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Corn: a tale of two grains

For those who watch the ticker all day long, it feels as though corn prices have fallen in tandem with its sister commodity, soybeans. Corn is clearly in a bear market. Indeed, it has been sliding since the 2024-25 crop was planted. However, over the past two months, corn has formed somewhat of a base, while soybeans continue to make new lows (Charts 1 and 2).

The two commodities are intimately connected because they vie for the same acres. For the 2024-25 crop, US farmers shifted a large chunk of planted area away from corn to soybeans. Unexpectedly, the August crop report revised the June acreage estimate to widen that gap. In 2023-24, soybean acreage was 83.6 million acres (MA). The June estimate was 86.1MA, but was revised upwards in August, to 87.1MA. For corn, farmers planted 94.6MA in 2023-24. The June estimate was 91.5MA. But the August crop report trimmed that to 90.7MA. That, at least in part, explains the relative stronger performance for corn prices.

Despite the 800,000-acre drop in the acreage estimate, the production estimate still saw a small increase because of an equally unexpected sharp increase in yields, to 183.1 bushels per acre from 181 bushels per acre.

The contrast between corn and soybeans is not limited to US output. Brazil has become competitive with the US for both commodities. The South American crops that were harvested over the past few months struggled with weather, but Brazilian corn output was down 11% from 2022-23, while soybean production fell only 5.5%.

If we look at the complete global picture, it is easier to understand why corn has outperformed soybeans. Soybean ending stocks have been growing steadily, from 27.5% of consumption in 2022-23 to a projected 31.80% for 2024-25. During this period, corn inventories have actually been slipping, from 25.9% in 2022-23 to the forecast for the new marketing year of 25.4%. That is not a huge difference, but it does highlight a vulnerability for corn that may not exist for soybeans.

On the demand side, another interesting feature is that US corn can live without Chinese imports, while soybeans cannot. In marketing years 2020-21 and 2021-22, Chinese corn imports from the US exploded to never-before-seen levels. Total exports to all destinations for those two years averaged 66 million tonnes.

By 2022-23, they were still buying, but far less than in the previous two seasons, and total exports fell to 42 million tonnes. This year we're almost back to the norm, i.e., China is not a factor. Currently, 2023-24 US sales to China stand at 2.9 million tonnes, down from 7.6 million tonnes at this time last year.

Even so, exports to traditional customers, such as Japan and Mexico, have compensated to allow for a fairly respectable recovery to 57 million tonnes. At least that's the USDA estimate, which in all likelihood we will not reach. With three weekly reporting periods remaining, we will probably end up at about 55 million tonnes.

In conclusion, there is no overt bullish case for corn. Having said that, we believe that the weakness may have been exacerbated by the selling in soybeans. Commodity funds still own a massive short position, but some short covering has commenced (Chart 3).

No self-respecting technical analyst would dream of buying corn here. However, an argument that the market is deeply oversold can be made. The introduction of any bullish supply/demand fundamentals could spark a material short-covering rally. Particularly since, as illustrated above, the supply side does not present as all that bearish in the first place.

Buy December corn, currently trading around $4 per bushel. Place initial sell stops at $3.70, close only.

[By Sholom Sanik, August 23, 2024]

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Chart 1 – CBOT December corn

