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Agri Commodity Markets Research

October 2022: Iced Coffee

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The S&P GSCI Agriculture Index declined 'only' 1% MOM, but some commodities have been very volatile. Coffee futures led the decline, with ICE Arabica shedding a huge 15% MOM in a period where Managed Money dramatically reduced their net long position. Recessionary concerns call into question global demand, while an improved Brazilian weather outlook boosts harvest potential for coffee and a number of other agri commodities. Meanwhile, a large 11% MOM move in Brent Crude was supportive for global vegetable oil markets (MDE-Bursa Palm Oil +12.1%, CBOT Soybean Oil +10% MOM). At the time of writing, the fate of the Black Sea grain deal remains unclear, and with the terms of the current deal set to expire in late November, the chances of the deal not being renewed are high.

WHEAT

October marked another month of volatility for both CBOT and Matif

- Russian 2022/23 production estimates remain high. However, exports have been sluggish.
- Drought conditions in Argentina are damaging yields, with only 15% of the crop now rated good/excellent.

CORN

The CBOT Corn bull market is experiencing an inflection

- CBOT Corn prices are seen weakening with demand, but not much, as low US reserves demand a premium.
- Corn availability inside and outside the US will likely grow in 2H 2023.

PALM OIL

Malaysian palm oil inventories will remain relatively high in Q4 2022.

- Indian palm oil imports will be lower quarter-on-quarter in Q4.
- We expect Q4 palm oil prices to remain above MYR 3,200/mt.

SOYBEANS

Headwinds from weak Chinese soy demand and Brazilian harvest are set to control CBOT inflation

- The US soy harvest was very poor, threatening to pressure stockpiles to their lowest volumes in nine years.
- Brazilian farmers may enjoy a rain-supported acreage increase of 4% in 2022/23, enough to pad global stocks.

COFFEE

So far in October, we have seen a heavy 13.5% ICE Arabica sell-off

- Due to the positive Brazilian outlook and demand-side concerns, we are seeing managed money dramatically reduce their net long position.
- Certified coffee stocks continue their downward spiral.

Wheat

October marked another month of volatility for both CBOT and Matif

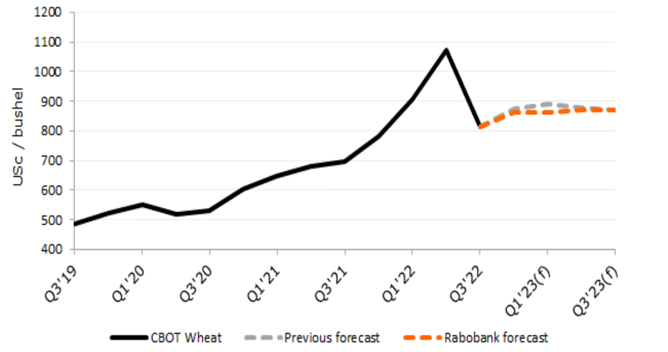
- Despite high output in Russia, exports have been sluggish.
- Drought conditions in Argentina are damaging yields, with only 15% of the crop now rated good/excellent. Much focus is placed on a potential extension of the grain corridor deal.

CBOT Wheat touched a four-month high of USc 938/bu in mid-October before retracting to the USc 840/bu mark in light of rumors suggesting that the negotiations between the UN and Russia are progressing. The minor sell-off was likely a result of restored hope surrounding the renewal of the grain corridor deal, which is due to expire next month. At present, there is some expectation within the market that the deal will be renewed (hence the recent price action). However, if there are any setbacks to negotiations between now and then, we are likely to see large price fluctuations. In our view, it is highly possible the grain deal will not be renewed at all, despite market noise suggesting that negotiations between the UN and Russia are progressing. For the Russian side, the extension depends directly on the easing of restrictions on Russian exports – which makes an extension unlikely.

Russian 2022/23 production estimates remain high. However, exports have been sluggish. From July to mid-October, just under 10m mt left Russian seaports, compared to 11.5m mt last year. Exports in the first half of October were above last year's, but July-September exports were well behind. In reaction to the likely +93m mt 2022/23 crop and the modest start to Russia's export campaign, there was talk that Russia would remove its export quota altogether. However, it instead announced intentions to implement a huge 25.5m mt grain export quota that will run from February through to June.

Price forecast relatively neutral amid market volatility

	unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
CBOT	USc/bu	781	905	1073	812	**860**	**860**	**870**	**870**
Matif	EUR/mt	284	311	410	336	**340**	**345**	**330**	**325**

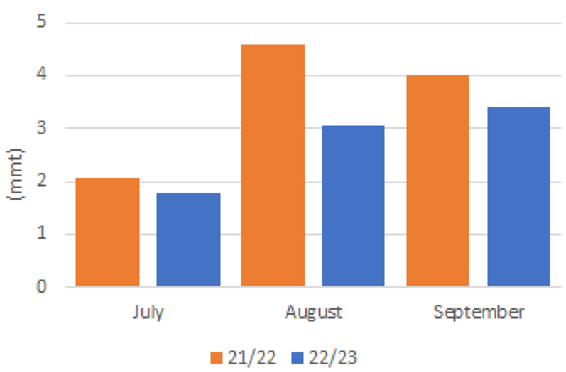


Source: Bloomberg Finance L.P., Rabobank 2022

Given the size of the quota, it is unlikely to limit exports at all. Focusing on the 2023/24 campaign, Russian production will likely return to normal levels (likely in the 80m to 85m mt range), but the export pace could remain high given an expected increase in stocks this season.

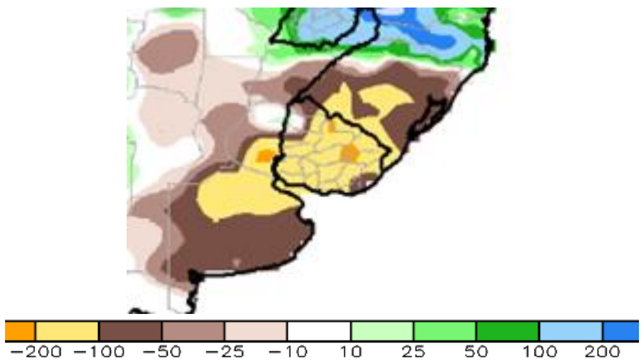
Drought conditions in Argentina are damaging yields, while eastern Australia faces a heavy downpour. In response to the adverse weather, the Buenos Aires Grain Exchange trimmed its latest 2022/23 production estimate by 1m mt, to 15m mt, citing recent frost (which has exacerbated the effects of the ongoing drought) as the predominant reason for the expected yield loss. The crop rating is now very poor, with a meager 11% rated good or excellent. The USDA also made a 1.5m mt cut to Argentine production (down to 17.5m mt) in the October WASDE and lowered exports by 1m mt, to 12m mt. The forecast provides little respite, with only scattered showers anticipated in the northern plains for the coming week. In Australia, La Niña is plaguing the east of the country, with heavy rains hammering the crop as we enter harvest. Although the country looks set to harvest a strong 32m mt, there are now fresh concerns about quality.

So far in the 2022/23 season, Russian seaport exports have fallen behind last year



Source: UkrAgroConsult, Rabobank 2022

Like September, October has provided minimal rainfall in Argentina (30-day total rainfall anomaly mm)



Source: NOAA, Rabobank 2022

Corn

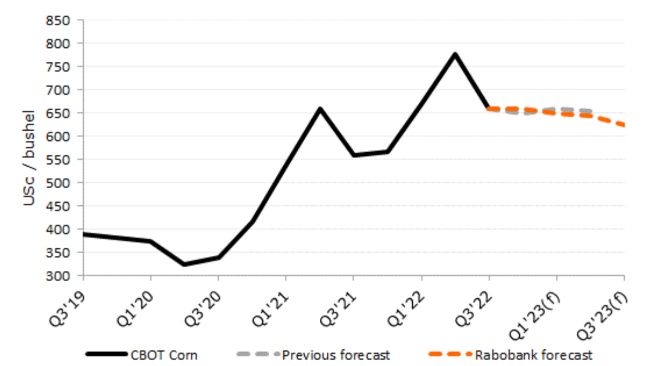
The CBOT Corn bull market is experiencing an inflection

- CBOT Corn prices are seen weakening with demand, but not much, as low US reserves demand a premium.
- Corn availability inside and outside the US will likely grow in 2H 2023.
- A bumper harvest for Brazilian soybeans would probably pull down corn, which vies with the former for acreage.

CBOT Corn scraped four-month highs of USD 7 this month, on prospects that US stockpiles would fall toward 1.1bn bu, about half the normal volume and the lowest in a decade. Prices eased back a little, as feed consumers increasingly recoil from high hedging costs, depriving CBOT Corn of the fuel to rise. World corn demand is now seen shrinking (3% YOY) for the first time in a decade, and cuts are softening the pressure on stockpiles and subduing inflation. US corn importers in particular are recoiling – with demand seen down 13% YOY – as US dollar strength pushes prices near record levels. Yet even domestic demand is impacted by recessionary tremors: US corn ethanol usage is seen falling 1% next year, vs. initial expectations of a Covid recovery.

