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Agri Commodity Markets Research

January 2021: Short Supplies Force Prices to Rise

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CBOT G&O prices launched out the gate in 2021, reaching their highest prices since 2014 as supplies continued their decline from last year. Global demand continues to be strong, and the weather is imperfect, leaving a precarious balancing act until resupplies arrive in major exporters. Non-Commercials are piling into an inflation bet and acreage is competitive with many G&O products in contraction; consumers should be prepared for a risk-filled year. Meanwhile, coffee and sugar prices also rose in the wake of stronger-than-expected demand, the effects of drier-than-normal weather in Brazil in 2020, as well as astronomical container shipping rates.

WHEAT

CBOT Wheat forecast increased on weather risks, export taxes, and continued strong export demand

- Weather in Russia and the US continues to be a concern.
- The USDA estimates EU+UK ending stocks to reach the lowest levels in almost 40 years on good exports, supporting prices at elevated levels.

SUGAR

The recent upside is probably overstated but likely to stay until Brazil starts harvesting again

- Raw sugar saw a surprising upside in December and January, aided by fund buying and higher oil prices.
- The upside is replicated in a number of commodities, but demand has also been very strong.

CORN

Our November 2020 high-case scenario of USD 5.50/bu CBOT Corn comes into view

- Production losses and record demand leave a narrow bridge for supplies to navigate in 2021.
- For a second consecutive quarter, the USDA found US bins far emptier than expected, raising export worries.

COFFEE

The coffee price forecast has been slightly increased

- Brazilian weather continues to pose a problem with expectations for the crop varying widely
- We remain friendly toward robustas, particularly now that Vietnam's shipments are delayed.

SOY COMPLEX

CBOT Soybean's parabolic trajectory was stabilized late last month by South American moisture

- Brazilian soy production remains partially delayed and dry, but recent moisture improvements staved off worst-case scenarios and together with high US acreage should prevent an inflationary spiral.

COCOA

The cocoa forecast has been raised to reflect the market, but remains bearish, with recovery seen in Q3 2021

- Higher grind suggests demand recovery is on track.
- Global surplus seen expanding on good/normal weather in all crop regions.

PALM OIL

Relatively low Malaysian palm oil inventories will support palm oil prices in 2021

- Palm oil prices to peak in Q1 2021.
- Malaysian palm oil inventories will remain relatively low in 2021.
- Implementation of Indonesian biodiesel mandates of 9.2m kiloliters remains uncertain in 2021.

COTTON

ICE #2 Cotton forecast is revised higher on cuts to the US balance sheet and unfixed old crop call sales

- ICE #2 Cotton futures rose above USc 80/lb in January – the first time since December 2018.
- Rabobank forecasts support to persist across cotton futures, at least in the short term.

Wheat

CBOT Wheat forecast increased on weather risks, export taxes, and continued strong export demand

- Weather in Russia and the US continues to be a concern.
- The USDA estimates EU+UK ending stocks to reach the lowest levels in almost 40 years on good exports, supporting prices at elevated levels.
- Good import demand continues around the globe.

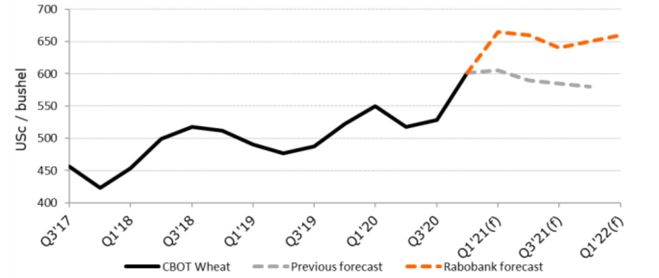
In addition to being led upward by buoyant corn and soybean markets, wheat faced its own challenges at the start of 2021. Concerns over future supply and intense export demand have added to the price pressure, sending prices to multi-year highs. In an effort to control local price inflation, Russia plans to increase its export tax from March after the initial EUR 25/mt tax appeared to have little effect on exports. Under the increased tax, Russian exports are now expected to be at least 1mmt lower than previously estimated. The market will focus on whether Russia will continue to apply taxes on its 2021/22 wheat exports.

The recent price increases and tighter export supply will have a disproportionate effect on those countries most dependent on Russian and European wheat imports, especially those in North Africa, where very few tenders have been agreed recently. Memories of the region's 2011 Arab spring will remain vivid in governments' minds, and they may be more active in keeping the imports flowing despite the price. On top of this, China's import demand has been increasing, with imports reported to have reached 8.4mmt in 2020, according to official reports. This month the USDA increased its estimate of Chinese 2020/21 imports and consumption to 9mmt and 135mmt respectively, as lower availability of corn raises wheat feed demand.

European exports have continue to rush out despite tighter supplies, as traders take advantage of high export

Wheat price forecast raised on ongoing good demand and weather woes

	unit	Q2'20	Q3'20	Q4'20	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
CBOT	USc/bu	518	529	602	665	660	640	650	660
Matif	EUR/mt	190	186	208	225	230	210	215	220

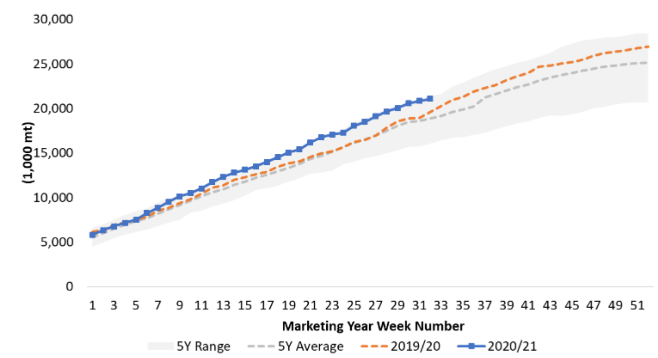


Source: Bloomberg Finance L.P., Rabobank 2021

prices. Exports for this season reached 14mmt, compared to last season's 16.7mmt. Supplies will no doubt become tight ahead of the harvest and will likely keep prices elevated until then. The spread of EU over CBOT has recovered and will soon be testing recent highs. Currently, the USDA estimates EU+UK exports to reach 26.5mmt, with ending stocks falling to 11.1mmt, the lowest in almost 40 years.

Temperatures in Europe appear to be rising from the recent cold snap with good precipitation in western Europe. Overall, despite the cold weather, temperatures have remained above the long-term average, and snow cover has been good where winter kill could have posed a risk to crops. Soil moisture levels still remain a concern in Ukraine, Russia, and Turkey. With only some patchy precipitation in the forecast, precipitation levels will need to rise in the coming weeks and months to give the crop a better start in spring. The cold weather and snow will likely affect the export flow for the remainder of the month. In the US, precipitation is sparse, with temperatures above average for much of the Central Plains. At present, there is sufficient snow cover in areas where temperatures are below 0°C. However, precipitation will also need to increase in the coming months to ensure good crop development in the spring. Certainly, as the weather in Russia and the US continues to be a worry, volatility becomes quite likely.

US wheat commitments are at the top of the five-year range despite production being the lowest in 15 years



Source: USDA, Rabobank 2021

EU-Black Sea snow cover is looking sufficient while for wheat areas where temperatures continue to average below 0°C

Source: NOAA, CBK PAN, Rabobank 2021 as of 19 January 2021

Corn

Our November 2020 high-case scenario of USD 5.50/bu CBOT Corn comes to the fore as production losses and record imports form a narrow bridge for supplies to navigate in 2021

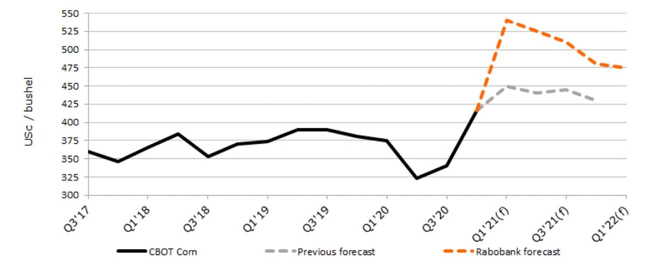
- For a second consecutive quarter, the USDA found US bins far emptier than expected, raising US export worries
- Supply risks are rife. Adverse South American weather can still tip corn into rationing.
- Farmers will plant far and wide on good prices, but consumers are unlikely to find satisfaction in 2021.

