The S&P GSCI Agricultural Index jumped 4% in August – in part because US corn and soybean yields failed to stay at the high levels expected at the start of the month. US Dollar Indices continued to remain at relatively low levels, and demand has been better than expected; however, the main bullish influence was probably funds. Commodity index funds have been buying across ags for the last eight consecutive weeks, as investors look to hedge inflation and even equities (gold is already very expensive and real estate illiquid). We expect commodity index funds to continue buying, as concerns about the size and length of the monetary and fiscal stimulus will continue. Non-Commercials were also net buyers in seven out of the last eight weeks, as more of those concerns do not only materialize via index funds, but also through all sorts of investment vehicles, including ETFs. However, fundamentals will limit upside.

<table>
<thead>
<tr>
<th>WHEAT</th>
<th>SUGAR</th>
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<tbody>
<tr>
<td><strong>We maintain our bearish CBOT – bullish Matif outlook.</strong></td>
<td><strong>Bearish short-term outlook for ICE #11 Sugar, on heavy fundamentals and new export flows.</strong></td>
</tr>
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<td>• Russian exports have been 6% lower YOY for the current season but are accelerating.</td>
<td>• Speculative buying has played a key part in recent strength, with Funds holding a 0.17m lot net long.</td>
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<tr>
<td>• Record wheat production relies on southern hemisphere rebound – Australia in particular.</td>
<td>• India’s government confirms increased cane prices for growers in 2020/21 – export subsidies may follow.</td>
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<tr>
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<th>COFFEE</th>
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<td><strong>CBOT Corn: A ‘sure thing’ turned unsure. US storm damage and ‘just’ good yield estimates.</strong></td>
<td><strong>We adopt a bearish arabica outlook, as the Brazil harvest is overwhelming.</strong></td>
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<td>• The US will produce a big crop and build stocks, but not to the extent expected just three weeks ago.</td>
<td>• There was a huge amount of buying in Brazil, which will translate in lower physical demand ahead.</td>
</tr>
<tr>
<td>• China continues to buy, Europe impacted by heat/dryness.</td>
<td>• External factors are leading to fund-buying, pushing market prices up.</td>
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<thead>
<tr>
<th>SOYBEANS</th>
<th>SOYMEAL &amp; OIL</th>
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<tbody>
<tr>
<td><strong>CBOT Soybeans outlook slightly bearish.</strong></td>
<td><strong>Soy Oil and Soymeal Heading in Different Directions.</strong></td>
</tr>
<tr>
<td>• US weather has not been perfect in August, and crop conditions started to slowly decline. But forward weather is decent, and any yield declines are limited.</td>
<td>• The soy oil market is supported by a number of factors which will support the market into 2021.</td>
</tr>
<tr>
<td>• Brazil plantings could bring volatility to the market, especially if La Niña firms up and brings dryness.</td>
<td>• Clouds on the horizon for soymeal prices, with rising crush and concerns over 2H 2020 Chinese demand</td>
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<th>COTTON</th>
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<tbody>
<tr>
<td><strong>Relatively high palm oil prices and improving inventories will limit restocking demand.</strong></td>
<td><strong>Bearish view on Cotton maintained, amid record global stock-building in 2020/21.</strong></td>
</tr>
<tr>
<td>• Indian edible oil inventories improved month-on-month in July.</td>
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<td>• Indonesian biodiesel consumption is still behind the required pace to achieve the B30 mandate.</td>
<td>• In the immediate term, we await the arrival of tropical storms Marco and Laura to the US Gulf.</td>
</tr>
</tbody>
</table>
Wheat

We maintain our bearish CBOT – bullish Matif outlook, with the Matif/CBOT spread to see further upside.

- Russian exports have been 6% lower YOY for the current season, but are accelerating as crop estimates increase on better-than-expected yields.
- Record wheat production relies on southern hemisphere rebound. Australia, in particular, will need normal weather to continue in the coming months in order to guarantee the USDA’s estimate of 26mmt.

