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Corn: damage...what damage?

Heavy precipitation hampered development of the US corn crop in June and July – or so we thought. December corn rallied by \$1 per bushel during this period. Analysts were predicting abandoned acres and lower yields.

Although the weather stabilized and prices gave back most of their gains, in the days leading up to the August USDA crop report analysts still maintained their belief that the crop suffered at least some irretrievable damage.

The average guesstimate for the bushel-per-acre (bpa) yield was 164.5 bpa, down from the 166.8 bpa July estimate. The actual figure came in at 168.8 bpa, above the high end of the range of guesstimates. Acreage and the harvested-to-planted ratio were left unchanged. But the outlook for better-than-expected yields drove the crop estimate up 156 million bushels from the July estimate, compared with guesstimates for a drop of 203 million bushels! It's not a record crop, but it will be the third largest.

The demand side hasn't been very supportive either. With several weeks remaining in the 2014-15 marketing year, US exports will probably miss the USDA target by a small amount. That's not too bad, but more worrisome is the fact that advance sales for 2015-16 are lagging last year's pace. New crop commitments are about 150 million bushels behind last year at this time, even though the USDA is forecasting exports at the same level as this year.

Global production of major crops has expanded over the past few seasons, as farmers took advantage of the outrageous prices of the bull market years. We cannot really lump corn into the mix, with say, soybeans for example, where South American countries increased output dramatically.

Outside of the US, corn production remains stagnant. Only Chinese production has increased, but for the most part it is self sufficient and is inconsequential for world trade – no exports and insignificant imports. But the countries that are a major force in the export market, along with the US, have not expanded their corn crops.

The estimate for Brazilian output was actually revised upwards by 2 million tonnes in this month's USDA crop report, to 79 million tonnes, but still comes up short when

compared with 2014-15 production of 84 million tonnes. Exports are forecast to drop by 3 million tonnes, to 24 million tonnes. Similarly, the Argentinean crop will fall shy of last year's output, with exports expected to be 1.5 million tonnes smaller.

The Ukraine will have a smaller crop as well. Both production and exports are estimated to be 1.5 million tonnes smaller than in 2014-15.

The EU is having a miserable time with its corn output. The USDA cut its 2015-16 output estimate for the EU by 3.5 million tonnes from the July estimate, to 62.25 million tonnes. That compares with 75 million tonnes last year. Imports are forecast to rise to 15 million tonnes, up from 9 million tonnes in 2014-15.

Owing mostly to the US bumper crop, global ending stock levels will be maintained at 19.7% of consumption, the same level as in 2014-15.

We were led astray by the reports of the early-summer inclement weather. As it turns out, the rally was the time to reclaim our original short position. Prices should continue to drift lower, but we do not view this as an opportune time to resell the market. As mentioned above, demand for US corn is sloppy, but with the US retaining its position as supplier of last resort, any substantial increase in demand is a wild card that could stabilize prices. Stand aside.

[By Sholom Sanik, August 27, 2015]

Inside

Soybeans: Can China stop the bear?	2
Platinum: A deficit with plunging prices?	3
Sugar: Indian export flood?	5

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Chart 1 – December corn



Courtesy Reuters

SOYBEANS

Soybeans galore, but can China stop the bear?

Grain analysts' fears regarding this past summer's excessively wet weather were well founded – at the time. Flooding was expected to leave many acres unplanted. Indeed, the August USDA crop report estimated planted area at 84.3 million acres, down 800,000 acres from the July estimate. But with the old adage “rain makes grain” working like a charm, regions unaffected by flooding benefitted from the extra precipitation.

As was the case with corn (see *Focus on Futures*, August 27), analysts were off the mark considerably. The bushel-per-acre yield (bpa) was revised up by 0.9 bpa, to 46.9 bpa. That compares with the average analyst guesstimate of 44.7 bpa and the July estimate of 46 bpa. The harvested-to-planted ratio estimate was little changed. Better-than-expected yields will result in a 3.916-billion-bushel crop, just shy of 2014-15 record output. The average production guesstimate was 3.724 billion bushels, down from the July estimate of 3.885 billion bushels. Both markets have since fallen to fresh contract lows.

This marks a complete turnaround for the US soybean market – from years of tightness to a well-supplied market. The average carryover since 2007-08 – when the bull market began – has been only 5.17% of consumption. As a result of the improved yields, the USDA estimate for 2015-16 ending stocks was revised upwards to 12.6% of usage from 11.4% in July.

Coupled with explosive growth of South American stocks, it's hard to see prices finding any support anytime soon.

Thus far, statistics for the new marketing year, which began on September 1, seem to indicate that the demand side will not offer much relief for a bullish case either. New crop commitments for US exports stand at 13.4 million tonnes, down 38% from last year at this time, when importers had already racked up forward purchases of 21.7 million tonnes. The USDA revised 2015-16 exports down by 1.4 million tonnes in its August report to reflect the slow pace of sales. The forecast for annual sales, however, is still 46.9 million tonnes, only 5% below 2014-15 final sales. That's a large gap to cover.

The Chinese financial turmoil has been used as an excuse to explain tumbling commodity prices – perhaps a bit too randomly. The fact is that, unlike for corn and wheat, in which the Chinese run a production/consumption surplus, they are dependent on imports for close to 90% of their soybean needs.

Chinese output peaked in the mid 2000s at 17 million tonnes, and they are expected to produce only 11.50 million tonnes in 2015-16. Consumption, on the other hand, has grown during this period to 91.7 million tonnes for the current marketing year from below 50 million tonnes. Despite the poor commitment data, the USDA actually revised Chinese consumption upwards in August by 2.2 million tonnes.

Of course, there is the possibility of a more permanent shift to South American origins, but US sales are likely to pick up as the new marketing year develops. The past two

weekly reporting periods for US exports have already displayed some signs of life, averaging 1.5 million tonnes per week, about triple the volume of the weekly average for the preceding two months.

Despite the uptick in the estimate for US output, 2015-16 global ending stocks were revised downwards to 28% of usage from the July estimate of 30%, because of upwards revisions to domestic demand, mainly in China and the US.

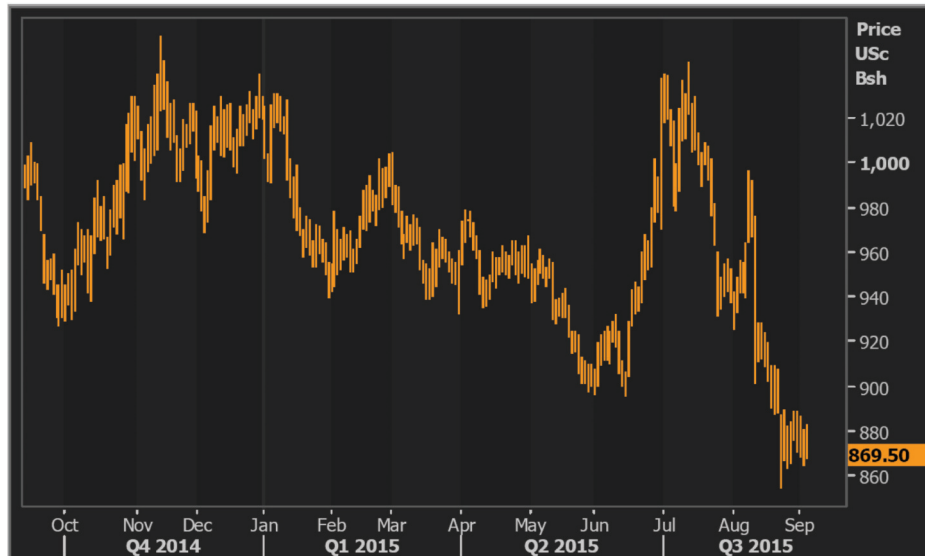
Northern Hemisphere crops no longer hold the potential

for any big surprises. If US exports improve, and substantiate the USDA target for 2015-15 exports, the market should find some support. If exports remain sluggish, the market will continue to drift lower.

We were stopped out of our short position during the weather scare. Should you have been fortunate enough to hold on to your shorts, lower stops to \$9.25 per bushel, basis November, close only.

[By Sholom Sanik, September 4, 2015]

Chart 2 – November soybeans



Courtesy Reuters

PLATINUM

Plunging prices with a deficit

Platinum prices are down 50% from their 2011 peak (Chart 3). Not a great anomaly – as far as commodity prices go. What may be somewhat unusual, though, is that this market runs a production/consumption deficit between freshly mined output and demand. The shortfall is made up from recycling. So why are prices so weak?

Roughly 70% of global platinum output is mined in South Africa. Labor strife in South African mines has been an ongoing problem. Coupled with plunging prices, mining companies have seen profits erode. Seeking to cut their losses, two mining giants have set out to consolidate their operations. Glencore is considering shutting down its Eland mine. Anglo American has sold three of its platinum mines. The buyers are likely to face the same problems as their predecessors, so it remains to be seen if they can continue to operate profitable platinum mines under current conditions.

