Rabobank

Agri Commodity Markets Research

October 2021: Buy Back Better

RaboResearch
Food & Agribusiness

far.rabobank.com

Carlos Mera
Head of ACMR
+44 20 7664 9512

Michael Magdovitz
Senior Commodities Analyst
+44 20 7664 9969

Andrew Rawlings
Commodities Analyst
+44 20 7664 9756

The Northern Hemisphere summer harvest began in earnest last month revealing improved production on higher acreage and decent yields. The surge in availability provided seasonal – though short-lived - respite for repressed Grain and Oilseed consumers. Coffee markets were volatile as good rainfall triggered flowering in Brazil but risks of long-term dryness keep prices elevated. Agricultural prices continue to be well supported by strengthening demand, potential La Niña related weather issues to North and South America and surging inflation in key related areas: energy, fertilizers, seeds, labor and transport. Agri consumers have long awaiting an opportunity to Buy Back Better – at lower levels – and many took last month's price breaks with open arms.

WHEAT

Wheat forecast raised after shock stock report but still neutral-bearish relative to the curve

- US plantings are delayed, while Europe makes good progress.
- Global stocks will tighten in 2021/22, with limited relief offered by southern hemisphere crops.

CORN

Improved US harvest prospects provided modest respite for CBOT Corn buyers

- USDA's US Corn yield projections raise farmer and fund CBOT Corn sales easing consumer pain.
- Brazil's safrinha harvest failure and lower Black Sea yields will keep US corn exports singing.

SOY COMPLEX

CBOT Soy sees surprise US stocks and yield raises; faint signs of a China import pick-up

- US 2021/22 yields and carry-in were boosted by the USDA, leaving carry-out at a comfortable 320m bu.
- US soy demand weakness from China's slow procurement and Brazil's improved outlook weighs on price upside.

PALM OIL

Volatility in crude and soft oil prices will continue to support palm oil prices in Q4 2021

- Malaysian and Indonesian 2H 2021 palm oil inventories will be higher than 1H 2021 levels.
- Indian palm oil imports will be lower quarter-on-quarter in Q4 2021.

SUGAR

ICE #11 Sugar prices to remain supported

- Politicians gets a taste for sugar. Export subsidies out of India and domestic energy prices in Brazil in focus.
- A partial recovery in the harvest in Thailand might limit the white premium in Q1 2021.

COFFEE

Flowers arriving as rains continue to blanket Brazil in good volumes

- Rainfall over Brazil's arabica areas has been high so far in October, and the flowering looks great.
- ICE Arabica-certified stocks saw a rapid decline since late September, but they seem more stable now.

COCOA

Price forecast lowered on lukewarm grinding figures and slow stock declines but still bullish long-term

- Lackluster cocoa grinding demand growth pushes the 2020/21 surplus higher.
- Production in West Africa is expected to decline on mixed weather and lower input use.

COTTON

The rally in ICE #2 Cotton prices stabilized in October amid market tightness crescendo

- Harvest pressure from northern hemisphere crops should begin to weigh down prices.
- The US cotton crop remains in a very good state. and good weather should limit the impact of delays.

Wheat

CBOT Wheat forecast raised after shock stock report but still neutral-bearish relative to the curve

- US plantings are delayed, while Europe makes good progress.
- Global stocks will tighten in 2021/22, with limited relief offered by southern hemisphere crops.
- Australia is well-positioned for an excellent crop amid strong demand.

The rally in wheat prices calmed down for much of this month after the shock September stocks report sent CBOT prices USc 50/bu higher at the beginning of the month. Despite a somewhat bearish WASDE report (for corn and soy), wheat prices have remained well-supported and look to test nearby resistance levels.

For now, much of the price support we are seeing is related to tightening global wheat stocks in 2021/22 amid overall tight G&O stocks, with only partial relief from southern hemisphere wheat crops and US corn and soybean harvests. As we look further forward, amid the progress with northern hemisphere winter wheat planting, prices could be vulnerable to downside pressure from expanding production in 2022/23. US winter wheat plantings are trailing the five-year average but not to a degree that is too heavily concerning. The likely expansion in US winter wheat acres may also be partly to blame for the slow progress. Drought is still expected to develop over the US Central Plains in the months ahead and could possibly stick around for months, with the now active La Niña expected until February next year. Yields may suffer as a result, and although \struggle to grow materially.

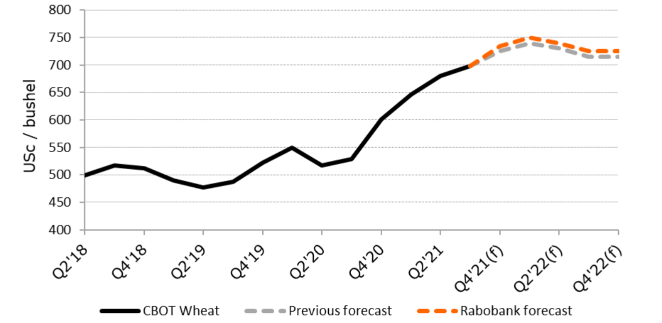
In Europe, the weather has been slightly drier than normal this month, with mean temperatures above average. Rainfall is expected to continue to be slightly below average, but generally, conditions are not too worrying at this point. Plantings are performing better in Europe than in the US, and we could see some production expansion in 2022/23. The active La Niña could mean crops fail to reach a record, as it can be associated with dryness in parts of the region.

Trade appears to be performing relatively well despite high prices and logistics issues. US exports are close to the five-year average, while European soft wheat exports rush out at an unprecedented pace. If the pace of European exports is maintained, ending stocks in the region could decline year-on-year to extremely low levels, putting pressure on crops to perform well next year or resulting in further price inflation and worryingly sparse availability ahead of the 2022/23 harvest.

Southern hemisphere crops are mixed. There is potential for dryness to persist in Argentina's wheat areas, which could keep crops from making the USDA's current 20mmt estimate. Australia is forecast to produce slightly above the USDA's current estimate of 31.5mmt, at 31.9mmt this season, as discussed in Rabobank's recent Australian winter crop outlook. Some dryness in eastern and south Australia has resulted in smaller wheat crops year-on-year for those regions, leading to a 4% YOY drop in total production. Overall, the figure is still very good. The expectation of relatively good southern hemisphere harvests overall should help keep prices from rising too quickly, but dwindling global stocks and relatively flat Argentine exports might keep them slowly heading higher for much of 2022.

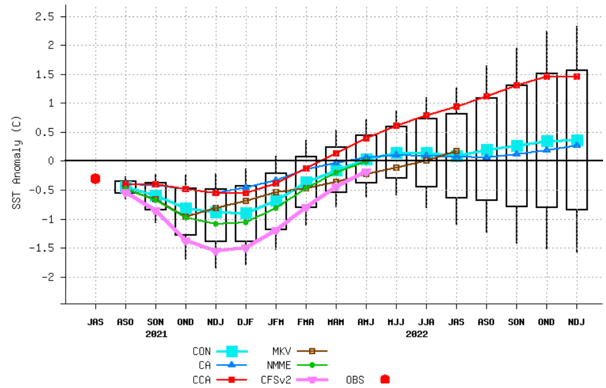
Price forecast raised but still neutral-bearish to market

	unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
CBOT	USc/bu	646	680	698	735	750	740	725	725
Matif	EUR/mt	227	219	234	265	270	260	235	235



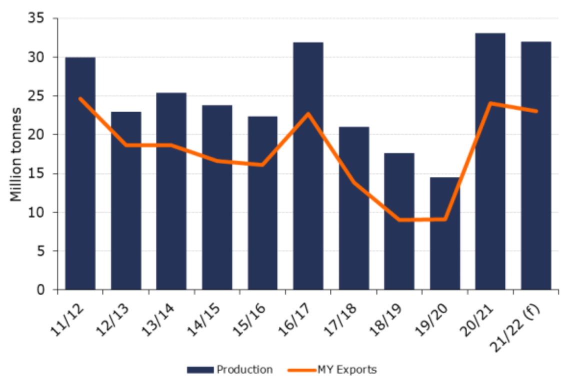
Source: Bloomberg Finance L.P., Rabobank 2021

La Niña is active and may mean a volatile outlook for US winter wheat in the months ahead



Source: NOAA, Rabobank 2021 Issued 12 Oct

Australia is set for another excellent production year



Source: USDA, Rabobank 2021

Corn

Improved US harvest prospects provided modest respite for CBOT Corn buyers but tail risks remain elevated

- USDA's US Corn yield projections raise farmer and fund CBOT Corn sales, temporarily easing consumer pain.
- Brazil's safrinha harvest failure and lower Black Sea yields will keep US corn exports singing in the year ahead.
- Rising input costs could really squeeze farmer profitability.

