Rabobank

Agri Commodity Markets Research

September 2019: Nascent Weather Risks Give Ags New Life

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A drone attack on the world's largest crude processing facility rippled through energy markets and into the vegetable oil and ethanol complexes. The consequences of the attack are not yet fully known, and middle east geopolitical risk is at its highest in a long time. Meanwhile, a tenuous trade truce and pressing pork needs has led China to resume buying US soybeans. For Ags, relatively dry weather in Europe and Russia has caused corn production downgrades and planting challenges for winter wheat, while dryness continues to be a concern for all major southern hemisphere crops.

WHEAT

CBOT Wheat forecast unchanged

- The dry weather in Australia has provided support for CBOT. However, rains are in the forecast.
- With decreasing crop outlooks in Australia and Argentina, the US may have a more favorable export outlook.

SUGAR

ICE #11 Sugar will likely recover some ground

- We remain cautiously bullish, in part due to funds being record net short and in part due to a deterioration of the Indian crop outlook.
- Nearby strength in white premium, as deliveries against the October contract were much smaller than expected.

CORN

CBOT Corn bounced off contract lows, on an overly deflated weather premium

- The USDA's cut to 2019/20 US corn production and lower global stocks provide CBOT relief.
- US demand is expected to fall for a second consecutive year, as a strong USD and high Brazilian, Ukrainian and Argentine production cuts export competitiveness.

COFFEE

ICE Arabica to see support from lower washed arabica crops

- Normal start to the wet season in Brazil.
- Robusta premiums over Brazilian conillons have reached record levels, especially in Vietnam and India.
- Central America has had less than ideal weather. With production falling in 2019/20, the availability of washed arabicas going forward remains uncertain.

SOYBEANS

CBOT Soybeans emerge as the beneficiary of US farmers' high corn plantings

- Sizable US production/stock cuts in 2019/20 will support CBOT, with MFP preventing farmer-selling.
- Chinese soy imports were down in 2018/19, on ASF, but are expected to slightly rebound.

SOYMEAL & OIL

CBOT Soymeal and Soy Oil test higher levels on brighter supply, demand, and geopolitical prospects

- Soymeal price forecast maintained, amid downward US soybean production and stocks revisions.
- CBOT Soy Oil enjoying knock-on biodiesel demand support from Saudi refinery attack

PALM OIL

Increasing palm oil production in Indonesia and Malaysia in 2H 2019 to limit upside

- Malaysian and Indonesian 2H 2019 palm oil inventories to be higher than 1H 2019 levels.
- Indian and Chinese palm oil imports to remain strong in Sep 2019.
- Palm oil/gas oil and soy oil/palm oil spreads widen.

COTTON

Bullish, but range bound, limited by US loan program and swelling exportable stocks

- The USDA cuts US 2019/20 output to 21.9m bales – more in line with Rabobank's 21.6m-bale forecast.
- Australia faces another drought, while Indian could produce +30m bales, buoyed by late monsoon rains.

Wheat

CBOT Wheat forecast unchanged

- The dry weather in Australia has provided support for CBOT. However, rains are in the forecast.
- With decreasing crop outlooks in Australia and Argentina, the US may have a more favorable export outlook.
- Dry weather in the Black Sea Region may delay plantings, while the EU is expected to have some rain. It is still early days though.

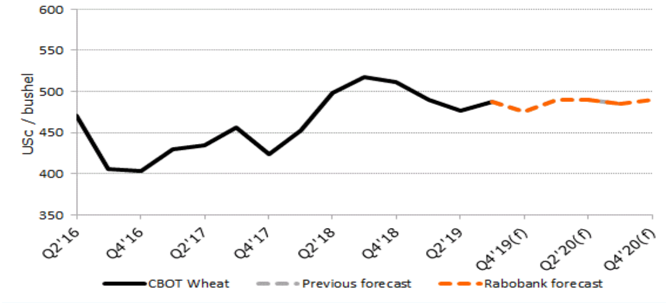
Weather is set to take center-stage in the wheat market, with dry weather not only affecting southern hemisphere crops, but also posing a planting delay risk in parts of the EU, the Black Sea Region, and Ukraine, in particular. At the moment, the weather forecasts look rather wet in many wheat areas around the globe, but soil moisture is lacking, and steady rainfall is needed. Western Europe, in particular, should continue to see decent rains in the coming week, but in Germany and Ukraine, the forecast levels are quite low. Meanwhile, spring wheat harvest progress in the US is well behind schedule, with 87% harvested as of September 22, vs. a five-year average of 97%. On the demand side, there were quite a few recent tenders, but the key Egyptian market is still running behind last year's levels and will need to come back to the market for more buying. However, a likely improvement in the weather in the key European regions – together with immediate availability of HRW wheat, EU and Russian wheat – should prevent nearby CBOT Wheat from going much beyond USD 5/bu.

Attention will move toward exports, with the northern hemisphere crops largely harvested. The dry weather in Australia and Argentina has resulted in a deterioration of the crop. Australia's wheat crop has already been marked down a few times, and the crop ratings in Argentina have been declining. Whereas there are currently rains in Australia, and rains are in the forecast for Argentina, continuous rains will be needed. Furthermore, the possibility of increased export taxes, and capital and currency controls in Argentina will pose export challenges ahead and limit future area expansions. At the very minimum, we expect farmers to hold on to larger amounts of stocks in order to avoid selling at unfavorable exchange rates going forward (whereas the official exchange rate is at USD/ARS 57, the free market exchange rate is at USD/ARS 67). While in our previous monthly we were a little skeptical about the US export outlook – especially given the recovery in the EU crop, and the very aggressive offers out of France and the Black Sea – we now have a more positive view of US exports, given the marking-down of southern hemisphere crops.

The Kansas Wheat discount to CBOT reached record highs. While the downgrading of the Australian crop seems to have pushed CBOT higher, increasing the discount of Kansas, we believe that a better US export outlook could result in a narrowing of the discount. Given high levels of Hard Red Winter stocks, we do not expect a return to historical spread levels, but probably a move from –USc 79/bu (December contracts) to a more normal –USc 50/bu is likely. Meanwhile, the Minneapolis/CBOT spread has seen a jump, from USc 20/bu to USc 65/bu. This is due to heavy rains during the harvest, which may have impacted the protein content for the remainder of the crop (13%). It may not be a major issue, but it caught funds at a massive record net short.

