Notes and Observations in International Commodity Markets

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➢ USDA FAS WASDE Report – 10 July 2020
Markets mixed to lower as weakness in corn and a stable Chinese demand outlook in 2020/21 are contributing to the market’s post-report moves.

WHEAT: Following the report release wheat markets close the week mixed. A neutral to slightly supportive report, showed a reduction in U.S. SRW and HRW production estimates. In contrast, initial survey-based estimate of U.S. Other Spring production was nearly in line with expectations at 550 mbu. U.S. SRW crop was lowered 17 mbu (5.7%), while HRW output was reduced by 33 mbu (4.4%). First estimate of U.S. HRS production is 502 mbu vs. last year’s 522 mbu. USDA indicates smaller competitor crops v. last month in European Union (-1.5 mmts) and Russia (-0.5), but that was offset somewhat by a higher export forecast for Australia (+0.5). Greatest support is evident in Chicago SRW Wheat as the market focuses on U.S. SRW harvest results, while more of a choppy trend appears likely for KC HRW and MGEX HRS with attention on crop prospects in Russia and Canada.

CORN: Following the report release corn markets close the week lower on the day. At first glance, the USDA’s numbers weren’t all that different than the trade. The USDA’s corn production estimate of 15.0 billion was just 41 million less than the trade average and the former’s ending stocks forecast of 2.65 billion fell 83 million shy of the trade average. It would appear an otherwise neutral report has taken a back seat to the weather forecast with the mid-day 7-day outlook suggesting some timely rain for especially the drier areas of the Midwest. The USDA does expect a 10 mmts draw-down in Chinese corn stocks in the coming year and while there were no changes in both its old and new crop imports, 7
mmts each, there may be some optimism for additional volume based on this morning’s sales announcement. Neutral report; bearish short-term weather picture.

**SOYBEANS:** Following the report release oilseed markets close the week down. Hopes for an increase in demand for U.S. soybeans in at least the short-term were dashed with the USDA upping this past spring’s Brazilian soybean crop by 2 mmts to 126.0 mmts, nearly 3 mmts more than the trade was expecting. Further, the country’s bean export forecast was raised 4 mmts to 89 mmts, which more than offset a 2 mmts increase in the USDA’s forecast for 2019/20 Chinese imports. The latter total is now at 96.0 mmts. Interesting the USDA sees Chinese crush in 2020/21 rising 6.5 mmts to 95.0 mmts (TY was raised 1 mmts to 88.5 mmts) while imports were estimated to be unchanged at 96.0 mts. Also note China’s soybean stocks are seen rising nearly 8 mmts in 19-20. The USDA’s 425 mbu forecast for 2020/21 U.S. soybean ending stocks was 30 mbu more than last month, but only 1 mbu higher than the trade average.

➢ **China Agricultural Purchases Continue; Rice Not on the Menu**

On Thursday, Chinese importers committed to buy 202,000 mts of U.S. corn and 126,000 mts of US soybeans for delivery in the 2020-21 marketing year.

That same day, USDA’s Foreign Agricultural Service released its latest weekly data for June 19-25, showing physical exports of 144,300 mts of corn and 125,400 mts of sorghum to China. Chinese importers also contracted to buy 76,800 mts of sorghum and 594,000 mts of soybeans.

On Tuesday, FAS reported export sales of 264,000 mts of soybeans for delivery to China during the 2019/2020 marketing year and export sales of 204,000 mts of corn for delivery to China during the 2020/2021 marketing year.

However, US rice farmers are still waiting for China to begin importing US rice. The country has already lifted its ban on US rice and approved milling and storage facilities, technically throwing open its border to US rice, but the trade just isn’t happening.

➢ **U.S. Trade Groups Urge China to Increase Purchases of U.S. Goods, Services**

Reuters - The U.S. Chamber of Commerce and over 40 trade associations on Monday urged top American and Chinese officials to redouble efforts to implement a US-China Phase 1 Trade Agreement signed by the world's two largest economies in January despite pandemic-related strains. The agreement called for China to purchase $200 billion in additional US goods and services over the next two years.

In a letter to US Treasury Secretary Steven Mnuchin, US Trade Representative Robert Lighthizer and Chinese Vice Premier Liu He, the groups said they were encouraged by the progress so far, but urged a significant increase in China’s purchases of US goods and services.

They said combating the novel coronavirus pandemic and restoring global growth depended in part on successful implementation of the US-China trade deal, which helped defuse a nearly 18-month trade war marked by tit-for-tat tariffs.

Jeremie Waterman, who heads the Chamber's China Center, said some progress had been made on structural issues and purchases of farm goods, but China needed to step up its purchases of U.S. manufactured goods, services and energy to meet its targets now that its economy was starting to recover from the pandemic. "There are areas where we see less progress and where we think it's critical that both sides redouble efforts," Waterman said.
US-China tensions have spiked in recent months over the origins of the coronavirus outbreak and passage of a new national security law that limits Hong Kong’s autonomy.

U.S. President Donald Trump had said that “decoupling” the two economies remains an option, and his trade adviser Peter Navarro jolted markets last month when he said the U.S.-China trade agreement was “over,” although he quickly backtracked.

White House Chief of Staff Mark Meadows said on Monday the U.S. president was considering several executive orders targeting China and manufacturing, but gave no details.

The U.S. industry groups listed specific recommendations in an annex to the letter, including increased purchases of U.S. aircraft and components, cars and medical devices, as well as cloud services and U.S. energy products.

Accelerated implementation of the trade deal would help both countries while paving the way for Phase 2 talks on other key issues such as subsidies, cybersecurity and digital trade, they said.

"Amid increasing bilateral tensions across the relationship, working together to improve trade and grow commerce can provide important benefits to both economies and help to improve relations,” they wrote in the letter.

➢ France Sees 2020 Soft Wheat Crop Down 21% On Poor Growing Conditions

Reuters - France’s soft wheat production is expected to fall by 21% this season following adverse weather and growing conditions, the French Farm Ministry said this week.

In its first forecast of this year’s soft wheat crop, the ministry projected production at 31.31 mmts compared with 39.55 mmts in 2019. This forecast was based on a yield estimate of 7.11 mts/ht, down from 7.91 mts/ht last year, and a crop area of 4.41 mhts, down from 5.00 million from last year, and down 4.59 million from the June estimate, and the lowest since 2003.

The production estimate would be 12.4% below the average of the last five years and would be second smallest soft wheat crop in France since 2004. The crop in 2016 was the smallest.

This production season has been marked with sowing difficulties in autumn due to wet weather, and then dry weather this spring.

French barley production is forecast to be 12.33 mmts, down 10.3% from last year, but1.8% above the five-year average. This includes a reduced estimate of the winter barley harvest, at 7.80 mmts compared with an initial June estimate of 8.17 mmts, and spring barley production estimate of 4.53 mmts.

French rapeseed production is estimated at 3.37 mmts, down 3.7% from last year and 29.5% below the five-year average.

➢ US and Mexico Celebrate USMCA Implementation

To commemorate the implementation of the long-await U.S.-Mexico-Canada Agreement (USMCA), Mexican President Andrés Manuel López Obrador traveled to the White House this week to meet with President Donald J. Trump.

The tightly-scripted, one-day summit was supposed to include Canadian Prime Minister Justin Trudeau, who declined the invitation due to COVID-9, as well as concerns about what the prime minister called “the proposed issue of tariffs on aluminum and steel that the Americans have floated recently.”

Before signing the joint declaration in the Rose Garden, President Trump told reporters Canadian officials would travel to the White House to mark the new deal at a later date.

The meeting also came just as USDA’s Foreign Agricultural Service issued a report detailing the harm to Mexican farmers due to the country’s refusal for two years to approve new biotech traits, as well as a more recent ban on glyphosate.

Just last month, the Mexican Secretariat of Environment and Natural Resources rejected 19 applications to plant new biotech cotton seeds. That was a major blow to farmers, according to FAS officials stationed in Mexico City.

“The permit rejections will have significant ramifications for cotton planning in Mexico, as producers have access to very few outdated GE seed varieties which are not compatible in all growing areas and result in poor yields and ineffective pest protection,” the officials write.
US Illinois River Closure Cutting Off CME Depots to Jumble Trade Flows

Bloomberg - Long-awaited repairs along a key US waterway will jumble trade routes and could end up cutting off access to the majority of warehouses holding the corn and soybeans that back Chicago CME Futures. The Illinois River will close for navigation to allow for repairs at five lock-and-dam systems, interrupting shipping on parts of the waterway that connect the Great Lakes with the export hub of the Gulf of Mexico. The work will start as early as July 1st, with the last area reopening on October 29th, according to the U.S. Army Corps of Engineers.

The upcoming halt to river traffic is forcing traders to find alternative means of transport for everything from corn to soybeans as well as the corn-based ethanol that’s traded at a hub north of the closures. CME Group Inc., which owns the Chicago Board of Trade, has already put in place alternative delivery mechanisms to back up normal procedures in case the work ends up hampering access to more than 50% of its certified warehouses for the crops.

The repairs are designed to take place mainly over the summer, after high waters abate from spring rains and before the autumn grain harvest. Notices of the lock repairs gave ample time for crop handlers to shift supply lines to rail cars instead of barges or to the Mississippi River.

Still, farmers that need to offload their crops during that period will probably receive a lower price. Soybeans are likely to be most affected, as corn may still find demand from the Marquis ethanol plant and from eastern regions, said Curt Strubhar, vice chairman and risk management consultant at Advance Trading Inc.

S&P Global Platts, which publishes ethanol prices based on trading at Argo and Chicago, said that it’s keeping its assessment methodology unchanged for the period as buyers can use other delivery options including inter-tank transfers, rail and truck.

The ethanol market is also being impacted. Prices traded at the Kinder Morgan Argo hub near Chicago have spiked as traders tried to take product out of the terminal ahead of the closure.

“We’ve never had this long of a shutdown before,” said Mark Marquis, chief executive officer of biofuel maker Marquis Energy, which has been shipping ethanol down the Illinois River for more than 20 years. “There’s been a couple of days, but never a 90-day shutdown. This does have a major impact for folks like us.” Marquis said; “Yes, we can use the railroad more right now or transport things by truck, but the river closure is a big deal. This is new territory as far as how it affects your logistics.”

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