Rabobank

Agri Commodity Markets Research

July 2020: Normal Weather Is Taking the Market by Storm

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US weather has been remarkable in recent weeks, and this is likely to continue in the coming weeks, with a significant improvement in corn and soybean crop conditions – despite earlier concerns. Furthermore, globally, La Niña now looks a little weaker – though it still has the potential to affect southern hemisphere crops. The dry weather in Brazil (drier than usual for the dry season) is helping a very good sugarcane and coffee harvest. And as long as it rains in good volumes at the return of the wet season, this should not pose a major problem. On the currency front, the US Dollar Index has fallen 3.7% since the end of June. The weaker US dollar has increased USD-denominated futures valuations and is assisting US exports. US-China tensions continue to escalate, with closures of consulates on both sides; however, Chinese weekly purchases of US corn reached a record in July.

WHEAT

Bearish CBOT – bullish Matif

- Food demand remains strong, but we doubt second Covid-19 waves will result in stockpiling. Cheap corn will substitute wheat in feeding.
- Lower EU/Black Sea harvest will require good Australian crops and keep US exports in demand.

SUGAR

Bearish short-term outlook on questionable demand and improved export flows

- Pressure is mounting on world sugar prices, with ICE #11 Raw Sugar price sinking back toward USc 11.5/lb.
- Stocks are building in Brazil; Rabobank expects better Brazilian export flows in the short to medium term.

CORN

CBOT Corn bears are back in play, due to improved Midwest weather – but Chinese imports are key

- The US crop outlook has significantly improved.
- With Dalian corn futures at record levels, the question now is as to how big China's import needs for feed grains is.

COFFEE

We maintain our bullish robusta view, with support likely to continue

- Contrasting bullish/bearish stories dominate the arabica market. On the one hand, demand is suffering under Covid-19 restrictions; on the other, certified stocks are falling, and concerns continue to increase for Central American production.

SOY COMPLEX

Soy oil's bullish strike is coming to a halt, while soymeal is largely following soybeans

- US crop conditions are outstanding, and we will likely see an increase in yield estimates above 50bpa
- US soy oil futures continued their upward back to USc 30/lb, supported by bullish moves in palm oil.

COCOA

Cocoa prices may show short-term support, but will continue to be under pressure

- The West African midcrop appears to be ending, with Ivorian arrivals pushing ahead of last year.
- 2020 Q3 grindings will likely show a seasonal increase, but remain 4.5% to 5% lower.

PALM OIL

Positive external factors and restocking demand in importing countries will provide support to palm oil prices in Q3

- The recent increase in palm oil prices is driven more by external factors.
- Palm oil production in Indonesia and Malaysia is expected to peak in Q4 2020.

COTTON

Bearish view on ICE #2 Cotton maintained, amid falling global demand and US-China tensions

- US export sale cancellations surge ahead of rising US-China tensions, as global demand prospects diminish.
- Signs of recovery, with the US and UK seeing June clothing store sales climb back to 77% and 66%.

Wheat

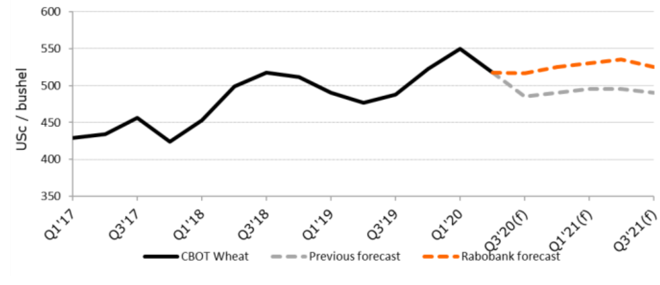
Bearish CBOT – bullish Matif

- Food demand remains strong, but we doubt second Covid-19 waves will result in stockpiling. Cheap corn will substitute wheat in feeding.
- Lower supplies from the EU and a mixed picture in the Black Sea will require good Australian crops and will also not let US exports slide much below last year's levels, which will support wheat prices above USD 5/bu.

With lackluster crop expectations in the EU – especially its two key export engines, France and Romania – one might think the Matif contract would have reacted more in July than CBOT Wheat. But the Matif December contract has only gone up 0.4% so far in July, vs. CBOT Wheat going up 8%. Even if we look at CBOT in EUR, which has been rather strong lately, it increased 3%. Lower wheat exports (incl. durum) from the EU – expected to collapse by an enormous 10mmt to 12mmt (~32% YOY) and potentially more if the appreciation of the EUR continues – will surely result in demand shifting to other producers. The Black Sea Region has seen volatile weather, and while yields and farmer selling in the south are poor, yields in the central region are good, while the spring wheat crop is also likely not a massive disappointment. Recently, local analysts started to add 1mmt to 2mmt back to their crop estimates, allowing the final crop to exceed last year's by about 5% to 8%. The increase in Russia is being partially offset by a slight production and export drop in Ukraine. In any case, exports from the Black Sea Region may also be limited in an era of Covid-19, as countries may be quicker than usual to impose quotas – in case there is too much demand and stocks run low later in the export season. Before the southern crops come in, the world will have to draw on US wheat exports, and that might be exacerbated by recent weakness in the USD. This situation underpins the rise of CBOT, but Matif Wheat now looks relatively cheap, given the situation in the EU, where the problem largely resides.

Wheat price forecast increased, but bearish for CBOT

	unit	Q4'19	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
CBOT	USc/bu	523	550	518	**517**	**525**	**530**	**535**	**525**
Matif	EUR/mt	181	191	190	**186**	**190**	**192**	**190**	**180**

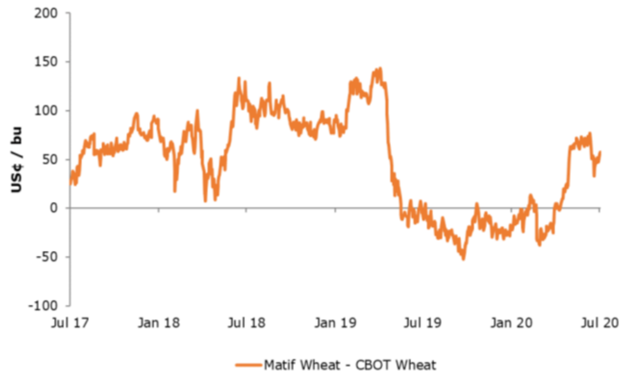


Source: Bloomberg Finance L.P., Rabobank 2020

The world will turn to the south for grain. With relatively disappointing harvests in the northern hemisphere, the market will increasingly depend on southern hemisphere crops – and so far things look good there. Argentina is expected to increase production by over 1mmt – but with an unfavorable exchange rate and export taxes, some stock accumulation is expected. That leaves Australia as a key supplier – and there is good news, as excellent weather so far should result in a jump of over 10mmt of output and exports (with exports usually flowing from December onwards). This is likely to put bearish pressure on CBOT later in the year.

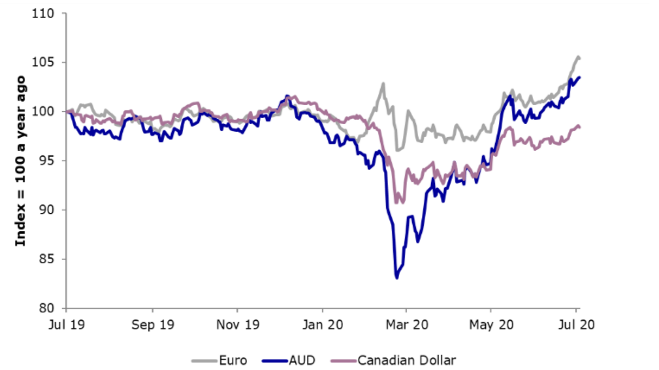
Timing is everything. In the short term – with Russian crop expectations improving and high world stocks of wheat – we see the recent rally in CBOT somewhat overdone. Any second lockdown is unlikely to result in further significant stock accumulation. Matif Wheat, however, may have more of a chance, as the harvest in Europe is well advanced in several key export countries. The EU crop has been downgraded many times in 2020, due to the dry and erratic weather, and this underpins our rather bullish forecast for Matif Wheat. CBOT Wheat may suffer more when Australian crops start to be marketed toward the end of the year, dipping closer to USD 5/bu again. This will, to some extent, also depend on the AUD, which has recently been rather strong and could cause stock retention.

