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Soybeans: China gets hungry

In mid-October soybean prices violated their summer lows and looked as though they were about to fall off a cliff (Chart 1). The market stabilized, but then in early November traders started worrying about dry weather in Brazil as the planting season gets underway. In response, the market rallied by over $1 per bushel off the lows.

The November 9 USDA crop report was deemed bearish. Analysts were expecting the bushel-per-acre yield to come in unchanged from October at 49.6 bpa, but the USDA actually revised it higher to 49.9 bpa. There were no other material changes, but the higher yield pushed the ending stock figure up to 245 million bushels, or 5.8% of consumption, up from the October estimate of 5.2%. The "bearish" news was good for a one-day setback. The Brazil weather rally then resumed.

To put the US supply situation in perspective, consider that US farmers shifted significant acreage for 2023-24 from soybeans to corn. Planted corn area was up 7.1% over 2022-23, while soybean area was 4.4% lower. This strategy should work *if US exports will be as weak as the USDA forecast.*

At the moment, US soybean exports lag behind last year's by a wide margin. The USDA forecast for 2023-24 annual sales is 47.76 million tonnes, down 11.9% from last year. Commitments stand at 28.1 million tonnes, down 21.4% from last year at this time. However, over the past several weeks the gap has narrowed, and the outlook has improved rather dramatically (Chart 2). In particular, the most recent weekly report showed gargantuan new sales of 3.9 million tonnes, 2.6 million tonnes of which went to China.

One month ago, we would have needed weekly sales of about 600,000 tonnes to meet the USDA target. After the past few weeks of robust exports, that figure drops to below 500,000 tonnes. Any return to a normal flow of Chinese purchases will likely see the USDA raising its target.

Thus far in 2023-24 China has purchased 15.3 million tonnes (shipped and unshipped), down from 20.9 million tonnes last year at this time. But shipments are equal to last year's pace, at 9.8 million tonnes. If the activity of the past few weeks is any indication, it is fair to say that China is indeed back in a big way. In the five weeks prior to this past week's blockbuster figure, average commitments to China alone were 934,800 tonnes.

We have mentioned this many times, but it pays to bear in mind that Chinese domestic demand is about 120 million tonnes pitted against production of only 20 million tonnes.

In the meantime, the 10-to-14-day forecast in Brazil growing regions is calling for wetter weather, which triggered a setback from recent highs.

There is no question that US exporters face stiff competition from their Brazilian counterparts. And the Brazilians have ample supplies to meet Chinese needs after this past season's record 158-million-tonne crop. Early forecasts for the new Brazilian crop that will not be harvested until mid-2024 look for yet another record harvest of 163 million tonnes.

In looking at the US balance sheet in isolation, however, and notwithstanding the uptick in this month's ending-stock estimate, inventories remain at precariously low levels. If exports surprise, which, as indicated, seems to be happening, we could be at historic lows in US inventories. For example, if the USDA miscalculated

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Chinese demand and it starts looking as though we will tie last year's exports, some rough arithmetic would put 2023-24 carryover stocks in the 3% neighborhood!

In our last discussion of soybeans (see *Focus on Futures*, October 12), we concluded that at the time the market looked bearish, but with the caveat that "…a China buying binge always remains a possibility." We believe that this vulnerability has been exposed.

Establish long positions in March soybeans, currently trading at about $13.60 per bushel. Place initial sell stops at $13.00, close only.

[By Sholom Sanik, November 17, 2023]

