Rabobank

Agri Commodity Markets Research

February 2021: La Niña and the Ox

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Our title is not a children's fable but a reference to two major forces that have caused tightness in many agri commodities and pushed prices to multi-year highs. La Niña upended weather in key producers like Brazil and Argentina and threatens to continue to cause havoc in 2021, as recent cooling of the Pacific seems to indicate it could continue for longer than expected. Meanwhile, unprecedented and long-lasting import demand is being generated from China, which is celebrating the year of Ox. G&O exporters in particular will be stretched by Chinese and Covid-emergent global demand and farmers will maximize acreage in response. Strong harvests will not reflate G&O balance sheets but rather keep global demand from rationing... with low stocks volatility is likely.

WHEAT

Rabobank's CBOT Wheat forecast is broadly maintained on damage from freezing and possibility of La Niña through spring

- Freezing temperatures in the US have likely caused some winter kill damage.
- La Niña has the potential to strengthen in the spring and stick around longer than previously expected.

SUGAR

Logistical delays lead to steep backwardation

- Raw Sugar continued its upside trend, but the start of the harvest in Brazil should alleviate the tightness.
- The upside is replicated in a number of commodities, but demand has also been very strong.
- Weather continues to be a little drier than normal in cane areas, increasing concerns about yields.

CORN

Record world demand and the impending battle for acres raise price risks beyond 2021

- Staggering Chinese demand, with >6m mt of US corn bought last month – and more to come.
- Disruptive weather is pushing Brazilian farmers on the back foot and threatening safrinha corn planting.

COFFEE

We increase the price forecast for arabicas, but keep robustas relatively unchanged

- Brazilian weather has been improving, but rainfall continues to be in deficit.
- Demand recovery may take some time.
- Delayed shipments from Vietnam and high shipping rates may result in robusta volatility

SOY COMPLEX

Soybeans have turned to string beans amid Chinese buying frenzy

- Brazilian rains helped improve soy production prospects but are now causing harvest delays.
- Chinese demand has made US soy barren. Soy must remain competitive with corn and grow acreage.

COCOA

Cocoa forecast mostly unchanged, with potential for a good 2021/22 crop

- Good weather continues to boost West African crops, with the potential for a record crop in Côte d'Ivoire.
- Lockdowns and a Covid-19 resurgence in Q1 2021 will likely have limited further cocoa grind recovery.

PALM OIL

Relatively low Malaysian palm oil inventories will continue to support prices in Q1 2021

- Malaysian Q1 2021 palm oil inventories lower YOY
- Indian 2021 palm oil demand growth may be limited.
- The spread between palm oil and gas oil remains wide.

COTTON

ICE #2 Cotton broke above USc 90/lb on technical factors – fundamentals to lend support through 2021

- Bullish factors: US dollar weakness, the volume of unfixed on-call mill sales, and demand urgency.
- Late-year price direction is set to be dictated by US 2021 acres and production.

Wheat

Rabobank's CBOT Wheat forecast is broadly maintained on damage from freezing temperatures in the US and the possibility of La Niña through spring

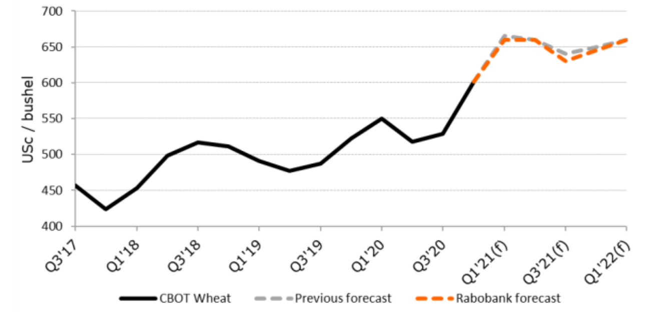
- Freezing temperatures in the US have likely caused some winter kill damage.
- La Niña has the potential to strengthen in the spring and stick around longer than previously expected, which may cause dry weather during crop development in the US.
- Good demand may result in global ending stocks being lower year on year, as the USDA increases demand estimates for China.

This month saw freezing temperatures all over the US Great Plains, with temperatures reported as low as -29°C in Kansas. There has likely been some permanent damage to winter wheat in areas where snow cover was thin, and with the threat of La Niña continuing longer than expected and potentially worsening in June, US wheat production may show a greater year-on-year decline in 2021/22 than previously estimated. Certainly, stocks are heading down to thin levels both in the US and the EU, despite a global surplus of wheat. Going forward, the market will be quite sensitive to any potential further downgrade to crops currently growing, and this is especially so when it comes to US and EU crops. But if these crops develop well, we might see some price downside as they come in. Therefore, our price forecast is for lower prices ahead, similar to the forward curve.

The potential for a longer-than-expected La Niña could lead to higher CBOT prices, as it is historically associated with drier-than-normal weather in the southern US and Central Plains that has the potential to reduce yields for winter wheat and to a lesser extent spring wheat. However, current high prices for soybeans and corn may put additional pressure on spring wheat acreage expansion. Historically, La Niña has coincided with an average -2.8%

Wheat price broadly maintained, harvest pressure seen in Q3'21

	unit	Q2'20	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
CBOT	USc/bu	518	529	602	660	660	630	645	660
Matif	EUR/mt	190	186	208	230	230	210	215	220



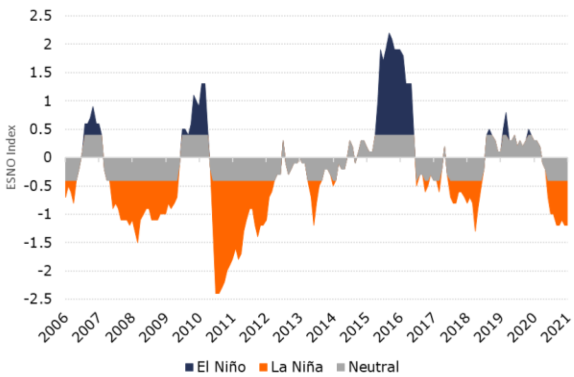
Source: Bloomberg Finance L.P., Rabobank 2021

reduction in US production. As always, La Niña-related effects on crops are never certain, but the expectation of a longer-lasting La Niña has the potential to trigger further speculative activity in wheat, among other commodities.

China may lead increases in demand in 2020/21 and 2021/22, with potential for lower global ending stocks. This month's WASDE showed a large expected increase in Chinese wheat consumption, as wheat is expected to be used to a greater extent in animal feed. Total consumption rose to a record 140mmt, a 14mmt increase YOY. Though expected to almost double year on year, according to USDA estimates, imports remain well below record at 10mmt.

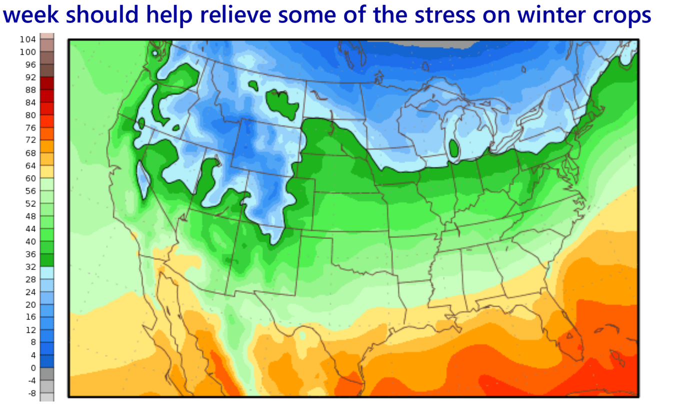
Australian 2020/21 production was likely a record and has potential to do well in 2021/22 if global weather patterns continue. Official estimates rose this month to a record 33.3mmt, an increase of 120% YOY. With high export prices, good rainfall in recent months, and global weather patterns expected to continue for at least the next quarter and potentially longer, Australian wheat production will likely be maintained near record levels in 2021/22. Elsewhere, Europe also appears to be in good shape, with moisture levels above the long-term average. However, eastern Europe and the Black Sea will face cold weather in the coming weeks, with limited snow cover in parts of Russia raising freeze risk.