The Matif/CBOT Wheat spread makes Matif Wheat look relatively cheap given the drop in EU output



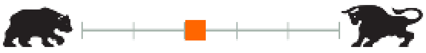
Source: Bloomberg Finance L.P., Rabobank 2020

Currency moves are favoring US exports, to the detriment of Australia and the EU



Source: Bloomberg Finance L.P., Rabobank 2020

Corn

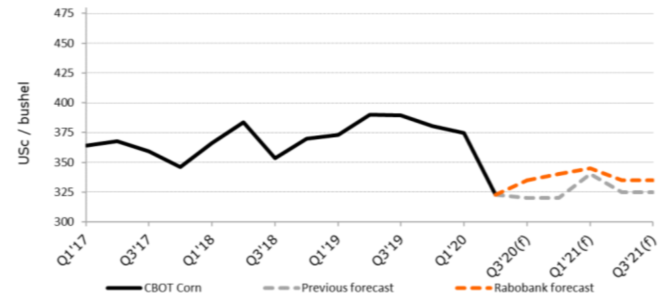


CBOT Corn bears are back in play, due to improved Midwest weather – but Chinese imports are key

- The US crop outlook has significantly improved, with July weather less threatening than feared.
- With Dalian corn futures at record levels and China having already bought large US volumes twice, the question now is as to how big China's import needs for feed grains is.

CBOT Corn forecast slightly higher but still bearish

	Unit	Q4'19	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
CBOT	USc/bu	381	375	323	335	340	345	335	335



Source: Bloomberg Finance L.P., Rabobank 2020

The US corn crop will make it pretty well through pollination, with Midwest weather probably-allowing for above trend yields. The larger-than-expected USDA acreage cut at the end of June was already partly offset by better stock levels, and so far, the USDA has left its yield estimate unchanged. But with OK weather so far, fairly strong crop ratings, and weather models for the next weeks that include limited reasons for major concerns, we see the potential for above-trend yield levels.

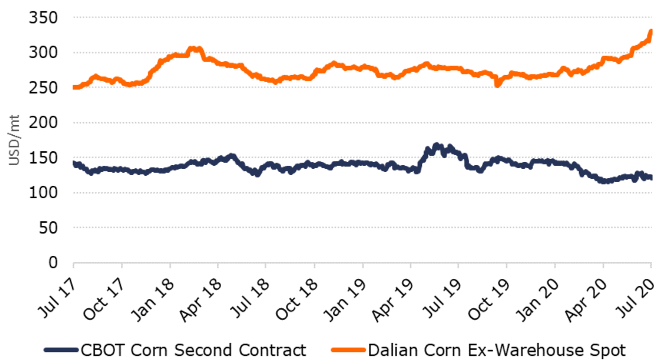
US ethanol demand in recent weeks is stagnating at levels just shy of 90% of 'normal,' after having quickly recovered from April lows. We expect that a return to 100% will not occur in 2020... and maybe not even in early 2021.

Brazil's safrinha corn is without surprises, while Ukraine and EU corn yields are on track to ensure large supplies. A disappointing EU wheat crop will require continued high EU corn imports, especially from Ukraine, in 2020/21 – meaning not much more corn than in 2019/20 should be shipped from the Black Sea Region to the world market.

In recent weeks, China bought larger-than-expected US corn volumes. In past years, the country has severely reduced its domestic corn inventories – well below the numbers shown by the USDA and to levels that now need to be considered critically low. With import duties on Australian barley, China will likely need to come to the US and the world market to acquire more corn, and maybe other feed grains. On paper, there may be a 20mmt feed grain import demand in China 2020/21, but that does mean China will import anywhere close to those volumes. With recovering Chinese feed demand and low use elsewhere, there is limited potential for China to regulate the demand side further down. And while we soon expect changes to domestic subsidies – to stimulate plantings for 2021 and, with it, production next year – China still needs to make it through the next 14 months, until such a 'politically' strengthened domestic crop is available. Imports might seem an easy way, and the 7mmt import quota for corn will not be a limiting factor, as this is adjustable. But there are also other options, e.g. by releasing some more of the country's other massive grain stocks. China's wheat and rice stocks both have about doubled in the last six years, with the USDA estimating stocks-to-use levels for wheat well above 100% and for rice at 80% – both thus well above the 20% to 25% levels seen for the world ex. China. With Chinese combined wheat and rice stocks exceeding 250mmt, releasing some of the volumes into the feed market in 2020/21 might be the preferred choice, in order to avoid skyrocketing corn imports in 2020/21.

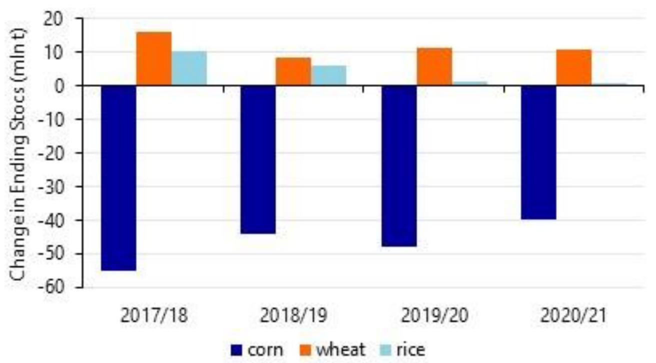
Our price forecast was left largely unchanged – and while we expect some more price pressure to arise in August, due to continued hopes for good yields, we caution that in past seasons, prices usually found their lows before US combines were even rolling. The next two to six weeks might be the most crucial for buyers, after farmers enjoyed the short, but significant early July price rally, to do increased sales.

Record-high Dalian corn prices vs. depressed US corn futures raise the question of strong Chinese corn imports



Source: Bloomberg Finance L.P., Rabobank 2020

China's corn inventories have declined severely in recent years. Wheat and rice stocks might be used to limit imports



Source: USDA, Rabobank 2020

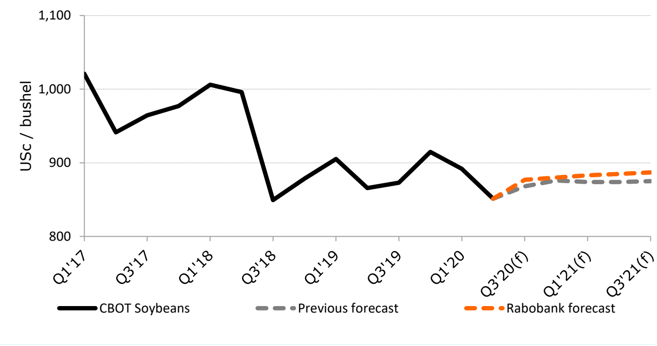
Soybeans

CBOT Soybeans look bearish.

- US crop conditions are outstanding, and we will likely see an increase in yield estimates above 50bpa.
- The US-China relationship continues to be tense, but the market is more focused on China's import demand, which for Oct-Jan will have to be satisfied with US beans.
- Historical revision of Brazilian numbers could give the impression of a high production volume.

CBOT Soy forecast marginally higher but still bearish

	Unit	Q4'19	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
Soybeans	USc/bu	915	892	851	877	880	883	885	887



Source: Bloomberg Finance L.P., Rabobank 2020

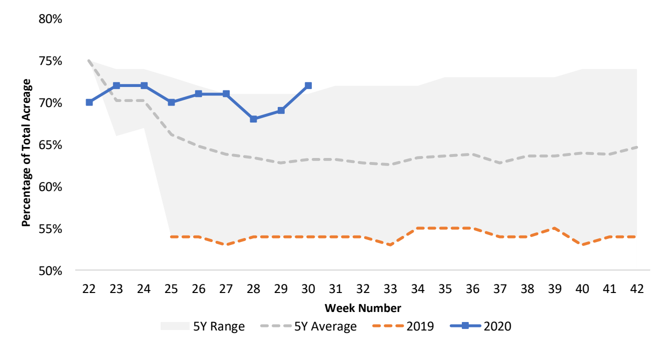
CBOT Soybeans continued to trade slightly higher over June, breaking the USD 9/bu barrier for the first time since January. This, to some extent, coincides with higher economic activity – pushing vegetable oil prices up – the weakness of the USD, as well as with increased Chinese import expectations. News about the forced closure of the Chinese consulate in Houston and the American consulate in Chengdu did little to dent the bullish path of CBOT Soybeans. Arguably, closing consulates does little to solve any underlying issues, and it is almost certain rhetoric is going to remain elevated until after US elections in November (with the big question being if there will be lasting consequences from the current tensions). But regardless, China continues to buy US soybeans in decent clips, and this seems to be more relevant to a market already very accustomed to a war of words. In the end, China has little alternative (except for maybe releasing some of the stocks it has recently accumulated) than to turn to the US for its need in Oct-Jan, and the market is relying on this. A weakening US dollar may make US exports even more competitive.

