Agri Commodity Markets Research

March 2022: Breaking Bread

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Food & Agribusiness

far.rabobank.com

Carlos Mera
Head of ACMR
+44 20 7664 9512

Michael Magdovitz
Senior Commodities Analyst
+44 20 7664 9969

Grain and oilseed prices soared in March, driven by the ongoing war in Ukraine, which shows little sign of de-escalating. At present, Ukraine exports are blocked, while Russian exports are heavily disrupted. CBOT Wheat reached a record high in March, as – in addition to the supply shock caused by the war – US drought conditions in the Southern Plains provided further support for high prices. Since early March, peace talks have provided the market with some recent optimism. However, in our view, these talks are unlikely to be productive and the war will continue to provide support for global vegetable oil and grain markets. As supply concerns grow, high prices will not necessarily incentivize higher production given sky high fertilizer prices.

WHEAT

- Global wheat prices reached breathtaking new heights through March, amid Black Sea conflict.
- Rabobank believes some 15m mt of exports – 7% of global 2021/22 exports – remain trapped in the Black Sea.
- Bullish longer-term drivers will keep wheat prices well elevated through late 2022 and early 2023.

SUGAR

- Brent prices have increased 20% vs. a month ago due to the invasion of Ukraine. This will provide support to sugar prices, but nearby production expectations are also strong.
- Availability and use of fertilizers, particularly in late 2022 and 2023, is a major concern, especially among smaller farmers in developing countries.

CORN

- The tragic war in Ukraine will deprive global feed companies of irreplaceable corn supplies through 2023.
- Record fertilizer/input costs and acreage limitations erode corn farmer profitability and selling interest.

COFFEE

War and high prices undermine coffee's post-Covid demand recovery

- ICE Arabica certified stocks have increased slightly.
- Rainfall over Brazil's coffee areas has been quite deficient in March. But soil moisture was excellent in February.

SOY COMPLEX

Poor South American soy harvest joins Black Sea sunflower shortfall to send CBOT Soybeans higher

- South American farmers, in addition to inflationary pressures, face La Niña-caused crop deterioration.
- Demand rationing appears inevitable; China crush margins have fallen, foreshadowing lower imports.

Dairy

Milk supply remains tight and geopolitical risk raises the stakes in an already high-price environment.

- Milk production declines are coming in lower than anticipated in many key dairy-producing regions.
- The Russia-Ukraine war will have limited direct impacts on dairy markets since trade there was already negligible.

PALM OIL

- Geopolitical tensions add volatility to a tight global vegetable oil market.
- Malaysian palm oil production will increase month-over-month in March 2022.
- The widening spread between soy oil and palm oil prices increases palm oil attractiveness.

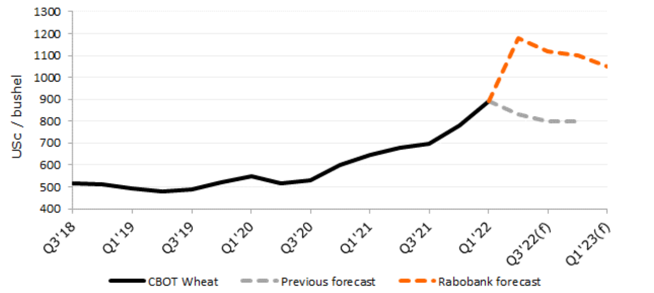
Wheat

Global wheat prices reached breathtaking new heights through March, amid Black Sea conflict

- Rabobank believes some 15m mt of exports – 7% of global 2021/22 exports – remain trapped in the Black Sea.
- Short-term demand destruction is forecast to emerge at such elevated physical price levels.
- Bullish longer-term drivers will keep wheat prices well elevated through late 2022 and early 2023.

Prices forecast increased to reflect higher geopolitical risk

	unit	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f	Q1'23f
CBOT	USc/bu	680	698	779	820	**1180**	**1120**	**1100**	**1050**
Matif	EUR/mt	219	234	284	305	**390**	**360**	**350**	**330**



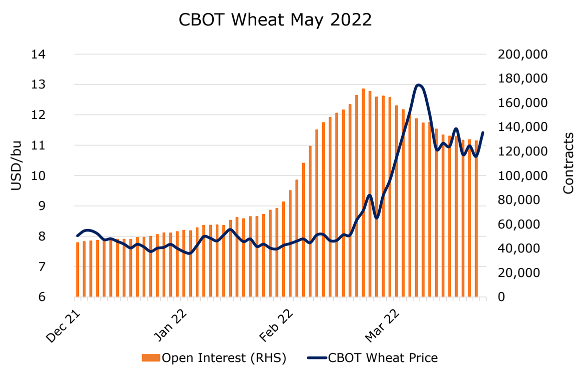
Source: Bloomberg Finance L.P., Rabobank 2022

March saw global wheat prices reach record highs, as Russian forces invaded Ukraine, causing widespread supply disruption. The invasion has prevented all grain flowing from Ukraine, while, for Russian ports, shipping is not blocked but rather riddled with sanctions. Rabobank believes some 15m mt of exports – 7% of global 2021/22 exports – remain trapped in the Black Sea at present. A rapid reshuffle in global trade flows, alongside panic buying, drove a staggering surge in CBOT Wheat. Four consecutive days of limit up trading were recorded in March. Still, several major import tenders (Algeria, Tunisia, Iraq, Iran, Mexico, etc.) were filled, with alternative origins stepping up, such as the EU (EU exports rose 5% YOY). The USDA's initial reaction brought a partial cut to 2021/22 export forecasts – Russian exports were cut 3m mt, to 32m mt, while Ukrainian exports were cut to 20m mt, down 4m mt MOM. These cuts will be much more dramatic in our view, but are almost impossible to quantify at this stage. There are few signs of real de-escalation, and, even in the (improbable) event of productive peace talks, Black Sea exports appear very unlikely to return to pre-war levels given ongoing tensions between Russia and the West.

Rabobank holds a slightly bullish short-term price view. Firstly, Rabobank sees some weakness in the market due to hopes of successful peace talks. In our view, peace is unlikely, and Russian demands are too high to be met. The war also seems to have unleashed food security concerns in other countries, including Argentina's effort to decouple local prices from the international market. On the other hand, demand destruction is forecast to emerge at such elevated physical price levels – French wheat is priced at USD 450/mt for May, with US gulf offers at USD 462/mt. This was apparent in 2012, when USc 950/bu CBOT Wheat levels correlated with a 0.5% YOY decline in global 2012/13 consumption.

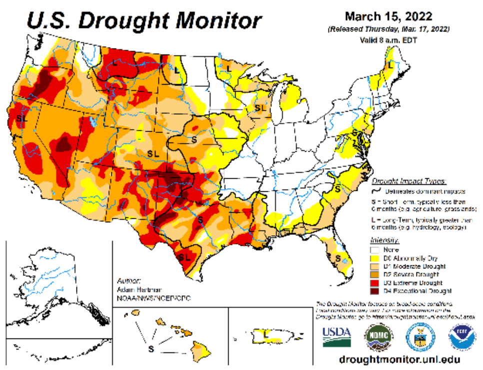
Bullish longer-term drivers will also keep wheat prices well elevated through 2022 and early 2023. Global 2021/22 stock forecasts, both for the US and the world, remain tight by historical standards. Looking to 2022/23, Rabobank notes limitations to world production increases, due to sky-high fertilizer and input prices, limited area for acreage expansion, and extremely strong alternative crop margins, particularly oilseeds. For Ukraine in particular, a decline in new crop yields is forecast amid a lack of husbandry and fertilizer applications on account of the war effort. Weather risk remains considerable as drought extends across the US Southern Plains. Ranging from abnormal to exceptional, this dryness threatens to hamper crop conditions and, ultimately, final yield results. With a scenario of unsuccessful peace talks and a continuous destruction of Ukrainian agriculture, Rabobank forecasts CBOT Wheat at over USD 11/bu by the end of 2022.

CBOT Wheat rises to breathtaking new heights in March, but open interest suffers amid the mammoth volatility



Source: Bloomberg, Rabobank 2022

Dryness continues to threaten production in the US Southern Plains, a longer-term bullish driver



Source: NOAA, Rabobank 2022

Corn

CBOT Corn bulls may be the only animals getting fed

- The tragic war in Ukraine will deprive global feed companies of irreplaceable corn supplies through 2023.
- Record fertilizer/input costs and acreage limitations erode corn farmer profitability and selling interest.
- La Niña drought has cut South American corn production, denying the world a critical (non-US) corn export valve.

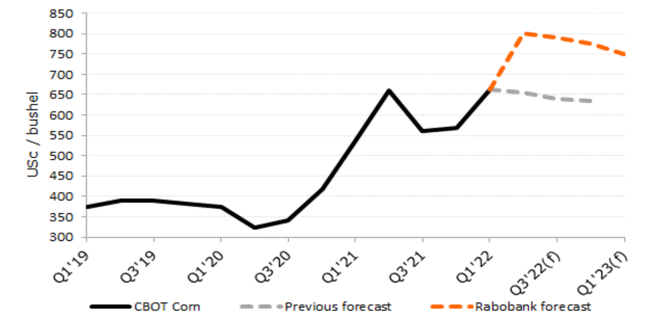
The ports of the world's fourth largest corn exporter have been closed, and grain prices are soaring. CBOT Corn rose 16% last month, as short supplies, record fertilizer costs, and a feed grain frenzy require prices to reach rarified, exclusive air. The December contract has, once again, exceeded our bullish forecast of USD 6.35/bu. Our base scenario is that Ukraine's 15m mt of corn will remain unreachable, and that its 42m mt 2022/23 spring crop will largely go unplanted. These supplies are irreplaceable, but that's not stopping some countries reliant on Ukraine, including China and Europe, from frantically seeking alternative suppliers to bridge some of the shortfall. We are also seeing policy proposals from the EU and others to promote greater feed grain security. If these proposals come in the form of fallow land usage or lower import restrictions, that would improve global feed availability. If instead countries opt for protectionist policies like export restrictions (an increasing trend), it would exacerbate global feed scarcity and inflation, particularly for import-dependent countries.

With Ukraine absent, the reliable corn origin is the US. In fact, the US has experienced a tremendous surge in export sales over the last month, including a season record of 2.15m mt in the first week of the war. As it stands, US 2021/22 commitments are more than 52m mt: 82% of the USDA's 2021/22 target and 1% ahead of the five-year average pace. No wonder the USDA raised its export target this month by 75m bu, to 2.5 bn bu, the second highest on record. ACMR's 2021/22 US corn export projection is even higher, at 2.65bn bu, due to the lack of any South American export valve. Even with a significant demand contraction, US and world (excluding China) stocks-to-use are seen languishing below 8% in 2022/23.

La Niña drought is making a tight feed situation worse, cutting 2021/22 corn crop production estimates in Brazil and Argentina by around 15m mt, or 9%. CBOT Corn is rising to deter global feed demand just as much as it is to incentivize selling (and larger plantings) by reluctant farmers facing record fertilizer costs and uninspiring yields for a second consecutive year. The inflationary dynamic in CBOT Corn can be controlled, but not unwound, by improved moisture prospects for drought-stressed safrinha and US corn areas. With few sellers in the market and generalized scarcity in G&O, it's more likely CBOT Corn inflation will be cooled from the demand side. Animal protein producers facing compressed or negative margins will shrink their herds. If that happens, meat prices could rise or food portions could shrink. Our post-Covid global corn demand, once pegged at 5% for 2021/22, has been revised down to 2%; due to Ukraine's absence 2022/23 could see a contraction of as much as 3%. That rationed demand – unless it comes in the form of an ethanol policy freeze/rollback – won't disappear. It will simply await supply recovery. CBOT Corn price risk is firmly skewed to the upside, supported by scarce supplies and tremendous farmer input inflation. Rabobank raises its forecast by roughly USD 1.50/bu across the curve, and sees 2023 begin at around USD 7.50/bu.

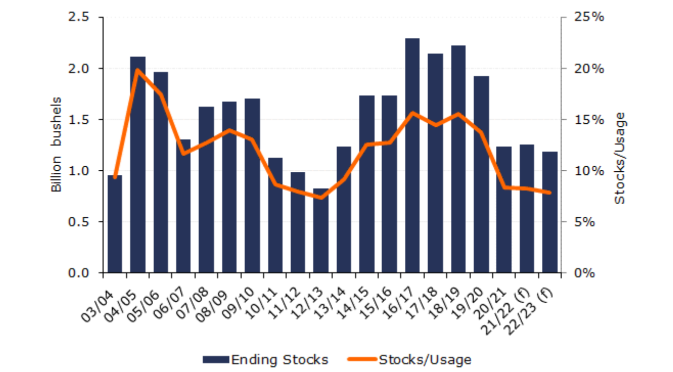
We expect CBOT Corn will rise to ration demand

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f
Corn	USc/bu	659	560	559	662	800	790	775	750



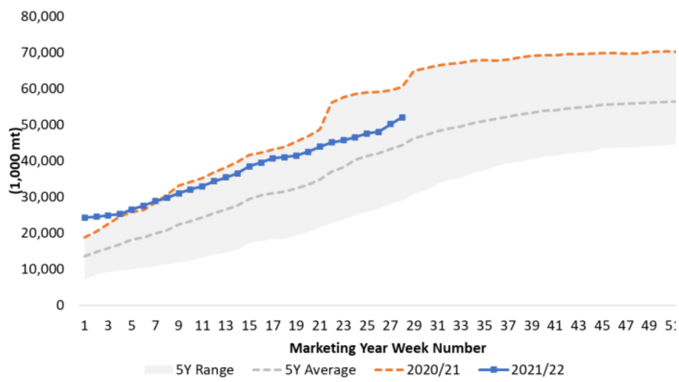
Source: Bloomberg Finance L.P., Rabobank 2022

US corn stocks-to-use will fall to a decade low below 8%



Source: USDA, Rabobank 2022

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



Source: USDA, Rabobank 2022

Soybeans

Poor South American soy harvest joins Black Sea sunflower shortfall to send CBOT Soybeans higher

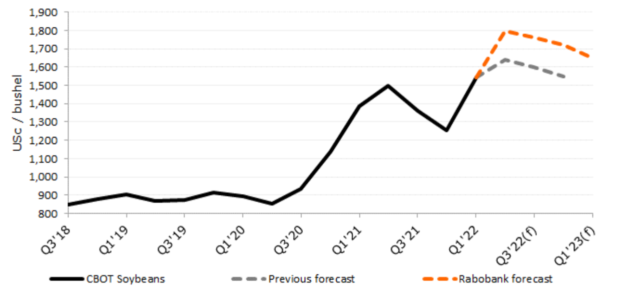
- Brazilian and Argentine farmers, in addition to inflationary pressures, now face La Niña-caused crop failure.
- US supplies are being called upon but are clearly insufficient to fill the capacity shortfall.
- Demand rationing appears inevitable; China crush margins have fallen, foreshadowing lower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

Exporters' soy stocks were already short before 10m mt of Black Sea sunflower seed were suddenly thrown into jeopardy last month. The combined impacts of the war and La Niña-felled South American supplies are terrible for consumers of vegetable oil and meal – and fascinating for speculators. Managed money bought 132k net lots over the last three months – and they have been rewarded, as CBOT Soy prices rose by a third, to a lofty USD 17.30/bu. South American production estimates have fallen by almost 35m mt in 2021/22; nearly 40% of global stockpiles. Commercial buyers face supply issues in soy, sunflower seed, rapeseed, and palm, which has set the stage for a speculative surge and record oilseed inflation.

