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FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 27, No. 1 February 7, 2025

India allows *some* sugar exports. So what?

Over the past couple of months, the sugar market has dwelled primarily on whether the Indian government will lift its export ban on sugar exports. The harvest of the 2024-25 crop began late last year, and given early-season forecasts for a decent-sized crop based on a healthy monsoon, this certainly seemed plausible. On January 20 there was indeed an announcement that 1 million tonnes of exports would be allowed. So why has the market rallied 130 points, or about 7%, since then (Chart 1)?

In our view the bearishness that preceded the announcement was ill conceived, and the supply/demand fundamentals remain bullish. In fact, as we will illustrate, they have become more bullish.

Brazil

There have not been any fresh estimates for the concluding Brazilian crush, but the tail end of the crush saw a poor performance. The sugar/ethanol output ratio fell to 31.7% in the most recent bi-weekly reporting period, the lowest ratio in a very long time. It is not terribly meaningful, because it is not unusual for the ratio to drop at the end the season, but it underscores our previous view (see *Focus on Futures*, December 23) that we are probably looking at arriving at the low end of the estimate range for Centre South production.

India

What is puzzling about the timing of the relaxation of the export policy, though, is that for the moment anyway, Indian estimates for 2024-25 output, like Brazil, are likely to be revised downwards. Statistics from the major producing states are all showing that yields are below expectations. As of early this month, Maharashtra production is down 21.5% year-over-year. Karnataka is 18.1% lower. And the largest sugar region, Uttar Pradesh, is 4.5% lower than last year. These three states comprise about 80% of Indian output.

We believe that it is not a great mystery. Taking a closer look at the monsoon's performance, the northern part of the country, where Uttar Pradesh is situated, had the most precipitation. Hence, although down from last year, that region is the best performer among the three regions. But it is down from last year because there has been an outbreak of red rot disease, which has lowered yields. But the headline story of a healthy monsoon does not account for the fact that the other two regions, both in the South of the country, did not receive as much precipitation as the north.

One recent estimate puts total 2024-25 production at 27 million tonnes, down from 32 million tonnes in 2023-24. If we pit that against estimates of 29 million tonnes for domestic consumption, we will have a stock drawdown, something that was certainly not expected.

In any case, the 1 million tonnes of exports that will be allowed are below the low end of the range of estimates. Given the fragile state of this season's Indian production, we cannot see that any more exports will be forthcoming.

Commodity funds have liquidated their long positions and are now short (Chart 2). Expect short covering.

All told, a classic illustration of the traditional market adage: "sell the rumor, buy the news."

We are long July 20 calls and July 19 calls as per our November 28 and December 23 recommendations, respectively. Remain long.

[By Sholom Sanik, January 24, 2025]

