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Sugar: Welcome back Thailand

Brazil

The Brazilian 2020-21 crush season has ended. For most of the season, there was an extraordinary shift from previous years in the ethanol/sugar output ratio to favor sugar production. With the introduction of vaccines to battle the pandemic, optimism for an increase in ethanol usage became an influence. Towards the end of the season, mills switched back towards the historical norm of about 36% sugar output. We believe that it underpinned the rally to multi-year highs (Chart 1), but it came late and had little impact on total sugar production for 2020-21. One estimate puts the ratio for the 2020-21 marketing year at 46%, compared with 34% for 2019-20. There is a wide range of sugar output estimates, but the average is about 40 million tonnes, up from less than 30 million tonnes in 2019-20.

Looking ahead, the 2021-22 crush season is just around the corner. Dry weather over the past few months and field damage to some significant swatches of planted area will hurt both yields and the total amount of cane available for crushing. One estimate puts cane area down 4% from 2020-21. But analysts still see mills focusing their attention on sugar, with forecasts for the ethanol/sugar output ratio to remain near 46% in favor of sugar.

India

We're about three months into the Indian 2020-21 crushing season. In the early going, analysts had been focusing on disappointing output in India's largest producing state, Uttar Pradesh. Some forecasters lowered their estimates for total Indian output by as much as 2 million tonnes, to about 30 million tonnes. Early results, however, show that crushing activity is very strong – about 25% ahead of last year at this time – and provides some evidence that other regions are compensating for Uttar Pradesh. The estimates we've seen based on early crush data range between 32 and 33 million tonnes.

Thailand

Still on the supply side, most data for sugar that we see on the news wires revolves around Brazil and India, the world's two largest producers. Not very much information is published regarding Thailand, but its sugar output level is a critical component of the global market. With a population of 70 million people, domestic requirements are small relative to the other major exporting countries, so about 75% of sugar produced is exported. For many years, Thai production was about 10 million tonnes. In 2017-18 and 2018-19, cane area expanded dramatically, and output rose to 14-million-plus tonnes. Exports grew from 7 million tonnes to more than 10 million tonnes. Then the country suffered two devastating years of drought. Production fell to an average of 8 million tonnes for 2019-20 and 2020-21 (Chart 2).

The future looks much brighter. Like India, Thai crops are heavily dependent on the monsoon. The key weather season for the new 2021-22 crop runs between May and October. While it's a bit early, forecasts are calling for rains that will be 20% above the historical norm. Planted area is estimated to grow by 30% over 2020-21, and as a result, we expect to see Thai production rise back above 10 million tonnes.

Sugar analysts were talking about a global production/consumption deficit of about 3 million tonnes for the 2020-21 marketing year, but over the past few weeks we have seen that forecast shift to a small surplus. Given

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the healthy outlook for 2021-22 production – which now includes Thailand – early forecasts are calling for a 3-million-tonne surplus. And it's hard to say if these estimates already include the bounce in Thai output.

Commodity fund long positions are near historic highs (Chart 3). With production levels in Brazil and India maintaining their strength, and now with the return of Thailand and its additional 3 to 4 million tonnes available for export, we believe that the exuberance displayed by the fund position is misguided.

Having been bearish for so long, we are fully cognizant that we are the boy who cried wolf. Nevertheless, we do not believe that these levels are sustainable. Any put option that you purchased based on our recommendation over the past year is now near worthless. However, we are confident that this bull is going to run out of steam, sooner or later. Establish short positions in July sugar, currently trading just over 15¢ per pound. Place initial buy stops at 16.5¢.

[By Sholom Sanik, February 5, 2021]

Chart 1 – ICE nearest contract sugar



Chart courtesy Reuters

Chart 2 – Thai sugar output and exports

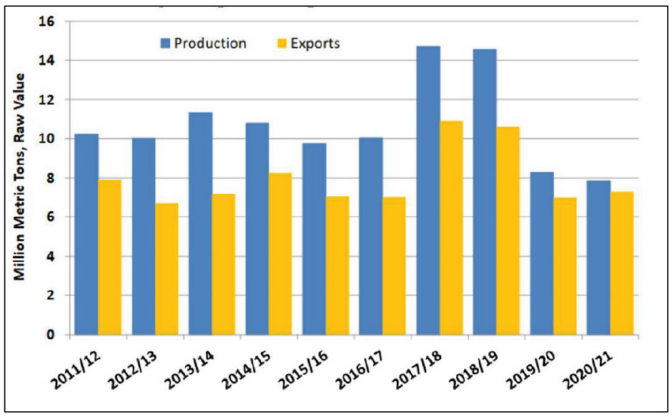


Chart courtesy USDA

Chart 3 – Sugar: Commodity fund net-long positions

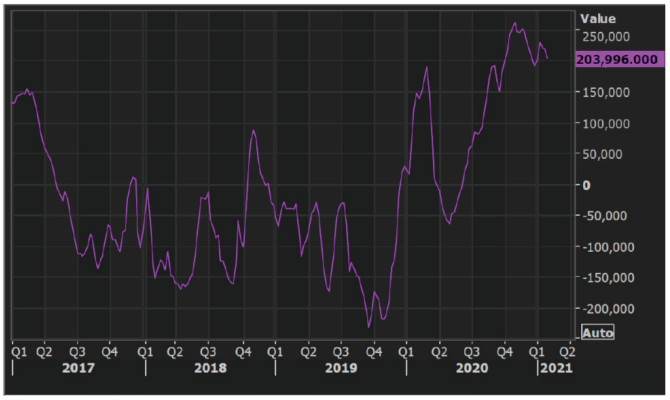


Chart courtesy Reuters

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CORN

Simply not enough

The March 31 USDA planting intentions report can only be described as a complete shock. New-crop corn was trading at a sharp discount to spot heading into the report, but even so it was well above multi-year price levels. With China's new seemingly insatiable appetite for US corn, it was a given among analysts that corn acres would be substantially higher than last year's 90.8 million acres because farmers would plant as much as they could. Guesstimates ranged from 92 to 94.5 million acres, with an average of 93.208 million acres. The actual figure limped in at 91.144 million acres.

Poor weather kept US crops from achieving their potential in 2019-20 and 2020-21, with yields of 167.5 bushels per acre (bpa) and 172 bpa, respectively. At this time, with favorable planting and growing conditions, there is no reason to assume that we will not bounce back to yield levels seen in 2017-18 and 2018-19, which averaged 176.5 bushels per acre. Even so, the difference in implied output between analysts' expectations and the USDA planting intentions number is roughly a staggering 300 million bushels (7.65 million tonnes). Were demand for US corn to remain constant into the 2021-22 marketing year, ending stocks as a percentage of consumption would fall to about 9%, the lowest level since 2013-14.

This is a liberal assessment, unless demand fundamentals change. Ending stocks for 2020-21 will almost certainly be revised downwards in the coming months because Chinese buying has been underestimated. Consider that export commitments, shipped and unshipped, stand at 65.7 million tonnes. With five months remaining in the marketing year, the USDA's forecast for total US exports is only 66 million tonnes. Even with modest exports for the balance of the marketing year, the final tally should be considerably higher. The USDA seems to have missed the boat on Chinese buying potential.

The only potential fly in the ointment is that actual Chinese shipments lag all other destinations by a wide margin, which leaves the door open for cancellations. But assuming the Chinese take all, or most, of the corn that they contracted for, the USDA will have to revise its export total materially and will make this item in the April crop report the most noteworthy to watch.

Quite frankly, we were blindsided by the spike in Chinese purchases. In the reporting week ended March 18, net new commitments were 4.48 million tonnes, of which 3.89 million tonnes were attributed to China. While it was well known that there were large sales to China before the official weekly export report, we were confused by the market's tepid response. May corn had not made a new high since February 9. From a trader's perspective, if you had established a long position after the huge Chinese buying frenzy in January, you were basically breaking even. Ever more frustrating was the market's inability to move forward after the announcement of the Chinese purchases in March.

Then came the planting intentions report. Judging by the market's reaction – all contract months immediately scooted to limit-up bid (Chart 4) – chances are that meeting Chinese demand will prove to be a challenge. We would have to look all the way back to the 2012-13 marketing year to find US ending stocks at 6.8%, which incidentally drove prices to $8 per bushel. But if the Chinese become permanent customers, such a scenario may be in the offing.

We are definitely late arrivals. Nevertheless, we recommend establishing a long position in December corn. Place initial sell stops at $4.40, close only.

[By Sholom Sanik, April 1, 2021]

Chart 4 – CBOT December corn



Chart courtesy Reuters

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COTTON

China's cotton footprint

After sinking in the early days of the pandemic when clothing sales nosedived, cotton prices rose steadily (Chart 5). By the time May cotton peaked this past February, prices had almost doubled. We now sit on a sharp setback. Where to from here?

The March 31 USDA planting intentions report for the 2021-22 crop was a non-event for cotton. Soybean and corn area were forecast significantly below analysts' expectations (see *Focus on Futures*, April 1), but cotton area was estimated at 11.894 million acres, just below the average street guestimate of 11.905 million acres. That will be lower than last year's 12.09 million acres. Despite the smaller planted area, and if all goes well with planting and growing weather, output should nevertheless be considerably higher than last season.

Until November, the USDA was forecasting record yields for the 2020-21 cotton crop and a trendline harvested-to-planted ratio. But as the harvest started coming in, the USDA took the ax to estimates. Unexpected poor weather in Texas – the largest cotton state – in the late stages of the growing season was the culprit. The national yield fell from a season high of 911 pounds per acre to a final tally of 811 pounds per acre. The harvested-to-planted ratio fell to 71.9%, down from 84.5% in 2019-20. So with normal conditions, we should be looking at a much healthier crop this year.

There has not been much indication regarding the upcoming crops in India and China. So are we producing enough globally to meet resurgent demand? The gargantuan global ending-stock figure is becoming something of a meaningless story – as it certainly has for corn – because if the Chinese truly have these mountains of useable inventories, it becomes hard to explain why they have become such reliable and enthusiastic buyers. According to the USDA, global ending stocks for 2020-21 are estimated at 94.59 million bales, or 80.5% of usage. It continues to be the highest inventory level among all tradeable agricultural products. Chinese stocks comprise 40% of those inventories – if in fact they really exist.

The actions of Chinese mills that buy cotton from the US speak louder than what may well prove to be a series of stale statistics. Thus far this marketing year, Chinese purchases from the US stand at 4.78 million bales. That compares with 2.3 million bales at this time last year. In itself, that is not a valid comparison, because a combination of Covid and the trade war blunted activity. But if we go back a few years, we can see that exports at this juncture of this season are building for record US sales to China (Table 1).

As of the most recent weekly USDA export report, total commitments to all destinations are 14.85 million bales. The USDA estimate for 2020-21 is 15.5 million bales. With close to four months remaining in the marketing year, any reasonable continued flow of new export sales will mean that the USDA will have to revise its forecast upwards. Even a 500,000-bale increase in exports would push US ending stocks down to their lowest levels in many years.

We advise using this pullback to establish long positions in December cotton. Place initial sell stops at 74¢ per pound, close only.

[By Sholom Sanik, April 9, 2021]

Chart 5 – ICE December cotton



Chart courtesy Reuters

Table 1 – US cotton export commitments to all destinations as of end of March (millions of bales)

2014-15	2.31
2015-16	0.38
2016-17	1.89
2017-18	2.24
2018-19	1.56
2019-20	2.30
2020-21	4.78

Table source: Reuters

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COCOA

A bear in waiting

Commodity prices across the board – metals, energies, grains, oilseeds, and softs – have been rising. For some markets, a confluence of bullish supply and/or demand developments have sparked the momentum. For others, bullish fundamentals are suspect and have perhaps "come along for the ride." Cocoa – perhaps – is one such market.