The USDA was slightly more assertive in its cuts to South American soy in the March WASDE (Brazil -7m mt, Argentina -1.5m mt, Paraguay -1m mt MOM), but remains positively glacial relative to the market. There remains 10m mt of downside. Brazilian farmers are holding back sales; these remain pitifully slow relative to the fast harvest pace. Brazilian exports will drop 6.6m mt YOY to ~75m mt. While late rains avoided complete disaster, as things stand, the impacts are enormous. Paraguayan soybean production has been cut by 60% to 4m mt, practically eliminating a significant exporter. Argentina's ~39m mt production implies a meager 35m mt crush (-13% YOY) for the world's largest exporter of soy by-products. The situation is bad enough that Argentina hiked export taxes on by-products by 2 points to 33%, making it ever less competitive in the world market.

CBOT Soy's La Niña woes exacerbated by Black Sea shortfall

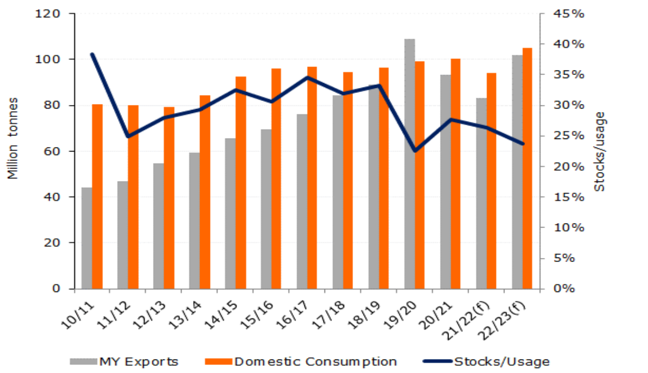
	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f
Soy	USc/bu	1497	1361	1238	1580	1800	1760	1720	1650



Source: Bloomberg Finance L.P., Rabobank 2022

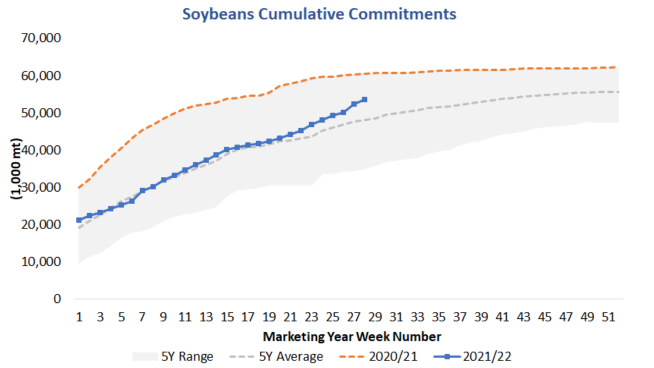
Of course, the US stands to benefit from Argentina and Brazil's shortfall, but there are no big winners here. CBOT Soy's rise to record levels reflects strong US export sales, but also an inability among suppliers to satisfy global demand. Most notably, China's soy story has rapidly turned bearish, as low Brazilian supplies depress local animal protein producer margins and soy imports – the latter is now seen at 93.5m mt (-6.2m mt YOY). European livestock producers, meanwhile, are facing tremendous margin pressure and are agonizing as meal and grain availability from the Black Sea and South America dries up. Soaring feed prices have the potential to drive livestock herd contraction globally. Indeed, we see rationing as a necessity as the US absorbs some, but not all, spillover demand. US export sales were very slow to start the season but have been flying since. The last two weeks saw 4m mt sold, and US export commitments are at 94% of the USDA's (upward-revised) full-year target of 2,090m bu. No doubt strong US exports, crush, and output will be reflected in future WASDEs, as Argentina and Ukraine's crush gap brings renewed interest for US soymeal and oil exports. US 2021/22 stocks-to-use will likely finish below 5%, the lowest level in eight years. In normal times, that would spark a furious rush for acreage, yet feed grain supplies are under even greater strain. Even with record fertilizer prices, the competition from corn will be fierce, likely depriving US soy planted acreage from 89m acres and a substantive resupply. ACMR raises its forecast for CBOT Soybeans USD 1.50/bu, to USD 16.50/bu in Q1 2023, as price risks are likely to remain extremely elevated through next year.

Consecutive La Niña drought events cause South America export/crush declines, with recovery not seen until next year



Source: USDA, Rabobank 2022

US soy export commitments soar as China and others search outside of South America and the Black Sea for supplies



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

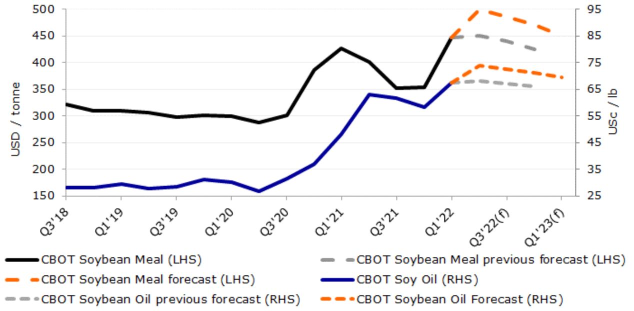
- US crush margins are healthy, and output has improved.
- Argentina's potential harvest failure far outweighs China's lower soymeal demand outlook.
- CBOT Soy Oil is experiencing strong domestic and export demand amid the broader vegetable oil shortfall, but strong energy markets underpin its support.

CBOT Soy Oil is shining even brighter this month, +7.5% to USc 75/lb, as darkness falls over Ukraine's sunflower fields. The war in Ukraine is putting an unbearable strain on global vegetable oil markets, already made tight by weather woes in Southeast Asia (palm) and North and South America (soy and rapeseed). Vegetable oil buyers are too numerous – biodiesel, food, and feed – and rationing is likely in all of these areas. Policymakers across the world are grappling with the tripling of vegetable oil prices, with some rolling back biodiesel mandates. It isn't enough to sate human consumption. We're likely to see ingredient labels change later this year and sunflower oil absent from some shelves, as Ukraine and Russia dominate global sunflower seed production, and prospects of normal 2022/23 harvests, crush, or trade are slim to none.

Vegetable oil procurement options in 2022 are made worse by recent export tax rises (read looming protectionism) in Argentina and Indonesia. The US is shouldering some of the global oil shortfall, despite constraints from its newly domesticized soy oil market (biodiesel is 40% of demand, up from 35% last year). Last week, the USDA cut Argentine soy oil output and raised US exports, but both of these figures remain understated. Argentina's soy harvest (39m mt) will diminish its crush by about 13% YOY, causing issues for soy oil (typically 50% of world trade) and meal (40% of world trade). The inability of Argentina's principle competitor, Brazil, to markedly increase crush output makes the situation more difficult.

