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Consumer Research: WPI produces low-cost, non-probability consumer surveys around the world. When overlaid with conventional market research data, the result is insights into where and how markets for agrifood products can be expanded – and we have the results to prove it.

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Investment Analysis: WPI has provided due diligence on agrifood investments in disparate parts of the world from dairy and juice packaging in Cameroon to soybean crushing in Ukraine and biotech corn planting in Canada. In other instances, the company has used its decades of risk management experience to caution enthusiastic but new-to-agriculture investors to be prudent.

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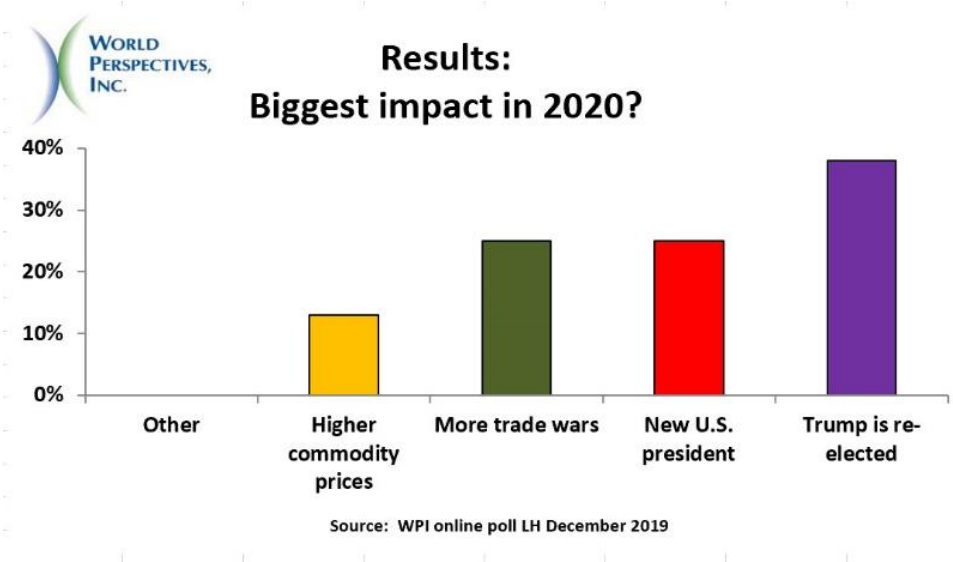
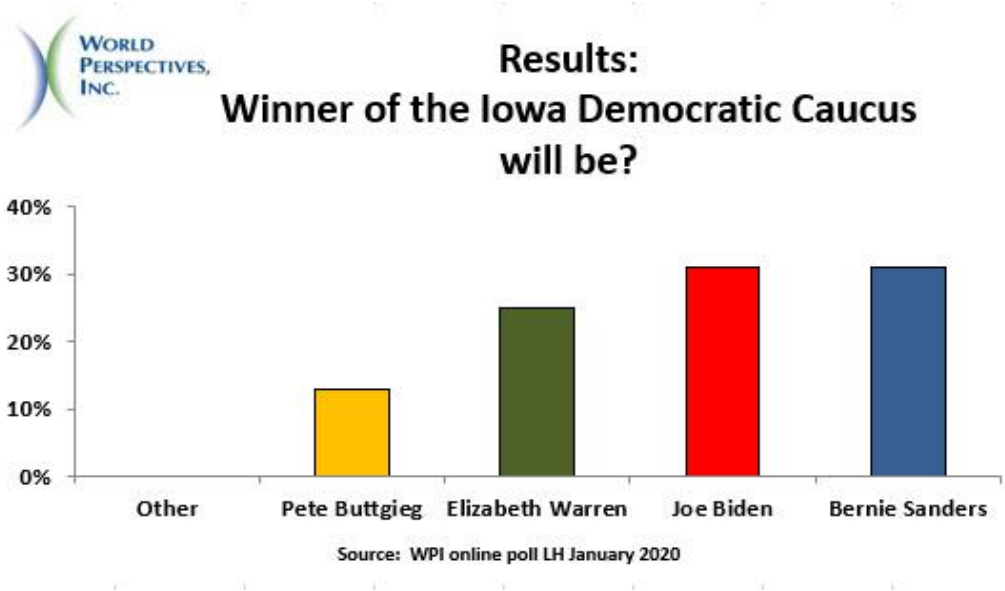
CONTENTS

WPI POLLING

Below are the results of two recent WPI polls. Visit www.worldperspectives.com to cast your vote in our current survey.





FROM THE WPI TEAM

By Gary Blumenthal

Pay Attention

The past few weeks (and likely several more to come) have been dominated by COVID-19, the coronavirus that like SARS has probably emanated from bats and is spreading its deadly impacts around the world. There has also been great philosophical debate about the meaning of President Donald Trump's different, some say dangerous approach toward international trade.

Mr. Trump is faulted for converting the global system back into a managed trade affair with government the determinant of the economic course and outcomes. In truth, state craft has always been a foundation for trade. Everyone recognizes the dominance of government in China and Russia, but they are only unique in the degree of influence.

Europe has been ceding central command over agriculture but increasing it in other areas. Having lost a WTO case over its subsidies for Airbus, it is now doubling down with proposed new subsidies for everything from batteries to be used in electric vehicles to government efforts to catch up with China and the U.S. in digital capabilities like artificial intelligence, while concurrently seeking to punish America's successful FAANG companies with taxes.

Meanwhile, a Politico article ahead of the President's trip to New Delhi this week says, "Trump's 'America First' quest meets its match in India." Rightly or wrongly, the Trumpian argument is that if America can't change them, join them.

Mr. Trump has also changed America's approach to trade agreements. It used to take years to negotiate and obtain Congressional passage of trade agreements. This White House has been creating new, some say illegal, leverage to coerce and accelerate the pace of change in the terms of trade. The new and jolting approach has been keeping trade policy wonks in Washington and elsewhere around the world up all night. Dave Juday writes about how this has impacted one important player in the mix, new EU Trade Commissioner Phil Hogan.

Globalization forced economic changes to supply chains and now biology and politics are changing them further. The increased interaction of 7.8 billion people has increased the dangerous spread of viruses but also the economic movement of people. Governments are changing policies, sometimes under the guise of virtuous causes like climate protection, but ultimately with pronounced economic impacts via carbon taxes and production standards.

