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Agri Commodity Markets Research

May 2022: Tightening the Belt

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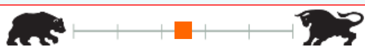
Bread sits at the head of the table again this month. So far in May, CBOT Wheat prices have risen 8%, on the back of ongoing Ukraine export constraints, adverse US and EU weather, India's export ban, and the WASDE report, which confirmed market expectations for a steep wheat deficit in the coming 2022/23 season. Given that a lasting Ukraine conflict is now priced in, La Niña models are trending more neutral, and demand for a number of commodities is in check (animal feed grains and oilseeds, dairy, cocoa, coffee, and even sugar), our stance on commodity prices is not as bullish as in previous reports.

WHEAT



Early 2022/23 trade and output estimates raise serious concerns

- Tightness in 2022/23 global supply takes world wheat markets – particularly winter wheat – to fresh highs in May
- World trade will be uncertain for 2022/23 wheat markets

SUGAR

Brazilian weather and energy strength boosts range-bound sugar

- India is considering a 10m mt export quota.
- Chinese consumption is a direct and indirect victim of Covid-19 lockdowns

CORN

CBOT Corn price pruned by demand rationing

- War and weather have raised CBOT Corn 32% YTD
- Animal protein producers facing feed availability/margin pressure may cull herds in response.

COFFEE

Please see our latest coffee views in our <u>Coffee Q2 Outlook</u> published last week. Our price views remain largely unchanged from the **<u>April monthly report</u>**

SOY COMPLEX

CBOT Soy buoyed by low supplies, acreage competition, and a decent demand outlook

- From South America to Canada, Ukraine, and Indonesia, oilseeds are in scarce supply this year.

Dairy

The Global Dairy Trade Index fell 2.9% on May 17, its fifth consecutive decline

- US milk production was down 1% YOY in April
- Consumers are facing rising food costs in the supermarket, resulting in trading down

PALM OIL

The Indonesian government lifted the palm oil export ban

Palm oil prices remain more competitive, compared to soy oil prices.

Wheat

Early 2022/23 trade and output estimates raise serious concerns

- The USDA confirmed global stock erosion, to just 267m mt in 2022/23. The drop is especially steep in exporting countries, excluding Russia and Ukraine.
- NOAA forecasts showers across the Southern Plains, particularly on the eastern side. This could be too late for the developing winter wheat crop.

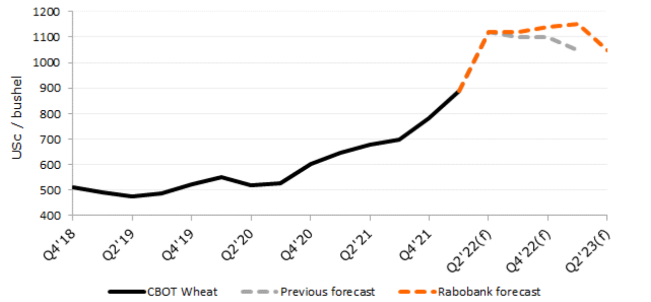
Tightness in 2022/23 global supply takes world wheat markets – particularly winter wheat – to fresh highs in May, laying a considerably supportive medium- to long-term price outlook. The USDA WASDE report confirmed what was already known: a fourth consecutive year of global stock erosion in 2022/23. The USDA expects a 12.7m mt YOY drop in stocks, to just 267m mt. These forecasts put the 2022/23 global stocks-to-use ratio at 34% – the lowest level since 2014/15 – while the World-China stocks-to-use ratio falls to 19.6%, the lowest since 2007/08. New season supply tightness stems from challenging production outlooks in both the Black Sea (predominately Ukraine) and the US. The USDA pegs Ukraine production 35% lower YOY, while Russian output – at 80m mt – came in well below trade estimates. Ongoing global supply tightness – particularly within export markets after India placed a ban on exports – should keep wheat futures elevated in the six- to twelve-month time frame. Rabobank forecasts CBOT Wheat at USc 1120/bu in Q3 2022 and softening when the new crop comes in by mid-2023. Similarly, Matif is forecast at EUR 410/mt in the coming quarter – assuming ongoing Black Sea conflict.

Too little too late for US winter wheat? That's the question for KCBT traders ahead of the forecast rainfall in the seven-day period. NOAA forecasts showers across the Southern Plains, particularly on the eastern side. However, with national US winter wheat conditions pegged at 28% good/excellent, vs. 47% last year, the rains may do little to improve yield potential, especially with 48% of winter wheat headed. Looking north, spring wheat remains plagued by wet weather and planting delays – national plantings are reported at 39% as of May 15, vs. 83% last year, as cold, wet weather lingers.

World trade will be uncertain for 2022/23 wheat markets. Just hours after the USDA's 2022/23 forecast, the Indian government announced a blanket new season export ban. More recently, the Argentine president toyed with the idea of increasing export taxes. The USDA estimates that Russian and Ukrainian 2022/23 exports will reach 39m and 10m mt, respectively. This estimate, like all others out there, is subject to a huge margin of error. The potential for Russian firepower to strike transport infrastructure and the designation of Black Sea waters as 'high risk' can change all of these estimates. If not peace, at least some sort of humanitarian corridor could be agreed upon in the future. All these variable are very hard to forecast. While Russian sanctions remain in place and Ukrainian ports cannot operate, international trade will be a concern, particularly for countries that rely on imports. The situation attracts significant geopolitical attention, with the topic of safe passage for Ukrainian grain cargoes being discussed at the World Economic Forum. For the time being, these issues are largely priced in, and we adopt a neutral price outlook.

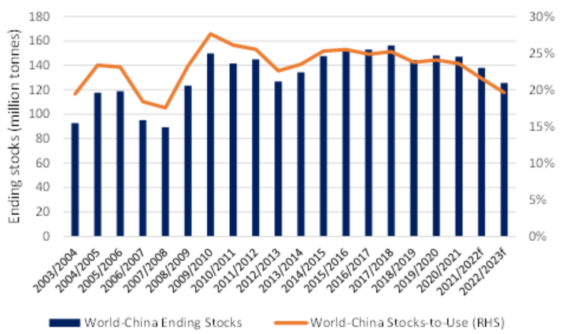
2022/23 trade and supply risks elevate new crop contracts

	unit	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f	Q1'23(f)	Q2'23(f)
CBOT	USc/bu	698	779	890	1120	1120	1140	1150	1050
Matif	EUR/mt	234	284	305	410	410	410	400	380