High CBOT Soymeal and Oil prices can rise further

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f
Soymeal	USD/ton	404	352	342	446	500	485	470	450
Soy Oil	USc/lb	63.2	61.8	59.5	67.0	74.0	72.5	71.0	69.5

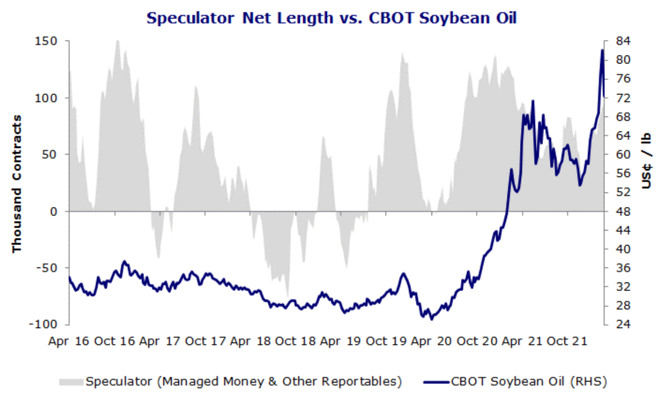


Source: Bloomberg Finance LP, Rabobank 2022

Global demand is migrating to North America this spring and may stay there through 2022. US 2021/22 soy oil commitments are an enormous 21% ahead of the five-year average. The USDA will continue to cut back biofuel use in a ration(al) exchange for higher food exports, as we have long predicted. US crush margins and output are healthy (NOPA last month was 165m bu, the second highest February on record) and will continue to perform through next year. Non-commercials have leapt on the scarcity dynamic in oil: their net length last week was 59k lots, the highest in nearly a year. Low global supplies, growing US demand, and strong Brent crude prices lead us to raise CBOT Soy Oil to USc ~70/lb by Q1 2023.

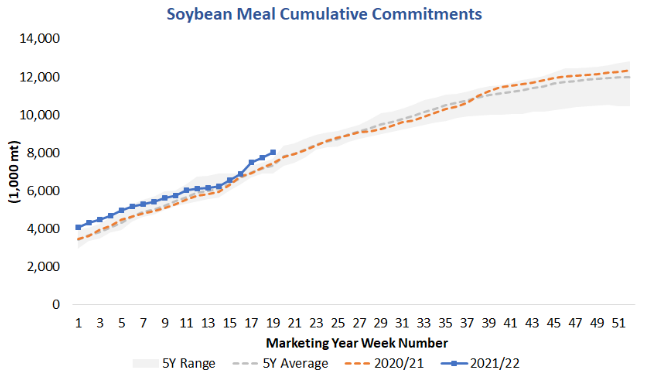
Oilseeds are scarce, feed grains even more so. Animal feeders are in a bidding frenzy for available supplies, and the pendulum continues to swing back towards meal, which underperformed in 2021. That dynamic helps explain CBOT Soymeal's 4% MOM increase to USD 485/tn. US 2021/22 soy carry-out is being drawn down towards 200m bu and will remain near those paltry levels in 2023 amid acreage competition from corn. Low US stockpiles of soy and feed grains underpin CBOT Soymeal around USD 450/tn into 2023. That expectation already reflects rationing, especially in China, where 2022 soymeal use is expected to be flat year-on-year.

Funds are increasingly long on CBOT Soy Oil amid a global supply shortage made worse by Russia's invasion of Ukraine



Source: CFTC, Rabobank 2022

US soy oil commitments are 21% above the five-year average



Source: USDA, Rabobank 2022

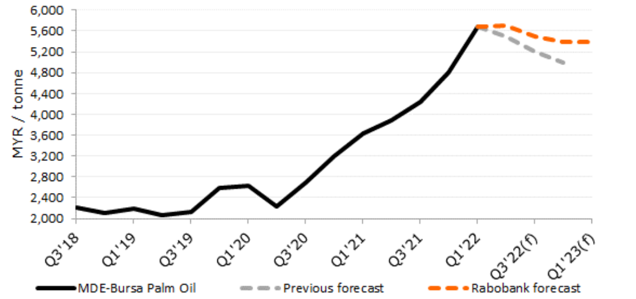
Palm Oil

External factors will keep palm oil prices volatile in the short to medium term

- Geopolitical tensions add volatility to a tight global vegetable oil market.
- Malaysian palm oil production will increase month-over-month in March 2022.
- The widening spread between soy oil and palm oil prices increases palm oil attractiveness.

We revise up our 2022 palm oil prices forecast

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22(f)	Q3'22(f)	Q4'22(f)	Q1'23(f)
Palm Oil	MYR/tonne	3,850	4,246	4,807	5,750	5,700	5,500	5,400	5,400



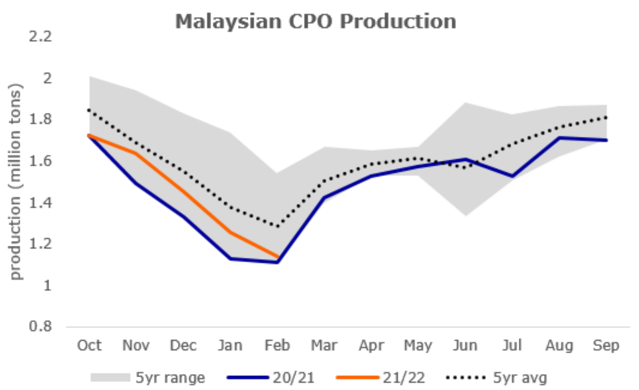
Source: Bloomberg, Rabobank 2022

Geopolitical tensions add volatility to a tight global vegetable oil market. The Russia-Ukraine war could potentially reduce availability of sunflower oil in 2022, resulting in further tightening of vegetable oils. This, combined with high global crude oil prices and the Indonesia's decision to increase the domestic market obligation (DMO) quota to 30% in early March 2022, provided further support to palm oil prices. As a result, the MDE-Bursa Palm Oil active contract rose above MYR 7,000/mt in early March 2022, but it subsequently corrected to below MYR 6,000/mt in 2H March. Further policy changes by Indonesia to remove retail price caps for packaged cooking oil, subsidize bulk cooking oil sales, remove the DMO quota, and modify the palm oil export levy structure also provided bearish pressure. We expect MDE-Bursa Palm Oil active contract prices will remain above MYR 5,500/mt in Q2 2022. However, we also expect global palm oil prices will be lower in 2H 2022 vs. 1H 2022 due to the seasonal palm oil production upcycle in Southeast Asia and expectations of an improving labor situation in Malaysia. Due to the recent increase in prices, we have revised our palm oil outlook for 2022 upwards to an average of MYR 5,700/mt in Q2, MYR 5,500/mt in Q3, and MYR 5,400/mt in Q4 2022.

Malaysian palm oil production will increase MOM in March 2022. According to the MPOB, Malaysian February 2022 palm oil production decreased by 9.3% MOM to 1.13m mt, due to lower-than-expected monthly production in Sabah and Sarawak. Meanwhile, Malaysian February 2022 exports decreased by 5.3% MOM to 1.09m mt. This was despite the fact that Indonesian exports were lower MOM in February 2022, due to Indonesia's DMO policy. This provides further confirmation that high palm oil prices continue to limit importers' purchasing power. As a result, Malaysian February 2022 inventories decreased by 2.1% MOM to 1.51m mt. We expect Malaysian palm oil production will improve in March 2022, due to longer working days and positive yield prospects.

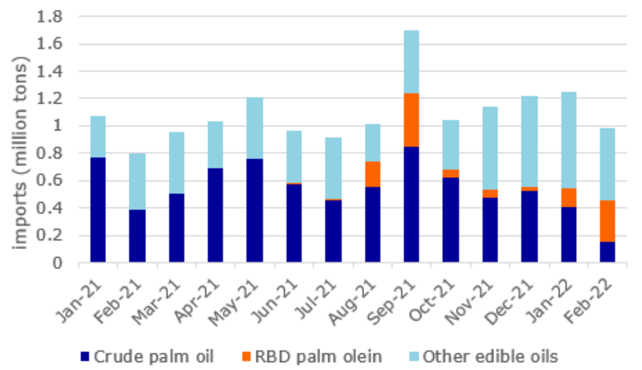
The spread between soy oil and palm oil widens. According to the Solvent Extractors Association of India, Indian February 2022 edible oil imports decreased by 21.4% MOM to 983,608mt. While Indian edible oil importers are still expected to buy hand-to-mouth, we expect Indian palm oil imports will increase due to palm oil price competitiveness and the necessity of replacing volumes of sunflower oil imports traditionally sourced from Ukraine. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contracts widened to around USD 190/mt in the third week of March 2022, compared to around USD 80/mt in mid-March 2022.

