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FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 26, No. 3 April 22, 2024

Corn: lower U.S. acreage but no bull yet

Supply

The March 28 USDA planting intentions report showed prospective corn area at 90.036 million acres, a sharp dive from last year's 94.6 million acres. That was well below the average guesstimate of 91.776 million acres and at the low end of the range of 90 to 93.472 million acres.

While it was definitely a surprise, it is a bit premature to get too excited about the bull side. If last year is any indication, early forecasts can turn out to be absolutely meaningless. The March 2023 intentions report showed 90.88 million acres were to be planted, but the USDA kept revising the figure throughout the season until we ended up with 94.6 million acres! In terms of expecting more acres, however, the comparison is flawed because last year, prices were materially higher right through to the end of the planting window (Chart 1).

The global supply front is mixed. Among major exporters, Argentina is expected to bounce back from a disastrous 2022-23 crop, which saw production fall from 49.5 million tonnes to 36 million tonnes. The USDA puts Argentinean output at 56 million tonnes, although recent local estimates have been slipping.

Brazil grew a record crop of 137 million tonnes in 2022-23 and posed stiff competition for US farmers. Weather for this year's crop has not been as kind. The most recent USDA estimate in the March crop report was 124 million tonnes. More recent estimates, however, have been as low 119.1 million tonnes.

In March, the USDA lowered its estimate for 2023-24 Ukraine output by 500,000 tonnes, to 29.5 million tonnes. That compares with 42 million tonnes in the pre-war era. To quote well-regarded grain analyst Bill Gary (*Price Perceptions*, March 28): "… one of the top four corn producing countries in the world – Ukraine – is no longer a market factor …".

Demand

Corn has been the best performer on the export front among all US major agricultural products. Having said that, challenges lie ahead. The USDA forecasts 2023-24 exports to all destinations at 52.2 million tonnes, 26% above last season. To date, export commitments are only 19.3% ahead of last year.

The good news is that a closer look shows that recent activity has been strong. Weekly shipments for February and March averaged 1.138 million tonnes, compared with 829,000 for the same period last year. Commitments for this period have averaged 1.151 million tonnes, compared with 1.291 million tonnes last year – with one significant caveat: On March 23, 2023, a 2.245-million-tonne sale to China was reported, but nothing of that size has been repeated to date.

The point is that US sales abroad have maintained their poise without China. To illustrate, total 2023-24 exports (shipped and unshipped) to China stand at 1.92 million tonnes, down from 7.514 million tonnes at this time last year. But total commitments to all destinations are still well ahead of 2022-23. In fact, during the above study period under consideration, China has made only one reasonably-sized purchase of 133,000 tonnes. There are five months remaining in the marketing year. If new sales continue at their recent pace, we should be able to meet the USDA target of 52.2 million tonnes.

New-crop December closed up 16¢ per bushel for the session on the day of the release of the acreage report, rallying to the high of the recent range, but not beyond (Chart 3). We believe it was a somewhat muted response, owing to the many variables the market faces down the road.

Traders will now focus on US planting weather, updates on Brazilian and Argentinean harvests, and US export sales.

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Chart 2 shows that commodity funds have been covering their massive net-short position since early February. Bullish news on any of these issues will almost certainly inspire short covering. Nevertheless, for the moment, we do not believe that there is any single compelling bullish case to warrant a buy recommendation.

Remain sidelined, but stay closely tuned.

[By Sholom Sanik, April 1, 2024]

Chart 1 – CBOT weekly nearest-contract corn



Chart courtesy Reuters

Chart 2 – Net-fund position



Chart courtesy Reuters

Chart 3 – CBOT December corn



Chart courtesy Reuters

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COCOA

The bull still charges

Cocoa prices have now soared by 260% since the 2023-24 marketing year began back in September. Weather and disease have devastated West African crops.