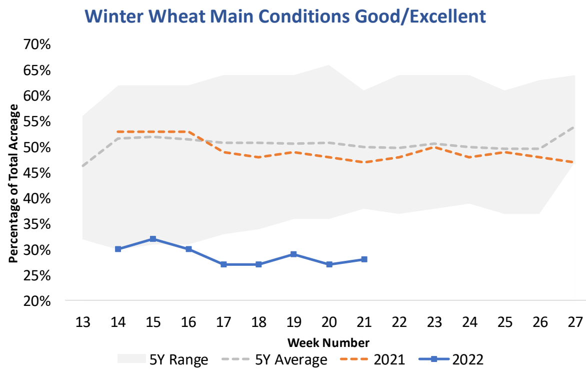
Source: Bloomberg Finance L.P., Rabobank 2022

The USDA's May WASDE forecasts the 2022/23 World-China stocks-to-use ratio at 19.6%, the lowest since 2007/08



Source: Bloomberg, Rabobank 2022

Early US winter wheat crop conditions are reported at 28% good/excellent following recent US Southern Plains drought



Source: USDA, Rabobank 2022

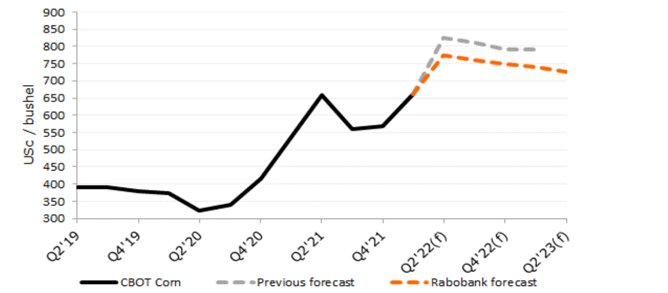
Corn

CBOT Corn price pruned by demand rationing

- South American and US corn production estimates have deteriorated, widening a global supply deficit stemming from Ukraine's largely inaccessible crop.
- Animal protein producers facing feed availability/margin pressure may cull herds in response.
- Scarce supply is seen as preventing major risk-off.

CBOT Corn will push consumers to their limits

	Unit	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f
Corn	USc/bu	560	559	662	775	760	750	740	725



Source: Bloomberg Finance L.P., Rabobank 2022

War and weather have raised CBOT Corn 32% YTD, but there are signs that CBOT Corn buyers have finally buckled under the burden of ten-year high prices. CBOT Corn's active contract fell 5% last month to 6-week lows of USD 7.62/bu, despite a worsening supply outlook in the US and South America. The recent easing of CBOT Corn lies in striking contrast to the surge in CBOT Wheat (+8% MTD), whose feed tether (20% of total use) has slackened near 2008 levels. Consumer pressure is intensifying from broad-based inflation, and it's unclear whether soaring feed/fuel prices can be passed on indefinitely. Certain markets are already seeing reductions in animal protein and dairy production in a sign of compressed or negative margins.

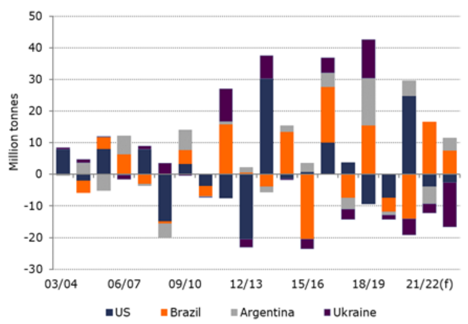
There is growing consensus that we're unlikely to see supply relief from strained major corn producers, absent any political initiatives (Ukraine Black Sea access or a US ethanol rollback). US plantings have accelerated in recent weeks (to 72% vs. 89% last year), following an historically slow start, but wet, cold conditions persist in peripheral states like the Dakotas and Minnesota. Those areas are key, and the combination of rain (fewer days for planting) and cold (fewer growing-temperature days) throttles national acreage and yield potential.

The global corn supply view is worsening. Challenged on multiple fronts – low existing stockpiles, rising inflation, falling yields and margins – corn farmers lack incentives to increase acreage or sell forward. Markets are working to offset the high fertilizer costs and induce more corn acreage, most notably with the CBOT Nov 22 Soy/Dec 22 Corn ratio near 2.1. This ratio could add over 1m acres to the USDA's 89.5m acre corn estimate, but neither that nor a record corn yield of 177 bu/acre will be enough to prevent ending stockpiles from declining below 1.3bn bu in 2022/23 or stocks-to-use from matching ten-year lows of 8.3%. Rabobank reiterates its April call that a decrease in global feed use would serve as a hunger-filled, pyrrhic victory against CBOT Corn inflation. Our price outlook is pruned by USc 40-50/bu along the curve.

Don't take our word on smaller plates. The USDA's 2022/23 WASDE was a bare reveal: Ukraine's absence from world corn markets (exports down at least 60% YOY) forces global demand to contract 1.2%. The USDA will be forced to be more draconian still when it cuts South America's 2021/22 corn production the requisite 10m mt to reflect lingering La Niña conditions in South America. The US, seeing an input inflation-induced 5% decline in annual production, cannot shoulder the export shortfall from Ukraine and South America.

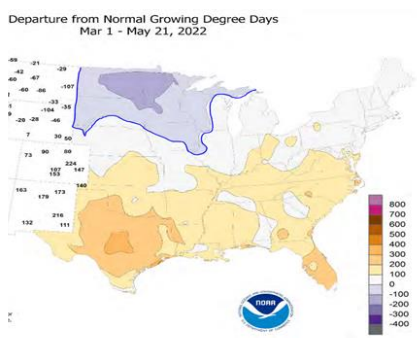
The USDA forecasts US 2022/23 corn feed demand down 5% and exports down 4%. Amid this forecast hunger, the only area of demand that looks stable to the USDA is ethanol use, which is forecast flat year-on-year, thanks to the Biden administration's year-round E15 ruling. The political will to prioritize feed and food demand over ethanol and biodiesel expansion is absent in the US. Price risk will remain elevated until late July at the earliest as Brazilian harvest and US pollination near completion, but CBOT Corn's two-year ascent into rarified air has taken the breath out of consumers.

