Notes and Observations in International Commodity Markets

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Grains & Oilseeds Higher on the Week with China on Holiday

Markets were generally higher on the week after a slow start, as China was noticeably absent from the market as they celebrate their Mid-Autumn Festival and Golden Week holiday from the 1st to 7th of October. A bright spark appeared on Wednesday and rallied prices as the USDA September Stocks Report showed a tighter situation across the board than the average trade estimates suggested.

The U.S. Department of Agriculture’s National Agricultural Statistics Service (NASS) Grain Stocks report released today showed that old crop corn stocks on hand as of Sept. 1, 2020 totaled 2.00 billion bushels, down 10% from Sept. 1, 2019. Old crop soybeans stored in all positions were down 42% from Sept. 1, 2019, and all wheat stocks were down 8% from a year earlier.

Wheat - All wheat stored in all positions on the 1st of September 2020 totaled 2.16 billion bushels, down 8% from a year ago. The pre-report average trade estimates for stocks was at 2.242 billion bushels. On-farm stocks were estimated at 705 million bushels, down 4% from last September. Off-farm stocks, at 1.45 billion bushels, were down 10% from a year ago. The June-August 2020 indicated disappearance was 695 million bushels, up 4% from the same period a year earlier.

Corn - Old crop corn stocks on hand as of the 1st of September 2020 totaled 2 billion bushels, down 10% from 2019. This was 250 million bushels under the pre-report average trade estimates of 2.250 billion bushels for corn. Of the total corn stocks, 751 million bushels were stored on farms, down 8% from a year earlier. Off-farm stocks, at 1.24 billion bushels, were down 12% from a year ago. The June-August 2020 indicated disappearance was 3.02 billion bushels, compared with 2.98 billion bushels during the same period a year earlier.

Soybeans - Old crop soybeans stored in all positions were down 42% from 2019. Soybeans stored in all positions on the 1st of September 2020 totaled 523 million bushels, down 42% from Sept. 1, 2019. The came in under the pre-report average trade estimates for ending stocks came in at 576 million bushels. Soybean stocks stored on farms totaled 141 million bushels, down 47% from a year ago. Off-farm stocks, at 382 million bushels, were down 41% from last September. Indicated disappearance for June-August 2020 totaled 858 million bushels, down 2% from the same period a year earlier. This report also contains revisions to the previous season’s production for corn and soybeans. This has been the normal practice for soybeans for many years. Corn revisions were moved from January to this report to coincide with the end of the marketing season and align with soybeans. Production for 2019 corn was revised up fractionally while 2019 soybean production was revised down fractionally from the previous estimate.

NASS conducted separate surveys for on-farm and off-farms stocks during the first two weeks of September.

➢ IGC: Global Grains Output Revised Lower

LONDON - The International Grains Council (IGC) has revised downward its forecast for global grains production in 2020-21 as corn output is projected to decline by 6 mmts in the United States, China and the European Union.
In its monthly Grain Report released on the 24th of September, the IGC reduced total grains production by 3 mmt from its August projection, to 2.227 billion mts, which would still be an all-time record. If realized, it would be an increase of 46 mmt compared to 2019-20. Most of the year-on-year increase is due to a projected 39 mmt rise in corn output to an all-time high of 1.16 billion mts. World wheat production also is expected to edge upward to a record 763 mmt.

The IGC said total global grains consumption is projected to expand by 39 mmt year-on-year, to a new peak of 2.22 billion mts, with much of the gain linked to feed and industrial uses of corn, but with wheat, sorghum and oats usage growing as well. With upward revisions for wheat, corn and barley, the projection for total grains trade in 2020-21 is boosted by 3 mmt to a record 398 mmt, a 1% increase year-on-year.

Global grain stocks are predicted to expand 7% year-on-year to a three-year high of 629 mmt, as a fourth consecutive decline in corn stocks is offset by increases in wheat, barley and other grains.

The outlook for global rice production was trimmed to 504 mmt. A higher consumption figure trimmed world rice ending stocks in 2019-20 by 2 mmt from last month to 175 mmt. Rice trade is forecast to increase by 7% year-on-year to 45 mmt.

The IGC also projects record global soybean output at 373 mmt in 2020-21. The Council forecasts a record in soybean trade of 164 mmt, 8% higher year-on-year. The IGC noted that the increase in trade is mainly due to strong demand from China, a result of recovering feed demand, and an array of smaller markets.

➢ Wheat Futures Set Eight Month High Following USDA Stocks Report

The lead CBOT December 2020 Wheat Futures settled Friday at $5.73¼/bu, up 3 cents on the day, and jumping 29½ cents for the week, after setting a new eight month high on Wednesday at $5.87/bu following the USDA September Stocks Report.

Kansas HRW December 2020 Wheat Futures rallied sharply the last two days of the week, settling Friday at $5.09½/bu, up 3 cents on the day, and 34 cents higher for the week. On Wednesday December set a new five month high at $5.15½/bu following the USDA September Stocks Report.

Chicago – Kansas HRW spread narrowed to 65 cents, and continues to encourage an increased planting of eastern SRW in coming weeks. At current price levels it will struggle to compete with corn and soybeans.

Dry conditions are persisting across the US HRW belt with not a lot of moisture in the longer-term forecast. There was not much other fresh news on Friday as traders catch their breath with weather forecasts still the driving force for wheat.

Minneapolis Spring Wheat December 2020 Wheat Futures settled Friday at $5.31¼/bu, off 1¼ cents on the day. Following the USDA report forecasting a decline in winter wheat output and spring wheat increasing, the December Mnpls/KC wheat spread narrowed to the smallest seasonal point since 2014. This price relationship should entice a few more mills to blend more spring wheat into grinds, which would make the argument for less HRW demand and weaker board spreads. The counter argument is that higher protein wheat will just require a low/ord type HRW for blending which correlates to delivery stocks and will make those bushels valuable, especially if low protein wheat tries to work into feed rations.

Dry Black Sea conditions really not slowing down Russian exports with weekly exports up 29% and Ukraine down 23%. Ukraine is now basically at the ½ way point of the export volume cap reportedly agreed to between the government and trade. No change in Black Sea moisture conditions which is causing more anxiety that newly planted wheat will have a difficult time germinating.

Australian crop is good, but we are seeing analyst tempering the optimism late season dryness. Production estimates have come off 30 mmt and are now closer to 28 mmt. Wheat out of Australia on a FOB to FOB basis is now cheaper than US HRW, suggesting that fresh export demand will give Australian origin a serious consideration.
➢ WTO Will Review China’s Wheat and Rice Subsidies

The World Trade Organization has responded to a request by China for a compliance panel to review whether or not the country successfully responded to a previous ruling to reform the way it calculates support prices for wheat and rice farmers. The U.S. had alleged that China’s methods of calculating those prices were flawed and unfair, and that there is no need for a review panel to determine if the U.S. can move forward with implementing tariffs for China’s refusal to abide by the 2019 ruling. China claims that the U.S.’ Market Facilitation Payments and CFAP payments far exceed its own farm subsidies.

➢ CBOT Corn Sets New Six-Month highs

CME December 2020 Corn futures set new six-month highs reaching $3.85½/bu on Thursday following the USDA September Stocks Report, before settling on Friday at $3.79½/bu, off 3¼ cents on the day, but up 13 cents for the week. Informa was also out Friday morning with a corn yield update of 177.8 vs. 178.1 in September. The trade seems a bit surprised to not see yields dropping much. With corn harvest more than a week average, it’s hard to have a strong view on yields today. Harvest is slow to get rolling across the Midwest with a few plants still showing small inverses to gut slot. Friday western corn belt was firming as rail freight was in free fall, down $400 on the bid side from Thursday. Bids for November and December, as well as JFM are all down $200-350. UP markets are down as well. Eastern rail remains firm.

River basis is steady and roughly at Delivery Value Equivalents (DVE) December thru May, so if you need time or need to get classic, would advise getting some hedges out to the H or possibly K. Enjoy the weekend.

➢ End-of-Year Outlook Not Looking Promising for Biofuel Producers

A new study by university economists finds ethanol producers will experience roughly $8 billion in losses this year due to the pandemic’s impact on world fuel markets. The study, conducted by economists from the University of Florida and Arizona State University, was published recently in the Journal of Agricultural and Food Industrial Organization.

Renewable Fuels Association President and CEO Geoff Cooper says the new study confirms the findings of an RFA analysis published in July, which found pandemic-related losses could be $7 billion or more in 2020. On Friday, arguments were heard in the Growth Energy v. EPA case that was filed in February 2019 over the biofuel blending targets set for that year in late 2018. Then, EPA opted not to reallocate gallons waived through small refinery exemptions given to facilities who claim complying with the Renewable Fuel Standard would cause them undue economic harm. But at Friday’s arguments, Agri-Pulse reports, Small Refinery Exemptions (SRE’s) were hardly mentioned, taking a back seat to whether or not the District of Columbia Circuit Court of Appeals could even hear the case because of questions over whether the challenge was timely. 

“It’s incredibly frustrating,” Growth Energy CEO Emily Skor told reporters following the arguments. “For us, we have a very clear-cut court decision, and EPA’s failure to respond to that decision, and then the recourse is what? Additional litigation? Additional legal action and/or that we should have to exercise political pressure to get the agency to follow a court decision? That’s incredibly frustrating and it shouldn’t be the case.”

In related news, Senator Chuck Grassley (R-IA) surmised that additional decisions by the Trump Administration on waivers under the Renewable Fuel Standard (RFS) are not likely to be made before the November 3 elections. Countering statements from industry leaders, Sen. Grassley told reporters, “I think the president showed his pro-ethanol credentials by what he said about the ‘gap waivers,” and that was a big win for biofuels from President Trump.”

