Agricultural Commodity Price Outlooks 2020

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Introduction

Will 2020 bring an end to the bear market in agricultural commodities?

Agricultural commodity prices as measured by the Bcom ag index have only risen in one year out of the last seven, in 2016. And that was only by 1.8%.

But losses, which amount to nearly 50% over that seven-year stretch, at least slowed last year, to less than 1%, with hopes of a China-US trade deal, and South East Asian biodiesel growth, among spurs to a late-2019 recovery.

As to whether that revival will set the tone for the new year, Agrimoney has, for the first time, compiled outlooks from key commentators to offer clues as to how the year may pan out for the major contracts.

We hope you enjoy Agricultural Commodity Price Outlooks 2020, and look forward to continuing to guide you through market twists and turns as the year proceeds.

Mike Verdin
Chief Analyst, Agrimoney
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Five key pressure points for ag markets in 2020

The future is of course yet unwritten.

But for agricultural commodities, some pressure points which could well influence trading in 2020 are already apparent.

Five are listed below.

1. China-US trade deal

Details of the agreement due to be signed next week are scant. But if it does include a pledge by China to purchase more than $40bn of US agricultural goods a year, that could have a huge impact.

Purchases to that extent would be well above levels previously reached, with Chinese imports of US ags hitting a high of $25.7bn in fiscal 2014, according to the US Department of Agriculture.

That does not make $40bn or more in orders impossible. Shanghai-based analysis group JCI, for instance, has calculated a $41bn schedule based around 45.0m tonnes of soybeans, worth an estimated $18.7bn alone.

But it would represent quite some departure from previous trading patterns. Chinese soybean imports at that level would be one-third above the previous high for purchases of US supplies, with JCI also assuming records for the likes of corn, cotton and wheat too.
The knock-on effects would mean the US turning away many traditional customers, while rival origins would find access to China curtailed.

Many of the loose ends will marry up. But trade disruption of this scale is unlikely to avoid causing deficits and surpluses, perhaps for instance of Brazilian soybeans.

And farmers in these countries are unlikely to get the bailout that has got US ones through the past 18 months, paid for (at least in part) by the tariffs on imports from China.

2. African swine fever

There are signs of nascent recovery in China’s pig industry, after the disease prompted a cut of more than 40% in its swine numbers.

For instance, farm ministry data showed that the Chinese pig herd grew by 2% month on month in December, while imports of whey – a key piglet feed ingredient – have revived a touch too.

But that does not mean that the African swine fever story is over. For a start, it is still spreading through Asia, with cases reported in likes of Indonesia, Vietnam, South Korea and the Philippines, according to the United Nations FAO.

Further spread, even back to China, cannot be ruled out. What’s more, ASF is present in Europe too, with Bulgaria last week revealing its first finding since August last year.

The world is still, and will for some years, adjusting to Asia’s outbreak, with foreign meat exporters ramping up output to meet the void in Chinese demand.

How the existing outbreaks are resolved, or evolve, holds large implications for protein markets, as well as on the demand dynamics for animal feed.

3. Winter wheat sowings

Data due on Friday are expected to show US winter wheat plantings for the 2020 harvest at 30.66m acres, according to a Reuters survey, which would be the lowest figure since 1909.
Meanwhile, in the European Union, soft wheat area for 2020 is seen by Strategie Grains falling by 600,000 hectares, after excessive rains hampered French and UK plantings, while dryness has raised doubts over Ukraine’s autumn-planted grains.

These factors are not in themselves enough to cause too much investor unease. Global stocks, after all, are expected to end this season at their highest, compared with use, since 1968-69, on USDA estimates.

That said, the supply picture is less comfortable if excluding China, data for which are often excluded for analysis purposes because its supplies are not available to the world market. Disregarding China, the world stocks-to-use figure of 22.8% is a little below the five-year average of 24.1%.

And the sowings drops do render the market more vulnerable to further setbacks, or to hiccups in supplies of other grains.

World wheat stocks shrank by one-third over the two seasons following 1968-69.

4. Brazil’s safrinha corn harvest

Thinking of other grains, global corn stocks are far tighter than those of wheat, forecast by the USDA to end 2019-20 at a seven-year low of 26.6%.

Excluding China the figure is just 11.7%.

And that too factors in a decent harvest in Brazil of safrinha corn which has come to account for more than 70% of the country’s corn output, and has historically been over-represented in exports (although that could change as corn ethanol plants open in the key Centre West growing area).

With Brazil seen as having emptied its corn stores with a bumper 2018-19 export programme - pegged by the USDA at a record 41.0m tonnes, equivalent to 23% of the world total – a strong safrinha harvest will be needed to replenish Brazilian supplies.

And the safrinha crop has a regular record of weather upsets, being grown through the regional dry season.

A 2020 setback could provide a big boost to corn prices in the US, as well as Ukraine and Argentina.
5. Brazil’s coffee output

Brazil will be key to coffee prices too.

This year returns the country to an “on” year in its cycle of alternate higher and lower arabica harvests.

However, some commentators (the latest being Fitch Ratings) believe that weather setbacks mean that the country will not this time match the record of some 60m bags (depending on who you believe) set during the last “on” year, 2018.

And that matters when the country’s supplies are already coming under some pressure, to judge by an export slowdown.

Furthermore, output in many other arabica-growers, notably in high-cost production areas such as Central America, is being challenged by the dent to crop investment from low prices which reigned until late 2019.

Even factoring in a 66.7m-bag Brazilian all-coffee harvest, Rabobank forecasts a modest world coffee output surplus of a little under 2.0m bags for 2020-21.

It would not take a huge production setback to turn that into a third world output deficit in four seasons.

Indian stocks, African levies, Canadian sowings…

Other factors to look out for include, in the sugar market, the fate of India’s huge inventory, and how much of it the country manages to place on export markets.

This stands at least to provide some resistance to upwards movement in sugar prices.

The cocoa market will increasingly face the knock-on impacts of the $400 "living income differential" levy placed by top growers Cote d’Ivoire and Ghana on their exports of the bean.

In the long term, the tax stands to encourage production elsewhere, but in the shorter term, could it undermine demand?
For **cotton**, one issue to watch will be the extent of US sowings this year. Ideas are for a sharp decline, with Cotton Grower this week saying that results of its survey showed a 12.082m-acre total, which would represent a decline of some 1.7m acres year on year.

But will a US-China deal change that outlook? Hopes of an agreement have, after all, helped new crop December 2020 cotton futures rise more than 10% over the past month, offering a bigger incentive for producers to plant the fibre.

In oilseed markets, the fate of biodiesel programmes in Indonesia and Malaysia – and whether actions live up to words – stands to have a significant impact on prices of **palm oil**.

The **rapeseed** market, meanwhile, already faces the prospect of another below-par European Union crop, after a difficult autumn planting season, with Australia’s latest harvest much reduced by drought.

Will Canada’s spring seedings drop too, given the country’s continuing political/trade spat with China? ■
Will cattle futures enjoy a bull market in 2020?

Live cattle futures managed to show gains for a third successive year in Chicago in 2019, but only just.

It required a firm performance in December, helped by hopes of a phase one China-US trade deal, to bring the market back into positive territory.

That said, any gains at all for the year had looked unlikely in September, when futures fell to a nine-year low, on a spot contract basis, after a fire at a Tyson Foods plant cut US processing capability, at a time when feedlots had a sizeable population to market.

Will live cattle manage a fourth year of headway? Or will it suffer from competition between beef and other meats, with US pork and chicken output seen rising in 2020?

