Agri Commodity Markets Research

June 2019: Weather Still in the Driver's Seat

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El Niño continues to be a rather weak event judging by the Equatorian Pacific Ocean warming, but global weather continues to be highly unusual. In the US we have had the wettest planting season on record with record prevent plantings for corn and historically poor conditions that could cut stocks substantially. In India the monsoon took two weeks longer than usual to reach key sugar areas, Côte d'Ivoire is experiencing dryness that is threatening the main cocoa crop and in Australia we have had a severe drought that has resulted in the first wheat imports since 2007.

In the coming week, US weather looks drier but any further weather issues will exacerbate volatility. According to NOAA, El Niño has a 50%-55% chance to continue through the autumn and winter. Given global weather so far this year, we may continue to see unusual global weather ahead.

WHEAT

CBOT Wheat forecast revised higher, on heavy rainfall across the US, but bearish off these levels

- CBOT Wheat prices have continued to gain ~7% on wet weather in the US and support from corn prices.
- High corn prices will result in higher feed wheat demand around the world.

CORN

CBOT Corn rose at a more moderate pace in June

- ASF, Black Sea exports and replenished feed wheat supplies limited the 2019/20 US stock cut.
- Short-sellers were burnt in May on the supply shock; they've reversed position buying 440,000 lots.

SOY COMPLEX

CBOT rallied in June behind corn, delayed planting and poor prices threaten to reduce acreage

- US-China trade deal hopes appear elusive, while spreading ASF is a bane on animal feed demand.
- South America has just harvested a recovered crop.

PALM OIL

Volatility in global soybean complex prices to limit palm oil price bearishness

- Palm oil inventories in Malaysia to increase in 2H 2019.
- Spread between palm oil and gas oil remains narrow.
- The progress of the monsoon to determine Indian edible oil import volumes in 2H 2019

SUGAR

ICE #11 Sugar likely to see some adverse weather

- Volatility was very low in June, both historical and implied. We expect this to change.
- The monsoon is arriving in the key sugar areas of India two weeks later than usual.

COFFEE

Limited price recovery ahead

- The start of the delivery window on ICE NY Arabica July contract has attracted quite a bit of interest.
- Potentially adverse weather ahead for Central American crops and Indonesia.

COCOA

Deficit ahead

- Adverse weather in Côte d'Ivoire likely to result in a lower crop in 2019/20.
- 2019/20 should see a deficit of around 150,000mt, the first deficit in four years

COTTON

Further weakness for the ICE #2, as traders adjust to sub -USc 70/lb levels in the 12-month period

- Stifled US-China trade, plus the prospect of swelling World ex. China 2019/20 supplies, weighs on prices.
- US demand prospects deteriorate, led by Turkey and China, as Brazilian picking gains momentum.

Wheat

CBOT Wheat forecast revised higher, on heavy rainfall across the US, but bearish off these levels

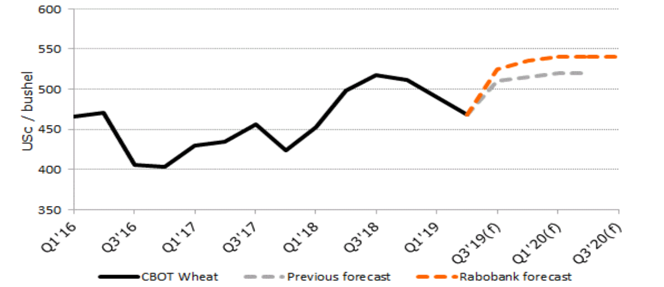
- CBOT Wheat prices have continued to gain ~7% after May's jump, on continuous wet weather in the US and support from corn prices.
- High corn prices will result in higher feed wheat demand around the world.

US weather continues be key for US wheat quality, as spring wheat develops and winter wheat is harvested. The winter wheat harvest is well underway, albeit slowing as persistent rainfall in June has held it back. Currently at 15% complete it is well behind last year's 39% and the five year average of 31%. The outlook for is notably drier toward the end of the week, with the 30-day forecast showing relatively normal/light precipitation and average/warm temperatures for most of the US. This should provide farmers the opportunity to harvest the remainder of the winter wheat crop in July and support adequate development for spring wheat in North Dakota and Minnesota.

The Kansas-Chicago spread has reached record lows. Excellent hard red winter wheat crop ratings – despite heavy rainfall over Kansas – combined with large stocks of HRW wheat, have caused the Kansas-Chicago spread to decline further, reaching record lows (available data 1970!)in June for the rolling front month contract (currently July) of around USc -73.5/bu and contract lows for the December spread of around USc -55/bu. The harvest will continue throughout July and should pick up pace. Continuous rainy weather increases the chance of mycotoxin contamination and presents a quality risk which may help the spread recover. US winter wheat will struggle to compete on the export market at current prices with offers of USD +25/mt above Black Sea Region offers, underpinning somewhat our bearish forecast.

CBOT Wheat outlook bearish

	unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
CBOT	USc/bu	512	492	469	525	535	540	540	540
Matif	EUR/mt	202	198	182	180	183	184	186	186



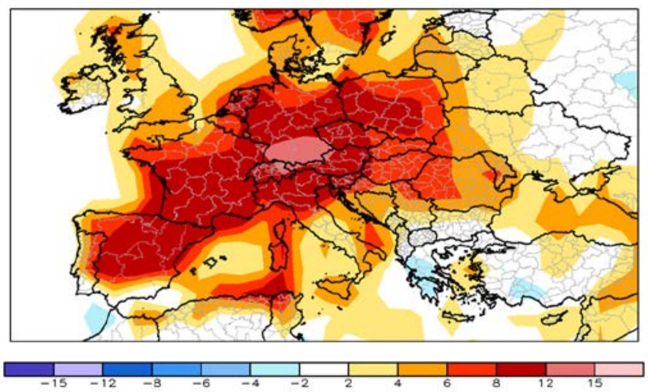
Source: Bloomberg, Rabobank 2019

Weather in Europe has been good favoring wheat production. The forecast is for record heat in the EU and also hot weather in The Black Sea Regions, going into July. But we doubt a few hot days in Europe will affect the wheat yield at this stage of development. The Black Sea continues to set the floor of FOB prices, suggesting there is no shortage of wheat there despite marginally lowered production and export estimates recently. Russian spring wheat yields can still be impacted by weather, but for now the crop is in good shape.

Australian wheat production is expected to come in below average estimates, Rabobank estimates a total production of only 18mmt, although there is still plenty of time for a recovery. The drought in Western Australia looks set to be broken as rain is in the forecast for much of the area providing key moisture to parched fields.

