



Rabobank

Agri Commodity Markets Research

June 2020: Second Wave Fears and Heat Wave Hopes

RaboResearch

Food & Agribusiness

far.rabobank.com

[Stefan Vogel](#)

Head of ACMR

+44 20 7664 9523

[Carlos Mera](#)

Senior Commodities

Analyst

+44 20 7664 9512

[Michael Magdovitz](#)

Commodities Analyst

+44 20 7664 9969

[Andrew Rawlings](#)

Associate Commodities

Analyst

+44 20 7664 9756

June saw rather good weather globally, with winter harvests beginning well and spring crops showing healthy development with good weather forecast to continue in Europe and the US. Continuous improvement in energy prices also helped give the market reassurance over a demand recovery. However, a generalized second wave of Covid-19 seems to be building in a few places, forcing some regions to consider crawling back into lockdown. With increased understanding of the virus, developments in effective treatment, and new detection methods, we believe any second lockdown is likely to be lighter than the first, with a reduced impact on ag markets. Meanwhile, the chances of a La Niña event forming in 2021 are increasing, which could affect South American crops over the southern hemisphere summer and pose future weather risks.

WHEAT



Harvest pressure weighs on CBOT prices, as few weather risks remain for winter crops

- We continue to see good export demand in line with the five-year average.
- Winter wheat harvest is slightly ahead of the five-year average at 29% complete compared to 27%.

SUGAR



Bearish short-term outlook for Raw Sugar, with higher price expectations in 2020/21

- The ICE #11 market broke above the USc 12/lb mark in June, amid macro support and speculative buying.
- Brazil's CS harvest takes center-stage, amid a heavy vessel lineup, dryness, and improving ethanol sales.

CORN



CBOT Corn to move with US weather, which – after some issues – has a beneficial outlook

- After USDA June 30 acreage report market focus will move to weather, exports, and ethanol demand.
- Funds are close to record net short in CBOT Corn.

COFFEE



Our bearish arabica view has been realized, with it finding support at current levels

- The arbitrage could go to from USc 43/lb to USc 30/lb. This could be due to upside in robustas.
- Demand doubts persist, as US stocks continue to rise.

SOY COMPLEX



CBOT Soybean prices turned positive this month, as China procures large amounts of soybeans from the US in 2H 2020

- From September onward China will have to turn to the US for soybeans – and this may be accompanied by improving rhetoric.
- Demand dictating diverging path of soy oil and soymeal markets.

COCOA



Cocoa prices fell MOM as sales out of African origins slowed amid the arrival of the midcrop

- Cocoa prices likely to stay low until the completion of the midcrop, with upside limited on weak demand.
- Lower YOY Q2 2020 grindings expected in all major regions: North America, Asia, and Europe.

PALM OIL



Restocking will provide support to palm oil prices in the short term. But fundamentally, global palm oil demand remains muted

- Malaysian palm oil exports will improve in Q3 2020, at the expense of Indonesian palm oil exports.
- Indonesian palm oil inventories will increase QOQ in Q3 2020.

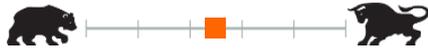
COTTON



Bearish view on ICE #2 Cotton maintained, ahead of a projected record fall in global 2019/20 consumption

- Healthy Chinese import demand and West Texas dryness, keeps Dec20 ICE #2 futures near USc 60/lb.
- Wide forecast range ahead of the USDA's June 30 acreage report, with 2.5m bales in the balance.

Wheat



Harvest pressure weighs on CBOT prices, as few weather risks remain for northern hemisphere winter crops. Southern hemisphere recovery is expected in 2020/21, but the planting season still lies ahead of us.

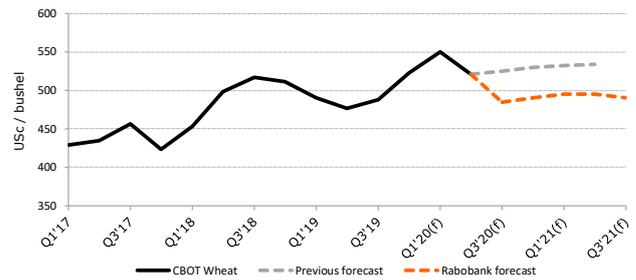
- We continue to see good export demand in line with the five-year average.
- Winter wheat harvest is progressing slightly ahead of the five-year average at 29% complete compared to 27%.

The 2020/21 US marketing year began on June 1 – and with it, we continue to see good export demand despite ongoing coronavirus demand concerns, in line with the five-year average. Europe’s export season is coming to an end –at 33.2mmt, up 64% YOY, as of June 21. 2019/20 also proved a very good year for US exports, with official quantities coming in at 24.5mmt, a three-year high. Demand appears to be stable, but as winter wheat harvests begin, there will be plenty of supply in the short term, with a recovery in southern hemisphere crops likely to add more wheat to the balance sheet later in the year. Global (ex. China) production is expected to increase 12.9mmt, or 1.7% YOY, to 782mmt.

US winter wheat crop conditions declined over the last month, due to mixed weather, but appear to have stabilized around the five-year average, at 52% G-E. Early harvest is beginning and progressing well, at 29%, with Texas and Oklahoma at 85%, although we still have around two to four weeks of final development for much of the crop, where weather will continue to be crucial. Much of the weather risk has ebbed, and long-term forecasts are showing mostly average conditions. This should help final crop maturation and harvest. The EU crop is in a similar state, with crop conditions stable. Hot weather is in the forecast for much of Europe and the Black Sea, but it should be accompanied by light rainfall. This should help limit crop stress. Again, this should aid final crop

CBOT Wheat forecast lowered to neutral with market

unit	Q4'19	Q1'20	Q2'20	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
CBOT US\$/bu	523	550	521	485	490	495	495	490
Matif EUR/mt	181	191	191	180	182	185	187	190



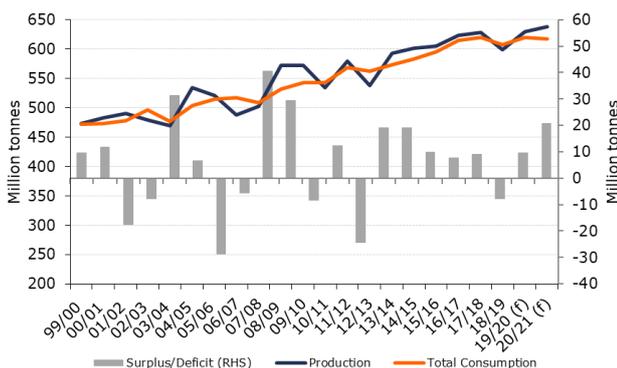
Source: Bloomberg, Rabobank 2020

development and accelerate harvest. We don't expect production estimates to fall any further in Europe, and we maintain our figure of 140.5mmt. Conditions in Ukraine have also stabilized, with the crop now estimated at 26.5mmt, down from 29.2mmt in 2019/20. A question mark remains over Russian production, with estimates trending downward and rainfall remaining limited.

The USDA will release its June 30 acreage report, for which we see no changes. Although higher prices during planting season will have incentivized extra plantings, weather delays will have tempered them. The USDA's estimate for global wheat production may still be somewhat overly optimistic, given that southern hemisphere crops are yet to be planted. Some weather forecasts are showing an increasing chance of a La Niña weather event developing this autumn. This could lead to greater rainfall in Australia and help secure the production recovery there. However, for Argentina, this could mean drier conditions, which would reduce 2020/21 yields. The situation will need monitoring in the coming months.

