



Rabobank

Agri Commodity Markets Research

March 2020: Havoc in the Hamper, Hell in the Handbasket

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

The world is waging war against an invisible enemy and energy giants are battle for market dominance. Many of our clients will be reading this monthly from home quarantine, surrounded by family and stock-piles of rice, pasta and lentils. Agricultural commodities markets have swung wildly amidst concerns for demand destruction and supply chain stability. For products like sugarcane, soy oil, palm oil and corn, the energy price declines from covid-19 and the internecine OPEC price war, are expected to cause substantial demand destruction via biodiesel and ethanol. For vital food and feed products like wheat, coffee and soymeal, stock-piling and supply-chain concerns are driving backwardation. Volatility will remain high in the near-term from potential port/border closures that carry the potential to interrupt and shift global trade. In the northern hemisphere, weather risk will become increasingly important as summer crops are planted and winter crops emerge from dormancy.

WHEAT



CBOT Wheat relatively resilient to Covid-19 & outside price pressure

- Stockpiling, short-term supply chain logistics, and government restrictions can trigger price reactions.
- Improvements in the Black Sea Region, Australia, and for US SRW. EU and US HRW seen lower.

SUGAR



ICE #11 Sugar forecast lowered, following cheaper energy

- The continued sharp decline in Brent took sugar down to below USc 11/lb, not seen since 2007, before a limited recovery.
- Covid-19 will impact demand in complex ways.

CORN



CBOT Corn's initial resistance to the Covid-19 was eroded by the Saudi-Russian oil price war

- Concerns over Covid-19, ethanol, and higher 2020/21 plantings and ending stocks, test CBOT Corn bulls' patience and limit traction above USD 3.75/bu.

COFFEE



Arabica is now facing two factors not seen before: stockpiling and social distancing

- Stockpiling is very bullish through 1H 2020, whereas out-of-home consumption reduced.
- Supply-side disruptions are a major concern.

SOY COMPLEX



Divergent, event-driven fortunes of CBOT Soymeal (bull) and Soy Oil (bear) to unwind in the medium term

- Falling soymeal output, supply drawdowns and Argentine logistics risks, drive near-term coverage.
- Lower oil demand, and fundamentals remain strong.

COCOA



NY Cocoa forecast lowered due to Covid-19 fallout

- Prices are forecast lower, as processors limit forward purchasing and consumer demand dims.
- Weather and production outlook are favorable in West Africa and return to global surplus.

PALM OIL



Palm oil prices continue to be influenced by impacts of the coronavirus outbreak

- Low crude oil price environment could provide a hurdle to Indonesian B30 mandate implementation.
- The narrowing spread between soy oil and palm oil prices to limit the increase in palm oil prices.

COTTON



Covid-19 knocks ICE #2 Cotton prices to decade-lows, additional pressure forecast

- The ICE #2 May 2020 contract trades at USc 51.9/lb – the lowest nearby price since April 2009.
- Rabobank forecasts a -3% YOY decline in global consumption through 2019/20.

Wheat



CBOT Wheat relatively resilient to Covid-19 & outside price pressure.

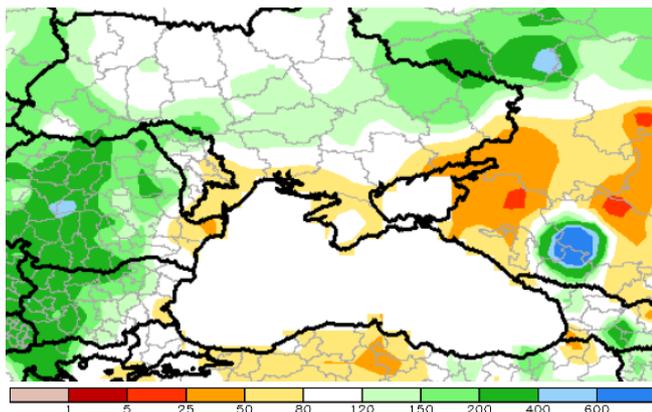
- Stockpiling, short-term supply chain logistics, and government restrictions can trigger price reactions.
- Production outlook for 2020 calls for improvements in the Black Sea Region (but rains are needed), Australia, and for US SRW. Meanwhile, EU and US HRW seen lower.

Wheat as a food staple showed more price resilience

compared to most other ag or hard commodities. CBOT Wheat gained 6.5% MTD, with the wheat/corn spread reaching the highest level since late 2014. Matif Wheat faced an even more volatile ride, losing 13% from mid-February to mid-March 2020, before recovering. Outside asset classes, spring weather and plantings, export demand, supply chain logistics, export restrictions/tax hikes, and fund positioning will drive wheat markets' volatility.

Supply chain uncertainties battle price pressure from other asset classes. Supply chains and political actions will be key price drivers in coming weeks. Port disruptions so far have been prevented, but they can become an issue, given the concentration of world exports in a handful of key countries. In Ukraine and Russia, the recent discussions of the governments to consider a ban of food exports or to raise export duties while the domestic population is stocking up on staples was a focus of attention for the market. For now, no such measures were agreed, and weak currencies keep incentivizing exports. But given the fluid situation, any disruptions of exports can have a bullish price impact – be those logistical challenges (which in these times are rising), worker availability, or government-imposed restrictions.

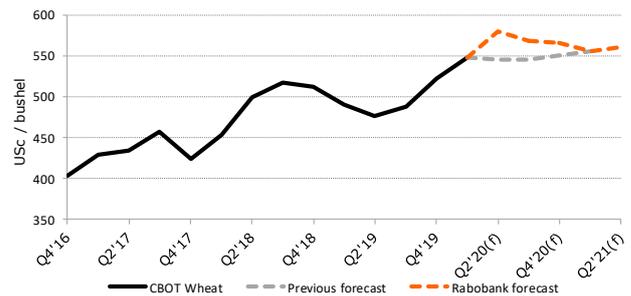
More rainfall is needed in parts of the Black Sea Region, Especially in Russian winter wheat areas



Source: NOAA, Rabobank 2020 % normal rainfall, 24 Feb. – 24 March 2020

CBOT Wheat outlook raised short-term

unit	Q3'19	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
CBOT US\$/bu	488	523	548	580	568	565	555	560
Matif EUR/mt	171	181	189	197	192	185	187	187



Source: Bloomberg, Rabobank 2020

Fundamentals: Weather in Europe, including the Black Sea Region, was warmer than normal, allowing winter wheat to start growing earlier than usual. **Ukraine** has had lower-than-average precipitation so far in 2020. **Russian** winter grains are rated only 2% to 4% poor, down from 5% last year – still much of southern Russia is too dry, and more rains are needed. Based on our yield and acreage assumptions, we project a 1mmt to 3mmt YOY reduction of Ukrainian wheat production, but a recovery of Russia by about 5mmt YOY and in **Kazakhstan** by 2mmt to 3mmt YOY, after last year's low output. Looking at the **EU**, the outlook is less optimistic. With wheat acreage down around 0.9m ha YOY across the EU and an unlikely repetition of the exceptionally high 2019 yields in France, we forecast wheat production to be down 10mmt, which will again lower export potential and increase import demand for wheat and feed grains. **Australia**, ahead of its wheat plantings, saw good rains – clearly not enough to overcome the drought of the last three years, but this will help area to expand and raise the chances of a return to a more normal yield.

In the US, we forecast 2020 wheat production almost unchanged YOY. HRW output is currently projected more than 10% down, while SRW production is forecast toward 2017 and 2018 levels again. HRS is expected to increase in output and stocks.

