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A global cotton deficit, but still all about China

Cotton prices rallied rather dramatically between mid-February through mid-May (Chart 1). There were a host of reasons, but to get a flavor of where we're headed with this, we do not believe any of them were game changers.

First, in mid-May the Chinese agreed to buy $17 billion worth of US agricultural products in each of the next three years. That is aside from the previously negotiated 25-million-tonne-per annum soybean deal. Somehow, cotton made its way onto some analysts' lists of commodities that would be included.

Then there was the energy-related angle. There were stories that claimed that Chinese clothing manufacturers would be switching away from suddenly-expensive petroleum-based fibers, which would increase cotton demand.

US exports were the only bullish factor with facts to back it up. Sales to all destinations fared better in the absence of Chinese participation than was believed possible earlier in the season. In March, export commitments were 10% behind the same time last year. As of the most recent USDA weekly export report, sales lagged last year by only 0.01%.

For the second consecutive season, China's purchases of US cotton are insignificant, as depicted clearly in Chart 2. Chinese imports from Brazil for the marketing year stand at about 3 million bales, up about 300% from last year. But that is not a strong indication of overall Chinese demand for foreign cotton. Two seasons ago on this date, purchases from Brazil were roughly double the current level at this juncture of the season.

There were not many big surprises contained in the May USDA crop report, the first look at the 2026-27 marketing year. The US crop production estimate was based on March 31 planting intentions. Global forecasts were close to analysts' estimates. Taken at face value, it was actually a fairly bullish report.

Brazil is now the world's largest cotton exporting nation, and output is forecast to drop 2 million bales, to 17.5 million bales. Australia is number three behind the US, and production is expected to fall by 1.5 million bales, to 3 million bales. Global production is estimated at 116 million bales, down 6 million bales from 2025-26. Domestic consumption is forecast to grow by 1.5 million bales. That would leave a rather formidable production/ consumption deficit of 5.7 million bales, which compares with a surplus of 2.5 million bales last year.

The strange thing is that prices peaked a couple of days after the release of the crop report and fell rather steeply. We believe that the explanation could lie tucked away in the Chinese output estimate.

We have discussed in past articles (see *Focus on Futures*, February 23 and April 16) how Chinese reliance on imports has been dwindling. In April, the USDA raised Chinese 2025-26 output once again, to a record 35.8 million bales. Heading into the crop report, the estimate for 2026-27 was based on the February USDA Outlook Forum and called for a smaller crop of 32 million bales. But the May crop report put China at 33.5 million bales. That is still 2.3 million bales shy of 2025-26. But a higher-than-expected figure for the country whose foreign buying is pivotal to global prices – well that's news. We point out that in each of the past two seasons, analysts were behind with their China estimates for most of the season, only to see record production levels materialize.

In 2025-26 the gap between production and domestic mill usage was only 4 million tonnes. If we go back to 2023-24, that

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gap was 11.5 million tonnes. With the estimate for lower output in 2025-26, the deficit moves back to 6.5 million tonnes. A good crop keeps the Chinese on the road to self sufficiency.

The notion that cotton is on China's $17 billion shopping list of US agricultural products does not make a whole lot of sense.

In conclusion, Northern Hemisphere crops still have a lot of growing to do, and weather can always be an obstacle. But there seems to be a new paradigm in place in which Chinese needs are just not the same as they have been.

We were stopped out of our short position in December cotton at 71¢ per pound, as per our February 23 recommendation. We stood aside. The market is now trading at 80¢, and we suggest re-entering the short side. Place initial stops at 86¢, close only.

[By Sholom Sanik, June 3, 2026]

