Notes and Observations in International Commodity Markets

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GRAIN AND OILSEED FUTURES MAKE NEW MULTI-YEAR HIGHS

GHA – Grain and oilseeds set new multi-year highs this week supported by firm cash markets and dwindling old-crop supplies. Weather issues threatening prospects for the 2021 harvests added further fuel to the strong rally, as it was supported by additional fund buying of CBOT wheat, corn, soybean, bean oil and meal futures.

Chicago corn lead the rally climbing to its highest in nearly eight years through the week, rising for a fifth straight session. CBOT May 2021 corn reached the highest level since May of 2013 touching $6.58½/bu, underpinned by worries over weather conditions in the US and Brazil. Colder than normal conditions was seen across the US Corn Belt, which could slow planting progress, slow germination, and depleted soil moisture levels in parts of the region. This could reduce 2021 production and supported new crop prices with corn futures prices touching new contract highs with concerns of adequate corn supplies following this coming fall harvest.

The global demand pull for corn remains strong, and the USDA recently lowered estimates for world corn ending stocks to 283 mmt, the fifth straight year of declines.

Many analysts in the trade suggesting March-April-May corn use should be a record at over 3.6 bbtus, with US 20/21 corn ending stocks between 1.0 to 1.1 bbtus. This would be close to a 7% stocks/use ratio, the tightest since 7.4% in 2012/13.

In Brazil, where crops have faced plenty of adverse weather this year, dry conditions in the country’s south could stunt the production of the second corn crop, known as safrinha. Brazil’s FOB corn export price is near its highest of the year, indicating
elevated concern for the crop. A Reuters poll this week of 11 analysts showed Brazil's 2020/2021 total corn crop could reach a record 107.3 mmts, even as the country's second corn crop was planted outside the ideal climate window. If Brazil's corn production comes up short, this will lead to more exports out of the US at a time when the US old crop balance sheet is currently the tightest since the 2013/14 crop year.

In a year of declining corn stocks, near-perfect weather will be needed this growing season to ensure sufficient US supplies in the fall. Timely planting is increasingly important. A slow start to US planting would raise questions about whether farmers will be able to increase acreage beyond the planting intentions the USDA published at the end of March.

Support from corn was spread across the coarse grains complex lending support to grain sorghum, barley and oats, as feed grain fundamentals remain historically tight.

Wheat rose through the week, taking its lead from corn, reaching the highest levels since May of 2014, with the CBOT July21 contract touching just above $7.15/bu. Cold weather with frost and snow across the US winter wheat-belt provided fundamental support.

Soybeans advanced for a ninth session in a row reaching $15.49¢/bu on Friday, the highest levels since May of 2014. Support for the oilseed complex was provided by soybean oil as it rose to its highest since June 2011 on strong demand from the biofuels sectors.

ICE May21 Canadian canola futures surged to a record high on Friday reaching C$885.40/mt, the highest level since February 1975, lifted by tight Canadian supplies and robust demand for oilseeds. Traders have sold two shipments of Ukrainian rapeseed this month to Canadian buyers, a highly unusual trade.

High feed grain prices are likely to take a toll on demand. China's agriculture ministry published guidelines on Wednesday for the reduction of corn and soymeal in pig and poultry feed, a move that could reshape trade flows of grains into the country.

Markets will catch their breath over the weekend and go for another ride this week. It promises to be a wild rodeo this summer in agricultural commodity markets!

**Reshaping grain trade? China acts to change animal feed recipes**

GHA: I actually find it a little amusing that feed ration formulization is being guided by the P.R. China's central government. In a competitive capitalist economy this process would be happening anyway as market price relationships encourage producers to compete to maximize their margins.

Dominique Patton and Hallie Gu, Reuters – China’s Ministry of Agriculture and Rural Affairs issued guidelines on Wednesday recommending the reduction of corn and soymeal in pig and poultry feed, a measure that could reshape the flow of grains into the world's top corn and soybean buyer.

China consumes about 175 mmts of corn in animal feed each year, but that is set to increase as more livestock is raised on intensive farms using industrial feed.

It also imports close to 100 mmts of soybeans to crush into soymeal for animals. Chinese feed makers have already been switching corn for cheaper alternatives, especially wheat, after the grain rallied by more than a third in the last year following a drop in corn output and state stockpiles. Imports of corn, used largely in animal feed, into China surged as it sought to compensate for the domestic deficit.

The Ministry of Agriculture and Rural Affairs said in a statement on its website the new guidelines are aimed at improving the usage of available raw materials and creating a formula that better suits China's conditions. The ministry said rice, cassava, rice bran, barley and sorghum were also suitable alternatives to corn, while rapeseed meal, cottonseed meal, peanut meal, sunflower meal, distillers dried grains, palm meal, flax meal, sesame meal and corn processing byproducts were good options to replace soymeal.

The guidelines may only impact those firms that had not kept up with the trend towards substitution, Li Hongchao, senior analyst at trade website Myagric.com, said.

Greater feed use of wheat, which has more protein than corn, has already cut demand for soymeal. However, a wheat products trader said it could have "a significant impact". "Many feed producer clients are still using quite a bit corn. They have reduced the usage but haven't cut off corn completely," he said, declining to be named because he was not authorized to speak with media.

The ministry also provided some suggested feed formulations depending on the region of the country. Those included reducing corn by at least 15% in pig diets in Northeast China by using rice and rice bran, or using sorghum, cassava flour, rice bran meal and barley to replace corn in pig feed in southern China. In some regions, it recommended eliminating soymeal completely and replacing it with other meals.

**US Dollar & Foreign Exchange**

- **US Dollar retreats as stocks climb on economic data**

The dollar index on Friday tumbled to a new 1 month low. Strength in stocks on Friday weighed on the dollar as it curbed the dollar’s liquidity demand. The EUR/USD rallied moderately on stronger-than-expected Eurozone economic data. USD/JPY (*USDJPY*) dropped to a fresh 1-1/2 month low as the yen strengthened on signs of strength in Japanese manufacturing activity and weakness in Japanese stocks.

The dollar index (DXY00) on Friday fell -0.474 (-0.52%). June euro-fx futures (E6M1) closed up +0.0085 (+0.71%), and EUR/USD (*EURUSD*) rose +0.0081 (+0.67%). June yen futures (J6M1) closed up + 0.0014 (+0.15%), and USD/JPY (*USDJPY*) fell -0.04 (-0.04%).

The dollar retreated Friday despite strong U.S. economic data. The U.S. Apr Markit manufacturing PMI rose +1.5 to 60.6, weaker than expectations of 61.0 but still the fastest pace of expansion since the data series began in 2007. Also, Mar new home sales jumped +20.7% m/m to a 14-1/2 year high of 1.021 million, stronger than expectations of 885,000.
The dollar continues to be undercut by the ongoing Covid pandemic that has slowed economic growth and is dovish for Fed policy. Weekly new global Covid infections for the week ended April 19 rose +12% w/w to +5.2 million, the most since the pandemic began, mostly from surges in India and Brazil. Globally, Covid infections have risen above 145.469 million, with deaths exceeding 3.088 million.

EUR/USD (^EURUSD) on Friday rallied to a new 1-1/2 month high. Better-than-expected Eurozone economic data on Friday gave the euro a boost. The Eurozone Apr Markit manufacturing PMI unexpectedly rose +0.8 to 63.3, stronger than expectations for a decline to 62.0 and the fastest pace of expansion since the data began in 2018. Also, the Eurozone Apr Markit composite PMI unexpectedly rose +0.5 to a 9-month high of 53.7, stronger than expectations of a decline to 52.9.

USD/JPY (^USDJPY) on Friday dropped to a new 1-1/2 month low. The yen strengthened on Friday's Japanese economic data that showed the Japan Apr Jibun Bank manufacturing PMI rose +0.6 to 53.3, the fastest pace of expansion since the data began in 2018. Also, the Japan Mar CPI ex-fresh food & energy rose +0.3% y/y, right on expectations and the biggest increase in 8 months.

