



Rabobank

Agri Commodity Markets Research

September 2018: Climbing a Slippery Slope

RaboResearch

Food & Agribusiness

far.rabobank.com

[Stefan Vogel](#)

Head of ACMR

+44 20 7664 9523

[Carlos Mera](#)

Senior Commodity

Analyst

+44 20 7664 9512

[Charles Clack](#)

Commodity Analyst

+44 20 7664 9756

[Michael Magdovitz](#)

Commodity Analyst

+44 20 7664 9669

September delivered surprisingly high US soybean and corn yield forecasts, driving pressure across G&O markets. Corn and soybean prices rebounded later in the month, based on robust global feed demand and a wetter Midwest, along with questions as to whether such exceptional US yields are realistic. Softs were mostly down this month on strong production prospects. In the case of sugar, India's subsidies weighed on prices. Still, we see a lot of fundamental support for coffee and sugar.

WHEAT



Short-term price support across both CBOT and Matif Wheat futures

- Tighter global availability and deteriorating Australian crop prospects drive support
- The red-hot pace of Russian exports puts short-term pressure on cash prices, but cannot be sustained
- 2019/20 plantings make excellent progress in the US, but are more challenging in the EU and Black Sea

SUGAR



ICE #11 Sugar likely to be driven by Indian policies and Brazilian politics

- India has approved a package to boost exports, but the move was largely anticipated by the market
- With the ethanol parity close to USc 13/lb and seasonal uptrend, there could be volatility

CORN



Bullish CBOT Corn forecast amid growing global demand and a tightening 2018/19 supply outlook

- Global 2018/19 stocks to tighten some 34m tonnes YOY, taking the global stocks-to-use ratio to 14.5%
- 2018/19 harvest ramps up across the US, with 16% of the domestic crop now harvested
- Funds bulked up on fresh short positions following expectations of +181bpa US yields.

COFFEE



We see physical support ahead

- ICE Arabica remained largely unchanged over September
- September rainfall in Brazil has been excellent, helping fix the flowering and diminishing fundamental concerns

SOYBEANS



CBOT Soybeans displayed remarkable resilience to the double blow of bearish yield and absent Chinese demand

- Record US production won't enjoy commensurate demand increase, driving stocks to record 845m bu
- In the three months ahead the catalyst for CBOT will be trade war respite or soy-starved Chinese buying

COTTON



Further softening in the ICE #2 puts prices in line with Rabobank's Q4 2018 price forecast

- Exceptional 2018/19 US domestic stock growth remains vulnerable to weather, including hurricanes, through picking which limits short-term downside
- Rabobank's sees the USDA's 127.94m-bale global consumption forecast as optimistic

PALM OIL



US-China trade war keeps pressuring CBOT Soy Oil prices, which negatively impacts palm oil prices

- Malaysian palm oil production to continue to underperform in 2018
- Palm oil inventories in Malaysia and Indonesia continue to build up

Wheat



Short-term price support across both CBOT and Matif Wheat futures

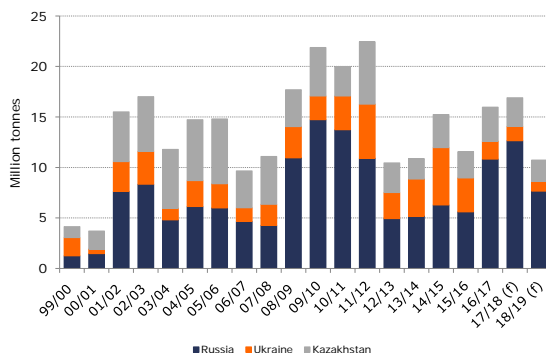
- Tighter global availability and deteriorating Australian crop prospects drive support after choppy trading through September
- The red-hot pace of Russian exports puts short-term pressure on cash prices, but cannot be sustained
- 2019/20 northern hemisphere plantings make excellent progress in the US, but more challenging conditions exist for the EU and Black Sea

Short-term price support – across both CBOT and Matif

Wheat – is forecast to be determined by tightening global availability and deteriorating Australian crop prospects, after choppy trading through September. Longer-term, Rabobank holds a more bearish view, as an uptick in producer-nation acres partially offsets the price impact of declining global stocks in 2018/19. CBOT and Matif Wheat are forecast to soften to USc 525/bu and EUR 180/tonne, respectively, into Q2 2019. Rabobank will revisit its detailed Australian crop estimate by region later this month, as an already-challenging season is worsened by recent frost events – we preliminarily forecast 2018/19 production at 18m-19m tonnes, with further downside possible. This could see Australian exports approach 10m tonnes, a ten-year low. As the US spring harvest wraps up, focus now shifts to global trade and northern hemisphere plantings – both acres and conditions – as future price drivers.

Russian exports have begun at a red-hot pace this season, with current 2018/19 pace (after just 11 weeks) up 48% YOY, at 10.2m tonnes. This surprising pace of exports comes despite a 17% YOY fall in Russian 2018/19 production, as yields return to near the five-year average, and keeps short-term pressure on global cash markets. The reasons are two-fold: 1) concerns over government export restrictions have quickened the pace of near-term shipments, and 2) lower global and Russian

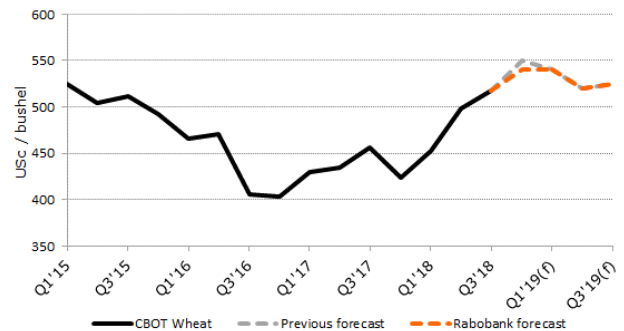
Black Sea 2018/19 ending stocks are forecast to reach 6-year lows, driven by continued strength in Russian exports



Source: USDA, Rabobank 2018

CBOT forecast revised marginally lower MOM, remaining supportive in the short-term

unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
CBOT USc/bu	424	453	499	518	540	540	520	525
Matif EUR/t	161	161	173	199	200	190	185	180

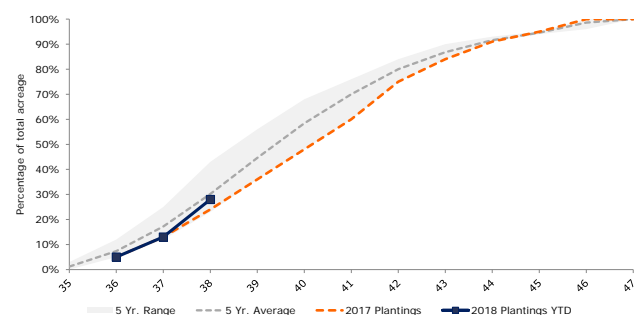


Source: Bloomberg, Rabobank 2018

exportable supplies, plus competitive Black Sea prices, drive importers towards the Black Sea. While strong, this pace of exports is simply not sustainable, despite strong 12m-tonne carry-in stocks. Rabobank's Russian export forecast is raised 1.5m tonnes MOM, to 34.5m tonnes vs. trade estimates of 31m-36m tonnes, which drives domestic stocks-to-use to 10% – a three-year low. Rabobank argues that if the strong export pace continues and Russian stocks erode further, this may drive government restrictions on exports later in the 2018/19 season. If realised, this would provide support to US futures.

Northern hemisphere plantings, now for the 2019/20 season, are making strong progress in the US, with 28% of the crop planted – up 6% YOY. Regional conditions allow for good progress, with market estimates suggesting a 2m-3m acre (4%-6% YOY) increase in US all-wheat acres. (Rabobank's official estimate will be released in our Outlook 2019 report, coming this November.) Furthermore, the onset of El Niño typically sees improved soil moisture profiles across the US Southern Plains over winter. While the US appears positive, prospects across Europe and the Black Sea are more challenging as growers plant into partially very dry soils. This poses a risk to crop germination, and rain is needed; however, as long as crops germinate, there should be little impact from current dryness on final yields.

US 2019/20 winter wheat plantings make strong progress in the US—currently 28% complete, up 6 points YOY



Source: USDA, Rabobank 2018



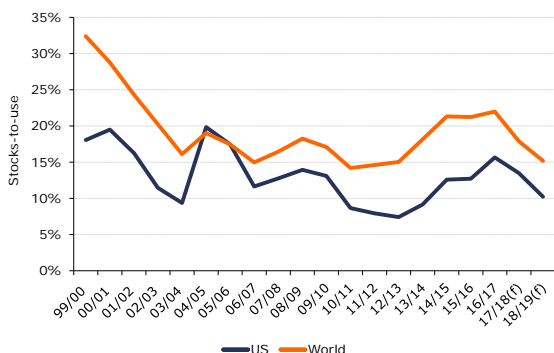
Bullish CBOT Corn forecast amid growing global demand and a tightening 2018/19 supply outlook

- Global 2018/19 stocks are forecast to tighten some 34m tonnes YOY, taking the global stocks-to-use ratio to 14.5% – the lowest level since 2011/12
- 2018/19 harvest ramps up across the US, with 16% of the domestic crop now harvested
- Funds bulked up on fresh short positions following expectations of +181bpa US yields. This trend is partly seasonal and suggests limited price downside

Bullish CBOT Corn forecast amid growing global demand and a tightening 2018/19 supply outlook. Global 2018/19 stocks are forecast to tighten some 34m tonnes YOY, taking the global stocks-to-use ratio to 14.5% – the lowest level since 2011/12. Chinese destocking contributes 19m tonnes to this erosion, with the remainder coming from tradable inventories. Demand is forecast to play a significant role, growing 2%-3% YOY, amid sub-USc 400/lb prices and a tightening outlook for alternative feed grains – namely wheat and barley. As a result, Rabobank forecasts CBOT Corn prices to increase to USc 380/bu through Q4 2018, before reaching USc 410/bu by Q3 2019. This outlook accounts for on-trend South American yields – Brazilian and Argentine summer corn crops are 24% and 5% planted, respectively (ahead of average). As such, further upside would be in store in the event of adverse weather, i.e. El Niño dryness across northern Brazil.

2018/19 harvest ramps up across the US, with 16% of the domestic crop now harvested, currently 5% ahead of average. Good ground conditions are allowing for strong operational progress. However, disruptive rainfall is forecast in the seven-day period across the northern and western US Midwest, while NOAA forecasts above-average precipitation across the entire Midwest in the coming ten days – both of which could slow harvest pace. Yields are highly variable so far, with the USDA

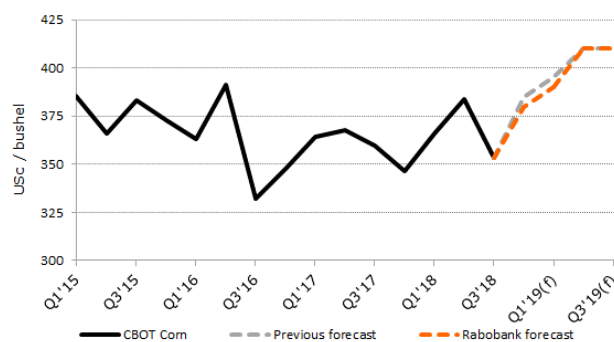
Both US and global stocks-to-use ratios are set to fall to multi-year lows in 2018/19—a bullish price driver



Source: USDA, Rabobank 2018

Supportive CBOT Corn price forecast maintained

unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
Corn USc/bu	346	366	384	354	380	390	410	410

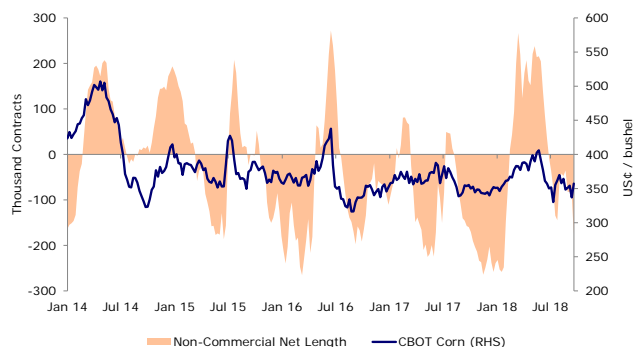


Source: Bloomberg, Rabobank 2018

marking the highest end of trade expectations, with a 181.3bpa yield forecast – up a whopping 2.9bpa MOM. Rabobank holds a less optimistic 179bpa yield estimate, but holds a similar view that the US stocks-to-use ratio will reach five-year lows in 2018/19 – a bullish price factor as record US total usage, up 1% YOY, emerges through 2018/19. Scope for additional US demand would follow a prolonged period of sub-USc 380/bu price levels, with ethanol margins strengthening as Brent crude rallies almost 5% MTD. Clarity over the final US yield is the largest single short-term driver of prices. Longer term, attention turns to the size of US 2019/20 corn plantings – a factor determined by the soy/corn December 2019 price ratio (currently at 2.3, favouring corn plantings,) plus any outcome of trade wars.

Funds bulked up on fresh short positions following increasing expectations of +181bpa US yields. As of 18 September, Non-Commercials deepened their net short position to eight-month highs, having opened fresh short positions. This trend is seasonal – Non-Commercials have entered and/or deepened a net short between August and September in the past five years. Prices also tend to follow this seasonal pattern through Q3, and as a result, Rabobank argues that current levels offer ample opportunities for consumers – CBOT Corn downside appears limited

Non-Commercials deepened their net short position to eight-month highs, opening fresh short positions.



Source: CFTC, Bloomberg, Rabobank 2018

Soybeans

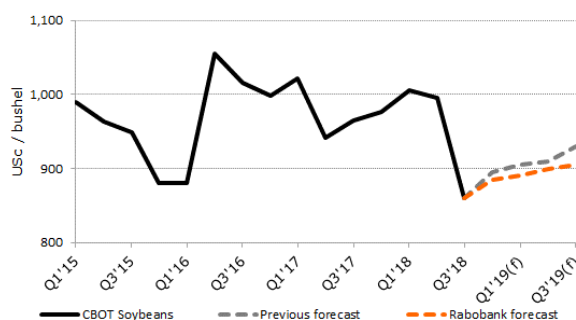


CBOT Soybean price revised lower, with downside protected and hopes of demand-led recovery in Q4

unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
Soybeans US\$/bu	977	1,006	996	860	885	890	900	905

CBOT Soybeans displayed remarkable resilience to the double blow of bearish yield and absent Chinese demand, eking out a 2% gain last month

- Record US production won't enjoy commensurate demand increase, driving stocks to record 845m bu
- US support policies have made farmers reticent to sell soybeans below cost of production, which has fallen to ~USD 8.50/bu on higher WASDE yield of 53bpa
- In the three months ahead, catalyst for CBOT Soy will be trade war developments or soy-starved Chinese buying



Source: Bloomberg, Rabobank 2018

The USDA's September WASDE posted record soybean

yields (52.8bpa, up 7.5% YOY) and ending stocks (845m bu, up 214% YOY). In a further blow to CBOT Soybean hopes, the US and China escalated their ongoing trade war by cancelling talks and extending tariffs to a further list of goods. Our expectations of extensive Chinese buying of US soybeans in Q4 are now under threat from political rather than price considerations. Despite the tariffs, US soybeans are economically profitable to import into China. Media reports quote Chinese state-owned crush operators as having government instructions not to import US Soybeans, and the fact that the Chinese are not buying soybeans despite their profitability strongly implies that geopolitics, rather than economics, will determine CBOT Soybean fortunes.

have been flat since July, despite WASDE's addition of 265m bu in US 2018/19 ending stocks.

The US is traditionally a powerhouse soybean exporter during the current harvest period (Sep-Nov), yet China's tariffs on US soybeans have led to historic price distortions and an (excl. US) exporter bonanza that coincides with record US soybean yield.

The double blow to CBOT Soybeans of lower demand and higher production prospects pushed prices down ~20% in June and early July, but despite recent USDA numbers, prices have shown remarkable resilience since. Disconnects between ending stocks and price movement are not unheard of (between Jan-Apr 2018 we saw US soy stocks and price rise together), but the latest case is extreme; prices

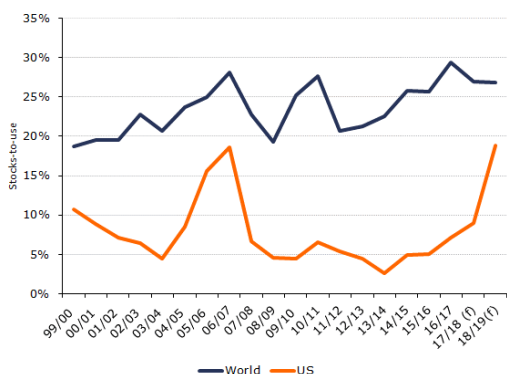
There are supportive arguments for CBOT Soybeans staying above USD 8.50/bu – namely, prices at or below farmers' cost of production, US direct support payments to farmers of USD 1.65/bu, unseasonably strong (excl. China) demand, and dwindling global supplies.

Still, these are crutches rather than catalysts for higher prices; the US has to plug a China-sized demand hole over the next three months.

A quick resolution or hiatus to the trade war, however unlikely, would drive CBOT prices sharply higher,

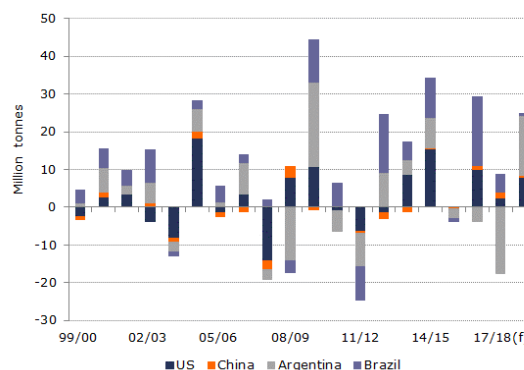
exacerbated by covering of the -128,000-lot Non-Commercial net short position. Despite current tariff and non-tariff restrictions on US soy, we remain sceptical of Chinese reports that it will eschew US soybeans entirely, either via amino acid-supplemented low-protein feed compounds or alternative oilseed procurement. Our forecast is based on China importing sizeable quantities of US soybeans in late 2018 and early 2019, directly and indirectly (by turning Brazil and Argentina into importers), and for CBOT Soybeans to gain support from combined global interest. In case of a protracted embargo, CBOT Soybeans could see downward pressure amplified by longer-term efforts by China to displace its market share.

US stocks-to-use is rising from trade war & record supplies



Source: USDA, Rabobank 2018

Production increases expected in Argentina, US, Brazil in 18/19



Source: USDA, Rabobank 2018

Soymeal and Soy Oil



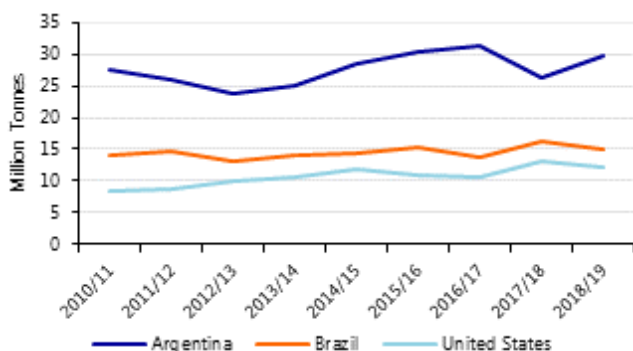
Soymeal prices feeling pressure from expected record US soybean production and crush outlook

- US crush margins have fallen by over one-third since touching three-year highs last month, when diverging fortunes curtailed soybean exports and drove record meal demand. Margins will fall further into 2019
- CBOT Soymeal and Soy Oil will see upside from Argentina's six month tax reduction hiatus
- Record crush continues at the expense of CBOT Soy Oil, though low prices are yielding strong demand

The CBOT Soymeal and Soy Oil prices briefly touched their lowest in at least two years, just above USD 300/short ton and USc 27/lb, due to expected price pressure from expected record US soybean yields and crush, as well as the significant weakening of the Argentine peso. Soymeal also faces uncertainty from the spreading of African Swine Fever across Asia and recent cases in Europe. In the past, major disease outbreaks in livestock did not result in sizeable direct cuts of feed demand and thus consumption of soymeal – but pork exporters might lose some of their export markets due to countries banning imports from countries with cases of such a disease. The development in Europe needs to be monitored, as does any future spread of ASF cases to the US or elsewhere, which would add price pressure on soymeal prices. Our forecast does not factor in a severe development of the disease in Europe or any outbreaks in the US.

Record US soybean crush of 2,055m bu (up 8% YOY) in the 2017/18 season and an outlook for an even larger crush in 2018/19 is supplying massive meal and oil volumes, requiring ever-greater use. It seems unlikely that US exports of soymeal and soy oil in 2018/19 can reach the record volumes of 2017/18 once the Argentine crop and crush recover from the drought (we estimate crush between 42-43m tonnes, up ~12% YOY). But a silver lining is Argentina's deficit-induced freeze in export tax

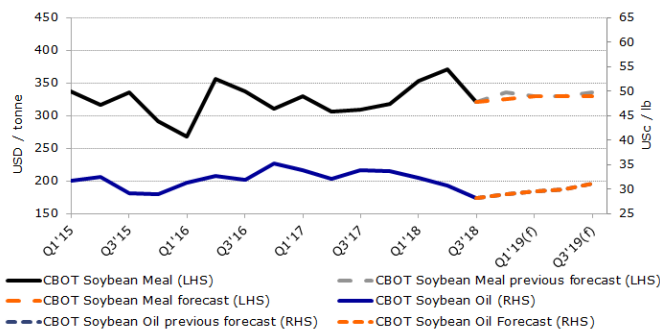
US soymeal 2018/19 exports to struggle with Argentine crush recovery, requiring record US meal consumption



Source: USDA, Rabobank 2018

CBOT Soymeal lowered by large supplies, Soy Oil maintained amid record biodiesel demand

unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
Soymeal USD/tonne	318	353	371	321	325	330	330	330
Soy oil USc/lb	33.7	32.3	30.7	28.2	29.0	29.5	30.0	31.0



Source: Bloomberg, Rabobank 2018

reductions and elimination of structural tax advantage, which favoured exports of soymeal and soy oil over soybeans. Argentina's fiscal measures will offset some of the benefits of a weaker peso and rejuvenated soybean crop for the world's largest soymeal exporter. Rabobank expects Argentina's crushers over the near term to see increased competition from soybean-starved China, which will, in turn, encourage them to import from the US.

Our CBOT prices are revised marginally lower in the near term, but we see support for prices above USD 300/short ton for soymeal or USc 27/lb in soy oil.

Clearly, the US soybean market remains vulnerable to bearish price moves, especially if harvest progress confirms record yields and if Chinese buying of US soybeans does not kick in soon. But the recent rally from lows, especially in CBOT Soy Oil (+5%), reflects good value for consumers, and price dips will provide opportunities for buyers to engage and speculators to cover a record short position. Increased use of US soy oil in biodiesel has helped offset higher production since the crush frenzy began in April. In a related vein, diverging soy oil/brent futures have helped push biodiesel prices below diesel for the first time in three years, boosting demand for biodiesel. Aside from recent surprising demand, significant upside remains for soymeal and soy oil prices in case US soybean yields fall short of expectations or if China removes import duties on US soybeans.

Record fund net short in CBOT Soy Oil adds pressure on veg. oil prices. When and how quickly will this position be unwound?



Source: CFTC, Bloomberg, Rabobank 2018



We revised down our price forecasts as the US-China trade war keeps pressuring CBOT Soy Oil prices, which negatively impacts palm oil prices

- Malaysian palm oil production to continue to underperform in 2018
- Palm oil inventories in Malaysia and Indonesia continue to build up
- Indian palm oil imports to remain strong in September 2018

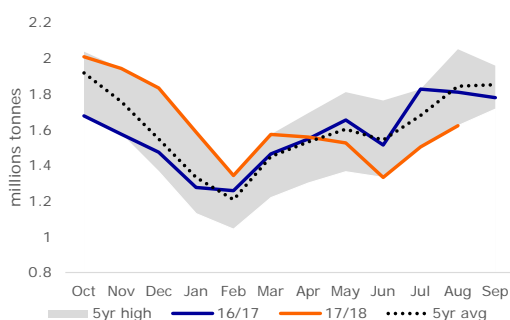
Malaysian palm oil production to continue to underperform in 2018.

A combination of: 1) lack of labour, 2) low fertiliser application due to low palm oil prices, along with a weakening ringgit against the US dollar, and 3) aging palm oil tree issues have resulted in lower year-on-year Malaysian monthly palm oil yields since May 2018. According to the MPOB, Malaysian August 2018 palm oil production decreased by 10% YOY, but increased by 8% MOM, to 1.62m tonnes. We expect this trend to continue for the rest of 2018. Due to this, we have revised down further our forecast for Malaysian palm oil production in 2018, to 19m to 19.2m tonnes.

Palm oil inventories in Malaysia and Indonesia continue to build up.

Despite lower year-on-year monthly palm oil production, palm oil inventories in Malaysia continued to increase by 12% in August 2018, reaching 2.48m tonnes, the highest level since January 2018. Malaysian palm oil exports remained slow, as Indonesian palm oil prices were more competitive due to the depreciating rupiah. Still, also in Indonesia, palm oil inventories keep slightly building up, despite strong export activities, because of stronger year-on-year palm oil production. In July 2018, Indonesian palm oil inventories increased by 1% MOM, to 4.9m tonnes. We expect high inventory levels in both countries to limit any potential palm oil price recovery – even so, the palm oil export outlook is improving.

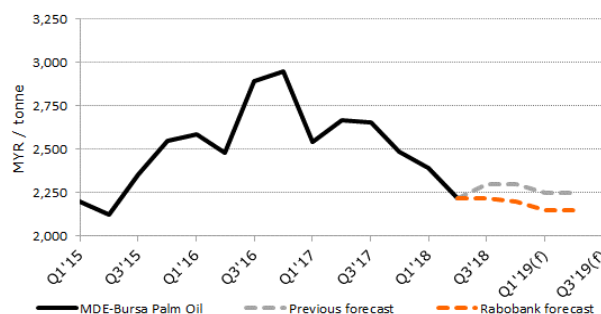
Malaysian palm oil production in August 2018 continued to follow a lower YOY trend



Source: MPOB, Bloomberg, Rabobank 2018

Palm oil price forecast is revised down

Unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
Palm Oil	MYR/tonne	2,657	2,488	2,391	2,218	2,220	2,200	2,150



Source: Bloomberg, Rabobank 2017

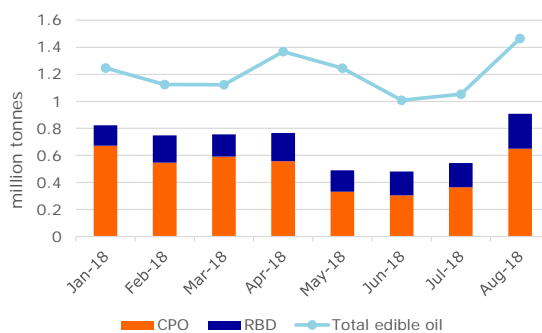
Indian palm oil imports to remain strong in September 2018.

As expected in our last monthly report, India increased its palm oil buying in August 2018, on the back of low domestic inventories and competitiveness of the palm oil price against soft oil prices. Indian August 2018 palm oil imports increased by 67% MOM, to 920,894 tonnes, which represented a 63% market share of Indian total edible oil imports for the same month. Meanwhile, Indian edible oil inventories (port stocks and pipelines) as of the beginning of September 2018 increased by 4% MOM, to 2.57m tonnes. Despite relatively high inventory levels, we expect Indian September 2018 palm oil import volumes to remain strong, as the country restocks palm oil to prepare for consumption during the upcoming festive seasons.

The implementation of the B20 mandate in Indonesia is getting off to a good start,

with an 80% implementation level as of mid-September 2018. Pertamina, the dominant diesel distributor in the country, has so far managed to distribute B20 to 95% of their gas stations. The Indonesian government is aiming to reach 100% implementation by the end of September 2018. To reach this level, however, vessel availability issues and limitation of the distribution network in the eastern part of Indonesia first need to be resolved.

Indian palm oil imports increased MOM in August on the back of low domestic inventories



Source: SEA India, Rabobank 2018



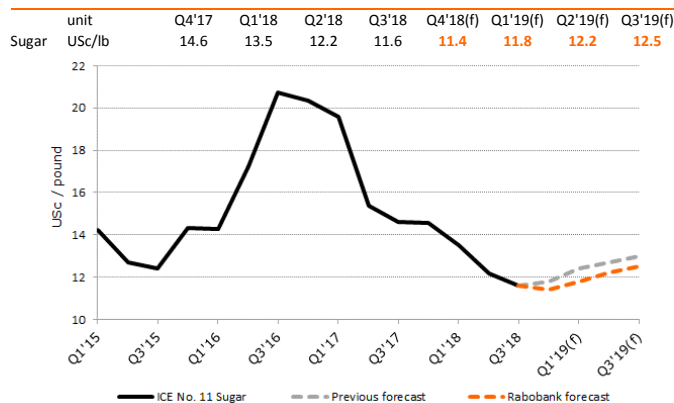
ICE #11 Sugar likely to be driven by Indian policies and Brazilian politics

- India has approved a package to boost exports, but the move was largely anticipated by the market
- With the ethanol parity close to USc 13/lb and seasonal uptrend, there could be volatility
- The decline in the white premium is pointing to a looser white market ahead

Sugar prices will remain very sensitive to Indian logistics and policies. ICE #11 March 2019 Sugar has dropped ~3.8% in the first 26 days of September. The main reason for the drop in prices was the Indian government's announcement that it would introduce a series of measures to assist sugar mills and support sugar exports, including approving a 5m-tonne export quota. On announcement day, the market was down ~3%, meaning that much of the announcement was anticipated. There are also doubts as to whether India has the logistical muscle to export 5m tonnes. The market still needs to learn more details from India and monitor the changes in the ethanol sector. Building an ethanol industry like Brazil's will take time and will make very little difference for the 2019/20 crop, but it could change the outlook for later years.

We see some increased volatility going forward. Whereas the flow of Indian sugar will mean that we can have further downside potential, we also expect some increased upside potential. The ethanol parity will start to lose relevance in Brazil as harvested cane volumes slow down. Also, ethanol prices tend to increase seasonally towards the end of the year. With a higher ethanol parity (currently at around USc 13/lb) and it being less relevant, the sugar market will have a solid ceiling removed. This does not mean that sugar prices will go up, but

ICE #11 Sugar price forecast lowered slightly



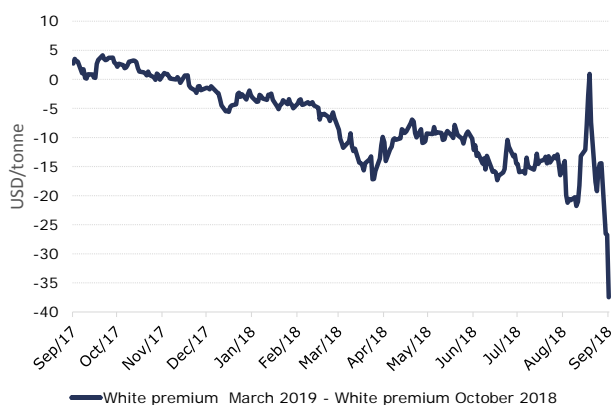
Source: Bloomberg, Rabobank 2018

it means they could if something changes in the market (like an appreciation of the real or more demand from China).

There could be some support from the weather towards Q4. Rainfall levels across much of South and South-East Asia have been below-normal, but not enough to cause major concerns for the coming 2018/19 crops. But an El Niño weather pattern is likely, and this could mean continued dryness in the region, with a potential impact on 2019/20 crops.

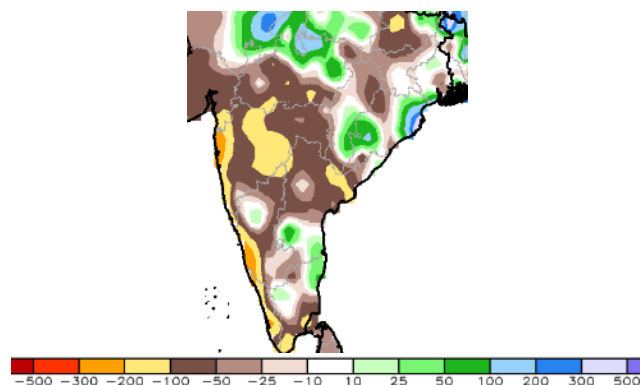
On the demand side, the strength of the white premium keeps incentivising toll refining. During September, the white premium remained high, with an impressive USD 104/tonne level in the October/October contracts, but a more relevant USD 73/tonne level in the March/March contracts. These levels illustrate the immediate tightness in the white market (as India has not been exporting as much as previously expected) – but a much looser market ahead, once Thai, EU, Russian, and especially Indian white exports come to the international market. Just as we expect a lot of volatility on raws, we are expecting a lot of volatility on whites. The two most important price drivers in the white market – Indian exports and Myanmar imports – are likely to remain uncertain, at least in terms of timing.

The Mar/Mar 19 – Oct/Oct white premium shows expectations of India flooding the market with whites



Source: Bloomberg, Rabobank 2018

Rainfall levels in India have been lower than normal, and an El Niño event is possible. 30-day rainfall anomaly (mm):



Source: NOAA, Rabobank 2018



We see physical support ahead

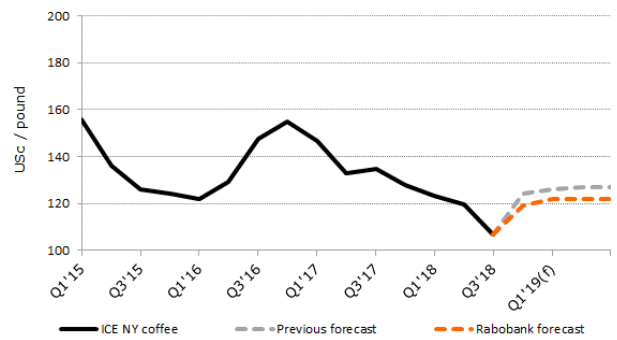
- ICE Arabica lost ~4% over the first 26 days of September
- September rainfall in Brazil has been excellent, helping fix the flowering and diminishing fundamental concerns
- With funds being incredibly net short, volatility could keep increasing

We remain bullish, even though some fundamental risks are lower now than a month ago. The weather in Brazil has turned wet during September, lifting the main fundamental risk in the arabica market. However, the extent of any damage to the first round or two of flowering is still uncertain, as flowers are always very difficult to assess, even from the field. In any case, we tend to believe damage was very limited. Divergence in terms of global supply/demand estimates for Brazil still persist, and so far, the physical flow out of Brazil – even despite the very favourable foreign exchange rate – remains below expectations and does not provide a reason for us to increase our forecast.

The million-dollar question remains as to what the effect of low prices will be on production and consumption. On the production side, a small volume of American mild crops (harvested October-January) could go unpicked, especially the crop on steep terrain and on inaccessible plots. We tend to believe the effect in Colombia is going to be lower than in Central America, in part due to higher availability of labour coming from Venezuela. This proportion of the crop being unpicked may be less than 4%, and the overall size of the crops will be good. In principle, we expect only a 1%-2% production drop in Central American countries in 2018/19. This is, of course, very preliminary, and it needs to be monitored during the harvest and export season. If prices were to stay this way for eight months to a year, then we would be looking at much

Price forecast slightly lowered, but still bullish

	unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
ICE Arabica	USc/lb	127.7	123.1	119.7	106.9	119	122	122	122
ICE Robusta	USD/t	1,831	1,748	1,743	1,585	1,580	1,600	1,600	1,600



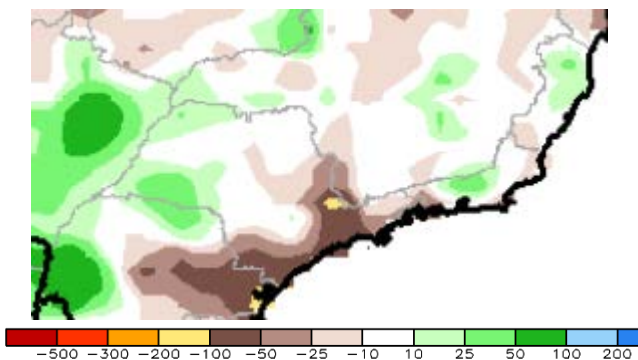
Source: Bloomberg, Rabobank 2018

steeper drops, which would incentivise significant withdrawals from ICE-certified stocks. This will undoubtedly result in a rally – and therefore we cannot see current prices holding for longer than eight months.

A lot of robusta around, but it is not going to the right places. Certified stocks in London increased from 7,411 lots at the end of August to 8,879 lots as of 25 September. Certified stocks could continue to increase if we see another steep inversion in the market going to the November delivery. We do not see a large robusta surplus in the world – at only 1.6m bags as per our last [Coffee Outlook](#) – which is not enough to justify robusta prices getting close to cost of production in Vietnam, nor to justify a lot of coffee ending up at the London exchange, especially if we consider that robusta demand could easily continue to increase by at least 1m bags in 2019/20.

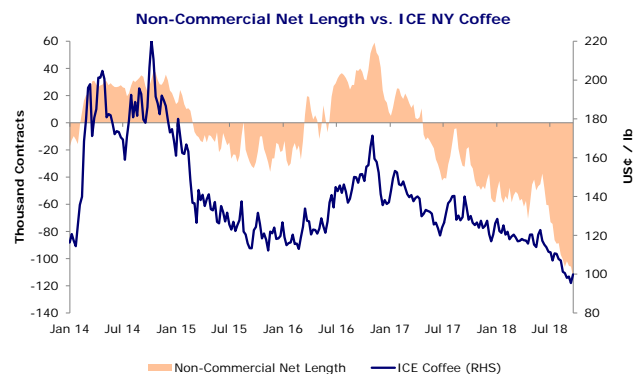
Fund positioning to increase volatility. In the last CFTC reports, Non-Commercials reached a record net short position on arabicas of -113,412 lots. Just to put this into context: the largest Non-Commercial net short position between 2006 and a year ago was -42,454 lots. The current position is 2.6 times larger. We believe this position would not have been achieved if it were not for a very weak real and very weak related commodities like sugar.

Most of the Brazilian coffee belt received a good amount of rainfall. 30-day anomaly (mm):



Source: NOAA, Rabobank 2018

Non-Commercials built an impressive record net short position on arabicas, increasing the potential for volatility



Source: CFTC, Rabobank 2018



Further softening in the ICE #2 puts prices in line with Rabobank's Q4 2018 price forecast

- 2018/19 US domestic stock growth remains vulnerable to weather, including hurricanes, through picking which limits short-term downside
- Rabobank's sees the USDA's 127.94m-bale global consumption forecast as optimistic and holds a slightly lower 127m-bale forecast
- The release of Chinese import quotas is rumoured to begin this week

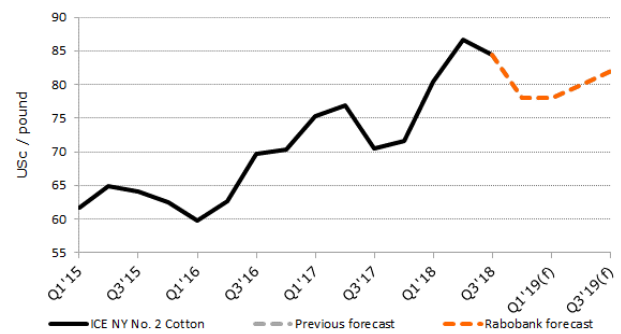
A softening in the ICE #2 puts prices in line with Rabobank's near-term price forecast.

As such, we maintain a neutral short-term outlook – USc 78/lb forecast through Q4 2018 – with a constructive view emerging in early 2019 and beyond, up to USc 82/lb by Q3 2019. The latest pressure is derived from improved US Delta production prospects, as the USDA hiked national US planted acres by 3.8% MOM, taking 2018/19 production to a surprising 19.7m bales. However, growing 2018/19 domestic stocks – forecast up by almost 500,000 bales YOY – remain vulnerable to weather, including hurricanes, through picking (currently 16% complete) which keeps short-term downside limited. Hurricane Florence, having wreaked havoc on the eastern US coast, brought soaking rains and high winds to crops in North Carolina and Virginia – loss forecasts are relatively minor, at 250,000 bales, taking Rabobank's US production forecast to 19.5m bales. The southern US states are set to receive soaking rainfall this week, delaying the picking of an otherwise exceptional-looking crop. Longer-term, Rabobank maintains a supportive outlook based on global consumption growth, the re-entry of Chinese imports, plus structural limitations to global acreage expansion.

The global consumption outlook is souring, after once being the steadfast bull in global cotton prices. Forecast economic

ICE #2 Cotton forecast maintained

unit	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18(f)	Q1'19(f)	Q2'19(f)	Q3'19(f)
Cotton USc/lb	72	80	87	84	78	78	80	82



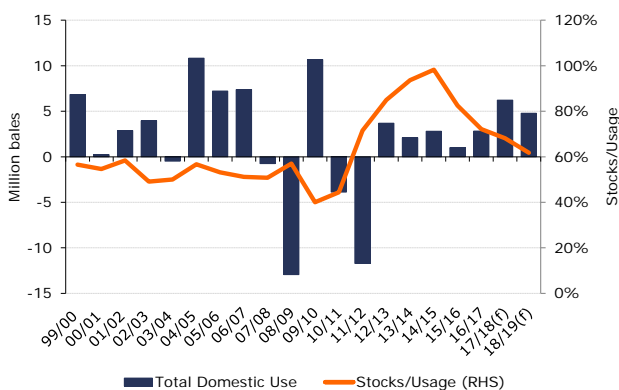
Source: Bloomberg, Rabobank 2018

growth in developed nations should maintain a 3% YOY global growth rate, but emerging market currency weakness – namely in the Turkish lira, among others – is being felt in the export market. As a result, Rabobank sees the USDA's 127.94m-bale global consumption forecast as optimistic and holds a slightly lower 127m-bale forecast.

The release of Chinese import quotas is rumoured to begin this week

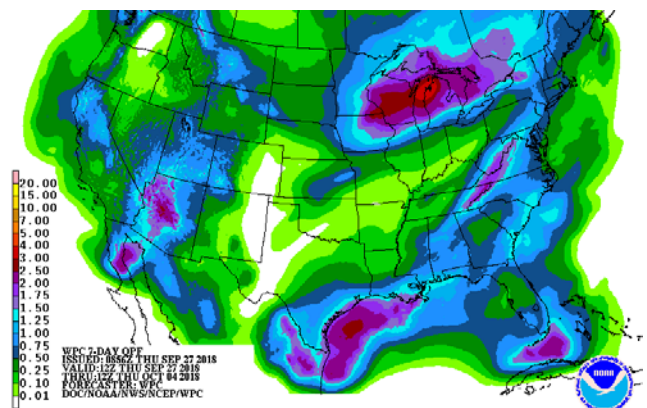
with an expected 5.5m bales due for import by February 2019. This widening of Chinese imports in 2018/19, to a potential 7m bales in 2018/19, comes as domestic stocks tighten to near 30m bales – an eight-year low. Given US-China trade tensions, US exports will be out of favour in this new import quota – hence, Rabobank expects little immediate support to be felt on the ICE #2, but instead for this quota to favour Brazilian and Indian export values. Australian output prospects are heavily hampered by drought, with irrigated acres forecast to fall sharply. Potential remains for dryland acres to improve in the event of late-season rains, but current estimates forecast just a 2m- to 2.5m-bale Australian 2018/19 crop.

Global cotton consumption is set to grow YOY in 2018/19, although at a slower rate vs. last year and vs. USDA estimates



Source: USDA, Rabobank 2018

Heavy rainfall is likely across the southern US states in the 7-day period, slowing picking and potentially soaking crops



Source: NOAA 2018

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Food & Agribusiness
far.rabobank.com

Agri Commodity Markets Research

Stefan Vogel, Head of ACMR
stefan.vogel@rabobank.com, +44 20 7664 9523

Carlos Mera, Senior Commodity Analyst
carlos.mera@rabobank.com, +44 20 7664 9512

Charles Clack, Commodity Analyst
charles.clack@rabobank.com, +44 20 7664 9756

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

Contributing analysts:

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

Oscar Tjakra—Singapore
oscar.tjakra@rabobank.com

Rabobank Markets

Corporate Risk & Treasury Management Contacts

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

ASIA—Koon Koh Tan
+65 6230 6988
koonkoh.tan@rabobank.com

AUSTRALIA—Terry Allom
+61 2 8115 3103
terry.allom@rabobank.com

NETHERLANDS—Arjan Veerhoek
+31 30 216 9040
arjan.veerhoek@rabobank.com

EUROPE—David Kane
+44 (20) 7664 9744
david.kane@rabobank.com

NORTH AMERICA—Neil Williamson
+1 (212) 8086966
neil.williamson@rabobank.com

SOUTH AMERICA—Ricardo Rosa
+55 11 5503-7150
ricardo.rosa@rabobank.com

Methodology note: For ICE Sugar (raws and whites), ICE Arabica, ICE Robusta, and ICE Cocoa (NY and London), we aim to forecast the second rolling contracts, whereas for Palm Oil, we aim to forecast the third rolling contract. We have also used these contracts in the price diagrams. For all other contracts, we focus on the front month.

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