Notes and Observations in International Commodity Markets

9th October 2020

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**Weekly US exports**

US wheat exports in the week ended October 1st increased to 702,740 mts, the second highest level since the marketing season started, according to the data. Exports were driven by the large shipments headed to the Philippines in the latest week.

Total cumulative US wheat exports to global destinations have now reached 9.5 mmts since the new season started, up 6.3% from the year-ago levels, the USDA data showed. With the marketing season in its 19th week, total commitments for US wheat account for 54.7% of the USDA’s export estimates of 26.54 million mt in 2020-21.

**US Farm Exports to China Hit New August Record**

Reuters - US agricultural exports to China had a sluggish start to 2020 relative to the lofty expectations set forth by the Phase 1 Trade Agreement, but the August values soared substantially over that of the prior months owing to strong soybean shipments. US cotton exports to China hit a seven-and-a-half-year high in August, while corn shipments to the Asian country reached an all-time record. But the combined export value of cotton and corn, the No. 2 and 3 items in August, was less than half that of soybeans, emphasizing the importance of the oilseed in the trade relationship.

According to data published on Tuesday by the US Census Bureau, the United States in August shipped $2.15 billion in agricultural and related products to China, topping the 2012 record for the month by 19%.

That speaks to sheer volume of items being shipped given the price difference between 2012 and 2020. The August 2012 export prices of U.S. soybeans, cotton and corn to China were between 50% and 85% higher than in this year. The actual August tonnage of soybeans to China missed last year’s record for the month, falling 11% to 2.45 mmts. However, this was more than was shipped in the previous six months combined and is the second-highest August volume to China. The strong soybean performance is primarily what bolstered the record August.

Soybeans accounted for 41% of all U.S. farm goods shipped to China in August, the best since January’s 52%.

Soybeans’ share was 19% or lower between February and July, which was close to normal for the later months, but sharply below normal in the earlier ones. This explains why US farm exports to China were so dismal versus average earlier in 2020, then recovered to above-average levels as the year progressed.

Numbers continue to support the critical role of soybeans in US agricultural trade with China. Despite recent record exports of other farm products, the overall effort is dragged down when soybean exports are weak, and supported when they are high.

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**“Bull Riders” Set New Multi-Month Highs in the Grains and Oilseeds Rodeo**

If you feel like a bull rider in a rodeo after being thrashed from a hard ride through this week’s volatile price action, it is understandable. We are riding a bullish trend as multi-month contract highs were set for a number of commodities through the week. Wheat led the rally early in the week as dry weather in South America and Russia lent good support to prices. As harvest progresses, reported yields have been disappointing for both corn and soybeans. Export sales picked up as the Chinese are returning from their Mid-Autumn Festival and Golden Week holiday. Friday’s USDA monthly WASDE Report provided a new spark to the markets, especially across the oilseed complex. Still over support was seen in corn. Fortunately, we now have the weekend to recover before next week’s go-round begins.
Improved 2020
The Phase 1 Trade Agreement signed back in January suggested China would buy and import at least $36.5 billion worth of US farm products in 2020, approximately 50% more than three years earlier.

Through August, the 2020 total stood at $10.7 billion, some 13% below the same point in 2017, but up on the past two years. The deficit versus 2017 had been 21% in July, 31% in May, and 47% in March.

US officials have hinted that enforcement of the Phase 1 deal for agriculture began in mid-February, despite the language in the actual agreement suggesting otherwise. Although it is not a perfect calculation, half of February’s value plus March-August totaled $8.8 billion, up nearly 1% on the same period in 2017 but still far off the 50% improvement target.

Soybeans accounted for 22% of January-August U.S. agricultural shipments to China, pork and pork products accounted for 15%, and forest products rounded out the top three at 10%. Cotton was a very close fourth, also at 10%.

During the same period in 2017, the soybean share was 36%, forest products 17%, and fish products 6%. Cotton was again a close fourth with 6%.

Strong September
Progress toward the Phase 1 Trade Deal should continue to advance in September given the flurry of US soybean and corn cargoes that set sail to China. Export inspection data suggests that U.S. soybean shipments to China in September smashed the month’s record, likely surpassing 4 mmts and potentially notching the largest volume for any month since November 2017.

US soybean shipments to all destinations in September should have reached the highest level for any month outside October - January, the peak of export season.

