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Corn: In the grip of the bear

Corn prices have sunk to a three-year low (Chart 1). The USDA balance sheets can certainly confirm that we are dealing with an amply-supplied market. According to the February crop report, global ending stocks for the current 2023-24 marketing year are forecast at 26.6% of consumption. That compares with 25.9% and 25.7% in 2022-23 and 2021-22, respectively. US ending stocks are forecast at 14.9%, compared with 9.2% and 9.9% in 2022-23 and 2021-22, respectively.

Chart 2 shows that commodity funds are enamored of this outlook. They began building a short position last summer and have been relentlessly adding to it. There are several developments that are perhaps being overlooked.

Demand

US exports are strong, indicating that global demand may be at least somewhat underestimated. The USDA export estimate for the 2023-24 marketing year is 53.3 million tonnes, 26.4% higher than last year. US export commitments stand at 36.22 million tonnes, 30.2% above last year at this time. This is of particular interest because this strength has come without China.

While the Chinese have been occasional buyers of US corn, the purchases have been small. Total Chinese purchases (shipped and unshipped) are 1.77 million tonnes, down from 4.48 million tonnes last year. We cannot say that a Chinese presence, albeit tiny, is insignificant, because one wonders why they are buying foreign corn at all. But in any case, the traditional customers such as Mexico, Japan, Colombia, and South Korea have been consistent buyers.

Supply

South American weather conditions have been on and off, with periods of dryness. At the moment, the forecast calls for improved conditions. The USDA is forecasting an Argentinean crop of 55 million tonnes, which represents a complete recovery from last year's drought-stunted crop of 35 million tonnes. And of course, that is if growing conditions are optimal.

Brazilian farmers, on the other hand, reduced corn area by 6.2% from last year. The weather in Brazil seems to be worse than in Argentina, and as a result, analysts have been downgrading the crop size. In the February crop report, the USDA revised its estimate for Brazil down by 3 million tonnes, to 124 million tonnes. That compares with a record 137 million tonnes in 2022-23.

South American producers must experience normal to optimum weather conditions in order to maintain their status as meaningful competitors to the US.

Finally, among major exporters, the Ukrainian crop is recovering and is estimated at 30 million tonnes. That is still well below the record crop of 42 million tonnes reached before the war began.

The supply side for the US 2023-24 crop is now in the books. The shocking yield revision contained in the January 12 crop report (see *Focus on Futures*, January 17) provided a backdrop for further selling.

If there are any bulls lurking in the shadow of the bear, they must have been monumentally disappointed with the market's reaction to the first planting estimate for the upcoming 2024-25 crop. On February 15 the USDA issued a preliminary forecast for 91 million acres, down from 94.6 million acres planted in 2023-24. The range of expectations was between 2 and 3 million tonnes lower. The bears did not even blink, and greeted that news by driving prices to new lows. And yes, for both old- and new-crop contracts.

If this past season is any indicator, US acreage estimates can be quite volatile. The preliminary estimate in February

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2023 for the 2023-24 crop was 91 million acres, and as mentioned, we ended up at 94.6 million tonnes. The big difference, of course, is that heading into the period when planting decisions could still be altered, corn prices were $2.5 per bushel higher than they are now. As such, the motivation for increasing planted area does not exist.

As illustrated, there are three key areas to monitor carefully for an indication of a bottom: South American weather, the size of the US crop, and US exports.

We will not make any recommendations at this time, but do stay tuned.

[By Sholom Sanik, February 20, 2024]

Chart 1 – CBOT corn (weekly nearest contact)



Chart courtesy Reuters

Chart 2 – Commodity funds net-short position



Chart courtesy Reuters

COTTON

US exports and a budding bull

Cotton prices have rallied to five-month highs and are consolidating their gains. A 5¢-per-pound setback from those highs coincided with the February 15 release of a preliminary acreage forecast for soon-to-be-planted 2024-25 US crops (Chart 3). The USDA estimated cotton area at 11 million acres, 7.5% larger than in 2023-24. Even with the extra acres, it all depends on weather. The harvested-to-planted ratio has been extremely volatile over the past 10 years, ranging from the disastrous 53% in 2022-23 to 94% back in 2015-16 and 2016-17. The average of the previous three seasons has been 71%. Time will tell.

