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Global Commodities

ICE Softs Outlook: Weather Risks Intensify Across Softs, with Sugar Remaining Our Highest-Conviction Bullish View

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CITI'S TAKE

Weather risks are becoming increasingly important across the ICE softs complex, but market outcomes remain highly differentiated by inventory levels and balance sheet dynamics (see Figures 3-6). For sugar, tightening inventories, India's unexpected import program, and deteriorating weather across India, Thailand and the EU reinforce our bullish view as global balances continue to tighten. In cocoa, weather risks are also rising across West Africa, Indonesia and Ecuador, but recovering inventories and subdued grindings provide a meaningful buffer against moderate supply disruptions. We shift to more neutral-bearish on Arabica coffee as El Niño-related risks are emerging across key robusta-producing regions and inventories remain historically low, stronger Brazilian exports and improving global supply prospects should gradually ease market tightness. Overall, we continue to see the greatest upside risk in sugar.

We remain bullish on sugar and raise our price targets to $0.19/lb in 3 months and $0.22/lb in 12 months. Supply risks continue to build across several key producing regions, while India's decision to authorize 1mmt of duty-free raw sugar imports underscores our view that domestic inventories are substantially tighter than officially reported. Below-normal rainfall across Maharashtra, Karnataka and Marathwada raises downside risks to 2026/27 production, while sharply lower ethanol diversion highlights the severity of the underlying supply shortfall. Beyond India, adverse weather is increasing production risks in both Thailand and the EU, further reducing global supply flexibility and reinforcing a constructive outlook for sugar prices. Brazil remains the market's key balancing supplier, but weather-related execution risks during the remainder of the harvest leave little margin for error.

We remain neutral on cocoa, maintaining our price targets of $5,000/t in 3 months and $6,000/t in 12 months. Weather remains the primary source of upside risk for prices, with rainfall in Ivory Coast materially below seasonal norms during the August mini-dry season, raising concerns over pod survival and main-crop development should rains fail to return in September. At the same time, El Niño-related dryness in Indonesia and excessive rainfall in Ecuador increase the risk of lower production and higher disease pressure across key producing regions. However, recovering inventories and still-subdued grindings, particularly in Europe, provide an important counterbalance to weather-related supply risks.

We have shifted to a neutral-bearish view on coffee and expect Arabica prices to reach $3.00/lb in 3 months and $2.75/lb in 12 months. Brazilian harvest progress has advanced rapidly, exports are strengthening, and Cecafe's recent revision revealed that export flows are considerably stronger than previously reported, supporting our expectation that supply availability will improve in coming months. However, the recent rally in coffee prices and continued drawdown in inventories suggest consumption may be more resilient than previously assumed.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

Super El Niño and Geopolitical Supply Risks Reinforce Our Bullish Ags View and Raise Food Inflation Risks

A strengthening Super El Niño remains our highest-conviction agricultural risk heading into late 2026 and early 2027. NOAA now assigns a greater than 90% probability of a very strong event and a 69% probability that the event exceeds the strength of all El Niño episodes since 1950 during October-December (NOAA, August 2026 update). Based on our new Production-at-Risk (PAR) framework, current market pricing appears to reflect only a portion of the potential downside risks to global agricultural production. The largest weather-exposed commodities remain palm oil, robusta coffee, rice, sugar, cocoa, and Australian wheat, while risks are concentrated geographically across Australia, India, Southeast Asia, and parts of Brazil. Importantly, production revisions since March 2026 remain significantly smaller than our estimated production-at-risk metrics, suggesting additional downside risks to global supply estimates if El Niño continues to strengthen. While Argentina is likely to benefit from improved rainfall, we believe risks to global agricultural production remain skewed to the upside for prices.

Figure 1. Food prices are rising, with traded agricultural prices up ytd



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Source: Citi Research, Bloomberg

Figure 2. Agricultural production at-risk on the back of strong El Niño

Commodity	Revision Since Mar-26*	Revision Since Jul-26**	Global Production at-Risk***	Risk Level
Palm Oil	▼ -2.5%	▼ -0.8%	-5% to -8%	Very High
Rice	▼ -1.5%	▼ -0.3%	-2% to -4%	Very High
Robusta Coffee	▼ -4.0%	▼ -1.5%	-3% to -6%	Very High
Arabica Coffee	▼ -1.5%	▼ -0.4%	-1% to -3%	High
Sugar	▼ -2.0%	▼ -0.7%	-2% to -5%	Very High
Cocoa	▼ -1.0%	▼ -0.2%	-1% to -4%	High
Wheat	▼ -1.2%	▼ -0.1%	-1% to -3%	High
Cotton	▼ -1.0%	▼ -0.2%	-1% to -3%	High
Corn	▼ -0.5%	0	-0.5% to -2.0%	Medium
Canola	▼ -0.4%	0	-0.5% to -2.0%	Medium
Soybeans	▲ +0.3%	▲ +0.1%	-1% to +2%	Neutral/Mixed
Barley	▼ -0.8%	▼ -0.1%	-1% to -2%	Medium