Leading commentators give their outlooks.

Goldman Sachs

Global protein markets are experiencing a sharp fall in supply, driven by African swine fever and drought-stricken Australian cattle.
We forecast short-term upside to beef prices given:

- Substantial tailwinds from increased imports from Japan and Mexico, which have loosened agricultural trading relationships with the US in recent months.
- A contracting US herd in early 2020, as heifer slaughter is up 7% year on year, and bull slaughter down 3%.

**Derrell Peel, Oklahoma State University**

The new year brings with it several changes in ongoing market dynamics, some new opportunities, and some new risks and continuing challenges for cattle and beef markets.

The international market situation is somewhat clearer now after trade disruptions and uncertainty strangled many agricultural markets for much of the past two years.

The beef supply situation is expected to be more supportive in the coming year with cyclical herd expansion over and beef production peaking.

The current status of the cattle cycle will be confirmed in the US Department of Agriculture’s Cattle inventory report to be released the end of January. In general, cattle numbers are expected to be down slightly year over year.

Beef production is expected to peak fractionally higher in 2020 with heavier carcass weights offsetting a slight decline in cattle slaughter.

Total US meat production will once again push to new record levels in 2020 with beef, pork and poultry all at or near record levels.

Trade improvements will be critical to provide a strong international component of meat demand in addition to domestic demand.

**Rabobank**

After four years of beef cattle herd expansion in the US, cattle numbers are peaking. The cattle and beef production cycle plateau presents a stable outlook for 2020.
Expectations are for beef production to be up by 0.8% year on year. Harsh weather conditions during the calving season are expected to reduce the calf crop size, but increases in carcass weights of fed cattle will offset the decline.

While cattle and beef production and prices are expected to be stable, there is still potential for disruption, particularly from supplies of competitive meats.

Domestic broiler production is expected 2-2.5% higher in 2020, with domestic pork up by 3-4%, resulting in intense market competition.

A second major uncertainty is the ongoing spread of African swine fever in China, Asia, and eastern Europe.

At the same time, a new trade agreement with Japan, potential for USMCA ratification, and a phase one trade deal with China are expected to increase protein purchases.
Dairy markets - how will 2020 play out?

Dairy prices enjoyed a stronger 2019 than many investors had expected, with the GlobalDairyTrade index ending the year up 15.0%.

Demand remained resilient, as the economy in China, the top dairy importer, suffered less damage than feared from its trade war with the US.

Meanwhile, production remained constrained by weather setbacks in the likes of New Zealand and, in particular, Australia, with environmental regulations - which have caused protests among Dutch producers, for instance - playing a role too.

How will the market play out in 2020?

**Jennie Tanner, AHDB**

Global milk production is expected to grow by around 1% in 2020, according to the most recent forecasts from the five largest producing regions. This would bring milk production to 292.5bn litres, 2.9bn litres higher than the figure estimated for 2019 production.

Continued challenges of drought, fires and high costs of water and feed are hampering any recovery in Australia. The production forecast for New Zealand is flat as they are unlikely to surpass the last seasons’ record production.

Increased global demand for dairy products is expected to continue, with United Nations FAO predictions at 2.1% per annum for fresh products and 1.5% per annum for processed products.
As such, global dairy product prices are expected to remain fairly firm for the first half of 2020, as the production increase is relatively small.

**European Commission**

Assuming normal weather condition and sustained demand, in 2020 a further growth of EU milk collection (+0.7%) is expected, driven by increasing yields (+1.2%) while the decline in cows numbers could slow down (-0.4%).

In 2020, the slowdown of cheese demand is expected to continue and EU exports are expected to grow by around 1.5%, leading to a production growth of 0.6%.

The production of whey, a by-product of cheese, is also expected to grow by close to 1%, out of which around 60% will likely be used for feeding purposes and 10% be exported, mainly to China.

Due to high butter prices in 2018, some food businesses replaced butter with vegetable fat for certain processed products. Despite the decline in EU butter prices… time will be needed to revert this trend, therefore a slower growth in the domestic use is expected in 2020 (below 1.5%). Production is likely to grow by 1%.

In 2020, lower [skim milk powder] availabilities, due to lower stocks, and a further recovery in SMP price are likely to reduce EU exports.

However, assuming sustained world demand, they could still remain above the level of 2018 when EU intervention stocks started to be sold.

This, together with a stable domestic demand is expected to contribute to further production growth in 2020 (+5%).

**Milk Producers Council**

New Zealand reported significantly higher export volumes for whole milk powder (WMP) and butterfat products in November, and a respectable year-over-year increase in cheese exports. However, New Zealand’s skim milk powder (SMP) exports fell 12.1% from a year ago.

On balance, New Zealand’s trade data signals that China remains hungry for imported dairy, which is likely to further reduce global dairy product inventories.
Milk powder and butter values moved lower at the Global Dairy Trade (GDT) auction on December 17. The GDT Index slumped 5.1%, dragged down by a 6.3% drop in the average price of SMP and a 6.7% slide in WMP values.

Like the CME spot cheddar market, it looks like GDT milk powder may have run too far, too fast in November and early December.

However, the milk powder stockpile is considerably smaller than it once was, and demand is healthy. This week’s setback looks like a correction in a bull market rather than the start of a new downtrend.

**Rabobank**

Our outlook is for improved milk prices at the farmgate, but hesitation on either end of the supply chain.

With rising SMP (skim milk powder) prices, the processing sector will need to revisit product mixes. This will inevitably lead to shifts in production and inventories, which will mean volatility in commodity prices.

For the most part, we see this volatility favouring higher milk prices in the coming quarters.

Rabobank’s outlook for milk production is still muted – remaining at, or slightly below 1% year on year among the combined major milk-producing regions through the first quarter of 2021.

Farmers will continue to face constraints which will hold them back from rapidly expanding their herds. In some regions, those will be regulatory, in others they will be economic.

Given the modest milk production growth outlook, and the reduced SMP stocks worldwide, Rabobank expects tighter availability of exportable surplus among the major dairy exporters of the world. This will generally have a positive impact on price.

SMP prices are expected to see the most improvement, in the range of E2,525-2,600 per tonne through the first quarter of 2021.
US Department of Agriculture

Several factors appear to have supported the rise in SMP prices.

First, there has been an upswing in global import demand for SMP as year on year imports through September are up from 15-30% for key markets as China, Indonesia, and Philippines.

Second, milk output in 2019 among the major exporters was less than anticipated and likely to be only slightly ahead of last year.

Finally, SMP stocks are low in both in the EU and the United States.

For 2020, most of the additional milk production among major exporters is forecast to grow in the EU and the United States. However, the US is the only exporter expected to have substantial additional supplies of SMP for the international market.

Drought-related forage shortages are expected to slow the recovery in EU milk production in the first half of the year. However, as feed stocks and pasture conditions return to normal, milk output is expected to accelerate and total production for the year is expected to grow by 0.4%.

In New Zealand in 2020, the herd size is expected to remain virtually unchanged from 2019, but milk production is forecast to grow by slightly under less than 0.5%.

A key factor has been the recent rise in the 2019-20 forecast farmgate milk price that has been increased from a median price of NZ$6.75 to NZ$7.05 per kilogramme of milk solids basis, reflecting an improvement in global prices. Higher prices will promote the supplementary feeding of cows.
Will sugar prices extend their recovery in 2020?

Sugar futures rose in New York in 2019 by 11.6%, the first gain in three years, amid ideas of an end to successive years of world production surplus.