Supporting gains in USD/JPY was Friday’s action by Japanese Prime Minister Suga to declare a state of emergency for the prefectures of Tokyo, Osaka, Kyoto, and Hyogo, which together make up a quarter of Japan’s population from Sunday to May 11. The announcement on Friday of a state of emergency also sparked safe-haven demand for Japanese government bonds, which knocked bond yields lower and weakened the yen’s interest rate differentials after the 10-year JGB bond yield fell to a 2-1/2 month low Friday of 0.060%.

Bullish Factors: (1) safe-haven demand for dollar liquidity as underlying pandemic stress encourages flight into the world’s reserve currency, (2) the influx of capital from overseas investors fleeing from over $10 trillion of negative-yielding debt, and (3) higher T-note yields that strengthen the dollar’s interest rate differentials as the 10-year T-note yield recently rose to a 14-month high of 1.753%.

Bearish Factors: (1) the Fed’s average inflation targeting scheme that is dovish for Fed policy, (2) the outlook for the Fed to keep the Fed funds rate near zero at least through 2023, (3) the severe U.S. and global economic damage caused by the Covid pandemic, which is dovish for Fed policy, (4) trade tensions and Washington political uncertainty, (5) reduced liquidity demand for the dollar with the recent all-time highs in U.S. stock indexes, and (6) the wide U.S. budget and current account deficits.

WHEAT

CBOT July 2021 Wheat Futures - New crop July 2021 wheat reached the highest levels since May of 2014, touching just above $7.15/bu, before settling on Friday at $7.14¼/bu, up 4 cents on the day, and gaining 59 cents for the week.
CME will expand winter wheat futures’ daily price limits by a nickel effective May 3rd. CFTC’s weekly data release showed managed money funds had flipped back to net long during the week ending the 20th of April. Open Interest on spec funds was a net 1,978 contracts lighter and ended the 3 week net short. Russia’s IKAR reduced their 2021/22 wheat output forecast by 1.5 mmts to 79.5 mmts citing a need to replant winter-kill area.

France’s AgriMer estimated 85% of French wheat crops was in good to excellent condition as of the 19th of April. That is down from 86% last week. The results for Egypt’s wheat tender are expected on Tuesday the 27th.

CME KC HRW Wheat Futures

Kansas July 2021 HRW Wheat Futures – also made new highs reaching $6.83¼/bu before settling at $6.81½/bu on Friday, up 6¾ of a cent on the day, and gaining 65½ cents for the week. Though some pockets could have sustained crop damage. Crop maturity was not as far along from Kansas northward, but isolated damage from the freeze was likely. Damage to the soft red winter wheat crop in the Midwest, Mid-South and Southeast was likely limited.

Should this be the case and the hard red winter wheat show significant damage versus the soft red crop, we could see KC futures, which have a higher protein content, gain on Chicago and trade back to parity come late Spring. Given the unknows of damage to hard red winter wheat areas versus Soft Red winter ratings that are showing very high condition ratings, one could make the argument that KC could at least trade back to parity and towards the February highs.

Managed money was also closing shorts in KC wheat through the week ending the 20th of April, leaving the group 18,747 contracts net long. KC protein scales for 11.6% to 14.0% were down 4 cents.

MGE HRS Wheat Futures

MGE July 2021 HRS Wheat Futures reached the highest levels since August of 2017, reaching $7.28/bu before settling Friday at $$7.25/bu, up 10 ¾ cents on the day, and gaining 53¾ cents for the week.

Frosts and freezes potentially hit US hard red winter wheat areas this past week, with many areas of the Plains and Midwest recording low temps for multiple days. Damage assessments will take weeks and won’t likely be fully known until harvest. Based on maturity of the crop and temperature readings, Oklahoma’s crop was likely hit hardest. Temperatures there broadly dropped into the 27 to 29-degrees fahrenheit range, with pockets of 23 to 26 degrees fahrenheit noted, while much of the state’s crop was in the boot stage or starting to head. Temps weren’t as low further south into Texas, though some pockets could have sustained crop damage. Crop maturity was not as far along from Kansas northward, but isolated damage from the freeze was likely. Damage to the soft red winter wheat crop in the Midwest, Mid-South and Southeast was likely limited.

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The big picture in HRW is the fact that Russian FOB values are $35/mt below TX Gulf 11% for MJJ. One would be logically bearish HRW spreads, if it weren’t for the demand for space.

MGE HRS Wheat Futures

Reaching the highest levels since August of 2017, reaching $7.28/bu before settling Friday at $7.25/bu, up 10 ¾ cents on the day, and gaining 53¾ cents for the week.
The COT Report for spring wheat futures and options showed managed money was 2,438 contracts more net long to 12,118 contracts.

Concerns over dry weather in HRS, Canada and EU help to fuel this week’s rally. There is a little precipitation in the short-term forecast for ND/MT, but overall it is dry. CWG noted the northwest 1/3 EU dryness likely to continue to hamper wheat regrowth over the next two weeks; rains in Spain.

STATS Canada will be out on Tuesday with all wheat production estimated at 23.7 mmts and durum 5.5 mmts.

Freeze damage likely as US winter wheat breaks dormancy
Freezing temperatures across Kansas, Oklahoma, and Texas, the main hard red winter wheat areas in the United States, have sent wheat futures higher and placed stress on crops that have only recently broken dormancy.

Temperatures on April 20 and 21 were in the low- to mid-20s degrees Fahrenheit across the three main producing states, and at this point in the growing season the damage from frost may be irreversible. Most wheat fields in Kansas and Oklahoma have entered the jointing phase—the peak of a cereal plant’s vegetative development and have limited ability to grow more grain-producing shoots. As of Sunday April 18, 50% of the Kansas winter wheat crop was in the joint stage, while 86% of the Oklahoma crop was jointing.

The risk to US hard red winter wheat comes as dry conditions impact spring wheat planting in northern states. Gro’s Drought Index shows the extent of the dryness, especially in North Dakota, which produces roughly half of the US spring wheat crop and has officially declared a state of emergency because of the drought.

In France, wheat growing conditions remain a concern following last week’s cold snap, with September milling wheat prices hitting new highs. In the Black Sea region, Gro’s Black Sea Wheat Yield Forecast Model currently shows lower yields than last year. Also troubling for wheat supply prospects is Russia's military buildup along Ukraine's border. An escalation of conflict in the region is likely to send wheat prices even higher as exports from Black Sea ports could be constrained.

COARSE GRAINS

CORN

Corn crop ratings tumble in southern Brazil after unusually dry stretch
By Karen Braun, Reuters - Brazil’s heavily exported second corn crop has been on the markets’ radar since last year, when the country’s soybean crop was planted later than usual, increasing the chances that corn would go in late since it is planted immediately after the soy harvest. Those delays worsened earlier this year when soybean harvest came around, as persistent rains kept machinery out of the fields. Second corn was planted at the slowest pace in at least a decade and now weather is threatening to reduce the crop’s potential, especially in the south. Crop conditions have already plunged in No. 2 producer Parana, which grows 15% of Brazil’s second corn crop. As of Monday, just 62% of the southern state’s corn was in good condition, down from 76% a week earlier and 92% the prior week.

April rainfall in Parana is challenging 2018 for the driest April in at least two decades as the forecast for the rest of the month is sparse. Parana’s second corn was also planted very late in 2018 and that crop was in a similar stage as the current one with around three-fourths yet to enter the critical pollination period. Some 98% of Parana’s second corn was rated as good three years ago this week, but that rating dropped to 43% three weeks later under excessively dry conditions. The score fell to 35% by the end of May that year, and the yields at harvest were more than 20% below normal, one of the state’s worst results.

Due largely to second crop problems, Brazil’s 2017/18 corn harvest fell around 14% from original expectations. That lifted corn exports in the top producer, the United States, to record levels in mid-2018. But the overall crop is not doing as poorly now as it was three years ago.