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* Development of El Niño was first announced in March. Revisions in global production are compared versus previous estimates by official agencies

** Revisions since last month

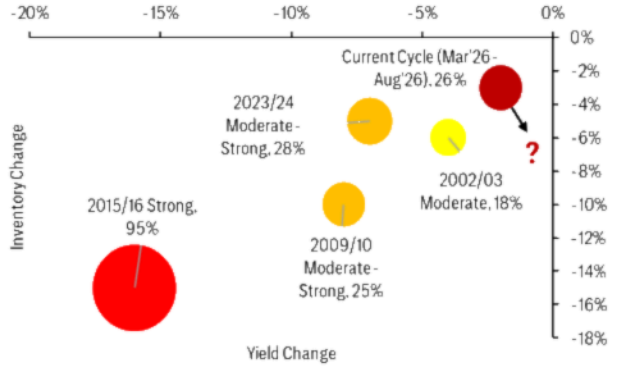
*** Global Production-at-Risk is the sum of (Country Production Share × Yield Beta to ENSO × ENSO Probability × Stage Sensitivity × Crop Calendar Severity). Estimations are based on historical moderate to strong El Nino episodes.

Source: Citi Research, USDA, NOAA, ICO, ISO, ICCO, Expana

The historical evidence suggests that inventory conditions, rather than yield losses alone, have been the primary determinant of price performance during El Niño episodes. We extend our Production at-risk framework presented in the Global Commodities - Super El Niño and Geopolitical Supply Risks Reinforce Our Bullish Ags View and Raise Food Inflation Risks below in Figures 3-6. While sugar and robusta coffee have consistently exhibited the greatest production sensitivity to El Niño-related weather disruptions, the largest rallies have occurred when adverse weather coincided with already depleted inventories. Cocoa's exceptional 2023/24 rally illustrates this dynamic clearly, as severe West African

crop losses were amplified by a roughly 30% collapse in inventories, triggering an unprecedented price response. **Looking at the current cycle, sugar and robusta coffee appear most vulnerable, combining elevated weather exposure with relatively thin inventory cushions, while cocoa enters this El Niño event with a more comfortable stock position than in 2023/24.** Overall, history suggests that investors should focus less on headline weather forecasts and more on whether inventory buffers are sufficient to absorb potential production shortfalls, as this has proven to be the key driver of price volatility across the soft commodities complex.

Figure 3. Current El Niño Cycle vs Historical Episodes: Sugar is exposed the most to El Niño while yields and inventories are yet to decline*, **



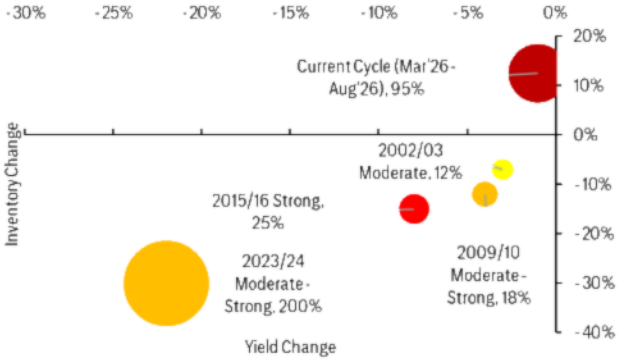
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*Size of the bubble represents the previous price performance of each commodity

** Inventory, yield and price changes are estimated for the period between the moment El Niño officially announced start and end date

Source: Citi Research, Expana, Bloomberg

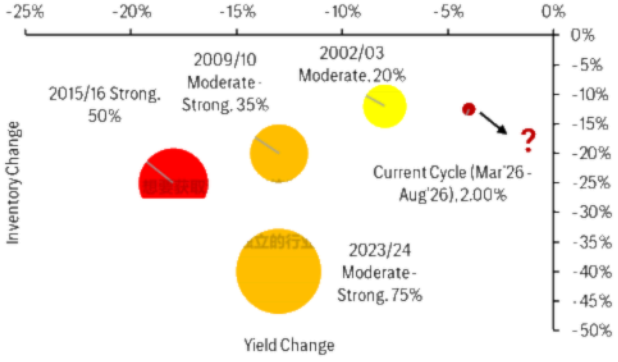
Figure 4. Current El Niño Cycle vs Historical Episodes: Cocoa inventory levels have been improving, while price appreciated significantly