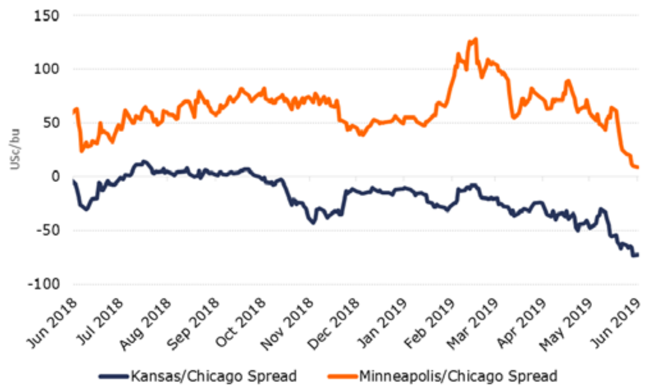
Bullish price risk might come to wheat markets from corn. For now we do not expect the corn market to show massive rallies, but to stay rather volatile. Nevertheless, if not only the US corn area but also the yield shows a larger decline from trend levels a potential corn price rally would also pull wheat prices further up.

EU weather: Heat expected, but wheat should cope relatively well at this stage. 1-week anomaly forecast in C°:



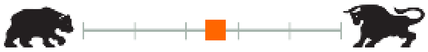
Source: NOAA, Rabobank 2019

Kansas/Chicago nearby spread came in at record low levels since at least the 70's: a reversal may come.



Source: Bloomberg, Rabobank 2019

Corn



CBOT Corn rose at a more moderate pace in June, in line with US Midwest rainfall. Poor conditions compound concerns for the smallest US acreage in a decade, but South American production and farmer selling should keep CBOT from breaching USD 5/bu

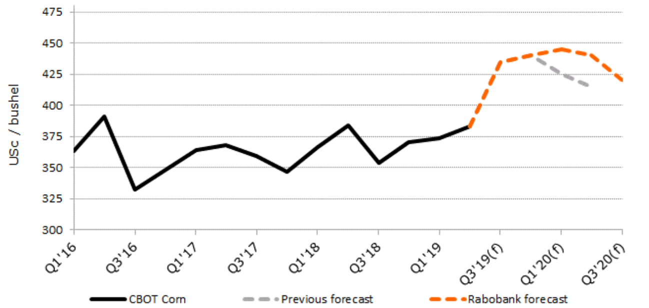
- ASF-slowed global feed demand growth, large South American/Black Sea corn exports, and replenished feed wheat supplies will help limit the 2019/20 US stock cut.
- Complacent short-sellers were burnt in May on the supply shock; they've reversed position (buying 440,000 lots in seven weeks) and boosted the weather premium.

June 21 marked the northern hemisphere summer solstice, the longest day of the year. For US corn farmers, it marked another day of waiting, through unyielding rain and cold, for summer to arrive. Over the last two months, adverse weather has upended farmer plans, delayed or prevented corn plantings, and threatened yield potential. As a result, the USDA in early June delivered aggressive cuts to 2019/20 corn acreage (from 92.8m acres to 88m acres) and yield (from 176bpa to 166bpa) that together lowered production 9% MOM. Even with demand lowered (-450m bu, or 3% MOM), the USDA delivered the largest monthly cut in US carry-out since 2006, of 810m bu (-33%), and the lowest stocks-to-use ratio (12%) in six years. Supply concerns have been exacerbated by frenetic speculative short-coverage, which went from a record (-340,000 lot) net short to (100,000 lot) net long in eight weeks. That purchase is equivalent to 52mmt, or 30% of the annual seaborne volume of corn.

Corn levels continued their rally in June, as heavy rains swept the Northern Plains and Eastern Corn Belt. Based on discussions with crop insurers, Rabobank expects 7.4m intended acres were left unplanted, largely in Eastern Belt and Northern plains, which would imply about 2m acres downside

CBOT Corn remains vulnerable to further weather risks and volatility despite ample global supplies

	Unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
CBOT	USc/bu	370	373	383	435	440	445	440	420

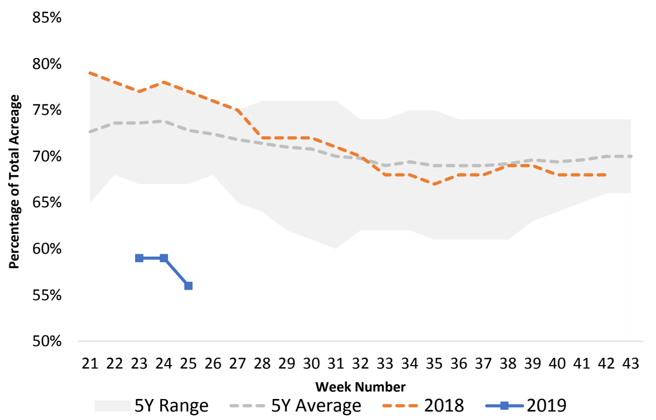


Source: Bloomberg, Rabobank 2019

to the WASDE figure. Meanwhile, poor corn conditions (56% G/E, a six-year low) and delayed emergence reflect substantial yield risk and vulnerability for US corn; weak stand, a shorter season, lack of fertilizer application, disease exposure, bearing the risk of yield falling below 170bpa. The US corn crop faces a truly uphill battle to improve, but the challenges are not insurmountable; in 2017, similar crop ratings in July (60% G/E) eventually produced a record 177bpa yield.

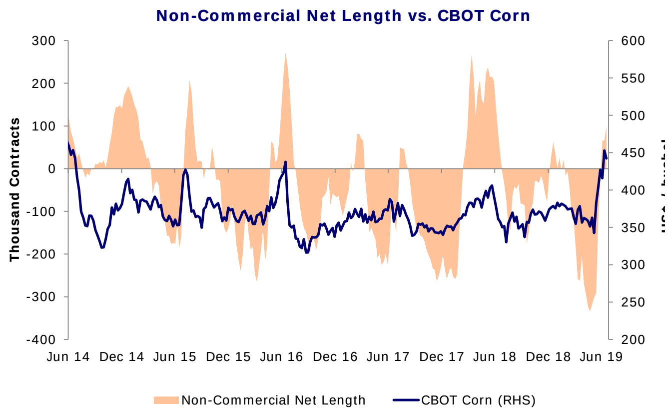
The substantial risks ahead justify a weather premium in CBOT Corn, but with the rally pushing us near five-year highs, it's worth noting some major differences in circumstances from 2013/14, when CBOT last tested USD 5/bu. Then, the US was coming off of consecutive years of rationing, and the stocks-to-use ratio was 9%. In 2018/19, the ratio is above 15%; that US stock buffer is largely why our 2019/20 projection sees the ratio at 10%. Importantly, production cuts have obscured eroding world demand fundamentals; just seven weeks ago, CBOT Corn was at its seasonal lowest since 2006, before the US ethanol mandate was introduced. Competition from other feed grain exporters, especially South America, is rising. Rabobank maintains its price forecast on expectations that high US carry-in, offsetting corn supplies from South America, and higher wheat feeding will help cushion the supply shock and prevent prices exceeding USD 5/bu. Nevertheless, we expect continued CBOT volatility throughout the US corn growing season.