However, to confuse the matter, on February 20, the National Cotton Council of America (NCC) issued a much divergent forecast, saying that planted area will *fall* to 9.85 million acres, down 3.7% from 2023-24.

However, in the accompanying notes it cited two key factors that provided context to this estimate. First, when the surveys were conducted, new-crop cotton prices were weak relative to new-crop soybeans and corn. This would render production costs prohibitive *vis-à-vis* price. As can be seen in Charts 4 and 5, that situation has since flipped materially. Second, demand was anemic in the early part of the marketing year, but US exports have soared past last year's levels over the past couple of months. So, it is fair to say that the NCC's estimate is subject to revision.

US exports continue to show strength with each weekly

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commitments report. Until early January we were lagging behind last year's pace. At present, sales (shipped and unshipped) stand at 10.3 million bales, compared with 9.9 million bales at this time last year (Chart 6). Even more impressive is the shipment pace. Over the past six weeks, shipments have averaged 258,000 bales, up from 193,000 bales in the same period last year.

India is the world's second-largest producer of cotton, but is not a factor in world trade. China is the world's largest producer and is very much a factor. The recently harvested Chinese crop was 3.2 million bales, or 10%, smaller than the previous year's output. The USDA's February 15 estimate for the upcoming 2024-25 crop has Chinese production down 500,000 bales. The smaller crop in 2023-24 and the outlook for the new season seems to be carrying more weight than the huge reported carryover stockpile, because the Chinese have been active buyers of US cotton.

Total Chinese purchases stand at 4.17 million bales, up from 2.15 million bales at this time last year.

Rounding out the vital issues is Brazil. Most estimates see another record crop that will be about 5% higher than in 2023-24. But it is a long stretch until harvest time, and the weather has been volatile in South America.

For now, the market is focused on a resurgence in demand for US cotton. US ending stocks for 2023-24 are estimated at 2.8 million bales, or 19.9% of consumption, the smallest carryover since 2020-21, a period in which a massive bull market began. In reality, the ending stock estimate should be even lower because the USDA has been conservative in revising its estimate for 2023-24 exports. The estimate was nudged up to 12.30 million bales, still well behind last year's final sales of 12.77 million bales. And as illustrated above, that will change if the current pace of sales is maintained.

We are long May cotton as per our February 1 recommendation at about 87¢ per pound. Raise protective sell stops to 84.5¢, up from 82.5¢.

[By Sholom Sanik, February 23, 2024]