The automotive industry is the largest user of platinum. Roughly 40% of total demand is used in vehicles to manufacture catalytic converters. Platinum jewelry comprises about 35% of the market. Most of the balance is used in other industrial applications.

The steep drop in prices came in anticipation of a collapse in demand. As with every commodity for which China is a significant importer, all eyes were on the stock market selloff that began in June. The devaluation of the Chinese yuan in August exacerbated fears of nervous traders who worried that the currency move was a clear admission that the Chinese economy was in trouble.

In terms of car sales in China, which has a direct impact on platinum usage, the fears were not unfounded. August car sales fell 3% year-over-year, the fifth consecutive monthly decline. Vehicle sales for 2015 through the end of August are flat. While some analysts are forecast-

ing a continuation of Chinese car sales growth – albeit at a more moderate pace than in recent years – others are calling for a decline for the year.

According to World Platinum Investment Council (WPIC) data, autocatalyst sales have not shown any sign of weakness yet, recording only a fractional decline in the second quarter over the first quarter of 2015. But despite lower prices, jewelry demand has already shown appreciable signs of strain, posting an 11% decline in the second quarter.

The WPIC estimates global primary refined platinum output for 2015 at 5.845 million ounces, substantially higher than 2014 output of 5.23 million ounces. However, these strong production statistics were extrapolated from growth in mining output in the first half of the year. With an evolving consolidation in the mining industry, we could find that the output estimate is optimistic.

At present, even before up-to-date weak Chinese car

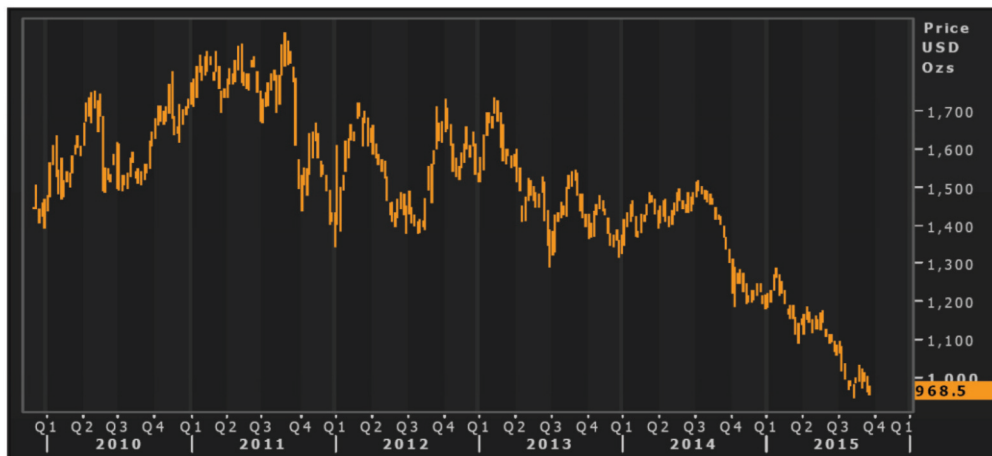
sales are factored in, the global supply/demand deficit is expected to drop to 445,000 ounces, compared with 745,000 ounces and 785,000 ounces in 2013 and 2014, respectively. But weak demand and the potential for mine closures may balance each other out, so the deficit figure may be close to accurate.

Taking a bit of a microscopic view of recent trading activity, October platinum bottomed in early July, even before the next sharp selloff in Chinese stocks and the August currency devaluation. Perhaps, as prices start colliding with production costs, traders now believe that we will see large enough output cuts, through consolidation and otherwise, to pull the deficit to last year's levels.

This is a painfully thin market. *Expect* disappointing trade execution on stops. If you can stomach it, buy January platinum. Place initial stops at \$925 per ounce, close only.

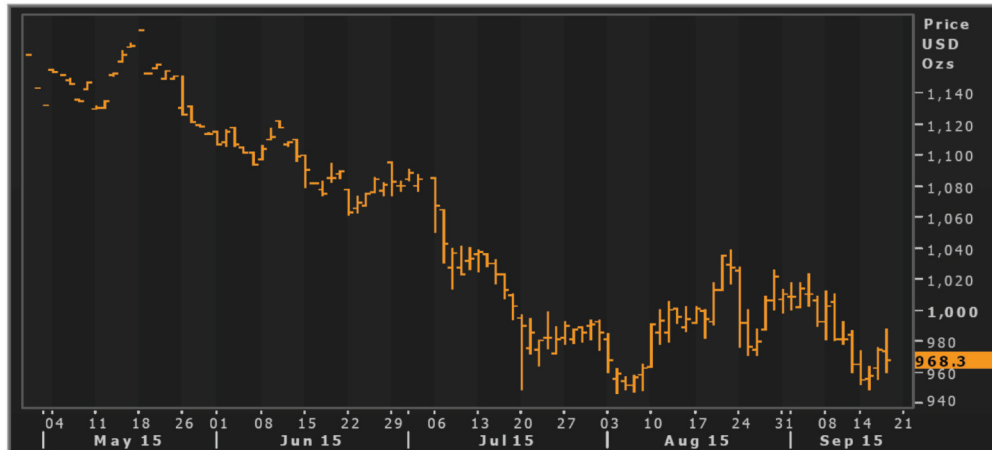
[By Sholom Sanik, September 18, 2015]

Chart 3 – Weekly platinum



Courtesy Reuters

Chart 4 – January platinum



Courtesy Reuters

SUGAR

Indian exports could flood the sugar market

The sugar market attempted a rally off yet another new low that saw prices fall to levels not seen since 2008. A string of bullish supply side developments encouraged short covering. The most recent CFTC Commitment of Traders report shows that the net-short speculators' position shrank to 10,500 contracts, its lowest level since February.

El Niño headlines have taken a bit of a back seat, but not before the disruptive weather system did some damage. Monsoon rains in some key cane regions in India have been 16% below normal, bringing drought and poor yields. Analysts initially estimated that the 2015-16 crushing season would produce a record 29-million-tonne crop, but recent estimates have fallen to as low as 26.5 million tonnes.

The rally stalled, though, when two key pieces of news out of India surfaced. First, rain moved into the forecast with initial estimates saying that the monsoon would shave one percentage point off its deficit. Although it is not clear to what extent parched sugar-producing areas such as Marathwada would be beneficiaries, the bears returned from their retreat. Then the government announced that it would aggressively pursue a program to whittle down large stocks. The plan was to grant export licenses for 4 million tonnes, much higher than was previously discussed.

If the rain falls where it's needed, the potential for better-than-expected Indian output could trim estimates for the 2015-16 global production/consumption deficit – we estimate – by about 1 million tonnes. Four million tonnes of Indian exports, if realized, would certainly depress the market in the short term. However, as in the past, when the government has embarked on this strategy, it is not necessarily viable with world prices at these levels. New export subsidies would have to be issued, which has not happened yet.

Although the cane crop in Brazil is expected to reach 590 million tonnes for the 2015-16 marketing year, 20 million tonnes larger than in 2014-15, early projections call for lower sugar output. One analyst puts Center South pro-

duction at 29.9 million tonnes, down from 31.96 million tonnes this past season. The crush will favor ethanol production of 27.7 billion litres, up from 26.1 billion litres last year.

The collapse in crude prices did not affect the growth of discretionary ethanol usage as it may have in the past, because of the government's introduction of a new petroleum tax.

As we discussed in a previous issue (see *Focus on Futures*, July 24), China is rapidly becoming the factor in the global sugar market it has never been in the past. Recent estimates of 2015-16 Chinese output have been revised down again, to 9.6 million tonnes. That's down about 1 million tonnes from previous estimates and compares with output of more than 14 million tonnes in the previous two seasons. With a massive 7-million-tonne gap between production and consumption, the Chinese have already been seen in the market taking larger-than-typical shipments of Thai sugar.

Estimates for the global production/consumption balance are now calling for a deficit of over 3 million tonnes. There are several mitigating factors, however. First, the years of surplus have built up stocks, and while this year's deficit will eat into those inventories, we are still looking at a stock-to-consumption ratio of close to 50%, compared with 41% when the bear market began. Furthermore, the Indian export directive does not change the deficit, but can certainly influence prices in the short term.

Overall, our strategy has not changed. Mills continue to struggle in both Brazil and India, and they will not survive forever. Since the bear market began, 100 out of 400 Brazilian mills have either closed completely or are operating under bankruptcy protection. The global deficit is not going to cause shortages right now, but this deficit is just the tip of the iceberg.

Remain long call options. July 1400 calls are trading for a song.

[By Sholom Sanik, September 21, 2015]

Chart 5 – March sugar



Courtesy Reuters

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