FRIEDBERG'S
FOCUS ON FUTURES
Friedberg Mercantile Group Ltd. Volume 26, No. 8 October 7, 2024

Cotton: can Brazil compensate for the US?

Brazilian commodity market expansion has altered the landscape for many markets, most notably soybeans, corn, and sugar. Cotton has been no exception. As we have documented several times recently, output has increased from 9.22 million bales in 2017-18 to an early estimate of 16.70 million bales for 2024-25. This has occurred against a backdrop in which world consumption has actually fallen. To illustrate for the period cited in which production expanded: In 2017-18 global consumption was 122.76 million bales. The USDA forecast for 2024-25 usage is 115.75 million bales.

We are entering a second consecutive marketing year in which global production is estimated to be roughly equal to consumption. So, bears are complacent that with explosive Brazilian output, there can be no cause for alarm. However, the way things are developing in the US, we should take note that US exports are (or rather were) being counted on to be roughly equal to Brazilian exports. That may now prove to be a challenge.

As recently as July, the USDA was estimating the US crop at 17 million bales. But the crop has deteriorated materially, with the September estimate at 14.56 million bales. The planted-to-harvested ratio was maintained at 77.26%, but the yield estimate fell sharply, from 840 pounds per acre to 807 pounds per acre. That was good for a 600,000-bale downward revision in output from the August estimate. The significance of this is that the drop in US output from last year is now greater than Brazil's anticipated gain of 2.13 million bales over 2023-24.

And we are not necessarily done with downward revisions. In the most recent weekly crop progress report, the USDA estimated that the good-to-excellent portion of the crop fell from the previous week by 4 percentage points, to 40%, down from a season high of 53% on July 22.

Cotton prices have been pushing off the lows in response to the poor growing conditions. However, the response to the release of the September USDA crop report on September 12 can certainly be classified as a delayed reaction. The market rallied modestly and then fell during the following session. After a weekend of contemplation, though, December cotton scooted up the daily trading limit of 3¢ per pound to two-month highs (Chart 1).

Much-needed rain in Texas is forecast, but judging by the market's pop, it just may be too little too late.

The supply side has definitely taken a hit with the US crop shaping up to be much smaller than expected even a few weeks ago. To generate a convincing bullish outlook, though, the demand side would need to comply as well. Thus far, US sales have been sluggish since the marketing year began on August 1. Commitments to all destinations stand at 4.8 million bales, down from 5.3 million bales at this time last year.

Of particular concern is that sales to China amount to only 462,000 bales, down from 1.59 million bales last year. It is quite early in the season, however, and as we pointed out previously (see *Focus on Futures*, August 27), the carryover of unshipped cotton from the previous season was about 1 million bales less than from 2022-23 to 2023-24. So, despite the headline number, the sales pace to all destinations outside of China is actually stronger than last year.

One final note: Commodity funds own their largest net-short position in five years (Chart 2). The emergence of more bullish supply side news and/or any improvement in the demand side will trigger short covering.

Our concern about the health of the US crop inspired us to establish a long position in December cotton, as per our August 27 recommendation. Remain long. Raise stops from 65¢ per pound, to 67.5¢, close only.

[By Sholom Sanik, Sept. 16, 2024]

Inside

Soybeans: Are they underpriced? 2
Sugar: Brazilian drought begets bull 4
Cocoa: This bull may be tiring 5

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits.

Get Focus by e-mail
Focus on Futures is available by e-mail as an Adobe PDF file. If you prefer to receive your copy of *Focus on Futures* by e-mail, please send us a message at *focus@friedberg.ca* with your full name, e-mail address, and street address.

