AgReview

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Finally, A Market to Watch

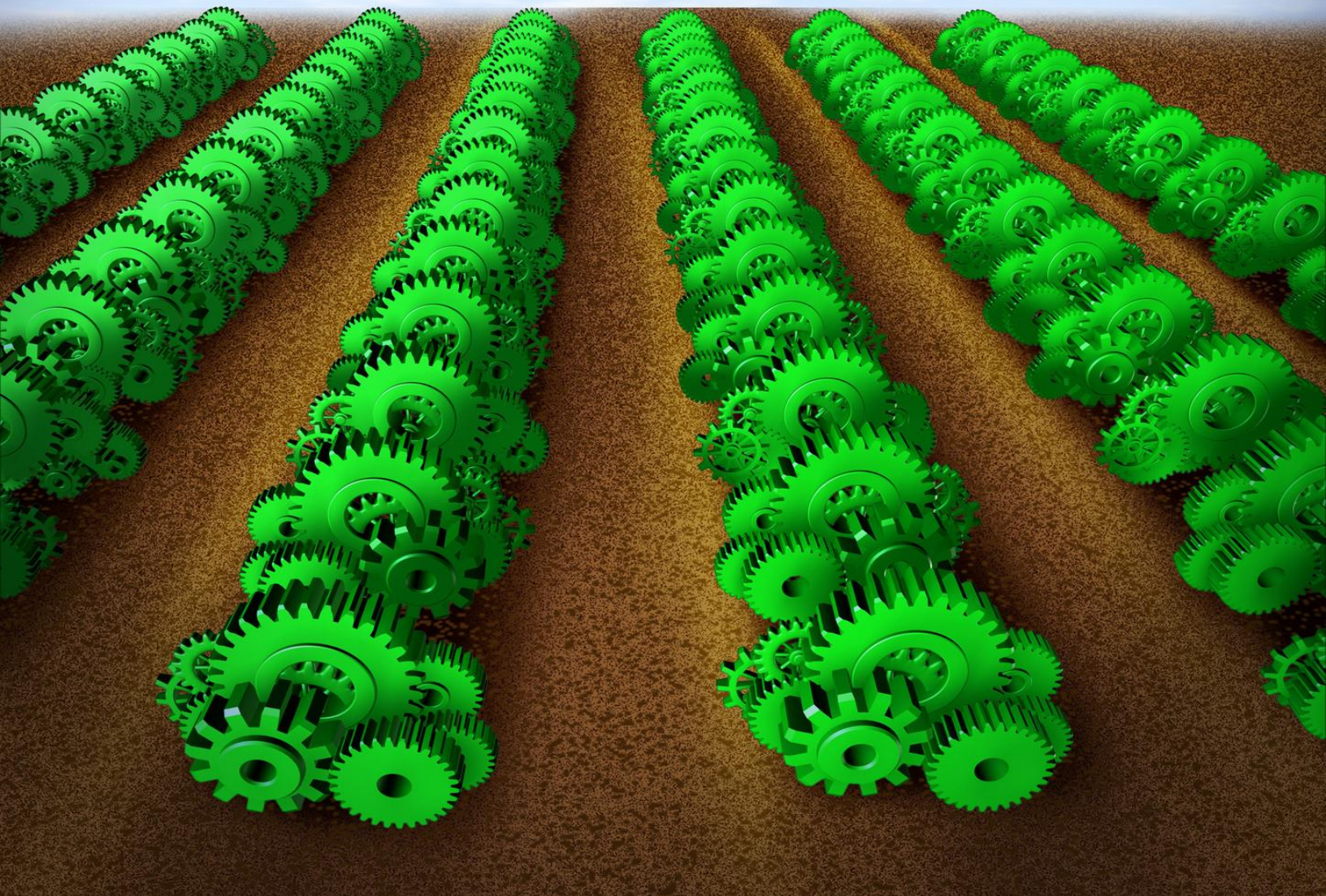
Could Be More Bearish

COVID Crushed Crushing

Mercosur Regional Analysis

The Global Future

Farm Spending: $7 Billion Down, $43 Billion to Go



WORLD PERSPECTIVES: AG REVIEW

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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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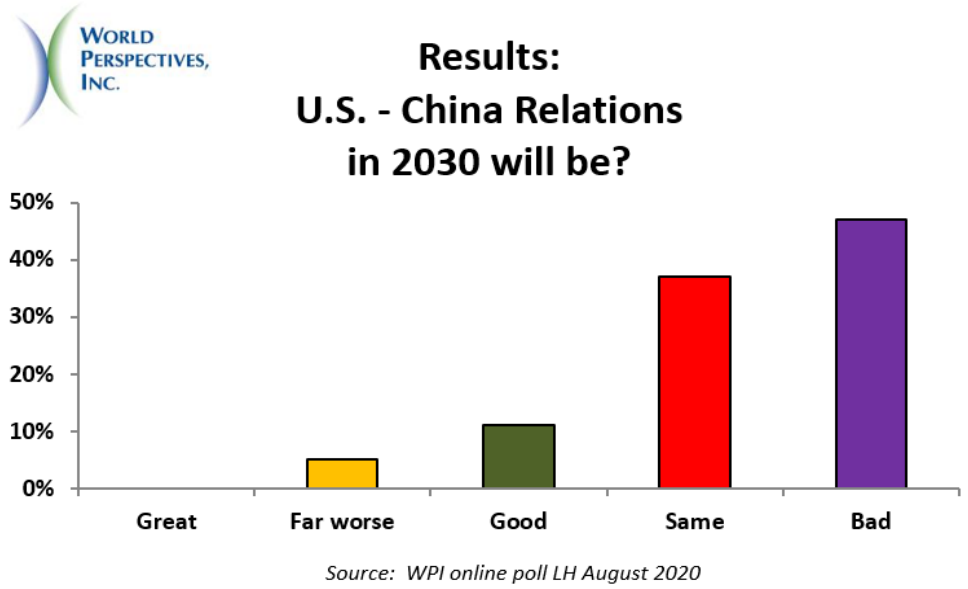
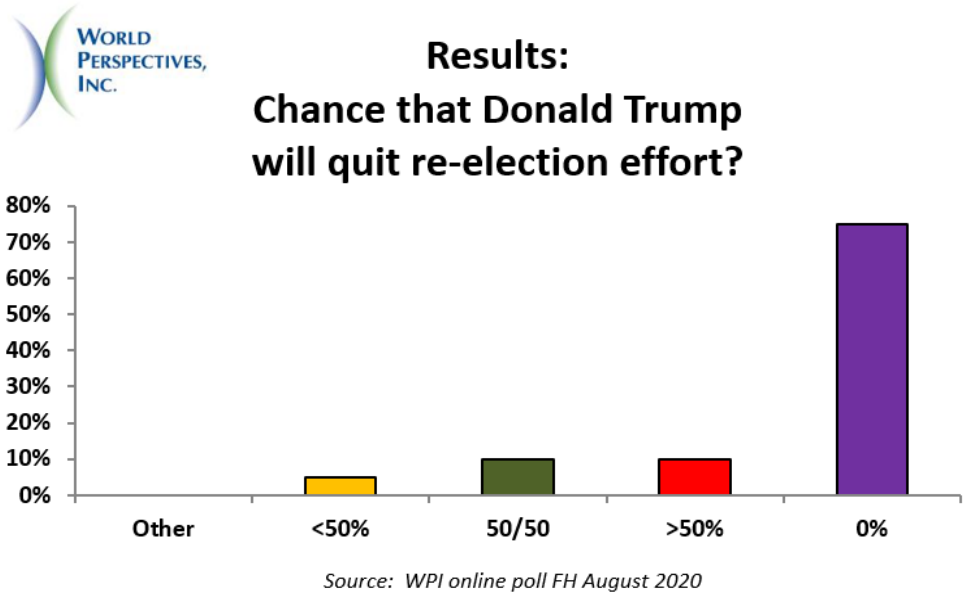
WPI POLLING