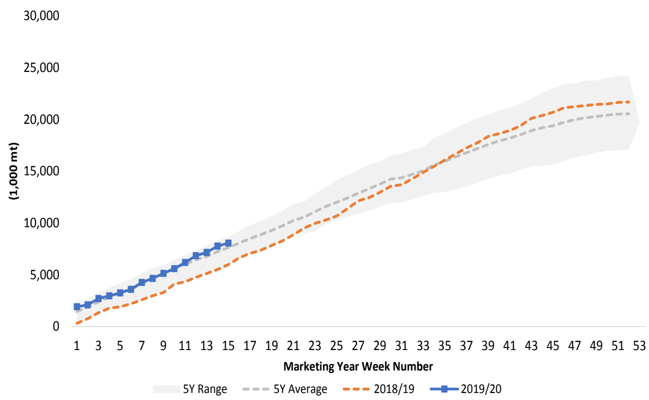
CBOT Wheat outlook maintained

	unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
CBOT	USc/bu	491	477	478	475	490	490	485	490
Matif	EUR/mt	197	182	170	170	174	175	172	174



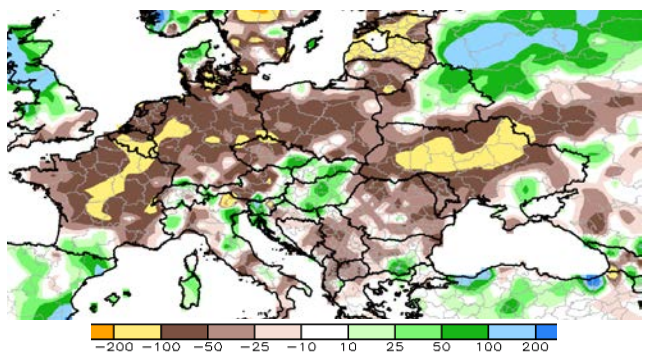
Source: Bloomberg, Rabobank 2019

US Wheat sales have been above the 5-year average. Going forward, they may face less competition from the South



Source: USDA, Rabobank 2019

Parts of Europe and Ukraine remain dry, which may cause planting delays. 90-day weather anomaly (mm):



Source: NOAA, Rabobank 2019

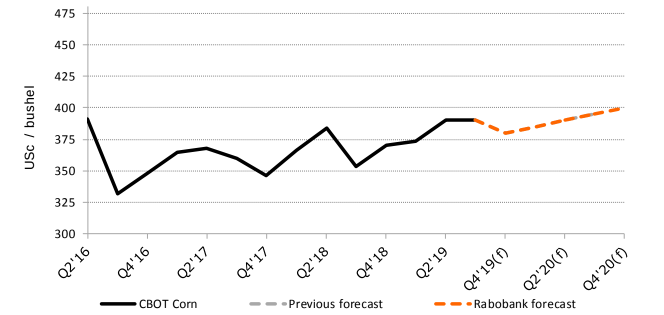
Corn

CBOT Corn bounced off contract lows, on an overly deflated weather premium, but will remain range bound because of lackluster US demand and fund-selling

- The USDA's cut to 2019/20 US corn production and lower global stocks provide a modicum of CBOT relief.
- US demand is expected to fall for a second consecutive year, as a strong USD and high Brazilian, Ukrainian and Argentine production cuts export competitiveness.

Strong export competition and poor domestic 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



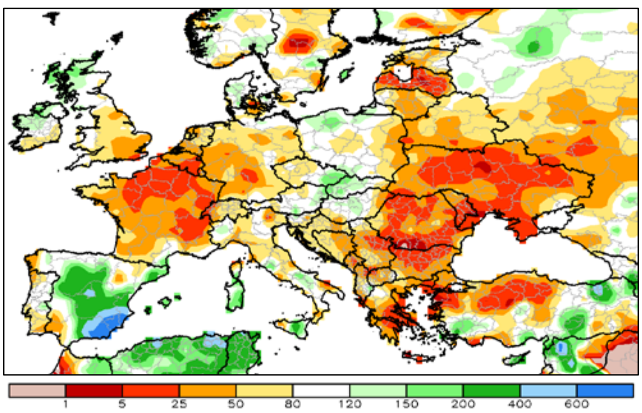
Source: Bloomberg, Rabobank 2019

Corn bargain buyers have cautiously emerged from the side lines after the latest neutral WASDE, helping to drag CBOT Corn off of its contract floor. CBOT Corn's volatile summer – with 25% moves up and down – has finally given way to a calm fall (unchanged month-on-month and lower-than-normal volatility). CBOT has begun piecing itself together from the US weather market rise and collapse – rising 6% off MTD lows and returning to the USD 3.50/bu to USD 4.00/bu range that has held it captive over the last five years. Rabobank retains last month's cautiously supportive outlook toward the upper end of CBOT Corn's price purgatory, as speculators underestimate latent weather risks and moderate reductions in crop size for the US, Ukraine, and the EU. CBOT moves below USD 3.50/bu will be bought on supply risks – the USDA expects 2019/20 US stocks to fall at least 10% YOY, and world ex. China stocks 6%, though breakouts above USD 4.00/bu will face selling pressure due to the tenuous US (and global) feed demand picture.

WASDE's September report was subdued relative to August, when the USDA's confirmation of 90m planted acres sent CBOT Corn limits down. This month, marginal (-1% MOM) cuts to 2019/20 US and Ukrainian production represented a course reversal and raised confidence that CBOT bearish supply news has been priced in. In the Ukraine (and, to a lesser extent, Russia and the EU), pronounced dryness has stressed the spring harvest and lowered corn production potential. In the US, the USDA shaved 1.3bpa from US corn yield, to 168.2bpa, after its objective crop surveys better reflected conditions (57% good-to-excellent) at six-year lows. The US crop's poor, delayed condition and dry conditions in Europe imply latent weather risks for both yield and harvested acreage, though high US incoming stocks (2,445m bu, a 31-year high), record south American production, and a strong US dollar will constrain CBOT Corn upside.

