Notes and Observations in International Commodity Markets

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Wheat and Corn Makes New Highs, As Soybeans Consolidate

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GHA – Another interesting week in the grain and oilseed markets as continuing strong export pace and increasing dry weather concerns lend support across the markets. Dry weather is making for good harvest conditions, but increasing drought conditions across the US winter wheat-belt is increasing planting germination concerns.
France cuts nearly all 2020 crop estimates

Reuters - France's farm ministry on Tuesday lowered virtually all its estimates for cereal, oilseed and sugar beet crops this year after adverse weather throughout the season. In a monthly crop report, the ministry cut its estimate for the 2020 grain maize crop, harvesting of which is in progress, to 13.5 m mts from 14.1 m mts last month, after a large reduction in its yield forecast.

The ministry said the grain maize harvest, excluding production for seeds, would still be 6% above last year's volume and 4% above the five-year average due to a larger area sown.

For soft wheat, the ministry cut its 2020 estimate to 29.2 m mts from 29.5 m mts last month due to a reduction in both the sown area and yield forecasts, confirming the EU's top grain grower has harvested one of its smallest crops in years. The revised soft wheat production estimate is down 26% from last year's volume and 18% below the five-year average. French winter crops suffered from heavy rainfall during sowings and dry spring weather that hurt crop development.

The ministry also cut its barley harvest forecast to 10.5 m mts from 11.0 m mts last month. The estimate is now 23% below last year's crop and down 13% on a five-year average.

It pegged the rapeseed crop at 3.27 m mts, down 7% on last year and 32% below the five-year average.

The ministry also cut its sugar beet crop estimate to 30.5 m mts from 32.2 m mts last month. The new figure is 20% below last year's harvest.

The ministry also cut nearly all its other forecasts for grain and oilseeds.

Australian Winter Crops Pegged at 44.7 m mts

Rural Bank – Australian winter crop production is forecast at 44.7 m mts, 9% above average and a 49% year-on-year increase.

Year-on-year production increases to wheat 85%, barley 8%, canola 47% can mostly be attributed to improved yields in New South Wales. After a dry start, rainfall in the second half of September resulted in monthly totals of average or above average for most of New South Wales, Victoria and South Australia.

September rains have provided most crops with the moisture needed to carry through to harvest, with at least average yields expected in SA, and above average in Victoria and NSW. Below average rainfall throughout the growing season in Queensland has caused crops to mature early, with harvest already underway in some areas.

Western Australian rainfall was below average except for the south west region of the state, which has caused declines in yield potential resulting in wheat production estimates declining 9pc month-on-month.

With little appetite from either the seller or the buyer, grain markets remain mostly stagnant in the ‘pre-harvest lull’, typical for this time of the year. Domestic demand remains flat, with most domestic buyers having sufficient cover to get through to harvest.

Stocks running low

Following three years of drought, Australian stocks are running low limiting availability of supplies for any immediate demand. As such, many growers are still holding stocks that would have sold by now.

Prices are being supported by higher world values as the CME wheat futures have risen 8% since the start of September. The rally has been in response to poor soil moisture and dry conditions in Russia and the Ukraine during planting which are fuelling fears crops will not have time to establish before the northern hemisphere winter and crop dormancy sets in. Dry weather in South America, including a major wheat exporter Argentina is adding the concerns.

In Australia, subdued domestic demand and limited buying has seen local values follow international pricing, with new crop wheat prices increasing 8% to over $300/mt. Downward pressure on local prices is anticipated as harvest commences with anticipation growers will sell a good percentage of their crops, particularly in areas coming out of a long drought.

While there may be some short-term spikes prices as a result of supply chain demand to move grain quickly through the pipeline, analyst expect harvest pressures to soften prices a further 5% from current levels.
A wet outlook for Eastern states raises the potential for quality downgrades in cereals and pulses. In the lead-up to harvest as too much rainfall between October and December or rainfall after crops have ripened can cause disease and mould in pulses and sprouting in wheat which can severely degrade quality. While increased production will compensate to some degree, severe downgrading of quality could result in reduced return for the grower.

