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Soybeans: supply galore, questionable demand

Soybean prices are hovering near the March lows and deservedly so. Certainly, from the perspective of US supply and demand factors, there is not much to inspire bulls.

US

Export commitments for 2023-24 are running 14.4% behind last year at this time. That is pretty much in line with the USDA forecast for annual sales to fall by 14.6% from the previous season. Shipments to date, as a percentage of the final sales estimate, are 17.2% behind last year.

The USDA's estimate in the June crop report for the coming 2024-25 marketing year calls for a 7.3% increase in exports, to 49.67 million tonnes. That is still well shy of 2022-23 sales of 54.21 million tonnes. And we're not off to a good start on that front. New-crop sales are a paltry 1.039 million tonnes, compared with 3.2 million tonnes last year at this time. Blame Brazil (but more on that topic later).

As we have already discussed (see *Focus on Futures*, May 29), the crop that is currently being planted for the 2024-25 marketing year could overwhelm the silos. Planted area is expected to grow by 2.9 million acres, or 3.5%, over 2023-24. Thus far, planting-season results have been favorable. As of the most recent progress report, 87% of the crop has been planted, ahead of the five-year average of 84%. The first crop condition reading shows excellent development, with good-to-excellent portion at 72% versus last year's 59%.

At this juncture, these data points are largely meaningless. Last year, although farmers whisked through the planting season with stellar results, the growing season was not as kind and produced only average yields of 50.6 bushels per acre.

Brazil

While Brazil will maintain its position as the world's largest exporter, the gap between the US and Brazilian exports may narrow over the next year.

First, on June 4 the government announced that it will be lowering tax credits for certain industries, which would include agriculture. The effect for soybeans in the longer term would involve reduced profits for farmers, which could lower planted area for the 2024-25 crop. In addition, farmers would likely raise prices to compensate for the revenue lost to tax credits previously enjoyed, the impact of which may be felt sooner. Both factors could mean more business for US exporters.

The market reacted to the news, driving soybean prices higher by 22¢ per bushel on the day of the announcement. After considering the implications overnight, however, traders decided that the government's proposal was not that significant, and the rally was erased.

Then there is the matter of the 2023-24 crop that is now almost completely harvested. Heavy flooding has reduced early-season forecasts by about 10%. There have not been any fresh estimates since we last wrote about soybeans.

Interestingly, while commodity funds are still short, the downwardly-revised Brazilian estimates did stoke some fear among bears. Chart 2 shows that the $1 per bushel rally during May almost erased the entire short position of 170,000 contracts. In the last week of May, the heavy selling continued with funds getting back on the short side. But judging by the market's price action, it would seem that there is not much concern over the lost output.

Having presented a mostly bearish case, it is tempting to trade this market from the short side. However, heading into the thick of a weather market, we choose to remain sidelined. Stay tuned.

[By Sholom Sanik, June 11, 2024]

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Chart 1 – ICE July soybeans



Chart courtesy Reuters

Chart 2 – CFTC commodity funds cotton net-short position

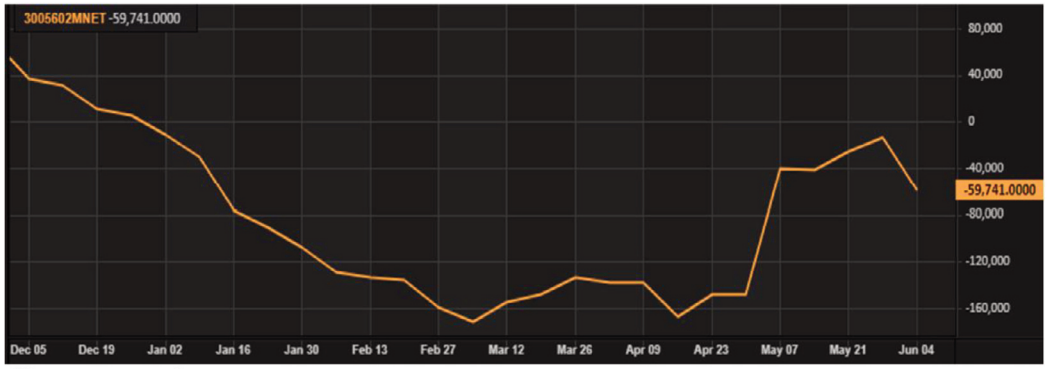


Chart courtesy Reuters

SUGAR

Can Brazil deliver?