After touching lows of USD 5/bu in mid-August, CBOT Wheat prices have recovered toward their July levels. Mixed winter wheat crop results globally and improving export demand have reaffirmed wheat prices. This month, the USDA revised down its European wheat production number by 4mmt, in line with other estimates, to 135.5mmt. The largest year-on-year reductions in Europe are in the UK and France, with smaller, but still notable declines in Bulgaria, Germany, and Romania. Despite the decline in Europe, the USDA still expects global 2020/21 wheat production to reach a record 766mmt, with year-on-year production increases in Argentina, Australia, Canada, and Russia. Although Russian winter wheat yields began the month looking questionable, they have since recovered, which has led to increases in crop estimates; however, Russian spring wheat yields are still not fully known.

So far, Russian exports have been 6% lower YOY for the current season, as they catch up to last year’s pace. The pace should continue to pick up as more wheat enters the market. European wheat exports continue to be slow, at 47% of last year’s pace, and will not close the gap. Canadian spring wheat is looking in good shape, with harvest getting ahead of last year in some states, as recent dry weather has help finalize crop maturation. US spring wheat ratings rose to 71% G-E last week, ahead of last year and the five-year average.

The Matif/CBOT Wheat spread continues to make Matif look relatively cheap, given the drop in the EU crop

Wheat price forecast mostly unchanged

<table>
<thead>
<tr>
<th>unit</th>
<th>Q4’19</th>
<th>Q1’20</th>
<th>Q2’20</th>
<th>Q3’20f</th>
<th>Q4’20f</th>
<th>Q1’21f</th>
<th>Q2’21f</th>
<th>Q3’21f</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBOT</td>
<td>USc/bu</td>
<td>523</td>
<td>550</td>
<td>518</td>
<td>520</td>
<td>525</td>
<td>535</td>
<td>525</td>
</tr>
<tr>
<td>Matif</td>
<td>EUR/mt</td>
<td>181</td>
<td>191</td>
<td>190</td>
<td>196</td>
<td>190</td>
<td>192</td>
<td>190</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P., Rabobank 2020

Record wheat production relies on southern hemisphere rebound. Australia, in particular, will need normal weather to continue in the coming months in order to guarantee the USDA’s estimate of 26mmt – otherwise, wheat production may drop below last year’s levels.

Weather will need to improve in Argentina as well, where dryness is just beginning to recede.

Chinese import demand has been rising; however, this may begin to weaken as Chinese stocks reach a record 163mmt, with exports not an option as estimated by the USDA for 2020/21. US wheat has seen some positive demand from China recently, as buying spilled over from the exceptionally large US corn and soybean purchases in recent weeks.

CBOT prices will likely remain volatile, but should come under pressure as the northern hemisphere harvests weigh on the market. Prices should not breach their July highs of USc 550/bu and should not fall below USc 500/bu in the short term. We have raised our short-term forecast closer to the market, at USc 520/bu for Q3 2020, but maintain a bearish outlook. If the spring wheat crops continue to be in good shape and normal weather comes to southern hemisphere crops, we could see further price pressure ahead. Funds also appear to have favored corn and soybean buying over wheat in the most recent CFTC report. Additional fund buying in CBOT Wheat may raise the price floor toward USc 510/bu.

Russian Wheat FOB prices have collapsed as Russian crop estimates have increased and new wheat comes on stream

Source: Bloomberg Finance L.P., Rabobank 2020
CBOT Corn: A ‘sure thing’ turned unsure. US storm damage and ‘just’ good crop tour yield expectations, combined with weather issues in Europe and continued Chinese corn buying, keep prices well above their lows.

- The US will produce a big crop and build stocks, but by far not to the extent expected just three weeks ago. The derecho storm has damaged a large, but impossible to quantify amount of corn. This lets us question the USDA’s record-high yield and production estimates.
- China continues to buy, Europe impacted by heat/dryness.

