**Notes and Observations in International Commodity Markets**

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**Grains and Oilseeds Rally Sharply, Soybeans Set New Highs**

- **CBOT Soybeans Reach New Contract Highs**

![Soybean Futures Chart](chart.png)

CBOT Soybean futures rallied sharply this week on continued Chinese buying, with the lead CBOT November 2020 contract setting new life of contract highs on a number of days through the week, reaching $10.46½/bu on Friday. Previous life of contract highs were set back in December of 2017. The contract closed the week at $10.43¾/bu, gaining 15½ cents on the day, and closing 46¼ cents higher for the week despite active hedging activity as a result of farmer selling. Rumors of new export sales continued on Friday. Daily buying from China and the funds, along with concerns over supplies continues to provide support as their buying stays ahead of farmer selling.

Known sales to China now stand at 18.8 mmts, as an export led rally has a firming basis and no carries past January 2021. Although the SX/SF tried to leak wider on some potential weekend harvest by trading out to 4 cents carry and settling at $.03¾ carry from SX to SF.

December Soybean Meal rallied to new life of contract highs following a report of an export sale of 100 kmts to an unknow destination, settling Friday at $342.10/short ton, up $6.80 on the day, and $17.30 for the week.

December Soybean Oil made modest gains through the week, settling at $35.15 33.77 per cwt on Friday, up 29 cents on the day, and climbing $1.38 for the week, reaching the highest levels since January 2020.
Food Security Fears Prompt China to Rethink Soybean Drive

South China Morning Post - Industry leaders have suggested China should halt the expansion of soybean production to leave space for strategic crops, including rice and wheat, to ensure adequate domestic food supply in the light of rising tensions with the United States.

The comments at this year's China Soybean Industry International Summit Forum marked a turn away from Beijing's previous push to boost domestic production and cut reliance on American soybean imports amid the trade war.

China launched a soybean - revitalization plan in March last year, encouraging farmers to replace crops such as corn with soybeans through state subsidies. But it did little to change the country's reliance on imported soybeans.

The shift to soybean farming has reduced corn supply, a key grain for animal feed, and pushed prices for the cereal grain to a five-year high. Corn price inflation is now spreading to wheat as animal feed producers use it as a cheaper alternative.

Yang Baolong, president of the China Soybean Association and general manager at Beidahuang Group, the nation's largest agricultural and agribusiness group, said China must accept the fact that the US would remain the dominant supplier of soybeans globally for the foreseeable future.

"The worst part of a trade war is not tariffs, but closed doors," Yang told hundreds of attendees at the forum in the northern city of Harbin.

Instead of focusing on increasing domestic output, China should diversify its imports and aim to become a pricing centre for the world soybean trade, given its huge purchases, Yang said.

China is the world's largest soybean importer, with imports accounting for nearly 90% of soybean consumption. It imported 88.5 mmts of soybeans last year, an increase of 0.5% from 2018, even though its planted area expanded by 10%.

The US, Brazil and Argentina are China's key suppliers.

Cheng Guoqiang, a professor of Tongji University, said China should leave the bulk soybean market, in which soybean is used to make oil and animal feed, to dominant producers like the US and Brazil. Instead, it should use its limited arable land to develop a niche market for non-GM soybean with high protein, he said. He added that China should not use limited arable land to grow bulk soybean for animals.

Zhang Liwei, director of market information at the China National Grain and Oils Information Centre, said China's purchases of US soybeans had been strong this year as Beijing worked to fulfil the terms of the phase one trade deal. "Throughout the fourth quarter and the first quarter of next year, soybean supply will mainly depend on the US," Zhang told the forum. China's demand for soybeans would rise 4.6% to 107.27 mmts this year and China's annual imports could reach a record high at 98 mmts, Zhang said.

Vice-Premier Hu Chunhua visited Heilongjiang province to inspect autumn grain production at some of the country's largest farms. "This is the latest in a series of efforts to reassure the public that food security is well in hand," analysts from Beijing-based consultancy Trivium China wrote in a note. "Hu's visit is meant to send a clear signal that despite a challenging year, Chinese citizens will not need to worry about where their next meal is coming from."

Ukraine 2020/21 Sunoil Exports Seen Falling to 6.17 mmts

Reuters - Ukraine, the world's largest sunflower oil exporter, is likely to reduce its sunoil exports to 6.17 mmts in 2020/21 season from 6.63 mmts in 2019/20 due to a smaller sunseed harvest, analyst APK-Inform said on Wednesday.

The consultancy said the 2020 sunseed crop could fall to 15.53 mmts versus 16.10 mmts in 2019.
APK-Inform also expected a sharp decrease in Ukrainian rapeseed exports this season to 2.45 mmts from 2.89 mmts and soybean exports to 2.2 mmts from 2.63 mmts in 2019/20.

➢ **WTO Rules Against U.S. in China Tariff Case**

On Tuesday, a World Trade Organization (WTO) ruled that the U.S. circumvented the WTO dispute system when it hit China in 2018 with $234 billion in tariffs.

In April 2018, China initiated the dispute, titled *United States-Tariff Measures on Certain Goods from China (DS543).* In January 2019, the WTO established a panel at China’s request. The dispute covers two of the trade actions in the Section 301 investigation of China’s engagement in unfair forced technology transfer practices: the $34 billion trade action announced in June 2018, and the $200 billion trade action announced in September 2018.

U.S. Trade Representative Robert Lighthizer fired back at the WTO panel’s decision, “The United States must be allowed to defend itself against unfair trade practices, and the Trump Administration will not let China use the WTO to take advantage of American workers, businesses, farmers, and ranchers.”

➢ **CBOT Corn Sharply Higher Setting New Six-Month highs**

CBOT Dec20 Corn futures settled Friday at $3.78¼ after making new six-month highs of $3.79¼ up 3 cents on the day, and up 10 cents for the week.

Prices were supported through the week on estimates of a smaller supply and continued export selling. “Known” sales to China now stand at 9.8 mmts. COT Report had funds long 59k, +25k.

With the river basis at Delivery Value Equivalents (DVE) for Dec – May, corn basis has already done most of the work needed. While July CBOT Corn is just a nickel shy of DVE. Similar to soybeans, this is a market to respect in all aspects – futures, basis, freight, and spreads we have seen each one of these components of price move considerably in the last week; Futures are up a dime, CIF NOLA Basis bids are up 3 to 8 cents, BNSF COTs railcar bids are up $400 at $1400, and the Dec/Mar spread narrowing into less than 9 cents carry.

➢ **China’s corn output to fall after typhoons flatten crops, damage quality**

Reuters - China's corn crop is expected to fall by up to 10 mmts, or nearly 4%, from the latest government estimates after heavy wind and rains topped crops in major production areas in the northeastern corn-belt, analysts said.

Expected production losses have pushed Chinese corn futures to a record high and stoked worries over supply shortages in the world's second-largest consumer of the grain after it ran down once-mammoth state stockpiles and boosted imports.

"We think that corn output in the northeastern region would fall 5 to 10 mmts this (crop) year," said Zhang Dalong, analyst with COFCO futures, referring to the latest output estimate from the Ministry of Agriculture for the 2019/20 crop year of 260.7 mmts. "Impact on output and quality of the grain will be felt over the longer term," Zhang said.

Three typhoons buffeted China's main corn belt of the provinces of Heilongjiang, Jilin, Liaoning and the Inner Mongolia region in late August and early September, flattening plants and flooding fields just as the corn crop reached maturity.

"Flattened crops are not equal to no harvest, and you might recover some output if the crops get handled properly later," said Meng Jinhui, senior analyst with Shengda Futures. "But the cost of harvest will rise and there is increasing risk that the corn crops would lose their test weight while getting moulder," said Meng, who gave an initial estimate that corn output in the northeastern region will drop by about 5 mmts.

The crop losses come just as demand strengthens from a fast recovering meat production industry, fanning concerns about potential feed-sector shortages.
The most active corn futures traded on the Dalian Commodity Exchange for delivery in January rose to a record 2,419 yuan ($357.16/mt) on Monday.

China's agriculture ministry lowered its forecast for 2020/21 corn output by 1.8 mmts to 265 mmts, on impact of the typhoons, but the figures were still up from its estimate for the 2019/20 output.

Heilongjiang, top corn producer in the country, said on Wednesday that the typhoons did flatten crops in some fields, increasing farm loss and harvest costs. The impact on grain production in the region, however, was limited as rescue measures such as drying and draining were made in time, the provincial government said on its official WeChat account. The acreage hit was quite small, while the damage was mild, it added.

Betting on higher prices, grain traders in northeastern China have expanded storage capacity while farmers plan to hold off sales this year, according to Cofeed, an agriculture consultancy.

Production losses in Heilongjiang, China's top corn producing province, could be up to 20%, Cofeed said in a report, citing findings from a crop tour earlier this month.

With domestic output falling, China is expected to import more from major suppliers like the United States.

"We would need to buy more (corn)," said an executive with a state-owned agriculture trading company. Overseas corn "is cheap so it makes sense to buy. We don't have enough feed grains but can just buy," said the executive, who declined to be named as he was not authorized to speak to the media.

➢ U.S. and Brazil Announce Ethanol Deal

Brazil and the United States have held consultations regarding their bilateral trade on ethanol and decided to conduct results-oriented discussions on an arrangement to improve market access for ethanol and sugar in Brazil and the United States, a joint statement by both countries stated.

Such discussions will take place over a 90-day period starting on September 14th, 2020. During such time, Brazil will maintain a pro-rata tariff-rate quota (TRQ) for ethanol proportional to the total annual volume of the TRQ that was in force on August 30th, 2020.

Ethanol and agriculture interest groups said they continue to work to expand global trade. "The U.S. Grains Council, Growth Energy, the Renewable Fuels Association and the National Corn Growers Association believe the 90-day extension of the TRQ serves neither Brazil's consumers nor the Brazilian government's own decarbonization goals, especially while Brazil's ethanol producers continue to be afforded virtually tariff-free access to the U.S. market," the groups said.

"The extension falls during Brazil's annual inter-harvest period when U.S. ethanol exports to Brazil are traditionally low, causing greater uncertainty for U.S. exporters looking to make selling decisions now for the traditionally higher Brazilian demand in the winter months. While the Brazilian ethanol market has not been fully reopened to imports, we appreciate the continued support and efforts of the U.S. government as we use this 90-day period to aggressively pursue an open and mutually beneficial ethanol trading relationship with Brazil."

The groups said they have tried to educate Brazilian consumers about the "negative impacts" the tariffs are having on the country's decarbonization goals. "However, it seems Brazil's government has left its own consumers to pay the price through higher fuel costs once again," the groups said.

➢ China's Meat Imports - What If China Is Right?

TDM AgriTrends Brett Stuart - Massive swineherd losses from African Swine Fever (ASF) in 2019 will drive China to import over and estimated US$30 billion in global meat and poultry this year. This represents a US$14 billion increase from last year. About half of that increase came from displacing other global imports. The other half was an overall increase in global
meat/poultry trade (pulled from domestic markets). This enormous protein vacuum has disrupted global trade flows and sent a sharp signal to many global producers that more is needed.

But Chinese officials continue to report data suggesting that China’s swineherd is now in a sharp recovery. Herds are reportedly rising so fast that some project massive overproduction within two years. China’s Ministry of Agriculture and Rural Affairs released data this week that their August swineherd numbers rose +31% in August versus a year ago with sows rising +37%.

What if they are right? If so, global meat and protein producers are going to feel an abrupt adjustment. There is nowhere on earth to sell an extra US$14 billion of protein next year, or the next. Farm sectors expand on profits and happiness; they contract on financial losses and sorrow.

If China is right, the global swine sector needs to be contracting with China’s expansion. Their implied +7 million sow increase over the past 12 months equates to more than the entire U.S. sows base. Of course, that imbalance would be spread across key producers in the EU, Brazil, the U.S., Canada, and others.

But what if they are wrong? Like most global trade situations, the answer is far more complex than data suggests. Key facts include: ASF is a stout virus with hardy longevity, 85% of China’s hogs were farmed on farms of <1,000 head pre-ASF, small farms share infrastructure such as feed mills, trucking, and processing, no vaccine yet exists for ASF, and the Chinese government has ordered positive media articles of ASF recovery. Based on those facts, the possibility of China’s raving success seems slim. No doubt, large commercial farms are expanding on profits, but can they replace 85% of the pre-ASF farms?

Chinese hog prices remain at levels nearly 5x those in the U.S. and of other competitive producers, meaning pork scarcity remains rampant in China, for now. And China has not proposed an ASF solution.

➢ **Drought in Argentina worsens**

On September 17th the Buenos Aires Grain Exchange said in its weekly crop report wheat yields estimates were being cut in half in areas of Argentina that have been devastated by drought. The report noted that a number of wheat fields in northern Argentina would not be harvested due to an extreme lack of moisture. Wheat harvest generally occurs from November through to January.

The Exchange estimated that about 12% of the 6.5 million hectares planted in Argentina this year are in the northern part of the country, where the drought is most severe.

In the 2019-20 season, Argentina’s farmers planted 6.6 million hectares of wheat and harvested 18.8 million tonnes, according to the Exchange. Argentina is a major supplier of wheat to Brazil and other South American countries.
Wheat Futures Make Large Gains on the Week, Following Soybeans and Corn ...

Frosty weather risk for early next week in Argentina gave the funds a reason to buy and allowed the wheat markets to have a strong close for the week. Dryness has already been a concern in Argentina and now there is yield risk with the potential for an early frost next week.

In the Ukraine and parts of Russia the forecast is a little wetter for late next week. If it is realized it should give them a chance to get going with planting, as many are waiting for moisture before they start planting. Their window to plant is similar to the US (late Sept into early October).

The lead CBOT December 2020 Wheat Futures settled Friday at $5.77¼, up 21 cents on the day, and jumping 35 cents for the week. Spreads were a bit narrower on the day with the rally. The Dec/Mar spent most of the day at 7¾ - 8 cents.

Chicago wheat is maintaining its 70 cent premium to KC HRW, encouraging an increased planting of eastern SRW in coming weeks. However, at current price levels it will struggle to compete with corn and soybeans.

Kansas HRW December 2020 Wheat Futures rallied sharply the last two days of the week, settling Friday at $5.06/bu, rallying 18½ cents on the day, and 34 cents higher for the week.

Friday saw the lead contract trade as high as $5.07½, the highest levels since April.

The market continues to closely monitor southern hemisphere weather with dry weather in Argentina, as well as 2021 northern hemisphere planting prospects.

HRS futures were up 17½ cents on the week (27¼ from the weekly lows) and the highest since early June in the Dec contract.

Intra-commodity spreading on the realization that winter wheat planting was losing ground to corn and soybeans also helped to bring price relationships back into line. With a good forecast across the US for fall harvest there is more talk of additional SRW acres this fall. The general thoughts are 10%, but if the next 3 weeks are ideal it could increase, especially in areas that could double crop with soybeans next summer.

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