Brazil's corn export recovery won't replace Ukraine losses



Source: USDA, Rabobank 2022

Cold, wet weather in northern US are a concern for corn



Source: NOAA, Rabobank 2022

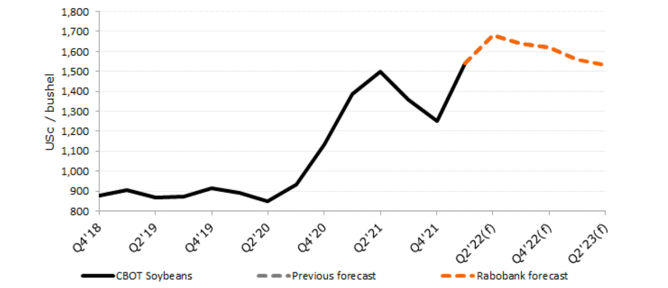
Soybeans

CBOT Soy buoyed by low supplies, acreage competition, and a healthy demand outlook

- From South America to Canada, Ukraine, and Indonesia, oilseeds are in scarce supply this year.
- US stockpiles are heavily called upon but are plainly insufficient to fill the capacity shortfall.
- China's crush margins have fallen since March, reflecting zero-Covid demand weakness, but a recovery looms.

CBOT Soy seen weakening, modestly, on better supplies

	Unit	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f
Soy	USc/bu	1361	1238	1580	1680	1640	1620	1560	1530



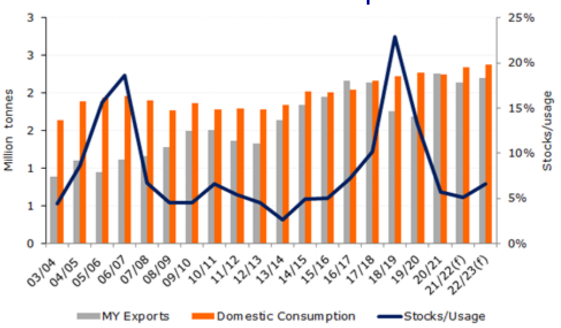
CBOT Soy eked out another monthly rise, up 1.5% to USD 16.70/bu, as South America's production shortfall and recovering Chinese demand strengthen US export sales into 2022/23. In May the USDA once again increased 2021/22 US soy exports 25m bu, dropping ending stockpiles to 235m bu and stocks-to-use to 5%, both six-year lows. While the US 2022/23 planting pace has improved and South America's La Nina-felled output is rapidly being harvested, the US will still end the 2021/22 crop season with a meagre two-week supply. We reiterate our call on CBOT Soy; prices are seen declining from USD 16.70/bu in Q2 2022, though more gradually than implied by the curve. South and North American output should see improvements in 2022/23, thanks mainly to higher acreage and receding La Niña/drought. In the interim, global oilseed supply shortages leave long-repressed meal demand to fall inordinately on the US, delivering broad price support.

Oilseed supplies globally are in a precarious state due to the war in Ukraine (sunflower oil) and last season's harvest dryness in North and South America (canola and soy). Palm production constraints in Malaysia and export controls in Indonesia have exacerbated the shortfall and led to record oil prices. The situation is urgent and challenging for commercial buyers. However, we expect soy production and stockpiles will look healthier in 2022/23. There's plenty of price risk until harvest, however, in terms of weather (lingering La Niña) and politics (protectionism). Brazil is highly dependent on Russia and Belarus for fertilizers (particularly potash), and there may be challenges in materially boosting soy acreage and yield in 2022/23. The USDA still needs to cut South American exporter 2021/22 soy production about 5m mt (to c. 166m mt), while its 2022/23 projections (+40m mt YOY) look quite rosy in comparison. It's likely that until next February, short Brazilian supplies and a strong BRL (+13% YTD) will make it very challenging to induce farmers to sell into the export market.

CBOT Soy's rise towards record levels reflects low global production and reserves, but weak global demand, especially from China, has helped cushion the blow. China's soy demand story was long weakened by zero-Covid policies, a concerted switch to less meal-intense rations, and poor hog producer margins. The country has released strategic soy reserves, and 2021/22 imports are expected to be down about 8m mt YOY. European livestock producers are also facing margin pressure, exacerbated by Ukraine's blockaded supplies. Nevertheless, after two stagnant years, global usage of soy may well see a recovery in 2022/23, +3% YOY. Much of that recovery will depends on China; USDA projects its meal demand +6% YOY.

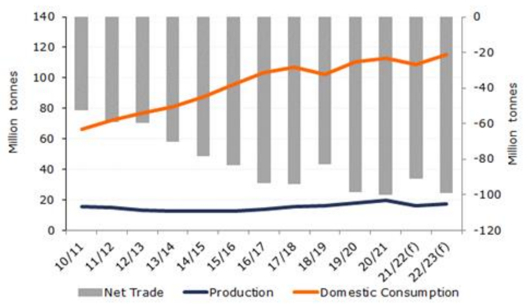
US Soy will beat corn out for acres in the 2022/23 spring planting rotation, thanks to its nitrogen-fixing properties (which reduce fertilizer requirements) as well as its ability to be planted later. Even so, soy has had to fight corn for the land; witness the collapse in the soy-corn ratio, which briefly fell below 2.0. We expect a competitive G&O environment to endure, but soy's c. 91m planted acres will ultimately raise production 4.6% and cushion ending stocks by (a modest) 70mbu in 2022/23.

US soy stocks-to-use will only improve slightly in 2022/23 as exports and crush increase in line with production



Source: USDA, Rabobank 2022

China's soy imports are tentatively seen recovering next year, though record demand may depend on zero-covid outcomes



Source: USDA, Rabobank 2022

Soymeal and Soy Oil

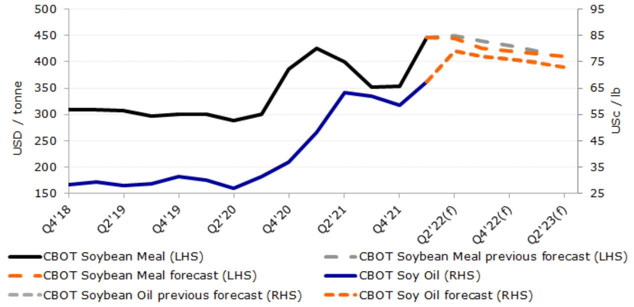
CBOT Soy Oil keeps on burning, while Soymeal keeps on turning amid shifting demand prospects

- CBOT Soy Oil's near-record prices are justified by a widespread and deepening vegetable oil shortfall.
- Improved oilseed prospects in 2022/23 are a distant hope amid existing protectionism, war, and weather issues.
- The world (and especially China) may be set for a meal demand rebound in 2022/23 after two years of stagnancy.

