

Hazy, Hot Skies: The Return of the Bull Market in Commodities from Global Record Heat & El Niño

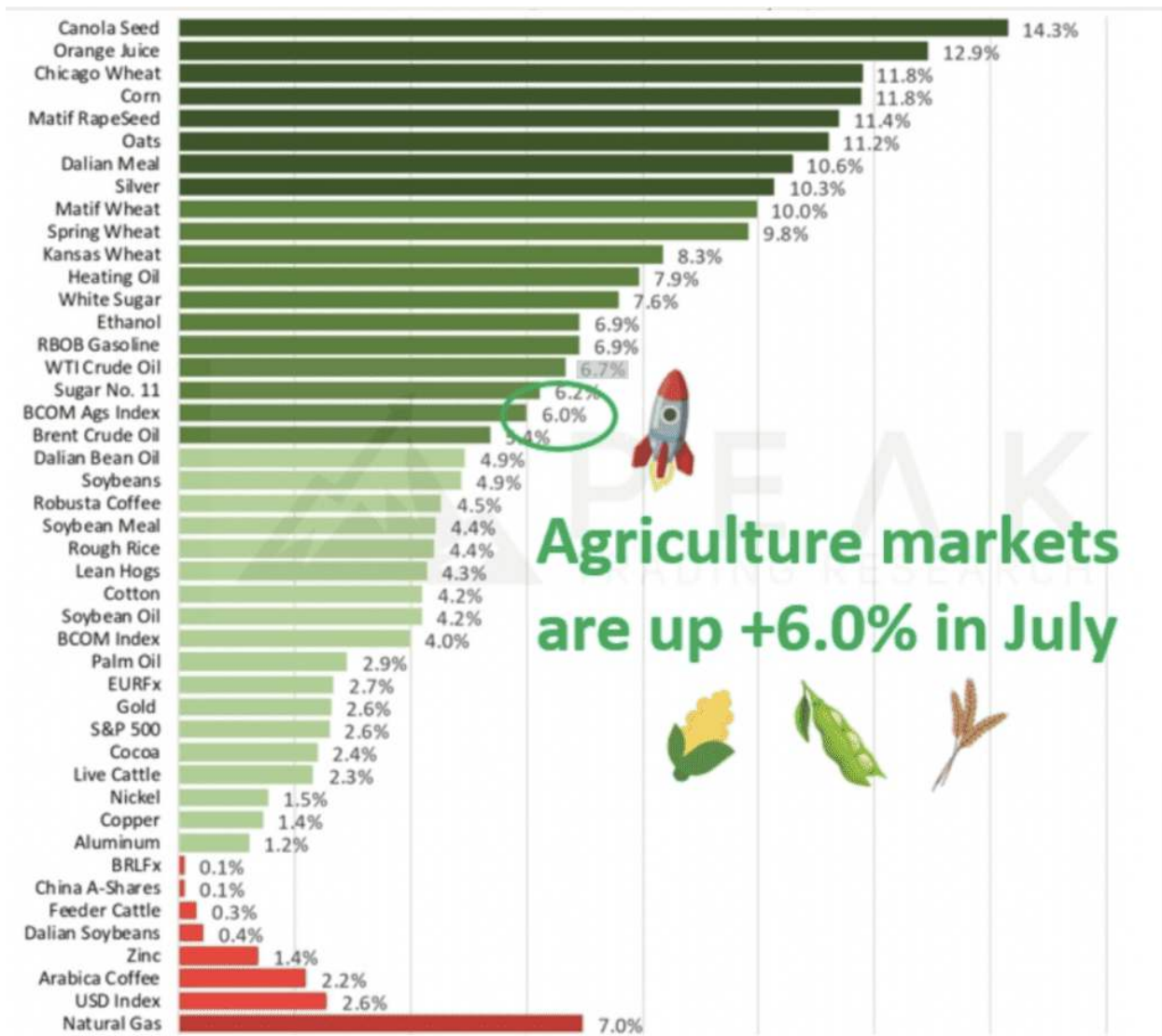
by Jim Roemer | Jul 20, 2023 | Members

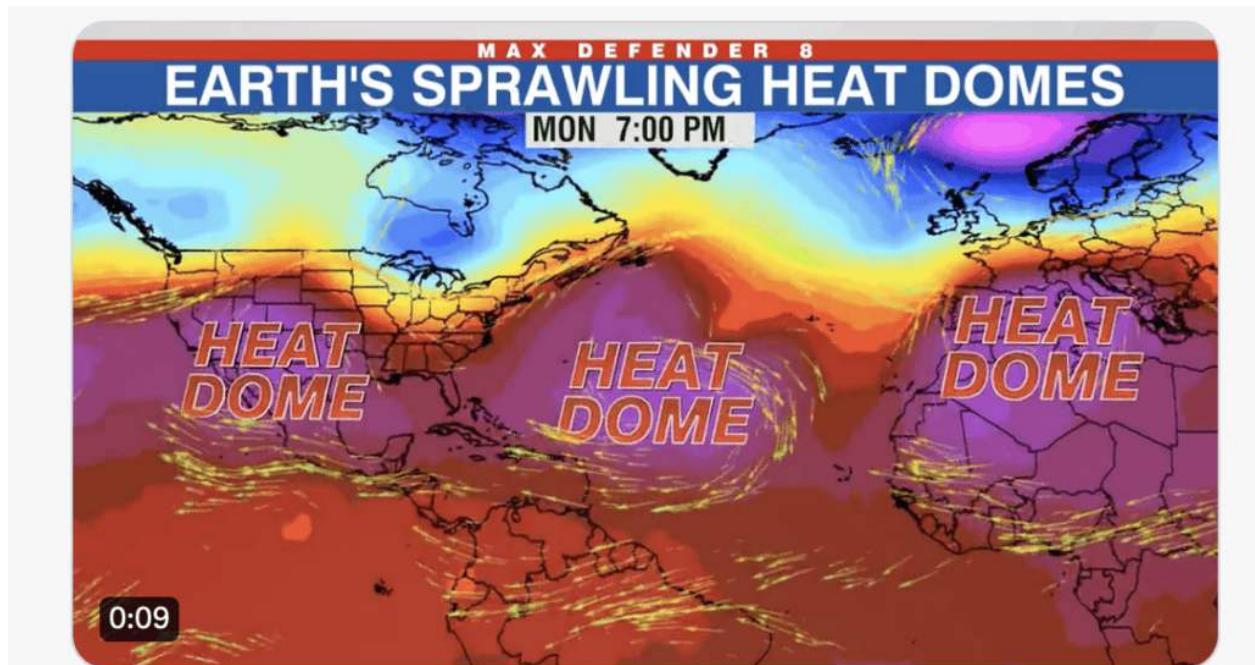


In this Report:

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- *A look at corn and cotton crop ratings and upcoming weather pattern*
- *The bullish vs. bearish factors for corn and soybeans*
- *Coffee prices look tenuous*
- *Oats and spring wheat prices soar on the northern Plains & Canadian drought*
- *Finally, some legitimate bullish weather for natural gas*
- *Cocoa prices continue to be supported by some wet West African weather and disease issues.*
- *Factors affecting sugar prices*

Introduction:

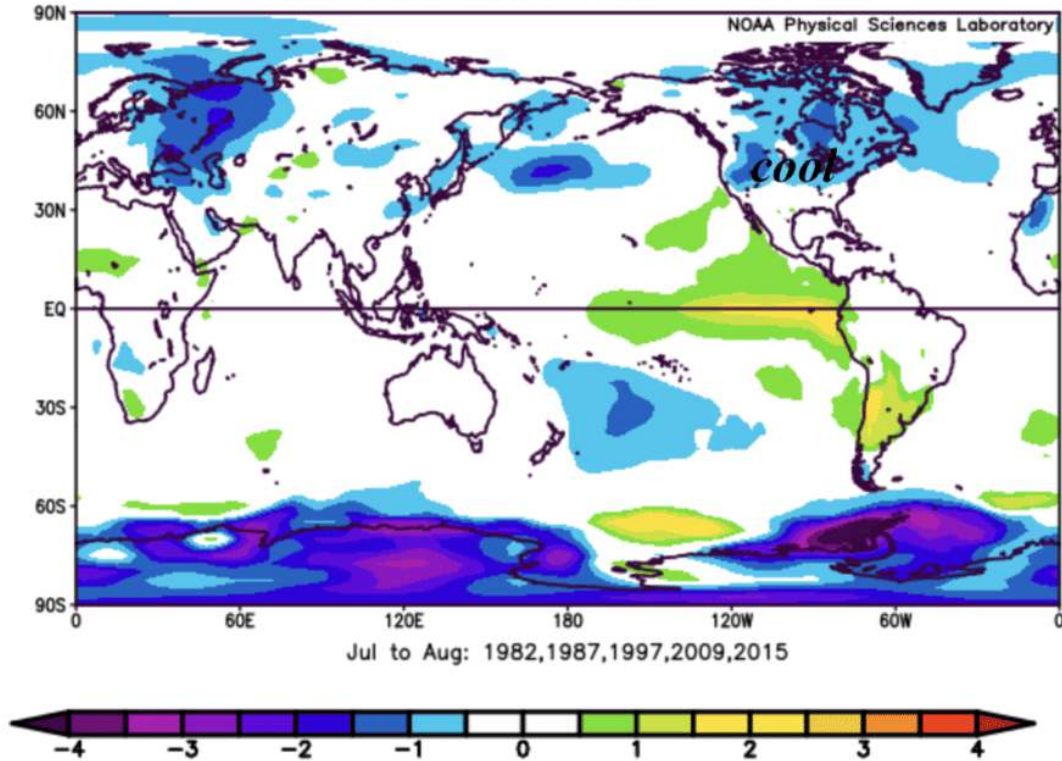




Global heat extremes are affecting commodities from cotton to grains, cocoa, and natural gas. However, the situation in Russia has gotten worse and obviously a factor in the movement of the wheat market. The table above shows the recent explosion in commodities again. Most of it is due to the weather, the weaker dollar, and a rebound in the global economy. Interest rate hikes in the U.S. did “little” to throw the world into a global recession. Talk about “psychology and fear, 6-12 months ago.”

