Sino-US relations will likely continue to be heated in light of China’s tightening grip on Hong Kong and the upcoming US elections in November. For now, any talk of a trade deal will take the back seat in the coming weeks. Remarkably, Brent recovered over 30% so far in May, pushing prices of raw sugar up 3% and palm oil up 9%. Soy and corn remained subdued in the midst of an abundance of US stocks, good weather, and rapidly progressing US plantings. In particular for soybeans, the pace of Brazilian shipments continues to surprise, and the volumes of US soybeans bought by China are a little lackluster in the middle of worsening rhetoric. The rather positive USDA expectations for US 2020/21 soybean exports will require a strong commitment from China, but reading the Twitter feed offers no assurances about this.

### WHEAT

**CBOT Wheat forecast maintain on weather risk and slow US spring plantings**
- European and Black Sea weather is improving, but yields have already been negatively affected.
- Australia is set for a recovery in 2020/21, Argentine farmers also likely to increase wheat production.

### SUGAR

**Bearish short-term outlook for ICE #11 Raw Sugar, with brighter prospects further out**
- World raw sugar prices rallied from April’s 15-year lows through, assisted by the higher energy markets.
- Brazil’s CS records a 45.8% sugar mix to date, but dryness raises concerns for future cane development.

### CORN

**CBOT Corn moved sideways last month in a narrow range close to multi-year lows**
- A massive US stock increase in 2020/21 can only be prevented by severe weather problems.
- US ethanol use is recovering but still far off from ‘normal’.

### COFFEE

**We continue to hold a bearish view in light of decreasing demand**
- Consumption is expected to decline for the first time since 1995 (when prices trebled the year before).
- Production seems to be less affected than demand.

### SOY COMPLEX

**CBOT Soybean prices have remained under pressure, following good US planting progress and the worsening of US-China relations**
- Deteriorating US-China relations may put the trade agreement into question.
- The Coronavirus pandemic has left a big question mark surrounding short- and medium-term demand.

### PALM OIL

**Improvements in global crude oil prices and soy oil prices to provide limited support to palm oil prices**
- Palm oil inventories in Indonesia and Malaysia remain relatively high.
- Indonesian biodiesel consumption is still behind the required pace to achieve the B30 mandate.

### COTTON

**ICE #2 Cotton futures hold firm amid ongoing Chinese buying, despite mounting demand worries**
- China buys up US cotton, with 2019/20 total commitments rising 47% in just four weeks.
- Early risks emerge on the supply side, including Brazilian logistics and US planted acres.
Wheat

CBOT Wheat failed to break significantly below USc 500/bu last month and rebounded to USc 520/bu as weather risks and slow US spring plantings are concerns.

- Demand impacts of Covid-19 vs. 2020/21 Global production outlook.
- European and Black Sea weather is improving, but yields have already been negatively affected.
- Australia is set for a recovery in 2020/21, and Argentine farmers are likely to also increase wheat production.

CBOT Wheat tested lows of USD 5/bu as markets assessed the longer-term impacts of Covid-19 on global demand and the 2020/21 production outlook. After the initial rush to secure wheat supplies in March/April, export demand in May was much more muted. With Covid-19 lockdowns receding across the world, demand should begin to improve. In the meantime, weather is a key focus of the market. The USDA estimates a -2.6% YOY fall in US production, from 1,920mbu in 2019/20 to 1,866mbu in 2020/21, due to lower yields. The US spring has largely been warmer and drier than average for winter wheat areas, with good-excellent ratings in line with the five-year average at 54%. However, yields may well be lower than previously expected. Cold weather in spring wheat areas has delayed spring plantings in the US and Canada. US weather is forecast to be warmer and drier than normal in the coming month, which may further negatively affect winter wheat yields but should help spring plantings get finished.

European and Black Sea weather is improving, but the hot and dry weather over most of the region during the last month will have also negatively impacted yields. We now estimate Europe to produce 140.5mmt in 2019/20, down from 152.5mmt in 2019/20, based on the current forecast, which should somewhat replenish soil moisture to average levels in Central and Eastern Europe. However, any shift in the weather toward a prolonged hotter and drier period could further impact yields and should be closely monitored.

Funds hold a record net short in Minneapolis Wheat and may get caught out if spring plantings are further delayed.

Australia is set for a recovery in 2020/21, and Argentine farmers are likely to increase wheat production amid good export prices. Australia’s wetter-than-normal weather in recent months has helped raise soil moisture levels and encourage farmers to plant more acres heading into 2020/21. The USDA estimates Australian production to reach 24mmt in 2020/21, up 57.9% from 15.2mmt in 2019/20. The long-term forecast suggests wetter-than-normal weather for much of Australia’s wheat areas, which may push production even higher. Argentina is likely to increase wheat area this year, from 6.5m ha to around 6.7m ha, with production increasing 11%, from 19.5mmt to 21.6mmt.

Projected increases in Southern Hemisphere production and flat consumption balance out some, but not all, of the weather/production risks heading into 2020/21. Any bad weather could worsen an already fragile situation for many winter wheat regions, while a shift in the long-term weather forecast or further delay to plantings could easily worsen the outlook for spring wheat. Weather price risk premium will continue to be reflected in CBOT for the next few weeks and should keep prices at around USc 525/bu. Short covering and large Fund moves may also add volatility, with Funds holding a record net short in Minneapolis Wheat of ~25,401 lots, while spring plantings continue to be slow at 81% vs. the five-year average of 91%.

Weather in Europe and the Black Sea is improving in the coming week, although Germany is still a concern.

Source: Bloomberg, Rabobank 2020

2/14 RaboResearch | Agri Commodity Markets Research | May 2020
US Corn needs to digest the USDA’s first official 2020/21 production forecast, which, at a record 16bn bu, is 6% above the previous record and up 17% YOY. Prices, at very low levels already, are still including a weather-risk premium as planting is about to finish up, but the growing season is still largely ahead of us. Still, it would require a severe weather problem to prevent stocks from rising significantly in 2020/21. A look at the USDA’s May WASDE allows for some bearish and a few bullish thoughts. Bearish: 2019/20 corn for ethanol use is still too high. We expect the USDA to cut another 50m-100m bu of ethanol use in June and project that overall up to 300m-400m bu will still need to be cut for 2019/20! Thus, the 2019/20 season will show a stock increase rather than a reduction. Also, the export projections for 2020/21 seem aggressive, given the strong USD, and can only materialize if: 1) competing regions face production and export problems (which, so far, is not projected); 2) US corn prices stay very low; 3) the USDA significantly weakens against the BRL (Rabobank currently forecasts some strengthening of the BRL but not to the extent of being a game changer for US exports). Bullish: US corn planting estimates are too high, and Rabobank projects a 1m-2m acre cut in the June 30 USDA Acreage report. US corn plantings have progressed very well, at 88% complete vs. the five-year average of 83%, but there are areas of concern. North Dakota’s plantings, at 54%, are behind last year’s slow 57% and the average of 79% (as of May 24). Given that the prevent planting date has been exceeded for most of the state, farmers might cut back on the intended planting. Still, acreage will likely not be the key price driver, as it requires severe weather and yield problems to change the 2020/21 production outlook.

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**CBOT Corn for the last month is moving sideways in a narrow range close to multi-year lows.**

- With US plantings almost complete, a massive US stock increase in 2020/21 can only be prevented by severe weather problems. CBOT still includes a risk premium, as the growing season in most export countries is still ahead.
- US ethanol use is recovering but still far off from ‘normal’.

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**US 2019/20 stocks too low; US 2020/21 questionable**

<table>
<thead>
<tr>
<th>US Corn S&amp;D</th>
<th>USDA May</th>
<th>2020/21 production scenarios</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Mn Acres/Mn bu.)</td>
<td>18/19</td>
<td>19/20</td>
<td>20/21</td>
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<tr>
<td>Beginning Stocks</td>
<td>2,140</td>
<td>2,221</td>
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<tr>
<td>Area Planted</td>
<td>89</td>
<td>90</td>
<td>97</td>
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<tr>
<td>Area Harvested</td>
<td>81</td>
<td>81</td>
<td>90</td>
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<tr>
<td>Yield</td>
<td>176.4</td>
<td>167.8</td>
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<tr>
<td>Production</td>
<td>14,340</td>
<td>13,663</td>
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</tr>
<tr>
<td>MY Imports</td>
<td>28</td>
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<td>25</td>
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<tr>
<td>Total Supply</td>
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<td>15,928</td>
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<tr>
<td>MY Exports</td>
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<td>Feed Consumption</td>
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<td>FSU Consumption</td>
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<td>Ethanol Usage</td>
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<td>Total Usage</td>
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<tr>
<td>Ending Stocks</td>
<td>2,221</td>
<td>2,028</td>
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<tr>
<td>YOY stock change</td>
<td>81</td>
<td>-123</td>
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<tr>
<td>Stock/Usage</td>
<td>1.5%</td>
<td>15%</td>
<td>22%</td>
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</table>

Source: USDA, Rabobank 2020

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**CBOT Corn forecast lower**

<table>
<thead>
<tr>
<th>Unit</th>
<th>Q3’19</th>
<th>Q4’19</th>
<th>Q1’20</th>
<th>Q2’20f</th>
<th>Q3’20f</th>
<th>Q4’20f</th>
<th>Q1’21</th>
<th>Q2’21f</th>
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<tr>
<td>USc / bushel</td>
<td>320</td>
<td>325</td>
<td>340</td>
<td>320</td>
<td>340</td>
<td>320</td>
<td>340</td>
<td>320</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Rabobank 2020

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**Brazil: Some concerns on the horizon?** Strong domestic prices, due to the weak BRL, have resulted in high plantings of sarinha corn, but crop conditions are the weakest in the past five seasons. Also, Brazil sadly has become the new epicenter for Covid-19, which may cause logistic issues. Corn exports in May and June are seasonally low anyway but pick up from July. Major disruptions may be prevented as corn exports are not as concentrated in one port as cotton, coffee, or sugar exports, but are diversified across various ports, with Santos accounting for 43% Parana (14%), and Bacarea (13%).

**Ukraine and EU corn: Dryness not yet a major issue but needs to be watched.** European corn plantings are also in their final stages, and while soil moisture levels remain below normal, recent rains have brought some relief. In Ukraine, significant rains are in the forecast for the next two weeks, which should further benefit corn there. The USDA’s forecast of 39mmt of corn output in Ukraine (up 3mmt YOY) and of 68mmt (+2mmt YOY) in the EU is somewhat optimistic but not unrealistic, given acreage in both regions is slightly up YOY.

**Our price forecast was cut and calls for continued price pressure on CBOT Corn:** Corn demand in the short term may show some positive signs (US ethanol production recovering slowly), but feed demand in the US and globally remains a concern, as the ongoing recession may limit meat demand, especially in corn importing countries. Lower prices will stall US farmers’ appetite to sell their crops and might build a weak price floor, while short-term weather rallies will probably spark farmer selling and keep a ceiling on any sustainable price rally.
Soybeans

CBOT Soybean prices have remained under pressure, following good US planting progress and the worsening of US-China relations.

- With China tightening its grip over Hong Kong, Sino-US relations may suffer, and the trade agreement will be put into question.
- Brazil is in full expansion mode, posting formidable export volumes.

CBOT Soybeans have traded over May in the USD 8.30-USD 8.50/bu range. Amid good US planting progress and weather and ongoing strong competition from Brazil, worsening Sino-American rhetoric over Hong Kong (among other hot topics) keeps putting downward pressure. US exports to China continue to be lackluster and certainly not high enough to incentivize price upside. The USDA’s estimate of 2.05bn bu of US soybean exports for 2020/21 heavily depends on an improvement in Chinese buying of US soybeans. But rhetoric is unlikely to improve until after the US elections in early November. At the current pace, and with the formidable export competition from Brazil’s current and probably record 2021 crops (aggressively sold given the weak BRL), the USDA’s forecast of US soybean exports in 2020/21 seems rather optimistic. And then there are the usual US yield scenarios. With relatively good planting progress, there are reasons to be optimistic. If instead of the USDA’s 49.8 bu/acre, the US were to attain a record yield of 53 bu/acre and conservative exports of 1.95bn bu, stocks would increase by 0.27bn bu and stocks-to-use would jump from 15% to 20%. However, much of that risk is already priced in, and there is a lot of upside in case rhetoric does not translate to lasting actions preventing Chinese buying in 2020/21. In fact, China is well on track to import more than 90mmt of soybeans, as it is inflating its state reserves, and it may continue to do so as it rebuilds its pig herd and takes advantage of low prices.

Meanwhile, Brazil continues to export like there is no tomorrow. The steep depreciation in the Brazilian real makes farming a very profitable business. Brazil exported 16.3mmt in April 2020. That is 73% more YOY and 32% above the May 2018 monthly record. At this rather respectable exporting pace, and considering the USDA estimate for a record 131mmt crop next season, the US will likely face a declining export share. Of course, many things can go wrong before Brazil’s next harvest, but profit margins provide incentives for planting expansion and selling. With very large volumes in other crops, supply chains will be tested, but so far, Brazilian infrastructure has proven very resilient even in the midst of Covid-19’s spread.

Faced with a different FX situation, Argentine farmers are withholding sales, as they see the unofficial exchange rate much weaker than the official one at which they have to sell. It is hard to observe the gap between the two exchange rates and not expect the official exchange rate to depreciate further, especially amid the ongoing debt restructuring and a very strict lockdown. However, any large depreciation is unlikely to be driven by market forces in the short term, as the government has been strengthening currency controls. So it all boils down to a political decision with uncertain timelines. For those farmers who do not immediately need cash, saving in physical stocks may be the preferred option.

We forecast CBOT to move largely sideways but caution of price risks in both directions as uncertainties in US and global soybean markets will remain high in the coming months: weather, currency fluctuation, US-China trade issues, etc.

US soy planting progress is better than average

Source: USDA, Rabobank 2020

CBOT Soy to trade range-bound, amid good planting progress and worsening US-China relations

Source: Bloomberg, Rabobank 2020

Argentine peso exchange rates. The gap has widened, prompting farmers to withhold sales.

Source: Bloomberg, Rabobank 2020
Soybean and Soy Oil

Uncertainty and price pressure for the foreseeable future

- The Coronavirus pandemic has left a big question mark surrounding short- and medium-term demand.
- As demand fades, crush is not slowing fast enough to avoid increasing stocks and depressing prices further.

Soy oil use will benefit from the limited opening up of economies bringing some foodservice business back, but not likely back to the levels seen before Covid-19 shutdowns. In the US crop year through February, soy oil use for food is running nearly 4% behind last year’s pace and use in biodiesel is down 18.8%. Indonesia and Brazil are seeing declines in biodiesel use, while Malaysia delayed their proposed increase in biodiesel blend from 10% to 20%, all due to the pandemic. This points to increasing stocks of global vegetable oils, particularly soy and palm oil, keeping downward pressure on prices.

The rally in soymeal was short-lived. While soymeal looked like a good substitute for declining supplies of DDG, as domestic use through March was up 9.4% YOY, the liquidation of hogs in the US pointed to less demand in the future. Coronavirus has severely disrupted the US pork supply chain, causing pork processing to shut down and leading to significant liquidation of hogs. Disruption of chicken processing has not been as severe, although Covid-19 infections are rising in those facilities. Declining livestock numbers mean a long tail of depressed feed demand (corn and meal) over the next three to six months.

Crush had been strong through March, running 2% higher than a year ago due to strong crush margins. Crushers are slowing crush down as estimated cash crush margins are getting squeezed, due to lower product prices and the growing storage costs of soy oil stocks, +2bn lb. This portends lower crush, lower product supplies, and appreciating basis values. Basis values for both oil and meal are turning the corner and heading higher as crushers try to maintain their crush margins.

Looking ahead to 2020/21, global consumption of both soy oil and soymeal are projected to increase nearly 4% YOY, with most of the increase coming from China. Expectations are that the Chinese hog herd will grow, and likewise, their meal demand will be high. Soymeal trade is forecast to increase at the historic trend rate of 1%. Argentina and India are expected to capture most of the growth in trade, while most of the increase in production will occur in the US and Brazil. In the case of soy oil, one-half of the 2% rise in exports is expected to be supplied by Argentina, as their crush increases and there are more exportable supplies due to lower biodiesel demand.

Soy oil futures continue to trade at low levels. Likewise, soymeal futures reached their lowest value since 2016. While short-term fundamentals look challenging, so are the technicals. Soy oil is going to have a difficult time getting through the gap in the USc 28/lb area, which has held as overhead resistance twice. Soymeal futures continue to grind lower into a trading range between USD 280/mt and USD 290/mt, with USD 290 being overhead resistance. Short term, products are expected to trade in a narrow range with low volatility. In the case of soy oil, watch crude oil futures for signs of a breakout to the upside.

Increasing soy oil futures premium to palm oil futures (converted to USD/lb) will keep soy oil futures in check

Source: DTN, Rabobank 2020
Palm Oil

Improvements in global crude oil prices and soy oil prices to provide limited support to palm oil prices.

- Palm oil inventories in Indonesia and Malaysia remain relatively high.
- Muted domestic foodservice industry activities to limit Indian palm oil import demand in Q2 2020.
- Indonesian domestic biodiesel consumption is still behind the required pace to achieve the B30 mandate.

Palm oil inventories in Indonesia and Malaysia remain relatively high. According to GAPKI, Indonesian Q1 2020 palm oil production (including laurics oil) decreased seasonally by 10.8% QOQ to reach 10.9mmt. Indonesian March 2020 palm oil production was 3.6mmt, 2% and 17.1% lower than the same period in 2018 and 2019, respectively, despite having higher mature palm oil plantation area. Relatively high domestic palm oil inventories and the low palm oil price environment could have resulted in slower FFB harvesting activities in Indonesia, on top of an expectation of palm oil yield reduction in 2020. At 3.4mmt, Indonesian March 2020 palm oil inventories remained 40.4% higher YOY. Meanwhile, according to MPOB, Malaysian April 2020 palm oil production and inventories increased by 18.2% MOM, to 1.65mmt and 2.04mmt, respectively. FFB harvesting activities in Indonesia and Malaysia in May 2020 is expected to be slower than normal during the Ramadan period. However, we expect a seasonal palm oil production increase to result in higher QOQ palm oil inventories in Malaysia and Indonesia in Q2 2020.

Muted domestic foodservice industry activities to limit Indian palm oil import demand in Q2 2020. According to provisional SEA India numbers, Indian April 2020 total edible oil imports decreased by 16% MOM, to 790,377mt, as domestic logistics issues remained. Indian palm oil imports for the same month, however, increased by 16% MOM, to 385,260mt, but decreased by 45.5% YOY. Meanwhile, Indian soft oil imports have benefited from competitive pricing against palm oil and increasing household demand for consumer pack, due to domestic lockdown measures. Indian total soy oil and sunflower oil imports increased by 12.4% YOY from November 2019 to April 2020, while palm oil imports decreased by 28.7% YOY during the same period.

Indonesian domestic biodiesel consumption is still behind the required pace to achieve the B30 mandate. According to the Ministry of Energy and Minerals of Indonesia, as of April 22, 2020, domestic biodiesel consumption in Indonesia only reached 2.58m kiloliters, or 26.8% of the B30 mandated target of 9.6m kiloliters in 2020. Meanwhile, the Indonesian government will provide additional funding to support B30 mandate implementation in 2020. According to the Indonesian Ministry of Finance, the country needs an additional IDR 3.54 trillion to achieve B30 mandate implementation this year. IDR 760bn of this amount will be funded by a USD 5/mt increase in the palm oil export levy, while the remaining IDR 2.78 trillion will be funded by the Indonesian government. Malaysia will also resume the implementation of the B20 mandate from September 2020, according to the Malaysian Ministry of Commodities, with nationwide rollout expected to be completed in June 2021.

Palm oil inventories in Indonesia and Malaysia remain high

We maintain our palm oil price forecast

<table>
<thead>
<tr>
<th>Unit</th>
<th>Q3'19</th>
<th>Q4'19</th>
<th>Q1'20</th>
<th>Q2'20f</th>
<th>Q3'20f</th>
<th>Q4'20f</th>
<th>Q1'21f</th>
<th>Q2'21f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm Oil MYR/ton</td>
<td>2,200</td>
<td>2,587</td>
<td>2,639</td>
<td>2,150</td>
<td>2,050</td>
<td>2,050</td>
<td>2,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Rabobank 2020

Implementation of the Indonesian B30 mandate in 2020 is hindered by uneconomical POGO spread.

Source: Bloomberg, Rabobank 2020
Sugar

Bearish short-term outlook for ICE #11 Raw Sugar, with brighter prospects further out.

- World raw sugar prices rallied from April’s 15-year lows this month, breaking through USc 11/lb on the ICE #11 contract (basis July 2020), amid strength in the energy markets – with Brent crude up 64% MOM. Speculators reflected the change in sentiment, as Non-Commercials bought 52,203 net lots in the first three weeks of May, posting a net short position of -23,694 lots. Rabobank holds a mildly bullish long-term outlook on ICE #11 Raw Sugar, with prices set to rise towards USc 12/lb by Q1 2021. However, we maintain a neutral-to-bearish view in the shorter term, amid a sharp rise in the 2020 Brazilian sugar mix along with risks of falling 2019/20 global consumption.

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- Brazil’s Center South records a 45.8% sugar mix to date, but dryness raises concerns for future cane development.

- Thailand remains dry, dampering prospects for the 2020/21 crop and keeping the white premium elevated.

Non-Commercials bought 52,203 net lots in the first three weeks of May, posting a net short position of -23,694 lots all spell upside for the ICE #11 in coming months. The latter is of particular concern, with risk of congestion at the Port of Santos (accommodating 75% of domestic sugar exports) amid strong demand and an incoming record soybean crop.

Rabobank highlights substantial drought risk in Thailand too, which – after a 40% YOY production drop in 2019/20 – largely removes prospects of a 2020/21 production recovery.

Furthermore, ongoing EU dryness risks another year of lower-than-average beet yields. The white premium is set to remain elevated as a result, albeit lower than the May spot highs of USD 130/mt. Additional flows of whites are likely from Brazil, India, and global toll refiners in the coming months.

Early UNICA results highlight a 45.8% sugar mix season to date in Brazil’s Center South region as of May 1. This marks a near 15-point rise YOY, taking sugar output to 3mmt, a factor largely anticipated by markets amid a USc 7/lb to USc 9/lb Brazilian ethanol parity. However, the sharp pace of the CS harvest came as more of a surprise, with season-to-date crush up almost 20% YOY as dry conditions prevailed. While positive for the near-term crush and ATR, this dryness is an increasing concern for developing cane. A significant 30-day CS region precipitation anomaly, coupled with little relief in the 14-day forecast, highlights a risk of lower yields later in the season. Still, there remains time for this precipitation to arrive.

A slower Brazilian crush, lower yields, or logistical issues could all spell upside for the ICE #11 in coming months. The latter is of particular concern, with risk of congestion at the Port of Santos (accommodating 75% of domestic sugar exports) amid strong demand and an incoming record soybean crop.

Rabobank highlights substantial drought risk in Thailand too, which – after a 40% YOY production drop in 2019/20 – largely removes prospects of a 2020/21 production recovery.

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Global impacts of Covid-19 are now better understood, but uncertainty remains around both fuel and sugar demand.

Industrial sugar demand is particularly vulnerable, amid a widespread slowdown in foodservice, leading some commentators to cut 2019/20 global consumption by 5mmt to 6mmt YOY. Rabobank will revisit global consumption estimates in our Q2 Sugar Quarterly, released this June. Macro markets will continue to influence the ICE #11 through 1H 2020, with ongoing volatility in energy markets, the BRL/USD rate, and geopolitics. There is no shortage of uncertainty in these modern markets.

Dryness in the last 30 days across Brazil’s Center South region risks future cane development

ICE #11 Sugar price forecast raised marginally

<table>
<thead>
<tr>
<th>Unit</th>
<th>Q3'19</th>
<th>Q4'19</th>
<th>Q1'20F</th>
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<th>Q1'21F</th>
<th>Q2'21F</th>
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</thead>
<tbody>
<tr>
<td>USc/lb</td>
<td>12.6</td>
<td>12.9</td>
<td>13.5</td>
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<td>10.4</td>
<td>11.0</td>
<td>11.5</td>
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Source: Bloomberg, Rabobank 2020

Dryness in the last 30 days across Brazil’s Center South region risks future cane development

Source: NOAA, Rabobank 2020  Precipitation anomaly (mm) Apr 25 to May 24
We continue to hold a bearish view in light of decreasing demand.

- Consumption is expected to decline for the first time since 1995 (when prices trebled the year before).
- Production seems to be less affected than demand.
- The Brazil harvest is going ahead without significant problems.

Arabica prices changed little over May. The Brazilian real provided a lot of volatility, going from BRL 5.3/USD to BRL 5.9/USD, but it is now back to BRL 5.3/USD. The market is still scratching its head on what the ulterior effects of Covid-19 are on both supply and demand. As we wrote in our Coffee Outlook, we now expect demand to drop by 0.8% in the 2020 calendar year. The basic assumption is a full shift from out-of-home towards at-home in most markets, except in those where there is a strong tea-drinking culture (UK, Portugal, China, Thailand, Vietnam) and in those markets where unemployment benefits are low (Brazil, US, UK). Also, the lack of tourism in some places will affect coffee markets, in particular tourist hotspots. But the overall effect is still highly uncertain, and data should become clearer in the coming month or so, as supermarket sales stabilize, coffee shops continue to reopen worldwide, and company results are published.

The supply side seems less affected, at least for now. In key producer Brazil, the harvest has started without any problems. Even though the availability of labor was a huge concern before the harvest, farmers have managed to get the people they needed. Now the concern continues to be the logistics around the port of Santos, where container availability may be a problem. But minor delays are not enough to justify much market upside. Colombia’s registered April production was shockingly low at 0.744m bags, but with the start of the harvest in the key Huila region, we expect some recovery in harvested volumes. It is still unclear what the effects are for smaller producers. In some countries, documents are a problem. In some others, the crop is not reaching the port as there are restrictions to movement, with some villages closing themselves. However, for the time being, Brazil is king.

Actually, if the weather continues to be dry during the harvest, we may have a situation in which the amount of semi-washed is such that differentials collapse and Brazil semi-washed inflates the certified stocks. Similar to what we see in robustas, this situation will depress prices further.

Robusta is set to be a winner. Robusta prices have been performing better than arabica, as we have been anticipating for a while now. Clearly, at-home consumption has a higher proportion of robustas. In particular, instant coffee sales have been the clear winner in many countries. This is so because instant coffee provides an easy way to get a coffee in the absence of coffee shops, and it is especially popular in households that are not used to brewing coffee. As we wrote in the Outlook report, we expect a 1.5% shift towards robustas in non-producing countries in 2019/20 – a 1.7m bag shift. London-certified stocks have been coming down, from over 15,000 lots as of the end of February, to 12,900 lots. We may still see some more Brazilian conillons being graded in the next few months, but the fact that the Brazil conillon crop there is lower this year, combined with increased demand and potentially a lower robusta crop from Vietnam in 2020/21, paints a supportive picture for robusta prices going forward.

Our latest S/D shows that the expected drop in demand leads to an increasing surplus in 2019/20 and 2020/21

Robusta prices have a lot of upside potential from the current low levels

Source: Bloomberg, Rabobank 2020

Source: Rabobank 2020
8/14 RaboResearch | Agri Commodity Markets Research | May 2020
Cocoa

Cocoa demand loss to keep prices in check until 2020/21

- High volatility in the cocoa market is likely to continue as demand loss is weighed against the 2020/21 crop outlook.
- Lower YOY Q2 2020 grindings expected in all major regions, North America, Asia, and Europe.
- 2020/21 production will likely be in line with 2019/20 but not higher, due to low/average rainfall.

Extreme volatility in cocoa markets over the last two months is expected to continue. The biggest questions for the remainder of the 2019/20 season surround global cocoa demand, as the longer term impacts of Covid-19 take effect. We now expect global cocoa demand to fall -1.5% YOY, with little effect on the remaining 2019/20 production except for potential minor logistics delays.

We expect to see lower YOY Q2 grinding figures in all major regions, as consumers of processed products limit their buying and processors slow grinding operations to adjust. We’ve also seen a drop in US retail chocolate sales in April after an initial increase in March, due to stockpiling. Chocolate demand will likely continue to remain lower for the coming months, with a limited recovery in out-of-home consumption and as consumers switch to cheaper, lower cocoa-content chocolate to balance loss of income. Cocoa prices will likely show little recovery in Q3. As demand recovers slowly, we expect prices to slowly fall until Q4 2020, assuming normal weather. Covid-19 does present a potential quality risk, if pods are picked too late or beans spend too much time in improper storage. Nevertheless, this will likely not be enough to counter the demand loss but should limit the pace of the price decline.

Arrivals in Côte d’Ivoire have been slightly behind last year in the last couple of months, most likely due to local logistics issues due to Covid-19, but we expect the pace to increase for the remainder of the mid-crop and the movement of people and goods to increase. Meanwhile, US inventory has failed to get above last year’s seasonal high, most likely for similar reasons. We now expect it not to reach last year’s levels but come marginally short. This will also slow the price declines.

Looking further ahead, the 2020/21 crop will likely be in line with 2019/20 but not higher. A lower-than-normal African Intertropical Front, at present, is keeping West African rainfall levels broadly in line with average levels, but if it is maintained, it could mean slightly lower-than-normal rainfall levels in the future months during the development of the main 2020/21 crop, potentially adding weather risk toward the end of Q3 and into Q4 2020. At present, rainfall appears sufficient for normal development but not more.

The implementation of the LID in Ghana and Côte d’Ivoire presents a major question mark for futures prices, and it is still unclear how it will affect them exactly. Given that it works as an added premium on the futures’ prices, we expect it to keep the futures’ prices depressed and reduce differential values for Ghana and Côte d’Ivoire, while raising them elsewhere. The steep backwardation in the futures curve suggests a strong demand for available stocks. With demand likely to remain muted, we expect this to become flatter. We maintain a bearish outlook but see the potential for weather risk in Q4 2020 and recovering demand to bring support to prices in 2021.

US Cocoa Stocks have likely reached their peak for the season, failing to rise above last year’s for the third year

The lower-than-average African Intertropical Front will limit West African production growth in 2020/21

Source: NOAA, Rabobank 2020

Source: BBG, ICE, Rabobank 2020
Cotton

ICE #2 Cotton futures hold firm amid ongoing Chinese buying, despite mounting demand worries.
- The December 2020 contract keeps confined in a USc 57/lb to USc 59/lb range – albeit up 1% through May.
- China buys up US cotton, with 2019/20 total commitments rising 47% in just four weeks.
- Early risks emerge on the supply side, including Brazilian logistics and US planted acres.
- Rabobank highlights a tough cotton demand outlook, which will persist beyond the easing of lockdowns.

Global demand destruction keeps ICE #2 Cotton futures under pressure, with the December 2020 contract confined in a USc 57/lb to USc 59/lb range – albeit up 1% through May. National Covid-19 lockdowns keep demand prospects particularly soft, with the US Census Bureau reporting monthly US April 2020 clothing store sales down 89% YOY. This dramatic impact has reached up the supply chain, with weak Southeast Asian import demand and 75% of Brazilian textile operations now halted, according to Abit. Rabobank maintains a bearish short-term view, forecasting the ICE #2 at USc 55/lb in Q3 2020, before rising gently towards USc 60/lb by early 2021. One positive has been Chinese buying of US cotton, with 2019/20 total commitments rising 47% in just four weeks – now at 3.1m bales – which has kept a bid in futures. Chinese buying is likely to meet US-China trade deal commitments while also restocking government reserves at lower prices. However, there is a great deal of risk associated with this demand, not least given the current geopolitical landscape. Without Chinese sales in the week ending May 14, US exports would have faced net cancellations. Furthermore Bangladesh, Thailand, Japan, Mexico, and several other importers have totalled cancellations MOM, which highlights a vulnerability in US demand. In our view, the market is putting all its eggs in one Chinese-made basket.

Early risks emerge on the supply side, with the focus on both Brazil and the US. Rabobank forecasts a second consecutive record 2019/20 Brazilian crop, exceeding 13m bales (vs. CONAB’s 13.2m bale forecast), amid regular seasonal rainfall. A depreciating BRL vs. the USD, down 37% YTD, has more than offset an 18% YTD fall in the December 2020 ICE #2, which should keep the crop in favor through the 2020/21 season. However, Rabobank sees significant risk on the logistical side amid rising domestic Covid-19 cases and a high concentration (97%) of trade through Santos, as per our latest RaboResearch article – Pivotal Ports: Delivering in Uncertain Times. Delays, cancellations, or bottlenecks in Brazil as new crop flows emerge from September would support global prices. Further north, Rabobank notices emerging planting challenges for the US. Plantings progress sits at 53% nationally, in line with last year (as of May 24) despite West Texas dryness and wet conditions in the Delta. As the spring planting window starts to close, Rabobank highlights that the USDA’s 13.7m acre forecast is simply too high.

A tough cotton demand outlook will persist beyond the easing of lockdowns. In Asia, Europe, North America, and elsewhere, Covid-19 lockdowns are slowly being eased, allowing retail stores to reopen. While an initial spike in retail sales is possible, the impact of this lockdown – a forecast 3% decline in 2020 global GDP, according to the IMF – will persist for cotton as consumer confidence dips to GFC levels, social distancing persists, and textile industries work through domestic stocks.

US export sales to China rise sharply in May – to the highest season volumes since 2012/13 – despite other cancellations

Planting progress continues at pace in the US, with 53% planted as of May 24, although weather risks remain
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.