A global output deficit is broadly expected in 2019-20, with some commentators pegging the shortfall above 7m tonnes, as strong ethanol prices keep Brazilian mills maximising output of the biofuel, rather than sugar, from cane.

Still, there remains plenty of sugar left over in the world from the surplus period – notably in India, which has offered subsidies for exports, incurring the wrath of rival shipping countries.

Will the overhang keep sugar prices in check? Or will Brazilian output, and Indian exports, remain curtailed to add buoyancy to the market?

ABN Amro

Bullish sentiment in sugar persists as the market will swing into deficit in 2019-20.

This will underpin prices.

However, the risk of an increase in Indian exports hangs over the market. Accumulated stocks in India over the past months will keep price gains muted.
Commerzbank

The International Sugar Organization is anticipating a deficit not only in the current season, however: in its first outlook for 2020-21, it predicts another deficit of 3.5m tonnes.

If this comes to pass, the rise in global reserves that resulted from the surpluses in 2017-18 and 2018-19 would be eliminated almost entirely again.

The prolonged deficit phase should lend buoyancy to the sugar price.

High Indian reserves, which could result in exports to the global market, are likely to dampen any upswing, however – as is the weak Brazilian real.

However, the prospect of a second deficit in succession should give the sugar price a boost.

We therefore predict a raw sugar price in New York of 15 cents per pound at the end of 2020.

FocusEconomics

The price of sugar rose in recent weeks on the back of the International Sugar Organization’s November forecasts showing tighter supply than previously expected over 2019-20.

Going forward, prices are forecast to rise in 2020 on weak production in the US and Thailand.

Our panellists expect prices to average 13.2 cents per pound in the fourth quarter of 2020 and 13.8 cents per pound in the fourth quarter of 2021.

Goldman Sachs

We are broadly bullish across the softs complex, as years of bearish productivity increases and foreign exchange-led cost deflation look to wane in 2020.

The Indian monsoon is expected to pull total sugar production down to 26.9m tonnes, down 17.2% year on year, and the world into a global deficit for the first time in four years.
International Sugar Organization

A larger-than-initially-expected global deficit indicates a fundamental move towards a reduction in global stocks still overhanging the market.

The ending stocks:consumption ratio is forecast to reduce from nearly 55% to 50.5%. If realised this would be the lowest since 2016-17 but still seemingly not low enough to trigger an improvement in world market values above 15 cents a pound.

[As regards] preliminary thoughts on the market fundamentals in 2020-21... In a nutshell, putting together possible changes in production and projected consumption growth, a more modest but still significant global deficit of 3.5m tonnes looms on the horizon, heralding the continuation of the deficit phase in the world sugar cycle.

JP Morgan

ICE sugar remains our most bullish call through 2020, as a structural decline in available sucrose supply for sugar production will drive the world balance into a consecutive season of deficit through 2020-21.

With declining area planted to cane and beet, and rising world ethanol demand, the shadow price of sugar is set to rise, providing support for ICE sugar over the medium term.

2020 [price] projections are held firm at an average of 14.8 cents per pound, finishing the year at 15.5 cents per pound.

Fundamentally, the world balance remains in a modest deficit of 7.3m tonnes through 2019-20, albeit slightly deeper than our prior 6.4m-tonne estimate.

Our preliminary expectation for 2020-21 is for a further decline in global stocks, as a deficit of at least 8m tonnes evolves. Our bias is for a deeper 2020-21 deficit, in the event that Brazil’s ethanol sector buys more cane than expected through the 2020 campaign.

However, the projected increase in cane area in India also needs to be monitored closely – as this could be an offsetting factor.
Marex Spectron

This being the season when people make serious and silly predictions about the coming year – here goes.

The flat price next year will track the ethanol parity even more closely than last year. Obvious, because we almost certainly need a bit of “extra” sugar out of Centre South Brazil, so have to stay closer to the parity.

Nobody can predict the forward ethanol parity for summer 2020, but most of us assume that it is likely to end up around 13.50 cents a pound…. based on models of probable forward prices for ethanol in Brazil.

The sugar market will continue with a bearish bias. We say this because in sugar, and to a lesser extent in other commodities like coffee, “producers always sell forward, and consumers never buy forward”.

Certainly, at present, the producers are well priced (sold) and we know of almost no major industrial consumers who have bought their forward requirements.

The result is that the spec community have to carry a long position equal to the producers’ short position. Therefore, the price of sugar has always to be at a discount to “fair value” in order to induce the spec community to carry this long.

This may be one explanation of why sugar’s default position seems to be to decline when nothing is going on.

Rabobank

In our base case, we assume a more or less balanced global market in 2020-21, following the 2019-20 deficit.

We expect largest producer India to see a significant recovery. This recovery should be possible due to the high availability of water in reservoirs following heavy rains in September and October 2019.

With this in mind, any potential global deficit in 2020-21 will likely be smaller than in 2019-20.
After a surge in investments in ethanol plants in Mato Grosso, Brazil is expected to produce over 2bn litres of corn ethanol by 2020-21, from 1.4bn litres in 2019-20.

This may slightly lower the demand growth for cane ethanol in certain regions, but the fundamental Brazilian ethanol demand drivers are likely to be a potential economic recovery in 2020 and oil prices.

Ethanol is likely to be very competitive – and in case any more sugar is needed out of Brazil, sugar prices will face a quick upside in order to convince mills out of ethanol maximisation.

**Felipe Vicchiato, chief financial officer, Sao Martinho**

We do not believe that the sugar price has a lot of room to grow very quickly.

For the next year, there should be a deficit of sugar in the market.

But on the other hand, the inventories are still high, mainly in the northern hemisphere where you have the biggest consumer market.

We understand that this is a limiting factor to see a price recovery.

The last figure I saw about India is that the expectation is that India could be reducing sugar production, getting to 28m tonnes on average, according to analysts, but this reduction will not be relevant enough for a recovery of the sugar prices because the inventories are very high.

But if Brazil has another harvest more towards ethanol for next year, then we would be producing 10m tonnes less than the potential for sugar… [which] would bring or start balancing the inventory volumes of sugar in the world.

May and July [futures] 2020, we do not see an upside [for prices]. But maybe for October, et cetera, there might be a recovery because of this dynamic.
Which face will wheat markets show in 2020?

Wheat futures saw a mixed 2019.

In Chicago, investors’ benchmark market, prices of soft red winter wheat rose by 11.0%, completing a third successive year of gains.

Headway was supported by a recovery in the last four months as Australia’s drought-hit crop shrank, Russian exports made a weaker-than-expected start to 2019-20, and rains hampered European seedings ahead of the 2020 harvest.

But prices of Kansas City hard red winter wheat recorded a marginal loss for 2019, weighed by relatively strong US stocks of the class, which has failed to pick up as much feed demand from its value pricing as some investors expected.

Paris wheat prices shed 7.1% in 2019, as a bumper French harvest prompted the country to compete hard for export demand.

Will 2020 see a reversal of some of these trends? Have low Kansas City prices meant even lower plantings for the next harvest?

Mike McGlone, Bloomberg Intelligence senior commodity strategist

Wheat is the most likely among the grains to retrace its bear market from most of the past decade, in our view.
Prices bottomed in 2016 and are on a clear recovery trajectory.

Appearing similar to gold, until the metal’s breakout higher this year, an extended consolidation period is solidifying a foundation for the wheat-price recovery.

The most traded price area of the past decade, which is also about the 100-week mean at just below $5 a bushel, is good support.

**Commerzbank**

The 1% increase in the global wheat acreage forecast by the IGC [for 2020-21] is apparently attributable largely to Russia.