US corn Good/Excellent crop ratings are historically low, raising potential for yield below 170bpa



Source: USDA, Rabobank 2019

Non-Commercials' record net short has reversed entirely to a substantial net long position and could increase further



Source: CFTC, Bloomberg, Rabobank 2019

Soybeans

CBOT rallied in June behind corn's planting woes. In the US Midwest, incessant rainfall has also delayed soy plantings, and – together with poor prices – threaten to shrink acreage. CBOT Soybeans will enjoy a mild weather premium as the market gauges production; however, record high stocks will keep upside capped

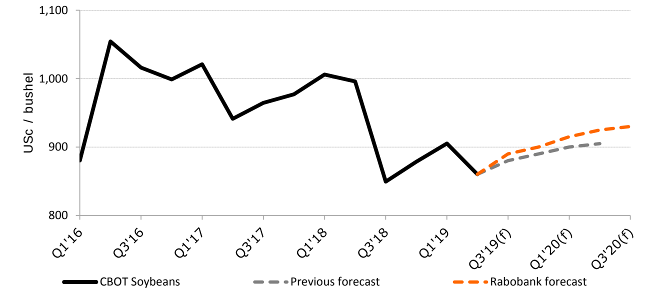
- US-China trade deal hopes appear elusive, while spreading ASF is a bane on global animal feed demand.
- South America has just harvested a recovered crop that will allow China to source its ASF-lowered soybean requirements entirely from South America this year.
- The USDA's decision to support farmers with cash payments on 2019 production – together with potential US production cuts – will also limit farmer-selling.

Poor US weather, sky-rocketing corn prices, and promises of government assistance continue to provide a temporary escape for CBOT Soybeans from the 1bn-bushel question. That is a reference to US 2018/19 carry-out, which – together with stocks-to-use (27%) – has ballooned by 2.5x YOY in the absence of Chinese purchases (typically 60% of export demand). Even amid expectations of a smaller US crop, the enormous stocks number represents a multi-year drawdown project, given adverse global dynamics. South America's soybean harvest has recovered from the 2018 drought (+10% YOY), and that, combined with African swine fever-weakened global demand, has helped drive fierce export competition. The global feed trade will struggle in the near term, with its demand weakness epitomized by China.

In China, which typically accounts for >50% of annual global soybean imports and growth, about one-third of the pork production has been culled by ASF. As a consequence, animal protein production is shifting from disease-vulnerable pork to lower-intensity poultry and seafood, and supply deficits of 10mmt are emerging. Rabobank expects that, even with higher soymeal inclusion rates in feed, it could take until 2021 for China's soybean demand to return to pre-ASF levels. The silver lining for global soybean demand lies in China's animal protein imports, which

US Corn production issues provides knock-on support for CBOT Soy, though stocks restrain upside

	Unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
Soybeans	USc/bu	879	905	860	890	900	915	925	930

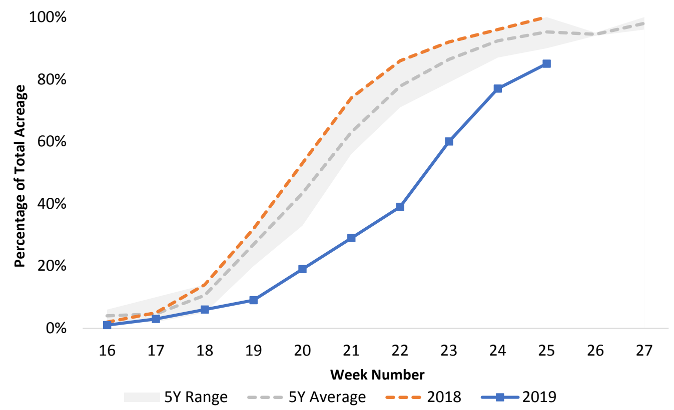


Source: Bloomberg, Rabobank 2019

have begun to rise to address the domestic deficit. The US has a large pork surplus that China could use to close the gap; however, the trade war and associated tariffs have limited procurement to date. In case Chinese procurement of US pork occurs in earnest later this year, it would raise US domestic soybean demand.

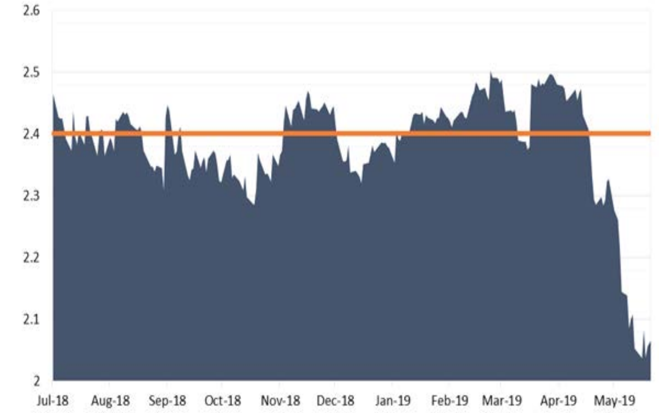
CBOT Soy's rapid resurgence above USD 9/bu – from 11-year lows below USD 8/bu only six weeks ago – has largely been on the back of the corn production issues in the US and exacerbated by non-commercial coverage of a record 177,000 lot short position. Midwest rainfall has also had a detrimental impact on soybeans, with plantings (at 83%) about three weeks delayed. Still, soybean's longer planting window and the clear forecast ahead suggest far less acreage and yield downside relative to corn. Absent a US-China trade deal or severe weather issues, it's unlikely US stocks will decline markedly below 1bn bushels in 2019/20. Far more important to supply/demand dynamics prices are next year's planting decisions. With soy/corn ratio at six-year lows (near 2.0), and the soy outlook constrained by record stocks and poor demand, we're likely to see a sharp reduction in soybean acres in 2020 in favor of corn. The combined bullish potential of supply cuts next year that would help rebalance the soy balance sheet, combined with high weather risk and US government protection for farmers, encourage us to boost our price outlook for CBOT above USD 9.00/bu, though heavy stocks will limit upside.

US Soybean plantings continue to be behind pace, at 85%, but still have time to recover in the coming two weeks



Source: USDA, Rabobank 2019

Soy-Corn Price Ratio at levels that would heavily favor Corn plantings next year, potentially cutting soy supplies



Source: USDA, Rabobank 2019

Soymeal and Soy Oil

CBOT Soy Oil and Soymeal continue to enjoy support from poor US weather. Still, significant headwinds remain from African swine fever (ASF), trade wars, and export competition, capping upside

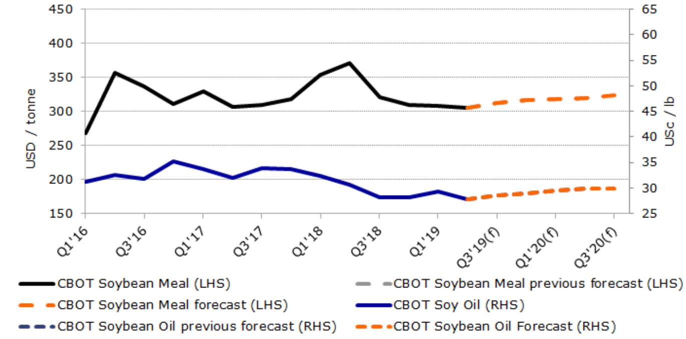
- ASF in China, large US hog supplies and rising soybean prices are weighing on soymeal demand and have pushed global crush margins lower. China will import more meat to address its animal protein deficit, and a major question for CBOT Soymeal will be if China will buy from the US. CBOT Soy Oil, conversely has supply-side upside from decline in US crush volumes.

In June, US crush margins collapsed by 50% (back to levels seen through Q1 2019), as US soybeans enjoyed a strong weather premium that contrasted strongly with growing evidence of weakening soymeal demand. In the past two months, NOPA crush has shown consecutive surprise declines. US feed demand may rise again, in case China calls for large US pork imports, but so far this has not happened. Meanwhile, US lean hog prices (-12% MTD) have fallen back to their one-year average, as high price expectations give way to the reality of a hog oversupply. Still, with expectations in China of a 25% to 35% decline in pork production and the resulting +10mmt animal protein deficit, meat imports are certainly likely to grow next year, with Europe, South America, and the US well positioned to fill the gap. Also, amid the ongoing US-China trade war, China's dual demand for soybeans and animal protein from South America could drive a competitive tug-of-war between soybean importers and domestic crushers.

CBOT Soymeal may remain loosely tethered to CBOT Soybeans, with further potential for minor fundamental support from crush margin-lowered supply**.** The USDA is forecasting <1% growth in soymeal production in 2019/20.

CBOT Soy Oil, Soymeal see weather support, but crush and China's ASF choices will determine further direction

	unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
Soymeal	USD/mt	309	309	305	312	316	318	320	324
Soy Oil	USc/lb	28.3	29.4	27.8	28.5	29	29.5	30	30

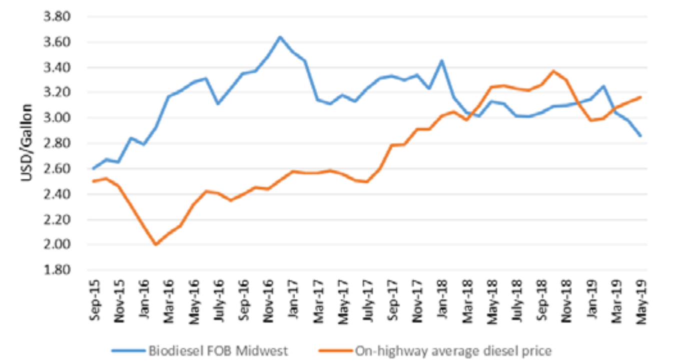


Source: Bloomberg, Rabobank 2019

Rabobank sees prices in the low USD 300s if trade wars and tariffs continue, with scope for upside if these are removed.

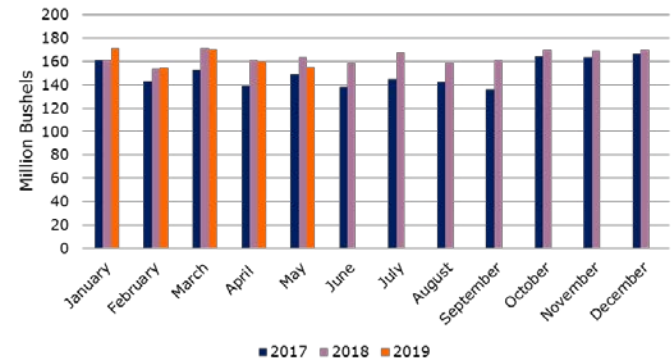
The current upshot from lower US crush is that the soy oil surplus is rapidly declining. Supply-side dynamics (flat growth YOY) have combined with biodiesel and food demand-driven optimism (+4% YOY) to favor higher CBOT Soy Oil prices. The USDA in May penciled in a 400m lb decline in 2019/20 US stocks, to 1,537m lb, which is the lowest carry-out since 2013/14. Somewhat moderating the higher price guidance is a weaker export outlook (-8%), the by-product of replenished South American supplies, unencumbered thanks to a postponed rise in Brazil's biodiesel mandate. Other factors, such as a strong US dollar and relatively cheap vegetable oil alternatives (for example, the soy oil-palm oil spread at ~USD 130/mt which would be regarded as a premium by consumers), will continue to crimp US soy oil exports. Our overall view for CBOT Soy Oil remains moderately constructive as it continues to climb for a second month from four-year lows, aided by fund coverage of about 43,000 lots, or half of its short position. Rabobank's forecast is maintained, with expectations for CBOT Soy Oil to reach USc 30c/lb by 2020 – with potential downside risk coming from a possible animal protein export demand-driven CBOT Soymeal rally.

US on-highway diesel's expanding premium to biodiesel will further encourage domestic biodiesel/soy oil demand



Source: USDA, ERS, DOE, Rabobank 2019

US crush slowed in early 2019, but last month's 30% rise in crush margins on hog export expectations will raise output



Source: NOPA, Rabobank 2019

Palm Oil

Volatility in global soybean complex prices to limit palm oil price bearishness

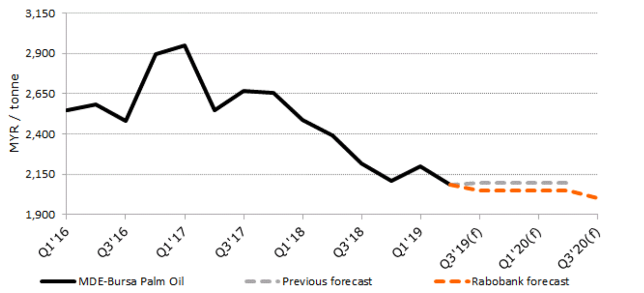
- Palm oil inventories in Malaysia to increase in 2H 2019.
- The spread between palm oil and gas oil remains narrow.
- The progress of the monsoon to determine Indian edible oil import volumes in 2H 2019.