WPI continues to acutely cover the major agricultural production areas of the world including South America and the Black Sea, as well as major evolving consumption centers like China.

WPI MARKET ANALYSIS

Hey Phil Hogan, How's the New Job Going?

By Dave Juday

New EU Trade Commissioner Phil Hogan was in Washington last month for a sort of baptism by fire. On top of foreign policy tensions like Iran and security issues like NATO funding, there are economic issues like trade.

The U.S. has imposed tariffs on imports from the EU under the WTO Airbus case. They are in the process of considering higher and additional tariffs, and separately there is the threat of tariffs on imports from France due to a new digital services tax. The EU is also caught in the triangular crossfire of U.S. and UK interests in negotiating a free trade deal as the EU under the terms of Brexit. As the former Agriculture Commissioner, Mr. Hogan was well prepared for an earful about American desires to have agricultural trade issues addressed.

In a speech in Washington, Hogan suggested that the EU and U.S. could work on an agriculture "mini-package" involving technical barriers to trade. He cited the recent beef deal as a template. He also mentioned former EU President Jean Claude Juncker's achievement of increasing soybean purchases from the U.S.

Additionally, he cited the increase in U.S. LNG exports to Europe as an example of the EU "delivering results" on building a "strong and positive bilateral agenda." He was immediately hammered in the press in Europe as most of the U.S. production of LNG comes from, God-forbid, fracking.

The Commissioner told the U.S. press that he "didn't expect to be successful in resetting the relationship in a few days," but that he "was very happy with the level of engagement, the very positive cooperative spirit we had with all our interlocutors in the administration."

But, in a video address to a conference in London, recorded while he was in Washington, Hogan dropped the candy-coated diplo-speak and gave a more candid assessment, making insightful comments on how he perceives Trump's motivations, and how he sizes up the Administration's negotiating approach.

Hogan told the conference in London his impression of his meetings: "It is America first" and "it's not going to be unity in the short term, because President Trump operates on the basis that he wants a grievance against somebody in order to accentuate his popularity in certain federal states."

He went on to say, Trump "is obsessed with trying to reduce the (trade) deficit ... and talked about how he can win the next election and thinking a bit short term between now and November in terms of getting results."

Hogan said Trump's focus on the trade imbalance is misplaced, "rather than understanding that you are going to widen the deficit" with economic growth, and has dismissed the fact that 66 percent of all EU imports "contribute to further job creation in the US."

Certainly, the specificity of that 66 percent analysis was a briefing paper talking point that USTR Robert Lighthizer and Treasury Secretary Steven Mnuchin heard in private meetings.

According to Hogan, Trump thinks that "tariffs are a way of concentrating the mind and getting people to the table." And, that the U.S. trade agenda generally has "gone against the natural instincts of what policy makers have been doing for years."

Hogan was asked by the moderator of the London conference if the China Phase One deal was a hollow victory, delivering only promises of increased sales and not addressing state owned enterprises, subsidies and what Hogan himself described as "all the problems we've been seeing for years" with China. Rather than taking the chance to criticize the outcome, he admitted he didn't know and that only time will tell, duly acknowledging that those issues were part of the Phase Two talks.

Hogan further noted, Trump is a "transactional president and therefore would play up the $200 billion of additional exports and removal of some tariff barriers and regulatory reform agenda that he has also announced."

Significantly, Hogan's criticism was not of the ends, but rather of the means - that the direct, bilateral tariff war "stepped out" of the WTO process, and he noted, "we will have to assess it to see it if is WTO compliant." Notably, while in Washington, Hogan, USTR Lighthizer and Japanese Economy Minister Hiroshi Kajiyama issued a joint statement announcing that the three would soon be proposing new WTO rules to limit subsidies that create market distortions – much of it aimed at China.

All in all, Commissioner Hogan had a pretty solid take on the Trump trade agenda. It would appear that he recognizes the hand he's been dealt, and, whether he – and the EU – wanted to be or not, he's been dealt into a high-stakes game of trade policy poker. It's now up to Hogan and the EU to strategically play their hand.

There is no reason to think that the Trump Administration – rightly or wrongly – won't call any bluff. As Commerce Secretary Wilbur Ross recently assessed the U.S. cards - the China deal and USMCA cover $2 trillion in reciprocal trade, which is 10 percent of the U.S. economy, and worth 50 to 75 basis points of GDP growth. According to Ross, success on those deals has insulated the agricultural, manufacturing and financial bases of the economy from risk associated with more trade disputes.

To sum up, the EU is looking to stay in the game for a longer-run victory, while the U.S. is all-in for a short-term win.

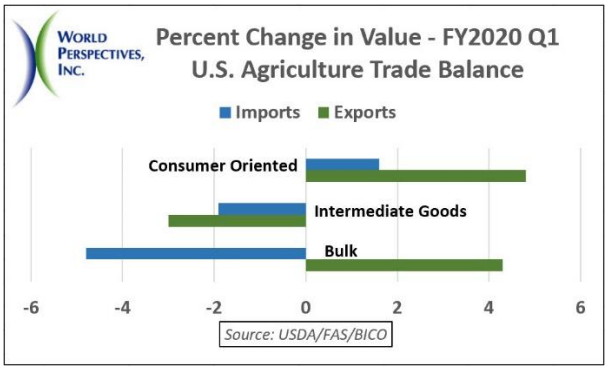
Agriculture Trade Imbalances

By Gary Blumenthal

The U.S. has traditionally had a positive trade balance in agricultural goods, though it has fluctuated depending on the value of the dollar and global economic conditions. On a value basis, exports have been relatively static in recent years while imports have been rising. Agricultural exports took a hit as a result of the trade war with China, though it has been very product specific.

Bulk agricultural exports declined by nearly $10 billion over the past two years but have rebounded slightly in the first quarter of fiscal year 2020. Soybeans were the largest export losers followed by feed grains, and these two categories have seen the largest improvements in recent months. By contrast, bulk agricultural imports have been static with recent months bringing increases in sugar but decreases in tobacco and wheat.

As a category, high value and value-added (consumer-oriented) agricultural exports saw no adverse impact from the trade war and were up 4.8 percent in value terms in the first quarter of fiscal 2020, and the same category for imports has seen steady increases, including a 1.6 percent uptick thus far this year. It is the intermediate goods category that is down slightly in both exports and imports.



Eating Crow; Green Deal Burdens; Hope Against Viruses

By Gary Blumenthal

Eating Crow

Few free traders in Washington believe that President Trump's tariffs first approach to trade policy is a good idea. In fact, they have mountains of economic studies highlighting the downside risks from the approach. Thus, it was surprising when powerful Senate Finance Committee Chairman Chuck Grassley (R-Iowa), a critic of Mr. Trump's approach, cited the USMCA and China agreements in saying he and other skeptics "ate a bit of crow."

A trade agreement with India may be the next positive outcome from this White House using GSP to leverage better trading terms for the U.S. Still, at this juncture it is hard to say that on net the American economy is better off under this approach.

Green Deal Burdens

Agricultural leaders in Europe are worried that the Farm to Fork component of the Green New Deal will adversely impact the competitiveness of the sector. Proponents are thus pushing for carbon taxes on food imports from less righteous countries in order to balance the playing field for newly burdened EU farmers. However, this will not remedy the loss of competitiveness for EU food exports if farms are forced to become less efficient and less productive in order to meet environmental goals.

There will be adverse impacts just as there are from banning plant protectants like glyphosate. Consumers elsewhere may be willing to pay more for foods certified to be more carbon neutral, but likely only at the margin.

Hope Against Viruses

The coronavirus continues to adversely impact both people and the economy but there was good news today in a report that U.S. researchers have found an effective vaccine to fight the African Swine Fever. It is in a completely different virus family and so not completely helpful in the fight against the coronavirus, but it brings some hope in an otherwise depressing human and animal health crisis. Successfully prevailing against one disease builds hope for succeeding against another.

WPI INTERNATIONAL ANALYSIS

Mercosur Regional Analysis - 10 February 2020

By WPI Staff

After a few months of drought putting a check on Argentine corn production, the weather pattern has consistently shifted towards more favorable patterns since 2020 started. Additionally, good rains in January and early February further helped. Presently, 90 percent of the corn crop has optimal moisture conditions and 97 percent is rated fair/excellent. Planting has advanced to 98 percent of the expected area. With weather patterns normalizing, there is no reason to anticipate a crop less than 49-50 MMT.

As harvest nears and shipment periods for new crop corn inch closer, the market is becoming more interesting. There are interested volumes moving in the FAS market with prices similar to the past few weeks ($145/MT for March and $141-142/MT for April/May), giving FOB replacement of about 60K.

The FOB market was also interesting with several buyers and sellers present last week. Despite the fact that some sellers might need to boost sales for March positions, both buyers and sellers are mostly focused on April/May shipments. If the corn harvest starts on time, there will be more movement on March positions as exporters will likely need to reinforce their program and there is already short covering developing.

Deferred shipments (July and August) are quiet as there is still time to go and buyers want to see how the late-planted crop develops. Buyers are coming from around the world for Argentine corn, including Asia, East Africa, Peru, Chile, and some small volume from Brazil, where local prices are abnormally strong. The market ended last week as follows:

Argentine New-Crop Corn Prices Cents/Bu. vs. CBOT Futures

Month	Bid	Offer
March	50K	60K
April/May	47K	55K
June	65N	45N
July	12N	20N
August	No Bid	20U

Wheat

The local market still has small volumes moving through it as exporters don't appear interested in buying. Exporters are now only willing to make purchases if there is a possibility of doing so at cheap prices with prompt discharge at ports. That is logical as they are long and have already secured more than they will likely export. The only reason why they are securing a little volume is to "cash and carry" cheap wheat. They will probably end up selling some of this volume FAS back to local millers.

During the first week of February, about 300,000 MT were loaded and there are vessels waiting to load 800,000 MT more. The month is just starting, so more vessels are expected to arrive. There are a wide range of destinations (including Asia, East Africa, Latin America, etc.) with Brazilian participation still less than 15 percent. January ended with all-time record high exports of 3.5 MMT. Adding December and January together, all exports reached 5.8 MMT. The FOB marked ended last week as follows with bids and offers slowly converging.

Argentine Wheat Prices 11.5% protein, Upriver $/MT		
Month	Bid	Offer
February	220	225
March	220	227
April	No bid	232

Soybeans
The soybean market was active last week with most of the activity focused on the Brazilian market. Chinese crushers went back to work after the Lunar New Year holiday and generated solid demand for nearby positions, mainly February and March. The strong demand surprised some traders who were expecting a slow market due to the coronavirus outbreak. Although demand was mostly coming from China's state-owned enterprises, there was good movement all week. March CNF positions traded near 130H at the start of the week, but basis subsequently firmed with demand trying to buy or trading houses trying to cover sales. Consequently, offers rose to 158H and bids hit 150H by the ended of the week and some trades were heard at 148H.

February positions were not showing any outright movement, although there was some spread trade last week. Some trading houses were concerned about possible delays in vessels getting February BLs and being pushed into March positions due to the large vessel lineup. The inverse from February to March and April positions has increased in the past few weeks for the same reasons. The spread traded a 12-cent inverse on the CNF market from February to April.

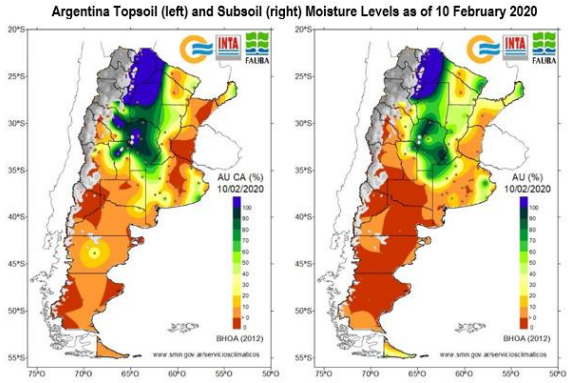
Brazil
January ended with 1.7 MMT of Brazilian soybean shipped to all destinations. Interestingly, of that volume, only 850,000 MT were destined for China. The implication is that non-China destinations were aggressive securing Brazilian soybeans as they were the most competitive on the world market.

Brazil's February vessel lineup is huge presently, reaching 8.3 MMT with 1.7 MMT already loaded this month. Of course, not all that volume will make it into February shipments and there is discussion of how much will be rolled forward into March. WPI's estimate is that February total loadings will hit 6.8 MMT. Brazil has enough port capacity to load 11-12 MMT, but the problem is that soybeans will not arrive at ports in February to fill such volumes. There are additional concerns about weather issues as rain may delay loading of some vessels, which could cause big logistics issues at ports.

The harvest is starting to pick up speed and by the end of last week, 17 percent of the area was already harvested. More than 50 percent of Matto Grosso fields have been harvested and yields are outstanding. Crop estimates are creeping higher with each passing week. Most trading houses are working with 125 MMT crop estimates, with some upside potential to 129 MMT.

Farmer selling is estimated to account for 47 percent of the crop, around 59 MMT. Trading houses are estimated to be long 3-4 MMT, excluding the long position held by the soybean crushing industry. The Brazilian real was sharply weaker by the end of last week, reaching 4.32 reals/U.S. dollar. Consequently, farmers have received better prices for their soybeans (in real terms) this year. There was some farmer selling last week, about 1.5 MMT worth (which is not really significant), but weak CBOT prices limited further sales.

Argentina
Last week's rains improved soil moisture conditions across Argentina's soybean belt. Generally, crop conditions are ranging from adequate to ideal. Crops are beginning to enter the grain filling stage with good moisture levels.



Argentina Soybean Crop Development, Percent of National Crop in Development Stage					
	Planted	Leaf Development	Blooming	Setting Pods	Beginning Seed
2018/19	100%	99%	88%	53%	16%
2019/20	100%	98%	85%	44%	15%

In the markets, there are few FAS offers while the FOB market is devoid of sellers. The FOB replacement for new crop soybeans is 40N while Chinese demand is interested in trades with some options and willing to pay a few cents more. Consequently, there is a large negative margin between FAS and FOB prices currently. Argentina loaded 152,000 MT during January and the vessel lineup presently is only 60,000 MT.

Uruguay

Weekend rains brought significant relief to the crop, though some areas still need additional moisture. The forecast shows some additional precipitation for this coming week. The local and FOB markets remain very quiet.

Paraguay

Paraguay's harvest is starting, and yields are very good so far. Offers for April CIF Upriver positions are at 30K while demand is bidding 15K for May CIF Upriver.

China In-Country Analysis 19 February 2020

By Global Agribusiness Partners

Coronavirus Criteria Adjusted, Recoveries Outpace Deaths

The day after last week's report, China adjusted its criteria for coronavirus (Covid-19) cases to include those individuals who have had only a clinical diagnosis. Previously, the country was reporting just individuals whose symptoms had been confirmed via a laboratory test. The change resulted in the biggest one-day increase in the number of reported cases since the start of the outbreak, as 15,100 individuals were added to the tally. Last Friday saw the second largest daily jump as another 6,500 cases were identified. These revisions brought the total number of confirmed cases as of today to 75,282 with 74,188 affected individuals residing in mainland China.

While this sudden increase in the total number of diagnosed individuals brought plenty of headlines, the number of recovered patients now totals 15,040 people. That compares to just 5,121 recoveries a week ago, a nearly three-fold increase. Meanwhile, the total number of fatalities due to Covid-19 has nearly doubled to 2,012. This last figure should be taken with a grain salt as the criteria for adjusted diagnosed cases was also applied in the last week to the cause of death. This means that individuals who had received a diagnosis of Covid-19 and then subsequently died prior to having a confirmatory laboratory have had their cause of death now confirmed as being the result of the coronavirus.

While the virulence and rapid spread of Covid-19 has been serious, the rapid growth in recovery rates are indicative of the outbreak beginning to run its course. As points of comparison, the Centers for Disease Control (CD) estimate that from 1 October 2019 through the first week of February 2020, there have been between 250,000 to 400,000 hospitalizations due to the flu and 14,000 to 36,000 flu-related deaths.

Deaths of Medic Personnel and Covid-19's Lasting Impact

The damage done to China's economy as a result of the virtual total work stoppage, the country-wide quarantine and the disruption of Lunar New Year will have a lasting effect. The duration of this impact after having thrown an estimated 50 million people out of work for an extended February holiday, however, remains to be seen. A recent survey of economists estimates first quarter GDP to fall to around 4.5 percent from a previous outlook of 6 percent. In contrast, Hubei, the epicenter of the virus will likely need substantial support for most of the year. Quarantine measures will remain in effect for the foreseeable future as all movement has been restricted with exception of approved personnel.

The more pressing concern pertains to China's central government and what is has learned from this crisis. For example, of the 2,012 victims of the outbreak, six have been medical professionals, including a medical director at a hospital in Wuhan. Overall, more than 1,700 healthcare workers have been diagnosed with the virus. At the same time, reports continue to mount about the lack appropriate protective gear, including sterile masks. Provinces hit hard by the quarantines, curbs in commercial activity, and increases in the number of new Covid-19 cases are also finding themselves in financial dire straits.

Looking ahead will these back-to-back disease outbreaks (African Swine Fever and Covid-19) lead to China's leadership improving transparency, communication, and capacity building at the provincial level in order to prevent these crises from beginning? Will efforts be made to generate better initial responses and provide regional officials and emergency personnel with the tools necessary to do their jobs? How will these recent events play out as China continues to engage other areas of the world, particularly Africa, and seek to convince that continent that the China-way to economic development will deliver real results? Answers to these questions will go along with Beijing and President XI being able to sustain any sort of economic recovery.

Livestock

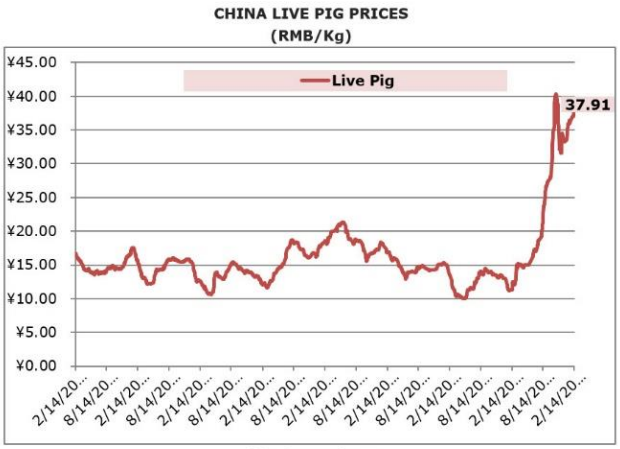
Live Pig Prices Pick Up Steam

The quarantine across nearly all major cities has forced most residents to stay indoors for most, if not, the entire day and night. Urban residents with access to online delivery of groceries and foodstuffs through providers such as Alibaba's Hema have had to wait until midnight to submit orders. Generally, within 30 to 45 minutes each night most of the meat and vegetable offerings are gone.

As factories begin to come back to life and the central government has issued a directive instructing farmers to get back to the fields, albeit with masks and instructions to avoid working in groups, many residents across China are going to be hungry for meat and produce. Through last Friday, the national average pig price was up week-on-week by RMB .85/kg ($.12/kg) or $.39/lb. ($.06/lb.) to RMB 37.91/kg ($5.43/kg) or RMB 17.20/lb. ($2.46/lb.).

Looking ahead, the question will be what will happen with domestic poultry prices and consumption, as well as imports of beef, pork, and chicken. Domestic white feather broiler prices are still not available as market data has been spotty with so many companies closed or working with skeletal crews. Restoring cross-border transportation of both feed and processed meat and live carcasses will also remain constrained as the virulence of Covid-19 has been reported to exceed both MERS and SARS. As with African Swine Fever (ASF), this crisis will create winners and losers in the animal protein sector.

The deep pocketed publicly listed companies are likely to be the biggest beneficiaries, but it will all depend on who can get feed and bring their products to market. Case in point, last week's average operating profit per live pig rose by RMB 109/head ($15.62/head) to RMB 3,065/head ($439.11/head).



Oilseeds

Soymeal Inventory Sees Modest Uptick

As a result of increases in the soymeal inventories in the East Region and in Fujian Province last week, China's estimated soymeal inventory inched up 23,400 MT (+7.2 percent) to 346,500 MT. The gains in the East and Fujian were nearly erased by sharp decreases in the North and Guangdong Province, where soymeal stocks fell by 23,000 MT (-56.1 percent) and 27,000 MT (-45.5 percent) to 18,000 MT and 32,400 MT, respectively.

Going back to the mid-way point in February 2019, China's nationwide inventory is now down by 287,000 MT (-45.3 percent) on an annual basis. The outlook for feed demand will be a function of China's ability to deal with ASF, which prior to the coronavirus was not fully resolved, and the pace of economic recovery. Imports should pick up steam in March, which will gradually push up inventories, but the underlying factors will be domestic economic stability and growth.

China's Estimated Soymeal Stocks (1,000 MT)

	Northeast	North	Shandong	East	Guangdong	Guangxi	Fujian	Total
14 February 2020	3.0	18.0	16.0	196.6	32.4	50.0	30.5	346.5
Week-on-week	-1.0	-23.0	-0.9	66.8	-27.0	-3.0	11.5	23.4
Month-on-month	-13.0	9.0	-51.9	-105.2	-45.6	-54.0	13.5	-247.2
Year-on-year	-64.0	-16.5	-34.4	-116.0	8.4	-47.0	-17.5	-287.0

Source: CoFeed, China Grain

Heilongjiang Launches New Domestic Subsidies

On the policy front, Heilongjiang's provincial government announced on Monday a series of temporary measures aimed at subsidizing local soybean processors. The announcement states that the government subsidies will be provided to qualified processors that are registered and operate in the province and process locally grown soybeans as well as those imported from Russia. The subsidies are comprised of three categories: fixed asset investment, low interest working capital loans, and tax incentives for research and development expenses. These measures parallel Beijing's stated goal of invigorating China's soybean production.

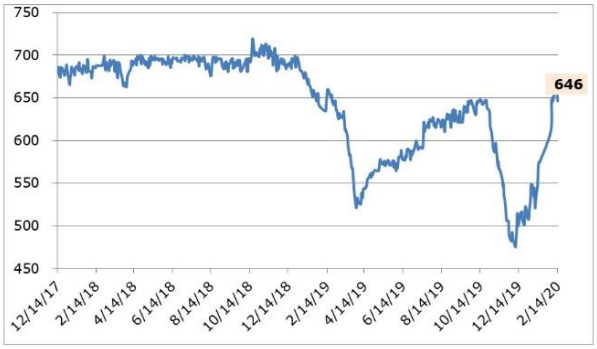
Imported Soybean Inventory Growth Stalls

After the recent run-up in the imported soybean inventories, stocks at China's major seaports retreated slightly last week, falling by 10,400 MT to 6.46 MMT. Trends were mixed across regions. At ports outside of Shandong, Guangdong, and Jiangsu, imported soybean inventories were up last week by 16,100 MT to just over 2.68 MMT or 41.4 percent of the national total. Combined stocks at the five major ports in Shandong Province accounted for 29.6 percent of the national total last week, down from 30.4 percent for the previous week. By comparison, imported soybean inventories at the major ports in Guangdong Province amounted 15.1 percent of the national total, up from 14.2 percent two weeks four ago. Finally, imported stocks in Jiangsu Province fell to 13.8 percent of the national total last week, down from 14.3 percent for the week prior.

China's Imported Soybean Stocks (1,000MT)					
	Total	Other Ports	Shandong	Guangdong	Jiangsu
February 14, 2020	6,462.4	2,681.4	1,914.7	973.9	892.6
Week-on-week	-10.4	16.1	-53.0	57.5	-31.0
Month-on-month	795.5	575.6	185.4	59.5	-24.9
Year-on-year	-100.8	-48.1	229.6	-198.1	-84.2

Source: JCI

Imported Soybean Stock Trend at China's Major Ports (10,000 MT)



Source: JCI

Soymeal Cash Market All Over the Place

Limited soymeal inventories combined with transportation restrictions have resulted in diverging cash prices depending on the region and market access. With most feed mills having resumed activity through last week, industry reports show that the majority of soybean crushers have sold out their cash forward contracts for the rest of February and all of March.

In northern China, crushers are receiving premiums for packaged meal over bulk meal with premiums ranging from RMB 100 to 120/MT ($14.32 to $17.19/MT). While many crushers have secured these commitments for the next six weeks, the average March cash contracts are RMB 200 to 300/MT ($28.65 to $42.98/MT) lower than February contracts.

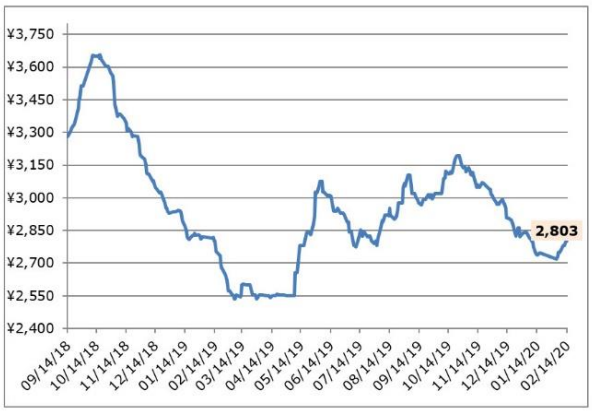
China's Soymeal Cash Price Changes							
	18February 2020 (RMB/MT)	Pre-Holiday (RMB/MT)	Change (RMB/MT)	Change (%)	October 2019 (RMB/MT)	Change (RMB/MT)	Change (%)
Beijing	¥3,020	¥2,750	¥270	9.8%	¥3,240	-¥220	-6.8%
Tianjin	¥3,200	¥2,770	¥430	15.5%	¥3,300	-¥100	-3.0%
Qingdao, Shandong	¥3,060	¥2,680	¥380	14.2%	¥3,220	-¥160	-5.0%
Rizhao, Shandong	¥3,100	¥2,680	¥420	15.7%	¥3,200	-¥100	-3.1%
Zhoukou, Henan	¥3,100	¥2,880	¥220	7.6%	¥3,260	-¥160	-4.9%
Lianyungan, Jiangsu	¥3,070	¥2,720	¥350	12.9%	¥3,200	-¥130	-4.1%
Dongguan, Guangdong	¥2,650	¥2,650	¥0	0.0%	¥3,130	-¥480	-15.3%
Zhanjiang, Guangdong	¥2,750	¥2,630	¥120	4.6%	¥3,140	-¥390	-12.4%
Fangcheng, Guangxi	¥2,750	¥2,660	¥90	3.4%	¥3,130	-¥380	-12.1%

Source: JCI

Crush Margins Fall on Higher Soybean Costs, Lower Oil Prices

The average producer's price for soyoil fell sharply again last week, dropping RMB 324/MT ($46.42/MT) to RMB 6,241/MT ($894.12/MT). At same time, the average CNF prices for imported U.S. and Brazilian soybeans rose last week by $5/MT and $2/MT to $393/MT and $384/MT, respectively. The pushup in the average soymeal prices in eastern China helped drive up the national average producers' price by RMB 48/MT ($6.88/MT) to RMB 2,803/MT ($401.58/MT). The net effect saw the operating margin on U.S. soybeans, excluding the 25 percent retaliatory tariff, drop by RMB 66/MT ($9.46/MT) to RMB 11/MT ($1.58/MT), while the average crush margin on Brazilian soybeans fell by RMB 42/MT ($6.02/MT) to RMB 84/MT ($12.03/MT).

Average Producer Price for Soymeal (Yuan/MT)



Source: China Grain

China's Imported Soybean Crush Margin on U.S. Soybeans with 28% Tariff						
	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin (Tariff-28%) (RMB/MT)	Crush Margin (USD/MT)
14 February 2020	393	6.98	2,803	6,241	-765	-109.5
Week-on-week	5	0.01	48	-324	-77	-10.9
Month-on-month	-22	0.09	67	-867	61	10.2
Year-on-year	9	0.21	2	560	-103	-11.7

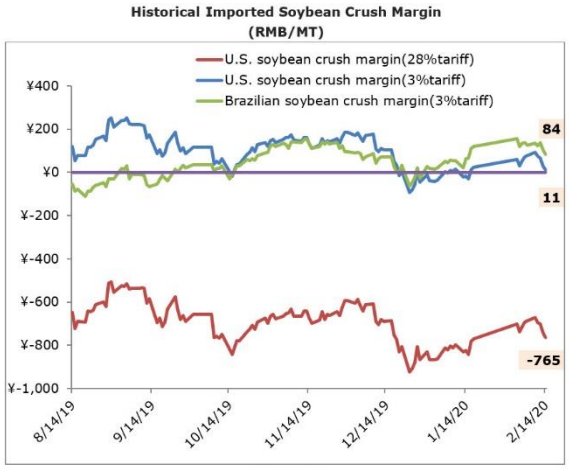
Source: JCI

China's Imported Soybean Crush Margin on U.S. Soybeans without 25% Tariff						
	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin (Tariff-3%) (RMB/MT)	Crush Margin (USD/MT)
14 February 2020	393	6.98	2,803	6,241	11	1.5
Week-on-week	5	0.01	48	-324	-66	-9.5
Month-on-month	-22	0.09	67	-867	28	4.0
Year-on-year	9	0.21	2	560	-62	-9.2

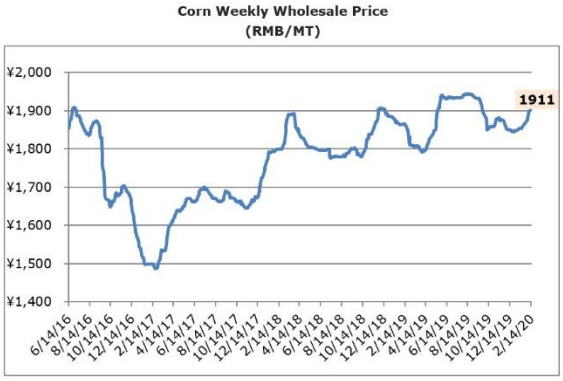
Source: JCI

China's Imported Soybean Crush Margin on Brazil Soybeans						
	Imported Soybeans Cost & Freight (USD/MT)	Exchange Rate (USD/CNY)	Soymeal Prices (RMB/MT)	Soybean Oil Prices (RMB/MT)	Crush Margin (Tariff-3%) (RMB/MT)	Crush Margin (USD/MT)
14 February 2020	384	6.98	2,803	6,241	84	12.0
Week-on-week	2	0.01	48	-324	-42	-6.0
Month-on-month	-21	0.09	67	-867	21	2.8
Year-on-year	4	0.21	2	560	-20	-3.4

Source: JCI



Source: JCI



Source: CNGOIC

Grains

Domestic Corn Prices Remain on Upward Trend

Despite a retreat in the average price in Guangdong last week, which fell by RMB 23/MT ($3.30/MT) to RMB 2,020/MT ($289.40/MT), domestic corn prices remained strong. Steady increases in feed mill demand in Shandong, China's leading feed producing province, helped push up the national average corn price last week by RMB 16/MT ($2.29/MT) to RMB 1,911/MT ($273.78/MT). Meanwhile, the shortages of feedstuffs also resulted in Beijing holding its first corn auction of the year to supply the market with corn from state-owned reserves.

On the corn processing front, the markets for ethanol, cornstarch, and DDGs saw their most notable activity in weeks. In Jilin, the average cornstarch price fell by RMB 50/MT ($7.16/MT) to RMB 2,150/MT ($308.02/MT). Ethanol prices in Shandong and Jilin had solid gains last week, rising last week by RMB 100/MT ($14.33/MT) and RMB 150/MT ($21.49/MT) to RMB 5,700/MT ($816.62/MT) and RMB 5,250/MT ($752.15/MT). Lastly, the average DDGs price in Jilin ticked up by a modest RMB 20/MT ($2.87/MT) to RMB 1,600/MT ($229.22/MT).

China Corn Wholesale Price (RMB/MT)

	Nationwide	Heilongjiang	Jilin	Liaoning	Shandong	Guangdong
14 February 2020	1,911	1,655	1,765	1,834	1,975	2,020
Week-on-week	16	0	4	4	18	-23
Month-on-month	57	35	56	48	44	60
Year-on-year	48	31	59	34	31	40

Source: CNGOIC

China Cornstarch Processing Margin (RMB/MT)

(RMB/MT)	Shandong				Jilin			
	Corn Price	Starch Price	Corn Gluten Meal Price	Margin	Corn Price	Starch Price	Corn Gluten Meal Price	Margin
14 February 2020	1,920	2,380	4,680	154	1,720	2,150	4,500	75
Week-on-week	0	0	180	19	0	-50	0	-50
Month-on-month	0	0	180	16	0	-50	0	-50
Year-on-year	-20	-150	960	55	60	-250	660	-214

Source: JCCE

China Corn Ethanol Processing Margin (RMB/MT)

(RMB/MT)	Shandong				Jilin			
	Corn Price	Ethanol Price	DDGS Price	Margin	Corn Price	Ethanol Price	DDGS Price	Margin
14 February 2020	1,980	5,700	2,170	1,164	1,710	5,250	1,600	435
Week-on-week	0	100	0	100	0	150	20	66
Month-on-month	20	100	0	39	30	250	0	63
Year-on-year	0	600	120	785	30	500	0	176

Source: JCCE

WPI POLICY ANALYSIS

China's Tariff Exemptions

By Dave Juday

China announced this month a list of 696 U.S. products for which importers may apply for a tariff exemption. Importers must apply for the exemption by 2 March, with a particular volume of imports specified in the application. Import volumes above the applied for amount will be subject to the existing retaliatory tariffs. There is a 10 percent buffer on the applied for volumes.

For a matter of scope, the 696 products are less than 14 percent of the 5,078 products targeted by China's tariffs. However, the announcement also references products not on the list. Specifically, stating (very unofficial translation):

> *… for products that are not on the list, the applicant may submit an application for adding excluded products.*

The Finance Ministry stresses this is a temporary exemption, good for one year and that the currently applied tariffs to counter the 301 tariffs applied on Chinese goods by the U.S. have not been lifted. No refunds will be issued on past purchases.

Further, the applications must be justified on market-based reasoning. The Ministry notes that such information "will not be disclosed to third parties without the consent of the applicant" of course, with the exception to comply with "laws and regulations and national regulations."

Top tariff chapters and headings on the list for ag commodities are:

Partial List: Tariff Exemption on U.S. Imports to China	
0202	Pork
0203	Beef
0204	Sheep, goat meat
0206	Beef offal
0402	Milk and cream
0404	Whey
1001	Wheat
1005	Corn
1007	Sorghum
1201	Soybeans
1214	Hay and forage
1507	Soyoil
1702	Fructose, etc
1901	Flour and starch
2207	Ethanol

Source: China Ministry of Finance, WPI

The products also include several specialty crops, prepared food and energy items (including coal). Note that broilers are not on the exemption list, but that is because when the original tariffs were imposed, broiler meat and poultry were banned under sanitary restrictions. China announced a lifting of the ban in November and has now announced it is open to all poultry imports from the U.S. – including live birds to rebuild flocks.

However, according to the USA Poultry and Egg Export Council (USAPEEC) about 300 to 400 containers of poultry on the water headed to China have been diverted because of lack of port capacity. About 80 percent of those total shipments are chicken paws, a highly profitable export item that the industry has been missing out on since 2015. Estimates are that paw exports alone could reach $800 million to $1 billion this year, which would help slumping industry revenues.

Also, of note for the slumping U.S. dairy industry, the exemption list includes milk and cream (with dairy solids less than 1.5 percent) and whey and lactose (under Chapter 17 with

fructose) but does not include cheese or butter or NDFM.

Below is a link to the complete list of products with punitive tariffs released in English by USDA's Foreign Agricultural Service followed by the list released by Beijing in Chinese: https://www.worldperspectives.com/files/yuusogsw0irawgvqurty/02182020_China%20Tariff%20List.pdf.

Return to Managed Trade

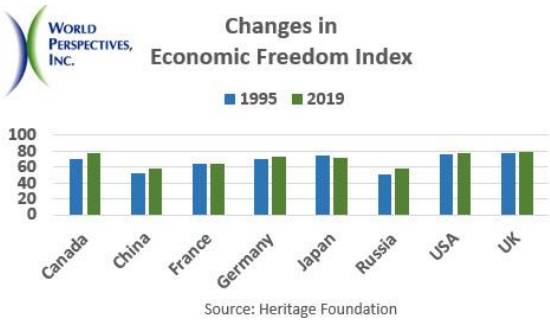
By Gary Blumenthal

Critics of the Phase One trade deal signed between the U.S. and China lament President Trump's policy tilt toward "managed trade." Trump Administration officials resigned themselves that if they could not compel China (and other countries) into greater market orientation, they would join them, insisting on carveouts for American industries like agriculture. Ironically, Chinese Vice Premier Liu He insisted that China's agricultural purchases would be driven by demand, rising if demand is there to support it.

The question is whether global trade is "managed," how and to what degree? It is a difficult measurement. For example, Joshua Yaffa in his book on the evolution of Russia's modern governance asserts that the state's share of the economy has grown from 25 percent to 60 percent under Mr. Yeltsin. Yet OECD data on the Russian government's spending as a share of GDP is 36 percent, and it is only 24 percent in China. This compares with 57 percent in France and 41.6 percent in the U.S. But governments control economies with tools other than spending.

Tariffs are somewhat of a measure of government management of trade, though they ignore the far more pernicious nontariff trade barriers. On this measure, Russia and China have average duties nearly twice that of most OECD member countries. Looking to a broader measurement of the predominance of state craft, and over a significant period of time there is the Heritage Foundation's Economic Freedom Index. It considers the government's share of the economy but also a variety of other measures including rule of law, regulatory efficiency and the relative economic freedom of individuals within a society.

Heritage is a conservative think tank and its market-oriented bent shows China and Russia with less freedom than other major countries, but both these authoritarian regimes (note that Mr. Putin today moved to secure his government control for decades to come) have technically improved over the past 25 years. According to this ranking, France and Japan have shifted to slightly less free over that same period of time.



In any event, the Trump Administration believes China purchases foreign goods based on non-economic prejudices and that today's agreement will secure benefits for American exporters.

Buy A Six-Pack, Accomplish Nothing

By Matt Herrington

There are at least a few scenarios in which one might purchase a six-pack of beer and subsequently accomplish nothing, but Anheuser-Busch is now offering one more avenue for non-productivity.

In case you missed it, Michelob (owned by Anheuser-Busch InBev) aired a commercial during this year's Super Bowl that promised the company would "convert six square feet of farmland to organic" every time you buy a six-pack of Michelob Ultra Pure Gold. The ad noted that "less than 1 percent of [America's] farmland is organic" and promised the company would help farmers by "transitioning six square feet of farmland to organic" for every six-pack purchased.

That sounds nice (if you believe that organic is somehow better), but there are mathematical problems with the idea that buying Michelob Ultra Pure Gold (MUPG) will actually "change America's organic farmland forever" as the ad claims it will.

First, as pointed out by Aaron Staples at the microbreweconomist.com, it takes 7,260 six-packs to convert one acre of farmland to organic production, under Michelob's program. Assuming those are 12-ounce bottles and that one barrel of beer equals 3,986 ounces, it takes 131.73 barrels of beer to convert one acre to organic farming.

Now, you might ask, how much MUPG is sold each year and how many acres might be converted? First, we need to know how many barrels are produced each year. That data was unavailable, but Mr. Staples notes a *USA Today* calculation that 2018 shipments of Michelob Ultra totaled 8.8 million barrels, and that MUPG is a subset of that figure. Additional estimates, based on sales figures, suggest that MUPG accounts for 10-15 percent of total Michelob Ultra sales. For the sake of this analysis, WPI assumes (perhaps generously) the high end of that range.

These figures suggest that 10,020 acres would be converted to organic farmland, based on 2018 estimates of MUPG shipments. For the sake of argument, let's say that all of the Michelob Ultra shipments are MUPG. In that case, the amount of farmland converted to organic would total 66,803 acres.

Given USDA's 2019 barely acreage estimate was 2.7 million acres, and that the "all crop" acreage figure was 309 million acres, the share of American farmland being converted to organic by Michelob's program is simply paltry. Using our estimates for MUPG sales only, approximately 0.37 percent of barley acres would become organic and 0.0032 percent of all-crop farmland would become organic. Under the estimate where all Michelob Ultra sales/shipments convert farmland to organic production, 2.5 percent of barley acres and 0.02 percent of all-crop planted become organic.

The bottom line is that Michelob's plan to "change America's organic farmland forever" accounts for at *most* 0.02 percent of U.S. crop acreage, and more realistically only 0.003 percent.

WPI Estimates of Michelob Ultra Pure Gold Impact on U.S. Farmland Composition

World Perspectives	Best Estimate	High-End Scenario	Growth Scenario
Product Considered	Michelob Ultra Pure Gold	*All* Michelob Ultra products	Michelob Ultra Pure Gold
2018 Shipments (Mill. Bbls)[1]	1.32	8.8	2.4024
Total Acres Converted[2]	10,020	66,803	18,237
2019 Barley Acres (Mill.)	2.721	2.721	2.721
2019 U.S. All-Crop Acres (Mill.)	309.3	309.3	309.3
Share of Barley Acres Converted	0.37%	2.46%	0.67%
Share of Total Acres Converted	0.003%	0.02%	0.01%
Barley Used (Mill. Bu.)[3]	2.06	13.75	3.75
2019 U.S. Barley Crop (Mill. Bu.)	170	170	170
Share of U.S. Barley Crop	1.21%	8.09%	2.21%

1 Michelob Ultra shipments based on USA Today data; Michelob Ultra Pure Gold shipments based on WPI estimate.

2 Assumes 7,591 acres converted per million barrels produced.

3 Assumes 75 lbs. of barely per 31-gallon barrel of beer.

One caveat to this is that demand for organic beer is growing. According to BrewBound.com, dollar sales of MUPG grew 182.6 percent through mid-July 2019. Applying that growth rate to our estimates of MUPG shipments, it's possible that 18,237 acres of farmland will have been converted to organic between 2018 and 2019. That's 0.67 percent of 2019 barely acreage and 0.01 percent of all-crop acreage.

Again, for the (generous) sake of argument, let's assume that 180 percent growth rate continues from 2020 to 2024. In that case, sales will have grown to convert 344,000 acres to organic farming, which is substantial, but only 12.5 percent of 2019 barely acres. Also, by that point, total shipments of MUPG would total 45 million barrels, which is more than Bud Light and Coors Light (the two biggest beer brands in 2019) *combined*.

The bottom line is for Michelob's "six-for-six pack" will have an infinitesimal impact on America's farmland composition, unless it grows to the size of Bud Light or Coors Light or both combined. If sustainability is truly a priority, consumers and Michelob can do vastly better than a simple marketing ploy that accomplishes nothing with each purchase.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS