**Notes and Observations in International Commodity Markets**

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by Guy H Allen –
Senior Economist, International Grains Program, Kansas State University

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**Convoys of Grain and Oilseeds Headed for China, as Prices Rally on Optimistic U.S. Export Outlook**

- **Grain and Oilseeds Cargoes Bound for China Set To Continue**
  
  With the consistent procurement of grains and oilseeds by China over the past months from a number of international origins, there is now a constant flow of cargoes into Chinese ports. The flow continues unabated as China’s buying activity now swings to the northern hemisphere, and the United States in particular, as we begin a new marketing year. The magnitude of this activity is demonstrating a return of China to the U.S. market at level prior to the trade dispute and signaling a recovery in the Chinese economy. Hopes are that this signals a more normalization of China - U.S. trade and ambitions of new record levels of volumes.

  The rate of grain buying from abroad in the first eight months of 2020 has some analysts speculating that China may, for the first time, use up its entire annual tariff-rate quota for both corn and wheat imports.

  The demand is being driven by a remarkable recovery in the Chinese economy following the COVID-19 pandemic, a rebuilding of the pig herd following the outbreak of African Swine Fever (ASF) in 2018 and rebuilding of stocks that were drawn down over the course of the trade dispute with the United States.

  **SOYBEANS** - According to recently released customs data, China imported from all origins 10.09 mmt of soybeans in July, up from 8.63 mmt in July 2019, but below the June 2020 record of 11.16 mmt. Year-to-date import volumes from all origins reflect the staggering pace of this year’s procurement program. China’s soybean imports have surged 18% in the first seven months of the year to 55.14 mmt, while corn imports are 37% higher at 4.57 mmt than the same time last year.

  China began to draw-down on soybean stocks when the trade war began with the U.S. over two years ago now. This drop in imports was also a result of a sharp drop in soybean meal demand as a result of ASF and a nearly 50% drop in pig numbers. However, with near record domestic prices for pork, pig numbers are now reported to be recovering, resulting in a sharp increased demand for feed.

  **WHEAT** – Wheat imports in July were reported to be 930 kmt, up a mammoth 323% for the same period last year. Chinese purchases of US wheat have been less aggressive, with elevation capacity soon to be limited by an expected large fall crop export program China’s appetite for US wheat also appears limited by preferences from other origins that are more competitively priced. This was seen in a run of purchases from France in recent months. However, rising export values from France on lower production are expected to turn Beijing’s focus to other origins. With a big crop in the making and a substantial increase in exportable surpluses, Australia should figure prominently in second-half 2020 wheat transactions and first-half 2021 wheat shipments to China.

  China’s July corn imports were reported to be 1.910 mmt, a 2.29 mmt increase over the year ago period, with wheat imports were running 116% of 2019 at 4.28 mmt.

  **BARLEY** – China’s barley imports have been 16% ahead of last year’s imports at 2.68 mmt. July year on year barley imports climbed 37% to 410 kmt. China has been buying barley from Argentina after the imposition of an 80% tariffs on Australian barley imports.

  An unprecedented pace of grain purchases continued through August, and we will soon see how these numbers add to the already historically large volumes.

  **CORN** - With demand from China’s livestock sector rapidly recovering, China now has the highest-priced corn in the world at around US$100 above import parity. As such, China’s July corn imports were reported to be 910 kmt, 133% above the same period in 2019, and up from 880 kmt in June.
Cumulative international purchases of corn for the 2020-21 season are now estimated at more than 11 mmt. This comprises 8 mmt from the US, including 1.2 mmt over a two-day window the fourth week of August, along with 3 mmt from Ukraine. Despite the substantial reserve sales and the import purchases, corn is still trading close to contract highs on the Dalian Commodity Exchange, suggesting deeper issues with the corn balance in China in 2020.

In its August update, the USDA estimated Chinese corn imports for the current 2020-21 marketing year at 7.0 mmt. However, corn purchases have already surpassed this estimate. As such, a significant increase is expected in the September USDA forecast. Most analysts are expecting imports to be at least 15 mmt, some as high as 20 mmt, with even 25 mmt volume considered to be a possibility.

For the first time in 14 weeks, last week’s government reserve auctions cleared only 9% of the corn tendered for sale, compared to the usual 100% of stocks on offer. In an effort to maintain lower domestic prices in China, the government state reserves have been selling corn at a rapid pace since the end of May in an effort to limit rising food prices and Consumer Price Index. Total reserve sales stand at 56 mmt, with the weekly program expected to continue until new-crop supplies become available in October.

The biggest question is “What are the actual ending stocks levels in China...?” While the USDA has them estimated at 194 mmt for corn, the government has been rapidly liquidating their corn reserves since Donald Trump took office three-and-a-half years ago. It is almost impossible to determine grain stocks in China, and a carefully guarded state secret, an increasing number of analysts suggested that ending stocks are more likely below 100 mmt, or even lower. This has the potential to sharply boost prices, even in the wake of estimates of record world production.

Some interesting directives from the Chinese Government in August have added to the market confusion. Recent flooding is reported to have destroyed stockpiles in some low-lying warehouses in the Yangtze basin, downstream of the Three Gorges Dam. Early in August, the state agency in charge of its strategic grain stockpiles moved to ban all photo-taking devices from its granaries, raising anxiety over the quality of national reserves. And then in mid-August, President Xi Jinping sparked concern of a food crisis when he announced the Clean Plate Campaign aimed at reducing the country’s food waste.

➤ **CBOT Soybeans end up, reach highest price since January**

![CBOT Soybeans Chart](chart.png)

CBOT Nv20 Soybean futures rallied sharply through the week, gaining nearly 19 cents, and closing higher on Friday on continuous aggressive buying from China. November soybeans closed at $8.69/bu, the highest level since the 15th of January.

December soymeal rallied $0.08 on the week to settle at $317.60 per short ton, while December soyaf fell 38 cent to 32.82 cents per pound.

➤ **China to purchase record amount of U.S. soybeans in 2020**

Bloomberg - China is set to buy a record amount of U.S. soybeans this year as lower prices help purchases pledged under the Phase-One trade deal, according to people familiar with the matter.

Total procurement from the U.S. are likely to reach about 40 mmt in 2020. That would be around 25% more than in 2017, the baseline year for the trade deal, and roughly 10% more than the record set in 2016, according to data from the USDA.

China has been stepping up purchases of American agricultural goods since the end of April with soybean sales for delivery next season currently running at their highest level for this time of year since 2013. China has also set several daily records in corn purchases, putting it on track to exceed for the first time an annual quota set by the World Trade Organization.

China’s purchases of U.S. farm goods over the first seven months of the year are at just 27% of the target value implied by the trade accord, according to Bloomberg calculations using Chinese customs data, with imports of U.S. beans in July at an unusually low level.

China’s agriculture ministry said on August 28th it expects soybean imports to increase in the second half of the year. The US seasonally exports the bulk of its soybeans toward the end of the year, just as southern hemisphere supplies run out. Brazil is China’s biggest supplier of the crop.

The U.S. and China reaffirmed their commitment to the Phase-One accord in a biannual review last week, showing a willingness to cooperate on trade even as tensions escalate over issues ranging from data security to the future of democracy in Hong Kong.

China are ultimately expected to import a best-ever of 96 to 98 mmt from all nations this year, with 40% to 50% of that coming from the US. In 2017, China imported a record total of 95.5 mmt in soybeans from all origins.

Strong Chinese purchases of U.S. soybeans are likely to continue into January, while prices relationships will ultimately dictate how much China imports.

➤ **Brazil Backtracks on Suspension of Tariffs for Imported Grain**

Michael Condonier/Soybean & Corn Advisor, Inc. - There was a lot of confusion in Brazil last week concerning the potential suspension of the 8% tariff on imported soybeans, corn, or rice from countries outside the Mercosul Trading Block.

Earlier last week, the Brazilian government announced that they might temporarily suspend the import duties on soybeans, corn, and rice from countries outside of the Mercosul Trading Block starting in September. At the time, the Brazilian Ministry of Agriculture stated that Brazil will not run out of these commodities before the 2020/21 harvest and that this was just a precautionary step should additional imports be needed.

A strong pushback to this proposal started immediately from various commodity groups and members of the Brazilian Congress who argued that removing the tariff would lower the prices paid to Brazilian farmers. The pressure worked and by the end of last week, the Minister of Agriculture had tabled the proposal stating that she had never authorized it and that the proposed tariff suspension was still in the “study phase.”

A member of the Brazilian Congress from the state of Rio Grande do Sul stated that the Minister’s decision was prudent and that a decision to suspend tariffs must be based on concrete facts. He stated that Brazil is not running out of these commodities and if the government wanted to control inflation, which was one of the reasons given for the suspension of the tariffs, it could be accomplished by other means.
There was also immediate pushback from agricultural officials from the other members of the trading block. They stated that Brazil does not have the authority to unilaterally suspend the tariff and they pointed out that any adjustment to the tariff must be negotiated with and agreed upon by the other members of the trading block.

The fact is that the domestic supplies of all three of these commodities is tight in Brazil due to increased export volumes thus far in 2020. As a result of the tight supplies, the domestic prices for soybeans, corn, and rice are at record levels or close to record levels in Brazil.

- **CBOT Corn mostly close mostly steady after making five month highs**

  CBOT Dec 20 Corn futures ended the week down 2 cents, settling at $3.57¼/bu, but rallied early in the week, making highs on Monday at $3.64½/bu, the highest level since planting began the 30th of March.

  The market will be waiting to see changes in USDA production estimates in the WASDE Report next Friday, with a particular focus on Iowa and Illinois.

- **USGC Assistance Leads to DDGS-Based Aqua Feed Sales in Egypt**

  One of the largest feed producers in Egypt is now selling aqua feed produced with U.S. distiller’s dried grains with solubles (DDGS) and corn gluten meal (CGM), thanks to a product quality trial conducted with the U.S. Grains Council (USGC).

  “Fish is an important food source in Egypt, accounting for a quarter of the average household’s protein intake,” said Ramy Taieb, USGC regional director for the Middle East and Africa. “Aquaculture production in the region is expected to grow as population increases and fish catch becomes limited in the Mediterranean Sea and the Arabian Gulf.”

  Aquaculture is the fastest-growing food production sector in the Middle East and North Africa. Egypt is the leading market, ranking in the top 10 countries in the world for global aquaculture production. Tilapia is the primary species produced, followed by sea bass, sea bream and mullet.

  To feed those fish, Egypt is also the largest aqua feed producer in the region with 34 small-to-medium aqua feed mills collectively producing 1.85 million metric tons annually. This demand for aqua feed will continue to grow as the Egyptian government has set an ambitious goal of increasing aquaculture production by the end of 2020.

  To determine inclusion rates for DDGS and CGM in aqua feed rations, USGC decided to engage on an individual basis with feed producers, many of which the Council was familiar with because of relationships in other feed production areas. Egypt is already one of the largest regional importers of US DDGS and CGM, the majority of which is destined for poultry production. Egypt imported 140,000 tons of US DDGS and 130,000 tons of US CGM in 2019.

  “There is significant interest in the aquaculture industry in using plant-based feed ingredients to replace fish meal in aquaculture diets,” Taieb said. “As a result, there is the opportunity to increase the use of U.S. DDGS to substantially reduce diet costs while achieving growth, increasing survival rates and improving quality.”

  The Council is encouraging higher DDGS and CGM inclusion rates for aquaculture feed through one-on-one training sessions, additional demonstrations and technical assistance. In June, the Council conducted three webinars on DDGS in tilapia diets with a Southeast Asia-based aquaculture expert, now a USGC consultant, and a large feed producer in Egypt. Those technical exchanges led to a product quality trial to determine the optimal formulations for both floating and sinking aqua feed.

  As a result, the partnering feed producer has already launched an aqua feed that includes DDGS and CGM in Egypt. Now, the Council is expanding this outreach to working with the USGC training center in Tunis, Tunisia, to further promote corn co-products for aqua feed in the region.

  “By taking this opportunity to highlight the strong value arguments of U.S. DDGS and CGM the Council is expanding U.S. market share in Egypt for these co-products,” Taieb said. “Doing so allows the Council to capture market share in a competitive and challenging market for U.S. grain exporters and build long-term trust in Egypt in food security through trade.”

  “The ultimate goal of these technical programs is to provide reassurance that U.S. corn and co-products will remain available in abundant quantities and at reasonable prices to sustain the Egyptian food and feed industry.”

- **Wheat Futures lower on the week.**

  In contrast both CBOT and HRW/Wheat Futures closed steady to lower on the week.

  CBOT Dec 20 Wheat futures ended the week up 2½ cents, settling at $3.51½/bu, the highest level since the 20th of April.

  Kansas HRW Dec 20 Wheat Futures ended the week up 2 cents, settling at $4.74/bu, after making new four month highs on Tuesday of $4.91/bu.

- **China emerges as top buyer of US wheat in latest week**
New Delhi — A week after returning to the US wheat markets, Chinese buyers continue to purchase US wheat with the latest week’s export sales to China emerging as the second-largest of the current season. Buyers remain interested amid the country’s efforts to ramp up its purchases of US agricultural products.

In the week to August 27th, China booked 250,800 mts of US wheat, the second-largest volume purchased in the current marketing season that started June 1st, data from the USDA showed September 3rd. Sales to China were also the largest for the week, followed by the Philippines.

The latest purchase took China’s total commitments for US wheat to 1.47 million mts in 2020-21, inching to a five-year high, according to an analysis of US Department of Agriculture data.

So far, China’s commitments remain higher than those of the two largest traditional buyers of US wheat -- Mexico and Japan.

This comes as China has been actively buying US agricultural goods in recent weeks, including corn, soybeans, sorghum and pork, largely as part of its commitments made under the Phase 1 deal.

➢ Baltic Ocean Freight Index dips to near one-month low on waning Capesize, Panamax Rates

 Reuters - The Baltic Exchange’s main sea freight index dropped to its lowest in nearly one month on Tuesday, hit by declining rates for capesize and panamax vessels.

If exports of soybeans and corn from the US are strong from the beginning of the new marketing year, there will be healthy support for the dry bulk market from September 1st, Peter Sand, chief shipping analyst at BIMCO said in a note.

The Baltic dry index, which tracks rates for ships ferrying dry bulk commodities and reflects rates for capesize, panamax and supramax vessels, fell 17 points, or 1.1%, to 1,471, its lowest since August 4th.

➢ Container shortages fade before peak ag export season

 Journal of Commerce - With US imports from Asia surging and carriers no longer blanking sailings in the trans-Pacific, agricultural exporters in the nation’s interior said the equipment shortages and supply-chain disruptions they encountered as recently as four months ago have vanished.

Ag exporters in the Midwest expect supply-chain conditions to remain favorable through the fall as shipments of merchandise flood into import hubs such as Chicago, Kansas City, and Minneapolis. When unloaded, the empty containers that are repositioned to ag export facilities in those regions are meeting the equipment needs of ag exporters.

Also, since trans-Pacific carriers have no more blank sailings scheduled through September, exporters anticipate there will be sufficient westbound capacity to ship their commodities to Asia, at least until the autumn harvest when the ag sector enters its fall-winter peak season.

BD Exporters of specialty agricultural products such as identity-preserved grains, peas, and lentils no longer encounter the equipment shortages and severe reduction in outbound capacity that were present in March through June when imports plunged during the worst of the coronavirus disease 2019 (COVID-19) crisis when carriers blanked dozens of sailings in the trans-Pacific, said Bruce Abbe, strategic advisor to the Specialty Soya and Grains Alliance.

Rates stay steady, favorable

Freight rates in the westbound trans-Pacific are favorable, Abbe said. “Rates overall on the export side have remained quite low,” he said.

The spot rate from the West Coast to Asia last week was $581 per FEU, with little variation from week to week when the rate was $522 per FEU on June 11, according to the Shanghai Containerized Freight Index, which is published under the JOC Shipping & Logistics Pricing Hub.

US exports to Asia, including agricultural commodities and scrap products such as paper and metals, are at their seasonal lull. Ag exports should pick up in
late fall with the new harvest. In past years, waste paper exports also increased in the fall as students returned to school and office workers returned from summer vacation.

Total US containerized exports in January through May were down 9.9 percent compared to the same period last year, according to PIERS, a JOC.com sister company within IHS Markit. Most export categories, including ag exports, continue to lag behind recent years due to the US-China trade war and the global economic recession from COVID-19.

However, most agricultural shippers are optimistic that exports will pick up with the fall harvest. "If you had asked me five or six months ago, I wouldn't have thought this, but we're optimistic now," Steenhoek said. With the dollar softening, and economic growth picking up in North Asia and Southeast Asia, the markets for containerized soybean exports are returning, he said.

"The value of the dollar has dropped recently. That's a huge factor," Abbe said, adding demand in Asia for specialty ag products is coming back.

However, Abbe said there is some concern in the ag sector that if US imports drop in the fourth quarter, as usually happens, and carriers begin to blank sailings again to keep freight rates in the eastbound trans-Pacific from falling, exporters by the end of the year could face a resumption of equipment shortages and supply-chain disruptions as they enter the ag sector's peak export season.

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