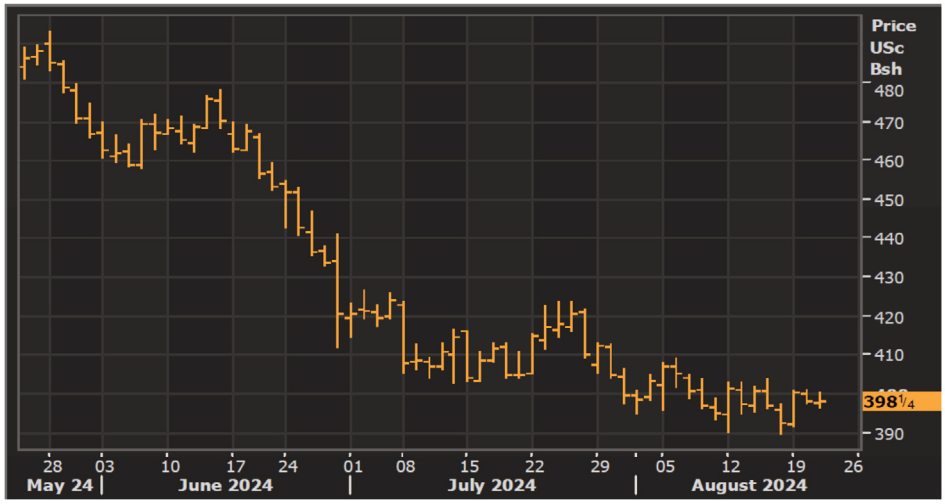


Chart courtesy Reuters

Chart 2 – New-crop soybean/corn ratio



Chart courtesy Reuters

Chart 3 – CFTC commodity-fund corn net-short position

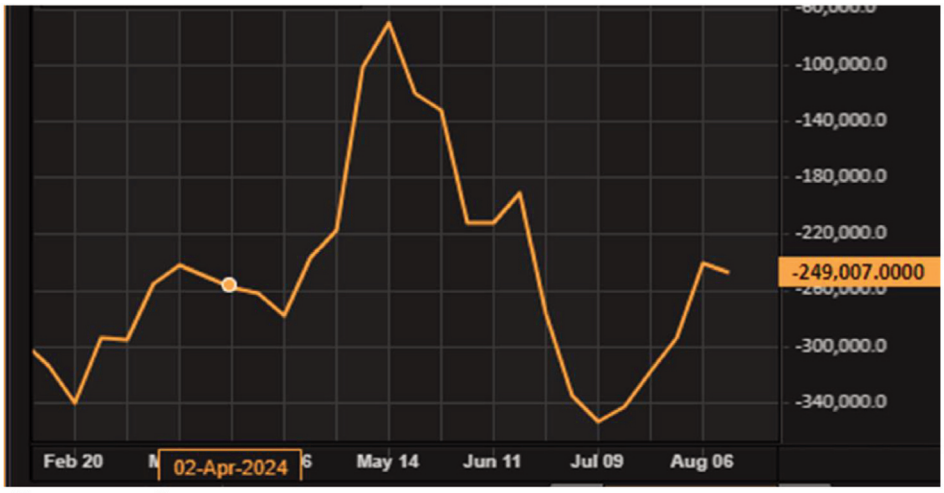


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COTTON

US crop disappoints

Cotton recently traded at multi-year lows (Chart 4). The market has been focused on dazzling Brazilian data, which will see Brazil overtake the US as the world's largest exporter. The USDA's August estimate for 2024-25 Brazilian production and exports of 16.7 and 12.5 million bales is virtually the same as it was at the time of the first estimate back in May. So, there is nothing terribly new about this. US cotton exports are still important, though, typically comprising about 30% of world trade.

The August crop report contained a significant revision for the US that at first was largely dismissed. The first few trading sessions saw new-crop prices sink to fresh contract lows. In the weeks that followed, however, prices have been bouncing off the lows.

US acreage estimates have been rather erratic this crop year for all commodities (see *Focus on Futures*, August 22). Cotton has been no exception. The June USDA area update raised planted acres from the March planting intentions report by 1 million acres, to 11.67 million acres. Now, in the August crop report, it shaved 500,000 acres off that increase. In addition, it lowered the yield a tad, but more significantly it lowered the planted-to-harvested ratio estimate to 77.2% from 82.8%.

The key cotton region, West Texas, has not been receiving enough precipitation, and overall crop conditions reflect this. The forecast is not looking too bright either. For the next few days, there is only a 10% to 20% chance of rain with a 50% chance following that. The most recent report shows that the good-to-excellent portion of the crop has fallen by 13 percentage points from one month ago.

The downward revision in acres and increased abandonment revisions are material. The August output estimate fell by 1.9 million bales, to 15.1 million bales, from the July estimate. That's still 3 million bales higher than the 2023-24 crop, but it exposes a vulnerability. The anticipated spectacular crop of several months ago is now struggling.

On the demand side, with 2023-24 marketing year now closed, US exports did not quite make the 11.7-million-bale estimate, with the final shipment tally at 11.07 million bales. Commitments for 2024-25 stand at 4.08 million bales, smaller than 4.8 million bales last year at this time. This figure includes 1.35 million bales unsold from the 2023-24 season, so in fact we are slightly ahead of last year's new crop sales because the unshipped figure was higher last year. Still, all in all, not a fantastic start.

On the global front, the USDA forecast for the incoming 2024-25 marketing year calls for a 3.85-million-bale, or 3.4%, increase in usage. Of note, while there will still be a 1.4-million-bale production/consumption surplus, that figure narrowed in the August crop report from 3 million bales in July. Most of that was the downward revision for US output. And the August estimate has not taken into account the deterioration in the fortunes of the West Texas crop.

More than likely, the good-to-excellent portion of the crop has fallen by at least 5 percentage points since the surveys for the August crop report were conducted. As such, we expect the global production/consumption to be revised lower in the September crop report. At the moment, despite the inroads made by Brazil, US exports are still expected to be about the same as Brazil's, so it is not as though the US has become insignificant.

Owing to the developments in the US and the stubborn short position held by commodity funds (Chart 5), we advise establishing a long position in December cotton, currently trading at about 70¢ per pound. Place initial stops at 65¢.

[By Sholom Sanik, August 27, 2024]

Chart 4 – ICE cotton weekly nearest contract

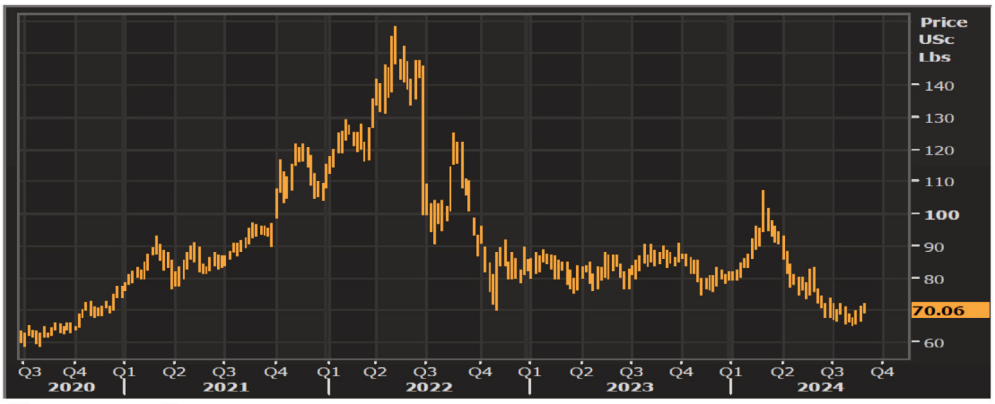


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Chart 5 – CFTC commodity-fund cotton net-short position



Chart courtesy Reuters

SUGAR

Bear market cancelled

On August 22, while sugar prices were hovering close to two-year lows, vandals set fire to sugarcane fields in Brazil, sparking a rally (Chart 6). Damage assessments vary. One estimate puts the loss of sugar output at several million tonnes. More time is required to get a proper estimate on the extent of output loss. From what we know thus far, stories of large losses seem exaggerated. One seemingly reliable estimate is that losses from the fire are closer to 500,000 tonnes. Some of the burnt cane can even be processed, but obviously with lower yields.

In the grand scheme, if the drop in output was the only issue with sugar production, it might not be a game changer. But as we have previously discussed (see *Focus on Futures*, July 26), Brazilian production has likely been overstated. The sharp rally triggered by the fires only served to underscore tension revolving around the vulnerability of the pool of supplies available for world trade.

We are now seeing downward revisions to the total cane crop in the Center South region. In 2023-24 the crop reached 660 million tonnes. Early estimates called for a drop to 600 million tonnes, and we are now seeing that estimate fall to 580 million tonnes.

While the early crush months saw year-over-year increases in sugar output, that is no longer the case. Since mid-July, the bi-weekly report showed output down an average of 8%. The weather has been very dry, with some areas going several months without any rain at all.

