Rabobank

Agri Commodity Markets Research

September 2022: Winter Recess

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Food & Agribusiness

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Commodity markets are pondering the risk of a recession, especially in the EU-27+UK, where inflation and monetary tightening are combining with a looming winter energy crisis. A recession could weaken the demand side for a number of energy and luxury commodities. Brent is down 15% MOM (leading to drops across the vegetable oil sector), and the US dollar index is up 4.1%. A cancellation of the Black Sea grain deal is likely, but it is mainly priced in already. The US's heat-shriveled soy and corn harvests will push 2023 stockpiles to dangerously low levels and have encouraged funds to return to their long positions. However, early rainy weather in Brazil's key agricultural areas has been excellent, bringing promise for needed export relief from outside the US.

WHEAT

September marked a volatile month for both CBOT and Matif, gaining 10% and 5.3%, respectively

- The fate of the grain corridor remains extremely uncertain following Russia's comments.
- Dry weather in Argentina is adding fuel to the CBOT fire as crop conditions deteriorate.

CORN

CBOT Corn bulls are corralled by weak demand

- CBOT Corn is strongly supported by eroding exporter supplies and repressed consumer appetite.
- Ukraine's incipient Black Sea access, a strong US dollar, and global economic malaise are seen capping upside.

SOY COMPLEX

Strained US supplies support CBOT Soy, but poor Chinese demand and bigger Brazilian harvest weigh

- Scant Deteriorating US and China soy supplies provide support for improving meal demand.
- Argentina's peso devaluation for soy encouraged typically reticent farmers to sell their wares.

PALM OIL

A combination of negative fundamental and external factors apply bearish pressure to palm oil prices

- Malaysian Q3 2022 palm oil production will be higher than Q2.

SUGAR

Lower ethanol and recession on the horizon

- The The ethanol parity has collapsed, falling to USc 13/lb in early/mid-September and leading to a lower price forecast.
- EU Mid-2023 might see price weakness.

COFFEE

The Rains in Brazil are triggering widespread flowering across the arabica belt

- Vietnam exports are running at full speed, but Brazil exports are lagging behind.
- Arabica certified stocks are expected to decline more rapidly.

DAIRY

The September 20 Global Dairy Trade (GDT) Price Index rose 2%

- US butter prices remain elevated, buoyed by low butter stocks due to a 2.2% YOY decrease in production through July 2022 and greater exports.
- The USDA's September Milk Production report indicates that August output rose 1.6% YOY.

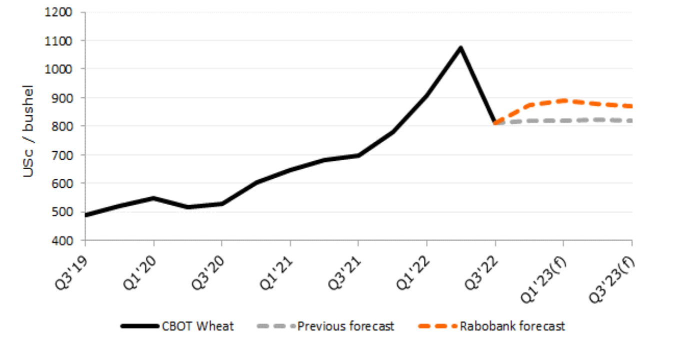
Wheat

September marked a volatile month for both CBOT and Matif, gaining 10% and 5.3%, respectively.

- The fate of the grain corridor remains extremely uncertain following Russia's comments.
- Estimates for 2022/23 Russian production are once again revised upward by both private analysts and the USDA.
- Dry weather in Argentina is adding fuel to the CBOT fire as crop conditions deteriorate.

Price forecast relatively neutral

	unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
CBOT	USc/bu	781	905	1073	812	875	890	878	870
Matif	EUR/mt	284	311	410	336	350	345	330	325



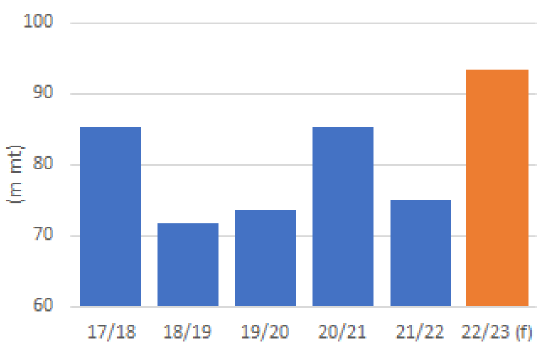
Source: Bloomberg Finance L.P., Rabobank 2022

The fate of the grain corridor remains extremely uncertain following Russia's allegations that grains are heading to "unfriendly EU" countries. In previous reports, we highlighted the precariousness of the grain deal, and Russia's public criticism of it earlier in September did very little to quell our concerns that the deal may crumble. The overarching fear among market participants is that Russia publicly stating its dissatisfaction with the current terms of trade could lead either to Russia renegotiating the deal with limited terms of trade or cancelling the deal altogether. The deal was agreed to in late July and made valid for 120 days, meaning terms will be up for renewal in late November. Under current terms, exports are already severely lagging behind the pace of last year. However, depending on the outcome of discussions between Russia and Ukraine, we could see it slip further.

Estimates for 2022/23 Russian production are once again revised upward by private analysts. A couple of analysts have revised their forecasts upward to the 100m mt mark. If these forecasts were to materialize, it would represent not only a seasonal record (the current record is 85.35m mt in 2020/21), but also a 21.8m mt increase from the five-year average. There is debate over the exact figure and how much of this wheat is in fact Ukrainian, but what is clear is that Russia will harvest an abundance of wheat, as spring yields look very strong. In a typical year, this level of production would equate to considerably higher exports. However, the war has impacted Black Sea trade, and Russian trade data shows seaport exports in the period July to mid-September only marginally above last year's pace despite the huge volume of wheat. The risk for exports is that Russia will further escalate the war. If this occurs, trade, which is steadily picking up, will become increasingly complex as shipping and insurance risks become even more challenging. In the long term, the assumption is that eventually this grain will become available to the world and prices will ease, but the timeline is very unclear. For now, we adopt a relatively neutral price outlook.

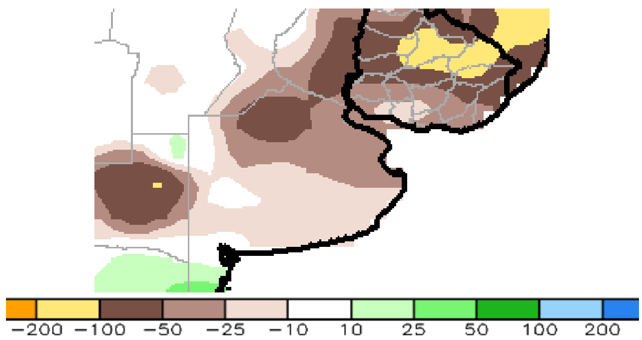
Dry weather in Argentina is adding fuel to the CBOT fire as crop conditions deteriorate. Concern is mounting, as persistent dry weather is severely limiting yield potential. Some areas are set to have yields more than halved. Last week, the Buenos Aires Grain Exchange estimated a mere 14% of the crop to be in good or excellent condition vs. 49% in the same period last year. As a result of the dryness, some private analysts have lowered their production estimates to 16.5m mt. This would represent a 26.7% YOY decrease and would sharply cut export capacity.

Russia looks set to harvest a record crop



Source: USDA, Rabobank 2022

Limited rainfall in Argentina over the past 30 days has cut yield potential



Source: NOAA, Rabobank 2022

Corn

CBOT Corn bulls are corralled by weak demand

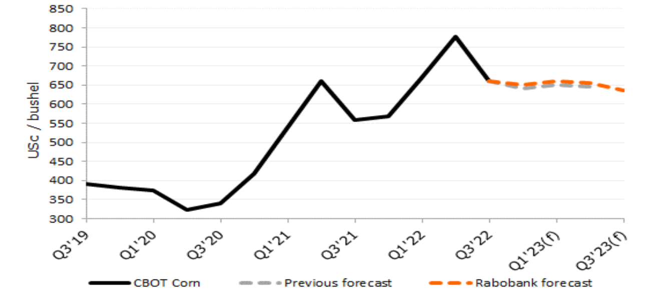
- CBOT Corn is strongly supported by eroding exporter supplies and repressed consumer appetite.
- Ukraine's incipient Black Sea access, a strong US dollar, and global economic malaise are seen capping upside.
- CBOT prices are seen range-bound, with the northern hemisphere corn harvest beginning next week.

September typically marks corn's period of plenty, but not this year. An 8% decline in annual US corn production led CBOT Corn to test USD 7/bu earlier this month and ultimately settle around USD 6.75/bu, the upper band of our predicted range. Consumer reticence is increasingly apparent, in both feed and energy, but even a US and global corn demand contraction won't prevent enduring supply scarcity, with US 2022/23 ending stockpiles seen at 1.1bn bushels, almost half of normal and the lowest level in a decade. A disappointing 2022/23 northern hemisphere summer harvest, higher input costs, and renewed fund enthusiasm can ensure CBOT Corn prices stave off seasonal supply pressure and recession-weakened demand.

CBOT Corn's price premium is underpinned by heat-shriveled US and EU corn harvests, but recessionary harbingers like buckling meat and ethanol demand are seen ultimately corralling the inflationary bull. Consumers are facing increasingly higher hedging costs, for energy and corn, and some have already fallen to the wayside. Put simply, world corn demand will shrink (2-3% YOY) for the first time in a decade to control inflation. The demand pullback will be most pronounced for US corn importers, for whom US dollar strength (DXY is up 20% YOY, at a 20-year high) pushes prices near record levels. As a result, US 2022/23 corn export projections have borne the brunt of cuts (-8% YOY), but domestic use hasn't been spared. US feed is seen declining

CBOT Corn rally has pushed consumers near their limits

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Corn	USc/bu	567	670	777	659	650	660	655	635

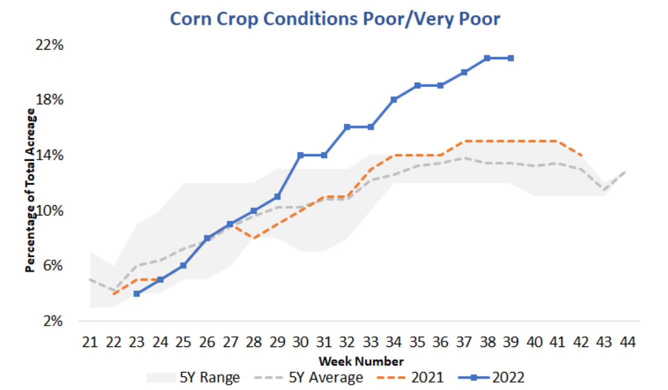


Source: Bloomberg Finance L.P., Rabobank 2022

6.7%, amid increasing reports of feed scarcity and herd culling. We've long noted our particular concern for soaring poultry prices, which (as one of the least feed-intense proteins) could imply limitations for animal protein consumer relief. Even typical stalwart corn ethanol usage (mandated at 10% of US gasoline usage) is seen falling 1% next year, vs. initial expectations of a Covid recovery. The US summer driving season was a disappointment, and gasoline usage remains Covid-like in the post-Covid era.

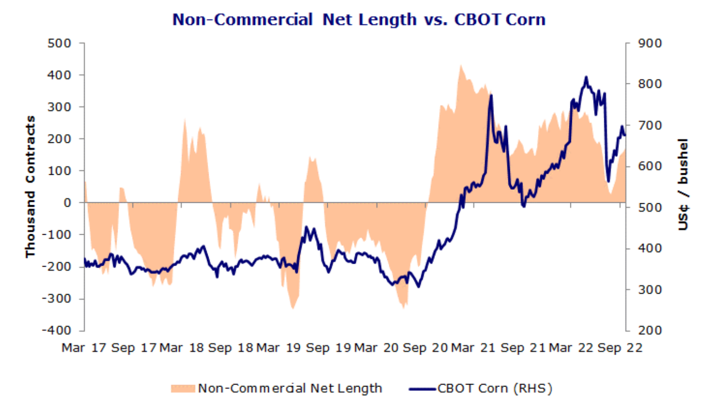
Despite strengthening recessionary headwinds for CBOT Corn, bare exporter stockpiles and rising farmer inflation form the cornerstone for higher-for-longer prices. Certainly, funds are betting on this outcome. Non-commercial net length has increased about 150,000 lots since July, to the seasonal highest since 2012. There is growing acceptance that intense July heat in the US that pushed one-fifth of the corn harvest into poor/very poor condition will drag US 2022/23 yields toward 170bu/acre. Corn production in Europe is down ~20% YOY, and Ukraine faces export corridor concerns. There is promise of Brazilian relief next July, but this is susceptible to La Niña. If recent rains in Brazil continue, that could provide an inflection point for supply risk and prices to slowly decline. However, high fertilizer prices and US acreage limitations will likely prevent a material stockpile reflation in 2023/24 and a reversion of CBOT Corn to historic levels. Our forecast remains largely unchanged at around USD 6.35/bu into Q3 2023.

One-fifth of US corn is in poor/very poor condition, and the harvested crop will be down about 8-9% year-on-year



Source: USDA, Rabobank 2022

Funds are unseasonably buying CBOT Corn into the US harvest, recognizing the enduring tightness in feed markets



Source: CFTC, Rabobank 2022

Soybeans

Strained US supplies support CBOT Soy, but poor Chinese demand and bigger Brazilian harvest weigh

- The US soy harvest came in far lower than expected, but a global recession and surging US dollar are creating demand headwinds for CBOT Soy.
- Brazilian farmers may enjoy a rain-supported acreage increase of 4% in 2022/23 to satisfy growing crush demand and the anticipated Chinese soy import recovery.
- Argentina's peso devaluation for soy encouraged typically reticent farmers to sell their wares

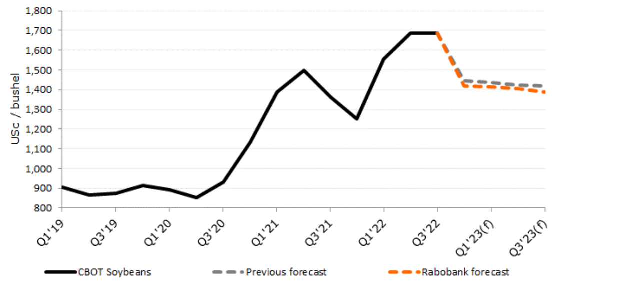
CBOT Soybean prices fell 8% MOM, near USD 14.10/bu, as consumer weakness cushioned US 2022/23 stockpiles from downward-revised acreage and yields. CBOT Soy is acutely affected by growing global economic challenges, especially in China, which is struggling with a zero-Covid policy and has seen the renminbi recently fall to a record low vs. the dollar.

The USDA came to rue its August upward revision on US 2022/23 soy output, as we predicted in our last monthly. The USDA removed its rose-colored glasses this month to deliver deep cuts to production (-1.5% YOY) and smaller ones to demand (-1%), sending CBOT sharply higher. Rabobank sees 2022/23 US soy carry-out at 180m bu and stocks-to-use at 4%, both dangerous nine-year lows. Shrinking soy acreage (-3.5m acres below initial expectations) and yields (-1.4bu/acre), alongside similar concerns for corn, are seen providing foundational support for CBOT Soybeans in the year ahead.

China's zero-Covid environment has clearly impacted out-of-home consumption and, together with a record-weak currency, drive demand concerns about soy import weakness enduring into 2023. We still expect China's soybean imports to be prime for a rebound from last year's levels. Imports in Q3 2022 fell 10% YOY to a meager 21m mt (of an ASF-like 90m mt total), and soymeal stockpiles are half their five-year average. China's crush margins have improved

Brazilian plantings and weak demand offset US soy scarcity

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soy	USc/bu	1238	1580	1692	1685	1420	1415	1405	1390

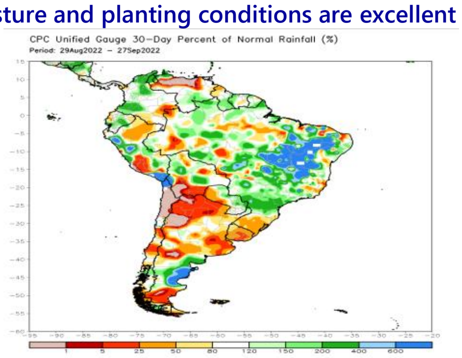


Source: Bloomberg Finance L.P., Rabobank 2022

into positive territory, precisely as the middling US harvest comes to market. There has been a rapid, early clip of US 2022/23 export sales prior to harvest that implies China's demand is reviving, with commitments presently at 45% of the full-year target, vs. a 40% five-year average. It's too soon to tell how long the US will retain its export position, with the window constricted by Brazil's planting progress and FX-advantaged Argentine origination. Rabobank expects China's soy imports to rebound from low levels in 2022/23 but sees the recovery closer to 95m mt vs. the USDA's 97m mt. China's soy imports may only see slow improvements given rising pork prices, a weakening currency, and zero-Covid demand weakness.

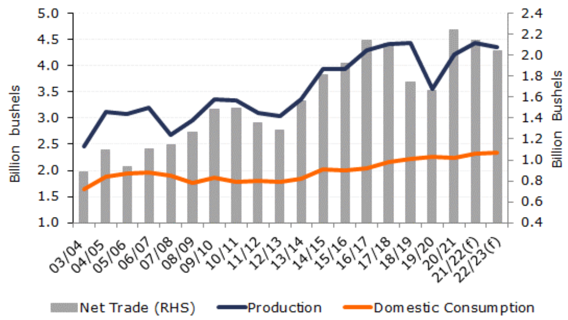
The US soy harvest is clearly in focus, but soy buyers are already fantasizing about well-capitalized Brazilian farmers' intent to plant 4% more soy. While we have concerns over reports of lower potash use, the higher acreage should offset and allow for a normalized ~150m mt crop. A weak Brazilian real (-6.5% MOM) and good weather will likely encourage forward sales. We are cautiously optimistic about Brazilian relief, although it is prone to disappoint; 2021/22 production was cut 15m mt YOY by La Niña, a dryness-inducing phenomenon likely to remain for a third year. While we are wary of bare US stockpiles, sharply higher Argentine soy exports and prospects of a decent Brazilian harvest in early 2023 underpin our expectations for a CBOT Soy inflection in Q4 2022, with prices seen falling to USD 13.90/bu in Q3 2023.

La Niña poses major dryness risks for southern Brazil, but early moisture and planting conditions are excellent



Source: NOAA, Rabobank 2022. 30-day % of normal rainfall taken as of 27 Sep 22

US soy production will contract in 2022/23, pushing stocks-to-use to 9-year lows and requiring major relief from exporters



Source: USDA, Rabobank 2022

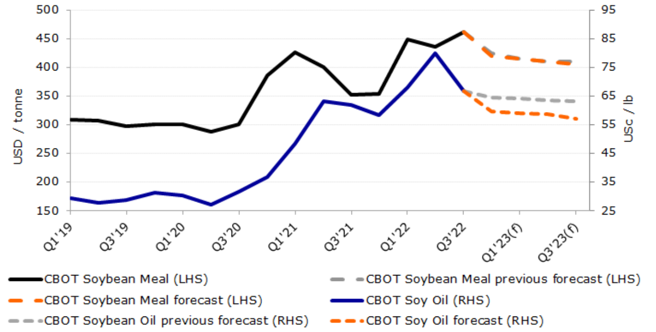
Soymeal and Soy Oil

CBOT Soy Oil sees demand weakness, but not Meal

- Deteriorating US and China soy supplies provide support for improving meal demand.
- CBOT Soy Oil has experienced recession-related demand weakness and greater competition from Brazil, but limited soy availability and resurgent Brent crude deliver support.

CBOT Soy Oil downgraded, Meal price supported

	Unit	Q4'21	Q1'22	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
Soymeal	USD/ton	354	449	436	462	**420**	**415**	**410**	**405**
Soy Oil	USc/lb	58.4	67.8	79.7	66.8	**59.5**	**59.0**	**58.5**	**57.0**



Source: Bloomberg Finance LP, Rabobank 2022

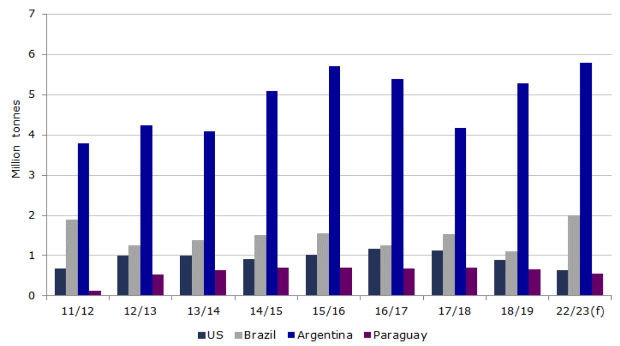
CBOT Soymeal and Soy Oil prices were clipped last month, as US soybean consumers' price aversion drove them to seek alternative origins or products or to less consumption altogether. The byproducts are in fundamentally different stages of the demand cycle, with soymeal coming off a China-depressed base state of demand in 2021/22 and soy oil in a biodiesel-driven growth period. Present circumstances may herald a switch in momentum, with soy oil's energy and outdoor-eating components particularly sensitive to recessionary tendencies, while soymeal demand appears set for a rebound from last year's contraction.

US soy oil exports are flatlining in the face of a surging US dollar, sharply higher competition from Brazil (exports are up 73% YOY), and cheaper alternatives like palm oil (a record USD 800/mt cheaper, vs. a normal USD 180/mt discount) and sunflower oil out of Ukraine (prices have fallen 40% since May). Brazil's crushers (+8% output YOY) have reaped the rewards of lower Chinese soybean imports and stagnant Argentine crush. However, the excess meal is largely absorbed internally, while the oil is going abroad, spurred by a weaker Brazilian real (-6.5% MOM). Amid greater availability in alternative origins, demand expectations for soy oil are also being scaled back in both the US and China. The US has seen biodiesel demand for soy oil reduced in successive WASDE reports, reflecting broader US declines in diesel prices (-15% MOM) and demand that could be industrial harbingers of recession. Equally, in China, the zero-Covid economy threatens to keep a lid on the outdoor-dining economy and soy oil import rebound following a 60% decline in 2021/22. We cut our forecast USc 5 to USc 6/lb along the curve to USc 57.5/lb in Q3 2023.

Among G&O products in 2022/23, the USDA is flagging the strongest growth in demand for soymeal (+4% YOY), a sharp contrast with the contraction seen in corn and wheat. There is some uncertainty in that figure, which is entirely dependent on China's meal demand recovery (2021/22 soy imports were 90m mt, -10% YOY). However, we're seeing positive shifts in crush margins and import interest that push our expectations toward 95m mt in 2022/23. We also maintain our longstanding view of pendulum-like price support for CBOT Soymeal, as buyers find feed grains to be in real scarcity. Besides China's feed recovery prospects, Brazil's 2022/23 soybean production and Argentina's peso-boosted exports represent the biggest questions for CBOT Soymeal going forward. If the soy supply picture in South America improves in late Q4 2022, or China's demand remains lackluster, we would be prepared to lower our price forecasts.

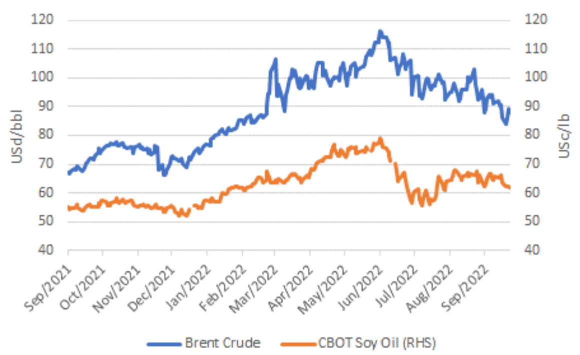
As it stands, the supply side for soymeal is inflationary. US 2022/23 soy production has been massively afflicted by delays and heat; a 3.5m acre and 1.5bu/acre decline will ultimately leave production down 2% YOY and carry-out near 180m bu, or nine-year lows. If our view proves true, US soy stocks-to-use would end 2022/23 at 4%, one-third its five-year average and implying a stomach-churning two-weeks' worth of supplies at season end. Our CBOT Soymeal forecast is largely unchanged for a fourth month, with contracts seen trading around USD 400/mt into mid- to late 2023.

Brazil has nearly doubled soy oil exports as US supplies are domesticated and Argentina output remains stagnant



Source: USDA, Rabobank 2022

44% of US soy oil demand is biodiesel; CBOT has tracked Brent crude lower, reflecting recessionary fears



Source: Bloomberg LP, Rabobank 2022

Palm Oil

A combination of negative fundamental and external factors apply bearish pressure to palm oil prices

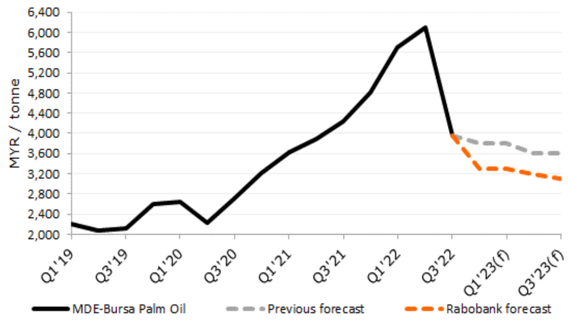
- La Niña's impacts will continue at least until the end of 2022.
- Malaysia's Q3 2022 palm oil production will be higher than Q2.
- India's domestic edible oil inventories are at relatively high levels.

La Niña's impacts will continue at least until the end of 2022. In its September 2022 report, NOAA estimates that the La Niña weather phenomenon will continue until late Q4 2022 to early Q1 2023. While the intensity of this La Niña is still unclear, the weather phenomenon typically translates to high precipitation in Southeast Asia, which is beneficial for palm oil production in Indonesia and Malaysia in Q4.

Malaysian Q3 2022 palm oil production will be higher than Q2. MDE-Bursa Palm Oil active contract prices plunged below MYR 3,500/mt during the last week of September. Rising interest rates, a strengthening US dollar, and an uncertain global economic outlook are applying bearish pressure to palm oil prices. According to the MPOB, Malaysian August 2022 palm oil production and inventories increased by 9.7% and 18.2% MOM, to 1.73m mt and 2.09m mt, respectively – the highest monthly palm oil inventory levels reached since April 2020. Meanwhile, Malaysian August 2022 palm oil exports decreased by 1.9% MOM to 1.3m mt. We expect Malaysian monthly palm oil exports will improve month-over-month in September due to the competitiveness of palm oil prices. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices was still above USD 500/mt during the last week of September. We expect Malaysian September 2022 palm oil production will improve on a month-on-month basis and will more than compensate for the increase in Malaysian monthly palm oil exports. This will keep Malaysian palm oil

We revise down our forecast for palm oil prices

	Unit	Q4'21	Q1'22	Q2'22	Q3'22(f)	Q4'22(f)	Q1'22(f)	Q2'23(f)	Q3'23(f)
Palm Oil	MYR/tonne	4,811	5,691	6,005	3,961	**3,300**	**3,300**	**3,200**	**3,100**

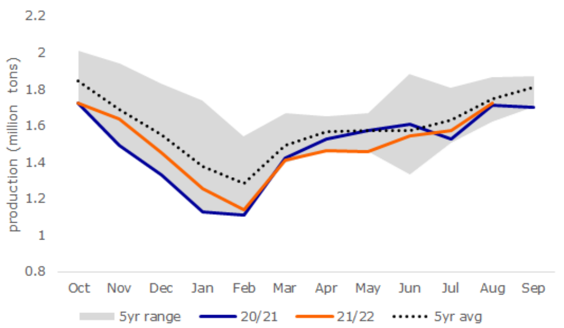


Source: Bloomberg, Rabobank 2022

inventories between 1.8m to 2m mt in September. Meanwhile, according to GAPKI, Indonesian July 2022 palm oil production and exports (including lauric oils) increased by 5.1% and 15.9% MOM, to 3.4m mt and 2.7m mt, respectively. Meanwhile, Indonesian July 2022 palm oil inventories (including lauric oils) decreased to 5.9m mt. We expect Indonesia's monthly palm oil exports will remain healthy at least until October 2022 due to the Indonesian government's implementation of a zero-levy policy on palm oil exports.

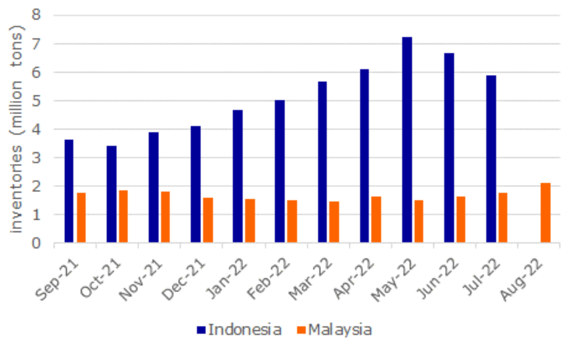
India's domestic edible oil inventories are at relatively high levels. According to the Solvent Extractors' Association of India, the country's edible oil imports increased by 14.1% MOM in August to 1.37m mt. As a result, inventories increased by 5.7% MOM to 2.43m mt – the highest inventory level since the end of October 2018. We expect global palm oil prices will remain competitive vs. soy oil in Q4, which will incentivize palm oil procurement by Indian importers in Q4. Meanwhile, 2022/23 Indian soybean production could be lower year-on-year, even though the 12.03m hectares of kharif soybean area is similar to 2021's. India's soybean planting for the 2022/23 season has been delayed in certain regions due to erratic and uneven monsoons, and this could negatively affect soybean production yields.