Sugar prices are trading just shy of their two-year lows. The Indian 2023-24 crush has ended. When the processing season began, forecasts were focused on the poor 2023 monsoon, but as the crush progressed, yields turned out to be better than expected. Still, at one point forecasts called for 32.5 million tonnes, but the most recent estimate is just over 31 million tonnes. With domestic consumption now estimated at over 29 million tonnes, the issue of low carryover stocks persists. There is no reason to assume that the government's export ban – which runs through October – will be lifted.

The important variable for India will now become the quality of this year's monsoon that will affect the crop for the 2024-25 marketing year. Thus far, the India Meteorological Department is forecasting below-normal precipitation. Some sugar growing regions have fared better than others. But it is a bit early to draw any conclusions.

Brazil's sugar crush is now in full swing. Cumulative data for the season would seem to indicate that the pattern of favoring sugar production over ethanol is continuing from last season. Through the end of May, 47.8% of cane was turned into sugar, up from 46.6% at this time last year. Sugar output stands at 7.83 million tonnes, compared with 7.01 million tonnes last year. Were this to continue, we can understand why sugar prices are weak.

Over the past two bi-weekly reporting periods, however, the sugar/ethanol output ratio was actually lower than analysts were expecting. While the ratio is significant, we continue to believe that traders are overlooking two other important factors: The amount of cane that will be available for crushing and yields going forward. The

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cane crop is estimated to be 10% smaller than last year's. In addition, soil moisture levels are said to be lower than normal. And there is not much rain in the forecast through the end of June in the Centre South region where 90% of the country's sugar is grown.

On June 10 the International Sugar Organization (ISO) released revisions for the current marketing year and 2022-23. Despite the better-than-expected showing for India, ISO increased the size of the global production/consumption deficit to 2.954 million tonnes from 689,000 tonnes, citing higher consumption. In addition, a previously reported surplus of 308,000 tonnes for 2022-23 shifted to a 1.153-million-tonne deficit.

If the statistics presented for the early going of the Brazil crush season were to persist, we would indeed concede that world trade could muddle through another year of India's absence from the market. We have our doubts, though, as explained, because of the smaller cane crop and unknown yield levels going forward. Keep in mind that Brazil accounts for roughly 50% of world trade. Any glitch in its supply side will tighten the market.

In the meantime, commodity funds have soured on the bull case. Since early April, they have liquidated what was once a massive net-long position and are now net-short 37,000 contracts (Chart 4). If their read of the supply/demand fundamentals turns out to be inaccurate, expect a powerful short-covering rally.

We are long October sugar as per our April 19 recommendation. At the time, the market was trading at 19.60¢, and we are now slightly offside. Maintain stops at 17.50¢, close only.

[By Sholom Sanik, June 21, 2024]

Chart 3 – ICE sugar – weekly nearest contract



Chart courtesy Reuters

Chart 4 – CFTC commodity funds sugar net-short position

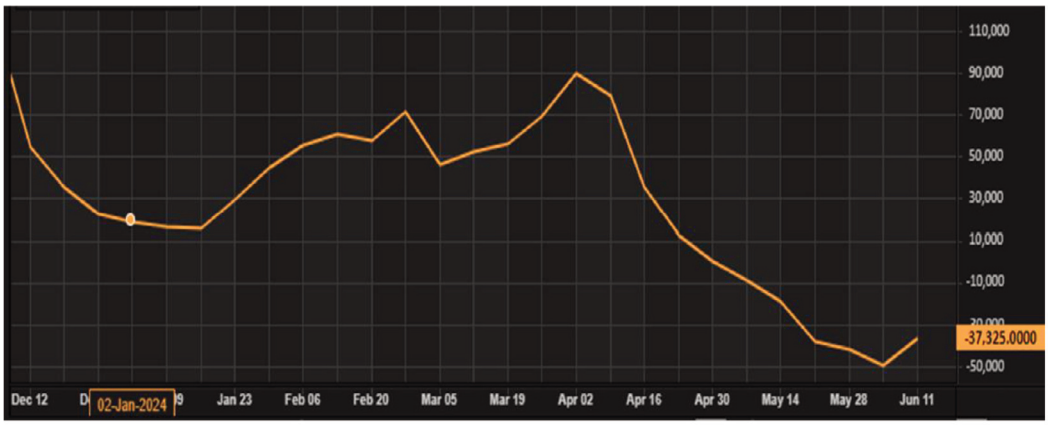


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COCOA

Historic tightness

Over the past two weeks, the cocoa market has experienced a sharp downward correction (Chart 5). Lights out for the bull or *just* a correction?

One development that may have accounted for the selling is Ivory Coast port arrivals. The midcrop is in full swing. In May and early June the mid-crop statistics proved to be no better than the main-crop. Then, for two reporting periods, it seemed as though there was a recovery brewing. In one week, the totals were just shy of same-time last year, and in one week they were actually ahead of the previous year. Cumulatively, since the beginning of June, arrivals have actually been in a slight uptrend vis-à-vis the 2022-23 crop year (Chart 6).

Analysts are scrambling to determine whether the diseases that plagued this season's crops will disappear or persist. The brief respite in arrivals was perhaps seen as an indication that the worst has passed.

Regardless, there are three months remaining in the Ivory Coast mid-crop. In a normal year, which this is not, new supply from here on in can reach about 120,000 tonnes. Even if new arrivals turn out to be optimum, it would not change the situation by very much.

The supply tightness created by this year's disaster in the Ivory Coast and Ghana has been depleting inventories held in the major grinding regions. From October through May, stocks in the EU plunged by 47%. In the US, stocks have fallen by 27%.

Production in the Ivory Coast and Ghana combined is expected to fall by about 800,000 tonnes. The International Cocoa Organization (ICCO) estimates that global ending stocks at the conclusion of the 2022-23 marketing year were 35.1% of consumption.

It is difficult to estimate the degree to which demand has shrunk because of rising prices. Grind data at this point has become a lagging indicator because much of the processing – as illustrated – was the result of depletion of existing stocks. The ICCO estimate for the current season calls for grindings to fall by 4.8%. Going forward we will assume the pace of consumption loss will pick up. But using some rough arithmetic, the drop in output would should still draw 2023-24 stocks down to between 20% and 25% of consumption.

Disease may prove to be less of a problem when the new main-crops go into harvest in the Ivory Coast and Ghana come October. Still, the issue of aging trees will continue to be a concern. And as we've discussed many times, cocoa is a unique commodity among the markets that we trade, because it takes at least three years for a newly planted tree to bear fruit.

On May 31 we recommended establishing a long position in December cocoa on a setback to $7,400 per tonne, with a stop at $6,500, close only. That order would have been filled on June 21 and has now been stopped. We will stand aside for now and monitor the outlook for the new West African crops.

[By Sholom Sanik,June 27, 2024]

Chart 5 – ICE December cocoa



Chart courtesy Reuters

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Chart 6 – Ivory Coast port arrivals – 2023-24 vs. 2022-23 (percentage)

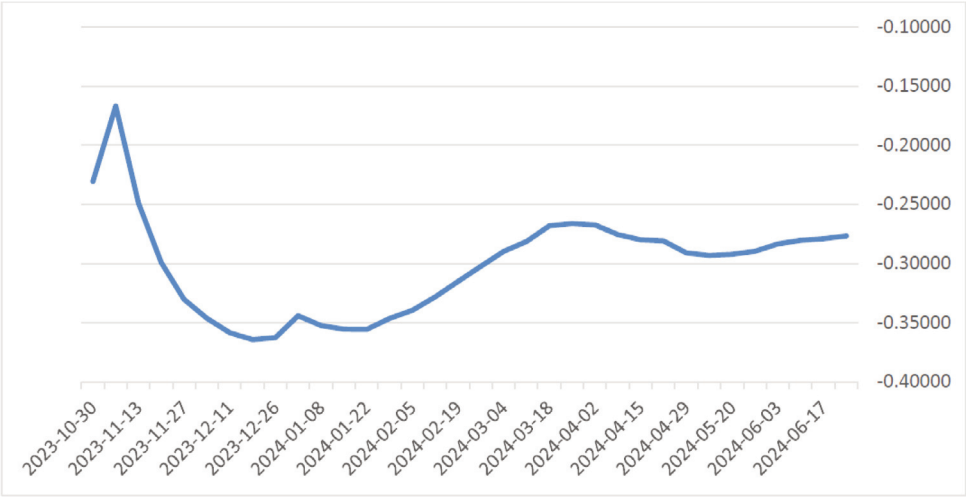


Chart source: Reuters

COTTON

Acreage surprise

We last visited the cotton market in late May. It has since tumbled by as much as 7¢ per pound, or about 10% (Chart 7). There have not been any *known* overt bearish developments to account for the weakness.

On June 28, however, the mystery was unraveled. The USDA released its acreage update, and it was definitely a surprise. The March intentions report estimate, US acreage for the 2024-25 crop at 10.67 million acres. Analysts were looking for a slightly higher figure. The average guesstimate was 10.829 million acres. But the actual number came in at 11.7 million acres. The highest estimate among polled analysts was just 11.2 million acres.

Given the USDA's forecast for a harvested-to-planted ratio of 85.6% and a yield of 842 pounds per acre, this new acreage estimate will amount to roughly an additional 1.5 bales of cotton, for output of 17.5 million bales. That's a big miss and goes a long way to explaining why prices have been weak.

There have not been any current updates on Brazilian production. The USDA kept its estimate at 16.7 million bales in the June crop report. That compares with 14.57 million bales in 2023-24. Weather permitting, we do not have any supply side issues from the world's two largest exporting nations.

The demand side has not provided much price support either. US cotton exports have not been too bad, but at the same time not overly inspiring either. At the moment, export commitments stand at 12.82 million bales, down from 13.78 million bales at this time last year. That figure is above the USDA estimate for final sales of 11.8 million bales. At 9.61 million bales, shipments have reached 81.5% of final sales, which is in line with last year's pace of 82.2% and better than two years ago when that figure was 79.4% on this date.

China has been an active buyer all season long, but there have not been any larger purchases since late May. For the marketing year, total Chinese purchases (shipped and unshipped) are 5.2 million bales, 38% ahead of last year.

So overall demand is fairly decent, but as illustrated, come harvest time there should be plenty of product to meet the needs of importing countries.

One interesting note that perhaps underscores that demand is generally healthy is that forward sales for 2024-25 stand at 2.14 million bales, which is actually slightly ahead of last year at this time. Despite the anticipation of record Brazilian production, foreign buyers are securing supplies.

Although the analysts that watch this market were obviously caught unawares that US farmers has expanded planted area, the reaction was muted. The market sold off in response to the USDA report, with December new-crop down 1.87¢ per pound, but prices remained confined inside the previous range.

In conclusion, notwithstanding what appears to be quite the bearish scenario, we choose to remain sidelined. Both the US and Brazil still have a long growing season ahead, and weather is always a vulnerable factor. Commodity funds are heavily short (chart 8), and any rumblings of bad weather will spark short covering. Stay tuned.

[By Sholom Sanik, June 28, 2024]

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Chart 7 – ICE December cotton



Chart courtesy Reuters

Chart 8 – CFTC commodity funds cotton net-short position

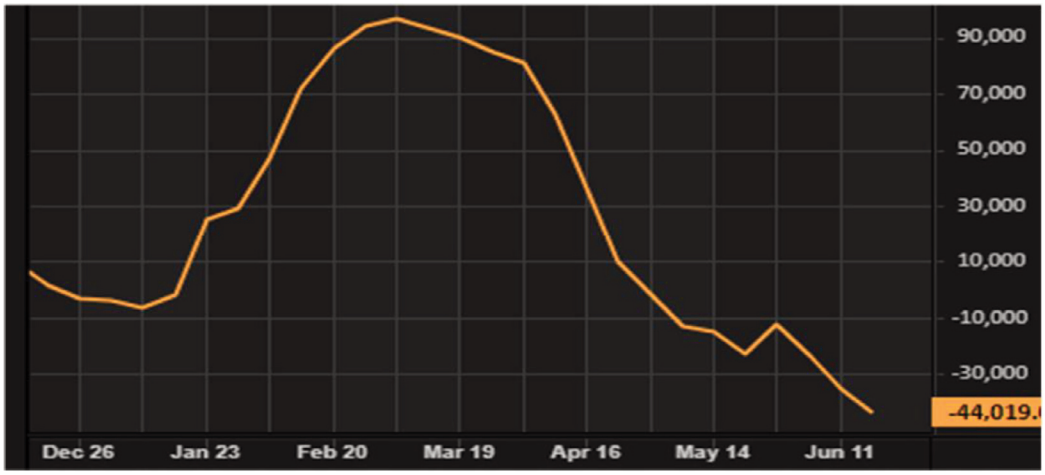


Chart courtesy Reuters

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