Interestingly, other than maybe the drought in Thailand, which has helped sugar prices rally again, and a few other crop areas around the world, ***the record heat is brought on by other factors; partly for sure climate change. Not solar cycles and not entirely El Niño by any means!!*** Want proof? ***This is how summer temperatures normally look during most (not all) El Niño events. Notice the normal-to-cool weather (BLUE) over most of the Northern Hemisphere.***

HISTORICAL SUMMER TEMPS WITH EL NINO



This report covers many commodities that have gone into bull markets. Luckily, if you heeded my advice early Tuesday morning when I became more bullish in my special video from soybeans to spring wheat, oats, cotton, and natural gas, you took advantage of this.

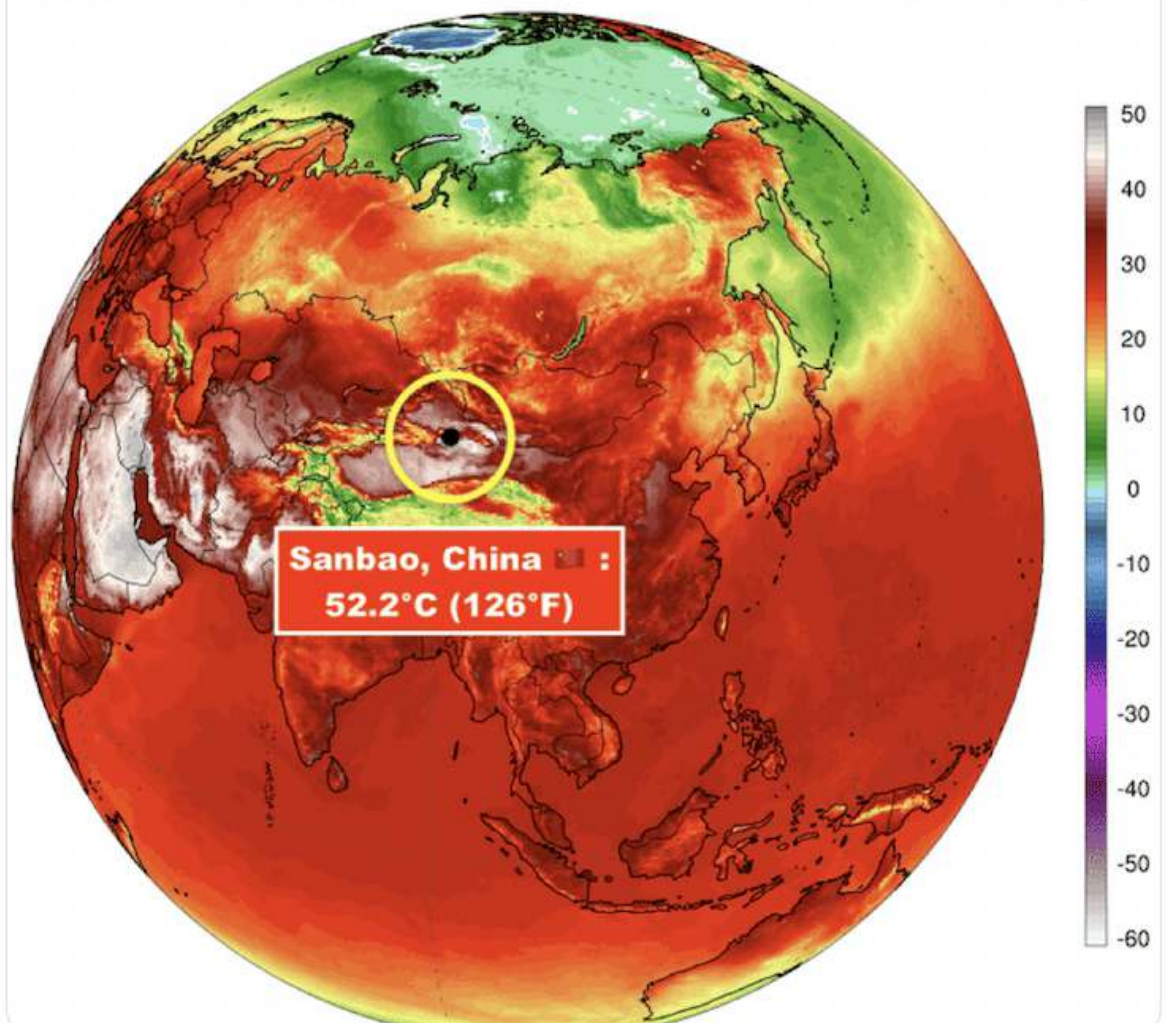
This report covers a lot, so please read it carefully. Weather Spiders are at the bottom of the page with some trade ideas. My next update will be very brief and perhaps a video on Monday. Have a nice weekend!



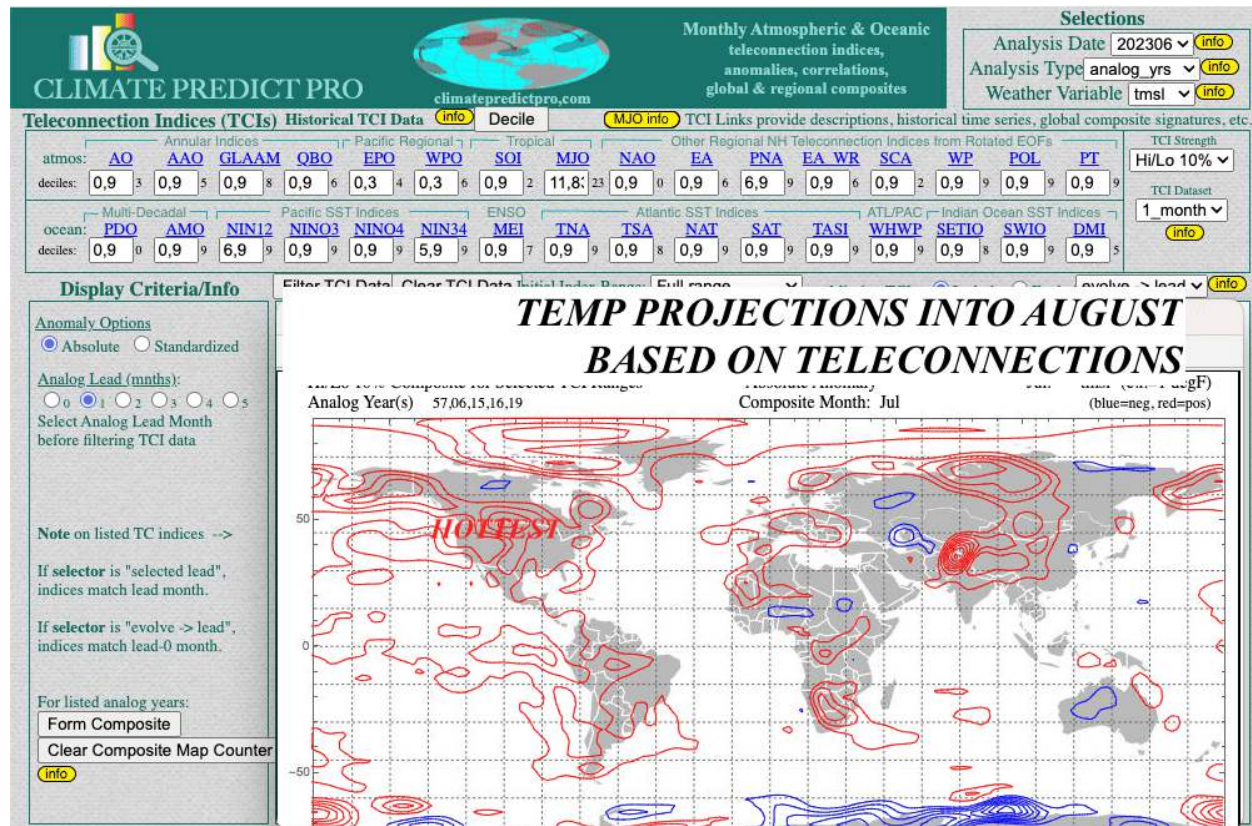
Why Russia's decision to halt grain deal is stirring global inflation worries