The current La Niña could develop to be similar to that of 2007-2009



Source: NOAA, Rabobank 2021

A return to more normal temperatures in the US from next week should help relieve some of the stress on winter crops



Source: COLA, Rabobank 2021 (°F) mean temperature to March 3

Corn

CBOT Corn has arrived at Rabobank's bull Q1 call of USD 5.40/bu. Record world demand and the impending battle for acres raise price risks beyond 2021

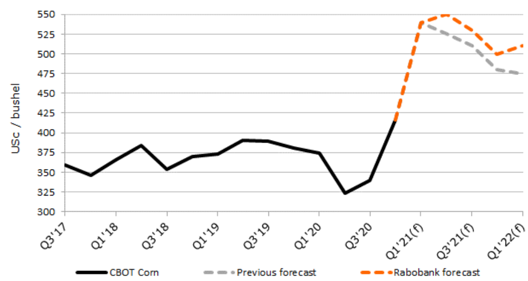
- Staggering Chinese demand was on display, with >6m mt of US corn bought last month – and more to come.
- Disruptive weather is pushing Brazilian farmers on the back foot and threatening safrinha corn planting.
- US farmers will plant far and wide on good prices, but consumers are unlikely to find satisfaction in 2021.

China is celebrating the Year of the Ox – and the feast has corn on the menu. Caught between a structural deficit in corn and surging prices, the nation is expected to buy nearly 45mmt of feed grains (+250% YOY) this year, including ~30mmt of corn (+430% YOY), making it the pre-eminent global importer and singlehandedly raising world trade by ~15%. Most of that demand has fallen on the US, which has managed to shoulder the burden. With seven months left until the new US harvest and export commitments running at 90% of full-year estimates of 2.6bn bu, scant scope is left to absorb further demand. Indeed, the unexpected surge in procurement has combined with a poor US harvest (Covid-lowered acreage and poor 172 bu/acre yields) to drop end stocks by 32% to seven-year lows. Most concerning of all is that China's new demand isn't a one-off – Rabobank expects it could import 35m-40mmt of feed grain per year through the next decade. A resumption of world buying or US ethanol demand could tip the scales to scarcity.

CBOT Corn's streak stretched to a seventh month and prices just shy of seven-year highs of USD 5.60/bu as the erosion of US corn supplies reached its tipping point. With supplies so front-loaded and US stocks-to-use at an uncomfortable 9%, CBOT Corn has entered intense backwardation, and spreads with soy, cotton, and wheat show it competing heavily for 2021 spring real estate. In November, Rabobank noted that acreage would need to be over 181m acres (likely in a 93m corn/88.5m soy acre split) with decent

US corn stocks continue to erode, supporting CBOT prices

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Corn	USc/bu	323	337	417	540	550	530	500	510

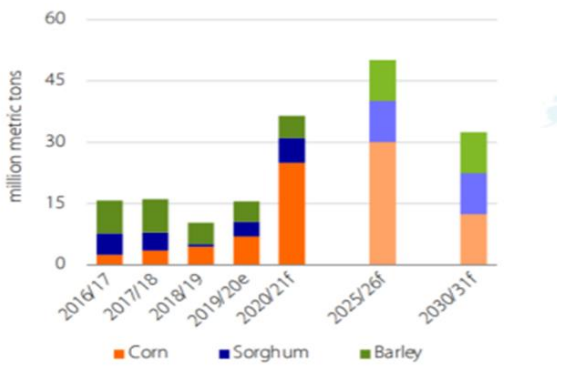


Source: Bloomberg Finance L.P., Rabobank 2021

yields to keep the market balanced in 2022. In the USDA's first preview of the 2021/22 season, they bolstered our view with a 92m corn/90m soy acre split. Even with this record combined acreage (5% higher YOY), trend yields were barely sufficient to maintain ending stocks at current low levels. The USDA's March Planting Intentions can diverge from those numbers but will still struggle to satisfy need on soy and corn. The coming year (at least) will see corn balanced on the precipice – with normal weather providing only defensive opportunities and even small drops in yield capable of pushing supplies into rationing territory. With strong concerns about La Niña-associated spring dryness and the US NOAA three-month outlook in agreement with dry, hot weather over portions of corn acreage, Rabobank maintains expectations for the back end of the curve to rise in the likely absence of stocks reflation.

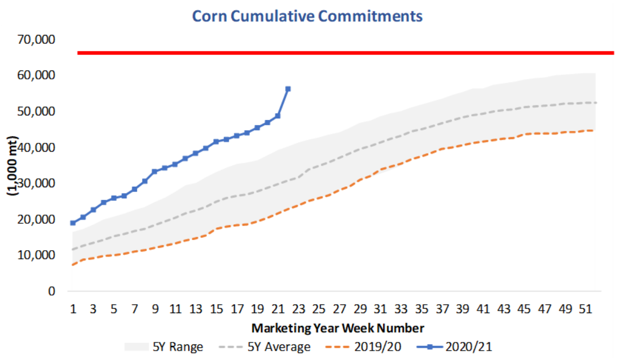
Brazilian farmers are seeing delays push safrinha corn into a yield-penalizing late period. If these rains continue, farmers will be unable to achieve their desired higher acreage or yield. Conversely, Argentina is again facing dryness. In the near term, there's little expectation for heavy farmer selling (Brazilians are already heavily sold on the unharvested crop) or profit taking by funds of their ~360k-lot net long position. Farmers and Non-Commercials will be patient profit-takers, and wary grain consumers will seek entry points through a drawn-out resupply period. We've seen this already with Commercials gladly accepting fund shake-outs with both hands. CBOT Corn has no margin for error and will be supported next year above USD 5.00/bu, with price upside risk to USD 6.50/bu.

China's world-beating surge in feed grain demand is expected to continue for years



Source: Rabobank 2021

US Corn export commitments are at 90% of their 20/21 target with 8 months of supply risk before new harvest



Source: USDA, Rabobank 2021

Soybeans

Soybeans have turned to string beans amid Chinese buying frenzy, while Brazil harvest delays and US acreage limitations threaten to raise price risks on the curve

- Brazilian rains helped improve soy production prospects but are now causing historic delays to harvest.
- Chinese demand has made US soy barren. CBOT Soy must remain competitive with corn and grow record acreage in 2021 for supplies to keep up with demand and avoid rationing.

The arrival of timely rains in South America last month held global soybean supplies aloft and CBOT prices steady, just shy of seven-year highs – and Rabobank's base case forecast – of USD 14/bu. The USDA has cut stocks to 120m bu, and their most recent 2021/22 outlook echoes our call for an historically competitive G&O landscape extending US soy stock scarcity into 2022. Rabobank reiterates its bullish call for CBOT Soy; consumers awaiting pullbacks will need bumper harvests and uninterrupted logistics across grains & oilseeds – a combination that appears highly improbable.

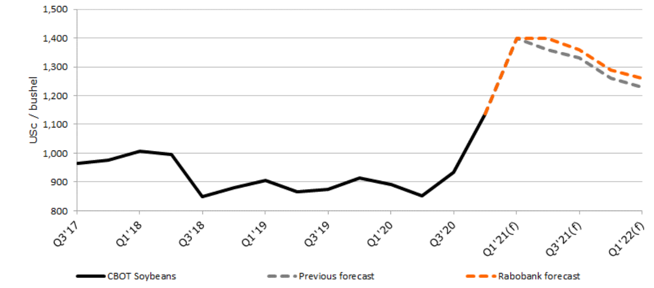
The 2021 production odyssey will see little let-up with the late arrival of rains and Brazil's soy harvest. Certainly, Brazil's and Argentina's soybean pods enjoyed the late juicing, and harvest is now expected to be in the range of 133mmt and 47mmt, respectively, near USDA estimates. However, consumers looking south for respite are unlikely to find much amid historic Brazilian soy harvest delays (~20% completed, about half the average pace) and a conspicuous absence of farmer selling pressure. Brazilian farmers were already heavily sold on this crop (about 20 points more than normal), so delays will leave them wary and spot buyers exceedingly nervous. With farmers loath to sell and Non-Commercials likely to remain in their long positions, it's tough to see where Commercials will get their price breaks on CBOT Soybeans.

China's massive import program has not just turned US soy into string beans, it has also made baby corn out of the world's largest supplier of the golden feed. Following last month's record procurement, 2020/21 US corn ending stocks are likely to see a decline near to an uncomfortable 1.3bn bu. As a result, the key November 2021 CBOT Soy/December 2021 CBOT Corn spread has fallen from 2.8 to 2.55. Amid an increasingly competitive G&O landscape, corn has put its best foot forward. While we expect CBOT Soybeans – which face the highest risk of rationing – to push higher, we'll likely see US soy acreage growth stymied to below 90m acres, which is not enough to initiate a stocks reflation. Most concerning is the current La Niña weather – which threatens corn and soy alike – and the US NOAA forecast for dry, warm conditions in the coming three months that could make the spring 2021 US harvest face an uphill battle.