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

Looking Up

By Gary Blumenthal

In this edition of Ag Review, we do not ignore the negative impacts on the market (e.g. COVID, over-supply, etc.) but Bob Kohlmeyer leads us forward with his piece, "Finally, A Market to Watch". Newton's third law of motion only states that what goes up must come down, but the opposite is equally true in markets.

Some weeks ago, there were a handful of investment advisors urging a switch of some cash out of frothy equities and into bottom of the barrel commodities. Not all commodities are investment grade, as we note with the included story about FCOJ contracts, but there are lots of positives in this volume including China's recovery, Mercosur's upcoming season and the flow of farm bailout money.

The food and agriculture industry may sometimes be down, but it is never out completely. When the Dow Jones Industrial Average was started in 1896, half of the dozen companies involved were agriculture related. They included American Sugar, U.S. Leather, American Cottonseed Oil, American Tobacco, U.S. Rubber, and Distilling & Cattle Feeding. Some derisively refer to these essential goods makers as "smokestack" industries and while none of them have survived in their original form past 1932, all but leather have evolved into other companies serving the consumer. Their names today include Ingredion, Unilever, Domino Foods and Diageo.

The point is, it is difficult to drive forward looking in the rearview mirror, but occasionally looking back provides important guidance about the future. We hope you enjoy this edition of Ag Review.

Gary

WPI MARKET ANALYSIS

Finally, A Market to Watch

By Bob Kohlmeyer

It seems as though grain and soy markets have been struggling under the weight of very large supplies and stagnant demand forever. No doubt this is an exaggeration, but as a broad generalization, markets have been mainly supply driven during the last few years.

Markets have also been battered by politically driven trade disruptions such as the tariff war between the U.S. and China and by the impact of the coronavirus pandemic. Both have negatively affected demand and trade. Furthermore, early planting of the 2020/21 U.S. corn and soybean crops last spring and the pattern of generally favorable weather though early August gave rise to the potential for record yields and record production for both. That potential plus the likelihood of stiff competition from competing exporters created a pervasive bearishness that shackled futures markets. Influenced by this, managed funds built up large short positions primarily in corn, wheat, and soymeal.

However, prices do not move in just one direction forever. A combination of factors has pumped some life into the market. First, China appears to be trying to comply as best it can with its purchase commitments under the Phase One trade agreement and despite deteriorating U.S.-Chinese diplomatic relations. The results are impressive. Through FAS/USDA's weekly export sales report of 20 August, China has bought about 12 MMT of U.S. soybeans for 2020/21. There may also be some Chinese activity hidden in about 6 MMT that U.S. exporters have sold to unknown destinations. Since then there has been a string of daily reports of soybean sales to China that will be picked up in the next weekly sales report. China also bought corn and even some hard red winter wheat.

Second, the 10 August derecho with straight line winds of up to 100 MPH tracked more than 700 miles across Iowa, Illinois and as far east as Ohio and Michigan. It affected an estimated 14 million acres of Iowa cropland. Corn suffered the most damage. Good estimates as to how much corn was totally lost will have to await harvest, but some early guesses range from 40 million - 100 million bu. Soybean plants are lower to the ground and were much less affected, but some loss is still likely.

Third, the lack of meaningful rain in the Western Corn Belt during July and FH August brought drought conditions and high temperatures to the region by late August. Parts of Nebraska, South Dakota and Iowa are most affected. This resulted in a sharp decline in the 23 August USDA weekly crop condition ratings, and a further decline in the next weekly ratings seems quite likely. It seems clear now that the top of NASS/USDA's lofty August national average corn and soybean yield estimates has been shaved off. This not to say that a crop production disaster is looming. But USDA's August corn yield estimate of a record 181.8 BPA and soybean estimate of 53.3 BPA no longer seem achievable. A corn yield of 179-180 BPA and a crop near 15 billion bu seems more likely. A soybean yield of plus or minus 52 BPA instead of USDA's 53.3 BPA seems a better guess now. The result will still be big corn and soybean crops, just not quite as big as previously thought.

These bullish vibes came together Tuesday, and the results were sharply higher grain and soy futures prices across the board. The rally was led by corn with the December contract closing up 9.5 cents influenced by massive short covering by managed funds. Funds were credited with buying 45,000 - 50,000 contracts of corn futures yesterday, and open interest in corn dropped by 42,000 contracts. For the month of August, the CME December corn contract is up about 26 cents, November soybeans are up about 30 cents,

CME September wheat is up 7 cents and, KC September wheat has gained about 12 cents. These are notable price movements by recent standards.

Time will tell whether grain and soy futures have truly bounced off their lows never to return or whether the recent moves higher are merely a temporary technical rally typical of a bear market. We cannot say that we have turned bullish. A truly bullish market requires a major weather-related production problem somewhere important. There will still be several exporters with large supplies chasing demand and market share.

With normal weather, Brazil will likely expand its production of corn and soybeans for 2020/21 again with farmers attracted by very profitable prices denominated in reals. There is already talk of a 135 MMT Brazilian soybean crop in the next crop cycle and a big expansion in planted corn area. Barring bad weather during the next South American growing season, world stockpiles are likely to grow again.

