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Coffee: a tariff hangover

The primary issue that sparked the bull market in coffee was the 2025-26 Brazilian Arabica crop failure. The US is the largest single destination for Brazilian coffee beans, and warehouse inventories were drawn down to their lowest level in six years.

Actually, an examination of Chart 1 shows that the bull market had for all intents and purposes ended last summer as traders looked ahead to an improved 2026-27 crop. But that was interrupted in a big way when the US placed new tariffs on Brazilian imports. Combined with tariffs already in place, the import tariff on coffee was 50%. Exports to the US ground to a halt, exacerbating the already devastatingly low inventory level.

The tariffs lasted for several months last year. Since the tariffs were lifted in November, warehouse stocks have been rebuilding. However, we have a long way to go to achieve normal historical levels. The low was about 300,000 bags, and stocks have now moved up to 550,000 bags. But before the bull market began, the range was 1 to 2 million bags (Chart 2).

Once the US removed the tariff, the "tariff rally" unwound all the way back to last summer's lows. Most recently, the market recouped as much as 45¢ per pound. Warranted?

Commodity funds had liquidated a chunk of the huge long position that was built during the meat of the bull run. Chart 3 shows fairly clearly that the March rally was associated with reestablishing some of those longs. We are not entirely sure what inspired a burst of buying.

If anything, developments on the supply side have been bearish. Forecasts for the 2026-27 Brazilian crop are beginning to file in. Based on cultivated area, the consensus is that total output (Arabica plus Robusta) will reach a record 74 million bags, up from 64 million bags this past season and exceed the previous record of 66.3 million bags harvested in 2023-24.

The high end for Arabica estimates is just below 50 million bags, up from 38 million bags in 2025-26. A March 18 report by one local analyst stated that favorable weather conditions are supporting healthy crop development.

Estimates for the 2025-26 global balance sheet show a modest production/consumption surplus of about 1 million bags. Early estimates for 2026-27 are looking at a surplus of close to 9 million bags. To be sure, it all hinges on what happens in Brazil, and it is still very early. A growing season with excellent conditions has proven historically to be no match for frost. And that will remain a factor for vulnerability throughout the growing season until we get through July and August.

We view the recent rally in terms of a due-course correction. While it may still take some time, we believe that US warehouse stocks will be replenished as Brazilian exports to the US normalize.

We first established a short position on December 23 with the spot month trading at about $3.45 per pound. On February 2 we rolled into May and suggested lowering the original stop to $3.40 from $3.85.

At this time, roll into July, trading just above $2.90. Adjust buy stops to $3.25, close only.

[By Sholom Sanik, March 30, 2026]