More soybeans from the south. Brazil may not only be expanding its planted soybean acreage for next season by >3% – after 2.5% last year – allowing for hopes of two record-breaking crops in a row. Conab seems to be planning a methodological revision of past crops, which may result in it adding 4mmt to 5mmt, respectively, to each of its crop estimates, starting with the 2017/18 crop. Price impact should be rather small, as this would simply be a historical revision.

But, of course, it all depends how this is communicated through different media channels. For the time being, the current prices in BRL are significantly higher than the prices seen in previous years, planting the seed for the anticipated acreage increase. Also, the very good domestic prices have resulted in significantly more forward-selling. Some dryness is building in parts of Brazil – more than what is usually expected over the dry season – and this could start to pose a problem in case rains don't return in good volume ahead of the planting season.

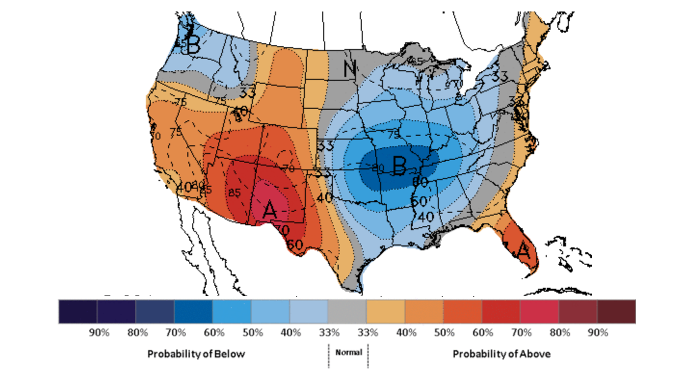
US weather will continue to be the focus of the market in August, but – at least for the next three weeks – things look good. Crop ratings are excellent, as the crop is setting and filling pods, and development is well ahead of normal. Forward-looking weather is favorable, with cooler temperatures in virtually all of the US soybean belt, and higher-than-normal rainfall in central and south areas. On the back of this outlook, we would not be surprised to see the USDA increasing US yields from the current 49.8bpa to above 50bpa – and probably getting close to the record yield of 2016/17 (52.7bpa). While export demand will largely be determined by Chinese buying, domestic crush in the US is not showing as favorable a crush margin as in 2019 and early 2020, and this underpins our bearish forecast.

US soy good-excellent ratings are remarkable and will likely result in higher US yield estimates



Source: USDA, Rabobank 2020

US weather looks very promising into early August with good rainfall and low heat stress.



Source: NOAA, Rabobank 2020 Mean temperature forecast (Aug 3 – Aug 7)

Soymeal and Soy Oil

Soy oil's bullish strike is coming to a halt, while soymeal is largely following soybean futures' direction

- US soy oil futures continued their upward move and made it back to USc 30/lb, supported by bullish moves in palm oil. The soy oil/palm oil spread has narrowed, and a potential bearish palm oil move will result in smaller soy oil retreats.
- Soymeal found some strength from soybeans' weather worries/Chinese soybean buying – but with both of these factors seeming to turn more bearish again, USD 300/short ton is a strong resistance level.

US soymeal supplies have remained strong, with the USDA being forced to increase its estimate for US soybean crush in three of the last four WASDE reports. And while US exports for 2019/20 were kept stable for the last three months, US soymeal demand is turning out to be stronger than initially expected. However, to achieve the strong crush levels for 2020/21, not only US domestic demand needs to stay above the current season values, but exports also need to rise year-on-year. Not impossible, with South American soybean supplies not being ample anymore – after Argentina's crop is down about 10% YOY and Brazil heavily exported soybeans in recent months. As US soybean yields could exceed trend this season, even pre-trade war soybean export levels could allow for a continued strong crush – and, with it, healthy US soymeal and soy oil supplies.

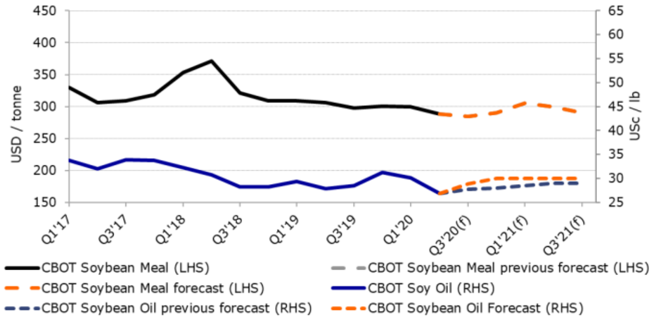
US 2019/20 soy oil consumption had to be lowered in six consecutive WASDE reports, with industrial use having to take about two-thirds of the demand cuts and food use one-third. With the US opening up again, a substantial amount of soy oil needs to move into biodiesel in the next season in order to avoid stocks from rising further, which would choke crushing. Given this season's strong crush, US export projections for soy oil were also increased by almost 70% in the last six months, but maintained for the upcoming 2020/21 season. As long as the spread to palm oil stays fairly narrow, however, global soy oil demand will remain strong.

Funds have recently bumped up their soy oil net long to 37,000 contracts, spreading it against a 29,000 net short in soymeal. With the world opening up again in many regions, palm oil prices rising, and strong recent Chinese soybean demand, funds are also banking on rising soy oil futures. But with soy oil prices having already soared from their April lows, we are expecting more of a sideways trading in weeks to come.

Rabobank's CBOT price forecast for Soy Oil was adjusted upward, and further risk remains. US soy oil futures are again above their one-year average and not far below their five-year average. While we expect soy oil to trade rather sideways, we want to caution that the risk to the upside still seems higher than to the downside, with US soybean yields not yet made and palm oil prices maybe not yet having reached their ceiling. Rabobank's soymeal price forecast still marginally stays above the forward curve. While we can imagine some nearby downside risk, sub-USD 300/short ton levels on an almost flat forward curve are still well below the one-year average price of almost USD 305/short ton and the five-year average of above USD 340/short ton.

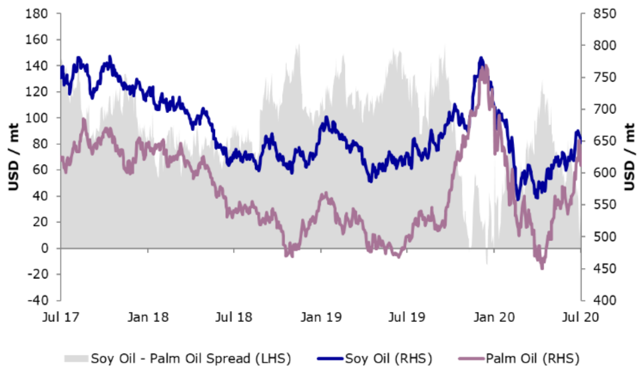
CBOT Soymeal forecast unchanged, CBOT Soybean Oil forecast raised on attractive soy oil/palm oil spread

	Unit	Q4'19	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
Soymeal	USD/tonne	301	300	288	285	290	305	300	290
Soy Oil	USc/lb	31.3	30.1	26.9	28.9	30.0	30.0	30.0	30.0



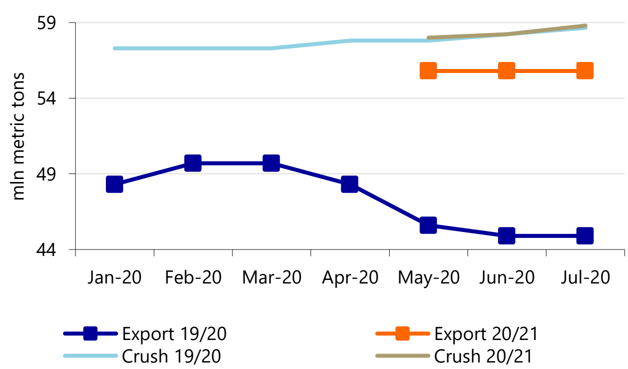
Source: Bloomberg Finance L.P., Rabobank 2020

Soy oil – palm oil futures spread has narrowed, making soy oil more attractive to typical palm oil buyers



Source: Bloomberg Finance L.P., Rabobank 2020

USDA further raised its US soybean crush projections in recent months



Source: USDA, Rabobank 2020

Palm Oil

Positive external factors and restocking demand in importing countries will provide support to palm oil prices in Q3 2020

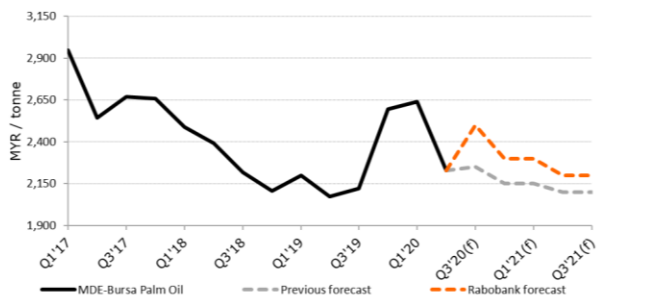
- The recent increase in palm oil prices is driven more by external factors.
- Palm oil production in Indonesia and Malaysia is expected to peak in Q4 2020.
- The narrowing spread between soy oil and palm oil prices will limit the increase in palm oil prices.