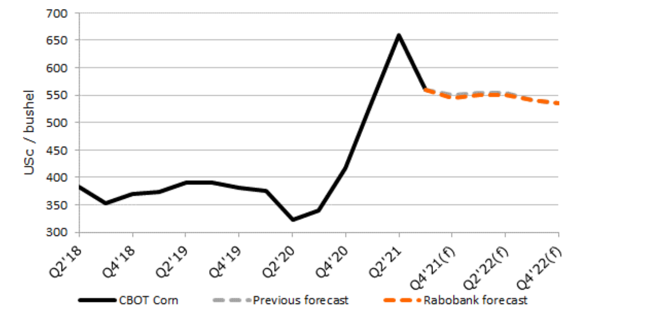
The northern hemisphere summer harvest is typically a harbinger of CBOT Corn's trajectory in the coming year. The 2021 volatile growing season has passed, and farmers are more confidently marketing their large (acreage-wise, yields remain below trend) harvest. Yet over the last month or so, modest raises in the USDA's US 2021/22 corn harvested acreage (+600,000 acres), yield (+0.2bu/acre), and carry-in stocks (+50m bu) have boosted carry-out to 1.5bn bu (+264m bu YOY) and helped bring short-lived respite to long-suffering consumers. CBOT Corn briefly dipped to five-week lows of USD 5.08/bu, before finishing unchanged in the mid USD 5 range that we have long projected. Post-harvest attention is naturally shifting toward uncovered import demand, the lack of a reliable South American supply outlet, enduring low exporter ending stocks, and the higher farm input costs that could hamstring corn's resupply in 2022.

We maintain our long-standing CBOT price range of USD 5 to USD 6/bu and trim the midrange of our forecast ~1%. Beyond the 2021/22 US corn supply improvements, CBOT Corn's widening profitability to Soy (the Nov 22 Soy/Dec 22 Corn ratio has fallen 7% MOM to a 2021 low of 2.36) following a surprise US soy stocks hike foreshadows lesser competition and higher acreage for corn in 2022. Our modest bearishness is tempered, however, as corn is becoming more expensive to farm, due to historic inflation in energy, fertilizers, machinery, and labor. Marginal improvements in acreage aside, farmer sales will remain cautious sellers next year, and the historic USD 3 to USD 4/bu range is likely out of reach even for the coming few years. As we noted in our article *Lend Me Your Ears,* major exporter stocks-to-use will languish far below the 2013-2020 average that kept CBOT Corn confined to those lower levels. This year and next, the scope of corn's supply inelasticity should be on full display.

Following a year of rationing, global demand for corn is expected to strengthen by nearly 5% in 2021/22. US corn export commitments, supported by strong Chinese purchases, are already at 43% of the USDA's full year projections, 4% ahead of last year, and 9% quicker than the five-year average. Yet the USDA is projecting a 9% YOY decline in US exports amid a broader bet on export competition (especially from Brazil) in the year ahead. The equation doesn't add up; the USDA's projections for Brazil's 2020/21 exports are still 4-5mmt too high, and next year's bumper harvests of 116mmt (+37% YOY) will come at the end of the 2021/22 crop year (Sep-Aug), far too late to contribute meaningfully to the global export figure. Production improvements in Ukraine, Argentina and China should help absorb half of Brazil's export deficit, but the USDA's 2021/22 US corn export estimates will inevitably rise. The USDA's US 2021/22 corn ending stocks print of 1.5bn bu likely reflects a high-water mark for the year ahead; we expect them to end at an uncomfortable 1.35bn bu. Corn has reaped a relative calm, but the re-emergence of La Niña, previously repressed demand and tentative forward sales (Commercial Corn positioning on the CFTC is at a ten-year low for this time of year), should serve as a reminder to clients that both corn scarcity and CBOT price risk may be here to stay.

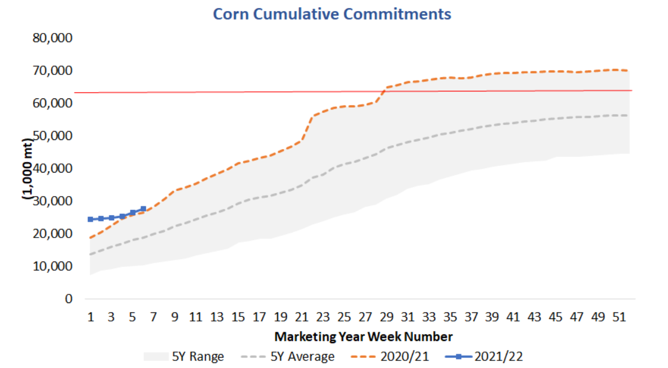
CBOT Corn's bullish price outlook largely maintained

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Corn	USc/bu	536	659	560	545	550	550	540	535



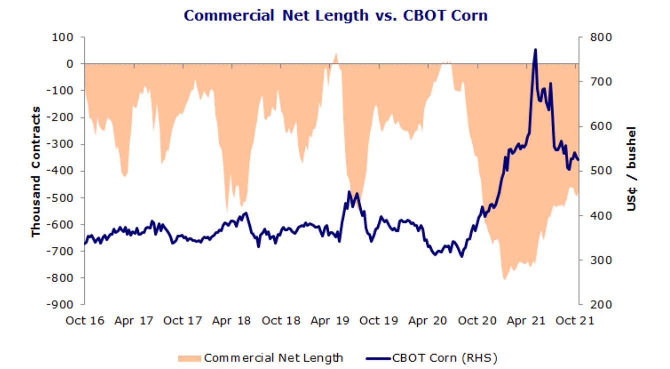
Source: Bloomberg Finance L.P., Rabobank 2021

US corn commitments are far above the 5-year average pace, lending weigh to future USDA export projection raises



Source: USDA, Rabobank 2021. Red line is USDA's export projection of 63.5m mt

Commercials (farmers and consumers) are at the shortest position for this time of year, supporting CBOT Corn



Source: CFTC, Rabobank 2021

Soybeans

CBOT Soy sees surprise US stocks and yield raises; suppliers see faint signs of a China import pick-up

- US 2021/22 yields and carry-in were boosted by the USDA, leaving carry-out at a comfortable 320m bu.
- US soy demand weakness from China's slow procurement and Brazil's improved outlook weighs on price upside.
- China resupply amid low stocks and improved margins.

Soy consumers uncovered hidden treasure in the US last month, after the USDA stocks report revealed a 256m bu 2021/22 carry-in, 50% higher than expectations. The big, bearish US reveal, combined with yield improvements and puttering demand, were altogether enough to pierce perceptions of soybean scarcity. Subsequent reports of rain-fattened beans (yields rose 0.9bu/acre to 51.5bu/acre) left US soy 2021/22 carry-out projections at 320m bu, ~1/3rd below the five-year average but up 25% YOY. In Brazil, meanwhile, moisture improvements have allowed rapid planting progress (22%, per AgRural, the second-highest pace on record) and cracked CBOT Soybeans (-2% MOM) down to USD 12.50/bu.

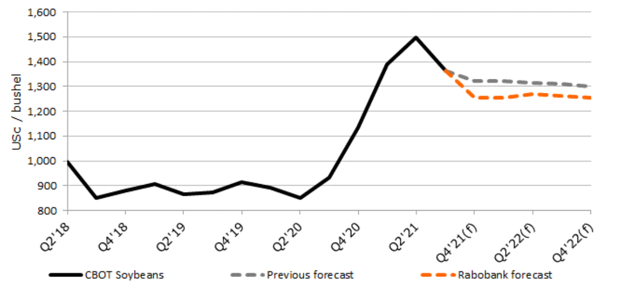
A summary of CBOT Soy's price risks might read as follows: Global soy supplies, while low, have improved and are now probably sufficient to manage modest demand growth and the ever-shortening tail risk of South American harvest. La Niña has returned to once again threaten southern Brazil and northeast Argentina, but it hasn't yet resulted in typical southern Brazilian dryness or planting delays. Indeed, South American beans' moisture profile is largely improving – portions of Argentina excepted. And whether or not the forecast turns drier, timely 4% higher planted acreage will offset material downside risk to production.

The slow demand pace and rapid Brazilian harvest progression naturally run hand in hand. The China-led consumer frenzy of last year has given way to legitimate hopes of a return to origin optionality. The window is closing on peak US export season, and the USDA's call for a 9% reduction in US 2021/22 soy export demand may be conservative**.** The current pace of export commitments is 5% behind the five-year average and requires strong improvements in the coming weeks to meet the USDA's target. Naturally, the drop in prices will increase participation: witness China last week riding back from holiday to buy as much as 1.3m mt of discounted US soy. Perhaps China's purchase pace will pick up further to break CBOT Soy from its languishing price range, but the chances of that are slim.

China's soy stocks may be low, but it has lowered its soymeal inclusion in favor of grains and its domestic crush has struggled amid an energy crunch. 2021/22 import growth is seen at a modest 2% YOY. Meanwhile, a strong US dollar and export competitiveness from South America create further US export headwinds. Our price forecast for CBOT Soy is trimmed by USD ~0.6 a bushel along the curve. We see levels remaining elevated vs. history, reflecting lower-than-normal stockpiles, La Niña dryness risks, and a potential demand recovery. Beyond China, US crush margins are also flying, thanks to CBOT Soy Oil demand, and that should encourage further crushing. Over the longer term too, prices still need to remain competitive with CBOT Corn for US acres in 2022/23. At the moment, corn is favored to extend its acreage advantage to soy next year, thanks to a late-2022 Soy-Corn futures price ratio of 2.36, nearly the lowest in a year. Our price forecast sees the lower-supply environment supporting modest price risk, though demand uncertainty during the peak US export period is giving many the impression that the soy supply will 'get by.'

