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Corn: supply aplenty

Corn prices are languishing near the low end of their recent range (Chart 1).

Supply

Weather has not been kind for the soon-to-be-harvested 2023-24 US crop. We began the season back in the spring with a forecast for record yields of 181.5 bushels per acre that would have produced a 15.265-billion-bushel crop (387.75 million tonnes). A hot and dry summer, however, has changed the prospects for healthy yields.

The first crop progress report in late May rated 69% of the crop as good-to-excellent. As of the most recent weekly report, that figure has fallen to 56%, which is just slightly better than last year at this time. As a result, the yield estimate has nosedived back in line with the performance of recent years. In the August USDA crop report the estimate was lowered to 175.1 bpa, which was a downward revision from the July estimate of 177.5 bpa.

Why, then, are corn prices so weak? For starters, US farmers expanded corn area rather dramatically. In 2022-23 they planted 88.6 million acres. The March 30 USDA planting intentions report for the 2023-24 crop estimated that 92 million acres were planted, but then in the June 30 update the USDA heaped on an additional 2.1 million acres.

So, although growing conditions were definitely poor, with 94.1 million acres planted, the current crop estimate of 15.111 billion bushels (383.83 million tonnes) has not strayed too far from the original estimate back in May. It also explains why soybeans – which are grown under the same climatic conditions as corn – are trading at six-year highs *vis-à-vis* corn prices (Chart 2).

As much as the June acreage revision was a surprise for corn traders, the soybean revision packed an even great punch. The USDA lowered soybean acres by 4 million acres from the initial estimate. The drought conditions were therefore far more meaningful for soybeans.

The well-regarded private forecaster Pro Farmer released the results of its recent US crop tour on August 25. It estimated the US corn crop at 14.96 billion bushels (360 million tonnes).

Among the other key exporting nations, Brazil has overtaken the US as the world's largest exporter. Ukraine is the fourth-largest exporter. Despite the ongoing conflict, which saw output drop from 42 million tonnes in 2021-22 to 27 million for the current crop year, the USDA estimates that Ukraine managed to export 28 million tonnes of corn. That is only slightly below export levels before the war began and could only have been facilitated by depleting carryover stocks. Going forward, the USDA forecasts that new crop will reach 27.5 million tonnes. However, with little remaining in inventory, exports are estimated to fall to 19.50 million tonnes

Demand

With one week remaining in the 2022-23 marketing season, the US shipped 38.9 million tonnes abroad, shy of the USDA target of 41.3 million tonnes. Domestic feed and ethanol comprise close to 80% of US consumption, and they too had an off year. The USDA is forecasting that demand for all three components will improve in 2023-24. Hard to say at this point. Forward export sales for the new crop stand at 8.3 million tonnes versus 9.8 million tonnes at the same time last year. So, no evidence of an uptick there at the moment.

US ethanol usage has tailed off over the past few years. It peaked at the corn-bushel equivalent of 5.4 billion bushels (137 million tonnes) in 2018-19. In 2022-23 that

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figure stood at 5.2 billion bushels (132 million tonnes), with the early estimate for the coming year at 5.3 billion bushels (134.6 million tonnes). One indicator of stirring ethanol demand is the inventory level. The most recent weekly EIA report puts ethanol inventories at their lowest level since last November (Chart 3).

Overall, US ending stocks for corn averaged 10% of consumption over the past two seasons. The balance sheet presented in the August crop report forecasts that the carry-over will grow to 15% in 2023-24. The market is therefore justifiably as weak as it is.

Having missed a major bear move, we do not believe it would be wise to attempt a short position at this juncture because vulnerabilities do exist. The September USDA US crop estimate remains a variable. The weather in the Midwest has remained dry throughout the tail end of the growing season. Ukraine's ability to ship cannot be taken for granted. Finally, Brazil had a great crop, but that was neutralized by Argentina's crop failure.