The most recent consensus for Center South production was about 40 million tonnes. We're confident that this forecast is stale and has not accounted for recent developments. In early June the International Sugar Organization had already increased its estimate for the global production/consumption deficit to 3 million tonnes. We expect that to be out of date as well.

India

India received ample precipitation from this year's monsoon. Flooding may have had an adverse effect on summer-harvested crops, but the sugar harvest and crush does not begin until November. The excessive rains will therefore be beneficial for 2024-25 output.

In the near term, however, a 30-million-tonne crop harvested for the current marketing year means that India is still absent from the export market. Just about the entire crop will be used for domestic consumption, which of course will result in ending stocks remaining unchanged from the previous marketing year.

Earlier this year the Indian government became somewhat panicked about sugar supplies. One of the measures that was being dangled was controlling the amount of cane that can be used for its budding ethanol industry. On August 29 the government announced that it was liberalizing those restrictions. While difficult to quantify in terms of actual sugar output, it does nevertheless send a signal that the issue of restarting sugar exports is not something the government is concerned about.

With the combination of Brazilian export availability almost certainly to be curtailed and India not even close to returning, sugar prices are headed higher.

In early August we once again came within a smidgen of being stopped out of our long position in October sugar, first recommended on April 19. October sugar will soon expire. We recommend rolling October sugar to March, which is trading at a small premium to October. Raise stops from 17.50¢ to 18.50¢, close only.

[By Sholom Sanik, August 30, 2024]

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Chart 6 –ICE sugar weekly nearest contract

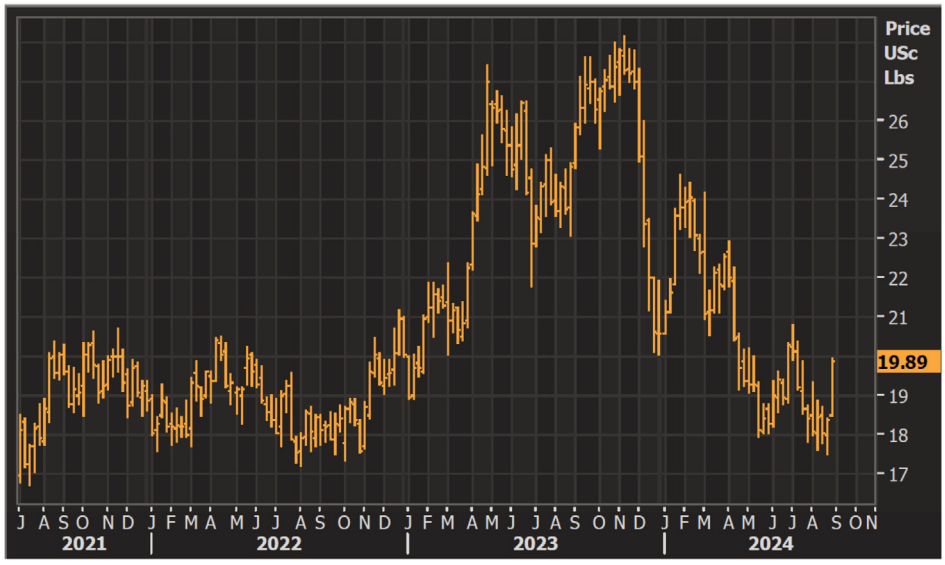


Chart courtesy Reuters

COCOA

West African crops poised for a recovery

After an extraordinary bull market that drove cocoa prices far beyond historic levels, the market peaked back in April at $12,000 per tonne. September cocoa, which represents the last deliveries of the 2023-24 marketing year, are going off the board at close to $10,000 per tonne. December cocoa, the first delivery month for the 2024-25 crop, is trading at about $7,500 per tonne (Chart 7). Where to from here?

The smaller mid-crop that is harvested between March and September did not fare much better than the main-crop. However, the tail end of the mid-crop offered a glimmer of hope that the worst of the disastrous 2023-24 crop could be behind us. Since July 29, port arrivals have been higher than the same period in each weekly reporting period, save for one. Cumulative arrivals totaled 60,000 tonnes versus 50,000 tonnes in 2022-23.