While US corn benefited from overall decent weather, Iowa is the swing state that lifted prices off their season lows. Iowa already suffered from dryness and was hit earlier this month by a derecho storm, which damaged large areas of corn across the state, as well as parts of Illinois and Indiana. It is currently impossible to quantify the losses due to this incident, but we put them at about 300m to 500m bu. A recent crop tour estimates that 300m acres in Iowa will not be harvested (assuming the typical 200bpa yield) – that would be 60m bu less corn. Other fields are damaged, which probably pulls the states average yield ~10% below the USDA’s current estimate of 202bpa, cutting out another ~340m bu of corn, for a combined loss of ~400m bu in Iowa. The crop tour also found that yields in other US states were good, and crops are some of the best ever seen – but in our view, the results are not good enough to justify the USDA’s sizeable 3bpa yield increase in its August WASDE, to a record 181.8bpa. The USDA’s September figures will likely not properly reflect the storm damage, and therefore, the market will have to continue to deal with the uncertainties of US corn supply and demand. We estimate the US corn crop to be well below 15bn bu, which means we are very far off from the market expectation of a 16bn bu crop, which was common just two months ago.

Demand for US corn will remain the big question mark and could be the launch button for higher prices in the next four to five months. While it is a ‘sure thing’ that the USDA will lower its 2020/21 US corn feeding and exports in September – when

European rainfall anomaly Jul 25–Aug 23: shows much lower than average rainfall for corn areas

Source: NOAA, Rabobank 2020

CBOT Corn forecast slightly higher, but still bearish

<table>
<thead>
<tr>
<th>Unit</th>
<th>Q4'19</th>
<th>Q1'20</th>
<th>Q2'20</th>
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<th>Q4'20f</th>
<th>Q1'21f</th>
<th>Q2'21f</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBOT USc/bu</td>
<td>381</td>
<td>375</td>
<td>323</td>
<td>335</td>
<td>345</td>
<td>365</td>
<td>335</td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance LP, Rabobank 2020

it cuts its crop estimate – we want to ask the question as to how likely it is that US exports will stay strong this season. This would immediately impact prices, as it would lower ending stock expectations. In our last ACMR Monthly, we already explained China’s dilemma of need for feed grains – and so far, the country has pursued both of the options we highlighted by continuing to buy US corn, and by releasing some of its massive wheat and rice stocks onto the domestic Chinese market. The other region that needs much higher corn imports is the EU, which needs to compensate for its sizeable shortfall in the domestic wheat crop. The stronger the world market demand for EU wheat exports is, the more corn the region needs to import in order to substitute domestic feed, to free up wheat for exports – this would not be the first time.

Corn crops in Europe have suffered from dryness, and Brazilian exports need to stay well below last season’s. French corn conditions fell 12pp in the last two weeks, to 62% good/excellent. Ukraine’s corn prices rose, indicating crop issues. Brazil has entered its key corn export period needing to cut its exports by ~6mmt, or 20% from last season.

The CBOT price largely caught up with our previous forecast, and we have further marginally increased our price expectations. For the next half year, we see more price upside risk than downside risk. We expect US farmers to continue to plant a large corn area in 2021, which would pressure prices. Soybean crop failures in Brazil or strong Chinese imports of soy could also be bullish for corn.

World imports need 15mmt–25mmt more YOY, relying on bumper US production

Source: USDA, Rabobank 2020
Soybeans

CBOT Soybeans outlook slightly bearish.

- US weather has not been perfect in August, and crop conditions started to slowly decline. But forward weather is decent, and any yield declines are likely limited.
- Brazil plantings could bring volatility to the market, especially if La Niña firms up and brings dryness.
- Funds are back in full force in the market, establishing sizeable longs. Particularly, commodity index funds are becoming increasingly active.

CBOT Soybeans edged higher over August, but the move upwards was more noticeable in later maturities – as you would expect with growing expectations of future demand.