As far as the US is concerned, the USDA is provisionally assuming a figure of 45 million acres, that is to say a stagnation at the historically extremely low level of the previous year.

For the EU, initial Strategie Grains estimates pointed towards a slight expansion of acreage, but now the planting problems caused by the rain, especially in France and the United Kingdom, make a small decrease the more likely outcome.

Meanwhile, Australia is hoping to overcome its three-year drought and to be able to produce more wheat again.

At present, we do not expect wheat to be in tight supply on a global level in 2020-21. Consequently, given the higher price level of late we expect prices to pick up only slightly.

Some impetus is likely to come from the corn market. For the end of 2020 we forecast a wheat price of £5.50 per bushel in Chicago and of £190 per tonne in Paris.

**FocusEconomics**

Prices for wheat picked up over the last month due to healthy export data, while less favourable winter wheat crop conditions likely added additional upward pressure.

Prices are expected to decline going forward, as increased supply should exert downward pressure on prices. The outcome of the US-China trade war remains a key driver of future price movements, however.
Panellists expect prices to average $4.94 cents per bushel in the fourth quarter of 2020 and $4.90 per bushel in the fourth quarter of 2021.

**JP Morgan**

We have raised our 2020 price forecast by 2.4% from our September estimate, to an average of $5.30 per bushel, and see prices averaging $5.40 per bushel in the fourth quarter of 2020, up from $5.20 per bushel previously.

Taking a preliminary look into 2021, we see a sustained draw in world wheat stocks and a stabilisation in world production driving the average price towards $5.40 per bushel.

We maintain a bullish risk bias on wheat-specific fundamentals, as well as the prospects of a phase one US-China trade agreement. The prospect of a gradual increase in China’s wheat imports into coastal centres in particular should not be ruled out.

Our preferred measure of wheat fundamentals, stocks held by major exporters, remains in a persistent contractionary phase, with stocks-to-use projected to decline to a six-year low in 2019-20 of 15%.

Looking into 2020-21, weather has stifled the potential expansion of winter wheat plantings. In the US, early snow fall across the Plains and Midwest prevented farmers from planting all intended winter wheat area.

In Europe, a sustained wet pattern has delayed winter plantings, and the Black Sea crop has been subject to drier-than-normal conditions.

**Rabobank**

Wheat prices are expected to remain supported during the coming months. Harvest pressure from Russia and the EU has been overcome, and winter might slow exports from the Black Sea.

However, record global stock levels are expected by the end of 2019-20, and any price increase will be capped as long as the global corn market doesn’t also bring serious price excitement to wheat.
In principle, we don’t expect large changes in area for 2020 US winter wheat. However, we recognise there is a chance of a smaller hard red winter wheat area, given the discount seen in Kansas versus Chicago.

Most importantly, Russia and Ukraine planted winter grains as planned – and in generally good-to-fair conditions – leaving no reason for us to fear, for now, significant acreage issues for the 2020 wheat crop.

In this context, 2020-21 is likely going to be a repeat scenario of 2019-20 - slowly declining stocks in the US, combined with increasing stocks elsewhere.

Canada could continue to see increased wheat production, as spring wheat area may expand to the detriment of canola, since China stopped buying the latter.

A further expansion in spring wheat area and production in Canada can keep the Minneapolis spread over Chicago in check.


Can arabica coffee futures outperform in 2020 too?

**Arabica coffee futures produced a remarkable turnaround in 2019.**

Having fallen to 86.35 cents a pound in New York in April, the lowest on a spot contract basis since 2005, futures recovered to end December at 129.70 cents a pound, up 27% for the year.

Ideas of a squeeze on supplies were key to the recovery, after a lower, “off year” crop in Brazil, where there were reports of some merchants being out of stocks, besides setbacks in the likes of Central America, as the period of weak prices deterred good agronomic practice.

However, London robusta futures did not perform nearly so well, ending 2019 down 10.1%, a third successive year of decline, weighed by expectations of decent Vietnamese output.

Which trend will win out over 2020?

**Commerzbank**

The two [global] surplus years had put massive pressure on prices.

The main reason for the now expected 2019-20 deficit is lower production in Brazil, the most important producer country, where the 2019-20 harvest, which has already been completed, was that of a low-yield year in the two-year cycle for arabica coffee.
More arabica coffee is currently coming from Colombia - the 2019-20 harvest is expected to be a good 14m bags, higher than in the previous year, but cannot make up for the decline in Brazil.

However, Brazilian deliveries had been very high due to the record high yield year before.

Looking ahead, there is still no consensus among market observers as to whether the coming Brazilian coffee harvest of the high-yield year 2010-21 will exceed the 2018-19 record of around 62m bags, including 47.5m bags of arabica.

Despite the long period of dry weather and some frost damage, the harvest is expected to be very high, not least because new plantations will be ready for harvesting.

In view of this outlook, we consider the upside potential for arabica coffee to be largely exhausted following the massive increase in recent weeks and forecast a price of 115 US cents per pound at the end of 2020. We then expect a robusta price of $1,400 per tonne.

**Fitch Ratings**

Coffee prices have rallied considerably in recent weeks as concerns regarding low Brazilian stocks and dry weather in Vietnam have led to a significant rally in speculative sentiment.

Speculators are also anticipating that the market will shift into deficit in the calendar year 2020.

Over the coming months, prices will remain supported around the 134 cents-a-pound level as markets wait for the upcoming 2020-21 up-year Brazilian crop to be harvested.

However, speculative sentiment is now close to bullish extremes and momentum indicators are in overbought territory, which will restrain prices from moving significantly higher, and we believe prices won’t approach the 180 cents-a-pound level over the first half of 2020.
Prices will average 115 cents a pound in 2020, compared to 108 cents a pound in 2019, as the global market turns to a 2.5mn bag deficit in 2019-20 and then to a slight surplus in 2020-21.

We expect a moderate increase in global consumption growth between 2019 and 2023 compared with the preceding 15 years.

We forecast US consumption to grow by a sluggish average of around 1.5% annually to 27.5m bags, reflecting the market’s maturity and stable incomes for the largest consumers.

For Brazil, we have previously revised up our consumption growth forecasts somewhat and now expect average annual growth of 2.0%.

**FocusEconomics**

Coffee prices surged over the past month due to lower production estimates for next year amid ongoing supply concerns in Brazil.

Going forward, bean prices will likely be somewhat stable but remain anaemic by recent historical standards due to the supply glut.

Nevertheless, lower yield projections and strong demand from Asia should narrow the supply gap and support prices.

Our panellists expect prices to average 116 cents per pound in the fourth quarter of 2020.

**International Coffee Organization**

Global coffee output is estimated at 168.71m bags in 2019-20, 0.9% lower than last year as arabica production is estimated to decline by 4.1% to 96.22m bags while robusta grows by 3.7% to 72.5m bags.

In coffee year 2019-20, coffee consumption is estimated to increase by 1.24m bags to 169.34m bags.

This would result in a deficit of 0.63m bags in 2019-20, which puts upward pressure on prices.
However, this may be limited as more of the 2019-20 crop enters the market as well as a larger crop is anticipated from Brazil in its 2020-21 crop year commencing in April.

The current tightness in the market is not likely to last throughout the year as more of the current crop as well as ample supplies from Brazil’s on-year crop in 2020-21 reach the market.

This could limit further increases in coffee prices later in the coffee year.

**Rabobank**

Our base-case global supply-demand expectation is for a 3.2m-bag deficit in 2019-20, followed by a 2.0m-bag surplus in 2020-21.

The surplus in 2020-21 is rather small for an on-cycle in Brazil, and it is heavily dependent on many factors with a high margin of error: the weather in Brazil, the drop in mild-producing countries, and the rate of growth of demand.

We also estimate a decline of 5% in the current 2019-20 Central American crops and a 4% decline in global washed coffee production – i.e. a 2m-bag decline, to 45.3m bags.

Mild production outside Central America is not expected to drop that much, in part because we see Colombian output steady, given the amount of government support.

ICE arabica certified stocks may drop by approximately 0.7m bags in the 2019-20 coffee year, a move which usually correlates to a 17 cents-a-pound price upside.

However, the price effect may be more muted, as current certified stocks are relatively high and also because Brazil could potentially produce a record amount of semi-washed coffee next season.

Furthermore, Rabobank’s expectations of the real trading at 3.9 per $1 in three months’ time underpin our rather friendly base case of prices trading at 122 cents a pound by the end of 2020.
Can soybean futures continue in 2020 their late-year recovery?

Soybean futures looked for most of 2019 set for a third successive year of price decline in Chicago, weighed by the dent to US demand from the country’s trade dispute with China, the top importer of the oilseed.

The spread through China of African swine fever was hardly a help either, in bringing a large cut to the hog herd, and undermining the country’s demand for feed ingredients such as soymeal.

However, futures staged a recovery in December, spurred by signs that the two countries were poised to sign an interim trade deal which would, reportedly, see China buying a stack of US agricultural goods, of which soybeans were seen as likely to account for a huge proportion.

Will soybean futures maintain their recovery into 2020? Or has the benefit from a trade deal already been factored in? Will the late-2019 rally spur extra US soybean sowings and a price-negative production rebound?

**Mike McGlone, Bloomberg Intelligence senior commodity strategist**

Soybeans have more work to do - notably versus corn - for a sustainable price recovery, in our view.
If past performance and the 100-week moving average are guides, the oilseed’s trend and path of least resistance remain down.

The deep discount of the December 13 price about $9.20 a bushel, versus the halfway mark to the 2019 low and 10-year average of $11.22, nudge mean-reversion potential to the upside.

Typically highly correlated, corn and wheat should provide guidance for soybeans.

**Commerzbank**

In November, the US Department of Agriculture gave a first impression of its expectations for 2020. It envisages a 5% larger acreage being planted with soybeans in the US – roughly the amount that had originally been planned in 2019 but was or could not in fact be achieved.

This points to a higher US crop in 2020, though only in about 12 months – during which time much can happen, including at the political level.

One example is what happens next with the spread of African swine fever (ASF) in China, which plays an important role when it comes to demand for soybeans for feed in the world’s largest pork producing country.

The deficit on the soybean market and higher US exports – including to China, be it with or without an explicit agreement – lead us to expect rising soybean prices.

That said, global stocks are falling but from a record level, so there can also be no talk of any shortage. The price rise is therefore likely to be only moderate. We expect $9.50 cents per bushel by the end of 2020.

**FocusEconomics**

A potential easing of tensions related to the US-China trade war could boost demand for soybeans, especially if tariffs were to be reduced.

Our panellists expect soybean prices to increase in the coming months, likely in part on expectations of progress in US-China trade talks.

For the fourth quarter of 2020, panellists expect prices to average $9.53 per bushel. For the fourth quarter of 2021, panellists see prices averaging $9.68 per bushel.
Goldman Sachs

Without the trade war and swine fever, our pricing models suggest soybeans at $9.80 per bushel... given global production declines of 18%.

Across grains, both 2019-20 US yields and export expectations have repeatedly been cut in recent months.

Delayed plantings in spring, a cool summer and excessively wet autumn pulled USDA... soy production from 4.15bn bushels to 3.55bn bushels since May. In turn, stiff competition from South American soy... has worsened the demand outlook for 2019-20.

African swine fever will cause a structural decline in feed demand from China even with a resolution of the trade war.

Without substantial supply issues due to weather conditions, we expect soybean prices to remain range-bound for the year.

JP Morgan

Our latest balances show a decline in 2019-20 world inventories relative to our September quarterly update, for sugar, corn, soybean, palm oil and cotton.

The largest adjustment was for soybeans, down 5% quarter on quarter, led by an improvement in crush demand and reduction in US production.

Looking into 2020-21, world inventories are projected to continue tightening year on year after an extending period of price weakness has weighed on production potential.

Our 2020 Chicago soybean price forecast is largely unchanged over the quarter at $9.43 per bushel. Looking into 2021, we expect prices to trade at an average of $9.60 per bushel.

Rabobank

In our extended truce scenario, China waives US soybean tariffs for state-owned companies and makes reserve purchases to the amount of 7m-8m tonnes per quarter through 2019-20; in exchange, the US rolls back tariffs from current levels.
Chicago soybeans test $9.70 per bushel, as revived exports (+4% year on year) and domestic crushings (+1% year on year) combine with the poorest US harvest in six years to deliver a 2019-20 US balance sheet contraction of 59%, to four-year lows.

Concurrently, global soy demand expands by 2% (versus 1% last year), as China enjoys a nascent feed demand recovery from ASF (from 82.7m tonnes to 87m tonnes), and the US, South America, and EU export more animal protein.

2019-20 global production is seen down 6.3%, cutting global stocks-to-use from a record 32% to 26%.

In the coming year, Brazilian and Argentine soy farmers see their 2018-19 premium to Chicago reversed… with their largest buyer [China] largely absent.

In the US, conversely, farmers will respond to higher Chinese demand and lower stocks by increasing 2020-21 acreage to 87.5m acres (+10.8m acres year on year).

University of Illinois

The progress of trade negotiations remains the prime driver of soybean price potential.

World import projection for soybeans sits at 5.46bn bushels, up 103.6m bushels over last year. Import growth outside of China accounts for a mere 13.2m bushels of the total.

If a trade deal comes into place, the specific terms of the agreement remain crucial. A guaranteed increase in Chinese imports of US crops seems destined to impact international competitors.

Export expansion to non-Chinese markets may whither and mitigate price gains as Brazilian exporters look to move abundant projected crops.

The competition will be intense for the remaining soybean markets without a general economic expansion in the world to boost soybean demand in 2020.
Will corn futures in 2020 show a third successive year of gains?

Corn futures rode a rollercoaster in mid-2019, as historically wet US conditions hampered sowings, cutting harvest hopes.

Chicago prices soared, on a spot contract basis, from $3.36 a bushel in mid-May to $4.64 a bushel five weeks later.

However, the rally faltered after high prices deterred demand, with the 2019-20 US corn export programme off to one of its slowest starts in 30 years, while US harvest yields came in higher than farmers had feared.

Corn prices ended 2019 up just 3.4%, and this only thanks to a boost from the late-year China-US trade deal hopes.

Will the poor US export performance maintain a cloud over the market in 2020?

Or will prices get support from a China-US trade deal which, while not expected to boost corn shipments directly so much, may well spur demand for products such as ethanol and distillers’ grains (DDGs)?

Mike McGlone, Bloomberg Intelligence senior commodity strategist

Mean-reversion potential favours higher corn prices in the coming decade, in our view.
At a steep discount to its 10-year median, the grain appears in the early days of following the old axiom that low prices are the cure for low prices.

Ending the decade near the elevated apex of its bell curve of traded prices from the past 10 years – at about $3.70 a bushel - the extreme distance to get to its halfway mark of about $5.70 tilts our price bias upward.