EPA data shows that there are still 17 of the gap-year SRE requests pending for the 2011-2018 compliance years, and now another 33 requests pending for the 2019 and 2020 compliance years combined.
Meanwhile, the U.S. and Brazil have not yet reached a deal on U.S. demands to be able to sell the country more ethanol, but the Brazilian government is making clear what it is demanding in return, according to sources in both countries. Brazil wants more access to the lucrative and tightly guarded U.S. sugar market.

CBOT Soybeans Reach New Contract Highs
CME Soybean futures rallied sharply Wednesday following the USDA September Stocks Reports, after a slow start to the week. Chinese buying has been noticeably absent from the market due the national holiday. The question remains: How much more does China plan on buying? Trade estimates range from 2 to 8 mmts. In addition, the non-China demand will remain something to watch as the U.S. is the competitively priced point of origin for today, with sales to Egypt reported just yesterday.

With this kind of forward book on for China and other destinations, US shipments should run in the 90 million bushels per week range for the next two months, with 100 plus mbus weeks very possible.

December Soybean Oil made modest gains through the week, settling at $31.66 per cwt on Friday, down 76 cents on the day, and off $1.15 for the week.

Brazil planting in Mato Grosso is 1.7% planted vs 10 year average of 10.6%. Argentina is contemplating its soybean export tax in order to give their farmers incentives to sell beans. On soybeans, the expected cut would be from 33% to 30%. In products it would be from 33% to 28%. Argentina Fob meal and Fob oil were weaker, perhaps reflecting an expectation for a larger crush.

Illinois Water Way Update
Illinois Water Way posted an update on their closures for scheduled repairs to locks and dams. It looks like they are making excellent progress on La Grange (just south of Peoria). They feel they are on track to open in 11 days by the 13th of October. Comments are suggesting that due to new equipment there may initially be a few delays.

Peoria is back open, which means when La Grange opens, it will open up to Hennepin/Spring Valley/La Salle Peru, and Utica. North of Utica will still be closed ’til the end of the October. If this happens it will provide a relief valve for Northern elevators, and access to more corn and beans for the Gulf, as well as possible delivery execution against the CME.

Russia Considers Grain Quota Despite Large Crop
Reuters - Despite a large Russian crop, the nation’s agriculture ministry said the grain export quota used in April through June during the coronavirus pandemic is still relevant. Russian officials have said they could set a grain export quota for January through June 2021 in order to secure domestic supplies.

"Despite good prospects of harvest, the mechanism of non-tariff quotas for grain exports remains relevant and the agriculture ministry plans to improve and apply this measure in the future," the agriculture ministry said.

Oksana Lut, the deputy agriculture minister, told the largest exporters of Russian grain about it during a meeting on the 28th of September. No further details were provided on the possible quota.

On social media, the Russian Union of Grain Exporters said the quota would not be restrictive in the current marketing season. Russia is one of the world's largest wheat exporters and is expected to harvest its largest grain crop since a record 2017. Farmers already have harvested 121.8 mmts of grain.
➢ **USDA FAS Issues Report on China**

On Tuesday, USDA’s Foreign Agricultural Service (FAS) issued a report on China titled *Evolving Demand in the World’s Largest Agricultural Import Market*. The report shows that China is now the world’s largest agricultural importer, surpassing both the European Union (EU) and the United States in 2019 with imports totaling $133.1 billion.

The report shows that China is transitioning from importing a majority bulk commodities into increasingly importing more higher-valued consumer-oriented products.

Feed ingredients destined for the livestock and poultry industries remain the largest U.S. export category to China, but U.S. exports of consumer-oriented products have maintained a growing trend, especially for meat, tree nuts, and prepared food.

In related news, the city of Beijing is calling on food importers to avoid frozen food from countries with high levels of COVID-19 outbreaks, according to a statement from the Beijing Municipal Commerce Bureau.

The agency also told food importers to “proactively avoid importing cold chain food from areas heavily hit by the coronavirus” and make alternative plans for imports.

➢ **CME Group Launches Pork Cutout Futures, Options**

CME Group announced Sept. 29 that it will launch pork cutout futures and options on Nov. 9, 2020, pending all relevant regulatory review periods.

“As the market has evolved, our customers continue to look for new tools to manage the price risk associated with hog and pork production,” said Tim Andriesen, CME Group managing director of agricultural products. “The pork cutout futures and options are complementary to our lean hog contracts and will provide clients with the ability to manage risk and discover price from the hog all the way to the meat case.”

Hogs are increasingly bought and sold in the physical market based on a formula that uses the cutout. The pork cutout reflects the approximate value of a hog calculated using the prices paid for wholesale cuts of pork. The values, or cuts, used to calculate the pork cutout include the loin, butt, picnic, rib, ham and belly. The new contracts reflect the price of the wholesale product after processing.

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