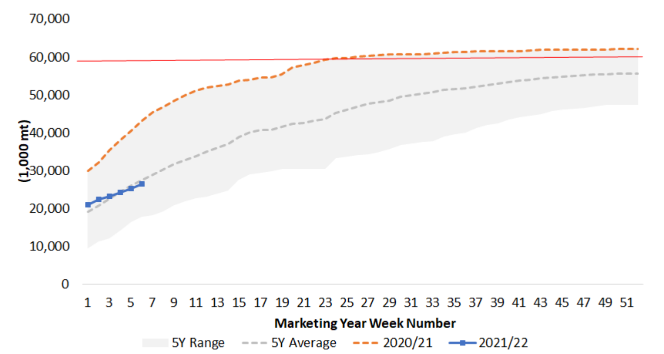
CBOT Soybeans supply risks wane, leaving it range-bound

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Soy	USc/bu	1388	1497	1361	1255	1255	1270	1260	1255



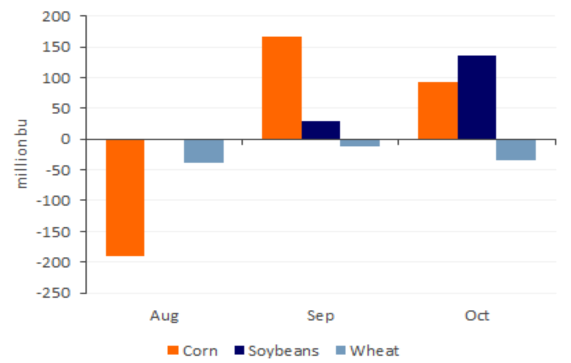
Source: Bloomberg Finance L.P., Rabobank 2021

US Soy commitments are now below the five-year average pace; strong sales are needed to hit the USDA's export target



Source: USDA, Rabobank 2021 Red line is USDA's export projection of 57.8m mt

US Soybeans stockpiles have swelled recently in proportions far greater than corn (or wheat, which fell)



Source: USDA, Rabobank 2021

Soymeal and Soy Oil

CBOT Soymeal softens to a one-year low while Soy Oil regains its incandescent glow

- US soy's stock and yield improvements ease supply concerns.
- Slowing Chinese soy imports and US biodiesel demand weaken the complex, though US crush is improving.
- China's high-protein wheat feeding has lowered soy meal inclusion, demand growth, and CBOT Soymeal prices.

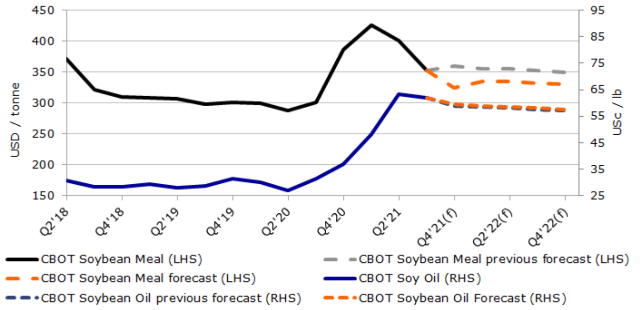
It seems CBOT Soy Oil's golden luster can't fade. US soybean harvest improvements and US biodiesel mandate concerns aside, the steady rise in Brent Crude (+10% MOM) to 7.5-year highs of USd 87/bbl and strong demand have pushed prices up 13% MOM, back above USc 60/lb. Late rains helped US soybeans finish strong and supported nascent Brazilian plantings, in turn shortening the supply risk for by-products. None too soon for CBOT Soy Oil (up 13% MOM), which has seen stunning 2021/22 US demand growth for biofuels (+25% YOY) cannibalize food use (-4% YOY) and exports (-27% YOY). Last month, the USDA raised US 2021/22 ending stockpiles 320m lb MOM amid apparent rationing, yet the ensuing brief CBOT Soy Oil break seemed to bring repressed demand back in. Alternative uses of soy oil – for feed and biodiesel – are driving 2021/22 US soy oil supplies to their lowest in five years.

Among vegetable oil exporters (US, Argentina, Brazil and Indonesia), large biodiesel mandates, capacity constraints, and resulting high food stock prices have heaped pain on consumers, resulting in inevitable delays and rollbacks. In the US, FOB Midwest biodiesel commands a ~USc 2.33/gallon (69%) premium to on-highway diesel. This wild discrepancy is why we think the EPA will delay biodiesel increases. There is a lack of biodiesel capacity for the mandates causing high prices for soy oil, otherwise a high-quality food product. Rabobank has long posited that sudden US domestic demand intensity would lead to an increasingly inward-looking market, and indeed export rationing is happening (down 27% in 2021/22, following a 40% decline in 2020/21). We see long-term price support for CBOT Soy Oil and largely retain our price forecast from USc 59.5/lb to USc 57/lb by the end of 2022.

CBOT Soymeal's dramatic fall from grace continued last month (-3%) amid improvements and a dismal demand outlook. Its fall was arrested, like Soy's, by some opportunistic consumers taking coverage. Falling expectations for Chinese soymeal demand growth (2021/22: 4% YOY) have been a major factor. High energy prices, low pork prices and crush margins, and greater inclusion of higher-protein wheat over soymeal all contribute to concerns of stagnant demand in the short term. In September, NOPA saw a larger-than-expected fall in crush (153.8m bu, down 7.3m bu YOY) after two consecutive months of growth. Though US crush margins have recently increased, thanks to CBOT Soy Oil (48% of crush value, a 12-year high) – stronger crush is really needed to allay concerns about maturing demand growth in the US domestic (+1.2%) and export (+2.1% YOY) markets. Argentina's 2020/21 crush growth (+6% YOY) is expected to continue this year and pose a long-term challenge for US export competitiveness. For now, La Niña dryness in Argentina and low CBOT Soymeal prices will attract some US consumer interest, but our sights have been lowered for the coming year: the demand outlook will likely improve a bit, but prices are seen limited near to USD 330/mt over the coming year.

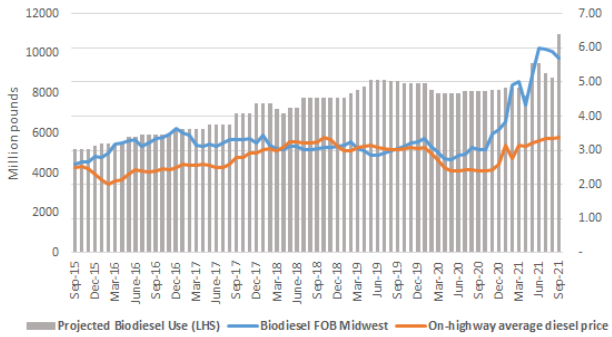
CBOT Soymeal reduced on delayed demand, Soy Oil strong

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Soymeal	USD/ton	434	404	352	325	335	335	332	330
Soy Oil	USc/lb	45.9	63.2	61.8	59.5	59	58.5	58	57.5



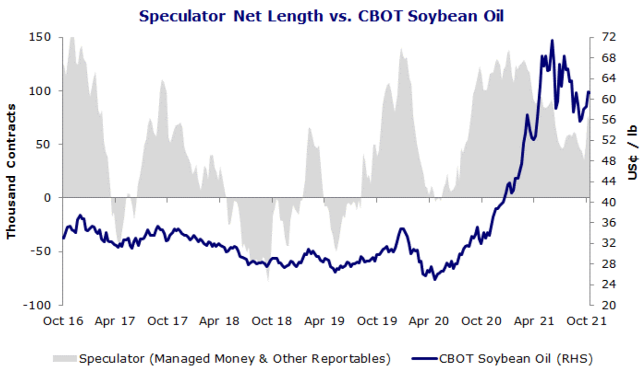
Source: Bloomberg Finance LP, Rabobank 2021

US Biodiesel use has increased sharply despite an eye-watering premium to diesel, encouraging policy changes



Source: USDA, DOE, Rabobank 2021

Speculative positioning in CBOT Soy Oil enjoys a resurgence amid a biodiesel craze and global vegetable oil scarcity



Source: CFTC, Bloomberg L.P. Rabobank 2021

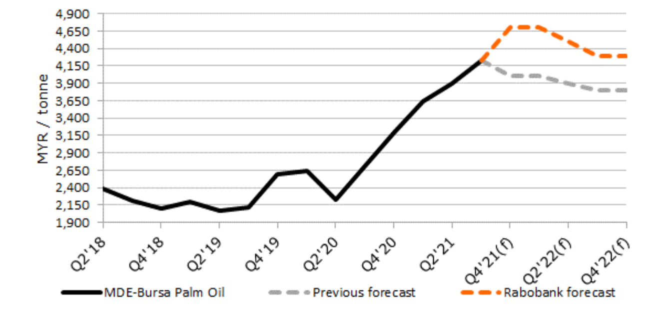
Palm Oil

Volatility in crude oil prices and soft oil prices will continue to support palm oil prices in Q4 2021

- Malaysian and Indonesian 2H 2021 palm oil inventories will be higher than 1H 2021 levels.
- Indian palm oil imports will be lower quarter-on-quarter in Q4 2021.
- We expect palm oil prices will remain above MYR 4,500/mt in Q4 2021.