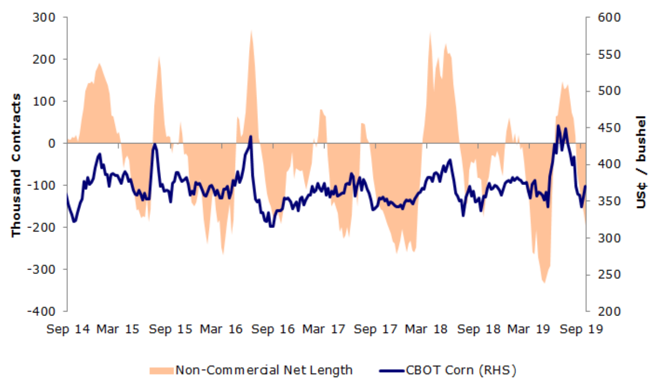
A fragile US corn demand environment threatens to overshadow production cuts. Indeed, the September WASDE raised US 2019/20 carry-out slightly, after corn exports and ethanol usage were cut a second straight month. US demand is pegged to fall for a second consecutive year, the first time that's occurred since 2010-12. While domestic feed and ethanol face heavy uncertainty, the main culprit for lower US corn demand is the collapse in exports (projected to decline -16% YOY in 2018/19 and another -1% in 2019/20). US Corn remains is USD 5/bu to USD 15/bu above the competition through early 2020. South American corn farmer selling is well ahead of pace, thanks to near-record low currency, and Ukrainian FOB prices are the lowest in ten years. Funds are feeling emboldened by prospects of low demand and higher corn acreage net year, selling for nine consecutive weeks and taking their bullish position to the lowest since 2012. Supply risks remain salient, but CBOT faces an uphill battle above USD 4.00/bu.

Swathes of the EU and Black Sea are dry, resulting in corn production downgrades: one-month % normal rainfall:



Source: NOAA, Rabobank 2019

CBOT Corn speculators confidently reentering into a large net short position even as prices hover near contract lows



Source: CFTC, Bloomberg, Rabobank 2019

Soybeans

CBOT Soybeans emerge as the beneficiary of US farmers' high corn plantings. The slimmer US balance sheet and limited global supplies support a premium, with China's US soy purchases the icing on the cake

- Sizable US production/stock cuts in 2019/20 will support CBOT Soybeans, with MFP preventing farmer-selling.
- Chinese soy imports were down in 2018/19, on ASF, but are expected to slightly rebound; in the absence of US supplies, China's supply situation will be strained in 2020.
- Brazilian and US crops face latent weather risks.

CBOT Soy finally got its groove back in September, after two consecutive monthly declines, thanks to improved US S/D fundamentals. CBOT Soybeans contract rose 3% through important 50- and 100-day moving averages, and tested USD 9.00/bu for the first time since July. Given the mountainous multi-year burden of 2018/19 US stocks and a weak feed demand environment, several constructive catalysts were needed to arrest CBOT Soy's downward spiral and provide momentum for a recovery. These are: 1) poorly conditioned, low US acreage; 2) latent planting concerns and slowing sales in Brazil; 3) China's announcement and partial follow-through of substantial purchases of tariff-free US soybeans and pork; 4) resurgent crush numbers in the US; and 5) a constructive September WASDE report that lowered 2019/20 stocks and raised average farm price prospects.

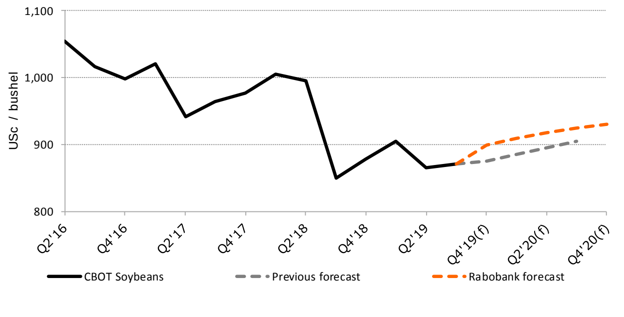
US soy acreage has rapidly emerged as a prime beneficiary and instrument for arresting CBOT Soybeans' decline, after it was initially lost amid the 2019/20 unprecedented US corn planting effort and subsequent CBOT Corn bear market. US soybean planted acreage was at an eight-year low (76.7m ac, down 12.9m ac YOY), having joined yields at five-year lows (47.9bpa, down 3.7bpa YOY) to leave production down 21% YOY (3,633m bu). Languishing crop conditions (54 good-to-excellent, -14 points YOY and a six-year low) and incomplete pod filling (95% at NASS' final check in mid-September) could drive further downward revisions in yield.

2019/20 US soy carry-out should see a healthy drawdown: 27% YOY, to 640m bu, absent further production downgrades and amid an uncertain demand backdrop, with stocks-to-use declining from 25% to 16%, providing a solid foothold for CBOT Soybeans to climb above USD 9/bu. Our supportive view for CBOT Soy is further emboldened by China's decision in September to allow tariff-free private purchases of US soybeans. While previous purchase commitments, in particular the 2018 G20 pledge, were followed by commercial foot-dragging, the market was reassured by 2-3mmt of physical US soy purchases made by China over the past two weeks.

China's ASF-imposed pork deficit and consequent surging pork prices have laid bare the other great rationale, besides economic pressure, behind its recent US agriculture procurement allowance. China's reliance on Brazilian soybeans also remains insufficient beyond Q4 2019 and leaves it highly exposed to harvest risk. Looking ahead, tenuous, but improving export and domestic demand (NOPA was strong again in August, though crush margins remain at two-year lows) will encourage fund short coverage and keep the wind at the back of CBOT Soybeans.