Soy demand is expected to remain strong in China amid high pork prices and the broader restocking effort – with imports running to 100mmt in 2020/21 and potentially 108mmt next year. In the US, meanwhile, near-record NOPA crush (184.65m bu) and rebounding crush margins signal unexpectedly good domestic demand for meal and oil amid a slowdown in exports. Even amid strong US pork prices and tight vegetable oil stocks, there is reason to believe US crush will not remain as elevated for the small stocks that are left. With nearby prices near our target, Rabobank's CBOT Soy price forecast is left largely unchanged, with expectations for prices to rise USc 30-USc 40/bu along the back of the curve, reflecting likely weather adversity and strong incentives for US soy acreage growth.

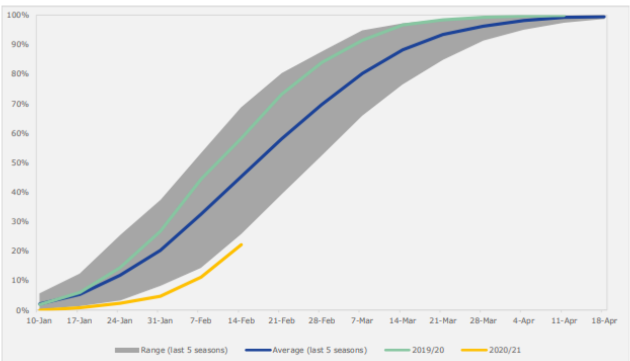
CBOT Soy supported along the curve by supply constraints

	Unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Soybeans	USc/bu	851	925	1135	1400	1400	1360	1290	1260



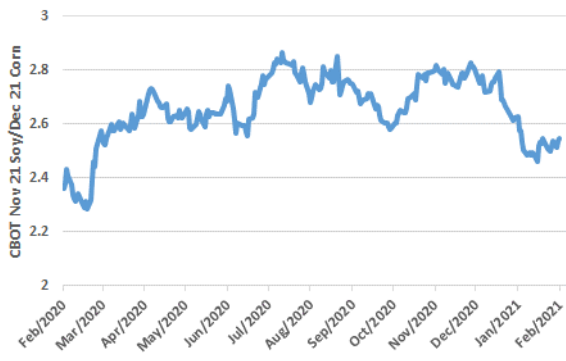
Source: Bloomberg Finance L.P., Rabobank 2021

Mato Grosso soy harvest is heavily delayed and more rain in the forecast could exacerbate quality and logistics issues



Source: Inmet, Imea, Rabobank 2021

Following shock US corn sales, CBOT Soy-Corn ratio is again moving above 2.5 to 'buy' soy acreage and avoid rationing



Source: Bloomberg Finance L.P., Rabobank 2021

Soymeal and Soy Oil

CBOT Soy Oil outperformed meal and beans amid widespread vegetable oil tightness, but southern hemisphere resupplies may temper further rallies

- High US soy prices and South American crop stabilization limit unsustainable strain on US export demand.
- US domestic use of meal and oil has been resilient to Covid, and lockdown emergence will grow demand further.
- US by-products have a strong base of support amid low world oilseed supplies and acreage competition this year.

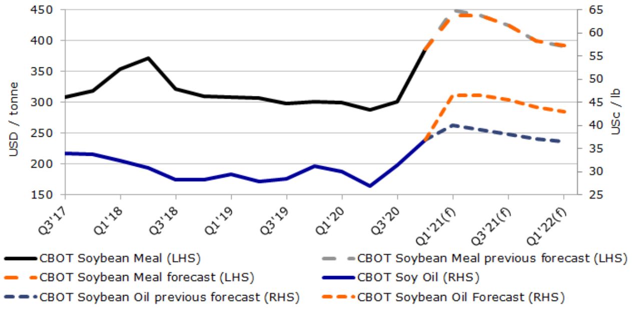
CBOT Soy Oil was golden last month, and not just in color, as the commodity rose 13%, near eight-year highs of USc 49/lb, amid oilseed and vegetable oil tightness. Concerns about soy oil's earlier underperformance weakening crush margins were washed away by massive US biodiesel use (+100m lb MOM and +450m lb YOY) amid the pandemic and widespread global supply tightness in alternative vegetable oil markets. Besides CBOT Soy Oil, Malaysian palm oil, EU rapeseed, and Canadian canola prices are all at multi-year highs amid high oil demand from China (including for use as animal feed) and acreage competition from alternative crops, especially wheat. Rabobank has expected South American supply replenishment to weaken US soy oil export sales – and they did – recently falling below the five-year average. Although harvest is delayed, South American March FOB premiums for soy oil are lower than the US. Lower export sales have simply been outweighed by oil scarcity, resurgent Brent crude prices, and strong demand in the US.

Amid a bullish supply environment, US soy oil's share of crush rose an incredible 16% MOM, to six-month highs, and single-handedly lifted crush margins to support a continuation of near-record output. Normally, this would carry glut risks for US soy oil – and indeed NOPA reported stocks have risen a fifth straight month, to 1.8bn lb, on the crush program. However, they remain 12% lower YOY. More importantly, soybean ending stocks are projected 79% lower YOY and are expected by Rabobank, and more recently the USDA, to remain there through 2022. The historic tightness in vegetable oil markets should ease as palm oil productivity rises in Q2 and the South American soy harvest accelerates, but solid fundamentals and speculative interest will keep the CBOT Soy Oil price floor above USc 43/lb into 2022.

CBOT Soymeal's price treaded water last month, near Rabobank's USD 430/mt Q1 target, after better rainfall lifted Argentine and Brazilian soy yields, helping crushers discount meal FOB premiums, and cooled US export sales demand below the five-year average. Although price dynamics have stalled, we remain fairly bullish along the curve. South American harvest sales pressure is unlikely to accelerate, with Brazil's harvest facing delays and sold in advance. In Argentina, farmers remain hoarders amid tight currency controls and policy uncertainty. Meanwhile, global demand appears set to rebound from the pandemic, with domestic US demand already flying high; CBOT Lean Hog prices are near two-year highs, and NOPA recorded the second largest crush on record (184.65m bu) in January. La Niña continues to pressure feed supplies, and with NOAA expecting warm, dry conditions in Q2 in the US, G&O plantings could be complicated. Supplies are incontrovertibly tight, with the USDA expecting strong soy acreage and yields to at best keep 2021/22 US soy ending stocks near seven-year lows. CBOT Soymeal should remain on solid footing along the curve above USD 390/mt into 2022.

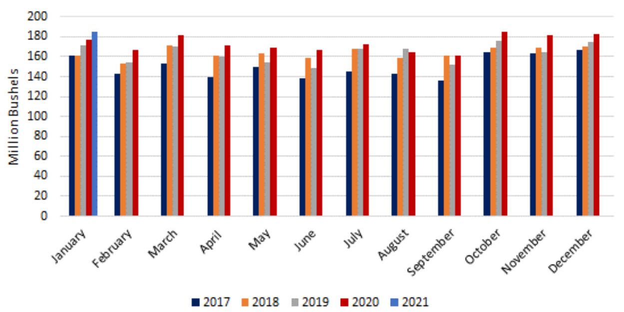
CBOT Soy Oil supported by scarce vegetable oil supplies

	Unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Soymeal	USD/tonne	288	297	386	440	440	425	400	392
Soy Oil	USc/lb	26.9	31.3	36.8	46.5	46.5	45.5	44.0	43.0



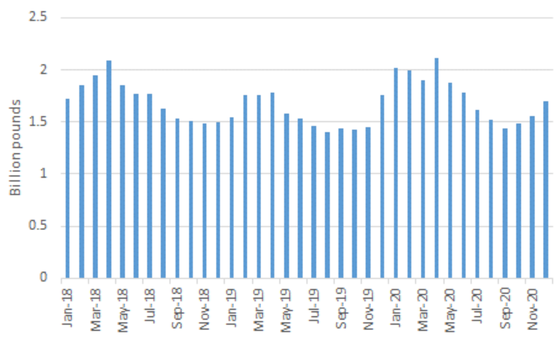
Source: Bloomberg Finance L.P., Rabobank 2021

NOPA crush recorded the second highest US crush on record in January, which augers well for 2021 demand



Source: NOPA, Rabobank 2021

US soy oil stocks have now risen four consecutive months on a on strong crushing, but remain 12% lower YOY



Source: NOPA, Rabobank 2021

Palm Oil

Relatively low Malaysian palm oil inventories will continue to support palm oil prices in Q1 2021

- Malaysian Q1 2021 palm oil inventories will be lower year on year.
- Indian 2021 year-on-year palm oil demand growth may be limited.
- The spread between palm oil and gas oil remains wide.

