Notes and Observations in International Commodity Markets

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China to become increasingly reliant on the U.S. for grains and oilseed

GHA – China’s imports of corn, grain sorghum and soybeans have surged in past three months. But to continue meeting growing demand for grains and oilseeds imports over the next few years China is going to have to increasingly rely on the U.S. as other major exporter of Brazil and Ukraine are suffering production setbacks and supply constraints.

China’s customs ministry has reported year-to-date corn imports total 6.672 mmts, an 73% increase from the same period last year. China imported 1.08 mmts of corn from all origins in September, a 6% increase from the previous month. This is more than seven times the y.o.y. level of September 2019. The U.S. supplied 78% of these September corn imports, while Ukraine shipped 18%. The remaining imports were sourced from Russia, Laos, and Myanmar.

China also imported 9.79 mmts of soybeans in September, representing a 2% increase from the previous month and 19% jump y.o.y. from September 2019. Year-to-date imports are up 15% from last year. While Brazil continues to represent the majority of China’s soybean imports, shipping 51% more soybeans to China in September 2020 than a year earlier. As a result of over shipping supplies, Brazil is now importing U.S. soybeans to meet domestic demand.

In the short term, China will be increasingly reliant on imports of soybeans from the U.S. Brazil’s exportable supplies have run out until new crop becomes available early in 2021. However, weather, and severe drought, brought on by a La Nina climate event, has resulted in delays in planting and the season is off to a late start.

The Ukraine, a traditional big supplier of corn to China, also is experiencing drought.

Further deterioration in global crop prospects will further increased U.S. exports.

It will be interesting to watch the market dynamics in the coming months as the range of grains and oilseeds compete for U.S. planted acres this spring as producers are considering planting decisions for 2021. This will occur across all commodities from corn, soybeans, and grain sorghum, as well as spring wheat.

• This week a well-followed private consulting entity put its estimates for the US corn crop 220 mbu below the current USDA estimate, with soybeans 85 mbu smaller than current USDA numbers. This would put US ending stocks below 100 mbus.
• Recent exports of wheat, corn, and soybeans are up nearly 60% / 52 mbu y.o.y. with soybeans accounting for 80% of the increase. Rail movements to export locations are at 12,500 cars per week, 2½ times last year’s volume.
• Since returning from the Mid-Autumn Festival National Holiday over three weeks ago, Dalian (DCE) January21 Soybean Futures have rallied 15% ($2.66/bu) to ($20.76/bu)
Lots of “friendly” export news this week with China said to be buying 4-5 cargoes of US soybeans beans; one entity’s rather large, lower bean yield estimate and today, January Dalian bean futures have just roared past the $21 per bushel ceiling.

USDA China Attaché lower expected soybean imports to 95 mt, down 5 mt from the previous 100 mt; while corn imports have been increased by 15 mt, to 22 mts, up from the previous 7 mtms.

USDA WASDE Report next week on Tuesday the 10th of November 2020

- **La Niña is Impacting Chinese Demand for US Soybeans**
  Soybean prices have risen recently on the CME driven by a delay in planting of the Brazilian crop, along with other factors. This situation is shifting Chinese demand from South America to the U.S. further reducing forecasted U.S. ending stock in 2020-21.
  On October 23, soybean prices reached $10.81/bu, the highest level since January 2017.
  There is a good chance that prices will rally further as the world will demand increased production in coming years, as South America production is threatened in years with the presence of La Niña, a weather pattern that occurs in the Pacific Ocean that is associated with drought conditions in a number of major producing regions. The corresponding delay in planting the summer crop in South American crops has lent support to commodity prices in Chicago. Strong demand by China also continues to rally prices to new highs.
  Despite the initial delay due to the lack of rain, recent rains last week in Brazil has given a boost to the planting, but remains behind the five-year average.
  Zero Hora reported that La Niña’s influence projections have increased production concerns in the Rio Grande do Sul, an area faced with severe drought last season, in the beginning of this year.
  Meanwhile, the National Meteorological Institute forecasts a lot of rain for Mato Grosso do Sul this week, with a tropical storm operating in the Southeast.
  Even if Brazilian farmers begin planting at full speed going forward, the initial delay reduces the volume that should be gleaned in the first months of 2021. The result is that China is likely to continue to buy U.S. soybeans for shipment up into March 2021.