➢ **Wheat Futures Set New Highs**

Choppy wheat trade to close out the week as trade continues to wrestle with dry weather headlines. The US winter wheat crop continues to suffer as dry weather persists across the US growing areas. The market also continues to closely monitor the Black Sea region of Russia and the Ukraine, as well as southern hemisphere weather impact on production forecasts. It's probably too early to classify the global production outlook as a disaster, but as highlighted in yesterday’s Insight, the Black Sea conditions are dire and lacking a change in the moisture patterns, the trade will ratchet the panic level higher each week. US acreage should be up, but it’s dry and with fresh demand possible from Brazil and China, the picture gets interesting. All three exchanges showing a little carry in the Sept/Dec for long space warehouses wanting to protect some return on space.

The lead CBOT December 2020 Wheat Futures set new life of contract highs on Thursday trading at $6.30¾/bu before settling on Friday at $6.26½/bu, up 8¼ cents on the day, and jumping 34¼ cents for the week.

MGE HRS December 2020 Wheat Futures settled at $5.59¾/bu on Friday, 1 cent firmer on the day, and up 16 cents for the week.

Weekly US exports sales of 19.4 mbu old and 2.6 mbu new were at the upper range of trade guesses. Nearly half of the total was HRW class. Mexico the most active buyer with ~9 mbu of mostly HRW class. The 2.2 mbu of new crop sales was SRW going to Brazil. China was also a noted buyer of 2.0 mbu HRW.

Black Sea (Platts) trades were once again robust at 1000+ contracts with $2.00/mt gains during the session. It’s too early to throw in the towel on half of the Black Sea production, but even a 25% drop would correspond to a 10 mmts (367 mbu) drop in wheat exports that somebody will need to cover. Russian ending stocks aren’t burdensome as they have been aggressively marketing to maintain market share.

Russia/Ukraine as a percent of global exports was 30% last year vs 10% in the early 2000’s which highlights the panic engulfing the wheat trading environment. Russia/Ukraine production was ~53 mmts in 2012/13 vs 103 mmts this past marketing year. The export comparisons for those 2 years were 18 mmts vs 55 mmts.

➢ **Global Wheat Production Raised to New Record**

USDA - Despite a cut in the US crop production estimates last week, global 2020/21 wheat production is raised 2.6 mmts this month on larger crops for Russia and the European Union that more than offsets reductions for the US of (0.32 mmts), Argentina (0.5 mmts), Canada (1 mmts), and the Ukraine (1.5 mmts).
Russian wheat production is now forecast to reach the second-highest level on record because of surging spring wheat production, particularly in the Volga and Central Districts.

Bolstered global wheat supplies will also support a fractionally higher global trade. Russia’s exports were raised on expanded supplies, while a strong early pace of shipments to China lifts that nation’s import projections and supports a record-high domestic consumption forecast of 130 mnts for 2020/21.

CBOT Corn Sets New Twelve Month Highs

CME December 2020 Corn futures set new twelve-month highs, touching $4.09/bu, before settling 1¼ cents lower on the day, at $4.02½/bu, up 8 cents for the week. Export sales were a bit lower last week at 25.8 mbu with Mexico taking 8 mbu and China 5.5 mbu. The USDA also flashed a 128 kmt sale to Mexico.

US Cash markets continued to march higher today in the East and West. Along the river system, terminals are still posting double digit overs for spring corn and +20H is becoming a popular number for several Illinois processors. River values are now at or over DVE thru July.

Sharp Decline in Ukrainian Corn Production

USDA – Non-U.S. coarse grain output in 2020/21 is projected 3.0 mmts higher this month, despite a 3.2 mmts reduction in coarse grain production in Ukraine. This is included in a cut in total coarse grain output for both corn and barley. Wheat production in Ukraine was also substantially reduced this month. A large increase in projected coarse grain production (corn, sorghum, and millet) in the Sub-Saharan Africa (SSA) countries—coupled with higher projected output in Serbia (corn), India (millet), Canada (barley and oats), Russia (barley), the European Union (a revision for all crops) and Argentina (oats), has more than offset the Ukrainian reduction.