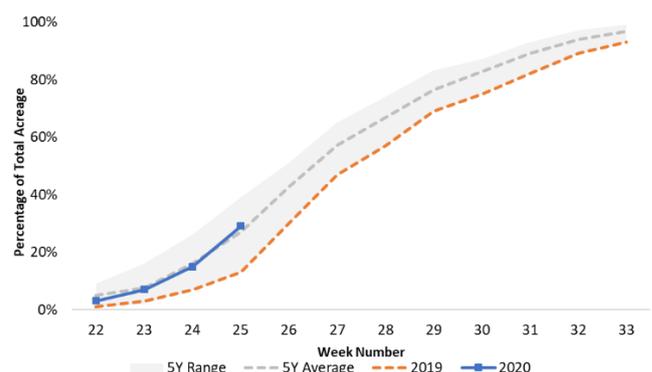
We see downward pressure building for wheat prices as the winter harvest picks up pace. Northern hemisphere production outside of Russia should remain stable, with average weather. Further ahead, a ceiling may build over wheat prices, as the southern hemisphere recovery solidifies.

A greater global (ex. China) surplus in is seen in 2020/21 as total consumption falls on greater production YOY



Source: USDA, Rabobank 2020

US winter wheat harvest is progressing well and will likely continue without issues



Source: USDA, Rabobank 2020

Corn



CBOT Corn to move with US weather, which – after some issues in the last four weeks – is calling for a beneficial outlook through the next three months.

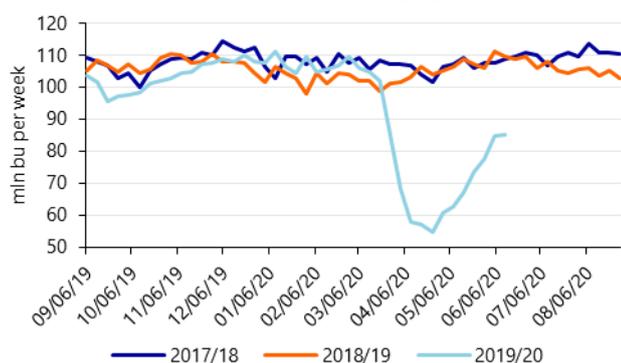
- The US crop outlook unchanged, USDA new acreage estimate to be released on June 30. Afterwards, focus will be on weather, exports, and ethanol demand, which is back to 78% of last year, from 50% in late April.
- Funds are close to record net short in CBOT Corn.
- Brazil safrinha outlook cut due to dryness; Ukraine and EU forecast look promising, due to recent welcome rains.

The US corn crop faced some weather issues at early growth stages, but the weather outlook for July is positive, with normal to above-normal rains and no excessive heat. This would mean that corn pollination would take place in almost ideal conditions. The August and September forecasts also do not currently call for serious weather issues. Still, as usual, there will likely be some hot and dry weeks, and with funds heavily short, resulting price spikes will likely be considered a welcome marketing opportunities for farmers. US bins will be far from empty by harvest time, and farmers are currently expected to sell soybeans first and store as much corn as possible as export competition from Brazil's safrinha corn and Ukraine's corn crop will be high in Q3 2020. The outlook for US crops due to the weather forecast is moving our expectations toward our 'high-case' scenario, i.e. yields above 180bpa, which still calls for massive US production volumes of close to 16bn bu. The June 30 acreage report will give the market direction for one of the two production variables, with expectations a cut of a 2-3m ac, from the initial 97m ac, due to planting issues in North Dakota and changes in the soy/corn ratio ahead of planting.

US ethanol demand is recovering, but far from normal.

With the re-opening of the US after the lockdown, US ethanol demand and production are pushing higher. However, after six weeks of consistent growth, the second week of June could not report a noteworthy increase and shows production at 78% of

US corn use for ethanol back to 78% of last year, but last 22% back to 'normal' will be more challenging and will take time



Source: EIA, USDA, Rabobank 2020

CBOT Corn forecast unchanged amid perfect July weather



Source: Bloomberg, Rabobank 2020

last year. We expect a return to 100% of 'normal' to maybe only occur in 2H 2021. Needed additional demand for corn will be hard to find – at least at levels that would really move the needle. China added another 5mmt (~200m bu) of corn tariff quotas for imports, but that's not going to be enough to absorb US volumes. Southeast Asia might face feed demand cuts, rather than growth, due to ASF, Covid-19, and recession.

Ukraine and EU corn conditions improved significantly:

Rains in late May and the first half of June made for good conditions for corn in most of the EU and Black Sea corn belts – making the USDA's forecast year-on-year increases still look somewhat optimistic, but not completely unrealistic. And in Brazil, dryness-related yield concerns will be somewhat offset by 0.9m ha higher acreage. Still, Brazil's corn crop might fall 3mmt to 5mmt short of last year's and the USDA's current forecast, with Argentina possibly 1mmt lower. The June 30 USDA acreage report is the next key fundamental report. Expectations are for 2m to 3m ac of cuts for corn, but the USDA has surprised the market in the past. Still, once that report is digested, the market as of July 1 will deal with few 'fundamental surprises,' but largely with expectations of US yield and production. Any potential price rallies from current levels should remain short-lived and will likely be countered by farmer selling. CBOT Corn prices should come under pressure once July weather really delivers on the forecast for very good corn pollination conditions. It remains to be seen if CBOT or basis will do most of the work in the coming weeks, as close to 16bn bu of US crop now seems pretty realistic.

US 2019/20 stocks too low; 2020/21 many question marks

US Corn S&D (Mn Acres/Mn bu.)	USDA June			2020/21 production scenarios		
	18/19	19/20	20/21	low	base	high
Beginning Stocks	2,140	2,221	2,103	2,203	2,153	2,103
Area Planted	88.9	89.7	97.0	95.0	95.0	95.0
Area Harvested	81.3	81.3	89.6	87.8	87.8	87.8
Yield	176.4	167.4	178.5	175	180	184
Production	14,340	13,617	15,995	15,357	15,795	16,146
MY Imports	28	45	25	25	25	25
Total Supply	16,509	15,883	18,123	17,585	17,973	18,274
MY Exports	2,065	1,775	2,150		2,000	
Feed Consumption	5,430	5,700	6,050		6,050	
FSI Consumption	6,793	6,305	6,600		6,600	
Ethanol Usage	5,378	4,900	5,200		5,200	
Domestic Consumption	12,223	12,005	12,650		12,650	
Total Usage	14,288	13,780	14,800	14,650	14,650	14,650
Ending Stocks	2,221	2,103	3,323	2,935	3,323	3,624
YOY stock change	81	-118	1,220	832	1,220	1,521
Stock/Usage	16%	15%	22%	20%	23%	25%

Source: USDA, Rabobank 2020

Soybeans



CBOT Soybean prices turned positive this month, as China seems keener to procure large amounts of soybeans from the US in 2H 2020.

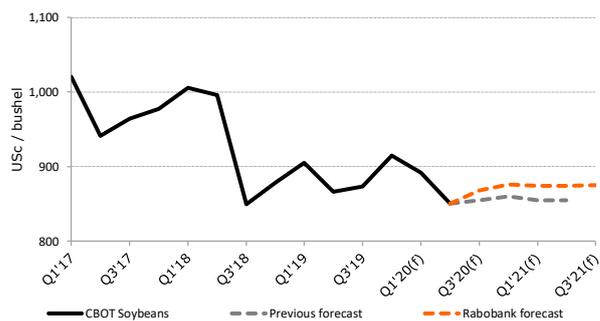
- From September onward China will have to turn to the US for soybeans – and this may be accompanied by improving rhetoric.
- Once next week's USDA acreage update is digested the focus will turn to US weather, with a potential La Niña

CBOT Soybeans have been steadily climbing over June, from USc 840/bu to over USc 870/bu at the time of writing. Much of this was due to the increase in demand expectations for Chinese imports in the current year, supported by the WASDE estimate of 94mmt for 2019/20 and 96m tonnes for 2020/21, which is not unrealistic and has a positive knock-on effect in the expectations for Chinese buying of US soybeans especially for the 4Q 2020 and early next year. There will simply not be enough stocks in Brazil to satisfy the dragon's appetite, after the South American country saw a record-breaking export pace so far in 2020. Therefore, China will have to buy increasing quantities of US soybeans for the remainder of the year, and they are quoted cheaper than US soybeans for Sep-Jan shipment. Coincidentally, recent exchanges of tweets have turned the rhetoric slightly more positive, with some Chinese officials mentioning honoring the phase 1 trade deal agreement. Of course, rhetoric can change very quickly, and we are unlikely to see any long-term solution to the trade war before the US elections in November. But while China buys US soybeans in 2H 2020, the market will likely trade rangebound – USc 850/bu to USc 900/bu – barring a significant weather event.