- **U.S. Weighs China’s TRQ Compliance**
  When China joined the World Trade Organization about 20 years ago, it agreed to erect a 9.64 mtms quota for wheat, a 7.2 mtms quota for corn, a 2.66 mtms quota for long grain rice and a 2.66 mtms quota for short and medium grain rice.
  In 2016, the US filed a WTO complaint alleging that China was not filling these tariff rate quotas (TRQ). Instead, the U.S. noted that China’s government-run buyers were often not buying the grain and then not reallocating the unused TRQ allocations to smaller, private importers.
  The WTO ruled in favor of the US last year and China did not appeal the decision. The latest deadline for the US to officially agree or disagree that China has made those policy changes is the 9th of November 2020.
  China had already imported 4.6 mts of corn through July, about a 31% increase from the same seven months last year, and the country’s imports have been maintaining a fast pace on strong demand, according to USDA data.
  China made two record-setting purchases of US corn in July that totaled about 3.1 mts. Chinese buyers purchased nearly 6 mts of U.S. corn.
  China is also quickly filling its TRQ for wheat, according to USDA’s Foreign Agricultural Service and US Wheat Associates, although the latter stressed it would like to see more of that business go to the US.
  The one TRQ China may not fill this year is for medium grain rice, say FAS and some analysts. The country is expected to import more than the 2.66-million-metric ton quota for long grain rice, “while the medium-short grain rice TRQ will likely be unfilled once again,” FAS says.

- **Soybeans Lead US Farm Exports to China**
  Reuters - China’s strong return to the U.S. soybean market in recent months has single-handedly lifted U.S. farm exports to the Asian country to new records, and the heavy forward shipping schedule bodes well for the promises outlined in the Phase 1 trade agreement between the two countries.
  That agreement suggests China in 2020 will buy and import at least $36.5 billion worth of American agricultural products, an all-time high. Progress was relatively dismal through mid-year, but the narrative has since changed.
  In September the US shipped $3.13 billion worth of agricultural and related products to China, according to data published Wednesday by the U.S. Census Bureau.
  That volume is 50% larger than the prior record for the month and is the most for any month since November 2017. It follows August’s monthly record of $2.15 billion.
  Those records could not have been possible without the surge in soybean shipments. The oilseed accounted for 41% of the August value and 62% of the September one, the largest monthly share since November 2019.
  The No. 2 August item was cotton, at 10% of the monthly value, and corn was September’s runner up at just 5% of the total, emphasizing just how much of a role soybeans played.
  The total tonnage of US soybeans shipped to China between January and July hit a 16-year low for the period, significantly hampering China’s Phase 1 fulfillment. But after purchases picked up speed, some 7.5 mts of US beans set sail for the Asian country in August and September, nearly 70% more than the record for that time frame.
  The jump in soybean export costs to China added to September’s dollar value, lifting the year’s total closer to the promised amounts. That price in September averaged $380.10/mt ($10.34 bu), up 6% from August and the highest for any month since May...
2018. The same happened for corn as the September export price to China rose 6% over August to $171.60/mt ($4.36/bu). September’s U.S. corn tonnage to China was the second largest on record for any month, slightly below August’s high.

**PORK AND BEEF**

Pork and pork products in 2020 have boosted overall US farm exports to China by a much larger degree than ever before, but the pace has recently dropped off. Pork accounted for a record 25% of the monthly exported value in February, but dropped to a 19-month low in September of 4%.

That can be partially explained by the 10% decline in export prices from April to September, but the volumes are also much lower. U.S. pork shipments to China reached 60,706 mts in September, well off the April high of 112,237 mts.

The September figure is a record for the month, but many market participants believed the larger volumes observed earlier in the year might be maintained given China’s huge protein deficit caused by African swine fever.

U.S. pork sales to China were relatively light through the first three weeks of October.

Annual U.S. beef exports to China through September were up 160% on the year to record levels. But despite an all-time high volume in September, beef shipments to the Asian country accounted for just 1% of the monthly dollar value, barely moving the needle in terms of Phase 1 goals.

China was the seventh largest destination for U.S. beef in September, accounting for 5% of the total.

**TOTALS AND TERMINOLOGY**

The U.S. Trade Representative and the Department of Agriculture a couple weeks ago released a joint report on U.S.-China trade progress citing that China had fulfilled 71% of the 2020 Phase 1 purchasing targets through early October.

That report relied heavily on the strong export sales of US corn, soybeans and other bulk commodities to China on the books for the 2020-21, so it is unclear if that estimate included cargoes that were likely to be shipped in calendar year 2021.

The October 23rd report also officially put the 14th of February 2020, enforcement date of the Phase 1 agricultural goals into print. That date as it pertains to farm purchases is not explicitly mentioned in the trade deal text, though officials had periodically hinted at it since the deal was signed in January.

Although an imperfect calculation, taking half of February’s export value and adding it with March through September puts the 2020 Phase 1 total at $11.9 billion, some 11% higher than in the same period in 2017. The same computation through June showed 2020 down 11% from 2017. The trade agreement suggests that China’s 2020 US farm purchases and imports would rise at least 50% over 2017 levels.

The January-September export value of U.S. agricultural products to China totaled $13.8 billion, down 4% from 2017 but up 28% on the year.

➢ **US and UK Wrap-Up Fifth Round of Negotiations**

U.S. and British negotiators have wrapped up their fifth round of trade talks and an agreement has been reached to resume the at times contentious talks after the election, according to a statement released Monday by the U.K. government.

“Following the significant progress made in talks to date, both sides are confident that we are on track for a comprehensive agreement which would provide a significant and mutual benefit to our economies,” the British government said. “We believe we are in a good position to move forward after the U.S. election.”