Palm oil inventories in Malaysia will increase in 2H 2019. As per our expectation, Malaysian palm oil inventories decreased further on a month-on-month basis in May 2019, but remain higher year-on-year. This is due to increases in domestic and export demand for Malaysian palm oil during the Ramadan period. Malaysian palm oil production increased by 1% MOM, to 1.7mmt in May 2019. At the same time, Malaysian palm oil exports for the same month increased by 3.5% MOM, to 1.7mmt. Domestic palm oil consumption also increased by 33%, to 304,000mt. As a result, Malaysian palm oil inventories decreased by 10% MOM, to 2.4mmt in May 2019, but remained higher year-on-year by 13%. Despite this decrease, we expect Malaysian palm oil inventories to start increasing from July 2019 onwards, due to the seasonal palm oil production upcycle.

The spread between palm oil and gas oil remains narrow. The spread between MDE-Bursa Palm Oil and ICE Gas Oil #1 contract prices (POGO), which still remains above -USD 120/mt in June 2019, reduces the economic viability of discretionary blending for palm oil-based biodiesel. This could result in lower palm oil-based biodiesel exports from Indonesia and Malaysia in the short term. The POGO spread has changed, from around -USD 180/mt in mid-May 2019 to around -USD 74/mt in mid-June 2019.

Palm Oil price forecast is maintained as per last month

	Unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
Palm Oil	MYR/mt	2,108	2,200	2,085	**2,050**	**2,050**	**2,050**	**2,050**	**2,000**

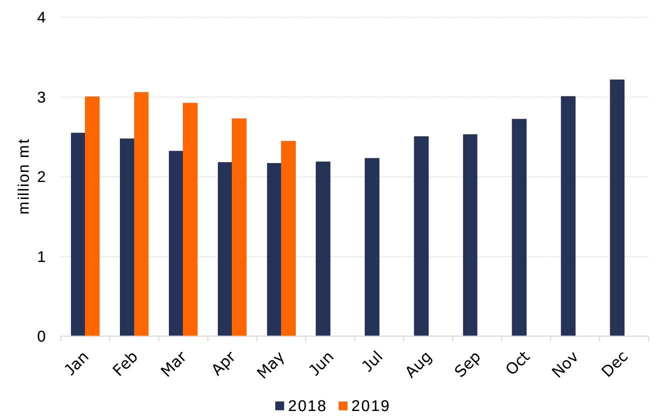


Source: Bloomberg, Rabobank 2019

Volatility in global soybean complex prices will limit palm oil price bearishness. Uncertainties around soybean production in the US in 2019/20 will keep soy oil prices volatile. The active CBOT Soy Oil contract price movement in June widened the CBOT Soy Oil/MDE-Bursa Palm Oil active contract spread to USD 136/mt in mid-June 2019, against USD 100/mt in late April 2019. The widening of this premium increases palm oil attractiveness, as compared to soy oil.

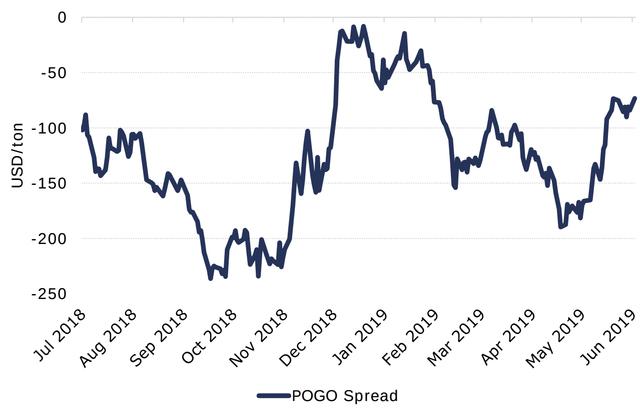
The progress of the Indian monsoon will determine Indian edible oil import volumes in 2H 2019. Indian domestic soybean prices have gone up quite significantly since October 2018, and, at this price level, soybean provides better returns compared to cotton and pulses. Due to this, Indian farmers are incentivized to increase soybean plantings in 2019, which will result in the increased availability of soy oil domestically in MY 2019/20. In MY 2018/19, the Indian soybean sowing area increased by 6.7% YOY, to 10.8m hectares, due to better returns from planting soybeans as compared to other crops. However, Indian MY 2019/20 soybean production volumes will still be dependent on the progress of the 2019 monsoon. The delayed monsoon could still change the Indian soybean planting pattern and affect yield negatively, if it continues to be delayed.

Palm oil inventories in Malaysia to increase in 2H 2019, due to seasonal palm oil production cycle



Source: MPOB, Rabobank 2019

The spread between palm oil and gas oil remains narrow



Source: Bloomberg, Rabobank 2019

Sugar

ICE #11 Sugar likely to see some adverse weather

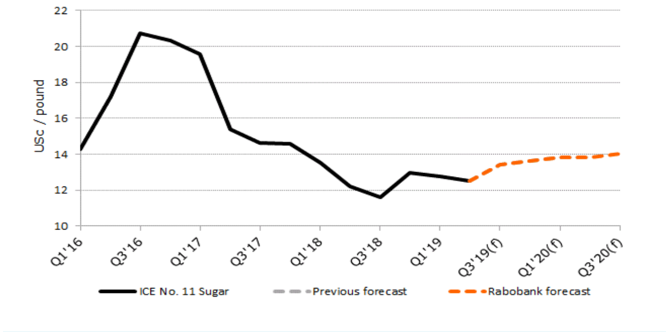
- Volatility was very low in June, both historical and implied. We expect this to change.
- However, on the weather front, the monsoon is arriving in the key sugar areas of India two weeks later than usual.
- El Niño likely to stick around for the remainder of 2019.

ICE Sugar #11 prices only marginally increased ~2% during the first three weeks of June, now trading in line with our forecast. During the period, the US dollar index depreciated 1.1%, whereas the Brazilian real gained 2.2% vs. the US dollar. Brent Crude went up by 2%. These factors seem to justify the upside we have seen so far. The rather low historical price volatility and the steady decline in implied volatility that followed in June means the market has not been overly concerned with supply issues.

