Notes and Observations in International Commodity Markets

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Links: https://www.agmanager.info/grain-marketing/grain-market-outlook-newsletter/notes-and-observations-international-commodity

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➢ China, US to hold phase one trade deal talks ‘in the coming days’
The South China Morning Post 20 August 2020 – After cancelling the weekend meeting late last week, China and the United States announces they will hold trade talks in the coming days to review the progress in meeting the terms of the phase one trade deal; said China’s Ministry of Commerce.

"The two sides have agreed to hold a call in the coming days,” said spokesman Gao Feng on Thursday when asked when the talks would be held.

US President Donald Trump said on Tuesday that he postponed the talks because he is not happy with China over the handling of the coronavirus outbreak.

Last week Chinese President Xi Jinping called on his countrymen to curb food waste saying that China needs to "maintain a sense of crisis about food security."

This comment highlights the Chinese government's commitment to continued development of food security. Within the arena of global geo-political issues, this makes relying on the US as a source of food imports a highly contentious issue.

Understanding the ways in which China's priority of food security may play out, may be the key to decoding both bilateral relations between the two countries, as well as China's trade with the rest of the world.

How China resolves to secure its food supplies, either domestically or through trade, will greatly impact global trade flows for years to come.

➢ U.S. Trade Representative Pens Opinion-Editorial on WTO
In an opinion editorial published Thursday in The Wall Street Journal, US Trade Representative Robert Lighthizer stated that the World Trade Organization has “devolved” into an international trading system that issues “wildly uneven tariffs, rules that apply to some countries but not others, and scores of so-called free-trade agreements that in many cases codify protectionism and undermine the core WTO principle of most-favored-nation treatment.”

He offered a series of statements that member countries need to “recommit” to in order to “pull the WTO from its current rut”. Those include: agreeing on baseline tariff rates that apply to all, with minimal exceptions; ending the free-trade-agreement “land grab”; exempting countries with large or advanced economies from access to special and differential treatment; and new rules to “stop the economic distortions that flow from China’s state capitalism”.

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Mr. Lighthizer also recommended that the current two-tier system should be “replaced with a single-stage process akin to commercial arbitration, in which ad hoc tribunals are impaneled and resolve particular disputes in an expeditious manner.”

➢ **China's imports of Wheat, Soybeans Rise in Jan.-July**

Xinhua - China's imports of wheat and soybeans rose in the first seven months of the year, a spokesperson of the China Ministry of Commerce said Thursday.

In the January-July period, China imported 4.28 mmts of wheat worth 1.22 billion U.S. dollars, up 116.3% and 108.9%, respectively, from a year earlier, according to spokesperson Gao Feng, citing customs data.

The rise in wheat imports was driven by higher domestic demand for high-quality wheat.

In the same period, China imported 55.13 mmts of soybeans worth 21.4 billion dollars, representing year-on-year growth of 17.7% and 13.3%, respectively.

The soybean imports played an important role in ensuring edible oil supply and meeting the demand for protein feeds in the domestic market, Gao said.

➢ **China's Rain-Swollen Yangtze River Triggers Unprecedented Flood Alert**

Reuters 18 Aug 2020 - China's biggest river, the Yangtze, and several of its tributaries have risen to dangerous levels after days of heavy rain, forcing tens of thousands of people from their homes and triggering an unprecedented emergency response alert.

China has seen unusually high levels of rain this flood season, with southwest and central regions in the Yangtze river basin bearing the brunt of flooding.

The Ministry of Water Resources said on Monday that 38 tributaries on the upper reaches of the Yangtze were now higher than their warning levels, 19 dangerously so.

The southwestern province of Sichuan, which includes a major upstream section of the Yangtze, has raised its flood emergency response to its highest level, the first time it has ever done so, with its rivers overflowing and villages and farmland inundated.

The Qingyi river, an upper Yangtze tributary, had seen its worst flooding in a century, Sichuan's flood control authority said, with the city of Yaan forced to evacuate more than 36,000 people as the river burst its banks on Monday.

The Yangtze and Huai river basins have seen the highest level of rainfall since records began in 1961, officials have said. As many as 634 rivers throughout the country have exceeded their official flood warning levels.

By last week, 63 million people had been affected by floods, 12.7% higher than the average over the past five years, said Zhou Xuewen, vice-minister at the Ministry of Emergency Management.

The cost of direct economic damage reached 179 billion yuan ($25.82 billion), 15.5% higher than the five-year average, he added.

➢ **Derecho Impacts on Corn and Soybean Crops Now Coming In...**

Estimates from last week's Derecho windstorm indicated that the path of the storm potentially impacted production of as much as 3.5 bbus of corn and 935 mbus of soybeans across Iowa, Illinois, and Indiana.

In an unlikely, but worst-case scenario where none of the corn is salvaged, it would mean a potential loss of about 1.38 billion bushels of corn, according to Gro, an agricultural data and AI company.

It is now expected that the USDA's current forecast of US farmers harvesting a record 15.278 billion bushels of corn this fall is not likely to be achieved. A clearer picture of damage to crops in the path of last week's derecho storm is beginning to emerge as crop scouts scrambled across blown over corn stalks and wind-battered soybean fields in Illinois and Iowa.

*It remains to be seen if crops can recover from such an event. Revised yield forecasts will capture any changes yield and production estimates.*
Exactly how much of the corn crop was lost will not be known until harvesters start to roll in next month. Corn yields in the affected areas would be down an estimated 50% from their pre-storm expectations, according to an estimate from Iowa State University Extension field specialist Virgil Schmitt.

Iowa officials on Tuesday warned much of the crop in the path of the August 10th storm would not be harvested, an estimated 14 million acres, or 57% of Iowa's area planted, were impacted.

**Also, increased aflatoxin risk may mean some corn will not be suitable for human or livestock consumption, adding to the losses for farmers.**

Iowa corn is key for both commodity markets and global food supply chains. A big loss in the top growing state could eat into a record-large national corn forecast at a time when China is buying more of the grain.

The White House approved Iowa’s major federal disaster declaration on Monday following last week’s hurricane-force derecho windstorm. Iowa’s request detailed $3.9 billion of needed assistance. Included in the request was a USDA estimate of $3.77 billion in corn and soybean crop-related losses.

The storm affected 58,000 holders of crop-insurance policies with a liability of around $6 billion in Iowa, including $1.86 billion for soybeans, the Iowa Soybean Association said, citing data from the USDA’s Risk Management Agency.

The approval will open up federal aid for public assistance needs, such as debris removal and utility repair, in 16 Iowa counties, as well as funding for hazard mitigation efforts statewide. However, the Federal Emergency Management Agency is still reviewing the state’s request to open up individual assistance to households in 27 Iowa counties, which represents the vast majority of the estimated need.

➢ Soybeans Hit Seven-Month High on US Export Optimism and Dry Weather

Reuters 19 August 2020 - Chicago soybean futures climbed to a seven-month high on Wednesday on optimistic US exports and concerns over continued dryness across parts of the American’s Midwest.

Chicago corn edged lower, as a Midwest crop tour estimated higher yields, offsetting storm damage concerns in Iowa.

The most active CBOT Nov20 Soybean Contract closed on Friday at $9.03¾/bu., after hitting $9.19½/bu earlier in the week, its highest since the 5th of March.

CBOT Dec20 Corn Futures settled on Friday at $3.41/bu, while CBOT Dec20 Wheat settled at $5.34½/bu, and KC HRW Dec20 Wheat settled at $4.55¼/b, both rallying through the week to make a two-week high.
Exporters reported selling 192,000 mts of US soybeans for delivery to China during the 2020/2021 marketing year, the USDA said on Wednesday.

Crop scouts on the Pro Farmer Midwest Crop Tour said soybean crops in parts of Nebraska and Indiana may need more precipitation to hit peak yields. They observed strong corn yield prospects in Ohio and South Dakota and above-average crop potential in Nebraska and Indiana, shifting attention back to the potential for a bumper crop. Storm damage in top corn-growing state Iowa last week threatened harvest prospects.

➢ CME Group to Launch New South American Soybean Futures Contract on September 21st

PRNewswire 20 August 2020 - CME Group, the world's leading and most diverse derivatives marketplace, today announced it will launch South American Soybean (Platts) Futures on September 21, 2020, pending all relevant regulatory review periods. This contract will offer market participants a new tool to directly manage exposure to the Brazilian soybean market.

South American Soybean futures will be quoted in US dollars and cents per metric ton and have a contract size of 136 metric tons. The minimum price fluctuation will be $0.20/mt, with the final settlement price rounded to the nearest $0.01. The new futures contract will be available for trading on CME Globex or through block trades via CME ClearPort, and will be listed by and subject to the rules and regulations of CBOT.

"As Brazil has emerged as a leading producer and exporter of soybeans, regional pricing alternatives have become increasingly important for risk management," said Tim Andriesen, CME Group Managing Director of Agricultural Products. "Customers have been using our benchmark grain and oilseed products to hedge their global soybean positions for over 80 years, and these new contracts will enhance those products with contracts that reflect Brazilian export prices."

The new South American Soybean (Platts) futures were jointly developed with B3, one of the world's largest financial market infrastructure companies. Brazilian Soybean (Platts) futures will be financially-settled based on the SOYBEX price assessment published daily since July 2018 by S&P Global Platts, reflecting the FOB value of Soybeans from the port of Santos in Brazil. The contract will simultaneously track the export price and the basis to U.S. soybeans, offering market participants the ability to trade the spread between these key commodity regions.

"To B3, the launch of this contract is a collective success and another major step in our strategic relationship with CME Group," points out Louis Gourbin, Head of Commodities at B3. "We are working to make the B3 contract available to the market as soon as possible," he adds.

➢ Changes in World Wheat Trade - Pakistan turns Wheat Importer

World wheat production and consumption estimates for the 2020-21 season were updated by the USDA WASDE Report last week, and the changes in line with market expectations.

The USDA reduced total production as smaller crops in the European Union, Kazakhstan, Argentina and Turkey more than offset larger crops in Russia and Ukraine. Global consumption was lowered mainly on feed and residual use for the European Union. Exports were raised for Russia, Ukraine, and the US, and reduced for the EU.
Pakistan Production Down, Imports to be Higher

The biggest change in global trade is Pakistan, after a change in government policy and a drop in production from their recently completed harvest fell short of expectations. The USDA increased imports from 100,000 mts to 1 million mts, with further increases expected.

The Pakistan Government estimates final wheat production to be 25.5 mmts, slightly above the five-year average of 25.38 mmts. This is well short of the government’s target of 27 mmts.

Earlier this month an import tender to purchase 1.5 mmts of wheat was issued by the Trading Corporation of Pakistan, which operates under Pakistan’s Ministry of Commerce. The wheat can be sourced from worldwide origins and offers, including cost and freight to the port of Karachi, have been sought. Offers must be for a minimum of 200,000 mts.

Wheat is an essential crop in Pakistan as flour is a food staple. The government has supposedly been storing surplus wheat since 2010. Yet, with the harvest season concluding less than three months ago, it is already hard to find wheat offered on the open market at the government’s fixed price, and flour is also being sold at inflated prices.

Wheat is one of the four main crops in Pakistan alongside rice, cotton, and sugarcane. It is grown during the winter season, by around 80% of the country’s farmers. The planting season commenced on time in October of the previous year, and the area planted was expected to be 9.2 mhas (million hectares), around 40% of the country’s arable area. However, soaring costs of production and a low government support price discouraged some farmers from planting, and the area finished up at around 8.5 mhas.

Around 60% of Pakistan’s total wheat production is retained on farm for village and household food consumption, and for seed. The government normally buys around 25% to 30% at harvest, driven by both food security and market intervention reasons. The private sector purchases the balance.

In May, a report surfaced that Pakistan would need to import 100,000-200,000 mts of wheat per month until April next year to control price hikes in the domestic market as local production was not sufficient to stabilize grain supplies. Additionally, 1.0 mmts of strategic reserves or buffer stocks would be required to control price rises.

While some domestic millers are saying that the 2020 harvest was smaller than official estimates and the nation is on course for a 3.5 mmts deficit, private merchants were actually exporting wheat from Pakistan to neighboring countries immediately after harvest.

A poor government-procurement program and corruption, within both the government and the domestic milling industry, are huge issues. One government official recently told the parliament that 6 mmts of wheat had vanished from the market since harvest. If accurate, the shortage could result in severe food shortages during the upcoming winter.

Prime Minister Imran Khan’s government said it planned to meet the shortfall through imports and early release of buffer stocks. At the end of June, Khan’s cabinet approved the import of 2.5 mmts of wheat. However, shipments did not immediately materialize as the private sector shied away; the selling price fixed by the government was lower than the cost of the imported wheat.

To bridge the difference, the Ministry of Food Security has abolished the duty on wheat imports for the private sector, stating that the 60pc regulatory duty and 11pc customs duty will not be levied. Additionally, the 17% general sales tax and a 6% withholding tax will not be collected, and the imported wheat has also been exempted from the Anti-Hoarding Act imposed by the provincial governments.

By the end of July, orders had already been placed by private merchants to import 300,000 mts of wheat, which will reportedly be shipped out of the Black Sea region over the August and September period. Purchases in the first two weeks of August total 120,000 mts, the latest being 60,000 mts booked late last week at US$227/mt cost & freight for a September shipment out of Black Sea ports.

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