Global vegetable oil markets' explosive run paused last month, but prices remain near record levels as war and protectionism combine to drive a high flame. CBOT Soy Oil ended the month almost unchanged at USc 79.7/lb, bang in line with our forecast for Q2 2022. South America's 2021/22 soy harvest is nearly complete but quite diminished (-13% YOY), and combined with North America's (soy and canola) and Malaysia's (palm) production issues last summer contributes to a low-supplied oilseed market that cannot buffer recent geopolitical supply shocks. Supermarket shelves are bare of sunflower oil due to Russia's invasion of Ukraine (60% of global exports), and Indonesia's palm protectionism has decreased palm oil availability. Across the food industry, vegetable oil switching and rationing are taking place. High prices carry their own risks; beyond the protectionism, we're already seeing a real risk of global hunger. Globally, vegetable oil demand in 2021/22 grew a paltry 1% – just matching population growth – but most of that growth was in biodiesel, not food. The trend is especially visible in soy oil. Outside the US, demand growth is flat this year; in the US, 7% growth in use is entirely for biodiesel, even as food demand declines 0.5%. The non-food use of soy oil threatens to displace cooking oil further in 2022/23. The USDA projects biodiesel demand up 12% YOY, reducing exports (-14%) and food (-4%).

High CBOT Soy Oil, Meal prices seen gradually easing

	Unit	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f
Soymeal	USD/ton	352	342	446	445	425	420	415	410
Soy Oil	USc/lb	61.8	59.5	67.0	79.0	77.0	76.0	74.5	73.0

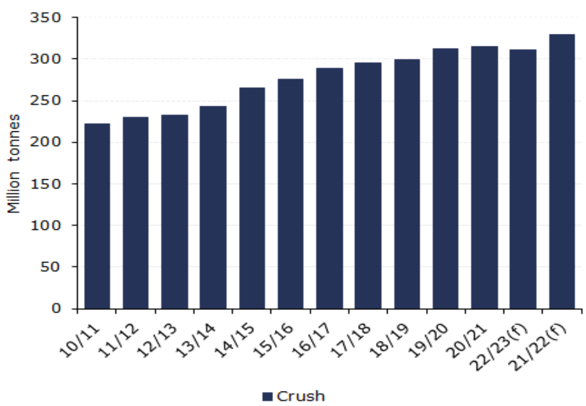


Source: Bloomberg Finance LP, Rabobank 2022

The US as a major surplus producer of soybeans is being called upon to help solve the global oil shortfall, but biodiesel is domesticizing the market. Recent strong US soy oil export sales helped temporarily replace Argentina's diminished 2021/22 soy harvest and crush (down 10% to 12% YOY), but next year's exports are seen falling to half their 2019/20 levels. Weak food use, rather than less biodiesel, is seen cooling vegetable oil inflation in the short term. A recovery in 2022/23 harvests would help support our expectations of CBOT Soy Oil's gradual decline from record prices along the curve, to near USc 73/lb in Q2 2023.

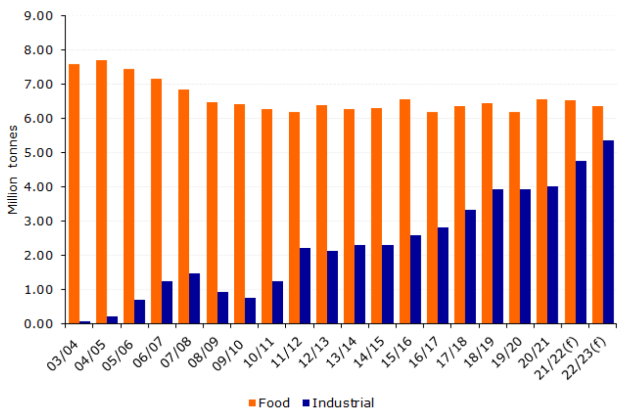
CBOT Soymeal demand is tentatively set to rebound 3% in 2022/23 after two years of weakness led by China (-4.5% in 2021/22). Interestingly, China's ration switching, poor hog margins, and herd contraction actually helped cushion global soy stockpiles (-15m mt) from disastrous harvests (- 20m mt). The scale of China's meal demand rebound (seen at 6%, with soy import growth even higher) remains in doubt amid the country's zero-Covid policy, and CBOT would take the brunt of falling Chinese feed demand forecasts. Still, we see pendulum-like price support, as buyers find feed grains to be in real scarcity and pent-up meal demand pushes through. Further supporting CBOT Soymeal are the USDA's continuous drawdown of US 2021/22 soy carry-out and limited expansion of these stocks in 2022/23. Low US stockpiles of soy and feed grains, as well as greater global and Chinese soymeal demand, underpin CBOT Soymeal near USD 410/mt into mid-2023.

World crush is expected to jump next year after 2 weak years



Source: USDA, Rabobank 2022

Let them eat biodiesel! US soy oil's food demand falls a second year as biodiesel ramps up.



Source: USDA, Rabobank 2022

Palm Oil

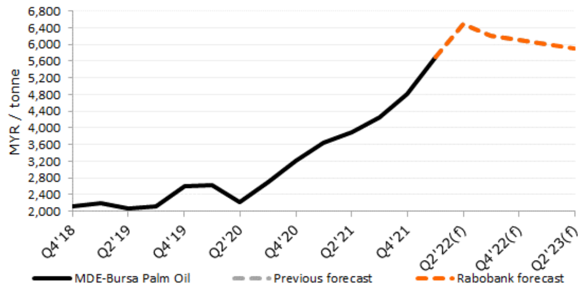
Availability of Indonesian palm oil export volumes and a seasonal palm oil production upcycle in Southeast Asia will reduce palm oil price volatility

- The Indonesian government lifted the ban on palm oil exports.
- Malaysian May 2022 palm oil inventories might decrease month-on-month due to strong exports.
- Palm oil prices remain more competitive, compared to soy oil prices.

The Indonesian government lifted the palm oil export ban. MDE-Bursa Palm Oil active contract prices rose above MYR 7,000/mt in late April 2022, as the Indonesian palm oil export ban became effective on April 28, 2022. However, MDE-Bursa Palm Oil active contract prices subsequently decreased below MYR 6,500/mt in early May 2022 due to the expectation that the ban will be short-lived, improving the Q2 2022 outlook for Malaysian palm oil production and corrections in global Brent crude oil and soy oil prices. After lasting for about three weeks, the Indonesian government effectively lifted the palm oil export ban on May 23. However, in another policy change, the government also announced that it will implement a domestic market obligation (DMO) for cooking oil of 10m mt, including 2m mt of reserves. The Indonesian trade ministry will set DMO volumes for each palm oil producer and the distribution method. Meanwhile, Indonesian palm oil inventories were already at a high level prior to the implementation of the export ban. The combination of higher year-on-year palm oil production and limited palm oil exports in Q1 2022, due to the previous DMO policy, resulted in a build-up of Indonesian palm oil inventories in the same period. According to GAPKI, Indonesian March 2022 palm oil (including lauric oils) production and inventories increased by 8.2% and 12.5% MOM to 4.15m mt and 5.68m mt, respectively. This, combined with the seasonal palm oil production upcycle, will result in Indonesian palm oil inventories rising above 5m mt by the end of Q2 2022.

