Agri Commodity Markets Research

January 2020: Deal Signed but Virus Brings Panic

RaboResearch
Food & Agribusiness

far.rabobank.com

Stefan Vogel
Head of ACMR
+44 20 7664 9523

Carlos Mera
Senior Commodities Analyst
+44 20 7664 9512

Michael Magdovitz
Commodities Analyst
+44 20 7664 9969

Andrew Rawlings
Associate Commodities Analyst
+44 20 7664 9756

Emerging in the heady wake of the trade deal phase 1 signing, the Coronavirus currently spreading through China (and abroad) during peak consumption period has firmly acquired the market narrative. The consequent drop in crude oil – Brent went from USD 69/bbl in early January to USD 59/bbl currently – triggered an even more impressive sell-off in vegetable oils and halted the enthusiam in the ethanol complex, affecting sugar prices too. The downward pressure seems exaggerated for others, like coffee (which lost 21% so far in 2020), as China is not a large market. The focus of the market will eventually move toward Chinese procurement of US agricultural goods within the phase 1 deal.

WHEAT

CBOT Wheat forecast raised on supply issues and demand strength

- US export sales pick up the pace.
- Weather is key
- Funds more bullish, but will likely remain neutral until spring weather comes into focus

CORN

Rabobank maintains its CBOT Corn price target despite trade deal compliance concerns, with upside to USD 4.00/bu

- Valid concerns about Chinese compliance, US total exports, and upcoming plantings are testing CBOT bull patience

SOY COMPLEX

CBOT Soybeans' trade deal gains are under threat

- Legitimate concerns of waning US Soy competitiveness and China's surprising ability to purchase "under market conditions."
- Soy Oil's rapid rise has been checked by speculative liquidation in palm oil and falling Brent prices. Weak export competition will promote US sales

PALM OIL

Palm oil fundamentals supportive in 2020

- Palm oil prices could peak in Q1 2020
- Malaysian and Indonesian January 2020 palm oil inventories will be lower MOM
- Coronavirus a concern for Chinese import demand

SUGAR

ICE #11 Sugar has a slightly bearish outlook

- A recent rally in sugar was capped by a sharp decline in crude oil prices
- Indian production is slow, but it should catch up a little and release more sugar to the market
- White premium is likely to see volatility

COFFEE

Price forecast largely maintained, bullish from current levels

- Arabica prices saw a large reversion of the previous rally, but a return to USc 110/lb seems reasonable
- Unexpected events drove coffee prices down

COCOA

NY Cocoa forecast raised slightly in the short term; London Cocoa forecast maintained

- Demand for available cocoa intensified on the back of implementation of the living income differential
- US cocoa inventory halted its seasonal drop after seven months of declines

COTTON

Bullish ICE #2 forecast as markets await evidence of fresh US-to-China cotton trade

- March 2020 contract rose 9% since December, in the lead-up to the 'phase-one' trade agreement
- Rabobank expects renewed US-China trade to involve significant export volumes

Wheat

CBOT Wheat forecast raised on stronger-than-expected export demand and supply issues, but bearish from these levels.

- Weather has been key in the wheat market.
- US export sales pick up the pace.
- Funds have begun to get more bullish, but will likely remain neutral until spring weather comes into focus.

US export sales pick up the pace. US All Wheat exports for the 2019/20 season have outpaced the five-year range for this time of year, with cumulative exports now at 15.5mmt (as of January 16), compared to the five-year average of 13.9mmt. Exports from Ukraine are also ahead, with January exports up 37% YOY and cumulative exports for the first half of the marketing year more than last year's total at 15.6mmt compared with 15.5mmt, and there's still six months left to go! Although, it is unlikely that Ukraine will be able to maintain this pace, and we expect them to ship an additional 4mmt, compared with 5mmt for the period in the previous year. With exports slowing from Russia, Europe, and Ukraine, and the Australian crop down, the US is left to fulfill more of the international demand. French port strikes continue to weigh on French export prices, with French FOB prices the lowest in the world (as of January 29), as some exporters choose to avoid France for the time being. Export vessels are being repositioned in the region to take shipments in the Black Sea region, Germany, or Baltics.

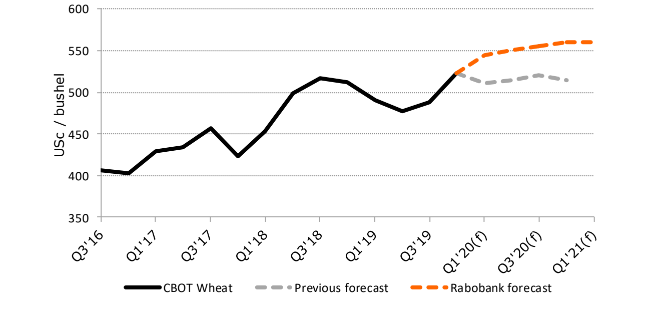
Funds have begun to get more bullish, but will likely remain neutral until spring weather comes into focus. Non-Commercials are traditionally short CBOT, but as of January 21, reached their largest net long position in Wheat since 2012 at 17,208 lots, with Non-Commercial gross long reaching a record 111,767 lots. International wheat demand has been extremely strong, with reports showing good demand from China, Southeast Asia, Africa, and Egypt in the last two months from a variety of origins. Furthermore, China could favor US wheat in order to fill its needs within its import quota, set at 9.6mmt. Even if actual total import volumes come in at half of that, any additional US wheat demand has the potential to support the market.

Weather has been key in the wheat market. Wet weather has prevented planting in the EU, particularly in France and the UK. Meanwhile, temperatures have been well above normal in Ukraine and Russia for much of the last month, and there is extensive lack of snow cover. Winter wheat crops have broadly failed to harden sufficiently in Europe and may be vulnerable to frost. However, at the moment, the risk is low, given the persistent warmer-than-normal weather. In the US, the USDA downgraded US winter wheat crop ratings in some of the major production states this month. Kansas good and excellent crop ratings fell to 34% in January, from 40% in December.

The CBOT Wheat/Corn ratio has been rising persistently, as demand for wheat continues to outpace lackluster corn demand. The market also unanimously favors CBOT over Kansas, Minneapolis, and Matif. The Minneapolis-Chicago spread was briefly positive at the end of December, but has since fallen back to negative territory at USc -23/bu currently. Going forward, the current prices will translate into little feed demand for feed wheat.

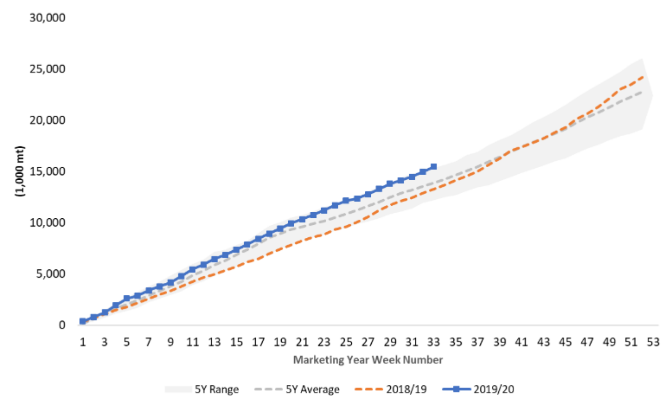
CBOT Wheat outlook raised

	unit	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
CBOT	USc/bu	477	488	523	545	550	555	560	560
Matif	EUR/mt	182	171	181	184	182	180	182	183



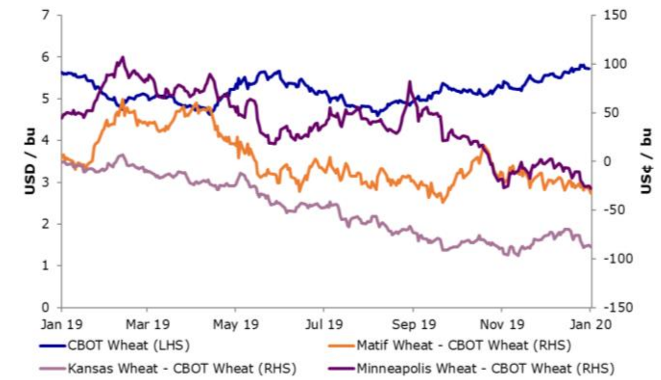
Source: Bloomberg, Rabobank 2020

US cumulative exports have outpaced the five-year range for this time of year, but will they be able to keep up the pace?



Source: USDA, Rabobank 2020

CBOT spreads declined back toward November lows after a brief recovery in December



Source: Bloomberg, Rabobank 2020

Corn

CBOT Corn's 'phase-one' trade deal enthusiasm buckled under the strain of larger US production and disappointing sales reports, but Rabobank maintains its CBOT Corn price target, with upside to USD 4.00/bu

- The recent trade deal between China and the US is demand supportive for US Corn and its byproducts.
- Valid concerns about Chinese compliance, US total exports, and upcoming plantings are testing CBOT bull patience and limiting price traction above USD 4.00/bu.

The long-awaited US-China 'phase-one' trade deal was signed on January 15 and delivered a temporary measure of calm and optimism to CBOT Corn and the broader G&O complex. As ACMR outlined in its 2020 Outlook, the agreement contains firm commitments from China to greater agricultural access and purchases that would, **if fulfilled**, drive tangible benefits for US G&O global export market share and CBOT prices. The agreement holds particular promise for grain demand: China has committed to unprecedented fulfilment of its annual corn (7.1mmt) and wheat (9.6mmt) quotas. The deal also contains provisions for greater access and higher purchase volumes of other feed grains (namely sorghum) and corn byproducts, like dried distiller grains and ethanol.

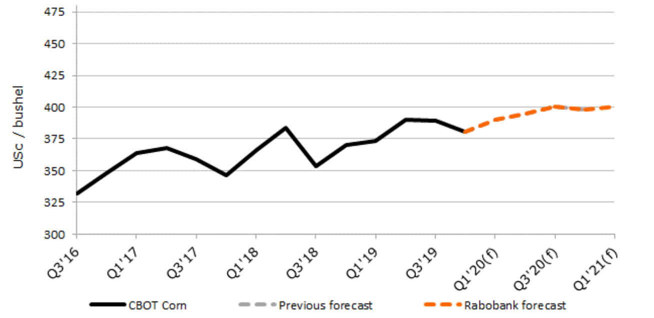
Rabobank recently released projections of US-China G&O trade under the trade deal; for US corn-based products in 2020/21, its ~5mmt each of corn, DDGS, and ethanol. Import Demand outside China could sway from the US to cheaper origins, but US 2019/20 total corn demand would exceed 14bn bu, ending stocks would be below 1.9bn bu, and stocks-use would be at a four-year low of 13%. A 17% contraction in US corn ending stocks would combine with higher demand for alternative feed grains to support CBOT Corn towards USD 4.00/bu. Our CBOT outlook depends on China's cooperation.

CBOT Corn has struggled to hold the bullish trade deal narrative, falling 3% in January as traders fruitlessly sought confirmation of Chinese purchases of US corn. Adding to market nerves, coronavirus upended China's Lunar New Year celebrations, peak meat consumption period, and restocking expectations. In the US, 2019/20 demand and, in particular, exports continue to be massively disappointing. The USDA has cut export projections 18% since July 2019, and post-harvest sales continue to lag 37% behind target. US Corn's slow start, combined with the growing specter of 92m acre 2020/21 US corn acreage and normalizing South American weather, constrain Rabobank's CBOT price forecast to USD 4.00/bu.

The bull market is impatient to see results on US-China trade, which needs a few months to ramp up, given China's Lunar New Year, coronavirus, and state-owned enterprise (SOE) trade instruction/execution. Amid the delays, recent US export competitiveness and rising ethanol production have supported a more patient approach for bulls. Brazilian corn is priced out through June/July 2020, after front-loading its safrinha crop and amid strong domestic demand. The recent surge in interest for Ukrainian corn – the result of an unexpected pullback in surging UAH – pushed CIF Asia prices above the US, which is now the most competitive global origin. Lingering US crop quality concerns are not overly concerning for the export market and may actually benefit overall demand, due to decreased corn conversion efficiency in ethanol processing. Finally, concerns about global wheat supplies have driven CBOT's Wheat/Corn ratio to its highest since the 2018 European drought and should draw greater demand for corn, further underpinning our bullish CBOT price forecast.

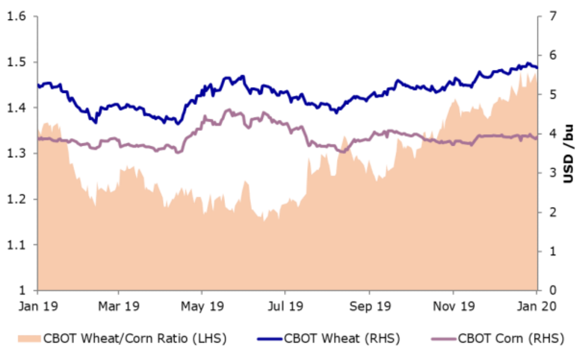
Trade deal supports demand for US grains and its byproducts, but compliance concerns contained CBOT Corn

	Unit	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
CBOT	USc/bu	390	390	381	390	395	400	398	400



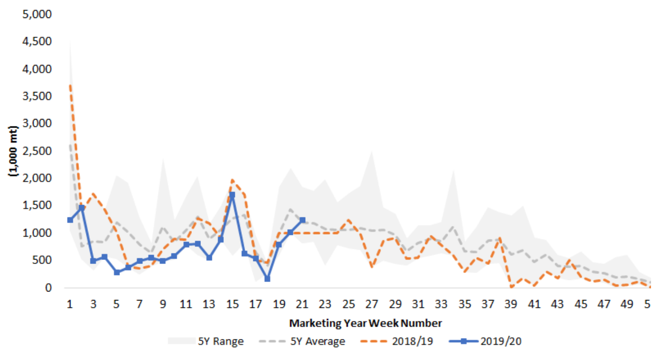
Source: Bloomberg, Rabobank 2019

The CBOT Wheat/Corn ratio has returned to 2018 drought levels and will lead to significant feed switching



Source: USDA, Rabobank 2020

Poor US sales led to WASDE export revisions of ~400m bu, but trade deal and low ex-US supplies can drive a rebound



Source: USDA, Rabobank 2020

Soybeans

CBOT Soybeans' trade deal gains are under threat from concerns of waning US competitiveness and China's surprising ability to purchase "according to market conditions." Rabobank maintains patiently bullish.

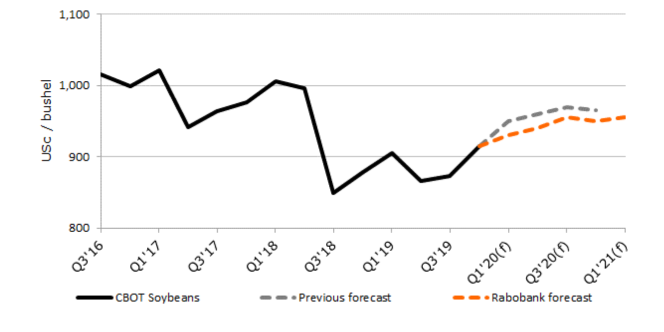
- US production/stock cuts in 2019/20 and MFP optionality continue to support CBOT Soybeans above USD 8.90/bu.
- Chinese soy imports from the US, which form the centerpiece of the new trade deal, are accelerating in an effort to appease the Trump administration, delay higher tariffs, and avoid a strained domestic supply in early 2020.
- Improving Brazilian harvest prospects, together with growing US acreage expectations, limit price upside.

The US-China trade deal signed last month provisionally ended a one-and-a-half year tariff saga that distorted global soy trade flows and depressed CBOT prices to 11-year lows. The market reaction was initially positive, with CBOT rising 9% to pre-trade war levels, before falling 6% as crucial details emerged that put US export projections in doubt. Sentiment has been further depressed by coronavirus during Lunar New Year, typically the peak demand period for animal protein. Rabobank is monitoring coronavirus but does not foresee material impacts for G&O demand beyond near-term delays in import demand due to the holiday extension.

The doubts about China's massive commodity pledge will form a valid lodestone on near-term price upside until there is further clarity around procurement methodology. Under the deal, China is able to procure goods "according to market conditions." This statement appears incongruous with the deal's aim of guaranteeing USD 40bn in US agricultural sales by 2021. For that trade amount to materialize, China will need to buy a variety of US products, of which soybeans (40mmt) will form the cornerstone. Even with the recent decline in CBOT, US FOB soybeans currently trade at a small premium to Brazilian origin. Meanwhile, South America has largely recovered from dryness concerns and faces a potential second consecutive year of record soy production in 2019/20

On the back of the US-China trade deal CBOT Soy's bullish momentum faces a moment of truth on procurement

	Unit	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Soybeans	USc/bu	866	873	915	930	940	955	950	955

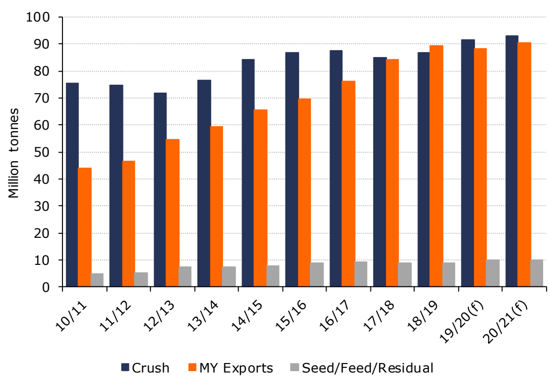


Source: Bloomberg, Rabobank 2019

(185mmt, +2.2% YOY). Next month, Brazil will enter the heart of its soybean harvest with only minor delays, and China will emerge from its new year celebrations in restocking mode. According to the market condition clause, if China went to market today, it would buy Brazilian soybeans. China's historic opportunistic post-harvest approach to soy procurement and consequent declines in US soy export demand were major reasons for the trade deal. The free market approach is unlikely to continue. Otherwise, China will certainly fail to achieve the level of US procurement under the deal and incur the wrath of President Trump. More likely, China will direct state-owned enterprises to buy US soybeans and seek non-tariff barriers to South American procurement.

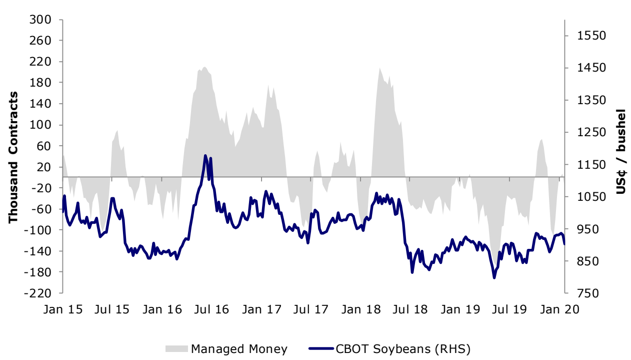
As speculators jump back into a net short position and CBOT balances precariously around USD 9.00/bu, there are reasons to remain patiently optimistic. Most importantly, US exports to China will rise, regardless of market conditions. US supplies are in contraction, are coming off the largest soy acreage cut on record in 2019/20 (from 87.6m to 75.9m acres), and are facing a beneficial stocks decline of over 50%. In South America, strong internal crushing demand (+6% YOY) will curtail export potential (-2% YOY). We maintain a CBOT Soybean price view north of USD 9.50/bu on supportive US trade and supply news, with further upside checked by the expected slow ramp-up of Chinese procurement and anticipated growth in US 2020/21 plantings.

2019/20 Brazil, Argentine, Paraguay soy supplies will be record, but strong domestic demand will curtail export potential



Source: USDA, Rabobank 2020

Managed Money re-entered a CBOT Soy net short on concerns of China's US procurement and coronavirus



Source: CFTC, Bloomberg, Rabobank 2020

Soymeal and Soy Oil

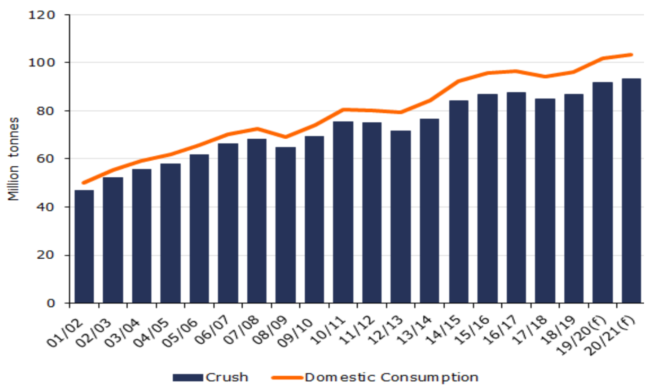
CBOT Soy Oil is losing fuel for further ascent amid falling Brent Crude and MDE palm oil. CBOT Soymeal is uncompetitive and will struggle to regain firm footing above USD 300/mt until China comes for US Soybeans.

- CBOT Soymeal is languishing at contract lows and has few bright prospects amid a strong dollar, lackluster demand, and strong production expectations in South America.
- Soy Oil's rapid rise has been checked by speculative liquidation in palm oil and falling Brent prices. Weak export competition will promote US sales.

CBOT Soy byproducts sold off heavily last month, as funds sold amid post-trade deal procurement concerns and coronavirus in China. For CBOT Soymeal (-2% MOM), a strong US dollar, record South American production prospects, and global feed demand concerns formed a constant barrage of pressure on prices to contract lows below USD 300/mt. The short-term demand outlook remains bleak and shaves a few dollars off our forecast, though some recovery is still expected. In China, coronavirus is disrupting Lunar New Year celebrations and the peak animal protein consumption period. China's quarantine and extension of festivities will likely delay, but not materially reduce, feed restocking. In South America, Argentina's weak peso, record soybean production potential, and tax advantages for soybean byproducts expected from the government heavily curtail US export competitiveness. South American FOB export prices are trading at a USD 10/mt to USD 20/mt discount, blunting US export sales – commitments are 4% behind USDA's target.

Looking ahead, CBOT Soymeal will place outsized reliance on improved US-China trade, in particular for ASF-hit meat replacement, to drive soymeal demand. Rabobank expects forthcoming strong Chinese purchases of US soybeans will pressure crush margins and, in turn, provide a modest supply-slowed boost to CBOT Soymeal prices. The USDA's recent

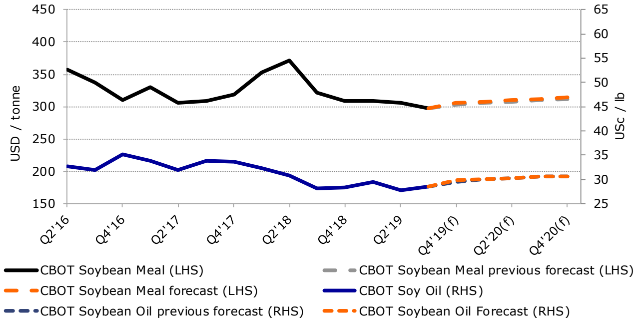
Increased South American meal production will be partially absorbed by domestic demand to feed China-bound meat



Source: USDA, Rabobank 2020

Soy oil and soymeal prices largely maintained amid expectations of an eventual demand recovery

	unit	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Soymeal	USD/mt	307	297	301	306	308	310	312	314
Soy Oil	USc/lb	27.8	28.5	31.3	32.4	33.0	33.6	33.9	33.5

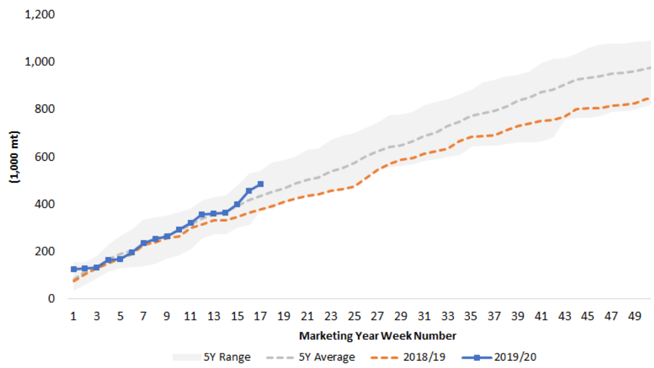


Source: Bloomberg, Rabobank 2019

discovery of a vaccine that is 100% effective against ASF, though promising, is unlikely to markedly improve Chinese feed demand in the short term, as the regulatory, transfer, and commercialization processes of vaccines can take some time.

CBOT Soy Oil's speculator-fueled ascent to 2016 El Niño highs stalled last month before falling sharply (-9.5%) on rising US stocks and coronavirus-driven reversals in Brent Crude and MDE Palm Oil. Funds accelerated the sell-off, liquidating a quarter of their 90,500 lot net length position – the largest since 2016 – in the last weekly CFTC report. Coronavirus's spread comes at a particularly problematic period during China's peak food consumption and travel period. In the US, meanwhile, the decline in Brent crude will continue to soften demand for biodiesel and soy oil. Last month, US NOPA stockpiles rose more than expected (1.757m lbs, up from 1.448m lbs). Amid the current weakness in US biodiesel demand in the US, global demand remains strong, thanks to higher mandates in countries like Brazil and Indonesia. Strong Brazilian domestic demand in particular is tying up supplies and, combined with an historically low CBOT Soy Oil/MDE Palm Oil premium, is supporting US soy oil exports (extrapolated commitments are running 28% ahead of USDA's export target). Rabobank maintains an optimistic outlook for CBOT Soy Oil, with a recovery in Brent and strong US soy oil exports pushing prices near USc 34/lb in 2020.

US Soy Oil export sales are rising amid increasingly competitive FOB prices and favorable spread to MDE Palm



Source: USDA, Macrobond Rabobank 2020

Palm Oil

Palm oil fundamentals will support palm oil prices in 2020.

- Palm oil prices will peak in Q1 2020.
- High prices will limit Indian palm oil import demand in January 2020.
- Malaysian and Indonesian January 2020 palm oil inventories will be lower MOM.

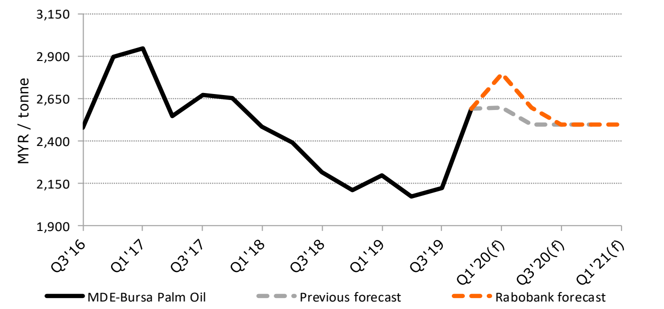
Palm oil prices will peak in Q1 2020. MDE-Bursa Palm Oil active contract price extended its bullish run to reach MYR 3,134/mt in early January 2020 before declining. The combination of lower MOM Malaysian palm oil production in December 2019 and further reduction of Indian palm oil import duties for ASEAN countries in 2020 provided further support to positive palm oil market conditions. The outbreak of coronavirus in China, however, provides a bearish factor to palm oil prices, as it could result in lower edible oil consumption in the country. We expect palm oil prices to remain relatively supported in Q1 2020, due to the seasonal palm oil FFB yield downtrend in Southeast Asia. The palm production cycle in Southeast Asia, however, is expected to shift to a seasonal uptrend from Q2 2020 onwards, and we expect this to result in lower QOQ palm oil prices. Also, MDE-Bursa Palm Oil futures price curve remains in backwardation, wherein nearby contracts trade higher than those further out, throughout January 2020. Looking at the above factors, we have revised up our Q1 2020 palm oil price forecast to an average of MYR 2,800/mt and our 2020 palm oil price forecast to an average of MYR 2,600/mt.

High prices will limit Indian palm oil import demand in January 2020. As of early January 2020, Indian edible oil inventories at port and in pipeline decreased by 9% MOM, to 1.4mmt. Even though Indian edible oil inventories are at low levels, we don't expect significant restocking activities in January 2020, due to the persistently high palm oil price environment. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices was around USD 19/mt in mid-January 2020. This makes palm oil prices uncompetitive, compared to soy oil. Meanwhile, domestic edible oil inventories in China are also relatively low. As of January 10, 2020, Chinese palm oil inventories were higher by 55% YOY, at 794,100mt. Chinese soy oil inventories, however, were 42% lower YOY, at 877,500mt. We expect Chinese palm oil imports to remain relatively healthy in 1H January 2020, due to higher domestic edible oil demand for Lunar New Year celebrations.

Malaysian and Indonesian January 2020 palm oil inventories will be lower MOM. According to MPOB, Malaysian palm oil exports were flat MOM, at 1.4mmt, in December 2019. Malaysian December 2019 palm oil production, however, decreased by 13% MOM, to 1.3mmt. As a result, Malaysian December 2019 palm oil inventory decreased by 10.9% MOM, to 2mmt. We expect palm oil inventories in Malaysia to decrease further in January 2020, due to a seasonal production downtrend and relatively stable inventory drawdown. Meanwhile, the implementation of the B30 mandate in Indonesia, which started in January 2020, will result in a higher MOM palm oil inventory drawdown in the country.

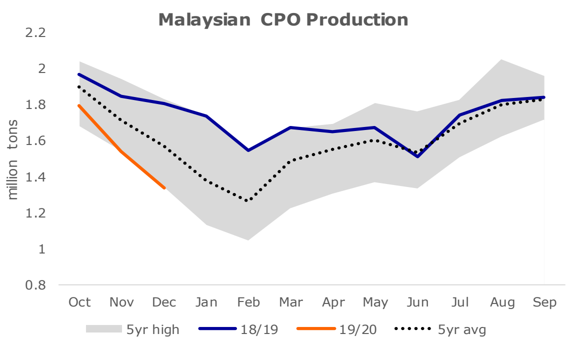
Our average 2020 palm oil price forecast is MYR 2600/mt

	Unit	Q2'19	Q3'19	Q4'19	Q1'20(f)	Q2'20(f)	Q3'20(f)	Q4'20(f)	Q1'21(f)
Palm Oil	MYR/tonne	2,075	2,200	2,587	2,800	2,600	2,500	2,500	2,500



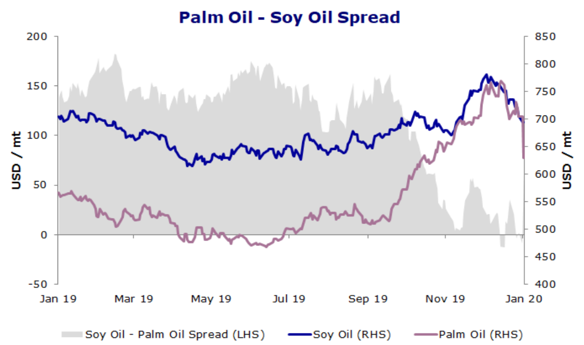
Source: Bloomberg, Rabobank 2020

Malaysian monthly palm oil production seasonally decreases in Q1, prior to recovery in the Q2 period



Source: MPOB, Rabobank 2020

Palm oil prices remain uncompetitive, compared to soy oil, and briefly traded at a premium to soy oil in January 2020



Source: Bloomberg, Rabobank 2020

Sugar

ICE #11 Sugar in a slightly bearish outlook

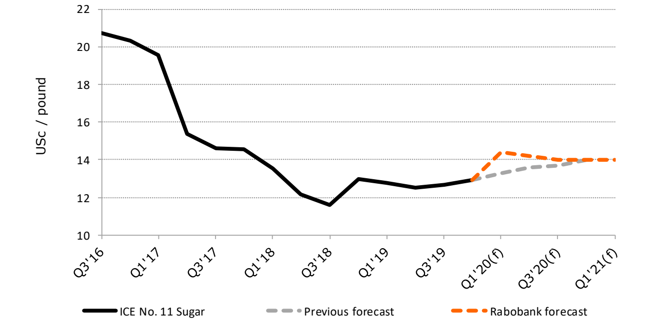
- A recent rally in sugar was capped by a sharp decline in crude oil prices.
- Indian production is slow, but it should catch up a little and release more sugar to the market.
- A record Managed Money net long position on white sugar is likely to bring volatility to the white premium.

The ICE Sugar #11 rally has beaten all expectations. Even though sugar was the most bullish commodity in our November outlook forecast, its rally has beaten all expectations, and it has only been alleviated by the decline in international energy prices. The reasons for the November-January rally are multiple and very much fundamental: a large drop in Thailand, slow-moving sugar output and exports out of India, a drop in Mexican output leading to the USMCA market potentially importing whites from Central America, and a very strong ethanol market in Brazil. Funds accompanied and exacerbated the price move, going from holding -0.2m lots net short at the end of October to 70,991 lots net long in the latest CFTC.

International energy prices declined sharply, but, for now, they have led to only small declines in Brazilian ethanol prices. Particularly impressive was the drop in Brent crude oil prices, from USD 69/bbl as of early January to USD 58/bbl at the time of writing, and a backwardated forward curve. The main factors behind the decline in energy prices were the spread of coronavirus and the expectations for lower energy demand for transport (also reflected in the decline in the share prices of major airlines) and a drop in GDP in the affected areas. International energy prices are now well below the average seen through the 2019 Brazil cane harvest season (USD 63.7/bbl in April-November 2019), and there is a risk of the ethanol parity dropping well below the current sugar futures curve, creating a larger-than-needed shift towards sugar. After some concerns about lower-than-normal rainfall over Brazil CS sugar areas, recent rainfall alleviated the water deficit.

ICE #11 Sugar price forecast slightly increased, but bearish

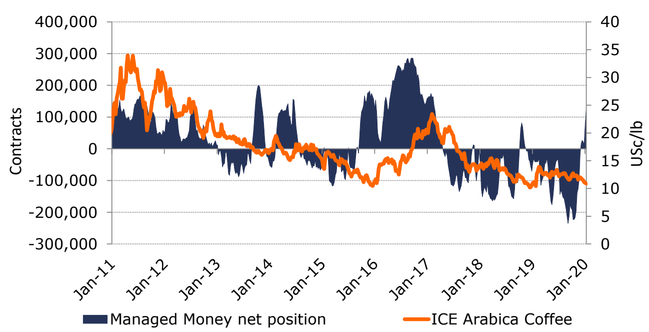
	Unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Sugar	USc/lb	12.5	12.6	12.9	14.4	14.2	14.0	14.0	14.0



Source: Bloomberg, Rabobank 2020

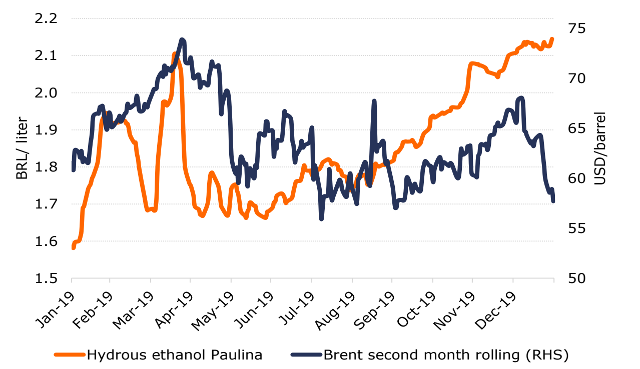
More sugar from India is expected. Indian output has been lagging well behind last year's levels. Between October 2019 and mid-January 2020, India produced 10.9mmt of sugar, vs. 14.7mmt in the same period a year ago. That is a 26% YOY drop, but our expectations are still for a 'milder' drop of 20% by the end of the season. A delay was always expected, as the monsoon ended a couple of weeks later than normal. However, another issue would be convincing Indian mills to export higher volumes of that sugar. This may happen very quickly if the Indian government reassigns export quotas away from the mills not using them. In the meantime, exports out of Europe and Thailand are significantly lower YOY, exacerbating a short-term deficit in the global market, especially in whites. With this in mind, it is not surprising to see the March white premium trading at over USD 87/mt. Furthermore, the record Managed Money position on white sugar in the latest CFTC should add to the volatility. However, the situation will be very different once Brazil CS is back in harvest time, from April onwards. Therefore, we adopt a fairly neutral to slightly bearish outlook from these levels, but we acknowledge that there is a high risk of a fund sell-off if India releases more sugar than expected.

White sugar is red hot, but higher output and exports out of India are expected



Source: CFTC, Bloomberg, Rabobank 2020

Ethanol prices in Brazil have reached record highs in BRL terms, but lower energy prices may drag them down



Source: NOAA, Rabobank 2020

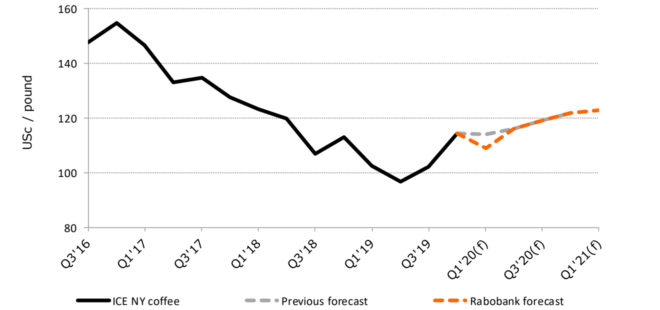
Coffee

Arabica rollercoaster to quiet down; price forecast largely maintained, but bullish

- Arabica prices saw a large reversion of the previous rally, but a return to USc 110/lb seems reasonable.
- Unexpected events drove coffee prices down.
- There is a chance of another rally, which, though we believe it is not justified, may lead to distortions in the market now that origins are well sold.

ICE Arabica forecast largely maintained

	unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
ICE Arabica	USc/lb	97	102	114	109	116	119	122	123
ICE Robusta	USD/mt	1,406	1,354	1,349	1,360	1,420	1,450	1,450	1,470



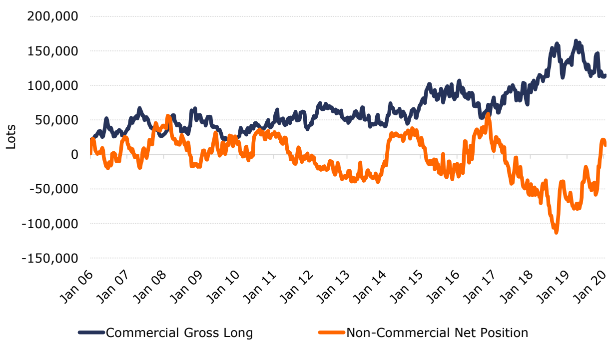
Source: Bloomberg, Rabobank 2020

The arabica rally was short lived, and should settle at prices that do not encourage a large expansion of Brazilian coffee areas. The arabica market saw a bout of speculation during November and December, triggered by slow-moving Central American crops and the decline in certified stocks seen at the time. The rally was killed by forward selling from Brazil, the frontloading of sales and exports out of Central America, and a small recovery in arabica certified stocks. A low passing rate in gradings seems to indicate that much of the coffee graded were recertifications, although the share of 2019/20 crop coffee is likely to increase. New crop coffee is unlikely to be delivered, as differentials are firmly above tenderable parity, and grading is probably done for financial reasons until the coffee is needed. The market should find a price that does not encourage aggressive land expansion in Brazil but also does not destroy washed coffee production elsewhere, and we believe that price is around USc 110/lb to USc 115/lb.

Unexpected events are driving coffee prices even lower: coronavirus and strong rainfall. The spread of coronavirus will have unforeseeable consequences. First, on the macro side, the virus is driving oil prices and airline shares down. The most immediate effect on coffee comes from consumption in coffee shops. Shares of a leading Chinese coffee shop chain declined by 25% since the 17th of Jan as the active virus threat discouraged people from hanging out in coffee shops in certain affected areas and delivery may not have been possible. Thousands of coffee shops in China are currently closed, but it is worth remembering that China is responsible for only around 2% of global coffee consumption. Even though consumption may suffer there in the short term, we do not think the effect will be large enough to change the global S/D in any significant manner. Meanwhile, strong rains have recently fallen over some of Brazil's arabica coffee areas. In Belo Horizonte, the capital of Minas Gerais, the largest coffee producer state in Brazil, daily rainfall on January 26 was the highest on record (with records going back 110 years). A state of emergency was declared in 99 cities. In principle, more rainfall is beneficial for coffee production, and coffee terrain, which is usually hilly, should drain fairly quickly. The availability of labor could be a concern, given that reconstruction of infrastructure work will demand it. But coffee only really needs a high amount of labor during the harvest, from late May to early September, so we believe the rainfall effect on coffee production is positive overall.

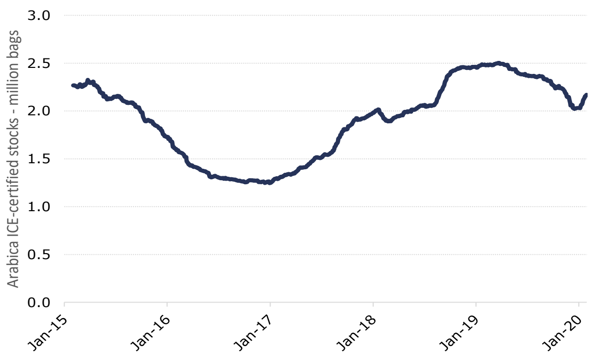
Another rally or further slide cannot be rule out, following the bout of speculation in the market. On the upside, if funds wanted to buy more, there will be less selling pressure from Brazil to stop them. Furthermore, washed coffee differentials have been quite firm through the rally, highlighting the lack of physical availability of premium arabica. On the downside, the coronavirus has the potential to continue to drive commodity prices down, making the technical indicators for arabica coffee look even more bearish.

Non-Commercials hold a net long position, but there is a risk they could get longer at a time farmers are well sold



Source: CFTC, Bloomberg, Rabobank 2020

ICE-Certified arabica coffee stocks are going up, despite firm differentials



Source: NOAA, Rabobank 2020

Cocoa

NY Cocoa forecast raised slightly in the short term; London Cocoa forecast maintained.

- Demand for available cocoa intensified on the back of the implementation of the living income differential.
- Harmattan weather in West Africa appears to have been milder than usual.
- US cocoa inventory halted its seasonal drop after seven months of declines.

ICE NY Cocoa rose 5.5% so far in January, as demand for available cocoa intensified on the back of the implementation of the living income differential. Open interest in NY Cocoa reached an all-time high last week (as of January 21) of 382,712 lots. Non-Commercials maintained their net long positon, which increased 10,069 net lots last week, to 22,818 lots. Notably, a record Non-Commercial spreading volume (Non-Commercials holding both long and short contracts) of 125,289 lots showed a lot of speculation about the structure of the market. The futures curve has steepened significantly MOM, and suggests the current supply tightness may be short lived. If funds begin to unwind their spreads, we will see price volatility across the curve.

Arrivals in Côte d'Ivoire are ahead of last year on a cumulative basis, but have been slower YOY in the last few weeks, estimated at 1.41mmt cumulatively, compared to 1.3mmt last year. Arrivals will likely show a continued slower YOY pace but remain above last year overall. Purchases by the Ghana Cocoa Board for the next season's crop, beginning October 1st, are in line with last year at 596tmt, despite the inclusion of the USD 400 living income differential.

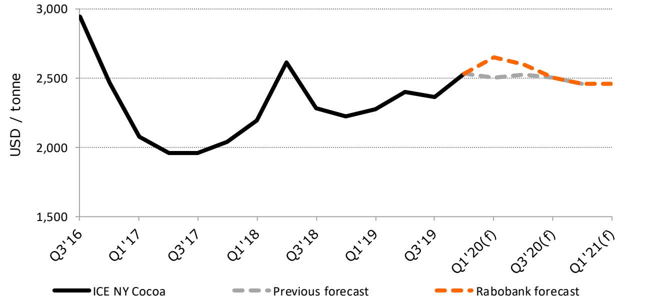
The dry Harmattan weather in West Africa appears to have been milder than usual, with a small amount of rainfall in early January. Good rainfall in Q4 2019 has also helped maintain soil moisture in southern regions of Ghana and Côte d'Ivoire. Historically, the worst of the dry season should now be over, and average temperatures should begin to increase along with rainfall. However the one-week forecast remains dry. Assuming a neutral ENSO index in 2020, the most likely forecast, we should continue to see West African weather favor cocoa production. With the implementation of the LID and futures prices at three-year highs, cocoa farmers around the world should be incentivized to maintain and collect all of their crops, which should lead to global production growth in 2020/21 and later years. However, if these price levels are sustained, we will see higher consumer prices and potentially reduced cocoa usage in products, which will reduce the overall cocoa demand. This will exert a continuous downward influence on prices, reinforcing our bearish outlook.

Demand growth remains strong in Asia. Q4 2019 grindings showed a mixed global report, with quarterly grindings declining in Europe (-1.1% YOY) and the Americas (-5.9% YOY). Asian grindings were up 8.7% YOY and so were Côte d'Ivoire, +4.4% YOY (Gepex).

US cocoa inventory halted its seasonal drop after seven months of declines. Inventories have increased 11.5% MOM but remain at lower YOY levels. With the LID coming into implementation, available stocks will be in high demand. Going forward a little, any stock accumulation in West Africa towards the end of 2020/21, and any way in which governments may deal with it, will be the focus of the market.

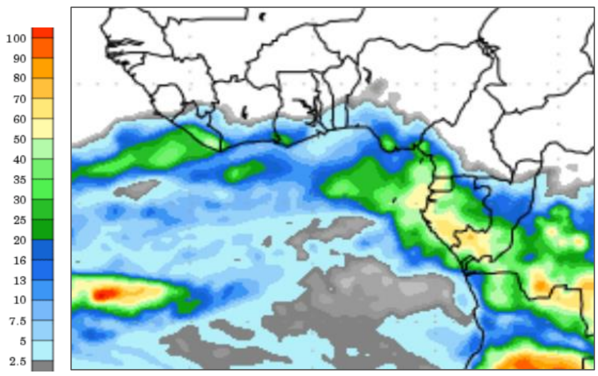
ICE Cocoa forecast raised slightly in the short term

	unit	Q2'19	Q3'19	Q4'19	Q1'20(f)	Q2'20(f)	Q3'20(f)	Q4'20(f)	Q1'21(f)
ICE NY	USD/t	2,402	2,365	2,533	2,650	2,600	2,500	2,460	2,460
ICE London	GBP/t	1,775	1,808	1,852	1,900	1,950	1,900	1,860	1,860



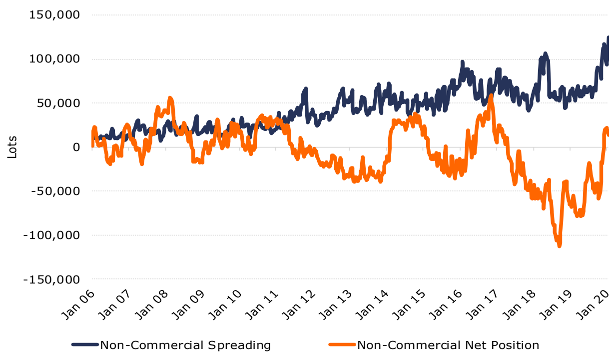
Source: Bloomberg, Rabobank 2020

Rains return to West Africa as worst of the dry season passes. February 6-February 14 rainfall forecast (mm):



Source: NOAA, Rabobank 2020

Non-Commercial Spreading was at a record high; price volatility very likely if spreads begin to come off



Source: CFTC, Bloomberg, Rabobank 2020

Cotton

Bullish ICE #2 forecast as markets await evidence of fresh US-to-China cotton trade

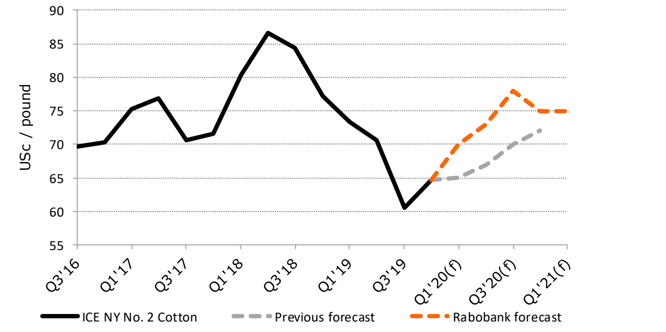
- The March 2020 contract rose 9% since December, in the lead-up to the 'phase-one' US-China trade agreement.
- Rabobank expects renewed US-China trade to involve significant export volumes.
- Unfixed mill sales have built sharply against both the May and July 2020 contracts.
- Prices forecast to rise towards USc 78/lb by late 2020.

World cotton futures rose sharply in late 2019, adding 9% on the ICE #2 March 2020 contract since December. Exceeding Rabobank's price expectations, the bullish sentiment stems almost entirely from the 'phase-one' US-China trade agreement. Cotton is included on the list of future trade commitments, despite volumes not being specified, which has assisted a speculative buying surge – Non-Commercials added 37,227 net lots since December, shifting to a 15,300 lot net long position as of January 21. In the short term, Rabobank forecasts ICE #2 to soften to USc 70/lb in Q1 2020, as trade deal excitement wears thin. Further out, Rabobank expects the trade deal to reignite cotton flows between the US and China, supporting prices towards USc 78/lb by Q3 2020.

Rabobank expects renewed US-China trade to involve significant export volumes, taking US 2019/20 exports towards 16m bales and driving price support into 2H 2020. After half a decade of destocking, China will need to address a domestic supply deficit in coming seasons, partially through higher imports – Rabobank expects China to import 11m to 12m bales in 2020/21, a seven-year high. Without US-origin supplies, this volume of imports is simply not possible. Chinese demand will help the US address its hefty 2019/20 inventories, forecast at 6.3m bales – an 11-year high. The trend is expected to resume into 2020/21, with US exports now forecast at 17m bales next season, while ending stocks are forecast to fall below 6m bales.

ICE #2 Cotton forecast revised marginally lower

	unit	Q2'19	Q3'19	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f
Cotton	USc/lb	71	61	65	70	73	78	75	75

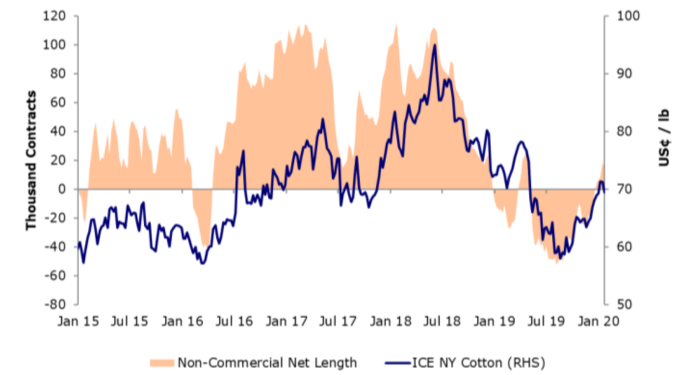


Source: Bloomberg, Rabobank 2020

Heightened confidence in the broader textile market, including Southeast Asia, should also assist global consumption, as mills increase use to feed yarn demand. Still, the likes of Australia and Brazil will now need to compete with the US for Chinese import demand, losing their preferential access and price premiums in the process.

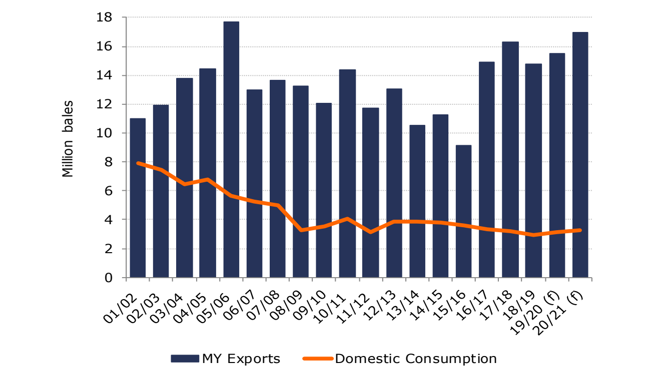
Unfixed mill sales have built sharply against both the May and July 2020 contracts, a supportive factor into late Q2 and Q3 2020. This, coupled with a bullish US trade outlook and low certified stocks, highlights the possibility of speculative buying in the July 2020 contract, seen previously in both 2016 and 2017. For the March 2020 contract, unfixed sales and purchases are relatively balanced. Attention will soon turn to 2020 US acres, where Rabobank anticipates a marginal fall in harvested area – to 11.3m acres – and a dip in 2020/21 production to just below 20m bales. From a global perspective, this is more than offset by additional Brazilian output, driving a 2% YOY rise in 2020/21 world output.

Non-Commercials hold a 15,300 net long position, as of January 21, after the signing of the 'phase-one' US-China deal



Source: USDA, Rabobank 2020

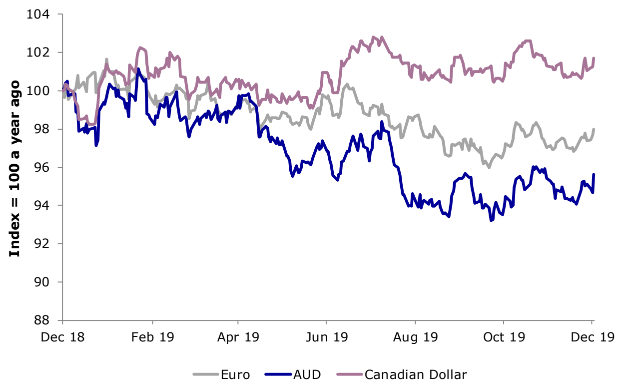
US exports set to rise above 2017/18 levels – towards 16m bales in 2019/20 – as 'normal' trade flows resume

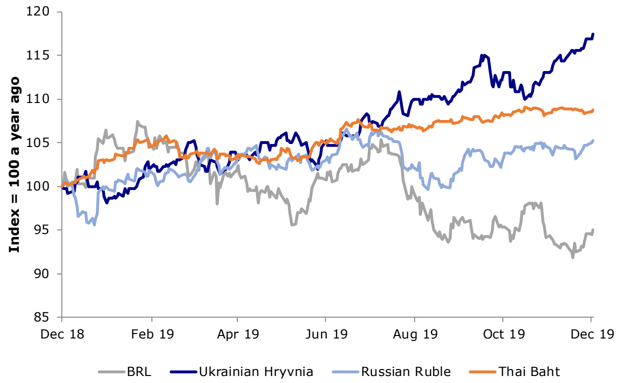


Source: USDA, Rabobank 2020

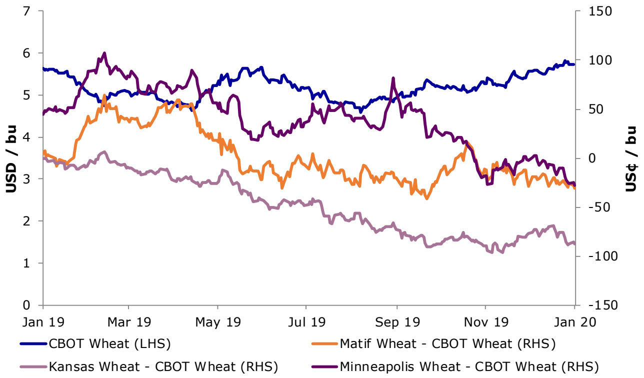
Agri Charts

Global Currencies USD Cross

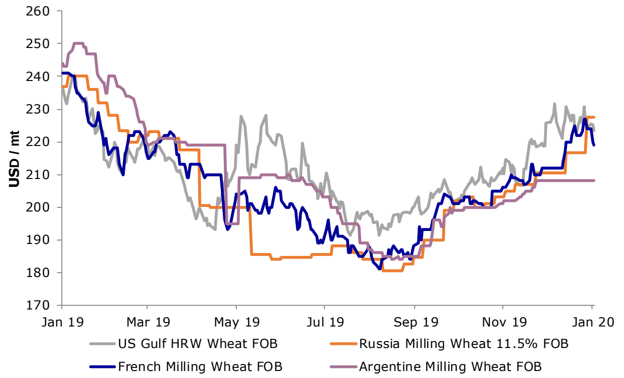




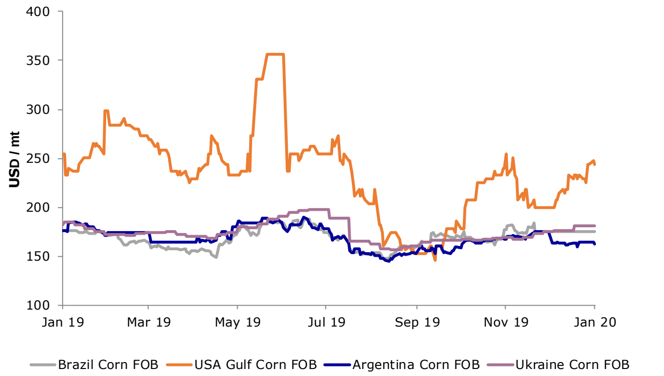
CBOT Wheat Spreads



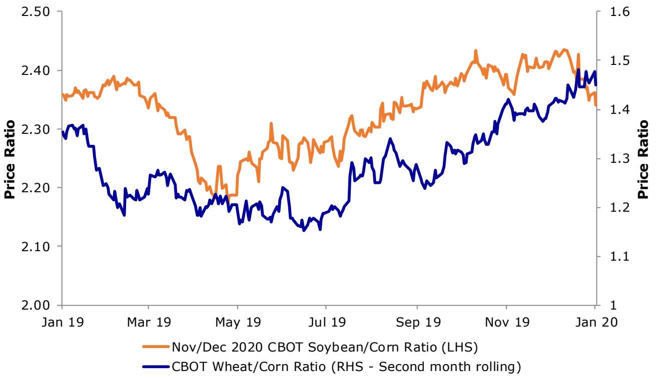
Wheat Protein FOB Prices



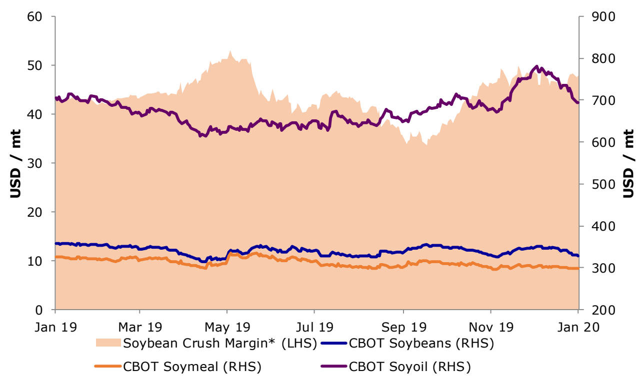
Corn FOB Prices



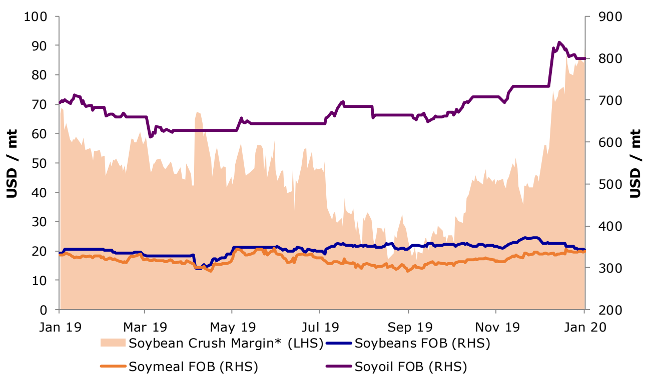
CBOT Ratios



CBOT Soybean Crush Margin



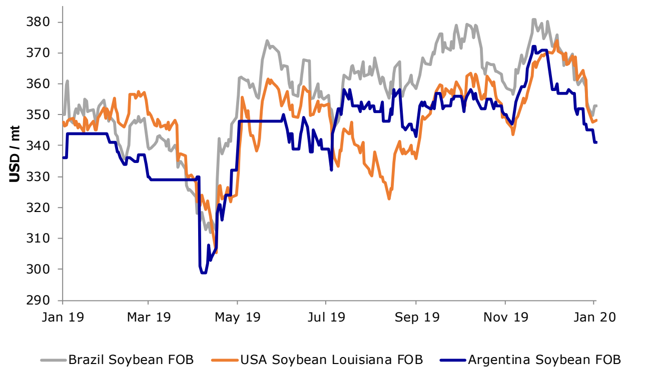
Argentina FOB Soybean Crush Margin



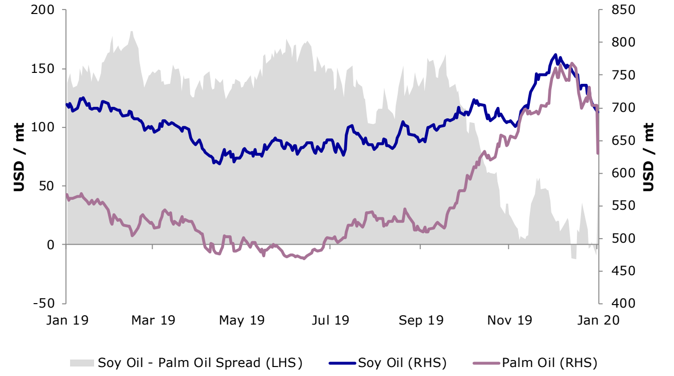
Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

Agri Charts

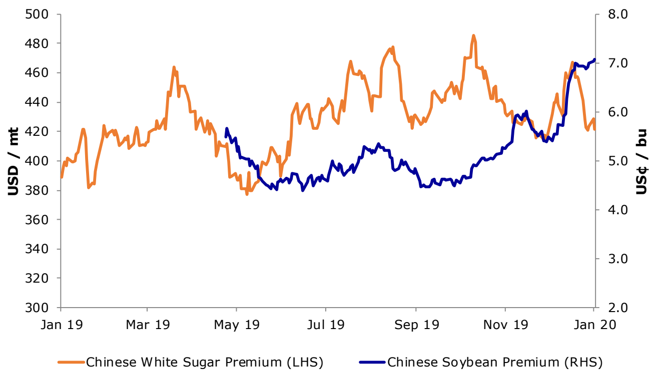
Soybean FOB Prices



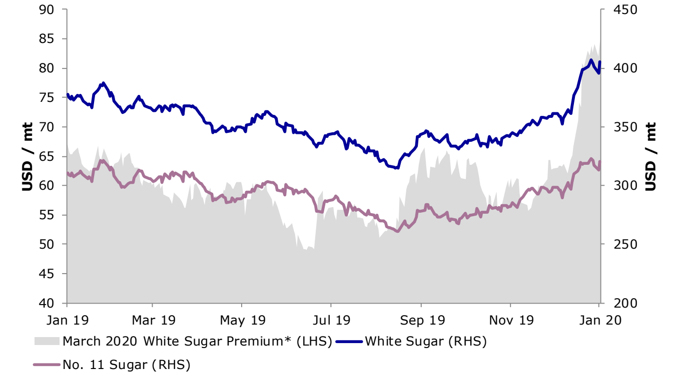
Palm Oil - Soy Oil Spread



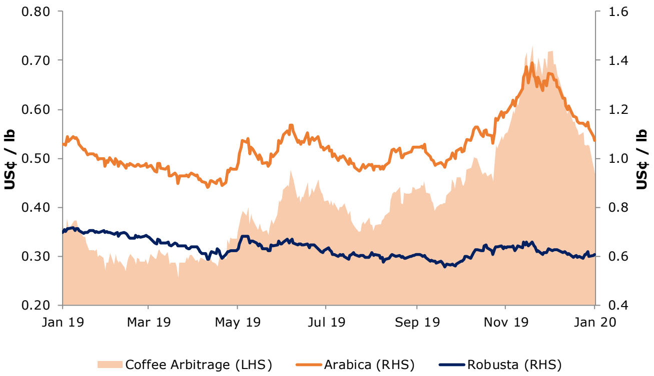
Chinese Futures Premiums



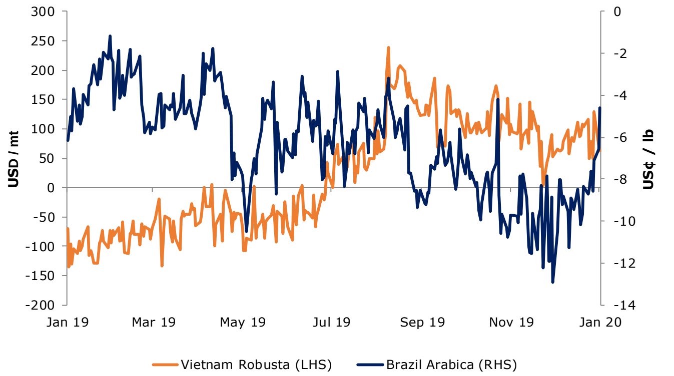
White Sugar Premium



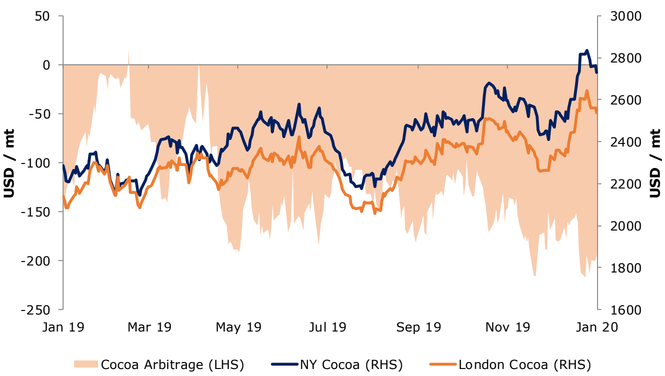
Arabica - Robusta Coffee Arbitrage



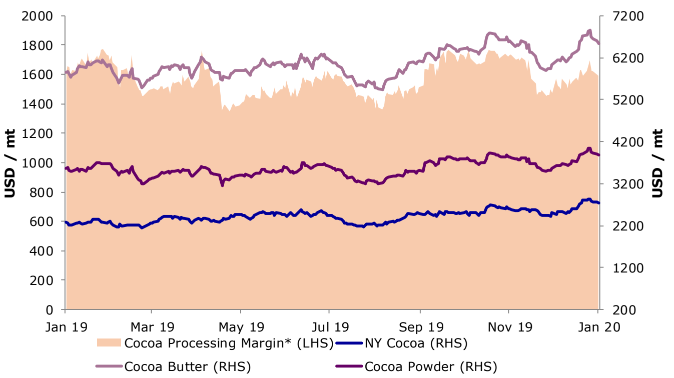
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

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RaboResearch
Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

Stefan Vogel, Head of ACMR
stefan.vogel@rabobank.com, +44 20 7664 9523

Carlos Mera, Senior Commodities Analyst
carlos.mera@rabobank.com, +44 20 7664 9512

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

Andrew Rawlings, Associate Commodities Analyst
andrew.rawlings@rabobank.com, +44 20 7664 9756

Contributing analysts:

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

Charles Clack—Sydney
charles.clack@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—Koon Koh Tan
+65 6230 6988
koonkoh.tan@rabobank.com

AUSTRALIA—David Teakle
+61 (2) 81153101
david.teakle@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.

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