Rabobank

Agri Commodity Markets Research

June 2021: Weather Risks Remain Despite Recent Rain

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Agri commodity prices have dropped by 10% so far in June, given slightly better weather in the US Midwest and a slight change in tone from the Fed – which has strengthened the US dollar by 2%. Funds have continued to take profit over June, but we think they are likely to come back to the market, as inflation worries tend to be sticky. Commercial buyers may take this opportunity to expand coverage in some commodities, as weather risks remain high and show little sign of receding. We still have a lot of time and potential for the situation to worsen in the US as we progress through the summer with more rain needed for spring crops. Furthermore, respite from other producing countries seems unlikely, as Brazil and Argentina battle ongoing dryness, which affects not only the crops in the ground but could potentially impact upcoming crops if long-range forecasts are to be trusted.

WHEAT

Demand strength and dried-out spring wheat crops help keep wheat markets supported

- MGE July 2021 Wheat made contract highs in June.
- Wet weather in Europe and the US needs to pass for harvest to begin in earnest.

SUGAR

Sugar prices to remain relatively stable between the ethanol and Indian export parity

- ICE #11 prices lost 6% in June, despite BRL strength.
- Ethanol continued to be surprisingly strong with the parity trading above USc 16.5/lb.

CORN

CBOT Corn has shown pronounced volatility but is seen settling in a new price range of USD 5.00-6.50/bu

- Rainfall is too little, too late to address US drought and achieve the USDA's yield or reflation expectations.

COFFEE

Coffee prices are highly volatile

- Speculators still firmly hold to their net long position in arabica.
- Brazil's weather has been decent for the harvest, but it will likely bring a lot of volatility.
- Demand for conillons heating up.

SOYBEANS

CBOT Soy prices have upside potential into 2022

- US soy may have lost the upper hand for land, with stockpiles remaining extremely low for another year.
- Crop conditions have been subpar, especially in the highly important Dakotas, diminishing the likelihood of perfect yields and consumer satisfaction.

SOYMEAL & OIL

CBOT Soy Oil's hot streak ends with US Soymeal also facing cooler demand

- South American competition is strong thanks to recent harvests, though recent breaks in CBOT and the US dollar could improve attractiveness of US byproduct exports.

PALM OIL

The recent palm oil price correction could increase import demand for restocking

- The palm oil price correction will be limited by relatively tight global soft oil fundamentals.
- Indonesian palm oil exports to India could improve in Q3 2021.

COTTON

Cotton price forecast is raised short term on tighten export availability in the US and Brazil

- Increasing crop ratings and good weather in the US may bolster US production.
- Demand is expected to remain strong, with US exporters likely to benefit.

Wheat

Demand strength and dried-out spring wheat crops help keep wheat markets supported.

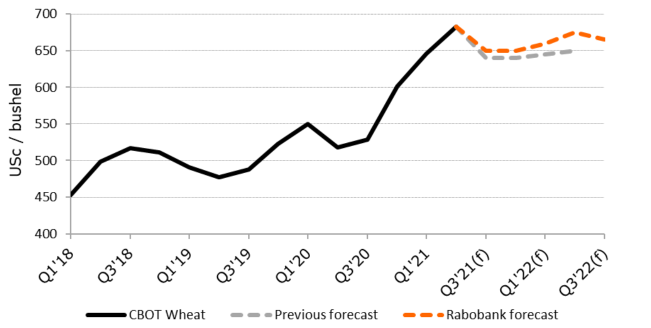
- MGE July 2021 Wheat made contract highs in June.
- Wet weather in Europe and the US needs to pass for harvest to begin in earnest.
- Expectations of a large price reversal at harvest may not come to fruition when met with pent-up demand.

CBOT Wheat prices suffered less this month from the sell-off in G&O, buoyed by continued weather issues for spring wheat crops and continued US export demand. US spring wheat crops may continue to find it hard to gain a footing, as the weather in the Dakotas fails to deliver the consistent rains the crop needs. Although some rainfall is in the two-week forecast, it will likely only be able to arrest the decline in crop ratings, which fell to their lowest levels in at least ten years at 27% good-excellent as of June 20. The spring wheat area affected by drought has continued to rise and is at 86% as of June 15. Minneapolis Wheat continues to trade near highs despite the recent sell-off across G&O, with few signs of the trend reversing as the Minneapolis-CBOT spread moves to a three-year high of around USc 145/bu (second contract basis).

The US winter wheat harvest is getting started, and expectations are high, even with delays. However, it is unlikely to be enough to offset the struggles of spring wheat. Harvest pressure may push prices lower, but we anticipate CBOT price levels to remain above USc 650/bu in Q3 and Q4 on average as pent-up demand from consumers waiting for a price break comes to market. The limited arrival of spring wheat harvests expected not only from the US but also from Canada and Russia later in the year will likely help keep prices supported for the whole wheat complex in to 2022. The USDA's June acreage report may not take into account a lower US spring wheat crop given that plantings progressed very well, but we may see a lower yield number in the July WASDE.

Wheat price forecast raised slightly due to dry Dakotas

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
CBOT	USc/bu	602	646	683	650	650	660	675	665
Matif	EUR/mt	208	227	221	205	205	207	215	210

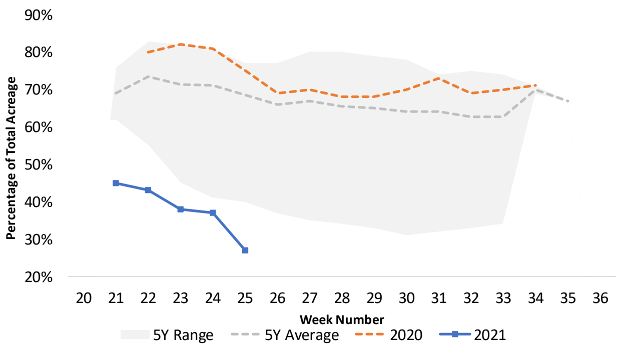


Source: Bloomberg Finance L.P., Rabobank 2021

Given that US all wheat production for 2021/22 was forecast by the USDA to increase only marginally, we now see a significant possibility that it may decrease year-on-year, and given continued good export demand, ending stocks will likely tighten further than expected, further helping to provide price support into next year.

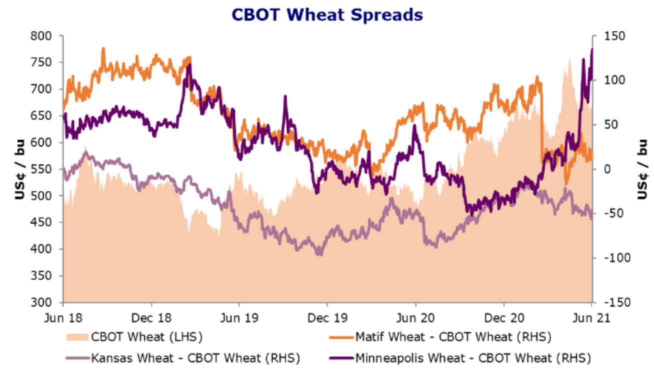
European crops appear in good shape, with ratings remaining stable at high levels in France as well as positive reports on winter crops from eastern Europe and the Black Sea. European availability will likely be very good, and eastern Europe may once again pose stiff competition for tenders. Weather at present is conducive to boost late development, but the weather will need to turn drier over the next month to allow harvest to get going in earnest. Otherwise, there may be quality issues. Until the winter wheat harvest arrives in Europe, the US, and Russia, there is little reason to expect a price break given ongoing dryness for spring wheat and the lack of a break in rainfall for winter wheat. Consumers avoiding purchasing on the expectation of a major reduction in price at harvest should proceed with caution, as reports of slow forward sales suggest many may be adopting a similar strategy, any dips in price will likely to be met with heavy consumer buying.

