Agri Commodity Markets Research

April 2022: Many Fish To Fry

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It is hard to see any significant downside to agricultural commodity markets. The US drought has worsened, resulting in the worst wheat crop conditions in 16 years. Even though there is lingering dryness in large parts of the wheat belt, recent rains in the corn belt have delayed corn planting. La Niña will likely linger for longer, making 'normal' weather unlikely. On the financial side, index funds have been buying agricultural commodity futures every week for the last seven weeks on the back of prolonged inflation concerns. Food price inflation is becoming particularly concerning. As a perfect example of this, Indonesia is banning exports of palm oil to contain domestic prices. Even though this is expected to be temporary, the piecemeal announcement resulted in huge volatility across vegetable oil markets. Indonesia, however, concerned with domestic food prices, has a bigger fish to fry.

WHEAT

Black Sea conflict remains the predominant short-term factor, but US drought adds to concerns

- A forecast for 80% harvest of Ukrainian wheat might see some limited exports, but risks abound.
- Russian and Indian 2022/23 production prospects appear positive, but seasonal risks persist.

SUGAR

ICE #11 Sugar prices contained by high Indian exports, but energy prices are still supportive

- Brazil will likely provide market direction as harvested volumes increase.
- Indian exports might reach 9mmt.

CORN

CBOT Corn is entering rarified air to ration demand

- Ukraine's stymied corn output/exports are irreplaceable and causing global rationing/supply chain instability.

COFFEE

ICE Arabica prices have remained very stable over April, on the back of a stable BRL and ICE-certified stocks.

- Demand is the overriding concern for the time being, amid war, high prices and drops in disposable incomes.

SOY COMPLEX

CBOT Soy Oil burns bright, while Soymeal has a strong base of support amid a broader feed deficit

- Brazilian and Argentine farmers are harvesting a La Niña-damaged soy crop, but cost inflation weighs on selling.

Dairy

US milk production in Q1 2022 was down 1% compared to Q1 2021.

- High butter prices shocked shoppers, while feed costs eroded farmers' margins.
- The Global Dairy Trade price index fell across the dairy board.

PALM OIL

Indonesia's ban on palm oil exports will control domestic cooking oil prices.

Malaysian palm oil production shows signs of seasonal improvement.

Wheat

Black Sea conflict escalation, along with suspected 2022/23 supply tightness, keeps futures supported

- Black Sea conflict remains the predominant short-term factor, with Russian attacks escalating through April.
- A forecast 20% loss of Ukrainian output plus US Southern Plains drought damage will challenge the chances of a 2022/23 global stock recovery.
- Russian and Indian 2022/23 production prospects appear positive, but seasonal risks persist.

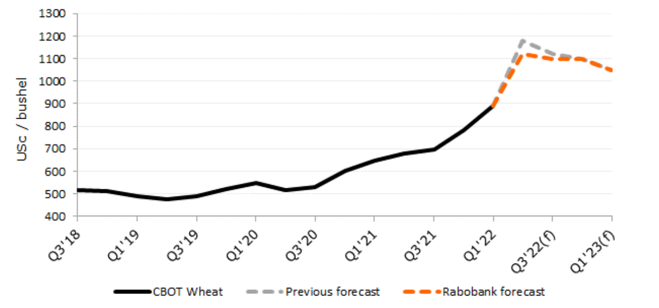
Multiple bullish drivers surround international wheat markets, keeping both CBOT Wheat at over USD 10/bu and Matif at over EUR 350/mt. Black Sea conflict remains the predominant factor, with Russian attacks escalating through April. In recent weeks, Russian ports face a further challenge as traditional shipping insurance is withdrawn from that market. Russian ports are active, but that is not enough to prevent EU-origin wheat reaching record-high prices. With export flows limited and only limited trade reallocation to the EU, major importers are forced to look elsewhere – officials from Egypt's GASC reportedly visited representatives from India's wheat export sector. While India can provide up to 10m mt of exports, the country might not always be a steady wheat exporter given its dependence on the monsoon. Lack of US demand might keep CBOT prices relatively steady at USD 10.5 to USD 11/bu, but we maintain a bullish outlook on Matif – given higher medium-term import demand – and forecast Q4 2022 prices at EUR 380/mt. In our view, the wheat forward curves price in some supply response to higher prices. However, we believe that will be a muted response given the very high cost of production, costs of other crops like rapeseed (that limited the spring wheat area expansion in North America), adverse US weather, and, in the short term, the fully booked export capacity out of Australia.

Early 2022/23 fundamental projections illustrate ongoing tightness in world wheat. A forecast 20% loss of Ukrainian wheat output plus US Southern Plains drought damage will already challenge any hope of 2022/23 stocks growth. Drought in the US Southern Plains has shifted from a concern to a 2022/23 season problem. NOAA classifies the area from moderate to exceptional drought, while early USDA crop conditions peg Kansas winter wheat at 26% rated good/excellent (nationally rated 27%). Weather patterns are consistent with present La Niña, which, according to NOAA, has a 55% chance of persisting into the northern hemisphere fall. With no adequate rain relief forecast in the coming weeks and a rapidly developing US crop, the negative yield impact could soon become irreversible.

There are bright spots globally for 2022/23 wheat production. Russia's 2022/23 production prospects are revised higher, towards record highs of 84m to 87m mt. Favorable conditions, along with good domestic input availability, drive production potential higher. The real question is how much of this future output can actually be exported. In India, a normal forecast monsoon brings strong production hopes. It remains early days for both regions, and weather risks will persist. Markets will closely monitor the USDA's May WASDE, in particular the department's first projections for the 2022/23 season. Considerable tightness persists in broader world feed grain markets, the forecasts of which will also influence the outcome for wheat.

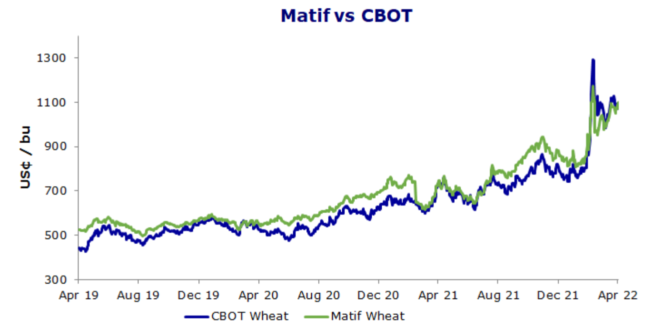
Prices to continue to trade on geopolitics

	unit	Q2'21	Q3'21	Q4'21	Q1'22f	Q2'22f	Q3'22f	Q4'22f	Q1'23f
CBOT	USc/bu	680	698	779	820	**1120**	**1100**	**1100**	**1050**
Matif	EUR/mt	219	234	284	305	**410**	**380**	**380**	**340**



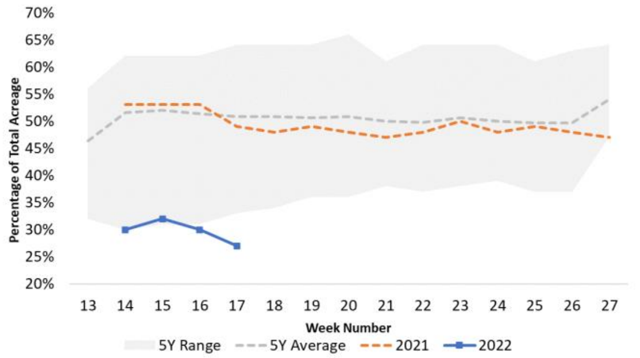
Source: Bloomberg Finance L.P., Rabobank 2022

Matif wheat prices head higher as replacement for Ukrainian wheat, while CBOT also reacts on drought concerns



Source: Bloomberg, Rabobank 2022

Early US winter wheat crop conditions are reported at 27% good/excellent following recent US Southern Plains drought



Source: USDA, Rabobank 2022

Corn

CBOT Corn is entering rarified air to ration demand

- Ukraine's stymied corn output/exports are irreplaceable and causing global rationing/supply chain instability.
- South American corn production has temporarily stabilized, but risks are rising in the northern hemisphere.
- Fertilizer/input costs erode corn farmer profitability, selling interest, and acreage growth.

CBOT Corn's active contract rose 10% last month to tower near ten-year highs of USD 8/bu as consumers frantically sought supplies amid war and weather woes. Our "higher for longer" view on CBOT Corn is increasingly reflected in the deferred new crop contracts, which rose 11% to match our USD 7.50/bu Q1 2023 forecast from last month. We see no imminent relief from fledgling northern hemisphere spring plantings, which are threatened by Covid-related logistical constraints in China, cold/wet weather delays in the US, and high fertilizer/input prices. Consumers are shocked by feed ingredient costs, but that's precisely the point: supplies are in a perilous state, and security comes at a premium.

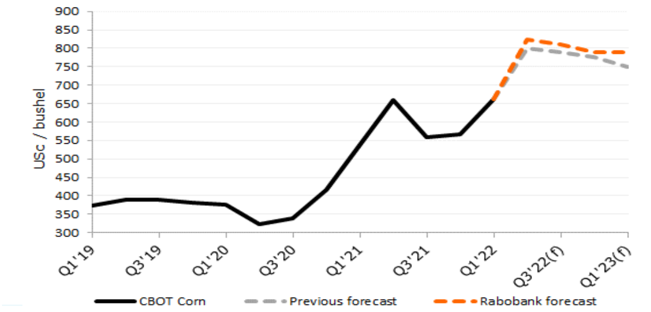
Challenged on multiple fronts – low stocks, uncertain yields, rising inflation, falling margins – corn farmers lack incentives to increase acreage or sell forward. Markets are working to offset the high fertilizer costs and induce more acreage, most notably with the CBOT Nov 22 Soy/Dec 22 Corn ratio collapsing 10% last month to 2.0. This ratio could add over 1m acres to the USDA's 89.5m acre corn estimate, weather permitting. Yet the US spring planting season got off on the wrong foot: 7% has been planted vs. 17% last year.

With world-China 2021/22 stocks-to-use below 9% (5-year average is 11%), the 2022/23 northern hemisphere weather market presents atypical risks. European and Chinese buyers were already rushing to cover some of Ukraine's 15m mt old crop shortfall. Now Ukraine's fertile corn fields, typically responsible for 15% of world trade, are strewn with landmines, and farmers lack input materials. Consensus is that 60% to 70% of normal summer harvest can be achieved. Alas, there is a big difference between production and trade: so long as the Black Sea remains blocked and cross-border trade is a trickle, the 2022/23 harvest will simply double the amount of stranded Ukrainian corn to 30m mt. With Brazilian corn supplies struggling, US has experienced strong export sales, and its exports will likely exceed 2.5bn bu, the second highest on record. Ethanol production will also rise into the summer, as year-round E15 approval come into effect.

Price risk will remain skewed to the upside until late July at the earliest as Brazilian harvest and US pollination near completion. We increase our bullish CBOT Corn forecast along the curve, buoyed by the weather market, with 2023 values seen at USD 7.90/bu. CBOT Corn has risen by 1.6x over two years on strong demand and persistent supply issues. The nearly uninterrupted ascent towards record levels is encouraging demand rationing. Animal protein producers – particularly those in countries with feed deficits – are facing compressed margins. With feed reserves historically low and supply disruptions extending through 2023, corn demand must be rationed either via herd liquidation or lower ethanol use. Our 2022/23 base view calls for a 1% contraction in corn use. The decline would be greater but for China's continued switch from wheat to corn feeding.

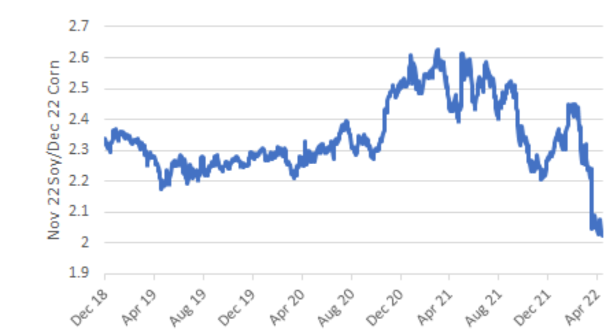
We expect CBOT Corn will rise to ration demand

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23
Corn	USc/bu	659	560	559	662	825	810	790	790



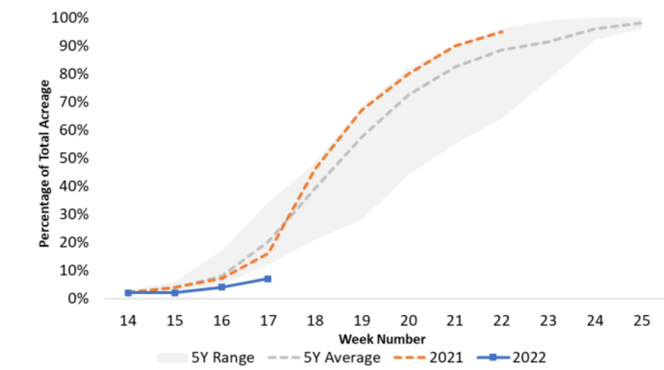
Source: Bloomberg Finance L.P., Rabobank 2022

CBOT Soy/Corn ratio has fallen to contract lows to overcome the pernicious impact of high fertilizer costs on corn acreage



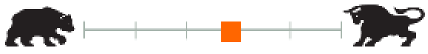
Source: Bloomberg, Rabobank 2022

US corn plantings are significantly behind last year going into May, raising risks to acreage and yield upside



Source: Macrobond, Rabobank 2022

Soybeans



CBOT Soy rises to stay competitive with Corn, but South American harvest may limit further gains

- Brazilian and Argentine farmers are harvesting a La Niña-damaged soy crop, but cost inflation weighs on selling.
- US supplies are being called upon but are clearly insufficient to fill the capacity shortfall.
- Demand rationing appears inevitable; China crush margins have fallen, foreshadowing lower imports.

CBOT Soy was carried higher on Corn's coattails last month, rising 1.5% to USD 16.70/bu even as South America's 2021/22 harvest flowed to ports and Chinese import demand cratered to multi-year lows. We have long been bullish on CBOT Soy, with La Niña-felled South American output and consequent US export sales delivering broad price support. We see less tail risk for CBOT Soy relative to Corn, but it must remain competitive in the US spring planting rotation.

The USDA cut South American 2021/22 soy production for a fourth consecutive month in the April WASDE, but the total remains about 5m mt above market consensus. South American soy production estimates have fallen by almost 35m mt in 2021/22, nearly 40% of global stockpiles. While most of the yield declines have occurred in Brazil's southern region, Paraguayan soybean production has been decimated by dryness, falling 60% to 4m mt. Argentina's ~40m mt production implies a meager 37m mt crush (~-10% YOY) for the world's largest exporter of soy by-products. The situation is made worse by Argentina's recent soy by-product tax increase (to 33%). Protectionism is a growing threat even beyond Argentina: witness Indonesia's recent palm oil export ban.

