

Short Insight – Softs

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Casper Burgering
Senior economist Agricultural
Commodities

Phone: +31 6 109 760 34
casper.burgering@nl.abnamro.com

Strong price fluctuations in sugar, coffee and cocoa

The prices of sugar, coffee and cocoa have been more volatile during the first quarter of 2020. The price trends can partly be explained by the coronavirus crisis, which has weakened demand and put pressure on supply due to the low availability of workers and transportation limitations. But the virus is not the only reason behind stronger price volatility in these markets.

- **Sugar:** lower oil price increases pressure on sugar price
- **Coffee:** increased market dynamics mean highly volatile prices
- **Cocoa:** changes in weather pattern strongly impact prices

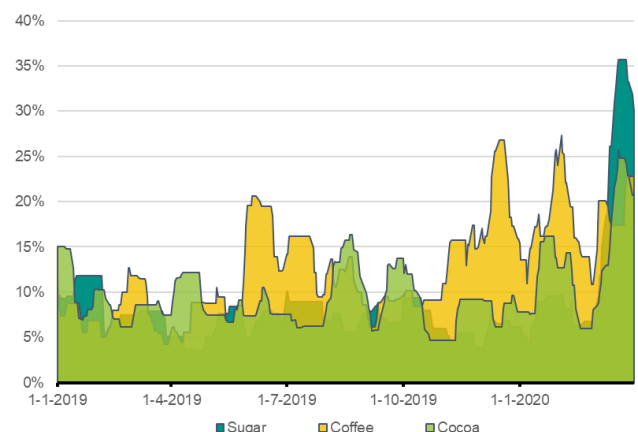
Coronavirus crisis is not only cause of increased price volatility

Price volatility in sugar and cocoa reached a peak during the first quarter of 2020. In the coffee market, however, price volatility remained relatively high throughout the quarter. The common denominator in the stronger price volatility is the global spread of the coronavirus. This not only increases worries about demand for these raw materials, but also elevates concerns with regard to supply. And there are other challenges facing these markets that lead to stronger price movements. For example, the sharply lower oil price is causing a great deal of commotion in the sugar market, while strikes in Brazilian ports are halting coffee exports and an improvement in the weather in Ivory Coast has resulted in a better cocoa bean harvest. The combination of fears about the coronavirus along with specific market trends has put strong price pressure on sugar and cocoa but boosted prices for Arabica coffee. For the coming months, supply chain uncertainties will increase in these markets, which will translate into relative high price volatility.

Sugar: lower oil price increases pressure on sugar price

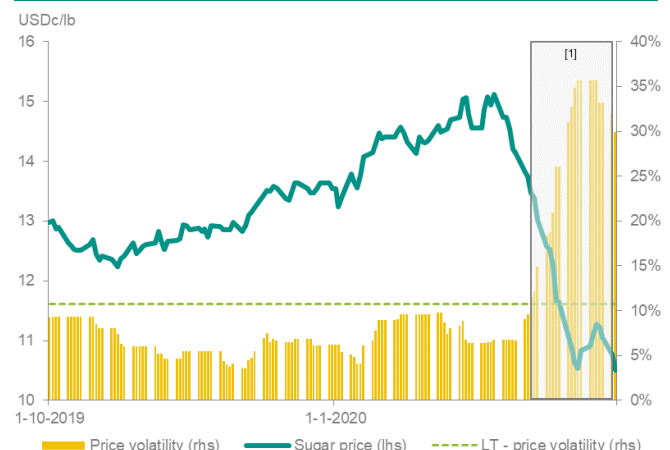
The sugar price has been rising since the beginning of the fourth quarter of 2019. In mid-February, the price reached a level of just above USD 15 cents per pound. From that moment onward, pressure on sugar prices increased. The main reasons were the prospect of a significant rise in sugar exports from India and the strong downgrade in oil prices. The oil price collapse, however, had the strongest downward impact on sugar prices. This is because the price of Brazilian ethanol made from sugar cane depends strongly on the oil price trend. When oil prices turn sharply lower, Brazilian sugar cane factories become more financially motivated to produce sugar instead of ethanol. Before oil prices plummeted, the sugar market was in deficit. However, this swiftly turned into an expected oversupply, which increased pressure on sugar prices. For the coming months, India will remain the major uncertain factor in the sugar market. The current low price and India's recent lockdown has stopped Indian sugar exports in the short term. All in all, we are dealing with a highly dynamic sugar market, which means that price volatility will also remain high for the time being.

Price volatility (%) in sugar, coffee and cocoa



Source: Refinitiv, ABN AMRO Group Economics

Volatility in sugar price peaks late Q1

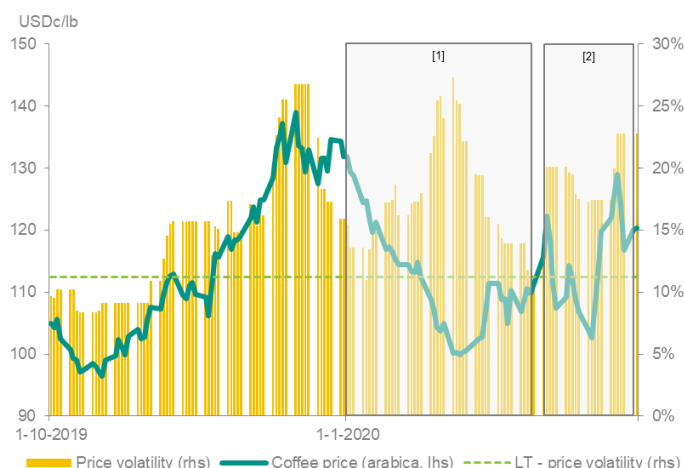


Source: Refinitiv, ABN AMRO Group Economics

Coffee: increased market dynamics means highly volatile prices

Over the past five years, the average price volatility of coffee is higher than that of sugar and cocoa. Price volatility in the coffee market has been high for some time due various market developments. In January, pressure on the coffee price was elevated mainly due to increasing global inventories and higher production, especially in Colombia. But the weakening of the Brazilian real also put pressure on prices during this period. Indeed, a weaker real normally encourages producers and traders to offer more coffee on export markets. Price volatility remained high during February and March. This was mainly because of tightness of the coffee supply and a strike in a large coffee port in Brazil. The price of Arabica coffee once again increased. This stronger volatility in coffee prices will continue in the coming months. Due to the coronavirus crisis, the demand for coffee for home consumption has increased sharply, but this demand will not replace the lower out-of-home consumption. The inventories of coffee therefore remain high. With the further spread of the coronavirus in Latin America, stress on the supply chain will intensify. This means that price volatility of coffee will remain high.

High volatility coffee price since start 2020

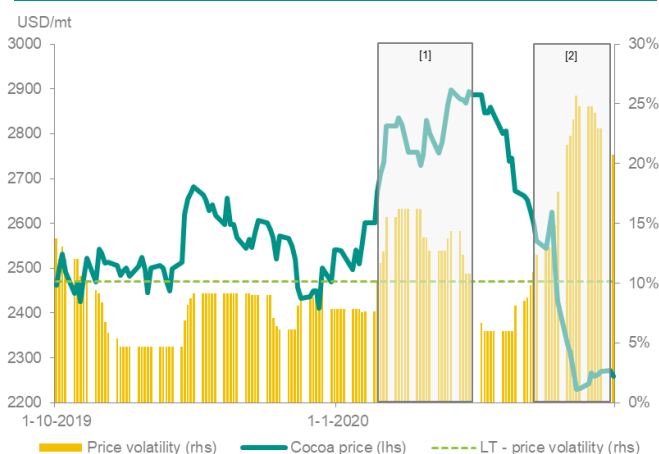


Source: Refinitiv, ABN AMRO Group Economics

Cocoa: changes in weather pattern strongly impact prices

Due to the relatively dry weather in West Africa at the beginning of this year, concerns for mid-crop development increased. The price of cocoa rose by 14% to USD 2,898 per ton during the first quarter. We have not seen such high levels since May 2018. But shortly after this peak, the price slowly declined again. This was mainly because investors decreased their long positions with the expectation that the coronavirus would have a considerable impact on the demand for cocoa. And since mid-March, the cocoa market has again been heavily influenced by the weather in Ivory Coast. While drought concerns there were high at the beginning of the year, during March the market had to take sufficient rainfalls into account. This resulted in a more positive crop outlook and the price of cocoa decreased further. In addition, traders remain aware that the demand for chocolate will drop in the near future because of the coronavirus. Many cocoa bean grinders in Europe and the US have sufficient supplies and are therefore not eager to purchase more beans. This will keep the price relatively low in the coming weeks.

Sharp downturn price causes higher volatility



Source: Refinitiv, ABN AMRO Group Economics

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