The United States sent 1.18 mmts of corn to China in August, topping the all-time high for any month set in October 1995 of 951,600 mts. Inspection data implies the September total came in close to August.

In August, US soybean exports to China were valued at $881 million, cotton at $215 million, and corn at $190 million. Cotton shipments to China totaled 154,024 mts in August, the most for any month since March 2013.

Pork exports lagged in August; however, US shipments to the Asian country in August totaled 59,922 mts, a record for the month but down 14% from July to a 10-month low. Pork and pork products in August accounted for 6% of U.S. farm exports to China, the smallest share since March 2019. September pork export shipments are likely similar to those in August.

Argentina to approve Bioceres drought resistant GMO wheat
Reuters - Argentina is expected to approve the commercialization of HB4 drought-resistant GMO wheat by biotechnology firm Bioceres SA, according to a government document seen by Reuters.
Kansas HRW December 2020 Wheat Futures also made new twelve month highs on Thursday, hitting $5.52½/bu, but settling Friday at $5.34¾/bu, up 6 cents on the day, and 25½ cents higher for the week.

For wheat the monthly USDA WASDE Report was generally neutral as larger crop in Russia (+5.0 mmts) was mostly offset by a reductions in Ukraine (-1.5 mmts), Argentina (-0.5 mts) and Canada (-1.0 mmts). The only change to US usage was a 10 mbus increase in feed/residual.

However, there were some changes to ending stocks for various classes after incorporating the production estimates from the recent USDA Small Grain Summary. Most notably, HRW ending stocks declined 51 mbus, while HRW and SRW were 6 and 5 mbus lower, respectively.

The market continues to closely monitor southern hemisphere weather impact on production, along with northern hemisphere planting prospects.

➢ Wheat Export Shipments

Net wheat sales last week of 530,600 mts for 2020/2021 were up 5% from the previous week and 27% from the prior 4-week average. Increases primarily for the Philippines (202,900 mts, including decreases of 18,700 mts), Mexico (96,300 mts), unknown destinations (79,800 mts), Indonesia (57,000 mts), and Thailand (39,500 mts), were offset by reductions primarily for Costa Rica (600 mts) and Spain (600 mts). For 2021/2022, nets sales of 37,400 mts resulting in increases for Brazil (40,000 mts), were offset by reductions for Malaysia (2,600 mts).

Export shipments of 702,700 mts were up 9% from the previous week and 17% from the prior 4-week average. The destinations were primarily to the Philippines (175,200 mts), Mexico (95,000 mts), Nigeria (80,100 mts), Vietnam (66,000 mts), and China (65,200 mts).

➢ U.S. Wheat Sales to Philippines Top 2 mmts

US wheat export sales to the Philippines in the 2020-21 marketing season went past the 2 mmts mark, with the bookings seen 36.7% higher than what the country purchased at the same period last year, as per the weekly USDA report from October 8th. The Philippines’ total commitments for US wheat have now hit 2.2 mmts, with 56% of that volume already shipped.

So far, the Philippines’ commitments have been higher than Mexico’s, which has been traditionally the largest buyer of US wheat. The pace of US wheat sales to Mexico has been lagging in the 2020-21 marketing season, which started the 1st of June. So far this marketing year the US has sold 1.7 mmts of wheat to Mexico, down 15.6% from the same period a year ago.

Overall US wheat export sales in the week to October 1st rose 4.9% from the previous week to 530,621 mts, led by large bookings from the Philippines and Mexico.
CBOT Corn Sets New Multi-Month Highs

In a strongly higher market through the week, CME December 2020 Corn futures set new multi-month highs reaching $3.98½/bu on Friday following the monthly USDA WASDE Report, before settling at $3.94½/bu, up 7½ cents on the day, and up 15¼ cents for the week.

Friday’s corn report would seem to have gotten most of its bullish reaction from support the soybean complex. With US corn ending stocks forecast to be 2.167 bbu for 2020-21 coming in at 47 mbus above the trade average, the production estimate for US corn at 14.722 billion fell about 100 million shy of the trade average. The national average yield was reduced to 178.4 bu/acre, with the trade estimate at 177.9 bu/acre, as harvested acres fell by 1 million to 82.5. The USDA did reduce feed/residual number by 50 mbus and FSI/ethanol grind by 50 mbus as well.