GFS 2m Temperature (°C)
1-day Max | Sun, Jul 16, 2023

ClimateReanalyzer.org
Climate Change Institute | University of Maine

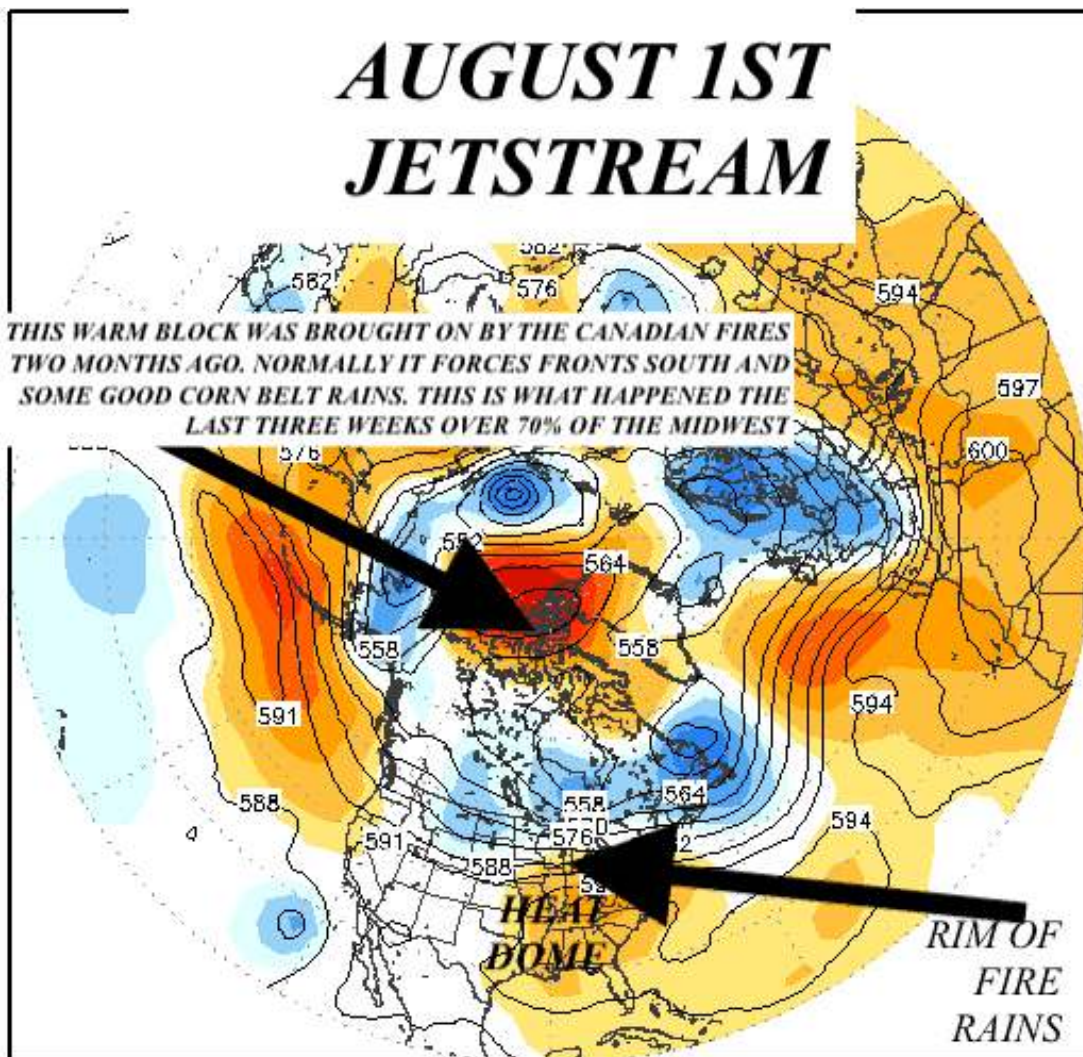


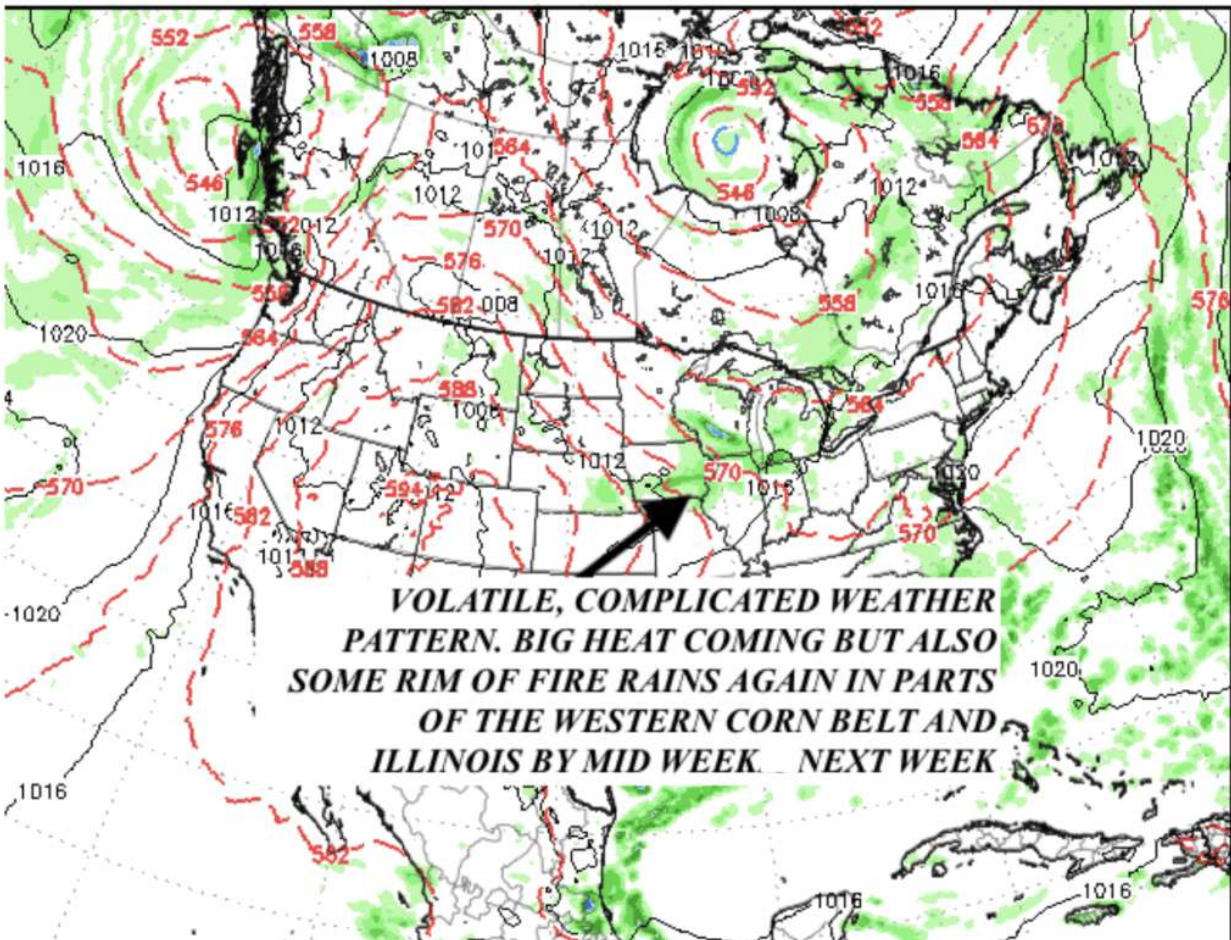
Late July and August temperature possibilities:



If these temps verify by my in-house weather program, then natural gas prices could rally to \$2.00 later this summer. In addition, canola, spring wheat, and oats will continue to see weather problems, as well as parts of the western corn and soybean belt.

