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Corn: South American crops in the spotlight

Corn prices are trading above one-year highs. Fundamentals on both the supply and demand sides remain mostly constructive for the bull case.

Demand

There were virtually no changes in any category in the February USDA crop report for the US balance sheet – supply or demand. Well, there should have been. The USDA maintained its forecast for 2024-25 exports at 62.23 million tonnes, which is just 6.9% above last year's final sales. In the meantime, new sales continue to roll ahead at a strong pace. The most recent figure stands at 46.4 million tonnes, 28.2% above last year at this time. There is no evidence to suggest that cancellations will become a material factor, because shipments are 32.6% out in front of last year at this time. The USDA is therefore still well behind on its estimate for final sales.

At the moment, with the USDA's ultra-conservative export forecast, the estimate for 2024-25 US ending stocks stands at just over 10% of consumption, down from 11.8% in 2023-24. If the USDA begins to deal with the reality of actual sales, the carryover will encroach on what has been bull-market territory in the past.

Supply

South American weather has been challenging for corn. Brazil has been too wet, which has impeded the early harvest and slowed the planting of the Safrinah crop. Argentina is too dry, which could compromise yields.

In the February crop report the USDA lowered its estimate for Brazilian output by 1 million tonnes, to 126 million tonnes. Argentina is the world's third-largest exporting nation, and the situation there is of greater concern. The USDA revised its production estimate down by 1 million tonnes, to 50 million tonnes. But local analysts have been less generous. One estimate calls for Argentinean output of only 46 million, down 2 million tonnes from its previous estimate.

Normally, the USDA takes its time in revising estimates for crops whose final harvests are still months away. So, although the USDA downward revisions were modest, it does serve as an indication that its analysts on the ground view the weather issues as a potentially serious matter that could get worse.

Looking ahead to the 2025-26 US crop, which will be planted this spring, we find the one issue that could pose a bearish threat. The consensus is that corn area will expand. At the moment, talk is that farmers will plant about 93 to 94 million acres, roughly 2.5% more than in 2024-25. This idea is supported by the fact that new-crop corn prices have outperformed new-crop soybean prices (Chart 2), making corn the more profitable choice.

Furthermore, the soybean market is saddled with potential fallout from President Trump's tariff spat with China, which could reduce Chinese purchases from the US (see *Focus on Futures*, February 4) and could further incentivize more corn planting *vis-à-vis* soybeans. China hardly buys any corn from the US, so it may just be safer to devote more area to corn, which as illustrated above, has a rather healthy and broad base of customers and does not rely on Chinese buying the way commodities such as soybeans and cotton do.

We will get our first look at a hard acreage estimate on February 27 when the USDA holds its annual Agricultural Outlook Forum.

We are long corn as per our October 29 recommendation. March will soon expire. Roll March into May, currently trading at about $5.04 per bushel. Raise protective sell stops to $4.65, close only.

[By Sholom Sanik, February 13, 2025]

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Chart 1 – CBOT corn nearest contract

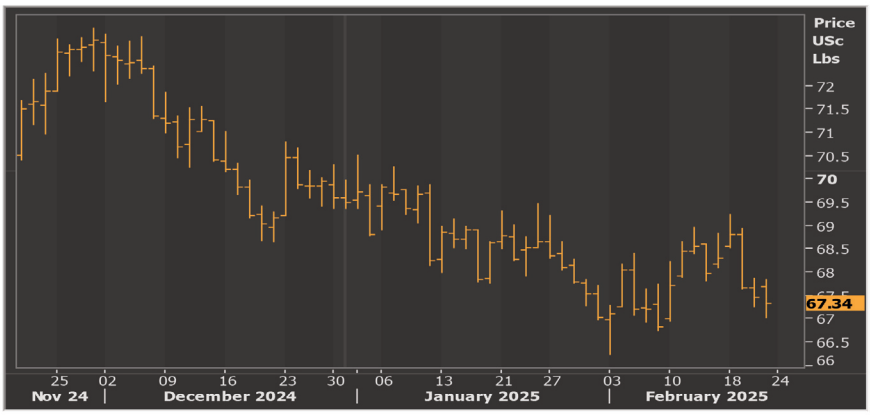


Chart courtesy Reuters

Chart 2 – New-crop soybean/corn ratio

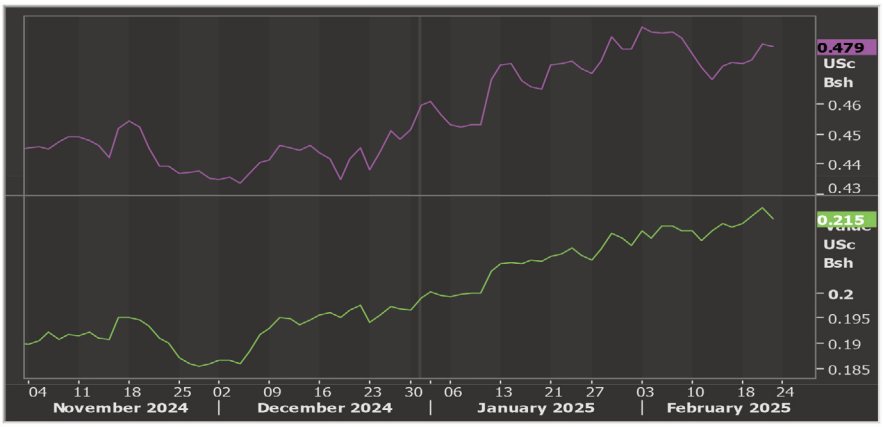


Chart courtesy Reuters

SUGAR

That will be all for Indian sugar exports

The sugar market has shaken off the January 20 announcement of India's "re-entry" to the export market. The government licensed 1 million tonnes for sale abroad. As ever so clearly depicted in Chart 3, traders were not impressed. The market bottomed on the day after the announcement and has since rallied by 2.5¢ per pound.

Other than grabbing some headlines, the relaxation of export policy has not changed anything. Aside from the fact that the 1-million-tonne quota was below the low end of the range of analysts' expectations, it now seems that even that amount may not be exported. At a recent sugar-industry conference in Dubai, it emerged that at most, only 400,000 tonnes have been sold abroad, and that, indeed, the full 1 million tonnes is not actually available for sale. One analyst said that exports will reach only 700,000 tonnes.

As the milling season tailed off, the downward revisions for 2024-25 were quite surprising. The mid-2024 monsoon was adequate, particularly in the north for Udar Pradesh, the country's largest sugar region. Before the marketing year began in late autumn, forecasts called for output that would equal or better 2023-24 production of 31.9 million tonnes. However, many mills closed earlier than normal because of poor harvest conditions. It was therefore a bit strange that any amount of exports was allowed, because the output estimates had already begun to drop sharply back in December.

Another factor to consider that could explain lower-than-expected sugar output is ethanol production. One estimate puts 2024-25 ethanol production at the sugar equivalent of 3.75 million tonnes, up from 2.15 million tonnes in 2023-24. While the industry is still in its infancy relative to Brazil, where roughly half of the sugar cane grown is diverted to ethanol, the additional 1.5-million-tonne diversion to ethanol

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makes sugar exports even more unlikely.

The estimate for domestic consumption has a wide range, but the low-end is at 29 million tonnes. Given current production and consumption estimates, Indian ending stocks will be drawn down to about 6 million tonnes. And herein lies the bullish case. Based on historical precedent, the government will not allow inventories to fall any further.

Based on planted area, some analysts are talking about a revival for 2025-26. Perhaps. But if this past season is any indicator, we cannot anticipate that far in advance. The monsoon rains, which begin in June, could be favorable. But we are looking at a crop that has not been grown yet and will not be harvested for another seven months or so. Do not count on any more exports from India through the end of the marketing year.

We are between seasons in Brazil. The outgoing marketing year was certainly a disappointment, with Centre-South output below 40 million tonnes. Analysts are focusing on expanded area that will produce 630 million tonnes of cane, up from 617 million tonnes this past season.

The International Sugar Organization's estimate for the global sugar production/consumption balance calls for a 2.51-million-tonne deficit, which was smaller than its previous estimate for a 3.58-million-tonne deficit. That forecast came a time when Brazilian estimates were still inching down and definitely before the larger downward revisions for India had surfaced. Safe to assume, then, that the next estimate, which is due later this month, will show a larger deficit.

