FRIEDBERG'S
FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 24, No. 3 June 24, 2021

Soybean acreage catches the market off guard

Soybeans prices have sprinted to seven-year highs. Arguably the most potent fundamental development was the USDA's March 31 planting intentions surprise. Heading in to the widely watched report, soybeans had been trading in a relatively narrow range since February (Chart 1). On the eve of the report's release, the market had actually fallen to the low of that range as traders anticipated a surge in planted area.

Chinese imports had all but cleaned out US inventories, and it was widely anticipated that US farmers were going to plant as much as they could. As of the March USDA crop report, the ending-stock estimate for the current 2020-21 marketing year had fallen to 120 million bushels (3.25 million tonnes), or 2.6% of consumption. The only other time in modern history that the carryover was that low was in 2013-14.

The USDA estimate came in at 87.6 million acres, well below the average guesstimate of 89.996 million acres. Old- and new-crop contract months closed the session up the 70¢-per-bushel limit. Interestingly, old-crop months erased most of the gains over the following two weeks. However, new-crop November, heavily discounted in anticipation of an alleviation of old-crop tightness, consolidated, but never really looked backed, and has since traded by as much as $2 per bushel higher than the night before the report (Chart 2).

Normally, at this time of year, we would be attempting to make the case that the panic window will be short lived because it is not long before South American supplies hit the market. The USDA estimate for 2020-21 Brazilian production – the crop that's currently in harvest – is a record 136 million tonnes. That's up from 128.5 million tonnes in the previous season. While Brazilian and Argentinean supplies will soon be available, this past week the Brazilian government suspended its import tax on soybeans and other agricultural products to ensure adequate supplies because of unexpectedly strong domestic demand. China's insatiable appetite has gone global, and the tightness is apparent among all its major suppliers.

The USDA has raised its forecast for US exports to all destinations every month since January, and May is not likely to be an exception. At present, the estimate is 62.05 million tonnes on which the estimate for 2.6% of usage is based. But commitments have already reached 60.8 million tonnes with four months remaining in the marketing year. Cancellations, even if there are any, will not be a large factor because 55.7 million tonnes, or 91% of commitments, have already been shipped. Look for a further downward revision to the 2020-21 carryout estimate in the May 12 crop report.

In conclusion: The smaller-than-expected planted area estimate certainly further exacerbated an already tight market. To put the impact in perspective: The difference between the street's estimate and the USDA planting intentions figure is well over 100 million bushels (close to 3 million tonnes). If nothing else were to change meaningfully, such as South American output estimates or US domestic consumption, we'll be heading into a second consecutive season of supply vulnerability. China grows less than 20% of its soybean requirements, so imports from the US are the lifeblood of its hog and poultry population.

Naturally, US farmers will attempt to expand acreage where possible in an environment where they can hedge their crops at prices they have not seen in years. However, the market will remain on edge throughout the planting and growing season.

Establish long positions in November soybeans, currently trading at about $13.45 per bushel. Place initial sell stops at $12.25 per bushel, close only.

[By Sholom Sanik, April 28, 2021]

Inside

Sugar: Why so sweet? 2
Corn: Will bumper crop satisfy China? 4
Soybeans: Down but not out 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.

©2021 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 1 – CBOT July soybeans



Chart courtesy Reuters

Chart 2 – CBOT November soybeans



Chart courtesy Reuters

SUGAR

Why so sweet?

Sugar prices are trading near four-year highs. Warranted?

Brazil

Certainly, the early going in the Brazilian 2021-22 marketing year has been some cause for concern. First, dry weather during the growing season reduced the size of the cane crop. Estimates vary widely, but the consensus is that farmers will harvest about 3.5% less cane than last year. In itself, that would not be a major issue if crushers were to maintain the ethanol/sugar ratio at last year's level, which was heavily slanted towards sugar output – 46% of the cane crop was turned into sugar, well above the historical norm of about 35%.

On the surface, it might seem that with energy prices soaring, ethanol production might come back into favor. In tracking daily sugar price movement *vis-à-vis* crude oil, at times it appears that traders are taking their cue from crude oil gyrations.

There may be a relationship between Brazilian sugar-based ethanol and crude oil, but it is not absolute. Ethanol prices in Brazil have recovered from the worst of the pandemic lows. The recent country-wide lockdown, however, has kept prices sluggish. Crude oil has rallied by about 10% since the beginning of April, but ethanol prices have drifted lower as demand has been curtailed by the lockdown (Chart 3).

Production data show that processors have favored ethanol in a slightly higher ratio than at this time last year. But it is extremely early in the season to draw any conclusions. The consensus of analysts is that Brazilian sugar production will fall by roughly 8% from 2020-21's record of 38 million tonnes.

India

Before the crushing season got underway in November, sugar output in India was expected to reach 32 million tonnes for the current 2020-21 marketing year. While estimates have drifted slightly lower, bi-monthly production data show that

©2021 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

the original estimates may have been accurate.

India is the world's largest sugar-consuming country. Analysts' balance sheets list usage at between 26 and 28 million tonnes. That may represent stale information, though. One industry group says that the pandemic has impacted confectionary sales dramatically and estimates this past season's usage at only 25.3 million tonnes.

With a massive flurry of new Covid cases and the government's inability to control the outbreak, consumption patterns are not likely to improve anytime in the near future. Inventories will continue to grow. As it is, Indian exporters have been struggling to reach the 6-million-tonne subsidized export quota.

Thailand

Thai sugar output is expected to bounce back sharply. Planting is now underway, and with world prices near multi-year highs (Chart 4), it is a safe bet that farmers will plant as much as they can. After output reached 14 million tonnes, the country suffered two consecutive drought years that saw production plummet to 8 million tonnes. Estimates for the crop that is not harvested until later this year keep inching up. One forecast puts output at 11 million tonnes.

Thai domestic consumption is only about 2.5 million tonnes, and the balance is available for export. With a bumper crop in India and domestic consumption down, as mentioned above, India and Thailand will be competing for Asian business.

Estimates for the current marketing year's global production/consumption balance call for a deficit of between 2 and 3 million tonnes. We believe that these estimates could very well be off the mark because analysts were projecting an earlier end to the pandemic and have therefore overestimated consumption. In any case, early forecasts for 2021-22 are looking for a surplus.

We have been bearish on the fundamentals of this market for the longest time. Needless to say, it has not been a profitable exercise. Sugar prices have been caught in the whirlwind of other powerful commodity bull markets, and we continue to believe that it is an extremely overbought market. The only factor that can alter the landscape meaningfully is a return to a normal ethanol/sugar ratio in Brazil. As discussed earlier, there is no indication at this time that we are anywhere near that.

Stand aside, but stay tuned.

[By Sholom Sanik, April 29, 2021]

Chart 3 – Brazilian ethanol prices (Brazilian reals per litre)

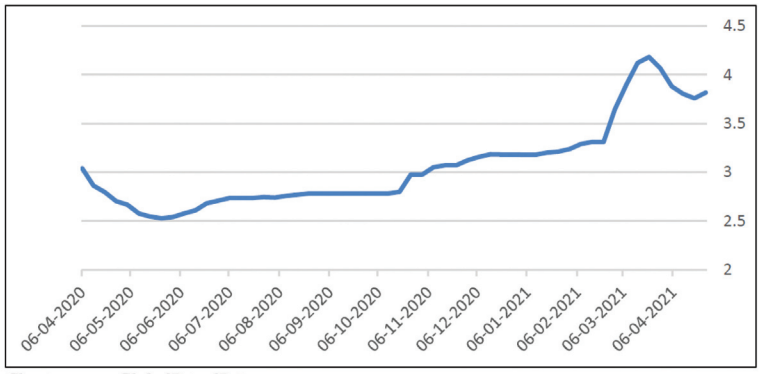


Chart source: GlobalPetrolPrices.com

Chart 4 – ICE sugar – weekly nearest contract



Chart courtesy Reuters

©2021 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

CORN

Will a bumper crop be enough to satisfy China?

Corn prices began a powerful ascent just after the 2020-21 harvest was complete. The driving force was Chinese buying of US corn. Historically, China did not need to import corn and was not a force in international trade. A growing hog population is the only *visible* reason for the sudden insatiable appetite. Crop problems are cited, but the USDA still maintains production estimates at trend-line levels for 2019-20 and 2020-21, as well as going forward with its forecast for 2021-22.

The uptick in 2020-21 Chinese domestic consumption of 11 million tonnes, or 4%, does not explain why purchases of 23 million tonnes were required, particularly in light of reported ending stocks that equal 68% of usage. With a notorious lack of transparency in Chinese government statistics, analysts make the assumption that the inventory levels must be dramatically lower to make sense of the Chinese entry into the market.

For most of May, the market experienced a sharp setback. The trigger was the May 12 monthly crop report, which provided the first comprehensive look at the 2021-22 marketing year.

For the US, the USDA used the unexpectedly low planting-intentions estimate of 91.114 million acres (see *Focus on Futures*, April 1). At the same time, however, yields were projected at a record-by-far 179.5 bushels per acre, which, if achieved, would produce a record crop. On the demand side, with uncertainty over whether Chinese importers would continue corn purchases at the current torrid pace, exports were estimated 11% below the record levels we saw in 2020-21. Coupled with the forecasted bumper crop, the ending-stock estimate of 1.507 billion bushels (38.28 million tonnes) was materially higher than the average of analysts' guesstimates of 1.344 billion bushels (34 million tonnes).

The development of the US crop couldn't be much better. As of the most recent weekly report, 90% of the crop has been planted, compared with the five-year average of 80%. In addition, 64% of the crop has emerged, compared with the five-year average of 54%. Early planting and emergence provide a measure of assurance that the crop will be fully developed before frost risks become a factor in late summer/early fall.

Moreover, with new-crop prices touching $6.38 per bushel, it's a fairly safe bet that June 30 planting update will show that farmers "found" acres to plant.

With the new crop humming along in picture-perfect fashion, the fear that additional acreage would pop up in future estimates, and uncertainty regarding the longevity of Chinese buying, the stage was set for a correction.

Then came the weekly export report on May 27. The USDA confirmed that China had booked a whopping 5.6 million tonnes of new purchases for the upcoming 2021-22 marketing year. The market erased two weeks of losses in the space of one session.

The USDA once again revised its estimate for total US exports upwards in the May crop report, by 2 million tonnes, to 70 million tonnes. Commitments now stand at 68 million tonnes. There are still three months remaining in the marketing year, but Chinese buying seems to have shifted to new-crop purchases. About 60% of 2020-21 Chinese commitments have been shipped. Cancellations have been cited as cause for some concern, although there has not been any evidence as such. The fact that they continue to book fresh cargoes has been deemed by traders – at least at this juncture – to be a strong indication that Chinese demand is alive and well. The initial forecast for total US exports for 2021-22, at 11% below 2020-21, is being viewed as far too low, and all eyes will be on future revisions.

In summary, market participants were focusing on the US crop. They have now – once again – shifted to watching China.

We are long December corn as per our April 1 recommendation. We now suggest raising sell stops, from $4.40 per bushel to $5.10, close only.

[By Sholom Sanik, May 28, 2021]

Chart 5 – CBOT December corn



Chart courtesy Reuters

©2021 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

SOYBEANS

Down but not out

After trading through eight-year highs in early May, old-crop soybean prices have fallen by more than $3 per bushel, or roughly 20% (Chart 6). Has the bull run ended?

Looking first at the soybean-specific fundamentals, we find that the huge rally was sparked by Chinese imports of US soybeans. The hog and broiler population grew and demand increased. Not to mention that imports from the US fell dramatically during the trade-war period in the 2018-19 marketing year. As it is, China, more so than with any of the other agricultural products it buys from the US, produces only 17% of its annual soybean requirements, and as a result, it was understocked. Over the past few months, however, the Chinese have turned their attention to corn (see *Focus on Futures*, May 28). There have not been any significant soybean purchases by China since February.

US soybean exports did have a stellar performance for the outgoing 2020-21 marketing year. The USDA target for record foreign sales of 62.05 million tonnes for 2020-21 should be met easily. Commitments stand at 61.62 million tonnes, and more importantly, 57.89 million tonnes have already been shipped. While always a risk, we have not seen any evidence of significant cancellations. But it is unlikely that there will be any more mega sales before the marketing year concludes on August 31.

With South American supplies now available, the letup in Chinese purchases is understandable. Forward new-crop commitments for 2021-22 stand at 7.6 million tonnes, which is large compared with the past several seasons for this juncture of the season, but not extraordinary for this time of year. It remains to be seen whether the Chinese will pick up where they left off come the fall when the new US crop is harvested.

The next major event that will determine price direction will be the June 30 acreage update.

In the May crop report, the USDA used the March 31 planting-intentions report to establish its first estimate for the 2021-22 US crop. Analysts were substantially off the mark with a guesstimate of 89.996 million acres against the actual figure of only 87.66 million acres. A glance at Chart 7 leaves no room for doubt that the planting intentions event touched off the mammoth rally in April amidst the prevailing bewilderment that so few acres were planted.

As we head into the June update, analysts are definitely counting on farmers to have taken advantage of these historic price movements. Analysts are taking a cautious approach, though, after their epic miss. The estimates we've seen are in the 88.5-million-acre range.

Regardless of how many acres they added, we are definitely in a "weather market." The crop got in early – 97% of planned acres have been planted, compared with 94% for the five-year average, and 91% of the crop has emerged, compared with the five-year average of 85%. This speaks well to avoiding frost at harvest time. Drought conditions in parts of the US Midwest, however, may have compromised subsoil moisture levels. While it is too early to be alarmed, crop conditions are disappointing. The most recent weekly progress report shows that only 60% of the crop is rated good-to-excellent, down from 62% the previous week, and much worse than the 70% rating last year at this time.

So, while there has been a broad-based liquidation of long commodity positions that has erased months of price gains, we need to focus on each commodity's particular supply/demand fundamentals. As such, the soybean market, as illustrated, has a formidable list of ongoing issues that could keep the market tight for the foreseeable future.

US ending stocks for 2021-22 are forecast at 3.5% of consumption, up from 2.9% last year, but these levels are still at the low end of historical precedent. In "normal" years, i.e., excluding the bull market seasons between 2012 and 2014 (very low carryout) and excluding the trade-war and pandemic seasons between 2018 and 2020 (very high carryout), US ending stocks averaged 9% of usage in the period between those outlier seasons. If there is a glitch on the supply side and/or if the Chinese continue this past season's large purchases, we expect to see ending-stock estimates slip back once again to dangerously low levels.

We were a late entry into this trade with our recommendation to establish long positions in November soybeans on April 28 with the market trading around $13.30. And it was certainly disappointing to see the quickly-earned profits evaporate. Nevertheless, our $12.25 stop survived the recent pummeling, and we advise holding on to long positions using the same stop.

[By Sholom Sanik, June 23, 2021]

©2021 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 6 – CBOT July soybeans



Chart courtesy Reuters

Chart 7 – CBOT November soybeans



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 © 2021 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.