The recent increase in palm oil prices is driven more by external factors. The BMD palm oil futures price continued its upward trend since the low of May 5, at MYR 1,946/mt, settling above MYR 2,700/mt in late July. Major importing countries increased their palm oil purchases in June/July, which provided bullish sentiment to palm oil prices. We believe these purchases were done mainly for restocking inventories, rather than actual palm oil demand recovery. Palm oil demand from the foodservice industry in major importing countries remains weak, as certain lockdown restrictions remain in place in these countries, and many customers still prefer to stay away from crowded places. External factors, such as recovery in crude oil prices and rallies in global equity markets, added bullish sentiments to palm oil prices. Due to the recent increase in palm oil prices, we have revised our palm oil price outlook upwards for 2H 2020, to an average of MYR 2,500/mt in Q3 2020 and MYR 2,300/mt Q4 2020.

Palm oil production in Indonesia and Malaysia is expected to peak in Q4 2020, instead of Q3 2020. According to the MPOB, Malaysian June 2020 palm oil production increased by 14.2% MOM, to 1.88mmt. Despite this increase, Malaysian palm oil inventories decreased by 6.3% MOM in June 2020, to 1.9mmt, as Malaysian June 2020 palm oil exports increased by 24.9% MOM, to 1.7mmt. As we mentioned in previous reports, Malaysian palm oil exports are expected to improve in Q3 2020, at the expense of Indonesian palm oil exports. According

We are revising our forecast due to recent palm oil price increases

	Unit	Q4'19	Q1'20	Q2'20	Q3'20(f)	Q4'20(f)	Q1'21(f)	Q2'21(f)	Q3'21(f)
Palm Oil	MYR/ton	2593	2639	2229	2,500	2,300	2,300	2,200	2,200



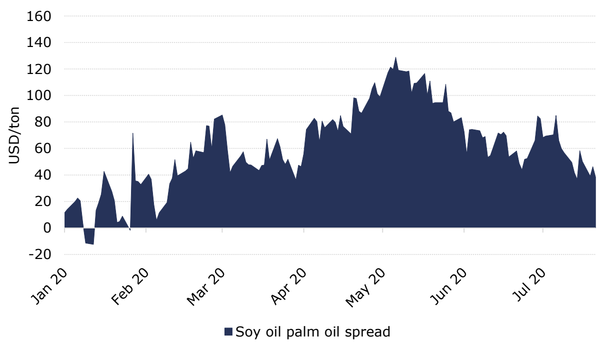
Source: Bloomberg Finance L.P., Rabobank 2020

to GAPKI, Indonesian June 2020 palm oil exports (incl. lauric oils) decreased by 5% MOM, to 2.3mmt. Meanwhile, Indonesian June 2020 palm oil production (incl. lauric oils) and inventories increased by 2.4% and 12.3% MOM, to 4.06mmt and 3.97mmt, respectively. We expect Indonesian and Malaysian palm oil production to increase in late Q3 2020 and to peak in Q4 2020, due to good rainfall in July 2020.

The narrowing spread between soy oil and palm oil prices will limit the increase in palm oil prices. The spread between CBOT Soy Oil active contract prices to MDE-Bursa Palm Oil active contract prices narrowed below USD 40/mt in late July. This reduces palm oil attractiveness compared to soy oil.

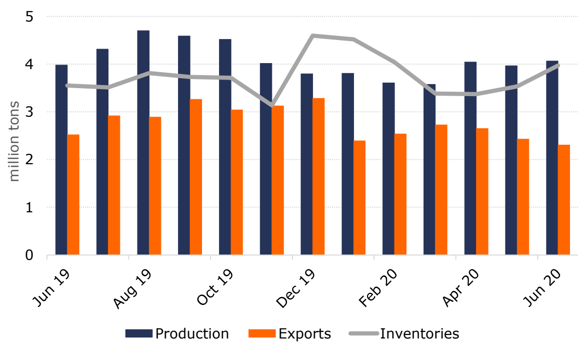
The sowing of Indian Kharif crops continues to progress well. As of July 24, the Indian soybean sowing area increased by 17.8% YOY, to 11.4m ha. At the same time, India has so far received good rainfall, and water levels in reservoirs across the country are looking to be in a good position. If the Indian 2020 monsoon continues to progress well, it will provide beneficial precipitation for 2020/21 domestic soybean production, which will reduce the need to import more vegetable oils in Q4 2020.

The narrowing spread between soy oil and palm oil prices reduces palm oil attractiveness compared to soy oil



Source: Bloomberg Finance L.P., Rabobank 2020

Indonesian palm oil inventories increased MOM in June, as the country's exports decreased



Source: GAPKI, Rabobank 2020

Sugar

Bearish short-term outlook for ICE #11 Raw Sugar, on questionable demand and improved export flows

- Pressure is mounting on world sugar prices, with the ICE #11 Raw Sugar price sinking back toward USc 11.5/lb.
- Stocks are building in Brazil; Rabobank expects better Brazilian export flows in the short to medium term.
- Further ICE #11 weakness toward USc 11/lb could begin to reduce Indian exports and Brazil's sugar mix.

Pressure is mounting on world sugar prices in July, with the ICE #11 Raw Sugar price sinking back into the USc 11/lb to USc 12/lb range – down 5.6% MOM. Short-term supply tightness, particularly in the whites market, now shows signs of relief: the August 2020 ICE #5 Whites expiry saw 430,000mt delivered, after a +USD 100/mt Q2 white premium stimulated refinery supply. Moreover, 1H raws demand has been notably strong – highlighted by Brazil's +70 vessel lineup plus import enquiries from Iran, Indonesia, China, and others. As southern hemisphere raw supplies rise, Rabobank holds a bearish short-term price view – forecasting the ICE #11 at USc 11.2/lb in Q3 and USc 11.0/lb in Q4. The new year brings marginal strength, with prices forecast at USc 12.0/lb by Q2 2021.

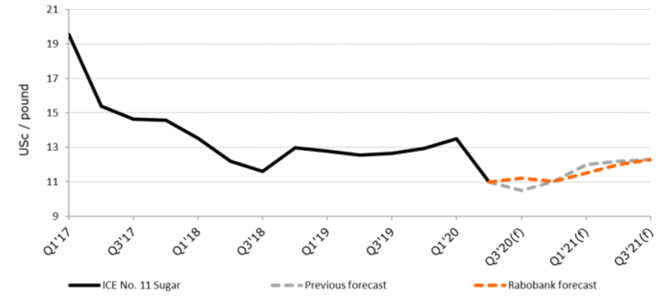
A build-up of stocks is occurring in Brazil, following an exceptionally strong start to the 2020 CS harvest, an early 2020 record soybean harvest, and subsequent pressure on domestic logistical capacity. Dry weather and a strong 46.7% YTD sugar mix has driven 16.3mmt of Brazilian CS sugar production as of July 16 – up 50% YOY. The realization of the extra sugar output came at a time when the Apr-Jun shipment capacity was already booked with soybeans. However, with peak soybean flows over, Rabobank expects better Brazilian sugar flows in the short to medium term – June sugar exports reached 3mmt, up 100% YOY. This should allow the vessel line-up to ease and new crop inventories to flow, pending demand. A combination of strong 1H 2020 export demand, coupled with pandemic-led 2019/20 consumption declines, highlights the possibility of a front-loaded demand structure this season – a factor which could deepen our bearish 2H 2020 price outlook.

ICE #11 Raw Sugar prices are trading closer to influential price levels – namely the Brazilian ethanol parity and Indian export parity, pegged at circa USc 10/lb to USc 11/lb and USc 11/lb to USc 12/lb, respectively. Whereas most Brazil sugar exports are already hedged at rather decent BRL prices (i.e. output in the remainder of 2020 will be less price-sensitive), Indian exports are still very much price-sensitive. Interestingly, India's decision to increase the minimum sugar price to INR 33/kg (up from INR 31/kg) will reduce the incentive for domestic millers to export – assuming similar year-on-year export subsidies. Further clarity on 2020/21 Indian export subsidies is expected this quarter, with a similar 6mmt export subsidy expected as a minimum.