Malaysian Q1 2021 palm oil inventories will be lower year on year. According to the MPOB, Malaysian January 2021 palm oil production decreased by 15.5%, to 1.1mmt, the lowest Malaysian January palm oil production in the past five years. Meanwhile, Malaysian January 2021 palm oil exports decreased by 42%, to 947,000mt. As a result, Malaysian January 2021 palm oil inventories increased by 5% MOM, to 1.3mmt. We expect Malaysian February 2021 palm oil production will remain relatively low, while Malaysian palm oil exports for the same month are expected to improve month over month. Importers continue their palm oil procurement in February 2021 after slowing their activities in January 2021. This will keep Malaysian palm oil inventories at a relatively low level in Q1 2021, which provides continuing support to Malaysian benchmark futures prices. According to ITS, Malaysian palm oil exports for the first 15 days of February 2021 increased by 27% MOM, to 531,000mt.

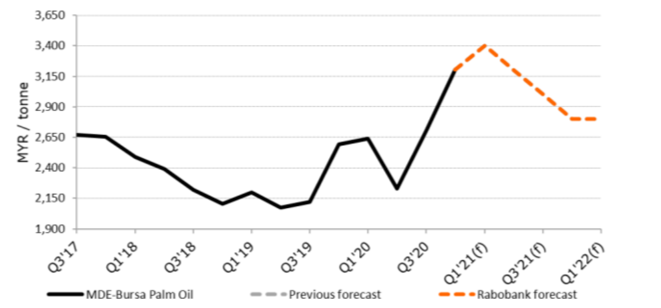
Indian 2021 year-on-year palm oil demand growth may be limited. The combination of high global palm oil prices and the Indian government's recent revisions to vegetable oil import tariffs may limit the country's palm oil import demand in 2021. In February 2021, the Indian government reduced the import duty structure on CPO to 15% but introduced a new levy called Agriculture Infrastructure and Development Cess at 17.5%. This, combined with the Social Welfare Surcharge, translates to a total Indian CPO import tariff of 35.75%, which is 5.5% higher than the previous tariff. At the same time, the import tariff gap between CPO and crude soft oils narrowed to 2.75%, as compared to 8.25% previously, which could reduce the competitiveness of CPO's landed price in India as compared to crude soft oils. The spread between CBOT Soy Oil active contract prices and MDE-Bursa Palm Oil active contract prices, however, remains wide at around USD 120/metric ton in mid-February 2021. Hence, in the short term, CPO is still more competitive in India compared to crude soy oil.

The spread between palm oil and gas oil remains wide. Even though Brent crude oil prices have recovered above USD 60/bbl in February 2021, the spread between MDE-Bursa Palm Oil and ICE Gas Oil #1 contract prices remains wide, at around USD 400/metric ton in mid-February 2021. As a result, a large amount of incentives are still needed to support the implementation of the biodiesel mandate in Indonesia in 2021.

La Niña impacts will continue in Q2 2021. In its February 2021 report, WMO forecasted a 65% chance of La Niña weather continuing February through April 2021, even though La Niña reached its peak in Q4 2020. This will translate to heavy precipitation in Southeast Asia in Q2 2021, which is beneficial for the seasonal palm oil production upcycle in Indonesia and Malaysia in Q2 2021.

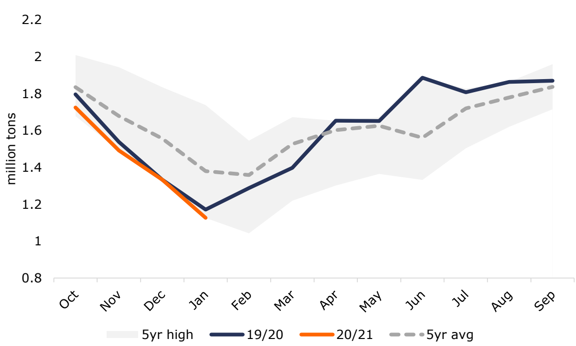
We maintain our 2021 palm oil price forecast

	Unit	Q2'20	Q3'20	Q4'20	Q1'21(f)	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)
Palm Oil	MYR/ton	2,639	2,229	3,205	3,400	3,200	3,000	2,800	2,800



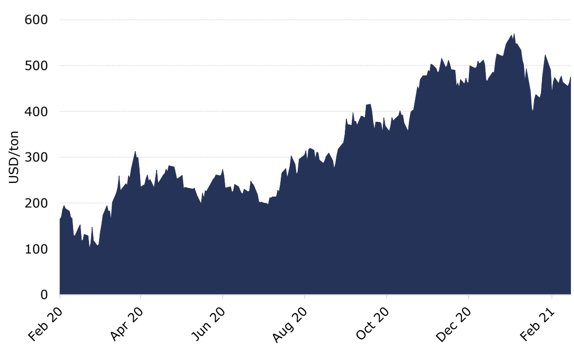
Source: Bloomberg Finance L.P., Rabobank 2021

Malaysian February 2021 palm oil production will remain relatively low



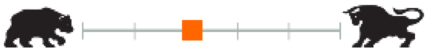
Source: MPOB, Rabobank 2021

The spread between palm oil and gas oil remains wide despite recent crude oil price recovery



Source: Bloomberg Finance L.P., Rabobank 2021

Sugar



Logistical delays lead to steep backwardation

- Raw Sugar continued its upside trend, but the start of the harvest in Brazil, even if delayed, should alleviate the tightness.
- The upside is replicated in a number of commodities, but demand has also been very strong.
- Weather continues to be a little drier than normal in cane areas, increasing concerns about yields in the coming season.

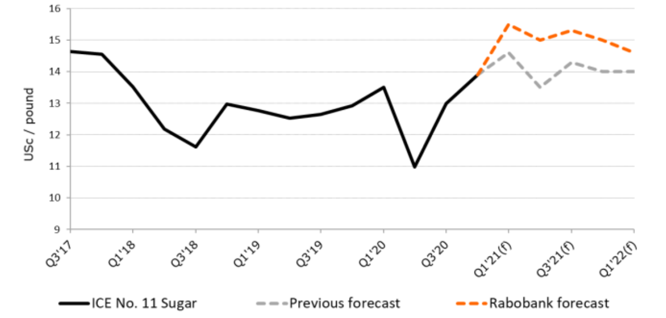
ICE #11 Raw Sugar continued its upside trend, with the March contract climbing USc 2 so far in February, to USc 18.4/lb, and sending the forward curve into a sharp backwardation. It continues to be drier than normal in Brazil's cane areas, and at the same time, domestic ethanol prices rose together with diesel and petrol in Brazil. The ethanol parity rose to USc 14.5/lb, and domestic ethanol prices are reaching record highs in Brazilian reais. Some recent comments and actions from the Brazilian president lead us to believe that ethanol prices will stop growing for the time being, but the possibility that this season will not be completely max sugar cannot be ruled out. As ethanol prices in the US are strong and the harvest in Brazil is expected to begin a little later than usual (as farmers will probably let the cane grow a little longer), the ethanol parity might not fall as much nor as fast during the harvest as in previous years. Meanwhile, on the demand side, expectations continued to improve, with Indonesia allowing a raw and a white sugar quota early in the season (another example of 'just in case'). This strength in demand is likely to continue for as long as supply chains are under strain.

Logistics at play. With the steep increase in container shipping rates, exports of white sugar out of India are said to be slowing down. This reinforces the scarcity of whites in the short term, and we see little chance of the white premium going below USD 70/metric ton in the current season. On top of this, bulk shipping rates have also been increasing, though not as astronomically as container rates. With high and volatile shipping rates, taking delivery could be a risky proposition.

Physical tightness to be alleviated ahead. We maintain the view that funds will likely continue to stay long in the market. 2021 has seen record net long Non-Commercial positions across agricultural commodities, while sugar funds remain below record levels but still surprisingly large. As central banks' reference interest rates are forecasted to stay depressed through 2021 and beyond and as inflation expectations remain high, we doubt there will be any significant reversal of the speculative position. However, on the physical side, we see less tightness ahead. While Brazil will likely be producing another decent sugar amount, Thailand is expected to have a significant, though not full, recovery. The EU and Russia should see better production, assuming normal weather and less interest in growing wheat in Russia given the new export taxes. Even India could see production a little higher in the coming season. And, if Covid deaths come down, as much of the vulnerable population gets vaccinated, supply chains will probably also be less stressed. Therefore, processors might not feel compelled to work with extra working stocks. Our declining price forecast reflects this.

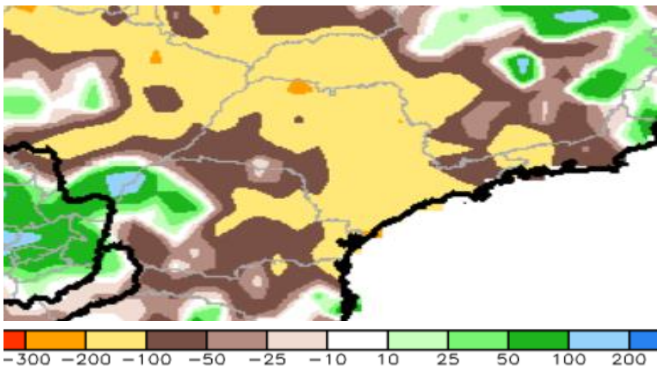
ICE #11 Sugar price forecast increased, but still bearish raws

	Unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Sugar	USc/lb	11.0	13.0	13.9	15.5	15.0	15.3	15.0	14.6



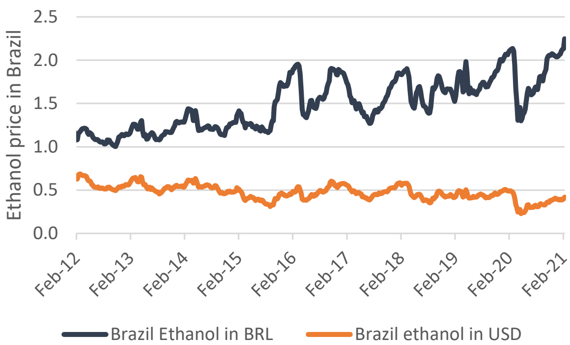
Source: Bloomberg Finance L.P., Rabobank 2021

Brazil cane areas continued to experience drier-than-normal weather in the last 30 days. Rainfall anomaly in mm:



Source: NOAA., Rabobank 2021

Rising ethanol prices in Brazil (record in BRL) could prevent a complete maximization of sugar



Source: Bloomberg Finance L.P., Rabobank 2021

Coffee

We increase the price forecast for arabicas, but keep robustas relatively unchanged

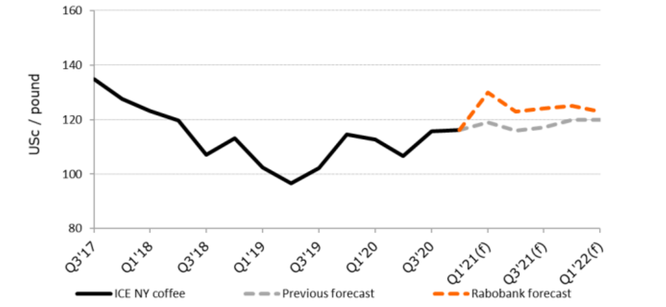
- Brazilian weather has been improving, but rainfall continues to be in deficit.
- Demand recovery may take some time in many countries.
- Delayed shipments from Vietnam and high shipping rates may result in robusta volatility

Together with a broad basket of commodities, the coffee market rallied over February. We still maintain that the fundamentals are bearish, as described in our recently released Coffee Outlook. But the dryness in Brazil during flowering and the ongoing rainfall deficit from the second week of December through January is having a serious effect on 2021/22 production. It could even have some implications into 2022/23 if drier-than-normal weather continues until the dry season and branch growth is limited. It is still very early days, but the possiblity of the current La Niña continuing and potentially strengthening is worrying, and dryness may not disappear as expected. Robusta areas have also not been immune to the aridity, which could cause lower quality year on year, though very high volumes are still on the trees.

Until the latest upside, sales volumes in Brazil were slowing down, but the quantity of beans making it to the exchange remained high. ICE-certified stocks continued to rise in February, to 1.74m bags, while the number of bags pending grading remains elevated above the seasonal average, at 79,000 bags. Farmers are already well sold, and there's an expectation of a decline in production next season. With this in mind, we see USc 110/lb as a solid floor through 2021 or at least until a big Brazil 2022/23 crop is confirmed.

ICE Arabica forecast still bearish and robusta unchanged

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
ICE Arabica	USc/lb	107	116	116	130	123	124	125	123
ICE Robusta	USD/mt	1195	1348	1350	1420	1420	1420	1450	1480

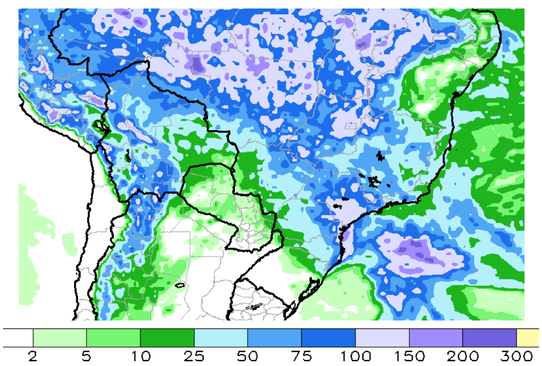


Source: Bloomberg Finance L.P., Rabobank 2021

Colombian-registered production continued to rise in January with a 3% increase YOY, to 1.08m bags, solidifying the recovery in volumes. We continue to expect volumes in February to come in above last year's, and as Covid-19 cases are dropping, labor availability may begin to improve to see sustained volumes into March. Sales out of Honduras are still lagging below last year by around 25% since the start of the season, but that is an improvement month over month, and we expect sales to catch up to levels relatively similar to last year.

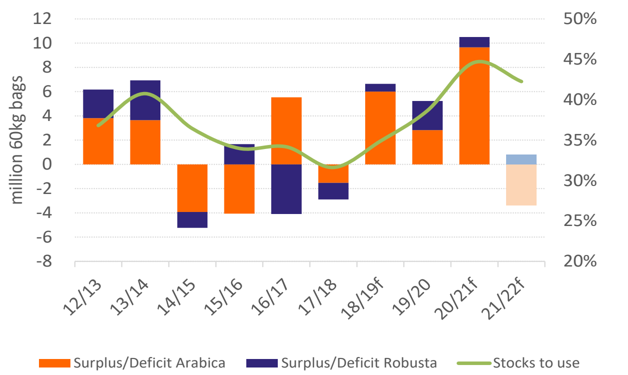
Robusta prices increased to hit our forecast. For a while now we have maintained a bullish price outlook for robustas, which is now materialized in the market. We expect quite a bit of uncertainty from here. The shipping rates out of Vietnam and Southeast Asia in general continue to be elevated and are very difficult to forecast. The reluctant acceptance of conillons into new blends and destinations is also very difficult to forecast. Furthermore, the quality of the Brazilian conillons may not be evident until the harvest, with the vast majority of analysts either not allowed to travel or focused mainly on arabicas. The total level of certified robusta stocks at the exchange remains relatively high, but in the light of the uncertainty, the market will be looking at changes in certified stock levels for price direction.

Rainfall is expected in the coming week for Brazil, which is needed for branch growth



Source: NOAA, Rabobank 2021 Total rainfall (mm) forecast to March 3

Global coffee S/D balance – Brazilian arabica will be abundant in 2020/21



Source: Rabobank 2021

Cocoa

The cocoa forecast remains mostly unchanged, with the potential for a good 2021/22 crop weighing on prices in Q1 2022

- Good weather continues to boost West African crops, with the potential for a record crop in Côte d'Ivoire.
- Lockdowns and a Covid-19 resurgence in Q1 2021 will likely have limited further cocoa grind recovery.
- Vaccine rollouts and easing lockdowns should lead to a demand recovery in 2H 2021, bringing demand back to pre-pandemic levels in 2021/22.