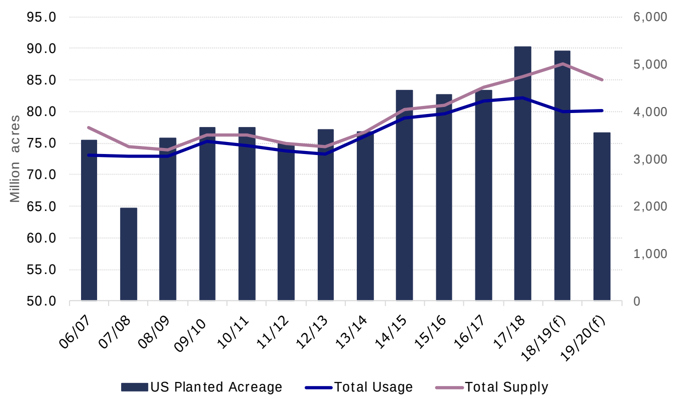
CBOT Soy has the wind back in its sails, thanks to production cuts and a promising, though fragile, demand outlook

	Unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
Soybeans	USc/bu	905	866	872	900	910	918	925	930



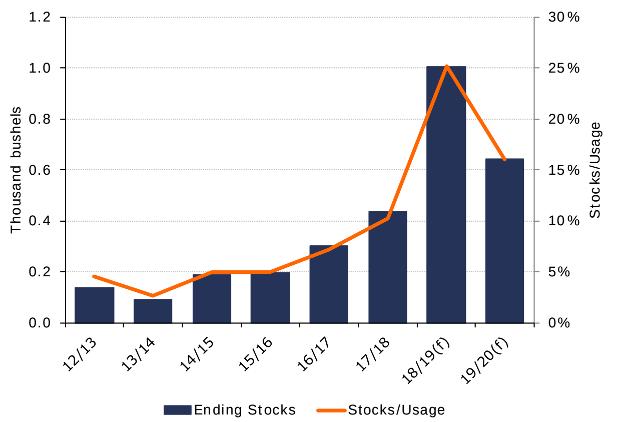
Source: Bloomberg, Rabobank 2019

US farmers' rush to plant corn resulted in the largest cut in US soy plantings on record, cutting production 21% YOY



Source: USDA, Rabobank 2019

US stocks-to-use and stocks are expected to decline 27% from historic to more manageable levels



Source: USDA, Rabobank 2019

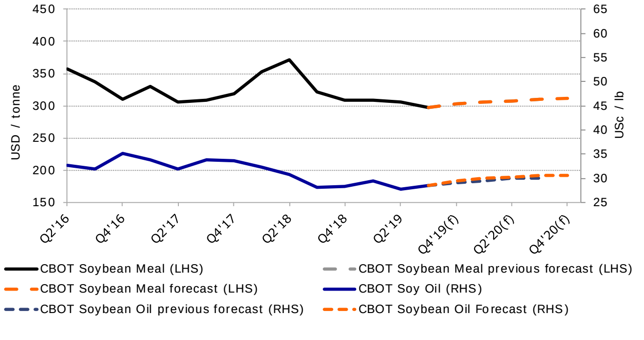
Soymeal and Soy Oil

CBOT Soymeal and Soy Oil futures test USD 300/mt and USc 30c/lb, on the back of brighter supply, demand, and geopolitical prospects, though uncertainty persists

- CBOT Soymeal price forecast maintained, amid downward US soybean production and stocks revisions, and growing prospects of China-bound US soy and pork.
- CBOT Soy Oil enjoying knock-on biodiesel demand support from Saudi refinery attack and diesel price spike.
- US crush margins remain low, potentially limiting output.

Soy oil and soymeal prices are maintained, amid a supportive supply/demand environment

	unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
Soymeal	USD/mt	309	307	298	303	306	308	310	312
Soy Oil	USc/lb	29.4	27.8	28.5	29.5	30.0	30.2	30.5	30.6



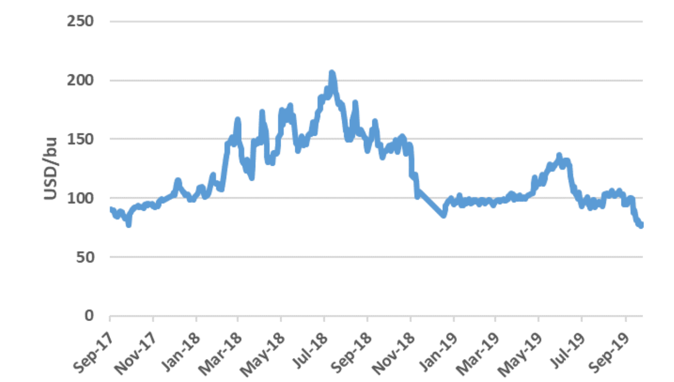
Source: Bloomberg, Rabobank 2019

The vegetable oil demand environment became more hospitable last month, lifting CBOT Soy Oil 2%, after a missile attack on the world's largest oil refinery in Saudi Arabia sent Brent prices surging and reopened the diesel/biodiesel spread. Fueling the sentiment of strong US biodiesel demand, stronger-than-expected August NOPA and September WASDE 2018/19 crush failed to materially raise soy oil stocks, which are projected to finish 2019/20 at six-year lows of 1,486m lb. The rapidly shifting supply/demand balance in CBOT Soy Oil has driven near-record fund short-coverage, to arrive at a net long of 16,900 lots, the most since February 2019.

In China, domestic soy oil prices have come off a bit from two-year highs, thanks to the tariff-free US soybean import allowance, but remain 13% higher YTD. African swine fever-lowered soybean import and crush continue to cut soy oil output and stock, forcing 2019/20 vegetable oil imports (principally palm and soy) to six-year highs. Meanwhile, Brazil began its move from B10 to B11 biodiesel on September 1, which is expected to substantially raise domestic soy oil demand requirements, tying up exportable supplies in Brazil. Our overall view for CBOT Soy Oil remains moderately constructive, breaching USc 30/lb in Q1 2020, as the global vegetable oil mop-up looks to be in play.