The 2022/23 crop year will largely be a year to forget amid bare exporter stockpiles, export corridor struggles, and rising farmer inflation that should form a price risk bulwark for CBOT Corn around USD 6.25 into Q3 2023. Still, the second half of 2023 will allow fulsome opportunities for supply relief. Last month we referenced growing promise of South American production that could provide an inflection point for supply risk and a slow decline of prices. If recent rains in Brazil continue, it would allow a bumper soy harvest, which could in turn unwind price risk in bedfellow corn. Non-commercial net length in CBOT Corn is quite elevated into US harvest – around 175,000 lots; consumer reticence, along with higher production, may see their patience wear thin.

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Corn	USc/bu	567	670	777	659	**660**	**650**	**645**	**625**



Source: Bloomberg Finance L.P, Rabobank 2022

Soybeans

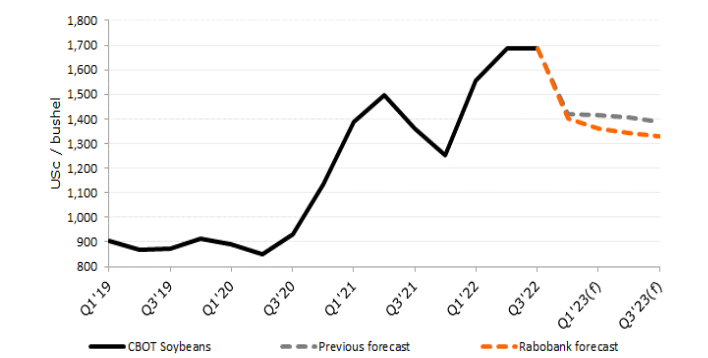
Headwinds from weak Chinese soy demand and Brazilian harvest are set to control CBOT inflation

- The US soy harvest was very poor, threatening to pressure stockpiles to their lowest volumes in nine years.
- Brazilian farmers may enjoy a rain-supported acreage increase of 4% in 2022/23, enough to pad global stocks.
- Weak Chinese demand, a surging US dollar, and improving alternatives are creating demand headwinds for CBOT Soy.

CBOT Soybean prices fell below USD 14.00/bu last month, near three-month lows. US 2022/23 stockpiles looked set for a demand-softened landing near nine-year lows. CBOT Soy is facing deflationary headwinds from South American harvest potential, likely up 35m mt in 2023. Global economic challenges, focused in China (60% of world soy demand), are compounding downside risk for prices, with our outlook revised lower toward USD 13.30 by Q3 2023. Lower prices will generate more demand from China, including for stockpiling.

The drought-stricken Mississippi River is the critical corridor for US soybeans during the peak post-harvest export window of October-December. Soy importers, already disappointed by a poor US harvest (-3.5% YOY), are increasingly focused on Brazil's harvest potential. Rest assured, it's absolutely massive, as higher acreage (+3.5% YOY) and good moisture through October relegate La Niña concerns. A normalized ~150m mt crop (along with higher crops in Paraguay and Argentina) will absolutely pad stockpiles – the question is where. While we are wary of low US 2022/23 soybean stockpiles, the USDA's 200m bu figure is likely overstated, as the US is currently hemorrhaging export demand. Granted, US crush margins are strong, but output growth pales in comparison to South America's bumper harvest. Why should the US see falling stockpiles in a year when others are rising? We don't think it should, or will.

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soy	USc/bu	1238	1580	1692	1685	**1400**	**1360**	**1345**	**1330**



Source: Bloomberg Finance L.P, Rabobank 2022

Palm Oil

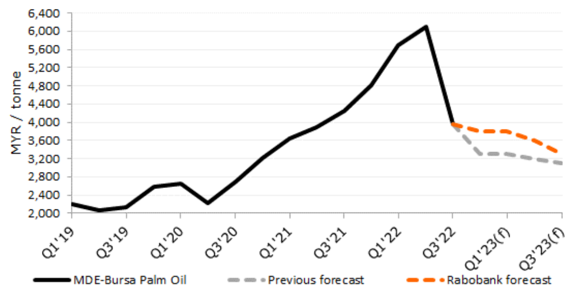
A tug-of war between global recession risks and volatility in global crude oil prices will determine the direction of palm oil prices in Q4 2022

- Malaysian palm oil inventories will remain relatively high in Q4 2022.
- Indian palm oil imports will be lower quarter-on-quarter in Q4.
- We expect Q4 palm oil prices to remain above MYR 3,200/mt.

