April witnessed unprecedented weakness in the energy sector and in emerging market currencies. Agri commodities markets were infected by these factors and continued their downward trend. Meanwhile, the threat of supply chains disruptions largely eased as agricultural activities avoided major port and border closures—and the price risks shifted to demand destruction. Looking ahead, the spring plantings in the US are proceeding well but have the potential to bring volatility.

**Wheat**

Despite showing resilience to Covid-19, CBOT Wheat is not immune to weak macros.

- Lower global wheat production is expected in 2020/21, as dryness across Europe lowers yields.
- US and EU to take remaining export demand as Russia reaches export quota.

**Sugar**

ICE #11 Sugar forecast lowered, following BRL weakness and cheaper energy.

- The slump in ethanol sales and price, plus the tremendous depreciation of the BRL and the volatile politics of Brazil makes Brazilian mills keener on selling any remaining spot and forward sugar.

**Corn**

CBOT Corn has been pushed below its long-term comfort zone of USD 3.50/bu to USD 4.00/bu by Covid-19 demand destruction.

- Near-record US farmer plantings threaten to push 2020/21 ending stocks to 32-year highs of 3.4bn bu.
- Concerns about ethanol demand destruction, high 2020/21 plantings, and a strong USD test CBOT Corn.

**Coffee**

Arabica sugar forecast lowered, following currency depreciations and fewer disruptions.

- BRL and COP heading for new lows.
- Demand could be affected a little more than anticipated, as unemployment is heading higher than expected last month.
- Supply-side disruptions are easing.

**Soybeans & Oil**

Demand weakness for CBOT Soymeal (feed) and Soy Oil (biodiesel) expected to unwind.

- Biodiesel demand has fallen heavily off Brent’s collapse. Food demand remains resilient, and with good US export sales, price weakness should ebb.
- US Crush margin is at YTD lows.

**Palm Oil**

Global palm oil demand remains weak, despite signs of increasing shipments for Ramadan.

- Palm oil plantations and mills in Malaysian state of Sabah resume operations.
- Covid-19 logistics-related issues and weak currency to limit near-term Indian palm oil import demand.

**Cotton**

Challenging demand outlook keeps ICE #2 Cotton in the doldrums.

- ICE #2 traded a range-bound path through April, remaining near 11-year lows.
- Export cancellations will become increasingly visible in the US and elsewhere, as major demand challenges are felt across the textile supply chain.
Despite showing resilience to Covid-19, CBOT Wheat was not immune to weak macros this month. Prices should remain supported as export supply tightens.

- Lower global wheat production is expected in 2020/21, as dryness across Europe lowers yield potential amid lower US acreage.
- US and EU to take remaining export demand as Russia reaches export quota.
- US spring plantings are getting underway ahead of last year, with a favorable weather outlook.

Dry and warm weather across Central Europe and the Black Sea Region has lowered expectations for 2020/21 global wheat production. The drop in expected EU and Russian yields is taking place amid lower US 2020/21 All-Wheat acreage, so it has an exacerbated price impact. Over the last 30 days, most of Central Europe received around 25% of the historical average rainfall, stressing wheat crops throughout the region – although there is now good rainfall in the forecast, which is helping to stabilize the situation. Demand should remain resilient, despite the fallout of Covid-19 lockdowns, as most out-of-home consumption is replaced in-home and governments make substantial efforts to ensure food supply.

Export demand will be centered on EU and US wheat in the coming weeks, as Russia reaches its export quota with two months left to the season. Weak macros and strong export demand have led Matif and Kansas Wheat to outperform CBOT this month, falling -0.25% and -2.5%, respectively, compared to a -6.5% decline in CBOT. Export demand should continue as countries ease lockdown measures, but still look to ensure adequate food supply. Although Russia has reached its export quota for the season, there will not be a complete halt, as cargos bought forward continue to flow out of Russian ports. With global wheat supply tightening until harvest, we expect continued consumer demand to keep CBOT trading at around USc 530/bu, with the Kansas-Chicago spread continuing up, currently at USc 42/bu, up USc 23/bu MOM. Strong competition from cheap corn and lower feed demand globally should help keep a lid on price upside.