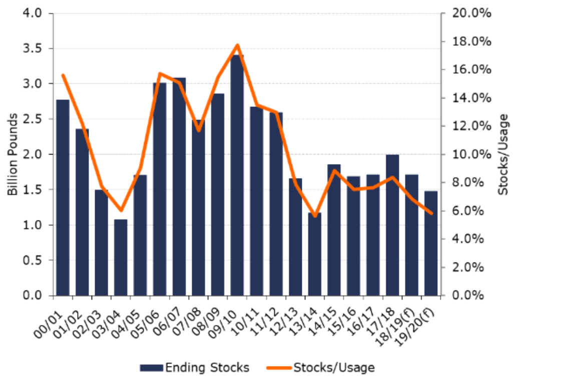
CBOT Soymeal recorded modest gains in September, rising 2% and nearing USD 300/mt, in sympathy with the slimming US soybean balance sheet and nascent China-US trade movement. NOPA's August soymeal production report (representing ~95% of US crushers) was strong for a second month, at 168m bu (unchanged month-on-month), with notable increases in northern US soy crush (where August was +39% vs. 2018), which implies a nascent processing outlet for stranded US soybeans. Still, more evidence of a soymeal demand recovery will be needed, especially with year-to-date crush flat vs. last year and crush margins languishing at year-to-date lows. In particular, US export values remain USD 30 higher than South America, made uncompetitive by real and peso values near record lows. China's recent review and approval of Argentine crush plants and soymeal imports is a tacit warning to the US that China is not waiting for a trade deal to secure its supply chain. If the current Chinese-US talks and interim purchases fall through, as they have on previous occasions, China may call on Argentine soymeal provisions to help bridge the expected soybean short-fall from Brazil in Q1 2020. Rabobank maintains its CBOT Soymeal outlook: Prices will move above USD 300/mt and remain tethered, as supplies continue to adjust to a lower demand environment, with strong potential upside if a trade deal emerges or Chinese agricultural purchases accelerate.

US Soy crush margins are languishing at two-year lows



Source: Bloomberg, Rabobank 2019

US Soy Oil Stocks are projected at six-year lows in 2019/20



Source: USDA , Rabobank 2019

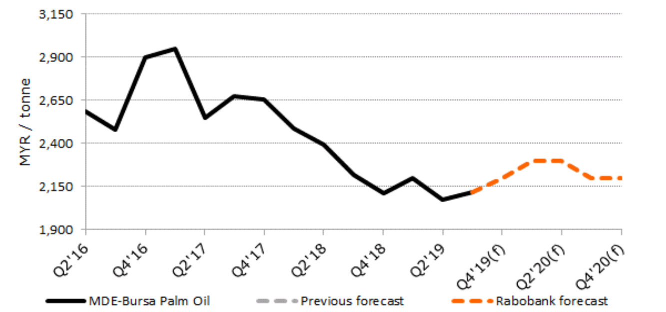
Palm Oil

Increasing palm oil production in Indonesia and Malaysia in 2H 2019 to limit price recovery

- Malaysian and Indonesian 2H 2019 palm oil inventories to be higher than 1H 2019 levels.
- Indian and Chinese palm oil imports to remain strong in Sep 2019.
- Spreads between palm oil/gas oil and soy oil/palm oil widen.

Palm oil price forecast is maintained

	Unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
Palm Oil	MYR/tonne	2,200	2,075	2,200	**2,200**	**2,300**	**2,300**	**2,200**	**2,200**



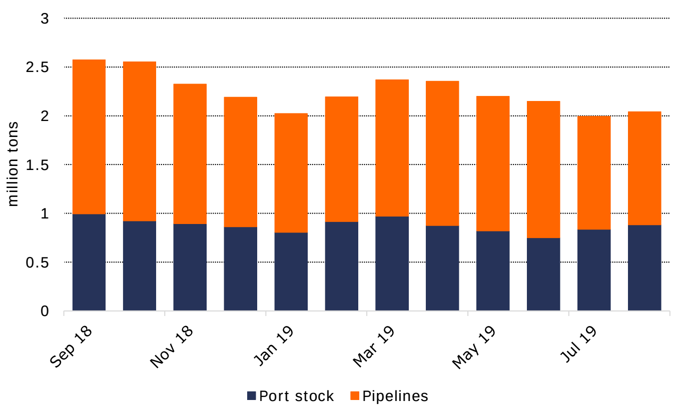
Source: Bloomberg, Rabobank 2019

Malaysian and Indonesian 2H 2019 palm oil inventories will be higher than the levels in 1H 2019. According to MPOB, Malaysian Aug 2019 palm oil production increased by 5% MOM and 12% YOY, to 1.8mmt. Despite this increase, Malaysian Aug 2019 palm oil inventories decreased by 5% MOM, to 2.3mmt, due to strong exports. This was a result of strong Malaysian palm oil exports for the same month, which increased by 16% MOM, to 1.7mmt. Meanwhile, GAPKI reported that Indonesian palm oil production (incl. lauric oils) increased by 9% MOM and 1% YOY, to 4.3mmt in July 2019. Indonesian July 2019 palm oil inventories (incl. lauric oils), however, decreased by 1% MOM, to 3.5mmt. We expect palm oil inventories in Malaysia to increase QOQ in Q4 2019, due to the expectation of lower RBD palm oil exports to India. The 5% hikes in Indian import duty on Malaysian RBD palm oil make Indonesian crude palm oil more attractive to Indian palm oil importers. Meanwhile, for Indonesia, we expect stronger palm oil production in 2H 2019 to result in higher inventory levels, compared to 1H 2019.

Indian and Chinese palm oil imports to remain strong in Sep 2019. As expected in last month's report, India increased its palm oil buying in August, on the back of low domestic inventories and preparation for the festive season in October. According to the Solvent Extractors' Association of India, Indian Aug 2019 palm oil imports increased by 5% MOM, to 852,500mt. Meanwhile, Indian edible oil inventories (port stocks and pipelines) as of the end of Aug 2019 increased by 2% MOM, to 2mmt. We expect Indian Sep 2019 palm oil import volumes to remain strong for the same reasons as in August. We also expect Chinese palm oil imports to remain strong in September, as domestic edible oil inventories in China are still at relatively low levels. As of the second week of September, soy oil inventories had decreased by 3% MOM, to reach 1.3mmt. Meanwhile, palm oil inventories increased by 8% MOM, to reach 567,500mt.

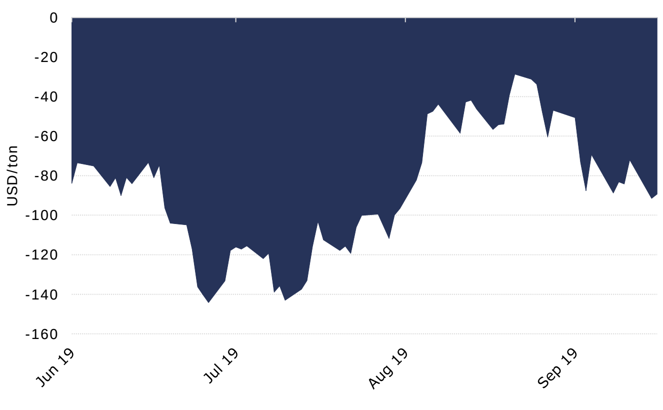
Spreads between palm oil/gas oil and soy oil/palm oil widen. The missile attack on Saudi Arabia's oil refinery in September resulted in a loss of 5.7 mb/d of the country's crude oil production. Even though the Saudi government has managed to recover its production partially, there are still uncertainties as to the timeline of full production recovery. Since the attack, the POGO spread has widened, from around -USD 30/mt in mid-August to around -USD 90/ton in mid-September. Meanwhile, CBOT Soy Oil active contract prices widened the price spread to MDE-Bursa palm oil active contract prices, to USD 120/mt in mid-September, against USD 90/mt in mid-August. The widening of these spreads is positive for palm oil demand.

Indian Aug 2019 edible oil inventories remain at relatively low levels



Source: SEA India, Rabobank 2019

The widening of the POGO spread increases palm oil attractiveness for discretionary biodiesel blending



Source: Bloomberg, Rabobank 2019

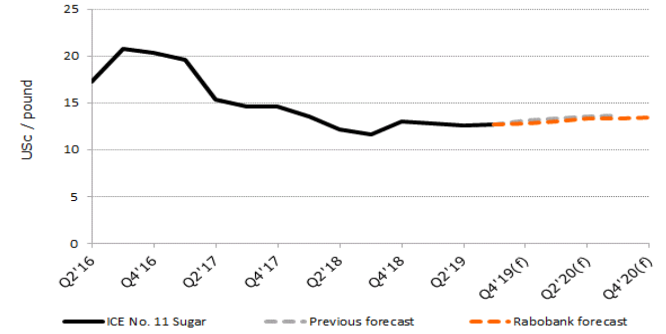
Sugar

ICE #11 Sugar will likely recover some ground

- We remain cautiously bullish, in part due to funds being record net short and in part due to a deterioration of the Indian crop outlook.
- Nearby strength in white premium, as deliveries against the October contract were much smaller than expected.
- Funds' record net short on ICE #11 should see some more volatility ahead.

ICE #11 Sugar price forecast lowered, but still bullish

	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**



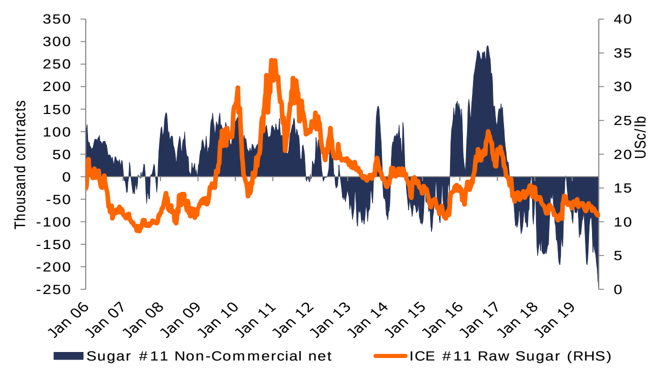
Source: Bloomberg, Rabobank 2019

ICE Sugar #11 continued to see weakness, related to the good weather for harvesting in Brazil. The more or less stable Brazilian real during September and the support seen in the energy markets – due to the drone attack on the largest oil processing plant in the world – have done little to support sugar prices. On the fundamentals side, there has been excellent weather to wrap up harvest efforts in Brazil ahead of the start of the wet season, with crush so far this season 1.2% higher YOY. Despite all the uncertainty in currencies and policies (from Brazil and India in particular), 2019 may be the year with the narrowest range since 1997, a situation which is explained by the large stock availability. The latest CFTC report (Sep 17) shows funds reaching a record net short on ICE #11 Sugar, having sold an impressive 99,000 net lots in the last seven weeks. A record position will likely create volatility ahead. With the strength of the ethanol complex in Brazil ahead of the intercrop season, a bullish forecast for the BRL and the weather issues in India and the EU, we tend to believe a move higher is more likely.

There is visible strength in the white market. While raws continue to trade against the ropes, London whites have been much more attractive, climbing 6% so far in September. Weather has not been great in Europe, with drier-than-normal weather through the summer and continuing over September. France, Germany, and the UK have been particularly affected by dryness. More rains are forecast, but yields have already suffered. To some extent, the drop in these countries will be compensated by strong yields in Russia, where preliminary yields from the early harvest are coming in over 20% better than last year's. Meanwhile, the Indian crop continued to suffer from heavy rainfall, which is expected to continue through September. The losses from heavy rainfall are very difficult to quantify, and the estimates for the coming Indian crop will have a larger margin of error than usual. This adds to the uncertainty regarding the future use of export subsidies. In particular, the fact that they will be paid to farmers before mills see a penny poses an additional factor of uncertainty.

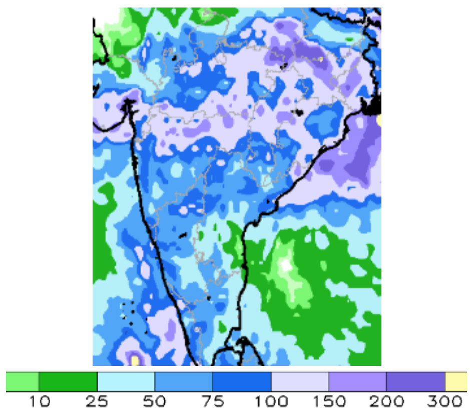
The strength of Brazil's ethanol market will be key for next season. Ethanol has had a large advantage over petrol through the current harvest season, but there is no guarantee the same will hold next year. Brazil ethanol prices have climbed 2% in the first 20 days of September, ahead of the tail of the crop and despite the excellent dry weather which will favor both harvested volumes and a higher sugar mix than if the weather had been wetter. At the moment, the ethanol parity is trading USc 2/lb above sugar, which means mills will likely continue to maximize ethanol for the rest of the season. But if the drop in the EU, India, and Thailand is large enough, the market may have to rally a couple of cents in order to incentivize a higher sugar mix next season.

