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Soybeans: A bearish landscape

The December USDA balance sheet certainly paints the bearish picture reflected in tumbling soybean prices (Chart 1). While 2023-24 US production fell for a second consecutive season, Brazil has compensated for both the US and for the *bona fide* crop failure in Argentina. Global ending stocks are estimated at 29.7% of consumption, compared with 28% and 27% in 2022-23 and 2021-22, respectively. Unless demand picks up, that will be the highest carryout since 2018-19.

Even several weeks of dry weather in Brazil have not deterred traders from jumping on the short side. In mid-November, commodity funds were net-long 90,000 contracts, but since then, that position has flipped to a net-short position (Chart 2).

In December, the USDA trimmed its estimate for the Brazilian crop that will be harvested this coming spring by 2 million tonnes, to 161 million tonnes. That's about the same as 160 million tonnes harvested in 2022-23, but up rather dramatically from 130 million tonnes in 2021-22.

More current estimates that reflect the poor weather has downgraded total output by a further 10 million tonnes. Most recently, rain has returned, but that will not help yields for the early crops, which are already being harvested.

One final note regarding Brazil: The government is raising the required ratio of bio-diesel to petroleum-based diesel oil to 14% from 12%.

Most bio-diesel is made from soybean oil, and this diversion will come at the expense of soybean exports. Not a huge factor, but it could be important if bean production will not be as large as originally anticipated.

Viewed independently, the US balance sheet is in a vulnerable position. Ending stocks as a percentage of consumption for the current marketing year are estimated at 5.8%, down from 6.2% and 6.1% in 2022-23 and 2021-22, respectively. Upcoming supply-side data from the January 12 USDA monthly crop report is not likely to change very much. The quarterly stocks report on the same date will provide insight into domestic demand.

If Brazil muddles through its early-season weather issues, what happens in the US will not matter very much. This is particularly true since export levels have not been inspiring. At the moment, 2023-24 commitments (shipped and unshipped) stand at 36.8 million tonnes, down 16.9% from last year at this time. This is concerning because the USDA is forecasting foreign sales at 47.76 million tonnes, down only 11.9% from 2022-23.

In the early part of the marketing year, exports were lagging severely *vis-à-vis* last year, but then had a surge (Chart 3). Over the past month, however, that activity seems to have plateaued.

Looking down the road, one item that has not received much attention yet is how much area US farmers will devote to soybeans for the soon-to-be-planted 2024-25 crop. In 2023-24, soybean area plunged by about 4 million acres, or 4.5%, from the previous two crops. We have not seen many forecasts to date, but one prominent analyst believes that soy acres will rise materially at the expense of corn acres, which saw a massive 7.5% increase in 2023-24.

In conclusion, there are three variables that can affect prices and whose developments merit careful monitoring: Brazilian output; US exports; and the soy area for the coming US crop. At the moment, all three point in a bearish direction.

We were stopped out of a long position in March soybeans recommended on November 17 at $13.00 per bushel. Remain sidelined.

[By Sholom Sanik, January 11, 2024]

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Chart 1 – CBOT March soybeans