For virtually all other agricultural commodities that we trade, it can be said that bull markets eventually give way to bear markets as high prices incentivize producers to overproduce. But not all commodities were created equal. For most agricultural commodities, farmers can plant larger crops and hedge at wildly profitable prices. For cocoa, however, it takes about five years for a freshly planted tree to bear useable fruit.

Still, we believe there is some hope for higher production next year. Both weather and disease affected this season's crops. Insufficient use of fertilizer and pesticides, at least in part, led to the sharp drop in output. Perhaps higher income for farmers that resulted from this monumental spike in prices will allow them to afford to improve cultivation practices. Cocoa boards in West Africa are not passing all the profits of $10,000-per-tonne cocoa on to farmers. Prices paid to farmers for beans in the Ivory Coast and Ghana have increased by 50% and 58%, respectively, over the last marketing year, which has left farmers disgruntled. It still might be enough for farmers to invest in fertilizer and pesticides.

Regardless of whether next year's crops normalize or not, we will be left with a mammoth global production/consumption deficit. Ivory Coast arrivals stand at 1.304 million tonnes, down 27.4% from last year at this time. According to the ICCO (the International Cocoa Organization), output in Ghana is running about 38% behind last year. Actually, the arrival pace in the Ivory Coast improved during February and most of March. But over the past few weeks, as the mid-crop harvest began, that improvement has plateaued (Chart 5). It is unlikely that even a surprisingly healthy mid-crop could save the season.

Turning to demand, first quarter grinding statistics from the EU, Asia, and North America are due to be released over the next couple of weeks.

The Ivory Coast is now by far the world's largest grinding region and has seen constant growth since the shift away from the traditional grinding regions began years ago. It reports monthly, and as of March 18, grinding activity is down 3.2% for the marketing year. That is not very much considering how many fewer beans there have been available for processing. So, there is not very much evidence as of yet regarding the effect of these sky-high prices on processors. For the moment, in its February monthly update, the ICCO estimates that 2023-24 grind activity will fall by only 4.7%, which seems rather optimistic considering the drop in production.

The ICCO forecast for the global production/consumption balance calls for a record deficit of 374,000 tonnes. Ending stocks are estimated at 29% of usage, a 45-year low. But again, these figures are based on the moderate estimate for the drop in demand.

In terms of consumer demand, a recent research piece from J.P. Morgan says that prices have been rising and consumption has slipped. Over the past two months there has already been a shift away from chocolate-based products to cookies and salty snacks.

Making any trading suggestions for this market is as tricky as it gets because the volatility has been epic. Implied volatility for several months out is about 60%, well above the normal range. Protective stops would have to be extremely generous. Our inclination would be to assume that the output crisis will not disappear in the near future, so buying discounts in the new-crop months may be the route to take. Buy December cocoa, presently trading at about $8,000 per tonne. Place sell stops at $7,000. This recommendation comes with a cautionary note that this trade is not for the faint of heart (or wallet). We will monitor the arrival pace for any indication that the mid-crops will mitigate the disaster left by the main-crop.

[By Sholom Sanik, April 9, 2024]

Chart 4 – ICE – weekly nearest cocoa contract



Chart courtesy Reuters

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Chart 5 – Ivory Coast port arrivals – 2023-2024 vs. 2022-23 (percentage)

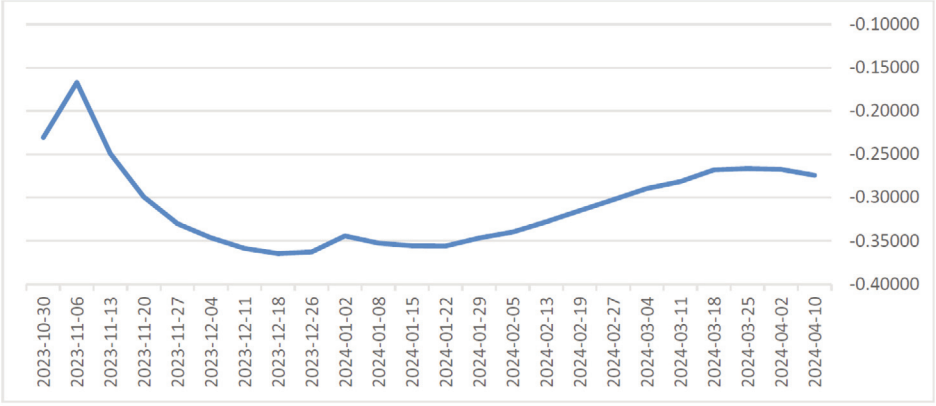


Chart source: Reuters

COTTON

A boom-to-bust story

The cotton market spent all of 2023 in a fairly narrow range. There were no compelling fundamentals to drive prices either way. Then, late last year it began a rally that started at the bottom of the range, blew right through the top of the range, and spiked to 18-month highs. Certainly looked like a *bona fide* breakout and the birth of a new bull market. Something went wrong, though. It's six weeks after the peak, and we're all the way back to the bottom of the 2023 range (Chart 6). A classic false breakout.

The predominant bearish factor for the global cotton market is the advent of Brazil as a major producer, and then obviously as an exporter that will compete with the US. In 2016-17 Brazil harvested 7 million bales of cotton. While there have been fluctuations, output has grown steadily. For 2023-24, the USDA forecasts a jump of 23.8% from last year, to a record 14.56 million bales.

This comes at a time when world demand has been in consistent decline, with the most likely culprit being synthetic fabrics. Consider that in 2017-18, when Brazilian production began to grow in earnest, global consumption was 120.77 million bales. The forecast for this year is 112.82 million bales.

So the pop to over $1 per bale warrants an explanation. We believe there were three factors. First, early season weather for all 2024 Brazilian crops was not too favorable. The forecasts for record Brazilian output were questioned and underpinned the rally. However, local Brazilian cotton-output estimates have grown steadily as the weather improved and are now about 15% higher than they were while the crop was being planted.

Second, towards the end of 2023 US exports – which were lagging last year's pace severely – began to surge and actually – albeit briefly – slipped ahead of last year's sales. That lasted until mid-February. Weekly new sales have continued to run at a decent clip, but the kind of numbers required to justify the surge in prices disappeared. The peak in prices coincided with the peak in the export recovery (Chart 7).

Third is US cotton area to be planted for the 2024-25 crop. In 2023-24 US farmers planted only 10.23 million acres of cotton. Analysts were expecting an increase to 11.3 million acres, but the March 28 USDA planting intentions report estimated cotton area at only 10.673 million acres.

The release of that report did nothing to prevent the continuation of the big price plunge. It is quite possible that farmers' plans shifted after the survey period because new-crop cotton prices improved materially *vis-à-vis* their soybean counterpart from December through February (Chart 8).

If that were the case, cotton area would indeed be higher. But until there is any evidence that the price surge had this effect, we would have to conclude that US area is the one potential bullish cog in the wheel.

We continue to monitor US exports and any developments in the size of the US crop. Both of these factors are still wild cards and could either reverse the fortunes of this market or allow the bear to continue to run rampant.

We were stopped out of our long position in May cotton at 84.5¢ per pound as per our February 23 recommendation. Remain sidelined.

[By Sholom Sanik, April 18, 2024]

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Chart 6 – ICE May cotton



Chart courtesy Reuters

Chart 7 – US cotton exports 2023-2024 vs. 2022-2023 (percentage)

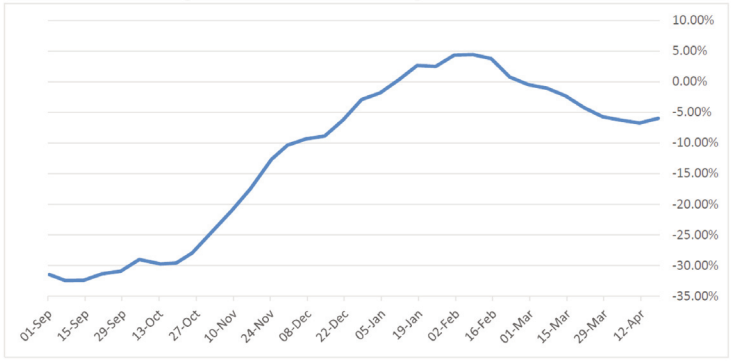


Chart source: Reuters

Chart 8 – New-crop cotton vs. new-crop soybeans



Chart courtesy Reuters

SUGAR

Has the bull gone home?

There have not been very many sweet things to say about sugar of late. The market is trading at a one-year low, erasing just about all of the gains we saw in 2022 and 2023. Where to from here?

The market's weakness can be tied primarily to developments in Asia. Harvesting and crushing of the 2023-24 cane crop began back in November. As the season got underway, forecasts for output continued to focus on the subpar monsoon and the anticipated poor yields that would result. Production estimates for India and Thailand were about 29 and 7.5 million tonnes, down from 32.5 and 10 million tonnes, respectively. As the crush moved into full swing, however, the estimates turned out to be overly pessimistic. Analysts have been revising their estimates upwards. The

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range for India is now between 32 and 33 million tonnes, while Thailand is closer to 9 million tonnes. There will definitely be more sugar available than previously believed.

Can this additional supply become available for world trade? We believe not.

It is believed that the government is about to relax the restrictions it placed on cane diversion to ethanol. Large investments were made into developing ethanol infrastructure. With cane yields for sugar looking a whole lot better than they did a few months ago, fears of depleting sugar stocks have abated. But the ethanol issue is small fry. At most we are talking about the equivalent of 1 to 1.5 million tonnes of sugar. The question will be whether the government will be willing to recant on its stated policy to allow zero exports in the 2023-24 marketing year.

So, at the moment, in a best-case scenario, the better-than-expected sugar yields will pad ending stocks by 4 million tonnes. Subtract from that the amount that will flow back into ethanol, and we still do not see the capability of returning India to the status of being an exporter of significance. In 2021-22 and 2022-23 India exported 11 and 6 million tonnes, respectively. Getting back to those levels is light years away.

Even if that amount was enough to alleviate world tightness, on April 15 news reports indicated from government sources that there is no plan to lift the export ban. While the news of improved yields in India definitely spooked the bulls, there has not been any evidence that any of the new-found supply will make it out of India.

With the Asian crush season near conclusion, attention will shift to Brazil where the 2024-25 crush season is just kicking off. For now, the bounty from record 2023-24 output of 45 milllion tonnes will keep world trade amply supplied. However, we believe the market is not taking into account that the cane crop that is now being crushed is sharply below the previous season's (see *Focus on Futures*, March 6). Previously there was speculation regarding the size of the crop, but at the moment all the local analysts seem to agree that it will fall below 600 million tonnes, down from 660 million tonnes that was available for the 2023-24 crush.

Last year's final ethanol/sugar ratio was 48.8% for sugar, up from 45.8% in 2022-23. To compensate for less available cane, crushers would need to crank up the ethanol/sugar ratio. And the large processors have indicated that they would do exactly that and keep the trend of higher sugar output running into 2024-25.

Early cane crushing in Brazil always sees a much higher ethanol ratio than the season average because sugar content is low in early-harvested cane. In the few weeks since the crush began, however, the sugar ratio has been 33.57% compared with 35.7% in the same period last year. Hardly an indication at this point, as explained, but this is the figure to watch carefully over the next several months.

With India still out of the export picture and uncertainty as to whether Brazil can repeat last season's performance, we maintain a bullish bias.

Our strategy has been to be long this market via call options. We are currently long July 25¢ calls which currently have almost no value. Owing to the fact the prices have come down as much as they have, we are going to suggest shifting the strategy to trading futures. Buy October sugar, presently trading at about 19.60. Place initial stops at 17.50, close only.

[By Sholom Sanik, April 19, 2024]

Chart 9 – ICE nearest contract sugar



Chart courtesy Reuters

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