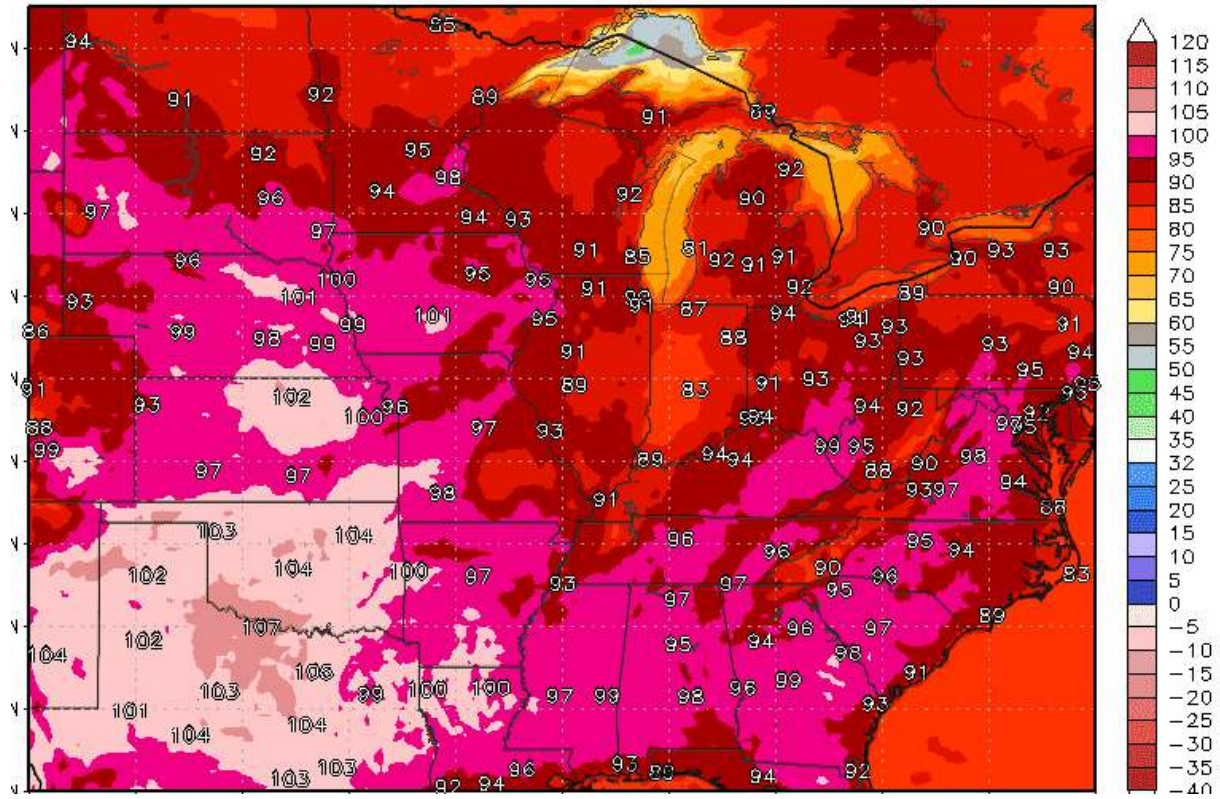
A look at cotton & corn crop ratings and upcoming weather pattern





U.S. Corn conditions improved by 2% last week (third map below). This was a reason for my previous bearish attitude a few weeks ago: easing drought conditions in parts of the Midwest. However, talk of this 100°F heat helped prices soar back. There is some uncertainty in the late-month forecast as some models have the ridge moving west again. Also, cool weather this week is helping corn pollination and next week's weekly crop update may show the benefits of the recent rains.

Cotton crop conditions continue to fall with it is too wet in the southeast U.S. This was a key reason cotton prices rallied this week, as well as a recovery in the stock market.



Categories
 Headline DJ USDA Crop Progress: Cotton Condition Index-Jul 1/
 Timestamp 04:06:00 pm 07/17


good 38 41 41 43 41 40 43 41 39
 exlnt 7 7 7 6 6 9 8 7 4

STATE INDEXES AND NATIONAL AVERAGE RATINGS:

(An index value of 100 is approximately normal.)

	07/16	07/09	07/02	06/25	06/18	06/11	06/04	05/28	Yr Ago(*) 07/17/22
Ala	107	104	105	104	105	105	106	107	102
Ariz	119	118	118	120	117	122	120	123	113
Ark	106	107	110	109	113	114	115	111	108
Calif	109	109	109	110	110	110	110	110	110
Ga	102	100	100	100	99	102	103	103	102
Kans	96	94	97	96	96	94	93	92	94
La	107	108	108	107	105	104	106	105	106
Miss	104	104	101	101	102	104	101	98	95
Mo	102	103	101	100	102	103	104	105	93
NC	101	100	99	99	101	101	104	104	97
Okla	103	96	98	104	106	110	107	105	81
SC	102	101	104	100	102	105	108	111	105
Tenn	103	106	100	107	102	102	101	105	83
Texas	76	81	84	84	83	88	89	87	75
Va	109	110	110	110	110	110	110	110	107
15-state									85
avg	88	90	92	93	92	95	97	95	NA
Yr ago	85	86	83	85	88	92	94	92	

Write to Taryn Boss at csstat@dowjones.com

 U.S. #corn conditions rose to 57% good/excellent as of Sunday, the third consecutive weekly rise. Small improvements in the major states contributed to the move.

U.S. Corn Conditions 2023

(% good/excellent)

@kannbwx

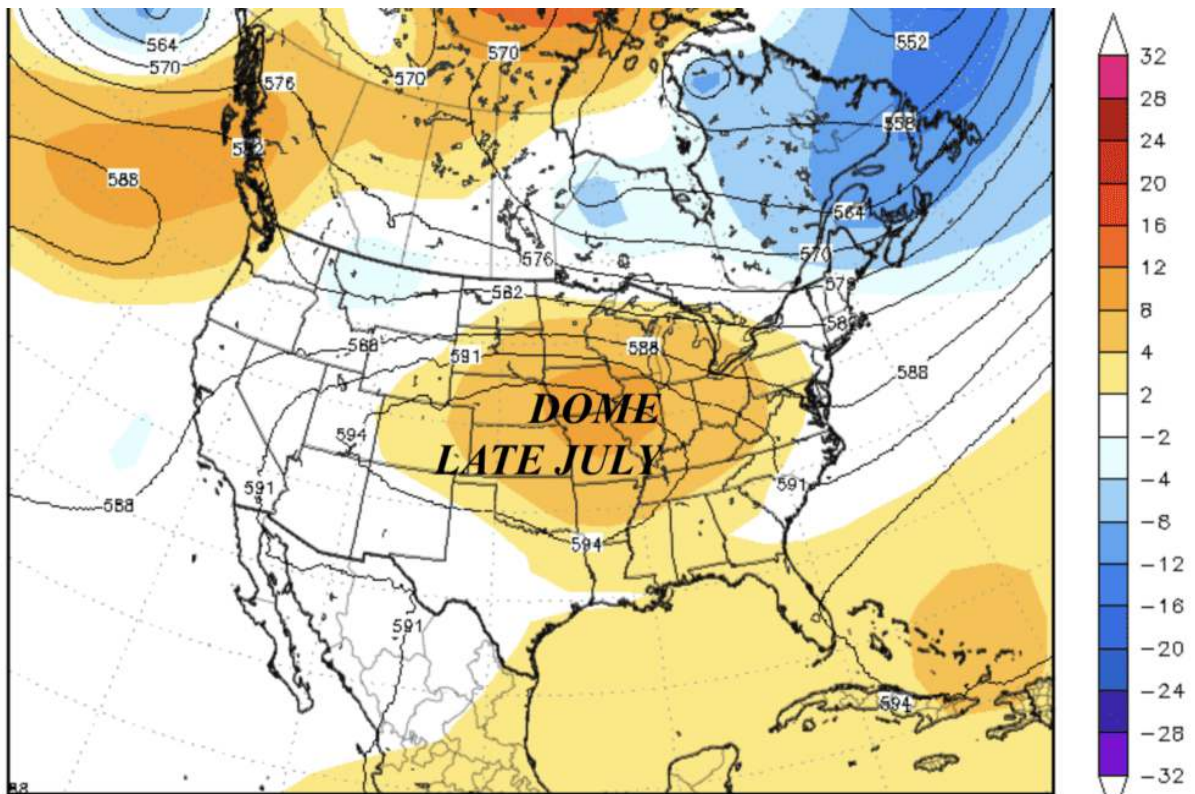
	July 9	July 16	delta
Colorado	75	74	-1
Illinois	39	41	2
Indiana	53	60	7
Iowa	61	64	3
Kansas	55	54	-1
Kentucky	53	55	2
Michigan	36	40	4
Minnesota	61	60	-1
Missouri	25	30	5
Nebraska	62	63	1
North Carolina	81	81	0
North Dakota	67	66	-1
Ohio	67	72	5
Pennsylvania	40	60	20
South Dakota	56	61	5
Tennessee	68	78	10
Texas	64	61	-3
Wisconsin	45	48	3
U.S. Total	55	57	2

The bullish and bearish factors for corn and soybeans

Bullish:

35-45% of the Midwest still remains in drought conditions

Hotter-than-normal weather will stress crops in the southern and western corn belt into early August. The European and Canadian model (here) is much hotter and drier than the GFS model.



USDA was likely too high on both their corn and soybean estimates on their July 11th report.

Possible reduction in China's corn crop

Drought worsens in much of the northern Plains (some rains next week but not a drought breaker)

Strong biodiesel demand and worsening Canadian canola crop helping soybean oil score new high prices

Russian export restriction situation and recent political nonsense

Bearish:

70% of the corn belt received good rains the last three weeks and it is presently cool. Hence, Monday evening's crop condition report could still show more improvement from recent rains.

The market already rallied on the psychology of big 100°F heat coming and there is still some rim of fire rains on new computer models early to mid next week over at least 30% of the belt.

While August may end up being hot over at least 50% of the Midwest, a slight shift in the pattern could bring some fronts and off-and-on rains within the dome by early August. (*The Euro/Canadian model does not agree with it*).

The commitment of traders is now modestly long for corn and soybeans. Hence, this makes the market vulnerable to setbacks, especially on small weather forecast changes.

Any change in Putin's sentiment towards allowing greater exports could send corn and wheat reeling south. This would not affect soybeans as much, as Russia/Ukraine does produce or export that much.

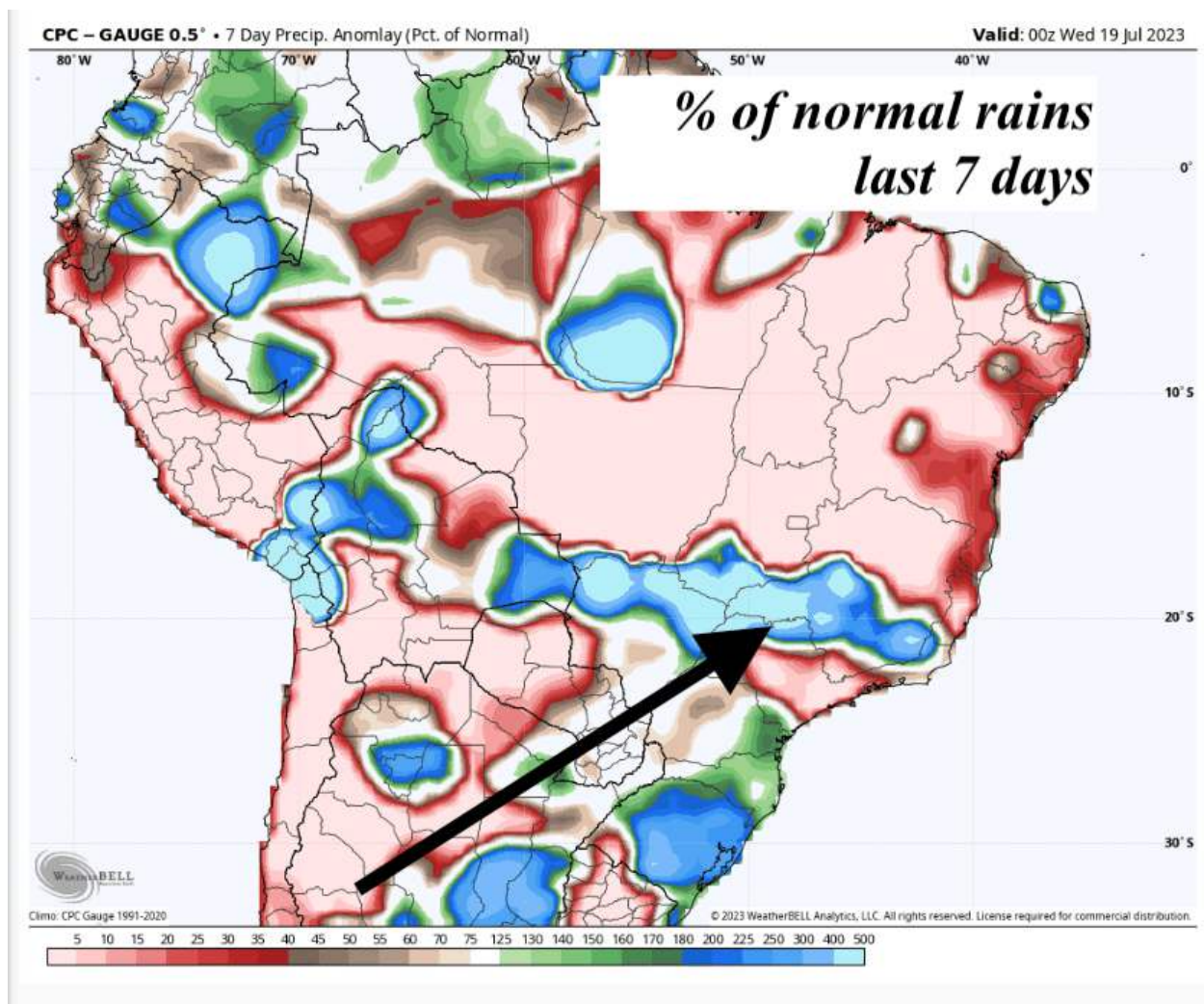
Coffee prices look tenuous

True, the Robusta coffee market continues to soar due to tight stocks in Vietnam and Indonesia. But there is a disconnect.

Arabica coffee futures (traded in NY on the ICE exchange) have been in a bear market for the last two months. Why? A lack of

frost talk in Brazil, mostly good harvest weather, and the potential for a big 2024 crop.

There has been some short-term wet weather in Brazil (map below) that has caused minor concerns for the coffee market again this week. While this could continue off and on for another 10 days, I do not think it is a major longer-term bullish factor for coffee prices.



Will El Niño cause weather concerns deeper this year and help this market spike? I will address this more in the weeks to come.

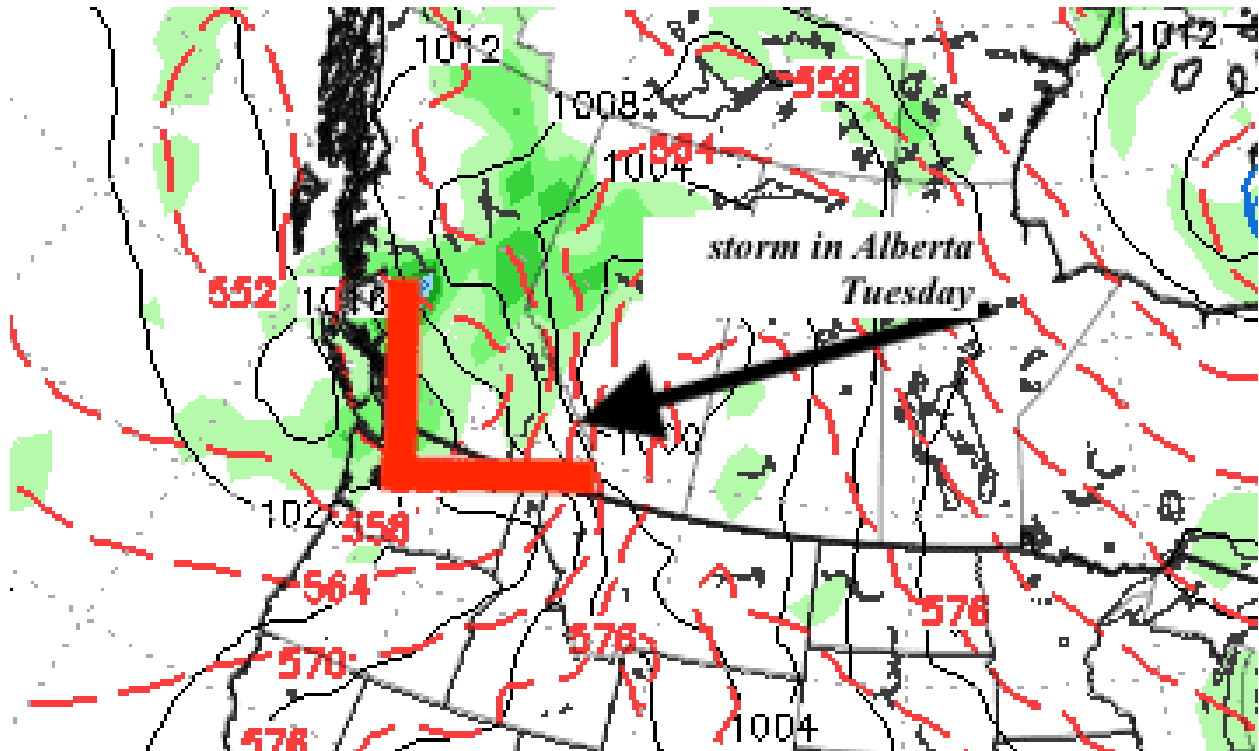
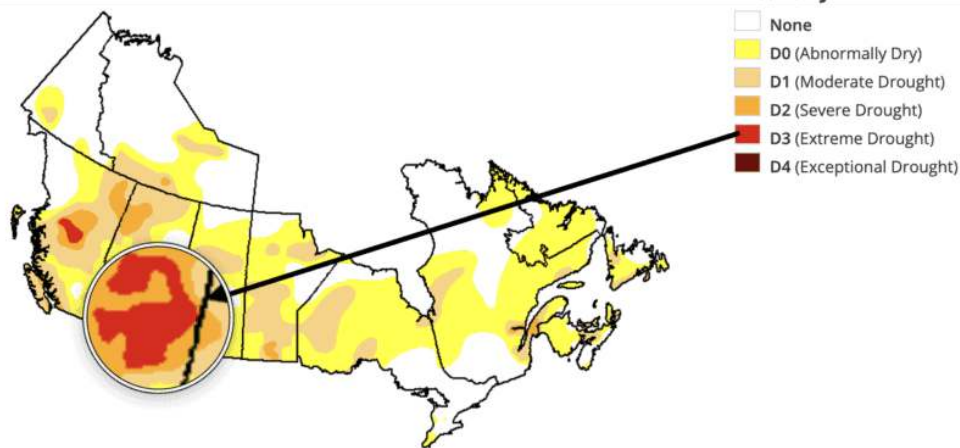
Right now, notice the weekly coffee chart and how it looks similar to the price pattern in late 2012. Prices then went down to \$1.30 during an “on cycle” big crop year. The same thing could happen later this year or in 2024 unless there are weather problems in Brazil.