Malaysian palm oil inventories will remain relatively high in Q4 2022. MDE-Bursa Palm Oil active contract prices plunged to MYR 3,226/mt in late September before subsequently stabilizing above MYR 3,700/mt during the third week of October. A tug-of war between global recession risks and volatility in global crude oil prices has caused volatility in palm oil prices in October, and we expect this to continue in the short term. According to the MPOB, Malaysian September palm oil production and inventories increased by 2.6% and 10.5% MOM, to 1.8m mt and 2.3m mt, respectively. Even though Malaysia's September palm oil exports increased 9.3% MOM, to 1.4m mt, this marks the highest monthly inventory levels since April 2020. Meanwhile, according to GAPKI, Indonesia's palm oil production and exports (including lauric oils) increased by 13.5% and 60.2% MOM to 3.9m mt and 4.3m mt, respectively, in August, while its palm oil inventories (including lauric oils) decreased by 31.6% MOM to 4m mt. We expect Indonesia's monthly palm oil exports to remain healthy for the remainder of Q4 2022, as the Indonesian government is expected to extend its zero-levy policy on palm oil exports for the remainder of the year. Hence, we expect Malaysian palm oil inventories will remain above 1.8m mt at the end of Q4 2022, due to the competitiveness of Indonesian palm oil export prices.

Palm oil prices will remain volatile, with a mild negative bias

	Unit	Q1'22	Q2'22	Q3'22	Q4'22(f)	Q1'23(f)	Q2'23(f)	Q3'23(f)
Palm Oil	MYR/ton	5,691	6,005	3,925	3,800	3,800	3,600	3,300



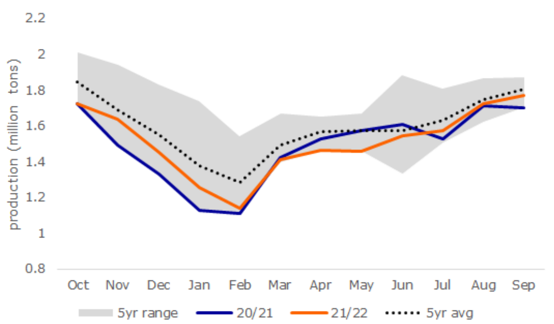
Source: Bloomberg, Rabobank 2022

Indian palm oil imports will be lower quarter-on-quarter in Q4 2022. India increased its edible oil purchases in September 2022 to prepare for festivities in October. According to the Solvent Extractors' Association of India, India's edible oil imports increased by 15.9% MOM to 1.6m mt in September 2022. During the same period, the country's palm oil imports increased by 17.9% MOM to 1.2m mt, while its soft oil imports increased by 10.9% MOM to 422,000 mt. We expect India's Q4 2022 palm oil import volumes will be lower quarter-on-quarter, due to high domestic edible oil inventories, tepid seasonal post-festivities demand, and domestic soybean availability.

We expect palm oil prices to remain above MYR 3,200/mt in Q4 2022. While we are of the opinion that, fundamentally, upward palm oil price movements will be limited in Q4 2022, volatility in global crude oil prices will still provide support to palm oil prices in the Q4 2022.

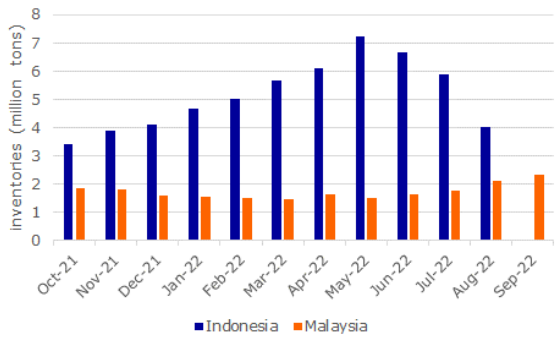
Weather in Malaysia will get wetter in Q4 2022, which could disrupt harvesting of fresh fruit bunches in the country. The annual northeast monsoon season, which usually occurs between November and March of the following year, is expected to bring heavy downpours and increase flood risks in Kelantan, Terengganu, Pahang, Johor, Sabah, and Sarawak.

Malaysia's monthly palm oil production shows signs of seasonal improvement



Source: MPOB, Rabobank 2022

Indonesian and Malaysian palm oil inventories remain higher year-on-year



Source: GAPKI, MPOB, Rabobank 2022

Coffee

So far in October, we have seen a heavy 15% ICE Arabica sell-off

- Due to the positive Brazilian outlook and demand-side concerns, we are seeing managed money dramatically reduce their net long position.
- Certified coffee stocks continue their downward spiral, and we expect them to fall even further in the coming weeks.

Good levels of rainfall in Brazil in recent weeks have reinforced expectations for a bumper crop next year. This, combined with demand worries, has triggered a heavy 15% ICE Arabica sell-off so far in October. Good levels of rainfall over the past 30 days in key coffee-growing regions have improved the outlook for the arabica crop. The weather has been favorable for flowering, and as a result, we are now seeing the first 'chumbinhos' (the green, not fully matured fruit) start to appear. Looking ahead, the one-week forecast provides further favorable weather, with more rain anticipated. Further forward, there is some risk of dryness. However, at present, conditions remain excellent. According to Cecafé, Brazilian green arabica coffee exports up to October 24 have increased by at least 6% MOM. We say 'at least' because preliminary figures are usually revised higher and because this period in October encompasses one more weekend than September.