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Chart 1 – ICE March sugar

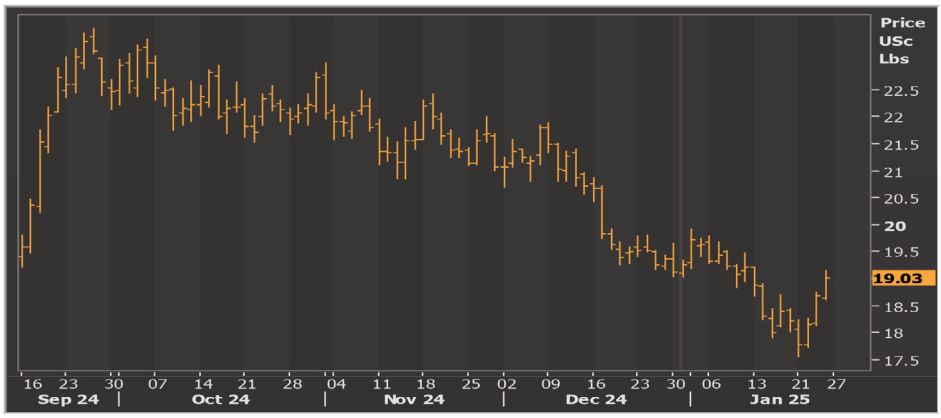


Chart courtesy Reuters

Chart 2 – CFTC sugar net-short position

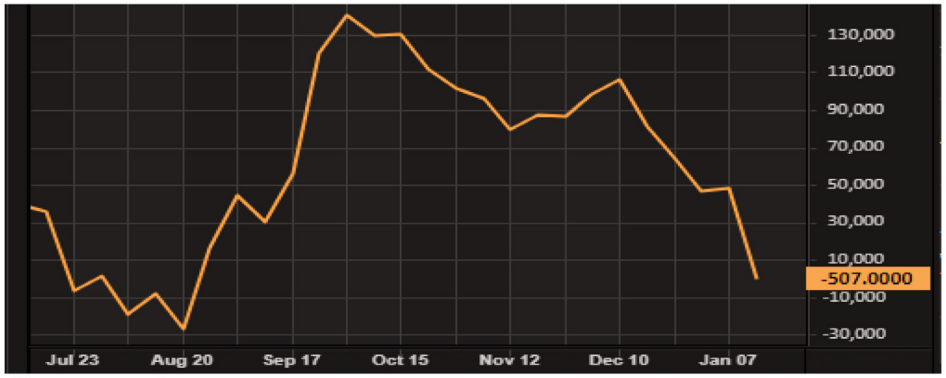


Chart courtesy Reuters

COTTON

Chinese cotton imports fizzle

Of the commodities that we trade, cotton carries the distinction of being the only market whose price is trading near multi-year lows (Chart 3). And its supply and demand fundamentals support this weakness.

Demand

US exporters have sold only 8.4 million bales in the 2024-25 marketing year, which began on August 1. Last year at this time, commitments stood at 9.5 million bales. That is the lowest tally for this time of year since the 2016-17 marketing year. The USDA forecast for the season calls for exports to set back 6.2% from 2023-24, but based on commitments, we are 11.5% behind.

There have been years in which purchases pick up at this time of year, so all hope is not lost. In fact, in each of the last two weekly reporting periods, US exporters sold over 300,000 bales. That is well above average for weekly sales.

However, a closer look at where the buying is coming from presents a troubling outlook when considering the fact that sales to China have typically accounted for about 35% of US cotton exports. In the robust sales of the past two weekly reporting periods mentioned above, China has barely participated. Average weekly sales over the past four weeks to all destinations have been 232,800 bales, and Chinese purchases during that period averaged an almost invisible 9,150 bales.

So far this marketing year, total Chinese purchases (shipped and unshipped) stand at 689,300 bales, down from 3.865 million bales last year at this time.

In its January crop report, the USDA trimmed the estimate for US exports, to 11 million bales from 11.3 million bales. At the moment, we will have to assume that there will be more trimming to come.

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Supply

The USDA revised its estimate for US harvested acres for the 2024-25 crop downwards by 360,000 acres, but at the same time revised the national yield estimate to 836 pounds per acre up from 792 pounds per acre. The net effect of the revisions was an increase to the production estimate of 150,000 bales, to 14.41 million bales. Normally, that would not be an overwhelming revision, but considering the state of the demand side, it just adds to the bearish sentiment.

Far more significant, though, was the USDA's revision for 2024-25 Chinese output. The harvest was completed in November, and presumably, with all the data in, this estimate is more accurate. The production estimate was increased by 1.8 million bales, to 30 million bales.

It's not a shock that China could grow so much cotton – the record was set in 2022-23 at 30.75 million bales. But this revision could mean that the trend of imploding Chinese purchases from the US may be something that will persist for the balance of this marketing year.

We are short March cotton as per our December 9 recommendation. The March contract will soon expire. Roll short positions into July cotton, currently trading at 69¢ per pound. Place protective buy stops at 71¢, close only.