US winter wheat good-excellent conditions fell throughout this month, to 54% G-E as of April 26, significantly lower than the 64% G-E rating for the same period last year. US spring wheat planting is 14% complete as of April 26 – ahead of last year’s wet weather delay plantings of 11%, but still behind the five-year average of 29%. A mid-April cold snap stressed the winter crop and delayed field work, but there could still be a recovery, with relatively good weather in the forecast.

Australian winter wheat plantings are getting going, but more rainfall is needed in the west. After several weeks of much-needed rainfall, the weather turned drier in Western Australia this month. Winter wheat plantings were able to get started, and the ground appears to be in better condition than last year; however, more rainfall will be needed. Southeastern Australia appears to have good soil moisture levels, with the one-week forecast showing continued good rainfall in the region. We expect a recovery from last year’s severe drought-lowered production. The market’s attention will be on the USDA’s May WASDE, with its 2020/21 production estimates.

US All-Wheat 2019/20 sales outpace the five-year average and should benefit from limited availability elsewhere
Corn

**CBOT Corn has been pushed from its long-term comfort zone of USD 3.50/bu to USD 4.00/bu by Covid-19 demand destruction and near-record US farmer plantings that threaten to push 2020/21 ending stocks to 32-year highs of 3.4bn bu.**

- Concerns about Covid-19’s ethanol demand destruction, high 2020/21 YOY plantings, and a strong USD test CBOT Corn bulls’ patience and limit traction near USD 3.50/bu.

Chicago Board of Trade Corn traded down 9% last month to hover above a ten-year nadir of USD 3.08/bu. We published an article last week whose title, *Corn Coming out of Our Ears*, encapsulates CBOT Corn’s precarious position. Under siege from disease, low energy prices, and near-record US farmer plantings (27% complete, vs. 12% last year), CBOT Corn prices are charting a new long-term path below USD 3.50/bu.

**Major blows to energy fundamentals have taken ethanol stocks to record highs and prices near record lows.** Multiple ethanol plants in the US have shut down, and last month’s corn grind was down about one-third from the crop year average. The USDA cut 2019/20 US corn ethanol demand this month by 425m bu, to 5,050m bu, the lowest in seven years. We see the summer driving season fizzling out and further ethanol downside of at least ~250m bu stifling the vital (~40% of total demand) outlet for US corn farmers. Brazil may also see corn ethanol’s growth expectations quashed, despite government efforts to support the industry.

US exports were already heading to their lowest levels in seven years, on a strong USD and stiff South American competition; now, global feed demand faces Covid-19 pressures – from lower disposable income in Southeast Asia to meatpacking supply disruptions in the US. US corn is likely to see overall demand decline for a second year in 2019/20 and ending stocks rise >200m bu, an ironic finish to the year’s weather-frenzied market.

**High US 2020/21 acreage and fragile demand to lift stocks**

<table>
<thead>
<tr>
<th>US Corn S&amp;D (Mn Acres/Mn bu.)</th>
<th>USDA April</th>
<th>2020/21 yield scenarios</th>
<th>19/20(1)</th>
<th>low</th>
<th>base</th>
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<td>Area Harvested</td>
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</table>

Source: USDA, Rabobank 2020

**CBOT Corn prices fall to a lower rung, as US 2020/21 stocks to balloon from Covid-19, OPEC and high farmer plantings**

The US enters the 2020/21 planting season in the midst of this demand destruction. That apparently isn’t enough to dissuade farmers from planting 97m ac of corn (+7m ac YOY). While that acreage could come off a bit on the CBOT price destruction since early May and shift in favor of soy – the CBOT Soy Nov/Corn Dec 20 price ratio is above 2.51, which favors the former – historical variance and proximity to plantings tells us the switch won’t be much: perhaps 1.5m ac. Stagnant demand and rising production will drive US corn stocks up 43%, to 32-year highs near 3.4bn bu in 2020/21.

