Source Farm futures, le 29 decembre 2022

2 commodities to monitor in 2023


Hint: Both crops need to attract planted acres this spring

Another year is wrapping up. Commodity prices had a phenomenal price run in 2022 due to tight global supplies of grains and oilseeds, strong demand, and an uncooperative Mother Nature.

Last year at this time, I wrote about two commodities to monitor in 2022 (besides the traditional corn, soybeans and wheat). They were rice and lean hog futures. At the time, I felt that both commodities had plenty of reason to rally, and during 2022, they both did indeed rally.

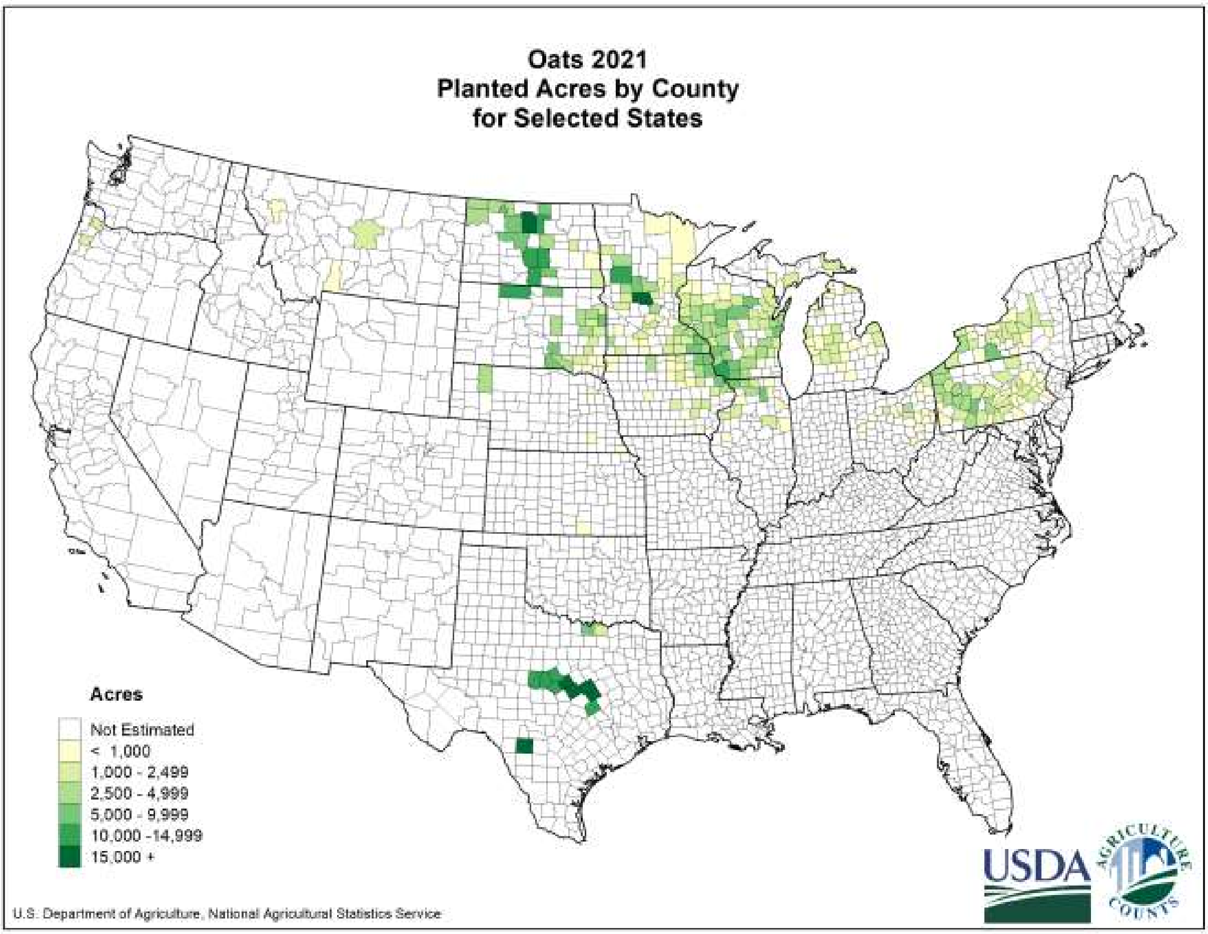
Last year when I wrote that article, the front month continuous hog chart had just tested $70.00 support with prices rallying as high as $122.00 by August of 2022. One year ago, front month rice futures were trading near $14.40, with prices now near $17.60 still trading near the $18.00 highs of the year.

What are my two commodity picks for 2023 to monitor closely for a potential rally?

Oats

Oats are one of the nine grain and oilseed commodities that are still under the reality of tight ending stocks in the United States. According to the most recent USDA report, oat ending stocks for the 2022/23 crop year are pegged at 30 million bushels, down from 31 million last year, and 38 million in 2020/21.

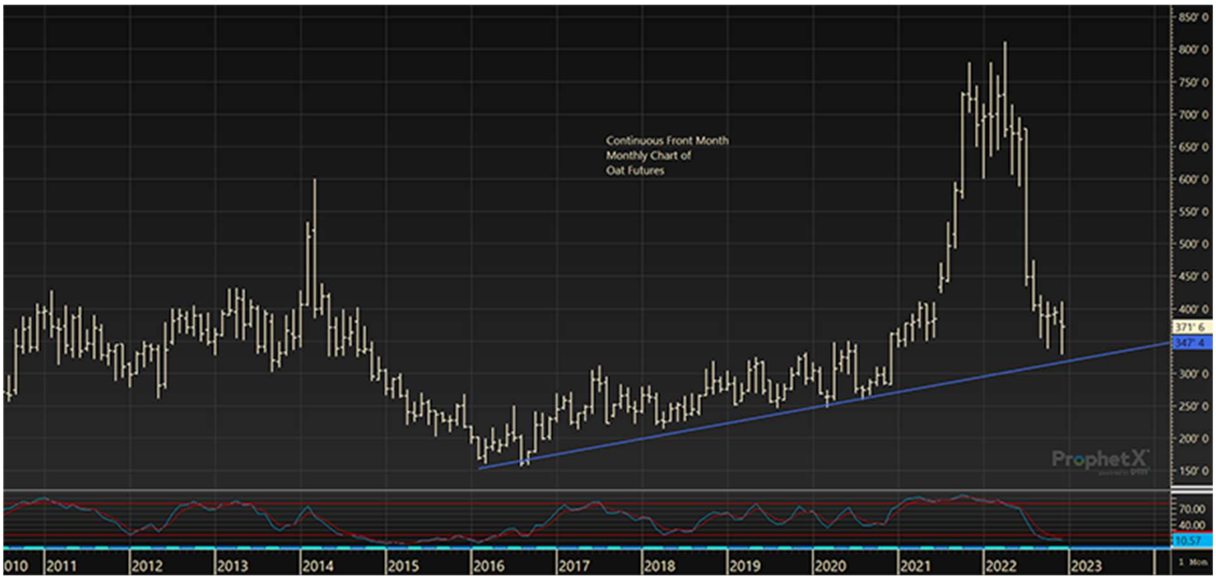
Planted U.S. oat acres in 2022/23 were 2.6 million acres, the same as the 2021/22 crop year, and down from 3 million acres in 2020/21. It is interesting to note where oats are primarily grown in the United States.



Texas, North Dakota and South Dakota are the leaders for planted acres in the United States.

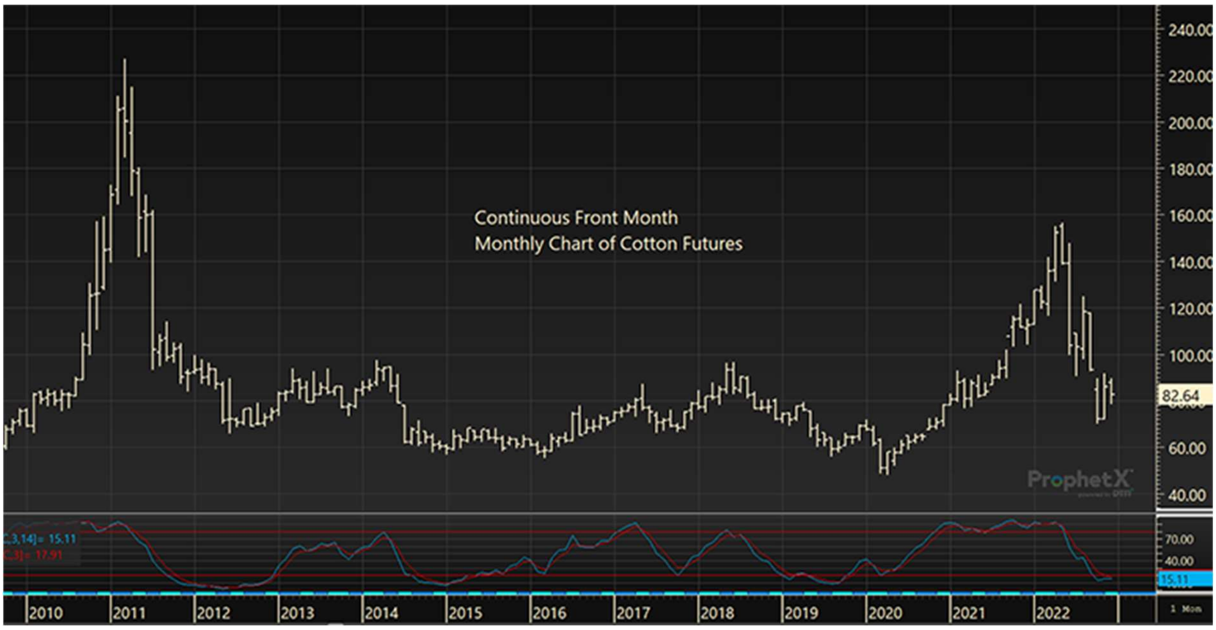
For the northern states, many farmers suggest the optimum period for planting is early May. Because there are so many grain and oilseeds crops in need of large production for 2023, (to alleviate the tight ending stock situation), I feel that oat futures prices need to come up, to entice farmers in those northern states to consider planting more oat acres, rather than corn or soybeans.

Oat futures prices are currently cheap. As of this writing, March 2023 oat futures are trading near $3.75.



Cotton

Next on the commodity watch list is cotton. Cotton futures took quite a tumble during the latter months of 2022. The continued Covid lock downs in China tempered global demand which allowed for ending stocks of U.S. cotton to nudge higher and for cotton prices to fall apart.



Ending stocks for cotton are currently pegged at 3.5 million bales, higher than the November ending stock number of 3.00 million bales. However, this is still down from 3.75 million bales in 2021/22, and is still down substantially from just a few years ago when U.S. ending stocks for cotton were just over 7 million bales. Therefore, cotton is also one of the nine grain and oilseed commodities in the U.S. still dealing with historically tight supplies.

But now, like oats, cotton futures are likely to start work higher in order to keep higher planted acres.

The most recent USDA report has 2022/23 U.S. cotton planted acres at 13.79 million acres, up from 11.22 million acres in 2021/22, and still higher than 2020/21 when planted cotton acres were at 12.09 million acres.

The most recent USDA report pegged U.S. cotton production at 14.24 (million 480 pound bales), and we export almost all of it.

China's cotton cutback

Now that China is opening up and Covid restrictions are easing, I do think we will start to see an uptick in U.S. exports of cotton. U.S. exports are currently pegged at 12.25 (million bales), down from 14.62 in 2021/22 and down from 16.35 in 2020/21. Now that China is opening, those export numbers will likely start to increase to previous levels.

Also from a global perspective, the world's largest producers of cotton are China with 28.00 (million 480 pound bales), India with 27.50, the United States with 14.24, followed by Brazil at 13.00.

My prediction for the future is that we will start to see China grow slightly less cotton as their desire to become food-independent continues to grow.

Less acres will be grown in China for cotton and instead, those acres will be used for food. It will be easy for China to adopt this transition, then choose to rely on importing slightly more cotton instead.

China currently imports 8.00 million bales, annually, primarily from the U.S. and Brazil. It would be a natural and seamless transition for the United States and Brazil to increase cotton production to send additional exports to China. China would love having cotton available to import year-round from suppliers in both hemispheres, just as they enjoy now with soybean imports from the United States and Brazil. Factories in China will be ramping up production soon thanks to easing Covid restrictions. Also, there seem to be little signs of global recession evidence, with consumers still having jobs and access to funds.

Early 2023 will likely provide ample volatility for grain and oilseed commodities. Oats and cotton have room to run.