Yet, we think that the market is sending a message. It seems to be saying that the bearish stories of the last six months may have been overdone and that bearish traders should not become too complacent.

If the COVID-19 situation can be calmed to some degree by the availability of effective vaccines, world demand for grains and oilseeds should begin to grow again. Based on the need to feed rebuilding hog herds and poultry flocks, China's demand for soybeans and possibly corn is real. If China does import a record 99 MMT of soybeans in 2020/21 as predicted, their demand for U.S. soybeans should be heavy through at least January.

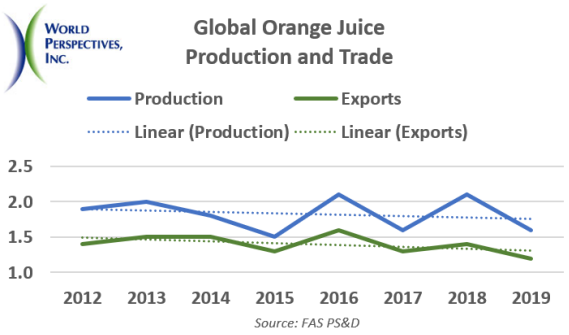
Presently, U.S. soybeans and corn are the world price leaders. Domestic demand and logistical issues have kept Brazilian corn priced well above U.S. values in a time frame that they usually dominate. We do not foresee U.S. wheat as being competitive in the world market other than the usual buyers, but the U.S. is well placed to capture a good share of latent demand for corn, soybeans and soy products, grain sorghum, ethanol and DDGs. Moreover, growing U.S. meat, poultry and dairy represent domestic demand for U.S grains and protein meals.

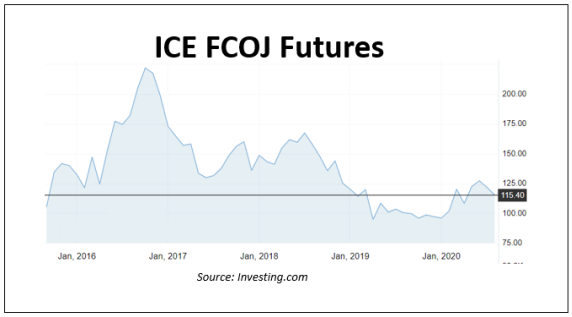
We do not want to get carried away, but we do believe things are not as bleak as they were portrayed a few months ago, and this is what the market seems to be saying.

Could Be More Bearish

By Gary Blumenthal

Trading grain is not as sexy now as it was back in 2007-2008, but it could be worse. Orange juice futures were a big deal in 1983 when the movie Trading Places was a Hollywood hit but the underlying commodity has been falling out of favor in recent years. Global production and trade have been trending down as affluent consumers have been warned off sugar and have consequently veered away from sweet beverages.





COVID Crushed Crushing

By Dave Juday

The National Oilseed Processors Association released a study on the impact of COVID-19 on soybean crushers and farmers. The study shows

that the value of soyoil dropped $1.5 billion from January - June, a 17.5 percent decline; meal dropped $220 million, which was a 1.4 percent decline.

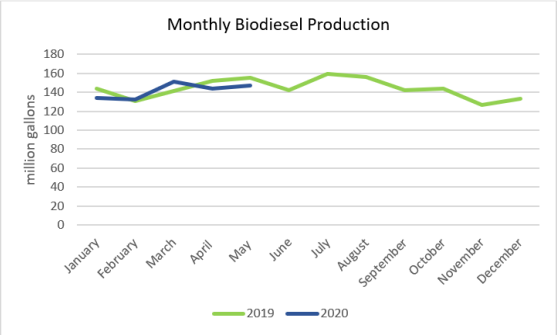
The estimated breakdown between oil use for biodiesel and food use through June from the January baseline showed a $781 million drop in value from lost domestic biodiesel demand and a $911 million dollar drop in food use demand, offset by a $192 million increase in biodiesel exports.

The silver lining to the cloud, however, was biodiesel production continued and cleared the market for soyoil. Heavy vehicle traffic dropped less during COVID-19 lockdowns than did cars and light trucks, so diesel/biodiesel use was not impacted as dramatically as gasoline/ethanol use.

Moreover, with the shutdowns in restaurants, slowdowns in livestock and poultry slaughter, and the shutdowns of ethanol mills limited other feedstocks for biodiesel production, and soyoil made up the difference.

In April, yellow grease use was down 46.7 percent from April 2019, white grease was down 23.7 percent from a year ago, and distillers' corn oil was down 45.7 percent from the previous year. Soyoil was actually up 6.3 percent.

Since the report's analysis, the May data is out; soyoil use was up 18 percent over May 2019, distillers corn oil was down 41.5 percent, white grease was down 7.6 percent, and yellow grease was down 69 percent.



Source: EIA, WPI

Looking back at ethanol, corn use for ethanol in April was down 46.5 percent. USDA released monthly Grain Crushing report for June and it showed a slightly quicker rebound for ethanol production than was anticipated at the on-set of COIVD.

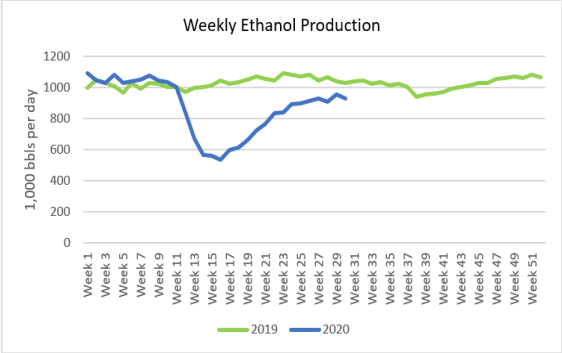
As we wrote on 2 June, based off of EIA data and forecasts at the time, the estimated corn use for ethanol in June was expected to rebound to 310 million bushels for dry mill; in fact, it was 337 million bushels. For wet milling, the outlook was for 45 million bushels, but the actual total came in at 41.5 million, which would have been down about 20 percent from 2019, but instead was down just 17 percent.

Biofuels Grain Crushings and Co-Production June

	Wet Mill	Dry Mill	Total	Percent of May 2020	Percent of Jun 2019
Corn Use (1,000 bu)	41,551	337,349	378,900	126%	83%
Sorghum Use (1,000 cwt)			1,286	62%	%

Source: USDA, WPI

Overall, after the April report was released in early June, we saw DDGS production back up to 80 percent of June 2019. Dry mill production of DDGS actually came in at 1.664 MMT during June 2020, 85 percent of last year, and 135 percent of May.



