Agri Commodity Markets Research

October 2019: Trade Truce, but No Trust

RaboResearch
Food & Agribusiness

far.rabobank.com

Stefan Vogel
Head of ACMR
+44 20 7664 9523

Carlos Mera
Senior Commodity Analyst
+44 20 7664 9512

Michael Magdovitz
Commodity Analyst
+44 20 7664 9669

Andrew Rawlings
Associate Commodity Analyst
+44 20 7664 9756

CBOT G&O tailwinds strengthened last month, following a surprise US corn & soybean stock drawdown, declining US summer crop prospects, and – finally – the announcement of a vague 'trade deal phase 1' between the US and China. The 'deal' appears to be a renewed truce in US tariffs, in exchange for a Chinese agricultural procurement arrangement. Similar past efforts have ended in tariff/trade war escalation. We therefore are moderately apprehensive of the declared breakthrough. Meanwhile, the southern hemisphere has seen some better rainfall over the past month, in particular in Brazil, reducing the dryness threat there, along with the weather risk premium, which – combined with a weak Brazilian real – is pressuring softs, especially coffee.

WHEAT

CBOT Wheat forecast raised on the back of weather and trade deal optimism

- Weather continues to be the focus of the market, snow in the US and Canada, and dryness in southern Europe, the Black Sea, Argentina, and Australia.
- Canadian and US spring wheat harvest is heavily delayed and under pressure from cold weather.

SUGAR

ICE #11 Sugar to remain well-supported

- We continue to be slightly bullish, especially given excessive rainfall in India.
- March 2021 is showing a premium over October 2020. We expect a lot of volatility in this spread.

CORN

CBOT Corn weather premium has rightly reinflated, but we expect an uphill battle

- Low USDA stocks print and slow harvest are encouraging short coverage.
- Export demand losses for a second consecutive year, as a strong US dollar cut export competitiveness.

COFFEE

ICE Arabica waiting for signals from Central America

- Widespread flowering in Brazilian arabica areas should limit upside.
- Lack of quality coffee from Brazil's last harvest will make Central America even more important.

SOYBEANS

CBOT Soybeans strengthened on production cuts and a promising, but fragile, demand

- Large US production/stock cuts in 2019/20.
- Chinese soy imports from the US are accelerating.
- Improving Brazilian weather could limit price upside.

SOYMEAL & OIL

CBOT Soymeal and Soy Oil Soy supported by improving soy complex fundamentals

- CBOT Soymeal and Soy Oil rise with Soybeans, amid accelerating US soybean production cuts.
- US crush margins remain severely depressed

PALM OIL

We expect palm oil inventories in Indonesia and Malaysia to be higher quarter-on-quarter in Q4 2019

- Indonesian palm oil production is on track to reach 44mmt in 2019.
- Malaysian palm oil inventories start to rebuild again due to weakening export activities.
- We expect palm oil price sideways in Q4 2019.

COTTON

ICE #2 Cotton to trade upwards slowly, with renewed optimism over Chinese demand

- US-China October trade talks yielded an agreement for higher agricultural purchases, including cotton.
- Global 2019/20 demand growth softened: 1-2% YOY.
- Rabobank sees Chinese imports surging 14% YOY.

Wheat

CBOT Wheat forecast raised on the back of weather and trade deal optimism but remain below current prices

- Weather continues to be the focus of the market, with cold in the northern US and Canada, and dryness in southern Europe, the Black Sea, Argentina, and Australia.
- Canadian and US spring wheat harvest is heavily delayed and under pressure from cold weather and snowfall.
- Dry weather in Europe has delayed 2019/20 plantings, but the pace should now pick up.

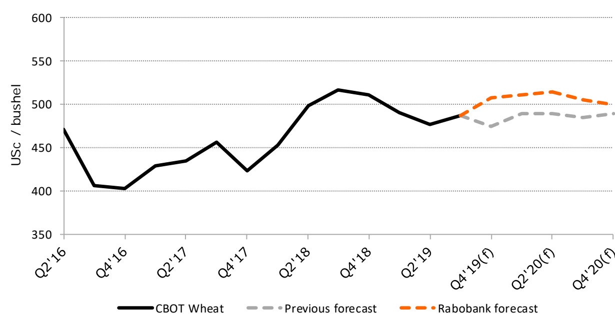
Weather continues to draw the focus of the market, with dryness in southern Europe, the Black Sea Region, Australia, and parts of Argentina, and blizzards and heavy snowfall across the northern US and Canada. The US spring wheat harvest is delayed, with only 94% harvested as of October 14, vs. 100% normally. Winter wheat plantings, however, are progressing rapidly, at 65%, vs. the five-year average of 63%.

The Canadian wheat harvest is heavily delayed and under pressure from cold weather and snowfall, with Alberta reporting the spring wheat harvest 48% complete as of October 11, compared with the five-year harvest average of 68%. Saskatchewan is 52% complete, compared to 82%. The USDA revised Canadian wheat production down 1%, to 33mmt, this month, and we may see a further decrease if prolonged bad weather continues to affect it. Australian production was also revised down 5%, to 18mmt, due to a persistent drought that is likely to worsen as we move into the southern hemisphere spring, mainly due to the strongest positive Indian Ocean Dipole since at least 2001, at +2.15 as of October 13.

