Notes and Observations in International Commodity Markets

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Links:
Agriculture Today – Global Trade, China https://www.youtube.com/watch?v=gRYIMDsg3nl
USGC - Corn Trade and China Webinar: https://www.youtube.com/watch?v=M_668x-KM6A

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➢ China Makes Its’ Largest Purchase of U.S. Corn.
GHA - The USDA’s FAS says Beijing bought 1,762,000 mts of U.S. corn for delivery during the 2020/21 marketing year, following up on the previous week’s sale of 1,365,000 mts as China tries to meet Phase One trade deal purchase obligations and hit the World Trade Organization’s low-tariff quota of 7.2 million tons of corn imports from any country, not just the U.S.

China also bought 129,000 tons of U.S. soybeans Tuesday, also for delivery next marketing year, which starts September 1st.

This past weeks sale was the 4th largest USDA Reported Corn Sale in history.

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<thead>
<tr>
<th>mts</th>
<th>Date</th>
<th>Country</th>
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<tbody>
<tr>
<td>3,720,000</td>
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<td>USSR</td>
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<tr>
<td>3,600,000</td>
<td>1999</td>
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</tr>
<tr>
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<td>2018</td>
<td>Mexico</td>
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<tr>
<td>1,600,000</td>
<td>2019</td>
<td>Mexico</td>
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Previously, China’s biggest purchase of U.S. corn was 1,450,000 tons in late 1994.

China has been able to put aside its growing tensions with the United States at least in the area of agricultural purchases, with a record purchase of US corn reinforcing the phase one trade deal as well as Beijing’s need to bolster its food security.

Having started to make purchases in March, China has ramped up its purchase of US corn since the start of July, having not made any in June, placing orders totaling 4.19 mmts this year for delivery over the next two years. China also bought 1.17 mmts of US soybean this month, after having bought the same amount in June, according to data from the USDA.

These most recent purchases have been made amid a backdrop of escalating tensions which started with the coronavirus, and have escalated over Xinjiang and the national security law in Hong Kong. However, the market believes that the geo-politics will have minimal impact on China’s purchasing decision as they are in need of corn and will have to import to safeguard their food security. It is also import to note that China does not want to significantly compromise its largest export customer, the US.

With fulfilment of the Phase 1 Trade Deal being only one reason, the Chinese government has the intention to import additional corn to replenish state reserves since destocking has been taking place faster than anticipated.

Analysts believe China is likely to stick with its pledges for buying US farm products, including corn, which is a key ingredient for animal feed, driven by a depleting inventory at home as its hog population recovers from the deadly African swine fever. Prices of corn in China have been hitting record highs since the start of the year, driven by a recovery of the hog population, with sales from its state reserves since May aimed at bringing down prices. Since the beginning of 2020, corn futures prices on the Dalian Commodity Exchange (DCE) for delivery in September have jumped 7% to around US$300/mt despite China
releasing stock from its state reserves. This is reflective of growing feed demand across China's livestock sectors.

While some analysts suggest an estimated 60% to 70% of China's corn imports will continue come from Black Sea and remain China's number one supplier of corn, due to the lower prices; other suggest that a majority of any significant increase in China corn imports will originate from the US.

China's corn inventories have been declining since 2016-17. In recent years the Chinese government has promoted corn destocking by liquidating stockpiles in northeastern China, as the states temporary and strategic reserves are estimated to have held massive corn inventories.

Current USDA estimates place China's estimated ending stocks of corn at 194 mmts for 2020/21, over 60% of the world total. While China does not officially disclose its total corn inventories, analyst estimates vary widely. It is increasingly believed the USDA estimates are significantly over stated, with some estimates as low as 50 mmts.

The quality of these stocks is also an increasing concern. This week the state-owned China Grain Reserves Corporation published a notice denying that there were quality issues in its corn inventory after a farmer uploaded a video online that showed discolored corn bought at auction.

- **Tight Chinese Pork Supplies to ease by Fourth Quarter**
  
  Reuters - Construction of new pig farms and rapid restocking will help to ease tight pork supply from the quarter, an official at China's Ministry of Agriculture and Rural Affairs said on Monday.

  Stocks of productive sows have increased by 28.6% compared with the level in September 2019, according to Yang Zhenhai, director of the animal husbandry and veterinary bureau under the ministry.

  Sow numbers since last September had fallen by 39% from a year earlier, after African swine fever killed off millions of pigs. Nationwide, live hog stocks are up 20.9% from January, he said.

  Since then, farmers have been trying to rebuild the herd. Sow numbers in 15 provinces have recovered to more than 85% of their 2017 levels, Yang said, while live pig inventories are at more than 80% of their 2017 levels in 13 provinces.

  Tight supply of pork will gradually ease after the third quarter, he added, with help from higher imports and an increase of more than 1.2 mmts of poultry meat.

- **Growth In Global Aquaculture Feed Market (2020 – 2025)**

  Globe Newswire - The aquafeed market is projected to grow at a CAGR of 7.2% for the next five years, reaching USD 71.612 billion by 2025. Factors such as the growing aquaculture industry and increasing seafood trade are factors projected to drive market growth.

  The global consumption of seafood has increased due to the rising awareness of the health benefits of fish and other aquaculture species. They are a rich source of vitamins, minerals, amino acids, and essential fats (long-chain omega-3 fatty acids). Thus, the positive effects of seafood consumption have led to their rise globally.

  China, Norway, Vietnam, and Thailand are the leading fish producing nations, as well as the largest exporters of fish and fishery products. The Asia Pacific is projected to be the fastest-growing region in the aquafeed market. Countries, such as India, have focused on the adoption of freshwater aquaculture as their key activity, which has contributed to its market dominance. Also, consumer demand for convenience and processed seafood offers profitable growth prospects and diversification in the region's food sector. These factors are projected to significantly drive the market growth for aquafeed during the forecast period.

  Growth of the seafood trade will drive the growth of the aquafeed market in the future. The soybean sector is forecast to dominate the aquafeed market in 2020. Soybeans are among the non-fish sources of omega-3 fatty acids, proteins, and unsaturated fats. Soy protein is fed to farm-reared fish and shellfish to enhance their overall growth and development. Some of the commonly used soybean products in aquafeed include heat-processed full-fat soybean, mechanically extracted soybean cake, solvent-extracted soybean meal, and dehulled solvent-extracted soybean meal.

- **Brazil May Plant Record Soybean Area Next Cropping Year**

  Reuters - Brazilian soybean farmers are expected to expand planted area to over 38 million hectares (93.9 million acres) this next season that begins mid-September as demand for oilseeds remains strong.
In the 2019/2020 harvest, Brazil sowed about 37 million hectares (91 million acres) with soybeans, according to government data, resulting in a record harvest of 120.9 mmts of Brazil's most wanted export commodity. The record output came in spite of a drought in Rio Grande do Sul state.

Forecasts indicate the possibility that soybean shipments from Brazil will end the year at around 80 mmts, which would be the second largest volume ever shipped by the country, behind only 2018.

➢ **A Fifth of EU soy imports from Brazil could be tainted by deforestation, study says**

 Reuters - A fifth of EU soy imports from Brazil may come from land illegally deforested, according to a study released on Thursday that offers a detailed inventory of farms in the supply chain.

That research, published Thursday in the journal Science, also opens the door for both international companies and Brazilian law enforcement to pinpoint specific farms violating rules against Amazon deforestation, according to study coauthor Raoni Rajao, who specializes in environmental management at the Federal University of Minas Gerais.

In their study, Rajao and other researchers looked at deforestation in Brazil's Amazon and in the bordering Cerrado savannah since 2008, the cutoff date for the current forestry law, before which farmers meeting certain conditions were granted amnesty for earlier tree cutting.

The team also found that 17% of Brazil's beef exports to the European Union are linked to deforestation. However, there were only a few "rotten apples" in the soybean and beef supply chains, with only 2% of farms causing 62% of the illegal deforestation in the area covered, it said. The study did not name the companies or farms implicated in deforestation.

The study only considered Brazilian exports to the European Union, which took in 16% of Brazil's soybean and soymeal exports in 2019. Rajao said future research might look at exports to China, which is Brazil's largest soy and beef buyer, accounting for 64% of soybean and meal sales.

Deforestation has surged in the Brazilian Amazon since right-wing President Jair Bolsonaro took office in 2019 and weakened environmental enforcement while urging more commercial farming and mining in forest areas.

Deforestation in Brazil's Amazon hit an 11-year high in 2019, destroying an area the size of Lebanon, according to government data. Land clearances rose a further 25% in the first six months of 2020, compared to a year ago, preliminary data shows.

➢ **Argentina farm minister says no plan to hike grains export taxes**

 Reuters – Argentina does not plan to increase grains export taxes despite the government's need for revenue as the coronavirus pushes the country into a deep recession this year, Agriculture Minister Luis Basterra told Reuters on Wednesday.

Argentine farmers in the vast Pampas grains belt had worried that the cash-strapped government, embroiled in a complicated restructuring of $65 billion in sovereign bonds, might raise taxes on international shipments of wheat, corn and soy. Wheat exports from Argentina are currently taxed at 12%, corn at 12%, soybeans at 33% and soymeal also at 33%.

The government is gasping for revenue as the Argentine economy is expected by private analysts to shrink by about 12% this year, pressured by a lockdown that began in March against the coronavirus pandemic.

Asked if the government was planning to increase those levies, Basterra said: "No. We have to deal with our need for dollars by increasing production, not by increasing taxes. We need growers to increase planting area and increase investment in order to increase crop yields."

Argentina is a major wheat, corn and soybean exporter as well as the world's No. 1 supplier of soymeal livestock feed used to fatten hogs, poultry and cattle from Europe to Southeast Asia.

➢ **United States Starts Free Trade Discussions With Kenya**

 Last week the United States and Kenya commenced free trade negotiations. In 2018, U.S. total exports of agricultural products to Kenya totaled $37 million. Leading domestic export categories were $10 million of coarse grains, $6 million of wheat and $5 million of pulse crops.

Tom Vilsack, president and chief executive officer of the U.S. Dairy Export Council (USDEC), said in a recent agriculture podcast that although Kenya is not a big market for U.S. dairy products today, it is an
entry point to sub-Saharan Africa, a part of the continent that will see remarkable population growth over the next 10-15 years. The hope is that the emerging economies become more sustainable and their governments more stable.

➢ **House Members Write to Administration on Phase Two of Japan Trade Deal**

A bipartisan letter to Administration officials urged a phase two deal with Japan, saying it would particularly benefit the dairy industry. The letter was signed by 51 others.

“Given the fact that our domestic market is a top destination for Japanese exports, Japan must ensure that the terms of trade offered to the United States are better than those offered to other, less valuable, markets,” the members wrote. “We wholeheartedly endorse Ambassador Lighthizer’s assessment during his testimony before the House Ways and Means Committee in June 2019: ‘You cannot treat your best customer worse than you treat people from all these other countries in Europe and all the other TPP countries,’” the letter said. “A particularly important opportunity for our dairy industry relates to products for which Japan gave minimal market access in its trade agreements, such as milk powder and butter.”

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