US spring wheat good-excellent ratings are their lowest levels in at least ten years at 27%



Source: USDA, Rabobank 2021 as of 20 June

The Minneapolis-CBOT Wheat spread is at multiyear highs, with few signs of reversal



Source: Bloomberg Finance L.P., Rabobank 2021

Corn

CBOT Corn has shown pronounced volatility but is seen settling in a new price range of USD 5 to USD 6.50/bu.

- Rainfall is too little, too late to address US drought and achieve the USDA's yield or reflation expectations.
- Brazil's safrinha failure cuts export potential by ~10mmt and further burdens US export capacity.
- Fund shake-out will be met by eager commercial interest.

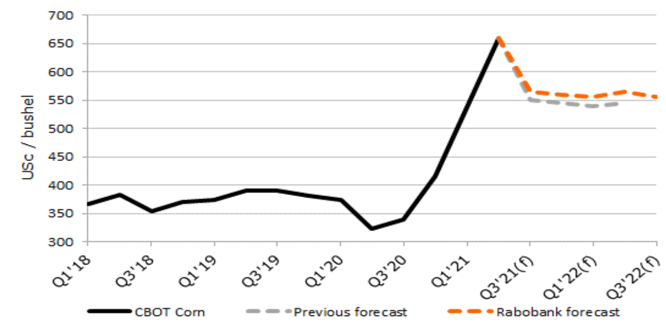
CBOT Corn finished last month almost unchanged, masking a cascade of price volatility as the market grappled with the greatest weather market in the past nine years. Funds liquidated much of their historic net length, even falling to levels below last year, amid perceptions of higher acreage and rainfall combined with lower export and ethanol demand. The appearance of a double top in CBOT Corn (c. 6.50 USD/bu) and lack of US export sales at that level have fed fund profit-taking, including last Thursday's sell-off. To paraphrase Mark Twain, rumors of CBOT Corn's death are greatly exaggerated. Moves to USD 5/bu were soundly rejected, as they were in May when cancellation rumors regarding China's US new crop corn purchases (c. 11mmt procured to date) fizzled out. Rabobank's message to wary consumers: our price forecast continues to reflect a new range of USD 5 to USD 6.50/bu over at least the coming year.

The narrative of feed grain supply shortages gradually easing, reflected in the heavily inverted futures curve, has found proponents in the USDA and others. Their view of the US 2021/22 corn balance sheet – record yields (179.5m bu) and competition-lowered export demand (-400m bu) leading to benign growth (+250m bu) in ending stocks – is likely to repeat last year's tortuous revisions that saw 2020/21 US ending stocks projections reduced 71% (from 3.5bn bu to 1bn bu). The larger-than-life expectations of record US corn acreage and yield-stabilizing Midwest rainfall will confront harsh reality: namely lackluster US acreage intentions (91.1m acres, up <1% YOY) and declining crop conditions (64%, 4% below the five-year average) as fierce drought expands in the Corn Belt. US corn plantings will rise modestly, given higher prices and the new crop ratio favoring corn during plantings. Yet the upside of prospective to final corn acreage has rarely been 3m acres – 2007/08 was an exception. Even assuming the US achieves an additional 2m harvested acres, there would be diminishing returns; much of the accretive acreage would be planted in the Northern Plains, where conditions are miserable. Acreage increases in peripheral, lower-yielding areas would thus be partly offset by yield declines (seen nationally at 177 bu/acre vs. USDA's 179.5). Higher US export demand resulting from Brazil's disappointing harvest (~90mmt vs. USDA's 98.5m) would completely erase the acreage advantage. The USDA's 2021/22 Brazil corn outlook of 118mmt also looks both unlikely and untimely, given the exportable (safrinha) crop would come at the tail end of the US 2021/22 export season.

Even if Rabobank took the USDA's unlikely 2021/22 US corn scenario at face value, stocks-to-use would remain near an eight-year low of 9%. CBOT Corn has fundamental support above its seven-year-long historical range of USD 3 to USD 5, when stocks-to-use averaged 13%, especially as global feed and ethanol demand grow in the wake of Covid-19. Rabobank considers the good old days for consumers gone in the near term, amid low supplies and growing supply risks in the critical Northern Plains and beyond.

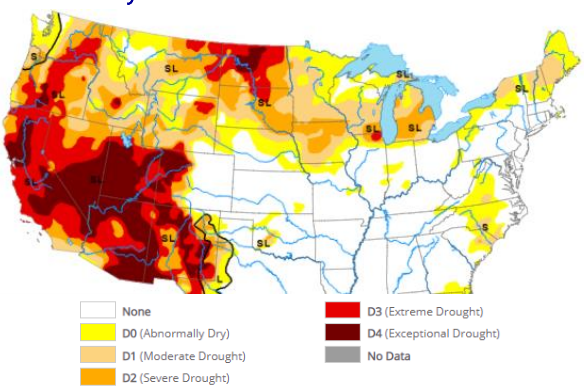
CBOT Corn's supportive fundamentals to endure or grow

	Unit	Q4'20f	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Corn	USc/bu	417	538	659	565	550	555	560	555



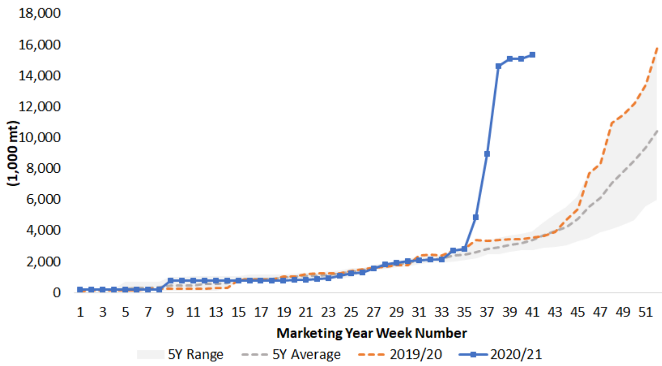
Source: Bloomberg Finance L.P., Rabobank 2021

US weather monitors are seeing drought expand from the Plains into the yield-rich northern Midwest



Source: USDA, NOAA, NDMC, UNL, Rabobank 2021 as of 15 June

US 2021/22 corn sales are at 26% of the USDA's full-year export projections on a burnt safrinha crop and China buying



Source: USDA., Rabobank 2021

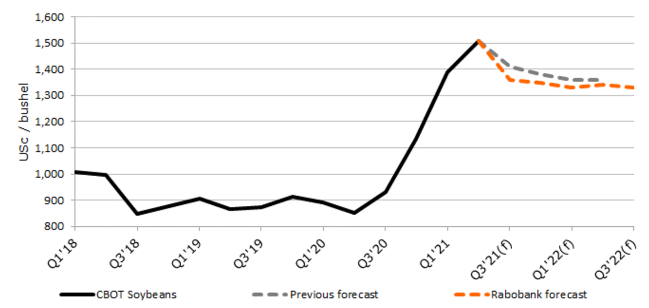
Soybeans

CBOT Soy prices have upside potential into 2022.

- US soy may have lost the upper hand for land, with stockpiles remaining extremely low for another year.
- Crop conditions have been subpar, especially in the highly important Dakotas, diminishing the likelihood of perfect yields and consumer satisfaction.
- South American exports have flown out to China, whose demand growth for beans may slow.

CBOT Soy prices steady amid limited acres and weather risk

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Soybeans	USc/bu	1135	1388	1509	1360	1350	1330	1340	1330



Source: Bloomberg Finance L.P., Rabobank 2021

CBOT Soy has experienced heavy losses of 15% from near nine-year highs of USc 1660/bu last month after Brazil's successful harvest and rapid export pace to China combined with disappointing US crush. These factors were enough to offset bullish risks in poor US crop conditions and low US ending stocks forecast through 2022. The dueling arguments will continue to wreak high volatility in CBOT Soy (and corn) until the crop is confirmed in the fall. Until then, Rabobank continues to view price risk to the upside. Brazil's production relief from La Niña (136mmt, +6% YOY) achieved some post-harvest price pressure due to Brazil's formidable front-loaded export program – well over 60% of full-year exports have left shore since February 1, largely to China, which is now sitting on large stockpiles even as pork prices plummet. With soy prices down in Brazil due to a high sales pace and strong Brazilian real (+5% MOM), farmers will be reluctant sellers of their remaining wares.

The USDA June stocks acreage report will be intensely reviewed to see if US soy acreage was lost to corn following the nosedive in new crop soy/corn ratio in the midst of plantings. Soybeans were heavily favored by US farmers in the March prospective plantings report (87.6m acres, +4.5m YOY), with corn effectively flat. It remains to be seen if corn prices overcompensated and cost soy valuable acres, but the impression is that they have. Over the last few months, the CBOT Nov Soy/Dec 21 Corn ratio has clawed back from 2.25 to 2.65, before recently settling at a level of 2.4 that envisages rationing-level US soy carry-out (c. 130m bu) and row crop acreage competition enduring into 2022.

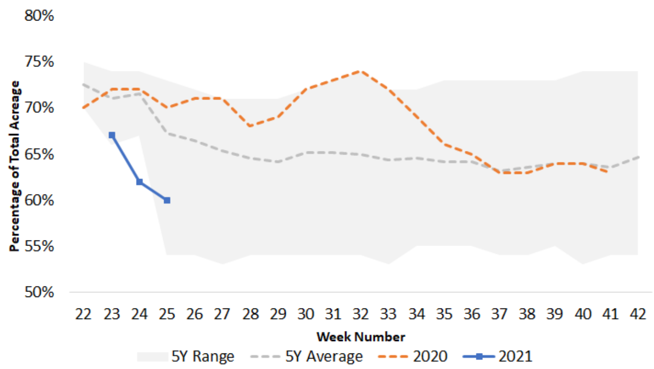
Rabobank is inclined to reduce our price forecast only slightly from last month as low US supplies and persistent drought across much of the Northern Plains and Midwest. US soy planting pace has been quick, but crop conditions have deteriorated to 60% good-excellent in three weeks and are 10% below last year's levels. Complicating matters are the drought-filled Northern Plains, which account for about 15% of total soy acreage and 45% of new soy acreage. North Dakota has good-excellent ratings of only 25%, and there is little rainfall in the forecast. These are still early days, but with soy's acreage upside so strongly focused in drought-filled states, there is a high risk of yield and production declines.

Despite low US stocks and considerable weather adversity, CBOT Soy has relatively shorter tail risk to Corn, which could limit further outperformance and price gains. Brazil and Argentina have successfully resupplied, and China has successfully increased its soy stockpiles; not so in corn. China's ongoing hog liquidation and lower pork prices may squeeze its near-term demand for meal, whereas its feed grains deficit could last for years. Finally, US crush has been lackluster these past months on meal export competition from abroad and the fact that soy oil accounted for almost half of crush margins despite only accounting for a fifth of the output. That decline may continue amid lean hog reversal and doubts on biofuels. A strong US soy harvest (not our base scenario) followed by Brazil's harvest in February could reflate exportable supplies to a level that could drop CBOT Soy to USD 13.00/bu.

CBOT Soy/Corn ratio at 2.4 may imply overcompensation of corn plantings and continued acreage competition in 2022

Source: Bloomberg Finance L.P, Rabobank 2021

US soy conditions are falling amid pronounced dryness focused in the critical expansion areas of the Northern Plains



Source: USDA, Rabobank 2021

Soymeal and Soy Oil

CBOT Soy Oil's hot streak ends by lowered biodiesel expectations for Brazil, the US, and Indonesia; US Soymeal also faces cooler demand.

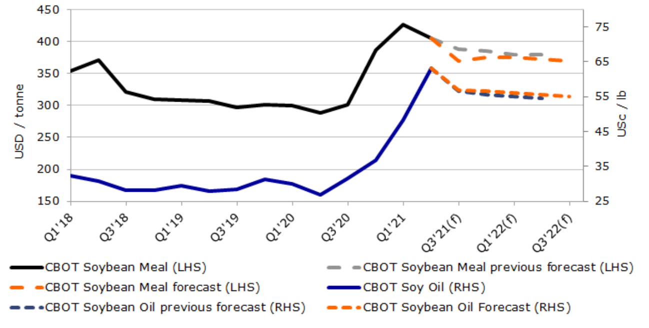
- Surging soy oil demand for biodiesel and feed shows signs of overheating, though US supplies remain low.
- South American competition is strong thanks to recent harvests, though recent breaks in CBOT and the US dollar could improve attractiveness of US byproduct exports.

CBOT Soy Oil fell 13% from near-record highs but remains far ahead of its G&O peers in terms of price performance: +40% YTD near USc 60/lb. Biodiesel and feed have combined with traditional food demand to push global vegetable oil stocks to their lowest levels in 11 years, with US soy oil stocks-to-use of about 5.5% matching the lowest on record. Brazil's soy harvest success, higher Chinese soy inventories, and key nations' biodiesel demand uncertainty have cooled price exuberance. Most importantly, MDE Palm Oil's much larger plunge (-21% from year-to-date highs), has laid bare the historic discount (>500 USD/mt vs. USD 100/mt typically) for an alternative, albeit less desirable, product. The price breather has induced coverage, particularly along the curve.

Amid potential biodiesel mandate misses in Indonesia and Brazil, reports that the Biden administration may keep biofuel targets unchanged creates a potential near-term blemish in the vegetable oil's golden story. Also, restaurant reopening should bring greater recycled cooking oil use into the biodiesel mix. Still, US soy oil faces strong biodiesel growth over time that will require trade-offs, particularly for exports as the market turns inward. US FOB premiums are USc 10-12/lb over Brazil and Argentina, the latter of whom just hit four-year highs in crush output. The USDA sees exports falling 33% in 2020/21 and a further 24% in 2021/22. To put the biodiesel saga in perspective, the USDA's most recent target is +26% growth YOY, which would make biodiesel account for 45% of

CBOT Soy Oil demand stretched over years, Meal supported

	Unit	Q4'20f	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Soymeal	USD/ton	386	426	404	370	375	375	372	370
Soy Oil	USc/lb	36.8	48.2	63.2	57.0	56.5	56.0	55.5	55.0

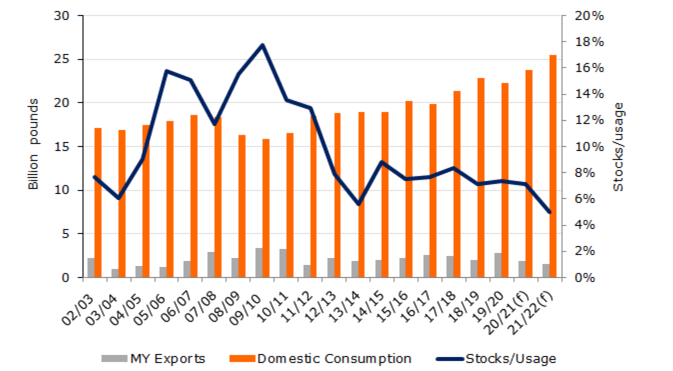


Source: Bloomberg Finance L.P., Rabobank 2021

US soy oil demand, far more than ethanol's proportion of corn. Biodiesel capacity in the US and other key vegetable oil producers will undoubtedly expand. However, a growing number of politicians are calling for that expansion to be borne out over time rather than through explosive growth, especially amid low supplies and concurrent rising demand (and prices) for food and feed. The dramatic flattening of CBOT Soy Oil's curve last month reflects this view among consumers. Rabobank maintains its forecast in a range near USc 55/lb.

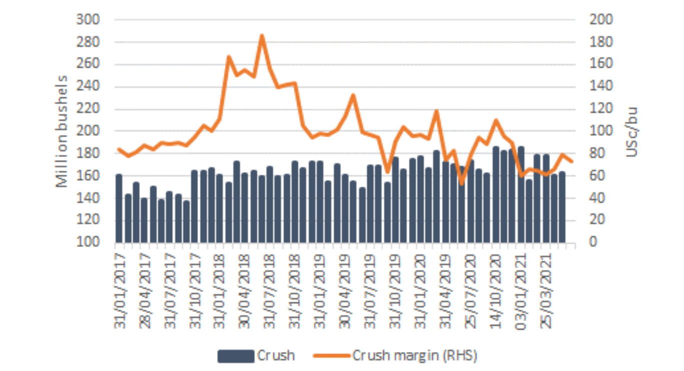
On the feed factor, China's standout demand for soymeal and oil (partially as a replacement for corn) is showing signs of settling down amid high soy inventories, declining pork prices, and hog liquidation. In the US, falling crush margins and NOPA crush prints have accentuated CBOT Soymeal's struggles relative to Soy Oil, which has shouldered an increasingly unsustainable share (nearly 50%) of crush margin. Despite these factors, we see signs of demand for CBOT Soymeal that could drive support above USD 370/mt. US Soymeal FOB prices are more competitive which could rejuvenate exports. Lean hog prices have eased amid export concerns but remain historically high with potential upside for feed demand. China's low pork price environment could see a strong rebound in 2H 2021 amid renewed hog restocking efforts. Beyond growing world demand, US soy supplies are low and face concentrated weather risk in the drought-stricken area of the Northern Plains, which gives support to byproducts.

US soy oil's heated domestic use projections – focused in biodiesel – threaten to cut exports and ending stocks



Source: USDA, Rabobank 2021

US crush margins and output have disappointed in past months amid strong soy exports and meal competition



Source: NOPA, Bloomberg Finance L.P, Rabobank 2021

Palm Oil

The recent palm oil price correction could increase import demand for restocking.

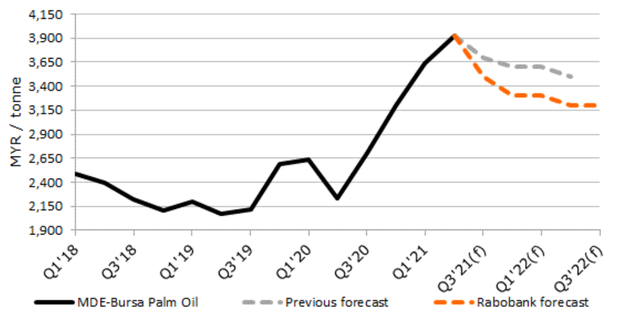
- The palm oil price correction will be limited by relatively tight global soft oil fundamentals.
- Indonesian palm oil exports to India could improve in Q3 2021.
- Indonesian domestic biodiesel consumption remains behind the pace required to achieve the 2021 mandate.

The palm oil price correction will be limited by relatively tight global soft oil fundamentals. The MDE-Bursa Palm Oil active contract price decreased to MYR 3,300/metric ton in June 2021 on the back of improvements in Malaysia's palm oil production and inventory outlook for the remainder of 2021. According to MPOB, Malaysian May 2021 palm oil production increased by 3% MOM, to 1.6mmt, despite the reduced frequency of FFB harvesting in the country during Ramadan and Eid al-Fitr in the same month. Malaysian May 2021 palm oil inventories also increased by 1.5% MOM to 1.6mmt. We expect a seasonal palm oil production increase will result in higher quarter-on-quarter palm oil inventories in Malaysia in Q3 2021, which will pressure palm oil prices during the same period. However, we are still of the opinion that pressure on palm oil prices will be limited as long as the spread between soy oil and palm oil prices remains wide. We expect this trend to continue at least until Q3 2021, when there will be more clarity on the outlook for 2021/2022 soybean production in the US and India. On the latter, the 2021 monsoon arrived two weeks early in India, which will help farmers accelerate soybean sowing in the country.

Indonesian palm oil exports to India could improve in Q3 2021. According to SEA India, from November 2020 to May 2021, India imported 2.3mmt and 1.9mmt of CPO from Malaysia and Indonesia, respectively. Malaysia's market share of CPO imports was higher during this period due to the

We revise our forecast due to the recent palm oil price correction

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Palm Oil	MYR/mt	3,204	3,634	3,923	3,500	3,300	3,300	3,200	3,200

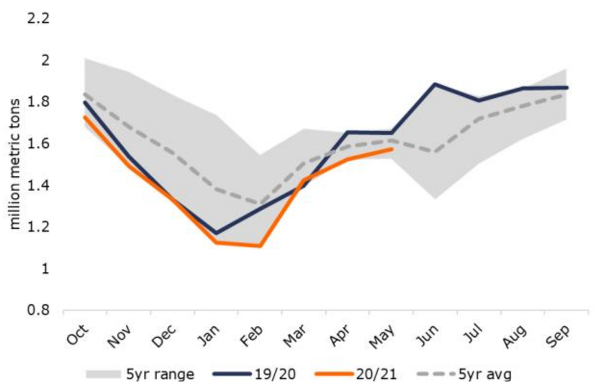


Source: Bloomberg Finance L.P., Rabobank 2021

competitiveness of its prices. Recently, however, there has been discussion that the Indonesian government might revise palm oil export levies down in Q3 2021 to boost palm oil exports. If this happens, Indonesian palm oil exports to India could improve at the expense of Malaysian palm oil exports. Meanwhile, despite having high inventories of domestic edible oils, Indian monthly edible oil imports still increased in May 2021. According to SEA India, in May 2021, Indian palm oil and soft oil imports increased by 10% and 35% MOM to reach 770,000 mt and 444,000 mt, respectively. As a result, by the end of May 2021, India's edible oil inventories had increased by 8% MOM, to 1.96mmt – the highest level since end of November 2019.

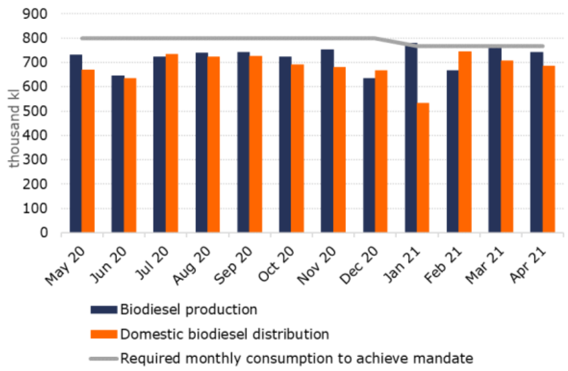
Indonesian domestic biodiesel consumption remains behind the pace required to achieve the 2021 mandate. According to APROBI, total domestic biodiesel consumption in Indonesia from January to April 2021 was lower by 8.1% YOY. At 2.67m kiloliters, Indonesia's total domestic biodiesel consumption for the first four months of 2021 only represents 29% of the 9.2m kiloliter biodiesel mandate in 2021. At this rate, Indonesia's annual biodiesel consumption for the full year will only reach around 8m kiloliters in 2021.

Malaysian monthly palm oil production remains lower YOY



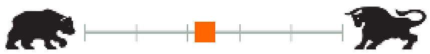
Source: MPOB, Rabobank 2021

Indonesia's total domestic biodiesel consumption from January to April 2021 was lower by 8.1% YOY



Source: APROBI, Rabobank 2021

Sugar



Sugar prices to remain relatively stable between the ethanol parity and the Indian export parity.

- ICE #11 prices lost 6% so far in June, despite the strength in the Brazilian real.
- Ethanol continued to be surprisingly strong with the parity trading above USc 16.5/lb.
- Speculators are likely to remain very active through 2021.

ICE #11 July 21 Raw Sugar lost some ground in June following a slight drop in the ethanol parity, improving numbers from the Brazil harvest, and a slight change in tone from the Federal Reserve, which strengthened the US dollar marginally. However, the ethanol market has proven to be very resilient so far, with prices in Brazilian reais still around record levels as of June 18, and this is preventing us from turning more bearish. Some of the tightness in the ethanol market has to do with the weakness of the currency earlier this year, which resulted in strong Jan-May 2021 exports (above those of the same period in 2020 and 2019). Meanwhile, ethanol imports for Jan-May 2021 are lower than those of the same period in 2020 and 2019. With a stronger currency, this situation is unlikely to happen again, but we cannot expect the usual weakness in the ethanol market. More likely, ethanol prices will weaken a little in the coming weeks but strengthen again toward the end of the harvest.

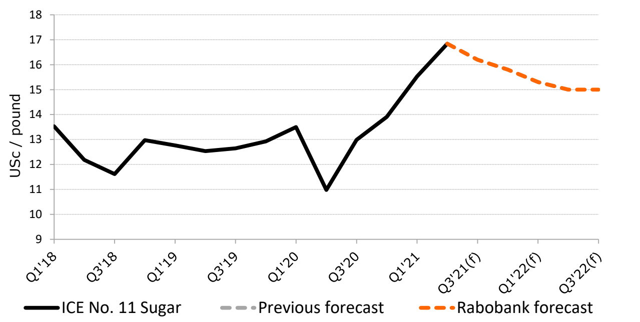
The white sugar premium has been in freefall. From USD 90/mt in mid-April and USD 78/mt as of end-May, the Oct/Oct white premium is now trading at USD 66/mt, making toll refining unprofitable for the most part. And this drop in the white premium is taking place with no extra white sugar coming to the market (Thailand's new crop will only be harvested from Q1 2021, and even then, we are not expecting a full recovery). Therefore, the drop in the white premium seems to indicate lower demand. This could be a result of consumer demand destruction because of high prices, but it could just as well be a return to 'just in time' inventory. The speedy vaccination programs will likely result in more normal port and transport operations, as well as (hopefully) fewer border closures. This could result in companies reassessing their inventory strategy, and in times of high prices, more companies may decide to run down stocks.

Funds have been selling lately, but this could change. Non-Commercials have been selling in four out of the last five weekly CFTC reports, following the general trend across commodities. However, we are still firm in the belief that funds can continue to pile money into commodities. Any potential rise in central banks' reference rates is still far away, and it will be a long time before traditional government bonds offer an attractive return relative to inflation.

Timing is everything. What the sugar market will do next will depend largely on the pace of the ethanol market in Brazil, the start of the wet season there (around mid-September), and the size of the export subsidies in India (usually announced in September but potentially subject to delays). Given a neutral ENSO, one can expect better weather ahead. Brazil is seeing a few showers, which at least help support the health of the cane even though they don't replenish soil moisture. The monsoon has arrived in India in a very timely manner, and it is expected to be normal. However, on this fundamental weather point, it is important to remember that there is over 30% chance of another La Niña before the end of the year.

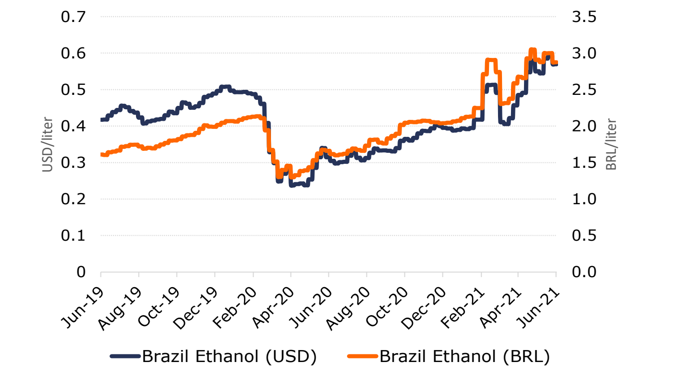
ICE #11 Sugar price forecast unchanged

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2,22f	Q3,22f
Sugar	USc/lb	13.9	15.5	16.8	16.2	15.8	15.3	15.0	15.0



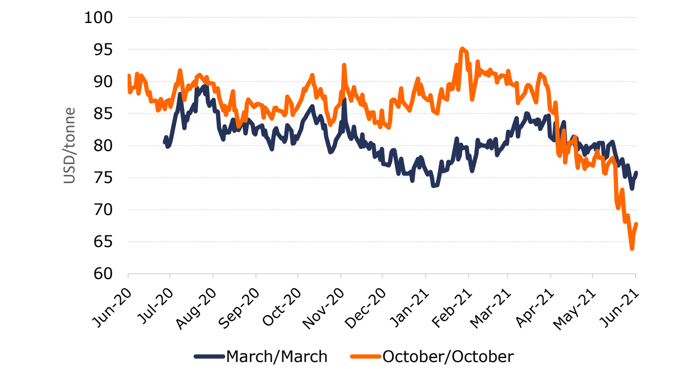
Source: Bloomberg Finance L.P., Rabobank 2021

Ethanol prices continue to be very strong in Brazil, and we only expect a moderate drop during the peak of the harvest



Source: Bloomberg Finance L.P., Cepea, Rabobank 2021

White premium collapse points to lower demand, which is likely a result of high sugar prices and/or lower accumulation



Source: Bloomberg Finance L.P., Rabobank 2021

Coffee

Coffee prices are highly volatile.

- Speculators still firmly hold to their net long position in arabica.
- Brazil's weather has been decent for the harvest, but it will likely bring a lot of volatility.
- Demand for conillons heating up.

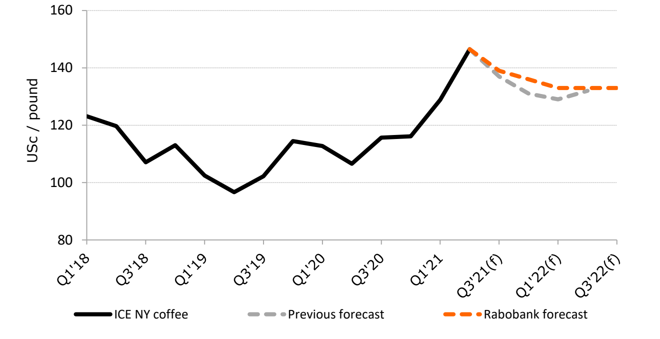
The September 2021 contract went from USc 152/lb at the time of our last report to USc 167.5/lb in early June, and it has come back down a long way since then to settle at USc 152/lb again. The combination of factors that pushed prices were varied and ranged from the road blocks in Colombia – preventing most shipments from the main port of Buenaventura – to the closure of warehouses in Franca, Brazil, but, as we have mentioned, quite a few were temporary in nature and did not diminish the total amount of coffee available. While the protests in Colombia are likely to continue, there seems to be a respite due to surging Covid levels and also government efforts to allow traffic from and to the port. Some more movement of coffee has been reported, and there is also rerouting of the coffee to other ports. The port authority estimates that the port will take three months to come back to normal, but there has been an improvement. May exports came in 52% lower YOY, but we are likely to see an improvement in June and especially in July. On the Brazil front, the warehouses in Franca have returned to normality. Shipping rates, however, continue to be astronomical from Asia, and there were modest increases from other origins too. We marginally increase our price forecast because of the strength of the Brazilian real, which appreciated by over 5% so far in June.

Brazil's weather will continue to be the focus of the market. Some isolated showers are helping to avoid a complete depletion of soil moisture during the current dry season. Volumes are very small and do not impede harvest progress. There were some reports about lower-than-average temperatures, but we do not think temperatures are an issue for the time being, with minimum temperatures forecast at around 10ºC in key areas for the coming week. While the current crop is harvested, there is still old crop arriving at the ICE grading room, with ICE total inventories at 2.17m bags and over 0.04m bags still pending grading. This is in line with our view that last year's crop was higher than previously thought. By August, the main focus of the market will be the return of the wet season in Brazil, typically from mid-September. IRI's three-month forecast shows pockets of dryness at the moment, but long-range forecasts have a large margin of error.

Robust demand for Brazil robustas. Robusta prices remain unchanged so far in June, despite the drop seen in arabicas and other commodities during this period. Also, the differential prices in Brazil have been strengthening at a time certified stocks started to decline, clearly pointing to the shift in demand. Global container shipping prices reached a new high after increasing 11% so far in June (following a 25% upside in May), which makes Asian robustas even less appetizing. Going forward we don't expect a quick normalization of shipping rates. Therefore, a further depletion of certified stocks is likely.

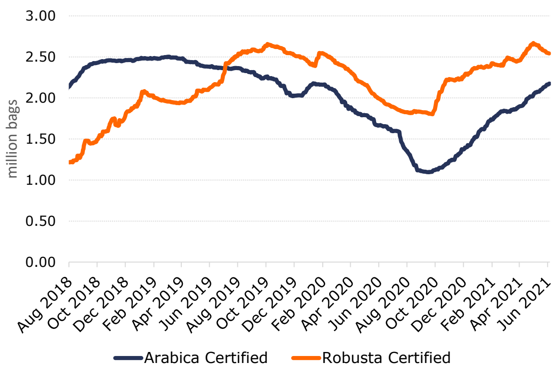
Arabica price forecast relatively unchanged

	unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
ICE Arabica	USc/lb	116	129	147	139	133	133	133	133
ICE Robusta	USD/mt	1350	1372	1497	1520	1560	1520	1520	1520



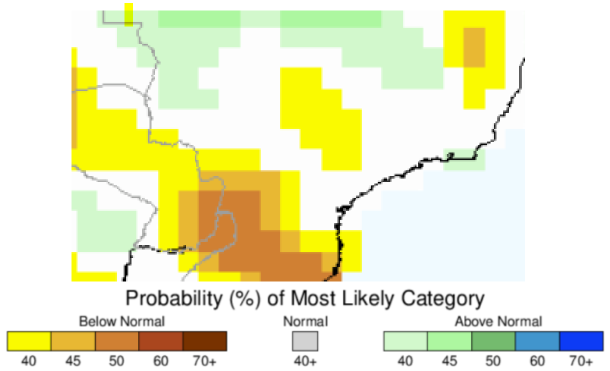
Source: Bloomberg Finance L.P., Rabobank 2021

Certified stocks of arabica continue to go up, while robusta's certified stocks are heading down



Source: ICE, Bloomberg Finance L.P., Rabobank 2021

IRI 3-month forecast (July-September) shows pockets of dryness in Brazil's arabica regions.



Source: IRI, Rabobank 2021

June Issue

Cotton

Our cotton price forecast is raised short term on tighten export availability in the US and Brazil.

- Increasing crop ratings and good weather in the US may bolster US production.
- Demand is expected to remain strong, with US exporters likely to benefit.
- 2021/22 fundamentals remain supportive overall.

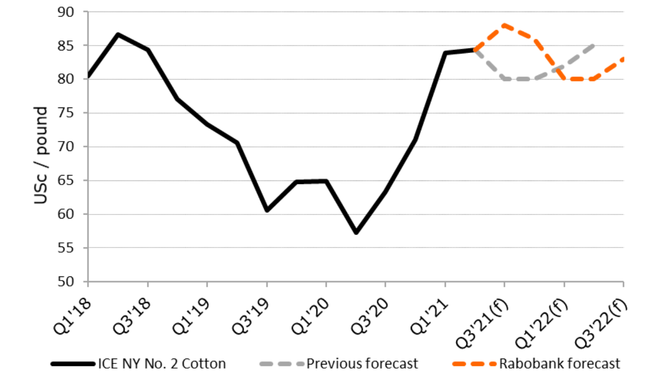
Cotton prices have been mostly stable in June, as good weather in the US and potentially higher-than-expected production provide little respite for lower availability amid continued strong demand. Weather conditions in Texas and other parts of the southern US have improved significantly this month – there has been some damage to crops from storm surges but overall we see it as a net improvement for the US. The total area of the crop affected by drought fell from 28% in May to 13% as of June 15. Furthermore, US good-excellent ratings also improved to 52% as of June 20, climbing above the five-year average of 49%, with plantings now likely complete and development capable of recovery toward the five-year average despite a slow start. As a result we may see a small boost to US production above the USDA's initial estimates and potential for lower abandonment – good weather permitting. Rabobank has provisionally raised its 2021/22 US production outlook from 17.2m bales to 17.5m bales. Even with slightly higher US production however, strong export demand in 2021/22 will likely still mean declining US ending stocks. The USDA's June acreage report will likely confirm 12m acres in the US: Although plantings were successful any minor gains in acreage may have been offset by damage from storm surges and flooding elsewhere.

Exports from the US and Brazil are slowing, and availability is expected to be tight in the months ahead until harvest. Prices may see support, with exportable stocks in short supply after Brazil and the US's frontloaded export programs. We see a small amount of upside potential for cotton in Q3 2021, with potential for prices around USc 88/lb on average. As new exportable stocks become available toward the end of the year, prices may begin to taper. The 2021/22 balance sheet continues to look bullish for cotton, however, with US and global ending stocks continuing to tighten despite the potential boost to US production. US exporters may benefit in 2021/22 given the potential for lower availability next season in Brazil as cotton saw stiff competition from high corn prices and dry weather. The increasing number of bans on Xinjiang cotton may also provide a boost to US exporters.

Elsewhere, prospects seem positive for production in Australia and India into 2021/22. Good rainfall levels in India should help with crop development and could mean a good harvest later in the year. Similarly, mild weather up until now in Australia and long-range forecasts suggesting a higher chance of above-average rainfall over the next six months for both regions is lifting expectations. As such, we see potential for prices to temper in Q1 2022 and Q2 2022 on good availability. We continue to be optimistic about demand growth in 2021/22 and see potential for prices to remain at or above USc 80/lb through to Q3 2022.

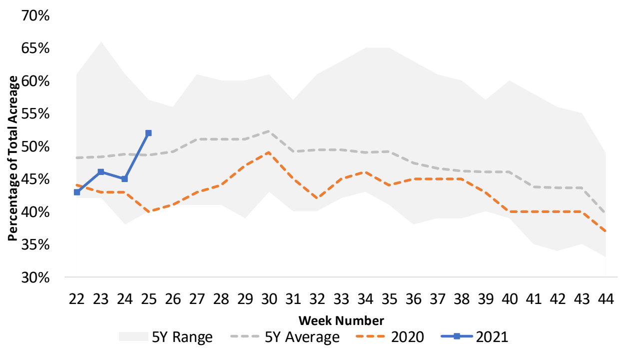
ICE #2 Cotton forecast is raised in the short term on tightening export availability

	Unit	Q4'20	Q1'21	Q2'21	Q3'21f	Q4'21f	Q1'22f	Q2'22f	Q3'22f
Cotton	USc/lb	71.0	83.9	84.4	88	86	80	80	83



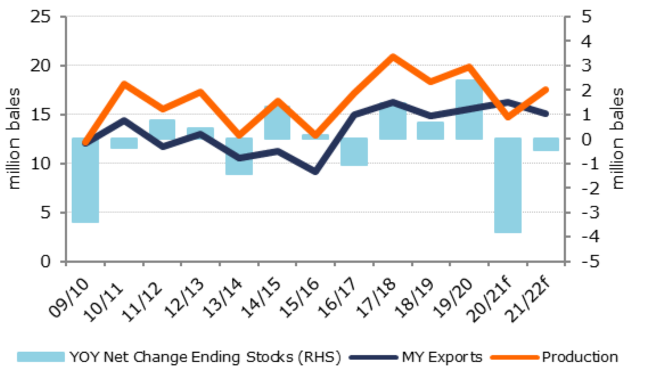
Source: Bloomberg Finance L.P., Rabobank 2021

US cotton good-excellent ratings get a boost from improving Texas weather above the five-year average



Source: USDA, Rabobank 2021 as of 20 June

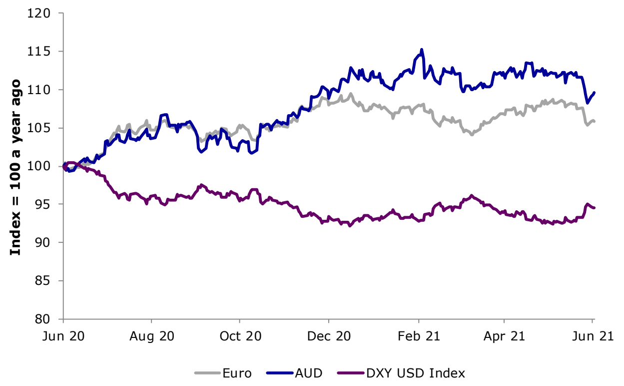
A boost to US production will not be enough to stop eroding ending stocks

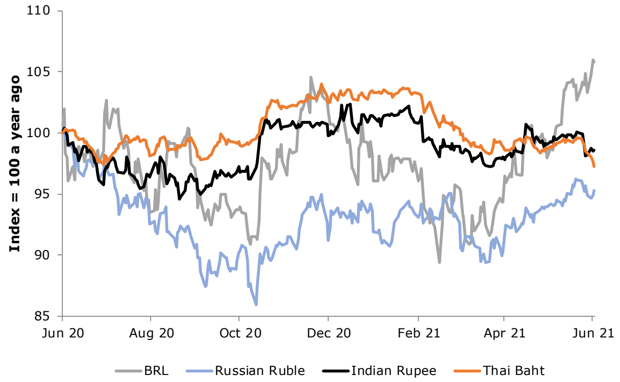


Source: USDA, Rabobank 2021

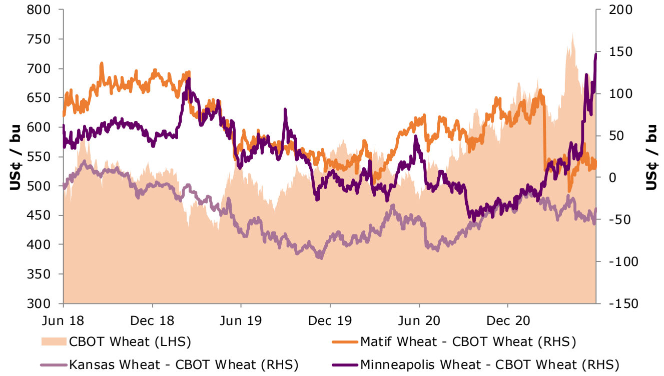
Agri Charts

Global Currencies USD Cross

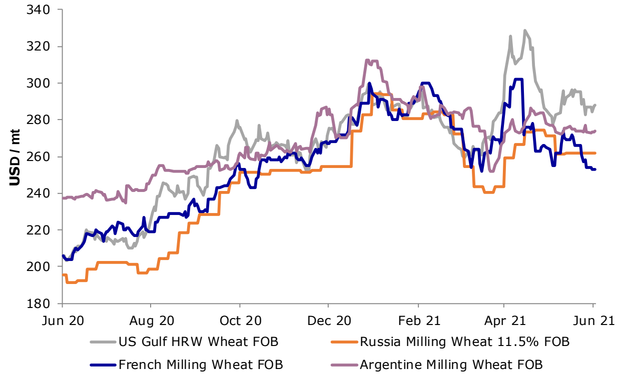




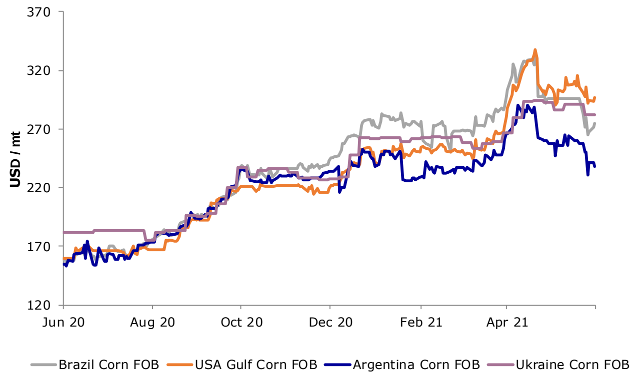
CBOT Wheat Spreads



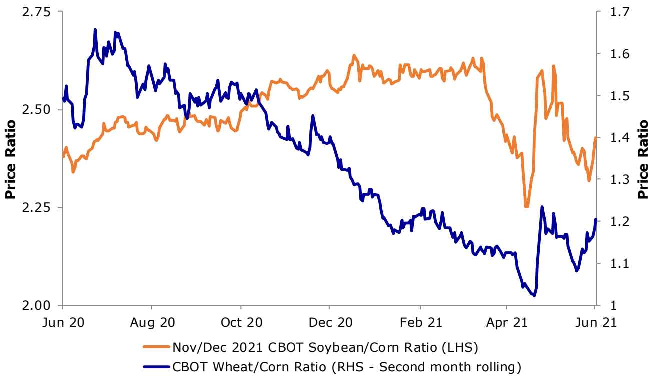
Wheat Protein FOB Prices



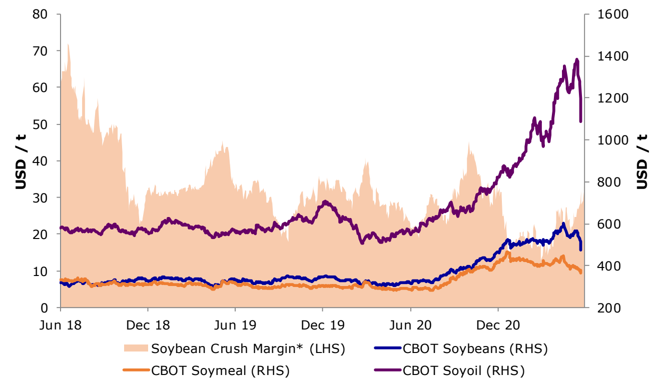
Corn FOB Prices



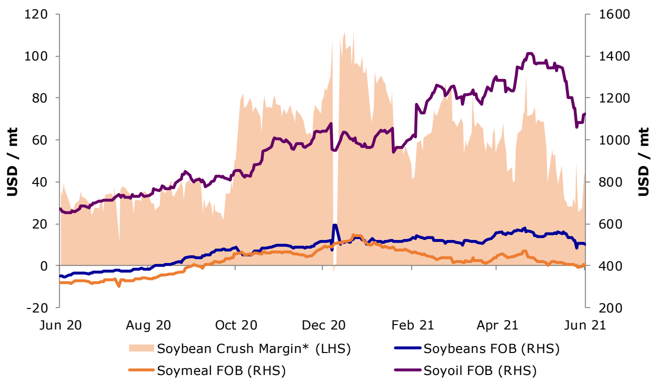
CBOT Ratios



CBOT Soybean Crush Margin



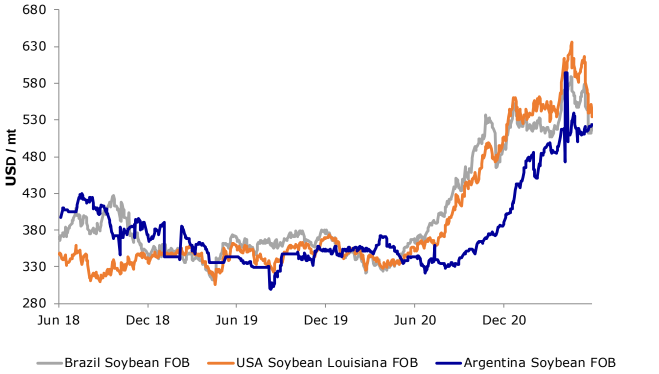
Argentina FOB Soybean Crush Margin



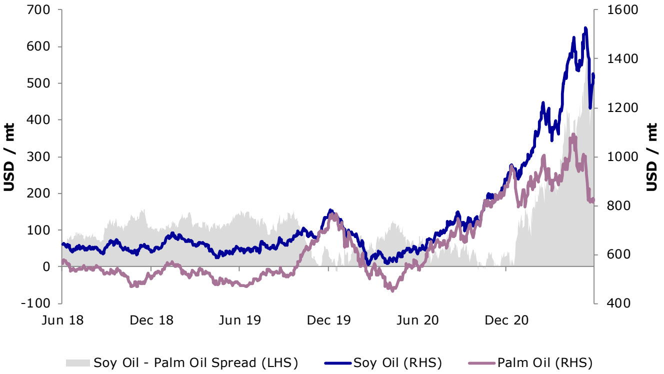
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

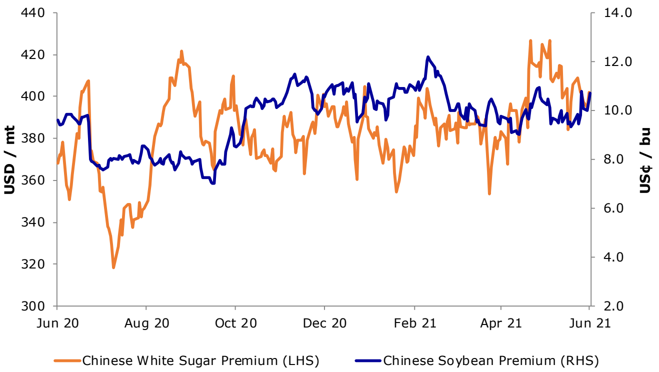
Soybean FOB Prices



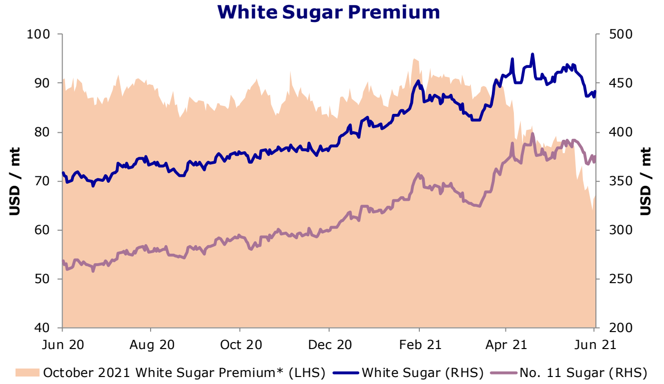
Palm Oil - Soy Oil Spread



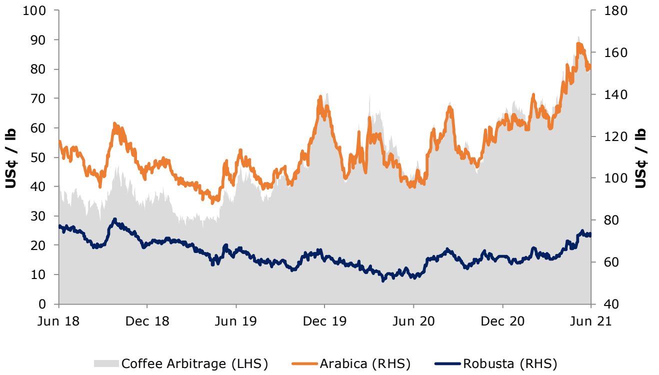
Chinese Futures Premiums



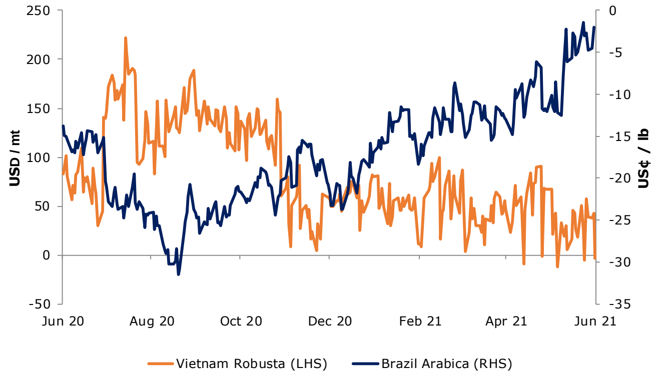
White Sugar Premium



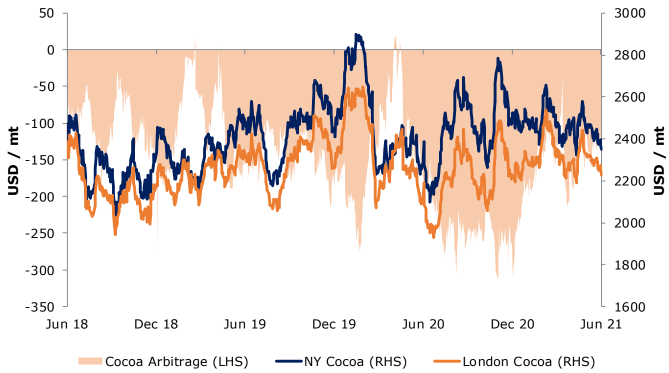
Arabica - Robusta Coffee Arbitrage



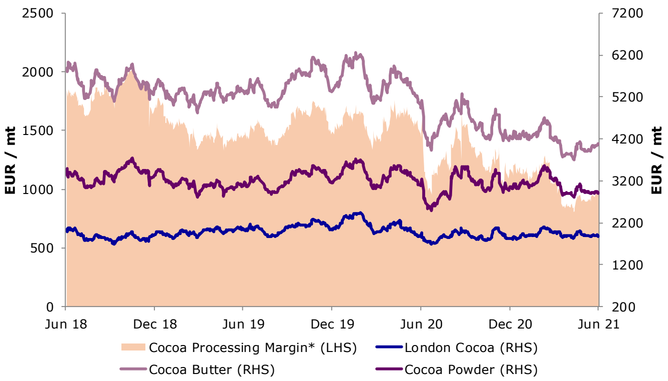
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

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

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A summary of the methodology can be found on our website