FRIEDBERG'S
FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 26, No. 10 December 18, 2024

Sugar: Will the Indian export ban hold?

About one month ago we questioned our steadfast commitment to the bullish case for sugar (see *Focus on Futures*, October 31). Estimates for the Indian crop, which is currently being crushed, had been rising, countering downward revisions for Brazil. We were concerned that even a hint of a relaxation of the Indian government's export ban would send prices tumbling. In response, we advised raising our sell stop recommendation to just below the bottom of the range, and several sessions later we were taken out (Chart 1).

There has not been much in the way of fresh developments for India or Brazil. The Brazilian crush is winding down. Output is tailing off sharply *vis à vis* last year. The previous bi-weekly report showed production down 24%. Output for the most recent period was 59% below last year, and the sugar/ethanol output ratio fell to 43%, well below the 50% ratio we've seen all season long. There is nothing terribly fresh in this news, but it is certainly an indication that the downward revisions to the 39-million-tonne level for the Centre South have been justified.

The USDA publishes its *Sugar: World Market's and Trade* bi-annually. In the November update, it confirmed an estimate for Indian domestic consumption of 32 million tonnes. That figure has grown from 28 million tonnes in 2020-21. Although production kept up during this period, after several years of exports that reached 6 million tonnes and the monumental sale of 11 million tonnes abroad in 2021-22, it is questionable as to whether the government will allow exports to resume.

Estimates of Indian ending stocks vary widely, but it is well known that government policy seeks to ensure comfortable inventories for domestic consumption. When we add to that a budding ethanol sector, we conclude that export revitalization is probably not on the horizon. Nevertheless, it will remain a risk for bulls.

Plugging all this into the global picture, we find that the pool of excess sugar available for world trade has been dwindling. According to the USDA report, even after accounting for a better-than-expected showing for Indian output in 2023-24 and the upcoming 2024-25 seasons, inventories are dwindling. Chart 2 shows that stocks as percentage of consumption have been in decline since 2020-21. We do not believe that it can be described as dire tightness, but rather, as a situation where a supply "accident" can tip the balance.

There are two items to watch for. First, more comprehensive estimates of Brazilian production. And, of course, whether the Indian government will waver on its zero exports policy. We continue to believe that the market remains vulnerable to these two factors.

We have been bullish on sugar for several years, and for most of that time we employed a strategy of buying call options. Our foray into the futures market produced a modest profit, but stop losses must be part of the strategy, and in a choppy market the chances of surviving the position are diminished, as illustrated above.

Going forward, we are going to recommend a return to buying call options. Option prices are relatively inexpensive and have become more so recently because of the sideways action.

Specifically, the market is in a pronounced backwardation of 200 basis points, so July sugar is trading just above 19.5¢ per pound (Chart 3). The July 20¢ call is trading at 1.12 with an implied volatility of about 22%, below the norm for sugar options. We suggest the purchase of this option.

[By Sholom Sanik, November 28, 2024]

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Chart 1 – ICE March sugar

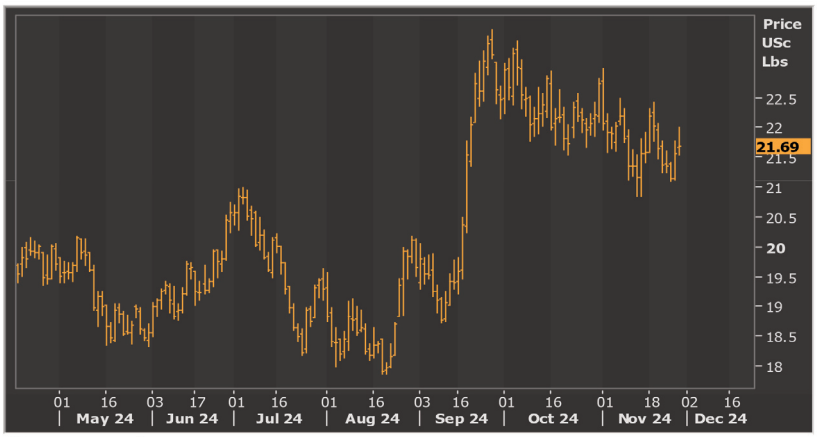


Chart courtesy Reuters

Chart 2 – Global stocks-to-consumption ratio

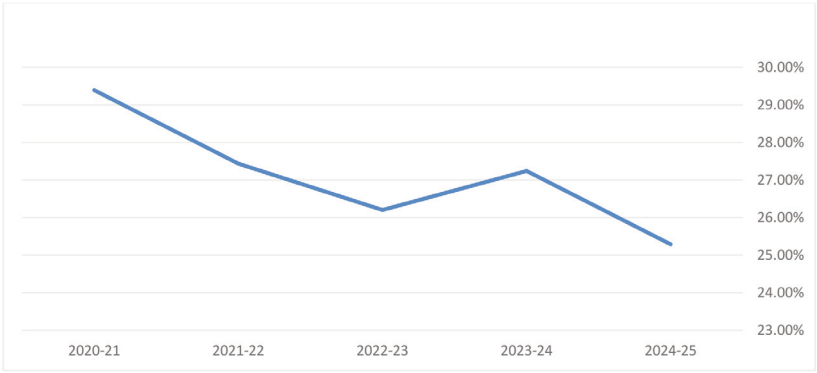


Chart source USDA: World Markets and Trade, November 2024

Chart 3 – ICE March-July sugar spread



Chart courtesy Reuters

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CORN

Mexico has nowhere to go

Most agriculture talk has focused around President-elect-Trump's threat of import tariffs, perhaps most notably the imposition of a 25% tariff on the US's largest trading partners, Canada and Mexico. The implication for grain trade is that customers of US product would retaliate with tariffs of their own. In addition, they could go shopping in other countries that could supply the goods they require. As the Mexican economy minister recently declared, "If you put 25% tariffs on me, I have to react with tariffs." With corn specifically, however, Mexico may not possess much leverage when it comes to shopping around for new suppliers.

Mexico is the single largest purchaser of US corn. In 2023-24, imports from all destinations totaled 24.76 million tonnes, and 21.7 million tonnes of that total came from the US. To be sure, the US corn farmer would suffer greatly if Mexico shifted corn purchases to other exporting nations. Mexican corn trade represented a whopping 42.5% of all US corn exports in 2023-24. But from whom will they buy?

The first idea that comes to mind, of course, is South America. Upon examination, though, that may prove not to be much of an option. When it comes to soybeans, Brazilian farmers have expanded planted area rather dramatically over the past several years and have successfully positioned themselves to compete with the US.

Corn expansion in Brazil, however, has stalled. In 2021-22, Brazilian output jumped to 116 million tonnes from 87 million tonnes the previous season. That was followed by one blockbuster year of 137 million tonnes. But in 2023-24, production fell to 122 million tonnes, and based on planting intentions, the crops to be harvested over the next six months will reach 127 million tonnes.

And it is not as though the Brazilians have been able to pad their inventories. The USDA estimate for 2023-24 ending stocks is 2.84 million tonnes, or 6.9% of consumption. For 2024-25, the estimate is 3.4%, which of course was calculated long before anybody even dreamed that Donald Trump would be the next president of the United States, and immediately threaten tariffs.

Argentinean output has hovered around 50 million tonnes for many years now, and ending stocks are estimated at 2.79 million tonnes.

As we have discussed previously, China is a potential "retaliation" factor for soybeans and cotton, but China has barely bought any corn from the US over the past couple of seasons.

We are therefore suggesting to set aside any concerns that a trade war will affect Mexican demand for US corn. Rather, we should focus on all other factors.

The US 2024-25 corn crop that was just harvested put in an excellent performance in light of the fact that corn area fell by 4.1% from the previous season. The bushel per acre (bpa) yield was revised downwards in the November USDA crop report, to 83.1 bpa from 83.8 bpa. But despite weather rumblings and the smaller area, output reached 15.41 billion bushels (384.64 million tonnes), only 1.2% less than in 2023-24.

US exports have been very strong. The most recent USDA weekly export report shows commitments at 32.46 million tonnes, 32.7% ahead of last year at this time.

That is absurdly higher than the USDA estimate for annual sales to grow by only 1.4%. We can expect upward revisions to exports and downward revisions to US ending stocks going forward.