Chart 3 – ICE May cotton

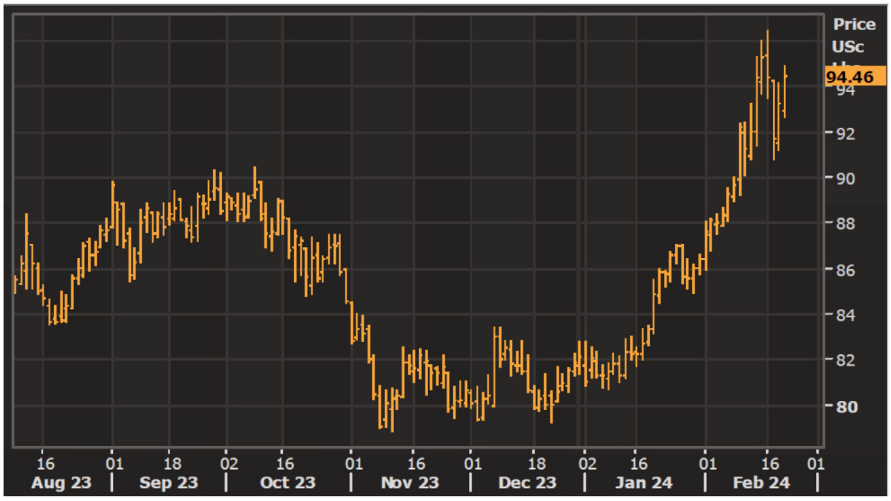


Chart courtesy Reuters

Chart 4 – New-crop cotton-soybean ratio

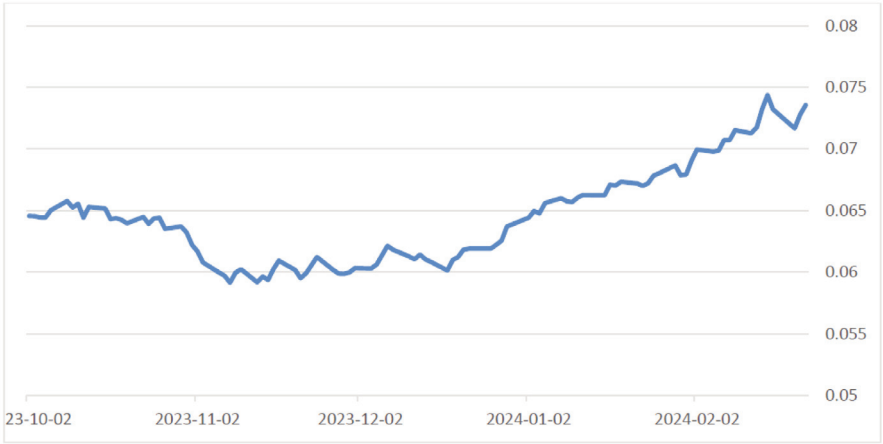


Chart source: Reuters

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Chart 5 – New-crop cotton-corn ratio

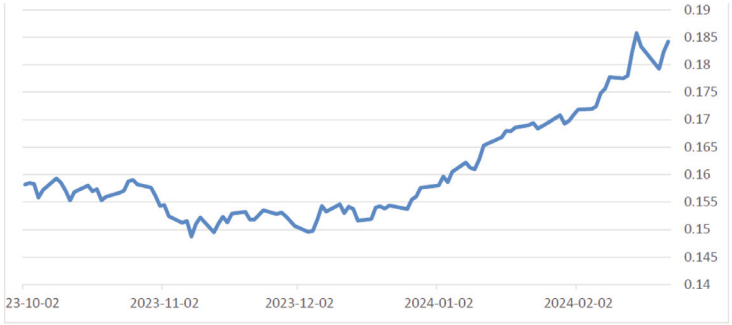


Chart source: Reuters

Chart 6 – US cotton export commitments 2023-24 vs 2022-23 (percentage)

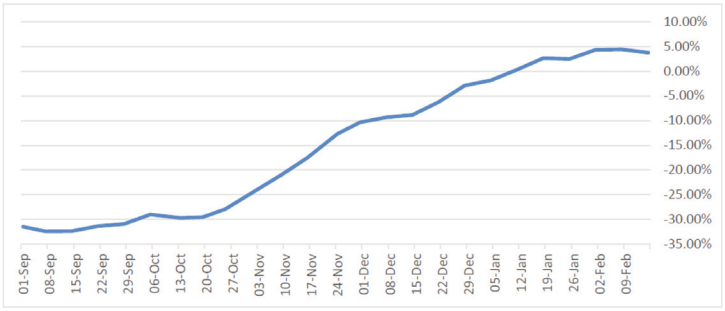


Chart source: Reuters

SUGAR

Pressure on Brazil

After spiking to a 12-year high of 28¢ per pound back in November, sugar prices plummeted all the way back to 20¢. In January the market recovered about half of those losses, but has since given up most of those gains (Chart 7). Where to from here?

India

The 2023-24 marketing year is several months old now, and output forecasts began at about 29 million tonnes, down from 31.5 million tonnes in 2022-23. The most recent slide in prices can be attributed to revisions that have been filing in for production estimates that see production slightly better than the bleak early estimates. (And that would include a similar improved outlook for Thailand.)

However, inventories have fallen well below the government's comfort level. Ending stocks for 2022-23 are estimated at less than 5 million tonnes, or 18% of consumption, compared with carryover stocks that have typically been as high as 50% of usage before the substandard monsoon crimped production.

With domestic consumption forecast to surpass 29 million tonnes, the probability of Indian exports over the next two years is negligible, even after the revised output estimates. Efforts to curtail ethanol production may add some sugar output, but it is not nearly enough to alter the overall Indian sugar supply situation.

Brazil

Even after a fall from grace, sugar prices are still high enough *vis-à-vis* ethanol prices in Brazil to entice cane processors to maintain a high sugar/ethanol production ratio. That seems to be the plan at the moment.

With Indian exports out of the picture for this season and perhaps the next one as well, the burden of supplying world trade in bulk rests squarely on Brazil's shoulders. Regardless of a robust sugar/ethanol ratio, that may prove to be a challenge.

This past season's cane crop reached 660 million tonnes. The cane crop that Brazil will soon begin to crush is smaller, and the forecasts have been slipping. We started with estimates of 620 million tonnes, but dryness has been an issue. One recent estimate puts the crop at below 600 million tonnes.

Forecasts for Brazilian sugar output have mostly been pointing toward equal or higher output for the new marketing year, and we're not quite certain that this is achievable. Two things would have to happen for that to be accurate. First, the weather would have to improve materially to compensate for poor conditions experienced thus far. Second, the sugar/ethanol ratio would have to be maintained, or even increase, from last year's levels. We therefore believe that the optimistic production forecasts are subject to revision.

While most analysts have maintained an estimate for a 2023-24 global production/consumption surplus, a recent

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International Sugar Organization (ISO) update dispels this notion. On February 28, it increased the size of its deficit forecast to 689,000 tonnes from 335,000 tonnes. That compares with a surplus of 308,000 tonnes in 2022-23.

As indicated, with no help from India and the likely overstated Brazilian output forecasts, we see potential supply side vulnerability. We remain steadfastly bullish for the long haul.

Remain long July 25¢ call options, as per our January 24 recommendation.

[By Sholom Sanik, March 6, 2024]

Chart 7 – ICE nearest contract sugar

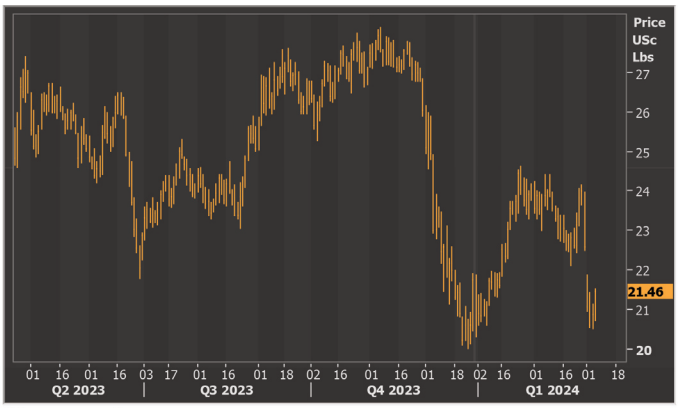


Chart source: Reuters

SOYBEANS

Brazil steals the show

Soybean prices began sinking once the 2023-24 US crop was planted. Most recently, they have bounced after taking out their 2021 lows (Chart 8). Although production fell for a second consecutive season and domestic consumption has been strong, exports have fallen to 2018-19 levels.

The problem is not global demand. World trade is estimated to reach a record 173 million tonnes, slightly above last year, but sharply higher than the 153 million tonnes we saw two seasons ago. However, production costs in Brazil – the only other meaningful exporter of beans – are roughly 20% lower than they are in the US.

As a result, its pricing power has overwhelmed US exporters. Consider the contrast: For the 2023-24 marketing year, total Brazilian exports are estimated at 103 million tonnes, up from 79.06 million tonnes and 95.5 million tonnes, in 2021-22 and 2022-23, respectively. US exports for 2023-24 are estimated at 46.8 million tonnes, down from 58.57 million tonnes and 54.21 million tonnes, in 2021-22 and 2022-23, respectively.

We're about half-way through the marketing year, and a closer look at US exports makes the USDA sales estimate look somewhat optimistic. US export commitments to all destinations stand at 39.7 million tonnes, down 19.6% from last year at this time. The USDA forecast for 2023-24 sales cited above is down only 13.5% from last year.

A closer look at US sales illustrates Brazil's competitiveness. Chinese imports account for about 60% of world trade. So far this marketing year, US sales to China (shipped and unshipped) stand at 22.6 million tonnes. That is down from 30.5 million tonnes at this time last year. Brazilian exports to China in calendar year 2023 jumped to 74.2 million tonnes, a 40% *increase* over 2022.

On February 19 we had our first peek at the soon-to-be-planted 2024-25 US crop. The USDA estimated planted area at 87.5 million acres, up from 83.6 million acres in 2023-24. That is a lot of new soybeans! Using a 50.6 bushel-per-acre yield – the average of the past three seasons – the increase in area represents about 200 million bushels, or 5.3 million tonnes. The USDA will publish its first comprehensive planting intentions on March 30.

Bearish wherever you look.

Commodity funds are net-short 155,000 contracts, the largest short position in many years (Charts 9 and 10). There is one area that could come back to haunt the unbridled bearish exuberance.

Brazilian soybean weather has not been great. Periods of dryness has seen a constant stream of downward revisions for the crop that is now 63% harvested. The USDA began the season with a forecast for Brazilian production at a record 163 million tonnes, up from 162 million tonnes in 2022-23. The USDA has lowered that estimate every month since December, and with the March crop report, that figure is down to 155 million tonnes. Most local private forecasts are now down well below 150 million tonnes.

In the near term, with Brazilian beans becoming available for shipment, we do not expect to see any great shift in Chinese imports over to the US. Nevertheless, it would be prudent to keep a close eye on the development of the Brazilian harvest.

Remain sidelined, but stay tuned.

[By Sholom Sanik, March 18, 2024]

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Chart 8 – CBOT nearest contract soybeans

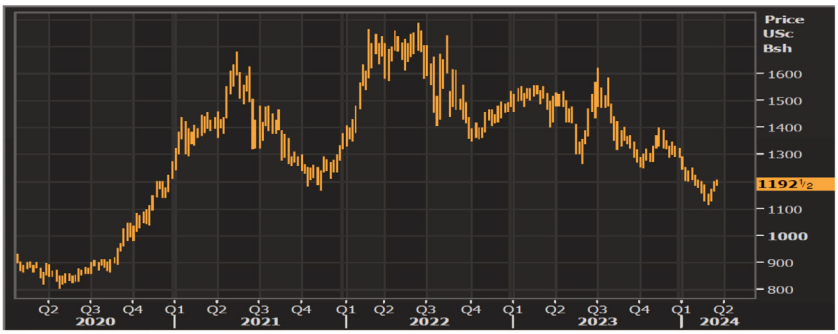


Chart courtesy Reuters

Chart 9 – Net fund position

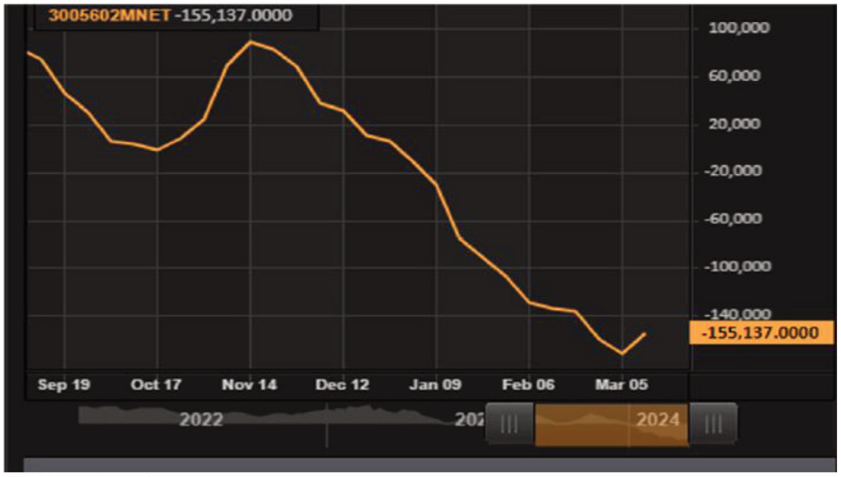


Chart courtesy Reuters

Chart 10 – Seasonal net-fund position 2020 through 2024



Chart courtesy Reuters

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