Source (QST)—Weekly coffee chart

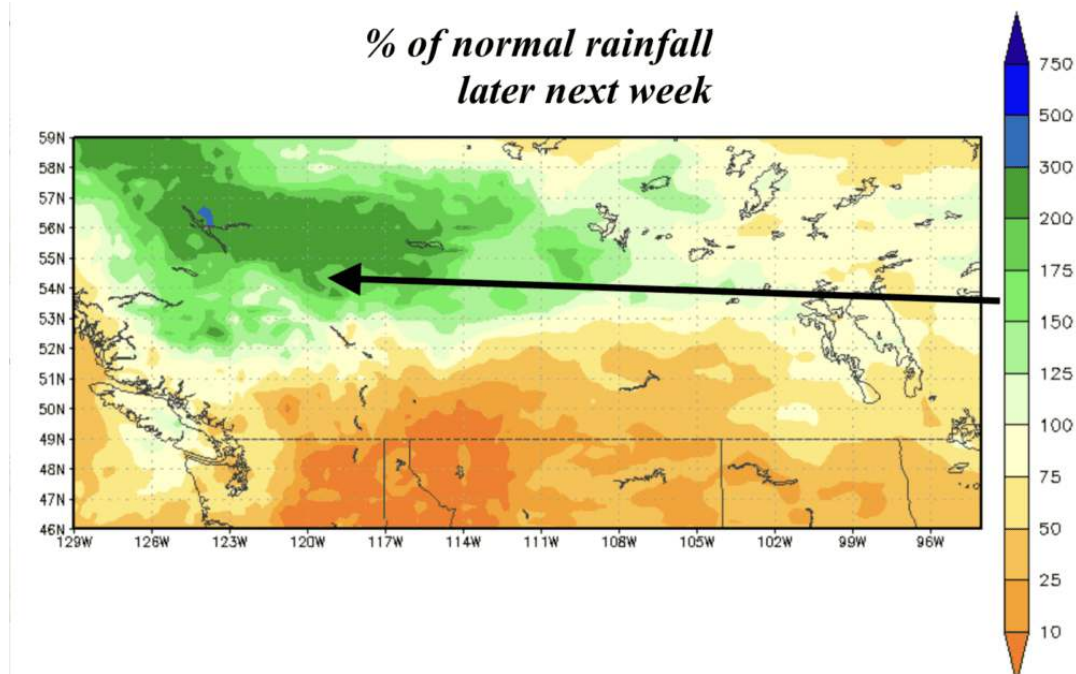
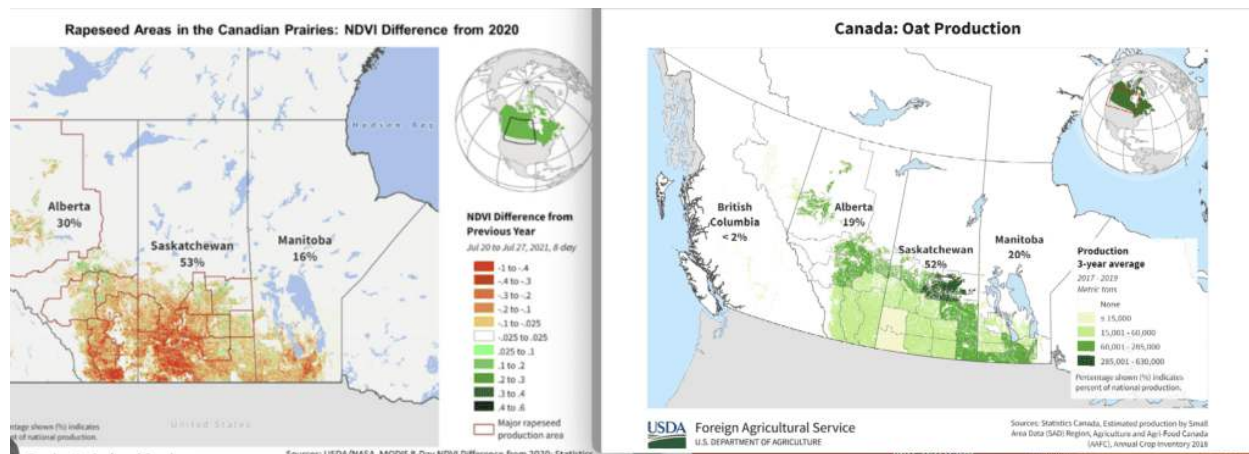
Oats & Spring wheat prices soar on Canadian drought

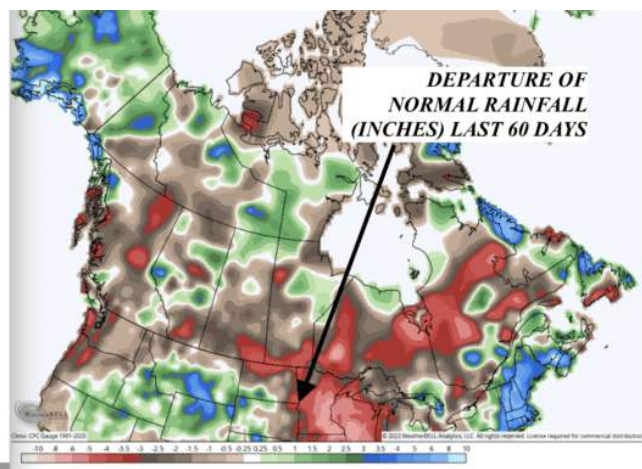
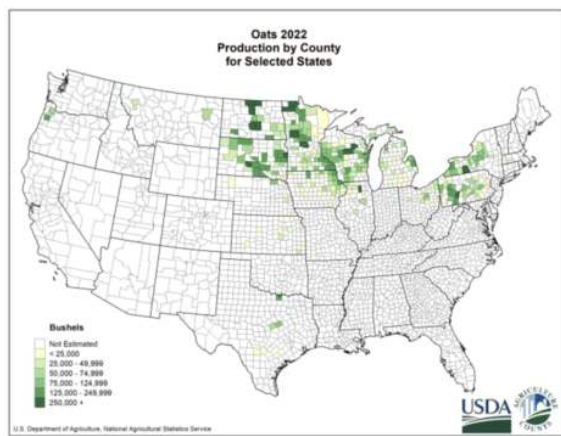
- A) *The Canadian drought location*
- B) *Where oats and spring wheat are grown*
- C) *Some rains will hit Canada next week, but most appear to miss the main crop areas*
- D) *Oat prices have broken out technically*
- E) *Where oats are growing in the Plains and the recent dryness hurting the crop*



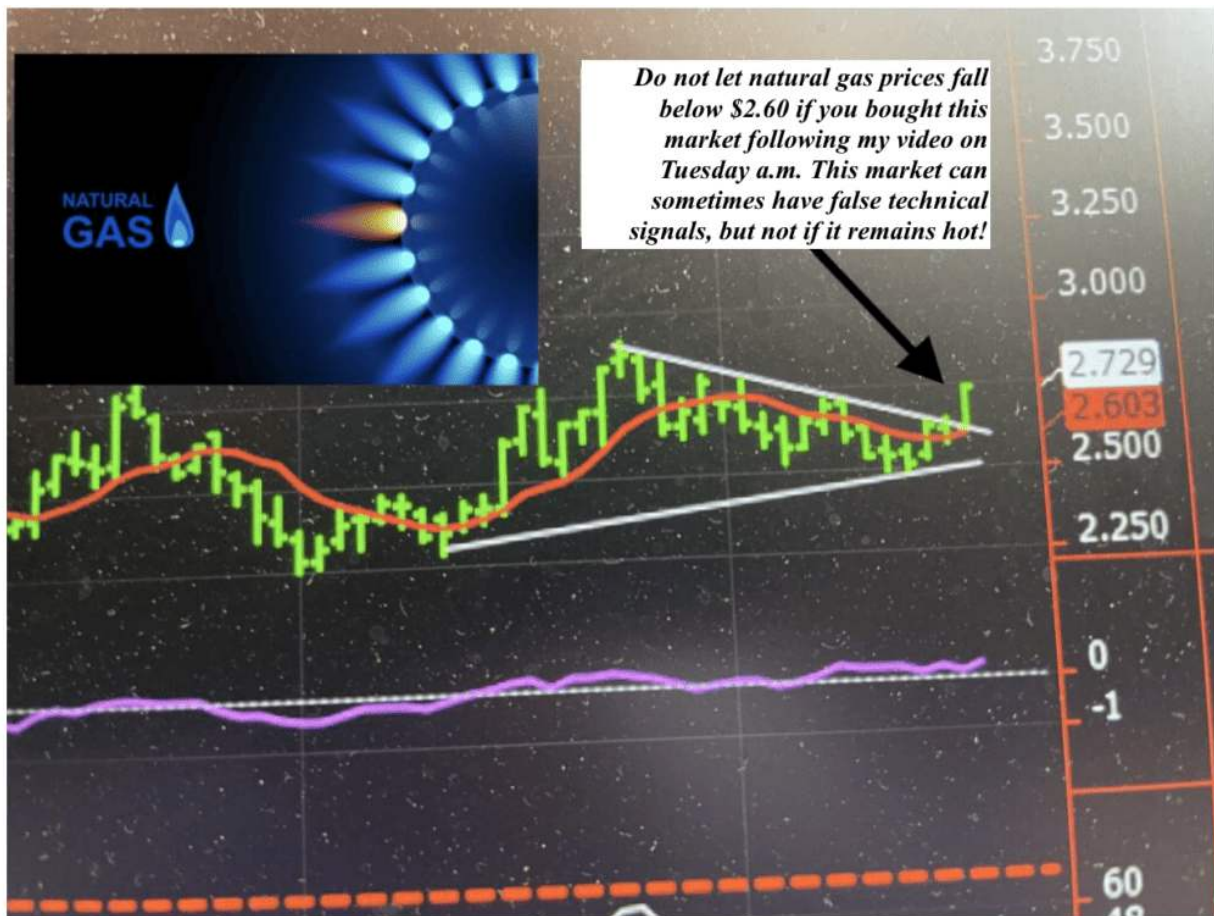
Some rains in Alberta moving east next week. Probably not a drought breaker with most crop areas seeing less than one half inch of rain.

You can see the heart of the Canadian drought above which is right in some key rapeseed (canola) and oats regions.





Finally, some legitimate bullish weather for natural gas prices?



Natural gas power burn demand rose to another high this last week of 48.1 BCF/day earlier this week. The 6,374 GWh of electricity generated from gas was the single highest on record on Monday and Tuesday. Yet, up until now, natural gas prices have been lethargic due to a huge surplus. Lower rig counts and record southern heat helped to create a friendly EIA report on Thursday. The record-hot weather in the south and west finally helped this market. Overall, however, U.S. natural gas supplies are still 360 billion cubic feet above the 5-year average. There is where the problem lies.

I mentioned last week that I would raise my Weather Spider to slightly bullish this week and indeed we have had a bit of a rally.

Highest Daily Natural Gas Electricity Generation		
<u>Rank:</u>	<u>Electricity Generation (GWh)</u>	<u>Date</u>
1.	6374.3 GWh	7/14/2023
2.	6337.4 GWh	7/21/2022
3.	6323.8 GWh	7/13/2023
4.	6314.2 GWh	7/20/2022
5.	6308.9 GWh	8/9/2022
6.	6296.8 GWh	8/8/2022

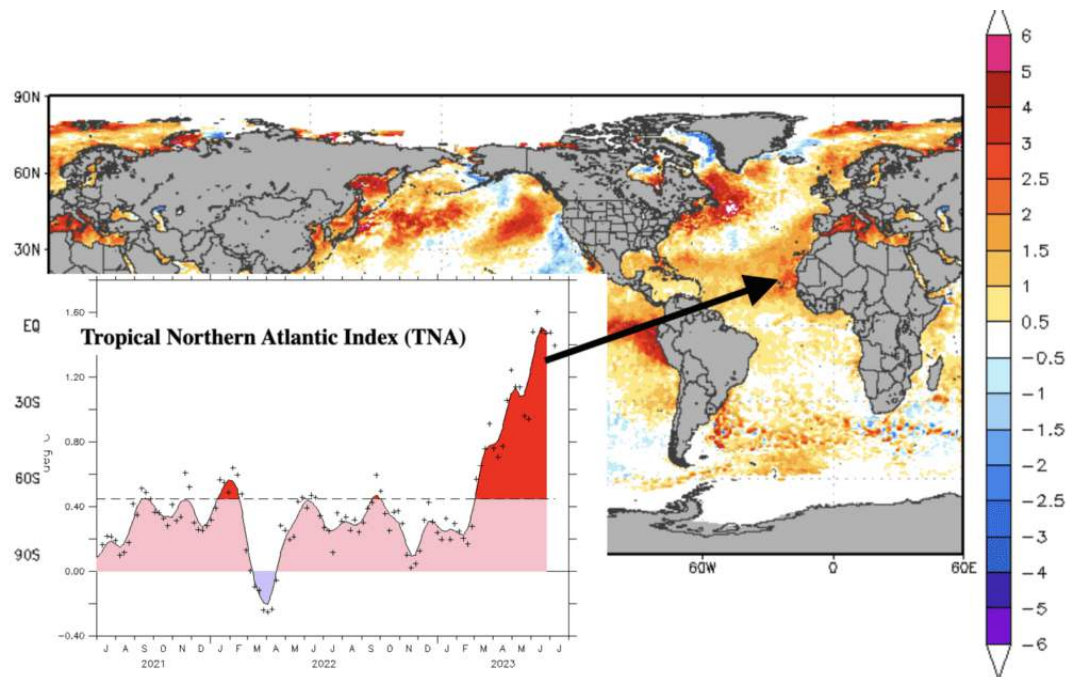
Cocoa prices continued to be supported by slow exports out of West Africa and disease issues from too much rain.

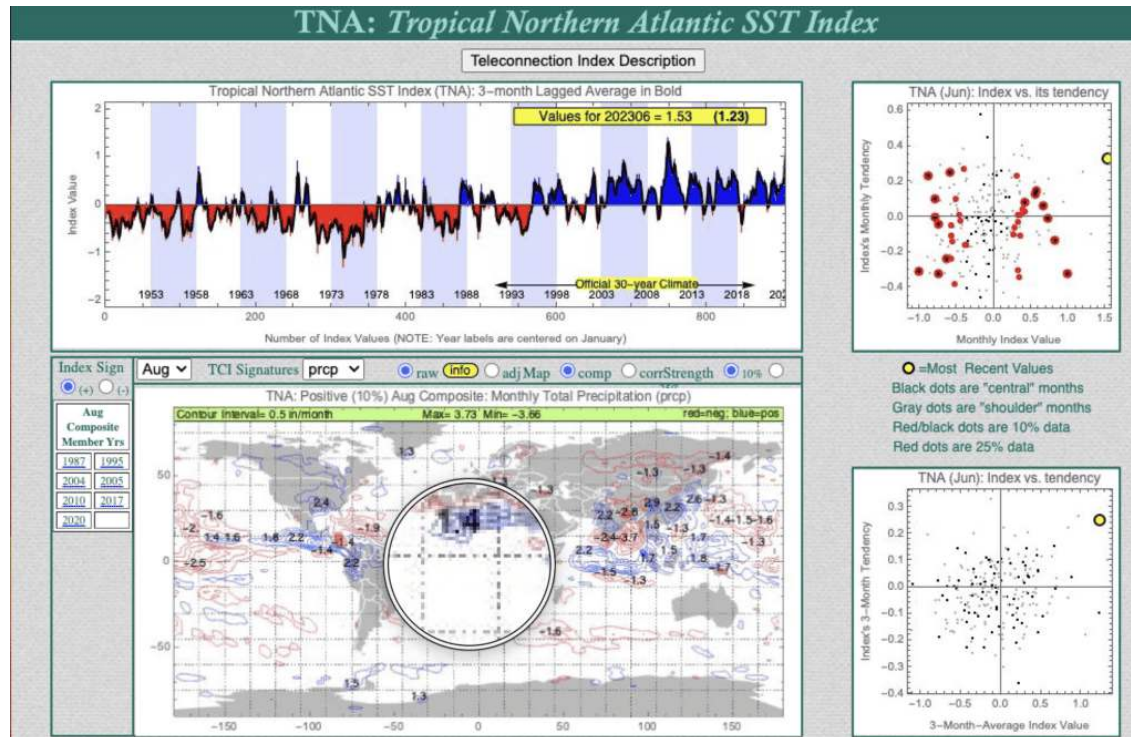


There is a heavy long position in the cocoa market. That always bothers me when too many specs are either short or long a market. That is why the anti-herd mentality of my Spider is bearish (-3). Nevertheless, we are getting into the normal dry season in West Africa. (***all Spiders bottom of the page***) Rainfall has been above normal in at least 35% of the Ivory Coast. Typically, this is beneficial for the main cocoa crop which needs rain from April-June, dry weather from July-September, and then is harvested later in the fall. Nevertheless, warmer ocean

temps off the west coast of Africa have contributed to, too much rain that has caused disease issues. It needs to dry out.

The TNA index is the highest I have seen in decades. This teleconnection, combined with El Niño forming, has resulted in above-normal rainfall. Notice my teleconnection program.





Factors affecting sugar prices



The recent favorable weather conditions in Brazil prompted sugar trader Czarnikow to raise its 2023 Center-South sugar production forecast by 500,000 MT to 38.2 MMT. However, Thailand, the world's #3 producer, has had less than 29% of its normal rainfall in the last few months. This could lower production, which would help prices rally again.

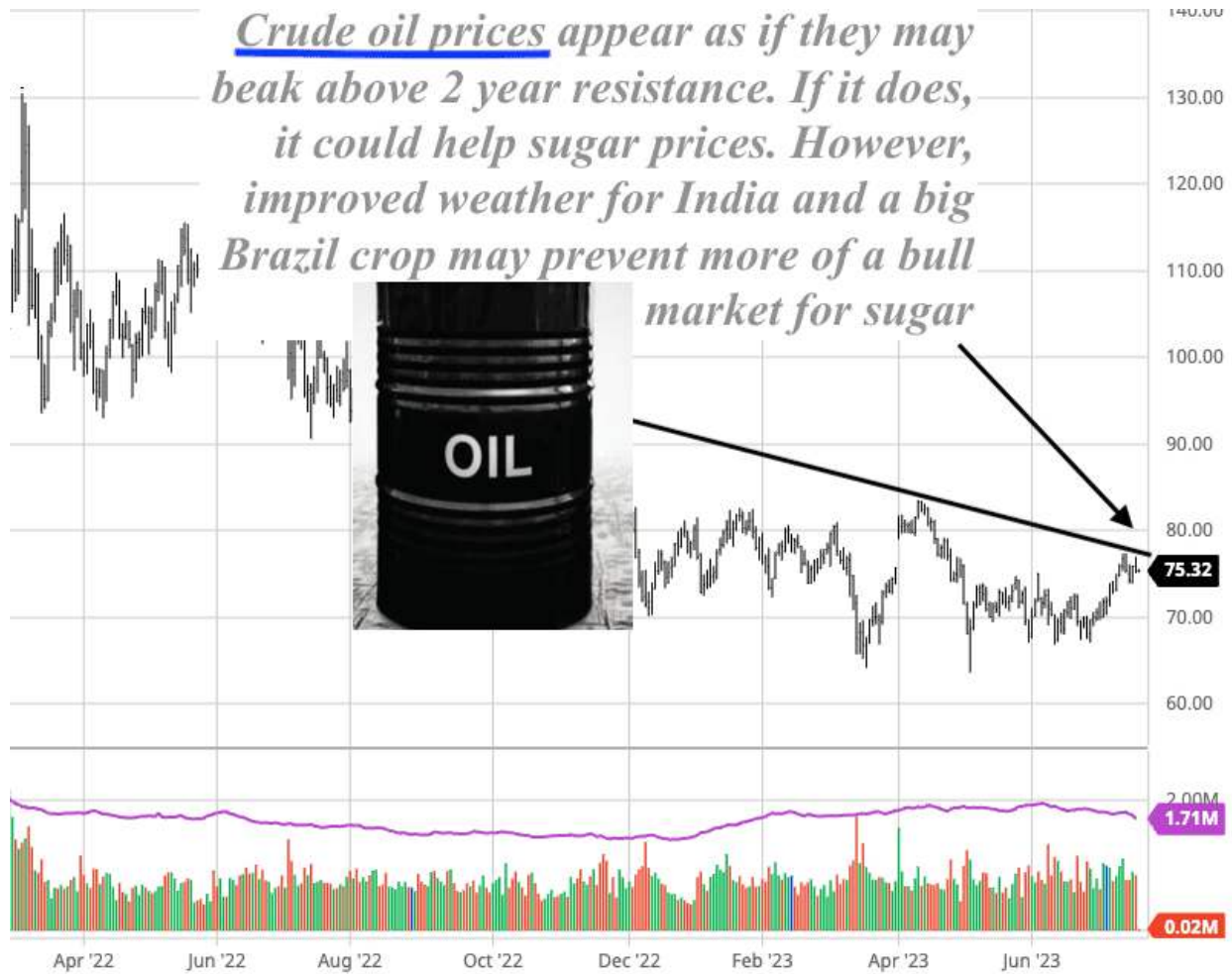
Overall, my Weather Spider is very mixed–neutral (1) given that the rains are coming to India.

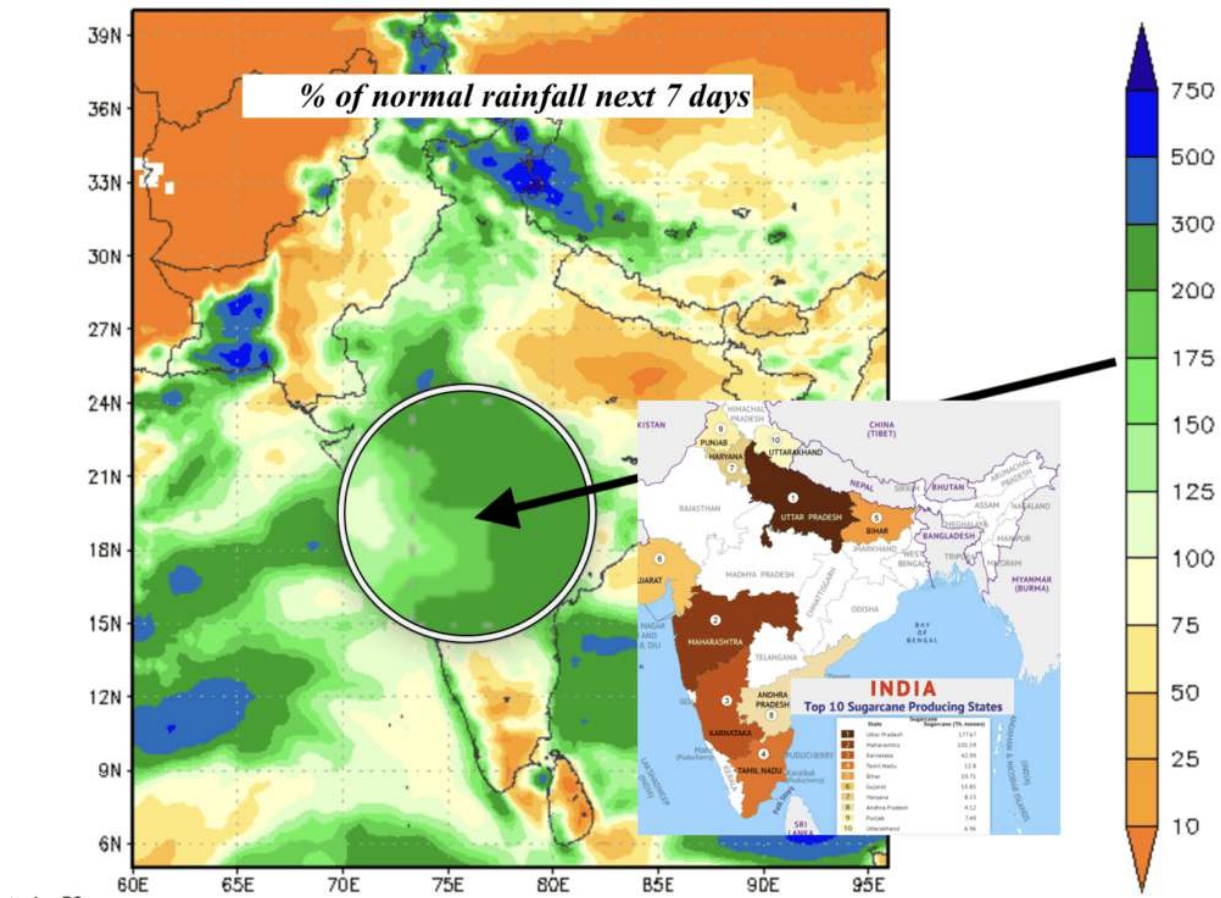
The sugar market has also rallied a bit in part due to higher crude prices. The bottom line is confusing fundamental news right now, vs. a big long position and a bearish anti-herd mentality (-3).

Thai sugarcane crop seen falling 21% in 2023/24 - broker



Crude oil prices appear as if they may break above 2 year resistance. If it does, it could help sugar prices. However, improved weather for India and a big Brazil crop may prevent more of a bull market for sugar





If it were not for these rains in India coming and a potential big Brazil crop, I would be more bearish sugar. If Thailand gets good rains, then prices would collapse later. Due to El Niño, however, Thailand's crop is down sharply.

July 10



**El Niño & Global Cotton
Production, Midwest Rainfall Right
on Track for Corn & Soybeans, yet
Short-Covering Ahead of Big
USDA Report Wednesday**

Jim Roemer