Continued good rainfall in Ghana and Côte d'Ivoire may boost 2020/21 crops further. The upcoming midcrop will likely benefit from increased soil moisture, leading to a record crop in Côte d'Ivoire between 2.20m and 2.25mmt for 2020/21. Furthermore, the potential for a continued La Niña that may strengthen after the midcrop harvest could boost the main crop in 2021/22. High local prices and no expected increase next season will also help boost the crop this year and limit carry over. Prices will likely remain under pressure through Q2 2021, especially if a good midcrop materializes, as demand remains constrained while Côte d'Ivoire continues to struggle to sell the remainder of this season's crop as reports suggest. The crop in Ghana is likely in much better shape than that of 2018/19 and 2019/20, but ongoing issues with swollen shoot disease will limit significant production growth. Production elsewhere is also likely in good shape, as other origins benefit from higher prices due to the LID. Ecuador will likely expand production on good weather and demand, with differentials remaining strong despite recent declines for all regions.

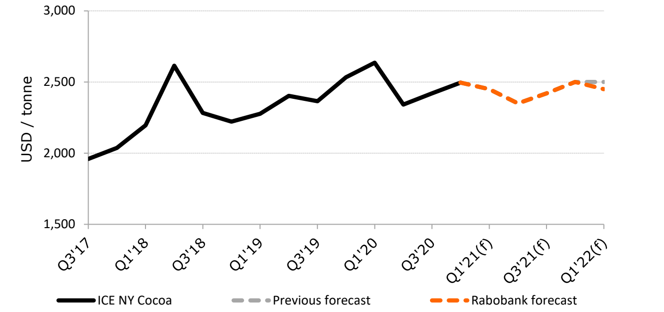
Overall, demand for 2020/21 should see a modest improvement over 2019/20. However, weakness is likely to remain though 1H 2021, as lockdowns and restrictions remain in place. We continue to estimate that overall 2020/21 demand will be around 100,000mt higher than 2019/20 but around 50,000mt below pre-pandemic 2018/19 levels. 2021/22 should see demand recover further and exceed 2018/19 levels. However, good production this season and the potential for good production next season will likely keep a sizeable surplus in the market for years to come, which will keep average prices from extending to new highs.

Stockpiles in the US have been rising in line with last year, and we suspect a large quantity remains at origin. As of February 12, US merchant stocks were at 3.5m bags and rising. We expect this trend to follow its seasonal pattern and continue to rise through the midcrop until June. There is the potential for stocks to peak above 2020 and to continue to increase for a longer period, but lower prices will be needed to incentivize increased stockpiling at destination at present. The arbitrage between London and NY Cocoa strengthened significantly over the last two months, to the highest levels since May 2020, as ICE London stocks received large deliveries of high-quality beans from Côte d'Ivoire and GBP/USD strengthened to 1.4.

European processing margins remain under pressure as butter prices continue to slump. Demand for cocoa butter in Europe remains subdued and is keeping butter prices low, raising butter stocks and keeping cocoa processing margins under pressure. Powder use is doing better than butter use, with powder prices trending upward on good demand. This trend toward lower butter prices may have been the case before the pandemic and appears to have been exacerbated by it.

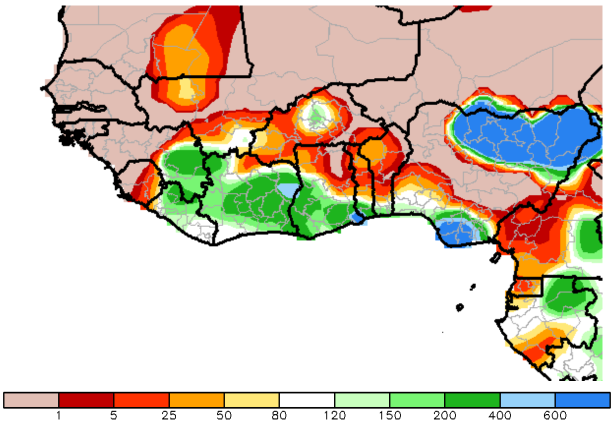
ICE NY and London Cocoa forecast mostly unchanged

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
ICE NY	USD/t	2,341	2,420	2495	2450	2350	2420	2500	2450
ICE London	GBP/t	1,813	1,690	1696	1670	1600	1640	1670	1650



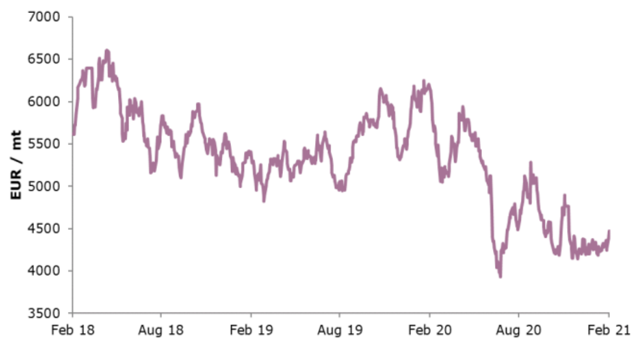
Source: Bloomberg Finance L.P., Rabobank 2021

There is a persistence rainfall deficit in Côte d'Ivoire and Ghana that could boost 2020/21 crops further



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

Cocoa butter prices continue to be under pressure and may be for some time as stocks accumulate



Source: Bloomberg Finance L.P., Rabobank 2021

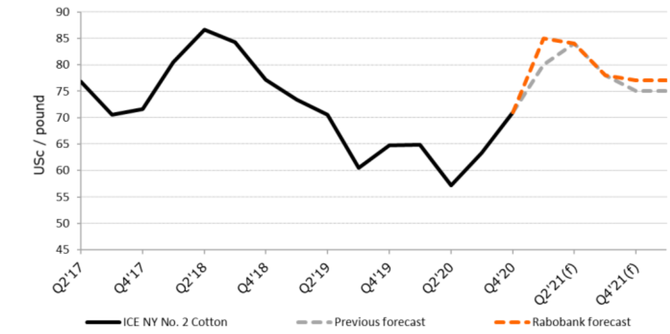
Cotton

ICE #2 Cotton broke above USc 90/lb on technical factors – fundamentals to lend support through 2021

- Bullish factors include US dollar weakness, the volume of unfixed on-call mill sales, and demand urgency in physical markets.
- Late-year price direction is set to be dictated by US 2021 acres and production.
- World demand bounces back strongly in 2020/21, with expectations for further growth in 2021/22.

ICE #2 Cotton forecast adjusted higher in later contracts

	unit	Q2'20	Q3'20	Q4'20	Q1'21(f)	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'21(f)
Cotton	USc/lb	57.2	63.4	71	85	84	78	77	77



Source: Bloomberg Finance L.P., Rabobank 2021

Old crop ICE #2 Cotton contracts broke above USc 90/lb in February, as the nearby March contract sits at the highest level since mid-2018. Rabobank notes a catalog of bullish factors, including – but not limited to – US dollar weakness, the volume of unfixed on-call mill sales, and demand urgency in physical markets. As of February 12 (week 7), 59,814 lots of net unfixed call sales were placed on March to July 2021 contracts – the highest since 2018 for the same week. These contracts will mostly need to be bought out through 1H 2021 – a factor limiting short-term price dips and generating bullish speculative sentiment. On the fundamental side, 2020/21 US export commitments track at the highest levels since 2010/11, while reports note strengthening seasonal basis elsewhere. Furthermore, there remains a need for cotton to 'buy' US acres in 2021, amid the strongest G&O futures prices since 2014. In summary, Rabobank expects ICE #2 price strength to persist through 1H 2021, driven predominately by the bullish influence of unfixed call sales. We note the rise of certified stocks to +100,000 bales as a short-term downside risk, should this figure increase further. A more modest range of USc 77-USc 78/lb is anticipated through 2H 2021, as prices track closer to fundamentals – in particular, the US balance sheet.

Late-year price direction is set to be dictated by US 2021 acres and production. While strong rises are anticipated in both US corn and soybean acres, cotton is more uncertain. A recent Bloomberg survey put expectations in an 11m-12.6m acre range (average of 11.77m acres), versus 12.1m acres in 2020 – the USDA's Outlook Forum suggested 12m acres of US cotton in 2021. Accounting for these variations, Rabobank notes a strong likelihood of further US stock erosion in 2021/22. Using a conservative 12.1m acre planted area estimate, with long-term assumptions for abandonment and yield at 18% and 840 lb/acre respectively, the US balance sheet will decline 0.14m bales YOY. However, a lower planted acreage of 11.5m – using the same assumptions – will bring about a 1m bale US deficit. Both scenarios take US stocks to five-year lows. In short, tightness in the US balance sheet is very likely to persist into the coming 12-18 months – supporting the ICE #2 through this period.

