Rabobank

Agri Commodity Markets Research

April 2019: Broken Grains, Ground Coffee

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US farmers are entering their fields with difficult choices. Recent steep breaks in CBOT Corn (-7% MOM) and Minneapolis Spring Wheat prices (-7% MOM) – the result of good global weather and anticipated large 2019/20 grain supplies, upended planned acreage switches out of soybeans - long a victim of a trade war and, more recently, African swine fever. Meanwhile, currency weakness and strong crops in South America are driving competition in G&O, coffee, and sugar, with a near-record Non-Commercial net short position across agri commodities. Coffee in particular has ground to a 13-year low. Despite weighty fundamentals, there is potential for upward volatility in prices – that would come from larger-than-expected US farmer supply cuts, a global weather issue, or a US-China trade deal.

WHEAT

CBOT Wheat forecast lowered on improved production outlook

- Good weather conditions outside the US result in increasing estimates for the EU and Black Sea.
- Minneapolis Wheat was the biggest loser this month due to an improvement in US weather.

SUGAR

ICE #11 Sugar prices could see some support ahead

- Ethanol prices in Brazil at record high.
- White sugar under pressure from Indian exports.
- Thai weather has been dryer than normal and could affect the 2019/20 crop.

CORN

CBOT Corn faces heavy global grain supplies, lower trading range to encourage US acreage cuts

- Record fund short in CBOT Corn, market is vulnerable to weather-related short covering.
- A price cut and delayed plantings will leave the USDA's US planting forecast of 92.6 well out of reach.

COFFEE

Range trading for the time being, but potentially bullish ahead

- ICE Arabica reached the lowest levels in over 13 years
- Uncertainty about mild coffee crops in 2019/20.
- Stocks are accumulating at origin, but not at destination.

SOYBEANS

Bearish feed demand outlook on ASF; market well-supplied, driving competitive discounts.

- Chinese goodwill purchases provide CBOT support but spreading ASF is heavily bearish for feed demand.
- South American crop has improved with late rains.

SOYMEAL & OIL

CBOT Soymeal falls on ASF-hit global feed demand. Positive domestic demand protects downside.

- ASF squeezes global feed demand, but US crush margins improve on expectations of pork exports
- CBOT Soy Oil supported by strong domestic demand

PALM OIL

The forecast of a 'near-normal' 2019 monsoon in India provides a bearish factor to palm oil prices

- Palm oil inventory drawdown in Indonesia too slow.
- Malaysian palm oil production and inventory remain higher YOY

COTTON

Prices Range-bound ICE #2 futures prices are forecast to touch mid-year highs in Q2 2019

- Plantings in the US have begun well on par with the five-year average.
- China introduced an extra 800,000mt (3.7m bales) of sliding-scale import quota.

Wheat

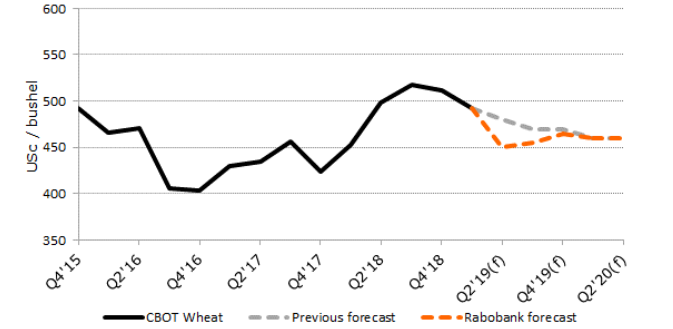
CBOT Wheat forecast lowered on improved production outlook

- CBOT Wheat declined ~6% in April.
- Good weather conditions outside the US result in increasing estimates for the EU and Black Sea.
- Minneapolis Wheat was the biggest loser this month, due to an improvement in US weather – but we cannot discard weather disruptions ahead.

CBOT Wheat prices have declined 6% this month. Production estimates have trended upwards around the globe, on the back of good weather. Russian estimates have been increasing by a couple of million metric tons. Some players have even mentioned the potential for a record crop. The pace of spring wheat plantings in Russia is well above last year's, due to the mild climate and high amount of snowmelt, adding to the expectations of high total output, which could easily come in above 80m mt. For the time being, we peg Russian 2019/20 production at 80.6m mt, as there is still a lot of weather risk to play out. Meanwhile, expectations for the crop in Germany have also kept increasing, with a local cooperative increasing its original estimate by 3.9m mt, to 24.2m mt. A higher area is also expected in Argentina for the next season – the weak currency is helping farm profitability and export competitiveness. With large crops getting larger in Argentina, Russia, and the EU, the US will find it challenging to place its exportable surplus in the coming season, even if the next Australian wheat crop continues to be well below potential. In the case of Russia, we do not expect the same pace of selling at the start of the crop, given a lower carry-in than in the last bumper crop. However, exports are likely to be above last year's 37m mt, as Russian new-crop wheat is set to become the cheapest in the world. Given good weather in the US, an exceptional 60% of the winter wheat rated good to excellent (vs. 31% last year), and the fact that, for the time being, there is no indication of a US-China trade deal, it is hard to see support on CBOT for the new crop.