Chinese import demand recovery has been remarkable this year. From 82.8mmt of soybeans imported in 2018/19, China is set to end up importing around 92-95mmt 2019/20, a jump of well above 10% YOY. However, Chinese soybean crushing will

CBOT Soy to trade range-bound amid US-China tension

Unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
Soybeans USc/bu	915	895	852	868	876	874	874	875

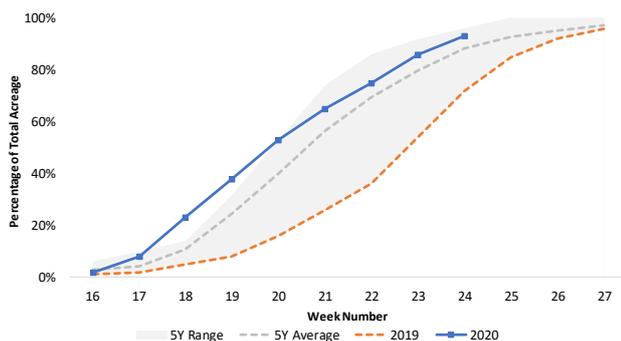


Source: Bloomberg, Rabobank 2020

only go up by a much more modest 2.5mmt, to 87.5mmt. That means stock reserves will be increased to buffer some of its future needs

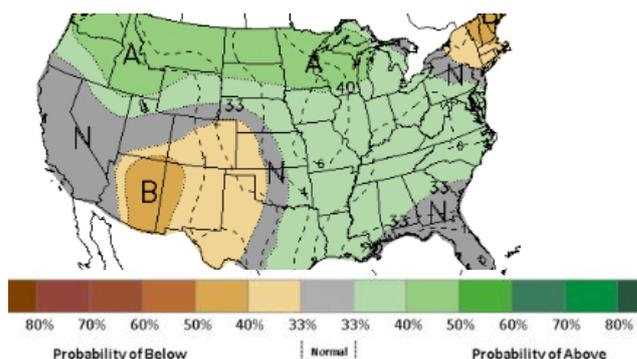
US weather will be the focus of the market in July and August. Plantings have progressed quite remarkably, with 93% planted as of last week, vs. a five-year average of 88%. Actually, the very decent planting progress and the relatively good prices vs. corn makes us believe the USDA may revise acreage upwards in their June 30 acreage report. Most analysts are expecting a 1-2m acres increase in plantings above the current 83.5m acres projection. However, we cannot be overly optimistic, as US-Chinese rhetoric may have discouraged some farmers from planting soybeans. For now, initial crop conditions are also rather decent, but of course very preliminary at this stage. Weather into July looks, in principle, rather good, and soil moisture is more than adequate. Further in the future, there is a chance of a La Niña forming, but this is unlikely to affect this year's US crops, but maybe South American in 2021 where farmers are expected to raise acres further due to very good margins. At the moment the Australian Bureau of Meteorology is expecting a La Niña event with 40% to 50% chance in the spring. The issue at hand is that if there is such an event, it could last until next year, adding significant risk in the market. For now, range-trading with a small reversion of the recent upside is likely.

US soy planting progress is better than average



Source: USDA, Rabobank 2020

US weather looks very promising into early July. 8-14 day weather outlook:



Source: NOAA, Rabobank 2020 (as of June 22)

Soymeal and Soy Oil



Demand dictating diverging path of soy oil and soy meal markets.

- US soy oil futures have found support in robust exports, but domestic demand is struggling, particularly with the rebound in coronavirus cases.
- Soy meal demand is weak, and prospects of a struggling livestock sector maintain cloud over meal prices.

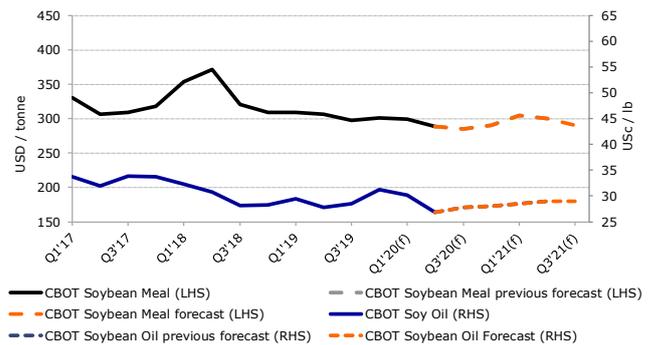
CBOT Soy Oil and Soy meal have once again diverged. While nearby soy oil futures have come up off their contract lows and traded 300 points higher, soy meal futures have been mired in a trading range between USD 285/short ton to USD 295/short ton. This price movement accurately reflects the demand picture for each product.

US soy oil exports have been particularly robust. For the crop year through April, US soy oil exports are up 40.3% vs. the previous crop year. This has been driven by competitive US soy oil FOB prices vs. Argentina and Brazil. US exports have been helped along by expectations that Argentina will be reducing exports over the next several months. In addition, outstanding sales are running 86.4% ahead of last year's pace – plus next marketing year's outstanding sales, albeit small, are nearly double the previous year's pace. US export prospects are bright for the short to medium term.

However, domestic use is struggling, with no end in sight. Through April of the current crop year, domestic use is down nearly 7% vs. the 2018/19 crop year. As expected, food use is leading the way down. Estimating biodiesel soybean use for April, April food use would be close to 1.0bn lb, which would potentially be the lowest monthly use since August 2015. While reopening of economies will help that number, the rising number of cases of Covid-19 across the globe and the willingness of consumers to venture out is likely to keep domestic use of soy oil and upside for export tempered.

Demand-side fears will keep CBOT Soy meal and Soy Oil under pressure through the end of the year

	Unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
Soy meal	USD/mt	301	300	288	285	290	305	300	290
Soy Oil	USc/lb	31.3	30.0	26.9	27.8	28.0	28.5	29.0	29.0



Source: Bloomberg, Rabobank 2020

Soy meal demand is the opposite of soy oil, with clouds on the horizon. US exports of meal are down nearly 14% YOY, while domestic use is up nearly 10%. Soy meal has benefited from the robust demand for animal protein globally. The soy meal market is anticipating a slowdown in animal feeding as we head into the second half of the year. The animal protein sector is getting back to normal, and meat is moving through the supply chain. Although a second wave of coronavirus cases is surging in the western hemisphere and potentially slowing economies down again, a wall of meat is projected to come to market in the second half of 2020. This will put downward pressure on livestock prices, and reduce livestock numbers in 2H 2020 and 1H 2021, thereby reducing soy meal demand – stay tuned!

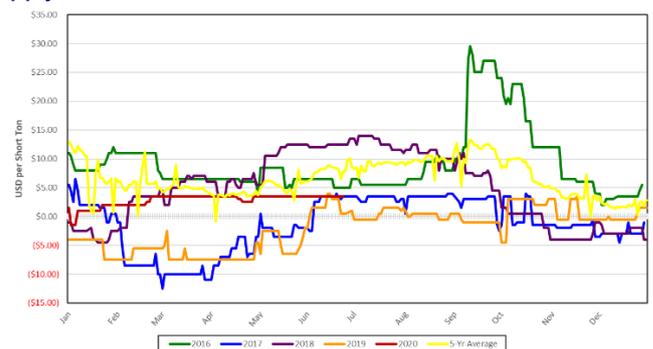
The futures price forecast remains unchanged this month. While soy oil futures have rallied the past two months, basis values are not following by reflecting building stocks and concern over demand. Soy meal futures are taking cues from the soybean market, which is also moving sideways. Soybean futures will most likely lead meal. The soybean market is focusing on the size of this year's crop and the potential of US exports of soybeans to China in Q4. While US-China trade relations will not be resolved anytime soon, the trade over the next couple of weeks will solidify the view on the size of this year's crop. Prospects are good for this year's crop which will lead soybean and soy meal futures lower.