We are finishing the marketing year at 26.2% below the previous year, which is the narrowest level we have seen since the low of 36.3% earlier in the season. Yes, still a disaster, but perhaps an indication that weather and disease conditions have eased up.

Indeed, recent weather reports out of the Ivory Coast show that there has been ample precipitation for the 2024-25 main-crop. Early indications are that harvesting will start earlier and last longer than this past year. In fact, farmers have reported that pods already look better compared with the forgettable crop of last September.

The favorable early outlook notwithstanding, there are other factors to consider. Aside from rain, the crops need sunshine as well. This delicate balance is crucial for a recovery.

Inasmuch as the prospects for a normal crop look promising, we have to reflect on just how bad this past year was. On August 30 the International Cocoa Organization (ICCO) increased its production/consumption deficit forecast from its previous estimate of 439,000 tonnes, to 462,000 tonnes. That is not a huge difference, but it underscores the pressure on the new-crop to perform. One caveat regarding this revision is that it is possible that the better-than-expected results of the tail-end of the mid-crop may not be included in this latest estimate.

Ghana and the other West African producing nations generally share the same climatic conditions. If the Ivory Coast crops do well, so will the others. Disease could be more localized, but time will tell.

Following the trail of commodity-fund activity, we note that after liquidating the bulk of their long position in April, they have rebuilt a sizeable position (Chart 8). Should the weekly arrival data for the main-crop continue where the mid-crop left off, long liquidation could ensue.

As we have discussed in the past, cocoa is rather unique among tradeable commodities. Where a bull market in most markets will quickly inspire producers to plant large crops and sell forward contracts to lock in profits, it takes several years for a new cocoa tree to grow fruit. If the 2024-25 Ivory Coast crop is not at the very least back to levels seen in years prior, say 2.2 to 2.3 million tonnes, we can expect prices to turn higher once again.

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As even the ICCO frequently mentions in its reports, data for Ghana are scant. We would need to see Ghana on a pace for output of 750,000 to 800,000 tonnes to put this year's supply drag behind us.

We would entertain the short side if 2024-25 continues to shape up in the direction that the early crop prospects are pointing. Stand aside for the moment, but watch for more discussion as we monitor and document developments in West Africa.

[By Sholom Sanik, September 3, 2024]

Chart 7 – ICE cocoa weekly nearest contract



Chart courtesy Reuters

Chart 8 – CFTC commodity-fund cocoa net-long position

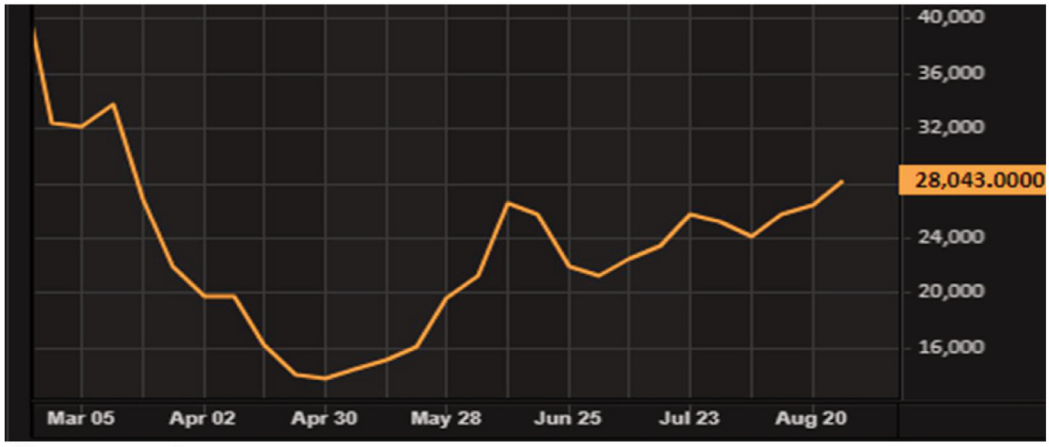


Chart courtesy Reuters

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