The unending assault on US corn stocks reached a tipping point last month, driving CBOT Corn +25% MOM, to 5.28USd/bu. 2020/21 US carry-out – widely seen as the world's emergency reserves – has witnessed unprecedented cuts: an historic 1.55bn bushels, or a 53% reduction, to seven-year lows to date per the USDA's WASDE. Stock levels should fall further over the coming months – near 1.3bn bushels – as the scope of exporter crop losses and global feed import growth is revealed. Normal weather could bridge the supply/demand divide up to 2022, but price breaks will, at best, provide defensive opportunities in a year that sees widespread G&O inflation and few satisfied consumers.

In the ACMR 2021 Outlook, Rabobank flagged CBOT Corn's bullish potential from a front-loaded, small US harvest and La Niña-linked dryness in South America. Since then, additional stock losses of roughly 15mmt have cut US 2020/21 stocks-to-use from a comfortable 10.6% to a tight 9% (below 2013/14's 9.2%), inflating prices to seven-year highs and bringing our outlook upside case of USD 5.50/bu nearly to the fore. For consumers, this month's shock US yield cut to 172bu/acre is a double blow. It elevates the importance of the South American harvest (arguably the most important ever), and it punctures the reputation of Teflon US corn yields. Whatever the cause, it is clear that global corn supplies are balanced on a metaphoric tightrope for the coming year, and even minor weather issues in a key exporter will push CBOT Corn into an inflationary spiral toward USD 7/bu.

US corn stocks evaporate, raise CBOT price floor

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Corn	USc/bu	323	337	417	540	525	510	480	475

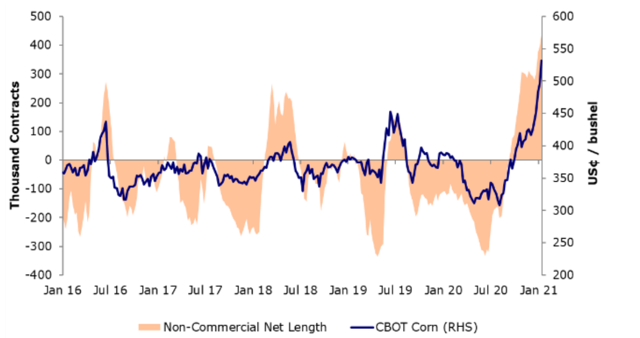


Source: Bloomberg Finance L.P., Rabobank 2021

The US corn export program is being stretched to its limit this year by China, whose structural deficit has grown wider as a result of hog-driven gains (8%) in feed demand and an imperfect harvest. China's feed grain import program will run upwards of 35mmt this year, including 24mmt of corn (+342% YOY) on the back of a 50% rise in domestic corn prices, and remain around those levels in coming years. As a result of that increased demand, US corn commitments are running at 70% of the full-year record program, 16 points above normal, with eight months to go before the new harvest. Domestic corn scarcity in Argentina and Ukraine has pushed up prices and the risk of export controls. US corn remains the cheapest origin for Asia, suggesting upside for export demand and prices.

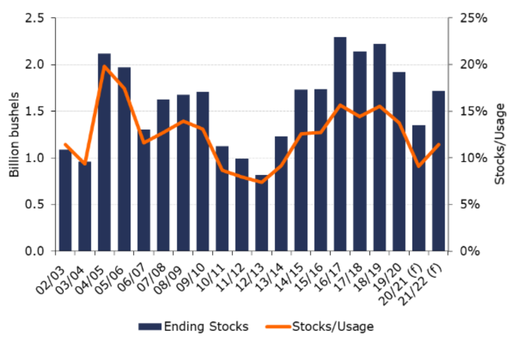
Over the last week, rainfall across Brazil and Argentina has prevented devastating yield declines, raised acreage expectations, and tempered the rally. If these rains continue, the record non-commercial net length (430,000 lots, up from a -332,000 lot net short in April 2020) will take some profit. The tightening trend in grain & oilseed markets and limited US acreage opportunities for corn will make stocks reflation an uphill battle over the coming year. Farmers and non-commercials will be patient profit-takers, and wary grain consumers will seek entry points through a drawn-out resupply period. Volatility and fund length will moderate with successive normal Brazil safrinha, Ukraine, and US harvests, but these would afford global corn stocks partial replenishment. Prices are seen supported above USc 4.80/bu in the year ahead.

CBOT Non-commercial positioning have bought an incredible 760k net lots in 8 months that could see some shake-out



Source: CFTC, Bloomberg Finance L.P., Rabobank 2021

US 2020/21 corn stocks usage will fall to 9%, just shy of 2013/14 levels and 2021 restocking will be incomplete



Source: USDA, Rabobank 2021

Soybeans

CBOT Soybean’s parabolic trajectory was stabilized late last month by South American moisture

- Brazilian soy production remains partially delayed and dry, but recent moisture improvements staved off worst-case scenarios and should prevent an inflationary spiral.
- With US soy supplies front-loaded and stocks laid bare, CBOT Soy will be commercially supported above USD 12.60/bu until 2022, with risk toward the upside. Further breakouts will be tempered by high US acres, uneven demand recovery, and fund liquidation.

CBOT Soy’s dominant run continued in January, with prices 10% higher MOM and briefly flirting with seven-year highs of USD 15/bu. Poor South American weather and politics are driving uncovered consumers to squeeze tight US soy stocks. In our November 2020 outlook, we pointed to South America’s inconsistent rainfall, the front-loaded US export program to China, and an increasingly competitive G&O landscape as the key traits that would make CBOT Soy 2021’s most bullish commodity. It’s off to a hot start, and any major reversal will require large harvests, rational consumer behavior, and uninterrupted logistics.

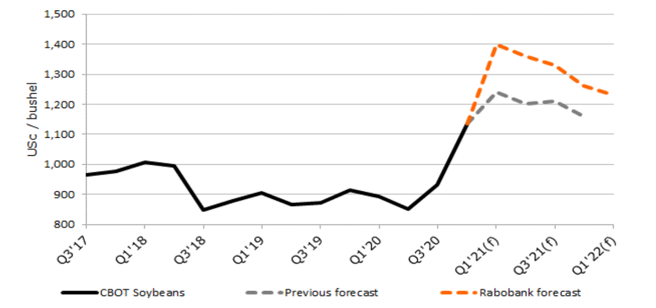
Consumers who sat out last quarter in anticipation of South American bailout have found themselves struck by Brazilian harvest delays and Argentine port strikes. Brazil and Argentina’s La Niña-induced dryness have felled yields and delayed crops at the worst possible time, leaving the world picking at scraps. Recent rainfall improvements across the worst-affected areas of Brazil and Argentina have likely prevented catastrophic yield losses and stabilized production near 176.5mmt. Indeed, over the last week, South American prices have moderated, and physical export prices now below the US. Though at 3mmt below the USDA’s view, short supplies, combined with the strengthened BRL, will mute typical February harvest selling pressure. Domestic demand will also be fierce. Brazil feed and biodiesel requirements continue to rise, and Argentina’s crushers want to increase capacity to capitalize on high prices. Over the coming weeks, two important parties to watch for price action will be Argentina’s inflation-fearing farmers, whose sale of old crop (3m to 5mmt) could help rebalance the market, and long funds, whose profit-taking could provide opportunities for price breaks.

Any optimism in South America’s pre-harvest moisture boost is tempered by the expanding shortage and price increases across G&O products. Last month, the USDA cut US corn ending stock estimates to 1.55bn bushels, and Rabobank sees a further decline to an uncomfortable 1.3bn bushels. US soy acreage is certain to rise this year, but competitive moves in CBOT Corn will limit gains to about 7m acres and prevent a significant stocks recovery from 140m bu in 2021/22.

Despite higher prices, soy’s easterly trade wind is likely to remain strong beyond 2021, as China’s imports surpass 100mmt. There is little scope for soy demand to come in below that unless African swine fever worsens, Covid-imposed lockdowns return (a present concern in China ahead of the New Year), meal utilization is lowered, or crush output is reduced. In the US, there are nascent signs of domestic softness. CBOT crush margins are down almost 50% from 2020 highs, and NOPA’s December production of 183m bu was below expectations. Demand destruction isn’t widespread, but if South American or US harvests disappoint, it will have to be. There is growing expectation that exporter G&O supplies won’t fully satisfy consumer concerns or cool inflation. Our CBOT Soy price is raised USD 1.00 to USD 1.50/bu across 2021 to average USD 13.40/bu throughout the year.

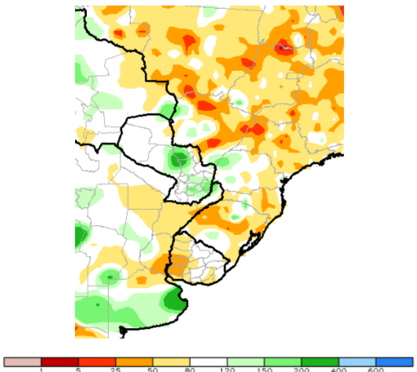
US Soy extended stocks tightness drives CBOT’s risk rally

	Unit	Q2’20	Q3’20	Q4’20f	Q1’21f	Q2’21f	Q3’21f	Q4’21f	Q1’22f
Soybeans	USc/bu	851	925	1135	1400	1360	1330	1260	1230



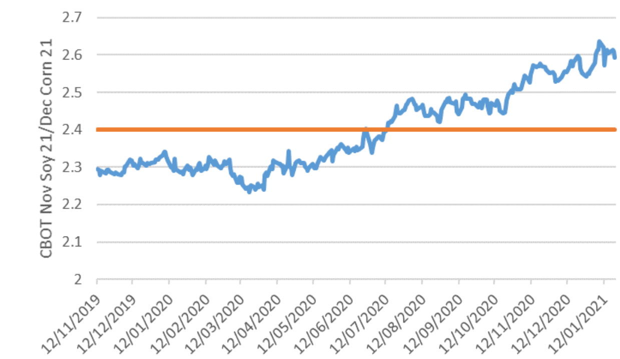
Source: Bloomberg Finance L.P., Rabobank 2021

30-day rainfall accumulation in South America is lower than normal, but late rainfall with avoid disastrous yield losses



Source: NOAA, Rabobank 2021 (% of normal rainfall) as of 19 January 2021

CBOT Soy-Corn ratio is near 2.6, above the switch level that implies US soy is “buying” acreage to avoid rationing



Source: Bloomberg Finance L.P., Rabobank 2021

Soymeal and Soy Oil

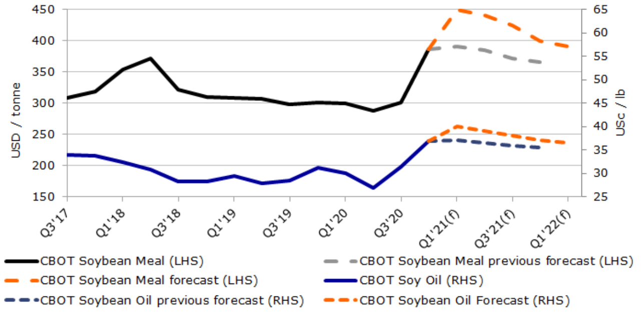
CBOT Soymeal and Soy Oil soared last month before better weather and slowing demand growth prospects tempered the rally

- Falling US crush margins lessen competition for soy and lower soymeal and soy oil output potential.
- US record crush upside appears limited, as high soy prices and South American crop stability limit growth in US export demand. Supply volatility will remain elevated.
- US soy oil demand could cool quickly amid export competition, growing production, and stocks.

CBOT Soymeal's steady march toward USD 500/mt appeared unstoppable until last week, when South American rainfall prevented the worst and Chinese coronavirus cases threatened peak food consumption around New Year's celebrations. Prices rose 17%, to seven-year highs, before settling at USD 440/mt (+8%). Rabobank was bullish about the soy complex in its November outlook, and continues to see soymeal on solid footing thanks to bare US soy supplies (140m bu), an unfulfilled Brazil/Argentina harvest (176.5mmt), and record Chinese procurement (>100mmt soy in 2021). Shrunken feed grain and oilseed stocks (~-10% YOY) face uphill battles against La Niña and lingering dryness in the US, Black Sea, and South America. Absent any major resupply before autumn, major 2021 price shakeouts in CBOT Soymeal must come from demand cuts rather than production gains. So far, there are small signs of cutbacks. US crush margins have fallen by almost half amid the run-up in soy, and crushers have produced consecutive, disappointing NOPA reports. In China, disease concerns ahead of Chinese New Year and origin switching could pause US soy demand. Rabobank maintains conviction in backwardated CBOT Soymeal prices staying above USD 450/mt through Q1 before replenished southern supplies, a large US 2021/22 crop, and subsiding demand lower levels to USD 400/mt by year end.

CBOT Soymeal and Soy Oil outlook reflects scarce supplies

	Unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Soymeal	USD/tonne	288	297	386	450	440	425	400	390
Soy Oil	USc/lb	26.9	31.3	36.8	40.0	39.0	38.0	37.0	36.5

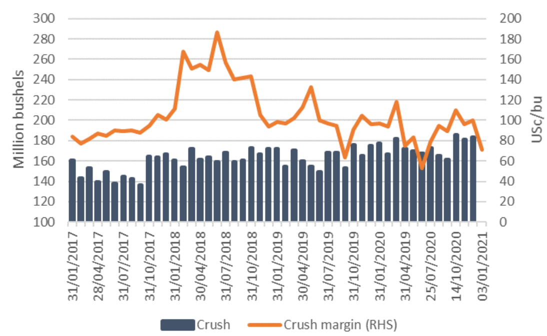


Source: Bloomberg Finance L.P., Rabobank 2021

US soy oil's crush share is languishing at six-month lows of 30% amid shakier demand fundamentals relative to feed. As high US crush volumes feed the meal bull, soy oil has, meanwhile, seen output outpace demand in four consecutive NOPA reports (1.7bn lb in December, the highest level since June). In the weeks ahead, US bullish fundamentals may get even more wobbly. The export sales pace should decline as South American supplies trade at a discount to US supplies and plummeting palm oil prices grow in attractiveness.

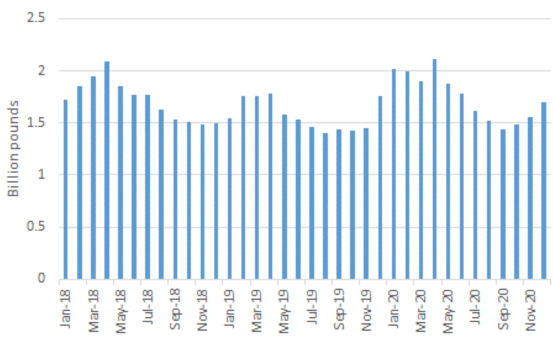
Outside of South America's weather woes, which have recently regressed, the broad-based vegetable oil appreciation has been driven by MDE Palm Oil, whose productivity is expected to recover in Q2. Although major biodiesel economies like Indonesia have seen relatively strong demand throughout the pandemic, high premiums to diesel will see mandates unfulfilled. Meanwhile, primary import demand drivers (India and China) are facing hand-to-mouth buying, stocks drawdowns and potential muted festival celebrations if covid-19 re-emerges. Ultimately, supply constraints from rapeseed and sunflower oil, in addition to MDE Palm Oil's relatively modest (though much improved) discount of roughly USD 80/mt to CBOT Soy Oil, will see the latter's demand endure. However, the overall tightness in the market is unwinding and – exacerbated by fund liquidation of four-year-high length – could set the scene for an correction from year-to-date highs. Rabobank raises its Q1 forecast to USc 40/lb, with a decline to USc 37/lb toward year end.

CBOT crush margins have weakened and more stable supplies in South America may scale back record demand upside



Source: NOPA, Bloomberg Finance L.P., Rabobank 2021

US soy oil stocks have risen quickly for 3 months on a sales slowdown and despite weaker-than-expected crushings



Source: NOPA, Rabobank 2021

Palm Oil

Relatively low Malaysian palm oil inventories will support palm oil prices in 2021

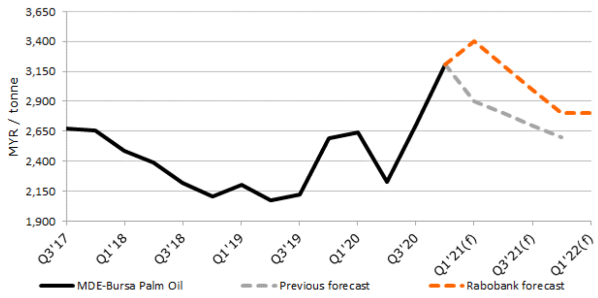
- Palm oil prices to peak in Q1 2021.
- Malaysian palm oil inventories will remain relatively low in 2021.
- Implementation of Indonesian biodiesel mandates of 9.2m kiloliters remains uncertain in 2021.

Palm oil prices to peak in Q1 2021. The MDE-Bursa Palm Oil active contract price continued its bullish run to reach MYR 3,830/metric ton in early January 2021. A combination of persistently low Malaysian palm oil inventory levels and recent volatility in global soybean and global vegetable oil complexes provided further support to already positive palm oil market conditions. We expect palm oil prices to remain relatively supported in Q1 2021, due to a seasonal palm oil FFB yield down-trend cycle in Southeast Asia. Heavy rainfall triggered by La Niña could result in more floods, which potentially could negatively affect Malaysian palm oil production in Q1 2021 as well. The palm production cycle in Southeast Asia is expected to shift to a seasonal uptrend from Q2 2021 onwards, and we expect this to result in lower QOQ palm oil prices. We also expect that the high palm oil price environment will result in limited demand from palm oil importers or at least a 'hand to mouth' buying pattern in Q1 2021. Looking at the above factors, we have revised our Q1 2021 palm oil price forecast up to an average of MYR 3,400/metric ton.

Malaysian palm oil inventories will remain relatively low in 2021. According to the MPOB, Malaysian December 2020 palm oil production and inventories decreased by 10.6% and 19% MOM, to 1.33mmt and 1.26mmt respectively. Meanwhile, Malaysian December 2020 palm oil exports increased by 24.6% MOM, to 1.62mmt, as palm oil importers increased their buying prior to implementation of the Malaysian palm oil

We revised up our 2021 palm oil prices forecast

	Unit	Q2'20	Q3'20	Q4'20	Q1'21(f)	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)
Palm Oil	MYR/tonne	2,639	2,229	3,205	**3,400**	**3,200**	**3,000**	**2,800**	**2,800**

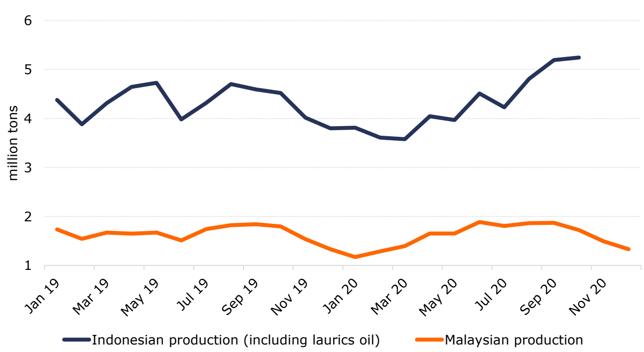


Source: Bloomberg, Rabobank 2021

export tax in January 2021. Though the Malaysian palm oil export tax is being implemented again in 2021, we expect Malaysian CPO export prices will remain competitive compared to Indonesian CPO export prices in 2021. This is due to the adjusted Indonesian palm oil export levies' structure, which will keep Malaysian palm oil inventories at a relatively low level, thereby providing support to Malaysian benchmark futures prices in 2021. Meanwhile, Indonesian palm oil inventories are still expected to increase year-on-year in 2021.

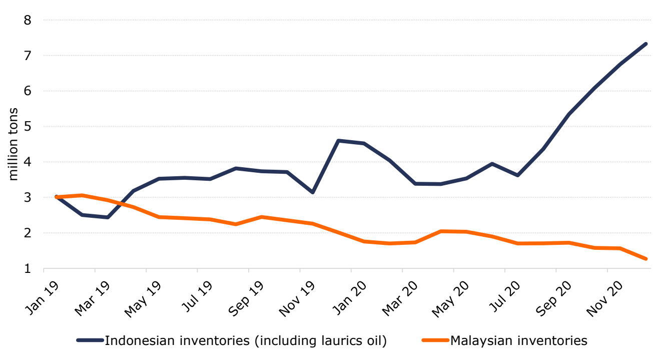
Implementation of Indonesian biodiesel mandates of 9.2m kiloliters remains uncertain in 2021. According to the Ministry of Energy and Mineral Resources of Indonesia, Indonesian biodiesel consumption in 2020 only reached 8.46m out of the 9.6m kiloliters target. This, coupled with the un-competitiveness of Indonesian CPO export prices in 2H 2020, has resulted in the current, high palm oil inventory levels in the country. According to GAPKI, Indonesian December 2020 palm oil inventories (including lauric oils) were at 7.3m metric tons, the highest monthly palm oil inventory level ever reached. The Indonesian government has adjusted the structure of the country's palm oil export levies to provide more incentives for domestic biodiesel mandates in 2021. However, based on the current POGO spread, a large amount of incentives are still required to fulfil the Indonesian biodiesel mandate in 2021.

Malaysian January 2021 palm oil production is expected to be lower year on year



Source: MPOB, GAPKI, Rabobank 2021

Malaysian palm oil inventories will remain relatively low in 2021



Source: MPOB, GAPKI, Rabobank 2021

Sugar

The recent upside is probably overstated but likely to stay until Brazil starts harvesting again

- Raw Sugar saw a surprising upside in December and January, assisted by fund buying and stronger oil prices.
- The upside is replicated in a number of commodities, but demand has also been very strong.
- Weather in Brazil has improved, but it is still a concern.

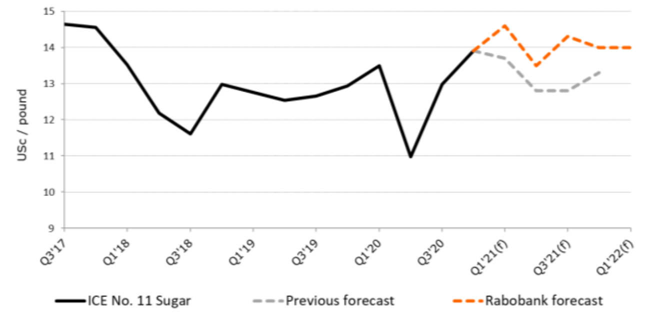
ICE #11 Raw Sugar saw a surprising rally between the end of December and early January, sending the forward curve into a sharp backwardation. Much of the sugar in Brazil is already sold. Therefore, the recent surge in demand strengthens the backwardation. What we see in sugar, as in other commodities (particularly wheat), is front-loading of demand, as many processors and supermarkets prefer to work on a 'just in case' basis, as opposed to 'just in time.' Also, consumers had to buy extra products for Christmas in some countries – firstly, for the Christmas people wanted to have, and secondly, for the Christmas they were allowed to have. The strength in demand is likely to continue for as long as Covid-19 continues to pose potential challenges to supply chains and changes in consumer behavior. Meanwhile, the weather in Brazil has improved, but the effect of lower rainfall in September-November is uncertain. Lower cane volumes could also allow a higher sugar mix. With this in mind, we remain relatively bearish on the second contract, while on whites, we see a strong sugar premium through at least most of 2021.

Container freight rates are skyrocketing, particularly in shipments from SE Asia. There is quite a bit of a trade imbalance, with factories working normally in SE Asia, where Covid-19 levels have been kept under control, while factories in many other geographies still work below capacity. On top of this, there are still delays in some ports, which means the total availability of containers is reduced. Shipping rates normally represent a very significant proportion of white sugar prices, and the increase in rates will likely mean delays in sugar shipments, as more valuable products per unit of weight/size will be prioritized. This creates relatively more scarcity of whites. Therefore, it is hardly surprising to see the white premium reacting upwards, with the front month trading at USD 99/metric ton. However, the high costs do not affect so much the traffic to Asia, and the contracting of Indian sugar has been predominantly raws for now. But, as imbalances are exported from one region to another, we should expect further effects in other regions in the future to sustain a high WP.

Funds will likely stick around sugar during the off-season in Brazil and until they see the aftermath of the March expiry. 2021 has seen record net long Non-Commercial positions across agricultural commodities, while in sugar funds remain below record levels but still surprisingly large. As discussed in our outlook report back in November, we believe there is a large pool of money looking for better returns in non-traditional asset classes, and new money pouring into commodities tends to go long more often than not. It is also a way to hedge against inflation at a time when central banks are openly unworried about overshooting inflation targets. A large fund position should correlate to higher volatility, especially when we approach the start of the new season in Brazil, which may change a few people's minds.

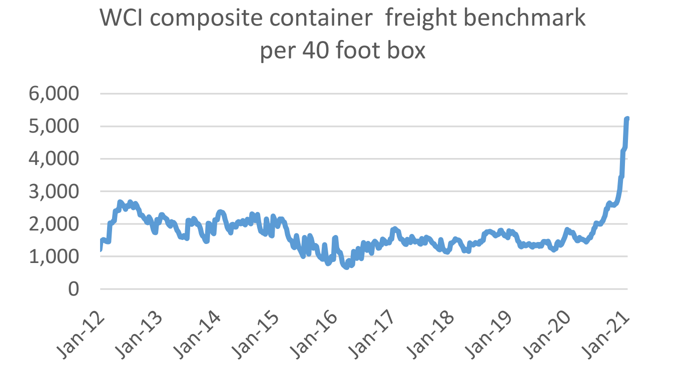
ICE #11 Sugar price forecast increased, but still bearish raws

	Unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
Sugar	USc/lb	11.0	13.0	13.9	14.6	13.5	14.3	14.0	14.0



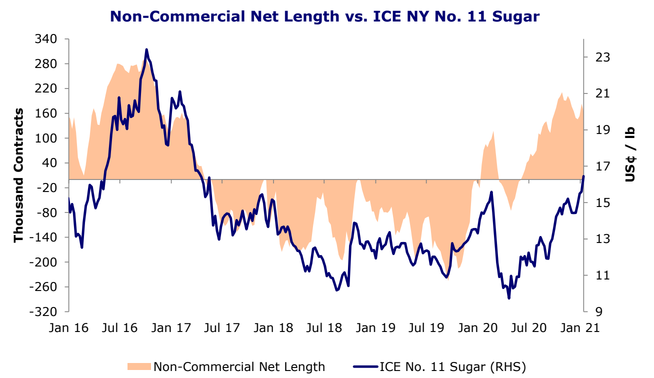
Source: Bloomberg Finance L.P., Rabobank 2021

Container rates are skyrocketing, which should lead to delays in white sugar shipping



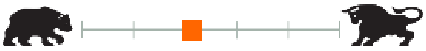
Source: Bloomberg Finance L.P., Rabobank 2021

Non-Commercials will likely remain net long until the end of the pandemic is in sight and interest rates rise



Source: CFTC, Bloomberg Finance L.P., Rabobank 2021

Coffee

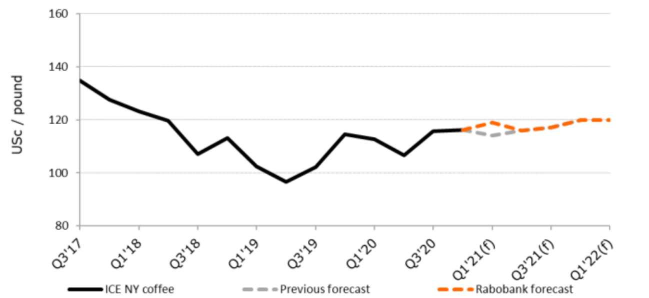


The coffee price forecast has been slightly increased

- Brazilian weather continues to pose a problem. Expectations for the crop vary widely, with a large expected drop contrasting with current availability.
- We remain friendly toward robustas, particularly now that Vietnam's shipments are delayed.

ICE Arabica forecast bearish, but bullish robustas

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
ICE Arabica	USc/lb	107	116	116	119	116	117	120	120
ICE Robusta	USD/mt	1195	1348	1350	1420	1420	1420	1450	1480



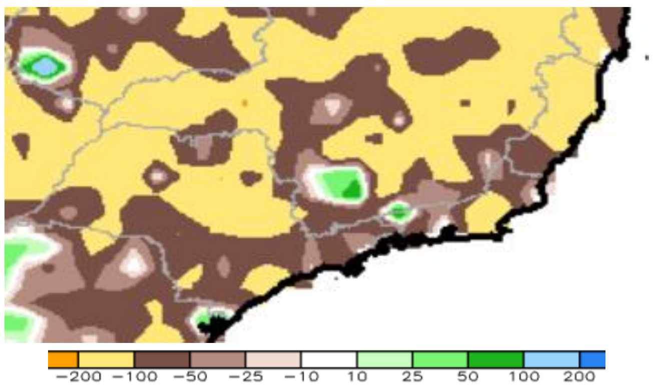
Source: Bloomberg Finance L.P., Rabobank 2021

A shortage of Brazil arabica in 2021/22 contrasts current high availability. Sales volumes in Brazil are reported to have slowed down, as farmers are already relatively well-sold and are expecting further price increases in light of the expected drop in production. Record-high prices in BRL are not enough to trigger further selling. Following heavy rainfall in early December, many coffee regions accumulated a further rainfall deficit of 100mm. The short-term forecast calls for limited rain, and the IRI three-month model is predicting below-average rainfall. With this in mind, we believe Brazil might produce in the range of 35m to 38m bags of arabica. In contrast to this expected drop, ICE inventories reached 1.5m bags in mid-January, while the number of bags awaiting grading on ICE Arabica continues to be strong, at 0.13m bags, and continues to show more coffee arriving. The incredible 100% passing rate of December is unlikely to be repeated, but we know most coffee passes in the first instance and more is arriving. Furthermore, Brazil continues to export at a record-breaking pace, and it will be unlikely to decelerate much in 1H 2021. We believe this availability will prevent a rally, while the expectation of a large drop in Brazil will likely prevent prices from going back to the lows seen last year. We see USc 110/lb as a solid floor through 2021.

Colombian-registered production for December saw a 4% YOY increase, to 1.74m bags, pointing to a recovery in volumes. Remarkably, despite the ups and downs of the market, the internal price in Colombia has remained rather stable over the last three months, as the surge in NY was offset by an appreciation in the Colombian peso. In principle, we would expect levels to continue to come in above last year's in January and February, but as the country is having its most severe peak of Covid-19 now, labor scarcity could become a challenge again. Meanwhile in Central America, crops are only slowly being sold and exported, with sales in Honduras lagging 40% below last year (October to mid-January).

We continue to be friendly to robustas. The incredible rise of container freight rates from Asia is making exporting robusta from Vietnam to Europe (or anywhere) much more expensive (about USD 150/metric ton more expensive than back in October). This should result in higher destination prices and more acceptance of Brazilian conillons. Furthermore, most players in the market expect a record conillon crop out of Brazil in 2021, and this may well be the case. However, we maintain the view that even though Espírito Santo seems to be carrying a record amount of coffee, Rondônia, a much less traveled area, suffered from dry weather in 2020, and a decline in output there is to be expected. Furthermore, the rainfall in Espírito Santo was well below normal in November and December, which will potentially lead to stressed trees, sun damage, and diseases, even in the presence of irrigation. We could see lower average quality and a higher amount of defects.

Following very good rains in early Dec, the weather continued to be dryer than normal. 30-day anomaly:

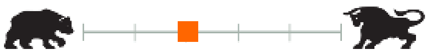


Source: NOAA, Rabobank 2021 (mm) as of 19 January 2021

Record BRL-denominated prices in Brazil are not enough to attract significant selling for now

Source: Cepea, Rabobank 2021

Cocoa



The cocoa forecast has been raised to reflect the market, but remains bearish, with recovery seen in Q3 2021

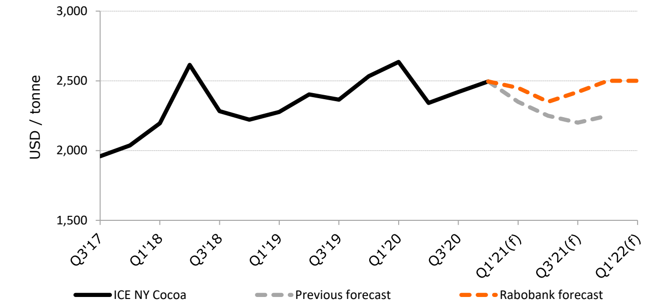
- Improving grind suggests demand recovery is on track.
- Global surplus seen expanding on good/normal weather in all crop regions.
- Commodity Index funds expected to support price while interest remains elevated.

There's light at the end of the tunnel for cocoa, as Q4 grindings confirm a continued recovery in demand from Covid-19 lows for major regions. However, there is a still a long way to go to clear the glut of beans in West Africa, especially Côte d'Ivoire. Overall, aggregate Q4 grinding figures for North America, Asia, and Europe showed a 1.85% YOY decline, recovering from the 6.3% YOY decline in Q3. The figure was slightly better than our expectation of a 2% YOY decline. Aggregate grindings came in at 679,740mt for Q4, down from 692,535mt in Q4 2019 but up from 666,655mt in Q3.

The situation in West Africa continues to be complicated, with uncertainty over how sales will progress this season and into the next. A large surplus is developing at origin that will limit price upside. The mild or almost non-existent Harmattan has delivered a very good main crop in the region as a whole, leaving Côte d'Ivoire with an overhang of around 200,000mt that will need to be stored and carried over the mid-crop. Reports suggest much of the crop remains with farmers and co-ops, which, if improperly stored, may cause quality issues and add further downward pressure to prices when it comes to market in the months ahead. Elsewhere, South America has received sufficient rainfall, with levels now estimated near normal in cocoa regions with a slight deficit in some areas. Indonesian rainfall is also estimated to be at normal levels, which may result in slightly higher production than initially expected.

ICE NY and London Cocoa forecast raised but still bearish

	unit	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f	Q1'22f
ICE NY	USD/t	2,341	2,420	2495	2450	2350	2420	2500	2500
ICE London	GBP/t	1,813	1,690	1696	1670	1600	1640	1670	1670



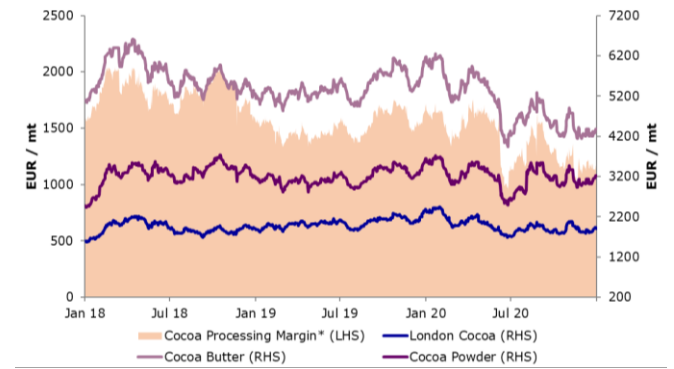
Source: Bloomberg Finance L.P., Rabobank 2021

Stockpiles in the US have been rising rapidly from December lows, adding 360,000 bags to 3.25m bags as of January 19. North American Q4 grindings showed a 7% YOY increase and were the highest since 2015. US cocoa demand appears to be recovering surprisingly well, as manufacturers have adapted well to the shift to increased retail demand. In Europe, Q4 grindings showed a 3% YOY decline, as prices for cocoa butter and powder diverged, with cocoa butter prices near 2020 lows while cocoa powder continued to move higher. European processing margins remained depressed as a result.

Commodity index funds have also been active in cocoa, and this will likely keep the price floor higher than previously expected while the interest remains. Index funds continue to hold onto a net long position – around the largest since 2014 – in NY Cocoa, as funds return to commodities as an inflation hedge and alternative investment to equities.

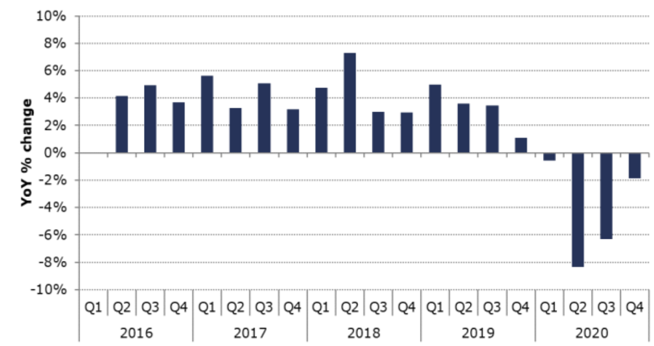
Looking forward, with production continuing to look very good in West Africa and relatively normal rainfall in other regions despite the effects of the active La Niña, we now expect production to be greater than estimated in our last report, with the global surplus for 2020/21 and 2021/22 expanding. This will continue to apply downward price pressure throughout 2021 and possibly 2022, but we expect demand to continue to improve. The growing stockpiles in Côte d'Ivoire will add pressure for government intervention, and it's unclear what will happen. We expect volatility to be high throughout 2021.

European processing margins have come under pressure as cocoa powder and butter prices diverge



Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Cocoa grindings in the three major regions continue to recover steadily from Covid-19 lows



Source: ECA, NCA, CAA, Rabobank 2021

Cotton

ICE #2 Cotton forecast is revised higher on cuts to the US balance sheet and unfixed old crop call sales

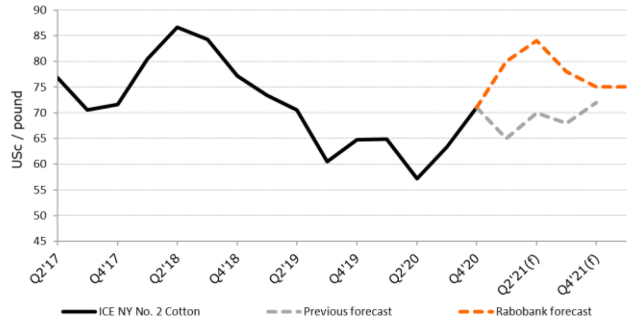
- ICE #2 Cotton futures rose above USc 80/lb in January – the first time since December 2018.
- Rabobank forecasts support to persist across cotton futures, at least in the short term, despite adequate global supplies.
- US spring planting intentions and the impact of La Niña remain fundamental risks for the new US crop.

January saw nearby ICE #2 Cotton futures break above USc 80/lb – the first time since December 2018. Strength was reached across old crop contracts, with March, May, and July 2021 all above USc 80/lb. Fundamentals played a key role in this rally, particularly with regard to the US balance sheet. Since September, the USDA has cut 2.6m bales from US 2020/21 ending stocks – the result of a 12% cut in domestic production, to a five-year low, and exceptional export demand. Total US 2020/21 export commitments – now at 11.5m bales – are at a decade-high, with 4.2m bales, or 36%, committed to China. Macro drivers are equally behind the recent ICE #2 rise. Rabobank notes a net long Non-Commercial position comparable to 2018, a near-90 USD Index, and a significant 82,600 lots of unfixed call sales on old crop contracts. On a broader note, the world remains adequately supplied. Rabobank forecasts 2020/21 world stocks, excl. China, to stabilize at 62.5m bales YOY, well above the 41m bale ten-year average. Brazil and India are forecast to carryover 14m and 20m bales, respectively.

Rabobank forecasts support to persist across the ICE #2, at least in the short term, despite adequate global supplies. Firstly, the volume of old crop unfixed call sales – along with a multi-year speculative long position – will reduce the size and duration of old crop price dips, since mills will actively be looking for opportunities to price lower. This, alongside ongoing Chinese import demand, will likely keep speculative longs active.

ICE #2 Cotton forecast adjusted higher

	unit	Q2'20	Q3'20	Q4'20	Q1'21(f)	Q2'21(f)	Q3'21(f)	Q4'21(f)	Q1'22(f)
Cotton	USc/lb	57.2	63.4	71	80	84	78	75	75

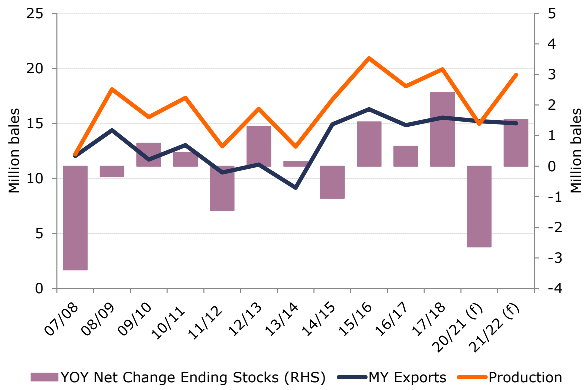


Source: Bloomberg Finance L.P., Rabobank 2021

Rabobank forecasts China to import 10m bales in 2020/21 in order to facilitate YOY consumption growth while preventing stock erosion. In summary, there is basis for the ICE #2 to trade beyond Rabobank's high-case outlook. We now forecast USc 80 to USc 84/lb to average through Q1 and Q2 with volatility. Fundamentals are expected to gain more focus in 2H 2021, with prices set to dip to USc 78/lb in Q3 and to USc 75/lb in Q4.

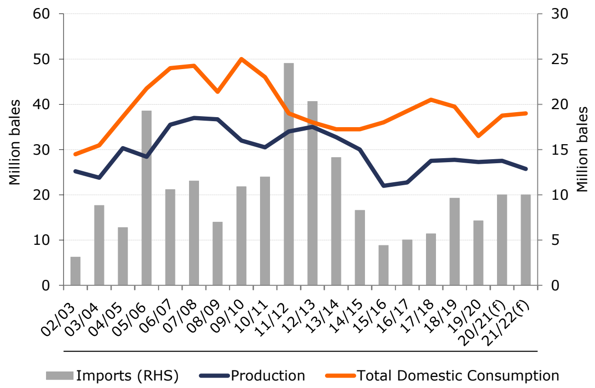
Two US developments are set to become major risk factors – namely spring planting intentions and the impact of La Niña. Rabobank forecasts US 2021/22 planting intentions at 12.5m acres – up just 2% YOY – as strong alternative crop margins, namely soybeans, compete with cotton for area. CBOT Soybeans, at around USc 1190/lb for November 2021, offer superbly favorable grower margins, with arguably lower growing risks. As a result, our US acreage forecast may be subject to a downward revision. Furthermore, the ICE #2 will need to provide enough incentive to prevent a major decline. The second factor, La Niña, will generate increasing focus as a large part of west Texas finds itself in drought. While there is time for precipitation, NOAA's three-month outlook suggests lower-than-average rainfall typical of La Niña. Rabobank notes the US balance sheets in recent La Niña years – in 2008/09 and 2010/11, national US abandonment well exceeded the 20-year average of 15.1%.

Cuts to the US 2020/21 balance sheet drive ending stocks down 37% YOY – a three-year low at 4.6m bales.



Source: USDA, Rabobank 2021

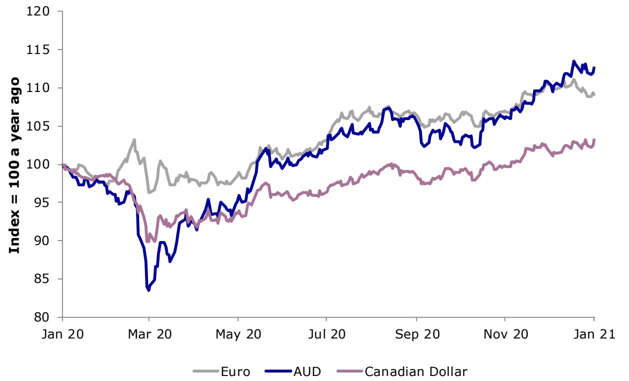
China's 2020/21 import forecast is revised upwards, to 10m bales, amid staggering demand, especially from the US.

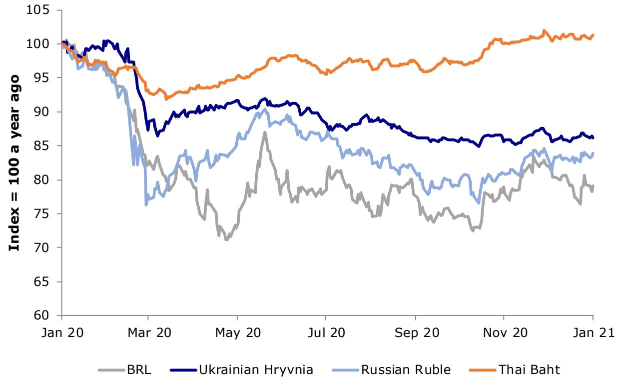


Source: USDA, Rabobank 2021

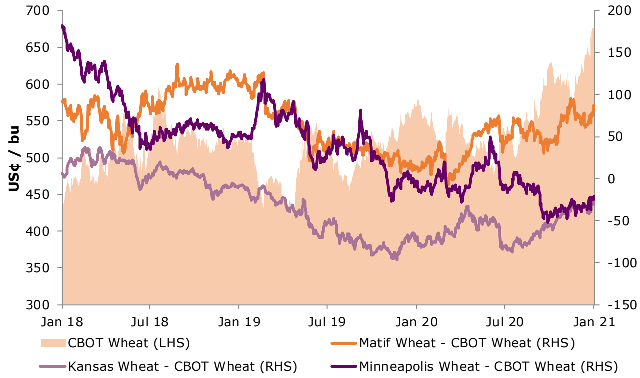
Agri Charts

Global Currencies USD Cross

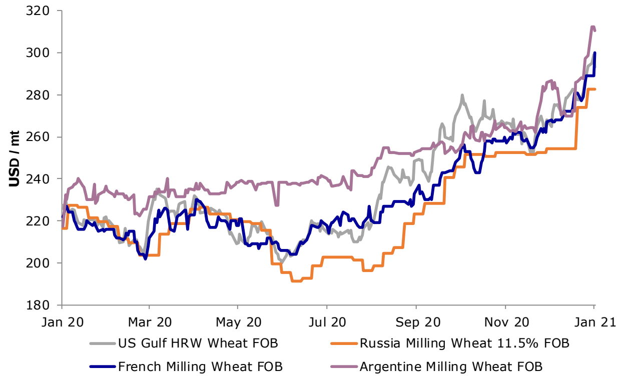




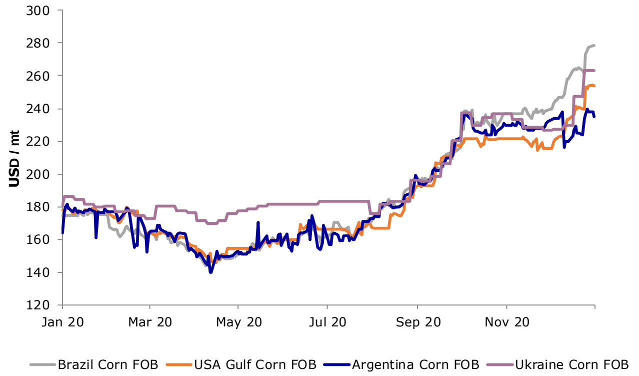
CBOT Wheat Spreads



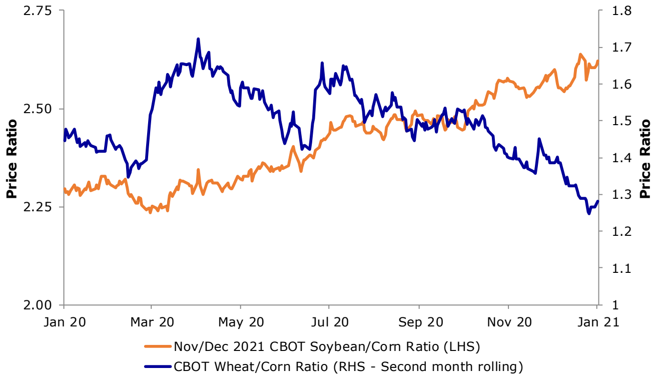
Wheat Protein FOB Prices



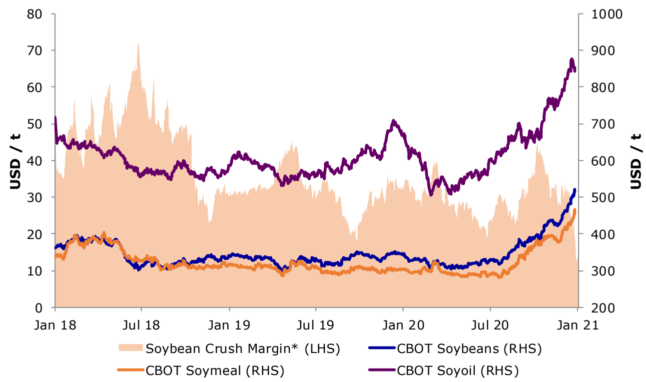
Corn FOB Prices



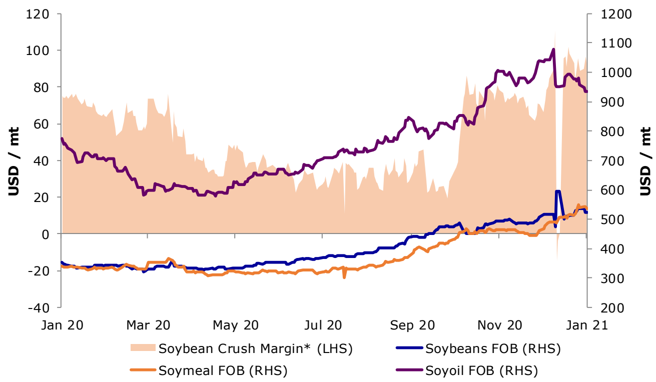
CBOT Ratios



CBOT Soybean Crush Margin



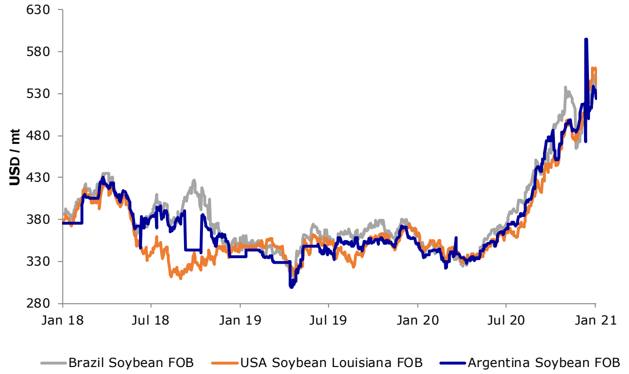
Argentina FOB Soybean Crush Margin



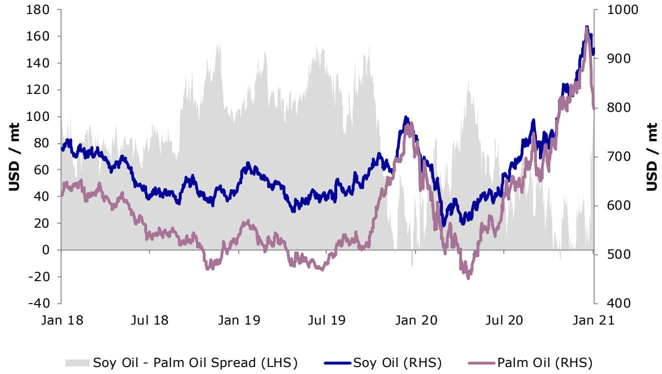
Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

Agri Charts

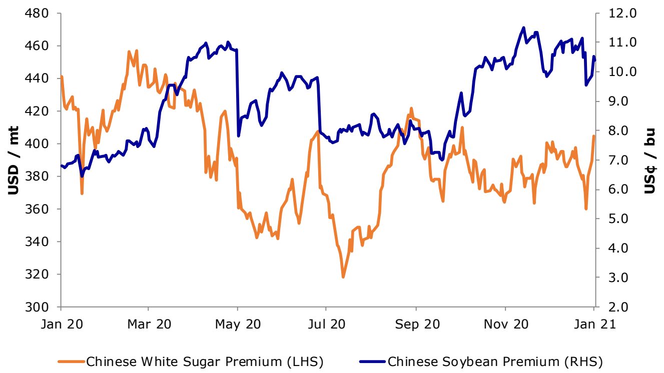
Soybean FOB Prices



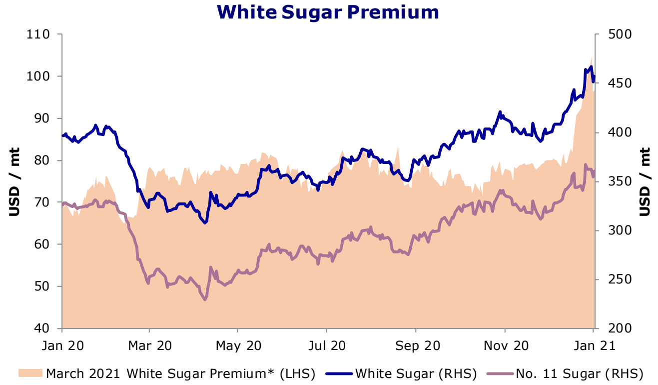
Palm Oil - Soy Oil Spread



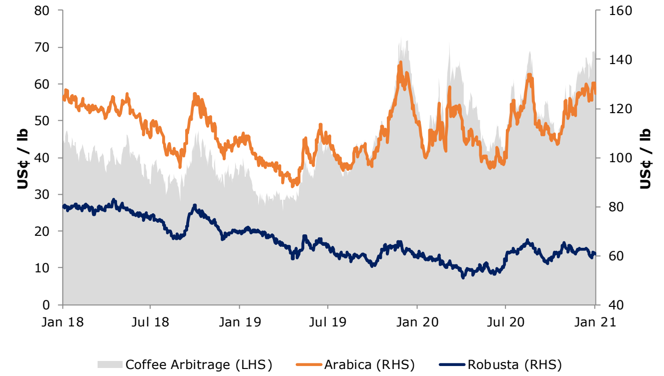
Chinese Futures Premiums



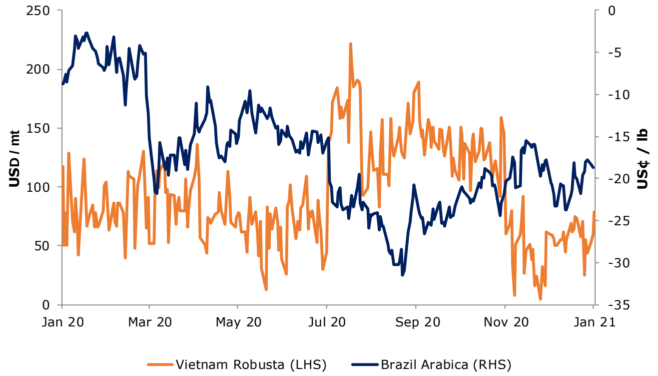
White Sugar Premium



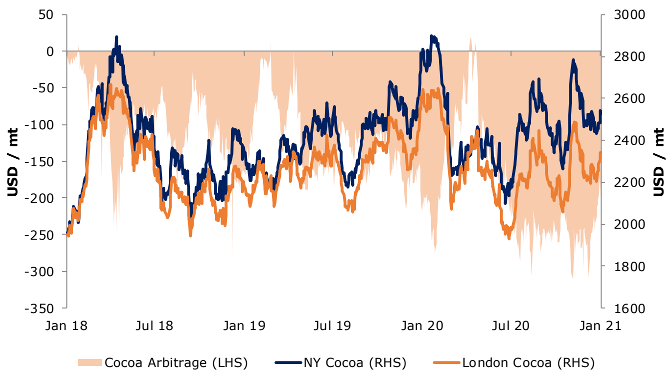
Arabica - Robusta Coffee Arbitrage



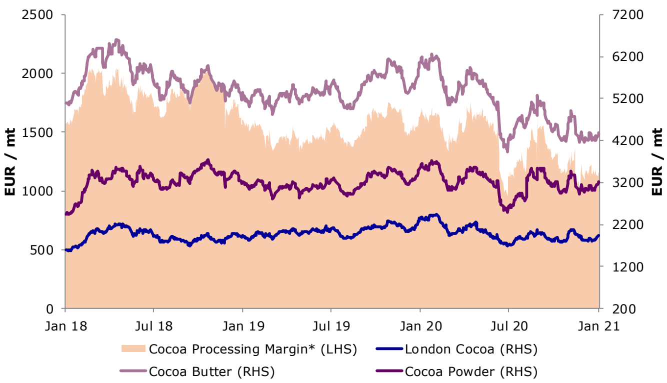
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2021 *Calculated on a gross basis

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