Notes and Observations in International Commodity Markets

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➢ USDA Publishes Report on Ag Trade; U.S. Fared Better Than Expected

USDA published its quarterly Outlook for U.S. Agricultural Trade this week, projecting a $5.5 billion increase for agricultural exports in FY 2021. That would place total agricultural exports at $140.5 billion, and imports at $136 billion. The increase is primarily driven by higher exports of soybeans and corn.

The report also revised FY 2020 trade predictions, reducing its May export projections by $1.5 billion to $135 billion mainly due to a reduction in the forecast for horticultural, beef and veal, and soybean exports. Imports were adjusted up $1.5 billion from the May forecast at $131.7 billion resulting from a $1.5 billion increase in horticultural products, and a $400 million increase in beef and veal imports that equals the reduction in forecast imports of sugar and tropical products.

The next report is scheduled to be released on November 23, 2020. Read August’s full report here.

➢ U.S., China Meet for Six-Month Review on Phase One Trade Deal

U.S. Trade Representative Robert Lighthizer, Treasury Secretary Steve Mnuchin and Chinese Vice Premier Liu He held discussions via telephone Monday evening of this week, Washington time, to assess the status of the Phase One trade agreement between the two countries. The call was originally expected on Aug. 15, six months after the trade deal was launched.

"Both sides see progress and are committed to taking the steps necessary to ensure the success of the agreement," the U.S. Trade Representative’s office (USTR) said in a statement after what it described as a regularly scheduled call.

News of the call gave a boost to financial markets on Tuesday and helped lift global stocks and Asian currencies.

A statement from the Office of the U.S. Trade Representative (USTR) said the “regularly scheduled call” saw the parties discuss “steps that China has taken to effectuate structural changes called for by the Agreement
that will ensure greater protection for intellectual property rights, remove impediments to American companies in the areas of financial services and agriculture, and eliminate forced technology transfer."

The discussions also covered the "significant increases in purchases of U.S. products by China as well as future actions needed to implement the agreement."

The Xinhua News Agency said the discussion was a "constructive dialogue on such issues as strengthening bilateral coordination of macroeconomic policies and the implementation of the China-U.S. phase-one economic and trade agreement."

Both the U.S. and Chinese side said they were committed to implementing the trade deal.

USTR said the two sides "see progress and are committed to taking the steps necessary to ensure the success of the agreement," while Xinhua reported the two countries "agreed to create conditions and atmosphere to continue pushing forward the implementation of the trade deal."

Washington and Beijing have traded sanctions and barbs over a growing list of issues including a new national security law imposed on Hong Kong, China’s disputed territorial claims in the South China Sea, the coronavirus and U.S. accusations of national security threats posed by Chinese tech firms.

China's commerce ministry confirmed that the two sides had a "constructive dialogue" and agreed to continue pushing forward the implementation of the Phase 1 Trade Deal.

The USTR said they "addressed steps that China has taken to effectuate structural changes" on issues including protecting intellectual property rights, removing impediments for U.S. firms in the financial services and agriculture sectors and eliminate forced technology transfers, saying; "The parties also discussed the significant increases in purchases of U.S. products by China as well as future actions needed to implement the agreement."

Chinese purchases of U.S. goods are running well behind the pace needed to meet a first-year increase of $77 billion specified in the deal, according to official data.

While China has recently ramped up buying of farm goods including soybeans, it is far from meeting its commitment to buy $36.5 billion worth of U.S. agricultural goods under the deal - purchases that Trump has counted on to bolster his support in farm states that backed him in the 2016 election.

The United States exported just $7.274 billion in agricultural goods to China in the first half of the year, according to the U.S. Census Bureau.

The U.S. comments "showed that they think we are going to keep buying from the U.S., at least before the election takes place. And we will," an agricultural goods trader with a Chinese state-owned firm told Reuters, declining to be identified as he is not authorized to speak to media. "We are definitely going to maintain the stance to buy as much as possible, but it is really hard to say whether the targets can be reached."

**Soybeans Reach 8 Month High**

This week we saw CME Nov20 Soybeans rally above $9.50/bu., the highest level since January 24th. The rally was supported through the week on the back of strong continued buying by China, as well as declining production expectations in the U.S. and China.

