Notes and Observations in International Commodity Markets

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➢ USDA Releases WASDE Report; Record Corn Crop Predicted

On Wednesday, the USDA released its August U.S. Supply/Demand and World Production (WASDE) reports, expecting US farmers to harvest a record 15.3 bbus of corn this fall, with a national average yield of 181.8 bus/acre.

Soybean production is estimated at 4.42 bbus with a record national average yield of 53.3 bus/acre. If realized, these yields would set records for the second largest soybean yield ever.

The August report, however, did not account for the damage of over 10 million acres of cropland in Iowa due to storms that devastated the state this week. That information will be included in the September 11th report.

The market shrugged off the massive harvest outlooks, with futures prices showing little response when the data was released.

The government predicted corn end stocks at 2.756 billion bushels, up from its July forecast for 2.648 billion. That would be the biggest since 1988. Soybean stocks were seen at 610 million bushels, 185 million bushels higher than July.

Market analysts noted that the August report did not cause much movement in the markets.

While the USDA raised its ending stocks view for both corn and soybeans despite increasing its export forecast for corn and soybeans by 75 mbus following a string of purchases by China, Wednesday’s new US ending stocks estimates were neutral for corn and wheat prices, and bearish for soybeans.

➢ This coming Week Expect Recommitment To The Faltering U.S.-China Trade Deal

Reuters 14 Aug 2020 - Top U.S. and Chinese trade officials are expected to recommit to a Phase 1 trade deal during a review on Saturday.

Current and former U.S. government officials and trade experts in both countries say the Phase 1 deal, signed in January after nearly two years of tit-for-tat tariffs and angry rhetoric, is the one area where the world’s two largest economies are still cooperating. Despite the escalating conflict, the Phase 1 trade deal won’t be dismantled, U.S. officials say.

The Trump administration has sanctioned companies and individuals linked to a security crackdown in Hong Kong and human rights, banned a Chinese owned video app, penalized Chinese academics and closed Beijing’s consulate in Houston in recent months. Beijing has responded by closing the U.S. consulate in Chengdu and sanctioning some members of Congress.

Chinese trade advisors say the slowing of both economies because of coronavirus-related lockdowns has made it difficult to meet purchase targets, but they don’t expect the White House to walk away. “Being able to sit down and communicate with each other is a good thing,” said a Chinese state think tank economist who
has advised Beijing on the trade deal, while cautioning there was little optimism about further trade breakthroughs.

China is falling far short of a promised additional $77 billion in purchases of U.S. farm and manufactured products, energy and services, although it has ramped up purchases of U.S. farm goods including soybeans and corn in recent weeks. Imports of farm goods have been lower than 2017 levels, far behind the 50% increase needed to meet the 2020 target of $36.5 billion. Beijing has bought only 5% of the energy products needed to meet the Phase 1 first year goal of $25.3 billion.

Trade experts said there is little political upside for President Donald Trump to abandon the deal at this stage, which would admit one of his biggest trade initiatives. And some Trump administration officials have been wary of reigniting a tariff war that would roil markets and likely knock down the S&P 500 which traded close to record highs this week.

Trump has said the trade deal no longer means as much to him because of China's handling of the coronavirus pandemic, has expressed support for the deal this week, saying it should continue and purchases should surge in 2021.

Stephen Vaughn, former USTR general counsel and a legal architect of punitive tariffs on Chinese goods, said compliance with the deal also benefits China by keeping its U.S. relationship from deteriorating further. Now that its economy is recovering strongly from the coronavirus pandemic, Beijing has little excuse not to ramp up its purchases.

Claire Reade, a former USTR official and senior fellow at the Center for Strategic and International Studies, said the agreement does offer some incremental progress for U.S. firms seeking access to Chinese markets. Nearly 90% of firms surveyed by the U.S.-China Business Council have a positive view of the trade deal, but only 7% say its benefits outweigh the costs of tariffs incurred along the way.

➢ **China Picks Up Pace on U.S. Soy Purchases; Pulls Back on Ethanol and Beef**

China bought 456,000 mts of US soybeans on Friday, with the latest USDA weekly export sales data showing 542,700 mts of US soybeans being purchased by China from July 24th to 30th. Of that total, 474,000 mts is for 2020-21 delivery.

Furthermore, the U.S. shipped 130,000 tons of soybeans to China during the seven-day period.

Yet, China still has not lifted its zero-tolerance policy for livestock growth hormones; though the country is still importing U.S. beef produced under the restricted, non-hormone supply of cattle.

An August 7th analysis by USDA FAS showed Chinese ethanol consumption is expected to drop to just 796 million gallons this year, a 341 million gallon drop from 2019. The country officially suspended its goal established 2017 to implement a nationwide E10 mandate by the end of 2020.

➢ **US-China Trade Deal ‘In Fine Shape’, says Kudlow**

Reuters 11 Aug 2020 - China is continuing to buy US goods, particularly commodities, under its “Phase 1 Trade Deal”, despite rising tensions over Hong Kong and other issues, says top White House economic adviser Larry Kudlow.