There are a few shovels capable of digging CBOT out from the impending multi-year US stocks burden. The most obvious choice is China: It recently bought ~1mmt of US corn and could import another 4mmt this season – but without ethanol and DDGs, procurement would be inadequate to offset domestic declines. More likely, any support for CBOT will come from weather issues, such as the Southern Brazilian dryness that is reducing safrinha crop potential. However, any weather issues will need to be severe and widespread to overcome higher 2020 global acreage and weaker ethanol/feed demand. Still, with hedge funds positioned heavily short (>200,000 lots) before a weather market and US farmers showing little selling interest (commercials are net short ~60,000 lots, the lowest in a year), CBOT downside appears protected. But if US Corn yield looks favorable in July, Brazilian prospects have improved, or the world still faces restrictions of movement, we could see farmer resolve wane and CBOT Corn lain low to USD 3.00/bu.

Dryness has cut Brazil and Argentina corn yield estimates

Source: Bloomberg, Rabobank 2020

<table>
<thead>
<tr>
<th>CBOT Corn</th>
<th>Unit</th>
<th>Q1 '19</th>
<th>Q2 '19</th>
<th>Q3 '19</th>
<th>Q4 '19</th>
<th>Q1 '20</th>
<th>Q2 '20</th>
<th>Q3 '20</th>
<th>Q4 '20</th>
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<td>363</td>
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<td>357</td>
<td>354</td>
<td>351</td>
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<tr>
<td>QT '20</td>
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<td>310</td>
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<td>298</td>
<td>295</td>
<td>292</td>
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<td>286</td>
</tr>
<tr>
<td>QT '21</td>
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<td>320</td>
<td>315</td>
<td>310</td>
<td>305</td>
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</tr>
</tbody>
</table>

Source: Bloomberg, Rabobank 2020

% of Normal Rainfall: 28 Mar – 26 Apr, 2020
**Soybeans**

**CBOT Soybeans continued to fall, on increasing evidence of Covid-19 demand destruction and a delayed recovery. Low US acreage and falling South American supply projections give some comfort to CBOT Soy.**

- Covid-19 weakens global feed and meat demand.
- South American soy harvest projections are declining; meanwhile, strong forward sales blunt weak currency.
- US soy area, at 83m ac, is low (+6.9m above 2018/19, but -7.2m 2017/18) and will limit 2020/21 stocks increase.

**CBOT Soybeans ended the month -6%, at USc 830/bu, as lower-than-expected US export sales, stagnating domestic feed demand, and a record-weak BRL combined to outweigh falling supply expectations.** For China, which takes the lion’s share of global soy demand, we expect a nearly v-shaped import recovery from ASF/trade wars to be further delayed due to Covid-19. Imports are expected to be 89mmt in 2019/20, up 6.5mmt from 2018/19, but 5mmt lower than 2017/18. Even next year, imports will remain below record, amid China’s slight shift toward lower feed intensity and higher animal protein turnover. That feed shift – in response to hog disease, high pork prices, and falling incomes – is increasingly at risk of replication throughout Southeast Asia, with a negative effect on global soy demand.

**Global import demand is unlikely to return to its historical strength in 2020/21, unless China opportunistically imports US soy for strategic state reserves. There are good reasons for China to do so: Soy is historically cheap, addresses trade deal compliance, and lowers supply chain risks. China’s recent +500,000mt purchase of US beans – despite the price premium to Brazil (both have positive crush margins) – will give that hypothesis some credibility. Still, US export commitments are 15% behind the USDA’s projected pace, and China has reportedly procured 27mmt from Brazil to cover its needs through July. The USDA will most likely reduce its US 2019/20 export projections ~100m bu in the coming months, with carry-out rising >500m bu. That would represent a 42% decline from last year’s record, but would still be a historically high level and come amid a fragile demand backdrop.**

**US export sales are behind pace to reach USDA’s target, and are dependent on Chinese procurement in the summer**

**US 2020/21 soy planted acreage at 83m ac total, due relative security of corn for farmers, limits ending stocks’ growth**

**CBOT Soy hit by COVID demand weakness, but should see risks pick-up following Brazil’s sell-off, low US plantings**

Source: Bloomberg, Rabobank 2020

Source: USDA, Rabobank 2020
Soymeal and Soy Oil

Demand weakness for CBOT Soymeal (feed) and Soy Oil (biodiesel) expected to unwind in the medium term.

- Biodiesel demand has fallen heavily off Brent’s collapse.
- Food demand remains resilient, and with good US export sales, CBOT price weakness should ebb.
- CBOT Soymeal backwardation ended abruptly; lingering logistics issues no match for Covid-19 feed demand fears.
- US Crush margin is at YTD lows; subsequent declining output of soymeal and soy oil could support prices.

CBOT Soy Oil continued to spring leaks last month, with prices falling near 13-year lows at USc 25.5/lb, on eroding US demand and strong crush output. Demand prospects appear acutely dire for vegetable oil-rich, high-growth biodiesel, both in the US (31% of total US use, up from 24% five years ago) and abroad (20% of global soy oil use). Brazil (B15), Indonesia (B30), and Malaysia (B20) could all face scaling back of their soy oil- and palm oil-based biodiesel mandate targets, which have been hamstrung by the Covid/OPEC induced collapse in Brent Crude prices (~70% YTD and -20% MOM). Last month, the USDA cut domestic demand projections for US soy oil: 300m lb for biodiesel (with fewer people on the road) and 200m lb in food (with restaurants closed), and year-on-year demand now shows a 2% decline. Biodiesel demand could see a further decline of 100m lb, but not much more, as many truckers are still on the road in the US.

A major silver lining for CBOT Soy Oil demand has been surging US exports (revised +300m lb higher by the USDA last month, to 2,400m lb, up 24% YOY), but further upside will likely be muted amid a weakening ARS, a widening bean oil/palm oil premium (from a historically low USD 20/mt to a more normal USD 100/mt), and a gradual shift of Brazilian domestic biodiesel-earmarked soy oil toward the export market. Meanwhile, the USDA’s production outlook rose 190m lb last month, up 1% YOY. There is reason to believe Record US crush volumes should slow amid rapidly declining crush margins, limiting supply pressure on soy oil and meal flow of supplies will ease, given the decline in crush margin (~42% MOM, to six-month lows) and low prices that are raising consumer interest: CFTC commercial positioning is at a seven-month high of ~965 net lots, which can yield price support for the contract. Rabobank expects 2019/20 US ending stocks to rise 11%, to two-year highs of 1,975m lb, before declining next year below 1,900m lb, on more modest growth in crush (1.4% YOY) and a demand recovery (+2.4%). In light of this mild outlook, funds who have been net sellers of CBOT Soy Oil for 13 of the last 14 weeks may be loath to extend their largest net short (~28,800 net lots) in almost a year. We expect CBOT Soy Oil to rise steadily from here, to USc 28/lb by mid-2021.

CBOT Soy Oil’s commercial net position is nearly neutral, which typically precedes support or a rebound in prices.

Source: Bloomberg, Rabobank 2020

<table>
<thead>
<tr>
<th>Unit</th>
<th>Q1'19</th>
<th>Q2'19</th>
<th>Q3'19</th>
<th>Q4'19</th>
<th>Q1'20</th>
<th>Q2'20</th>
<th>Q3'20</th>
<th>Q4'20</th>
<th>Q1'21f</th>
<th>Q2'21f</th>
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</thead>
<tbody>
<tr>
<td>Soy Oil</td>
<td>USc/lb</td>
<td>28.5</td>
<td>31.3</td>
<td>30.1</td>
<td>26.2</td>
<td>26.5</td>
<td>27.0</td>
<td>27.5</td>
<td>28.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: NOPA, Bloomberg, Rabobank 2020

Diğer kaynaklar

- CBOT Soy Oil price risks are caught in a downdraft (~11% MOM), as reports depict 25% of US pork and 10% of beef output offline and desperate feed lots. In Southeast Asia, Covid-19 is crimping disposable income, animal protein, and feed consumption. Still, there are reasons we see support above USD 290/mt. Pronounced dryness in Argentina and Southern Brazil have cut soy oil output expectations by >10mmt in the last few months. US soy supplies in 2020/21 are expected to show limited growth, and collapsing US crush margins should see record output ease. Still, Covid-19 weakened demand growth, and strong South American sales will keep CBOT Soymeal constrained at or below USD 300/mt.

Source: CFTC, Rabobank 2020
Palm Oil

Global palm oil demand remains weak, despite signs of increasing shipments for Ramadan season.

- Palm oil plantations and mills in Malaysian state of Sabah resume operations.
- Covid-19 logistics-related issues and weak currency to limit near-term Indian palm oil import demand.
- Indonesia is less likely to achieve B30 mandate in 2020.

Palm oil plantations and mills in the Malaysian state of Sabah have resumed operations. Sabah has allowed palm oil plantations and mills which haven’t seen outbreaks of coronavirus to resume operations at 50% capacity from April 10. The suspension on palm oil operations in Sabah initially started with only three districts on March 25, before it was extended to six districts on March 30. Despite this suspension, according to MPOB, Malaysian March 2020 palm oil production still increased by 8% MOM, to 1.4 mmt. Malaysian palm oil exports and inventories for the same period also increased by 9.1% and 1.6% MOM, to 1.2mmt and 1.7mmt, respectively. Meanwhile, GAPKI reported that Indonesian palm oil production (incl. lauric oils) was flat at 3.8mmt in January 2020. Indonesian January 2020 palm oil exports, however, decreased by 27% MOM, to 2.4mmt. Meanwhile, Indonesian palm oil inventories were flat, at 4.5mmt, in January 2020. We expect a seasonal palm oil production increase to result in higher palm oil inventories in Malaysia and in Indonesia in April 2020.

Covid-19 logistics-related issues and a weak currency will limit near-term Indian palm oil import demand. According to provisional SEA India numbers, Indian March 2020 palm oil imports decreased by 38% MOM, to 335,308mt. Meanwhile, Indian total edible oil imports decreased by 14% MOM, to 941,219mt for the same time period, despite having low edible oil inventory levels. While lockdown measures slow domestic port operations, Indian palm oil import demand is also negatively affected by a weak USD/INR and more competitive soft oil prices. Meanwhile, we expect Indonesian and Malaysian palm oil exports to increase quarter-on-quarter in Q2 2020, on the back of seasonal Ramadan demand. According to ITS, Malaysian palm oil exports for the first 20 days of April 2020 increased by 7% MOM, to 691,910mt.

Indonesia is less likely to achieve the B30 mandate in 2020, as biodiesel demand is affected negatively by movement restriction measures. According to the Indonesian Ministry of Energy and Mines, domestic biodiesel consumption in Q1 2020 only reached 2.1m kiloliters, or 21.8% of the B30 mandate target of ~9.6m kiloliters. We expect domestic fuel usage in Indonesia to be lower quarter-on-quarter in Q2, due to expectations of stricter movement restrictions. Furthermore, the collection of the Indonesian palm oil export levy has been halted since March 2020, as the palm oil price decreased below USD 570/mt. Without additional funding for the Indonesian Oil Palm Estate Fund and assuming an average Brent Crude oil price of USD 25/bbl for the rest of 2020, we estimate that Indonesian full-year biodiesel consumption will only reach 5.5m to 6m kiloliters in 2020. With sufficient funds, we estimate Indonesian full-year biodiesel consumption to only reach 7.5m to 8m kiloliters in 2020.

Source: MPOB, Rabobank 2020

We lower our 2020 palm oil price forecast

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<tr>
<th>Unit</th>
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<th>Q4'19</th>
<th>Q1'20</th>
<th>Q2'20f</th>
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<td>MYR/ton</td>
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</table>

Source: Bloomberg, Rabobank 2020

Indian edible oil imports remained weak in March 2020

Source: SEA India, Rabobank 2020
Sugar

ICE #11 Sugar forecast lowered, following BRL weakness and cheaper energy, but supported above USc 9/lb.

- The slump in ethanol sales and price, plus the tremendous depreciation of the BRL and the volatile politics of Brazil makes Brazilian mills keener on selling any remaining spot and forward sugar.
- White premium will likely continue to trade above USD 70/mt for the next two quarters, as Thai and Indian exports disappoint.

ICE #11 Sugar prices continued the downward path in April, but at a slower pace. The impressive collapse of energy prices had only a limited effect on sugar prices, given that a maximization of sugar in Brazil was already expected. While the Brazilian government is keen on supporting the ethanol complex, the political turmoil last week delayed an important announcement on the specific measures to do so. However, some measures are likely, and ethanol prices should be relatively well supported at current low levels. If the ethanol parity remains just above USc 7/lb, then USc 9/lb seems to provide a cushion to sugar prices. Just as well – and unless ethanol measures in Brazil surprise – we see little upside for raw sugar with current BRL and ethanol prices. From these levels, we adopt a fairly neutral position for 2020, but 2021/22 levels – with a flatter curve – look rather attractive, considering we are below cost of production in most countries.

Non-Commercials are running a short marathon, having concluded their eight consecutive weekly lap of net selling on ICE #11. A total of -177,875 net lots were sold in the period, taking their net short position to -60,063 lots – and this does not include the latest week, which would have likely added more shorts. The correlation to BRL and energy are the main attractions for funds, but we will argue that – at least in the short and medium term – the fundamentals have not changed.

Non-Commercials continued selling slowly, but steadily

As mentioned above, there was already a maximization expected in the sugar mix in Brazil since mid-March. In the longer term, looking at future seasons, one could argue that energy prices are so low that Brazil could maximize sugar again next season. However, in the current pandemic scenario, any long-term forecast is not very reliable, and any investments will be limited in the current political and economic environment.

The white premium continued to be strong, but we would expect a deceleration of nearby demand, as the stockpiling frenzy has calmed down. While the nearby premium may continue to be supported – trading at over USD 100/mt in the front months, in part due to the shortage of Thais and slow-moving sugar out of India – the Oct/Oct premium, currently at USD 90/mt, may come back down a little. Brazil white exports should increase in the coming months, helping to alleviate some pressure. In any case, with the situation in Thailand and India, toll refiners are likely to keep active.

On the demand side, we still sustain that, in principle, we don’t expect to see any significant drop in global demand – and in many markets, we don’t expect a drop at all. However, we are aware that some market analysts expect negative demand drop, and these views may be priced into the market – particularly on ICE #11, the speculators’ favorite contract.

BRL/USD and energy prices drag sugar prices down

Source: Bloomberg, Rabobank 2020

Source: CFTC, Bloomberg, Rabobank 2020
Arabica sugar forecast lowered, following currency depreciations and fewer disruptions.

- BRL and COP heading for new lows.
- Demand could be affected a little more than anticipated, as unemployment is heading higher than expected last month.
- Supply-side disruptions are not as threatening as they were a month ago.

Arabica is seeing some risk factors lifted, leading to a more bearish outlook. Arabica prices were unchanged in the first half of April, as the collapse in out-of-home consumption was met with strong supermarket and online sales in Europe, the US, and Brazil, and roasters were keen on securing coffee stocks. Similarly, on the supply side, the depreciation of the BRL and COP was offset by the risk of a lack of labor and/or logistical disruption during the harvests of – particularly – Brazil and Colombia. But preparations are taking place, and no major disruption was seen in Espírito Santo and Zona da Mata (where labor is local). But even in South and West Minas Gerais, contracting labor does not seem to be a problem, and there is labor available from the local cities. We will find out in late May/early June if more labor can move from Bahia to Minas Gerais – but for the time being, we assume things will go on as normal, with only some delays to be expected. If severe, these delays can translate to lower semi-washed coffee production and potentially more cherries falling to the floor. In any case, the fact that national and local governments are talking about this makes us optimistic that worst-case scenarios will be averted. And a little bit of a loss of quality in Brazil may be overshadowed by lower demand for premium coffee, from both impoverished consumers trading down and closed coffee shops.

Assuming harvests go on normally, we take a bearish view from the current levels. In Brazilian reais, arabica is trading over 60% higher YOY – and if things continue this way, we should expect a large wave of new plantings across Brazil during the planting season later in the year. In the immediate term, current prices make Brazilian and Colombian farmers keen on selling any remaining stocks and closing forward sales. We hear macro traders regret not being able to sell coffee in Brazilian reais. Life is tough. The problem of the certified stocks will still persist, but we believe the demand for them will be lower, considering the collapse of out-of-home consumption and if Brazil manages to produce a good-quality harvest.

We continue to be friendly toward robustas. We foresee a shift in demand in non-producing countries of over 2% toward robustas in 2019/20 – more than offsetting any loss in consumption in countries where the shift toward at-home may not fully work. Given that there are a lot of Brazilian conillons lying around, and more coming, the exchange price will reflect the price of the conillons, while differentials for other robustas will remain high. There is no way around this, but the price difference between conillon and any other robusta is very enticing – and this will lead to an increase in the share of conillons in different blends and geographies at a time when consumers will be looking to save a coin or two. Cheaper blends and soluble coffee should do well during a recession (particularly Brazilian soluble being made cheap by the exchange rate), and roasters in emerging countries – put under increased pressure – will be ever more flexible.

Relative prices will favor offtake of robustas

Producing-country currencies are very favorable, and herald a potential expansion of production in Brazil and Colombia
Cotton

Challenging demand outlook keeps ICE #2 Cotton in the doldrums.

- ICE #2 traded a range-bound path through April, remaining near 11-year lows.
- Export cancellations will become increasingly visible in the US and elsewhere, as major demand challenges are felt across the textile supply chain.
- Two major risk factors dictate the ICE #2 market in the short-term: US cotton acres and potential Chinese state purchases of cotton.

ICE #2 Cotton futures remain at 11-year lows, trading a range-bound path through April, following a sharp Q1 fall. Amid the global Covid-19 pandemic, major demand concerns persist through three channels: Firstly, the national closure of retail & clothing stores during virus lockdowns. This has immediately cut national apparel sales – US March clothing sales fell 51% MOM, to the lowest on record – with online sales failing to offset this. Secondly, slowing operations at ports, mills, and factories disrupt supply chains, and, thirdly, an incoming 2020 global recession is set to cut consumer incomes. In summary, Rabobank anticipates an 11% YOY fall in global cotton consumption in 2019/20 – a sharper drop than the USDA’s 8% fall. This forecast assumes the easing of lockdowns though Q2 2020, along with a subsequent recovery in retail sales. It is clear that 2020 will be a challenging year for demand – Rabobank subsequently forecasts the ICE #2 to trade below USc 60/lb through 2020.

Demand erosion is increasingly visible in the export market, with US export sale cancellations through April after several, somewhat unexpected, weeks of strong trade. The week ending April 9 saw 184,000 bales in cancellations – the largest volume since mid-2012 – predominantly from China and Vietnam. This issue is not just restricted to the US, with reported export cancellations also occurring in Australia – mills are themselves under pressure from suffering retailers, with Bangladesh’s BGMEA reporting USD 3.17bn of cancelled or suspended garment orders. As lockdown restrictions eventually ease and shops reopen, Rabobank anticipates only a partial recovery in demand as a recession takes hold and global GDP falls a forecast 2.6% through 2020.

Two major risk factors dictate the ICE #2 market in the short-term: US cotton acres and potential Chinese state purchases of cotton. As US spring plantings get underway, the USDA’s 13.7m-ac cotton area forecast (down 1% YOY) appears somewhat optimistic – especially given below-cost-of-production spot prices for many. However, with USc 845/bu soybeans and USc 330/bu corn (new crop 2020 contracts), an alternative crop is not obvious. Rabobank now forecasts a 5% YOY cut in 2020 US cotton acres, to 13.0m ac, which, accounting for a trend yield, could result in a +20m bale crop – a bearish market factor. Just 11% of US cotton was planted as of April 20, with conditions varying from the dry Texas panhandle to the wet Delta region. In contrast, rumors of China purchasing a substantial 4.6m bales for state reserves (along with substantial volumes of grains & oilseeds) lean toward a more bullish outlook. This would be part of China’s obligations over the two-year US-China trade deal, so could favor US exports substantially. Lastly, early May brings the much-anticipated 2020/21 fundamental forecasts from the USDA WASDE report – an eagerly awaited report by the market.

US export sales to China fall sharply in April, as Covid-19 pressure at the retail level finds its way down the supply chain

Rabobank forecasts an 11% drop in 2019/20 global cotton demand, as Covid-19 drives a challenging outlook
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, Rabobank 2020  *Calculated on a gross basis
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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© Rabobank London, Thames Court, One Queenhithe, London EC4V 3RL +44(0) 207 809 3000

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