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Soybeans: What happened to China?

Soybean prices peaked just as the 2021-22 crop was starting to grow in early summer (Chart 1). The October USDA crop report altered the landscape for the US balance sheet. The USDA plugged in the results of the September 30 quarterly stocks report for the old crop, which was much higher than expected. In addition, the bushel-per-acre yield for the new crop was revised to 51.5 bpa from 50.6 bpa. That alone was good for 74 million bushels (2 million tonnes) of extra supplies.

These two items pushed the estimate for 2021-22 carryover stocks to 320 million bushels (8.7 million tonnes), up from the September estimate of 185 million bushels (5 million tonnes) – a staggering revision. As a result, the estimate for US 2021-22 ending stocks is revised to 7.2% of consumption from 4.2%.

The market reacted negatively to the report, falling to seven-month lows. However – perhaps it can be said inexplicably – prices subsequently rallied over the following three weeks by 70 cents per bushel, before sinking back to the low of the recent range (Chart 1).

At the moment, USDA commitment data show that Chinese purchases of US beans (shipped and unshipped) stand at 17.3 million tonnes. Last year at this time, sales were 26.8 million tonnes. China grows less than 20% of its requirements and will be a steady buyer of US soybeans, as has been the case. But it seems that we may be headed for disappointment if there are expectations for 2021-22 to be a repeat of 2020-21.

China was absent from the US market for most of the summer, which is normal because imports come from South American crops as US old-crop inventories dwindle. But even as the new-crop buying began in earnest, we fell well behind last year's pace. Table 1 shows that purchases during this period last year were 18.4 million tonnes, compared with only 12.1 million tonnes this year.

Total export commitments to all destinations are currently 32.3 million tonnes, 33% behind last year at this time. The USDA forecast for 2021-22 exports is 56.88 million tonnes, only 7.7% behind last year's final tally. So there is a long road ahead if there is any hope of meeting the USDA target.

On November 5, the USDA published its first look at plantings for the upcoming 2022-23 season. Soybean area is estimated at 87.5 million acres, up slightly from last year's 87.2 million acres. Talk on the street is that with high fertilizer prices and supply chain issues, soybean area will be favored over corn because corn is far more fertilizer intensive. Even after the recent tumble, $12 per bushel for November 2022 is historically a very decent price for which to hedge soybean crops. Consequently, we expect that the USDA acreage estimate is conservative. But it will be several months before we get a better idea of planting intentions.

At this point we believe that the only thing that can save this aging bull is a sudden resurgence of Chinese buying. Until such time, we recommend establishing short positions in March soybeans, currently trading at about $12 per bushel. Place initial stops at $12.85, close only.

[By Sholom Sanik, November 8, 2021]

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Chart 1 – March soybeans

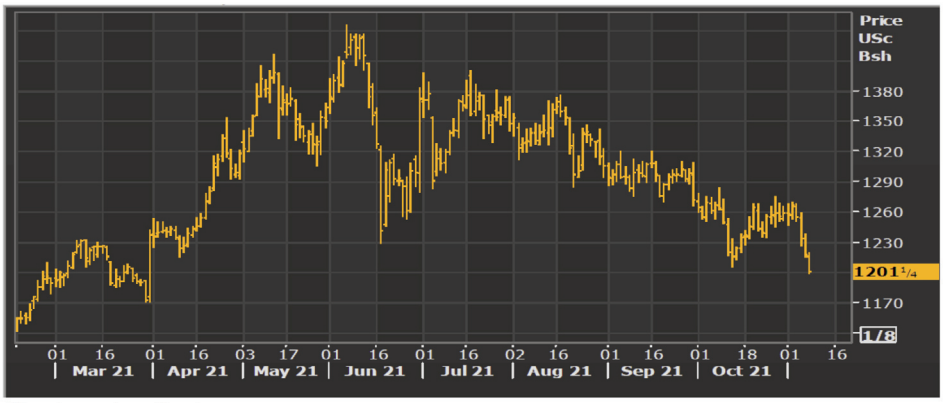


Chart courtesy Reuters

Table 1 – Weekly Chinese soybean purchases from the US (1,000s of tonnes)

	2021-22	2020-21
12-Aug	328	1,705
19-Aug	1,030	1,654
26-Aug	934	1,010
02-Sep	1,264	1,487
09-Sep	764	1,592
16-Sep	945	1,487
23-Sep	624	1,879
30-Sep	776	1,328
07-Oct	671	1,538
15-Oct	640	1,592
22-Oct	1,884	1,222
28-Oct	1,081	1,073
04-Nov	1,207	810
TOTAL	*12,148*	*18,377*

Table source: Reuters

SUGAR

Sugarcane as an energy market, and not just in Brazil

The price of sugar took a deep dive – along with most other commodities – in response to the pre-Thanksgiving-weekend omicron scare (Chart 2). It has since recovered some of those losses. Sugar actually held up quite well when compared with energy prices. Even while petroleum prices corrected by as much as 20% in the sessions following the omicron news, sugar seemed to maintain its poise. There have been a number of bullish developments that could make sense of it.

Brazil

Foremost, while it has been well known that frosts back in July would slash the cane crop and sugar production, the most recent estimates were at the low end of expectations. On November 23, the Brazilian government said that 2021-22 sugar output would fall to 30.7 million tonnes, roughly 10% below its previous estimate and 20% below 2020-21 production.

Curiously, both gas and ethanol prices in Brazil barely flinched. Charts 3 and 4 show that even while international crude and unleaded gas prices were plunging in the wake of the emergence of the new Covid variant, Brazilian energy prices remained strong. Now, with the sharp bounce in international energy prices, we could assume that Brazilian prices will remain firm, at the very least, and perhaps continue to rise. Were this to last until the new cane crop is crushed several months from now, ethanol production should remain in favor *vis-à-vis* sugar production. In fact, at the tail end of the crushing season, crushers were still devoting more than 60% of cane to ethanol.

In any case, with these dismal results from the world's largest producer/exporter, the pool of sugar available for world trade will be 7 million tonnes smaller than in 2020-21.

India

India, most likely temporarily, will become the world's largest sugar producer for 2021-22. A healthy cane crop, however, will not increase sugar output by much because ethanol production is on the rise. While the ethanol industry is still in its infancy when compared with Brazil, the government is planning to increase the minimum amount of ethanol required at the pump. Currently, there is a 10% mandate, but that should rise to 20% by 2023.

Ethanol output has doubled over the past four years. It is estimated that the sugar equivalent of 3 million tonnes will be devoted to ethanol production in 2021-22, which is enough to keep sugar production growth stagnant at about 31 million tonnes, regardless of a healthy cane crop. So, no help here to compensate for Brazil. In fact, domestic sugar consumption is forecast to rise to a record high of 28 million tonnes.

We believe that Indian exports will continue to rise as mills will take advantage of world price levels not seen in years. Nevertheless, it still will not be sufficient to cover the shortfall created by Brazil. Analysts are talking about a 2-million-tonne global production/consumption deficit for 2021-22. That is a very conservative estimate. We believe that when all the revisions are in for Brazil, we will be looking at a deficit closer to 5 million tonnes.

Remain long March sugar. Maintain the 18.25 sell stop recommended on October 22, close only.

[By Sholom Sanik, December 10, 2021]

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Chart 2 – ICE March sugar

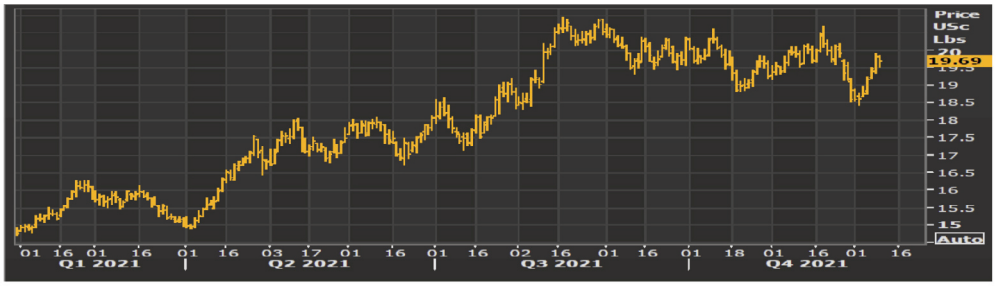


Chart courtesy Reuters

Chart 3 – Brazilian ethanol (real per litre)

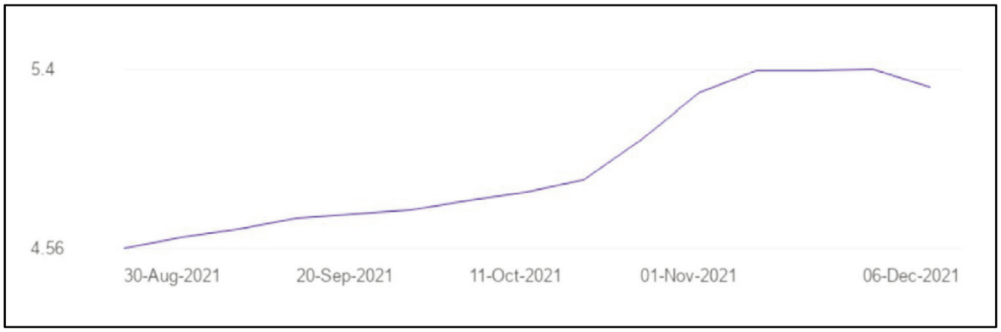


Chart courtesy Globalpetrolprices.com

Chart 4 – Brazilian unleaded gas (real per litre)

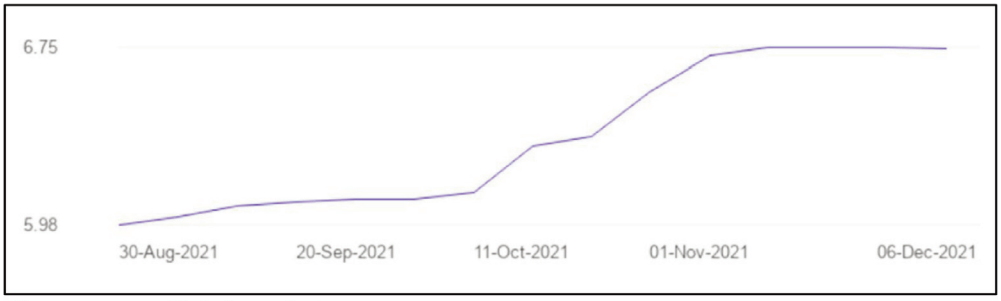


Chart courtesy Globalpetrolprices.com

COTTON

What happened to China?

Memories of March 2020 were quickly recalled when the first news of omicron hit the wires just prior to the Thanksgivings weekend (Chart 5). Back in the early days of Covid, in the space of just one month, cotton prices responded by plunging to 12-year lows (Chart 6). This time around, prices fell by as much as 12% in just a few sessions. We're now three weeks into the world's introduction to the new Covid strain, and the market has stabilized above the lows of the move and is pushing back into the range. We're still at very lofty levels in historical terms. Are these prices sustainable?

Northern hemisphere 2021-22 crops have been harvested, so there will not be any meaningful supply-side news until we get an idea of spring planting for the 2022-23 crop.

On that front, Chart 7 (top) shows that new-crop corn prices *vis-à-vis* cotton, are mid-range, leaving cotton without much of a competitive edge. On the other hand, new-crop cotton prices are materially stronger than soybeans in historical terms (Chart 7, bottom), and could see cotton "steal" acres from soybeans. Planted area in the US has been in decline since the 2019-20 crop. With farmers able to hedge their crops at prices not seen in 10 years, it is more than rea-

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sonable to assume that we will see expanded acreage for the 2022-23 marketing year.

Brazil, the world's second-largest exporter behind the US, is a case in point. Planted area for the crop that is just getting started is expected to be 13.5% above last year. Ultimately, demand will determine the direction of prices. US export commitments stand at 10.014 million bales, down 6.3% from the same time last year. In itself, that is not too bad in that it is in line with the USDA forecasts for 15.5 million bales, or 5.3% behind last year.

The problem is China. The most current USDA weekly export data show that sales to China lag last season by a wide margin. Total sales (shipped and unshipped) stand at 3.118 million bales, down from 3.937 million bales. It's a bit difficult to understand because Chinese-grown cotton is trading at a significant premium to imported cotton, which should be stimulating import demand.

Of greater concern is that last year at this time, 55% of Chinese commitments had already been shipped, but this year only 21% has been shipped. Which, of course, means that cancellations pose a risk. The average weekly shipment rate to all destinations is well below normal.

The economic fallout from omicron, if any, is not yet known. While traders' fears were not unfounded, comparisons with the early days of Covid must take into consideration that we now have the benefit of vaccinations, and that (hopefully) we are better educated and more equipped to run an economy while the pandemic lingers.

The supply and demand fundamentals we presented above are largely bearish. The possibility of China returning to the market still exists, though, and it seems that this is what the market is telling us. Why fight the tape?

We have been long cotton since April 9. The post-omicron action is impressive, illogical as it may seem. However, the market must hold the recent lows. We advise maintaining the stop we suggested on October 26, at $1.02 per pound, basis March, close only.

[By Sholom Sanik, December 17, 2021]

Chart 5 – ICE March cotton



Chart courtesy Reuters

Chart 6 – ICE March cotton _ weekly nearest contract



Chart courtesy Reuters

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Chart 7 – New crop cotton/corn (top), New crop cotton/soybeans (bottom)



Chart courtesy Reuters

CORN

A bull without a cause?

Corn prices have gained steadily since the US 2021-22 harvest began in the fall (Chart 8). There is no single overwhelmingly bullish case.

Ethanol

One of the bullish developments was an unexpected drawdown in corn-based ethanol stocks in October, accompanied by a jump in output. The assumption was that lower inventories foretold a sudden increase in ethanol usage. The market reacted to this, and to date, that section of the rally constituted the bulk of the price increase. However, there was no follow-through. As of the most recent EIA weekly report, US ethanol stocks have increased by 5% from their lowest point in October. Nevertheless, the bullish case from this corner remains intact. Stocks remain well below the peaks set earlier this year and at the low end of a multi-year range (Chart 9).

In November the USDA bumped up its US ethanol consumption estimate for 2021-22 by the corn-equivalent of 50 million bushels, or about 1%, to 5.25 billion bushels. While this forecast is still substantially higher than final figures for 2019-20 (4.857 billion bushels) and 2020-21 (5.028 billion bushels), it is well shy of record usage in 2017-18 of 5.6 billion bushels. We suspect that the usage figure is subject to further upwards revisions.

Brazil

Most recently, traders have been focused on dry weather in South America. Brazilian output for 2020-21 can justifiably be described as a disaster. Weather problems resulted in production of 87 million tonnes, down from 101 million tonnes in 2019-20. Record production for the 2021-22 marketing year was anticipated. The early USDA forecast calls for a harvest of 118 million tonnes, but recent estimates that account for drought have been dropping. One estimate puts the total crop at 114.4 million tonnes.

It's a long season with several crops whose fortunes can swing either way. The first crop, which is harvested between January and April, is the source of concern at present. The main crop, known as the safrinha, which comprises 75% of total output, is not harvested until May. So perhaps the jitters over Brazil have been overstated.

China

Chinese corn purchases from the US have come in dribs and drabs. The balance sheet shows that we're actually slightly ahead of last year for total sales (shipped and unshipped). However, don't expect that to last. Over the past several months there have been no meaningful sales to China.

Of greater concern, last year at this time China had taken delivery of close to 4 million tonnes, compared with

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only 1.7 million tonnes thus far this season. Looming cancellations? Unless China returns to the US market, it is tempting to declare that 2020-21 was a single-season phenomenon. As illustrated, an extraordinary bullish case does not seem to exist. We've been long corn since April 1. Having lived through much volatility and several brushes with our stops, this remains a profitable position. The intermediate-term trend is up, but at the same time remains vulnerable to setbacks.

On October 29 we raised the sell stop on March corn to $5.25 per bushel. Raise stops to $5.75, close only.

[By Sholom Sanik, December 22, 2021]

Chart 8 – CBOT March corn

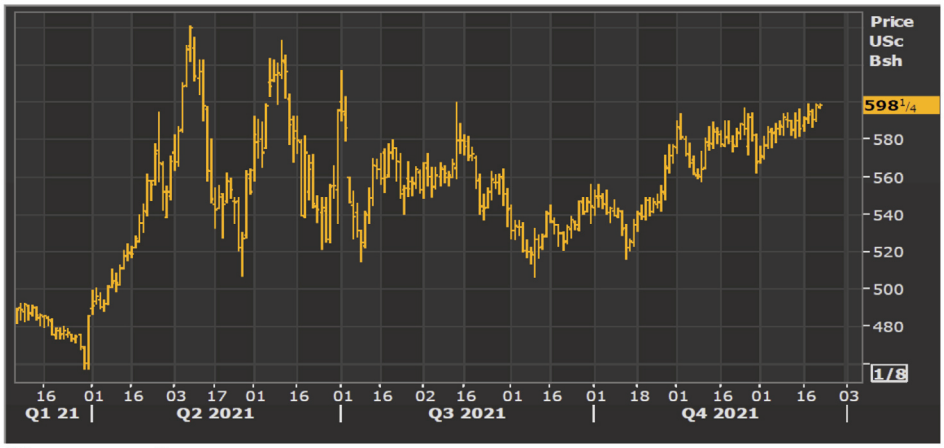


Chart courtesy Reuters

Chart 9 – EIA US corn-based ethanol stocks (1,000s of barrels)

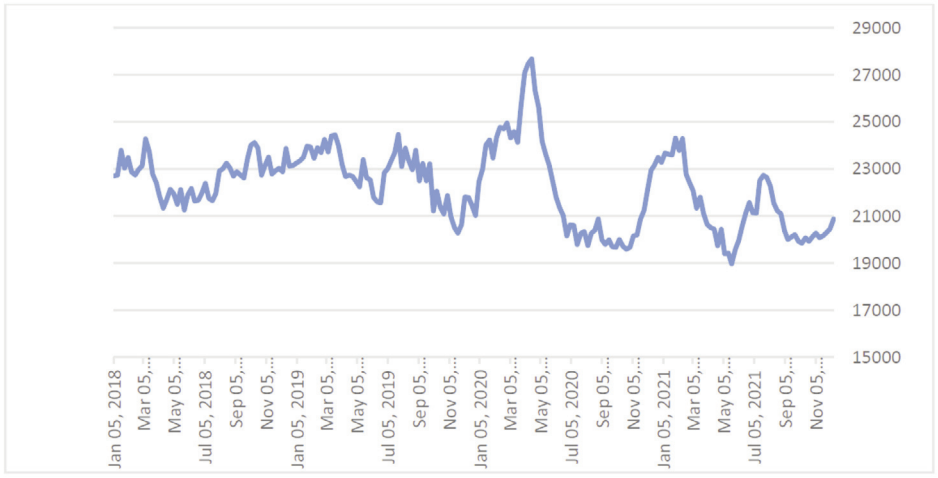


Chart source: EIA

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Subscription Enquiries for
Friedberg's Focus on Futures
Suite 600
220 Bay Street
Toronto, Ontario, Canada M5J 2W4
Telephone: 416-350-2913
Fax: 416-364-0572

All enquiries concerning trading accounts should be directed to:
Friedberg Mercantile Group Ltd.
Suite 600
220 Bay Street
Toronto, Ontario, Canada M5J 2W4
416-350-2903
Attn: Sholom Sanik

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