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Cattle Price Recovery Boosts Cow/Calf Profitability

New Corn Strategy

Dalian Market Surges

China is Officially a Presidential Campaign Issue

Small, Slow, and Inefficient

WORLD PERSPECTIVES: AG REVIEW

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World Perspectives, Inc.
1621 North Kent Street
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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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Please contact Gary Blumenthal, CEO and President, at 202-785-3345 or gblumenthal@agrilink.com for more information about how WPI's consulting services can work for you.

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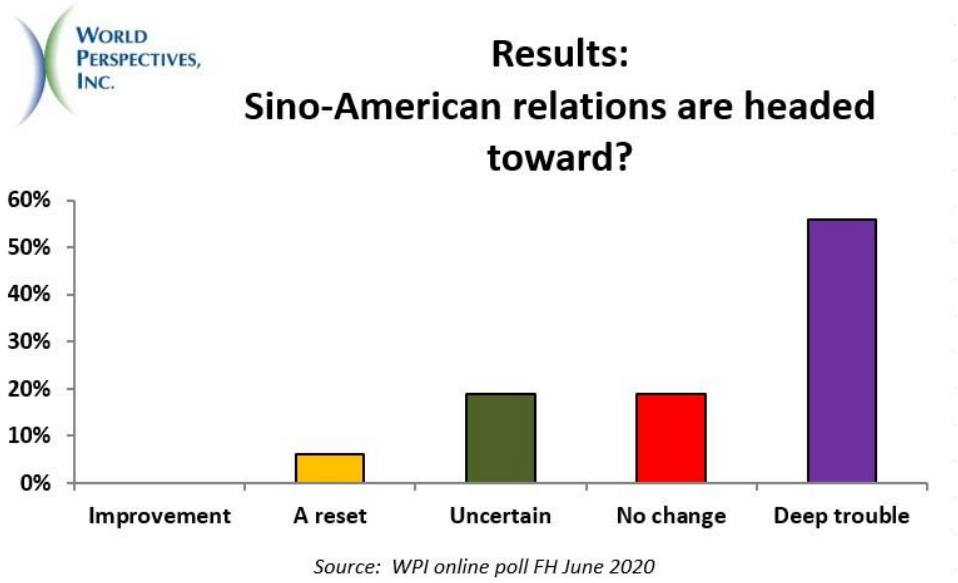
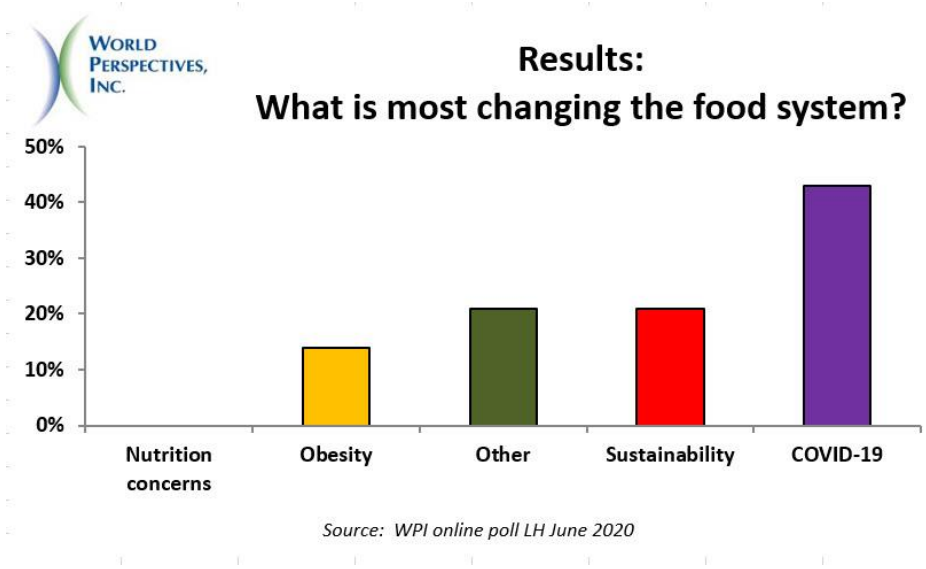
WPI POLLING

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





FROM THE WPI TEAM

My Fickle Friend, The Summer Wind

By Gary Blumenthal

Like most years, we watch the weather closely during this time of year in the Northern Hemisphere. It is a dominant driver of price, but it is not alone. This year a microscopic virus has proved far more disruptive than drought or hail or those sometimes, violent summer showers. We cover the virus and much more in this edition of AgReview.

The livestock market has been whipsawed like no other time in its history. An ample supply of cattle and hogs flowed into a chokehold at COVID constricted fabrication plants and then end product trickled out to hording hordes of consumers. Politicians called for an investigation but WPI's analysts richly explain the obvious.

There is trouble just about everywhere in the sector but especially in American corn fields. No country out-yields American corn farmers and yet they are getting thumped pricewise by competitors in global markets. The result is the overhang of surplus stocks, which have been building at an average 12 percent per year. WPI opines that this is an unsustainable dynamic requiring a strategic re-think.

Aquaculture is a bright spot for soybean meal, especially as the world's third most popular fish, salmon, switches to become increasingly farm-raised.

The Chicago Mercantile Exchange (née, Chicago Board of Trade) has long been the world leader in commodity futures trading due to its huge pool of liquidity. But there is a new 800-pound gorilla in the market, the Chinese Dalian exchange. And while it has its own issues, WPI is now covering it due to its outsized influence on global agricultural markets.

Often overlooked but eventually carrying the importance it deserves, WPI covers the Middle East North Africa (MENA) region, along with Sub-Saharan Africa (SAA).
We end with the politics of a 2020 U.S. election, noting the importance of China, and looking at how agricultural and trade policies could change if the voters decide to hire a new occupant for the White House.

We hope you enjoy the volatility and the insights.

Gary

WPI MARKET ANALYSIS

Cattle Price Recovery Boosts Cow/Calf Profitability

By Matt Herrington

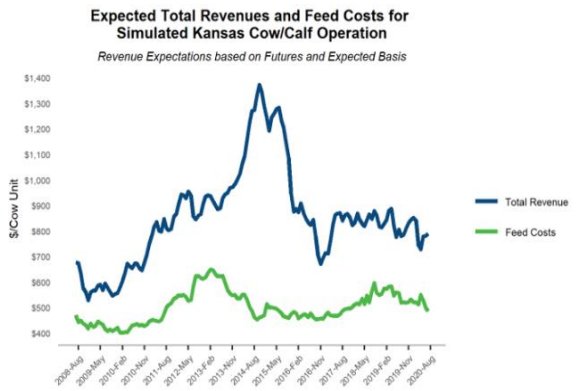
Declining feed costs and higher prices for feeder cattle and cull cows have lifted WPI's expectations of cow/calf profitability for 2020. Compared to our forecast one month ago, the "average" producer in Kansas is expected to lose $1.94/cow unit in 2020, an $18/cow unit improvement over the June forecast.

