AgReview

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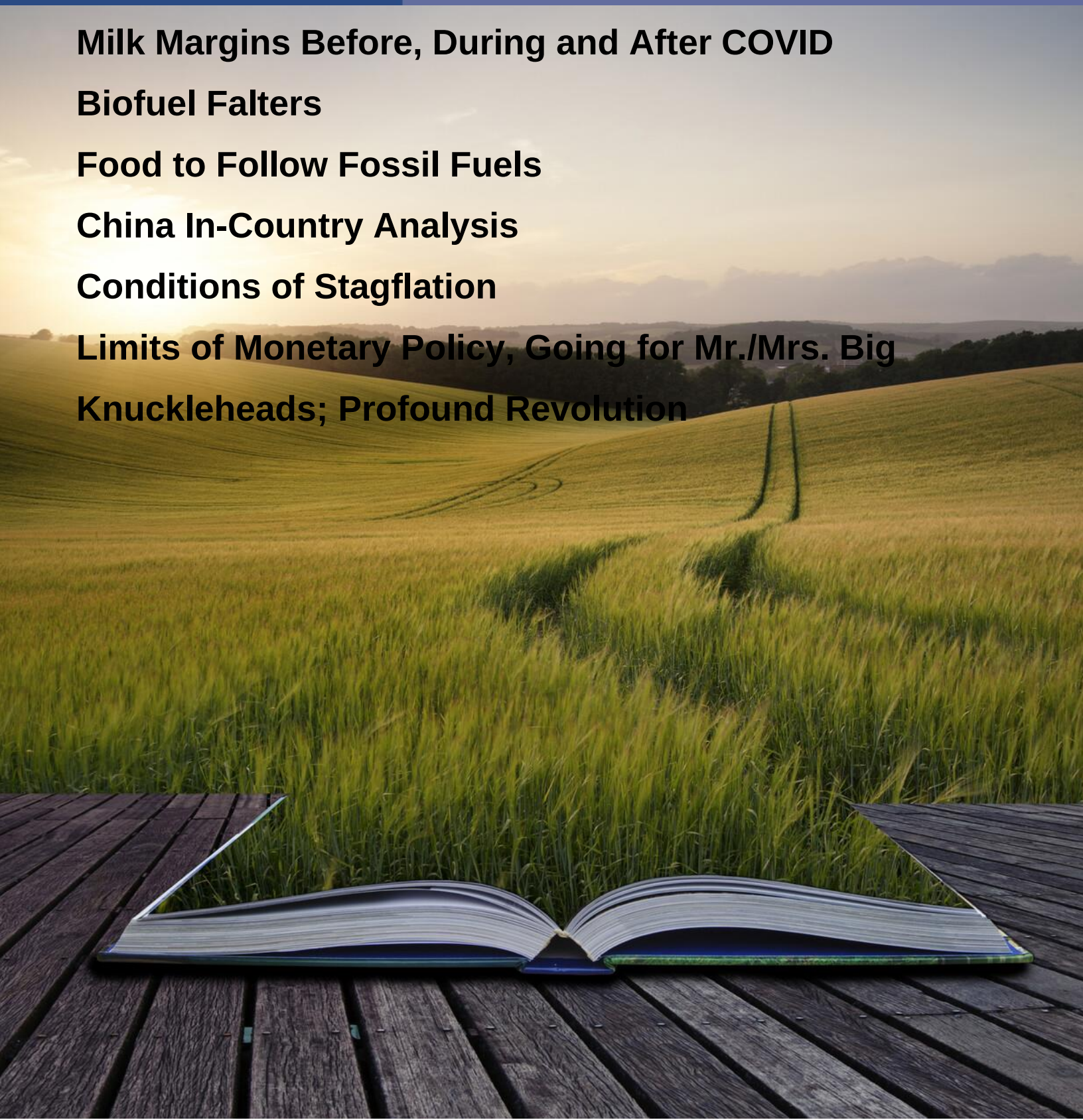

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WORLD PERSPECTIVES: AGREVIEW

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How can WPI's consulting services help your business succeed?

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

Market Identification: Conventional use of macroeconomic and demographic data has correlative value in identifying new markets, but WPI digs deeper. The result has been unique recommendations with some netting a return ratio of 6:1 for increased exports and promotional investment.

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.

What do our clients say about our services?

- *Any company that follows up like WPI deserves our business.*
- *WPI does an excellent job of working to assess the client's needs and tailoring their methodologies accordingly.*
- *WPI is very responsive in addressing any questions we have; they are helping the association gauge how to move forward with effective strategies in international markets. This year they have increased the level of their services and continue to help us find ways to be effective with our strategies.*
- *WPI has been responsive and cooperative under every challenge and circumstance presented in their work for us.*
- *WPI really provides us with a life-blood service.*

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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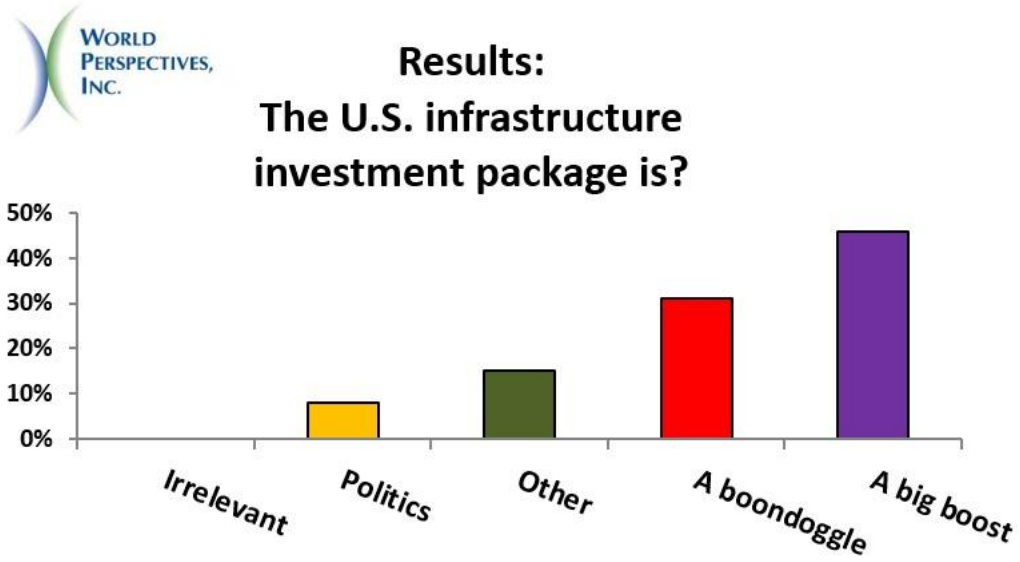
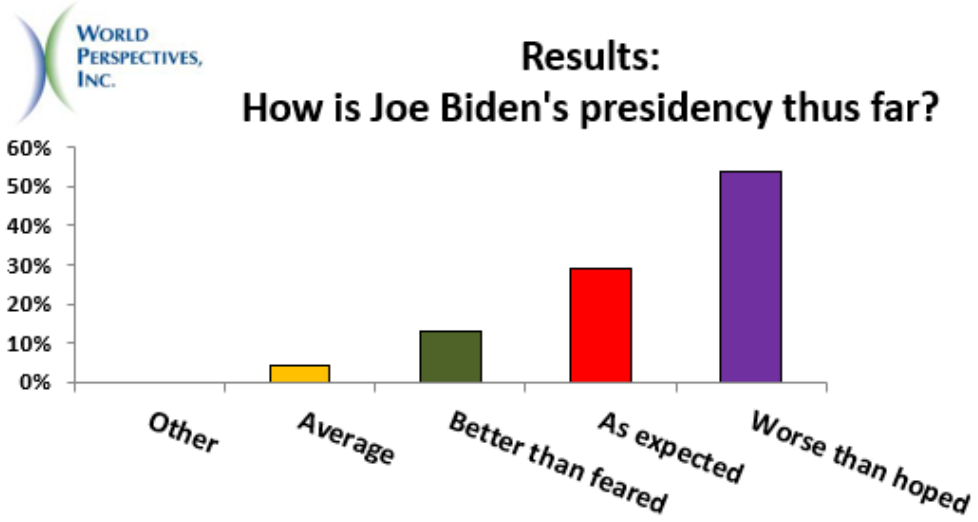
WPI POLLING

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



Source: WPI online poll: 7/29/2021 - 08/09/2021



Source: WPI online poll: 09/07/2021 - 09/27/2021

FROM THE WPI TEAM

Looking Forward, Not Back

After a 23-year run, this is the last edition of *AgReview*. Its conclusion is more sweet than bitter; a cold-hard lesson in both business economics and the changes that have occurred in society over the past couple of decades.