Rabobank's Q2 Sugar Quarterly was released in late June, which reported a smaller 4.3mmt 2019/20 deficit, down from 6.7mmt. Looking ahead to 2020/21, Rabobank forecasts a 0.85mmt surplus. A falling 2019/20 global deficit stems from global consumption expectations: Consumption is set to decline 1% YOY – led by falls in Brazil, India, and Indonesia, among others – before posting a recovery in 2020/21.

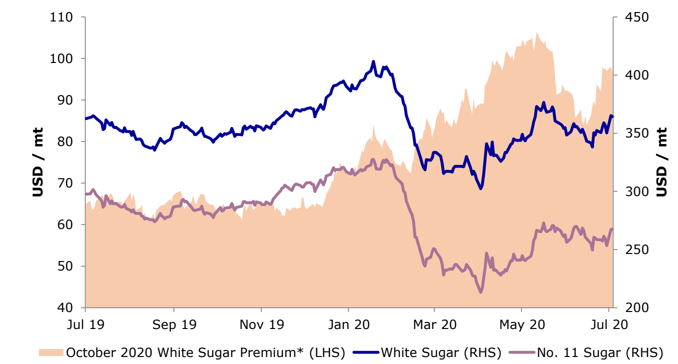
ICE #11 Sugar price forecast adjusted marginally

	Unit	Q4'19	Q1'20f	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
Sugar	USc/lb	12.9	13.5	11.0	11.2	11.0	11.5	12.0	12.3



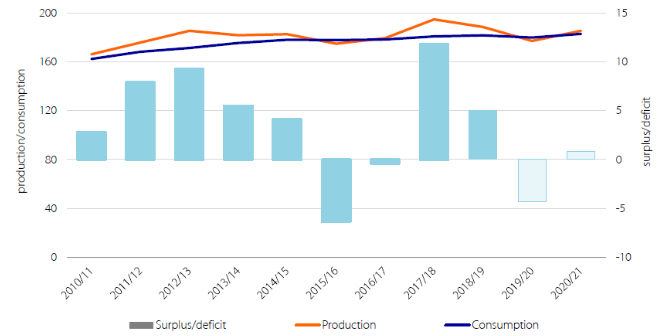
Source: Bloomberg Finance L.P., Rabobank 2020

A nearby white premium of +USD 100/mt through much of Q2 2020 has stimulated white supplies from refineries



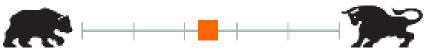
Source: Bloomberg Finance L.P., Rabobank 2020 *Calculated on a gross basis

Rabobank forecasts a 4.3mmt 2019/20 global deficit and a small global surplus in 2020/21



Source: FO Licht, Rabobank 2020

Coffee



We maintain our bullish robusta view, with support likely to continue

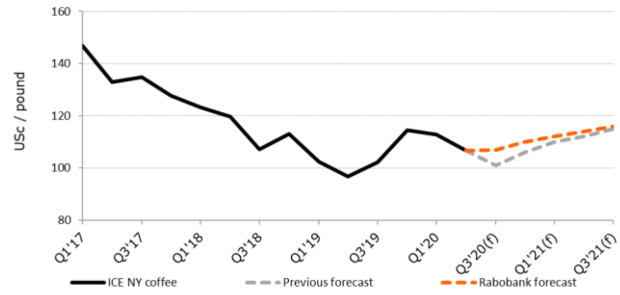
- We continue to be bullish on robustas, given lower YOY production and continuing good demand.
- Contrasting bullish/bearish stories are dominating the arabica market. On the one hand, demand is suffering under Covid-19 restrictions; on the other, certified stocks are falling, and concerns continue to increase for Central American production.

ICE Arabica rose 7.3% MOM, as prices broke several moving averages. The move was mostly fueled by the BRL/USD strengthening 4.4%, with the USD broadly weakening against other currencies as the US Dollar Index fell -3.5% MOM. Local prices have remained flat month-on-month, at around BRL 513/bag, with reports showing increasing farmer selling with the arrival of the harvest and better local prices than May.

The arabica bearish and bullish narratives are in sharp contrast. On the bearish side, we note that the Brazilian arabica harvest is likely around 80% complete, with the weather forecast for the next two weeks looking pretty much perfect for harvest completion, with no noticable impairments. So we have a record Brazil crop, combined with a (still) weak BRL, and of rather good quality – this will likely add pressure to prices and keep a lid on any further rally in futures prices. Additionally, Colombian registered production notched a noticeable year-on-year increase for June, rising 12%, to 1.36m bags. Covid-19 continues to play to the bears' favor, with countries struggling to fully reopen amid second waves of the virus. Out-of-home consumption will continue to remain limited, with social distancing measures still in place. The increase in US port stocks – to 7.1m bags at the end of June – continues to surprise to the upside, likely a sign of rather limited consumption.

ICE Arabica forecast bearish, ICE Robusta bullish

	unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE Arabica	USc/lb	114	112	107	**107**	**110**	**112**	**114**	**116**
ICE Robusta	USD/mt	1349	1296	1195	**1,360**	**1,380**	**1,370**	**1,370**	**1,380**

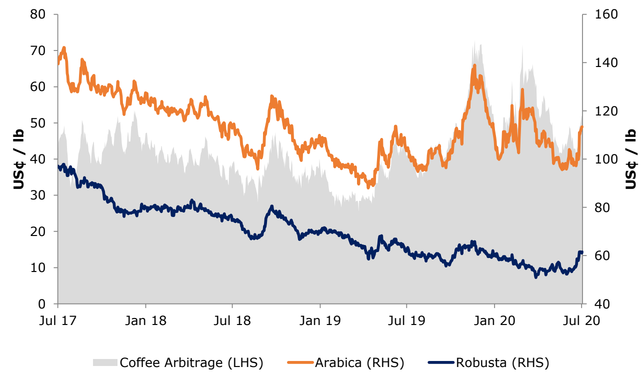


Source: Bloomberg Finance L.P., Rabobank 2020

The bullish side of the argument sees growing concerns of lower Central American availability. Honduran coffee exports continued to be slow, with current-season exports lagging -16.4% behind last year. Production in the region faces headwinds from low prices, structural issues, Covid-19 restictions, and, in the case of Costa Rica, a lack of migrant labor. This could lead to futures prices stregthening significantly toward the end of the year, if a drop in the crops become clearer. In addition to this, ICE-certified arabica stocks may continue to fall (although appear to be settling at 1.6m bags in the last few days).

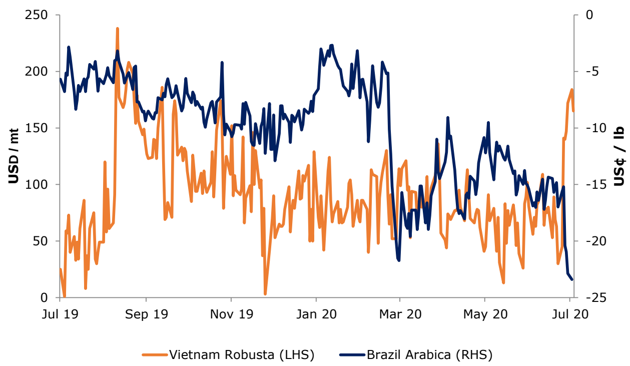
Robusta finally realized our bullish forecast this month, with prices rising 14.5%. Robusta will likely continue to do well, with at-home consumption likely to continue benefiting from the continuation of working from home measures in the short to medium term. Adding to the bullish argument, lower year-on-year robusta production in both Brazil (estimated at 18.5mmt in 2020/21, compared to 20.2mmt in 2019/20) and Vietnam (estimated at 27.5mmt in 2020/21, compared to 29mmt in 2019/20) should help keep prices supported. ICE-certified robusta stocks also appear to be declining at an increasing pace, to 112,200mt at present. With conilons trading at or slightly above the market on an FOB basis, certified robusta stocks are likely to continue to decline until after the next Brazilian harvest.

We continue to expect the arbitrage between ICE Arabica and ICE Robusta to tighten closer to USc 30/lb



Source: Bloomberg Finance L.P., Rabobank 2020

Brazilian arabica differentials have been falling this month while Vietnamese Robusta differentials have been rising



Source: ICE, Bloomberg Finance L.P., Rabobank 2020

Cocoa

Cocoa prices may show some short-term support, but will continue to be under pressure

- The West African midcrop appears to be ending, with Ivorian arrivals pushing ahead of last year.
- 2020 Q3 grindings will likely show a seasonal increase, but remain 4.5% to 5% lower YOY for EU, NA, and Asia.
- 2020/21 demand recovery will be more muted than previously expected, at 1.6%.