We expect palm oil prices will decrease in 2H 2022

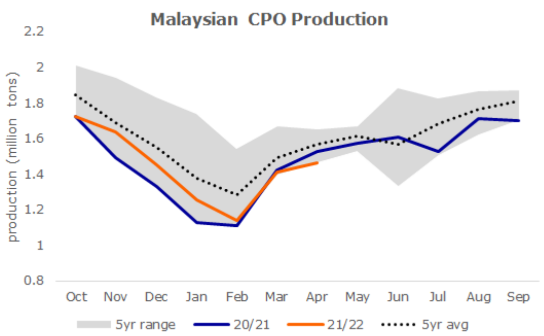
	Unit	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f
Palm Oil	MYR/tonne	4242	4811	5691	6500	6200	6100	6000	5900



Malaysian May 2022 palm oil inventories might decrease month-on-month due to strong exports on the back of Indonesia's ban on palm oil exports. According to the MPOB, Malaysian April 2022 palm oil production increased by 3.6% MOM to 1.52m mt. Malaysian April 2022 palm oil exports, however, decreased by 17.7% MOM to 1.05m mt. As a result, Malaysian April 2022 palm oil inventories increased by 11.5% MOM to 1.64m mt, the highest monthly palm oil inventory level reached since December 2021. Meanwhile, we expect Malaysian palm oil exports will increase month-on-month in May 2022 due to the absence of Indonesian palm oil export volumes in the first three weeks of the month. This, combined with less FFB harvesting activity in the first week of May 2022 due to the Eid al-Fitr period, might result in lower month-on-month Malaysian palm oil inventories in May 2022.

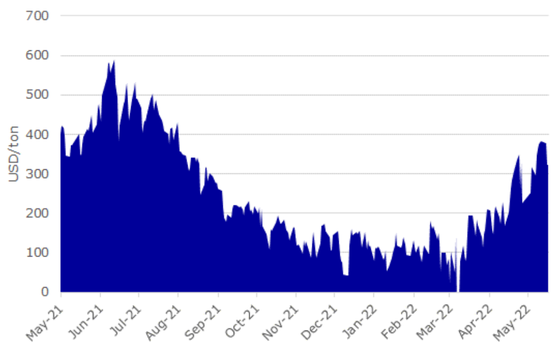
Palm oil prices remain more competitive, compared to soy oil prices. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices widened to above USD 300/mt during the third week of May 2022, even while the Indonesian palm oil export ban was in place. The widening spread between soy oil and palm oil prices increases palm oil's attractiveness.

Malaysian monthly palm oil production showed signs of seasonal improvement



Source: MPOB, Rabobank 2022

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



Source: Bloomberg, Rabobank 2022

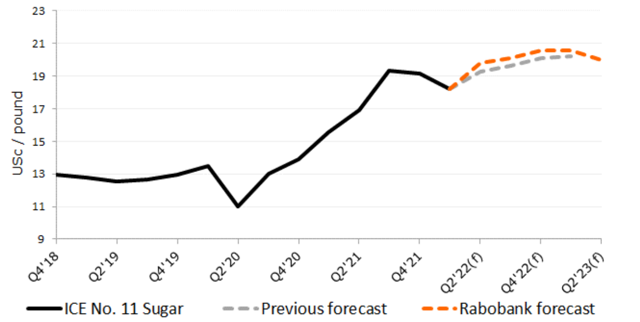
Sugar

Brazilian weather and energy strength boosts range-bound sugar

- Brazil's sugar mix is heavily debated amid the additional uncertainty of a delayed crushing season.
- India is considering a 10m mt export quota.
- Chinese consumption is a direct and indirect victim of Covid-19 lockdowns.
- Beet producers find 2022 to be a challenging season.

Mildly bullish forecast on the back of energy strength

	Unit	Q3'21	Q4'21	Q1'22	Q2,22f	Q3,22f	Q4,22f	Q1'23f	Q2'23f
Sugar	USc/lb	19.4	19.2	18.2	19.8	20.1	20.6	20.6	20.0



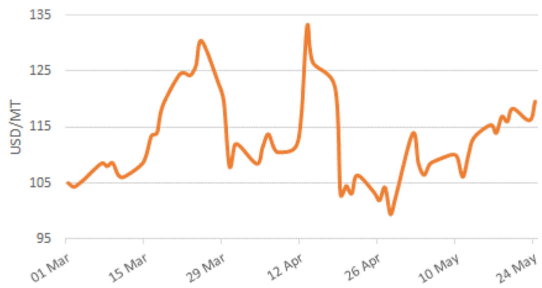
Source: Bloomberg Finance LP, Rabobank 2022

Early risks to Brazil's upcoming crush and the prospect of heavy Asian and subcontinent exports keep global sugar range-bound. Like most seasons, Brazil's sugar mix is heavily debated amid the additional uncertainty of a delayed crushing season. In addition to weather risk, Brazil's sugar mix is key to short-term price direction. The latest UNICA report for 2H April showed a second fortnight of slow crushing operations – down 36% YOY – which are expected to recover. A particularly low 35.4% sugar mix was also noted, likely driven by a firm spot ethanol market. The mix should swing towards sugar production as ethanol prices ease seasonally – the mid/late-season ethanol parities currently favor sugar. The speed of this 'swing' will be a key factor in determining sugar premiums later in the CS harvest, alongside the macro influences of energy, politics, and the BRL. Rabobank has raised its ICE #11 forecast marginally this month on the back of CS Brazil frost risk and energy market strength – we now forecast USc 20.1/lb for Q3 2022, rising to USc 20.6/lb by Q1 2023. Range-bound trading is expected, with volatility tempered by good availability out of India (despite a potential export quota).

Chinese 2022 demand appears to be under pressure, driven by fresh Covid-19 lockdowns and waning incentives for importers. As more cities enter lockdown, the impact for on-the-go food and beverage service will likely translate to the sugar balance sheet – potentially eliminating year-on-year domestic consumption growth, though it remains too early to have strong confidence. More notable is the softening of the Chinese renminbi – down some 5% YTD – which makes short-term imports relatively expensive.

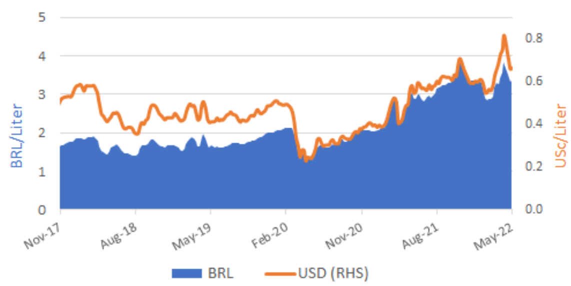
Crop development is underway across several major northern hemisphere producers. For Europe, the combination of fewer beet acres (down some 3% YOY) and dry weather is set to pressure 2022 output. In contrast, two of the largest US beet-producing states have seen plantings significantly delayed by cold, wet weather. Minnesota and North Dakota – comprising 57% of forecast acres – report plantings at 27% and 23%, down from 100% last year. These delays, and the consequent shortening of the growing season, will likely have a detrimental impact on final yields – even without the added consideration of short-term fertilizer prices and availability. Furthermore, we expect tighter white trade availability (in part linked to the Pakistan export ban and container availability) to maintain medium-term support for the white premium – currently at USD 118/mt.

White sugar premium likely to stay strong amid container shortages and India's potential export quota



Source: Bloomberg Finance L.P., Rabobank 2022

CEPEA Brazil ethanol hydrous fuel Sao Paulo weekly in BRL and USD



Source: Bloomberg Finance LP, Rabobank 2022

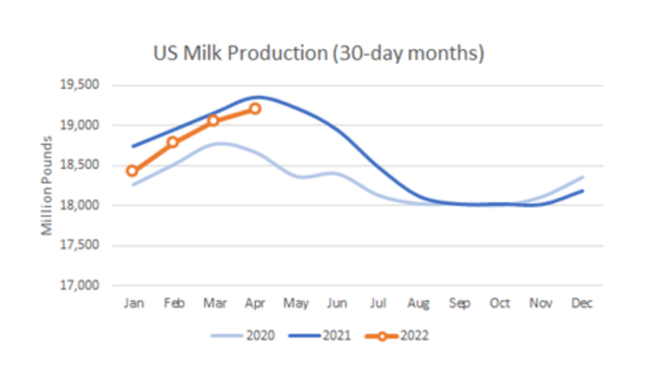
Dairy

- **The Global Dairy Trade Index fell 2.9% on May 17, its fifth consecutive decline, as demand is called into question amid lockdowns across multiple Chinese cities.**
- Consumers are facing rising food costs in the supermarket, resulting in trading down.
- The USDA Dairy Products report shows cheese production is up 1.1% YOY
- US milk production was down 1% YOY in April.

The Global Dairy Trade Index has fallen 11% since April, following rapid increases this winter, as demand is called into question amid lockdowns across multiple Chinese cities. The move downwards puts the index back down to (pre-war) January levels. The weakening prices reflect demand concerns, primarily in China, where lockdowns across several major cities, including Beijing, are causing major disruption. China is the main buyer of WMP and imported 880,000 mt last year. Potential disruption to normal Chinese demand alarmed market participants, causing WMP to slide over the course of April and finish at USD 3,934 (down 4.9%) in the last auction. Meanwhile, SMP prices fell only 0.6% to USD 4,116 in the most recent auction, a premium to the WMP price. The market will carefully monitor the situation in China for signs of further weakening demand, which would initially impact New Zealand but ultimately ripple through all other dairy markets.

Consumers are facing a tight squeeze in the supermarket given the inflationary pressure caused by war, but dairy prices could still rise. The Consumer Price Index rose to 9.1% YOY in April, up from 7% in March in the US. Meanwhile, inflation levels in Germany hit multi-decade highs. The current two-year annual inflation breakeven rate is just under 5%. Virtually all farm inputs remain elevated amid the ongoing war, and the cost push is likely to continue for the time being.

US milk production down 1.1% YOY at 19.2bn lb for April



Source: USDA, Rabobank 2022

Furthermore, the full effect of inflation on dairy products has yet to be felt. However, as milk is a staple good for most households, demand should not be as affected as other proteins, but private label is expected to grow in share.

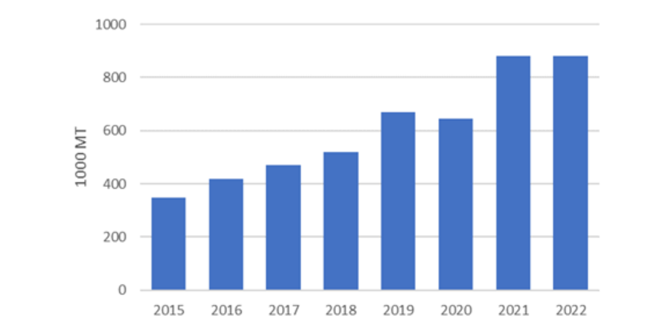
US milk production was down 1% YOY in April. Total production for April was 19.2bn lb. The year-on-year production decline resulted from a smaller US milk cow herd that is still 98,000 head below last year. After two months of increasing cow numbers, the expansion paused due to limited heifer availability and inflationary pressures. Although we are experiencing exceptional milk prices, expansion is likely to be capped by the high prices of fertilizers and feed and by rising labor costs. Following a very strong March, milk-per-cow yield was flat year-on-year. However, yields were strong in April 2021 so overall 2022 yields look promising so far.

The USDA March Dairy Products report showed cheese production is up year-on-year. Cheese production in March totalled 1.2bn lb, up 1.1% YOY. Total cheese output was down by 2.2% compared to February. American cheese production was also down 1.4% YOY in March. Butter production was up 1.5% YOY and remains flat with February on a 30-day month basis. Focusing on SMP and NDM, combined output was down 10.9% YOY. Stocks of nonfat dry milk are 8% lower YOY and flat with the month prior at 288m lb.