©2024 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 1 – ICE December cotton

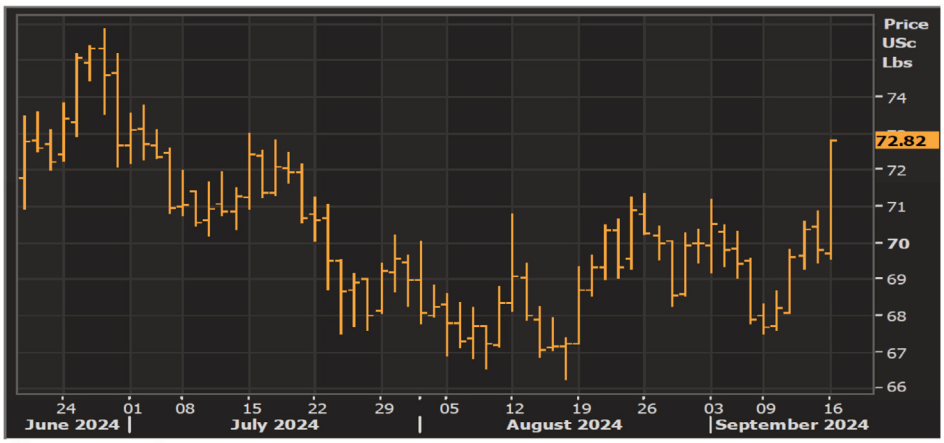


Chart courtesy Reuters

Chart 2 – CFTC commodity fund cotton net-short position

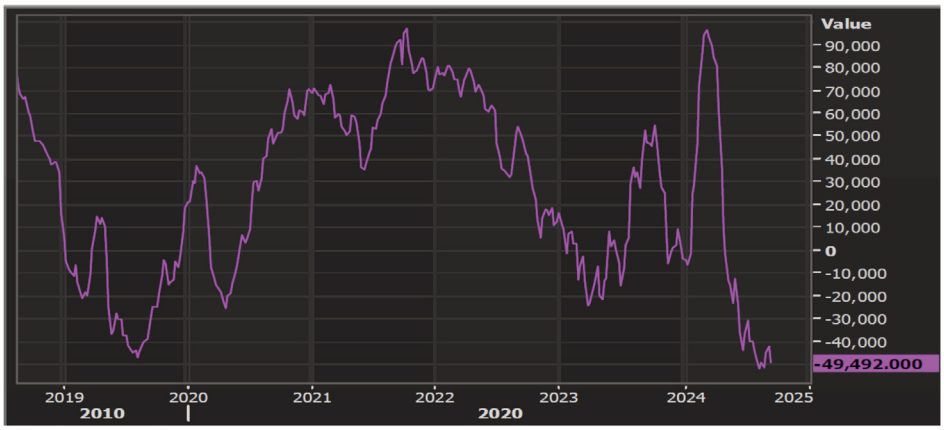


Chart courtesy Reuters

SOYBEANS

Are soybeans underpriced?

It's a bit strange. The September USDA crop report was all but a carbon copy of the August report. The August report was chock full of surprises for the supply side – all bearish.

First, the USDA "found" 1 million acres, revising the planted area in the June acreage report up to 87.1 million acres. Then, the bushel-per-acre (bpa) yield was revised upwards, by 1.2 bpa, to 53.2 bpa. That is a whole lot of new beans added to the 2024-25 crop estimate – 154 million bushels. After a minor upward revision for new-crop exports, ending stocks would rise by 125 million bushels from the July estimate, to 560 million bushels, or 12.75% of consumption. We have not seen that kind of carryover since 2019- 20. Between 2020-21 and 2023-24, ending stocks averaged 6.5% of usage.

The market's reaction at the time was a 35¢-per-bushel selloff for November new-crop beans over the next couple of sessions. The strange part is that after hovering near those multi-year lows for about a week, the market rallied and is trading above the pre-August-report price (Chart 3).

Perhaps the forecast for a record crop was a bit premature. For the most part, the risk of autumn frost has passed. But the Midwest has experienced hot and dry weather, which may call the USDA's exuberant yield revision into question. The season began with high expectations for excellent yields. The season high for the good-to-excellent portion of the crop was a near-record 72%. For most of the summer, that figure leveled off to 68%. Over the past couple of weeks, it has dwindled to 64%. That is a still a very high rating in historical terms, but not necessarily good enough to achieve record yields of 53.2 bpa.