Chart 1 – CBOT soybeans

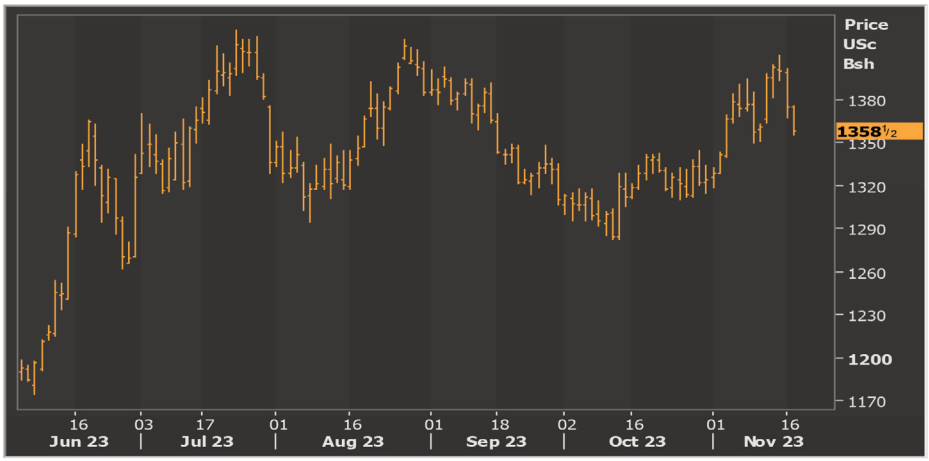


Chart courtesy Reuters

Chart 2 – 2023-24 US soybean export commitments vs. 2022-23 (percentage)

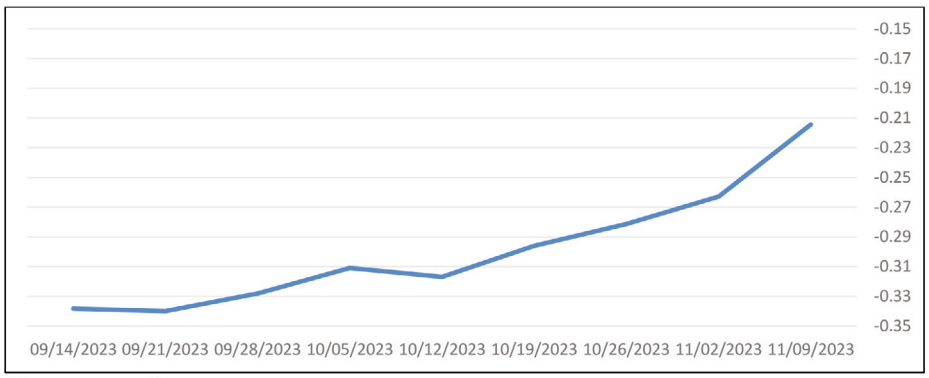


Chart source: Reuters

COCOA

Up, up, and away?

The choice of a descriptive verb to express the action in the cocoa market presents a challenge – "skyrocketed" or "catapulted," perhaps. Whatever word you choose, it has been a truly extraordinary move. Prices are at 45-year highs (Chart 3) and have almost doubled since the beginning of the year. We're up $900 per tonne just from the time that Ivory Coast exporters began to report arrivals for the 2023-24 maincrop in early October.

The final figures for 2022-23 show output of 2.329 million tonnes, 126,000 tonnes fewer than the previous season. There has been excessive rain, which is responsible for a whole host of problems. First, it delays the drying process and lowers quality. Flooding compromises trucking routes. Then there is the potential for more permanent issues, such as swollen shoot and black pod diseases.

If conditions do not improve, the 2022-23 campaign will look like a year of bounty in comparison.

Two months into the new marketing year, port arrivals present their worst year-over-year performance in modern history. As of November 27, arrivals were a scant 481,000

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tonnes, down 237,000 tonnes from this time last year!

One possible explanation for what has transpired can be found in the dynamics of cross-border smuggling. Traditionally, traders from Ghana would smuggle significant amounts of beans to the Ivory Coast. This season, however, some analysts believe that the opposite may be true. With world cocoa prices doing what they are, farmers in the cocoa growing countries expected the respective marketing boards to increase farmgate prices to allow them to participate in the windfall. And the Ivorian government did indeed raise what it pays farmers, but it was less than what farmers expected. Obviously, there is no hard information on this matter. But traders have indicated that with Ghanaian prices trading at a $180-per-tonne premium to those in the Ivory Coast, the direction of the flow has changed this season. It is too early in the season to draw any conclusions.

The data from the Ivory Coast may be skewed in terms of knowing the volume of beans that has actually been harvested. That deficiency of facts, however, pales when viewed in terms of the frustration of covering Ghana for which there is no data at all! Harvest of the new main-crop has begun, but we still do not have any clarity on what was produced last season.

On the demand side, third-quarter grindings were up 3.6%, year-over-year (See *Focus on Futures*, October 25). For 2022-23, the International Cocoa Organization (ICCO) estimates the demand grew 2.4%. If the dive in West African bean production is accurate, any increase in demand will continue to draw down stocks.

The ratio of cocoa butter prices to beans has been muted (Chart 4). This means that processors might not be eager to buy beans if grinding is not profitable.

In conclusion, the unfolding events, even those that are reported on, seem to be missing pieces of the puzzle. Is it really possible that Ivorian production could fall so much from one season to the next? And the second most important data item for this market, Ghanaian output, is a complete mystery. It is definitely strange that even the ICCO does not have enough information to weigh in on the matter. As such, we remain sidelined. When the weekly statistics begin to show a narrower gap between this year's and last year's arrivals, this bubble could burst. Stay tuned.

[By Sholom Sanik, November 29, 2023]

Chart 3 –Weekly nearest contract ICE cocoa



Chart courtesy Reuters

Chart 4 – Cocoa butter ratio

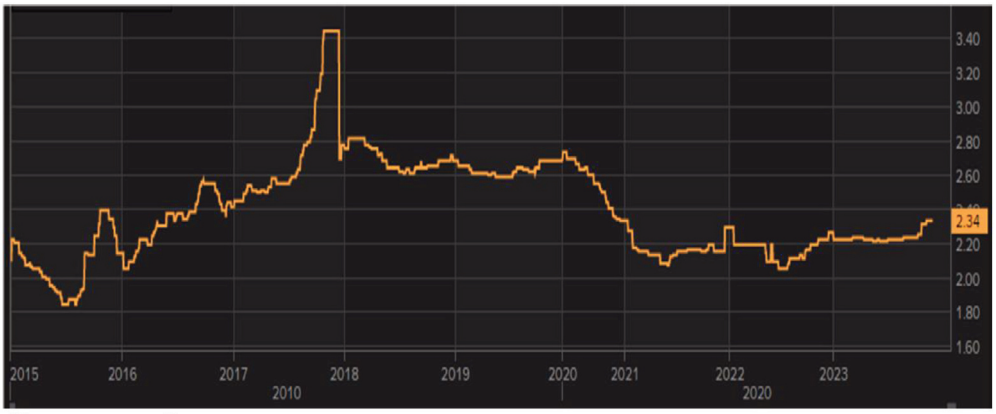


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SUGAR

Not so sweet

Sugar prices spent October and November consolidating between 27¢ and 28¢ per pound. After failing to puncture through the 28¢ ceiling, a monumental correction followed that saw the market fall by 25% (Chart 5). Where to from here?

It would seem that there were two developments that sparked the selling. First, in late November, the Brazilian crushing season was drawing to a close. With a more comprehensive look at the 2023-24 season as a whole, estimates for output grew by between 1 and 2 million tonnes.

But perhaps the more poignant trigger for the price decline came from India. There has been significant investment in the past several years in creating an ethanol infrastructure similar to the Brazilian model. To illustrate, in 2018-19 the sugar equivalent of ethanol output was about 300,000 tonnes. For the current marketing year, that figure has grown to close to 5 million tonnes. The plan was to move from a 10% minimum ethanol/petroleum blend to 20% by 2025.

In early December the government announced that it is considering a temporary hold on the diversion of cane from sugar to ethanol production. Bulls headed for the exit. Charts 6 and 7 show the drop in open interest and in the net-long fund position.

More recently, the government backtracked somewhat by providing a specific figure of how much cane can be diverted to ethanol – the sugar equivalent of 1.7 million tonnes. That would still leave several "new" million tonnes available for sugar crushing.

Clearly this would be a bearish factor as the extra sugar would alleviate tightness. At the same time, it is an indication that there is palpable concern about sugar supplies in India as the government looks to alternative measures to ensure domestic demand can be met. Without "borrowing" from the ethanol sector, domestic consumption of 29 million tonnes is expected to exceed 2023-24 output.

Exports are not on the table at all. At this point the export ban (see *Focus on Futures*, September 28) will almost certainly be in force until the end of 2024. In fact, a recent survey of sugar analysts included a rather bold prediction that India may have to become an *importer* of sugar.

In Thailand, the outlook for the new marketing year is much the same as it is in India. Early forecasts for 2023-24 output have fallen to 7 million tonnes, and that will be a direct hit on the pool of supplies available for world trade.

The International Sugar Organization recently published a revised forecast for the global production/consumption balance sheet, from a 2.1-million-tonne deficit, to a near-balanced deficit of only 335,000 tonnes.

The magnitude of the slide in prices we have witnessed over the past several weeks is of epic proportion. Without a doubt, the increase in Brazilian estimates and tampering with the Indian ethanol program are bearish factors.

Having established that, there are still variables to consider on both sides of the pond. Brazilian weather has been dry, which could compromise yields for the crush that will begin in April. In addition, it is hard to say at this point if Brazilian mills will maintain a 51% sugar/ethanol ratio. There is talk that the government could raise the minimum ethanol/gasoline blend to 30% from 27%.

It is difficult to say if India will really follow through with curtailing the ethanol initiative.

We are long March 25¢ call options, which have lost most of their value. At the moment, we will recommend hanging on to those options.

[By Sholom Sanik, December 21, 2023]

Chart 5 – ICE March sugar



Chart courtesy Reuters

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Chart 6 – ICE sugar open interest

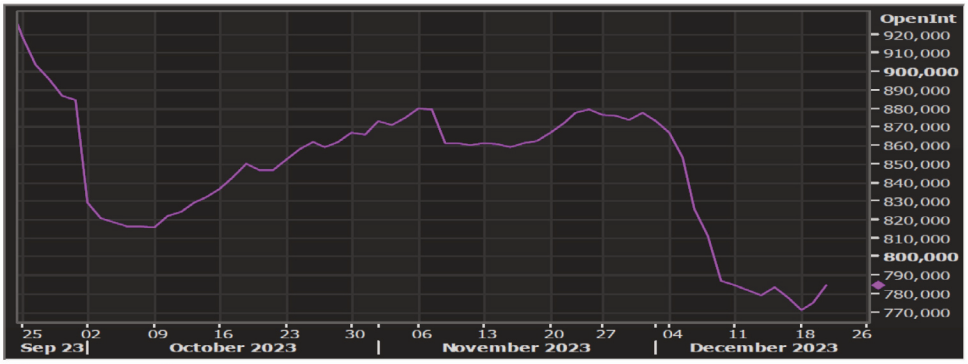


Chart courtesy Reuters

Chart 7 – CFTC fund net-long ICE sugar position



Chart courtesy Reuters

COTTON

Demand perking up

Cotton prices have been pushing down against the bottom of the recent trading (Chart 8). The market has been struggling with a mostly bearish supply/demand outlook since the start of the 2023-24 marketing year. There are two primary issues: An expansion of Brazilian cotton area and US exports.

Brazil

As recently as in the 2021-22 marketing year, Brazil produced 10.82 million bales, or 9.4% of world output. The harvested 2023-24 crop reached 14.56 million bales, 12.9% of world output. Going forward, planting for the new Brazilian crop has begun. Some analysts estimate that cotton area will grow yet again, with one forecast putting 2024-25 output at close to 17 million bales, about 15% of world output. That would displace the US as the number-one producing/exporting country.

The US had an off year in 2023-24 with output of only 12.78 million bales – down from 17.52 and 14.47 million bales in 2021-22 and 2022-23, respectively. But even if the US has a more typical crop in 2024-25 (15 to 16 million bales), competition from Brazil will be stiff. Of course, with the crop just getting into the ground and weather variables, it is still quite early for an accurate estimate. We believe that the weakness we saw in December was directly tied to the announcement of switching some soybean area to cotton in Brazil.

US

We saw a somewhat startling revision in the December USDA crop report. Global consumption was revised down by 1.57 million bales, to 113.78 million bales. That would still represent a production/consumption deficit, but much smaller than earlier estimates.

However, the demand side is looking a whole lot more promising for the bullish side than it did even a few weeks ago. The USDA revision to global consumption may very well be based on some dated information. The USDA forecast for US exports is currently 12.2 million bales. That's just

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slightly less than this past season's final sales tally. Until late October, US exports were almost non-existent, and even the 12.2-million-bale estimate seemed rather optimistic.

Then a series of large purchases altered that landscape materially. Chart 9 shows that the gap between last year's and this year's sales has narrowed significantly. Were this to continue we should handily meet the USDA target and likely exceed it.

Weekly commitments would need to average about 130,000 bales, which is far less than last year's pace between January and May. And this is where it gets interesting. At 3.10 million bales, or 22% of usage, projected US ending stocks for 2023-24 are much lower than last year's 28%. If export demand continues to be strong, US supplies will be strained, particularly in light of this past season's poor crop. Chinese buying is crucial, and indeed, weekly export reports show that they have been active.

There have not been any estimates for the soon-to-be-planted US 2024-25 crop. It's hard to imagine that farmers would be very exuberant about dedicating large area to cotton with new-crop prices trading at 79¢ per pound. We would suggest monitoring both US sales and the upcoming estimates for new crop area. Stand aside, but stay tuned.

[By Sholom Sanik, December 29, 2023]

Chart 8 – ICE March cotton

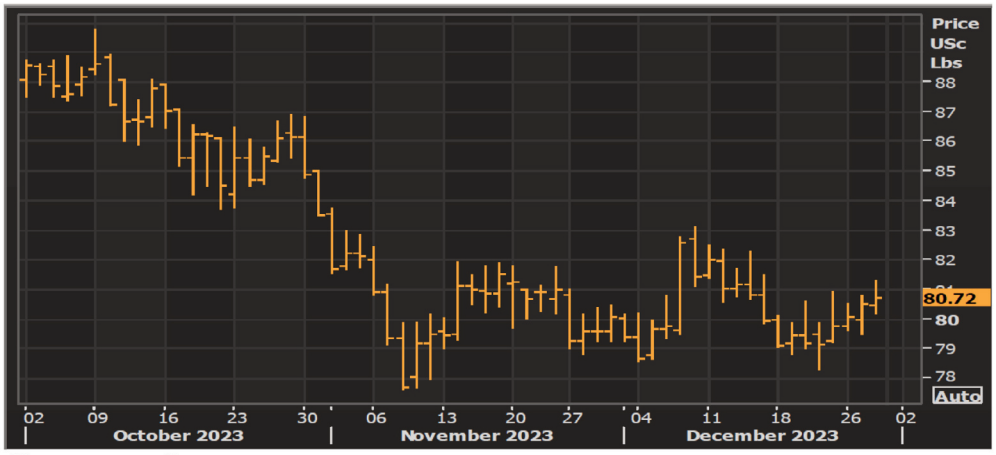


Chart courtesy Reuters

Chart 9 – 2023-24 US export commitments vs. 2022-23 (percentage)

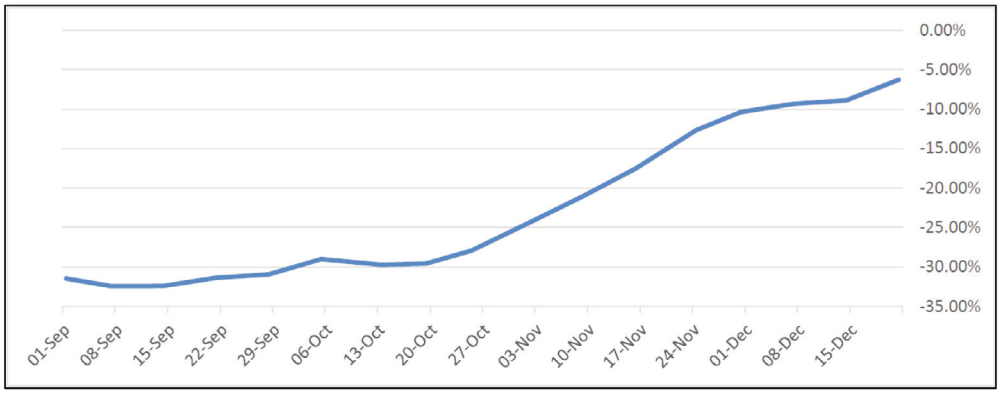


Chart source: Reuters

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