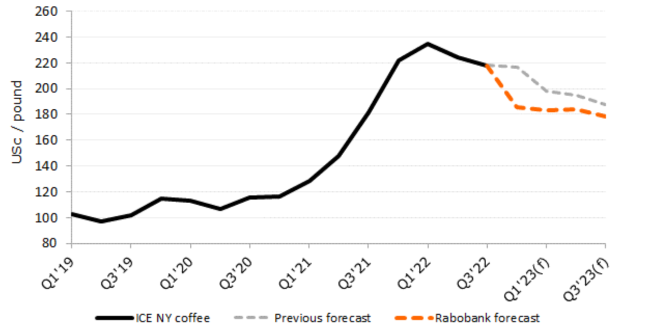
Due to the positive Brazilian outlook and demand-side concerns, we are seeing managed money dramatically reduce their net long position. In fact, the 21,998 net lots sold last week is a record since recording began in 2006. Another reason we may be seeing funds adopt a risk-off approach is due to concerns surrounding consumption. One international coffee shop reported falling sales in China during Q3 as a result of Covid-19 restrictions that prevented shops in many locations from operating at full capacity. There is fear among some market participants that we may see similar issues in Q4. More generally, there is ongoing concern that the drop in disposable income in quite a few countries could curb demand for premium arabica coffee.

Certified arabica stocks continue their downward spiral, and we expect them to fall even further in the coming weeks. There were 0.43m bags of coffee delivered against the September contract, which is most of the 0.67m-bag certified stocks at the start of September. At the time of writing, around 0.39m certified bags of coffee remain in ICE warehouses. The last time we saw stocks this low was back in 1999. This is fairly bullish for the front-month spread, as there is likely to be more coffee taken out of ICE warehouses by buyers in the near future. To a lesser extent, a sharper inversion of the front month could also affect the rest of the curve, and we therefore adopt a neutral price outlook off current levels.

Robusta futures did not avoid the October sell-off and have lost over 9% so far this month. Conillon exports out of Brazil continue to lag well behind last year's pace, and prices are still above the market, not to mention well above tenderable parity, which is strange given a record crop. Sluggish conillon exports may become more of an issue if we see any delay in Vietnamese new crop exports.

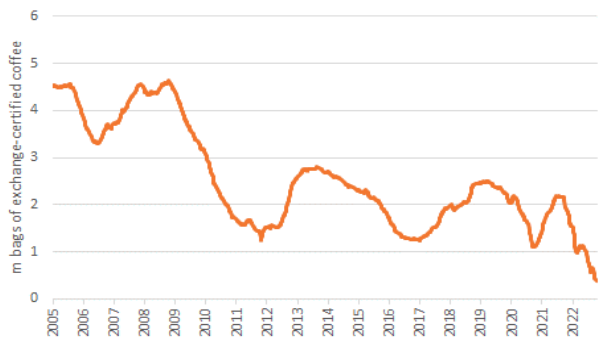
Arabica forecast revised downwards

	unit	Q1'22f	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
ICE Arabica	USc/lb	234	225	218	186	183	184	178
ICE Robusta	USD/mt	2196	2088	2130	2030	2000	1980	1980



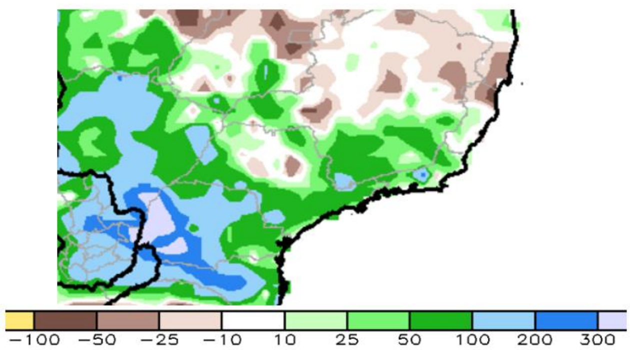
Source: Bloomberg Finance L.P., Rabobank 2022

