Notes and Observations in International Commodity Markets
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➢ U.S. sells record amount of corn to China as tensions rise
➢ U.S. corn, soybean export sales smash July records on huge China deals
➢ China Needs to Step Up Buying to Meet US Farm Import Targets
➢ China’s Recovering Swine Herd Will Limit Growth In Poultry
➢ U.S.-China Trade Relations Remains Rocky
➢ U.S. Sorghum Prices Rally with China’s Return to the Market
➢ Brazil soybean output in 2020/2021 season forecast to reach a new record
➢ Secretary Perdue Rebuts EU’s “Farm to Fork” Strategy
➢ USTR Negotiator Meets with House Agriculture Committee
➢ Senate Finance Committee Holds Hearing on WTO Reform

GHA, 31 July 2020 – Even with the recent reports of large purchases of corn and soybeans by China, commodity prices finished the month of July in lack luster fashion. CBOT Corn and KC HRW Wheat finished the month at the low end of the range, while Soybeans and CBOT SRW Wheat settled in the mid-range. This is a result of a forecast for record world production for wheat, corn and soybeans. As optimal weather persists across most of the grain producing regions, the market is waiting for record demand to materialize, being held back by a flagging economy in the wake of the COVID-19 pandemic.

It is the view of this humble economist that, even as geo-political rhetoric and tensions escalate, China will continue to purchase a range of agricultural commodities at a record pace. Economic data and numbers coming out of China are questionable at the best of times. Current events of African Swine Fever (ASF), COVID-19, heavy rains and flooding, along with significant domestic food inflation, have increased this uncertainty. However, current market prices, data trends and anecdotal information have suggested for a long time that China has a large volume of pent up demand that must be fulfilled. Market commentators have suggest that China’s willingness to commit to such ambitious targets in “Phase 1” of the trade deal was a realization they were going to need to purchase this level of commodities anyway. As such, I remain optimistic that these targets will come very close to being met.

The USDA is scheduled to release its updated monthly WASDE crop production forecasts on August 12th.

➢ U.S. Sells Record Amount of Corn to China

Reuters 30 July 2020 - Chinese buyers booked their single biggest-ever purchase of U.S. corn, extending their flurry of large U.S. purchases even as tensions between Washington and Beijing rise.

The U.S. Agriculture Department said on Thursday that private exporters sold 1.937 mmts of corn to China for delivery in the 2020/21 marketing year. That topped the previous biggest deal to China of 1.762 mmts, reported just two weeks ago.

In a separate report, the USDA said soybean sales to China rose to 1.925 mmts in the week ended July 23rd, the biggest weekly total since 17th November 2016.

The recent purchases place China closer to the ambitious $36.5 billion target for imports of U.S. farm goods this year set in the “Phase 1 Trade Deal”. Analysts and traders say that target may be achievable, but it is looking like a stretch.

The corn sale reported on Thursday was valued at around $325 million, based on new-crop prices at the U.S. Gulf. China’s American farm purchases amounted to $6 billion through May - the latest data available - up just 9.1% from the same period in 2019 and 31% below 2017’s level.

China on Thursday accused the US of stoking a new Cold War ahead of its presidential election in November. US Secretary of State Mike Pompeo also called the Chinese Communist Party “the central threat of our times.”

Rising tensions have already slowed Chinese purchases of U.S. soybeans this week, U.S. Soybean Export Council CEO Jim Sutter said during a virtual town hall with agriculture leaders on Thursday, citing sources in
They’re worried that there could be a disruption in the implementation of the “Phase 1” agreement. That uncertainty is not good for future purchases,” Sutter said.

Near the close of trading on Thursday, Chicago Board of Trade corn and soybean futures were slightly higher.

**U.S. Corn, Soybean Export Sales Smash July Records on Huge China Deals**

Reuters 30 July 2020 - US ports should be very active later in the year as aggressive Chinese bookings have boosted total corn and soybean export sales to modern-day and potentially all-time record levels for July. That follows the recent multi-year low export levels after last year’s crops fell short.

China’s recent US corn purchases are likely larger than the market thought they would be this early on, though while its soybean deals for next year sit at six-year highs, there is a long way to go to reach the expected targets. While US corn and soybean sales to all other buyers remain no better than normal, and exporters will still have to contend with typical rivals such as Brazil.

It is difficult to compare export sales with years much past a decade or two ago, since the US has lost a significant share of global corn and soy exports during that period. Recent years are more instructive because they reflect the increasingly competitive dynamic in the world export market.

**CORN** - This month the US has already on a record corn-selling pace, accumulating 5.1 mmts in purchases through July 23rd. Within the last decade or so, full July sales typically did not extend much past 5 mmts.

But a record sale to China in the days since has boosted those sales above 7 mmts. The USDA through its daily reporting system on Thursday announced a Chinese purchase of 1.937 mmts of corn for delivery in the new marketing year starting September 1st. That is the third-largest single U.S. corn sale on record and the largest ever to China, topping the previous high to China of 1.762 mmts set on July 14th.

Chinese corn purchases for 2020-21 stood at 3.8 mmts as of July 23rd, and Thursday’s sale brings the known total to 5.7 mmts (225 mbu). That is an anomalously high commitment level for any buyer at this time of year.

The top two U.S. corn customers, Mexico and Japan, have never booked anywhere close to that much prior to the start of the new marketing year. Japan’s purchases usually total less than 2 mmts by the time the New Year begins, and Mexico typically books between 2.5 and 3.5 mmts.

USDA pegs China’s 2020-21 corn imports at 7 mmts, and it seems the US has already claimed most of this business. It is uncertain what the outlook is for other suppliers, namely Ukraine, which shipped 3.8 mmts of corn to the Asian country in 2018/-19.

US producers might be on their way to a record corn harvest this year and by next August, as supplies are expected to reach the highest levels in more than three decades.

But even when compared with stock predictions, July new-crop corn sales are still well above most previous years, and that would still largely hold true even if a couple million more bushels were added to the 2020-21 carryout estimate.
SOYBEANS - USDA on Thursday surprised the market with 3.34 mmts of new-crop net soybean sales for the week ended July 23rd, and combined with old-crop bookings it was the strongest week for US soybean sales in over eight years. China accounted for 59% of those purchases, and unknown buyers took 37%.

Through July 23rd, US soybean sales for the month totaled 7.6 mmts (278 mbus), exactly double the 10-year average for the full month and well above the sales of any previous Julys. This month’s new-crop sales account for nearly half of the total 2020-21 commitments thus far.

China and unknown buyers, many of which are likely China, have driven the strong U.S. soybean bookings this month. However, sales for 2020-21 to customers other than China or unknown stood at five-year lows as of last week, though not by a significant amount.

When including Thursday’s corn sale to China and the other smaller sale to an unknown buyer, known U.S. corn and soybean sales this month combine to 15.4 mmts (560 mbus).

Brazil’s soybean exports have reached astonishing records in recent months, and it is currently harvesting what could be a record corn crop. Corn shipments have already begun ramping up and should hit their highest levels for the year in the next three months.

China accounts for more than 75% of Brazil’s total soybean exports, larger than the pre-trade-war US equivalent of about 60%. But Brazil’s recent shipments to other buyers have also hit records, and by a bigger degree than those to China.

Between February and June, Brazil shipped 22% more soybeans to China than its previous record for the period. Shipments to other buyers were up 47% from the prior high, and this is important to track because if US business to China dries up or if tensions escalate, the American oilseed will be seeking alternative homes.

WHEAT – CBOT, KC HRW
China Needs to Step Up Buying to Meet US Farm Import Targets

Reuters 28 July 2020 (By Hallie Gu and Karl Plume) - With nearly seven months gone, an ambitious $36.5 billion target for Chinese imports of U.S. farm goods this year may not be quite out of reach, but it’s looking like a big, big stretch.

By end-May, imports were running behind 2017 levels - rather than 50% ahead as needed - and while orders for China’s main farm import, soybeans, have started to pick up, scorching levels of buying would be needed to hit the mark.

Add in a rapid deterioration in U.S.-China relations, an upcoming U.S. election, a global pandemic and questions over just how much soybeans China actually needs, and farmers and analysts say it may be a stretch too far.

Beijing and Washington sealed their “Phase 1” trade deal in January after two years of acrimony and a steep slump in imports by one of the biggest buyers of U.S. agricultural goods.

Analysts at the time expressed reservations about the farm goods target, which is a quarter above 2013’s all-time high of $29 billion. Still, Chinese buyers stepped up purchases this year of a range of farm imports, sealing record deals in corn and meat imports, prompting some optimism.

Falling commodity prices due to the coronavirus pandemic present an added difficulty, with the deal tied squarely to the value of imports. Soybean prices this year have averaged around 10% less than in 2016.

**Soybeans** - Soybeans typically account for about half of China’s U.S. farm imports and the vast bulk of buying comes in the last three months of the year when supplies from top grower Brazil dry up.

