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Corn: explosive US exports could chase the bear

The harvest of the 2024-25 US corn crop is 81% complete. That's well ahead of last year's 68% on this date, so we are not likely to see any material production revisions going forward. Planted area of 90.7 million acres was sharply below last year's 94.6 million acres. Excellent yields of 183.6 bushels per acres (bpa), compared with 177.3 bpa in 2023-24, compensated for the smaller area. The resulting crop estimate will be 15.2 billion bushels, less than 1 percentage point below last year.

On September 30 the USDA reported that quarterly stocks were 1.76 billion bushels, 84 million bushels below analysts' guesstimates. This is a measure of domestic demand and along with some other small revisions translated into a lower carryover to the 2024-25 balance sheet.

One relatively new development comes from the export sector. The most recent USDA weekly export report showed that the US sold 3.6 million tonnes of corn abroad. You would have to go back to early 2021 to see a weekly sales tally of that size. Of course, one week does not establish a trend. However, a look at the 2024-25 marketing year as a whole could very well mean that the USDA has been overly pessimistic about the prospects for US annual sales. The October crop report forecast 2024-25 sales at 59.06 million tonnes, just a fraction higher than 2023-24 sales of 58.23 million tonnes. Commitments to date stand at 23.5 million tonnes, up 34% from last year at this time.

Traditional customers, particularly Mexico, have been doing all the buying. China has been largely absent. Thus far, Chinese purchases are a scant 16,000 tonnes, compared with just under 1 million tonnes at this time last year. This is a significant point. We are guessing that the market believes if China never repeats its import volumes that we saw in marketing years 2020-21 and 2021-22, then we cannot achieve a total to all destinations of near-70 million tonnes in exports we saw in 2020-21. And perhaps not. But at the current pace we certainly could, even if we do not maintain quite the volume of sales we saw over the past few weeks.

In any case, although the USDA did bump up the estimate for 2024-25 exports in the October crop report, it was only a marginal increase, and we expect to see further revisions down the road.

The current estimate for US 2024-25 ending stocks is 13.3% of consumption, compared with 9.9% and 11.7% in 2022-23 and 2023-24, respectively. In 2020-21 they were 8.3%. Even if exports did not maintain the 34% increase over last year, but say, only 25%, some loose arithmetic – with all other demand sectors at current estimate levels – would bring this year's ending stocks down to about 2020-21 levels.

On the international front, Brazilian output leaped to 137 million tonnes in 2022-23. That was followed by 122 million tonnes the following season, and based on planting intentions, the forecast for 2024-25 is 127 million tonnes. The main crop, which represents 75% of the total crop, is not planted until January. Planting and growing weather must comply.

Argentinean production is forecast at 51 million tonnes, up from 50 million tonnes last year.

The USDA estimate for Ukrainian output is 26.2 million tonnes. That would be the smallest crop since production peaked at 42.13 million tonnes in 2021-22 before the war began. They will remain the fourth-largest exporting nation behind the US, Brazil, and Argentina, but the export estimate has fallen to 23 million tonnes from a peak of 30 million tonnes last year. And naturally, the risk of logistical issues will play a factor in transporting that corn to foreign purchasers.

The principal story here is the unexpected surge in

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US exports. If demand by foreign buyers remains strong, none of the other large producing nations, as illustrated, are expected to grow extraordinary crops that would help meet that demand.

We are long December corn at $4 per bushel, as per our August 23 recommendation. Maintain the suggested stop at $3.70, close only.

[By Sholom Sanik, Oct. 29, 2024]

Chart 1 – CBOT December corn



Chart courtesy Reuters

SUGAR

Indian sugar production takes a hike

Sugar prices have traded in a narrow range during October (Chart 2). Supply fundamentals for Brazil and India have shifted over the past few months – from bearish to bullish, and bullish to (possibly) bearish, respectively.

Brazil

Early forecasts in April and May for the 2024-25 marketing year saw the Centre-South region producing another stellar crop of about 43 million tonnes. Dry weather took over though, and despite the allocation of 50% of the cane crop to sugar for most of the crushing season, yields fell. Estimates now range in the area of 38 to 39 million tonnes.