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Source: Citi Research, Expana, Bloomberg

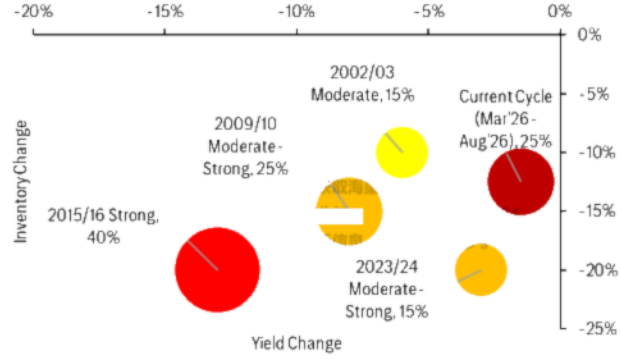
Figure 5. Current El Niño Cycle vs Historical Episodes: Robusta coffee could represent a good opportunity as prices have not appreciated yet



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Source: Citi Research, Expana, Bloomberg

Figure 6. Current El Niño Cycle vs Historical Episodes: Arabica coffee – inventory are extremely low, while production is set to improve on the back of higher prices



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Source: Citi Research, Expana, Bloomberg

Sugar rally has further to run, albeit some consolidation near-term

We remain tactically bullish on sugar and revise our price target to $0.19/lb (+4% vs spot) as previous target of $0.17/lb was breached for 3 months. In 12 months, we now expect prices to reach $0.22/lb (+21% vs spot). We closed our long call spread idea for 58% profit, while price continued to rise.

Figure 7. Citi Research ICE sugar price forecasts

ICE Sugar	0-3M	6-12M	1Q2026E	2Q2026E	3Q2026E	4Q2026E	1Q2027E	2Q2027E	3Q2027E	4Q2027E	2025E	2026E	2027E
USd/lb	19.0	22.0	14.7	14.3	16.0	19.0	20.0	20.0	22.0	21.0	17.0	16.0	20.8
Changes from last report													
USd/lb	2.0	3.0			-1.0	0.0	1.0	2.0	4.0	4.0	0.0	-0.3	2.8

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Source: Citi Research

Figure 8. Global sugar supply/demand balances

(mttq, Oct/Sep)

Production - Key Players	2023/24	2024/25	2025/26e	2026/27e	Change 24/25-25/26	Change 25/26-26/27
CS Brazil	41.8	40.2	40.5	39.5	0.3	(1.0)
India	31.6	26.2	30.0	30.5	3.8	0.5
EU	14.9	15.8	15.0	14.0	(0.8)	(1.0)
China	9.9	11.1	11.1	11.1	0.0	0.0
Thailand	8.6	10.0	11.0	10.5	1.0	(0.5)
Russia	6.8	6.3	6.4	6.5	0.1	0.1
USA	7.5	7.8	7.8	7.6	0.0	(0.2)
Mexico	4.6	4.7	5.0	5.2	0.3	0.2
Australia	4.1	4.0	3.9	4.0	(0.1)	0.1
Pakistan	6.8	5.8	6.2	6.3	0.4	0.1
Others	41.4	44.1	44.0	43.5	(0.1)	(0.5)
Global Production	**177.6**	**176.0**	**180.9**	**178.7**	**4.9**	**(2.2)**
Global Consumption	**177.1**	**179.0**	**180.0**	**180.0**	**1.0**	**0.0**
World Surplus/(Deficit)	**0.5**	**(3.0)**	**0.9**	**(1.3)**		

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Source: Citi Research, TRX/Expana, GreenPool, ISMA, UNICA, USDA

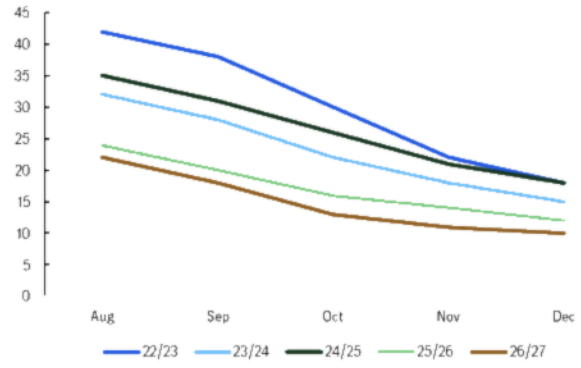
India's approval of 1mmt of duty-free raw sugar imports is a clear admission that domestic sugar supplies are far tighter than official stock estimates suggest. After exhausting nearly every policy lever to contain soaring sugar prices, the government has finally turned to imports, underscoring concerns over critically low inter-harvest inventories. More importantly, raws that would have otherwise been refined and re-exported are now likely to be redirected into the domestic market, reducing India's export availability and tightening regional sugar trade flows at a time when global supplies are already becoming less comfortable.