Chart 1 – ICE December cotton

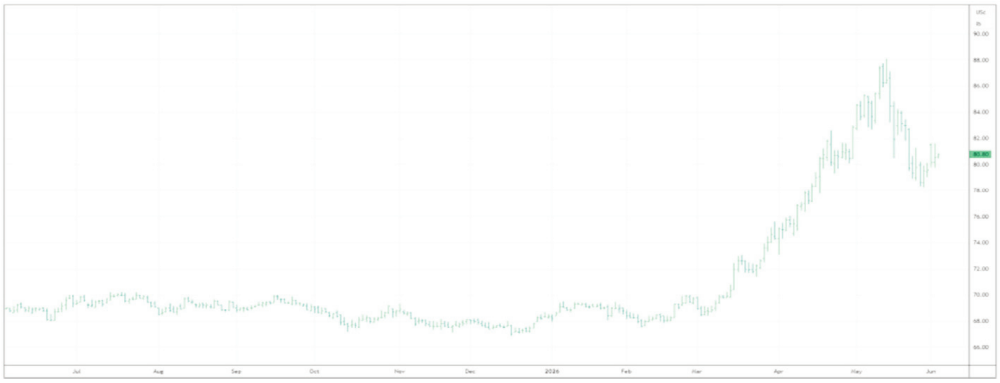


Chart courtesy LSEG

Chart 2 – IChinese purchases of US cotton

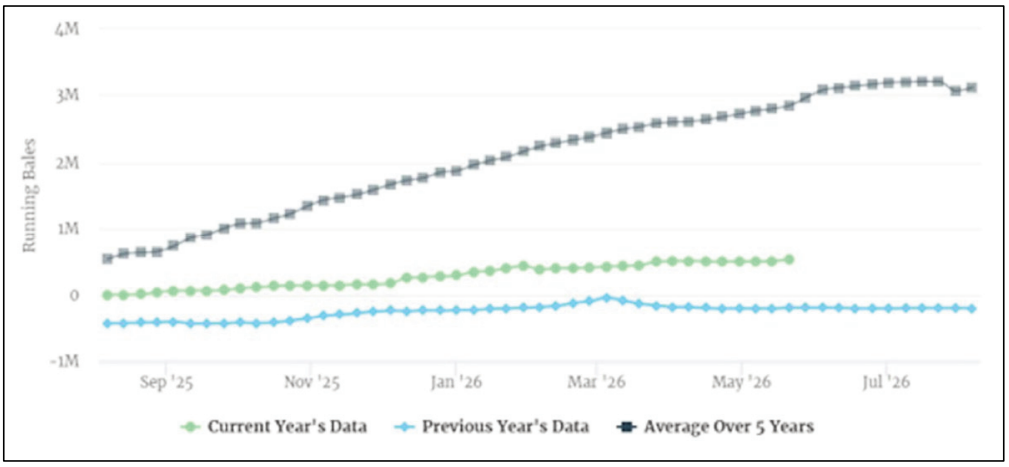


Chart courtesy USDA/FAS

COFFEE

A bountiful Brazilian crop is almost in the bag

Coffee prices have been tumbling (Chart 3). The Arabica crop is humming along just fine, benefitting from normal weather. Estimates have not changed very much. The consensus calls for a 25% increase over the previous season, to roughly 49 million bags. The peak harvest season is between June and August. The near-term forecast is for dry weather, which is necessary for unimpeded harvesting. Barring unforeseen weather changes, we're almost there. There are several issues to be mindful of.

US warehouse stocks have not recovered. Chart 4 shows that according to the most recent data, stocks remain near their multi-year lows.

There are two explanations that have been offered. First, we are still behind from the several-months-long restrictive

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tariffs imposed by the US on Brazil. Almost nothing was shipped during that period.

Second, farmers have reportedly been holding back because of falling prices. That may turn out to be a poor strategy if prices continue to fall. If the product is there, it will have to be sold eventually. Nevertheless, while monthly year-over-year exports to the US are still down, month-over-month exports are inching up. With the bulk of the new crop harvest just around the corner, it is a good bet that we will see exports growing and padding the inventory levels.

While the weather – as mentioned – has posed no problem thus far, we are entering Brazilian winter. As we know from history – 1994 and 2021 – a freeze can appear without notice and does not have to last for very long to do damage. Frozen plants not only devastate currently growing beans, but can damage plants for future crop cycles.

The impact of energy prices on coffee is not as direct as the food commodities that have dual consumption roles, as food and biofuel, such as corn, sugar, and soybean oil. However, coffee is not completely immune. Brazil imports about 85% of fertilizers and other energy-based inputs. The cost of fertilizer has more than doubled over the past year, which means that the cost of production has entered a new paradigm, which will last as long as energy prices remain high.

The global production/consumption surplus (Arabica and Robusta) for the incoming 2026-27 marketing year is expected to jump to about 9 million bags, up from 5 million bags in 2025-26.

All indications point towards a recovery in the Brazilian Arabica crop. The rebuilding of warehouse stocks has – as illustrated – been a cumbersome process. But, if all goes well, there will be an abundance of beans available for export to the US. Risk of frost, while small, does exist.

We have been short coffee since our initial recommendation on December 23. We are now short July, with a stop at $3.25. We are suggesting a multiple-step strategy. Maintain 50% of your short position, by rolling into December. Lower stops to $2.70, close only.

For the balance of your position, either accept handsome profits or, alternatively, maintain a good-till-cancelled trailing 15¢ stop.

[By Sholom Sanik, June 8, 2026]

Chart 3 – ICE December coffee



Chart courtesy LSEG

Chart 4 – ICE coffee warehouse stocks

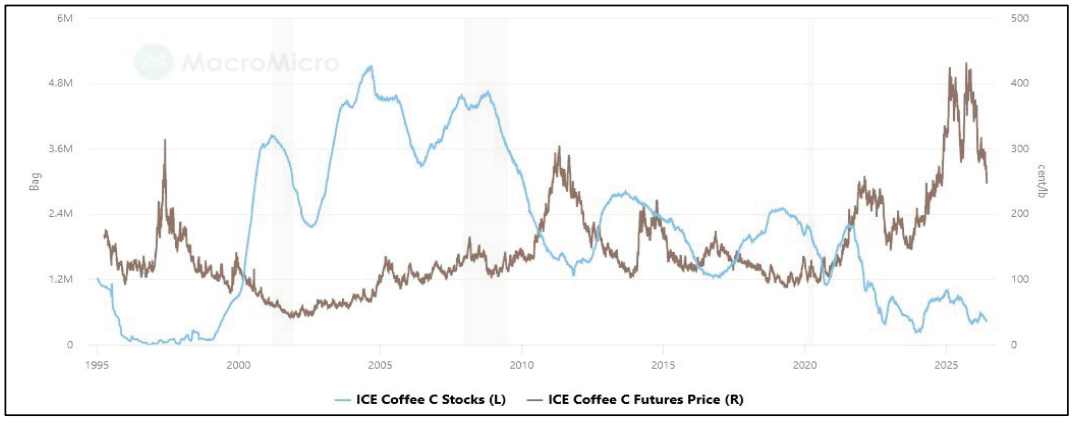


Chart courtesy Macro Micro

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COCOA

Here comes El Niño

The title of our most recent article regarding the cocoa market (see *Focus on Futures*, April 27) posed the question: "Are cocoa beans hiding?" Apparently, the answer was a resounding yes.

The 2024-25 season was riddled with weather and disease issues which resulted in a second consecutive crop failure. Output reached just over 1.8 million tonnes, slightly higher than in 2023-24, but still sharply below the record 2.3 million tonnes achieved in 2022-23. The current 2025-26 season was billed as a recovery year, but for most of the main-crop season, arrivals were hovering near 2024-25 levels (Chart 5).

Then, on June 8, Ivory Coast industry regulator, the Coffee and Cocoa Council, surprised traders with a huge increase in weekly arrivals. We travelled from 2% above the previous season, to plus 18%, as of the most recent weekly report.

Obviously, the huge influx of beans was not the result of a sudden surge in harvesting. Rather, as we have been saying for several months, farmers were holding back in hope of higher prices. Arrivals now stand at 1.883 million tonnes. With several months remaining in the mid-crop season, the 2025-26 marketing year has every chance to indeed return to normal production levels.

So why did the market not react to what was ostensibly rather bearish news?

It seems that traders turned their attention to the future. In early June several international meteorological services announced that an El Niño weather system is on its way, with a high probability that it would be a strong one. Generally, El Niño brings warmer temperatures around the globe. The exact effects vary among locations. The unusual weather includes drought and heavy rainfall.

Every strong El Niño in the past 55 years has reduced cocoa output to some extent. West Africa has experienced both the drought and excessive rainfall varieties. From mid-2023 through mid-2024 rainfall was double the normal level, which promoted disease. Later in 2024 the weather turned hot and dry. The Harmattan winds, which come to the Ivory Coast during the peak of the main-crop harvest, were especially strong. Hence, the disastrous 2024-25 crop.

News of an impending El Niño was pitted against what appears to be a *bona fide* recovery for 2025-26 output in the Ivory Coast. The commodity fund short position is at its highest level in about four years (Chart 6). So, it is understandable that short covering would ensue.

On April 27, with December cocoa trading at about $3,500 per tonne, we lamented on missing the opportunity to establish a short position as the market tumbled from historic highs. We advised readers to be patient and wait for a rally to $3,900.

We were correct in assuming that the arrival figures would be padded once the holdout farmers would begin to sell their beans. However, now that we're short, there's no telling how far the El Niño factor can carry this rally. At this time, we advise covering short positions as we monitor how weather conditions develop in West Africa. Stay tuned.

[By Sholom Sanik, June 22, 2026]

Chart 5 – ICE December cocoa

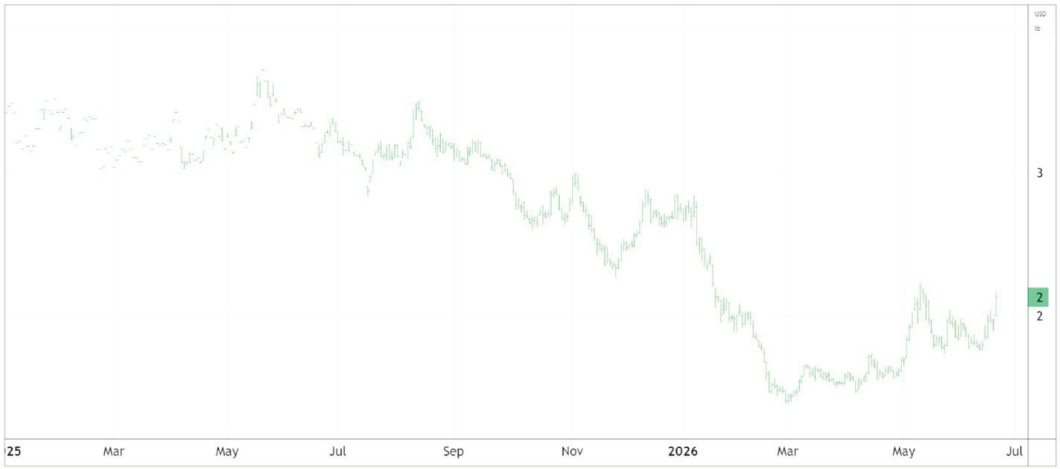


Chart courtesy LSEG

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Chart 6 – CFTC commodity fund net-short position



Chart courtesy LSEG

SUGAR

Down but not out

Sugar participated in the petro-commodity rally when the Middle East conflict began in late February (Chart 7). As it should have. Among the major traded commodities, the rationale for a relationship between crude prices and sugar was arguably the strongest. Processors in Brazil, the world's largest producer/exporter, split their sugarcane processing between sugar and ethanol. In recent years the ratio has been either side of 50% with the margin of difference being the key to how much is available for export.

Ethanol demand has a floor in Brazil because of the government's minimum blend requirement, which at 30%, is the highest in the world. However, the country also has the most flex-fuel cars, which allow drivers to choose 100% ethanol. Ethanol prices rose alongside skyrocketing crude prices, but at a slower pace. It was assumed that the ethanol/sugar ratio would increase substantially to meet new demand. And in fact, it did. Unica, the Brazilian sugarcane industry trade body, estimates that since the marketing year began in April, 59% of crushing favored ethanol as of the end May. That compares with 50% at this time last year.

So, we're a bit baffled at sugar's weakness. The most logical explanation for tumbling sugar prices is the recent plunge in crude oil prices. Traders are assuming that the ratio will scurry back to "normal" levels. Perhaps.

Events that have transpired in India also leave us at a loss to explain why prices have been sliding. The current season's output is estimated at about 27 million tonnes, 3 to 4 million tonnes below early expectations.

As we have noted many times, any speculation regarding meaningful sugar exports from India is frivolous. Two consecutive crop failures have allowed carryover stocks to dwindle well below the government's comfort level and have delayed any hope for foreign sales. Ending stocks are estimated at about 3.5 million tonnes, which is the lowest in several decades in nominal terms. When considering that consumption has grown steadily, it is actually a record low for carryover stocks. Chart 8 illustrates clearly that with domestic usage in a steady uptrend, inventories cannot be replenished until Indian output strings together several seasons of good crops. Not surprisingly, in mid-May the government announced that all exports are banned through September 30.

Looking past that date and into the next harvest season, which begins in November, the prospects for a recovery are not that great. A strong El Niño was forecast several weeks ago which could affect crops around the globe over the next six to twelve months. It appears, however, that Indian weather is an early victim.

As we enter the key months in which sugar crops require precipitation, the monsoon rains are 42% of the historical norm. The absence of sufficient rain means reliance on irrigation, which adds to the cost of production. Besides, irrigation is not a complete solution, because water reserves are scarce.

Thailand is the world's second-largest sugar exporter, and the monsoon rains are vital for its sugar production as well. While conditions are not as bad as they are in India, the rains are about 10% below normal levels.

In conclusion, it is early enough in the Brazilian

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crushing season for processors to ramp up sugar production. That is the one potential bearish factor. Still, all the major analysts are looking for a production/consumption deficit for the upcoming 2026-27 marketing year of between 2 and 4 million tonnes.

On March 19 we recommended establishing a 50% long position in July sugar, and on May 6 we suggested adding the other 50%. Both were stopped, virtually at the low of the move. We remain undaunted. Without any exports from India, the bullish case is solid. Buy October sugar, currently trading at 14.80. No stop for now, but we will revisit this market in short order.

[By Sholom Sanik, June 29, 2026]

Chart 7 – October sugar

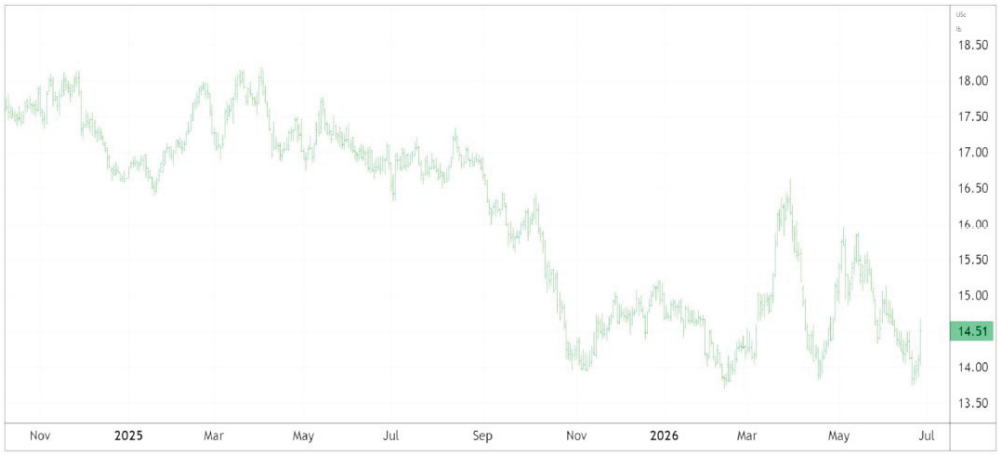


Chart courtesy LSEG

Chart 8 – Indian sugar production and domestic consumption (millions of tonnes)

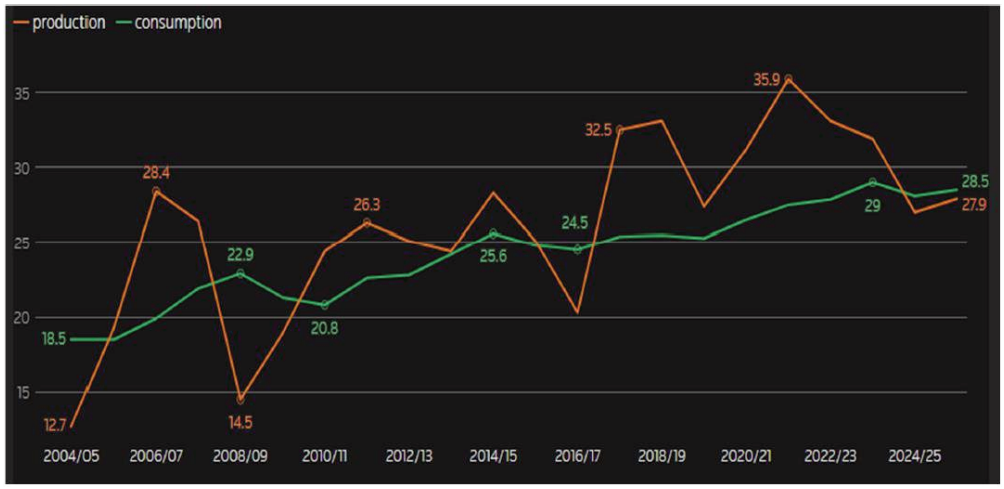


Chart courtesy India & Bio-Energy manufacturers Association

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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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