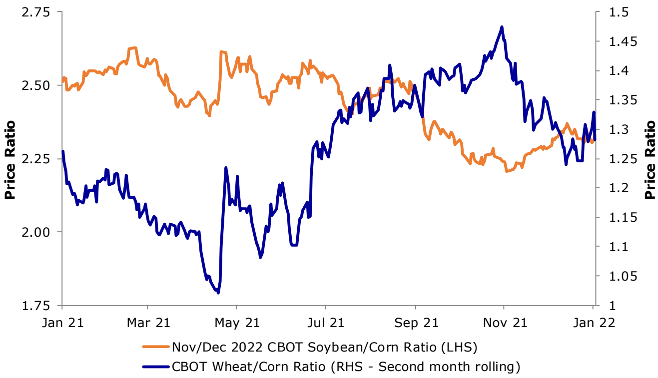
Wheat Protein FOB Prices



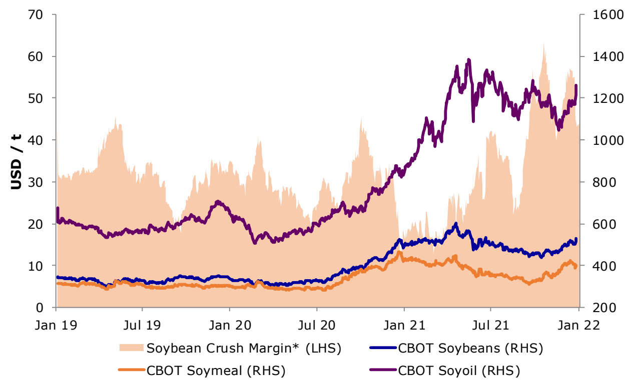
Corn FOB Prices



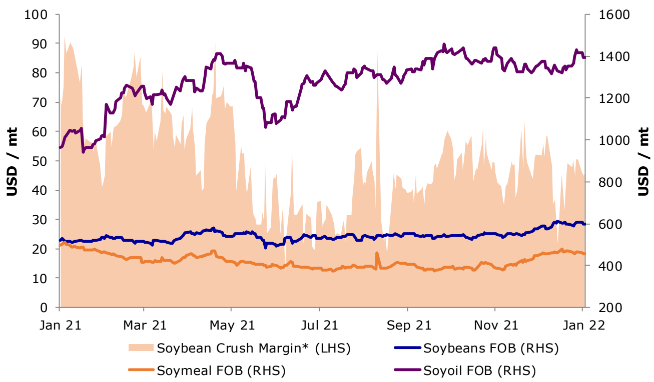
CBOT Ratios



CBOT Soybean Crush Margin



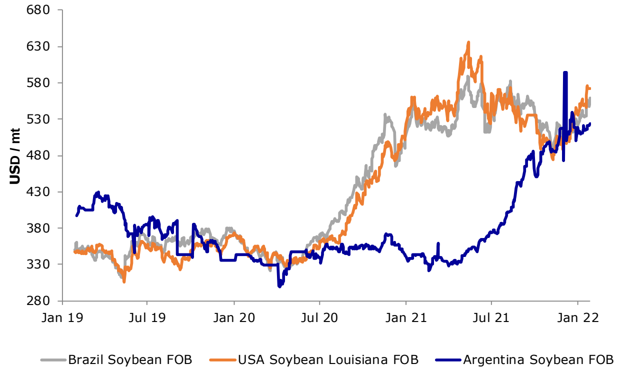
Argentina FOB Soybean Crush Margin



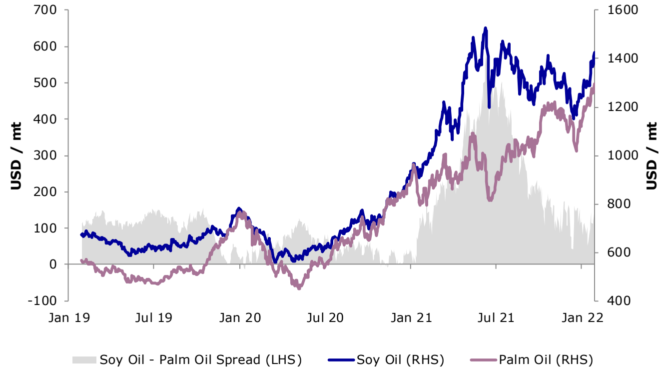
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

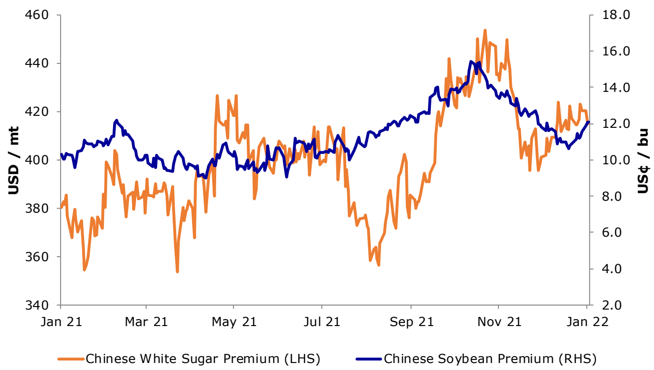
Soybean FOB Prices



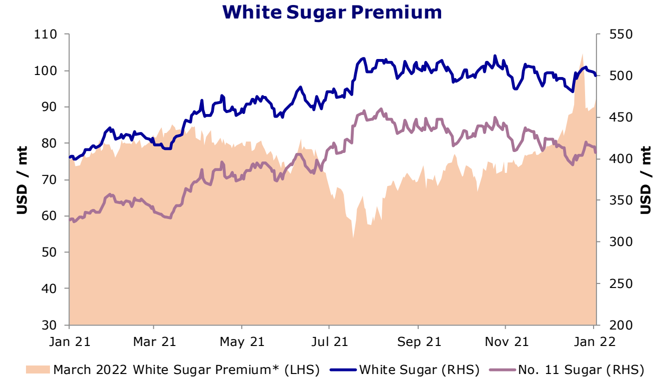
Palm Oil - Soy Oil Spread



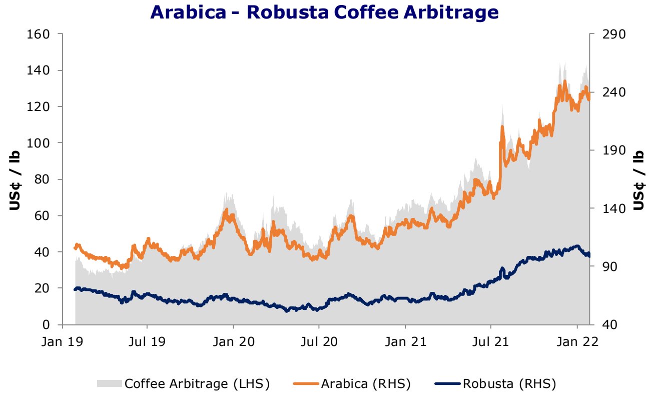
Chinese Futures Premiums



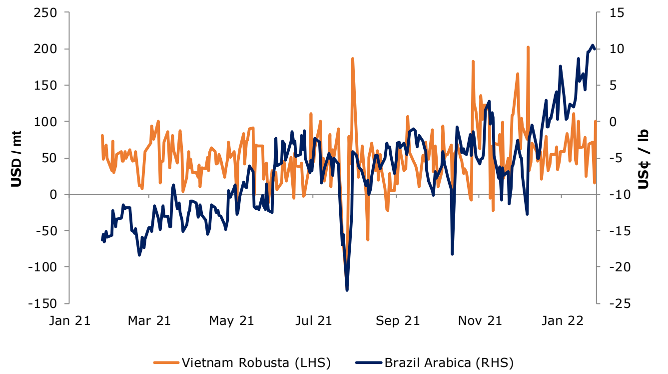
White Sugar Premium



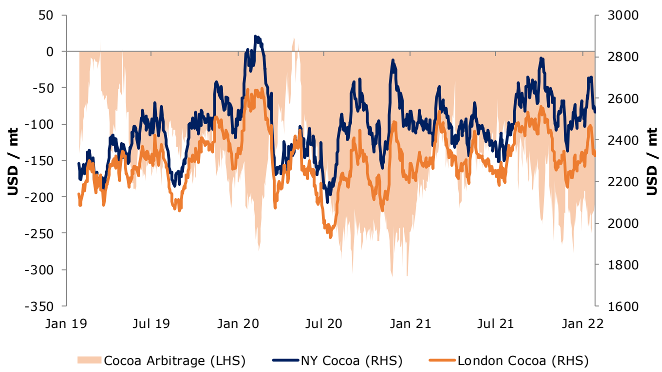
Arabica - Robusta Coffee Arbitrage



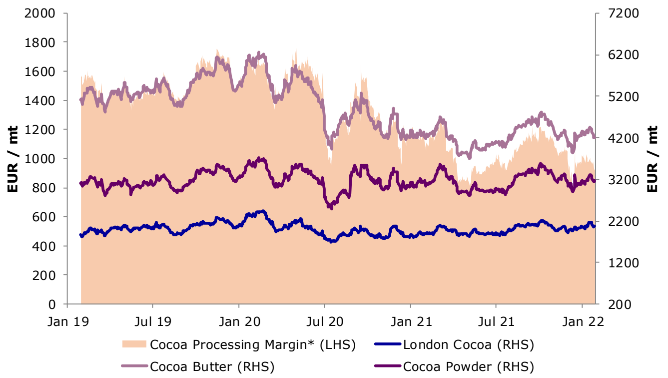
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2022 *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

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