FRIEDBERG'S
FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 27, No. 6 July 14, 2025

# Soybean oil: A new biodiesel mandate

With planting for the 2025-26 US soybean crop all but complete, traders have turned their attention to crop ratings. The most recent weekly progress report showed the good-to-excellent portion at 66% of the total. It was a bit below analysts' expectations and two percentage points below the season high. Still a decent rating in historical terms, and with Midwest weather conditions mostly favorable, prices have sold off to the bottom of the recent range (Chart 1).

A new wrinkle has appeared on the soybean horizon. Earlier this month, in response to requests from the biodiesel industry, the Environmental Protection Agency (EPA) proposed increasing the required-usage mandate of biodiesel. Before taking other factors into consideration, the amounts in the proposal are large and could be significant for the overall soybean market.

The mandate has been inching up over the past several years, from 2.82 billion gallons in 2023 to 3.35 billion gallons in 2025. To get an idea of the potential magnitude of the EPA's move, consider that the proposal is to raise the mandate to 5.61 billion gallons in 2026 and 5.86 billion gallons in 2027. The equivalent of 1 bushel of soybeans is required to produce 1.5 gallons of biodiesel fuel. An increase in demand of more than 2 billion gallons – well, that's a lot of soybeans.

Well before this EPA proposal was in the works, soybean oil was outperforming the soy complex by a wide margin (Chart 2). US exports have been extremely strong. After an extremely lame year in 2023-24, when exports were only 280,000 tonnes, foreign sales took off for the current marketing year. With four months remaining, export commitments stand at 1.055 million tonnes, with over 1 million tonnes already shipped. That's well within reach of the USDA target of 1.18 million tonnes.

So, on the surface it would seem that if the EPA's proposal does not meet too much legislative hindrance, it should be wildly bullish for both soybean oil as well as beans themselves. However, we would be inclined to temper that exuberance somewhat.

First, analysts are saying that this year's extraordinary exports are not likely to be repeated. High vegetable oil prices are likely to inspire higher production for the other major competing oils, such as palm and rapeseed. In fact, the USDA's forecast for 2025-26 US soybean oil exports is showing a sharp drop of 35% from this year, to 770,000 million tonnes. Nevertheless, if the revised mandate becomes law, we would definitely assign it the status of a new bullish dynamic for the soy complex.

Meanwhile, estimates for the soon to be completed Brazilian crop have been creeping up. One recent estimate puts the crop at 173.2 million tonnes, versus the USDA's 169 million tonnes.

Aside from the fresh soybean oil angle, we still believe that the sharp drop in US acres for the new crop and the USDA's very ambitious estimate for record yields of 52.5 bushels per acre pose vulnerabilities. The bulk of the growing season lies ahead.

November soybeans rallied sharply after we recommended establishing a long position on June 6, but the recent dip has put the position in the loss column. We suggest maintaining the current strategy, using a $9.50-per-bushel sell stop, close only.

## Inside

**Sugar:** Unsweetened.....3
**Cotton:** Shrinking US acreage, ample supply.....4
**Cocoa:** Supply recovery goes bust.....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.

In addition, we recommend establishing long positions in December soybean oil. After the market's initial spike reaction to the EPA news, prices have pulled back (Chart 3). The market is trading at about 53¢ per pound. Place initial sell stops at 46¢, close only.

*[By Sholom Sanik, June 26, 2025]*

**Chart 1 – CBOT November soybeans**




*Chart courtesy USDA LSEG*

**Chart 2 – CBOT weekly nearest contract soybean oil/soybeans ratio**




*Chart courtesy USDA LSEG*

**Chart 3 – December soybean oil**




*Chart courtesy USDA LSEG*


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

## SUGAR

# Unsweetened

Sugar prices have fallen to a four-year low (Chart 4). After some dry periods in India, the monsoon came roaring back and covered the entire country with ample rain. At last count the monsoon rains were 9% above average.

We are coming off a disastrous 2024-25 harvest from a cane crop that also had an excellent monsoon, but ended up yielding only 28 million tonnes of sugar, against early expectations of 31 to 32 million tonnes. The 2025-26 harvest does not commence until December, but if all goes well this year, the current rains should benefit the crop in a big way.

The last time we discussed the sugar market (see *Focus on Futures*, May 16), we cited the USDA *attaché* report that forecast 2025-26 Indian output at 35 million tonnes. We all but scoffed at that estimate, but that is the figure that private analysts are using now. Were this to come to fruition, and even with domestic disappearance at 31 million tonnes, it's a safe bet that the government will increase export quotas. Perhaps not to the 6 million tonnes we've seen in previous years, but enough to counter the tightness generated by the 2024-25 crop failure.

All things being equal, with an Indian recovery, we are likely to travel from a 4-million-tonne global production/consumption deficit to a surplus of several million tonnes.

We have not seen any recent updates for Thai production. The most recent forecast was 11.7 million tonnes, up from 10 million tonnes in 2024-25. The same monsoon system affects Thailand as well, so we can expect to see upwardly revised estimates.

The Brazilian crush season is in full swing. Although the current 607-million-tonne cane crop is down from 621 million tonnes in 2024-25, forecasts for production improvement, at least for the moment, are on track. Based on early crushing results, production for the Centre-South region is projected to climb to 42 million tonnes from 40 million tonnes in 2024-25.

Thus far, processors have tilted cane towards sugar production. Over the past six weeks the ratio has averaged 51.5% in favor of sugar, compared with 49.7% in 2024-25.

That may not last for very long though. On June 25 the government announced that it is raising the required ethanol/petroleum mandate to 30% from 27% effective August 1. That is roughly the sugar equivalent of 1.5 million tonnes.

Another factor to consider for Brazilian sugar-versus-ethanol production is profitability. Brazil exports 80% of its sugar, and world prices are 20% below where they were at the start of the crushing season. The vast majority of its ethanol output is consumed locally, and as depicted in Chart 5, prices have been relatively stable. We therefore do not see a 51.5% sugar/ethanol ratio sustainable going forward. As a result, even with favorable yields, we can see total 2025-26 Brazilian sugar-output estimates slipping. Current output forecasts are based on a strong sugar/ethanol ratio, and as illustrated, that is likely to fade.

Nevertheless, the surge in Asian production is overwhelmingly the operative supply-side issue. There has not been any discussion regarding relaxation of export quotas. But if output is indeed 35 million tonnes, you can bet that this will appear.

We are long October 19¢ calls as per our May 16 recommendation. We paid 0.55¢, and they are trading at 0.11¢. We suggest accepting the salvage value at this point. Remain sidelined.

*[By Sholom Sanik, June 30, 2025]*

**Chart 4 – ICE July sugar**




*Chart courtesy USDA LSEG*


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

**Chart 5 – Brazilian ethanol prices, reals per litre**

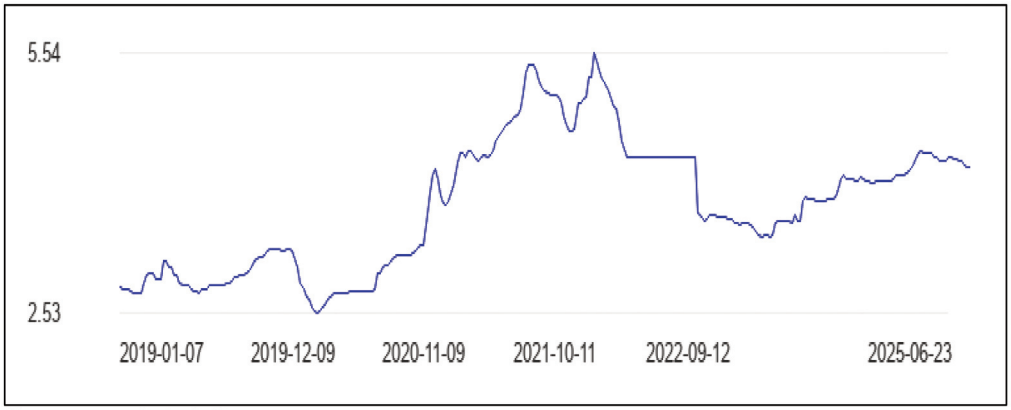



*Chart courtesy USDA LSEG*

## COTTON

# Shrinking US acreage but ample supply

Cotton prices rallied during the last half of June, but have since resumed the downtrend (Chart 6). Just about all supply-side indicators point to abundant crops.

The June 30 USDA acreage update raised the estimate for US cotton area by 233,000 acres, to 10.1 million acres. While still 10% below last year's area, the figure was above trade guesstimates.

One of our concerns in maintaining a short position was that US farmers have not planted this few acres since 2015-16, which leaves the crop vulnerable to poor weather. Indeed, the June USDA crop report had already taken the axe to crop size, lowering the yield to 820 pounds per acre, down from an average of 893 pounds in the two previous seasons. The USDA actually cut its estimate for 2025-26 production in the June crop report by 500,000 bales, to 14 million bales. Hence, the rally.

However, at the moment, that estimate seems to have been premature. As of the most recent weekly crop progress report, the crop is in excellent shape. The good-to-excellent portion increased by 1 percentage point, to 52%, the highest rating of the season, well above 45% at this time last year, and just below the best level of the past five years. So, the crop is humming along just fine. It is still early and there is plenty of time for conditions to deteriorate, but for now, the crop looks healthy. Given current crop conditions, we believe the USDA estimate appears somewhat pessimistic.

The USDA estimate for global production is 117.8 million bales, down from 119.9 million bales in 2024-25. That too seems to be a reflection of stale data and is subject to revision, mainly because of the conservative approach to China.

As we have previously discussed (see *Focus on Futures*, May 30), in 2024-25 Chinese output was revised up several times and ended 4 million bales higher than early-season forecasts, at 32 million bales. Estimates for 2025-26 Chinese cotton area are 6.3% above last year's. The USDA already raised China by 1 million bales from the May estimate, to 30 million bales – obviously not enough. With no weather surprises, we could easily see a 33-million-bale crop, which would translate into a burdensome 4-million-bale global production/consumption surplus.

Brazil continues to expand production. Consider the progression of Brazilian output. After jumping from 11.72 million bales in 2022-23 to 14.57 million bales in 2023-24, and 17 million bales in 2024-25, the current crop is expected to reach 18 million bales.

Among major producers, only India has been slipping. Production in 2023-24 was 25.4 million bales and slipped to 24 million bales in 2024-25. The current crop was slated for a recovery, but the USDA revised output downwards in the June crop report to 23.5 million bales. India, however, is largely self-sufficient for its cotton requirements and does not figure much in world trade.

On the demand side, we reiterate what can perhaps be described as a phenomenal feat: US export sales managed to be quite healthy without China as a customer. Shipments to China for 2024-25 stand at 962,000 bales, down from 4.314 million bales in 2023-24. Despite this, US export shipments to all destinations are 10.2 million bales, and with four reporting weeks remaining in the marketing year, may actually meet or come close to meeting the USDA target of 11.5 million bales. Clearly, this is a


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

testimony to strong overall world demand.

The USDA forecast for US exports in the incoming 2025-26 marketing year is 12.5 million bales, and without China, that may be on the optimistic side. With good Chinese weather, we could easily see another year of China meeting its cotton needs from within and from Brazil. And this remains bearish for US prices.

On May 30 we recommended rolling short July cotton to December upon the July expiry. December cotton is now trading just above 67¢ per pound, and we suggest placing protective buy stops at 69.5¢, close only.

*[By Sholom Sanik, July 9, 2025]*

**Chart 6 – ICE December cotton**

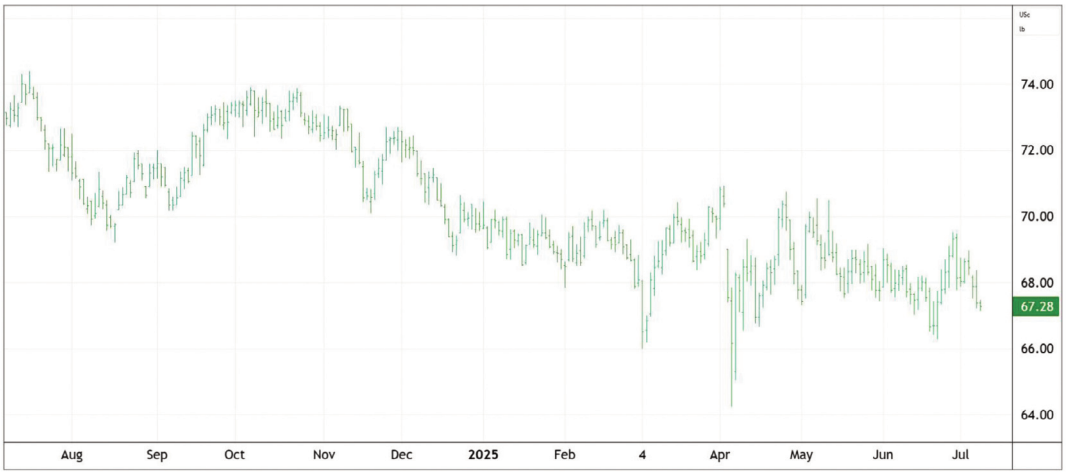



*Chart courtesy LSEG*

## COCOA

# The supply recovery goes bust

This year's Ivory Coast cocoa crop has been a disappointment, and increasingly so. What was initially slated to be a recovery season after the disaster we witnessed in 2023-24 instead saw port arrivals continue to slip. Chart 7 shows the weekly net change in Ivory Coast port arrivals since the main-crop began back in September. There have been stories regarding a "better" recovery in Ghanaian output than in the Ivory Coast, but, at that, we are talking about 650,000 tonnes, still well below normal output of 800,000 to 850,000 tonnes.

With a few months remaining in the 2024-25 mid-crop, the prospects for a meaningful improvement are slim. There has been excessive precipitation, which promotes disease. According to the International Cocoa Organization's (ICCO) most recent monthly report, mid-crop quality has deteriorated, with a much higher rate of rejection by exporters than we saw during the main crop.

But cocoa prices have tumbled over the past two months. In looking for an explanation, we believe that traders have begun to focus on the 2025-26 West African crops.

It is a bit early for actual production estimates. At one point, there were estimates looking at a 10% increase over this year. Most recently, those optimistic forecasts have turned into calls for a drop of 5%. The wet weather should actually be positive for building subsoil moisture for the new main crop.

Even after falling from this year's peak, prices have risen by roughly 400% from the time the bull market began (Chart 8). Farmgate prices paid to farmers are set by the government in Ivory Coast and Ghana. While the farmgate prices have been bolstered, the governments have not been nearly as generous as the market price, with increases of about 100% to 150% paid to farmers. Not knowing what the future holds, it is a fair assumption that farmers are reluctant to pour too much capital into investing.

There are two issues here. First, it takes about five years to yield fruit from a newly planted tree. So it is unlikely that we would see a meaningful expansion of newly planted area. Second, and a more reasonable investment for a shorter-term horizon, would be increased spending for fertilizer and pesticide. However, the poor output figures would seem to be evidence that there was not a significant escalation in use of crop aids.

Latin American crops have fared better, but the volumes are much lower than their West African counterparts. Even optimum results would not change the overall supply situation by very much.

All told, with the plunge in Ivory coast arrivals, estimates for a 2024-25 global production/consumption surplus


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

seem near ridiculous.

The most logical explanation for prices hovering near the low of the past several months comes from the demand side. Ivory Coast grindings were down only 1.1% for the first half of the season, year-over-year. However, in a departure from this trend, the most recent data show that May grindings were down 8.5%.

Grinding statistics for the EU and North America are due out later this month and may present critical information in determining whether consumption at the consumer level is finally taking a bite.

Depending on the region, retail chocolate prices have increased by as much as 25%. To date, we have not really seen a material impact at the bean-processing level, but that could change.

On April 29 we recommended a short position, but we were mercifully stopped out at $9,500 per tonne as the market proceeded to beyond $10,500. Now September cocoa is trading at $8,000. We will opt for the sidelines.

*[By Sholom Sanik, July 11, 2025]*

**Chart 7 – 2024-25 Ivory Coast port arrivals, percentage change from 2023-24**

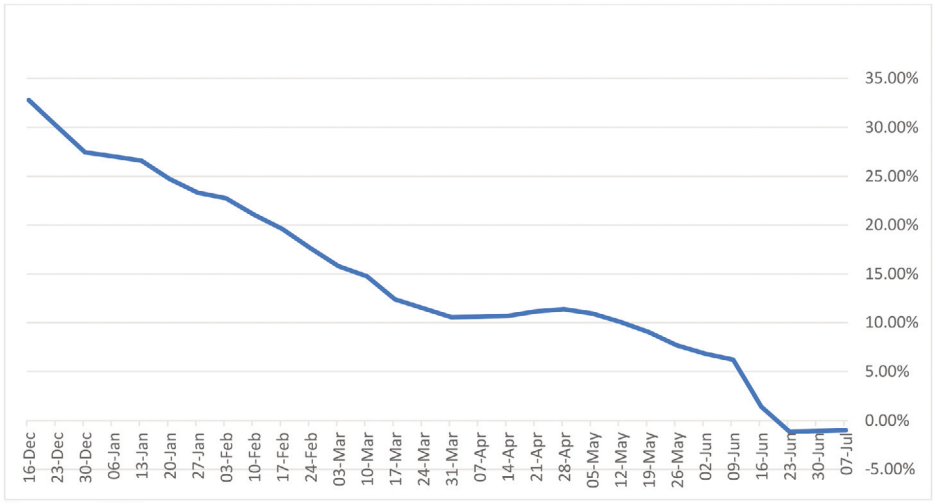



*Chart source LSEG*

**Chart 8 – ICE cocoa weekly nearest contract**

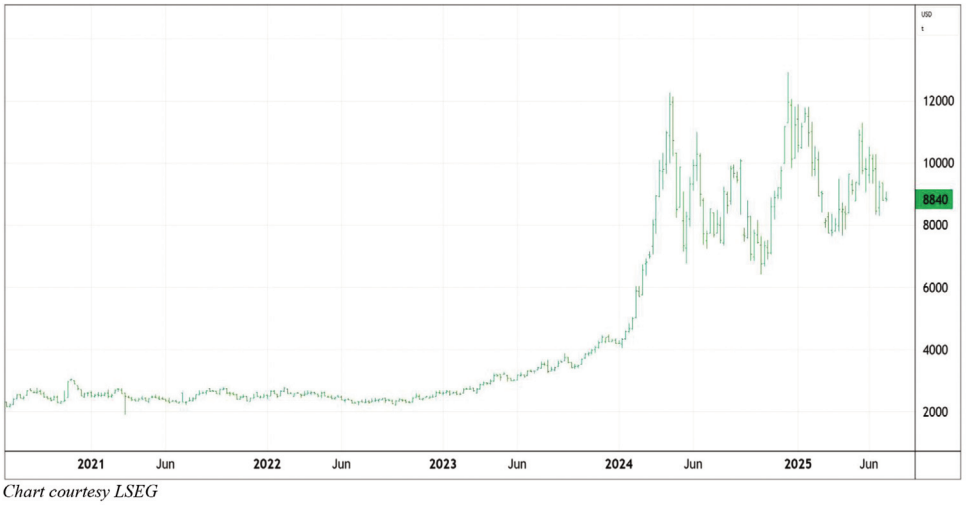



*Chart courtesy LSEG*

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.