Rabobank

Agri Commodity Markets Research

March 2019: Demand Ahead? U.S. Farmers Hope, Sow.

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US farmers will begin plantings next month facing unprecedented demand uncertainty and record G&O stocks. Good global planting prospects, combined with weakening Brazilian (-4.7% MOM) & Argentine (-10.9% MOM) currencies, have encouraged competition in G&O, coffee, and sugar, driving the Non-Commercial net short position across agri commodities to a record. Still, the potential remains for a demand pickup in the US – from global weather/supply risks, a US-China trade deal, or pork imports by Southeast Asia to fill African swine fever-imposed deficits.

WHEAT

Bullish old crop, bearish new crop

- Good northern hemisphere weather conditions outside US and higher year-on-year wheat acreage should prevent any significant rally in new crop.
- A low wheat/corn ratio will incentivize wheat demand going forward, especially for EU feed.

SUGAR

ICE #11 Sugar prices remain under pressure

- Current mills to wait and see what's more convenient, ethanol or sugar
- Indian elections and policy to heavily influence the sugar market and dominate the white premium
- El Niño has potential to affect Asian crops, for this season and next, but currently appears subdued.

CORN

CBOT Corn under pressure from international competition and collapsed wheat/corn spread– though US Midwest flooding could cap acreage rise

- Trade war resolution would be positive for demand and cut US stocks in 2019/20, but demand weakness ahead of plantings weigh on bullish sentiment.
- Strong competition from fx-weakened South America

COFFEE

Little upside, little downside.

- ICE Arabica continues to trade below cost of production in most producing countries, but high production in Brazil put a lid on upside.
- Honduran sales are lagging, and exports from Colombia are down.
- Uncertainty in robustas, but price upside limited.

SOYBEANS

The US-China trade deal looks increasingly difficult, and US farmers will feel increasing pressure to sell record stocks.

- Chinese demand weakness and US planting decisions risk capping CBOT Soybean recovery.

SOYMEAL & OIL

CBOT Soy Oil and Soymeal continue to see demand-based price support from African swine fever and US biodiesel.

- CBOT Soymeal, in particular, has breakout potential on hog feed growth in US to satisfy Asian imports.

PALM OIL

Bearish palm oil fundamentals will continue to exert downward pressure on palm oil prices in 2019.

- Edible oil inventories in India and China remain high.
- Malaysian and Indonesian March 2019 production is expected to be higher month-on-month.
- El Niño's impact on 2019 Southeast Asian palm oil production is expected to be limited.

COTTON

Spring risks and speculation support short-term cotton prices – a hefty 2019 crop points to Q4 2019 price downside

- US area is forecast to expand in 2019, as the market looks for confirmation in the USDA's March 29 Prospective Plantings report.
- Volatility returned in March, but further price direction depends heavily on US-China trade.

Wheat

CBOT Wheat: bullish old crop, bearish new crop

- CBOT Wheat saw a 7% decline in early March, to jump by 11% between the second and third week of March.
- Good northern hemisphere weather conditions outside US and higher year-on-year wheat acreage should prevent any significant rally in new crop.
- A low wheat/corn ratio to incentivize wheat demand going forward, especially a recovery in feed demand in Europe.

CBOT Wheat is not for the faint-hearted. After reaching contract lows of USc 428/bu in March, the active May 2019 contract quickly jumped over 6% in a day, and is now trading at over USc 462/lb. Certainly, the forecast for the 2019/20 crops looks heavy in most countries and particularly in the EU, where crops are also receiving good rainfall, with the exception of Romania, Bulgaria, and parts of southern Europe. While nearby CBOT prices seem realistic, we remain bearish new crop in 2H 2019, vs. current futures.

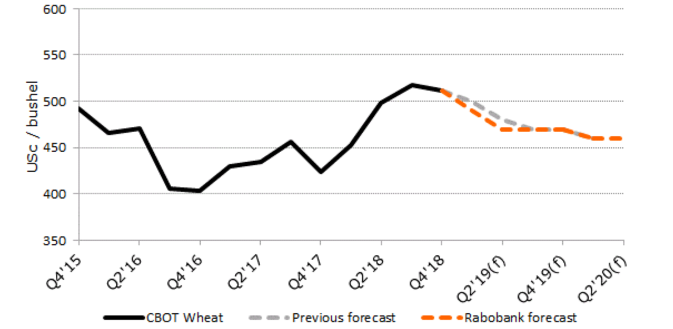
The US spring wheat area is expected to come in below the February USDA Outlook expectations. The expected decline of the combined area planted with soybeans and corn in 2019/20 – freeing some area for spring wheat – should lead to an expansion in spring wheat area year-on-year, up from 13.2m acres planted in 2018. But adverse planting conditions – flooding along some riverbanks and saturated soils, following the melting of a thick layer of snow – could delay plantings in localized areas. We may fall a few hundred thousand acres short of the ~13.6m acres expected in the February USDA Outlook, although the acreage potential could rise in the coming weeks.

Argentine currency weakness will incentivize competition from the South. The Argentine peso has reached record lows vs. the US dollar, having lost 11% so far in March. Farmers in Argentina tend to cling to their stocks as an inflation hedge, a custom from the times in which the exchange rate was controlled. But following the liberalization of the exchange rate back in 2015, there are fewer incentives to do so. FOB prices have been becoming more competitive in the last weeks.

Demand for US wheat finally looks to be accelerating. Egypt's GASC bought 120,000mt of US SRW wheat this week, a clear sign that US wheat is competitive, especially in Egypt, where the state buyer has introduced a 180-day payment delay. This delay marginally favors exports from the US. This recovery in US demand underpins our bullish view in the very short term. It also supports Kansas trading below Chicago, which is usual for relatively short periods of time, despite better Kansas specs, but Kansas has been trading below CBOT for 22 weeks now. This has happened only once (in 2015, for 26 weeks) since 1993. The inversion is justified by an increased demand for SRW wheat, the drought in Australia and a good supply of HRW. Certainly, Kansas' Hard Red Winter benefited from increased snow during the winter and recent rainfall, which should result in high yields.