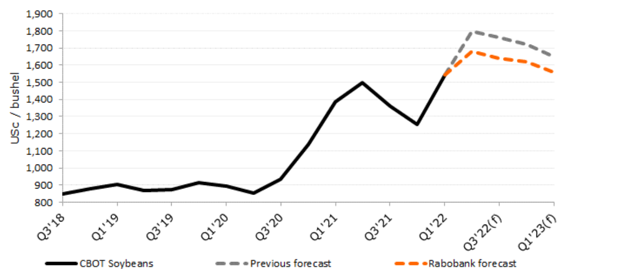
Beyond soybeans, oilseed supplies generally are in a precarious state: from the war in Ukraine (sunflower seed), to Canadian drought (rapeseed), to Malaysian production issues (palm) – the picture looks challenging for commercial buyers.

Amid the oilseed scarcity, consumers have rushed to the US, the world's G&O reserve, and soybean and soy oil export sales have kicked into high gear. The USDA raised US 2021/22 export projections for both last month, and lowered soy ending stocks to 260m bu, in line with last year's five-year lows. Brazilian exports have also picked up with harvest, but low supplies, a surging real, and input inflation will limit farmer sales and exports to 77m mt, down ~5m mt YOY. With Brazil highly dependent on Russia and Belarus for fertilizers (particularly urea), there may be challenges materially boosting soy acreage and yield in 2022/23.

CBOT Soy's rise towards record levels reflects low global reserves, but global demand is increasingly suffering as well. China's soy story has rapidly turned bearish due to low or negative hog producer margins. The country has released strategic reserves, and imports are expected to be down an enormous 8.8m mt YOY. Some European livestock producers also face margin pressure. As a result, global usage of soy is expected to fall 3% this year. Soaring meal prices will drive herd contraction and spur higher US soy acreage. Yet feed grain supplies are under greater strain. The CBOT Nov 22 Soy/Dec 22 Corn ratio has fallen to 2.0, an artificially low level that helps compensate for high fertilizer costs in corn. Weather permitting, US corn will pry acres from soy; the latter has less inflation risk due to a poor China demand outlook and a new South American harvest only 10 months away. We trim our bullish forecast for CBOT Soy to USD 15.60/bu in Q1 2023.

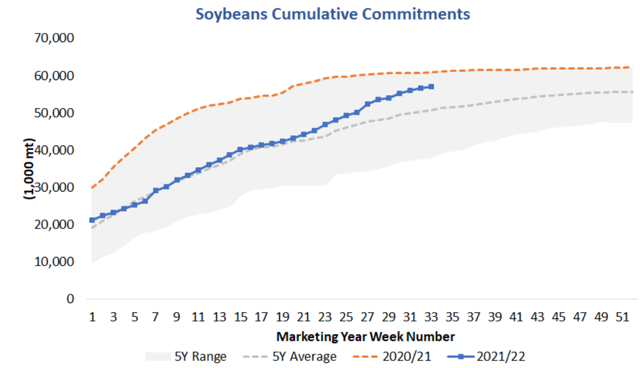
CBOT Soy rides corn's coattails

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f
Soy	USc/bu	1497	1361	1238	1580	1680	1640	1620	1560



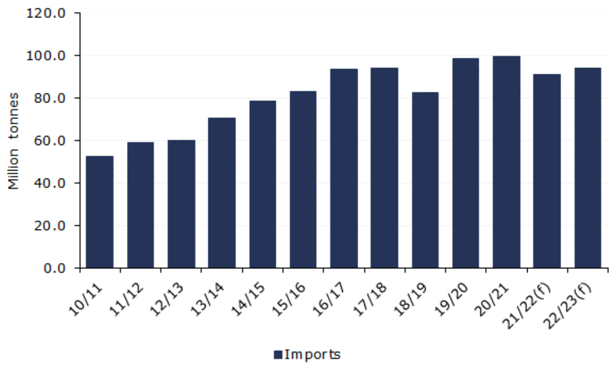
Source: Bloomberg Finance L.P., Rabobank 2022

US soy export commitments have run very strong, forcing the USDA to raise its export forecast



Source: USDA, Rabobank 2022

China's 8.8m mt annual decline in soy imports provides demand-side headwinds for CBOT Soy inflation



Source: USDA, Rabobank 2022

Soymeal and Soy Oil

CBOT Soy Oil burns bright, while Soymeal has a strong base of support amid a broader feed deficit

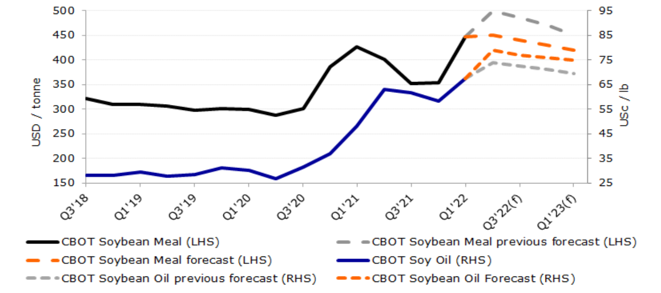
- CBOT Soy Oil is seeing high export demand amid a widespread and deepening vegetable oil shortfall.
- There are concerns that increased protectionism will further reduce availability of vegetable oils.
- Poor South American soy harvests and broader feed deficits outweigh China's lower soymeal demand outlook.

Global vegetable oil markets are flaring ever higher as war and protectionism combine to tip precarious supply into scarcity. CBOT Soy Oil rose 17% to a new record of USc 83.8/lb this month. The truth is written across supermarket shelves; cooking oil options are increasingly lean, rationed, and showing record prices. The inputs in our mayonnaise and confectionery are increasingly changing to whatever is available. It is against this sparce vegetable oil backdrop that we contend with the potential enduring absences from global markets of Ukraine and Indonesia, respectively the world's top sunflower oil and palm oil producers.

The war in Ukraine has practically switched off 5m mt of annual sunflower oil exports and highlighted supply issues from Malaysia (palm) to North and South America (soy and rapeseed). Vegetable oil buyers are insatiable, yet rather than increasing acreage or reducing historic non-food (read: biodiesel) demand, major producers are increasingly engaging in protectionism. Argentina has led the field by increasing soy by-product taxes and making exports less competitive; however, these actions pale in comparison with Indonesia's shock decision last week to block RBD palm olein exports, which account for nearly half the total. Indonesia has way more palm oil than it needs, hence its massive biodiesel mandate and exports. History shows Indonesia's decision may be walked back in short order, but the risk of protectionist tendencies will

High CBOT Soy Oil prices can rise further, Meal is supported

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f
Soymeal	USD/ton	404	352	342	446	450	440	430	420
Soy Oil	USc/lb	63.2	61.8	59.5	67.0	79.0	77.0	76.0	75.0



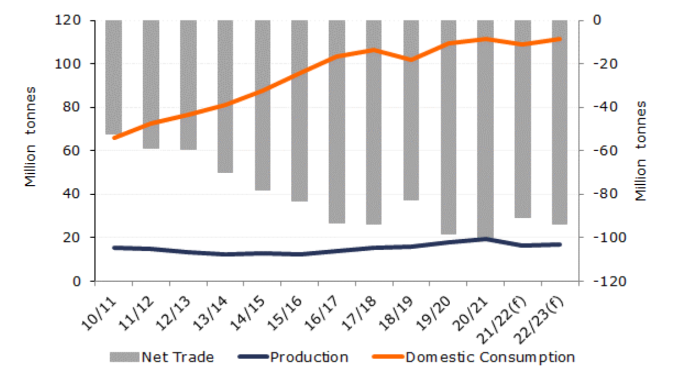
Source: Bloomberg Finance LP, Rabobank 2022

increase with inflation, unless an alternative solution is provided to support and improve global supply chains.

The US is increasingly shouldering some of the global oil shortfall, despite constraints from biodiesel (40% of demand, up from 35% last year). We've long flagged surging US soy oil export sales, which were initially caused by Argentina's diminished 2021/22 soy harvest and crush (down 10-12% YOY) but have been turbocharged in recent months. In response to soaring commitments, the USDA this month raised US 2021/22 soy oil export demand 100m lb, to 1,725m lb, and dropped ending stocks by the same amount. Brazil has also capitalized on the opportunity with greater soy oil exports (+45% YOY), but not to the extent possible due to poor harvest. We raise our bullish price outlook on CBOT Soy Oil USc 3-6/lb along the curve, to USc 75/lb in Q1 2023.

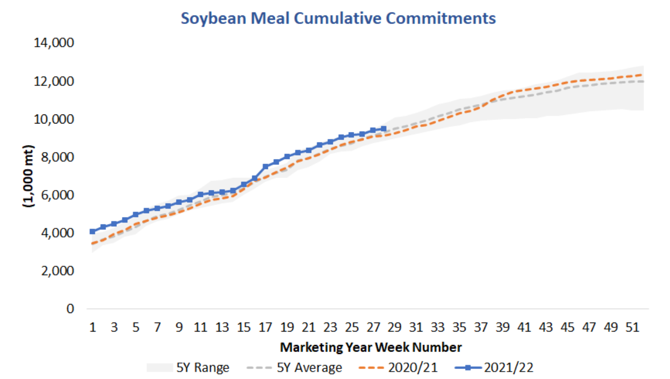
CBOT Soymeal's demand doubters increased after WASDE dropped Chinese soybean imports by 8.8m mt YOY. Soymeal will take the brunt of falling Chinese feed demand forecasts. However, we see pendulum-like price support, as buyers find feed grains to be in real scarcity. Further supporting CBOT Soymeal are the USDA's continuous drawdown of US 2021/22 soy carry-out each month and signs of healthier NOPA crush. March crush was nearly 182m bu, a record for the month and in line with expectations. Low US stockpiles of soy and feed grains underpin CBOT Soymeal near USD 420/mt into 2023. That expectation continues to reflect feed demand declines.

China's staggering 2021/22 soybean import reduction points to animal feed demand weakness - focused in meal



Source: USDA, Rabobank 2022

US soy oil commitments explode post-Ukraine invasion and are above the five-year average



Source: USDA, Rabobank 2022

Palm Oil

The impact of Indonesia's ban on palm oil exports caused volatility across vegetable oils

- Indonesia's ban on palm oil exports will control domestic cooking oil prices.
- Malaysian palm oil production shows signs of seasonal improvement.
- India's domestic edible oil inventories are at relatively high levels.

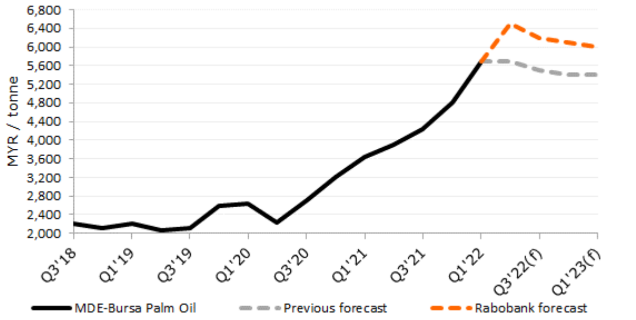
Indonesia's ban on palm oil exports will control domestic cooking oil prices. After removing palm oil export restrictions in March 2022, the president of Indonesia announced in late April 2022 that the country will stop exports of cooking oil and its raw material to control domestic cooking oil prices. Global palm oil prices rose following the announcement, as the world couldn't cope with the loss of all Indonesian palm oil export volumes, even if it's only for the short term. Following this price action and government comments, it seemed that the ban was only going to be imposed on exports of RBD palm olein, which represent about 40% of Indonesian Palm oil exports. A huge amount, but not as shocking. However, the final announcement extended the ban to crude palm oil too. The ban is expected to be temporary (otherwise Indonesia will be swimming in palm oil) but the piecemeal announcement has been causing huge volatility across the vegetable oil sector and as it does not give any certainty about the length of the ban. The uncertainty in the vegetable supply chain is huge. Let's remember we were at record prices before the Ukraine war (which wiped out Ukrainian sunflower oil exports – about half of global sunflower oil exports).

Malaysian palm oil production shows signs of seasonal improvement. Fundamentally, MPOB's March 2022 data was neutral for palm oil prices. According to the MPOB, Malaysian March 2022 palm oil production and exports increased by 24.1% and 14.1% MOM, to 1.41m mt and 1.26m mt, respectively, while palm oil inventories decreased by 2.9% MOM, to 1.47m mt. FFB harvesting activities in Indonesia and Malaysia in April and the first half of May 2022 are expected to be slower than normal due to Ramadan and Eid al-Fitr. However, we expect seasonal palm oil production increases will result in higher quarter-on-quarter palm oil production and inventories in Malaysia and Indonesia in Q2 2022.

India's domestic edible oil inventories are at relatively high levels. According to SEA India, the country's edible oil imports increased by 6.9% MOM in March 2022, to 1.05m mt. As a result, India's edible oil inventories increased by 11.7% MOM, to 2.09m mt by the end of March 2022 – the highest edible oil inventories since the end of August 2019. We expect that global palm oil prices will remain supported in Q2 2022 and that this will translate to a 'hand to mouth' buying pattern among Indian palm oil importers in Q2 2022. Meanwhile, India's 2022/23 soybean production outlook looks promising, as a normal monsoon is expected in 2022. India's 2022 kharif soybean sown area could be similar to last year's area of 11.6m hectares on the back of a normal monsoon season. This would result in a quarter-on-quarter increase in domestic soy oil availability in Q4 2022.