Not only the US government has recently stated that China is committed to increasing purchases of US soybeans; Chinese feed demand has been doing particularly well, as the country’s livestock sector continues to recover from African swine fever. US weather was somewhat adverse in recent weeks, with lower-than-normal rainfall and increasing temperatures. US crop ratings declined by 3% to 69% G-E, and we expect further deterioration from this still exceptionally high level as the drier-than-normal weather over the last couple of weeks takes its toll. With 92% of the crop setting pods as of 23 August, we are unlikely to see any abrupt movements in crop conditions going forward, especially since some rains are in the forecast for later this week. A recent crop tour has estimated yield at 52.5bpa. Although a little below the USDA, this still confirms an excellent yield, even when the damage in Iowa is fully taken into account. However, the yield remains below the 2018 crop tour estimate of 53bpa. In that year, the USDA increased its yield estimate further – to 52.8bpa in September – but finally only ended at 50.6bpa. As forward weather is beneficial, and the harvest starts from mid-September, weather risk will be removed more and more, and we take a slightly bearish outlook for the coming weeks. We believe USD 9.4/bu will be a strong upward barrier, while unless there is a major break in US trade negotiations with China, we see USD 8.8/bu bringing strong support.

Meanwhile, Brazilian farmers are preparing for an active planting season. Similar to other commodities, prices in Brazilian reais have reached record levels and are now about 50% higher YOY. Farmers will have every incentive to continue to expand area by more than 3%, and yields could also recover from this year’s below-normal trend. The planting season in the key producing areas of Mato Grosso and Paraná should begin in mid-September. However, a potential La Niña event could potentially extend the dry season and pose planting challenges.

Fund are back in the market. While fund positioning has not been overly aggressive since the Covid-19 pandemic started, the last CFTC report showed Non-Commercials net bought the largest weekly amount since July 2017 and the second-largest since 2006: an enormous 76,000 lots. This led to their net position switching to a 68,000-lot net long. This comes on top of index funds buying – as we see in other commodities – for the eighth consecutive week, having bought 41,000 lots of CBOT Soybeans in that period. When it comes to commodity index funds, we believe they are investing on future inflation concerns and concerns about the value of money. This trend may continue for the foreseeable future. They should represent a minor, but steady bullish factor in ag commodities – and in soybeans in particular.

US soy good-excellent ratings are coming off, but from a very high level.

Index funds are increasing their position in CBOT Soybeans – this trend is likely to continue.

Source: USDA, Rabobank 2020

Source: CFTC, Rabobank 2020
**Soy Oil and Soy Oil Heading in Different Directions.**

- The soy oil market is supported by a number of factors which will support the market into 2021: supportive palm oil fundamentals, strong US exports, and high canola and corn oil prices.
- Clouds on the horizon for soymeal prices, with rising crush and concerns over 2H 2020 Chinese demand.

The recent rally in soybean futures has lifted the products as well, but only soy oil appears to have a sustainable rally. Whether it is dry weather in the US Corn Belt or the derecho storm which hit Iowa particularly hard, the soybean market moving higher has lifted all boat. However, soymeal’s rally was brief, and it quickly returned to the middle of the USD 280/mt to USD 300/mt trading range, where it has been since April. At the same time, soy oil has continued to rally since the lows put in the spring.

A number of factors have contributed to the soy oil rally which are expected to remain supportive into 2021. One of the reasons this rally appears more sustainable is the breadth of the factors supporting it. The rally in palm oil is due to concerns about production stemming from Covid-19 and available labor harvest, strong Malaysian exports, and the lowest stocks since 2014. Strong US exports, increasing demand from the US biodiesel sector, high canola and corn oil prices, and tight refining capacity (deodorizing) in the US have all led to higher soy oil futures and basis values.

It is somewhat surprising that soymeal prices have not been stronger. Domestic demand in the US has been above 3.0m short tons every month except one since the beginning of the crop year. The strong demand is a direct result of strong US exports of animal protein to China. However, there are storm clouds on the horizon. Expectations are that animal protein exports, particularly to China, will drop off in 2H 2020, as China restocks its hog herd. Likewise, Chinese soybean imports are returning closer to their pre-trade war and pre-ASF levels. Therefore, China’s crush will be increasing, as will its domestic meal and oil output.

Global export prices tell the story as to why US soy oil exports have been so strong. Most recent price data shows US soy oil export prices at a USD 70/mt to USD 100/mt discount to Brazil and Argentina, respectively. US soy oil is some of the cheapest vegetable oil in the world. The major soymeal producers – Argentina, Brazil, and the US – export prices are pretty much on par with each other. With the potential for a large US soybean crop to be harvested this fall and expectations of another large Brazilian crop in 2021, soymeal prices will remain under pressure.

Soymeal and soy oil futures are headed in different directions. As discussed, the soy oil market has a number of supportive factors which could carry it well into 2021. Consequently, we have adjusted our soy oil future forecast upward for the forecast period. Soymeal futures, on the other hand, look to be under pressure, as crush continues to keep supplies high, stocks plentiful, with a marginal increase in the global soymeal trade. As a result, we have revised our average quarterly futures prices forecast downward. The major risk to this forecast is another wave of Covid-19 in the northern hemisphere during flu season.

**Soy Oil Export FOB Prices – the US has widened the gap with soy oil competitors and is on par with palm oil**

Source: USDA Oilseeds Circular, Rabobank 2020

**CBOT Soymeal and Soy Oil futures prices are heading in different directions**

Source: Bloomberg Finance L.P., Rabobank 2020
Relatively high palm oil prices and improving edible oil inventories in major importing countries will limit palm oil restocking demand in September 2020.

- Indian edible oil inventories improved month-on-month in July.
- Palm oil inventories in Indonesia and Malaysia are expected to increase month-on-month in August.
- Indonesian domestic biodiesel consumption is still behind the required pace to achieve the B30 mandate.

Indian edible oil inventories improved in July, as import activities increased month-on-month. According to provisional data from SEA India, Indian palm oil and soft oil imports increased by 46.4% and 15.7% MOM, respectively, in July 2020, to reach 824,078mt and 693,272mt. As a result, Indian edible oil inventories at port and in pipeline increased by 42.1% MOM, to reach 1.53mmt in early August. We expect Indian monthly palm oil import volumes in August and September to be lower than import volumes in July, due to a combination of relatively high palm oil prices and improved domestic edible oil inventory levels. It is worth noting that soft oils accounted for 47% of Indian edible oil imports for the November 2019 to July 2020 period – an 11% increase as compared to the same period last year. Meanwhile, the sowing of Indian Kharif crops continues to progress well. As of August 14, Indian soybean sowing area reached 11.9m hectares. This soybean sowing area was 6.7% and 7.8% higher, respectively, than the soybean sowing area for the same week in 2019 and the average total soybean sowing area in the last five years.

Palm oil inventories in Indonesia and Malaysia are expected to increase month-on-month in August, due to a combination of lower month-on-month palm oil exports and higher month-on-month palm oil production. According to the MPOB, Malaysian July 2020 palm oil production decreased by 4.1% MOM, to 1.78mmt. We expect lower monthly Malaysian palm oil exports in August, as importing countries slow their palm oil restocking procurements. This is reflected in ITS data, which showed that Malaysian palm oil exports for the first 20 days of August decreased by 18.2% MOM, to 946,338mt. Indonesian August 2020 palm oil exports are also expected to be lower month-on-month, as Malaysian palm oil export prices remain more competitive.

Indonesian domestic biodiesel consumption is still behind the required pace to achieve the B30 mandate. According to APROBI, domestic biodiesel consumption in Indonesia in 1H 2020 only reached 4.2m kiloliters, or 43.7% 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.

Demand for palm oil will be limited by the narrow spread between soy oil and palm oil prices. The spread between CBOT Soy Oil active contract prices to MDE-Bursa Palm Oil active contract prices remained narrow, at around USD 50/mt in mid-August 2020. This reduces palm oil attractiveness compared to soy oil.

Biodiesel consumption in Indonesia in 1H 2020 only reached 43.7% of the B30 mandate target in 2020.

Source: APROBI, Rabobank 2020
Sugar

Bearish short-term outlook for ICE #11 Raw Sugar, on heavy fundamentals and emerging export flows.

- ICE #11 Raw Sugar touched USc 13/lb through August, despite bearish fundamentals.
- Speculative buying has played a key part in recent strength, with Funds holding a 0.17m lot net long.
- India’s government confirms increased cane prices for growers in 2020/21 – we await news on export subsidies.

ICE #11 Raw Sugar touched USc 13/lb through August, defying relatively bearish fundamentals to reach five-month highs. While a 1% YOY fall in 2019/20 consumption, and heavy global stocks, weigh on the market, short-term trading is focused on nearby trade flows and demand. Nearby demand – a combination of physical refinery purchases, strong Indonesian imports, and rumored Chinese stockpiling – has so far muted forecast surpluses expected from both Brazil and India. Speculative buying has played a key part in recent strength, with Managed Money holding over 170,000 net longs as of August 18 – a level comparable to February 2020, when the ICE #11 touched USc 15/lb. Interestingly, net speculative buying was noted across most soft commodities through August – partly a hedge against USD inflation. Rabobank maintains a bearish short-term outlook, based on the fundamentals, with Q3 2020 prices pegged at USc 11.5/lb before recovering toward USc 12.5/lb by Q3 2020. Indian exports are viable, close to USc 13/lb, so a sustainable rally beyond this level is seen as unlikely while subsidies exist.

India’s government confirms increased cane prices for growers in 2020/21, with the country’s fair and remunerative (FRP) cane price rising INR 100/mt, to INR 2,850/mt, from October. With growers receiving a higher cane price, the main concern is how this could impact mill cane arrears – having reached record levels last season. To manage this, the government may need to address future export subsidies and/or the minimum sugar price (MSP) – both of which will help to determine 2020/21 Indian exports. There is also talk of direct support to help with mill arrears. On the production side, India’s 2020/21 crop looks particularly promising – national rainfall was up 4% on average between June and mid-August, with higher recordings in both Maharashtra and Karnataka. Uttar Pradesh has seen 4% lower rainfall than average. Full reservoirs should also benefit the 2021/22 crop. Rabobank forecasts India’s upcoming crop at 33.5mmt – up 16% YOY if realized – with +6mmt of export, pending a 2020/21 export subsidy renewal.

The Brazilian harvest shows few signs of slowing, with latest UNICA data (for the second fortnight in July) showing exceptionally strong seasonal crushing pace and sugar output. Center-South sugar production totals 19.7mmt, from January to July, up 16% YOY if seasonally adjusted. Brazil’s raw exports continue, with almost 15mmt of raws exported though January to July. For Australia, the emergence of mid-crop rainfall has slowed the early-season crush – 32.6% complete, as of August 16. As the ENSO outlook reads La Niña ‘alert,’ there is a real risk of a wet finish to the crush – causing a late finish or even some cane left unharvested.

Speculative buying has surged in recent weeks, with Managed Money holding over 170,000 net longs as of August 18.

Source: CFTC, Bloomberg, Rabobank 2020

Source: FO Licht, Rabobank 2020
We adopt a bearish arabica outlook, as the Brazil harvest is overwhelming.

- There was a huge amount of buying in Brazil, which will translate in lower physical demand ahead.
- External factors are leading to fund-buying, pushing market prices up.
- Brazil to replenish exchange-certified stocks of both arabica and robusta.

After their spectacular rally in July, ICE Arabica prices have had a much tamer August, falling 2.8% MOM, while holding onto most of the previous month’s gains. The world continues to grapple with the coronavirus, but coffee markets continue to be resilient. On the demand side, supermarket sales continue to do well months after the stockpiling frenzy, and out-of-home consumption is clearly rebounding. More detail on demand developments can be found in our recent Coffee Quarterly Outlook.

In the last four weeks, coffee prices made recent highs, supported by improving demand prospects and a weakening US dollar, but potentially also by investors trying to hedge equities and inflation with real assets like commodities. Commodity index funds have slowly weakened but are available every year – so the exchange may be the final destination for some volumes until enough roasters adapt. The possibility of a trickle becoming a river will face tougher competition (we believe semi-washed coffee will change flows globally. Honduran coffee has prompted a huge amount of buying across all qualities. Some roasters will be reluctant to adopt semi-washed – in part, because they are not available every year – so the exchange will quiet down.

Brazil’s 2020/21 harvest is outstanding in quantity and quality, and semi-washed output is likely record. A huge crop, combined with weak the BRL, led to aggressive farmer selling and the weakest differentials since 2014 (something we mentioned in our crop survey report in March), and this has prompted a huge amount of buying across all qualities. Roasters will want to fix the market level later on, but physical demand will quiet down. Brazilian semi-washed coffees are now flirting with tenderable parity. Some roasters will be reluctant to adopt semi-washed – in part, because they are not available every year – so the exchange may be the final destination for some volumes until enough roasters adapt. The possibility of a trickle becoming a river should limit any price upside to USc 130/lb in the December contract. The high availability of high-quality Brazilian coffee will change flows globally. Honduran coffee will face tougher competition (we believe semi-washed and the lower end of Honduras coffees are fairly similar), and Colombia will probably import significantly higher volumes of Brazil arabica. Opportunities will be there.

On the robusta side, reports from origin suggest a lower Vietnamese crop, while conills in Brazil have also reached tenderable parity – so we are likely to see Brazilian coffee reaching both exchanges, at least in some small quantities. This possibility should limit the robusta upside to USD 1,500/mt (November contract with constant BRL).

However, the uncertainty as to how much volume Brazil will grade in both exchanges is likely to keep the forward curves of both contracts quite volatile.
Cotton

Bearish view on ICE #2 Cotton maintained, amid record global stock-building in 2020/21.

- ICE #2 Cotton futures defy gravity, as prices hold in the mid-USc 60/lb range.
- Rabobank forecasts that 2020/21 global production will need to fall 5% YOY (vs. USDA at 4%), in order to keep world stocks manageable.
- In the immediate term, we await the arrival of tropical storms Marco and Laura to the US Gulf.

ICE #2 Cotton futures defy gravity as prices hold in the mid-USc 60/lb range, despite a heavy fundamental outlook globally. Ongoing support follows a combination of US-centric factors, including USD weakness, weather risk (including hurricane season), and ongoing export sales to China. Funds maintain a solid bullish presence in cotton, with Non-Commercials as of August 18, holding a 31,137-lot net long position – the largest long position since October 2018. These purchases are likely an inflation hedge, given recent USD weakness, seen across several soft commodity markets, as they coincide with a contrasting fundamental outlook – namely the largest year-on-year fall in world cotton consumption on record. Still, the physical market remains challenged by virus disruption, even as retail sales begin to recover globally. Rabobank maintains a bearish short-term outlook on the ICE #2, forecasting Q4 2020 prices at USc 56/lb, before a tepid recovery to USc 60/lb by Q2 2021 as consumption improves.

The USDA’s August WASDE emphasized the bearish fundamental outlook, where 2020/21 US abandonment was pegged at 24% nationally (vs. the ten-year average at 20%), as the yield forecast reached a record 939lb/ac – resulting in an 18m-bale crop and the fourth consecutive year of domestic stock-building. Globally, 2019/20 stocks are forecast to reach five-year highs, with further expansion forecast in 2020/21.

Non-Commercials, as of August 18, held an 42,853 net long position on ICE #2 Cotton – the largest held since Oct 2018.

World cotton stocks to expand +20% YOY in 2019/20, which further expansion likely in 2020/21 – almost all outside China.

Source: USDA, Rabobank 2020

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