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Chart 1 – ICE May coffee

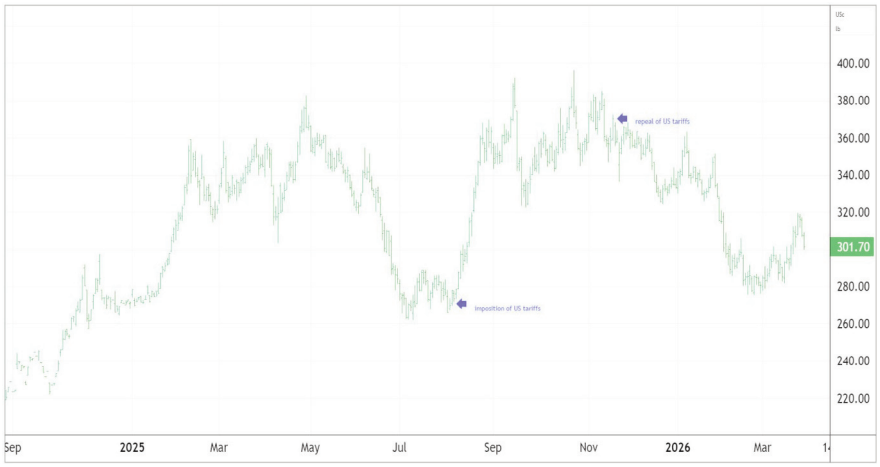


Chart courtesy LSEG

Chart 2 – ICE coffee warehouse stocks

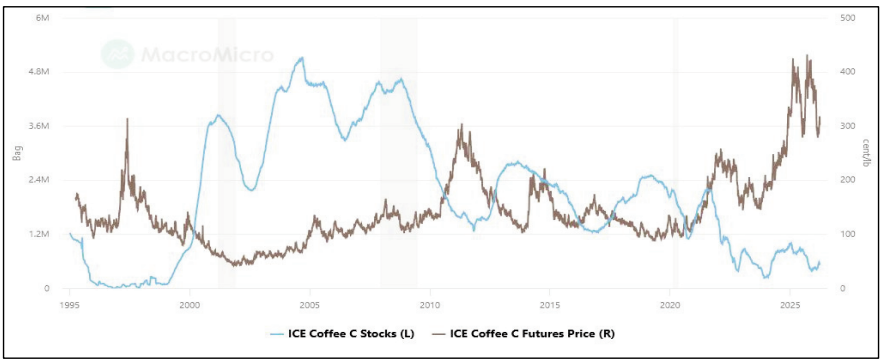


Chart courtesy MacroMicro

Chart 3 – CFTC commodity fund net-long position

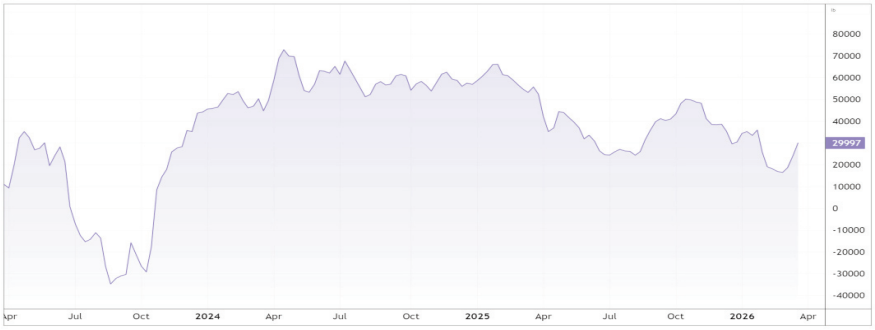


Chart courtesy LSEG

COTTON

Still all about China

Cotton prices have rallied by 10¢ per pound over the past six weeks to ten-month highs (Chart 4). Indeed, there have been some bullish developments.

One interesting factor has popped up. Cotton is not a petro-commodity in the sense that corn, sugar, and soybeans are, which have a direct correlation to the potential increase in bio-fuel consumption. However, there have been reports that polyester prices have risen enough to prompt concern that China, the world's largest user of cotton, will be switching some clothing production back to cotton. In historical terms, cotton prices are still very low, and there has been some discussion that China's cotton consumption could increase materially.

US exports have picked up steam. The USDA's early season forecast for US exports of 12 million bales seemed extreme at one point, but sales have been strong. Commitments now stand at 10.28 million bales, down only 3% from last year at this time. Two months ago, we were 12% behind last year.

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The Chinese have been buying *some* US cotton, but the volume has been immaterial. Total Chinese commitments stand at 512,000 bales, still down from 705,000 bales at this time last year. Two years ago, at this juncture of the season, Chinese commitments were 4.281 million bales. However, the fact that sales to all destinations have just about caught up to last year's levels remains a bullish factor and explains in part why the market has rallied.

The USDA once again increased its estimate for the harvested 2025-26 Chinese crop, by 300,000 bales, to 35.8 million bales. This effectively means that Chinese import requirements are dwindling.

The February USDA Agricultural Outlook's first look at China for the upcoming 2026-27 crop, however, puts output at 32 million bales. That is below the range of estimates for smaller planted area of between 3% and 5%, which would translate into approximately 34 million bales. The May USDA monthly crop report will present the first comprehensive look at 2026-27, and it will most likely use that figure for Chinese output. The past two seasons have seen the USDA lowball Chinese production by a wide margin. So that will remain a variable until we see how weather conditions develop for the planting and growing seasons.

The March 31 USDA planting intentions report estimated that US farmers will plant 9.64 million acres of cotton, up from 928,000 acres in 2025-26. The market's bullish tone did not skip a beat, despite the fact that the average trade guesstimate was 9.26 million acres.

Aside from the *potential* wrinkle presented from the polyester replacement theory mentioned above, there is not much that accounts for the magnitude of the rally we witnessed. After rolling March cotton into December in mid-February, we were stopped at 71¢ per pound, surrendering about 3¢ of our original profitable short position. The market is now trading at 78.5¢.

We continue to believe that the key to this market is Chinese imports or lack thereof. There has been no evidence, as illustrated, that the Chinese are stocking up. For now, we will observe from the sidelines.

