Agri Commodity Markets Research

March 2021: Seeds of Doubt

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The long price surge in Agri commodities markets subsided last month, as la Niña weather worries eased and South American crop advances pushed frenzied speculators to catch their breath. Wary consumers start to think of the most consequential US summer harvest in the last eight years. Then, as now, high US acreage and inputs will be no panacea; corn and soy must also yield well to keep corn and soy stocks from falling into scarcity. The high bar for supply reflation is even more daunting if one considers the low US corn and soy yields of past two years and the tail risks from late planting in South America. We expect prices to remain elevated for G&O, with large moves to the upside following minor weather impact.

WHEAT

Wheat prices likely to remain elevated on increased feed demand

- Elevated corn and soybean prices will lift wheat as a feed grain, especially with the low wheat-corn ratio.
- Export demand may put pressure on Europe ahead of harvest; low stocks will mean high volatility.

CORN

Rising demand and yield risks raise our price forecast for CBOT Corn out along the curve

- Chinese demand – 4mmt of US corn bought last week – will push ending stocks below 1.3bn bushels.
- Safrinha planting is largely taking place outside the optimal window and there are forecasts of a dry US.

SOYBEANS

CBOT Soy acreage competition and weather woes keep supplies low into 2022

- South American production appears to have stabilized but won't be a remedy for low US stocks.
- Low bean availability and export competition for US by-products hit crush margins.

PALM OIL

Palm oil prices will continue to be influenced by volatility in the global soft oils complex

- Tightness in global soft oils supplies will provide support to palm oil prices in 1H 2021.
- Indonesian and Malaysian palm oil production and inventories to improve quarter on quarter in Q2 2021.

SUGAR

The market traded down, in line with our forecast

- The second contract (July21) is trading at USc 15.5/lb, in line with our previous Q1 forecast.
- The focus of the market will be the start of the harvest in Brazil, which, as usual, can bring surprises.

COFFEE

Coffee price forecast largely maintained

- Brazilian rain is seen as sufficient to maintain cherries over March.
- Brazilian real volatility has been extreme, resulting in the BCB raising interest rates by 0.75%.

SOYMEAL & OIL

CBOT Soy Oil's outperformance vs. Meal has reached multi-year highs

- High US soy prices and South American crop stabilization limit strain on US export demand.
- US domestic use of meal and oil has been resilient to Covid, and lockdown easing will grow demand more.

COTTON

ICE #2 Cotton comes under pressure, falling in-line with Rabobank's forecast

- Rabobank forecasts strength to persist through Q2 2021, with old crop contracts supported by a persistently high net unfixed call sales position.
- Phenomenal strength in 2020/21 US exports has led us to revise our export forecast to 15.8m bales.

Wheat

Wheat prices likely to remain elevated on increased feed demand but come under pressure ahead of harvest

- Elevated corn and soybean prices will lift wheat as a feed alternative, especially with the wheat-corn ratio near multi-year lows.
- Export demand may put pressure on Europe ahead of harvest; low stocks will mean high volatility.
- US winter wheat areas are improving on good rainfall.

Wheat markets sold off this month, with CBOT falling below the low end of its Q1 2021 range, testing price support. Although demand remains robust, improvements in US and Black Sea rainfall are enough to temper concerns over reduced Russian availability for now.

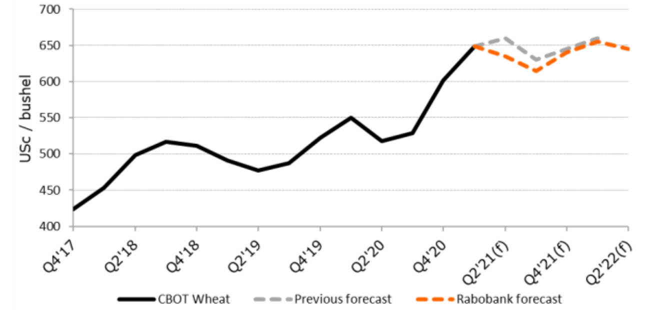
The US Central Plains received good rainfall this month, with more in the forecast. This should help raise crop expectations, especially for Kansas, while improving or maintaining estimates for the surrounding states. Western states Washington and Montana, however, remain a concern, but overall the crop is seen as improving. The USDA's prospective US spring wheat plantings will be reported at the end of month, and there may be intense pressure for acres, given multi-year high corn and soybean prices. We expect some decrease in spring wheat area following a 5% increase in winter wheat acreage.

Weather across Europe has been mixed in the last month. Good rainfall in eastern Europe and the Black Sea was offset by drier-than-normal weather in western Europe, with some concern in southern France. Official estimates of EU production are now seen marginally lower, and Rabobank is inclined to agree in principle. Export demand for EU wheat remains robust and will likely continue as flows from Russia slow following the latest round of export taxes introduced at the beginning of March. Traditional importers of Russian wheat are now looking to Europe to fill the supply gap at an attractive price, and with ending stocks getting tight, this may eventually fall on the US. Russian export taxes seem likely to remain in place for the season ahead, and with local crop ratings low, marketing new crop wheat may be difficult. Over the longer term, reduced access to export markets may prevent continued Russian wheat production growth, as lower profits could push farmers to reduce or at least not expand planted acres. Argentine wheat plantings for next season may also fall, as strong barley demand from China and a lower possibility of export restrictions induces farmers to switch crops. Furthermore, we cannot rule out the possibility of an increase in Argentine export taxes in the coming months.

Looking ahead, we still see some positive drivers for wheat prices – especially increased Chinese feed demand, which the USDA now estimates at 35mmt for 2020/21. However, northern hemisphere harvest pressure through to Q3 2021 could bring prices to a low before they are likely to rise again. Weather will be extremely important in determining the narrative through spring and is likely to cause volatility as stocks tighten, especially in Europe. The current weather outlook includes some localized dryness in the EU that skews risks slightly to the upside. That, coupled with increased speculative interest in agri commodities and high corn and soybean prices, leads us to believe any sell-off in wheat will be limited.

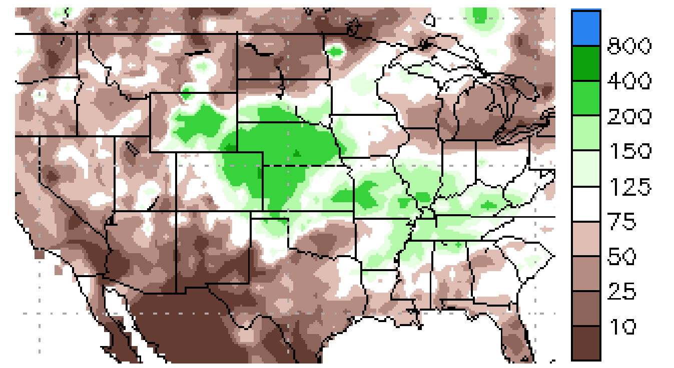
CBOT Wheat forecast bullish post-harvest

	unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
CBOT	USc/bu	529	602	649	635	615	640	655	645
Matif	EUR/mt	186	208	228	223	217	225	230	220



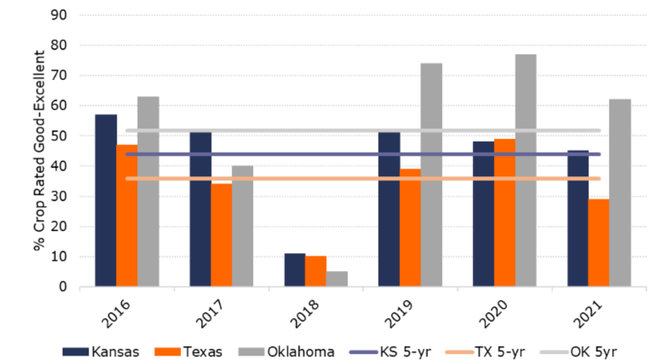
Source: Bloomberg Finance L.P., Rabobank 2021