Certified arabica stocks heading lower



Source: ICE, Rabobank 2022

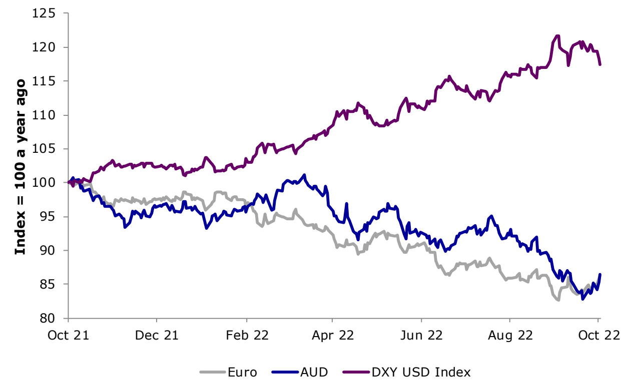
Weather in Brazil has been great. 30-day anomaly in mm:

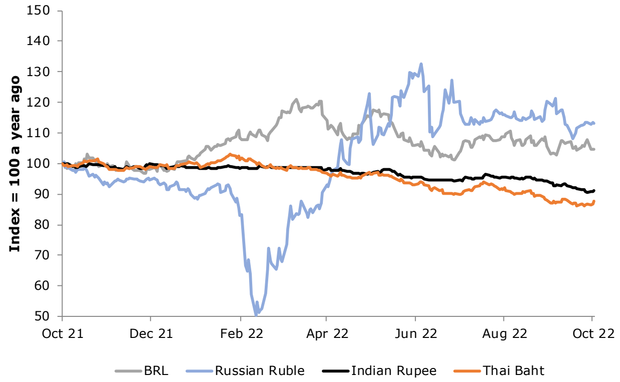


Source: NOAA, Rabobank 2022

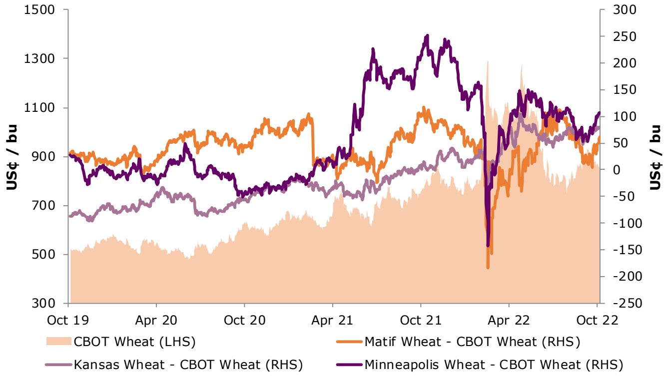
Agri Charts

Global Currencies USD Cross

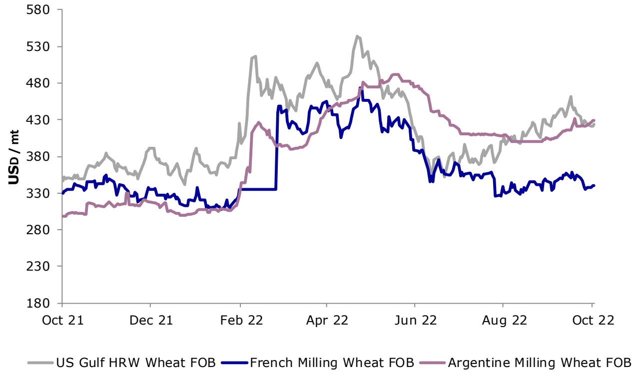




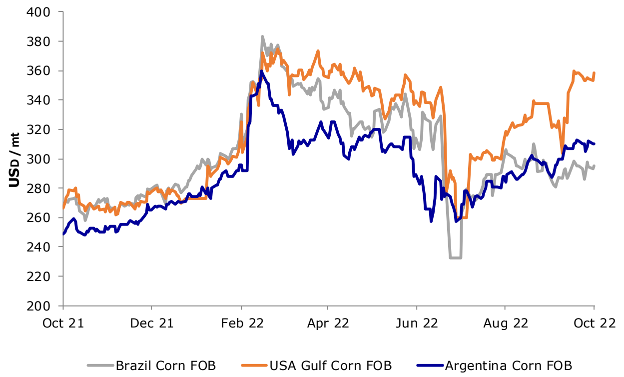
CBOT Wheat Spreads