Typically, such tightly coiled markets spring higher, particularly when they’re at or below cost of production.

The 10-year average price about $4.65, which held resistance in 2019, is set to become support.

**Commerzbank**

The decline in the US [harvest] will result in a year-on-year decrease in global production.

Although demand is likely to fall somewhat after the strong previous year – when the shortage of wheat had generated more demand for corn – the balance will probably be negative once again.

The International Grains Council envisages a deficit of 40m tonnes in 2019-20. The US Department of Agriculture, which predicts a more pronounced fall in demand, anticipates a deficit of 19m tonnes.

The corn market was already in deficit in 2017-18 and 2018-19, most recently to the tune of 22m tonnes.

A third consecutive deficit should lend support to the corn price. However, we expect only a moderate rise because, if the USDA is right, 2020-21 will see the US corn acreage expanded by 5%.

By the end of 2020 we expect a corn price of $4.10 per bushel in Chicago and of €180 per tonne in Paris.

**FocusEconomics**

Corn prices look set to rise in 2020 as end stocks are seen dropping, while demand is set to remain relatively strong.
FocusEconomics analysts see prices averaging $4.03 per bushel in the fourth quarter of 2020 and $4.10 per bushel in the fourth quarter of 2021.

**Goldman Sachs**

The US-Sino trade war and weaker growth weigh on demand for US exports.

Without the trade war and swine fever, our pricing models suggest soybeans at $9.80 per bushel and corn at $4.50 per bushel, given global production declines of 18% and 5% respectively.

Delayed plantings in spring, a cool summer and excessively wet autumn pulled USDA corn yield estimates from 176 to 167 bushels per acre, and soy production from 4.15bn bushels to 3.55bn since May.

In turn, stiff competition from South American soy and corn and Black Sea wheat has worsened the demand outlook for 2019-20.

We expect a marginal appreciation in corn prices going into 2020 as lower than initially expected supply brings down ending stocks by 1.0%.

**JP Morgan**

We maintain our bullish outlook on Chicago corn prices through 2020, with a bullish risk bias, as demand side growth is eating into stocks.

US inventory tightening, and downside production risks ahead for Brazil’s safrinha corn crop are underpriced in our view, at a time of heightened domestic feed and industrial demand growth.

On a world basis, we see global corn inventories declining by the most in over three decades during 2019-20, to about 275m tonnes, led by a contraction in the US and China, pulling the stocks-to-use ratio down to 24%.

Higher Chicago corn prices are required through 2020 to incentivise an increase in acreage and yield productivity through 2020-21, not just in the US, but on a world basis.

Looking into 2020-21, consumption growth is still projected to outstrip sizeable supply side gains – on reduced wheat feeding and persistent expansion of feed and industrial demand across China, the US and Brazil.
World corn stocks are projected to decline once again in 2020-21 to a seven-year low of about 250m tonnes, and a stocks-to-use ratio below 22%.

Our 2020 average [corn price] forecast has been nudged 1.6% higher to $4.06 per bushel.

**Rabobank**

Chicago corn will be well supported in 2019-20, amid short-term US supply tightness, but remain confined toward the high end of its historical five-year range of $3.50-4.00 per bushel, due to slowing global demand growth, and the anticipated 2020-21 global acreage and production expansion, whose focal point will be in the US.

Outside of the US and China, emerging global suppliers paint a largely unenthusiastic picture for Chicago corn. The ongoing diversification and geographic expansion of production and exports from North America to wide geographic areas in the Black Sea Region and South America is likely to result in lower – albeit more frequent – weather-related Chicago volatility.

For next year, however, ongoing localised dryness in Brazil and Argentina presents salient risks for corn plantings and – combined with potential ethanol, tax, and feed increases – will reduce export potential to the benefit of the US.

Corn trade has increasingly become a zero-sum game due to stagnant world import demand growth. Global 2019-20 corn demand will decline for the first time in seven years, as African swine fever-muted animal feed needs combine with a global (excluding US and China) feed grain production recovery that weakens corn’s price advantage from multi-year highs.

In 2020-21, global excluding China demand resumes its growth, which is satisfied by higher production in the US, Ukraine, and Brazil.

Still, corn exporter stock replenishment will remain incomplete, and lower stocks-to-use will blunt competitive sales pressure through 2020-21 and provide supply-risk support for Chicago corn toward $4.00 per bushel.
Can palm oil prices keep up their sizzling performance in 2020?

Palm oil prices staged a remarkably strong close to 2019.

Kuala Lumpur futures in the vegetable oil proved unexciting for much of the year, ending September little changed from where they began it.

However, they have soared more than 40% since then, spurred by a growing realisation that South East Asian countries will make good on longstanding efforts to boost demand for biodiesel, which is made from vegetable oils. (Ie palm oil in Indonesia and Malaysia.)

Furthermore, Chinese imports have been boosted as a knock-on effect of African swine fever (which in cutting demand for meal has depressed the domestic crush and so output of vegetable oils too).

And this at a time when South East Asian output is under pressure from factors ranging from a hangover from the previous period of low prices, which undermined fertilizer use, to consumer pressure for sustainable supplies.

Are these forces sufficient to ensure prices continue their rally in 2020?
Fitch Ratings

Malaysian benchmark crude palm oil (CPO) prices have jumped to around $700 per tonne since October after remaining below $500 per tonne for most of the year.

However, the average for 2019 of around $510 per tonne is lower than the $555 per tonne in 2018.

We assume prices will average $550 per tonne in 2020.

Strong prices could continue into early 2020, but we expect a moderation later in the year due to higher supply, driven by better weather conditions and fertiliser input.

Indonesia is targeting a 45% jump in the consumption of biodiesel made from CPO in 2020 to 9.6m kilolitres.

However, we think a sustained CPO price rise may discourage the government from pursuing its target aggressively as it will eliminate the discount to regular diesel prices.

The sharp rally in CPO prices has also reduced its attractiveness via-a-vis competing edible oils such as soyoil, which could affect demand from price-sensitive markets such as India.

FocusEconomics

Palm oil prices skyrocketed in recent weeks, as top producers Indonesia and Malaysia increased palm bio-diesel content in their domestic fuel, amid an already tight market, while surging oilseed prices—a substitute good—also supported prices.

In 2020, prices should ease but remain elevated as stronger biodiesel demand in Asia partially offsets declining consumption in Europe.

Our panel projects prices to average $640 per tonne in the fourth quarter of 2020 and $670 per tonne in the fourth quarter of 2021.
**Dorab Mistry, Godrej International**

China has turned out to be a star for palm oil in 2019 and will continue to be so in 2020.

After this winter, in 2020, China may not import palm biodiesel due to uncompetitive pricing.

However, palm imports will expand due to edible and industrial demand. Palm and sunflower oil will replace soyoil.

Low or no fertiliser application in the first half of 2019 plus dry weather... and the lower planting of new areas will combine to give us [Indonesian] production growth of just 1m tonnes.

**James Fry, LMC International**

We have seen the repercussions from the relentless pressure from NGOs to stop oil palm planting. This is on top of the normal slowdown in new plantings that occurs at times when prices are low.

These cutbacks will inevitably keep crude palm oil output growth low for the next few years and therefore help to reduce stocks and raise prices.

**JP Morgan**

Palm oil prices have led the gains across the agri commodity complex through the fourth quarter of 2019... and we see a sustained, albeit more moderate uptrend for prices over the medium term.

The counter-seasonal decline in Malaysian stocks through the fourth quarter, at a time of rapid growth in industrial demand and a decelerating production pipeline has finally caught the attention of end users, after a subdued trading range through 2019.

The recent explosion of prices to the long-anticipated inventory decline has been both more delayed, and abrupt than we had anticipated. We have long flagged the contractionary phase that global palm oil stocks entered in 2019-20, down 11% year on year to 9.3m tonnes (stocks-to-use ratio of 12%), from a peak of 17% in 2017-18.
Our 2020-21 preliminary balance points to the first production deficit in five years, drawing stocks to near 8m tonnes (stocks-to-use ratio at 10.5%). Our 2020 forecast projections have increased across the curve to an average of 2,650 ringgit a tonne for the year.

**Rabobank**

Global palm oil production in 2019-20 is forecast to increase by 2.7m tonnes, or 3.6% year on year, to 78.3m tonnes, on the back of production increases in Indonesia and Malaysia. Palm oil production in Indonesia and Malaysia in 2020, however, could still be negatively affected by the lingering effects of dry weather that occurred in South East Asia in the second and third quarters of 2019.

Meanwhile, global palm oil demand is forecast to increase by 4.1m tonnes in 2019-20, or 5.7% year on year, to 76.7m tonnes. We forecast Indonesian domestic palm oil consumption to increase by 2.3m tonnes, or 18%, to 14.9m tonnes in 2019-20. This is a result of the implementation of the B30 mandate in Indonesia in 2020.

We forecast 2020 palm oil prices to increase by 10.7% over 2019, to an average of 2,500 ringgit a tonne in the second quarter of 2020.

**VSA Capital**

With the sharp increase in CPO pricing, the traditional premium of US soyoil over Malaysian palm oil has disappeared… with CPO trading at a slight premium to soyoil for the first time since February 2011, when palm oil was at its all-time high (about $1,300 per tonne in Rotterdam).

With Malaysian CPO now trading at a premium to US soyoil for the first time in almost nine years, the economics of biodiesel approaching the $100-per-tonne premium “trouble line” and concerns over exports, there are certainly several clouds on the horizon, which may prevent further price gains.

To me, this is now a question of political will, namely will the Indonesian government continue to push the biodiesel roll-out as hard in light of changing underlying economics.

Signs so far look good with talk about increasing to B40 in 2021-22 and up to B50 after that, but I believe this is the key factor to keep an eye on for 2020 in terms of palm oil price direction.
Will Chinese demand maintain the lean hog price recovery in 2020?

Lean hog futures gained 17.1% in 2019, almost exactly recovering losses of 2018, thanks to a revival on hopes for a China-US trade deal.

With China’s own pork output slashed by the impact of African swine fever, but demand seen as resilient, the country’s imports have soared, reaching 1.73m tonnes for the first 11 months of 2019, up 58% year on year.

The November figure, at 229,707 tonnes, was up more than 150% year on year, according to Chinese customs data.

The US’s exposure to this demand is seen being enhanced by a trade agreement.

However, the country’s pork output is growing too. Which dynamic will win out in 2020?

**Chip Whalen, Commodity & Ingredient Hedging**

Months of uncertainty with escalating confrontation between the United States and China has given way to a first phase trade agreement that could lead to significant increases in pork shipments among other agricultural commodities.

It is also important to keep in mind the supply situation and its impact on price. The current projection for 2020 US pork production is 28.694bn pounds, an increase of 3.6% over [2019].

Marketing.agrimoney.com
The supply side of the market will definitely be a big influence over price in the coming year, even though the focus will obviously be on demand.

In terms of demand, the US Department of Agriculture is currently forecasting a 12.8% increase in exports for the coming year, with 804m pounds of additional pork being shipped during 2020 compared to 2019.

This forecast was also made with the assumption that existing tariffs would remain in place. Given expectations for China to remove tariffs on US pork, some estimates are now as high as a 1.5bn-pound increase in exports, and that will likely be needed if prices are going to move significantly higher in the new year.

With the price recovery we have seen over the past month in the hog market, option implied volatility has come down although it remains very high from a historical perspective.

**Goldman Sachs**

Global protein markets are experiencing a sharp fall in supply, driven by African swine fever (ASF) and drought-stricken Australian cattle.

For 2020, global pork production is projected to be down 16%, driven by China, and a still spreading ASF in Asia, and with limited growth in US and European production.

The pass through to US prices will remain conditional on export demand, which… has so far not been sufficient to offset a 6% year-on-year increase in US pork production.

US exports would likely increase after a partial first trade deal, leading to tightening US inventories and higher prices, an outcome we are positioned for with our long lean hog margin trade recommendation.

**Rabobank**

Another year of record US hog slaughter, up 3.9% year on year, is expected in 2020, driven by modest improvements in productivity and herd growth.

Low cyclical disease pressure will continue to boost yields and remain supportive to production.
Strong packer returns should continue to fuel lean hog markets, driven by record export demand and good domestic takeaway. Improved trade relations with key markets should boost exports in 2020 – leaving 5% less pork available on the US market.

The recently signed US-Japan trade agreement and expected ratification of the USMCA will help boost US export growth.

US pork shipments to China will be record-large, up 16% year on year, in 2020, as the full impact of ASF is recognized by the market.

We expect stronger prices in the first half of 2020, as Chinese orders for the lunar new year are booked and as competing protein availability declines.
Cocoa prices - what does 2020 hold?

Cocoa futures posted gains over 2019, but at nowhere near the 28% rate reported for New York futures the previous year.

Demand for the bean has proved robust, at a time when West African output has been overshadowed by an outbreak in Ghana of swollen root virus.

However, Ghana worries are now abating, while idea gain of strong output in neighbouring Cote d’Ivoire, by far the world’s top cocoa-producing country.

Investors are also grappling with the imposition by both these countries of a so-called “living income differential” levy aimed at supporting their farmers.

How do these dynamics feed through into price prospects?

**ABN Amro**

The market will remain in surplus during 2019-20, but relative to demand this is very low.

Demand in Asia will increase.

This means prices will edge slightly higher going forward.

**Commerzbank**

The cocoa price in New York has... fallen from over $2,500 to under $2,200 per tonne, before recovering just as quickly when the record harvest of over 2.2m...
tonnes in Ivory Coast dwindled into the background due to reports from Ghana of massive disease infestation by the swollen root virus.

In fact, the International Cocoa Organisation ICCO then halved its estimate of the surplus for the 2018-19 season, which ended in September... to a low 18,000 tonnes despite record global production.

[It] finally turned the balance in its latest quarterly report at the end of November into a small deficit of 21,000 tonnes, after a roughly balanced market in the previous year.

Most recently, it was above all the high demand from the Asian region, reported by major trading houses and still forecast, that gave the price a further boost.

FocusEconomics

Prices picked up over the previous month, as cumulative bean arrivals at Ivorian ports in early November indicated healthy demand conditions, while diseased crops in Ghana continued to raise supply concerns.

Looking ahead, prices are expected to moderate, due to strong production in Cote d’Ivoire and abating supply concerns in Ghana.

Volatile weather conditions remain a key upside risk to prices.

Our panellists expect prices to average $2,442 per tonne in the fourth quarter of 2020 and $2,395 per tonne in the fourth quarter of 2021.

Goldman Sachs

The cocoa forward curve has entered a steep backwardation as physical supply has tightened markedly before the West African cocoa harvest in December-January.

Favourable weather conditions in Ghana and Cote d’Ivoire point to increased yields for the 2019-20 crop, leaving us forecasting lower prices into next year.

