Rabobank

Agri Commodity Markets Research

July 2022: Hot Corridor

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The S&P GSCI Agriculture Index has lost 6% so far in July, a move primarily driven by lower new season corn prices and lower vegetable oil prices. This contrasts to the extreme heat in the US, which threatens corn, soy and spring wheat yields. EU spring crops are also suffering. Meanwhile, uncertainty about the Ukrainian grain export corridor remains, but if it materializes – and combines with high Russian exports – we could see a further dip in the wheat market. However, a big drop in Ukrainian winter wheat plantings is expected that will support the market later on in the year, deal or no deal.

WHEAT

CBOT and Matif futures declined amid the signing of an export corridor deal, strong Russian yields and weak macros

- EU and US crops are lackluster, but strong Russian yields look set to relieve market tightness
- USDA's latest crop condition report showed a deteriorating US spring wheat crop

CORN

CBOT Corn buyers feed in wake of a fund sell-off

- Ukraine's potential Black Sea access, a strong USD, and economic headwinds have led to speculative capitulation
- Low exporter supplies, renewed consumer demand justify a price risk premium for CBOT Corn

SOY COMPLEX

CBOT Soy retains a risk premium despite sluggish economic activity and a 2022/23 planting edge

- China's soybean imports and meal usage are expected to rebound in 2022/23 on better margins
- US soy supply issues, lower prices negate weak export demand for byproducts

PALM OIL

MDE-Bursa Palm Oil continued its downward trajectory as Indonesia increase export quota

- Malaysian July 2022 palm oil inventories will be higher year-on-year
- Palm oil export demand is expected to increase quarter-on-quarter in Q3 2022

SUGAR

Sugar prices continued their downward trend in July, falling almost 7%.

- India's production outlook appears stronger than initially expected
- EU beet output is likely to see further yield reductions, based on the adverse weather so far this season

COFFEE

ICE Arabica lost 6% so far in July as Brazilian harvest marches on

- Certified arabica stocks in ICE warehouses fall to their lowest level since 1999
- The macro picture is bearish: recession fears, fund selling, and a strengthening dollar

DAIRY

Milk The July 19 Global Dairy Trade Price Index dropped 5%

- EU dairy prices remain disconnected from global markets
- US milk production rose marginally year-on-year in June

Wheat

CBOT and Matif futures declined amid the signing of an export corridor deal, strong Russian yields, and weak macros, triggering fund selling.

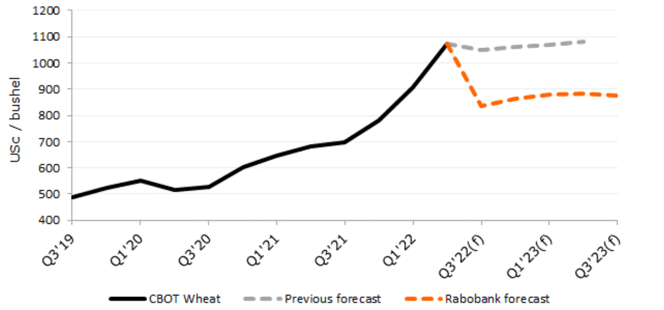
- Diplomacy progressed last week, as the UN, Ukraine, Russia, and Turkey signed an agreement on a Black Sea corridor for Ukrainian exports.
- Poor EU and US winter wheat crop conditions pose a risk to global output. However, Russian yields should ease supply pressure.

Talks about an export corridor for Ukrainian grain progressed last week, as the UN, Ukraine, Russia, and Turkey signed a deal. The deal should enable exports of grains and oilseeds from Ukraine's main western ports and is valid for 120 days. CBOT and Matif fluctuated relatively little in the buildup and following the announcement, as market participants tried to make sense of the deal. Russia attacking Odessa (one of the ports included in the ceasefire agreement) within days of signing the deal created further confusion and uncertainty about the deal's validity. Military action so soon after the agreement's confirmation calls into question, firstly, whether Russia will hold up its side of the deal, and secondly, whether insurers and vessels would want to be involved amid the ever present threat of attacks. The USDA's May WASDE report pegged Ukrainian 2022/23 wheat exports at 10m mt in response to the invasion (and have maintained this forecast throughout the war). This number still appears optimistic even in the presence of a working corridor if we assume no exports from the occupied areas of Ukraine. Even if Black Sea port exports materialize, we will still see a large drop in winter wheat plantings in September and October, supporting the market in the longer term.

EU and US crops are lackluster, but strong Russian yields look set to relieve market tightness. The USDA's latest crop condition report showed a deteriorating US spring wheat crop,

Price forecast slightly bullish, as fund selling seems overdone

	unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
CBOT	USc/bu	781	905	1073	835	865	880	885	875
Matif	EUR/mt	284	311	410	352	345	342	320	310

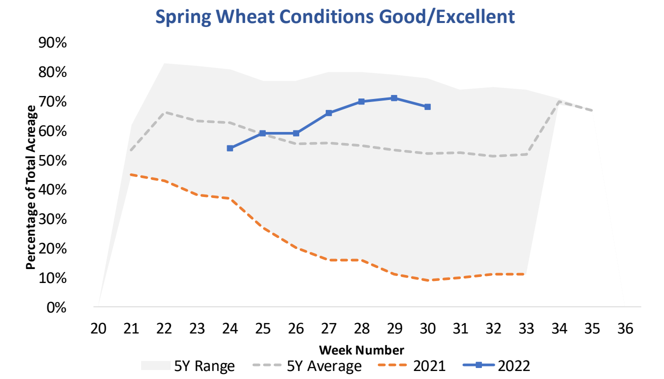


Source: Bloomberg Finance L.P., Rabobank 2022

as ratings slipped from 71% the week prior to 68% due to excessive heat stressing the crop. Meanwhile, the EU crop has been subject to many yield cuts due to adverse weather. On the positive side, the latest dry spell has helped the French soft wheat harvest progress rapidly, moving from 50% the week prior to 84% as of July 18.

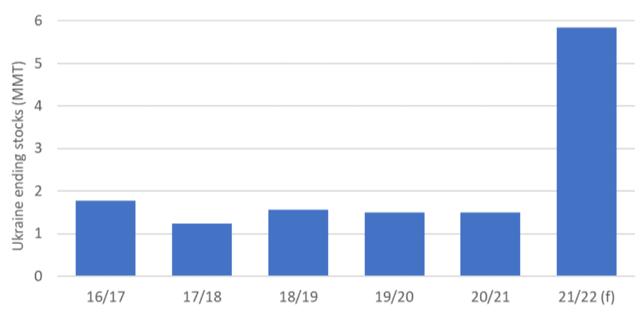
Of course, these concerns are dwarfed by the issues in Ukraine. Brave farmers are getting into the fields, and the crop is now estimated to be 25% harvested, with initial harvested yields falling by 26% YOY (though expected to improve a little later on). There is hope that a bumper Russian crop will calm the market amid lower yields elsewhere. However, due to rain over the past week, harvest has slowed, and quality issues are emerging. Nonetheless, initial yields look strong and we are likely heading for a record Russian crop north of 85m mt (let's note that some higher private estimates might include the wheat in occupied Ukraine). So far in July, Russian exports have been strong, with over 1m mt leaving ports in the first 21 days, vs. 0.9m during the same period last year. The market still needs to see if Russia will manage to maximize exports at the usual peak (August and September) and whether it will succeed in attracting larger vessels to supply far-away markets. However, any successful corridor or increase in Russian exports is likely to be quickly overshadowed by a disastrous winter wheat planting season in Ukraine. Because of this and the fact that funds look oversold, we maintain a mildly bullish forecast.

US Spring wheat conditions deteriorate (from a high level) amid searing heat across the Northern Plains



Source: USDA, Rabobank 2022

Ukrainian wheat stocks are ready to be shipped, with further supply looming as harvest progresses (25% complete)



Source: USDA, Rabobank 2022

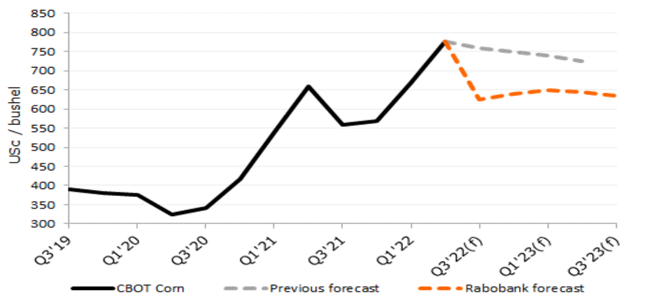
Corn

CBOT Corn buyers feed in the wake of a fund sell-off

- Ukraine's potential Black Sea access, a strong USD, and economic headwinds have led to speculative capitulation.
- CBOT Corn has trended lower on demand cuts in ethanol and feed – bringing renewed appetite and equilibrium.
- South American, US, and EU 2022/23 corn crops face drought risks with reserves below the 10-year average.

CBOT Corn pushes consumers to their limits

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Corn	USc/bu	567	670	777	625	640	650	645	635



Source: Bloomberg Finance L.P., Rabobank 2022

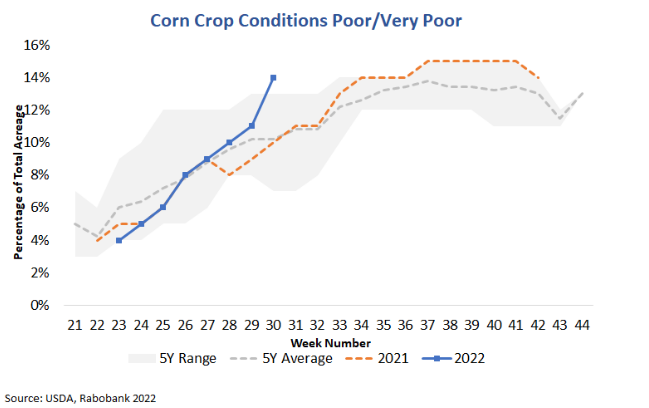
CBOT Corn's fall from grace accelerated last month, down USD 0.5/bu, to USD 6.15/bu. We've recently tamed our bullishness significantly on expectations that economic malaise and declining feed demand would solve surging supply-side inflation. In July, recessionary headwinds intensified and accelerated more than expected. Inflation continues to rise, central banks are hiking rates to control it, and consumers are shifting their habits in response. While near-record CBOT Corn priced in a ten-year high USD stifles demand, consumer appetite will return with the 20% pullback. Moreover, salient exporter supply risks encourage us to project prices near USD 6.40/bu into Q3 2023, a healthy premium vs. the futures curve.

The prospect of a greater Odessa export corridor that could release 12m mt of trapped corn has tipped nervous funds into full-scale flight. Non-commercials liquidated 90% of their net length before a ton left Ukrainian shores. Amid the break, buyers have scaled in and farmers have withdrawn, leaving commercial positioning near a two-year high. Any resumption of corn exports would be beneficial for EU and Chinese buyers and, more importantly, prevent lasting scarring of Ukrainian farmer economics. However, we are skeptical of an enduring resolution. Beyond the deal's limitations (and there are many), any disruption – like the recent rockets into Odessa port – could lead to skyrocketing prices.

Until last month, downstream consumers faced two years of nearly uninterrupted cost increases that pressured margins, limited supply growth, and helped push animal protein and dairy prices near records in June (according to the FAO). Record poultry prices are particularly concerning. Among the lowest feed intensity proteins, poultry's inflation suggests there are very few places for consumers to find relief. Inflation is hitting China's pork market too (+2.9% last month), and its shrinking hog herd (H1 2022 -1.9% YOY) is dampening feed usage. The elusiveness of a supply-side solution means world corn demand will shrink for the first time in a decade. Corn's demand risks aren't just in feed. Even ethanol – typically stable – is on shaky foundations as drivers forgo expensive gasoline: AAA recently showed weekly US gas usage down ~8% YOY and unchanged from the lockdown summer of 2022. In line with our view for corn, the 15% cut in gas prices will probably renew demand support – witness weekly ethanol production's sharp rise last week after four consecutive declines.

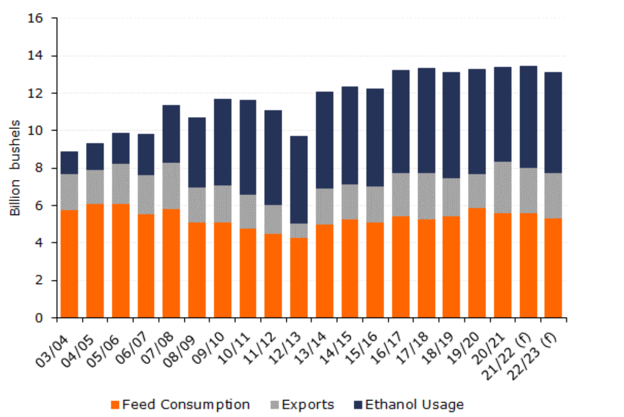
Low exporter supplies justify a price risk premium for CBOT Corn. Already, 14% of US corn is in poor-very poor condition, the most in nine years, and that figure will rise with next week's mid-pollination heat wave. We've shaved 2022/23 US yields down to 174 bu/acre, vs. the USDA's 177; a 2.2% demand cut limits the stocks/usage decline to 8.5%. The EU is similarly afflicted by heat. We caution clients against putting their hopes for USD 5/bu CBOT Corn on Ukraine exports or even on Argentina and Brazil, whose 2022/23 production is far from assured with summer La Niña odds at 66%, per NOAA.

US corn poor-very poor conditions are soaring as searing heat hits the crop during yield-determining pollination



Source: USDA, Rabobank 2022

US 2022/23 corn exports, feed and exports look to weaken on inflation concerns, offsetting lower production



Source: USDA, Rabobank 2022

Soybeans

CBOT Soy retains a risk premium despite sluggish economic activity and a 2022/23 planting edge

- Global recession fears and central bank policy buffet US soy and its byproducts with demand headwinds.
- Brazilian farmers benefit from a surging USD and fertilizer availability, with hopes to plant about 4% more in 2022/23 to meet a Chinese soy import recovery.
- US 2022/23 soy output has been cut by 3% amid the pullback, justifying some risk premium.

CBOT Soy's decline from record levels continued last month, falling as much as 12% to USD 13.00/bu before settling at USD 14.20/bu on rapidly deteriorating US production prospects and more palatable prices. Last month we flagged headwinds from recession fears for CBOT Soy, and these have rapidly materialized with interest rate rises, a ten-year high USD, and adverse consumer reactions to surging animal protein and energy costs that threaten soymeal and oil demand. Indeed, a giant chorus of concern is being echoed in expectations of US soy demand remaining flat for a second consecutive year. US 2022/23 exports and crush expectations have become increasingly pessimistic in the last month (with 85m bu cut by WASDE in June), reversing a strong start to the year and muting a 2.7m acre downward revision to fertilizer cost-advantaged US 2022/23 soy plantings.

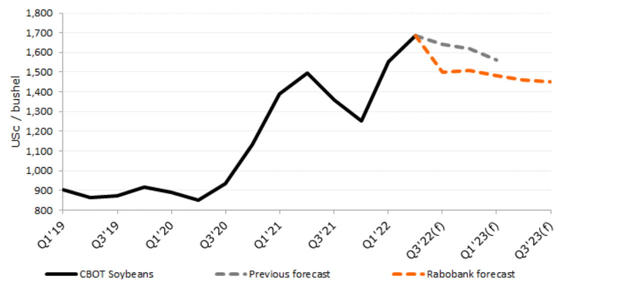
The USDA's US 2021/22 230m bu carry-out represents an insignificant 15m bu rise above last year's six-year low. The absurdly small figure should not imply a hard landing for prices; indeed, CBOT Soy's fall has been far softer than wheat or corn, which also face greater exposure from the Ukraine export question. CBOT Soy's weaker correction (the soy/corn ratio has nearly normalized) and deteriorating demand outlook, especially from China (60% of global imports) do not leave us particularly bullish. Still, the low US reserves, recent record northern hemisphere temperatures, and the return of some price-sensitive demand make CBOT Soy vulnerable to a late-summer rally. Currently, 11% of the US 2022/23 soy crop is rated poor or very poor, and this will increase with the hot, dry outlook. Missouri, Kansas, and Tennessee, which account for only 14% of the national soy acreage but nearly half of its annual growth, have between 20%-30% of their crop in poor-very poor condition. US 2022/23 yields are seen at 51 bu/acre, (below the USDA's 51.5), leaving stocks just below 200m bu.

China's Q3 2022 soybean imports are expected to stay low, perhaps 21m mt (out of 90m mt in 2021/22, itself down ~10% YOY) as it contends with a lower hog herd and soaring pork inflation. Expectations of China enjoying a strong soy import rebound in 2022/23 are being heavily scaled back. The USDA cut its projection to 98m mt last month, and Rabobank sees the recovery closer to 95m mt, in part due to better farmer livestock margins and soymeal inclusion. The lack of a Chinese demand catalyst amid wider economic contraction and prospects of a bumper Brazilian crop in early 2023 are expected to drive CBOT Soy down to USD 14.50/bu by Q3 2023, implying a healthy premium above the curve.

The US soy harvest is in focus, but soy buyers are eyeing well-capitalized Brazilian farmers' intent to plant 4% more soy in hopes of a normalized +150m mt crop. Certainly fertilizer inputs like potash have not been lacking, and a weak BRL encourages forward sales– but we ask reminder to soy buyers to be wary of a Brazilian relief narrative that is both familiar and prone to disappointment: 2021/22 production was cut 15m mt YOY by La Niña; the likelihood of its return within three months' time is pegged at 66% by NOAA.

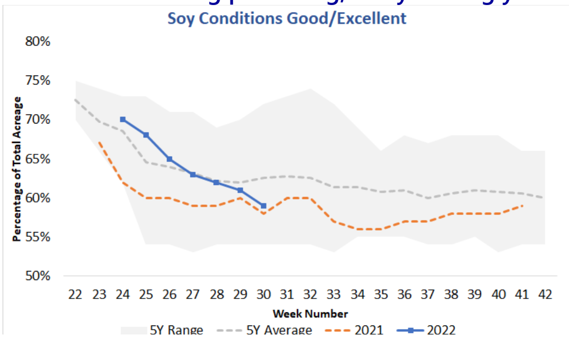
US soy supply issues, lower prices negate weak demand

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soy	USc/bu	1238	1580	1692	1500	1510	1480	1460	1450



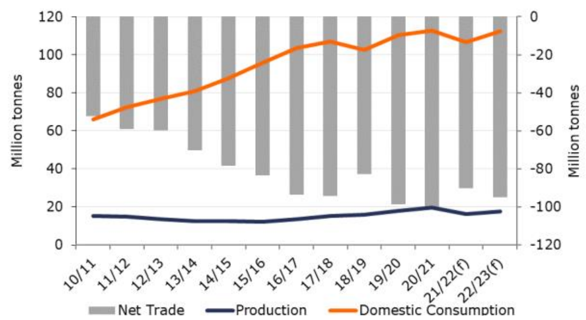
Source: Bloomberg Finance L.P., Rabobank 2022

US soy crop conditions have fallen from intense heat that will resume next week during pod filling, likely hurting yields



Source: USDA, Rabobank 2022

Falling expectations for Chinese soy imports lead CBOT Soy lower, but low exporter reserves prevent a hard landing



Source: USDA, Rabobank 2022

Soymeal and Soy Oil

Low US soy supplies and improved margins inure CBOT Soy byproducts from consumer uncertainty

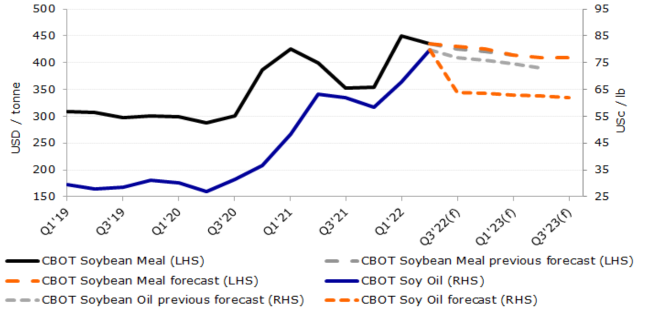
- CBOT Soy Oil has experienced recession-related demand weakness and greater competition, but price correction has brought back buyers.
- US crush margins are near contract highs on deteriorating US supplies and could prelude better meal demand.
- CBOT Soymeal price hangs on US and Brazilian production.

A global cacophony of economic alarms last month drove fear into consumers and vegetable oil markets off their record run. A surging USD (+2.4% MOM, near ten-year highs), collapsing Brent (-8% MOM), and optimism for palm oil from Indonesia and sunflower oil from Ukraine tipped CBOT Soy Oil to six-month lows of USc 56/lb, before rebounding to USc 60/lb (-11% MOM). US soy oil was increasingly uncompetitive in the export market, particularly vs. palm oil, with its premium nearing USD 500/mt earlier this month, more than twice the yearly average. US 2021/22 export sales have virtually flatlined in recent months, with commitments running at a paltry 85% of USDA projections vs. 99% normally. Global soy oil import demand fell 2.2% this year after China halved its import program to 0.6m mt. With palm oil relatively cheap (and foodservice still under strain), there are doubts about the USDA's expectations for a China-led import rebound in 2022/23. There are even signs that US domestic demand in 2022/23 is on shaky ground, not in biodiesel (expected to rise 12% YOY to 44% of total use) but in food use (seen down 3.4% YOY, per the USDA). Growing competition and demand headwinds are expected to keep CBOT Soy Oil from returning to previous highs, but the recent shakeout and a deteriorating US soy crop will encourage buyers back. Rabobank reduces its bullish forecast 10-12/lb along the curve to 64/lb in Q3 2023.

Brazil's diminished 2021/22 crop (>-10% YOY) was no impediment to higher crush (+6% YOY), as poor Chinese demand and high margins divert soy to domestic industries.

CBOT Soy Oil, Meal prices supported for different reasons

	Unit	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soymeal	USD/ton	354	449	436	430	425	415	410	410
Soy Oil	USc/lb	58.4	67.8	79.7	64.0	63.5	63.0	62.5	62.0

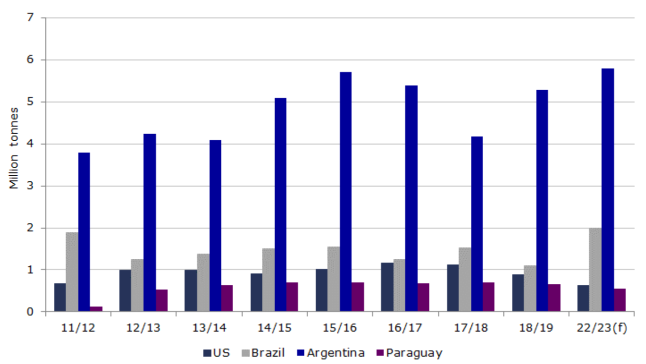


Source: Bloomberg Finance LP, Rabobank 2022

Argentina's lost season in particular was Brazil's gain; the latter's soymeal and oil exports rose 12% and +60% YOY, respectively. If Argentina's crush industry is made increasingly uncompetitive (with tax rises, etc.), that could continue favor Brazil, especially in soy oil exports. In Europe, meanwhile, plans for an export corridor for Ukraine (60% of global sunflower oil exports) could release supply-side pressure on the EU rapeseed market, the alternative ingredient of choice. The scarcity and price pressure have been such that historically stalwart biodiesel proponents like Germany have begun considering downward revisions to biodiesel targets.

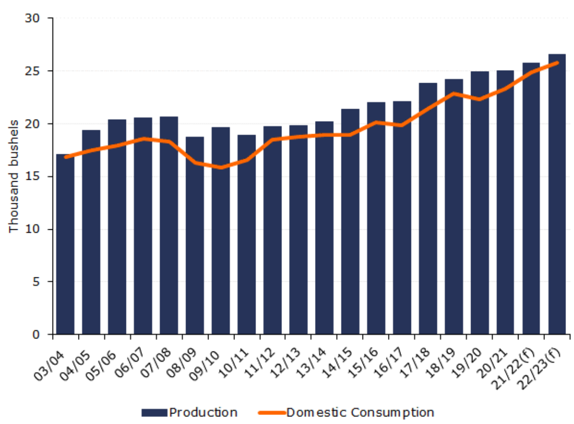
China's poor hog margins and herd contraction weakened soybean imports (down 10% in 2021/22), and while livestock margins have improved, economic pressures resulting from zero-Covid policies may impede a strong return to growth. That said, recent pullbacks in soybean and soymeal prices, in addition to surging pork prices, will encourage a positive shift in demand and feed rations in favor of soybeans and meal. We have long called for pendulum-like price support for CBOT Soymeal (+3% MOM) and maintain that view, as buyers find feed grains to be in real scarcity. Active US crush margins are trading above USc 170/bu, a very healthy level that reflects a weakening 2022/23 US soy supply outlook and modest global soymeal demand growth after years of stagnancy. We leave our call from last month on CBOT Soymeal practically unchanged – with contracts trading above USD 410/mt into mid- to late 2023.

Brazil steps up soy oil exports as the US recedes into biodiesel and Argentina shows little improvement



Source: USDA, Rabobank 2022

US Soy Oil is increasingly being used for domestic biodiesel, with exports (and even domestic food) the casualties!



Source: USDA, Rabobank 2022

Palm Oil

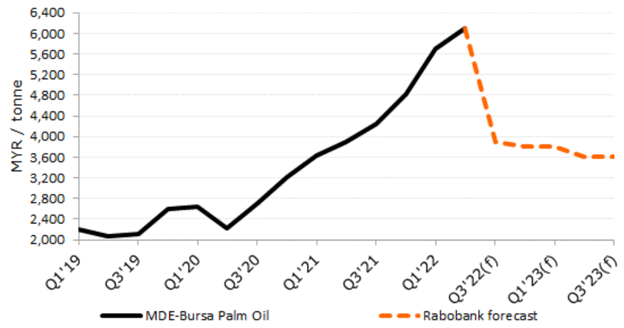
Destocking of Indonesian palm oil inventories and negative external factors will continue to pressure palm oil prices

- Indonesia increased its palm oil export quota for July 2022.
- Malaysia's July 2022 palm oil inventories will be higher year-on-year.
- Palm oil export demand will increase quarter-on-quarter in Q3 2022 due to palm oil's price competitiveness.

Indonesia increased its palm oil export quota for July 2022. The MDE-Bursa Palm Oil active contract price continued its downward trajectory this month, dropping to MYR 3,568/mt before stabilizing above MYR 3,700/mt during the third week of July. The increased availability of Indonesian palm oil export volumes in the global market reduced potential palm oil export volumes from Malaysia, contributing to the steep price decline observed in July. The Indonesian government raised July 2022 palm oil export quotas to seven times the amount producers sell domestically (compared with a quota five times domestic volumes in June) to reduce the country's high palm oil inventories. Palm oil inventories in Indonesia were estimated at above 8m mt at the end of June 2022, compared to 4.1m mt in December 2021. On top of this, the Indonesian government temporarily removed the palm oil export levy until August 31, 2022, and it plans to implement a B35 biodiesel mandate in 2H 2022. Malaysia's improving monthly palm oil production outlook and the price corrections seen in crude oil and other commodities, due to global recession worries, added additional bearish pressure to global palm oil prices. While we are of the opinion that the recent MDE-Bursa Palm Oil active contract price decline is fundamentally overdone, palm oil prices will still be pressured as long as high palm oil inventories in Indonesia remain high which will boost the country's palm oil export availability. Hence, we have revised down our palm oil price outlook for 2H 2022 to an average of MYR 3,900/mt in Q3 2022 and MYR 3,800/mt in Q4 2022.

We revise our forecast due to recent palm oil price declines

	Unit	Q4'21	Q1'22	Q2'22	Q3'22(f)	Q4'22(f)	Q1'23(f)	Q2'23(f)	Q3'23(f)
Palm Oil	MYR/tonne	4,811	5,691	6,089	3,900	3,800	3,800	3,600	3,600

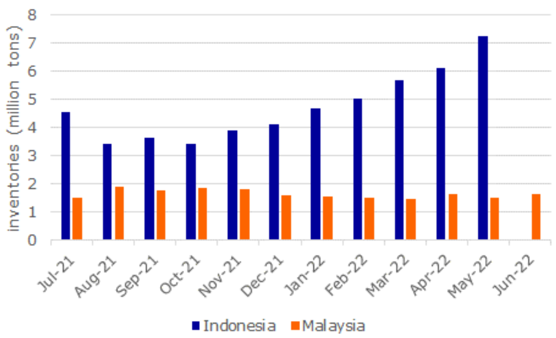


Source: Bloomberg, Rabobank 2022

Malaysian July 2022 palm oil inventories will be higher year-on-year. According to the MPOB, Malaysian palm oil production increased by 6% MOM in June 2022, to 1.55m mt. However, Malaysia's June 2022 palm oil exports decreased by 13% MOM, to 1.2m mt. As a result, Malaysia's June 2022 palm oil inventories increased by 9% MOM, to 1.65m mt, the highest monthly level since November 2021. Meanwhile, we expect Malaysian palm oil exports will remain relatively subdued in July 2022 due to the availability of Indonesian palm oil export volumes. This, combined with the seasonal palm oil production upcycle, will result in higher month-on-month Malaysian palm oil inventories in July 2022.

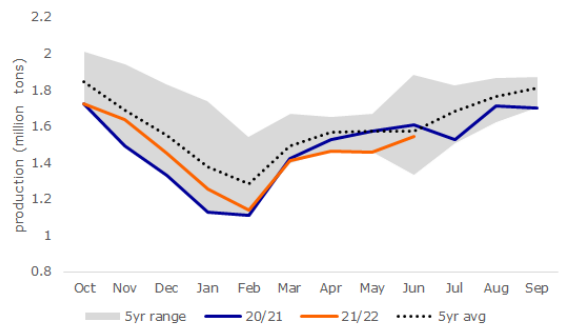
Palm oil export demand will increase quarter-on-quarter in Q3 2022 due to palm oil's price competitiveness. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices widened to above USD 400/mt during the third week of July, which increases palm oil's attractiveness. Meanwhile, the spread between MDE-Bursa Palm Oil and ICE Gas Oil #1 contract prices (POGO) remained below minus USD 180/mt during the same period, increasing the economic viability of discretionary blending for palm oil-based biodiesel.

Indonesian and Malaysian palm oil inventories are higher year-on-year



Source: GAPKI, MPOB, Rabobank 2022

Malaysia's monthly palm oil production showed signs of seasonal improvement but remains lower year-on-year



Source: MPOB, Rabobank 2022

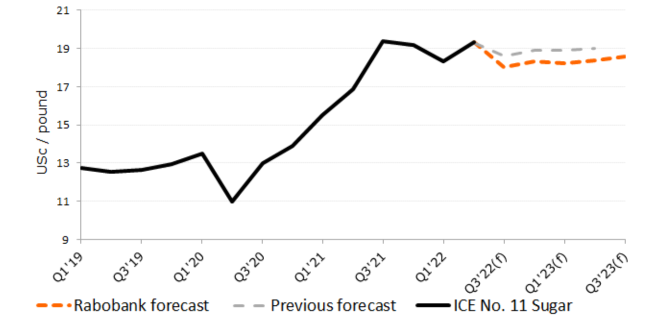
Sugar

Herd behaviour across markets

- The price drops seen in July reflect expectations of higher output from India and cross-commodity movements.
- The Indian Sugar Mills Association pegs Indian output at 35.5m mt, which could continue to put downward pressure on the market.
- EU beet output is likely to see further yield reductions, based on the adverse weather so far this season.

Forecast adjusted lower but still slightly bullish

	Unit	Q4'21	Q1'22	Q2,22	Q3,22f	Q4,22f	Q1'23f	Q2'23f	Q3'23f
Sugar	USc/lb	19.2	18.3	19.3	18.0	18.3	18.2	18.4	18.6



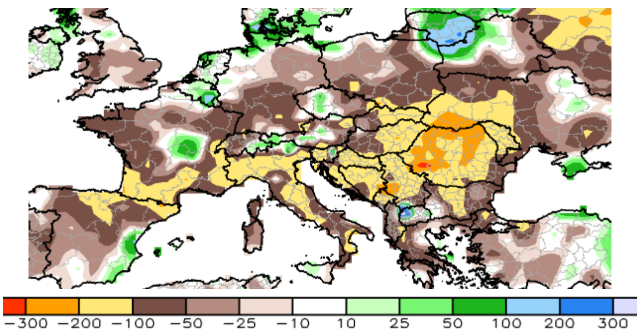
Source: Bloomberg Finance LP, Rabobank 2022

Sugar prices continued their downward trend in July, falling almost 7%. This was very much in line with similar drops across agri commodities and Brent Crude. Dwindling domestic energy prices in Brazil sent ethanol prices lower, which are now trading at just over USc 16/lb. The ethanol parity is expected to recover seasonally later in the year as cane volumes go down. For now, the parity provides an anchor to sugar prices, and we adjust our price forecast accordingly. However, much of the fund sell-off across commodities seems overdone, and this is also the case for sugar. As such, we expect some bullishness ahead.

Furthermore, India's production outlook appears stronger than initially expected. The Indian Sugar Mills Association released its first estimate: Area is expected to rise by 4% YOY, and sugar production is initially forecast at 35.5m mt (after diversion to ethanol). If realized, this production level would be a marginal drop from the record 36m mt of sugar output seen in the current season. This estimate could lead to a larger-than-expected export quota, which would put downward pressure on the market, especially in Q4 2022 and Q1 2023. However, as highlighted in our previous monthly, the Indian crop is usually characterized by a large margin of uncertainty, and estimates can significantly change once the harvest comes in. Regardless, the export quota is likely to be set in August or September, ahead of the harvest and with enough time for export contracts to be signed. Current rainfall levels over India are good except in Uttar Pradesh, but that state has a significant irrigation system that sources water from rivers.

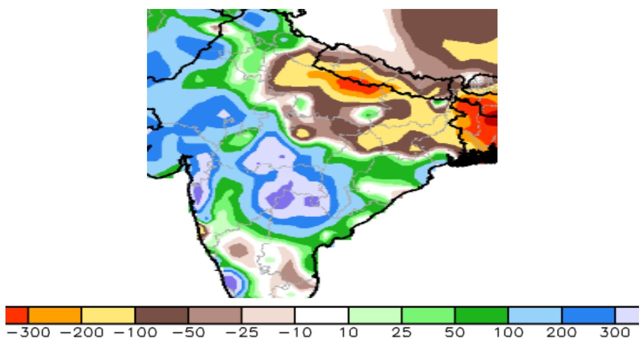
EU beets bake under the sun. The ongoing dry and hot weather in Europe has not been great for beets. The July MARS report lowered sugar beet yields a little less than 1% MOM. Though MARS-reported yields remain over 4% above the five-year average, at the time of writing, there is likely further downside to the crop in our view. In terms of maximum temperatures and dryness, the weather records seen so far this year are quite remarkable (temperatures in the UK exceeded the maximum by 1.6 degrees Celsius – several times the margin of previous records). Despite excess heat, recent 30-day rainfall levels have been pretty normal over France and Germany. However, there is a clear deficit over the last three months, as well as dryness in the two-week forecast over most areas. On the positive side, the IRI long-range weather model predicts mostly normal weather over France and Germany in the coming three months. In our view, even if the weather normalizes in the coming weeks, the impact of the adverse weather seen so far this year will likely result in steeper cuts to yields.

Europe is thirsty for rainfall as there is still a marked moisture deficit. 90-day anomaly (in mm):



Source: NOAA. Rabobank 2022

Recent rainfall over much of India has been excellent. 30-day anomaly (in mm):



Source: NOAA, Rabobank 2022

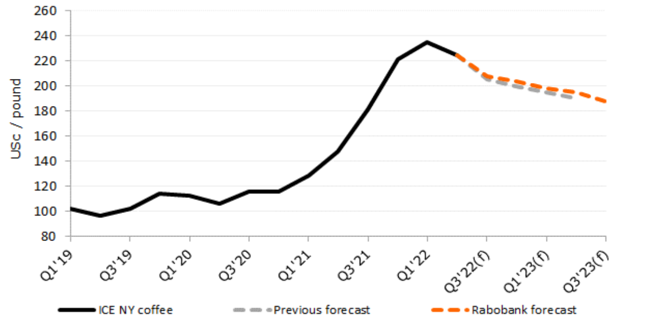
Coffee

ICE Arabica lost 6% so far in July as Brazilian harvest marches on

- Certified arabica stocks in ICE warehouses have fallen throughout July.
- The USD's rally vs. the BRL continues, gaining a further 5% in July (+15% since the start of June).
- The macro picture is bearish: recession fears, fund selling, and a strengthening dollar.

Arabica forecast largely unchanged

	unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
ICE Arabica	USc/lb	222	234	225	208	204	198	195	188
ICE Robusta	USD/mt	2234	2196	2088	2080	2050	1900	1900	2000



Source: Bloomberg Finance L.P., Rabobank 2022

The coffee market's story is twofold. There is a very bullish story regarding the drop in certified coffee stocks (and very positive differentials) and a very bearish story concerning macro weakness (dollar strength, recession, fund selling, etc) and the recovery in Brazilian exportable arabica surplus in the current season (potentially followed by a bumper arabica crop next year).

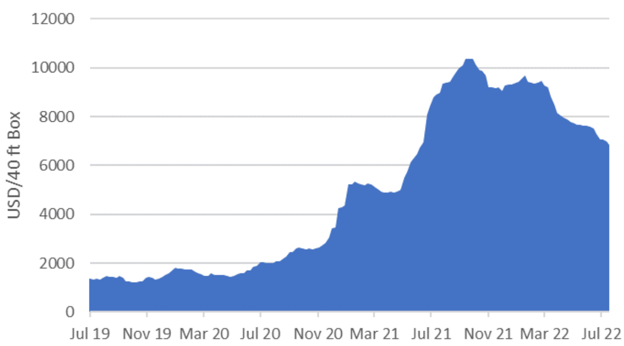
Certified arabica stocks in ICE warehouses shed a further 20% so far in July and now sit at 0.7m bags, their lowest level since September 1999. This is a far cry from the 2.17m certified bags stored in July 2021. Stocks are likely owned by a few strong hands, and they are probably partially committed. The Brazilian export campaign is not fully underway, so the market will remain tight until the export pace ramps up and new crop coffee enters the market. The Brazilian harvest is ticking along but still behind last year's pace. As of July 26, private analysts estimate that 75% of the Brazilian coffee harvest was complete, with the arabica harvest 66% complete which is in line with last year. Brazil will harvest a larger arabica crop this year but in principle, we would not expect to see a significant amount of this coffee go to the board, but if there is a steep backwardation in the market in the coming expiries, we could see some coffee heading in that direction.

The USD's rally vs. the BRL continues, gaining a further 5% in July (+15% since the start of June). The strength of the dollar against the BRL is weighing on arabica futures, as this is likely to incentivize farmers to sell new crop. Looking forward, Brazilian presidential elections are on the horizon, and this is likely to cause high levels of volatility in the local currency during the post-harvest period and could potentially boost or slow sales and exports, depending on the results. Furthermore, the EUR has shed 2.6% vs. the USD so far in July and has lost a whopping 9% since the turn of the year. And with the eurozone CPI up 8% YOY, European buyers might think twice before over-ordering coffee.

The container shipping outlook is improving. However, bottlenecks remain. The world container shipping index declined a further 3.5% in July and has shed 28% since the start of March. This has certainly weighed on coffee futures. However, it is important to remember that freight contracts for some shipping routes are still six to seven times higher than pre-Covid levels, and, due to limited vessel and truck availability and labor shortages, we are seeing congestion in European and US ports. Actually, prices in Atlantic routes have not come off. However, some improvement globally, combined with more shipping in bulk, could result in less need for working/transit stocks. Towards the end of last year, we estimated 10m bags extra were needed. That number has started to go down, and how the market reacts will boil down to coffee processors' willingness to carry coffee.

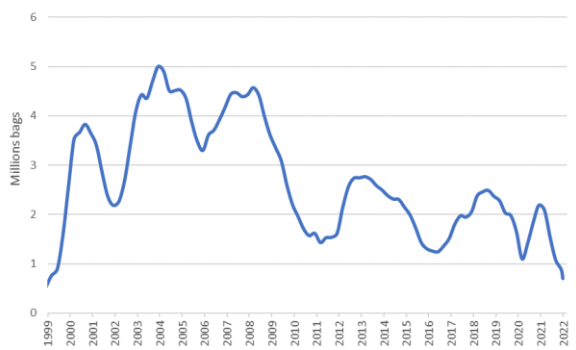
In short, a very bullish story meets a very bearish story. When this happens in any market, volatility is high. In the case of the arabica market we could see some of the nearby contracts between now and Sep 2023 in steep backwardation, but the rest of the curve depressed.

WCI container freight benchmark has been trending downwards since March



Source: Bloomberg Finance L.P., Rabobank 2022

ICE total exchange stocks are at their lowest level since 1999



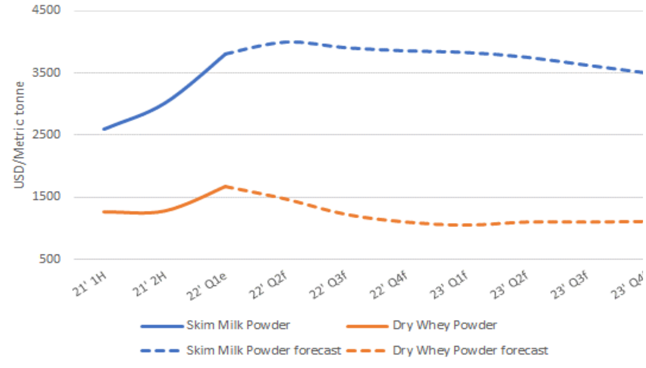
Source: Bloomberg Finance L.P., ICE, Rabobank 2022

Dairy

The July 19 Global Dairy Trade Price Index dropped 5%, reinforcing Rabobank's Q2 forecast that Oceania milk powder prices peaked in 1H 2022

- EU dairy prices remain disconnected from global markets.
- US milk production rose marginally year-on-year in June.
- Food price inflation has not yet been fully passed onto consumers.
- Lockdowns in China and high carryover stocks are contributing to reduced import demand.

US skim milk powder and dry whey powder forecast



Source: Bloomberg Finance L.P., Rabobank 2022

The July 19 Global Dairy Trade Price Index supports Rabobank's Q2 global forecast that 2022 milk powder prices peaked in 1H 2022. The index declined for the third consecutive auction, with SMP shedding 8.6% (to USD 3,709) and WMP losing 5.1% (to USD 3,757). The downward move returns the index to September 2021 levels. Prices for all other traded dairy products were lower, with anhydrous milk fat and butter both declining 2.1%, to USD 5,580 and USD 5,530 respectively, and cheddar falling 2% to USD 4,825.

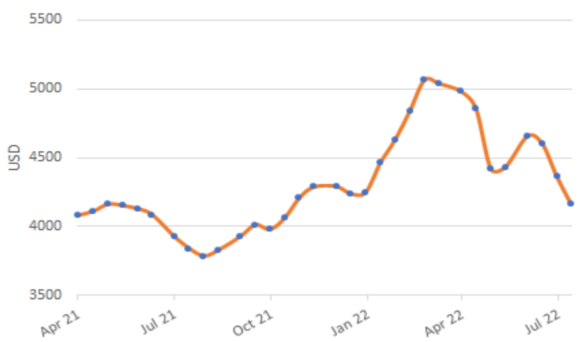
Parts of China are in lockdown and carryover stocks are high, however the milk production outlook is uncertain. China has built substantial WMP inventories over the recent lockdown period, after experiencing strong domestic milk supply growth in Q1 2022, resulting in high carryover stocks. However, uncertainty looms around domestic demand due to sporadic lockdowns across a number of regions. The outlook for Chinese milk production growth also remains unclear in 2H 2022, amid weakening farmgate milk prices and higher feed costs, which may curb future production growth and investment appetite.

Food price inflation has not yet been fully passed onto consumers, but shoppers are noticing increases. The US Consumer Price Index for dairy products continues its rapid incline, rising 7.3% from March to June, with a 13.5% YOY June increase in dairy product prices. **EU dairy product prices, particularly for butterfat, remain disconnected from global markets**. EU butter prices are forecast above EUR 7,000/mt through Q3. In Rabobank's view, we have likely seen the peak for EU dairy commodity prices. However, we anticipate elevated prices throughout 2023. The EU average milk price in May was 47.6c/kg, which represents a 33% YOY increase. Lower year-on-year European milk production is contributing to less dairy product production and fewer exports. EU butter, SMP, and WMP production through April trails the prior year by 3.1%, 3.4%, and 4%, respectively. The EUR has fallen 8.8% vs. the USD over the past six months, which would normally spur EU exports. However, lower output and supply chain constraints have contributed to weaker exports. Through May 2022, EU WMP and SMP exports were down by nearly 20%, while butter exports were off by 5% compared to the same period last year.

US milk production up marginally in June. US milk production rose marginally by 0.2% YOY, to 18.975bn lb. For Q2, US milk production was down 0.5% from Q2 2021. The US dairy herd continues to expand, increasing by 4,000 from May to June and up 56,000 head since January 2022. However, the herd remains 78,000 head below last year's peak of 9.5m.

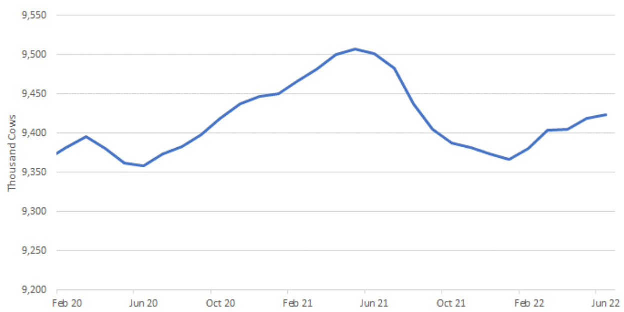
At 847.7m lb, US stocks of American-style cheese for June 2022 were higher, up 4.7% from last year. Since peaking in May, the CME spot cheddar block price has retreated by USc 47, to sub-USD 2/lb price levels. June 2022 butter stocks totalled 331.8m lb, 20% lower than last year and supportive to the market.

The July 19 Global Dairy Trade Price Index declined 5% from the previous auction



Source: Bloomberg Finance L.P, Rabobank 2022

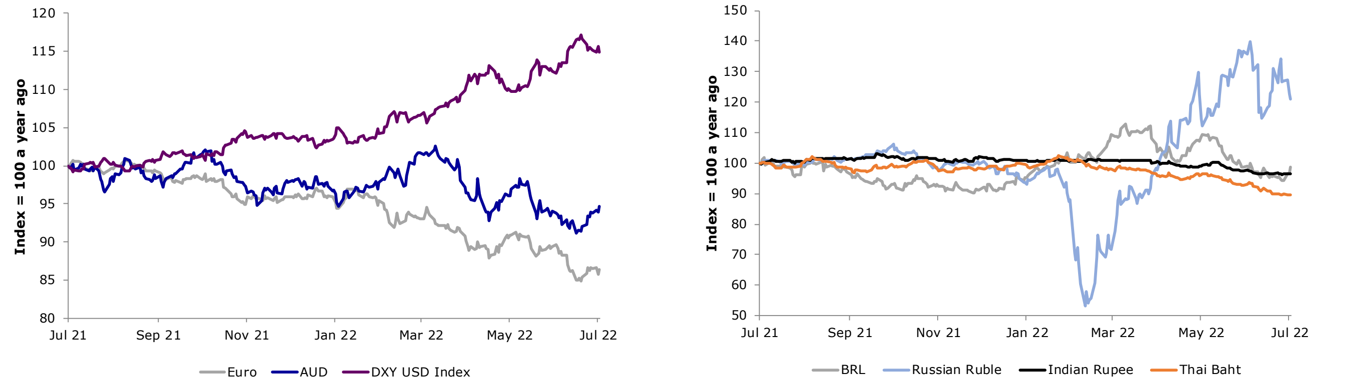
Despite expansion in 2022, the US herd remains below last year's peak of 9.5m head



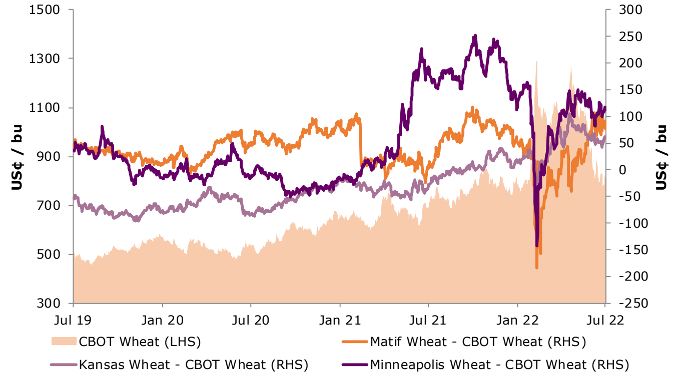
Source: USDA., Rabobank 2022

Agri Charts

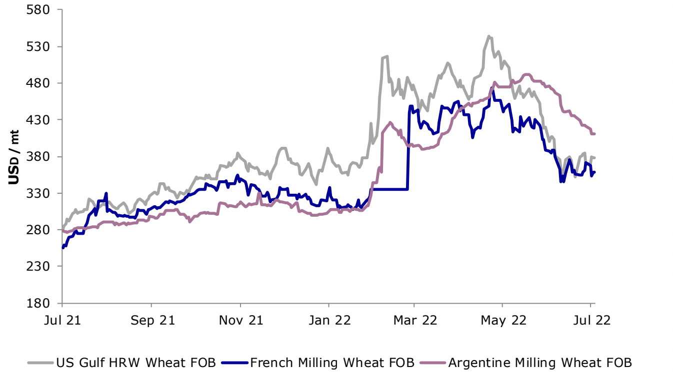
Global Currencies USD Cross



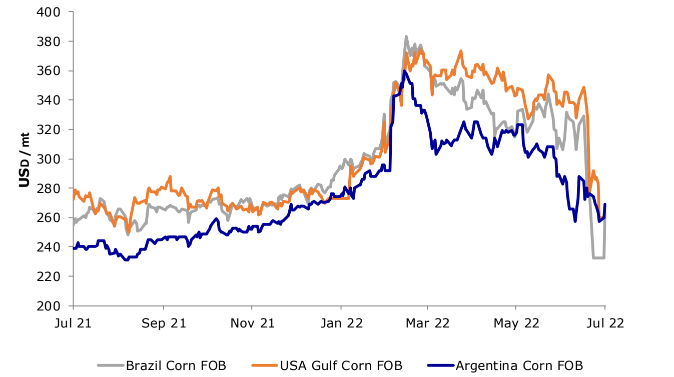
CBOT Wheat Spreads



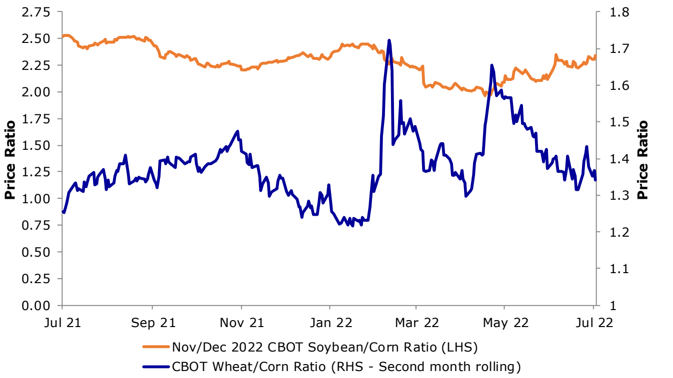
Wheat Protein FOB Prices



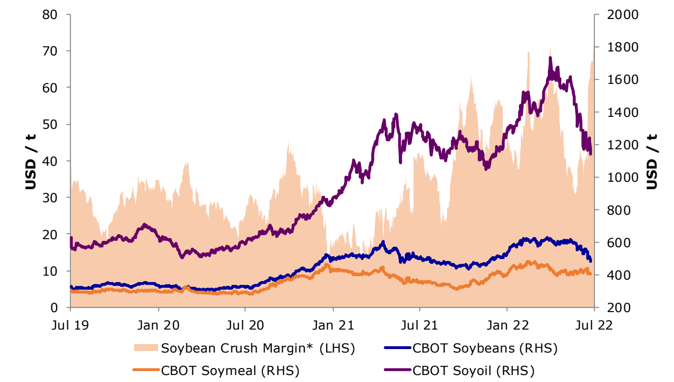
Corn FOB Prices



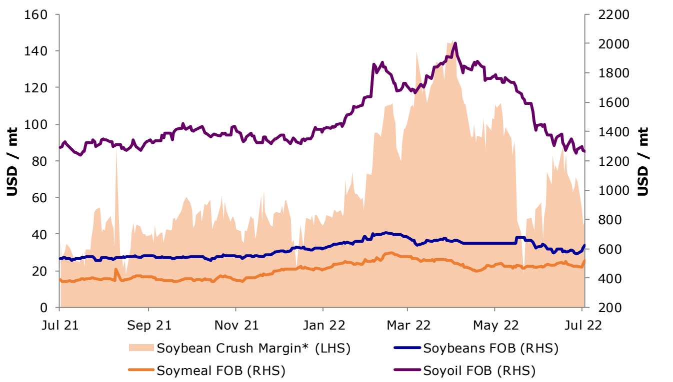
CBOT Ratios



CBOT Soybean Crush Margin

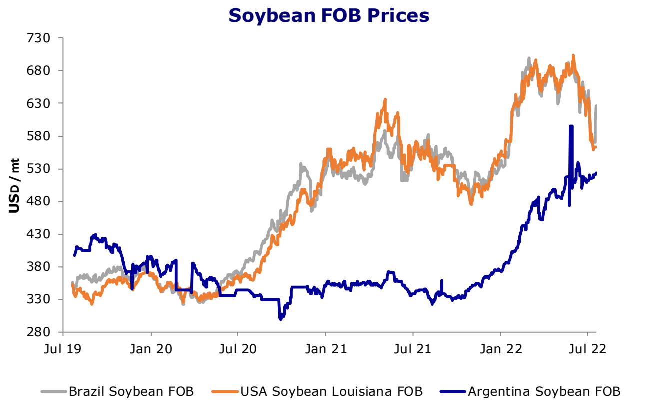


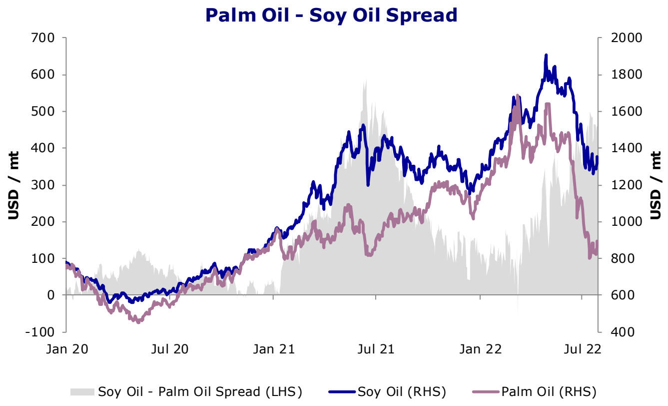
Argentina FOB Soybean Crush Margin

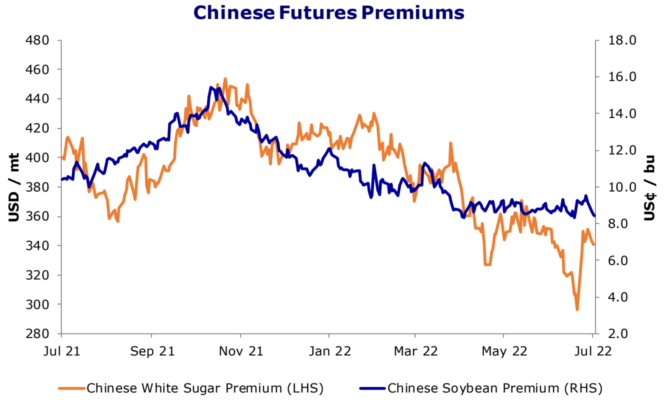


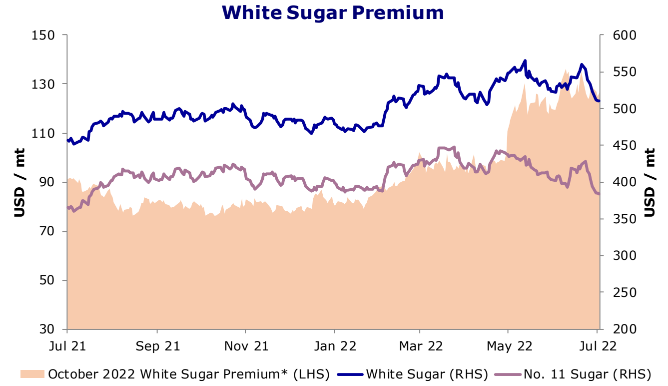
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

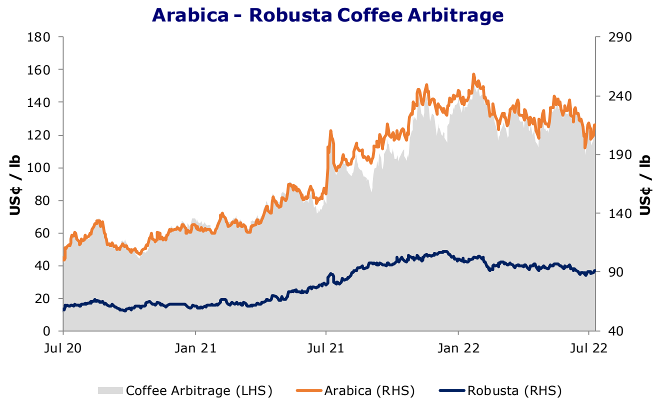
Agri Charts

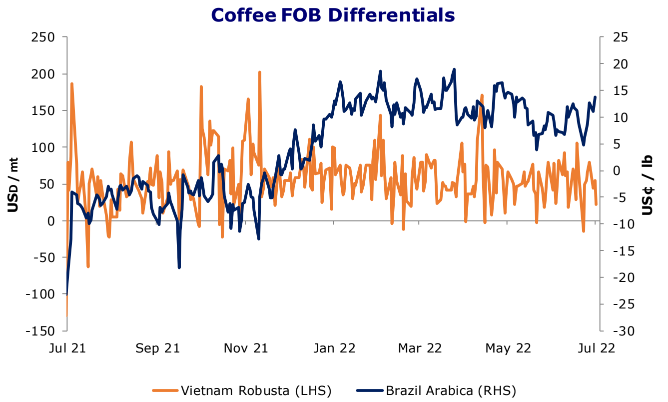


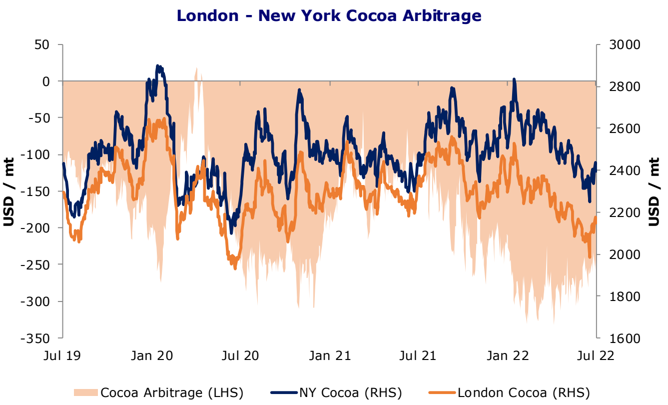


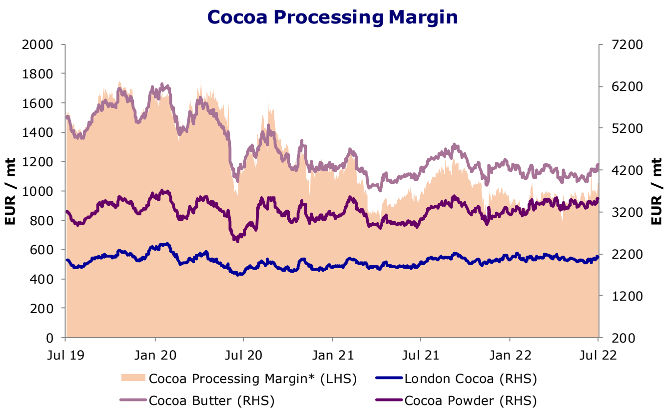












Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

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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