CBOT Wheat outlook weak as large 2019 global crops loom

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
CBOT	USc/bu	517	512	490	450	455	465	460	460
Matif	EUR/mt	199	202	195	178	170	173	174	175



Source: Bloomberg, Rabobank 2019

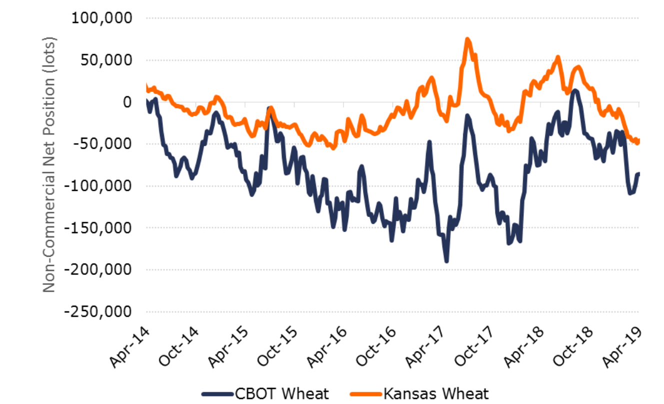
The Minneapolis/Chicago spread is recovering after a sharp fall at the start of the month. Over April, funds have increased their net short in Minneapolis Wheat. This was in part due to the improved weather, which should allow speedy plantings. But there is still a lot of time between now and the harvest, and this position may decline as soon as some clouds appear on the horizon. The excellent weather in the US, Russia, and, to some extent, the EU will put relatively more bearish pressure on Chicago than Minneapolis or Kansas, supporting the protein spreads. Therefore, for the time being, we do not see the Minneapolis/CBOT spread collapsing significantly, even in light of good planting progress.

The Kansas/Chicago spread is likely to approach neutral territory for new-crop. Increased crops outside the US are likely to put relatively more bearish pressure on Chicago than on Kansas. This is especially so given that the Non-Commercial net short position in Kansas has reached record net short levels over April, whereas funds could get shorter on CBOT if the outlook of northern hemisphere crops keeps improving over the critical month of May.

Minneapolis spread over Chicago was supported by increasing crop expectations in the Black Sea and EU

Source: Bloomberg, Rabobank 2019

Non-Commercials have reached record-low positions on Kansas in April, but they could get shorter on CBOT



Source: CFTC, Bloomberg, Rabobank 2019

Corn

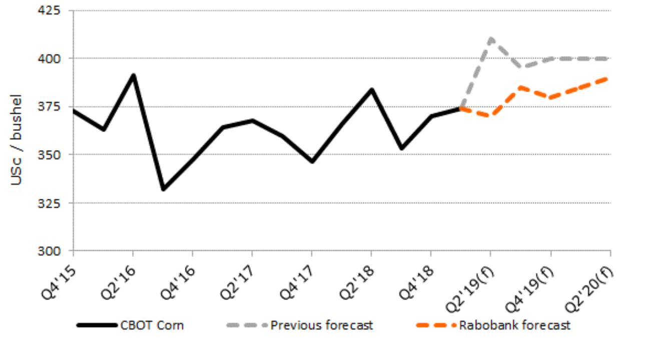
CBOT Corn broke 7% last month, reflecting concerns of heavy global grain supplies – and this could encourage US farmers to lower their planting intentions. Rabobank expects a short-term range near USc 370/bu, with bearish news baked in and potential for trade-deal, weather-related upside

- CBOT Corn is under pressure, amid mounting expectations of a bumper harvest in South America, which – with Ukraine – will curb US export demand.
- Record fund short in CBOT Corn follows heavy US stocks and acreage reports; in case of a trade deal or weather issue, market is vulnerable to short covering.
- A price cut and heavy Midwest rainfall will leave the USDA planting forecast of 92.6 well out of reach.

CBOT Corn fell to active contract lows near USc 360/bu and could struggle to recover from dwindling price-support fundamentals. Globally, there are looming signs of a grain deluge in 2019/20, after farmers took advantage of easing dryness conditions to plant higher acreage. The market's growing production expectations have coalesced into steep price declines in wheat and barley, which are now competing heavily with corn to feed markets. Corn production estimates in South America, meanwhile, are slowly approaching bumper-crop status, reflecting a sharp turn of fortune after last year's drought that temporarily provided for US corn export dominance. Indeed, on the back of peso (-16% YTD) and real (-3% YTD) devaluation, Argentine and Brazilian corn offer the most attractive FOB levels from June onwards. Rounding out the US's competitiveness issues, Ukraine's record 2018/19 crop – which drew the lion's share of the drought-hit EU's record import demand – is discounting supplies in a bid to avoid a large carry-out. Rabobank projects Ukraine's export program at 30m mt, up a remarkable 70% YOY and tied for third place globally with Argentina. Make room for another heavyweight…

CBOT Corn price forecast lowered following price drops in other feed grains and large global corn production prospects

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Corn	USc/bu	353	370	374	370	385	380	385	390



Source: Bloomberg, Rabobank 2019

Lower demand expectations and a heavy March stocks report have led the USDA to revise its 2018/19 US carry-out to 300m bu in the span of two short months. Exports (-150m bu, to 2,300m bu – down 6% YOY) accounted for half of the cuts in that period. Combined with falling US ethanol prices and demand (-75m bu, to 5,500m bu – down 2% YOY) and lower feed/ residual (5,300m bu – flat YOY) to reflect its March stocks revision, the result changed US stocks drawdown from a healthy -14% to just -5% YOY. These progressive changes have driven Non-Commercials to 12 consecutive weeks of sales, to arrive at a record net short of -324,000 lots ahead of the weather market.

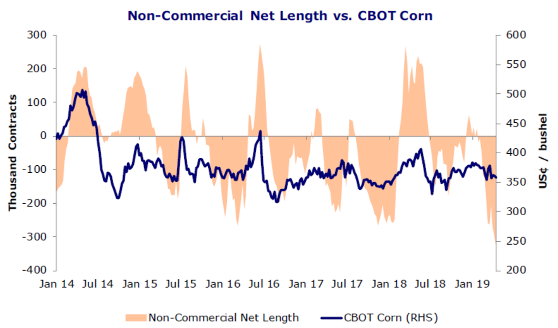
With 2018/19 US demand now expected to fall to three-year lows and amid a competitive feed-grain landscape, US corn farmers will exercise greater planting restraint in the year ahead than was reflected in the USDA planting intentions report. The silver lining for CBOT Corn is that recent price breaks coincided with delayed April sowings, allowing farmers more time to reconsider preventing planting/alternative crops. Meanwhile, downside is largely baked into prices; funds are record short, and US farmers are reluctant sellers, so near to cost of production. In case of a weather issue or trade deal, we expect robust short-covering. Given the conducive supply outlook, though, and demand headwinds, Rabobank expects near-term prices to trade in a tight range near USc 370/bu.