Source: EIA, WPI

WPI INTERNATIONAL ANALYSIS

China In-Country Analysis
5 August 2020

By Global Agribusiness Partners

Livestock

Ministry of Agriculture Data Show Hog Recovery on Track

According to the latest market surveys from China's Ministry of Agriculture and Rural Affairs (MARA), through this past June the country's sow and live hog inventories are recovering at a steady pace. At the halfway point of 2020, the estimated nationwide sow inventory has recovered to 36.3 million head, while live pig output has climbed to 251 million head. With wholesale and retail prices remaining at historically high levels, the central government has continued to auction off frozen pork from its strategic reserves.

In the last two weeks of July, China's Merchandise Reserve Management Center has held two auctions. At the 23 July auction, a total of 6,000 MT was turned over at a purchase price of RMB 22,672.59/MT ($3,243.58/MT). Another 10,000 MT was sold on the 30 July, which brought the year-to-date total to nearly a half million metric tons.

Imports of Breeder Pigs in the First Half of 2020 a Near Record

As a result of the major shortage in reproductive sows caused by African Swine Fever (ASF) and record high hog farming profits, breeder imports soared to 9,838 head through this past June. This represents a nine-fold increase compared with the first half of 2019. This transpired while the impact of the novel coronavirus and nationwide quarantine severely limited the processing capacity of China Customs. As a result, we expect breeder imports to reach 15,000 head by the end of 2020.

An analysis of trends over the past 15 years shows a strong correlation between the national average profit per live pig and import volumes of breeder pigs. If trends hold, live pig prices should begin to feel real downward pressure in the Q1 of 2021.

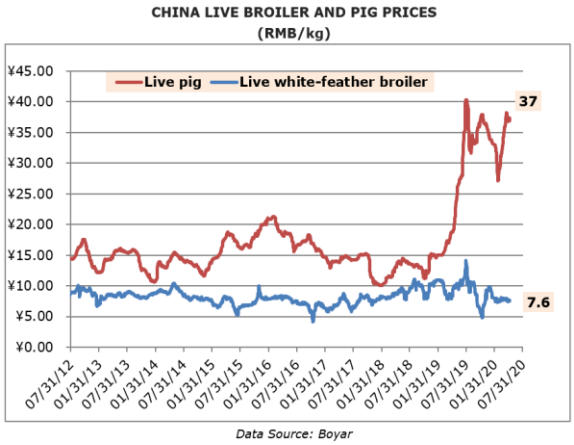
Add to this mix, that after several years of discussion and planning, China's Dalian Commodity Exchange launched its first trial live hog futures contracts in the last weeks of July. So far, a few major players have participated. The last sticking point in getting the contracts up and running was finalizing delivery points.

As with corn futures, which saw a significant change with the removal of the minimum state reserved purchase price, the introduction of a well-functioning hog futures market is likely to unveil some interesting and unknown market issues with respect to the production and sales of pork in China.

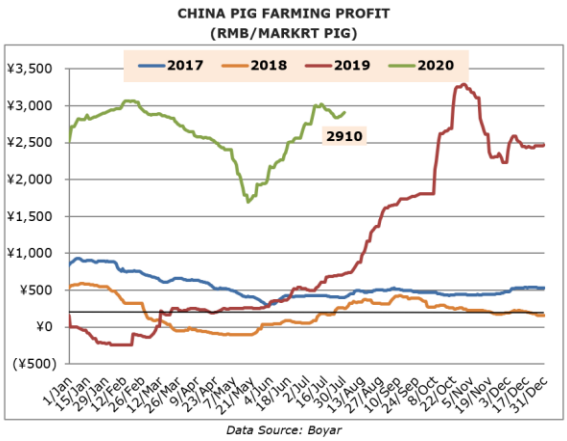
Live Hog and White Feather Broiler Prices Mixed

For the past two weeks, live hog and white feather broiler prices have moved in opposite directions. The national average live hog price fell two weeks ago and then recovered slightly last week, while the national average white feather broiler did exactly the opposite. At RMB 37/kg ($5.30/kg) or RMB 16.78/lb. ($2.40/lb.), the live hog price is down 1.6 percent from two weeks ago, but it is up .7 percent in the past week.

In contrast, the average white feather broiler price at RMB 7.60/kg ($1.09/kg) or RMB 3.45/lb. ($.49/lb.) is down 1.2 percent from two weeks ago and 1.7 percent in the past week.



On the processed meat front, data from China's Ministry of Commerce show that for the month of July the national average pork price amounted to RMB 47.75/kg ($6.83/kg) or RMB 21.66/lb. ($3.10/lb.). That represents a year-on-year increase of nearly 102 percent from the July 2019 monthly average. In the past week, official Ministry of Commerce data show the wholesale price declined by a modest 0.2 percent to RMB 48.42/kg ($6.94/kg) or RMB 21.96/lb. ($3.15/lb.). The fluctuating live hog and pork prices have played out in the operating profits for hog farmers. At RMB 2,910/MT ($416.91/MT) last week, the average profit per head is up RMB 69/head ($9.89/head) in the past week but down RMB 34/head ($4.87/head) from two weeks ago.



Meanwhile, in Guizhou province, located in southwest China, it was announced that investments in new pig farms by several major companies will reach RMB 12.3 billion ($1.76 billion) in 2020. This expansion will increase hog production capacity in the province by 7 million head per year. The companies involved in these efforts include the state-owned enterprise Shanghai Bright Food Group and privately held companies Sichuan Dekang Group, Wen's Group, Jiangxi Twins Group, and Guangdong Tinoo's Foods Company.

Oilseeds

Soymeal Inventory Continues to Decline

For the fourth week in a row, China's nationwide estimated soymeal inventory declined. Through 31 July, the national total stood at 860,200 MT, a week-on-week decrease of 14,900 MT (-1.7 percent). Regionally, meal stocks increased in two regions and fell in five. Leading the decliners was Shandong province, where soymeal inventories fell by 35,700 MT (-46.9 percent), while in the Northeast, stocks dropped by 14,100 MT (-16.7 percent). On an annualized basis, last week's national total was up by 18,000 MT (+2.1 percent) from a year ago.

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

	Northeast	North	Shandong	East	Guangdong	Guangxi	Fujian	Total
31 July 2020	70.3	45.0	40.4	464.9	78.6	120.0	41.0	860.2
Week-on-week	-14.1	-4.2	-35.7	23.6	-1.4	18.0	-1.1	-14.9
Month-on -month	-17.7	-3.7	-55.6	14.3	-4.8	-31.0	-6.0	-104.5
Year-on-year	3.1	-23.5	-69.7	140.5	-19.9	1.0	-13.5	18.0

Source: CoFeed, China Grain

Imported Soybean Inventory Continues to Grow

Trends in China's imported soybean stocks at the country's major seaports continued to exhibit some interesting developments. In Guangdong, imported soybean inventories at the four major ports in Guangdong continued to decrease to historically low levels, falling by 163,000 MT (-18.8 percent) to 703,200 MT or 9.3 percent of the national total. In stark contrast, imported stocks in Jiangsu continued to surge to new heights, rising by 117,700 MT (+7.6 percent) to 1.66 MMT, raising the province's share of the national total to 22.1 percent. In Shandong, imported soybean stocks at the province's five major ports fell by a modest 4,300 MT (-.2 percent) to just under 2.61 MMT or 34.7 of the national total.

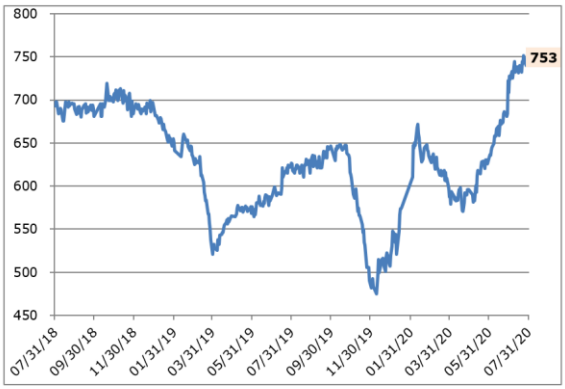
Overall, China's estimated nationwide imported soybean stocks were up 39,100 MT last week (+.5 percent) to 7.53 MMT. At this historically high

level, China is clearly hedging its position against any potential supply interruption through January 2021 and the U.S. presidential elections.

China's Imported Soybean Stocks (1,000MT)					
	Total	Other Ports	Shandong	Guangdong	Jiangsu
31 July 2020	7,525.6	2,550.5	2,609.5	703.2	1,662.5
Week-on-week	39.1	88.7	-4.3	-163.0	117.7
Month-on-month	304.8	41.9	127.4	-291.0	426.4
Year-on-year	1,270.7	-201.8	1,054.8	-398.6	816.3

Source: JCI

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



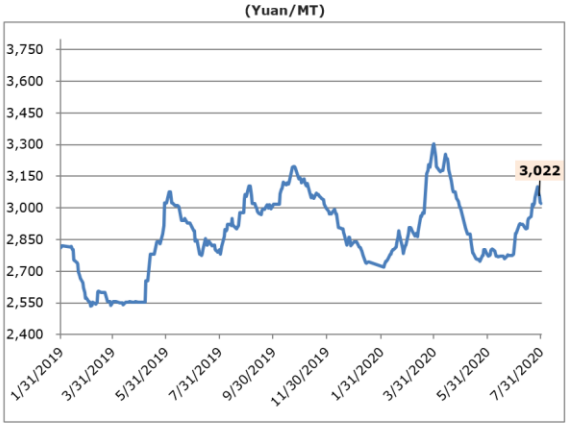
Source: JCI

Crush Margins Mixed as U.S. Soybean Prices Drop

Early this month saw diverging trends in the average CNF prices for imported U.S. and Brazilian soybeans. The former ticked down by $4/MT to $407/MT, while the latter remained unchanged at $418/MT. The widening spread played out in the trends of crush margins as the markets for soymeal and soyoil cooled. The average producer's price for soymeal edge down by RMB 27/MT ($3.92/MT) to RMB 3,022/MT ($432.95/MT), while the average wholesale price for soyoil held at RMB 6,491/MT ($929.94/MT) for the second week in a row, ending three straights week of triple digit increases.

The decrease in the average CNF price for U.S. soybeans pushed up the average operating margin, excluding the 25 percent retaliatory tariff, by RMB 16/MT ($2.29/MT) to RMB 114/MT ($16.33/MT). In contrast, the average margin on Brazilian soybeans ticked down by RMB 17/MT ($2.44/MT) to RMB 25/MT ($3.58/MT).

Average Producer Price for Soymeal
(Yuan/MT)



Source: China Grain

China's Imported Soybean Crush Margin on U.S. Soybeans with 28% Tariff						
	Imported Soybeans Cost & Freight	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)
31 July 2020	407	6.98	3,022	6,491	-689	-98.6
Week-on-week	-4	-0.01	-27	0	25	3.4
Month-on-month	17	-0.09	240	679	196	26.3
Year-on-year	19	0.09	240	1,090	147	22.6

Source: JCI

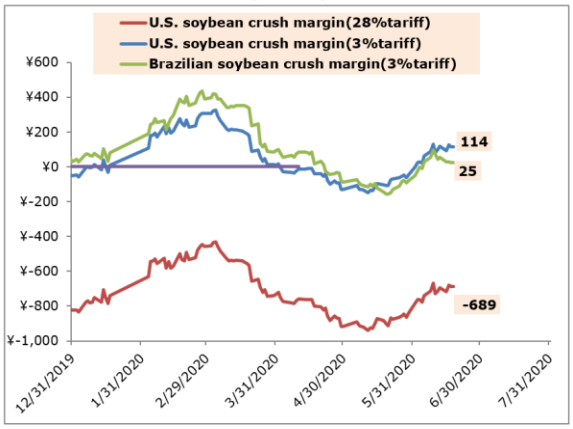
China's Imported Soybean Crush Margin on U.S. Soybeans without 25% Tariff						
	Imported Soybeans Cost & Freight	Exchange Rate	Soymeal Prices	Soybean Oil Prices	Crush Margin (Tariff-3%)	Crush Margin
	(USD/MT)	(USD/CNY)	(RMB/MT)	(RMB/MT)	(RMB/MT)	(USD/MT)
31 July 2020	407	6.98	3,022	6,491	114	16.3
Week-on-week	-4	-0.01	-27	0	16	2.3
Month-on-month	17	-0.09	240	679	219	31.1
Year-on-year	19	0.09	240	1,090	194	28.0

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)
31 July 2020	418	6.98	3,022	6,491	25	3.6
Week-on-week	0	-0.01	-27	0	-17	-2.4
Month-on-month	23	-0.09	240	679	170	24.1
Year-on-year	26	0.09	240	1,090	137	19.8

Source: JCI

Historical Imported Soybean Crush Margin
(RMB/MT)



Source: JCI

Grains

Domestic Corn Market Remains Hotter Than a Pistol

Last week, China Grain Reserves Corporation completed the tenth weekly auction of state reserved corn. A total of 4 MMT of corn was sold as the average purchase price continued to rise from the previous week, climbing by RMB 20/MT ($2.87/MT). Through the end of July, 39.96 MMT of reserved 2014 and 2015 crop year corn has been sold, while the average auction price has risen every week during that period. An estimated 17 MMT of corn reserves from these two years are left, which will bring an end to the 250 MMT that built up back in 2016. The remaining tonnage is expected to be auctioned off in the next four weeks.

With the domestic market continuing to be in short supply, the central government plans to release additional reserves from more recent crop years. Total tonnage of auctioned corn by the end of 2020 is expected to reach 80 MMT. As for imports, China is expected to exceed its annual tariff rate quota of 7.2 MMT. COFCO received approval last week from the National Reform Development Commission (NRDC) to import 2 MMT of corn under the TRQ. Ironically, after losing its shirt on corn auctions in previous years, China's central government is doing quite well in 2020.

A week after the average domestic corn price in Liaoning jumped by RMB 100/MT ($14.32/MT), Jilin followed suit, as the average corn price in that province jumped by RMB 103/MT ($14.76/MT) to RMB 2,220/MT ($318.05/MT). In Guangdong, the average domestic corn price climbed to RMB 2,460/MT ($352.44/MT), up RMB 60/MT ($8.60/MT) in the past week. That pushed up the national average domestic corn price by RMB 40/MT ($5.73/MT) to RMB 2,335/MT ($334.53/MT).

On the deep corn processing front, the average prices for cornstarch and corn gluten meal in both Shandong and Jilin saw healthy gains. In Shandong, the average prices of cornstarch and corn gluten meal rose by RMB 140/MT ($20.06/MT) and RMB 60/MT ($8.60/MT) to RMB 2,920/MT ($418.34/MT) and RMB 4,500/MT ($644.70/MT), respectively. That pushed the operating margin on corn processing Shandong back into positive territory at an average of RMB 21/MT ($3.01/MT). By comparison, the average cornstarch and corn gluten meal prices in Jilin increased by RMB 100/MT ($14.33/MT) and RMB 140/MT ($20.06/MT) to RMB 2,700/MT ($386.82/MT) and RMB 4,400/MT ($630.37/MT), respectively.

With Jilin having a lower average corn cost, the operating margin for processors in that province pushed up to RMB 632/MT ($90.54/MT), an increase of RMB 121/MT ($17.34/MT). For ethanol producers in Shandong, last week saw price improvements in both ethanol and DDGs, as the average prices ticked up RMB 80/MT ($11.46/MT) and RMB 100/MT ($14.33/MT) to RMB 6,100/MT ($873.93/MT) and RMB 2,500/MT ($358.17/MT), respectively.

China Corn Wholesale Price (RMB/MT)

	Nationwide	Heilongjiang	Jilin	Liaoning	Shandong	Guangdong
31 July 2020	2,335	2,065	2,220	2,292	2,372	2,460
Week-on-week	40	65	103	27	22	60
Month-on-month	150	110	233	167	114	190
Year-on-year	395	323	413	428	329	467

Source: CNGOIC/JCI

Source: CNGOIC

China Cornstarch Processing Margin (RMB/MT)								
	Shandong				Jilin			
(RMB/MT)	Corn Price	Starch Price	Corn Gluten Meal Price	Margin	Corn Price	Starch Price	Corn Gluten Meal Price	Margin
31 July 2020	2,500	2,920	4,500	21	1,810	2,700	4,400	632
Week-on-week	90	140	60	41	0	100	140	121
Month-on-month	180	220	240	109	0	170	100	267
Year-on-year	490	410	540	0	0	350	80	593

Source: JCCE

China Corn Ethanol Processing Margin (RMB/MT)								
	Shandong				Jilin			
(RMB/MT)	Corn Price	Ethanol Price	DDGS Price	Margin	Corn Price	Ethanol Price	DDGS Price	Margin
31 July 2020	2,460	6,100	2,500	438	2,080	5,850	2,020	409
Week-on-week	70	80	100	-28	70	0	40	-67
Month-on-month	110	180	300	158	150	230	270	10
Year-on-year	420	600	-110	-687	270	950	370	194

Source: JCCE

Mercosur Regional Analysis
17 August 2020

By WPI Staff

Soybeans

Market Overview

Soybean markets were not as active last week as they were two weeks ago. China secured additional cargoes of U.S. soybeans for October and November positions while also buying Brazilian vessels for the 2021 campaign. Brazil is out of the market for 2020 and, in fact, there were several "washouts" with Chinese crushers selling Brazilian soybeans and buying back from the U.S. While Brazil is worth 250X, the U.S. Gulf is trading around 220-225X. Moreover, the Chinese are willing to buy more U.S. soybeans to comply with the Phase One trade deal.

Basically, Brazil is reducing the export program as it seems to have oversold its soybean crop. Brazilian crushers need to buy soybeans and farmers are not selling. This is pushing internal prices higher, making it impossible to export soybeans and also producing some backward trading movement.

Brazil

In July, Brazil exported an impressive 8 MMT of soybeans, up from 5.8 MMT in July 2019. Brazil has shipped nearly 70 MMT in 2020, up from 51 MMT in the same period of 2019 and 58 MMT in 2018.

Brazilian soybean exports have been at or near record highs nearly every month this year. The country's total volume has been at its feasible maximum, given logistics constraints and internal crushing demand. In August, Brazil will ship an additional 6 MMT and WPI forecast the country's 2020 exports at 82 MMT. Given that total exports currently aren't far from that estimate, exports will have to slow considerable from September forward.

Brazilian Monthly Soybean Exports (MMT)						
	2015	2016	2017	2018	2019	2020
January	0.00	0.38	1.49	1.54	2.23	1.70
February	2.82	4.20	6.18	5.66	6.41	6.63
March	6.78	9.11	9.68	10.73	9.81	13.20
April	8.97	10.49	10.52	11.71	9.42	14.25
May	8.18	8.93	9.42	10.86	8.69	14.04
June	8.46	7.50	8.70	9.90	8.82	11.67
July	6.59	4.77	6.32	8.25	5.83	8.03
August	5.20	2.98	5.81	7.15	5.23	*2.50**
September	3.11	1.46	3.20	5.63	4.22	*2.50**
October	2.30	0.61	2.81	4.45	5.05	*2.50**
November	1.13	0.29	2.07	5.05	4.08	*2.50**
December	0.59	0.74	2.33	2.66	2.67	*2.50**
Jan. - Jul.	**41.80**	**45.39**	**52.30**	**58.66**	**51.21**	**69.52**
Total	**95.93**	**51.46**	**68.53**	**83.59**	**72.47**	***82.00****

** WPI forecast*

For the new crop, basis has been strong in Brazil, despite the rally at the CBOT. Farmer selling has been around 500,000 MT per day, which isn't a huge figure but is at least something considering that all the 2020 and 2021 campaign has been sold and farmers are starting to sell the 2022 crop. The Brazilian currency remains weak at 5.45 reals/U.S. dollar, making farm profitability quite attractive. Nevertheless, farmers are cautious and want to wait before advancing sales further as the crop hasn't even been planted yet. The total area planted should increase for the coming campaign, and production is expected to be around 130 MMT, assuming normal weather.

There were a few February 2021 trades in the market last week at 165H CNF China, some of the highest prices for the month. Demand is mostly interested in early 2021 positions as the discount to U.S. soybeans is large. While the U.S. Gulf to Japan traded at 210F (almost 210H) Brazil is trading at 165H for February – nearly 45 cents below U.S. Gulf offers. There were some January/February straddle trades from Brazil at 190H, still well below similar U.S. Gulf offers.

February export commitments are already large, and farmers are not putting on additional sales for that month. In fact, logistics will be tight, and any weather or harvest delays could cause quite a mess, as happened earlier this year. Therefore, the early 2021 positions will be critical to monitor and evaluate how shipments are progressing.

For deferred 2021 positions, the market was slow and a wide bid/ask spread. Trading houses believe China has already secured 20 MMT of Brazilian soybeans for 2021, with some estimates as high as 27 MMT. Non-China buyers have been aggressive as well, taking 4-5 MMT. Trading houses long positions for the 2021 campaign seems to be 10-12 MMT, which is not huge. These soybeans were originated at a much cheaper basis, so trading houses' positions are well in the money. Companies are selling positions slowly and are not in any rush as demand seems to be there and there is little competition from other origins.

Argentina

The Argentine market is almost dead. There are a few sellers offering Argentine/Uruguay combos for September 2020 at 110X FOB. There is some interest, mainly for Uruguayan soybeans only, which were bid last week at 110X FOB. But this origin alone is offered at 125X, much higher than the combo. Uruguay has been exporting higher protein soybeans than Argentina and buyers have shown a good appetite for it.

Last week, buyers wanted to pay the cargo on CNF basis at a discount of 4 cents/bushel under U.S. Gulf levels. Nevertheless, the offers were higher. While the U.S. Gulf was worth 223-225X CNF, Uruguayan soybeans reached a parity of 235X CNF China.

As for the new crop, both the Argentine and Uruguayan markets are dead. There are no offers and origination is not happening. Farmers are still holding large stocks from the present campaign and are not even looking at the new crop.

There is some demand for Argentine soybeans from local crushers that want to buy FOB to hedge against soymeal sales, since they are finding it very difficult and expensive to originate in Argentina. Additionally, concerns about Argentina's drought are starting to show up. The cold front is not enabling moisture to enter the Pama Humeda, so the weather is very dry. Seeding will start at the end of September and there is still time for rains to be beneficial, but the market is focused on the weather now.

Wheat

Planting of an area 6.5 mha in size is almost done, far below the 6.8/7 mha that were expected some months ago. A large proportion of the wheat crop, mainly in the nucleus area, is still suffering from a lack of rain and will need above 100 mm (4") to recover needed soil moisture. According to the Buenos Aires Grain Exchange, 57 percent of the crop has poor/dry moisture conditions. The crop is suffering deteriorations and right now only 22 percent is rated excellent/good condition while the remainder is between fair to very poor.

The south of Buenos Aires region is the area with good soil moisture and the crop is growing in good conditions. In this specific area, farmers planted 170.000 ha more than estimations due to the good conditions.

Despite the above, 6.5 mha is the second largest area in the last 10 years, just behind the 6.8 mha planted past year. If total production reaches the 18.5/19 MMT as expected by analysts, it will be also historically high, just behind last year's 21 MMT.

In addition to this, Brazil's wheat crop is expected to be at a record of 6.8 MMT, an amount that would slightly reduce the need for imports. Even though the demand for Argentina wheat from Brazilian millers will be normal.

In Argentina, the FAS market has prices going up and farmers selling some volume. Exporters focused their buying interest on January delivery and ended bidding at $175/MT (about $208/MT FOB equivalent), which is $6/MT above days earlier. This contrasts with the $3/MT lower that was being bid for February delivery. Farmer selling is slightly above last campaign's figures, a selling pace that is notable given there is lot of time to go and the crop is suffering a lot.

Exporters already bought about 1 MMT for November delivery and 1 MMT for December, plus 0.3 MMT for January and 0.1 MMT for February and March. Their aim now is likely to increase their stocks for January. November purchases are historically high likely owing to production from areas planted before the loss of soil moisture, and also because dryness enables an earlier harvest.

The FOB market has been quiet the past few weeks. Sellers for December and January are accepting between $200 and $198/MT while demand is $5-$6/MT apart.

Corn

CBOT is rising but farmers are not selling big volumes, obligating exporters to pay up the FAS to catch some volume. They started the week bidding $130/MT and ended it at $140/MT for spot. This is above +110cU FOB equivalent, while the real FOB market is below +100cU for upriver.

On the other hand, the FOB market is very interesting. There is still enough demand to cover the spot market and for September, Argentina appears to be the only possible origin. Brazilians completed their programs for August and are running out of logistics for September (they are offering it at +130cU). This is pushing up premiums for nearby shipments in Argentina and in fact is ready to trade above +90cU.

Lack of rains in the nucleus areas is starting to threaten the corn planting that should start in about one month. A big portion of the area to be planted needs at least 50 mm to receive the seeds and forecasts are not optimistic at all. Because corn planting is expensive, no one wants to take the risk if conditions are not good. Under this scenario, we might see farmers delaying their planting activities and might end in an increase of late planted corn (during November/December).

Late planted corn is common in Argentina to avoid flowering during the dry summer but it use to be limited to about 40 percent of the crop. The current scenario might see an increase. In terms of commercialization, this switch is not good. Argentina needs to take advantage of the March/June period without competition. During that period, Argentine exporters are market makers, they can defend the FOB premiums and pay better in the FAS market. As from July shipment, Brazil appears with their huge volume and Argentina needs to compete with them, following after their markets. So bigger volumes of late corn (appearing as from July) is not good in terms of maximum price.

WPI POLICY ANALYSIS

COVID Legislation; Aluminum Tariffs; Restaurant Performance

By Dave Juday

Covid Relief: 11 August was the target deadline for the next COVID relief package; it did not happen. Neither the Senate or House was in session but are subject to a one-day recall back for a vote if necessary. Negotiations continue but progress is not being made. The hang-ups are the big picture items: unemployment benefit extensions, aid to states, etc. The ag provisions will be much easier to pull together once a framework is agreed to.

Add sheep and lamb producers to the list of expanded payments. The Mountain States Rosen plant in Greely, which had filed for bankruptcy, was purchased by JBS, which will convert the plant to a beef processing (not slaughter) facility. That leaves the lamb market short a plant. A group of 17 House Agriculture Committee members have sent a letter to USDA to provide relief to the producers.

Section 232 Round Two: USTR announced that the U.S. would re-impose the Section 232 tariff on aluminum of 10 percent. That duty was imposed in July 2018 (on Mexico and Canada) and lifted on 17 May 2019. It will now be placed on Canada only.

As we reported at the time, in June USTR Robert Lighthizer told the Senate Finance Committee that there had been a surge in imports of aluminum since the tariffs were lifted, "substantially from Canada," and that "it's something of genuine concern to us …." Canada will retaliate. The list of goods might shift, however, as in July 2018 the Republicans were the majority in the House of Representatives, and products from key chairmen's districts were on the retaliation list, including House Speaker Paul Ryan (Wisconsin).

Canada is masterful at understanding U.S. politics and will find the products from states and Congressional districts most likely to leverage the White House. It would not be surprising to see key electoral swing states looked at (key dairy states like Pennsylvania, Michigan, Minnesota, and Wisconsin). There is already tension between the U.S. and Canada on the USMCA dairy TRQ. Also, think about North Carolina and Florida, both key specialty crop producers.

Restaurant Q2 Performance: The quarterly corporate financial reports for Q2 are being released. Here is a summary of Ruth's Chris Steak House performance. It is a good indicator of what was going on in the demand side on food service from sit-down, higher end restaurants.

Comparable sales at company-owned restaurants decreased 74.1 percent compared to Q2 2019.

- Franchised restaurant income to the parent company was down 77.2 percent from Q2 2019 due to restaurant closures and suspended royalties.

- The sales value dropped more than traffic; stores that were open for takeout saw a 68.6 percent drop, but the bigger drop in sales value was due to lost alcohol sales in April on takeout orders.

- Lost alcohol sales have had an impact on the food side; food and beverage costs as a percentage of restaurant sales were 29.8 percent, as compared to 27.9 percent in Q2 2019. And, of course, at a steakhouse, beef costs increased; up 5.5 percent from Q2 2019.

Compare those results with Papa John pizza delivery.

- North America comparable sales increase of 28 percent compared to the Q2 2019
- Franchise stores increased sales 29.7 percent
- Consolidated revenues increased 15.3 percent
- Margins were reduced some on expanded sales due to higher commodities, labor and bonus costs.

The Global Future

By Gary Blumenthal

Politicians can make a mess of things, but policymakers typically seek to solve problems. Politicians proclaim a new cold war between China and the U.S.; policymakers see it as a dysfunctional historical period that must be led back to equilibrium.

The Chinese are happy with their authoritarian system, the west isn't going to give up democracy. That means the rules of engagement - meaning trade - must be reflective of those disparate systems. Since all capitalist and democratic societies are impacted the same way by China's state-run economy, they can decide collectively a different approach than the current one and then implement it. It doesn't require an unachievable WTO consensus but rather willful joint implementation

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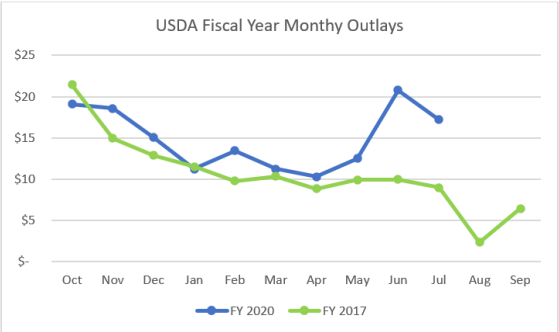
Presumptive Democratic presidential candidate Joe Biden says he would lift tariffs against China, which may make him Beijing's favorite. But he is more likely than Mr. Trump to build a coalition of nations against China's ways, and that would be far more to its detriment. Either way, the future will get better managed than it seems currently.

Farm Spending: $7 Billion Down, $43 Billion to Go

By Dave Juday

According to the Monthly Treasury Statement issued by the Department of Treasury for FY 2020-31 July, USDA has spent about $149.53 billion so far this year. That means there is about $6 billion left in USDA's regular budget checking account for the last two months of the fiscal year, and the CARES Act passed in May, provides another $14 billion in CCC authority, so the agency has about $20 billion on hand for the next two months.

Below shows monthly spending this year compared to FY 2017, the last year there were no MFP or CFAP payments.



Source: U.S. Treasury, WPI

Of course, this is total USDA spending, on everything from the Forest Service to feeding programs, as well as ARC and PLC, and not all is spent on CFAP. The category of "other spending" in Treasury's statement for USDA shows $10 billion spent this year, which is $9 billion more than last year to date which included MFP disbursements. That about matches up with COVID programs. As of 10 August, $7.037 billion of the original $16 billion provided to CFAP has been spent. Somewhere in the neighborhood of $2 billion has been spent to date on the Food Box Distribution program.

That leaves roughly $9 billion remaining for CFAP, along with the $14 billion that came to CCC this month. Not all of the CCC money will go in CFAP, but most will. And there's another COVID relief bill being worked on which at this

point would seem to have at least $20 billion – though some will necessarily be authorized for FY 2021. So, assuming that all this money gets distributed by Q2 FY 2021, there could be up to $43 billion more in COVID relief spending over the next eight months.

About half of the CFAP spending has gone to livestock (with 43 percent going to cattle), about 19 percent to dairy, about 4 percent to specialty crops, but the remaining 26 percent has gone to program crops. New commodities are being added (from sheep to liquid eggs to catfish to micro-greens and kumquats) and the next round in the pending COVID package could include some high dollar distributions for ethanol, contract poultry growers and more.

Regardless, there is a lot of money that will have an impact on marketing decisions, especially since as farmers are likely to put much of their 4.4 billion bushel soybean crop and 15.3 billion bushel corn crop in storage.


WORLD PERSPECTIVES
AT THE NEXUS OF POLICY & MARKETS