However, we expect higher volatility ahead. While the monsoon is now slowly making its way to the key sugar areas of Maharashtra and Karnataka, it is about two weeks late, and reservoir levels there are running as low as in 2016. We are fully aware that any loss in production in 2019/20 will be dwarfed by the gigantic carry-out from the 2018/19 season. But for the international market, that relies on subsidies being granted again. A drop in production, together with WTO pressure, will probably result in no export subsidies given for the coming season. The uncertainty surrounding these subsidies will almost certainly support actual and implied volatility ahead, especially towards September (assuming the policy is clarified at more or less the same time as last year). Yunnan was also quite dry, which could support Chinese import needs in the coming season. Actual prices in China have risen by about 4% in US dollar terms so far in June. Meanwhile, the market has been very complacent, with current price levels

ICE #11 Sugar price forecast largely maintained

	Unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
Sugar	USc/lb	13.0	12.8	12.5	13.4	13.6	13.8	13.8	14.0

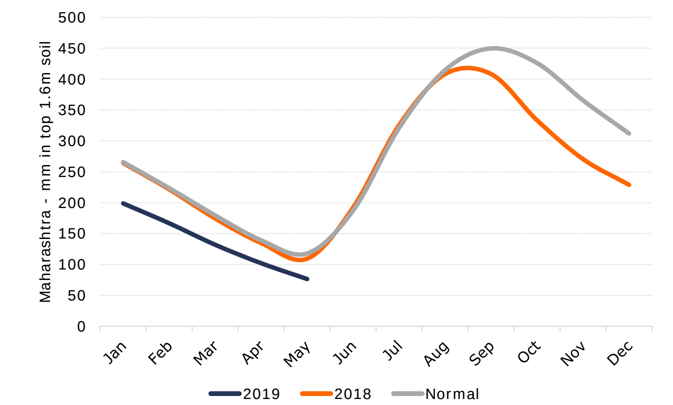


Source: Bloomberg, Rabobank 2019

incentivizing Brazilian mills to maximize ethanol production to the detriment of sugar. Estimates for Brazil CS sugar production have trended down, with many production forecasts now below the very low level produced last season. For the time being at least, sugar production in Brazil CS is lagging by 12% YOY.

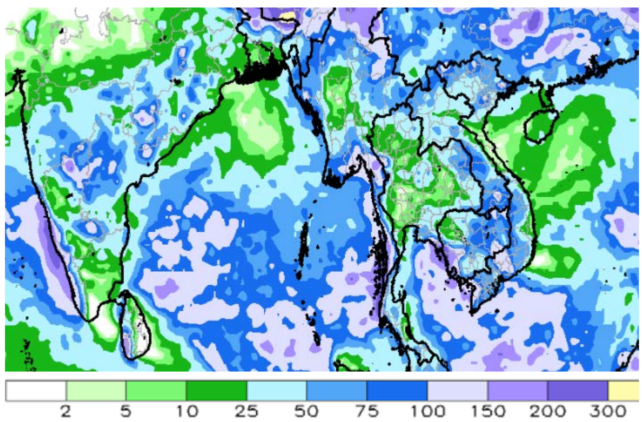
The current El Niño has had a greater impact on the global climate than expected. Even though it is a very weak event, judging by the warming of the Equatorial Pacific Ocean, most key textbook effects are there, as seen by the wet weather in eastern Argentina and the parts of the US, along with the dry weather in Southeast Asia, eastern Australia, and West Africa. Indonesia has not been as dry as expected, but there is more than a 70% likelihood that it will be drier than normal in the coming three months. The NOAA predicts that El Niño will continue with a 50% to 55% chance through the northern fall and winter. If we continue to see adverse weather in Southeast Asia, at a time when Brazil is maximising ethanol, then we may not only see higher volatility, but also firmer prices ahead.

Reservoir levels in Maharashtra running at very low levels ahead of the monsoon



Source: Reuters, Rabobank 2019

India to see decent rainfall, after several months of rainfall below normal levels. 1-week rainfall anomaly (mm):



Source: NOAA, Rabobank 2019

Coffee

Limited price recovery ahead

- The start of the delivery window on ICE NY Arabica July contract has attracted quite a bit of interest.
- Potentially adverse weather ahead for Central American crops and Indonesia.

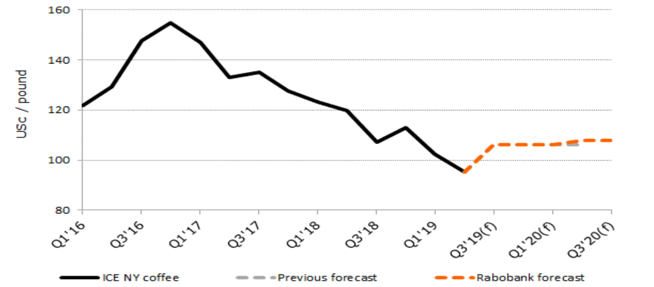
ICE Arabica prices will likely be supported as we approach most 2019/20 washed arabica crops. Arabica prices dropped ~1% so far in June, as there was a price correction from the short-lived fret over a cold front in Brazil. Sales and exports from Honduras improved quite significantly over the period, and now sales are running just 5% below YOY, with exports only 3% lower YOY, to June 20. This may result in some beans being graded at the Exchange in the coming weeks, but for the time being, ICE NY certified stocks continue to go down over June: from 2.44m bags at the end of April to 2.39m bags at the end of May and to 2.38m bags as of June 20. The decline in certified stocks, combined with a significant (ongoing) amount of delivery notices for July, has prompted quite a bit of support for the market – especially the nearby contracts. At the time of writing, a cooperation between Colombia and Brazil has been announced by the FNC, but we lack details – which should come during the WCPF coffee forum in Brazil on July 10-11.

The outlook for 2019/20 crops in mild washed producing countries looks a bit grim. For the time being, the weather in Central America looks rather good, with plentiful rain so far. However, in the coming three months, it is likely that we will see drier-than-normal weather across the coffee belt there (and in parts of Colombia), according to IRI and NOAA forecasts. The same can be said about Indonesia, where the ongoing El Niño is already building dryness. Even though it is not certain that there will be adverse weather in these regions, the likelihood of it occurring, combined with lower fertilizer use, should perk up the volatility and maybe also price levels. Availability in Brazil will continue to be high for an off-cycle season, with a record off-cycle crop and high carryover stock levels. But the low levels of arabica-certified stocks globally will probably result in firmer futures prices, and the availability of Brazil will be more a differential issue.

On the robusta side, availability will continue to be high for now. Strong robusta production in the main three key origins (Vietnam, Indonesia, and Brazil) will likely continue to put pressure on the market and keep a contango structure for most of 2019. Furthermore, if there is a return to wet weather during the Brazil arabica harvest, low-quality arabica beans will pose strong competition for robustas. The main immediate threat we see to robusta production is in Indonesia, where the south of Sumatra is now slightly drier than usual – and with El Niño expected to last for most of 2019, the production of robusta for the second half of the season may be affected. But for the time being, volumes are said to be very good. Also, robusta output in India and Thailand may be a little lower than expected in 2019/20, given that El Niño has created drier-than-normal conditions there. But of course, the volumes of production in these two countries are not too significant for the global S/D of robusta. In this sense, we do not see an immediate recovery in robusta prices. If arabica prices go up more than we forecast, robusta will follow – but at a distance, with an increasing arbitrage.

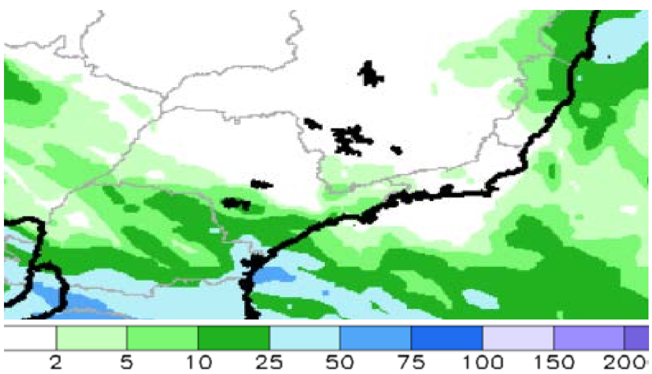
ICE Arabica forecast largely unchanged

	unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
ICE Arabica	USc/lb	113.1	102.8	95	106	106	106	108	108
ICE Robusta	USD/mt	1,627	1,534	1,402	1,520	1,530	1,550	1,560	1,560



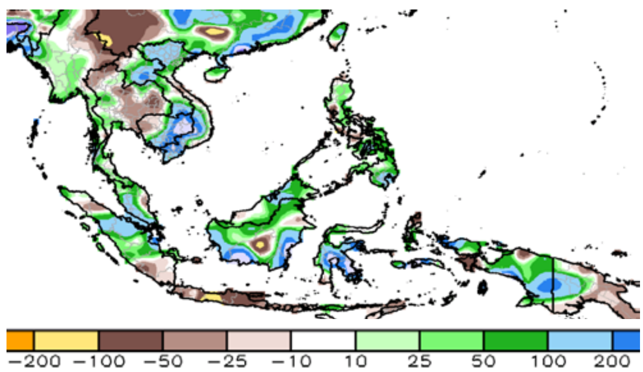
Source: Bloomberg, Rabobank 2019

Wet weather expected to stay mainly south of the Brazilian arabica belt, for now. 1-week rain forecast (mm):



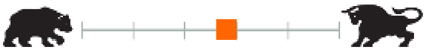
Source: NOAA, Rabobank 2019

Weather in SE Asia is great for Vietnam, but dry-ish for South Sumatra and Yunnan. 30-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2019

Cocoa



Deficit ahead

- Adverse weather in Côte d'Ivoire likely to result in a lower crop in 2019/20.
- 2019/20 should see a deficit of around 150,000mt, the first deficit in four years.
- But low volatility likely at these levels and for the time being – assuming a return of the rains, as is forecast.

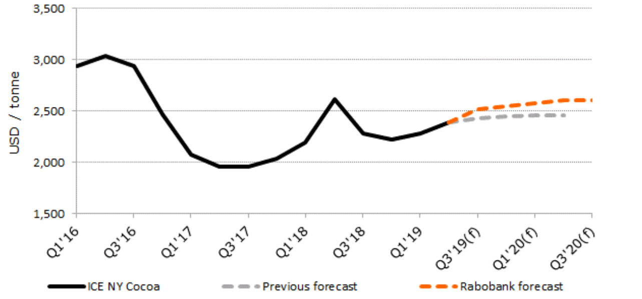
ICE NY Cocoa continued to increase for the fifth consecutive month. The main reasons are better-than-expected consumption, less-than-ideal weather in Côte d'Ivoire, and a decision from the largest two largest producers not to sell below the USD 2,600/mt level. Very few details are available on the latter point, but more clarifications should be available at some point in July. For the time being, all we know is that some sales have been withheld at lower prices. The details as to what this future scheme will also mean for the respective local grinding industries will also be key for players with local capacity. At the moment, both Côte d'Ivoire and Ghana have vastly different schemes for their respective local industries, so we see it as improbable that such an agreement will include local sales.

Immediate availability is in contrast to an expected 2019/20 shortage, which we estimate at 150,000mt. It is still early days to estimate the 2019/20 production in West Africa with a high level of certainty (July rains will be key), but relatively bad weather in Côte d'Ivoire, combined with years of low prices, could result in a relatively sizeable production drop of about 8% to 10%. Such a drop, combined with increasing consumption, could result in the lowest level of stocks-to-use since the early 1980s. Higher prices may seriously slow consumption before this happens, but at the moment, consumption numbers continue to surprise. Actually, the world has been feasting on chocolate at an incredible pace for the last three years. The deceleration in consumption growth has been lower than expected, and grindings are set to grow by over 3% in 2019/20.

Volatility may not necessarily increase going forward. The price has been crawling upwards for a while now – and when we take into account the differential, we are already at over the USD 2,600/mt price level that Côte d'Ivoire and Ghana are aiming for. Rainfall is expected over much of West Africa in decent amounts in the coming week, so we do not see a worsening in the expected 2019/20 deficit for the time being. There is, however, increased interest from funds, and that is hard to predict. Managed Money has been increasing its net long position on ICE NY Cocoa and ICE London Cocoa, and there is a risk of overdoing the upside. Managed Money was holding a net long position of 37,392 lots of NY Cocoa in the latest CFTC. This is the longest in a year, but it is only half of the historical record. Also, arrivals into Ivorian ports have been a little below last year in the latest few weeks, but they are still 15% higher YOY on an accumulated basis since October, at 2.09mmt, pointing to a total 2018/19 crop of over 2.2mmt or 2.3mmt. Higher stocks should keep price upside capped for the time being and until there is more visibility as to how much the crop in Côte d'Ivoire will drop.

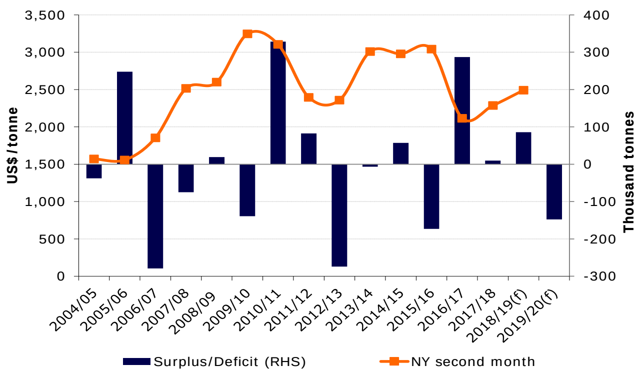
ICE Cocoa forecast in line with the market

	unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
ICE NY	USD/mt	2,221	2,277	2,392	2,520	2,550	2,580	2,600	2,600
ICE London	GBP/mt	1,646	1,682	1,767	1,810	1,820	1,840	1,860	1,860