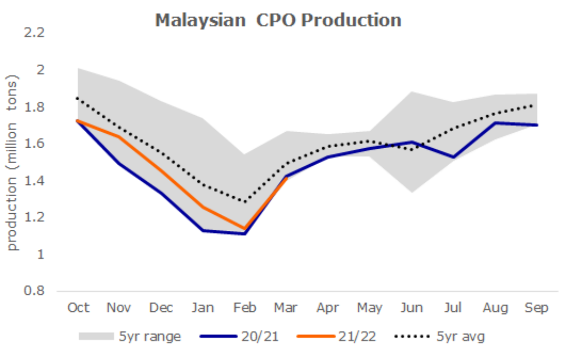
We expect palm oil prices will decrease in 2H 2022

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22(f)	Q3'22(f)	Q4'22(f)	Q1'23(f)
Palm Oil	MYR/tonne	3,850	4,246	4,807	5,750	6,500	6,200	6,100	6,000



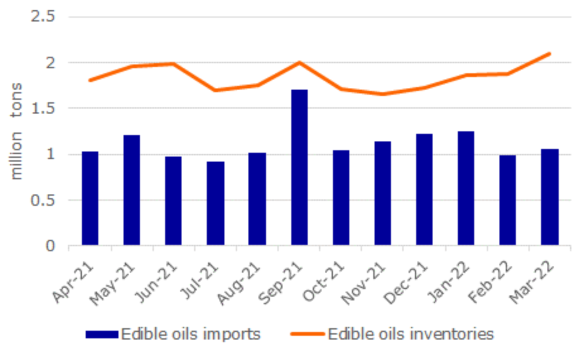
Source: Bloomberg, Rabobank 2022

Malaysian monthly palm oil production showed signs of seasonal improvement



Source: MPOB, Rabobank 2022

India's domestic edible oil inventories are at relatively high levels



Source: SEA India, Rabobank 2022

Sugar

ICE #11 Sugar prices contained by high Indian exports, but energy prices are still supportive

- Increasing expectations for Indian exports and restrained Brent prices due to Chinese lockdowns have limited upside recently.
- We maintain our price forecast, but there is a lot of uncertainty ahead. Volatile energy markets, weather, and Brazil's presidential elections almost guarantee volatility.

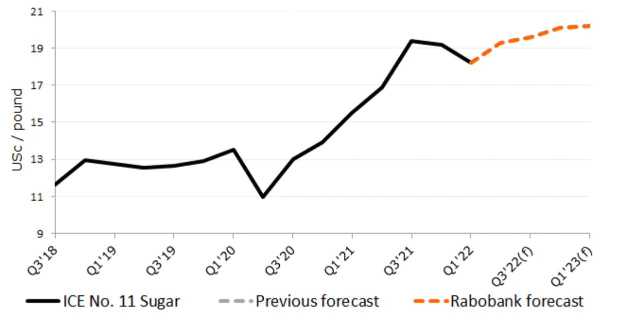
ICE #11 Raw Sugar is supported by energy prices but facing headwinds from increasing Indian export expectations. While the strength in energy has been tamed by widespread lockdowns in China for the time being, the sugar market is facing more resistance from Indian exports. India could export 9m mt in the current season, though there are some concerns the government could set some export quotas to prevent destocking. We believe this is especially likely if the expectations for a normal to good Indian monsoon do not materialize. Furthermore, Ukrainian beet plantings are reported to be rather good, avoiding the worst-case scenarios there (though, as we don't have analysts touring the area, information is rather scarce). Fertilization, however, might be subpar, as there are widespread shortages of fertilizers, and the recent bombing of train lines will make the procurement of pretty much everything difficult.

Brazil will likely provide market direction as harvested volumes increase. At the moment, the ethanol parity looks quite high at USc 22.8/lb. But ethanol prices should quiet down in the coming weeks as production volumes ramp up. With India providing more sugar than expected, the market can afford to see Brazil's sugar mix at less than a sugar max. However, the weather will be closely monitored. So far, rainfall over the past four months has been excellent in Brazil, and last year's monsoon was surprisingly good. The current La Niña is expected to weaken, but it is likely to stick around for much of the northern spring and possibly summer. This should support rainfall levels in the coming Indian monsoon, as well as in Australia. At the same time, it might support dry conditions in southern Brazil, somewhat beneficial during the harvest.

In the near term, we maintain our mildly bullish view. However, there are a few factors at play that could change this view. Another good monsoon would cement expectations for another large exportable surplus out of India in 2022/23, while expectations might continue to improve for the sugarcane crops in Brazil and Thailand. However, a halt to Russian energy exports cannot be ruled out, in which case, we could see a surge in international energy prices, which would inject more bullishness across the board. Also, fertilizer prices could result in lower fertilization among a few producers, especially smallholders in developing countries. Also competition for land will be fierce, and especially concerning in sugar beet areas and areas with a short cane growth cycle like Thailand. Add to that the uncertainty coming from the Brazilian elections, both for the FX and the domestic energy markets. In short, surprises and volatility are likely during the rest of the year.

ICE #11 Sugar prices increase amid higher energy prices

	Unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2,22f	Q3,22f	Q4,22f	Q1'23f
Sugar	USc/lb	16.9	19.3	19.3z	18.2	**19.3**	**19.6**	**20.1**	**20.2**

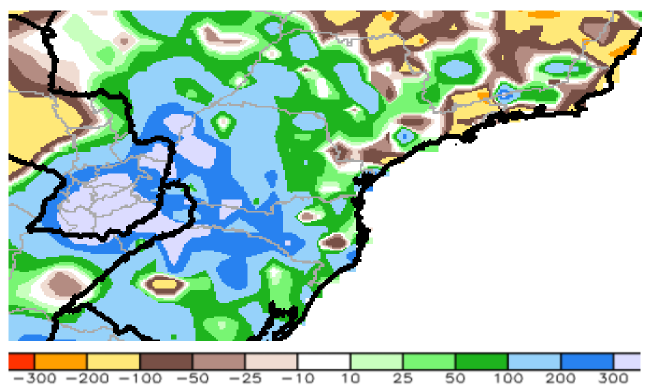


Source: Bloomberg Finance LP, Rabobank 2022

Brazilian ethanol prices are expected to drop as the harvest comes in.

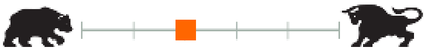
Source: Cepea, Bloomberg Finance L.P., Rabobank 2022

Rainfall in Sao Paulo and Parana has been excellent. 90-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2022

Coffee



Quiet for now, but very much awake

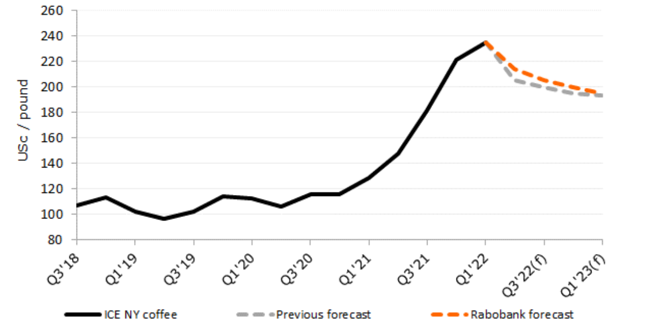
- ICE Arabica prices have remained very stable over April, on the back of a stable BRL and ICE-certified stocks.
- Demand is the overriding concern, with similar worries in the confectionary sector. Increasing chances of a prolonged war and recession in Europe lead to caution, especially given very high prices and a drop in disposable income.

ICE Arabica prices have been trading remarkably steadily over April. The second contract has tested a range of USc 216 to USc 237/lb, which is definitely volatile for normal times, but it is the smallest range so far this year. The main variables watched by the market were also stable: the BRL was stable, the ICE Arabica-certified stocks were stable and the weather in Brazil, though still on the dry side, saw some improvement vs the March dry spell, though is still on the dry side) –were also stable. Brazilian exports up to April 22 ran 25% below March exports. These preliminary estimates tend to be revised later on, but there has been a clear deceleration in Brazilian exports, which was, to a great degree, expected towards the end of the season. Colombia continues to struggle to ramp up production, with March-registered production down 13% YOY. This underpins a small increase in our arabica price forecast.

On the demand side, the market is thirsty for data. It is hard to assess demand going forward with so many variables at play. The Covid recovery might see busy coffee shops, but not all coffee shops have survived, and this varies greatly from one country to another. Even in countries with excellent data availability, sales are not comparable to last year given the different stages of the pandemic. Furthermore, the shift towards home working has become permanent in some industries, often for a couple of days a week. Working from home tends to have a small detrimental effect on consumption in countries where the share of out-of-home demand is large (like in southern Europe). Furthermore, the increase in retail prices will likely discourage consumption in a few economies.

Arabica forecast increased but still bearish

	unit	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1' 23f
ICE Arabica	USc/lb	147	181	176	235	**214**	**205**	**200**	**195**
ICE Robusta	USD/mt	1512	1911	2000	2196	**2080**	**2050**	**2000**	**1850**

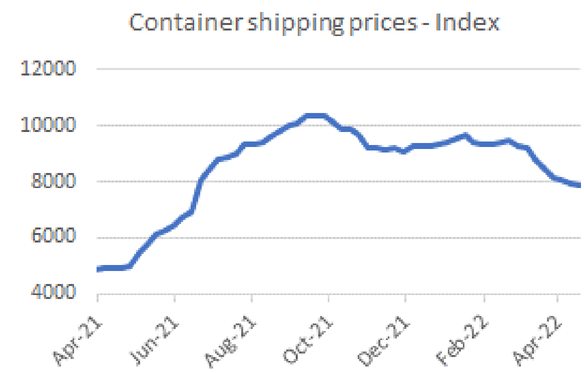


Source: Bloomberg Finance L.P., Rabobank 2022

In Brazil, the second largest consuming market, retail prices went up by 88% in the year to February 22 (even though the BRL/USD appreciated 8% during this period). The increase in retail prices was especially strong at the start of the year: up 23% during the first two months of 2022. While 2021 likely did not see a drop in Brazilian coffee demand, 2022 might bring surprises. Meanwhile, in developed markets, price elasticity is usually very small, but the same cannot be said of income elasticity. The UK is seeing the largest drop in living standards since the second world war due to the rapid rise in inflation, and while there isn't as much historical data for the EU, the drop is likely the largest in decades. EU growth for now is expected to be positive, but a potential halt to energy imports from Russia might cool down the economy into recession. A 1m to 1.5m bag drop in the Black Sea region is likely, as we expect Russian and Ukrainian demand to dip. Chinese lockdowns will also likely have a clear impact on demand, as most of the consumption there is out-of-home.

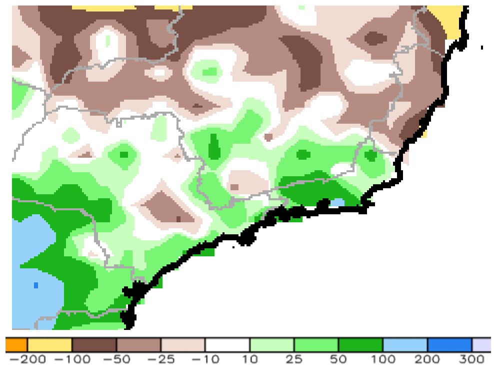
Container shipping prices have continued to go down in April, dropping by 3.4% MOM, but the lockdowns in China could change this downward trend in the near future. Apparently, many ports were isolated from the Covid lockdowns, with workers sleeping in situ, but Chinese ports, and Shanghai in particular, became significantly more congested during the lockdown period, and further bottlenecks are possible elsewhere.

Global container shipping prices could increase due to the congestion in Chinese ports



Source: Bloomberg Finance L.P., Rabobank 2022

Cerrado and Zona da Mata saw lower-than-normal rainfall volumes; 30-day rainfall anomaly (mm) to April 24:



Source: NOAA, Rabobank 2022

Dairy

Dairy and dairy products remain at near-record prices, while dairies purchasing feed off-farm face declining margins

- US milk production in Q1 2022 was down 1% compared to Q1 2021.
- Driven by tight supply and low inventory, the EU butter index reached a record high, surpassing levels seen in 2017 driven by tight supply and low inventory.
- Western Europe's milk production is lagging, largely driven by lower production in Germany and France.
- Rabobank's Rural Confidence Survey shows that Australian farmers are confident about investment intentions.

US milk production in Q1 was down 1%, or 584m lb, from Q1 2021. The year-on-year gap narrowed to 0.5% in March, aided by a 15,000-head increase in the US dairy herd, which stands at 9.395m head. This is still 87,000 head fewer than last year. Dairy cow slaughter numbers increased, somewhat surprisingly, given the strong increase in cow numbers and limited availability of replacements.

High butter prices shocked shoppers, while feed costs eroded farmers' margins. We saw a sharp rise in the EU butter average price index over April. It now sits at a record level (data dating back to 2001), surpassing the EUR 650 mark witnessed in 2017, with the price now marginally above EUR 690. The move higher follows good retail demand and a drop in bulk and packaged inventory. It also exhibits the cost-push we are seeing from the rapidly rising high input prices faced by farmers – especially those that rely on purchased feed. De-escalation of the Ukraine war does not appear likely any time soon. The supply of grains, fertilizers, and energy will continue to suffer and keep input prices elevated. The US March producer price index for dairy product manufacturing is up a whopping 19.3% compared to last year, highlighting the fact that cost increases are not just being felt at farm level but are being felt by processors as well. Canada's consumer price index saw a 16% YOY rise in butter prices, with cheese up 10% and fresh milk up 7.7%. The US consumer price index is up 8.8% from 2021, and the dairy products index is up 7%.

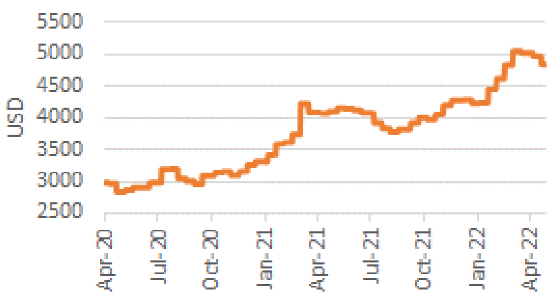
The Global Dairy Trade price index fell across the dairy board. The Global Dairy Trade price index fell 3.6% as of April 21. All products fell from lofty levels, with butter down 3.7%, SMP down 4.2%, and cheddar down 3.9%.

Chinese dry whey import demand slows. Whey prices have stabilized after a heavy sell-off in late March and early April. US dry whey exports to China were down 62% YTD February. In contrast, US cheese exports have been strong in 2022, up 13% in volume through February, with most of the increases headed to Mexico and Japan.

The current seasonal increase in western European milk production is lagging typical output. Unfavorable cold weather in Germany and France has hampered production, tightening milk supply and supporting consistent month-on-month price increases for several months. High prices would usually incentivize farmers to ramp up production. However, given the high costs of feed, labor, and farm inputs, an expansion of the dairy herd is unlikely.

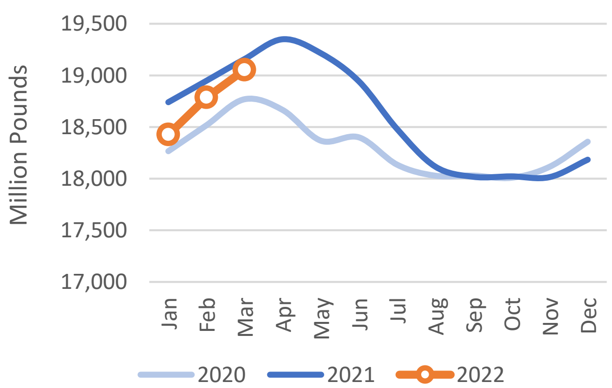
Australian dairy farmers have a high level of confidence about investment intentions, according to results from Rabobank's latest Rural Confidence Survey. Farmgate milk prices are at record levels, buoyed by strong global demand. However, they still remain susceptible to sky-high input prices, in addition to labor issues, so expansion is likely to remain limited at best. There are also risks to global dairy prices given the unknowns surrounding future lockdowns and the ongoing war in Ukraine.

