Agri Commodity Markets Research

October 2020: Risks Fly South and Prices Head North

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The USDA's surprise discovery last month of light US G&O bins – combined with La Niña, exacerbated dryness in South America, and a ferocious Chinese restocking program – has ignited a risk rally in CBOT. Funds' interest in ags continues to grow amid the backdrop, while record short commercial buyers appear to be caught unprepared. With dryness risks already apparent in typically lower-cost South America (corn, soy) and Black Sea (wheat) producers, consumers concerned about price inflation and availability are extending record purchases of US agri products and driving price risk higher. ICE #11 Sugar prices have been experiencing a similar price reaction, as the dry weather in Brazil raises concerns over next year's crop despite record sugar production this year. ICE #2 Cotton prices have also rallied, on declining YOY stocks and elevated US sales to China.

WHEAT

Wheat forecasts raised, on continued export demand and dry weather risk linked to La Niña

- Dry weather in the northern hemisphere is concerning – especially in Russia.
- Export demand continues to be very good, with China taking large quantities of EU wheat.

SUGAR

Weather risks and delayed Indian export subsidies lead to a higher price forecast

- ICE #11 Raw Sugar saw a surprising upside so far in October, particularly at the front of the forward curve.
- Speculative activity continues to play a major part.

CORN

Reduced US potential to absorb a weather issue but higher acreage ahead

- USDA stocks report found bins far emptier than expected.
- Harvest losses in the northern hemisphere and delayed southern hemisphere plantings.

COFFEE

Coffee price forecast largely maintained

- Brazilian weather is key, as many plantations had huge flowering. Rains are currently expected.
- Colombian production fell YOY in September, but we expect a recovery.

SOYBEANS

CBOT Soybeans broke USD 10.50/bu, as South American dryness exacerbates supply risks

- South American plantings are heavily delayed, extending US record soy export sales program
- Low US stocks and La Niña raise consumer concerns, but higher plantings will ease volatility.

SOYMEAL & OIL

CBOT Soymeal is soaring, on supply issues, CBOT Soy Oil shows signs of overheating

- Argentina presents upside to US crush, as La Niña causes drought, and rampant inflation slows sales.
- Rising US crush margins encourage competition for soy, raise soymeal and soy oil output potential.

PALM OIL

We expect palm oil inventories in Indonesia and Malaysia to be higher QOQ in Q4 2020

- Indonesian and Malaysian palm oil production will be higher in 2H 2020, vs. 1H 2020.
- Malaysian palm oil inventories start to rebuild again, due to weakening export activities and increasing production.

COTTON

ICE #2 Cotton forecast revised higher, amid hurricane damage to the US 2020/21 crop

- ICE #2 Cotton futures broke above USc 70/lb in October, nearing pre-pandemic levels.
- US stocks to decline 12% YOY in 2020/21 – eroding a 12-year high 2019/20 season stockpile.

Wheat

Wheat forecasts raised, on continued export demand and dry weather risk linked to La Niña

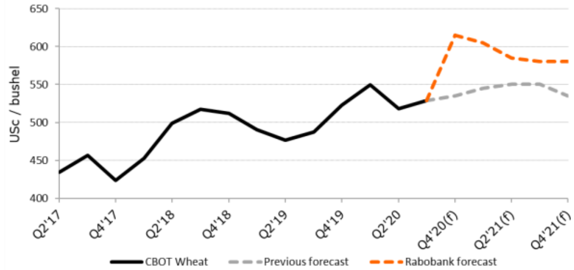
- Dry weather in much of the northern hemisphere is concerning – especially in Russia, where plantings are delayed.
- Export demand continues to be very good, with China taking large quantities of EU wheat.
- US plantings making good progress, despite dry weather.

Wheat markets have continued to rise this month, with CBOT posting a 9% gain so far, reaching price levels not seen since 2014, on strong import demand and dryness concerns in the US, Argentina, and the Black Sea Region. Russia, in particular, has continued to struggle with plantings this month, due to ongoing dryness that threatens to reduce the crop substantially. Meanwhile, plantings have made good progress in the US, at 77% complete, ahead of the five-year average of 73%; however, more than 40% of the crop is suffering from dry weather. In Argentina, the situation is little better: Dry weather over the last few months has been reducing yields, bringing the crop in lower than the USDA's current 19mmt estimate. The Rosario exchange currently estimates the crop at 17mmt, down -6% from its September estimate. Argentina has spent most of this year with rainfall levels below normal, and yield losses could be significant in some regions, with exports also lower than expected. Contrastingly, in Australia, rainfall continues to be relatively good, especially in the southeast – production will likely be near estimates.

Meanwhile, demand continues to be very good. Concerns about Covid-19 remain, and governments continue to favor stock-building over more laissez-faire buying to advert the possibility of a food crisis and quell rising domestic food prices. China and Pakistan have been active recent buyers: Food prices there have seen double-digit growth since March.

Wheat price forecast raised, on weather uncertainty into 2021

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
CBOT	USc/bu	550	518	527	**615**	**605**	**585**	**580**	**580**
Matif	EUR/mt	191	190	185	**205**	**200**	**195**	**190**	**190**

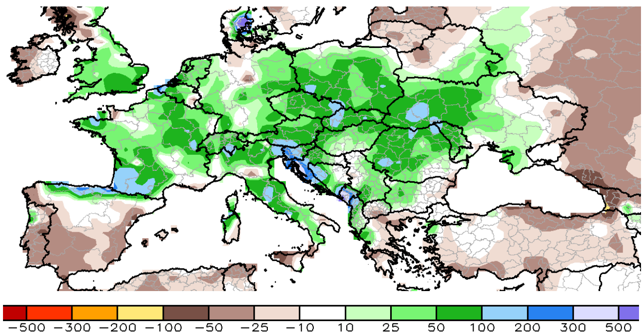


Source: Bloomberg Finance L.P., Rabobank 2020

Weather in the EU has been relatively good (excl. the Black Sea) and is more reassuring for the 2021/22 crop. Plantings in France are expected to increase, with similar increases highly likely elsewhere in Europe, on recent mild weather and good prices; however, plantings in France thus far are lagging last year's. EU exports have continued to close the gap with last year, but remain 29% below so far this season, at 5.73mmt. Exports are forecast to reach 25.5mmt this season, compared to 38.4mmt last season. However, French wheat exports to China are more than triple last year's, at more than 360,000mt this season so far. The recent strong demand may mean that the total is reached sooner rather than later.

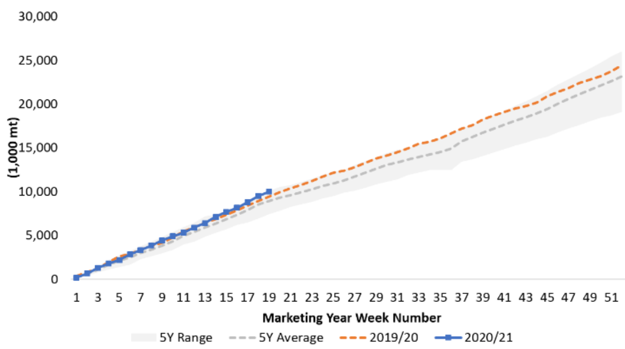
Black Sea crops continue to be very uncertain, as plantings are delayed in Ukraine and Russia due to dry weather. Southern Russia reportedly received the lowest rainfall for two decades in September. As it is the largest exporter, Russian weather and the possibility of a lower export quota next season are major concerns. Concerns as to the availability of Russian wheat next year, export quotas, and the duration of the pandemic are driving Russian wheat exports ahead of last year, up by 6%, to a total of 14.7mmt so far this season. The situation in the Ukraine has improved, with rainfall in recent weeks; however, planted area will likely be lower, and the active La Niña raises the risk of returning dry weather.

Most of Europe received good rainfall last month, including Ukraine. However, Southern Russia remains very dry



Source: NOAA, Rabobank 2020 30-day rainfall anomaly (mm) 19 Sep – 18 Oct

US Exports are making good progress at 10m mt, ahead of last year by 0.5m mt



Source: USDA, Rabobank 2020

Corn

CBOT Corn's floor was raised to USc 3.90/bu, after 2020/21 stocks were cut near 2bn bu, reflecting reduced US potential to absorb a weather issue in South America

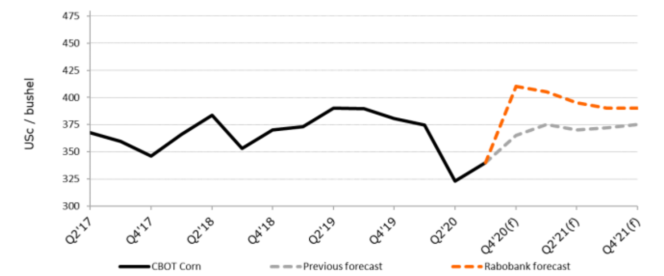
- USDA stocks report found bins far emptier than expected.
- Supply issues abound – harvest losses in the northern hemisphere and delayed southern hemisphere plantings.
- South American farmers' proclivity to plant and sell early will be tested by weather, especially La Niña.

A monumental September 1 US corn stocks cut (to 2bn bu, -10% YOY) accelerated CBOT's slingshot move above USD 4.00/bu, the highest in a year. Complacent investors have been left shaken by the sudden weight cut in US corn, itself an exclamation mark on a six-month saga, from 3.4bn bu (May WASDE) to 2.2bn bu (October WASDE). Market watchers could be forgiven for taking their eyes off the ball: With the US harvest advancing well (60%, vs. the five-year average of 43%), eyes had naturally moved south (Argentina, Brazil) and east (China, Ukraine) to gauge global supply issues/delays and the consequent US export upside potential to offset miserable ethanol demand. With the USDA showcasing cleaner US corn bins, a smaller harvest, and front-loaded program, the market risks for CBOT Corn are due to extend well beyond the traditional 2020 US growing season.

US corn export sales, particularly to China, are proving a major bright spot for US farmers, whose efforts to unwind three years of demand decline have been otherwise stymied by weak ethanol demand. China's record corn purchases (>10mmt) – whether for strategic restocking efforts, trade deal enforcement, or weather-related production cuts – are joining a front-loaded soy program to raise elevation margins for Q4 2020 and into the new year. Rabobank expects China could import 16mmt or more this year (vs. 5–7 mt normally): Domestic Chinese corn contracts rose near a record high this month, and domestic stocks are considered to be well south of

US Corn stocks evaporate, raise CBOT price floor

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Corn	USc/bu	375	323	337	410	405	395	390	390



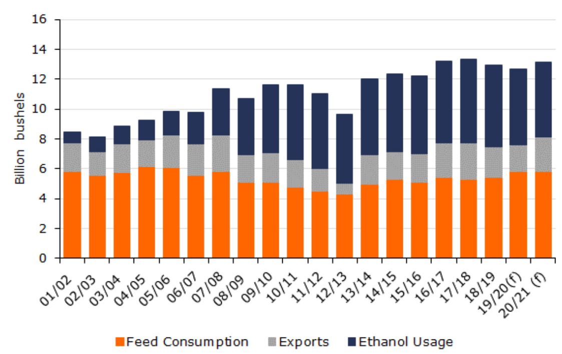
Source: Bloomberg Finance L.P., Rabobank 2020

the USDA's estimates. While much of China's corn typically flows from Ukraine, season-ending dryness has eroded export prospects there (-4mmt since July, with a further -3mmt expected). Diminished export potential in Ukraine may support US corn exports to Europe, where shrinking crop expectations are expected to boost imports to a record 25.5mmt.

In recent weeks, long-standing South American dryness and La Niña outlook have raised weather price risks in CBOT Corn and been the impetus for countries around the world to aggressively secure available US slots for early 2021. As a result, there is likely to be an extension to the typical US corn sales program peak in September, which will encourage CBOT bulls that USDA's record US export number can be met (the actual export pace 2% behind the five-year average).

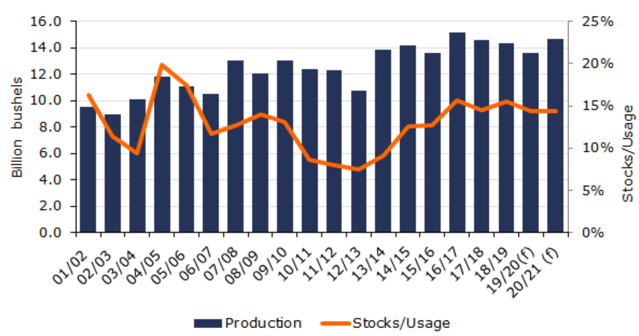
Upside risks to CBOT Corn will coalesce over the next few weeks, if South American rainfall continues to disappoint and commercial demand piles on a record US export program. In Argentina, corn plantings are in line with last year, but quality is declining due to the poor soil moisture. Brazilian soy and first-crop corn delays will prevent early safrinha planting, which could cause yield penalties and/or lower acreage. US stocks, near 2bn bu, remain comfortable, but if planting delays continue in South America beyond October, US export strength will overshadow ethanol's incomplete recovery and raise prices to USD 4.25/bu. South American farmers will do their best to increase acreage; however, even if they succeed, weather and supplies carry sufficient risk to form a strong support around USD 3.90/bu.

Strong US exports, feed help offset ethanol weakness and interrupt a third consecutive year of demand decline



Source: USDA, Rabobank 2020

US 2020/21 corn ending stocks expectations have fallen by 1,200m bu erasing buffers for global supply issues



Source: USDA, Rabobank 2020

Soybeans

CBOT Soybeans broke USD 10.50/bu, as South American dryness exacerbates supply risks

- South American plantings are heavily delayed, extending US record soy export sales program and raising volatility in the market amid La Niña concerns.
- Funds, including commodity indices, are enthusiastic about a shrinking US balance sheet, but are at risk if farmer sales accelerate or political risks increase.

Southern concerns pushed CBOT Soy prices north of USD 10.50/bu last month, the highest level in two years. Brazil and Argentina farmer efforts to plant record acreage have been thwarted thus far, due to long-standing dryness. Farmers will plant late or into dust at current prices; however, unreliable moisture prospects and a looming La Niña should limit selling pressure until a crop is made in late February.

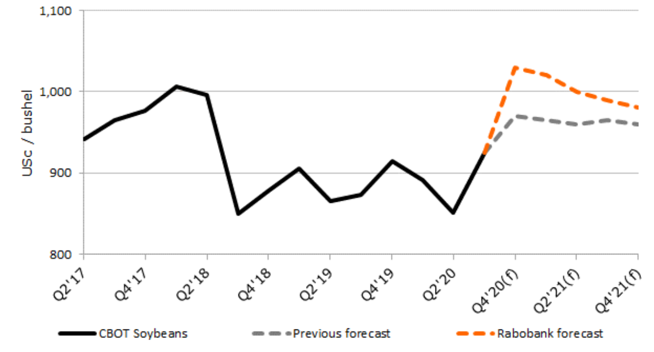
The raised supply risk narrative is made compelling thanks to the USDA's revelation that the US soy supply, far from being at trade war-bloated levels, was actually an empty shell. In less than a month, the USDA published two WASDEs and a stocks report that cumulatively erased over half (320m bu) of US soy stocks. 2020/21 US carry-out is pegged at 290m bu, the lowest in five years. Against this backdrop is the unprecedented early timing of cuts, with the US in mid-harvest. Even so, its massive front-loaded export program (89% higher than the five-year average), record domestic crush (2,180m bu, up 1% YOY), and lower harvested acreage (82.3m ac, -5.3ma c below 2018/19) leave limited room to absorb a South American harvest disappointment next year. US soy acreage is sure to rise next year, conceivably by 7m ac, in response to November 21 prices up 16% since March near USD 10/bu – but only South America can resolve current tightness and heavy CBOT backwardation.

Strong easterly trade winds are likely to continue to blow through the US in Q4, as South American planting delays prevent a shift south in demand. China resumed buying US beans last week, after a short hiatus, bringing their total to ~30mmt (of a record 100mmt program seen in 2020/21); crushers are locking in supplies for Q1 2021. Despite the large buying from China, Commercials as a whole remain record short in the CFTC, which could imply a lack of coverage by soybean buyers. Certainly, some ex-China consumers were left out of the sold-out Q4 2020 US export program, and will be growing increasingly anxious to secure cargoes; if South America is delayed into November, those consumers will need to pay up through the end of Q1. It is expensive insurance, but better than being locked out of supplies earmarked for export to China or to satisfy the strong US crush margin.

A potential extension of the dry season, exacerbated by La Niña, could pose yield risks that push CBOT Soy contracts into uncharted territory. Conversely, a decent rainfall event in South America over the coming two weeks will be enough for farmers to raise acreage by the intended 4%, offset yield penalty concerns, spur sales, and precipitate profit-taking from record-long fund positions. In Argentina, high soy prices, higher taxes on byproducts, and a record-low peso may eventually pry beans from inflation-fearing farmers, especially if the crop starts to improve, helping to absorb the growth in global demand. We raise our nearby forecasts by USD 0.50/bu, amid extended US export and feed demand lowering ending stocks to worrisome levels, but see prices easing markedly from there – amid expectations of a recovery in South American plantings/output expectations and higher 2021 US acreage expectations on current healthy margins.

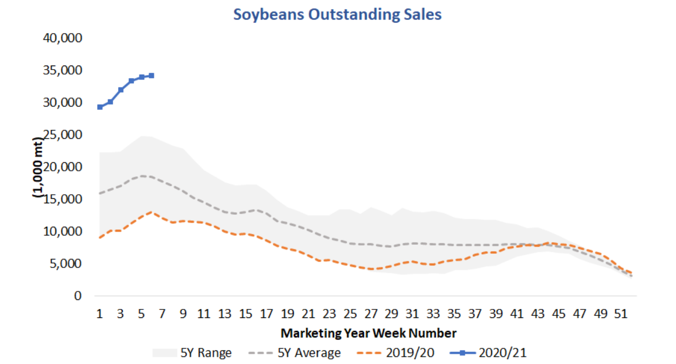
US Soy tightness and Brazil dryness drive CBOT risk rally

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Soybeans	USc/bu	892	851	925	1030	1020	1000	990	980



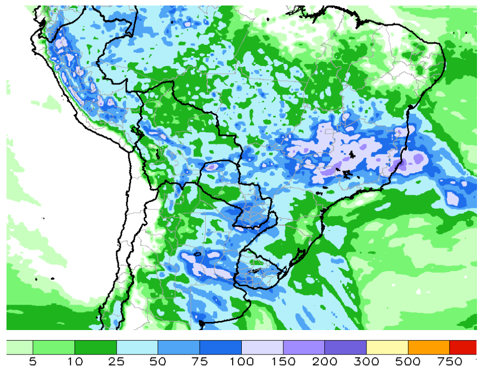
Source: Bloomberg Finance L.P., Rabobank 2020

US front-loaded export program has not seen typical demand slack in October amid delayed plantings in South America



Source: USDA, Rabobank 2020

Rains are expected in South America, which would allay dryness and give desperate farmers room to plant soybeans



Source: NOAA, Rabobank 2020 (mm) forecast to 27 Oct

Soymeal and Soy Oil

CBOT Soymeal is soaring, on supply issues in South America and strong global feed demand – while CBOT Soy Oil shows signs of overheating

- Argentina presents upside to US crush, as La Niña causes drought, and rampant inflation shuts down farmer sales.
- Rising US crush margins encourage competition for soy, raise soymeal and soy oil output potential.
- US soy oil demand must grow faster than rising output to rally CBOT – a challenging proposition.

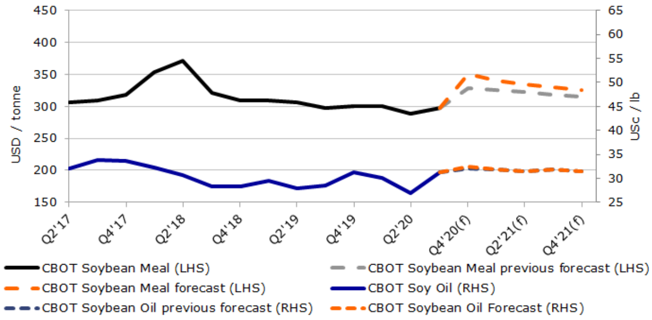
CBOT Soymeal continued to soar last month, rising 13%, to USD 370/mt levels not seen since the Argentine drought was revealed in early 2018. Soymeal bulls are on solid footing, amid shrinking US soy supplies, Brazil/Argentina dryness/ inflation, and record Chinese procurement. A global consolidation in G&O supplies is generally helping drive commercial feed prices and speculation to multi-year highs. Dryness is the overarching CBOT Soymeal risk factor over the coming two months; absent normal rain, South American supply concerns will strain commercial consumer nerves, and extend record US soy export and domestic demand for crush.

Argentina's soy farmers have been holding over half of their old crop in reserve as a hedge-rampant inflation (official ARS is –30% YTD, and the unofficial rate is well below that) and adverse tax policy on soy byproducts; recent cuts to the latter are temporary and insufficient to drive widespread sales. Unless the peso devalues dramatically or weather risk subsides, Argentine soy sales and crush will continue to wallow to the advantage of US exports of soymeal (and soy oil). So far, Argentine soymeal output has fallen ~10% YTD, which is boosting the 2020/21 US soymeal export pace and projections toward record levels of 12.25mmt. Brazil's response to BRL devaluation (-40% YTD) was markedly different: It front-loaded soybeans onto the world market, and now faces supply shortages and price inflation. In response, Brazil recently announced tariff cuts to boost soy (and corn) imports. Brazilian farmers remain grudgingly sidelined sellers, despite record nominal levels for soy. Supply-side concerns in the US – where 2020/21 soy harvest acreage has continued to decline and carry-out fell to the lowest in five years – are meeting a demand pull from China and the world. The absence of alternative origins is raising soymeal bids, thickening US crush margins (USc 125/bu, USc 30/bu above the five-year average), and expanding record expectations for US crush in 2020/21. Our price for CBOT Soymeal reflects existing backwardation; prices will remain above USD 350/mt for the current quarter, before replenished southern supplies and a larger US 2021/22 crop subside risks to USD 325/mt by the end of 2021.

US soy oil's crush share fell dramatically last month, from 35% to 31%, amid expectations that record crush would raise output and demand would fail to maintain its splendid form. In the weeks ahead, bullish fundamentals may get wobbly. Broad-based vegetable oil appreciation has been driven by MDE Palm Oil, whose production issues appear to have been resolved, and whose primary external demand drivers (India and China) are seeing replenished stocks and muted festival celebrations. Ultimately, supply constraints from rapeseed and sunflower oil, in addition to MDE Palm Oil's relatively low discount of roughly USD 30/mt to CBOT Soy Oil, will see the latter's demand endure, but the overall tightness in the market is unwinding and setting the scene for a correction from year-to-date highs. Rabobank largely maintains its forecast for prices to decline to USc 31.5/lb, remaining range-bound through 2021.

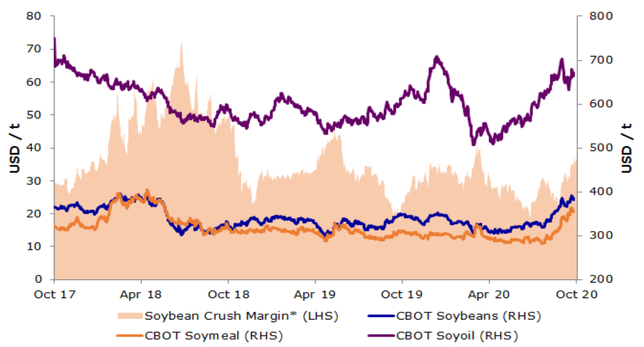
CBOT Soymeal and Soy Oil outlook largely maintained

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Soymeal	USD/tonne	300	288	297	350	340	335	330	325
Soy Oil	USc/lb	30.1	26.9	31.3	32.5	31.8	31.5	31.8	31.5



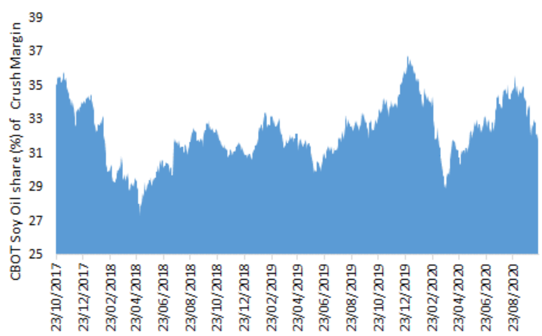
Source: Bloomberg Finance L.P., Rabobank 2020

CBOT crush margins are thick amid rising supply concerns in South America, boosting US oil and meal production



Source: Bloomberg Finance L.P., Rabobank 2020 *calculated on gross basis

CBOT soy oil share of crush fell by ~4% last month, implying a meal driven US crush rally that could produce excess oil



Source: Bloomberg Finance L.P., CFTC Rabobank 2020

Palm Oil

We expect palm oil inventories in Indonesia and Malaysia to be higher QOQ in Q4 2020

- Indonesian and Malaysian palm oil production will be higher in 2H 2020, vs. 1H 2020.
- Malaysian palm oil inventories start to rebuild again, due to weakening export activities and increasing production.
- We expect palm oil prices to move sideways in Q4 2020.

Indonesian and Malaysian palm oil production will be higher in 2H 2020, vs. 1H 2020. Malaysian monthly palm oil production was higher year-on-year for a fourth straight month in September 2020. According to the MPOB, Malaysian September 2020 palm oil production increased by 0.3% MOM, to 1.9mmt. Meanwhile, according to GAPKI, Indonesian August 2020 palm oil production (incl. lauric oils) increased by 13.7% MOM, to 4.8mmt. We expect higher Indonesian and Malaysian monthly palm oil production in Q4 2020, vs. Q3 2020, due to a combination of La Niña and a seasonal palm oil FFB yield up-trend cycle. Total Indonesian and Malaysian palm oil production in 2020, however, is still expected to be lower year-on-year. We forecast Indonesian and Malaysian 2020 palm oil production to decrease by 2.1% and 4% YOY, to 46mmt and 19mmt, respectively.

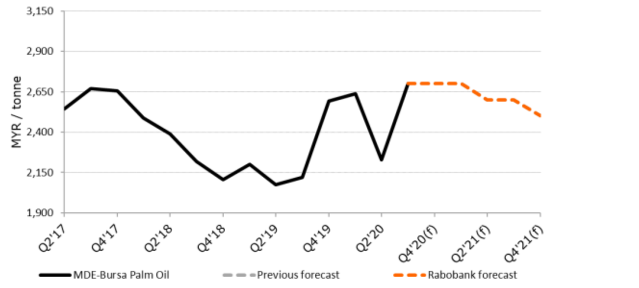
Malaysian palm oil inventories start to rebuild again, due to weakening export activities and increasing production. According to the MPOB, Malaysian September 2020 palm oil exports increased by 1.9% MOM, to 1.6mmt. At the same time, Malaysian September 2020 palm oil inventories increased by 1.2% MOM, to 1.7mmt. Meanwhile, according to GAPKI, Indonesian August 2020 palm oil exports (incl. lauric oils) decreased by 14.2% MOM, to 2.7mmt. Meanwhile, Indonesian palm oil inventories (incl. lauric oils) increased by 20.6% MOM, to 4.3mmt. We expect palm oil inventories in Indonesia and Malaysia to be higher quarter-on-quarter in Q4 2020, due to weakening export activities and increasing monthly palm oil production.

We expect palm oil prices to move sideways in Q4 2020. The spread between CBOT Soy Oil and MDE-Bursa Palm Oil active contract prices, which remains narrow, makes palm oil less attractive and could result in reduced palm oil import demand. The spread between soy oil and palm oil future prices remained at around USD 29/mt in mid-October 2020. At the same time, we expect Indian palm oil import demand in Q4 2020 to be limited by tepid post-festive season demand and availability of Indian domestic soybeans in Q4 2020. Volatility in global soybean complex prices, however, could still provide support to palm oil prices in the short term.

Indonesian domestic biodiesel consumption is still behind the required pace to achieve the B30 mandate target. According to the Indonesian Ministry of Energy and Mineral Resources, domestic biodiesel consumption in Indonesia from January to September 2020 only reached 6.2m kiloliters, or 64.2% of the B30 mandate target of 9.6m kiloliters, in 2020. At this domestic biodiesel consumption rate, we estimate that Indonesian full-year biodiesel consumption will only reach between 8m and 8.5m kiloliters in 2020.

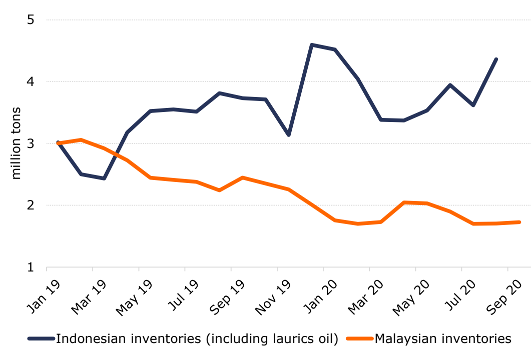
Palm oil price forecast is maintained

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'20f	Q2'21f	Q3'21f	Q4'21f
Palm Oil	MYR/tonne	2,593	2,639	2,229	2,700	2,700	2,600	2,600	2,500



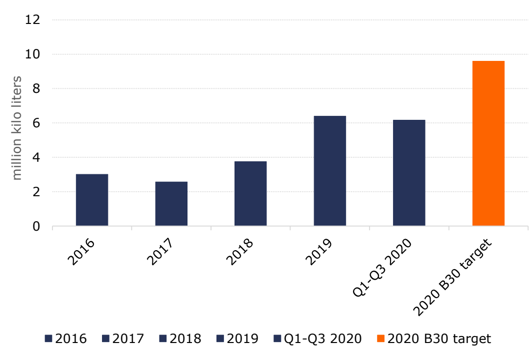
Source: Bloomberg Finance L.P., Rabobank 2020

Indonesian and Malaysian palm oil inventories will increase in Q4 2020, as exports weaken and production increases



Source: GAPKI, MPOB, Rabobank 2020

Indonesian Q1–Q3 2020 biodiesel consumption only reached 64.2% of the B30 mandate target in 2020



Source: APROBI, Rabobank 2020

Sugar

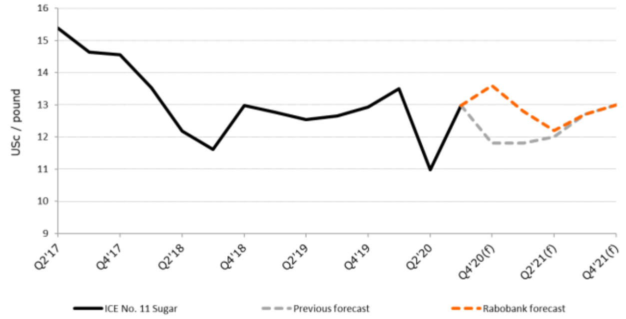
Weather risks and delayed Indian export subsidies lead to a higher price forecast

- ICE #11 Raw Sugar saw a surprising upside so far in October, particularly at the front of the forward curve.
- Speculative activity continues to play a major part.
- The far end of the curve continues to be depressed by forward selling out of Brazil, but that could change.

ICE #11 Raw Sugar saw a surprising rally over the last month, sending the forward curve into a sharp backwardation. Given the record sugar production taking place in Brazil, along with weak demand resulting in a large stock situation, we were expecting the curve to be in contango, with the front month having to drop enough to incentivize the carry of stocks. But we are in a very different situation right now. One reason for the backwardation is the increased level of speculation. Non-Commercials bought 81,334 net lots in the last four weeks, leading to a net long position of 193,823 lots, the longest since November 2016. This is part of an influx of money we see across ag commodities, which tends to go long. Long speculators tend to position themselves in the first few contract months, as they like to sit where the liquidity is. However, speculation alone cannot explain the surge in the front month, as it was not accompanied by a weakening of the physical basis out of Brazil. The lack of fresh export subsidies out of India has also been disappointing to the market and has resulted in higher demand for Brazilian sugar, assisting the move into stronger backwardation. Furthermore, higher needs of toll refining, following the drop in the Thai crop this and last year, result in longer supply chains, increased working stocks, and more stocks in transit. Finally, food processors – and countries – are keener on carrying more commodity stocks, as part of the new 'just-in-case' model. For example, China

ICE #11 Sugar price forecast increased

	Unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Sugar	USc/lb	13.5	11.0	12.9	13.6	12.8	12.2	12.7	13.0



Source: Bloomberg Finance L.P., Rabobank 2020

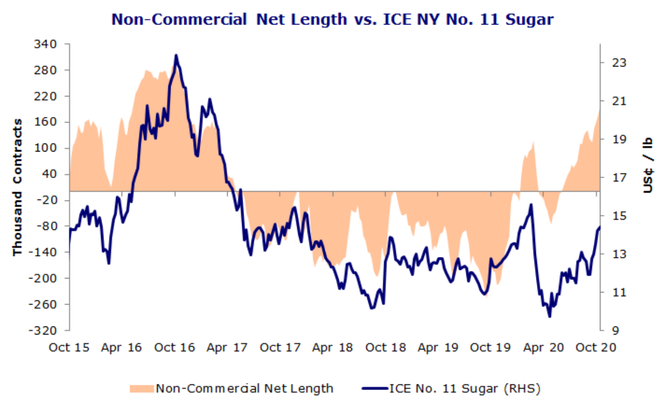
August imports came in at 0.68mmt, the largest since October 2013.

We think all of these reasons will remain prevalent for the remainder of 2020, but we may see a partial reversal when India announces export subsidies, likely to come in the coming weeks. We see USc 13/lb as a solid floor for March 2020.

Funds are likely to continue to be active in sugar. The influence of funds is likely to continue across ags, as investors move away from traditional asset classes, and particularly away from safe sovereign bonds, which currently offer very few returns. This trend is unlikely to change, unless there is a vaccine in sight and a clear return to normal economic activity that will not require fiscal and/or monetary stimulus (think 2H 2021). One event to keep in mind are the US elections on November 3 – this could change risk appetite across assets.

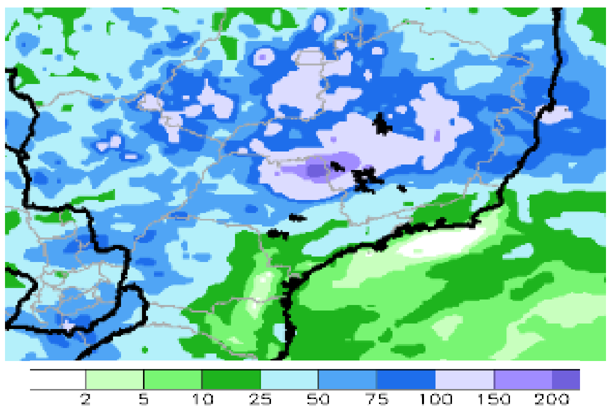
Weather market ahead. Another factor pushing the market higher was the prolonged dry weather season in Brazil. While the country saw some rainfall in the last month, volumes were always below both forecast and historical average. At the moment, we expect more rainfall in the coming days, which will help the cane development next season. We may well see an early end of the harvest in Brazil CS, as rainfall volumes increase, but to some extent, lower cane volumes may be compensated by a higher-than-usual sugar mix.

Non-Commercials continue to add to their position; volatility is likely



Source: CFTC, Bloomberg Finance L.P., Rabobank 2020

Brazil CS one-week forecast is wet, and rainfall is certainly needed to prevent a drop in cane availability next year



Source: NOAA., Rabobank 2020 (mm) forecast to 27 Oct

Coffee

Coffee price forecast largely maintained

- Brazilian weather is key, as many plantations had huge flowering. Rains are currently expected.
- Colombian production fell YOY in September, but we expect a recovery.
- We remain friendly toward robustas.

Brazilian rainfall continues to be a little disappointing, with only scattered showers in recent weeks, but the forecast is for good rains ahead. The last week was supposed to be very wet in virtually all coffee regions, but not all areas received good rainfall. We expect rainfall to become more consistant at the end of the month, which should guarantee a normal development of the flowering. However, we do see La Niña affecting weather globally, with many of its usual effects around the globe becoming very clear. The fact that previous rounds of rainfall in Brazilian coffee areas have disappointed is probably related to La Niña. Sales volumes in Brazil are reported to have slowed down, as farmers are already well sold and can wait for better prices. The number of bags awaiting granding on ICE Arabica also jumped this month, mainly due to Brazil semi-washed, with the certified stocks also showing what appears to be a sustained increase. As of October 19, there were 28,611 bags of Brazil arabica graded. This amount probably comes as a disappointment, and the passing rate lackluster, but we believe there is more on its way.

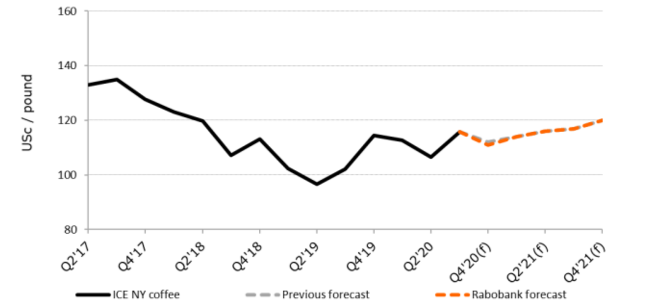
Colombian registered production for September fell -9% YOY, to 995,000 bags, while exports fell -12%, to 886,000 bags. We do expect to see a recovery in Colombian main crop, in part a product of very good prices once the currency and differential are taken into account. The competitiveness of Brazilian coffee will also likely result in Colombia importing more coffee from Brazil and raising its own exports, with the country profiting from the spread in differentials.

We continue to be friendly to robustas. Conillions are trading well above tenderable parity, which will mean robusta certified stocks may struggle to expand. There is a risk of inversion at the front of the curve if the smaller crop in Vietnam causes increasing worries about robusta availability. If Brazilian rainfall improves, we may also see a record conillon output, but the rain there is certainly not guaranteed after a very dry season and a La Niña event around.

Central American harvests will become the focus of attention in the coming months, as it becomes clearer if there will be any distruptions to production due to the lack of migrant labor and other Covid-19-related restrictions. The Central American crop starts in earnest from November, and a clear idea is usually not formed until differentials firm up – with the increase in physical traded volumes first and then with the export numbers in Q1. In principle, we are only a little worried about Costa Rica, where the proportion of migrant labor is higher, along with higher local wages. We also expect an off-cycle there, so incentives to have a full harvest will be low.

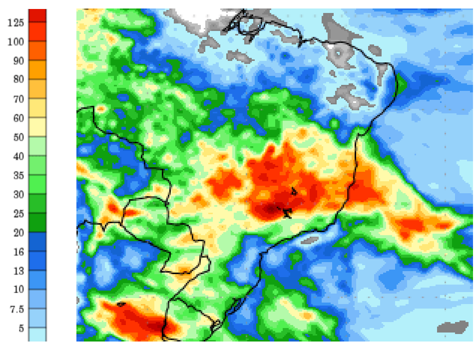
ICE Arabica forecast rather neutral, but bullish robustas

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
ICE Arabica	USc/lb	113	107	116	111	114	116	117	120
ICE Robusta	USD/mt	1296	1195	1348	1360	1420	1420	1420	1450



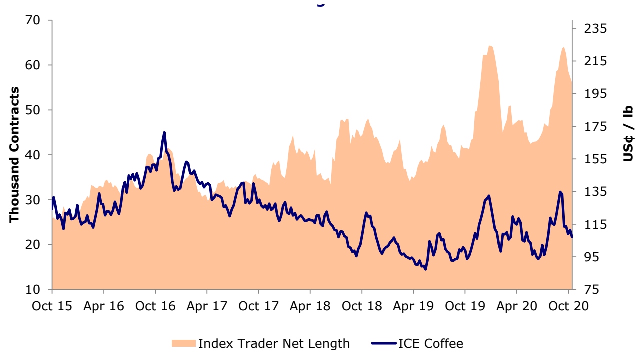
Source: Bloomberg Finance L.P., Rabobank 2020

One-week rainfall forecast shows some rains – the more, the better



Source: COLA, Rabobank 2020 (mm) forecast to 27 Oct

Index funds show appetite for coffee (and so do Non-Commercials) – this will likely prevent a drop to USD 1/lb



Source: Bloomberg Finance L.P., CFTC, Rabobank 2020

Cotton

ICE #2 Cotton forecast revised higher, amid hurricane damage to the US 2020/21 crop

- ICE #2 Cotton futures broke above USc 70/lb in October, nearing pre-pandemic levels.
- US stocks to decline 12% YOY in 2020/21 – eroding a 12-year high 2019/20 season stockpile.
- Geopolitics emerge once again in the global export market, following reports that China is 'discouraging' importers of purchasing Australian cotton.

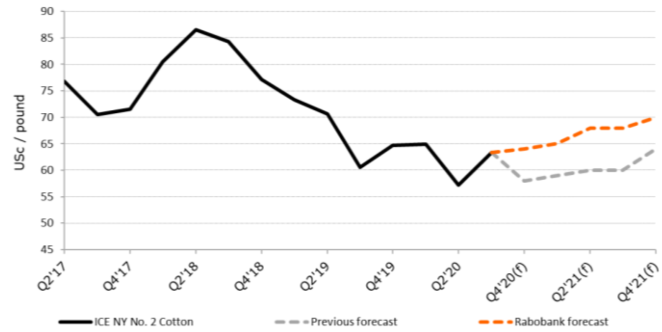
ICE #2 Cotton futures broke above USc 70/lb in October, nearing pre-pandemic levels, as the US picking season ramps up. The US harvest, as of October 19, was reported at 34% complete nationally, with leading progress across the Delta in LA, AR, and MS. A USc 4/lb break higher on the March 2021 contract follows an active hurricane season, with Laura, Sally, and then Delta all making landfall on the US Gulf Coast. Hurricane Delta appeared most troublesome to the southern US, with harvest just 60% and 30% complete in LA and AR, respectively, and bolls mostly open. While assessments are varied, Rabobank forecasts US 2020/21 production at 16.7m bales, vs. the USDA's 17.0m-bale projection. If realized, this would see US stocks decline 12% YOY in 2020/21 – eroding a 12-year high 2019/20 season stockpile, assuming 15m bales of US exports. Furthermore, fiber quality in hurricane-affected states will likely be compromised. These lower US output projections are coupled with recovering clothing retail sales globally – September US sales are reported at 88% of 2019 levels – and a subsequent rise in offshore mill demand. While Covid-19 infection rates are rising in several regions, governments are aggressively resisting the strict lockdowns of 1H 2020. As a result, Rabobank anticipates the worst of Covid-19-led cotton demand destruction to be behind us.

Rabobank revises its ICE #2 Cotton price forecast higher in October, after holding a bearish view through 2020. Price strength has emerged from several different avenues: 1) exceptional US export demand, particularly from China; 2) heavy speculative buying, with Non-Commercials holding the most bullish position for over two years; 3) modest production concerns for the US and India; and 4) a faster-than-expected post-lockdown recovery in mill demand. However, Rabobank must caution that the global balance sheet remains heavy – world ex-China inventories are forecast to reach record highs in 2020/21, up 4% YOY, at 63.3m bales – well above the 41.4m-bale ten-year average. Furthermore, we note that cotton bulls remain vulnerable to continued export strength and speculative sentiment. Rabobank holds a short-term ICE #2 forecast of USc 65/lb for Q1 2021, up from USc 59/lb previously. Late next year, Rabobank sees prices at USc 70/lb by Q4 2021.

Geopolitics are emerging once again in the global export market, following reports that China is 'discouraging' importers from purchasing Australian cotton. Meanwhile, Chinese purchases make up 39% of 2020/21 US export commitments – a part of the ongoing US-China trade deal. US export pace has been staggering, with 2020/21 all-cotton exports reaching 2.4m bales as of early October – on average, this level is reached in late November. The shift emphasizes that the current well-supplied global market allows importers to 'pick and choose' their suppliers, but this will become more difficult as the season progresses and global production falls a projected 6% YOY.

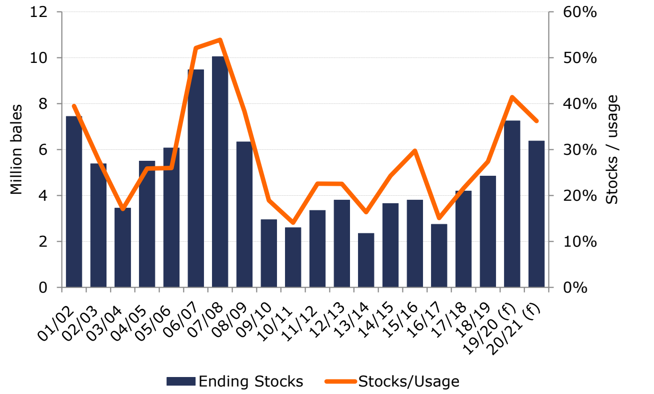
ICE #2 Cotton forecast adjusted higher

	unit	Q1'20	Q2'20	Q3'20	Q4'20f	Q1'21f	Q2'21f	Q3'21f	Q4'21f
Cotton	USc/lb	64.9	57.2	63.4	64	65	68	68	70



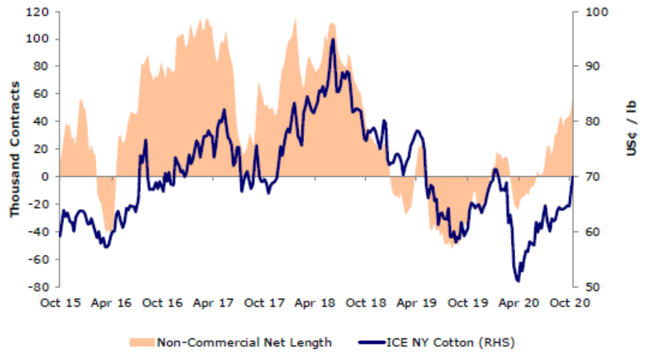
Source: Bloomberg Finance L.P., Rabobank 2020

Hurricane damage and strong export sales are set to cut US 2020/21 ending stocks from previous 12-year highs



Source: USDA, Rabobank 2020

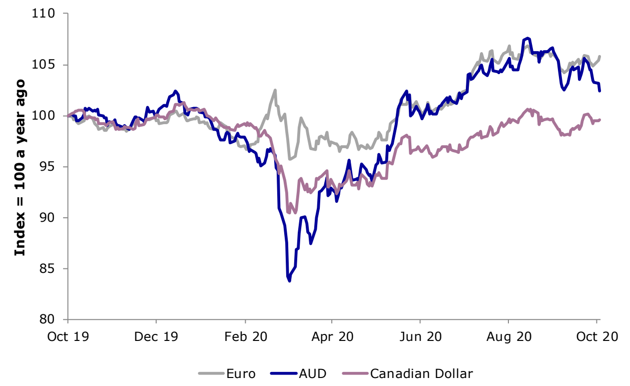
Non-Commercials hold the most bullish position in ICE #2 Cotton for two years, despite heavy global fundamentals

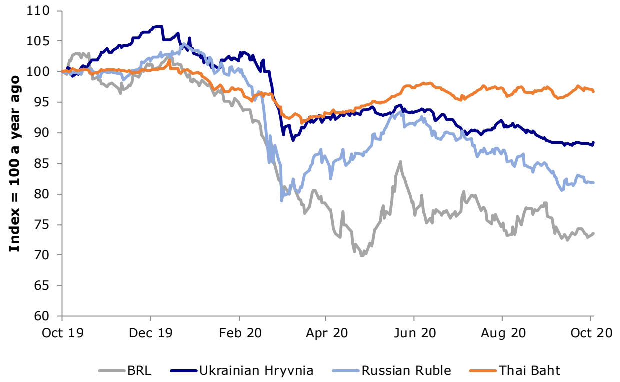


Source: CFTC, Bloomberg Finance L.P., Rabobank 2020

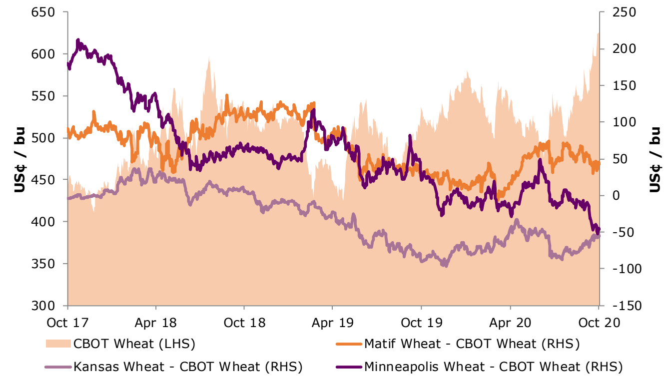
Agri Charts

Global Currencies USD Cross

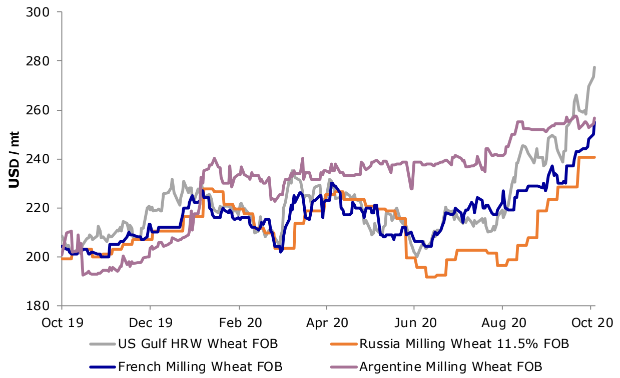




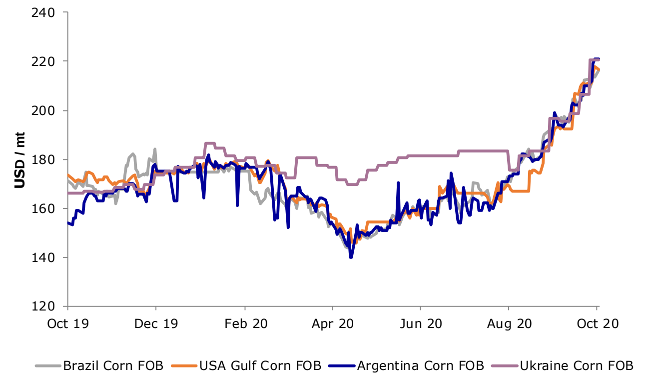
CBOT Wheat Spreads



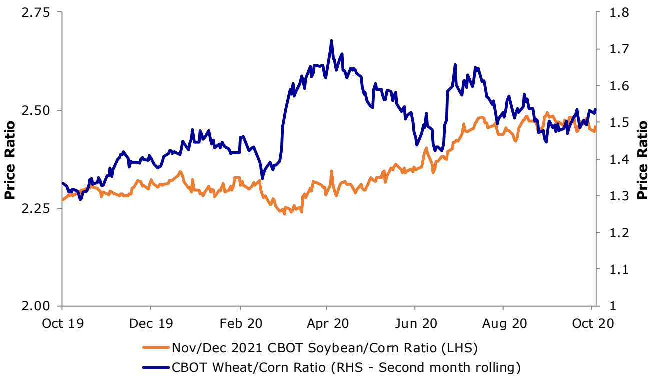
Wheat Protein FOB Prices



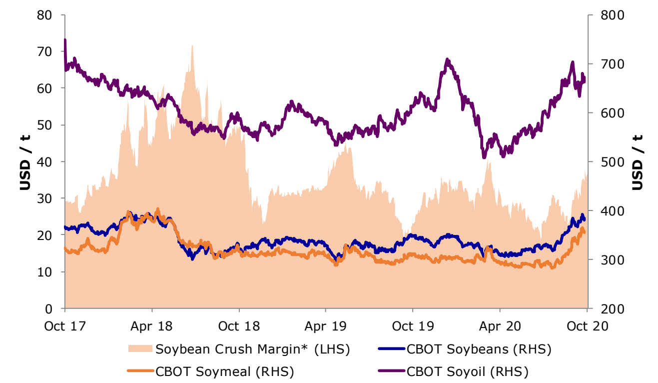
Corn FOB Prices



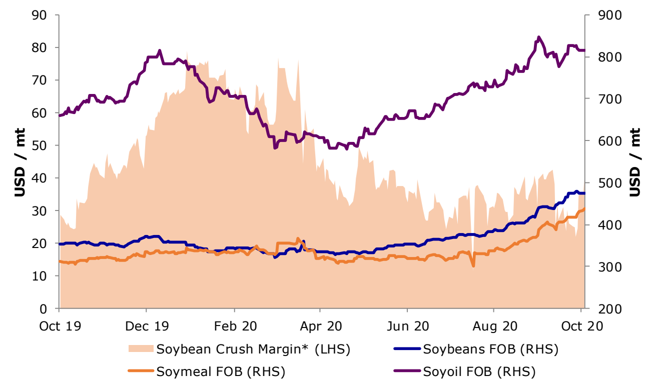
CBOT Ratios



CBOT Soybean Crush Margin



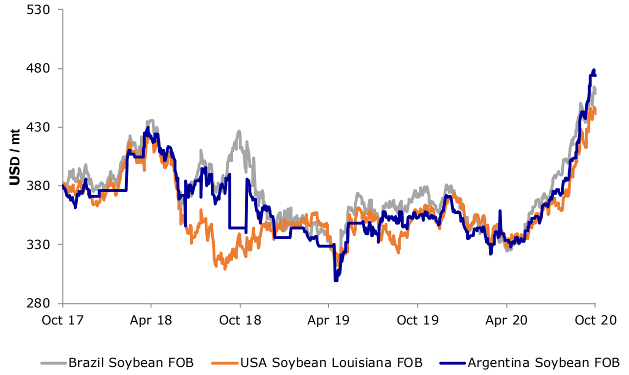
Argentina FOB Soybean Crush Margin



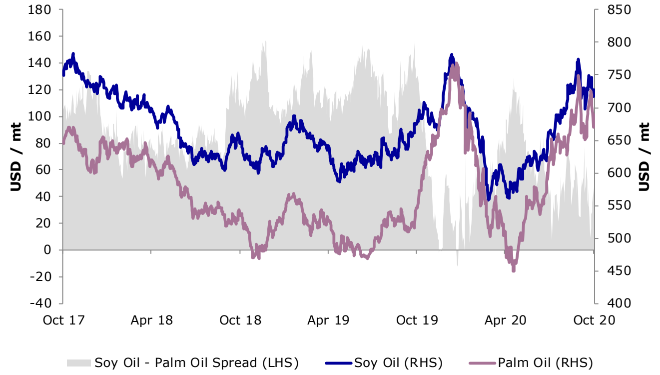
Source: Bloomberg Finance L.P., Rabobank 2020 *Calculated on a gross basis

Agri Charts

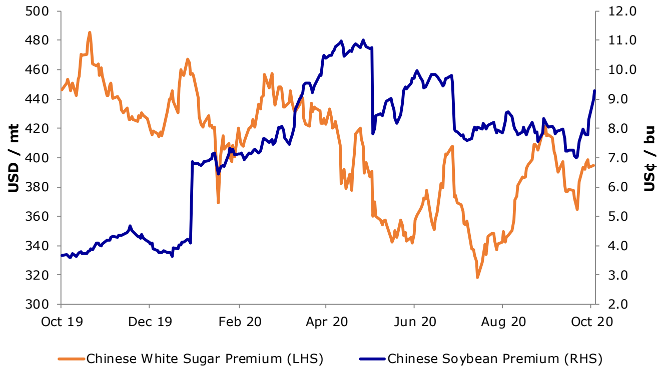
Soybean FOB Prices



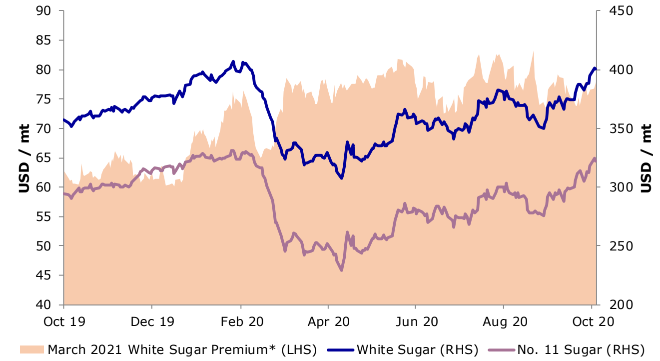
Palm Oil - Soy Oil Spread



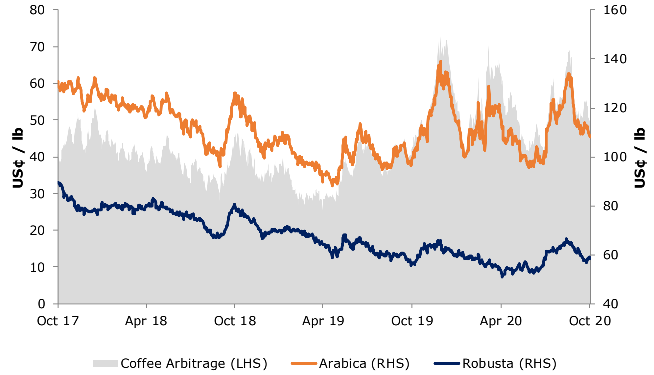
Chinese Futures Premiums



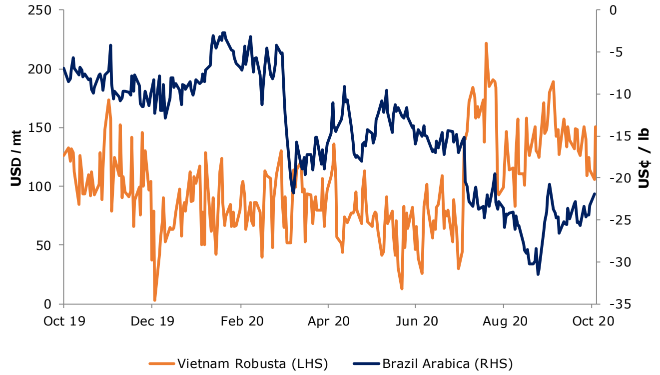
White Sugar Premium



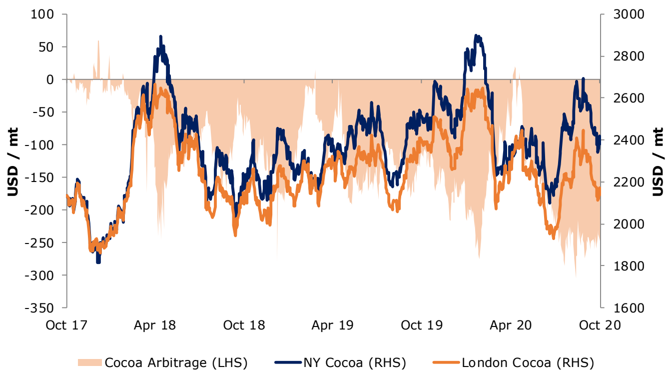
Arabica - Robusta Coffee Arbitrage



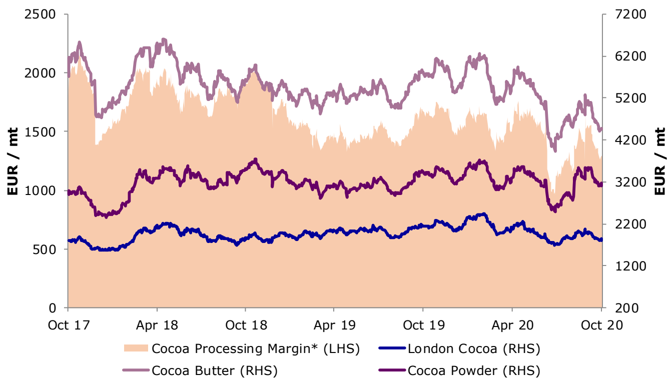
Coffee FOB Differentials



London - New York Cocoa Arbitrage



Cocoa Processing Margin



Source: Bloomberg Finance L.P., Rabobank 2020 *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