A strengthening El Niño, below-normal rainfall across Karnataka, Marathwada and parts of Maharashtra, and forecasts for continued dryness through September threaten cane yields in regions accounting for nearly one-third of India's sugar output. Reservoirs may cushion the impact, but they cannot fully offset prolonged moisture stress during a critical stage of crop development. As a

result, we see a growing risk that current production estimates near 30.5mmt ultimately prove too optimistic.

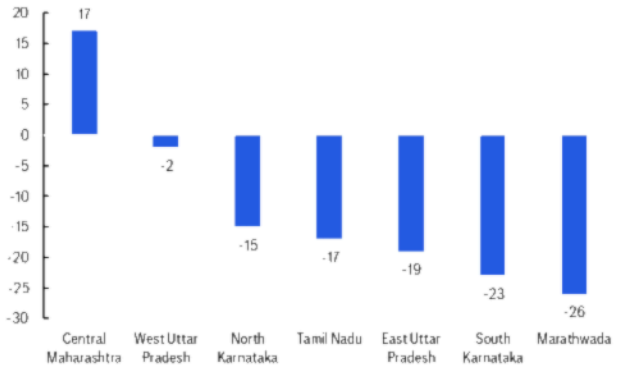
At the same time, India is aggressively curbing sugar diversion to ethanol, with sugar-equivalent use expected to fall to roughly 0.8mmt, down sharply from prior years, as policymakers prioritize food sugar supplies. However, the need to simultaneously slash ethanol use and authorize imports highlights the severity of the underlying supply shortfall. Should monsoon performance deteriorate further, India could face a materially tighter sugar balance than currently anticipated, reinforcing a bullish outlook for global sugar prices and a bearish outlook for Indian sugar production.

Figure 9. Implied India's stocks-to-use (%) ratio is projected to be at the lowest level



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Source: Citi Research, Expana

Figure 10. Cumulative Monsoon Rainfall (June-August'26) Remains Below Normal Across Key Sugar-Producing Regions

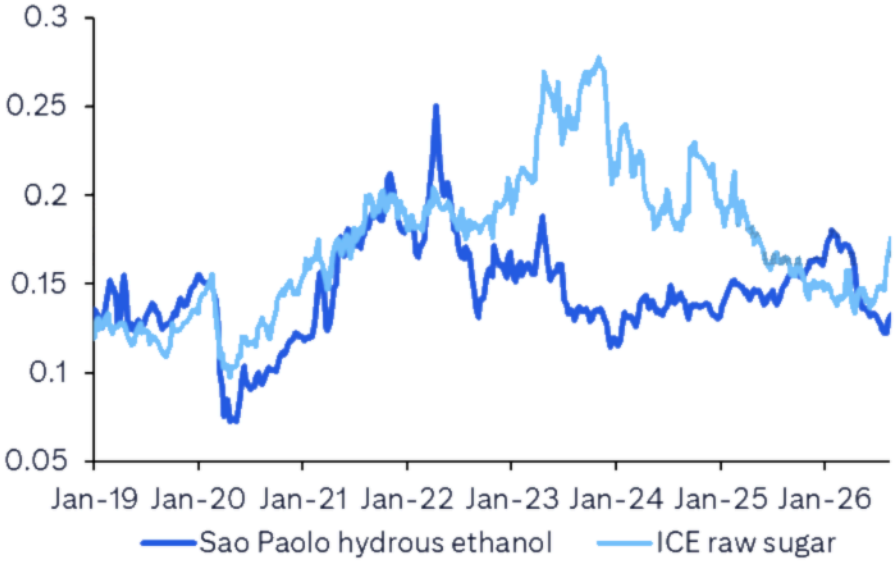


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Source: Citi Research, Expana

Brazil remains the market's key balancing supplier, but risks are increasingly shifting from price incentives to execution. The sharp rally in global sugar prices and a weaker BRL have pushed sugar returns well above ethanol parity, encouraging mills to maximize sugar production and exports. Frequent rains have slowed shipments and harvest progress, and any additional precipitation during the peak August-October period could further disrupt cane crushing, limit sugar recovery, and delay exports.

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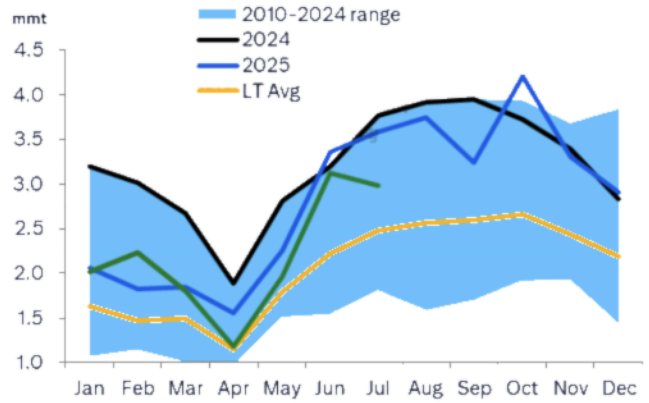
Figure 11. Sao Paolo hydrous ethanol vs ICE sugar prices ($/lb, in sugar equivalent terms)



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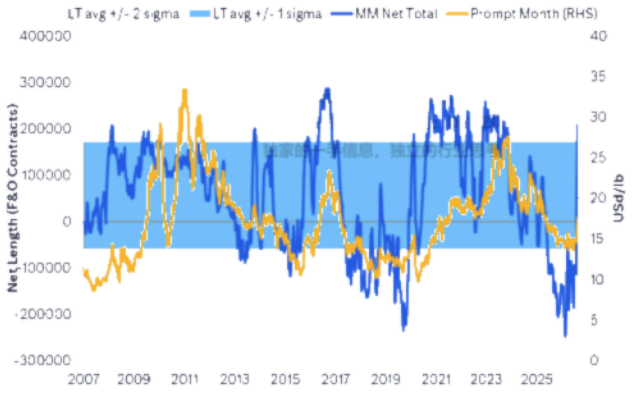
Weather risks are increasingly reinforcing the bullish sugar narrative outside Brazil. In Thailand, below-normal rainfall and weaker cane development have raised downside risks to 2026/27 yields and production. The EU faces an even more pronounced supply challenge, with hot and dry conditions, reduced beet area, and stronger-than-expected domestic consumption driving substantial production downgrades and a sharp increase in import requirements. As a result, the EU is shifting from a source of exportable surplus to a larger importer, effectively removing more than 1mmt from global trade flows. Together, deteriorating weather conditions across Thailand and the EU are reducing global supply flexibility and increasing the market's reliance on Brazil to offset tightening balances elsewhere.

Figure 12. Brazil Monthly Sugar Exports have been strong so far, but could weaken



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Source: Citi Research, Bloomberg

Figure 13. Money manager net length +/- 1&2 sigmas vs. prompt (rhs)



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Source: Citi Research, Bloomberg

Neutral on cocoa prices in the near term, while bullish catalyst could persist

Cocoa prices reached our targets of $5k in 3 months and $6k/t (-2% vs spot) in 12 months. We shift neutral and keep our current price forecast unchanged, as we think prices retraced quicker than we expected. While we still think that prices will stay elevated for some time, we still would need to see more evidence on El Niño impacts on crop yields and stronger grindings data as we expect it. We had a profitable trade in cocoa with 161% profit level, and will be on the sidelines for now.

Figure 14. Citi ICE cocoa price forecasts

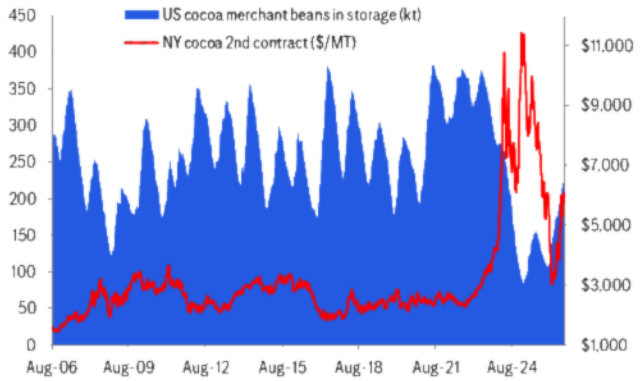
ICE Cocoa	0-3M	6-12M	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2025	2026E	2027E
USD/MT	5,000	6,000	4,500	3,860	5,700	5,500	6,000	6,000	6,000	6,000	8,182	4,890	6,000
Changes since last forecast													
USD/MT	-	-	-	(140)	1,200	500					-	390	-

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Source: Citi Research

Weather remains the primary source of upside risk for cocoa prices because several key producing regions are simultaneously facing weather patterns that could reduce yields and tighten supply. In Ivory Coast, rainfall during the August mini-dry season has been significantly below normal, with only 19mm received versus a long-term average of roughly 50mm. While current crop conditions do not yet warrant major production downgrades, a failure of seasonal rains to return in September could impair pod survival, delay pod setting, and ultimately reduce main-crop yields. At the same time, dry conditions in Indonesia associated with the developing El Niño are increasing the risk of lower production in 2026/27, while excessively wet conditions in Ecuador could boost disease pressure later this year through black pod and frosty pod rot outbreaks. Taken together, these weather developments point to a growing risk that current production forecasts prove too optimistic, particularly if El Niño strengthens further into Q4.

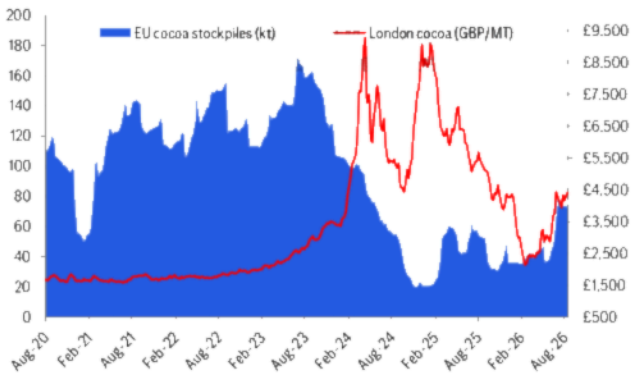
A key balancing factor against the increasingly challenging weather outlook is that the cocoa market is no longer facing the acute supply deficit conditions seen in 2023/24. Global grindings remain subdued, running approximately 7% lower y/y, primarily due to continued weakness in Europe, while visible inventories in consuming countries have recovered meaningfully from the lows reached in mid-2024.

Figure 15. NY Inventories



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Source: Citi Research, Bloomberg

Figure 16. London Inventories



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Source: Citi Research, Bloomberg

Figure 17. World cocoa S/D balances

Production (in mmt)	23/24	24/25	25/26	26/27	Change 23/24 - 24/25	Change 24/25- 25/26	Change 25/26- 26/27
Ivory Coast	1.674	1.695	1.853	1.850	0.021	0.158	(0.003)
Ghana	0.475	0.630	0.580	0.550	0.155	(0.050)	(0.030)
Ecuador	0.427	0.554	0.615	0.600	0.127	0.061	(0.015)
Nigeria	0.318	0.357	0.350	0.360	0.039	(0.007)	0.010
Cameroon	0.316	0.310	0.240	0.250	(0.006)	(0.070)	0.010
Indonesia	0.207	0.192	0.190	0.200	(0.015)	(0.002)	0.010
Brazil	0.198	0.196	0.240	0.220	(0.002)	0.044	(0.020)
Peru	0.177	0.191	0.187	0.195	0.014	(0.004)	0.008
Rest of World	0.622	0.698	0.628	0.617	0.076	(0.070)	(0.011)
Global Production	**4.414**	**4.823**	**4.883**	**4.842**	**0.409**	**0.060**	**-0.041**
Global Grindings	**4.867**	**4.732**	**4.723**	**4.850**	**(0.135)**	**(0.009)**	**0.127**
World Surplus/(Deficit)	**(0.497)**	**0.043**	**0.111**	**(0.056)**			

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Source: Citi Research, ICCO, Industry Reports

Declining coffee inventories are concerning, especially during El Niño year; we shift to neutral-bearish outlook

Figure 18. Coffee price targets

ICE Coffee	0-3M	6-12M	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	Q1 2027E	Q2 2027E	Q3 2027E	Q4 2027E	2025E	2026E	2027E
USd/lb	300	275	317	283	325	300	275	250	225	200	371	306	238
Changes since last forecast													
USd/lb	50	50	-	-	25	25	25	25	-	-	-	13	13

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Source: Citi Research

Coffee prices have bounced sharply on the back of short covering, El Niño fears, port and export disruptions in Colombia, and concerns that excessive rainfall in Brazil could negatively affect cherry quality and reduce the availability of higher-grade supply. Coffee inventories continue to decline rapidly, suggesting that global consumption may be significantly underestimated. Our broader outlook remains bearish, while we revise up our 3-month price target to $3/lb (-12% vs spot) and $2.75/lb in 12 months (-19% vs spot). We continue to expect downside pressure on Arabica prices as Brazilian exports are likely to increase meaningfully beginning in September, helping to rebuild depleted inventories and ease supply tightness.

Certified arabica stocks remain near multi-year lows, physical availability in key consuming regions is still tight, and the market continues to exhibit signs of nearby supply constraints despite expectations of improving production. At the same time, Cecafe's recent upward revision to export registrations, following the correction of certificate-of-origin reporting issues, revealed that Brazilian exports

are substantially stronger than previously thought, with August shipments now tracking near record levels. This reinforces our view that coffee availability is improving and that a significant portion of the perceived tightness stemmed from delayed reporting and producer retention rather than a structural shortage of supply.

Figure 19. Coffee Supply and Demand Balances

(in mn 60 kg bags)

Production - Key Players	2022/23	2023/24	2024/25	2025/26E	2026/27E	24/25 - 25/26 Change	25/26 - 26/27 Change
Brazil	63.2	68.2	68.0	71.0	72.0	3.00	1.00
Colombia	10.9	12.6	14.4	12.7	14.0	(1.70)	1.30
Vietnam	28.9	27.7	28.6	32.0	31.0	3.40	(1.00)
Indonesia	11.6	9.1	13.3	13.6	13.0	0.30	(0.60)
Ethiopia	6.9	8.0	9.8	9.6	9.4	(0.20)	(0.20)
India	3.2	6.6	6.4	7.0	7.0	0.64	-
Honduras	5.5	5.3	5.3	5.5	5.3	0.20	(0.20)
Uganda	5.8	6.5	7.5	8.6	8.5	1.10	(0.10)
Mexico	3.5	3.9	4.2	3.9	4.0	(0.30)	0.10
Others	26.5	25.6	23.8	26.0	25.0	2.20	(1.00)
Global Production	**165.8**	**173.3**	**181.3**	**189.9**	**189.2**	**8.6**	**-0.7**
Global Consumption	**172.2**	**172.6**	**177.4**	**179.3**	**181.0**	**1.9**	**1.7**
World Surplus/(Deficit)	**-6.4**	**0.6**	**3.9**	**10.6**	**8.2**		

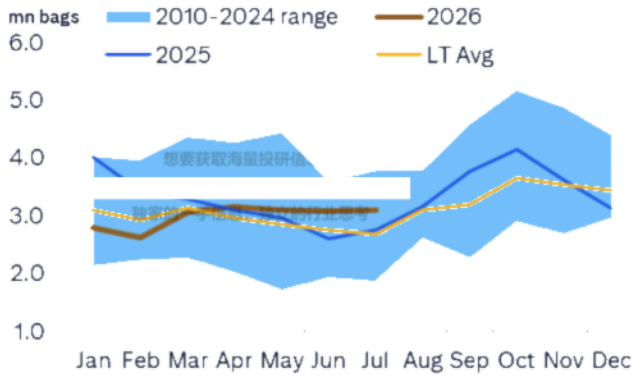
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Source: Citi Research

Brazil's harvest is progressing well, with the arabica harvest approximately 85% complete and the conillon harvest essentially finished, reducing concerns that earlier harvest delays will materially affect export availability. Weather conditions across key producing regions have remained predominantly dry, supporting harvest operations, although forecasts call for rains early September. Importantly, these rains are generally viewed as beneficial, as they should support flowering and moisture conditions for the 2027/28 crop while causing only limited disruption to ongoing harvesting activities.

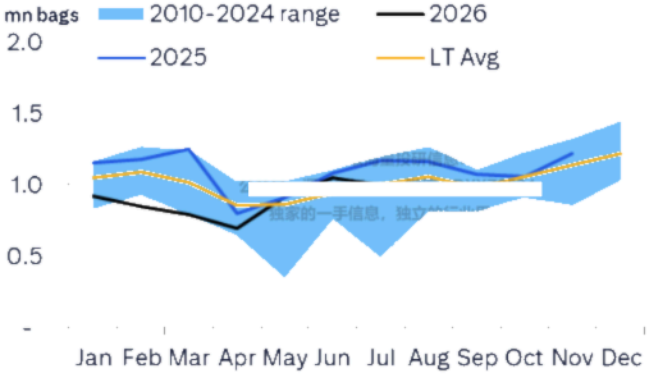
Outside Brazil, weather conditions are becoming more mixed and increasingly important for the medium-term outlook. In Indonesia, dry conditions during a critical flowering window are emerging as a key risk, with minimal rainfall so far in August and little precipitation in near-term forecasts. If September rains fail to materialize, flowering and cherry set could be negatively affected, creating downside risks for the 2027/28 robusta crop. In Vietnam, rainfall has recently improved, but cumulative precipitation remains below normal in several key growing regions, leaving yields vulnerable should the wet season end prematurely. Meanwhile, Colombia continues to experience drier-than-normal conditions, although recent showers have helped stabilize soil moisture and support cherry development.

Figure 20. Brazil coffee exports higher y/y and starting to pick up



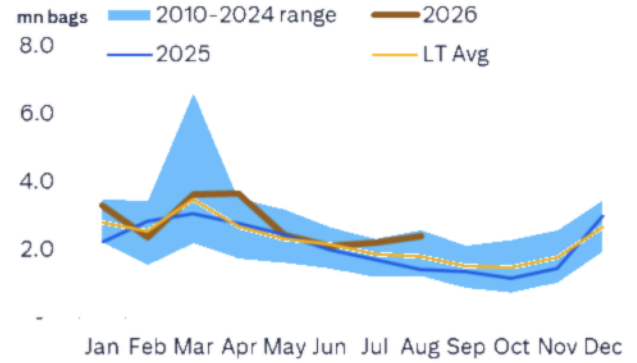
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Source: Citi Research, Bloomberg

Figure 21. Colombia coffee exports



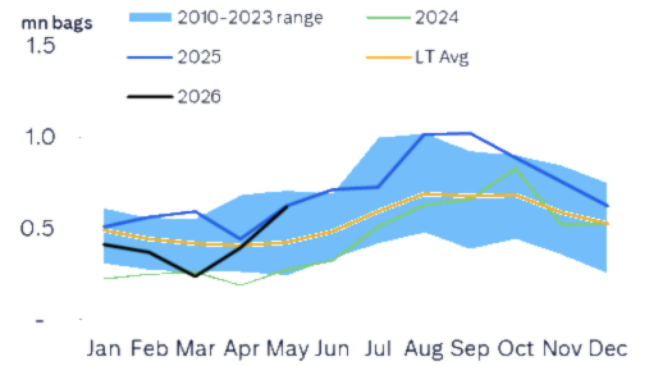
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Figure 22. Vietnam coffee exports have been weakening recently



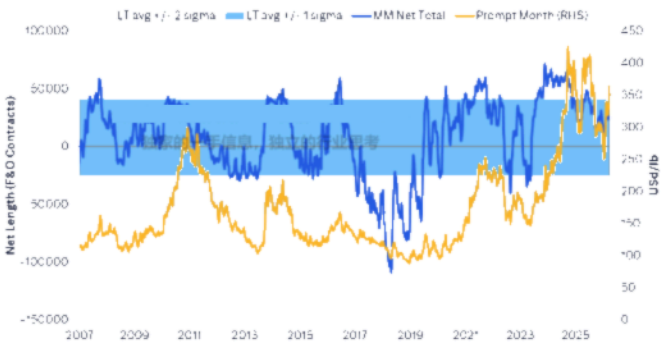
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Figure 23. Indonesia exports have rebounded, but with El Niño could collapse



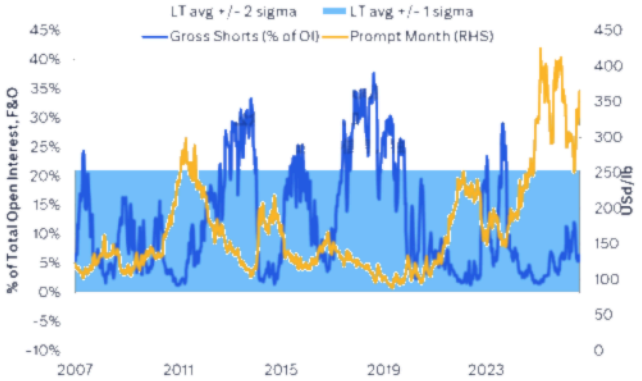
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Figure 24. Coffee money manager net length +/- 1&2 sigmas vs. prompt (rhs)



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Figure 25. Coffee money manager gross short as % total OI +/- 1&2 sigmas vs. prompt (rhs)



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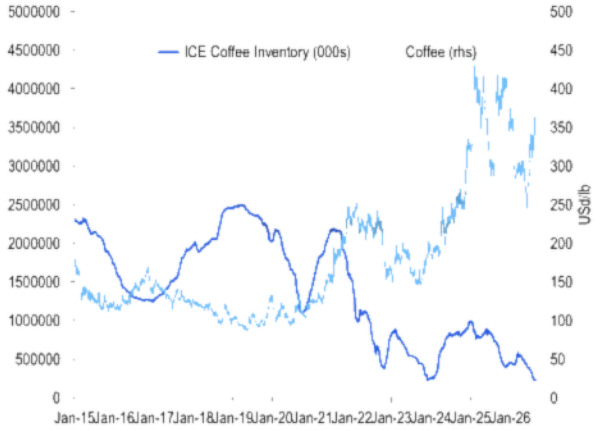
Figure 26. Arabica-Robusta spread could fall further below $1/lb in the next 3 months



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Source: Citi Research, Bloomberg

Figure 27. Ice Coffee Inventory



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Source: Citi Research, ICE