We revise our MDE Palm Oil price forecast higher

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Palm Oil	MYR/ton	3,647	3,850	4,246	**4,700**	**4,700**	**4,500**	**4,300**	**4,300**



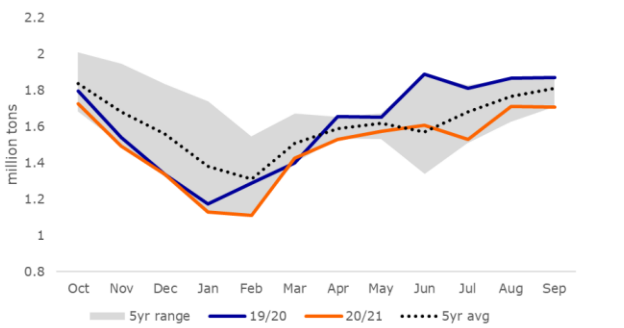
Source: Bloomberg Finance L.P., Rabobank 2021

Malaysian and Indonesian 2H 2021 palm oil inventories will be higher than 1H 2021 levels. MDE-Bursa Palm Oil active contract prices continued to increase in October 2021 and broke above MYR 5,000/mt, before settling at around MYR 4,800/mt, due to continued strength in global crude oil and rapeseed oil prices. Fundamentally, MPOB's September 2021 data was slightly bullish for palm oil prices. According to MPOB, Malaysian September 2021 palm oil production and inventories decreased by 0.4% and 7% MOM, to 1.7mmt and 1.75mmt respectively, while Malaysian September 2021 palm oil exports increased by 37% MOM, to 1.6mmt, on the back of strong import demand from India and China. Meanwhile, according to GAPKI, Indonesian August 2021 palm oil production (including lauric oils) and exports increased by 4% and 56% MOM, to 4.6mmt and 4.2mmt respectively, while Indonesian August 2021 palm oil inventories (including lauric oils) decreased by 24.5% MOM, to 3.4mmt. We expect palm oil inventories in Malaysia and Indonesia will remain above 1.5mmt and 3mmt at the end of 2H 2021, due to higher palm oil production in 2H 2021 versus 1H 2021.

Indian palm oil imports will be lower quarter-on-quarter in Q4 2021. India increased its palm oil buying in September 2021 on the back of low domestic inventories and in preparation for the festive season in October 2021. According to the Solvent Extractors' Association of India, Indian September 2021 palm oil imports increased by 68% MOM, to 1.2mmt. Meanwhile, Indian edible oil inventories (port stocks and pipelines) as of end of September 2021 increased by 14.5% MOM, to 2mmt. This is the highest domestic edible oil inventory reached since the end of August 2019. We expect Indian Q4 2021 palm oil import volumes will be lower quarter-on-quarter, due to high domestic edible oil inventories, persistently high palm oil prices, seasonally tepid post-festive season demand, and availability of Indian domestic soybeans in Q4 2021. On top of this, the reduction of Indian edible oil import duties in October 2021 will benefit Indian imports of crude soft oils (effective import duty of 5.5%) as compared to imports of crude palm oil (effective import duty of 8.25%).

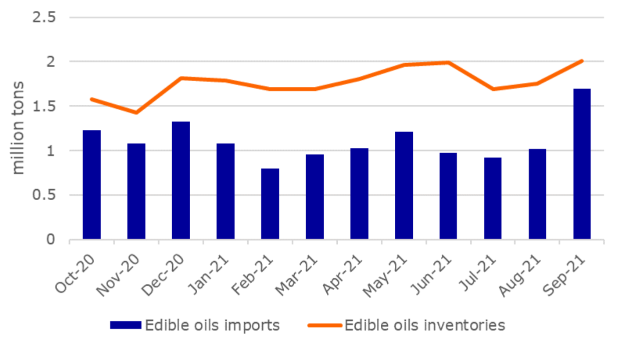
We expect palm oil prices will remain above MYR 4,500/mt in Q4 2021. The spread between CBOT Soy Oil and MDE-Bursa palm oil active contract prices narrowed further in October 2021. This makes soy oil's import price more attractive and could result in reduced palm oil import demand. The spread between soy oil and palm oil futures prices narrowed to USD 150/mt in mid-October 2021, the narrowest level reached since mid-February 2021. While we are of the opinion that, fundamentally, the upside for palm oil price movement will be limited in Q4 2021, volatility in global crude oil and rapeseed oil prices will still provide support to palm oil prices in the Q4 2021.

Malaysian monthly palm oil production will continue to be lower year-on-year in 2021



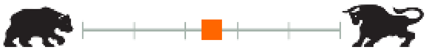
Source: MPOB, Rabobank 2021

High Indian edible oil inventories will limit palm oil imports in Q4 2021



Source: SEA India, Rabobank 2021

Sugar

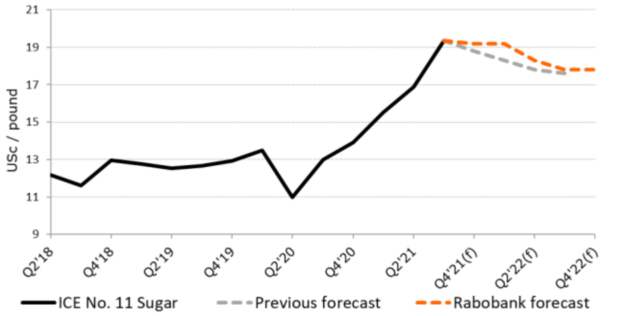


ICE #11 Sugar prices to remain supported

- Politicians gets a taste for sugar. Export subsidies out of India and domestic energy prices in Brazil will likely be political decisions that will have large price implications.
- A partial recovery in the harvest in Thailand might limit the white premium in Q1 2021.

ICE #11 Sugar price forecast neutral to marginally bearish

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2,22f	Q3,22f	Q4,22f
Sugar	USc/lb	15.5	16.9	19.3	**19.2**	**19.2**	**18.3**	**17.8**	**17.8**



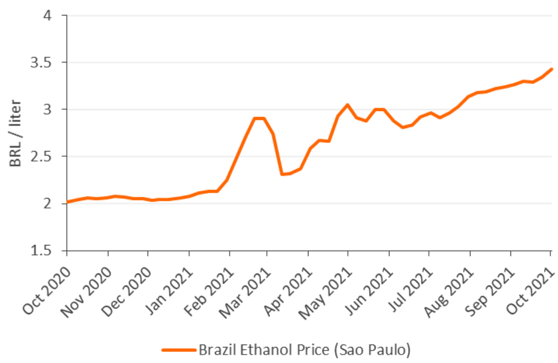
Source: Bloomberg Finance LP, Rabobank 2021

Politicians get a sweet tooth. Two significant drivers of the sugar market are the energy prices in Brazil and the export subsidies out of India. These two variables are, to a great extent, political in nature and are expected to bring volatility to the sugar market if and when announcements are made (or a signal is provided to the market). For the time being, the sugar market seems likely to continue to trade between a level half a cent above the ethanol parity in Brazil and the Indian export parity. With the Brazil ethanol parity currently at USc 18.2/lb, there is some room for sugar prices to fall in the short term, but unless politics intervenes, one would expect a slow increase in the current parity heading into the off-season. That will likely prevent a big fall in prices.

Thailand will likely maximize its white sugar production, keeping a lid on the white premium through Q1. At a time of high shipping prices, Thailand will make the most of its geographical position to supply white sugar to Southeast Asia, and at the current white premium, white sugar exports will be favored. This is likely to keep a lid on the white premium in Q1. We would still expect some on and off exports out of India but not a windfall, given excellent domestic price levels. This could result in significant Indian exports of LQW rather than refined whites (which are usually easier to produce and export against export contracts signed ahead of or during the harvest).

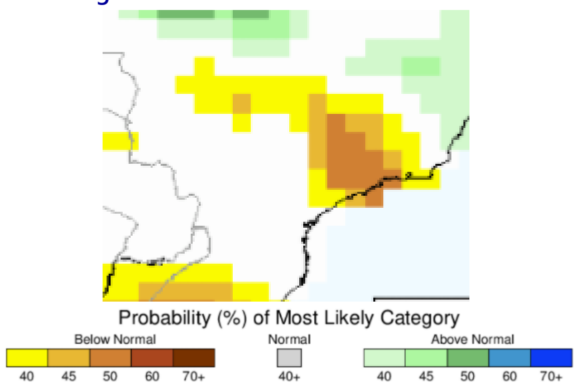
Let it rain. Brazil's October rainfall has been excellent so far, with the accumulated volume in the first 17 days of the month equal to the historical monthly value across the sugar belt. A risk of dryness persists, as a La Niña event is developing. This possibility of dryness is reflected also in the IRI long-range forecast: there is some dryness expected in the next three months over a large part of the sugar belt. However, even though La Niña could potentially persist into February 2022, its associated weather effects may not necessarily be there. And, for the time being, quite a bit of rain is in the forecast for the rest of October. There has also been good rainfall over both Thailand and India recently, which will likely delay harvest a little, but it provides good soil moisture for future growth.