Remain sidelined. *[By Sholom Sanik, Sept. 1, 2023]*

Chart 1 – CBOT March corn

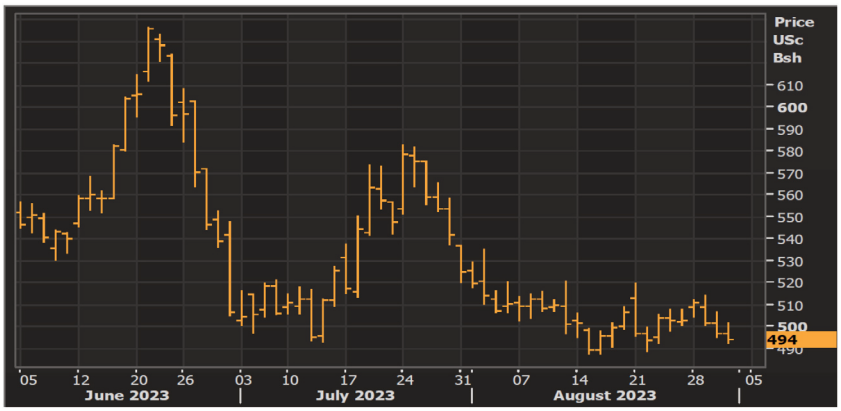


Chart courtesty Reuters

Chart 2 – Soybean/corn ratio weekly nearest contract

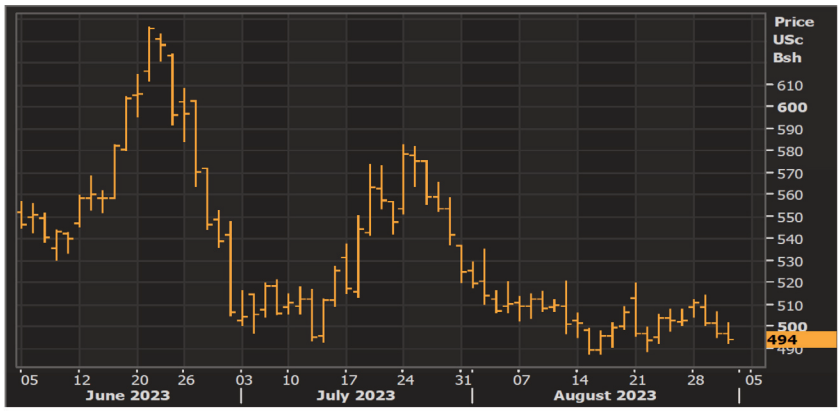


Chart courtesty Reuters

Chart 3 – US corn-based ethanol stocks (1,000s of barrels)

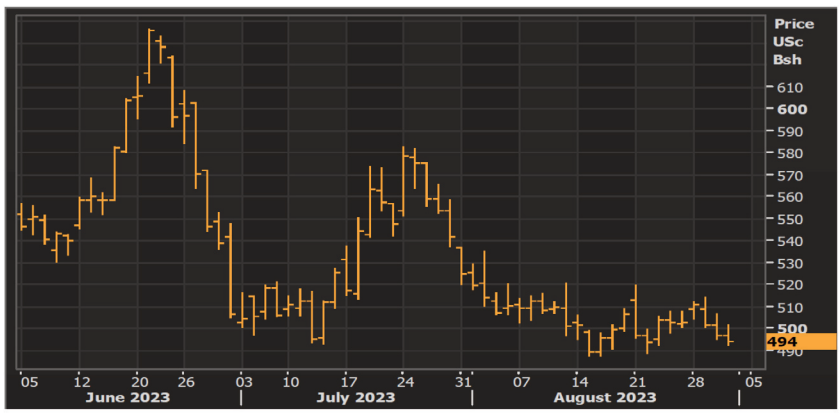


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SUGAR

Despite a Brazilian bounty, bona fide tightness

Sugar prices traded above the May highs briefly and retreated (Chart 4).

Brazil remains bearish. India and Thailand continue to counter whatever supply-side accomplishments Brazil has achieved.

The most recent bi-weekly production report from Brazil shows that the sugar/ethanol output ratio made a new high at 51.1%. Fresh estimates have surfaced that put total Brazilian output at 40.2 million tonnes. That's up slightly from estimates we've seen previously.

One sobering note regarding Brazil: The ethanol market is firmly entrenched. There is only so far processors can go with dedicating so much cane to sugar production before they create a tight ethanol market. As of August, ethanol stock levels were ample. But at this rate of sugar production, that cannot last forever.

Moving over to India, not much has changed regarding this year's output. The estimate for roughly 31 million tonnes has been the same for months now. Exports were capped at 6.1 million tonnes for the current marketing year, compared with 11 million tonnes in the previous marketing year.

The issue now is how the crop that is currently growing will look come harvest time in November. And it does not look too promising. The driest August in a century will result in poor yields. Early estimates forecast the crop at just 28.5 million tonnes.

To put that in perspective, according to the USDA's most recent issue of *Sugar: World Markets and Trade*, domestic consumption has averaged about 28 million tonnes in recent years, but is expected to grow to 31 million tonnes in 2023-24. The Indian government has always preferred to maintain a reasonable level of ending stocks. A production/consumption deficit would suck up whatever inventories remain.

Over the past seven years, importing nations counted on India for supplying an average of 5 million tonnes to world trade. However, after years of no export controls, the government recently announced that there will likely be no exports for the entire marketing year. Its primary goal is to protect domestic supplies.

Historically, Thailand was the world's number-two exporter behind Brazil. In the glory days when production reached 14 million tonnes, exports were about 10 million tonnes. However, since 2019-20, output has fallen to between 8 and 10 million tonnes. After allowing for domestic consumption of about 2.5 million tonnes, exports fell. With estimates for the coming crop at about 8 million tonnes, exports will remain subdued.

In early August the estimates for the global production/consumption balance called for a deficit of about 2 million tonnes. Clearly, though, these estimates came before the August Asian droughts were considered. It is fair to say that between India and Thailand, even a modest revision for 2023-24 output could be 2 to 3 million tonnes below early-summer forecasts, which would expand the deficit to an uncomfortable level.

We believe that the market's recent pullback was a reaction to headlines that Brazil's sugar/ethanol ratio reached a new high and to reports that September has seen some precipitation in India and Thailand. Neither factor, however, changes the general picture. Brazil is near the end of the crushing season. Output estimates are not going to become much larger, which means that the bountiful crop "is in the market." India will not repeat the questionable practice of allowing exports until ending stocks are rebuilt. Owing to the dangerously low level, that will take several years.

Remain long March 25 calls as per our June 30 recommendation.

[By Sholom Sanik, Sept. 28, 2023]

Chart 4 – ICE March sugar

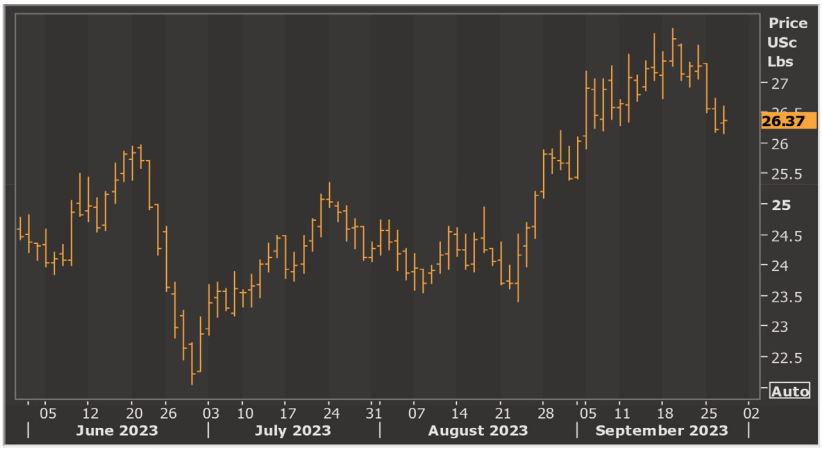


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COTTON

A weak US crop, but soft demand

Cotton has been the strongest among US agriculture markets. Unlike wheat, corn, and soybeans, which have shed all price gains generated by poor growing conditions throughout this past summer, cotton is trading near season highs (Chart 5). Several developments account for this strength.

Supply

When farmers were deciding how much to plant, cotton prices were depressed. The first USDA estimate of cotton area in March was 11.22 million acres, down from 13.76 million acres in 2022-23. That would be the smallest US cotton area since the 2016-17 season. That estimate was lowered to 11.09 million acres in the June acreage update. Then in the September crop report, the USDA unexpectedly slashed that figure again, to 10.23 million acres.

The planted-to-harvested ratio was revised marginally higher, but the crop estimate fell to 13.13 million bales. That compares with the season-high estimate in July of 16.50 million bales and will be the lowest output since 2017-18.

We do not expect the crop estimate to improve. Weekly progress reports have shown consistent deteriorating conditions. At the time of the 16.5-million-bale crop estimate, 48% was rated good-to-excellent. Now that number has tumbled to 30%.