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



Source: MPOB, Rabobank 2022

Indian February 2022 edible oil imports decreased by 21.4% MOM to 983,608mt



Source: SEA India, Rabobank 2022

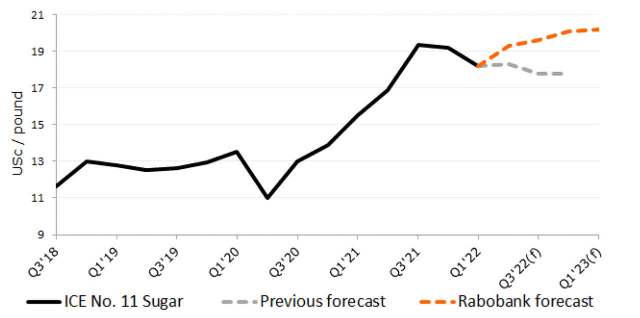
Sugar

ICE #11 Sugar supported by higher energy prices but somewhat offset by Indian exports

- Brent prices have increased 20% vs. a month ago due to the invasion of Ukraine. This will provide support to sugar prices, but nearby production expectations are also strong.
- Availability and use of fertilizers, particularly in late 2022 and 2023, is a major concern, especially among smaller farmers in developing countries.

ICE #11 Sugar prices increase amid higher energy prices

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2,22f	Q3,22f	Q4,22f	Q1'23f
Sugar	USc/lb	16.9	19.3	19.3z	18.2	**19.3**	**19.6**	**20.1**	**20.2**



Source: Bloomberg Finance LP, Rabobank 2022

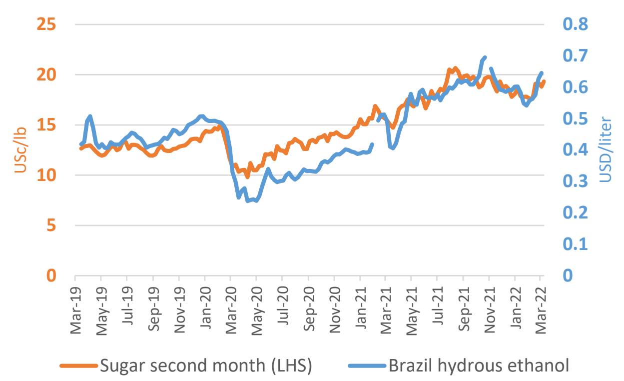
ICE #11 Raw Sugar saw broader support from energy markets, offset somewhat by strengthening 2022 production prospects. There are some key upside risks currently at play that could see sugar prices breaking above the recent range, including increasing international energy prices that could be transferred to Brazilian ethanol in the future and a potential disruption in fertilizer supply chains.

The more immediate effect of the Russia-Ukraine war on sugar comes via energy markets. However, in the longer term, Rabobank notes significant risks to European beet area stemming from direct cuts to Ukrainian plantings (up to 50%), exceptionally strong EU cereal prices, and the ballooning cost of fertilizer. The development is positive for the white premium – now USD 111/mt on the second month, up 20% from February. In the longer term, a trend towards food security and stockpiling – particularly in cereal markets – could also translate into short- to medium-term support for sugar prices.

Petrobras raised the producer price of Brazil's domestic gasoline by 18% in March, supporting the spot ethanol parity towards USc 19.5/lb. Economics would suggest that this news has potential to shift Brazil away from max sugar. However, for now, we still forecast max sugar, as domestic ethanol is subject to volatility in both energy and politics, especially ahead of the October election. It's also worth noting that Brazil scrapped its ethanol import duty through 2022, although the impacts on trade appear limited. Rainfall across Brazil's cane areas was excellent at the start of the year, but now weather has taken a turn, and though soil moisture was good to start with, this could become a concern if the dry weather continues. Domestic cane crush could start a little later than usual in order for mills to maximize sugar content. Still, this should not raise concerns from a trade flow perspective, as heavy supplies flow from Asia and the subcontinent.

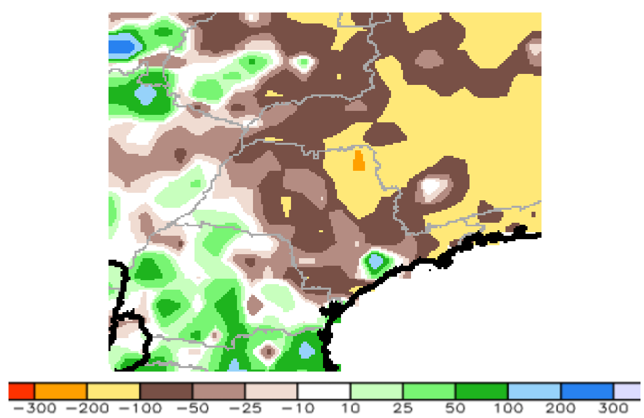
Strong 2022 global production is forecast, amid exceptional Indian and better-than-expected Thai crush results. Indian forecasts now exceed 34m mt. The Indian Sugar Mills Association reports that cane production is up 9% YOY. With an 8m mt export program (if not larger) now being possible, India's export parity – currently around USc 18.5/lb – represents a resistance level that will be active in the coming couple of months. For Thailand, cane expectations reach 95m mt despite challenging harvest operations. Short-term sugar availability will likely prevent sugar prices from breaking beyond USc 20/lb in Q2 2022, but lower fertilizer use will likely lead to higher prices towards 2023.

Brazilian ethanol prices have recovered with the increase in international energy prices, but politics will be at play



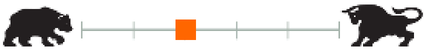
Source: Cepea, Bloomberg Finance L.P., Rabobank 2022

From heavy rain to drier-than-normal weather in Brazil CS-30 day rainfall anomaly (mm)



Source: NOAA, Rabobank 2022

Coffee



War and high prices undermine coffee's post-Covid demand recovery

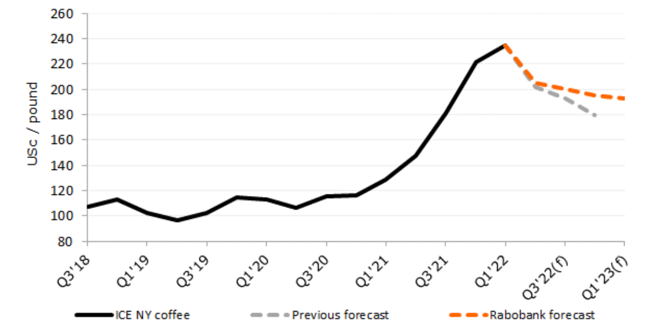
- ICE Arabica certified stocks have increased slightly, coinciding with a drop in prices, a decline in logistical bottlenecks from Brazil, and worries about consumption in Russia and Ukraine.
- Rainfall over Brazil's coffee areas has been quite deficient in March. But soil moisture was excellent in February, and for now we do not see this dry spell having an immediate effect on the crop.