USDA revised US carry-out 300mbu higher in last 2 months; high stocks, low prices could keep plantings to 91.5m acres.

US Corn S&D (Mn Acres/Mn bu.)	USDA April 17/18	USDA April 18/19(f)	2019/20 yield scenarios low	2019/20 yield scenarios base	2019/20 yield scenarios high
Beginning Stocks	2,293	2,140	2,035	2,035	2,035
Area Planted	90.2	89.1	91.0	91.5	92.6
Area Harvested	82.7	81.7	83.5	84.0	85.0
Yield	176.6	176.4	175.0	175.0	175.0
Production	14,609	14,420	14,619	14,699	14,876
MY Imports	36.3	40.0	40	40	40
Total Supply	**16,939**	**16,600**	**16,694**	**16,775**	**16,951**
MY Exports	2,438	2,300		2,350	
Feed Consumption	5,304	5,300		5,525	
FSI Consumption	7,056	6,965		7,075	
Ethanol Usage	5,600	5,500		5,600	
Domestic Consumpti	12,360	12,265		12,600	
Total Usage	**14,799**	**14,565**	**14,950**	**14,950**	**14,950**
Ending Stocks	2,140	2,035	1,744	1,825	2,001
YOY stock change	-153	-105	-291	-211	-34
Stocks/Usage	15%	14%	12%	12%	13%

Source: USDA, Rabobank 2019

Funds hold a record net short in CBOT Corn ahead of the US planting season, raising potential for weather market volatility



Source: CFTC, Bloomberg, Rabobank 2019

Soybeans

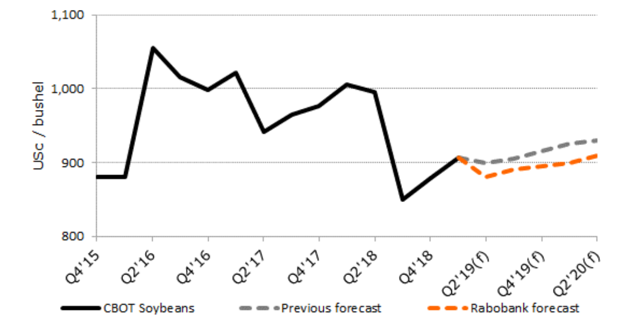
The CBOT Soybean price fell 3%, to USD 8.80/bu, on an increasingly bearish feed demand outlook. In China, even with higher alternative-protein consumption, overall feed demand will be cut by 13% in 2019 due to ASF. Meanwhile, Brazilian soy supplies are stabilizing, at around 116m mt, following timely pre-harvest rains.

- Chinese goodwill purchases and trade hopes provide some support to CBOT Soy, but spreading ASF is heavily bearish for feed demand.
- Price support above USD 9/bu is eroding as US farmers sell amid competition for ex. China demand, few planting alternatives, and lack of further support payments.
- South American crop has improved with late rains, and – with weak FX – pushed basis levels near or below US. US soy risks pricing out of world ex. China markets.

The CBOT Soybean outlook is under pressure, despite signs of trade deal progress. US farmers either need to plug a China-sized hole in exports or cut 2019/20 plantings by ~5m acres. There are fundamental problems with either of these 'soybean solutions.' On the demand side, China – long the primary driver for soybean import growth – has lost its luster; purchases are expected to fall for a second consecutive year, by 4m mt, to 84m mt: 10m mt below the 2017/18 peak. An ASF epidemic in China is ravaging the hog population, and Rabobank's most recent projections are for a 25% to 35% decline in pork production. In the near term, ASF will raise pork prices, lowering consumption and forcing switches towards less feed-intensive animal proteins like poultry and seafood. Chinese soymeal demand may continue to decline until 2020, when breeders cautiously begin rebuilding hog populations; it will take until 2021 for soybean imports to return to 2017 highs. A silver lining for soybean demand is that China will turn to major animal protein producers, including the US, for supplies – in turn, supporting domestic crush growth. But capacity restraints will prevent them from bridging the meat deficit (estimated at 10m mt in 2019).

Eroding feed demand fundamentals and large stocks accelerate US soybean farmer selling pressure

	Unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Soybeans	USc/bu	849	879	915	880	890	895	900	910

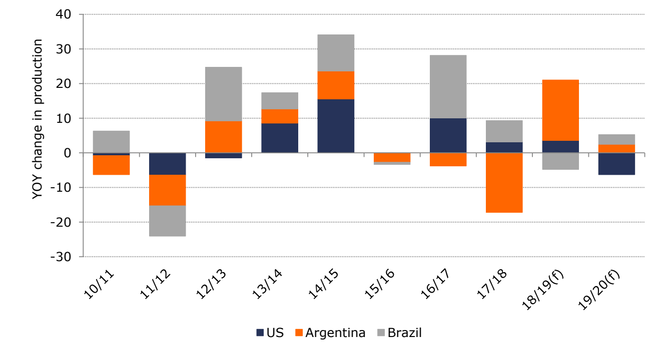


Source: Bloomberg, Rabobank 2019

CBOT Soybean price support is highly speculative, guided by trade-deal expectations for record US exports to China. Fundamentally, however, Chinese demand is in decline, and it, as well as others, is increasingly eschewing US origin in favor of discounted South American supplies. 2018/19 US export sales slowed in April, as Chinese goodwill purchases evaporated (4m mt short of its 20m mt commitment) and Brazilian prices improved. US sales are 18% lower YOY and 11% behind last year's pace, putting USDA's export target of 1,875m bu very much in doubt.