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



Source: MPOB, Rabobank 2022

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



Source: GAPKI, MPOB, Rabobank 2022

Sugar

Lower ethanol and recession on the horizon

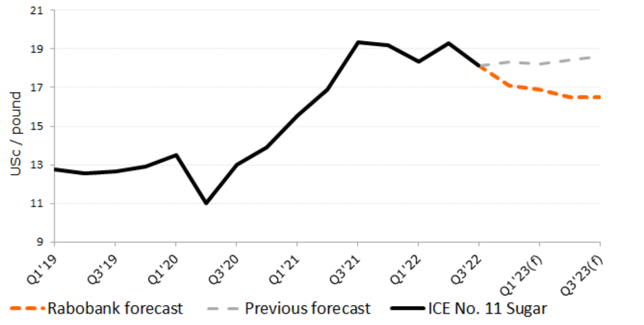
- The ethanol parity has collapsed, falling to USc 13/lb in early/mid-September and leading to a lower price forecast.
- Brazil will likely ramp up sugar during much of 2023/24, which will lead to a global surplus of raws.
- A drop in EU output will be more or less offset by an expected increase in Thailand in 2022/23.

Sugar prices have seen relatively little volatility so far in September, which belies the sea change of a much lower ethanol parity. Earlier in the month, we saw the ethanol parity trading below USc 13/lb, and, at the time of writing, the parity stands at only USc 14.1/lb. This is still more than USc 4 below the October 2022 contract and over USc 3 below 1H 2023 contracts. The explanation for a much lower ethanol parity lies with lower energy prices and Brazil's federal fuel tax reduction, which in principle is meant to last until the end of the year. In the middle of a cost-of-living crisis, this may not happen. Bringing ethanol parity back to the USc 17 to USc 18/lb range in 2023 would require federal taxes to come back and international gasoline prices to rally around 20% from current levels. Furthermore, Brazil will likely see a recovery in sugar cane volumes given that rainfall has been significantly better in 2022 vs. 2021. The prospects of lower ethanol sales and higher sugar cane volumes could result in high forward sugar sales out of Brazil in the coming months.

Mid-2023 might see price weakness. Much of western Europe has seen decent rains in the last month, but beet yields are already compromised, and sugar output in the EU is expected to come in slightly over 1m mt lower YOY. This expectation assumes that sugar production will not be overly

Price forecast lowered on lower ethanol parity

	Unit	Q4'21	Q1'22	Q2,22	Q3,22f	Q4,22f	Q1'23f	Q2'23f	Q3'23f
Sugar	USc/lb	19.2	18.3	19.3	18.1	17.1	16.9	16.5	16.5

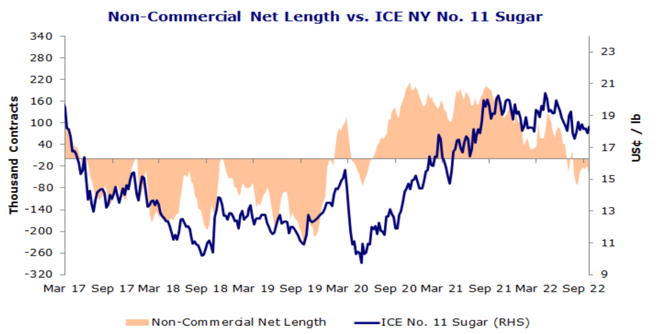


Source: Bloomberg Finance LP, Rabobank 2022

affected by the availability of energy in the EU. With this in mind, the drop in the EU should be offset by an increase of approximately 1.5m mt in Thai production in the coming season. Meanwhile, India is, in principle, expected to harvest a similar amount of cane as last year, but after a higher diversion to ethanol, sugar production is expected to go down a bit – also approximately 1m mt. The new export quota might be 3m mt lower than last year's, but of course that depends on Indian policy. This should not make a huge change to global availability, but exports will likely be staggered through the season, as the government of India will be keen to guarantee a good domestic supply of sugar. The drop in Indian exports is expected to be offset by higher availability from Brazil. This means that in Q2 and Q3 we may see an upward revision of Indian quotas and the full force of Brazilian sugar exports, leading to a weak price outlook.

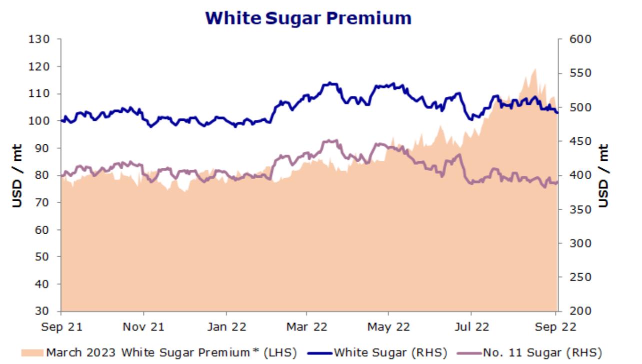
The white premium might weaken a bit on the back of improved container availability, but it will remain strong. While Brazil will likely benefit from both a higher sugar mix and cane supply next season, the supply of white sugar is expected to remain constrained given the situation in the EU and high refining costs in a number of countries.

Funds seem to agree with our bearish price view for ICE 11 Sugar.



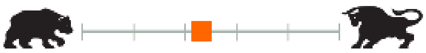
Source: CFTC, Rabobank 2022

White premium has come down but it will see support from high refining costs.



Source: Bloomberg Finance L.P., Rabobank 2022

Coffee

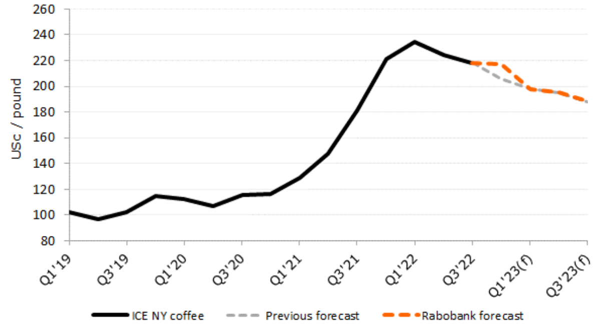


Rainfall makes a landing

- Rains in Brazil are triggering widespread flowering across the arabica belt.
- Vietnam exports are running at full speed, but Brazil exports are lagging behind.
- Arabica certified stocks are expected to decline more rapidly

Arabica forecast largely unchanged, robusta revised higher

	unit	Q1'22f	Q2'22f	Q3'22f	Q4'22f	Q1'23f	Q2'23f	Q3'23f
ICE Arabica	USc/lb	234	225	218	217	198	195	188
ICE Robusta	USD/mt	2196	2088	2130	2250	2180	2160	2160



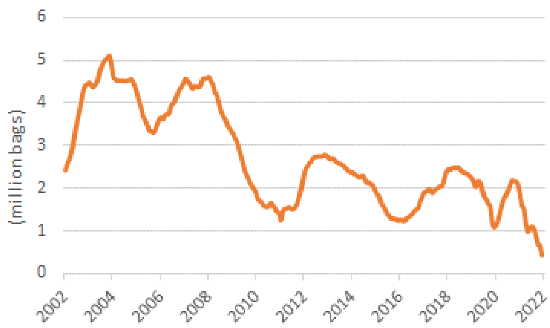
Source: Bloomberg Finance L.P., Rabobank 2022

Despite all the unusual weather seen over the last two years, rainfall has returned to the key arabica areas of Brazil in a timely manner. September rainfall is coming in at normal levels. Many fields have already flowered in what appears to be a dominant flowering event (this is usually good for quality), and we expect to see an increasing amount of pictures from Brazilian white coffee fields. Also, the expectation is for a decent fixation of this wave of flowering, as there is rain in the forecast for the coming two weeks. A good fixation of the flowering now, assisted by a continuation of the wet weather in November, could lead to lower arabica prices. It goes without saying that if the weather turns drier in the coming five months there will be a jump in coffee prices. This is always the case, but an active La Niña event makes dryness in the area a bit more likely. IRI's extended weather forecast shows increased likelihood for some dryness over parts of the belt in the coming three months, but nothing too concerning for now.

Robustas will see robust demand. The trend toward a higher share of robusta has been in the market for a while now, but this trend could be exacerbated in a recession scenario. After having a record crop, Brazil's conillon exports have been a trickle, and differentials remain very high (at over USD 200/mt). Even though we would expect some weakening ahead, there are no signs for the time being. In contrast to Brazil, Vietnam has been busy exporting coffee in an inverted market, but stocks are going down. The crop on the trees is developing well but might not reach last year's levels. If Brazil robusta exports don't go up before January, the robusta market might need to rise at least a hundred dollars in order to incentivize an increase in export volumes out of Brazil before the Vietnam 2022/23 crop comes in and is exported. This does not necessarily need to happen, but it is likely.

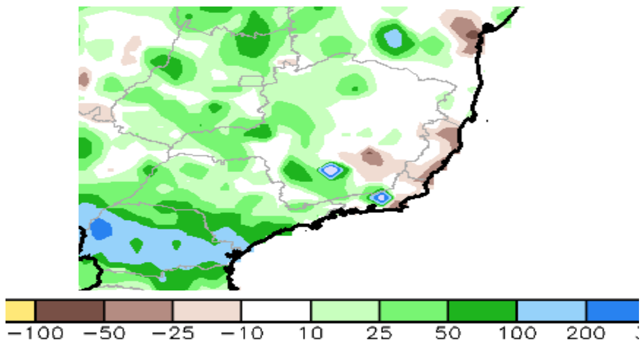
Arabica ICE-certified stock decline expected to accelerate. As of 28 September, there were 0.44m bags in certified stocks. The amount of coffee delivered against the September 22 contract is 0.43m bags. The situation leaves the possibility of a larger inversion in the December contract wide open. We now believe that some fresh Brazil semi washed coffees will make it to the exchange. However, any bullishness at the front has to be tempered by bearish factors for later months (and our forecast is done on the second month): Good weather for the 2023/24 crop development in Brazil, improving container situation, and a likely recession in the EU in Q4 2022 and 1H 2023. In our coffee outlook, we have estimated coffee demand growth of almost 2% for the 2022/23 season. This assumes some recovery from Covid times, but also some resilience in recessionary times. However, while happy times are all alike, each recession is different, and we might see reduced demand over the European winter.

Virtually all the arabica coffee stocks got delivered against the September contract.



Source: ICE, Rabobank 2022

The weather in Brazil has been very good for the flowering. Deviation from normal over the last 30-days (in mm):



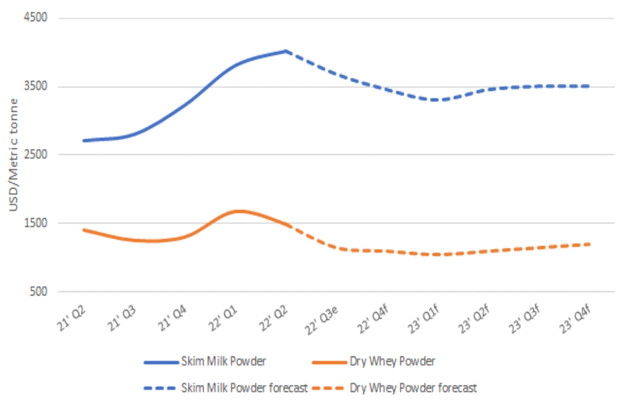
Source: NOAA, Rabobank 2022

Dairy

The September 20 Global Dairy Trade (GDT) Price Index rose 2%, following a 4.9% increase at the previous auction (and declines at the five prior auctions)

- US butter prices remain elevated, buoyed by low butter stocks due to a 2.2% YOY decrease in production through July 2022 and greater exports.
- The USDA's September Milk Production report indicates that August output rose 1.6% YOY, to 19bn lb, supported by an 8.9% increase in Texas production.

US skim milk powder and dry whey powder forecast



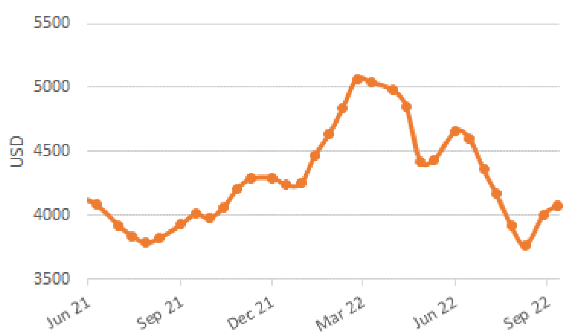
Source: Bloomberg Finance L.P., Rabobank 2022

The September 20 Global Dairy Trade (GDT) Price Index rose 2%, following a 4.9% increase at the previous auction (and declines at the five prior auctions). In total, 26,106mt of dairy products were sold at the latest event. Anhydrous milk fat recorded the largest increase, rising 4% (to USD 5,901). WMP also made solid gains, rising 3.7% (to USD 3,733). Cheddar rose 2.1% (to USD 5,147). SMP declined 0.7% (to USD 3,547), while butter declined a modest 0.2% (to USD 5,356). The positive price action we have seen in auctions in September is likely a correction, as 10 out of the previous 11 auctions had declines. In addition, a slow start to New Zealand's production season, with milk production down 5.5% YOY in July and 4.9% YOY in August, has elevated supply concerns.

US butter prices remain elevated, buoyed by low butter stocks due to a 2.2% YOY decrease in production through July 2022 and greater exports. Farmers are experiencing higher on farm costs, these costs have stifled output and thinned margins due to high feed, fertilizer, and labor prices. It is not just producers feeling the inflationary squeeze, consumers are also seeing huge price increases at the supermarket. US CPI data for butter shows a 24.6% YOY price increase for August. At present, there are no signs of respite in consumer butter prices given the 1.9% MOM increase seen in the US butter CPI in August. The USDA remains bullish on butter, raising price projections in the September WASDE report to USD 2.385/lb from last month's estimate of USD 2.375/lb. Europe is also experiencing sky-high butter prices, with the EU average butter index currently trading at EUR 716/100kg. For the EU, high butter prices have been an ongoing theme of 2022, with the index sitting comfortably above the EUR 700/100kg mark since May. We have seen a 75% YOY increase in the European butter index, as prices were trading marginally above the EUR 400/100kg mark last September. As in the US, European consumers are also experiencing large price increases, with French butter prices increasing 15.8% YOY, while Italian prices jump a whopping 33.5%.

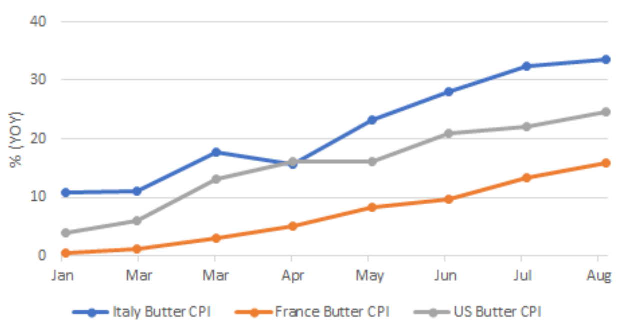
In the USDA's September Milk Production report, production in August rose 1.6% YOY, to 19bn lb, supported by an 8.9% increase in Texas production. Greater US output was driven by a 1.7% YOY gain in milk per cow, which offset the 11,000 head YOY decrease in the dairy herd. However, the US dairy herd is in growth mode, adding 60,000 head since January. Looking ahead, production is projected to grow 2% YOY or more, based on the US dairy herd moving above year-on-year comparisons in September and a continued year-on-year increase in milk per cow.

The September 20 GDT Price Index rose 2% from the previous event



Source: Bloomberg L.P, Rabobank 2022

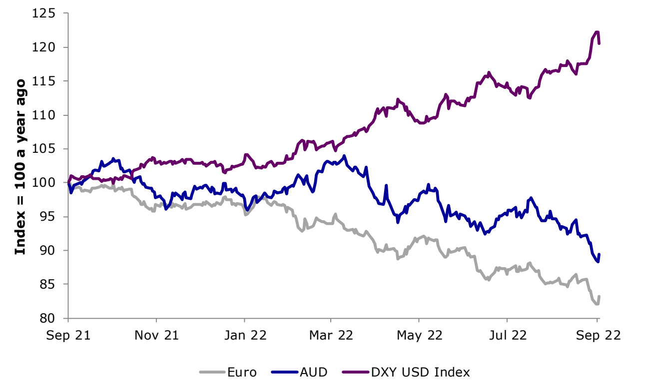
The butter CPI moves higher in 2022 in both Europe and the US

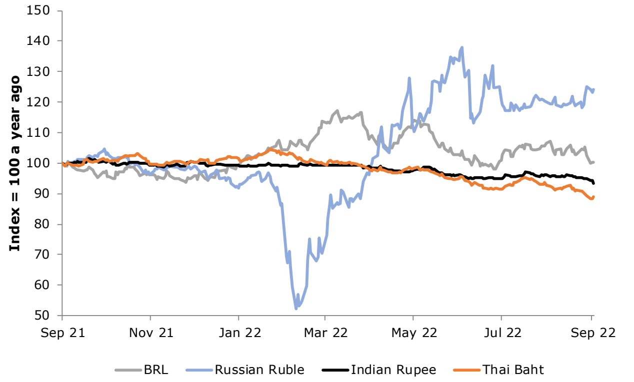


Source: Bloomberg L.P, US Bureau of Labour Statistics, Rabobank 2022

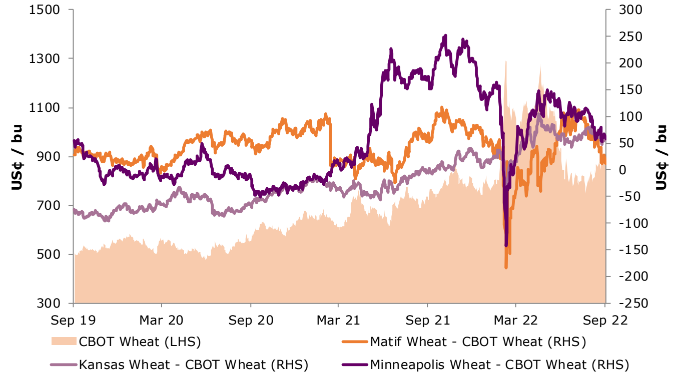
Agri Charts

Global Currencies USD Cross

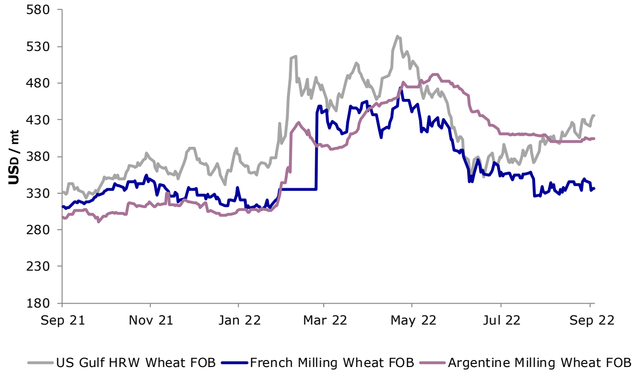




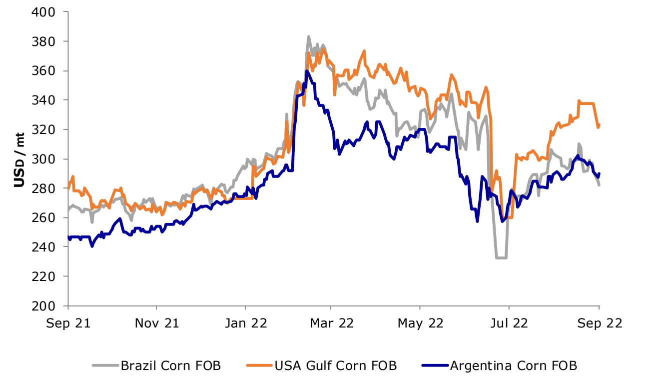
CBOT Wheat Spreads



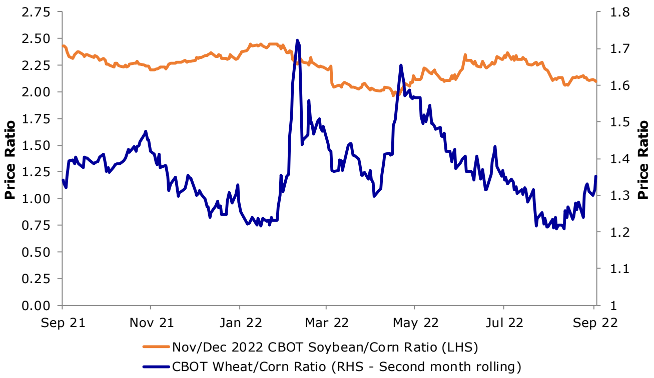
Wheat Protein FOB Prices



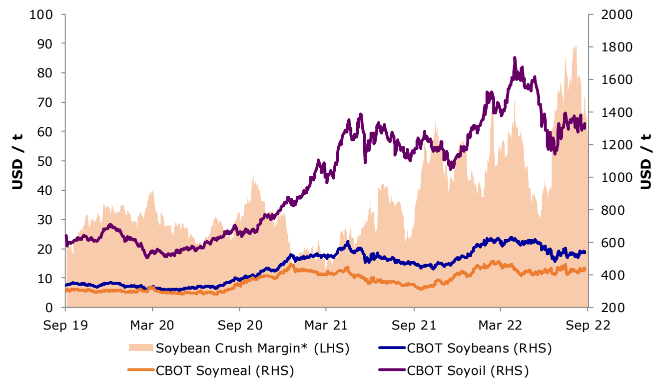
Corn FOB Prices



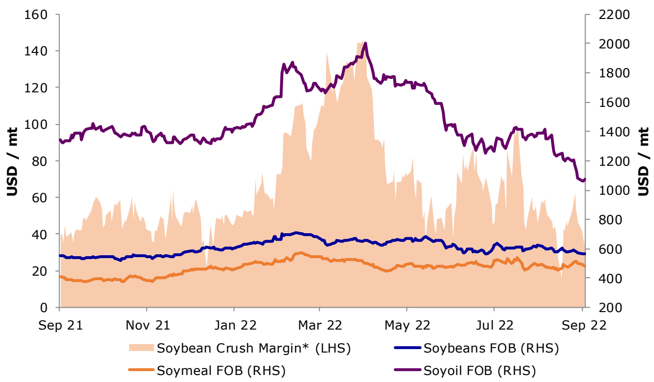
CBOT Ratios



CBOT Soybean Crush Margin



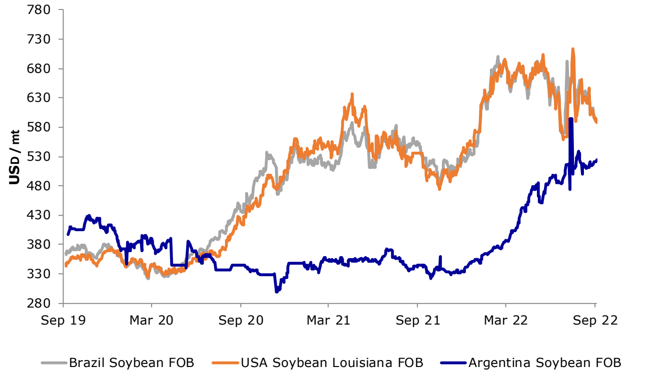
Argentina FOB Soybean Crush Margin



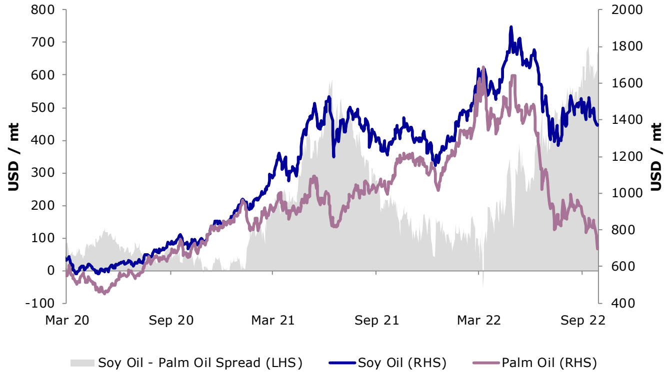
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

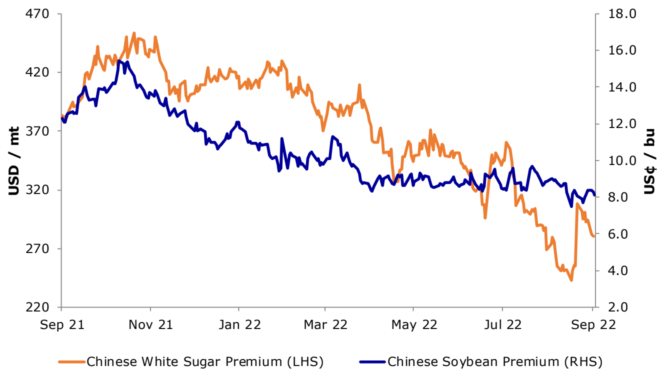
Soybean FOB Prices



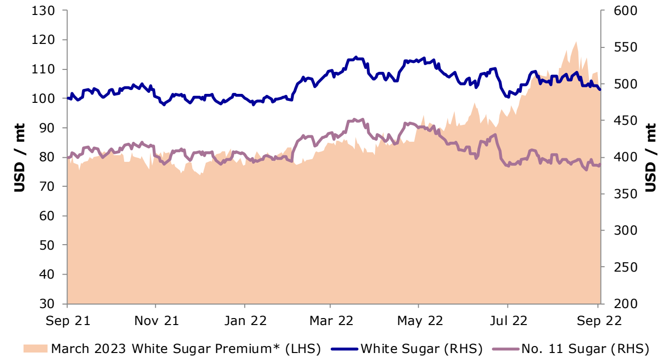
Palm Oil - Soy Oil Spread



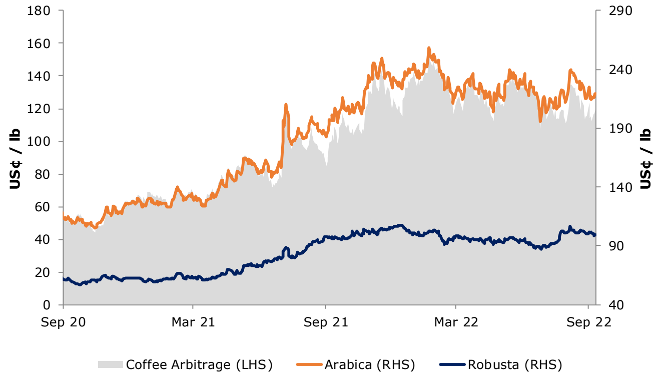
Chinese Futures Premiums



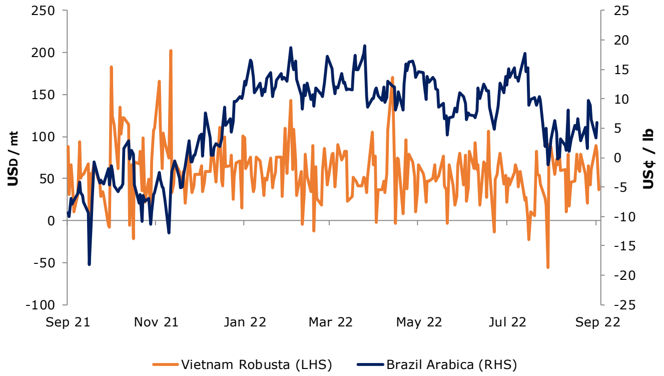
White Sugar Premium



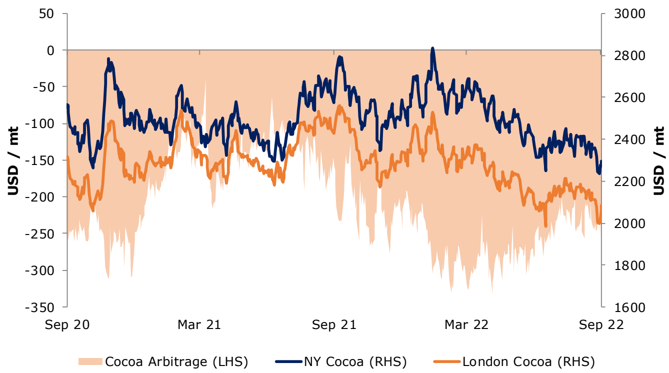
Arabica - Robusta Coffee Arbitrage



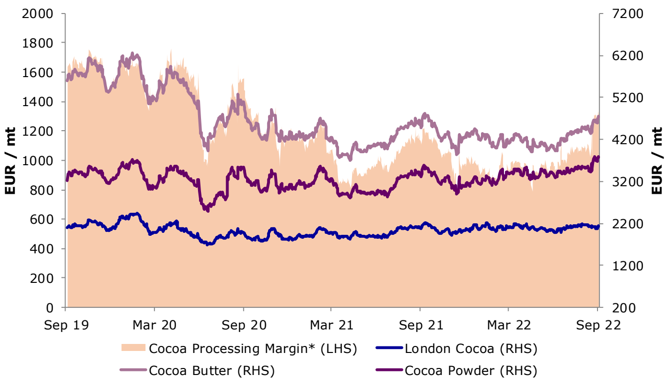
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

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

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A summary of the methodology can be found on our website