Several other factors have come to light recently. Unica, the *Brazilian* sugarcane industry group, revised its ending-stock estimate for 2023-24 downwards by 2.4 million tonnes, to below 1 million tonnes. According to its balance sheet, that would be a record low. So, there is not much to dip into if supplies for export become tight.

Furthermore, the sugar cane harvest seems to be falling precipitously. In 2022-23 farmers harvested about 650 million tonnes. In the current 2024-25 marketing year, that number has slipped to 590 million tonnes. And now, looking ahead to the 2025-26 crop year, which begins in April, the forecast is for a further drop to 560 million tonnes. A bullish scenario all around for Brazil.

India

Estimates for 2023-24 have climbed to 34-35 million tonnes from 31-32 million tonnes earlier in the season.

Monsoon rains reached their highest levels in four years and will be beneficial for the 2024-25 crop. In just a few weeks the crush for the new crop will begin. Planted area is down a bit as farmers have switched to other crops. Given the healthy levels of subsoil moisture that resulted from the monsoon, yields should be favorable and compensate for lost area.

The issue then becomes the export policy. Currently, the government has stated that it will not license any exports for the 2024-25 marketing year – that's another 12 months from now. Excellent crops will not affect world prices if the government remains resolute with its intention not to allow exports.

We cannot have an opinion about what the government will decide. One possibility is that a moderate re-entry into the export market would be allowed. In 2020-21 Indian exports reached a record-by-far 11.1 million tonnes, followed by 6.2 million tonnes in 2022-23. There were no exports for the season just ended. Given the upwardly-revised output estimates, one trade group says that there should be sufficient sugar to allow exports of 2 million tonnes.

There are factors to consider before making the assump-

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tion that India can fill the gap left by lower Brazilian production. First, domestic consumption has gained along with population growth. For several years, we used a 29-million-tonnes figure. The USDA estimates that domestic disappearance is now 32 million tonnes. That narrows the surplus.

In addition, in our last discussion on sugar (see *Focus on Futures*, September 26) we detailed the progress being made in the ethanol industry. It's not a huge amount at this point, but combined with steady growth in domestic consumption, we are fairly confident that if the government were to relax export restriction, it would not allow the 6-millon tonnes that had become the norm.

In conclusion, the sideways trade we've seen over the past month has been the result of the altered landscapes for Brazil and India. The drop in supply in Brazil is roughly equal to the increase in India. If India were to announce – or hint, for that matter – that there will be some sugar available for export, we can expect selling to emerge.

We are long March sugar at 19.5¢ per pound, as per our August 30 recommendation. We raised the stop on September 26 to 20.5¢. At this time, we suggest raising the stop to 21.25, close only, which is just below the bottom of the recent range.

[By Sholom Sanik, Oct. 31, 2024]

Chart 2 – ICE March sugar



Chart courtesy Reuters

SOYBEANS

Tariff *déja vu*

On September 19, with March soybeans trading at $10.40 per bushel, we recommended establishing a long position. Although the US crop had material upward revisions for both area and yield as we neared harvest time, we argued that Chinese demand was being underestimated. With prices near four-year lows, it presented a low-risk opportunity. Prices rallied, but subsequently tested recent lows (Chart 3). After some tense moments, the market is back up to where we bought it.

In hindsight, perhaps we should have considered the implications of one of President-elect Donald Trump's well-communicated campaign platforms: Slapping new tariffs on China. The potential for Chinese retaliation was a palpable risk for US soybean exports. Were history to repeat itself, it could very well become a huge bearish factor. When in office, President Trump imposed large tariffs on the Chinese in March 2018. The Chinese hit back with tariffs of their own that devastated US soybean exports, and ultimately prices.

To get an idea of just how significantly the 2018 tariffs impacted the market, consider that in marketing year 2017-18 China purchased 36 million tonnes of soybeans from the US. Most of that was sold before the tariffs went into effect. In 2018-19 sales fell to 28 million tonnes and then to 12 million tonnes in 2019-20. Pardon the slang, but ouch! US prices fell from about $10 per bushel in March 2018 to below $8. Chinese demand for soybeans remained constant, but they shifted to Brazil, which explains why Brazilian soybean area spiked. US prices fell, and Brazilian prices rose. And prices remained weak until Russia invaded Ukraine in 2020 (Chart 4).

The market action following the election can only be

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described as strange. Prices fell by about 20¢ near the open, back to near recent lows, but closed unchanged. In the following session, prices rallied to above the high of the recent range. Obviously, a fallout from a tariff "war" was not prominent on traders' agendas.

What then is supporting the market? In September, when we advised buying soybeans, US soybean new-crop sales for the 2024-25 crop year were sluggish, but we anticipated that China would come to the market. Export commitments were running 6% below same-time-last-year, compared with the USDA estimate that annual sales would climb by 9%. Over the past month China has been the largest customer, with purchases averaging over 1 million tonnes per week. Commitments are now 16% *above* same-time-last-year.

Perhaps Chinese importers were wary of an impending increase in tariffs, and that could continue until the new regime takes office. But there is no doubt that this will hang over the market until there is some clarity about whether the tariff threats are real, as well as to their size.

China will buy soybeans, there is no question about that. Output amounts to only 16% of the USDA estimate for Chinese domestic consumption. Production has remained constant for years now at just over 20 million tonnes, while usage has been edging up. It all depends on whom they buy the soybeans from.

We're just at the beginning of the planting season in Brazil, so supplies for export to China will not be available for many months.

In the meantime, why fight the tape? We are long March soybeans as per our Sept. 19 recommendation. Raise sell stops from $9.75 per bushel, to $10.00, close only.

[By Sholom Sanik, Nov. 8, 2024]

Chart 3 – CBOT March soybeans

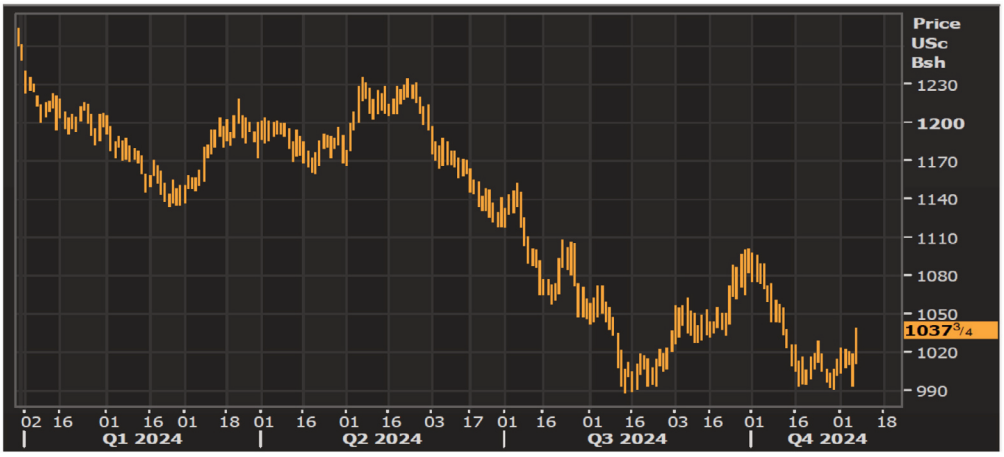


Chart courtesy Reuters

Chart 4 – CBOT weekly nearest contract soybeans

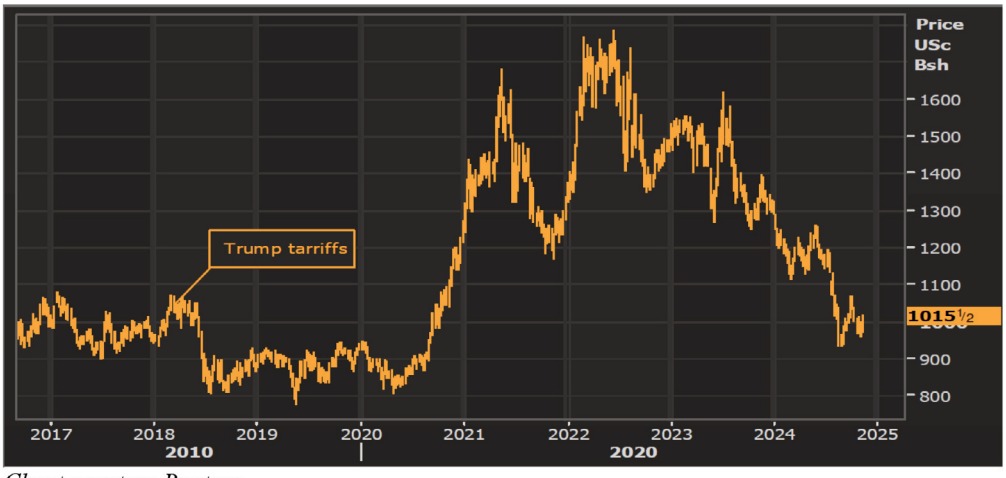


Chart courtesy Reuters

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COCOA

Output is up, but can it last?

The start of the 2024-25 cocoa harvest in the Ivory Coast has certainly lived up to its billing for recovery from an absolutey disastrous 2023-24. Plagued by weather problems and infestation, the final arrival figure was 1.771 million tonnes, down 23.7% from 2022-23. A healthy onset of the new crop should not come as a great surprise, because the mid-crop was already showing signs of an improvement. At one point in early 2024, output was running at a pace that was more than 35% below a year earlier, but as noted, we saw a strong finish.

At the moment, arrivals stand 549,000 tonnes versus 417,000 tonnes, 31.7% ahead of this time last year (Chart 5). Seems impressive, but why then have prices rallied by $2,500 per tonne since late October (Chart 6)?

Compensating for last year's crop failure and the resulting sharp drawdown in global inventories will prove to be a monumental challenge. According to the International Cocoa Organization, the inventory picture as of mid-October was dismal. At 118,000 tonnes, New York certified exchange stocks have fallen to a 19-year low. Similar statistics are not available for London, but suffice it to say that in mid-October, stocks stood at 29,000 tonnes, compared with 150,000 tonnes a year earlier.

The improvement in arrivals over last year is actually below historical standards. Table 1 shows that while port arrivals are in the ballpark of previous seasons, we are actually slightly behind the norm for this juncture in the season. In fact, Ivory Coast's industry regulator, the Coffee and Cocoa Council (CCC), said earlier this month that the early-season spurt in arrivals will have difficulty maintaining the current pace. Excessive precipitation has caused flooding, in addition to the prevalence of the fungal disease brown rot.

The CCC also said that the volumes we have been seeing were somewhat deceptive because up to 25% of the beans have been of poor quality. The wet weather also affects the drying process. The agency estimates that Ivory Coast output will end up only 10% higher than in 2023-24. Hence, the rally.

Demand has been understandably sluggish. Chocolate manufacturers have employed various strategies to address the soaring cost of powder and butter. Hershey's, for example, has been marketing non-chocolate-based confectionary. We have also seen the traditional industry standard of keeping prices steady, but shrinking bar size.

The Ivory Coast is by far the world's largest bean processor. Grindings were down 13% in 2023-24. Third-quarter results in the other grinding regions were mixed. The EU was down 3.3% year-over-year while Asia was up 2.6%. North America was up 11% for the period, but it is the smallest of the main grinding regions.

The CCC estimate mentioned above was specific by saying that we would reach 1 million tonnes by the end of January, which would be about equal to last year.

That means that they expect the increase over last year's pace to begin tailing off. This is very useful information because we therefore have a barometer by which to see how the crop is progressing. If the gap between weekly arrival figures begins to narrow their gains over last year, these prices can be deemed justified.

A bullish outlook, no doubt. We missed this one, but we are not about to chase it. Remain sidelined, and stay tuned.

[By Sholom Sanik, Nov. 20, 2024]

Table 1 – Ivory Coast arrivals (tonnes)

	2021	2022	2023	2024
14-Oct	115,000	106,000	100,000	114,000
22-Oct	171,000	204,000	170,000	193,000
28-Oct	227,000	295,000	227,000	285,000
05-Nov	290,000	348,000	290,000	365,000
11-Nov	413,000	466,000	350,000	455,000
18-Nov	572,000	595,000	417,000	549,000

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Chart 5 – Ivory Coast cocoa bean arrivals – 2024-25 vs 2023-24

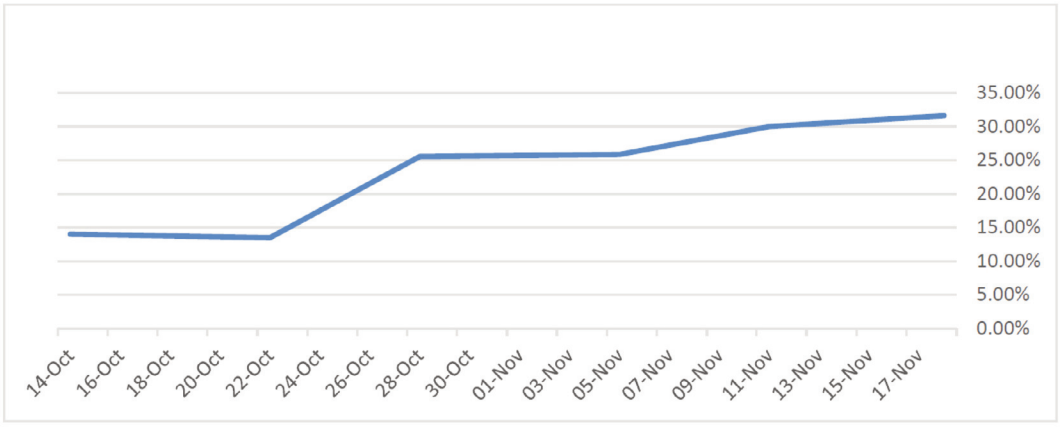


Chart source: Reuters

Chart 6 – ICE March cocoa

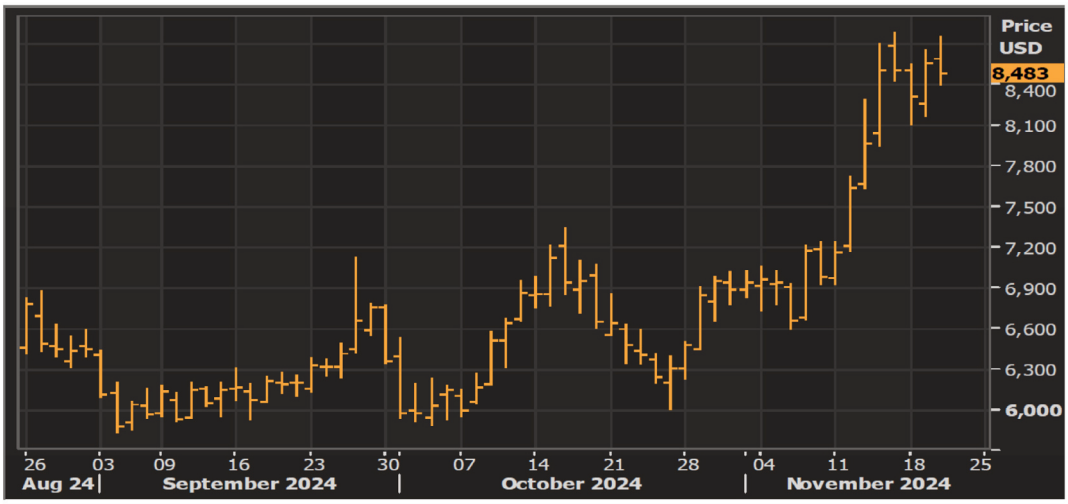


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