More significantly, cow/calf producers are forecast to have returns $58 larger than was forecast this time last year. The improving profitability will be a welcome development for producers in Kansas and around the U.S. (who face similar but not necessarily equal profitability forecasts) after three consecutive years of negative returns.

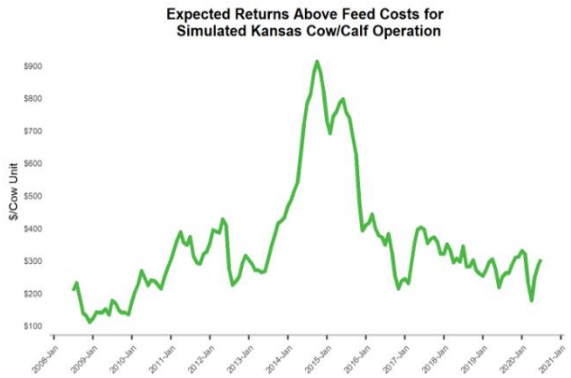
WPI-Estimated Costs and Returns for Simulated Kansas Cow/Calf Operations

	Oct FC Futures	KS Hay Prices	Total Revenue	Feed Costs	Other Variable Costs	Total Costs	Returns over Feed Cost	Returns over Total Costs	Return on Investment
	$/cwt	$/ton	Per Cow-Unit						
July 2020 Est.	$136.86	$82.38	$789.80	$485.90	$305.85	$791.75	$303.90	-$1.94	-0.2%
June 2020 Est.	$134.70	$85.22	$782.06	$498.40	$304.03	$802.43	$283.66	-$20.37	-2.5%
M/M Change	$2.16	-$2.84	$7.74	-$12.50	$1.82	-$10.68	$20.24	$18.43	
Year-Ago Est.	$141.34	$107.79	$805.52	$557.42	$308.09	$865.50	$248.11	-$59.98	-6.9%
Y/Y Change	-$4.47	-$25.41	-$15.72	-$71.51	-$2.24	-$73.75	$55.79	$58.03	
5-Year Avg.	$158.12	$84.72	$920.30	$501.77	$319.65	$821.42	$418.54	$98.89	12.0%
10-Year Avg.	$156.20	$92.24	$917.78	$511.28	$317.54	$828.82	$406.50	$88.96	10.7%

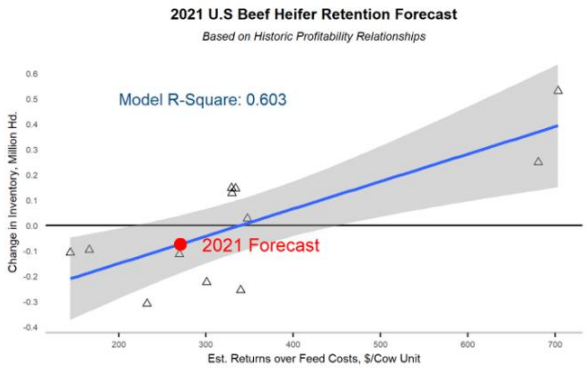
Since June, expected per-cow revenues have increased $7.74 thanks to firming feeder cattle futures and higher prices for cull cows. Feed costs have decreased $12 due to lower hay prices and pasture rental rates. The recent rally in corn and soymeal futures is not yet reflected in WPI's profitability models, and our expectation is that feed costs will increase slightly heading into August.



Perhaps more importantly than WPI's forecast of returns over total costs (i.e., profit) are estimates of returns over feed costs. Non-feed variable costs (including fuel, electricity, labor, veterinary services, etc.) vary widely by operation whereas feed costs and revenues tend to be more standardized. That suggests the metric of returns over feed costs (ROFC) may be more broadly applicable. WPI's current estimate of ROFC is $303/cow unit, up $20 from last month and $55 higher than last July. That figure is well below the five-year and ten-year averages, however, as profitability estimates from 2013-early-2016 set all-time records due to tight cattle supplies and strong beef demand.



The improving profitability of cow/calf operations means the drawdown in heifers kept for breeding in 2021 will be less than expected. WPI's previous forecasts suggested beef heifers retained for breeding (i.e., replacement heifers) would fall 100,000 in 2021 versus January 2020. Based on the 2020 average forecast of ROFC ($270/cow unit), our latest forecast is that heifer retention will decline 74,000 head from 2020, or 1.3 percent. That will have the short-run impact of expanding 2021 feeder heifer supplies by the same figure (since heifers not retained for breeding will eventually be sent to feedlots) while the 2022 calf will reflect the reduction in heifer numbers. In short, WPI's work suggests that the long-term trend of declining U.S. cow herd numbers and gradually tightening domestic cattle supplies is not likely to change in the next two years.

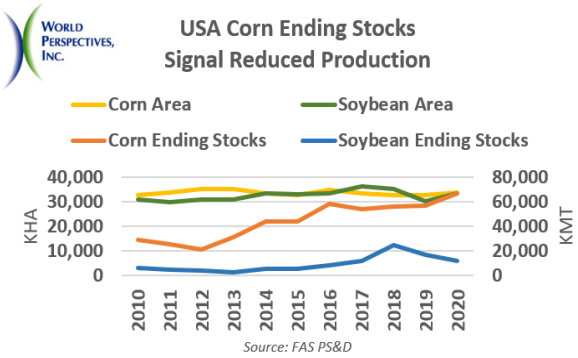


New Corn Strategy

By Gary Blumenthal

Economists at FarmDocDaily point out in an article entitled, "World Market Conditions Suggest Set-Asides Not an Effective Farm Policy for Corn and Soybeans" that U.S. farmers have been losing market world share to South America. They correctly note that the current discussion about using a paid set-aside to reduce production will not concurrently raise farmgate prices because it will simply incentivize increased production in other countries. However, it also doesn't make sense to continue producing a crop that is uncompetitive and simply gets stored as carryover. This is particularly evident in corn where excess stocks have been building at an average 12 percent per year.

While paid land diversions would be counterproductive, the U.S. corn sector needs new strategic planning. Yields are not the problem since American producers average 50 percent greater net per acre than Europe and 90 percent higher output than South America. However, higher yields come at a cost. The effort to become a major exporter of corn-derived ethanol makes strategic sense, but now it must await a resurgence of global energy consumption and faces a dim future with the growth in electric vehicles. Continuing to do the same is also not a viable strategy.



Oilseed Highlights: Soy Export Sales; Aquaculture Investment; Paraguay Soybeans

By John Baize

Soy Export Sales Highlights

The 9 July USDA export sales report showed a major increase in U.S. export sales of soybeans both for the current marketing year and MY 2020/21. Soybean exports also were up from the previous week.

Net soybean export sales in the week ending 2 July totaled 952,200 MT for MY 2019/20 and 382,100 MT for MY 2020/21. The top sales for 2019/20 were China (461,400 AMT), Indonesia (131,000 MT), Pakistan (70,000 MT), Bangladesh (58,400 MT), and Mexico (56,100 MT). The top sales for shipment in 2020/21 were China (192,000 MT), unknown destinations (92,000 MT), Mexico (54,000 MT), Taiwan

(25,500 MT), and Japan (7,000 MT). Soybean exports last week totaled 467,500 MT, a 20 percent increase over the previous week. The top destinations were Mexico (144,200 MT), Indonesia (79,000 MT), China (74,400 MT), Bangladesh (58,400 MT), and Taiwan (31,700 MT).