- **China to expand stocks holdings with recent US soybean buying spree**

  China’s state-backed reserve stocks manager Sinograin will use recent US soybean purchases to rotate old stocks and boost the country’s total temporary stock levels next year, market sources said Wednesday.
Sinograin manages domestic grain and oilseed supplies in China by releasing and replenishing temporary stocks during each year. They have planned to substitute some of its old stocks with fresh beans, and aims to sell up to 3 mmts of its existing soybean stocks by the end of this year, replenishing levels with 5 mmts mt of US soybeans by the second quarter of 2020-21.

“I heard the 3 mmts existing stocks were originally bought before the US-China trade war and they will replenish stocks before April next year,” said one China-based source. “I think recent large purchases of US soybeans have a correlation with the policy of stock rotation.” If so, this will expand the country’s total temporary soybean stocks to around 7 mmts next year, up from the previous total of 5 mmts.

The company has been buying large volumes of US soybeans this week, snapping up around 15-17 cargoes in the first two days of the week. The shipments booked between November 2020 and January 2021 were purchased out of both the US Gulf and the Pacific Northwest this week, most of which are expected to arrive in China before April next year.

And there is no sign of stopping, as the company continued to price check US soybeans out of the Gulf on Wednesday with another USDA private export note confirming China had bought another 400,000 mt of beans overnight. Last week, Sinograin also dominated Chinese demand in the soybean market, buying 9-10 cargoes of US soybeans for shipments between December 2020 and January 2021.

During the first two weeks of August 2020, the state-owned crusher Cofco had purchased 15-20 cargoes of US soybeans per week.

GHA: [in reference to the following article...] As highlighted in the above bar chart of Chinese Soybean Imports; seasonally, immediately following the southern hemisphere harvest, April through August are the peak period for Brazilian soybean exports, while starting in September U.S. soybean exports increase dramatically following the northern hemisphere harvest. As supply chain logistics shift back to the north, we are now seeing aggressive Chinese purchasing of U.S. soybeans.

➢ China’s soybean imports from Brazil surge in July on good margins

Reuters - China’s soybean imports from top supplier Brazil surged in July from a year ago, customs data showed on Tuesday, as cargoes bought on the cheap in recent months arrived in the country.
The world's top soybean buyer brought in 8.18 mmts of the oilseed from Brazil in July, where prices have been cheap due to ample production, data from the General Administration of Customs showed. That was up 27% from 6.42 mmts in July 2019, but lower than the record 10.51 mmts of soybeans imported from the South American country in June.

For the month of July, Chinese importers brought in 10.09 mmts of soybeans overall, driven by good demand from the livestock sector as farmers expanded output to plug domestic pork shortage.

China brought in only 38,331 mts of soybeans from the United States in July, a fraction of the 911,888 mts in the previous year. The figures were also down from 267,553 mts in June.

Large imports from Brazil had been expected. Expect to see more U.S. shipments in the fourth quarter, as there are not many beans left from anywhere else in the market at this point in the season. Chinese crushers are expected to step up purchases of soybeans from the United States in the fourth quarter to meet healthy livestock demand.

China's national weekly soybean inventories reached 7.83 mmts by August 23rd, their highest since October 2018. Soybean arrivals into China are expected to come down a little, as crushers digested previous cargoes, although shipments would still remain at high levels on good crush margins.

China's national soymeal stocks also rose to over 1.2 mmts earlier this month, the highest since August 2018, and up from a record low of 139,000 mts in April.

Corn - Export Volume (mass) - Brazil : China, mainland (Brazil-MDIC)

GHA: [in reference to the following article...]

As highlighted in the above bar chart; China, the second largest corn producer, seasonally imports corn. These imports have been growing annually in line with the growth in domestic pork and poultry production. It is important to note that the major portion of this growth in imports has been supplies by the Ukraine, who is perennially the cheapest supply of grains to the export markets.

- **Ukraine’s Grain Exports Down 18%**

Reuters - Ukraine’s grain exports are down 18% for the 2020-21 season to 5.1 mmts, according to the economy ministry. The total volume is down mostly because of lower corn exports. As of August 19th the nation has exported 502,000 mts of corn versus 1.68 mmts a year ago.
Ukraine harvested a record 75.1 mmts of grain in 2019. This year’s production could drop to 72.1 mmts because of poor weather.

This seasons exports have included 3.03 mmts of wheat and 1.56 mmts of barley.

CME Corn Rallies to a 7 Week High
This week we saw CME December 20 Corn rally just shy of $3.60/bu, to a seven-week high. The rally was supported through the week on the back of strong increasing U.S. and Chinese production concerns, as well as continued Chinese buying through the week. Damage assessments from the “Derecho” event two weeks ago across Iowa and Illinois are coming in worse than expected, while continued wet weather and flooding in China has the market concerned.

➢ China July pork imports hit record 430,000 mts

Reuters 24 August 2020 - China’s July pork imports more than doubled to 430,000 mts from a year earlier and hit a record monthly volume, customs data showed, despite tough new checks on cargoes that had slowed clearing at ports. Chinese importers have been bringing in huge volumes of meat this year to fill a large domestic supply shortage after an epidemic of African swine fever killed millions of pigs.

However the data, released late on Sunday, came as a surprise after many overseas processing plants were forced to halt or slow production in the prior months due to coronavirus infections among workers. The data does not reveal the origins of the shipments but a meat industry source, who declined to be identified, said June exports to China from major suppliers including the United States, Brazil, European Union and Canada had all declined compared to the prior month. The July import number surpassed June's 400,000 mts, which had been the highest ever.

China has asked overseas plants since June to suspend shipments if they experience coronavirus cases among workers, even though most experts say there is no evidence to show the virus can be transmitted through food. Beijing also started coronavirus checks for frozen food containers, which slowed meat cargo clearing at ports.

Domestic pork prices remain high and rose in early July to 51.17 yuan ($7.40) per kilogram, the highest since February. January to July pork imports reached 2.56 mmts, up from just over 1 mmts from a year ago.

Imports of pork including offal in July came to 560,000 mts, bringing total imports for this year to end-July to 3.38 mmts, while beef imports in July came to 210,000 mts, according to customs, with shipments for the first seven months reaching 1.2 mmts.

➢ Excessive Rain to India’s Hit Crop Output

The Economic Times - Persistent bursts of torrential rain, particularly in central and western India, are threatening crop output which is so far expected to rise to a new record and make agriculture the best performer in the Covid-hit economy.

The southwest monsoon has turned vigorous in August after a deficient July, raising fears of floods. Rainfall this month has been 23% above normal in the country, with many parts of central and western India including Gujarat, Maharashtra and Madhya Pradesh receiving much more than average.

The current spell of heavy rain has damaged urad (lentils) and soybean in central and western India. Excess rainfall may persist as the rain boosting La Nina forecast is expected in the weeks ahead.
"All talk of a massive crop of soybean and groundnut now seems to be getting moderated with the rains showing no signs of relenting," said Atul Chaturvedi, president of trade body Solvent Extractors' Association, which expects 10-12% crop loss.

Ratings agency Crisil says the possibility of excess rainfall due La Nina is a risk factor for the forecast of summer-sown crop output rising 5%-6% to a new record.

"But how the excess rainfall (if any) progresses would need to be monitored. An impact of La Niña on the kharif productivity and output will be dependent on various factors, such as time of occurrence, crop growth stage, spatial and temporal distribution of rainfall across states," said Crisil.

Trade bodies said pulses and oilseed crops are at the risk due to present spell of heavy rainfall. "Excess rainfall in many of districts of Madhya Pradesh and some parts of Karnataka has led to stagnation of water in the fields of moong and urad causing damage to the crop" said Suresh Aggarwal, president, All India Dal Millers Association.

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**SRW and HRW Wheat Future both post strong gains on the week**

This week we saw CBOT December 20 SRW Wheat Futures reach a new four month high above $5.50/bu, before settling back at $5.49/bu, a 24 cent rally for the week. KCBT December 20 HRW Wheat Futures posted a 16 cent rally for the week, making a seven week high above $4.75/bu., before ending the week at $4.72/bu on Friday. Support from rallies in soybeans and corn lent good support to wheat.

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**Brazil Contemplates Removing Import Tariffs On Soybeans, Corn, and Rice**

Reuters - The Brazilian government is mulling temporarily removing import tariffs on rice, corn and soybeans, the Agriculture Ministry said in a statement on Thursday.

The move is aimed at staving off inflation, the statement added. Prices for rice, soybean and corn have risen recently in the domestic market. While the ministry said there is no sign of a potential shortage of these products, Brazil has exported almost all its soybeans, and imports are expected to rise this year.

Brazil's partners in South America's Mercosur trade bloc, which are already exempt from import taxes, were taken by surprise by Brazil's move and said it could not be carried out unilaterally. Argentina and Paraguay stand to gain from higher Brazilian soy imports, and Uruguay from rice imports, but they will lose out, mainly to the United States, if Brazil lowers its tariffs for other countries.

The tariff exemption is expected to be discussed by Brazil's trade management committee, known as Gecex and presided over by the Economy Ministry, in September.

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**Taiwan paves way for U.S. trade deal by easing pork, beef imports**

Reuters - Taiwan paved the way for an eventual free trade deal with the U.S. on Friday by announcing an easing of restrictions on the import of U.S. beef and pork, as the island looks to boost ties with Washington at a time of tensions with China.

Taiwan has long sought a free trade agreement with the U.S. its most important supporter on the international stage, but Washington has complained about barriers to access for U.S. pork and beef. Taiwan said that was for health grounds, especially with concerns over mad cow disease and additives.
President Tsai Ing-wen said her government planned to allow the import of U.S. pork containing ractopamine, an additive that enhances leanness, and allow in U.S. beef more than 30 months old.

"The decision is in line with the country’s overall interests and the goals of the nation’s strategic development. It’s also a decision that could boost Taiwan-US ties," she said. "If we can take one crucial step forward on the issue of U.S. pork and beef, it will be an important start for Taiwan-US economic cooperation at all fronts."

U.S. State Department spokesman Morgan Ortagus said the United States welcomed Taiwan's move and removing "these long-standing barriers" opened the door to greater economic and trade cooperation.

"We look forward to the timely implementation of these actions, which will provide greater access for U.S. farmers to one of East Asia’s most vibrant markets, and for Taiwan consumers to high-quality U.S. agricultural products," she said.

Council of Agriculture Minister Chen Chi-chung said the eased pork and beef rules were expected to come into effect on January 1st.

Taiwan-U.S. trade last year was worth $85.5 billion, with the United States running a $23.1 billion deficit. Taiwan was the United States’ 14th biggest export market in 2019.

The United States, like most countries, has no official relations with Taiwan, which is claimed by Beijing as sovereign Chinese territory. China has been stepping up its military activities near Taiwan.

➢ EU 2020/21 Soybean Imports Start the Marketing Year Off Stronger

Reuters - Soybean imports into the European Union and Britain in the 2020/21 season that started on July 1st totaled 2.23 mmts by August 23rd, official EU data showed on Monday. That was 7% above the volume imported in the previous 2019/20 season.

EU soymeal imports totaled 2.73 mmts versus 3.05 mmts a year earlier.

EU rapeseed imports in 2020/21 reached 586,000 mts, down 41% versus 2019/20.

➢ Senators Send Another Letter on Dairy Compliance in USMCA

Twenty-four senators led by Tina Smith of Minnesota and Republican Mike Crapo of Idaho sent a letter to Secretary of Agriculture Sonny Perdue and U.S. Trade Representative Robert Lighthizer requesting strict enforcement of the U.S.-Mexico-Canada Trade Agreement’s (USMCA) dairy provisions.

Specifically, the lawmakers requested oversight on how Canada handles its USMCA TRQ commitments and Mexico’s common names commitment compliance.

“USMCA is poised to create new export opportunities for America’s dairy industry and a more equitable playing field for American dairy exports in Mexico and Canada, but effective implementation will be critical to realizing these gains,” the senators wrote.

➢ WTO Sides with Canada in Lumber Dispute, but USTR Rejects Decision

The New York Times - World Trade Organization panel found that U.S. duties on Canadian lumber, designed to counter Canadian subsidies, breached global trading rules because Washington had not shown that many prices paid by Canadian firms for timber on government-owned lands were artificially low.

But Trade Representative Robert Lighthizer criticized the report, saying, “This flawed report confirms what the United States has been saying for years: The WTO dispute settlement system is being used to shield non-market practices and harm U.S. interests. The panel’s findings would prevent the United States from taking legitimate action in response to Canada’s pervasive subsidies for its softwood lumber industry.”

The United States is evaluating options in response to the panel report, USTR said.

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