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Sugar: the bull takes shape

The action in the sugar market has been a bit puzzling. The market rallied sharply after the onset of the war in the Middle East along with other agricultural commodities that are used for fuel, such as corn and soybean oil. When crude dropped sharply during the first half of April, all the "petro commodities" sold off from their highs, but sugar took a trip all the way back to its lows. Over the past couple of weeks, the market has bounced back into the middle of its recent range (Chart 1). We believe that the street has ignored some unimpeachable facts.

First, it has been clear for months now that the anticipated snapback for 2025-26 Indian output was not happening. Excessive rain compromised yields. We began the season with forecasts of over 31 million tonnes, only to watch estimates slip for the remainder of the crushing season. The most recent estimates are just over 27 million tonnes. That's just over 1 million tonnes more than in 2024-25 and hardly constitutes a production recovery.

In February, the government expanded the export quota by 500,000 tonnes, to 2 million tonnes. However, that was a largely meaningless move. As we've indicated in the past, the range of domestic consumption estimates is broad, but even at 28.5 million tonnes, the low end of the range, we are looking at a production/consumption deficit. One thing is for certain – do not count on India for significant exports in the next nine months until we get a look at 2026-27.

Not too much information is available from Asia's largest exporter, Thailand. It seems that the adverse weather that affected India did not affect Thai output, and yields are actually better than expected. However, the additional output is less than 1 million tonnes, which does not translate into a material increase in supplies available for world trade.

Thus, everything rests on Brazil's shoulders. We have not seen any estimates for 2026-27 (the current marketing year) sugar/ethanol output ratio. In the early going, only 33% of cane was crushed for sugar. That is a very low number, but that is not unusual since sucrose content is always lower at the beginning of the crush season, so it is not a real indicator. Local analysts are saying that we can expect a 7% increase in ethanol production and a 3% decrease in sugar output for the season.

On April 30, the government announced an increase in the minimum blend of ethanol in gasoline by 2 percentage points, to 32%, further exacerbating the outlook for lower sugar output in Brazil.

Estimates for the global balance sheet are all over the map. But one thing has been universal – analysts are slashing their surplus forecasts for 2025-26 and increasing their deficit forecasts for 2026-27. On April 25, one analytic firm revised its 2026-27 estimate of a 1.66-million-tonne deficit to a 4.33-million-tonne deficit. Those are the kind of numbers that have in the past been associated with serious bull markets.

On March 19, with July sugar trading at about 15.5¢ per pound, we suggested establishing a partial long position without using a sell stop. July is now trading at 15¢. We now recommend a full position. Place initial sell stops at 13.40¢ on the entire position, close only.

[By Sholom Sanik, May 4, 2026]

Inside

Wheat: HRW recovery window closing.....2
Soybeans: Will China return? 3
Corn: Has its own energy 5

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Chart 1 – ICE July sugar

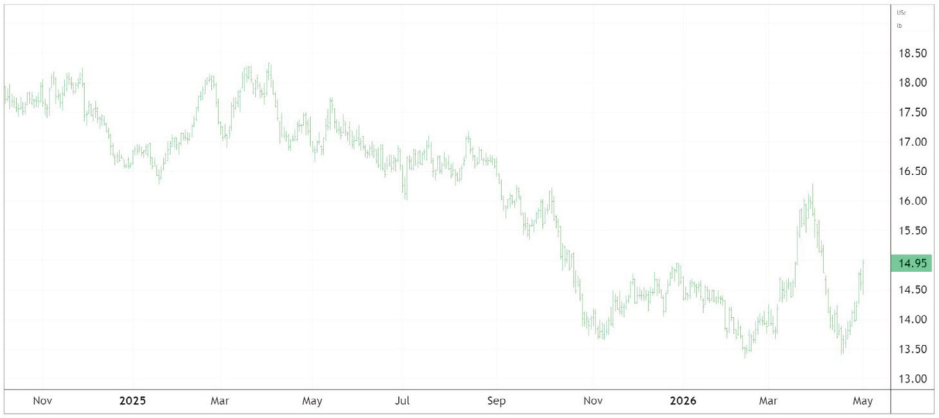


Chart courtesy LSEG

HARD RED WINTER WHEAT

The recovery window is closing

The problem with the US hard red winter wheat crop (HRW) – planted last fall and heading into harvest – is now well known. After the crop emerges from the dormancy stage, rain is an absolute must – and it has been scarce. Crop ratings reflect the potential for an absolute disaster. The good-to-excellent portion of the crop rose 1 percentage point, to 31%, but is still down from 51% last year. Historically, the average for this point in the season is about 45%.