Net soymeal export sales last week totaled 124,400 MT for 2019/20 and 73,500 MT for shipment in 2020/21. The top sales for 2019/20 were Mexico (31,900 MT), Colombia (25,900 MT), Canada (25,300 MT), Honduras (16,000 MT) and Nicaragua (7,000 MT). The top sales for 2020/21 were Honduras (17,600 MT), Guatemala (12,800 MT), Jamaica (12,000 MT), Panama (11,800 MT) and Nicaragua (8,800 MT). Soymeal exports last week totaled 311,700 MT, a 43 percent increase over the past four-week average. The top destinations were the Philippines (92,600 MT), Colombia (61,200 MT), Mexico (32,300 MT), Libya (31,200 MT), and Ecuador (27,000 MT).

Net soyoil export sales last week totaled 28,900 MT, all for shipment in 2029/20. The top sales were for unknown destinations (19,000 MT), the Dominican Republic (8,500 MT), Canada (900 MT), and Mexico (400 MT). Soyoil export last week totaled only 2,100 MT with 1,300 MT going to Canada and 400 MT going to Mexico.

It appears the beginning of significant export sales of U.S. soybeans for the rest of this year has now begun. Today's report indicates total new sales to China for the rest of 2019/20 and for 2020/21 totaled 653,300 MT and that does not include the 264,000 MT announced separately by USDA on Monday. Outstanding unshipped sales of soybeans to China for the current and the next marketing year now total 7.771 MMT and that is likely to increase sharply over the next few weeks. Unshipped sales to other destinations totals 8.041 MMT.

U.S. spot soybean prices remain quite competitive. U.S. soybeans are now priced on a FOB basis at PNW ports at close to the same as Brazilian soybeans on a FOB basis at Brazilian ports. That makes them very competitive to China. And spot U.S. soybeans FOB Gulf ports are offered at about $10/MT below Brazilian soybeans. That should be attractive to European buyers.

U.S. soymeal exports thus far in 2019/20 as of 2 July totaled 9.282 MMT. That was almost 3 percent above exports a year earlier. With almost three months left in the marketing year it appears it is likely total exports in 2019/20 will reach USDA's forecast of 12.2 MMT, but that is far from certain.

U.S. soyoil exports in 2019/20 as of 2 July totaled 978,500 MT, 47.1 percent above the pace a year earlier. Total exports for the year should be able to reach USDA's forecast of 1.23 MMT, but exports need to be much higher than the small amount exported last week.

Aquaculture Firm Plans to Build Large Salmon Farm on Maryland's Eastern Shore

The Norwegian agriculture company AquaCon this week announced plans to build a large facility to produce Atlantic salmon on Maryland's Eastern Shore. The company initially will invest $300 million to build the first facility. However, its long-term plan is to invest as much as $1 billion to build a total of three facilities by 2027. The first facility is set to begin harvesting salmon by 2024.

The company indicates the facility will raise salmon in large tanks using a water recirculation system developed by the University of Maryland Baltimore County and the Institute of Marine and Environmental Technology headquartered in Baltimore. Each of the three facilities will have the capacity to produce 15,000 tons of salmon annually. Clearly there will be a market for the salmon considering the U.S. annually imports a half million tons of salmon annually.

The new facility should provide a significant demand for soymeal as a protein source. Perdue Farms operates a soybean processing plant in Salisbury, Maryland. There also is a significant amount of fishmeal produced along the Chesapeake Bay.

Paraguay Harvests Record Soybean Crop Says Association

Paraguay's national crop association (UGP) estimates Paraguay harvested 10.6 MMT of soybeans this year. That is based on a planted area of 3.6 million hectares (8.9 million acres) and an average yield of 2.96 MT/hectare (44 bushels/acre). USDA has estimated the crop at 9.9 MMT.

This year's crop exceeded last year's crop by 34 percent. Last year's crop suffered from drought and had an average yield of only 2.4 MT/hectare (35.68 bushels/acre). USDA is forecasting next year's Paraguayan soybean crop at 10.25 MMT.

The association indicates Paraguay exported 3.2 MMT of soybeans in the first five months of the marketing year. That is a 1 percent increase over the previous year. Of that amount 2.6 MMT was exported to Argentina and 235,400 MT were exported to Brazil.

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WPI INTERNATIONAL ANALYSIS

Dalian Futures Market Analysis

By Global Agribusiness Partners

Monthly Summary

June Activity surge Led by Corn, Egg, Palm, and Soybean Futures

After the slowdown in May, trading volumes for agricultural futures on the Dalian Commodity Exchange roared back in June as monthly trading volume rose by 34 percent. With a total volume of 93.41 million lots, June's totals were up by nearly 88 percent from the previous year. Corn, egg, palm olein, and No. 1 soybean futures saw their trading volumes increase month-over-month by 32 percent, 83 percent, 29 percent, and 55 percent, respectively. Combined, these four contracts had a total monthly turnover of 57.2 million lots, accounting for 61 percent of June's total across all agricultural futures on Dalian. As a share of the total trading volume on the Dalian, agricultural futures represented nearly 57 percent, roughly the same as May. Meanwhile, cornstarch, soymeal, and soyoil futures saw a nice rebound from May, as their monthly turnover was up by 16 percent, 19 percent, and 22 percent, respectively.

On an annualized basis, egg, palm olein, No. 1 soybeans, and soyoil were up by triple digits compared to turnover totals for the same contracts for June 2019. Egg futures continued to astound, as turnover in June was up by more than 686 percent from June 2019, while soybeans and palm olein trading volumes were up by 407 percent and 355 percent, respectively. Only two contracts, No. 2 soybeans and soymeal were down in June from the previous year.

At the halfway point of 2020, the combined volume for the agricultural futures, including polished round grain rice, is up by 97 percent compared with the first half of 2019. Soymeal, palm olein, egg, corn, and soyoil have accounted for nearly 92 percent of the total agricultural future trading volume on the Dalian, while across all futures on the exchange, the agricultural contracts have amounted to 57 percent of the exchange's total volume for the first six months of the year. Year-on-year, egg, palm olein, No. 1 soybeans, and soyoil continue to be up by triple digits from 2019, with egg futures up by more than a staggering 640 percent and palm olein future up by nearly 400 percent.