Sunny Verghese, chief executive, Olam International

We still maintain our outlook that cocoa prices will trade in the $2,100-2,700 range with potentially biased towards the upper limit of this range.
Despite a very strong record production in 2018-19 crop of 4.9m tonnes globally with a very, very strong production in Cote d’Ivoire, The market was still roughly in balance for that crop year.

We, based on our current estimates, expect a deficit of about 80,000 tonnes for the 2019-20 crop. In that, the projections we are assuming ggrinds will grow at about 3%.

The other key highlight is that because of the introduction of the living income differential by both the Cote d’Ivoire government and the Ghanaian government, which is quite substantial at $400 per tonne.

Differentials have remained very strong. And with many customers now entering into contracts, factoring in this living income differential… we expect differentials to remain strong going forward into the coming 2021 season as well in addition to what’s happening in 2019-20.

Rabobank

Rainfall has been unseasonably good, with a higher-than-usual intercontinental front bringing good rainfall to West Africa.

This should provide good moisture levels, sufficient to sustain crops through the dry season and during the arrival of the Harmattan winds.

Global demand is forecast to show continued growth in 2020, although at a slower pace than 2019.

Prices should remain supported until the second quarter of 2020, on strong demand, and then decline slightly, on the back of good production prospects.

2019-20 certified stocks are expected to continue to decline, with weaker sales in Ghana and Côte d’Ivoire, as buyers take existing stocks to avoid the Living Income Differential.

Demand for quality cocoa outside of Ghana and Côte d’Ivoire should intensify, helping to provide support for futures prices and other origin differentials.

A continuation of good global weather should help boost production in 2020-21.
Will cotton futures extend their recovery into 2020?

Cotton futures had a tricky 2019.

Overshadowed by the trade dispute between the US (the world’s top cotton exporter) and China (a major exporter), prices underperformed for most of the year, standing 17% lower for 2019 as of the end of September.

However, futures pared those losses to 4.4%, on a spot contract basis, at the close of the year as hopes for a phase one China-US trade deal revived.

Furthermore, expectations for the US cotton harvest have declined, from 22.52m bales in August, as estimated by the US Department of Agriculture, to 20.21m bales as of December.

Will these dynamics be enough to keep the price recovery going into 2020?

Commerzbank

The scope for any further price recovery from this side is now limited, especially as the additional upside potential is also likely to be limited in view of the rising stocks outside China.

The 2020-21 season is now already being discussed - in preparing its new 10-year long-term forecast, the USDA is assuming that this season will see the US cotton acreage decrease by 12.8% given that the price is still well below the level at which planting decisions were taken this year and sowing was finished by the end of June.
As far as global demand is concerned, the International Cotton Advisory Committee is sceptical, mainly because of the downward corrections of the growth expectations for Asia.

We envisage a cotton price of 72 US cents per pound by the end of 2020.

**FocusEconomics**

Moving to 2020, prices will likely increase slightly from current levels due to healthy demand in China.

That said, subdued global growth, partly due to trade protectionism, and ample U.S. supply pose downside risks to prices.

Our panellists project prices to average 70.1 cents per pound in the fourth quarter of 2020 and 70.0 cents per pound in the fourth quarter of 2021.

**Goldman Sachs**

While global cotton stocks are projected up year on year (plus 3m bales to 83.7m), this has been driven by demand disappointments outstripping lower supply.

With our economists projecting a cyclical uptick in 2020, we expect a rebound in demand and higher cotton prices.

**Ron Lee, McCleskey Cotton**

Looking to 2020, the December futures contract is very impressively pushing toward 71.00 cents a pound.

Even so, all articles and estimates seem to imply that US cotton acreage will decrease in 2020. I agree with that, as I don’t have to tell you that 71.00 cents a pound isn’t what 71.00 cents a pound used to be.

While cotton could certainly tag along, if the Chinese follow through with their agreement to aggressively increase their purchases of US farm products, they will look to feed their people first.

Therefore, we would expect corn and soybean prices to lead the way if that demand does in fact surface.
Ever since we first started filing this report almost 15 years ago, we have said that corn is the commodity that drives the train for agricultural commodities.

A rising corn price lifts all other proverbial boats. So I am optimistic about row crop prices in 2020, cautiously optimistic, but optimistic nonetheless.

**JP Morgan**

From the current multi year lows, we continue to see ICE #2 cotton price risk skewed to the upside, as stocks-to-use on a world basis and in China remains in a long-term declining trend, at 47% and 83% respectively in 2019-20.

On a shorter-term basis however, sluggish global growth and a continued contraction in the manufacturing sector present headwinds for cotton demand.

The primary upside risk factors for ICE #2 cotton prices stem from an improvement in US-China trade relations, and specifically the prospect of a Phase One trade deal being signed.

The potential deal is anticipated to have significant implications for US cotton exports to China, at least doubling pre-trade war volumes over the lifetime of the deal.

However, the more immediate price impact would be felt via an improvement in macro sentiment and growth potential, which would transpire into heightened investor risk appetite.

We have… lifted the 2020 [price] forecast strip by 1 cent a pound to 65 cents a pound in the fourth quarter of 2020, mostly to account for recent production losses in the US and Australia.

**Plexus Cotton**

The market seems to have more bullish arguments at the moment and keeps pushing higher.

After flip-flopping for several weeks, speculators seem to be finally transitioning back to a net long position, after the long-term downtrend on the weekly chart has been broken and March has moved above all of its moving averages up to the 200-day.
However, upside potential seems to be limited from a supply/demand point of view, since there is no shortage of cotton.

But... speculators certainly have the power to move cotton futures beyond their perceived ‘fair value’ and we therefore can’t rule out a move into the low 70s [cents a pound] over the coming weeks.

**Rabobank**

ICE #2 cotton is forecast to trade higher in late 2020, after touching three-year lows in late 2019.

Rabobank anticipates prices to reach 67 cents a pound by the second quarter of 2020, rising to 72 cents a pound by the fourth quarter of 2020.

The near-term availability of 2019-20 US stocks – forecast to reach 7.8m bales this season – is expected to cap ICE #2 upside through the first half of 2020.

With US grower margins under pressure, Rabobank anticipates US 2020-21 area to fall 0.7m acres YOY, to 12.8m acres – driving US production just below 20m bales.

With an estimated 16.5m bales of US exports next season, ending stocks will rise just 2% year on year. This assumes improved US-China cotton trade flows in the second half of 2020.

Chinese imports are set to improve both this season and next, despite an expected GDP growth slowdown, reaching 12m bales (+15% year on year) in 2020-21.

Chinese import demand will drive ICE #2 strength through the second half of 2020.
What is Agrimoney?

We know that you can’t afford to miss out on critical market-moving news and analysis. Agrimoney is a subscription service giving you the news, analysis and commentary you need on the commodities and agribusiness sector.

How can Agrimoney help you?

Our analysts are independent and steeped in years of industry knowledge, with an enviable list of contacts, an innate understanding of the sector and a global view, giving you 3 key ways to impact your business:

1. **Make the best decisions for your business**

   The impacts of key developments can make or break, and so it’s vital that you have the tools you need to quickly make the best decisions, or to verify your own research for your business, to their make the most of, or to minimise the effect of market factors.

2. **Trade more intelligently**

   Choose where and when to trade across the commodities market, through using our unbiased and independent reporting, distilling what’s happening, to give you independent analysis of what’s happening in this global sector.

3. **Give yourself the edge**

   React quickly to the ever-changing conditions throughout the industry, as they happen, with the the fastest, most accurate and unbiased source of news, pricing analysis and opinion, delving beyond the hype to find out what really matters.

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