©2024 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Looking to the demand side, thus far US foreign sales have been sluggish and do not reflect the USDA view that exports will jump by 4 million tonnes over 2023-24, to 50.35 million tonnes. Commitments to all destinations stand at 15.9 million tonnes, down from 17 million tonnes at this time last year.

Having stated that, we find somewhat of an inconsistency in the USDA balance sheet. Chinese demand is estimated at a record 126.8 million tonnes, up 4.2% from 2023-24. Output has been between 20 and 21 million tonnes over the past couple of years, and this year's crop is actually forecast to be a tad lower than last year. So, there is a widening gap developing between production and consumption, which has always been filled by imports. Yet imports are estimated to slip by 2.2%. Of course, we would need to see sales pick up over the next couple of months, but we anticipate that we will get upward revisions to Chinese imports down the road.

Based on intended planting area, the 2024-25 Brazilian crop is estimated at 166 million tonnes, which would be a recovery from this year's drought-stunted output of 153 million tonnes. However, we are talking about a crop that has not been planted yet and that would need cooperative weather for both the planting and growing seasons. Even if all goes well, we are six months away from the Brazilian harvest.

There is no compelling bullish case, as illustrated, but two vulnerabilities exist: The possibility that the size of the US crop has been overestimated and that Chinese demand has been underestimated.

The commodity fund net-short position is gargantuan (Chart 4). There has been some short covering, which explains the recent rally, but if any of the potential bullish scenarios were to develop, those shorts would need to cover.

We recommend establishing a long position in March soybeans, presently trading around $10.40 per bushel. Place initial sell stops at $9.75, close only.

[By Sholom Sanik, Sept. 19, 2024]

Chart 3 – CBOT November soybeans



Chart courtesy Reuters

Chart 4 – CFTC commodity fund soybean net-short position

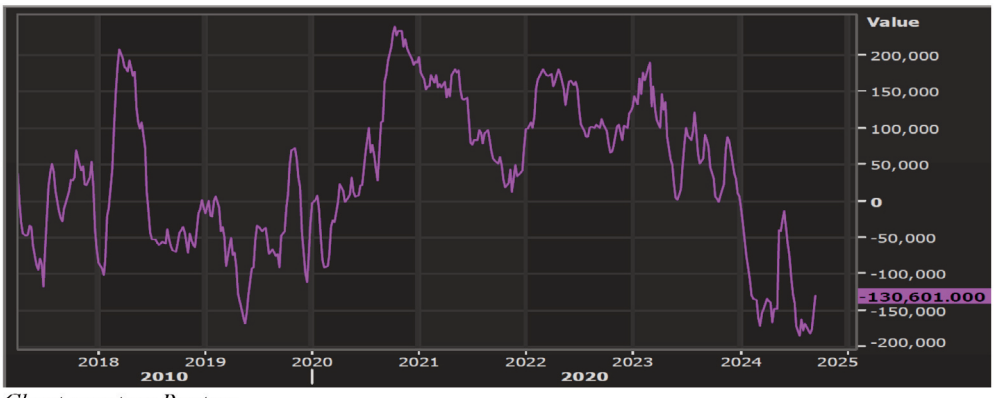


Chart courtesy Reuters

©2024 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

SUGAR

Drought in Brazil gives birth to a bull

After wiping out two years of gains, sugar prices have spiked to eight-month highs over the past couple of weeks. The bullish issues are not new, but they have intensified.

Brazil

Brazil is in the thick of the crushing season, and record-breaking drought has lowered yields materially. Furthermore, the crushing season normally extends from April through December, but analysts report that processing was rushed and will end as early as October. While the crush usually begins in April, there is speculation that the lack of subsoil moisture might not allow the 2025-26 season to start until May. That will leave the longest period on record with no cane being crushed in Brazil.

As noted, we believe this last point is indeed "speculation." Precipitation down the road could improve next year's crop. In fact, some rain is expected in mid-October. However, in dealing with the here and now, the prospects for the health of the current cane crop and sugar output are harsh realities. Over the past six weeks, the biweekly production reports show that sugar output has been consistently below the same time last year. And that is despite the fact that processors have been rushing the crush.

In addition, the percentage of cane going to sugar versus ethanol has fallen to 48.8% from over 50% most of the season.

In August we were still seeing estimates for Centre-South output of close to 42 million tonnes, but that figure has dwindled. One estimate puts output at 38.8 million tonnes. Wildfires in cane plantations have been exacerbated by the extremely dry weather, but the amount of cane lost remains insignificant.

India

On September 6, the government made the ban on sugar exports for the 2024-25 marketing year official. That means that the earliest possible date for Indian exports will be December 2025. New-crop crushing begins in November, and early forecasts put output at about 30 million tonnes, down roughly 2 million tonnes from this past season. The prospects of the government changing course on its zero-export policy are not good.

Part of the strategy is to help develop the budding ethanol industry. Currently, the minimum mandated ethanol blend is 13% to 14%, but the plan is to increase that ratio to 20% by the 2025-26 marketing year. That still leaves India well behind Brazil's 27.5% mandate, but they are heading in that direction.

Thailand

Thai output is expected to bounce to 10.38 million tonnes in the coming crop year. That is up from 8.8 million tonnes this season. This would certainly provide a welcome addition for a country whose additional supplies are readily available for export.

There has been some heavy flooding, which may not affect the new crop *per se*, but analysts have expressed concerns that it could delay both harvesting and shipping.

The International Sugar Organization (ISO) has been ratcheting up its forecast for a 2024-25 production/consumption deficit. Before the dry weather hit Brazil in earnest, the ISO was looking at a near balanced market. But the latest update showed an estimate for a deficit of 3.58 million tonnes. That forecast came in late August, so we suspect that this estimate could be out of date, and we are most likely looking at a larger deficit.

In summary, the three largest exporting nations (that is, if we can still call India an exporting nation) have issues with supplying world trade.

Remain long March sugar as per our August 30 recommendation. Raise stops from 18.5¢ per pound to 20.5¢, close only. *[By Sholom Sanik, Sept. 26, 2024]*

Chart 5 – ICE March sugar

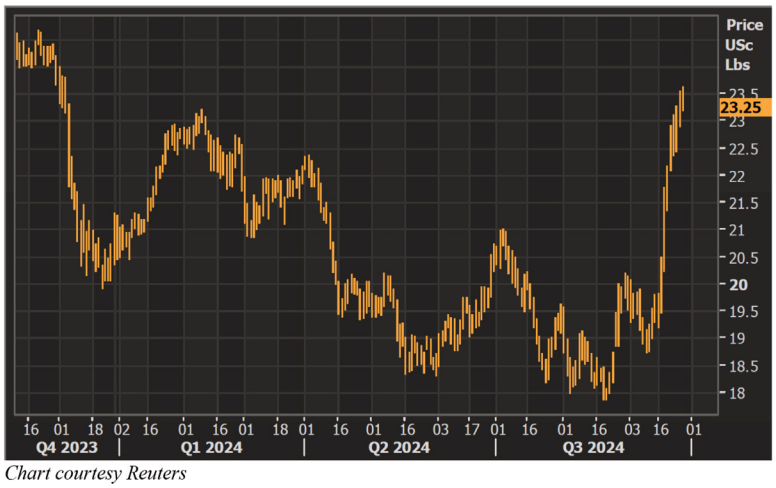


Chart courtesy Reuters

©2024 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

COCOA

This bull may be tiring

The last of the Ivory Coast 2023-24 mid-crop beans have been delivered. While the 2023-24 Ivory Coast season can only be described as an absolute disaster, there are some indications that the worst may be over.

The mid-crop had a strong finish. Since the beginning of August, weekly data showed a resurgence. Total arrivals were 116,000 tonnes, compared with only 54,000 tonnes for the same period in 2022-23. There will likely be revisions, but at the moment, combined 2023-24 main- and mid-crop arrivals stand at 1.771 million tonnes, down 23.7% from 2022-23.

So where is the silver lining? At the worst point back in December, total arrivals were down by as much as 35% from the previous season. As can be seen in Chart 6, aside from the near onset of the mid-crop back in April, comparative port arrivals actually improved for the remainder of the marketing year. We do not have any evidence to support ideas that the disease that plagued the crops has vanished, or at least lessened, but the hard data show that the worst may be behind us.

Of course, the question now becomes whether this trend will continue into the new main-crop. At this time of year, as the pods are in their developmental stage, the correct combination of sunshine and precipitation is necessary to ensure healthy plant development. And at the moment, for the most part, that is what farmers are getting. Too much rain at this time of year is not favorable, so that is something to watch for. While anecdotal in nature, farmers report that the pod count is higher than last year.

Much less information is available from Ghana, but its 2024-25 fortunes are instrumental in seeing a supply-chain recovery. Weekly data does not exist as it does for the Ivory Coast. Analysts rely largely on periodic government estimates of crop size. Historically, forecasts have been ambitious, but by the end of the season, output data typically seems to be largely in sync with imports into processing regions. At the moment, the most recent estimate for the outgoing marketing year is about 450,000 tonnes, down a staggering 40% from 2022-23. The government forecast for 2024-25 is about 700,000 tonnes. We'll see.

On the demand side, third-quarter grind statistics will be released over the next few weeks. Thus far, over the past several quarters of this bull run, the grind in the EU and North America has, surprisingly, been modestly positive. The Ivory Coast is down about 11%, which makes perfect sense because there were simply fewer beans to grind and is not necessarily any indication of weak processor demand.

What looked like a new bull-market leg during September was eradicated in the space of four trading sessions (Chart 7). The International Cocoa Organization estimates that there will be a record global production/consumption deficit of 462,000 tonnes for the 2023-24 marketing year. Obviously, the market will remain tight in the near future, which is well represented by the ongoing backwardation (Chart 8).

If, however, the weather continues to favor West African crops and output estimates – sketchy as they are at the moment – return to normal levels, we believe that prices would erode in such a scenario.

Cocoa has become a particularly difficult market to trade because of the extreme volatility. Nevertheless, we are going to recommend establishing a modest short position. March cocoa is trading just below $6,000 per tonne. A move back towards the highs of just over $7,000 would in all likelihood be an indication that the weather is not behaving.

Sell March cocoa. Place initial sell stops at $6,750, close only. *[By Sholom Sanik, Oct. 2, 2024]*

Chart 6 – 2023-24 Ivory Coast cocoa port arrivals vs. 2022-23

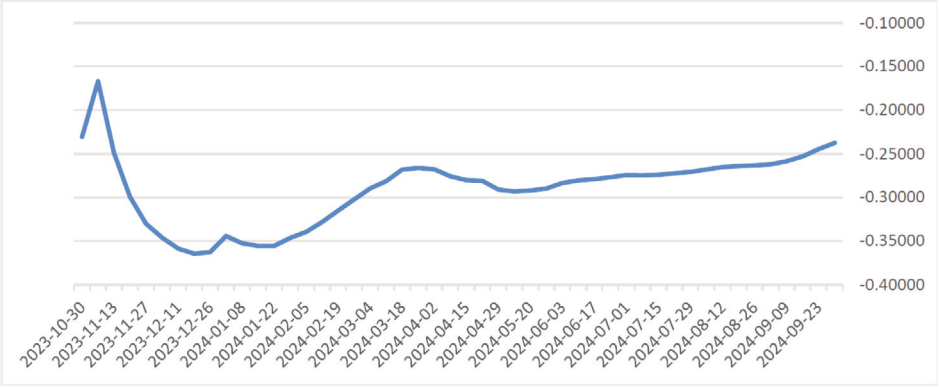


Chart courtesy Reuters

©2024 by Friedberg Mercantile Group Ltd. Reproduction in whole or in part prohibited.

Chart 7 – ICE March cocoa



Chart courtesy Reuters

Chart 8 – December/March cocoa spread

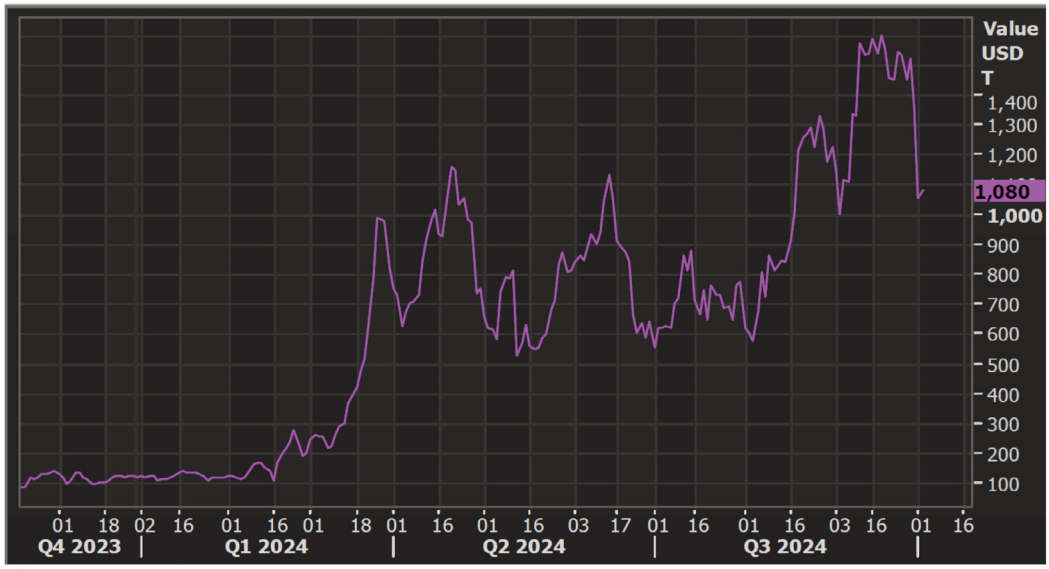


Chart courtesy Reuters

Friedberg's Focus on Futures is published by Friedberg Mercantile Group Ltd., Suite 600, 220 Bay Street, Toronto, Ontario, Canada M5J 2W4. Contents copyright © 2024 by Friedberg Mercantile Group Ltd. All rights reserved. Reproduction in whole or in part without permission is prohibited. Brief extracts may be made with due acknowledgement.

Subscription Enquiries for
Friedberg's Focus on Futures
Suite 600
220 Bay Street
Toronto, Ontario, Canada M5J 2W4
Telephone: 416-350-2913
Fax: 416-364-0572

All enquiries concerning trading accounts should be directed to:
Friedberg Mercantile Group Ltd.
Suite 600
220 Bay Street
Toronto, Ontario, Canada M5J 2W4
416-350-2903
Attn: Sholom Sanik

Futures and options trading is speculative and involves risk of loss. Past trading results are not indicative of future profits. This report is a solicitation for entering into a derivatives transaction. The author of this report may have a position in the underlying derivative securities mentioned in this report. The information in this report was obtained from sources we believe to be reliable but is not guaranteed by Friedberg Mercantile Group Ltd. or its affiliates. Derivatives are high-risk investments, and there can be no assurances that the securities mentioned or recommended will maintain their value at a constant amount or that the full amount of your investment will be returned to you. Derivatives' values change frequently and past performance may not be repeated.