Recent improvements in US rainfall now show the US Central Plains with a surplus vs. the long-term average



Source: NOAA, Rabobank 2021 30-day % normal rainfall to March 20

US winter wheat G-E ratings are improving but more rainfall is needed to bring G-E ratings to more comfortable levels



Source: USDA, Rabobank 2021

Corn

Rising demand and yield risks raise our price forecast for CBOT Corn out along the curve

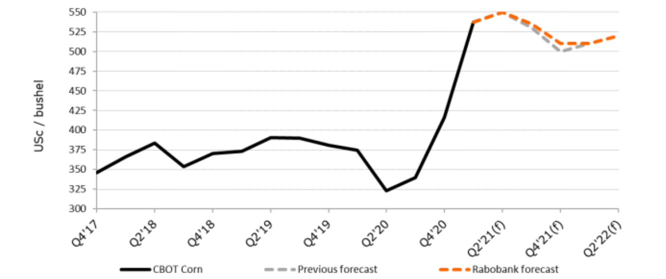
- Chinese demand – 4mmt of US corn bought last week – will push ending stocks below 1.3bn bushels.
- Safrinha planting is largely taking place outside the optimal window and there are forecasts of a dry US Q2 2021. Yield risks are elevated into the growing season.
- US farmers face acreage limitations to solve corn scarcity, leaving stocks low and price floor elevated.

A quiet month for CBOT Corn can't hide a year for the ages, with CBOT Corn up 60% YOY to USD 5.50/bu after Covid lockdowns led farmers to plant too little for the ensuing pandemic demand recovery. The market is at a lull at seven-year highs – its inverted futures curve implying prices have plateaued, with gradual resupplies expected from Argentina, Brazil, and the US. That view seems premature amid a clear lack of exporter stocks, growing demand, and adverse weather. A better analogy for CBOT Corn might be a coiled spring with consumers walking a supply tightrope to US summer harvest.

Corn has flowed out of US silos in unseasonable, record volumes to meet rising global feed demand. With half the 2020/21 season left to go, the USDA's 2.6bn bu export target is virtually all committed. The export figure will almost certainly need to rise next month, ultimately draining US ending stocks near 1.25bn bu. The year-on-year decline in US ending stock expectations – ~50% lower since the USDA's February 2020 outlook – is a mirror image of CBOT Corn's price rise. US Corn export growth (+57% YOY, after two years of decline) stems from China, which bought another 5mmt last week, bringing its total US corn purchases this crop year near 25mmt, roughly four times greater than last year's total imports. China's structural corn deficit – partially the result of years of falling acreage and ASF feed recovery – is buckling world export programs, sending stocks-to-use to 2012/13 levels at 7.6%.

Long-term supply risks flatten CBOT Corn's price curve

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Corn	USc/bu	337	417	536	550	535	510	510	520

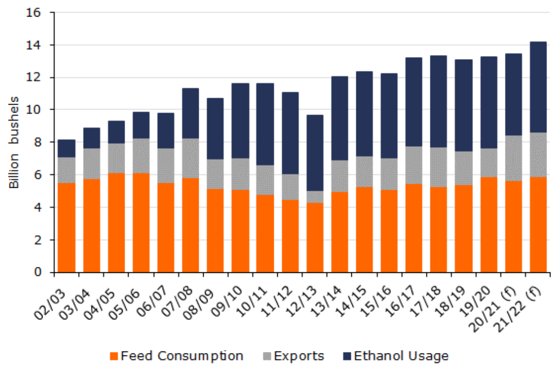


Source: Bloomberg Finance L.P., Rabobank 2021

China's Year of the Ox is looking increasingly like a bull as it roams the world for feed grains; imports of these rose about 250% in 2020/21 and have scope to remain elevated for years. The lion's share of China's feed imports comes from the US, but Ukraine and the EU have also been heavily targeted. To put the recent 'strain on grain' in perspective, Euronext Maize and Wheat are nearly at parity, and last month Ukrainian feed barley actually priced over milling wheat. This import demand has overshadowed China's domestic feed shifts into wheat, rice, and vegetable oil, all of which have actually helped allay the feed chasm. For instance, China's wheat feeding is pegged at 35mmt in 2020/21, up from 19mmt and equal to the US's annual export program. For those expecting demand to die down, China has already bought this year's corn and has a predilection for stockpiling. Any near-term pressure on CBOT Corn would come from fund liquidation, but this doesn't appear imminent moving into US summer crop plantings.

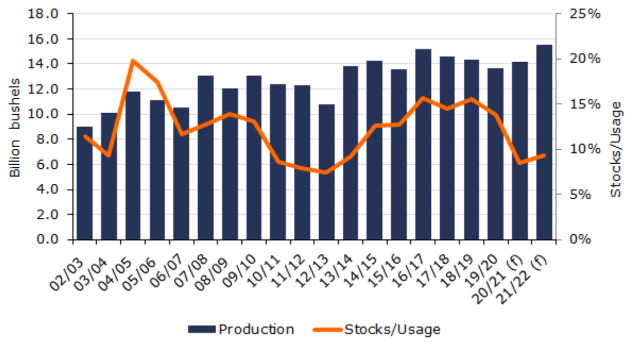
Rainfall has pushed almost half of Brazil's safrinha corn outside the ideal planting window. Conversely, Argentine dryness has hurt yields. South American harvest issues are raising tail risks for CBOT Corn. We expect a US prospective plantings print near 94m acres (+3m YOY). But even with a fine yield of 179 bu/acre (+7 bu/acre YOY), that rise will only absorb ethanol's return (+~550m bu) and feed growth (+250m bu) but not reflate 2021/22 stocks-to-use above 10%. We raise our CBOT forecast for H1 2022 to USD 5.15/bu, though a repeat of last year's yields could lift prices above USD 6.50/bu.

Strong US corn export gains will be joined by ethanol in 2021/22, heaping pressure on supplies



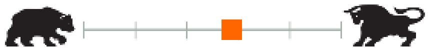
Source: USDA, Rabobank 2021

US corn production must fire on all cylinders – acreage, yield and logistics – just to maintain low stocks-to-use levels



Source: USDA, Rabobank 2021

Soybeans



CBOT Soy acreage competition and weather woes keep supplies low into 2022

- South American production appears to have stabilized lately but won't be a remedy for low US stocks.
- Low bean availability and export competition for US by-products hit crush margins, but are partially outweighed by healthy demand from high lean hog and vegetable oil prices.
- CBOT Soy is struggling to siphon off land in the US and grow record acreage to avoid stocks rationing.

Rabobank CBOT Soybeans (+1%) sought higher ground over the past month amid incessant rainfall that kept a tantalizing Brazilian harvest just out of reach for frustrated farmers – and consumers. Brazil has faced decade-high delays for soy harvest, with knock-on hits to quality, yield, port loadings, and safrinha plantings. Brazilian farmers heavily sold their crop months ago so typical post-harvest pressure is not forthcoming. In Argentina, meanwhile, woefully inadequate rainfall has chipped away at yields and further dimmed hopes that farmers would release their hoarded soy in the face of inflation and currency controls. With production likely unchanged year on year near 189mmt, expectations of South American soy exporter salvation have been dashed – a warning to those expecting a perfect US growing season to follow.