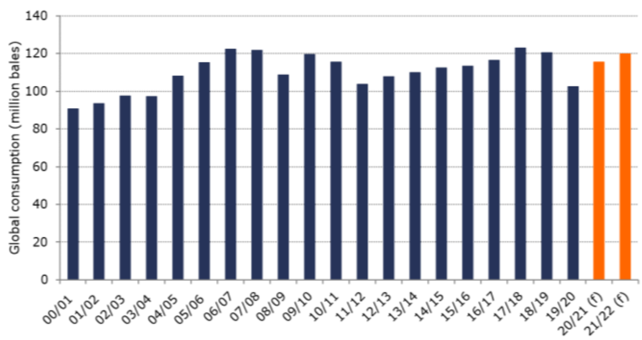
World demand bounces back strongly in 2020/21, with expectations for further growth in 2021/22. Given a surge in trade activity, Rabobank holds a revised 2020/21 global demand forecast of 113.1m bales – up 13% YOY. However, this remains cautious against the USDA's 114.6m bale forecast. Looking ahead to 2021/22, the USDA's latest estimates suggest 4% YOY growth in global demand – in-line with Rabobank's expectations and an almost complete recovery following the Covid-19 pandemic.

Various early 2021/22 US balance sheet scenarios suggest further domestic stock erosion next season

US Cotton Supply & Demand (1000 Ac/1000 bales)	USDA 2020/21 (f)	2021/22 (f) Rabo Low Case	2021/22 (f) Rabo High Case	2021/22 (f) USDA Outlook
Beginning Stocks	7,250	4,300	4,300	4,300
Area Planted	12,090	11,500	12,100	12,000
Area Harvested	8,701	9,430	9,922	10,000
Yield	825	840	840	840
Production	14,953	16,503	17,364	17,500
MY Imports	3	0	0	0
Total Supply	**22,206**	**20,803**	**21,664**	**21,800**
MY Exports	15,500	15,000	15,000	15,500
Domestic Consumption	2,406	2,500	2,500	2,500
Total Usage	**17,906**	**17,500**	**17,500**	**18,000**
Surplus Deficit	-2,950	-998	-137	-500
Ending Stocks	4,300	3,303	4,164	3,800
Stocks/Usage	24%	19%	24%	21%

Source: USDA, Rabobank 2021

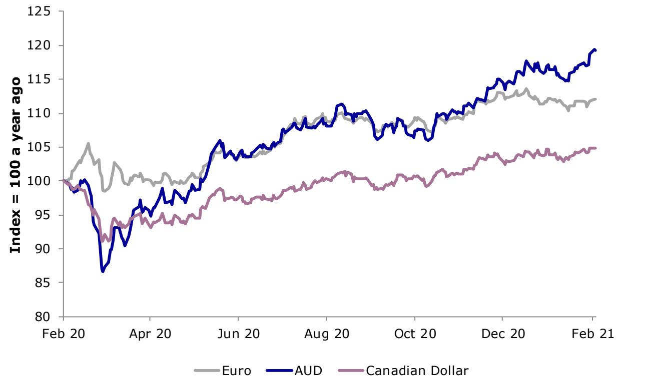
Forecasters are increasingly in agreement that 2021/22 will bring a full pre-pandemic recovery in global cotton demand

