FRIEDBERG'S
FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 26, No. 11 January 22, 2025

Sugar: Are Indian exports coming?

"If India were to announce – or hint, for that matter – that there will be some sugar available for export, we can expect selling to emerge." That's a quote from *Focus on Futures*, October 31. And, indeed, that is what has happened. Analysts have been speculating about the possibility, and now the Indian food secretary has said it. Specifically, it advised that some exports would be allowed if there were any surplus supplies remaining after ethanol blending. While stopping short of removing the export ban that is in place until the end of the 2024-25 marketing year, it is certainly an indication that a relaxation of the policy could be just around the corner.

This comes against a backdrop of higher output estimates for the crop that is currently being harvested and crushed. We believe that the optimism is a bit premature because there are no hard data to support it.

The crop that is being harvested was the beneficiary of an above-average monsoon. The early crush results, however, are a bit puzzling. Only 381 mills have been in operation since the season began, down from 433 at the same time last year. By early December, cumulative production was 35% below a year earlier. After almost two months of processing, output in the largest sugar producing region, Uttar Pradesh, is down slightly from last season. However, key production states Maharashtra and Karanataka have seen production fall from the same period last year by 66% and 36%, respectively. At this point, these statistics can hardly be deemed a disaster, but certainly the progress of the mills bears careful monitoring.

Actually, the analyst that provided these specific data estimates 2024-25 production at 28 million tonnes, which would be down sharply from last year's 31.9 million tonnes. That is a marked departure from the consensus and would clearly quash any plans for resuming exports. Time will tell.

In the most recent bi-weekly reporting period for Brazil, output was higher than expected, but still below the same time last year. In general, the tail end of its crushing season has been a disappointment. Estimates for 38 to 39 million tonnes for the Center-South, down from 41.5 million tonnes, seem accurate.

Back to India, assuming that exports are allowed, the next question will be: how much? There have been estimates of between 2 and 5 million tonnes. The size of the carryover stock is crucial to understanding how the government's decision will be taken. The range of estimates for ending stocks is wide. The low end is 8 million tonnes, and if this is accurate, we feel confident that if exports are allowed, they would be at the low end of estimates. That's because any more than that would once again put India in a low inventory environment, something the government certainly wants to avoid.

The International Sugar Organization (ISO) cut its forecast for a 2024-25 global production/consumption deficit to 2.51 million tonnes, down from its previous estimate of 3.58 million tonnes. The ISO production estimate was actually lower, but it cited lower-than-expected consumption as the reason for a smaller deficit estimate.

As illustrated, there is no evidence to suggest the output picture from either Brazil or India has improved. The sharp drop in prices we've seen over the past couple of weeks revolves around speculation that India will resume exports. We remain bullish. Even if India recovers from its early-season output slump, the global market remains in deficit, and global ending stocks will still be drawn down.

On November 28 we suggested steering clear of long futures positions precisely because we believed the market would react to news of possible Indian exports, which, in any case, have not even been approved by the government. We recommend remaining long July 120 calls. New positions should be established with the purchase of July 119 calls, currently trading at 60 ticks. *[By Sholom Sanik, November 28, 2024]*

Inside

Cocoa: Supply in peril 2
Corn: Charging bull 4
Soybeans: Monumental revision.....5

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

Get Focus by e-mail
Focus on Futures is available by e-mail as an Adobe PDF file. If you prefer to receive your copy of *Focus on Futures* by e-mail, please send us a message at *focus@friedberg.ca* with your full name, e-mail address, and street address.

©2025 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 1 – ICE March sugar



Chart courtesy Reuters

COCOA

Supply still in peril. Can demand lend a hand?

Since we last visited the cocoa market in late November, prices have rallied by as much as 50% before settling back a bit (Chart 2). True to the analysis of the Ivory Coast's Coffee and Cocoa Council (CCC), the improvement in port arrivals has tailed off. Chart 3 shows that arrivals peaked in early December at 34.12% over last year's disaster crop, and the gains have steadily eroded to only 27.4% over last year. The crops are very particular about weather. Cooler temperatures and some rain would be required for good plant development, but temperatures have been higher than normal. Harmattan winds are around the corner, and depending on their intensity, that too poses a risk for the remainder of the main-crop.

Ghana has been no help in easing the tightness. Like the Ivory Coast, the season began with hopes for a recovery. In previous years Ghana produced between 800,000 and 1,000,000 tonnes of beans. Last year's 480,000-tonne debacle was expected to be followed by a healthy bounce to 650,000 tonnes. Regular updates are not available for Ghana as they are for Ivory Coast, but a recent private survey has cut that forecast to below 620,000 tonnes.