Overall, China normally requires 7 to 8 mmts a month of soybeans. The final volumes of China’s soybean purchases will likely depend on whether or not Beijing chooses to replenish government stockpiles. After a slow start, Chinese importers booked more than $2.5 billion in U.S. soy purchases in just the past eight weeks.

**Corn** - Chinese buyers have bought more than $500 million of corn in the first half of July, but importers are thought to have nearly filled their import quotas and the country’s own crop will be ready for harvest from September.

China has also spent record amounts on meat through May, including over $1.2 billion on pork, according to USDA data, but overall spending on meat has been relatively small. The sales have disappointed U.S. farmers hoping for a Chinese buying bonanza.

In total, China’s American farm purchases amounted to $6 billion through May - the latest data available - up just 9.1% from the same period in 2019 and 31% below 2017’s level.
Politics - China may not violate the deal if it misses the target due to the impact of coronavirus. The deal grants flexibility in the event of “a natural disaster or other unforeseeable event.” China-based sources said China will want to avoid the reputational damage of not meeting its commitments if possible.

At the same time, politics will come into play. With bilateral relations in turmoil, China may want to avoid making itself a bigger target for criticism from the US President during the election campaign by failing to make big agricultural purchases.

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➢ China’s Recovering Swine Herd Will Limit Growth In Poultry

As China’s swine herd recovers from African Swine Fever, China's chicken meat production will continue to grow in 2021, yet at a slower pace than the rapid expansion in 2019. However, gains in broiler production and chicken meat consumption will not be erased and the long-term trend of chicken displacing pork will continue.

China’s chicken meat production will continue to expand in 2021, but at a slower pace of 3%, compared to the double-digit growth in 2019. The primary reason for this slowing growth is the recovery of China’s swine herd from African Swine Fever.

In 2020, annual chicken meat consumption increased, but experienced weakening demand in the first half of the year due to COVID-19 in China. Consumption in 2021 is forecast to grow, but at a much slower rate of 2% annually, reaching 15.7 mmts for the year. The primary consumption outlets for chicken meat in China are schools, restaurants, and industrial canteens, most of which closed down due to COVID-19 restrictions. However, demand should strengthen in the latter half of 2020, as the enterprises resume their normal activities.

Due to expanding domestic production capacity in 2018 and 2019, coupled with the recovering pork supply in 2020 and 2021, China’s chicken meat imports are forecast to decrease by 16% in 2021, to 775,000 mts; almost double the pre-ASF level.

A plentiful domestic poultry supply and competition with pork will spur China to recover export markets impacted by the industry’s domestic focused posture in 2019 and 2020 due to ASF and COVID-19. Brazil will continue to be China's leading supplier in 2021. However, its market share is expected to decline with increased access granted to its competitors. According to China Customs data, China’s chicken meat imports from Brazil in 2019 accounted for 72% of China’s total imports. But in the first five months of 2020,
Brazilian market share declined by 10%. The majority of imported Brazilian chicken meat is the frozen mid-joint wing cut and bone-in chicken cut. Together these two HS codes accounted for over 80% of Brazil’s total chicken meat exports to China in the first five months of 2020.

Since regaining access for poultry meat in November 2019, U.S.-origin chicken meat imports have boomed, making China the third largest destination for U.S. chicken meat exports (from January to May 2020). While China and the United States signed a new animal health protocol on February 14th, 2020 allowing for the importation of live birds from the United States, the health certificate that accompanies live bird shipments is still under discussion with the relevant Chinese competent authorities. Exports: Exports are forecast to rebound with annual growth of 12% in 2021.

COVID-19 has affected poultry consumption demand in many ways, but overall, consumption growth will not slow in 2021. U.S.-origin poultry imports have seen strong success since access was restored in November 2019. In the first five months of 2020, China became the third-largest destination for U.S. chicken meat exports.

➢ U.S.-China Trade Relations Remains Rocky

The head of China’s trade negotiating team, Vice-Premier Liu He, and US Trade Representative Bob Lighthizer, are expected to hold talks in August, the South China Morning Post (SCMP) reported, echoing prior reports from other media and including remarks by Lighthizer earlier this month.

The meeting will be “an important inflection point” to allow both sides to assess the progress of the deal, a source told the SCMP.

On Wednesday, China officially rejected US claims that China has failed to comply with a 2019 World Trade Organization ruling against China’s price supports for its wheat and rice farmers. This follows a US request to allow authorization to impose “countermeasures” worth $1.3 billion.

Further, the U.S. Grains Council listed China as “very problematic” and “very restrictive” for its biotech approval system in a compilation of non-tariff barriers around the globe for its members. Regardless, grain shipping containers continue to travel between US and Chinese ports.

This week China made another record-breaking purchase of US corn on Thursday, buying 1.937 mmts.

Kevin Ross, president of the National Corn Growers Association, noted, “The recent corn sales that we’ve had there are very encouraging. Things are definitely looking up.”

Growth Energy senior vice president Craig Willis said he’d like to see the same enthusiasm for U.S. ethanol purchases. Although China promised to buy U.S. ethanol as part of the “phase one” trade agreement, Willis says that likely won’t happen until China reduces its tariffs. China is now exempting importers from some tariffs, which brings down the duties on U.S. ethanol from 70% to 45%, but more is needed to resume trade.

➢ U.S. Sorghum Prices Rally with China’s Return to the Market

USDA - China’s announcement of tariff exclusions following the Phase One agreement had an immediate impact on U.S. sorghum exports mainly because of the sheer volume China purchases and its effect on prices. As of early-July, U.S. commitments to the world have more than doubled the entire volume sold in 2018/19 (Sep-Aug) and are headed to reach the 2017/18 level. About three-quarters of the commitments have been slated for China.
U.S. sorghum is highly dependent on exports relative to other grains, and China has been the most important outlet in recent years. Typically, sorghum prices closely track movements of corn prices. With the return of China, sorghum prices have rallied, reaching $229 per ton in June, which was the highest since July 2015. Currently, sorghum prices hover around $215 per ton, down from last month’s peak largely influenced by corn. Corn prices rebounded in recent months supported by larger-than-anticipated corn area cuts in USDA’s June Acreage report and cooler and wetter weather forecasts for the Corn Belt.

➢ **Brazil Soybean Production in 2020/2021 Forecast to Reach a New Record**

 Reuters - Brazilian soybean output in the 2020/2021 season is forecast to reach a record of 129.15 mmts, up 3.44% from the prior season, as local farmers are poised to expand plantings at the fastest pace since the 2014/2015 cycle, according to a consultancy.

Arc Mercosul, in its first projection for the coming season, also forecast on Monday that Brazil's soybean planted area will reach 38.43 mhts (94.9 m acres) in the cycle that will begin in September, up 3.8% from last year and the fastest annual acreage expansion in years.

➢ **Secretary Perdue Rebuts EU's “Farm to Fork” Strategy**

On Wednesday, Agriculture Secretary Sonny Perdue participated in a webinar also featuring European Commissioner for Agriculture Janusz Wojciechowski. The discussion centered on the European Union’s recently released Farm to Fork and Biodiversity strategies, which aim to reduce the use of agricultural pesticides, fertilizer, antibiotics and medicated feed within affiliated nations.

Secretary Perdue was explicit in his sentiments on the strategy. “If I was an EU farmer, I’d be very concerned about this strategy and the policies that will follow. When innovative tools are taken away from a farmer, the only choice is protectionism, which isn’t healthy for Europe or the United States.”

Commissioner Wojciechowski countered that the EU’s new proposals will “strengthen the resiliency” of European farmland.

➢ **Senate Finance Committee Holds Hearing On WTO Reform**

On Wednesday, the Senate Committee on Finance hosted a hearing titled, “WTO Reform: Making Global Rules Work For Global Challenges”. The Committee heard testimony from former USDA Chief Economist Joe Glaubner, who is now a senior research fellow at the International Food Policy Research Institute.

On a call with rural reporters earlier in the week, Chairman of the Senate Finance Committee Chuck Grassley (R-IA) noted that, although the United States has not won every agriculture case it has brought to the WTO, U.S. agricultural trade exports have doubled since the WTO was established.

The Chairman said he was particularly distressed that a WTO panel had ruled against the U.S. program of country-of-origin labeling for red meat but that “overall, I think U.S. agriculture has benefited greatly from membership in the organization.” He went on to say he doesn’t expect reform efforts to make progress until a new WTO director general is named.

➢ **USTR Negotiator Meets with House Agriculture Committee**

The Hagstrom Report - Gregg Doud, the US Chief Agriculture Negotiator, met with the House Agriculture Livestock and Foreign Agriculture Subcommittee Tuesday to discuss the U.S.-Mexico-Canada Agreement on trade and the China phase one agreement.

“Farmers, ranchers, and dairymen and women are suffering greatly as a result of this pandemic, which has hit American agriculture hard,” Rep. Jim Costa (D-CA) said. “With many of our commodity prices in the tank, it is crucial that we expand our export markets. I hope today’s roundtable opens up more frequent dialogue with the administration so we can map a path forward to help our farmers get back on track and see much-needed wins. I want to thank Ambassador Doud for the important discussion today.”

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