Farmers in the top corn and soybean state of Mato Grosso planted the second crop unusually late, risking that the rainy season would end before the crop was finished. This month’s precipitation has been a bit below average, though April averages exceed 5 inches (127 mm) in the state. May rainfall is usually less than a third of the April total, and rainfall through next month will be crucial. Last week, Mato Grosso’s Imea agriculture institute said yields would likely fall from previous predictions since 45% of the state’s second corn was planted outside of the ideal window. That is seen reducing the state’s crop by 1.3% from last year’s strong outcome.

UNCERTAIN OUTLOOK - The USDA earlier this month left its forecast for Brazil’s 2020/21 corn harvest at a record 109 mmts. Brazil’s Conab statistics body increased its estimate by nearly 1 million to 108.97 mmts, though some industry estimates have recently come down.

On Monday, Rabobank cut its Brazilian harvest prediction to 105 mmts from 107 mmts, and analyst IHS Markit reduced its peg to 104 mmts from 108.6 mmts on a large decrease in second crop output.

Brazil’s meat lobby, ABPA, is growing anxious over global commodity inflation and potential supply disruptions to the second harvest. Those concerns influenced Monday’s government decision to suspend import duties on corn, soybeans and soybean products through the end of the year.

A Reuters poll of 11 analysts on Tuesday placed Brazil’s total corn crop at 107.3 mmts, just 900,000 mts lower than the poll conducted in February. The low is 103.4 and the high is 112.8 mmts.

In theory, this could benefit U.S. exporters since Mercosur trade bloc countries are already free from tariffs. However, just one U.S. soybean cargo sailed to Brazil last November under the most recent exemption, and that was the first cargo of U.S. corn or soybeans to do so in nearly two decades.
ABPA on Tuesday suggested that corn imports from the United States or Ukraine are possibilities to fill any domestic shortfalls.

- **CME CBOT Corn Futures**

  CME Corn May 2021 reached the highest level since May of 2013 reaching $6.58½/bu, before settling on Friday at $6.58 5.86¾/bu, up 7½ cents on the day, and gaining 71½ cents for the week.

  Old crop futures traded the last trade day of the week in both directions, fluctuating on either side of unchanged. Prices ultimately closed a nickel higher for May and a penny higher for July.

  CME will raise the daily price limits for corn futures from 25 cents/bu to 40 cents/bu effective May 3rd.

  CFTC data showed managed money had reduced their net long on the week ending the 20th of April. The spec fund long liquidation left the group 17,995 contracts less net long to 383,998 contracts. Commercials were adding coverage to both sides as OI was up 22,627 contracts. On net, the new buying offset the new shorts, reducing the commercial net short by 6,973 contracts to 728,633.

  The Rosario Grains Exchange upped their Argentine corn output forecast by 1.5 mmts to 50 mmts, citing better yields on increased harvested area for the Cordoba region. That matches USDA’s Ag Attaché forecast but is 3 mmts above the official USDA April estimate of 47 mmts The Argentine government is also looking at potentially raising export tariffs to capture more revenue from higher global prices and keep a lid on domestic prices.

This week’s China USDA agricultural attaché report sees 2020/21 corn imports at 28 mmts, 4 mmts more than the official USDA number. However, the new crop 2021/22 forecast is only 15 mmts, with larger ending stocks (up +7 mmts) and a large Chinese crop (up 7mmts) supporting a 14 mmts increase in feed demand.

- **CME Corn December 2021** contract made new contract highs on Friday reaching $5.53/bu, before settling on Friday at $5.52¾/bu, off ¾ cents on the day, and gaining 39¾ cents for the week.

USDA reported some new crop export sales this morning. The first was 336,000 MT to unknown, and private exporters sold 136,680 MT to Guatemala. South Korea issued an international tender, seeking 342,000 MT of optional origin corn.

Monday we will be looking for corn planting at 12% vs. 24% LY and 20% on average, and trade will have to eye a low-pressure system May 1-5 pushing across the Midwest for impact on field activity.

- **GRAIN SORGHUM**

  - **Single week sorghum sales shatters records**

Export sales of U.S. sorghum hit a single week record this month of more than 33.9 mbus with almost all of it heading to China. That shatters the previous record set in August 2020 by more than 10 mbus.

In addition, new sales commitments of 33.8 mbus, predominantly purchased by China, also topped the previous record for weekly sorghum sales of 32 mbus, also set in August 2020.
National Sorghum Producers CEO Tim Lust said, “U.S. sorghum exports continue to signal very strong demand for our crop, and new purchases at this level only reaffirm that.”

New crop purchases of U.S. sorghum for this point in marketing year are also at a record level, reaching 40 mbus this past week; a 264% increase from the previous record set in 2014. These new crop purchases are significant, particularly in the wake of a $5.00 plus December 2021 Chicago Board of Trade prices.

“This is the strongest new crop demand we have ever seen at this time in the season,” Lust said. “Availability is so scarce that the sorghum crop being planted now is being marketed at the same time, and farmers have not even started planting in Kansas yet. This sends a strong demand signal to US sorghum producers from our international customers, and we look forward to getting the 2021 crop in the ground.”

**Sorghum Plantings Soar This Spring**

DTN - It is a year of firsts for grain sorghum and some farmers who grow the crop. As a result, acres and prices are on the rise this year and possibly in the future.

Kody Carson of Olton, Texas, won’t plant corn for the first time this spring in order to seed more sorghum. A field in Kansas farmed by Kent Winter has never been planted to sorghum before, until this year.

Why? Record grain sorghum demand, profit potential and climatic conditions dictate it. “The sorghum industry is seeing more positive momentum than I can remember during my farming career,” said Carson, National Sorghum Producers (NSP) chairman, during the association’s virtual industry forum on March 1. He started farming in the mid-1980s.

**DEMAND FIRSTS** - China made its first purchase of U.S. grain sorghum for the 2021-22 marketing year a record 342 days before it starts on September 1st, according to USDA data. It bested the previous first new-crop sale to an export customer, which was Mexico in 2010, by 13 days.

Since China’s initial new-crop buy of 5 mbus, importers (mostly China) have booked an additional 35 mbus of sorghum as of mid-April for the upcoming marketing year. The 40 mbus total for that time smashed another record, which was also set by China in 2014 at 11.5 mbus.

Old-crop sorghum is sailing out of ports in record-setting fashion too. The USDA announced on April 15th the previous week’s exports were 33.9 mbus; enough to fill 10 to 12 Panamax vessels, according to NSP; topping the previous high by more than 10 mbus. The top destination was China. The big week brings the export total for the 2020/21 marketing year to 251 mb, which is 44 mbus less than the projected total for the marketing year that ends on August 31st.

Florentino Lopez, United Sorghum Checkoff Program (USCP) international market development director, expects sorghum demand to remain strong after recent discussions with export customers. “(Sorghum producers) should have a positive year unless something occurs that is out of their control, such as a change in trade policy,” he said.

**ACRES AND PRICES SOAR** - Recent unprecedented demand and prices hikes, along with weather-related factors, was a strong signal for Carson and other farmers to plant more sorghum this year. Nearly 7 million acres are projected to be seeded, up 18% from 2020, according to the March 31st USDA Prospective Plantings Report.

Grain analysts and farmers say 2021 sorghum plantings could easily exceed projections and climb for years to come. "I think 7.5 million acres this year is reasonable," said DTN Lead Analyst Todd Hultman.

The average sorghum farm price was $3.34 per bushel in 2019-20, according to the USDA. The agency in April projected the average farm price for the current marketing year at $5.05/bu, though prices have exceeded $6.00/bu. In mid-April, Hultman said the new-crop bids at some interior elevators were more than $5.60/bu.

Sorghum prices soared the past year primarily due to China’s insatiable appetite for the cereal grain to feed livestock and make an alcoholic drink called baijiu. The country continues to rebuild its hog herd after it was decimated by African Swine Fever.

China is also gobbling up US commodities in an attempt to meet its obligations of the Phase 1 Trade Agreement. "Trade is extremely important. It represents a large value coming back to farmers," Lopez said.

Low cost of production is another big advantage for sorghum over other row crops, Hultman said.