Dry weather in Europe has delayed 2019/20 plantings, but the pace should now pick up. The rainfall deficit has been reduced in the last few weeks, with more rains in the forecast for most of Europe in the one-week outlook and widespread rainfall in the second week, with higher-than-normal

CBOT Wheat outlook raised of trade optimism and weather

	unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
CBOT	USc/bu	491	477	488	508	511	515	505	500
Matif	EUR/mt	197	182	171	175	179	180	175	179

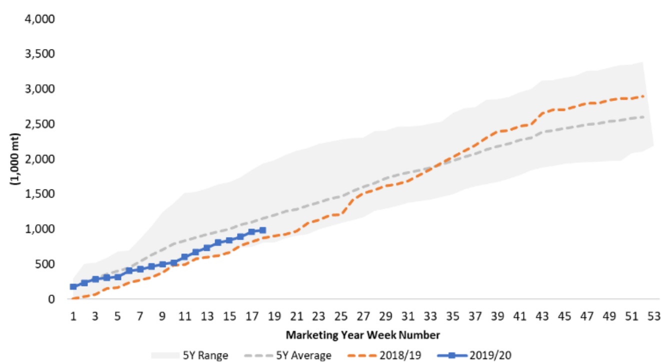


Source: Bloomberg, Rabobank 2019

temperatures in Europe. This should give farmers every chance to get in the fields. The USDA raised EU production by 1mmt, to 152mmt, and EU ending stocks by 3%, to 12mmt. EU wheat is likely to remain competitive for the next few months, despite less aggressive pricing. Exports for the season from July to October were at 7.8mmt, up 46% YOY.

The Kansas Wheat discount to CBOT increased, nearing September records, as the USDA revised 2019/20 US hard red winter wheat ending stocks up 29m bu, to 491m bu, and soft red winter wheat ending stocks down by 3m bu, to 308m bu. This is in part because of a lower US export estimate, down by 25m bu, as the US faces fierce competition from Europe. That increased the Kansas discount to CBOT, now at around -USc 88/bu. At this level, it may be cheaper to deliver Kansas wheat against the Chicago contract in some instances. We maintain our view that we should see the Kansas/Chicago spread coming back down toward -USc 60/bu. US HRW wheat export sales are 4% above the five-year average, while SRW wheat export sales are 15% below their five-year average. Furthermore, we believe the US will face lower-than-expected competition from southern hemisphere crops later in the season, and that may support Kansas more than CBOT.

US SRW wheat sales, although up from last year, trail the five-year average, while other wheat types excel above it



Source: USDA, Rabobank 2019

The Indian Ocean Dipole is the highest on record (since 2001) and may lead the drought in Australia to worsen

Source: ABOM, Rabobank 2019

Corn

The CBOT Corn weather premium has rightly reinflated, but we continue to expect an uphill battle above USD 4.00/bu, given the collapse in US export demand

- In the US, a surprisingly low USDA stocks print and slow, wet 2019/20 harvest progress are reinjecting supply-side risks into CBOT and encouraging short coverage.
- The USDA's WASDE is projecting export demand losses for a second consecutive year, as a strong US dollar and strong global production cut export competitiveness.
- The US's avowal that it would ensure the ethanol mandate of 15bn gallons in 2020 failed to rally the market.

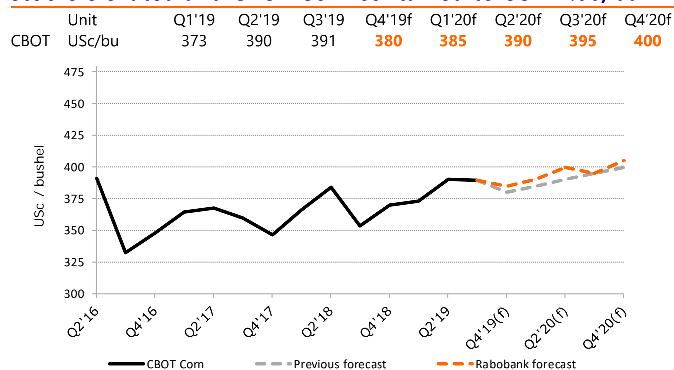
CBOT Corn bulls continued to regain the narrative last month, climbing 6% on the surprise stocks cut and continued yield deterioration in the US. Following successive bearish/neutral WASDE reports, the USDA reinflated a flailing supply risk premium in CBOT Corn in October, which has formed a technical recovery above the 50-day moving average – bridging the gap from contract lows of USD 3.54/bu in August toward USD 4.00/bu. Looking ahead, US harvest prospects and trade deals could fuel consolidation above USD 4.00/bu. Absent further bullish news, however, market attention will shift back to the unseasonably weak US export demand, which was cut for a third consecutive month by WASDE – in turn encouraging harvest pressure and vacillating non-commercials to re-enter their short positions.

It is late October, and the 2019/20 US corn harvest is heavily delayed at 22%, vs. the five-year average of 36%. Latent and growing supply risks from the poorest US crop (55% good-excellent) since 2012/13 are crystalizing and have forced the USDA to shave production in consecutive WASDE reports (-5% YOY). The October report is usually a strong indicator of final yield; however, the crop is still maturing, and remains heavily susceptible to harvested acreage and yield loss. Last week's frost event, though quite limited in scope, likely curtailed 50m bu to 100m bu of production in the northern plains and western Midwest. The potential for further production cuts or quality issues – coming on the back of a surprise September stocks position that helped cut 2018/19 end stocks of 2,445m bu (a 31-year high) to 2,114m bu (-1% YOY) – has brought forward Rabobank's view since July that CBOT Corn will continue to trade toward the upper range of its five-year confinement: between USD 3.50/bu and USD 4.00/bu.

Constraining our view for CBOT Corn above USD 4.00/bu is the US dilemma of a second consecutive year of falling demand (not seen since 2010-12) and distant rumblings of higher 2020/21 acreage. Woeful post-harvest export sales – the result of a strong dollar and record global production – remain the main culprit. Three straight cuts to WASDE export projections (-290m bu since July) have blunted the supply-side stocks drawdown, and raised a timorous urgency for US trade deals and greater domestic use. The US faces uncertainty from feed and particularly ethanol demand – the USDA's recent commitment to meet its existing 15bn-gallon mandate was met with disappointment, with RIINs falling heavily on practical obstacles to wider ethanol use, the limited demand increase (perhaps 150m bu), and the continuation of refinery waivers. Meanwhile, trade progress is only starting to draw out substantial US animal protein demand. Amid falling US corn demand, 2019/20 US supply risks will need to grow in order for CBOT to move decisively above USD 4.00/bu.

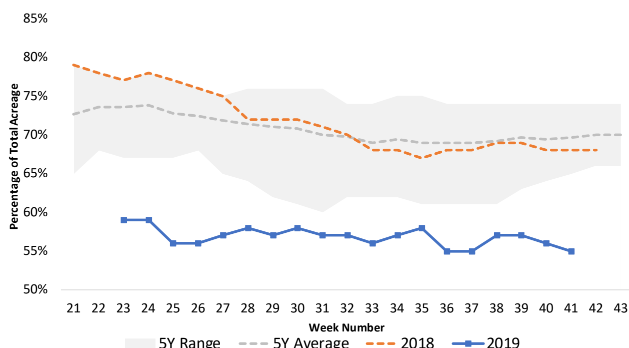
Strong export competition and falling demand keep US stocks elevated and CBOT Corn contained to USD 4.00/bu

	Unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
CBOT	USc/bu	373	390	391	380	385	390	395	400



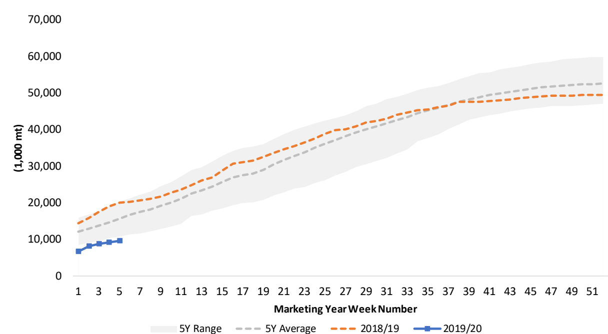
Source: Bloomberg, Rabobank 2019

Corn conditions in the US are at season lows, and recent frost in the north caused some (limited) yield damage



Source: USDA, Rabobank 2019

Poor US export sales have led USDA to revised down projections by almost 300mbu since July



Source: USDA, Rabobank 2019

Soybeans

CBOT Soybeans continue to prosper on low US acreage and yield erosion. A record US soy balance sheet is slimming rapidly, spurred on by Chinese procurement

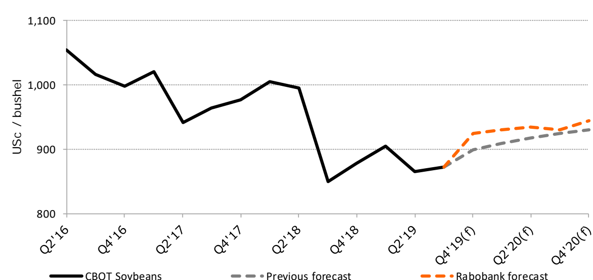
- Large US production/stock cuts in 2019/20 support CBOT Soybeans above USD 9.00/bu.
- Chinese soy imports from the US are accelerating, in an effort to appease the Trump Administration, delay higher tariffs, and avoid a strained domestic supply in early 2020.
- Improving Brazilian weather could limit price upside.

CBOT Soy's bull pace quickened last month, lifting 4%, to USD 9.30/bu, as the US balance sheet continued to shed excess weight. The drivers behind these improving fundamentals continue to be poor, low US acreage; incomplete pod fill and growing cold weather concerns for the delayed harvest; a trade truce and higher-than-expected Chinese purchases of tariff-free US soybeans and pork; rising crush numbers in the US to feed export-bound pork; and restrained harvest pressure, thanks to upfront government cash handouts (MFP) to US farmers. These five factors have given tailwinds for CBOT Soy to break through its 50-, 100-, and 200-day moving averages. The US soy deluge that followed the 2018/19 trade war (with the largest buyer absent) is rapidly being unwound, providing sustained momentum for CBOT's recovery.

US soy harvested acreage experienced the largest cut on record in 2019/20, hitting an eight-year low of 76m acres – the unwitting (and, before last month, unheralded) beneficiary of an unprecedented corn planting effort. Further complicating matters, the small US soy crop is poorly conditioned (54% good-excellent, a six-year low), incomplete (pod-filling was at 95% at final check), delayed (26% harvested vs. the 49% five-year average), and vulnerable to weather shocks. With isolated pockets of freeze, rain, and wind beginning to drive across the plains and western belt, WASDE could bring further cuts (to six-year lows of 46bpa) that would drop production by 21% YOY, even as US demand rises.

CBOT Soy has the wind back in its sails, thanks to production cuts and a promising, though fragile, demand outlook

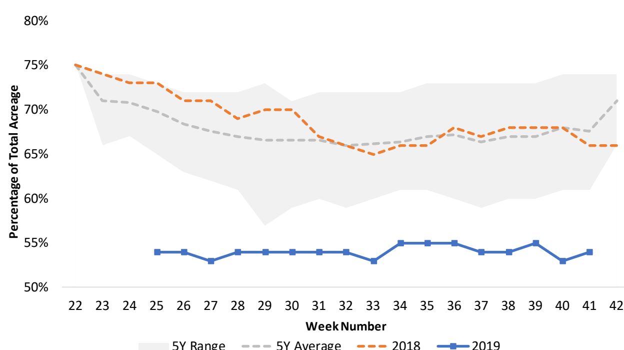
	Unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
Soybeans	USc/bu	905	866	872	925	930	935	930	945



Source: Bloomberg, Rabobank 2019

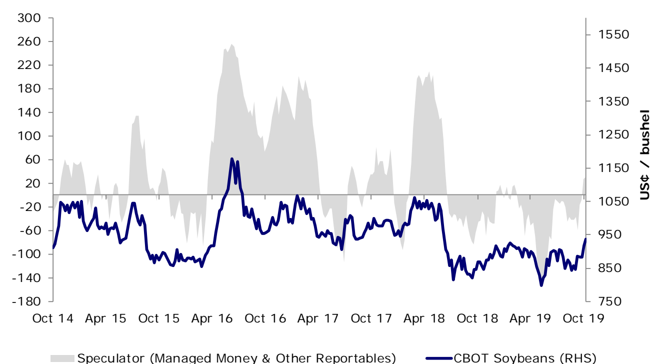
2019/20 US soy carry-out is now forecast to fall at least 50% YOY, to 480m bu, thanks to falling supply prospects and strengthening demand. Stocks-to-use will decline from 23% to 11% – levels that, while still comfortable, mark a return to pre-2018 normalcy. The US stocks drawdown to more manageable levels has been further supported by China's major acquisition of tariff-free US soybeans. In marked contrast to previous purchase commitments, which were followed by commercial foot-dragging, China has been reassuring dubious CBOT investors with 20mmt of US soy purchases since January – only 5mmt short of what China usually purchases from the US in a given year. Moreover, rumors abound that China has promised to increase its soy purchases to 30mmt/year, in addition to large-scale pork purchases under an interim agreement. The principal reason behind China's larger procurement allowance, beyond avoiding higher tariffs, is to counter an ASF-imposed pork deficit and consequent surging domestic pork prices. Though soy planting conditions are improving in Brazil, potential supplies are insufficient to cover China's needs and leave the country highly exposed to harvest risk. Rabobank's supportive view for CBOT Soy is bolstered this month on bullish US trade and supply news, with prices held in check by ample US stocks, low US crush margins, and the rapidly unwinding Brazilian-US soy premium, which will erode US export sales to the world ex-China market.

US soybean crop quality is poor and delayed, remaining extremely vulnerable to late-season adverse weather risk



Source: USDA, Rabobank 2019

Speculators re-enters a long position, amid a bullish reversal of supply (acreage/yield) and demand (China)



Source: CFTC, Bloomberg, Rabobank 2019

Soymeal and Soy Oil

CBOT Soymeal and Soy Oil futures extend beyond USD 305/mt and USc 30c/lb, as US soy supply cuts and higher US-China soy trade collapse US crush margins and lower production prospects

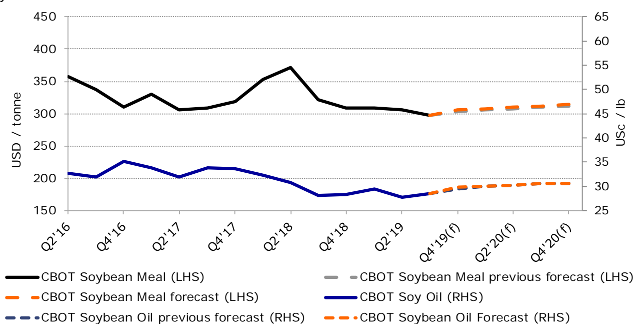
- CBOT Soymeal and Soy Oil rise in sympathy with Soybeans, amid accelerating US soybean production cuts and quantities of China-bound US soy and pork.
- US crush margins remain severely depressed, which will curtail supplies of both US soymeal and soy oil.

Soy by-products continued their slow steady rise, tethered to the rapidly slimming US soybean balance sheet and improved US-China trade relations, but facing persistent headwinds from ASF and a saturated vegetable oil market. In positive news for CBOT Soy Oil bulls, the 2019/20 US demand environment has remained stable, at 25,225m lb, despite a sharp reversal in Brent as Saudi Arabia recovered from a missile attack on its largest refinery. The sharp decline in the biodiesel-diesel spread cut the USDA's US biodiesel demand prospects, but the loss was offset by stronger domestic food demand. Meanwhile, stronger-than-expected 2018/19 and 2019/20 USDA crush prints only raise soy oil stocks marginally; these are projected to finish 2019/20 at six-year lows of 1,525m lb. The constructive fundamentals in US soy oil have driven managed money buying to a net long of 29,723 lots.

In China, domestic soy oil prices have once again moved toward two-year highs and, despite tariff-free US soybean import allowance, are 14% higher YTD. ASF-lowered soybean import and crush continue to cut soy oil output and stock, potentially forcing 2019/20 vegetable oil imports (principally palm and soy) to six-year highs. Meanwhile, lower crush in Argentina and curtailed Brazilian exports from domestic biodiesel constraints (due to the increase from B10 to B11 last month) are expected to result in export increases for the US.

Soy oil and soymeal prices maintained amid a supportive fundamental environment for the soy complex

	unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
Soymeal	USD/mt	309	307	298	306	308	310	312	314
Soy Oil	USc/lb	29.4	27.8	28.5	29.8	30.0	30.2	30.5	30.6

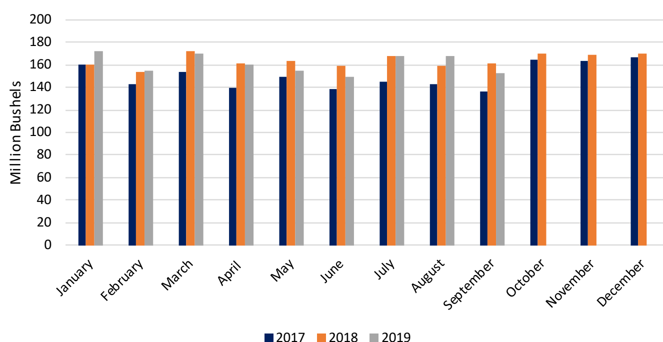


Source: Bloomberg, Rabobank 2019

Our overall constructive view for CBOT Soy Oil remains guardedly optimistic, above USc 30/lb in Q1 2020, as the global vegetable oil mop-up we predicted at the start of 2019 combines with an improved US-China trade relationship to bring the entire complex higher.

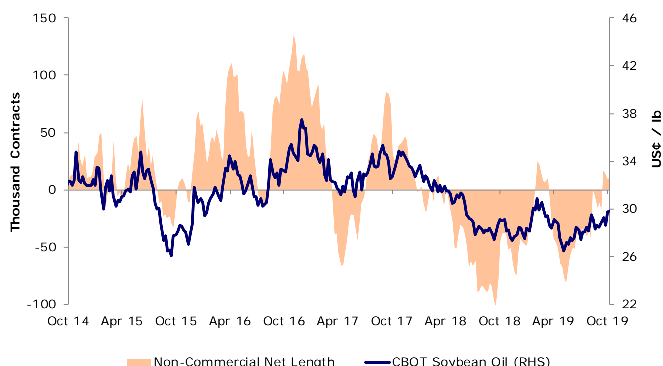
CBOT Soymeal built on September gains, rising 3% and nearing USD 310/mt in sympathy with CBOT Soybeans. The surprisingly low USDA September stocks report forced an increase in feed demand for 2018/19. In October, the USDA raised crush for 2019/20, but the recent gains in NOPA US crush abruptly ended in September (152.6m bu vs. estimated 163.8m bu), amid a dissolving crush margin and despite a record pace of Chinese pork procurement. In the current environment of low crush margins and declining NOPA crush (-1% lower YTD), evidence of more soymeal demand is needed to call a price recovery. China's recent pork procurement could be a great help for flagging domestic feed demand, but in terms of exports, the US remains uncompetitive compared to its fx-weakened South American rivals; global demand continues to flag on ASF. Rabobank maintains its CBOT Soymeal outlook above USD 305/mt, as supplies continue to adjust to a lower-demand environment, with strong potential upside if crush output continues to fall, a permanent trade deal emerges, or Chinese F&A purchases accelerate.

NOPA crush was far lower than expected in September, and is now -1% YTD amid declining US crush margins.



Source: NOPA, Rabobank 2019

Non-commercials have re-engaged into a rare CBOT Soy Oil net long amid improving US supply/demand fundamentals



Source: CFTC, Bloomberg, Rabobank 2019

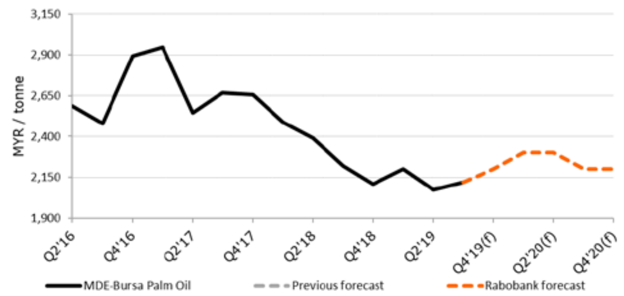
Palm Oil

We expect palm oil inventories in Indonesia and Malaysia to be higher quarter-on-quarter in Q4 2019

- Indonesian palm oil production is on track to reach 44mmt in 2019.
- Malaysian palm oil inventories start to rebuild again due to weakening export activities.
- We expect palm oil prices to move sideways in Q4 2019.

Palm oil price forecast is maintained

	Unit	Q1'19	Q2'19	Q3'19	Q4'19(f)	Q1'20(f)	Q2'20(f)	Q3'20(f)	Q4'20(f)
Palm Oil	MYR/tonne	2,200	2,073	2,121	**2,200**	**2,300**	**2,300**	**2,200**	**2,200**



Source: Bloomberg, Rabobank 2019

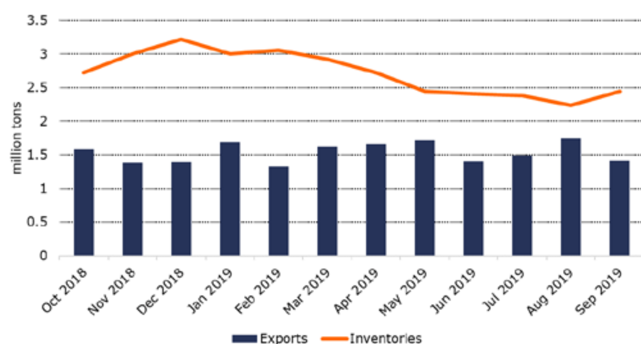
Indonesian palm oil production is on track to reach 44mmt in 2019. According to a recent Bloomberg survey, Indonesian August 2019 palm oil production (including laurics) is expected to decrease by 3% MOM, to 4.2mmt. Despite this decrease, production (including laurics) from January to August 2019 reached 34.4mmt – up 12% YOY and still within our forecast for the year. We also maintain our forecast for 2019 Malaysian palm oil production at 21mmt. September 2019 palm oil production increased by 1% MOM, to 1.8mmt, according to MPOB. This brings total Malaysian palm oil production from January to September 2019 to 15.2mmt – 9.4% higher YOY.

Malaysian palm oil inventories start to rebuild again due to weakening export activities. According to MPOB, Malaysian September 2019 palm oil exports decreased by 19% MOM, to 1.4mmt. This was due to lower Malaysian palm oil exports to India, as Indonesian palm oil prices were more competitive. As a result, Malaysian September 2019 palm oil inventories increased by 9% MOM, to 2.4mmt. Meanwhile, according to a recent Bloomberg survey, Indonesian August 2019 palm oil inventories (including laurics and biodiesel) are expected to increase by 5% MOM, to 3.7mmt. We expect palm oil inventories in Indonesia and Malaysia to be higher quarter-on-quarter in Q4 2019. Both countries' palm oil inventories will peak around the October/November 2019 period, which is in line with the peak production period for both countries.

We expect palm oil prices to move sideways in Q4 2019. The recent widening spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices makes palm oil more competitive and could result in an increase in palm oil demand. The spread between soy oil and palm oil futures prices has changed from around USD 92/mmt in early September 2019 to around USD 139/mt in early October 2019. Despite the current attractive soy oil/palm oil spread and low domestic edible oil inventory levels, we expect Indian palm oil import demand in Q4 2019 to be limited by seasonal tepid post-festive season demand and the availability of Indian domestic soybeans in Q4 2019. According to SEA India, Indian edible oil inventories (port stocks and pipelines) as of the end of September 2019 decreased by 12% MOM, to 1.8mmt.

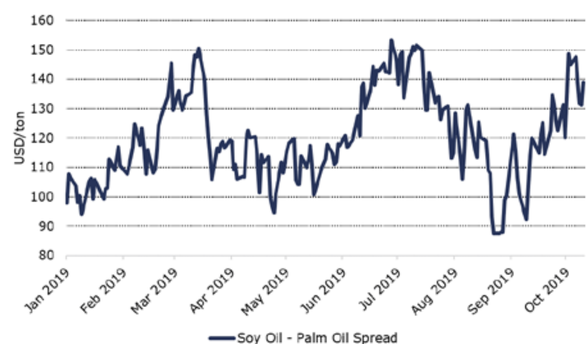
The Indonesian government is extending its zero export levy policy period until the end of 2019. Despite this extension, we believe that the implementation of the Indonesian B20 mandate in 2019 won't be affected negatively. The palm oil/gas oil spread has been favorable throughout 2019, which has resulted in minimal disbursement of incentives by the Indonesian Oil Palm Estate Fund for domestic biodiesel production.

Malaysian palm oil inventories started to increase in September 2019, due to lower export activities



Source: MPOB, Rabobank 2019

The widening spread between soy oil and palm oil prices could result in additional palm oil buying



Source: Bloomberg, Rabobank 2019

Sugar

ICE #11 Sugar to remain well-supported

- We continue to be slightly bullish, especially given excessive rainfall in India.
- March 2021 is showing a premium of over half a cent over October 2020. We expect a lot of volatility in this spread.
- A record Non-Commercial position on sugar will likely result in a bumpy ride.

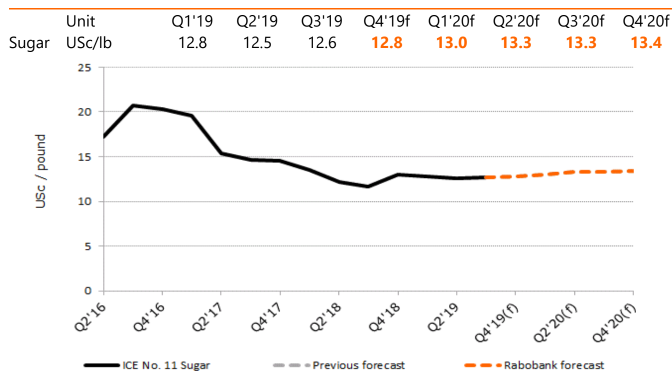
ICE Sugar #11 may see some support over the rest of the year. The weather in Brazil has turned significantly wetter. While volumes of cane are expected to go down as usual (as rainfall hinders harvest efforts), the sugar mix may drop well below the average, similar to what we witnessed at the start of the harvest. At the time of writing, the ethanol parity was trading at USc 13.6/lb, which is more than a cent over sugar prices. Hydrous ethanol prices in Brazil have been climbing steadily and are up 6% MOM. Even though there are several corn ethanol projects in Brazil, the expected increase in output can be rather modest if total ethanol demand continues to grow at the pace it has grown so far this year. The volatility in ethanol demand in Brazil will be a major unknown factor going forward – keep an eye on oil prices.

India is entering new territory. Following the wettest September in over a century, rainfall continued to pour over India in the first half of October, even though the monsoon is usually over by the turn of the month. Karnataka and Maharashtra were particularly affected. Current rainfall will likely have an adverse effect on the 2019/20 crop volume (as it has been causing flooding), but the effect is still quite uncertain. At the very least, rainfall is delaying the start of the harvest (and therefore exports). On the bright side for Indian farmers, reservoirs will be full to the brim, and that will be supportive of the 2020/21 crop. As it is unlikely that the WTO will be able to reach a quick resolution in the trade dispute over Indian export subsidies, we expect India to be able to export significant quantities against the March 2021 contracts. That could make the Oct 2020/Mar 2021 spread quite volatile and sensitive to future sugar export policy (again).

The latest CFTC shows that funds are now neutral in the white sugar market. In just a matter of weeks, funds went from a record net short to a neutral position in the white sugar market. It was indeed surprising to see funds holding such a large net short position in light of crop reductions in three major white sugar exporters over the last three months: the EU, Thailand, and India. The current backwardation at the front of the curve shows the lack of sugar toward Q4 and early 2020, a situation aggravated by the delayed start of the harvest in India and higher internal prices. Also, there has been quite good demand for Indian raws from Iran. More generally speaking, the fact that export subsidies were announced earlier this season means more time to close raw export contracts (which are needed for mills to produce raws, as opposed to LQW), reducing the export availability for whites in the short term. Going forward, it is unlikely that India will rush to flood the market before the last trade of the December contract (mid-November) – and thus the front month backwardation is, in our view, well justified.

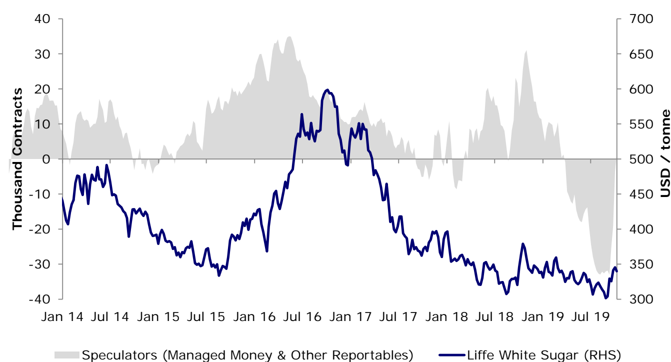
ICE #11 Sugar price forecast unchanged

	Unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
Sugar	USc/lb	12.8	12.5	12.6	12.8	13.0	13.3	13.3	13.4



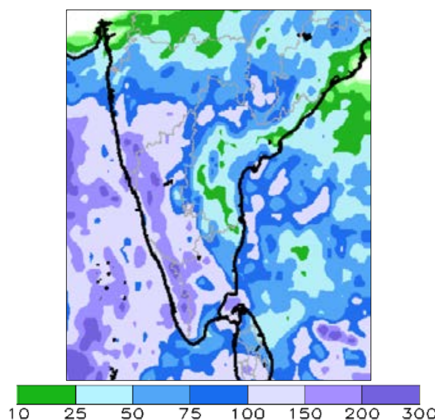
Source: Bloomberg, Rabobank 2019

There was a short covering rally in white sugar, and now Managed Money holds a neutral position



Source: CFTC, Bloomberg, Rabobank 2019

India continues to see some rainfall in the forecast, one-week rainfall forecast (mm):



Source: NOAA, Rabobank 2019

Coffee

Arabica waiting for signals from Central America

- Widespread flowering in Brazilian arabica areas should limit upside.
- The lack of great quality coffee from Brazil's last harvest will make the availability from Central America even more important.
- Forward-selling will be on the low side.

The return of wet weather in Brazil has driven prices down, with arabica losing almost 8% so far in October. However, the return of the wet season to Brazil this year has not been perfect. Firstly, there were unseasonal rains at the end of August and early September – these triggered a small wave of flowering, which was largely lost on non-irrigated farms. This added to the small losses due to the cold weather over the winter. Overall, we assess the loss of potential in these two adverse events in less than 4% of arabica production (i.e. fewer than 2m bags). But the return of the wet season since late September has been excellent, with the notable exception of Zona da Mata (where weather stations are scarce and reported data is not always accurate) and Cerrado Minero (where there is over 50% irrigation and good rainfall in the forecast). The flowering that followed made the key arabica areas look as white as ski slopes. Considering the forecast in the major arabica areas and the previous expansion of the arabica area, we believe it is still possible to have a record arabica crop in 2020/21, but only a very small expansion over the record 2018/19 crop.

The lack of fine cupping arabica coffee from Brazil this season is set to make the availability of milds even more important. It will be hard to have any concrete signal from Central America until the end of the year, as it is always a place where it is difficult to conduct surveys. The weather looks wetter than normal in most of Central America, which may delay the harvest there and create the impression of lower availability (not unlike last year in Honduras). We may not have felt the full force of lower qualities from Brazil yet – in part because of high destination stocks and availability from other countries, along with high good-quality stocks from the bumper Brazil 2018/19 harvest. We believe things will change, and a scramble will take place.

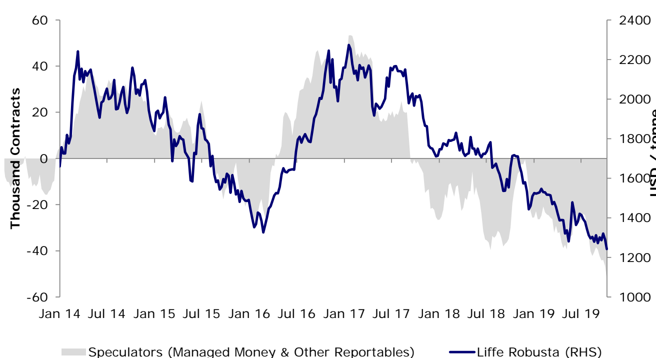
Forward-selling is not for the faint-hearted. Strong demand for specialty coffee and a likely drop in production in global mild production will almost certainly result in low forward-trading of the coming mild crops. Unsurprisingly, differentials reflect supply uncertainty. It is a similar situation on the robusta side. With the recent record differentials seen in Vietnam and India, we believe the selling of new-season crops will take longer than usual. This is despite the good weather over Vietnam and the expectations for a bumper crop (the weather over Indonesia has been drier than usual, and this is expected to continue). It is hard to estimate how much time the industry will take to adapt to the increased conilon availability, especially given the glyphosate concerns in Europe, but with age discounts of conilon sitting in London kicking in, roasters in other geographies will be able to profit from blending an increased amount of conilons. The sharp differential moves we have seen are just a painful consequence of Brazil rising as the cheapest origin, potentially replacing Vietnam as the largest and most competitive robusta producer in a few years' time.

ICE Arabica forecast slightly lowered on good Brazil weather

	unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
ICE Arabica	USc/lb	102	97	102	102	106	108	108	110
ICE Robusta	USD/mt	1,531	1,406	1,406	1,310	1,400	1,430	1,430	1,430

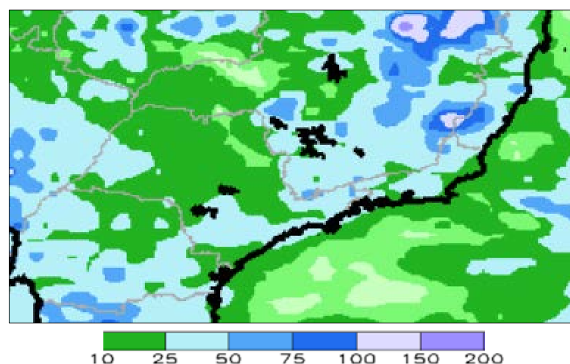
Source: Bloomberg, Rabobank 2019

Speculators are driving robustas down as Brazil floods the market with conilons.



Source: CFTC, Bloomberg, Rabobank 2019

Enough rain is in the forecast to sustain flowering in Brazil. One-week total precipitation (mm):



Source: NOAA, Rabobank 2019

Cotton

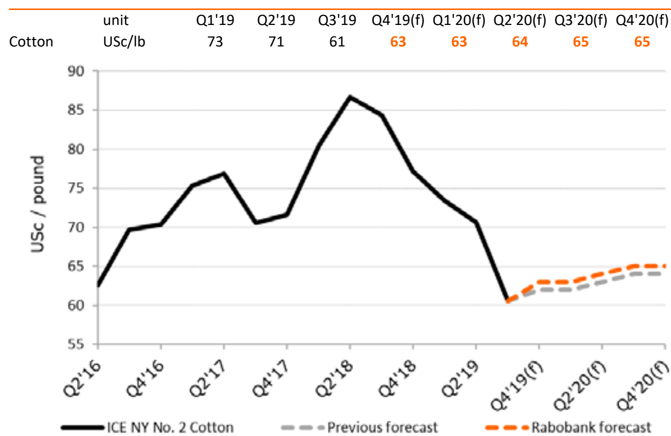
Prices are forecast to trade upwards slowly, with renewed optimism over Chinese demand for US cotton

- US-China October trade talks yielded an agreement for higher agricultural purchases, including cotton.
- Global 2019/20 demand growth projections have continually softened: estimates 1% to 2% YOY.
- Rabobank sees Chinese imports surging 14% YOY this season, to redress the 9m- to 10m-bale supply deficit.
- 2020/21 global and US estimates to be released in Rabobank's Outlook 2020 report, due late November.

ICE #2 Cotton prices are forecast to trade upwards slowly in the 12-month period, with renewed optimism over Chinese demand for US cotton – and subsequent speculative short covering – maintaining support. US-China trade talks continued through October, with agricultural goods, including cotton, on the agenda. Already through October, Non-Commercials have cut their net short position by 2,153 lots, with Commercials simultaneously upping their shorts. While swelling world ex-China supplies (up over 4m bales YOY) limit any major upside, Rabobank sees potential for further reductions to the USDA's 2019/20 crop forecast of 21.7m bales. Historically low crop conditions – at 38% rated good/excellent – coupled with spring planting disruptions could see this figure cut lower in the near future, potentially driving Non-Commercials further out of their -31,860-lot net short position (as of October 8).

Global 2019/20 demand projections have continually softened, with growth estimates now between 1% and 2% YOY. These falling expectations, compared with 6% growth in 2017/18, stem from a number of challenges: global GDP growth, according to the World Bank, is forecast at just 2.6% and 2.7%, respectively, in 2019 and 2020, which lessens expectations for consumer textile demand. Other reasons include additional use

ICE #2 Cotton forecast slightly raised on trade optimism



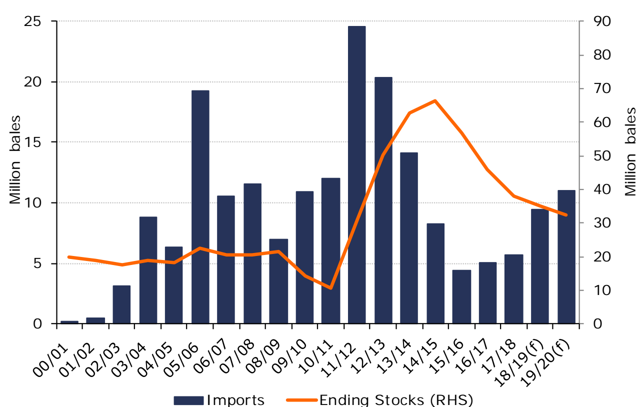
	unit	Q1'19	Q2'19	Q3'19	Q4'19(f)	Q1'20(f)	Q2'20(f)	Q3'20(f)	Q4'20(f)
Cotton	USc/lb	73	71	61	63	63	64	65	65

Source: Bloomberg, Rabobank 2019

of synthetic fibers in China, and ongoing US dollar strength – particularly vs. the Turkish lira, Vietnamese dong, and Indonesian rupiah – driving additional expense in importing lint. Interestingly, very little Chinese consumption growth will see other major consumers gain share of overall 'use' this season. However, this only tells part of the story, as Rabobank anticipates Chinese imports to surge 14% YOY next season, in order to redress the nation's 9m- to 10m-bale supply deficit – a factor benefiting Brazilian and Indian export premiums.

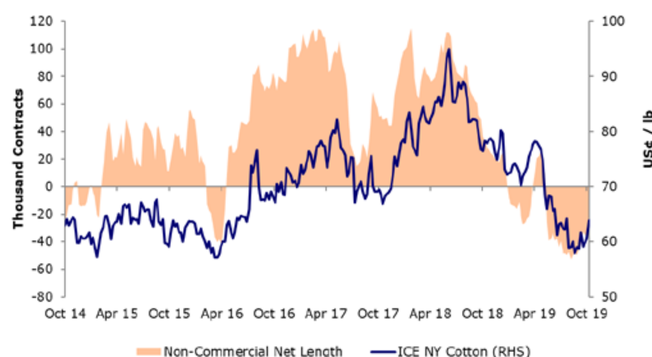
With 2018/19 behind us and 2019/20 now present, market attention is naturally turning toward the 2020/21 crop. Rabobank will be releasing 2020/21 global and US balance sheets in our 2020 Outlook report, due in late November. However, US price ratios already highlight scope for a dip in cotton acres next season, with the Dec/Nov 2019 cotton-soybean ratio sinking below the five-year average. This currently highlights a price incentive for soybean acres, although there is much which could disrupt prices ahead of spring plantings. Ongoing US-China trade progress offers the most significant ICE #2 upside risk in the medium term, with downside risk limited to the USc 57/lb to USc 58/lb range where the US loan program kicks in.

Chinese 2019/20 imports set to jump 14% YOY, in an attempt to manage the nation's current 10m-bale supply deficit



Source: USDA, Rabobank 2019

Non-Commercials have been reducing their short position on the ICE #2, with US-China trade optimism increasing



Source: CFTC, Bloomberg, Rabobank 2019

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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 Commodity Analyst
carlos.mera@rabobank.com, +44 20 7664 9512

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

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

Contributing analysts:

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

Charles Clack—Sydney
charles.clack01@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—Koon Koh Tan
+65 6230 6988
koonkoh.tan@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.

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

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