[By Sholom Sanik, January 29, 2025]

Chart 3 – ICE March cotton

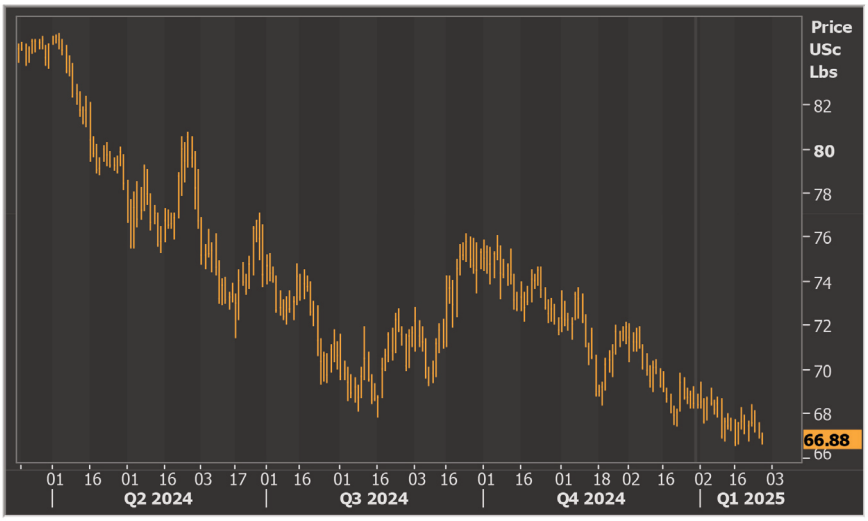


Chart courtesy Reuters

SOYBEANS

The dawn of a new bull?

On February 1 President Trump followed through with his tariff threats. The 10% tariffs placed on US imports from China could ostensibly be a bearish factor for US soybean prices if China retaliates by shifting more purchases to Brazil. The Chinese government has already retaliated with their own import tariffs on US goods, which (for the moment) did not include soybeans. Interestingly, leading up to the looming tariffs, soybean prices maintained their poise (Chart 4). Indeed, while many related markets responded accordingly to the actual announcement, the soybean market greeted the imposition of tariffs with a yawn.

Several factors account for this. As we already discussed on January 15, the USDA's material revision to the bushel-per-acre yield for the harvested 2024-25 US crop puts ending stocks in a precarious position. Any unexpected issues for the supply side could tighten the carryover to a point that historically has triggered bull markets.

One development that has drawn attention is a delay for early-harvested crops in Brazil because of wet weather. The problem would have to persist to be of any concern because it is very early in the harvest season, which stretches out to July.

Argentina, on the other hand, is suffering from a *lack* of precipitation, which is threatening to lower output materially. For the most part, Argentina has been growing about 50 million tonnes, compared with more than 150 million tonnes for Brazil. The USDA forecast for the 2024-25 crop is 52 million tonnes. Local analysts, however, warn that downward revisions to production estimates are coming. The Buenos Aires Grain Exchange estimate is 49.6 million tonnes, but that is based on rainfall going forward. In 2022-23, drought devastated the crop, and only 25 million tonnes were harvested. A result of that nature certainly could create an impact.

Neighboring Paraguay has seen its soybean output

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expand modestly over recent years, and it has become a participant in world trade. The USDA early-season forecast put the crop at a record 11.2 million tonnes. That does not sound like much, but roughly 80% of the crop is exported. However, drought has been an issue there as well. Paraguay can be very sensitive to poor weather conditions. Consider that in 2021-22, output fell to 4 million tonnes from 10 million tonnes the previous season. Local analysts have downgraded their outlook to 9.7 million tonnes.

Naturally, the fortunes of the Brazilian crop are paramount, but if the early-season estimates from all three South American producers turn out to be overly optimistic, the available pool of soybeans for world trade could be impacted.

The demand side has been constructive. The USDA forecast for annual sales to all destinations is 49.67 million tonnes, a 7.7% increase over 2023-24. Commitments to date stand at 42.7 million tonnes, 12% ahead of last year. Shipments are 33 million tonnes, 14.3% ahead of last year at this time, which is particularly impressive.

China has been a steady buyer. Sales to China stand at 20.2 million tonnes, down from 20.8 million tonnes at this time last year. We will have to wait and see if the Chinese will extend the tit-for-tat tariff exercise with regard to soybeans.

Finally, we are getting closer to the USDA acreage estimates for the 2025-26 crops that will be planted this spring. The initial forecasts call for a sharp drop in soy acres. One of the determining factors will be profitability *vis-à-vis* corn. New-crop soybean prices have gained on corn prices, but remain depressed in historical terms (Chart 5).

In conclusion, the developing factors have turned bullish. We have the uncertainty surrounding South American crops, fairly good demand, and the (apparent) shrugging off of the tariff-related issues. Buying breakouts is not normally our style, however, as depicted in Chart 6, in the grand scheme we are still very near the low of the past three years.

Buy May soybeans, currently trading at about $10.75 per bushel. Place initial sell stops at $10.30, close only.

[By Sholom Sanik, February 4, 2025]

Chart 4 – CBOT March soybeans

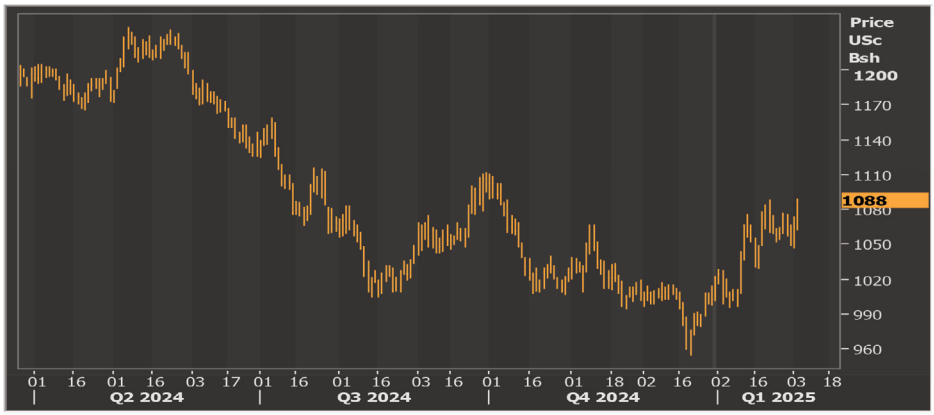


Chart courtesy Reuters

Chart 5 – November soybeans/December corn ratio



Chart courtesy Reuters

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Chart 6 – Weekly nearest contract soybeans

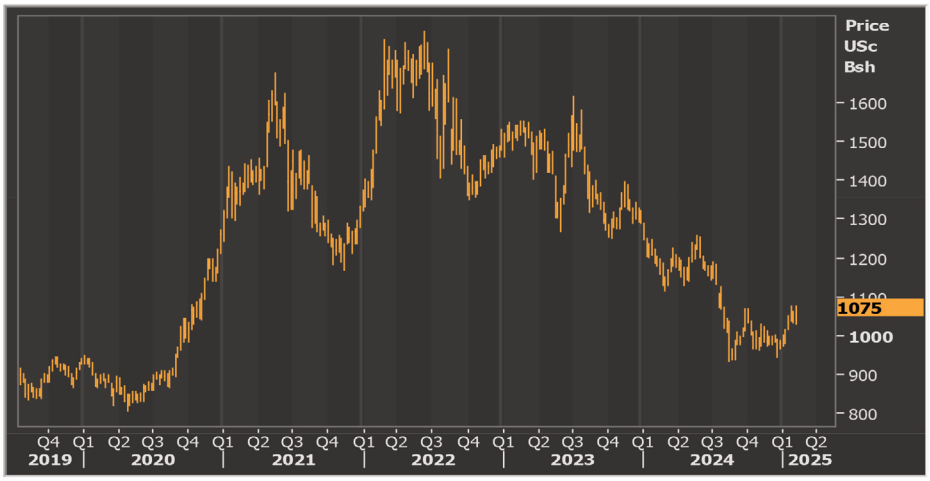


Chart courtesy Reuters

COCOA

The bull is alive, but is it tiring?

Cocoa prices have been drifting lower since mid-January (Chart 7). To be sure, the forecasts for the Ivory Coast seem to be accurate. When the season began, analysts warned not to get too optimistic about the strong early showing. They predicted correctly that come January, the rate of increase over the very forgettable 2023-24 would begin to contract. As depicted in Chart 8, the pace of port arrivals *vis-à-vis* last season already began to slip by mid-December.

In terms of the current weather forecast, the future does not appear much brighter. La Niña has arrived, which should bring cool and wet weather to the region, but thus far this has not been the case in West Africa. This is the season for harmattan winds, which brings dryness. Normally, a La Niña should neutralize the dryness, but at least for the moment, rain is needed. The main crops in Ivory Coast and Ghana will be drawing to a close soon, and moisture is imperative for the mid-crops.

To make some sense of the market's inability to forge ahead and attempt to challenge the December highs, which stopped just shy of $13,000 per tonne, there have been two bearish developments.

First, still on the supply side, early-season forecasts put Ghanaian output at 650,000 tonnes, down from several seasons ago when production averaged 800,000 tonnes. On January 3 we reported that analysts were skeptical of reaching 650,000 tonnes, and that they were lowering their estimates to 620,000 tonnes. But most recently there have been estimates that put current arrivals at 550,000 tonnes. With the tail-end of the main crop and the entire mid-crop ahead, we are now in a position to meet the original higher forecast, and perhaps even exceed it.

Then, there is the demand side. For the most part, consumption seemed to be unaffected during this bull market. The fourth-quarter grind results released in January showed the first hint that processors are balking at paying up for beans at these elevated prices. The North American grind fell by 1.1% year-over-year, while Asia was down 0.52%. The largest of the non-origin grinding regions, the EU, was 5.5% lower. On an annualized basis, that is a drop of roughly 100,000 tonnes for the EU alone.

To be clear, the International Cocoa Organization's (ICCO) most recent estimate of the 2023-24 global production/consumption deficit was a shortfall of close to 500,000 tonnes, so the poor grind numbers are but a chink in the armor of this bull. Some of the large chocolate manufacturers have begun to raise prices. In its most recent report, the ICCO casts doubt on whether this would affect consumption of the beloved delicacy.

It is a stretch to stay that better-than-expected output in Ghana and a drop in demand is enough to end the bull market. The most important variable, of course, is the performance of Ivory Coast arrivals for the balance of the main- and mid-crops, and for the time being, the weather does not seem to be cooperating.

In addition, not all commodities were created equal. Typically, a bull market of these proportions would drive up production as producers are able to lock in fantastic, once-in-

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a-generation profits. But it takes years for a newly planted cocoa tree to bear fruit.

In conclusion, Ghana on its own, even if output turns out to be optimum, cannot impact the market materially without a similar surprise from the Ivory Coast. And more evidence is needed to get a better understanding of how demand is being affected.

We continue not to be bold enough to trade this market, but we will monitor the key issues noted above. Stay tuned.

[By Sholom Sanik, February 7, 2025]

Chart 7 – ICE May cocoa



Chart courtesy LSEG

Chart 8 – Ivory Coast cocoa port arrivals 2024-25 vs 2023-24 (percent)

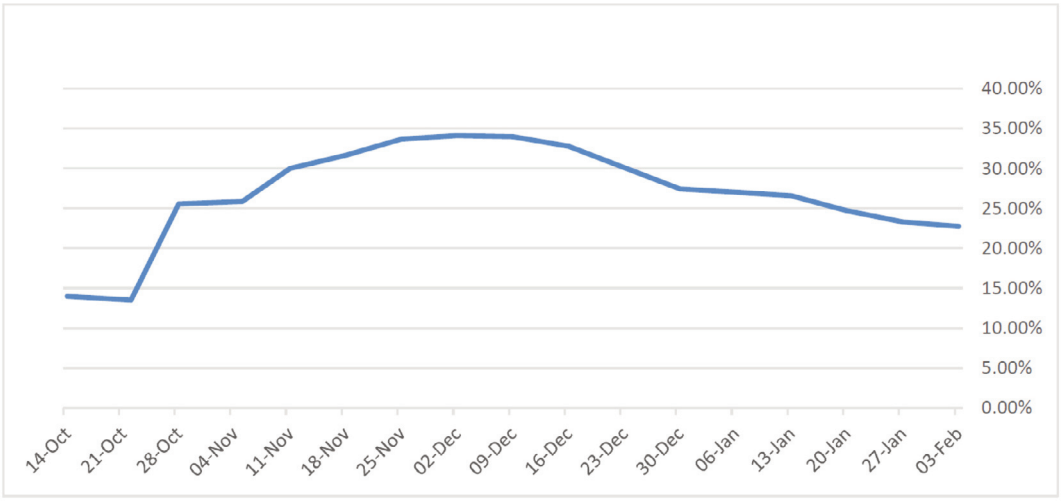


Chart courtesy LSEG

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