Rabobank

Agri Commodity Markets Research

September 2021: No Time to Dine

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

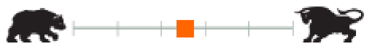
Agri commodity prices whipsawed in September, while energy prices soared on global supply concerns amid a backdrop of a strengthening US dollar. Farmers have no time to dine on the recent northern hemisphere harvest as weather continues to undermine their efforts, with persistent dryness in the US and Brazil affecting winter wheat plantings in the former and coffee and sugarcane in the latter. A potential re-emergence of La Niña could exacerbate drought risks in exactly these two areas. US harvest pressure may be fleeting; with stocks at multiyear lows it is unclear how much downward pressure can be exerted. Weather will likely continue to be a key factor for price direction.

WHEAT

CBOT Wheat forecast broadly maintained, as new risks balance

- Winter wheat plantings in the US are now at risk of drought during emergence.
- US export pace is lagging competitively priced peers.
- Argentina is stable, and Australia shows potential for further improvement.

SUGAR



ICE #11 Sugar prices to remain supported

- Indian export subsidies are unlikely, given good demand and strong international prices. Ironically, this should keep international prices elevated.
- Ethanol in Brazil has reached record BRL prices, rising 80% YOY and 3.6% MOM.

CORN

CBOT Corn is range-bound as small US harvest improvements provide a balm for buyers

- The USDA's yield and acreage expectations rise modestly.
- A 15bn bu US corn harvest frees some rationed demand, but supplies remain uncomfortable.

COFFEE

Let it rain

- Rains are delayed over Brazil's arabica areas, but, as long as they are consistent, flowering should be rather good.
- Shipping headaches continue to disrupt the normal flow of exports.

SOY COMPLEX

CBOT Soy outlook cut as weak China imports and US crush take pressure off low US stocks

- US soy's demand weakness – amid competition and slower Chinese procurement – offsets a weak harvest.
- Slowing Chinese soy imports and US biodiesel demand weaken the complex, though US crush is improving.

Dairy

Global dairy markets reflect strong Chinese imports and modest supply growth

- Skim milk and whole milk powder markets are expected to retreat as China's imports slow.
- After adding nearly 5bn liters annually in 2020 and 2021, the Big-7 dairy exporters are forecast to increase output by less than 3bn liters in 2022.

PALM OIL

Palm oil prices will continue to be supported by low Malaysian palm oil inventories

- Malaysian Q3 2021 palm oil production will be higher than Q2 2021.
- Indonesian palm oil inventories continued to increase in July 2021.

COTTON

ICE #2 Dec 21 Cotton kept rising in September, finding support above USc 100/lb

- Attention is moving to the US harvest, which is seeing delays and may see increased abandonment.
- New Non-Commercial shorts in cotton were likely squeezed out this month, as prices swung viciously.

Wheat

CBOT Wheat forecast broadly maintained, as southern hemisphere improvement balances risk to US plantings

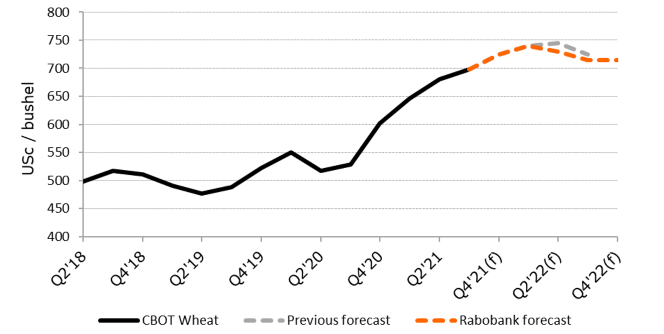
- Winter wheat plantings in the US are now at risk of drought during emergence.
- US export pace is lagging competitively priced peers.
- Argentina is stable, and Australia shows potential for further improvement.

Wheat markets were volatile this month but finished slightly higher than where they started. With harvest complete and wider confirmation over yields, 2021/22 production estimates are stabilizing, and focus is moving toward northern hemisphere winter wheat plantings and southern hemisphere weather.

In Europe and the US, a diverging situation is causing concern, as recent US dryness has the potential to develop into drought, while European conditions look mostly favorable for 2022/23 plantings. In the US, weather in the Central Plains has been shifting toward a drier pattern over the last month, resulting in the likely development of drought conditions through at least the end of the year. Although this means farmers will have plenty of opportunity to get into fields and plant – US winter wheat planting is making good progress at 34% complete, in-line with the five-year average – crop conditions and emergence may underperform the five-year average this autumn and put the crops at higher risk of deteriorating this winter. This could mean US production will struggle to expand in 2022/23, resulting in another year of tighter ending stocks, which could be broadly supportive of prices in the months ahead. In Europe, the outlook for next year looks relatively stable, with good conditions for planting and early development ahead of winter in most of the region. The lower availability of milling-quality wheat may mean exports are lower than expected, as more wheat moves to the

Wheat price forecast broadly maintained, as risks balance

	unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
CBOT	USc/bu	646	680	697	725	740	730	715	715
Matif	EUR/mt	227	219	233	250	255	250	225	225



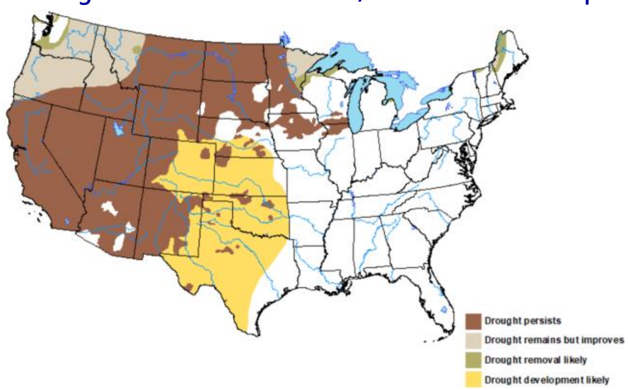
Source: Bloomberg Finance L.P., Rabobank 2021

local feed grains market. Even though this lower availability of milling-quality wheat in Europe is supportive of prices, the good outlook for next season and likely expansion of acreage in the region may temper the upside.

US exports appear priced out of the market for the time being. US export sales picked up during the September sell-off but quickly reverted back to the trend once prices recovered. US export sales appear stuck in a lull, trampled by aggressively marketed European cargos. The trend may revert if European availability tightens and consumers are forced to the US ahead of southern hemisphere harvests.

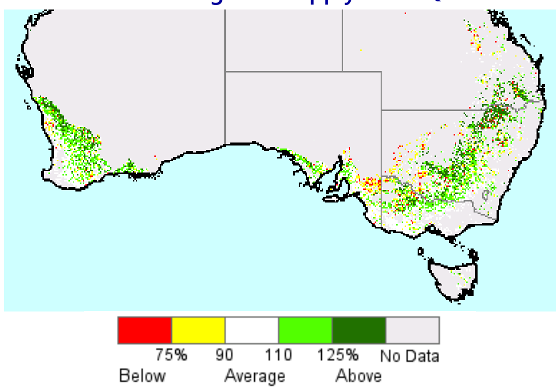
Southern hemisphere development is looking favorable, with good rainfall over the last month helping lift production outlooks in Australia and Argentina. Argentina had been embattled by dry weather, but conditions improved in September. The USDA revised down its estimate of Argentine wheat production last month by 0.5mmt, to 20mmt. Long-range forecasts suggest rainfall will be average to below average in the months ahead, and, as such, we cautiously estimate Argentine production at 19.6mmt. Australia continues to move from strength to strength, good crop health and good weather across forecast models could mean production meets the top end of estimates and even surpasses them.

Drought in the US Central Plains now seems likely, presenting nascent risk to the 2022/23 winter wheat crop



Source: NOAA, Rabobank 2021 Sept-Dec Drought outlook as of Sept 16

Healthy crops and good forecasts suggest Australia could provide a solid boost to global supply from Q4 2021



Source: USDA, Rabobank 2021 NDVI anomaly Aug 13 – Sept 13

Corn

CBOT Corn is range-bound as small US harvest improvements provide a balm for bruised buyers

- The USDA's yield and acreage expectations rise modestly.
- A 15bn bu US corn harvest frees some rationed demand, but consumers still face uncomfortable supplies.
- Brazil's safrinha harvest failure should mean global export demand pressure on the US will remain elevated.

CBOT Corn has experienced a controlled glide path into US harvest, thanks to late rainfall and higher production prospects. Rabobank maintains its CBOT Corn outlook for a sustained range between USD 5 and USD 6/bu, markedly above its historic altitude of USD 3 to USD 4/bu. The major northern hemisphere harvests were modest successes on the whole but in no way mark a return to the plentiful days of yore. As we point out in our August special, *Lend Me Your Ears,* major exporter stocks-to-use may remain stuck near 7% in 2021/22, 5% below the 2013–2020 average level that kept CBOT Corn confined below USD 4/bu. The year 2021 has demonstrated corn supply's inelasticity; increased availability is enticing price-repressed demand to return, though with a substantive US stockpile replenishment unlikely before 2023, this bull market has staying power.

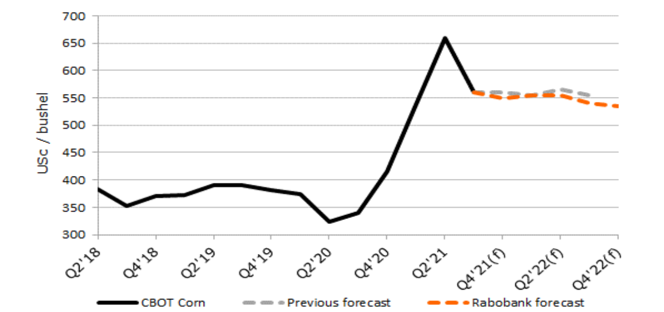
The northern hemisphere has begun harvesting its long-awaited summer corn, with early production estimates showing a modest but welcome 6% improvement over last year. Outside the US, Ukraine's strong production recovery, 39mmt (+9mmt YOY), will help relieve China's world-beating grain demand (46mmt in 2021/22, in line with last year), which has already purchased 12mmt from the US. In the US, drought encompassing one-third of corn acreage, and in particular the expansion areas to the north, has left national crop conditions at 59% G-E (6% below the five-year average), but the USDA's recent objective expansion of harvested acreage (+600,000, to 85.1m acres) and yields (+1.6bu, to 176bu/acre) have helped push the crop to the psychologically important 15bn bu level (+5.8% YOY). ACMR considers the USDA's US yield a high water mark and maintains its forecast closer to 175 bu /acre.

The situation for southern hemisphere corn production is notably worse than its northern neighbors. Brazil's harvested safrinha crop is an objective failure that will largely deprive world trade of its principal alternative outlet to the US until Q3 2022 at the earliest. Brazilian corn production is seen around 85mmt (-17% YOY), and export estimates have been cut by 15-20mmt since February. Ukrainian and Argentine export growth can cover half of that capacity shortfall; the remainder will either be replaced with other grains, rationed, or bought in the US. Amid the relative calm in corn markets, one should consider if Brazil's ongoing dryness and La Nina's likely re-emergence will precede CBOT price upside in a manner similar to last year, when prices rallied into the new year.

The hypothesis of demand rationing and short commercial coverage finds support in both the USDA and the CFTC. The USDA's US supply increase last month was largely offset by demand increases in exports and feed. Meanwhile, the CFTC commercial net positioning is the lowest since 2012, which could mean heavy harvest pressure or reticent buyers to date – neither of which are bearish indicators. Nascent northern corn harvests and slowing US export sales have diminished enthusiasm for CBOT Corn. Still, 2021/22 US corn commitments are running at 40% of the USDA's full-year projections, 12% ahead of the five-year average, and will rise as Ida-damaged silos, and uncovered consumers, return.

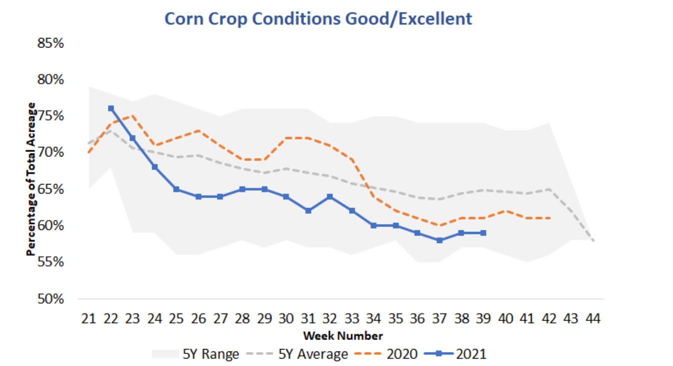
CBOT Corn's lofty price maintained

	Unit	Q1'21	Q2'21f	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Corn	USc/bu	536	659	560	550	555	555	540	535



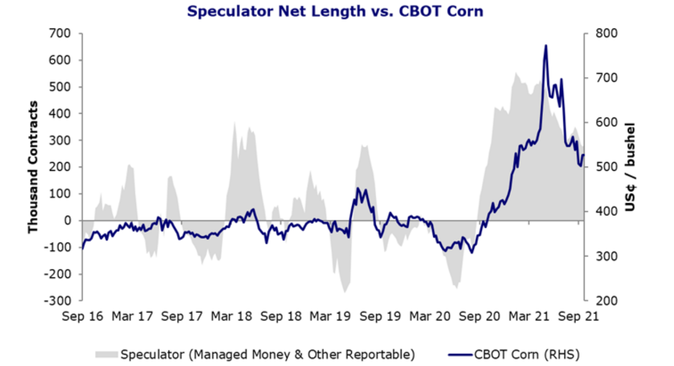
Source: Bloomberg Finance L.P., Rabobank 2021

US corn conditions declined since WASDE's 176.3 bu/acre print, could signal the high water mark for yields



Source: USDA, Rabobank 2021

Speculators have sold off, but CBOT Corn has remained well supported by commercial coverage moving off the sidelines



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

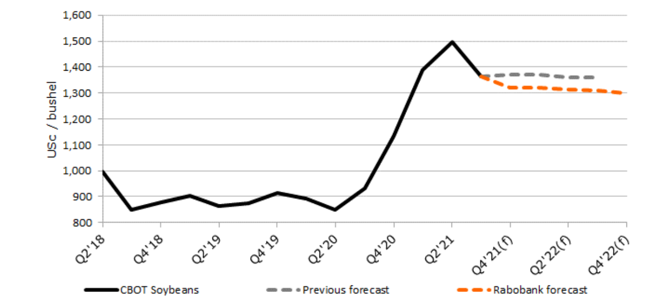
Soybeans

CBOT Soy outlook cut as weak China imports and US crush take pressure off of low US stocks

- US soy yields were boosted by the USDA, though harvest acreage cuts and poor crop conditions could limit upside.
- US soy's demand weakness – amid competition and slower Chinese procurement – offsets a weaker harvest.
- China's stockpiles of soybeans are shrinking after slower purchases in July and August – with a resupply eyed soon.

CBOT Soybeans are supported by low but sufficient supplies

	Unit	Q1'21	Q2'21f	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Soy	USc/bu	1388	1497	1364	1320	1320	1315	1310	1300



Source: Bloomberg Finance L.P., Rabobank 2021

US Soybeans dropped their leaves this month and revealed a decent production figure that sent CBOT Soy drifting downward toward USD 13/bu. Late, widespread summer rains juiced shriveled pods and, combined with weak demand for exports and crush, allayed concerns over enduring low US 2021/22 stockpiles of 180m bu. The late improvements in US soy harvest and moderating demand, both for export and crush, have relegated CBOT Soybeans towards USD 13/bu and led Rabobank to cut its price outlook by about 0.5 USD/bu along the curve. Our view has been shifted over the last month: though supply risks endure, high demand uncertainty during the peak US export period – and a USD near 12-month highs– create headwinds for CBOT Soy post-harvest price upside.

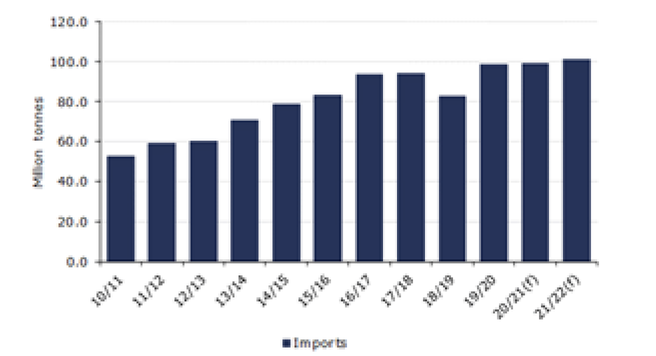
The US supply outlook has modestly improved, but that doesn't mean price risk should be completely ignored, particularly before yields are confirmed. The USDA this month raised US soy yield to 50.6bpa (+0.6bpa MOM), with some offsetting acreage losses (-300,000 acres MOM), and poor/very poor conditions fell from 16% down to 14%. Overall G-E conditions are steady at 58%, still six points below the five-year average, and the Northern Plains and Minnesota (25% of national acreage) have the potential to drag further on national yield potential. The narrative of US stocks-to-use remaining near 4% through 2021/22 is undoubtedly supportive for prices. Yet recent CBOT soy weakness is indicative that the world expects to 'get by' on nascent supplies and that rationing will be avoided. Still, buyers would be wise to carefully monitor US demand (domestic crush and export) and South American planting weather for sudden changes that deny a year-on-year decline/shift to South American origin.

Further CBOT Soy backsliding is reliant on South America overcoming planting dryness and a likely La Niña repeat this year. Last year, Argentina and Brazil barely escaped the weather phenomena that threatens dryness over key growing areas, fortuitously raising soy production by +3% YOY. Brazil's 82mmt soy export program and Argentina's 40.8mmt crush (+5.3% YOY) were indispensable outlets for global soy complex procurement. Brazilian farmer selling has since shriveled amid dry weather, falling inventory, and anticipation of La Niña's probable return. The slowdown has certainly cut into Chinese stockpiles – supporting crush margins and US purchases. China's purchases of US beans are at least one-third lower than last year at this date, and procurement must accelerate in the key US export period of November-December-January to achieve the USDA's export figure of 4,389m bu (-3% YOY). The USDA recently lowered China's 2021/22 soy imports by 2mmt, to 101mmt (+2% YOY), flashing a warning sign for its demand amid falling soymeal inclusion in feed rations. China appears to be running lower stockpiles; however, their apparent dependence on South American harvest early next year may quickly yield in favor of US supply security if dryness extends into the growing season or if geopolitical trade tensions ease.

US Soy commitments are in-line with the five-year average, but improvements are needed to hit USDA's 2021/22 target

Source: USDA, Rabobank 2021: red line is USDA's export projection of 57.3m mt

CBOT Soybeans have weakened amid China's slowed/stalled import growth – seen at 2.2% in 2021/22



Source: USDA, Rabobank 2021

Soymeal and Soy Oil

Weaker demand growth softens CBOT Soymeal and Soy Oil, but prices steadied by low reserves

- US 2021/22 soy yield improvements grow supplies.
- Slowing Chinese soy imports and US biodiesel demand weaken the complex, though US crush is improving.
- CBOT Soymeal and Oil upside is limited by South American byproduct availability and export competition.

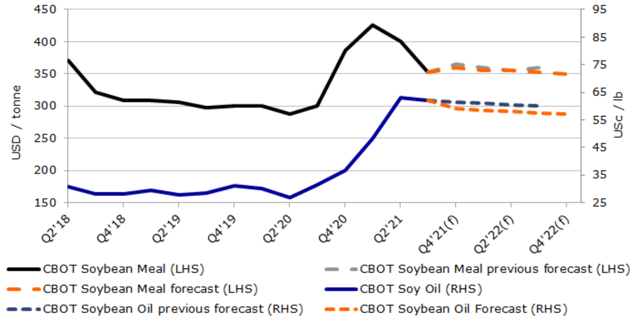
CBOT Soy Oil, 2020's golden performer, continued to lose its luster in September. Prices fell 5% and steadied between USc 55/lb and USc 58/lb. Oilseed output expectations have risen in the US, thanks to late, yield-boosting rains for developing soybeans. Meanwhile, the recent outsized demand growth of non-food uses for soy oil continued to weaken on the combination of restrictive prices and growing alternatives. These alternative uses of soy oil – for feed and biodiesel – are impressive and still widely expected to drive 2021/22 vegetable oil supplies to their lowest in about five years. Yet there are signs that feed's growth is behind us, as China's (~30% of global soy oil demand growth in 2020/21) new harvests of corn ease or reverse last year's feed substitution.

The capacity chasm between biodiesel output and mandates have contributed to such high prices that delays in mandates for biodiesel use were inevitable. Rollbacks are already seen in Argentina and Brazil, which recently lowered biodiesel mandates. Indonesia and US achievements are highly doubtful. The USDA this month rolled back its expectations for US 2021/22 biodiesel growth for a second consecutive month, a cumulative 1bn lb (-8.3%), though it still expects a 25% YOY increase. There are increasing signs that the EPA will delay biodiesel increases this year because of lack of biodiesel capacity and high prices for soy oil, a high-quality food product. There is a clear urgency to rebalance the food vs. energy soy oil demand split (hence, the USDA has increased 2021/22 food use by +600,000 lb in the last two months). Rabobank has long posited that sudden US domestic demand intensity would lead to export rationing (-27% in 2021/22, following a 40% decline in 2020/21) and biodiesel demand being delayed into future years; this hypothesis drove our initial call of a break in short-term contracts and longer-term price support for CBOT Soy Oil. Our price forecast is brought down around USc 2.5 along the curve amid improved oilseed availability, though prospects for a strong, US-centric market provides longer-term support.

CBOT Soymeal churned near 12-month lows last month, settling between USD 340 and USD 350/mt (5% below our forecast) as discounts didn't offset concerns about sluggish Chinese demand. NOPA gave a glimmer of hope with a second month of crush growth in August (+2.2%) amid the slower year (-4.5% YTD) and ongoing deterioration in the USDA's crush view (now only +1.8% in 2021/22). Argentina's 2020/21 crush growth (+5.3% YOY) is expected to continue next year and poses a long-term challenge for US export competitiveness. China's falling soymeal-inclusion ratio, amid low pork prices and crush margins, has already raised questions about the strength of its soy import demand growth, which the US has revised to a modest 2.2% in 2021/22. Now, electricity shortages are disrupting crush and challenging expectations of revitalized demand at a critical US export period that would support CBOT Soymeal prices. The dryness in Brazil ahead of plantings and low US reserves are concerns, but CBOT Soymeal prices will struggle to rise above USD 360/mt over the coming year amid slowing Chinese demand growth.

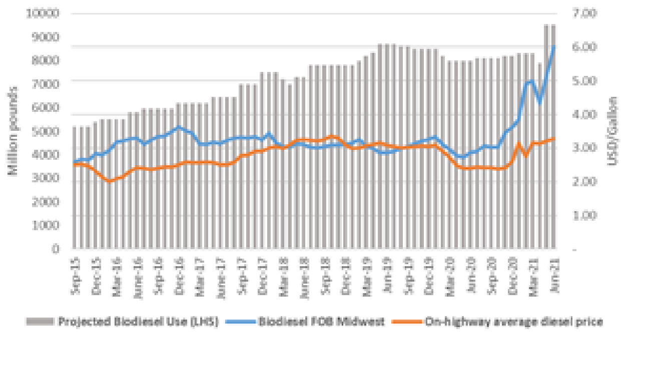
CBOT Soy Oil Soymeal reduced by nearby demand delays

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Soymeal	USD/ton	426	400	352	360	355	355	352	350
Soy Oil	USc/lb	48.1	63.1	61.9	59.0	58.5	58.0	57.5	57.0



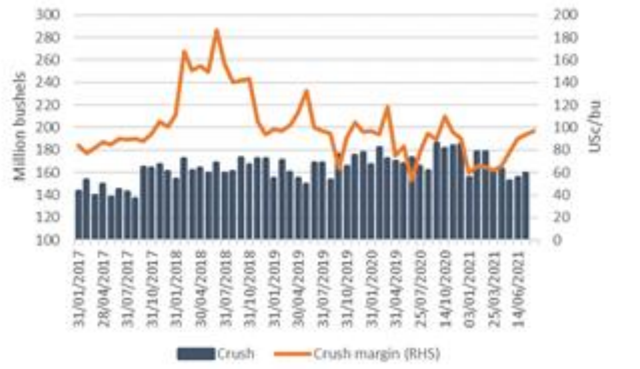
Source: Bloomberg Finance LP, Rabobank 2021

US soy oil demand for biodiesel has increased sharply despite widening premium to diesel, encouraging policy changes



Source: USDA, DOE Rabobank 2021

US crush margin improvement has helped improve output in the last two months, albeit from weak levels



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

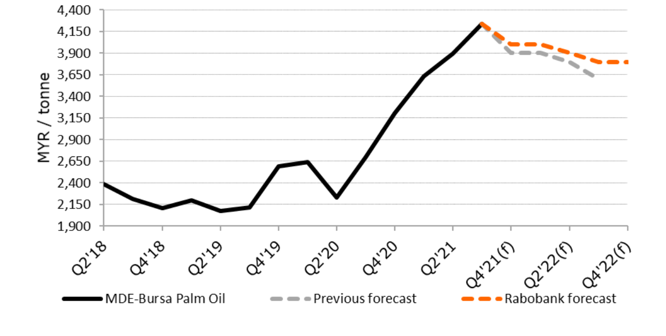
Palm Oil

Palm oil prices will continue to be supported by low Malaysian palm oil inventories

- Malaysian Q3 2021 palm oil production will be higher than Q2 2021.
- Indonesian palm oil inventories continued to increase in July 2021.
- The narrowing spread between soy oil and palm oil prices will limit the increase in palm oil prices.

We revise our price forecast higher

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22
Palm Oil	MYR/ton	3634	3892	4237	4,000	4,000	3,900	3,800	3,800



Source: Bloomberg Finance L.P., Rabobank 2021

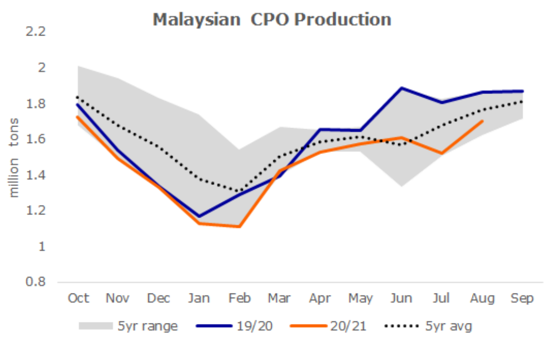
MDE-Bursa Palm Oil active contract prices have continued to hover between MYR 4,100/mt and MYR 4,500/mt in September 2021. MPOB's August 2021 data was bearish for palm oil prices, with Malaysian Q3 2021 palm oil production seen higher than Q2 2021. However, bullish factors provided support to palm oil prices in September 2021. One of these factors was MPOB lowering its Malaysian 2021 palm oil production outlook to 18mmt, versus production of 19.1mmt in 2020. Another bullish factor was the Indian government's decision to lower edible oil import taxes to reduce domestic edible oil prices. According to MPOB, Malaysian August 2021 palm oil production and inventories increased by 12% MOM and 25% MOM, to 1.7mmt and 1.9mmt respectively, while Malaysian August 2021 palm oil exports decreased by 17% MOM, to 1.2mmt. Meanwhile, surveyors' reports showed that Malaysian palm oil exports for the first 20 days of September 2021 increased between 38% and 43% MOM. Despite this increase, we expect Malaysian September 2021 palm oil inventories to remain above 1.5mmt, as the seasonal palm oil production upcycle will maintain Malaysian September 2021 palm oil production at a relatively high level.

Malaysian palm oil plantations' labor-shortage issue will persist for at least the rest of 2021. The Malaysian government approved a special grant in September 2021 for 32,000 foreign plantation workers, to ease the labor shortage in the plantation sector. While this is much welcomed news, we are of the opinion that the impacts of this policy on Malaysian palm oil production will only be felt in 2022. This is because additional time will still be needed to source, bring in, and train these plantation workers.

Indonesian palm oil inventories continued to increase in July 2021, due to palm oil production recovery and weak domestic consumption. According to GAPKI, Indonesian July 2021 palm oil (including lauric oils) inventories increased by 6% MOM, to 4.6mmt, while Indonesian palm oil production (including lauric oils) decreased by 9.5% MOM, to 4.4mmt. We expect palm oil inventories in Indonesia will remain above 3mmt throughout 2H 2021, due to higher Indonesian palm oil production in 2H 2021 versus 1H 2021.

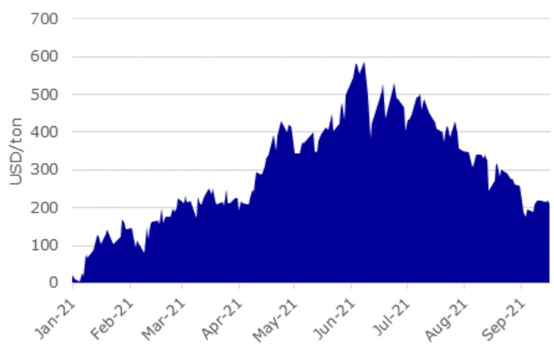
The narrowing spread between soy oil and palm oil prices will limit the increase in palm oil prices. Inadequate US 2021/2022 soybean export sales and crush pace pressured US CBOT soybean complex prices in September 2021. As a result, the spread between CBOT Soy Oil active contract prices and MDE-Bursa Palm Oil active contract prices narrowed to around USD 200/mt in the third week of September 2021 as compared to a spread above USD 500/mt in June 2021. This increases soy oil's attractiveness compared to palm oil.

Malaysian palm oil production recovered in August 2021; however, monthly production remained lower year-on-year



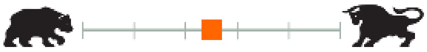
Source: MPOB, Rabobank 2021

The narrowing spread between soy oil and palm oil prices increases soy oil's attractiveness



Source: Bloomberg, Rabobank 2021

Sugar



ICE #11 Sugar prices to remain supported

- Indian export subsidies are unlikely, given good demand and strong international prices. Ironically, this should keep international prices elevated.
- Ethanol in Brazil has reached record BRL prices, rising 80% YOY and 3.6% MOM.

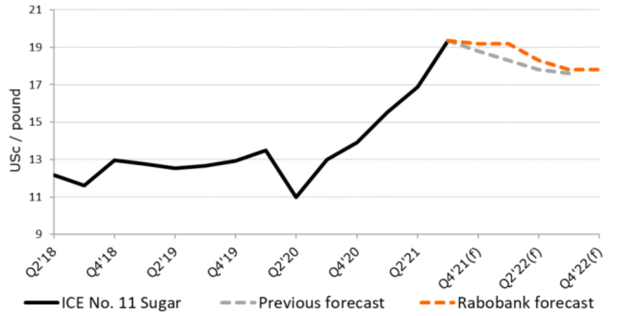
ICE #11 March 22 has seen a 2.6% drop so far in September. However, we continue to see a very strong ethanol market in Brazil (despite some relaxing of internal regulations to allow mills to sell directly to petrol stations, something not expected to have much of an effect on country-wide ethanol prices). At the moment, the ethanol parity is trading at around USc 18.5/lb, so room to the downside is limited. So far in September, ethanol prices have increased slowly, and this trend may continue as harvested volumes slow down going into the off-season, which is expected to be more extended than usual. Hydrous ethanol prices in Brazilian reais are at record levels, and this is happening even though petrol is much more attractive at the pump than ethanol. If the increase in international Brent prices so far in September (11%) were to be maintained and transferred to domestic prices in Brazil, the ethanol situation would look even tighter, allowing for further price increases before the off-season.

The market sometimes assumes normal weather ahead, but this may not be the case. Much of the availability of cane next year depends on a good rainy season. Brazil is seeing a delay in the return of the wet season, with only small amounts of rainfall so far and with some, but not enough, in the short-term forecast. At the same time, high temperatures across the sugar belt are increasing the evapotranspiration from the plants and the soil. Anything less than normal rain in Q4 will adversely affect production next year, as a severe soil moisture deficit will need to be alleviated. On top of this, La Niña looks increasingly likely by the southern summer (70%-80%), and it correlates with drier-than-normal weather in southern Brazil (though, of course, this correlation is far from perfect, and the dry weather sometimes stays further south than the sugarcane belt). Weather may normalize, but, at present, there is not a strong reason to assume this.

Demand for whites seems to be recovering. The white sugar market has been more supported than the raws market. This has led to the Mar/Mar white premium recovering to USD 72/mt, which is more in line with our expectations. As stated in previous reports, the market incentive to kickstart toll refining might be significantly higher than before, considering skyrocketing prices for container shipping (and also, to a lesser extent, for bulk shipping). The start of the 2021/22 season in Thailand toward Q4 could bring some relief, but transport costs will be an issue. Meanwhile, in India, we don't expect to see export subsidies for the time being, as current sugar levels seem high enough to incentivize some unsubsidized exports from coastal areas. But in the end, the approval of subsidies is a political decision and hard to forecast just by looking at markets.

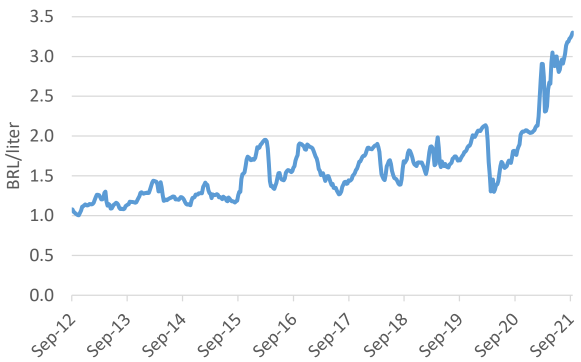
ICE #11 Sugar price forecast neutral

	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**



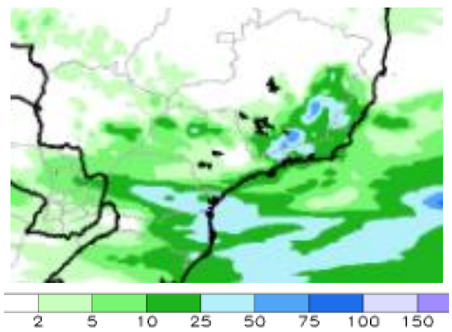
Source: Bloomberg Finance LP, Rabobank 2021

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



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

Some rainfall over sugarcane in the coming week (mm), but much more is needed for cane to kickstart growth



Source: NOAA, Rabobank 2021 Issued 28 September 2021

Coffee

Let it rain

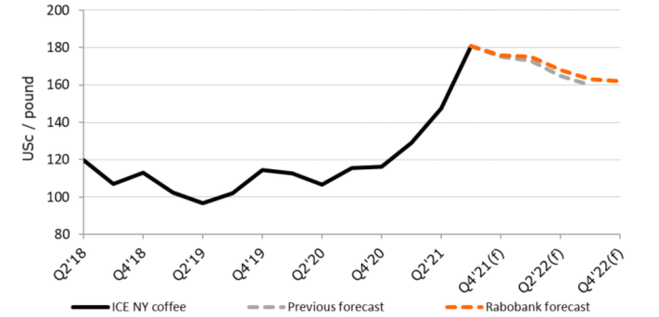
- Rains are delayed over Brazil's arabica areas, but, as long as they are consistent, flowering should be rather good.
- Shipping headaches continue to disrupt the normal flow of exports.

ICE Arabica prices continued to trade within their recent range last month to finish mostly unchanged. The weather market has continued to keep coffee prices supported this month but may be showing the early signs of a shift. Weather forecasts have begun to swing, showing good volumes of rainfall in areas previously missed, which, if realized, could be the beginning of more consistently high volumes with the potential to produce good sustained flowering. With September mostly behind us, the risk of a flower abortion event caused by a flash rainstorm followed by a dry period is significantly reduced. The market will likely wait for flowering to be confirmed and a few weeks of good rainfall before shifting sentiment. Some long-range forecasts suggest rainfall will be average to above average in the Brazilian arabica coffee belt, but we will have to wait and see.

Local arabica prices in Brazil hit new records this month, as the BRL fell 3.9% in September against the USD. The record prices should incentivize selling out of Brazil. However, it seems that supply may be struggling to keep up with demand. Container availability in Brazil is stressed, and the situation remains uncertain, helping lift both ICE Arabica and Robusta contracts, which are delivered. Exports for September are estimated to come in well below last year, similar to previous months this year – August exports of arabica were 23.8% lower year-on-year, at 2.1m bags. The steep rise in shipping prices will likely continue to impact coffee exports out of Brazil until next year and could help prevent a significant drop in prices until then.

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

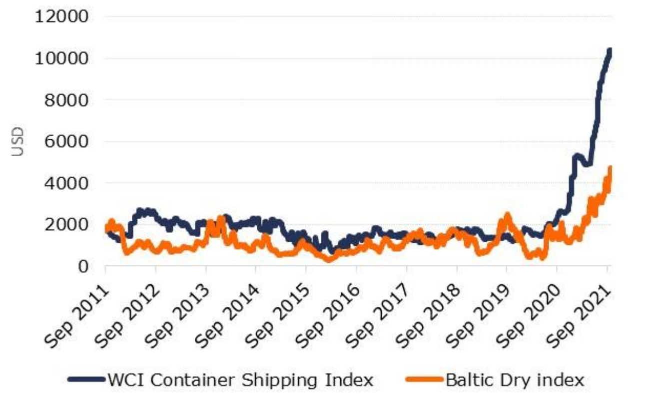


Source: Bloomberg Finance L.P., Rabobank 2021

Certified stocks showed their first substantial decline in almost three months, as demand appears to be very much alive. Consumers may have been waiting for dips that failed to materialize and now have fewer choices. The northern hemisphere winter may test demand's resolve. Rising energy prices, logistics issues, and inflationary concerns may weigh heavily on consumers' minds this winter and may have the power to lower coffee consumption estimates in Q4 as GDP growth flounders, curtailing the recovery in coffee demand. At current prices, we would expect some demand destruction. We continue to estimate a global deficit in 2021/22, pressured by disruptions in shipping. Our view for 2022/23 is still developing, but it seems that the demand trends we are currently seeing may persist for at least part of the season.

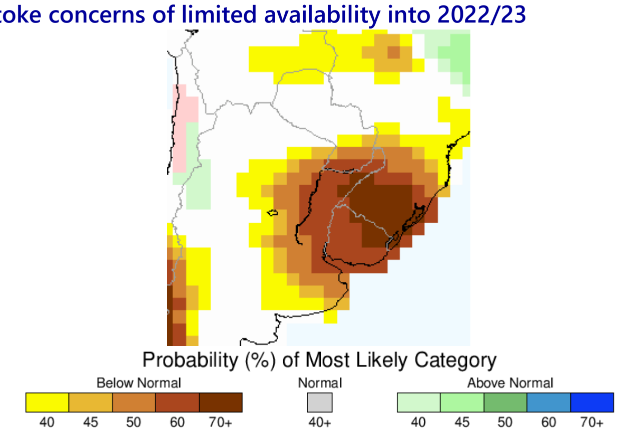
Robusta prices have climbed further this month, with ICE prices making new contract highs. Prices in Brazil also reached record levels on fevered domestic and international demand, with the arabica-robusta arbitrage at around USc 100/lb. Supply is becoming a concern, as Brazil's conillon areas may be impacted by drought in the year ahead, with long-range forecasts showing dry weather and drought potential. Irrigation can help, but not fully offset, the dry weather. Strict lockdowns this month in Vietnam helped push prices higher, and the situation appears to be improving but only slowly. Restrictions and checkpoints remain in place, and the rise in shipping costs, lack of container availability, and booking cancellations continue to disrupt the normal flow of exports.

Shipping prices continue to be parabolic, with potential to last into 2022



Source: Bloomberg Finance L.P., Rabobank 2021

Drought forecasted for Brazil's robusta regions is helping stoke concerns of limited availability into 2022/23



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

Dairy

Global dairy markets reflect strong Chinese imports and modest supply growth

- Skim milk powder (SMP) and whole milk powder (WMP) markets escalated into 2H 2021 but are expected to retreat as China's imports slow.
- After adding nearly 5bn liters annually in 2020 and 2021, the Big-7 dairy exporters are forecast to increase output by less than 3bn liters in 2022.

Global milk supply has been on an extended run of uninterrupted growth, which we expect to continue into 2022, though at a slower pace than experienced in 2020 and 2021. The growth rate has been sustainable without becoming overly burdensome for markets so far, but any slowdown in global demand would quickly lead to inventory build.

Milk prices are mostly higher, but farm margins around the world are mixed. High feed prices and general input cost inflation are a common thread, but the ability to withstand the cost pressures depends on the milk price. Much of the world is experiencing high enough milk prices to offset higher costs. However, the US market has experienced heavier milk supplies, which continue to weigh on milk prices, and EU milk prices are barely keeping up with the rising input costs.

Feed costs are generally higher, without much hope on the horizon for a turnaround. Drought-stricken corn crop conditions in the US are bleak and keeping prices elevated, though demand destruction limits additional upside.

Logistics disruptions continue, and transportation costs have skyrocketed. Container availability woes continue to cause headaches for exporters. Aggressive zero-tolerance lockdown policies for Covid cases in China have, and could continue, to lead to sporadic shutdowns of ports, making matters worse.

Near-term peak is likely behind

		2021				2022		
		Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q4f
Butter								
Europe	EUR/mt	3,607	4,056	3,985	4,125	4,125	4,100	4,100
US	USD/mt	3,236	4,000	4,090	4,040	3,930	4,150	4,335
Oceania	USD/mt	5,092	5,182	4,560	4,800	4,500	4,600	4,600
Cheese								
Europe (Gouda)	EUR/mt	3,162	3,228	3,310	3,275	3,250	3,200	3,200
US (Cheddar)	USD/mt	3,559	3,845	3,875	3,850	3,600	3,750	3,930
Oceania (Cheddar)	USD/mt	4,219	4,405	4,055	4,200	4,200	4,300	4,300
Dry whey powder								
Europe	EUR/mt	862	992	960	950	950	925	925
US	USD/mt	1,116	1,405	1,395	1,250	1,100	1,050	960
Skim milk powder								
Europe	EUR/mt	2,338	2,541	2,525	2,550	2,475	2,475	2,550
US	USD/mt	2,475	2,710	2,845	2,845	2,830	2,800	2,800
Oceania	USD/mt	3,466	3,473	3,040	3,150	3,100	3,150	3,200
Whole milk powder								
Europe	EUR/mt	2,918	3,189	3,160	3,100	3,050	3,075	3,100
Oceania	USD/mt	3,652	4,093	3,600	3,450	3,300	3,250	3,400
South America	USD/mt	3,250	3,500	3,450	3,250	3,250	3,250	3,250

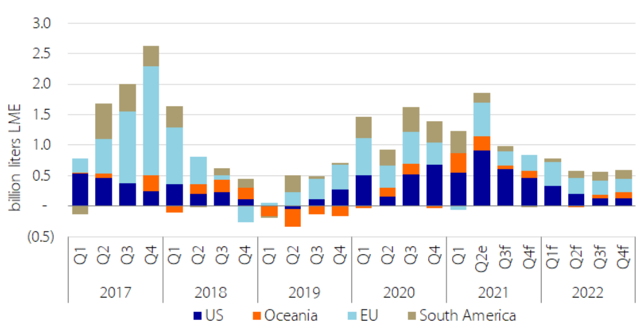
Source: USDA, Rabobank 2021

Despite logistics problems, dairy commodities have continued to move through global markets. Global dairy import demand improved by 7% YOY in product volume during 1H 2021. China, the largest importer of global dairy commodities, posted a 31% YOY rise in import volumes across the first half of the year.

China is expected to reduce imports beginning in the second half of 2021. Assuming no inventory change at year-end 2021 Rabobank expects imports in liquid milk equivalents to fall by 26% YOY in 1H 2022 (due to a higher base experienced in 1H 2021) and decline by 15% YOY in 2H 2022, representing a 22% YOY decrease in imports. This results in an estimated reduction of 160,000mt and 82,000mt, respectively, in WMP and SMP imports for 2022 vs. 2021. Global markets may be able to absorb lost sales through 2021, but pressure will be felt in 2022, initially in Oceania but eventually rippling through global dairy markets.

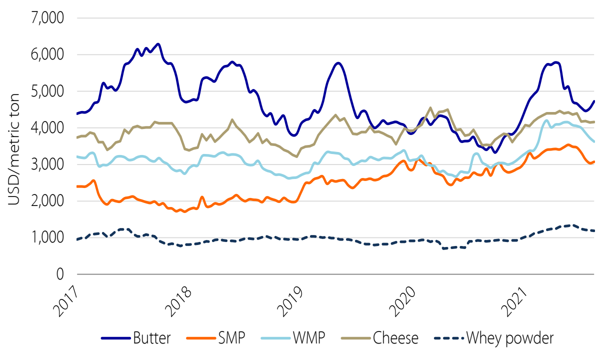
The near-term peak in global dairy commodity prices is likely behind us. Prices cooled in the second quarter, and they will be heavily dependent on import demand for the rest of this year, with all eyes on China as a source of risk to the downside.

Milk production growth, Big-7 exporters (actual and Rabobank forecast), Q1 2017-Q4 2022f



Source: Big-7 government industry agencies, Rabobank 2021

Dairy commodity prices, FOB Oceania*, 2017-2021



Source: USDA, Rabobank 2021. *Whey is FOB in Western Europe

Cotton

ICE #2 Dec 21 Cotton kept rising in September, finding support above USc 100/lb

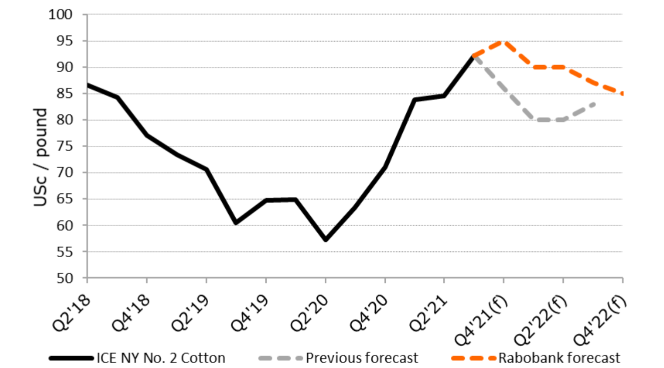
- Attention is moving to the US harvest, which is seeing delays and may see increased abandonment.
- New Non-Commercial shorts in cotton were likely squeezed out this month, as prices swung viciously.
- US harvest price pressure may be lower than previously expected.

Cotton prices surged in late September, as markets reach a tipping point ahead of the US harvest, with pressure building for the US to provide the supply panacea. After a brief sell-off, Dec 21 cotton rose 5.3% MOM. Demand pressure appears to be propelling cotton to new heights, with China returning to drive US export sales amid a slow export pace out of Brazil. The USDA may be forced to revise its expectation for global demand higher again this month in a pattern that has seen successive month-on-month increases in 2021/22 global consumption estimates since they were first published back in May. US export sales appear in the crosshairs of eager consumers, as sales volumes rise and achieve good levels despite high prices. US cotton exporters appear to be coping with disruptions and high shipping costs, as exports tick along at the five-year average while other commodities struggle to keep pace. The steady demand despite nearing the peak of the US harvest may mean harvest price pressure occurs to a lesser degree than previously expected. As such, we have raised our Q4 forecast but remain bearish to the curve.

A short squeeze in cotton: September saw unprecedented volatility in cotton, as prices fell and then proceeded to rise 11%. Non-Commercials sold heavily as of September 21, shedding almost 15,000 lots, the largest net sales volume since May 2019. The move was mostly profit-taking from Non-Commercial longs and Commercial dip-buying, but there were around 4,000 new

ICE #2 Cotton raised but still below curve

	Unit	Q1'21	Q2'21	Q3'21	Q4'21f	Q1'22f	Q2'22f	Q3'22f	Q4'22f
Cotton	USc/lb	83.9	84.5		86	80	80	83	83



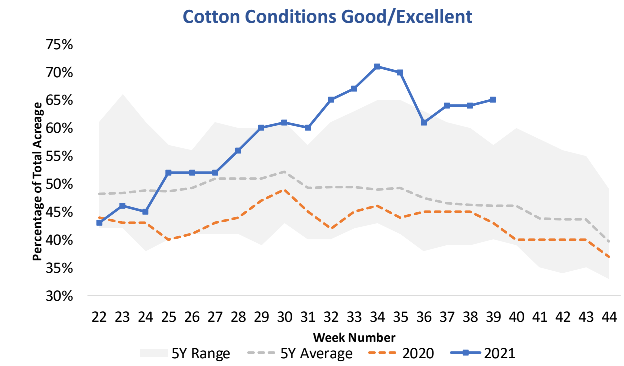
Source: Bloomberg Finance L.P., Rabobank 2021

Non-Commercial short positions that would have come under pressure, as prices quickly reversed the move.

Demand may continue to surprise in the months ahead, despite macroeconomic concerns in Q4 2021. We estimate the USDA is still underestimating global demand, and there is scope for global ending stocks to tighten further. Recent cool weather for many of the US cotton areas and wet weather in the one-week forecast may be adding further delays to cotton maturation and slowing harvest of the already-delayed crop. The US cotton harvest is estimated at 11% complete, compared to the five-year average of 14%. States that would normally be leading the way, such as Arkansas, Louisiana, and Mississippi, are falling behind. Abandonment may creep up in these fledgling states, lowering the USDA's US 2021/22 production estimate closer to 18m bales.

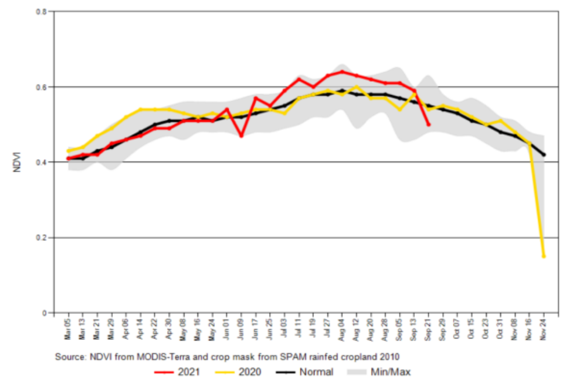
Production in India and China may also surprise to the upside, but it will likely see relatively balanced increases in demand. Attention will be paid to the quantity of Chinese imports and US export sales in the coming months, as both have a way to go to meet the USDA's current expectations, but the trends are looking favorable. We see scope for these expectations to be met and potential price pressure from harvest, but high shipping prices and potential delays may add volatility.

US G-E crop conditions remain very good at 65%, but the crop is still not made



Source: USDA, Rabobank 2021 as of Sept 26

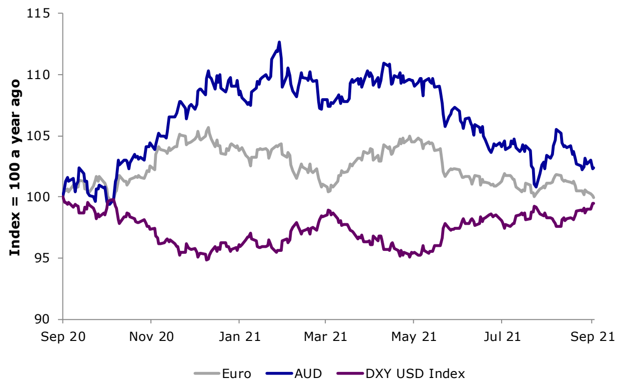
US Cotton NDVI sharply declined in September while G-E ratings rose, lower G-E ratings may be on the horizon

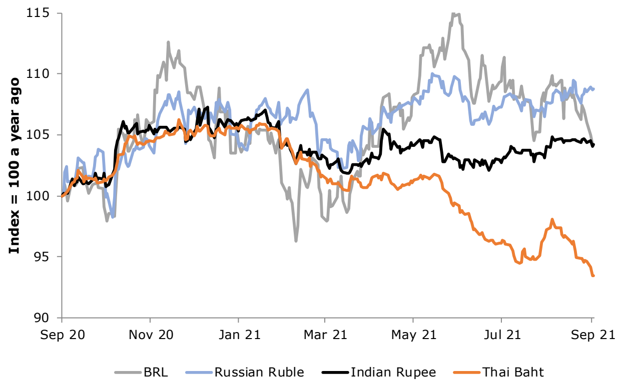


Source: USDA, Rabobank 2021 as of Sept 21

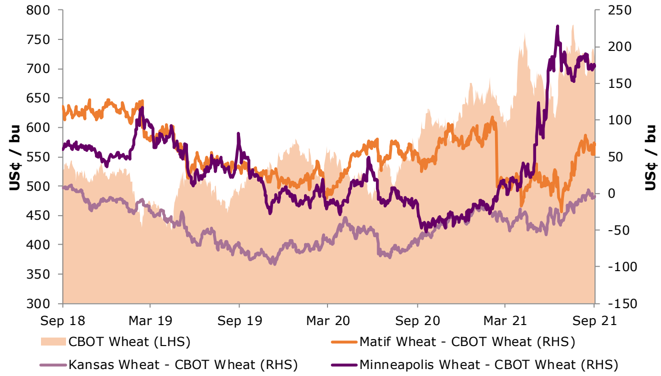
Agri Charts

Global Currencies USD Cross

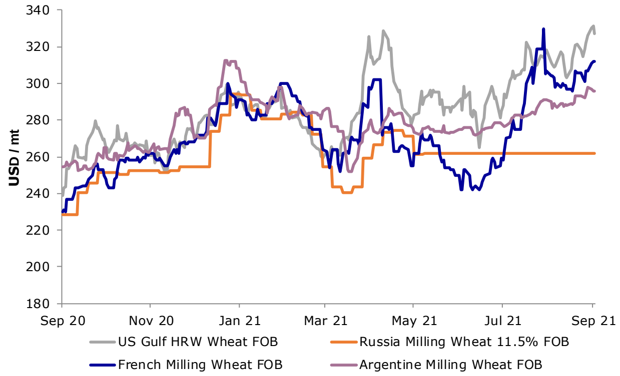




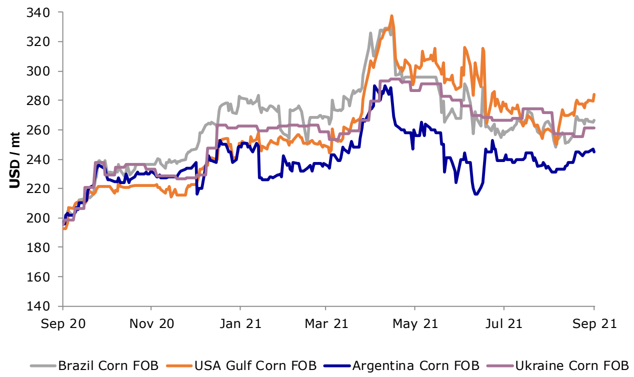
CBOT Wheat Spreads



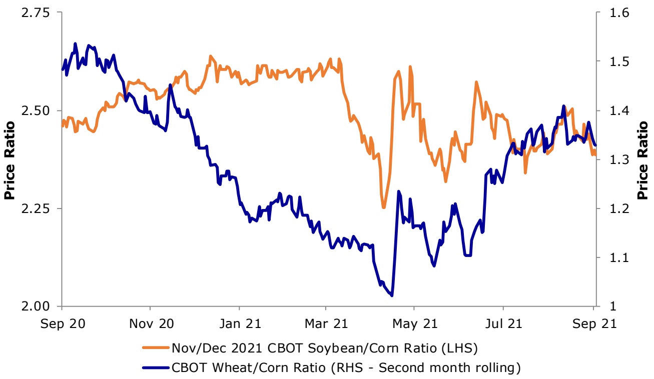
Wheat Protein FOB Prices



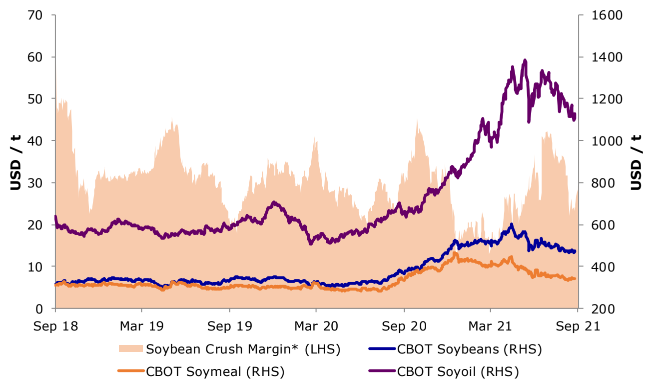
Corn FOB Prices



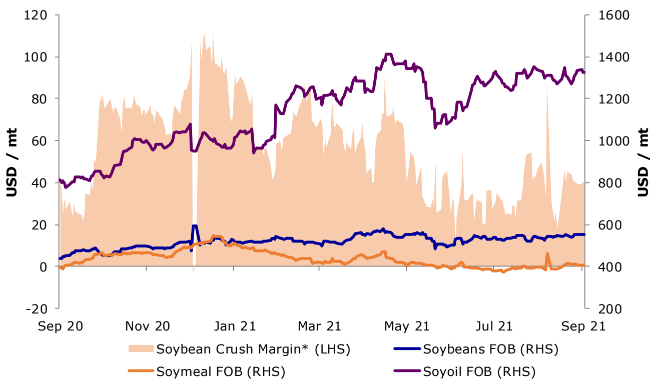
CBOT Ratios



CBOT Soybean Crush Margin



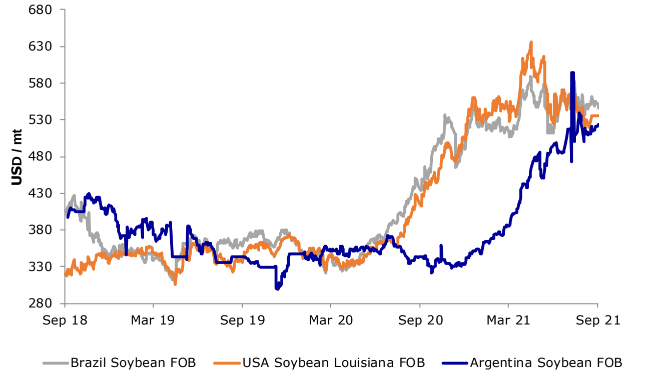
Argentina FOB Soybean Crush Margin



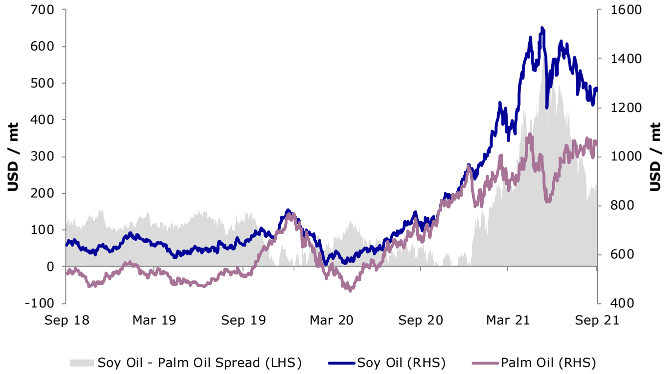
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

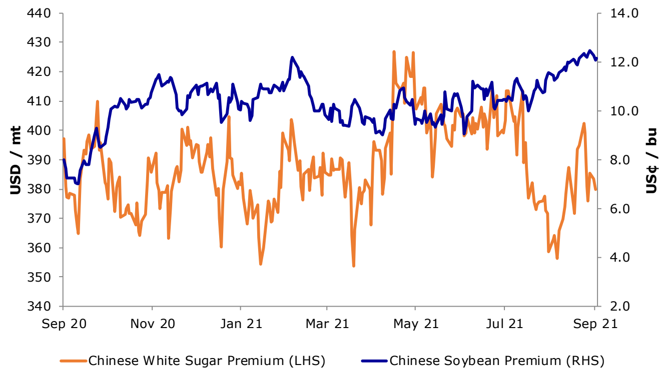
Soybean FOB Prices



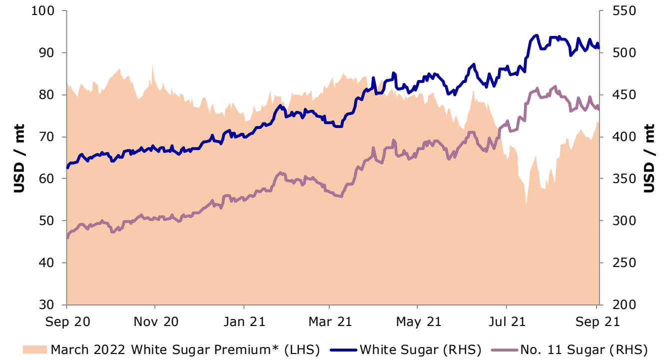
Palm Oil - Soy Oil Spread



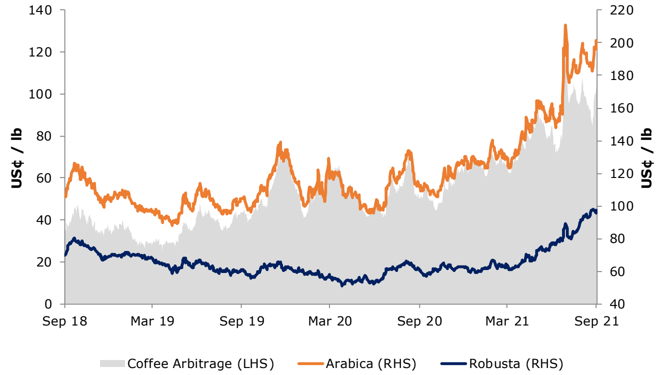
Chinese Futures Premiums



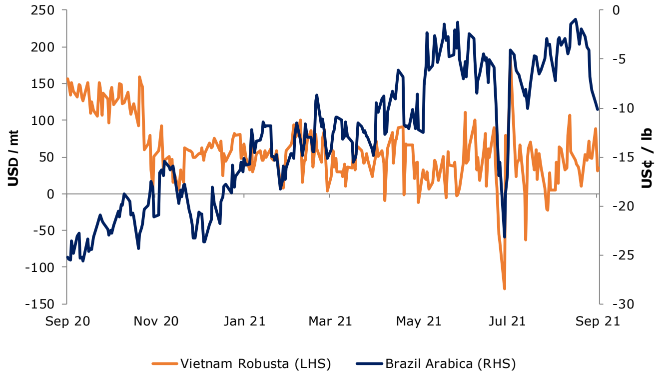
White Sugar Premium



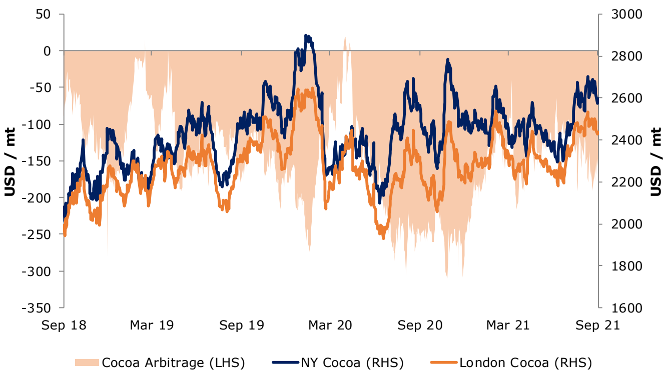
Arabica - Robusta Coffee Arbitrage



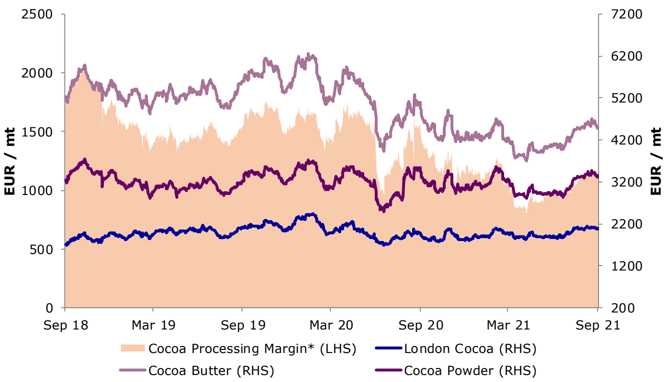
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

Imprint

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

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

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