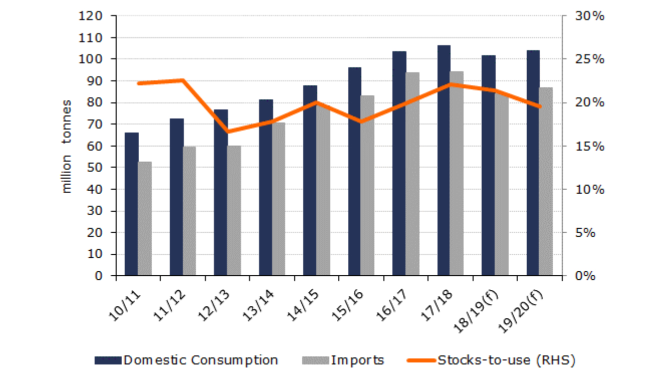
From the supply side, Rabobank expects US soybean farmer acreage cuts of 5m acres (the largest since the 2007 ethanol mandate was introduced), though this is unlikely to provide the salve to push CBOT Soybean prices above USD 9/bu. Barring a trade deal, the US is facing mounting export competition from Brazil, where a late rain-stabilized crop (~116m mt – -4% YOY) and depreciating real are delivering competitive soybean prices that could push US 2018/19 carry-out near 1bn bu, more than double the previous record. As US farmers enter fields this month, bearish fundamentals will supersede bullish rhetoric, especially absent further support payments, and they will have to make the uncomfortable decisions to cut acres and sell below USD 9/bu.

Amid recovery in South America and ASF-slowed global demand growth CBOT support requires large US acreage cuts



Source: USDA, Rabobank 2019

China soybean imports - the engine of global trade, will take at least 3 years to recover to 2017/18 import levels



Source: USDA, Rabobank 2019

Soymeal and Soy Oil

CBOT Soymeal and Soy Oil prices eased near contract lows last month, following CBOT Soybeans' decline as the ASF epidemic weighs on global animal feed demand growth. Soy oil and soymeal continue to enjoy supportive domestic demand, but fierce global competition halt CBOT upside

- ASF is decimating hog herds in China, threatening major producers, and squeezing global animal feed demand.
- US crush capacity could be tested as high pork prices boost soymeal demand from hog producers.
- CBOT Soy Oil prices supported on higher Brent Crude price and record biodiesel/veg oil demand that will push 2018/19 carry-out lower year-on-year – but increasing US crush and global competition create headwinds.

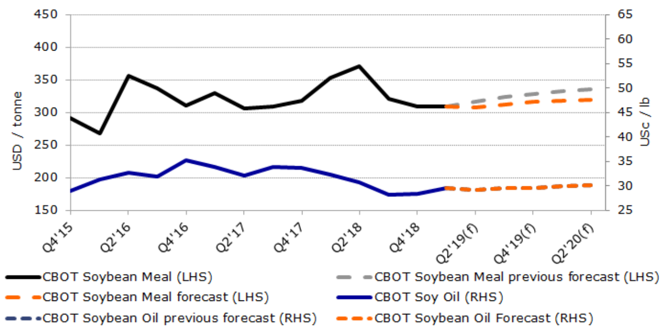
CBOT Soymeal fell 2% last month, to contract lows of USD 305/mt, with no clear way out of its ASF demand predicament. Rabobank estimates pork production in China to be down at least 25% to 35% this year, and there are signs the disease is spreading through Southeast Asia – notably in Vietnam, the number-seven producer. There are growing expectations of surging animal protein imports later this year to Asia, which should provide some respite for the US soymeal demand hangover through higher domestic feeding. Indeed, US crush margins rose 45% last month, to six-month highs, on the back of rising lean hog prices (+14% YTD), reflecting a boost in domestic soymeal demand.

Overall, structural supply deficits in global animal protein – especially at the higher end of feed intensity (pork) – will lift prices and encourage consumers to switch to lower-intensity proteins (poultry, seafood). The US market should see a temporary boost in domestic feed use to satisfy Chinese pork import demand, but it will be capped by hog production constraints, a prolonged slowdown in global feed use, and rising export competition. A South American soy production recovery (10% higher YOY), along with a weaker peso (-16% YTD) and real (-3% YTD) have helped drive soymeal prices below those in the US. Still, CBOT Soymeal has shown strong historic support above USD 300/mt. Given rising crush margins and our proximity to crush capacity (the USDA is gradually raising projections towards our 2,140m bu target), we expect resilient domestic demand to keep prices falling below that level.

CBOT Soy Oil couldn't add traction to a positive 2019 performance (up 2% YTD), despite supportive demand drivers – namely China's domestic supply shortfall and rising import requirements, and surging Brent crude (+34% YTD) that has created a rare US diesel premium to biodiesel. However, others – like Brazil's delayed increase in biodiesel requirements (B11) and consequent higher export competition – have placed limits on US soy oil export demand potential. Despite the export constraints, US domestic demand remains strong, reflected in the April WASDE, where the USDA increased biodiesel and food demand by 250m lb and cut 2018/19 soy oil stocks by 150m lb, to 1,860m lb (a -7% decline YOY). Rabobank expects CBOT Soy Oil's recovery to endure in 2019 on improving demand fundamentals, though higher US crush expectations to satisfy increased hog feeding, cheaper export alternatives, and a well-supplied vegetable oil complex will keep upside limited and our price forecast unchanged, below USc 30/lb, in 2019.

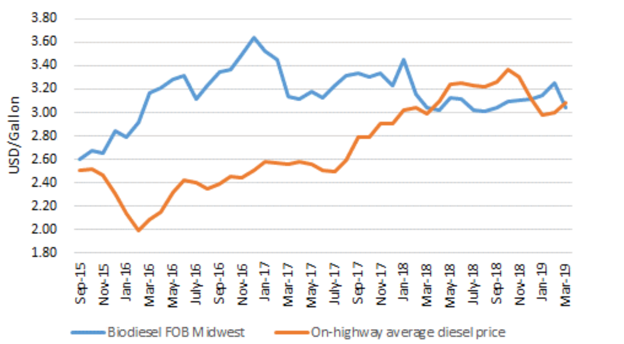
CBOT Soy Oil, Soy Meal discount on ASF, fierce South American export competition; domestic demand supportive

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Soymeal	USD/mt	321	309	310	308	312	316	318	320
Soy oil	USc/lb	28.2	28.3	29.5	29.2	29.6	29.6	30.0	30.2



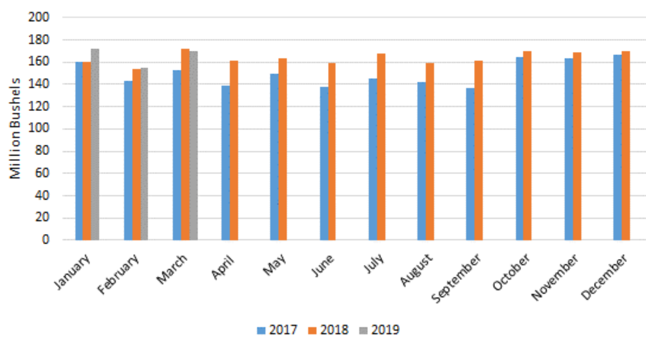
Source: Bloomberg, Rabobank 2019

US diesel's premium to biodiesel returned last month due to high Brent prices and will encourage biodiesel/soyoil demand



Source: USDA, ERS, DOE, Rabobank 2019

US crush saw a slowdown in early 2019, but margins are rising as ASF boosts US domestic demand and hog exports



Source: NOPA, Rabobank 2019

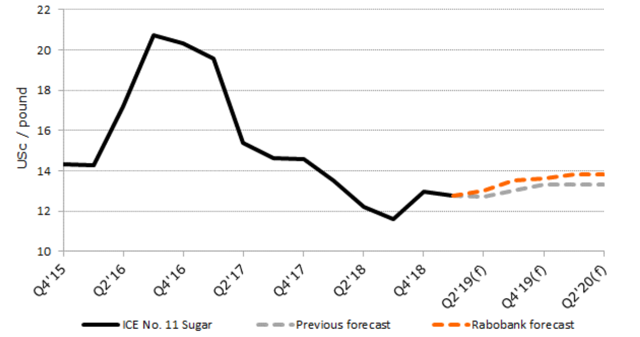
Sugar

ICE #11 Sugar prices could see some support ahead

- Ethanol prices in Brazil went up surprisingly and unseasonably to record highs; sugar prices will have to adjust upwards if ethanol prices don't come back down.
- White premium is under pressure from Indian exports.
- Thai weather has been dryer than normal and could affect the 2019/20 crop.

ICE #11 Sugar price forecast marginally increased

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Sugar	USc/lb	11.6	13.0	12.7	13.0	13.5	13.6	13.8	13.8



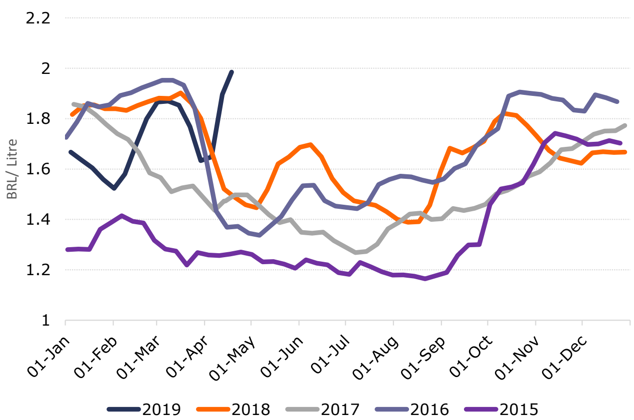
Source: Bloomberg, Rabobank 2019

ICE Sugar #11 prices have remained relatively unchanged so far in April, in part due to higher Brent prices (up by 11% this month). The biggest surprise was the strengthening in ethanol prices in Brazil, with the ethanol parity currently trading at over USc 15/lb, on the back of very strong local demand, combined with restricted supply owing to wet weather interrupting harvesting. Assuming a return to more normal weather conditions for this time of year, the current ethanol parity is likely to decline steeply from the current atypical levels as the harvest moves into full swing. However, domestic ethanol demand remains much stronger than it was a year ago, and this could help sustain prices at a higher level than we have seen for Q2/Q3 in previous campaigns.

White sugar is not so sweet. Funds have reached a record net short position on white sugar, which shows the confidence in the market that India will continue to export sugar even despite the disputes at the WTO – which will likely take a couple of years to be resolved. Election results in India will be announced on May 23, – but in any case, it is debatable as to whether India will see the same amount of export subsidies next season, regardless who wins at the polls. For the time being, there is a lot of Indian sugar on offer, as demonstrated in the last delivery. The current white premium, trading at USD 54/mt (as of April 17), strongly discourages toll refining and could result in short-term lack of demand for raws.

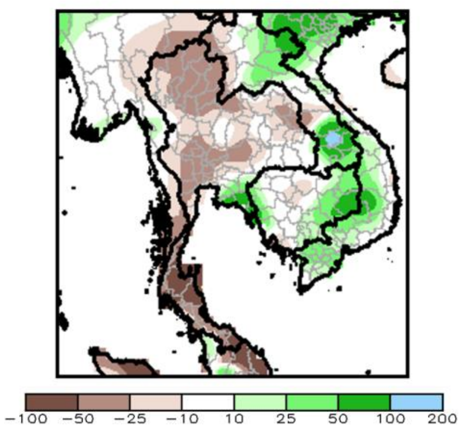
The NOAA estimates the current El Niño event to last through the northern hemisphere summer, with 65% likelihood. Even though the expectations for the current Indian and Thai crops have been increasing recently, El Niño can create dryness across Southeast Asia, reducing the amount of sugar in the 2019/20 and possibly also the 2020/21 crop. Thailand has already seen some dryness in the last three months, as well as Australia, parts of Indonesia, and the Philippines. In India, the Maharashtra State Cooperative Sugar Factories Federation is expecting a drop of 25% in the coming 2019/20 crop, given the disappointing monsoon last year. Another below-average monsoon will simply result in a bigger drop.

Brazilian ethanol prices have been very strong, despite the start of the cane harvest taking place



Source: Bloomberg, Rabobank 2019

Thailand continued to be drier than normal, possibly related to El Niño. 30-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2019

Coffee

Range trading for the time being, but potentially bullish ahead

- ICE Arabica reached the lowest levels in over 13 years, but are likely to recover some ground, back to above USc 100/lb.
- There is a lot of uncertainty about mild coffee crops in 2019/20.
- Stocks are accumulating at origin, but not at destination.

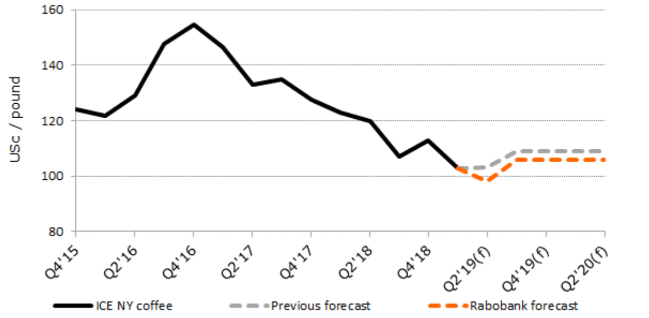
ICE Arabica prices reached low levels not seen since 2005. The front month (May) contract has traded below USc 90/lb, which is well below arabica cost of production in virtually all countries except, arguably, Brazil. This is in part due to expectations on the coming Brazilian harvest and the great shape of the trees there, combined with a weak currency. It is also supported by significant volumes of coffee accumulating in origin countries, e.g. in Honduras. Sales of Honduran coffee are running 16% below last year, despite market expectations for a crop of more or less similar size. This coffee, currently sitting in a humid climate, may find the exchange as the buyer of last resort. As there is a strong inverse correlation between the levels of arabica-certified stocks and futures prices, the expectation of a further increase is likely to stave off any significant rally. However, for the time being, there does not seem to be an accumulation of stocks at destination countries. Port stocks in the US actually declined in March, by 0.15m bags MOM, to 6.1m bags. That is a 7% YOY drop. One of the reasons explaining the change is the increase in interest rates in the US, making exporters less keen on holding on to stocks, but also the fact that consumption has been doing very well.

On the robusta side, things look more robust. Even though there is a record robusta crop in Brazil being harvested at the moment, we expect quite a bit of fundamental support. We actually see a small deficit in our estimates for the 2019/20 crop year, although, admittedly, that depends on Vietnam. At the time of writing, the weather in Vietnam looks quite good, with early rainfall. But as we have an El Niño event, which is expected to continue through the northern hemisphere summer with 65% chance, rainfall is a little more likely to come in below normal levels. If not in Vietnam, which has only a weak connection to El Niño, we are likely to see lower rainfall levels in Indonesia, Thailand, and possibly India. However, it is hard to imagine an arbitrage significantly lower than it is now, at around USc 27/lb. So an increase in arabica prices is almost a precondition for an increase in robusta prices.

The key question remains as to what extent the production in mild arabica origins is compromised. This question is very hard to answer. The 2018/19 crop saw only a marginal drop, or no drop at all. Certainly, the press has been loaded with information on young people joining the caravans in Central America, and fertilizer use should be lower than previous years. However, with good weather, the effect of lower fertilization may not be immediately visible. But if weather takes a turn, we may be facing large production losses. It is also a pity to have schemes intended to increase production in the middle of a coffee glut. These schemes can be useful on a local level, but definitely not on a global scale. Given the risk of slightly adverse weather having a large production impact (say, in Central America, Colombia, or Vietnam) and the risk of fund short-covering, we turn a little bullish off current market levels.

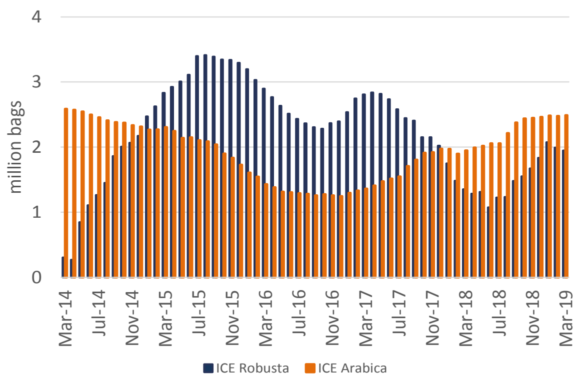
ICE Arabica forecast lowered on lower BRL, but bullish

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
ICE Arabica	USc/lb	107.1	113.1	101	98	106	106	106	106
ICE Robusta	USD/mt	1,587	1,627	1,550	1,550	1,580	1,600	1,600	1,600