June Trading Volume, Agricultural Futures Contracts (Lots)

Commodity Contract	Monthly Volume	Change (YoY)	Change (MoM)	Jan-Jun Volume	Change (YoY)
Corn	11,056,265	29.13%	31.81%	54,982,061	19.28%
Cornstarch	1,403,735	21.25%	16.00%	7,792,294	-4.01%
Egg	16,765,367	686.25%	82.79%	74,509,851	643.20%
RBD Palm Olein	22,036,486	354.77%	29.41%	139,796,321	399.58%
Round Grain Rice	109,896	-	1.54%	730,521	-
No. 1 Soybeans	7,342,296	407.12%	54.73%	27,812,740	227.51%
No. 2 Soybeans	1,036,567	-20.33%	12.64%	6,816,636	-28.30%
Soymeal	25,127,574	-17.44%	19.15%	148,554,074	15.75%
Soyoil	8,536,541	115.99%	22.14%	58,832,483	128.08%
Total	93,4141,727	87.40%	34.12%	519,826,981	96.64%

Source: Dalian Commodity Exchange

In terms of value, egg futures saw the biggest uptick in turnover from May with a total of RMB 585.28 billion ($82.90 billion) for a monthly increase of nearly 102 percent. Overall, RBD palm olein futures led the way with a total turnover of RMB 1,039.34 billion ($147.22 billion) for a month-on-month increase of 42 percent. No. 1 soybeans, by comparison totaled RMB 341.25 billion ($48.34 billion), a 62 percent increase from May, demonstrating just how sharply food demand is recovering in the hotel, restaurant, and institutional sectors, as China continues its reopening process from the nationwide quarantine. Together, the nine agricultural futures had a total turnover for June of RMB 3,463.85 billion (RMB 490.63 billion), a more than 40 percent increase from May's totals. As a share of the total turnover on the Dalian, the nine agricultural contracts represented 43 percent.

Compared to June 2019, turnover for the nine agricultural contracts was up by more than 104 percent last month. Monthly turnover for egg, palm olein, and No. 1 soybeans futures were up

year-on-year by an impressive 523 percent, 416 percent, and 573 percent, respectively. Only No.2 soybeans and soymeal saw their turnover decreased as compared to June 2019 totals. Through first six months of 2020, the combined turnover for these nine futures has totaled RMB 16,782.00 billion ($2,337.06 billion) or more than 40 percent of the total turnover for all futures contracts on the Dalian. As with trading volume, egg, palm olein, No. 1 soybeans, and soyoil have led the way, as their turnover totals through the first half of 2020 are by triple digits compared to the first half of 2019.

June Turnover, Agricultural Futures Contracts

Commodity Contract	Monthly Turnover RMB (billions)	Monthly Turnover USD (billions)	Change (YoY)	Change (MoM)	Jan-Jun Turnover RMB (billions)	Jan-Jun Turnover USD (billions)	Change (YoY)
Corn	232.35	32.91	37.51%	34.90%	1,110.11	157.24	26.03%
Cornstarch	34.01	4.82	22.33%	17.25%	147.88	20.95	-4.17%
Egg	585.28	82.90	523.14%	101.73%	1,929.35	273.28	531.06%
RBD Palm Olein	1,039.34	147.22	415.57%	41.84%	6,155.96	871.95	469.25%
Round Grain Rice	3.75	.53	-	1.91%	25.35	3.59	-
No. 1 Soybeans	341.25	48.34	572.90%	62.42%	905.75	128.29	325.92%
No. 2 Soybeans	31.72	4.49	-22.12%	17.09%	177.43	25.13	-25.93%
Soymeal	710.05	100.57	-19.97%	21.81%	3,414.40	483.63	18.88%
Soyoil	486.10	68.85	125.09%	27.77%	2,915.77	413.00	136.81%
Total	3,463.85	490.63	104.08%	40.44%	16,782.00	2,377.06	104.08%

Source: Dalian Commodity Exchange

The open interest totals at the end of June point to some new emerging trends heading into the second half of 2020. Open interest on corn futures were up more than 16 percent compared to the end of May and nearly 10 percent from June 2019. While in terms of turnover, corn futures ranked sixth among the nine agricultural futures contracts on the Dalian, rising prices and increased trading activity resulted in month-on-month increase of nearly 35 percent in the exchanged value of contracts in June. The tight cash market will likely continue to playout in the futures market, at least until there is a surge in imported corn from the U.S.

Meanwhile, open interest on egg and soybean futures ended June up 57 percent and 60 percent, respectively, from the end of May. Outside of these three contracts, all the other agricultural futures on the Dalian saw their open interest fall at the end of June. Soymeal futures, which had the largest open interest at the end of June, ended the month at 2.27 million lots, a decrease of more than 2 percent from May. Overall, open interest across all nine futures was up by more 9 percent from the end of May.

Open Interest End of June, Futures Contracts (Lots)

Commodity Contract	Open Interest (EOM)	Change (YoY)	Change (MoM)
Corn	1,174,625	9.81%	16.35%
Cornstarch	74,115	-7.03%	-10.70%
Egg	435,161	204.36%	56.85%
Round Grain Rice	24,692	-	-14.18%
RBD Palm Olein	496,649	17.86%	-.54%
No. 1 Soybeans	237,394	134.39%	60.36%
No. 2 Soybeans	42,799	-20.70%	-11.75%
Soymeal	2,272,298	80.86%	-2.40%
Soyoil	537,720	13.74%	-1.25%
Total	5,295,453	47.17%	9.31%

Source: Dalian Commodity Exchange

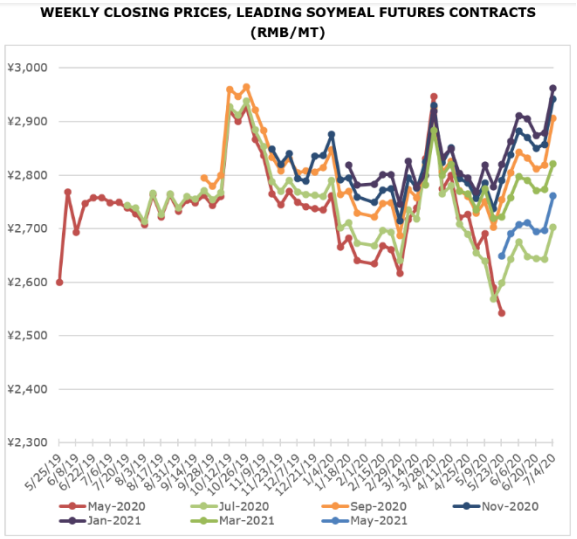
Soymeal Futures

Soymeal Futures Reach Highest Price Level Since End of March

Through the first week of July, the nearby expiring July contract closed the week at RMB 2,702/MT ($382.42/MT), up RMB 55/MT ($7.78/MT) from the previous week's settled price. By comparison, the September and January contracts increased by RMB 91/MT ($12.88/MT) and RMB 85/MT ($12.03/MT) to finish at RMB 2,906/MT ($411.29/MT) and RMB 2,962/MT ($419.21/MT), respectively. Farther into 2021, however, the March and May contracts are inverted. The May 2021 contract closed this week at RMB 2,761/MT ($390.77/MT), up RMB 64/MT ($9.06/MT) from last week's settlement price.

Since the end of May, the market has been led by September and January contracts, which have risen by RMB 113/MT ($15.99/MT) and RMB 106/MT ($15.00/MT), respectively. The nearby July contract is also up in the past five weeks but by just RMB 69/MT ($9.77/MT). Similarly, the May 2021 contract has increased by RMB 73/MT ($10.33/MT) over that same period. This divergence points to greater uncertainty over the long-term outlook for the feed market. Clearly, the market believes that heading into the country's two biggest holidays of the year – the Harvest Moon Festival and the Lunar New Year – that feed demand will follow an improved economy. Beyond that the sentiment suggests that recovery in the hog market will likely take longer than expected and when coupled with

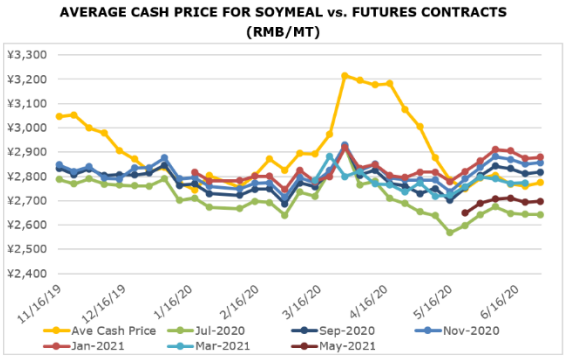
abundant supplies from the U.S. and South America, feed prices should remain low.



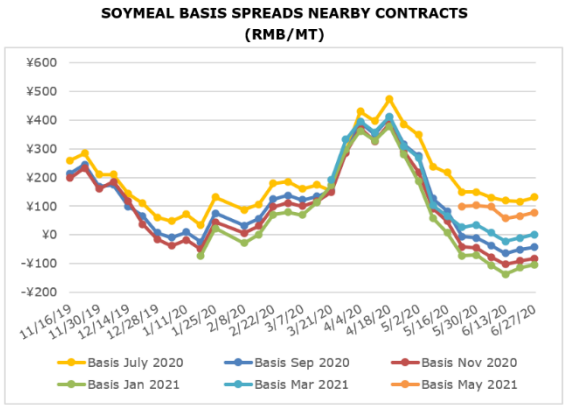
Source: Dalian Commodity Exchange

With the average wholesale cash price for soymeal closing out June below the major futures contracts, basis was mixed across the major contracts. Through the end of June, basis on the nearby July contract finished at RMB 132/MT ($18.70/MT), which was down RMB 18/MT ($2.55/MT) since the end of May. In contrast, the basis for the September and January 2021 contracts at the end of June amounted to a negative RMB 43/MT ($6.09/MT) and a negative RMB 104/MT ($14.73/MT), respectively. Since the end of May, the September and January 2021 contracts have seen their basis fall by RMB 32/MT ($4.53/MT) and RMB 34/MT ($4.81/MT), respectively. However, since mid-June, these two contracts have seen their basis rise by RMB 21/MT ($2.97/MT) and RMB 33/MT ($4.67/MT). In contrast, the basis on the May 2021 contract has remained in positive territory, but it fell from RMB 103/MT ($14.53/MT) at the end of May to RMB 57/MT ($8.05/MT) by mid-June and then recovered to RMB 78/MT ($11.05/MT) at the end of June.

This divergence in nearby contracts with those later in 2021 suggest the market expects tightening supplies as Brazil exists and imports of soybeans shift to U.S. sources. The inversion in the market also signals uncertainty over the long-term recovery of the hog market and feed demand, which is likely to suffer setbacks until a vaccine for African Swine Fever (ASF) is developed.



Source: Dalian Commodity Exchange



Source: Dalian Commodity Exchange

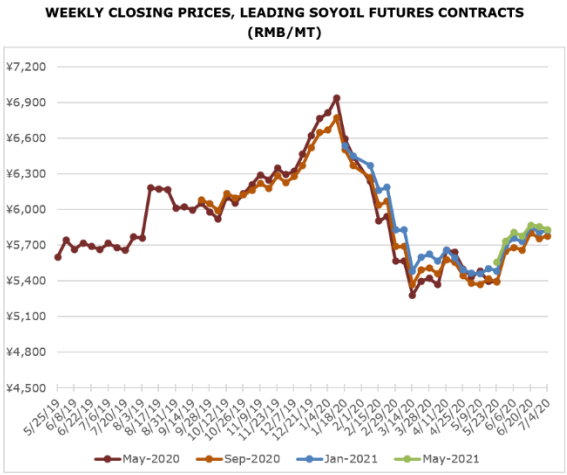
Soyoil Futures

Futures Continue Gradual Recovery

Unlike the soymeal market, soyoil futures for much of June and through the first week of July have steadily climbed upwards. Except for the July contract, all are around the RMB 5,800/MT ($821.53/MT) mark. That is after the leading contract with expiry in September fell to the RMB 5,370/MT ($757.40/MT) during the first week of May. That was second lowest closing price for that contract since it began trading last September. Through this past Saturday, the September contract finished at RMB 5,778/MT ($818.41/MT), up RMB 20/MT ($2.83/MT) from last week's settled price. By comparison, the January 2021 contract ended the week at RMB 5,822/MT ($823.99/MT), up RMB 6/MT ($.85/MT) in the past week. Since the end of May, the September contract is up RMB 178/MT

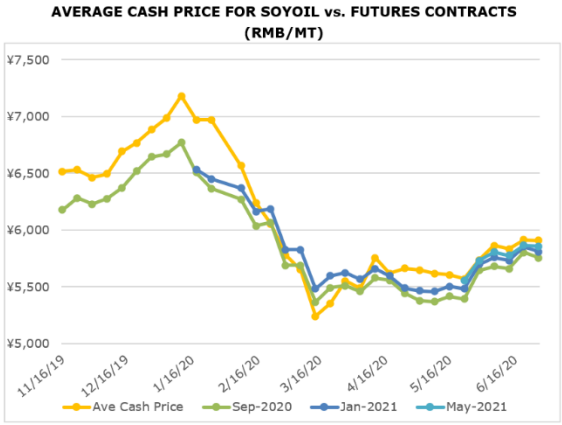
($25.19/MT), while the July contract has improved by RMB 152/MT ($21.51/MT).

As noted in last month's article, the trajectory for soyoil will continue to follow the palm olein contract. Pricing growth also should move in line with the larger economic recovery in China. Thus, a target of RMB 6,000/MT ($849.18/MT) by September is realistic in the absence of any substantial exogenous market shocks.

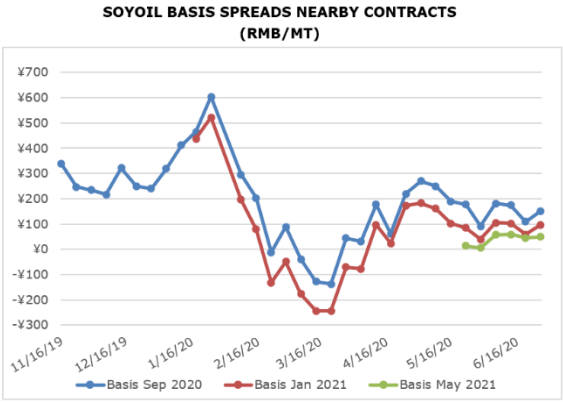


Source: Dalian Commodity Exchange

Through June into early July, the basis for the three major soyoil contracts has been quite volatile. The leading September contract went from a six-week low of RMB 91/MT ($12.89/MT) to RMB 181/MT ($25.64/MT) during the first week of June and then fell to RMB 109/MT ($15.44/MT). Then it rebounded to RMB 151/MT ($21.39/MT) the last week of June. The basis on January 2021 contract has followed a similar pattern. In contrast, the weekly swings for the May 2021 contract have been far less pronounced, which also reflects a similar tentative outlook as with soymeal. Given the uncertainties over the COVID-19 pandemic, as well as a global realignment that is likely to begin in January 2021, if the Trump administration is voted out of office, this mixed outlook should continue to be the norm for the next six months.



Source: Dalian Commodity Exchange



Source: Dalian Commodity Exchange

Corn Futures

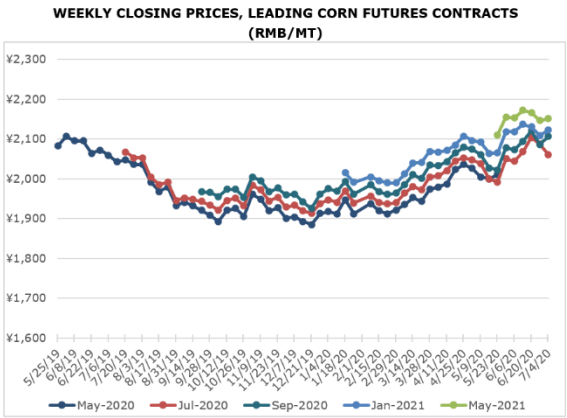
Corn Futures Set Down slightly from 5-Week High in Mid-June

Like the cash market, corn futures responded to the hot auction activity reaching 52-week highs for the week ended 20 June. The nearby July contract hit RMB 2,104/MT ($297.60/MT) that week, while the heavily traded September and January 2021 contracts had climbed to RMB 2,121/MT ($300.00/MT) and RMB 2,130/MT ($301.27/MT). Breaking with the trends in the soy complex, even the May 2021 contract, which hit a peak of RMB 2,172/MT ($306.78/MT) on 13 June, stood at RMB 2,166/MT ($303.36/MT) a week later. The previous 52-week high was set at the start of May by the January 2021 contract, when it reached RMB 2,107/MT ($306.93/MT) during the last week of April.

Over the past two weeks, the July contract has trended down, finishing at RMB 2,061/MT ($291.93/MT) this past Saturday. In contrast,

after ending June down, the September, January, and May contracts all saw modest rebounds to RMB 2,106/MT ($298.30/MT), RMB 2,122/MT ($300.56/MT), and RMB 2,151/MT ($304.67/MT). With the national average cash price surging toward RMB 2,200 ($311.61/MT), basis for July and September contracts pushed toward RMB 100/MT ($14.16/MT) to close out June, while the January and May 2021 contracts saw their basis rise to RMB 75/MT ($10.62/MT) and RMB 38/MT ($5.38/MT), respectively.

Since the end of May, the basis on the July contract has increased by RMB 55/MT ($7.79/MT). Meanwhile, the basis on the September contract is up by RMB 84/MT ($11.90/MT), while the basis for the January and May 2021 have both risen by RMB 101/MT ($14.31/MT). As the cash market and reserved corn auction prices continue to remain hot, the January and May contracts should also push toward the RMB 2,300/MT ($325.78/MT) threshold by the end of July. Even if China increases its tariff rate quota imports for corn, the market could easily import 5 MMT of corn from the U.S. and see limited downward pressure on price. Furthermore, if the fall army worm has any impact at all in September and October on the 2020/2021 crop, then prices will soar come next January.



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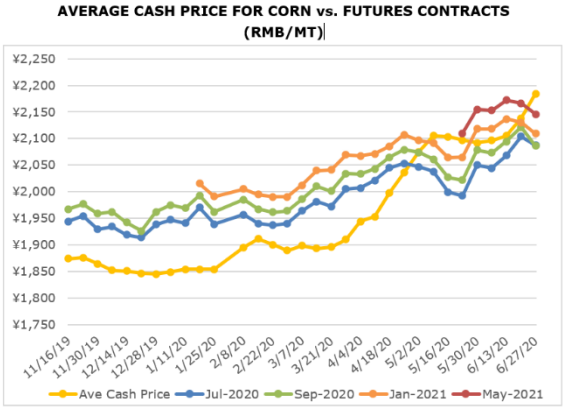

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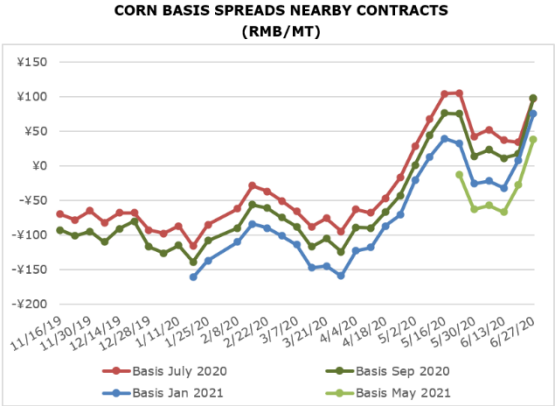
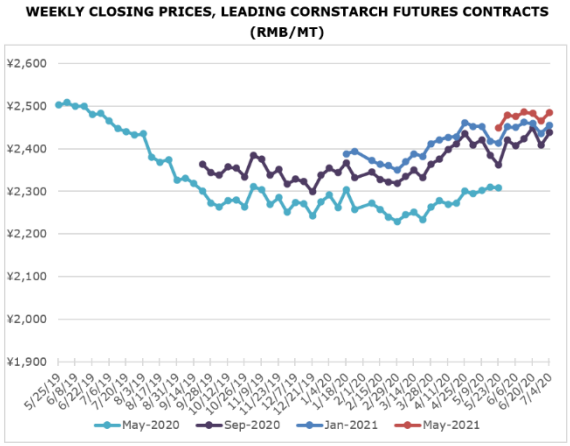


Source: Dalian Commodity Exchange

Leading Cornstarch Contracts at Highest Levels in Nearly a Year

The September contract like the corn contracts hit its yearly high point back on the week of 20 June, improving to RMB 2,449/MT ($346.88/MT) after faltering in early June. It then slid to RMB 2,408/MT ($340.59/MT) at the end of the month before recovering to RMB 2,438/MT ($345.33/MT) during the first week of July. The January contract, the only other with any significant volume peaked at RMB 2,462/MT ($347.74/MT) during the second week of June. It then declined for two straight weeks before climbing back to RMB 2,455/MT ($347.73/MT) here in early July. With corn at record highs, processors cannot afford cornstarch prices below RMB 2,400/MT and expect to remain cash flow positive for the long run. Thus, there will be pressure to pass through the higher input costs, and so an outlook for RMB 2,550/MT ($361.19/MT) by the end of July is not unreasonable given the current state of affairs in the marketplace.



Source: Dalian Commodity Exchange

Middle East, Mediterranean and Africa Regional Analysis (MEA)

By WPI Staff

MEDITERRANEAN/MIDDLE EAST/NORTH AFRICA

Egypt and Pakistan are working on the possibility of Egypt importing meat and dairy products by Egypt. Reports say that work is being done on revising health certificates and developing veterinary protocols to make this possible.

The poultry industry in Egypt is the main consumer of corn and soymeal and there is concern that imports from yet another country will do more damage to the already poor condition of the local poultry industry. Egypt can probably produce sufficient poultry meat to meet all country demand but, unfortunately for the local industry, imported frozen poultry tends to be lower priced. As to Pakistan, there is a proposed visit by Egyptian officials to look at slaughtering operations.

Egypt has announced a number of rebates for vessels using the Suez Cana. With the drop in bunker fuel some owners have been choosing to transit via the Cape of Good Hope in South Africa rather than using the Suez Canal – some say it is more cost effective. Egypt is hoping to get the traffic back.

Lebanon has increased the price for local bread by 33 percent, the first increase in eight years, this due to the Lebanese pound losing about 80 percent of its value versus the U.S. dollar. The government still maintains an "official rate" but this is only available for the import of wheat, fuel and medicine. Just prior to the increase in bread prices some bakeries had stopped operations as the cost of producing a loaf of bread was higher than the allowed selling price. Unfortunately, as has been seen in many countries in the region over the years, the increase in bread prices brought protestors out into the streets.

Tunisia's annual inflation rate has dropped from 6.3 percent to 5.8 percent due mainly to a drop in the cost of food items

SOUTHERN/EASTERN AFRICA

Turkey has donated a significant amount of poultry/hatchery equipment to Kenya to help with food security. Turkey is supplying "four modern hatchery development machines" and through the support of Turkish and Kenya agencies will be able to supply "enhanced chicken breeds" to farmers. The Kenya Agricultural and Livestock Research Organization (KALRO) says that it is very possible for Kenya to become self-sufficient in poultry and perhaps to become a poultry exporter. KALRO adds that it is Turkish assistance that will help the move to self-sufficiency.

Millers in Kenya are saying that they will not use to Mexican white maize in Port Mombasa even though all the legal problems for importation have been solved. They say that the duty waiver on maize imports has to be applied to this shipment, as it is to other imports, or it is not competitive. The problem it seems is that this maize cargo arrived before the duty remission, but legal matters delayed the distribution and it now has to compete with 14 percent lower priced maize – the duty rate is 14 percent.

There are warnings from local governments in Zambia that traders are using "adjusted" weigh scales to defraud maize farmers of up to 10 percent per 50kg bag. The government say that it is best for farmers to sell their maize directly to the Food Reserve Agency to guarantee accurate weights.

Also in Zambia, there are stories in the press about "massive" amounts of maize being smuggled out of the country – mainly to Malawi and DR Congo. Farmers are being asked to deliver their maize to the Food Reserve Agency (FRA) rather than selling to "suitcase" traders – the FRA plans to build a 1 MMT maize reserve stock. If the FRA does receive their 1 MMT target this will take most of the maize surplus out of the market, but the lack of a surplus may make the black market and the smugglers more active.

Desert locusts are affecting countries in the region in different ways. In Ethiopia, the 2020 maize crop is expected to hit a record of 8.6 MMT – locust damage to the maize crop is said to be limited. Kenya is looking at a 11 percent lower maize crop at about 3.4 MMT – down due to both locusts and poor weather. Kenya is expected to have to import 1.3 MMT of maize. Both South Africa and Zambia have not seen any serious locust outbreaks and, as a result, should both have very good maize crops. South Africa is said to have the potential to export about 2.7 MMT of maize with Zambia having about 1 MMT available. Countries in the region, like Kenya and Zimbabwe, should not have to import needed maize supplies from outside Africa.

The National Food Reserve Agency of Tanzania (NFRA) plans to buy 50,000 MT of local maize for its reserve stock in the Sumbawanga Zone of Tanzania. Sumbawanga is a region in western Tanzania that is agriculture dependent and has a population of about 150,000 according to the most recent census. The purchase is said to be welcomed by local farmers as the NFRA is paying almost 80 percent more than traders.

Cameroon says that current maize production of 2.3 MMT will fall 500,000 MT shy of the country's needs. Most of the maize used in the country is for poultry feed not for food as is seen in other parts of Africa. It is expected that animal feed producers will be the major maize importers.

Weekly Tender and Sales Information

Egypt's GASC opened a new 60,000 MT wheat tender that closes on 7 July. Delivery is to be mid-August with payment at sight.

Jordan has purchased 60,000 MT of milling wheat in its tender of 30 June at a price of $229.00 CNF for last half of November shipment. A new tender has been issued for 7 July for a further 120,000 MT of wheat.

Algeria has purchased 300,000 to 360,000 MT of milling wheat in its tender last week at an estimated price of about $218 MT CNF. Most of the wheat is expected to be from France.

The USDA reports new U.S. export sales/shipments as follows: sale of wheat to Sri Lanka of 65,000 MT and Nigeria 60,000 MT along with shipment to Yemen of 54,000 MT. Egypt is reported to have booked 100,800 MT of soybeans and Lebanon 19,400 MT with actual shipments of soybeans showing 90,800 MT to Egypt and 56,000 MT to Bangladesh. Morocco is reported to have purchased 45,000 MT of U.S. soymeal.

France Grain Exports from Rouen Week Ending 3 July 2020

Destination	Wheat Milling	Wheat Feed	Barley	Maize
Algeria	31,000	-	-	-
Mali	5,500	-	-	-
Gabon	2,800	-	-	-
Cameroon	17,900	-	-	-
Canary Islands		-	-	-

@Grand Port Maritime de Rouen

USDA Reported Grain Sales and Shipments 3 July 2020

Destination	Wheat	Corn	Soybeans	Soymeal
Nigeria	52,800 sold			
Nigeria	45,300 shipped			
Tunisia		31,200 sold		
Egypt			81,000 sold	
Egypt			146,000 shipped	
Morocco			27,000 shipped	

@USDA-FAS

Egypt Shipping Activity Forecast 29 June -15 July

	Corn	Wheat	Soybeans
Damietta Port	3 vessels		
Argentina	119,800		
Abu Qir Port	2 vessels		1 vessel
Argentina	48,000		48,300
USA			
Alexandria Port	1 vessel	1 vessel	1 vessel
Argentina	33,000		16,500
Ukraine		22,000	
Dekheila Port	7 vessels	1 vessel	5 vessels
Argentina	253,000		94,400
Uruguay			58,000
USA			90,800
Australia		44,000	

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WPI POLICY ANALYSIS

China is Officially a Presidential Campaign Issue

By Dave Juday

Both President Trump and presumptive Democratic nominee former Vice President Joe Biden have set their rhetorical sights on China policy as the 2020 Presidential campaign heats up. The Biden campaign unveiled its latest economic blueprint, a plan to "Ensure the Future is Made in all of America by All of America's Workers." It mentions China 24 times.

The Biden plan is Trumpian in its rhetoric:

- Confront foreign efforts to steal American intellectual property.
- Address state-sponsored cyber espionage against American companies.
- Take aggressive trade enforcement actions against China.
- Address overcapacity in industries, ranging from steel and aluminum to fiber optics to shipbuilding and other sectors, and focus on the key contributor to the problem – China's government.

It is critical of the Trump Administration's tactics to date, especially allowing "a landmark 2015 agreement negotiated by the Obama-Biden administration to lapse, dramatically increasing China's state-sponsored cyber espionage against U.S. companies."

But the plan is a full circle move back to the Obama Administration policies about multilateral engagement.

- Trump's go-it-alone trade war and empty "Phase One" deal with China has been an unmitigated disaster, inflicting maximum pain on American workers and farmers, while doing nothing to curb Beijing's trade abuses.
- Rally our allies in a coordinated effort to pressure the Chinese government and other trade abusers to follow the rules and hold them to account.

Indeed, the Trump unilateral "get tough" policy on China is a policy shift from the past two administrations.

President George W. Bush tried bringing China into the WTO to force compliance with global trading rules. But that didn't work. While two-way trade grew significantly, so did China's manipulation and disregard of WTO rules it didn't like (including coercion on tech) and ad hoc non-tariff barriers on U.S. ag commodities (including over the decades, beef, chicken, pork, corn, wheat, ethanol, and more).

President Obama focused on bilateral diplomacy and engagement (such as a bilateral investment treaty and the U.S.-China Economic and Strategic Dialogue) but also invested more heavily in indirect leverage, multilateral leverage, including the Trans Pacific Partnership, a multi-nation trade pact intended to be a counterbalance to China's economic influence in Asia. That didn't have a chance to work as Trump pulled the U.S. out of the agreement.

Ironically though, there has been some movement towards a multilateral approach to China since the U.S. has taken a tougher stand. Last year, the U.S., Australia and Canada agreed to help countries around the world develop their reserves of minerals like lithium, copper, and cobalt, to make the high-tech sector less dependent on

China. And in May of this year, in an unprecedented move, those three countries, plus the U.K. took the unprecedented move of jointly issuing a reprimand of China over its imposition of China's national security law over Hong Kong.

Further, Brazil moved out of BRIC Bloc – the alliance among Brazil, Russia, India and China, and the U.S. has courted India through proposed trade talks and diplomacy as tensions mount between India and China.

On the flip side of that, China is moving toward deepening ties with Iran over oil, investment, and military cooperation. And, China already has ports in Sri Lanka and Pakistan (an adversary of India). China has also greatly expanded its reach into Africa, which is a factor in the U.S. decision to negotiate a trade agreement with Kenya that is hoped to be a model for countries in the rest of the continent.

Whether China is on the minds of the voters in November 2020, it is at the forefront of the Presidential campaigns and it is shaping up to be the foreign policy issue of the next four years regardless of whether Trump or Biden is in the White House.

Small, Slow, and Inefficient

By Gary Blumenthal

As noted previously, there is increasing attention to what a Biden Administration will mean to both agriculture and broader economic policy. It is not so much what Mr. Biden thinks, since he has proven to be a lifelong moderate, but rather the swirl of political forces around him that deserve attention.

There is a cabal on the left that is at minimum suspicious and likely outright hostile to Big Ag. A trio in that group, Reps. Marcia Fudge (D-Ohio), Rosa DeLauro (D-Connecticut), and Bennie Thompson (D-Mississippi) have filed legislation that would block USDA's approval of faster line speeds at meatpacking plants. Senator Cory Booker (D-New Jersey) is expected to file the companion bill in the Senate. There is no evidence that faster line speeds are dangerous or produce risky products, these politicians just tend to favor the small, slow and the inefficient.

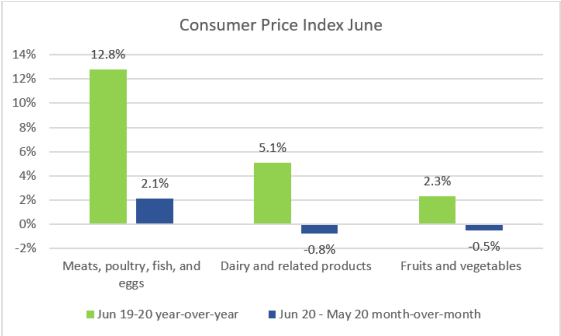
Highest Monthly Inflation in a Decade – That's Good

By Dave Juday

There was a lot of interesting economic data released recently showing month over month changes that indicate the economy is picking back up – albeit raggedly.

After three straight months of declines, the June consumer price index (CPI) rose 0.6 percent; that is the largest monthly increase since 2009. The increase was led by key food and fuel. Take out the impacts of food and energy, and the core inflation rate was 0.2 percent in June.

The all food index was up 0.6 percent, driven mostly by meat and proteins. Beef prices led the way, up 4.8 percent. The CPI formula for the meat, poultry, fish and eggs category accounts for 1.836 percent of the CPI.



Much of the June retail price level was influenced by retailers forward buying in May when the cut-out and wholesale prices were high and the outlook for supply recovery was uncertain.

Gasoline prices were up 12.3 percent, and the energy index overall was up 5.1 percent – the first increase in five months. Other major contributors to the CPI increase were physicians' services at 0.5 percent, hospital care at 0.4 percent, and airline tickets at 2.6 percent.

Sorting through all this, food prices reflect supply issues and mainly the bottlenecks in meat and

poultry packing and processing plants, reduced milk supplies and broken transportation chains for fresh produce. The increases in energy and health care represent demand issues as people get back to driving and back to going to the doctor and hospitals after the quarantines and related suspension of non-emergency health care. Air travel is a combination of curbed flight schedules and weakened demand.

The good news is that the high month-over-month inflation gains are a sign that pent-up demand is recovering in several sectors. June retail sales (all products) were up another 7.5 percent on top of the May 18 percent growth. Housing starts in June were up at the highest month-over-month rate since 2016. Industrial production was up the highest month over month gain since 1959. However, these gains are from very low baselines – housing starts are still down from last year by 4 percent and the industrial production index is down 42 percent below last year. But the takeaway is that the contraction is over, and the recovery has begun.

Another interesting piece of data. Hourly earnings fell 1.7 percent in June, while inflation increased. But in the aggregate that is also probably positive news about the economic recovery. The first – and hardest hit jobs during the lock down were the lowest hourly wage jobs. Think retail, foodservice, hospitality industry and the like. Removing those jobs and pay rates from the pool lead to higher hourly wages as higher paying jobs not as affected made up a larger percent of the wage base. The drop probably means that the 7 million plus jobs restored in May were likely skewed to the lower end of the wage scale coming back to work.

Again, these are all signs of recovery, even though there is a lot of static in the numbers from remaining lockdowns, residual effects of the lockdown and production disruptions. The current spike in COVID-19 cases – and containment policies at the state level – remains a wild card, as does the specter of a fall "second wave."

As for the ag impact, the frontline of the current spread of cases remains the foodservice sector, along with travel, leisure and hospitality sectors in the economy which help drive food consumption away from home. That will continue to hang over the dairy markets (cheese for food service, fluid milk in schools) as well as meat and poultry foodservice demand.

Barring unforeseen events, the COVID recession will be the biggest in history, but there is a likely chance that it will also be the shortest.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS