Commodities Fall Back From Last Week’s New Highs

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- **US WheatGrowersHit Sales Jackpot with China**

  by Sean Pratt - The United States has been selling wheat to China like gangbusters in early 2020-21. There is already 1.47 mmts on the books as of the 10th of September, a 2.357% increase over year-ago levels.

  “China is definitely in the market,” said US Wheat Associates (USW) spokesperson Steve Mercer. “We have to chalk that up to Phase 1, there’s no doubt.” Mercer said there is no doubt that Chinese millers are in need of high-quality wheat. If it was up to them imports would be even higher but the government is in control of the wheat trade.

  In the Phase 1 trade deal with the US, China committed to buy an additional US$32 billion of US agricultural products over 2017 baseline levels in 2020 and 2021. It appears wheat will be one of the beneficiaries of that deal. This year’s purchases between June 1st and September 10th are already approaching full-year levels in the pre-trade war era when China bought 1.6 mmts of U.S. wheat in 2016-17. China has rapidly become the second biggest buyer of US wheat so far this marketing year after barely buying any last year. Sales include 921,000 mts of hard red winter wheat and 380,000 mts of hard red spring wheat.

  Increased US exports are attributed to the trade agreement signed by the two countries, but Canada is unlikely to benefit from that development. Canada could sell wheat to the United States if that country drained supplies while meeting Chinese demand, but large carryout and a good quality crop south of the border makes that unlikely.

  Bruce Burnett, analyst with Markets Farm, said Canadian growers are unlikely to benefit from the re-emergence of China as a big buyer of U.S. wheat. If the US had tight supplies of spring wheat Canada could fill the void left by US wheat flowing to China, but the USDA estimates 7.6 mmts of US Hard Red Spring wheat was carried out from 2019-20, which is well above the previous five-year average, and this year’s crop was of good quality, so US has plenty of supply.

  Canadian wheat sales to the U.S. have been down in recent years. Exports that were as high as 4 mmts per year in the last decade fell to 2 mmts last year. That could change if China buys copious amounts of high-quality US wheat, but Burnett said China doesn’t need wheat as badly as it needs U.S. corn and soybeans.

  China is expected to end 2020-21 holding 164 mmts or 51% of world wheat stocks. He believes the only reason China is buying wheat is to help meet its Phase 1 commitments and to refresh its stockpile. “If you’re carrying those massive stocks, you do have to rotate them,” said Burnett. The newly imported wheat will likely replace supplies that were imported a few years ago and that older grain will be injected into the Chinese market.

  Burnett is reticent to guess how much US wheat China will import by the end of the year because the purchases are tied to the Phase 1 agreement, which has been a volatile pact. “A lot of it will depend on the whims of politics.”

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  **US Wheat Growers Hit Sales Jackpot with China**

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The U.S. recently won two World Trade Organization disputes regarding China’s wheat import policies. China has agreed to work toward filling its 9.6 mmts Tariff Rate Quota (TRQ) for wheat imports. USW believes Chinese millers would fill most of that TRQ if they were allowed to properly respond to market signals.

- Reminder, China has a week-long holiday, Mid-Autumn Festival from the 1st to 8th of October. As such, buying activity through this period may be light.

- **Wheat Futures Fall Back Losing Last Week’s Gains**

The lead CBOT December 2020 Wheat Futures contract settled Friday at $5.44/bu 5.77¼, down 5¼ cents on the day, and off 33¼ cents for the week.

Chicago wheat is gained a little on KC HRW at 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. Last year when KC HRW fell to $1.00/bu discount going into December deliveries.

Kansas HRW December 2020 Wheat Futures had a down week as well, settling Friday at $4.75/bu, dropping 8 cents on the day, and 31 cents lower for the week.

Canadian wheat estimates were shaved 755 kmts with Agriculture and Agri-Food Canada estimating production at 34.1 mmts, with a corresponding 800 kmts drop in ending stocks.

No change in the Australian precipitation pattern with most areas in good shape and biggest area of concern being central Queensland.

The weather picture in Black Sea looking a little more favorable than earlier in the week with rains building across key growing regions of Ukraine this weekend ahead of planting. Conditions still dry though in Russia with outlook not quite as promising which will keep market on edge.

- **EPA Declares Three Herbicides Safe – (Atrazine, Propazine, and Simazine)**

The Environmental Protection Agency announced Friday it has decided the herbicides atrazine, propazine, and simazine are safe. EPA released its proposed interim decisions for the three herbicides, and said that after publication in the Federal Register, EPA will be accepting comments on these the decisions for 60 days.

- **CBOT Corn has a down week after a seven week rally**

CME Corn Futures closed the week in a low volume day, on a down week following a seven-week rally, CBOT December 20 Corn futures settled Friday at $3.65/bu, up 1½ cents on the day, but down 13¼ cents for the week. December volume at 116k contracts was the slowest day since August 3rd.
US harvest pace on this coming Monday is expected to be 18-20%, vs 8% last week, and 5yr avg at 16%. Forecast for weekend rain will knock out harvest for some areas for a day or two.

Ukrainian harvest reported at 9% with average yields at 4.52 mt/ha, down 25% from early yields last year.

The US pipeline still seems empty with “gut slot” still 2 to 3 weeks out. Farmer selling is slow too and some thinking with heavy bean sales and CFAP cash that harvest sales will be light this fall.

**Basis for Corn and Grain Sorghum**

This week, nearby Gulf CIF NOLA Basis for corn is trading around +65Z, while Grain Sorghum for both CIF NOLA and Texas Gulf is indicated at +200Z; an indicative $1.35/bu premium to corn.

On the interior, basis levels for corn in western Kansas, -24Z to -12Z, while grain sorghum +40Z to +60Z.

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**China Takes Lead As Top U.S. Corn Buyer**

Cannady USGC – Recent export shipments and sales reports show China taking the early lead in race for top US corn buyer in the current 2020-21 marketing year at 9.947 mmts, as last year’s winner currently stands at 3.905 mmts.

This week’s USDA Reports show China continues to snap up US corn to the tune of 566.4 kmts of new crop. The mystery men scooped up 371.5 kmts, and Japan bought kmts. Our friends south of the border hope to keep feed demand high, as Mexico bought 281.8 kmts, and Colombia rounded out the top five with 178.8 kmts purchases of new crop.

In total, we pushed out 2.139 mmts of corn last week. Extrapolate that number at 52 weeks per year, that would be 111,228 MMT on the year. Not saying we’ll get even close to that because we won’t, but it can give you an idea of just how big last week was.

Today, the USDA has exports pegged at just under 60 mmts. I (Reece Cannady) think it will need to be quite a bit higher.

In short, I think that Chinese buyers should be waiting to buy US corn during the harvest price depression once we have a very firm grasp on crop size, meaning big purchases should be around the bend. That said, I’ve also seen crazier things; just something for everyone to chew on for today.

There was also 194.4 kmts of grain sorghum sold last week, a big week for sorghum sales. Looks like a large vessel or maybe two smaller ships went to China, with 71.6 kmts leaving the US soil for our Asian trade partner.

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**Argentine Corn, Soybean Output to Fall Due to Dryness, Capital Controls, Exchange Rate**

Reuters - Argentina’s upcoming soy and corn crops will be smaller than last season’s due to dry weather and capital controls that are eating into farmers’ profits, said the Buenos Aires Grains Exchange said in a teleconference with agricultural analysts on Wednesday.

Total grains production is set to fall 6.1% this year versus the previous season. Growers worry that a dry spell that started in June might get worse due to a mild episode of La Nina weather phenomenon while currency controls taken by the central bank to preserve its reserves take a toll on output from the world’s No. 3 corn and soybean exporter.

Argentine growers were also expected to harvest 47 mmts of 2020/21 corn, down from 50 mmts collected in the 2019/20 season. Corn sowing in Argentina started in early September.

Argentina’s 2020/21 soy crop is estimated at 46.5 mmts versus 49.6 mmts harvested in the previous crop year. Soybeans are the country’s main cash crop. Planting of the oilseed starts next month in the Pampas grains belt.

Central bank capital controls announced last week have widened the breach between the official and black-market exchange rate. That gap plus export duties imposed this year mean growers will receive less for their crops.
"Therein lies the disincentive to production and investment, and that is why planted area will fall," said the exchange's chief economic Agustin Tejeda on the call.

The wheat harvest, set to start in December, is expected at 17.5 mmts, the exchange said, down from 21 mmts estimated in May as farms suffer from unusually dry weather. The wheat crop was 18.8 mmts last season, according to exchange data.

"The situation is critical" regarding 2020/21 wheat, said Esteban Copati, head crop analyst for the exchange.

➢ **Argentina Soy Crushing to Fall 9.5%**

Reuters - The head of the CIARA-CEC grains exporting chamber said on Tuesday that Argentina's soy crushing volume will drop around 9.5% this year. This will have an impact on both the global soy market and the country's inflow of much-needed hard currency.

The country, the world's top exporter of processed soy meal and soy oil, had been impacted by "a high tax burden, the lower flow of grains and the volatility in the foreign exchange market," said Gustavo Idigoras. Argentina's famed crushing plants, which dot the Parana River, would crush around 38 mmts of soybeans, versus 42 mmts in 2019. He said the industry is currently operating at 50% of capacity. "The lower profitability makes it hard to improve the prices paid to producers," Idigoras said, adding there was less grain flowing from the farms to the processing plants.

Argentina, in recession since 2018 and grappling with a dangerously low level of foreign currency reserves, needs a strong inflow of dollars from exporting sectors, where grains from the country's fertile grasslands dominate.

The center-left Peronist government has been tightening currency controls imposed since last year, limiting access to dollars, and has previously hiked taxes on farm products.

Argentina's soy crushing volume has been declining so far this year, including a steep 20% drop in August.

The country harvested 49 mmts of soybeans in the 2019/20 campaign, which ended in July, down from 55.3 mmts collected in the previous season, official data show. Sowing of the new 2020/21 season will begin in October.

➢ **CBOT Soybeans Come Off Highs, but still above $10.00/bu**

It has been over three weeks now that every day has brought more export sales announcements, but not today on Wednesday of this week. The funds are now not so sure they want to have huge long positions as harvest kicks in gear. After making new life of contract highs last week of $10.46½/bu, CBOT Soybean futures had a down week dropping 42½ cents since last Friday's close with the lead CBOT November 2020 contract settling on Friday at $10.01¼/bu, up 1¼ cents on the day.

December Soybean Meal also fell after it rallied to new life of contract highs last week, settling Friday at $338.80/short ton, up $2.30 on the day, but losing $3.70 for the week.

December Soybean Oil lost ground through the week, breaking below support levels on Tuesday and continuing lower, settling at $32.77 per cwt on Friday, up 36 cents on the day, but down $2.48 per cwt for the week.
Ukraine's 2020 Soybean Crop to Fall by 19%

Reuters - Ukraine's soybean harvest is likely to fall by around 19% to 3.0 mmts due to a smaller harvested area, the national vegetable oil producers' association said on Tuesday.

The Ukraine has boosted soybean output in recent years and exports most of the harvest. The association said in a report that the harvested area could total 1.345 million hectares this year, compared with 1.580 million in 2019. The yield is likely to be 2.26 mts per hectare versus 2.29 mts a year earlier.

The association last week revised down its forecast for Ukraine's 2020 sunflower seed output to 14 to 15 mmts from the previous estimate of 15 mmts because of poor weather. Ukraine, the world's largest sunflower oil exporter, increased its sunoil exports by around 10% in the 2019/20 September-August season to 6.68 mmts.

Egypt's Soybean Imports Forecasted To Have Surpassed 4.4 mmts in 2019/2020

Refinitiv - Trade flow models are showing Egypt imported about 338,549 mts of soybeans in August 2020, a decline of 28% from July. Furthermore, Egypt's month-on-month imports could follow the downward trend models are forecasting Egypt to import about 245,673 mts of soybeans in September 2020. However, trade flow models are indicating that Egypt's soybean imports could reach a historic high of 4.49 mmts in 2019/20 marketing year (October/September), a 43% increase from the previous marketing year, and 54% above the two-year average of 2.91 mmts.

With soybean import volumes of about 4.49 mmts in 2019/20, Egypt remains the largest importer of soybeans in the Middle East and North Africa region, accounting for about 40% of the region's soybean imports. The growth in soybean imports has largely been driven by the local demand for soybean meal and soybean oil from both the animal and food processing industries.

Models are suggesting that the US could have accounted for about 87% of Egypt's soybean imports during the 2019/20 marketing year. Thus, U.S. soybean exports to Egypt could reach about 3.88 mmts in 2019/2020 marketing year, a 41% increase from the previous marketing year, and 50% above the two-year average of 2.59 mmts.

Similarly, the USDA's commodity sales data is showing that the country shipped about 3.76 mmts of soybeans to Egypt between September 2019 and August 2020, an increase of 42% from the same time frame last year. Additionally, Egypt was the fourth largest importer of US soybeans (9%) after China (36%), the European Union (12%) and Mexico (10%) for the 2010/20 marketing year. Meanwhile, models are forecasting about 172,000 mts of US soybeans to reach Egyptian shores during the first three weeks of October 2020.

Lawmakers Push for Navigation Dredging on Missouri River

A group of Midwestern lawmakers filed a letter to the U.S. Army Corps of Engineers this week citing “there is a critically dire situation related to navigation challenges along the Missouri River where serious barge traffic accidents have occurred and commercial activity has nearly come to an abrupt halt as we enter harvest season in the Midwest.”

The Corps' offices in the Kansas City and Omaha districts are authorized to maintain a 9-foot deep by 300-foot wide navigation channel on the Missouri River, but the river has no locks or dams from Gavin's Point, S.D., to the mouth of the river in St. Louis. The Missouri River was flooded extensively throughout 2019 below Gavin's Point as well following a storm in March that breached levees up and down the Missouri River.

The lawmakers wrote that "The current conditions and challenges impacting the navigation channel are largely attributed to previously constructed shallow water habitat chute projects and dike notches. Additionally, the prior three years of high water including the record duration 2019 flood event have contributed greatly to these challenges.”

Senators signing on to the letter included Roy Blunt (R-MO), Chuck Grassley (R-IA), Josh Hawley (R-MO), Deb Fischer (R-NE), Jerry Moran (R-KS). Congressional members included Sam Graves (R-MO), Blaine Luetkemeyer (R-MO), Vicky Hartzler (R-MO), Jason Smith (R-MO), and Ann Wagner (R-M)
➢ South Korea Purchases $90 Million in California Rice

Last November, the Trump Administration worked out a deal with South Korea that would require the country to buy at least 132,304 mts of U.S. rice annually, and the country is getting close to meeting that promise for 2020 according to U.S. government and industry officials.

In a new tender completed Wednesday night, South Korea purchased 96,671 mmts of US rice, all of it being California medium grain worth about $90 million, according to the USA Rice Federation. That puts the total amount of US rice purchased by South Korea this year at 110,704 mts.

“It also puts South Korea in arm’s reach of fulfilling the country-specific-quota (CSQ) that the government agreed to last year.” Peter Bachmann, vice president of international affairs for the USA Rice Federation, added: “We are looking forward to contracting the final tonnage to fulfill this inaugural year of the CSQ agreement and continuing to improve our industry’s cooperation with our important Korean customers.”

➢ Senators Urge Removal of Rice from Tariff Exemptions

A group of Senators are encouraging the Trump administration to level the playing field for American rice producers by reforming the nation’s largest and oldest trade preference program, the Generalized System of Preferences (GSP).

The GSP program provides duty-free treatment to goods from developing countries to promote economic growth in those nations. Under the current program, highly-subsidized rice growing competitors are increasing rice exports to the United States at the expense of American producers.

Senator John Boozman (R-AR) authored the letter, which was also signed by Senators Tom Cotton (R-AR), Roger Wicker (R-MS) and Cindy Hyde-Smith (R-MS), Bill Cassidy, M.D. (R-LA), John Kennedy (R-LA), and John Cornyn (R-TX).

“Over the past several years, we have seen an annual uptick in rice imports from countries that have GSP eligibility. Coupled with our competitors’ high and rising domestic subsidies, these unfair advantages are having negative implications for our rice farmers, millers, merchants and allied businesses, who are losing domestic market share,” the letter said. “As you continue your efforts to promote fair and free trade, we encourage you to remove rice from the GSP eligibility list.”

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