ICE Arabica prices have been weakening since mid-February. Prices declined from a peak of USc 258/lb as of February 9 to USc 226/lb as of March 23. This trend has been getting close to our relatively bearish price forecast, but admittedly, risks abound. It would be easy to attribute much of the recent price drop to the war in Ukraine. Russia consumes about 4.3m bags and Ukraine about 1.4m bags (the combined amount is 3.5% of global demand). With the plummeting of these two countries' currencies, the difficulty in making payments in Russia, not to mention the difficulty in importing and distributing anything to Ukraine, we expect to see a significant drop in consumption in the region. At the moment, a 50% drop in Ukraine and 20% drop in Russia (a total loss of 1.5m bags) sounds possible, but these estimates contain a large margin of error, and imports will depend on the length of the conflict and on the supply chains into the two countries. It is also quite likely that imports into Russia have halted until payment options are assessed.

There have been other bearish factors at play. Very high coffee prices are being passed on to consumers at a time when inflation is a major concern in most of the developed world and limits disposable income. This, together with the effects of war, undermines any idea of a post-Covid bounceback in demand. Brazilian exports have continued to run at high levels

Arabica forecast increased but still bearish

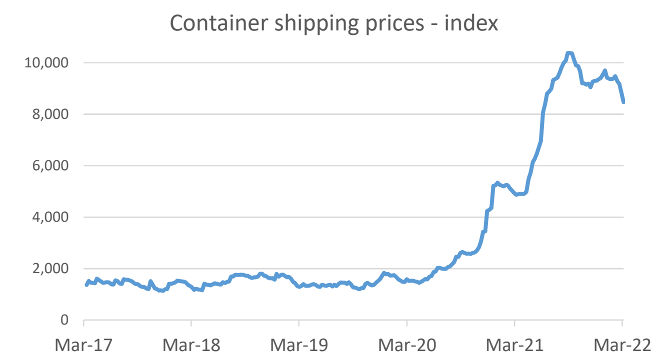
	unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1' 23f
ICE Arabica	USc/lb	147	181	176	235	205	200	195	193
ICE Robusta	USD/mt	1512	1911	2000	2196	2150	2050	2000	1850



Source: Bloomberg Finance L.P., Rabobank 2022

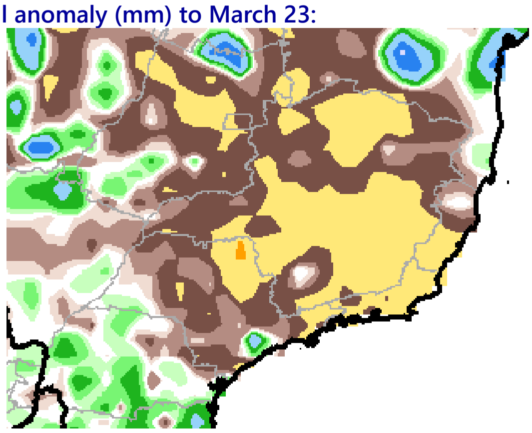
– posing questions about the lowest end of crop estimates for the 2021/22 crop out there. Though bottlenecks are still an issue, there is less of a backlog in the top producer and exporter, and shipments in bulk are becoming more and more common. Furthermore, there has been an unusual increase in ICE Arabica certified stocks, from just under 1m bags at the end of February to 1.13m bags as of March 22. This may mean that coffee that was meant to be processed and exported to Russia or Ukraine was instead recertified until the situation stabilizes. But, there is likely a high degree of speculative activity in those stocks, so, in our view, they represent less of a price signal than usual. Also, excellent rainfall over the main Brazilian arabica coffee areas between December 2021 and February 2022 has resulted in a strong recovery of tree growth and excellent bean formation. For more information about our expectations for the 2022/23 crop in Brazil, please read our recent survey. As it came towards the lower end of expectations, we reduced the bearishness in our forecast. March has been drier than normal in most coffee areas of Brazil, but given excellent rains in recent months, this may not be an immediate issue. However, if the weather remains drier than normal before the harvest, then that would have a detrimental impact on our crop expectations for arabica (not so much for robusta).

Global container shipping prices continue to be sky high, but shipments in bulk are becoming more common



Source: Bloomberg Finance L.P., Rabobank 2022

Brazilian coffee areas took a turn to drier weather; 30-day rainfall anomaly (mm) to March 23:



Source: NOAA, Rabobank 2022

Dairy

Milk supply remains tight and geopolitical risk raises the stakes in an already high-price environment.

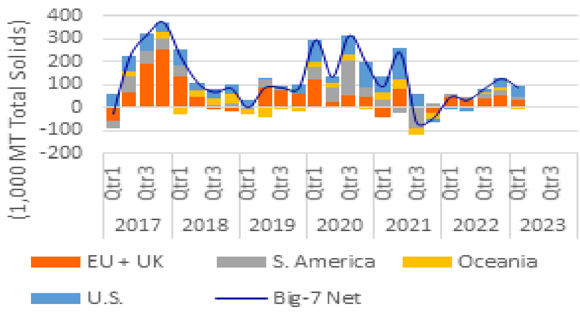
- Milk production declines are coming in lower than anticipated in many key dairy-producing regions.
- The Russia-Ukraine war will have limited direct impacts on dairy markets since trade there was already negligible. However, indirect impacts from feed, fertilizer, and energy will be felt throughout supply chains.
- China's imports in product volume terms slowed by 4% in February, but WMP remained strong.

Global milk supply remains tight. Reports out of the EU continue to point toward lower year-on-year milk production. The most recent report from the US indicated milk production fell 1% YOY in February, while New Zealand milk production was down 8.2% YOY in the same month. The US milk cow herd increased slightly in February for the first time in eight months. Still, cow numbers are 96,000 head fewer than year-ago levels, putting positive milk production gains out of reach. Replacement heifer inventories are also below year-ago levels, which will be a headwind for any meaningful increase in cow numbers. Against these supply constraints, prices for dairy commodities remain elevated.

Prices at the most recent global dairy trade auction event on March 15 took a pause and declined 0.9% from the previous event, but they remain in record-high territory. SMP increased by 1.6% to USD 4,545, while WMP fell by 2.1% to USD 4,596.

So far, China's import demand in 2022 has started the year off slower, down 2% in product volume through February. WMP imports, however, showed early strength, up 25% YOY in the first two months. Whey imports, meanwhile, were down 38% through February.

Big-7 milk production growth YOY



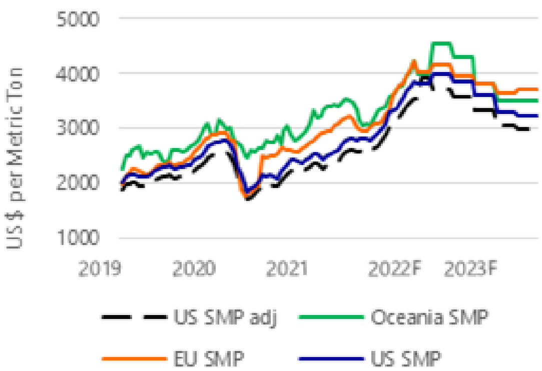
Source: Big-7 government agencies, Rabobank 2022

The war between Russia and Ukraine is adding a layer of uncertainty to an already precarious global marketplace. Dairy products from the EU and US have been blocked from entering Russia since 2014, so the direct impacts are limited, but indirect impacts will be felt from several angles. Feed, fertilizer, and energy prices face upward pressure. High energy prices have impacts throughout the entire economy, but within the dairy sector, this will have a particular impact on energy-intensive operations like spray dryers for SMP, WMP, and whey. These pressures will be strongest in the EU, where roughly one-third of the gas supply comes from Russia. Spikes in natural gas prices could disincentivize milk from flowing into powder plants, though cheese and whey may be only marginally better. The silver lining for high energy prices is that, when oil prices are high, there tends to be an increase in demand for dairy products in oil-producing economies. Most of the uncertainty in global markets right now is price supportive for dairy commodities, with the potential for additional upside risk. The major downside risk to markets would be if China were to become involved in the Russia-Ukraine conflict to a degree that would result in major sanctions. A slowdown in China's import demand is expected regardless, but if that becomes exacerbated by sanctions, it would leave a significant share of global dairy commodities struggling to find a new buyer.

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

Source: USDA, Rabobank 2022

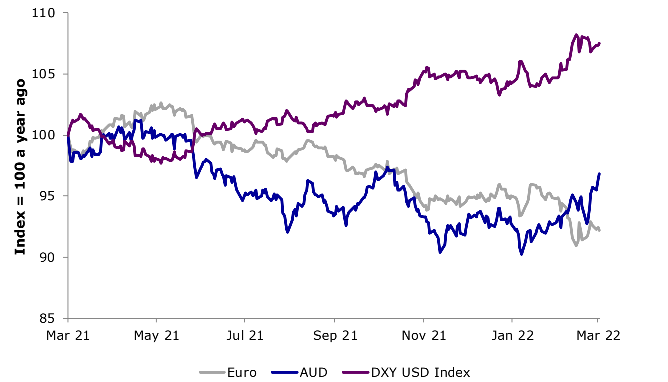
Global SMP prices and forecast

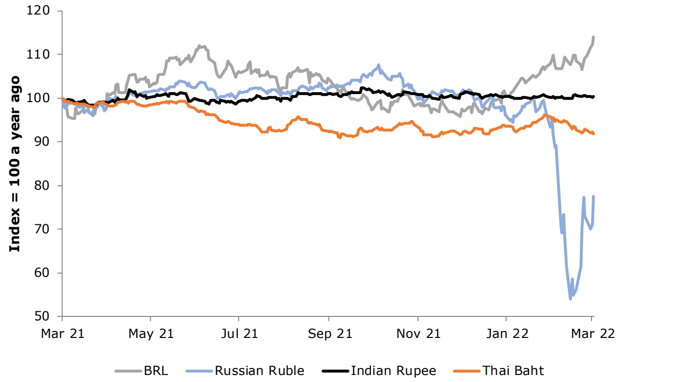


Source: USDA, Rabobank 2022

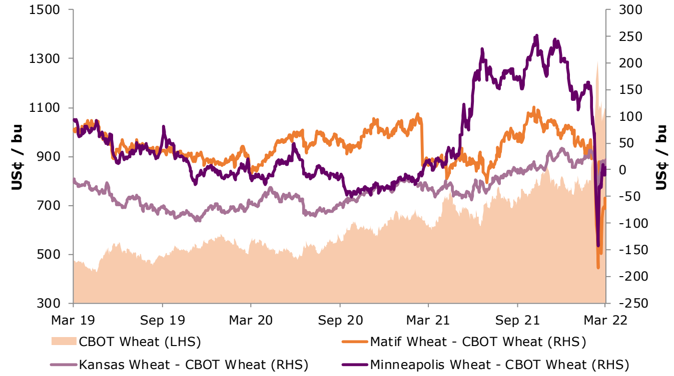
Agri Charts

Global Currencies USD Cross

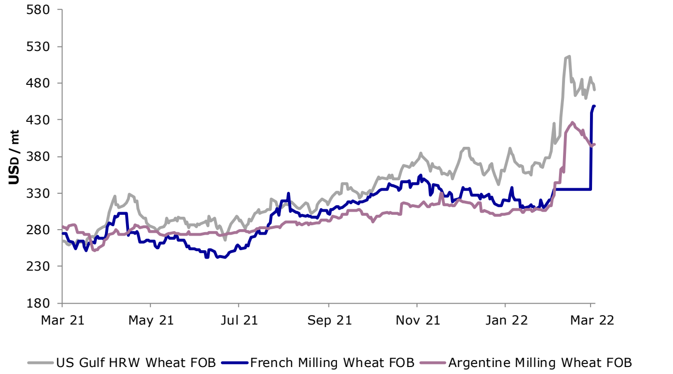




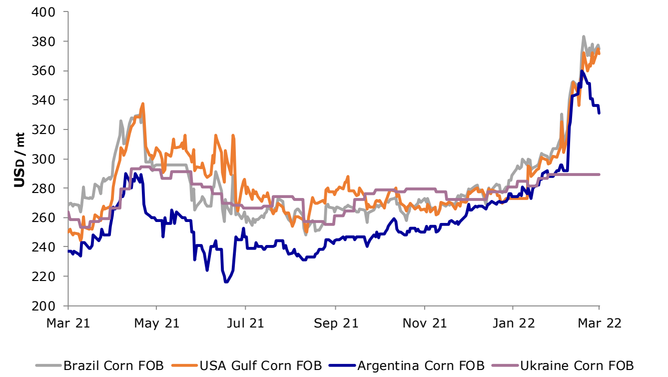
CBOT Wheat Spreads



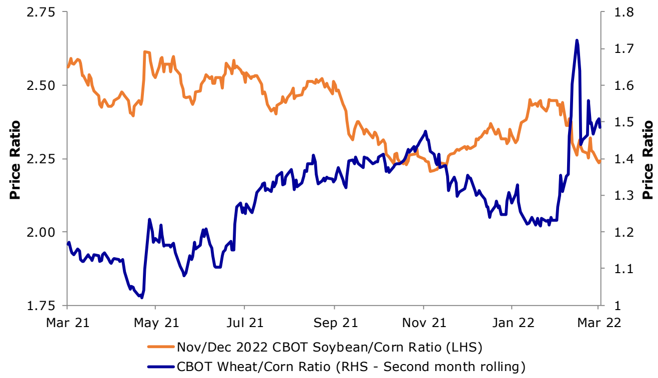
Wheat Protein FOB Prices



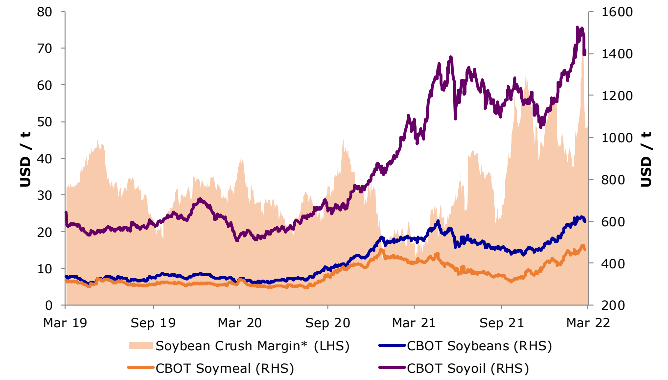
Corn FOB Prices



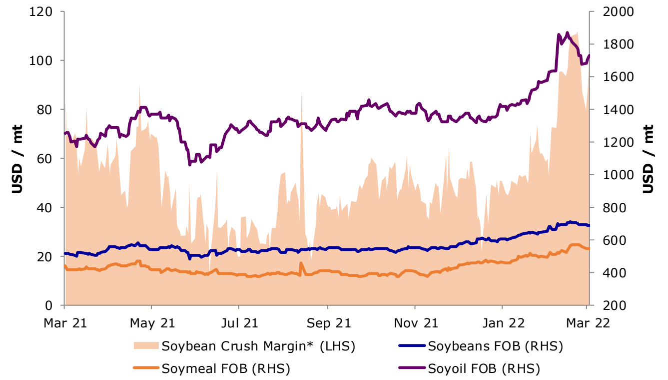
CBOT Ratios



CBOT Soybean Crush Margin



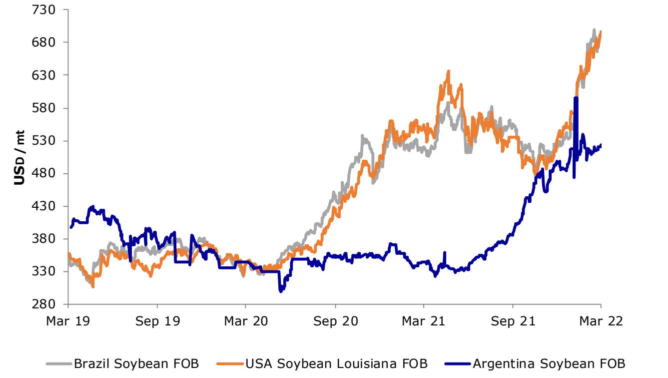
Argentina FOB Soybean Crush Margin



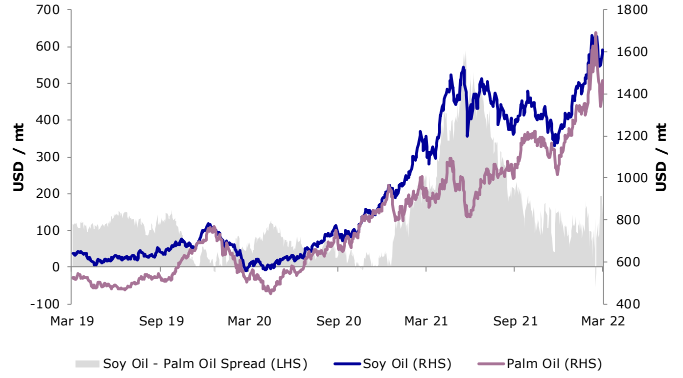
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

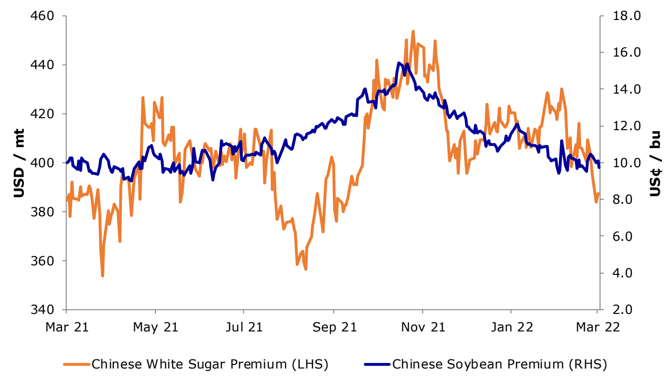
Soybean FOB Prices



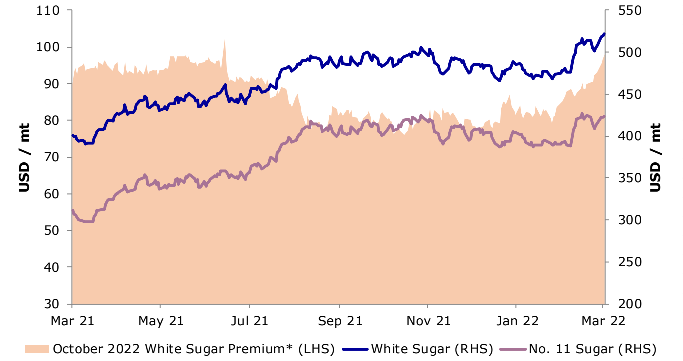
Palm Oil - Soy Oil Spread



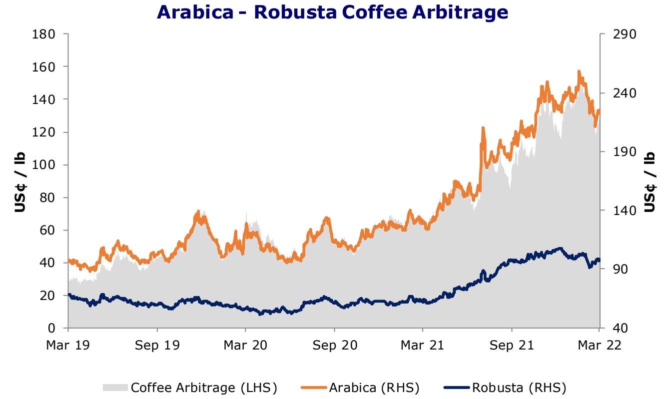
Chinese Futures Premiums



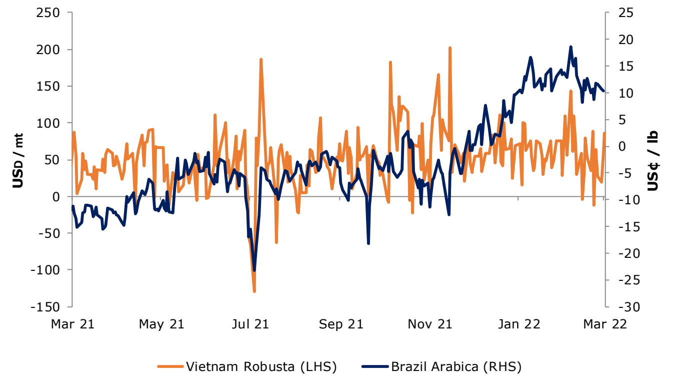
White Sugar Premium



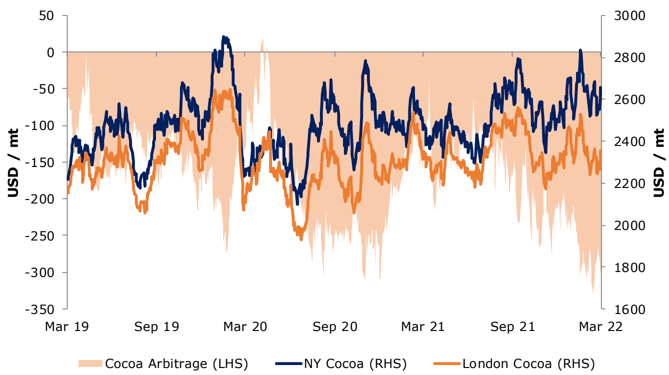
Arabica - Robusta Coffee Arbitrage



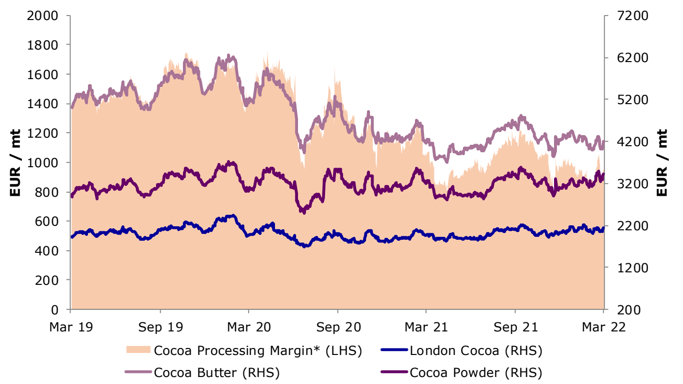
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

Imprint

Rabobank Markets

Corporate Risk & Treasury Management Contacts

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

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

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

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

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

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

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

RaboResearch
GEM - Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

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

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

Contributing analysts:

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

Mary Ledman – Chicago, US
mary.ledman@rabobank.com

Ben Laine – St Louis, US
ben.laine@raboag.com

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

Methodology note: For ICE Sugar (raws and whites), ICE Arabica, ICE Robusta, and ICE Cocoa (NY and London), we aim to forecast the second rolling contracts, whereas for Palm Oil, we aim to forecast the third rolling contract. We have also used these contracts in the price diagrams. For all other contracts, we focus on the front month.

Disclaimer

Non Independent Research

A summary of the methodology can be found on our website