To get a sense of just how far supplies have plunged after a year of crop failure, followed by what is now turning into a rather limp recovery year, consider the movement of exchange warehouse stocks since before the bull market. Chart 4 shows that inventories at the Intercontinental Exchange (ICE) are now only about 25% of what they were before the ill-fated 2023-24 West African crops were harvested.

Global inventories at the end of the 2023-24 marketing year are estimated at a 50-year low of 27%.

Do prices keep heading into the stratosphere?

How about demand? The economics of producing chocolate at $11,000 per tonne are not the same as they were at $3,000 per tonne. Thus far, overall grinding activity over the last few quarters has been steady. Only Ivory Coast grinding was down last season, but that had little to do with demand or lack thereof. There were simply fewer beans to grind. For the year ending this past September, Ivorian grinding activity was down 13% over the previous season.

Throughout January we will get fourth-quarter results from all regions, the EU, North America, Asia, and the Ivory Coast. Thus far, the only thing we know is that chocolate manufacturers have used on old method of dealing with high bean prices. They don't raise product prices, they just give you less. Various methods are employed. Either the size of the product shrinks or they use less cocoa-based ingredients and increase the number of peanuts or the size of the wafer. And this is not a theory. You can visit your local grocery and test it with a product you might be familiar with.

In conclusion, it certainly seems as though the CCC's forecast that the balance of the main crop will continue to erode its gains *vis-à-vis* 2023-24 is accurate. That would certainly be bullish. It will be instructive, though, to watch the coming grinding figures for any clue that the global production/consumption deficit can be "cured" from the consumption side.

We are not making any recommendations at this time.

[By Sholom Sanik, January 3, 2025]

©2025 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 2 – ICE March cocoa

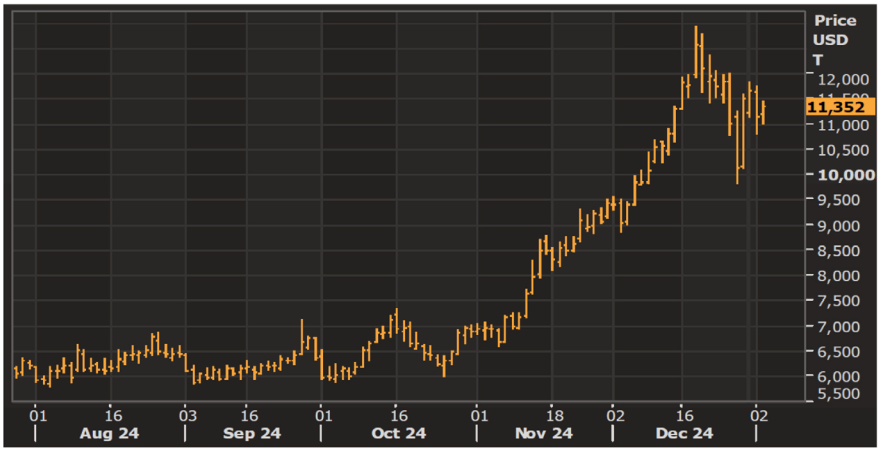


Chart courtesy Reuters

Chart 3 – Ivory Coast port arrivals – 2024-25 vs 2023-24

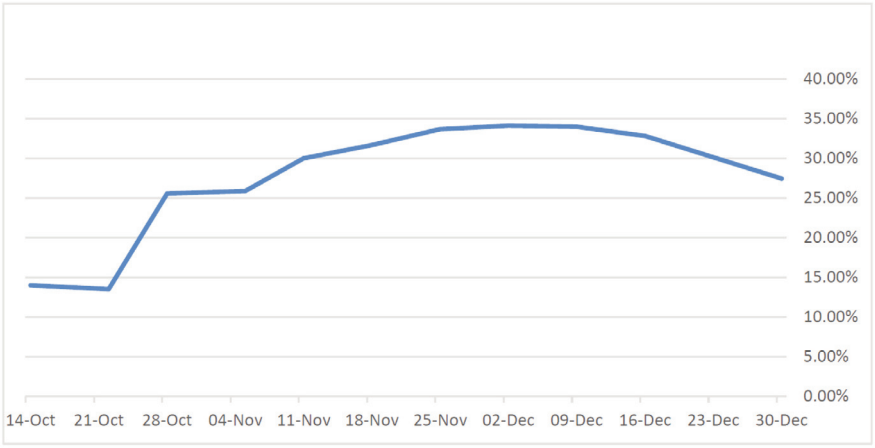


Chart source: Reuters

Chart 4 – ICE March warehouse stocks (tonnes)

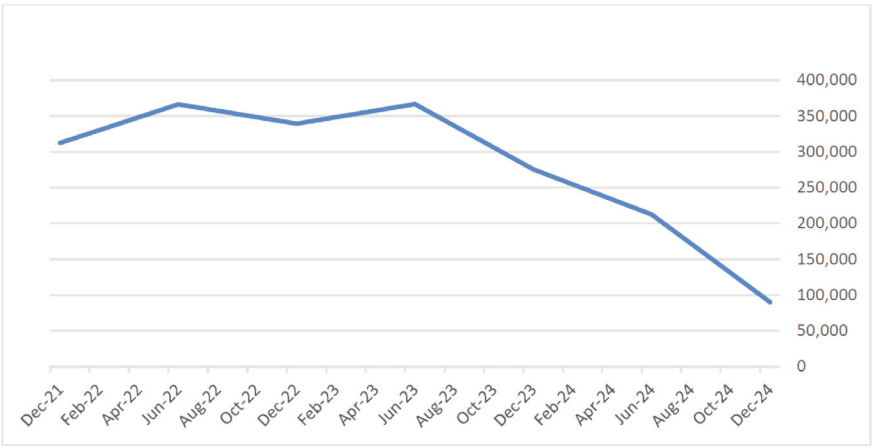


Chart source: Reuters

©2025 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

CORN

A charging bull on the demand *and* supply sides

We initiated a buy recommendation for corn on October 29 primarily because of a strong demand side. And that is still the case. However, we are now presented with an equally bullish supply side.

Analysts were expecting the January 10 USDA crop report to show a minor downward revision for the US corn crop that was harvested this past fall – from 183.1 bushels per acre (BPA) to 182.7 BPA. But the yield was lowered to 179.3 BPA. The USDA did not provide an explanation in its accompanying notes. The estimate for harvested acres was revised upwards by 200,000 acres, but that was just a drop in the bucket when stacked up against the yield revision. The crop estimate fell by 276 million bushels (7.01 million tonnes) to 14.867 billion bushels (377.63 million tonnes).

The USDA tweaked domestic consumption and exports (more on that later) a bit lower to account for lower supplies. But the drop in the yield estimate was large enough to see the ending-stocks estimate tumble by 198 million bushels (5.03 million tonnes), to 1.54 billion bushels (39.12 million tonnes), or 10.2% of consumption. That compares with 11.4% in December and 11.8% at the end of 2023-24. This is a throwback to the 2022-23 carryover of 9.9%.

The past two weekly reporting periods saw some softening in US corn exports, but overall sales have been stellar. As mentioned earlier, the USDA cut its estimate for 2024-25 sales by 25 million bushels (640,000 tonnes) citing lower supplies. We believe this was a bit odd because its estimate for annual sales of 2.45 billion bushels (62.23 million tonnes) is still ridiculously behind the reality of commitments. As of the most recent data, US exporters have sold 39.25 million tonnes, up rather dramatically from 30.28 million tonnes at this time last year. That is an increase of 29.6% compared with the USDA forecast for an increase of only 6.9%. Shipments are 23.7% above last year at this time.

Mexico has accounted for the bulk of sales, which could mean that the Mexicans are preparing for the Trump tariffs and we will soon see its purchases tail off. But the next two largest buyers, Japan and Colombia, have also been buying more than they did last year. Even if Mexican sales taper off, we can safely say that the USDA's estimate for ending stocks is still much too high.

On the global front, Chinese output was revised upwards by 3 million tonnes, to 295 million tonnes, but they are hardly a factor in world trade anymore.

Argentina is the world's third-largest exporter behind the US and Brazil, so its crop is important. Dry weather has been prevalent. According to the Buenos Aires Grain Exchange, crops are showing signs of "water stress and loss of yield potential." There is rain in the forecast for the second half of January, but it is a developing story and merits monitoring.

In conclusion, what started out as a bullish demand story has been bolstered by the USDA's completely unexpected yield revision.

Remain long March corn. Raise sell stops from $3.90 per bushel, suggested on December 2, to $4.40, close only.

[By Sholom Sanik, January 13, 2025]

Chart 5 – CBOT March corn

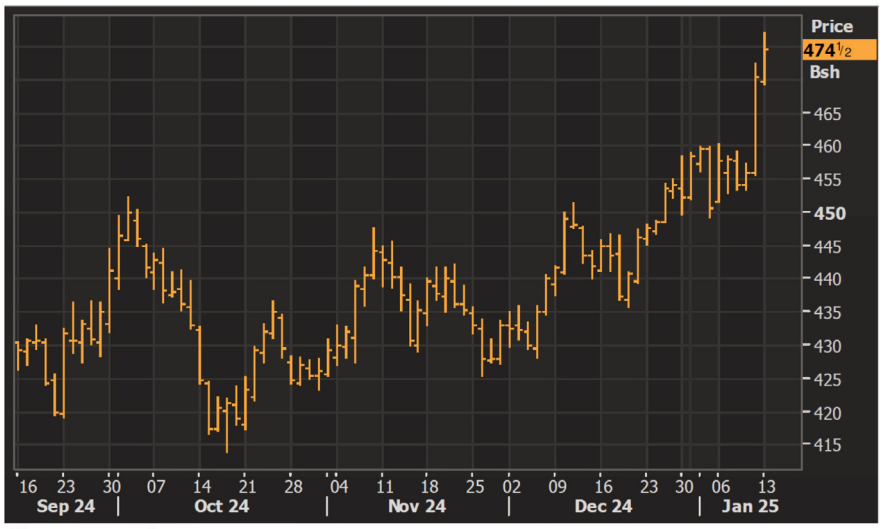


Chart courtesy Reuters

©2025 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

SOYBEANS

A monumental old-crop revision

In late December soybean prices looked as though they were falling off a cliff. Then the market drifted back into a multi-month range. We identified several vulnerabilities that need to be resolved before the market could find a sustainable direction (see *Focus on Futures*, December 17), and that kept us from jumping on the bear side.

Brazil

The Brazilian crop is planted, and weather conditions have been mostly favorable for crop development. The USDA is forecasting a record crop of 169 million tonnes. Local analysts' estimates are in the 166-million-tonne range, but have been inching up from their initial crop forecasts. Excessive rain has delayed the early harvests, but overall, no cause for alarm.

US old crop

On January 10, the USDA surprised the street with sharply lower forecasts for soybeans and corn. The 2024-25 crop was anticipated to be a replenishing season for soybeans. Planted area jumped 3.5 million acres, a 4.2% increase over the previous crop. Back in October, when the crops were entering harvest, the yield estimate was 53.1 million bushels per acre (BPA), and that would have produced a crop of 4.582 billion bushels (124.7 million tonnes), compared with 4.162 billion bushels in 2023-24 (113.27 million tonnes). At the time, ending stocks were estimated at 550 million bushels (14.97 million tonnes), or 12.5% of consumption.

As we mentioned in December, those estimates were on the exuberant side. And indeed, the USDA has been whittling away the estimate since. But the January estimate was still quite unexpected. The average guesstimate called for a slight drop in yields to 51.6 bushels per acre (BPA). But the yield was slashed from the December estimate of 51.7 BPA to 50.7 BPA. Harvested acres were revised down by 200,000 acres, resulting in a new-crop estimate of 4.366 billion bushels (118.84 million tonnes) and an ending stock estimate of 380 million bushels (10.34 million tonnes), or 8.7%. March soybeans have since rallied by as much as $0.65 per bushel (Chart 6).

US new crop

We are still over one month away from the next peek at 2025-26 acreage. Thus far, early estimates have US farmers planting about 2 million fewer acres of soybeans than last year. It is still very early, and one of the variables, of course, is what soybean prices will do *vis-à-vis* corn prices. While the ratio has favored soybeans over the past four weeks, corn has rallied as well. Chart 7 shows that the area shift still favors corn in historical terms. However, the planting window is still wide open, and higher bean prices could alter the landscape for planting decisions.

Trump tariffs

Finally, we still need to see what the new tariff regime with regards to China will look like. If the President-elect makes good on his threats, China is likely to continue to shift more soybean purchases to Brazil. The smaller Brazilian crop in 2023-24 (153 million tonnes versus 162 million tonnes in 2022-23) drew down stocks, but still left inventories at 28 million tonnes, which could be used for sales to China until the new-crop is fully harvested.

In conclusion, the USDA revision to the 2024-25 crop, in a vacuum, would normally be uber bullish. The 380-million-bushel carryover is encroaching on what has traditionally been bull-market territory.

But considering the looming unknown factors – 2025-26 area and the impact of the tariff threat – we are not prepared to commit to the long side. Stay closely tuned.

[By Sholom Sanik, January 15, 2025]

©2025 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 6 – CBOT March soybeans



Chart courtesy Reuters

Chart 7 – New-crop soybeans/new-crop corn ratio



Chart courtesy Reuters

Friedberg's Focus on Futures is published by Friedberg Mercantile Group Ltd., Suite 600, 220 Bay Street, Toronto, Ontario, Canada M5J 2W4. Contents copyright © 2025 by Friedberg Mercantile Group Ltd. All rights reserved. Reproduction in whole or in part without permission is prohibited. Brief extracts may be made with due acknowledgement.

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

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits. This report is a solicitation for entering into a derivatives transaction. The author of this report may have a position in the underlying derivative securities mentioned in this report. The information in this report was obtained from sources we believe to be reliable but is not guaranteed by Friedberg Mercantile Group Ltd. or its affiliates. Derivatives are high-risk investments, and there can be no assurances that the securities mentioned or recommended will maintain their value at a constant amount or that the full amount of your investment will be returned to you. Derivatives' values change frequently and past performance may not be repeated.