CBOT Wheat outlook weak as large 2019 global crop looms

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
CBOT	USc/bu	517	512	490	470	470	470	460	460
Matif	EUR/t	199	202	195	183	180	180	180	180

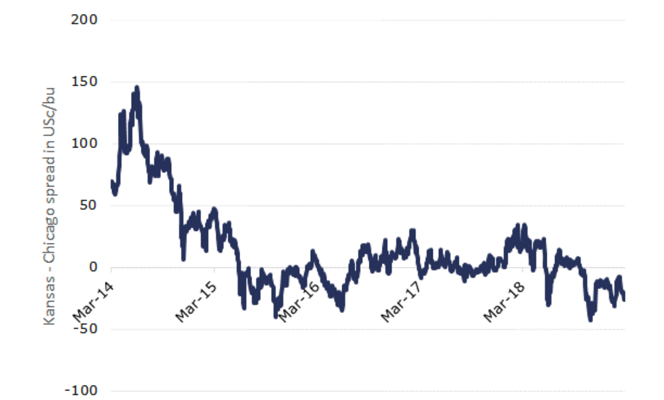


Source: Bloomberg, Rabobank 2019

The ARS has significantly depreciated (even with a 34%-51% inflation rate), making Argentine wheat more competitive

Source: USDA, Rabobank 2019

Increase SRW demand, a drought in Australia and good conditions for HRW result in an inverted Kansas/Chicago spread



Source: Bloomberg, Rabobank 2019

Corn

CBOT Corn was under pressure in early March, falling to six-month lows as the wheat/corn spread collapsed – before US Midwest flooding, and non-commercial short coverage drove a recovery.

- CBOT Corn ended in the upper part of its six-month trading range after tracking CBOT Wheat lower.
- Lower wheat prices shifted demand from corn to feed wheat. Strong competition from FX-weakened South America curtailed US corn export pace.
- US weather will be crucial, as fieldworks could be delayed by wet, cool conditions. USDA's Outlook Forum forecast of 92m acres seems out of reach.

CBOT Corn faced demand pressure earlier this month, amid a sharp price decline in wheat and barley, and growing global production prospects. Global buyers have begun to tender for feed wheat and barley rather than corn, adding clouds to already lackluster US corn exports. The USDA last month lowered its season forecast for US exports by 75m bu, to 2,375m bu (-3% YOY), given the slow pace so far. Ukraine has supplied ~70% higher volumes to the global market since the beginning of the season, and the outlook for South American corn production is good, due largely to record early plantings of Brazil's safrinha corn. Conducive planting weather across Europe and Ukraine is raising expectations for high global competition with US corn in the summer. US domestic demand for corn also continues to suffer from weak ethanol prices.

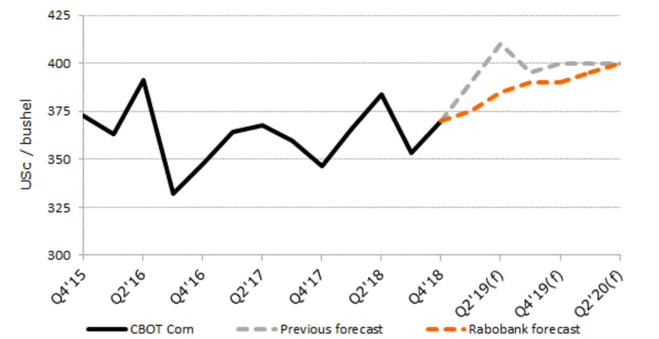
The USDA will release potentially market-moving survey data late this week, with prospective plantings and quarterly stocks. Ahead of the report, US Midwest flooding and strong export sales – incl. rare Chinese purchases of US corn – delivered a joint boost and recovery to six-month highs. In its annual Outlook Forum, the USDA forecast 92m acres of corn plantings in 2019, up from 89.1m acres last year. This represents an optimistic figure, given the agnostic soy/corn price ratio at 2.35, low prices, and cold US fields that could cause planting delays or abandonment. Several weeks still remain for Midwest soil conditions and logistics to improve before the planting season begins. While US farmers are remarkably adept at getting into their fields and planting quickly, there is a high risk that some corn will not get planted in time or at all. Rabobank forecasts 91m acres, with downside potential if US weather does not turn dryer in coming weeks.

Funds have built a massive net short, adding to price volatility risk. The fund short is in line with previous record short positions and, until last week, joins a record short in G&O and softs commodities. South American and European crops have not faced a significant weather issue to date, but it is premature to discount any crop risks. On the contrary: there is a lot of weather and political risk in the market that can spook funds out of their big negative bets, as we saw last week.

Rabobank's CBOT Corn price forecast has been left unchanged, except for marginal revisions of the nearby prices. Price upside risk exceeds downside risk in the next weeks due to the upcoming US planting and growing season, and expectations of falling US acreage. US yields performed well last year and could add price pressure to CBOT if Jul/Aug weather allows for it. However, disappointing US plantings or a successful US-China trade deal would be bullish for CBOT.

CBOT Corn price forecast lowered on mounting competition

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Corn	USc/bu	353	370	375	385	390	390	395	400



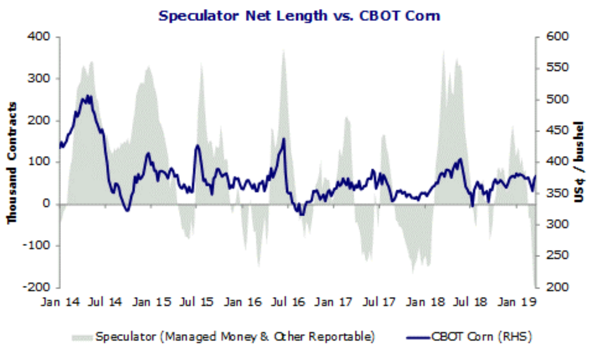
Source: Bloomberg, Rabobank 2019

US 2019/20: 2m acres more at unchanged yield keep balance stable at unchanged use – 179bpa needed for strong demand

US Corn S&D	USDA June		2019/20 scenarios		
(Mn Acres/Mn bu.)	17/18	18/19(f)	low	base	high
Beginning Stocks	2,293	2,140	1,835	1,835	1,835
Area Planted	90.2	89.1	89.0	91.0	91.0
Area Harvested	82.7	81.7	81.6	83.5	83.5
Yield	176.6	176.4	174.0	176.5	179.0
Production	14,609	14,420	14,207	14,735	14,943
MY Imports	36	40	40	40	40
Total Supply	**16,939**	**16,600**	**16,082**	**16,610**	**16,819**
MY Exports	2,438	2,375	2,375	2,375	2,500
Feed Consumption	5,304	5,375	5,375	5,375	5,400
FSI Consumption	7,056	7,015	7,015	7,015	7,075
Ethanol Usage	5,600	5,550	5,550	5,550	5,600
Domestic Consumptio	12,360	12,390	12,390	12,390	12,475
Total Usage	**14,799**	**14,765**	**14,765**	**14,765**	**14,975**
Ending Stocks	2,140	1,835	1,317	1,845	1,844
YOY stock change	-153	-305	-518	10	8
Stocks/Usage	14%	12%	9%	12%	12%

Source: USDA, Rabobank 2019

Funds hold near record net short across Ags and are heavily short in corn ahead of the US planting season



Source: CFTC, Bloomberg, Rabobank 2019

Soybeans

The US-China trade deal looks increasingly difficult, and US farmers will feel increasing pressure to sell record stocks. Chinese demand and US planting decisions risk capping CBOT Soybean recovery.

- Chinese purchases (though below expectations) and the trade truce extension keep CBOT Soy shorts sidelined.
- Price support above USD 9/bu shows signs of cracking, with US farmer selling pressure ahead of plantings compounded by weak demand and lack of further support payments.
- China's low soy purchases to date raise legitimate questions as to the reliability of trade commitments and pointing to a larger issue with ASF-hit hog feed demand.

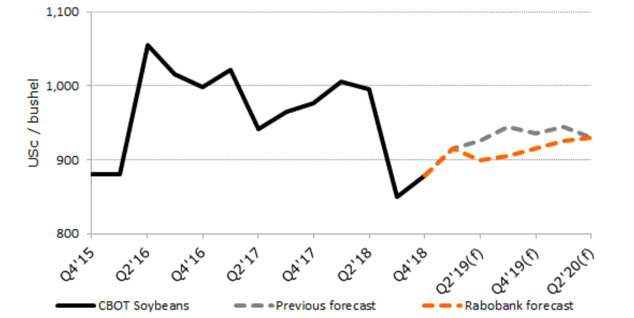
CBOT Soy prices continue to languish in a tight, five-month trading range of around USD 9/bu, due to growing signs of a trade war impasse and ASF-lowered demand prospects. The market's overall direction will be guided by trade war decisions**,** and the latest rhetoric from senior US negotiators suggests the two sides have reached a stalemate around the critical issue of enforcement. China is unwilling to accept US demands of unilateral sanctions that are removed through verification stages. Meanwhile, the US views that approach as its only leverage for enforcement. The most likely scenario remains a deal – but as US farmers approach plantings next month, they face bearish reality of record soybean stocks (900m bu in 2018/19, up 105% YOY), a premium to replenished South American crop, and weakening export demand. With US-China trade uncertainty creeping into planting season and African swine fever's detrimental impact on global demand becoming more apparent, selling pressure will grow for US farmers who can no longer count on further government support payments to finance their operational costs. It will also translate to year-on-year US soy planting reduction of 4m acres, to 85.6m acres in 2019/20 – or less if wet soils don't permit farmers to plant corn.

China has so far only bought 13 of 20mmt of US soybean 'goodwill purchases' it committed to during trade discussions, and the slow pace of buying is underscoring growing demand risks for CBOT. The greatest risk is clearly around the reliability and enforcement of China's F&A trade commitments, expected to be in the range of USD 55bn/year (2017: USD 24bn). The second risk is emerging evidence that China's soybean demand will decline for a second consecutive year, by 9mmt (by 10% YOY, to 85mmt) due to the pervasive spread of African swine fever that has wiped out a large portion of its hog production. Crush margins in China are at four-year lows and remain under pressure as pork producers decline to restock herds until ASF is under control.

ASF offers positive upside expectations for US crush demand to feed hog exports to China; however, its impact on overall soybean demand will be negative. China is responsible for ~50% of global soybean imports and pork production. With ASF spreading, Chinese pork producers are waiting to restock herds, cutting their feed requirements. Major pork producers will ramp up feed use and hog production for export to China, but they lack the capacity to fully compensate China's pork losses, which will, in turn promote dietary switches to less feed-intensive poultry. The factors underpinning CBOT support are largely theoretical, while supportive fundamentals are eroding. Rabobank expects CBOT pressure in the weeks ahead above USD 9.00/bu.

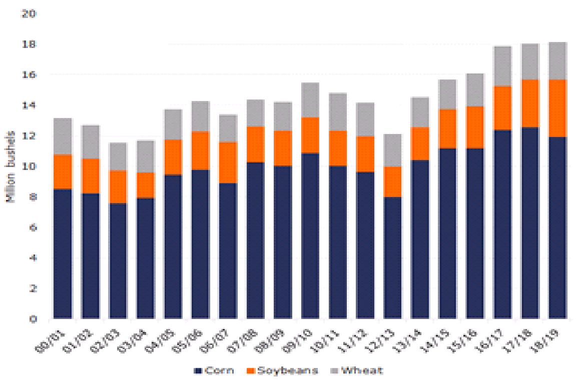
Eroding demand fundamentals and trade talk delays are accelerating soybean farmer selling pressure

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Soybeans	USc/bu	849	879	915	900	905	915	925	930



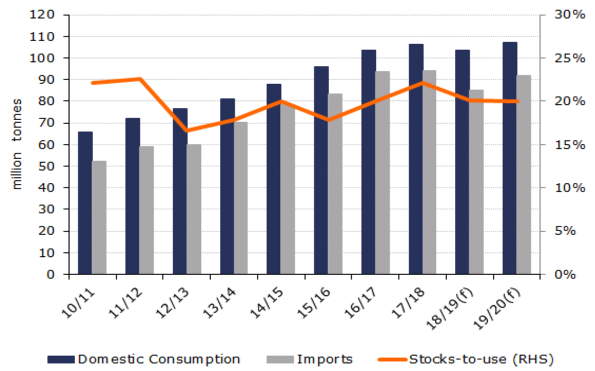
Source: Bloomberg, Rabobank 2019

With US soy stocks at a record and slow demand prospects, farmers will be inclined to sell ahead of plantings



Source: USDA, Rabobank 2019

The demand impact of ASF on Chinese soybean imports and domestic consumption appears to be severe



Source: USDA, Rabobank 2019

Soymeal and Soy Oil

CBOT Soy Oil and Soymeal continue to see demand-based price support from African swine fever and US biodiesel. CBOT Soymeal, in particular, has breakout potential.

- ASF-decimated hog herds in China are boosting US pork export demand expectations, lifting lean hog and CBOT Soymeal prices in US.
- US crush capacity and soymeal demand will be tested in 2019 on hog feed growth, even without a trade deal.
- CBOT Soy Oil prices supported as record biodiesel/veg oil demand limits 2018/19 stocks accumulation – but higher US soybean crush is eroding discount to Brent and widening premium to palm oil cap price upside.

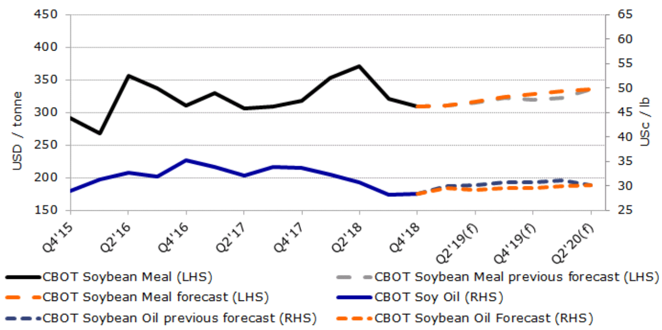
CBOT Soymeal briefly touched 18-month lows in March, below USD 300/mt, following months of persistent, supply-led pressure before rebounding amid higher demand expectations and speculative short-coverage. The spread of ASF in China and globally is driving unprecedented hog culling –Rabobank estimates pork production will be down at least 20%, and this could rise. The disease was recently found in Vietnam, the number-seven producer, and there is growing speculation of surging pork imports later this year, which would primarily come from EU and US markets. Until this month, the surplus of pork meat available on the Chinese market (ASF-tainted meat is suitable for human consumption) was considered a bearish feed demand factor that – together with recovered South American soybean supplies and large US pork inventories – pressured CBOT soymeal prices. Reflecting that near-term bearish demand view, Non-Commercials only turned net long lean hogs last week.

In previous monthly reports, we have noted Rabobank's expectation that the soymeal demand hangover would be short-lived and prices would undergo a rubber band effect as the pervasive scope of ASF in China and lack of herd replenishment became apparent. Rabobank sees growing evidence that March marked the low-water mark for CBOT Soymeal prices and that the coming months could see them break out from a narrow range. Demand-driven catalysts, incl. a spike in lean hog futures (+25% MOM) and recent Chinese purchases of US pork (despite a 62% tariff) have raised the possibility of a breakout for CBOT Soymeal in 2019. Meanwhile, from a supply-side, US crush margins have stabilized slightly above their five-year average, and the USDA continues to raise its crush projections towards Rabobank's figure of 2,140m bu in 2018/19. We anticipate last month's disappointing NOPA to be an aberration, and that ASF's spread will drive Chinese pork import demand, stretching US crush and pork export to capacity.

CBOT Soy Oil's bullish performance (up 4% YTD) is showing signs of age. Rabobank continues to see some supportive demand drivers, including Brazilian export limitations, China's domestic supply shortfall (and, most recently, its import restrictions on Canadian Canola), and strong Brent prices. However, others, such as biodiesel's discount to Brent, have faded. Rabobank expects CBOT Soy Oil's recovery to endure in 2019 as the global vegetable oil glut recedes, but higher US crush expectations (for soymeal) and wide spreads to other vegetable oils (soy oil/palm oil is near USD 150, vs. USD 93 early last year) will take a cent per pound off our price expectations for CBOT Soy Oil this year.

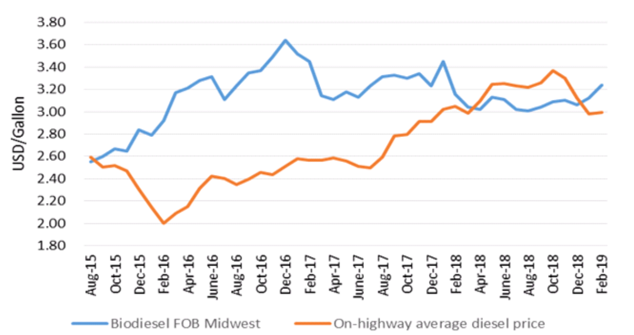
CBOT Soy Oil buoyed by Brent, while US soymeal demand expected to rise from ASF-induced S.E. Asian pork imports

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Soymeal	USD/tonne	321	309	310	316	324	328	332	336
Soy oil	USc/lb	28.2	28.3	29.5	29.2	29.6	29.6	30.0	30.2



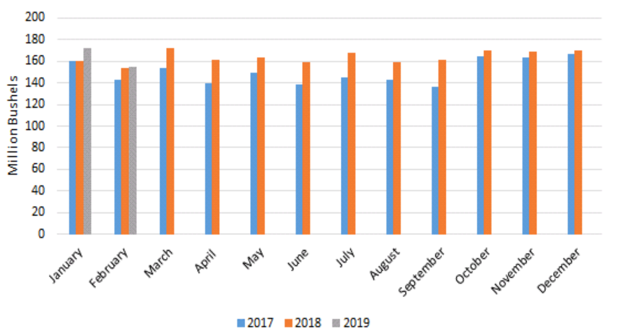
Source: Bloomberg, Rabobank 2019

US diesel's premium to biodiesel evaporated in January, but prices for both are still rising



Source: USDA, ERS, DOE, Rabobank 2019

US soy crush continues to grow YOY. ASF in China could drive US hog export demand and push US crush to capacity



Source: NOPA, Rabobank 2019

Sugar

ICE #11 Sugar prices remain under pressure.

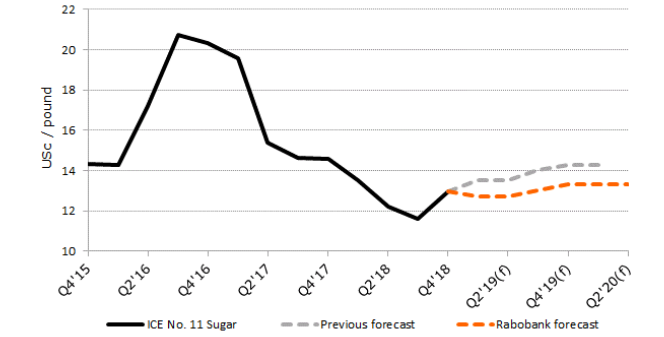
- Brazilian mills to wait and see what's more convenient: ethanol or sugar.
- Indian elections and policy to heavily influence the sugar market and dominate the white premium.
- El Niño has the potential to affect 2019/20 and 2020/21 Asian crops – but as of now, it looks like a very weak event.

ICE Sugar #11 prices have declined ~2% so far in April, despite the Brazilian real declining from USD/BRL 3.75 to USD/BRL 3.95 in the period. The start of the Brazil CS harvest may see some mills waiting for sugar to grow a little more after a dry January, and some mills increasing crushing for ethanol, in an attempt to catch the relatively high intercrop ethanol prices, which are already declining steeply. The current ethanol parity, at USc 13.4/lb, is still above the sugar price, but it is expected to decline even further as soon as the cane harvest starts in full gear and ethanol is initially maximized. This is especially so given the wet weather outlook, which will likely provide an extra incentive to maximize ethanol in the coming weeks. However, Brazil ethanol demand is much stronger than it was a year ago and it could limit ethanol price downside.

Indian 2018/19 production is, so far, above last year, with 27.3mmt produced to mid March, 1.5mmt above last year (+5.9%). 373 mills were still operating in the country as of March 15, 2019, vs. 399 a year ago. A simple calculation would indicate production may come in only marginally below last year. In any case, carry-out stocks will be overwhelming, and there were reports of mills selling below the minimum domestic price, which might result in uncertain consequences. Another source of uncertainty will be the Indian elections, to be held in seven phases from April 11 to May 19. These will be the largest elections ever, and Mr. Modi is the favorite in the polls. With this in mind, Modi may not need to make any further promises to farmers for the time being.

ICE #11 Sugar price forecast lowered

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
Sugar	USc/lb	11.6	13.0	12.7	12.7	13.0	13.3	13.3	13.3

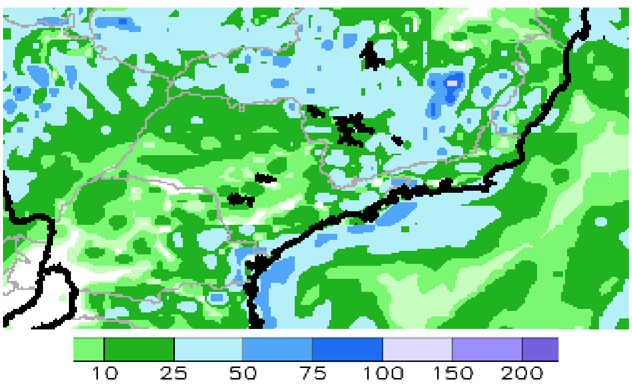


Source: Bloomberg, Rabobank 2019

The EU is down, but not out. Production in the EU is expected a little lower. Yileds above last year's disastrous productivity are likely, but the area is expected to go down, probably by up to 10%. Very attractive Matif Wheat prices before the soft wheat plantings in the EU resulted in an expansion of over 1m ha in soft wheat area (and ~0.1m ha in Barley), leaving less space for beets. But currently firmer EU prices could well lead to more imports from preferential suppliers, partially offsetting any impact of lower production on export availability.

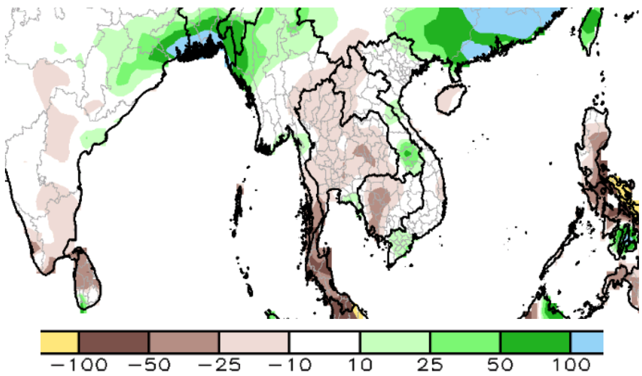
Rabobank expects a global deficit of 4.3mmt in 2019/20, as published in our latest Sugar Quarterly. But the production shortfall is relatively small and less than half of the stock accumulation seen in the previous two years. A significant rise in prices would be possible if, for example, we were to see a strenghtening El Niño (resulting in steep declines in 2019/20 and 2020/21 Asian crops), a bullish Brazil ethanol market, or an appreciation in the Brazilian real. For the time being, range trading is likely.

Brazil is expecting further rainfall in the coming week. 7-day rainfall forecast (mm):



Source: NOAA, Rabobank 2019

SE Asia has been drier than normal, probably related to an El Niño event. 30-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2019

Coffee

Little upside, little downside.

- ICE Arabica continues to trade below cost of production in most producing countries, but high production in Brazil puts a lid on upside.
- Honduran sales are lagging, and exports from Colombia are down.
- Uncertainty in robustas, but price upside limited.

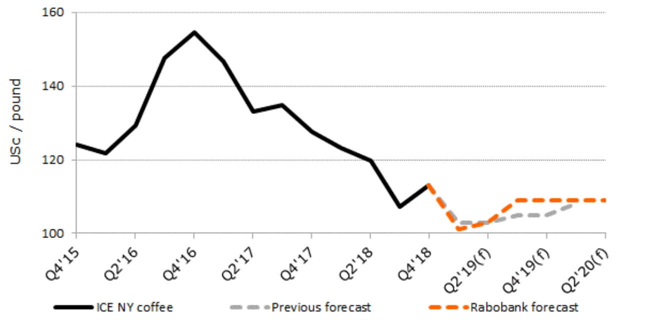
Brazilian selling potential is likely going to keep prices capped. Following our [Brazil 2019/20 Coffee Survey] published earlier this month, we found a little bit more arabica and more robusta than previously expected, despite the dry and hot weather back in January. The hedging of this crop is expected to put further downward pressure in the market and limit the upside, and the bulky Non-Commercial position on ICE Arabica – at 74,939 lots net short – is highlighting this. At the current price levels, there has been limited selling in Brazil... but much selling is due and may accelerate in case the market goes up or the real depreciates further, which is entirely likely if pension reform continues to struggle in parliament.

The supply of milds remains the focus of the market. Colombia February output came in 8.7% lower YOY, at only 1.1m bags. However, the market is reading this as a delay due to the discussions around fixed pricing. We doubt the initiative is likely to go through in the general way it was uttered by the FNC, as the Colombian government seems to favor a minimum price support mechanism instead. Also, the sales from Honduras slowed down in the month and are now lagging 23% YOY since the start of the season in October. But for the time being, good exports from other mild coffee-producing countries and demand switch to cheaper Brazil arabica means that exchange-certified stocks are increasing: from 2.477m bags at the end of February to 2.498m bags as of March 26, 2019. The increase, at less than 1%, is negligible, but certified stocks tend to increase more in the second half of the calendar year, when there is a mild coffee surplus that is retained at origin in light of low prices. This coffee, after depreciating in value, has the exchange as buyer of last resort, as roaster demand dwindles for coffee that lingered in humid climates for months and they concentrate on new crop. However, prices will likely have to rise a little in the second half of 2019 to prevent significant production drops. This is especially so if the pace of Honduras sales continues to disappoint.

Low volatility and range-bound trading is quite likely in 1H 2019. This time of the year and until the Brazil winter, the fundamental risks to arabica coffee are rather limited. Whereas the flowering in Central America will take place in Q2, it is usually very hard to assess it. The next key fundamental risk would be on the robusta side, namely the flowering in Vietnam. It is worth noting that the robusta balance sheet heavily depends on the Vietnam 2019/20 crop, which could be affected by El Niño. To this, we have to add uncertainty on Indonesia, where even the export number – which until now was fully trusted – has been officially changed. But even with a less-than-perfect Vietnam flowering, with the arbitrage at only USc 28/lb, robusta price upside will be limited by arabica prices. If there is indeed some dryness in Vietnam, robusta prices could push arabica prices up, but only marginally – as any significant rally will be capped by a little more selling from Brazil. With this in mind, it is hardly surprising to see implied volatility of robusta near the record lows in a five-year data availability.

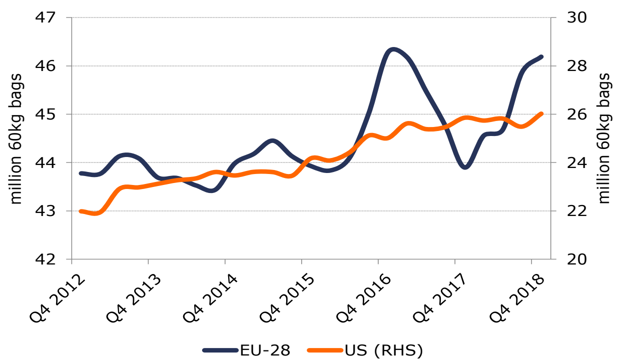
ICE Arabica expected to trade range-bound

	unit	Q3'18	Q4'18	Q1'19	Q2'19(f)	Q3'19(f)	Q4'19(f)	Q1'20(f)	Q2'20(f)
ICE Arabica	USc/lb	107.1	113.1	101	103	109	109	109	109
ICE Robusta	USD/t	1,587	1,627	1,550	1,620	1,640	1,640	1,640	1,640



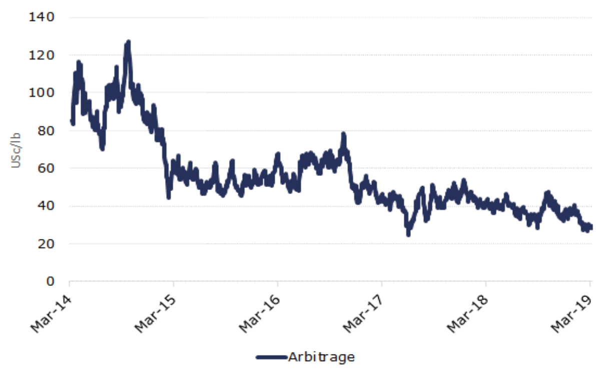
Source: Bloomberg, Rabobank 2019

Disappearance in the EU and in the US has been doing very well recently.



Source: Customs data, Rabobank 2019

An arbitrage below USc 30/lb should dampen the upside potential for robustas



Source: Rabobank 2019

Palm Oil

Bearish palm oil fundamentals will continue to exert downward pressure on palm oil prices in 2019.

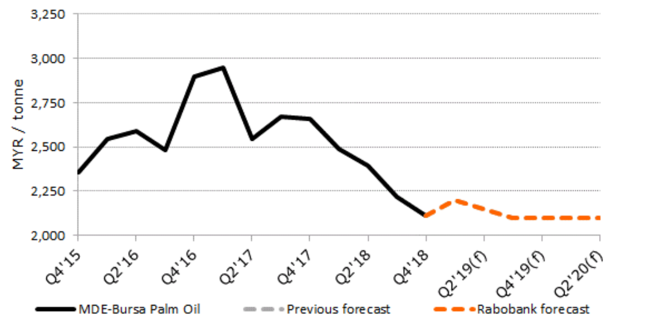
- Edible oil inventories in India and China remain high.
- Malaysian and Indonesian March 2019 palm oil production is expected to be higher month-on-month.
- El Niño's impact on 2019 Southeast Asian palm oil production is expected to be limited.

Edible oil inventories in India and China remain high. According to SEA India, India's palm oil imports decreased by 8% MOM in February 2019, to 750,000mt, while India's soft oil imports increased by 9% MOM, to 430,000mt, for the same time period. Despite palm oil imports' month-on-month decrease, India's palm oil port inventories increased by 16.5%, to ~705,000mt, and total domestic edible oil inventories increased by 4%, to 2.2mmt as of early March 2019. Meanwhile, as of early March 2019, China's domestic soy oil was at the same high level as last year, at 1.36mmt, while palm oil inventories increased by 19% YOY, to 890,000mt. These high domestic edible oil inventories could result in palm oil importers buying hand to mouth while waiting for a lower palm oil price environment in Q2 2019.

Malaysian and Indonesian March 2019 palm oil production is expected to be higher month-on-month. According to the MPOB, Malaysian February 2019 palm oil production decreased by 11.1% MOM, to 1.54mmt. However, Malaysian palm oil exports for the same month also decreased by 21% MOM, to 1.3mmt. Hence, Malaysian February 2019 palm oil inventories increased by 1.3% MOM, to 3.1mmt. Meanwhile, GAPKI reported that Indonesian palm oil production (incl. lauric oils) increased by 19% MOM, to 4.4mmt in January 2019. Indonesian January 2019 palm oil inventories, meanwhile, decreased by 7.4% MOM, due to increases in export and domestic consumption. We expect palm oil inventories in both countries to remain relatively high in March 2019, as palm oil production in Malaysia and Indonesia seasonally picks up.

We maintain our 2019 palm oil forecast

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

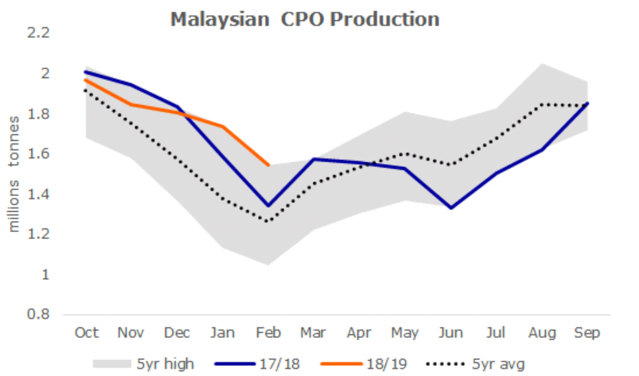


Source: Bloomberg, Rabobank 2019

El Niño's impact on 2019 Southeast Asian palm oil production is expected to be limited. According to NOAA's March 2019 report, El-Niño conditions are currently present globally and are expected to continue through Q2 2019 (~55% chance). Even though weak El Niño conditions are expected, the effect of reduced precipitation will still impact oil palms' fresh-fruit production in Southeast Asia to an extent. While it's still relatively early to assess the impact of El Niño on production, we expect the increase in matured oil palm plantation areas in Indonesia and Malaysia to counter the risk of lower oil palm production yield in 2019.

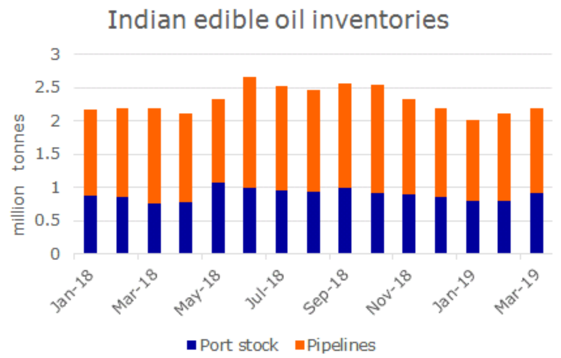
The widening spread between soy oil and palm oil prices is expected to limit the decrease in palm oil prices. CBOT Soy Oil active contract prices widened the price spread with MDE-Bursa Palm Oil active contract prices to USD 150/mt in mid-March 2019, against USD 93/mt in early January 2019. The widening of this premium increases palm oil attractiveness compared to soy oil.

Malaysian palm oil production is expected to increase month-on-month in March 2019



Source: Bloomberg, MPOB, Rabobank 2019

India's edible oil inventories remain higher year-on-year



Source: SEA India, Rabobank 2019

Cotton

Spring risks and speculation support short-term cotton prices – a hefty 2019 crop points to Q4 2019 price downside.

- Volatility returned in March, taking May 2019 ICE #2 Cotton prices from 14-month lows to year-to-date highs.
- The elephant in the room remains the US-China trade negotiations – nothing yet has been confirmed, although headlines appear more upbeat.
- US area is forecast to expand in 2019, as the market looks for confirmation in the USDA's March 29 Prospective Plantings report.

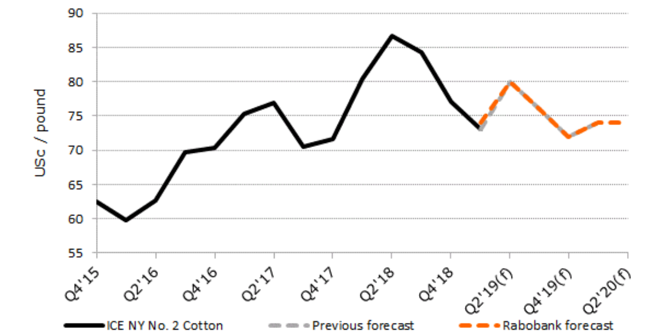
Volatility returned through March, taking May 2019 ICE #2 Cotton prices from 14-month lows to year-to-date highs – a range of USc 6/lb. Various fundamentals triggered the upside – improved US export sales, US-China trade optimism, USD weakness – but the bulk of support was driven by speculative buying. As of March 19, Managed Money covered 8,589 gross shorts WOW. This is not unusual, as speculators prefer the long side through the northern hemisphere spring, with 2019 being no exception. With US-China trade making daily headlines, plus weather risks associated with both Brazilian and US crops, Rabobank maintains a bullish short-term view – forecasting Q2 2019 prices at USc 80/lb. Longer-term, Rabobank sees prices slump to USc 74/lb by late 2019 as – assuming no weather shocks – heavy incoming US and Brazilian supplies drive price pressure. Interestingly, this view – short-dated upside, longer-dated downside – suggests further appreciation in the 2019 Jul-Dec 2019 spread, up from ~2.1 currently.

Signs of optimism are occurring for US trade, with 2018/19 sales reaching 12.3m bales – less than 2m bales behind last season. Vietnam has been particularly active in recent purchases. The elephant in the room remains the US-China trade negotiations – nothing yet has been confirmed, although headlines appear more upbeat. With cracks appearing in both the Chinese and US economy, a trade deal will be welcomed by both leaders sooner rather than later – we continue to watch this space. As for 2019/20, sales to China currently sit at 1.14m bales – vs. some 700,000 bales last season, and well above historical levels during March. While this figure can shift dramatically ahead of next season, there appear to be intentions by China to continue purchasing US cotton.

US acres are forecast to expand again in 2019, with the market looking for confirmation in the USDA's March 29 Prospective Plantings report. Following 14.1m acres planted in 2018, Rabobank maintains our November estimate of 14.5m acres this season – vs. the average trade guess at 14.4m acres. Assuming 12% abandonment, plus an 850lb/ac yield, US output in 2019/20 could potentially exceed 22m bales – up some 4m bales YOY. All eyes will be on West Texas, owing to its majority contribution to total US production – crop issues here shift the domestic balance sheet considerably. However, current weak El Niño conditions – according to NOAA – bring heavy, yet favorable rainfall across the southern US. Above-normal rainfall is set to continue in the three-month period which, as long as field operations can be carried out, will favor improved soil moisture, lower abandonment, and potentially higher yields.

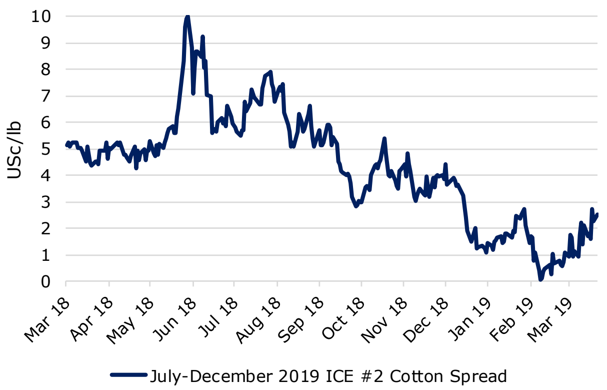
ICE #2 Cotton maintained – short-term upside with long-term downside

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



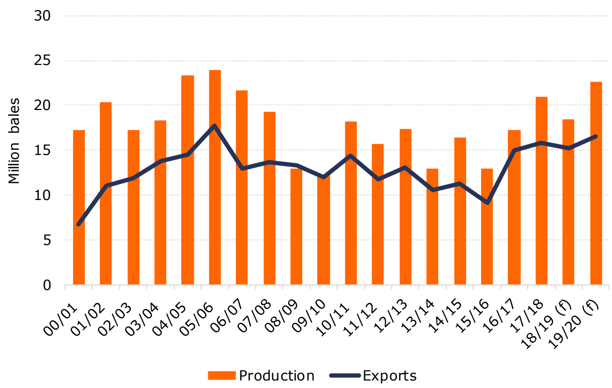
Source: Bloomberg, Rabobank 2019

Rabobank's latest forecast highlights potential appreciation in the 2019 Jul-Dec spread, from ~2.1 currently



Source: Bloomberg, Rabobank 2019

14.5m acres of planted area, plus above-normal rainfall, could see US output exceed 22m bales in 2019/20



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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