Declining US soy oil basis values (Central IL-crude) reflecting building stocks and weak domestic demand



Source: Trade News Service, Rabobank 2020

Relative stability indicates soy meal basis values (Central IL) supply and demand in balance



Source: Dow Jones, DTN ProphetX, Rabobank 2020

Palm Oil



Restocking demand will provide support to palm oil prices in the short term. But fundamentally, global palm oil demand remains relatively muted.

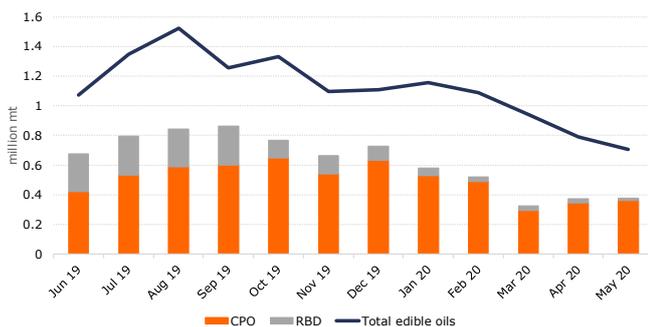
- Restocking activities will improve Indian palm oil import demand in Q3 2020.
- Malaysian palm oil exports will improve in Q3 2020, at the expense of Indonesian palm oil exports.
- Indonesian palm oil inventories will increase QOQ in Q3 2020.

Restocking activities will improve Indian palm oil import

demand in Q3 2020. According to provisional SEA India numbers, Indian May 2020 total edible oil imports decreased by -0.4% MOM, to 707,478mt, as edible oil demand from the foodservice industry remained muted. Indian palm oil imports for the same month were flat month-on-month, at 387,006mt. We expect Indian palm oil import activities to pick up in Q3 2020, to restock low domestic edible oil inventories. The relatively weak Indian currency and low edible oil demand from the foodservice industry, however, will still limit palm oil import demand for restocking purpose. Meanwhile, the Indian 2020/21 soybeans production outlook looks promising, as a normal monsoon is expected in 2020. Indian 2020/21 soybean sowing area could increase higher than last year's sowing area of 11.2m ha if the monsoon continues to be good. This will result in the increased availability of soy oil domestically in Q4 2020, further reducing the need for imports.

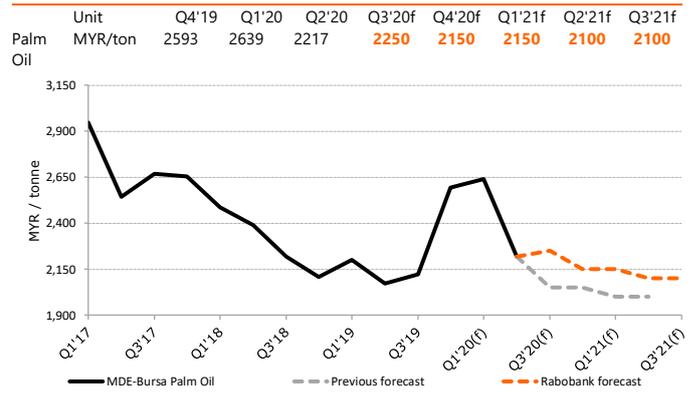
Malaysian palm oil exports will improve in Q3 2020, at the expense of Indonesian palm oil exports. According to MPOB, Malaysian May 2020 palm oil production was flat month-on-month, at 1.65mmt. As mentioned in last month's report, this trend is within expectations, as the frequency of FFB harvesting decreases during the Ramadan and Eid al-Fitr period. Meanwhile, Malaysian May 2020 palm oil inventories decreased by 0.5% MOM, to 2.03mmt, as domestic palm oil consumption and exports increased by 108% and 10.7% MOM,

Low edible oils imports in the first 5 months of 2020 has resulted in low Indian edible oils inventories level.



Source: SEA India, Rabobank 2020

Forecast is revised up due to slight recovery in crude oil price

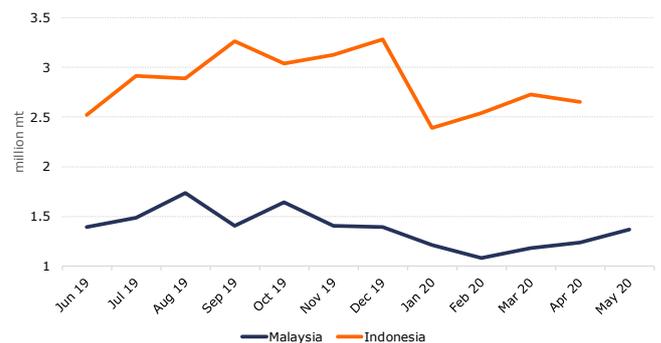


Source: Bloomberg, Rabobank 2020

to 0.33mmt and 1.37mmt, respectively. We expect Malaysian palm oil exports to improve further in Jun-Jul 2020, on the back of restocking activities in major importing countries and competitiveness of Malaysian palm oil export prices vs. Indonesian palm oil export prices. Meanwhile, according to GAPKI, Indonesian April 2020 palm oil production (including lauric oils) increased by 13% MOM, to reach 4mmt. Meanwhile, Indonesian April 2020 palm oil inventories and exports were down by 0.2% and 2.8% MOM, to reach 3.4mmt and 2.65mmt, respectively.

Indonesian palm oil inventories will increase quarter-on-quarter in Q3 2020. The partial lockdown in Indonesia has resulted in lower domestic fuel demand for transportation, which has also reduced domestic biodiesel demand. According to the country's Ministry of Energy and Minerals, as of May 26, domestic biodiesel consumption in Indonesia only reached 3.35m kiloliters, or 34.9% of the B30 mandate target of 9.6m kiloliters in 2020. This is within our expectations, as Indonesian May 2020 gasoil demand for transportation decreased by 40% YOY, to reach 818,000 kiloliters. The combination of reduced domestic biodiesel consumption, seasonal palm oil production increases, and expectations of slowing palm oil exports will result in higher quarter-on-quarter Indonesian palm oil inventories in Q3 2020.

Malaysian palm oil exports to improve in Q3 2020, at the expense of Indonesian palm oil exports.



Source: MPOB, GAPKI, Rabobank 2020



Bearish short-term outlook for ICE #11 Raw Sugar, with higher price expectations in the 12-month period.

- The ICE #11 market broke above the USc 12/lb mark in June, amid macro support and speculative buying.
- Brazil's CS harvest takes center-stage, amid a heavy vessel lineup, ongoing dryness, and improving ethanol sales.
- 2020/21 Indian export subsidies should be announced in Q3 2020, thereby affecting global prices.

Nearby raw sugar futures (basis July 2020) broke above the USc 12/lb level in June, amid continued rises in macro markets – namely crude and the BRL/USD – and short-term demand strength. Speculators also favored the upside, with Non-Commercials, as of June 9, shifting their position to 9,547 lots net long, after six consecutive weeks of buying. Still, with Brazilian and Australian crush underway, plus Covid-19-reduced 2019/20 consumption, Rabobank holds a bearish short-term price view – forecasting the ICE #11 USc 10.5/lb in Q3 2020, before rising toward USc 12/lb by Q1 2021. Interestingly, long-term price levels – out toward mid-2022 – sit below the USc 12/lb level – this is a surprisingly flat curve structure for the ICE #11, providing competitive levels for consumers beyond 12 months.

