Rabobank

Agri Commodity Markets Research

June 2022: Summer of Discontent

RaboResearch
Food & Agribusiness

far.rabobank.com

Carlos Mera
Head of ACMR
+44 20 7664 9512

Michael Magdovitz
Senior Commodities Analyst
+44 20 7664 9969

Paul Joules
Junior Commodities Analyst
+44 (0) 7887824436

Agri commodity prices have taken a tumble so far in June, however, from near record levels with the S&P GSCI Agriculture Index losing 6.3%. The drop comes as other asset classes are falling (the Dow Jones Industrial Average was down 7.1% and Brent Crude fell by 6.3% in the same period), triggered by interest rates hikes, inflation concerns, and hawkish central bank rhetoric. This was accompanied by significant fund selling across most agri commodities; softs in particular saw heavy selling during the week ending June 14, with non-commercials shedding 30,403 lots of ICE #11 Sugar and a further 16,661 lots of ICE NY Cocoa. Non-commercials also increased their short position in CBOT Wheat, selling 7,172 lots in June so far. However, weather risks are high, with a heat wave in the US and Europe and an active La Niña. Energy prices are still pushing costs of pretty much everything up, and container scarcity is far from over.

WHEAT

Global wheat futures continue to find support as US and European crops struggle

- Chances of seabound Ukrainian grain exports resuming through an export corridor seem unlikely
- June WASDE report provides no major shocks

SUGAR

Brazilian weather and energy strength boost range-bound sugar

- The white premium finds support from expectations of a drop in India in 2022/23 and very high container prices
- Sugar prices have trended down so far in June

CORN

CBOT Corn likely to stay hot into summer 2023

- Low exporter supply is seen as preventing major risk-off.
- The US balance sheet is seen contracting in 2022/23, with stocks-to-use falling toward 8%

COFFEE

Brazilian real slid 6.3% vs. the US dollar in June providing local farmers with more incentive to export

- US green coffee stocks increased in May
- Demand concerns are putting downward pressure on coffee futures

SOYBEANS

CBOT Soy downside cushioned by low exporter supplies and a demand recovery

- US soy stockpiles are being fully called upon to address a global oilseed shortage
- A recovery looms for Chinese soy imports and crush, which will mostly offset major gains in production

Dairy

Milk production across the Big-7 exporting regions contracted year-on-year in Q1 2022 for the third consecutive quarter

- China's zero-tolerance lockdown policy has soured the country's dairy import demand.

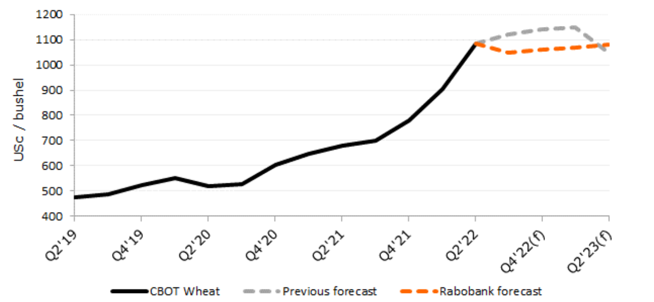
Wheat

CBOT Wheat and Matif continue to find support as US and European wheat crops struggle and Ukrainian exports remain unreachable

- US winter wheat conditions remain way off pace.
- Resumption of seabound Ukrainian grain exports through the opening of a trade corridor appears unlikely.
- A neutral WASDE report provides no major shocks and a muted response to India's export ban.

Prices are slightly bullish on adverse US and EU weather

	Unit	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f
CBOT	USc/bu	698	781	905	1084	1050	1060	1070	1080
Matif	EUR/mt	234	284	311	410	400	390	380	375



Source: Bloomberg Finance L.P., Rabobank 2022

US winter wheat conditions remain way off pace. With only 30% rated Good/Excellent as we close in on July, concerns about the US winter wheat crop continue to mount. Conditions are worryingly below both the five-year average of 50% and last year's 48%. Chances of any improvement this close to harvest are very unlikely, despite the good rainfall expected in parts of Kansas in the coming week. Unfortunately, it appears to be too little, too late as the window for improvement slams shut. Weather across Europe is fueling further concern about global wheat production. Mainland France has been hit hard by the European heatwave that has come considerably earlier than usual. Average daily temperatures across the course of June have been at all-time highs, and concerns about yield grow weekly, as the heat and dryness have caused the French wheat crop condition to crater over the past two months. Forecasts do not provide much optimism, with dryness expected to continue as we move into July.

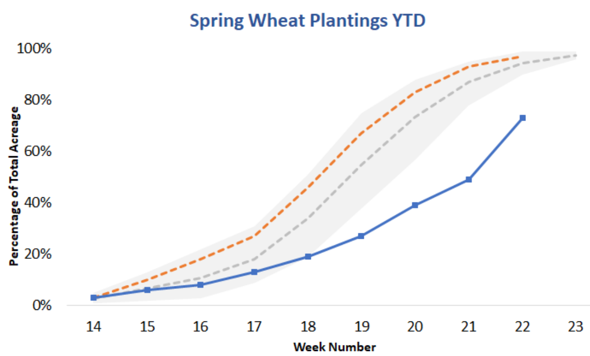
Resumption of Ukrainian grain exports through the opening of a trade corridor appears unlikely. CBOT Wheat has remained rangebound in recent weeks amid ongoing discussions between Russia and Turkey regarding the safe facilitation of Ukrainian grain exports. However, as part of the negotiations, Russia wants several of the sanctions imposed by the West to be removed, a request that the West sees as a backwards step in its efforts to support Ukraine during the war. There are also complications around de-mining the ports in Ukraine. Even if an agreement were reached today, safe passage could take months to complete. Ultimately, although newswires remain optimistic about the chances of an export corridor opening, in Rabobank's view, a return to Ukrainian export normality is currently not in sight. Another consideration regarding Black Sea exports is the appreciation of the Russian ruble, which has gained 47% vs. the US dollar since Russia invaded Ukraine on February 24. This, combined with the economic sanctions imposed on Russia and the logistical issues relating to freight, may reduce the incentive for Russian farmers to export their crops. Because of this and the adverse weather noted above, CBOT is likely to remain supported above the USD 10/bu mark and Matif above EUR 375/mt.

A neutral WASDE report provides no major shocks and a muted response to India's export ban. The main talking point from the USDA's latest WASDE report was the 2m mt cut to Indian 2022/23 wheat exports from 8.5m mt to 6.5m mt. In Rabobank's view, the export number still appears optimistic given India's food security concerns. The USDA also lowered Indian production by 2.5m mt to 106m mt in response to the extreme heat in March and April.

Russian ruble appreciates against the US dollar

Source: Bloomberg Finance L.P., Rabobank 2022

US spring planting remains behind the pace



Source: USDA, Rabobank 2022

Corn

CBOT Corn likely to stay hot into summer 2023

- USDA estimates for South American and US corn production face weather-related downgrades.
- Animal protein demand likely to be hit amid low feed availability, margin pressure, and economic malaise.
- Low exporter supply is seen as preventing major risk-off.

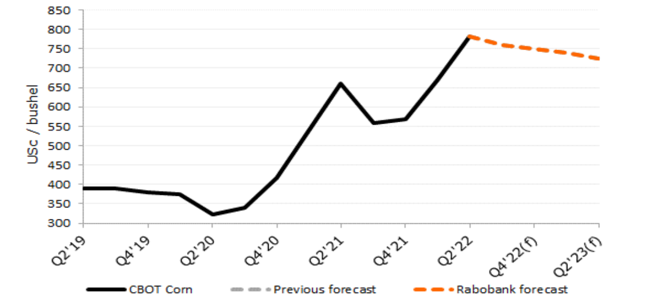
An early high pressure system across the central US has helped keep the heat on CBOT Corn, which is already up c. 33% YOY from war and low exporter stockpiles. Price risk for corn is typically skewed to the upside during the growing season. In 2022/23, the general absence of Ukraine, low alternate exporter stockpiles and variable weather across the US and EU will likely keep major price breaks elusive. CBOT Corn buyers were already buckling under the burden of near-record prices: demand is now seen contracting (by almost 2%) in 2022/23 for the first time in a decade. Consumer malaise is intensifying from broad-based inflation and recession fears, and isn't likely to recede until exporter stockpiles recover. Ending stockpiles won't expand until 2023/24 at the earliest, while a return to historic levels is a much longer way away.

Ukraine, long a heavyweight corn exporter, looks emaciated by the war. With 2022/23 exports seen at 8m mt (-15m mt below normal), the corn market has lost a notch in its belt and is being forced to tighten. There is growing consensus that alternative suppliers, who are themselves facing supply challenges, will not relieve the deficit. Brazil's 2021/22 corn harvest has been cut low by La Niña for a second straight year. Rabobank sees production at 112m mt vs. the USDA's 116m mt, which will require like-for-like reductions in export projections. Moreover, USDA expectations for 126m mt of Brazilian corn in 2022/23 look fanciful in light of high fertilizer prices and longstanding weather adversity. US plantings have caught up after a wretched start (particularly in the northern plains), but neither superhuman farmers efforts nor a historically low soy/corn ratio will be enough to raise corn acreage materially from the USDA's March report (89.5m acres). US corn faced challenges even before an early summer heat dome parked over the Midwest; if abnormally high temperatures linger into pollination (eliciting moisture evaporation and crop stress), the corn yield ceiling (seen at 177 bu/acre) will descend rapidly upon consumers. Our supportive price outlook for CBOT Corn (near 7.50/bu) is underpinned by an uninspiring start to the northern hemisphere summer harvest, where outperformance is needed.

The US balance sheet is seen contracting in 2022/23, with stocks-to-use falling toward 8%, the lowest level in a decade and a third below the five-year average. CBOT Corn price risk is sharply skewed to the upside until August, when US pollination reaches completion. CBOT Corn's two-year ascent may have taken the breath out of consumers, but small breaks will present coverage opportunities and spark renewed interest from funds, who recently liquidated about a third of their net length, likely with a view on demand cuts crimping price upside and to offset poor performance across other asset classes. Though global feed supplies are scarce, the West's political determination to transform food and feed into fuel appears as unalterable as Russia's blockade on Ukraine's Black Sea exports. Either a humanitarian corridor or scaling back of ethanol mandates would deflate corn prices; but neither Russia or the US appear interested in solving the hunger problem themselves. It's a tragic irony that the only area of US corn demand that looks stable to the USDA next year is ethanol use; feed and exports are seen down 5% and 2%, respectively.

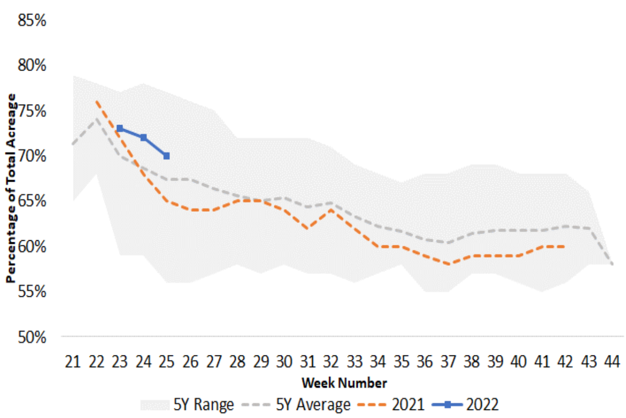
CBOT Corn will push consumers to their limits

	Unit	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f
Corn	USc/bu	560	567	670	781	760	750	740	725



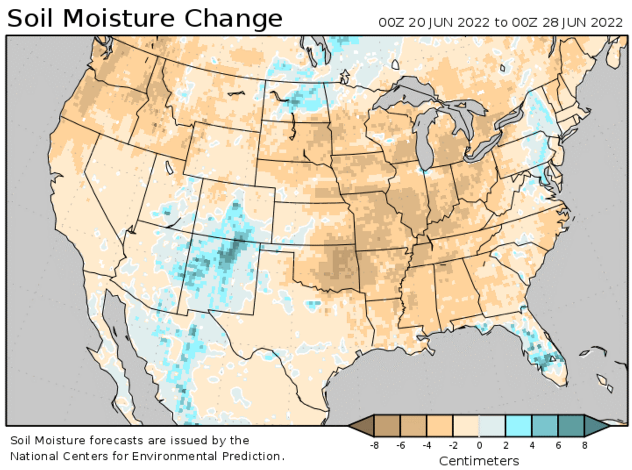
Source: Bloomberg Finance L.P., Rabobank 2022

US corn G-E crop conditions are losing their shine.



Source: USDA, Rabobank 2022

A high pressure system over the US Midwest has dried soils



Source: WXMaps, NCEP, Rabobank 2022

Soybeans

CBOT Soy downside cushioned by low exporter supplies and a demand recovery

- US soy stockpiles are being fully called upon to address a global oilseed shortage.
- US 2022/23 soy acreage is expected to rise but faces exposure to weather and crop-competition risks.
- A recovery looms for Chinese soy imports and crush, which will mostly offset major gains in production.

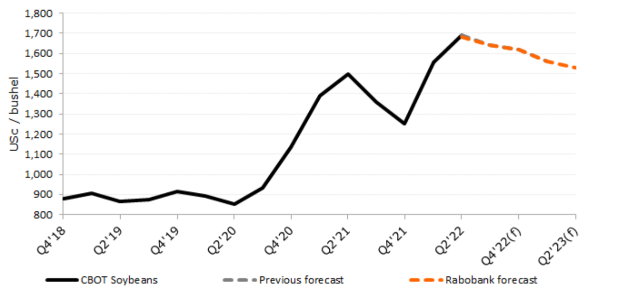
CBOT Soy ended the month slightly down at USD 16.70/bu after briefly testing all-time highs. Poor northern and southern hemisphere 2021/22 oilseed harvests, coupled with Ukraine's stranded output, have led to an exceptionally tight global balance sheet. Sales of Brazil's recent soy harvest are slow, as we predicted last month, despite La Niña and BRL strength showing signs of receding. With Brazilian farmers loath sellers, soy consumers are shifting to US supplies for price and security. CBOT Soy is seeing headwinds from recession fears, enlarged US 2022/23 soy plantings of 91m acres (+3.8m acres YOY still look likely even after significant delays in the northern plains) and favorable conditions (at 68% G-E, vs. 60% last year), every available metric ton will be needed to satisfy resurgent buyers, in particular China.

The USDA continued to raise 2021/22 US soy exports this month, +30m bu with ending stockpiles to 205m bu, a six-year low. We have long noted that near-record US soy export sales far exceeded USDA expectations; that trend should continue in 2022/23 amid rebounding global demand and reluctant Brazilian sellers.

South and North American output should see improvements in 2022/23, thanks mainly to input cost advantaged acreage and receding La Niña/drought. The USDA still needs to cut South American exporter 2021/22 soy production about 5m mt (to ~166m mt), while its 2022/23 projections (+40m mt YOY) look quite rosy in comparison.

CBOT Soy seen weakening, modestly, on better supplies

	Unit	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f
Soy	USc/bu	1361	1238	1580	1692	1640	1620	1560	1530

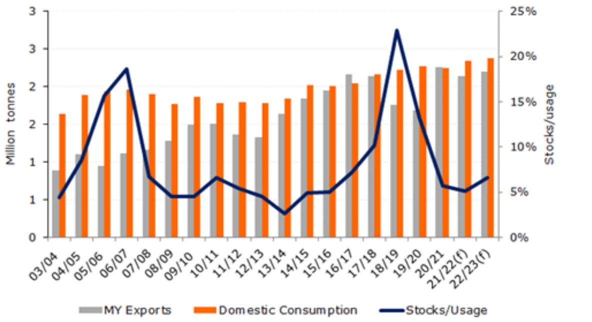


Source: Bloomberg Finance L.P., Rabobank 2022

Rather than focus on production a year away, we expect high US soy planted acres and a decent 51.5 bu/acre yield will ultimately raise production 4.6% and cushion ending stocks by (a modest) 70m bu in 2022/23. Even so, the US has plenty of growing risk ahead, from the early scorching heat sapping soil moisture to potential harvest delays causing physical shortages for an old crop finishing at below 5% stocks-to-use.

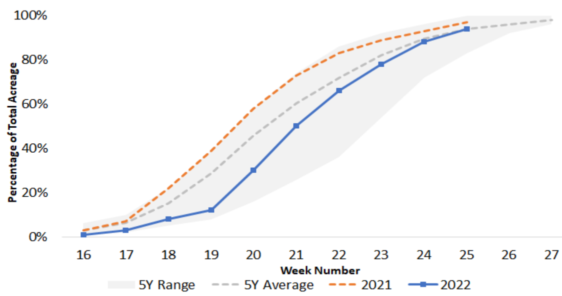
CBOT Soy's drive near toward record levels reflects low global production and reserves, but weak global demand, especially from China, has helped cushion the blow. China's soy demand story was long weakened by zero-Covid policies, a concerted switch to less meal-intense rations, and poor hog producer margins. The country has released strategic soy reserves, and 2021/22 imports are down about 8m mt YOY. European livestock producers are also facing margin pressure, exacerbated by Ukraine's blockaded supplies. While there are signs of an economic slowdown, after two stagnant years, global usage of soy may well see a recovery in 2022/23 (+3% YOY). Much of that recovery will depend on China; the USDA projects its meal demand will increase 6% YOY. China's crush margins appear to be improving, and if that soy import/crush demand comes to bear, it would be relatively supportive for CBOT along the curve. Rabobank reiterates its call on CBOT Soy; prices are seen declining from USD 16.70/bu in Q2 2022 to reflect modest reserve improvements and softening economic indicators, though the decline will be more gradual than implied by the curve.

US soy stocks-to-use will only improve slightly in 2022/23 as exports and crush increase nearly in line with production



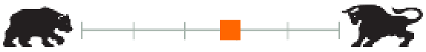
Source: USDA, Rabobank 2022

After substantial delay, US soy crop plantings have nearly caught up with last year's pace



Source: USDA, Rabobank 2022

Sugar

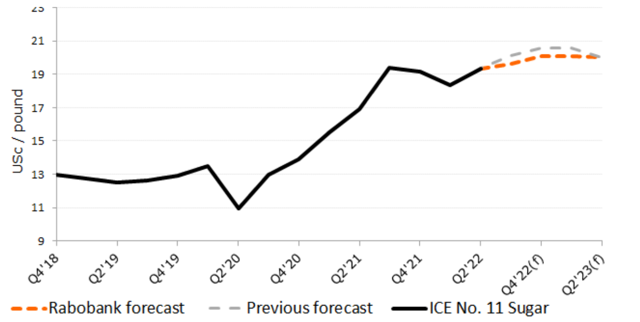


Brazilian weather and energy strength boost range-bound sugar

- Brazil's tax changes will alleviate pressure on ethanol prices, but domestic ethanol prices are still below import parity.
- The monsoon makes an entrance at a time when India is considering an export quota for next season.
- The white premium finds support from expectations of a drop in India in 2022/23 and very high container prices.

Forecast is a tad lower but still bullish

	Unit	Q3'21	Q4'21	Q1'22	Q2,22	Q3,22f	Q4,22f	Q1'23f	Q2'23f
Sugar	USc/lb	19.4	19.2	18.2	19.3	**19.6**	**20.1**	**20.1**	**20.0**



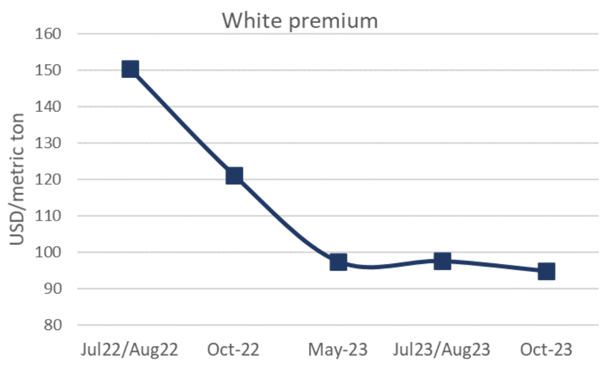
Source: Bloomberg Finance LP, Rabobank 2022

Sugar prices have trended down so far in June. The proposed changes in Brazilian taxes will likely result in more constrained gasoline prices (and therefore also ethanol). However, Brazilian gasoline prices are currently trading at a discount to international prices, so the actual effect will prevent a further significant spike in prices rather than result in a significant fall. Furthermore, the changes are meant to last only until the end of 2022. However, the likely tax relief justifies a drop in our price forecast, though we still keep a marginally bullish view, especially in the light of the recent selloff from funds, which seems a bit overdone.

The monsoon makes a landing. The monsoon has been very timely this year and is now covering most key sugar areas, supporting production prospects. Though a few days early in some areas and a few days delayed in others, overall it's arrival is quite timely. La Niña conditions normally favor a good monsoon. This is the current expectation in the market, and so far, it is all good. However, it comes at a time when the government is debating the export quota for next season. Some of the numbers being discussed range from 6m to 7m mt, which would be a significant fall from the current 10m mt. If approved, the market could rally on the back of it. The margin of error in the Indian crop is enormous (as demonstrated by the large increase in the current season's estimate, which started at 32m mt and ended at 36m mt). Even though an export quota can be revised later, the fear of a lag between export capability and legislation changes is bullish.

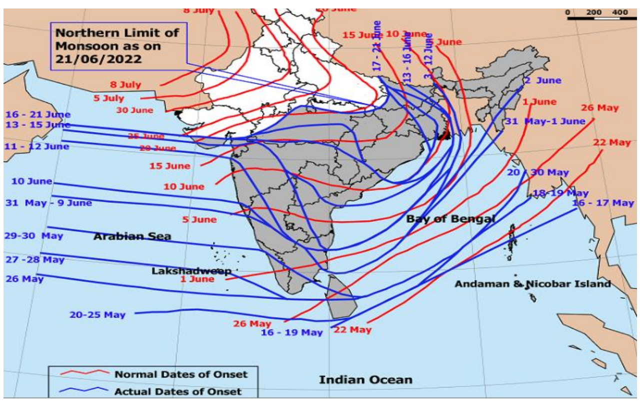
The white bull will likely continue to run. The front month white premium has jumped from USD 103/mt as of the end of April to USD 154/mt as of June 17. The dryness in the EU has been followed by a heat wave (with France seeing 40C, the earliest on record this year), leading to declining production prospects across crops. Adding to that are the high energy prices and the ongoing issues with containers. Besides the usual problems in the west coast of the US and China, now some European ports are reporting increasing logistical issues. The problems in containers will continue to add pressure on the price of white sugar, even if the contract is in breakbulk. Next season is unlikely to bring much relief, with Thailand's recovery potential limited in part by lower fertilizer use and India's potentially very restrictive export quota. A small export quota at the start of the season would likely result in lower white production. Even though the white premium is guaranteed to be volatile, it is hard to see it dropping below USD 100/mt in 2022 if the Indian export quota is confirmed at low levels.

White sugar premium likely to stay strong amid container shortages and India's potential export quota



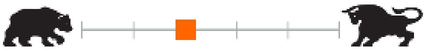
Source: Bloomberg Finance L.P. Rabobank 2022

Monsoon lands in central India, enhancing production prospects for next season



Source: IMD 2022

Coffee



The Brazilian real slid 6.3% vs. the US dollar in June providing local farmers with more incentive to export

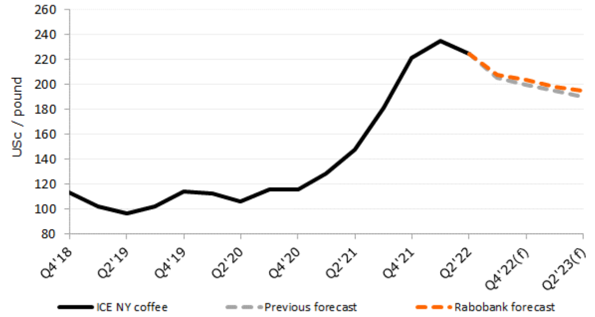
- US green coffee stocks increased in May.
- Demand concerns are putting downward pressure on coffee futures.
- May 2022 Colombian coffee production exceeded expectations.

Colombian coffee production exceeded expectations in May, increasing monthly coffee production to over 1m bags. Although production levels are very good, the percentage annual increase (+65% YOY) is somewhat exaggerated, as disruptions caused by protests resulted in low production in May 2021. Another influential factor for Colombian 2021/22 production is fertilizer prices, which seem to have peaked globally, as Russian exports have been flowing rather well. Earlier this month, the USDA trimmed 2021/22 Colombian production from 13.8m back to 13m, citing the high prices and low availability of fertilizers. Rabobank sees this estimate as still too high given the poor start to the season. Last month we pegged Colombian production at 11.8m bags. However, following the strong production increase reported in May and the apparent lower fertilizer prices, we could see production rise to 12.4m bags for 2021/22. The weather has been wetter than normal, but on the other hand, the results of the presidential elections, combined with higher interest rates in developed markets, might result in a weakening Colombian peso, which would further incentivize farmers to take good care of the trees.

The Brazilian real slid 6.3% vs. the US dollar in June as the dollar strengthened off the back of strong US employment data. Whereas the Federal Reserve continued to relentlessly hike interest rates in the US, Brazil's central bank looks set to stop monetary tightening. Because of the strengthening dollar and the real's outlook, Brazilian growers are more incentivized to export. Thus, we have seen both arabica and robusta futures come under pressure over the course of the month. The

Arabica forecast marginally lifted but still bearish

	Unit	Q4'21	Q1'22	Q2'22	Q3'22f	Q4'22f	Q1'23f	Q2'23f
ICE Arabica	USc/lb	222	234	225	208	204	198	195
ICE Robusta	USD/mt	2234	2196	2091	2050	2000	1850	1850

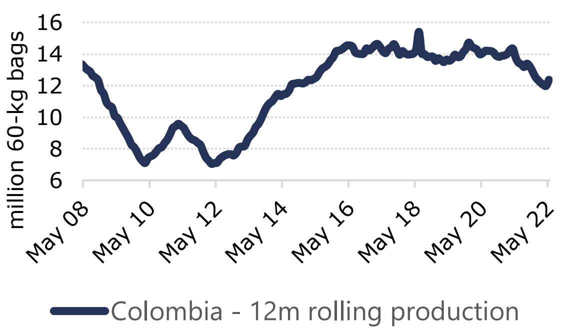


Source: Bloomberg Finance L.P., Rabobank 2022

strengthening of the dollar comes as Brazil's harvest is estimated at around 30% complete, leading to harvest pressure. Furthermore, Brazil's May exports increased by 5.1% YOY, to 2.8m bags. June exports are expected to be even stronger than May exports, and that is before the new crop is exported in any significant amount.

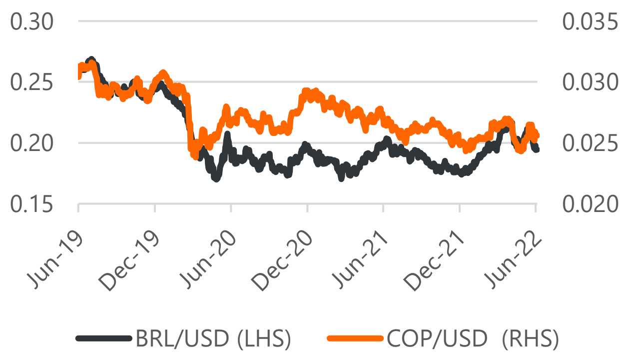
Demand concerns result in downward pressure on coffee futures as well as cross commodity selling. The ongoing war between Russia and Ukraine, the drop in real disposable incomes, very high coffee prices, and the lingering restrictions in China will likely result in a much more muted recovery in global demand. These factors are not new this month, but coffee will likely suffer the macro winds, as it does not have as strong a bullish story as wheat or vegetable oils. US green coffee stocks increased over May by 294,885 bags MOM, pushing inventories over the 6m-bag mark. The last time US inventories were this high was in September 2021. The move upwards represents a 1.6% MOM increase and a 3.2% YOY increase. Inventories usually increase in May, and in normal times, the number would be neutral. But in view of the logistical container nightmare, the increase shows that enough imports are taking place, and the number is seen as slightly bearish.

Colombian production will likely end 2021/22 above 12m bags



Source: FNC., Rabobank 2022

The BRL and COP might suffer in the current interest rate and political environment



Source: Bloomberg, Rabobank 2022

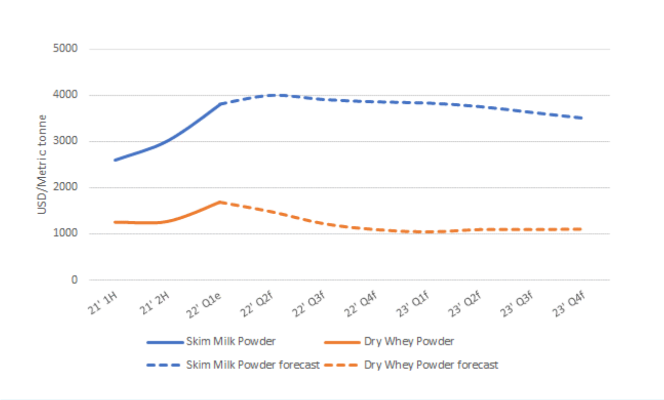
Dairy

Milk production across the Big-7 exporting regions contracted year-on-year in Q1 2022 for the third consecutive quarter despite higher farmgate prices.

- The June 7 Global Dairy Trade price index increased by 1.5% from the previous auction.
- China's zero-tolerance lockdown policy has soured the country's dairy import demand.

Milk production across the Big-7 exporting regions contracted year-on-year in Q1 2022 for the third consecutive quarter despite higher farmgate prices. Milk output for 1H 2022 is expected to decline 0.7% YOY. The slowdown in production can be largely attributed to an increase in overall production costs, with steep year-on-year rises in fuel, feed, fertilizer, and labor, alongside new Covid restrictions. The ongoing war between Russia and Ukraine has caused grains and oilseeds (among several other agricultural commodities and products) to reach unprecedented price levels. Although fertilizer is flowing from Russian ports, prices remain elevated, resulting in higher feed costs. Producers purchasing feed off-farm will be more susceptible to inflated agricultural commodity prices than producers that grow their own feed. The current logistical and financial challenges surrounding shipping make imported feeds very expensive, reducing producers' margins. On the plus side, strong farmgate prices are partially offsetting rising input costs, with May's weighted average EU raw milk price up by 3% MOM to EUR 47.36/100kg. In the US, milk production increases are stunted by a smaller dairy herd year-on-year, which is expected to be on par in Q3 2022.

US Skim Milk Powder and US Dry Milk Powder forecast

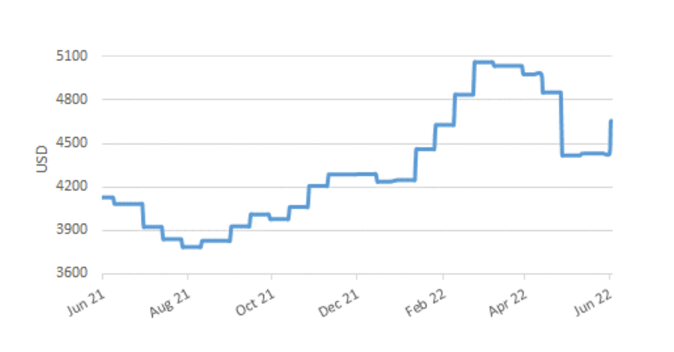


Source: USDA, Rabobank 2022

The June 7 Global Dairy Trade price index improved by 1.5% from the previous auction. The price index broke five consecutive downward moves. The rise can be partially attributed to optimism among market participants that China will soon emerge from lockdown and demand will normalize. The butter price made the largest gain, rising by 5.6% to USD 6,068/mt, followed by buttermilk powder, which increased by 4.5% to USD 4,398/mt. The index was held back from further gains by a 3.6% drop in the cheddar cheese price. The WMP index also retreated, down 0.3% to USD 4,158/mt. Butterfat prices remain elevated around the globe, and the US CME spot butter price hit USD 3.00/lb earlier this month before moving into the lower USD 2.90s. Butter prices are expected to remain lofty and volatile due to limited supply, with price ultimately rationing demand.

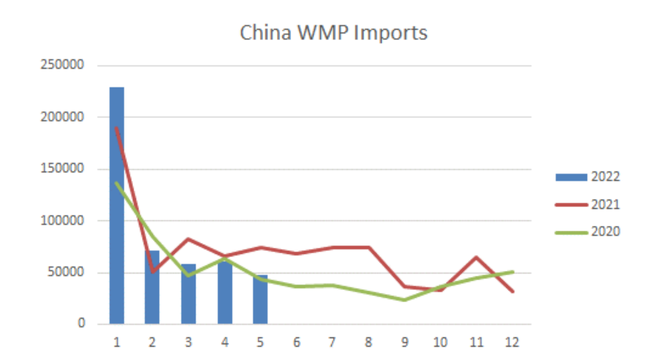
China's zero-tolerance Covid lockdown policy has contributed to lower dairy imports. After a nearly 60,000 mt YOY increase in WMP imports during the first two months of the year, China's WMP imports from March to May, declined year-on-year by a similar volume, putting year-to-date WMP imports nearly on par with last year's record pace. Looking forward, Rabobank expects China's WMP imports to decline YOY due to rising domestic production and a slowdown in domestic demand.

June 7 Global Dairy Trade price index improved by 1.5% from the previous auction



Source: Bloomberg Finance LP, Rabobank 2022

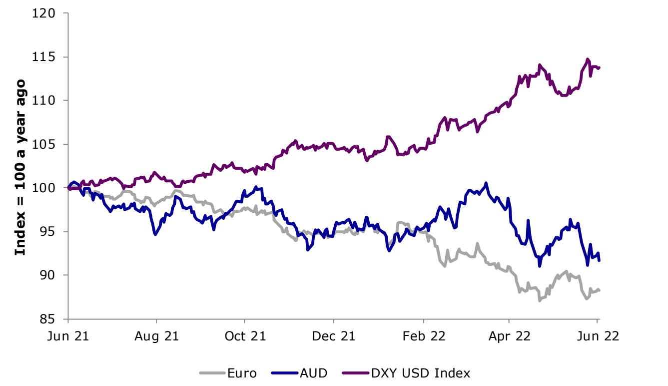
China's WMP imports decline after a strong start to 2022

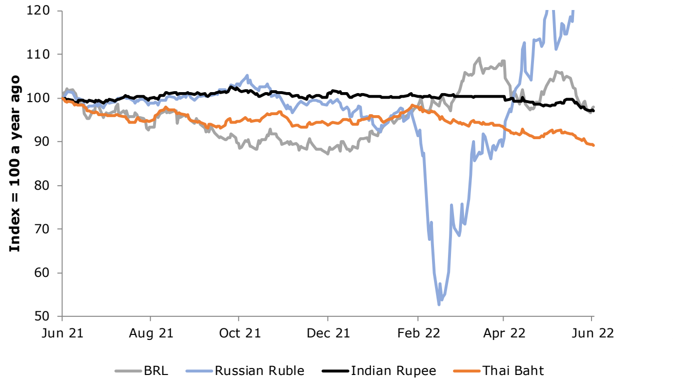


Source: USDA, Rabobank 2022

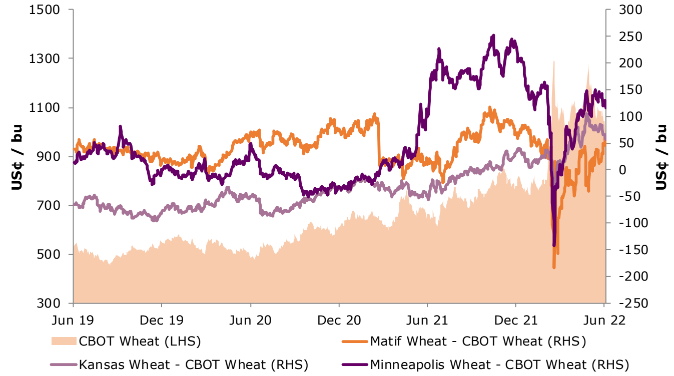
Agri Charts

Global Currencies USD Cross

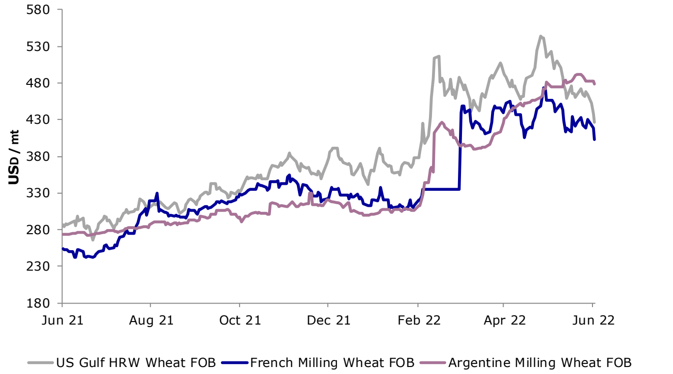




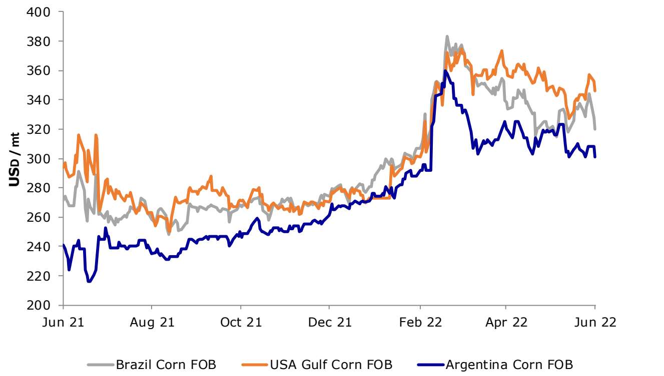
CBOT Wheat Spreads



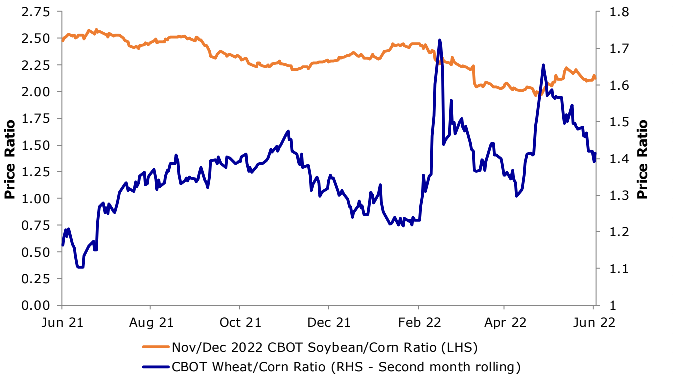
Wheat Protein FOB Prices



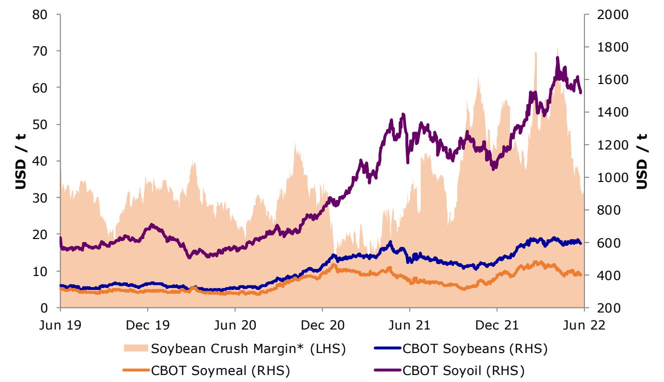
Corn FOB Prices



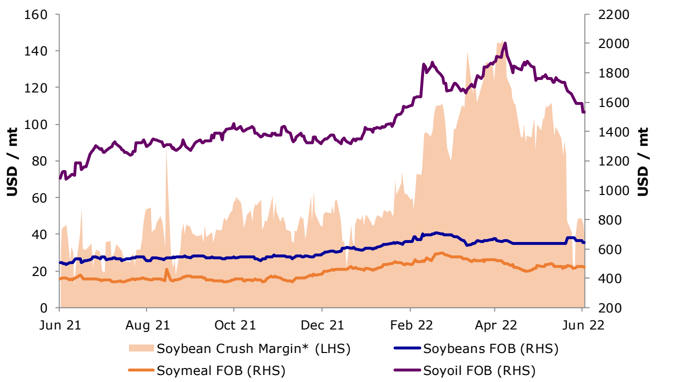
CBOT Ratios



CBOT Soybean Crush Margin



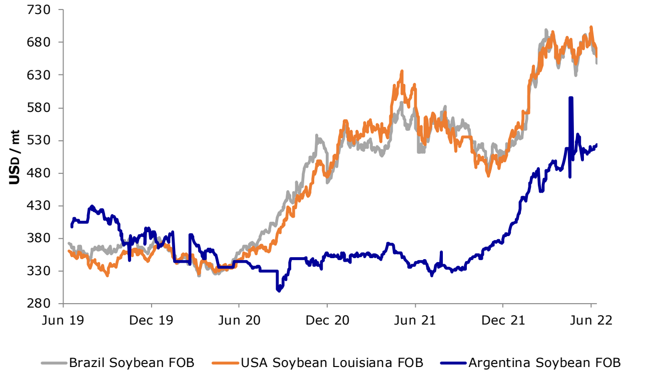
Argentina FOB Soybean Crush Margin



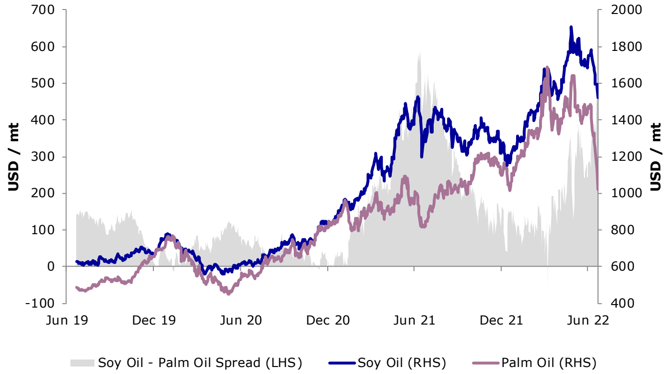
Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

Agri Charts

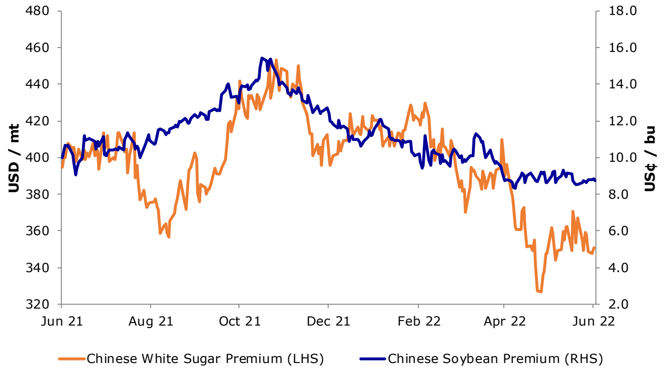
Soybean FOB Prices



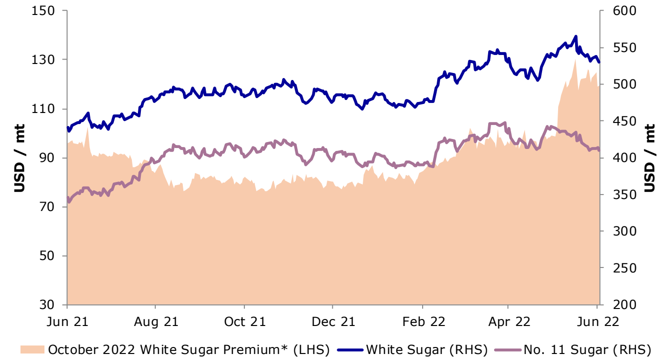
Palm Oil - Soy Oil Spread



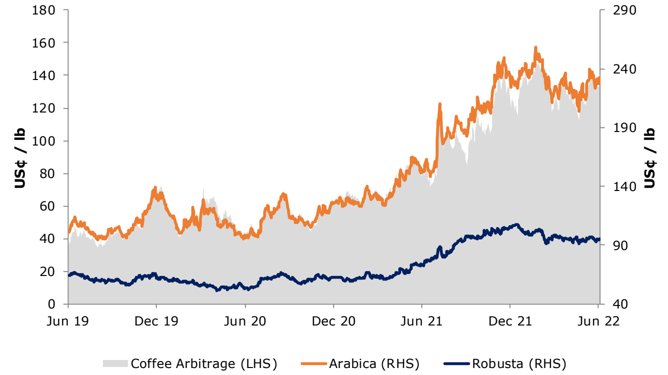
Chinese Futures Premiums



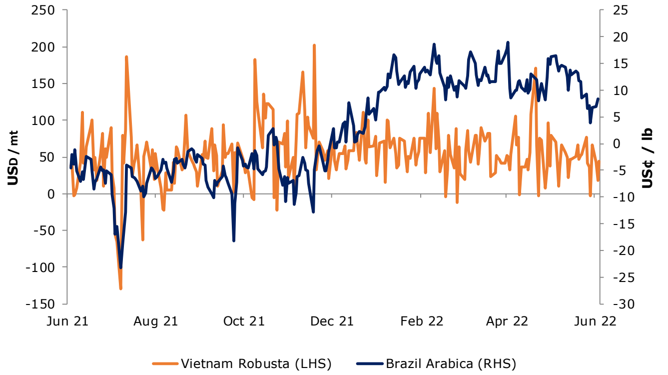
White Sugar Premium



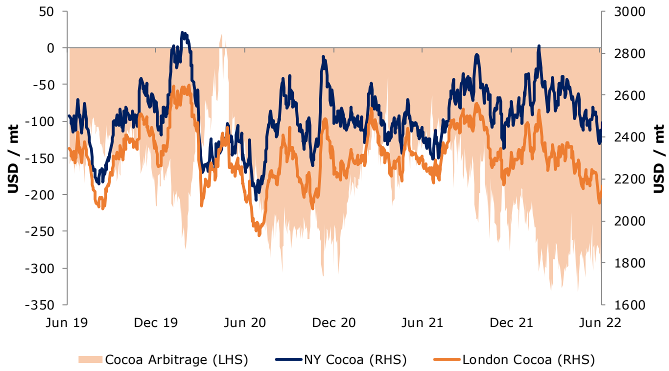
Arabica - Robusta Coffee Arbitrage



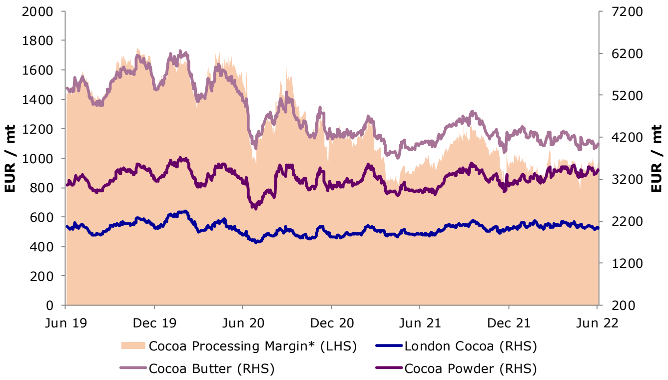
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2022 *Calculated on a gross basis

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RaboResearch
GEM - Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

Carlos Mera, Head of ACMR
carlos.mera@rabobank.com, +44 20 7664 9512

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

Paul Joules, Junior Commodities Analyst
Paul.joules@rabobank.com, +44 (0) 7887824436

Contributing analysts:

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

Mary Ledman – Chicago, US
mary.ledman@rabobank.com

Ben Laine – St Louis, US
ben.laine@raboag.com

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

Rabobank Markets

Corporate Risk & Treasury Management Contacts

GLOBAL HEAD—Martijn Sorber
+31 30 21 69447
martijn.sorber@rabobank.com

ASIA—Ethan Sheng
+852 2103 2688
ethan.sheng@rabobank.com

AUSTRALIA—Adam Vanderstelt
+61 (2) 8115 3101
adam.vanderstelt@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

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