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Cotton: China's disappearing act

Cotton prices have rallied throughout March. Traders have been focusing on two distinctly bullish factors, one each for the supply and demand sides.

On February 27 the USDA released its first forecast for 2025-26 US cotton area at 10 million acres. While higher than the previously released National Cotton Council's 9.6-million-acre estimate, it is still a very low figure in historical terms (see *Focus on Futures*, February 21).

On the demand side, over the past four weeks there has been a burst of US export sales – an average of 195,000 bales vs. 67,000 bales during the comparable period last year. In early February, commitments were running 12.5% behind same-time-last-year. As of the most recent weekly reporting period, sales stand at 10.2 million bales, lagging by only 4.5%. Not only are we likely to meet the USDA's 11-million-bale 2024-25 forecast, with four months remaining in the marketing year, we could actually exceed it.

And to boot, this has all been achieved without China, which has actually been in cancellation mode. Over the past four weeks, Chinese sales were net negative 10,500 bales. For the marketing year, total sales to China (shipped and unshipped) stand at 755,000 bales, down from 4.181 million bales at this time last year.

These two factors explain the rally. For the moment, however, the rally has stalled. One possible scenario is that the market is concerned about China for the longer term. Although some comfort can be taken in the excellent performance of US sales without Chinese participation, one has to wonder if this is sustainable.

The March 11 USDA monthly crop report once again raised its estimate for the harvested 2024-25 Chinese crop, to 31.75 million bales. These are huge revisions since the December 28.2-million-bale estimate. It still does not make China self-sufficient. However, it could mean that, at least until we get an idea of what the 2025-26 crop will look like, traders are working with an assumption that China has the ability to grow larger crops than it ever has. As a result, imports will be smaller than what we have been accustomed to.

Case in point: This year's Chinese imports from all origins are estimated by the USDA at 6.8 million bales, down from 14.9 bales last year. The USDA's first estimate for 2024-25 was 12 million bales. So, this part of the cotton market landscape has changed rather dramatically.

We are certainly paying attention to what this year's US crop will look like, but planting has not even begun, so it is too early to dwell on US planting weather.

We are short cotton as per our December 19 recommendation. We continue to be somewhat uncomfortable with the possibility of a very small US crop. We advise lowering the 69.5¢-per-pound stop we suggested on February 21 to 68.5¢, close only.

[By Sholom Sanik, March 21, 2025]

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Chart 1 – ICE May cotton



Chart courtesy LSEG

CORN

A large US crop on its way, but a reliable customer in Mexico

Confirmation by the USDA's Agricultural Outlook Forum on February 27 that US farmers are planning to expand corn acreage for the 2025-26 marketing year certainly affected prices. That news erased the rally that began in late December (Chart 2). Corn area is expected to rise by 3.4 million acres, to 94 million acres. It comes at the expense of soybean area, which is forecast to fall by 3.1 million acres, to 84 million acres. The March 31 planting intentions report will shed further light on the matter.

Most recently, new-crop soybean prices have gained *vis-à-vis* new-crop corn, but in historical terms, it is still more profitable to plant corn over soybeans (Chart 3).

Grain prices have focused on the tariff wars. However, a Chinese backlash would affect soybeans more than any other US agricultural commodity because Chinese importers can turn to Brazil. At the moment, Brazil is expected to grow yet another record crop. On the other hand, as far as corn is concerned, China does not buy corn from the US. If there is a tariff-war-related risk for US corn farmers, it would be with regard to Mexico.

As we have discussed in recent articles, Mexico needs US corn, with not many other options available. To illustrate, Mexico is the world's largest corn-importing nation. This past marketing year (2023-24), total purchases were 24.76 million tonnes. Of that total, 22.6 million tonnes came from the US.

The USDA estimate for Mexican imports from all destinations for 2024-25 is 24.5 million tonnes. US sales to Mexico to date (shipped and unshipped) stand at 18.9 million tonnes. That compares with 18.3 million tonnes last year at this time. We're many months into the tariff era, and not much has changed in the corn relationship between the US and Mexico.

According to USDA data, corn ending stocks in both Brazil and Argentina are statistically insignificant – about 2% and 4.5% of usage, respectively. In contrast, soybean stocks in both South American countries are plentiful, at 19% of usage for Brazil and 48% for Argentina. As a result, planting too many soybean acres poses a greater risk for US farmers than does planting corn.

So, while the exuberant expansion of US corn acres is definitely a bearish factor, the bullish demand side remains intact.

US export commitments to all destinations stand at 53.06 million tonnes, up 23.7% from this time last year. The USDA forecast did not budge in the March crop report,

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maintaining an estimate of 62.23 million tonnes, up only 6.8% from 2023-24. We would have to assert that it is a given that the USDA will have to revise its estimate at some point, which of course means that the current ending-stock estimate of 10% is much too high. Conservatively speaking, even an upwards revision to US exports of 2 to 3 million tonnes would bring ending stocks down to below 10% of consumption. From a historical perspective, that is encroaching on bull market territory – even with a big crop.

We had been long corn since October 29, but we were stopped out at $4.65, basis May, as per our February 13 recommendation. A profitable trade, but we left the January and February rally on the table. We maintain a bullish bias. We do not expect the planting intentions report to contain any great surprises. Spring seeding weather is always a great variable. Stand aside for now, but stay closely tuned.

[By Sholom Sanik, March 28, 2025]

Chart 2 – CBOT May corn



Chart courtesy LSEG

Chart 3 – Nearest contract soybean/corn ratio



Chart courtesy LSEG

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SOYBEANS

US soy farmers gear for less demand from China

US soybean farmers are taking cover, in a manner of speaking. The February 27 USDA Agricultural Outlook Forum area estimate for the 2025-26 crop that will soon be planted was 84 million acres, down from 87.1 million acres planted for the 2024-25 marketing year. Heading into the March 31 planting intentions report, the average of analysts' guesstimates was 83.76 million acres. The actual figure came in at 83.49 million acres. Corn has much less at stake from the tariff war than do soybeans, so those soybean acres will go to corn (see *Focus on Futures*, March 28).

With all the vulnerabilities that lie ahead for the seeding and growing seasons, that would normally be quite bullish for this time of year. Yet, the reaction to the planting intentions report was a bit strange. New-crop November rallied initially when the news came out, but then sold off throughout the session to close back into the previous range (Chart 4). However, when considering some of the other factors that would be needed to complete a bullish US supply-side scenario, perhaps the reaction to lower-than-expected acres wasn't that unusual.

Brazil

Early growing-season weather concerns in Brazil resulted in some doubts about USDA's forecast for a record 169-million-tonne crop. News stories maintain that the weather continues to be dry. As of March 28, farmers have harvested 81% of the crop, up from 74% at this time last year. So, there is no harvest issue and some estimates are inching up. One private forecaster put output at 172 million tonnes. However, it is a bit premature to get an accurate picture, particularly because there has been dry weather at some junctures of the growing season, which leaves yields up in the air at this point.

China

On the demand side, all may look rosy – on the surface. Export commitments to all destinations stand at 45.7 million tonnes, up 13% from this time last year. And indeed, that is a stronger pace than the USDA's forecast to finish the marketing year at 49.7 million tonnes, up only 7.6% over 2023-24. But this may be a bit deceptive.

A closer look at export sales reveals that Chinese "retaliation" may already be in progress. Chinese purchases of US soybeans have been steady – but just that. Over the past eight weeks Chinese purchases from the US have averaged 208,000 tonnes, down from 305,000 tonnes in the comparable period last year. Were this pattern to continue, we could expect the wide gap over last year's sales to narrow.

Sales to all other destinations have been strong. During this period, overall weekly sales have averaged 470,000 tonnes, up from 335,000 a year earlier. But Chinese purchases typically account for more than 50% of US export sales. As Brazilian soybeans become available in the coming months, there is a risk that Chinese purchases from the US may shrivel up.

In conclusion, Chinese soybean production has remained stagnant at below 21 million tonnes. Domestic usage grows every year. In its March crop report, the USDA revised its estimate for the 2024-25 crush upwards by 2 million tonnes from the February estimate, to 128.9 million tonnes, a substantial 5.8% increase over 2023-24. China needs beans. Where they buy them will determine US prices.

We were long May soybeans at $10.75 per bushel, as per our February 4 recommendation, and subsequently stopped out at $10.30. At this time, we advise observing developments on the tariff front and, of course, how the two key crops in the US and Brazil will fare. Remain sidelined.

[By Sholom Sanik, March 31, 2025]

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Chart 4 – CBOT November soybeans



Chart courtesy LSEG

SUGAR

Prices get battered – undeservedly

Sugar prices have been sinking. We are trading near seven-month lows (Chart 5). A number of reasons have been cited by analysts, none of which we consider absolutes at this time.

India

The monsoon in India, which begins in early June, is expected to be excellent. Meteorologists estimate that the monsoon rains, which account for 70% of Indian sugar-moisture requirements, are expected to be 105% of the historical average. The anticipated bountiful precipitation would benefit the 2025-26 crop, which does not enter harvest season until November.

This ostensibly bearish factor comes with a caveat. We are talking about a crop that has not been grown yet. As we illustrated previously in detail (see *Focus on Futures*, January 24 and February 16), a healthy monsoon is no guarantee of good yields. In 2024-25 ample precipitation was accompanied by disease in some areas and poor harvest conditions in others, which forced early mill closings. What was billed as an excellent crop of about 31 million tonnes preharvest, turned into disastrous output of roughly 26 million tonnes.

With domestic consumption estimated at 29 million tonnes, India carryover stocks for 2024-25 will be drawn down. The popular estimate is about 5 million tonnes, but we believe that actual inventories are lower than that. This makes the allowance of 1 million tonnes of exports seem a bit frivolous for a country that has always had a policy of maintaining comfortable inventories of food staples. In any case, even if the late 2025 harvest does start looking good, no new exports can be forthcoming for seven or eight months from now.

Brazil

The 2024-25 crush is in the books, with the sugar/ethanol ratio ending at roughly 48%, somewhat lower than earlier estimates. The 2025-26 Brazilian harvest is just underway. Analysts are excited about the prospects of a good crop based, in part, on early results. The sugar/ethanol ratio in the second half of March was 43%, compared with 33% in the same period last year. In fact, in most years the average ratio is about 30% for the early part of the season. So, this data point looks good in headlines.

Sugar yields are typically very low for early harvested crops and ethanol is therefore favored. At this point, however, the statistics are drawn from very small volumes and mean very little.

Over the next several months, the performance of this ratio is arguably the single most important indicator to be

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monitored for clues as to where sugar prices are headed.

We believe the bearish sentiment that has caused the recent price slide fails to account for the size of the cane crop. Estimates for the crop are erratic, but all analysts seem to agree that the Centre South will harvest less than in 2024-25. The range of estimates for 2024-25 was between 630 and 640 million tonnes. Estimates that we've seen for 2025-26 range between 605 and 618 million tonnes.

To conclude, with less cane and with no strong indication as to how the sugar/ethanol ratio will turn out, Brazil is an unknown at this juncture. But one hard fact that cannot be ignored is that India produced about 5 million tonnes less than in the previous season, and so the availability of sugar for world trade rests squarely on Brazil's shoulders. We maintain our long-term bullish bias.

We were stopped out of our long position in July sugar at 18.25¢ per pound, as per our February 16 recommendation. The market is now trading about 0.50¢ below. We would like to see prices consolidate before jumping back in. But do hold on to long July 20¢ and 19¢ call-option positions recommended back in November and December, respectively.

[By Sholom Sanik, April 17, 2025]

Chart 5 – ICE sugar nearest contract



Chart courtesy LSEG

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