Cocoa prices have endured a volatile month, with prices falling ahead of the release of Q2 cocoa grindings and then rising again to current levels, as a clearer demand outlook emerges during the Covid-19 pandemic. Overall, Q2 2020 cocoa grindings for the EU, North America, and Asia fell -8.3% YOY, the largest year-on-year quarterly decline since Q4 2014, when quarterly grindings fell -8.9%. Our recently released cocoa article goes into more detail on the current effects of Covid-19 on cocoa demand.

The West African midcrop appears to be coming to a close, with arrivals in Côte d'Ivoire inching ahead of last year and nearing total production estimates of around 2.21mmt, compared to 2.18mmt a year earlier. Rainfall has been mostly below-average in Côte d'Ivoire in recent weeks – this has aided the midcrop harvest in the region and is set to continue for the next two weeks, with lower-than-normal temperatures. Ghana, however, has seen localized rainfall in recent weeks, with some issues with black pod disease. The weather is now turning drier there, which should help slow the spread of the disease, but production will likely end up around 5% lower than last year.

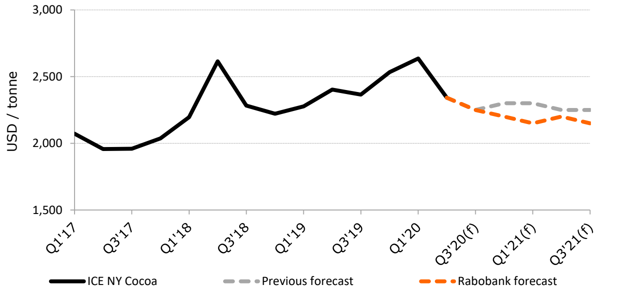
Looking ahead for the remainder of 2019/20, we expect grindings to seasonally increase and show some recovery in Q3 2020. They will continue to show a year-on-year decline – with a collective drop for the EU, North America, and Asia of between 4.5% to 5%, resulting in a global decline in 2019/20 cocoa grindings of around 3% YOY. We previously expected 2020/21 to show a demand recovery of 3.2%, but this is seeming less and less likely, with social distancing measures likely to continue to be in place next year, travel to continue to remain limited, and second waves of the virus. We now expect cocoa demand to show a more muted recovery, rising 1.6% YOY in 2020/21.

2020/21 production will likely show a year-on-year increase, despite low prices, with current weather models pointing to conditions being mostly average and a chance of a mild La Niña developing in Q4 2020. Global production will likely increase ahead of consumption, at between 2% to 3%, leading to a larger surplus than in 2019/20.

We maintain our short-term forecast for NY Cocoa, but have lowered our long-term forecast, on a slower-than-expected demand recovery, along with a year-on-year likely increase in the West African crop and global production. USD weakness has expanded the spread between London and NY Cocoa, and limited the price recovery for London. We have also lowered our London price forecast to a more neutral outlook, but subject to currency fluctuations. Volatility will likely continue to resurface in Q3/Q4, with Managed Money now noticeably net short in both London and NY, and uncertainty over elections in Côte d'Ivoire during the same period.

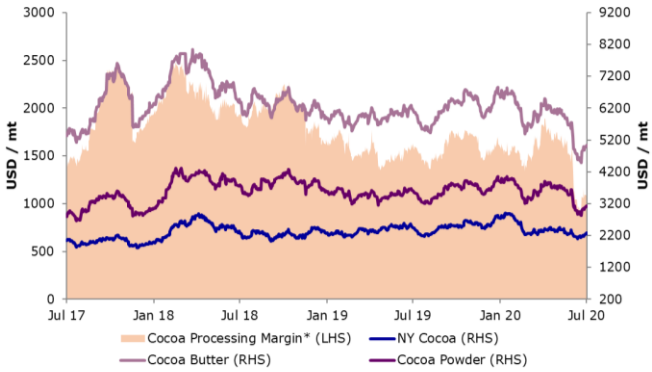
ICE NY and London Cocoa long-term forecast lowered

	unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE NY	USD/t	2,533	2,648	2,346	2,250	2,200	2,150	2,200	2,150
ICE London	GBP/t	1,808	1,852	1,932	1,600	1,570	1,550	1,570	1,550



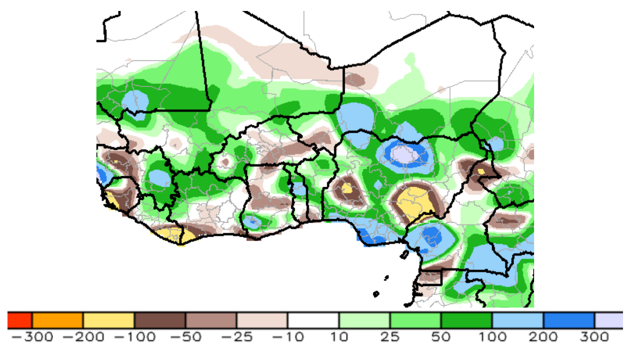
Source: Bloomberg Finance L.P., Rabobank 2020

Low cocoa prices are keeping pressure on cocoa processing margins



Source: Bloomberg Finance L.P., Rabobank 2020

Rainfall has been below average in Cote d'Ivore's cocoa regions in the last month aiding the midcrop harvest



Source: ABoM, Rabobank 2020

Cotton

Bearish view on ICE #2 Cotton maintained, amid falling global demand and US-China tensions

- US export sale cancellations surge ahead of rising US-China tensions, as global demand prospects diminish.
- Clothing sales show early signs of recovery, with the US and UK seeing June clothing store sales climb back to 77% and 66% of pre-Covid-19 February 2020 levels.
- Short-term risk factors persist in the form of weather risk, particularly in the Texas panhandle.

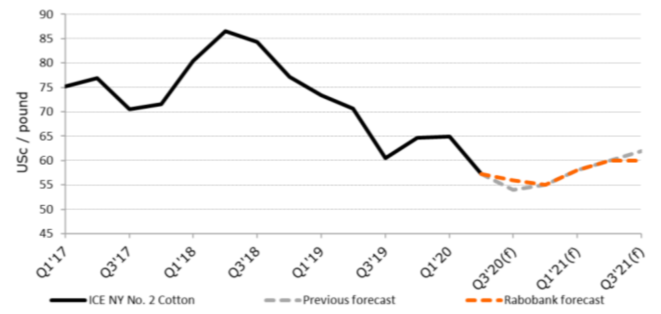
Rabobank maintains a bearish ICE #2 Cotton forecast, as December 2020 prices toppled from their USc 64/lb highs in late July. The bearish move stems from a tough, Covid-19-hit demand outlook in 2019/20, along with escalating US-China trade tensions. Last month, we highlighted the vulnerability of nearby US export sales, and subsequent ICE #2 strength, to Chinese demand. Following this, 1H July saw +30,000 bales in cancellations, with China being a major contributor. As tensions rise between the two regions – with respective consulate closures in Houston and Chengdu – it is uncertain if, or when, Chinese sales will continue. More broadly, US 2019/20 sales exceed an eye-bulging 17m bales, but year-to-date shipments are yet to hit 14m bales – a symptom of a 13% YOY global demand fall in 2019/20. The US is not alone in this position; both Australia and Brazil also face short-term liquidity issues in the export space. As a result, Rabobank forecasts ICE #2 Cotton at USc 56/lb and USc 55/lb in Q3 and Q4 2020, respectively. Prices are set to recover marginally in 2021, in line with a 9% YOY recovery in global demand, reaching USc 60/lb in Q2 2021.

Apparel and clothing sales are showing early signs of recovery, with the US and UK seeing June clothing store sales reach back to 77% and 66% of pre-Covid-19 February 2020 levels, respectively. This compares to 14% and 34% in April 2020, at the peak of the pandemic. In China, clothing & textile sales have almost recovered to pre-Covid-19 levels. At face value, these figures are encouraging, but in our view, are likely an old-season stocks and post-lockdown sales – not yet fresh cotton demand. Moreover, a 6% MOM fall in polyester fiber prices does little to stimulate cotton use. Ongoing infections, waning consumer confidence, and a global economic recession maintain a challenging outlook. Rabobank forecasts a 9% YOY global demand recovery in 2020/21. That said, we do not expect a full pre-Covid-19 demand recovery for cotton until 2021/22 at the earliest.