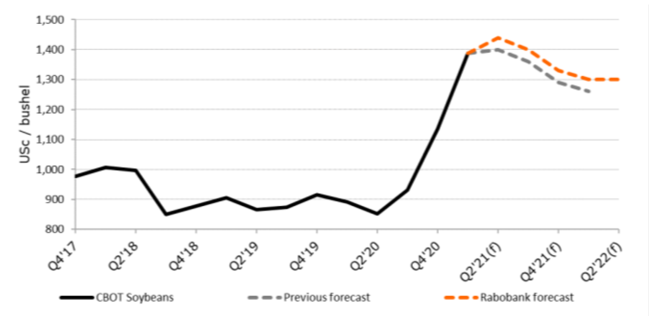
Across the equator, US farmers are preparing to increase their soy seeding by 7m acres for the second consecutive year, to 90m acres, in response to the best prices in seven years. The problem for consumers is other high-priced crops – corn and cotton foremost – are vying for limited acreage. The prospective summer plantings report is due out next week and will show record corn-soy plantings of around 194m acres. CBOT Soy is doing what it can to buy acreage from farmer-favored CBOT Corn, increasing its new crop ratio 5.5% to 2.6 from February lows. The message for consumers from the USDA's plantings and WASDE reports shouldn't be lofty acreage assumption, but the tacit admission that there are no buffers for any issues– weather, disease or logistics. Indeed, the USDA's February outlook already forecast a bumper soy crop (90m acres, +50.8 bu/acre yield), leaving US 2021/22 ending stocks low at 145m bu. That yield would be the second best on record (after 2016/17); yet anything less would push supplies into scarcity.

Rabobank's price forecast has held steady – and bullish - for the last several months. Now, we see reason to increase further by USc 40 out along the curve. South American production disappointments and growing domestic requirements – particularly Brazilian crush for the biodiesel mandate – have poured ever more soy demand burden on stretched US export program commitments, which are already at 99% of the USDA's full-year expectations. US yields stand a decent chance of under-performance, due to dryness (current and forecast) and the lower results of the past four years.

While US soy exports have and should remain stalwart, thanks to China's record feed program, there are cracks showing in domestic demand. US crush has weakened, and NOPA's February print (155.2m bu) was the lowest in almost two years. High US prices and the South American by-product resupply, especially on meal, have left the export commitment pace nearly 10 points shy of the five-year average. Still, US lean hog and vegetable prices are at multi-year highs, which should yield improvements in the crush figures going forward. The greatest risk for CBOT Soy downside comes from fund liquidation, which will only happen on a large scale on a sustained demand shift or good harvest prospects in the US.

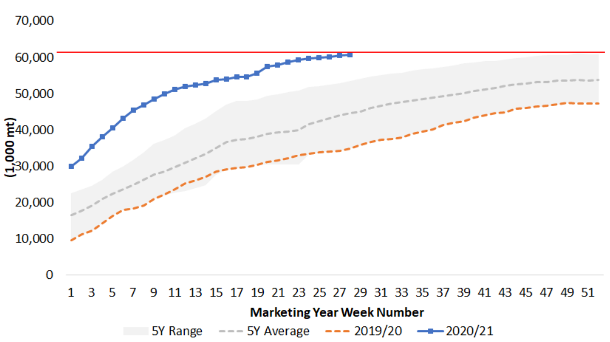
CBOT Soy prices must compete for acreage to avoid scarcity

	Unit	Q3'20	Q4'20f	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Soybeans	USc/bu	925	1135	1384	1440	1400	1330	1300	1300



Source: Bloomberg Finance L.P., Rabobank 2021

US Soybeans have almost touched the 61m mt full year export forecast from USDA with almost 6 months to go



Source: USDA, Rabobank 2021

Following US corn purchase shocks, CBOT Soy-Corn ratio is moving above 2.5 to 'buy' soy acreage and avoid rationing

Source: Bloomberg Finance L.P., Rabobank 2021

Soymeal and Soy Oil

CBOT Soy Oil's outperformance vs. Meal has reached multi-year highs amid widespread vegetable oil tightness and meal competition

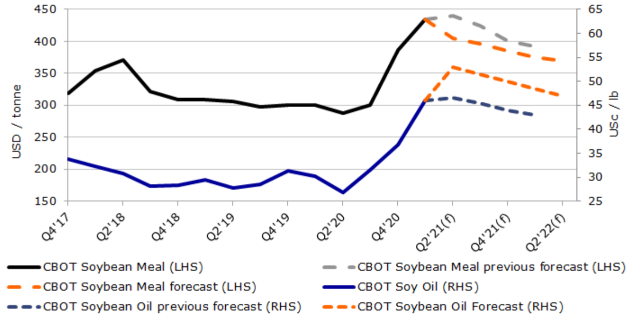
- High US soy prices and South American crop stabilization limit unsustainable strain on US export demand.
- US domestic use of meal and oil has been resilient to Covid, and emergence from lockdown will grow demand further.
- US by-products have a strong base of support amid low world oilseed supplies and acreage competition this year.

Vegetable oils' golden performance turned incandescent last month as it led the FAO food price index to the highest level in seven years. An historic tightening of vegetable oil supplies has emerged from weak oilseed production – particularly from the US, EU, and South America – and growing demand for imports, biofuels, and feed. CBOT Soy Oil (USc 55/lb, +16% MOM, +117% YOY) in particular has been woefully unprepared for a demand deluge (+6% YOY) with unexpected origins. Over half of soy oil's global demand growth in 2020/21 came from China – not for food, but as a feed substitute in the animal protein industry! Soy oil's use in feed, combined with greater biodiesel production across major exporters like the US (+6% YOY) and Brazil (6% to 10% YOY) is reducing the availability for export and food consumption. Going forward, the growth in non-food applications (US infrastructure, Brazilian B15, Indonesian B40) will be a giant catalyst for continued strong prices in CBOT Soy Oil.

Of nearly equal concern, badly needed global soy (rapeseed and sunflower seed) oil resupplies are being challenged by the allure of grains like wheat and corn, which show good prices, yield well, and compete for acreage. As a result the EU will continue to produce lower-than-needed volumes of rapeseed and increase reliance on scarce imports from Canada and elsewhere to fuel its biodiesel

Vegetable oil scarcity is driving a divergence in CBOT soy oil and meal prices

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Soymeal	USD/ton	297	386	434	405	396	385	375	370
Soy Oil	USc/lb	31.3	36.8	45.9	53.0	51.5	50.0	48.5	47.0

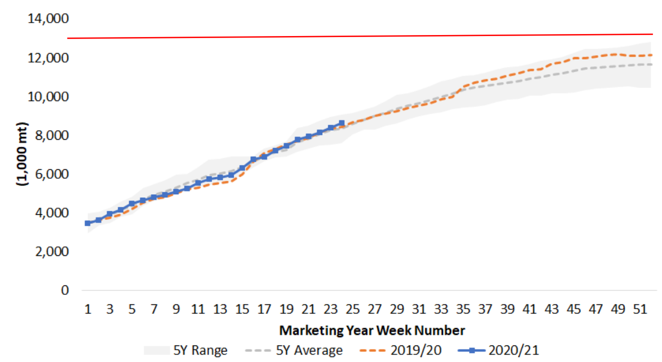


Source: Bloomberg Finance L.P., Rabobank 2021

requirements. In the US, soy could see record acreage; however, given corn's roughly equal scarcity, neither will see enough growth to reflate supplies.

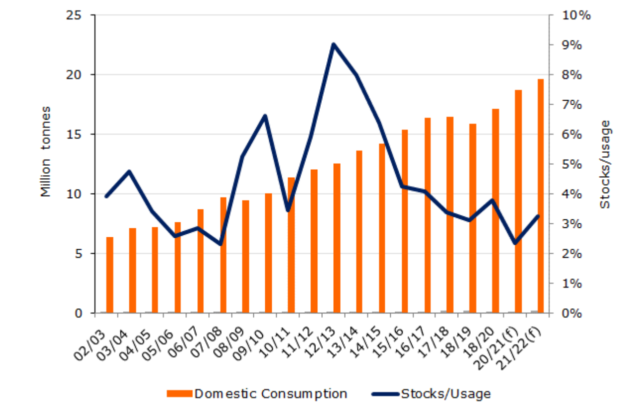
The by-product landscape is marked by a great divergence in soy oil and soymeal price prospects. Last month, CBOT Soy Oil's crush share rose from 33% to over 40%, the highest in eight years, as CBOT Soymeal fell 9% MOM to USD 400/mt, tracking losses in China's Dalian exchange. Rabobank does not expect the high oil crush share to revert. South America's soymeal availability and exports are rising on nascent harvest and rising biodiesel mandates; indeed, US meal commitments are nearly 10 points behind the five-year average pace. China meanwhile has scope to reduce soymeal intensity in its feed rations (even absent recent ASF issues), whereas soy oil partly acts as a substitute for scarce feed grain rations. With soymeal export demand weak and soybean supplies low, crush margins fell, and February NOPA output of 155m bu was the lowest in almost two years. While crush should see improvements given lower meal prices and high lean hog prices, low output represents a major concern for US soy oil, whose stocks are down 9% YOY. Fundamental demand and speculative interest are expected to keep the CBOT Soy Oil price floor above USc 47/lb into mid-2022. Temporary headwinds from South American harvest and China aside, soybean supplies remain on the edge of rationing; CBOT Soymeal is expected to remain on solid footing above USD 370/mt over the coming year.

US Soymeal export commitments are running behind pace to achieve nearly 13mmt this year



Source: USDA, Rabobank 2021

China's soy oil consumption growth is over half the world total in 2020/21, largely to feed animal protein.



Source: USDA, Rabobank 2021

Palm Oil

Palm oil prices will continue to be influenced by volatility in the global soft oils complex

- Tightness in global soft oils supplies will provide support to palm oil prices in 1H 2021.
- Indonesian and Malaysian palm oil production and inventories to improve quarter on quarter in Q2 2021.
- High palm oil prices will limit Indian palm oil imports in Q2 2021.

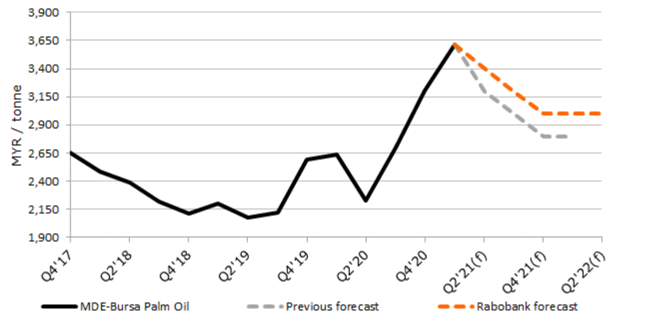
Tightness in global soft oils supplies will provide support to palm oil prices in 1H 2021. The MDE-Bursa Palm Oil active contract price continued its bullish run, reaching MYR 4,192/mt in mid-March 2021 before settling down below MYR 4,000/mt in the subsequent days. Concerns about the global sunflower oil shortage for the 2020/2021 marketing year, which requires more production and consumption of global soybean oil, added volatility to global soft oils prices. We believe these factors will continue to provide support for palm oil prices in 1H 2021. Despite the recent spectacular price increases, the spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices remains wide at above USD 200/mt for most of March 2021. This means that even in the current high-price environment, palm oil prices remain more attractive compared to soy oil prices. Due to the recent increase in palm oil prices, we have revised up our palm oil price outlook for 2021 to an average of MYR 3,400/mt in Q2 2021, MYR 3,200/mt in Q3 2021, and MYR 3,000/mt in Q4 2021.

Indonesian and Malaysian palm oil production and inventories to improve quarter on quarter in Q2 2021. According to the MPOB, Malaysian February 2021 palm oil production and exports decreased by 2% and 6% MOM, to 1.1mmt and 896,000mt respectively. Malaysian February 2021 palm oil inventories also decreased by 2% MOM, to 1.3mmt. Meanwhile, according to GAPKI, Indonesian January 2021 palm oil production (including lauric oils) decreased by 7% MOM, to 3.7mmt, as floods during the low production season disrupted harvest in several producing regions. As a result, Indonesian palm oil inventories (including lauric oils) for the same month decreased by 13% MOM, to 4.2mmt. Despite these decreases, we expect seasonal palm oil production increases will result in higher quarter-on-quarter palm oil inventories in Malaysia and in Indonesia in Q2 2021.

High palm oil prices will limit Indian palm oil imports in Q2 2021. As expected in our last monthly report, the country's palm oil imports decreased by 49% MOM in February 2021, to 390,000mt, on the back of relatively high domestic edible oils inventories and high palm oil prices, according to SEA India. We expect global palm oil prices will remain supported in Q2 2021 and this will translate to a 'hand to mouth' buying pattern among Indian palm oil importers in Q2 2021. At the same time, Indian palm oil importers might also opt to work on lower inventory levels. Meanwhile, India's 2021/22 soybean production outlook looks promising, as a normal monsoon is expected in 2021. Indian 2021 kharif soybean sowing area could be similar to last year's area of 11.8m hectares, on the back of a normal monsoon season. This will result in the quarter-on-quarter increase of domestic soy oil availability in Q4 2021.

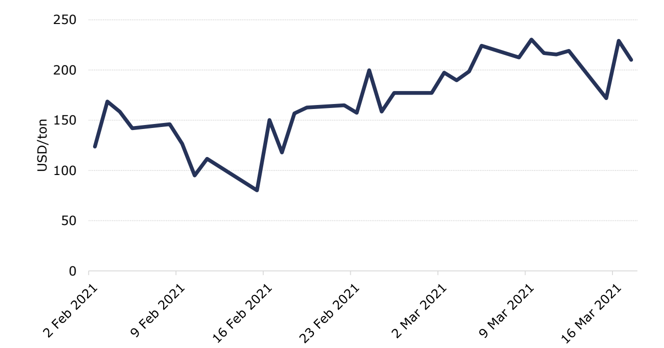
We revise our forecast due to recent palm oil price increases

	Unit	Q3'20	Q4'20	Q1'21	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Palm Oil	MYR/mt	2,703	3,204	3,615	3,400	3,200	3,000	3000	3000



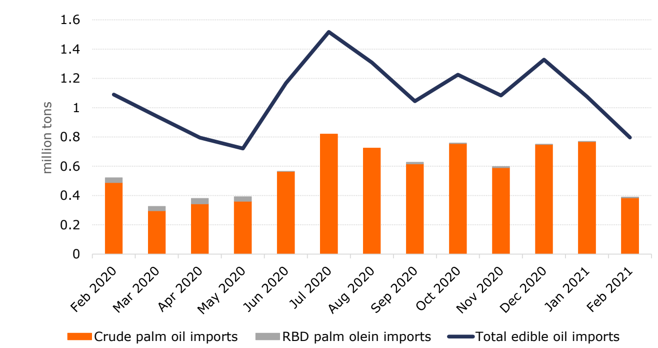
Source: Bloomberg Finance L.P., Rabobank 2021

Soybean oil/palm oil spread remains wide despite recent palm oil price increases



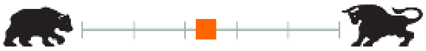
Source: Bloomberg Finance L.P., Rabobank 2021

Indian February 2021 palm oil imports decreased by 49% MOM.



Source: SEA India, Rabobank 2021

Sugar



The market traded down, in line with our forecast

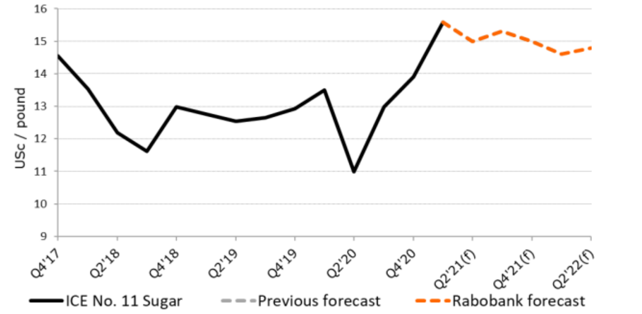
- Since the peak of USc 17.5/lb in late February, ICE #11 May21 came down significantly to USc 15.8/lb as of March 22. The second contract (July21) is trading at USc 15.5/lb, in line with our previous Q1 forecast.
- The focus of the market will be the start of the harvest in Brazil, which, as usual, can bring surprises.

ICE #11 Raw Sugar reverted its upside trend, with the second contract (Jul21) trading in line with our previous forecast for USc 15.5/lb. The imminent start of the harvest in Brazil should provide tranquility to the market in terms of availability of raws, as much of the sugar is already committed. However, the giant and delayed soybean crop in Brazil could put itself in the way of the sugar export program. At the moment, the ethanol parity stands at USc 13.5/lb, but it should trend lower as the harvest starts, per its normal seasonality. Also, the spike in infections in Brazil could delay the economic recovery, resulting in lower ethanol demand and pointing to potentially weaker ethanol prices ahead. As mentioned in Rabobank's Sugar quarterly, we expect another year of high to maximum sugar mix, which, when applied to a cane volume of 575mmt in Brazil CS (down from 605mmt in 2020/21), results in 36mmt of sugar vs. last year's 38.4mmt. This is a small drop year on year but at very high levels.

Physical tightness to be alleviated. As discussed in the Sugar Quarterly, 2020/21 sees a 2.8m mtrv global deficit, supported by logistical bottlenecks (particularly relating to container shipments of white sugar from and within Asia) and fund inflows. However, the outlook for 2021/22 looks more relaxed, with a surplus of 1.5m mtrv and potentially less stress on supply chains given the global vaccination effort, which could result in less need for extra working inventories ahead. A significant recovery in Thai production, together with smaller

ICE #11 Sugar price forecast maintained, neutral 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	15.0	15.3	15.0	14.6	14.8

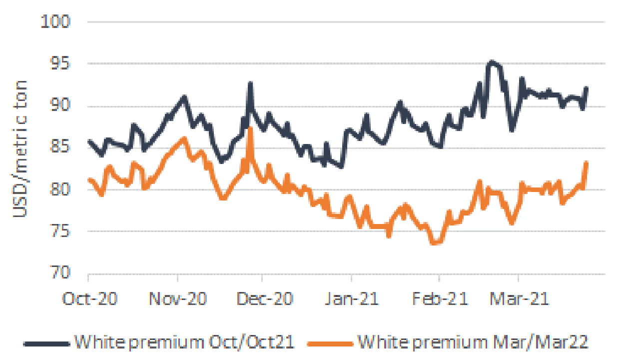


Source: Bloomberg Finance L.P., Rabobank 2021

increases in Russia (where wheat export taxes should make sugar beet more attractive), Pakistan, and the EU, should more than offset demand growth in 2021/22. For now, this seems well accepted by the market as a whole. So, there is a case for declining prices as we move through 2021 and 2022 – except for the seasonal strength of the March contract, reflected in our slightly higher Q3 forecast, which is based on the second month rolling.

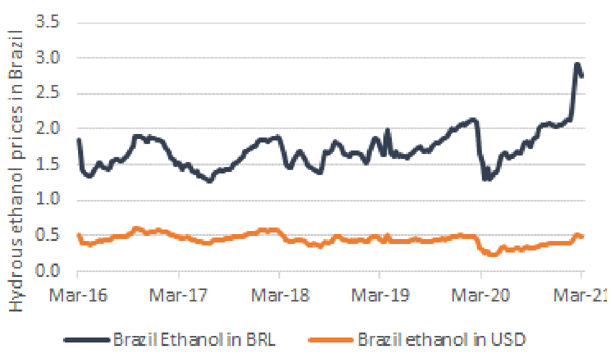
White premium remains well supported until October. Though they came off the peak a little bit, container shipping rates continue to be astronomical. For the time being and without being experts on the subject, we believe a return to normal prices and availability will take time, but as discussed in our podcast, some normalization is expected from Q2 onward. Bulk shipping rates have also been increasing, particularly for Panamax vessels, though they are not as astronomically high as container rates. Increased shipping costs continue to pose difficulties in exporting white sugar outside of and within Southeast Asia. This is limiting the amount of white sugar coming out of India in particular. This, together with the lower availability from traditional white exporters (Thailand, the EU, Russia) in 2020/21, leads us to conclude that there is little chance of the white premium going below USD 70/mt in the current season but it can weaken when these exporters see a recovery after October 2021.

White premium to be supported until October, but can weaken afterwards



Source: Bloomberg Finance L.P., Rabobank 2021

A spike in infections and the imminent start of the harvest are keeping ethanol prices at bay.



Source: Bloomberg Finance L.P., Rabobank 2021

Coffee

Coffee price forecast largely maintained

- Brazilian rain is seen as sufficient to maintain cherries over March.
- Brazilian real volatility has been extreme, resulting in the BCB raising interest rates by 0.75%.
- Speculative buying may come to a head when vaccine rollout is widespread and lockdowns ease.

After reaching highs of around USc 140/lb at the end of February, ICE Arabica second month came off peaks and traded at around USc 130/lb for the last two weeks. Weather, Brazilian real volatility, mixed export data, and heightened speculation have all been pushing and pulling coffee recently. Weather in Brazil has still been drier than normal over the last 30 days but sufficient to support cherries, with a small risk of a longer-than-expected La Niña leading to worsening dryness.

The Brazilian real had an extremely volatile month, trading as low as 5.90/USD – as Covid-19 infection rates continue to rise rapidly – before recovering to 5.50/USD after the Brazilian central bank made the decision to raise interest rates by 0.75%. If more interest rate hikes occur and the real strengthens further, Brazilian coffee exports may begin to slacken on slower selling, but this is unlikely given the high availability of last year's crop.

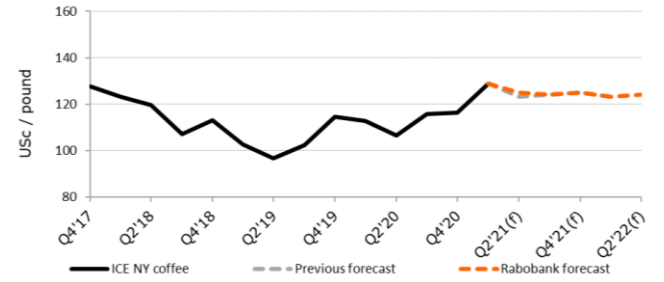
Exports have been down recently, but it is not likely to be a sign of lower availability – rather weaker demand. Recent export statistics from the ICO suggest global coffee exports for January fell -3.7% YOY but remain up year-on-year for the season so far (Oct-Jan), at 41.9m bags, mostly due to Brazil. Certified stocks have been rising, while the number of bags pending grading has been moving in fits and starts, adding volatility. The overwhelming majority of coffee continues to come from Brazil, but it could also be regradings. Honduran exports for February actually increased year-on-year for the first time this season, coming in at 762,000 bags, up from 759,000 bags a year ago. Meanwhile, according to the Peruvian coffee board, Peru is expected to show a production increase this coming season (from April), as good highland rainfall has led to official estimates of a 10% YOY increase to 4.3m bags.

Despite good availability this year, prices may remain supported as speculation continues to be an important driver. Non-Commercials appear to be slowly increasing their net long position across commodities as investors seek an alternative asset to low bond yields or a hedge against inflation. Speculative buying may come to a head if bond yields increase, but for now central banks seem determined to keep interest rates low in most developed economies, at least when it comes to government bonds.

Logistics are affecting the robusta trade. Shipping rates remain elevated, with few signs of any immediate easing, pressuring Vietnamese coffee exports. We discuss the shipping situation in more detail in our podcast. Meanwhile, certified stocks have risen a little in March, which is somewhat unexpected given the strong differentials of Vietnam and the end of the season in Brazil. Furthermore, consumption of robustas has not benefited from working-from-home culture as much as originally expected. Good availability from Brazil and other origins should be enough to keep prices in check going forward.

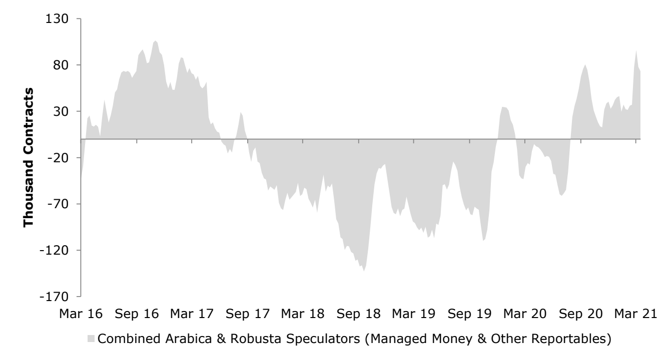
Coffee price forecast relatively unchanged

	unit	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
ICE Arabica	USc/lb	116	116	129	125	124	125	123	124
ICE Robusta	USD/mt	1348	1350	1370	1420	1420	1450	1480	1480



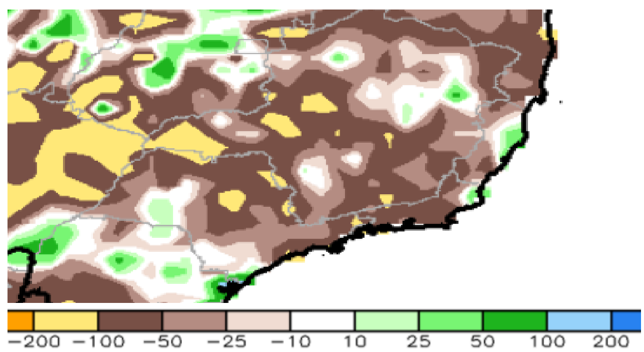
Source: Bloomberg Finance L.P., Rabobank 2021

Combined speculative net long position in both ICE Arabica and ICE Robusta remains elevated



Source: CFTC, Rabobank 2021

Rainfall in Brazil was drier than normal over the last 30 days, but sufficient to support cherries. mm anomaly:



Source: NOAA, Rabobank 2021

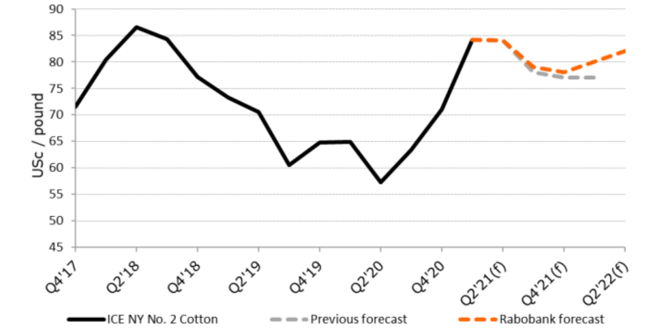
Cotton

ICE #2 Cotton comes under pressure, falling in-line with Rabobank's Q1 and Q2 2021 forecast

- Rabobank forecasts strength to persist through Q2 2021, with old crop contracts supported by a persistently high net unfixed call sales position.
- Phenomenal strength in 2020/21 US exports has led us to revise our seasonal export forecast to 15.8m bales.
- Weather risk extends to other major cotton regions, as heavy rainfall reaches Australia ahead of harvest.

ICE #2 Cotton forecast adjusted higher in later contracts

	unit	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f	Q2'22f
Cotton	USc/lb	63.4	71	84.2	84	79	78	80	82



Source: Bloomberg Finance L.P., Rabobank 2021

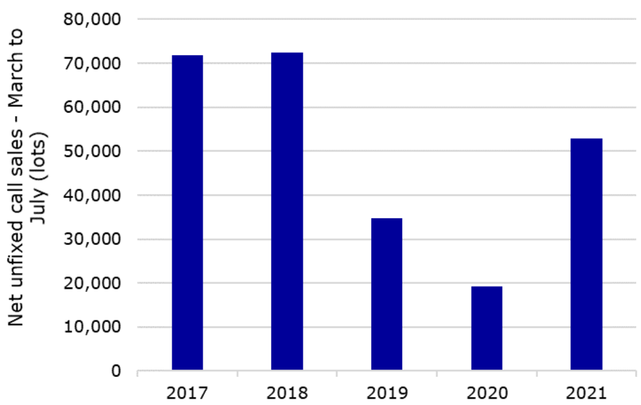
Strength persists across ICE #2 Cotton, largely in-line with Rabobank's short-term price forecast. This follows a sharp fall from February's price peak of USc +90/lb, which coincided with a 7% drop in Non-Commercial longs through the first half of March. However, Rabobank forecasts strength to persist through Q2 2021, with old crop contracts supported by a persistently high net unfixed call sales position – at 53,000 lots, as of 17 March. This position should limit price downside while it exists in the absence of significant certified stocks – currently 99,200 bales, as of 22 March. Beyond July, Rabobank forecasts the US balance sheet to dictate ICE #2 price direction. With a similar 2021 US area forecast YOY, at 12m acres, there remains a strong likelihood of further US stock erosion. Ongoing demand strength and the potential impact of La Niña on abandonment could exacerbate this tightness. As a result, Rabobank now forecasts Q4 2021 prices marginally higher at USc 78/lb, up from USc 77/lb last month. Much attention will be paid to the 31 March Prospective Plantings report this month, when the USDA releases its first estimates of US spring plantings.

Phenomenal strength in 2020/21 US exports has led us to revise our seasonal export forecast to 15.8m bales. This accounts for record shipments to date, coupled with a more conservative forecast pace for the remainder of the season.

China remains the driving force behind the strength, which is largely dictating global premiums. In Brazil, where Chinese inquiry continues, Rabobank notes improving basis alongside ongoing strength in the ICE #2 price. In contrast, Australia, where geopolitical tension has stemmed trade, we note a sharp fall in local basis through February and March. For the US, 15.8m bales of 2020/21 exports are set to cut domestic stocks to 3.85m bales – down 47% YOY – keeping the ICE #2 supported from a fundamental standpoint.

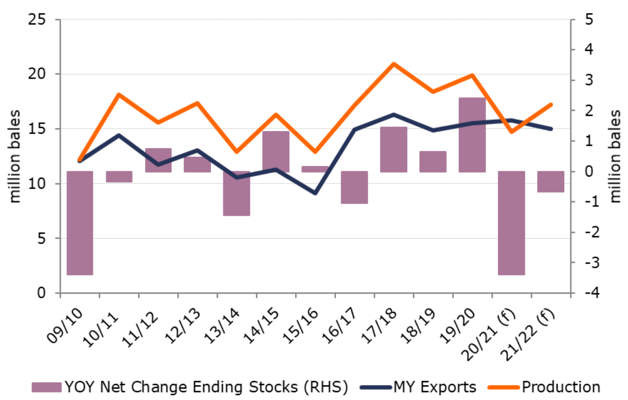
Weather risk extends to other major cotton regions, namely in Australia and Brazil. Recent heavy rainfall across Australia's east coast arrived ahead of the picking season. With earlier-planted cotton now open, the rains raise concerns over harvest operations and fibre quality – affected growers will be keen to receive drying sunshine soon. However, the rainfall should be beneficial to next year's crop potential – it is too early to quantify inflows into dams and waterways. In Brazil, the late soybean harvest – currently 59% versus 72% last year – has delayed cotton plantings to some degree. However, recent rains and sunshine – particularly across Mato Grosso – should provide a strong start to the season.

As of week 11, the CFTC's cotton on-call report shows a heavy 2021 net unfixed call sales position from March through July



Source: CFTC, Rabobank 2021

Rabobank's 15.8m bales 2020/21 export forecast is expected to drives a 47% YOY erosion in US stocks



Source: USDA, Rabobank 2021

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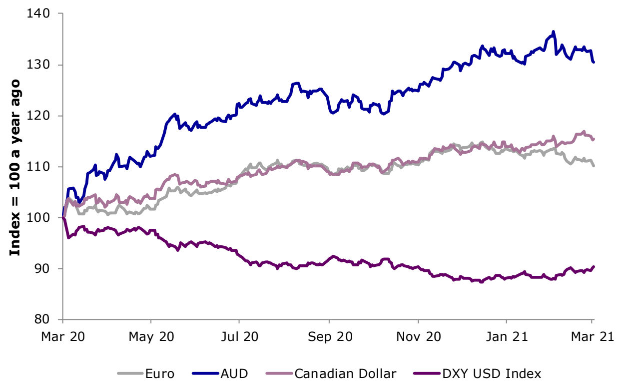
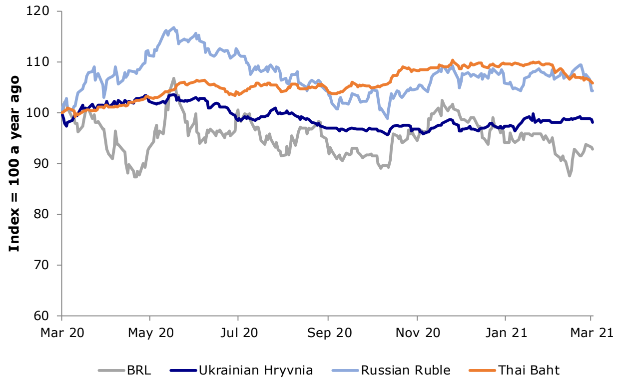
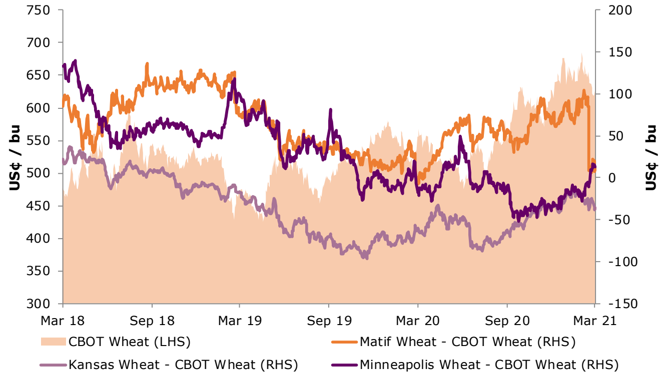
Global Currencies USD Cross

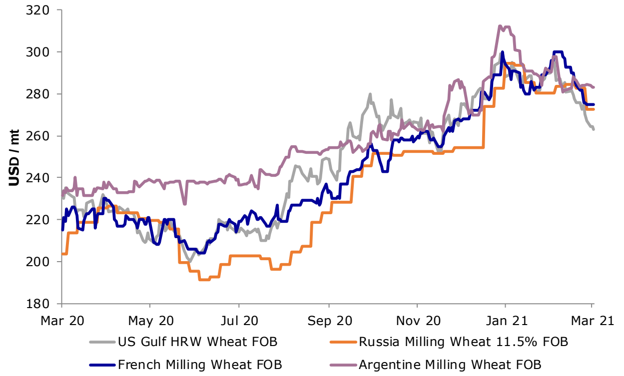




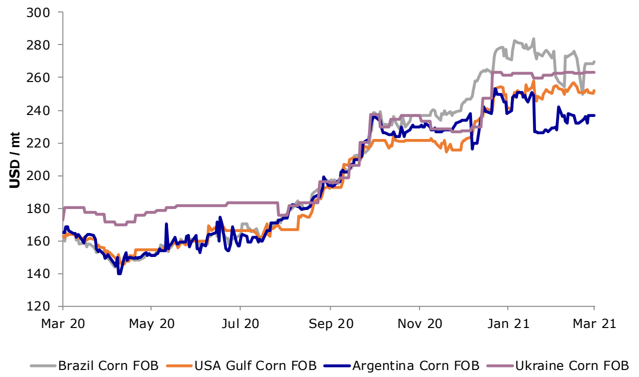
CBOT Wheat Spreads



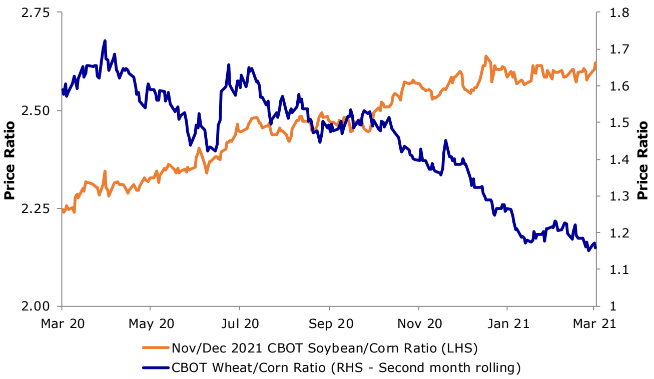
Wheat Protein FOB Prices



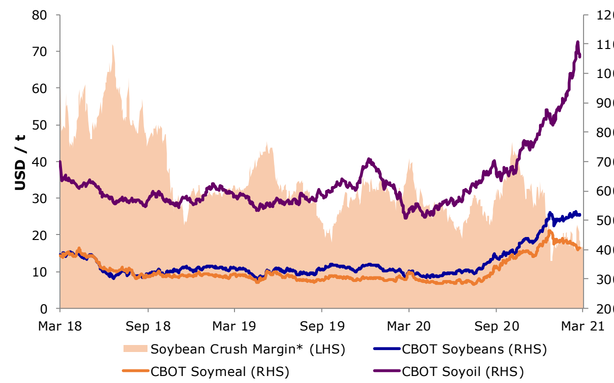
Corn FOB Prices



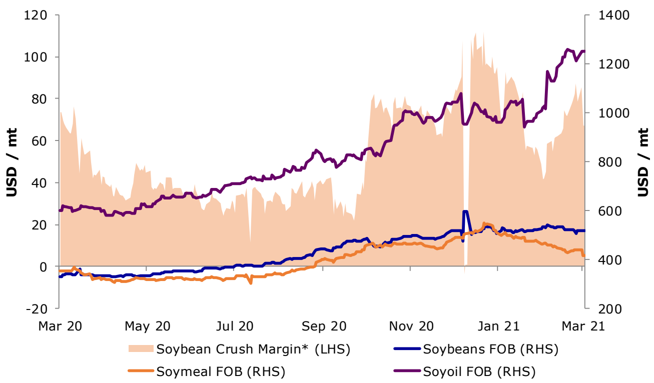
CBOT Ratios



CBOT Soybean Crush Margin



Argentina FOB Soybean Crush Margin



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

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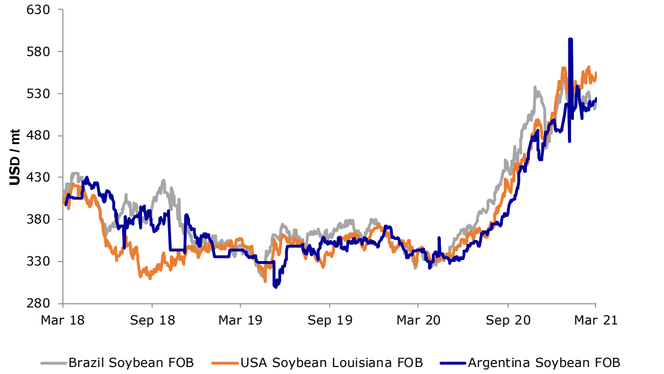
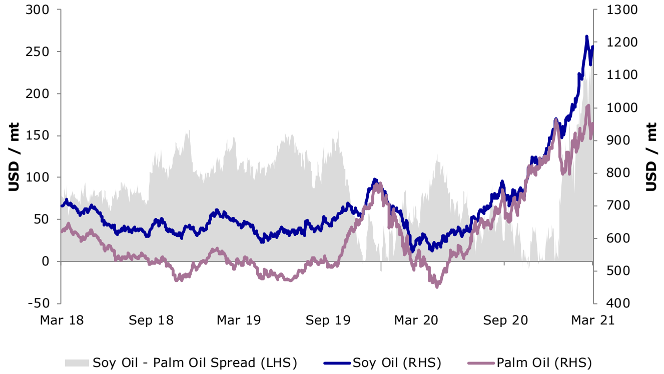
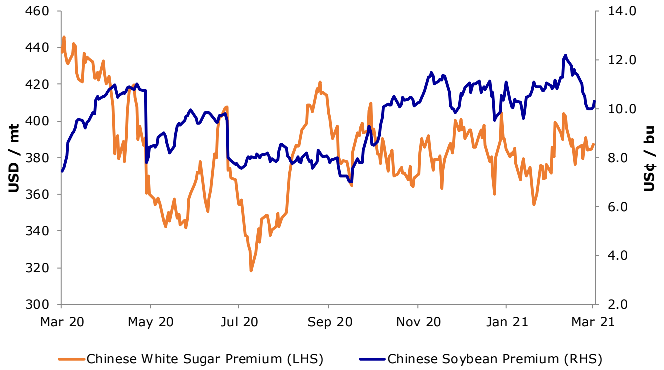
Soybean FOB Prices



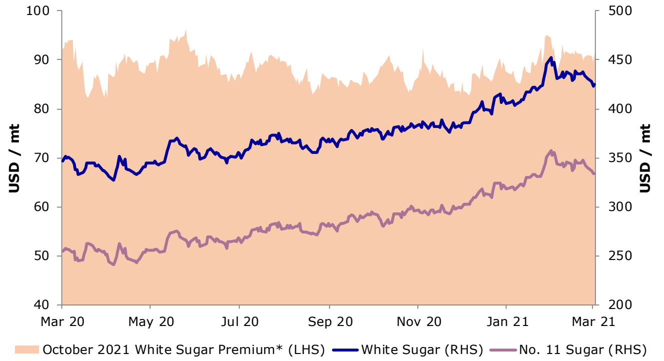
Palm Oil - Soy Oil Spread



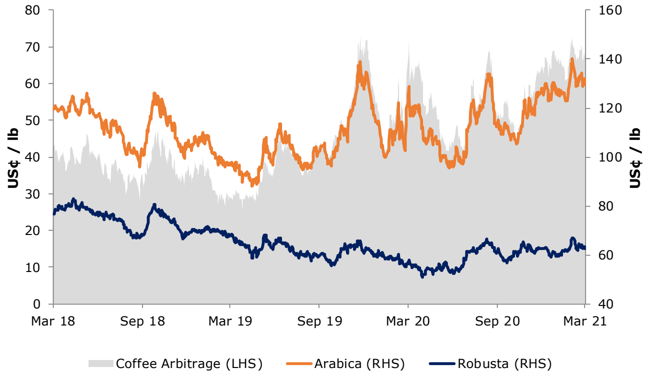
Chinese Futures Premiums



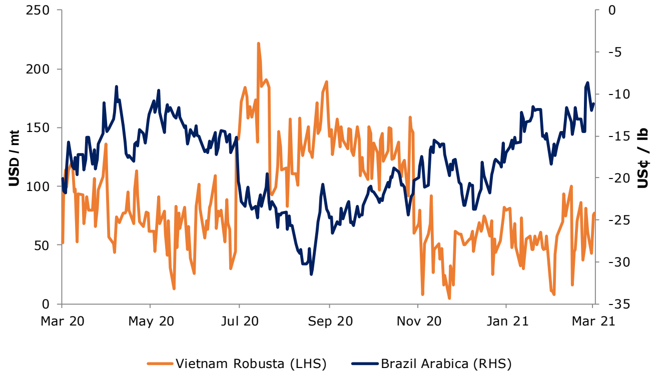
White Sugar Premium



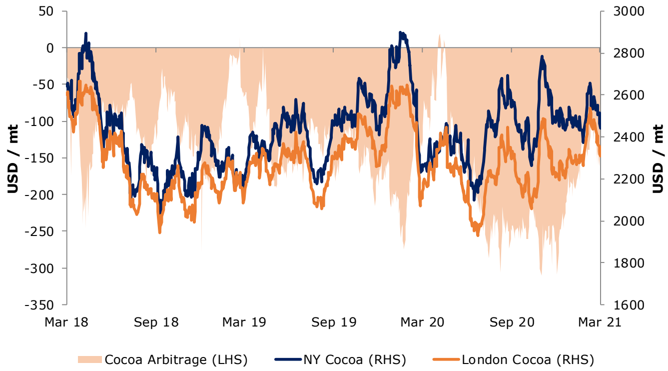
Arabica - Robusta Coffee Arbitrage



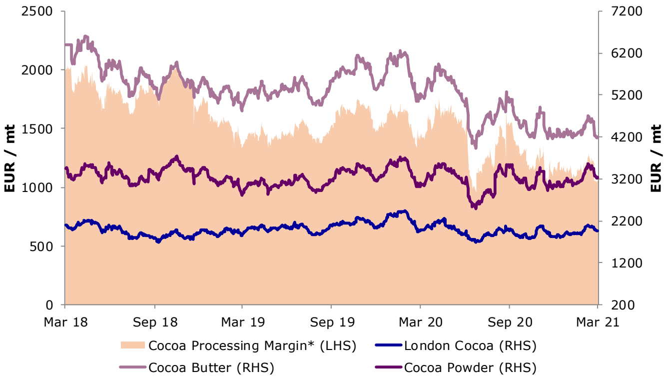
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

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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.

Disclaimer

Non Independent Research

A summary of the methodology can be found on our website