[By Sholom Sanik, April 16, 2026]

Chart 4 – ICE December cotton

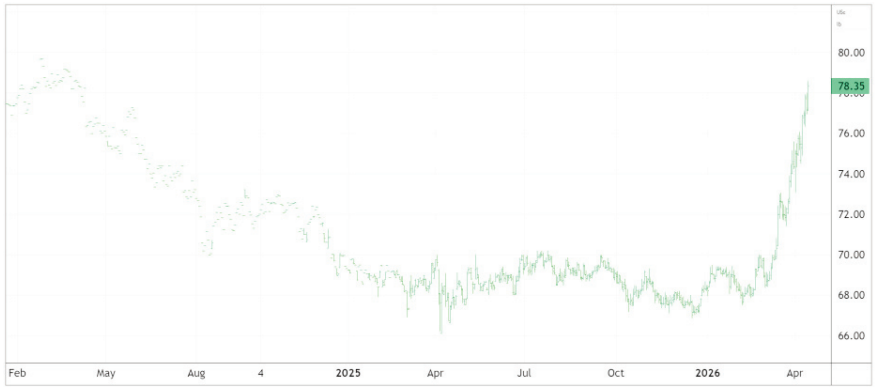


Chart courtesy LSEG

US WINTER WHEAT

A bull in the making?

Wheat prices may have awoken from a long slumber. When the Russian-Ukrainian war began in February 2022, fears of a supply disruption of both Russian and Ukrainian exports sent wheat prices to $13 per bushel from $8 in a space of just a couple of weeks (Chart 5). The concerns turned out to be largely unfounded, and by July of that year prices had retreated to pre-war levels. With some bumps and grinds along the way, the market eventually settled into a range of $5 to $7 per bushel. As such, we have not discussed this market in a very long time. Over the past two months wheat prices have firmed and crept above a two-year-old range. Worth a look?

Bullish sentiment generated by rallies in petro commodities such as corn and soybeans may account for the rally in part, but the US wheat market has a story of its own. Winter wheat comprises over 70% of the total US wheat crop. These crops, which were planted in the fall, need moisture as they emerge in the spring, and the rains have been scarce. The most recent weekly USDA crop progress report is clear: The good-to-excellent portion of the crop stands at 30%, down from 34% the previous week, and well below 48% last year at this time and 55% two years ago. Historically, this is about as low as winter wheat ratings get.

Some of the Northern winter-wheat states have seen ample precipitation, particularly Washington State and Oregon, and excellent ratings to match. However, Kansas, Texas, and Oklahoma, the three largest producers, which

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account for more than 30% of total US winter wheat production, have good-to-excellent ratings of 24%, 14%, and 19%, respectively.

The premium of Kansas City Board of Trade wheat (KCBT wheat), where only hard-red winter wheat is deliverable, has popped *vis-à-vis* Chicago Board of Trade wheat (CBOT wheat). When the crop was in dormancy back in December, KCBT wheat was trading at a 35¢ per bushel discount versus a premium of 40¢ currently (Chart 6).

US wheat is a much different market than other exportable agricultural products because wheat is grown all across the globe. US output accounts for roughly 11% of global trade. By contrast, US corn and soybean exports comprise 40% and 23% of global production, respectively. China is not a factor the way it is in soybeans, because it is near self-sufficient in wheat and imports only a negligible amount.

As it is, US planted area for wheat has been in a precipitous decline (Chart 7). At this point it would be difficult to quantify how much of the crop could be compromised. One analyst spoke loosely of losing 100 million bushels from early-season forecasts. The USDA balance sheet shows 2025-26 US ending stocks of all wheat classes combined at 46% of consumption.

If the crop continues to deteriorate, that would take the carryover down to roughly 40%, still not a very tight situation. As indicated in Chart 8, the flashpoint for a serious bull run would be below 35% of usage. Wheat prices rallied to $8 from $6 in the period prior to the Russian-Ukrainian war under similar conditions. Given the current crop conditions, a huge drop in the carryout is not out of the realm of reason.

The harvest in the southern plains begins in only a matter of weeks, so there is not much time for early harvested crops to recover.

At the moment, we would like to tread cautiously until we get a look at comprehensive output estimates. We will be looking at buying KCBT wheat outright. Alternatively, we will consider buying the KCBT/CBOT spread, which has much potential if we experience a crop failure that is concentrated in winter wheat. Stay closely tuned for updates.

[By Sholom Sanik, April 22, 2026]

Chart 5 – CBOT weekly nearest contract wheat

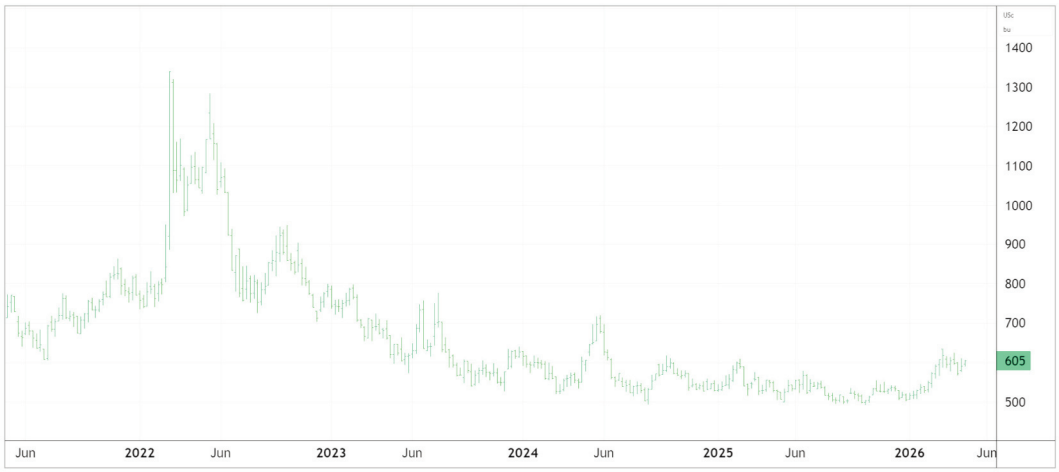


Chart courtesy LSEG

Chart 6 – KCBT wheat-CBOT wheat nearest contract spread



Chart courtesy LSEG

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Chart 7 – US all wheat planted area

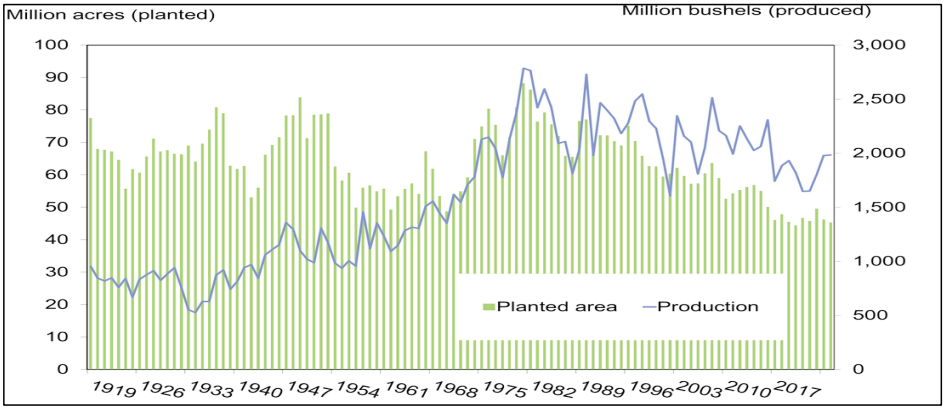


Chart source: USDA, National Agricultural Statistics Service

Chart 8 – US wheat stock-to-consumption ratio



Chart source: MacroMicro

COCOA

Are beans hiding?

When analyzing West African port arrivals in isolation – the traditional metric for gauging cocoa output – we are left with an enigma. The 2025-26 Ivory Coast was billed as a recovery season from two consecutive crop failures. However, as of the most recent weekly report, arrivals are just about equal to those at the same time last year (Chart 9). The statistics out of Ghana are similar.

For the Ivory Coast, there is a good chance that the mid-crop will outperform. The weather is favorable, and we should see this year's production move well out ahead of last year's. Still, even a great mid-crop is unlikely to take us above 2 million tonnes, which would represent a *bona fide* recovery. So the big question is: How did prices drop from over $10,000 per tonne to the current level (Chart 10)?

As we have discussed in previous articles, the demand side did its job. High prices forced confectionary manufacturers to use less chocolate in their products. As consumers acclimate to new product sizes, it is possible to view this in terms of permanent demand destruction.

We've now seen several quarters of negative cocoa grinds. The most recent data were not much different. Asia actually saw an increase in year-over-year grindings with a 5.2% increase for the first quarter. But the EU was 7.8% lower for the period and North America was down 3.8%. Ivory Coast processors do not report quarterly, but for the first half, the grind was down 4.8% over the same period in 2024-25.

On March 23 we mentioned briefly that the International Cocoa Organization (ICCO) reported that higher-quality beans had circumvented the port-arrival reporting system by being sold directly to local grinders.

A similar scenario may be developing in Ghana – but in this case, with *some* evidence. The Ghana Export Promotion Authority (GEPA), a department within the Ministry of Trade, recently reported explosive growth in bean-product exports. As is the case with any discussion on cocoa, the data are sketchy. The agency reported some fantastic year-over-year increases in revenue for product exports. However, we are not clear as to how much of the increase is due to higher pricing and how much is volume

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related. What we do know is that grinding capacity is over 500,000 tonnes, much of it unutilized. But the government has been promoting an expansion of local processing. Currently less than 40% of beans are ground locally, but the government is targeting a 60% goal.

It is not a huge stretch to assume that there is a significant number of unreported harvested Ghanaian beans, similar to what the ICCO suggested in the case of the Ivory Coast.

The "hardest" information we have to support ideas that bean production has actually recovered are balance sheet updates. Recent estimates from the ICCO and brokerage firm analysts indicate that the 2025-26 marketing year will close out with a production/consumption surplus of close to 300,000 tonnes.

The unreported West African production that is headed directly for processing could very well explain uninspiring port arrival figures.

In conclusion, we believe that the bull market is over. In terms of trading strategy, we would like to trade from the short side. Prices could retreat to pre-bull-market levels in the low $2,000s once the under-the-radar production becomes an accepted fact. Nothing goes straight up or straight down. December cocoa is trading at about $3,600 per tonne. We recommend placing good-until-cancelled orders to establish a short position in December cocoa at $3,900. No stop for now, but stay tuned.

[By Sholom Sanik, April 27, 2026]

Chart 9 – Ivory Coast port arrivals 2025-26 vs. 2024-25 (percentage)

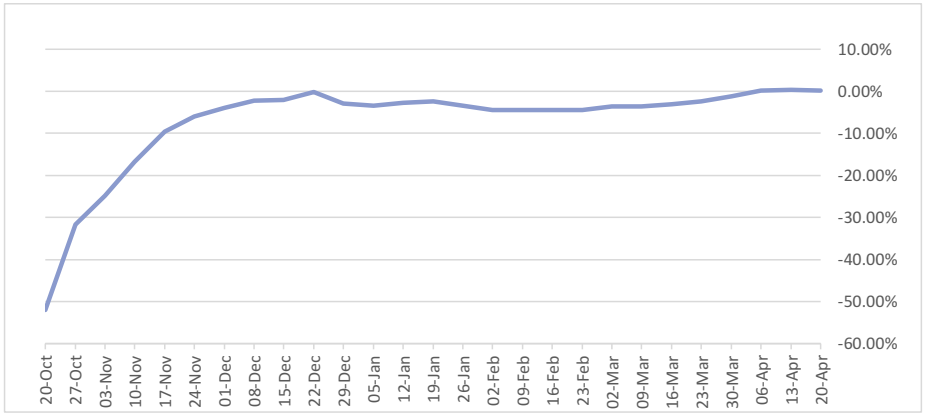


Chart source: LSEG

Chart 10 – ICE weekly nearest contract cocoa

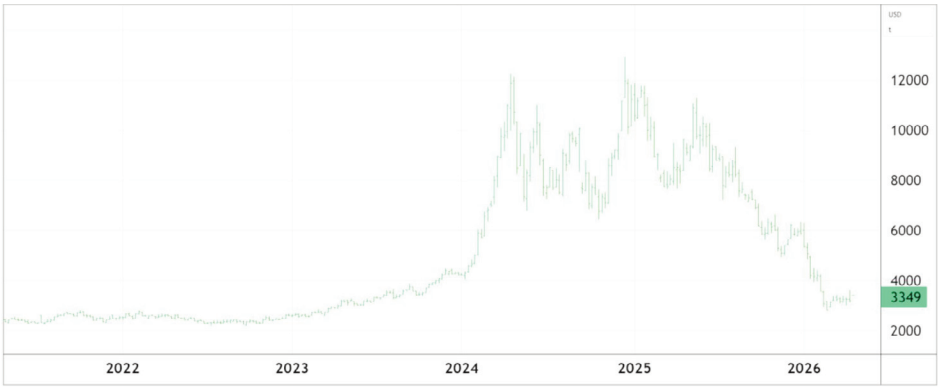


Chart courtesy LSEG

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