Short-term risk factors persist in the form of weather risk, in particular the various levels of drought in the Texas panhandle. This has translated to 34% of Texan cotton deemed 'poor' or 'very poor,' vs. 22% for the national crop. While Rabobank holds an 18.3m-bale 2020/21 US production forecast (vs. the USDA's 17.5m bales), continued dryness would assist a revision lower. Looking forward to Q3 2020, markets will be keeping an eye on the US hurricane season. In the southern hemisphere, a record 13m-bale Brazilian harvest is underway. With exports forecast to fall 9% YOY, to 7.9m bales, amid lower demand, the risk of a 2020/21 Brazilian logistical bottleneck is somewhat reduced… although not entirely diminished. As a result, Brazil is likely to build hefty stocks this season – a similar trend across the major exporters.

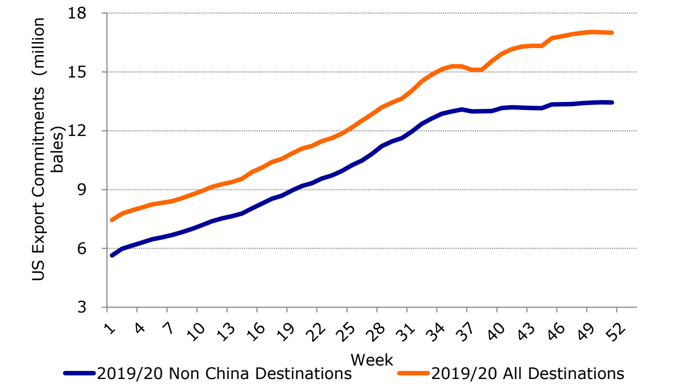
ICE #2 Cotton forecast mostly unchanged

	unit	Q4'19	Q1'20	Q2'20	Q3'20(f)	Q4'20(f)	Q1'21(f)	Q2'21(f)	Q3'21(f)
Cotton	USc/lb	64.7	64.9	57.2	56	55	58	60	60



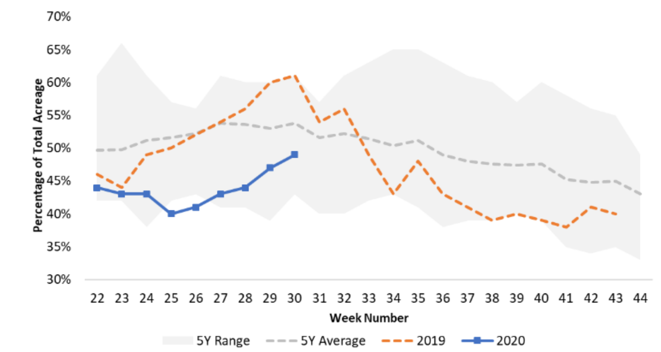
Source: Bloomberg Finance L.P., Rabobank 2020

Non-China 2019/20 export sales plateaued in early 2020, with Chinese purchases picking up much of the slack



Source: USDA, Rabobank 2020

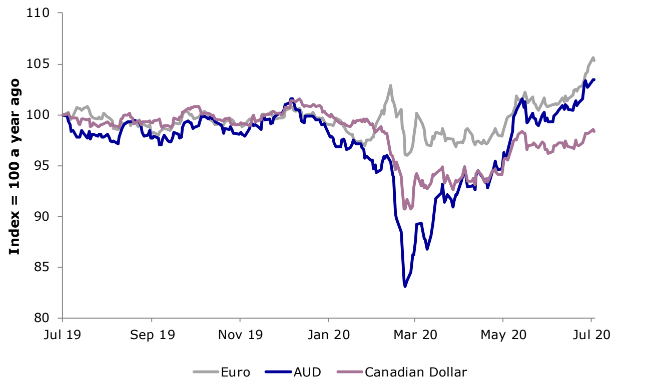
US cotton crop conditions have disappointed in 2020; NOAA forecasts drought to persist in the Texas panhandle

