Notes and Observations in International Commodity Markets
24th July 2020
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Links: Agriculture Today – Global Trade, China: https://www.youtube.com/watch?v=gRYIMDsg3nI
USGC - Corn Trade and China Webinar: https://www.youtube.com/watch?v=M_668x-KM6A

➢ India, U.S. Closing In On A Trade Deal
➢ US Soybean and Corn Exports Soar on Big China Deals
➢ China’s U.S. Corn Purchases
➢ China’s U.S. Soybean Bookings Hit 6-Year Highs
➢ China June Pork Imports Jump 128.4%, Beef Up 31.2%
➢ Australia Wheat Production to Rise Sharply
➢ Pakistan’s Wheat Production To Be Around 25.5 mmts
➢ Malaysia losing up to 25% of palm oil yield due to labour crunch
➢ USTR Nominee Forecasts Uptick in Chinese Purchases of U.S. Ag Goods
➢ U.S. Secretary of State Meets with U.K. Trade Officials

➢ India, U.S. Closing In On A Trade Deal

Reuters - After two years of negotiations, India and the United States are closing in on a trade deal, said India’s Commerce Minister Piyush Goyal on Tuesday.

"In the long term, I believe we have a quick trade deal which has some of the pending matters built up over the last couple of years, which we need to get out of the way quickly. We are almost there," Goyal said at the U.S.-India Business Council’s India Ideas Summit, being conducted virtually.

Both New Delhi and Washington should also look at a preferential trade pact with 50 to 100 products and move to a free trade pact in the long term, Goyal said.

➢ US Corn and Soybean Exports Soar on Big China Deals

Reuters - China said last week it will stick to the “Phase 1” trade deal it reached with the US earlier this year, but warned that it will respond to "bullying" tactics from Washington, as relations continue to deteriorate.

USDA this month has flashed some 7.78 mmts of US grains and oilseeds through July 23rd, the most for the full month in at least seven years. Corn accounts for 52%, soybeans 44%, and wheat occupies the rest. Some 84% of those daily sales have been to China and another 14% were purchased by an unknown buyer. In the soybean market, “unknown” buyers are typically assumed as China since it is the top customer.

Weekly U.S. corn and soybean export sales reached multi-year highs in mid-July, the USDA said on Thursday, fueled by big purchases by China. China booked deals to buy 1.967 mmts of US corn, its biggest weekly total of the yellow grain on record, in the week ended July 16th. The weekly USDA report also showed soybean sales to China rose to 1.696 mmts, the most since March 2019.

Separately, the USDA said private exporters reported that China bought 132,000 mts of soybeans for delivery in the 2020/21 marketing year that begins on September 1st.

The USDA has announced new sales to China for eight consecutive trading days.

The Chinese purchases pushed the overall weekly total for corn export sales to 2.548 mmts, the most since March 2018, and soybean export sales to 2.666 mmts, the biggest since December 2018.

China would need to ramp up buying of U.S. farm products dramatically in the coming months to fulfill its “Phase 1” commitment to import $36.5 billion worth in the first year of the deal, signed in January. US government data shows that China imported just over US$6 billion worth of US farm goods from January to May.

CME – CBOT November soybean futures were up 2-1/4 cents at $8.97-3/4 a bushel in early trading on Thursday. CBOT December corn was 1-3/4 cents lower at $3.33.
**China’s U.S. Corn Purchases**

Reuters - U.S. corn sales for the upcoming marketing year stood at 7.7 mmt on July 16th, the most for the date since 2013. China’s 3.8 mmt is record-large, but corn sales to all others are just average and possibly lackluster when compared with the Chinese bookings.

There has not been a daily corn sale to China in the days since, but on Tuesday an unknown buyer purchased 207,880 mts of US corn, some 88% for delivery in 2020-21. In the corn market, unknown buyers may often be Mexico, who is historically the top buyer of US corn. Mexico had booked 2.04 mmt of new-crop US corn as of July 16th, giving China’s purchases the largest volume in recent memory, and likely in history, over those of the US southern neighbor.

**China’s U.S. Soybean Bookings Hit 6-Year Highs**

Reuters - China has returned in full force to the U.S. soybean market following the trade dispute that began two years ago, giving American exporters hope that the upcoming shipping season will be their most successful in three years.

The “Phase 1” trade deal signed at the beginning of this year implied China must book record or near-record volumes of U.S. soybeans through at least the end of 2021. Despite historically light purchases in the first few months of 2020, the Chinese seem to be making up for lost time, at least for now.

In addition to the “Phase 1 Agreement”, Chinese feed demand is expected to rise from last year as it builds back up the hog herd after huge losses from African Swine Fever (ASF). Some market analysts also expect China may build soybean reserves.

As of July 16th, China had booked 6.1 mmt of US soybeans for the 2020/21 US marketing year that begins September 1st, according to the USDA.

China has remained active in the US market since July 16, booking a minimum of 1.04 mmt of soybeans in the days since. That is the total amount that has been confirmed through USDA’s daily reporting system. On Thursday, the USDA announced that China bought 132,000 mts of new-crop soybeans, and that was the eighth trading day in a row that contained one or more flash sales.

The total is China’s largest volume of new-crop soybeans for the date since 2014, and most of this year’s purchases occurred over the last several weeks. The only other years besides 2014 in which China’s mid-July new-crop soybean purchases were larger than this year were 2011, 2012 and 2013. Soybean sales for 2020/21 to all destinations as of July 16th have totaled 10.4 mmt, also a six-year high.

However, non-Chinese bookings stood at 4.3 mmt, which is around average for the date. Many market participants have welcomed the flurry of Chinese bookings but have also wondered how long the streak will last. Saying that Brazil has shipped a record volume of soybeans to China this year would be a huge understatement, so it is uncertain how many more shipments of soybeans the Asian country will actually need.

Brazil’s 2019/20 soybean crop was some 45% larger than its 2013/14 harvest, which at the time was a new record. Brazil first took a small lead over the US as top soybean exporter in 2012-13, but the South American country’s exports in 2020/21 are expected to be almost 50% larger than their U.S. counterparts.

**China June Pork Imports Jump 128.4%, Beef Up 31.2%**

Reuters - China imported 400,000 mts of pork in June, customs data showed, up 128.4% from the same month year-on-year, as a months-long buying spree continued to help plug a domestic shortage.

China’s pork output declined by about a fifth in the first half of 2020 after an epidemic of African Swine Fever killed and estimated half of millions of pigs in the country last year.

The imports mark the fourth straight month of pork shipments of around 400,000 mts, double the volume of earlier records. January to June pork imports were up 142.7% at 2.12 mmts.

Imports of pork including offal in June came to 540,000 mts, up 102.5% from a year earlier, bringing total imports for this year to end-June to 2.82 mmts.

Import are expected to fall in coming months, however, after China started testing containers of frozen food for the presence of the coronavirus. China has suspended imports from dozens of overseas suppliers after coronavirus outbreaks among workers.

Beef imports including offal in June were 180,000 mts, up 31.2% from a year earlier, said customs, with shipments for first-half 2020 reaching 1.01 mmts. Offal made up only a fraction of the combined imports.
➢ **Australia Wheat Production to Rise Sharply**

USDA - With an end to a multi-year drought, Australia is projected to increase wheat production by 78% to 27 mmtS in 2020/21, according to a July 20 USDA GAIN report.

After three years of drought across the eastern grain belt, widespread beneficial rainfall was received early in the 2020 giving a strong start to the winter crop season. Although current conditions in Western Australia are drier than average, with a 29% increase in planted area and a 37% in average yield expectations Australia is forecast to produce its largest wheat crop since 2016/17.

This is accompanied by a decrease in domestic consumption of wheat, forecast at 7.05 mmtS, a 16% reduction from 2019/20, as a result of a decline in in livestock numbers and drought feeding. After three years of drought impacting both the beef and dairy cattle industry, improved rains have resulted in re-stocker demand for cattle to rebuild the size of the herd. This has resulted in a significant decline in cattle-on-feed numbers, and a resulting drop in grain demand for feedlots.

Australia’s domestic consumption for flour milling is projected to remain steady at 3.55 mmtS. The USDA noted that the impact of COVID-19 has caused a “short-term” increase in flour production as mills boosted production to provide flour for consumers stocking up on supplies. Conversely, there has been a negative impact the foodservice sector as a result of restrictions by federal and state governments.

USDA forecasts Australian wheat exports to increase by 90% from last year to 17.5 mmtS in 2020/21.

Australian barley production is forecast to increase by 9% in 2020/21, to 9.8 mmtS. In May, after an 18-month anti-dumping investigation, the Chinese government announced it was imposing a five-year, 80.5% tariff on Australian barley imports. This announcement caused barley prices to drop. As the announcement was at the tail end of the planting season, some growers elected to swap out late planted barley for wheat where they had suitable late variety wheat seed available.

➢ **Pakistan’s Wheat Production To Be Around 25.5 mmtS**

USDA - Preliminary government estimates put Pakistan’s wheat production for the current year at 25.45 mmtS, 1.2 mmtS more than last year’s production of 24.3 mmtS. This is still short of the government’s target of 27 mmtS. The USDA Post’s production estimate remains unchanged at 25.7 mmtS.

The Pakistani government procured 6.5 mmtS of wheat from this year’s harvest, significantly higher than the 4.0 mmtS procured last year. The government had initially fixed an ambitious target of procuring 8.2 mmtS of wheat, achieving 80% of its wheat target. This ambitious target was set to build strategic reserves in view of the COVID-19 pandemic and given the lockdown imposed during the initial stages of the wheat harvest. The government considers the 6.5 mmtS of wheat procurement as a good achievement.

Pakistan will allow “Duty Free” imports of wheat by the private sector and lifted the 60% import duty. The decision is effective immediately and will remain in place until further notice.

The government also decided to lift ban on inter-provincial transportation of wheat to ensure sufficient availability across the country.

COVID-19 and ongoing locust infestations are creating uncertain conditions in the Pakistan market. The government maintains there are enough wheat stocks available in the country for the current marketing year. Depending on the price differential and interest of the private sector, Pakistan may import around 600,000 mmts of wheat during the current marketing year to build strategic reserves, ease pressure on demand and supply, stabilize local markets and discourage hoarding.

➢ **Malaysia losing up to 25% of palm oil yield due to labour crunch**

Reuters - Malaysia is losing up to 25% of its potential palm oil yield due to a labor shortage that is expected to worsen in the coming months, the Malaysian Palm Oil Association (MPOA) said on Monday.

The group, which represents plantation firms, said the government's decision to freeze the recruitment of new foreign workers until December could lead to the “demise” of the industry. The industry is already short of 36,000 workers. The shortage has resulted in Malaysia not realizing its potential production by as much as 10%-25%, said MPOA CEO Nageeb Wahab said in a conference.
Malaysia, the world's second-biggest palm oil producer, relies on workers from countries such as Indonesia and Bangladesh as they account for 84% of its plantation workforce. Thousands of workers have already left palm estates for home as borders close, and they have not been able to be replaced. A lack of workers could delay palm fruit harvesting and curb oil output, especially ahead of the peak production season that begins in September.

Nageeb said companies were actively hiring locals in support of the government's policy; however, not many locals were not interested in what they see as dirty, dangerous, difficult and demeaning.

Deputy Plantation Industries and Commodities Minister Willie Mongin said; Malaysia was planning to file a World Trade Organisation (WTO) case against the European Union over its restrictions on palm oil biofuel by this year. "We are adamant and steadfast in taking legal action against the EU on its discrimination towards Malaysian palm oil."

➢ USTR Nominee Forecasts Uptick in Chinese Purchases of U.S. Ag Goods

Michael Nemelka, nominee to be a deputy U.S. Trade Representative (USTR), told members of the Senate Finance Committee this week, "We have the Phase One agreement, which also just entered into force a few months ago."

"In that remarkable agreement, USTR achieved many long-held goals, including a commitment from China to fully respect intellectual property rights, end forced technology transfer, and increase purchases of U.S. goods and products, among many other things."

A key is making sure that China meets its commitments, he noted in prepared remarks, "and we have an agreement that is in writing, and is fully enforceable, to make sure they do." On making sure that China will live up to its purchase commitments, Senate Finance Committee Chairman Chuck Grassley (R-IA) asked Nemelka to address how USTR is working to make sure that China meets those commitments. In the fall, he added, the expectation is that "with these seasonal products and soybeans in particular that are currently in the ground, we expect to see those purchases rapidly increase."

Officials at USTR are working “every day to make sure that China lives up to its commitments,” Nemelka said. “We have our ambassador Gregg Doud on the phone nearly every day” with his counterparts in China.

➢ U.S. Secretary of State Meets with U.K. Trade Officials

Secretary of State Mike Pompeo met Tuesday with British Prime Minister Boris Johnson and Foreign Secretary Dominic Raab in London, and much of the conversation revolved around cementing a free trade agreement between the two countries.

U.S. and British negotiators have already concluded two rounds of talk. The third will start later this month, Pompeo said.

Opposition in the U.K. to relaxing European-style barriers to U.S. poultry and beef remains strong, but U.S. Trade Representative Robert Lighthizer is adamant that those restrictions must drop during negotiations.

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