The USDA estimates it will cost $324, on average, to grow an acre of sorghum this year. That’s compared to $775, $697 and $466 to grow an acre of cotton, corn and soybeans, respectively.
U.S. grain sorghum yields averaged 73 bushels per acre (bpa) the past three years. It's not uncommon for yields to exceed 100 bpa or be double or more the national average. At $5.60/bu, profit potential for the 2021 crop of $80 to well over $100 per acre exists with less financial risk than other row crops.

"The way things look right now, sorghum is a very attractive choice for farmers," Hultman said, noting other row crops are profitable as well. Hultman warns sorghum farmers that prices rise and fall with Chinese demand, which typically accounts for more than 80% of U.S. sorghum exports and a bulk of production. Farmers may want to consider locking in favorable prices during planting season for at least 25 to 50% of expected production, Hultman said, as hedge against trade uncertainty. "China either makes this market or shuts it down," he continued. "That's the roll of the dice with sorghum."

FARMER FIRSTS - A nearly 100-acre tract of land that Winter farms on shares near Mount Hope, Kansas, will be planted to grain sorghum for the first time this spring.

"The landowner told me years ago he didn't like sorghum ... he was more interested in corn and soybeans (to make money)," said Winter, president of the Kansas Grain Sorghum Producers Association. "I got a call last November from the landlord asking me to consider raising grain sorghum on his land. He realized the profit potential of sorghum."

Winter plans to increase his full-season sorghum acres to 300 acres this year (planted in early June) and lower corn and soybeans plantings to 225 acres each. Last year, acreage between the three crops were split equally. Winter also produces 750 acres of hard red winter wheat and 100 acres of alfalfa.

After the wheat harvest in mid-June, Winter intends to plant 200 acres of sorghum and 200 acres of soybeans into the stubble if there's adequate moisture for seed germination. Both are an expansion of double-crop acres. "I think sorghum is in a prime position to increase acres," Winter said.

Carson agreed. He intends to increase sorghum to 1,500 to 2,000 acres; possibly quadruple the normal amount, depending on moisture conditions. Carson also raises winter wheat, cotton, black-eyed peas and has pasture land.

Sorghum profit potential, which Carson called "very exciting," is part of his decision to up acres at the expense of corn. But his primary reason is risk mitigation. Sorghum's low cost of production and ability to withstand heat and moisture stress during an ongoing drought makes it a better choice to plant than corn.

Most of Carson's land is irrigated, but wells only pump a fraction of what they used to due to the dwindling Ogallala Aquifer. Carson is more reliant on rainfall, but only 5 inches has fallen in many of his fields since November of 2019. During the latest drought, he has almost entirely relied on irrigation to grow crops. "It's no longer enough for corn. "Sorghum is a savior for us," Carson said in an interview with DTN. "It's a sustainable, water-sipping crop."

RESILIENT SORGHUM - It takes a minimum of 11 inches of moisture to produce the first bushel of corn while sorghum takes 7 inches, said Brent Bean, USCP agronomy director. He said sorghum is usually more productive than corn when water availability is 15 inches or less.

Average sorghum and corn yields in Kansas last year were 85 and 134 bpa, respectively, according to USDA. Bean said it takes about 16 inches and 23 inches of water, respectively, to achieve that production.

Spring and summer temperatures are expected to be several degrees above normal and precipitation below normal for the Southern and Central Plains states where most of the sorghum is grown, according to DTN Senior Ag Meteorologist Bryce Anderson. "Sorghum is a real hardy crop that can do a lot with a little (moisture)," he said.

BARLEY

> Jordan tenders to buy 120,000 mts feed barley

Reuters - Jordan's state grain buyer has issued a new international tender to purchase 120,000 mts of animal feed barley, European traders said on Friday. The deadline for submission of price offers in the tender is April 28th.

A new tender had been expected after Jordan had made no purchase in its previous tender for 120,000 mts of barley on Wednesday in which only one trading house participated.

Shipment in the new tender is sought in a series of possible combinations in 60,000 mts consignments, traders said. Possible shipment combinations are Oct. 1-15, Oct 16-31, Nov. 1-15 and Nov. 16-30, the same periods as sought in Wednesday’s tender.

OATS

> Higher oats prices may be key to steady and reliable supply

The outlook for the oat industry is outstanding with the spectacular expansion in demand for oat milk and other oat beverages a "real game changer," Randy Strychar, president, Ag Commodity Research, Vancouver, British Columbia, Canada, told millers attending the virtual Spring Conference of the North American Millers’ Association on April 20th. But to meet the expanding demand for oat products, a steady and reliable supply must be assured, which, Strychar said, requires that oats be treated more as a special, even boutique, commodity and not primarily as a feed grain.

Strychar suggested oat milk, which has seen explosive demand, especially in the last 12 months, was expected to see 15% year-over-year growth through 2027. As a cow's milk substitute, it was closing in on almond milk and may rival soy milk. Strychar pointed out this was a global trend and not at all confined to the North American market.

Strychar said food manufacturers are finding other new uses for oats as consumers seek healthful products that have a light environmental footprint compared with many other plant-based foods. And it seemed the COVID-19 effect, which saw large
increases in oat product demand as consumers stayed home, may be extended as Canada, the United States and other countries emerge slowly and at different rates from pandemic-related restrictions.

Oat mills have been expanding capacity in North America and abroad to meet the strong growth in consumer demand.

But there’s a flipside. Oats continued to be viewed as primarily a feed grain. Strychar said oats are priced well below oilseeds, wheat and even barley across the Canadian Prairies and in the United States, and farmers and ranchers use it in large volumes as feed.

Additionally, low prices relative to other crops discourage plantings, and Strychar indicated acres in Canada this year may be down 5% from 2020.

Strong demand for oats for feed and recent heavy purchases of Canadian oats by Chile seemed to ensure 2020/21 Canadian oat ending stocks will be record low. If domestic feed and Chile export demand remain strong in 2021/22, ending stocks could set yet another record low.

Strychar said Chile, the world’s second-largest exporter of oat products, has had two “problematic” crops in a row.

In the current year, Chile, which typically imports about 50,000 mts of oats a year, has imported nearly 200,000 mts from Canada alone. Chile just finished harvesting its new crop, and the numbers, when they are released by the government, may be “horrible,” as dry conditions persisted in that country,” Strychar said. That would suggest Chile may continue to buy Canadian oats in 2021/22. Strychar said Chile may buy between 100,000 to 150,000 mts of Canadian oats in 2021/22.

Domestically, the only way to decrease feed usage of oats and secure supply for the expanding oat product market is if there is a sustained and long-term rise in oat prices vis-à-vis those of other field crops and oilseeds. And that’s where the market may have to recalibrate the value it long has assigned to oats as primarily a feed grain, Strychar suggested.

OILSEEDS COMPLEX

#### China’s soybean US imports surge in March, Brazilian imports plunge

**Reuters** - China's March soybean imports from Brazil plunged as rain delayed some shipments from the top exporter, but its imports of the oilseed from the United States more than quadrupled. The world's biggest buyer of soybeans imported 315,334 mts from Brazil in March, down 85% from 2.1 mmts a year earlier, data from the General Administration of Custom showed. Brazil is the world's biggest soybean exporter.

From the United States, China imported 7.18 mmts of soybeans in March, up 320% from 1.71 mmts in the previous year.

China had stepped up purchases of soybeans and other U.S. farm produce after the two sides signed an initial trade deal in January last year. But buyers of the oilseed have turned to the United States more than usual in 2021, as rains in Brazil slowed the harvest there and delayed exports.

China's total imports of soybeans in March rose 82% to 7.77 mmts. Chinese crushers bring in soybeans to crush into soymeal to feed livestock and for cooking oil. They had previously ramped up buying of soybeans amid expectations of healthy demand from the country's fast-recovering hog herd. But a severe wave of African swine fever in recent months has wiped out at least 20% of the breeding herd in northern China, some estimates show, reducing soymeal demand.

Increased use of wheat in animal feed has also curbed soymeal demand, analyst say.

#### Argentine farmers sell 14.37 mmts of soybeans so far this season

**Reuters** - Argentine farmers have sold 14.37 mmts of 2020/21 soybeans, a figure that lags last year's sales tempo, the Agriculture Ministry said on Wednesday in a report with data updated through April 14th.