Stockpiling efforts have pushed the Wheat/Corn Ratio to the highest in at least five-years, rolling second contract basis



Source: Bloomberg, Rabobank 2020



CBOT Corn's initial resistance to the Covid-19 sell-off was no match for the Saudi-Russian oil price war, which pushed oil and ethanol prices over a cliff. A declining US and South American supply outlook limits CBOT Corn losses until a fall demand recovery near USD 3.75/bu.

- Concerns about Covid-19, ethanol, and higher 2020/21 YOY plantings and ending stocks test CBOT Corn bulls' patience and limit traction above USD 3.75/bu.

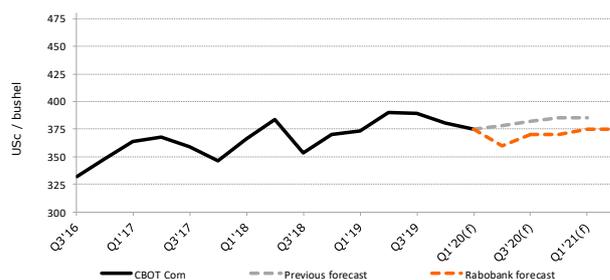
The US Corn market's heavy domestic focus of total demand (88%, vs. 55% in soy) provided CBOT Corn with initial resistance to Covid-19, even as it spread from China (5% of global imports) to the world. Ultimately though, OPEC's internecine price war forced CBOT Corn's capitulation to pre-ethanol seasonal lows near USc 3.40/bu, as collapsing oil prices eroded demand prospects for US ethanol. Even a Wheat/Corn ratio at six-year highs isn't enough to staunch the bleed.

Pronounced global uncertainty and demand weakness, particularly in ethanol and exports, is likely to quarantine CBOT bulls until the summer. However, Rabobank sees lurking supply risks that could quickly spark coverage to the upside. US farmer plantings, inclement weather in the US and South America, and Covid-19 disruptions all have the potential to upend origination and drive volatility higher. Rabobank expects prudent coverage from food companies and restrained farmer selling to provide a CBOT floor and sideways to higher trading until late summer/early fall. In 2020/21, restocking efforts may lift global demand by 2% YOY. However, CBOT gains will be elusive beyond USc 3.75/bu, as global ex. China stocks rise in 2020/21, on expanded US and South American acreage and production.

Ethanol makes up nearly 40% of US corn demand. In Brazil, corn used for ethanol is only 5% of local demand, but is rapidly gaining prominence (2019 production was to 1.4bn liters, up 212% yoy) as an alternative to sugar. Today, far fewer people are on the roads because of Covid-19; at the same time, the

CBOT Corn forecast lower, impacted by Covid-19 and OPEC

Unit	Q3'19	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
CBOT USc/bu	390	381	375	360	370	370	375	375



Source: Bloomberg, Rabobank 2020

output of Brent is exploding due to a price war between Russia and Saudi Arabia. Ethanol prices have been in freefall behind gas oil declines of 65% MOM. US ethanol producer margins are now negative, as stocks sit on a near-record 25m barrels. The devastating combination of high ethanol supplies and low prices in the US reduces our ethanol demand expectations in the US by 175m bu YOY, which, in combination with lagging US corn export sales (the USDA has cut its forecast six times this crop year, and the current sales pace is still 31% behind its target), will leave US corn ending stocks in 2019/20 down ~90m bu, or -4% YOY. In Brazil, market expectations of continued lofty corn ethanol and feed expansion have been scaled back, while a weak BRL keeps Brazilian farmers planting large safrinha acres late and through inclement weather.

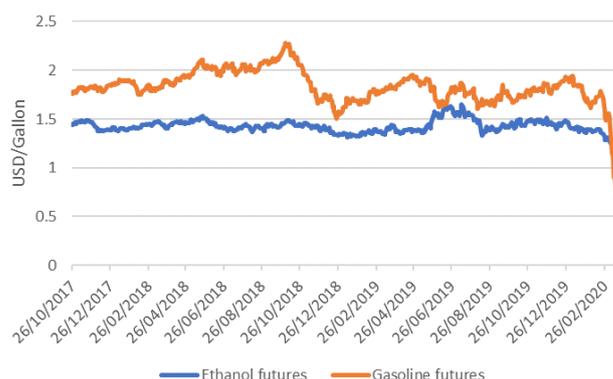
If global demand moves en masse to the US (China recently secured 750,000mt, on falling stocks, offsetting diminished expectations for DDGS and ethanol imports), CBOT Corn would see support. US corn and soy are languishing below some farmers' cost of production ahead of plantings. That, in addition to the wet conditions delaying early plantings, may limit US 2020/21 expansion to 93m ac (+3m YOY). Meanwhile, the supply outlook in South America has turned negative due to dryness in Argentina and soggy conditions in Southern Brazil that could deliver a combined 3% decline in production in 2019/20. Still, barring a further turn in the weather, world ex. China stocks will reinflate in 2020/21, limiting further price upside until virus-repressed demand returns.

US acreage of 93m ac in 2020/21 will balloon ending stocks

US Corn S&D (Mn Acres/Mn bu.)	USDA March		2020/21 yield scenarios		
	18/19	19/20(f)	low	base	high
Beginning Stocks	2,140	2,221	2,128	2,128	2,128
Area Planted	89.1	90.0	91.5	93.0	94.5
Area Harvested	81.3	81.5	84.2	85.6	86.9
Yield	176.4	168.0	177.5	177.5	177.5
Production	14,340	13,691	14,942	15,187	15,432
MY Imports	28.0	50.0	30	30	30
Total Supply	16,509	15,962	17,100	17,345	17,590
MY Exports	2,065	1,700		2,000	
Feed Consumption	5,432	5,550		5,700	
FSI Consumption	6,791	6,585		6,780	
Ethanol Usage	5,425	5,250		5,450	
Domestic Consumpt	12,223	12,135		12,480	
Total Usage	14,288	13,835	14,480	14,480	14,480
Ending Stocks	2,221	2,128	2,620	2,865	3,110
YOY stock change	80	-93	492	737	982
Stocks/Usage	16%	15%	18%	20%	21%

Source: USDA, Rabobank 2020

US ethanol futures collapse will hurt corn demand



Source: Bloomberg, Rabobank 2020

Soybeans



CBOT Soybeans capitulated to trade war depths last month, as Covid-19 advanced relentlessly from China to the world. Looking ahead, lurking supply risks will temper CBOT pessimism before a demand pickup from China pushes prices beyond USD 9.10/bu.

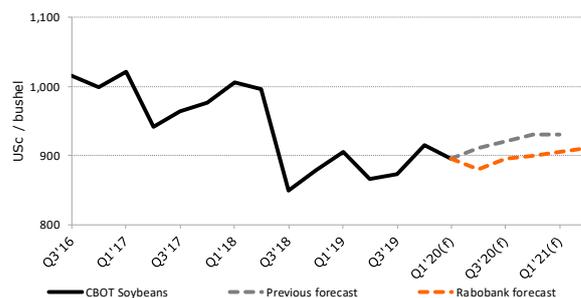
- South American soy harvest projections are declining; meanwhile, strong forward sales blunt weak currency.
- Covid-19 threatens soy logistics in Q1/Q2 2020 and has already led to some Chinese buying-out of US PNW.
- Demand-lowered CBOT price to limit US soy area recovery to 85m ac (+8.3m above 2018/19, -5m 2017/18).

“Things fall apart, the center cannot hold. Mere anarchy is loosed upon the world.” W.B. Yeats’ words perfectly encapsulate Covid-19’s expansion from its Chinese epicenter to the world last month, along with the threat of a second consecutive year of soy demand depression. CBOT Soybeans’ (-3% MOM) heavy exposure to China (typically >50% of global imports and US exports) meant it bears the double virus demand blow of African swine fever and Covid-19. Chinese imports are expected to be 86mmt in 2019/20, up 3mmt from ASF/trade war-hit 2018/19. As a result, global soy demand will not return to normal strength. Amid last month’s risk asset sell-off, CBOT Soy briefly traded to seven-month trade war depths of USD 8.20/bu before global supply chain risks and surprise Chinese buying of US beans helped it recover to USD 8.70/bu.

Rabobank sees the risk narrative shifting – amid near-term viral uncertainty – from disease-related demand pressures to logistics and supply risks (particularly in South America), which will spark US demand (for domestic crushing and exports) and CBOT price support. By late spring, US soy plantings of 85m ac will demand a decent weather premium and precede a strong global feed import program, led by China. 2020/21 ending stocks in the US (397m bu, down 1% YOY) should continue their decline from record levels, but will remain elevated and face FX-advantaged competition from South America, capping our price optimism above USD 9.10/bu.

CBOT Soy hit by coronavirus demand weakness, but should see a pick-up following low US plantings of 85m ac

Unit	Q3'19	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
Soybeans USc/bu	873	915	895	880	895	900	905	910



Source: Bloomberg, Rabobank 2020

Still, Rabobank sees upside for CBOT prices amid South American supply fears from Covid-19 and the weather. The risks are most salient in Argentina, which has seen production estimates dropped 51.5mmt by the Rosario Grain Exchange (-3.5mmt MOM and 3.8mmt YOY) on recent dryness. Rosario, the leading outlet for soy meal and soy oil, is seeing localized government measures interrupting the seamless flow of soybeans into crush plants and ports. Further potential disruptions come on the back of higher Argentine taxes that helped lift the US export sales program for soy oil and soy meal to the top of the five-year range. In Brazil, there are also concerns about port disruptions, while dryness in Rio Grande do Sul and Bahia has curtailed harvest prospects to 124mmt.

There is good evidence that Covid-19 and South American supply risks are driving divergence in origin and destination prices, with the US the main beneficiary of any disruptions. Already, China’s low port stocks and South American supply risks have driven Dalian soy meal prices to 14-month highs and driven opportunistic crusher purchases of US PNW soybeans. Rabobank sees tariff-exempted Chinese crushers taking advantage of positive crush margins to inquire, and buy, US products from the PNW. China has already imported 12mmt of US soybeans, (+220% YOY) and could take another 10mmt – from private or government procurement – in the 2019/20 crop year. Meanwhile, high US crush margins will continue to drive record domestic demand for soybeans.

World soy trade is expected to stagnate for a second crop year on covid-19, ASF before recovering in 2020/21



Source: USDA, Rabobank 2020

US soy acreage recovery lowered to 85m ac total, due to low prices and relative attractiveness of corn for farmers

US Soy S&D (Mn Acres/Mn bu.)	USDA March		2020/21 yield scenarios		
	18/19	19/20(f)	low	base	high
Beginning Stocks	438	909	425	425	425
Area Planted	89.2	76.7	83.5	85.0	86.5
Area Harvested	87.6	75.0	82.7	84.2	85.6
Yield	50.6	47.4	50.0	50.0	50.0
Production	4,428	3,558	4,133	4,208	4,282
MY Imports	14.1	15.0	24	24	24
Total Supply	4,880	4,482	4,582	4,657	4,731
MY Exports	1,748	1,825		1,970	
Crush	2,092	2,105		2,160	
Seed/Residual	132	128		130	
Domestic Consumption	2,224	2,233		2,290	
Total Usage	3,971	4,058	4,260	4,260	4,260
Ending Stocks	909	425	322	397	471
YOY stock change	471	-485	-103	-29	46
Stocks/Usage	23%	10%	8%	9%	11%

Source: USDA, Rabobank 2020

Soymeal and Soy Oil



Divergent, event-driven fortunes of CBOT Soymeal (bull) and Soy Oil (bear) to unwind in the medium term.

- Falling soybean output expectations, supply drawdowns in importing countries, and Argentine logistics risk may drive near-term coverage; however, supplies are not tight.
- Biodiesel is a minor (albeit growing) part of overall soy oil demand, and fundamentals remain strong.

CBOT Soymeal and CBOT Soy Oil's fortunes diverged

sharply last month. The former (+15% MOM) was bid to one-year highs on supply concerns, while the latter (-10% MOM) briefly fell to 16-year lows on the eroding retail food and energy demand outlook. The soy oil share has fallen from two-and-a-half-year highs to two-year lows. Spectacular speculative moves are exacerbating the widening meal-oil spread: funds covered a record net short of 77k lots in CBOT Soymeal in three short weeks and sold CBOT Soy Oil for nine consecutive weeks, to move from a record net long of 92k lots to a large net short of -13k lots.

Soy by-product prices are threatened by high volatility in the short term, lurching between demand depression and global supply risks. By late summer, however, Covid-19's disruption to global trade should hopefully abate, and the world will emerge from isolation, hungry and ready for restocking. Rabobank sees particular upside for CBOT Soy Oil, which has chased Brent lower, despite only 19% of its demand steered toward biodiesel (of which a major portion is government-mandated policy). However, CBOT Soymeal price risks also appear to be skewed to the upside – not least as upended logistics cause the price discrepancy between origin and importer to sharply widen. Chinese port soy stocks are currently at seven-year lows, after a virus-slowed restart after Chinese New Year. Port strike disruptions in Brazil have already driven Chinese soy purchases of the US PNW to ensure

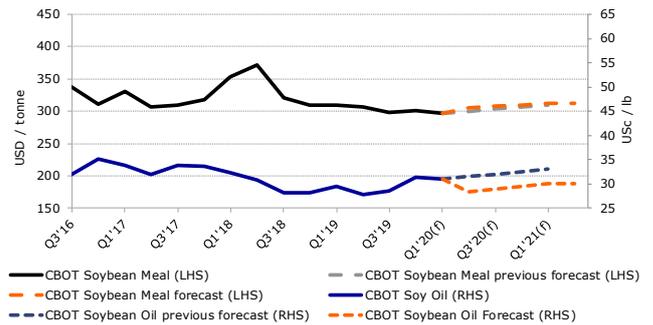
US crushers should continue record volumes over the last quarter, given strong crush margins



Source: NOPA, Bloomberg, Rabobank 2020

Supply-side fears will keep CBOT Soymeal and Soy Oil elevated short-term, with demand rebound due in 2H

	Unit	Q3'19	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
Soymeal	USD/mt	297	301	302	305	308	310	312	312
Soy Oil	US\$/lb	28.5	31.3	30.0	28.3	29.0	29.5	30.0	30.0

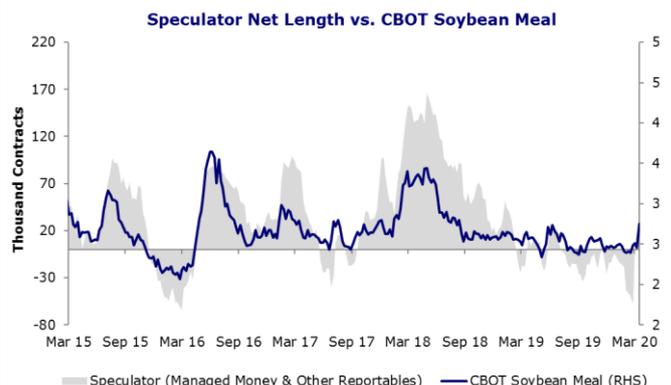


Source: Bloomberg, Rabobank 2020

supplies. Last week, the port of Timbues in Rosario, Argentina (which forms part of the largest global export hub for soy meal and soy oil) was ordered (apparently unsuccessfully) to shut due to Covid-19. The potential for disruptions in Argentina is salient, and it would boost demand and prices in Brazil and the US, which have strong government support, automation and alternative ports for export.

Global supply-side risks extend beyond Covid-19, and they have already helped US export sales of soy meal and soy oil reach five-year highs. In Brazil, increased biodiesel mandates have cut exportable supplies of soy oil by 50% in two years. In Argentina, a tax increase on soy by-products pressures output. Low CBOT Soybean prices could restrain US farmer plantings below 85m ac (the second-lowest since 2016/17). Brazil and Argentina's fx-fueled, rapid pace of soybean sales and recent dry weather in the south are limiting production and blunting the impact of weak currencies there. Myriad supply risks support our expectations for CBOT Soy Oil and Soy meal prices to converge by the fall, with the former moving to US\$/lb and the latter to be restrained below USD 315/mt by 2021.

CBOT Soy meal fund coverage has seen a record pace, on food security concerns and higher Argentine taxation



Source: CFTC, Rabobank 2020

Palm Oil



Palm oil prices continue to be influenced by impacts of the coronavirus outbreak.

- Low crude oil price environment could provide a hurdle to Indonesian B30 mandate implementation.
- The narrowing spread between soy oil and palm oil prices to limit the increase in palm oil prices.
- Indonesian and Malaysian palm oil exports to show quarterly improvement in Q2 2020.

Palm oil prices will continue to be influenced by impacts of the coronavirus outbreak. Any interruption to palm oil plantation operations in Indonesia and Malaysia due to the outbreak will result in reduced palm oil production in these two countries and will provide support to palm oil prices. The state of Sabah, which accounted for 25.3% of 2019 Malaysian palm oil production, decided to stop plantation operations in Tawau, Lahad Datu, and Kinabatangan from March 25 to 31 due to the outbreak. We think that this stoppage won't affect Malaysian March 2020 palm oil production substantially, due to the short duration. A longer interruption, however, will have a bigger negative impact on palm oil production in Indonesia and Malaysia.

A low crude oil price environment could be a hurdle to Indonesian B30 mandate implementation. The spread between MDE-Bursa Palm Oil and ICE Gas Oil #1 contract prices (POGO) was above USD 200/mt in mid-March 2020. This will result in a larger amount of incentives needed to support the implementation of the B30 mandate. In addition, volumes of palm oil for discretionary biodiesel blending will be greatly reduced, as it is not economically viable to have discretionary blending at the current POGO spread level.

The narrowing spread between soy oil and palm oil prices will limit the increase in palm oil prices. The spread between CBOT Soy Oil active contract prices and MDE-Bursa Palm Oil

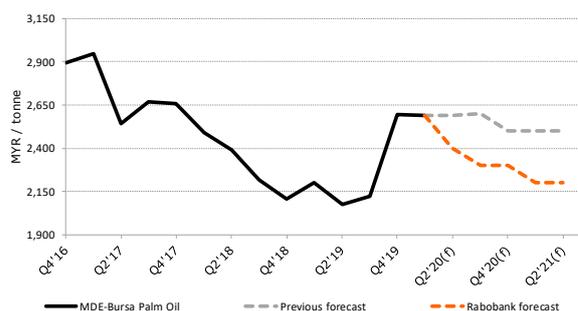
Current palm oil/gas oil spread reduces palm oil attractiveness for discretionary biodiesel blending



Source: Bloomberg, Rabobank 2020

We are lowering our 2020 palm oil price forecast

Unit	Q3'19	Q4'19	Q1'20	Q2'20(f)	Q3'20(f)	Q4'20(f)	Q1'21(f)	Q2'21(f)
Palm Oil MYR/ton	2,200	2,587	2,592	2,400	2,300	2,300	2,200	2,200

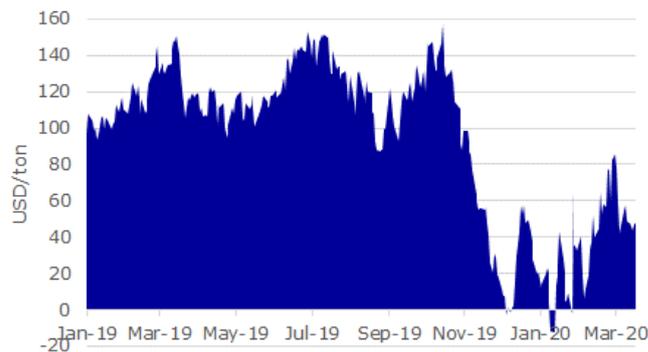


Source: Bloomberg, Rabobank 2020

active contract prices remains narrow in March. The spread was around USD 47/mt in mid-March, which reduces palm oil attractiveness, compared to soy oil.

Indonesian and Malaysian palm oil exports will improve QOQ in Q2 2020. Malaysian palm oil exports remained weak in February. According to MPOB, Malaysian palm oil exports for the month decreased by 11% MOM, to 1.1mmt. Meanwhile, according to ITS, Indonesian February 2020 palm oil exports (incl. auric oils) also decreased by 27% MOM, to 1.4mmt. One reason for the decreases is continued weak Indian palm oil import demand. Despite low edible oil inventory levels, according to SEA India, Indian palm oil imports decreased by 9% MOM in February, to 540,470mt, while India's soft oil imports only decreased by 2.3% MOM to 549,191mt. We expect palm oil exports from Indonesia and Malaysia to remain muted in March 2020, before increasing month-on-month in April, a result of Ramadan demand, which will begin on April 23. The Muslim festival typically sees higher demand for palm oil used in cooking, leading up to Eid al-Fitr. However, at the same time, palm oil production in Indonesia and Malaysia is also expected to improve seasonally in Q2 2020.

The narrowing spread between soy oil and palm oil prices reduces palm oil attractiveness, as compared to soy oil



Source: Bloomberg, Rabobank 2020



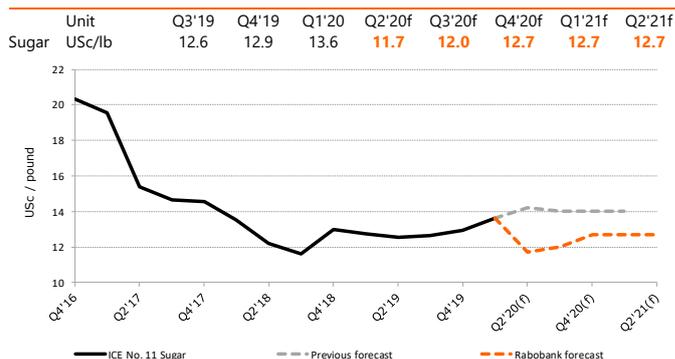
ICE #11 Sugar forecast lowered, following cheaper energy.

- The continued sharp decline in Brent took sugar down to below USc 11/lb, not seen since 2007, before a limited recovery.
- Covid-19 will impact demand in complex ways.

ICE #11 Sugar prices fell during most of March – from USc 15/lb to a low of USc 10.5/lb – before settling at around USc 11.5/lb at the time of writing. Brent Crude collapsed -50% MOM to finish below USD 30/bbl as OPEC+ members instigated an oil price war, delivering a blow to energy prices as output increased at a time when demand is weak. As Brazil begins its Covid-19 lockdown, what was anticipated to be a tight ethanol market is likely to become one of oversupply. Compounding the effects of weak energy demand is the historically weak BRL, which is at BRL 5.1/USD at the time of writing. Despite the large price decline, sugar remains at a premium to the ethanol parity, and we expect the sugar mix out of Brazil to favor sugar through 2020. However, we need to point out that the rout in energy prices was, to a great extent, a political decision – and therefore subject to volatility.

At last month's prices, more sugar was expected to flow out of India. However, after the price decline, there will probably not be much more than the 3.5mmt already contracted. As the coronavirus spreads and India goes into lockdown for 21 days, India may struggle to fulfil its export commitments in the coming weeks: Indian ports are not heavily mechanized and rely on migrant workers. The lockdown means ports may suffer delays and potentially come to a standstill. This could add further delays to the already delayed crop.

ICE #11 Sugar price forecast lowered

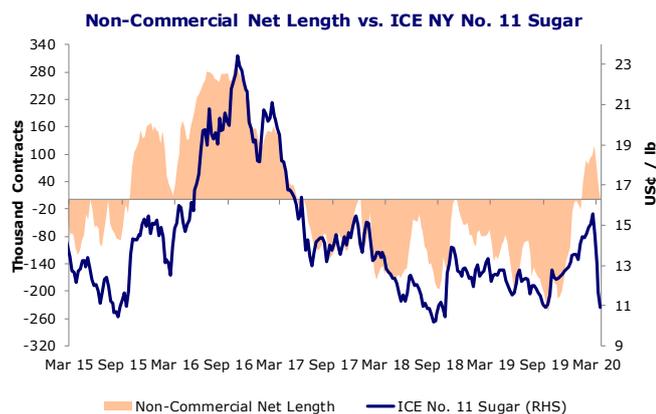


Source: Bloomberg, Rabobank 2020

Non-Commercials flipped positions this month, in light of the changing supply-and-demand picture. After holding a net long position of 117,812 lots, at the end of February, they sold every week in March, shedding -123,331 net lots this month, taking their net position from a long to a net short of -5,519 lots. The switch reflects the potentially more balanced global supply-and-demand picture, as Brazil has the capacity to meet global demand despite the loss of the Thai crop – which is not expected to improve significantly next year.

Sugar consumption during lockdown should remain relatively stable, but stocks will be in high demand. Most of the decline in restaurant consumption should translate to home consumption, meaning little change in global sugar demand. However, we are seeing a retail boom due to stockpiling. Biscuits – and sometimes also candies – have been piling up at the tills. And stockpiling is expected to continue. While southern Europe and places like London seem to be over the peak of the stockpiling frenzy, panic-buying has not started in much of Africa, Asia, Latin America and parts of the US. Also, companies stockpile in advance in order to protect themselves against possible supply chain disruptions. This should push the curve into deeper backwardation, and this underpins our price forecasts through 2020.

Non-Commercial switched to a net short of -5,519 lots in ICE No #11 Sugar following the steep price decline



Source: CFTC, Bloomberg, Rabobank 2020

As of March 17.

BRL denominated Sugar prices show much smaller decline due to depreciation in the BRL to 5.1/USD



Source: Bloomberg, Rabobank 2020



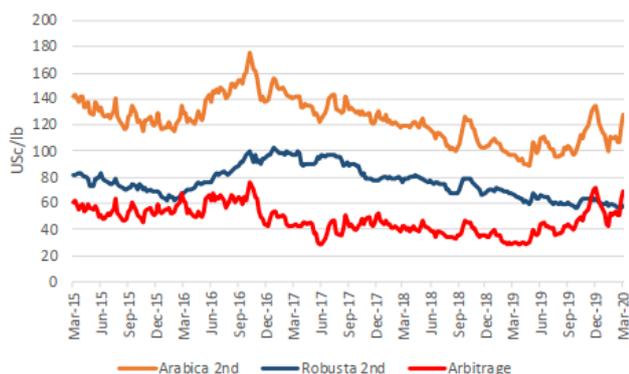
Arabica is now facing two factors not seen before: stockpiling and social distancing.

- Stockpiling is very bullish through 1H 2020, whereas social distancing is expected to significantly reduce out-of-home consumption.
- The effect of the coronavirus on demand is deeper and more complex than anticipated.
- Supply-side disruptions are a major concern.

Arabica was well-supported during the meltdown in other commodity markets. Anyone in the coronavirus-affected areas who ventures for a walk to the supermarket will notice a few essential aisles are particularly empty: toilet paper, pasta, and coffee. Here one can almost hear a rolling tumbleweed. The consumer pipeline is expected to extend to levels not seen before, as coffee remains one of the few luxuries citizens can still enjoy. However, companies are also scrambling to get hold of coffee stocks to guarantee operations. A potential strike in Santos provided a lot of fuel to the market, with that extra incentive for roasters and traders to get hold of as many available stocks as possible. This should flatten the curve.

Underlying consumption may not grow, despite increased disappearance. Any demand estimate will have a large margin of error at the moment. In principle, we expect a sharp decline in out-of-home consumption. Most coffee shops in China have now reopened, but foot traffic is significantly lower. The same pattern can be expected almost everywhere. In mature coffee markets, consumers will have the ability to replace out-of-home with at-home consumption. On the one hand, not all cups that would have been consumed out-of-home will be consumed at home. On the other hand, the extraction method at home is usually less efficient. The net effect is anyone's guess. In the short term, demand may look better than expected in the coming two months, due to an increase in working and kitchen stocks. But given the expected drop in GDP and growing unemployment, we would tend to believe

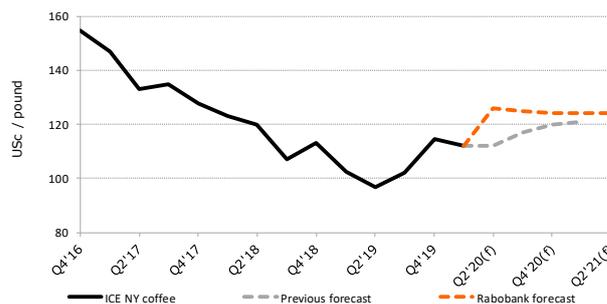
Robustas have not reacted yet, but stockpiling will likely push them upwards



Source: Bloomberg, Rabobank 2020

ICE Arabica forecast increased, especially at the front

unit	Q3'19	Q4'19	Q1'20	Q2'20f	Q3'20f	Q4'20f	Q1'21f	Q2'21f
ICE Arabica US\$/lb	102	114	112	126	125	124	124	124
ICE Robusta USD/mt	1,354	1,349	1,302	1,400	1,430	1,430	1,440	1,440



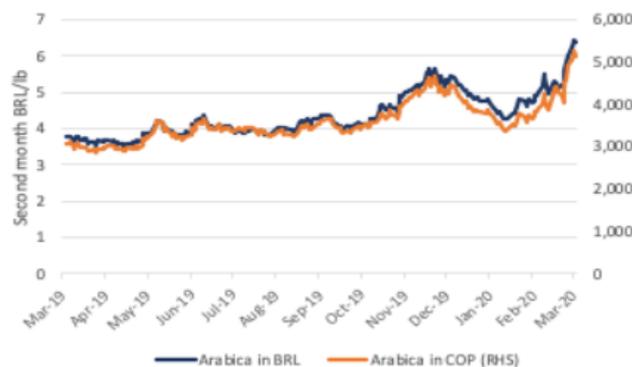
Source: Bloomberg, Rabobank 2020

that the underlying rate of growth in demand will probably be low to slightly negative, in terms of what was seen in 2009. However, we should emphasize that overall coffee demand is pretty recession-proof.

We are not significantly increasing our long-term arabica price outlook. Even though the washed arabica situation is quite tight, potentially lower demand and very weak currencies like the Brazilian real and the Colombian peso paint a bleaker picture. Furthermore, everything seems to indicate that the next Brazil harvest will be of very good quality, weather allowing.

Robusta may become the unlikely winner. At-home consumption has a higher proportion of robusta, and in case there is a supply chain disruption – such as a potential strike or congestion in the port of Santos – consumers and processors will pick up whatever is at hand, e.g. robustas. Last weekend, even the EU saw lines of up to 40km to cross various borders. We see much more upside potential for robustas, especially considering that we expect a drop in production in Brazil in the current 2020/21 robusta harvest – and there is still a lot of time until Vietnam's next harvest, usually from November. However, the key driver here may be that stockpiling has not yet become a national sport in most developing countries. But almost inevitably it will be – and developing countries are heavy robusta consumers.

Arabica prices are at superb levels in Brazilian reals or Colombian pesos.



Source: Bloomberg, Rabobank 2020



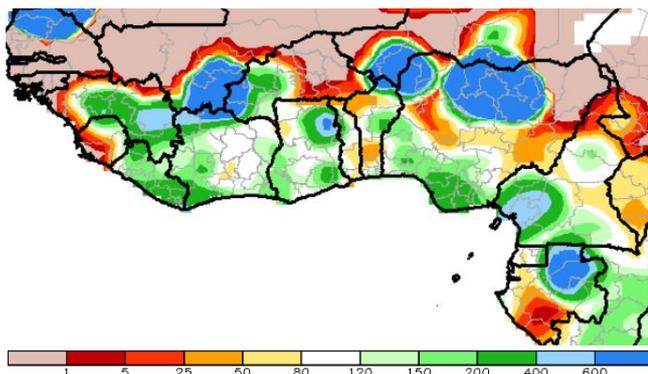
NY Cocoa forecast lowered due to Covid-19 fallout.

- Prices are forecast lower, as processors limit forward purchasing and consumer demand dims.
- Weather and production outlook are favorable in West Africa, with any surplus stock likely to be carried over to next season.
- US cocoa inventory is increasing rapidly and is now only -6% below last year.

After cocoa prices reached three-year highs in February

(USD 2,900/mt), they subsequently fell back toward the lower end of their trading range (USD 2,230/mt), after failing to break out, led down by the impacts of Covid-19 and the steep fall-off in Brent Crude. With an increasing number of countries under lockdown, including some of the largest cocoa processors (Europe and Malaysia), we expect forward purchases to be limited for the end of 2019/20, as retailers and end users reduce purchases during store closures and prefer to maintain liquidity. A global recession or financial crisis typically reduces global cocoa demand: In 2008/09, demand fell -6.3% YOY, and given the current crisis, we also expect demand to fall for the remainder of 2019/20. As such, Rabobank has reduced its 2019/20 and 2020/21 demand estimates. After predicting a +1.9% YOY increase in global demand in 2019/20, we now expect a decrease of -0.3% YOY, with a small surplus of 48,000mt. 2019/20 global production is marginally reduced, as we expect a small quantity of beans in Ghana (10,000mt) and Côte d'Ivoire (20,000mt) to be carried over into the 2020/21 season and qualify for higher prices under the LID. 2020/21 should show a modest recovery in demand (+2.6% YOY), but is also revised down from our previous estimate. With the prospect of higher prices in Ghana and Côte d'Ivoire under the LID in 2020/21, we expect an increase in production, resulting in a global surplus of 57,000mt. We have adjusted our price forecast lower, given the expectation of a return to surplus in the market.

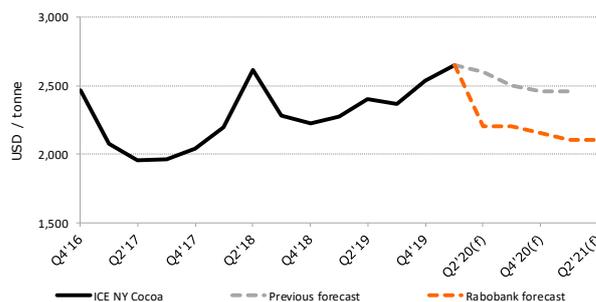
Rainfall for the last 30 days has been mostly above or in line with the historical average for West African cocoa regions



Source: NOAA, Rabobank 2020 % normal rainfall, 24 Feb. – 24 March 2020

ICE Cocoa forecast lowered on Covid-19/recession impact

unit	Q3'19	Q4'19	Q1'20	Q2'20(f)	Q3'20(f)	Q4'20(f)	Q1'21(f)	Q2'21(f)
ICE NY USD/t	2,365	2,533	2,648	2,200	2,200	2,150	2,100	2,100
ICE London GBP/t	1,808	1,852	1,932	1,800	1,780	1,650	1,630	1,630



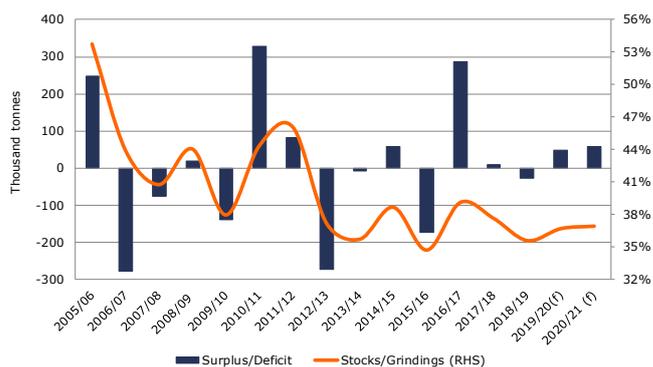
Source: Bloomberg, Rabobank 2020

Arrivals in Côte d'Ivoire continue to be ahead of last year

at a marginally increasing rate from our last report, with Ghanaian purchases in line with last year. Weather also appears to be good for West Africa, with rainfall continuing to be in the forecast at normal levels, having reduced the dryness seen in Ghana in February. Reports from other origins also affirm a good flow of beans, despite both producing and consuming countries taking strict measures to curb the spread of the coronavirus. For the time being, the effect on cocoa exports is limited; however, the situation should be closely monitored, as a severe outbreak in either Ghana or Côte d'Ivoire could cause short-term supply tightness and increase price volatility.

US cocoa inventory has increased rapidly in the last two months and is now only -6% below last year. With the good pace of arrivals in Côte d'Ivoire, we expect this increase to continue, but the pace may slow due to the impact of the coronavirus on international and national logistics, and efforts by processors to get hold of easily available supplies. European certified stocks have declined slightly this month, but remain relatively stable, with a steady flow of beans from Cameroon. The expiry of the March contract saw a great deal of volatility that spilled over into the May contract. Traders didn't want to take delivery of the deluge of Cameroonian beans that came to market, making up more than 80% of the 6,130mt delivered.

Global Surplus/Deficit seen returning to surplus in 2019/20 and 2020/21 due to Covid-19 reduced demand outlook.



Source: ICCO, Rabobank 2020



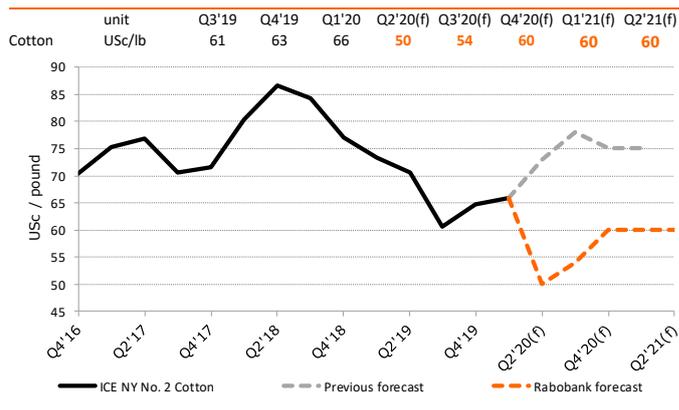
Covid-19 knocks ICE #2 Cotton prices to decade-lows, with additional nearby pressure forecast.

- The ICE #2 May 2020 contract trades at USc 51.9/lb – the lowest nearby price since April 2009.
- Rabobank forecasts a -3% YOY decline in global consumption through 2019/20, as the virus response cuts textile demand in several major regions.
- 2020/21 US acres forecast to fall over 10% YOY, as prices sit at, or below, cost-of-production for growers.

The outbreak of Covid-19 set the ICE #2 Cotton into a 24% MOM fall, with the May 2020 contract trading at USc 51.9/lb – the lowest nearby price since April 2009. As the virus takes a foothold across the globe, often forcing government-enforced lockdowns, market focus naturally turns to 2020 demand. Looking back to the global financial crisis (GFC), world cotton demand fell 11% YOY, as ICE #11 prices tumbled toward USc 40/lb. Rabobank cautions that the Covid-19 impact could be both greater in reach and economic impact, with retail & clothing outlets placed on lockdown. There is still significant uncertainty with regard to the future, but the longevity of the outbreak will heavily determine the impact. As and when a recovery emerges, Rabobank expects a strong, sharp return to cotton demand as pipelines are refilled. However, this will not be enough to offset lost sales in Q2 (and potentially Q3) 2020. The bearish sentiment has been reflected among speculators, with Non-Commercials shifting to a -12,096 lot net short position (as of March 10) for the first time in 2020.

Rabobank forecasts a -3% YOY decline in global consumption through 2019/20, but notes that this is a conservative estimate, and a deeper decline could be warranted in the future. This is primarily driven at the consumer end, with lower apparel & clothing sales, assuming a 0.7% rate of global GDP growth in 2020 (down from 2.9% in 2019). With lower end sales, spinning

ICE #2 Cotton forecast lowered sharply

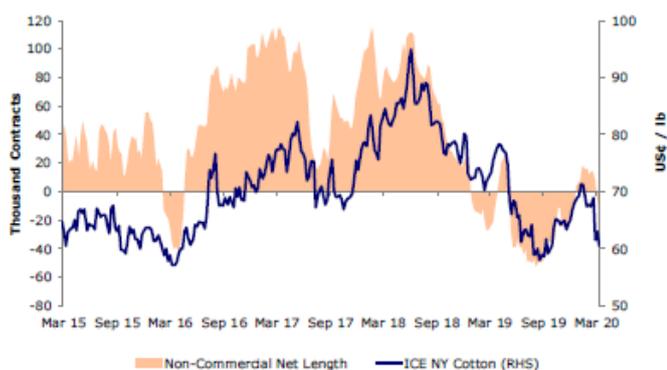


Source: Bloomberg, Rabobank 2020

mills and factories will, in turn, reduce cotton shipments and sales – a factor expected to become visible in global export sales very soon. Furthermore, supply chains remain vulnerable to trade disruptions and factory shutdowns – particularly in Southeast Asia. Following this global demand cut, Rabobank expects a 3.8m bale YOY rise in 2019/20 world stocks – the sharpest rise since 2014/15 – and for the nearby ICE #2 to trade in the USc 50/lb range. Prices are forecast at USc 50/lb in Q2 2020, recovering to USc 60/lb by Q4 2020, lower than our February estimates.

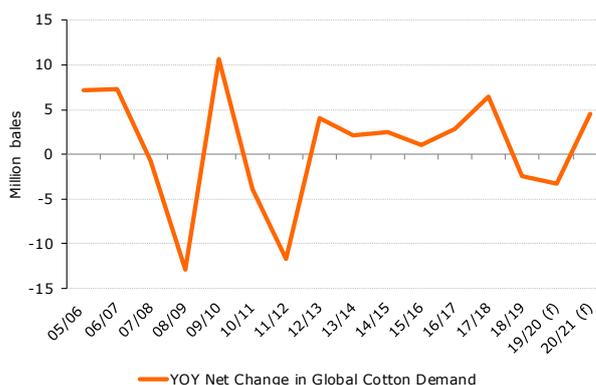
Prices now sit at below cost-of-production for many US growers, ahead of 2020 spring plantings. Rabobank anticipates 2020/21 US acres to fall over 10% YOY, cutting production to below 18m bales – the lowest since 2016/17. Rabobank forecasts 16m bales of new-season US exports, as stocks erode to 4.2m bales. Lower US area partially offsets a net rise in 2020/21 global production, as Australia takes advantage of early 2020 rainfall, and both India and Brazil take advantage of their respective currency weakness (vs. the USD, down 6% and 26% YTD, respectively) by maintaining output next season. Broader market sentiment across the FX, commodity, and even equity markets is anticipated to be volatile in coming weeks, which should drive additional price swings through cotton.

Non-Commercials shift their net position to a -12,096 lot net short (March 10), amid global demand concerns for 2020



Source: CFTC, Bloomberg, Rabobank 2020

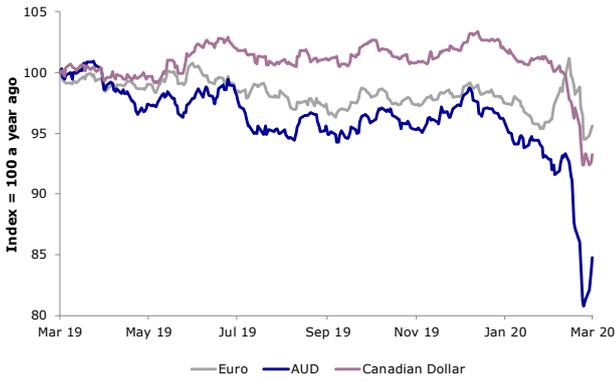
Global cotton demand contracts -3% YOY in 2019/20, as Covid-19 limits retail sales of clothing and apparel



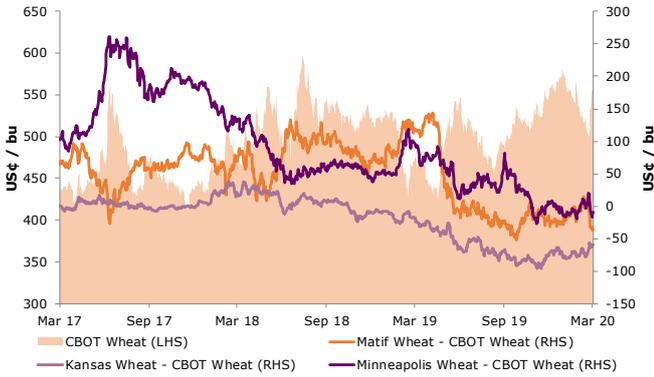
Source: USDA, Rabobank 2020

Agri Charts

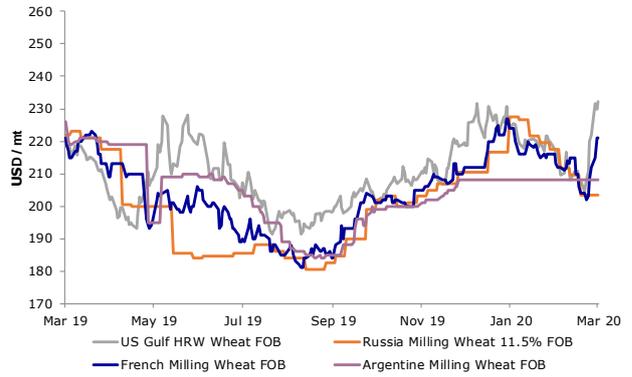
Global Currencies USD Cross



CBOT Wheat Spreads



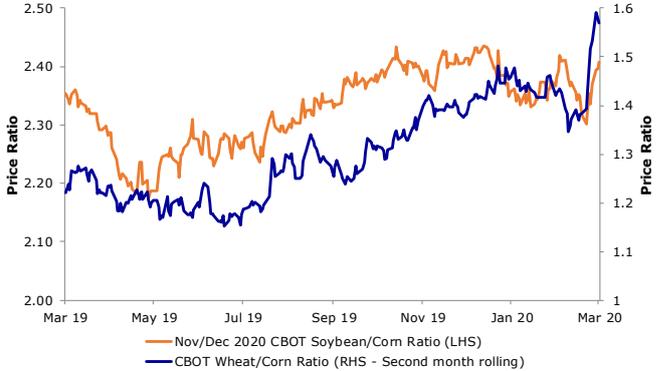
Wheat Protein FOB Prices



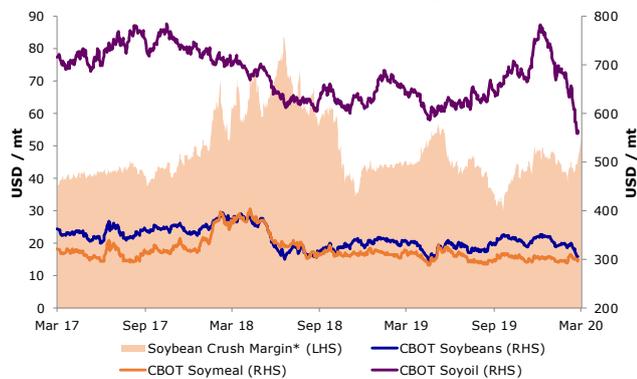
Corn FOB Prices



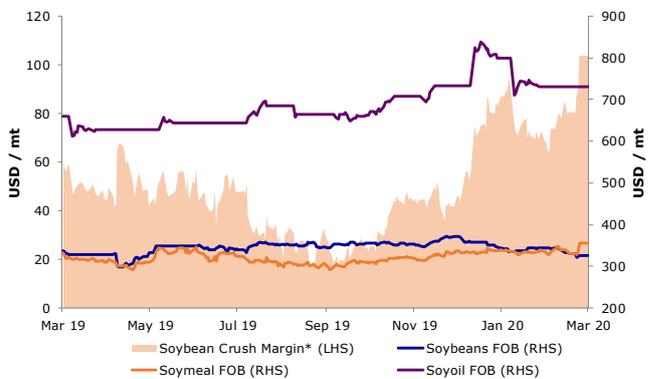
CBOT Ratios



CBOT Soybean Crush Margin



Argentina FOB Soybean Crush Margin



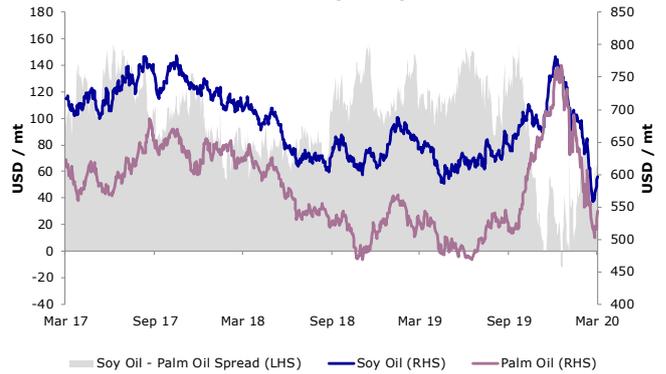
Source: Bloomberg, Rabobank 2020 *Calculated on a gross basis

Agri Charts

Soybean FOB Prices



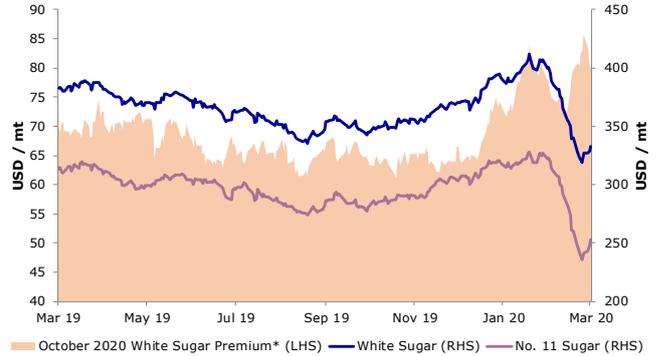
Palm Oil - Soy Oil Spread



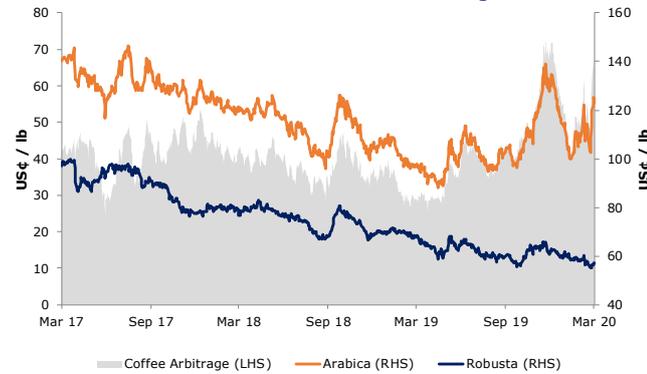
Chinese Futures Premiums



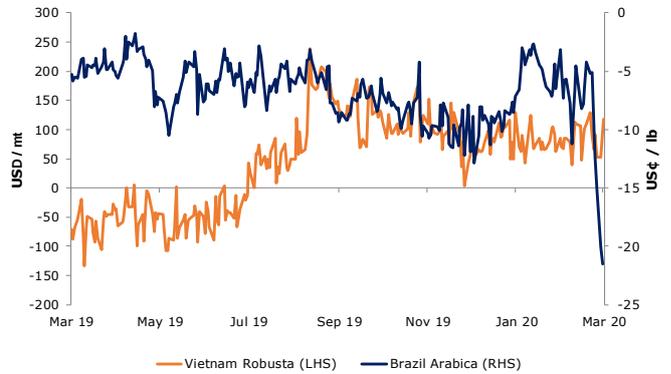
White Sugar Premium



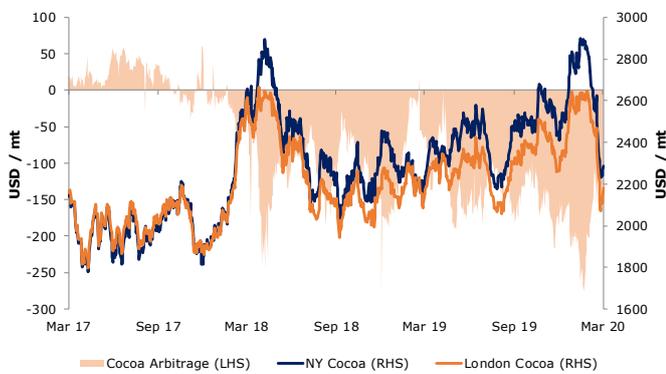
Arabica - Robusta Coffee Arbitrage



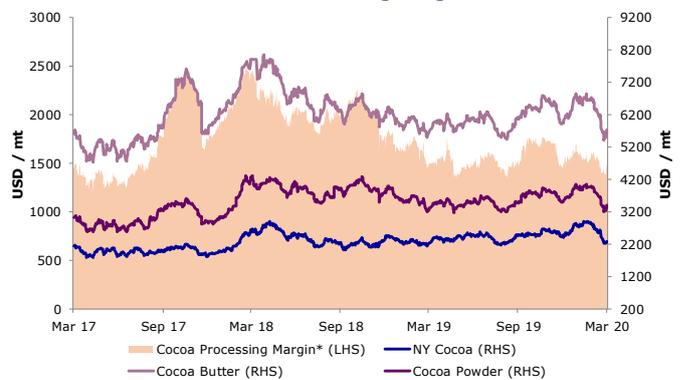
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



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

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

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