The GDT Index has been in a strong upward one-year trend



Source: Bloomberg, Rabobank 2022

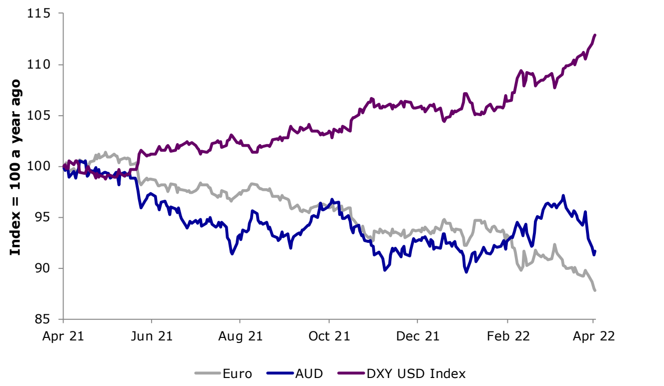
US milk production (30-day months)

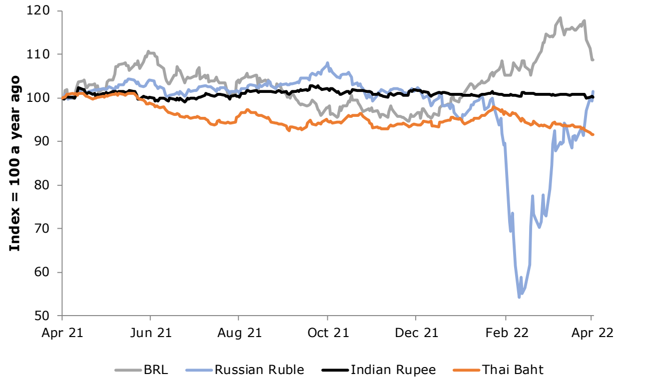


Source: USDA, Rabobank 2022

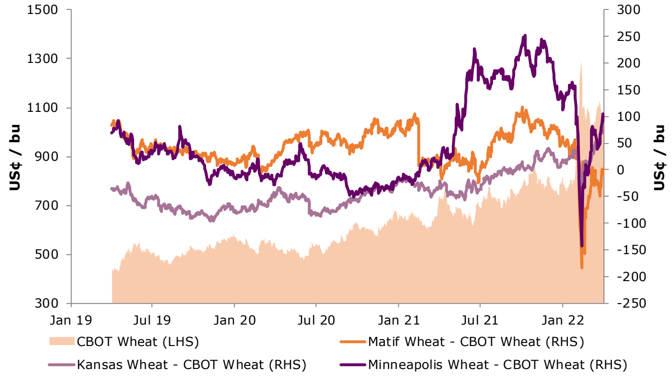
Agri Charts

Global Currencies USD Cross

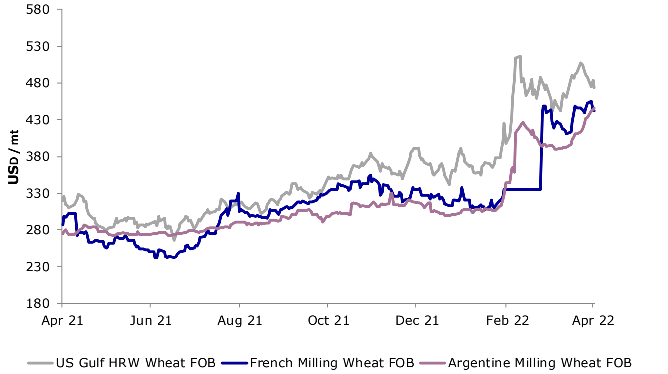




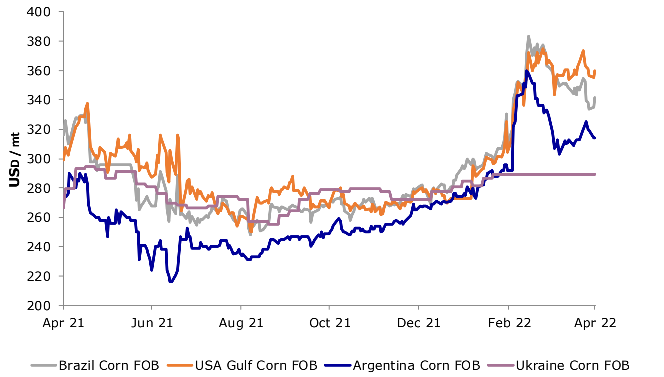
CBOT Wheat Spreads



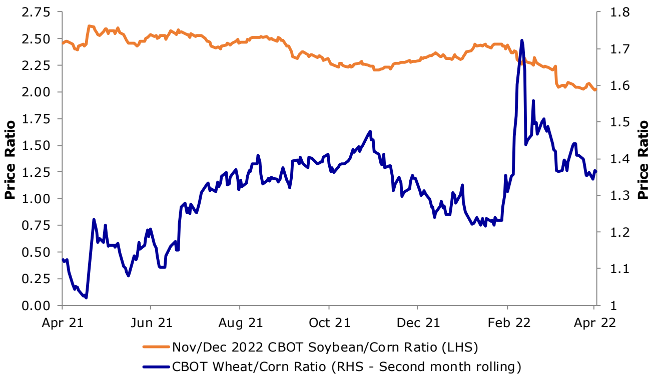
Wheat Protein FOB Prices



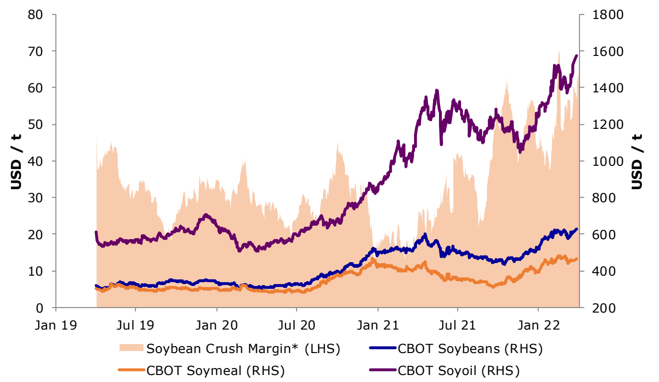
Corn FOB Prices



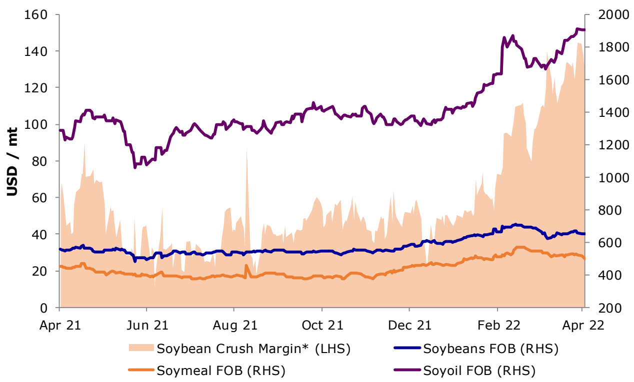
CBOT Ratios



CBOT Soybean Crush Margin



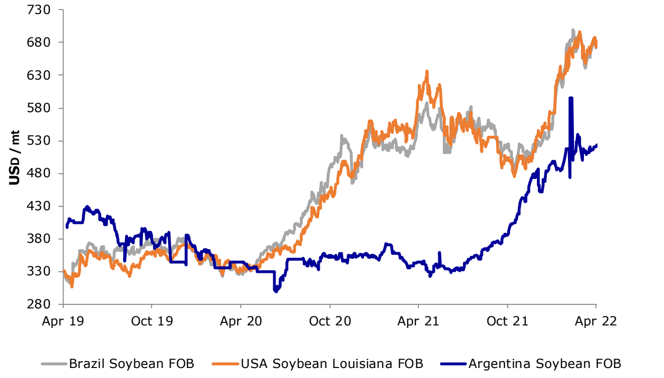
Argentina FOB Soybean Crush Margin



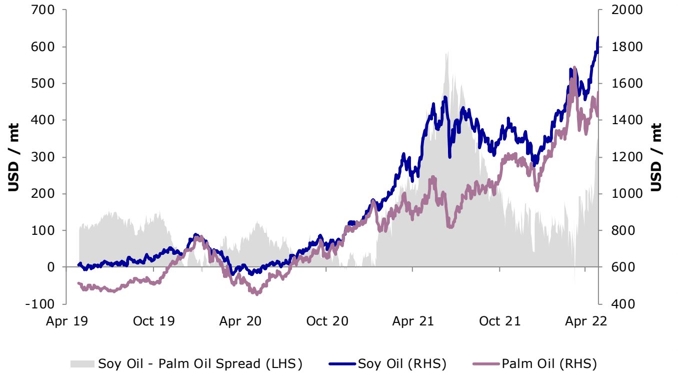
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

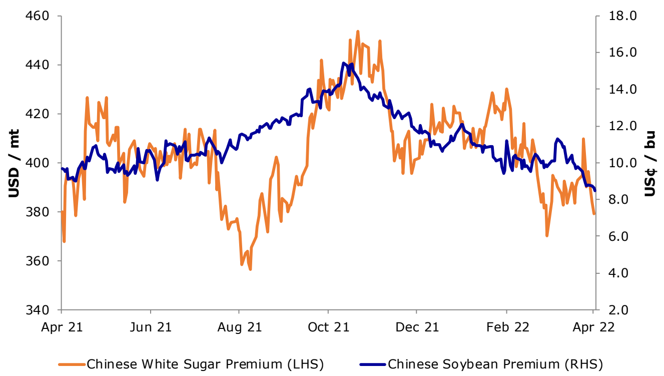
Soybean FOB Prices



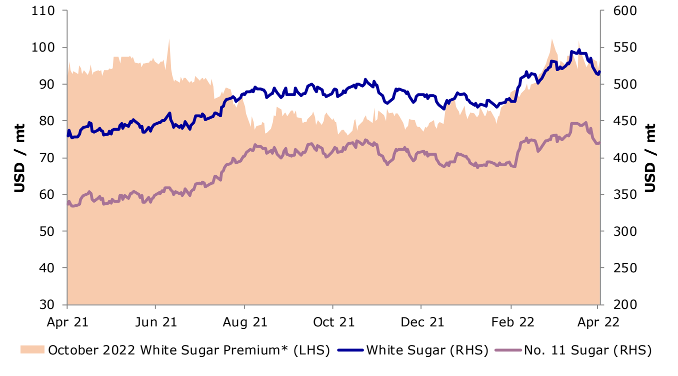
Palm Oil - Soy Oil Spread



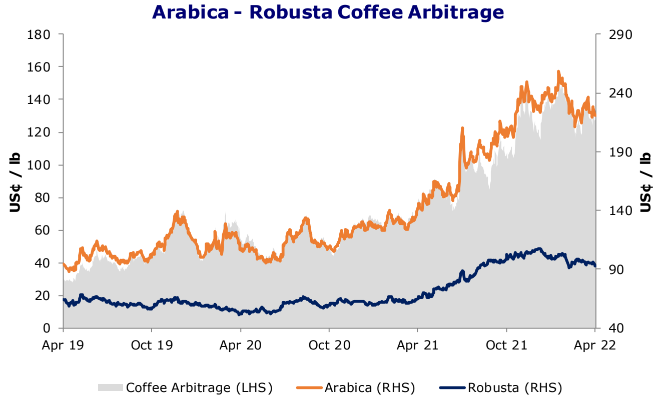
Chinese Futures Premiums



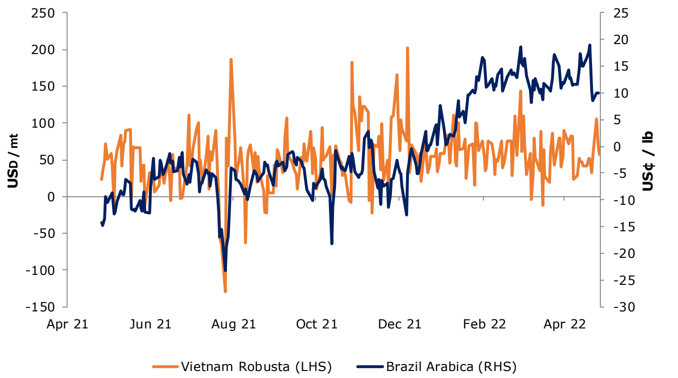
White Sugar Premium



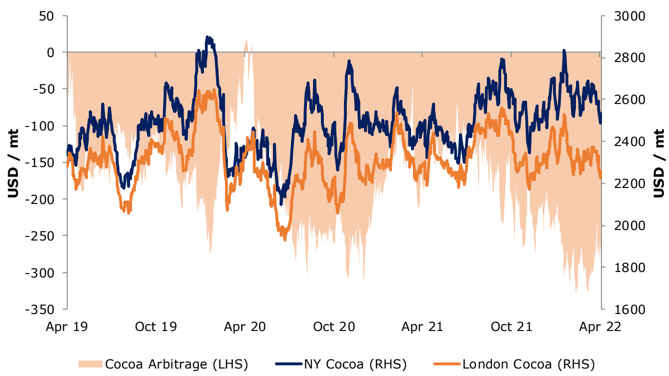
Arabica - Robusta Coffee Arbitrage



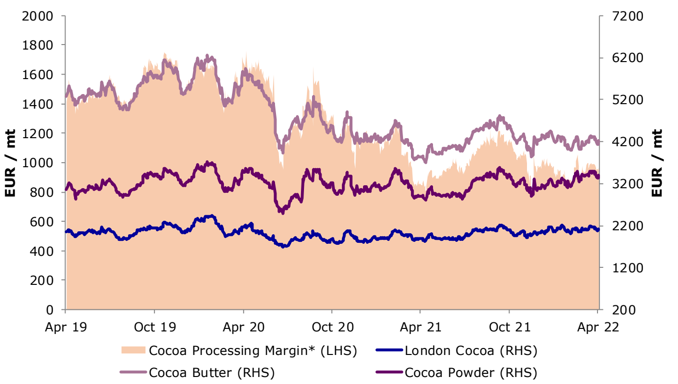
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

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

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A summary of the methodology can be found on our website