

# Commodities Markets Report

By Max Schulz

🕒 | Week 41 | October 10rd



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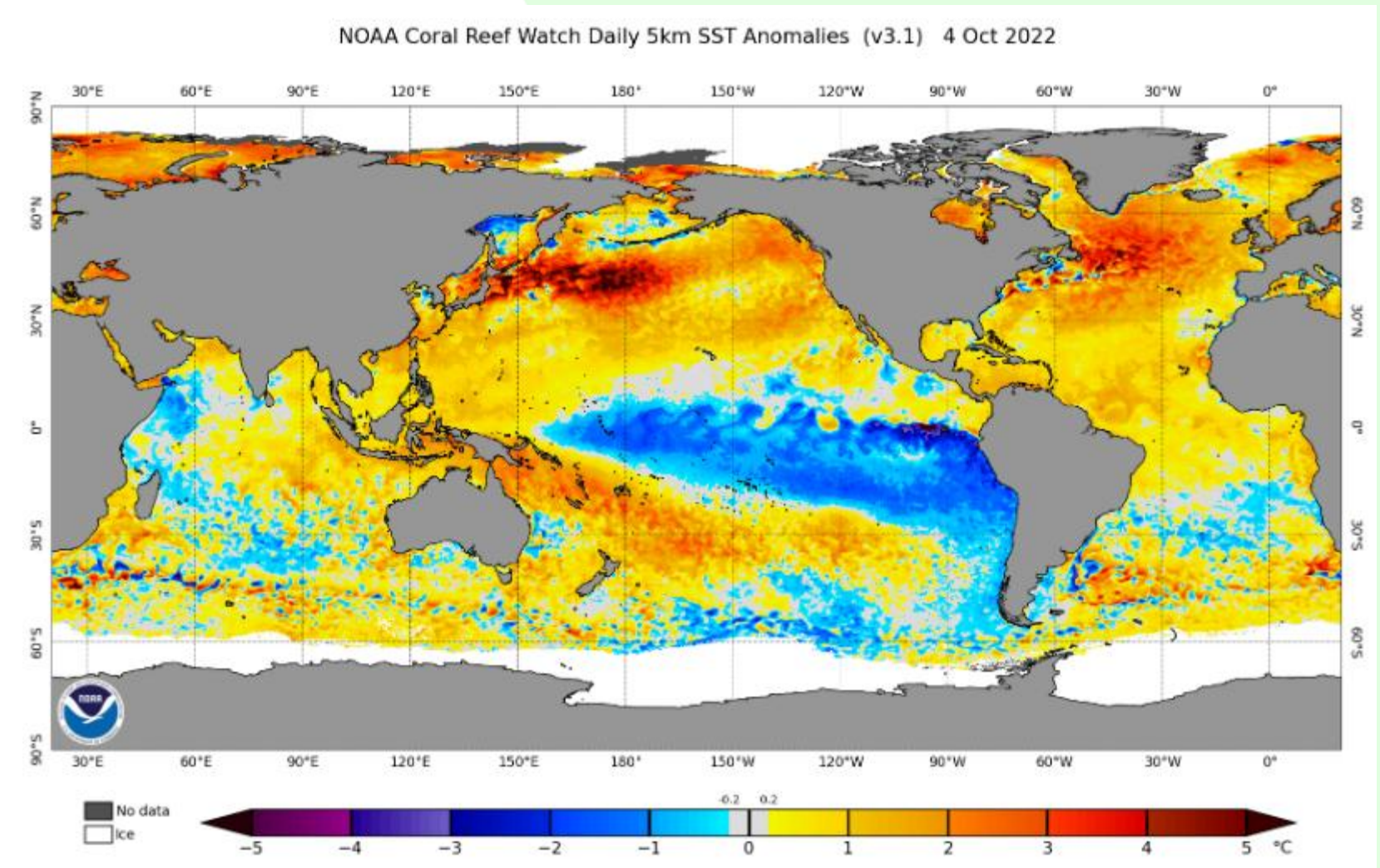
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# Global weather review

- Solar Cycle 25 continues to underperform Solar Cycle 24 and continues to support that the 220 year Grande Solar cycle minimum is well underway. This means lower sun spot activity and escalation of volatility in weather in next 30 years.
- It is expected that La Nina is nearing its peak intensity for the third time in this multi-year event. The implications of this suggest a strong worldwide influence from the phenomenon should occur over the next few weeks and then the stage will be set for rapid weakening later in this fourth quarter of 2022.
- La Niña is expected to intensify drought across the southern and central Plains, eastern Gulf Coast, and in California in the coming months.
- La Nina contributes to drought in Argentina and Southern Brazil, whereas West and Central Brazil is promising to be moderately wet.
- The negative Indian Ocean Dipole event continues. Negative IOD conditions are likely to continue into late spring then collapsing into neutral by year end. When a La Niña and negative IOD combine, it further increases the likelihood of above average rainfall over Australia and SE Asia.
- High temperatures in China result in rice crop damage. Tongo Volcano vapor deposit in the stratosphere and amplifies extreme heat in China.