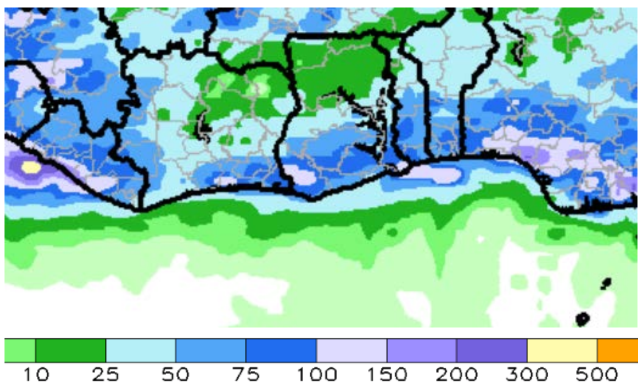
Source: Bloomberg, Rabobank 2019

Our S/D shows expectations for a significant deficit in 2019/20, the first in four years



Source: ICCO, Rabobank 2019

Côte d'Ivoire should see wetter weather ahead. 1-week rainfall forecast (mm):



Source: NOAA, Rabobank 2019

Cotton

Further weakness for the ICE #2, as traders adjust to sub -USc 70/lb levels in the 12-month period

- Stifled US-China trade, plus the prospect of swelling World ex. China 2019/20 supplies, weighs on prices.
- US demand prospects deteriorate, led by Turkey and China, as Brazilian picking gains momentum.
- Early concerns mount over the late approach of the Indian monsoon, delaying new crop plantings.
- Markets look to the USDA's June Acreage report, along with the Trump – Xi meeting at the G20.

ICE #2 Cotton futures take a breather in June, as markets adjust to sub -USc 70/lb levels. Support has been limited, with US-China trade flows stifled by geopolitics and the prospect of swelling World ex. China 2019/20 stocks – forecast to expand 8% YOY – weighing on prices. Slowing consumption growth, at 2%, will do little to offset this incoming supply. Rabobank forecasts sub -USc 68/lb prices during the 12-month period – assuming a prolonged US-China trade war – as levels peak in the near term on US and Indian weather risks (think hurricane season!). Prices are then expected to dip in Q4 2019, to USc 65/lb, as the availability of US new crop supplies marks a low point in our forecast. Despite the outlook being relatively bearish, it is worth highlighting several short-term risks for higher volatility: 1. heavy speculative shorts, 2. Indian and US weather risk, and 3. a thawing of US-China trade relations.

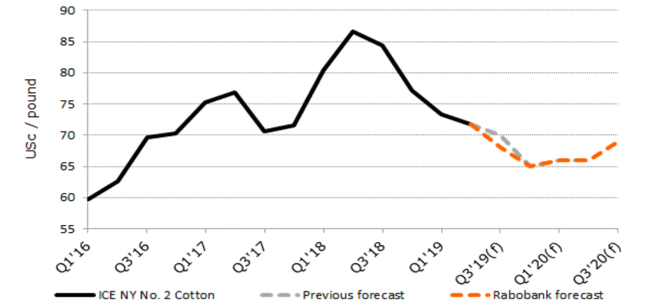
US demand prospects deteriorated through June, with a bout of export sales cancellations totaling almost 120,000 bales – the largest in a week since 2012. Turkey and China cancelled the vast majority of these commitments, with Turkey transferring a large part into the new season. Cancellations have threatened the ICE for some time – amid the US-China trade war and a Turkish currency crisis – but failed to materialize until now.

This poses a real threat to US demand, even as demand across Southeast Asia grows – Rabobank forecasts US 2018/19 exports at 14.7m bales, down 7% YOY, while 2019/20 reaches 16.5m bales. Incoming Brazilian supplies will also be a threat to pricing, as the nation prepares to harvest a record +12m bales – of which some 6m bales could be exported. Brazilian quality remains the key concern, following recent rainfall and stretched ginning capacity.

A delayed Indian monsoon slows 2019/20 plantings and sparks concerns for new-season output. Currently two weeks behind in places – having entered Maharashtra and now approaching Gujarat – this means a late start for crop development. Looking ahead, Friday, June 28 marks the USDA's latest June Acreage report for US crops – market expectations highlight a range of 13.1m to 14.3m acres for cotton, against the USDA's March figure of 13.8m acres. Rabobank holds a relatively high 14m-acre estimate, revised lower this month on planting delays – particularly in Oklahoma, which contributed 6% of US output last season. While acres remain uncertain, Rabobank expects current moisture to be particularly favorable for the developing crop – cutting 2019/20 abandonment to 10%, down from the 17% ten-year average. Presidents Trump and Xi are set to meet later this week – a potentially positive price factor if trade rhetoric were to thaw.

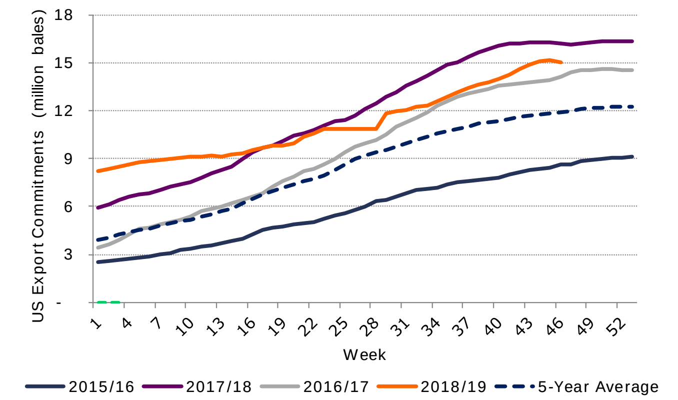
ICE #2 Cotton forecast revised lower, following escalation in the US-China trade war

	unit	Q4'18	Q1'19	Q2'19	Q3'19f	Q4'19f	Q1'20f	Q2'20f	Q3'20f
Cotton	USc/lb	77	73	72	68	65	66	66	69



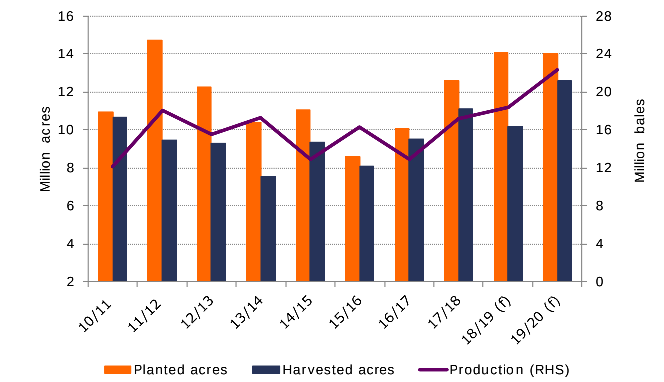
Source: Bloomberg, Rabobank 2019

US export sales suffer in late June, with the largest weekly cancellations since 2012; further cancellations remain possible



Source: USDA, Rabobank 2019

Rabobank forecasts US 2019/20 cotton area at 14m acres, with lower YOY abandonment given current soil moisture



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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