As noted, the national average of the most recent weekly progress rating was actually a bit better than the previous week. But just a tad, and in the wrong places. In continuing to monitor the largest producing states, we compare the ratings to last year. Kansas, the largest producing state, has seen conditions plummet.

The headlines seem to indicate the bulk of the problem is in the Southern Plains. And indeed, Washington State, the second largest northern producer is doing fine. But the largest northern state, Montana, while somewhat improved over the past few weeks, remains in disaster mode when compared with its typical output patterns in previous years (Table 1).

Table 1 – Good-to-excellent ratings of HRW is selected states

	May 5, 2025	April 5, 2026	May 3, 2026
Kansas	47%	38%	22%
Texas	32%	17%	16%
Oklahoma	48%	12%	16%
Montana	79%	21%	29%
Washington	78%	86%	84%

Hard red winter wheat can be delivered against the Chicago Board of Trade wheat contract, but historically it is the primary destination for soft red winter wheat (SRW). The top three SRW states are in the Midwest and have not shared HRW weather problems. Ohio, Missouri, and Indiana are showing good-to-excellent ratings of 66%, 72%, and 71%, respectively, all within the range of historical norm.

Perhaps the most important point to be made is that we are running out of time for weather to provide any meaningful assistance to the crop. Harvesting for early maturing crops in Texas begins in just a few weeks and works its way north as temperatures climb.

HRW represents roughly 40% of total US wheat production, while SRW represents about 20%. Our focus for trading is therefore primarily on Kansas City Board of Trade (KCBT). Chart 2 shows clearly the divergence between the two grades. Before the crops emerged from dormancy, the spread between the two was just about flat. Once the different weather patterns become obvious, KCBT wheat spiked to a 70¢ per bushel premium.

In our previous discussion (see *Focus on Futures*, April 22), we considered two possible strategies to trade a HRW crop failure. Either a spread, buying HRW and selling SRW, or buying HRW outright. At this point, the market is behaving like a *bona fide* bull market. It took out 14-month highs and pulled back to consolidate the gains as traders await output estimates (Chart 3).

On Tuesday, May 12, the USDA will release its monthly crop report. It will contain estimates for 2025-26 crops and a first glance at 2026-27 (which will include the winter wheat crop to be harvested over the next couple of months). With July KCBT trading at about $6.80 per bushel, we advise establishing a long position. Place initial stops at $6.30, close only.

[By Sholom Sanik, May 11, 2026]

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Chart 2 – KCBT July wheat/CBOT July wheat spread

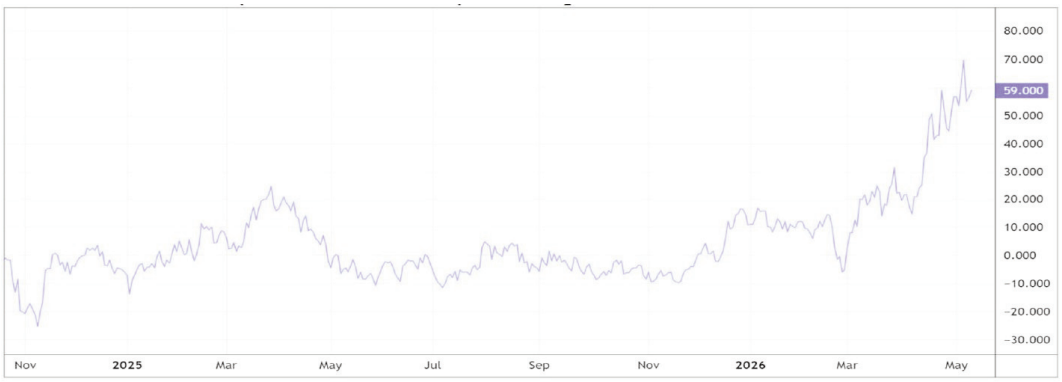


Chart courtesy LSEG

Chart 3 – KCBT wheat weekly nearest contract



Chart courtesy LSEG

SOYBEANS

Will China return?

The May USDA crop report presented the first look at the 2026-27 marketing year. Based on March 31 planting intentions, US acreage will expand by 3.5 million acres, but that has been known since late last year. The yield estimate was 53 bushels per acre, same as last year and is weather dependent, so it is largely meaningless at this time. The acreage increase translates into a 173-million-bushel (4.71 million tonnes) greater output than in 2025-26. However, domestic consumption and exports combined are estimated to climb by a combined 220 million bushels (5.93 million tonnes). All told, that works out to an inventory drawdown that puts the carryout at 310 bushels (8.44 million tonnes), or 6.9% of consumption, compared with 7.9% last year.

Naturally, the size of the crop depends on weather conditions as we head into spring and summer. So far, so good. As of the most recent weekly progress report, 67% of the crop has been planted, up sharply from the five-year average of 53% on this date. This statistic matters because an early planted crop means an early harvest, which could eliminate frost from the checklist of items that can go wrong.

By far, the biggest issue has been and will continue to be Chinese imports – or lack thereof. China has lived up to – well, sort of – the October agreement to buy 12 million tonnes of soybeans from the US. As of the most recent weekly export report, commitments by China stand at 11.8 million tonnes, of which 10.9 million have been shipped. We're not being sticklers for 200,000 tonnes. That's not the point. China has purchased only what was required to meet the terms of the arrangement. And the administration's boast in the second round of talks back in February that it has secured an additional 8 million tonnes of promised buying has not materialized. That purchase would have brought Chinese soybean buying to a close-to-normal level for the marketing year.

With Brazilian supplies now coming on board, not much Chinese buying should be expected for the balance of the marketing year 2025-26. Chart 4 shows clearly that Chinese buying of US beans basically grinds to a halt from now until the end of the marketing year on August 31.

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In addition to buying 12 million tonnes by the end of February, the original agreement back in 2025 also included an undertaking to buy 25 million tonnes annually, from 2026-27 through 2028-29.

In taking a closer look at what the USDA believes is going to happen, we do not find much optimism. In the notes accompanying the May crop report, it states, "Although US soybean exports are expected to rise in 2026-27, the U.S. share of global trade is likely to continue its longer-term downward trajectory as large South American supplies, coupled with strong US demand, limit export growth." The forecast calls for exports to all destinations to rise to 44.36 million tonnes, up only 2.72 million tonnes from 2026-27. However, were China to honor the 25-million-tonne agreement, that estimate is seriously deficient.

Even if the USDA were correct in assuming that some of this year's US customers will shift to South American origins in 2026-27, an export forecast for 44.36 million tonnes is roughly 10 million tonnes short. Before the tariff wars began, typical US exports to all destinations were well over 50 million tonnes.

A resumption of "normal" Chinese buying could easily pull US ending stocks down to average levels of 5.6%, which we saw in 2021-22 and 2022-23. And that tightness resulted in soybean prices that reached $18 (Chart 5).

As such, we are stepping away from our bearish posture on soybeans. Our previous short position was stopped in early February with the market trading about $1 per bushel lower than current prices. We maintained a bearish bias, but happily, we advised observing from the sidelines.

We will feel more comfortable establishing a complete long position once we see some evidence that the Chinese are coming back to the US. At this time, we recommend buying a position in November soybeans that is one-third the size of the position that you would normally buy. No stop for now. Stay tuned.

[By Sholom Sanik, May 21, 2026]

Chart 4 – Accumulated net sales of US soybeans to China

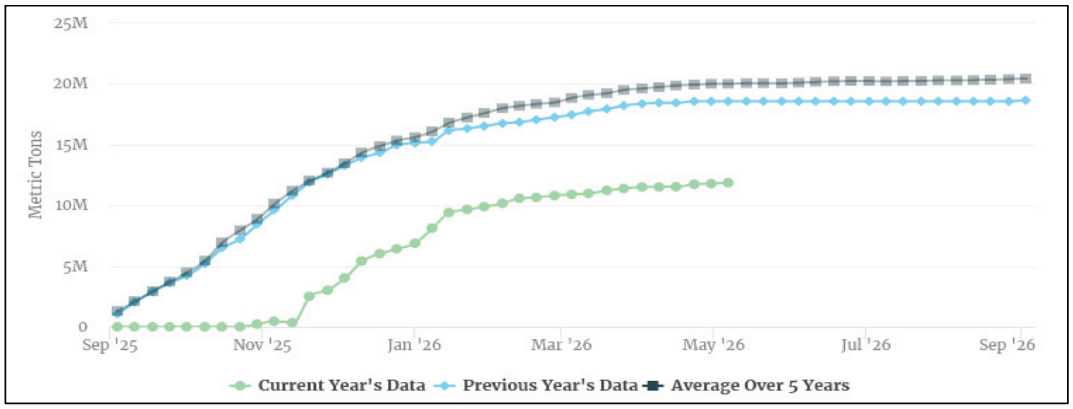


Chart source USDA/FAS

Chart 5 – CBOT weekly nearest contract soybeans



Chart courtesy LSEG

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CORN

Corn has its own energy

Corn prices spiked alongside other biofuel commodities when the Mideast war began, but the rally has failed to materialize beyond the peak of the initial run (Chart 6). Is there more to this move than the energy connection? To be sure, one third of all corn grown in the US is used for ethanol. Higher crude prices drive up the price of ethanol, which incentivizes distillers to produce more ethanol. That in turn could tighten the supply of feed, the primary use of corn. Other energy-related considerations are the higher cost of natural-gas-based fertilizer and the energy costs associated with planting and harvesting machinery.

Corn prices survived a record crop in 2025-26 that featured record acreage as well as record yields. The reason: record demand from the export sector.

The May USDA crop presented the first look at the 2026-27 marketing year and held no surprises. Acreage was based on months-old news of a shift away from corn to soybeans. Corn farmers are expected to plant 95.3 million acres, 3.5% less than in 2025-26.

It pays to consider that acreage estimates are based on surveys that were taken before the Mideast war drove fertilizer prices up sharply. Of the major crops grown in the US, corn uses the most anhydrous ammonia fertilizer, which could have changed farmers' planting decisions. It would not be surprising to see the acreage estimate even lower in the June 30 planting update report.

Yields came in at 183 bushels per acre, down from 186.6 bpa in 2025-26, which was the average of analysts' expectations. There is no way of predicting the weather, but smaller acreage when combined with less-than-optimum growing weather would be bullish. However, planting is 76% complete, same as last year on this date, and ahead of the five-year average of 70%, so, at the moment, there is no reason for concern.

US corn exports continue to be strong. According to the most recent weekly export report, commitments stand at 79.9 million tonnes. With over three months remaining in the 2025-26 marketing year, we are well positioned to meet – or perhaps even exceed – the USDA target of 83.82 million tonnes.

In its first look at 2026-27, the USDA opted for cautious optimism, with a forecast for exports of 80.01 million tonnes – not quite the 2025-26 level, but still the second-highest tally on record. China does not import corn from the US, or anywhere else for that matter, so the tariff wars do not figure into the equation.

The US is by far the world's largest exporter of corn, accounting for close to 40% of all exports. Brazil and Argentina are tied for the second and third spot. The three countries combined comprise about 80% of world trade. This underscores how important it is for all three to meet output expectations, particularly in an environment of strong global demand.

For Brazil's 2026-27 marketing year, the USDA is forecasting an output increase of 4 million tonnes, to 139 million tonnes. But it also calls for Argentinean production to fall by 4 million tonnes, to 55 million tonnes. In market terms, both estimates are light years away for crops that will not be planted for six months.

Assuming that the USDA is in the ball park with all its estimates, we find a market that could be vulnerable to tightness. From 2021-22 through 2023-24, global ending stocks averaged 26% of consumption. In 2024-25 and 2025-26, inventories fell to 23.5% and 22.6%, respectively. The – albeit very early – forecast for 2026-27 calls for a drop down to 21.1%.

In conclusion, the 2025-26 South American crops are in the books. But US crop weather must be favorable. The consensus among analysts seems to be that US exports cannot repeat this year's performance. For now, there has not been any evidence that the appetite for US corn has abated. To be sure, if the Mideast war factor subsides and crude oil prices soften, the energy commodities will react negatively. But, as illustrated, corn has a stand-alone bullish demand case.

We are long corn as per our February 11 recommendation. You should now be rolled into July. Raise stops from $4 per bushel to $4.25, close only.

[By Sholom Sanik, May 26, 2026]

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Chart 6 – July corn

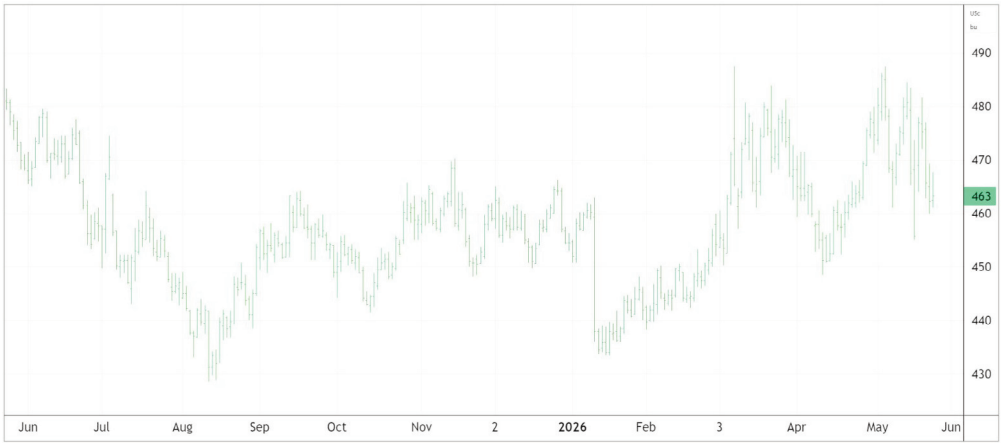


Chart courtesy LSEG

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