We are long July 20¢ and July 19¢ calls as per our November 28 and December 23 recommendations, respectively. We believed that the risk of Indian exports warranted some caution, and indeed it did. That concern, as illustrated, has dissipated. Hold on to those options. But we feel confident that one could now add to the option position by establishing a long position in July sugar, trading at about 18.75¢ per pound, heavily discounted by backwardation that has resulted from a tightening market. Place initial sell stops at 17¢, close only.

[By Sholom Sanik, February 16, 2025]

Chart 3 – ICE March sugar

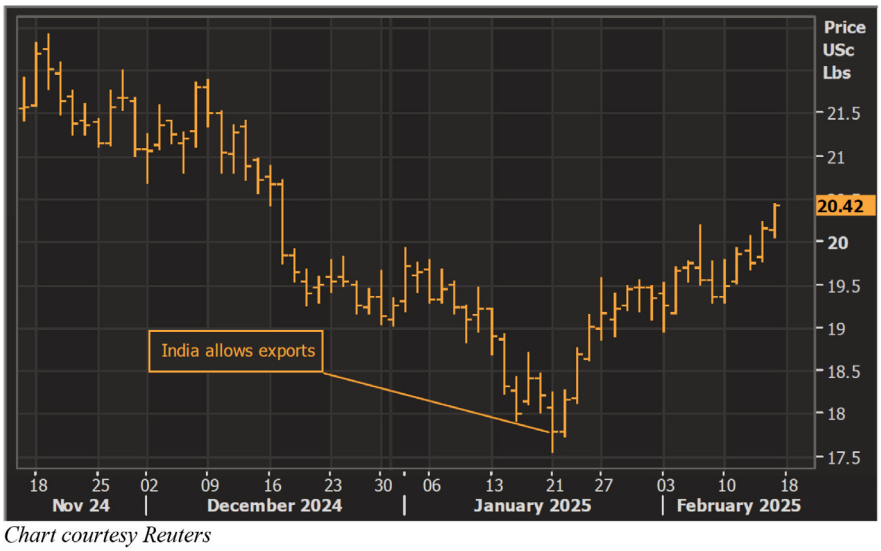


Chart courtesy Reuters

COTTON

A tiny US crop, but without Chinese buying

After selling off to multi-year lows in January, cotton prices rallied by 3¢ per pound (Chart 4). Most likely, the reason for the bounce was anticipation of US farmers slashing planted area for the upcoming 2025-26 crop. New-crop prices for alternative crops offer a much better return (Chart 5). Indeed, on February 17 the National Cotton Council released its estimate of 9.6 million acres, down rather dramatically from last season's area of 11.18 million acres. The USDA will provide its first look later this month. After the acreage news was processed by traders, the market resumed the downtrend, tumbling by 2¢ per pound in the sessions that followed. Buy the rumor, sell the news.

While the initial reaction to such a low acreage estimate certainly provided bears with confidence, it should not be taken lightly. In the five years prior to 2024-25, acreage averaged 12.2 million acres. We would have to go all the way back to 2015-16 to find lower US cotton area. So, this is a low number. Naturally, at this point, before the crop has even been planted, there is no way of knowing what sowing and growing weather will be.

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The weak market action, however, indicates that traders are making the assumption that yields will be favorable and there will be a low abandonment rate. National yields for cotton are not that volatile, but the abandonment rate is. For example, in 2022-23 and 2023-24, yields were excellent in some areas, but only 53% and 62% respectively of the crop was harvested. That compares with 73% in 2024-25. There have been years when acreage was low, but so was the abandonment rate, and when complimented with good yields we ended up with fairly decent output.

The point is that low acreage may be bullish, particularly if weather does not comply. But it is not a forgone conclusion that we will have a small crop.

Still on the supply side, in January the USDA revised its estimate for 2024-25 Chinese output up by 1.8 million bales, to 28.20 million bales. In February it raised the estimate to 31 million bales. Now, that is a lot of extra cotton! And obviously, the fact that it is China leads into the discussion of weak demand.

The past six weeks have seen a bit of revival of cotton sales. Commitments averaged 281,000 bales during this period. We are still behind last year's pace though. Total commitments to all destinations stand at 9.4 million bales, down 9.5% from last year at this time. This compares with the USDA forecast that we will end the year down 6.4%.

While this is not normally an insurmountable gap, China remains largely absent. Of the 281,000-bale weekly average cited above, China averaged only 17,000 bales. That compares with a weekly average of 126,000 bales in the comparable period last year. Total sales to China are 766,000 bales, down from 4.18 million bales last year at this time.

Low US acreage in a vacuum is definitely a bullish factor, but that could be mitigated by the near disappearance of Chinese buying.

We are short cotton as per our December 9 recommendation. We rolled into May on January 29. To account for the vulnerability posed by a potentially very small US crop, we now advise lowering the suggested buy stop, from 71¢ per pound, to 69.5¢, close only.

[By Sholom Sanik, February 21, 2025]

Chart 4 – ICE May cotton

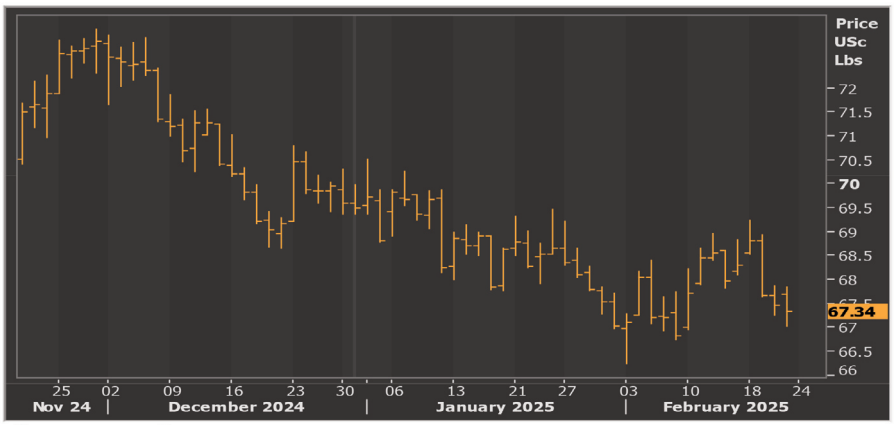


Chart courtesy Reuters

Chart 5 – New-crop soybean/cotton ratio, new-crop corn/cotton ratio

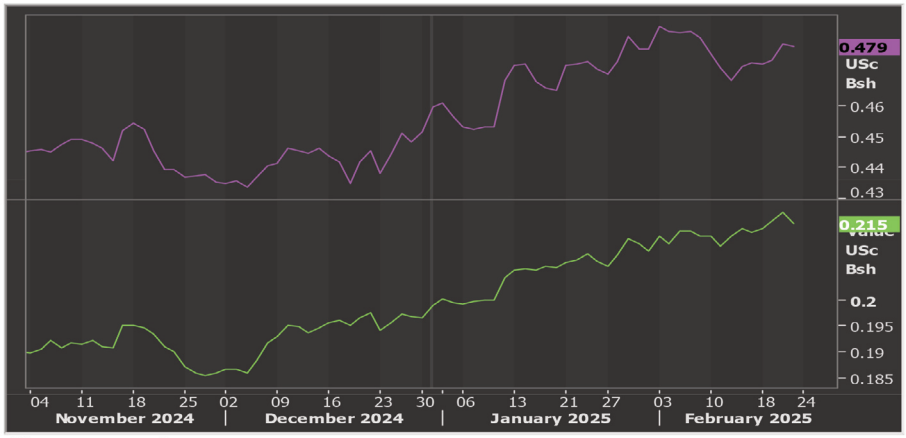


Chart courtesy Reuters

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SUGAR

Forget about Indian sugar exports

Sugar prices have been thrashing around wildly. First there was a test of two-year lows near the end of January. That was followed by a 3.5¢-per-pound rally, a sharp selloff, and now, a vault back to recent highs (Chart 6). Which move to trust? Several developments over the past few weeks suggest that the supply-side fundamentals have deteriorated materially.

India

First and foremost, estimates for 2024-25 Indian production have been sinking. The early-season forecast for output of 30-million-plus tonnes is ancient history. Over the past couple of months, the market was working with 27.5 million tonnes, down from 31.5 million tonnes in 2023-24. A new estimate has surfaced that sees production tumbling to as low as 25.8 million tonnes. We believe that has been the catalyst for the strength we are seeing on the board.

Stacking the new output estimate against domestic consumption of 29 million tonnes would leave 2024-25 ending stocks at below 4 million tonnes. And that is the lowest level we have seen in years.

According to the USDA, average ending stocks over the past three years has been over 10 million tonnes. It also makes one wonder about the wisdom of the government's decision to allow exports of 1 million tonnes. In any case, since the announcement, only 600,000 tonnes have been contracted for sale abroad, because local prices have risen enough to quash incentive for mills to export.

So, despite the initial bearish tone set by the relaxation of the export ban, we will see only a trickle of sugar entering the pool of supplies available for world trade.

As we have maintained all along, count India out. Only now, its absence will likely be extended beyond the end of 2025. Perhaps an excellent monsoon this summer will promote a better crop for the 2025-26 marketing year. Even so, those supplies would not be available until December when the new-crop crush begins.

Brazil

Brazil is now between seasons. The 2024-25 crush has ended with a slightly better-than-expected Centre-South output of about 40 million tonnes. One of the issues that has underpinned the current two-week-old rally is concern over poor moisture levels for the cane crop that will enter its harvest and crush season in just a few weeks' time.

Another item that has surfaced is a study released by the Ministry of Mines and Energy, which concluded that increasing the ethanol mandate would be beneficial for the environment. At present, all vehicles must use a minimum of 27% ethanol blended with petroleum. The study is talking about raising that level to 30%.

Right now the forecast for 2025-26 Centre South sugar output is hovering in a range of 41 to 43 million tonnes. If ethanol demand were to increase, mills would gear the cane crush towards increasing the ethanol/sugar ratio.

Finally, in late February, the International Sugar Organization (ISO) increased the size of its global production/consumption deficit estimate to 4.88 million tonnes, up from its previous estimate of 2.52 million tonnes.

In the accompanying notes the ISO lists Indian 2024-25 output at 27.2 million tonnes. With the fresh wave of Indian output estimates, we are looking at a global of deficit of closer to 6 million tonnes.

Maintain long July sugar positions recommended on February 16. Raise protective sell stops to 18.25 from 17.00, close only. Hold on to July 20¢ and 19¢ calls, purchased in November and December, respectively.

[By Sholom Sanik, March 19, 2025]

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Chart 6 – ICE July sugar

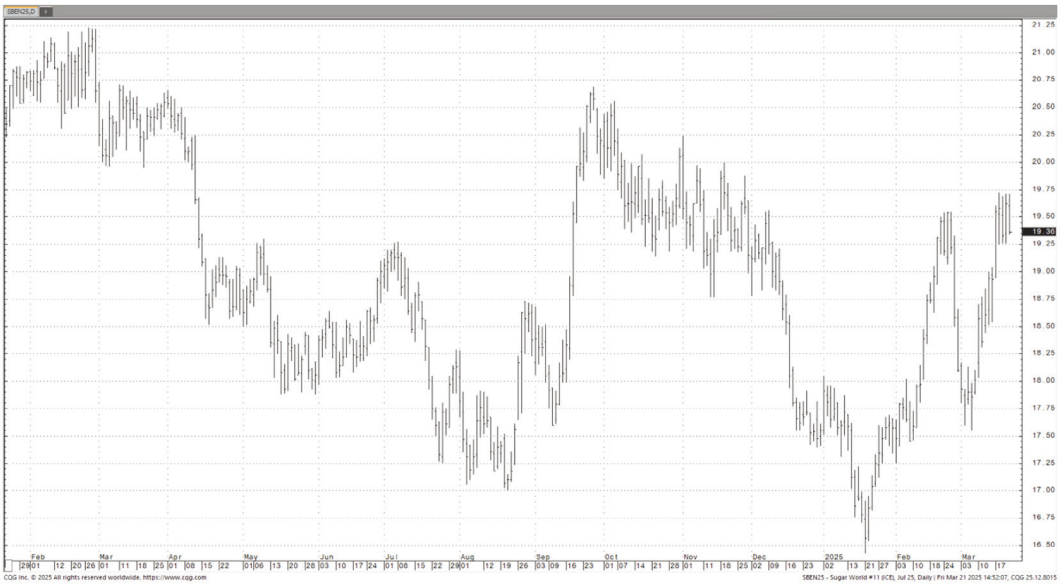


Chart courtesy CQG

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