The industry served by WPI shrank quickly during the 1997 Asian financial crisis. This required a concurrent huge change for WPI. The shift into ad hoc consulting was profitable but the creation at the time of yet another information product, *AgReview*, has never been more than a labor of stubbornness. WPI Founder Carole Brookins saw it as a more thoughtful outcropping of the daily *Ag Perspectives* report. A premium example of what our analysts could produce if they just had more time for thoughtfulness than the rush of a daily deadline.

President Emeritus Bob Kohlmeyer, a scholar on the business of the ABCD's, constantly pointed to the loss-making nature of the beast and correctly recommended its demise. *AgReview* stubbornly persisted but both Bob and Carole have now passed, and it is now time for the same for *AgReview*.

AgReview was birthed in the same decade that digitization began in earnest. The latter greatly changed the way we consume information. If *AgReview* is a look backwards, the rearview mirror has been replaced by a backup camera. In the past 15 years, the number of college students majoring in history has fallen by 45 percent. It now comprises just 1.25 percent of all American Bachelor's degrees awarded. Ironically, Bob Kohlmeyer received his history degree from Yale University in 1954 and used its disciplines to become a successful commodity futures trader.

This final edition of *AgReview* is viewed with realism. Informatics is now the fastest growing academic degree and people want real-time insights, thus the continued success of *Ag Perspectives*. Few have the luxury of time required for deep dives into anything, but we will continue to include some historical analysis with our daily perspectives.

Still, if you have the time, we welcome you to look at this last piece of publishing history. As always, it is broad in scope – covering both micro and macro-economics, the convoluted effects of policymaking, and the nature of an agricultural sector undergoing constant change. If a deeper dive is ever desired, informatics enables WPI's analysis to reside within a 25-year searchable database. Or, LMGTFY.
Best,

Gary, et al

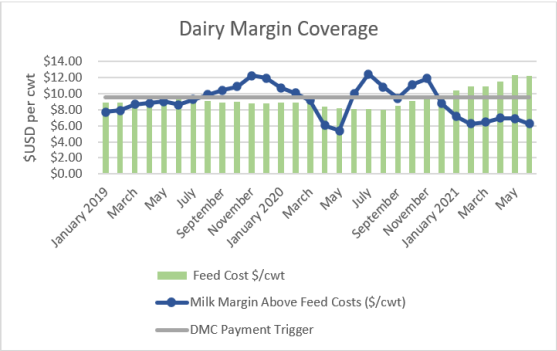
WPI MARKET ANALYSIS

Milk Margins Before, During, and After COVID

By Dave Juday

Feed costs and milk supply and demand are squeezing the income-over-feed-costs margins for dairy producers. The Dairy Margin Coverage (DMC) has paid out since corn and soybean prices started to climb last fall, and the drought conditions in many parts of the country have not helped with alfalfa prices.

The DMC uses a feed cost formula based on 59 percent corn (bushel * 1.192), 27 percent alfalfa hay (ton * .0152) and 14 percent soymeal (ton * .00817) to subtract from the all milk price to calculate the margin. Margins below $9.50 per cwt are eligible for payments. Margins of $4.00 per cwt trigger payments, and between $4.50 and $9.50 per cwt producers must pay premiums for the coverage.



Source: USDA, WPI

The DMC program was created in the 2018 farm bill (reforming its predecessor the Margin Protection Program). Sign-up for DMC started in June 2019, however, participation in DMC and any associated payments were retroactive to 1 January 2019. So, dairy producers who enrolled in the DMC in June 2019 would have had at least four months of margin data available for their consideration – all of those months at a level that would trigger payments, plus the months of May and June. As a result, about 82 percent of all dairy operations were enrolled.

Margins expanded in the second half of 2019. By the end of the year, when sign-up was open for 2020, the all milk annual average price forecast was $18.85/cwt and the calculated composite feed cost was forecast to remain below $9 for the year, which implied at the time a $9.85 income over feed cost margin. That forecast predicted producers would not qualify for payments, and enrollment dropped to 48 percent. Then COVID hit.

After the first couple months, based on government purchases of cheese and dairy products and consumer demand, the margins improved until corn and soybean prices turned bullish. For 2021, enrollment is at about 75 percent. So far, payments have triggered every month through June – already more than the five months in 2020 (March, April, May, September, and December).

In addition to higher feed prices, milk prices are under pressure. The number of cows for the year is projected to be 1.2 percent higher than 2020, and milk per cow productivity is up 1 percent with total milk production projected to be up 2.3 percent. Moving forward, the margins will reflect which drops faster, milk prices or feed prices. Next week's WASDE which will adjust corn and soybean yields based on farmer surveys could hold a hint to that question, but 2021 is shaping up to be an expensive year for the DMC program.

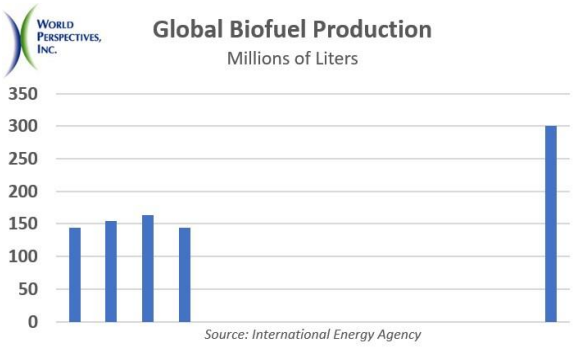
Biofuel Falters

By Gary Blumenthal

U.S. biofuel makers are disappointed that the U.S. EPA is not more aggressively pushing fuel

blending, but their plight is consistent with the pandemic related faltering in global biofuel production. The International Energy Agency (EIA) says that 10 percent annual increases are needed in global biofuel production to meet the Sustainable Development Scenario. Instead, global production fell by 11.6 percent in 2020 due to reduced transport fuel use due to COVID. Production and utilization may increase in 2021 but it is unlikely to hit a full rebound.

Production increases before the pandemic were short of EIA's projections, rising 7 percent in 2018 and 6 percent in 2019. If policymakers achieve their goal of greatly expanding the electric car fleet, renewable diesel may be the only biofuel growth market, and overall, the target of 300 million liters of biofuel production by 2030 seems unlikely.



Food to Follow Fossil Fuels

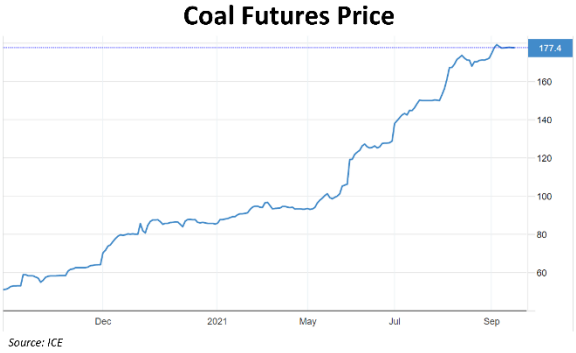
By Gary Blumenthal

The strategy in Europe, and now developing in the U.S., is to replace fossil fuels with new green energy. Europe also wants to replace food produced using chemicals with green production approaches. At this juncture, coal and natural gas prices have doubled this year and are up 250 percent from a year ago. The problem is not caused by the carbon price in the EU emissions trading system but by the failure of wind energy this summer in Europe, coupled with a lack of investment in denigrated fossil fuel production.

The Biden Administration has joined Europe in opposing official investments in coal and some policymakers want to eliminate the fuel by 2030.

The Greens in Europe won on the issue of greening agricultural production and now want to impose even stricter standards. The UN has stated that 87 percent of agricultural support measures distort prices and are environmentally and socially harmful. The Greens want to eliminate price supports.

EU Commission Vice President Frans Timmermans says the current energy crisis reinforces the need to double down on green energy. Countries are moving toward subsidizing consumers on energy costs and if food production moves the way of renewable energy, official subsidies to consumers will have to replace subsidies to farmers.



WPI INTERNATIONAL ANALYSIS

China In-Country Analysis
8 September 2021

By Global Agribusiness Partners

Macroeconomics

Food Prices in July See Biggest Drop Since April 2017

With live hog and pork prices falling to breakeven levels, the overall food inflation rate for the month of July fell by 3.7 percent year-on-year. This marked the second straight month of food prices declining in the aggregate on a yearly basis. It also parallels a slowing economy in China, as the second quarter GDP grew at an annualized rate of 7.9 percent, below the consensus estimate of 8.1 percent and down from the initial pandemic recovery of 18.3 percent for the first quarter.

Pork prices in July dropped by 4.5 percent from the previous year, while fresh vegetables were down 4 percent. Meanwhile, other staple foodstuffs, which are up from a year ago, continue to see their growth rates slow. These include cooking oil, dairy products, and eggs, which rose in July by 7.2 percent, 2 percent, and 15.6 percent, respectively. In contrast, the average cost of fresh fruit grew at 5.2 percent year-on-year in July as compared to 3.1 percent in June.

The trends in food reflect an overall modest cost growth for consumers in China as the overall inflation rate dropped to 1 percent in July from 1.1 percent in June. The Consumer Price Index (CPI) ticked by .3 percent after declining by .4 percent in June.

On the producer front, however, the story has been the exact opposite, as producer prices in July jumped by 9 percent from a year ago compared to 8.8 percent in June, marking the seventh straight month of price increases.

Market Trends

U.S. Ag Exports to China Set New Record for Month of July

Total agricultural product exports to the Middle Kingdom for this past July amounted to nearly 3.65 MMT valued at $1.86 billion. That translated into an average FOB price of $509.08/MT, up 1 percent from June. The figures for July brought the year-to-date totals for volume and value to new all-time records for the first sevenths months of year at just over 32.35 MMT worth $15.71 billion for an average FOB price of $485.42/MT. That compares to roughly 11.82 MMT valued at $7.20 billion with an average FOB value of $608.70/MT for the same period for 2020.

Meat exports, corn, and high-valued items like cherries, almonds, pistachios, and wine all helped push up the average FOB price. The robust volumes of beef, pork, and chicken continue to add to the thesis that exports have played a role in closing the protein gap and bringing down domestic pork prices, in addition to the recovery of China's live hog and sow inventories. The strong performance of these categories is also indicative of the needs of China's booming middle class, which more than outweigh the lingering effects of the recent trade war and Phase One agreement.

Livestock

Depressed Hog Prices Forcing Hog Producers to Halt Projects

Recent reports from company press releases and submitted financials indicate that several of the leading "new concept" hog operations are pausing construction projects. Provincial governments and Beijing are aware of these developments and remain concerned given the amount of subsidies and investment incentives

provided to these publicly traded operations, which have grown considerably during the African Swine Fever (ASF) recovery. At the same time, senior party officials, including President Xi Jinping are also concerned with statistical accuracy and reporting when it comes to domestic agriculture production.

On 30 August, Xi outlined his ideas on improving data quality which will involve the use of enhanced technology, artificial intelligence, and other high-end computational equipment to replace error-prone humans. He also tied dealing with fraud and data manipulation to a kind of last frontier in terms of purifying the country's communist party under his watch. As the blog Dim Sums reports, the director of China's National Bureau of Statistics followed up Xi's speech with a series of announcements and encouraging slogans aimed at "The soil that breeds statistical fraud still exists."

At the regional level, these announcements from on high have seemingly reverberated. The Animal Husbandry and Aquaculture Affairs Center of Hunan Province just announced via social media that it will immediately conduct inspections of all incomplete and suspended large-scale projects for hog operations across the province, particularly those of major producers.

While it may be a stretch to say that these three announcements occurred in some purposely timed succession, their overall relationship is quite clear. Both ASF and then the COVID-19 pandemic resulted in a dramatic restructuring of the country's pork industry and restoring production to pre-pandemic figures has required enormous investments. Thus, if data are wrong or statistics are being inflated the repercussions for both agricultural and financial markets could be quite significant, particularly with the introduction of the live hog contracts on the Dalian this year, which took about four to five years to bring to market. Any uncovered fraud would further undercut Beijing and Xi's efforts to bring long-term improvements to China's food and agriculture security and sustainability, which could prove to be a profound blow to the latter's legacy.

Hubei Province Announces Measures to Alleviate Market Pressures

With live hog and pork prices continuing to tumble, Hubei's provincial government unveiled last week a series of support measure to cushion the blow for producers. As a leading hog and pork producing province, the supports target both farmers and slaughterhouses. Hog farmers will be eligible to receive a subsidized loan in the range of RMB 500 to 1000/head ($77.40 to 154.80/head) with the government providing an interest rate discount of up to 2 percent on any note through December. Meanwhile, slaughterhouses can receive a subsidy of RMB 39/head ($6.04/head) to offset the costs of electricity and inspection fees. The hope is that meat processors will expand their slaughtering and frozen pork storage capacities as the incentive is tied to two key operating costs. Hubei's goal is to maintain live hog and reproductive sow inventories in the range of 24 to 26 million head and 2.3 to 2.5 million head, respectively.

Recently released public information show that the top ten live hog farming companies in China received RMB 499.45 million ($77.31 million) in subsides in first of half of 2021. Leading the way were Muyuan Foodstuffs, Wens Foods, and New Hope Group with totals of RMB 130.2 million ($20.15 million), RMB 120.6 million ($18.67 million), and RMB 109.1 million ($16.89 million), respectively. Other notable beneficiaries of government largess include the DBN Group with RMB 49.65 million ($7.69 million), Ningbo Tech-bank Foods with RMB 20.1 million ($3.11 million), Luo Niu Shan Meat Food Company with RMB 18.2 million ($2.82 million), and Aonong Biotech with RMB 15.2 million ($2.35 million).

The fact that the top three companies received 72 percent of the total through the first six months of this year further demonstrates why there is so much consternation about data accuracy and a slowdown with any major project. Betting big on a few options can quickly lead to market contagion when things go south, and portfolio diversification is not strong.

Live Hog and White Feather Broiler Prices Fall Again

Live hog producers continued to feel the heat from oversupply last week as the national average price shed 1.4 percent. That translated to a week-on-week decrease of RMB .20/kg ($.03/kg) or RMB .09/lb. ($.01/lb.). The average operating loss per market pig expanded by RMB 27/head ($4.18/head) as a result. On the futures market front, the news was just as disappointing. With the pending expiration of the September 2021 contract, the January 2022 has taken center stage as the most heavily traded in recent weeks. It closed last week at RMB 16,090/MT ($2,490.71/MT), down RMB 1,055/MT ($163.31/MT) from the previous week's settlement price. Through today, the January contract has fallen an additional RMB 480/MT ($74.30/MT) to RMB 15,585/MT ($2,41.54/MT), perilously close to Muyuan's reported breakeven price of RMB 15/kg ($2.32/kg). Since closing at RMB 27,480/MT ($4,253.87/MT), its weekly high for the year, it has shed 42.3 percent of its value. Based on today's close for the January corn futures contract on the Dalian Commodity Exchange at RMB 2,461/MT ($380.96/MT), the hog-corn ratio for January stands at 6.33.

Expect provinces to continue to extend lifelines to the major producers should the proposed efforts to clean up data collection reveal that live hog and sow inventories do reflect the Ministry of Agriculture and Rural Affairs' (MARA) reported figures.

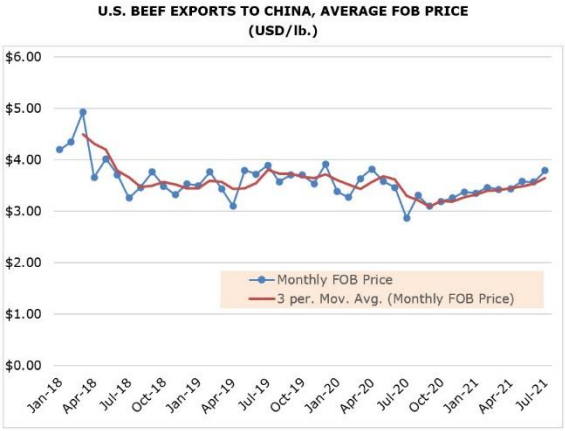
Live white feather broiler prices posted a second straight week of declines last week. The national average price edged down by 1.3 percent or a modest RMB .11/kg ($.02/kg). The pressures from imported meat seem to have reached into the quick serve and institutional sale channels, which are the lifeblood for China's domestic poultry sector. Nonetheless, with the national average price holding above RMB 8/kg ($1.24/kg) or RMB 3.63/lb. ($.56/lb.), that is above the long-term average, which would be more workable if feed costs were near their long-term averages.

Data Source: Boyar

Data Source: Boyar

U.S. Beef, Pork, and Poultry Exports at $2.45 Billion Through July

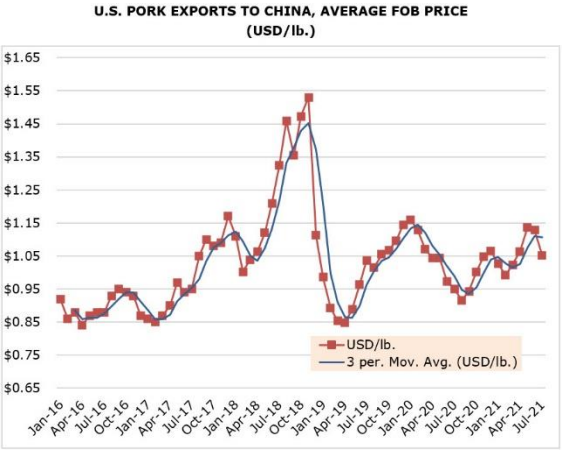
Beef exports from the U.S. to China continued on their blistering pace in July as the total tonnage reached 18,020.40 MT valued at $150.49 million, both monthly records. That raised the year-to-date total to 99,023.20 MT worth almost $773 million for an average FOB price of $3.54/lb. The average FOB price in July was up by 6.1 percent from June to $3.79/lb., the highest average since April 2020. To put these figures in further perspective, the total volume and value for beef shipments to China so far in 2021 are up 131.3 percent and 149.2 percent, respectively, over the totals for all of 2020.



Source: USDA GATS

U.S. pork exports to China while not seeing record monthly totals, continue to maintain historically high levels. With a volume of 52,652.40 MT valued at $122.18 million, July's totals were the third best all-time for that month. It also marked the 25th consecutive month that the volume has exceeded 50,000 MT and the value has surpassed the $120 million threshold.

The running totals through the first seven months of 2021 are at 516,539.40 MT valued at just under $1.21 billion for an average FOB value of $1.06/lb. That compares to 646,860 MT with a value of nearly $1.51 billion for the first seven months of 2020. At this point, pork exports to China are clearly slowing as July's totals were down 14.7 percent on volume and 20.5 percent in value from June, while the average FOB price was down 6.7 percent to $1.05/lb., the lowest level since this past March.



Source: USDA GATS

For their part, U.S. poultry exports to China have continued to remain extremely steady. Totals for July clocked in at 36,032.80 MT valued at $71.20 million for an average FOB price of $.90/lb. The volume for July was up 4.2 percent from June, while the value was up by 2.4 percent, as the average FOB price was down by just under $.02/lb. The year-to-date total through July has climbed to 255,252 MT worth $467.45 million for an average FOB price of $.83/lb. Compared with the same period for 2020, the totals so far in 2021 are up by 2.2 percent in terms of volume and 27.2 percent in value, as the average FOB price has increased by 24.5 percent.

Oilseeds

End of August Soymeal Inventory Reaches 980,000 MT

With crushing activity picking up the pace on the backend of last month thanks to modest gains in the meal market, crushers continued to drawdown imported soybean stocks. The net effect pushed up the national estimated total by 59,300 MT or 6.4 percent to close out the last full week of August at 979,700 MT, a bit more than expected. Regionally, trends were mixed with stocks down in three and up in four. Leading the increase were inventories in the East and in Guangxi, which ticked up by 42,100 MT or 8.5 percent and 20,500 MT or 19.6 percent, respectively. Compared with the same week in August 2020, the most recent estimated total is down 161,600 MT or 14.2 percent in the past year.

China's Estimated Soybean Meal Stocks (1,000 MT)

	Northeast	North	Shandong	East	Guangdong	Guangxi	Fujian	Total
27 August 2021	44.7	51.3	101.9	540.1	98.0	125.1	18.5	979.7
Week-on-week	-3.1	-2.7	-17.6	42.1	12.7	20.5	7.3	59.3
Month-on-month	-60.8	-49.6	-48.3	44.1	-4.9	-1.2	-23.1	-143.7
Year-on-year	-25.0	-17.0	-33.9	-15.7	-3.4	-29.9	-36.8	-161.6

Source: CoFeed, China Grain

Imported Soybean Inventory Falls by 1.4 Percent

The estimated imported soybean stock total at China's seaports continued to trend downward, falling last week by 123,100 MT or 1.4 percent. The biggest driver were inventories at the five major ports in Shandong, which declined by 91,200 MT or 3.5 percent, reducing the province's share to 29.5 percent. Similarly, stocks at the four major ports in Guangdong tumbled by 43,000 MT or 2.7 percent, pushing down the province's share to 18.1 percent. In

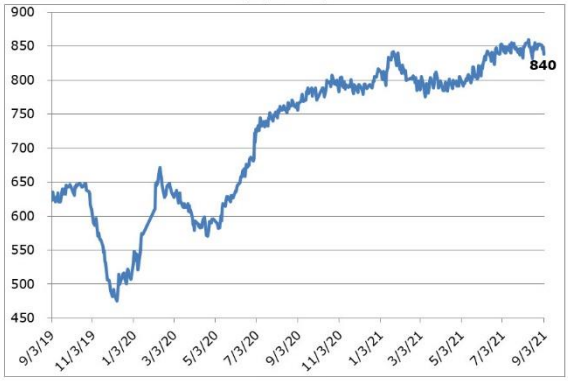
contrast, inventories at the three major ports in Jiangsu edged up by 13,000 MT or .6 percent, which nudged up Jiangsu's share to 24.2 percent.

China's Imported Soybean Stocks (1,000MT)

	Total	Other Ports	Shandong	Guangdong	Jiangsu
3 September 2021	8,402.6	2,367.4	2,480.0	1,523.0	2,032.3
Week-on-week	-123.1	-1.9	-91.2	-43.0	13.0
Month-on-month	-134.7	-118.9	-153.6	40.8	97.0
Year-on-year	751.5	223.7	-401.8	876.2	53.4

Source : JCI

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



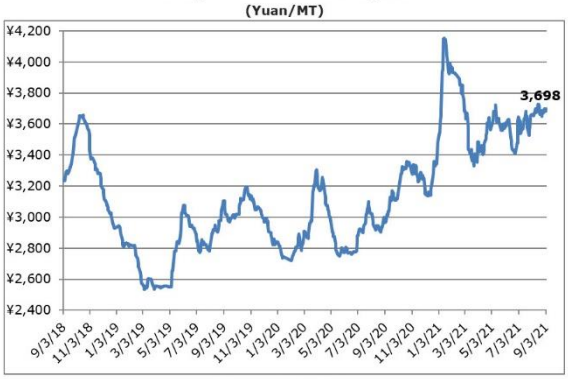
Source: JCI

Crush Losses Reduced on Higher Meal and Oil Prices

The average CNF prices for U.S. and Brazilian soybeans trended in opposite directions largely on currency movements. The average landed price for U.S. soybeans had a modest increase of $2/MT or .3 percent, while the CNF price for Brazilian soybeans edged down by $16/MT or 2.6 percent. On the product front, the average producer's price for soymeal rose again, improving by RMB 28/MT ($4.33/MT) or .8 percent, while the wholesale market for soyoil continued to climb, ticking up by RMB 36/MT ($5.57/MT) or .4 percent.

The average crushing loss on U.S. soybeans sans the 25 percent tariff was reduced by RMB 34/MT ($5.26/MT). By comparison, the much lower prices on Brazilian soybeans substantially cut the average crushing loss by RMB 170/MT ($26.32/MT). Looking ahead, the crush margin outlook will fluctuate with the quality of the U.S. soybean harvest, downstream demand, and the recovery of the Gulf ports in Louisiana following Hurricane Ida.

Average Producer Price for Soymeal (Yuan/MT)



Source: China Grain

China's Imported Soybean Crush Margin on U.S. Soybeans with 28% Tariff

	Imported Soybeans Cost & Freight	Exchange Rate	Soymeal Prices	Soybean Oil Prices	Crush Margin *(Tariff-28%)*	Crush Margin
	(USD/MT)	(USD/CNY)	(RMB/MT)	(RMB/MT)	(RMB/MT)	(USD/MT)
3 September 2021	616	6.46	3,698	9,717	-1,203	-186.3
Week-on-week	2	-0.03	28	36	36	4.7
Month-on-month	11	-0.00	43	443	17	2.6
Year-on-year	179	-0.37	735	2,634	-371	-64.5

Source: JCI

China's Imported Soybean Crush Margin on U.S. Soybeans without 25% Tariff

	Imported Soybeans Cost & Freight	Exchange Rate	Soymeal Prices	Soybean Oil Prices	Crush Margin *(Tariff-3%)*	Crush Margin
	(USD/MT)	(USD/CNY)	(RMB/MT)	(RMB/MT)	(RMB/MT)	(USD/MT)
3 September 2021	616	6.46	3,698	9,717	-79	-12.2
Week-on-week	2	-0.03	28	36	34	5.2
Month-on-month	11	-0.00	43	443	37	5.7
Year-on-year	179	-0.37	735	2,634	-91	-14.0

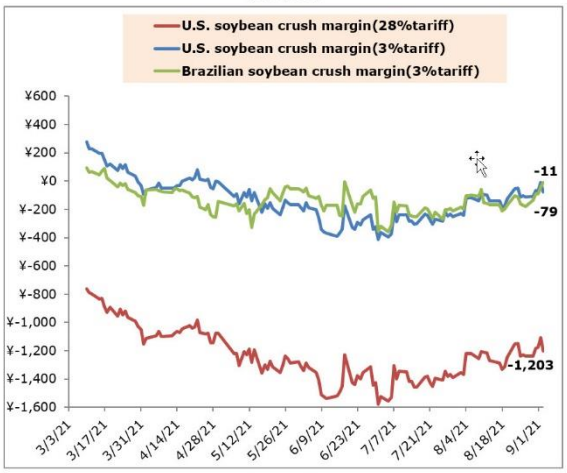
Source: JCI

China's Imported Soybean Crush Margin on Brazil Soybeans

	Imported Soybeans Cost & Freight	Exchange Rate	Soymeal Prices	Soybean Oil Prices	Crush Margin *(Tariff-3%)*	Crush Margin
	(USD/MT)	(USD/CNY)	(RMB/MT)	(RMB/MT)	(RMB/MT)	(USD/MT)
3 September 2021	607	6.46	3,698	9,717	-11	-1.8
Week-on-week	-16	-0.03	28	36	170	26.2
Month-on-month	4	-0.00	43	443	89	13.8
Year-on-year	164	-0.37	735	2,634	25	3.5

Source: JCI

Historical Imported Soybean Crush Margin (RMB/MT)



Source: JCI

Grains

Healthy Harvest Outlook Pushes Down Domestic Prices

With China expected to have a solid domestic corn crop and imports from the U.S. and Ukraine remaining strong, domestic prices fell across the board with one exception. The outlier last week was Heilongjiang, which saw the domestic corn price remain unchanged from the previous week. However, in Guangdong, where the average price had staged a sustained rally in August, it fell last week by RMB 60/MT ($9.29/MT) or 2.1 percent. That helped drag down the national average by RMB 11/MT ($6.46/MT) or .4 percent.

The China Customs Bureau data show corn imports from the U.S. and Ukraine in July amounted to 11.35 MMT and 6.73 MMT, respectively. The forecast is for an additional 7.7 MMT from the U.S. and 1.3 MMT from Ukraine by the end of the year. That would bring the 2021 total to 27 MMT. According to USDA Global Agricultural Trade System (GATS), corn exports in July totaled 2.68 MMT, bringing the year-to-date total to just over 15.35 MMT. On the feed side, China's Feed Industry Association reports that total hog feed production across the country rose by 1.9 percent in July to 10.45 MMT, marking the fourth consecutive month of production in excess of 10 MMT.

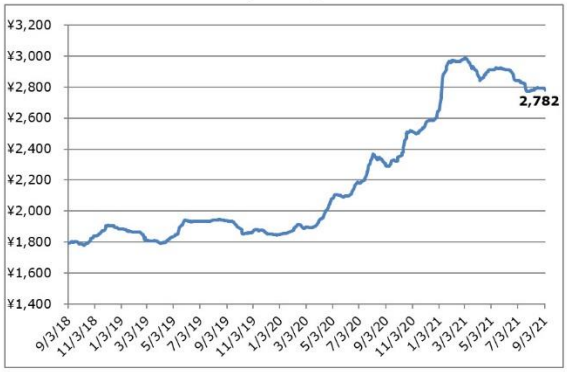
On the processing side, prices for starch products moved in different directions between Shandong and Jilin. The average prices for cornstarch and corn gluten meal in Shandong fell last week by RMB 50/MT ($7.74/MT) or 1.5 percent and RMB 60/MT ($9.29/MT) or 1.1 percent, respectively. In Jilin, the average cornstarch price improved by RMB 100/MT ($15.48/MT) or 3.3 percent, while the average corn gluten meal price remained steady. For ethanol producers in Shandong, the average ethanol price did not move, but the average DDGS price dropped by RMB 70/MT ($10.84/MT) or 2.7 percent. By contrast, in Jilin, the average ethanol price declined by RMB 70/MT ($10.84/MT) or 1.1 percent, but the DDGS price was unchanged from a week ago.

China Corn Wholesale Price (RMB/MT)

	Nationwide	Heilongjiang	Jilin	Liaoning	Shandong	Guangdong
3 September 2021	2,782	2,570	2,610	2,658	2,831	2,860
Week-on-week	-11	0	-13	-8	-13	-60
Month-on-month	3	-75	-40	-20	-12	100
Year-on-year	494	480	467	399	449	560

Source: CNGOIC/JCI

Corn Weekly Wholesale Price (RMB/MT)



Source: CNGOIC

China Cornstarch Processing Margin (RMB/MT)

(RMB/MT)	Shandong				Jilin			
	Corn Price	Starch Price	Corn Gluten Meal Price	Margin	Corn Price	Starch Price	Corn Gluten Meal Price	Margin
September 3, 2021	2,930	3,300	5,460	-95	2,740	3,100	5,520	-147
Week-on-week	-60	-50	-60	16	0	100	0	88
Month-on-month	90	-20	120	-125	0	100	420	186
Year-on-year	510	540	1,380	51	930	420	1,320	-733

Source: JCCE

China Corn Ethanol Processing Margin (RMB/MT)

(RMB/MT)	Shandong				Jilin			
	Corn Price	Ethanol Price	DDGS Price	Margin	Corn Price	Ethanol Price	DDGS Price	Margin
3 September 2021	2,870	6,750	2,530	-93	2,530	6,250	2,400	229
Week-on-week	-20	0	-70	-4	20	-70	0	-19
Month-on-month	44	-450	-170	-749	20	0	200	13
Year-on-year	504	750	380	-394	450	500	380	-133

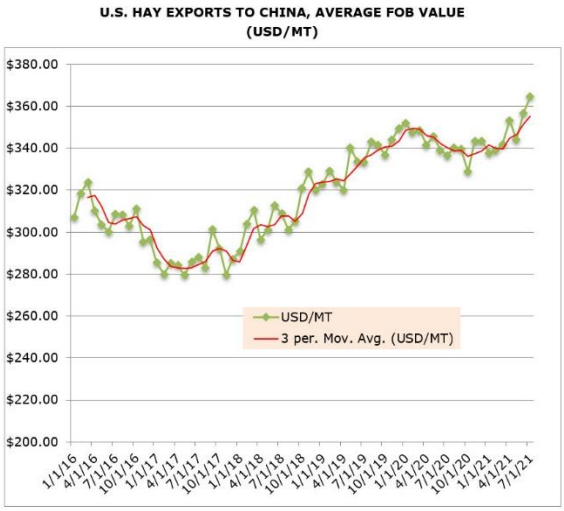
Source: JCCE

Feedstuffs

Hay Exports Also Set Record for 2021

Rising dairy prices have been a boon for U.S. hay shippers as year-to-date totals through July have grown to 836,303 MT with a value of $292.06 million. That translates into an average FOB value of $349.22/MT. The total value and average FOB figures are records for the first seven months of the year, while the tonnage is just behind the all-time mark of 849,988 MT, set in 2017. Compared with 2020, the total volume and value thus far in 2021 are up 3.5 percent and 5.3 percent, respectively, while the average FOB price is up by 1.8 percent. The total for July also marked the third consecutive month with tonnage in excess of 130,000 MT and the sixth month in a row with tonnage in excess of 100,000 MT. With July's average FOB value rising to $364.58/MT, the previous record high of $356.49/MT set in April 2015 was surpassed. If this pace holds, the

totals for 2021 will best last year's all-time annual marks for volume and value by November.



Source: USDA GATS

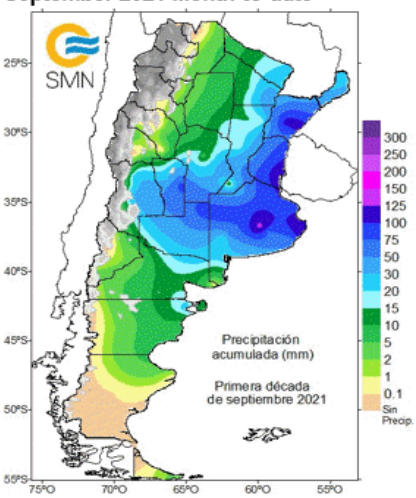
Mercosur Regional Analysis
13 September 2021

By WPI Staff

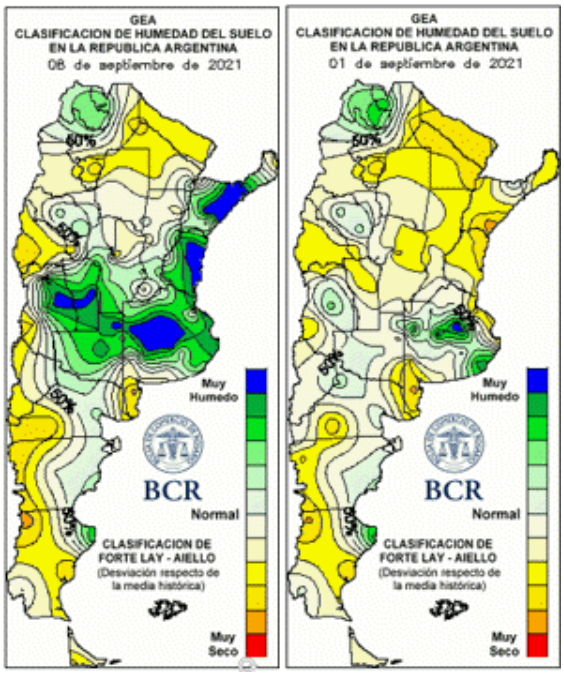
Grains

After a long period of below-normal rains, September started with meaningful precipitation for a large portion of Argentina's agricultural area, including all of Buenos Aires Province, south of Cordoba, and Santa Fe. The center of Cordoba and Santa Fe northward were less lucky, which is unfortunate as those areas have been the most impacted by drought.

Accumulated Precipitation in Argentina, September 2021 Month-to-date



Soil Moisture Levels in Argentina, 8 Sept. (left) vs. 1 Sept. (right) 2021



Wheat

Argentina

After the past few days' rain, there is a strong recovery in wheat conditions and soil moisture. The good/excellent portion of the crop increased from 31 to 46 percent from last week and the regular/bad ratings decreased from 31 to 21 percent. Moisture conditions are now such that 68 percent of the crop is growing with good/optimum moisture condition, up 9 percent from the prior week. The share of wheat growing in regular/dry conditions is 30 percent, down 10 percent from last week. WPI looks for additional improvements in crop conditions and soil moisture in the coming days.

Almost all the crop is going through important development stages (tillering, stem elongation, flowering, etc.) and the former dryness is a serious threat to yield development. Now, the scenario is totally different with good soil moisture that should last for many weeks. WPI looks for strong yields this year across most of the wheat-growing region. Only in northern Argentina were rains insignificant and the crop in the area remains under stress. Yields will likely be below normal from this region unless rains develop in the next few weeks.

In the center and south of the agricultural area, most farmers took the opportunity to fertilize with nitrogen and the rains helped good incorporation and absorption of the fertilizer. This will help with the crop's tillering and overall growth. Now farmers should keep an eye on disease issues as high moisture helps in the proliferation of fungal diseases.

Given the improvement in the wheat crop conditions, WPI looks for a 20-20.5 MMT crop, which is larger than our pre-rain estimates. Even so, there is still plenty of time before the crop is "made" and more rains will be needed during the grain filling stage to ensure good yields.

On the FAS market, traders were nervous before the rains and the market was trading near $250/MT FAS ($295 FOB equivalent for Bahia Blanca ports for March delivery and $245/MT for January. The FAS volume trade was above average at those prices and the market was moving.

Since the rains, however, the market is $10 below those levels. The swing for December Upriver (harvest time when logistics are important) was just $5-6/MT, now at $230/MT FAS. Farmers have already sold 6 MMT of the new crop wheat, which is 30 percent of expected production.

Local millers will likely soon have issues buying wheat in the local market. The government's intervention in the old crop wheat markets is keeping FAS prices lower than what they should be, but there is no such intervention yet for the new crop. There is a large carry between the old and new crops and farmers are now preferring to sell to exporters for delivery from December forward, rather than market to millers at old crop prices.

Brazil

CONAB reduced the expected wheat crop from 8.591 to 8.15 MMT due to drought and frosts that will affect yields in Parana. In any case, it will be a record. The country is expecting total consumption of 12 MMT and imports of 6 MMT. Their export number is 600,000 MT, but it might be higher if the quality is closer to feed wheat rather than milling wheat. Asia should take advantage of this volume and complete vessels with feed wheat in Brazil rather than with expensive corn in Argentina.

Sorghum

WPI infrequently discusses the sorghum market but it is becoming an important crop in Argentina since China has been steadily producing Argentine sorghum over the past several years. Until then, sorghum was often priced at a $20-30/MT discount versus corn and was primarily only sold to Colombia or Japan. Now, China has become the main sorghum buyer and prices are interesting on both the FOB and FAS markets. Expensive international freight rates are working against Argentina as the country's primary competitors (Australia and the U.S.) are closer to destinations and freight is cheaper.

This year, the sorghum area was 0.95 million hectares (Mha), which equates to 3.4 MMT of production, and exports have already been declared for 1.8 MMT. That figure will only increase as exporters have already originated 2 MMT. Of that, at least 1.5 MMT will be destined for China. For comparison, Argentina exported about 0.6 MMT of sorghum, of which 0.5 MMT was destined for China. Sorghum exports for the coming campaign are expected to reach 4.5 MMT, with much of that volume heading to the Middle Kingdom.

For farmers, sorghum is becoming a good alternative to corn as they can sell FAS 2022 between $185-190/MT, in-line with, and occasionally higher than, corn prices. It's also a crop in which the government is less likely to intervene in the market. The only significant limitation for planting sorghum is seed availability.

Corn

The FAS is largely unchanged from the past few weeks with prices moving sideways but replacements always being close to the offer side in the FOB market. Occasionally, there will be some export margin offered by the market, but the only time export margins have been consistently profitable was when exporters were able to buy cheap and guarantee prompt discharge at ports.

Now exporters are originating corn at 85Z for October/November and 95Z for December versus an FOB market offered at 80Z for October, 85Z for November and 98Z for December. Demand in the FOB market has been more active this week with buyers increasing bids to 75Z, 78Z and 80Z for October, November, and December, respectively.

Argentina's recent rains were also good news for new crop corn. The planting window for the early corn will start soon and most of the area needed rains to be in sufficient conditions to receive seed. Planting will start in the north where rains are still needed, but most of the core agricultural region now has good moisture, promising a good start to the crop. This might encourage some farmers to plant more early corn, but any acreage switch will be small as they are not looking at the current conditions situation to decide, but rather looking at the conditions expected for December (flowering of early planted corn), a time period for which forecasts are not optimistic.

Soybeans

During this past week, China was again buying old crop from Brazil and Argentina and some new crop cargoes as well. Old crop purchases have been happening every week although we believe these will probably be the last old crop cargoes traded. China is trying to buy the minimum necessary in South America until the U.S. starts its campaign.

China bought (at least) two C&F cargoes from Brazil for October shipment between 405/415 SX. They also bought one Argentina cargo at 376 SX at FOB price around +180 SX (this would give 20 cents counter margin for the exporter vs origination in Argentina).

Paranagua paper closed at the end of last week at +238 SX for September/October, while the cargo was offered at 255 SX FOB and 420 SX CNF. Argentina and Uruguay closed with no sellers in sight.

China published its official soybean imports for August at 9.49 MMT slightly below last year at 9.6 MMT.

Abiove put Brazilian exports for this year at 86 MMT versus 86.7 last month and total imports 0.9 MMT versus 0.4 MMT last month. Due to the high Parana River restrictions, Brazil bought, at a competitive price, beans from Paraguay, delivered by truck to the crushing plants in Parana.

The Brazilian government (again) cut the biodiesel mandate from 13 to 10 percent this week arguing high bean prices. In the same direction and justification, India cut vegetable oils import tax. For bean and sun oil particularly from 7.5 to 2.5 percent of C&F values.

Going into new crop, Brazil sold a couple of cargoes for February onward (until May) at approximately 215 SH for march and 175 SK for May.

Paranagua closed at 55 SH for Feb, 28 SH for March and 22 SK for April /May. Cargo closed offered at 70 SH for Feb FOB and 30 SK for April. C&F closed January at 270 SH, FEB at 225 SH and march at 187 SH.

Due to hurricane Ida and the impact on the NOLA terminals, the U.S soybean program is delayed and could be competing with Brazil at the end of their season (February). Nevertheless, at current prices it does not seem possible with Brazil, by far, much more competitive for this shipment.

The beginning of planting in South America is close. Argentina, Uruguay, and Paraguay have received very timely rains during the week. In Argentina rains were very even around the productive areas and an average of more than three inches fell in the last seven days. Soil moisture is now perfect to start planting in about 30 days. In Brazil, there are good rains (in the forecast) for this week and, if this finally happens, Brazil will be ready to start planting its record crop. On the contrary, Argentina is going to plant its lowest crop in the last 20 years.

An interesting work published by Fundacion Producir Conservando, concluded that the lack of a legal system protecting the intellectual property of the seed companies in Argentina is one of the reasons for the lower crop, not only in area, but in

production. Compared to the U.S. and Brazil, where the legal royalty system protects companies in 100 and 75 percent, in Argentina this is only 30 percent. Because of that, Argentina genetics are running behind its competitors. During the last 20 years, the U.S. and Brazil increased yield by 1.84 and 2.25 percent versus Argentina 0.8. On top of this, quality wise, due to genetics and management, Argentina is losing protein content.

The past weekend there were primary elections (PASO) in Argentina and the official party lost by 10 percent in the total including (surprisingly) Buenos Aires province by 4 percent. The Argentine president Alberto Fernandez is trying to react to the results by showing change. He gave a short speech last night and recognized the message from the voters but without many explanations.

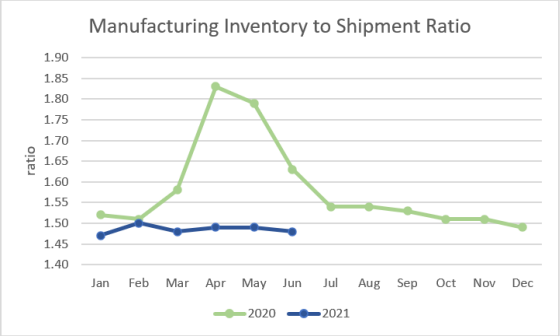
WPI POLICY ANALYSIS

Conditions of Stagflation

By Dave Juday

The U.S. Bureau of Economic Analysis (BEA) recently released the real, or inflation adjusted, GDP estimate for Q2 2021 showing the economy growing at 6.5 percent. Under normal conditions that is a scorching hot economy, but in context of the U.S. economy's recovery from COVID it is less impressive; the pre-report consensus was 8.4 percent growth.

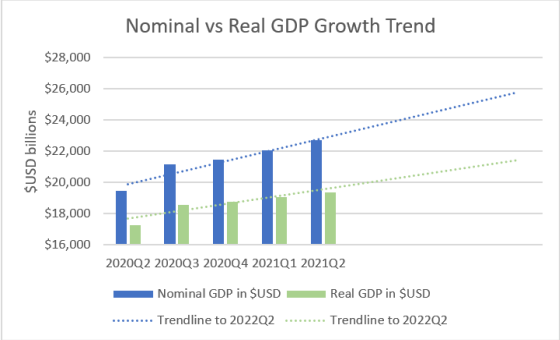
The drag on growth was inventories as manufacturers were dipping into supplies to cover consumer demand which remained higher than recovering production rates. Consider that production is equal to sales plus changes in inventory, so even though sales have remained strong, manufacturers' inventories are not only not being rebuilt to pre-COVID levels, but they were also, in fact, being drawn down in June compared to May – the opposite of when COVID resulted in ballooning inventories.



Source: U.S. Census Bureau, WPI

Stimulus money has helped boost demand, but manufacturing is still recovering from labor shortages (catalyzed by stimulus and unemployment payments) and recovering supply chains. Of course, as a rule of thumb, higher sales and lower inventories are inflationary – a increase in demand and a steady or declining supply. So, fitting all the puzzle pieces together, we have more money in the economy and constraints on manufacturing expansion. In other words, slower growth and higher prices, which defines "stagflation."

The GDP nominal price index for Q2 2021 was 6 percent, which is the highest quarter since 1981 (remember that date). The nominal GDP (which is actual spending plus inflation) is growing at a faster rate than real GDP – which can be seen in the chart below, especially by extending the trendline out for another year to Q2 2022.



Source: BEA, WPI

Speaking of 1981, recall the stagflation of the 1970s driven by record food and energy prices which ultimately led the Fed to ratchet up interest rates to 20 percent to squeeze inflation out of the economy. That led to a crash in farm values and commodity prices. From 1973 to 1983 there was a market and policy roller coaster with bullish commodity prices starting in 1973-74, OPEC oil supply shocks, expanding government spending, import tariffs, monetary policy stimulus, wage and price controls, eliminating the gold standard for the U.S. dollar, mistimed tax increases all leading up to the U.S. embargo on grain exports to Russia in 1980. Not to mention, political upheaval (Watergate, Vice President Agnew's resignation, President Nixon's resignation) and political polarization.

Stagflation is not a normal, natural economic trend. Inflation does not naturally occur in a weak

economy because in normal economic circumstances, slow growth prevents inflation. As a result, consumer demand drops enough to keep prices from rising. Stagflation is a product of government policy, but reverse engineering those policies is difficult. Lowering inflation can adversely impact growth and unemployment. The best case is to avert it early.

While the decade from the early 1970s to early 1980s was particularly dramatic, so is the current environment – in many ways even more so. The post-COVID emergence for agriculture could well be driven by fiscal and monetary policies unfolding now. The massive infrastructure spending bill will spend over the long-term and produce some employment and activity – despite a shortage (at least for now) of willing workers. But the $3.5 trillion Biden budget plan Congress is about to take up is more of a sugar high, on top of a year of sugar-buzz economic stimulus spending, and the very real possibility of a tax increase to pay for all the spending as well as monetary policy that must become tighter.

The question is at what pace does it tighten? A keen eye on fiscal and monetary policy – and where it is headed if that can be discerned – could be as important for the ag outlook as ever.

Limits of Monetary Policy; Going for Mr./Ms. Big

By Gary Blumenthal

Limits of Monetary Policy

Progressives in the U.S. House of Representatives led by the Squad's Rep. Alexandria Ocasio-Cortez (D-New York) are proving how little they understand about economics. Their latest demand is that President Biden replace Federal Reserve Bank Chairman Jerome Powell with someone that will focus on eliminating climate risk and advancing racial and economic justice.

Fortunately, the House plays no role in confirming the next chairman but sadly the demand reflects a problematic viewpoint. The role of the Federal Reserve is to conduct national monetary policy, supervise and regulate banks, maintain financial stability, and ensure banking services. The role of the Congress is to address national policy issues such as the environment and citizen welfare. By ceding this authority to the banking system, House progressives are proposing to weaken their own purview over the nation.

Former President Trump wanted to fire Mr. Powell but Fed chair appointments are for 14-years, and they cannot be removed by the president for mere policy differences. President Biden is trying to respond to pressures from the left wing of the party and this week announced a new Office on Climate Change and Health Equity. Progressives are frustrated because the legislative process is slow and intentionally deliberative. They would likely rue the day they handed more power to the Fed chair if the appointee did not deliberate the same way they intend.

Going for Mr./Ms. Big

The Chinese central government is going after its large corporates, arguing they undermine common prosperity. An Argentine assessment laments that most agricultural exports are controlled by foreign based companies. Now the Biden Administration wants to go after big American companies.

This form of self-flagellation makes sense. Why should the U.S. contain nearly 60 percent of the largest companies in the world? The biggest is Google, a sort of information central library when access to information should not be so easy. Might as well go after Wikipedia too, it is a monopoly compared to the days when Britannica, World Books and others competed to be the world's information repository. Facebook often gets tagged for being too powerful, but YouTube gets more hits and home videos should be harder to find.

In the end, it is easier for regulators to tear down transparent public IT services than it is to stop what Americans really hate - the more than 4 billion per month robocallers, spoofers, and scammers.

Knuckleheads; Profound Revolution

By Gary Blumenthal

Knuckleheads

Aides to President Joe Biden charged U.S. meat packers with profiting off the pandemic and said they are going to "crack down on illegal price fixing." The Administration had earlier said it would provide $500 million to expand meat packing capacity even though the constraint has been labor and not infrastructure. And if they have not been enforcing the law against price fixing, the question should be why not? Now the White House is adding $1.4 billion worth of COVID stimulus funds to help small meat packers and workers.

The major meat packers responded by saying the White House is ignoring analysis already conducted by USDA that shows the problem was insufficient labor at packing plants causing a backup on the live cattle side at the same time consumer demand was increasing and thus drove retail prices higher. Basically, the Biden White House does not understand basic supply and demand. Notably, the stock value of one of the major meat packers that is publicly traded peaked just before the pandemic, plunged 37 percent during the lockdown period and only partially recovered in May of this year. This means the Biden White House also does not understand basic corporate finance.

Profound Revolution

The next big market shock could be a doozy. First, Chinese insiders are painting a more dramatic change in Beijing's governance plan than just "common prosperity." They are interpreting an impending "Profound Revolution" that will change every aspect of Chinese society. Investors have been warned by George Soros to be careful and now historian Niall Ferguson writes that the American withdrawal from Afghanistan gives Beijing confidence that it can invade Taiwan without fear of U.S. interference.

China needs to move soon because Taiwan is building up its defenses and seeking trading agreements at the same time the race for prime minister in Japan is becoming very hawkish toward China.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS