AgReview

April 2020 | Volume 32, No. 3 | World Perspectives, Inc.

Agriculture Demand Crisis

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WORLD PERSPECTIVES: AG REVIEW

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World Perspectives, Inc.
1621 North Kent Street
Suite 606
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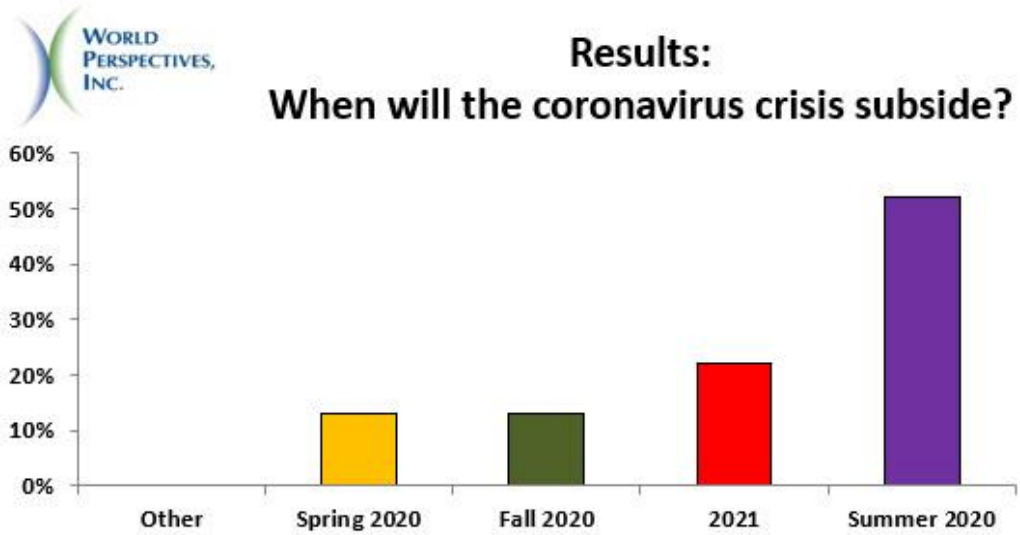
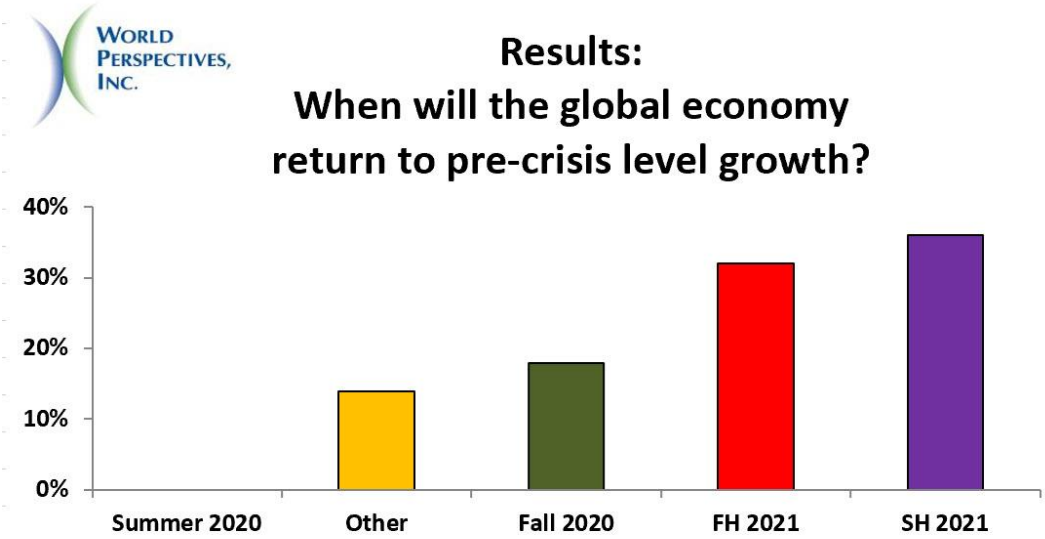
WPI POLLING

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



Source: WPI online poll FH March 2020



Source: WPI online poll LH March 2020

FROM THE WPI TEAM

A Cruel Month

By Gary Blumenthal

Various theories for the fourth month being named April usually include words like beauty (Aphrodite), opening up (as in flowers and trees) and, perhaps most contradictory for 2020, good fortune (e.g. surviving winter). April 2020 will be remembered by many as an April Fool's joke gone awry. It started with grocery store shelves being stripped bare and ended with threats to restocking from meat and packaged food plant closings.

There is no candy-coating it and so our Ag Review analysts laid it all out for the world to see during the month of April. With a history degree from Princeton and decades of real experience in the commodity business, Bob Kohlmeyer explained why there is a demand crisis unlike any normal downturn in the economy. Dave Juday dissected the meat value chain and the unique disruptions it is facing. All leading to concerns about food shortages that are then amplified by protectionist policies. And that is just part of the story.

Not all the current problems are COVID-19 related. Our Latin America analysts note the water shortages on the Parana River that is crimping the volume of exports on what is called Argentina's grains superhighway. Our China analysts have plenty of virus and non-virus-related issues to cover in a country that persistently delivers up issues of scale and tenacity.

It is said that April showers bring May flowers and this year it also represents the time when many countries begin to reopen their economies. As they do every day, WPI's analysts are posting fresh updates and their prognoses of where the food system is headed and why. In the meantime, enjoy reading about the cruelest month in this edition of Ag Review.

WPI MARKET ANALYSIS

Agricultural Demand Crisis
17 April 2020
By Bob Kohlmeyer

Macroeconomic trends have always had some impact on agricultural production, demand, trade and values, but usually much less so than on other commodities such as industrial metals, precious metals and energy. Unless there are fundamental supply and demand influences in play at the same time, agricultural commodities tend to be less exuberant during economic expansions and less depressed during economic contractions. Agricultural production is food, and people have to eat during good times and bad.

However, the current global economic contraction appears quite different from most past downturns. Rather than being a reaction to financial excesses, it has been triggered by the political and economic reaction to the spread of a heretofore unknown coronavirus into a global pandemic. Without a vaccine or other effective deterrent, the disease caused by the coronavirus, Covid-19 has rapidly spread out of China to the rest of the world. There have been more than 2 million cases reported with about 130,000 fatalities worldwide. The U.S. has been hit the worst of any country with about 690,000 cases and more than 35,000 deaths and counting.

The world's economic growth was relatively flat in 2019. But, beginning in early January the world economy has collapsed into what the IMF is calling the worst economic downturn since the Great Depression of the 1930's. Economists consider that the U.S and the world are already in a recession that will be broader and deeper than the recession of 2008/09. Some of the predictions for the U.S. economy are staggering. Morgan Stanley and Credit Suisse among others are forecasting that in the second (April-June) quarter the U.S. GDP will plunge by more than 30 percent. Credit Suisse predicts that for all of 2020 the U.S. GDP will be down by 5.3 percent.

Two things stand out for us: that this economic disaster developed with blinding speed in just a little more than three months, and that it was caused by a world health crisis, not financial folly.

Clearly, this economic recession is affecting agriculture quite differently than the 2008/09 recession as well as other ones going back to the end of World War II. In the past three months large parts of the U.S. economy have just shut down. Many U.S. retail businesses including restaurants and some other food retailers have closed due to fear that employees might become infected by the virus and/or spread it to customers. In addition, almost all states have ordered their citizens to stay at home except for necessary trips for food or medicines. These restrictions have seriously reduced consumer activity. Retail sales dropped by a record 8.7 percent in March, and demand across the country for fresh produce, meat, baked goods and dairy products is simply drying up.

Besides the general impact of the virus on consumer behavior and the economy, row crop farmers are also facing the calamitous fallout from shrinking demand for energy products and the ensuing collapse of crude oil prices. A few weeks ago, the Saudis and Russia raised their oil production in a price war over market share, and crude oil prices fell below $30 per barrel. Then last week the Saudis, Russia and other OPEC members agreed to cut their combined production by 10 million barrels per day in an effort to bring supplies into better balance with demand. The oil market was not impressed because of the glut of supplies represents months of demand plus signs that demand was falling further.

The U.S. Energy Information Agency (EIA) reported that last week U.S. stocks of crude oil

jumped 19.2 million barrels and U.S. gasoline supplies were the highest on record. Ethanol production fell about 30 million barrels last week as more plants were shuttered, but ethanol stocks rose to a record high level. By the end of April, it is estimated that nearly 50 percent of U.S. ethanol production capacity will be down as a result of deeply red production margins. Last week's blending of ethanol in gasoline dropped about 45 percent below last year which is roughly the same percentage of the estimated decline in driving by U.S. drivers. Ethanol is now priced more than 40 cents per gallon above gasoline so any blending is unprofitable.

Corn growers are hit with the sharp decline in demand from ethanol at the same time that negative livestock feeding margins suggest that feed demand for corn from that sector will also shrink. These factors face them just as corn planting gets underway and with a record crop possible if USDA's 1 March planting intentions should come to pass.

When the virus will be contained enough to allow portions of the economy to reopen is unclear at this stage. However, COVID-19 virus will be a factor until an effective vaccine is found and is widely available. Will consumer behavior and demand return to "normal" and spur a fast recovery of the economy? No one can answer this question with authority. The key word for the future may be caution.

Even beyond the virus-driven recession, the fundamental outlook for U.S. wheat, soybeans and corn are bearish without a major weather related production problem. Black Sea wheat regions have been overly dry, but a better pattern of rains is expected for late April. May rainfall there will also be important, but if a timely rain pattern continues, Russia could still produce a very large wheat crop. Brazil has sold a very large quantity of soybeans to China as far ahead as June/July and will be shipping out record volumes. Chinese buying of U.S. soybeans under the Phase One agreement will focus on new crop positions. Corn might have support from estimates that combined end stocks of major exporters are forecast to decline slightly from last year. However, lower estimates for U.S. corn exports, ethanol use and feed use in the months ahead will likely raise U.S. end corn stocks enough to eliminate a decline.

In short, the outlook for 2020/21 seems broadly bearish. Producer focus will turn to possible further monetary aid from the Trump administration. In fact, the clamor for aid from the dairy industry, hog producers, vegetable growers and other sectors of U.S. agriculture that did not get a share of last year's payout from USDA is getting louder. In the end, government contributions will likely be a major bottom line income factor for U.S. agriculture.

COVID Meat Impact Recovery: Processing, Retail, Restaurants and Exports
16 April 2020

By Dave Juday

The idling of several packing plants is now having a trickledown impact through the value chain. After Smithfield closed its Sioux Falls pork packing plant, it also closed a plant in Missouri that makes ham and processed products and a plant in Wisconsin that makes bacon and sausage. Both receive raw material from Sioux Falls. Likewise, a Cargill case ready plant in Pennsylvania has also been idled. These of course are in addition to the actual slaughter operations that are idled. The table below, which we have been updating daily, shows the facilities impacted.

Company	Plant Location	Type	Daily Capacity (Hd.)	Plant Action	Date of Action	Scheduled Through
JBS	Greeley, CO	Beef Slaughter	6,000	Closed	12-Apr	24-Apr
Smithfield	Sioux City, SD	Hog Slaughter	19,500	Closed	12-Apr	Indefinitely
JBS	Souderton, PA	Beef Slaughter	1,900	Closed		16-Apr
National Beef Packing	Tama, IA	Beef Slaughter	2,000	Closed	6-Apr	20-Apr
Aurora Packing Co.	Aurora, IL	Beef Slaughter	650	Closed	27-Mar	
Harmony Beef	Alberta, CA	Beef Slaughter	750	Closed		29-Mar
Cargill	Hazleton, PA	Beef Processing		Closed		
Tyson Foods	Columbus Junction, IA	Hog Slaughter	1,900	Closed	6-Apr	
Olymel	Yamachiche, Quebec	Hog Slaughter		Closed	29-Mar	12-Apr
Maple Leaf Foods	Brampton, Ontario	Poultry Slaughter		Closed		
Cargill	High River, Alberta	Cattle Slaughter	4,500	Kill reduced to 1,500 hd.		
Smithfield	Cudahy, WI	Pork Processing		Closed		Indefinitely
Smithfield	Martin City, MO	Pork Processing		Closed		Indefinitely
Sanderson Farms	Moultrie, GA	Poultry Slaughter	1.5 mill.	Kill reduced to 1 mill.		

Of course, the impact of interrupted plant operations is trickling upstream to the livestock markets. Meat prices are on a roller-coaster ride. Prices for certain cuts went from multi-year highs

to multi-year lows within weeks. Prices were down across the board, but with production slowed, they are on the rebound. Production in April will be down from March – with no relief for livestock producers. The latest estimates of lost producer income are as follows:

Cattle Income Losses	Hog Income Losses
$13.6 billion in income and asset loss based on cow/calf operations, $3.7 billion in direct revenue loss and $4.4 billion in breeding herd asset value loss for a combined total of $8.1 billion, plus the stocker/backgrounder sector is projected to lose $2.5 billion and the feedlot sector is forecast to lose $3 billion.	$5 billion producer income loss based on a projected loss of $37/head for hogs marketed for the rest of the year.
Source: NCBA, Oklahoma State University	*Source: NPPC, Iowa State University*

The key, once the processing bottlenecks that are currently plaguing livestock, meat and poultry end, is recovery and rebalancing demand. An initial first step is federal purchases, which Secretary Perdue said will be announced very soon (in addition to direct payments). Reports earlier this week indicate that purchases could be as much as $100 million per month, which could overwhelm the food bank system. Several groups have asked that USDA allow industry to donate directly to food banks under a USDA run voucher system to facilitate the mass volume of commodity donations.

Obviously, exports are of critical importance to clear through commodities. Perdue also mentioned that the U.S. is relying on China to meet its commitments in the Phase One trade deal, especially for pork, ethanol and dairy. China, prior to the trade war, was a purchaser of whey and lactose. About 35-50 percent of whey is exported an about 65-75 percent of lactose is exported. China uses whey as in swine rations.

Today's export report for last week showed net beef sales at 20,200 tons, which is 120 percent of the prior week and 116 percent of the four-week average. China purchases 1,500 tons and top buyers were Japan (9,500 tons) and Korea (5,200 tons).

Pork net export sales were 45,700 tons, at 82 percent of last week, but still 109 percent of the four-week average. China booked more than a third at 16,400 tons with Mexico at 13,000 tons.

But the key is the outlook for domestic demand recovery. Big club stores saw a boost from the panic buying run consumers were on last month. Their share of the market will look to moderate some. Also, consider that many independent mom and pop restaurants source from club stores and that demand is non-existent in April and will be slow to recover moving forward.

Also, many of these large club stores are limiting the number of shoppers that come in at one time; with the freezer and pantry filling now complete, many consumers find it easier to go to small, less crowded conventional grocery stores, which is where most consumers purchase meat according to the annual "Power of Meat Survey" by the Food Marketing Institute (FMI) and the North American Meat Institute (NAMI).

Where Consumers Primarily Make Meat and Poultry Purchases						
Year	Grocery Stores	Supercenters	Club Stores	Specialty	Butcher/ Ethnic	Other
2020	53%	26%	7%	5%	5%	5%
2019	55%	27%	6%	4%	3%	5%
2018	57%	22%	7%	4%	4%	5%

Source: FMI, NAMI, WPI

Rebalancing the food service – retail demand is key for proteins (including dairy). There are an untold number of small independent restaurants that will not ever re-open after the COVID-19 spread is over; there will be a significant lag time before these operations are replaced by entrepreneurs.

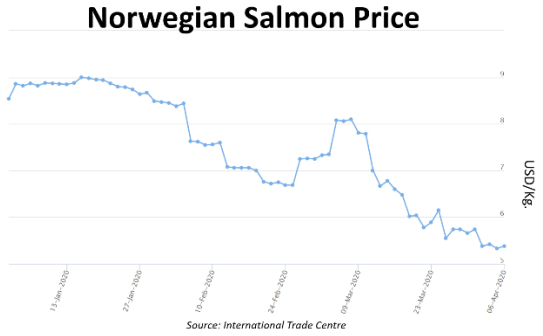
The quickest recovery – and biggest impact – will come from larger chain casual restaurants and fast food re-openings to in-store dining. Fast and quick serve food sales are down about 30 to 40 percent according to sources we have talked to, and that could be the bottom. Drive through sales are inching up each of the last three weeks as are take-out sales for casual restaurants. The biggest concern is that franchise models will see their franchisee/operators strapped for cash and recovery may be dependent on support from the company.

Meat of the Matter

By Gary Blumenthal

Animal protein prices are mostly declining even though there was a consumer rush to hoard supplies ahead of COVID-19 lockdowns. An economic recession generally dulls consumption of higher cost per calories products. With restaurants closed, the price of products heavily used by these outlets like bacon and cheese are plunging. Bacon prices are reportedly down 29 percent. The FAO dairy price index was down 3 percent in March from a month earlier. Yet prices are not acting completely rational.

The FAO's meat price index has been declining for three straight months, well ahead of any known adverse impacts in most countries. Norwegian salmon prices also fell during Q1.



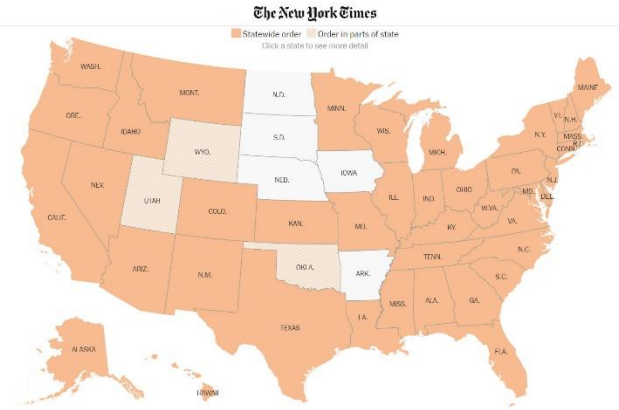
Yet there is an argument that some of the declines are over-wrought. Retail beef demand remains relatively strong at the same time some meat plants of significance are having to shut down due to COVID-19 incidents among employees. Important markets like China are still short of animal protein coming out of the COVID-19 crisis and still producing less pork due to ASF. Indeed, meat imports by China or via its surrogate Hong Kong remain a large sucking sound. The livestock market is going to be more difficult to predict than other commodities.

Coming out of the food shortages of WWII, Roger Waters asks in the Pink Floyd album Another Brick in the Wall, "How can you have any pudding if you don't eat yer meat?"

Smithfield CEO Kenneth Sullivan feels equally passionate about keeping his meat packing plants running. He urged regulators to help work through keeping the meat flowing "because it's essential to life…There's only one option there." Animal rights activists/vegetarians will assure that life is possible without meat, but its absence will worry people that it is the start of real hardship.

Reportedly, concern about food shortages has already emerged in the net-food importing countries in the Persian Gulf region. Access to food has become a national security concern. China is a bellwether and it reports that total meat production fell by nearly one-fifth in the first quarter of this year.

The plants being impacted are in the sparsely populated parts of the country where labor is short and tends to be migrant-based in meat packing. A map by the New York Times (see below) illustrates these are also the states that do not have stay-at-home orders, though meatpacking would not be impacted by an order since it is an essential business.



WPI INTERNATIONAL ANALYSIS

Mercosur Regional Analysis
13 April 2020
By WPI Staff

Truck movements have normalized since the first few weeks of the quarantine when uncertainty and divergent local regulations slowed the arrival of trucks to ports. With harvest now moving at high speed for soybeans and corn, the flow of truck arrivals at ports is high. The Argentine government has extended the quarantine until at least 26 April, but agriculture and food businesses are still on the list of exempted entities.

The Parana River is at its lowest levels in the last 30 years, (see photos below) which is creating problems for vessel owners who are ready to load grains. Pilots need to be more prudent and cautious, so movement in the rivers is much slower as pilots try to avoid groundings.

With the loading rate below normal and a large amount of trucks arriving, ports will run out of space soon, complicating all the logistics and obligating farmers to incur storage at farms as they will not be able to send the trucks directly to ports during harvesting.

Corn

Farmers are primarily focused on harvesting soybeans, so corn harvest progress has been lower than its rate two weeks ago. With less interest from farmers and exporters, and the CBOT trading lower last week, FAS prices have come down and the weekly volume has fallen as well. Activity in the FOB market was also lower than the prior week, even though replacement remains high, especially for nearby shipments (April and May).

Export programs seem to be done for April as exporters have run out of logistics while buyers are covered for near-term needs. The only difference for May shipment is that there are some logistics available and a few offers at 95K, but demand is not showing much interest.

The market is now primarily focused on June and July shipments where there are still a lot of available logistics and lots of buyers who need to cover their position. Premiums started last week in the high 65-69N for July shipment, with rumors of cargoes traded at 65N. The market ended the week slightly lower. Argentina is the only origin for those months as Brazil has a small volume for July and seems to have already sold it. The bulk of the Brazilian volume will appear from August forward. This is when Argentina will need to become more competitive, which is why there is no current demand for Argentine corn for August.

Due to the low draft of the Parana River, panamax vessels are leaving Upriver ports 5-7 MT below their stowage plan, a volume they need to recover when completing vessel in the South Ports. The problem is that harvest near the south ports has not started yet and exporters need to buy from 400-450 km away, and that is very expensive.

When an exporter sells a full panamax, they usually maximized the upriver volume and minimized the south portion as the upriver is easier and cheaper to originate. Now they will have to load much more expensive corn and the results might end in a negative margin.

Wheat

Wheat offers are slightly higher this week after demand/inquiries surfaced from Brazilian millers, but no trades have been reported. The bid/ask spread remains too wide to facilitate trade. The market ended last week offered $230/MT, $235/MT and $240/MT for May, June, and July, respectively, while the only solid bid was closer to $200/MT. There are some industry polls floating around that suggest new crop

planting intentions will be lower than last year. The acreage decrease could be substantial in marginal-producing areas where production margins are expected to be negative. In total, some analysts are looking for a 10 percent reduction in planted area. It is still too early to say exactly what the change will be, as it will mostly depend on the weather/soil moisture. What is already confirmed, however, is that investment in technology will be considerably lower. This will lower the yield potential as well as the quality of the crop.

Soybeans

Brazil

The Brazilian market was quieter last week with fewer traded than in previous weeks. It was a short week with Friday's CBOT holiday. The Brazilian real strengthened after touching 5.35 reals/U.S. dollar and moved to 5.06 reals/U.S. dollar. Farmers have already sold a large portion of their crop and have harvested some 80 percent of the planted area. Consequently, they are not in a hurry to sell more soybeans from the present campaign. As for the coming crop, which will be planted in October, farmers are only selling more of that crop if prices are attractive. So far, farmers have sold 20 percent of the 2020/21 crop. The firming real helped slow farmer selling as it, of course, did not bring better prices for Brazilians. FOB basis has been rising steadily over the past few weeks. For example, June positions traded at 73N for first-half June and 79N for last-half June. Last-half July positions traded at 92N, whereas the prior week saw that same position trade at 82N. These basis offers are still very competitive against the U.S. Gulf. July Brazilian soybeans are near 154N CNF China while the U.S. Gulf is 178N for a similar position.

Brazilian basis should keep rising and converging with U.S. offers as Brazilian offers will start to slow. Trading houses are long for the present campaign, but don't hold a large position. WPI's estimate is that trading houses are long no more than 3 MMT.

On the demand side, the Chinese are well covered for May and June while still needing to cover a substantial portion of July. WPI expects that the U.S. will start exporting more actively to China in July. Farmers are holding large old crop stocks, and by September, farmers will have to make space for the incoming crop, forcing old crop sales.

Chinese crush margins have dropped to $30/MT for May, June, and July positions from the mid-$40's a few weeks ago. These margins are still good and should encourage crushing activity. There has also been Chinese demand and activity in the new crop market. February 2021 positions traded at 123/128H CNF China and March and April traded at 108H. May positions were sold at 111K, and these levels are pretty cheap for Brazilian soybeans. Margins are good but there is no chance to hedge a crush margin in China at the moment. Dalian soymeal and soyoil futures are only trading for January and March 2021, and March futures have no liquidity, so Chinese crushers are waiting for the May contract (which is typically very liquid) to open. The May 2021 futures contract will open in May 2020, which should bring more activity into South America's new crop markets.

Regarding nearby logistics, April loadings will be similar but slightly larger than March (13.2 MMT), which was a record high. Ports are operating at full capacity and are mainly dedicated to soybeans. The switch to corn should start at the beginning of June and that will limit the soybean export capacity of ports.

Argentina

The Argentine government quarantine will reassessed on 26 April and determine if there might be another extension if the situation is not under control by then. The aim is to relax the quarantine under better conditions, but the big issue currently is that the economy is in a free fall, which has been exacerbated by poor government policies and COVID-19.

The grain activity is developing well, the harvest is about 17 percent completed. The average yield so far is 3.62 MT/ha and the Buenos Aires Grain Exchange still estimates final production at at 49.5 MMT.

The soybean line up is increasing daily and by last

Friday it was already at 433,000 MT. Again, the big issue is the sailing draft in the Parana River, where the main export capacity of Argentina is located. The draft is currently at of 9.38 meters (31.6 feet) at the San Lorenzo port, while the normal guaranteed draft is 34 feet. The river level might drop additional 10cm in the coming days. These levels are historic lows for the Parana River.

A Cargo Ship Navigates the Low Waters of the Parana River in Argentina

In the local market, farmers are selling corn and holding soybeans, which means there are very few offers currently. There was some movement in the FOB market last week with demand coming from Egypt and one cargo was traded at 36N for May shipment. There are offers now for June at 45N with no bids today.

Uruguay

Another trade was reported in the FOB market at 39N for prompt shipment. The local market still has few offers with farmers storing soybeans and waiting for better prices. There were no vessels loaded during March and April's lineup total of two vessels.

Paraguay

The main problem today for Paraguayan exports is the sailing draft to carry the beans from Paraguay ports to Argentine or Uruguayan ocean ports as the Parana River is very low above Rosario ports and up to Paraguay. The Paraguayan barge ports, which usually have 11-foot drafts are currently loading with 8 feet, sharply reducing the capacity of the barge convoys. This situation is making logistics slower and more expensive than normal. Paraguay's second soybean crop is estimated in 500,000 MT. On the CIF, market there are offers at 65K for May shipment.

China In-Country Analysis 15 April 2020

By Global Agribusiness Partners

Public Health

Routine Temperature Checks, Social Monitoring Define New Normal

Life in China's mega coastal cities continues to inch back to a normal flow with workers gradually returning to their places of employment and families heading to urban parks. Yet, despite the relief of being able to leave densely populated apartment complexes, local government officials in Beijing, Shanghai, Guangzhou, and other big cities remain cautious. Temperature checks at grocery stores, apartment complexes, outdoor venues like Chaoyang Park in Beijing are now par for the course. Local minders routinely monitor the use of masks and have reportedly threatened joggers and cyclists with fines for any infractions.

With China's total COVID-19 case count rising to 83,355 as of this morning, an increase of 994 cases (+1.2 percent) since the beginning of April, and more than 81 percent of all infections occurring in Hubei Province, the rest of country will have no choice but to maintain vigilance or a situation that is now confronting Japan will soon transpire. Moreover, the issue of whether China has been accurate with its case count to a certain extent remains a moot point. If the country or the leadership in Beijing refuses to recognize the origins of the disease, continues to stifle investigations by medical professionals and researchers, or fails to take seriously the role of

asymptomatic cases in transmitting the virus to large swaths of world's populace, then it will find itself further isolated and in even deeper economic distress.

China's Treatment of Expat Africans Creates Discord

Press reports from numerous outlets, including the South China Morning Post, revealed growing displeasure among African leaders concerning the treatment of their citizens in China during the quarantine period. The city of Guangzhou, which is home to a sizable expat African community, numbering about 16,000, was singled out by the Government of Kenya for racist actions in enforcing China's pandemic response. Several African governments issued strong communiques and called special meetings with representatives from their local Chinese embassies. This lack of awareness among China's leadership again underscores its longstanding Achilles heel in cultivating long-term relationships with emerging markets that go beyond the transactional phase. Further missteps will only increase the perception that President Xi remains badly out of his depth when it comes to international affairs and diplomacy.

Macroeconomics

Food Inflation in March

Recent data released from China's National Bureau of Statistics show the cost of food was up 18.3 percent this past March compared to March 2019. Meanwhile, core inflation rose by just 1.2 percent. One reason for this sustained high level was the ban on shopping and forcing most residents to rely on online orders and home delivery from the country's leading e-commerce firms such as Alibaba and JD.com. Moreover, the transit restrictions, which have eased sharply in April limited the movement of feed and foodstuffs from producing provinces to consuming cities.

China's central government has taken steps to alleviate those woes by waving tolls for trucks and getting more freight back on the road in April.

Pork prices again were the primary driver of the double digit increases in the price of food this past March. For the thirteenth month in a row, the average retail pork price was up 116.4 percent compared with one year ago. The rate of growth, however, diminished from February, when the average retail pork price was up by 135.2 percent year-on-year. Milk prices climbed by just .6 percent in March from the previous year. Fresh vegetables fell by .1 percent, while fresh fruit was down by 6.1 percent. Finally, cooking oil was up by another 5.7 percent and eggs, which have been in sharp demand, saw their average price rise by 1.9 percent year-on-year in March.

Imports, Exports, and FDI Improve in March

China's trade surplus returned to the black in March with a total of $19.9 billion. That compares to $31.5 billion for March 2019. Nonetheless, it represents a sharp turnaround from January and February when the country had a deficit of $3.6 billion. Exports totaled $185.2 billion for March up from $146.2 billion in February but down by 6.6 percent or $13.1 billion from a year ago. Imports rose from just under $150 billion in February to $165.3 billion in March, a .9 percent decrease year-on-year. Foreign direct investment (FDI) also improved, climbing to $31.2 billion this past month from $19.4 billion in February. FDI, however, was down by nearly 11 percent from March 2019.

Livestock

ASF Cases on the Rise, Ag Ministry Launches New Investigation

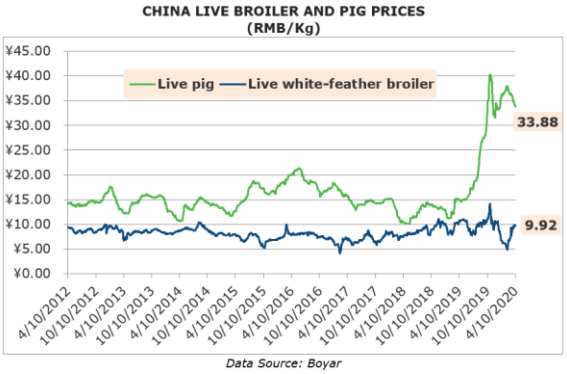
With new cases of African Swine Fever (ASF) appearing in the provinces of Gansu, Shanxi, and Inner Mongolia, China's Ministry of Agricultural and Rural Affairs (MARA) has launched a new investigation. The source of new reported cases has been the cross-border transfer of live pigs and piglets. MARA's investigation, which is slated to last 60 days from the beginning of April, was announced during a video conference call. Ministry officials noted that the increased transportation of piglets and breeding sows, many of which are converted market pigs, has raised the risk of a resurgence in the disease.

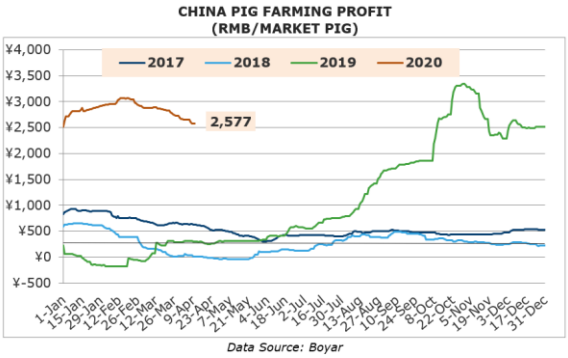
While China's central government continues to push farmers to restore hog production and stabilize the nation's pork supply, the reality is the recovery process will take at least three to four years to complete. The only way to shorten that time will involve the development of an effective vaccine. In parallel with COVID-19, ASF will require very similar biosafety measures and strict monitoring processes to limit any further major outbreaks. The added economic pressure will make accomplishing both tasks an enormous and taxing feat.

Live Pig and White Feather Broiler Continue Divergent Trends

China's national live pig price saw one of its larger weekly drops in recent weeks, shedding RMB .59/kg ($.08/kg) or RMB .27/lb. ($.04/lb.) last week. That brought the average live pig price to its lowest point since the end of December 2019. Lower live pig prices and rising corn prices continued to dent operational returns as the average live pig profit fell to RMB 2,577/head ($366.05/head), a weekly decrease of RMB 72/head ($10.23/head). In stark contrast, live white feather broiler prices continued their steady climb, improving by RMB .30/kg ($.04/kg) or RMB .14/lb. ($.02/lb.) White feather broilers prices are now at their highest point since mid-December of last year.

The strong growth in demand for white feather broiler meat will likely continue as quick serve restaurants recover. This will help put a firm floor on corn prices as well. Another important development involves the yellow feather industry, which will undergo a radical change and value chain realignment with the closure of more traditional wet markets. Wens Group and other major players will utilize these changes to consolidate market share and expand their presence in the same way that the major publicly traded companies have in the pork market. This should help drive feed demand in producing provinces like Jiangsu.

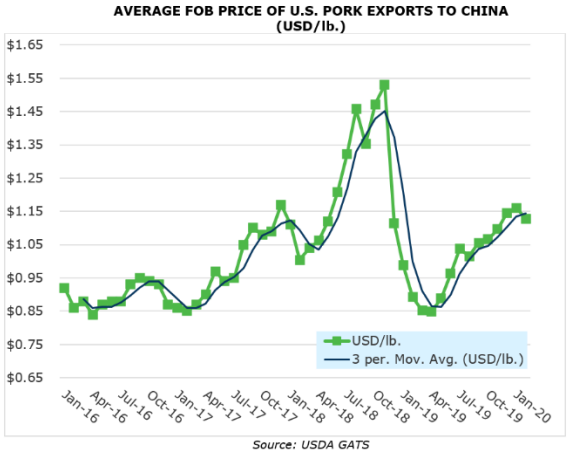




U.S. Pork Exports on Record Pace for First Quarter

Pork and pork product exports to China set new monthly records for January and February, bringing the first quarter total to 184,614.50 MT worth $465.6 million. That compares to 69,465.90 MT with a value of $138.2 million for the first three months of 2019. The previous best in terms of first quarter pork exports to China occurred in 2014 when 94,563.6 MT valued at $205.75 million were shipped to the Middle Kingdom. The average FOB price/lb. has also continued to improve. In January, it reached a fifteen-month high of $1.16/lb. and then fell to $1.13/lb. in February.

Since the start of March through the first week of April, weekly exports of fresh, chilled, and frozen pork muscle cuts to China have averaged 17,438 MT per week. As of 2 April, outstanding sales had risen to 146,320 MT, indicating the record pace will continue into the second quarter.



U.S. Beef on Pace for Best First Quarter in The Past Three Years

Beef and beef product exports to China also saw their best January and February in recent years. With a combined total of 1,408.4 MT valued at $10.37 million, beef shipments to the Middle Kingdom will easily surpass the first quarter totals for 2019 and 2018 once the March data is released. In contrast to pork and pork products, the average FOB price has trended downward since the end of 2019. For January, the average equated to $3.38/lb., which then fell to $3.27/lb. in February. That compares to $3.92/lb. for December, which was the highest monthly average FOB price since May 2018.

Looking ahead, U.S. beef and pork should continue to do very well. The latest data from China Customs Bureau indicates for the first quarter China imported 951,000 MT of pork and 51,300 MT of beef, representing a year-on-year increase of 170 and 65 percent, respectively.

U.S. Poultry Exports Taking Off

The removal of the avian influenza ban on U.S. poultry and poultry product exports to China has been better than expected. Frozen paws and feet have continued to do well during the first quarter, but the real surprise has been demand for frozen chicken legs and wings as well as turkey meat and offal. Two years prior to the ban, U.S. turkey exports to China reached a record of nearly $71 million. From 2010-2014, China purchased 1.1 percent of the U.S.'s total turkey production worth nearly $283 million, making the country the number two export destination after Mexico.

For January and February, exports of frozen feet and paws have totaled 11,465 MT worth $21.81 million, while frozen chicken legs and wings amounted to 5,783.4 MT valued at $6.26 million and 1,461.9 MT valued at $1.43 million, respectively. Exports of frozen turkey wings and offal have amounted to 865.9 MT worth $1.51 million for the first two months of 2020.

Oilseeds

Soymeal Inventory Sees Smaller Drop, Reaches New Low

Declining imported soybean stocks and lower soymeal prices are resulting in record low inventories as crushers seek to increase operating margins. Through 10 April, China's nationwide estimated soymeal inventory had fallen to 159,700 MT, a weekly decrease of 8,100 MT (-4.8 percent). Meal stocks only rose in two regions, with Shandong seeing its inventories more than double to 22,400 MT, an uptick of 12,200 MT (+119.6 percent). Decreases at the regional level were much more modest, as the East saw the largest weekly drop of 4,500 MT (-3.8 percent). Last week's estimated total means that on an annual basis, China's soymeal inventory is down year-on-year by 518,400 MT (-76.4 percent). By comparison, soymeal inventories through the second week of April for 2018 and 2017 stood at 785,100 MT and 626,500 MT, respectively.

China's Estimated Soymeal Stocks (1,000 MT)								
	Northeast	North	Shandong	East	Guangdong	Guangxi	Fujian	Total
10 April 2020	1.0	6.0	22.4	113.1	1.5	9.7	6.0	159.7
Week-on-week	1.0	-12.0	12.2	-4.5	-1.3	-1.3	-2.2	-8.1
Month-on-month	-7.0	-13.0	15.6	-201.6	-9.5	-59.3	-6.0	-280.8
Year-on-year	-50.0	-40.2	-45.0	-279.4	-38.5	-33.3	-32.0	-518.4

Source : CoFeed, China Grain

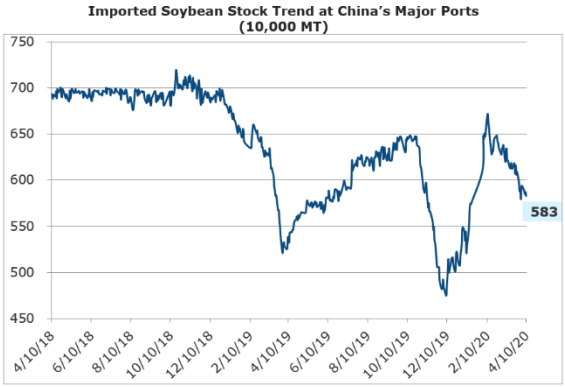
Imported Soybean Inventory Continues to Fall

Imported soybean inventories at China's other major seaports outside of the big three provinces fell by 109,000 MT (-4.4 percent) to 2.34 MMT or 40 percent of the national total. Similarly, imported soybean stocks continued to decline at the four major ports in Guangdong, ticking down by 72,000 MT (-9.8 percent) to 661,400 MT or 11.3 percent of the national total.

Meanwhile, imported soybean inventories continued to climb at the three major ports in Jiangsu, jumping by 73,000 MT (+9.6 percent) to 836,500 MT or 12.9 percent of the national share. The net result saw the national imported soybean stock fall by 105,500 MT last week to 5.83 MMT, the lowest level since mid-January.

China's Imported Soybean Stocks (1,000MT)					
	Total	Other Ports	Shandong	Guangdong	Jiangsu
10 April 2020	5,828.2	2,342.6	1,987.8	661.4	836.5
Week-on-week	-105.5	-109.0	2.5	-72.0	73.0
Month-on-month	-385.7	-221.1	66.5	-273.0	41.9
Year-on-year	503.6	77.7	588.7	-238.5	75.7

Source : JCI

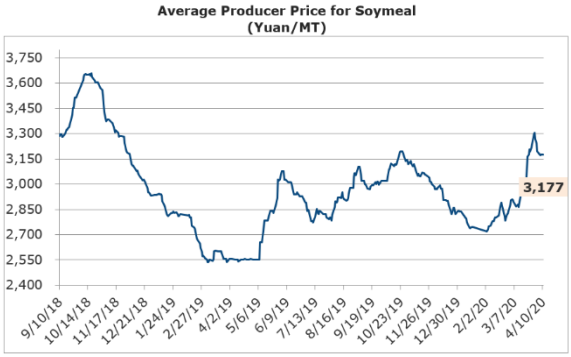


Source : JCI

Crush Margins Improve as Soyoil Prices Surge Upward

The average CNF prices for U.S. and Brazilian soybeans ticked down slightly last week, falling by $1/MT and $2/MT $379/MT and $363/MT, respectively. On the product side, the average producer's price for soymeal continued to retreat, declining by RMB 18/MT ($2.56/MT) to RMB 3,177/MT ($451.27/MT). In sharp contrast, the wholesale price for soyoil roared back to life, surging upward by RMB 269/MT ($38.21/MT) to RMB 5,757/MT ($817.76/MT) last week. The estimated crush margin on U.S. soybeans sans the penalty tariff ticked up by RMB 77/MT ($10.94/MT) to RMB 305/MT ($43.32/MT), while the margin on Brazilian soybeans rose by RMB 84/MT ($11.93/MT) to RMB 436/MT ($61.93/MT).

Looking ahead to the second quarter, China's crushing sector will likely continue to operate with this just in time model and refrain from major inventory build-up. Most of Brazil's soybeans have already been sold and with ASF resurgence lurking in the shadows, there remains little appetite for taking unnecessary risks.



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)
10 April 2020	379	7.04	3,177	5,757	-448	-63.7
Week-on-week	-1	-0.08	-18	269	87	11.5
Month-on-month	-2	0.10	305	287	260	38.3
Year-on-year	-13	0.33	627	366	507	78.6

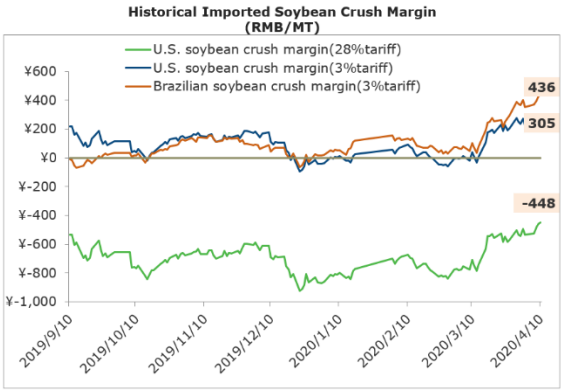
Source: JCI

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)
10 April 2020	379	7.04	3,177	5,757	305	43.4
Week-on-week	-1	-0.08	-18	269	77	11.2
Month-on-month	-2	0.10	305	287	266	37.7
Year-on-year	-13	0.33	627	366	517	75.0

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)
10 April 2020	363	7.04	3,177	5,757	436	61.9
Week-on-week	-2	-0.08	-18	269	84	11.9
Month-on-month	-10	0.10	305	287	333	47.1
Year-on-year	-14	0.33	627	366	531	76.1

Source: JCI



Source : JCI

Grains

Domestic Corn Prices Continue Steady Increase

Corn prices in the northeast continued to see steady growth last week as shippers took advantage of toll-free highways, one of the COVID-19 economic relief measures put in place by the central government. This has resulted in prices in Heilongjiang rising another RMB 15/MT ($2.13/MT) to RMB 1,756/MT ($249.43/MT) last week.

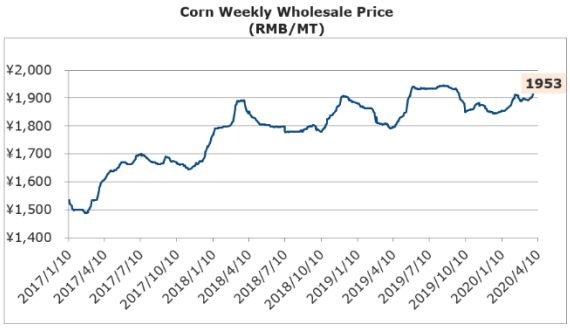
While the toll-free policy, which went into effect mid-February, has paid dividends, in general trucking usually accounts for a very small percentage of shipments from the Northeast. As a share in most years, it is the single digits. In addition, traders have stockpiled corn at seaports in the Northeast, which as of last week were reaching their saturation points. With state run corn auctions beginning to ramp up activity here in the spring and nearly all of last year's crop contracted out to grain merchants, traders are simply waiting for the market to become short in the south and take advantage of rising prices in consuming areas. Thus, the northeast may see some leveling off as traders' stockpiles reach their apex.

The policy for the toll-free shipments is expected to last until the end of June. The lone decrease last week in Guangdong where the average price fell by RMB 27/MT ($3.84/MT) to RMB 2,040/MT ($289.77/MT) is indicative or rising opportunities for imported corn and other feed products, such as sorghum. U.S. exports of sorghum to China climbed to nearly 190,000 MT in February.

On the corn processing side, the average price of ethanol in Shandong ticked up by RMB 100/ MT ($14.2/MT) to RMB 5,000/ MT ($710.2/MT) from previous week. In Jilin, the average price for DDGS improved by RMB 30/MT ($4.26/MT) to RMB 1,800/MT ($255.68/MT). In contrast, the corn gluten meal price in Shandong retreated by RMB 60/MT ($8.52/MT) to RMB 4,500/MT ($639.20/MT)

China Corn Wholesale Price (RMB/MT)						
	Nationwide	Heilongjiang	Jilin	Liaoning	Shandong	Guangdong
10 April 2020	1,953	1,756	1,820	1,900	2,027	2,040
Week-on-week	8	15	4	8	12	-27
Month-on-month	59	85	45	58	95	40
Year-on-year	157	173	167	172	159	173

Source: CNGOIC



Source: CNGOIC

China Cornstarch Processing Margin (RMB/MT)								
	Shandong				Jilin			
(RMB/MT)	Corn Price	Starch Price	Corn Gluten Meal Price	Margin	Corn Price	Starch Price	Corn Gluten Meal Price	Margin
10 April 2020	2,040	2,500	4,500	90	1,840	2,200	4,560	-33
Week-on-week	0	0	-60	4	0	0	0	8
Month-on-month	110	170	120	59	60	50	180	4
Year-on-year	160	50	1,140	47	170	-50	960	-105

Source: JCCE

China Corn Ethanol Processing Margin (RMB/MT)								
	Shandong				Jilin			
(RMB/MT)	Corn Price	Ethanol Price	DDGS Price	Margin	Corn Price	Ethanol Price	DDGS Price	Margin
10 April 2020	2,040	5,000	2,170	257	1,780	4,800	1,800	241
Week-on-week	0	100	0	106	0	0	30	10
Month-on-month	90	0	0	-282	0	-100	150	8
Year-on-year	160	0	120	-321	160	-50	300	-97

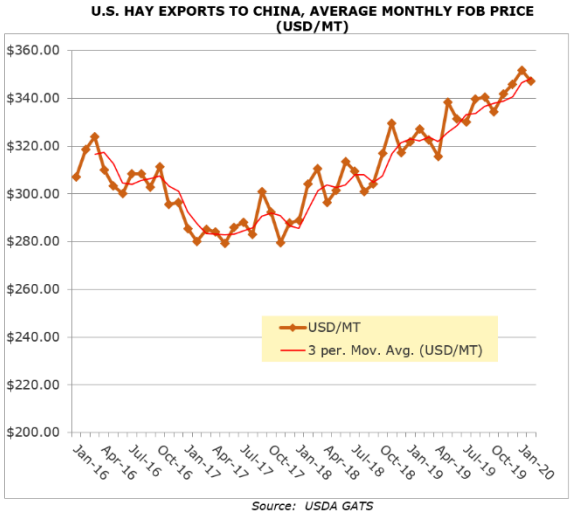
Source: JCCE

Feedstuffs

U.S. Hay Exports on Track for SOLID 1st QUARTER

Through the first two months of the year, hay shipments to China have amounted to 141,262 MT with a value of $49.29 million. That compares to 134,022 MT worth $43.43 million for all the first quarter of 2018. The average FOB price is up to $348.95/MT from $324.08/MT, a 7.7 percent increase from a year ago. With February's total of 88,845 MT, representing the best volume for that month since 2018, a strong

March could push 2020 first quarter totals to the 200,000 MT range.



WPI POLICY ANALYSIS

Plant Closures – Pork, Beef and Ethanol
6 April 2020

By Dave Juday

Tyson announced today that it has suspended operations at its Columbus Junction, IA pork plant. The closure is COVID-19 related for worker health protection after several contracted the virus.

The plant has a capacity of about 10,000 head per day. Last week, total slaughter was 2.565 million head; assuming a five-and-a-half-day week, the plant represents about 2 percent of last week's kill. Hogs are being sent to other Tysons facilities. This, of course, is the packer who has been through the drill before as last year's fire at the Garden City, KS beef plant shut down operations and scrambled slaughter and packing operations to other plants. No word on how long the plant will be idle.

National Beef has suspended its operations at its Tama, IA plant. One employee there did contract the virus last week, the plant, however, was scheduled for a cleaning later this month. The suspension of operations is a re-scheduling of this cleaning and maintenance. That plant processes about 2,000 head per day.

In the biofuel sector, producers are urging USDA to use CCC relief funds to directly help biofuel producers. Demand is still down given the stay at home orders in 31 states, and some hoped for relief on oil prices was disappointing today as Saudi Arabia and Russia clashed over the weekend and the OPEC-Plus group delayed their teleconference about production cuts scheduled for today. It is now on for Thursday.

The suggestions on biofuels relief from the industry are:

- Have CCC provide payments to ethanol mills for corn and other feedstock purchased in the first quarter of 2020 (1 January-31 March) as a means to provide operating capital, or

- Provide some kind of direct payment to maintain employees so that ethanol production – and corn purchases – ramp up more quickly once market conditions improve.

It was argued last week in an industry letter to Secretary Perdue that either option would ultimately benefit corn growers. The National Corn Growers Association is a signatory to that letter.

According to the letter, in March, about 3.5 billion gallons of annualized ethanol production capacity has now been idled. That is about 22 percent of production forecast for the year, and the letter cites estimates that gasoline and ethanol demand could be down about 40 to 60 percent during the period of the shelter-in-place orders across the states.

The shutdown comes as ethanol production typically ramps up seasonally. The forecast for production in 2Q 2020 was 1.05 million barrels per day (bpd), up from 1.04 in Q1 and forecast for Q3. That 10,000-bpd difference between the quarters is about 13.5 million bushels of corn. For the last week of March, ethanol production was 840,000 barrels per day.

Ethanol production – or lack thereof – has also gained the attention of some parts of the food industry. About 40 to 45 percent of the captive

CO2 market is used in chemical manufacturing, but also in food packaging (think red meat and produce packaging) and carbonation (think beer and soda). Ethanol production is a relatively cheap and easy way to get CO2.

There was a meeting today among some industry groups in Washington to discuss the disruption of the captive CO2 supply and whether that was reason enough to back the ethanol industry's request for help from the CCC. Ironic as it sounds, the drop in use of petroleum has a domino effect that is leading to concerns about a critical shortage of CO2, … it's just the concern is on the captive use market, however, not broader CO2 emissions.

In February, corn use by ethanol mills was down from January, but up from February 2019, yet CO2 captured was down from January 2020 and from February 2019. CO2 came in February at 211,775 tons, 4 percent lower than last year.

Like in the U.S., biofuel producers in the EU are facing pressures as well. They are worried that blending mandates there might be cut in light of the drop in oil prices, so they've written the European Commission urging that not to happen, if for nothing else, than to keep soymeal and distillers grains available for livestock.

Future of Ag Trade

By Gary Blumenthal

There have been plenty of concerns voiced over the future of the global trading system post-COVID-19. The Trump Administration receives plenty of ink for suggesting that outsourcing the medical equipment supply chain hurt Washington's ability to respond to the pandemic. However, it would not have mattered as much where supplies come from if more had been done to stockpile equipment ahead of time. The same applies to food and agriculture where some countries responded by imposing export restrictions or increasing purchases of commodities like rice.

There are plenty of other bad ideas floating around. Former Irish Minister for European Affairs Dick Roche joined others in a letter recommending no imports of "food and other risky goods" from countries that are the source of epidemics. Meanwhile, Bulgarian Deputy Prime Minister Krasimir Karakachanov echoed the suggestions of Agriculture Minister Desislava Taneva that imports of fruits and vegetables should be banned until domestic production is consumed and that half of retail space should be reserved for local production.

Some changes are good and easy to predict. The U.S. government spent around $3 trillion responding to terrorist threats following 9/11 and the campaign against pandemics is about to get similarly costly. To paraphrase Revelations, great wealth has been laid to waste. Political recriminations and trade restrictions are only going to increase the cost.

Farmer Friendly Trump; Farmer Friendly GI's

By Gary Blumenthal

Farmer Friendly Trump

There is no industry hurt more by President Donald Trump than agriculture, and there is no modern president that has embraced agriculture more than President Donald Trump. That may seem like a contradiction, but it is true.

He became president due to rural votes. The complaints he heard on the campaign trail involved opioid addiction more than farm income, but he did hear about untrusty foreign markets. His bull in the china closet approach to trade policy has had the harshest ramifications for American agriculture. Yet, he has mentioned farmers in speeches far more than his predecessors.

The American Farm Bureau is the largest farm organization and it is lucky if a sitting president attends one of its annual conventions during a four or even eight-year term; President Trump has never missed one of them. Cuts have been proposed for budgets in most other non-defense areas, but his USDA has been showering extra

billions of dollars on farmers. Now with coronavirus as the rationale, he has proposed a temporary ban on immigration, but the migrant workers needed by agriculture will be exempt from the policy.

Farmer Friendly GI's

A study by the European Commission indicates that the use of a geographic indicator (GI's) doubles on average the sales value of a food product when compared to similar products lacking the certification. There are several ways to look at this marketing story:

- For the beneficiaries of this largess and its political proponents, it is a success story worth more than €36 billion in boosted farm income.

- It has benefited consumers since it rewards those willing to pay more for such identifications with exactly what they want.

- Marketing is messaging, its packaging, it is differentiation (real or imagined) and it occurs in so many other ways than just geographical identity.

- The differences between a GI product and its similar but uncertified counterpart are unlikely to be proven in a blind taste test and so the policy is a government-backed plan to exploit gullible consumers. It is rich to complain about dual quality foods while constructing a perceived dual quality system.

- The U.S. government exploits consumers in other ways, why limit GI's in the U.S. to a few hundred products and then mostly wine labels? Copy the EU's success on behalf of farmers and label thousands of products in a similar fashion.

- Improve teaching agriculture how to compete based on the consumer benefit of value (quality plus cost) rather than just some historical GI "birth right."

A Beef with Beef; A Beef with COVID – 1 April 2020

By Gary Blumenthal

A Beef with Beef

Some U.S. senators are demanding that the Justice Department and USDA investigate why the spread between the cash and futures markets for cattle has become so wide. Instead of an investigation they could all just read WPI analysts Matt Herrington and Dave Juday as they have explained the situation in these markets.

Moreover, since the delivery period on the April futures contract starts this Friday, the current $14/cwt difference will be cleared up faster than any government investigation. As Matt explains it, the whole bottleneck in the beef supply chain is the packing plant. One cannot run more head of cattle through that process than can be safely handled. The demand for beef spiked with consumer hording, forcing near-term cash values out of whack with futures. However, the good news is that unlike face masks and ventilators, there are alternative sources of animal protein for consumers.

A Beef with COVID

Major events like 9/11 and COVID-19 are also known as "black swan" events – meaning they are rare. They are predictable but so are floods, and the practice is to conduct risk-benefit analysis and then invest accordingly. Insurance covers 100-year floods and not 500-year floods. Now Capitol Hill is drafting legislation to create a nonpartisan investigatory panel like the National Commission on Terrorist Attacks Upon the United States that was created nearly two decades ago. If similarly structured, it will no doubt help better prepare for future such incidents.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS