Press release

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Rabobank: Agri-commodity price stability in 2019 threatened by trade wars, currency fluctuations and El Niño

- *"Threats on many fronts" pose risk to agri-commodity price stability following year of uncertainty*
- *Unless US-China trade war is resolved, outlook is bleak for US soybean farmers, while Brazil reaps benefits, and overall production costs are set to rise*
- *Extreme weather set to impact soft commodities – with sugar, coffee and palm oil at greatest risk*

A "melting pot" of risks – including US trade war with China, currency fluctuations and extreme weather threaten global food price stability next year, according to research from Rabobank, the specialist food and agribusiness bank.

In its annual Outlook report which analyse the prospects for 13 agricultural commodities, Rabobank says that while the global agri-commodity price environment remains relatively stable, ongoing geopolitical tension, currency fluctuations and the threat of the El Niño weather system bring great uncertainty to the outlook for 2019.

Stefan Vogel, head of agri commodity markets at Rabobank and report co-author, said: "The agri commodity price environment may be relatively stable currently, but it's difficult to remember a time there were so many threats to food commodity prices on so many fronts, from trade wars to currency movements to ongoing weather threats."

US faces trade wars and currency headwinds, while Brazilian grain farmers benefit on both fronts

The trade war between the US and China has shaped 2018. If, as expected, it continues into 2019, it will alter global trade flows in the year ahead and beyond.

Soybeans are most affected. Currently importing 60 per cent of the world's soybean trade, Rabobank forecasts China's intake will fall below 90m tonnes in 2018/19 due to import restrictions. With China buying from elsewhere, US farmers face an oversupply of soybeans and will likely see stocks more than double to record levels by the end of 2018/19, the bank forecasts.

Meanwhile, Brazil, the world's second largest soybean producer, will see crop prices supported. This will make soybean farmers the principal beneficiary of the trade war, while putting heightened feed cost burdens on the livestock sector.

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The US dollar is currently at an 18-month high and it is anticipated to continue to strengthen into late 2019 before stabilising. US exports will subsequently continue to suffer from a lack of competitiveness abroad, further challenging US farmer profitability.

In Brazil, the weak real has been hit by longstanding domestic political uncertainty, helping to keep sugar and coffee exports competitive in export markets. However, a surplus of coffee beans and sugar is keeping a lid on prices.

Vogel added: “The largest threat for farmers is the US-China trade war. Depending on whether the superpowers can reconcile, we’re likely to see commodities like US soybeans continue to take a hit as China snubs them. This is causing American crop farmers financial pain, while our expectation that the dollar will remain strong deep into 2019 is also a challenge for them.

“Nevertheless, US soybeans are cheaper than Brazilian given levels of surplus crop, with US farmers turning to other soybean importing nations to sell stock. China might partly switch back to buying from the US if and when the dispute is resolved, but a full recovery of this trade flow seems unlikely.”

El Niño remains on the horizon

With an 80 per cent chance of El Niño being formally declared by the end of the winter in the Northern Hemisphere, Rabobank expects the weather event to drive further uncertainty across commodities markets.

Wetter weather in the US Southern Plains could mean an uplift in wheat production, according to Rabobank. Should predictions of the weather phenomenon come to pass, yields of palm oil, sugar and Robusta coffee are likely to take a hit. This will alter, in parts, trade flows in those currently oversupplied markets, given global demand for coffee and sugar is expected to remain robust.

The annual Outlook report is produced by Rabobank’s specialist team of agricultural commodity markets researchers based around the world. The agricultural commodity report, they year titled ‘Trade War Turbulence, With Softs Landing’ is in its ninth year.

Corn

A third consecutive year of both a US and global supply deficit drives our bullish 12-month CBOT Corn view. A 2019/20 uptick in production is more than offset by ongoing demand strength.

Cotton

ICE Cotton prices peak in Q2 2019, on continued global demand growth. Price pressure emerges in late 2019, as expanding global production improves the supply outlook.

Soy Oil

The CBOT Soy Oil price will be supported near USD 0.29/lb-USD 0.30/lb, as record US biodiesel demand and depressed South American export competition reduce heavy stocks.

Cocoa

ICE Cocoa is likely to see some price upside, and 2019/20 is likely to see a global deficit, as internal prices in West Africa discourage further production expansion.

Soymeal

Soymeal is expected to remain above USD 315/short ton through 2019/20, as Chinese competition for South American soybeans and strong feed demand drive US soymeal production to capacity.

Sugar

ICE #11 Sugar is likely to trade rangebound, but it will have to incentivise more sugar output in Brazil next year. 2018/19 supply/demand looks fairly balanced, but 2019/20 looks like a deficit.

Soybeans

CBOT Soybeans will move above USD 9/bu, as price near cost of production and government subsidies encourage US farmers to store their beans before cutting acreage next season.

Coffee

A rather small deficit in 2019/20 is likely to keep arabica price upside limited in 2019. However, the potential for a bigger-than-expected drop in Brazil arabica 2019/20 cannot be ruled out.

Palm Oil

MDEB Palm Oil faces a bearish outlook through 2019, due to oversupply – especially in Indonesia, where production is rising. Heavy world vegetable oil stocks limit price upside.

Wheat

CBOT Wheat remains elevated in the short term, as demand favours US supplies in early 2019. Bearish longer-term outlook as an increase in global acreage improves the 2019 supply outlook.

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