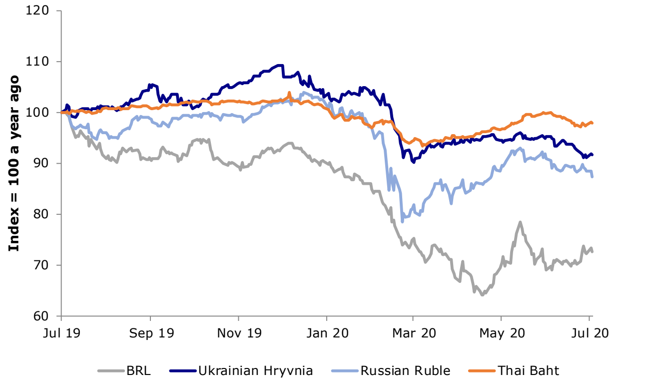


Source: USDA, Rabobank 2020

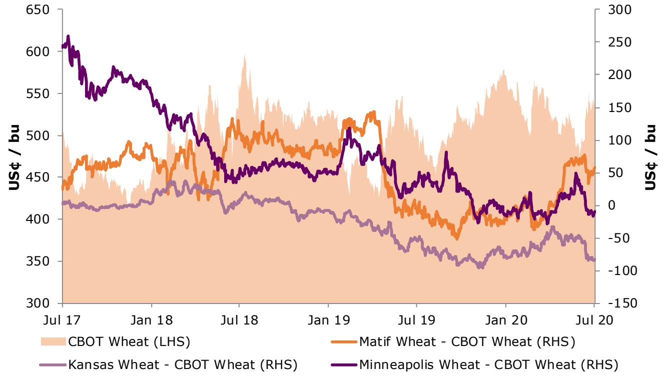
Agri Charts

Global Currencies USD Cross

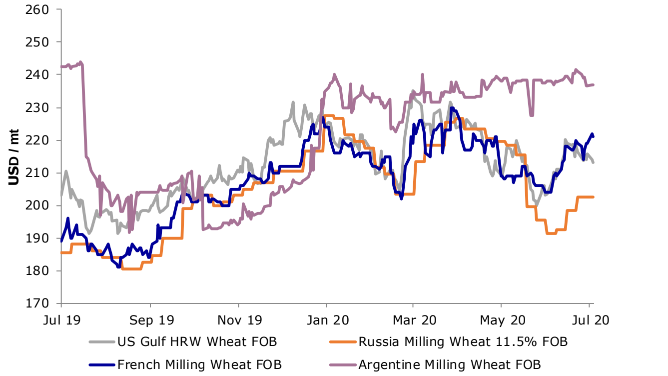




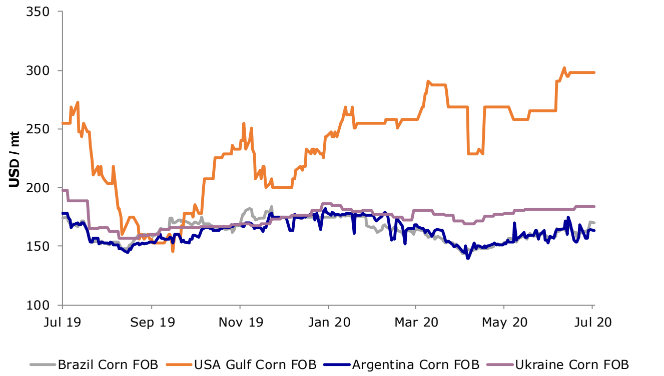
CBOT Wheat Spreads



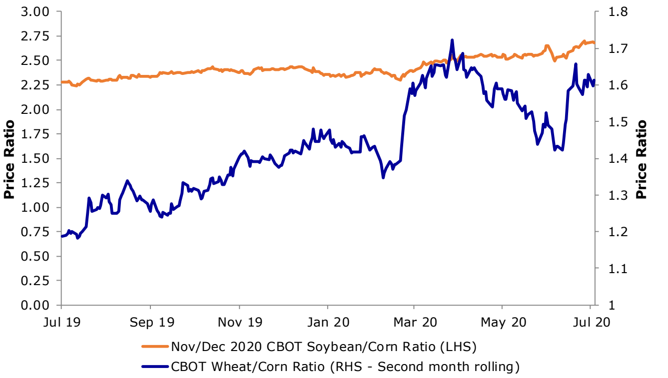
Wheat Protein FOB Prices



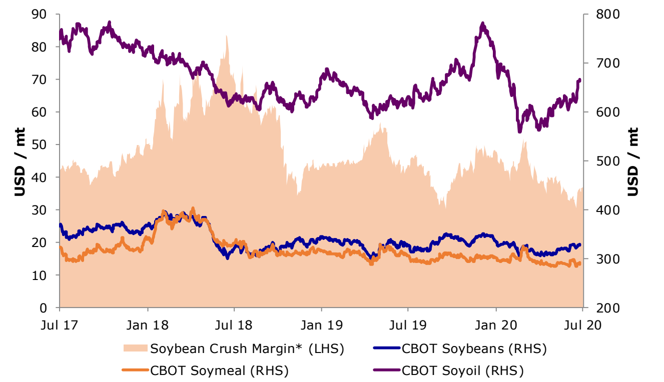
Corn FOB Prices



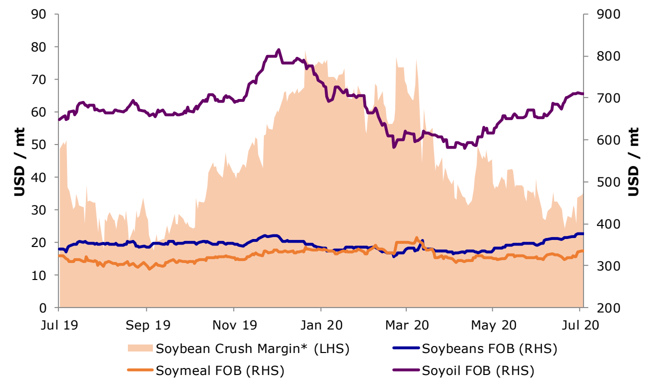
CBOT Ratios



CBOT Soybean Crush Margin



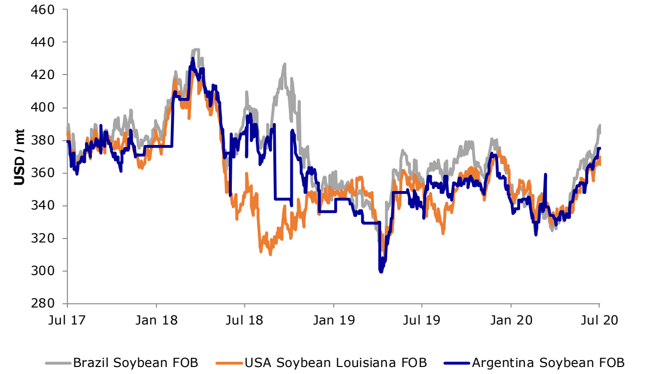
Argentina FOB Soybean Crush Margin



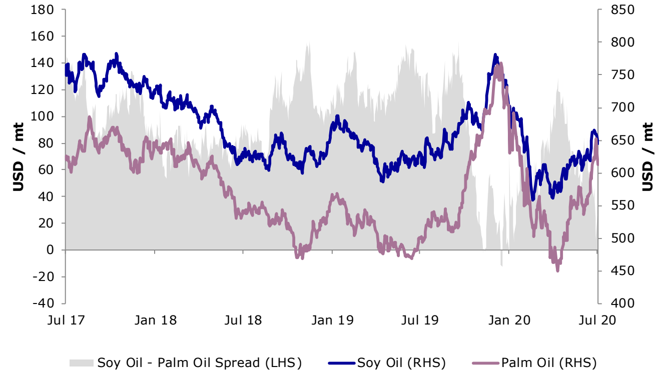
Source: Bloomberg Finance L.P., Rabobank 2020 *Calculated on a gross basis

Agri Charts

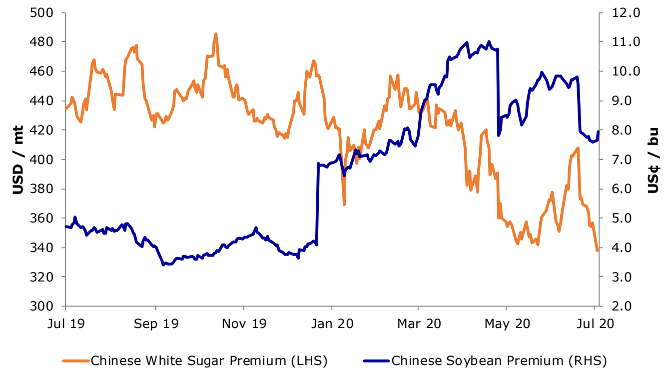
Soybean FOB Prices



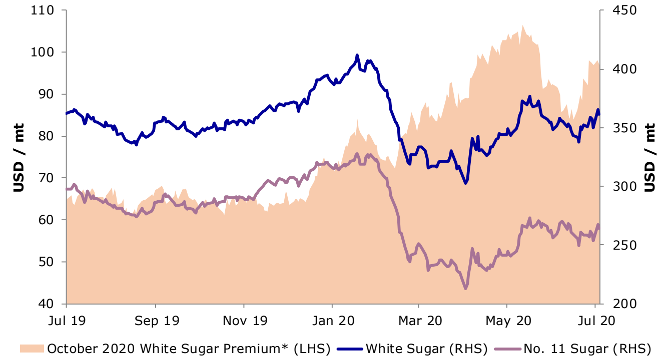
Palm Oil - Soy Oil Spread



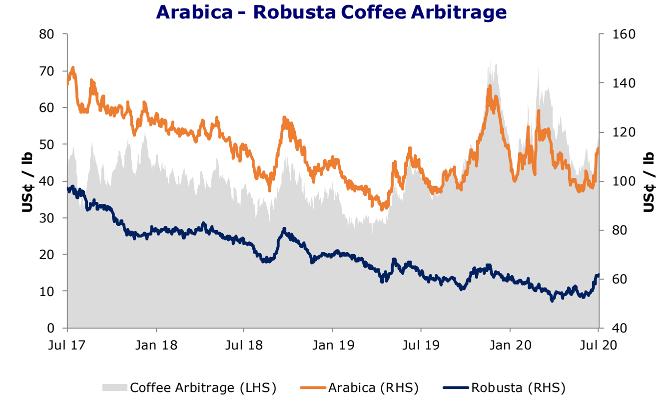
Chinese Futures Premiums



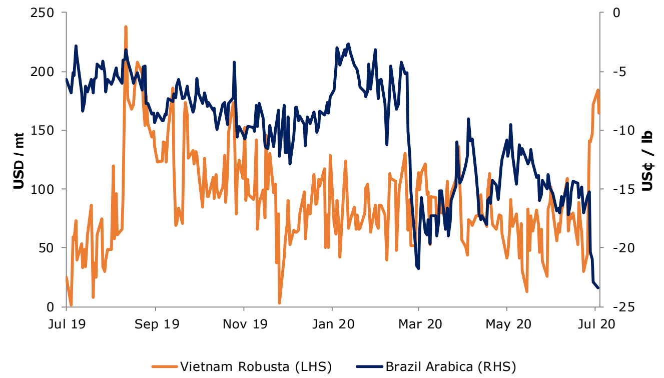
White Sugar Premium



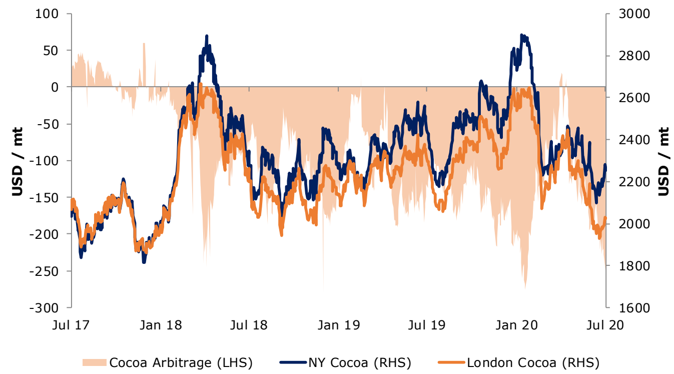
Arabica - Robusta Coffee Arbitrage



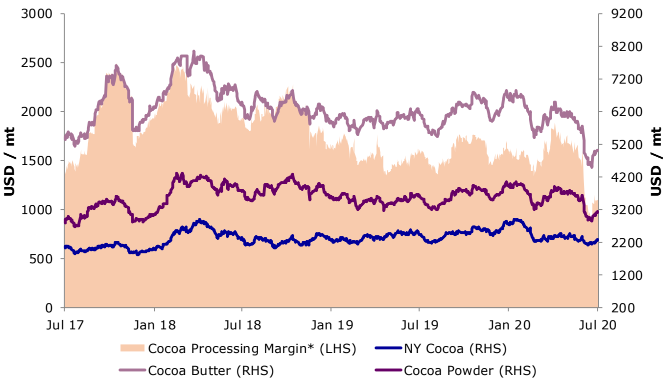
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2020 *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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