Notes and Observations in International Commodity Markets

30th October 2020

by Guy H. Allen – Senior Economist, International Grains Program, Kansas State University

KSU Ag Manage Link: https://www.agmanager.info/grain-marketing/grain-market-outlook-
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A Down Week for Grain and Oilseeds

GHA – It was a very down week for commodities tempering three months of a bull market. The week started off with an expected resurgence of COVID-19, a forecast decline in global economic conditions, and lower energy prices. We also saw a flight to the U.S. Dollar, particularly from Europe strengthening the Greenback. The theme continued through the week as next Tuesday’s U.S. elections added to the uncertainty. Favorable weather forecasts in major growing areas also weighed on market fundamentals.

➢ USTR, USDA Issue Report on China “Phase One” Trade Deal
Late last week, the Office of the U.S. Trade Representative (USTR) and the USDA issued a report highlighting the progress made to date in implementing the agricultural provisions in the U.S.-China Phase One Economic and Trade Agreement.

Since the Agreement entered into force, the United States and China have addressed a multitude of structural barriers in China that had been impeding exports of U.S. food and agricultural products. To date, China has implemented at least 50 of the 57 technical commitments under the Phase One Agreement.

To date, China has purchased over $23 billion in agricultural products, approximately 71% of its target under the Phase One Agreement.

➢ Brazil Suspends Corn, Soybeans Tariffs

Reuters - Brazil will suspend tariffs on corn and soy imports from countries outside the Mercosur trade bloc until early next year to help reduce food prices that are pushing up inflation.

Soybean meal and soy oil imports will also be exempt along with soy imports until 15th January 2021, while corn imports will cease paying the tariffs until 31st March 2021, the ministry said in a statement.

However, according to a report from the U.S. Foreign Agricultural Service (FAS) office in Brazil, the Brazilian import tariff waiver for corn and soybeans is not expected to result in major purchases of either commodity from the U.S. The report outlines “several hurdles” for the imports, including that “U.S. soybeans may remain too expensive to make sense for Brazilian importers given the U.S. FOB price and ocean freight costs” despite a $20 to $25 discount to Brazilian prices.

GHA – Brazil’s booming exports to China have left Brazil’s domestic industries short beans. Crushers are scrambling to secure enough supply to meet demand from pork and poultry producers. This comes as La Niña induced drought is bringing about delays in planting and damaging crop prospects as Brazil enters a new growing season. As a result, Brazil faces shortages of both corn and soybean inventories at a time when the Brazilian Real has dropped to all-time lows making imports even more expensive. This dilemma highlights the importance of a timely and effective export sales and shipments reporting, along side an accurate domestics stocks reporting. This timely information allows the market to ration supplies such that these types of shortages are less likely to occur.

➢ U.S. Soybeans to Make Rare Journey to Top Exporter Brazil

Bloomberg - The U.S. has started selling soybeans to Brazil after the world’s top exporter lowered import tariffs in order to bridge a domestic shortage.

At least one cargo was sold to the South American nation last week, with several trade houses looking into how they can make the transaction work, according to people
familiar with the matter, who asked not to be identified because the information is private. The load will be shipped from a U.S. Gulf port this year, the people said.

Brazil is facing a domestic shortage of soybeans after shipping a record amount of the oilseed to China, the world’s biggest buyer. To help bridge the shortfall, the government announced earlier this month that it would suspend the import tariffs on corn and soybeans from outside the Mercosur bloc.

Traders aren’t expecting a wave of supplies to move from the U.S. to Brazil as Brazilian ports are set up for exports and “reverse engineering the setup is time and resource-intensive,” the USDA said in a report earlier this month. Also, many processing plants are in the interior of the country, far away from ports.

There is also the risk of the presence of a GMO-variety that’s not approved in Brazil. Crop varieties get mixed up in U.S. silos and there are at least nine commercially available biotech varieties of both corn and soybeans approved for cultivation in the U.S. that are not allowed in Brazil.

➢ **US and Brazil Reach Mini Trade Agreement; Agriculture Excluded**

The United States and Brazil signed a new protocol relating to trade rules and transparency, U.S. Trade Representative (USTR) Robert Lighthizer announced Monday.

“This protocol updates the 2011 Agreement on Trade and Economic Cooperation (ATEC) with three new annexes comprising state-of-the-art provisions on Customs Administration and Trade Facilitation, Good Regulatory Practices, and Anticorruption,” USTR said.

House Ways and Means Committee Chairman Richard Neal (D-MA) slammed the announcement, “With this trade deal, the Trump administration has circumvented Congress to reward a Brazilian administration that lacks respect for basic human rights, the environment, and its own workers.”

Meanwhile, Senate Finance Committee Chairman Chuck Grassley (R-IA) called the deal “small potatoes” compared to ongoing negotiations for the U.S. to regain duty-free access for ethanol into Brazil. The Senator expects the U.S. to get a “good agreement out of Brazil” even if it’s the same tariff rate quota of 198 million gallons that has been in place for the past couple of years, reported The Hasgtrom Report.

In a U.S. Chamber of Commerce webinar, Brazilian Foreign Relations Minister Ernesto Araújo seemed to agree with Sen. Grassley’s statements, stating that the countries are working on “some specific solutions in sectors like steel and ethanol-sugar.”

➢ **Brazil Expects Good Grain Crop Despite Planting Delays**

Reuters - Brazil's SLC Agrícola is poised to harvest a good grain crop despite planting delays in the 2020/2021 cycle driven by a drought earlier in the season.

SLC believes it will begin harvesting soybeans, Brazil's most prized export commodity, between January 10th to 15th, a delay of about 10 days in relation to the previous year. "We planted in dry soil, but with rain forecast for two days later. We should finish planting in November, which is within the best window in terms of soybean yields,” SLC Chief Operating Officer Gustavo Lunardi told Reuters.

In 2019/2020, SLC planted 235,400 hectares with soybeans, 125,460 hectares with cotton and 82,390 hectares with second-corn, according to public disclosures.

Regarding cotton and second-corn, the season will likely to be positive as the La Niña weather phenomenon will be of moderate intensity, Lunardi said.

Delays in the soybean harvest, which will push back cotton and second-corn planting at SLC farms, will be manageable, he said.

Note: SLC Agrícola is one of the largest Brazilian agricultural producers founded in 1977 by the SLC Group. It focuses on cotton, soybean, and corn. The business is controlled by the Logemann family. It was the first company of its sector whose shares were traded in a Stock Exchange.
The U.S. Dollar Index firmed through the week, helping to pressure commodity prices lower. The Index settled on Friday at 94.047, up 0.065 on the day, and up 1.279 points on the week.

The Greenback maintained gains in early European trade Friday, while the Euro struggled near four-week lows as new Covid-inspired lockdowns in Europe prompted the European Central Bank to hint at more monetary easing.

➢ **Wheat Futures Set New Highs**

Sluggish wheat trade to end the week and month end saw futures ending lower as the cash wheat trade debate how much demand is really on the horizon. Global cash markets easing back a bit as buyers lost interest following the sharp rallies. The Australian crop is inching closer to harvest and late rains across winter wheat planting belts have at least eased some production apprehension.

Much has been documented of major “exporters” shrinking stocks, but in fairness, the 15 major “importers”, which comprise over 50% of the trade volume, are adequately supplied with ending stocks and, in comparison to 2010 through 203 marketing years, and have 150+ mbu more wheat stockpiled.

The lead CBOT December 2020 Wheat Futures had a down week, closing lower all five days, before settling on Friday at $5.98½/bu, off 5¼ cents on the day, and losing jumping 34¼ cents for the week.

Kansas December 2020 HRW Wheat Futures traded down throughout the week, settling on Friday at $5.41½/bu, up ½ cent on the day, but loosing 38½ cents higher for the week.

While not great, KC HRW wheat still offers the best return on space to summer months for western warehouses as a production hedge, but don’t forget there can be tremendous opportunity cost in not selling near DVE values.

➢ **Argentina Wheat Production is Forecast at 17.4 mmts**

USDA FAS - Argentina’s wheat production in 2020-21 is forecast at 17.4 mmts, 8% lower than USDA’s previous number, due to weather losses. Argentina’s exports are expected to drop to 11.2 mmts.

Argentina’s production in 2020/2021 is projected at 48 mmts, 2 mmts below USDA previous number, on expected lower yields. Corn exports are expected to decrease to 33 mmts, the lowest since MY 2018/2019.

Strong demand from China has triggered an 8% increase in sorghum production in 2020/2021.

Argentina’s rice production in 2020/2021 is forecast to be down 5%, as low water levels reduce planted area in a main production region.
CBOT Corn Sets New Twelve-Month Highs Before Trading Lower

After a three-month bull run, CME December 2020 Corn Futures dropped back below $4.00/bu on Thursday, settling Friday at $3.97½/bu, off 1 cent on the day, but losing 22 cents for the week. Outside of barge freight, headlines were quiet. Barge freight values have rallied into the 650-850% price range. The major story was the continued rise in barge freight especially on the Mid-Miss. It’s a bit unclear what all happened, but there was a backup north of St. Louis due to a bridge issue and there were some said to be caught short on freight. This presented the opportunity for those with length to sell freight off and buy in CIF. The Illinois River is just getting back open due to the lock closures and repairs, while lake freight is very tight. River terminal bids have backed off for nearby through December. In response, every rail market saw bids fade 2 to 5 cents and in some cases the offers chased the bids. December corn is now 2 to 3 cents below DVE on the Upper Illinois, which is notable change from earlier in the week when we were -4 cents over. This allowed the Z/H spread to trade as wide as -5 cents. The H/K was out a penny as well to -3. Worth noting, the basis is still +5 cents over DVE for Mar & May.

CBOT Soybeans Consolidate Through the Week

Soybean futures muster some strength after a tough week, as the new lead contract is January as we enter the November delivery period. CME January 2021 Soybean Futures settled Friday at $10.56¾/bu, up 6¼ cents on the day, but off 24½ cents for the week. November soybeans closed 4¾ cents higher at $10.56½, but were down 31¼ cents on the week. Theories suggest month end position squaring, and perhaps a little position lightening ahead of election day. First notice Day provided a few fireworks with COFCO delivering 300 contracts, pushing the date to 9/28. Stoppers were mostly the street, and they will have to determine whether they want to stay in or re-deliver. A sharp rally in barge freight is causing FOB values to drop sharply.

Vietnam Buyers Sign Deal to Purchase $500 mln of US Pork

Reuters - The Vietnam Trade Alliance, a grouping of buyers and producers, signed a pact on Wednesday to buy up to $500 million worth of U.S. pork over three years, the U.S. embassy in Hanoi said. The memorandum of understanding was signed with Smithfield Foods and other U.S. pork producers on the sideline of a virtual Indo-Pacific Business Forum, the embassy said in an emailed statement.

China’s September Soybean Imports from Brazil soar 51% yoy

BEIJING Reuters - China’s imports of soybeans from Brazil jumped 51.4% in September from a year ago, data showed on Sunday, as cargoes purchased earlier in the year cleared customs. China, the world’s top buyer of soybeans, brought in 7.25
mmts of the oilseed from Brazil in September, up from 4.79 mmts last year, data from the General Administration of customs showed.

Chinese bean crushers booked large volumes of Brazilian beans earlier in the year on margins lifted by robust demand to feed a domestic pig herd recovering from the impact of an outbreak of African swine fever.

In total, China brought in 9.8 mmts of soybeans from all origins for the month of September, up 19% from the previous year.

China brought in 1.17 mmts of soybeans from the United States in September, down 32.4% from 1.73 mmts in the same month a year earlier when shipments booked during a truce in the U.S.-China trade dispute arrived.

American cargoes were expected to rise in the fourth quarter, when the U.S. beans dominate the market in their harvest season.

China has stepped up purchases of agricultural products from the United States, including soybeans and corn, partly to fulfill commitments made during the trade deal the two countries signed in January this year.

Overall Chinese imports are expected to edge down in coming months as shipments from Brazil dry up with the harvest season in South America approaching the end.

National soybean inventories came down to 7 mmts by the week of October 18th after reaching a high point at near 8 mmts in early September.

China's national soybean meal inventories were at 937,900 mts, down from a record high at 1.27 mmts reached at the beginning of September.

CBOT Soybean Oil

CBOT January 2021 Soybean Oil Futures settling on Friday at $33.53 per cwt, up 62 cents on the day, and down 41 cents for the week.

CBOT Soybean Meal

CME January 2021 Soybean Meal Futures rallied to new life of contract highs on Tuesday, reaching $385.00/short ton, before settling on Friday at $371.90/short ton, up $1.70 on the day, but off $7.60 for the week.

EU and UK Soybean Imports 4.47 mmts by 25th October

Reuters - Soybean imports into the European Union and Britain in the 2020/21 season that started on July 1 totaled 4.47 mmts by the 25th of October 2020, per official EU data showed on Tuesday. This was 4% above the volume imported in the previous 2019/20 season.

EU and UK rapeseed imports in 2020/21 reached 2.06 mmts, down 22% vs 2019/20. Soymeal imports in 2020/21 came to 5.62 mmts, down 12%, while palm oil imports stood at 1.95 mmts, up 3%.

This week’s data includes the previous week’s totals which were not published due to a technical problem.

The European Commission has continued to include Britain in its 2020/21 grain export and import data following Britain’s exit from the bloc at the end of January. The Commission’s figures, based on customs data submitted by EU member countries, can be revised in subsequent weeks.
OTHER TRADE ISSUES

➢ U.S. Blocks WTO Appointment
On Wednesday, a World Trade Organization (WTO) nominating committee recommended the appointment of Nigeria’s Ngozi Okonjo-Iweala to become the next global trade chief. She would be both the first woman and African to lead the international trade body.

However, in a statement, the Office of the U.S. Trade Representative (USTR) noted that the U.S. instead supports the selection of South Korean Trade Minister Yoo Myung-hee as the next WTO Director-General.

“Minister Yoo is a bona fide trade expert who has distinguished herself during a 25-year career as a successful trade negotiator and trade policy maker. She has all the skills necessary to be an effective leader of the organization,” the statement said. “The WTO is badly in need of major reform. It must be led by someone with real, hands-on experience in the field.”

➢ IDFA Asks USTR to Eliminate Dairy Trade Barriers
Each year, the Office of the U.S. Trade Representative (USTR) publishes the National Trade Estimate (NTE) Report on Foreign Trade Barriers to U.S. Exports to highlight barriers to U.S. exports of goods and services, U.S. foreign direct investment and the protection and enforcement of intellectual property rights.

This year, the International Dairy Foods Association (IDFA) submitted its own set of robust comments asking USTR to eliminate several long-standing barriers to U.S. dairy exports.

IDFA remains disappointed in a variety of Canadian trade barriers that may violate the U.S.-Mexico-Canada Agreement (USMCA), the European Union’s efforts to protect its dairy industry with a flawed public intervention stocks programs, and other trade-distorting practices by Mexico, Russia, India, Kenya, and others.

Read IDFA’s full submission.

➢ Ukraine Harvests 84% of Grain Crops, 50.5 mmts
Interfax-Ukraine - As of October 26th, Ukrainian farmers harvested 66.8 mmts of main crops from an area of 21.03 million hectares, in particular, grain and leguminous crops were harvested 50.5 mmts from an area of about 12.9 million hectares; 84% to the forecast.

According to a report on the website of the Ministry of Economic Development, Trade and Agriculture, 14.5 mmts of corn from an area of 3.07 million hectares (56%), 11.6 mmts of sunflower from 5.9 million hectares (92%), 2.2 mmts of soybeans from 1.08 million hectares (80%), 240,000 mts of millet from 147,700 hectares (98%) and 99,000 mts of buckwheat from 76,500 hectares (97%) were harvested.

Some 3.7 mmts of sugar beet was dug from an area of 88,500 hectares (41%).

TRANSPORTATION

➢ Agriculture Transportation Coalition Release Report on ERD Changes

Feedstuffs - A newly released research report from the Agriculture Transportation Coalition (AgTC) shows that ocean carriers’ uncommunicated changes to the earliest return date (ERD), the earliest date a loaded export container can be delivered to the carrier, are wreaking havoc on logistics teams and the bottom line of agricultural exporters across the U.S.

In a survey of hundreds of the top U.S. agricultural exporters, AgTC uncovered that changes to ERD are so problematic that 92% of respondents want to jointly pursue industry action.

AgTC executive director Peter Friedmann said, "AgTC is dedicated to resolving transportation challenges facing our members: the nation's agriculture and forest products exporters. Costs and disruption imposed by inaccurate and changing earliest return dates for containers are eroding margins. Restoring ERD integrity is a top priority for our industry."

➢ Senate Commerce Committee Hosts Hearing on Surface Transportation

Feedstuffs - On October 21, the Senate Committee on Commerce, Science & Transportation hosted a hearing titled, “Passenger and Freight Rail: The Current Status of the Rail Network & the Track Ahead.”

Organizations providing representatives to testify at the hearing included Amtrak, the Montana Economic Developers Association, the American Chemistry Council, National Grain and Feed Association, National Cotton Council, Association of American Railroads, and the Teamsters Rail Conference.

National Grain & Feed Association (NGFA) president and chief executive officer Randy Gordon publicly commended the actions of the rail industry in continuing to provide service and communicating with its agricultural customers during the pandemic.

But problems still persist, especially in the case of delayed shipments in the Pacific Northwest and Upper Plains areas. "As agriculture ramps up with harvest, it requires a lot of strong communication and that need for nimbleness from railroads to respond,” he said.

NGFA offered two specific policy matters for the committee to explore with STB with respect to its future rail regulatory framework: clarify common-carrier obligation of railroads and reprioritize the importance of rail-to-rail competition in U.S. rail transportation policy.