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Corn: exit the bear

After sinking to four-year lows in March, the corn market has pieced together a bit of a rally (Chart 1). Real or due course correction?

There are several bullish factors operating on both the supply and demand sides.

We have previously discussed surprisingly low prospective US corn acreage for the 2024-25 marketing year (see *Focus on Futures*, April 1). The USDA estimated that 90.036 acres will be planted to corn, down from 94.6 million acres in 2023-24. There are still a few weeks remaining until the window closes for optimum yields. And then we commence monitoring growing weather.

The more current issue is South America. A fairly new dynamic has emerged with Argentina, the world's third-largest exporter. In its April crop report, the USDA revised its output forecast downwards by 1 million tonnes for the crop that is now being harvested. In the May crop report, the figure was cut an additional 2 million tonnes, to 53 million tonnes. That is still a sharp recovery from last year's drought-stunted production of 36 million tonnes.

These crop downgrades have come in response to the emergence of the leafhopper insect, which thrives in warm weather conditions. Winter frosts in the post-growing season combat this problem, but there have not been any frosts over the past few years. Local analysts have been slashing their estimates. On May 2 the Buenos Aires Grain Exchange cut its estimate to 46.5 million tonnes. So, the USDA estimate for Argentina may still be a bit generous.

Estimates for Brazil have been drooping as well. Last season Brazilian output was 137 million tonnes. Until the end of April, dry weather was an issue, and it was well known that yields would be compromised. Over the past 10 days, the rain came, and did not stop coming, to the point where heavy flooding hampered the progression of the harvest. Most estimates hover around 116 million tonnes, but one private estimate puts production at 111 million tonnes.

Demand for US corn remains steady. The USDA's read of the export flow is bullish. In the May crop report it actually raised its estimate for the current marketing year by 1.27 million tonnes, to 54.61 million tonnes, which would be 29% higher than in 2022-23. This is despite the fact that export commitments stand at 47.62 million tonnes, only 24% higher than last year at this time.

We believe there are two factors that lead the USDA to this conclusion. First, these sales have been without the benefit of much buying from China. The Chinese have been occasional buyers of small amounts, and in most weeks over the past few months, they have not participated at all. Specifically, there have been three weekly purchases of less than 100,000 tonnes by China since February. Regardless of China's absence, sales seem healthy. Furthermore, shipments are 29.8% ahead of last year.

The key issue, however, is the supply side. The slide in projections for the Brazilian and Argentinean crops was not an expected event. If the US picture presented by the planting intentions report is in the ballpark, it would mean that all the major exporting countries will have substantially smaller crops. Not that it comes as any big surprise, the USDA estimate for the new Ukrainian crop is 27 million tonnes, down from 31 million tonnes in 2023-24.

Commodity funds have been covering their gargantuan short position (Chart 2), but we expect that there is more covering around the corner if the supply-side fundamentals continue to head in this direction.

Establish long positions in July corn, currently trading at about $6.70 per bushel. Place initial stops at $6.30, close only.

[By Sholom Sanik, May 10, 2024]

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Chart 1 – CBOT corn – weekly nearest contract



Chart courtesy Reuters

Chart 2 – CFTC commodity fund net-short position



Chart courtesy Reuters

COTTON

Brazil vies for the cotton crown

In the space of just two months, cotton prices have been on a wild ride – first spiking to an 18-month high and then plummeting to an 18-month low (Chart 3). To be sure, commodity funds built a huge long position on the way up, have liquidated that position, and are now short (Chart 4). There have not been any shifts in the supply/demand fundamentals commensurate with the monumental swing in prices.

On May 10 the USDA presented its first comprehensive forecast for the upcoming 2024-25 marketing year. At a glance, the report was bearish. Global output was forecast at 119.05 million bales, 4.8% higher than in 2023-24, while consumption was estimated at 116.86 million bales, up only 3.1% from the previous season. The market continued to sell off after the report. But the huge slide had already occurred.

It appeared as though the big item in this report was the estimate for 2024-25 Brazilian production, which is forecast to grow to 16.7 million bales, up from 11.72 million bales in 2022-23 and 14.57 million bales in 2023-24. Exports are forecast at 12.6 million bales. And indeed, it does catapult Brazil into the big leagues of world cotton trade. In 2022-23 Brazil exported 6.6 million bales. For the current marketing year, exports are estimated at 12.1 million bales. However, the projected jump in output has been known for many months and not at all a surprise.

Taking a closer look at US output, we find that in historical terms, the area planted is not large. At 10.67 million acres it will be higher than last year's 10.23 million acres, but small in historical terms. Average acreage in the five-year period prior to 2023-24 was 13.1 million acres.

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The yield estimate is 842 pounds per acre, which is in line with yields in recent years. However, we believe that at 85.5%, the forecast for the harvested-to-planted ratio is rather ambitious. The average ratio going back to the 2017-18 season was 72.4%. Now, even if we exclude the 2022-23 and 2023-24 seasons, in which the ratio was an absolute disaster – at 53% and 62%, respectively – the five-year average prior to that was 78.4%. The highest ratio in modern history was achieved in 2016-17 at 94.4%, but judging by recent crops, that seems to have been an anomaly. So, we believe that 85.5% is an optimistic forecast that would require excellent growing conditions in all regions.

