

Short Insight – Agri Commodities

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Agricultural commodity prices rebound

The stronger increase in-home consumption of agricultural commodities falls short in compensating the loss in out-of-home consumption. While partial lockdowns are still in place in Europe and the US, life in China is largely back to normal. Chinese import demand for wheat, corn and soybeans in particular continues to increase and is resulting in a significant recovery in grains prices. Meanwhile, a recovery in the demand for sugar, coffee and cocoa has yet to materialise. For these commodities, disruptions in supply often play a major role in pricing.

- **Food price index continues to rise, reaching the levels of early 2017**
- **Grains:** Chinese purchase of grains is prompting a solid recovery in prices
- **Softs:** Concerns about (possible) disruptions in supply are growing

Food price index continues to rise and reaches levels 2017

COVID-19 brought a decline in demand and falling prices for all agricultural commodities. In particular, demand for sugar, coffee and cocoa suffered. The smooth recovery of the Chinese economy brought some revival in demand and prices, especially in the grain markets. The food price index also rose due to renewed demand growth and is now back above pre-COVID-19 levels. This draws the attention of speculators. With their expectation of further price rises, the so-called "long" positions rose to record highs in some instances. This will result in more turmoil in the agricultural markets in the coming weeks. Dynamics in agricultural markets will remain high and comes with an increase in price fluctuations.

Wheat: China's wheat imports more than doubled

The wheat market was relatively unaffected by the COVID-19 shock. The price initially declined, but this was more related to negative sentiment and speculators' risk aversion to commodity markets in general. The decline in demand for wheat was limited and recovered quickly due to strategic restocking by countries. The wheat price has recently been boosted by drought concerns in the US and Russia as well as stronger demand from importers, especially China. Up to September, Chinese imports had more than doubled on a yearly basis. In addition, the USDA¹ expects that in 2020/21, US inventories will reach their lowest level in six years. These aspects are keeping prices relatively high for the time being.

Corn: strong Chinese demand after disappointing harvest

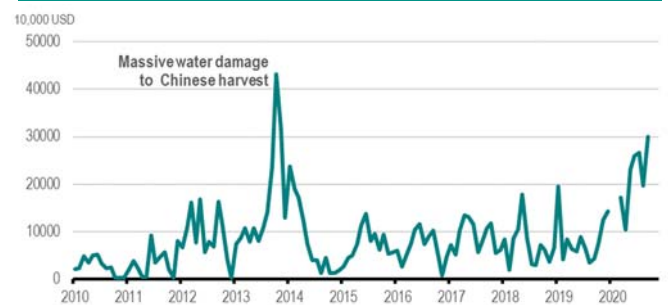
Chinese demand for corn currently remains strong due to the high demand for animal feed and damaged supplies in China after storms and drought. However, ethanol from corn sales in Brazil and the US remains a concern. The demand for ethanol is still relatively weak. Due to the lower oil consumption related to COVID-19, uncertainty about the demand for ethanol from corn remains high. Next season, corn production will increase by about 3%, according to the USDA¹ and IGC². Production in the US and Brazil in particular shows strong growth figures. There will be no lag in the demand for corn, which will increase by almost 2% next season. The growth of Chinese demand has a large share in this.

Price index agricultural commodities since 2019



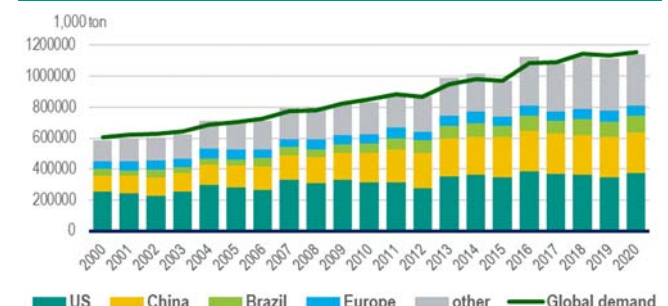
Source: Refinitiv, HWWI

Chinese import of wheat since 2010



Source: Refinitiv

Global production and demand of corn



Source: USDA

1) USDA = US Department of Agriculture
2) IGC = International Grains Council

Soybeans: Chinese demand for soybeans is strong

Due to the sharp increase in Chinese demand for soybeans from the US, expectations of stocks have been revised down considerably. In the 2020/21 season, stocks in the US will reach a seven-year low. Meanwhile, the price of soybeans in the US has risen to new heights. With continued demand from China, driven by the sustained growth of pig herds there, prices will increase further. The price of Brazilian soybeans has already reached record highs, and this has led to a deterioration in competitiveness. The drought in Brazil has also hampered planting. On balance, global output will grow next season, mainly due to the substantial expansion in the US.

Sugar: uncertainty over supply

Due to the relatively low oil price and therefore the lower price of ethanol, the production of sugar from sugar beets instead of ethanol is still financially more interesting. This has created an oversupply of sugar, while demand has not yet recovered due to COVID-19. Still, the price of sugar has recently bounced back. The unfavourable weather conditions in Brazil, Thailand and Russia, and damage to the crop due to a sugar beet disease – especially in France – fed concerns about the supply. Speculation about the level of the Indian government's export subsidy is also fuelling market concerns. Chances of a lower subsidy are high. And a lower subsidy puts a brake on exports and keeps international supply low, which will lift prices.

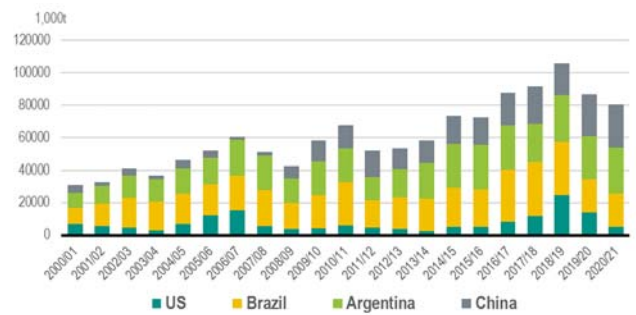
Coffee: slow recovery in demand with high supply

This season the Brazilian harvest - the world's largest - is significantly lower compared to last season (2018/19). This is due to the two-year cycle of the harvest. The season with a good harvest, the so-called "on year", is followed by an "off year" with a lower harvest. The lower supply in off year 2019/20 came at the same time as a drop in demand due to COVID-19. Price volatility remained high. Unfavourable weather, strong fluctuations in stocks and exchange rate effects led to strong price fluctuations. The fundamental picture in the coffee market remains unfavourable. Slow recovery in demand, combined with stronger supply growth and high stocks, are keeping prices in check.

Cocoa: recovery to pre-COVID-19 demand level is lagging

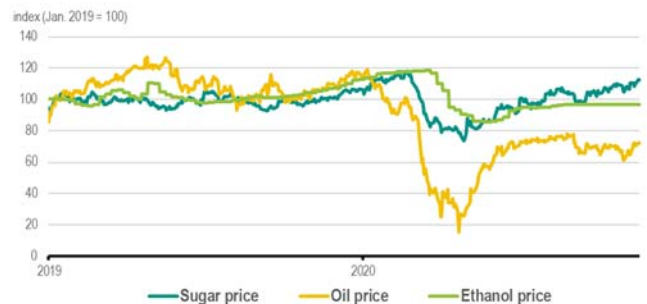
The demand for chocolate is currently leading in pricing. The sharp decline in out-of-home consumption has hit the market hard. Cocoa grinds - which serve as an indicator of demand – are showing a sharp year-on-year decline through the third quarter of 2020 in the EU (-4%), Asia (-6%) and the US (-7%). The many lockdowns that are still in place at the moment are resulting in a slow recovery in demand. Going forward, demand revival in the Asian market will be leading. Around 24% of all cocoa beans are currently processed in that region and the growth of cocoa consumption per capita is much higher than in the EU and the US.

Closing stocks soybeans



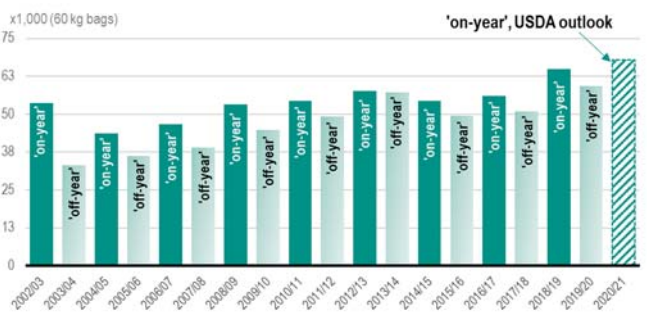
Source: USDA

Price trend in sugar, oil and ethanol



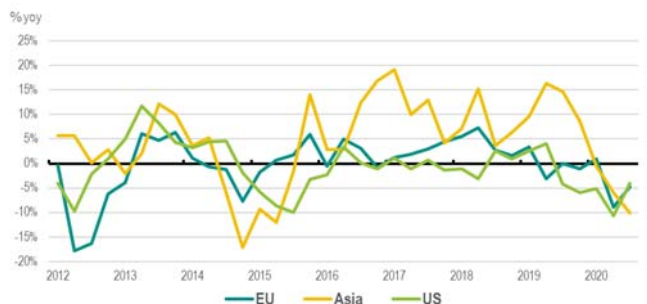
Source: Refinitiv, ABN AMRO Economisch Bureau

Brazilian coffee-output and the 2-year cycle



Source: ICO, USDA

Grindings cocoa in EU, US and Asia



Source: ICCO, eurococoa, cocoaasia, candyusa

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