US corn exports remain forecast at 2.325 bbus. Uncertainties continue to surround the USDA’s assessment of the Chinese situation as imports were left unchanged at 7 mmts even though confirmed sales to China from the US now total over 10 mmts. Very difficult to get bearish as corn sales remain robust.

The trade is also arguing the USDA number for Ukrainian corn crop is overstated and too optimistic, with worries are mounting on the potential of next summer’s Brazilian safrinha crop.
Net corn sales for the week of 1,225,700 mts for 2020/2021 primarily for Japan (360,100 mts, including 39,600 mts switched from unknown destinations and decreases of 41,500 mts), Mexico (332,700 mts, including decreases of 1,300 mts), unknown destinations (310,900 mts), Colombia (93,400 mts, including 34,000 mts switched from unknown destinations and decreases of 2,900 mts), and Panama (52,600 mts), were offset by reductions for Taiwan (71,800 mts), Peru (24,100 mts), and El Salvador (7,700 mts).

Export shipments of 934,800 mts were primarily to China (349,900 mts), Mexico (275,400 mts), Colombia (121,600 mts), Japan (81,600 mts), and Costa Rica (46,200 mts).

Optional Origin Sales: For 2020/2021, the current outstanding balance of 739,800 mts is for Vietnam (260,000 mts), Taiwan (204,200 mts), Argentina (127,000 mts), South Korea (65,000 mts), and Ukraine (30,000 mts).

➢ Grain Sorghum Export Shipments and Sales Remain On Track

Net grain sorghum sales for the week of 132,400 mts for 2020/2021 resulted in increases for China (215,400 mts, including 83,000 mts switched from unknown destinations), were offset by reductions for unknown destinations (83,000 mts). Export shipments of 157,600 mts were primarily to China.
CME Soybean futures rallied sharply through the week, setting a new life of contract highs of $10.79¾/bu following the monthly USDA WADSE Report. The lead November 2020 contract settled at $10.65½/bu, up 15½ cents on the day, and up 45 cents for the week.

Friday’s numbers were Bullish from the start with production estimates falling 45 mbus from last month and 20 mbus below the trade average. Combine this with a 52 mbus reduction in last year’s carry-over stocks from the September 1st stocks report two weeks ago, resulting in total supplies being nearly 100 mbus lower.

With record early season bean sales, the USDA increased its export forecast by 75 mbus, and made no change to crush. US ending stocks fell 173 mbus from last month to 290 with the latter 73 mbus below the average trade estimate.

South American weather and planting progress will be closely watched as we move forward, along with new daily sales announcements.

**CBOT Soybean Meal**

December Soybean Meal rallied to new life of contract highs on Thursday of $372.00/short ton, settling Friday at $364.00/short ton, up $4.40 on the day, and $12.40 higher for the week.

**Soybean Cake and Meal Exports:** Net sales for the week for the 2020/2021 marketing year, which began October 1, totaled 271,700 mts primarily for Mexico (117,800 mts), Colombia (36,400 mts), Japan (29,300 mts, including decreases of 1,400 mts), Panama (14,000 mts), and Guatemala (12,500 mts, including 3,000 mts switched from El Salvador and decreases of 1,000 mts). A total of 309,600 mts in sales were carried over from the 2019/2020 marketing year, which ended September 30th.
Export shipments for the period ending September 30th of 216,300 mts brought accumulated exports to 11,818,300 mts, up 3% from the prior year’s total of 11,427,800 mts. The primary destinations were to Colombia (70,700 mts), Guatemala (32,000 mts), the Dominican Republic (29,600 mts), Honduras (18,000 mts), and Mexico (13,400 mts). Exports for October 1 totaled 30,200 mts, with Honduras (6,800 mts), the Dominican Republic (6,200 mts), Guatemala (5,800 mts), El Salvador (4,200 mts), and Canada (3,300 mts) being the primary destinations.

Soybean Oil

December Soybean Oil made modest gains through the week, settling at $34.05 per cwt on Friday, up 105 cents on the day, and up $2.39 for the week.

Soybean Oil Exports: Net sales for the week for the 2020/2021 marketing year, which began October 1, totaled 4,600 mts for Guatemala (3,000 mts), Jamaica (500 mts), the Dominican Republic (500 mts), Mexico (400 mts), and Canada (200 mts). A total of 49,300 mts in sales were carried over from the 2019/2020 marketing year, which ended September 30th.

Export shipments for the period ending September 30th of 15,600 mts brought accumulated exports to 1,234,600 mts, up 54% from the prior year’s total of 800,800 mts. The destinations were to Guatemala (8,000 mts), Nicaragua (2,500 mts), Canada (2,300 mts), Costa Rica (2,000 mts), and Mexico (800 mts). Exports for October 1st totaled 100 mts, with Canada being the destination.

- **US Shipped Record High Soybean Volumes in September**
  - Refinitiv Commodities Research – Large sales to China led to record soybean shipments in September. According to USDA grain exports inspection data, the US shipped 6.4 mmts of soybean in the first month of the 2020/21 market year, up 41% from a month ago and 67% above last September. Numbers showed 4.3 mmts were headed for China, compared to 1.0 mmts for September 2019. Exports to other destinations but China decreased by near 30% at only 2.0 mmts.
  - According to USDA export sales data, China purchased 17.4 mmts of US soybean for this market year as of 24th September, compared to 2.9 mmts for last year. The record-breaking forward sales will maintain US soybean shipments to China at high levels over the upcoming months. In addition, strong demand from China has resulted in near 30% increase of US soybean prices over the past three months.
  - Brazil soybean exports continued to decline through September. Brazil shipped 3.8 mmts of soybean, down 35% from a month ago. Accumulated exports during February - September totaled 75.7 mmts, 12% above the record set in 2018 and 33% above last year’s same period. Considering current the low inventory levels in Brazil, Brazil soybean exports should continue to decline through the rest of the market year ahead of their new crop production becoming available after April 2021. Total soybean exports in 2019/20 for Brazil are estimated at 84 to 85 mmts.
  - Argentina soybean exports dropped to 0.1 mmts in September from 0.9 mmts in August. The extremely low exports may be attributed to the expectation of an exports tax cut. Argentina government announced in early October that Argentina would temporarily cut soybean export tax from 33% to 30%, to stimulate sales. The tax would rise to 33% again in January. The temporarily tax cut may boost Argentina soybean exports to relatively high levels over the next three months. The current economic recession in Argentina has resulted in over 300% depreciation of Argentinian peso relative to U.S. dollar since 2018.

**Soybean Export Shipments and Sales**

Net sales for the week of 2,590,700 mts for 2020/2021 were primarily for China (1,538,100 mts, including 449,000 mts switched from unknown destinations and decreases of 15,100 mts), Mexico (183,300 mts, including decreases of 800 mts), Egypt (120,000 mts), Bangladesh (111,000 mts, switched from unknown destinations), and Vietnam (97,500 mts, including decreases of 66,000 mts switched from unknown destinations).

Export shipments of 2,068,600 mts were primarily to China (1,385,200 mts, including 66,000 mts switched from unknown destinations), Mexico (120,000 mts, including decreases of 800 mts), Egypt (120,000 mts), Bangladesh (111,000 mts, switched from unknown destinations), and Vietnam (83,200 mts, including decreases of 66,000 mts switched from unknown destinations).

Optional Origin Sales: For 2020/2021, the current outstanding balance of 126,000 mts, all China.

Exports for Own Account: For 2020/2021, the current exports for own account outstanding balance is 7,300 mts, all Canada.
Dry Weather Delaying Soybean Planting in Brazil and Argentina

The US National Oceanic and Atmospheric Administration (NOAA) has issued a La Nina Advisory, indicating a high chance the disruptive climate conditions could persist in coming months. Drought conditions related to a La Nina event are delaying soybean planting in Brazil and could reduce production this season in the world's biggest producer and exporter of the oilseeds.

Gro – Brazil Drought Severity and Coverage Index – Brazil 4 October 2020

Brazil can ill afford a less than perfect soybean crop. With increasing demand from China, and tight domestic supply, every bit of tonnage counts.

Not only is the current dryness giving Brazil's soybean growing season a late start, but adequate precipitation is needed for germination of the seed. Reduced rainfall throughout the growing season can negatively affect yields. Brazil is already experiencing a very tight domestic bean situation, importing from Paraguay and Uruguay, and delayed planting could push harvest back as well.

Delays to soybean plantings can also impact the safrinha, or second, corn crop.

The GFS model has little to no rainfall in its forecast for Mato Grosso and the surrounding areas through the 12th of October, at least a two-week delay to the start of the season. Longer-range models start to promote showers after that date.

The Gro Drought Index shows severe dryness in the top soybean producing regions of Mato Grosso, Mato Grosso do Sul, and Parana. It is based on a Gro machine-learning model that updates daily with a range of inputs from various satellites, including evapotranspiration, soil moisture, precipitation, and land surface temperature.

Gro – Argentina Drought Severity and Coverage Index – 3 October 2020

Dry conditions brought on by a La Nina climate event are hitting Argentina's main wheat producing regions just as the crop enters its midseason growing stage.

The maps show the Gro Drought Index (GDI) for Argentina and Brazil. GDI, which is processed at the district level, measures drought severity on a scale from “0” or no drought to “5” or severe drought. GDI provides fully automated, high-resolution
measurements of droughts worldwide and is based on a Gro machine-learning model that updates daily with 46 separate environmental and climate inputs.

Of the four main wheat-growing provinces, Cordoba and La Pampa are experiencing moderate drought conditions, while Entre Rios and Buenos Aires provinces are abnormally dry. The impact on final wheat crop yields will depend on the intensity and duration of the La Nina. The Rosario grains exchange reduced its 2020/21 wheat harvest estimate to 18-19 mmts from a previous 21-22 mmts forecast.

Argentina is the third largest producer of wheat in the world, and a major exporter of wheat to Brazil, where drought and dry conditions have delayed planting of the new soybean crop.

The last La Nina event to affect the region was in 2010-2012, when Argentina’s nationwide wheat yields ranged between 1.96-3.50 mts/hectare. Dryness in Argentina’s grain belt has already cut into wheat planting.

A shortfall in Argentine production this season could be more than offset by favorable wheat harvests in Australia and Canada, which would help to support global supplies and possibly cap any price gains. However, Brazil would need to look elsewhere for available supply, while its usual backup wheat supplier, the US, struggles with its own dry conditions.

➢ **Russia Increases Grain Export Estimates**
Reuters - Russia has increased its grain export estimates for the 2020-21 marketing season to 50 mmts. Since July 1, Russia has exported 14 mmts of grain.

The government is preparing its export quota for the January to June period as the situation has changed from the height of the Covid19 pandemic in the spring. A large harvest, rising domestic prices and a weakening ruble are being considered as a new export quota mechanism is evaluated.

The government originally forecast 45 mmts of grain to be exported in the 2020-21 marketing season, which runs July 1st, 2020 through June 30th, 2021.

Victoria Abramchenko, deputy prime minister, told Russian news agencies, “We are maintaining our leading positions in the global grain market, and that tendency will continue.”

➢ **Ukraine grain exports slip**
Reuters - Ukraine’s grain exports for the July 2020-June 2021 season has decreased 14.9% to 12.3 mmts, citing the economy ministry.

The exports for the season so far include 8.7 mmts of wheat, 2.9 mmts of barley and 678,000 tonnes of corn.

Ukraine’s exports are expected to decline to 47.4 mmts in the 2020-21 season compared to 57.2 mmts of grain exported in the 2019-20 season.

The economy ministry attributed the slowed grain exports to a weak harvest, which is expected to decrease to 68 mmts in the 2020 season compared to a record 75.1 mmts in 2019.

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➢ **Canola Group Seeks Approval of the Oilseed As Renewable Fuel Source**
The U.S. Canola Association has asked the Environmental Protection Agency (EPA) to approve the oilseed as a source of renewable fuel, which could feed an expected surge in demand for raw material from processing plants being developed.

In March, the group submitted a pathway petition to EPA to add canola renewable diesel as an eligible renewable fuel standards product, said Tom Hance, Washington Representative for the U.S. Canola Association. The petition is not yet publicly available and is under EPA review, according to Hance.

If approved, demand for the oilseed — and potentially its price — could rise and spur more imports from Canada. It could double the amount of Canada’s crop that goes into fuel production, according to the Canola Council of Canada.

➢ **CFTC Will Hold Open Meeting on Position Limits**
The Commodity Futures Trading Commission will hold an open meeting next week to vote on a final rule on the contentious issue of position limits on derivatives to conform to the Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) amendments to the Commodity Exchange Act, The Hagstrom Report has learned

“Our team has worked tirelessly these last several months to incorporate the feedback we’ve received from the stakeholder community — specifically the agricultural and energy sectors. I look forward to sharing the details of the proposal next week to finally provide clarity to our market participants,” said CFTC Chairman Heath Tarbert.