Bad weather recently prompted the Buenos Aires Grains Exchange to cut its 2020/21 crop estimate to 43 mmts from a previous forecast of 45 mmts. Harvesting on the Pampas grains belt started earlier this month.

The ministry said the pace of sales is lagging last year, when growers had sold 19.23 mmts of soybeans by the same date. Farmers have been reluctant to sell this year amid uncertainty about the foreign exchange rate. Many are shrugging off high prices, saying they would rather save by way of warehousing beans rather than trusting the anemic peso currency.

Argentina is the top global supplier of soymeal livestock feed used to fatten hogs and poultry from Europe to Southeast Asia. The government is counting on export dollars to shore up central bank reserves in the face of a long recession that was exacerbated by the coronavirus pandemic.

#### EU’s oilseed output to rise 6% on higher area, yield: USDA

**USDA** - The EU’s oilseed production is estimated to rise 6% during the 2020/21 marketing year as the total area is expected to increase 1% while yields are expected to come in higher than average amid favorable conditions, the local office of the USDA said in a report issued this week. Total oilseed output for the economic bloc is expected to rise 6% year-on-year to 29.9 mmts.

The EU’s soybean area is set to rise by 3% to 1.04 million hectares as higher soybean prices and an increase in demand for non-GMO beans incentivize planting, with expansions expected across all soybean-producing member states. It will be the second consecutive year that the EU’s area has reached above 1 million hectares.
That rise in area will yield 2.9 mmts of beans in the EU, up 10% on the year, on buoyant weather conditions so far with “all crop conditions, including water resources, remain favorable,” the USDA said.

The planted area under the EU’s main oilseed, rapeseed, will rise less than 1% in the 2021/22 marketing year to 5.2 million hectares, below the well below the 6.5 million hectares of area planted in 2018/19, owing to a decreased in farmer profitability for the crop.

The EU rapeseed output is forecast at 16.65 mmts, up 3% with yields up on the year, but in line with the longer-term average.

There was “almost no winter overkill detected at the beginning of March this year,” the USDA said, adding that a cold spell in France in early April, with the crop in full blossom, could have caused widespread damage.

Meanwhile, Germany and Poland have seen good planting conditions, with favorable soil moisture levels for spring planting.

Finally, the EU’s sunseed area is set to rise 1% on increases in Romania, Bulgaria and Hungary, on rising prices and high demand from the EU’s crushing industry, while the area in France will nudge lower after a record year. Total EU sunseed production is expected to rise to 9.85 mmts in 2021/22, up 10%, as yields are expected to recover back to average levels.

"Crop prospects for 2021/22 are optimistic, but weather conditions in the next few months will be key to maintain yields," the USDA said.

- **EU 2020/21 soybean imports at 11.79 mmts, rapeseed 5.36 mmts**

 Reuters - European Union soybean imports in the 2020/21 season that started last July had reached 11.79 mmts by April 18th, data published by the European Commission showed on Monday. That compared with 11.52 mmts cleared by the same week last season. However, the data was incomplete this week as figures for France only ran up to April 15th, the Commission said.

EU rapeseed imports in 2020/21 had reached 5.36 mmts, compared with 5.13 mmts a year ago.

Soymeal imports so far in 2020/21 were at 13.52 mmts against 14.33 mmts a year earlier, while palm oil imports were at 4.23 mmts versus 4.55 mmts a year ago.

Since the 1st of January, the Commission's data has covered the EU's 27 countries only, whereas previous figures up to the 31st December 2020 covered both the EU-27 and Britain.

- **CME CBOT Soybeans Futures**

An exciting week for futures and cash markets, especially with no USDA reports or real time weather issues.

The lead contract CME May 2021 Soybean Futures made new contract highs every day this week, reaching $15.49¼/bu on Friday, the highest levels since May of 2014, before settling at $15.40¼/bu, up 7 cents on the day, and gaining $1.07 for the week.

Thursday’s overnight soybeans traded lower and into mid-morning Friday before the nearby May contract took off higher, trading up 16 cents at one point, dragging the deferred months with it. USDA reported a private export sale this morning as China purchased 132,000 MT of new crop beans. Soybeans peaked on the intraday just before midday, leading to new life of contract highs. Afternoon prices faded before finishing strong for the weekend. At the close beans were 1 3/4 to 6 cents higher, as May closed higher for the 10th consecutive day.

CIF NOLA basis held steady through the rally with Fob IWDS basis at DVE for May.

Processor basis continued on a tear higher, with +75n to +1.00n basis trades becoming commonplace in both the East and West. These cash markets along with uncovered river oriented processors are keeping the pressure on the short SK, who is out of position vs the cash market.

The weekly Commitment of Traders report showed soybean spec traders expanded their net long 30,286 contracts to a 16-wk high of 172,544 contracts with net new buying. Commercials were reported at 276,778 contracts net short as of 4/20, as they closed 14,872 longs and opened 21,661 new shorts.

Old crop/new crop cash inverse is approaching $3 bu, which is more than enough incentive to be looking at managing a short basis position. But with 5% of the crop still in the cash flush farmers’ hands, and a 2.6% stocks/use, would expect this inverse to continue to have some life, with basis already at hard DVE in many places.
New crop CME November 2021 Soybean Futures reached a new high of $13.46¾/bu on Thursday before settling on Friday at $13.39¾/bu, up 1½ cents on the day, and gaining 67 cents for the week. CME will raise the daily price limits for soybean futures from 70 cents/bu to $1.00/bu effective May 3rd.

Argentine March soybean crush at record high, short of expectations

Soybean crushing in Argentina surged by 19% on the prior month to reach 3.39 mmts in March, the highest volume for the month since at least 2005, official data by the Argentine Ministry of Agriculture showed Wednesday. It narrowly beat the previous record set in 2017 at 3.36 mmts and was up from the 2.75 mmts processed in March last year. Yet despite the sharp monthly increase, soybean processing fell short of market expectations of 3.5 mmts.

Strikes at crushers led by unions during several days in March slowed processing, while farmer selling remained below expectations, both limiting the increase in crush activities, a broker told Agricensus.

A total of 9.48 mmts of soybeans were processed in the first quarter of the year, up 23% on the year, as crush activity recovers from disappointing rates last year. The March bean crush resulted in the production of 681,000 mt of soyoil and 2.47 mmts of soymeal, up 23% and 25%, respectively, from March last year.

ICE canola futures surge to record for second straight day

ICE canola futures surged to a record high on Friday reaching C$885.40/mt, the highest level since February 1975. Lifted by tight Canadian supplies and robust demand for oilseeds the May contract, trading in lower volume ahead of expiry on May 14, settled at 875.20 on Friday.

All figures in Canadian dollars unless noted

Cash prices to Canadian farmers continue to rise, as commercials try to entice growers to sell remaining supplies, causing the futures to climb, a market source said.

Canada’s agriculture ministry estimated canola plantings to rise 4% from last year to 21.6 million acres. Trade expects, on average, Canadian canola plantings of 22.6 million acres, up from 20.8 million a year ago, according to a Reuters survey. Statistics Canada will issue its planting intentions report on April 27th.

Ukrainian rapeseed shipments sold to Canada in rare move

Reuters - Traders have sold two shipments of Ukrainian rapeseed this month to Canadian buyers, a highly unusual trade that indicates the impact of spiking global oilseed demand, market sources said.

Sales were made from Ukraine’s 2021 harvest for August shipment, with two shipments each of up to 30,000 mts spoken of, traders said.

Canada is the world’s biggest exporter and producer of the rapeseed variant canola, and its processors rarely import supplies across such long distances. But this year, surging Chinese demand for vegetable oil and animal feed has emptied North America’s farm bins and driven canola and soybean prices higher.
“The sales were apparently made because of tight canola supplies in the Canadian domestic market,” one European trader said. “I have never seen such deals before.” The sales come as Canada's canola stockpiles are expected to dwindle to an eight-year low by midsummer, just before the next harvest.

“Canadian canola exports have been very strong in past months and there have also been heavy sales to China of canola meal and canola oil along with good domestic demand for biodiesel,” the European trader added. “It looks like some domestic supply gaps are emerging.”

With supplies low, ICE canola futures remain near record highs set in February.

“Supplies have to be near dire to explore supplies out of the Black Sea/Ukraine,” said Phil Speiss, a Canadian commodity futures broker at RBC, adding that the Canadian purchases from Ukraine are the first in memory.

Canada is the world’s biggest producer of canola, but the current shortage may force domestic crushers to slow down, Speiss said.

Canada has exported 21% more canola via licensed handlers since August 2020, the Canadian Grain Commission said in April, helping to deplete stockpiles. China has nearly doubled year-to-date purchases.

Ukraine's APK-Inform agriculture consultancy said last week export prices for this year's Ukrainian rapeseed had risen by $35 last week on fears over crop conditions across Europe and a possible smaller sowed area in Ukraine.

**Ukraine Limits Sunflower Oil Exports To Combat Food Inflation**

Gro Intelligence - Ukraine announced a limit on sunflower oil exports for the current 2020/21 marketing year, as rising prices on sunflower oil, and competing vegetable oils, spurred the government to restrict exports in an effort to control domestic prices.

Ukraine is the world’s largest producer of sunflower seed and sunflower oil. But its 2020/21 sunflower crop declined 15% from the previous season as dry conditions in the Kirovohrad, Kharkiv, and Dnipropetrovsk regions affected vegetation and lowered yields. Black Sea June sunflower oil futures have increased 30% so far this year.

The Ukraine government and the sunflower oil industry agreed on a total target of 5.38 mmts for sunflower oil exports for the year. That is 140,000 mts lower than the USDA’s estimate for the year and 1.3 mmts lower than Ukraine’s previous year’s record exports.

Russia, another major producer, just imposed a floating export duty on sunflower oil shipments from the start of the new crop year on the 1st of September. This is in addition to Russia’s export duty on sunflower seeds of 50%, up from 30% currently, with a minimum of $320/mts. The tax will run from the 1st of July 2021, to August 2022.

Disappointing soybean meal export sales this week coming in at 22% below what’s needed to meet the USDA forecast. The 4-week sales pace is at a 15-year seasonal low of 116 tons/week and recent shipments are off nearly 20% versus the 2019/20 pace.

**Indian oil-meal export grows by 51%**

Indian Express - Between the 1st of April 2020, to the 31st of March 2021, oil meal exports from India witnessed a robust growth of 51%. A press statement issued by the Solvent Extractors’ Association of India on Monday said that in the last fiscal India had exported 3.680 mmts of oil meal exports as compared to 2.433 mmts recorded in the financial year 2019/21.

Oil meal or oilseed meal cake refers to the protein-rich substance left after oil is extracted from the seed. For poultry and animal feed industry, oilseed cakes are the one type places added pressure on others. With Russia and Ukraine both restricting exports, the global vegetable oil situation will bear careful watching.

**CME CBOT Soybean Meal**

CME July 2021 Soybean Meal Futures settled on Friday at $425.50 402.40/short ton, up $0.20 on the day, and gaining $23.10 for the week.

Meal futures ended the last trade day of the weekend with $0.40 to $0.90/ton gains.

CFTC data showed soybean meal short covering on the week expanded the spec trader net long to 48,047 contracts. Meal limits will increase $5.00 to $40.00/ton.

Vegetable oils have been a key driver of food inflation this year. Overall tightness in vegetable oil supplies combined with a rebound in demand has pushed prices sharply higher from year-ago levels. Edible oils are often interchangeable, so a shortage of
raw material needed as the protein component in feed. Also given the non-GM nature of Indian oilseed meals, fetch a premium in the international markets.

By far the largest chunk of exports was cornered by soymeal cake with the country exporting 1.564 mmts in 2020/21 fiscal as compared to 692,000 mts of last fiscal. Similarly, Rapeseed meal export also crossed million tons, courtesy of higher purchase by South Korea, Thailand and Bangladesh.

Ricebran export also doubled due to heavy demand from Vietnam and Bangladesh. The overall earning jumped to double at Rs 8,838 crore compared to Rs 4,437 crore during 2019/20.

South Korea has emerged as a major importer of Indian oil meals with the country importing 805,000 MT of oil meal last fiscal. Bangladesh, too, has turned out to be a big importer of rapeseed meal, rice bran extraction and soybean meal cake.

**CME Soybean Oil**

CME May 2021 Soybean Oil Futures reached the highest level since April 2011 on Friday, touching $63.50 cwt, before settling at $62.83 56.29 52.79/cwt, up 31 cents on the day, and gaining $6.54 for the week.

Soybean oil futures closed the session mixed within 20 points of unchanged nearby and 34 points lower for August.

Managed money was 89,992 contracts net long in soybean oil, after a week of net new buying. Soybean oil futures will trade with daily limits of 3.5 cents/lb.

**Feed demand to boost Vietnam’s soybean crush**

USDA - As Vietnam’s hog and sow herds recover from African swine fever, total soybean crush and soybean meal for feed use is forecast to increase in 2021/22, according to a report from the USDA FAS.

Crush is expected to reach 1.5 mmts while soybean meal for feed use is estimated at 6.1 mmts.

Soybean meal is the largest share of oilseed meal used for aqua and animal feed. Total feed demand in Vietnam is expected to increase to 27.8 mmts in 2020/21 and 28.4 mmts in 2021/22.

Soybean imports are forecast up to 2.1 mmts in 2020/21 and 2.2 mmts in 2021/22 because of the increases in domestic feed demand and soy oil needs, the USDA said. Soybean meal imports are expected to increase slightly to 5.2 million tonnes in 2021-22 with production from crushing plants offsetting a smaller increase in imports, the USDA said.

Food consumption is forecast to increase 4% in 2020-21 and 2021-22 with an expected recovery from COVID-19.

**CME Palm Oil Swaps May 2012**

CME May 2021 Palm Oil Swaps settled at new highs of $952.25/mt this week.

Crude palm oil futures eased to Rs 1,210.90 per 10 kg on April 23 after touching a fresh lifetime high of Rs 1,231 during intraday on the MCX. Malaysian palm oil futures slipped 1.54 percent to settle at 3,929 Ringgits on Bursa Malaysia Bhd.
Oil complex once again attained lifetime highs amid positive trade sentiments in domestic as well as overseas trade centres. Profit-taking was noted later due to soaring price levels.

OTHER RELATED NEWS

- **Brazil's JBS to buy plant-based meat company Vivera for 341 mln euros**
  
  Reuters - Brazil's JBS will buy Dutch vegetable-based protein company Vivera for 341 million euros (US$408.11 million), as the world's largest meatpacker expands its offerings to appeal to those who want to eat less meat, it said in a securities filing on Monday.

  Vivera has a portfolio of 50 products with three production facilities and a research and development facility in the Netherlands. The company sells in the Dutch, German and UK markets, accounting for roughly 60% of Europe's plant-based protein market, as well as other countries, according to JBS.

- **Start-up firm develops pennycress as cover crop for biodiesel and meal**

  A US agricultural startup has developed a cover crop derived from field pennycress that produces an oil for use in sustainable fuel and animal feed, Des Moines Register reported on the 31st of March.

  St Louis-based CoverCress has attracted investment from agribusiness giants including Bunge and Bayer, and planned to make its “cash cover crop” available on limited acreage in Illinois later this year before expanding to commercial-scale acreage next year, Des Moines Register wrote.

  Cover crops such as cereal rye and oats are planted near the autumn corn harvest, putting roots in the ground to anchor the soil and nutrients during winter and spring, then harvested in May before soyabees are planted, according to the report.

  The use of cover crops also helped sequester carbon in the soil, preventing it from combining with oxygen and adding to greenhouse gas emissions that contributed to global warming, Des Moines Register wrote.

  While cover crops offer soil and environmental benefits, they offer few commercial opportunities, according to the report, although many livestock producers graze cattle on cover crops, reducing their feed costs.

  CoverCress said its cover crop, which was derived from field pennycress, produced an oilseed that could be harvested and processed to produce a “low-carbon intensity oil” for use in the production of renewable diesel, biodiesels and sustainable aviation fuel.

  Farmers could reap US$50/acre from the crop, according to the company, which had attracted US$8m in investment to date. In addition to St. Louis-based Bunge, investors include the Renewable Energy Group, an Ames-based producer of biodiesel and renewable diesel.

  CoverCress said it could be a “few years” before the crop was available for Iowa farmers, saying it currently did not mature soon enough to be harvested in time to make way for a full-season soybean crop.

  “We do plan to get to Iowa, but for now our top breeding lines are not early enough to perform really well for the farmers at that latitude,” CoverCress spokesperson Cristine Handel was quoted as saying by Des Moines Register. “We expect to get the CoverCress model to Iowa in the next few years as the breeding lines become earlier and earlier.”

  Scientists had used plant breeding to increase yield and to accelerate the maturity of the cover crop along with advanced gene editing tools to improve the oil and meal quality, the company said.

  “The CoverCress crop generates revenue as animal feed, either as a whole-grain feed ingredient, or when processed, as a high-protein meal in addition to the low-carbon intensity oil,” the company said.

  The new round of investment had indicated “downstream” demand from companies that would buy the crop’s oil and meal, CoverCress chief operating officer Mike DeCamp said in a statement. Founded in 2013, CoverCress anticipates farmers will plant the cover crop on up to 1.6 million hectares (4 million acres) by 2030.

LOGISTICS

- **Canadian National Bids for Kansas City Southern**

  Canadian National Railway (CN) recently offered $33.7 billion to acquire Kansas City Southern Railway (KCS). CN’s offer follows an offer in March by Canadian Pacific Railway to acquire KCS for $29 billion. It is not yet clear how KCS will respond to the two offers. CN has sent an initial filing to the Surface Transportation Board, indicating it plans to apply formally, in 3 to 6 months, for authority to combine with KCS.

- **CN offers competing bid for Kansas City Southern**

  World Grain - It appears that interest in connecting ports and railways in the United States, Canada and Mexico is strong.

  Less than a month after Canadian Pacific Railway announced it has agreed to purchase the Kansas City Southern railroad in a transaction valued at $29 billion,
Canadian National Railway Co. on April 20 stepped forward with what it deemed “a superior proposal” to acquire KCS in a transaction valued at $33.7 billion.

“CN is ideally positioned to combine with KCS to create a company with broader reach and greater scale, and to seamlessly connect more customers to rail hubs and ports in the US, Mexico and Canada,” said JJ Ruest, president and chief executive officer of CN. “CN and KCS have highly complementary networks with limited overlap that will enable them to accelerate growth in single-owner, single-operator, end-to-end service across North America. With safer service and better fuel efficiency on key routes from Mexico through the heartland of America, the result will be a safer, faster, cleaner and stronger railway.”

Robert Pace, chairman of the board of directors at CN, said CN’s offer for KCS “offers superior financial value over the immediate and long term, a more complementary strategic fit, greater choice and efficiencies for customers and enhanced benefits for employees and local communities. We look forward to engaging constructively with KCS’ board and all relevant stakeholders to deliver this superior transaction.”

Under the terms of CN’s proposal, KCS shareholders will receive $200 in cash and 1.059 shares of CN common stock for each KCS common share. Based on the April 19 closing price of CN shares, CN’s proposal is valued at $325 per KCS share. This represents an implied premium of 45% when compared with KCS’ unaffected closing stock price on March 19 and a 21% improvement over the current value of KCS’ agreement with CP.

CN said it estimates that a combination with KCS would result in EBITDA synergies approaching $1 billion annually, with the vast majority of synergies coming from additional revenue opportunities. In addition, CN said it expects any transaction to be accretive to CN’s adjusted diluted earnings per share in the first full year following CN assuming control of KCS.

Additionally, in an April 20 letter to the KCS board of directors, CN laid out the benefits of a potential merger between the two rail companies.

“We expect the combination to expand the total addressable markets by approximately $8 billion across the Canadian trans-border, the US domestic, and the rapidly-growing Mexico-US markets,” Ruest said. “The combined network and the deployment of CN’s innovative, advanced technologies will produce unparalleled stakeholder benefits.

“We intend to add more fluid, rapid and cost efficient options across network points like Laredo, Michigan, Southern Ontario and Detroit, for both new and existing customers. The expanded market opportunity and improved network efficiency is expected to generate strong and high-quality new revenues for the combined company primarily by converting trucking shipping volumes onto rail.

“CN and KCS have highly complementary networks with minimal overlap. Customers of both companies will benefit from faster, more direct and more efficient service for North-South trade. CN and KCS will have a robust network of end-to-end single-line services from Mexico to Canada, with an enhanced ability to connect ports in the Atlantic, Pacific and the Gulf of Mexico. The combined company will be the premier service-competitive railway to Michigan and Eastern Canada, resulting in better efficiency both in terms of fuel and customer service.”

The KCS board of directors said it will evaluate CN’s proposal in accordance with the terms of its merger agreement with CP, and will respond in due course. CP, meanwhile, called CN’s proposal “massively complex and likely to fail.”

“The Canadian National proposal would create the third largest Class 1 railroad and destabilize the competitive balance in the North American rail industry,” CP said. “The only combination involving KCS that is clearly in the public interest is the one that Canadian Pacific has proposed, which has already garnered support from over 400
shippers and other stakeholders. While remaining the smallest of the six US Class 1 railroads by revenue, a combination between CP and KCS creates stronger single-line competition against existing Class 1 routes.”

CP also said CN’s proposal would reduce competition and negatively impact shippers while pointing out what it perceives as CN’s history of “over promising and underdelivering.”

“The Canadian National management team has significantly underperformed over a decade and has a track record of underdelivering against its own projections,” CP said.

Plans appear to be moving ahead on the combined rail company, to be named Canadian Pacific Kansas City (CPKS). CPKS is expected to generate greater competition as it expands to 20,000 miles of rail and 20,000 employees. With expected revenues of about $8.7 billion, the merged rail network will remain the smallest of six Class 1 railroads.

Over the past several weeks, customers, ports, transloads and other stakeholders have filed statements with the Surface Transportation Board in support of CP’s acquisition of KCS.

An STB review is expected to be completed by mid-2022.

The roots of the first US-Mexico-Canada rail network extend to KCS’s 1995 partnership with Latin America’s largest integrated transportation company, Transportacion Maritima Mexicana SA de CV, Mexico City. KCS, then a 2,900-mile north-south regional railroad serving the Gulf coast and the US Midwest, sharply outbid Union Pacific for the right to buy 49% of the Texas-Mexican Railway, a 160-mile line that extended from Corpus Christi, Texas, US, to Laredo, a major US-Mexico truck and rail gateway.

The eastern Texas rail link with the Texas-Mexican Railway allowed KCS to take advantage of the 1994 North American Free Trade Agreement and established the Kansas City Southern as a major rail carrier between Kansas City and Mexico.

KCS continued to expand its US and Mexico network through marketing and access agreements through the 1990s, including a 1998 investment in the Panama Canal Railway Co. (PCRC).

KCS partnered with Grupo TMM, winning Mexico’s Northeast Line rail concession in 1996, which allowed the formation of Transportacion Ferroviaria Mexicana, SA de CV in 1997. KCS became a majority owner when it bought Grupo’s shares in 2004, and full owner upon purchase of the remaining 20% in 2005.

Those maneuvers gave KCS key access to the Mexican market, but rails and equipment in that country and Latin America required serious upgrades. To fund them, KCS spun off all business interests that were not essential to rail, paid off recent acquisitions, and began making capital improvements. Among them were upgrades to allow PCRC tracks to handle large, intermodal shipping containers and passenger trains.

**GOVERNMENT**

- **U.S. targets 50% reduction in greenhouse gas emissions by 2030**

  US President Joe Biden has pledged to cut the country’s greenhouse gas (GHG) emissions in half by 2030 compared with 2005 levels. The target is intended to put the US on track to reach net-zero emissions by 2050.

  The ambitious pledge by the US came at a virtual meeting of world leaders taking place on Earth Day. Even more aggressive targets for cutting GHGs have previously been announced by the European Union and the UK.

  The EU has set a target of reducing its emissions by 55% from 1990 levels by 2030, while the UK has a goal to achieve a 78% reduction by 2035 from 1990 levels.

  China, the largest GHG emitter, has pledged to reduce coal consumption starting in 2025. China anticipates reaching peak carbon emissions before 2030 and thereafter gradually erasing its carbon footprint by 2060.

  Although the US pledge describes emissions cuts in only broad terms, Biden’s National Climate Task Force plans to outline a sector-by-sector strategy later this year for phasing greenhouse gas emissions, which are believed to contribute to climate change.

- **U.S. Senators reintroduce Climate Growing Solutions Act**

  U.S. Senators have reintroduced an ag-related climate bill into the U.S. Senate with bipartisan support. Senators Mike Braun (R-IN), Debbie Stabenow (D-MI) and others once again introduced the Growing Climate Solutions Act.

  The bill would create a certification program within the USDA to help farmers and landowners who enroll in the carbon credit marketplace. The USDA would also outline protocols for carbon markets and provide guidelines for how third-party businesses can become “USDA Certified” under the program. The 2021 version of the bill contains two changes to the version introduced last year.

  An advisory council will be made up of farmers and other stakeholders. And the bill includes $4 million in start-up funding.

  The bill has received support from multiple people and groups within ag.

- **Brazil suspends soy, corn import duties until year-end**

  Reuters - Brazil has suspended import duties on soy, corn, soybean meal and soybean oil until the end of the year, the Agriculture Ministry said on Monday, as the country seeks to slow inflation fanned by rising global commodities prices.

  The Chamber of Foreign Commerce (Camex) had already authorized the suspension of the import tax on corn until March 31st of this year and soybean until January 15th.

  The latest measure is likely to benefit U.S. grains producers, experts say, as Brazilian buyers had earlier focused on Mercosur producers who are already exempt from tariffs.
The Ministry of Agriculture said that when the previous exemption was announced, the expectation was that external prices would stabilize and that the 2020/21 grain harvest would have sufficient production to rebalance supply and demand. "However, international prices had an upward trend, putting even more pressure on domestic prices," the ministry said. "Domestic prices continued to rise due to the strong external demand and the continued devaluation of the real against the dollar."

The industry is increasingly focused on outlooks for Brazil's second corn crop, the larger of the two annual harvests, which has not yet begun.

Earlier this month, the Brazilian Association of Animal Protein (ABPA) urged the Agriculture Ministry to support its request for exemption from the import tariff for corn and for the creation of mechanisms that provide more predictability to the market. Its aim was to help the meat industry to source animal feed in the event of a problem with Brazil's second corn crop.

International Crop & Weather Highlights

- **USDA/WAOB Joint Agricultural Weather Facility – 17th April 2021**
  - **Europe** – Continued Cold
    - Another hard freeze was untimely for late-vegetative to reproductive rapeseed and wheat in parts of France, while cold weather slowed winter crop development elsewhere in Europe.
    - Additional showers further eased short-term dryness in England, France, Germany, and Poland, while moderate to heavy rain alleviated short-term drought in northern Italy.
  - **Western FSU** – More Rain
    - Additional rain maintained abundant soil moisture for vegetative winter crops in the Black Sea Region.
  - **Middle East** – Additional Showers, More Rain Needed In Iran
    - Cool, showery weather in Turkey favored vegetative (north) to reproductive (south) winter grains.
    - Showers provided much-needed moisture for reproductive to filling winter grains in eastern Iran, but more rain is needed to eliminate longer-term deficits.
  - **Northwestern Africa** – Timely Rain
    - Timely rain in Algeria and Tunisia stabilized or improved yield prospects for reproductive to filling wheat and barley.
    - Dry weather in Morocco's primary croplands advanced filling winter grains toward maturity.
  - **South Asia** – Hot, Some Showers
    - Seasonable heat and scattered showers prevailed across India and environs, as rabi crop harvesting in India and Pakistan neared completion.

- **East Asia** – Cooler Weather And Showers
  - Rainfall in southern China boosted moisture supplies for early-crop rice, while more seasonable temperatures in the east, following weeks of warmer-than-normal weather, benefited reproductive rapeseed and wheat.

- **Southeast Asia** – Super Typhoon Surigae
  - Super Typhoon Surigae began to weaken as the storm approached the northeastern Philippines, while the periphery of the storm was bringing showers to eastern-most rice and corn producing areas.
  - Seasonably hot weather and periodic pre-monsoon showers prevailed in Thailand and the surrounding areas, as field and paddy preparations continued ahead of wet-season crop sowing.

- **Australia** – Local Showers
  - Warm, sunny weather allowed summer crop harvesting to regain momentum in southern Queensland, while showers likely disrupted cotton and sorghum harvesting in northern New South Wales.

- **South America** – Dry Weather Dominated Large Sections Of Brazil
  - Showers were generally widely scattered and light over major corn and cotton areas of central and southern Brazil, as summer warmth maintained high moisture demands.
  - Heavy rain continued in Argentina's eastern farming areas, hampering fieldwork but increasing moisture reserves for the upcoming winter grain season.

- **South Africa** – Warm, Sunny Weather Prevailed
  - Conditions remained favorable for maturation of corn and other summer row crops.

- **Mexico** – Light Showers Developed In Eastern Farming Areas
  - Rain helped to condition fields for corn planting though amounts were light.


- **U.S. Agricultural Weather Highlights – Friday 23rd April 2021**

  - **In the West**, dry weather prevails, aside from some snow showers in the northern Rockies. In the Southwest, dry, breezy conditions and low humidity levels remain conducive to the ignition and spreading of wildfires.
  - **On the Plains**, chilly conditions linger across Montana and the Dakotas. Light snow is falling early today in parts of Montana. Farther south, however, mild weather has replaced previously cool conditions. Today's high temperatures will reach 80°F or higher in portions of western and central Texas.
  - **In the Corn Belt**, frost and freezes occurred again early today in the middle Ohio Valley and portions of the lower Great Lakes region. However, milder weather prevails...
from the Mississippi Valley westward, accompanied by rain showers. Early today, the heaviest rain is falling in the middle Mississippi Valley.

**In the South**, frost and scattered freezes were reported this morning as far south as the Carolinas and eastern sections of Kentucky and Tennessee, with potential adverse impacts on fruits, heading winter wheat, and emerged summer crops. In Tennessee, 68% of the apples were in full bloom by April 18, while 10% of the winter wheat had headed. Farther west, a few rain showers are overspreading the northern Mississippi Delta and portions of the Tennessee Valley.

**Outlook:** A changing weather pattern will lead to rapid warming across much of the central and eastern U.S. Early next week, temperatures could briefly reach 90°F as far north as Kansas, while widespread readings above 80°F will extend across the Midwest and mid-Atlantic. Meanwhile in the West, a temporary cooling trend will be accompanied by widespread rain and snow showers. The Western showers will not appreciably change a bleak water-supply outlook in areas hardest hit by drought—but could provide a temporary boost in topsoil moisture. The storm responsible for the Western precipitation will begin to affect the Plains and Midwest early next week. That storm, combined with a weaker system currently crossing the Mississippi Valley, could lead to 5-day rainfall totals of 1 to 3 inches or more across the nation's southeastern quadrant. The NWS 6- to 10-day outlook for April 28 – May 2 calls for near- or above-normal temperatures nationwide, with the greatest likelihood of warm weather expected in the middle and northern Atlantic States. Meanwhile, near- or below-normal precipitation along much of the Atlantic Seaboard and most areas from the Pacific Coast to the Plains should contrast with wetter-than-normal weather in western Washington and from the Mississippi Valley to the central and southern Appalachians.

*Crop stage sensitive to moisture and temperature stresses.*