Non-Commercials reached a record net short on ICE #11. An appreciation of the BRL could quickly change this trend.



Source: CFTC, Bloomberg, Rabobank 2019

India to continue to see some extreme rainfall in places. One-week rainfall forecast (mm):



Source: NOAA, Rabobank 2019

Coffee

Arabica to see support from lower washed arabica crops

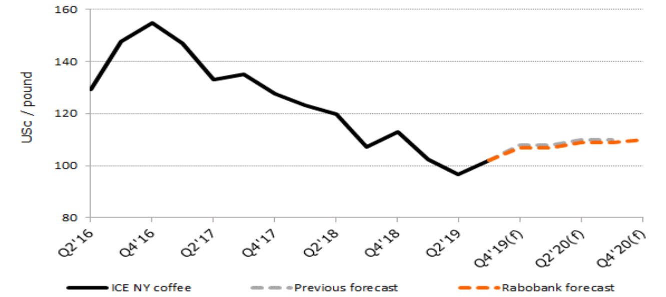
- Normal start to the wet season in Brazil.
- Robusta premiums over Brazilian conillons have reached record levels, especially in Vietnam and India.
- Central America has had less than ideal weather. With production falling in 2019/20, the availability of washed arabicas going forward remains uncertain.

We remain bullish on ICE Arabica, as the decline in certified stocks, combined with the uncertainty on the washed arabica 2019/20 crops, will likely support the market. The BRL ended the month mostly unchanged against the USD, after recovering some ground and then falling back down to around USD/BRL 4.16. Rabobank continues to hold a bullish view on the BRL, and this should also help to support prices going forward. For the time being, the market remains focused on the Brazilian weather and the 2019/20 production outlook, with rainfall and temperature playing a key role in the coming weeks during the flowering period. Rainfall is in the forecast in Brazil, signaling a normal start to the wet season; however, rainfall in the last few weeks has been below average and below forecast levels. Our expectation is for flowering to begin and to continue as normal in the coming weeks. We continue to maintain our view that, if Brazil sees a normal wet season, we may see a record Brazilian arabica crop in 2020/21.

The weather has been far from ideal in Central America and Mexico, but particularly in the latter. Rainfall levels have been slightly below normal in the last three months across Central America and well below normal in much of Mexico. In principle, this should not be a cause of concern in Honduras and Nicaragua, but the effects may be compounded by the lower fertilizer use and the increased abandonment. We expect a 6% reduction in Honduran 2019/20 production, with a high probability of reductions for the rest of Central America and Mexico. This uncertainty may impact the availability of washed arabicas in 2019/20. Total US warehouse stocks increased by 125,000 bags from July to August, to a record 7.2m bags, while certified arabica stocks decreased by around 50,000 bags in September, to a little over 2.3m bags.

ICE Arabica forecast slightly lowered, but still bullish

	unit	Q1'19	Q2'19	Q3'19	Q4'19f	Q1'20f	Q2'20f	Q3'20f	Q4'20f
ICE Arabica	USc/lb	102	97	102	107	107	109	109	110
ICE Robusta	USD/mt	1,531	1,406	1,406	1,400	1,430	1,450	1,460	1,460

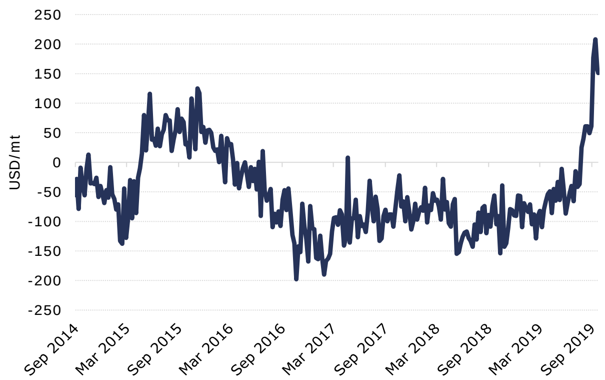


Source: Bloomberg, Rabobank 2019

Robusta premiums over Brazil are expected to stay strong. Premiums on robusta origins other than Brazil have been soaring in the last month, as much of the international industry is slow to accept the cupping profile of Brazilian conillon, while other origins struggle with supply issues. In particular, in India and Vietnam, robusta differentials have reached record levels. In contrast to this, as of September 17, Managed Money held a record net short position in ICE Robusta of -47,357 lots, while Brazilian conillons flooded the market.

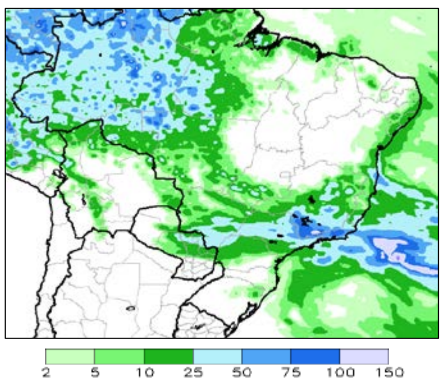
In Vietnam, differentials rose to record highs against ICE Robusta and Brazilian conillons, as hoarders control the last of the available 2018/19 crop amid rising differentials. Exports are down around 20% MOM and down 11.5% YTD. With the start of the 2019/20 Vietnamese harvest, we will likely see a reduction in the local price for new crop by November. But a positive Indian Dipole Index is set to continue in the Indian Ocean for the next quarter. This is likely going to exacerbate the existing dryness in Indonesia and wetness in India. The crops coming in the remainder of 2019 and 2020 in these regions will likely be affected to some extent.

Vietnamese robusta differentials are the highest they've ever been. HCMH FOB price minus ICE Robusta (second contract):



Source: Bloomberg, Rabobank 2019

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



Source: NOAA, Rabobank 2019

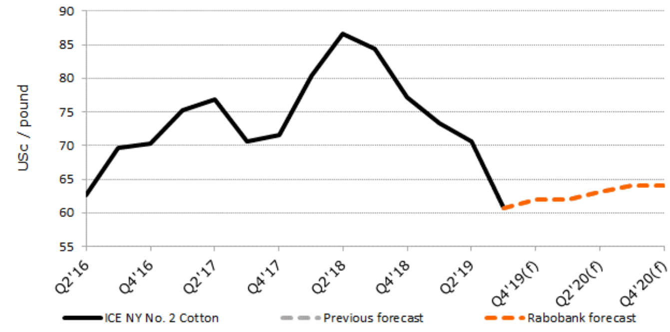
Cotton

Bullish, but range bound outlook for ICE #2 – limited by US loan program and swelling exportable stocks

- Cotton set to trade between USc 60/lb and USc 64/lb in the 12-month period, rising slowly through the year.
- The USDA cuts US 2019/20 output to 21.9m bales – more in line with Rabobank's 21.6m-bale forecast.
- Global 2019/20 output faces two extremes: Australia faces another drought, while Indian production could touch +30m bales, buoyed by late monsoon rains.

ICE #2 Cotton forecast maintained

	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	72	61	62	62	63	64	64



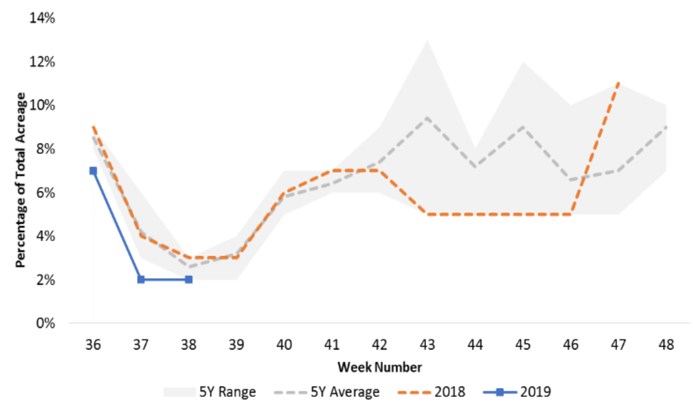
Source: Bloomberg, Rabobank 2019

A soft bullish outlook is maintained for ICE#2 Cotton, as prices snap back to near USc 60/lb from August contract lows. Renewed optimism over future US-China trade talks has assisted the sentiment, coupled with the USDA's cut to US 2019/20 output, to 21.9m bales – down 0.6m bales MOM and more in line with Rabobank's 21.6m-bale forecast. In our view, both the US loan program and opportunistic mill purchases limit price downside to the USc 58/lb to USc 60/lb region, while swelling 2019/20 world ex. China stocks – up almost 3m bales YOY – coupled with a tepid 2% demand growth projection limit upside. With that, Rabobank maintains a range bound price outlook into 2020, with prices set to trade between USc 60/lb and USc 64/lb, and rising slowly through the year. This is already somewhat reflected in the flat nature of the forward curve – the Dec 2019-Mar 2020 sits at –USc 0.75/lb – but is subject to disruption from a sudden production or trade shock, e.g. a US-China trade deal.

We anticipate further US 2019/20 output cuts from the USDA in the future, following our tour of West Texas and the Delta, driven by marginally lower US planted acres. National conditions – rated just 39% good/excellent – also raise additional yield concerns. In the more immediate term, the US harvest is underway through the South – LA, TX, AZ, and AR are leading this charge, while 64% of bolls are open nationally. While this makes the crop vulnerable to precipitation, there is little in the weather and/or hurricane forecast to drive a risk premium… yet. On the trade side, China has cancelled US commitments in all of the six weeks beginning the 2019/20 marketing year, totaling over 83,000 bales. 2019/20 commitments to date have grown at the second-slowest pace since 2011/12 (after last season), amid broader demand concerns. While still early to draw seasonal conclusions, we see US new crop exports at just 15m bales while the trade war persists, vs. the USDA's optimistic 16.5m bales.

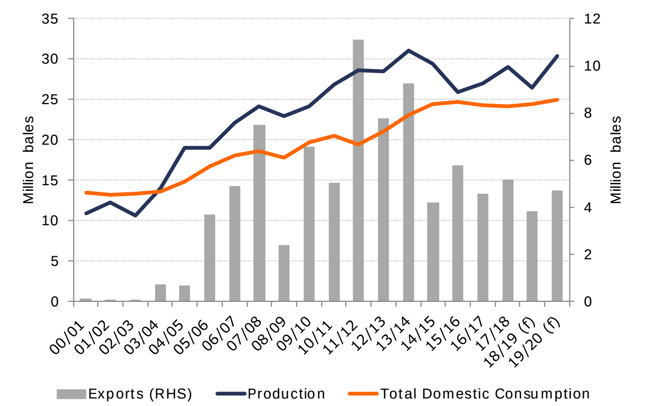
Production elsewhere sits at two sides of the spectrum. For Australia, a severe lack of east-coast rainfall during the southern hemisphere winter/spring leaves 2019/20 production prospects at their lowest levels since 2007/08. The widespread shortage of water is expected to allow just a fraction of the nation's 'normal' irrigated area to be planted this season, although dryland crops may still be viable. India, on the other hand, now faces prospects of a +30m-bale 2019/20 crop, amid the late arrival of the monsoon and subsequent irrigation for the developing crop. With US and Australian exports potentially out of the picture this season, it could be Indian and Brazilian trade that benefit significantly from future Chinese trade.

US picking gets underway through September, with progress at 11% nationally led by the southern states



Source: USDA, Rabobank 2019

Indian 2019/20 output set to exceed 30m bales, following late monsoon rains, driving export potential up +20% YOY



Source: USDA, Rabobank 2019

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Methodology note: For ICE Sugar (raws and whites), ICE Arabica, ICE Robusta, and ICE Cocoa (NY and London), we aim to forecast the second rolling contracts, whereas for Palm Oil, we aim to forecast the third rolling contract. We have also used these contracts in the price diagrams. For all other contracts, we focus on the front month.

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