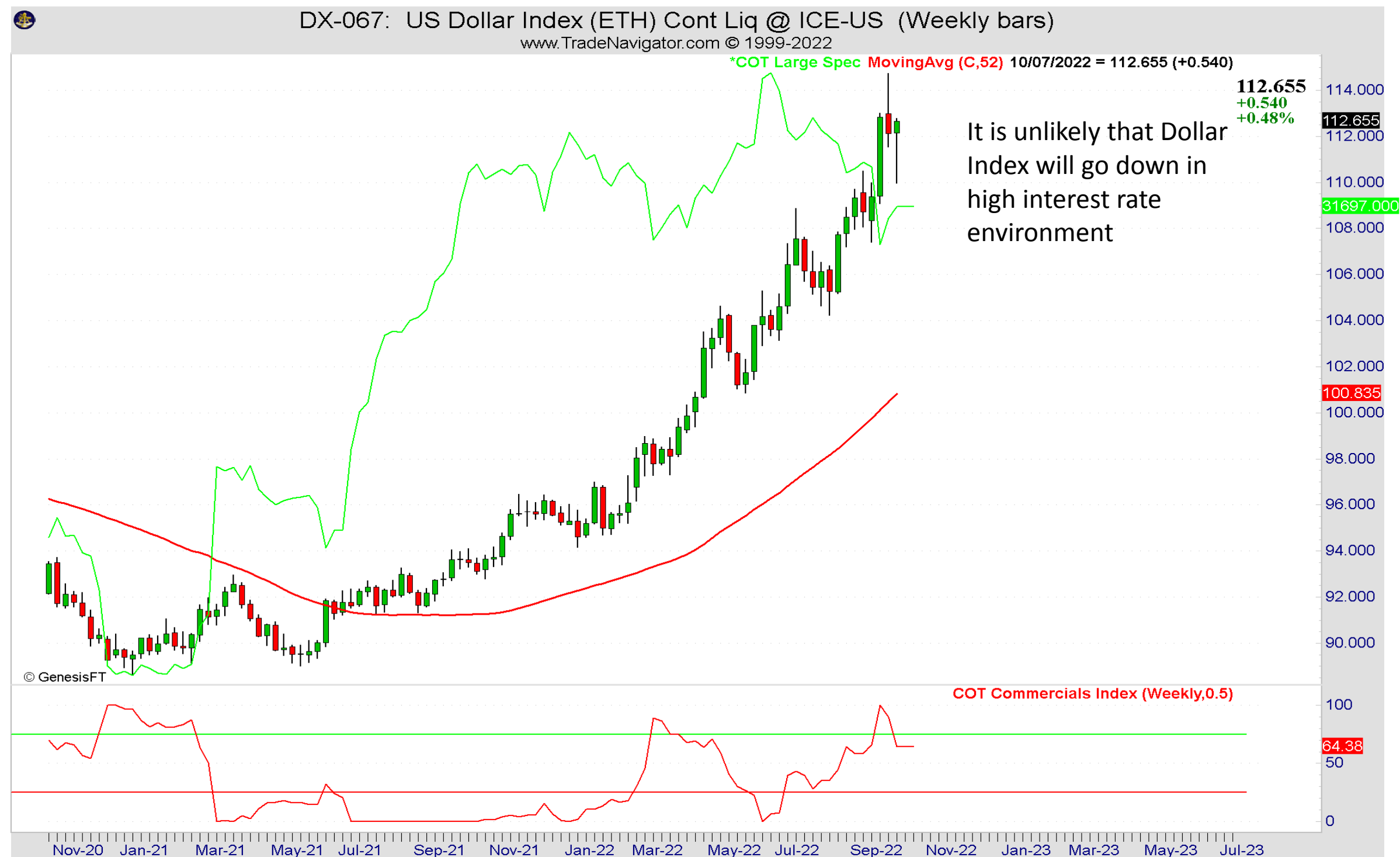


- Negative Quasi Biannual Oscillation is shifting to positive (or west) this will help reduce Polar Vortex risks this winter in Northern Hemisphere, this implies cold but without extreme temperatures winter.

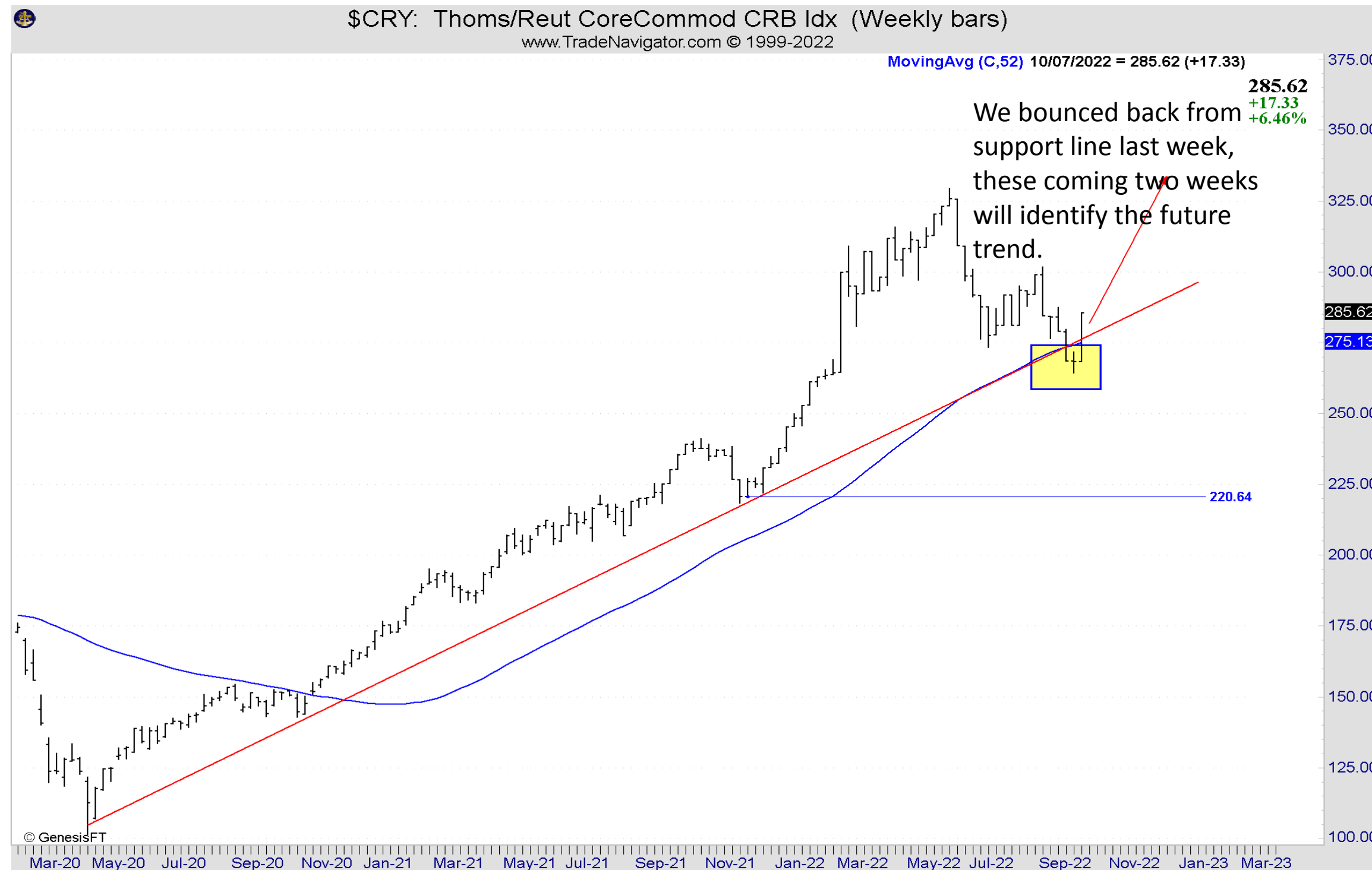


# Dollar Index

On Monday  
markets will be  
closed due to  
Columbus day in  
US



# Commodities Index



# Sugar: Buy

- March NY world sugar) on Wednesday closed up +0.04 (+0.22%), and Dec London white sugar closed up +1.50 (+0.28%).
- Sugar prices Wednesday posted moderate gains, with NY sugar climbing to a 3-week high and London sugar climbing to a 1-week high.
- A rally in crude prices Wednesday to a 2-1/2 week high underpinned sugar prices. Higher crude prices benefit ethanol and may prompt Brazil's sugar mills to divert more cane crushing toward ethanol production rather than sugar, thus curbing sugar supplies.
- A bullish factor for sugar is a decline in Brazil's Center-South sugar output. Unica reported that Center-South sugar output in the 2022/23 marketing year through mid-Sep was down -8.4% y/y to 24.634 MMT.
- Conab, on August 19, cut its estimate for the 2022/23 Brazil sugar crop to 33.9 MMT from an April forecast of 40.3 MMT, citing lower plantings and falling sugar cane yields.
- This past summer's hot and dry weather in Europe, the world's third-largest sugar producer, caused smaller sugar beet yields and lower sugar production, which is bullish for sugar prices.
- Czarnikow Group predicts sugar output in the European Union (EU) and the UK should total 16.4 MMT this year, about 1 MMT lower than last year, which means the EU may have to import more sugar than usual.



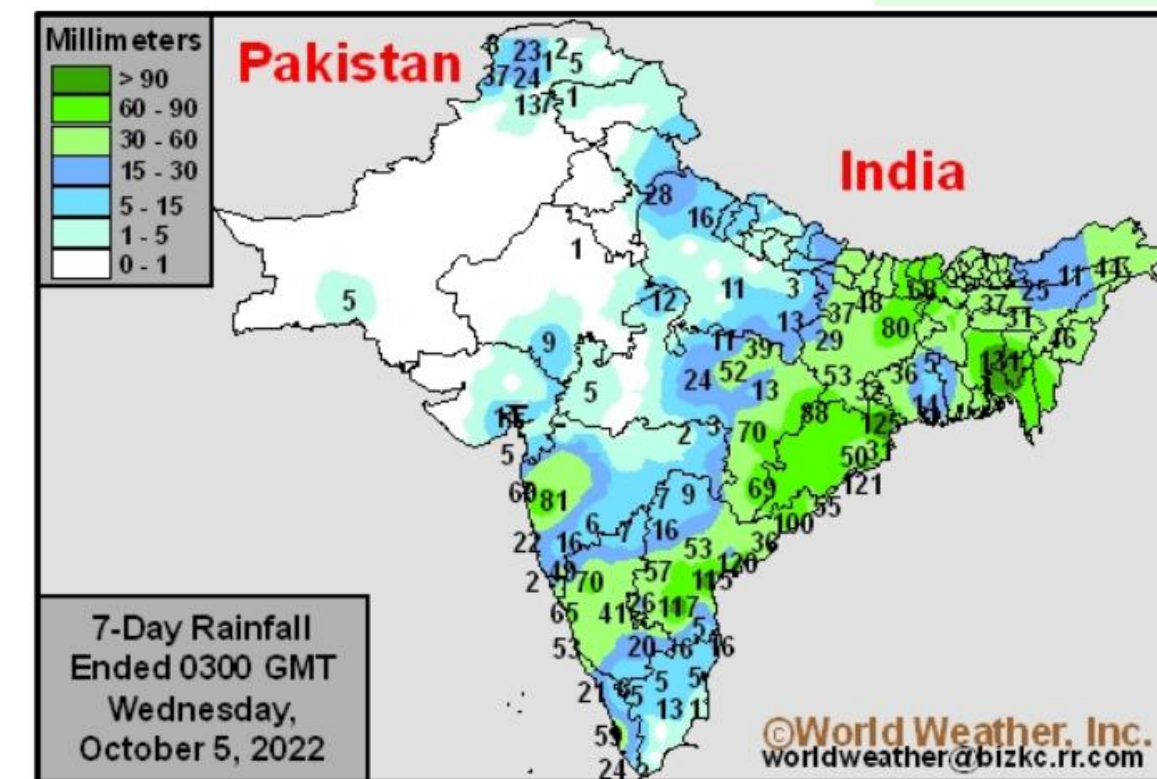
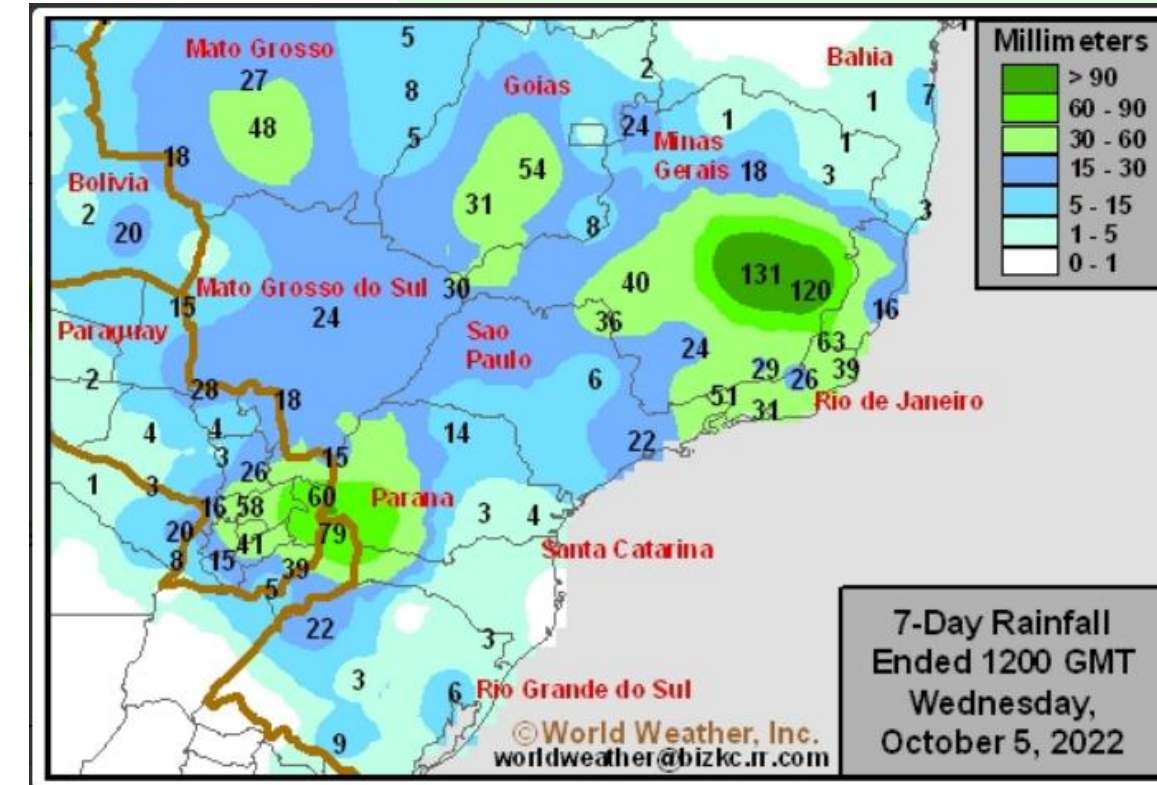
- **Sugar is bullish on the back of rising crude prices and smaller supply from major sugar producers globally.**





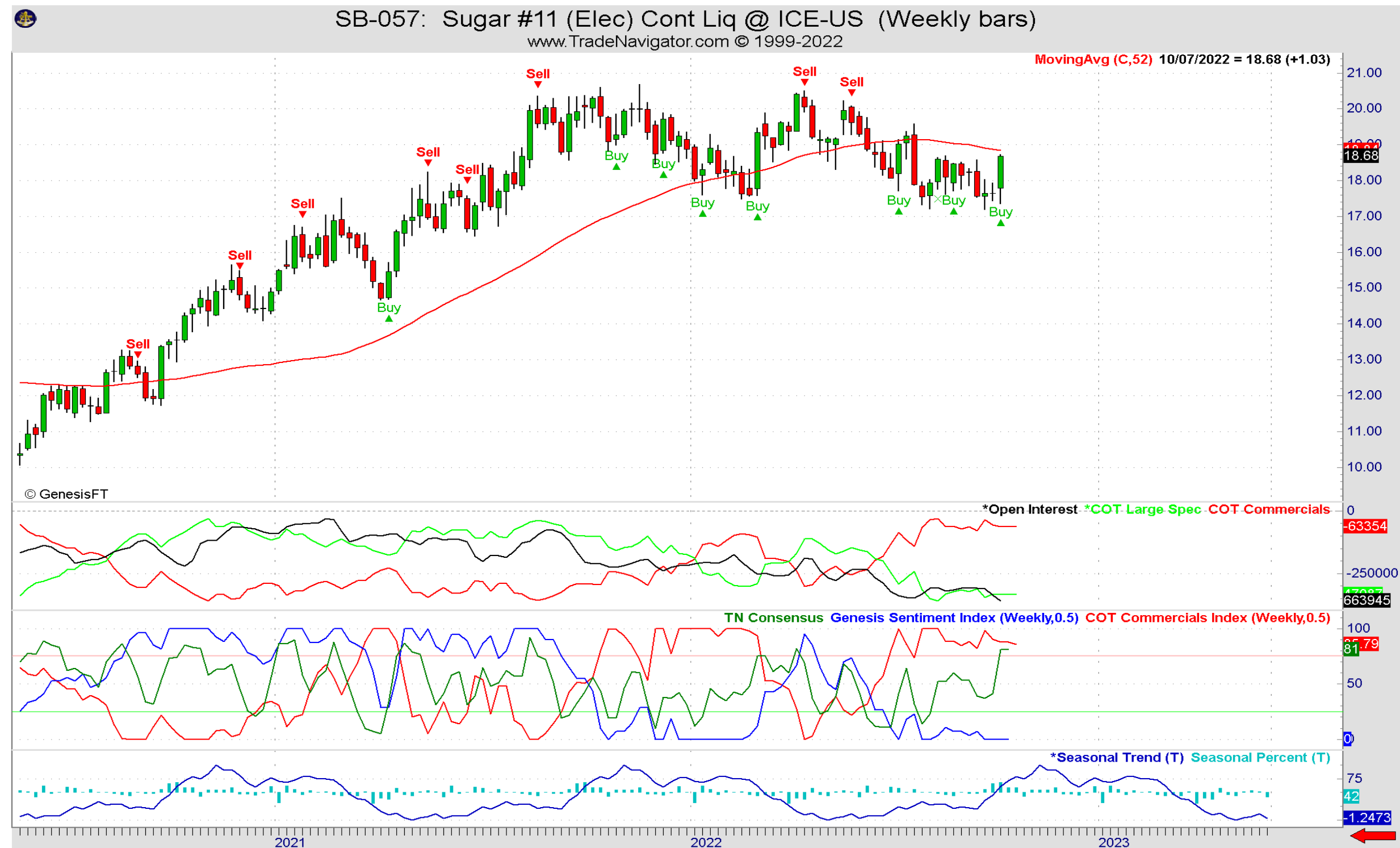
# Weather review

- Weather outlook for Brazil is a bit too wet however direct threat to sugar production is absent.
- Monsoon season is over in India, All states producing sugar (Uttar Pradesh, Karnataka, Tamil Nadu) saw moderate amount of rain, thus posing no threat to sugar production.





# Sugar Price Chart



# Wheat: Buy

- The global balance sheet for wheat is down 10.0 MMT in 2022/23 compared to 2021/22 at 1.06 billion metric tons (MT).
- Beginning stocks this season are the lowest since 2017/18 while ending stocks are expected to be the tightest since 2016/17.
- Despite Russia's huge wheat crop and rebounds in production for both the U.S. and Canada, reductions in the European Union (E.U.), Argentina, and Ukraine are helping to keep prices firm.
- U.S. wheat production is up this year, increasing almost 4 MMT to 48.5 MMT according to USDA. Exports are expected to increase slightly to 22.5 MMT. According to the latest world agricultural supply and demand estimates (WASDE), production for all classes of U.S. wheat is expected to increase this year except for hard red winter (HRW) wheat which is estimated down 21%. Kansas, the primary HRW growing state, remains dry even as winter wheat planting is underway.
- Russia's invasion of Ukraine has had the biggest effect on upending the global wheat market. The United Nations brokered an agreement to establish a grain corridor in the Black Sea. As a result, Ukraine has shipped more than 7 MMT of grain since July, when the agreement was signed according to APK. However, Putin's criticism of the grain deal and escalation of the war on his neighbor have once again roiled markets and sent futures higher.
- The multilateral agreement establishing the grain corridor will expire in November. Given the Russian president's unpredictable actions so far, there is no guarantee that the agreement will be renewed.
- Russia has produced its largest wheat crops ever. The USDA forecasts Russian wheat production at 91 MMT this month while the European Union's crop monitoring service, MARS, projects the Russian wheat crop will total 95 MMT. The USDA predicts exports could reach 42 MMT. But Russian exports so far this season have been slow to move



- According to IKAR, a Russian analyst, Russian wheat exports are expected to reach 4 MMT in September, well behind the 4.7 MMT exported a year ago. Russian wheat exports are not under any western backed trade sanctions, but shipping companies, insurers, and banks are still cautious to do business with Russia.
- **Wheat is bullish on the back of lower ending stocks and complicated geopolitics around key wheat producers.**



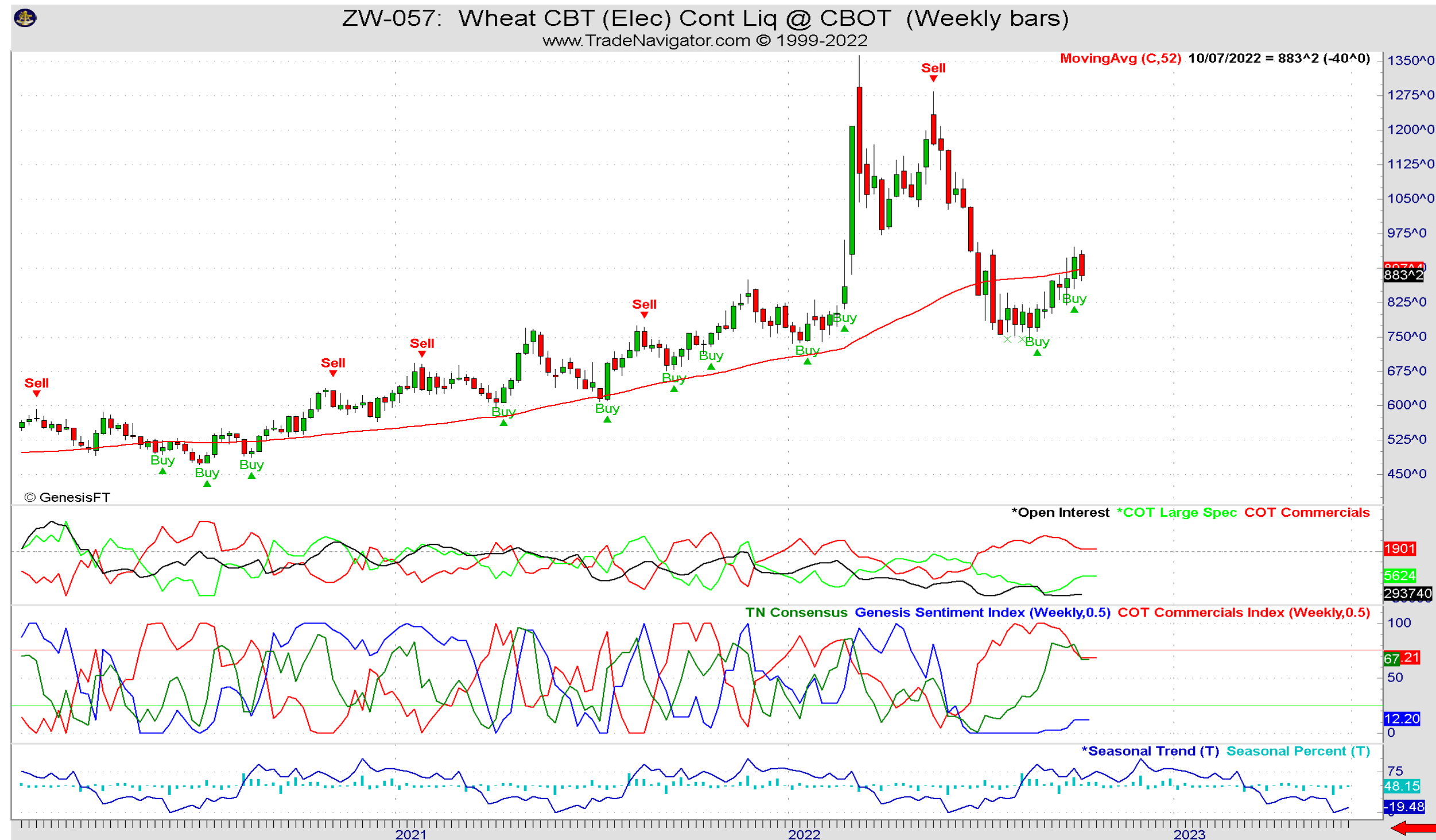
# Weather review

- Mostly warm, dry weather prevailed in China benefiting maturing summer crops. Many areas experienced temperatures over 5°C above normal, with daytime highs approaching 40°C in southern China. Despite accelerating maturation of summer crops in southern China, the unseasonable heat exacerbated drought conditions for reproductive late-crop rice. Meanwhile, band of showers (locally up to 100 mm) from Sichuan to Shandong was unfavorable for maturing grains and oilseeds but boosted moisture reserves ahead of winter crop sowing.
- During the week ending October 2, while much of USA remained drier than normal, large parts of Florida, the Mid-Atlantic, and Rockies, as well as parts of the Great Lakes, the Cascades, and Southwest recorded at least twice the normal amount of precipitation. Hurricane Ian brought 10 inches of rain or more to Central Florida and at least 4 inches of rain to coastal areas of the Carolinas. Most of the eastern half of the Nation recorded cooler-than-normal temperatures for the week ending October 2. Large parts of the Ohio Valley, Mid-Atlantic, and Mississippi Valley recorded temperatures 6°F or more below normal. In contrast, most of the western half of the Nation recorded warmer-than-normal temperatures for the week. Parts of the Northern Plains and Northern Rockies recorded temperatures 9°F or more above normal.
- The southwest monsoon continued its withdrawal in India, ushering in beneficially drier weather to northwestern India. The drier weather was most favorable for maturing cotton and rice in the north but also helped ease excessive wetness in western oilseed areas; seasonal rainfall totals in the west have been at a 30-year high. The remainder of India continued to receive monsoon showers (25-100 mm), maintaining ample soil moisture for immature kharif crops and boosting moisture reserves ahead of the rabi season (November-March).
- Dryness continues in Argentina, with unfavorable conditions for developing wheat and corn planting.
- September closed out with more rain in northern growing areas on Russia. The month-long wet weather pattern lingered, with 10 to 60 mm of rainfall noted from western and northern Ukraine eastward into western Russia. The persistent wetness further delayed summer crop harvesting but maintained good to excellent soil moisture for winter grains and oilseeds. However, drier weather (10 mm or less) from Moldova and southern Ukraine into southwestern Russia allowed some harvesting and other seasonal fieldwork to resume. Warm weather (2-4°C above normal) expanded westward from Russia into Ukraine and Moldova, promoting winter wheat establishment. However, the extreme heat noted the previous week over parts of Russia subsided, with highs settling back into the middle and upper 20s (degrees C) adjacent to the Black Sea (locally up to 30°C in southern Russia).





# Wheat Price Chart



# Cocoa: Buy

- December ICE NY cocoa on Wednesday closed up +32 (+1.36%), and December ICE London cocoa closed up +41 (+2.13%).
- Cocoa prices Wednesday pushed higher, with NY cocoa posting a 1-month high and London cocoa posting a 1-1/2 year high.
- Concern about next year's West African cocoa crop is supportive of prices. A lack of fertilizer for cocoa farmers in West Africa risks undercutting next year's cocoa yields in the Ivory Coast and Ghana. The war in Ukraine has limited Russian exports of potash and other fertilizers worldwide.
- An excessive short position by funds in NY cocoa may fuel any short-covering rally. Last Friday's weekly Commitment of Traders (COT) data showed funds boosted their NY cocoa net-short positions by 7,890 in the week ended Sep 27 to a 5-year high of 44,434.
- Smaller supplies from Nigeria, the world's fifth biggest cocoa producer, are bullish for cocoa prices after Nigeria reported last Thursday its Aug cocoa bean exports tumbled -48% y/y to 10,823 MT.
- International Cocoa Organization (ICCO) on Sep 1 cut its 2021/22 global cocoa production estimate to 4.890 MMT from a June forecast of 4.923 MMT and raised its 2021/22 global cocoa deficit estimate to -230,000 MT from a June forecast of -174,000 MT. In 2020/21, global cocoa production rose to a record 5.24 MMT, and in 2020/21, the global cocoa market was in a surplus of +215,000 MT.

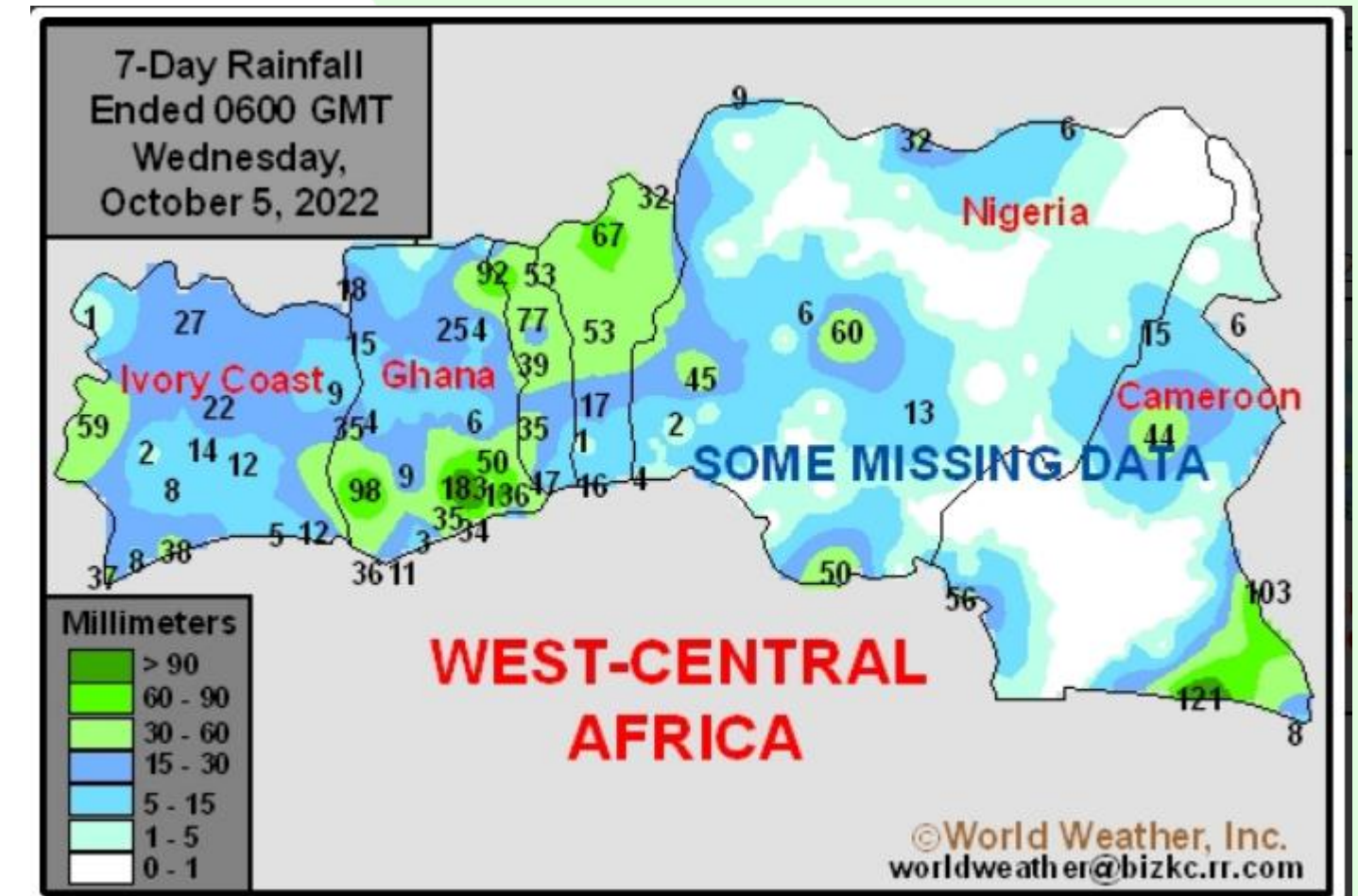


- Ghana reported on July 27 that its 2021/22 cocoa crop fell by -35% y/y to 685,000 MT, the smallest crop in 12 years, due to drought and swollen shoot virus. Ghana is the world's second-largest cocoa producer. However, the Ghana Cocoa Board estimates 2022/23 Ghana cocoa production will rebound +31% y/y to 850,000 MT.
- **Cocoa prices find bullish support on the back of lower global production and overall cocoa deficit**



# Weather review

- West Africa region saw more than average rain this week however it was beneficial as summer was a bit too dry.





# Cocoa Price Chart





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