**US DOLLAR & FOREIGN EXCHANGE**

➢ **US Dollar Index**

The USD Index is once again moving lower as new lows are expected to occur sooner rather than later. Yesterday the December USD index futures hit fresh recent lows and it appears that another close beneath the contract lows will come soon.

A weakening US Dollar will see gold return to a favored asset. Gold prices have broken above an important trend line this week, and is now set to make new highs and once again climb back above the all too important $2000 level. The technical aspect for a bullish bet on gold now seems to make sense.
Fundamentally, the inflation aspect could very well be the biggest driver of higher prices as a Biden presidency would mean even more stimulus than the original congressional bill was calling for. It appears that endless money printing by the fed is going to continue, and once again keep a weaker US Dollar and the bullish case for gold alive and well.

India and China have been buying quite a bit of gold in the spot market, and the gold and silver ETF inflows have been increased month over month week after week for quite some time and should continue to support the physical buying.

➢ CME Wheat Futures

Profit taking was the theme on Friday across the wheat exchanges as prices faded throughout the session. There wasn’t much in the way of fresh fundamental news for traders to build on ahead of next week’s USDA WASDE Report next Tuesday.

Global wheat values steady to a bit heavier as Australian offers start to pressure the trade in the wake of a greatly improved harvest. News this week would suggest the China/Australian trade relationship continues to collapse as China is refusing to buy wheat from the Land Down Under. However, there are plenty of other destinations with huge freight advantages that are likely to mute any trade problems.

The lead CBOT December 2020 Wheat Futures had a volatile week, before settling on Friday at $6.01¾/bu, off 7½ cents on the day, but up 3¼ cents for the week.

Kansas December 2020 HRW Wheat Futures made new contract highs on Thursday before settling on Friday at $5.55/bu, down 8 cents on the day, but gaining 13½ cents for the week.

Chicago/KC nearby month spread narrowed to 46¢ which would be tightest relationship since early June, but seasonally, still the 2nd largest Chicago premium across last 20 years.
Minneapolis wheat quality (falling #) might be an issue pushing more HRW into blends giving us a domestic demand bump ahead of what should be a US competitive export season in JFM.

On the export front, Saudi Arabia’s 600 kmt tender closed today with results expected Monday. Pakistan finalized their 320 kmt of 11% wheat with LDC the winning offer and the bulk of it expected to be French origin. Russian wheat exports for the week tallied 913 kmt, which brings the marketing year total to 18.3 mmts, which is 11% higher than last year. For comparison, Ukrainian exports are now just under 11 MMT or 8% lower than last year. On a greater note, if Ukrainian wheat exports are capped at the trade agreed level of 17.5 mmts, then weekly shipments out of Ukraine can only be around 200 kmt vs this past week of nearly 600 kmt.

➢ **China Sells State-Reserve Wheat at Auction**

Reuters - China sold 2,699 mmts of wheat from its state reserves the week of the 26th of October, citing the National Grain Trade Center.

The nation sold 67.74% of the wheat put up for auction during the weekly sale. Average sale price of 2,356 yuan ($352.04/mt or $8.95/bu) was up from 2,316 yuan in late June.

Feed producers are buying wheat as a substitute for corn, which is rising in price due to tightening supplies.

GHA – With imported wheat in China now at the same price as corn, China is more likely to use its full allocation of 9.636 mmts of Tariff Rate Quota (TRQ) for wheat. October USDA estimates for China’s wheat imports stand at 7.5 mmts, up 0.5 mmts from September’s estimate of 7.0 mmts, and up from 5.376 mmts last year.

➢ **CBOT Corn December 2020**

Commodities rallied this week as the US Dollar fell. CME Corn Futures finished the week above the $4.00/bu mark after trading on both sides through the week. The lead December contract settled Friday at $4.06/bu / $3.97½ /bu, off 3½ cents on the day, but gaining 8½ cents for the week.

The USDA kicked things off with a number of “flash” sales, one of which was for 206.9 kmt of corn to “unknown”. This was a late report from last week which might be the SE Asian business that was done. It is currently estimated that over half of the current “Unknown” corn sales are likely destined for China. [see chart on following page…]

Korea has also in the market overnight booking four cargoes of corn from the PNW for April/May.

The USDA WASDE this next Tuesday may provide a little more clarity on exports, as the trade is expecting and adjustment in China’s corn imports.

CIF-NOLA basis values edged a bit lower again with December now 2 cents below DVE values. Couple this with the Goldman roll and the Dec/Mar spread closed at -7.

The Mar/May widened out to -4 as well. The basis for Mar and May is still over DVE on the river.

➢ **USDA Increase China’s Corn Imports to 22 mmts**

The USDA attaché in China has increased forecasted China’s corn imports for 2020/2021 to increase from 7.0 mmts to 22.0 mmts. The jump is attributed to depleted stocks and high domestic prices.

The jump is attributed to depleted stocks to meet current demand. Continually rising domestic corn prices will also drive demand for additional imports in MY 20/21.

China’s Ministry of Agriculture and Rural Affairs (MARA)’s October China Agricultural Supply and Demand Estimates (CASDE) indicated the country has had a corn supply gap for the last several years which has been met with auctions from reserves. From May to September this year, MARA already auctioned off 57 mmts of reserves. The final auction was held September 13th with no further auctions planned until Spring as the Chinese harvest is now coming off.

With tight reserves, sources indicate that substantial corn imports will be necessary to meet demand, while also controlling further price increases and to maintain stocks throughout 2021.

Already in 2020, China has used temporary reserves of wheat and rice and imports of feed quality wheat in substitution for high priced, domestic corn.

GHA - As of the 29th of October, China has contracted for over 10.7 mmts of US corn for delivery in 2020/21, with only about 2.0 mmts shipped to date.
In addition, the Ukraine having made significant exports to China in 2019/20, has the potential to meet a sizable share of Chinese demand in the coming months. The availability of additional Tariff Rate Quota’s (TRQs) remains opaque. Several sources report that the WTO 7.2 mmts of corn TRQ has already been filled for CY 2020, and that China has quietly issued an additional 5 mmts TRQ to be used through December.

Beyond the WTO corn quota, credible sources have substantiated that Chinese industries, both State Owned Enterprises and the private sector, is recommending to Chinese decisionmakers to allocate significant volumes of additional TRQ for 2021.

➢ **Continuing Grain Sorghum Sales to China Keep Premiums Strong**

Export sales of grain sorghum had a strong week great week, with sales of 365 kmts to China and unknown destinations. Another spot sale was announced this week of 106 kmts.

➢ **Ukraine’s corn harvest expected to drop sharply**

Reuters - Ukraine is expected to harvest between 26 and 33 mmts of corn this year, down from 35.9 mmts last year, according to Ukrainian trading houses and analysts. Severe drought this summer has reduced the harvested area and corn yield sharply. The Ukrainian economy ministry and APK-Inform are predicting a crop of 33 mmts, while traders are estimating 28 mmts.

The nation planted 5.4 million hectares in 2020 and had harvested 17.6 mmts as of the 2nd of November. The country has exported 2.65 mmts of corn so far in the 2020-21 marketing year versus 4.39 mmts in the same period last season.

➢ **South Africa planting more corn in 2020-21**

USDA - Attractive prices, a growing export market and favorable weather have led South Africa’s commercial farmers to plant 2.6 million hectares of corn in the 2020-21 marketing year, a 12% increase over a year ago. The USDA also forecasts an 11% increase in corn production to 14 mmts, significantly higher than its previous projection of 12.6 mmts. Of that total, the USDA forecasts exports of 2 mmts.

In the current marketing year 2019-20, South Africa is expected to export 2.5 mmts after producing the second largest crop in history at 16.0 mmts, an increase of 35% over the 2018-19 total of 11.8 mmts.

USDA predicts a marginal increase in commercial domestic demand for corn in 2020-21 to 11.6 mmts, as South Africa’s economic growth will be under pressure due to the COVID-19 pandemic and structural and policy constraints.

➢ **CBOT Soybeans January 2021**

Soybean saw the biggest gains this week as futures rallied sharply as the US Dollar fell. Soybeans made new contract highs in the lead January Contract on Thursday reaching $11.12/bu. CME January 2021 Soybean Futures settled Friday above the $11 mark at $11.03½ / $10.56¾/bu, off ¼ cents on the day, but up 46¾ cents for the week. November soybeans closed at $11.00 as we work our way through an orderly delivery process.

Export sales announcements added support with China back on the buy side taking 132 kmts; Unknown taking 272 kmts; while S Korea bought 30 kmts of soybean oil. These last sales are thought to be for January shipment. Note - Soybeans in China are over $20.00 a bushel.

IMEA update on Brazil’s Mato Grosso planting has them 83% planted, with the 9-year average is 87.6% for this week of the year. The Buenos Aires Grain Exchange suggests Argentina is 4% planted.

In the short run, there are rains forecast for South America next week, but longer term looks a bit dryer. There is one weatherman suggesting South America is currently second driest on record since 2002.

US soybean harvest on Monday expected to be 93% vs. the 5-year avg of 90%.
Tuesday we will see the monthly USDA WASDE Report. The average trade estimate has the crop 17 mbus smaller at 4.251 billion bu, using a slightly smaller yield of 51.6 bu/acre. US carryout is expected to drop 55 mbus to 235 mbus.

- **USDA Attaché Sees China Soybean Imports Falling to 95 mmts 2020/21**

  Reuters – According to a report issued by a USDA attaché in Beijing this week, China’s soybean imports are forecast to fall from October’s estimate of 100 mmts, to 95 mmts in 2020/21 due to excessive beginning stocks following a buying spree in 2019/20.

  Driven by concerns about COVID-related supply disruptions and an uncertain bilateral relationship with the United States, China imported an estimated 98.5 mmts in 2019/20, a record high.

  Although feed production and soybean crush are projected to continue growing in 2020/21 to meet demand from the recovering swine herd and growing poultry sector, the beginning of a gradual drawdown in stocks is expected to constrain imports in MY20/21.

  China’s soybean production is forecast at nearly 18 mmts this year, an increase of about 1 mmts over last year on expanded area. This was driven by government subsidies and relatively high prices. However, the projected growth in production is less than previously forecast due to the impact of three late-season typhoons in the Northeast and flooding.

  Brazil’s President Jair Bolsonaro said last week that the country was shopping for imported soybeans and rice. Brazil last month temporarily suspended import tariffs on corn, soybeans and soy products from outside its Mercosur trading bloc in a bid to rein in inflation.

  The 38,000 mts US soybean export shipment to Brazil represents the largest such transaction since 1997, when the country imported more than 600,000 mts of US soybeans, according to US Census Bureau trade data.

  Aboue, the Brazilian oilseeds crusher industry group, said last week American soybean cargos would be used for internal processing in Brazil. Importing larger quantities would require approval of certain genetically modified soy traits that are authorized in the United States, but not in Brazil.

- **Brazil-Bound U.S. Soybean Vessel Loading at Gulf Coast Terminal**

  Reuters - A US grain export terminal near Baton Rouge, Louisiana, is loading about 38,000 mts of U.S. soybeans on a bulk cargo vessel for shipment to Brazil, according to a Southport Agencies shipping lineup seen by Reuters.

  The unusual shipment from the United States, the world’s second-largest soybean exporter, to the top supplier of the oilseed comes as Brazil is grappling with rising prices of domestic food staples.

  Several months of record Brazilian soybean exports to China earlier this year depleted the country’s soybeans supplies, and significant soy supplies from the next harvest are not due to arrive before January.

  The vessel Discoverer arrived at the Louis Dreyfus Port Allen, Louisiana, terminal along the Mississippi River on Monday morning. The Discoverer is a “handysize” vessel that can hold about half as much as larger panamax vessels, which are used to move 60,000 to 70,000 mts at a time to major importers like China. Louis Dreyfus did not immediately respond to an email seeking comment.

  Brazil’s agriculture ministry has issued a regulation facilitating imports of genetically modified (GMO) soybeans from the United States, it said in a statement.

  The statement sent late on Thursday said the regulation conferred legal security to imports of grains from the United States "by recognizing the equivalence of genetically modified events approved in the United States and in Brazil".

  Brazil is the world’s top producer exporter of soybeans but this year, local farmers have sold such huge volumes to top importer China that little was left for domestic consumption. The situation led to price rises for feed for animal farming and meatpacking operations in Brazil and contributed to food price inflation.
Brazil temporarily suspended import tariffs on corn, soybeans, soymeal, and soy oil from countries outside the South American Mercosur trade bloc in mid-October. Since then, at least one US soybean cargo was sold to Brazil. The vessel Discoverer, chartered by Louis Dreyfus Company (LDC), is due to arrive at Brazil's Paranaguá port on the 26th of November carrying 30,000 mts, according to latest ship line-up data from maritime agency Cargonave, which was updated on Thursday. The ministry of agriculture's rule was published in the official gazette on the 4th of November, according to the statement. So far this year, Brazil has imported 528,000 mts of soybeans, mainly from Paraguay, the most since 2014, according to government trade data. Brazil is poised to import 1 mmts of soybeans this year, according to a forecast by Brazil's oilseeds crushing group Abiove. This is the highest volume since at least 2008.

**Brazil Soy Farmers Plant 1 mln Hectares Per Day, Catching Up on Delay**

Reuters - Brazilian farmers planted around 1 million hectares [2.471 million acres] of soybeans per day during the last week to nearly catch up on sowing delays for the new grain season, consultancy AgRural said in a report on Monday. AgRural said soybean planting in Brazil advanced in a week from 23% of the area to 42% by the 29th of October as farmers worked the fields at a breakneck pace after long-delayed rains provided the necessary soil moisture for them to progress. Brazil's new grains season has been delayed by drier-than-normal conditions this year. However, the current planting situation is now close to the historical average of 44% by this time of the year. Although farmers can catch up on the delay to plant soybeans, other crops, such as corn and cotton, that are normally planted after soybeans are harvested, (in the traditional rotation system in the country) could suffer and be exposed to less favorable conditions.

AgRural grain analyst Daniele Siqueira said conditions improved a lot for planting in most areas in the country, but more humidity was necessary in Parana, the second largest soy producer after Mato Grosso.

**EU, UK 2020/21 Soybean Imports 4.73 mmts by 1st Nov.**

Reuters - Soybean imports into the European Union and Britain in the 2020/21 season that started on July 1 totaled 4.73 mmts by the 1st November, official EU data showed on Tuesday. That was 4% above the volume imported in the previous 2019/20. EU and UK rapeseed imports so far in 2020/21 had reached 2.11 mmts, down 24% versus 2019/20. Soymeal imports in 2020/21 came to 5.93 mmts, down 10%, while palm oil imports stood at 2.05 mmts, up 2%.

The weekly figures are usually released by the European Commission on Monday but were delayed due to an unspecified reason.
CME January 2021 Soybean Meal Futures rallied to new life of contract highs on Thursday, reaching $387.80/short ton, before settling on Friday at $381.10/short ton, off $3.110 on the day, but up $9.20 for the week.

**China's Pig Herd Rebuild to Support Soy Crush for 'Several Years'**

Archer Daniels Midland’s (ADM) CEO said last week that global soybean crush margins are expected to be supported over the next couple of years as China continues to rebuild its pig herd and professionalizes its livestock sector, with the industry drawing from an ever-increasing demand for protein.

The agribusiness has crushed a record volume of soybeans so far this year, supported by surging demand for soy meal by China, while its US export margins widened on the back of Chinese demand for US soybeans and corn.

China’s economy has soared back from the effects of the Covid-19 pandemic that struck it earlier this year and is rebuilding its pig herd at the same time after it was hit by an African swine fever (ASF) outbreak in 2018-2019. “We think there are probably a couple of years ahead of us for China to recover the herd completely as I think they are going to build their self-sufficiency. So, we’re going to see continued strength in crush margins and we feel that this will be driving demand,” Juan Ricardo Luciano said during an investor call last Friday.

Luciano added that while there is a “big effort” in China to rebuild the pig herd, it is professionalizing the animal husbandry sector at the same time, which is further increasing the demand for soybean meal and corn. “That’s why you see so much pull from China for imported corn,” he said.

The demand for the pork sector has been supplemented by China’s poultry sector, which surged during the ASF outbreak and has continued to expand even with the pig herd expanding again.

“We certainly see 2021 with a lot of optimism, conditions are there for us to have good times. And we don’t see at this point in time that this will change. Demand is strong,” Luciano said. He added that demand from key importers has outstripped previous years following the pandemic as “governments are more concerned about food security now”.

Finally, ADM’s CFO Ray Young said that China has started looking at potential imports of US ethanol, with one vessel having already sailed. “They are making a lot of enquiries about US ethanol,” Young said.

**Transportation**

**Intermodal Carriers File Rate Increases on US Ag Exports to Asia**

Journal of Commerce Online - US agriculture exporters are finding it harder to secure equipment as peak season nears, and now they face steeper all-inclusive costs for shipments to Asian customers, with little hope that new general rate increases (GRIs) of $100 to up to $1,000 per container will make equipment more available.

Spot rates in the eastbound trans-Pacific will still be at least four or five times higher than the westbound rates even with the GRIs, so carriers will still prefer to ship empty containers back to Asia as quickly as possible to be refilled with US imports, rather than delaying the return of the containers for weeks to haul low-paying agricultural exports to Asia.

“Carriers really want to discourage the inland shipment of equipment,” said Hayden Swofford, independent administrator of the Pacific Northwest Asia Shippers Association, which represents shippers of agricultural and forest products.

Soybean exporters sounded the alarm on the shortage of containers at inland locations on the 23rd of October after Hapag-Lloyd notified customers it was refusing agricultural shipments in the interior US in order to rush empty containers back to Asia where there is a critical shortage of equipment for Asian exports to North America and Europe.

 Agricultural exporters have said since then that they probably unfairly singled out Hapag-Lloyd for criticism because most carriers have de-facto been refusing export loads, but they did not bother to notify their customers they were doing so.

In fact, Hapag-Lloyd over the years has been better than many carriers in dedicating assets to exporters in the US interior, so the line’s suspension of agricultural export bookings will be missed, said Bob Sinner, president and owner of SB&B Foods, a soybean shipper in North Dakota. Farmers understand the economics of the shipping industry, and how the container shortage is affecting carriers’ global operations, but they also hope that carriers attempt to understand the shipping and equipment needs of US farmers, he said.

Agricultural shippers in the upper Midwest are especially concerned about a reduction in equipment. Farmers in the region depend on Minneapolis as their source of containers, and they struggle even in the best of times, Sinner said. "Minneapolis is chronically short of containers because exports exceed imports.”

**Record Spread Between Import vs Export Rates**

Although eastbound freight rates are always higher than westbound rates, the spread between the two is at record levels. Spot rates from Asia to the US exploded this summer as the economy reopened from the lockdowns during the first phase of the coronavirus disease 2019 (COVID-19).

The Shanghai-US West Coast spot rate last week reached $3,849 per FEU, up from $1,678 per FEU on May 22, while the East Coast rate stood at $4,641 per FEU, up from $2,543 per FEU, according to the Shanghai Containerized Freight Index, which is published in the JOC Shipping & Logistics Pricing Hub. By contrast, port-to-port export rates to Asia are about $500 per FEU from the West Coast, according to data from the pricing hub.

Shippers of soybeans, hay, and other agricultural products grown in the Midwest say that while they do not normally applaud rate hikes, they understand that carriers base their business plans on round-trip economics. They understand that when the differential between eastbound and westbound rates is large, carriers will favor the head-haul import lanes even if it means turning down westbound revenue loads.
"Clearly, if faced with the dilemma of no containers or higher rates, shippers will agree to pay marginally more," said Mike Steenhoek, executive director of the Soybean Transportation Coalition.

However, Ed Zaninelli, president of Griffin Creek consulting, who ran the export division of container carrier OOCL for a number of years, said a marginal increase in westbound trans-Pacific rates will not be enough to motivate carriers to reposition empty containers to grain-loading facilities in the Midwest given the spread between eastbound and westbound rates.

"If the rate goes up $1,000, it will divert some containers to ag shippers," Zaninelli said. If the westbound GRI is $100 to $300, "I don't think these increases will get more containers to exporters."

Reducing Free Time May Incentivize Carriers

In calculating revenue potential per container, carriers consider the revenue per container, but also at the free storage time allotted to US exporters for the loading process, and to Asian importers for the unloading process. Total free-time allotments can be as much as 30 days, said M. Can Fidan, vice president of business development at MTS Logistics. "Thirty days to sit idle is a huge opportunity cost," Fidan said. In today's environment, unless an exporter is a consistent large-block shipper, carriers hesitate to reposition empty containers to the US interior, Fidan said.

Sinner noted that carriers are pulling back on free storage time, which they negotiate directly with their shipper customers. If reducing free time is necessary to ensure a steady supply of equipment, shippers will work with their overseas customers to make this happen, he said.

Even large-volume agriculture exporters struggle today to get sufficient containers because carriers are so short on equipment, said Peter Friedmann, executive director of the Agriculture Transportation Coalition (AgTC). Carriers may attempt to provide the large shippers with some containers, but equipment is so scarce they may not be able to meet the full allotment, he said. In fact, containers are in such short supply that members reported in a recent AgTC conference call that some carriers have been canceling export bookings they had agreed to previously. "They are finding they don't have the equipment," Friedmann said.

Some agriculture shippers are seeking assurances of equipment and vessel space through contracts negotiated via the New York Shipping Exchange (NYSHEX). In NYSHEX contracts, both the carrier and the shipper are held to their contractual commitments or they are charged a penalty.

Gordon Downes, CEO of NYSHEX, said he has definitely seen an increase in contracts executed on the platform involving agricultural shippers since the container shortages emerged. In light of the shortages, carriers are strictly holding customers to their weekly allotments. When equipment was not an issue, shippers might underestimate their slot requirements, knowing they could increase their commitment at the last minute, but that is not the case today. "What the shippers contract is what they get," Downes said.

Agricultural representatives said that if carriers implement a $1,000 per-FEU GRI to make it worth their while to reposition empty containers in the interior, that could increase the transportation cost so high that it drives exporters out of the international marketplace.

"They can't absorb a $1,000 increase," Friedmann said.

And if agricultural exporters cannot serve the markets they have worked hard to develop - either because freight rates are too high or they can't secure the equipment they need - they could lose those customers for future business when the market returns to normal, Steenhoek said. "What's the recipe for long-term success? It's maintaining reliability and predictability," he said.

- END -
November Crop Calendar

**Canada**
Corn, Soybeans, & Sunflower: Harvesting

**United States**
Corn, Sorghum & Soybeans: Harvesting
Winter Wheat & Rapeseed: Hardening

**Europe**
Winter Wheat & Rapeseed: Planting

**FSU**
Winter Wheat & Rapeseed: Dormant

**China & East Asia**
Late Rice: Maturing
Cotton, Corn, Sorghum, Soybeans, Sunflower & Groundnuts: Harvesting
Winter Wheat & Rapeseed: Vegetative

**NW Africa & Egypt**
Wheat: Planting
Rice (Egypt): Harvesting

**Turkey, Middle East & Afghanistan**
Rice: Harvesting
Wheat (Highlands): Planting

**Mexico**
Sorghum, Rice & Soybeans: Harvesting
*Sinaloa:* Winter Corn (Irrigated): Vegetative

**West Africa**
Rice, Corn, Sorghum, Cotton, Soybeans & Groundnuts: Harvesting

**Brazil**
South: Wheat: Harvesting
Corn & Soybeans: Vegetative
Groundnuts, Sorghum, Cotton, Sunflower, Rice & Millet: Planting
**Center West:** Soybeans: Vegetative

**South Asia (India)**
Cotton (South): Maturing
Corn, Sorghum, Rice, Rice, Millet, Groundnuts & Sunflower: Harvesting
Winter Wheat & Rapeseed: Planting

**East Africa**
Sudan: Sorghum/Millet: Harvesting
Ethiopia: Wheat, Rapeseed, Corn, Millet & Sorghum (Meher): Harvesting
Kenya: Corn (Minor): Vegetative

**Southern Africa**
Wheat (Free State & Western Cape): Maturing
Corn, Cotton, Rice, Sunflower, Soybeans & Millet: Planting

**Argentina**
Early Corn: Silking*
Late Corn & Cotton: Vegetative
1st Soybeans, Sunflower, Rice, Sorghum & Millet: Planting
Wheat: Maturing

*Crop stage sensitive to moisture and temperature stresses.

U.S. Department of Agriculture (USDA)
Foreign Agricultural Service (FAS)
Office of Global Analysis (OGA)
International Production Assessment Division (IPAD)

https://ipad.fas.usda.gov/ogamaps/images/nov_calendar.gif
United States – Outlook: Cold air will continue to spread eastward, reaching the Plains late in the weekend and early next week. Warmth will continue, however, across the eastern one-third of the country. Widespread precipitation will precede and accompany the temperature transition, with weekend rain and snow showers possible as far south as southern California and the Four Corners region. Meanwhile, a significant weekend snowstorm will unfold across northern sections of the Rockies and High Plains. Early next week, showers and thunderstorms in the vicinity of a cold front will erupt across the central and southern Plains and upper Midwest. Meanwhile, the remnants of Hurricane Eta are forecast to reorganize and strengthen over western Caribbean Sea. Although the future track and intensity of Eta are uncertain, there is an increasing likelihood that impacts from wind and rain will reach southern Florida during the weekend and early next week. Forecasts indicate that more than 6 inches of rain could fall across southern Florida during the next 5 days. The NWS 6- to 10-day outlook for November 11 – 15 calls for the likelihood of above-normal temperatures in the western Gulf Coast region and across the eastern one-third of the U.S., while colder-than-normal conditions will cover areas from the Pacific Coast to the High Plains. Meanwhile, near- or above normal precipitation across most of the country should contrast with drier-than-normal weather in portions of the Plains, primarily from the Dakotas to northern Texas.

In the West, a significant pattern change is underway, as markedly cooler air is arriving in the Pacific Coast States. In addition, rain and snow showers are overspreading the Northwest, extending as far south as the northern tier of California. Farther inland, warm, dry weather lingers, despite an increase in cloudiness.

On the Plains, record-setting warmth follows the recent historic cold wave. For example, Scottsbluff, Nebraska, set a monthly record with high temperatures of 81°F on November 5, following a monthly record low of -10°F on October 27. The sudden warmth is promoting winter wheat growth, except in areas where soil moisture shortages are limiting crop establishment. Warm, dry weather also favors harvesting of crops such as cotton, sorghum, and sunflowers.

In the Corn Belt, record-breaking warmth continues to promote final corn and soybean harvesting across the upper Midwest, where today’s high temperatures should range from 70 to 80°F. Warm, dry weather also prevails across the remainder of the Corn Belt, favoring winter wheat growth and summer crop harvesting. On November 1, the only Midwestern States behind the 5-year average harvest pace for soybeans were Missouri (60% harvested) and Ohio (77%).

In the South, isolated showers are occurring along the southern Atlantic Coast. Elsewhere, warm, dry weather is nearly ideal for previously delayed fieldwork, including winter wheat planting and cotton, peanut, and soybean harvesting.

EUROPE – Highlight: Widespread Showers, Continued Warm

- Widespread showers and above-normal temperatures were favorable for winter crop establishment.
- Locally heavy rain in central Greece was detrimental to unharvested cotton.
- Super Typhoon Goni moved into the northern Philippines with sustained winds of 170 knots, making it one of the strongest recorded typhoons in history.

- Much-needed showers in western Russia provided localized moisture improvements for winter wheat establishment, though additional, widespread, soaking rains will be needed to end the region’s drought.
- Winter wheat prospects have improved in Ukraine following beneficial October rains and warmth.

MIDDLE EAST – Highlight: Showers In Western Turkey, Dry Elsewhere

- Scattered but highly beneficial showers across western Turkey eased short-term dryness and improved moisture for winter grain planting and establishment, while dry weather prevailed elsewhere.

SOUTH ASIA – Highlight: Favorably Dry In China

- Sunny, mild weather across eastern China promoted emergence of wheat and rapeseed.

SOUTHEAST ASIA – Highlight: Super Typhoon Goni

- Super Typhoon Goni was the strongest recorded typhoon in history.

AUSTRALIA – Highlight: Soaking Rain In The East, Still Dry In The West

- In the east, rain aided summer crop germination and emergence and benefited immature winter crops.
- In the south, showers maintained good to excellent yield prospects for filling winter grains and oilseeds.
- In the west, dry weather accelerated wheat, barley, and canola maturation and favored early harvesting.

SOUTH AMERICA – Highlight: Rain Benefited Emerging Argentine Summer Crops

- Moderate to heavy showers covered nearly all of Argentina’s summer crop regions, providing timely moisture for emergence and establishment of grains, oilseeds, and cotton.
- Scattered showers continued in central Brazil, spurring a rapid pace of soybean planting.

MEXICO – Highlight: Heavy Rain Lingered Over The Southeast

- Heavy showers caused additional flooding in the vicinity of Tabasco, but dry conditions prevailed elsewhere, favoring maturing corn but limiting reservoir recharge.

Source: USDA https://www.usda.gov/oce/weather-drought-monitor/publications