Rabobank

Agri Commodity Markets Research

January 2019: Smooth Ride, but Flying Blind

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So far, January has reflected higher risk appetite, with Brent surging 15% and the Brazilian real gaining 4% vs. the US dollar, prompting sugar prices to climb 7% YTD. Meanwhile, geopolitics and weather risk upside are driving G&O prices higher. In the midst of these positive signals, the biggest question will be if Chinese guarantees can facilitate a deal before March 1st trade tariff deadline. Also, the lack of US trade data – due to the government shutdown – could deliver surprises ahead.

WHEAT

Elevated short-term price outlook, before a bearish outlook ahead of the 2019 harvest

- Volatility has softened across US wheat futures, with prices posting similar levels to early December.
- Growing 2019/20 US winter planted acres are in question, following a wet autumn planting season.
- Rising Russian export FOB prices put US offers in a strong position to gain export share.

SUGAR

ICE #11 Sugar price forecast slightly bullish

- Current market prices do not incentivise sugar production in Brazil – but they will have to do so next season, starting from April.
- Indian sugar exports are flowing a little slower than expected, posing the question as to what will be the solution for the massive sugar surplus in India.

CORN

Strong demand and supply tightening drive a bullish outlook – uncertainty to come

- There are three fundamental risk factors going forward: 1. US 2018 yields, 2. US-China trade, and 3. 2019 US corn planted acreage.
- Early-year dryness threatens Brazil's summer crop.
- US-China trade talks are said to include ethanol trade – a potential positive for US demand.

COFFEE

We remain bullish at these prices

- ICE Arabica has remained rather neutral so far in 2019.
- The market is pressured by how much Brazil has been exporting. We make an upward adjustment to our Brazil crop numbers, on the back of higher-than-expected availability.

SOY

Looking ahead, Chinese demand and US planting decisions risk capping CBOT Soy's recovery

- Dryness in Brazil cut soy production estimates by 7%, complicating China's supply options if trade talks fail.
- US shutdown delays farmer support payments and loans, and could increase selling pressure.
- Low prices encouraging demand-led rally in soy oil and soymeal, exacerbated by Brent and hog recovery

COCOA

Price forecast slightly bullish

- Arrivals in Côte d'Ivoire have decelerated after a great start of the season.
- The Harmattan has been quite serious in Ghana, but the damage may be limited.
- EU Q4 grindings came in 1.6% higher YOY & North American grindings 1.2% higher YOY

PALM OIL

Bearish view maintained on 2019 palm oil prices, with support in Q1 2019

- Weather in Malaysia and Indonesia could get drier.
- Healthy Indian and Chinese palm oil import demand is expected throughout January 2019.
- High palm oil inventory levels in Malaysia and Indonesia will limit price increase in Q1 2019.

COTTON

ICE #2 Cotton touches 13-month lows in late 2018, with prices set to recover through 1H 2019

- Indian 2018/19 output is suffering heavily from last year's poor monsoon.
- A gloomier global demand outlook limits major price upside in 2019.

Wheat

Elevated short-term price outlook, before a bearish outlook ahead of the 2019 harvest

- Volatility has softened across US wheat futures, with prices posting similar levels to early December.
- Growing 2019/20 US winter planted acres are in question, following a particularly wet and challenging autumn planting season.
- Rising Russian export FOB prices put US offers in a strong position to gain export share.

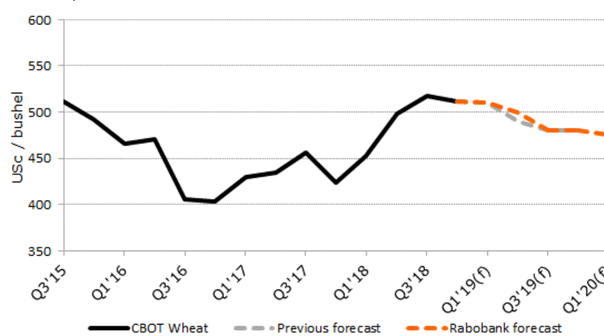
Volatility has softened across US wheat futures, with prices posting similar levels to early December – having traded in an USc 30/bu-USc 35/bu range since. At +USc 500/bu, US futures are also well-elevated above 1H 2018 levels as 2018/19 world stock tightening – some 20m tonnes YOY – commands higher prices above USc 500/bu. Rabobank holds a bearish medium-term view, with CBOT prices forecast to decline in 2H 2019, to USc 480/bu. Improved global wheat acres – driven by stronger relative prices YOY – should allow for a +8m-tonne build in world inventories in 2019/20. In the absence of a major production risk (e.g. adverse northern hemisphere weather), prices should come under pressure from Q2 2019 as traders find comfort in stock replenishment. Regarding weather, global conditions provide few risks so far. Despite recent cold weather spells, the major growing regions of the Black Sea, US, and Europe (except France) have sufficient snow cover to insulate winter crops against freezes—however, we continue to monitor US SRW crops. This lessens the impact of widespread winterkill for these regions, reducing market weather risk. Anticipate weather risk to return in earnest come early Q2 2019, as northern hemisphere crops break dormancy and begin spring development.

Improving 2019/20 US winter planted acres are under question, following a particularly wet and challenging autumn planting season. On 25 November 2018, just 95% of the US winter crop was declared ‘planted’, with the southern plains states of Kansas and Oklahoma having planted 96% and 95%, respectively, vs. 100% in 2017. Relative price margins (vs. alternative grains & oilseeds) through October and November 2018 resulted in expectations of higher 2019/20 winter acres – both Rabobank and the USDA pegged all-wheat area at 51m acres, up 3.2m aces YOY. Given that some of these acres were unable to be planted, Rabobank has cut 2019/20 all-wheat planted area to 49m acres, driving the US balance sheet into a relatively balanced scenario – a factor which should assist CBOT prices stay around USc 500/bu through Q2 2019.

Rising Russian export FOB prices put US offers in a strong position to gain export share. Russian FOB prices have risen some USD 40/tonne, to USD 240/tonne, since July 2018, now comparable with US HRW. This should allow US sales to strengthen seasonally, a factor supporting near-term CBOT prices. However, this trend hasn’t been obvious so far: Egypt’s latest GASC tender saw the importer favour Black Sea supplies on lower freight costs. Rabobank expects US sales to be benefiting from less traditional importers – South-East Asia and Latin America, for instance. This theory remains difficult to quantify while the US government remains in shutdown – we eagerly await the recommencement of weekly US export sales.

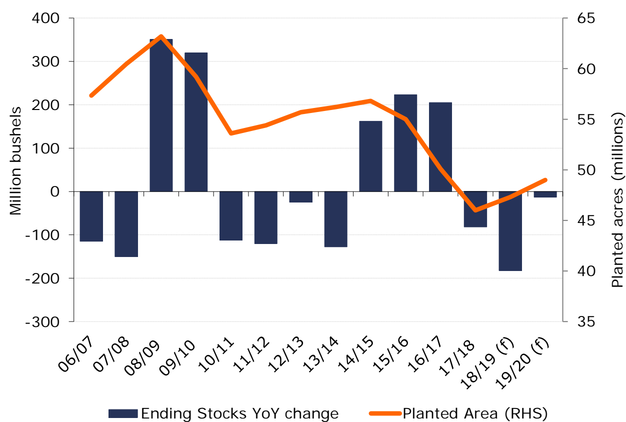
CBOT Wheat forecast remains bearish on recovering supplies

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
CBOT	USc/bu	499	517	512	510	500	480	480	475
Matif	EUR/t	173	199	202	195	190	185	185	190



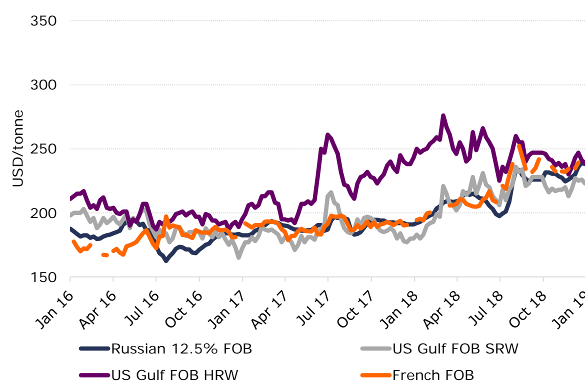
Source: Bloomberg, Rabobank 2019

Global wheat acres are expected to rise in 2019, pressuring prices – US planted acres rise YOY to keep stocks balanced



Source: USDA, Rabobank 2019

Rising Russian FOB prices have allowed other export origins to become much more competitive – including the US



Source: HGCA, UkrAgro Consult, Rabobank 2019

Corn

Strong demand and supply tightening drive a bullish outlook – uncertainty to come

- On the fundamentals side, there are three major risk factors going forward: 1. US 2018 yields, 2. US-China trade, and 3. 2019 US corn planted acreage.
- Brazilian weather now draws market attention, following early-year dryness which threatens the summer corn crop.
- US-China trade talks are said to include ethanol trade – a potential positive for US demand.

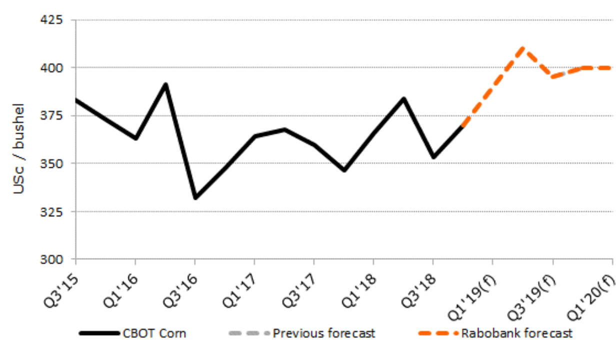
A short-term bullish outlook is maintained on CBOT Corn, amid persistent strong 2019 demand and eroding stocks – both in the US and globally. On the fundamentals side, there are three major risk factors going forward: 1. US 2018 yields, which are still being heavily debated. Rabobank holds a 178bpa estimate, vs. the USDA's 178.9bpa, while market players hold a 178bpa-179bpa estimate range. 2. Progress in the US-China trade negotiations and potential Chinese purchases of US beans – both supportive of US markets, and 3. 2019 US acreage is under fire as the soy/corn ratio bounces back to 2.4, up from 2.3 in early November. The ratio, forecast to be maintained at 2.3 through Q1 2019, should continue to favour corn acres over soy—but to a lesser extent than previously thought. A disappointing US 2019 corn acreage would, inevitably, be supportive of CBOT Corn prices.

Brazilian weather now draws market attention, following an early-year dryness threat. In the major first-crop corn areas of Minas Gerais and Rio Grande do Sul, crops are largely pollinating and progressing into grain fill. Recent dryness will have stressed the crop, potentially cutting final yield potential. However, this dryness has also hastened soybean maturity – a positive for incoming safrinha corn plantings, currently 5.6% planted nationally. Rabobank therefore maintains our Brazilian corn forecast at 92.4m tonnes – between CONAB and USDA at 91.1m and 95m tonnes, respectively. Short-term rainfall forecasts should bring soil moisture relief to central and eastern Brazil. That said, the rainy season has been quite unpredictable so far – March to May will be critical as the safrinha corn enters pollination and grain fill. Argentine corn is now 89% planted and has largely escaped the dryness in Brazil – BAGE rates the soil moisture at 41% optimum/surplus, with the crop rated 51% good/excellent. Rabobank maintains 2018/19 Argentine output at 39m tonnes – the lower end of expectations after some early planting interruptions.

US-China trade talks are rumoured to include ethanol trade – a potential positive for US demand. Negative US ethanol margins since November are raising domestic use concerns, with weekly production declining each week since the turn of the year. A 19% dip in Brent crude – also since November – has undoubtedly assisted a 2% respective dip in February 2019 ethanol futures. Progress in ethanol talks could resume US ethanol exports to China – the country's third-largest customer in 2016 – improving margins and driving domestic corn usage. Arguably, an agreement in the ethanol space is beneficial for both parties and a bullish risk factor going forward.

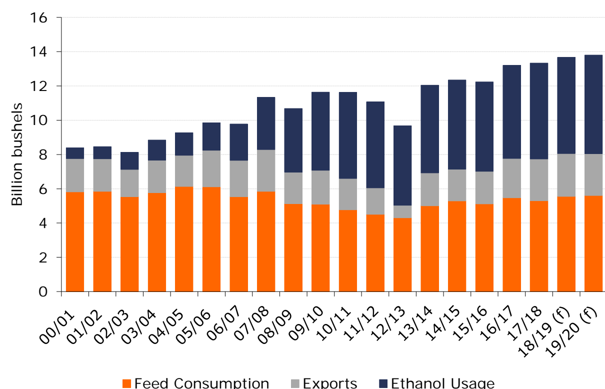
Supportive CBOT Corn price forecast maintained

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
Corn	USc/bu	384	353	370	390	410	395	400	400



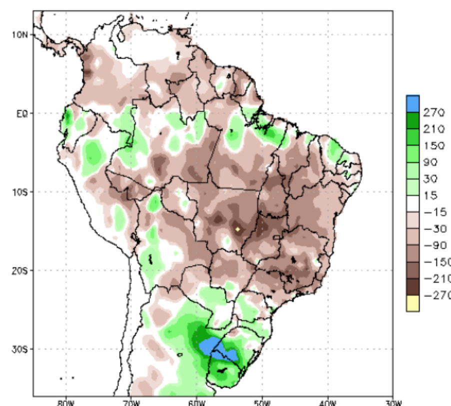
Source: Bloomberg, Rabobank 2019

US demand growth in 2019 drives a second season of domestic balance sheet contraction



Source: USDA, Rabobank 2019

The 30-day Brazilian rainfall anomaly (mm) highlights recent dryness, which is due to be relieved in the coming fortnight



Source: NOAA, Rabobank 2019

Soybeans

Looking ahead, Chinese demand and US planting decisions risk capping CBOT Soybean recovery

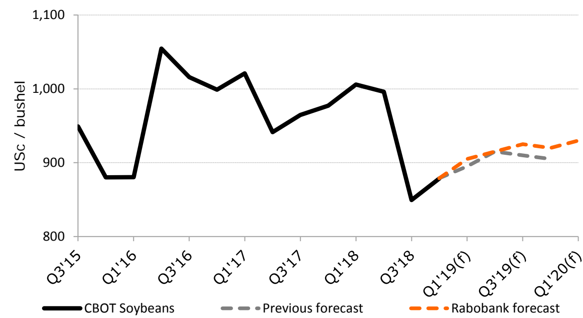
- Chinese purchases of US soybeans during the trade war hiatus below expectations due to African swine fever and collapsing soymeal demand.
- Dryness in Brazil cut soy production estimates by 7%, complicating China's supply options if trade talks fail.
- US government shutdown delays farmer support payments and loans, and could increase selling pressure.

CBOT Soy finished 2018 down 8% YOY – a poor result that nevertheless fails to adequately reflect the magnitude of fundamental changes to soy supply, demand, and trade caused by the US-China trade war. These include (5%) lower annual imports by China for the first time in nearly two decades and record stocks for unsuspecting US farmers. In response, US soy is pricing in and penetrating markets in the EU, the Middle East, Africa, and South America – although these won't be enough to offset demand losses from China.

Four bullish catalysts in Q4 2018 lifted CBOT Soy over 10% off its 11-year lows and continue to deliver investor enthusiasm into 2019. The first: US government payments equivalent to USD 1.65/bu created a floor for prices by preventing cash-strapped farmer selling. A second bullish move came as wet harvest conditions in the Midwest delivered – and WASDE reports later confirmed – cuts to US soy yield that left 2018/19 carry-out forecast shy of the psychologically imposing 1bn-bushel level. Since November, promising US-China trade developments – including an unexpected trade war hiatus and soy purchase agreement – have spurred demand hopes and burned short-sellers. In December, the latest bullish risks emerged: ongoing dryness in Brazil during the traditional rainy period (when soy pods are filled), coupled with too much rain in Argentina have cut private South American production estimates by 8m tonnes (-4.5%). These

CBOT Soybean forecast higher, with upside checked by low China demand and rising soy-corn ratio

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
Soybeans	USc/bu	996	849	**879**	905	915	925	920	935

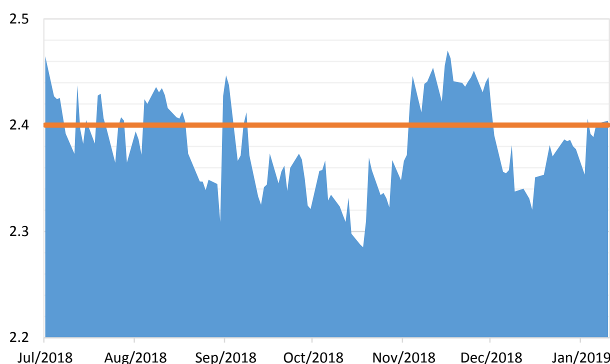


Source: Bloomberg, Rabobank 2019

losses are easily absorbed by the US stockpile; however, they remain important seeing that they limit China's ability to exclusively source its soy requirements outside of the US – a key consideration if the trade war escalates in coming months.

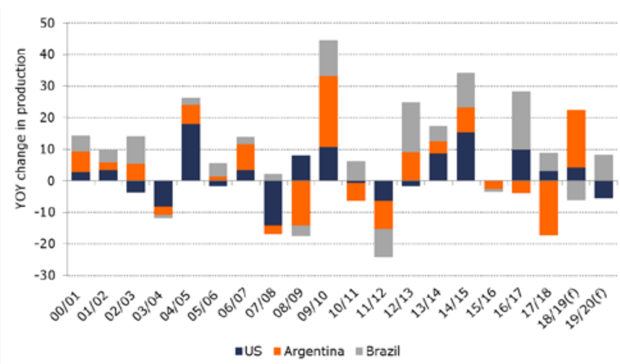
March 2019 CBOT Soy exhibits strong technical support below 8.85/bu. But in the absence of a confirmed trade deal, CBOT rallies will face headwinds in falling Chinese demand, a rising soy/corn ratio, and the US government shutdown. China's soymeal demand and crush margin have plummeted in recent weeks – by-products of widespread ASF and associated hog culling – and Q1 soy imports from the US are now expected in the region of 6m tonnes, vs. an 8m-tonne estimate. Perhaps most concerning for CBOT has been the slow, steady rise in the soy/corn ratio to 2.4 – a level that historically erodes the incentive for farmers to plant corn over soy. At current levels, Rabobank sees fewer soy acreage cuts and poor demand, delivering 2019/20 carry-out near 1bn bu and CBOT near USD 9.00/bu. The US shutdown, meanwhile, has frozen loans and support payments for US farmers, as well as market-moving data such as WASDE and US sales & stocks reports. Under these conditions, Rabobank expects farmer selling pressure to keep CBOT upside capped at USD 9.25/bu in the absence of a trade deal.

Soy/corn ratio has rebounded since late 2018, threatening to limit soy acre cuts and raise carry-out near 1bn bu



Source: Bloomberg, Rabobank 2019

Weather issues in Brazil & Argentina are cutting production estimates by ~5%, but US stocks can easily cover the shortfall



Source: USDA, Rabobank 2019

Soymeal and Soy Oil

Price action in early 2019 shows strong demand-led support, especially for soy oil-heavy biodiesel

- Low prices encouraging demand-led rally in soy oil and soymeal, exacerbated by Brent and hog futures recovery.
- NOPA December crush volumes, oil disappearance better than expected; US crush margins stabilised in Q4.
- South American weather risks increase which – together with domestic constraints –could curtail exports.
- African Swine Fever spread can cause massive volatility.

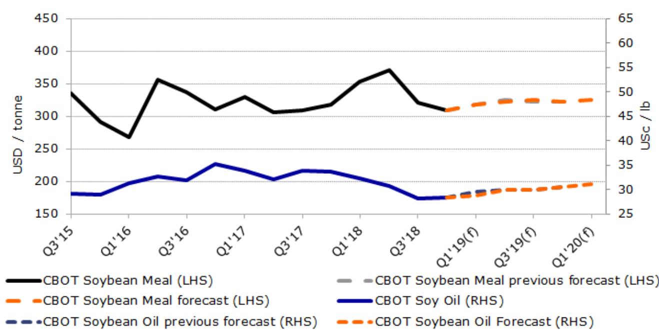
CBOT Soy Oil mirrored Brent Crude's impressive technical moves in Q4, falling 10% to three-year lows before rebounding in late December to settle at three-month highs. Despite global market volatility, CBOT Soy Oil showed quarterly price improvement, and the latest close higher appears to confirm Rabobank's view that soy oil presents a value proposition. The greatest evidence can be seen in the decline of US soy oil stocks (-4% YOY), despite record soymeal production. To be sure, the world is flooded with vegetable oil (especially palm). Despite the deluge of US soy oil production, the US NOPA has reported lower soy oil stocks than expected in six of the last eight months.

The overall demand growth driver behind US soy oil in 2018 was record biodiesel demand, and we expect that trend to be further bolstered in 2019 by a curtailed South American export programme. Dryness is expected to cut Brazil's soy production 5% YOY – and amid growing domestic biodiesel requirements (11% mixture, up from 10% currently) and Chinese raw soy demand, there will be limited soy oil available for export. Low crush rates in Argentina will contribute to an annual decline (-2%) in South American soy oil exports and in turn exacerbate growth in the US market share of global trade (+2% YOY). Meanwhile, low CBOT Soy Oil prices have helped keep biodiesel prices below diesel and raised soy oil's proportion in biodiesel's vegetable oil inputs YOY (69% vs. 67%). We are cautiously supportive of CBOT Soy Oil, given that these are marginal improvements to heavy stocks – but price dips below USc 28/lb will provide bargain-buying opportunities.

US crush margins stabilised last month, after a five-month, 50% drop, as dryness conditions in South America and strengthening hog prices improved demand outlook. The decline in margins reflects two events: Chinese purchases of US soybeans delivering an outsized impact on CBOT Soybeans and opportunistic US firms maximising crush volumes. The recent recovery in CBOT Soymeal and crush margins are functions of strengthening demand expectations that could test US crush capacity in 2019. The US will see 2018 export strength maintained amid South American production constraints, while domestic consumption will rise to satisfy expectations of strong 2H pork demand from ASF-afflicted China. Indeed, the dramatic extent of ASF in China and its spread in Europe present strong upside for US pork exports and CBOT Soymeal. The clearest sign of growing demand, absent furloughed export sales data, has been NOPA crush volumes – December volumes were the third-largest ever. Amid positive signals and strong technical support below USD 305/tonne, the biggest bearish risk for soymeal aside from the US-China trade war will be US soy planting area this spring – if acreage cuts aren't substantial, subsequent record soy carry-out will push the entire complex lower.

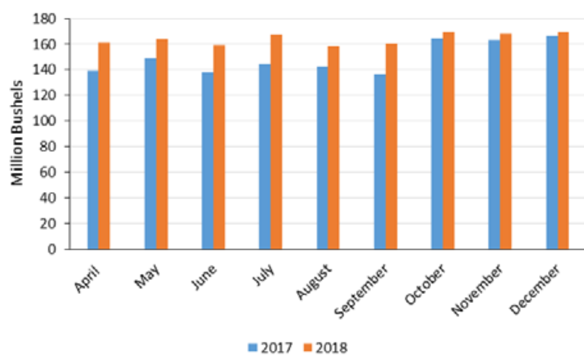
CBOT Soy oil and Soymeal buoyed by AP, biodiesel demand

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
Soymeal	USD/tonne	371	321	309	318	322	325	322	325
Soy oil	USc/lb	30.7	28.2	28.3	28.7	30.0	30.0	30.5	31.0



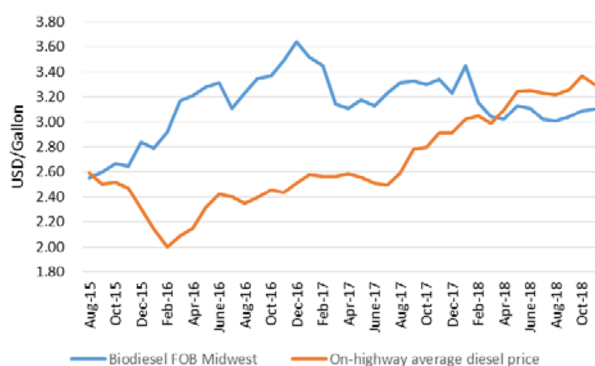
Source: Bloomberg, Rabobank 2019

US December NOPA crush was the third-highest on record, strong feed demand in 2019 could push crush to capacity



Source: NOPA, Rabobank 2019

Biodiesel discount to diesel is driving increased demand for soy oil (69% of veg oil content) and pushing down stocks



Source: USDA ERS, DOE, Rabobank 2019

Palm Oil

Bearish view maintained on 2019 palm oil prices, with support in Q1 2019

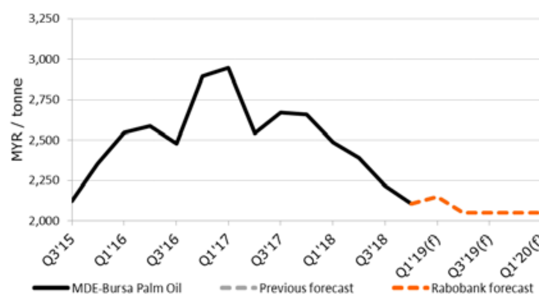
- Weather in Malaysia and Indonesia could get drier in Q1 2019.
- Healthy Indian and Chinese palm oil import demand is expected throughout January 2019.
- High palm oil inventory levels in Malaysia and Indonesia will limit price increase in Q1 2019.

Weather in Malaysia and Indonesia could get drier in Q1 2019. In its January 2019 report, NOAA expects an El Niño weather phenomenon to form and continue –with 65% chance through the Northern Hemisphere spring. While the intensity and the duration of this El Niño are still unclear, this weather phenomenon typically brings dry conditions to South-East Asia. A combination of El Niño and a seasonal palm oil FFB yield down-trend cycle in Q1 2019 could amplify a QOQ palm oil production decrease in Malaysia and Indonesia during this period.

Healthy Indian and Chinese palm oil import demand is expected throughout January 2019. Indian edible oil imports increased by 6.7% MOM in December 2018, to reach 1.15m tonnes. As of early January 2019, Indian edible oil inventories at port and in the pipeline, however, decreased by 7.5% MOM, to reach 2.02m tonnes due to higher consumption in December 2018. We expect Indian palm oil import activities to pick up in January 2019, to restock edible oil inventories. On top of this, the reduction of Indian palm import duties from ASEAN countries also increases the competitiveness of the palm oil import price against soft oils. Similarly, domestic edible oil inventories in China are also relatively low due to increasing domestic edible oil demand for Lunar New Year celebrations. As of early January 2019, Chinese palm oil inventories decreased by 19.8% YOY, to reach 513,100 tonnes.

Bearish view maintained on 2019 palm oil prices

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
Palm Oil	MYR/tonne	2,391	2,219	2,108	2,150	2,050	2,050	2,050	2,050



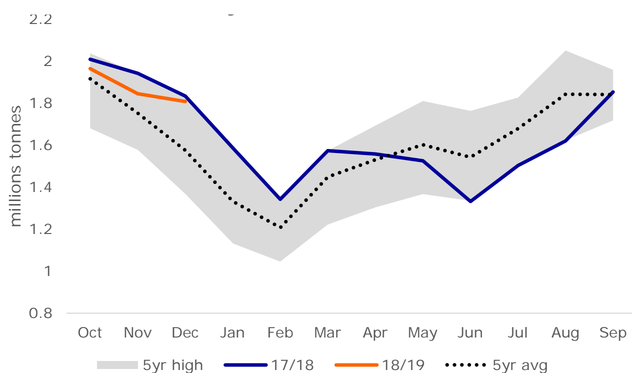
Source: Bloomberg, Rabobank 2019

Chinese soy oil inventories also decreased by 5% YOY, to reach 1.6m tonnes. We also expect Chinese palm oil import activities to pick up in January 2019.

High palm oil inventory levels in Malaysia and Indonesia will limit price increase in Q1 2019. According to MPOB, Malaysian December 2018 palm oil production decreased by 2% MOM, to 1.8m tonnes. Despite the decrease in palm oil production, Malaysian palm oil exports for the same month only increased by 0.5% MOM, to 1.38m tonnes. As a result of this, Malaysian December 2018 palm oil inventories increased by 6.9% MOM, to reach a record high of 3.2m tonnes. Meanwhile, according to GAPKI, Indonesian November palm oil inventories (including lauric oil) decreased by 11.7% MOM, to 3.9m tonnes. Despite this drawdown, palm oil inventories in Indonesia are still higher than average levels seen in 2017.

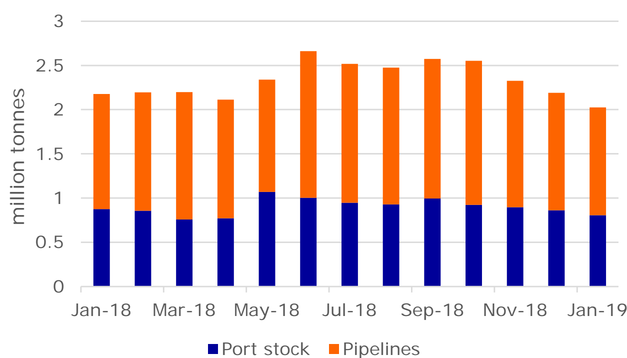
The implementation of the Malaysian biodiesel programme could help reduce domestic palm oil inventories. The Malaysian government plans to implement the B10 mandate in the transportation sector from 1 February 2019, along with the B7 mandate in the industrial sector from 1 July 2019. If these mandates are implemented successfully, an additional 761,000 tonnes of CPO will be consumed domestically in 2019.

Malaysian monthly palm oil production seasonally decreases in Q1



Source: Bloomberg, MPOB, Rabobank 2019

Edible oil inventories in India decreased by 7.5% MOM at the beginning of January 2019



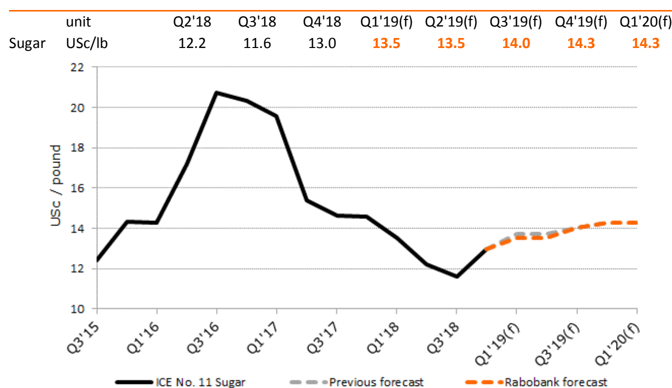
Source: SEA India, Rabobank 2019

Sugar

ICE #11 Sugar price forecast slightly bullish

- Current market prices do not incentivise sugar production in Brazil – but they will have to do so next season, starting from April.
- Indian sugar exports are flowing a little slower than expected, posing the question as to what will be the solution for the massive sugar surplus in India.
- Hot and drier-than-normal weather in Brazil could become a worry for the cane growth next year.

ICE #11 Sugar price forecast maintained



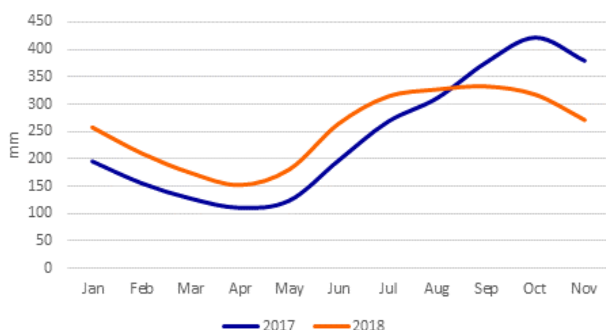
Source: Bloomberg, Rabobank 2019

ICE #11 Sugar prices have increased almost 10% YTD. The move was not a smooth ride. Whereas in the first week of the year, energy prices and the Brazilian real were strengthening, sugar prices remained flat until the start of the following week, when they jumped ~6% in one day (with all other variables quiet). These strange moves seem hard to justify, but could be related to the lack of volumes during the seasonal break or the lack of CFTC data, likely prompting traders to reassess their trading strategies. It is quite likely that the next CFTC report will bring a lot of volatility to the sugar market (along with volatility in other commodities).

Weather has not been kind to sugar globally. Whether the size of the current Indian crop may be a little higher or a little lower than last season is still up for debate (with most of the market believing in a slightly lower crop). But more concerning is the potential drop in Indian production for the next season. Rainfall levels in Maharastra and Karnataka have been below-normal during the monsoon, and the dry season has so far been deserving of its name. With soil moisture going down in these two states, we believe in a drop in production large enough to eliminate most of India's domestic surplus in 2019/20. Meanwhile in the EU, the expansion in wheat due to the summer dryness last year will likely result in lower area dedicated to sugar beet for the 2019/20 export season. With this in mind, exports from India and the EU may disappoint in 2019/20. The cane growth in Brazil could also be disappointing due to the very warm and drier-than-normal weather over São Paulo and most of the sugar area. It is indeed too early to talk about damage, but if dryness there continues (in what should be the peak of the wet season), it could become a game-changer.

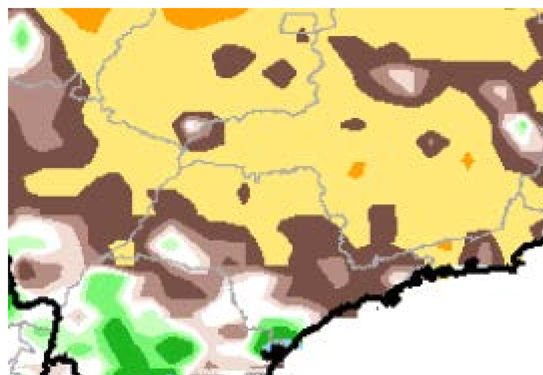
In light of a likely global deficit in 2019/20, the world will probably need Brazil to produce more sugar next season. Even though the 2019 national crop year is still a while away, the expected drop in India and the smaller area in the EU are likely to result in a relatively small global deficit. Barring any serious weather issues in Brazil, this deficit should be well within the country's capacity to cover it if sugar prices were to rise much above the ethanol parity there. At the moment, the ethanol parity is at around USc 13.4/lb, but next season's ethanol parity will depend on Brazilian ethanol prices next year, largely unknown at the moment. Ethanol prices in Brazil will, in turn, likely depend on ethanol and energy prices globally. Therefore, we do expect the correlation between sugar and energy prices to continue through 2019.

India has entered the dry season with moisture deficits in key areas – soil moisture in Maharashtra (mm in first 1.6m of soil)



Source: Reuters, Rabobank 2019

Brazil has been hot and drier than normal. 30-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2019

Coffee

We remain bullish at these prices

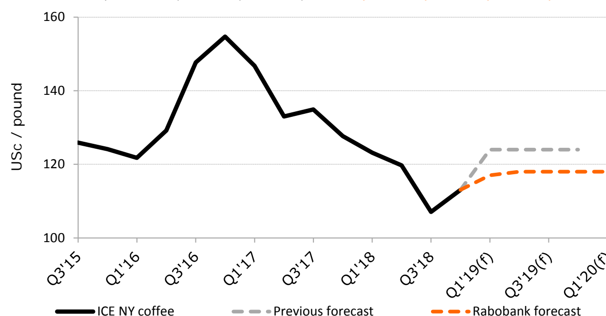
- ICE Arabica has remained rather neutral so far in 2019.
- The market is pressured by how much Brazil has been exporting. We make an upward adjustment to our Brazil crop numbers, on the back of higher-than-expected availability.
- On the milds side, the situation looks quite different, with the pace of Honduras sales now lagging.

Brazilian exports have broken records and surprised the market. Brazil exported a record 20.6m bags in the second half of 2018 (including soluble) – this is a record amount for any six-month period. Unlike most commodities, coffee exports are more a bearish sign than a bullish sign. The high export volume – in combination with rather little stock accumulation at destination so far – shows a very flexible degree of switching away from milds in favour of Brazils unwashed, facilitated by the rather good quality and quantity of the last crop. Our farm and wholesale stock survey conducted in March tallies with our crop expectations for the 2017/18 crop, so the amount of exports seen this season must relate – almost exclusively – to a higher-than-expected 2018/19 crop. This, together with warehouse observations, leads us to increase our Brazil 2018/19 crop number by 3m bags of arabica and 0.8m bags of robusta (to 60.6m bags, 44m of which arabica). We continue to work with 21m bags of internal consumption for 2018/19, which is about 2m bags lower than the number usually used – as we doubt there was rapidly increasing coffee consumption over a number of years (2014-18) at a time of little, or even negative, economic growth and a weak currency which resulted in higher domestic retail prices.

On the milds side, the situation looks tighter. It is still uncertain as to whether farmers in Central America will perform a thorough harvest. In particular, sales from Honduras between October and mid-January are lagging 28% below last

Arabica forecast lowered, but still bullish

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
ICE Arabica	USc/lb	119.7	107.1	113.1	117	118	118	118	118
ICE Robusta	USD/t	1,743	1,587	1,627	1,600	1,620	1,640	1,640	1,680

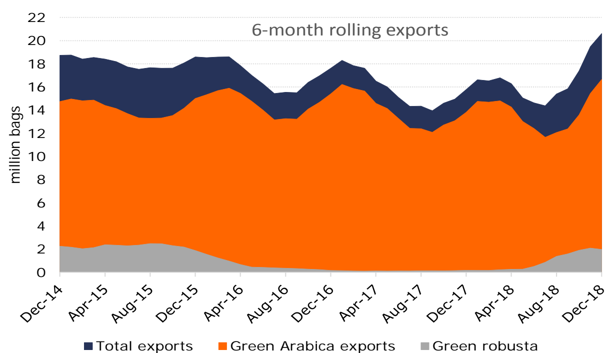


Source: Bloomberg, Rabobank 2019

year (at 1.9m 60kg bags). A 10% jump in sales is normal – and to some extent, it depends on prices. With steep competition from good-quality Brazil arabica coffee, and rainfall in the northern and eastern parts of the country, a delay in harvest and exports was somewhat to be expected. However, a delay in the harvest should not necessarily translate into a delay in sales. Furthermore, there has not been such a quick recovery in the pace of sales in recent memory. There is still time for sales to bounce back, but it is unlikely we will see a full recovery. This may result in a smaller-than-expected build-up in arabica certified stocks this season.

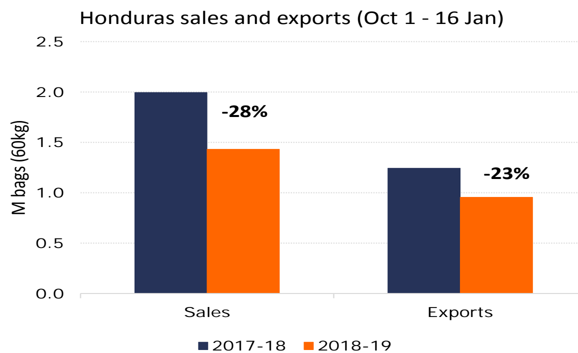
The robusta balance sheet still only has a rather small surplus that does not justify prices trading close to cost of production in Vietnam. In the short term, the robusta market is flooded with beans from Vietnam – and soon it will see a flood of Brazilian conilon beans, probably arriving as soon as April: sooner than usual. It is also hard to see robusta prices rising much more without arabica moving (with the current arbitrage at USc 35/lb, the robusta upside is likely less than USD 100/tonne). But if El Niño develops and Vietnamese rainfall is not as perfect as last year, the current prices will not guarantee a sustained output. The trees in Brazil may also leave the current season stressed, and we could see a production drop in 2020/21. Lower robusta production and growing consumption would not be a great combination.

Brazilian exports have been overwhelming – particularly green arabica exports – and will continue to pressure prices



Source: Cecafe, Rabobank 2019

Honduras' drop in coffee sales and exports could be due to a lower harvest there



Source: Ihcafe, Rabobank 2019

Cocoa

Price forecast slightly bullish

- Arrivals in Côte d'Ivoire have decelerated after a great start of the season.
- The Harmattan has been quite serious in Ghana, but the damage may be limited.
- EU Q4 grindings came in 1.6% higher YOY, North American grindings 1.2% higher, and Asian grindings 6.3% higher.
- Overall, the world's appetite for chocolate and chocolate flavours continues to grow.

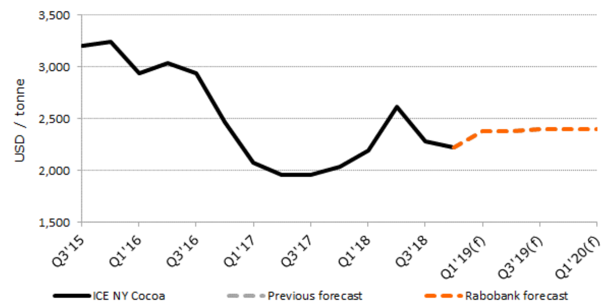
ICE NY Cocoa has lost ~3% since the start of the year, but it is still 7% higher since the start of December. The Harmattan had an early start – but it seems to be more worrying in Ghana, where rainfall has been quite low, than in Côte d'Ivoire, where rainfall has been rather decent. In any case, it is hard to say at this point if any damage will occur as a result, as there are some rains in the forecast that, if materialised, may help alleviate the situation there. The price drop during the first half of January, though small, is – in contrast to most other agri commodities – gaining ground, and with the S&P agri index climbing 2.3%, which is a sign that the weather situation is not as concerning as it was at the turn of the year. We certainly believe this is the case in Côte d'Ivoire. El Niño may also play a part in the weather, affecting the crop through 2019. At the moment, however, we do not see much incidence, as El Niño looks a little less likely (65% of it forming according to NOAA) and a little weaker than what it looked like at the end of 2018. Barring any unexpected weather event, it is hard to see these prices going much higher or much lower than where they are today.

Arrivals in Côte d'Ivoire are not as stellar anymore. After a surprising amount of arrivals in the first couple of months of the season, arrivals have decelerated since. Since the start of the season, arrivals came in at 1.19m tonnes, 12% higher than last season… but they seem to be decelerating quickly. In the first half of January, arrivals were 0.13m tonnes, well below the 0.17m tonnes of arrivals in the same period of 2018. Purchases in Ghana are said to be just above last season's levels, but only marginally. For the time being, immediate availability seems to be good, but not as stellar as a month or two ago. The increase in physical differentials since the start of the season points to a decrease in physical availability.

Demand continues to grow, though not as fast as before. EU Q4 grindings came in at 359,103 tonnes (1.6% higher YOY), North American grindings came in at 117,526 tonnes (1.2% higher YOY), and Asian grindings at 208,900 tonnes (6.3% higher YOY). The 208,900 tonnes ground in Asia in Q4 (as reported by participating companies in Malaysia, Indonesia, and Singapore) is the highest-ever quarterly figure. EU Q4 2018 saw the largest volume of grindings in any Q4. On a calendar-year basis, grindings increased by 4.2% in the EU in 2018. On a combined basis, these three regions saw 4.4% higher grindings in 2018. Expectations for 2019? Higher differentials and more subdued butter prices will likely result in lower grinding growth going forward – and we estimate 2% growth during the current 2018/19 season. Having said this, Q1 grindings in Europe and the US may come in below last year's, as Easter 2019 falls later in April than Easter 2018.

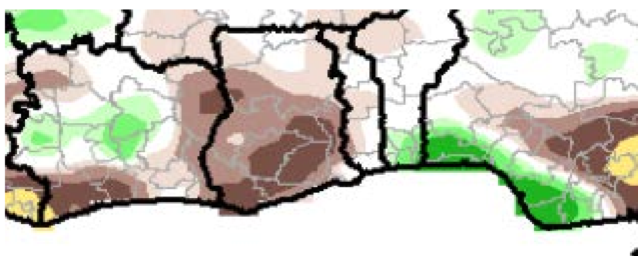
Price forecast largely unchanged

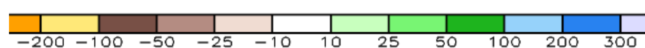
	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
ICE NY	USD/t	2,615	2,282	2,221	2,380	2,380	2,400	2,400	2,400
ICE London	GBP/t	1,832	1,672	1,646	1,720	1,730	1,750	1,750	1,750



Source: Bloomberg, Rabobank 2019

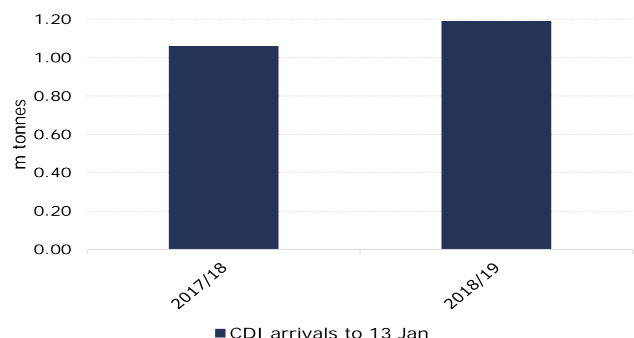
Rainfall in West Africa has been below normal levels. 90-day rainfall anomaly (mm):





Source: NOAA, Rabobank 2019

Arrivals in Côte d'Ivoire are up by 12% (but they were running 20% higher YOY before Christmas)



Source: Bloomberg, Rabobank 2019

Cotton

ICE #2 Cotton touches 13-month lows in late 2018, with prices set to recover through 1H 2019

- While Rabobank anticipated short-term weakness, the extent of this latest price slump has led us to adjust our Q1 2019 forecast marginally lower.
- Indian 2018/19 output is suffering heavily from last year's poor monsoon.
- A gloomier global demand outlook limits major price upside in 2019.

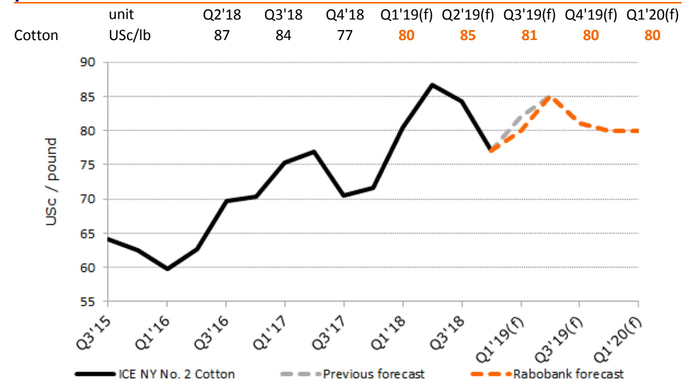
ICE #2 Cotton touches 13-month lows in late 2018, with prices set to recover through 1H 2019. Bearish sentiment emerged amid slowing global demand growth and a significant slowdown in US export sales – a symptom of the ongoing US-China trade war. Interestingly, cotton prices have found increasing direction from crude oil volatility, given its link with polyester fibre prices. While Rabobank anticipated short-term weakness, the extent of this latest price slump has led us to adjust our Q1 2019 forecast lower, now USc 80/lb. Longer-term, Rabobank maintains a bullish outlook, amid continued (albeit slowing) global demand growth and a 4.5m-bale global supply deficit in 2019/20. Furthermore, in light of the government shutdown, Rabobank suspects an uptick in US export sales – potentially boosting prices in the short term. While no deal is yet brokered between the US and China, subcontinent and South-East Asian buyers are likely taking advantage of the ICE #2 price slump and the loss of market transparency. A deal between the US and China which includes cotton trade is the market's single-largest bullish factor.

Indian 2018/19 output is suffering heavily from last year's poor monsoon, a factor which has cut yields in the major production regions of Gujarat and Maharashtra. The Cotton Association of India pegs production at 26.1m bales, vs. the USDA's 27.5m bales. Rabobank now forecasts Indian production at 26.3m bales, with the potential to require additional imports – a supportive factor likely in mid-2019. The emergence of additional mid-year Indian demand is likely to favour southern hemisphere exporters – namely Brazil and Australia – who will hold fresh stocks of new crop. The US will still be a few months away from picking, but, given US export sales to date, may still hold sufficient stocks to compete for this demand.

A gloomier global demand outlook limits major price upside in 2019, especially vs. the price peaks of 2018. While global demand growth has been a mainstay of ICE #2 support in recent seasons – 6% in 2017/18 and 3% in 2018/19 – Rabobank forecasts world cotton consumption to grow just 2% YOY in 2019/20, the lowest in four years. Escalation in trade wars (particularly between the US and China) and geopolitical tensions, driving uncertainty in business and trade, are the main factors behind this, while the broader macroeconomic outlook looks equally challenging. This October, the International Monetary Fund (IMF) revised their global economic growth prospects lower for both 2018 and 2019 – both now forecast at 3.7%. More worryingly, lower growth in developing economies – where textile demand grows most rapidly – was a major contributor to these global downgrades.

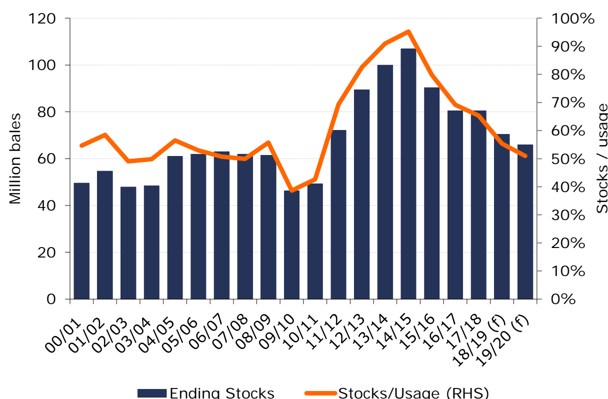
Short-term ICE #2 Cotton forecast revised lower on recent price weakness, but remains bullish

	unit	Q2'18	Q3'18	Q4'18	Q1'19(f)	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)
Cotton	USc/lb	87	84	77	80	85	81	80	80



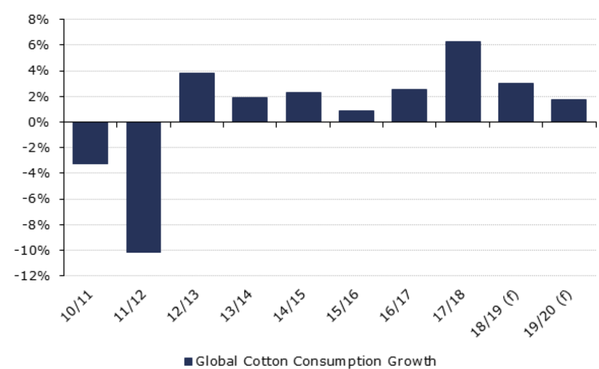
Source: Bloomberg, Rabobank 2019

Another 4.5m-bale global supply deficit in 2019/20 takes inventories to a nine-year low: a supportive price factor



Source: USDA, Rabobank 2019

Global cotton consumption growth has emerged every year since 2011/12, but looks to soften this season and next



Source: USDA, Rabobank 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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