Asked if deteriorating ties between the world's two largest economies on other fronts could result in the trade deal being thrown out the window, Kudlow said, "No, no... The one area we are engaging is trade."

Top U.S. and Chinese officials are due to meet for a "routine" video conference on Saturday to assess implementation of the Phase 1 agreement six months after the deal defused hurting both nations.

Kudlow said, China was continuing to implement the deal, which called for Beijing to purchase $77 billion in additional U.S. goods and services this year, and a total of $200 billion in additional purchases over an agreed two year period.

China has increased its purchases of U.S. soybeans recently, but it remains short of the overall target for 2020. The US exported just $7.274 billion in agricultural goods to China in the first half of the year, well below the $36.5 billion agreed under the trade deal.
➢ Trump Says He Is Not Considering a Phase 2 Agreement With China
Breitbart – POTUS Donald Trump said on Monday that he is not currently considering negotiating a “Phase 2 Trade Deal” with China.

Trump has recently said his relationship with Chinese President Xi Jinping had soured in the wake of the novel coronavirus pandemic. The two countries have also been at odds over Beijing’s crackdown in Hong Kong, China’s human rights record, and the disputed South China Sea, among other issues.

Trump said in the nearly 30-minute exclusive interview that because of the coronavirus pandemic, which originated in Wuhan, China, and spread around the world, he is not considering negotiating another deal with China at this time.

Pompeo said that the Trump administration intends to hold China accountable for the pandemic. We have to hold nations accountable for the things and actions that they undertake which create risk and, in this case, created enormous loss of life here in the United States.

➢ Rain Locks In Australia’s Winter Crop Potential
Australia’s winter-crop production prospects have received a massive boost as the heavens finally opened across a significant portion of the nation’s farming districts over the past 10 days. Several systems have rolled across the continent, delivering a much-needed moisture boost to crops that were starting to feel thirsty after receiving below-average rainfall in June and July.

Australia’s winter crop is on track to increase by 45% year-on-year, or 9% above the five-year average, according to Rural Bank’s August Insights Update. Further upside could be achieved if favourable conditions continued through to harvest. The bank found that new season winter crop production prospects were at risk of decline in WA and SA following warm, dry conditions in June and July.

However, these potential declines will be offset in part by NSW production where winter crop production is estimated to jump 190% year-on-year.

Widespread rain across Australia’s cropping regions during the past week has shored up this season’s winter crop prospects, locking in the potential for the best national crop since 2016.

Western Australia’s central and southern farming regions received falls earlier in the week of 10 to 25 mm, with some as high as 50-100mm in the far southern districts. Further rain fell across much of the WA wheat belt last night with up to 50mm in some areas, although the Esperance region largely missed out. Throughout the southern and eastern states, similar falls were recorded later last week, topping up soil moisture profiles for croppers who are having their best season in two to three years after long-running drought.

The Bureau of Meteorology (BOM) has been forecasting a wetter-than-average August for most of the southern half of the country and the rain over the past week has been a very welcome affirmation of that sentiment. According to the BOM, the tropical Pacific Ocean is projected to approach La Niña levels in early spring. At the same time, warmer-than-average waters are likely in much of the central and eastern Indian Ocean. The Pacific influence is strongest in the wetter September-to-November outlook for eastern Australia, and cooling of the sea-surface temperatures across the equatorial Pacific in recent weeks is an excellent meteorological signal that the wet will continue into the spring, as the BOM has forecast.

➢ Ukraine’s Wheat Export Estimates Steady
Reuters - The Ukrainian government is maintaining its forecast for wheat exports of 17.2 mmts in 2020-21. While the ministry did not offer an estimate for the wheat harvest, traders and analysts have estimated total production between 25 to 27 mmts, compared to last year’s harvest of 28.3 mmts.
As of the 6th of August farmers had harvested an estimated 23.1 mmts from 87% of the planted area.

➢ **Analyst Cuts Ukraine 2020 Soybean Harvest and Export Outlook**

Reuters - Thursday APK-Inform revised down its forecast for the Ukraine's 2020 soybean harvest to 3.8 mmts from a previous estimate of 4.2 mmts due to a smaller than expected sowing area.
The analyst also reduced its forecast for Ukrainian soybean exports in the 2020/21 season to 2.2 mmts, down from 2.47 mmts.

➢ **France wheat production declines 25%**

USDA GAIN - France’s wheat and barley production has drop sharply this season in the wake of adverse weather and pests, according to the USDA FAS. In early Augustan with an estimated 90% of the country’s wheat crop harvested, France’s soft wheat crop is estimated to be the third smallest in history, estimated at 29.5 to 29.7 mmts. The country’s durum crop is not expected to surpass 1.3 mmts. This brings France’s total wheat production to 31 mmts, 25% lower than last year.

With a decreased production, Frances wheat exports also are expected to fall as the USDA estimates exports between 13 to 15 mmts in the 2020-21 marketing year, which compares to 23 mmts in 2019-20.

France’s barley crop also met similar production challenges. Even with an increase in planted area, the USDA estimates France’s barley production to total 11.3 mmts.

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