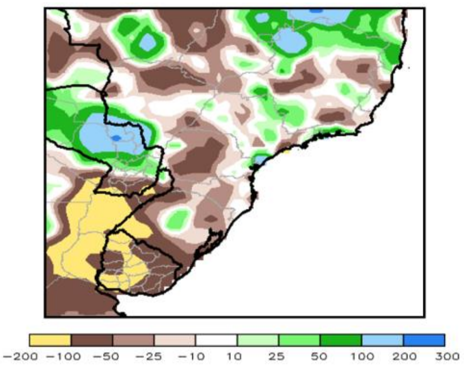
Source: Bloomberg, Rabobank 2019

ICE Arabica (and possibly Robusta) certified stocks expected to go up, keeping price rallies capped



Source: ICE, Rabobank 2019

Brazilian weather is good for arabica cherry development (harvest starting in June). 30-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2019

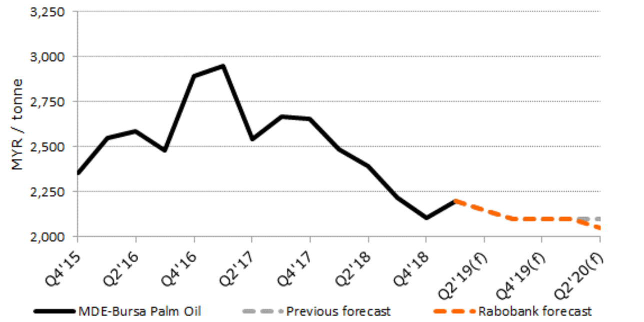
Palm Oil

The forecast of a 'near-normal' 2019 monsoon in India provides an additional bearish factor to palm oil prices

- We expect palm oil inventory drawdown in Indonesia to slow down in Q2 2019.
- Malaysian palm oil production and inventory remain higher year-on-year so far in 2019.
- Indian monsoon is likely to be 'near-normal' in 2019.

We maintain our 2019 palm oil prices forecast but bullish

	Unit	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Palm Oil	MYR/mt	2,219	2,108	2,200	2,150	2,100	2,100	2,100	2,100



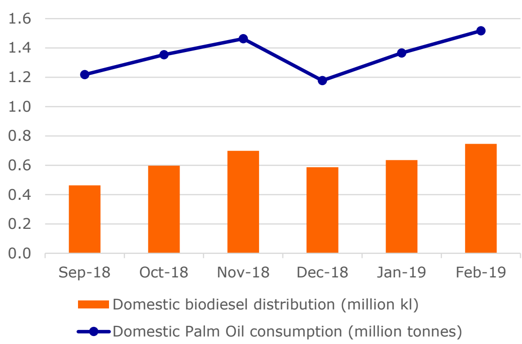
Source: Bloomberg, Rabobank 2019

We expect palm oil inventory drawdown in Indonesia to slow down in Q2 2019. According to the Indonesian Ministry of Energy and Mineral Resources, the country's B20 mandate has reached a 99% implementation level as of the end of February 2019. The implementation of the B20 mandate, which started in September 2018, has helped to reduce high palm oil inventory levels. According to GAPKI, Indonesian February 2019 palm oil (including lauric oil) inventories decreased by 17% MOM, to 2.5m mt. During this period, Indonesian palm oil production decreased by 11.4% MOM, to 3.9m mt, due to seasonal factors. Indonesian domestic palm oil consumption increased by 11% MOM, to 1.5m mt, due to the implementation of the B20 mandate. As Indonesian palm oil production seasonally improves in Q2 2019 and palm oil demand from the B20 mandate reaches its mandated limit, we expect Indonesian palm oil inventory drawdown to slow in Q2 2019.

Malaysian monthly palm oil production and inventory remain higher year-on-year so far in 2019. According to the MPOB, Malaysian March 2019 palm oil production increased by 8% MOM, to 1.7m mt. This brings palm oil production in Malaysia 10% higher YOY for Q1 2019. Meanwhile, the drawdown of Malaysian palm oil inventory was lower than expected in March 2019. While Malaysian palm oil exports increased by 22% MOM, to 1.6m mt in March 2019, palm oil imports also increased by more than three times, to 131,242 mt. Hence, Malaysian palm oil inventories only decreased by 4.6% MOM, to 2.9m mt, in March 2019, which was still 25.6% higher YOY. We expect palm oil inventories in Malaysia to remain relatively high in April 2019, as palm oil production in Malaysia seasonally picks up. At the same time, data from surveyors (ITS, Amspec, and SGS) showed that Malaysian palm oil exports only increased by 1.5% to 6.7% for the first 15 days of April, compared to the same period in March.

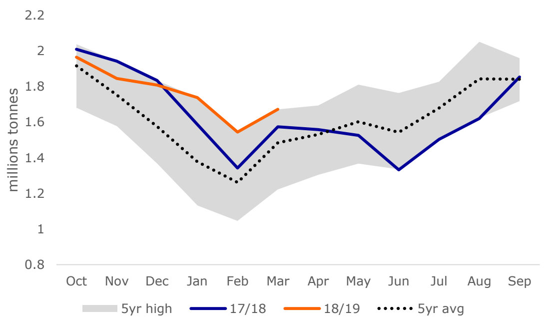
The Indian monsoon is likely to be 'near-normal' in 2019. According to the India Meteorological Department's (IMD) first-stage Long-Range Forecast, the monsoon in India is likely to be 'near-normal' this year. The IMD pegged overall domestic rainfall at 96% of the Long Period Average (LPA), compared to the 'below-normal' monsoon in 2018, at 91% of the LPA. A 'near-normal' monsoon in 2019 will provide beneficial precipitation for 2019/20 domestic soybean production, which will reduce the need to import more vegetable oils. Meanwhile, in its April 2019 report, the NOAA still forecasted that weak El Niño conditions are likely to continue through to May 2019 (~80% chance), and also from June to August 2019 (~60% chance).

The implementation of the B20 mandate in Indonesia has helped to reduce domestic palm oil inventories



Source: GAPKI, APROBI, Rabobank 2019

Malaysian monthly palm oil production remains higher year-on-year in 2019



Source: MPOB, Rabobank 2019

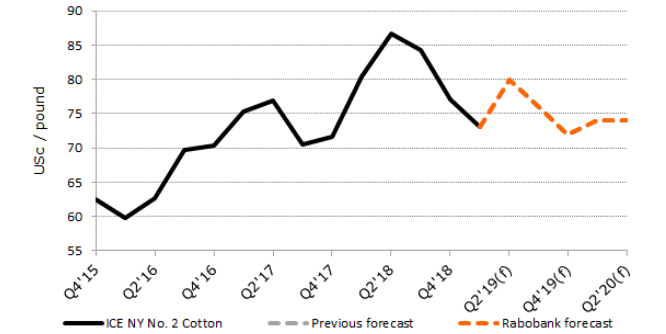
Cotton

Range-bound ICE #2 futures prices are forecast to touch mid-year highs in Q2 2019

- Progress in US-China trade talks and/or an incoming Brazilian/US weather shock could trigger the break, with speculative buying likely exaggerating the move.
- Plantings in the US have begun well, with 9% of crops planted nationally – on par with the five-year average.
- China introduced an extra 800,000mt (3.7m bales) of sliding-scale import quota: an early sign of Chinese supply tightness?

ICE #2 Cotton maintained – short-term upside with long-term downside

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Cotton	USc/lb	84	77	73	80	76	72	74	74



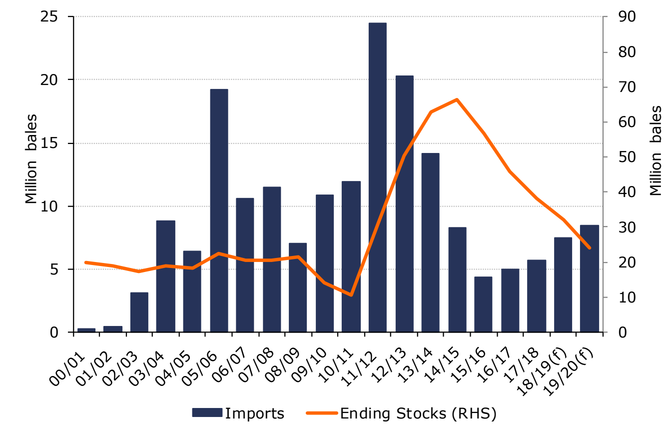
Source: Bloomberg, Rabobank 2019

Range-bound ICE #2 futures prices are forecast to touch mid-year highs in Q2 2019, before price pressure emerges into late 2019. This peak would see the July 2019 contract break through its USc 2/lb range through April, to approach the USc 80/lb mark. Progress in US-China trade talks and/or an incoming Brazilian/US weather shock could trigger the break, with speculative buying likely exaggerating the move. While widespread speculative action drove sharp upside in the second quarters of 2017 and 2018, this season appears less vulnerable to such a feature – unfixed net mill sales on July 2019 are 28,444, vs. 45,694 last year. However, it remains too early to rule out speculative buying as we approach July first notice day – for one, ICE certified stocks remain at five-month lows, and Managed Money positions are unseasonably neutral. Past Q2 2019, Rabobank remains bearish, with prices forecast to sink into the low-USc 70/lb region by late 2019.

Plantings in the US have begun well, with 9% of crops planted nationally – on par with the five-year average. This is particularly true in Texas – the largest producing state in the US – where 12% of cotton is planted, marginally above average. Recent rains have relieved previous dryness concerns here, which comes after drought significantly reduced the crop last season – NOAA's three-month outlook maintains above-normal rainfall for the region. While the USDA's Prospective Plantings forecast, at 13.8m acres, fell short of market expectations, Rabobank still sees scope for +14m acres and a 21.5m- to 22m-bale US crop in 2019/20 – given favorable conditions and price ratios. This, coupled with a potential 12m-bale Brazilian crop, highlights a significant supply pipeline for late 2019 – the key driver forming our longer-term bearish view.

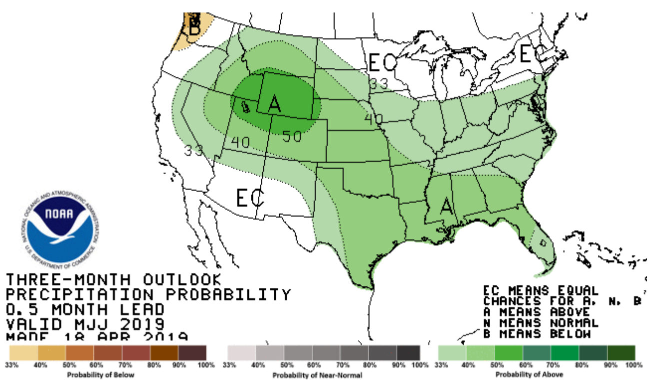
Market bulls will be looking to China as the potential consumer of this late-year surplus, following the introduction of an extra 800,000mt (3.7m bales) of sliding-scale import quota. This comes on top of a near 900,000mt (4.1m-bale) low-tariff quota. Is this an early sign of Chinese supply tightness? Rabobank has previously considered 2019 as an important milestone for China's domestic reserve policy, which – after three years of destocking – is in much need of adjustment. In the absence of US-China trade, it is difficult to see how such a quota can be implemented in the short term, amid lacking non-US export availability. However, the move highlights medium-term Chinese import demand and has supported longer dated contracts on the ICE #2 – December 2019 gained 2% MOM, vs. a 0.6% gain on July 2019.

Chinese destocking has cut domestic inventories significantly in recent years, highlighting the need for additional imports



Source: USDA, Rabobank 2019

Favorable rainfall prospects are forecast across the southern US in the three-month period



Source: NOAA 2019

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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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