As Brazil's Center-South production takes center-stage, Rabobank identifies three key risk factors: 1) the current export lineup, 2) rising domestic ethanol sales, and 3) late-season yields. The Brazilian vessel lineup sits near 80, amid a heavy short-term reliance on Brazilian raws, coupled with port congestion – a factor tightening near-term raw demand. Rabobank expects this to ease, with peak Brazilian soybean exports behind us, along with the start of the Australian crush. On the ethanol side, the 30% YOY fall in May sales has improved through June, as domestic Covid-19 restrictions are eased. Local ethanol prices have risen since mid-May, with ex-mill hydrous ethanol prices equal to June 2019 levels.

ICE #11 Sugar price forecast maintained



Source: Bloomberg, Rabobank 2020

Rabobank anticipates a rise in ethanol consumption through 2020, potentially tightening late-season supplies. From an operational perspective, Brazil's Center-South harvest has been running at full throttle, with 145mmt of cane harvested by early June – up 12.4% YOY, according to UNICA. As expected, a 46% sugar mix sits 13 points above last season. Dry weather has allowed the strong pace, as well as improving year-on-year cane quality, but continues to raise concerns for future yields.

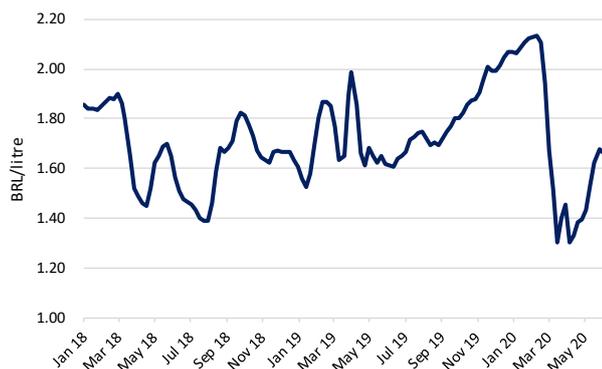
2020/21 Indian export subsidies should be announced in Q3 2020, thereby affecting global prices.

After 6mmt of subsidies in 2019/20, Rabobank expects exports to end up at over 5mmt, with a similar volume anticipated for 2020/21. However, a potential rise in India's minimum support price – from INR 31/kg to INR 33/kg – would discourage exports. Significant Indian export volumes will be required in 2020/21, in order to prevent hefty stock-building – new-season production is forecast to recover back to 33mmt to 34mmt, amid full reservoirs and a strong start to the monsoon.

2019/20 global consumption estimates are falling –

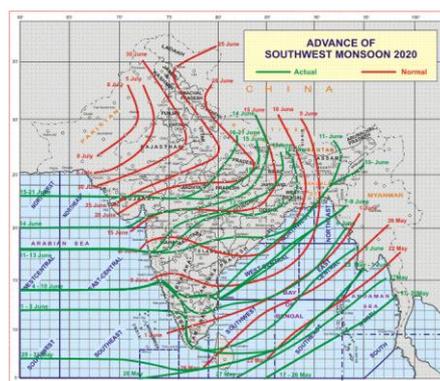
estimates for 2019/20 consumption growth range from 0% growth to minus 2%, as consumers are forced to stay home. Expectations for 2020/21 are more positive, but could remain subdued amid a global recessionary environment.

Brazil's ex-mill hydrous ethanol price rises to BRL 1.67/liter in June, as Covid-19 restrictions ease and demand creeps back



Source: CEPEA, Bloomberg, Rabobank 2020

The Indian monsoon has been strong and timely, strengthening prospects for 2020/21 Indian sugar output



Source: IMD 2020



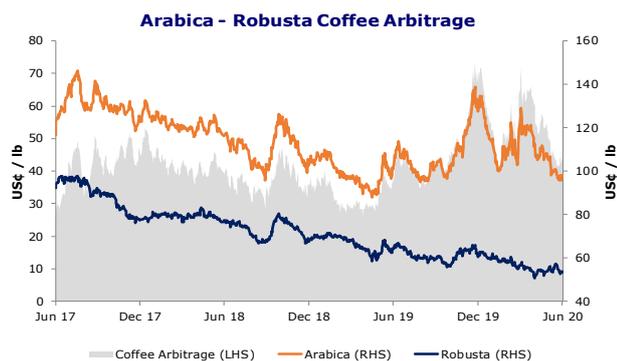
Our bearish arabica view has been realized, and arabicas are finding support at current levels – but there is still upside potential for robustas.

- The arbitrage could go to from USc 43/lb to USc 30/lb. This could be due to upside in robustas.
- Demand doubts persist, as US stocks continue to rise.

Arabica prices are lower since our last (bearish) report and seem to be finding support in the USc 90/lb to USc 100/lb range. With the current BRL 5.4/USD, we doubt arabica prices will pierce the USc 90/lb floor, and therefore, we turn neutral arabicas at these levels. The price drop seen since mid-May was more exacerbated in Brazil, as internal prices collapsed, from a local maximum of BRL 597/bag in early May to BRL 479/bag currently (ESALQ arabica coffee index), a drop of almost 20%. This led farmers to delay selling, even in the middle of a record arabica harvest. The lack of selling is evidenced in the commercial gross short position in the CFTC, which dropped by over 15,584 lots in the last week, also assisted by roaster fixations at low prices. We fear this may give the impression of a lower crop, should the situation continue, in the very short term. Some rainfall is expected in parts of South of Minas this week, which may have consequences for the arabica crop quality – but for now, levels seem quite low.

We remain bullish on robustas. With lower crop estimates in Brazil and Vietnam for 2020/21, along with higher robusta demand, there is a real possibility of robusta prices recovering much of the ground lost so far in 2020 – and that was a drop of USD 200/mt. An increase of equal magnitude will mean arbitrage going from over USc 44/lb to mid-USc 30/lb, assuming the arabica price is unchanged. This is in line, in our view, with the relative supply/demand situation in today’s coffee market. As shown in previous reports, we expect around

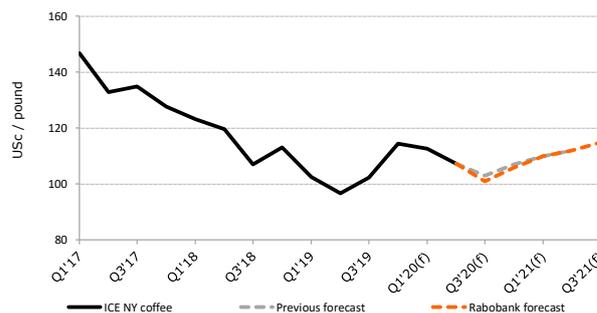
We expect the arbitrage between ICE Arabica and ICE Robusta to go to USc 30/lb



Source: Rabobank 2020

Coffee forecast largely unchanged

unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE Arabica USc/lb	114	112	107	101	106	110	112	115
ICE Robusta USD/mt	1,349	1,302	1,197	1,310	1,330	1,340	1,340	1350



Source: Bloomberg, Rabobank 2020

9m bags of arabica surplus in 2020/21, while we expect a deficit in robustas in 2020/21 (a robusta crop year which has already started in Brazil). As probably most of the robusta has been harvested in Brazil, it is worth noting that differentials are above tenderable parity, and for now, we should expect the steady decrease in London-certified stocks to continue. An acceleration of that decline has the potential to trigger the price upside that we expect. However, until we see such acceleration, we are keeping our price estimate at just above USD 1,300/mt for Q3 2020, which is around 10% higher than the current market.

Demand will continue to be front-of-mind, but for now, we don’t expect many changes from our previous reports. BBG-reported IRI data for the US shows retail volume sales in May 2020 10% higher YOY, which does not seem high enough to compensate for the loss in out-of-home consumption (which is also highly uncertain). In the UK, a market where we already expect a significant drop in coffee demand, around 38% of the private workforce has been furloughed (i.e. not working, but receiving a significant proportion of their salary), with uncertain consequences for consumption patterns. At least in the UK, the scheme will last until October, whereas extra government benefits in countries like the US and Brazil are currently not guaranteed beyond June (Brazil will likely see an extension but at lower levels of support). In any case, June sales data should provide much clearer guidance for demand.

London robusta certified stocks are likely to continue drop, as Brazilian conillons trade above tenderable parity



Source: ICE, Bloomberg, Rabobank 2020



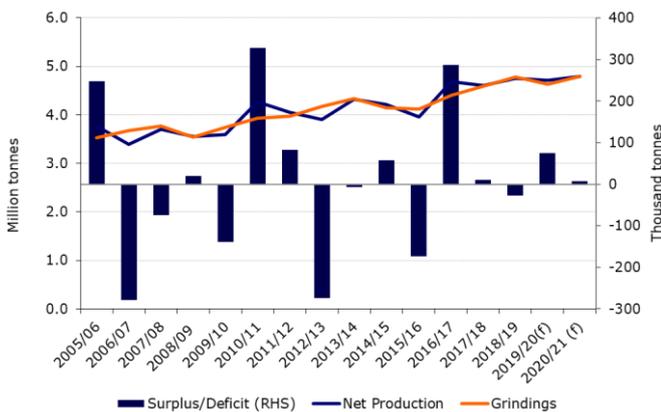
Cocoa prices declined 6% in June, as sales out of African origins slowed amid the arrival of the midcrop harvest.

- Cocoa prices likely to stay low until the completion of the midcrop, with upside limited on weak demand.
- Lower YOY Q2 2020 grindings expected in all major regions: North America, Asia, and Europe.
- 2020/21 production will likely be in line with last year.

Covid-19 continues to be the center of attention for cocoa markets. The steep drop in cocoa butter prices over June seems to indicate the cocoa bean price decline is led mainly by precarious demand. However, the supply side is also looking a little bearish. Ivorian arrivals have overtaken last year's pace – at 2.098mmt, compared to 2.09mmt last year – confirming estimates of a good crop this season. Ghana's latest purchase data for the current 2019/20 season was 737,783mt, 5% below last year's figure, but this figure may be exaggerated due to restrictions of movement. The strength in supply will likely continue next month, with the sustained flow of beans during the finishing of the midcrop harvest. We may see prices begin to rise slightly in Q3 2020, toward USD 2,300/mt, as supply tightens – but at present, they will likely stay around USD 2,250/mt, with good supply and temperate demand.

We have revised our global supply-and-demand estimates, in line with a slow economic recovery and higher unemployment during the remainder of 2019/20. We now expect demand to fall -3% in 2019/20 and then subsequently rebound 3.2% in 2020/21, assuming a Covid-19 vaccine or treatment that allows a return to normal consumption behavior. Some of the demand has shifted over to direct-to-consumer models, but we estimate the quantities are not enough to offset the initial demand losses. We will likely see declines in Q2 cocoa grindings reported in July. Given processors' ability to store semi-finished products and increase

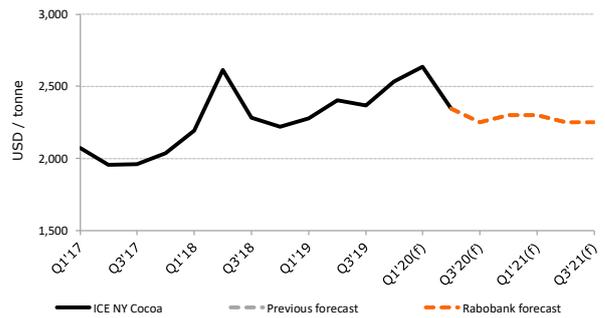
Global supply and demand surplus seen slightly larger at 74,000mt due to slower purchases in Ghana and demand loss



Source: ICCO, Rabobank 2020

ICE NY Cocoa forecast maintained, London lowered

unit	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f	Q3'21f
ICE NY USD/t	2,533	2,648	2,346	2,250	2,300	2,300	2,250	2,250
ICE London GBP/t	1,808	1,852	1,932	1,800	1,820	1,820	1,800	1,800



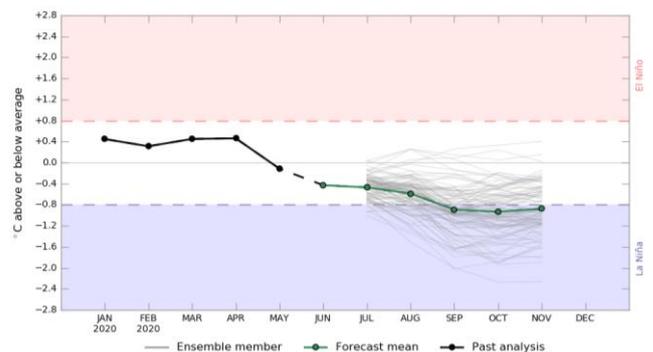
Source: Bloomberg, Rabobank 2020

output before lockdowns, we did not see a steep decline in grindings in Q1. However, lockdowns, uncertainty, and sales losses since then will have caused grindings to slow in all major regions.

Cocoa demand in the US has been in decline since Q3 2019, and this will likely be accelerated by the Covid-19 pandemic and recession. North America may serve as an example of what is likely to come for cocoa demand in the rest of the world, given its flexible labor market and a large number of newly unemployed. Potential economic effects of Covid-19 point toward lower consumer prices – we expect no significant recovery in the demand for chocolate and other products... at least until jobs rebound.

On the supply side, not much has changed for 2019/20, but some questions remain for 2020/21. It is likely that the flow of beans will be slow for much of the 2020/21 season, and we see reduced efforts in terms of production expansion due to a worsening economic environment and slower movement of people. On the weather front, there is a 40% to 50% chance of a La Niña event forming in the northern spring. As La Niña correlates with higher rainfall in West Africa, weather may support a good rebound in production in the 2020/21 growing season, but of course... it is early days.

There is now a 40-50% chance of a La Nina developing in the NINO 3.4 pacific region from mid August



Source: ABoM, Rabobank 2020



Bearish view on ICE #2 Cotton maintained, ahead of a projected record fall in global 2019/20 consumption.

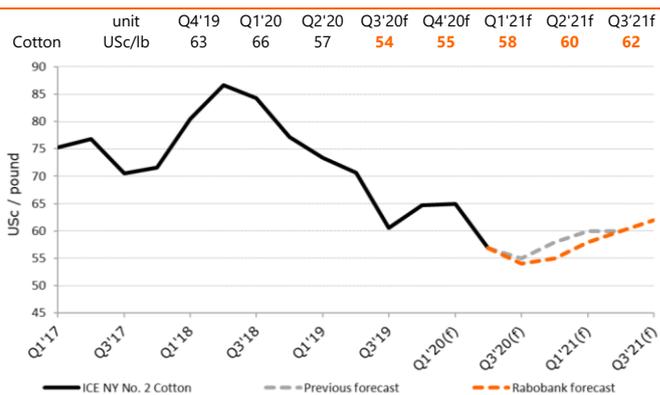
- Healthy Chinese import demand, along with firmer energy markets and West Texas dryness, keeps December ICE #2 futures near USc 60/lb.
- Wide forecast range ahead of the USDA's June acreage report, with 2.5m bales of output in the balance.
- Slowing consumption being felt in export origins, with 2019/20 stocks set to build heavily in these countries.

December 2020 ICE #2 Cotton futures trade just below the USc 60/lb level

through June, despite a hugely uncertain demand outlook. Healthy Chinese import demand, along with firmer energy markets (Brent Crude up 17% MOM) and West Texas dryness, keep price prospects stable. However, a very challenging global demand outlook remains, with the USDA forecasting a 15% YOY fall in 2019/20 global consumption – the largest on record, if realized. This is reflected in apparel sales, with US May 2020 clothing sales down 63% YOY, following April sales reported down 87% YOY. Rabobank forecasts a smaller 12% YOY consumption fall, but maintains a bearish short-term view, forecasting the ICE #2 at USc 54/lb in Q3 2020, before rising gently toward USc 60/lb by early 2021. Chinese buying, as part of its trade deal obligations, has been essential to ICE #2 price support – China has made up 79% of new sales in the past eight weeks, against a flurry of cancellations elsewhere. Still, 2019/20 weekly exports are up 7% YOY. In our view, the ICE #2 is particularly vulnerable to any slowing of Chinese demand. Geopolitics may play a key role here, especially after US trade adviser Navarro stated that the US-China trade deal is 'over.'

US 2020 plantings and crop conditions are a key focus ahead of the USDA's June acreage report. Broadly speaking, market expectations suggest a drop in the USDA's 13.7m planted acreage number, following a wet Delta and Texas dryness. Trade guesses range widely between 11.3m and 13m ac, a difference

ICE #2 Cotton forecast kept bearish



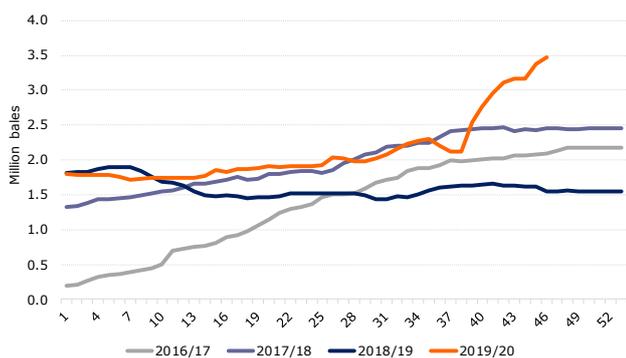
Source: Bloomberg, Rabobank 2020

of 2.5m bales when using average yields and abandonment. West Texas dryness also threatens crop conditions (rated 23% good/excellent vs. 40% nationally) and abandonment – NOAA labels the panhandle drought between 'extreme' and 'moderate,' with few rains in the 14-day period. As an historically low Australian harvest finishes up, a record-breaking Brazilian harvest gets underway, with 0.6m and 13m bales in production respectively.

Falling 2019/20 global cotton consumption is slowly being felt in major export countries.

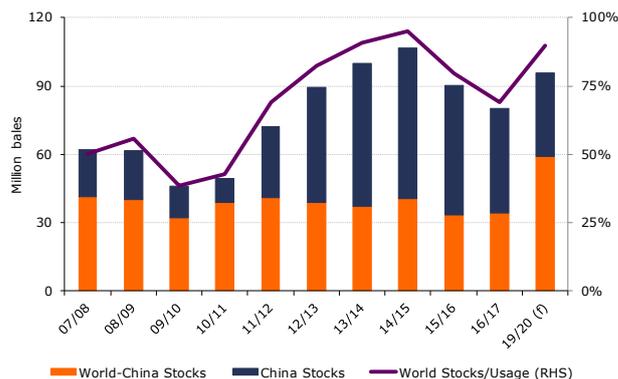
In Australia, 2020 domestic premiums (vs. July 2020 ICE #2) have fallen 47% YTD, while Brazilian forward grower sales have increased just 4% since February. Meanwhile, India's CCI has cut its selling price to help stimulate domestic demand. And on the trade side, we hear delivery deferrals becoming increasingly common. The factors above all stem from falling 2019/20 consumption, slowing trade, and, eventually, a significant building of exporter stocks. Rabobank forecasts 2019/20 stocks to build 13% in Brazil, 44% in the US, 17% in Uzbekistan, and 72% in India – an increase of +15m bales globally. It may require a combination of reduced future acres, a sharp demand recovery, and several seasons before cotton fully recovers from Covid-19.

US export commitments to China rise sharply in June, now 79% of sales in the past eight weeks – a major vulnerability



Source: USDA, Rabobank 2020

Global 2019/20 stocks are set to rise substantially in major exporting nations, up +15m bales YOY



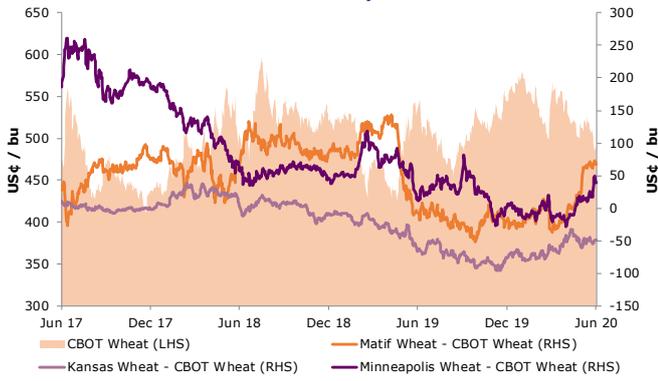
Source: USDA, Rabobank 2020

Agri Charts

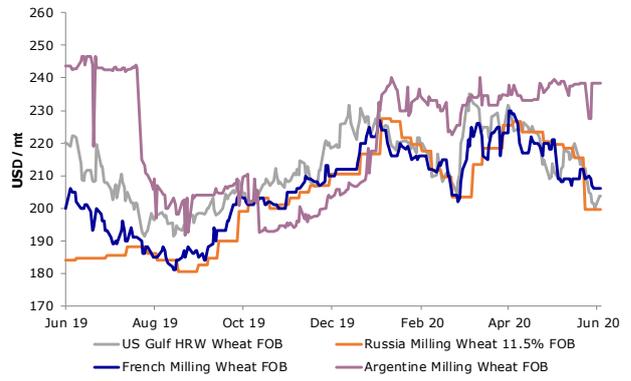
Global Currencies USD Cross



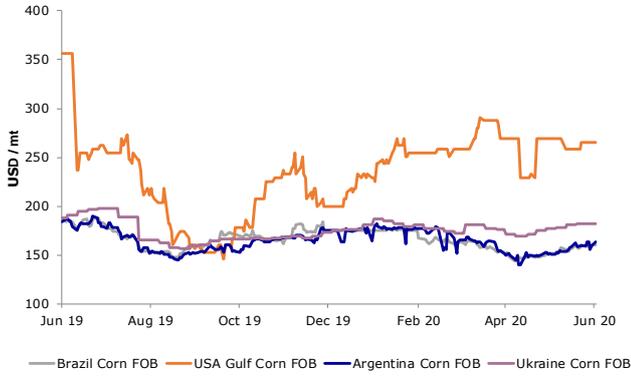
CBOT Wheat Spreads



Wheat Protein FOB Prices



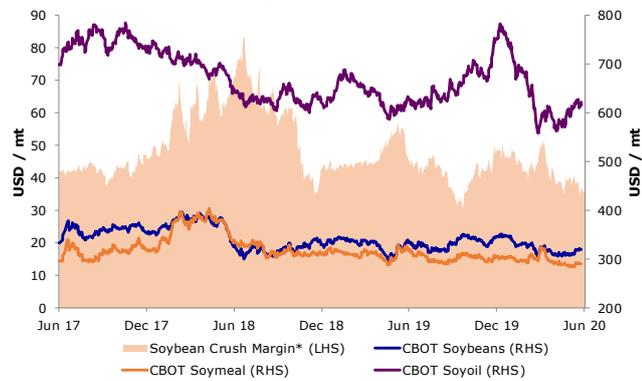
Corn FOB Prices



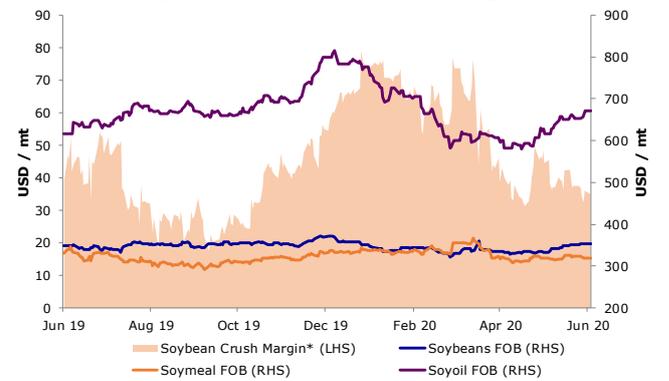
CBOT Ratios



CBOT Soybean Crush Margin



Argentina FOB Soybean Crush Margin



Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

Agri Charts

Soybean FOB Prices



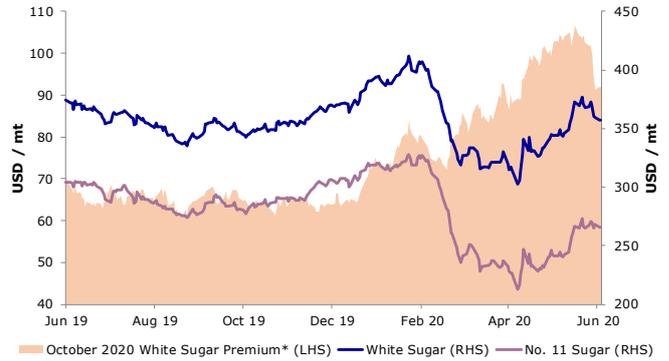
Palm Oil - Soy Oil Spread



Chinese Futures Premiums



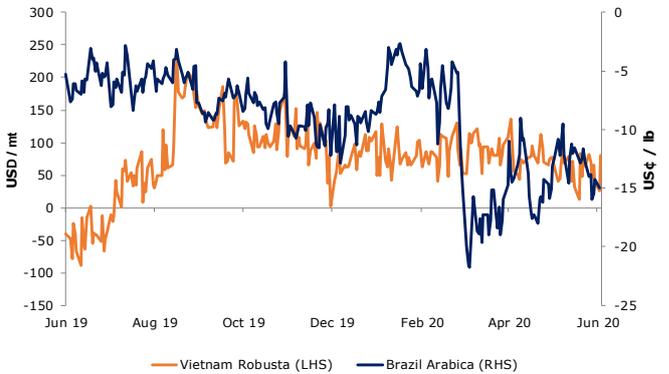
White Sugar Premium



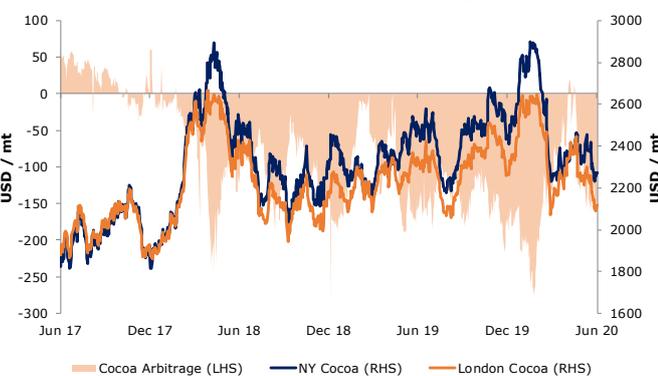
Arabica - Robusta Coffee Arbitrage



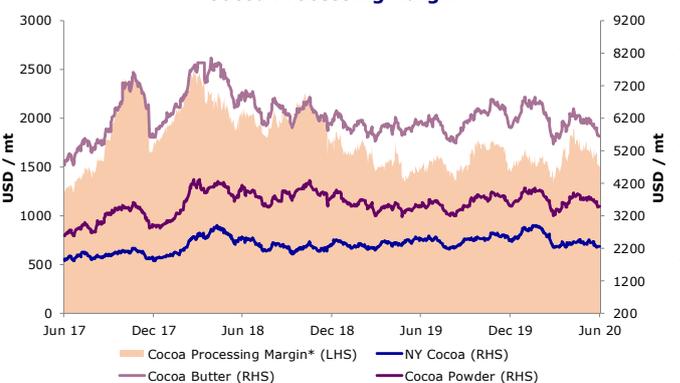
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

Imprint

RaboResearch

Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

Stefan Vogel, Head of ACMR
stefan.vogel@rabobank.com, +44 20 7664 9523

Carlos Mera, Senior Commodities Analyst
carlos.mera@rabobank.com, +44 20 7664 9512

Michael Magdovitz, Commodities Analyst
michael.magdovitz@rabobank.com, +44 20 7664 9969

Andrew Rawlings, Associate Commodities Analyst
andrew.rawlings@rabobank.com, +44 20 7664 9756

Contributing analysts:

Andy Duff—São Paulo, Brazil
andy.duff@rabobank.com

Stephen Nicholson – St Louis
stephen.nicholson@raboag.com

Charles Clack—Sydney
charles.clack@rabobank.com

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

Rabobank Markets

Corporate Risk & Treasury Management Contacts

GLOBAL HEAD—Martijn Sorber
+31 30 21 69447
martijn.sorber@rabobank.com

ASIA—Ethan Sheng
+852 2103 2688
ethan.sheng@rabobank.com

AUSTRALIA—David Teakle
+61 (2) 81153101
david.teakle@rabobank.com

NETHERLANDS—Arjan Veerhoek
+31 30 216 9040
arjan.veerhoek@rabobank.com

EUROPE—David Kane
+44 (20) 7664 9744
david.kane@rabobank.com

NORTH AMERICA—Neil Williamson
+1 (212) 8086966
neil.williamson@rabobank.com

SOUTH AMERICA—Ricardo Rosa
+55 11 5503-7150
ricardo.rosa@rabobank.com

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.

Disclaimer

Non Independent Research

This document is issued by Coöperatieve Rabobank U.A. incorporated in the Netherlands, trading as Rabobank (Rabobank) a cooperative with excluded liability. The liability of its members is limited. Rabobank is authorised by De Nederlandsche Bank (DNB) and the Netherlands Authority for the Financial Markets (AFM). Rabobank London Branch (RL) is authorised by the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and PRA. Details about the extent of our authorisation and regulation by the PRA, and regulation by the FCA are available from us on request. RL is registered in England and Wales under Company no. FC 11780 and under Branch No. BR002630. This document is directed exclusively to Eligible Counterparties and Professional Clients. It is not directed at Retail Clients.

This document does not purport to be impartial research and has not been prepared in accordance with legal requirements designed to promote the independence of Investment Research and is not subject to any prohibition on dealing ahead of the dissemination of Investment Research. This document does NOT purport to be an impartial assessment of the value or prospects of its subject matter and it must not be relied upon by any recipient as an impartial assessment of the value or prospects of its subject matter. No reliance may be placed by a recipient on any representations or statements made outside this document (oral or written) by any person which state or imply (or may be reasonably viewed as stating or implying) any such impartiality.

This document is for information purposes only and is not, and should not be construed as, an offer or a commitment by RL or any of its affiliates to enter into a transaction. This document does not constitute investment advice and nor is any information provided intended to offer sufficient information such that it should be relied upon for the purposes of making a decision in relation to whether to acquire any financial products. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness.

The information contained in this document is not to be relied upon by the recipient as authoritative or taken in substitution for the exercise of judgement by any recipient. Any opinions, forecasts or estimates herein constitute a judgement of RL as at the date of this document, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. All opinions expressed in this document are subject to change without notice.

To the extent permitted by law, neither RL, nor other legal entities in the group to which it belongs accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Insofar as permitted by applicable laws and regulations, RL or other legal entities in the group to which it belongs, their directors, officers and/or employees may have had or have a long or short position or act as a market maker and may have traded or acted as principal in the securities described within this document (or related investments) or may otherwise have conflicting interests. This may include hedging transactions carried out by RL or other legal entities in the group, and such hedging transactions may affect the value and/or liquidity of the securities described in this document. Further it may have or have had a relationship with or may provide or have provided corporate finance or other services to companies whose securities (or related investments) are described in this document. Further, internal and external publications may have been issued prior to this publication where strategies may conflict according to market conditions at the time of each publication.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except with the prior written consent of RL. By accepting this document you agree to be bound by the foregoing restrictions. The distribution of this document in other jurisdictions may be restricted by law and recipients of this document should inform themselves about, and observe any such restrictions.

Please email fm.global.unsubscribe@rabobank.com to be removed from this mailing list

A summary of the methodology can be found on our website www.rabobank.com

© Rabobank London, Thames Court, One Queenhithe, London EC4V 3RL +44(0) 207 809 3000

© 2020 – All rights reserved