On the global front, the US is still the world's largest exporter, but Brazil is closing in. This past season, Brazilian output grew to 14.4 million bales from 11.72 million bales. The USDA estimate for 2023-24 is 16.39 million bales. That is not a factor for the moment, because that crop will not be harvested for many months, but is certainly something to keep an eye on.

Demand

While prices have been in a steady uptrend since June, the market has been restrained by weak export demand.

The export sector is crucial for the US. Since the mid-2000s, domestic usage has been falling *vis-à-vis* exports, and now comprises only about 15% of total US consumption. So, now US prices are driven by exports. For the outgoing marketing year, exports fell to 12.77 million bales, down from 14.48 million bales in 2021-22, and the USDA forecasts that 2023-24 exports will remain weak at 12.3 million bales.

Export commitments stand at 5.5 million bales, down from 8 million bales at this time last year. At this pace we wouldn't even come close to hitting the USDA's 12.3-million-bale target.

Much of it comes down to China. The Chinese grow about 70% of domestic mill requirements and have sold some cotton from state reserves over the past few months. This probably explains why their volumes have been lighter this year.

Thus far, there have been Chinese purchases almost every week since the marketing year began, albeit in modest volumes. Total purchases (shipped and unshipped) stand at 1.6 million bales, compared with 1.8 million bales at this time last year.

Pakistan is the second largest customer of US cotton behind China and its volumes are down a bit from last year as well.

In conclusion, the supply side is definitely bullish, as illustrated. Without a pickup in export sales, prices could drift lower. A return to even normal export levels, however, would tighten the US balance sheet materially.

We are long December cotton at 83.5¢ per pound as per our July 24 recommendation. Raise sell stops from 80¢ to 84¢, close only. *[By Sholom Sanik, Oct. 2, 2023]*

Chart 5 – ICE December cotton



Chart courtesy Reuters

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CORN

Poor yields, but new acres keep popping up

Perhaps the most interesting feature about the current corn market is just how boring it's been. December corn is trading at the same price as it was in mid-August (Chart 6).

Despite what turned out to be a dismal summer for growing corn, US farmers have muddled through with a decent-sized crop. Midwest crop conditions have deteriorated from 57% good-to-excellent in early August to the most recent rating of 53%. Indeed, the September crop report lowered the bushel-per-acre (bpa) yield from a season-high estimate of 181.5 bpa, to 173.8 bpa. The October yield estimate will be important, though, because the season low in the good-to-excellent category was 51%, so late rains may have boosted yields a bit.

However, the planted-area estimate keeps growing. After a surprise revision of 2.1 million acres in the June acreage update, the USDA tacked on an additional 800,000 acres in the September crop report. So, even with a 4.2% drop in bpa yields, the crop estimate stands at 15.134 billion bushels, down by only 0.08% from the early-season forecast and considerably above 2022-23 production of 13.734 billion bushels.

On the US consumption side, the USDA sees improved demand for all three domestic categories – feed, ethanol, and exports.

Feed and ethanol were never a huge concern. Although the US export market is the smallest of the three components, it represents the largest potential swing factor. To illustrate, consider that both feed and ethanol had an off year in 2022-23, with feed consumption down 301 million bushels, or 5.2% from 2021-22. And ethanol usage was 125 million bushels, or 2.3% lower than in 2021-22. Exports, on the other hand, were 807 million bushels (32.6%) below 2021-22 levels.

There is some evidence that ethanol usage is perking up. US ethanol inventories ticked up over the past few weeks, but have been falling for most of the year and remain near one-year lows (Chart 7).

The quarterly stocks report is considered an indication of feed demand. The September 29 update showed US corn stocks at 1.361 billion bushels. That was 68 million bushels below the average of analysts' guesstimates.

So ethanol and feed disappearance are headed in the right direction. For most of this marketing year, exports have been disappointing. However, as of the most recent weekly report, commitments pulled ahead of the same-time-last-year level. While still well behind the pace that would be necessary to meet the USDA target of 2.050 billion bushels, we are only five weeks into the marketing year.

There are two potential silver-lining items in the export sector. First, China has been a buyer over the past few weeks. Of course, nothing in the way of the kind of volume we saw two years ago, but it is nevertheless a departure from the historical norm in which China did not import corn at all.

Then – and quite frankly, this has nothing to do with corn directly – on October 3, the USDA announced a sale of 220,000 tonnes of *wheat* to China. To provide context, the USDA only announces grain sales between weekly commitment reports on volumes greater than 100,000 tonnes. This purchase by China was significant because it was the first intersession wheat sale of this nature since July 2021. So, yes, it is wheat, not corn. But it does show that when China comes to the market, the complexion of the market could change in a hurry.

In any case, the US balance sheet shows a well-supplied market. After adjusting for the quarterly stock revision, ending stocks for the new marketing year are still forecast at a bountiful 14.8% of consumption. This compares with 9.2% and 9.8% for 2020-21 and 2022-23, respectively.

On the global front, it is far too premature to talk about 2023-24 Brazilian and Argentinean crops. However, assuming that Argentina – the world's third-largest exporter – recovers from this season's crop failure (34 million tonnes in 2022-23 vs 49.5 million tonnes in 2021-22), the balance sheet shows that we will be swimming in corn. Ending stocks are forecast to reach 26.1% of consumption, compared with 25.6% and 25.8% in 2022-23 and 2021-22, respectively.

Having presented a predominately bearish case, we are nonetheless not comfortable with recommending a short position. Commodity funds have been piling on to the short side for months now in historic proportions (Chart 8), but seemingly have not been able to break the market down from the current range. Stand aside, but stay tuned.

[By Sholom Sanik, Oct. 5, 2023]

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Chart 6 – CBOT March corn

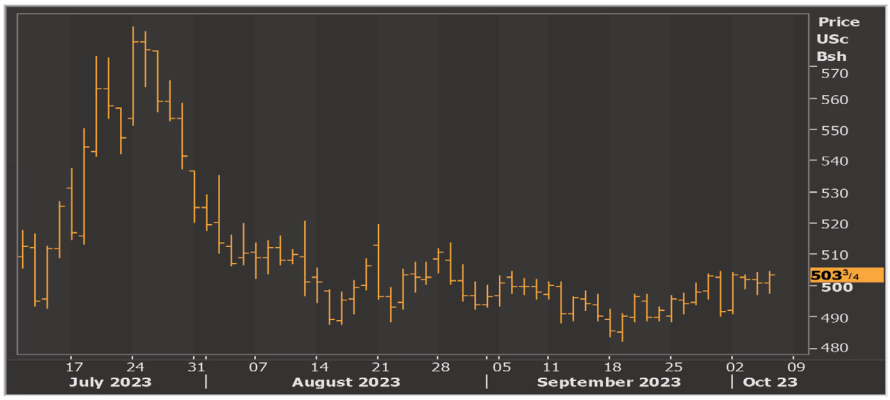


Chart courtesy Reuters

Chart 7 – US corn-based ethanol stocks (1,000s of barrels)



Chart source: Reuters

Chart 8 – CBOT corn net-fund short position

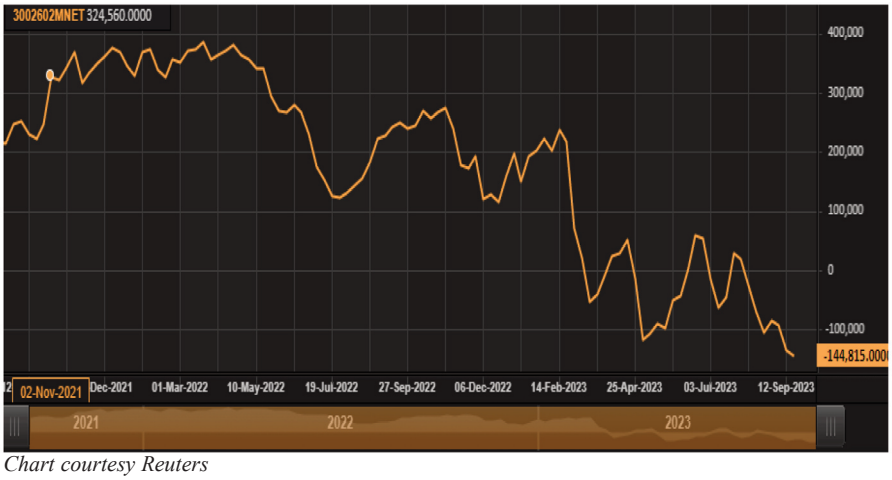


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