Planting progress is proceeding well with 44% of the crop in the ground, right at the five-year average. Weather was cooperating until about mid-May, with adequate moisture. But dry conditions have emerged over the past week. It's a long season ahead.

On the demand side, US export commitments (shipped and unshipped) for the current marketing year, which runs until the end of July, are 6.5% behind last year at this time, compared with the USDA forecast that we will end only 3.6% behind last year. In isolating China on the other hand, we find total purchases 59% ahead of last year. After strong buying early in the marketing year, there was a lull from January through March. However, since the beginning of April, the Chinese have been active participants. So that's good news, albeit only if it were to continue.

In conclusion, there is nothing terribly bullish or bearish about this market. As we have seen over the past several seasons, lots of acres planted does not provide any guarantee that a large crop will follow. And that will be true for the US as well as for Brazil.

Stand aside for now, but stay closely tuned.

[By Sholom Sanik, May 23, 2024]

Chart 3 – ICE July cotton



Chart courtesy Reuters

Chart 4 – CFTC commodity fund cotton net-short position

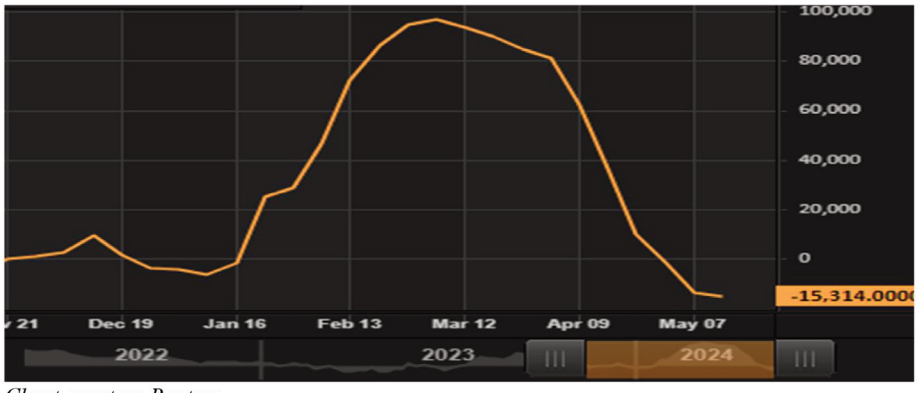


Chart courtesy Reuters

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SOYBEANS

Great expectations for the US soybean crop

Brazil

In mid-April soybean prices tested a three-year low set in February, but have since rallied by $1 per bushel (Chart 5). The primary, headline-driven reason behind the strength was heavy flooding in Southern Brazilian state Rio Grande do Sol. Although it is only the third-largest soy state, accounting for 15% of the country's output, estimates have been coming off. The most recent estimate puts Brazilian 2023-24 production at 147.57 million tonnes, compared with the USDA's May forecast of 154 million tonnes. The season-high estimate, which was based on planted area, was 163 million tonnes. Weather has not been kind throughout, as evidenced by the downtrend in production estimates.

While not necessarily a game changer, it does bring into question the forecast for record exports of 102 million tonnes, which is up sharply from 95.5 million tonnes in 2022-23. Strangely, the USDA forecast for Brazilian exports has actually been increasing since November. With the crop estimates down about 16 million tonnes from their peak, we don't have a plausible explanation for that.

US

Until the weather in Brazil received serious attention, the market was trading off the prospect for a large US crop. The March USDA planting report showed that US farmers intend to plant 86.51 million acres for the 2024-25 marketing year, up rather dramatically from 83.6 million acres the previous season. That figure came as no surprise and accounted for the steep decline heading into planting season.

The estimate for the US crop based on the increased acreage would be 121.11 million tonnes, compared with 113.37 million tonnes in 2023-24. This forecast assumes record yields of 52 bushels per acre (bpa). This estimate is considerably higher than in 2022-23 and 2023-24 when yields reached only 49.6 bpa and 50.6 bpa, respectively. But the lofty expectation is not without precedent. There were three years between 2016 and 2021 in which yields were between 51.6 and 51.9 bpa. So, with excellent weather we will have a large US crop.

However, with the 2023-24 harvest near completion, we can safely assume that the Brazilian crop will be at least 16 million tonnes smaller than the previous year. To justify the bear market that began last summer at $16.00 per bushel, the US crop will have to perform well.

Demand

The USDA estimate for global demand in 2023-24 is 383.53 million tonnes, up from 366.04 million tonnes in 2022-23. The early forecast for the 2024-25 marketing year based on the USDA's May crop report calls for a jump to 401.74 million tonnes. Appetite is not the issue. Rather, it comes down to who gets China's business.

With three months remaining in the 2023-24 marketing year, US export commitments to date stand a 42.9 million tonnes, down from 50.8 million tonnes, or 15.6%, at this time last year. That is in line with the USDA forecast. Chinese imports are estimated at 105 million tonnes, about the same as last year. What has changed is the Chinese shift to Brazil. In 2023, Brazil exported a record 74.5 million tonnes to China, 39% more than the previous year. So, there is no great mystery as to why US prices are depressed.

In conclusion, we will be monitoring Brazilian output estimates for revisions. The crop is made, and it's just a matter of getting an accurate read on how much output was lost to the poor weather. The estimate for Brazilian exports at 102 million tonnes may not be realistic. We could see China switch volume back to the US towards the end of this season and into the next.

And of course, US weather is a huge variable. There is no reason to assume that we will not meet the USDA's expectations. On the other hand, planting is not even complete yet. As of the most recent weekly progress report, 68% of the crop has been planted, down from 78% last year at this time, but up from the five-year average of 63%.

Stand aside for now, but stay closely tuned.

[By Sholom Sanik, May 29, 2024]

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Chart 5 – CBOT soybeans – weekly nearest contract



Chart courtesy Reuters

COCOA

Supply side still in peril

Cocoa prices peaked at an astounding $11,000 per tonne in mid-April. After a sharp correction to below $7,000, the market seems to have consolidated (Chart 6). While the fundamentals remain as bullish as they've been, the last leg of the rally to the highs was more than likely associated with short covering. The exchange raised margins and "forced" undercapitalized shorts out. The open interest and Commitment of Trader's data statistics are fairly clear on this. Open interest shed about 200,000 contracts, or more than 50% (Chart 7). The fund net-long position fell from 75,000 contracts to 15,000 contracts (Chart 8). Where to from here?

Demand

The first-quarter grind was not as weak as might have been expected. The EU fell by 2.2% year-over-year, while North America was up 3.6%. Asia was basically unchanged at minus 0.2%. Only the Ivory Coast is declining sharply. In April, processing activity was down 20% year-over-year.

Analysts explain that for the EU, North America, and Asian processors, there has been a rush to buy beans in the event of shortages. In addition, the large companies did have long hedges on when the bull started brewing. Another factor – although there are no statistics to back it up yet – before this bull market began, is that global ending stocks were well over 30% of usage, so they may have been eating into those inventories. These factors will run their course, though, and the decent grind pace is therefore not an indication that demand will last with prices so high.

Supply

We are now well into the mid-crop season in the Ivory Coast, and any hope that there would be a pickup in port arrivals is fading quickly. As of the most recent weekly reading, arrivals stand at 1.469 and continue to run 29% behind last year at this time.

Ghana's production peaked at 1 million tonnes a couple of years ago. While there are no regular updates on Ghanaian output, the government cocoa board's (Cocobod) most recent forecast puts production at 422,000 tonnes.

According to a recent report from the International Cocoa Organization (ICCO) there is a difference between what happened in the Ivory Coast and Ghana. For the Ivory coast, the nosedive in output – aside from weather issues – was an isolated event that was caused by disease. Whereas for Ghana, the ICCO has a whole list of issues, at least some of which represent structural changes that will not disappear anytime soon. They include the swollen shoot virus, illegal mining which has eliminated plantations permanently, aging trees, and poor weather this season.

The 2023-24 marketing year is a writeoff in terms of production. Even a strong finish to the Ivorian mid-crop would barely make a dent in the production/consumption shortfall. Until we get an idea whether the new crops are destined for recovery, we are going to assume that the cocoa-price range has entered a new paradigm that reflects much smaller crops in the world's two largest producing nations.

We were long December cocoa, but we were stopped out at $7,000 per tonne, as per our April 9 recommendation. We are suggesting reestablishing a long position. However, the market is now trading at the highs of the short-term range, and with rather extreme volatility that we are witnessing, we believe that opportunities will present. Place orders to buy December cocoa at $7,400. Place initial stops at $6,500 close only. *[By Sholom Sanik, May 31, 2024]*

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Chart 6 – ICE July cocoa



Chart courtesy Reuters

Chart 7 – ICE cocoa open interest



Chart courtesy Reuters

Chart 8 – ICE cocoa – commodity funds net-long position

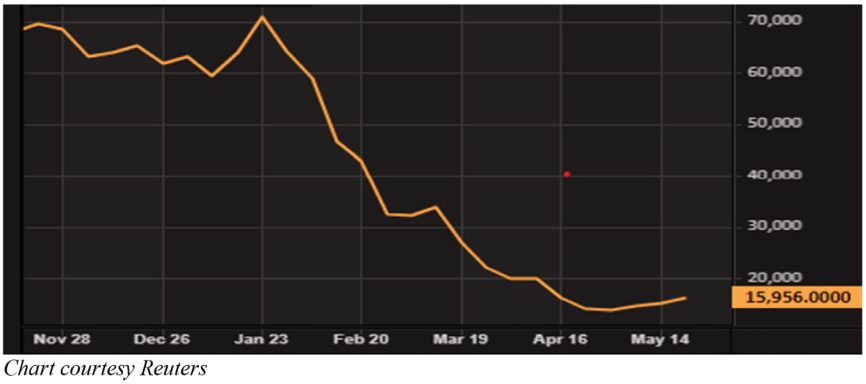


Chart courtesy Reuters

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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

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