UKRAINE: Wheat Production by Oblast

Source: USDA, Foreign Agricultural Service, Production, Supply, and Distribution database, 2020/21 production is forecast (f).

Corn production in Ukraine is projected 2.0 mmts lower than a month ago, but is still at a record of 36.5 mmts this month, and 0.6 mmts higher than a year ago. From mid-July through almost the end of September, dry weather continued uninterrupted in the country’s major corn-producing regions, where corn was going through its reproductive period. The lack of extreme heat, though usually beneficial for corn development, appears not to have protected yields. The Vegetation Health Index (VHI), which indicates yield potential, dropped markedly by the end of September, suggesting yield reduction.

About 30% of the country’s corn has already been harvested, and lackluster results support this assessment. Although corn yields are currently projected at the lowest level in three years, growing area under corn bolsters output to a record high. With high world market prices, Ukrainian corn area started to grow in earnest about 10 years ago, mainly at the expense of barley and smaller crops, as well as pastures, with current corn area more than double that in 2010. Corn yields in the country have been also rapidly increasing, supported by new technologies and the use of hybrid seeds (genetically modified corn is banned in Ukraine). Imports of improved seeds started to grow at about the same time that corn area took off. The ongoing depreciation of the Ukrainian hryvnia has made imports more expensive, and Ukraine has started to develop its own seed industry, increasingly relying on domestically produced hybrid seeds and reducing seed imports. While the use of hybrid seeds has pushed corn yields up, it appears that although locally produced seeds perform very well under favorable weather, they underperform compared to imported seeds in years with adverse weather conditions. Despite record-high area, hybrid seed imports in 2020 are the lowest in more than 10 years and more than 50 percent off the peak in 2014.

**Brazil Corn Ethanol Production Booms**

USDA - Plentiful, and generally cheap, corn supplies in Brazil’s Center-West region have enticed investment in the corn ethanol sector over the last few years. There are currently 16 corn ethanol plants in the CenterWest states of Mato Grosso, Goias, and Mato Grosso do Sul. At least four units are corn-only plants, while the rest are flex-plants that produce ethanol from both sugarcane and corn. Industry sources report at least seven other corn-based ethanol plants in the planning, development, or construction stage. These plants could potentially start operations as early as 2021 or 2022, including projects in the states of Sao Paulo and Rondonia. Even though Brazilian ethanol demand has dropped in 2020, due to the COVID-19 pandemic, investors are optimistic that the market will rebound by the time construction on the plants is completed in 18-24 months. The Brazilian Corn Ethanol Union (UNEM) estimates that the sector will produce about 2.5 billion liters of corn-based ethanol in market year 2020/21. If all the ongoing projects are built as planned, Brazil’s corn ethanol production could top 5.5 billion liters per year, consuming more than 13 mmts of corn annually.

**Sorghum Production, Prices Increased for 2020/21**

USDA – U.S. grain sorghum production in 2020/21 is projected to be 12.7 mbus more than the prior estimate, totaling 370.6 mbus. This is due to increasing yields and fractionally higher areas planted and harvested them previously forecast. The increase in production is partially offset by smaller beginning stocks, resulting in total supply being up 7.0 mbus to 400.1 mbus. No changes are made to the outlook on sorghum use, resulting in projected ending stocks of 30.1 mbus for 2020/21. The USDA average farmer price was is projected to be up by $0.10/bu to $3.60/bu for the season average price in 2020/21, due to the increased expected price for corn.

**Barley Prices Projected Higher for 2020/21**

USDA – U.S. barley production in 2020/21 is forecast to be down by 10.6 mbus to 165.3 mbus, as reported in the NASS Small Grains Summary released on September 30. This reduction is due to less planted area being dedicated to the crop, along with fewer acres being harvested and a projected lower yield than previously forecast. Barley feeding projections are reduced by 5.0 mbus, while exports are expected to be 1.0 mbus more than last month—at 6.0 mbus. These changes are expected to result
in a total use decline of 4.0 mbus, compared with the previous month’s WASDE. These changes are expected to culminate in a 6.6 mbus decrease in the projected ending stocks for 2020/21. As a result, barley prices are projected to be up by $.10 per bushel to $4.55/bu for the season average price.

USDA - The Saudi Arabia Grain Organization (SAGO) signed four barley purchase contracts for 2.945 mmts in the first six months of this marketing year (July 2020 – December 2020) - a decrease of 17% from approximately 3.566 mmts imported in the same period last year per supplying countries data. Higher domestic barley prices and competitively priced processed animal feed have decreased the demand for barley in the Kingdom.

➢ **ARASCO Wafi Brand Feed Competes With Barley**

USDA - ARASCO, the largest Saudi animal feed processor, is currently selling its Wafi brand feed for approximately 12% less than barley. A 50 kg-bag of Wafi, the company’s signature brand manufactured compound animal feed, has an ex-factory price at $11.20 before the 15% VAT vs. $12.53 for SAGO’s barley of the same weight. It is likely that ARASCO is keeping the price of Wafi low as a temporary marketing measure to entice traditional livestock producers to feed Wafi. ARASCO has indicated that a kilo of Wafi replaces at least 1.5 kg of barley and results in greater weight gain. The increased use of processed feed will reduce the demand for feed barley and increase demand for corn.

➢ **Reduced Imports Offset Higher Oat Production**

USDA – U.S. oat production in 2020/21 is marginally higher than last month, currently forecast to be 65.4 mbus. This production increase is due to a fractional increase in the area harvested and a small increase in the projected yield. Total supply, however, is projected down by 1.6 mbus to 196.1 mbus, due to a 2.0 mbus decrease in imports. With no changes to the use outlook, oat ending stocks are projected to be 40.1 mbus, a 1.6 mbus decline from the September projection.

➢ **CBOT Soybeans Consolidate Through the Week**

CME Soybean November 2020 futures saw some consolidation this week after setting new life of contract highs last week at $10.79¼/bu following the monthly USDA WADSE Report. The lead November 2020 contract settled at $10.50¼/bu, down 11½ cents on the day, and off 14¾ cents for the week. South American weather looks to be dry for the next week and then a chance for normal spring weather pattern. That’s probably why the markets were on the defensive. Late planted beans are more a corn story (later Safrinha corn planting), versus a bean crop as the farmers will plant the beans. Argentina is in a drought, but rain in nearby forecast.

Export sales were 96.7 mbus, well above estimate range of 55-81mbus. Notables were China 58.5 mbus and Mexico @ 7.7 mbus.

US export cash market remains firm with basis 2 to 5 cents over DVE for December and January, despite harvest winding down and farmers selling approximately two-thirds of their production into a bull market.

The SX/SF spread vacillating around even money and closed at ¼ carry. SF/SH broke on a nearby sell off and closed at 12½ inverse, 4 cents wider.

The COT Report showed funds reduced bean net long (futures and options) 12K contracts to 226K contracts. Oil and meal COT’s showed large specs net unchanged this week.

➢ **China’s September Soybean Imports Increase To 9.8 mmts**

Reuters - China's soybean imports rose in September as previously delayed cargoes at customs started rolling in, and are forecast to remain robust in the months ahead due to higher arrivals from the United States as part of the Sino-U.S. trade deal.

Demand for the oilseed is expected to stay strong in the world’s top soybean importer due to a pig herd that is recovering rapidly from the African swine fever.

China brought in 9.79 mmts soybeans in September, up 1.9% from 9.6 mmts in August, according to data from the General Administration of Customs released on Tuesday. The figures were also up 19% from 8.2 mmts in September last year.

Crushers had been ramping up imports of Brazilian beans earlier on good crush margins, and large arrivals of the oilseed in the past few months have pushed inventories in China to record high levels.
"Some cargoes were delayed earlier and cleared customs in September," said Xie Huilan, analyst with agriculture consultancy Cofeed. "The shipments were still mainly from Brazil."

