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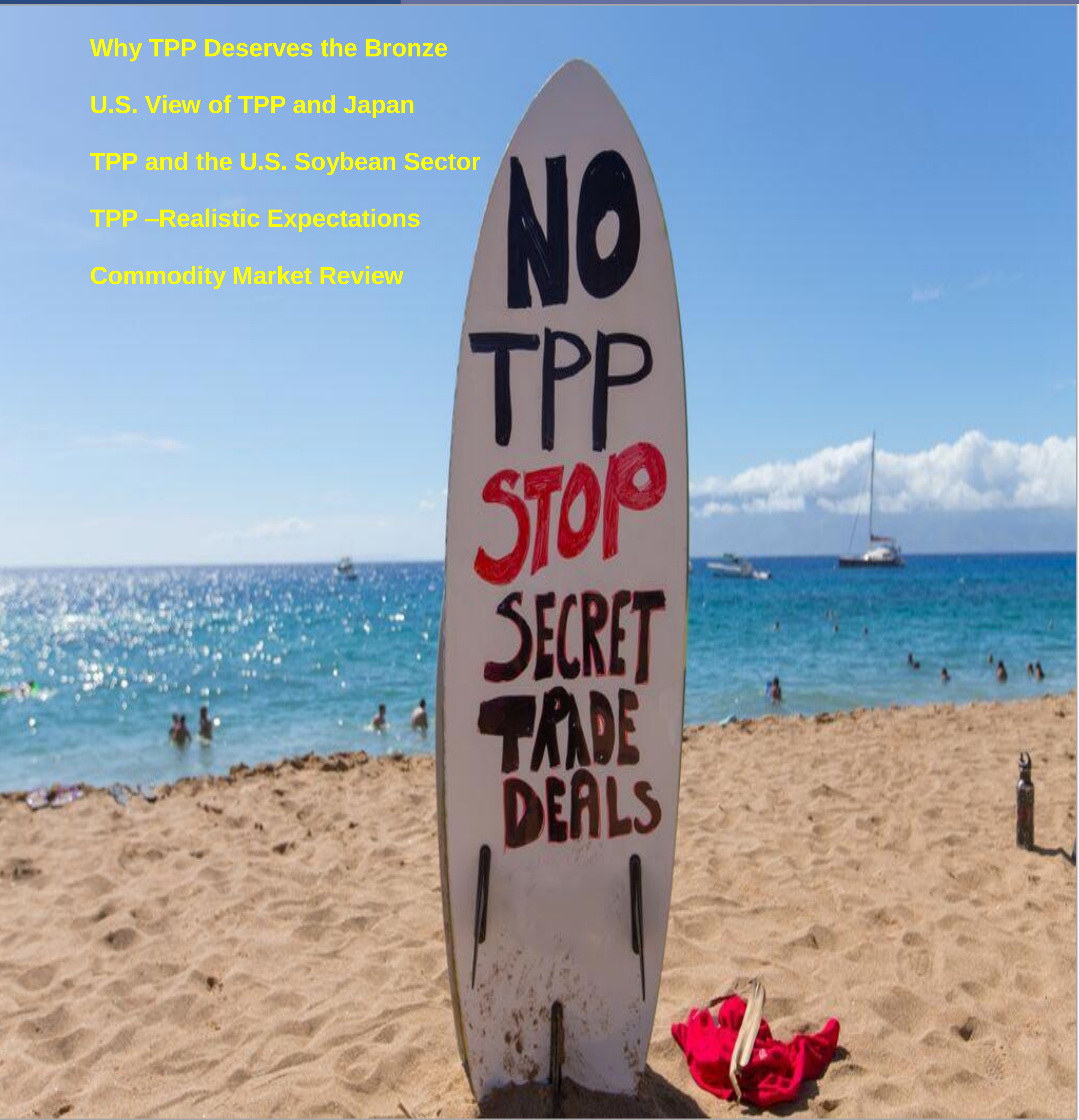
Why TPP Deserves the Bronze

U.S. View of TPP and Japan

TPP and the U.S. Soybean Sector

TPP –Realistic Expectations

Commodity Market Review



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CONTENTS

"Happiness depends more on how life strikes you than on what happens."
— *Andy Rooney*

HARVESTED DATA	
Trade	
Let's Make a Deal	When asked if TPP is good for U.S. agriculture, 73 percent of respondents indicated there are some winners, while 18 percent said all of the sector will benefit. The remaining 9 percent found it to be a bad deal for all. ZimmPoll
Agriculture	
Field Decision	Considering the current state of their fields today, about 14 percent of those polled said that they would replant or have already done so. 23.99 percent indicated that they would take prevent plant, while 49.56 percent said they would do neither as their fields are fine right now. AgWeb Poll
It's Complicated	Asked to define what sustainability means to today's farmers, a decisive majority (82 percent) indicated that it is a combination of economics, the environment and social aspects. ZimmPoll
Technology	
Mixed Bag	While most (71 percent) of those surveyed said technology has improved the overall quality of their lives, an equally large number (73 percent) think that it is creating a lazy society and has become too distracting. Harris Poll

WPI POLLING

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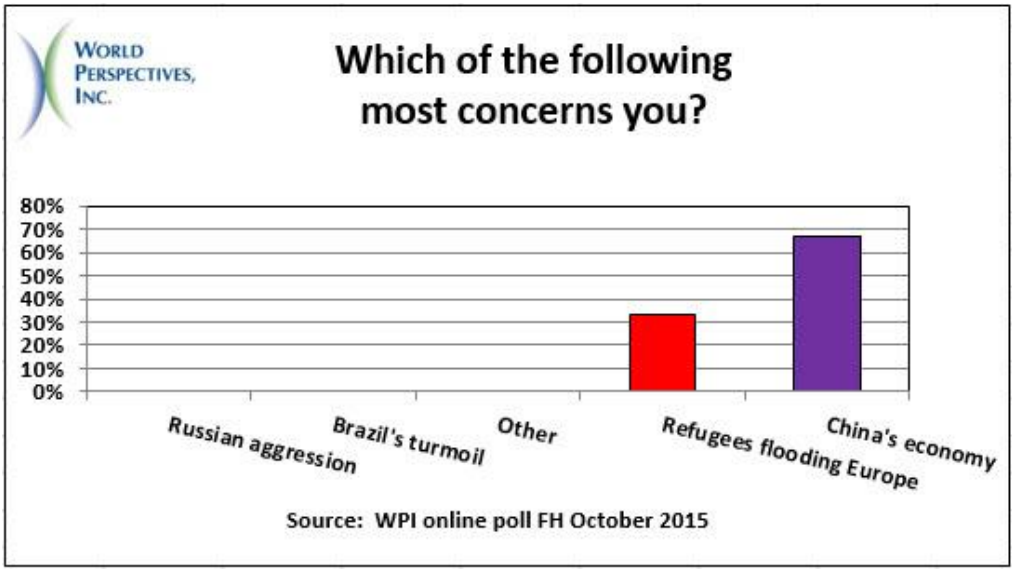

REASONS TO GIVE TPP THE BRONZE

By Gary Blumenthal

Note that the text of the Trans-Pacific Partnership (TPP) agreement has not been released, and so any analysis is parsing comments by government officials and the selective releases of information.

Bronze Standard

It is billed as a 21st century, high standard agreement. As secretary of state, Hillary Clinton once called TPP a "gold standard" agreement but now as a candidate for the presidency, she says it does not meet her standard for such a pact. Without doubt, it is more comprehensive than prior agreements, will improve the terms of trade for all parties and has both geopolitical and economic value to the United States. However, as initial details of the pact come to light and government officials begin their public relations banter in pursuit of public support, one must conclude at this juncture that it is closer to a "bronze standard" agreement. Bronze still has its usefulness, and Olympians would rather win third place than no place at all, but it can have its disappointments.

Farm Exporter Chagrin

Japan's highly protected agricultural sector was the target for liberalization by farmers in Australia, New Zealand and the U.S. (the ANZUS countries), and the shortcomings make it easy pickings for disappointment. This conclusion is aided by the fact that Japanese officials are spinning hard with their public over how little they had to give. Trade Minister Akira Amari says the agreement abolishes nearly 100 percent of tariffs except in Japan where they are only removed on 95.1 percent of goods on a "value" basis. Not only are Japan's overall tariff eliminations fewer than other signatories, but just 30 percent of its farm products deemed "sensitive" will become duty-free. Moreover, the average share of all goods to be protected in other TPP countries is only 1.5 percent, although about one-fifth of Japan's farm products will retain tariffs. From a Japanese standpoint, it is no wonder that Amari is quoted saying, "This is a well-balanced agreement."

Dairy Example

Without doubt, dairy is a sensitive commodity in many countries. Also without doubt, TPP will ensure that Japanese and Canadian consumers will be eating more imported dairy products. However, the nature of the deal looks more like a 20th century trade pact than the vaulted "21st century" agreement being touted. For example, Japan has merely replaced a 660 percent ad valorem tariff on whey with country-specific limited quotas, and Canada conceded relatively modest tariff-rate quotas (TRQs) on butter and skim powder. In fact, Canada conceded just 3.25 percent of its total domestic dairy market to imports from TPP suppliers.

Countries usually eliminate tariffs on products they are already importing. In the case of Japan, though, it will maintain its 40 percent tariff on imports of processed cheeses, the largest category of cheeses currently entering its customs zone. And while the U.S. typically fights against "local content" requirements, it acquiesced to Japanese demands that imported Gouda and cheddar cheese must be blended at a 2.5 to 1 ratio with domestic cheese and at a 3.5 to 1 ratio in the case of mozzarella.

Japan has historically sought to export high value-added products such as automobiles and complex electronics. Whey protein concentrate is a fairly simplistic product compared to the millions of digital cameras exported each year by Japan, but it represents the value that ANZUS agriculture can add. In fact, it is the simplest form of whey protein, and yet it will take Japan nearly a full quarter-century to phase out its tariff protection against this product.

The typical goal in trade negotiations is a quid pro quo whereby one party concedes to have its exports limited by a TRQ and the importing country agrees to not punish the within-quota sales with a tariff. After all, if a country has agreed to a specified level of imports, why then inhibit it with tariffs? Under the TPP, however, there will be so-called markups (read tariff equivalents) imposed by Japan's Agriculture and Livestock Industries Corporation (ALIC) to dairy imported within a TRQ. These markups may not be large enough to block imports, but they will shield Japanese farmers, which will hardly help competitive foreign suppliers.

Vegetarian Delight

Japan is attempting to rationalize its continued protection of the big five category of agricultural products (rice, wheat, beef, dairy and sugar) by saying that it has opened its market to imported fish and vegetables. However, Minister of Agriculture, Forestry and Fisheries Hiroshi Moriyama qualifies this for domestic audiences by saying some 100 vegetables will only have their tariffs removed after several years, and, besides, Japan imports a great deal of them from China, which will not benefit from the TPP. Meanwhile, products that could be an economic threat, like potatoes, will continue to be blocked on phytosanitary grounds.

Cats and Dogs

There are many other entangling issues such as the implications of other countries seeing the results and concluding it is in their interest to join. Korea has increased its consultations for joining the pact, though the U.S. already has an FTA with that country. The Philippines is motioning interest, and Thailand, which already earns 70 percent of its gross domestic product (GDP) from exporting, is being encouraged. The question is what now motivates the attraction. Hopes for less ambitious demands than previously perceived or fear of adverse consequences by being excluded?

Then there are the short- and long-term foreign exchange impacts. In order to encourage U.S. congressional ratification, there is speculation that Tokyo will seek to avoid weakening the yen for now, but nothing in the agreement prevents that path later on. A bronze standard agreement is less likely to lead to the economic alignment that also flattens exchange rates, but an agreement with varying impacts on national economies could shift them.

Prospects for Implementation

All of the above is not a reason to reject the agreement, just an effort to understand it in context. U.S. Trade Representative (USTR) Michael Froman scoffed at the concept that Congress might reject TPP by saying the last time that happened to a trade agreement was in 1883. However, there have been agreements not sent to the Congress because it was clear they would not pass. Meanwhile, President Obama boasted that, "I'm pretty confident I'll be able to persuade a whole lot of people…" to the merits of TPP. He'd better be able to, because right now the odds look stacked against it in the U.S.

Democrats, led by Hillary Clinton at the top of their presidential ticket, are largely against it. Some Republicans oppose handing President Obama a victory; others have expressed disappointment with the results. Senator Orrin Hatch (R-Utah) is chair of the Finance Committee that will shepherd the agreement through the Senate, and yet the administration failed to achieve his main objective in the TPP – longer-term patent protection for pharmaceuticals. Other members of Congress oppose the fact that tobacco was made ineligible under the Investor State Dispute Settlement mechanism. One Japanese official said the pharmaceuticals faux pas was the result of USTR Froman's determination to reach a 5 October agreement on TPP without thinking through how to handle the Australians on this issue. Other

Republicans increasingly represent the less-educated whites who used to vote Democrat and are most hurt by trade competition.

Finally, there is no good time on the legislative and political calendar for considering the agreement in Congress. Pushing it sooner means debating the legislation during next year's election, while waiting for the lame-duck period after Election Day may incite more pledges of opposition during the campaign. Waiting for the next president to manage it in 2017 risks handing it to Hillary Clinton, who already says it doesn't meet her standard.

FROM U.S. PERSPECTIVE, TPP IS ABOUT JAPAN

By Dave Juday

According to the U.S. International Trade Administration, Free Trade Agreements (FTAs) have proven to be one of the best ways to open up foreign markets to U.S. exporters and have also benefitted U.S. economic growth through access to less expensive but more abundant commodities and products. The Trans-Pacific Partnership (TPP) has been sold politically in the U.S. as a gateway to Asia, strategically the most important region of the world for trade.

Consider that the Organization for Economic Cooperation and Development indicates the global economy is in the early stages of an economic shift unfolding between 2010 and 2030 that will see 3 billion consumers worldwide move up to the middle class. This will increase the demand for agricultural and food trade. Most of that new middle class will be in Asia with the majority located in India, which is not in the TPP bloc of 11 countries outside the U.S. Other nations in the region not participating in the agreement include: China, which has 19 percent of the world's population and the fastest-growing market for agricultural and food imports; Indonesia, the fourth most populous country in the world; and Korea, Thailand and the Philippines, a group that represents 218 million consumers and would rank fifth in global population when considered together. These six Asian countries also offer the greatest potential for growth in U.S. agricultural exports with their combined 37 percent of the global population.

TPP by the Numbers

The TPP agreement involves 12 nations in the Americas, Asia and Oceana. Excluding the U.S., only 52 percent of the total consumers covered under the agreement are from Asia with Japan alone accounting for nearly half. Moreover, all four of the non-U.S. countries from the Americas that are participating already have FTAs with the U.S. as do two of the five from Asia and one of the two Oceana nations. Thus, TPP only provides a new trade agreement with the Asian countries of Japan, Brunei and Malaysia. Japan represents 80 percent of the potential consumers in those markets and 93 percent of the collective gross domestic product (GDP). It also accounts for 43 percent of the GDP among the 11 non-U.S. countries in the TPP bloc and more than 89 percent of those countries that do not already have an FTA with the U.S. Thus, from a U.S. perspective, the TPP is really about Japan.

Non-U.S. Parties to the Trans-Pacific Partnership			
	Trade Status	**Population**	**GDP ($ billion)**
Canada	NAFTA	35,099,836	$ 1,789
Chile	FTA	17,508,260	$ 258
Mexico	NAFTA	121,736,809	$ 1,283
Peru	FTA	30,444,999	$ 203
Total Americas	N/A	204,789,904	$ 3,533
Brunei	-	426,646	$ 15
Japan	-	126,919,659	$ 4,616
Malaysia	-	30,513,848	$ 327
Singapore	FTA	5,674,472	$ 308
Vietnam	FTA	94,348,835	$ 186
Total Asia	N/A	257,883,460	$ 5,452
Australia	FTA	22,751,014	$ 1,444
New Zealand	-	4,438,393	$ 198
Total Oceana	N/A	27,189,407	$ 1,642
Grand Total	N/A	489,862,771	10,627

Source: International Trade Administration, Central Intelligence Agency, WPI

Japan and TPP

So, what does the TPP do with regard to Japan? The text, which was partially released by the Japanese government on 20 October, would eventually remove tariffs on 95 percent of farm, industrial and other products imported into the country. It should be noted that Japan already has a bilateral trade pact with Australia that covers about 88.4 percent of all its imports from that country, according to the Japanese Ministry of Economy, Trade and Industry (METI). At the end of the day, however, Japan will still maintain a number of product protections under the TPP text. It has 586 special, sensitive, agricultural products with only 30 percent eventually becoming tariff-free under the TPP. Indeed, Japan went into the negotiations in 2013 with resolutions from the Diet urging that the five key farm categories (rice, beef, pork, sugar and dairy) be exempt from tariff elimination. Following is a summary of the negotiation results pertaining to those sectors:

- **Rice**: Japan will maintain a 778 percent tariff on imported rice. However, it will increase the quota for rice imports from the U.S. and Australia by 78,000 MT to a total of 850,000 MT per year, which is about 10 percent of annual domestic consumption. Rice is the most sensitive product category in Japan.
- **Beef**: The tariff on imported beef will be lowered to 9 percent from 38.5 percent over 15 years. Tariffs on beef offal, which now reach 21.3 percent, will be removed over 16 years as will the 50 percent tariff on beef jerky and meat extracts. Japan imports 60 percent of its beef, mainly from Australia and the U.S. Domestic beef, primarily Waygu, is more expensive because of production practices, but it can also demand a price premium in the domestic market due to its differentiation from commodity beef.

- **Pork**: The tariffs on 65 percent of pork cuts and products will be eliminated in 11 years and expand to 80 percent in 16 years. Japan imports pork from the U.S., Canada and Mexico while producing about half of what it consumes.
- **Dairy**: The import quota for butter and skim milk powder will be increased; tariffs on cheese will be eliminated in 16 years and on whey in 21 years.
- **Sugar**: The tariff on fructose will be eliminated immediately with new quotas created for various products containing sugar.
- **Other products**: Corn will continue to enter Japan tariff-free, and a new quota for starch will be created. Tariffs on soyoil will be eliminated within six years, and the tariff on soymeal will be removed immediately. Finally, Japan will issue new tariff-rate quotas (TRQs) for wheat and wheat products within six years and eliminate the current tariff of up to 26 percent.

Japanese Ag Imports from TPP Countries 2011-2013

Origin	Commodities	Average Value ($ billion)	Percentage of Total Ag Imports
U.S.	Grains, Meats	$15.5	52%
Canada	Oilseeds, Meats	$4.5	15%
Chile	Wine, Meats	$0.6	2%
Mexico	Meat, Horticulture	$0.8	3%
Peru	Asparagus	$0.1	0%
Brunei	N/A	$0	0%
Malaysia	Vegetable Oil	$1.2	4%
Singapore	Cocoa, Prepared Products	$0.6	2%
Vietnam	Coffee	$0.4	1%
Australia	Meats, Grains	$4.7	16%
New Zealand	Dairy, Meats	$1.5	5%

Source: USDA, METI, WPI

The TPP comes after a long slide in imports of agricultural products from the participating countries. In 1997, agricultural imports from TPP countries were about 57 percent of total imports. By 2013, that amount had dropped to 47 percent. The only major category to grow was dairy, while most of the non-sensitive categories remained relatively stable. Grains from TPP countries have accounted for 80-97 percent of total imports over the past 20 years, and oilseeds (primarily soybeans and canola) have been steadily above 70 percent. Meat has remained above 50 percent over the past two decades as well.

In the end, the U.S. will gain some additional access in rice and for some specialty crop production as all tariffs will be eliminated on vegetables. Access for feed grains will remain, and there could be an opportunity for wheat. Mostly, however, the TPP provides the most opportunity for proteins, especially beef, pork and dairy. Japan is the largest red meat importer in the world, the largest export market for U.S. beef and the second after Mexico, another TPP country, for U.S. pork. Dairy consumption is rapidly growing in Japan, and New Zealand is the current leading supplier. However, the U.S. dairy industry sees growth in whey protein concentrates, which are at the high end of the value scale.

TPP May Transition Japanese Agriculture

Some of the concessions made by Japan are politically unpopular there among producers, and political leaders are trying to smooth the way to approval of the pact. Prime Minister Shinzo Abe has promised a government task force, led by Economy Minister Akira Amari, to create a comprehensive package of measures to help affected farmers.

One of the programs to be examined "from scratch" is a checkoff-type initiative that will be used to promote Japanese agricultural commodities domestically and in the export market. Abe described the TPP's impact – and the country's shift to the new trade rules – as Japan transitioning from "defensive agriculture into offensive agriculture, so that young people can develop dreams."

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TPP POSITIVE FOR U.S. SOYBEAN SECTOR

By John Baize

The Obama administration has now reached an agreement with 11 countries bordering the Pacific Ocean to form a free trade zone. Signatories to the Trans-Pacific Partnership (TPP) include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. Notable for their nonparticipation in the pact are China, Taiwan, Thailand, South Korea, Indonesia and the Philippines. However, the U.S. already has a free trade agreement with South Korea as well as with Chile, Australia, Canada, Mexico and Singapore. Many expect Thailand, Indonesia, and Korea will seek to join the TPP in the future.

For the most part, U.S. exports of soybeans and soymeal face relatively small barriers in the 11 TPP countries. The notable exceptions are quantitative restrictions on food-grade soybean shipments to South Korea and small tariffs on soymeal in Malaysia, Japan, Vietnam and New Zealand that will be eliminated either immediately or over time periods as long as 11 years. When these tariffs are reduced and ultimately phased out, the U.S. will enjoy a competitive advantage over exports from Argentina, Brazil and other South American countries that are not a party to the agreement. The nations in Southeast Asia are some of the fastest-growing consumers of soybeans and soy products in the world, and that growth is almost certain to continue at an even faster pace in the future as their economies expand.

U.S. Soy Exports to TPP Countries MY 2014/15 (MT)				
Country	**Soybeans**	**Soymeal**	**Soyoil**	**Total**
Australia	-	185	349	534
Brunei	-	-	4	4
Canada	233,918	790,480	27,323	1,051,721
Chile	116	585	121	821
Japan	2,140,453	190,070	909	2,331,432
Malaysia	352,143	1,531	4	353,678
Mexico	3,562,456	1,642,887	232,232	5,437,575
New Zealand	-	118	29	146
Peru	109,094	202,405	99,046	410,545
Singapore	3,375	804	7	4,185
Vietnam	778,970	448,945	6	1,227,921
Total	7,180,525	3,278,009	360,030	10,818,563

Source: U.S. Census USDA/FAS

The TPP's strongest impact on the U.S. soy sector will occur in Japan. That country currently maintains tariffs equivalent to about $90.50/MT for crude soyoil and $110/MT for refined soyoil. The crude oil tariff provides Japanese soybean processors with an approximate $17.20/MT boost to their crush margins in the form of greater revenue from their oil sales. The high tariff on refined soyoil provides similar protection to Japanese vegoil refiners.

Once Japan's soyoil tariffs are eliminated, its soybean crushers will find it very difficult to compete with imports of soymeal and soyoil. The nation's soybean imports have already declined by 43 percent since 2002/03 as soymeal imports have increased and rapeseed oil has displaced demand for soyoil. This has resulted in a consolidation of the Japanese soybean processing sector. With the elimination of the soyoil tariff under the TPP, a further contraction of soybean processing and possibly the closure of all domestic crushing plants are likely. Japan can supply its entire domestic soymeal and soyoil demand with direct imports of those commodities and does not need its own processing facilities.

The negative aspect for the U.S. soybean sector is that it supplies about 70 percent of Japan's soybean imports but only a small share of the soymeal. The U.S. should be able to provide more soymeal and soyoil to Japan if its soybean processing sector does decline, but it will be difficult to compensate for the loss of soybean exports there.

The U.S. soy sector should also benefit from Japan's elimination of its tariffs on poultry meat imports over the next 11 years as well as a reduction in those on pork imports over the next 11-16 years. The Japanese poultry and swine sectors are heavily protected at present, and the odds are both will decline in the future as they face more competition from imports from the U.S., Canada and other TPP signatories. The U.S. should be in a commanding position to supply a large share of Japan's growth in poultry meat and pork imports, which will in turn require greater domestic use of soymeal.

The U.S. soybean sector strongly supports the TPP based on information provided thus far by the U.S. government. It believes it stands to gain a substantial increase in exports to the TPP countries once the agreement goes into effect and trade restrictions begin to decline. The soybean industry is heavily dependent on exports, and a higher volume will be needed in the future to dispose of the ever-increasing domestic soybean production expected to come from rising yields. It intends to aggressively lobby in favor of Congress approving the agreement against the opposition of labor groups as well as those industry sectors that expect to be negatively impacted by its implementation.

TPP – THE IMPORTANCE OF REALISTIC EXPECTATIONS

By David Poe

It may be paradoxical to certain individuals that international trade agreements are implemented in order to remove regulations previously initiated by the negotiating governments. Furthermore, negotiation of trade agreements often occurs behind closed doors because those businesses that are encouraging the deal to expand their customer base do not wish to be overruled by the objections of those who perceive risk. Most recently, an entirely new factor has been added to the Trans-Pacific Partnership (TPP) as the current U.S. administration apparently concludes that the closed-door secrecy of trade agreements presents a way to obligate businesses to otherwise unobtainable regulations regarding items such as carbon emissions.

There could be an ironic twist of fate if proponents of the TPP within American agriculture find that they must perform actions such as monitoring their carbon footprint in order to remain in compliance with the new trade policy. Even though the comprehensive trade agreement may be less than ideal financially for domestic business, the negotiator could find contentment from the assumption that related benefits within it will be more than offsetting for future society. This is the type of self-aggrandizing thinking that can encourage tangent policy that is damaging to a free market economy. Future analysis may prove that anticipatory fanfare regarding the TPP is unwarranted due to various unsolicited appendages.

It is erroneous to assume that successful negotiation requires a lack of transparency. Trade is entirely a business enterprise, and it is an ignorant capitulation of decision-making by the participants to assume that government regulators and other interested non-government organizations (NGOs) should have an equal say at the table. Negotiating objectives should be clearly defined by domestic businesses and those directly involved within the partnering economy. Assumption by business of the leadership role and active participation in defining objectives is not a rejection of domestic regulations relating to variables such as the environment and worker rights. Government policymakers and other NGOs commonly support causes that are beneficial to society as a whole, but their voices should come from the side rather than in an assumed parental position in trade negotiations.

Broad-based free trade agreements can take inordinate amounts of time to produce a limited range of accomplishments that are of specific concern to business. Businesses would struggle for survival if they took five years or more to just get market agreements in writing. Rather, additional demand is efficiently created by educating potential customers about the product and pointing buyers in the direction of possible financing.

Other organizations that are not directly affiliated with marketing of the product may declare that sizable expansion of U.S. grain production may not be conducive to the overall environment and warrants additional regulation. U.S. government trade negotiators may therefore declare that it is only fair to equalize the playing field by requiring a standardized environmental policy among global competitors. There are several faults in this logic with the first being the equal treatment of international competitors with domestic entities. For example, it is possible for U.S. government regulators to dictate that all automakers selling products within the United States must meet certain safety standards. However, it is wrong for them to stipulate regulations to foreign states.

The second fault is that focusing on a single factor such as carbon emissions or water usage will do little to equalize competition. If advantage is to be balanced, all cost-influencing factors such as differences in taxes, land values, wage rates, domestic infrastructure, etc. should be addressed. Once all of those differences are forcefully equalized through an all-encompassing trade agreement, competitive advantages to one side or the other will be eliminated. Of course then the question is, why trade?

COMMODITY MARKET REVIEW

By Robert W. Kohlmeyer

October has been harvest month for U.S. corn and soybean farmers. Under generally favorable weather, combines throughout the major production areas of the Midwest and Mid-South were kept running long hours to gather these crops. By the end of October, we estimate that more than 90 percent of the U.S. soybean crop and about 85 percent of the corn crop had been harvested, which should make this one of the fastest fall harvests. The speed with which U.S. farmers can harvest corn and soybeans is quite amazing, especially this year with the third-largest corn crop on record and a soybean crop that is close to being the largest ever.

In something of a surprise, USDA's October 2015 WASDE raised the estimated national average corn yield to 168 bushels/acre, up 0.5 bushels from its September projection. Many analysts had expected at least a slight drop instead. As the corn harvest progressed, however, a growing number of anecdotal reports of unexpectedly good yield results from producers seemed to support USDA's higher estimate. The better yield largely offset a reduction in estimated planted and harvested acreage. USDA lowered its harvested corn acreage by 400,000 acres to 80.7 million acres. This resulted in a corn production forecast of 13.555 billion bushels, down just 30 million from the September estimate. Going forward, USDA will present a fresh estimate again in the November WASDE and a final one in January. However, we doubt that there will be any significant change in the corn yield or production forecasts from those made in October.

USDA estimated the national average soybean yield at 47.2 bushels/acre in the October WASDE, a modest 0.1 bushels/acre boost from the September estimate. USDA also lowered the projected planted and harvested soybean area by 900,000 acres each. The result was a 2015 soybean production estimate of 3.888 billion bushels, 47 million bushels less than the September projection. Numerous soybean growers have reported unexpectedly high yield results that are often exceeding last year's yields. This has seemed to increase the chances that USDA will raise its yield estimate again in November. Many observers are now expecting a national average yield close to 48 bushels/acre. Just for the record, we should mention that it would only require a yield of 47.7 bushels/acre with the current estimate of 82.4 million harvested acres to produce a new soybean production record. Such a result is certainly possible.

We should not leave the subject of 2015 U.S. corn and soybean production without noting that both crops are achieving the second-highest national average yields and that the soybean yield might become the highest on record despite some periods of adverse weather. Crops in both the eastern and western Corn Belt suffered early periods of excessive rainfall, flooding and standing water. The result was that portions of the crops were planted well behind schedule. Later, parts of the western Corn Belt also endured stretches of dry weather. That yield results have turned out so well is a testimony to the ability of the latest seed varieties to recover from less than perfect weather conditions.

Tales of Varying Demand

With big U.S. crops assured, the focus is quickly turning to the outlook for demand. Currently, demand prospects for corn and soybeans are quite different. 2015/16 domestic demand for corn appears to be quite similar to last year. USDA forecasts that demand for corn for feed will be marginally less than in 2014/15, offset by slightly higher demand for corn used for ethanol production.

Export demand for U.S. corn poses the biggest question. USDA is predicting that U.S. corn exports will reach 1.850 billion bushels in 2015/16, which is virtually equal to last year's 1.864 billion bushels. Yet, as of the end of October (after the first two months of the corn marketing year), U.S. corn export commitments (shipments plus open sales) for 2015/16 are running about 33 percent behind a year ago at just 25 percent of USDA's forecast of the entire year. At the end of October in 2014/15, they accounted for almost 40 percent of the total corn exports for the entire marketing year, which is close to normal. This hints rather strongly that USDA's 2015/16 corn export forecast is too high by perhaps as much as 100 million bushels or even more.

The problem for U.S. corn exports is simply that offers from other exporting countries, namely Brazil, Argentina and Ukraine, have been priced far lower. Part of the price difference can be explained by the strength of the U.S. dollar, which is how exports are priced, compared with those countries' local currencies that are used to pay farmers for their crops. Thus, the stronger the U.S. dollar, the more pesos or reals farmers receive. The spread between U.S. corn values and Brazil's FOB corn prices grew so wide that a cargo of Brazilian origin was loaded and shipped during October for import into the Southeast U.S. even as American farmers were harvesting the third-largest corn crop on record.

U.S. domestic demand for soybeans has been brisk, and soybean processors have enjoyed handsome margins, pushing their plants to run near capacity. Export demand for soymeal has been steady with demand from U.S. livestock and poultry quite strong. Export demand for U.S. soyoil has been robust because of reduced palm oil and sunflower oil supplies.

As is well known, the export demand picture for U.S. soybeans is essentially dependent on China. Chinese soybean imports accounted for 64 percent of world soybean trade in 2014/15 and are forecast to do the same in 2015/16. The slow start to Chinese buying for 2015/16 was due in part to the negative processing margins faced by Chinese crushers as well as buyers' hopes that large world soybean supplies and the expected big U.S. crop would drive prices lower. The lack of Chinese activity had U.S. export commitments for 2015/16 falling about 40 percent below last year at one point.

Crush margins in China began to turn positive in September, and domestic buyers began a tremendous soybean purchasing blitz as a result. The USDA weekly export sales reports released 1 October through 29 October indicated soybean export sales destined to China totaled 6.63 MMT or 70 percent of the total 9.396 MMT to all destinations. Thanks to the Chinese soybean buying spree, total U.S. soybean export commitments to all destinations so far for 2015/16 have climbed to about 20 percent less than last year.

Chinese buyers were taking on this huge volume of U.S. soybeans for immediate shipment through January. At the same time, they were also booking soybean cargoes in Brazil for similar shipping periods. It appears that China's soybean imports for November could reach 10 MMT from all origins, which is more than it has ever imported in a single month.

There has been some fear that China's slowing economy would reduce its demand for raw materials such as oil, copper, cotton and soybeans. We cannot speak for the other commodities, but it seems clear that those economic problems are not affecting soybean imports. USDA has predicted that China will import 79 MMT in 2015/16, which is up from 77 MMT in 2014/15. At this point, we believe that total could reach 80 MMT or more.

The Brazilian soybean harvest should begin in late January. Assuming that Brazil, Argentina and Paraguay produce another good South American crop, U.S. soybeans will likely find it increasingly difficult to compete for world demand from February onward. U.S. soybean exports are unlikely to reach last year's lofty record of 1.84 billion bushels, but 2015/16 should still be a good year even after the slow start.

The Market's Response

The grain and soy futures have shown a surprisingly placid response to the fall harvest and demand prospects. For example, the January soybean contract ended October just $0.05 higher than at the beginning of the month. December corn finished $0.065 down from where it started. Chicago December wheat was $0.375 higher, but Kansas City December wheat fell $0.14 during the month. Part of the reason for the modest changes in futures prices during October was that they had already dropped quite low before the fall harvests got well underway. Even though production estimates grew larger, traders other than commercial hedgers were reluctant to sell the corn or soybean markets at prices already deemed intrinsically low. The result is that corn futures prices remain stuck in a trading range below $4.00/bushel, which is where they have been for about two months.

The large number of soybean export sales during October was well signaled in advance and did not present a surprise. This left the influence of the soybean export business to duel with that of the larger soybean exports, which resulted in a draw.

There is a seasonal tendency for grain and soy futures markets to stage a post-harvest rally. With futures prices resting at low levels and farmers already demonstrating great reluctance to sell corn or soybeans at current bid levels, we will be surprised if some sort of rally does not develop during November. However, a longer-term rally in grain and soy futures markets is not supported by supply/demand fundamentals.

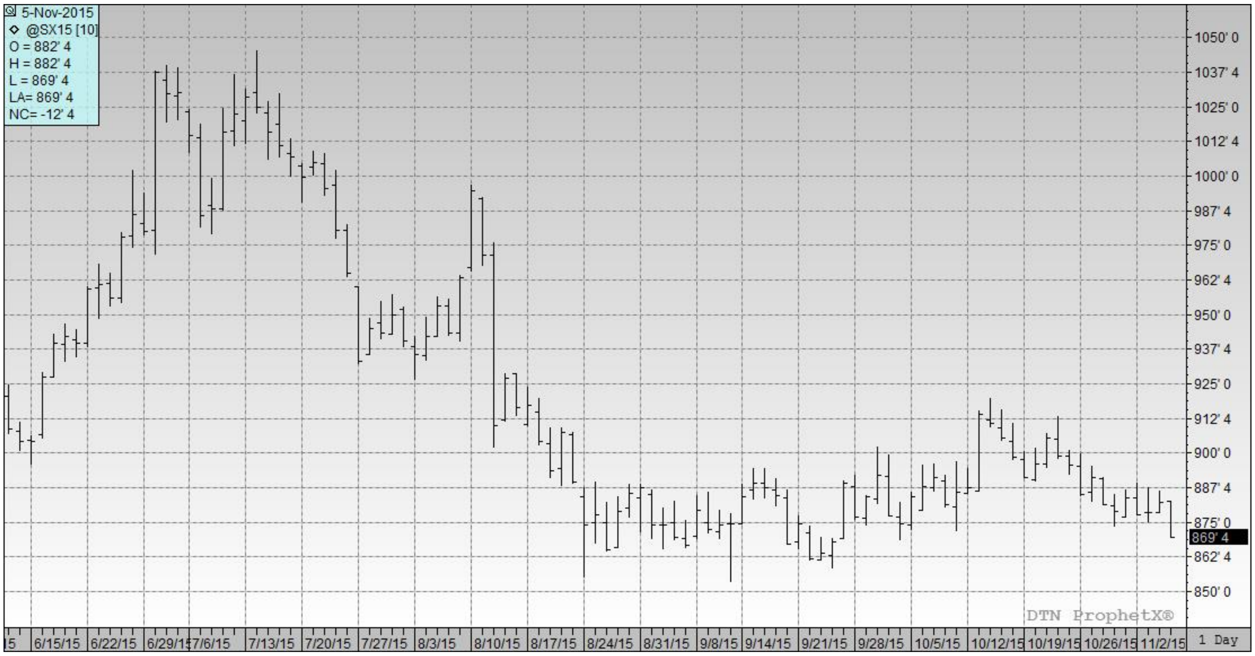
December Chicago Wheat Futures Prices

Source: Prophet X (11/5/2015)

December Corn Futures Prices

Source: Prophet X (11/5/2015)

November Soybean Futures Prices



Source: Prophet X (11/5/2015)

December Soyoil Futures Prices

Source: Prophet X (11/5/2015)

December Crude Oil Futures Prices

Source: Prophet X (11/5/2015)