Global dairy trade's winning average price reverts back to January levels amid Chinese demand concerns

Source: Bloomberg Finance LP, Rabobank 2022

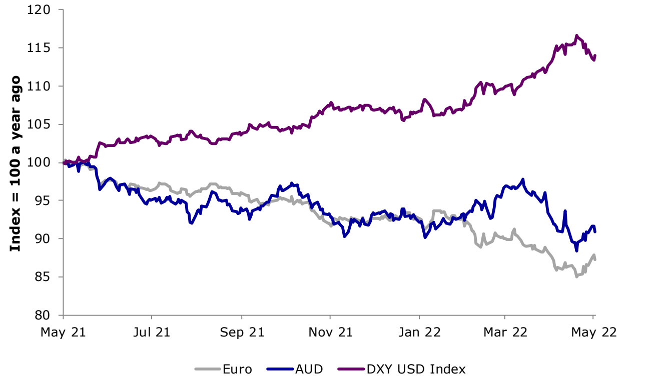
Consistent Chinese WMP import growth called into question by latest lockdown

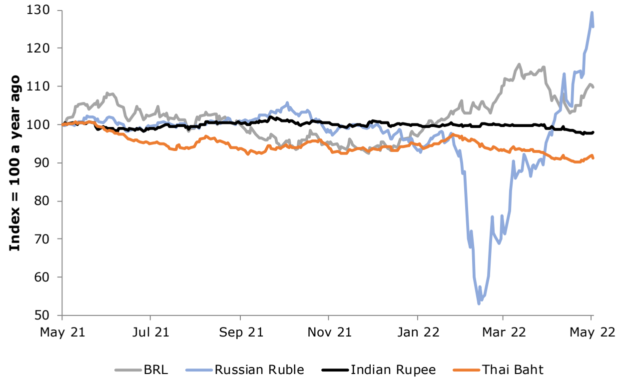


Source: USDA, Rabobank 2022

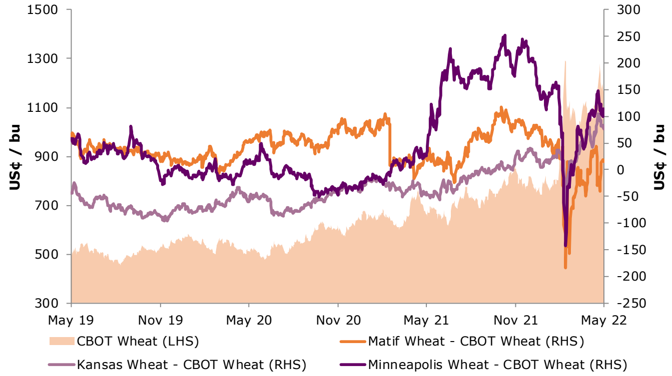
Agri Charts

Global Currencies USD Cross

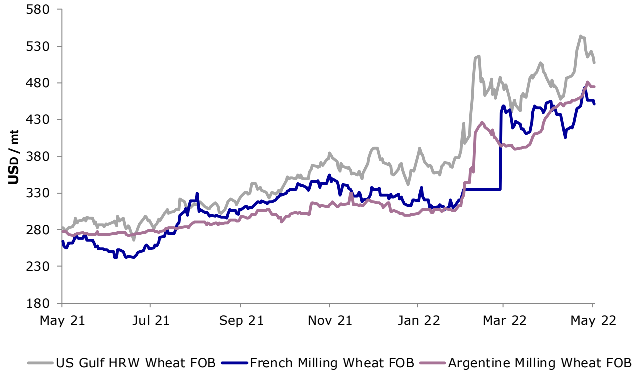




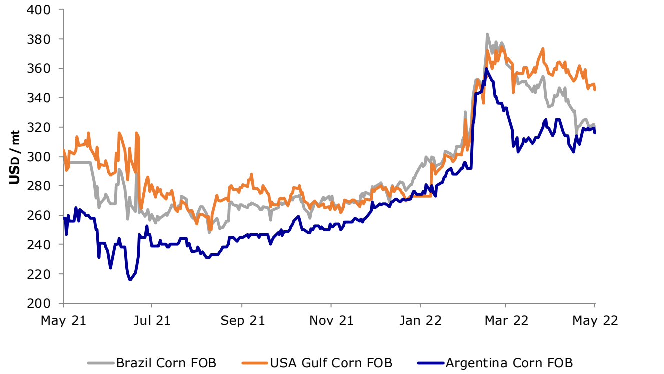
CBOT Wheat Spreads



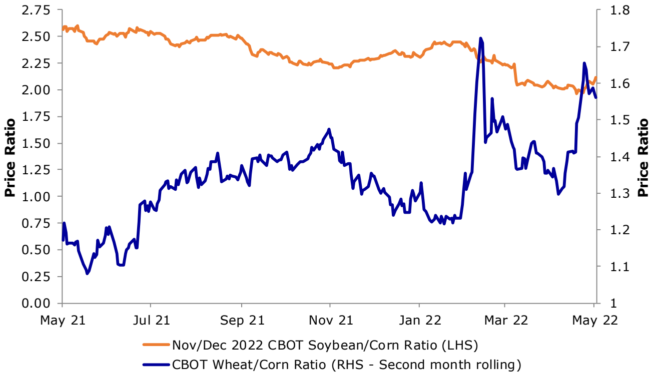
Wheat Protein FOB Prices



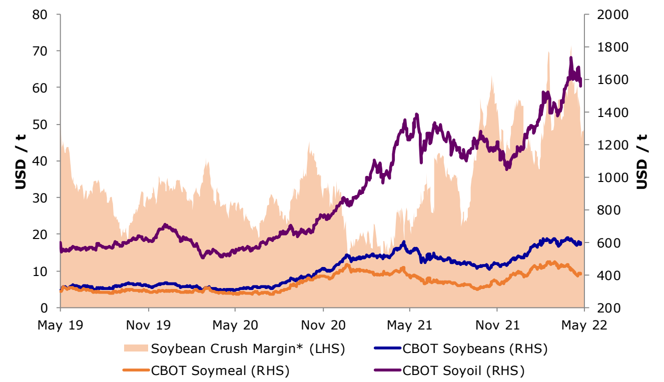
Corn FOB Prices



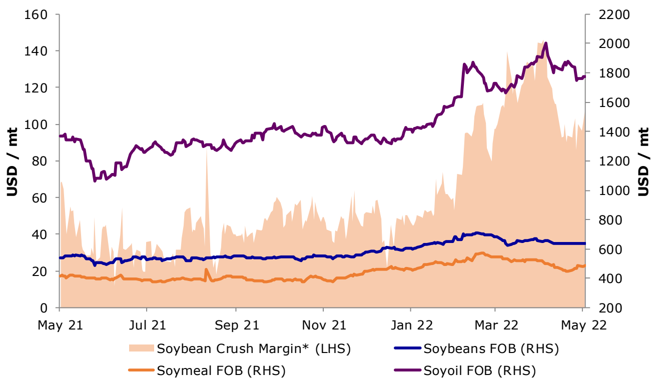
CBOT Ratios



CBOT Soybean Crush Margin



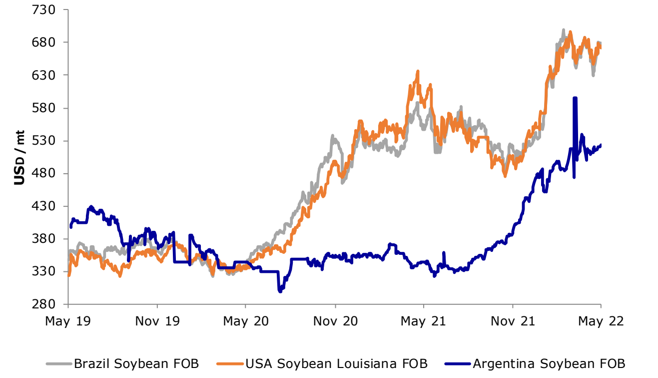
Argentina FOB Soybean Crush Margin



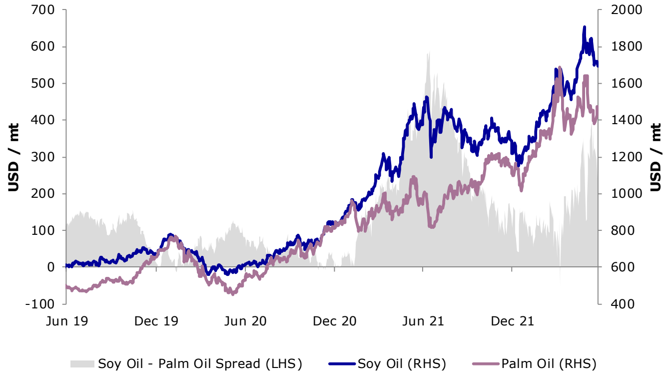
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

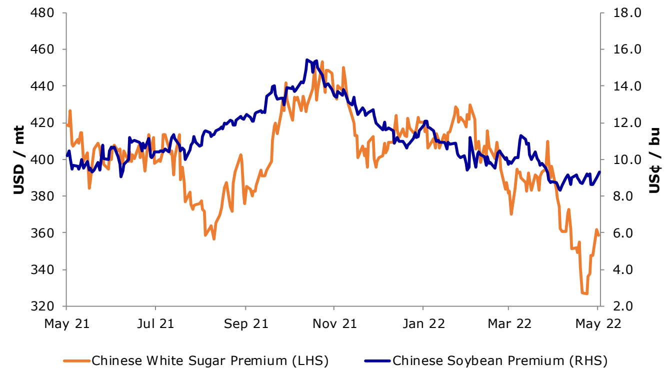
Soybean FOB Prices



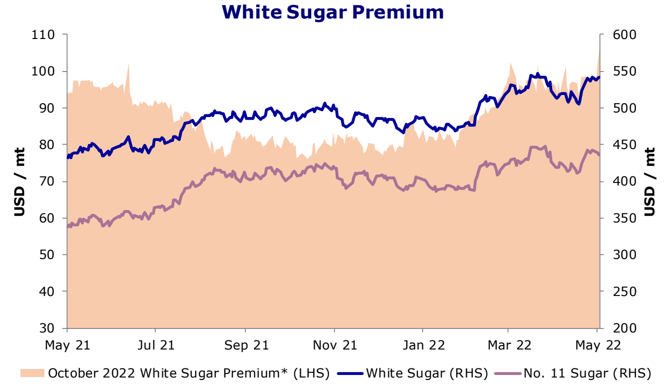
Palm Oil - Soy Oil Spread



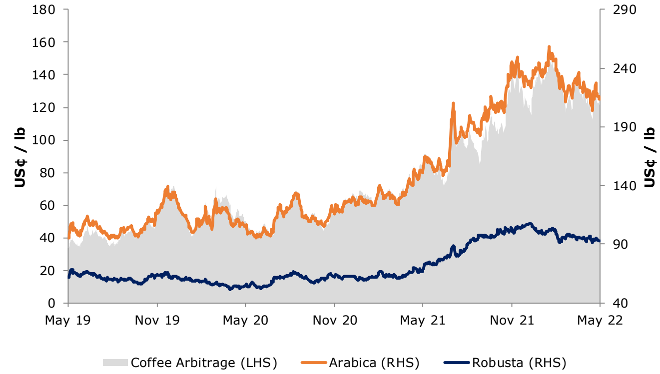
Chinese Futures Premiums



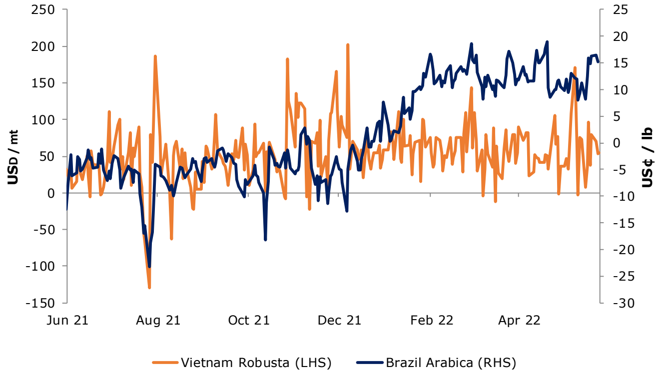
White Sugar Premium



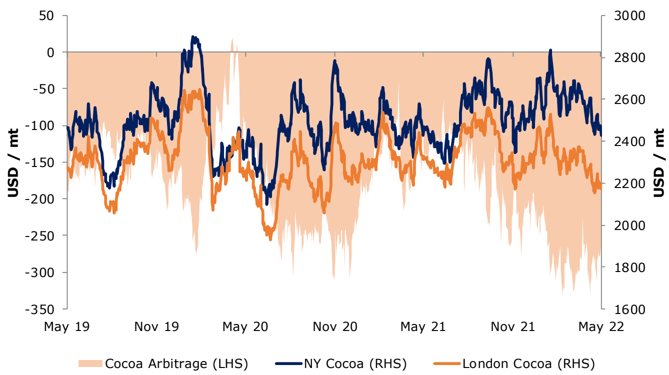
Arabica - Robusta Coffee Arbitrage



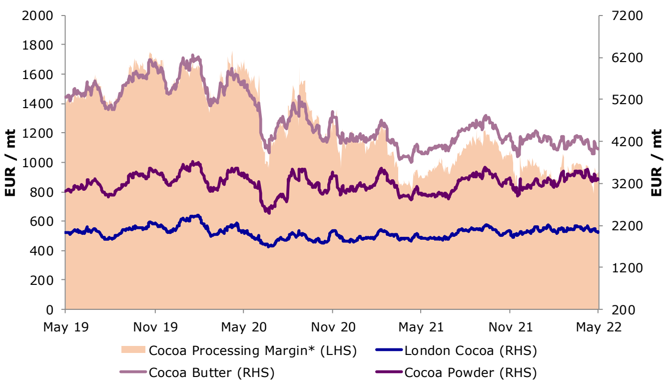
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

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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