**Notes and Observations in International Commodity Markets**

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- **China Continues to Buy US Soybeans**

  Reuters 7 Aug 2020 - The U.S. Department of Agriculture on Friday reported private sales of U.S. soybeans to China of 456,000 mts, the biggest single-day soy sale to the world’s top buyer since June 11th. Smaller sales were reported on Wednesday and Thursday, as well as sales to unknown destinations on Monday. These sales came despite rising political tensions between Washington and Beijing. U.S. President Donald Trump cranked up antagonism on Friday by banning U.S. transactions with two popular Chinese apps, WeChat and TikTok, rattling global equity markets.

  China’s soybean imports rose 18% this year through July versus a year ago, as large volumes of soybeans from Brazil arrived, according to Chinese customs data.

  China has increasingly turned to U.S. supplies in recent weeks, with the USDA reporting China bought nearly 5.2 mmts of US corn, along with 3 mmts of soybeans and 320,000 mts of hard wheat since July 10th. However, China is still far behind the anticipated pace needed to meet its commitment of buying $36.5 billion under a “Phase 1” trade deal. The US exported just $7.274 billion in agricultural goods to China in the first half of the year, according to U.S. Census Bureau trade data.

  The benchmark November soybean futures contract on the Chicago Board of Trade fell to a five-week low of $8.69¼ a bushel despite the latest sale.

  Lapp noted that the USDA has projected U.S. soybean exports for the 2020/21 marketing year, which begins on September 1st, at 55.8 mmts, up from 44.9 mmts in 2019/20.
➢ **China’s top diplomat to U.S. says Beijing does not want escalation with U.S.**

Reuters - China does not wish to see tensions between Beijing and Washington escalate further following tit-for-tat consulate closures over the past weeks, the Chinese ambassador to the United States said on Tuesday.

"I don't think a new Cold War would serve anybody's interest," Cui Tiankai told Aspen Security Forum held virtually via Zoom.

Ties between the world's top two economies have sharply deteriorated since the US last month ordered China to shut its consulate in Houston, triggering a response from Beijing to close the US consulate in Chengdu.

➢ **US - China to Air Grievances**

Reuters - Senior U.S. and Chinese officials are scheduled to meet virtually on August 15th in what is expected to be a tense set of trade discussions.

U.S. Trade Representative Robert Lighthizer and Chinese Vice Premier Liu He, the principal negotiators for the two countries, will participate in the meeting, an initial six-month review of the pact activated on Feb. 15th.

Numbers released this week by USDA show that China is behind on the amounts of agricultural purchases needed to fulfill their “phase one” obligations.

USDA's Foreign Agricultural Service reported only about $6.6 billion worth of farm goods (excluding forestry products) were exported to China in the first six months of 2020. The base year of the “phase one” deal, upon which the buying requirements are formulated, saw approximately $8.4 billion in agricultural trade from January through June of 2017.

➢ **CME Wheat, Corn, Soybean Futures Finish Week Lower On Optimistic Production**

GHA – CME wheat, corn and soybean futures finish the week near lows as the market focuses on expectations for bumper yields across the US this fall as forecasts for timely rain and weather in key growing areas continues.

For corn and soybeans, a forecast for US corn production of 15.320 billion bushels and a soybean harvest of 4.496 billion bushels continues to weight heavy on the market.

On Friday CME December corn futures settled at $3.21 per bushel, dropped to their lowest level during the since June 29th, also hitting a new contract low.

On Friday CME November soybean futures settled at $8.69¼ per bushel, hitting their lowest level since July 15th.
Wheat futures also sank, with the most active CBOT Soft Red Winter wheat contract shedding 2.4% to its lowest since July 8th, on bleak export prospects. MGEX spring wheat and K.C. Hard Red Winter wheat also hit new contract lows across the board. Internationally there is plenty of wheat in the world. US exports will have significant competition, particularly from Black Sea countries.

This week’s U.S. Agriculture Department’s weekly crop conditions report on Monday afternoon, which rated 72% of the U.S. corn crop as good to excellent and 73% of the soybean crop as good to excellent, bolstered expectations for massive production.

The weather for the summer crops cannot seem to get much better than this as record high ratings keep markets optimistic about US production. Rains in the east last week reduced dry areas, while forecasts of rain for dry areas in the west for next week, along with cool temperatures make for excellent conditions.

➢ **Weak Real To Strengthen Brazil’s Position In Soybeans**

Bloomberg, Tatiana Freitas - Brazil is set to tighten its grip on the title of top soybean producing nation, expanding planted area this year as a currency slump boosts local prices.

Brazilian producers are expected to plant a record 37.9 million hectares (93.6 million acres) of soybeans in the planting season starting next month, according to the average estimate of 10 analysts surveyed by Bloomberg. This is 3% more than last year. Brazilian production is forecast to be close to 130 mmts, increasing Brazil’s lead over the US.

The prospects of strong margins are encouraging farmers to increase soy plantings, especially in the Cerrado tropical savanna, according to Ikeda, who forecasts 38 million hectares of soy this season. In Mato Grosso, the top-producing state, operating margins that consider only direct costs should surpass 40% versus an average 35% in the past five seasons.

The Brazilian Real, as this year’s worst-performing major currency makes Brazilian oilseed more attractive to Chinese buyers. Soybean prices in Brazilian Real are at record levels amid a sharp devaluation in the currency and strong demand. The move encouraged farmers to sell a large portion of the crop in advance and
lock in prices. In Mato Grosso, farmers are estimated to have pre-sold 47% of expected production by the end of July. That compares with 23% a year ago and the 20% five-year average, according to Imea, the state’s rural economy institute.

Reuters - Brazil is expected to export 80 mmts of soybeans next year, according to an initial forecast from local soybean traders association Abiove on Thursday. China, the top importer, has been buying Brazilian soybeans for delivery in 2021, and premiums are already reflecting that value.

➢ U.S. Ambassador to Brazil Asked for Reduction in Ethanol Tariffs
Reports recently surfaced in Brazil noting that the U.S. ambassador to the country, Mr. Todd Chapman, had met privately with Brazilian leaders to discuss dropping the country’s 20% tariff on U.S. ethanol.

The U.S. Department of State denies the reports and any wrongdoing, but that didn’t stop House Foreign Affairs Committee Chairman Eliot Engel (D-NY) and Rep. Albio Sires (D-NY) from writing a letter to Mr. Chapman with concerns that he violated a law that bans some political activity by federal officials.

In a statement, Mr. Chapman said, “Any interpretation of my defense of long-standing commercial interests during an election year as an attempt to benefit a particular presidential candidate is simply not correct. What I have done in those meetings was to continue to advocate for open trade and cooperation on commercial issues as well as pursue other areas of mutual interest for both the United States and Brazil.”

➢ Turkey's Lira Hits Record Low Against US Dollar
Xinhua - The Turkish currency dropped to a record low against the US dollar on Thursday, sparking public concerns over the future. At 1030 GMT, one US Dollar was traded at 7.26 Turkish Liras, a drop of over 3% on the day, and nearly 20% of the value against the Greenback since the beginning of this year.

The depreciation may create a domino effect in the country leading to bankruptcies and losses of jobs.

The Turkish economy has long been suffering from the adverse impacts of the pandemic and a high annual inflation rate, which was reported as 11.76% in July.

➢ Midwest States Senators Write to Commerce Secretary on Halting Fertilizer Import Duties
In an August 3rd letter, Senators Jerry Moran (R-KS), John Cornyn (R-TX), and six others wrote to Secretary of Commerce Wilbur Ross and International Trade Commission Chairman Jason Kearns to urge the Administration to reject the imposition of duties on imports of phosphate fertilizers from Morocco and Russia.

The letter argued, “Phosphorus accounts for approximately 20% of fertilizer usage and 15% of total cash costs for producers. The imposition of duties between 30.72% and 71.50% on phosphate fertilizers…would result in higher input costs for U.S. farmers.”

➢ Bipartisan Group of 61 Senators Sign Letter on Common Food and Drink Names
On July 30th, a bipartisan group of Senators sent a letter to U.S. Trade Representative Robert Lighthizer and Secretary of Agriculture Sonny Perdue urging the Administration to “improve upon the template established in USMCA negotiations and continue to prioritize market access and the ability of U.S. producers to use common food names in ongoing and future trade negotiations.”

According to Edge Dairy Farmer Cooperative, the effort is directed at the United States’ leading dairy export competitor, the European Union (EU), which uses trade agreements to block American-produced cheese from using common cheese names like feta, parmesan and gouda in international markets. Instead, U.S. processors are forced to label their cheeses with non-traditional names unfamiliar to customers.

In the same dairy labeling arena, the U.S.-based Consortium for Common Food Names (CCFN) won their opposition filing against French and Swiss groups that tried to trademark the cheese name “gruyere” in the U.S. The U.S. Patent and Trademark Office rejected the countries’ request, agreeing with CCFN that “gruyere” is generic name for a common cheese.

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