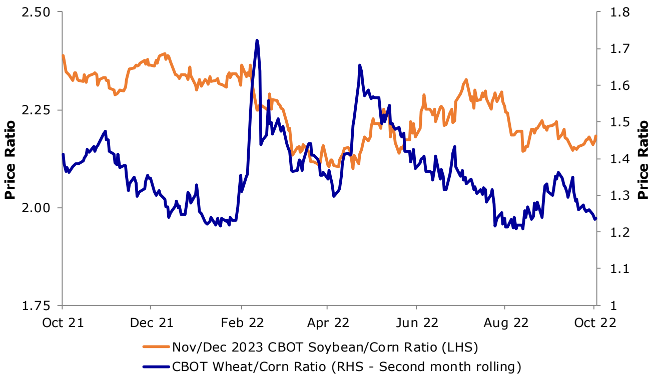
Wheat Protein FOB Prices



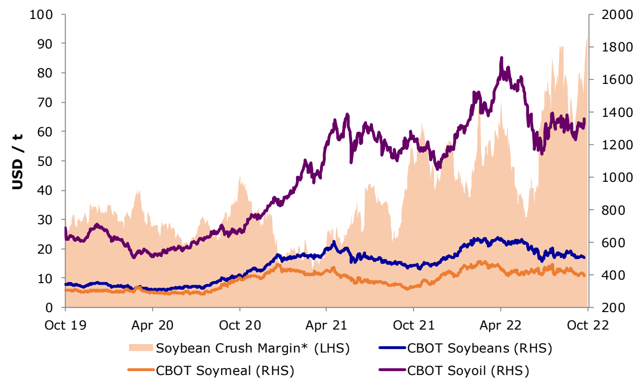
Corn FOB Prices



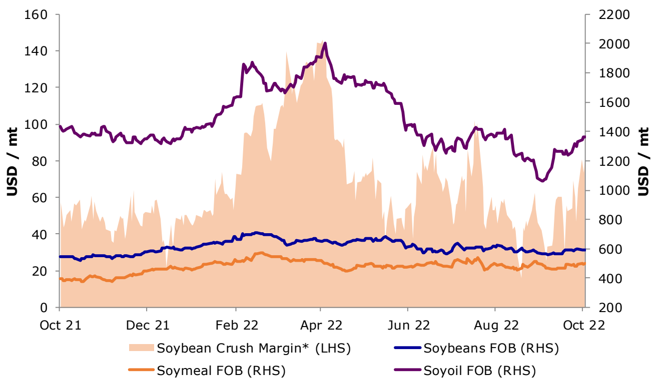
CBOT Ratios



CBOT Soybean Crush Margin

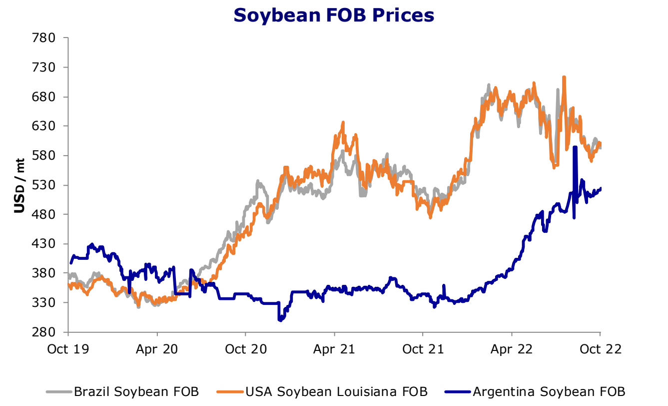


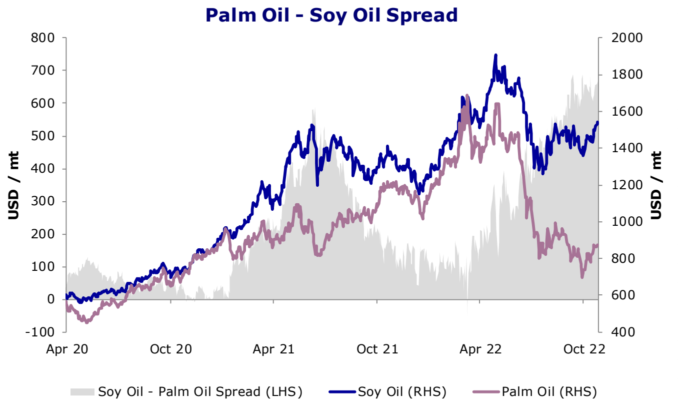
Argentina FOB Soybean Crush Margin

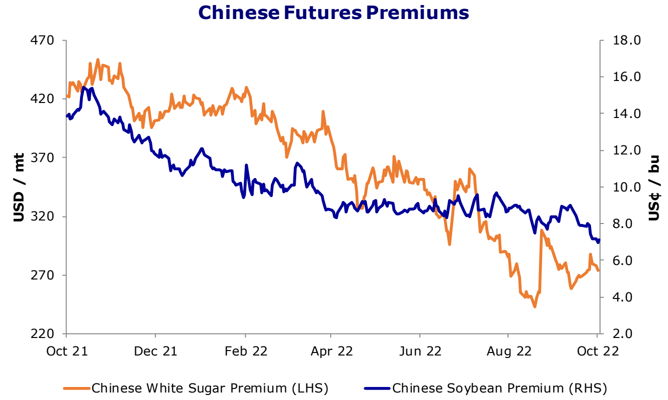


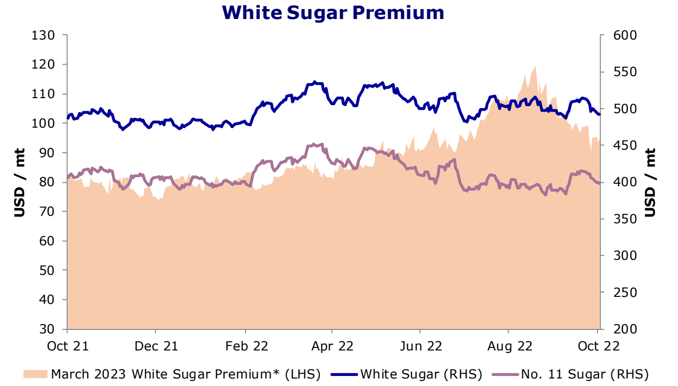
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

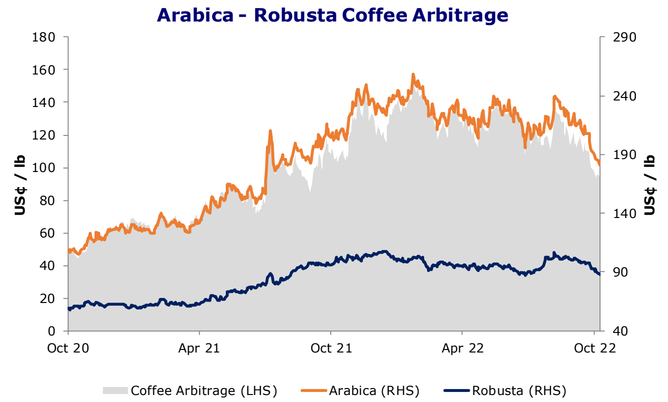
Agri Charts

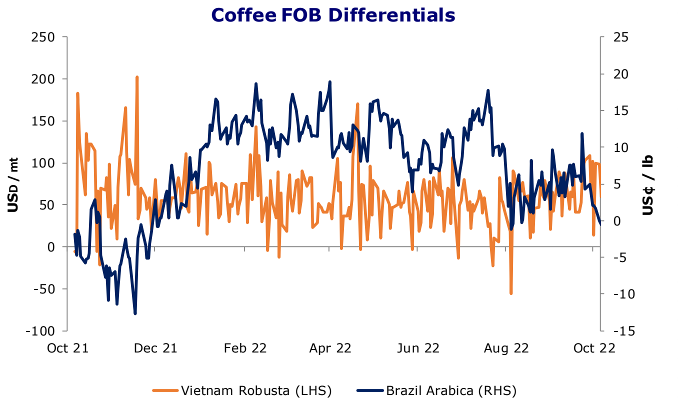


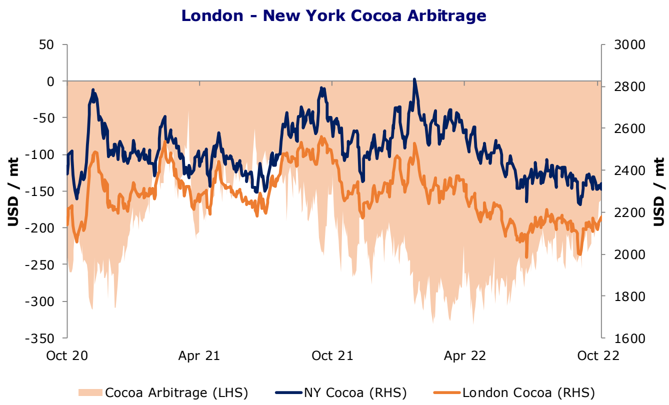


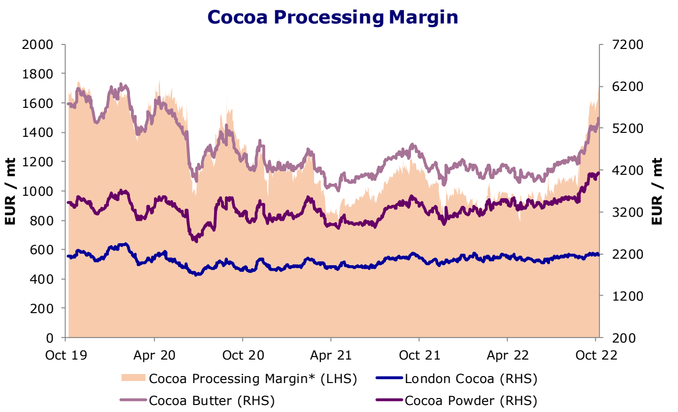












Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Imprint

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

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A summary of the methodology can be found on our website