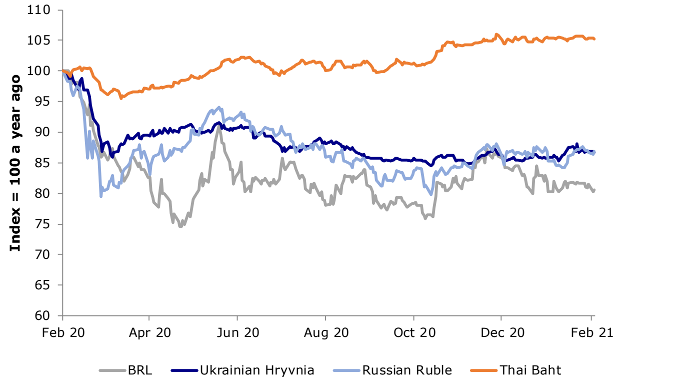


Source: USDA, Rabobank 2021

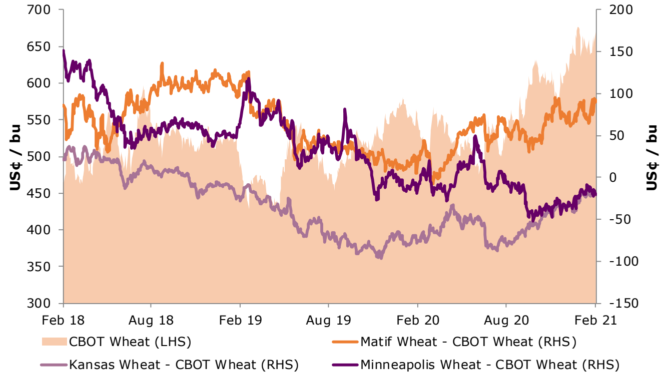
Agri Charts

Global Currencies USD Cross

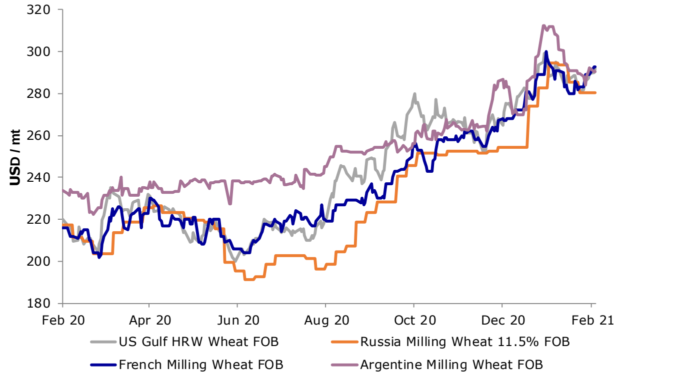




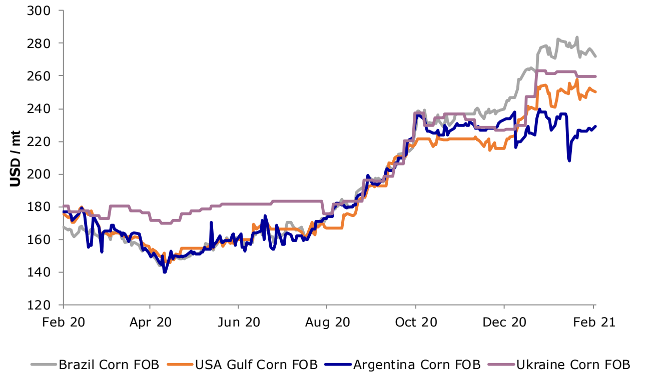
CBOT Wheat Spreads



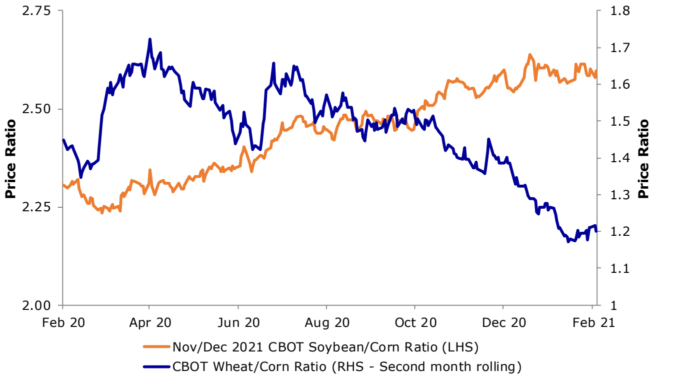
Wheat Protein FOB Prices



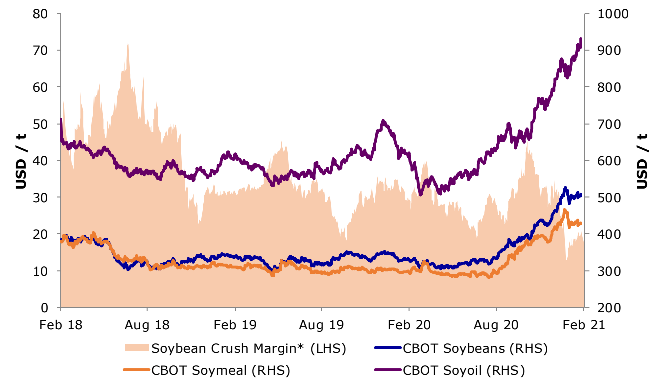
Corn FOB Prices



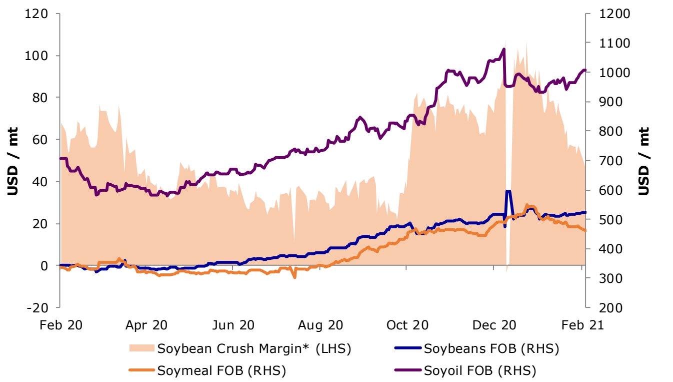
CBOT Ratios



CBOT Soybean Crush Margin



Argentina FOB Soybean Crush Margin



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

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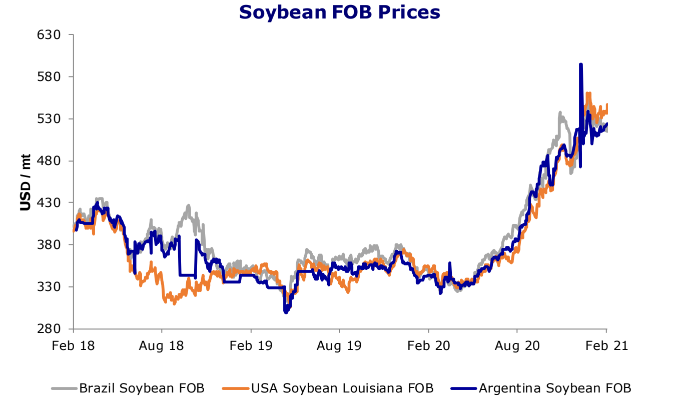

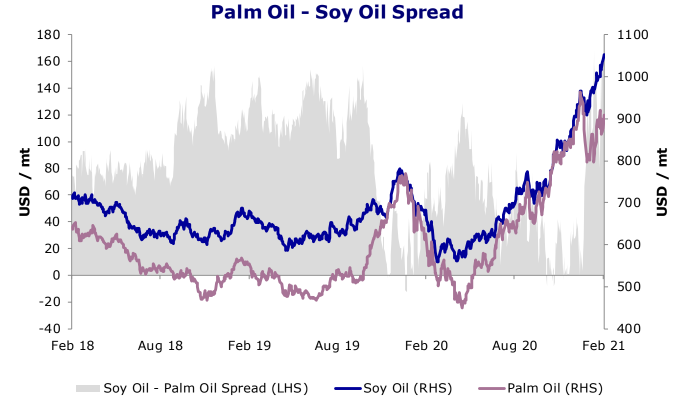

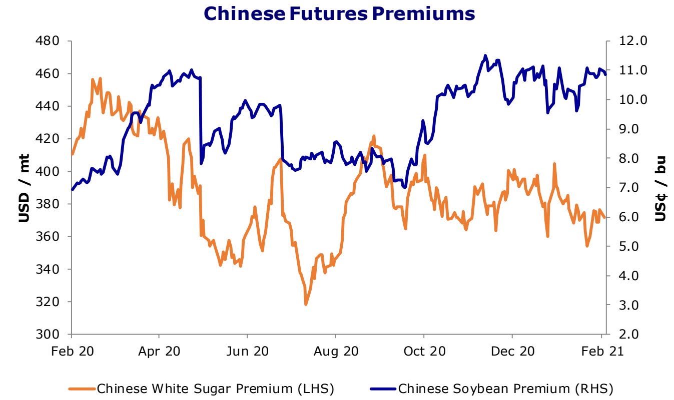

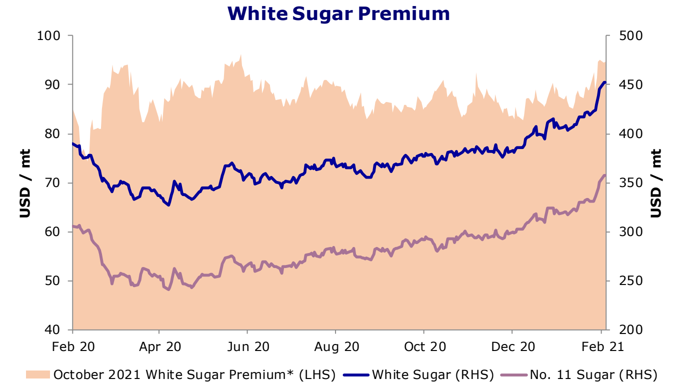

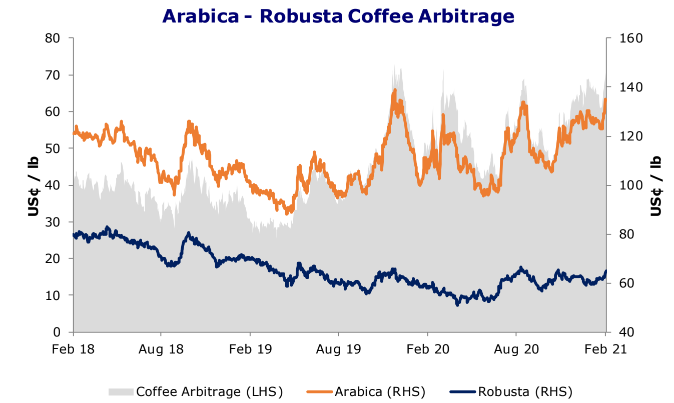

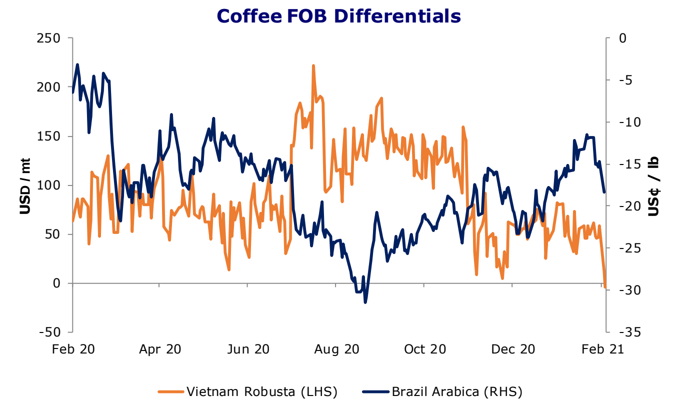

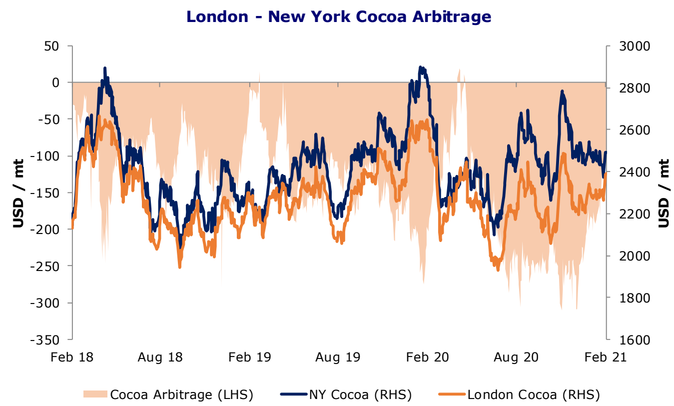

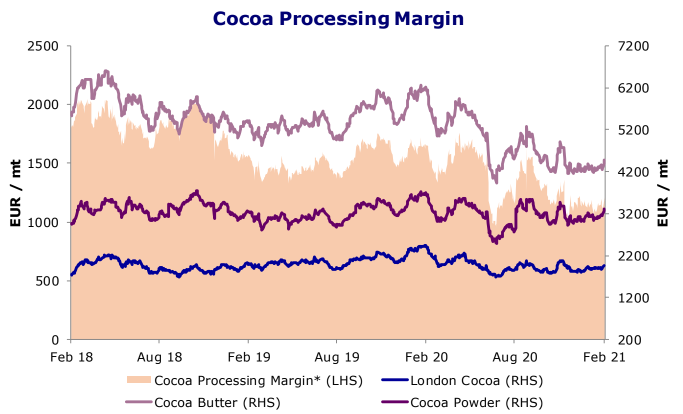

Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

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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.