Exports from Brazil had picked up after March as the weather there improved. Shipments from the South American country were seen shrinking, however, as the harvest there approached its end.

China has also booked large volumes of US soybeans, but mainly for delivery in the new marketing year (September to August), partly to fulfill its pledge under the Phase 1 Trade Deal the two countries signed in January this year. Shipments from the US are expected to increase next month and continue to increase over the next few months till the first of the year.

Chinese soybean imports surged 15.5% year on year in the first nine months of 2020 to 74.53 mmts. National weekly soybean inventories were reported at 7.12 mmts, while soybean meal inventories in China were at 994,500 mts as of the 11th of October, down after hitting a record high 1.27 mmts at the end of August. Imports of vegetable oils in September were 921,000 mts, down 5.6% from the previous month China, the world's top producer of pigs, has been working to boost output after the deadly African swine fever outbreaks, first discovered in the country in August 2018, decimated its massive herd.

➢ Record U.S. Soybean Exports Seen for 2020/21

Surge in 2020/21 U.S. soybean exports to extend a decline in stocks

Million bushels

6,000

5,000

4,000

3,000

2,000

1,000

0

2015/16

2016/17

2017/18

2018/19

2019/20

2020/21

Exports

Crush

Ending stocks

Production

Total supply


Despite an unchanged yield, USDA pegs the 2020/21 U.S. soybean crop down by 45 million bushels this month to 4.268 billion as the sown acreage is revised down by 731,000 acres to 83.1 million. With strong sales to China, USDA raises its forecast of 2020/21 soybean exports by 75 million bushels this month to a record 2.2 billion. The lower supply and higher export demand are forecast to reduce season-ending soybean stocks for 2020/21 by 170 million bushels to 290 million. The tighter outlook prompts USDA to boost its forecast of the 2020/21 U.S. average farm price to $9.80 per bushel from $9.25 last month.

➢ CBOT Soybean Oil

December Soybean Oil was lower on the week, settling at $33.00 per cwt on Friday, off 17 cents on the day, and down $1.05 for the week.

Improving conditions for palm oil production continues to weigh on the market.

➢ A Brighter Market Develops for Malaysian Palm Oil Producers

USDA - Following a 7% decline in 2019/20, Malaysian production of crude palm oil for 2020/21 is seen rebounding. Based on improving rainfall and labor market conditions, output is forecast up by 200,000 mts this month to 19.9 mmts, versus 19.25 mmts for 2019/20. As production of palm oil rises, the price discount with its main competition, soybean oil and sunflower seed oil, may gradually widen.

This month, Malaysian palm oil exports for 2020/21 are expected to expand by 200,000 mts to 17.2 mmts and up from 16.95 mmts in 2019/20.

In 2020/21, China will probably be one of the better markets for palm oil imports, with an increase to 6.9 mmts from 6.65 mmts in 2019/20.

In contrast, Indian palm oil consumption in 2019/20 has fallen by 15%, to 8.3 mmts, due to consequences from the COVID-19 pandemic. Although Indian import demand
in 2020/21 may recover to 8.7 mmts, its rate of growth is likely to be far more constrained than in recent years.

➢ **CBOT Soybean Meal**

December Soybean Meal rallied to new life of contract highs on Friday, reaching $374.90/short ton, before settling down $3.90 at $3.68.20/short ton, up $4.20 for the week.

➢ **Prospects Dim for Global Sunflower Seed Production**

Global sunflower seed production of 2020/21 is forecast down 2.5 mmts from last month to 51.5 mmts and from 55 mmts in 2019/20.

Drought-related yield reductions in the Black Sea region and area reduction for Argentina are mostly responsible for the change.

Given the location of the crop losses, international trade in sunflower seed oil may bear much of the impact. A sharp increase since summer in export quotes for Ukrainian sunflower seed oil already reflects the tighter global market situation.

In the Ukraine sunflower seed output is seen 2 mmts lower this month to 15 mmts as yields suffered from the country’s driest summer in 30 years. The worst conditions are in its southern Steppe zone, where most of the crop is concentrated. Since mid-July, cumulative rainfall in the region has been no better than 25% to 30% of average. Official sources report that 69% of the harvest is now complete. The crop of neighboring Moldova is forecast down by 50,000 mts this month to 800,000 mts.

USDA anticipates that yield losses in Ukraine will curtail the country’s 2020/21 crush by 1.95 mmts to 14.85 mmts. The associated reductions in sunflower seed oil and sunflower seed meal production are seen slashing this season’s exports for both commodities by 700,000 mts, to 5.9 mmts and 375,000 mts, to 4.8 mmts, respectively.

**Drought cuts Ukraine sunflowerseed yields and production**

EU sunflower seed production for 2020/21 is forecast to contract by 250,000 mts this month to 9.5 mmts based on yield reductions for Romania and Bulgaria. Despite a favorable start for the crop last spring, eastern parts of both countries have been excessively hot and dry since July. Spring soil moisture was adequate for good crop pollination, but stress from summer dryness led to small sunflower heads and seeds that filled out poorly. Romanian sunflower seed production is down 24% from 2019/20.

A supply reduction is expected to decrease EU sunflower seed crush and exports in 2020/21, to 8.75 mmts and 450,000 mts, respectively.

Despite a more favorable price situation, planting of Argentine sunflower seed for 2020/21 is stalled by a lack of rainfall in the northern part of the country. Argentine new-crop production is scaled back by 400,000 mts this month to 3 mmts. The supply reduction may mostly tighten the level of season-ending stocks.

➢ **Argentine oilseed workers set to start open-ended wage strike**

Reuters - Argentina's Federation of Oilseeds Workers will start an open-ended wage strike at 2 pm (1700 GMT) on Tuesday, the labor organization said in a statement.

The federation represents soy crushing workers in some parts of the Rosario grains shipping hub, but not the northern part of Rosario where most crushing operations are concentrated.

The country is a major soybean exporter as well as the world's top supplier of soymeal livestock feed used to fatten hogs, cattle and poultry from Europe to Southeast Asia.
Wage talks with crushing and export companies should have started two months ago, the statement said. “Oilseed workers, as well as Argentina's entire working class, have the constitutional right to a living wage,” it said.

With soybean planting just getting underway, October is not a busy month for agricultural exports from Argentina. But the country needs all the export dollars it can get as it struggles with recession, compounded by the COVID-19 pandemic and heads into debt revamp talks with the International Monetary Fund.

A source with the CIARA chamber of soy crushing companies told Reuters it was in permanent dialogue with its workers. “In these difficult times for agribusiness, we are committed to working together with unions and workers to try to get out of this situation” the source said.

Work stoppages are common in Argentina, where employers are hard-pressed to offer wages that keep up with high inflation. Last month, grains inspectors who work at export docks held a 24-hour strike over wages. The conflict was eventually resolved in talks between labor and management.

- Argentina says it will not devalue currency or seize bank deposits

Reuters - Argentina will not devalue its currency or seize bank deposits despite a financial crisis compounded by the COVID-19 pandemic, President Alberto Fernandez said on Wednesday.

Latin America's No. 3 economy is shrinking as the government moves to revamp loans owed to the International Monetary Fund, following a recent restructuring of sovereign bonds. The crisis has revived ghosts of the country's 2002 economic meltdown, which saw deep government intervention in the markets.

"From those who argue that a devaluation is coming to those who argue that we can keep people's deposits," Fernandez said in a video conference with economic analysts. "I would never do such a thing. What we need is an Argentina that grows with confidence."

Argentina has been on lockdown from the pandemic since mid-March, devastating an already-shrinking economy. Covid19 has claimed 24,572 lives in the country thus far.

The government this month reduced export taxes in a bid to spur selling of soybeans, the country's main cash crop, and replenish central bank foreign currency reserves through increased international trade. But farmers have said they will keep hoarding crops due to foreign exchange uncertainty.

The spread between the official and black market exchange rates has blown out to 117%, hurting farmers who get paid at the official rate while paying their expenses on the black market.

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