Brazil's ethanol prices surging to record levels in BRL, despite bearish seasonality



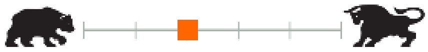
Source: Cepea, Bloomberg Finance L.P., Rabobank 2021

Three-month weather forecast shows potential dryness over part of the sugar belt



Source: NOAA, Rabobank 2021 Issued 28 September 2021

Coffee



Flowers arriving as rains continue to blanket Brazil in good volumes

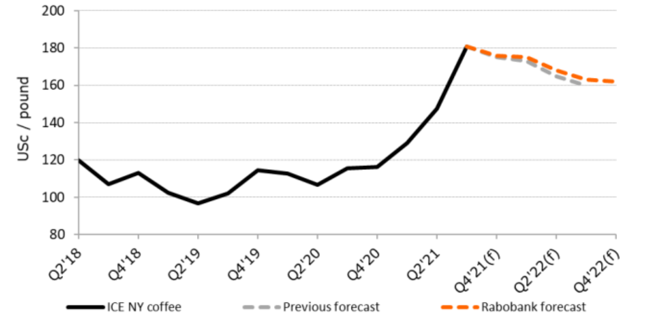
- Rainfall over Brazil's arabica areas has been high so far in October, and the flowering looks great.
- ICE Arabica-certified stocks saw a precipitous decline since late September, but they seem more stable now.

ICE Arabica second contract saw a seven-year high of USc 215/lb on October 12. The major factor behind the surge in prices was the precipitous decline in certified stocks since late September, with stocks falling from 2.16m bags as of September 21 to 1.91m bags on October 13. Unsurprisingly, during this period, the Managed Money net long position saw a significant increase of around 13,000 lots. However, there have been some gradings taking place lately, and the decline in stocks seems arrested for now. Nevertheless, as these stocks are being offered as a replacement for coffee that cannot be shipped on time, levels are likely to continue to decline. Meanwhile, the weather in Brazil took a turn for the wetter. In the first half of October, rainfall over arabica areas came in at the usual amount for the whole month. Flowering looks spectacular, as expected after a marked period of dryness followed by good rains. Moreover, the forecast is for more rain in the coming two weeks. This is the best possible scenario at the moment, even though present rains will not completely offset the dryness seen through much of the last year, which resulted in lower branches. Furthermore, the possibility of La Niña-associated dryness will remain a concern. Usually, La Niña causes dryness in the southern part of Brazil, but it doesn't always reach as high as the coffee belt.

Light at the end of the tunnel? The World Container Index dropped by 5% in the first two weeks of October. This means prices are now 'only' 280% higher YOY (this is, of course, on a global basis, with shipments from Asia still leading the increase in price). However, this is the first time prices dropped significantly since March, when the Suez Canal got blocked.

Arabica forecast largely maintained

	unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
ICE Arabica	USc/lb	129	147	181	176	175	168	163	162
ICE Robusta	USD/mt	1372	1512	1911	1980	1980	1880	1820	1800

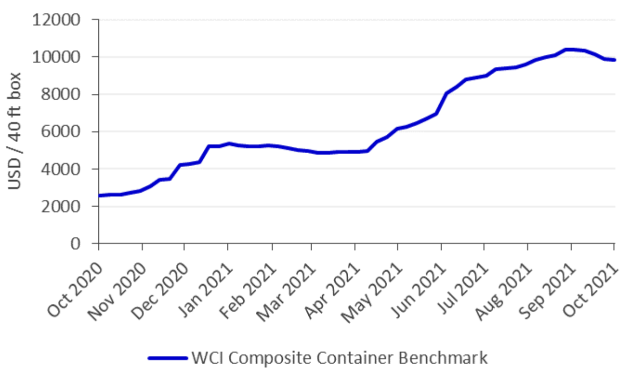


Source: Bloomberg Finance L.P., Rabobank 2021

Although a quick normalization of the situation is not to be expected this year, the increased vaccination rates, together with several measures being taken by ports, companies, and governments, may help alleviate the situation or at the very least stop it from getting worse.

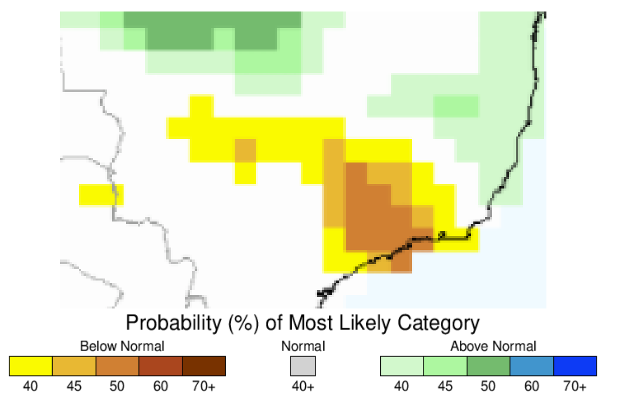
Higher farm input prices might curtail the production upside. US Gulf Urea prices have increased by 225% YOY. Whereas farmers' margins are robust enough to accommodate this increase in prices, it is not only the price but also the availability of it that might be a problem. This is especially true of many pesticides that are exported in containers and subjected to current logistical challenges. This could result in less production upside than one would have otherwise expected with current prices. Moreover, farmers who harvested earlier in the year, like those in Peru, might feel themselves unable to increase whatever fertilizer they use, as many crops were sold earlier at lower prices, while fertilizer purchases are made later. The one major origin where we expect to see significant upside is Colombia, which will benefit from higher prices in US dollars combined with a weak currency and an abundance of labor from neighboring Venezuela. As the country harvests throughout the year, the 2021/22 mitaca crop should already benefit from high prices. Further ahead, we expect current prices to incentivize production everywhere.

Container shipping prices saw a marginal decline in the first half of October



Source: Bloomberg Finance L.P., Rabobank 2021

Potential dryness in some of Brazil's arabica regions ahead:



Source: IRI, Rabobank 2021 Oct-Dec rainfall forecast, Sept Issue

Cocoa

Price forecast lowered on lukewarm grinding figures and slow stock declines but still bullish long-term

- Lackluster cocoa grinding demand growth pushes the 2020/21 surplus higher.
- Production in West Africa is expected to decline on mixed weather and lower input use.
- US stock levels are declining more slowly than usual and may remain at elevated seasonal levels through 2021/22.

This month's grinding reports showed a continued recovery in processing, but demand growth remained elusive. European grindings rose 8.7%, while those in North America and Asia rose 4.3% and 4.1% respectively. For the three main consuming regions, Q3 2021 grindings rose 6.5% YOY, to 710,000mt, just shy of 2019 levels. The overall figure is positive but was slightly below market expectation, and prices have been declining in the wake of the data release. Third quarter tends to show the strongest demand growth historically, and with global economic forecasts tempering for the remainder of 2021, it seems unlikely that we will see an improvement in grindings in Q4 above 2019 levels. As a result, we see the global surplus for 2020/21 expanding slightly on weaker-than-expected demand, while 2021/22 seems like a small deficit. Rabobank sees scope for prices to temper in Q4 2021 in the wake of the grinding figures in major regions.

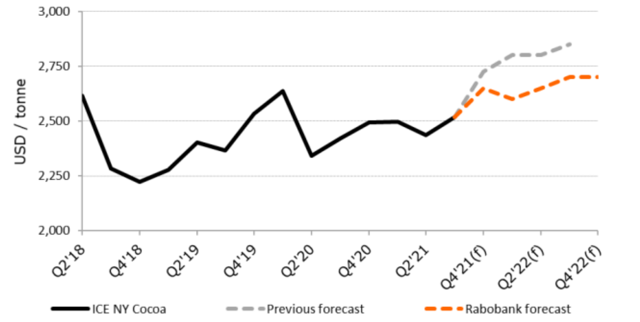
The 2021/22 season has officially started, and with it, Côte d'Ivoire and Ghana both announced their farmgate prices. The disappointing CFA 825/kg from Cote d'Ivoire will do little to incentivize production growth and may limit some local selling, which could mean a slightly larger midcrop. Considering the relative prices of Côte d'Ivoire and Ghana, we revise our statistical crop estimates to 2,100tmt and 875tmt respectively. These production estimate changes represent a gross shift in production from Côte d'Ivoire to Ghana. Initial reports of purchases and arrivals suggest a slight year-on-year decline in line with our current estimates for 2021/22. Given the mixed weather at the start of the season, some pods may be late developing, and this could also boost the midcrop result, assuming the current forecast of a mild, dry season in December.

Rabobank's production estimates elsewhere are little changed, with weather conditions looking broadly favorable in South America for the season ahead. We expect production for the region as a whole to grow 3.75% YOY in 2021/22 on good weather and continued efforts to grow production outside of Ghana and Côte d'Ivoire. Other West African regions are expected to show good production, but production growth may prove difficult after mixed weather. Despite a small expansion expected in Nigeria, overall production for Africa is expected to decline 6% YOY.

Merchant stock levels are declining slowly and still remain at high seasonal levels, at around 5.4m bags. We continue to expect these levels to decline well into 2022, and this should provide some price support. Levels are unlikely to breach recent seasonal lows over the next season and may even stay well above the five-year average. This has caused us to revise our price forecast lower, although we still see scope for higher prices in the long term.