On October 29 we advised establishing a long position in December corn with stops at $3.70 per bushel. You should now be rolled into March. Raise stops to $3.90, close only.

[By Sholom Sanik, December 2, 2024]

Chart 4 – CBOT March corn

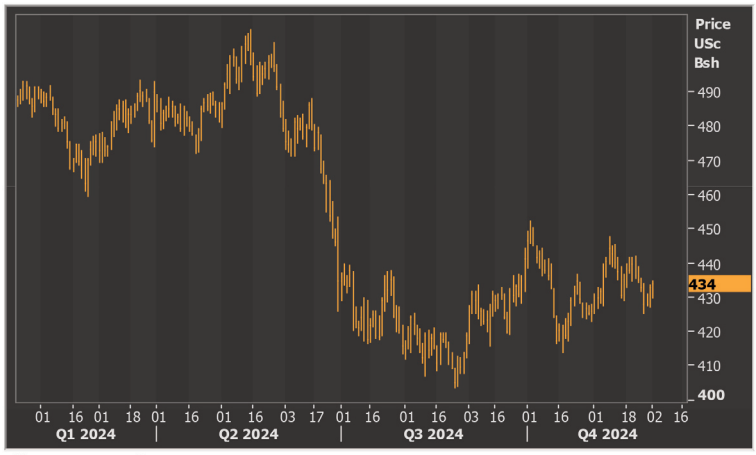


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COTTON

China has gone silent

Cotton prices traded at two-year lows this past summer (Chart 5). The market rallied during the last stages of the US harvest, for no particular reason. One of the issues that needs to be addressed is potential fallout for US farmers if the incoming administration makes good on its tariff threats.

China grows approximately 75% of its cotton needs. Average output in recent years has been 28 million bales, with the exception of 2022-23 when there was record output of 30.75 million bales. That has not been repeated. The estimate for the crop that was recently harvested is back to 28 million bales. Domestic consumption averages 38 million bales. The balance is imported. The USDA balance sheet has listed Chinese ending stocks at about 35 million bales for many years, but it is questionable if that stockpile even exists or, even if it does, if it is useable for mills that cater to Western markets.

After President-elect Trump's first round of tariffs in 2018, Chinese cotton imports from the US in marketing year 2018-19 fell by close to 40%, to 1.32 million bales. They subsequently recovered. In 2023-24, total Chinese imports reached a record 14.98 million bales. Purchases from the US comprised 4.474 million bales of that total.

If the Trump tariffs are implemented, there are several scenarios that could unfold. As illustrated above, Chinese buying has resumed even though the Biden administration kept the Trump tariffs. But this time around, things could be different. In 2018, the Chinese government slapped its own tariffs on soybeans, but not for cotton. The most likely explanation is that there was a comfort level in being able to replace US product with Brazilian soybean imports, but perhaps not so much so for cotton.

Now, however, Brazilian cotton production has moved to a new paradigm. In 2022-23, output was 11.72 million bales, followed by 14.74 million bales in 2023-24. The current 2024-25 crop, which is now fully harvested, is estimated at a record 16.8 million bales by the USDA, easily surpassing the US as the largest producing/exporting country. For the next crop year, cotton area is expected to expand by close to 8%. It is possible, then, that China could comfortably impose its own tariffs, knowing that it could steer importers away from the US and on to Brazil.

China may need cotton, but the US needs China as a customer. Thus far, this marketing year has proven to be dismal, mainly because of the absence of China. Commitments to all destinations to date stand at 6.86 million bales, compared with 7.98 million bales at this time last year. That is materially shy of the USDA forecasts for exports sales to fall by only 3.8%. Normally that would not be an insurmountable target.

In most years, exports tend to come in bunches. The problem is that by this juncture in the marketing year, China has typically booked a sizeable amount of its purchases. Not so this year. Total sales (shipped and unshipped) stand at a paltry 647,300 bales, compared with 3.026 million bales at this time last year. A trade war is not going to be beneficial for US exporters.

For the moment, there are not many supply-side wild cards that could surprise. The US and Brazilian crops have been harvested. Although the US crop was a considerable disappointment relative to early-season estimates, that has been known for many months.

We have not been able to identify any bullish angles. We recommend establishing a short position in March cotton, currently trading at 70¢ per pound. Place initial buy stops at 72.5¢, close only.

[By Sholom Sanik, December 9, 2024]

Chart 5 – ICE cotton weekly nearest contract

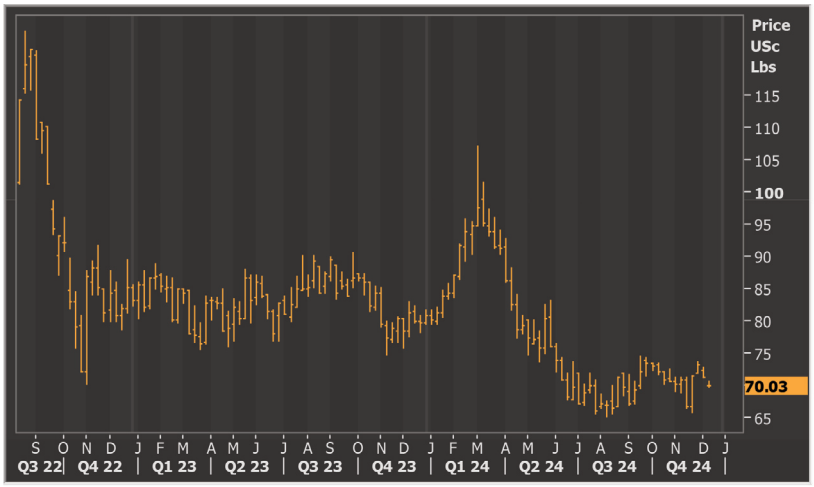


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SOYBEANS

China is buying soybeans. But can it last?

The bear market in soybeans had a brief respite in early November, triggered by a very surprising rewrite for the 2024-25 production picture. The USDA revised the bushel-per-acre yield to 51.7 bpa, down from 53.1 bpa. That translates into a 121-million-bushel drop in output and would lower projected ending stocks to 10.8% of consumption, down from the 12.5% October estimate. That is still a comfortable level relative to the two previous seasons when the carryovers averaged 7.2% of usage. While the forecast for a smaller US crop is not very meaningful at the moment, it does create a somewhat more vulnerable situation when considering other factors.

The reaction to the smaller crop estimate lasted only for a couple of days. The market then began to focus on the implications of President-elect Trump's victory. The threat of a 25% tariff on Chinese imports could spark a trade war that would see China retaliate with tariffs of its own. In addition, we could see an even larger shift of Chinese buying to Brazil (see *Focus on Futures*, November 8). Prices have since retreated and have been crawling along the bottom of their recent range (Chart 6).

US Exports

US exports have been strong thus far this marketing year. Commitments to date stand at 37.3 million tonnes, 12% ahead of last year at this time. The USDA forecast for annual sales is 68.67 million tonnes, up only 4.7% from 2023-24. Shipments are 21.8% above last year at this time. Interestingly, despite the inroads made by Brazil in expanding soy output, US exports have still been increasing every year. If the USDA estimate is correct, 2024-25 sales will be at record levels. Sales to China stand at 17.18 million tonnes (shipped and unshipped), compared with 18.26 million tonnes at this time last year.

Now, of course, this strength is tentative and could all change in a flash if a tariff war materializes. Buying will dry up, and we can expect cancellations of the unshipped portion of commitments.

So, US exports are bullish now, but look out below if tensions flare up.

The 2025-26 US crop

It may seem a bit early to be talking about next year's crop, but bear markets that devastate prices eventually beget bull markets. The recently harvested US crop was planted on 87.1 million acres, 3.5 million acres more than in 2023-24. When planting decisions were being taken for the 2024-25 crop, soybeans were trading at about $13 per bushel. But now, November 2025 soybeans are trading below $10 per bushel. Low prices will definitely be one of the critical factors in determining how much soy gets planted.

Corn prices are low as well, but are relatively much stronger than soybeans (Chart 7). Corn does not have the "China problem," because the Chinese do not buy much corn from the US (or from anyone else, for that matter).

As a result, the USDA baseline projections call for a sharp reduction in US soy acres to 85 million acres, while corn area is expected to expand by 2 million acres. Again, we emphasize that this is a *very* early survey. The next estimate is published in February when more will be known about weather and, of course, international developments (i.e., China).

Brazil

Planting of the Brazilian 2024-25 crop is near complete. The USDA estimates that output will reach a record 169 million tonnes, up from a drought-stunted 153 million tonnes in 2023-24. The previous record was 163 million tonnes in 2022-23. Harvesting concludes in June. It would seem that Brazil could easily step up if the US and China have their trade spat.

In conclusion, the strong pace of US exports will become meaningless if China is not part of the equation for the US. The chart says "sell," but we believe there are too many variables: A smaller-than-expected 2024-25 US crop and, for the moment, an even smaller crop next year. The US and China could come to some accommodation that could eliminate the threat of China ending US purchases. Finally, Brazil has a long way to go in terms of weather if it is to achieve a 169-million-tonne crop.

Stand aside, but stay tuned.

[By Sholom Sanik, December 17, 2024]

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Chart 6 – CBOT March soybeans

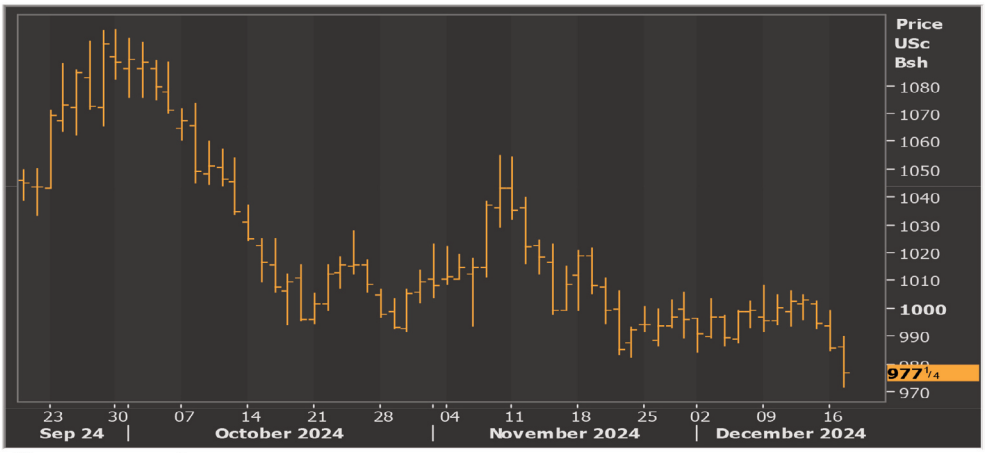


Chart courtesy Reuters

Chart 7 – Nearest contract soybean/corn ratio

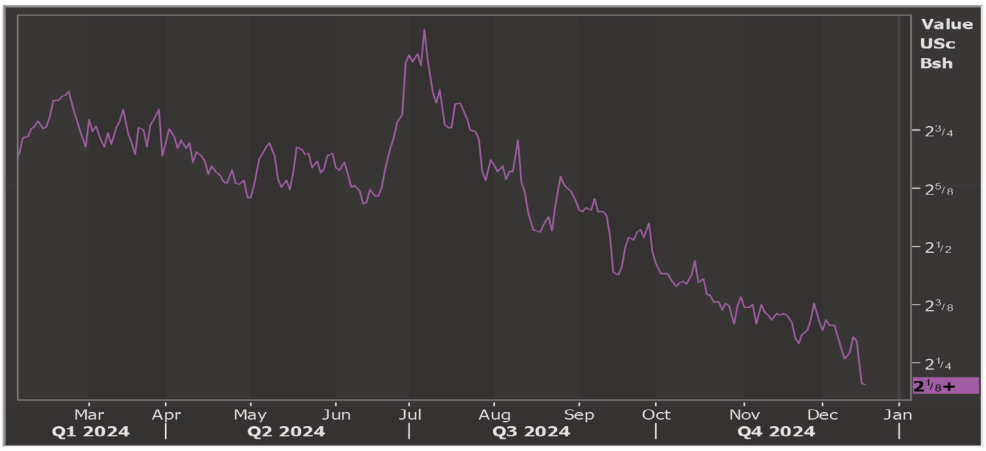


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