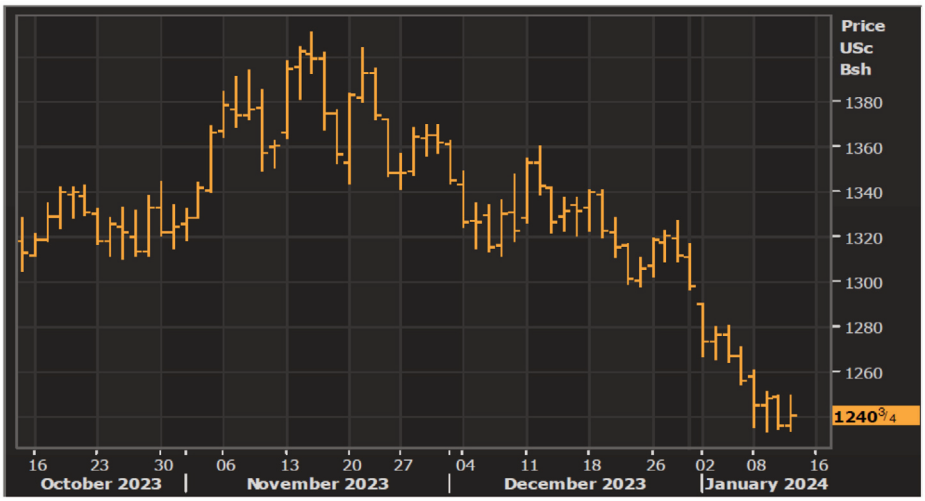


Chart courtesy Reuters

Chart 2 – Commodity fund net-short position

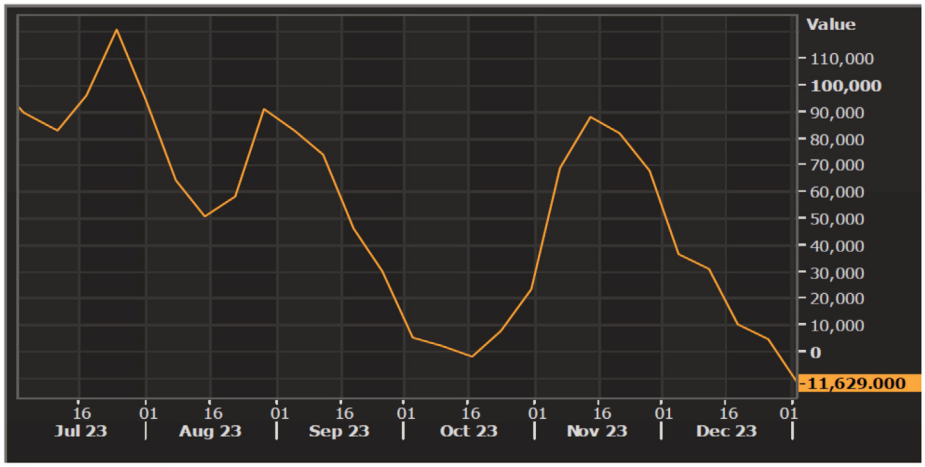


Chart courtesy Reuters

Chart 3 – 2023-24 US export commitments vs. 2022-23 (percentage)

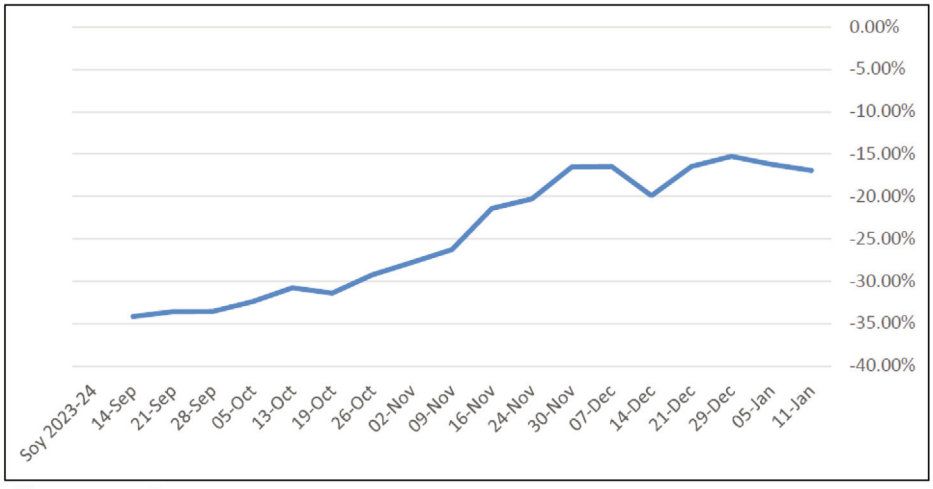


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CORN

Is the bear's growl worse than its bite?

The corn market took a severe drubbing with the January 12 USDA data – bearish wherever you looked. The big one was a revision to yields for the recently harvested US 2023-24 crop. The bushel-per-acre (bpa) yield was raised from the December estimate of 174.9 bpa to 177.3 bpa. Analysts had no clue that this was coming – the guesstimate was 174.9 bpa. The estimate of harvested area was actually reduced by 600,000 acres, but the yield increase still added 108 million bushels (2.72 million tonnes) to the harvest total.

Quarterly stocks – a measure of domestic demand – came in at 12.168 billion bushels (309 million tonnes), 119 million bushels (3.03 million tonnes) higher than anticipated. The only bullish item for the US was a 50-million-bushel corn-equivalent increase in the estimate for ethanol usage.

On the global front, Brazilian production was revised down by 2 million tonnes, to 127 million tonnes, on account of dry weather. That could actually be the beginning of a somewhat bullish thread down the road. Private forecasts are actually considerably lower, with one estimate at 118 million tonnes. Last year Brazil produced 137 million tonnes. Less output could temper competition to US exports. It is, however, very early to write off a recovery in Brazilian output.

In any case, the revision to Chinese production contained in the monthly USDA crop report for the recently harvested crop whitewashed any bullishness that may have been provided by the downward revision in Brazil. The output estimate for 2023-24 jumped by 12 million tonnes, to 288.84 million tonnes.

That would put global ending stocks as a percentage of consumption at 26.8%, up from the December estimate of 26.1%, and compared with an average of 25.8% for the two previous seasons. That is not quite as large as the carryouts in the late 2020s, which climbed to over 30%, but it would seem to indicate a well-supplied market.

There is one silver lining for bulls. US corn exports are the best performing among the major agricultural markets. Commitments to date stand at 30.3 million tonnes, up 37.6% from the same time last year. That compares with the USDA forecast that we will finish the marketing year up only 26.3% above 2022-23.

What makes this even more interesting is the fact that China has been in the market for US corn. There has been no Chinese activity over the past two weeks, but in December their weekly average purchases from the US were 150,000 tonnes. Now of course, this is nothing close to the buying binge we saw in 2021 when they bought over 20,000 tonnes. However, there is some curiosity as to why they would be buying at all when such a large crop was just harvested.

Even without China, demand from traditional customers, such as Mexico and Japan, has been strong and steady. The USDA did not increase its export estimate for the marketing year at all in the January crop report. We could very well see an upward revision in the February crop report.

The USDA's US yield revision certainly surprised everyone – including the bears! The market is battered and bruised. Commodity funds own an extreme short position (Chart 5), which could be challenged with short covering if the significant variables of Brazilian output estimates and US exports continue in the direction that they have been heading.

Stand aside, but stay tuned.

[By Sholom Sanik, January 17, 2024]

Chart 4 – CBOT March soybeans

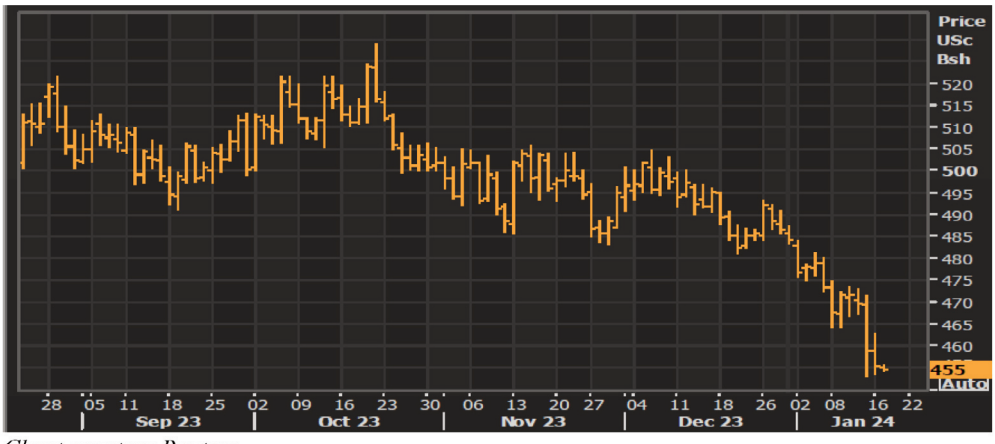


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Chart 5 – Commodity fund net-short position



Chart courtesy Reuters

SUGAR

Sweet again

This past December sugar prices shed more than 25% of their extraordinary 2023 gains (Chart 6). Has anything in the supply/demand fundamentals changed to account for such a steep drop? Well, the short answer is: Not really. Brazil produced a record crop. Poor crops of Asian producers have compromised their ability to participate in world trade – zero from India and a sharp reduction in Thai exports.

Brazil

Brazil will soon begin crushing its new crop. Two things must happen for Brazil to be able to compensate for India.

First, optimum yields must be achieved to justify current forecasts for another record crop. For the marketing year that is now winding down, Centre-South output is estimated at 42.2 million tonnes. Early production estimates for the new crop are about 43.1 million tonnes. That, however, could prove to be a challenge. The cane crop is estimated at 620 million tonnes, down from 650 million tonnes in 2023-24. Furthermore, dry conditions through the middle of January threaten to hamper yields. The forecast calls for wetter weather, and going forward, this will be a key issue to monitor.

Second, with the Brazilian 2023-24 marketing year largely behind us, the ethanol/sugar output ratio reached 49%, up from 46% in 2022-23. Analysts are talking about a jump to over 52%. This could be a bit of an overreach. The government is considering raising the required minimum ethanol blend in gasoline, from 27% to 30%. At the moment, ethanol production has been sufficient to meet demand and inventory levels seem to be ample. But with a smaller cane crop and the additional ethanol that will be needed to meet a 30% mandate, the possibility of a strain on ethanol availability could become an issue. As a result, we are not so certain that the shift to over-producing sugar *vis-à-vis* ethanol is sustainable.

India

We are several months into the new 2023-24 marketing year in India, and the effects of a weak mid-year monsoon are surfacing. Aside from lower yields, there may be less cane available than previously believed because crops that require less irrigation were substituted for cane. Production estimates vary between 29 and 30 million tonnes, down from 31.5 million tonnes this past season. At the low end of the estimate range, production will dip below domestic consumption for the first time in seven years. Data in from key production states such as Maharashtra and Karnataka have seen a sharp drop in yields in the early going. Indian exports may be a relic of the past. In any case, there will be no sugar available for foreign trade in the foreseeable future.

Thailand

Thailand has exported as much as 10 million tonnes in previous years. This past year's exports are estimated at 7.64 million tonnes. However, output is forecast to drop to below 8.5 million tonnes, and that is a generous estimate. Domestic consumption is typically about 3 million tonnes, which means that much less sugar will be available for world trade.

As illustrated, the supply and demand fundamentals remain bullish. Without Indian exports, Brazil will bear the burden of supplying world trade.

We are currently long March 25¢ calls, which will soon expire. At this time, we recommend liquidating that position and using the proceeds to establish a long position in July 25¢ call options, which are trading at about 75¢.

[By Sholom Sanik, January 24, 2024]

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Chart 6 – ICE March sugar



Chart courtesy Reuters

COTTON

US exports do not disappoint

When we last discussed the cotton market on December 29, we concluded that there are three important items that bear careful monitoring: US sales, the outlook for the 2024-25 US crop that will soon be planted, and Brazilian output.

In the interim, the January USDA monthly crop report was mixed. The USDA went to town on raising yield estimates for all the major US agricultural products that were harvested this past fall. The same was true for cotton – the pound per-acre (ppa) yield was revised up, to 845 ppa from 765 ppa, or 10.5%. However, unlike the others, harvested area for cotton was slashed by close to 1 million acres, or 12%, which resulted in a net downward revision for output.

On the demand side, the USDA actually lowered the export estimate a tad. This did not reflect what has been transpiring on the export sales front. Export commitments have climbed steadily throughout the marketing year. As seen in Chart 7, we have pulled ahead of where we were last year at this time. The USDA forecast for 2023-24 sales is 12.1 million bales, down 2.78% from last year, while commitments indicate that we are 2.5% ahead of 2022-23.

The likely rationale for the USDA's hesitancy to revise the forecast for final sales upwards is that shipments are lagging last year's pace by 11%. However, upon closer inspection, this indicator has shifted course as well. Over the past six weekly reporting periods, shipments have averaged 245,000 bales, up rather sharply from the comparable period last year when shipments averaged 159,000 bales. We believe that the USDA will raise the annual sales target in the February crop report.

As always, the key component of export sales to monitor is Chinese activity. Officially, global ending stocks as a percentage of consumption stand at 75%. More than 50% of those inventories are attributed to China. If all that cotton could be used to meet domestic needs, they would not be as active as they are in purchasing from the US. At the moment, total Chinese purchases from the US (shipped and unshipped) are 3.865 million bales. That compares with only 1.877 million bales at this time last year.

In 2023-24, US farmers planted 10.23 million acres to cotton, down from 13.75 million acres in 2022-23. That was the smallest area since 2016-17. The first USDA estimate for 2024-25 will be available in mid-February. Early estimates by private forecasters are in the 10.7-million-acre range. In light of the resurgence of demand for US cotton, we consider that to be a bullish development.

Estimates for the 2023-24 Brazilian crop are creeping up, with the outlook for production to rise by about 5% from the previous harvest. Of note, the 2022-23 crop was close to 25% higher than in previous years, so Brazil has gone head-

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long into the cotton business and will pose competition to the US. For now, though, it will be many months before this crop will be available, and besides, weather has not been great for any crops in Brazil.

In conclusion, we believe that the recent rally (Chart 8) was well warranted given the surge in export sales.

We recommend establishing a long position in May cotton, presently trading at about 87¢ per pound. Place initial stops at 82.5¢, close only.

[By Sholom Sanik, February 1, 2024]

Chart 7 – 2023-24 US export commitments vs. 2022-23 (percentage)

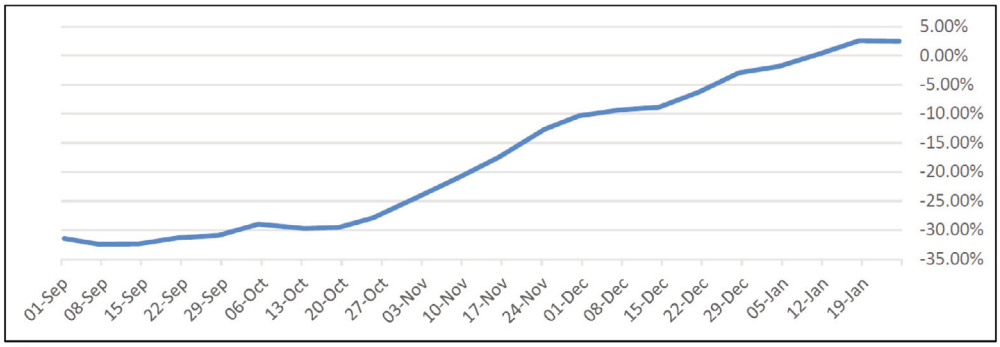


Chart source: Reuters

Chart 8 – ICE May cotton

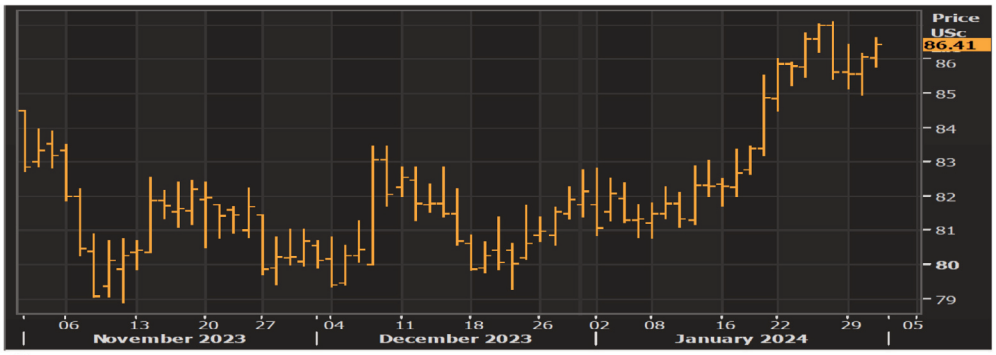


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