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Agri Commodity Markets Research

August 2022: The Taming of the Bull

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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

Paul Joules
Junior Commodities Analyst
+44 (0) 7887824436

Fund liquidation and recession fears broke the BCOM Agri Index's two-year bull run in May (+132% over that two-year period), but the index has recovered about half of its losses (+13% MOM) since it became clear that scorching northern hemisphere weather would leave exporter reserves at historically low levels through 2023. We're in the midst of or approaching northern hemisphere harvests that typically mark seasonal lows (goods are at their most plentiful), yet grain, oilseed and cotton prices are holding strong. Wheat is a notable and ironic exception, as Russia is having a bumper crop that offsets Ukraine's shortfall. On the softs side, ICE #11 Sugar has traded in a range so far in August, as the market awaits India's 2022/23 export quota announcement. Meanwhile, ICE Arabica futures (+11.6% MOM) are being supported by a strong Brazilian real (BRL/USD cross +5% MOM). For importers (who buy most of these goods in dollars), the real concern is an appreciating USD (DXY is close to 20-year highs), which is offsetting much of the recent discount. We've tamed our longstanding bullish expectations on G&O as consumers lead an inflation-led shift to lower consumption.

WHEAT

CBOT and Matif futures are kept range-bound between sluggish Russian export data and improved global production prospects

- Russia looks set to harvest a record 2022/23 crop but exports are slow.
- The USDA raise 2022/23 production across key exporters.

CORN

CBOT Corn's higher-for-longer argument endures

- CBOT Corn has been well defended below USD 6 amid falling exporter reserves and renewed appetite.
- Ukraine's incipient Black Sea access, a strong USD, and global economic malaise are seen capping upside.

SOY COMPLEX

- **Low supply supports CBOT Soy, though upside is capped by China weakness, higher Brazil plantings**
  - Scant US soy supplies justify a major price risk premium.
  - CBOT Soy Oil has experienced recession-related demand weakness.

PALM OIL

Malaysia's less-than-optimal monthly palm oil production will support prices

- Indonesia increased its palm oil export quota for August.

SUGAR

ICE #11 Sugar will likely continue to trade in a narrow range.

- The market is expecting an announcement on India's 2022/23 export quota.
- EU beet output could be a negative surprise after blistering heat on the continent.

COFFEE

The decline in ICE certified stocks will keep the arabica futures curve in steep backwardation

- Supply concerns in Vietnam and strong Brazilian domestic demand are giving robusta futures a boost.
- The recent strength in the BRL is supporting coffee futures.

DAIRY

The August 16 Global Dairy Trade Price Index dropped 2.9%

- The USDA raised US milk production estimates in its latest WASDE report.
- The US Consumer Price Index for dairy products continues to rise month-on-month.

Wheat

CBOT and Matif futures are kept range-bound between sluggish Russian export data and improved global production prospects

- Almost an entire month has passed since the UN, Ukraine, Russia, and Turkey signed a grain deal, but vessel movement is still slow
- Russia looks set to harvest a record 2022/23 crop after months of favorable weather
- The USDA raise 2022/23 production across key exporters

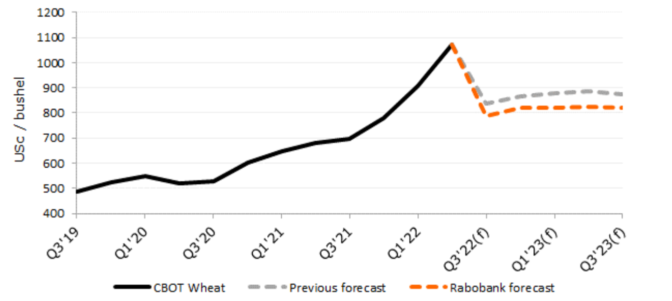
So far in August, CBOT and Matif have been rangebound as the market assesses improved global prospects, which the USDA acknowledged in their August WASDE report by raising 2022/23 production across major exporters by 7m mt (a combined 7.4m mt reduction for Ukraine, the EU, and Argentina fully offset by a combined 14.5m mt increase for Russia, Australia, Canada, and the US) since initial 2022/23 estimates were released in May. Highly rated US spring wheat crop conditions (64% rated good/excellent as harvest advances) and a completed winter wheat harvest have added further downward pressure on CBOT futures.

Almost an entire month has passed since the UN, Ukraine, Russia, and Turkey signed a grain deal, but vessel movement remains slow. We mentioned last month that the most challenging part of the agreement would not be vessels leaving Ukraine but ship owners willing to sail new vessels into Ukraine amid the ongoing war. To date, we have not seen any new private vessels enter Ukraine, only ships sponsored by the UN/Turkey (and very few of those), which implies that, at present, ship owners and insurers are not yet willing to take on the risk of operating in Ukraine. As a result, movement has been sluggish, with reports that during the first half of August only 42,000mt of wheat left Ukraine. Interestingly, the USDA increased Ukrainian 2022/23 exports by 1m mt, to 11m mt. This figure suggests that wheat will flow as normal through the grain corridor in due course. This is not a foregone conclusion, and it would only take one vessel to be struck by a missile or sea mine to damage the whole deal.

Russia looks set to harvest a record 2022/23 crop (most private estimates anticipate a +90m mt crop) amid an atypically wet May and all-round favorable weather throughout the winter wheat growing season, we know that sooner or later these huge stockpiles will become available to the world, but the question is how much of it can they export this season? The winter harvest is estimated to be more than half complete, and the spring wheat harvest is fast approaching (beginning in September). Despite the apparent high volume of available Russian wheat, there are serious questions about Russia's export capacity. The USDA optimistically upped 2022/23 exports to 42m mt, a huge 9m mt increase from 2021/22 volumes. So far, exports have been sluggish amid an inflated ruble and expensive freight and insurance premiums, which have resulted in a large decrease in the number of companies trading Russian wheat. Private analysts estimate combined exports in July and the first half of August were estimated to be more than 25% lower YOY, at 5.9m mt. So if current trade issues persist as we move into September, a 27% season-on-season increase in exports(estimated by the USDA) appears overly optimistic.

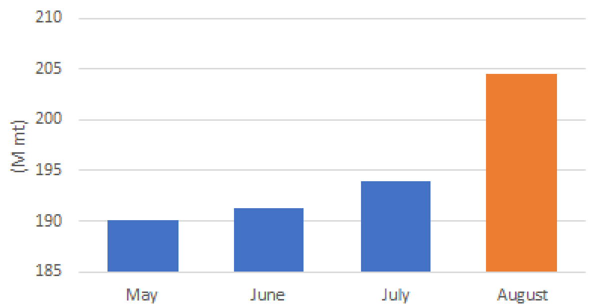
Price forecast a bit lower

	unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
CBOT	USc/bu	781	905	1073	788	820	820	825	820
Matif	EUR/mt	284	311	410	332	325	322	320	300



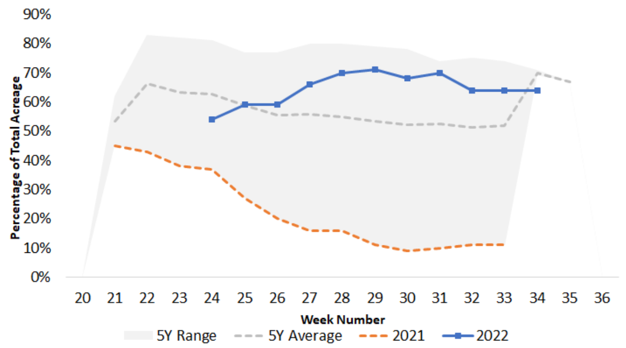
Source: Bloomberg Finance L.P., Rabobank 2022

Production outlook improves: USDA 2022/23 estimates for Russia, Australia, the US, and Canada combined



Source: USDA, Rabobank 2022

The US Spring Wheat crop looks healthy with 64% rated good/excellent



Source: USDA, Rabobank 2022

Corn

CBOT Corn's higher-for-longer argument endures

- CBOT Corn has been well defended below USD 6 amid falling exporter reserves and renewed appetite.
- Ukraine's incipient Black Sea access, a strong USD, and global economic malaise are seen capping upside.
- CBOT prices are seen range-bound with the northern hemisphere corn harvest beginning next week.

CBOT Corn withstood heavy fund selling and seasonal pressure last month and is holding firm into harvest. CBOT Corn has mirrored the broader BCOM Agri Index: Inflation and recession fears sparked a speculative sell-off of around 25% from the May peak, which belied the poor supply fundamentals. Since then, CBOT Corn has rallied 12% MOM to around USc 6.55/bu, near our longstanding 2022/23 forecast.

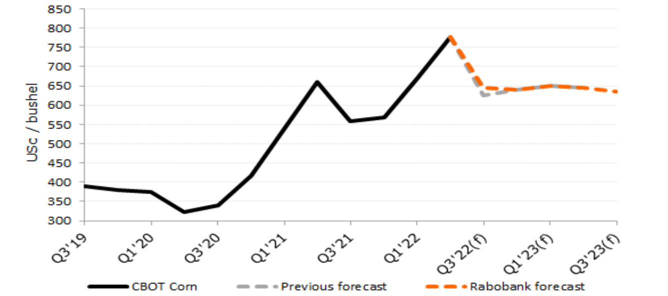
The US's heat-shriveled corn harvest and bare reserves form the foundation of CBOT Corn strength, but unaffordable meat and energy are driving the first corn demand contraction (-1.5% YOY) in a decade and a taming of the bull. For US corn importers, CBOT's pullback from USD 7/bu is cold comfort; USD strength (DXY is up 8% since May, near a 20-year high) has mostly offset any discount. Amid evidence of global belt-tightening, we see signs of consumer appetite waning below USD 6.00/bu and waxing above USD 6.75/bu. Salient exporter supply risks will provide robust support for CBOT Corn despite growing economic headwinds. Our forecast remains unchanged at around USD 6.40/bu into Q3 2023; price upside could be capped from here.

Historically low corn exporter supplies command attention and a commensurate price risk premium for CBOT Corn. In reviewing corn scarcity, buyers should ignore global reserves, which are in line with the five-year average. A full two-thirds consists of questionable Chinese stockpiles unavailable to the world. To understand global prices, it is enough to look at exporter stockpiles, which are extremely concerning. The USDA projects a 5% decline in US 2022/23 corn production, the result of fertilizer inflation that led to the lowest corn plantings in three years. Intense heat that has pushed almost one-fifth of the harvest into poor/very poor condition (the most in nine years) and US 2022/23 yields will likely slide further toward 174bu/acre and ending stockpiles to about 1.3bn bu, or roughly one-third below the five-year average. Meanwhile, corn production in Europe is plagued (-15% YOY), and Ukraine can only run at half capacity. The prospect of a greater Odessa export corridor that could release 12m mt of corn tipped funds into full-scale flight, but they are reentering amid slow progress. A reminder to consumers about the promise of Brazilian relief: The last two years have disappointed.

The elusiveness of a supply-side solution means world corn demand will shrink for the first time in a decade to control inflation. Downstream consumers have faced a deluge of cost increases that pressured margins and limited supply growth. A few points in particular are extremely concerning: high poultry prices that imply limitations to animal protein consumer relief and China's weaker economic growth, which put in question its expected feed usage rebound. Indeed, corn's demand weakness runs the gamut from feed to gasoline usage. AAA sees lockdown-like weekly US gas usage, and ethanol production has been similarly disappointing. The consumer is glad for the recent pullback in prices, from corn to gasoline, but unenthusiastic amid persistent recession fears.

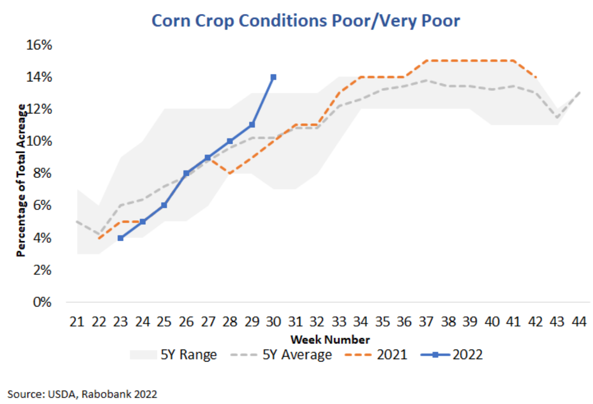
CBOT Corn rally pushes consumers to their limits

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



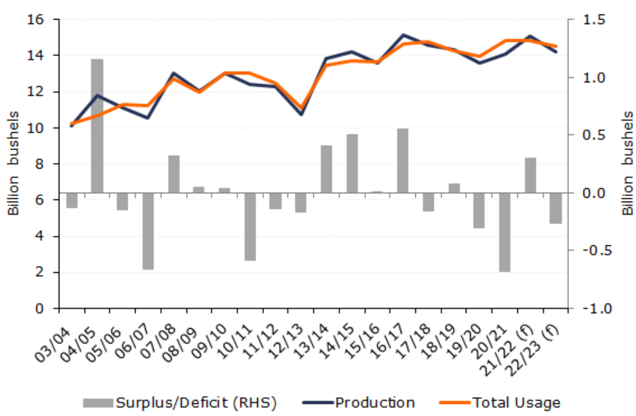
Source: Bloomberg Finance L.P., Rabobank 2022

US corn's nearly 1/5th poor/very poor conditioned as searing heat cooked the crop during pollination



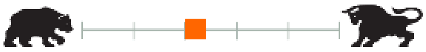
Source: USDA, Rabobank 2022

US 2022/23 corn demand will adjust to lower production



Source: USDA, Rabobank 2022

Soybeans



Low supply supports CBOT Soy, though upside is capped by China weakness, higher Brazil plantings

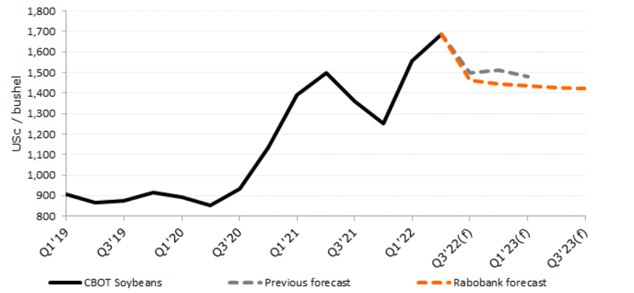
- Scant US soy supplies justify a major price risk premium, but global recession fears and central bank policy can create a demand-softened landing that "help" cap inflation.
- Brazilian farmers hope to plant about 4% more in 2022/23 to satisfy growing crush demand and the anticipated Chinese soy import recovery.

CBOT Soybean's stalk grew last month, near USD 14.50/bu, as downward-revised acreage and heat took the sheen off US 2022/23 soy production and raised consumer hackles. CBOT Soy will be profoundly affected by economic challenges, especially in China; however, bare US reserves of 200m bu, a six-year low, should prevent a hard landing for prices. China's zero-Covid environment has clearly impacted out-of-home consumption and generated a valid chorus of concern about enduring soy import weakness. Yet there are reasons for optimism: China's crush margins are improving, and with Q3 2022 imports a meager 21m mt (of an ASF-like 90m mt total, -10% YOY), it is prime for a rebound just as the middling US harvest comes to market in October.

A torrid pace of US 2022/23 export sales (630m bu, second only to the record 2020/21) prior to harvest implies China's demand is reviving, with the US in a dominant position to benefit over the October-January export window. In a similar show of confidence, the USDA revised its 2022/23 exports 20m bu higher MOM, basically in line with last year's strong showing, despite expectations of massive Brazilian production in January. Rabobank tentatively expects China's soy imports to rebound from low levels in 2022/23 but sees the recovery closer to 95m mt vs. the USDA's 98m mt. China's soy imports may only see marginal improvements given the lack of a clear demand catalyst and widening economic woes from its zero-covid policy.

Weakened demand, Brazilian plantings offset US soy scarcity

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soy	USc/bu	1238	1580	1692	1460	1445	1435	1425	1420

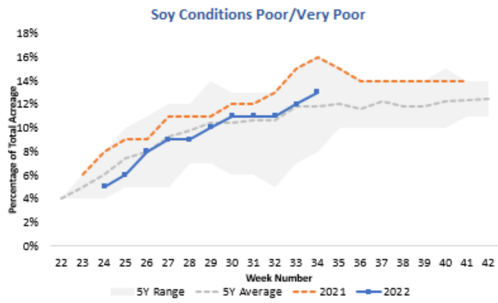


Source: Bloomberg Finance L.P., Rabobank 2022

The US soy harvest is clearly in focus, but soy buyers are already fantasizing about well-capitalized Brazilian farmers' intent to plant 4% more soy and a normalized 150m mt crop. Certainly fertilizer inputs like potash have not been lacking, and a weak BRL encourages forward sales. But we remind soy buyers to be wary of a Brazilian relief narrative that is both familiar and prone to disappoint; 2021/22 production was cut 15m mt YOY by La Niña, and the likelihood of its return within three months' time is pegged at 66% by NOAA. In the meantime, strengthening demand for a deteriorating US soy crop, spurred by a strong BRL (+3% MOM) and healthy Brazilian crush margins may leave reticent buyers wanting. Brazil's higher planted acreage gives it a decent buffer for weather woe and relieves the 3m acre downward revision to US 2022/23 soy plantings. A good Brazilian harvest underpins our expectations for CBOT Soy to decline next year to average USD 14.20/bu by Q3 2023.

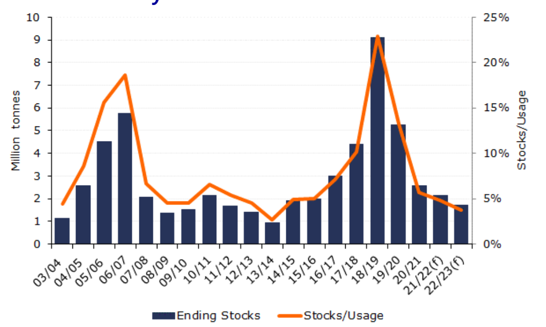
The USDA may come to rue its upward revision on US 2022/23 soy yields to a record 51.9 bu/acre, as crop tours confirm an above-average 13% of the harvest in poor-very poor condition. Even with rose-colored glasses, the USDA's 245m bu carry-out projection for US 2022/23 soy carry-out implies a 20m bu rise above last year's six-year low. Rabobank sees US 2022/23 soy yields at or below 51 bu/acre, implying ending stocks below 200m bu; that, together with major supply issues in competitor crops corn and cotton should provide foundational support for CBOT Soybeans.

US 2022/23 soy crop poor-very poor conditions are above average, likely preventing record yields



Source: USDA, Rabobank 2022

US ending stocks and stocks-to-use will fall to extremely uncomfortable nine-year lows



Source: USDA, Rabobank 2022

Soymeal and Soy Oil

CBOT Soy byproducts' upside is capped by higher Brazilian output and consumer malaise

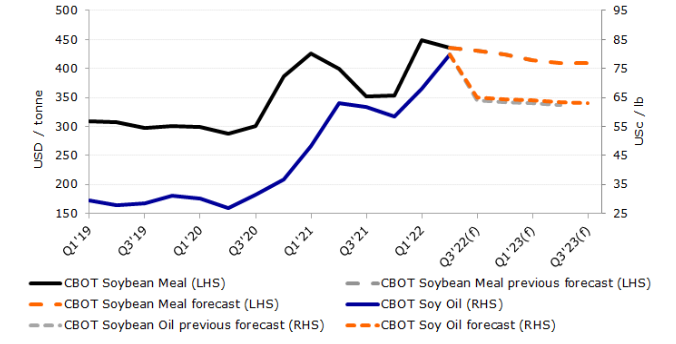
- US crush margins are strong amid deteriorating US soy supplies and improving meal demand.
- CBOT Soy Oil has experienced recession-related demand weakness and greater competition from Brazil, but limited soy availability and resurgent Brent crude deliver support.

CBOT Soymeal and Soy Oil continued their rebounds last month, up 1.3% and 13% respectively, as the specter of soy scarcity overwhelmed inflationary pressure on consumers. US 2022/23 soy production has been massively afflicted by delays and heat; we expect the USDA's 245m bu carry-out to ultimately fall towards 170m bu, or nine-year lows. If our view proves true, US soy stocks-to-use would end 2022/23 at 4%, one-third its five-year average and implying a stomach-churning two-weeks' worth of supplies at season-end.

If the soy byproducts market sees some respite, it will mainly come from consumers whose price-aversion will drive them to alternative origins, to new products, or to reduce demand altogether. We see these shifts to alternatives oils like palm oil, whose premium neared a record USD 570/mt earlier this month. Sunflower oil is also flowing more smoothly from Ukraine; prices have nearly halved since May. Rapeseed has also fallen with the Ukrainian supply relief. Global soy oil import demand fell 3.2% this year after China halved its import program to 0.6m mt. With palm oil relatively cheap (and foodservice still under strain), there are doubts – even from USDA - for expectations of a China-led import rebound in 2022/23. There are signs that US domestic demand in 2022/23 is on shaky ground, not just in food use (seen down 3.4% YOY, per the USDA) but also in growth drive biodiesel, whose 2021/22 demand was revised down 200m lbs this month. Growing competition and demand headwinds are expected to keep CBOT Soy Oil from breaking out

CBOT Soy Oil, Meal price upside appear limited

	Unit	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soymeal	USD/ton	354	449	436	430	425	415	410	410
Soy Oil	USc/lb	58.4	67.8	79.7	65.0	64.5	64.0	63.5	63.0

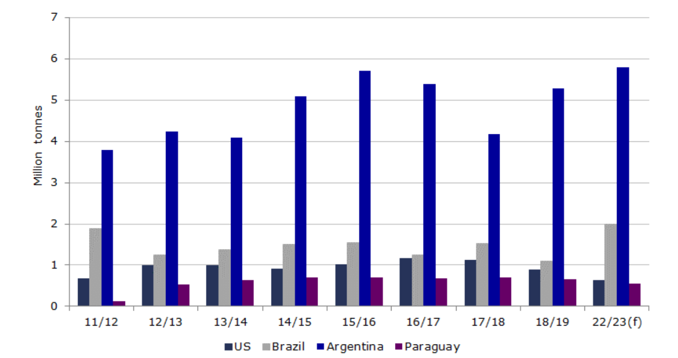


Source: Bloomberg Finance LP, Rabobank 2022

to previous highs, as will meal-supported US crush growth (+2% YOY). Still, the recent shakeout, a deteriorating US soy crop and stronger Brent will bring buyers back. We lift our forecast USc 1/lb along the curve to USc 63/lb in Q3 2023.

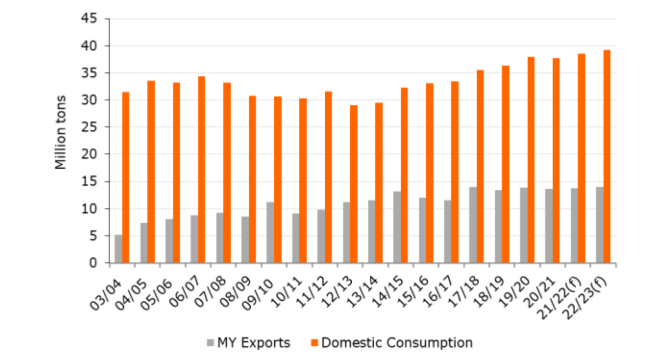
Weak Chinese soy imports (2021/22 seen at 90m mt, -10% YOY) and stagnant Argentine output have been Brazilian crushers' gain. US soy oil and meal exports are well behind pace, as they remain uncompetitive, particularly against Brazil, whose unexpected crush growth (+7% YOY) belies a La Niña-reduced (-10% YOY) harvest. **Brazil's 2021/22 soymeal and soy oil exports are up 15% and 73% YOY, respectively, with the latter in particular welcome relief for global consumers.** Three things will provide foundational support for meal and oil in spite of Brazil's increased output: 2021/22 supplies are limited and waning, the BRL is surging (+11% YTD against the dollar) and US soy is facing production challenges. China's soy recovery and Brazil's 2022/23 production prospects represent the biggest questions for CBOT Soymeal going forward. In China, economic pressures resulting from zero-Covid policies may impede a strong return to growth. That said, we're seeing positive shifts in crush, demand, and feed rations in favor of soybeans and meal. We maintain our longstanding view of pendulum-like price support for CBOT Soymeal, as buyers find feed grains to be in real scarcity. We leave our call from last month on CBOT Soymeal unchanged for a third month – with contracts seen trading above USD 410/mt into mid- to late 2023.

Brazil doubles soy oil exports as the US recedes into biodiesel and Argentina remains stagnant



Source: USDA, Rabobank 2022

US Soy Meal is expected to see stronger domestic and export demand next year, underpinning support for CBOT



Source: USDA, Rabobank 2022

Palm Oil

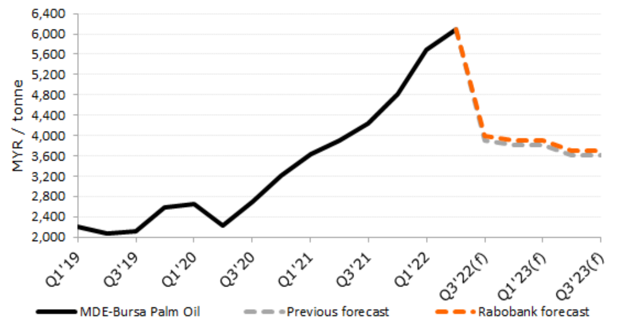
Malaysia's less-than-optimal monthly palm oil production will support palm oil prices

- Indonesia increased its palm oil export quota for August.
- Malaysian August 2022 palm oil inventories will still be higher year-on-year.
- Weather conditions in 2H 2022 will determine 2022/2023 global soft oils availability.

Indonesia increased its palm oil export quota for August 2022. The MDE-Bursa Palm Oil active contract price recovered in August, rising above MYR 4,400/mt before stabilizing above MYR 4,000/mt during the third week of the month. Volatility in global soy oil prices and expectations of less-than-optimal palm oil production in Malaysia in August supported palm oil prices. Despite the recent price increase, palm oil prices remain more competitive than soy oil prices. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices widened to above USD 500/mt during the third week of August. Meanwhile, the Indonesian government raised the August 2022 palm oil export quota (for domestic sales versus export volumes) to 1:9 – compared with a quota of 1:7 in July. The implementation of a palm oil export quota has helped to reduce high palm oil inventories in Indonesia to a certain extent. According to GAPKI, Indonesia's June 2022 palm oil exports (including lauric oils) more than tripled month-on-month, to 2.33m mt, on the back of the implementation of a 1:5 palm oil export quota. As a result, Indonesia's June 2022 palm oil inventories (including lauric oils) decreased by 7.5% MOM to 6.68m mt. We expect Indonesian palm oil exports will improve in Q3 2022 due to fewer domestic logistical issues, which limited the country's palm oil exports in June.

Palm oil prices remain competitive compared to soy oil

	Unit	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22(f)	Q4'22(f)	Q1'22(f)	Q2'23(f)
Palm Oil	MYR/tonne	4,246	4,811	5,691	6,005	4,000	3,900	3,900	3,700

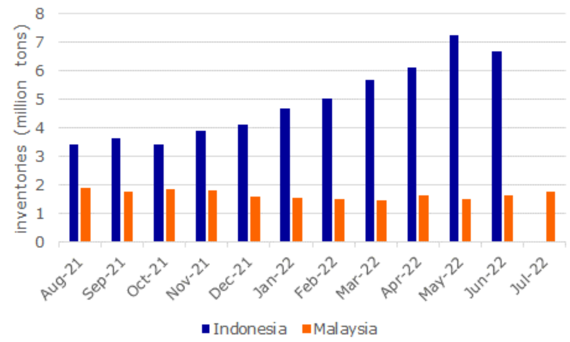


Source: Bloomberg, Rabobank 2022

Malaysia's August 2022 palm oil inventories will still be higher year-on-year. According to the MPOB, Malaysia's July 2022 palm oil production and inventories increased by 1.8% and 7.7% MOM, to 1.57m mt and 1.77m mt, respectively – the highest monthly palm oil inventory levels reached since November 2021. Meanwhile, Malaysian July 2022 palm oil exports increased by 10.7% MOM, to 1.32m mt. We expect Malaysian palm oil exports will remain relatively subdued in August due to the availability of Indonesian palm oil export volumes. This, combined with the seasonal palm oil production upcycle, will result in higher month-on-month Malaysian palm oil inventories in August.

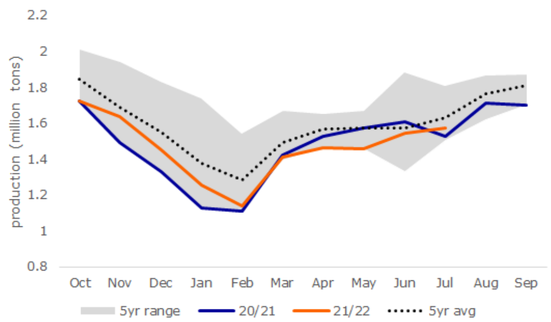
Weather conditions in major oilseed-producing countries in 2H 2022 will determine 2022/23 global soft oils availability. Currently, our initial expectation points to a global 2022/2023 soft oils year-on-year production increase, which will potentially bring pressure to global vegetable oil prices. However, weather disruption could still reduce 2022/2023 oilseeds production potential in major producing countries. As of its August 2022 report, NOAA expects La Niña will continue until late Q4 2022 to early Q1 2023. While the intensity of this La Niña is still unclear, this weather phenomenon typically creates hot and dry weather, which could negatively affect soybean production in South America.

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



Source: GAPKI, MPOB, Rabobank 2022

Malaysian monthly palm oil production showed signs of seasonal improvement



Source: MPOB, Rabobank 2022

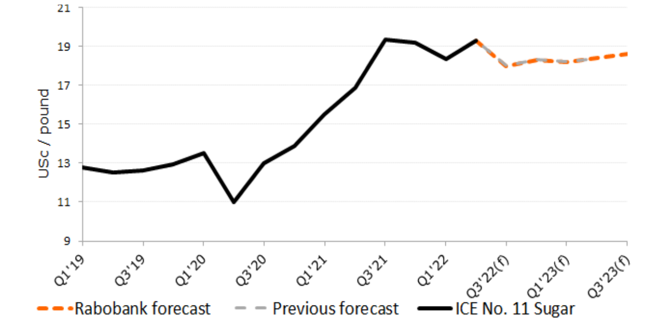
Sugar

Range trading for raws, while whites shine

- ICE #11 Sugar will likely continue to trade in a narrow range.
- The market is expecting an announcement on India's 2022/23 export quota that has the potential to take prices outside the recent range.
- EU beet output could be a negative surprise after blistering heat on the continent.

The forecast remains unchanged from July

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



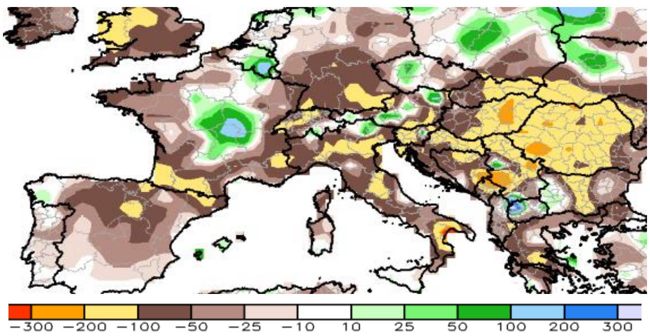
Source: Bloomberg Finance LP, Rabobank 2022

Sugar prices continued to trade in a narrow range in the first half of August, and we expect this trend to continue. Good rainfall in São Paulo so far in August might prevent a strong sugar share in the first half of August, but with the ethanol parity at about USc 2 below current prices, we would not expect that trend to continue for long. More rainfall is expected this coming week, but then the forecast looks dry afterward. Furthermore, the ongoing La Niña could result in dryness in the months ahead. This could become a problem if rainfall levels are lower than normal from November onward, but dryness will result in high harvested volumes and a high sugar share in September and October. The expectation is that harvested volumes could be strong in the coming months given the slow pace at the start of the harvest. Raw sugar prices will likely remain well above the ethanol parity (which sits below USc 16/lb) and trade between USc 17 and USc 19 in the coming month, except because of potential surprises from India.

Indian output always has a large margin of error, and then there is the uncertainty about the export quotas. The recent increase in the export quota of the current year by 1.2m mt (to 11.2m mt) clearly shows the surprises in India's export program, not to mention its production. At current prices, it would not make sense to export out of India, but existing commitments could be fulfilled with the recent quota extension. Before diversion to ethanol, Indian sugar output would be a massive 40m mt, but after diversion to ethanol, sugar output is pegged at 35.5m mt by ISMA. The timing of the new season export quota announcement will be key. A disappointing quota could easily result in significant market upside. The timing will also matter for the white premium. The earlier the announcement the more time there will be for raw sugar contracts to be signed. A late announcement will favor LQW exports.

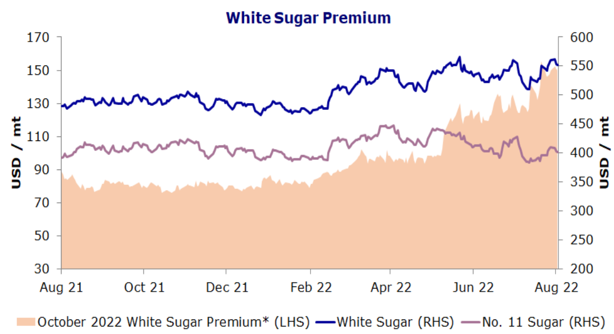
EU beets continue to look precarious, but the availability of a large volume of raws expected from Brazil and India will limit the impact to a strong white premium. In the last month, weather in the EU continued to be on the dry side, bringing little respite to crops after the major heatwave. The IRI three-month weather forecast still predicts higher-than-normal temperatures in most of western Europe and drier-than-normal weather in parts of France and Germany. In parts of the south and east of England, there have been recent localized floods, but other parts remain arid following the driest July since 1935. That paints an increasingly complicated picture for beets, and we predict further yield cuts in the near future. Thai weather is wet, and this should be beneficial for white availability towards the end of the year. But with the EU down, the white premium should remain strong in Q3 2022 and possibly also into Q4 2022/early 2023.

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



Source: NOAA. Rabobank 2022

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



Source: Bloomberg Finance L.P., Rabobank 2022

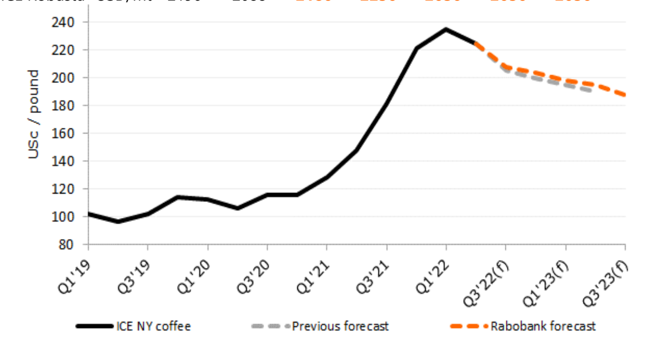
Coffee

The decline in ICE certified stocks will keep the arabica futures curve in steep backwardation

- Supply concerns in Vietnam and strong Brazilian domestic demand are giving robusta futures a boost.
- The recent strength in the BRL is supporting coffee futures.
- So far in August, the number of arabica bags stored in ICE warehouses has dipped by over 17%, to 577,000.

Arabica forecast largely unchanged, robusta revised higher

	unit	Q1'22f	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
ICE Arabica	USc/lb	234	225	210	206	198	195	188
ICE Robusta	USD/mt	2196	2088	2180	2250	2050	2050	2050



Source: Bloomberg Finance L.P., Rabobank 2022

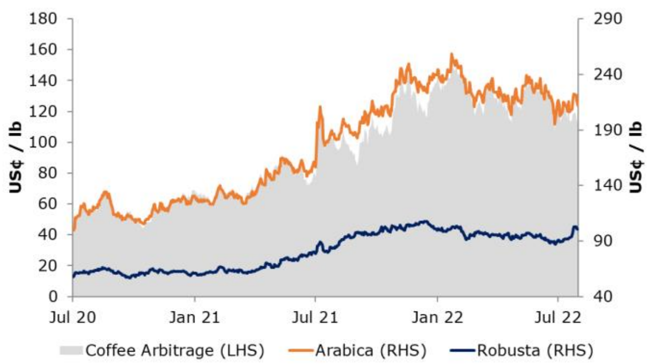
The main story dominating newswires this month (and widely discussed over the past few months) is the depletion of ICE certified stocks. So far in August, the number of arabica bags stored in ICE warehouses has dipped by over 17%, to 577,000. This story is not new, ICE stocks began their rapid decline last September, when over 2m bags were stored (which have declined by 73% since then). During that period of high stocks, arabica futures were in a state of contango. However, due to the tight stock situation (plus a slow start to the Brazilian harvest), we have seen a switch to steep backwardation along the futures curve with the Sep22/Dec22 spread trading over USc 3. We are seeing a number of bags that are pending grading stack up in the ICE Antwerp warehouse (148,677 bags as of August 24, a number which surprised market commentators). This implies traders are likely de-certifying old stocks in order to recertify them again, thus avoiding age penalties, which can be very expensive. So any short-term increase in certified stocks (such as the modest 5,000 bag increase we saw last week) is most likely to be older coffee, as opposed to fresh.

Coffee futures are being supported by the recent strength in the BRL. The USD/BRL cross has retreated from recent mid-July highs and is now trading around the 5.10 mark. Rabobank anticipates the USD/BRL cross to trade slightly higher than current levels in 2H 2022, with an end-of-year target of 5.25.

We are likely to see volatility between now and the Brazilian elections in October, as the BRL will be sensitive to the outcome. With the Brazilian harvest nearing completion, harvest pressure may be less prominent this season given the recent currency strength, which will dampen export incentive for local farmers. So far this season, arabica exports have been sluggish, with July exports down 6.5% YOY amid logistical issues and reluctant selling.

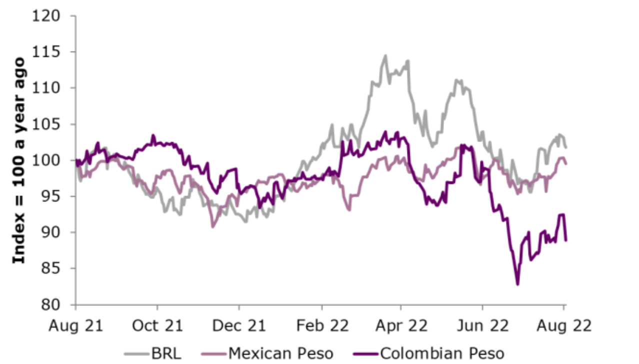
Supply concerns in Vietnam and strong Brazilian domestic demand are giving robusta futures a boost. There is some concern in the market that Vietnam's 2022/23 production prospects have weakened somewhat. Concerns have been heightened by limited rainfall in some robusta-growing regions in recent weeks, and this has contributed to the +10% increase in future prices since the beginning of August. Strong domestic demand in Brazil is providing further support, as Brazilian roasters have been increasing the robusta share in their blends. As a result (and alongside maritime issues such as container availability), July exports fell by a whopping 64.8% YOY, to 144,625. The tightening dynamics of the robusta market may in part explain why managed money increased their net length (+26,000 net lots) in the first half of August.

A high arabica arbitrage favors robusta consumption globally



Source: Bloomberg finance L.P., Rabobank 2022

The BRL has been incredibly stable despite the expectations for an 'interesting' presidential election



Source: Bloomberg finance L.P., Rabobank 2022

Dairy

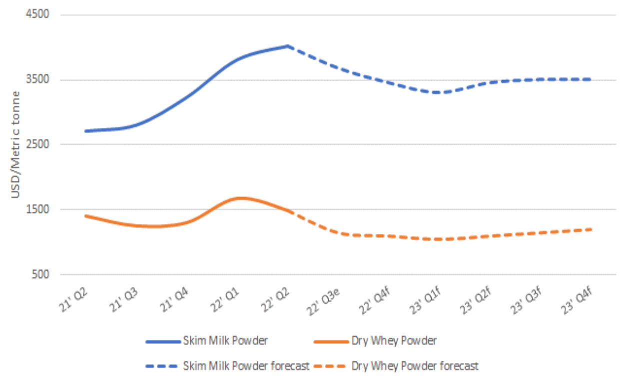
The August 16 Global Dairy Trade Price Index dropped 2.9%, continuing to support Rabobank's Q2 forecast that Oceania milk powder prices peaked in 1H 2022

- The US Consumer Price Index marginally declined from the prior month. However, the dairy product index rose month-on-month.
- The USDA raised US milk production estimates in its latest WASDE report.
- Milk production rose in July to 19.14bn lb.

The August 16 Global Dairy Trade (GDT) Price Index offered continued support for Rabobank's Q2 global forecast that 2022 milk powder prices peaked in 1H 2022. Rabobank anticipates lower prices through 2H 2022 and into 2023, forecasting 2H 2022 average Class III and Class IV prices of USD 20.90/cwt and USD 23.00/cwt, respectively. The GDT Price Index declined for the fifth consecutive auction, dropping 2.9%. SMP gained 0.1% (to USD 3,524), while WMP lost 3.5% (to USD 3,417). The downward move returns the index to March 2021 levels. Anhydrous milk fat recorded the largest drop, declining a whopping 9.8%, to USD 4,990, while butter gained 0.2%, to USD 5,204. Cheddar made the largest gain in the auction, rising 4.2%, to USD 5,005. The prior auction on August 2 declined by 5%, driven by a 5.1% loss in WMP. Since mid-March, ten out of the past 11 auctions have resulted in declines, signaling that demand-side fears remain, primarily due to China's strict lockdown policies and ample stocks.

Milk production rose in July to 19.14bn lb, up 0.2%, driven by a 0.9% YOY improvement in milk per cow, as the herd remains 67,000 head below last year. The dairy herd peaked in June 2021 at 9.501m head and declined steadily through January 2022. Since then, cow numbers have increased, with 49,000 cows added since January.

US skim milk powder and dry whey powder forecast



Source: Bloomberg Finance L.P., Rabobank 2022

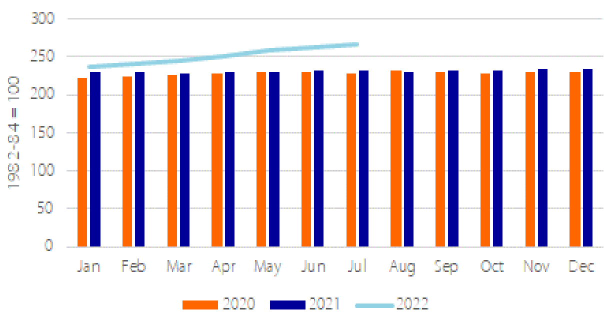
The USDA raised US milk production in its August WASDE report. Production for 2022 was increased from July estimates of 226bn lb to 226.8bn lb, while 2023 production was increased from 228.3bn lb to 229.2bn. Fat basis exports for 2022/23 increased marginally to 11.7bn lb, while 2023 imports were lowered from July estimates of 6.9bn lb to 6.8bn lb amid an uptick in domestic demand. US 2022 butter prices were raised from July projections of USD 2.780/lb to USD 2.785/lb amid a 20% (83m lb) YOY decline in butter stocks. US 2022 cheese prices were lowered from USD 2.185/lb to USD 2.075/lb due to high domestic stocks.

The US Consumer Price Index for Urban Consumers marginally declined from the prior month (+8.5% YOY). However, the US Consumer Price Index for dairy products continues to rise month-on-month. The dairy products index rose 1.6% from June to July (14.9% YOY increase from July 2021). This can largely be attributed to exceptionally high milk and dairy product prices, which have somewhat dampened demand recently. US domestic commercial disappearance of total milk solids fell by 1.6% YOY in June. However, US exports are strong on a total milk solids basis and rose 8.8% YOY in June. As a result, total disappearance for the month was positive at 0.3%.

Global Dairy Trade Price Index declined for the 5th consecutive auction

Source: Bloomberg L.P, Rabobank 2022

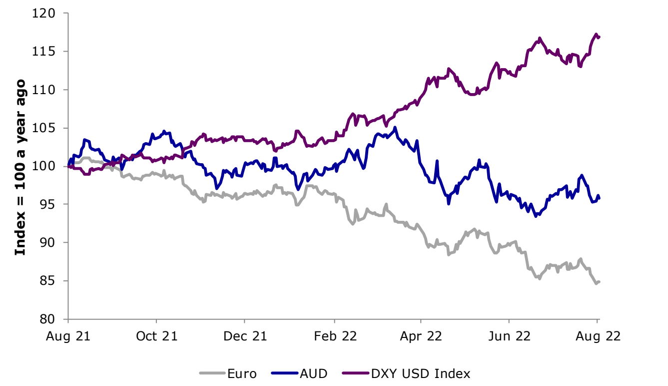
Consumer Price Index: Dairy and Related Products 2020 - current

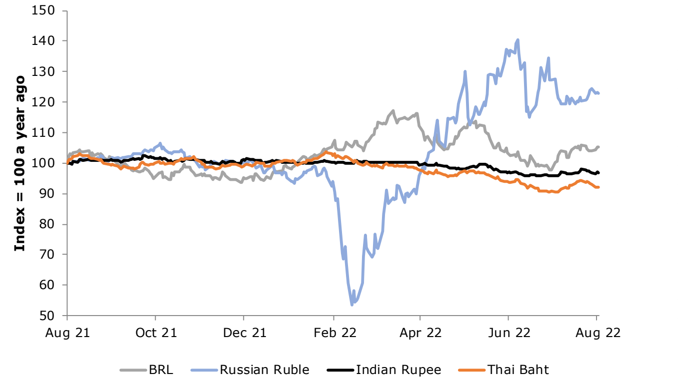


Source: USDA., Rabobank 2022

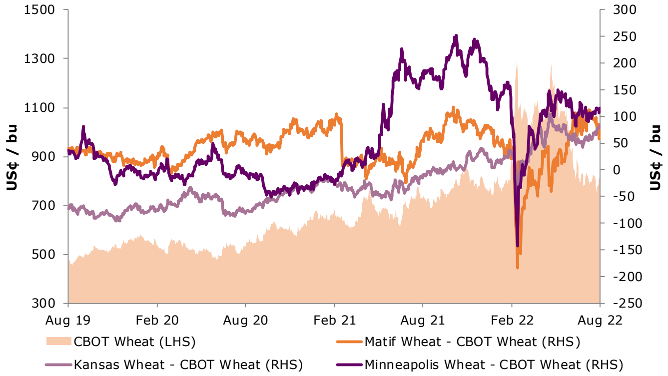
Agri Charts

Global Currencies USD Cross

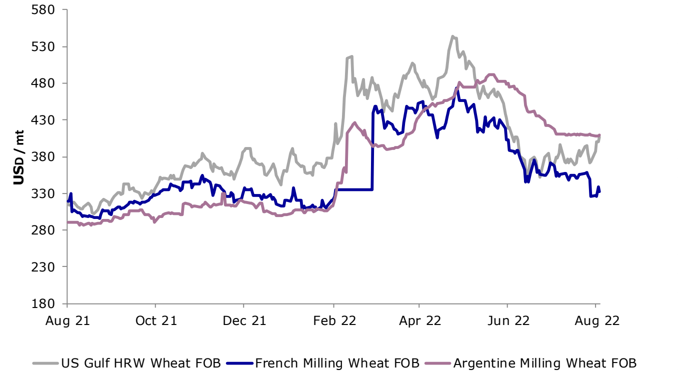




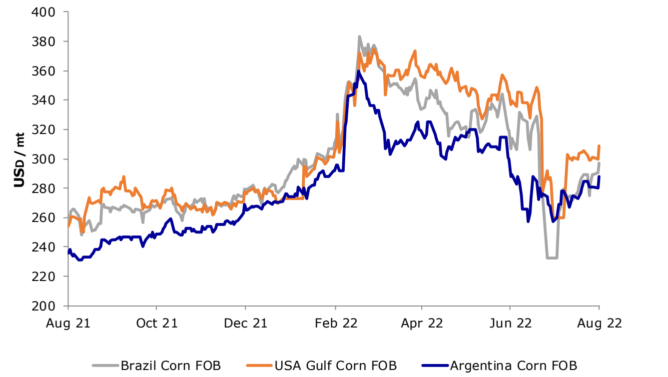
CBOT Wheat Spreads



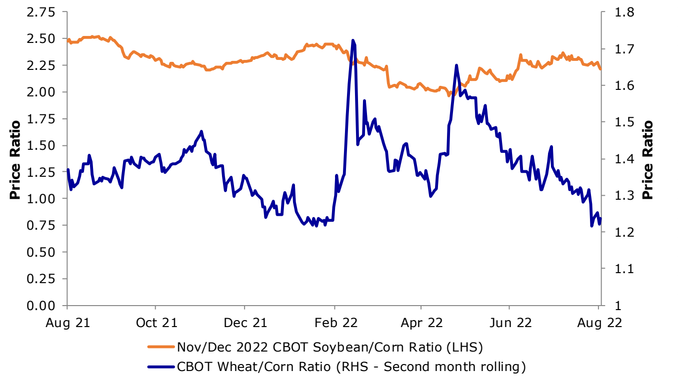
Wheat Protein FOB Prices



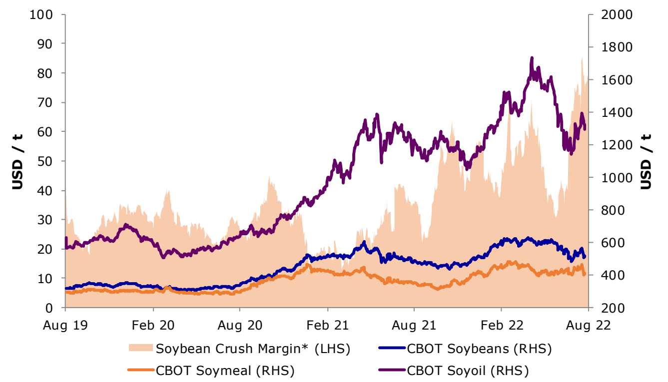
Corn FOB Prices



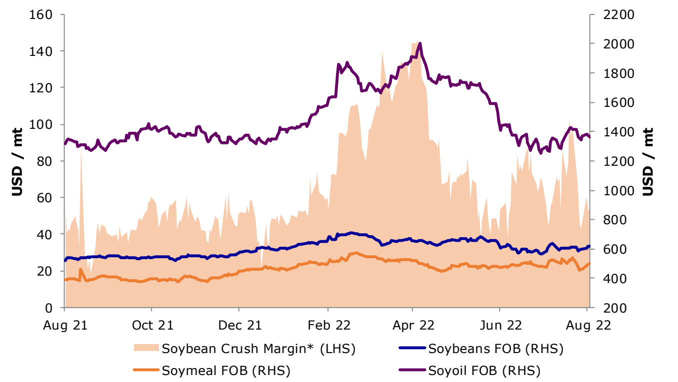
CBOT Ratios



CBOT Soybean Crush Margin



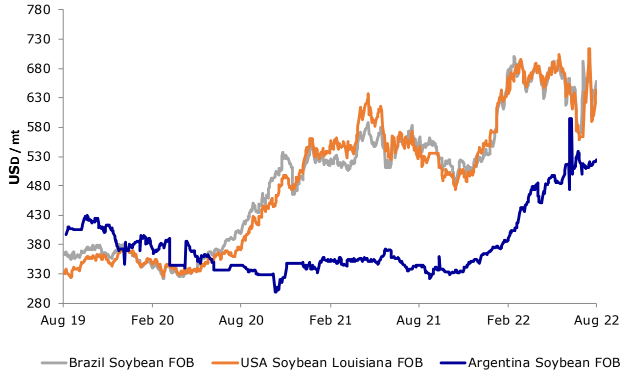
Argentina FOB Soybean Crush Margin



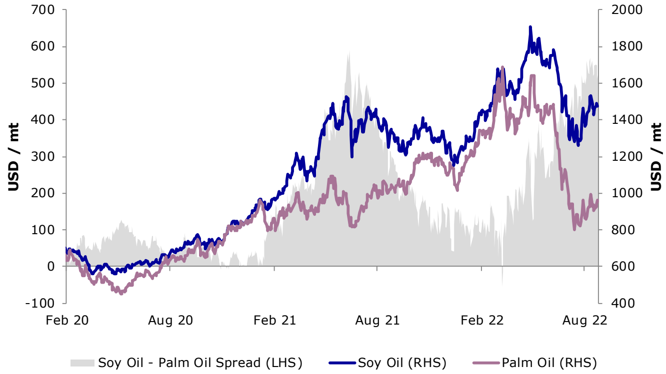
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

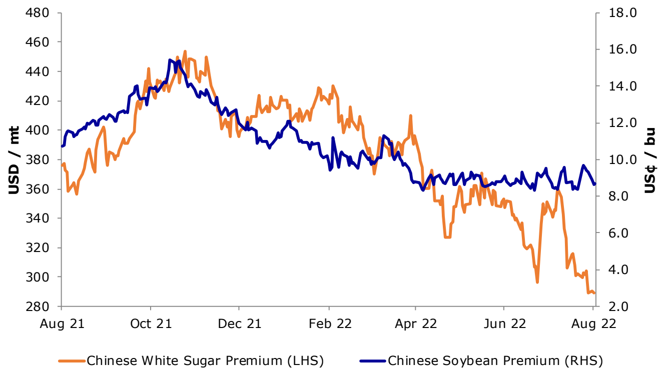
Soybean FOB Prices



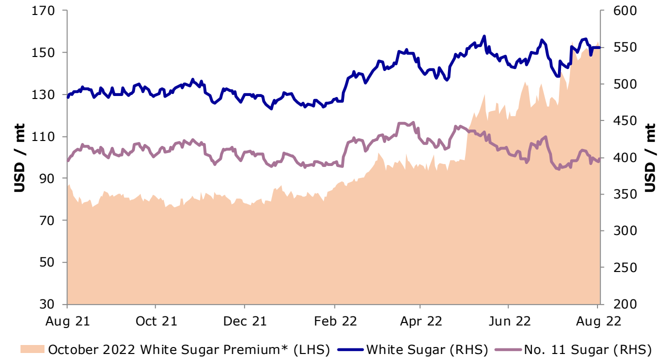
Palm Oil - Soy Oil Spread



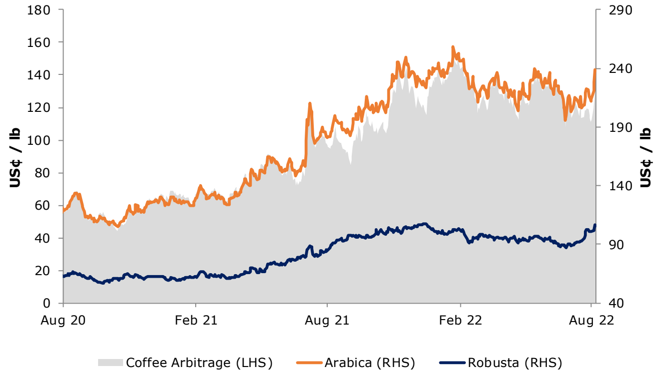
Chinese Futures Premiums



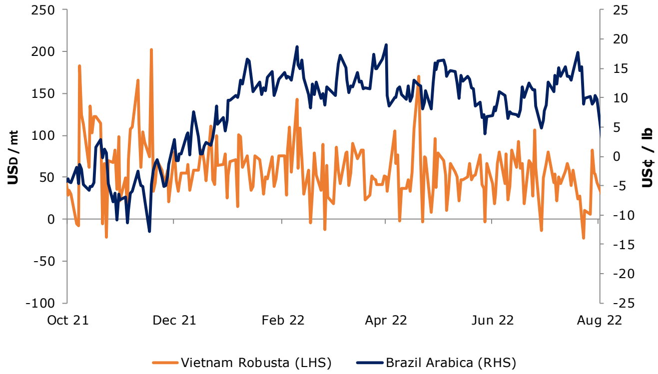
White Sugar Premium



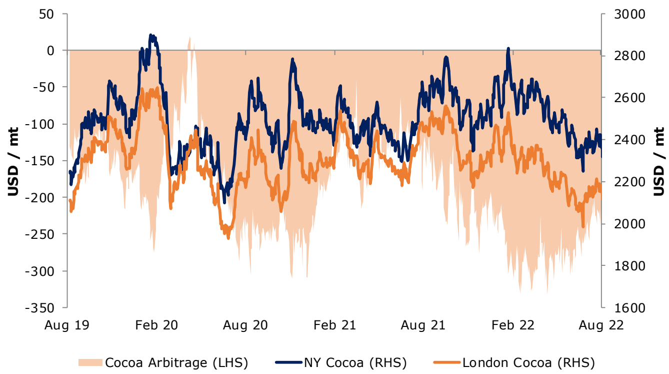
Arabica - Robusta Coffee Arbitrage



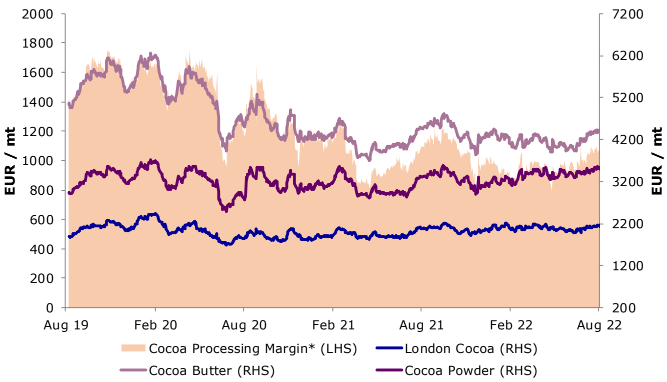
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

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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

Paul Joules, Junior Commodities Analyst
Paul.joules@rabobank.com, +44 (0) 7887824436

Contributing analysts:

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

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

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

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

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