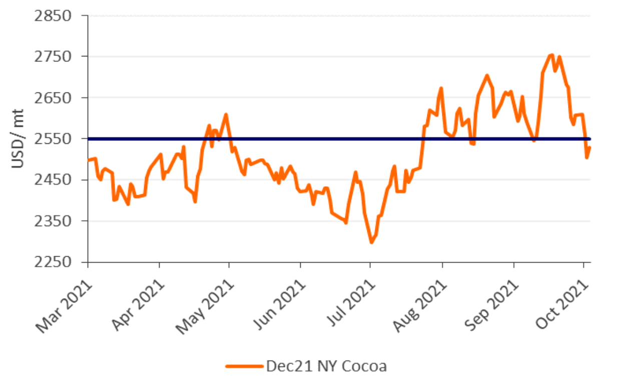
Cocoa forecast lowered but still bullish

	unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
ICE NY	USD/t	2,496	2,436	2,519	2650	2600	2650	2700	2700
ICE London	GBP/t	1,695	1,640	1,731	1760	1750	1760	1770	1780



Source: Bloomberg Finance L.P., Rabobank 2021

Disappointing cocoa grinding figures have led to NY Cocoa prices breaking below support levels

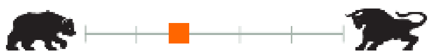


Source: Bloomberg Finance L.P., Rabobank 2021

Merchant stock levels may remain at relatively elevated levels throughout 2021/22

Source: Bloomberg Finance L.P., Rabobank 2021

Cotton



The rally in ICE #2 Cotton prices stabilized in October, as market tightness likely had its crescendo

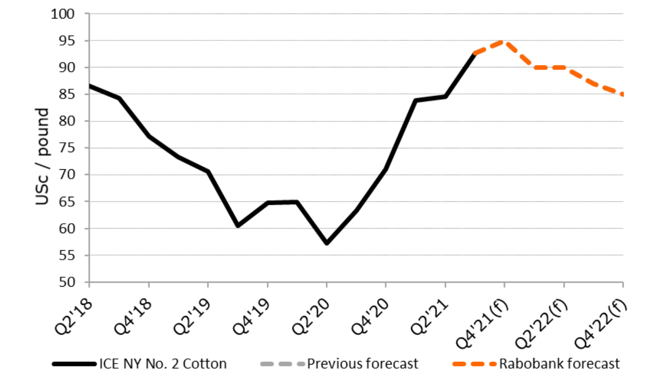
- Harvest pressure from northern hemisphere crops should begin to weigh down prices.
- The US cotton crop remains in a very good state. and good weather should limit the impact of delays.
- Southern hemisphere plantings may surprise to the upside.

ICE #2 prices were little changed this month after soaring in late September. Harvest pressure from multiple northern hemisphere regions should be easing market tightness, and good harvest results could quell concerns over limited exportable supply in the weeks and months ahead, with US good-excellent crop ratings still at the lofty levels of 64%. Harvest in the US is delayed, however, at only 28% complete as of October 17 compared to the five-year average of 35% – an approximate one week delay. Mean temperatures have been above average, and relatively good weather is forecast to continue next month, which should allow for good yields despite the delay. Harvest should begin to make quicker progress going forward, and as it progresses, production risks are diminished. Rabobank sees a slightly lower crop than the USDA's current 18m bales, at around 17.9m bales, on marginally lower yields. Abandonment will likely be low, with prices significantly higher than cost of production.

Demand estimates appear to be stabilizing, and this month's WASDE showed slightly tempering expectations. The higher price levels seen since the last report caused the USDA to revise its estimates of global demand lower. The scope for further expansion in consumption appears limited, at least until the beginning of 2022, as global economic output may begin to slow in Q4 2021 on higher energy and clothing production costs. Our outlook on global consumption remains stable, with a possibility of a slightly smaller deficit than the USDA's current estimate of -3.2m bales.

ICE #2 Cotton forecast unchanged

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q3'22f
Cotton	USc/lb	83.9	84.5	92.7	**95**	**90**	**90**	**87**	**85**

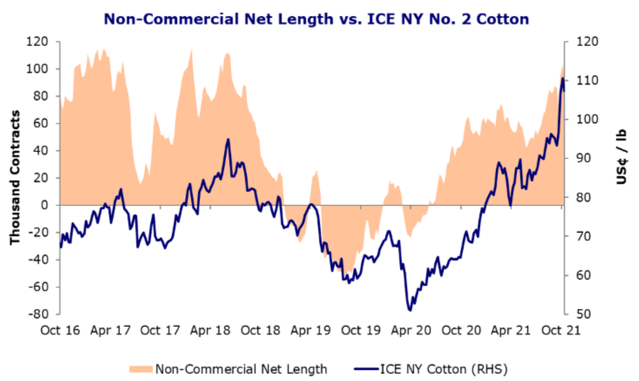


Source: Bloomberg Finance L.P., Rabobank 2021

Southern hemisphere plantings are getting going, and expectations are high. Price pressure may also come from exuberant southern hemisphere plantings that may beat current expectations. Australia is beginning plantings and may make greater efforts to increase acreage than are currently expected. Brazil is expected to begin planting in December, and greater-than-expected production is also possible. Weather in both of the country's cotton regions has been excellent, and there will likely be numerous motivated farmers. With ICE #2 prices well-supported across the curve, plantings may surprise to the upside, and 2021/22 global production estimates could see a 1m bale boost in the months ahead.

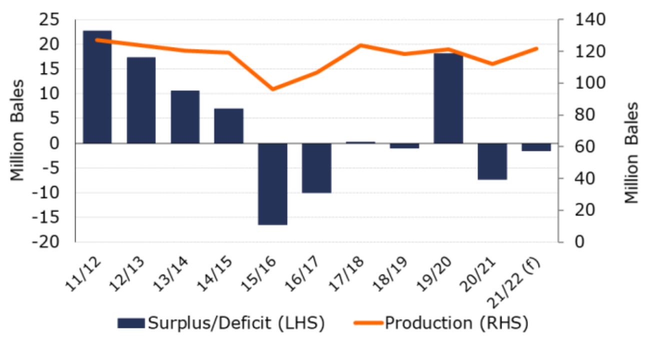
Speculative interest in cotton may have peaked. The space that existed for Non-Commercials to extend their net long position in ICE #2 Cotton was largely filled in recent months. With exportable stocks now likely expanding and Non-Commercials already holding a large net long position, the scope for further fund buying seems limited. Non-Commercial profit taking seems more likely, as risks for the current crop slowly diminish. We continue to see average prices declining in the quarters ahead, and even with these declines, there is still a strong incentive for production expansion next year.

Non-Commercial net long positioning may unwind as northern hemisphere harvest progresses



Source: CFTC, Rabobank 2021 as of October 12

Higher-than-expected southern hemisphere plantings could boost global supplies and ease the expected deficit



Source: USDA, Rabobank 2021

Dairy

Slower production growth is tightening supplies and driving up dairy commodity prices

- A wet start to Oceania's season is slowing production and supporting prices.
- Relatively lower stocks of milk powders and strong demand is lifting commodity prices.
- The US milk cow herd is contracting, as producers right-size their herds, given rising feed costs and availability of feed stuffs.

Oceania's milk supply, after a strong start, has come under stress. New Zealand was off to an early start to the season but quickly fell victim to wet weather, which put a damper on production in August. A similar wet pattern struck Australia, resulting in milk production being down 3.6% YOY for July and August. There is still time for a potential turnaround, but the slow start to the Oceania season will support prices.

US milk production growth remains positive but at a much slower growth rate than the robust average 2.8% YOY gain posted from January to July. August and September milk production increased by just 0.6% and 0.2% against strong year-on-year comparisons. After an extended streak of increasing cow numbers, the US dairy herd peaked in May, at 9.503m head, but has since contracted by 85,000 head. This should tighten supply and help provide a lift to prices.

Meanwhile, in the EU, milk supplies are tightening more dramatically, with Q3 production estimated at 0.2% lower than last year. However, with milk prices beginning to improve, margins may look more favorable in the year's final months, boosting output into positive territory.

Global Dairy Trade auction results for the first auction in October were generally flat against the previous event, but the price index rose 2.2% during the October 19 event. Prices increased across all commodities, with SMP reaching a weighted price of USD 3,401/mt, approaching the peak seen in June. Powder prices found strength in the absence of burdensome inventories weighing them down. WMP improved by 1.5% from the previous event to USD 3,803/mt. Butter improved by 4.7%, and cheddar cheese gained 2.9%.

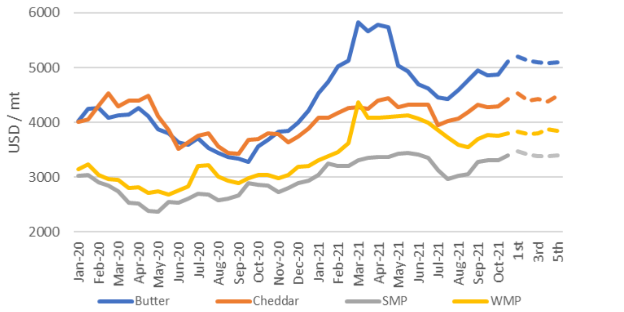
Dairy commodity markets in the US and EU have been strong. Demand is beginning to stabilize at near pre-Covid levels, and supplies are tight in many cases. US inventories of cheese and butter remain elevated, but spot availability of cheese in both the US and EU is limited.

US nonfat dry milk (NDM) prices have climbed to the highest levels seen since 2014. The US has benefited from strong demand from Mexico, and the slowing rate of milk supply growth has meant that less surplus milk is diverted to dryers. US NDM production fell sharply in July and August as milk flowed into fluid milk products for school feeding programs. SMP prices in the EU are strengthening, incentivizing the movement of milk into SMP and butter production. However, strong cheese demand will likely keep milk filling the cheese vats.

Rising NDM prices and some seasonal improvement in butter prices have combined to boost class IV futures in the US. Across the forward curve, the spread between class III and IV milk prices is near zero. This should result in more stable milk marketing than the volatile swings in 2020 triggered by the historically wide spread between the two milk prices, which led to several disruptions in the US Federal Milk Marketing Order pricing system.

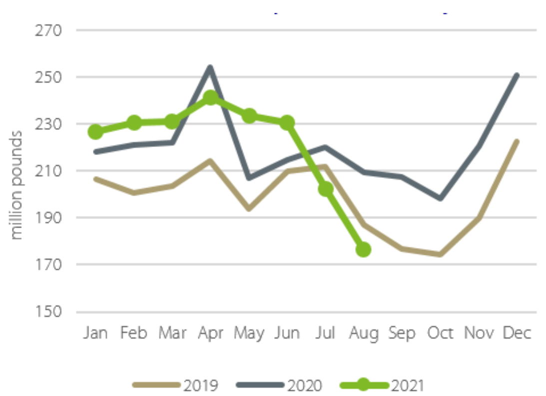
Global Dairy Trade Auction weighted average prices

	unit	Aug-21	Sep-21	Oct-21	1st	2nd	3rd	4th	5th
Butter	USD/mt	4771	4857	5111	5202	5130	5090	5080	5090
Cheddar	USD/mt	4184	4274	4426	4530	4396	4422	4381	4490
SMP	USD/mt	3052	3302	3401	3465	3408	3384	3386	3400
WMP	USD/mt	3552	3777	3803	3834	3784	3793	3869	3844



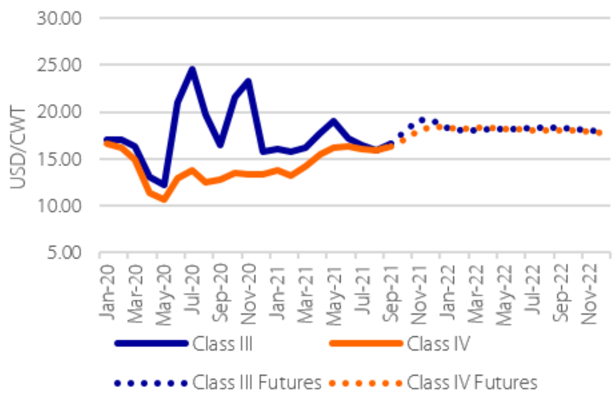
Source: GDT, Rabobank 2021

US combined SMP and NDM production (30-day month)



Source: USDA., Rabobank 2021

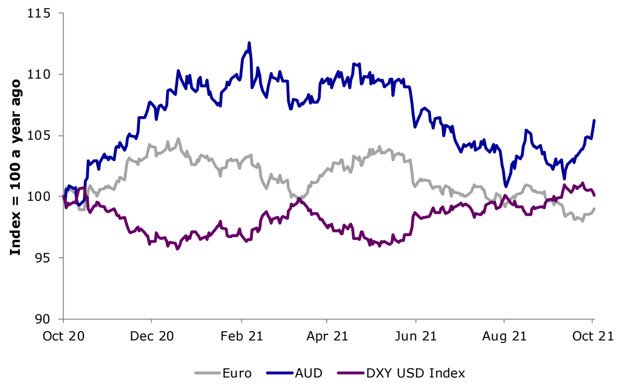
CME Class III and Class IV milk prices, historical and futures, Oct 20, 2021

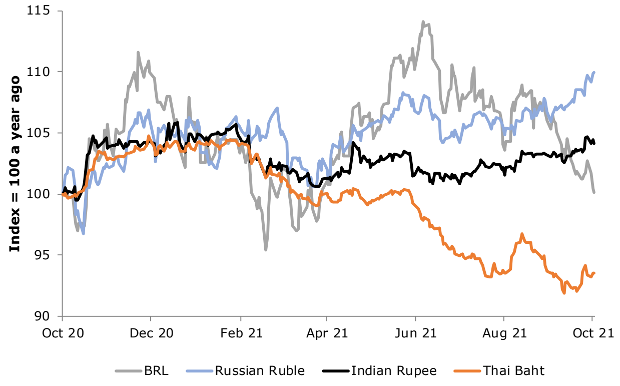


Source: CME, Rabobank 2021

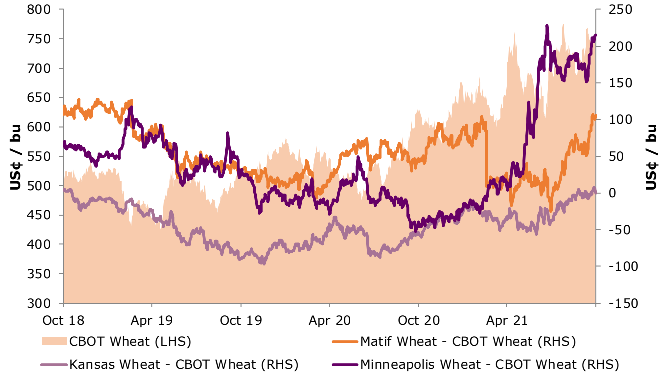
Agri Charts

Global Currencies USD Cross

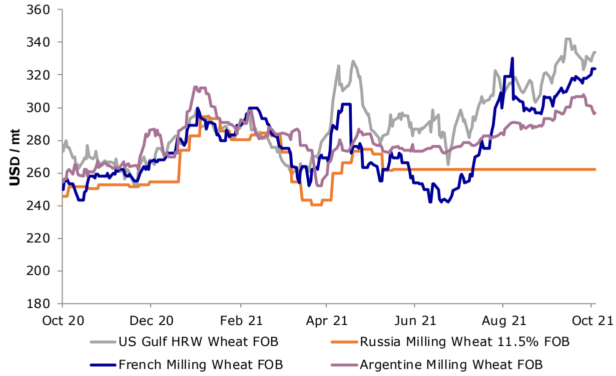




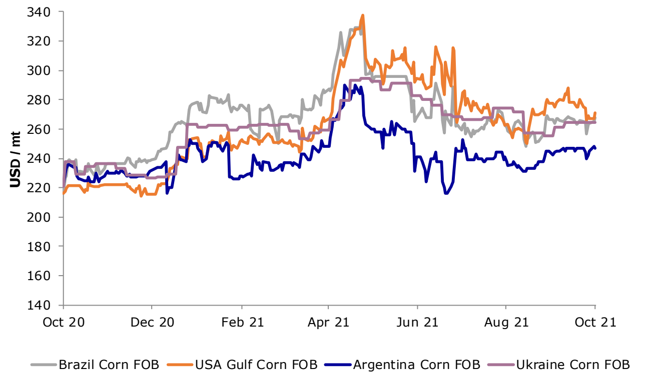
CBOT Wheat Spreads



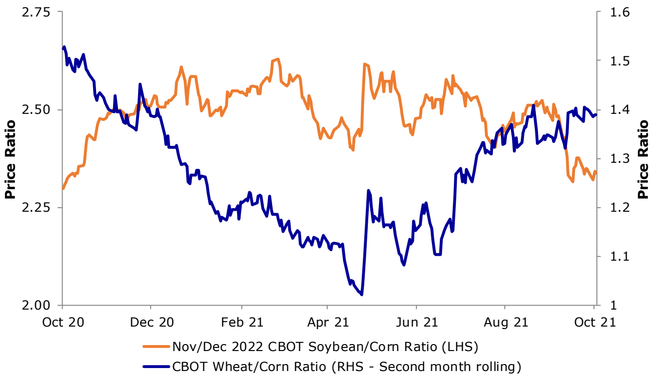
Wheat Protein FOB Prices



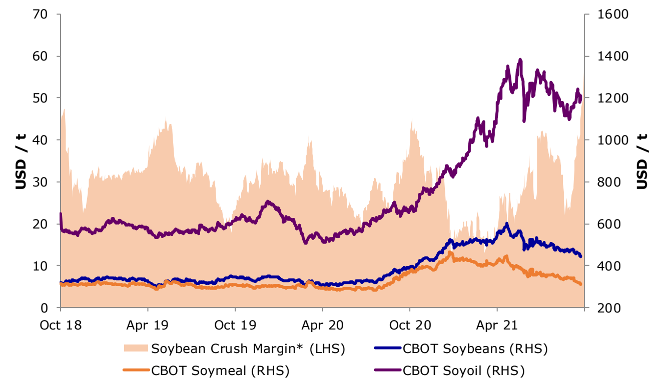
Corn FOB Prices



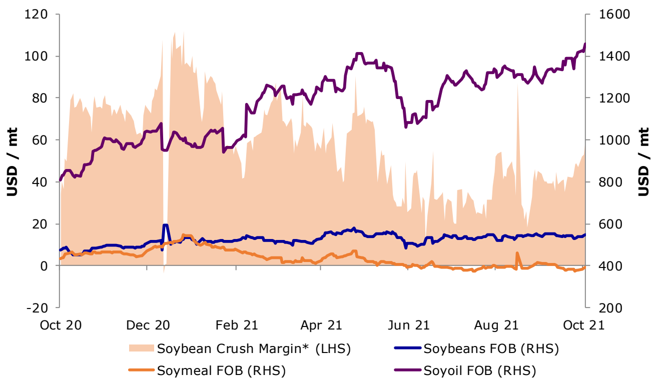
CBOT Ratios



CBOT Soybean Crush Margin



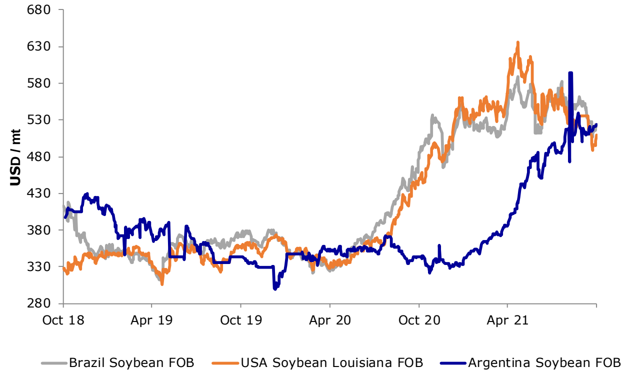
Argentina FOB Soybean Crush Margin



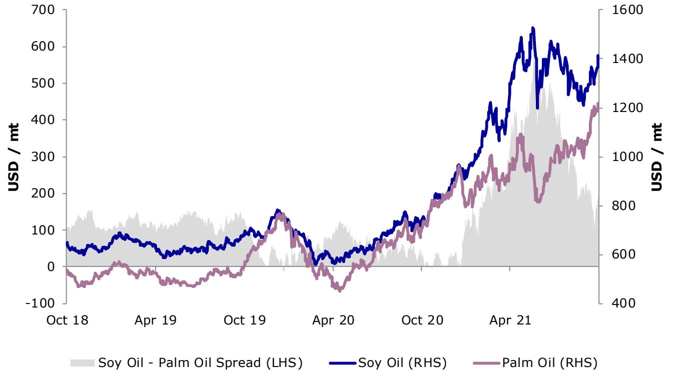
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

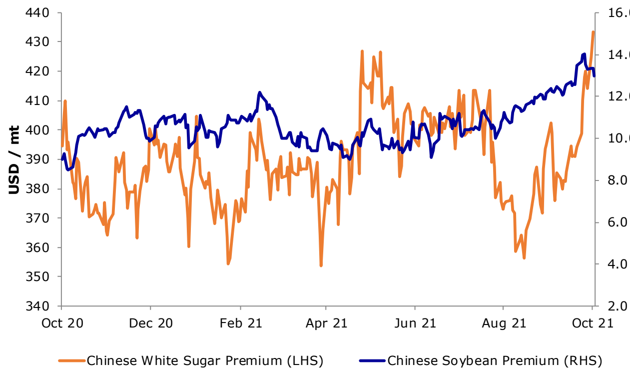
Soybean FOB Prices



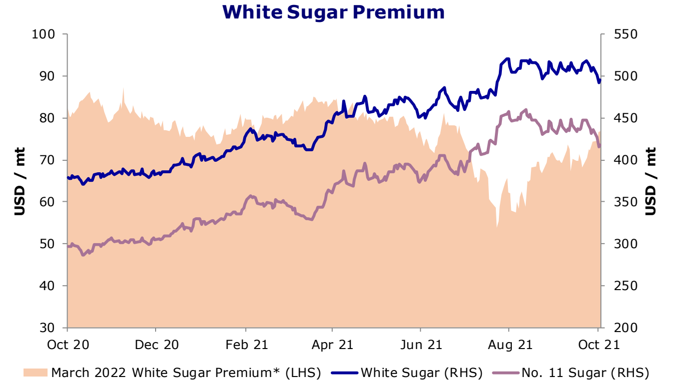
Palm Oil - Soy Oil Spread



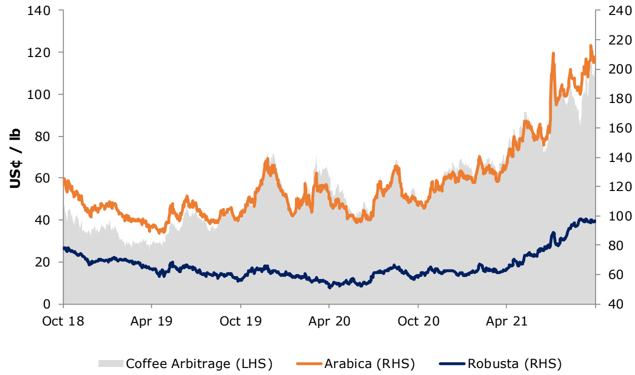
Chinese Futures Premiums



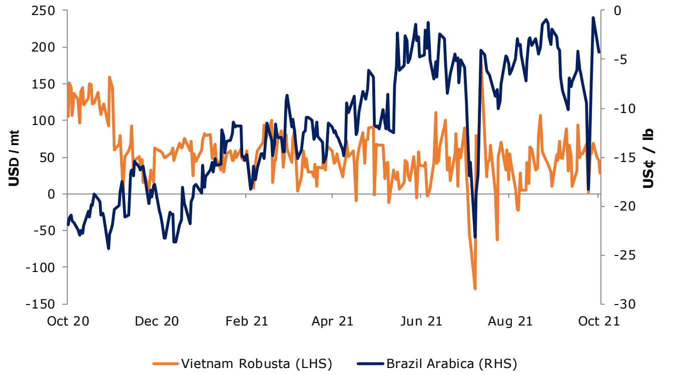
White Sugar Premium



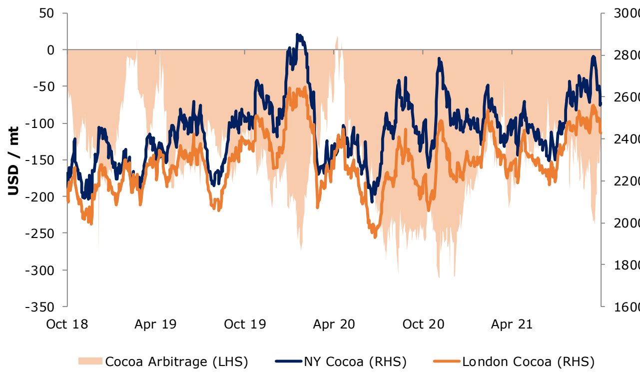
Arabica - Robusta Coffee Arbitrage



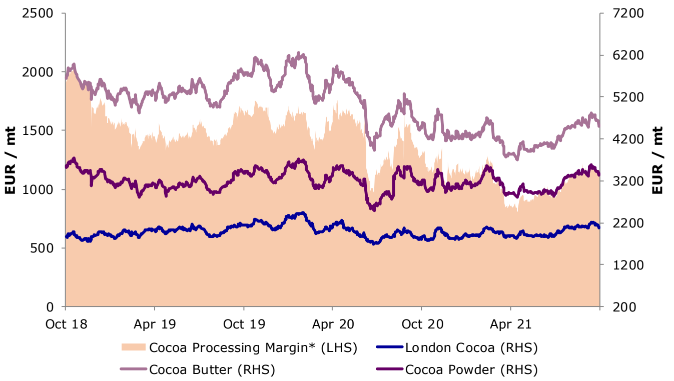
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

Imprint

RaboResearch
Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

Carlos Mera, Head of ACMR
carlos.mera@rabobank.com, +44 20 7664 9512

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

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

Contributing analysts:

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

Mary Ledman – Chicago, US
mary.ledman@rabobank.com

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

Rabobank Markets

Corporate Risk & Treasury Management Contacts

GLOBAL HEAD—Martijn Sorber
+31 30 21 69447
martijn.sorber@rabobank.com

ASIA—Ethan Sheng
+852 2103 2688
ethan.sheng@rabobank.com

AUSTRALIA—Adam Vanderstelt
+61 (2) 8115 3101
adam.vanderstelt@rabobank.com

NETHERLANDS—Arjan Veerhoek
+31 30 216 9040
arjan.veerhoek@rabobank.com

EUROPE—David Kane
+44 (20) 7664 9744
david.kane@rabobank.com

NORTH AMERICA—Neil Williamson
+1 (212) 8086966
neil.williamson@rabobank.com

SOUTH AMERICA—Ricardo Rosa
+55 11 5503-7150
ricardo.rosa@rabobank.com

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

Disclaimer

A summary of the methodology can be found on our website