In late February prices spiked by $250 per tonne in the space of just several sessions (Chart 6). At the time, Ivorian port arrivals for the 2020-21 marketing year were running about 3% below the same time in the previous season. The main-crop has now been completed, and as we move into the mid-crop, total arrivals have pulled ahead sharply. As of the most recent weekly report from operating exporters, arrivals stand at 1.783 million tonnes, 5% ahead of last year. With about five months remaining until the completion of the mid-crop, we are well on the way to a bumper, or possibly even a record, crop.

Ghana, the world's second-largest producer, is also showing no signs of interruption in output. As of mid-March, production was estimated at 750,000 tonnes, up 12.5% from the same time last year.

These two West African countries grow about 70% of the world's cocoa beans, and if there is no supply problem there, then there is no supply problem.

The first-quarter grind statistics for the major processing regions are in. The numbers were not inspiring. The EU grind fell for the second consecutive quarter, down 3% after being down 3.1% in the fourth quarter of 2020. Asia was up 3.1%. North America – the smallest of the three key grinding zones – was 2.05% higher.

Ivory Coast processing continues to be the one area of stellar growth as an increasing amount of grinding shifts away from importing countries. Quarterly figures were not published, but the average monthly growth rate for the quarter was 4.9%. As illustrated, new supply from producing nations is still outpacing demand.

The pattern of stronger demand for powder versus butter has continued and is reflected in their respective prices heading in different directions, as depicted very clearly in Chart 7. Our understanding of this is that it seems that demand for pure chocolate products, which use butter, has declined during the pandemic, but has increased for products that use powder. The resulting effect of this anomaly is a buildup of butter stocks, which leaves the net price of products neutral, thus discouraging discretionary grinding by processors.

In February The International Cocoa Association's forecast for the global production/consumption balance was 102,000 tonnes. More recently, the range of estimates from private analysts puts that surplus at between 175,000 and 215,000 tonnes.

We believe this is an overpriced commodity. By the same token, we would not be in a terrible rush to sell short at present levels. The market is sufficiently volatile to expect opportunities to present themselves. Rather, attempt to sell $150-per-tonne rallies from any established lows, which currently would put July cocoa at about $2,550. If filled, place protective buy stops at $2,700, close only.

[By Sholom Sanik, April 22, 2021]

Chart 6 – July cocoa



Chart courtesy Reuters

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Chart 7 – Cocoa butter and powder prices

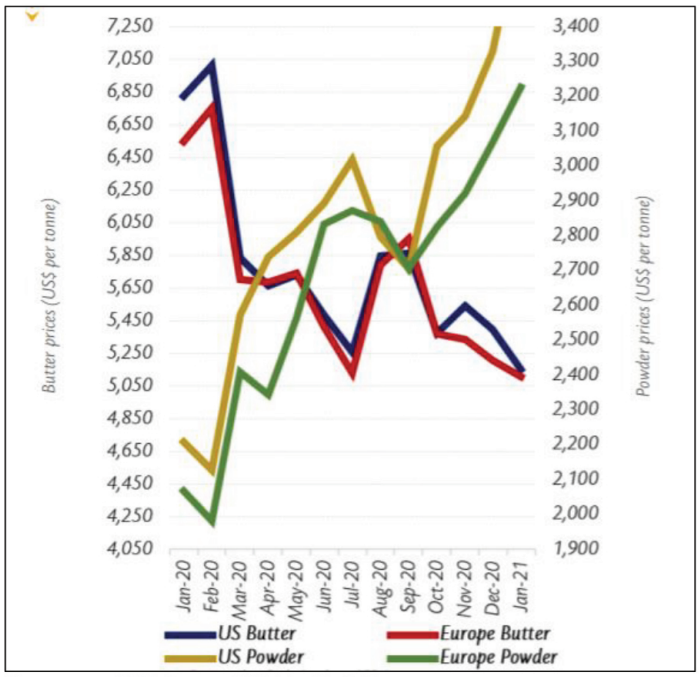


Chart source: ICCO January 2021 Monthly Bulletin

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